

**Abe's comment: PM Ishiba announces resignation**

**Ishiba decided to step down amid strong calls from within LDP to hold him accountable for major defeats in 2024/2025 elections; leading candidates for next leadership election incl. Koizumi, Takaichi; potential for Japan equities to rally on expectations for political change; foreign investors could step up buying, with large caps in financial, auto, trading house, telecom, electric appliances arenas poised to outperform**

Shigeru Ishiba announced on 7 September that he will step down as prime minister. His decision was likely prompted by difficulties in continuing to govern amid strong calls within the Liberal Democratic Party (LDP) to hold him accountable for the heavy losses the party suffered in the 2024 lower house and 2025 upper house elections.

A special LDP presidential election will now be held under one of the following two methods. The first is a full-spec election, in which both party Diet members and rank-and-file party members vote. The second is a simplified election, in which only Diet members and three representatives from each LDP prefectural chapter vote.

Given that a simplified election was held when Prime Minister Abe resigned midterm in 2019 for health reasons, we believe there is a high likelihood of that method being adopted this time around as well. That said, according to the Nikkei online edition, LDP secretary-general Hiroshi Moriyama stated on the 7<sup>th</sup> that he felt it was important to hold the election in a way that allows as many party members as possible to directly participate. With his comments in mind, we think a full-spec election cannot be fully ruled out.

In the first round of the 2024 LDP leadership election, Shinjiro Koizumi received 75 votes from LDP Diet members, Sanae Takaichi 72, Shigeru Ishiba 46, Takayuki Kobayashi 41, Yoshimasa Hayashi 38, and Toshimitsu Motegi 34. Combining Diet member votes with party member and fraternity member votes yielded Mr. Ishiba 154, Ms. Takaichi 181, Mr. Koizumi 136, Mr. Hayashi 65, Mr. Kobayashi 60, and Mr. Motegi 47.

While last year's outcome suggests Mr. Koizumi and Ms. Takaichi will be the leading contenders this time around, we believe Mr. Koizumi would have an advantage for the following two reasons regardless of whether the election is held in the full-spec or simplified format. First up, many Diet members and party/fraternity members who voted for Mr. Ishiba last year would be more likely to back Mr. Koizumi than the more right-leaning Ms. Takaichi. Second, a number of Diet members who supported Ms. Takaichi last time lost their seats in the subsequent lower-house election.

However, while Mr. Koizumi was viewed as the most promising candidate in the early stages of the 2024 election, he later lost momentum and ended up coming in third due in part to his push for a revision of employee dismissal regulations. There is still a risk that he could be derailed again this time if he makes poorly received comments during the election period.

Japan equities rallied during the 2024 LDP presidential election on expectations that Ms. Takaichi would come out on top and support fiscal stimulus policies and continued monetary easing.

Our eyes will be on how the stock market reacts to the media reports of Mr. Ishiba's decision to step down. Given that he was seen as lacking strong ideas on the economic policy front, we see a good chance of Japan equities gaining steam across the board, with his departure likely to be greeted favorably by investors.

We also expect increased interest from foreign investors. Large-cap names that are easier for them to buy could outperform, with those that stand out on earnings, stock supply/demand, or thematic grounds likely to be favored. In terms of earnings, financials look poised for sustained profit improvement on the back of rising interest rates, while auto names look better positioned now with uncertainty around US tariff policy having eased. The picture for stock supply/demand dynamics looks favorable for trading houses, given prospects for further investment from Warren Buffett. As for investment themes, telecommunications and electric appliance names could attract attention as beneficiaries of the advance of AI.

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