



The Liberal Democratic Party Landslide Victory in the House of Representatives Election

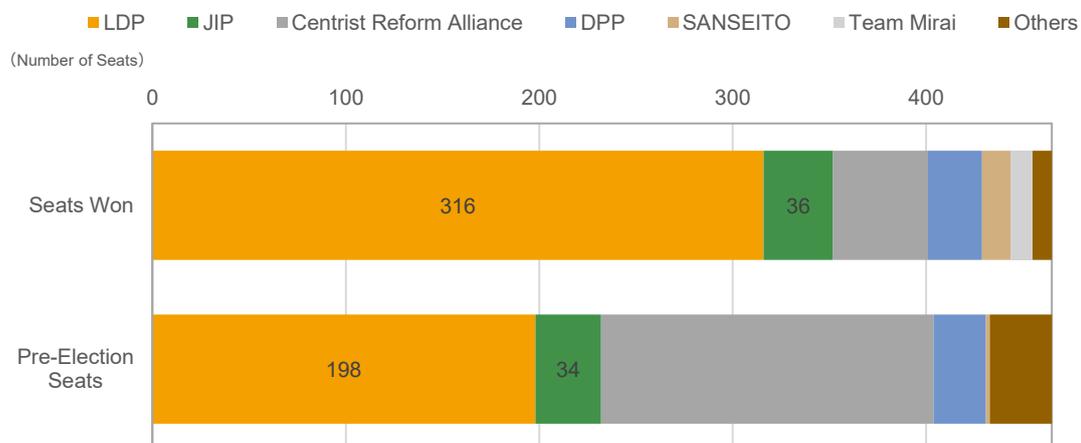
A Stronger Mandate Reinforces the Government's Policy Execution Capability

Election results exceeded market expectations

In the 51st House of Representatives election held on February 8, the Liberal Democratic Party (LDP) secured 316 seats out of 465 total seats. This represents a landslide victory, securing more than two-thirds of the seats on its own. It marks the largest number of seats won by a single party since the post-war era. Initial reports that Prime Minister Takaichi was considering the House of Representatives' dissolution created significant uncertainty about the election outcome. This was due to the LDP's persistently low cabinet support rate despite the cabinet's high popularity, coupled with opposition parties' moves to form new parties. However, as the election campaign progressed, various reports began indicating the LDP's advantage, and the stock market increasingly priced in a scenario where the LDP and its coalition partners would win. That said, the market likely anticipated only a simple majority for the LDP before the election; the actual number of seats won significantly exceeded that expectation.

The Japanese stock market, which had been performing steadily since reports of a possible snap election emerged, surged sharply at the start of the week following the unexpectedly strong election results. Historically, in the past House of Representatives elections, a high correlation has been observed between the seat share won by the LDP and its coalition partners and the subsequent stock market performance. This tendency was particularly pronounced when market expectations for the government's policies were high. Conversely, when expectations for policy were low, the stock market reaction tended to be limited, which intuitively makes sense. Since the launch of the Takaichi administration, market expectations for policy were high. However, the coalition government barely secured a majority in the House of Representatives and held only a minority in the House of Councillors, leaving its political foundation unstable. This election, however, saw the LDP and its coalition partners significantly increase their seat count. This substantially strengthens the government's foundation and further enhances its policy execution capability.

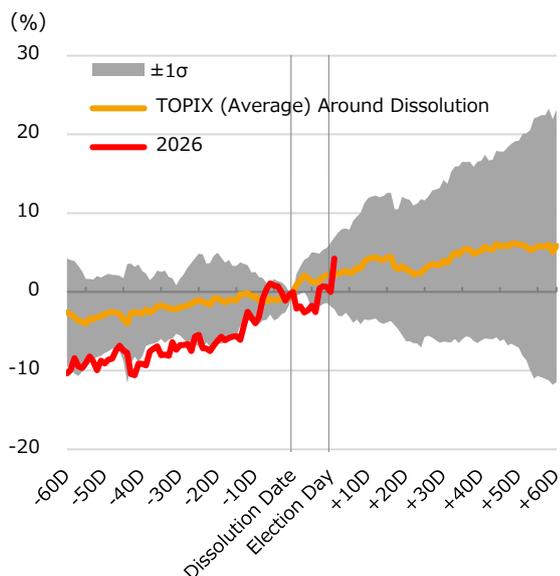
New Political Forces in the House of Representatives



※ Total 465 seats; majority requires 233 seats

Source: Reuters; Compiled by Daiwa Asset Management

TOPIX Performance Before and After Lower House Dissolutions



※ TOPIX Stock Price Performance Before and After 10 House of Representatives elections Since 1993 (Dissolution Date = Day 0)

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

Strong Correlation Between Post-Election Stock Performance and Ruling Coalition Seat Share

Year	Share of Seats Won		TOPIX Stock Price Return (%)			
	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 stock returns starting from the House of Representatives election date

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

From Expectation to Reality

Particularly significant is the ruling party securing a two-thirds majority in the House of Representatives. Although the ruling coalition still holds a minority in the House of Councillors, this majority enables the House of Representatives to override vetoes on bills rejected by the House of Councillors. This allows the administration to advance key policies more smoothly and heightens expectations for a long-term government.

The stock market is pinning its hopes on the Takaichi administration's growth strategy: crisis management investment. This strategy calls for prioritizing investment in strategic sectors to boost growth areas, fundamentally strengthen supply capacity, and raise the potential growth rate. While former Prime Minister Shinzo Abe's Abenomics, whom Prime Minister Takaichi regards as her mentor, was initially welcomed by foreign investors, interest in Japanese stocks gradually waned and the stock market lost momentum due to insufficient progress on the third arrow of structural reform. While expectations have been somewhat ahead of reality thus far, it will now be necessary for the Takaichi administration to steadily implement its growth strategy.

The bond market's reaction remains a focus. In mid-January, interest rates spiked as all major parties pledged tax cuts in their manifestos. Since Ms. Takaichi's victory in the LDP leadership election, concerns have grown that her expansionary fiscal stance could trigger excessive fiscal loosening, potentially leading to a sharp rise in interest rates and a triple dip (weak Yen, weak stocks, weak bonds). Ahead of the House of Representatives election, some voices expressed caution that if the LDP and its coalition partners won, the strengthened government base might push the Takaichi administration to pursue even more aggressive fiscal expansion. Conversely, some view a stable government base as facilitating "responsible" fiscal management. Given the numerous statements from the Prime Minister and senior government officials mindful of bond market movements, we see a low likelihood that a sharp rise in interest rates will lead to an equity market correction. We also hold a skeptical view regarding the so-called "Takaichi trade" – the simultaneous progression of rising stocks, weak Yen, and higher interest rates.

Outlook for Japanese Equities Turns Even Brighter

We had viewed the snap election as one upside risk for the Japanese equity market in 2026, but the strong election outcome exceeded even our upside scenario assumptions. Favorable earnings momentum and supply-demand conditions continue to support the Japanese equity market. Financial results for the third quarter (October-December) of fiscal year 2025 by March-year-end companies have been robust. 52% of companies that have reported so far delivered positive surprises exceeding the consensus forecast by 5% or more (based on recurring profit). On the supply-demand front, corporate share buybacks and NISA flows at the start of the year are expected, along with financial inflows from foreign investors. With the USD/JPY rate remaining near its year-start levels, Japanese equities have delivered top-tier year-to-date returns among major stock indices even when measured in US Dollars. This "risk of missing out" could compel foreign investors to increase their Japanese equity weightings. Reflecting these positive developments, we plan to raise our forecasts for the TOPIX and Nikkei 225 in our next Japan Economic and Market Outlook (March 2026 issue).

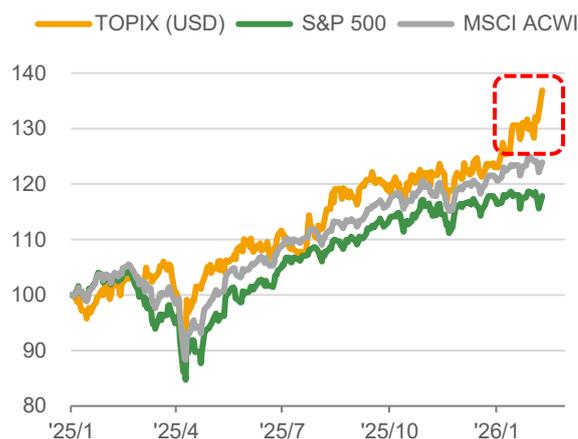
Solid FY2025 Q3 Earnings Results



※ TOPIX March fiscal year-end companies; earnings surprises are defined as deviations of 5% or more from consensus (recurring profit basis)

Source: FactSet; Compiled by Daiwa Asset Management

Strong Dollar-Denominated Returns May Drive Foreign Investor Inflows



※ .Indexed to 100 at the beginning of 2025

Source: Bloomberg; Compiled by Daiwa Asset Management

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