

# Navigating Japan Equities (November 2024): view of lower house elections

The loss of a majority by Japan's ruling coalition and what it portends to the market

In a move that reflected their disapproval of Japan's ruling coalition, voters deprived it of a lower house majority. While this outcome may not have a direct impact on the market, it is important to monitor the impact of political developments on economic policies in the short term. Ultimately, corporate earnings, which have been strong so far, are expected to play a decisive role as the market looks to maintain its momentum in the coming year.

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## Voters give their verdict and deprive the ruling coalition of a lower house majority

On 27 October Japanese voters gave their verdict on the country's ruling coalition by depriving it of an absolute majority in the House of Representatives. Voters were seen to have shown their disapproval of the ruling coalition consisting of the Liberal Democratic Party (LDP) and its smaller coalition partner, Komeito, following a political funding scandal which had shaken the LDP. A snap election had been called by Prime Minister Shigeru Ishiba in an attempt to solidify his public mandate just after he took office at the start of October. Ishiba likely counted on the coalition at least retaining a majority. However, the ruling coalition fell short of the 233 seats needed for a majority in the 465-seat lower house of the parliament. As a result, the LDP may now reach out to other parties to join its coalition.

## The LDP may have to make some concessions

The Ishiba administration is expected to retain many of the economic policies inherited from the previous administration under previous Prime Minister Fumio Kishida. Market expectations towards the Kishida administration had already been declining, so an unfavourable elections outcome may not have a direct negative impact on equities. However, we will have to keep an eye on political developments in the coming weeks. The results mean that the Ishiba administration may have to make concessions to woo other parties into a coalition. These could include populist policies such as a proposal to lower the consumption tax rate. Such a move may boost consumption in at least the short term, but it could also increase political uncertainty by disrupting a steady source of income to fund the social welfare system. An increase in political uncertainty from such concessions would not be positive for the equity market. Any negative impact on equities would likely dissipate over time, and the market's focus could drift further away from the political scene.

## Earnings are what matters in the end

What matters in the end, from a market perspective, is corporate earnings. Japanese companies have generally been posting strong earnings: the Nikkei estimates that 70% of the firms surveyed beat market profit forecasts in the April-June quarter. We will be focusing on mid-year earnings in autumn and then the results in January to confirm this trend; if the results remain strong, it will be a chance for the market to divert further attention away from domestic politics and build a foothold for more longer-term gains for equities in 2025 after a record-breaking 2024.

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