

Extra! from SuMi TRUST

Prime Minister Abe's Resignation and Outlook of the Japanese Stock Market

- On Friday, August 28th, PM Shinzo Abe announced his resignation due to health reasons. The announcement was made just after 2:00 PM and the Nikkei 225 shed over 600 points. However, the market recovered somewhat to close at 22,882 (-326) On Monday, August 31st, with news over the weekend that Chief Cabinet Secretary Yoshihide Suga would run as candidate for the LDP party presidency as successor to Abe, the market bounced back on optimism that Abe's economic policies would be carried over and closed at 23,139 (+257) Short-term, we believe the markets should focus on the impact the new PM will pose on current monetary and fiscal policies. Mid-term, attention will be on the new PM's economic policies and how current policies will be carried over.
- The impact on monetary and fiscal policies as result of Abe's resignation
- We believe there will be minimal change to monetary policy as BOJ Governor Kuroda's term does not expire until April 2023 (Prior to the 2nd Abe Cabinet, several prime ministers presided over short periods, but the reigning BOJ Governor kept his post during this period.) Likewise, we see no major changes in fiscal policy as the government tries to prop up the economy in the midst of COVID-19. Thus, we do not foresee an adverse impact on the stock market.
- Economic policies under the new Prime Minister and the continuation of current policies
- As the new cabinet will be formed under the leadership of a Prime Minister hailing from the ruling LDP party, we see no major changes to basic economic policies. It is key for each of the LDP presidential candidates, if elected, to maintain current policies. The continuation of corporate governance reform is also vital. As the new government will follow what has been the longest serving administration since the beginning of constitutional government, there are concerns over deteriorating centripetal force and diplomacy. Going back to the days of short-term prime ministers is also a concern.
- Should the markets fall into risk off mode together with a stronger yen, corporate earnings could be adversely impacted. We think that both the government and central bank will follow current policy until COVID-19 is resolved. Hence, we believe that USD-JPY should not far exceed our forecast range of 104.50-108.00.
- In the short term, we may see selling of Japanese equities by overseas investors who gave Abe high marks for maintaining political stability and for his diplomatic skills. However, many overseas investors who had been net buyers of Japanese equities since the beginning of Abenomics, have already turned net sellers when they see that Abe focuses constitutional amendment rather than economic policies. And when taking into account the globally accommodative monetary policies, we believe that the downside is limited. As the likelihood of a Yoshihide Suga victory becomes imminent and as we have confirmation that Abe's economic policies are carried over, the Japanese equity market should settle down and resume its upward trend.

Disclaimer – UK

This marketing communication is issued by Sumitomo Mitsui Trust International Limited (“SMTI”). SMTI is authorised and regulated by the United Kingdom’s Financial Conduct Authority (the “FCA”), whose address is 12 Endeavour Square, London, E20 1JN, United Kingdom.

This marketing communication has been made available to you only because SMTI has classified you as a professional client in accordance with the FCA’s rules. If you have received this marketing communication from a source other than SMTI, you should contact SMTI before using it or relying on it. You must not send this marketing communication to any other person without first having received written approval from SMTI.

The information contained in this marketing communication (the “Material”) is being made available for information purposes only and is designed to provide information on the investment services which SMTI may offer to clients.

Nothing in the Material amounts to or should be construed as an actual offer by SMTI to provide any investment services to any person. If SMTI agrees to provide any investment services to any person, those services will be the subject of a separate written agreement between SMTI and that person. Furthermore, the Material has not been prepared with any consideration of the individual circumstances of any person to whom it is communicated.

Accordingly, it is not intended to, and does not, constitute a personnel recommendation in relation to the purchase or sale of, or exercise of any rights in relation to, any financial instruments or advice in relation to any investment policy or strategy to be followed. The Material also does not contain the results of any investment research carried out by SMTI and is not intended to amount to a financial promotion of any particular financial instrument which may be referred to in it.

While SMTI uses all reasonable endeavours to ensure the Material is accurate, it has not been prepared with a view to any person relying on it. Accordingly, SMTI accepts no responsibility for any loss caused to any recipient of this document as a result of any error, inaccuracy or incompleteness in the Material, nor for any error in the transmission or receipt of this communication.

Any enquiries regarding the products should be made to:

Kei Ohashi

Head of Investment Management Department

Sumitomo Mitsui Trust International Limited

155 Bishopsgate, London EC2M 3XU, United Kingdom

Direct: +44 (0)20 7562 8412

Email: imd@smtil.com

Sumitomo Mitsui Trust International Limited is authorised and regulated by the Financial Conduct Authority

© Sumitomo Mitsui Trust International Limited 2026