



Sumitomo Mitsui DS Asset Management

A new dawn for Japan

Japan Market Insights - October 2025



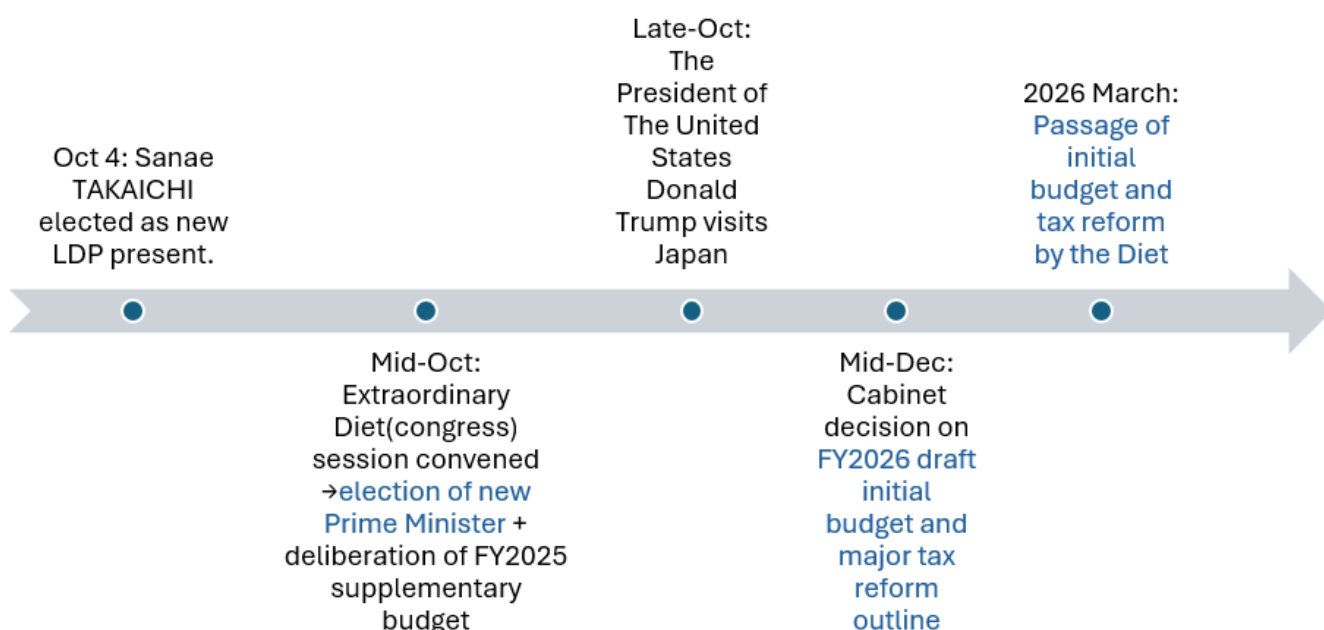
SMDAM

We are one of the largest investment management companies in Japan, offering discretionary investment management, investment trusts and advisory services to a range of institutional investors, pension funds, government agencies and retail investors worldwide.

In the dramatic electoral contest for leadership of the Liberal Democratic Party (LDP) held over the weekend, Ms. Takaichi emerged victorious. In this article we summarize our house view on what this means for Japan, and the likely implications for Japanese markets.

What happens next?

As our estimated timeline below makes clear, events can be expected to move quite quickly from this point on. As we discuss further below, the news flow around Japan will accelerate towards the end of October as President Trump arrives in Japan for the highly anticipated U.S.-Japan summit.



Short-term expectations

With the inauguration of incoming President Takaichi, who has been loudly advocating for expansionary fiscal policies and monetary easing, the market is expected to react in the short term with a weaker yen and higher stock prices. The yen depreciated beyond 150 against the dollar in the immediate aftermath, likely reflecting the expectation that further rate hikes will now be delayed. This currency depreciation helped drive stock prices higher, with exporters notably leading the rally. In the morning session in Japanese equity markets, we observed muted performance from the largest financials, whilst exporters such as Toyota Motor rose strongly, as did diversified industrial groups like Mitsubishi Heavy Industry.

Takaichi stood out in this election as the candidate most in favour of launching a stimulus package, and we were surprised to see the Nikkei rally considerably in response to her victory.

As a short-term target, applying a peak price/earnings ratio of 16 times as seen in the Abenomics era suggests a TOPIX level of 3,250 points, and using the recent NT ratio, a Nikkei 225 level of around 47,500 points could emerge.

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Takaichi is, of course, a member of former President Abe's group, and some sort of repeat of the heady days of Abenomics is now widely forecast. There is also a possibility of overshooting this target in the very short term, if investor exuberance becomes untethered from specific policy announcements. Note that these figures represent short-term perspectives, and the medium- to longer-term picture will be more complicated with a wider range of push and pull factors coming into play.

Beyond the near-term

In assessing the sustainability of the stock market rise driven by expectations for Takaichi's expansionary agenda, the subsequent focus will be the level of stability the Takaichi administration achieves. Attention will be on party executive and cabinet appointments, and observers will want to see Takaichi putting in place a lineup that balances capability, ambition, and stability. Moving forward, it will be crucial for her to swiftly coordinate policies with the opposition parties, implement convincing economic support measures through a supplementary budget, and stabilize the administration's foundation by expanding the coalition. Takaichi's project of economic renewal will surely suffer if she proves incapable of building the broad societal consensus which is a necessary precondition for success in Japanese politics.



On the diplomatic front, a busy schedule lies ahead and her aptitude for international affairs will be under the spotlight. Takaichi is well-known for her pro-US and anti-China stances, and her election therefore represents a certain shift in the global balance towards Washington. Under the Takaichi administration, defence spending should increase further, and a more assertive Japanese foreign policy may evolve. Mitsubishi Heavy Industries is likely to be a long-term beneficiary of this trend, along with other Japanese manufacturers involved in the defence supply chain.

With President Trump's visit and a Japan-U.S. summit planned for the end of the month, Takaichi has little time to find her footing and the learning curve will be steep. Successfully portraying a positive Japan-U.S. relationship will be vital for the administration's launch – and indeed for the continuation of success currently being enjoyed by Japanese stocks. The Takaichi administration will therefore face various challenges from its inception, testing its diplomatic and public policy skills.

Market (over)reaction

As the table below makes clear, she is proposing an aggregation of policies that, if implemented successfully, could have far-reaching and long-term consequences for the Japanese economy.

| Takaichi's key political stance | |
|---|--|
| Fiscal Policy | Abolition of the Provisional Gasoline Tax Rate Subsidies will be provided until implementation of the abolition law |
| | Support for Wage Increases in SMEs Grants for local governments to be used with flexibility |
| | Raising Income Tax Base Deduction A fixed amount of tax refund. Low-income households receive a cash payment if the credit amount exceeds tax liabilities. |
| | Reduction of Consumption Tax Not to be prioritized at the moment |
| Monetary Policy The government and the Bank of Japan must work closely together on monetary policy making and current accord between the Gov and BoJ needs to be reassessed Premature to take comfort merely in exiting deflation without working on transforming cost push inflation into demand pull inflation | |
| Others Investment in growth industries (quantum technology, space, nuclear fusion, etc.) Enhance defense capabilities, energy and food security Build backup systems for the capital's crisis management functions Measures against illegal immigrants and regulations on land acquisition by foreigners Establish a foreign Investment Committee to screen investments from overseas | |

However, stock prices are not driven by politics alone. On the macro level, the fundamentals surrounding Japanese stocks are improving, and this pairs favourably with ongoing progress around overcoming deflation and further governance reforms at the micro level. If the Takaichi administration can hit the road running and learn to communicate effectively, this positive trend could be reinforced further. Even if expectations for the Takaichi administration wane, given the positive backdrop she has inherited, any stock price adjustments are likely to be temporary. On the Bank of Japan front, the President Mr. Ueda stated on 3 October that three key factors remain at the forefront of their deliberations around monetary policy:

1. Global economic developments, particularly in the U.S.
2. The impact of tariff policies on corporate profits, wages, and pricing behaviour
3. Overall price trends, including food prices.

Ueda expressed caution especially on points (1) and (2), indicating that a rate hike is not imminent. How the working relationship between Takaichi and Ueda develops in these first few crucial months will be watched very closely by market participants. If as is now expected, the Bank delays further rate hikes, this should cause a continuation of the Yen/dollar carry-trade. This development could be a positive factor for Asia currencies, but this interaction will have to be watched closely in the months ahead.

Key tax reduction measures and their impact

Whilst there are policy areas where Takaichi's approach is yet to be determined, she is unashamedly expansionary in terms of the fiscal stance she argues Japan needs to adopt. The table below gives an overview of likely fiscal changes she will look to make in the near-term.

| | Reduce the consumption tax rate on food to 0% | Raising Income Tax Base Deduction | Abolish the provisional gasoline tax rate |
|------------------------------------|---|-----------------------------------|---|
| Tax Reduction Scale (Trillion Yen) | 5 | 6.3 | 1.5 |
| GDP Ratio (%) | 0.8 | 1 | 0.2 |
| Demand Boost Effect (Trillion Yen) | 1.5 | 1.9 | 0.5 |
| GDP Ratio (%) | 0.2 | 0.3 | 0.1 |
| CDP | □ | | □ |
| Japan Innovation Party | □ | | □ |
| DPP | | □ | □ |

(Note) The tax reduction scale and demand boost effect are calculated on an annual basis. The demand boost effect assumes that 30% of the tax reduction will translate into demand. (Source) Compiled by SMD-AM based on various reports.



As the final three rows indicate, support for these measures is far from universal, however, as the ability to build consensus amongst the Japanese political class in support of her proposals will be essential if the Takaichi agenda is to progress.

A new day in the Land of the Rising Sun

A great deal of uncertainty remains, but a lot that was uncertain has now been settled. Japan will enter a new era of Abenomics-style expansionary fiscal policy. This should be positive for Japanese markets, and the rush of optimism that has greeted Takaichi's victory should ensure her a decent 'honeymoon' period in which to establish herself and her administration. Many challenges await her, but at this point SMDAM's view is that the outlook for Japan has strengthened and we remain confident that Japanese asset prices have further to expand.

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