

## Market Commentary

### Japan: Election race has started

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- After Japan's Prime Minister (PM) Suga has announced to step down, Japan's Liberal Democratic Party (LDP) will hold a (possibly first) election for his succession on Sep. 29. The next LDP President will most likely also become Japan's next PM.
- Currently, there are three candidates with Mr Kono (the "Vaccination Minister") leading public polls. However, LDP Diet members, which represent half of the votes, have only begun to sort their candidates. Overall, the result looks still rather open.
- Independently of the candidates, economic policy concepts are unlikely to change in the short run. All contestants support the BoJ expansionary stance and more emergency fiscal packages. However, there are different views regarding long-term fiscal consolidation and possible BoJ exit strategies. More focus will lie on distribution policies. All candidates stick to the 2050 neutral carbon emission target.
- Notwithstanding the recent stock market rally (9% since early July), the Topix has still room to achieve decent positive returns in the next months. The market is to benefit from its Value and cyclical qualities in addition to attractive valuations and a still supportive policy stance.

**Early September, Japan's incumbent PM and LDP President Yoshihide Suga announced to step down as party leader and subsequently as PM.** His decision came upon the low public approval ratings and a first contestant for the party leadership election. The LDP presidential election campaign will start on Sep. 17, the (first) election will be held on Sep. 29. Currently, there are three candidates:

Fumio Kishida (former Foreign Minister and LDP policy chief),

Sanae Takaichi (former Minister of Internal Affairs and Communications), and

Taro Kono (current Minister in Charge of Deregulation and Vaccination).

**In principle, more candidates can still come forward.** However, Shigeru Ishiba (former LDP Secretary-General and Regional Revitalization Minister) was reported to back Taro Kono. Seiko Noda (former Minister of Internal Affairs and Communications) is said to still considering his candidacy. Assuming an LDP (coalition) majority in the next Diet (Japan's bicameral legislature), the LDP President will become next PM. The 49th general election of members of the House of Representatives needs to take place before (or on) Nov. 28, 2021.

**This LDP leadership election will be held based on the regular process** (as compared to a short cut process). There will be 383 Diet member votes and an equal number of local member votes. In the first round, the candidate needs an absolute majority. If no candidate gains this majority, there will be a second round among the top two candidates. Votes will come from the 383 Diet member votes and 47 prefectural votes (one for each Prefecture). Diet members are typically organised in factions and tend to vote completely for a chosen candidate. The decision process is still ongoing, some press comments are suggesting that an open vote could be possible this time. However, the regular election mode gives public opinion more weight via the non-factual local votes. According to a Nikkei opinion poll conducted on Sep 9-11, 27% support Taro Kono who gained popularity as "Vaccination Minister". He is followed by 17% for Shigeru Ishiba (who likely will not run), 14% for Fumio Kishida,

7% for Sanae Takaichi, and 2% for Seiko Noda. In some press comments, Mr. Kono's policy briefing was not well received. Thus, the race still looks very much open for the time being.

**In terms of policy views**, the candidates' positions can be characterised by the following statements:

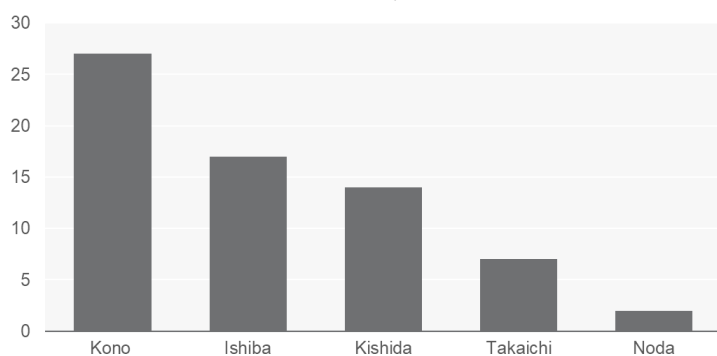
**Fumio Kishida:** In previous statements, Kishida said that fiscal consolidation would be a major pillar (medium to long-term target) and the Bank of Japan's ultra-loose monetary policy could not last forever. However, in the current Covid-19 economic situation, he supports the 2% inflation target and the BoJ's policy stance. He also sees a JPY 30 tr fiscal policy package as needed. He stressed distributional issues and was critical to Abenomics approach of income trickling down from high corporate profits. Thus, in terms of growth strategy he wants to shift to more correction of wealth disparities and allocation to the middle-class. He wants to stick to the carbon neutral target (by 2050) and seems to support the restart of existing nuclear power plants upon safety checks.

**Sanae Takaichi** promotes "Sanaenomics", a reference of closeness (but remodelled) to Abenomics. She would freeze fiscal consolidation until the 2% inflation target has been met. She supports large investment (JPY 100 tr over 10 years in natural disasters prevention, security, competitiveness, technology) financed by JGB issuance. She will also stick to the carbon neutral target and add thermal to nuclear power.

**Taro Kono:** At a recent news conference Kono said it would be "difficult" to achieve the BOJ's inflation target, urging the central bank to keep in dialog with markets but will leave the BoJ to decide. Current emergency conditions make fiscal spending necessary, which can be financed by JGB issuance. The consumption tax (10%) should be maintained. On distribution policy, he proposed to offer preferential measures for corporate taxes for companies that lift the labour's share of value-added to a certain level. Kono said Abenomics helped boost corporate profits, it had not yet benefited workers' wages. Mr. Kono has been known as in favour of eliminating nuclear power but he seems to modify that as a long-run view, while in the meantime nuclear power could supplement renewable energy.

**In sum, in the short run, all candidates support the BoJ's policy and more emergency fiscal packages.** In the longer term, there are more critical views regarding the importance of fiscal consolidation and an exit strategy for the BoJ. Japan's next PM will choose the next BoJ governor, as Governor Kuroda's term will end in spring 2023.

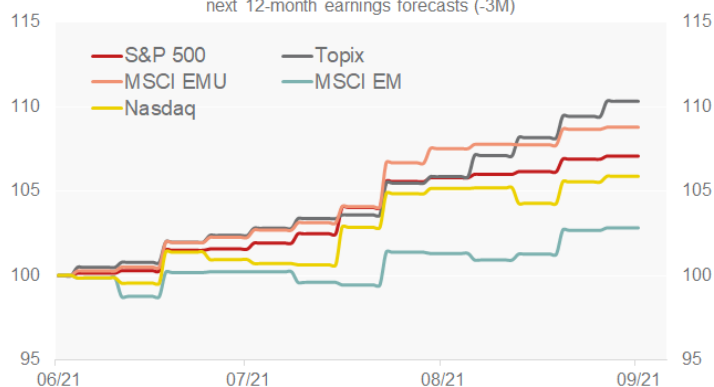
**Nikkei Opinion Poll**  
conduction on Sep 9-11, in %



Source: Nikkei

**Earnings trend**

next 12-month earnings forecasts (-3M)



Source: Datastream, GIAM

**Regarding the stock market**, Japanese equities have a high rank in our country score tool - based on different valuation metrics and risk - which adds to other appealing factors for investors: being a Value-Cyclical market and being the cheapest market in Asia as well as Japan's involvement in infrastructure investments. Earnings revisions are also leading other global equities: up by +35% year-to-date and 13% since June, versus 26% and 6.6%, respectively, for the MSCI World.

Policy is expected to remain supportive after the imminent Party and Lower House elections. Some market participants expect public investments to be better deployed with the new PM as Suga is judged to not having them managed properly. Short term, the Japanese bet has become more consensual and technical indicators look stretched. That's why the Topix index could pause a bit. That said, we forecast a positive total return of nearly 6% in 12 months and maintain an overweight on this market.

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