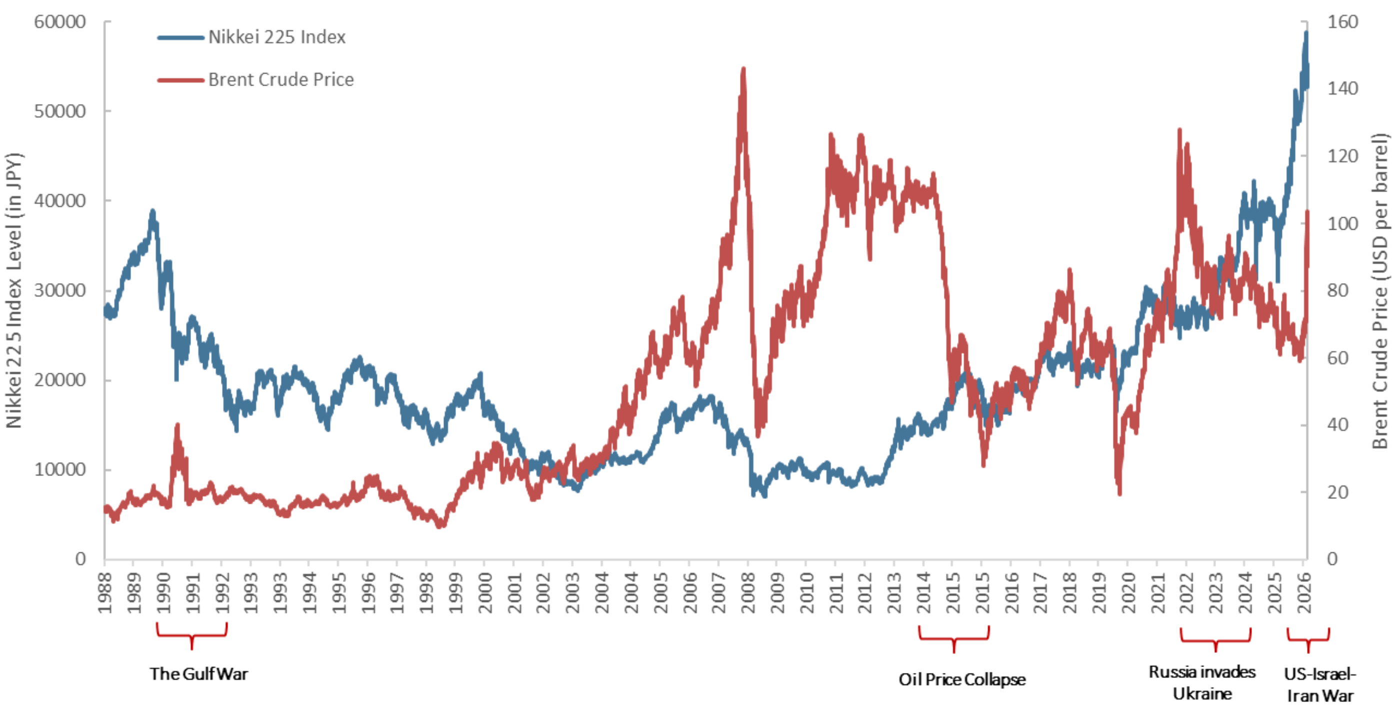
18 March 2026

The Impact of High Oil Prices on Japanese Equities & How Companies Might Mitigate the Risk

Recent geopolitical tensions between the US-Israel and Iran have pushed global oil prices higher, raising concerns about potential disruptions in the Strait of Hormuz, one of the world's most critical oil transit routes. Japan, as a major energy importer, is particularly exposed, and the recent pullback in the Nikkei 225 reflects both rising oil prices and geopolitical uncertainty. In response, the Japanese government announced the release of 80 million barrels from strategic petroleum reserves from 16 March 2026- about 45 days of supply. While these shocks can create short-term pressure on the Japanese economy, the implications for Japanese equities are more nuanced, reflecting the resilience of many Japanese corporations and several structural buffers within the economy.

Nikkei 225 vs Brent Crude Price (1988–2026)

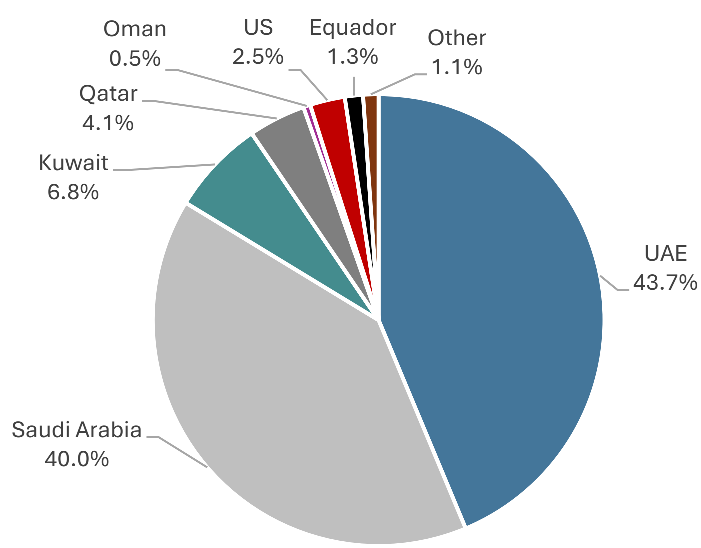


Source: Bloomberg, as of 18th March 2026.

1. Structural Vulnerability: Japan's Energy Dependence

Historically, Japan's economy has been highly sensitive to global energy prices. Around 90%-95% of Japan's oil imports come from the Middle East, much of it passing through the Strait of Hormuz. This dependence has made the country vulnerable to supply disruptions, with rising oil prices contributing to economic slowdowns and volatility in Japanese equities.

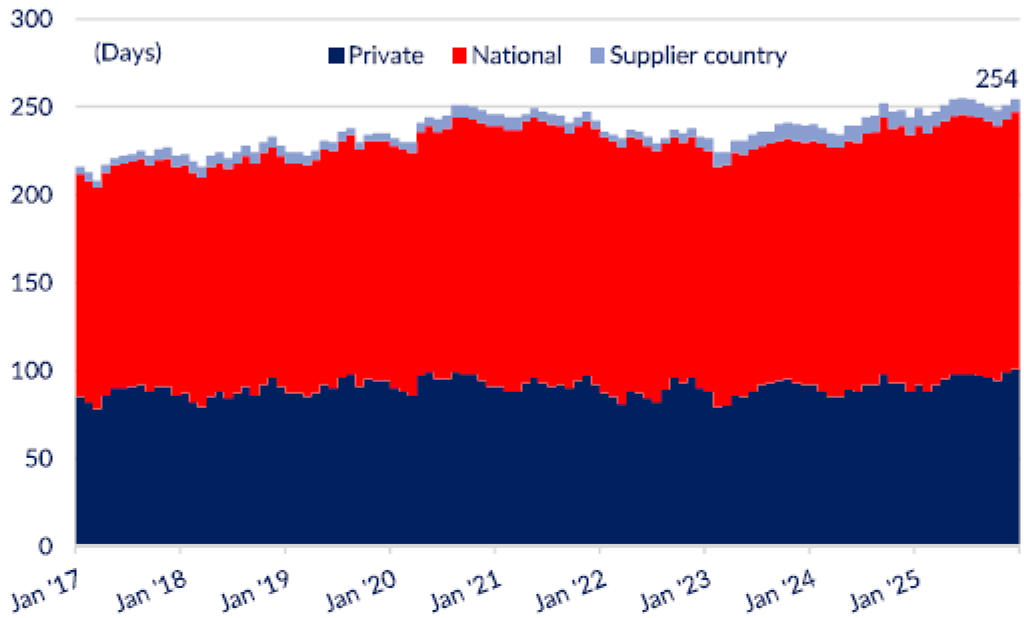
Japan's Oil by Source (FY 2024)



Source: METI.

Japan has long recognized this structural vulnerability and has taken steps to mitigate it. Strategic measures have included investments in nuclear energy, which prior to the 2011 Fukushima nuclear disaster supplied about 30% of electricity, and substantial oil inventories—currently covering approximately 254 days of demand. After the Tōhoku earthquake and tsunami, the government halted nuclear operations due to safety concerns, increasing reliance on imported fossil fuels. Recent policy efforts under Prime Minister Sanae Takaichi to restart major reactors reflect a renewed focus on energy security and a strategic shift toward reducing dependence on imported oil and gas.

Japanese Oil Inventories in Days of Demand Cover



Source: CLSA, METI.

The recent escalation of the conflict in the Persian Gulf has pushed oil prices higher and weighed on global market sentiment. Given Japan's structural reliance on energy imports, these developments have contributed to the recent decline in the stock market.

2. Structural Buffer: Nuclear Energy Policy

Nuclear power is a key component of Japan's long-term energy strategy. In recent years, government policy has shifted toward restarting reactors that were shut down after 2011, aiming to strengthen energy security. Rising oil prices and ongoing geopolitical tensions have further reinforced political support for nuclear power, highlighting its role in reducing Japan's exposure to volatile imported energy.

Over time, nuclear restarts could significantly buffer the economy and equities against energy price shocks, and while refurbishing and restarting plants takes time, Japan has a strong incentive to accelerate this process.

3. Corporate Resilience: Pricing Power, Energy-Driven Structural Benefits & Financial Strength

Even though oil shocks create macroeconomic pressures, we believe our portfolio companies are relatively well positioned to navigate these challenges. Many operate businesses with strong pricing power, allowing them to pass through higher input and energy costs to customers over time. While there may be some short-term margin pressure, our focus on high-quality companies with durable competitive advantages that can generate sustainable earnings across different economic environments should provide relative downside support.

Examples within our portfolios illustrate different aspects of this resilience. Sanwa Holdings Corporation, which manufactures industrial and residential shutters, and Rinnai Corporation, a leading producer of high-efficiency water heaters, should benefit from structurally higher demand for energy-efficient solutions. Other portfolio companies, such as Hikari Tsushin, are not only highly resilient during downturns, with strong cash flows and disciplined costs, but also have a track record of acting counter-cyclically and pursuing attractive acquisitions during periods of market stress when valuations are more attractive. Finally, some companies are largely insulated from stress related to oil supply and price – an example being Bandai Namco Holdings, whose entertainment IP business is relatively resilient to macroeconomic conditions and supply chain disruptions. These examples highlight how pricing power, structural demand advantages, and financial resilience can enable Japanese companies to navigate short-term macroeconomic pressures while creating long-term shareholder value. Dalton's core investment mantras mean we naturally tend to focus on companies with these characteristics when constructing our clients' portfolios.

Investment Perspective

From an investment perspective, the recent market volatility does not materially change our long-term thesis for Japanese equities. While rising oil prices and geopolitical tensions may create short-term pressure on markets, we believe our portfolio companies remain well positioned due to their pricing power, global diversification and strong financial positions.

Our investment approach continues to focus on companies where we see clear catalysts for value creation through operational improvements, governance changes and better capital allocation.

Periods of external shocks often create attractive opportunities for long-term investors. In this case, the recent correction may allow us to add to high-conviction positions at more attractive valuations.

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