New Japanese Prime Minister and the Stock Market

Written by Oki Shiozawa, Investment Director

After a three-year tenure from Fumio Kishida, on October 1st Japan elected its 102nd prime minister, Shigeru Ishiba. With a newly formed cabinet much remains uncertain, but in this article we will consider the potential impact of this change of administration on the Japanese equity market.

Stock prices retreat following Ishiba's victory

Following Kishida's announcement that he would resign, on September 27th there was an election to determine the new president of the ruling Liberal Democratic Party (LDP). There were a record number of candidates, with nine individuals putting themselves forward. Although it would have shortlisted them for office, no candidates secured a majority of votes in the first round of the process, leading to a runoff between Sanae Takaichi and Shigeru Ishiba.

Wearing the mantle of the 'Abenomics' economic policy, Takaichi advocated continued monetary easing and aggressive fiscal stimulus. The yen had been weakening and Japanese share prices rising due to preliminary reports suggesting she had the upper hand. Meanwhile, there was caution surrounding Ishiba as during his campaign he mentioned heavier taxation on investment income and some corporate tax hikes. Immediately after releasing the ballot count, the yen appreciated in the foreign exchange market and Nikkei 225 futures tumbled; on Monday, September 30th the Nikkei 225 had fallen 4.8% week-on-week.

Accordingly, the reasoning behind most of the yen's strength and the lower stock prices is reactionary due to expectations that Takaichi would win. In other words, Ishiba's assuming office as LDP president spurred losses in the Japanese equity market.

Since inauguration, Ishiba has not mentioned tax increases

Ishiba formed his cabinet on October 1st. Its economic policy will be broadly in line with Kishida-era doctrine, aiming to establish wage increases that outpace inflation and to revitalise consumer spending. Kishida focused on asset management-oriented policies, and the Ishiba cabinet hopes to further develop these. While stating that monetary policy will be left in the hands of Bank of Japan (BOJ) officials, he indicated that he expects the monetary environment to remain accommodative. This has at least dispelled concerns the market might anticipate an early BOJ rate hike, leading to sharp appreciation of the yen.

After announcing plans to dissolve the House of Representatives early, and ahead of the ensuing general election on October 27th, it would appear Ishiba's silence on heavier taxes indicates he has adopted a more realistic course of action. All things considered, financial market participants seem to be growing less wary of the Ishiba administration.

Investor attention will return to corporate performance

The first notable catalyst in discussing the stock market outlook is the general election at the end of October. Against a backdrop of unpopular opposition parties, so far the ruling Liberal Democratic Party has maintained a stable majority in both houses of the Diet. As a result, budget approval and government bills have been passed without issue, ushering in administrative stability. According to media reports, the Ishiba cabinet's approval rating sitting at around 50% is not necessarily high, but it has at least recovered from levels before Kishida left office. Currently there are no signs of a recovery in support for opposition parties, meaning the outlook is for the ruling party to stay in power.

Around the time of the general election, financial result announcements for the July-September 2024 quarter will be in full swing. Investors will likely shift their attention from politics back to fundamentals including corporate earnings. Since August, financial markets have experienced notable volatility, including among exchange rates and stock prices, but the Japanese domestic economy has remained generally robust. Companies are highly motivated to strengthen capital investment, partly to address labour shortages. Wage growth has outpaced price hikes, and in the future we anticipate a full-fledged recovery in consumption. There are also expectations for an upsurge in quarter-on-quarter corporate earnings by double-digit percentages, although support from the yen's depreciation is waning.

Meanwhile, although uncertainty remains surrounding the US economy, the US presidential election, and the geopolitical risk in the Middle East and Ukraine, we expect solid corporate performance to support the domestic stock market in returning to a gradual upward trend.

About Writer

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Oki Shiozawa is an investment director at SuMi TRUST AM. With over 30 years of experience working in the investment industry, he is well-versed in financial markets and Japanese companies. Oki began his investment career in 1994 as an equity research analyst and managed Japanese equity active portfolios from 2001 to 2005 at a major asset management firm. He joined SuMi TRUST AM in 2006 and served as a portfolio manager of Japanese equity active strategies from 2006 to 2023.

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