



## PM Takaichi Reportedly Considering Dissolution for a General Election

### Higher Likelihood of Upside Risks in the Japanese Equity Market

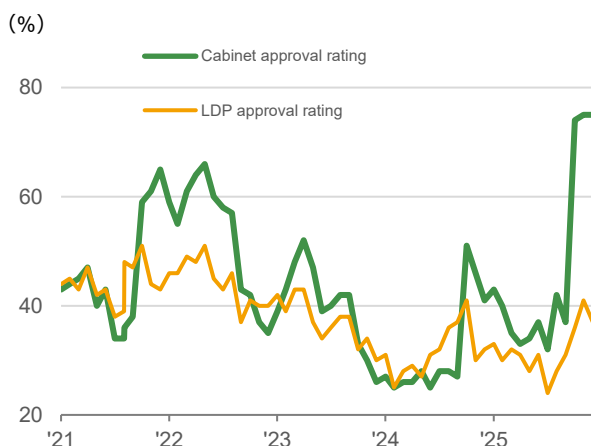
### A Positive Development if the Administration Can Strengthen Its Political Base

On the night of January 9, media reports indicated that Prime Minister Takaichi had begun considering the dissolution of the House of Representatives. In response, Nikkei 225 futures rose sharply over the holiday period, briefly topping the 54,000 level. Should a snap general election be called, the media view the most likely scenarios to be dissolution at the outset of the ordinary Diet session scheduled to convene on January 23, followed by an election campaign from January 27 with voting on February 8, or alternatively, campaigning from February 3 with voting on February 15. Although the possibility that Prime Minister Takaichi might call a snap election has been suggested since the administration's inauguration—supported by high cabinet approval ratings—the timing was generally expected to be in the spring after the FY2026 budget passed, or around June near the end of the ordinary session. If a snap election were to be announced at this stage, it would come as a surprise.

While expectations for the Takaichi administration's policy agenda remain high in the equity market, the coalition government is only narrowly holding a majority in the Lower House and remains a minority in the Upper House, leaving the administration on unstable footing. If the Liberal Democratic Party (LDP) and the coalition were to gain a significant number of additional seats through the election, thereby strengthening the administration's foundation, expectations for policy implementation would rise and this would be a positive development for the Japanese equity market. In our Market Letter dated December 23, 2025, "Outlook for 2026 – Japanese Equity Market," we identified the possibility of a snap election as an upside risk for Japanese equities. The probability of this scenario materializing now appears to be increasing. However, as the Upper House remains without a majority, cooperation from opposition parties will continue to be necessary for policy execution. Historically, Japanese equities have tended to rise following the official dissolution of the Lower House, and in the short term, the market may also be reacting to this anomaly.

At this stage, the news merely reports that the Prime Minister is "considering dissolution," and it is still unknown whether a snap election will actually take place. Even if dissolution does occur, despite the high cabinet approval rating, the LDP's party support rate remains sluggish. It therefore remains uncertain whether the LDP can significantly increase its number of seats. We will continue to monitor developments closely.

#### High Cabinet Approval Ratings and the LDP's Sluggish Party Support

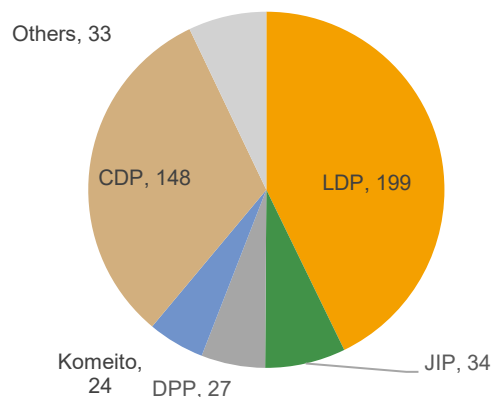


※ Latest figures from a public opinion survey conducted December 19-21

Source: The Nikkei; Compiled by Daiwa Asset Management

#### Composition of the House of Representatives

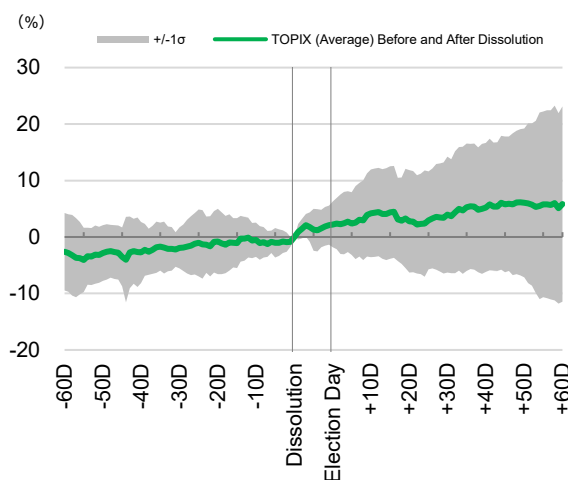
Ruling Coalition: 233 Seats (Total Seats: 465)



※ As of January 12

Source: House of Representatives; Compiled by Daiwa Asset Management

## Stock Prices Tend to Rise After the Dissolution of the Lower House



※ TOPIX Performance Before and After the Ten Lower House Elections Since 1993, Calculated with the Dissolution Date as Day 0

Source: House of Representatives and Bloomberg; Compiled by Daiwa Asset Management

## Post-Election Stock Performance Shows a Strong Correlation with Seats Won by the LDP-Ruling Coalition

Year	Seats won		TOPIX Performance (%)			
	LDP	Ruling Coalition	+10D	+20D	+30D	+60D
2014	61%	68%	2	-3	1	11
2005	62%	68%	6	9	9	23
2012	61%	68%	11	13	19	31
2017	60%	67%	4	2	3	9
2021	56%	63%	2	-4	-1	-6
2003	49%	57%	-7	-5	-3	-2
2000	49%	56%	3	-3	-5	-4
1996	48%	51%	-4	-4	-5	-16
2024	41%	46%	5	4	4	5
1993	44%	44%	0	2	1	0
2009	25%	29%	-2	-6	-7	-13

※ TOPIX Performance Indexed to the House of Representatives Election Day

Source: House of Representatives and Bloomberg; Compiled by Daiwa Asset Management

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