
WHAT CAN INVESTORS EXPECT FROM A KISHIDA GOVERNMENT?

As expected by most observers, Mr. Kishida won the Liberal Democratic Party presidential election in the second round with a sturdy, though not overwhelming, 60% of the vote. He will be formally named prime minister next week and will likely form a relatively youthful cabinet, with females in several major posts, relatively quickly, and with such, along with a rebounding economy with fewer social restrictions, impress the voting public so much that the LDP should win the general election by a very large margin in early November. This should lead to hopes for the cabinet's longevity, which consumers, corporations and investors should view positively. Continuing modernizing reforms will be pursued, but no sharp turns either to the left or to the right. The need for fiscal stimulus will likely be reduced as the economy rebounds, but efforts will likely be made to reduce wealth inequality. Japan is perhaps the most egalitarian country in the world, but certainly many have suffered under the virus. The hope is that any future COVID wave will be met by robust immunity, created by Japan's high vaccination rate, and very few deaths, such that these inequalities and personal hardships will not be worsened by lockdowns. On foreign affairs, relations with the US and many other nations are already superb, and Japan will likely address challenges even more forcefully than it has under the Suga Administration.

One surprise is how well Ms. Takaichi, who is rather aggressive on foreign policy matters, did in the first round, winning nearly 25% of the vote that was not in the Kishida faction. Former Prime Minister Abe backed her, so she gained many of his faction's votes, but she apparently garnered substantial votes from other non-Kishida factions too. She will very likely gain a senior cabinet post, but minister of foreign affairs would likely be too controversial, so she may be defense minister. This may be a natural progression for her.

Ms. Noda, who gained a decent number of votes, may also get a senior cabinet post.

An important question for markets will be who will become the minister of finance if the 81-year-old, yet very healthy, Mr. Aso exits. His staunch defense against yen strength over the past decade has been a key factor in Japan's recovery, so it is important to see if this can be continued. Fiscal stimulus will be a key factor for this minister too, although the Ministry of Finance, to which Mr. Kishida is supposedly well connected, as well as the rest of the LDP, will be major players in this decision.

Although the Ministry and the prime minister sometimes liaise closely with the Bank of Japan, especially when their views match as they have for the past ten years, the latter is legally independent and Mr. Kuroda, whose term does not end until 2023, will likely be as dovish as possible, despite the less dovish trend occurring globally.

Some market participants, including many neo-liberal and heavy-reform minded ones, both foreign and domestic, may be disappointed as they had held out hope that Mr. Kono would be elected. However, any disappointment should be temporary until the polls show how popular the new cabinet is. The future of Mr. Kono, the most popular politician in Japan and who has been the vaccine czar for the past year, and who ran a strong second in the leadership election, may also be a factor in the general election. Perhaps he will remain somehow in the leadership.

In sum, the prospects for the economy and stock market look very promising as the virus recedes. Corporate profit margins surged to an all-time high in second quarter, and the top line should boost such further especially impressively in the fourth quarter as the economy re-opens.

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