

## Strategy Bulletin (No. 395)

## Dissolution of the Diet and formation of a unity government put Nikkei 70,000 within sight

### LDP and Conservative Opposition Parties Secure Landslide Victory in Dissolution Election

Prime Minister Takaichi dissolved the House of Representatives today (23 January), marking the start of the general election, with polling and counting scheduled for 8 February. This is expected to inject energy into the already formidable bull market.

A repeat of the sharp stock price surge following the establishment of the second Abe administration is anticipated. From the party leader debate in the Diet on 14 November 2012, when then-Prime Minister Noda announced the dissolution and general election, through the establishment of the second Abe administration on 26 December 2012, to the peak reached during the Bernanke shock on 22 May 2013, the Nikkei average surged by 80% over seven months. This time, given that the stock price rise began last October on expectations of a Takaichi administration, such a steep surge is unlikely. However, it is conceivable that the Nikkei average could start rising towards its fair value of ¥70,000 to ¥80,000.

As seen in Figure 1, all turning points and trends in the Japanese stock market have been governed by the geopolitical framework and policy choices. Post-war turning points include: 1) the outbreak of the Korean War in June 1950 (from a Nikkei average of ¥90), 2) the peak-out at the end of December 1989 due to US pressure on Japan and financial tightening to burst the bubble (from ¥18,916), 3) the major bottom in May 2003 following the partial nationalization of Resona Bank and completion of non-performing loan resolution (from ¥8,117), and 4) the major bottom on 14 November 2012, marking the start of the Abenomics transformation following the dissolution and general election (from a Nikkei average of ¥8,664). The establishment of the current Takaichi administration is expected to form a long-term trend marking the fifth major post-war transformation. Its starting point is Ms. Takaichi's inauguration as LDP President on 4 October 2025.

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Figure1: Nikkei Trend since WW II



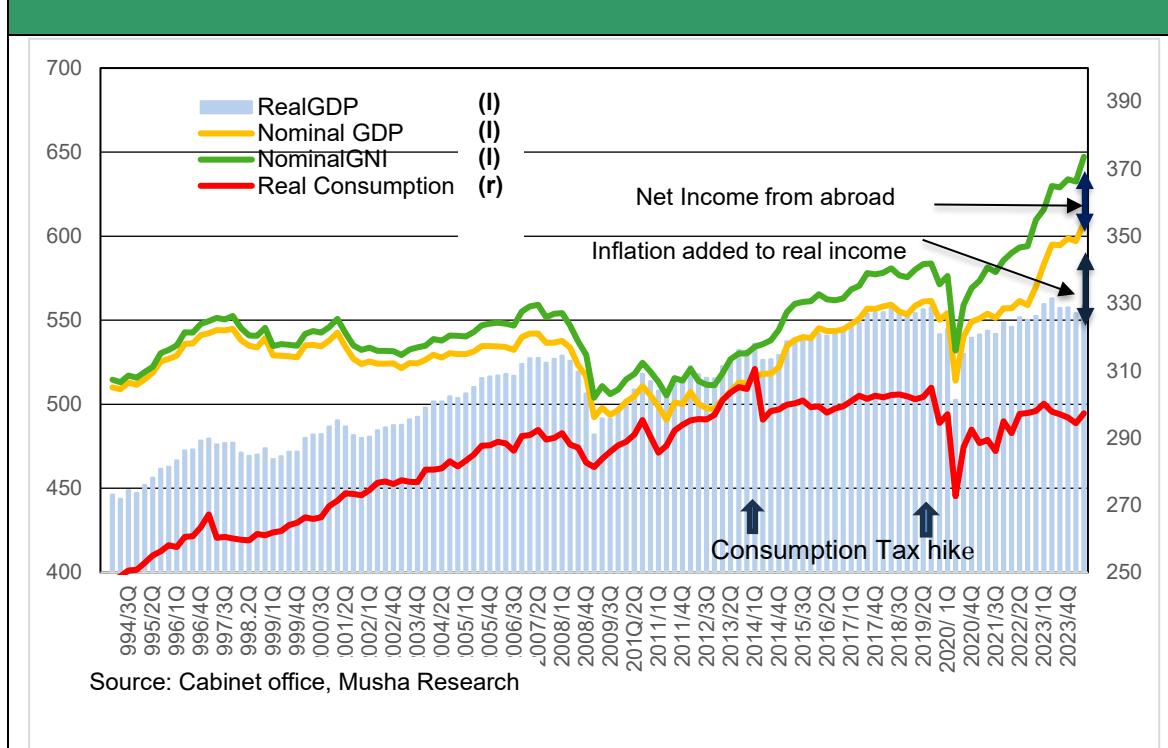
Source : Nillei, Bloomberg, Musha Research

### The Conservative-Nationalist Revolution Japan's Takaichi Administration Will Initiate

Why does this dissolution and general election, coupled with the establishment of the Takaichi administration's foundation, constitute the fifth post-war watershed? It is because the Takaichi administration will accomplish a conservative-nationalist revolution, fundamentally transforming the frameworks of geopolitics and economics. Contemporary Japan faces crises threatening its very national existence. Despite the public sharing this crisis awareness, past policies have utterly failed to meet public expectations. Firstly, there is the crisis of national security. Japan, the world's only dangerously vulnerable nation sharing borders with three nuclear-armed military dictatorships – China, Russia, and North Korea (one might call them an axis of evil) – adheres to a constitution advocating absolute pacifism and renunciation of military force. The danger of being completely defenseless is self-evident. China's intimidation of Japan is proof of this, and no one can deny the possibility that the situation in Ukraine could be tomorrow's Japan.

Secondly, there is the reality that under the mantra of fiscal consolidation, the lives of the people have been significantly sacrificed. Real household consumption, which continued to increase even after the bubble burst in 1990, peaked in Q1 2014 and has since declined. From ¥302 trillion at the end of fiscal year 2012 and ¥311 trillion at the end of fiscal year 2013, it stood at ¥298 trillion in Q3 2025 (2020 base), showing no escape from stagnation and fueling growing anger among the working generation. Economic growth rates also remain among the lowest in the G7. This is due to the sharp rise in the national burden ratio following the forced implementation of the 'Integrated Reform of Social Security and Taxation' under deflationary conditions. The ratio surged from 38.8% in fiscal year 2011 to 48.4% in fiscal year 2022 and is projected to be 46.2% in fiscal year 2024. (Figure 2)

**Figure 2: Personal consumption alone took the hit, peaking 10 years ago (2014 Q1) (trill yen)**



**The true cause of Japan's stagnation... The loss of purpose (80 years of a Japan reliant on others) nears its end**

But why has Japan fallen into such prolonged stagnation? Japan not only avoided colonization through reforms following the Meiji Restoration but also became the only non-Western nation to embrace democracy and industrialization.

Its miraculous post-war recovery was also perceived as achievable only through Japan's inherent

strengths. The national character of sincerity, diligence, fairness, and cooperation that underpinned Japan as number one was celebrated as its strength. Yet, despite these national virtues incapable of changing in such a brief time, they have become entirely invisible.

Various analyses exist, but the most fundamental cause was the loss of a guiding principle – the nation's compass. For Meiji Japan, the guiding principle was a fierce nationalism: to catch up with advanced nations, embrace democracy, and achieve a wealthy nation and a strong military.

The Shōwa era's post-war compass shifted to pacifism and economic pragmatism. Within the framework of war reflection and US military subordination, nationalism was shelved. The 'merchant-state theory' (Naohiro Amaya) – advocating wise conduct within one's given fate – gained widespread acceptance. This state of shelved nationalism collapsed under US criticism of Japan, leaving a nation without a cause utterly bewildered. The Lost 30 Years were precisely an era of lost purpose. Corporations sought survival through de-Japanization and globalization, while individuals reduced contact with the outside world, turning inward as "hikikomori" to seek mental tranquility. Amidst this fractured state, politicians and bureaucrats had lost their sense of autonomy. Their primary policy goals were diminished concerns like reducing fiscal deficits and enhancing social services to mitigate anxieties about old age.

### Towards a Nationally United Government Centered on Ms. Takaichi

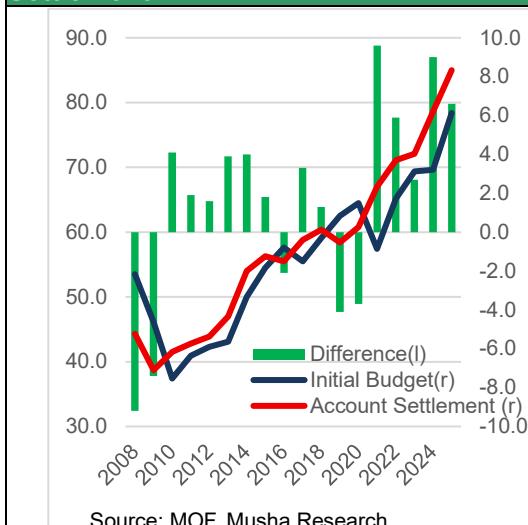
China's rise and the Trump administration's major shift in security strategy are compelling Japan once again to pursue national governance grounded in a grand purpose. The Trump administration's newly announced 2025 NSS (National Security Strategy) declared: 1) Nationalism (= National Security as the Top Priority), 2) Faith in Power, and 3) A Shift to Realism. It is self-evident that Japan, more than any other nation, requires these principles. The public and voters are beginning to grasp this reality faster than politicians and media elites. The landslide victory of reformist conservative opposition parties in the July 2025 House of Councilors election, the election of Ms. Takaichi – previously a minority voice within the LDP – as LDP President, the realignment of the coalition from LDP-Komeito to LDP-Japan Innovation Party, and the cooperation of reformist conservative opposition parties in government, represent changes propelled by public sentiment, leaving pundits and the old media behind. A conservative-nationalist revolution will be conducted through cooperation between the now minority-ruling LDP and conservative opposition parties: Nippon Ishin no Kai, the Democratic Party for the People, the Party for Participation, and the Japan Conservative Party.

While details remain unclear, such as how Ms. Takaichi will structure the coalition government, the trajectory from a dissolution and general election to the establishment of a government of national unity appears set. Improving the people's standard of living, long sacrificed national enrichment and military strength, and securing advantageous positions in the international division of labor engineered by the US (such as the return of manufacturing to Japan after being driven out, and the relocation of semiconductor production from Taiwan to Japan) are essential. Yen depreciation will accelerate production relocations to Japan.

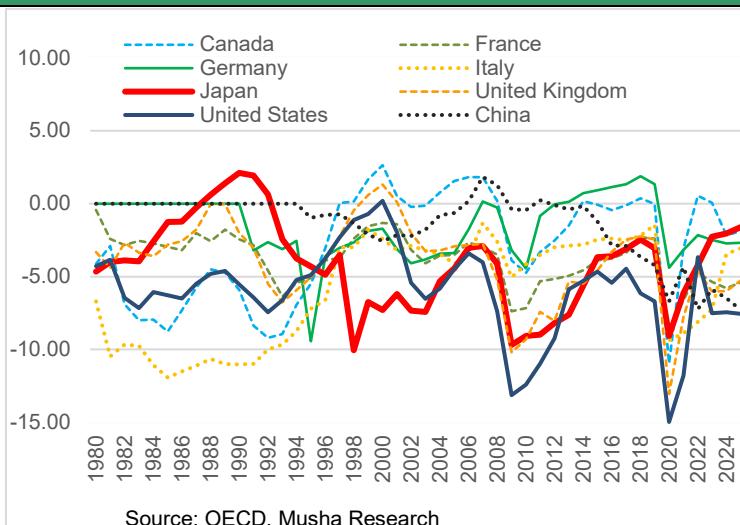
### Japan possesses two forces capable of steering a conservative-nationalist revolution to success

Japan possesses two elements absent in the US, Europe, or China that can steer a conservative-nationalist revolution to success. The first is economic resources and investment power. This includes high corporate profitability, abundant savings and capital, and indeed substantial fiscal stimulus capacity (see Figure 3 and 4).

**Figure 3: Difference of Tax Revenue between Initial Budget and Account Settlement**

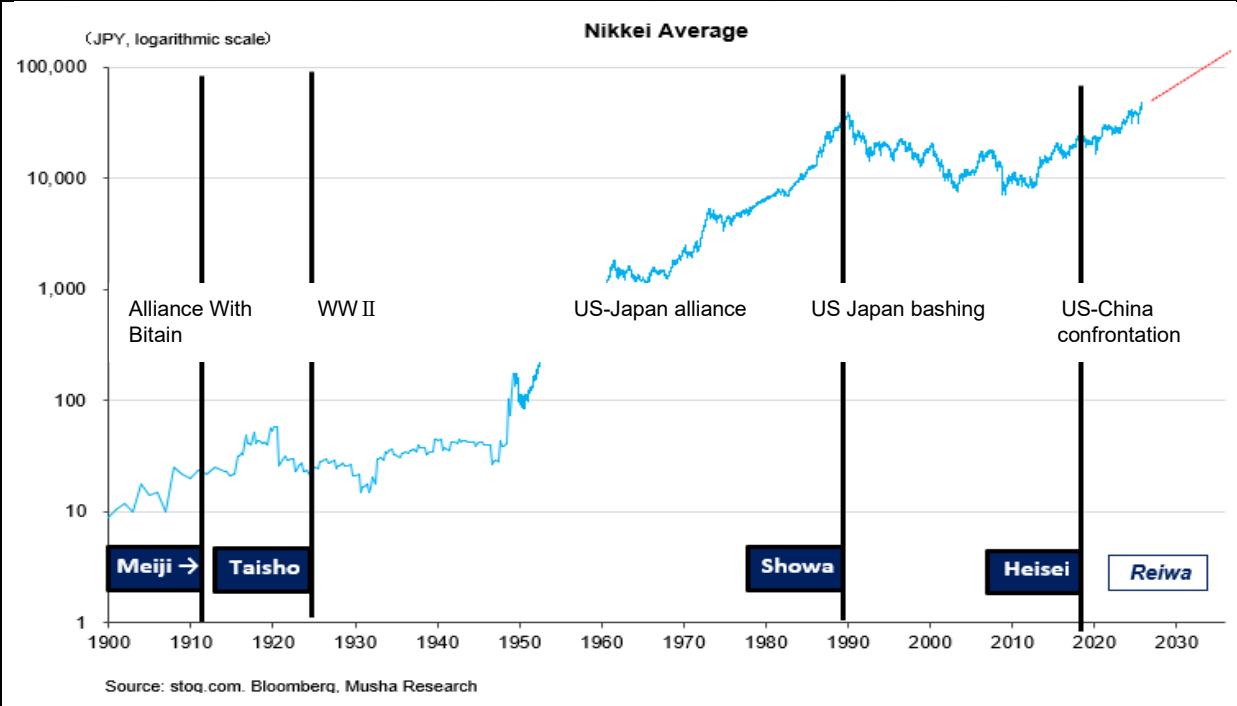


**Figure4: General Government Fiscal Deficit/ GDP**



Second is national cohesion. Contemporary Japan possesses the conditions for uniting behind a common cause: a homogeneous national character, Japan's fiercely competitive international environment (dangerous neighbors China, Russia and North Korea; an unreliable hegemonic power of the United States), and the revival of previously suppressed nationalism (the restoration of honor to patriotism and statism). Should such a cause return to Japan, it would align policy and corporate direction, accelerate decision-making, and drive change. Even contentious fiscal debates would yield swift solutions (Figure 5).

**Figure 5: Modern Japan Stock Price Index Trend with Geopolitical Regime**



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