

Japan strategy: Winners and losers amid Takaichi's surprise win

6 October 2025

Overview

- Takaichi's unexpected LDP win sparked market repricing, with equities rallying and yen weakening. Investors are rotating into the defence, nuclear, and consumer sectors aligned with her policy pledges.
- Her economic stance mirrors Abenomics – aggressive fiscal stimulus, loose monetary policy, and nationalist conservatism. She prioritises growth over fiscal restraint and supports military expansion.
- Sector winners include tech, infrastructure, small caps, and exporters. Banks may face pressure from delayed BOJ hikes, though reflation is likely to support loan growth. We stay neutral as foreigner positioning is leveraged to historically average levels but acknowledge there would be near term market repricing on a return to Abenomics style stimulus.
- Risks include yen volatility, debt sustainability, and execution uncertainty. Equities may rise in the short-term, but medium-term performance hinges on policy delivery and fiscal discipline.

Executive summary

Takaichi's surprise win fuels market repricing: Sanae Takaichi's LDP victory puts her in pole position to become Japan's first female PM by mid-October. Markets had not priced in a Takaichi government. As a vocal proponent of expansive fiscal and monetary policy, her win triggered currency and bond weakness, while equities rallied. Investors now focus on her pledged sectors: defence, nuclear, and consumer.

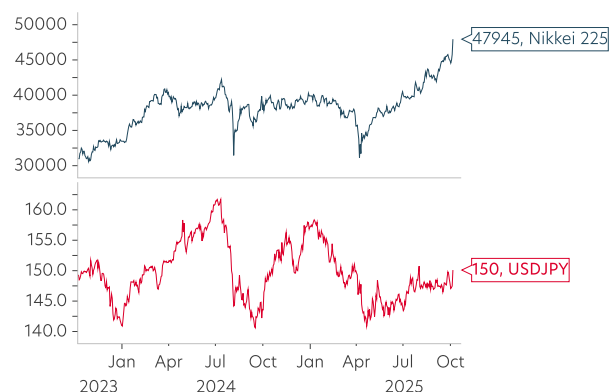
Sanae Takaichi, Japan's first female LDP leader, is a staunch conservative and protégé of the late Shinzo Abe. She aligns with Abe's ultra-conservative vision – supporting constitutional revision, military expansion, and Abenomics-style stimulus. A regular visitor to Yasukuni Shrine, she embraces nationalist symbolism and a hawkish stance on China and North Korea. She favours aggressive fiscal spending and looser monetary policy.

Winners & losers in a Takaichi-led rally: We continue to see Tech, infrastructure, and domestic demand plays as core beneficiaries. Defence and nuclear stocks are in focus due to her strategic priorities. Small caps and consumer names may gain from household support. Exporters could get rerated with a weakening JPY. Banks could come under pressure as a 4Q BOJ hike looks less likely under perceived Takaichi influence. However, we think the dip may be buyable. This is because her reflationary stance supports loan growth, and the BOJ may still hike to contain JPY/JGB volatility.

Yen weakness, bond volatility, policy uncertainty: The yen closed above 150 USD/JPY and may weaken further. Japan's debt-to-GDP ratio of >260% could raise sustainability concerns. If an expansive policy overshoots, the BOJ may be forced to hike front-end rates. The next hike is not negated but likely to be delayed until 2026 due to high inflation and negative real yields.

Stimulus-led upside, execution risk: Japanese equities should experience near-term upside, especially in Takaichi-aligned sectors. In the medium term, we are watching execution risk and fiscal discipline. A risk-adjusted approach favours reflation beneficiaries, with hedges in place. The market is betting on bold policy – now it's up to Takaichi to deliver.

Figure 1: Nikkei vs USD/JPY



Source: Bloomberg, UOB Private Bank

Japan strategy: Winners and losers amid Takaichi's surprise win

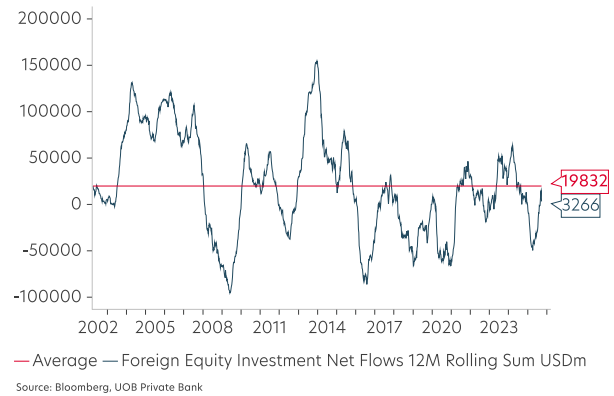
6 October 2025

Figure 2: Implied Mar 2026 rate hike expectations



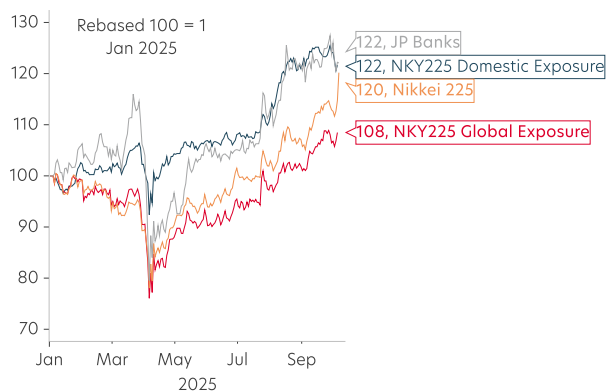
Source: Bloomberg, UOB Private Bank

Figure 4: Foreigner flows back to average may limit sustained move higher until policies are firm



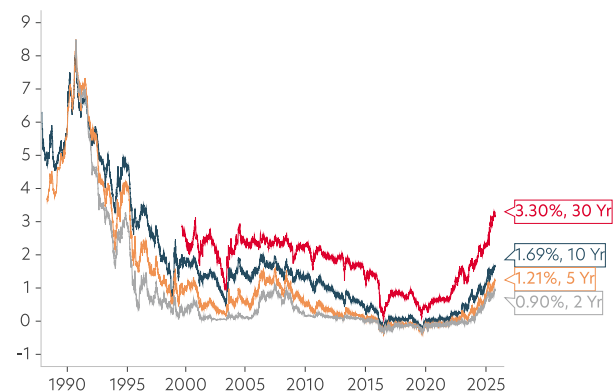
Source: Bloomberg, UOB Private Bank

Figure 3: Banks to consolidate



Source: Bloomberg, UOB Private Bank

Figure 5: Japan government bond yields



Source: Bloomberg, UOB Private Bank

Disclaimer

General

This document contains material based on publicly-available information. Although every reasonable care has been taken to ensure the accuracy and objectivity of the information contained in this document, United Overseas Bank Limited ("UOB") makes no representation or warranty as to, neither has it independently verified, the accuracy or completeness of such information (including any valuations mentioned). UOB neither represents nor warrants that this document is sufficient, complete or appropriate for any particular purpose. Any opinions or predictions reflect the writer's views as at the date of this document and may be subject to change without notice.

The information contained in this document, including any data, projections and underlying assumptions, are based on certain assumptions, management forecasts and analysis of known information and reflects prevailing conditions as of the date of publication, all of which are subject to change at any time without notice. Past performance figures are not indicative of future results.

Not an offer or solicitation to any particular person

This document should not be regarded as an offer or solicitation to any particular person to transact in any product mentioned. Before deciding to invest in any product mentioned, please seek advice from your financial, legal, tax or other appropriate advisers on the suitability of the product for you, taking into account your specific investment objectives, financial situation or particular needs (to which this document has no regard). If you do not wish to seek such advice, please consider carefully whether any product mentioned is suitable for you.

Risks

An investment in any product mentioned in this document may carry different risks of varying degrees, including credit, market, liquidity, legal, cross-jurisdictional, foreign exchange and other risks (including the risks of electronic trading and trading in leveraged products). Nothing in this publication constitutes personalised accounting, legal, regulatory, tax, financial or other advice that regards the personal circumstances of a particular recipient. Please speak to your financial, legal or other appropriate adviser to understand the risks involved and whether it is appropriate for you to assume such risks before investing in any product.

Any description of investment products is qualified in its entirety by the terms and conditions of the investment product and if applicable, the prospectus or constituting document of the investment product.

Valuation

Product valuations in this document are only indicative and do not represent the terms on which new products may be entered into, or existing products may be liquidated or unwound, which could be less favourable than the valuations indicated herein. These valuations may vary significantly from those available from other sources as different parties may use different assumptions, risks and methods.

No liability

To the fullest extent permitted under applicable laws and regulations, UOB and its affiliates shall not be liable for any loss or damage howsoever arising as a result of any person acting or refraining from acting in reliance on any information, opinion, prediction or valuation contained herein.

UOB and its affiliates involved in the issuance of this document may have an interest in the products mentioned in this document including but not limited to, marketing, dealing, holding, acting as market-makers, performing financial or advisory services, acting as a manager or co-manager of a public offering, of persons mentioned in this document. UOB and its affiliates may also have alliances, contractual agreements, or broking, investment banking or any other relationships for the provision of financial services, with any product provider mentioned in this document. UOB and its affiliates may have issued other reports, publications or documents expressing views which are different from those stated in this document and all views expressed in all reports, publications and documents are subject to change without notice.

Others

Unless you are notified otherwise by UOB, UOB deals as a principal in any transaction which UOB has been instructed to effect, other than transactions relating to securities traded on an exchange, unit trusts and funds on your behalf where UOB acts as your agent.

Singapore. This document and its contents are intended for Accredited Investors (as defined in Section 4A of the Singapore Securities and Futures Act (Chapter 289)).

Hong Kong. This document and its contents are intended for "professional investors" (as defined in the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") and its subsidiary legislation) ("Professional Investors"). Shares or debentures in a company may not be offered or sold in Hong Kong, by means of any document, other than (i) to Professional Investors; or (ii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) (the "CWUMPO") or which do not constitute an offer to the public within the meaning of the CWUMPO. Unless permitted to do so under the laws of Hong Kong, no person may issue or have in his/her possession for the purpose of issue, or will issue, or have in his/her possession

for the purposes of issue, any advertisement, invitation or document relating to the securities, structured products or interests in collective investment schemes whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong, other than with respect to the securities, structured products or interests in collective investment schemes that are or are intended to be disposed of only to persons outside Hong Kong, or only to Professional Investors.

WARNING: The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to this document. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

This document may only be distributed in countries where its distribution is legally permitted. This document is not directed to any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) such publications are prohibited. This document may contain proprietary information of UOB (or its product providers) and may not be reproduced or disseminated in whole or in part without UOB's prior consent.

If there is any inconsistency, or any difference in meaning between the English version and any translation of this document, the English version shall apply and prevail.

United Overseas Bank Limited. Co. Reg. No. 193500026Z

United Overseas Bank Limited is a licensed bank in Hong Kong and is a registered institution in respect of Types 1 (Dealing in Securities) and 4 (Advising on Securities) regulated activities under the SFO.



Right By You