

House of Councillors Election (2025)

Political and Market Volatility Driven by Election Uncertainty
Spurs Caution on Super-Long-Term Yields

July 17, 2025

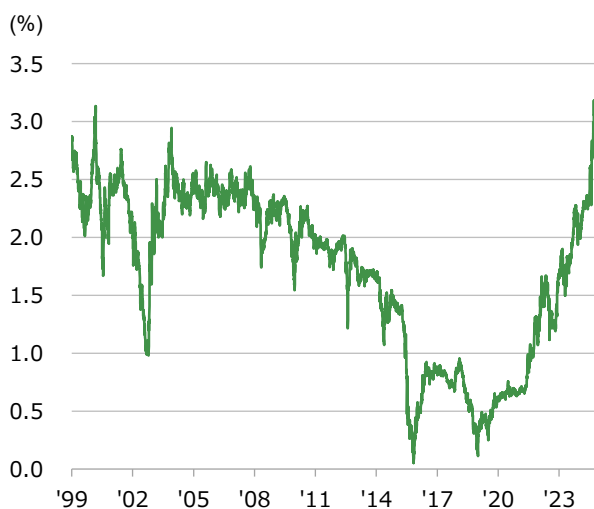
LDP and Komeito Face Tough Battle to Maintain Majority

In the 27th House of Councillors election scheduled for Sunday, July 20, 2025, the central issue is whether the ruling coalition—Liberal Democratic Party (LDP) and Komeito—can maintain a majority of 125 seats, including the 75 seats not up for election. The LDP's historically poor performance in the Tokyo Metropolitan Assembly election in late June, seen as a bellwether for the national race, has raised concerns about declining support. Recent opinion polls suggest that even when including non-contested seats, the ruling coalition may fall short of a majority. This has opened the door for opposition parties advocating expansionary fiscal policies, such as consumption tax cuts or abolition, to gain momentum.

Amid this political uncertainty, long-term government bond yields have risen sharply. This reflects a growing term premium—the extra yield investors demand to compensate for risks associated with holding long-duration bonds. The rise is driven by concerns over worsening fiscal conditions and bond market imbalances. Although the Bank of Japan has decided to scale back its reduction in government bond purchases starting April 2026, and the Ministry of Finance has announced a cut in long-term bond issuance from July, these measures have not fully stabilized the market. Major institutional investors like life insurance companies, who are key players in the long-term bond market, are facing expanded unrealized losses, limiting their buying capacity and further destabilizing supply-demand dynamics.

The situation draws parallels to the “Truss’s mini-budget disaster” in the UK in September 2022, when fiscal concerns triggered market turmoil. A similar scenario cannot be ruled out in Japan. Therefore, close attention is being paid not only to the election results, but also to the post-election political framework and policy direction, as these will significantly influence financial markets.

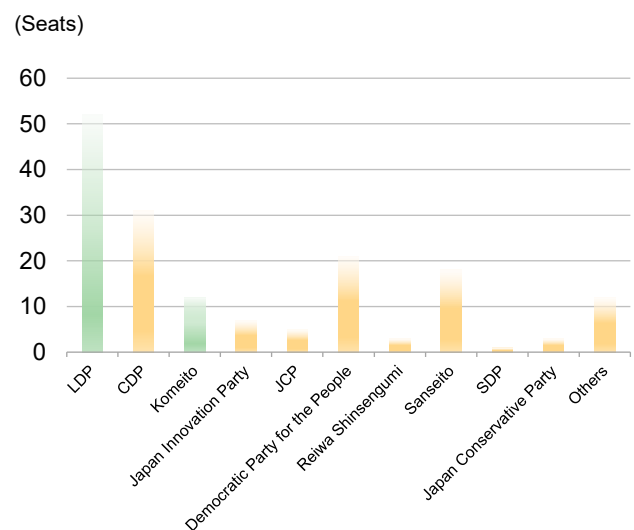
30-year Government Bond Yield



*The latest value is July 16, 2025

Source: Bloomberg; Compiled by Daiwa Asset Management

Projected Seat Counts by Party



*Results of the July 13-15 poll

Source: Nihon Keizai Shimbun; Compiled by Daiwa Asset Management

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