

Prime Minister Takaichi Announces Dissolution of the Lower House, Pledges to Implement a Consumption Tax Cut

The 10-Year Government Bond Yield Reaches 2.3%

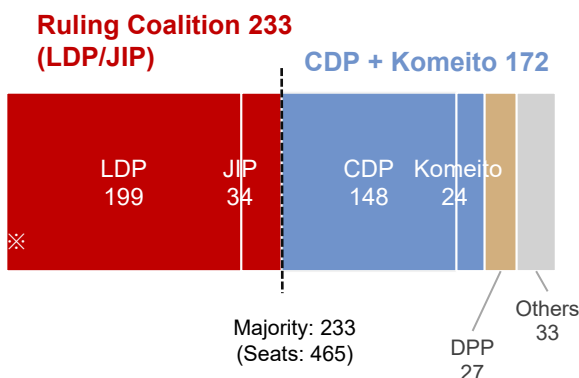
January 20, 2026

Ruling and Opposition Parties Escalate Competition Over Consumption Tax Cuts, Raising Fiscal Deterioration Concerns

Yesterday, Prime Minister Takaichi formally announced her intention to dissolve the House of Representatives at the opening of the ordinary Diet session convening on the 23rd. The general election is expected to follow a schedule of official campaigning starting on January 27 and voting on February 8. While some criticize the decision for creating a political vacuum during the Lower House election, it is widely viewed that the prime minister aims to strengthen her administration by calling an election while cabinet approval ratings remain high and securing just enough additional seats to maintain a slim majority. However, the recent formation of a new party — the Centrist Reform Alliance — by the Constitutional Democratic Party (CDP) and Komeito has complicated the outlook, as the Liberal Democratic Party (LDP) may struggle without reliable support from Komeito votes. As a result, assessing the political landscape has become increasingly difficult.

In the upcoming election, both the ruling and opposition parties are intensifying their efforts to include consumption tax cuts in their campaign pledges. Prime Minister Takaichi, advocating “responsible proactive fiscal policy,” has indicated a plan to reduce the consumption tax rate on food to zero for two years. Because these tax cuts are being proposed before any discussion of funding sources, concerns over fiscal deterioration are mounting. In financial markets, some movements are being interpreted as “selling Japan.” Indeed, in this week’s bond market, yields have risen—especially in the super-long maturity sector, which tends to reflect fiscal risk. On the 20th, the 10-year Japanese government bond yield reached 2.3%. While yields have been rising somewhat rapidly, the Bank of Japan is seen as being in a difficult position to strongly push back against the increase, given the risk that doing so could trigger additional Yen depreciation. In this environment, interest rates are expected to remain under upward pressure for the time being. Up to now, the rise in interest rates has largely been viewed as a “good” increase driven by expectations of rate hikes supported by a virtuous cycle of higher wages and prices. However, it is important to note that more recently, the rise has increasingly taken on the characteristics of a “bad” increase, driven by concerns over fiscal deterioration..

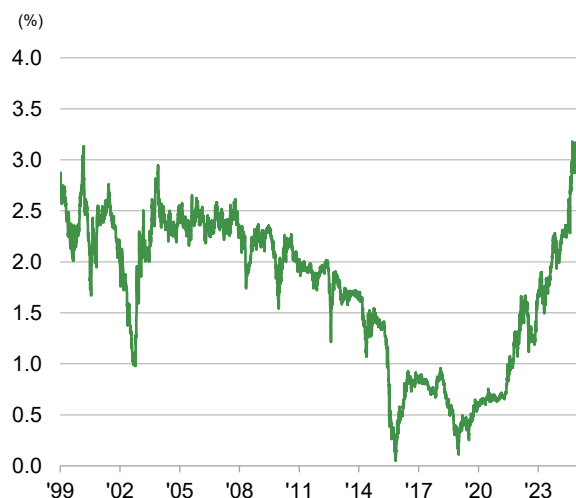
Composition of the House of Representatives



※Number of seats, as of November 28, 2025

Source: House of Representatives website; Compiled by Daiwa Asset Management

30-Year Government Bond Yield



※Latest value as of January 19, 2026

Source: Bloomberg; Compiled 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.

