

## 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.

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Any enquiries regarding the products should be made to:

Hirofumi Hayashi

Head of Investment Management Department

Sumitomo Mitsui Trust International Limited

155 Bishopsgate, London EC2M 3XU, United Kingdom

Direct: +44 (0)20 7562 8405

Email: [imd@smtil.com](mailto:imd@smtil.com)

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