

# Global Equities

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## What does Sanae Takaichi's landslide victory mean for investors in Japan?



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Prime Minister Sanae Takaichi's Liberal Democratic Party has secured the most decisive electoral mandate in postwar Japanese history, winning 316 seats in the Lower House – a two-thirds supermajority without coalition support. Together with the Japan Innovation Party, the ruling bloc now controls 352 of 465 seats, fundamentally altering Japan's political and economic trajectory.

This landslide victory removes political constraints that had limited Takaichi's ambitious reflationary agenda since becoming PM in October 2025. The supermajority enables the government to override Upper House opposition and implement transformational policies including: ¥21.3 trillion (\$140 billion) in immediate fiscal stimulus; accelerated defence spending; and ¥7.2 trillion in strategic investments across 17 priority sectors.

Equity markets hit fresh record highs on Monday, with defence companies, semiconductor equipment makers, and financial institutions leading gains. The yen strengthened modestly as Takaichi emphasised fiscal sustainability. The critical question is whether this electoral mandate allows Takaichi to pursue more aggressive stimulus or provides political cover for fiscal discipline. We think the Takaichi administration is likely to implement growth-oriented structural reforms while maintaining credible fiscal discipline to prevent bond market disruptions.

In terms of the key winners from the election result, many are considered part of the 'Takaichi Trade' which has been in place since October. The defence industry is now in a multi-decade period of increased spending, with the government committed to 2% of GDP and the potential for this to rise further. There is a preference for domestic content with 60% of procurement going to Japanese firms, and the government is also working on the liberalisation of exports beyond non-lethal categories, opening up new markets.

Semiconductor companies are already seeing record earnings from the huge wave of AI capex globally, and are likely to get a further boost from government-led investment in AI, semiconductors and advanced computing, building on existing subsidies to attract production and R&D. Japan dominates critical segments of semiconductor equipment and materials, capturing significant value from the global AI/data centre buildout.

Banks aren't seeing specific policy priorities aimed at the sector, but they are structural beneficiaries of a steeper yield curve and a return to positive real interest rates after decades of financial repression with zero or negative interest rates. They will see net interest margins expand as rates rise, as well as a new credit cycle as real wage growth turns positive and business confidence improves.

Finally, the construction and infrastructure sectors will directly benefit from the ¥21.3 trillion stimulus directed towards infrastructure spending, defence facility construction, and even the potential for a real estate recovery if consumer confidence improves. This is on top of the work required to restart Japan's idled fleet of nuclear power plants, another of Takaichi's priorities.

With the sharp move higher in Japanese bond yields in recent years, the market will be closely monitoring new spending plans. However, with real interest rates still negative and strong nominal growth with the return of inflation, Japan's net debt-to-GDP has been falling steadily in recent years. With a balanced primary budget there should be no immediate upwards pressure on government debt, and with a healthy current account surplus Japan isn't reliant on foreign capital to fund deficits.

Alongside the fresh impetus that a strong LDP government and declining political uncertainty can provide to equities, the core domestic investment case continues to strengthen. CPI has been above the Bank of Japan's 2% target for nearly four years now, and with that has come a new corporate capex cycle. The Tokyo Stock Exchange's governance reforms continue to deliver rising corporate return on equity and shareholder returns. More companies are announcing plans to improve return on capital, and while balance sheet efficiency has been the most straightforward step, by reducing the complex web of cross-shareholdings and increasing shareholder returns through dividends and buybacks, we are also seeing companies focus on operational improvements that can sustainably raise the return on capital of corporate Japan.

All of the themes discussed here are well represented in the Liontrust Japan Equity Fund. Given the strong performance and some valuation concerns, the Fund is not heavily exposed to semiconductors and related equipment companies, although we do have a small overweight versus the benchmark. Instead, we have more in the industrials sector which covers a broad range of companies including defence contractors, nuclear restarts (and new plants globally) and construction companies, as well as electrical equipment required to support power grid maintenance, complexities in connecting surging renewable power, and the rising demand required for data centres. Banks are also a core holding, including both the so-called mega banks as well as regional banks which are more levered to rising interest rates and are also seeing much-needed consolidation, with valuations still very discounted. The sector has re-rated from the lows reached during the pandemic but remains discounted compared with where valuations have historically been with return-on-equity at these levels.

For a comprehensive list of common financial words and terms, see our glossary at:  
<https://www.liontrust.co.uk/benefits-of-investing/guide-financial-words-terms>

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## Key Risks

**Past performance does not predict future returns. You may get back less than you originally invested. We recommend any fund is held long term (minimum period of 5 years). We recommend that you hold funds as part of a diversified portfolio of investments.**

Overseas investments may carry a higher currency risk. They are valued by reference to their local currency which may move up or down when compared to the currency of the Fund.

This Fund may have a concentrated portfolio, i.e. hold a limited number of investments. If one of these investments falls in value this can have a greater impact on the Fund's value than if it held a larger number of investments.

The Fund may encounter liquidity constraints from time to time. The spread between the price you buy and sell shares will reflect the less liquid nature of the underlying holdings.

Outside of normal conditions, the Fund may hold higher levels of cash which may be deposited with several credit counterparties (e.g. International banks). A credit risk arises should one or more of these counterparties be unable to return the deposited cash.

Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.

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