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## **Sanae Takaichi's Next Chapter as Japan's First Female Prime Minister**

On 21 October 2025, Sanae Takaichi was formally elected as Japan's first female Prime Minister, marking a historic moment in the nation's political history. However, what was expected to be a straightforward transfer of power when Takaichi-san won the leadership race for the ruling Liberal Democratic Party (LDP), instead developed into a political drama, with the sudden collapse of the 26-year coalition between the Liberal Democratic Party (LDP) and its junior partner Komeito. On 20 October it was announced that the LDP had found a new coalition partner in the right-leaning Japan Innovation Party (Ishin), giving Takaichi-san the backing needed to win a vote for Prime Minister in Japan's lower house of parliament.

While the surprise exit of Komeito introduced near-term political uncertainty, we see no material change to the medium-term policy outlook for Japan. On the contrary, early cabinet appointments and the LDP's formation of a new coalition with Ishin suggest continued alignment on economic policy and structural reform priorities.

### **Market Reactions: From Euphoria to Caution**

Markets initially cheered Takaichi-san's leadership prospects. The Nikkei index surged toward the symbolic 50,000-yen mark, boosted by expectations for political stability, defense-sector spending and policy continuity under the so-called "Takaichi trade." However, following her formal election as Prime Minister, markets pulled back from the initial gains. Stocks in sectors such as defense, infrastructure, and cybersecurity saw broad sell-offs in a classic "sell-the-fact" reaction.

We see the market reaction as a normalization of early enthusiasm, rather than any material shift in sentiment toward the new leadership. As the new administration shifts from campaign mode to actual policy delivery, investors are recalibrating their expectations.

### **Policy Direction Intact: Growth-Focused Cabinet Signals Continuity**

Takaichi-san's appointment of Satsuki Katayama as Minister of Finance has attracted particular attention. A former Ministry of Finance official, Katayama is known for advocating a "responsible proactive fiscal policy"—balancing growth-friendly spending with fiscal discipline. She is also a vocal supporter of the "Financial Asset Nation" initiative, which seeks to deepen household participation in Japan's capital markets—a key reform priority for the Takaichi administration.

Katayama-san's stance is likely to reassure markets that fiscal stimulus will remain targeted and responsible, supporting both household consumption and equity markets.

### **Outlook: Policy Continuity with a Shift in Political Dynamics**

We maintain our view on Japan's near-term macroeconomic and market outlook:

- Policy continuity is intact, with the Bank of Japan expected to remain accommodative and fiscal measures targeted toward household support and industrial competitiveness.
- Household income growth and capital market participation are likely to remain key themes, especially under Katayama-san's influence at the Ministry of Finance.
- Structural reforms and regulatory modernization, especially around corporate governance, innovation and investor protections should proceed as planned.
- Defense and technology sectors remain strategically prioritized but may experience near-term volatility as policy is translated into action.

In summary, Takaichi-san's formal rise to the premiership marks a pivotal moment for Japan. While the political landscape has shifted more abruptly than anticipated, the direction of economic policy remains fundamentally unchanged and, in some respects, may benefit from greater decisiveness under a more ideologically coherent coalition.

We look forward to seeing how the new administration's policies unfold and remain focused on identifying opportunities for long-term value creation.

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