
Japan: all eyes on the next prime minister

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- Post-Abe economic policies likely to remain broadly unchanged
- Structural reforms irreversible
- Near-term volatility presents buying opportunities for long term investors to purchase quality companies

Following an eight-year term, Shinzo Abe announced he will stand down as Prime Minister of Japan due to a deterioration in his physical health. Japan's Topix Index dropped around 2.5% in reaction to the news on 28 August 2020, before rebounding to close the day marginally negative. In the short-term we can expect downward pressure on the domestic equity market, while the yen appreciation as a result of political uncertainty will act as positive for non-JPY based investors. In the event of a broad-based sell-off in Japan's equity market, we believe this will present a buying opportunity for long-term investors like us to purchase quality businesses at an attractive price.

The ruling Liberal Democratic Party (LDP) brought stability to Japanese politics throughout most of the previous decade with Mr Abe becoming the longest-serving Prime Minister in the nation's history. Over the ruling term, the government have implemented a series of corporate governance and labour reforms – irreversible structural legislation – that will be transformational for corporate Japan in the next decade.

It's important to highlight that this election is not a change of the ruling political party. Turning our focus to potential successors, the former Minister of Foreign Affairs - Fumio Kishida – is a popular candidate. Mr Kishida holds a more traditional approach to politics compared to Abe. His approach would focus on the re-empowerment of the Ministry of Finance (MoF), which may result in a tilt toward fiscal austerity. The current Chief Cabinet Secretary Yoshihide Suga would be welcomed by the market – ensuring a smooth transition with the expected continuation of “Abenomics”.

Market response to successors

His popularity was boosted by his announcement of a new era in the Japanese calendar – Reiwa – something to keep in mind for the LPD in the next lower house election. The government may also look to appoint the current Finance Minister and Deputy PM Taro Aso – who leads the second largest LDP faction and is a former PM. In all three of these scenarios, we can expect limited change to government policy.

On the other hand, the election of Shigeru Ishiba would prove a less favourable market outcome given uncertainty surrounding his focus on economic policy reform. Mr Ishiba has held a number of positions in parliament, notably being the Minister of Defence, and Minister of Agriculture, Forestry & Fisheries, whilst also being popular political figure among the Japanese population.

More broadly, the team don't envisage any major change in monetary policy given the Bank of Japan's (BoJ) Governor is expected to stay in his seat. We also expect the central bank to support any downturn in the market through increased ETF purchase. Since Japan's relations with the current U.S. administration remain sound, any geo-political events should be avoided.

The team will continue to closely monitor any political developments alluding to Mr Abe's successor. However, as bottom-up stock pickers we will continue to identify opportunities at a company level – sticking to our disciplined investment process and exploiting any near-term volatility that presents buying opportunities to purchase quality companies.



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