Implications of Takaichi's historic victory

Market update

9 Feb 2026

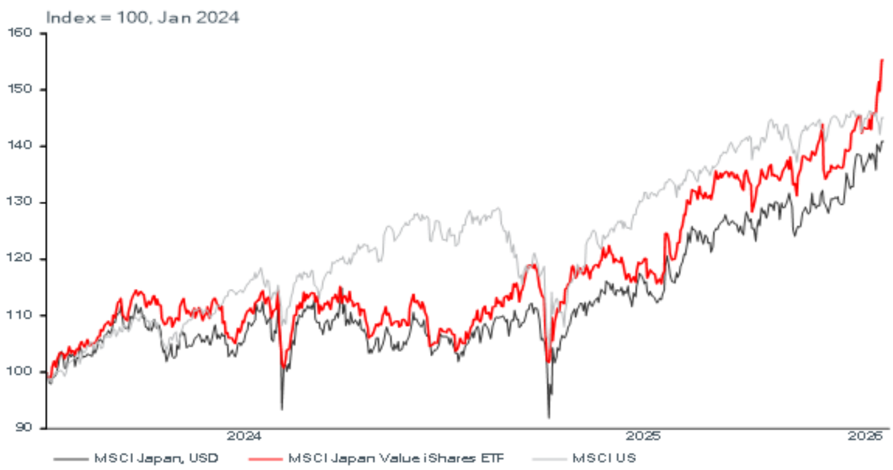
Takaichi's landslide victory has given the LDP a rare, standalone supermajority, allowing her administration to push forward pro-growth, defence, productivity, and governance reforms with minimal political obstruction. This strengthens policy predictability and reinforces Japan's reflation and corporate-governance narratives—an overall positive backdrop for investors.

Japan's Prime Minister Sanae Takaichi has led the LDP to a historic win of at least 316 seats in the Japan's Lower House of parliament. The LDP now has a super majority that gives it control over all Diet standing committees and, crucially, the ability to overturn decisions of the Upper House where it does not have a majority.

We view this victory as positive for Japan equities

Our **Chief economist, Ray Farris** views the victory as positive for Japanese equities. Takaichi is now likely to shift fiscal policy to a somewhat expansionary stance both by cutting Japan's consumption tax and by providing fiscal support to defence and strategic industries. Expectations for this have supported total returns to the Value style that we prefer in Japan with Bloomberg's measure up 3.1% since Takaichi called elections on January 23, just behind Momentum, up 3.4%.

Japan Value outperforms



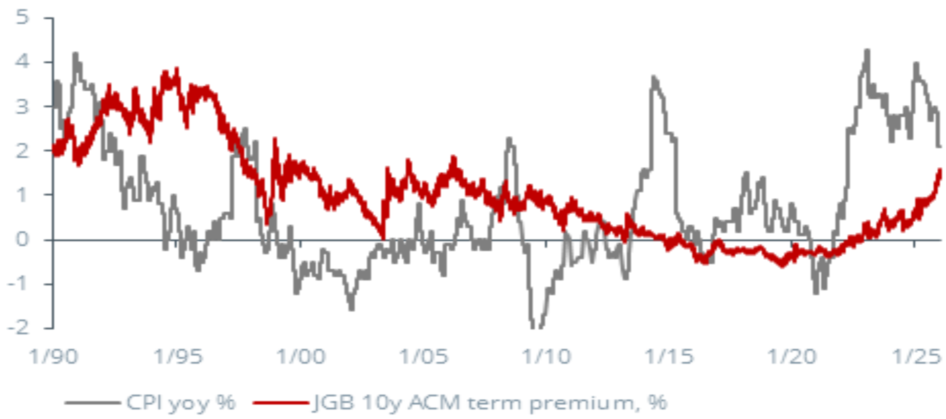
Source: LSEG Datastream

Earnings estimates for 2027 are likely to be revised up

Japan's economic outlook was healthy before the elections – we had forecast capex and export led growth of about 1% this year – and any new fiscal stimulus is likely to bolster and prolong growth. We expect earnings estimates for 2027 to begin being revised up. Although the new government will have the ability to pass a supplemental budget, the most likely case is that a consumption tax cut will take effect in April 2027. Takaichi has so far talked about discussing tax cuts around mid-year and tabling measures in October.

Higher JGB yields are a likely cost of new stimulus and we expect 10-year JGB yields to break above 2.4% in the next couple of quarters. We argued in our recent weeklies that the rise in JGB yields has been mainly an adjustment to expectations for inflation to remain above 2%. New fiscal stimulus would work to support the underlying inflation trend, even if consumption tax cuts lower headline inflation on a one-off basis in early FY27. It would also threaten to slow or reverse the recent trend of falling public debt.

Inflation vs 10y term premium



Source: LSEG Datastream, 6 Feb 2026

This mix of inflation and concern about public debt is potentially bearish for the JPY exchange rate. Rate checks by the BoJ and the Fed on January 23 around 158.50 are likely to cap USDJPY in the short term. However, markets will look for guidance from policy on two fronts:

1) Whether PM Takaichi stresses "responsible" or "proactive" in her "responsible and proactive fiscal policy". She has said that she wants any consumption tax cut to not increase deficit financing bond issuance. However, suggestions for financing alternatives have been vague so far and mainly on accessing unrealised gains on Japan's FX reserve assets. Larger stimulus with less offsetting financing would be bearish for the yen.

2) Whether the BoJ responds hawkishly to signals of fiscal expansion. Markets currently price only a 51% chance of a 25bps rate hike at the April monetary policy meeting. Given that Japanese corporates annual price setting is concentrated in April, we think the BoJ will wait for the April CPI data to come out in May before hiking in June. However, any signal of pulling forward the next hike to April would be yen supportive.

Our bias is now to expect the yen to remain soft and ultimately retest 160 vs. the USD. Takaichi campaigned in large part on cuts to the consumption tax and a vigorous defence policy. Her resounding victory gives her a mandate to pursue both. These will probably require counterbalance from more hawkish monetary policy to support the yen.

Investment Implications from the Japan equity team

Market reaction thus far this morning is essentially a “déjà vu” of Takaichi’s surprise victory in the LDP elections in early October. As of 10:30am today, the Nikkei 225 is +4.4%, TOPIX +2.3%, and MSCI Japan +2.6%. While the overall market is bullish, the usual AI/semiconductor and defence “suspects” are leading the market once again.

Looking ahead, we believe overall market sentiment is likely to remain bullish (barring exogenous shocks), with policy support and certainty acting as a stronger tailwind. While the market may continue favouring the narratives around AI/semiconductors and defence, a potentially underappreciated area is the continued enforcement/tightening around corporate governance.

More pressure may be applied to companies with cross-shareholdings, low return on equity, low price to book, and inadequate board independence. Businesses may also divest low-return assets as they optimise their portfolios. With companies reporting near record-high levels of net profit margins in the latest earnings, this can induce an increase in share buybacks.

In short, while the election outcome should bring another wave of optimism to the market, we see many positives beyond this, such as real wage growth, strong corporate earnings and governance reforms that reaffirm our constructive stance and our positioning.

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