

## Thoughts on Ishiba – September 2024

The victory of Shigeru Ishiba in the 2024 Liberal Democratic Party (LDP) presidential election has generally been viewed with caution in the investment community. Having analyzed the manner of Ishiba's victory and the statements made in the weeks before the election, Dalton takes a more cautiously positive view, with our base-case being a continuation of the economic and market policies of Prime Minister Fumio Kishida.

### Background to the presidential election

Prime Minister Kishida announced on 14 August that he would not stand for re-election in the upcoming presidential election for Japan's ruling party, the LDP. In our view, Kishida has done an admirable job over his time in power, in terms of driving the reforms of the Japanese stock market, encouraging greater levels of investment by Japanese savers and setting in place the required changes to drive long-term Japanese economic success. Nevertheless, his popularity among Japanese voters had dwindled to record low levels, amidst controversy over a slush fund scandal, concerns about the party's affiliation with the Unification Church (considered a cult by some), and rising inflation hitting the pocketbooks of the population. The LDP, which has held power almost continuously in post-war Japan, currently holds a parliamentary majority in Japan. This majority means that it is a formality that the president of the party is named Prime Minister.

The 2024 LDP presidential election was held on 27 September 2024 and ended with the victory of Shigeru Ishiba, 67, from a record nine candidates. Sanae Takaichi, who could have become Japan's first female prime minister, was the leader in the first round of voting, but Ishiba turned the tables in the deciding run-off vote.

### The market reaction to Ishiba's victory

Ishiba has been a member of Japan's House of Representatives since 1986, served as Minister of Defense from 2007 to 2008 and Minister of Agriculture, Forestry and Fisheries from 2008 to 2009. He was also the secretary-general of the LDP from 2012 to 2014. This election was Ishiba's fifth attempt to take the LDP's (and Japan's) top job.

When the results of the first round were announced (and a Takaichi victory was assumed), the market saw a significant rise in stock prices and a decline in the Yen, as Takaichi is regarded as the "heir to Abenomics". However, after the victory of Ishiba was confirmed in the final round, there was a rapid reversal in both the stock market and currency. While Ishiba has long been known as an expert on foreign affairs and national security, he was the candidate least appreciated by the market for his economic policies. He has often focused on fiscal soundness and has been supportive of interest rate hikes. In addition, he made positive comments about taxing financial income when he ran for the presidency. There are concerns amongst some that Ishiba could even go further and stop the capital market reforms, including the "savings to investment" policy that the Kishida administration has strongly promoted. Faced with these concerns, relative to the guarantee of market-friendly actions under Takaichi, the sell-off in the market is understandable.

### Dalton's view

**The main scenario Dalton envisions for the new cabinet, under Ishiba, is the continuation of the Kishida administration's policy line.** While we will closely monitor the actions of the new Prime Minister, once his new cabinet is formed, we base our current view on the changes in Ishiba's statements over the course of the presidential election and the process by which he achieved his victory:

- The LDP presidential election is contested on the basis of the total number of votes cast by the Diet (Japan's national legislature, with upper and lower houses) members affiliated with the party, as well as party members nationwide. In the event that no one receives a majority of the votes cast in the first round, the top two candidates from the first round decide the election by a runoff vote. While Ishiba has high public support, he has low support from Diet members, and three years ago he suffered a crushing defeat against Kishida in the runoff election. In this election, Ishiba was able to pull off an upset in the deciding vote because he was able to win the votes of Diet members, which had traditionally been his weak point. **The most decisive factor was Prime Minister Kishida's decision to support Ishiba in the final stage.**

- Although it did not receive much attention, Ishiba made it clear that he would continue the Kishida line when he explained his economic policy two days before the presidential election vote. Specifically, he stated, "We will make the virtuous cycle of growth and distribution, which the Kishida administration has diluted, stronger and more certain." When asked about the taxation of financial income, he said, "We will further accelerate the current trend of 'From savings to investment.'"

Based on the above observations, we interpret Ishiba's long-sought victory in the LDP presidential election as a promise to Kishida to stick to the policies of the Kishida administration. Even if the reality of Ishiba's administration differs from the above analysis, there is no doubt that Ishiba will be limited in his ability to implement any of his own economic theories, given his lack of popularity within the LDP Diet members.

Although the LDP is viewed as a conservative political party, in reality it contains both liberal and conservative elements. This leads to the description of the LDP as a "wide wing that is neither right-wing nor left-wing". With the exception of select charismatic leaders (such as Junichiro Koizumi), the party has tended to produce prime ministers who manage their administrations safely, with checks and balances working within the party. The negative market sentiment over Ishiba reminds us of the situation three years ago, when the Kishida administration took over. At that time, the market did not hide its unease with the new prime minister, but over the following three years he showed great balance and leadership, backed by discipline within the ruling party. While the LDP's hard-to-change nature is not always a good thing, we expect the LDP's legacy of world-class capital market reforms in government to continue in the years ahead.

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