

## The LDP secures an absolute majority in the lower house election

01 November 2021

- ▶ The LDP secures an absolute majority in the lower house elections on 31 October, confirming the continuation of the Kishida government.
- ▶ Expansionary fiscal policy expected to continue ahead of the upper house elections in July next year.
- ▶ Political stability is a positive factor for share prices, but policies that raise medium- to long-term growth expectations are needed to support further gains.

The ruling coalition of the Liberal Democratic Party (LDP) and Komeito secured a total of 293 seats out of a total of 465 seats in the House of Representatives election held over the weekend of 31 October, assuring the continuity of the coalition government formed by the LDP and Komeito under the Kishida administration inaugurated in October. The LDP secured 261 seats, a number down from the 276 it held before the election, although enough to retain majority control of the lower house, making it easier for the party to pursue and pass its own bills and budgetary plans. In the run-up to the election, some media had suggested that the ruling party was unlikely to retain its majority and would need to rely on its coalition partner Komeito. The result is favourable as it points to political stability and is a positive surprise for the market.

**Yuko Iizuka, Economist**

**“The LDP secures an absolute majority”**

Among the opposition parties, the Constitutional Democratic Party (CDP), which led the opposition coalition, won 96 seats, maintaining its position as the number one opposition party, although a marking a loss from the 109 seats it held before the election. The Japan Innovation Party “Nippon Ishin no Kai”, on the other hand, made a major leap forward, winning 41 seats, nearly quadrupling its previous total of 11 seats.

**Figure 1: Composition of the House of Representatives of Japan**

|  | Representatives | Before election |
|--|-----------------|-----------------|
| <b>LDP</b>                             | 261             | 276             |
| <b>Komeito</b>                         | 32              | 29              |
| <b>CDP</b>                             | 96              | 109             |
| <b>Japanese Communist Party</b>        | 10              | 12              |
| <b>Ishin no Kai</b>                    | 41              | 11              |
| <b>Democratic Party For the People</b> | 11              | 8               |
| <b>Reiwa</b>                           | 3               | 1               |
| <b>Social Democratic Party</b>         | 1               | 1               |
| <b>Ind. And Others</b>                 | 10              | 14              |

Note: 4 seats were vacant before election.

Source: Various news reports

In its election pledges, the LDP has called for a virtuous circle of growth and distribution. The growth strategy includes the same menu of measures as before, such as the creation of a nation of science and technology and economic national security, while the distribution strategy includes strengthening the function of distribution to working people, with a focus on policies to support the economy, particularly households. Komeito, which is a coalition partner, is proposing a payment equivalent to 100,000 yen per child for children up to the age of 18, (Figure 2). Prime Minister Kishida has mentioned that the supplementary budget being drawn up towards the end of the year could be in the trillions of yen range, and could include benefits for households. The first step is to develop measures to deal with Covid-19 in preparation for the sixth wave of infection, and the supplementary budget is expected to be finalised by the end of this year and passed in the ordinary Diet session next year.

---

**“Expansionary fiscal policy expected to continue ahead of the upper house elections in July next year.”**

---

**Figure 2 : Party Manifestos**

| LDP   |
|---|
| <ul style="list-style-type: none"> <li>● Rebuild the Japanese economy using proactive fiscal and monetary easing policy and various growth strategies.</li> <li>● In addition to crisis management and growth investments, utilisation of wealth redistribution policies to raise incomes and accelerate consumer spending.</li> <li>● Empower the middle class through wealth distribution; set to promise tax incentives to encourage companies to raise wages, improve the wages and benefits of nurses, daycare providers, kindergarten teachers and childminders.</li> <li>● Invest in agriculture, forestry and fisheries industries; Build digital infrastructure in underserved rural areas; and strengthen the economic safety net.</li> </ul> |
| Komeito   |
| <ul style="list-style-type: none"> <li>● Cash handout of ¥100,000 for residents under 19.</li> <li>● Resume the Go To Travel domestic tourism stimulus program to shore up the tourism industry and promote economic revitalization.</li> </ul>   |

Source: The LDP and Komeito websites

In addition, the Japan Innovation Party, which has made a major leap forward in the election, has said that it will implement aggressive fiscal stimulus and monetary easing for the time being, but then said that bold regulatory reform to encourage the creation of new businesses is essential after the economy recovers. It will be interesting to see how the new government will respond to a call for a reform.

Having passed through the major political event of the Lower House election, market attention is expected to turn to fundamentals such as the economy and corporate profits.

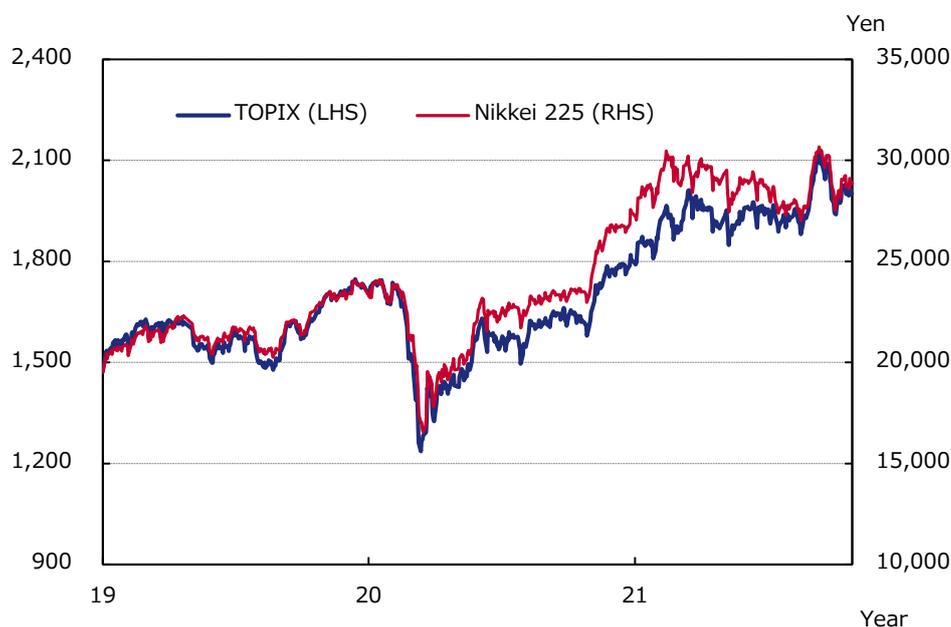
The end of the year and the beginning of the New Year will see the start of supplementary and budgetary measures for the coming year, but in the period up to the middle of next year, aggressive fiscal policy is expected ahead of the upper house elections. With the lifting of restrictions on movement, we expect economic growth of around 3% in the coming year.

Risks to our scenario include overseas economies, including the U.S. and China, as well as to the global trend of inflation, which remains high, and the accompanying move away from monetary easing in response to the Covid-19 crisis, as well as concerns about the re-emergence of infections.

The ruling party has secured an absolute majority in the Diet, and political stability is expected to be a positive factor for Japanese equities in the near term. In order for stock prices to rise further, the administration needs to pursue policies that lead to higher medium- to long-term growth expectations for the Japanese economy (Figure 3). On 26 October, Prime Minister Kishida held a meeting of the Policy Council for the Realisation of New Capitalism, which was set up with the aim of realising a virtuous circle of growth and distribution. We expect the government to draw up a draft of urgent proposals in early November on top-priority issues such as the promotion of Japan as a science and technology nation and the strengthening of economic national security.

**“Political stability is a positive factor for share prices, but policies that raise medium- to long-term growth expectations needed to support further gains”**

**Figure 3 : Japanese Stock Market Indices**



Period: From Jan. 4 2019 to Oct. 29 2021 (Daily)  
Source: Bloomberg

## Disclaimer

### For this Presentation Material

- This documentation was prepared by Asset Management One Co., Ltd.
- This documentation is required to be used only by the investor to whom it is distributed.
- This documentation is only for the purpose of providing information and is not intended to be used to solicit investments.
- This documentation was prepared using data that Asset Management One Co., Ltd. has judged to be reliable including data from third-party sources. However, Asset Management One Co., Ltd. does not guarantee its completeness or accuracy. Additionally, the published data are only indicative of past performance and do not provide a guarantee of future performance.
- The contents included in this documentation are only current as of the date this documentation was prepared (November 01, 2021) and are subject to change without notice.
- The intellectual property and all other rights pertaining to the data published in this documentation including benchmark indices shall remain the property of the publisher and licensor.

## Disclosures

Indices are used solely for comparison purposes. There are limitations in using indices for comparison purposes because, among other reasons, such indices may have different volatility, diversification, and other material characteristics (such as number or type of instrument or security). Indices are unmanaged and you cannot invest directly in an index.

### TOPIX Index:

The TOPIX Index is subject to the proprietary rights owned by the Tokyo Stock Exchange, Inc. and the Tokyo Stock Exchange, Inc. owns all rights and know-how relating to the TOPIX such as calculation, publication and use of the TOPIX Index Value and relating to the TOPIX Marks. No Product is in any way sponsored, endorsed or promoted by the Tokyo Stock Exchange, Inc.

### Nikkei 225 Index:

The Nikkei 225 Index (Nikkei Index) is copyrighted works calculated by methods independently developed by Nikkei Inc. (Nikkei). Nikkei owns copyrights and any other intellectual property rights to the Nikkei Index and the methods used to calculate the Nikkei Index. All the business and trading regulations on existing futures and options contracts based on the Nikkei Index shall be managed under the responsibilities of Osaka Exchange, Inc. and its participants. Accordingly, Nikkei, which manages the Nikkei Index, shall not assume any obligations or responsibilities for related business and trading regulations. Nikkei shall not be obligated to continuously publish the Nikkei Index. Nikkei shall not be liable for any error, delay or discontinuation of publication of the Nikkei Index. Nikkei shall have the right to make any changes in component stocks, calculation methods and any other elements or contents of the Nikkei Index. Nikkei shall also have the right to discontinue publishing the Nikkei Index.