

# Decline in Stock Prices Following LDP Presidential Election

## Movement in line with fundamentals after adjustment due to high expectations fall short

September 30, 2024

### Expectations of monetary easing and fiscal expansion have fallen, but the adjustment is expected to be temporary

In the morning session on September 30, The Nikkei Stock Average and TOPIX saw sharp decline with 4.6% and 3.3%, respectively. On Friday (September 27), the first round of the Liberal Democratic Party's leadership election resulted in Ms. Sanae Takaichi emerging as the frontrunner, raising expectations for monetary easing and fiscal expansion, which led to a sharp depreciation of the Yen and a substantial rally in the stock market. However, in the second round of voting, Mr. Shigeru Ishiba's unexpected victory triggered a rapid appreciation of the Yen, resulting in a significant market downturn at the opening of the trading session on September 30.

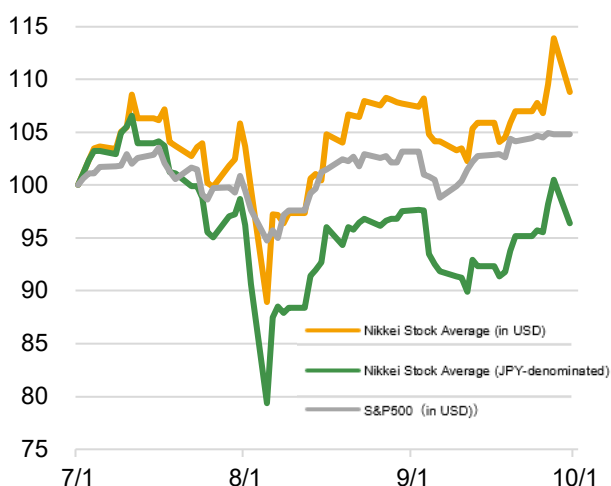
In addition to the fall short of market high expectation factoring in Ms. Takaichi's victory (Nikkei 225 +5.8% and TOPIX +4.3% over the two days of September 26 and 27, \*including dividends), market concerns on the tightening of financial income taxation, financial normalization, and fiscal austerity mentioned by Mr. Ishiba are also considered to be the factors behind the decline. However, with the prospect of an early dissolution of the general election, the market is expected to gradually regain its composure, as references to unpopular tax hikes are likely to be revised before the election, and stocks tend to rise around the time of the dissolution of the general election.

Thereafter, we expect generally firm stock price movements due to the following factors: (1) EPS growth forecast for Japanese companies is still higher than that of other countries, even after the rapid appreciation of the Yen since July, (2) cost-push inflation tends to subside as resource prices decline and supply constraints are resolved, and (3) effects from the interest rate cuts in the US, China, and other countries around the world are expected. In terms of supply and demand, share buybacks, which is climbing at a faster pace than before, are more likely to increase after companies of fiscal years ending in March announce their interim financial results (from late October onward), and we also expect the market to be boosted by the lifting of uncertainty after the US presidential election event due on November 5.

#### Japan-US stock price index

(July 1, 2024 = 100)

( July 1, 2024 to September 30, 2024)



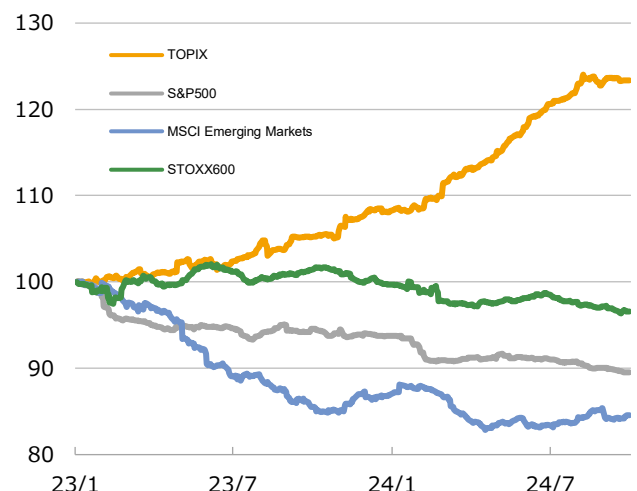
※Nikkei Stock Average till Sept. 30 morning session, S&P 500 Sept. 27

Source: Bloomberg; Compiled by Daiwa Asset Management

#### Changes in projected EPS for each country

(January 1, 2023 = 100)

(January 1, 2023 to September 30, 2024)



※12-month forward forecast, local currency basis, emerging markets in USD

Source: Bloomberg; Compiled by Daiwa Asset Management

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