市場觀望
EYE ON THE MARKET
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Shifting market dynamics strengthen the case for global equity income

A new environment is emerging that is creating a more level playing field for equities globally. In this context, this article will examine the historical context of US market dominance and the embedded risks in current concentration levels, while outlining the attractive opportunities among defensive dividend-paying companies across global markets.

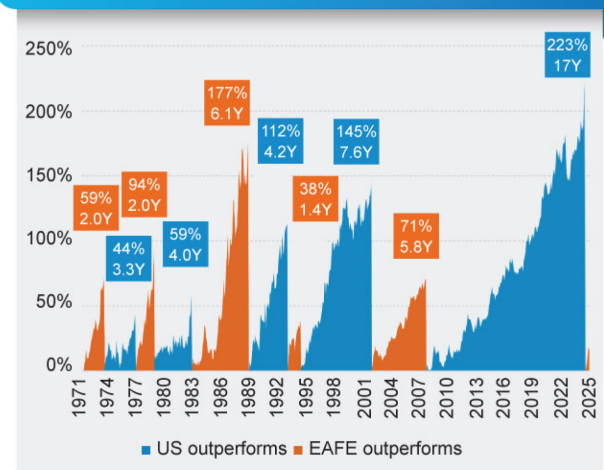
The investment narrative of the past two decades has been dominated by a singular theme: US market outperformance. In 2025, investors are at a critical juncture where the very factors that drove this exceptional performance now present concentration issues that cannot be ignored.

The current market uncertainty reflects policy changes that began following the 2024 US elections. President Trump's mandate for tariffs and protectionism initially fuelled market optimism, yet actual implementation has so far proved less favourable than expected. Beneath this lies a deeper structural story - one of significant market concentration that exceeds even the extreme levels seen during the technology bubble of the early 2000s.

The cycle of market leadership

The scale of US market outperformance over the past 15 years represents one of the most significant regional divergences in modern financial history. Yet, historical precedent suggests such sustained dominance rarely persists indefinitely. Previous cycles saw Japan dominate in the 1980s and China's emergence reshaped markets in the early 2000s.

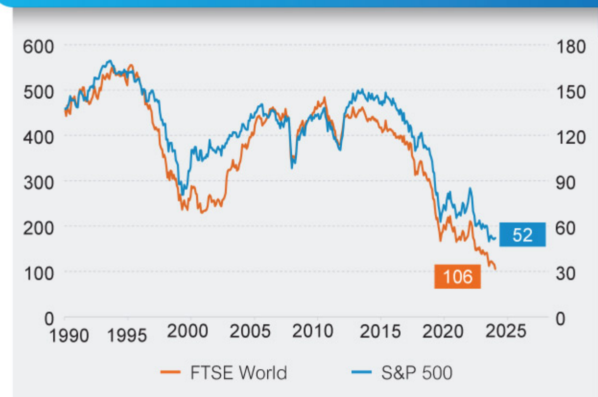
Chart 1: US vs EAFE regime shifts



Source: Bloomberg. Data as at 31 March 2025. The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.

The current concentration exceeds even extreme historical periods. Analysis using the Herfindahl-Hirschman Index - typically used to assess industry concentration - shows the effective number of companies driving S&P 500 performance has fallen from around 125 during the 2000s to just 52 at the end of December 2024, compared to 80 at the height of the dot com bubble - creating structural vulnerabilities that become apparent only when markets turn. As the chart below shows, the tech sector's dominance in global indices suggests a similar trend in the FTSE World Index. This creates substantial concentration risk for investors in passive or more benchmark aligned funds.

Chart 2: High concentration risks - Effective number of constituents in the S&P and World Indices

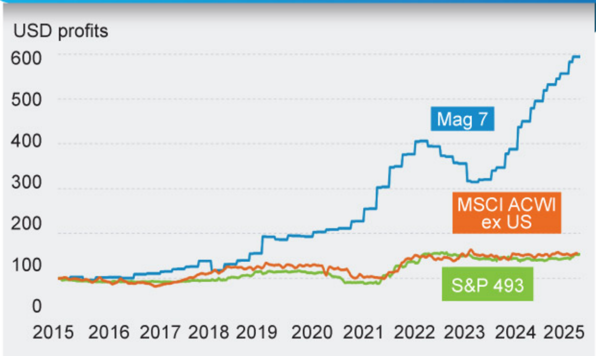


Source: Bloomberg, Soc Gen, the Herfindahl-Hirschman Index, data as at 31 December 2024.

Valuation risks

The risks within the current US market structure extend beyond geographic concentration. The valuation gap between US and global markets has reached extreme levels, with virtually every sector trading at higher multiples than international counterparts. Notably, excluding the Magnificent 7, the broader US market has grown profits in-line with the rest of the world over the last decade.

Chart 3：US equities – broad based valuation premium but undifferentiated profit growth ex Magnificent 7



Source: Bloomberg and Minack advisers. Data as at 31 March 2025.

The Microsoft case study illustrates these dynamics perfectly. From 2000, Microsoft's earnings per share (EPS) grew at 10% annually for 11 years, a remarkable performance for the S&P 500's largest constituent at the time. However, the price-to-earnings (P/E) ratio decreased from 65x to 9x, resulting in a -5% annualised total return for shareholders. In the following 11 years, EPS continued to grow impressively, again outpacing the S&P by 5% annually. During this period, shareholders experienced a 27% annual compounded return due to both a 12.7% growth in earnings and an increase in the P/E ratio from 9x to 33x.

This demonstrates that whilst share prices ultimately follow earnings over the long term, ignoring valuation can prove painful for extended periods of time.

The advantage of global equity income

The broader investment landscape has also fundamentally shifted. For a long time, TINA - "There Is No Alternative (to equities)" - was the prevailing narrative for markets. Today, TINA no longer applies, as bonds provide attractive yields. However, bond income remains fixed, whilst investors seeking income through equities have the potential to benefit from dividend growth over time. And if inflation were to gain momentum, the income derived from equities has the potential to outpace inflation.

The concentration risks embedded in US markets create compelling opportunities for global equity income strategies, provided the portfolio positioning is significantly different to the index. Many high-quality dividend-paying companies domiciled outside the US derive substantial revenues from US consumers and businesses, providing economic exposure without the valuation premium of a number of US-listed companies.

Geographical diversification provides additional risk management benefits. By avoiding concentration in any single market, global strategies can capture diverse growth cycles whilst reducing market-specific risks.

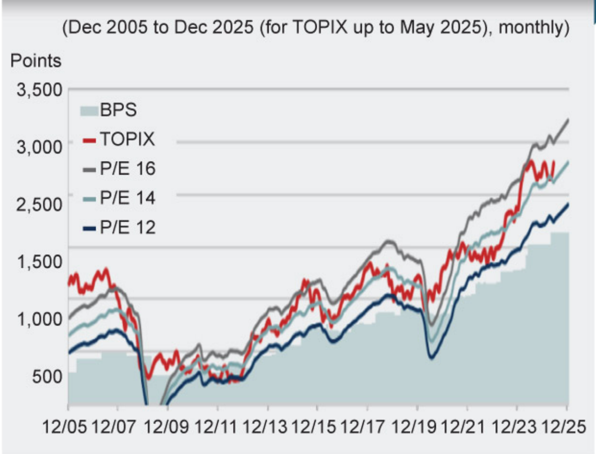
For investors seeking both income and capital appreciation potential, global equity income strategies offer attractive risk-adjusted return potential, whilst providing portfolio diversification that becomes increasingly valuable during periods of market turbulence.

Japanese Equity Market Outlook for 2H 2025

As the graph below illustrates, since the Global Financial Crisis, the average P/E ratio of the TOPIX has been approximately 14 times, increasing to about 16 when optimism is factored in, and falling to around 12 times when the market is factoring in a more pessimistic outlook. Although it does not show up in this month-end stock price chart, the market P/E ratio fell to 12 times during both major downturns, in August 2024 and April 2025. However, in both cases, stock prices rebounded again toward the end of the month and therefore the adjustments were only temporary.

Recently, the P/E ratio has returned to 14 and 15 times, although uncertainty over the impact of tariffs remains. At these levels therefore, the aggregate Japanese stock market seems to be trading at an appropriate level in terms of valuation. However, concerns linger regarding uncertainty that could materialize towards the second half of the year – around when the July to September financial results are released – when the impact of tariffs will clearly show up in corporate earnings. Depending on the eventual impact of the tariffs, that phase could mark a bottoming out for the market. Moreover, if the corporate earnings outlook for the following year shows an increase, it is possible that the stock price may turn to an uptrend after the turn of the year. In any case, the equity market is likely to remain range-bound for the time being, due to the uncertainty over earnings, with the bottoming out expected over the next six months.

Figure 1: TOPIX, P/E Ratio Band, and BPS



*The forecast PER is calculated based on the 12-month forward EPS forecast (Bloomberg forecast as of June 6, 2025), and the forecasted portion of BPS is based on Nomura Securities' estimates. (Note) Some parts of the graph have been hidden to make the graph easier to read. (Source) Complied by Nomura Asset Management based on data from Bloomberg and Nomura Securities.

J-REIT Market Outlook

Rent increases have become evident across a wide range of sectors, making it likely that the rise in costs such as interest rate hikes can be offset.

- **While interest rates are on an upward trend, rent increases are becoming apparent**

Japanese long-term interest rates have been rising due to the Bank of Japan's changes in monetary policy and the ongoing upward trend in prices. The increase in interest rates tends to reduce the relative attractiveness of REIT dividend yields and raises borrowing costs which poses a short-term concern for investors. On the other hand, with the overall market conditions improving, rent increases have become evident across a wide range of sectors in properties held by REITs, making it likely that the rising costs such as higher interest rates can be offset going forward. Against this backdrop, the J-REIT market has remained resilient. Additionally, in a market environment marked by uncertainty, such as the implementation of the Trump tariffs, J-REITs—which provide stable cash flow—are likely to be favored.

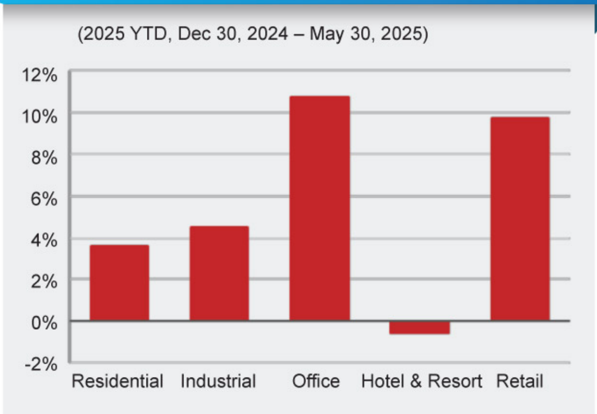
Figure 2: TSE REIT Index and Newly Issued

(Source) Nomura Asset Management based on QUICK data

- **Sectors with expected rent increases are showing strong returns**

According to sector-specific returns since the beginning of 2025, the office and retail (commercial) sectors have been performing well. The office market is showing signs of improvement as employees return to offices after the pandemic and demand for office space in prime urban locations increases from the perspective of securing talent. The retail (commercial) sector is benefiting from improved leasing conditions in central urban commercial facilities due to expanding inbound demand, as well as increased sales-based rents amid inflation, resulting in a favorable business environment. Although the hotel and resort sector's investment unit prices have stagnated due to increased uncertainty caused by exchange rate fluctuations and the implementation of Trump tariffs, there appears to be no major issues as occupancy rates and room rates have remained steady.

Figure 3: J-REIT Sector Return



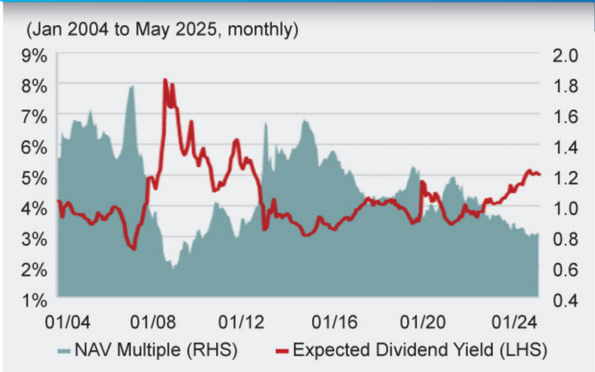
(Note) Market capitalization weighted average, industry classification by GICS industry subsector classification.
(Source) Nomura Asset Management based on Bloomberg data

- **Investment indicators suggest a strong sense of undervaluation**

As a result of the overall downtrend in the J-REIT market during 2024, the expected dividend yield for J-REITs has risen to the 5% range, and the NAV multiple has dropped to the low 0.8 time range as of May 2025. Historically, periods when the NAV multiple remained consistently below 1 time have coincided with significant downward pressure on the real estate market, such as in the wake of the Global Financial Crisis and the Great East Japan Earthquake. However, the current real estate market is characterized by clear rent increases across a wide range of sectors, and property prices are stabilizing. These trends indicate that the fundamentals are strong. Therefore, there is a growing sense of undervaluation from the perspective of investment indicators.

Note: NAV = Value calculated by adding unrealized gains and losses on holdings to net assets.

Figure 4: J-REIT Expected Dividend Yield and NAV Multiple

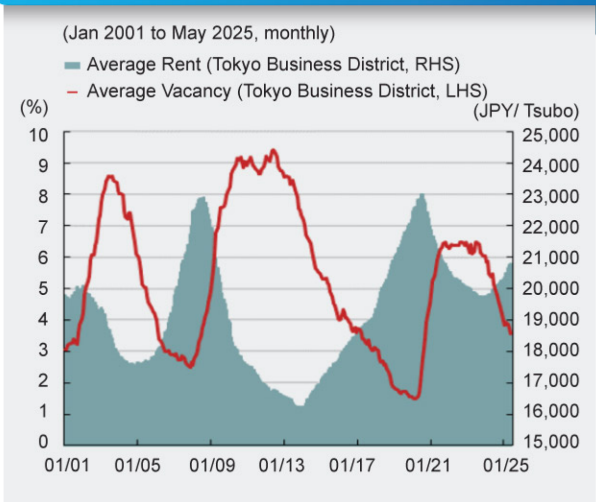


(Note) The market capitalization-weighted average value of the NAV multiple(investment unit price ÷ NAV per unit) for all J-REITs.
(Source) Nomura Asset Management based on data from the Association for Real Estate Securitization https://www.ares.or.jp/en/

- **Observing a clear recovery in the office market.**

Amid the urgent challenges of addressing labor shortages and securing talented personnel, the idea of viewing rent paid for high-quality office spaces necessary for employee retention, not as a cost but as an investment is gaining traction. Additionally, due to labor shortages in the construction industry and other factors, the completion of office buildings is increasingly being delayed, which is expected to improve the supply-demand balance through reduced supply. Against this backdrop, the improvement of the office market is accelerating. Office buildings scheduled for completion in the future also appear to be securing tenants steadily, and barring significant economic disruptions, the office market is expected to remain strong over the medium term.

Figure 5: Tokyo Business District Office Market



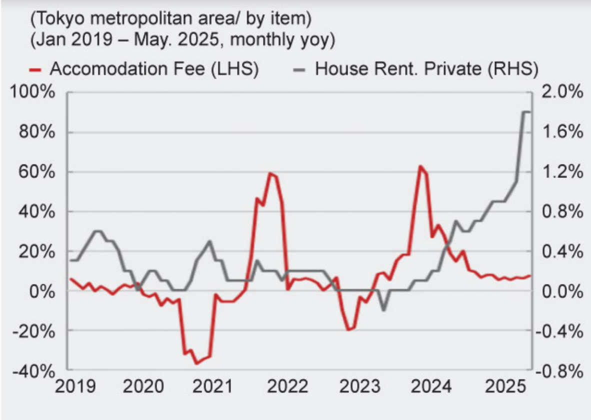
(Source) Nomura Asset Management based on data from Miki Shoji

- **Hotel accommodation rates and rental prices for residential properties are also on the rise**

The hotel and resort sector experienced a temporary stagnation in investment units' prices as investors sought to assess the impact of currency fluctuations and the Trump-era tariffs. However, room rates and occupancy rates have not shown significant negative effects, and operational indicators of hotels owned by REITs have generally trended upward compared to the previous year.

In the rental housing sector, rents have been on an upward trend due to factors such as the recovery of population inflows to urban centers and an increase in tenants opting for rental housing amid soaring condominium prices. According to financial reports from rental housing REITs, new supply is expected to remain at a low level going forward, due to a decline in housing starts. Coupled with ongoing improvements in income conditions such as wages, continued rent increases are anticipated.

Figure 6: Consumer Price Index

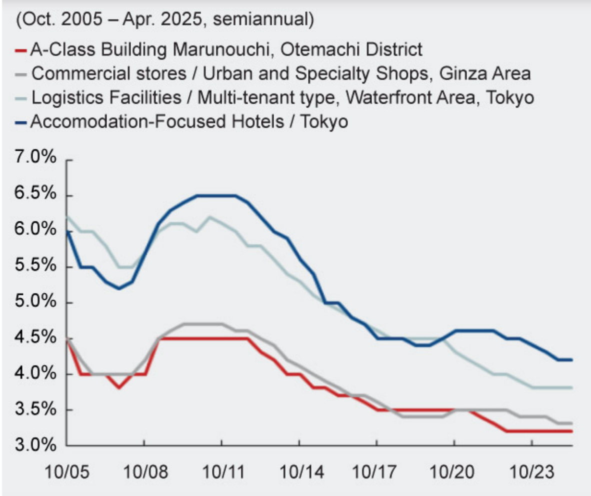


(Source) Nomura Asset Management based on data from the Statistics Bureau of the Ministry of Internal Affairs and Communications (https://www.e-stat.go.jp/).

- **Robust urban real estate price trend continues.**

While rising interest rates theoretically lead to higher expected returns on real estate investments, which typically cause downward pressure on property prices. However, investors' expected returns have remained stable. The background of this stability is, investment-grade real estate yields still offer attractive returns relative to borrowing costs, even when anticipating some increase in interest rates. Additionally, expected increases in cash flow due to rising rents help mitigate the impact of any rise in expected returns on property prices. The firm real estate prices are therefore considered a supporting factor for the J-REIT market, which is already trading at a discount relative to net asset value (NAV multiples).

Figure 7: Real Estate Expected Return



(Source) Nomura Asset Management based on data from Japan Real Estate Institute