

Weekly Market Flash

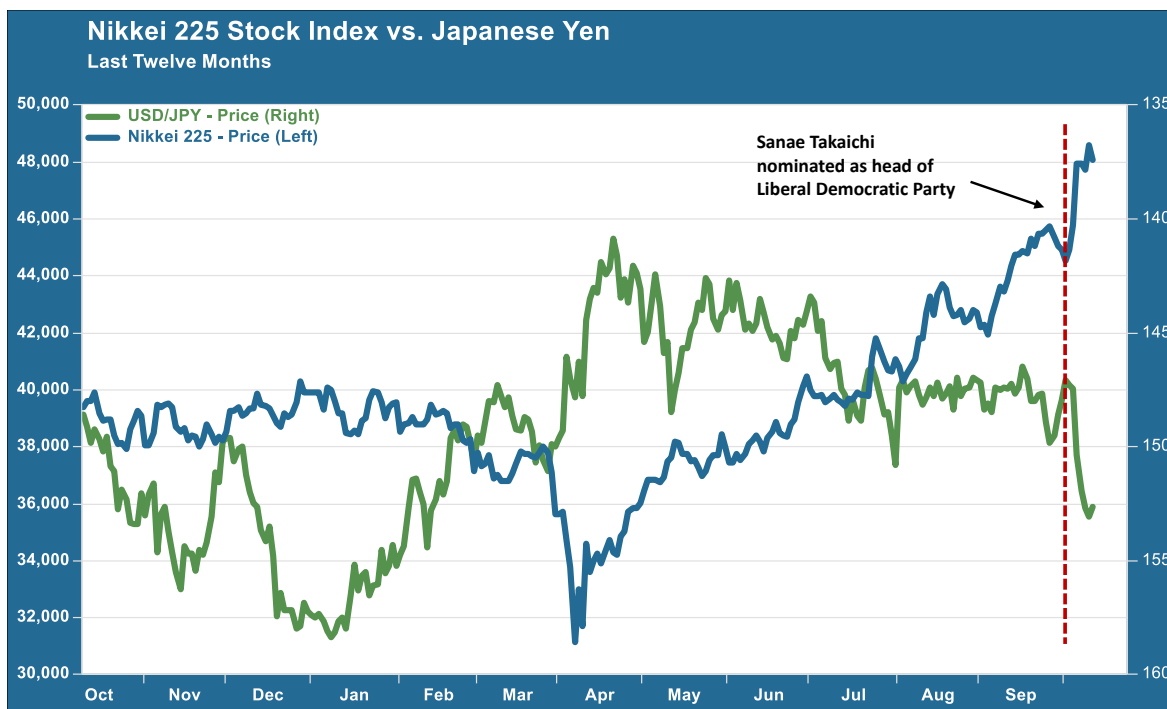
Japan Gives Traders the Head Spins

October 10, 2025

Japan jumped into an already frothy geopolitical moment last weekend when the Liberal Democratic Party, the country's ruling party for all but a very brief time since the end of the Second World War, selected Sanae Takaichi as the new head of the party and thus the person likely to succeed outgoing prime minister Shigeru Ishiba. Takaichi, who would thus become Japan's first female prime minister, is known as a hardline conservative with an economic agenda modeled on the pro-stimulus policies of Shinzo Abe, the former prime minister whose "Abenomics" plan was all the rage back in the mid-2010s.

Deer in the Headlights

The news of Takaichi's appointment caught markets flat-footed. The Japanese yen has been up against the dollar for most of this year, while the Nikkei 225 stock index mostly meandered along with modest gains. But the prospect of intense political pressure on the Bank of Japan to lower interest rates and pump up the economy had an immediate effect on both stocks (sending them soaring) and the yen (which promptly nosedived on the news).



Source: MVF Research, FactSet

On Monday morning traders were quick to dub the weekend's developments as the "Takaichi trade," with the Nikkei index ending the day nearly five percent higher. Observers noted the particular attractiveness of shares in the defense, energy and cybersecurity sectors given Takaichi's hawkish bent on strengthening Japan's military capabilities. Meanwhile, a bond market expecting to see another interest rate hike when the Bank of Japan meets in a couple weeks had a deer in the headlights moment, with Takaichi vowing in public statements to put pressure on the BoJ to keep rates low in service of new rounds of economic stimulus.

Coalition Problems

But the market gyrations were far from over as the week wore on. The fortunes of the Liberal Democratic Party have been poor of late, with the party losing its majority in both the upper and lower houses of parliament during the troubled rule of Ishida, the outgoing PM. The party has been able to continue governing thanks to its coalition with the Komeito party. But that came apart earlier today when Komeito's leader Tetsuo Saito pulled the junior party out of the coalition. Lacking an outright majority, Takaishi will now have to obtain support from other minority parties in order to form a governing coalition. That could potentially pull Japan even further to the right, joining what appears to be a global trend gathering steam.

Despite the Komeito setback, Takaichi is likely to be sworn in as prime minister following parliamentary voting next week. Traders with itchy fingers may want to wait for awhile to see what the make-up of the new governing coalition looks like, though, before diving head-first into the "Takaichi trade." Japan is in a different place today than it was in 2012 when then-PM Abe kicked off his "Abenomics" agenda. The new prime minister and her government are going to have to adapt their policies to address concerns about higher consumer prices, a rapidly ageing demographic landscape and the regional challenges facing all countries residing in the neighborhood dominated by China. We will be paying close attention to developments in Japan as we proceed with our own geographic diversification strategy. But for now, our take on Japan is very much wait and see.

Masood Vojdani
President & CEO

Arian Vojdani
Principal & Investment Adviser

Katrina Lamb, CFA
Head of Investment Strategy & Research

Investment Advisory Services offered through MV Capital Management, Inc., a Registered Investment Advisor. MV Financial Group, Inc. and MV Capital Management, Inc. are independently owned and operated.

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by MV Capital Management, Inc.), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from MV Capital Management, Inc. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. MV Capital Management, Inc. is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of the MV Capital Management, Inc.'s current written disclosure statement discussing our advisory services and fees is available for review upon request.