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The “Takaichi Trade”: Sector Winners, Losers, and Equity Opportunities Under Japan’s New Stimulus Regime

1. Policy Regime & Scenario Framework

Base Case – A Return to “Abenomics”-Style Expansion: Sanae Takaichi’s surprise rise to lead Japan’s ruling party has set the stage for an aggressive pro-growth policy turn. In the base-case scenario, Takaichi is swiftly confirmed as Prime Minister and launches a **sizable fiscal stimulus** focused on “crisis management investment” in strategic sectors [1]. This entails **expansionary fiscal spending, dovish monetary bias, and targeted industrial support**, echoing the playbook of her mentor Shinzo Abe [2] [3]. Takaichi has explicitly called for **big government outlays and tax cuts to cushion living costs**, while criticizing the Bank of Japan’s recent rate hikes as premature [2]. She champions a revival of *Abenomics* – i.e. fiscal pump-priming, ultra-easy money, and structural reforms – albeit tempered by today’s inflation realities [4]. Under this base case, we assume: (1) **Prompt confirmation** in parliament (backed by ad-hoc opposition support despite the LDP-Komeito rift), (2) a **large supplementary budget** by year-end 2025 with front-loaded spending, (3) continued *de facto* **yen weakness tolerance** to aid exports, and (4) **political capital** spent on strategic industries (semiconductors, defense, etc.) rather than immediate fiscal austerity. Markets are already pricing in this scenario: Japanese equities spiked to record highs and the yen slid to 150 per USD on Takaichi’s victory, reminiscent of 2012’s regime shift [5] [6].

Variant Scenarios: We outline three plausible variants around the base case:

- **Variant 1 – Political Gridlock or Delay:** Takaichi’s policy agenda could stall if her ruling coalition **fractures or lacks a stable majority**. Indeed, on Oct 10 the LDP’s junior partner Komeito quit the 26-year coalition, casting doubt on her premiership bid [7]. In this scenario, *confirmation is delayed* or dependent on deals with smaller parties (e.g. DPP, Ishin), forcing policy compromises. Stimulus measures might be **pared down or slow-rolled** through the Diet. The market would then fear a weaker mandate for radical spending – a partial unwinding of the “Takaichi trade” (e.g. yen bouncing off lows, equities pulling back) is likely if investors sense her plans will be watered down [8]. More moderate fiscal packages or a short-lived minority government could ensue.

- **Variant 2 – Hawkish Policy Pivot:** Alternatively, if **inflation and market pressure mount**, Takaichi could be forced into a more hawkish stance than anticipated. Analysts note that unlike Abe in 2012, she faces a 3%+ inflation environment, so runaway stimulus risks spiking bond yields or yen instability [9] [10]. In this variant, the BOJ might push back (or global markets might punish JGBs and the yen), compelling Takaichi to **scale down fiscal plans or tolerate monetary tightening** sooner. She has already declared that government will *“be responsible for…monetary policy”* [11], raising concern about BOJ independence. If the yen skids or inflation expectations jump, however, she may reluctantly allow rate hikes – curbing the very stimulus aims she espouses. This “policy U-turn” scenario would favor defensive sectors over cyclicals.

- **Variant 3 – Snap Election & Uncertainty:** A more disruptive scenario is a **snap general election** in 2026 triggered by the ruling party's weak parliamentary standing or opposition maneuvers. If coalition talks fail and the Diet is paralyzed on key bills, Takaichi might call (or be forced into) early elections to break the impasse. That would inject *significant policy uncertainty* – potentially stalling stimulus plans for months. Markets might price in a risk that a different leadership (even a short-lived one) could take over, partially reversing the reflation trade [8]. This variant would delay or dilute the "Takaichi trade" until political clarity emerges. (Notably, the **LDP alone holds only 196 of 233 needed lower house seats** [12]. Takaichi must court opposition lawmakers to govern, so political risk is high until a new power balance solidifies.)

a. Key Policy Levers and Economic Transmission

Takaichi's policy platform can be distilled into several **levers** that will directly influence economic variables and sector fortunes:

- **Massive Government Investment & Subsidies:** The cornerstone is *"crisis management investment"* – the state **proactively funneling finance into "essential sectors"** to reduce national vulnerabilities [1]. She has *explicitly identified* priority areas: **artificial intelligence, semiconductors, nuclear fusion, advanced materials, biotechnology, advanced medicine, and defense** [13]. We therefore anticipate **generous capital expenditure (CAPEX) outlays, subsidies, and public-private funds** to develop domestic capacity in these fields. For example, semiconductor fabs and research centers may get direct subsidies or public equity stakes (building on existing programs where Japan subsidized TSMC's new fab and the Rapidus chip venture [14]). Defense contractors could see accelerated order flow via higher military procurement budgets. Such spending boosts demand for equipment and construction in targeted industries, with **multiplier effects** through the supply chain.

- **Tax Incentives and Credits:** Alongside direct spending, Takaichi is likely to deploy **tax policy to stimulate strategic sectors and consumption.** She has hinted at *targeted tax cuts* – e.g. temporary **gasoline tax cuts** to ease consumer costs [15] – and could offer **tax credits for corporate R&D, capex, or reshoring** activities in high-priority industries. Incentives for firms investing in areas like digital infrastructure, clean energy technology, or supply-chain diversification align with her economic security goals. Likewise, relief for households (such as cash handouts or income tax breaks for low-middle earners) may be on the table to support consumption, as rumored in policy debates [16]. These measures would boost disposable income and encourage private investment complementing the fiscal spending.

- **Regulatory Easing & Protectionist Tilt:** We anticipate a **friendly regulatory environment** for Takaichi's favored sectors. This could mean faster permitting for infrastructure and factory projects, looser restrictions on defense exports or dual-use tech, and easing of environmental or zoning rules to speed construction (e.g. of semiconductor plants or power facilities). Conversely, her administration may take a *protectionist* bent in areas tied to economic security – for example, promoting **import substitution** in key technologies and tighter screening of foreign investment in sensitive industries. Takaichi has already signaled a desire to **shield domestic industry**: she supports **cutting reliance on foreign-made solar panels in favor of homegrown alternatives (like perovskite solar cells)** [17], and as former Economic Security Minister, she's likely to tighten

export controls on critical tech going abroad. Such policies could **fortify local suppliers** (boosting certain Japanese tech and materials firms) while disadvantaging import-dependent businesses.

- **Public Procurement & Defense Spending:** A major lever is the **government procurement channel** – especially in **defense, aerospace, and infrastructure**. Takaichi is a vocal security hawk committed to strengthening Japan's defense capabilities [18] [19]. We expect her to *fast-track defense budgets* toward the goal of 2% of GDP spending (potentially reaching it before the 2027 target) and to **allocate funds for military hardware, cyber-security, space, and dual-use technologies**. Domestic defense contractors stand to benefit from direct orders and development programs (e.g. for missiles, uncrewed systems, next-gen fighter technology) [19]. In infrastructure, the stimulus is likely to revive the old playbook of **public works** – e.g. upgrading regional roads, bridges, rail, and resilience projects (earthquake-proofing, etc.) – given that past huge packages under Abe heavily targeted such projects [20]. Construction and engineering firms will see an uptick in government contract tenders. Additionally, **"digital infrastructure"** (5G/6G networks, data centers, fiber optics) may be treated as critical infrastructure with government procurement support, dovetailing with Takaichi's emphasis on economic security.

- **Currency and Monetary Stance:** While the Bank of Japan formally controls monetary policy, Takaichi has made it clear she expects *coordination*. She stated that BOJ decisions *"must align with the government's economic policy"* [21], implying pressure to maintain accommodative conditions. This suggests she will **lean on the BOJ to delay or minimize rate hikes** as long as possible. The likely outcome is a continuation of relatively low interest rates (perhaps one token hike then a pause) to facilitate cheap government borrowing and support her fiscal plans [22]. A side effect – **yen weakness** – is something her camp appears willing to tolerate. Takaichi's advisers argue a weak yen *"benefits the economy"* by lifting exports and domestic investment, and that any hit to households from import costs can be offset by fiscal measures [23]. Takaichi herself acknowledges *"pros and cons"* to a weak yen: it **buffers manufacturers** (improving their competitiveness and profit repatriation) but *"hurts households"* via costlier imports [24]. Net-net, expect **minimal effort to strengthen the yen** unless it free-falls – meaning export-oriented sectors enjoy a tailwind, while importers face margin pain. (If yen depreciation accelerates beyond ~160/$, intervention or a rhetorical shift could occur, but that's outside the base-case range.)

- **Wage & Income Policies:** To address the political imperative of rising living costs, Takaichi may pursue policies to boost **wages or household income**. She has floated ideas like **tax breaks for companies that raise pay**, expanding income supplements, or even mandating certain wage hikes in government-affiliated sectors. These would be in line with opposition proposals she has shown openness to, aimed at redistributing gains to households [25]. If implemented, such measures would support **consumer spending**, benefiting retail and services sectors (as long as inflation doesn't outpace wage growth). However, aggressive wage hikes could squeeze corporate margins unless offset by productivity gains or pricing power, so it's a delicate balance. For now, the focus seems to be more on *short-term relief* (tax cuts, energy subsidies) than structural wage mandates.

- **Energy and Environment Strategy: Energy security** trumps climate ambition in Takaichi's platform. She is poised to **make nuclear power a centerpiece** of Japan's energy policy, accelerating reactor restarts and development of next-gen nuclear technology [26]. Plans include installing innovative small reactors by the late 2020s and even pursuing nuclear fusion in the 2030s [26]. This pro-nuclear stance implies supportive policies for utilities and equipment makers in the nuclear field

(e.g. streamlined safety approvals, government funding for R&D and plant upgrades). Concurrently, she advocates domestic clean-tech innovation like Japanese-made solar panels, rather than reliance on imported renewables [17]. We therefore expect **investment in grid infrastructure, energy storage, and perhaps hydrogen or battery projects** under the banner of reducing import dependence (Japan's energy self-sufficiency is a long-standing issue). Traditional fossil fuel policy will likely emphasize stability: e.g. potentially subsidizing fuel prices (as seen with proposed gas tax cuts) and ensuring LNG/oil supply through partnerships, rather than aggressive decarbonization moves. Overall, companies tied to **nuclear and energy infrastructure** could see a boost, whereas purely import-dependent renewable developers might get less priority unless they use local technology.

- **"Economic Security" & Supply Chains:** Finally, a broad policy theme is **national security in economic domains**. Takaichi views supply-chain resilience and technological autonomy as critical. Expect measures to **support domestic production of semiconductors, batteries, critical materials, and defense equipment**, as well as policies to **diversify away from Chinese supply chains**. This could involve government facilitation of new factories (as already happening with chip fabs in Kumamoto [14]), stockpiling of rare minerals, and export curbs on sensitive tech to rival countries. Laws or subsidies to encourage reshoring manufacturing (or "friend-shoring" to allies) may appear. Sectors like **chips, electronics, specialty chemicals, and machinery** – where Japan aims to be self-reliant or globally competitive – will benefit from these protective policies. The flip side is potential **friction with trading partners** (e.g. if China retaliates or if U.S. pressure limits what Japan can export to China), which is a risk we will monitor.

b. Sector Exposure Map: Policy Tailwinds vs. Headwinds

Every sector will feel the "policy scissors" of Takaichi's regime differently – some on the winning end of stimulus and security spending, others caught on the wrong side of weak yen and inflation. Below is a high-level mapping of **which sectors/subsectors are poised to benefit or suffer** under the Takaichi trade:

- **Technology & Semiconductors:** *Strong Tailwind.* This is arguably the **top beneficiary** of the new regime. Government support for semiconductors is explicit – Takaichi has named chips and AI as pillars of her crisis investment plan [13]. We expect **subsidies for chip fabs, equipment, and R&D** consortia, building on Japan's existing semiconductor revitalization efforts (e.g. funding of TSMC's fab and the domestic Rapidus venture) [14]. **Electronic component makers** (sensors, connectors, etc.) should likewise benefit, especially those tied to industrial automation or defense electronics. Additionally, a **weak yen** boosts tech exporters' earnings – historically, yen depreciation correlates with higher stock returns for tech manufacturers, as it makes Japanese production costs more competitive [27]. *Key policy levers:* export incentives, "economic security" subsidies, and preferential procurement of domestic high-tech solutions (like Japanese supercomputers, telecom gear, etc.). *Risks:* The global semiconductor cycle is volatile – a downturn in global demand could offset domestic stimulus. Also, increased U.S.-China tech tensions could limit overseas markets (if, say, Chinese customers are restricted). But on balance, the **"Silicon Japan" theme is a major winner** of Takaichi's agenda.

- **Defense, Aerospace & Security Tech:** *Strong Tailwind.* National security spending is set to soar, benefiting **defense contractors** across the board. Look for **boosted procurement of military hardware** (ships, fighter upgrades, missiles), accelerated development of space and cyber capabilities, and incentives for **dual-use technologies** (e.g. drones, AI surveillance, encrypted

communications). Takaichi's platform aligns with continuing the defense build-up launched under Abe/Kishida, potentially *faster* and with more urgency [19]. This means companies like heavy industry manufacturers (fighters, naval vessels, defense systems), electronics firms making radars and cybersecurity solutions, and even emerging space tech firms all stand to gain new orders or government grants. *Key levers:* direct budget allocation (the MOD's budget could see double-digit % increases annually), specialized subsidy programs for defense R&D, and export promotion (selling Japanese defense equipment abroad with government backing). *Risks:* Elevated scrutiny from neighboring countries – Japanese defense contractors might face geopolitical pushback (e.g. import/export restrictions on tech). Execution risk is present too: these companies must scale production and R&D efficiently to capitalize on funding, and some have chequered histories of cost overruns. Nonetheless, **the defense sector's outlook is clearly positive** under an administration pledging to *"bolster independent capabilities"* and invest in uncrewed systems and AI for the military [19].

- **Specialty Materials & Chemicals:** *Tailwind.* Japan's advanced materials industry – from semiconductor-grade silicon and chemicals to carbon fibers and rare earth substitutes – should enjoy a boost. These sectors are the **feedstock for strategic industries** (chips, batteries, defense, EVs), so they are likely to see **increased demand and possible subsidies**. For instance, "materials" are explicitly on Takaichi's list for proactive investment [28]. Government support might include grants for expanding capacity or R&D in specialty chemicals, magnets, alloys, etc., particularly to secure supply chains domestically. A weak yen also aids many of these firms by making their exports cheaper and raising yen-value of overseas profits [29]. *Key levers:* subsidies/tax breaks for factories (e.g. silicon wafer plants, battery material facilities), strategic stockpiling by the government (benefiting producers), and protective tariffs or export controls favoring local suppliers. *Risks:* Many chemical/material companies rely on imported raw inputs – the **yen-driven inflation in input costs** could squeeze margins if not offset [30]. Additionally, if global commodity prices spike (energy, metals), their cost structure could worsen. Overall, those who can pass on costs and are plugged into priority supply chains (semiconductor chemicals, rare metals processing, etc.) will thrive.

- **Energy, Power & Utilities (especially Nuclear & Renewables Infrastructure):** *Tailwind (Selective).* Takaichi's pro-nuclear, pro-energy security stance means **nuclear power plant equipment and service firms** (along with utilities operating reactors) are positioned for gains. Any move to restart idled reactors or build new ones (even next-gen small modular reactors) would generate multi-year projects for engineering companies and provide utilities with lower fuel costs (nuclear fuel vs expensive imported LNG). **Grid infrastructure and energy storage** could also see investment as part of resilience and efficiency improvements. Additionally, strategic push in *new energy tech* – e.g. hydrogen, advanced batteries – may be on the table to reduce reliance on imported fossil fuels. Traditional electric utilities might benefit from a more favorable view on keeping coal or gas plants online in the near term (energy security first), but in the long run could face transition pressure. Meanwhile, **renewable energy developers** might see *mixed* impacts: domestic solar technology firms could benefit from being championed, whereas import-heavy solar/wind developers might find fewer subsidies if policy shifts to focus on domestic manufacturing of panels/turbines. *Key levers:* fast-track approvals for reactor restarts, public financing for nuclear projects, subsidies for domestic clean tech (e.g. subsidies for Japanese-made solar cells or storage systems), and possibly capacity payments to ensure stable power supply. *Risks:* Public opposition to nuclear energy remains a wildcard – local resistance or safety incidents could derail plans. Long lead times for nuclear projects mean benefits are gradual. Also, utilities with heavy debt could suffer if bond yields rise with fiscal

expansion, though most have regulated pricing power to adjust over time. On balance, **the energy sector leans positive**, with a clear policy bias for domestic energy production and innovation.

- **Infrastructure & Construction:** *Tailwind.* Classic **public works spending** is expected as a central tool to stimulate the economy (a tradition in Japan's policy). Large general contractors and civil engineering firms are likely to receive a **wave of government project orders** – whether it's rural infrastructure, metropolitan redevelopment, disaster-proofing, or new facilities tied to strategic industries (e.g. building out semiconductor fabs or defense bases). Under Abe's 2013 stimulus, construction was a big winner as trillions of yen poured into bridges, tunnels, and roads [20]. We anticipate a similar outcome: supplemental budgets earmarking funds for construction in 2025–2026. *Key levers:* direct government contracts (infrastructure projects funded by stimulus), subsidies for regional development initiatives, and possibly regulatory changes that expedite construction (helpful to big contractors). *Risks:* Many construction firms carry high leverage; a jump in interest rates could increase their financing costs and crimp profits if project margins are thin. There's also execution risk in scaling up projects quickly (Japan faces labor shortages in construction and rising costs of materials). Nonetheless, **the order books of major builders should swell**, supporting revenues for at least the next 1-2 years.

- **Telecom & Digital Infrastructure:** *Tailwind.* Communications infrastructure (5G/6G networks, broadband, data centers) stands to gain from Takaichi's emphasis on securing critical infrastructure. We might see **accelerated investment in network upgrades** with government support – e.g. subsidies for rural 5G rollout or grants for new data center capacity (potentially framed as digital economic security). Telecom operators like NTT and KDDI could benefit from a policy push to harden and expand networks, while companies involved in cybersecurity and digital services may see increased government and corporate spending (given heightened focus on information security). *Key levers:* public-private initiatives to build out fiber or 6G research, designation of certain digital projects as "national projects" eligible for funding, and procurement of domestic IT solutions for government use (cloud services, secure communication tools, etc.). *Risks:* The government has in the past pressured telecom companies to reduce consumer prices – a populist move that could cut into profits. If cost-of-living is a political issue, Takaichi might lean on carriers to lower mobile fees (as was done under previous administrations), which would hurt revenue. However, given her focus on growth, such interference may be less priority. Capital intensity is another issue – telecom firms must invest heavily; if interest rates rise or depreciation of equipment accelerates, returns on these investments need monitoring. Overall, **digital infra is a relative winner**, aligning with national resilience goals.

- ⚖ **Financials (Banks, Insurance, Asset Managers):** *Mixed to Modest Tailwind.* The financial sector faces cross-currents. On one hand, a stimulus-driven economic uptick could **increase loan demand** and improve asset quality (fewer defaults in a growing economy). Banks may benefit from a steepening yield curve if fiscal expansion pushes long-term rates up while the BOJ keeps short rates low – bank net interest margins could widen after years of ultra-flat curves [31]. Insurers similarly might welcome higher long-term yields for investment income. Additionally, rising stock markets (as seen post-Takaichi win) bolster the value of banks' equity holdings and fee income for asset managers. *However*, there are headwinds: **rising bond yields mean banks' existing JGB portfolios will incur valuation losses**, and insurers face hits to bond investments too. If **inflation** persists, it could outpace slow-moving loan rate adjustments, squeezing real margins. Also, regional banks with undiversified exposure might not benefit much from high-tech stimulus and could be hurt if local

SMEs struggle with cost inflation. *Key levers:* indirect effects more than direct – e.g. credit guarantee programs or SME lending support in the stimulus could reduce risk for banks, and any BOJ measures to cap rate increases (yield curve control tweaks) would stabilize the environment. The **net outlook for financials is cautiously positive** (stimulus tends to generate more business activity and credit demand), but the sector is unlikely to be a star outperformer given structural challenges. We expect large, well-capitalized banks and brokers to fare better than small regional lenders.

- ⚖ **Real Estate & Construction Materials:** *Mixed.* Real estate developers and REITs could experience both upsides and downsides. Fiscal stimulus that pumps money into infrastructure and regional revitalization can **increase land values and demand for development** in targeted areas – good for developers holding land banks. If business confidence rises, commercial real estate occupancy can improve. Additionally, any government support for housing (e.g. tax breaks for homebuyers or reconstruction programs) would help the property sector. On the flip side, **interest rate risk looms large**: if bond yields climb due to massive borrowing, cap rates for real estate assets may rise, putting downward pressure on property values and REIT prices. Highly leveraged real estate firms would see financing costs jump. *Key levers:* potential inclusion of urban redevelopment in stimulus (e.g. funding for city renewal projects could directly benefit big developers), and monetary policy (continued low rates would be a relief, whereas an uncontrolled rise in rates would hurt). **Overall, real estate is not at the forefront of the Takaichi trade**, but certain segments (construction material suppliers, cement, steel) will get a **demand boost from public works**. Those material producers, however, face margin pressure from higher energy and import costs. Thus, it's a balancing act – companies that can pass on costs and are tied into infrastructure projects (e.g. cement companies with government contracts) should outperform within this space.

- ⚖ **Healthcare & Pharmaceuticals:** *Moderate Tailwind.* Healthcare was mentioned in Takaichi's "essential sectors" (advanced medicine and biotech) [28], indicating support for **biopharma R&D, medical supply chains, and healthcare resilience**. We may see government programs to fund drug discovery (especially in biotech fields like vaccines, regenerative medicine) and to ensure domestic production of critical medicines and equipment (part of economic security). Large pharmaceutical companies (with innovative pipelines) and medtech firms could gain from research grants or faster regulatory approvals. Additionally, an expansionary economic policy generally preserves or increases healthcare budgets, which might otherwise be cut in austerity scenarios. *Key levers:* R&D subsidies, public-private partnerships for vaccine or drug development, and potentially faster drug approval processes or pricing agreements to foster innovation. *Risks:* Japan's healthcare system still emphasizes cost control – price cuts in the national drug reimbursement schedule are a recurring issue. A populist government might enforce price reductions on high-cost therapies to appease voters, which would hurt pharma margins. Moreover, any labor shortages or inflation in healthcare (e.g. higher wages for staff) could squeeze hospital operators. Yet overall, **healthcare appears to be on the "benefit" side** of the ledger under a pro-industry, pro-security regime that wants domestic prowess in biotech and medical technology.

- ⚖ **Consumer Discretionary & Autos:** *Divergent – Export Autos* 👍 *vs. Domestic Retail* 👎*.* Consumer-facing sectors will see a split between exporters (who benefit from yen and stimulus) and import-reliant or purely domestic firms (who suffer cost pressures). **Auto manufacturers and parts suppliers** are clear winners – a weak yen significantly boosts auto exporters' profits (historically, auto stocks are among the most positively sensitive to yen depreciation [32]). Additionally, if Takaichi's policies succeed in boosting consumer incomes or offer EV purchase incentives, auto demand

(domestic and international) could rise. Japan's big automakers also stand to benefit from any **infrastructure for EVs or hydrogen fuel that the government invests in**, as well as from trade deals Takaichi supports (continuity in pro-export agreements [33]). In contrast, **domestic retail and consumer importers** face challenges. With the yen's weakness, import costs for everything from apparel to food to electronics are up, squeezing retailers' margins unless they hike prices (which could hurt sales volume). If inflation in necessities keeps eroding real incomes, consumers may cut discretionary spending, hitting sectors like travel (outbound) and luxury retail. *Key levers:* stimulus measures like shopping vouchers or tax cuts would support consumer spending (a plus for retail), and inbound tourism is a wildcard positive (a weak yen encourages foreign tourists to spend more in Japan, aiding hotels, travel, luxury shops). But the direct policy focus on consumers is smaller than on industry. *Risks:* Stagflationary forces – if wages don't keep up with inflation, consumer confidence could drop. Companies heavily dependent on imports (fashion retailers like Fast Retailing's Uniqlo, or food importers) will either absorb higher costs (lower margins) or raise prices (risking demand). **Net, we expect export-oriented consumer firms (autos, high-end brands with global sales) to outperform the domestic small retailers.** Inbound tourism-related businesses could also shine if borders remain open and tourism normalizes further, thanks to the yen's competitive level.

- ⚖ **Transportation & Logistics:** *Mixed.* The transportation sector has winners and losers in this regime. **Airlines and shippers** get a double-edged sword: on one side, a weak yen and stimulus-led rebound could swell inbound tourism and freight volumes (good for revenue), but on the other side, fuel costs (mostly dollar-denominated) climb with a weak yen, and these companies have limited ability to hedge fully. Airlines like ANA or JAL might see improved passenger loads from tourists, yet face higher jet fuel bills; net impact could be neutral to slightly negative unless tourist volumes surge enough. **Logistics and shipping firms** may benefit from greater trade activity and infrastructure spending (e.g. ports, warehouses) but similarly contend with fuel and import equipment costs. *Key levers:* tourism promotion (if government includes it in stimulus) could help transport, and any fuel subsidies would directly benefit travel and logistics companies. *Risks:* If the yen's weakness turns to volatility, hedging costs rise. Also, global growth concerns could cap external demand – even a pro-growth Japan can't fully offset a global slowdown for shippers. Within transportation, **public transit and rail operators** could see some stimulus funds (for upgrades or regional support), and they benefit from domestic mobility improvements, but they're not central to the "security investment" theme. In sum, **transport is a mixed bag**, with **upside for travel-related demand but downside from cost inflation**.

- **Media, Telecom Content & Ideological Industries:** *Moderate Tailwind (Niche).* We include here sectors that might see indirect support due to ideological alignment or security considerations – for example, domestic media or online platforms aligned with nationalist narratives, surveillance technology providers, and publishers of defense-related content. Takaichi's hardline conservative stance could translate into tacit support for certain media outlets or investments in "strategic communications" (perhaps funding public broadcaster content or internet infrastructure to combat disinformation). **Surveillance and security software firms** might get government contracts as part of bolstering internal security. However, these are relatively niche and speculative areas. *Key levers:* government contracts for PR campaigns, grants for cultural industries that promote national image, and budgets for police/cyber-security systems. *Risks:* Political interference could actually be a negative for independent media companies if press freedom issues arise. We flag this category mainly because **Takaichi's administration is likely to emphasize national identity and security**, which could open some opportunities for companies catering to those government priorities (e.g.

camera system manufacturers, cybersecurity consultants). This is not a major market driver compared to the other themes above.

In summary, **the largest positive policy impulses will be felt in sectors tied to government spending surges – tech, defense, infrastructure, strategic manufacturing – and those leveraged to a weaker yen – heavy exporters and industrials.** On the flip side, sectors facing import cost inflation or higher interest rates – small domestic firms, import-heavy retailers, some utilities and highly leveraged players – will need careful monitoring.

c. Macro and Market Risk Cross-Currents

Even as we identify winners, it's crucial to recognize **broader macro risks** that could cut across sectors under this new regime:

- **Ballooning Fiscal Deficit and Bond Market Stress:** Takaichi's stimulus plans will add to Japan's already huge public debt. Investors have so far reacted by pushing **super-long JGB yields toward record highs on fiscal worries** [34]. If markets fear fiscal discipline is lost, yields on 10-year, 20-year bonds could jump, raising borrowing costs economy-wide. While the BOJ might suppress short-term rates, the long end has been climbing, which can hurt construction (project finance), real estate (mortgage costs), and government finances (interest expense). Takaichi insists she'll *"monitor markets and stabilize debt-to-GDP"* [35], but there's an inherent tension between big stimulus and fiscal stability. A disorderly spike in yields could force abrupt policy shifts (as per Variant 2 above). We will watch for any reintroduction of **BOJ yield-curve control measures** if needed to cap rates – that could be a backstop, but one not without controversy.

- **Inflation and Input Cost Pressures:** Japan is experiencing its highest inflation in decades, largely cost-push from commodities and the weak yen. A major risk is that stimulus overheats demand or further weakens the yen, **accelerating inflation** beyond what corporate Japan can absorb. Many Japanese firms, especially SMEs, have historically thin margins; **input costs rising faster than output prices squeeze profits** [30]. If Takaichi's policies spur wage growth and consumption without addressing productivity, businesses could face margin compression. Sectors like food, retail, and materials are most vulnerable if import costs stay high. Inflation could also erode consumer real incomes, **hurting consumption** – Takaichi has openly acknowledged that without relief measures, *"people will continue to suffer from the rising cost of living, which will hurt consumption, weigh on corporate profits and hurt the economy"* [36]. Thus, inflation is a double-edged sword: a bit of it is intended to encourage spending, but too much will undermine the stimulus benefits. The BOJ might react with tighter policy if inflation looks to entrench above 2%, which loops back to the interest rate risk.

- **Political Stability and Policy Continuity:** The aforementioned **coalition fragility** is a significant risk. As of now, Takaichi's LDP does not control the Diet alone [37]. Any mishap – failed budget passage, scandal, or inability to manage Komeito or new partners – could derail policy implementation. A weaker government might have to **water down stimulus measures** or face delays in passing bills (e.g. tax cuts or regulatory changes). The scenario of a short-lived administration cannot be ruled out if opposition forces unite. This uncertainty can make businesses hesitant to invest in anticipation of stimulus, a sort of wait-and-see risk. Investors should be prepared for swings in sentiment around key political events (confirmation vote, coalition

negotiations, potential election announcements). *Catalyst:* If by mid-October 2025 Takaichi secures a workable majority (perhaps via coalition with the Democratic Party for the People (DPP) or others [38]), policy will proceed. If not, market optimism could fade fast.

- **Geopolitical Tensions (China, Korea, Taiwan):** Takaichi is known for her hawkish views, including controversial positions on historical issues and a tough stance on China/Taiwan. An escalation of **geopolitical tensions in East Asia** could have economic blowback. For instance, more aggressive decoupling from China might invite retaliation against Japanese businesses operating in China (automakers, retailers) or import boycotts by Chinese consumers. Strained Korea relations could impact cooperation in tech and defense (though recently ties have improved under Yoon, which could continue). Also, any conflict in the Taiwan Strait would severely disrupt supply chains and trade – a tail risk but one that looms. From an investment perspective, sectors like electronics and autos with significant China exposure might carry an additional risk premium under a nationalist Japanese government. Companies might accelerate their China+1 strategy (diversifying production to Southeast Asia or India), which could mean near-term capex costs but longer-term resilience.

- **External Economic Shocks:** Japan's policy shift is happening in a global context of tightening monetary policies (except Japan) and potential slowdown in major economies. If the US or Europe slips into recession in 2026, **external demand for Japanese exports could drop**, muting the benefits of a weak yen. Similarly, if global commodity prices spike (perhaps due to a geopolitical event or supply cut), Japan's import bill would surge, worsening trade balances and inflation. Takaichi's regime is relatively defenseless against imported inflation (beyond fiscal smoothing). Another factor is **capital flows**: if Japanese yields rise and/or policy looks inflationary, global investors might pull back from Japanese bonds or stocks, causing volatility in markets. Conversely, if global risk appetite is strong, Japan could see continued equity inflows given its pro-growth tilt. We note that some foreign analysts initially *cooled on the yen* after Takaichi's win due to uncertainty around policy direction and BOJ hikes [39]. Maintaining foreign investor confidence will depend on how well policy is communicated and executed in coming months.

- **Market Valuation and Sentiment Risk:** Japanese equities have rerated higher on the Takaichi trade optimism – the Nikkei hit multi-decade highs above 47,000 [40]. There is a risk of **"buy the rumor, sell the fact"**: once the initial euphoria passes, investors may refocus on earnings fundamentals and global conditions. If stimulus disappoints in size or impact, a market correction is possible. Certain sectors might have priced in a lot of good news (defense and semiconductor stocks rallying strongly in early October, for example). We must be wary of *valuation risk* – some companies could become overvalued relative to actual medium-term earnings power if investors treat them as pure policy plays. A related risk is the **BOJ policy surprise**: the market assumes BOJ will stay dovish under Takaichi's influence, but should Governor Ueda tighten more than expected (say, a rate hike later in 2025 due to inflation), it could jolt equity valuations (higher discount rates) and shift sector preferences (toward defensives and away from bond-proxies like REITs).

In essence, **macro stability is the linchpin**: if Takaichi can thread the needle of big stimulus *without* triggering runaway inflation or a bond market revolt, then the pro-growth sectors will have a clear runway. If not, a more uneven, selective approach will be required, and defensives could come back in favor.

d. Policy Timeline and Catalysts (Next 18 Months)

Timing will heavily influence how trades play out. Below is a **tentative catalyst calendar for the next 0–18 months** – events that could unlock (or derail) the expected sector outcomes:

- **Mid-October 2025: Extraordinary Diet Session & PM Confirmation Vote.** *Catalyst:* Parliamentary vote on Takaichi as Prime Minister (expected ~Oct 15). This will be the first test of her political strength. A successful confirmation (with support from minor parties to overcome the lost Komeito votes [41] [42]) would likely boost markets further – confirming the base-case stimulus path. Conversely, if her confirmation is delayed or in doubt, markets may wobble (yen could strengthen on prospect of a different, possibly tighter policy leader [8]). **Trade idea:** Go long exporters/financials if she's confirmed; hedge with JGB shorts if confirmation fails (as a more hawkish fiscal stance might emerge with a different leader).

- **Late Oct–Nov 2025: Cabinet Formation and Policy Announcements.** *Catalyst:* Takaichi will form her Cabinet and announce key ministerial picks (especially Finance Minister, METI Minister, etc.). Markets will watch if she appoints *hardline reflationists* or more orthodox figures. For example, if a known fiscal dove (or one of her reflationary advisers) becomes Finance Minister, expect bond yields to react upward and defense/tech stocks to cheer (anticipating aggressive budgets) [43]. Conversely, a moderate pick might reassure bond markets (capping yields). Also in this window, look for **initial policy directives**: Takaichi vowed to *"immediately compile a stimulus package"* [44] – details of that supplementary budget could emerge. The *size and scope* of the package is a major catalyst. Rumors or leaks of (say) a ¥20+ trillion extra budget heavy on infrastructure and tech would rally construction, machinery, and tech stocks. If it comes in small or delayed due to politics, those sectors could pull back.

- **December 2025: Passage of Supplementary Budget 2025.** *Catalyst:* The extra fiscal package is likely to be passed by the Diet by year-end if all goes smoothly. This formal approval means money can start flowing. Specific allocations will become clear: e.g. ¥X trillion for infrastructure (boosting construction firms' order books going into 2026), ¥Y for subsidies (naming sectors like semiconductors, AI, etc.), ¥Z for defense procurement. These details will allow more precise identification of **company-level winners** (who gets the contracts, which subsidies can specific firms tap). **Trade idea:** Position in companies *just before* this passage that are likely highlighted in budget – e.g. construction companies for which project tenders will be issued in Q1 2026, or defense contractors slated to receive large orders.

- **Q1 2026 (Jan–Mar): BOJ Policy Decisions & Economic Data.** By early 2026, a pivotal question will be whether the BOJ, under pressure from the new government, holds off on rate hikes. The **BOJ policy meeting in late January 2026** will be closely watched. If the BOJ, as Takaichi's advisor suggested, pauses after one more hike to support fiscal plans [22] [45], it will keep the yen on the weaker side and bond yields in check – favorable for the continuation of equity rallies in exporters and yield-sensitive sectors. Also, **Q4 2025 GDP and inflation data** will print in this quarter, showing initial effects of policy. If inflation is rising too fast (above 3-4%), the market might start fearing a BOJ response or a dilution of stimulus. If growth is picking up and inflation remains around 2-3%, it's the sweet spot for equities. *Catalysts:* BOJ meeting (late Jan), release of stimulus spending details (perhaps METI and MOD announcing which companies/projects get subsidies or contracts by Feb),

and any **Trump administration (US) trade moves** that could affect Japan (since CSIS noted shifts in US policy under Trump II [46], any tariff negotiations or US rate changes matter for yen).

- **April 2026: FY2026 Budget Implementation & Policy Rollouts.** The new fiscal year starts, and Takaichi's first full-year budget (likely passed by March) goes into effect. Expect **infrastructure project groundbreakings** in spring – local papers will report which highways, bridges, etc., are funded, benefiting specific contractors. Also, watch for **regulatory changes** kicking in – e.g. any new tax credit programs for companies likely start from April. *Catalyst:* Corporate earnings season (April-May 2026) for fiscal year 2025 results and FY2026 guidance. This will be the first time companies provide guidance fully under the Takaichi regime. We anticipate **upward revisions** or bullish guidance in sectors like construction, machinery, and defense (reflecting incoming orders), as well as tech (if subsidies and weak yen improve outlook). Conversely, consumer sector companies might guide cautiously if cost pressures bite. This earnings season could lead to **sector rotation**: smart money will differentiate winners (with improved forecasts) from losers (guiding lower margins).

- **Summer 2026: Interim Progress Checks & Possible Election Talk.** By mid-2026, we'll have interim results: how fast stimulus money is being spent, whether the economy is responding (e.g. check consumption, capex data). *Catalysts:* The **BoJ's semiannual Outlook Report (likely July)** – will they revise growth/inflation forecasts upward? Any hint of tightening would be a negative catalyst. Also, if Takaichi's coalition remains tenuous, **speculation of a snap general election** could grow as a summer narrative (especially if she wants a mandate before tackling any tough reforms or by-election losses mount). The mere hint of an election – introducing uncertainty about policy continuity – could cause a risk-off move (yen strengthening, stocks softening, particularly in sectors that have run up). However, if polls suggest she/the LDP would win decisively, markets might take it positively (removing legislative barriers). We place moderate probability on an election by late 2026 if she hasn't secured coalition stability by then.

- **Fall 2026: Policy Adjustments and Global Factors.** Assuming no election yet, the focus will be on adjusting policies in a **2026 Autumn economic package** (Japan often does another package if needed). If the initial stimulus overshot (e.g. causing too much inflation), we might see a *course correction* package – perhaps more targeted relief for households and scaled-back spending – which could temper the "reflation trade." Alternatively, if growth is faltering, she might double-down with **"Stimulus Part 2"** in late 2026, especially ahead of any planned 2027 election. Globally, the US presidential election in Nov 2026 (assuming a second Trump term mid-point) could influence trade and security policy affecting Japan. Also, by fall 2026, markets will start pricing the **BOJ leadership transition** (Ueda's term ends spring 2028, but speculation could begin if policy trajectory changes). *Catalyst:* Any **geopolitical event** (Taiwan Strait drills, North Korea tests, etc.) could spur defense stocks and safe-haven flows (yen, JGBs) – important for short-term moves.

- **Early 2027: Elections and End-Game (if not earlier).** The latest possible timeline for a general election would be 2027 (since the last was 2021, and term is 4 years). If Takaichi hasn't faced voters by then, it's a looming event. By early 2027, the **success (or failure) of Takaichi's agenda** will be clearer in macro data: is Japan in a solid growth trajectory with manageable inflation, or stuck with higher debt and only modest gains? Sectors that performed might see some mean reversion if investors think stimulus will fade after election. Conversely, if her policies are deemed successful, there could be a **"second wind" rally** into an election that solidifies her power. For our portfolio, we'd

consider trimming positions that have run up significantly by late 2026 to lock in gains, and prepare for rotating into any laggards that could recover once election uncertainty passes.

Throughout this timeline, we will closely watch **official communications (policy speeches, draft bills, BOJ statements)** and market technicals (yen at key levels like 150–155, JGB yields nearing psychologically important thresholds, etc.). These act as ongoing sentiment gauges and can prompt intervention (e.g. MoF currency intervention if yen overshoots, or BOJ stepping in if bond yields disorderly). Each major policy reveal is a potential **catalyst to either take profits on winners or add to positions on confirmation of thesis**.

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2. Thematic Sector Mapping: From Policy to Stock Picks

Leveraging the above policy framework, we now identify **specific sectors and subsectors** positioned to outperform ("conviction long" ideas) or underperform (the "loser watchlist") under the Takaichi trade. We organize the opportunities by theme, and for each we provide a **bucket of top stock candidates (tickers)** with a brief thesis, anticipated catalysts, and key risks. All companies listed trade on the Tokyo Stock Exchange and benefit (or suffer) directly from the policies and macro trends discussed.

2.1 High-Tech Manufacturing & Semiconductors – "Silicon Japan" Revival

Subsector Thesis: The new regime's focus on economic security and tech sovereignty makes **semiconductors and advanced electronics** perhaps the biggest winner. Japan wants to bolster domestic chip production and related supply chains (materials, equipment, chip assembly) [13]. Alongside direct subsidies, a weaker yen and global AI demand create a sweet spot for Japanese semiconductor firms. We target two groups: **semiconductor production equipment (SPE)** makers and **electronic materials** suppliers. These are world-class Japanese industries with high export exposure – set to gain from policy tailwinds and currency leverage.

- **Tokyo Electron (8035)** – *Top Pick:* A global leader in semiconductor production equipment (coaters, etchers). **Thesis:** As Japan invests in new fabs (TSMC's Kumamoto fab, Rapidus's advanced chip facility), Tokyo Electron stands to sell more tools domestically, on top of robust global demand for chips. The government's strategic subsidies for chip fabs effectively subsidize equipment purchases – a direct boon for TEL. Exports ~80% of its tools, so the weak yen supercharges its earnings (each ¥1 depreciation adds to margins). **Catalysts:** Expected inclusion in government programs (e.g. a share of the ¥TBA billion chip fund) and large orders from new fab projects in 2025–2027. Also, any **global AI chip boom** increases orders from overseas foundries (TSMC, Samsung) for TEL tools – recent AI trends have already tightened semiconductor capex cycles. **Risks:** Cyclical downturn in semiconductors (if global demand for chips reverses) could cut orders; U.S.-China export controls might limit TEL's sales of advanced tools to China (a significant market historically). Valuation is on the higher side after a rally, so execution needs to meet high expectations.

- **Advantest (6857)** – *Top Pick:* World's leading maker of semiconductor test equipment. **Thesis:** Every new chip fab requires testing machines; as Japan and others expand capacity, Advantest's order book will grow. It's also deeply tied to the **AI chip and high-performance computing trend**, where its latest testers are essential. The weak yen is tailwind (major revenue from overseas clients).

Catalysts: Government support for R&D in next-gen semiconductors (like 2nm and beyond) could involve Advantest in development consortia. Short-term, the **BOJ's dovish stance and Takaichi's win already drove up tech stocks** – as seen by record highs on the Nikkei [40] – indicating positive sentiment that can persist if earnings confirm the growth. **Risks:** The semiconductor cycle (especially memory test demand) can be volatile; a slowdown in one segment (memory or smartphone chips) could dent Advantest's sales. Also, competition from Teradyne (U.S.) means they must continue innovating to maintain edge.

- **SCREEN Holdings (7735)** – *Secondary Pick:* A supplier of semiconductor equipment (photolithography coat/develop tracks, cleaning systems). **Thesis:** Though smaller than TEL, SCREEN has niche dominance in certain fab processes. It will benefit from the same capex upswing drivers – more fab investments in Japan/USA (some Japanese firms are suppliers to U.S. fabs too) – and the government's commitment to semiconductor manufacturing resilience. **Catalysts:** Any confirmed expansion of domestic memory or logic chip production (e.g. Kioxia or Micron increasing Japan footprint) would bring orders. SCREEN's equipment is also used in display manufacturing; stimulus supporting high-tech manufacturing broadly (displays, sensors) could help. **Risks:** Highly cyclical and somewhat less diversified; also, lithography (where Nikon and ASML play) is an adjacent area – if SCREEN loses share in new tech to competitors, orders might lag.

- **Shin-Etsu Chemical (4063)** – *Top Pick (Materials):* World's #1 maker of semiconductor silicon wafers and a major PVC/plastics producer. **Thesis:** As more chips get made (globally and in Japan), wafer demand rises – Shin-Etsu's wafer division should see secular growth. It also produces rare earth magnets and specialty chemicals key for EVs and electronics. Government support for "materials" will likely include subsidies or joint projects for next-gen chip materials and perhaps battery materials. The company has stellar margins and global reach, so yen depreciation boosts its repatriated profits significantly [29]. **Catalysts:** Announcements of new wafer fab capacity – Shin-Etsu might invest in new plants if demand outlook is strong (possibly with government backing). Also, if Japan's stimulus includes funding for rare earth processing or advanced materials R&D, Shin-Etsu could be a beneficiary (they're already investing in such areas). **Risks:** A downturn in the semiconductor cycle could soften wafer prices; also, Shin-Etsu's non-semi segments (like PVC for construction) are more cyclical and could be hurt if construction abroad slows. Environmental regulations on chemicals are another long-term risk.

- **Sumco (3436)** – *Secondary Pick:* Another major silicon wafer producer, specializing in wafers for memory chips. **Thesis:** Sumco is a pure-play on wafer demand, which is leveraged to any increase in semiconductor production. The weak yen and high utilization rates can lead to very strong profit swings. If Takaichi's strategy successfully expands domestic chipmaking (e.g. luring a DRAM fab or encouraging Kioxia to build more in Japan), Sumco could see local demand uptick. **Catalysts:** Potential partnership or subsidy – Sumco might partner with government or customers to expand capacity with financial support. Also, **global memory market recovering** in 2025–2026 would mean memory manufacturers (Sumco's clients) need more wafers. **Risks:** High exposure to memory sector (which is notoriously boom-bust); also Sumco has heavy capital expenditure needs – if they over-expand and the cycle turns, it can hurt.

- **Showa Denko KK (4004)** – *Wildcard (Materials):* A diversified chemical company with exposure to electronics (it's a top maker of hard-drive media and electronic gases after merging with Hitachi Chemical). **Thesis:** Showa Denko has positioned itself in semiconductor materials (etching gases,

CMP slurry, etc.) and battery materials. It's a potential beneficiary of both semiconductor investment and any EV/battery stimulus (if included). **Catalysts:** The company has been restructuring; any news of government support for battery or chip-material projects could accelerate its turnaround. Also, if defense production ramps up, demand for advanced materials (composites, alloys) from Showa Denko may rise. **Risks:** Still in restructuring, with legacy aluminum/chemical businesses that suffer from high energy costs. It's higher risk, but could provide upside if the theme plays out broadly.

Why this theme: Japan's policymakers see semiconductors as the "rice of industry" – crucial for economic security. Historically, when the yen weakens substantially, Japan's **electronics and tech stocks see outsized gains** as their international competitiveness jumps [27] [32]. Moreover, Takaichi's administration specifically intends to create a *"virtuous cycle of crisis management and growth"* by investing in these tech sectors [47]. Thus, we have high conviction that a basket of well-chosen semiconductor and tech manufacturing stocks will outperform the market in the next 12–24 months. They marry fundamental global growth drivers (like AI, EVs) with supportive domestic policy and macro conditions.

2.2 Defense & Aerospace – Arming Up and Looking Outward

Subsector Thesis: Japan's defense industry is on the cusp of a significant expansion. Takaichi's government will likely push defense spending increases and promote domestic development of military technology [19]. This, combined with heightened regional threats, means **defense and aerospace contractors** should see multi-year growth in revenues. Many of these companies are conglomerates with other businesses, but defense could be the swing factor improving their earnings outlook (and investor sentiment may reward the defense narrative with higher valuations). Additionally, some have underutilized capacity that can be ramped up with new orders.

- **Mitsubishi Heavy Industries (7011)** – *Top Pick:* Japan's largest defense contractor (fighters, missiles, naval ships), also active in space and power systems. **Thesis:** MHI stands to benefit across multiple fronts: fighter jet development (they lead Japan's next-gen F-X program, now a joint project with UK/Italy), missile systems (Japan is ramping up long-range strike capabilities), and possibly Aegis-equipped naval vessels or missile defense systems if new procurement is decided. Takaichi's push to *accelerate defense strategy implementation* [19] could bring forward some of these projects, meaning revenue sooner. MHI's civilian business (like commercial aviation and energy) is recovering too, but defense provides a stable, government-backed stream. **Catalysts:** Increases in the official defense budget – e.g. if the next defense budget (FY26) grows substantially and includes specific programs, MHI is often prime contractor. Watch for mid-term defense plan updates: if timelines to reach 2% of GDP are moved up to 2026 from 2027, it implies more contracts for MHI sooner. **Risks:** Execution risk on big projects (MHI has in past struggled with some, like the SpaceJet program in aviation which got cancelled). Also, budget bureaucracy could slow actual contract awards even if top-line budget rises. MHI's stock has already risen on defense expectations; disappointments in contract timing could cause dips.

- **Mitsubishi Electric (6503)** – *Top Pick:* A conglomerate with a significant defense electronics division (radars, guidance systems, cyber security) alongside factory automation and elevators. **Thesis:** On defense, Mitsubishi Electric will supply the electronics and software brains for many systems (fighter jet avionics, missile guidance, satellite payloads). The push for better **unmanned systems and integration of AI in defense** [19] aligns with their strengths in radar and computing. Additionally, its non-defense segments like factory automation could indirectly benefit from overall stimulus

(infrastructure and factories need automation equipment). **Catalysts:** Potential new contracts for military communications and radar upgrades (Japan is enhancing island defense and needs advanced radar coverage). The government's emphasis on **dual-use tech** means Mitsubishi Electric's work on things like space satellites (for both comms and surveillance) might get funded. **Risks:** The company has faced recent scandals (quality control issues in rail/elevator division) which could pose execution credibility questions. If public procurement tightens oversight, that could be a concern. Nonetheless, its broad base and crucial role in defense electronics make it a core long idea.

- **IHI Corporation (7013)** – *Secondary Pick:* An engineering heavy industry firm making jet engines, rockets, and turbines. **Thesis:** IHI is a major player in **aerospace (military and civilian engines)** – it partners on aircraft engines for Japan's F-2 and F-15 and likely for future fighters, and also on space launch vehicles. Japan's increase in defense likely includes more spend on transport and fighter aircraft engines (IHI benefits via maintenance contracts too). Moreover, IHI's civil aero-engine business will improve as global travel resumes (not directly policy-driven, but a nice cyclical upswing). They also have a role in energy infrastructure (turbines for power plants) which could get stimulus support if, say, hydrogen or new power plant tech is funded. **Catalysts:** A likely contract to co-develop new fighter engines (with Rolls-Royce perhaps, as part of F-X program) – would be a multi-year revenue stream. Any dedicated budget for space and rockets (IHI builds the Epsilon rocket) – if Japan decides to boost independent satellite launch capability for security, IHI gains. **Risks:** IHI is cyclical and carries debt; if interest rates spike, it's a pressure. Also, big projects like engines are often international collaborations – delays or cost overruns can happen outside their control.

- **Kawasaki Heavy Industries (7012)** – *Wildcard:* Makes submarines, military helicopters, and also has a motorcycle and industrial robots business. **Thesis:** On the defense side, Kawasaki Heavy is key for Japan's maritime defense (submarines and naval aircraft) and could see increased orders as Japan bolsters naval capability in the face of regional tensions. It's also involved in unmanned undersea vehicle research. Its non-defense segments (rail rolling stock, motorcycles, robots) could gain from domestic and global recovery (robots in particular if manufacturers invest more in automation). **Catalysts:** Any program to expand the submarine fleet or upgrade them with new tech (quiet propulsion, etc.) goes to KHI. Likewise, if Japan moves to procure more utility or attack helicopters indigenously (rather than foreign), KHI benefits (they produce the C-2 transport plane and P-1 maritime patrol aircraft as well). **Risks:** KHI has had profitability issues in some segments; defense margins aren't huge and often fixed-price contracts could strain if costs rise. It's somewhat less talked-about but could surprise if defense spending really ramps up.

- **NEC Corp (6701)** – *Wildcard (Defense Electronics & IT):* A large IT and network systems integrator with growing defense and space business (they make command & control systems, some military comms, and partnered on developing quantum cryptography for defense). **Thesis:** If "economic security" includes cybersecurity and secure communications, NEC is front and center. They also might get contracts for digital infrastructure (they build 5G networks domestically and are a supplier for government digital agency projects). **Catalysts:** Contracts under the new *Digital Garden City Nation* initiative or critical infrastructure protection – e.g. secure cloud for government, or radar systems (NEC is involved in some radar tech). They also have a space unit (satellite systems) that could benefit from any boost to Japan's intelligence satellite constellation. **Risks:** NEC is a slow-growth, low-margin company historically in its IT services part. We include it as a play on the **cyber/digital defense** angle, but execution and market excitement may be lower compared to pure defense hardware names.

Why this theme: Defense is one of the few areas where **government spending directly creates revenue for domestic firms by fiat**, regardless of consumer demand. With Takaichi's administration, the commitment to defense is not just rhetoric – it's backed by multi-year budget frameworks aiming for record spending [19]. Historical analog: In the 2013–2015 period, when Abe increased defense budgets moderately, defense contractors' stocks outperformed at times on contract news. Now, the scale is larger. Also consider global context: many countries are rearming, potentially opening export opportunities for Japanese defense goods (as restrictions are eased). **Investors are likely to re-rate Japanese defense plays closer to global defense peers**, which trade at higher multiples due to stable government demand. We want exposure before this re-rating fully materializes.

2.3 Infrastructure & Construction – Building at Home (Again)

Subsector Thesis: Infrastructure is the traditional engine of Japan's fiscal stimulus. The sector covers general contractors (major construction firms), civil engineering specialists, and construction materials. The base-case sees a flood of public projects to support the economy and regions, meaning **order books for construction companies will expand significantly** in the next 1-2 years. Many of these firms also benefit from any **disaster prevention and regional revitalization funds**, which are politically popular (especially if Takaichi wants to shore up support outside urban areas). We focus on the big four general contractors and a few specialized players.

- **Kajima Corp (1812)** – *Top Pick:* One of Japan's largest general contractors, with a broad portfolio from high-rise buildings to dams and roads. **Thesis:** Kajima has nationwide operations and often wins sizable public works contracts. It has strong project management and a relatively healthy balance sheet for the sector. When stimulus money flows, Kajima is positioned to grab a large share, especially on high-profile projects (they have historical ties to government projects). It also has real estate development segments that would benefit from urban redevelopment initiatives. **Catalysts:** Explicit budget allocations for infrastructure (e.g. "national resilience" programs for earthquake/typhoon proofing) will translate to project bidding – Kajima usually appears among the winners. For example, if a big highway or Shinkansen extension is funded, expect Kajima in a consortium. They also are likely contractors for any semiconductor fabs or defense facilities construction – both areas where spending is set to rise (e.g. building a new chip fab or expanding a military base's infrastructure). **Risks:** The construction sector historically has razor-thin margins; cost overruns or commodity inflation (cement, steel) can hurt if contracts are fixed-price. Labor shortage is another risk: if they can't find enough skilled workers, projects could be delayed or costs up. However, large firms like Kajima can better manage these via subcontracting networks.

- **Obayashi Corp (1802)** – *Top Pick:* Another mega-contractor, known for civil engineering and strong financial footing. **Thesis:** Obayashi's relative financial strength (noted for a solid balance sheet)【?】means it can take on big projects without overstretching. It's deeply involved in infrastructure (roads, tunnels) and also renewable energy construction (like wind farms, which might get a boost as part of energy security). With plenty of stimulus to go around, Obayashi should see revenue and backlog growth. **Catalysts:** Tenders for large civil works – e.g. if the government accelerates construction of a new maglev line section or a major expressway, Obayashi often is there. Also, they have a U.S. subsidiary which could benefit if Japan-U.S. collaboration on infrastructure or base construction happens (as U.S. troops realign or fortify in Japan, e.g. construction in Okinawa or Guam where Obayashi has done work). **Risks:** Similar to Kajima – execution and cost inflation. Also, if interest

rates rise sharply, financing costs for projects and debt servicing increase, though Obayashi's strong balance sheet provides cushion.

- **Taisei Corp (1801)** – *Secondary Pick:* Another major general contractor, with expertise in airports and heavy civil works. **Thesis:** Taisei will benefit broadly like peers; it might have an edge in any airport expansions or coastal projects (relevant if tourism picks up or if defense requires port enhancements). It also has a real estate arm which could gain from urban stimulus. **Catalysts:** Funding for e.g. airport upgrades (there's talk of enhancing regional airports to boost tourism/ investment) or a big event construction (Osaka Expo 2025 is coming, albeit that's mostly set, but any overspill work). If Takaichi emphasizes regional revitalization, Taisei, being diversified, will partake in building local government facilities, etc. **Risks:** Not much differentiates Taisei from peers in macro terms – it's more execution and relative bidding success. All big four contractors tend to move together stock-wise on stimulus news, with nuances based on order announcements.

- **Shimizu Corp (1803)** – *Secondary Pick:* Rounding out the big four, Shimizu is also likely to gain, though it had slightly weaker profitability historically. **Thesis:** Gains from sheer volume of work available. They also invest in renewable energy projects (offshore wind construction), which could see stimulus support. **Catalysts/Risks:** Similar to others; we wouldn't exclude it, but might prioritize the above three for slightly stronger track records.

- **Specialty: Maeda Corp (1824)** or **Penta-Ocean (1893)** – *Wildcard:* These are smaller, more specialized construction firms (Maeda in general construction, Penta-Ocean in marine works). **Thesis:** Smaller firms could see an outsized percentage boost if even a few mid-size projects come their way. Penta-Ocean, for example, is unique in marine/offshore construction (ports, seawalls), relevant if coastal defenses or port improvements for military logistics are funded. **Risks:** Smaller firms have less diversification; a single project going south can hurt badly. We include them as optional plays for more risk-tolerant investors looking to capture niche stimulus angles.

- **Construction Materials: Japan Cement Co (5232)** – *Wildcard:* A major cement producer (through Taiheiyo Cement, etc.) could indirectly benefit from the surge in construction activity increasing demand for cement, concrete, and steel. We note materials because prices could firm up with stimulus demand. However, these companies also suffer from high energy costs to produce cement – a weak yen raising coal costs is a headwind. Thus, while volume should rise, margins are not guaranteed to expand.

Why this theme: This is the traditional **"first in, last out"** sector for Japanese stimulus. Historically, when big fiscal packages hit, construction activity picks up quickly – it's visible, creates jobs, and pleases constituencies. Under Abe, the construction sector enjoyed increased public orders (though private demand was stagnant). Now, with even more emphasis on strategic infrastructure (for resilience against disasters and perhaps military use), the outlook is robust. Additionally, valuations for contractors have been subdued due to low growth in recent years; an upward revision in earnings could lead to re-rating. The key is to monitor margins – we will keep an eye on whether contract pricing incorporates inflation clauses. But given that **the government may prioritize speed over penny-pinching** in crisis-mode spending, contractors might have better pricing power than usual. Our strategy is to hold a **basket of top contractors** to capture the general trend, rather than bet on one – since they often move in tandem and all will likely get ample work.

2.4 Telecom & Digital Infrastructure – Critical Networks and Security

Subsector Thesis: Communications networks and data infrastructure form the backbone of both economic activity and security. Takaichi's framing of these as *critical infrastructure* suggests **support for telecom operators and related tech**. This might not come as direct subsidies (the big telcos are rich), but through favorable policies, spectrum allocation for 5G/6G, and including network projects in stimulus plans (especially for regional digitalization and national security networks). Furthermore, **cybersecurity and digital service providers** could see increased government spending to protect data and systems, aligning with the economic security theme.

- **Nippon Telegraph & Telephone (9432)** – *Top Pick:* NTT, Japan's former telecom monopoly, still the largest operator (through NTT Docomo, NTT East/West) and a major investor in subsea cables, data centers, etc. **Thesis:** NTT will benefit from any push to upgrade network infrastructure – it already is deploying **5G and fiber nationwide**, and a supportive government means easier access to permits, possible grants for rural expansion, and partnership in initiatives like digital government. Moreover, NTT's R&D in areas like quantum cryptography and secure networks might receive government contracts under an economic security umbrella. The stock is relatively defensive with a decent dividend, which could attract local investors if bond yields remain low. **Catalysts:** Inclusion of funds in the stimulus for "digital garden city" projects (a Kishida concept that Takaichi may continue) – NTT would be a key executor of rural broadband and 5G. Also, potential restructuring (NTT has hinted at integrating Docomo and other units) that could unlock value – perhaps facilitated by a government keen on 5G leadership. **Risks:** Government could also pressure NTT to cut consumer fees (as happened a few years ago), which would hurt revenue – but since NTT Docomo already cut prices and Takaichi is not specifically focusing on that, it's a smaller risk now. Another risk: heavy capex burdens (NTT invests trillions in networks) – if interest rates climb or competition intensifies, returns could erode. Nonetheless, NTT's quasi-utility status in a nation prioritizing network security makes it a stable choice.

- **KDDI (9433)** – *Secondary Pick:* The second-largest mobile and telecom operator (au brand), also providing financial and IT services. **Thesis:** KDDI similarly benefits from network expansion and possibly government partnerships to cover rural areas or disaster-resilient communications. They have been innovative (in IoT, drones communications), areas which could tie into defense or infrastructure monitoring – potential for contracts there. KDDI is also a play on consumer recovery (if stimulus helps consumption, people may spend more on telecom services/upgrades). **Catalysts:** Government contracts or spectrum policies that favor incumbents (e.g. if the government decides not to invite a disruptive new entrant in 5G/6G and instead supports existing players to ensure quality networks – an implicit positive). Also, any stimulus that boosts **digital services adoption** (like online education, telemedicine in rural areas) indirectly increases data usage, benefiting KDDI. **Risks:** Similar to NTT – regulatory pressure on pricing, high capex. KDDI also had a major network outage in 2022 which dented its image; any further reliability issues could attract regulatory ire under a government that emphasizes critical infrastructure stability.

- **SoftBank Corp (9434)** – *Watch:* This is the domestic telecom arm spun off from SoftBank Group. **Thesis:** SoftBank (mobile) could get some boost from stimulus but is more constrained by heavy debt and its parent's financial engineering. We include it as a "neutral" because while it might enjoy short-term gains if telecom is in favor, it's also exposed to any rise in interest rates due to its debt and high dividend payout model. **Catalysts:** If SoftBank participates in infrastructure projects (they

have stakes in renewable energy and smart city initiatives), stimulus funds in those areas could help. **Risks:** Rising borrowing costs or if consumer spending falters (they target price-sensitive users more). Given other options, we prefer NTT/KDDI, but note SoftBank for completeness.

- **Fujitsu (6702)** – *Wildcard (Digital services):* A major IT services and equipment company. **Thesis:** As the government upgrades systems (for MyNumber ID, digital agencies, etc.), Fujitsu, being a top government contractor for IT, will get lots of integration and software development work. They also develop communications hardware (like next-gen 5G base stations, in collaboration with NTT). **Catalysts:** Explicit digital government projects funded by stimulus (e.g. local gov't IT upgrade grants). Also, any move to have domestically produced 5G/6G network equipment (to avoid reliance on foreign vendors) would involve Fujitsu (and NEC). **Risks:** Execution and global growth (Fujitsu has been restructuring away from hardware to services, with mixed success). Still, as a government-tied tech stalwart, its fortunes should rise with public IT spend.

- **Cybersecurity firms (e.g. Trend Micro, 4704)** – *Watch:* If cyber defense becomes a priority, specialized software firms like Trend Micro (though it's global) could see increased government and corporate spending on security software. While not directly cited in policy, it fits the theme of economic security.

Why this theme: We see telecom/digital infrastructure as a **strategic yet steady** beneficiary – not as explosive as semiconductors or defense, but providing a backbone that the government will quietly ensure is robust. There's also a synergy: all the high-tech and economic security initiatives rely on secure, advanced networks. A historical reference: during past stimulus or policy shifts (like the 2009 broadband push), NTT and KDDI enjoyed sustained capital investment which fed into their earnings, even if their stock performance was more yield-driven. Now, with more emphasis on 5G and potential 6G research (where Japan aims to be a leader), these companies could get an innovation premium. Additionally, in volatile markets, these stocks are defensive, so they help balance the more cyclical plays in our portfolio.

2.5 Autos & Export Manufacturers – Riding the Weak Yen

Subsector Thesis: Large Japanese exporters, notably **automobile manufacturers and their suppliers**, are prime beneficiaries of a weaker yen and any measures to boost manufacturing. The auto industry also aligns with strategic interests: it's a huge employer and Japan wants to stay at the forefront of EV/hydrogen tech (areas where policy support could come in the form of R&D subsidies or consumer incentives). The base-case scenario implies the yen will remain competitively weak (policy-induced) [48] and global investor confidence in Japan is improving, which historically lifts autos as a high-beta play on Japan's economy and currency.

- **Toyota Motor Corporation (7203)** – *Top Pick:* Japan's largest automaker and a bellwether exporter. **Thesis:** Toyota is extremely leveraged to yen moves – roughly one yen of depreciation vs USD can add tens of billions of yen to operating profit given Toyota's export volume. A sustained weak yen (hovering 150 and possibly softer) provides a strong earnings boost, as seen during past episodes (under Abe, Toyota's profits and stock price surged thanks to yen going from ~80 to 120 per USD). Additionally, Toyota will benefit from any government incentives for **EVs, hybrids, or hydrogen vehicles**, as it has leading tech in hybrids and is investing in solid-state batteries (which the government might support given the push for tech leadership). The expected domestic demand uptick from stimulus could also marginally help sales in Japan (though Japan is a smaller piece of

Toyota's sales). **Catalysts:** Quarterly earnings revisions – Toyota has been conservative in forecasting, so we anticipate upgrades to profit outlook if yen stays weak and volume holds. Policy-wise, watch for any **consumer tax breaks on eco-cars** or direct subsidies for EV purchases in Japan's supplementary budgets – that would directly boost domestic sales for Toyota (and Lexus). Also, if trade negotiations (like reducing US auto tariffs or opening new markets) proceed under Takaichi's pro-trade stance [33], Toyota stands to gain. **Risks:** A global recession would hit auto demand in key markets (US, EU, China) – external risk outside Japan's policy control. Also, high raw material costs (steel, lithium) and any supply chain issues (chips shortage) can weigh on production, though these have been easing. Another risk is political – if the weak yen is perceived as unfair, there could be foreign pressure (e.g. the US monitoring currency – however, given global context, this is unlikely severe in near term).

- **Denso Corp (6902)** – *Top Pick:* A Toyota-group company and one of the world's largest auto parts suppliers (focus on powertrains, electrification, semiconductors for cars). **Thesis:** Denso is essentially a leveraged play on Toyota and global auto production, with added benefit from Japan's strategic focus on semiconductors (Denso is investing in automotive chip production and could get government support for that as part of supply chain resilience). A weaker yen improves Denso's cost competitiveness globally, and as EV and hybrid adoption grows (areas where Denso has strong products), volumes and content per vehicle rise. **Catalysts:** Likely inclusion in any **"Green Transformation" or EV-related subsidy** – for instance, if government subsidizes domestic EV/hybrid components, Denso could receive funding for battery or chip facilities. Also, Denso's own R&D (like advanced driver systems) may benefit from the broader tech push. Operationally, if global car sales rebound in 2025–26 after supply-chain issues, Denso's earnings will jump. **Risks:** Automotive cycle – if high interest rates globally dampen car sales, that's a headwind. Transition risk – Denso is pivoting to EV components, but if they don't transition fast enough from ICE-era products, competition (e.g. from pure-play EV suppliers abroad) could erode market share. However, Denso's close integration with Toyota and other Japanese OEMs gives it a strong base.

- **Aisin Corp (7259)** – *Secondary Pick:* Another Toyota-affiliated supplier, known for transmissions and drivetrain components. **Thesis:** Aisin similarly benefits from yen weakness and any uptick in production. They are large in hybrids (making e.g. hybrid transmissions) which aligns with Japan's interim strategy to push hybrids as a realistic step to decarbonize. If Takaichi's policies include support for *"next-generation vehicles"* (which could mean not just pure EVs but also efficient hybrids, given her pragmatic stance), Aisin stands to benefit. **Catalysts:** Recovery of auto output (as chip shortages ease, Toyota is ramping production which flows to Aisin orders). Also, any explicit government program to support domestic auto parts makers transitioning to EV era – perhaps loans or subsidies to retool factories – would help Aisin maintain its workforce and capacity while shifting product mix. **Risks:** The EV revolution is a challenge – transmissions are not needed in most EVs; Aisin must innovate into new areas (they are working on brakes, etc.). A faster-than-expected shift to EVs globally could reduce demand for Aisin's legacy products more quickly. We monitor how Aisin adapts (they partner in Toyota's EV plans, so likely they'll have a role).

- **Honda Motor (7267)** – *Wildcard:* Unlike Toyota, Honda is more balanced between domestic and overseas and has a big motorcycle business. **Thesis:** Honda will get the yen benefit and has some policy angle through its research into advanced fuels and perhaps aerospace (HondaJet, etc.). It's a bit less directly tied to any specific policy, but as a major exporter, it's in the basket of weak-yen

winners. **Risks:** We prefer Toyota as a clearer policy play, but Honda's stock could also do well in a general Japanese rally.

- **Komatsu (6301)** – *Secondary Pick (Machinery):* A world-leading construction machinery maker. **Thesis:** Indirect infrastructure play – if lots of construction is happening (not just in Japan but globally as countries invest in infrastructure), Komatsu's sales of excavators and trucks rise. It also gains from weak yen (export heavy). And notably, if commodity/mining investment picks up with a global reflation (their mining equipment division benefits), that's another angle. **Catalysts:** Japan's domestic construction boom (stimulus) might slightly increase domestic equipment demand and rentals (Komatsu has large Japan presence). Globally, Chinese stimulus or US infrastructure acts also help them – diversifying our Japan-centric portfolio a bit. **Risks:** Highly cyclical, dependent on China (which has been weak, though maybe turning around). Still, given it's a top industrial exporter, a weak yen and "risk-on" environment in Japan usually sees Komatsu outperform.

Why this theme: Japanese autos and machinery are the classic winners of a weak yen. There is ample empirical evidence: for example, one study found that after 2012, a **1% yen depreciation led to ~1.1% rise in Japanese stock returns on average, with automobile stocks benefiting the most** [32]. This is because their earnings are translated from foreign currencies (dollar, euro) and their competitive pricing improves. While these companies don't need direct government aid, they are *indirect* beneficiaries of Takaichi's stance to let the yen stay weaker for longer and her pro-industry tone possibly preventing any onerous regulations (like any sudden EV sales mandates that industry isn't ready for). They also add a global cyclical flavor to our portfolio – if the world economy holds up or improves, autos and machinery will rally strongly. We maintain strong conviction especially in Toyota and its ecosystem, given its resilience and strategic importance (the government is likely to quietly ensure no harm comes to such a flagship sector).

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3. Screening & Methodology: How We Chose the Winners (and Losers)

Universe & Approach: Our analysis started with the broad universe of Japanese equities and applied **multi-factor screening** aligned to the policy themes identified. We combined *quantitative filters* with *qualitative judgment* to arrive at the lists above.

3.1 Quantitative Screening Criteria

To pinpoint companies best positioned for the "Takaichi trade," we looked for firms with solid fundamentals that map to the policy tailwinds:

- **Market Capitalization & Liquidity:** We focused on mid-to-large cap companies (generally >¥100 billion market cap) to ensure sufficient liquidity and that they are significant players in their sector. This avoids micro-caps which may be illiquid or lack the capacity to truly capitalize on policy shifts. All picks like 8035 (Tokyo Electron) or 6503 (Mitsubishi Electric) are among industry leaders in size.

- **Revenue Exposure (Export vs Domestic):** A key filter was the ratio of overseas revenue or export dependency. Companies with high export percentages or substantial foreign operations scored well for themes leveraging yen depreciation. For example, Toyota (7203) gets ~70%+ of revenue abroad –

thus a weak yen directly lifts earnings. Similarly, tech companies with global customer bases (TEL, Advantest) were favored. Conversely, firms with mostly domestic revenue were scrutinized to see if domestic stimulus can offset headwinds; many retailers, for instance, didn't make the cut because they import much of their inventory but sell locally – a weak yen negative without a large stimulus positive.

- **R&D and Capex Intensity:** In sectors like tech, materials, and pharma, we screened for companies investing heavily in R&D or capital expenditures, as a proxy for being at the cutting edge and likely to benefit from government R&D subsidies or partnerships. For instance, Denso's R&D spend (~9% of sales) is high for an auto supplier, indicating engagement in next-gen tech (which the government may support). A high R&D/sales also suggests a capacity to absorb subsidy funds effectively.

- **Financial Health (Leverage & Margins):** We filtered out companies with dangerously high leverage or poor profitability, since they might not sustain gains even with stimulus. Debt-to-equity and interest coverage were checked – e.g., general contractors carry debt, but we ensured the chosen ones have manageable levels and strong cash flow (Obayashi's relative strength in balance sheet was a factor). We favored companies with decent **operating margins and ROE** as they likely have competitive advantages that stimulus can amplify. For example, Shin-Etsu Chemical's ~30% operating margin in its core business shows pricing power; with added demand from policy, it can expand profit rather than just survive.

- **Rising Earnings Revisions:** We looked at analyst consensus trends – companies with upward earnings revisions in recent quarters were seen as having momentum that policy could further boost. Many tech exporters had upward revisions as the yen slid and global tech demand recovered. If a company was still seeing downward revisions, it signaled structural issues (for instance, some retailers faced downgrades due to cost inflation – those were flagged negative).

- **Valuation vs Peers:** We considered P/E and EV/EBITDA relative to sector peers and historical ranges. The goal wasn't necessarily to pick the *cheapest* stocks (because some are rightly expensive due to growth), but to avoid significantly overvalued ones where optimism might already be priced in. For example, defense stocks have rallied; we still include them because earnings will likely rise, but we're mindful if any trade at bubble valuations unjustified by earnings prospects.

After these filters, we compiled candidate lists for each sector theme, then applied the qualitative overlay.

3.2 Qualitative & Fundamental Overlay

Numbers alone don't capture everything, so we applied critical judgment:

- **Policy Alignment & Political Connections:** We assessed how directly each company ties into the policy priorities. For instance, **political connections** or prior government contract experience is a plus – companies like Mitsubishi Heavy (with deep ties to MOD) have an edge in securing new defense projects. On the flip side, any company with *regulatory clouds* (e.g. past scandals that might make the government hesitant to fund them) got scrutinized. We ensured none of our picks are facing serious legal troubles or public image issues that could impede their ability to benefit from government largesse.

- **Supply Chain Resilience:** A big theme is reducing reliance on hostile sources. We favored companies that can thrive under that paradigm or even benefit from it. For example, a semiconductor material maker that can step in to replace Chinese supply is good. Conversely, if a company heavily *depends on Chinese imports or market* and can't pivot, that's a risk – e.g. certain consumer electronics firms import most components from China; if relations sour or China slows, they're hit. We either dropped such names or noted them in risks (unless mitigated).

- **ESG and Public Perception:** While Takaichi's regime is not hyper-focused on climate, we considered if any picks have severe ESG red flags (environmental damage, labor issues) that could spark public opposition or regulatory intervention. For example, utilities with aging coal plants could become stranded if later policies pivot green (less likely under Takaichi, but a risk in variant scenarios). We limited exposure to such cases or acknowledged it as a risk factor.

- **Foreign Ownership and Restrictions:** Some sectors (like broadcasting, airlines) have foreign ownership limits by law. We avoided those because even if they benefit, their stock liquidity or valuation might be capped by such rules. All our picks are open to global investors, which is important as foreign inflows have been driving Japan's rally in 2023–2025.

- **Hedging Policies:** We examined if companies hedge currency or input costs extensively. If a firm hedges 100% of its FX for a year, the yen benefit might only flow with a lag. Many big Japanese exporters hedge partially; we accounted for that in near-term expectations. Similarly, airlines hedge fuel – if hedged well, they buy time against fuel spikes (good), if not, they're immediately hit. This nuanced view affected how we rank transport picks (we were cautious since hedges eventually roll off).

- **Corporate Strategy and Capacity:** Stimulus is only useful if a company can execute and has capacity to take on more business. We looked at utilization rates and expansion plans. For instance, chip equipment makers have record backlogs – can they increase output to meet new orders? Many are adding capacity, which is promising. Construction firms have certain staffing – they can outsource, but if too much work comes too fast, execution might falter. We picked firms with a track record of handling large projects (the big contractors).

- **Insider Holdings & Governance:** We prefer companies with professional management and not just family-run or government-run, because the former tend to respond more dynamically to opportunities. Japan's corporate governance reforms have improved many firms. We did not strictly filter by governance scores, but as an example, we treat companies like NTT (which has government ownership around 1/3rd) carefully – here it's actually a positive as the government's interests align with NTT's investment plans, but in other cases government ownership can mean policy influence (for better or worse). None of our top picks are in danger of hostile government action like forced restructuring; rather, they are aligned beneficiaries.

Using these qualitative lenses, we refined our lists – validating strong picks and removing ones that looked good on numbers but had red flags. For example, we considered **Fast Retailing (9983)** as a discretionary play but eliminated it from longs because although it's big and global, the weak yen hurts its import costs and much growth is priced in; instead, we put it in watchlist of potential losers. Another example: **Kyushu Electric Power (9508)**, a utility with nuclear plants, could benefit from nuclear restarts (good) but it's

financially weak after years of losses and has regulatory risk – we decided not to include it as a top pick due to those issues, even though nuclear is a theme (we found equipment makers like MHI a better proxy).

3.3 Scoring & Ranking

For each subsector (e.g. semiconductor equipment, defense, construction), we scored candidates on a multi-factor rubric such as:

- **Policy exposure (weight ~30%)** – how directly and strongly will this company benefit from Takaichi's policies? (TEL = high, as chips explicitly targeted; Fast Retailing = low, no direct support and faces headwinds).
- **Growth & Earnings Upside (weight ~25%)** – potential % increase in earnings over next 1-2 years from macro + policy factors. We estimated scenarios (e.g. yen at 150 vs 130 can mean +20% EPS for some exporters). Also the capacity to grow sales volume from stimulus demand.
- **Financial resilience (weight ~20%)** – balance sheet and margin buffer to withstand risks (inflation, rate hikes). We gave higher score to companies that can endure variant scenarios (like if inflation spikes, can they pass costs? If policy delays, can they survive?). For instance, companies with high variable costs and low pricing power scored lower.
- **Valuation & Sentiment (weight ~15%)** – how attractive is the stock entering this regime? Undervalued with improving sentiment scored well; overhyped or fully valued got dinged. This included looking at how much the stock has already run up since Takaichi's win – e.g. defense stocks popped, but we expect further upside with actual budget increases, so still okay.
- **Catalyst richness (weight ~10%)** – number of identifiable forthcoming catalysts (news events, product launches, etc.). Companies with multiple "trigger" points got a slight edge. For example, a company like MHI has numerous catalysts: budget passage, fighter project announcement, maybe a nuclear project revival – lots of news potential.

After scoring, we ranked names within each theme. The highest-ranked made it to our "conviction" list above. Lower-ranked either were cut or mentioned as secondary/wildcards if still notable.

3.4 Mapping Picks to Catalysts & Risks

We have, for each pick, mapped specific **catalysts** (as listed in the sections above) which we will be tracking – these include policy announcement dates, earnings release dates, industry fairs (e.g. airshows for defense deals), etc., where these companies could get boosts. We also outlined the main **downside risks** case-by-case. As an example, for **Shin-Etsu (4063)**: catalysts are any news on chip fab investment (since they'll supply wafers), risk is a memory market downturn or higher energy cost affecting their chemical segment.

In the next sections, for brevity we won't repeat each risk, but in our monitoring strategy, we have key risk indicators – like **yen suddenly strengthening below 140** (would prompt us to re-evaluate exporter-heavy positions), or **bond yields breaching 1.0% on 10yr** (could signal trouble for highly leveraged picks, might reduce those).

We also maintain a **stop-loss discipline**: if a thematic pick's thesis appears compromised (e.g. a variant scenario emerging), we'd trim or exit rather than hold blindly. The diverse basket approach also mitigates idiosyncratic risk.

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4. Conviction Long Candidates by Theme (Summary List)

Bringing it all together, here is a **consolidated list of our top long ideas** grouped by theme, each with the primary tickers and rationale:

- **Semiconductors & Tech Hardware:** *Tokyo Electron (8035), Advantest (6857), SCREEN (7735); Shin-Etsu Chemical (4063), Sumco (3436).* – Beneficiaries of strategic investment in chips and weak yen. Thesis: Government funding and export tailwinds drive earnings growth [13] [27]. *Catalysts:* Subsidy announcements, new fab projects, improved chip cycle. *Risks:* Global chip glut or stricter export controls.

- **Defense & Aerospace:** *Mitsubishi Heavy (7011), Mitsubishi Electric (6503), IHI (7013); Kawasaki Heavy (7012).* – Direct winners of defense build-up and procurement expansion [19]. Thesis: Rapid increase in orders for defense equipment and technology (from fighter jets to cyber systems). *Catalysts:* Defense budget releases, contract awards, geopolitical tensions (which can prompt even more spending). *Risks:* Political change or budget delays; execution issues on big projects.

- **Infrastructure Construction:** *Kajima (1812), Obayashi (1802), Taisei (1801), Shimizu (1803).* – Classic stimulus targets with full order books incoming [20]. Thesis: Fiscal spending on public works boosts revenues and utilization; companies have experience to capitalize. *Catalysts:* Supplementary budget details, project bidding results, regional investment plans. *Risks:* Cost inflation (materials/labor), interest rates on financing.

- **Telecom & Digital Backbone:** *NTT (9432), KDDI (9433); NEC (6701), Fujitsu (6702).* – Steady beneficiaries of critical infrastructure emphasis. Thesis: Network upgrade support and digital government projects increase business; weak yen also helps global segments. *Catalysts:* Government digitalization initiatives, spectrum policy, possibly avoidance of new mobile competition (maintaining a rational oligopoly). *Risks:* Regulatory pressure on pricing, very high capex needs.

- **Automotive & Industrials (Exporters):** *Toyota (7203), Denso (6902), Aisin (7259); Komatsu (6301).* – Winners from yen at 150 and pro-manufacturing environment [24] [32]. Thesis: Currency effect plus any tech/R&D subsidies (for EVs, green tech) support profitability and innovation. *Catalysts:* Earnings surprises on FX, any EV incentive rollout domestically, global auto sales recovery. *Risks:* Global recession reducing demand, rapid EV transition challenging traditional suppliers.

- **Specialty Materials & Chemicals:** *Showa Denko (4004), Toray (3402 – carbon fiber)*, etc. – Feedstock providers to strategic industries (chips, aerospace) benefiting from both subsidy-driven demand and import substitution. Thesis: Stimulus-funded projects (like TSMC fab) create extra demand for materials; weak yen lifts overseas profit [29]. *Catalysts:* Project pipeline news, commodity price moderation (improving input cost vs output price spread). *Risks:* Energy cost spikes, slower adoption of new materials if global economy slows.

- **Healthcare & Biotech:** *Takeda (4502), Astellas (4503)* – (Longer-term play) benefiting from R&D support and focus on medical security (vaccines, biotech). Thesis: Government likely to fund vaccine development and secure pharma supply chains post-pandemic, which could involve these companies. *Catalysts:* Announcements of biotech research funding, any moves to stockpile medicines

domestically. *Risks:* Drug price cuts by government to ease patient costs (a perennial issue), pipeline setbacks.

Each of these groups contains companies we've vetted for financial strength and thematic fit. We purposely spread our picks across multiple themes to capture the multi-faceted nature of the "Takaichi trade" – from high-growth tech to stable infrastructure to globally geared exporters. This also provides some **diversification**: for instance, if global conditions turn poor (hurting autos), domestic-focused stimulus plays like construction might still do well, and vice versa.

In total, our conviction list has about **15–20 names**, which is manageable for tracking and allows meaningful allocation to each while spreading risk. We will adjust weightings based on ongoing developments (e.g. if defense budget surprises on the upside, potentially overweight defense picks more).

For each name, as detailed in Section 2, we have specific upcoming events and signposts to watch. In the appendix, we maintain a more granular table matching each pick to expected news flow (omitted here for brevity).

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5. Downside Risks: "Loser" Watchlist and Potential Shorts/ Underweights

Not all boats will rise in this tide. We identify several sectors and specific companies that are likely to **struggle under Takaichi's policy mix**. These could be candidates for underweighting in a portfolio, or even outright shorts/hedges if one is looking to bet on underperformers (with caution, as Japan's equity momentum is strong overall). Key categories include **import-dependent consumer companies, firms with weak pricing power facing input inflation, and financial institutions vulnerable to rate swings or local economic stagnation**.

Who's at risk and why:

- **Import-Dependent Retailers & Food Companies:** These rely heavily on imported goods/raw materials and typically have low profit margins, making them unable to absorb a weak yen's cost impact. For example, **Fast Retailing (9983)**, owner of Uniqlo, sources a large portion of its apparel from factories in China/Vietnam in USD terms. The yen's slide raises their cost of goods; while Fast Retailing has some pricing power (they have hiked prices in 2023), there's a limit before consumers push back. The stock is also expensive and has run up on global expansion success. As input inflation squeezes margins and domestic consumers feel pinched, discretionary spend could soften, hitting sales. Another example is **ABC-Mart (2670)** (shoe retailer) or **Ryohin Keikaku (7453)** (MUJI stores) – high import content, domestic sales. These are likely to underperform broader market or see earnings downgrades if yen stays weak and consumption isn't fully offset by wage relief. *Loser thesis:* **Costs rising faster than revenues** – corroborated by research noting weaker yen raises import prices more than CPI, squeezing firms' margins [30]. Until/unless they can significantly raise prices or the yen strengthens, their profitability is under threat. We are watching Fast Retailing closely – it's a beloved stock, but could become a funding source for investors rotating into manufacturing/tech plays.

- **Smaller Domestic Manufacturers with Foreign Input Reliance:** Many mid-sized Japanese manufacturers import significant components or materials (e.g. electronics makers who import semiconductors). If they don't fall under strategic sectors getting subsidies, they face the pain of higher input costs without much help. One can think of companies like **Yamaha Corp (7951)** – famous for instruments and audio equipment. They import materials (wood, electronics) but sell globally; yen helps exports but a lot of their manufacturing is domestic so they do feel commodity inflation. Their pricing power is moderate. We anticipate such mid-tier exporters that don't get direct tailwinds might lag the bigger beneficiaries.

- **Airlines & Travel (Domestic-focused):** Airlines like **ANA Holdings (9202)** and **JAL (9201)**, while potentially seeing more tourists inbound (good), are hammered by fuel costs. Jet fuel is priced in USD; yen at 150 means exorbitant costs. They can hedge partially, but hedges eventually roll off. With Takaichi tolerating yen weakness as *"viable to manufacture domestically"* [49], there's no quick relief on fuel. They also have heavy debt after the pandemic, and rising interest rates would hurt (though BOJ policy should keep rates low for now). Additionally, if domestic consumers are squeezed, outbound travel stays weak (less revenue from locals). Thus airlines could underperform other transport/tourism plays (like hotels might do better due to inbound tourism without the fuel issue). We wouldn't short them outright given possible tourism surge, but we'd underweight compared to other cyclicals.

- **Regional Banks with Thin Margins:** Japan's regional banks (e.g. **Shizuoka Bank (8355)**, **Kyushu Financial Group (7180)**, etc.) are in a tough spot. They have struggled with low loan demand and thin margins for years. Now stimulus might boost loan demand a bit, but many regions are depopulating and SMEs are facing cost pressures. Moreover, if long-term rates creep up due to fiscal concerns, these banks could see losses on their bond portfolios (though most have managed duration). The worst-off could be those with high ratios of HTM bonds or poor credit quality in loan book. Also, without Komeito, Takaichi's rural support might be less finely targeted, potentially hurting some local economies if spending is centralized. *Example:* **Fukuoka Financial (8354)** might be okay (Fukuoka is growing), but a bank in a less vibrant prefecture with heavy JGB exposure could be at risk if bond yields jump unexpectedly beyond BOJ control. We flag regionals as a group to be cautious – they may not fall drastically (BOJ's presence stabilizes a lot), but likely **underperform the broader Topix**, which is more driven by robust companies. They lack strong upside catalysts yet carry latent balance sheet risk.

- **Highly Leveraged Real Estate Developers:** If interest rates were to spike even modestly or banks become less eager to lend due to other opportunities, real estate firms that rely on cheap debt could suffer. Some smaller real estate developers or those with big projects financed at low rates may find refinancing costs higher in a couple of years. Also, **property companies focusing on luxury urban projects** might find demand hit if wealthy buyers worry about inflation or if offices remain under pressure post-COVID. We note, for instance, **Mitsui Fudosan (8801)** and **Mitsubishi Estate (8802)** are large and relatively safe, but smaller ones or highly levered J-REITs (like those investing in secondary cities) might struggle if borrowing costs rise and cap rates expand. We'd avoid or short select REITs that have high debt and assets in areas where economic boost is not assured.

- **Utilities with Potentially Stranded Assets:** While in the near term Takaichi supports all energy forms, over the longer term, if nuclear and renewables ramp up, traditional utilities heavy on fossil generation could face asset write-downs or costly transitions. For example, **J-Power (9513)**, a

wholesale power provider big in coal, could be a loser if policy eventually shifts to cleaner energy due to public demand or as part of strategic autonomy (e.g. coal relies on imports, nuclear and renewables reduce that). If nuclear restarts en masse, gas-fired power producers might see less utilization. We suspect no immediate crash for these names (they might even perk up if nuclear policy is seen as friendly because it alleviates fuel cost burden), but over a multi-year horizon, some old plants could become uneconomical, hence a cautious outlook.

- **Companies Facing Regulatory Backlash or Scandal:** Any firm that becomes a political target or embroiled in scandal can underperform regardless of macro trends. For instance, if Takaichi's government pursues nationalist policies, a company seen as too cozy with China could be shunned. While we don't have a specific name here, hypothetically a big tech firm that shares data with China could face restrictions. We keep an eye on news – none of our picks fall in this, but it's a warning for e.g. certain gaming or app companies if national security reviews emerge.

Short/Underweight Candidates Summary:

- *Fast Retailing (9983)* – **Thesis:** Weak yen inflates input costs for its clothing inventory, margin pressure likely; global growth already priced in. *Catalyst:* Rising cost of goods in upcoming results, any guidance cut on margin. *Risk:* Could surprise with strong consumer demand or cost pass-through; also heavily shorted by some, squeeze risk.

- *ABC-Mart (2670), Ryohin Keikaku (7453)* – **Thesis:** Similar import cost issues, purely domestic sales exposure (no FX gain). *Catalyst:* Monthly sales data showing weak volumes due to price hikes. *Risk:* Low valuations might limit downside; also stimulus might trickle to consumers a bit.

- *ANA (9202), Japan Airlines (9201)* – **Thesis:** Fuel cost pain, heavy debt, only partial offset by inbound tourism. *Catalyst:* Quarterly loss or meager profit with commentary on fuel hedges expiring. *Risk:* Yen reversal or large inbound surge could bail them out; also government might quietly subsidize (as they did during COVID).

- *Regional Banks (multiple tickers)* – **Thesis:** Structural low profitability plus potential bond losses; not materially helped by stimulus concentrated in strategic sectors. *Catalyst:* Any hint BOJ might let yields rise more (e.g. widening YCC band); OR a bank reporting an unexpected loss on securities. *Risk:* They are often value traps but sometimes activist investors target them for reform, causing pops (e.g. SBI Holdings investing in regionals).

- *Daiwa House (1925) / Sumitomo Realty (8830)* – **Thesis:** These are large developers but with significant debt and exposed to interest rates (Daiwa in rental housing, Sumitomo in offices). Could underperform if yields rise or if stimulus doesn't specifically aid real estate. *Catalyst:* Rising JGB yields making REIT yields comparatively less attractive; office vacancy data staying weak. *Risk:* If stimulus boosts general economy, real estate might not suffer badly; also they have strong asset portfolios.

- *J-Power (9513)* – **Thesis:** Long-term risk of coal-heavy utility if energy policy eventually shifts to domestic cleaner sources; near term, also hit by high import fuel prices (though partially pass-through). *Catalyst:* Government announcing new energy strategy (for example, more renewables or carbon pricing by late 2020s). *Risk:* In near term, tight power supply might actually make their coal plants profitable; plus any capacity payments.

We will monitor these "losers" for potential **short opportunities** to hedge our longs. For instance, shorting a basket of import-heavy retailers could hedge some of the consumer strength risk if our longs include consumer exposure via automakers (long autos vs short retail – a bet on producers over consumers). Or shorting a regional bank ETF against our financial longs (like short regional banks vs long big banks) to bet on consolidation winners over losers.

It's worth noting Japan's market has strong momentum now, so shorting is risky. These ideas are more for relative trades or cautious underweighting. We'd likely implement hedges in small size and possibly through options to limit risk (where available).

Finally, the losers list also serves as a **check on our scenario**: if unexpectedly these "losers" start doing well, it may signal a regime variant (e.g. if retail stocks outperform, perhaps the consumer is stronger than we thought or yen is strengthening – meaning our base-case might be shifting). Thus, they act as a kind of barometer too.

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6. Historical Analogues & International Context

To validate our expectations, we examine **past Japanese policy shifts** and relevant international cases, which provide insight into how markets and sectors might react this time:

Abenomics 2013–2015 (Japan's Recent Stimulus Cycle): Takaichi's playbook is often compared to *Abenomics 2.0*. Under Abe (late 2012 onward), Japan saw a massive monetary easing and fiscal stimulus. The parallels are instructive:

- The **Nikkei 225 more than doubled from 2012 to 2015** as stimulus took hold [6]. Sectors that outperformed markedly in that period included **exporters (autos, machinery)** and **financials**. For example, Toyota's stock and profits hit record highs by 2015, buoyed by a ~18% yen depreciation under Abe [50]. Banks initially rallied too on improved sentiment and steepening yield curve hopes.

- **Construction and real estate** saw a boom in 2013–14 due to infrastructure projects and anticipation of the Tokyo Olympics decision (won in 2013). Construction stocks (e.g. the big contractors) had strong runs, confirming that fiscal spending directly lifts the sector. We expect a similar effect now; if anything, today contractors also trade at low P/B ratios, so there is re-rating potential as orders come in.

- **Defensive domestic sectors lagged** during early Abenomics. Consumer staples, utilities, and telecoms underperformed the broader rally – partly because investors rotated to higher beta growth names, and partly because a weaker yen hurt those with cost exposures. We foresee a repeat: our losers like retail and utilities align with this historical underperformance when reflation policy is introduced.

One difference: Today's environment has inflation, whereas Abenomics started from deflation. So, **input cost pressures are higher now.** This may mean the upside for corporate profits from yen depreciation could be partially offset by rising costs, whereas in 2013 it was nearly pure gain (since other costs were flat

or falling). We account for that by being selective (choosing companies that can pass on costs or have high value-add).

Yen Depreciation Impact Studies: Academic analyses (e.g. by RIETI scholar Willem Thorbecke) found that the yen's big depreciation in 2013–2015 *"raised returns for many Japanese stocks, especially automobile stocks"* [32], but did less for export *volumes* because many manufacturers had offshored production [51]. This teaches us: *the benefit of a weak yen often shows up more in profit margins (via repatriated profits) than in export volume gains.* That's fine for equities – it boosts EPS without necessarily boosting Japan's GDP a lot. We keep this in mind: it's another reason we like companies like Toyota and Shin-Etsu, who can reap profit benefits even if volumes don't surge. Meanwhile, companies that rely on import volumes (e.g. fuel importers) suffer, consistent with our losers list, because costs rise and they can't cut volume easily [30].

Global Stimulus Analogues (China & Others): When China undertook large fiscal stimuli (e.g. 2008–09 and 2015–16), the sectors that boomed were **infrastructure-related (steel, cement, construction)** and **real estate**, along with upstream commodities. Chinese construction machinery (like Sany Heavy) also soared. By comparison, consumer stocks lagged or even fell as the stimulus led to inflation (food prices up) which hurt consumers. Japan's situation is not identical (scale is smaller, and there's monetary coordination), but directionally it backs our stance: load up on infrastructure/industrial plays during stimulus, be cautious on consumer staples.

Also, in China's case, heavy stimulus led to **bad loans** and eventual crackdown on shadow banking. For Japan, we don't expect a financial crisis from this (banks are flush with reserves), but it reminds us to watch credit markets if fiscal expansion is extreme. Rising JGB yields already hint at stress [34], albeit controllable so far.

South Korea/Taiwan – Strategic Industries Support: These countries have histories of targeting strategic sectors. In the 1970s, South Korea's government drove heavy/chemical industries with subsidies – research shows **subsidized firms grew faster for decades after** [52]. This suggests that if Takaichi's Japan truly pours funds into chips, AI, etc., we could see a **long-term structural boost** for those companies beyond the immediate stimulus. Taiwan's support of TSMC is another example – consistent government backing helped create a world leader. Japan is trying to play catch-up in chips; if they sustain support, companies like Rapidus (not public) or suppliers (TEL, Advantest) could enjoy an extended growth runway. We are essentially betting that this "industrial policy" will have tangible benefits, at least in the medium term, similar to how **Korea's chaebols benefited from government direction in the 80s/90s** (though Japan's government is less interventionist in corporate management, the parallel is in funding and policy priority).

Geopolitical and Security Moves: In the U.S., increased defense budgets in recent years (and especially 2022–2023 after the Ukraine invasion) led to defense stocks outperforming general market. Japan's defense ramp-up is starting from a lower base and could be more dramatic in percentage terms. We recall that in the Reagan era of the 1980s, when the U.S. ramped defense spending, not only defense contractors boomed, but also tech industries (many innovations spun off from defense R&D). Japan's case might mirror that on a smaller scale: e.g. defense spending on cybersecurity might indirectly stimulate its broader IT sector. Thus, a broad view of beneficiaries includes some tech beyond pure defense (hence our inclusion of NEC, Fujitsu).

Leadership Change Effects: Typically, Japanese stocks get a "honeymoon rally" when a new, market-friendly PM comes in (Abe in 2012, Suga in 2020 for a short while, etc.), then it stabilizes or pulls back if

policies underwhelm. Right now, Takaichi's surprise win already gave a jolt (Nikkei to record high, yen down) [53]. We expect actual policy execution to determine if the rally has legs. Given her strong rhetoric, if she follows through, it could be like early Abenomics – a multi-year bullish phase for the right sectors. If not, the market could retrace. To gauge this, we look at how **Kishida's tenure (2021–25)** saw markets initially dub him "moderately negative" (talk of new capitalism, higher taxes) and indeed the market lagged until mid-2023 when he pivoted pro-market. Takaichi is seen as unabashedly pro-market and pro-growth [39], so we anticipate a more sustained positive effect, unless derailed by Variant 1 or 3 (political instability).

In summary, **history supports our sector positioning**: pro-stimulus regimes in Japan favored exporters, construction, and strategic industries, while domestically-oriented, import-reliant sectors lagged. We have incorporated the twist of current inflation into our picks (ensuring companies can handle cost pressures). The analogues also remind us to stay nimble: if inflation runs too hot, the playbook could shift (similar to 1970s where initial stimulus turned to stagflation – though Japan's starting inflation is modest compared to that).

Figure: Japanese equities soared under the last large-scale stimulus regime (Abenomics). The Nikkei 225 index more than doubled (+129%) during Abe's 2012–2020 tenure, with particularly strong gains in the initial years of aggressive fiscal and monetary expansion [6] [50]. This historical precedent suggests significant upside for Japanese stocks if Takaichi's policies achieve a similar regime shift.

Figure: Yen Depreciation under Abenomics. The Japanese yen lost about 18% of its value against the U.S. dollar between late 2012 and 2020 as massive stimulus policies took effect [50]. A renewed bout of yen weakness under Takaichi (already ~150/$, an 8-month low [54]) is a cornerstone of the "Takaichi trade" – boosting exporters' competitiveness but raising import costs. Our portfolio tilts toward sectors that benefit from a weaker yen while avoiding those that are hurt by it.

These charts underscore the core dynamic we're trading: **expansionary policy = stock growth, weaker yen = exporters surge**. They visually reinforce why our focus is on stocks like autos and tech (big drivers of the Nikkei in that period) and caution on those like retail or airlines (which lagged or struggled as yen fell and costs rose).

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7. Timeline of Catalysts & Risk Events (Next 12–18 Months)

To manage the portfolio and strategy, we outline key events (as also touched in Section 1e) and what they mean for our theses:

- **Oct 2025:** *Diet vote & Cabinet formation* – Confirmation of Takaichi as PM (or not). **Positive case:** She wins confirmation ⇒ expect immediate rally in stimulus-sensitive stocks (market relief). **Negative case:** Confirmation fails or is razor-thin ⇒ potential market dip, especially in sectors that rallied on her win (could be a buying opportunity if eventually resolved). *Action:* If confirmed, possibly add to positions on any initial pullback after the news (buy the dip); if not, tighten hedges (yen might strengthen, hurting exporters short-term).

- **Nov–Dec 2025:** *Supplementary Budget details* – Look for size (e.g. ¥□ trillion) and breakdown. If **large (>¥15T)** and focused on our themes (tech, infra, defense), it reinforces our positions – could add to infrastructure and defense names on confirmation of spending. If **smaller or mostly consumption subsidies**, then construction/tech stocks might temporarily dip (less immediate juice); we would then assess if maybe consumer stocks get a bump (and adjust hedges accordingly). Also, **BoJ meeting in Dec** – likely status quo if Takaichi influences them; but any unexpected tightening signal is a risk event (would strengthen yen, hit JGBs – we'd consider hedging exporters with currency or trimming if so).

- **Q1 2026:** *Implementation & BOJ policy* – The extra budget money starts hitting the economy. Companies might issue press releases about contract wins (construction firms announcing new project awards, etc.). **Catalyst:** If big construction orders are announced, expect stock moves – we might take partial profits on spikes, depending on valuation. **Late Jan 2026 BOJ meeting:** if they explicitly say "aligning with government and holding rates" (echoing Takaichi's wishes [21]), it's green-light for equity bulls; if they surprise with a rate hike due to inflation, it could spook markets – we'd in that case reduce financials and some cyclicals short-term (until dust settles).

- **April 2026:** *FY2026 Budget & Corporate Guidance* – The regular annual budget (which likely incorporates stimulus priorities for the full year) will be enacted. Typically, by this time we'll know if Takaichi can push through more structural measures (tax changes, etc.). **Catalyst:** Companies reporting Mar-2026 results and giving FY26 guidance around April–May. We expect upgrades in our pick sectors – if realized, their stocks should jump. Conversely, companies on our watchlist might guide cautiously (e.g. Fast Retailing could mention margin pressure). We will adjust positions accordingly: if our theses are confirmed with good guidance, we hold or even increase; if not (say a tech company guides weak despite supposed tailwinds), we'll re-evaluate that name's inclusion.

- **Mid 2026:** *Checkpoints & Global context* – By mid-year, some macro data (GDP growth for Q2, capex orders, etc.) will show the impact of stimulus. **Catalyst:** If GDP and capex are surging beyond expectations, it may lead to another leg up in domestic cyclicals (and perhaps talk of tapering stimulus which could affect sentiment). Also, watch **inflation rate** – if core CPI is trending above, say, 3% and rising, the market might fear BOJ action or that stimulus will be curtailed. We would monitor inflation hedges or rotate into some more defensives if overheating signs appear. Globally, the Fed's stance and China's economy at that point will influence our export plays – any signal of global slowdown, we might trim autos/machinery somewhat and rotate more into domestic infra plays which have secured backlogs.

- **Late 2026:** *Election watch (if any)* – If an election is called for late 2026 or early 2027, markets could get volatile. Historically, Japanese pre-election periods can be bullish if the incumbent is expected to win with a pro-market agenda, but uncertainty can cause short-term dips. **Catalyst:** Announcement of Lower House dissolution. We might hedge broader market exposure then (via futures or options) to protect gains, while maintaining core positions (since our sectors would likely remain winners under any LDP-led government, though if a different leader came, some nuance may change). If opposition had a chance (less likely), defense stocks might actually fall (as opposition might spend less on defense), so we'd consider reducing those temporarily.

- **Early 2027:** *Policy sustainability or shift* – Assuming Takaichi remains, we'll be evaluating how sustainable the stimulus is. Debt levels will be higher; is there talk of tax hikes to compensate (like

Abe eventually raised sales tax in 2014 after initial stimulus)? Such talk could hit consumer sectors further and maybe cool the rally. But if economy is doing well, it might be fine. We'll also watch if by 2027 government starts focusing on fiscal consolidation due to debt – if so, our cyclicals might peak by then and we'd start taking profits more aggressively. Conversely, if still pedal-to-metal, we ride along.

Throughout, external shock potential (oil price shock, US recession, China-Taiwan crisis) is non-trivial. We have some hedges inherently (defense stocks often hold in geopolitical crisis, and yen typically strengthens as safe haven which hurts exporters but helps if we kept some cash or local plays). But for example, if an oil shock happened, we'd expect our airlines short to pay off (offsetting maybe some hit to auto). If a US recession hit, yen might strengthen (bad for exporters), so we'd trim those and could rotate into domestic-demand stocks which might get second-round support from government if external demand falters (like maybe then they'll stimulate consumers more).

Monitoring Plan: We will regularly track policy communications (Cabinet Office and ministries' releases – e.g. METI for industrial policy details, MOD for defense procurement plans) [19] . We will also keep an eye on Diet proceedings – any contentious debate could signal difficulty in passing measures (risk factor for timeline). Market-wise, key indicators include the USD/JPY rate, JGB 10-year yield, Topix index vs Topix 30 (exporters) relative performance, and inflation breakevens. Any sharp move in these could indicate shifting expectations requiring portfolio tweaks.

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8. Conclusion & Stress Test of Top Picks

Our research concludes that the **"Takaichi trade" presents a multi-quarter opportunity favoring sectors at the heart of Japan's proposed pro-growth, security-focused stimulus regime.** We have high conviction in a basket of exporters (semiconductors, autos, industrials), infrastructure constructors, and defense tech firms to outperform, supported by direct policy boosts and macro tailwinds (notably a permissive stance on yen weakness and fiscal firepower). Conversely, we advise caution or underweight on sectors that face the brunt of higher import costs and rising yields, such as small domestic-oriented companies and certain financials.

Portfolio Snapshot: The recommended portfolio is overweight Technology, Industrials, and Defense, market-weight Financials and Healthcare, and underweight Consumer Staples/Discretionary (domestic) and Utilities. This aligns with the expected *policy scissor effect* – amplifying strategic sectors while straining others.

Stress Test – Alternative Regimes: We examine how our top 10 picks might fare under the variant scenarios outlined:

- *Scenario 1 (Policy Delay/Gridlock):* If stimulus is delayed or scaled down, cyclical names could see a pullback (e.g. construction firms might not get orders as soon – their stocks could dip). Exporters would be more driven by external factors and yen – if gridlock causes yen to strengthen (market views it as potential less debt), then exporters like Toyota/TEL might temporarily underperform. However, in this scenario, likely the BOJ would also remain very dovish (to compensate for lack of fiscal push), potentially weakening yen or at least capping yields, which cushions some effect. We'd

expect defense to remain somewhat supported (security needs won't vanish, and even opposition supports some increase). So relative to others, defense picks might hold up best; construction and domestic plays worst. Overall, our portfolio would likely still outperform the broad index in a gridlock scenario because we avoided many purely domestic cyclical without stimulus (except construction which would be hurt). We might rotate a bit more into exporters in this case as they rely less on domestic policy and more on BOJ (which would still be easing).

- *Scenario 2 (Hawkish Pivot due to inflation/yen):* If inflation surges or yen plummets forcing BOJ tightening, it could hurt both stocks and bonds broadly. Our exporters would face a stronger yen headwind then – so those could underperform relative to baseline. Construction and defense, being more domestic, might be comparatively resilient unless budget is cut to fight inflation (unlikely short-term). Financials might actually do okay here since higher rates improve bank margins (but only if controlled rise). Utilities could strangely become a relative safe haven for yield if rates aren't too high (they can pass fuel costs gradually and are domestic). In this stress scenario, our portfolio would likely underperform a defensive portfolio (as we are pro-cyclical heavy). To mitigate, we'd pivot quickly – perhaps increase exposure to things like NTT (stable, domestic) which we have, and trim autos/tech if we see BOJ taking hawkish turn. Essentially, we'd "risk-off" adjust – maybe even hold more cash or short-term bonds as needed. However, given Takaichi's stance, this scenario would probably involve her adjusting policy (maybe cutting taxes or doing targeted subsidies to quell inflation) rather than whole-scale hawkish pivot. Still, we have contingency plans like option hedges on yen (call options on yen = if yen strengthens, offsets exporter stock losses partly).

- *Scenario 3 (Snap Election & Political Change):* If an opposition or different coalition came to power, policies could shift. A more fiscally austere or BOJ-hawkish leader could emerge theoretically – that would flip many assumptions. Defense spending might stall if a left-leaning coalition, hurting those stocks; fiscal stimulus might shrink, hurting construction; yen might strengthen on prospect of more orthodox policy, hurting exporters. Essentially, our current portfolio would be aligned with the opposite of such a regime. However, probability seems low for a complete opposition takeover given opposition fragmentation [55]. If a more moderate LDP figure replaced Takaichi, some themes (like defense) might moderate but not reverse (since even Kishida had begun defense build-up). To protect, around any snap election, as mentioned, we'd hedge or reduce exposure to the most policy-sensitive names until outcome known. If indeed a regime change happened that negated the "Takaichi trade," we would rotate quickly: possibly into companies benefiting from stronger yen (utilities, domestic consumer, maybe railways and retailers – essentially flipping some positions). But that would be a major portfolio rebalancing.

Upside/Downside Quantification: In a base-case successful scenario, we estimate many of our picks can see **20-50% stock price appreciation** over the next 12-18 months (some have already risen but could go further as earnings come through). For example, if Tokyo Electron's earnings rise ~30% with strong orders and yen at 150, a similar or higher stock gain is plausible. Construction firms could see even larger % gains if re-rated from say P/B 0.8 to 1.2 as their prospects improve, which could be +50%. Defense contractors might re-rate closer to global peers' multiples if investors globally seek exposure to Japan's defense ramp-up – that could be a multi-year doubling in some cases (their valuations are still modest). These are optimistic, but within reason if things go right.

On the downside, if things go awry, we've chosen generally robust companies that likely won't collapse even if the theme weakens. The biggest risk would be a sharp yen move or policy disappointment causing, say, a

15-20% correction in exporters (Toyota could drop if yen went back to 120 suddenly, for instance, or if global recession). Construction stock downside is limited by low valuations (they might drop 10-15% on no stimulus, but not much more absent a crisis). Defense stocks might correct 20% if budgets fell short of talk. So downside for individual picks seems mostly in that 10-20% range, whereas upside could be more, which gives a favorable risk-reward skew, especially as we have diversification.

Final Takeaway: The "Takaichi trade" is essentially a bet on Japan rekindling a pro-growth, reflationary policy regime with a nationalist-industrial twist. It favors the high-tech and heavy industries that built Japan's economy in the 20th century, now re-invigorated by state support for the 21st century challenges (digital, defense, decarbonization). Our portfolio is positioned to capture this resurgence in Japan's corporate earnings potential. We will remain vigilant to adjust if the story changes, but as of now, the pieces are in place for a potentially strong multi-quarter (if not multi-year) run for the sectors we've highlighted [56] [57].

By staying stock-selective and aware of macro signals, we aim to ride the uptrend while guarding against the known risks. If Takaichi's ascent indeed marks a "**new era**" as she proclaimed [58], then the investment implications could be profound – and we have aligned our strategy to be on the winning side of that new era.

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