Nikkei's rally: is it the yen? No, it's tech sentiment

Record surge less about yen weakness, more a reflection of tech capex boom

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14 May 2026

The yen is playing its part in a macro-financial amplification of the energy-led supply shocks, yet the Japanese stock market appears to be taking the currency's moves in stride. With the yen having weakened recently to multi-decade lows against the dollar, some have cited the Japanese currency's weakness as one source of support for the Nikkei Stock Average, which has rallied to new highs even amid the geoeconomic uncertainty sparked by the Iran conflict. The export-heavy Nikkei has outpaced the TOPIX (Chart 1), which itself is up more than 40% year-on-year (YoY).

Chart 1: The Nikkei has outpaced the TOPIX



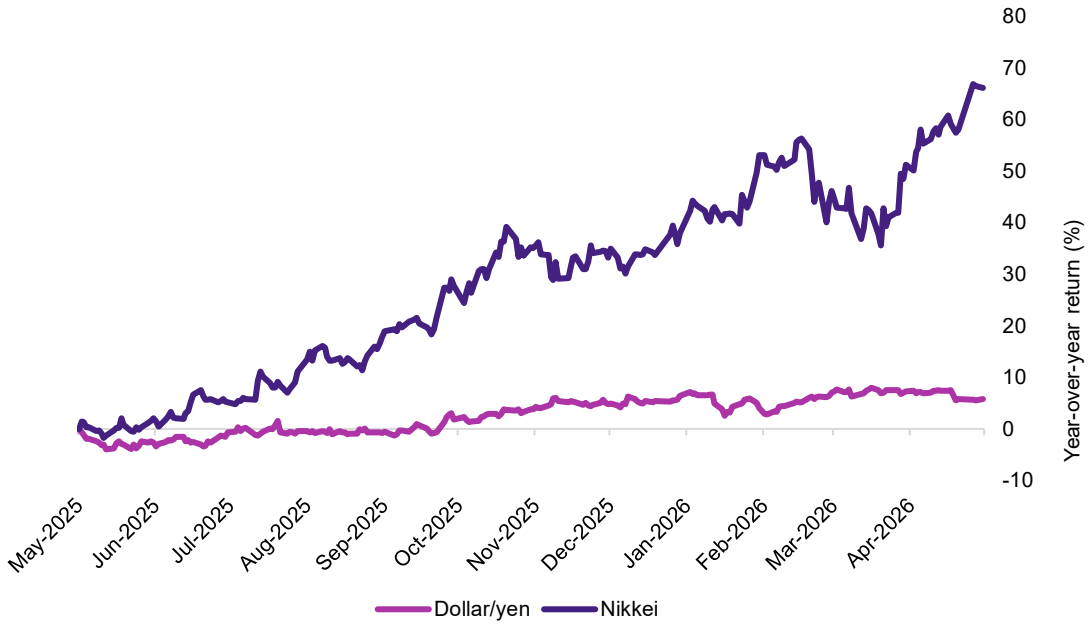
Rebased to 0 on 12 May 2025

Source: Bloomberg

How helpful has yen weakness really been?

With dollar/yen up approximately 6% YoY at the time of writing but the Nikkei having risen more than 60%, there is limited evidence that yen weakness has been a *primary* driver of the equity index's performance (Chart 2).

Chart 2: The Nikkei's YoY gains relative to dollar/yen's rise



Rebased to 0 on 12 May 2025

Source: Bloomberg

A back-of-the envelope analysis of earnings sensitivity to forex among a handful of Japan's highest-profile exporters reinforces this point (Table 1). Estimated impacts from yen depreciation on operating profits range between 0.3% to 2.8% YoY, a stark contrast with the Nikkei's outsized gains.

Table 1: Forex sensitivity estimates (% impact per JPY 1 of depreciation)

Company	FY2026 operating profit (JPY bln)	FX sensitivity (JPY bln per JPY 1 of depreciation)	% impact on OP
Canon	455.4	12.7	2.80%
Toyota	3,766.2	50.0	1.33%
Honda	1,213.5	11.0	0.91%
Advantest	499.1	4.0	0.80%
Panasonic	426.5	2.0	0.47%
Sony	1,447.5	4.5	0.31%
Nikon	N/A	0.5	N/A

Source: Bloomberg, Amova Asset Management

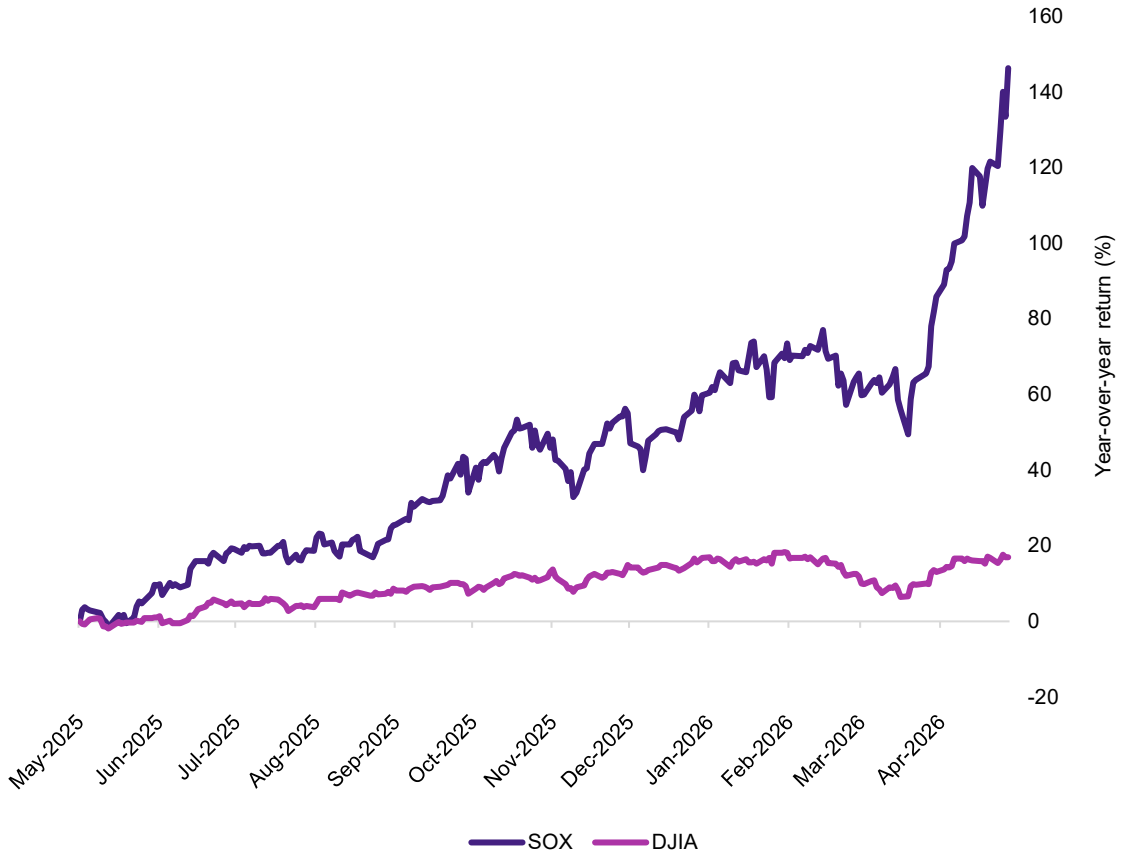
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Thematic tech rhymes: the capex boom

A similar divergence is also being seen across the Pacific. The SOX index, driven by strong technology capex momentum, has significantly outperformed US blue chips in the Dow Jones Industrial index (DJIA), which is up a respectable 17% YoY.

The dominant theme remains the global semiconductor capex boom and the ever-narrower rally that surrounds it. In this context, the yen plays a role as a weak secondary amplifier, rather than any primary driver of equity performance.

Chart 3: SOX has outperformed DJIA



Rebased to 0 on 12 May 2025

Source: Bloomberg

Making the most of Japan's critical juncture

Separately, it is clear that as Japan shifts away from deflationary stagnation into a new reflationary regime, a number of firms may be adopting technology and positioning themselves well to help provide the country with a much-needed capacity boost. This also requires coordination between fiscal and monetary authorities, whose credibility is not yet compromised, but is still in the process of being established. There are signs of sustainable, productivity-enhancing investment. However, these vital but slow-burn factors are likely being overshadowed by the global capex boom when explaining the Nikkei's 60%-plus year-on-year rally. Interim swings are possible, but these positive structural factors may keep the equity market's long-term trend on an upward trajectory.

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