

Japanese government bonds: a changing balance of domestic and foreign demand

Changing demand dynamics could help stabilise Japan's bond market

By Naomi Fink, Chief Global Strategist and Chief Economist

Michio Nakaki, Senior Portfolio Manager, Domestic Bond Fund Management

Keiichi Inoue, Senior Portfolio Manager, Foreign Bond Fund Management Team

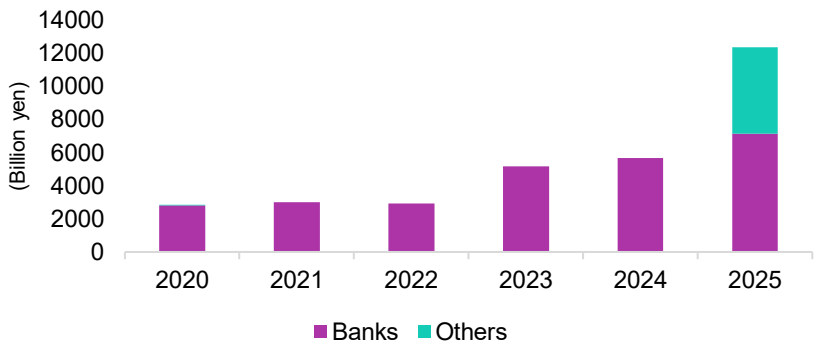
24 November 2026

Rising inflation, fiscal concerns and the normalisation of monetary policy have pushed Japanese government bond (JGB) yields sharply higher from rock-bottom levels, ushering in a new phase for the bond market. As yields rise, there are signs that domestic institutional investors are being drawn back into the Japanese bond market. Higher yields may also entice more foreign investors into JGBs. These sources of demand could help stabilise the bond market when a number of factors continue to exert upward pressure on yields.

Recovering domestic investor demand for JGBs

Historically, domestic banks have been core buyers of JGBs. However, during the Bank of Japan (BOJ)'s zero and negative interest rate phase, which lasted through March 2024, their interest in JGBs appeared to have ebbed somewhat, with the benchmark 10-year JGB yield briefly slipping below zero percent. Even so, yields have risen since the BOJ began normalising policy, and banks are becoming active buyers of JGBs again. Banks have been observed stepping into the JGB market as the 10-year yield approached 1% in 2024, 2% in 2025 and 3% in 2026. In 2025, direct bids at the Ministry of Finance's JGB auctions reached approximately Japanese yen (JPY) 12 trillion, with banks estimated to account for around 60% of that total. Estimates based on investor transaction data and other available information suggest that demand from end-investors such as banks has been stronger so far in 2026 than in 2025, indicating that institutional interest remains robust.

Chart 1: Direct bids for long-end JGBs at MOF auctions



Source: Ministry of Finance (MOF)

Japanese insurers, which are traditional buyers of super-long JGBs, are showing similar interest. In 2025 and 2026, according to media reports, institutions including Asahi Life, Meiji Yasuda Life and Fukoku Life described domestic yields as attractive or outlined plans to increase JGB holdings. Asahi Life, for example, reportedly said attractive domestic yields prompted a shift by the insurer from foreign to domestic bonds.

Higher yields thus appear to be attracting buyers, potentially stabilising the JGB market, which has experienced bouts of volatility. That said, it is worth noting that previous assessments of attractive yield levels have proved premature. Investors previously described the 10-year yield at the 2–2.5% level as "attractive" and "fair value", but the yield went on to rise towards 3%. Fundamentals—rather than any particular investor-defined threshold—thus remain crucial to the outlook.

Japanese appetite for foreign bonds remains relatively subdued

The domestic story becomes more interesting when considered alongside Japanese institutions' overseas investment.

Japanese investors have traditionally been active participants in global bond markets, particularly during the long period in which domestic yields offered little income. Amid the rise in domestic yields, however, recent flows into overseas bonds are relatively subdued.

According to data from the Japan Securities Dealers Association (JSDA), Japanese investors made net purchases of approximately JPY 2.8 trillion of long-term foreign bonds in FY2024. This was well below the 10-year average of JPY 7.1 trillion. Net purchases remained at approximately JPY 2.8 trillion in FY2025, while purchases totalled approximately JPY 2.4 trillion during the first half of FY2026.

Shorter-term data also reveal considerable volatility in these flows. Japanese investors purchased a net JPY 3.1 trillion of long-term foreign bonds in May 2026, when 10-year US Treasury yields were around 4.3–4.7%. But by September 2026, when 10-year US Treasury yields were around 4.8–5.2%, they sold approximately JPY 1.4 trillion on a net basis.

The figures are noteworthy because they suggest a moderation in demand for foreign bonds. Japanese institutions are still buyers of foreign bonds, but at relatively lower levels.

Is the relative appeal of JGBs changing?

For many years, Japan's exceptionally low interest rates provided a strong incentive for domestic financial institutions to look outside the country for yield. However, rising domestic yields are eroding the advantage that foreign bonds once offered over JGBs.

For a Japanese investor, the relevant comparison is not simply between the nominal yield on a JGB and the yield on a foreign bond. Foreign bonds introduce currency exposure or, if that exposure is hedged, the cost of hedging it. Institutions must also consider volatility, duration, capital requirements and asset-liability matching. As their yields rise, JGBs can therefore become competitive without necessarily offering the highest headline yield.

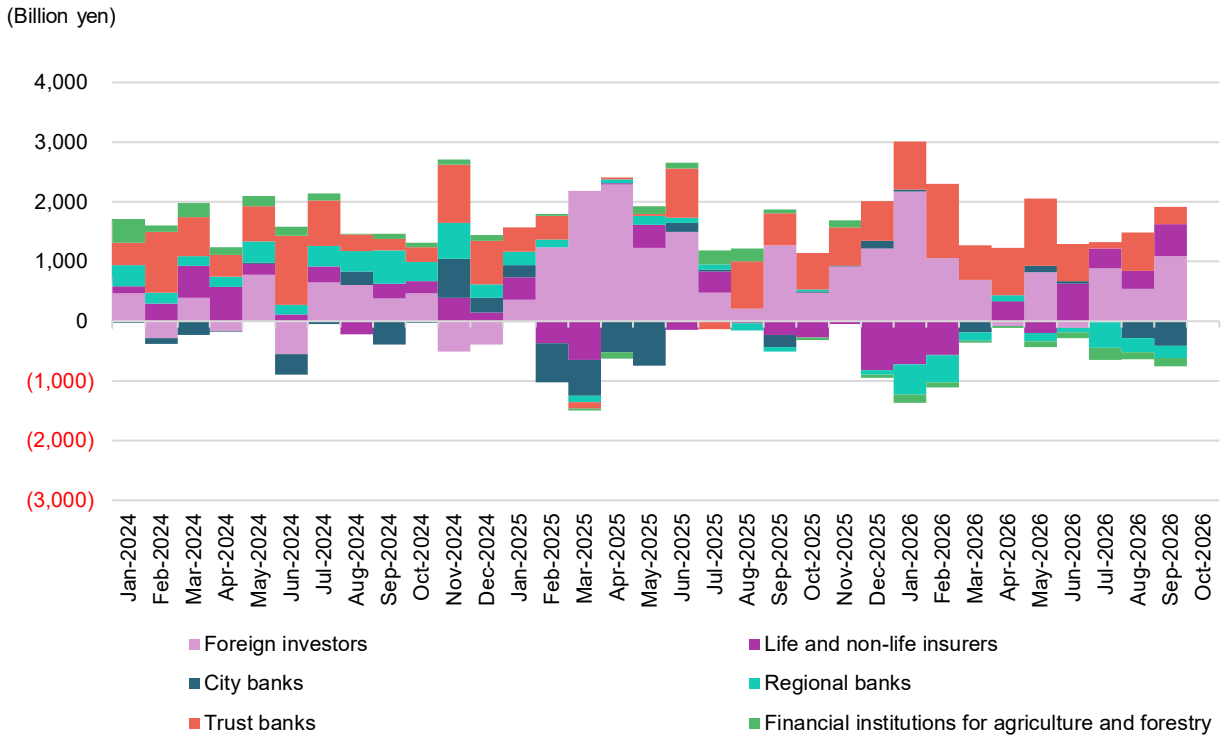
There are signs that this is already influencing investment decisions at some institutions. As mentioned above, a number of Japanese institutional investors such as life insurers have indicated an intention to shift from foreign bonds toward yen bonds. Nevertheless, it would be premature to conclude that Japanese financial institutions as a whole are undertaking a large-scale repatriation from overseas bonds.

Could foreign investors become an additional source of demand?

In addition to domestic institutions, foreign investors are key participants in the JGB market, particularly in the super-longs.

Chart 2 shows that foreign investors account for a large share of transaction value in super-long JGBs. The tenor remains significantly reliant on overseas participation. As such reliance increases, credible fiscal and monetary policies are important to maintaining stability; at the same time, higher yields may present attractive entry points for foreign investors. Foreign demand could therefore supplement recovering domestic institutional demand, potentially helping to stabilise yields.

Chart 2: Trading in super-long JGBs by investor type



Source: JSDA

The currency could add another dimension. A relatively weak yen may make Japanese assets more attractive to an unhedged foreign investor who expects the currency ultimately to appreciate. But the same exposure can amplify losses if yen weakness persists. The case for demand from foreign investors therefore rests not simply on yields, but on a broader assessment of Japanese rates, the yen and confidence in the domestic policy framework.

All in all, foreign investors' trading participation should not automatically be equated with sustained net investment demand. The nature and durability of these flows warrant further examination.

Conclusion: implications for the JGB market and the broader investment outlook

JGBs have recently made headlines due to their spiking yields, which are often seen to have negative repercussions on global bonds. The return of domestic investor demand for JGBs potentially provides a counterweight to the upward pressure on JGB yields stemming from monetary normalisation, inflation and fiscal concerns. Additional demand from foreign investors could reinforce this effect, particularly if confidence in Japanese monetary and fiscal policy improves.

Nevertheless, strong demand at particular yield levels does not necessarily establish a durable ceiling on yields. Fundamentals, including inflation expectations, fiscal policy and term premia, remain critical factors that influence the direction of JGB yields. As monetary policy normalises, we believe that the dynamic between domestic institutional reallocation and foreign demand will increasingly shape Japanese sovereign yields and cross-border capital flows.

Important information: This document is prepared by Amova Asset Management Co., Ltd. and/or its affiliates（hereinafter referred to as" the Group"）and is for distribution only under such circumstances as may be permitted by applicable laws. This document does not constitute personal investment advice or a personal recommendation and it does not consider in any way the objectives, financial situation or needs of any recipients. All recipients are recommended to consult with their independent tax, financial and legal advisers prior to any investment.

This document is for information purposes only and is not intended to be an offer, or a solicitation of an offer, to buy or sell any investments or participate in any trading strategy. Moreover, the information in this document will not affect the Group's investment strategy in any way. The information and opinions in this document have been derived from or reached from sources believed in good faith to be reliable but have not been independently verified. The Group makes no guarantee, representation or warranty, express or implied, and accepts no responsibility or liability for the accuracy or completeness of this document. No reliance should be placed on any assumptions, forecasts, projections, estimates or prospects contained within this document. This document should not be regarded by recipients as a substitute for the exercise of their own judgment. Opinions stated in this document may change without notice.

In any investment, past performance is neither an indication nor guarantee of future performance and a loss of capital may occur. Estimates of future performance are based on assumptions that may not be realised. Investors should be able to withstand the loss of any principal investment. The mention of individual securities, sectors, regions or countries within this document does not imply a recommendation to buy or sell.

The Group accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this document, provided that nothing herein excludes or restricts any liability of the Group under applicable regulatory rules or requirements.

All information contained in this document is solely for the attention and use of the intended recipients. Any use beyond that intended by the Group is strictly prohibited.

Japan: The information contained in this document pertaining specifically to the investment products is not directed at persons in Japan nor is it intended for distribution to persons in Japan. Registration Number: Director of the Kanto Regional Finance Bureau (Financial Instruments firms) No. 368 Member Associations: Investment Management Association of Japan, Type II Financial Instruments Firms Association.

United Kingdom: This document is communicated by Amova Asset Management UK Limited, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority (the FCA) (FRN 122084). This document constitutes a financial promotion for the purposes of the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the FCA in the United Kingdom, and is directed at professional clients as defined in the FCA Handbook of Rules and Guidance.

Ireland: This document is communicated by Amova Asset Management Ireland Limited, which is authorised under the European Union (Markets in Financial Instruments) Regulations 2017 (S.I. 375 of 2017) (as amended) and regulated in Ireland by the Central Bank of Ireland (C565118) and includes branches in Germany and the Netherlands. This document is for information purposes only and does not constitute an offer, invitation, or solicitation to invest in any fund or investment product, or recommendation to sell any financial instrument, nor does it constitute investment advice. This document is not intended for distribution to, or use by, any person in any jurisdiction where such distribution would be contrary to local law or regulation and is directed at professional investors only.

United States: This document may not be duplicated, quoted, discussed or otherwise shared without prior consent. An offering of any investments, securities or investment advisory services with respect to securities may only be made by receipt of relevant and complete offering documentation and agreements, as applicable. Any offering or distribution of a Fund in the United States may only be conducted via a licensed and registered broker-dealer or a duly qualified entity. Amova Asset Management Americas, Inc. is a United States Registered Investment Adviser.

Singapore: This document is for information to institutional investors, accredited investors as defined in the Securities and Futures Act 2001, and intermediaries only. Amova Asset Management Asia Limited (Co. Reg. No. 198202562H) is regulated by the Monetary Authority of Singapore.

Hong Kong: This document is for information to professional investors as defined in the Securities and Futures Ordinance, and intermediaries only. The contents of this document have not been reviewed by the Securities and Futures Commission or any regulatory authority in Hong Kong. Amova Asset Management Hong Kong Limited is a licensed corporation in Hong Kong.

New Zealand: This document is issued in New Zealand by Amova Asset Management New Zealand Limited (Company No. 606057, FSP22562). It is for the use of wholesale clients, researchers, licensed financial advisers and their authorised representatives only.

Malaysia: This document is issued by AHAM Asset Management Berhad (Registration No. 199701014290 (429786-T)), a company licensed by the Securities Commission Malaysia under the Capital Markets and Services Act 2007 to carry on fund management in relation to portfolio management, dealing in securities restricted to unit trusts, and dealing in private retirement schemes. This document has not been reviewed by the Securities Commission Malaysia.

Kingdom of Bahrain: The document has not been approved by the Central Bank of Bahrain which takes no responsibility for its contents. No offer to the public to purchase the Strategy will be made in the Kingdom of Bahrain and this document is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally.

Kuwait: This document is not for general circulation to the public in Kuwait. The Strategy has not been licensed for offering in Kuwait by the Kuwaiti Capital Markets Authority or any other relevant Kuwaiti government agency. The offering of the Strategy in Kuwait on the basis a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 7 of 2010 and the bylaws thereto (as amended). No private or public offering of the Strategy is being made in Kuwait, and no agreement relating to the sale of the Strategy will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Strategy in Kuwait.

Kingdom of Saudi Arabia: This document is communicated by Amova Asset Management UK Limited, which is authorised and regulated by the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the Financial Conduct Authority (the FCA) in the United Kingdom (the FCA Rules). This document should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Amova Asset Management UK Limited.

This document does not constitute investment advice or a personal recommendation and does not consider in any way the suitability or appropriateness of the subject matter for the individual circumstances of any recipient. In providing a person with this document, Amova Asset Management UK Limited is not treating that person as a client for the purposes of the FCA Rules other than those relating to financial promotion and that person will not therefore benefit from any protections that would be available to such clients.

Amova Asset Management UK Limited and its associates and/or its or their officers, directors or employees may have or have had positions or material interests, may at any time make purchases and/or sales as principal or agent, may provide or have provided corporate finance services to issuers or may provide or have provided significant advice or investment services in any investments referred to in this document or in related investments. Relevant confidential information, if any, known within any company in the group or Sumitomo Mitsui Trust group and not available to Amova Asset Management UK Limited because of regulations or internal procedure is not reflected in this document. The investments mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors.

Oman: The information contained in this document nether constitutes a public offer of securities in the Sultanate of Oman as contemplated by the Commercial companies law of Oman (Royal decree 4/74) or the Capital Markets Law of Oman (Royal Decree80/98, nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in the Sultanate of Oman as contemplated by Article 139 of the Executive

Regulations to the Capital Market law (issued by Decision No. 1/2009). This document is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the Sultanate of Oman.

Qatar (excluding QFC): The Strategies are only being offered to a limited number of investors who are willing and able to conduct an independent investigation of the risks involved in an investment in such Strategies. The document does not constitute an offer to the public and should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Amova Asset Management UK Limited. No transaction will be concluded in your jurisdiction and any inquiries regarding the Strategies should be made to Amova Asset Management UK Limited.

United Arab Emirates (excluding DIFC): This document and the information contained herein, do not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates and accordingly should not be construed as such. The Strategy is only being offered to a limited number of investors in the UAE who are (a) willing and able to conduct an independent investigation of the risks involved in an investment in such Strategy, and (b) upon their specific request.

The Strategy has not been approved by or licensed or registered with the UAE Central Bank, the Securities and Commodities Authority or any other relevant licensing authorities or governmental agencies in the UAE. This document is for the use of the named addressee only and should not be given or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof).

No transaction will be concluded in the UAE and any inquiries regarding the Strategy should be made to Amova Asset Management UK Limited.

Republic of Korea: This document is being provided for general information purposes only, and shall not, and under no circumstances is, to be construed as, an offering of financial investment products or services. The Company is not making any representation with respect to the eligibility of any person to acquire any financial investment product or service. The offering and sale of any financial investment product is subject to the applicable regulations of the Republic of Korea. Any interests in a fund or collective investment scheme shall be sold after such fund is registered under the private placement registration regime in accordance with the applicable regulations of the Republic of Korea, and the offering of such registered fund shall be conducted only through a locally licensed distributor.

Canada: The information provided herein does not constitute any form of financial opinion or investment advice on the part of the Company and it should not be relied on as such. It does not constitute a prospectus, offering memorandum or private placement memorandum in Canada, and may not be used in making any investment decision. It should not be considered a solicitation to buy or an offer to sell a security in Canada. This information is provided for informational and educational use only.