# Market Outlook Under New LDP President Takaichi

## After the Initial Stock Rally, Focus Shifts to Assessing the Impact on Fundamentals

October 7, 2025

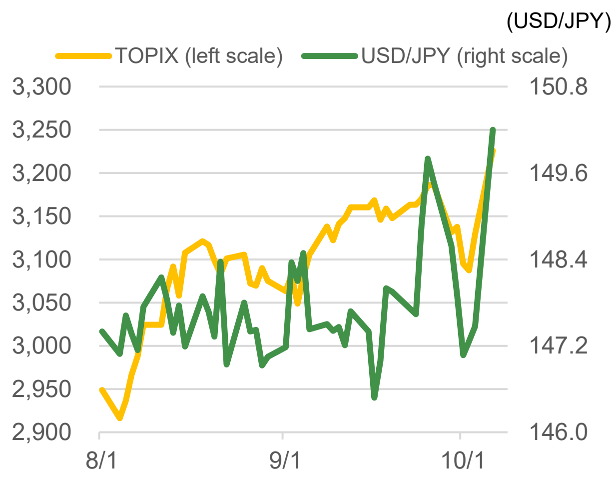
## How Sustainable is the Takaichi Trade?

On Saturday, October 4, Sanae Takaichi was elected as the 29th president of the Liberal Democratic Party (LDP) in the leadership election. As of the 3rd, prediction markets (Polymarket) were pricing her chances of winning at only around 15%, with Shinjiro Koizumi widely seen as the frontrunner. This outcome came as a surprise, and at the start of the week, markets reacted swiftly with a “Takaichi trade” characterized by higher stock prices, a weaker Yen, and a steepening of the yield curve (short-term rates falling and long-term rates rising).

From an equity market perspective, if fiscal policy turns expansionary, monetary conditions remain accommodative, and the Yen continues to weaken, the outlook for stocks improves. Should Japan see its first female prime minister, the changes already being recognized—such as a shift toward inflation and governance reforms—would likely draw even greater attention from overseas investors. Furthermore, if cooperation with opposition parties leads to greater political stability, that too would be welcomed by the equity market.

That said, after the initial sharp rally, we expect the market to settle into a sideways range relatively quickly. Since Prime Minister Ishiba announced his resignation, equities have risen largely on expectations, but uncertainties remain. It will be important to monitor negotiations with opposition parties, policy developments, and their impact on the economy and corporate earnings. Notably, the TOPIX has already gained 16% year-to-date and 41% from its late-April low, placing valuations near the upper end of their historical range (as of October 6). While the trading range appears to have shifted upward, it seems unlikely that prices will continue climbing in a straight line from here.

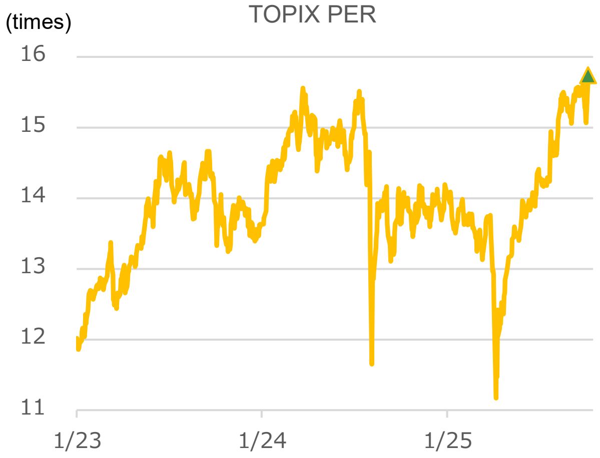
### A Strong ‘Takaichi Trade’ on October 6




※ The most recent value is October 6

Source: Bloomberg; Complied by Daiwa Asset Management

### TOPIX PER at the Upper End of Its Range




Source: FactSet; Complied by Daiwa Asset Management

## Assessing the Impact on Japan's Economy and Corporate Performance

The LDP–Komeito coalition has fallen short of a majority in both the Lower and Upper Houses of the Diet, creating a challenging environment. For Ms. Takaichi to implement her policies, she will first need to build consensus within the party and then reach agreements with opposition parties. As a result, policy development is likely to proceed while probing what is realistically achievable under these constraints.

In the near term, attention will focus on party and cabinet appointments, negotiations with opposition parties, and the supplementary budget. An expansionary fiscal stance aligns well with some opposition platforms, suggesting scope for progress. Despite substantial wage increases, real wages have not risen due to inflation, and consumption remains lackluster. Policies that boost take-home pay could catalyze changes in consumer behavior, with corporate price hikes and profit expansion feeding through to further wage gains—a virtuous cycle we would like to see. That said, the lift from fiscal policy alone is limited; over the medium term, growth strategies that raise Japan's economic potential will be critical.

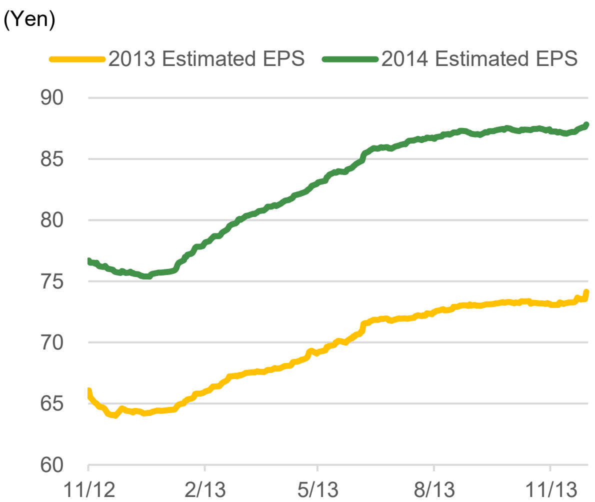
Given her proactive fiscal posture, markets have been mindful of interest-rate upside risk associated with Ms. Takaichi. However, in this leadership race she advocated "responsible proactive fiscal policy," a milder tone than in last year's contest. Moreover, former Prime Minister Aso—reported to have played a major role in the leadership election—is a proponent of fiscal discipline and is expected to provide a measure of restraint. Vigilance remains warranted, but we do not see a particularly high probability that a risk scenario featuring a sharp spike in long-term yields and a sovereign downgrade—triggering a broad "triple sell-off"—materializes.

Themes tied to Ms. Takaichi's policy agenda—defense and space, AI and semiconductors, cybersecurity, and next-generation energy including nuclear—are drawing interest. A weaker Yen could favor external-demand sectors, while fiscal support for households may also draw attention to consumer-related names. Conversely, the hurdle for early Bank of Japan rate hikes has risen, which likely poses headwinds for bank stocks. However, if the economy remains firm, the BoJ should eventually move to raise rates; should bank shares significantly underperform, that could present a medium-term buying opportunity.

Ultimately, the outlook for Japanese equities will be driven by the trajectory of the economy and corporate earnings. With a degree of optimism already priced in, further highs in Japanese stocks will require additional positive catalysts—policy progress and a constructive impact on earnings. At the same time, interim results for FY2026 (the fiscal year ending March 2026) are gaining importance. Meeting what appear to be high market expectations and strengthening confidence in next fiscal-year earnings would support the next leg higher in Japanese equities.

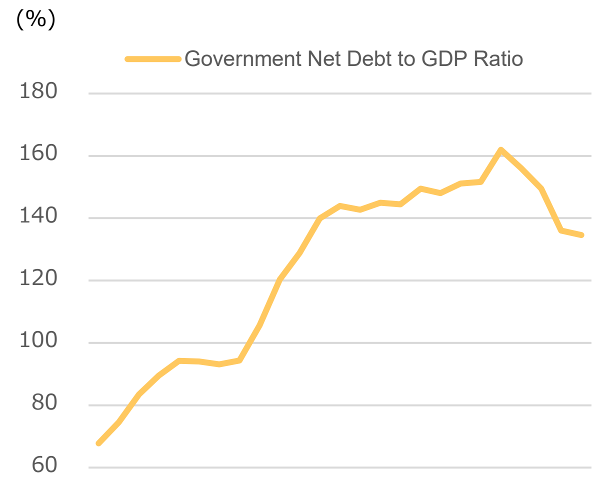
(Written by Kazunori Tatebe, Research Department)

### During Abenomics, Earnings Forecasts Improved Sharply—Will This Time Be the Same?




Source: FactSet; Complied by Daiwa Asset Management

### Net Debt-to-GDP Ratio Emphasized by Takaichi




※ The most recent figure is for the year 2024.

Source: IMF; Complied by Daiwa Asset Management

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