MARKETS

Japan's Strategic Awakening

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In this macro-focused edition of the Global Institute Dialogues, Hidehiro Imatsu assesses why the catalysts underpinning optimism in Japan are more durable than in past cycles, and Yu Itoki details how these converging forces are reshaping Japan's investment landscape.

Japan is at an inflection point as geopolitics and technology transform the global landscape.

Tokyo is becoming a more central player in a rapidly changing world, advancing a vision of a free and open Indo-Pacific. That begins with a more active role in defense. Following Russia's invasion of Ukraine in 2022, Tokyo's defense outlays have roughly doubled to 2% of GDP, and they continue to grow, with new investments and security partners. While many countries hedge their ties in a fragmenting world, Japan has not done so—it's deepening its alliance with Washington while cultivating relationships from Australia to the Philippines to India, as well as with South Korea and European nations. Meanwhile, Japan's cultural and economic footprints have expanded, strengthening ties between people and demonstrating Tokyo's soft power. As a result, Japan is becoming a leader in promoting peace and stability in the world's most populous and dynamic region.

Strategic convictions also inform Japan's approach to economic security. As a global leader in industries like automobile manufacturing, industrial robotics, and semiconductor materials and equipment, Tokyo is focusing on resilience at a time when supply chains are also geo-economic choke points. The country is pursuing critical minerals partnerships with trusted partners, de-risking supply chains, and revitalizing its shipbuilding and defense-industrial base.

This confluence of macro forces create a window of opportunity for the world's fourth largest economy. A sustained, multiyear commitment to international cooperation, economic security and renewal, and remarkable shifts in corporate governance reform signal Japan's vitality in strategic sectors. While challenges remain, including fiscal and demographic pressures and diversifying energy sources, the direction of travel is unmistakably promising.

Japan's leadership on the global stage is often quiet but always deliberate, making it one of today's most consequential geopolitical actors. It's also building the foundations for sustainable, secure growth in one of the world's largest economies.

In this edition of Global Institute Dialogues, Hidehiro Imatsu explores what this moment in Japan means for markets, companies, and the global economy. Then Yu Itoki discusses how reforms, technology, and demography are reshaping Japan's investment landscape.

Jared Cohen
President of Global Affairs at Goldman Sachs
and Co-Head, Goldman Sachs Global Institute

Hidehiro Imatsu, President of Goldman Sachs Japan, assesses why the catalysts underpinning optimism in Japan are more durable than in past cycles.

We're seeing a confluence of macro shifts in Japan—rising inflation, shifting rate dynamics, and now a push toward greater capital efficiency and shareholder focus. From your perspective as the head of Goldman Sachs Japan, what makes this period different from past cycles?

Japan is no longer relying on a single narrative. In past cycles, optimism around Japan was often tied to one dominant factor—perhaps a weaker yen, an export recovery, or monetary stimulus. Today, what we are seeing is broader and, in my view, more durable as a result.

First, we now have a more credible wage-price dynamic. Wage settlements have remained at historically high levels, which is significant in a country that lived with low inflation and stagnant wages for so long. Second, the Bank of Japan has already moved policy rates into positive territory, with the policy rate now around 1.0%. This means that capital is once again beginning to be priced more normally. And third, the Tokyo Stock Exchange's (TSE's) reforms have made capital efficiency and shareholder dialogue more central to how companies are being evaluated.

These trends are not just investor talking points; they are also structural shifts driving boardroom decisions across the market. We're already seeing the results.

What also gives me confidence is that this shift is becoming visible in real behavior. We are seeing more seriousness around portfolio review, underutilized assets, balance sheet discipline, and strategic transactions. In our own franchise, we spoke last year about strong momentum across our core business segments and underscored that Japan was in a good place. Fast-forwarding to today, these trends remain intact. But what is different a year later is the quality of the conversation. More clients are no longer asking *if* Japan can change but *how* to position themselves for that change. That, to me, is a very important distinction.

The current cycle in Japan seems to be supported by structural changes, including toward a supply-side orientation from the Takaichi administration. What makes these shifts a step change from prior periods of economic reform in Japan?

I think the clearest difference is that the current phase of policy discussion is not only about supporting demand. It is increasingly about strengthening Japan's productive capacity.

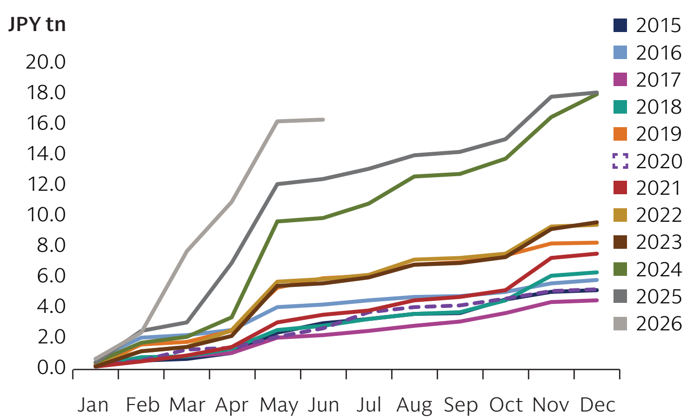
Directionally, the current administration's policies place a much greater emphasis on strategic investment, industrial competitiveness, resilience, and long-term capacity building. In Prime Minister Takaichi's policy speech in February, there was clear focus on bold strategic investment and strengthening areas such as energy security, food security, health, infrastructure, and economic resilience. Those priorities are important because they move the discussion beyond near-term stimulus and toward the long-term foundations of growth.

But what makes this more meaningful than some earlier reform cycles is that policy is not operating in isolation—private-sector pressure and market discipline are reinforcing these changes. The TSE continues to push listed companies to explain how they are managing with greater awareness of cost of capital and stock price. That push is prompting more serious discussion around resource allocation, return thresholds, cash usage, and accountability. At the same time, tighter labor markets and sustained wage growth are forcing companies to think harder about productivity, automation, and technology adoption.

This is not a story of government reform alone. A self-reinforcing feedback loop of government policy, corporate reform, labor market change, and investor expectations is accelerating significant—and durable—change in Japan.

Japanese buybacks are accelerating at record pace

Announcements as of June 17, 2026



Source: Goldman Sachs Global Institute, Nikkei Value Search, data compiled by Goldman Sachs Global Investment Research.

How is Japan's gradual rate normalization changing the investment landscape for both domestic and foreign investors?

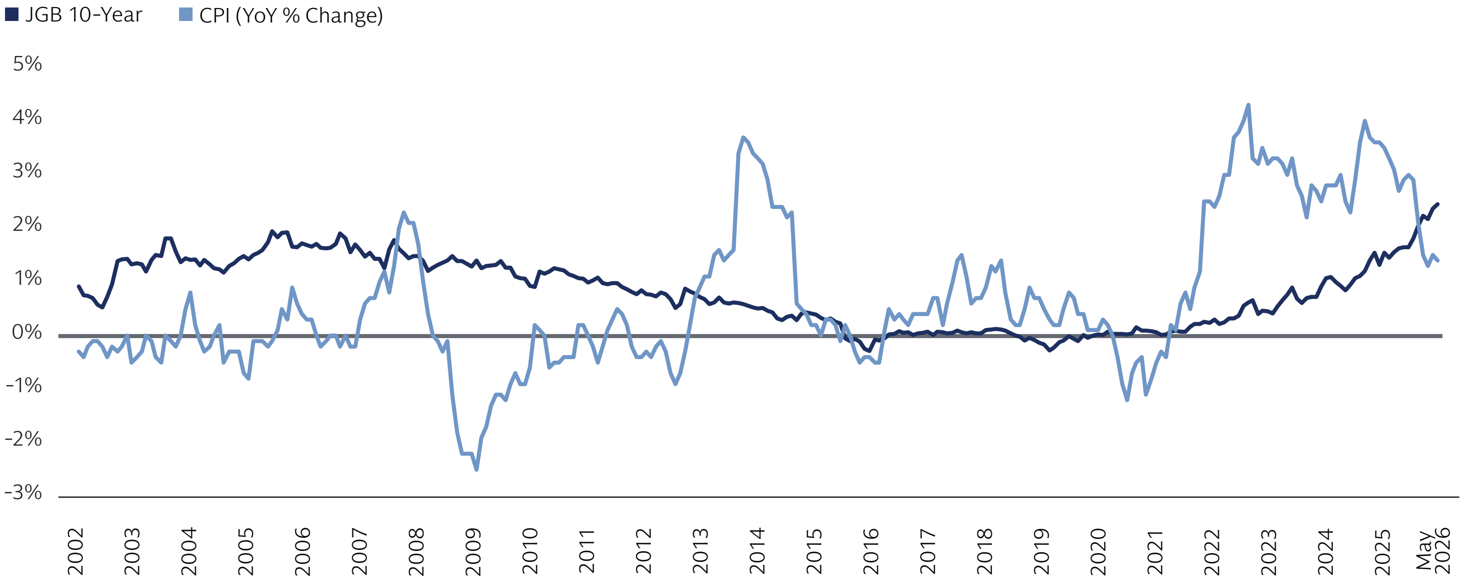
Rate normalization is restoring price signals to the Japanese market.

For many years, investors operated in an environment where the cost of money was extremely suppressed. In that world, it was easier for excess cash, low-return assets, and weak capital discipline to remain unchallenged. But as rates normalize, even gradually, those conditions begin to change. Investors now have to think more carefully about duration risk, funding costs, foreign exchange, and whether a company is earning an adequate return on capital. The Bank of Japan's policy rate is ~1.0%, and even though headline inflation has recently been influenced by subsidies, the Bank's own underlying inflation indicators suggest that price pressures remain firmer beneath the surface than the headline numbers alone might imply.

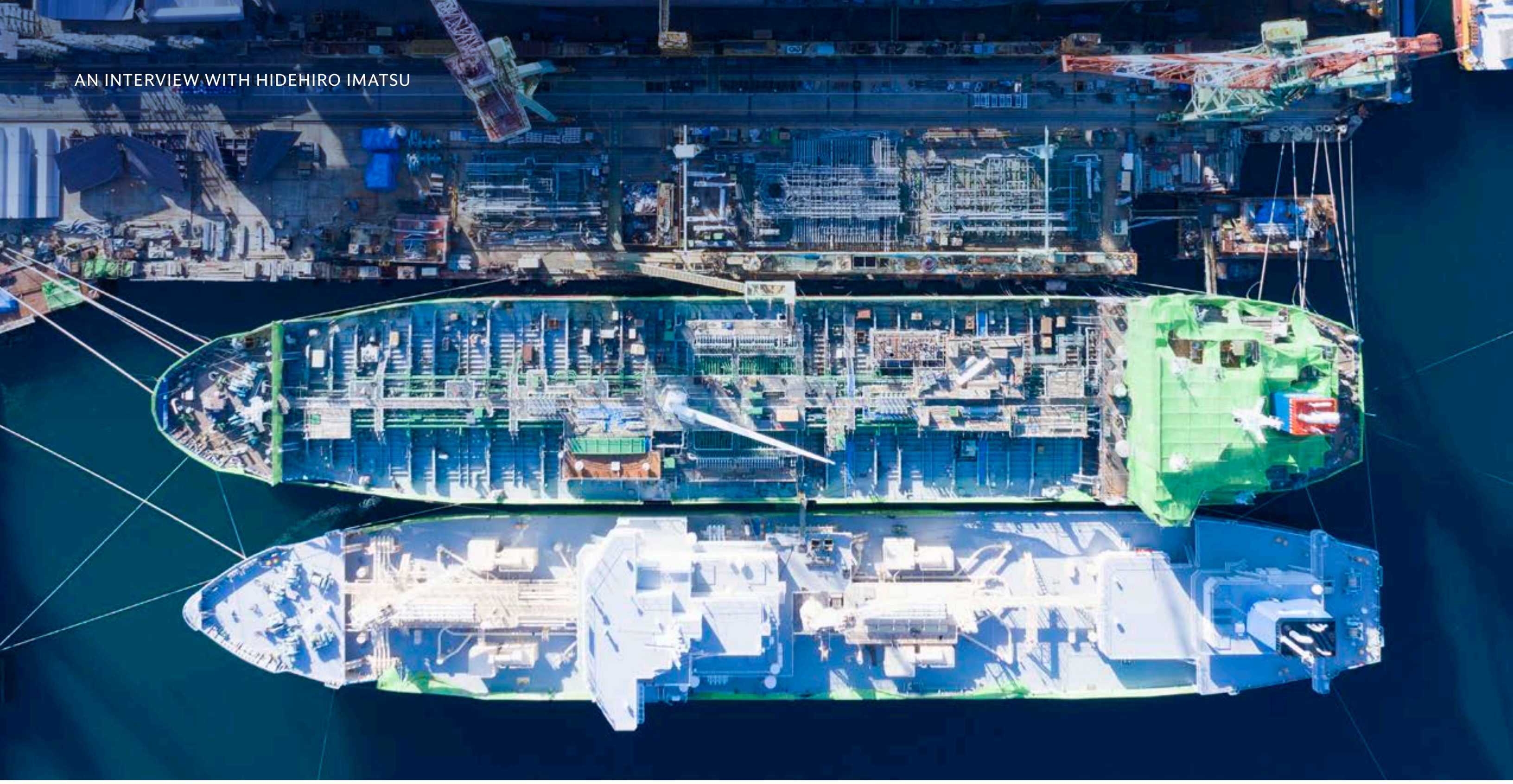
For domestic investors, this means fixed income matters again in a way it did not for a long time. Financial institutions can think differently about margins and portfolio construction, and corporates face stronger scrutiny over the opportunity cost of holding idle capital. And for foreign investors, Japan is becoming more attractive, not only because rates are normalizing, but because that is occurring alongside governance reform and more active shareholder engagement. That combination makes Japan a more differentiated market. Stock selection matters more. Currency matters more. Strategic activity matters more.

Normalization is not reducing the opportunity set, but it is making Japan a more attractive market as returns increasingly depend on fundamentals, discipline, and execution rather than the persistence of ultra-loose policy.

Japanese bond yields have reached multi-decade highs



Source: Goldman Sachs Global Institute, Goldman Sachs FICC & Equities, Haver Analytics.



From your conversations with business leaders across Japan, how are they thinking about today's most pressing opportunities and challenges given mega-trends in the global economy like the rise of AI and the pressures of geopolitics?

The first is how to invest for growth, and the second is how to remain resilient in a more fragmented and unpredictable world.

On growth, AI is now a central topic in nearly every strategic conversation. Importantly, companies are no longer treating it as just another technology theme but instead are asking how AI can improve productivity, reshape client engagement, strengthen risk management, accelerate decision-making, and create entirely new business models.

Speaking from my own experience, I said last year that one of the firm's key priorities was finding ways to embrace AI to drive efficiencies and better serve clients. That same mindset is now visible across corporate Japan. The companies moving fastest are those asking "How do we redesign the way we operate around AI?" and not just "How do we use it?"

At the same time, geopolitics has become inseparable from corporate strategy. Leaders are thinking much more seriously about supply chains, energy security, cyber resilience, friend-shoring, and the possibility that political fragmentation could reshape how and where they invest.

Look no further than the Takaichi administration's emphasis on resilience and strategic investment for evidence. Many executives are seeing real opportunity in Japan due to its strong industrial capabilities, improving governance, healthy balance sheets, and increasing relevance in areas like semiconductors, advanced manufacturing, and long-duration capital. Prime Minister Takaichi's recent proposal to invest more than ¥370 trillion ($2.3 trillion) over a 14-year period in 17 strategic sectors, including AI, energy, and shipbuilding, through both public and private capital, is the latest signal of Tokyo's commitment to this strategy.

But there is also clear recognition that execution will matter enormously. In a world shaped by AI disruption and geopolitical uncertainty, recognizing the trend is not enough. You have to show conviction—allocating capital, talent, and management attention with real urgency.

Lastly, while corporations are bullish, the banking sector is navigating a more complex and challenging landscape. For the first time in decades, Japan is experiencing a significant "funding gap" as loan demand outpaces deposit growth.

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Yu Itoki details how converging macro forces are reshaping Japan's investment landscape.

Corporate governance reform has become one of the most important parts of the Japan investment narrative. How are reforms changing the opportunity set for investors?

Corporate governance reform has evolved from soft aspiration to potent market catalyst as boards face greater pressure to justify cash holdings, cross-shareholdings, weak margins, and persistent discounts to book value. The Tokyo Stock Exchange (TSE), together with policymakers and regulators, has pushed listed companies to focus much more explicitly on capital efficiency, profitability, and shareholder rights and returns. Since March 2023, the TSE has asked Prime and Standard market companies to disclose initiatives aimed at becoming more conscious of cost of capital and stock price, and this has become a highly visible pressure point in public markets.

The impact is particularly evident in listed equities. Public-market investors are seeing boards engage more seriously on distributions to shareholders, business portfolio reviews, parent-subsidiary simplification, noncore asset disposals, and more credible medium-term plans. Just as importantly, companies that cannot keep up with this reform agenda are increasingly pressured to consider strategic alternatives such as M&A, carve-outs, or delisting.

This dynamic creates a favorable backdrop for engagement funds and financial sponsors, which can serve as the "receiver" for businesses going private or seeking more decisive operational transformation. As a result, opportunities that would never have come to market are now surfacing. The reform process is making management teams more responsive, improving board accountability, and increasing the willingness to transact.

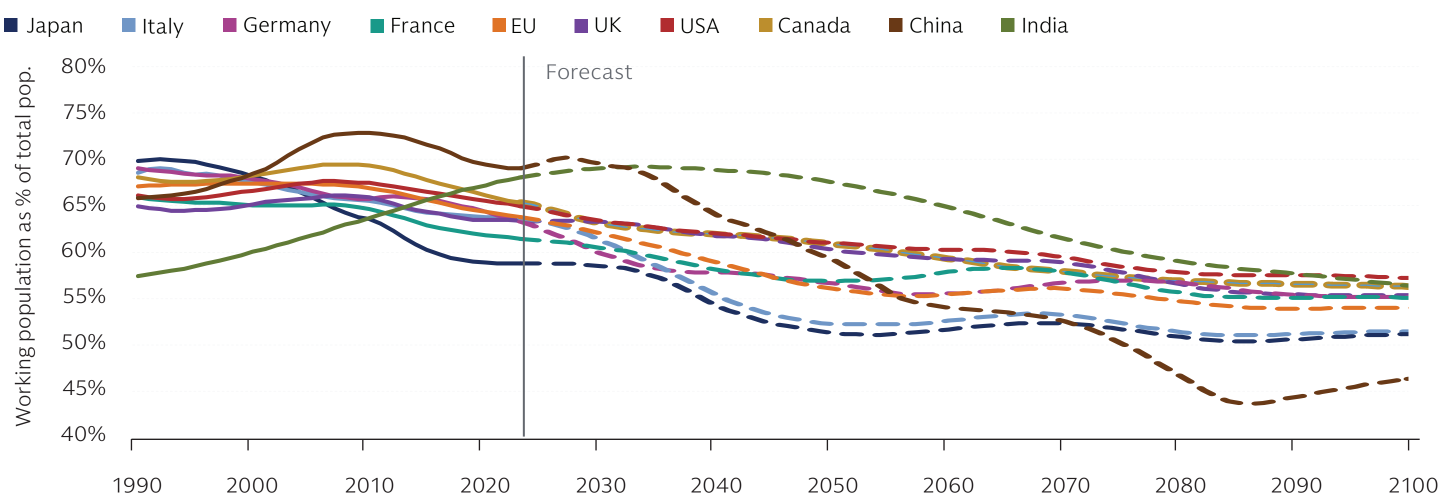
These opportunities mean that Japan's M&A and private equity markets feel more active than at any prior point in recent memory.

> For investors, governance reform is no longer just a re-rating story; it is a catalyst for activism, take-privates, spin-offs, and operational value creation across both public and private markets.

How is Japan's demography changing the investment landscape and corporates' priorities?

Japan's demographic shift is one of the clearest structural forces shaping the country's investment landscape, as a declining working-age population and aging labor force produce a worsening labor shortage. For years, Japan was able to cushion the impact by increasing female labor participation and bringing more seniors back into the workforce.

Leading global economies are facing rapidly declining working-age populations



Source: Goldman Sachs Global Institute, United Nations, Goldman Sachs Global Investment Research.

While these measures helped temporarily stabilize labor supply, they cannot fully offset the broader demographic headwinds going forward. And although immigration has increased gradually, cultural, linguistic, and geopolitical constraints mean it is still not large enough to reverse the broader decline in labor supply.

These demographic realities are redirecting capital from sectors dependent on an abundant workforce toward those that can relieve labor bottlenecks and unlock productivity gains with fewer employees (e.g., information technology, digital transformation, AI, factory automation, robotics, and software). Equally important are business process outsourcing providers and specialized service businesses that help clients outsource tasks, redesign workflows, and operate with leaner internal staffing.

Corporates' priorities are evolving in tandem. Management teams are no longer pursuing digital investment for modernization or convenience alone; increasingly, they are doing so because labor scarcity is a direct operational risk. This is a key distinction, as productivity spending should prove more durable and less cyclical than in the past. Investors should therefore view Japanese demography not only as a macro headwind, but also as a source of sustained thematic growth.

Businesses that can substitute for labor, augment scarce workers, or improve utilization are positioned to capture rising demand for many years to come, making labor-saving technology and outsourced services among the most compelling areas of structural growth in Japan.

Many Japanese companies remain fundamentally solid yet undervalued. With nearly half of Tokyo's top-tier listed companies still trading below book value, how do you connect that public-market value discrepancy with the surge in private equity activity and strategic M&A?

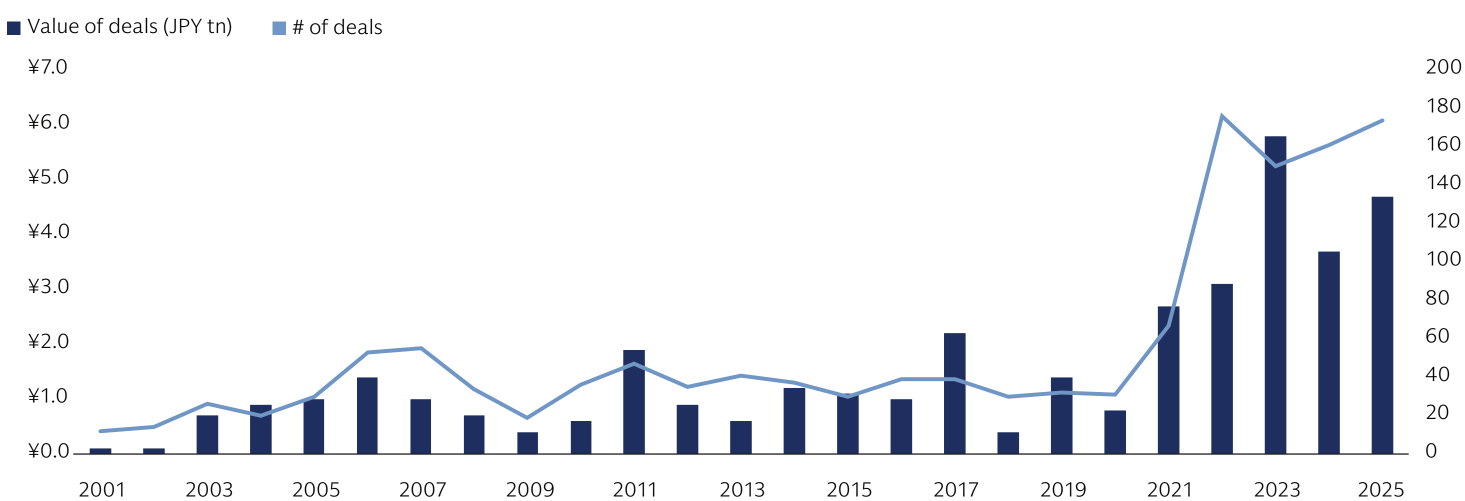
The connection is real, but it should be interpreted with care. Valuation is always relative and highly dependent on the benchmark one uses. Compared with global peers, many Japanese listed companies still appear undervalued. While M&A and private equity activity in Japan has clearly accelerated, its overall impact on the public market remains limited because the transaction market is still small relative to the size of the listed universe.

Said differently, deal activity is gaining momentum but is not yet large enough to eliminate the valuation gap across the broader market. The coexistence of undervalued public companies and growing private equity activity is not contradictory, but exactly what we'd expect to see in a market where the scope for operational improvement remains substantial.

More broadly, profitability is a key reason for this valuation differential. The average EBITDA margin of Japanese companies is ~10%, versus ~15% for comparable US corporates and ~21% for US sponsor-owned companies. That means many Japanese businesses operate at roughly two-thirds of US corporate margin levels and less than half of US private equity-owned benchmarks. Viewed through a private equity lens, that gap presents a significant opportunity for value creation. Because starting margins are relatively low, even modest improvements can drive a much larger proportional increase in earnings than in markets where margins are already optimized. Assuming margins improve and growth accelerates, valuation multiples can also then re-rate upward.

Private equity-related deals in Japan have meaningfully accelerated in recent years

Number and value of private equity-related deals in Japan (JPY Tn)



Source: Goldman Sachs Global Institute, Mergermarket, as of December 2025. Note: Includes only deal value more than JPY 1 billion.

Unsurprisingly, private equity firms looking to deploy dry powder have gravitated toward Japanese companies with low valuations and low margins. Many of these businesses offer stable franchises, under-levered balance sheets, noncore assets with embedded unrealized value, and access to highly attractive financing from Japanese lenders. Taken together, Japan offers a deep reservoir of unlockable value.

As the global AI ecosystem continues to scale, where do you see Japan's natural position within that value chain, and how are corporates evolving to capture a larger share of this opportunity while accelerating digital adoption themselves?

Japan occupies a differentiated position in the AI value chain because it has meaningful advantages on both the demand and supply sides. From a demand perspective, many Japanese companies still operate with relatively low EBITDA margins and remain behind global peers in digital adoption, a fact that also creates unusually large scope for AI-driven efficiency gains. In some cases, companies may not need to follow a long, incremental digital transformation path but may leapfrog from partial digitization directly into AI-enabled workflows instead. Delayed adoption could then become an advantage as firms can deploy newer tools without being weighed down by as much legacy complexity and technical debt.

On the supply side of the equation, Japan's long-established industrial base is a major asset. The country has deep capabilities in manufacturing, precision machinery, factory automation, sensors, and robotics.

As a result, Japan's natural role in AI may be less centered on consumer software and more concentrated in physical AI: robotics, machine vision, edge intelligence, industrial automation, and AI-enabled production systems. In these areas, Japan benefits from a rich engineering culture, a large installed base of equipment, and valuable real-world industrial data that can be difficult to replicate elsewhere.

There is also an important social dimension. Unlike in some economies, where AI adoption is primarily viewed through the lens of job displacement, Japan's structural labor shortage offers another differentiated—and more urgent—narrative. Facing a critical shortage of workers, AI is more likely to be considered a practical solution for sustaining output, service quality, and competitiveness than a direct threat to employment. This nuance should support broader social acceptance and faster corporate adoption in turn.

The trend is clear. Japanese companies are evolving from passive users of digital tools into active adopters of AI while leveraging national strengths in robotics and industrial technology to capture a larger share of the broader AI value chain.

About the Interviewees

Hidehiro Imatsu is president and representative director of Goldman Sachs Japan Co., Ltd. and a member of the Management Committee. He also serves as co-head of Global Interest Rate Products Trading and co-head of the Asia Pacific Fixed Income, Currency and Commodities (FICC) Franchise. Imatsu serves as co-chair of the Asia Pacific Risk Council and Goldman Sachs Japan Co., Ltd. Executive Committee, and is a member of the Asia Pacific Management Committee and the Asia Pacific Talent Council. Previously, he was head of Macro Trading in Japan. Imatsu joined Goldman Sachs in 1996 and rejoined the firm as a managing director in 2005. He was named partner in 2008. Prior to joining the firm, Imatsu managed interest rate derivative trading and structuring at Morgan Stanley in Japan. He earned an MS in Applied Math and Physics from Kyoto University.

Yu Itoki is a managing director in Growth and Corporate Equity within Goldman Sachs Asset Management, overseeing private equity and growth equity investments in Japan. He is also responsible for overseeing alternative investment strategies in Japan, with a focus on private and growth equity investing. Previously, Itoki was a member of the Asian Special Situations Group and, before that, he worked within the Principal Investment Area in the Merchant Banking Division. He joined Goldman Sachs in 2011 as an analyst in the Merchant Banking Division and was named managing director in 2023. Itoki serves on the board of directors of Bitkey, ILS Inc., LegalOn Technologies, Nihon Housing, NIPPO Corporation, and Rapyuta Robotics. He earned a BA in Economics from the University of Tokyo in 2011.

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