



Monthly Blog

# PM's Perspectives

September 2021

## Policies of main the LDP presidential candidates and an impact of them on domestic stock markets

Japanese people are talking about who will be the next prime minister (PM) following PM Yoshihide Suga's decision not to contest a Liberal Democratic Party (LDP) leadership vote later this month.

Today I would like to sum up policies proposed by the main LDP presidential candidates and discuss their impact on domestic stock markets. But please note that I am writing this report based on information as of 3 September, so candidates may change their policy stance in the future.

What equity investors want to know most at the time of a change in administration is which of the two agendas (growth or welfare) the next PM will place emphasis on. When we look at candidates' policies in terms of this issue, I have an impression that Takaichi adopts a growth path given her 'new Abenomics' course, while the other three are seemingly striking the balance between the two.

While Kishida and Takaichi look positive about fiscal spending, Kono appears hesitant about it given his focus on reduction of social security costs. With regard to monetary policies, Bank of Japan (BOJ) governor, Kuroda, will basically maintain accommodative monetary policies until the end of his term in April 2023. Under this situation, Takaichi seems dovish on monetary policies given her comment citing 3% as the ideal inflation rate, Kishida and Kono appear slightly hawkish on them given Kishida mentioned about an exit strategy from the loose approach in the LDP leadership vote campaign last year with "efforts to return to normal" as a slogan, and Kono urged the BOJ to disclose data on risks of its exit strategy before.

Kono's stance appears friendly to stock markets given his assertion that an increase in the labor's relative share should accompany the corporate tax reduction, Kishida and Takaichi look slightly disadvantageous to stock markets because Kishida criticizes dividend increases by domestic companies and upholds a necessity to overhaul the quarterly disclosure of earnings results while Takaichi insists that the government should raise the financial income tax rate from 20% to 30%.

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Please refer to the chart on the next page for main policies of each candidate and their impact on individual stocks.

## Policies of main LDP presidential candidates and possible impact on domestic stock markets

	KISHIDA	KONO	ISHIBA	TAKAICHI
<b>Growth or Welfare</b>	Neutral	Neutral	Neutral	Growth
<b>Stance on fiscal policy</b>	Positive	Negative	Neutral	Positive
<b>Stance on monetary policy</b>	Slightly hawkish	Slightly hawkish	Neutral	Dovish
<b>Stance toward stock market</b>	Slightly unfriendly	Slightly friendly	Neutral	Slightly unfriendly
<b>His / Her focus</b>	<ul style="list-style-type: none"> <li>▪ Subsidising fixed costs of domestic companies depending on their business scale</li> <li>▪ Expanding free PCR inspection stations and spreading home-based inspection tools</li> <li>▪ Establishing the Health Crisis Management Agency that heads clinical practices and research on epidemiology</li> <li>▪ R&amp;D in advanced science technology</li> <li>▪ New income-doubling plan (wage increase, overhaul on quarterly disclosure of earnings results etc.)</li> <li>▪ Building 5G infrastructures</li> <li>▪ Promoting dual residence</li> </ul>	<ul style="list-style-type: none"> <li>▪ Pushing forward renewable energy projects while being against nuclear power plants</li> <li>▪ Reducing social security costs</li> <li>▪ Recommending to buy disaster insurance policies</li> <li>▪ Promoting energy-saving buildings/ residence</li> <li>▪ English lessons/ remote class/ proficiency-dependent education</li> <li>▪ Raising the labour's relative share as well as the wage floor with the corporate tax reduction</li> <li>▪ Raising spectrum user fees for TV stations</li> </ul>	<ul style="list-style-type: none"> <li>▪ Rural revitalization (support migration etc.)</li> <li>▪ The use of special or specified medical care coverage</li> <li>▪ Smart agriculture, forestry and fisheries</li> <li>▪ Establishing the Ministry of Disaster Prevention (building life-saving infrastructures and nuclear shelters)</li> <li>▪ Raising the wage floor</li> <li>▪ Decarbonation, Promoting renewable energy projects</li> <li>▪ Selectable nursing care services</li> </ul>	<ul style="list-style-type: none"> <li>▪ Investments in crisis management (defence budget, JPY100 trillion in 10 years for prevention of disaster, domestic production of pharmaceuticals and personal protective equipment)</li> <li>▪ R&amp;D investments in semiconductor, pharmaceutical, civil engineering, electromagnetic wave, quantum computing machine and energy saving IT device</li> <li>▪ Nuclear power plants</li> <li>▪ Storage battery, Strengthening power grids</li> <li>▪ Providing domestically produced pulse oximeter to every household in Japan</li> </ul>
<b>Favourable for:</b>	Industries that fell into the red due to the coronavirus, PCR-related, Pharmaceutical, Medical Devices, Telecom Engineering Work, R&D	Renewable Energy Power, Non-life insurer	Nursing Care, Pharmaceutical, Medical Devices, Renewable Energy Power, Fishery, Agriculture & Forestry, Shelter Construction	Defence Services, Construction, Pharmaceutical, Electric Power, Power Grid, Storage Batteries, Semiconductor, Pulse Oximeter, R&D
<b>Unfavourable for:</b>	N/A	Electric Power, Pharmaceutical, Nursing Care, Medical Devices, TV Stations	Electric Power	Companies that depend on China or South Korea for their sales, Financials

Source: created by Sumitomo Mitsui DS Asset Management based on various materials as of 3 September 2021.

Given that **Kishida** holds out a plan to subsidise fixed costs that stemmed from the coronavirus depending on their business scale, industries that fell into the red due to the coronavirus are likely to reap benefits. He also upholds plans to expand free PCR inspection stations, strengthen research on health crises such as the coronavirus as well as R&D in advanced technologies and build 5G infrastructures, so his victory should boost stocks in these areas.

**Kono** advocates the energy revolution while being opposed to nuclear power plants, renewable energy-related stocks should benefit from his victory while electric power providers will suffer from it. Another beneficiary should be non-life insurers because he encourages people to buy disaster insurance policies. On the other hand, his victory could hurt medical / nursing care stocks as well as TV stations as he is supposed to reduce social security costs while increasing spectrum user fees for TV stations.

**Ishiba** is also pushing forward with renewable energy initiatives. He set up unique policies such as the use of special or specified medical care coverage, smart agriculture, forestry and fisheries, the establishment of the Ministry of Disaster Prevention including building nuclear shelters and selectable nursing care services and so on, which should boost relevant stocks.

Given **Takaichi** upholds investments in crisis management instead of deregulation as the third arrow of new Abenomics and her specific reference to a wide range of industries including semiconductor, her victory should benefit not only industries related to deregulation such as defense, construction and pharmaceutical but also many others. Pulse oximeter makers should also benefit from her victory given her claim that the government should provide the domestically-produced device to each household. Another beneficiary should be electric power utilities as she advocates nuclear power plants. On the other hand, companies that heavily depend on China or South Korea for their sales as well as financial institutions should shun her victory given her positive stance on a visit to Yasukuni Shrine by the PM and her backing on accommodative monetary policies as well as a hike in financial income tax rate respectively.

Given the difficulty to tell who will become the next PM at this moment with mixed policy stances on industries such as pharmaceutical, nursing care, renewable energy and electric power, we should shun huge upside / downside risks of these stocks and focus on themes that are unlikely to suffer losses. Specifically, I pay attention to telecom carriers that are likely to benefit from Suga's decision to resign, non-life insurers that should benefit from Kono's policy, cutting edge science and R&D investment-related stocks that are supported both by Kishida and Takaichi and sectors related to defense, construction and pulse oximeter that are supposed to benefit from Takaichi's victory. On the other hand, we see policy risks on TV stations, financial institutions and stocks that heavily depend on China and South Korea for their sales at this moment.

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Note: Daiwa SB Investments Ltd. (DSBI) merged with Sumitomo Mitsui Asset Management Company, Limited (SMAM) on 1 April 2019.

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