

6 October 2025

## Sanae Takaichi's Historic LDP Victory: Political Milestone and Market Response

Sanae Takaichi's election as leader of Japan's Liberal Democratic Party (LDP) marks a historic milestone, in that she is likely to become the country's first female prime minister. Her leadership is expected to bring renewed political stability, policy continuity, and improved market confidence.

A seasoned politician with strong conservative credentials, Takaichi is known for her advocacy of constitutional reform and her commitment to continuing Shinzo Abe's economic policies. Her leadership as LDP president, set to run through September 2027, ensures a period of political stability, with no major elections expected until 2028. This should provide a favorable environment for policy implementation and it is hoped that with fresh leadership, cabinet approval ratings will rise from their recent historic lows. However, with the ruling coalition having lost its majority in both Houses, effective governance will depend on ad hoc cooperation with opposition parties, particularly the Democratic Party for the People (DPP), which shares Takaichi's focus on income growth and industrial competitiveness. Meanwhile, the rise of the right wing Sanseito party introduces an unpredictable element to policymaking, especially given Takaichi's nationalist and security-focused agenda.

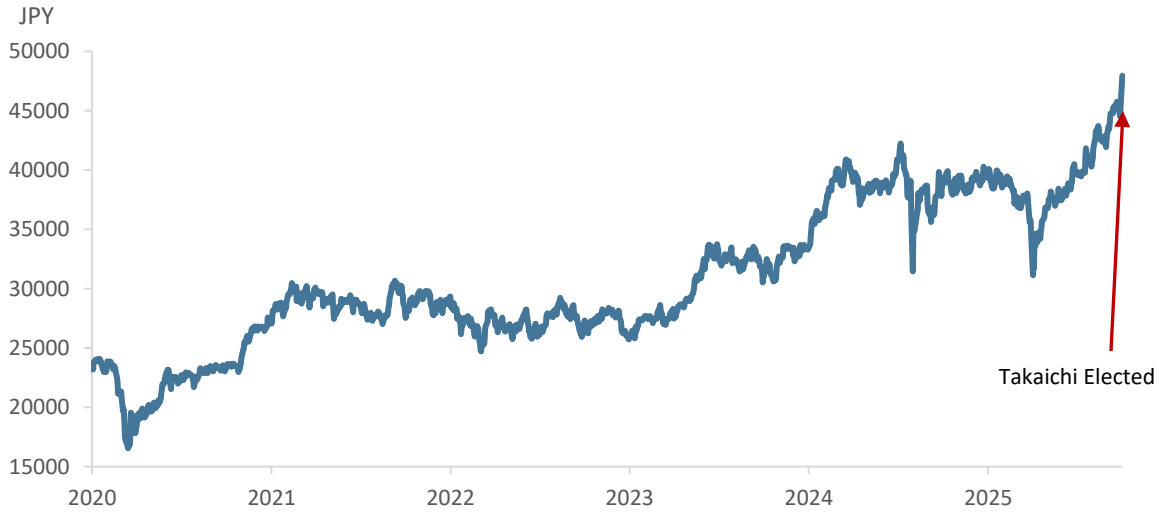
### Policy & Macro Implication

Under Takaichi's leadership, Japan is expected to see policy continuity with a conservative tilt. Rising tax revenues and a projected primary surplus create room for targeted fiscal measures, such as tax cuts. In addition, Takaichi's support for Abenomics suggests the Bank of Japan (BOJ) will remain cautious on rate hikes, keeping monetary conditions accommodative and the yen relatively weak, benefiting exporters. While headline inflation rose +2.7% year on year (YoY) in August, the core measure for inflation (excluding food and energy) was just +1.6%, suggesting underlying inflation is subsiding. Scheduled cash earnings rose +2.0% YoY in July, indicating that real wages could soon turn positive. In our view, this macro backdrop is favorable for equities and, combined with political stability, should provide a strong tailwind for Japanese stocks.

In our view, the key challenge to Takaichi from a macroeconomic perspective will be supporting households and consumption. Both tax revenue and corporate margins in Japan continue to expand, while households have so far faced the brunt of inflation. While Japanese saver participation in risk assets such as the stock market and real estate is increasing, most households continue to have very limited risk asset exposure, meaning they face erosion of real savings. In addition, there is a risk that Takaichi's hardline stance on security may negatively influence regional relations, particularly with China.

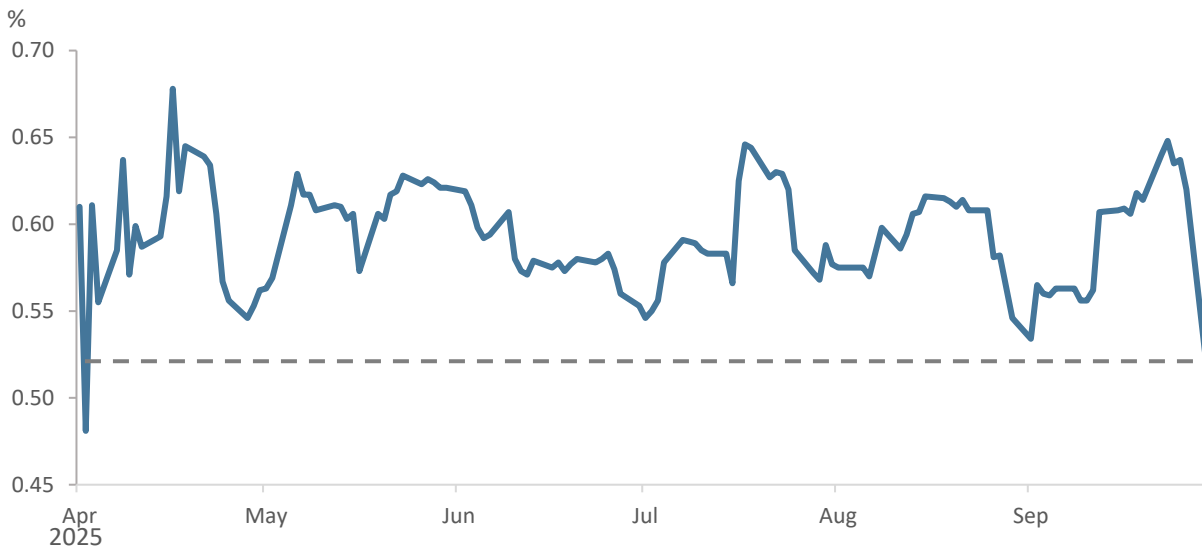
The immediate market reaction to Takaichi's victory has been positive, with the Nikkei index surging 4.8% on Monday 6 October, taking the index close to JPY 50,000 for the first time (Chart 1). A driver of this market reaction has been the perceived decrease in the probability of a rate hike by the BOJ under Takaichi (Chart 2).

Chart 1: Nikkei performance (JPY)



Source: Bloomberg, as of 6th October 2025.

Chart 2: Market-implied BOJ policy interest rate (Bloomberg World Interest Rate Probabilities)



Source: Bloomberg, as of 6th October 2025.

## Outlook

Takaichi's election brings political stability to Japan at the leadership level, though legislative negotiation will remain important due to her coalition's lack of a majority. Rising tax revenues and a projected primary surplus provide room for targeted fiscal measures, supporting corporate

earnings and household consumption, while debt levels and structural constraints warrant monitoring.

Her policy focus on defense, infrastructure, technology, and semiconductors aligns with Japan's long-term growth and innovation agenda, providing sectoral tailwinds. At the same time, ongoing capital market reforms—including improved disclosures, regulatory modernization, and stewardship code enforcement—are expected to continue, reinforcing investor engagement and value creation.

Overall, we remain optimistic that the environment will support near-term growth and market confidence in Japan, while providing opportunities for active shareholder engagement, stronger governance, and long-term value creation—offering a continued tailwind for engagement-focused managers such as Dalton.

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