

Market Letter

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%

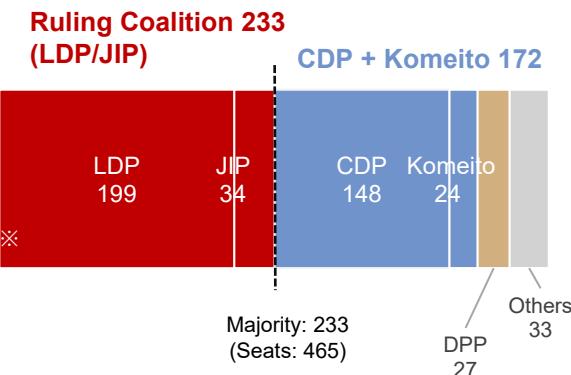
January 20, 2026

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; Complied by Daiwa Asset Management

30-Year Government Bond Yield



※Latest value as of January 19, 2026

Source: Bloomberg; Complied by Daiwa Asset Management

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