

## Japan Equity Market View:

### View on House of Representatives Snap Election Results

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In the House of Representatives election on October 27, the ruling coalition of the Liberal Democratic Party (LDP) and junior coalition partner Komeito Party managed to secure a total of only 215 seats, falling short of a majority. Whilst the ruling coalition may be able to rely on the support of a few other seats, it is unlikely to change the overall situation significantly, which will raise some concerns about the immediate prospects for Japan's government.

The ruling coalition's defeat this time is believed to stem from two main factors: the diminished expectations for governance under newly appointed Prime Minister Shigeru Ishiba and discontent caused by fundraising scandals and perceived impropriety within the LDP. The result has been a net loss of 56 seats for the LDP and 8 seats for Komeito. These issues created a headwind comparable to that of the regime change election that swept the LDP from office in 2009. Since the LDP-Komeito returned to power in 2012 under the second Abe administration, the coalition had maintained a solid parliamentary majority, so national elections have had limited impact on the equity market. However, the market response to this election has been less sanguine. The equity market saw trends where, up until October 23, the TOPIX had continued to post intraday falls for 11 consecutive days, and the index closed lower for five consecutive days up to October 25. Trading volume hit its lowest point for the year on the Friday before the election, indicating that the market had already factored in the possibility of the ruling coalition losing its majority.

In response to the election results and the ensuing uncertainty in the political landscape, the TOPIX opened with an initial sell off on October 28th, but soon rebounded and managed to end the day with a 1.51% gain. This suggests that the market may have largely anticipated the LDP's electoral struggles leading up to last week.

As for the prospects for forming a new government when the ruling coalition loses its majority, there are considerations for expanding the coalition framework or options whereby a minority LDP and Komeito coalition could limp on with policy specific support from minor opposition parties. However, in the event of an expanded coalition with minority parties, both the Democratic Party for the People and the Japan Innovation Party have proposed economic stimulus policies, which suggests there will be no significant changes in economic direction. Under those conditions, it is likely that the market will stabilize sooner rather than later. On the other hand, leaders of both the Democratic Party for the People, Yuichiro Tamaki, and the Japan Innovation Party, Nobuyuki Baba, have not denied the possibility of responsive measures on a case-by-case basis across

policy areas. If uncertainty around the Ishiba administration's ability to govern becomes a prominent issue, or if pressure to remove Ishiba increases and leads to greater uncertainty in leadership nominations, the market upside could be limited.

While there might be a sense of relief following the House of Representatives election, the upcoming U.S. presidential election makes it difficult to find any clarity on equity market direction. For the time being, while monitoring these events, we will remain mindful of currency trends, while thoroughly reviewing the interim corporate financial results. As always, we will carefully select stocks based on fundamentals in order to deliver successful portfolio management results for our clients.

\*This commentary is based on personal views of the author and does not necessarily represent Nomura Asset Management house view.

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