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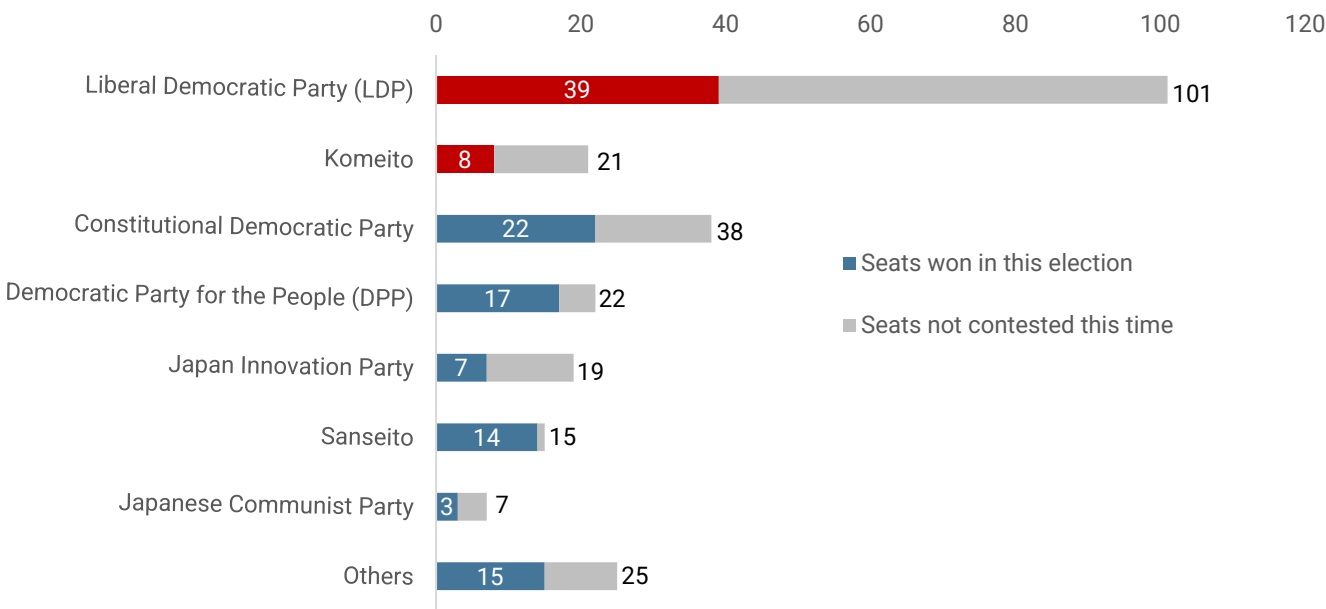
Japan’s Upper House Election Update- Shiro Hayashi



Election Update

In the 2025 House of Councillors (Upper House) election, Japan’s ruling coalition of the Liberal Democratic Party (LDP) and Komeito suffered a second consecutive defeat, following its loss in the Lower House last year. As a result, the ruling bloc has now lost its majority in both chambers of Japan’s National Diet—the country’s two-house legislature—marking the first such outcome in over a decade and signaling a sharp political shift, driven by widespread public dissatisfaction with the current administration. The result reflects growing public frustration over persistent inflation and stagnant real wages, made worse by a sharp rise in rice prices (a symbolic staple for Japanese households) and the government’s delayed response.

Japan’s Upper House After July 20 Election  
(Seats won and held by parties out of 248 total seats)



Source: Nikkei Asia.

Two opposition parties emerged as standout winners:

- **The Democratic Party for the People (DPP)**, led by former Finance Ministry official Yuichiro Tamaki, gained significant momentum by presenting a coherent and practical economic agenda focused on household income, wage growth, and long-term investment in productivity. The party has positioned itself as a centrist, market-conscious political force with strong policy-making credentials and a willingness to engage with both the private sector and international investors. The party's call for increasing take-home pay and building a virtuous economic cycle through consumption and wage growth resonated particularly well with urban middle-class voters.
- **The Sanseito (Sansei Party)** made its national breakthrough by combining nationalist messaging—such as “Japan First,” opposition to globalization, and calls to reform public education—with grassroots campaigning and savvy use of digital platforms. Although some of the party's rhetoric contains conspiracy-tinged narratives and isolationist overtones, it successfully mobilized younger voters who feel alienated from traditional politics. The party's rise mirrors global trends in populist, anti-establishment movements.

The immediate political consequence is likely to be a “floating minority government”, where the ruling party doesn't hold the required majority of seats to pass laws on its own and requires support from other parties. The current LDP-Komeito government may attempt to stay in power, but it will likely need to negotiate on a case-by-case basis with opposition parties to pass legislation. While a full political realignment or new coalition is possible, gridlock and policy fluidity are more likely in the near term. This situation may introduce some short-term uncertainty, particularly around the legislative calendar and fiscal priorities.

## Outlook

While the near-term political environment introduces greater legislative uncertainty, we believe Japan's structural reform trajectory remains intact. That said, three policy areas warrant close monitoring from an investor perspective:

- Japan's approach to reviving stalled trade and tariff negotiations, including economic partnership agreements, will be critical for maintaining its global economic integration.
- Implementation of income and consumption tax cuts promised during the campaign will need to be balanced carefully with maintaining fiscal discipline amid rising government debt.
- Advancement of Japan's long-term growth strategy, focusing on deregulation and innovation policy, will be challenged by the current fragmented political environment.

Importantly, we believe the capital market reforms jointly driven by the Tokyo Stock Exchange (TSE), the Ministry of Economy, Trade and Industry (METI), and the Financial Services Agency (FSA) will continue progressing steadily

despite these political changes. Indeed, the DPP's rise, with its pragmatic and reform-focused agenda, is likely to support and even accelerate these initiatives. The party's commitment to regulatory modernization, improved corporate disclosures, and stewardship code enforcement aligns closely with investor interests. We remain optimistic that this more balanced and policy-savvy opposition will help reinforce market reforms and create an environment for shareholder engagement and value creation, providing a continued tailwind for engagement-focused managers such as Dalton.

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