KOMEITO Leaves Coalition

End of 26-Year-Long LDP-KOMEITO Coalition Raises Uncertainty for Prime Ministerial Election

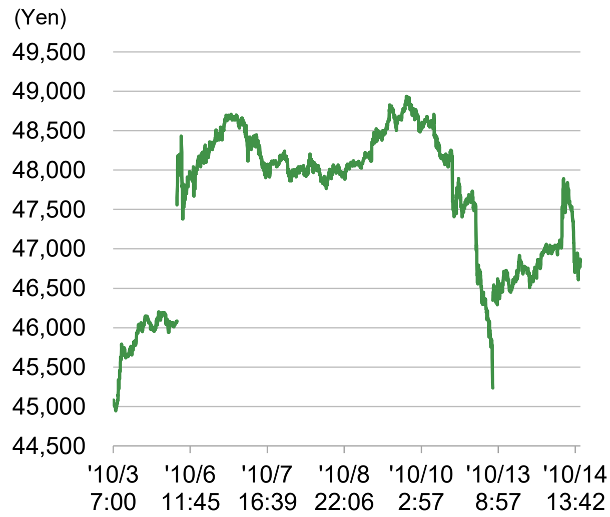
October 14, 2025

Political Turmoil as LDP-KOMEITO Coalition Collapses; Nikkei Closes Down ¥1,241.48 from Previous Week

The 26-year Liberal Democratic Party (LDP)–KOMEITO coalition has been dissolved, and the outlook for the Diet vote to designate the prime minister has rapidly become more uncertain. With renewed US–China tensions, on the 14th, the Nikkei closed at ¥46,847.32, down ¥1,241.48 from the previous week. Immediately after Sanae Takaichi was elected as LDP president, expectations for expansionary fiscal policy and the continuation of an accommodative monetary environment sparked active “Takaichi trades,” such as equity buying. However, these were later unwound as KOMEITO’s resistance to the LDP strengthened in response to the appointment of the strongly conservative Takaichi, and coalition talks stalled. As the LDP–KOMEITO relationship wobbled, the yen’s depreciation heightened concerns that rising import prices would push domestic inflation higher. In particular, shortly after 3:00 p.m. on the 10th, reports of KOMEITO’s exit from the coalition triggered a sharp decline in Nikkei futures.

Possible political scenarios going forward include: ① a single-party government led by the LDP, ② a coalition between the LDP and some opposition parties, and ③ a change in administration through the unification of opposition parties. In scenario ①, it goes without saying that the continuation of a minority government is inevitable. Regarding scenario ②, under the previous LDP-KOMEITO coalition, a majority could be secured by forming a coalition with the Democratic Party for the People (DPFP), but currently, a majority would not be achievable unless both the DPFP and the Japan Innovation Party (JIP) are included. In scenario ③, a coalition of the Constitutional Democratic Party of Japan (CDP), DPFP, JIP, and KOMEITO would exceed the majority. The CDP has shown a willingness to compromise, suggesting DPFP leader Tamaki as a unified candidate. However, many view it as unrealistic to field a unified candidate merely for numbers, given the insufficient policy coordination. Nevertheless, politics does not move solely on economic rationality, so attention must be paid to future developments.

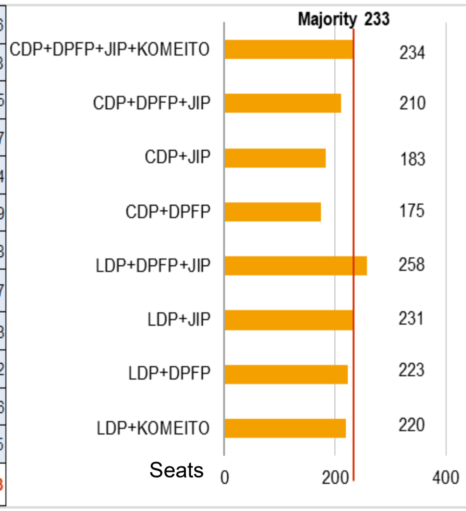
CME Nikkei 225 Futures



※ 3-minute chart. The latest value is at 15:30 on Oct.14, 2025
Source: Bloomberg; Compiled by Daiwa Asset Management

House of Representatives Constituent Power and Political Scenario

LDP	196
CDP	148
JIP	35
DPFP	27
KOMEITO	24
Reiwa Shinsengumi	9
JCP	8
Association of Volunteers for Reform	7
Sanseito	3
Genzei Hoshukodomo	2
Independent	6
Total	465
Majority Required Seats	233



Source: Website of the House of Representatives; Complied by Daiwa Asset Management

Important Information

This Presentation ("Presentation") is furnished to its intended recipient (the "Recipient") and is not for redistribution or public use. The data and information presented are for informational purposes only. The information contained herein should be treated in a confidential manner and may not be transmitted, reproduced or used in whole or in part for any other purpose, nor may it be disclosed without the prior written consent of Daiwa Asset Management. By accepting this material, the Recipient agrees not to distribute or provide this information to any other person.

This Presentation is intended for use by professional investors only. Investors should independently evaluate particular investments and strategies and seek their own investment advice. Daiwa Asset Management may not be held responsible for any consequences resulting from any investment in any strategy or products discussed in this Presentation. No investment strategy can guarantee earnings results. Past earnings is no guarantee of future results. All investments are subject to investment risk, including loss of principal invested. For more detailed information, in particular a description of the mentioned funds' risks and rewards, please refer to the prospectus of the UCITS, the key investor information document (KIID) and the most recent published annual and semi-annual report.

This Presentation was made to provide information about the investment capability of Daiwa Asset Management. It should not be construed as an offer or a solicitation to purchase or subscribe to the funds mentioned in this material. This is a marketing communication. Potential investors should refer to and read the prospectus of the UCITS and KIID for more detailed information prior to their investment decision.

The information, statements, forecasts and projections contained in this Presentation, including any expressions of opinion, are based upon sources believed to be reliable, but their accuracy, correctness or completeness are not guaranteed. The earnings of investments, if referred to herein, is based on past data and is neither necessarily an indication nor a guarantee of future earnings of such investments. The earnings data in this material does not consider any tax or fees if there were any, and will not provide a final return for potential investors. Daiwa Asset Management made all reasonable efforts to ensure that the information contained herein is current, but it is subject to change without notice. Daiwa Asset Management, or any of its respective affiliates, accepts no liability whatsoever for any direct or consequential loss arising from any use of this material or its content.

The TOPIX Index Value and the TOPIX Marks are subject to the proprietary rights owned by JPX Market Innovation & Research, Inc. or affiliates of JPX Market Innovation & Research, Inc. (hereinafter collectively referred to as "JPX") and JPX owns all rights and know-how relating to TOPIX such as calculation, publication and use of the TOPIX Index Value and relating to the TOPIX Marks. JPX shall not be liable for the miscalculation, incorrect publication, delayed or interrupted publication of the TOPIX Index Value. No Licensed Product is in any way sponsored, endorsed or promoted by JPX, and JPX shall not be responsible for any damage resulting from the issue and sale of the Licensed Product.

Daiwa
Asset Management