The early innings: Why Japan's structural story has years to run

January 27, 2026 | Daisuke Nomoto, CMA (SAAJ), Senior Portfolio Manager; Simon Morton-Grant, Client Portfolio Manager

Corporate governance reforms, capital reallocation and attractive valuations create a compelling multi-year investment thesis.

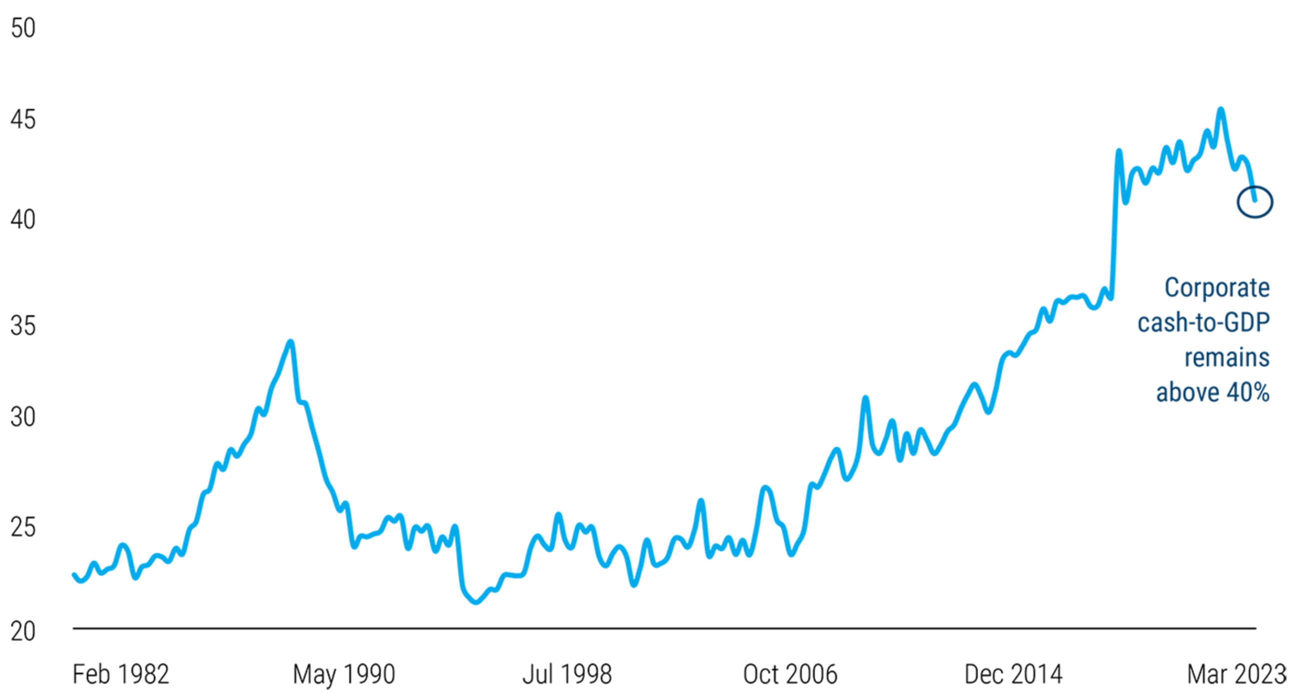
Japan's economic renaissance has captured global attention, but skeptics continue to ask: How sustainable is this transformation? As we enter 2026, this question has evolved into something more fundamental: Are we witnessing a temporary market cycle, or the early stages of a structural transformation that could reshape Japan for decades? Evidence is increasingly pointing towards the latter. What began as a governance-driven rally in 2023 has revealed itself as something far more profound — a convergence of forces that mirrors the early stages of America's great wealth creation cycle of the 1980s.

The governance revolution: Still in its infancy

Across boardrooms in Tokyo, the conversation has fundamentally changed from cash retention and stability to an urgent focus on shareholder returns and capital efficiency.

The numbers tell the story of a transformation gathering momentum. Japanese companies returned 60% of net income to shareholders in 2025, yet they are still sitting on the cash equivalent to 40% of GDP — more than double the U.S. ratio. This isn't a problem to be solved overnight; it is a multi-year opportunity that will systematically unlock value as companies learn to deploy capital more efficiently. We are already seeing evidence of this shift. Share buybacks have multiplied nine times since 2012, cross-shareholdings continue to unwind and dividends have doubled in 10 years. These are not temporary measures driven by market pressure — they represent a fundamental shift in how Japanese business operates. The revolution has begun, but we are still in the early chapters.

Corporates still have lots of cash to deploy



Source: Nomura, November 2025. Chart shows cash and deposit/GDP for all industry ex financial.

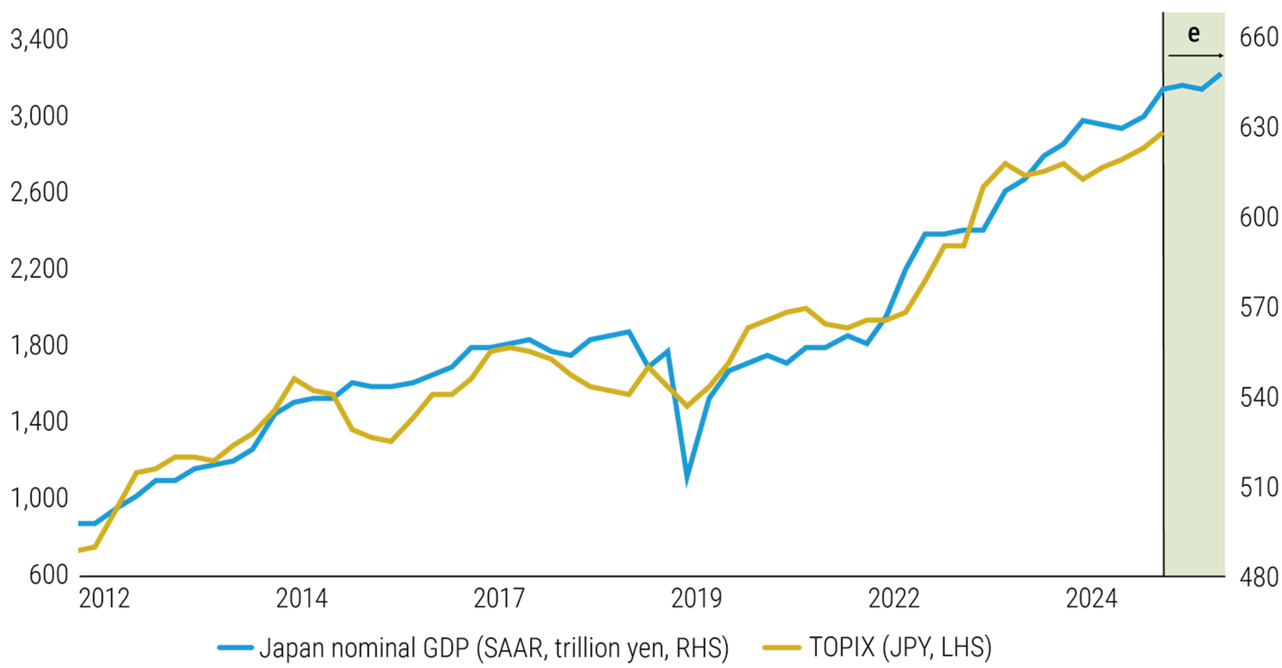
Multiple catalysts align for sustained growth

Governance reform alone doesn't explain the timing of this renaissance. Three powerful catalysts are converging to create a ‘why now’ moment that makes this transformation particularly compelling.

1. Significant shift from a savings to investment culture. Japanese households are finally awakening from decades of financial dormancy. Sitting on $14 trillion in assets (nearly five times France's entire GDP), half of which is languishing in cash, millions of savers are beginning to invest against a backdrop of persistent inflation. Improved NISA accounts (Japan's tax-free investment scheme) are accelerating this shift from savings to investment, securing sustained equity inflows for years ahead.

2. The transition from deflation to inflation is reshaping consumption and investment patterns across both corporate and household sectors. Nominal GDP growth is projecting upward, and the TOPIX historically tracks this trajectory. Crucially, this growth stems from robust domestic demand — a marked departure from Japan's export-dependent recovery patterns of the past.

Japan's market mirror — TOPIX/GDP alignment



Source: Cabinet Office, Morgan Stanley Research. TOPIX (pt), Japan nominal GDP (trillion yen). e=Morgan Stanley Research estimates. November 2025.

3. Japan's political winds have shifted decisively. Prime Minister Sanae Takaichi's administration builds on Abenomics but charts a new course. Where Abe aimed to defeat deflation and restore growth with monetary and fiscal policies, Takaichi pursues 'Sanaenomics' — a strategy that fuses economic growth with national security under the banner of Economic Security and Strategic Investment. This isn't just policy evolution; it is a fundamental reimagining of Japan's global positioning. With fiscal and monetary support, the government is partnering with private industry to dominate tomorrow's critical technologies: artificial intelligence (AI), semiconductors, quantum computing, shipbuilding, cybersecurity and digital content. The momentum is building, and Japan is positioning itself to reclaim a place towards the world's economic summit.

What makes this convergence particularly compelling is that Japanese valuations remain attractive despite recent gains. The TOPIX is currently trading at a fraction of its bubble peak of 64x price/earnings, with more than a third of index companies still below book value. Relative to U.S. markets, Japanese equities trade at a significant discount. This positions Japan as a natural beneficiary of any rotation away from U.S. exceptionalism.

Japan's investment landscape transforms

Japan's investment story is evolving beyond its traditional automation and digital transformation themes. The new administration's strategic vision, combined with structural shifts, is unlocking opportunities across unexpected sectors.

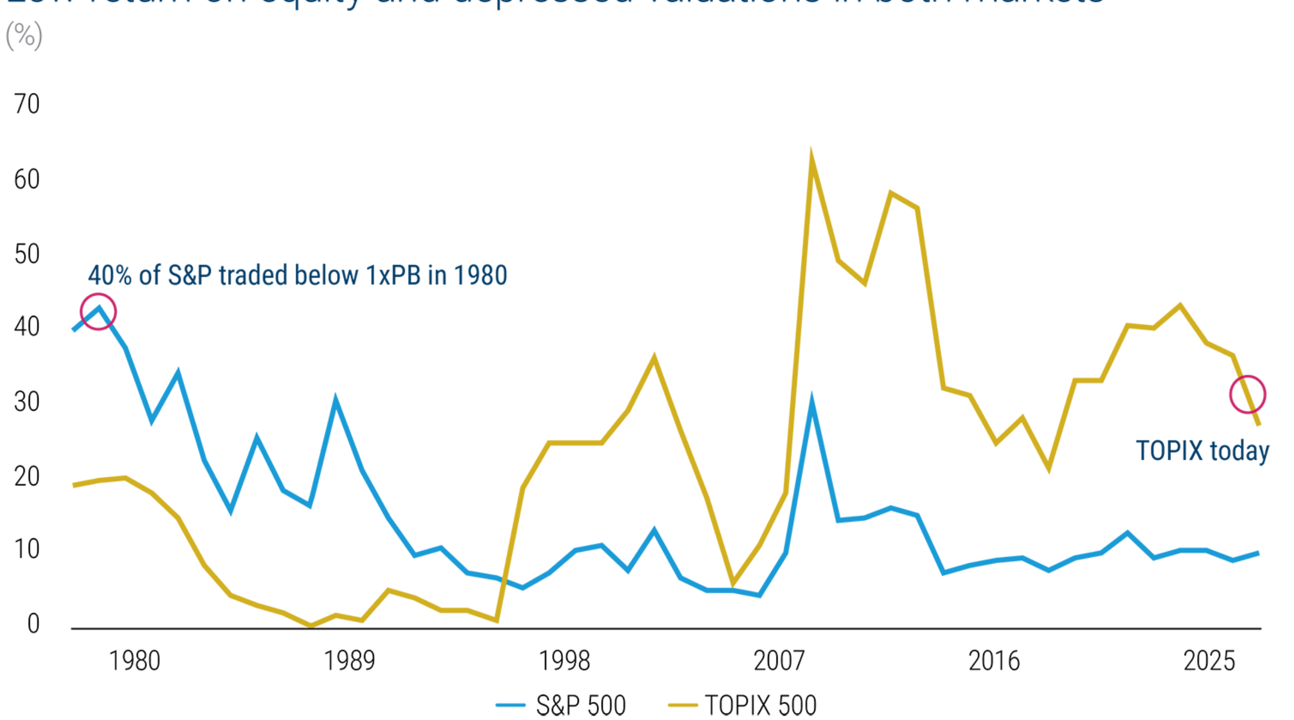
- **AI adoption.** As AI reshapes global markets, Japan faces a unique opportunity. With its shrinking workforce, AI adoption addresses productivity challenges without the job displacement fears plaguing other nations. This demographic reality transforms potential disruption into competitive advantage.
- **Infrastructure spend.** Japan's economic miracle left behind a legacy that now demands attention. Infrastructure built 40–50 years ago during the high-growth and bubble eras requires comprehensive renovation. This isn't cyclical demand, it's structural necessity. Construction companies stand to benefit from decades of sustained activity renovating buildings, upgrading facilities and rebuilding aging transportation networks.
- **Fan culture.** This market segment has quietly grown into an economic force in Japan. 'Oshikatsu' — supporting favorite idols, anime characters, VTubers and athletes — now rivals the global anime industry in market size, revealing untapped commercial potential in Japan's cultural exports.

- **Refloating shipbuilding.** Geopolitical tensions are reviving an ancient truth: Maritime control shapes global power. The Takaichi administration has designated shipbuilding as strategic, promising comprehensive public/private support as defense and maritime equipment sectors benefit from rising international instability.
- **Osaka's reemergence.** Once 'the nation's kitchen' (Japan's main hub for rice trade and economic activity), Osaka lost ground to Tokyo after the 1990's bubble burst. Now, with the Ishin Party's coalition influence, momentum builds behind Osaka's subcapital vision. Major projects such as the Integrated Resort, the Osaka Station redevelopment and the Hokuriku Shinkansen extension signal economic revival ahead.

The wealth creation playbook: Japan today mirrors 1980s U.S.

The parallels to America's transformation in the early 1980s are striking and instructive. Back then, 40% of U.S. stocks traded below book value — almost identical to Japan today. American companies were directionless after the stagflation of the 1970s, just as Japanese firms remained shell-shocked decades after their bubble burst.

Low return on equity and depressed valuations in both markets



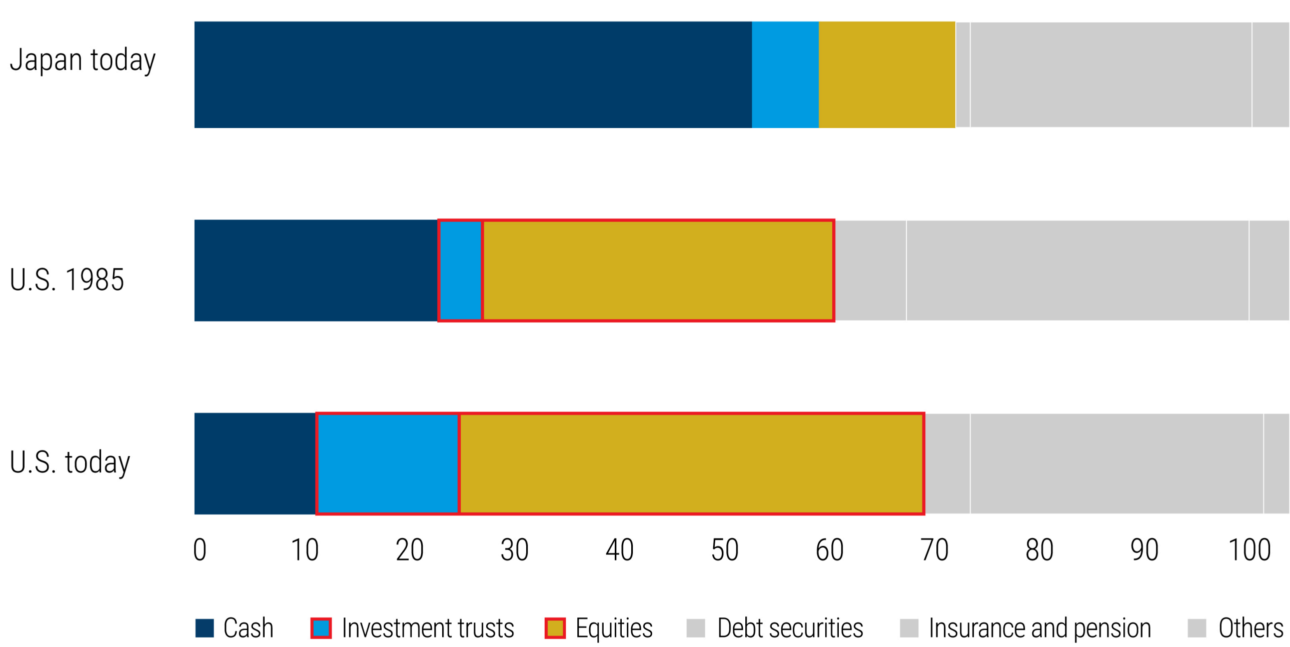
Source: Blommberg and SMBC, December 2025. Chart shows the ratio of stocks with a price-to-book ratio below 1 within the Japan/U.S. universe. Calculated monthly since Janaury 1980.

The catalyst in both cases was the same: A corporate awakening focused on shareholder returns. Ronald Reagan's deregulation and the shift towards M&A-driven restructuring launched the greatest wealth creation cycle in modern history. Japan is following an eerily similar script, with governance reforms systematically pushing return on equity (ROE) higher across the market.

The retail investor revolution also provides another compelling parallel. Equity and investment trusts comprised just 36% of U.S. household allocation in 1985, growing to 55% today. Japan currently sits at 19% — way below the 1985 U.S. level — and the trajectory is clear. With 50% of assets still in cash, the potential for reallocation into equities dwarfs what America experienced four decades ago. Japan's NISA accounts are following a similar transformative path that 401(k)s and IRAs carved in the U.S., potentially unlocking trillions in household savings for equity investment.

Breakdown of household assets

(%)



Source: Morgan Stanley MUFG Research, November 2025.

The active advantage: Navigating inefficiency

The active advantage: Navigating inefficiency

Japan's transformation demands an active investment approach. The evidence is clear: The median active Japan equity manager outperforms the MSCI Japan index over every time period in the past decade. Active managers are well positioned to create genuine alpha opportunities from a market riddled with inefficiencies.
Japan has 4,000 listed companies, yet only 35% have a return on equity above 10%. This means the majority languish at or below their cost of capital. For passive investors this creates an uncomfortable reality: They are forced to own underperforming companies simply because they exist in the index. Active management enables investment in attractively priced, high-quality companies, as well as in names poised for transformation. Furthermore, more than 60% of these Japanese companies are covered by one sell-side analyst or none at all, compared to 70% of U.S. small caps that each attract three or more analysts. This research vacuum is a treasure map for active managers willing to dig deeper. While the market sleeps on corporate Japan's transformation, skilled managers are unearthing tomorrow's winners.

Our quality core investment approach strategically targets these opportunities. We focus on exceptional, inexpensive businesses with strong fundamentals and management teams dedicated to unlocking shareholder value. This methodology has consistently delivered alpha throughout Japan's transformation.

The bottom line: Japan's defining investment moment

Japan's renaissance isn't a cyclical upturn, it is a structural transformation that could span decades. The convergence of corporate governance reform, demographic-driven capital reallocation, political realignment and attractive valuations creates a compelling multi-year investment thesis.

Like the U.S. in the 1980s, Japan stands at the threshold of a generational wealth creation cycle. But we are still in the early innings. The governance revolution is accelerating, household capital is just beginning to mobilize and political momentum favors continued reform.

The structural drivers remain intact, the runway for reform extends years ahead and the opportunity for active managers to generate alpha has rarely been more compelling. We believe Japan's renaissance is just beginning — and those who recognize its structural nature today will be best positioned to benefit from the transformation ahead.

SENIOR PORTFOLIO MANAGER

Daisuke Nomoto, CMA (SAAJ)

Daisuke Nomoto is head of Japanese equities at Columbia Threadneedle Investments. Prior to his current role, he was a director and senior portfolio manager on the Overseas Equity team.

CLIENT PORTFOLIO MANAGER

Simon Morton-Grant

Simon is a client portfolio manager within the Japan and Asia Equity teams. He is responsible for providing detailed information on the company's capabilities and investment views to existing and prospective clients as well as to consultants and other intermediaries.

To find out more,
visit columbiathreadneedle.com

International investing involves certain risks and volatility due to potential political, economic or currency instabilities and different financial and accounting standards.

Stock investments involve risk, including loss of principal. High-quality stocks may be appropriate for some investment strategies. Ensure that your investment objectives, time horizon and risk tolerance are aligned with investing in stocks, as they can lose value.

The sales price the fund (or its underlying investments) could receive for any particular investment may differ from the fund's (or underlying investments') **valuation** of the investment.

Columbia Management Investment Advisers, LLC is an investment adviser registered with the U.S. Securities and Exchange Commission.

Columbia Threadneedle Investments (Columbia Threadneedle) is the global brand name of the Columbia and Threadneedle group of companies.

The views expressed are as of the date given, may change as market or other conditions change and may differ from views expressed by other Columbia Management Investment Advisers, LLC (CMIA) associates or affiliates. Actual investments or investment decisions made by CMIA and its affiliates, whether for its own account or on behalf of clients, may not necessarily reflect the views expressed. This information is not intended to provide investment advice and does not take into consideration individual investor circumstances. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon and risk tolerance. Asset classes described may not be appropriate for all investors. Past performance does not guarantee future results, and no forecast should be considered a guarantee either. Since economic and market conditions change frequently, there can be no assurance that the trends described here will continue or that any forecasts are accurate.

CTBPBAN (01/26) CTNA8728229.1