ALMA CAPITAL

Alma Eikoh Japan Large Cap Fund

(a sub-fund of Alma Capital Investment Funds)

LDP Election comment

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The election of Sanae Takaichi as leader of the LDP at the start of October was a surprise to political commentators and investors, this resulted in a sharp move up in the equity market and weakness in the Yen as investors digested the implications of the result. The Takaichi campaign was helped by the fact that she ranked top amongst LDP party members in 31 prefectures compared to just 9 for Koizumi in the first round of voting, a starker contrast than expected. The emergence of former Prime Minister Aso as a powerful backer of her campaign helped swing the votes of Diet members in her favour in the run-off vote. While both Takaichi and Koizumi were careful to cleave to the centre during the campaign, Takaichi is known to favour several policy positions that are likely to be expressed in her administration. These include aggressive fiscal expansion, both through direct spending and tax cuts, and retaining a low-interest rate policy to help stimulate demand growth; this follows closely the thinking of her former mentor Abe. She has a hawkish stance towards national security and is expected to further strengthen Japan's defense and cybersecurity capabilities. She is a supporter of industrial policy which is expected to promote the semiconductor industry and AI, the development of next generation nuclear reactors, space technology and the pharmaceutical sector. Key to the effectiveness of her administration will be whether she can assemble an effective governing coalition and this will not be easy; the LDP's longstanding coalition partner, Komeito, is not aligned with her hawkish defence and constitutional instincts, and she will need to find another coalition member to achieve a majority. The Democratic Party for the people (DPP) is currently considered the most likely candidate as it shares similar stimulatory economic policy goals. Should Komeito leave the coalition she would then need to bind together both the DPP and the Japan Innovation Party (JIP) to form an administration, which would represent an even higher hurdle.

She will also need to construct a cabinet that unifies the LDP, and there are reports that indicate she is moving in this direction already with plans to include her leadership rivals in key posts within her cabinet. Today she announced her senior executive leadership team for the party which includes both Taro Aso as party Vice President and his brother-in-law, Shunichi Suzuki, as Secretary General to oversee party affairs. Haruko Arimura, another member of the Aso faction, has been appointed as Chairperson of the LDP General Council. Takayuki Kobayashi, a fellow candidate in the leadership election, has been appointed chief of the party's Political research Council and Keiji Furuya, a 12-term veteran of the party, as chairperson of the Election Strategy Committee.

If the pitfalls can be avoided, we see the election of Takaichi as positive for Japan and the equity market. If she can form a stable governing coalition, her pro-growth and investment policies should effectively boost demand. Globally, conditions appear little changed with AI investment the primary driver of resilient growth in the US and conditions mixed elsewhere. While the fund has a broadly balanced overall economic exposure, its overweight in technology has been a positive in the current environment and through KHI and Mitsubishi Electric there is exposure to higher defence spending. In simple terms the Takaichi administration is in theory good for economic sensitive stocks, weak yen beneficiaries, defence, technology, nuclear power and construction, while negative for banks and real estate. In practical terms however, the policy shifts made by the new administration seem likely to be mild based on the campaign that was run, and so the impact on the outlook for different sectors of the market may be limited. We retain strong confidence in prospects for the portfolio and its constituents and in terms of shorter-term positioning are encouraged by the fact that the fund has outperformed the market during the first two days of the week as investors have adjusted to the prospect of the new political administration. Stock specific risk accounts for a high 77% of tracking error and within factor risk, the negative exposure to momentum is the most significant element followed by the positive bias towards growth and the negative exposure to earnings yield.

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