

Chief Strategist
Kazunori Tatebe



PM Takaichi Reportedly Considering Dissolution for a General Election

Higher Likelihood of Upside Risks in the Japanese Equity Market

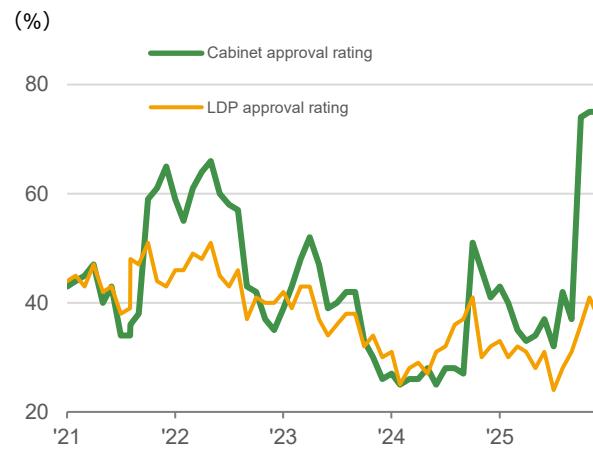
A Positive Development if the Administration Can Strengthen Its Political Base

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.

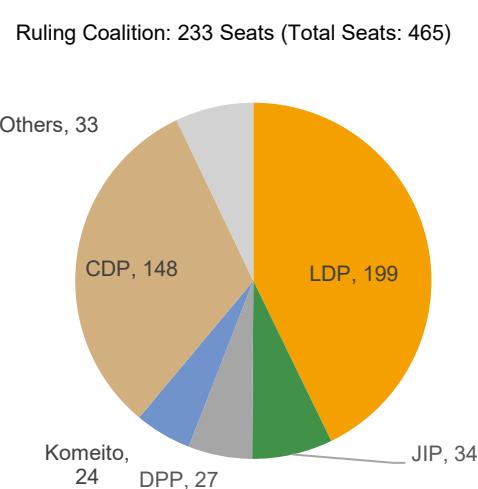
High Cabinet Approval Ratings and the LDP's Sluggish Party Support



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

Source: The Nikkei; Complied by Daiwa Asset Management

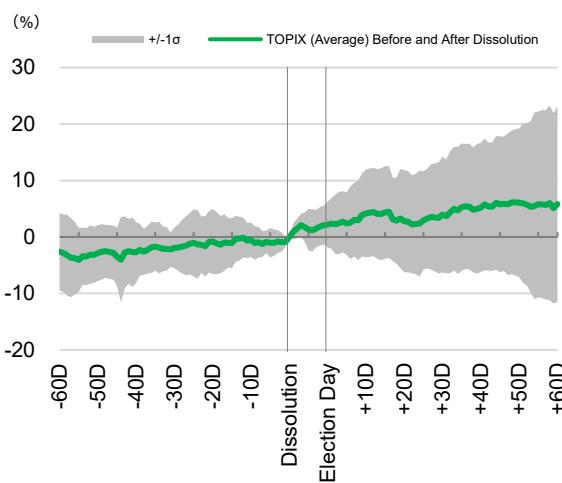
Composition of the House of Representatives



※ As of January 12

Source: House of Representatives; Complied 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; Complied 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; 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 performance results. Past performance 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 performance of investments, if referred to herein, is based on past data and is neither necessarily an indication nor a guarantee of future performance of such investments. The performance 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