

Japan Event Flash

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LDP Landslide Victory Fuels Japanese Stocks Upside Potential

On February 8, 2026, Japan held Lower House elections, resulting in a historic landslide victory for the Liberal Democratic Party (LDP), which secured 316 seats - more than two-thirds of the total (Exhibit 1). This marks the first time in the postwar era that a single party has won two-thirds of the seats in the Lower House. It shows that the Japanese people have placed their full trust in the Takaichi administration. Although the ruling coalition still lacks a majority in the Upper House, the LDP's two-thirds majority in the Lower House now allows it to override vetoes in the Upper House and pass bills. This creates an environment where the Takaichi administration can rapidly advance its policies. The landslide victory also strengthened Prime Minister Takaichi's influence within the LDP, significantly enhancing Japan's political stability. While the LDP's victory itself was widely anticipated due to pre-election polls indicating its strong position, the scale of this landslide win should be a straightforward positive surprise for the stock market.

The ruling party's landslide victory, coupled with expectations for the "responsible expansionary fiscal policy" advocated by the Takaichi administration, will likely fuel the Takaichi trade (yen weakness, stock gains, rising interest rates) for the time being. Historically, when election results have led to political stability, it has facilitated smooth policy implementation, causing Japanese stocks to trend upward post-election (Exhibit 2). If the LDP follows through on its pledge to exempt food items from taxation for two years, this would increase household disposable income by approximately ¥4.8 trillion, boosting GDP by about 0.5% (our estimate). Additionally, robust corporate earnings—as evidenced by over 60% of companies reporting better-than-expected results in the recently released Q3 FY2025 earnings—should also support stock prices. Leading the charge are likely to be stocks related to the investment focus areas of the Takaichi administration's growth strategy (AI/semiconductors, shipbuilding, disaster prevention/national resilience, defense, etc.). Furthermore, against the backdrop of continued Bank of Japan rate hikes and the Takaichi administration's expansionary fiscal policy, long-term interest rates are expected to rise, suggesting the financial sector will also outperform.

The outlook for the Japanese stock market is positive, with expectations of further gains. These are underpinned by the Takaichi administration's expansionary fiscal policies, a weak yen environment, improving corporate earnings driven by economic recovery, and the revision of the Corporate Governance Code. This revision is expected to enhance the effective utilisation of cash by Japanese companies, including through more proactive shareholder return policies. According to the latest projections, the Nikkei Stock Average is on track to reach 58,000 by the end of March 2027. However, there is a strong possibility that it will exceed this forecast and surpass 60,000 within a

shorter timeframe. Over the medium to long term, the Nikkei is anticipated to rise to 70,000.

The Japanese stock market faces potential risks, including the implementation of aggressive fiscal policies by the Takaichi administration without regard for fiscal sustainability. This could trigger a sharp rise in long-term interest rates due to concerns over fiscal deterioration, leading the stock market into a correction phase. In such a scenario, the Japanese market would likely face a triple dip, characterized by a weakening yen, falling stocks, and declining bonds. The Takaichi administration has proposed a 'responsible proactive fiscal policy,' suggesting a commitment to fiscal discipline moving forward. It will be important to observe whether this commitment is reflected in their future actions.

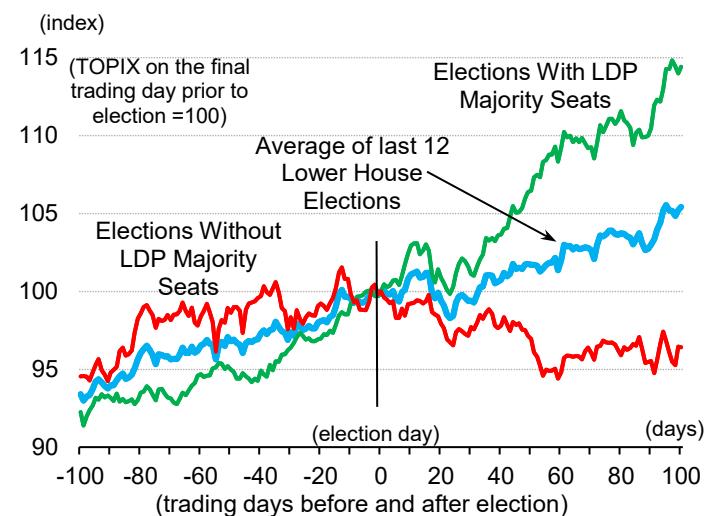
Exhibit 1: Lower House Election Results

Party Name	Results	Before Election	Changes
LDP	316	198	118
Japan Innovation Party	36	34	2
Ruling Party	352	232	120
Centrist Reform Alliance	49	167	-118
Democratic Party For the People	28	27	1
Others	36	39	-3
Total	465	465	0

Note: Values in chart are number of seats. Centrist Reform Alliance is a new party formed by Constitutional Democratic Party and Komeito.

Source: Nikkei, MUFG: Trust Bank

Exhibit 2: TOPIX Performance before/after Lower House Elections



Note: TOPIX re-indexed to 100 at the final trading day prior to election day; figures are the average of re-indexed TOPIX since 1990.

Source: Lower House website, Bloomberg, MUFG: Trust Bank

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