

Japan election: Abe's convincing win

Key views



Abe's coalition scores a solid victory and is closing in on another "super majority." We see this as mildly positive for Japanese equities and negative for the yen.



We don't expect major changes to Japan's fiscal or monetary policy. The BoJ is likely to keep policy ultra-loose.



We believe the government will aim to raise the sales tax in 2019 but may delay a target for achieving a balanced budget.

Japanese Prime Minister Shinzo Abe's Liberal Democratic Party (LDP) and its coalition partners scored a convincing win that will maintain a large majority in both houses of parliament. This should extend the lifespan of "Abenomics," including the Bank of Japan's (BoJ) mega stimulus.

We see the outcome as a mild positive for Japanese equities, though recent strong performance may spark some profit taking. We like Japanese shares thanks to the synchronized global expansion supporting growth, attractive valuations and solid earnings momentum. We favor sectors that have posted solid earnings but lagged the broader market, such as autos, transportation and real estate. We also see the election result as a mild negative for the yen and Japanese government bonds.

Abe is likely to carry on as leader of the LDP after the win. We don't expect major changes to fiscal or monetary policy. We see a less than 50-50 chance that BoJ Governor Haruhiko Kuroda stays on for a second term after his term expires in 2018, in what would be a first at the BoJ. Even if Kuroda steps aside, any successor is likely to be a similar policy dove maintaining the central bank's bond yield target and asset purchases with inflation stuck well short of its 2% goal. Yet we see the potential for greater uncertainty with a new governor at the BoJ's helm.

The LDP was closing in on another so-called "super majority" in the lower house of parliament, giving it a stronger hand to pursue reforms. We believe the Abe government will push ahead with a planned increase in the country's sales tax but allocate the new revenue to children's education and paying for swelling social security spending. It may also push back the government's target for achieving a balanced budget to 2020 or later. That would be a negative for bonds and may prompt downgrades of Japan's credit rating.

We are upbeat on Japan's economy. Data point to a solid pace of growth, led by both consumption and exports, as unemployment drops to 25-year lows. Yet subdued inflation should keep the BOJ extra loose on policy. Our [BlackRock Growth GPS](#) for Japan shows growth should hold up at levels well above trend. Robust domestic activity and a stable-to-softer yen are spurring solid corporate earnings growth, pushing the Nikkei share index to 21-year highs. We believe higher global bond yields can also push up yields on Japanese government bonds beyond 10-year maturities.

Abe fended off the upstart Party of Hope led by Tokyo Governor Yuriko Koike, who routed the LDP with her new party earlier this year to take over leadership of the metropolitan region. Abe's margin of victory may help him avoid a showdown with challengers at a looming LDP leadership race due in late 2018. That will depend on how Abe's popularity rating fares in the months ahead.

The new center-left Constitutional Democratic Party of Japan is on track to win more seats than the Party of Hope and become the largest opposition party, filling some of the vacuum created by the demise of the former main opposition party. Voters had turned disillusioned with Abe after scandals suggested he was growing complacent in office. But Abe's gambit of calling the election at a time when the opposition is in disarray looks to have paid off.

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