

Alma Eikoh Japan Large Cap Fund (a sub-fund of Alma Capital Investment Funds)

Coalition Politics comment

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The break-up of the long-standing coalition between Komeito and the LDP was the major risk factor that now upends previous calculations about possible alliances that might see the LDP establish a majority coalition Government or at least continue as a ruling minority coalition negotiating with other parties to achieve a majority on a bill-by-bill basis in the Diet.

The situation is now highly unstable and while Takaichi and the LDP may still lead a ruling coalition, this is now a possibility rather than a probability. A coalition of the LDP, the Japan Innovation party and the Democratic Party for the People would hold a clear majority in both houses and the broad thrust of policies across the three parties is reasonably aligned. It's unclear, however, whether these two parties would agree to serve under Ms Takaichi as Prime Minister, reflecting at least in part her position to the right of the LDP. A different scenario would be a majority coalition Gov't excluding the LDP formed by the main opposition party, the CDP (Constitutional Democratic party), together with the JIP, DPP and Komeito with Mr Tamaki of the DPP serving as Prime Minister. Both these outcomes would be positive for equities, the CDP, JIP and DPP have all advocated tax cuts without strict fiscal constraints and this coalition without the LDP would likely carry out more aggressive stimulatory policies than the LDP led one which itself would be pro-growth. It seems likely that increased defence spending would continue under both coalitions, however the probability would be higher under Takaichi. A likely area of policy difference between the two would be the attitude towards nuclear power and green investment, whereas the LDP favour a rapid scaling up of nuclear power as a means of achieving carbon reduction commitments, the CDP remain opposed to nuclear power and strongly favour alternative energy development.

It is also quite possible that neither of these coalitions can be negotiated and a weaker minority government is formed. Depending on its structure and weakness/strength of the coalition this would likely be negative for markets reflecting the risk of policy drift and inaction. A lack of agreement would increase the probability of a snap election being called by the LDP although they are not keen to do this having just lost their coalition partner.

From an investment perspective, we do not intend to make any changes to fund positioning at the current time. The situation is highly unstable with a variety of possible outcomes. The sector that appears most at risk from a non-LDP coalition is the nuclear sector where our exposure is very limited so from our perspective the major difference between the different outcomes is the degree to which a new administration would be able to enact policy effectively and the degree to which such policies would be stimulatory in nature.

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