

Reinforcing Takaichi's Castle

A landslide victory for fiscal expansion



Key Messages

1. **PM Takaichi-san has secured a landslide victory, securing a two-third supermajority for her party.**
2. We expect that the LDP to use the new-found strength to increase fiscal programs and boost public spending via a "Japan growth Strategy". Japan is looking to increase its strategic autonomy and indispensability.
3. **The resulting impact should provide tailwinds to the impacted sectors and the overall market. Valuations are advanced but we see room for further earnings growth.**

A historic victory

Japanese Prime Minister Sanae Takaichi is the undisputed winner of this election. Her ruling Liberal Democratic Party (LDP) has achieved the biggest post-war victory for a single-party in a general election in Japan, securing a so-called "supermajority". The party won 316 seats, an increase of 118 seats compared with its pre-election tally and more than two-thirds of the 465-seat chamber. With the seat count of coalition partner Japan Innovation Party (Ishin), rising to 36 seats (up by 2), the ruling alliance now holds 352 seats. The two-thirds super-majority means that it will be much easier for the ruling bloc to pass legislation as it can now override any rejection of a regular bill in the upper house by passing the measure again in the lower house.

Crucially, the current number of seats in the lower house is making the LDP much less dependent on its partner, resulting in a higher leverage within the Diet. Moreover, Prime Minister Takaichi's support base inside the party, previously considered fragile, should have been reinforced by the results. The landslide victory also creates a sizable cohort of newly-elected MPs who are likely to back her agenda.

Guy Ertz, PhD.

Deputy Global Chief Investment Officer
BNP Paribas Wealth Management



The "17 arrows" of Sanaeconomics

We expect the LDP to use the new-found strength to increase fiscal programmes and boost public spending. To fuel economic growth through public-private investments focused on economic security, the Takaichi administration established the "Japan Growth Strategy Headquarters" working on 17 designated strategic fields. *"We will firmly advance a growth strategy that will fundamentally reinforce the country's supply structure and realize a 'robust economy'."* Prime Minister Sanae Takaichi [told](#) the inaugural meeting of the Headquarters for Japan's Growth Strategy on 4 November.

The initiative will rely on two pillars: "crisis management investment" to strengthen supply chains in national security-related sectors and "growth investment" in advanced technologies. In other words, Japan is looking to increase its strategic autonomy and indispensability, i.e. reducing dependencies on specific countries while making its own technologies and industries essential to global value chains. The 17 strategic sectors which are the cornerstone of this approach include AI, semiconductors, digital infrastructure, and cybersecurity, along with shipbuilding —an area emphasised in the recent US.-Japan summit— and advanced defence technologies.

The latter is especially noteworthy as the defence industry is seen as a growth sector. Japan will review its National Security Strategy this year and measures to strengthen the defence industry and related technologies which are expected to be included. A critical shift under discussion is the potential elimination of export restrictions under the "Five Categories" of the defence equipment transfer guidelines. Removing these restrictions would allow the export of lethal systems, expanding markets for Japanese defence manufacturers and positioning defence production as a driver of economic growth.

Stephan Kemper

Chief Investment Strategist
BNP Paribas Wealth Management-
Private Banking Germany



BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world

Running it hot

During a [press conference](#) after the election, Takaichi-san confirmed the need to depart from “excessive fiscal austerity”. She also reinforced the plan to exempt food and beverage items from the consumption tax for a two-year period. Although there's still dissent within the LDP on this issue, the party's landslide victory is likely to amplify Takaichi's voice and diminish the fiscal-conservative bloc's influence.

We thus expect the government to continue to expand fiscal outlays. The FY2026 supplemental budget is likely to be sizable, and the FY2027 initial budget will expand markedly, in our view. Takaichi had already signaled that the draft budget for fiscal year 2026 of JPY 122.3 trillion does not reflect her intention to deviate from a budget process that requires the preparation of additional budgets.

Good news for equities

We reiterate our Overweight call for Japanese equities as our positive scenario (see [here](#)) is playing out nicely. While Japanese equities are no longer cheap, earnings and cashflow estimates recently inflected higher. We expect the growth initiatives, advocated by the LDP and JIP, will further enhance expectations for corporate earnings growth. A higher EPS growth rate should also support higher P/E multiples. Applying the [Gordon Growth Model](#), an increase of long-term growth (g) of 0.5%pts with a constant cost of capital (r) would already point to an increase of the P/E ratio by 1x.

While a short-term correction is always possible, we continue to see an attractive risk return profile in Japanese equities. We continue to like industries benefitting from the Japan Growth Strategy and its consequences. Examples are Banks, Nuclear Power, Defence, Industrials and Construction.

TABLE 1: 17 STRATEGIC SECTORS ACCORDING TO THE JAPAN GROWTH STRATEGY

AI & Semiconductors	Disaster prevention and national resilience
Shipbuilding	Drug discovery and advanced medicine
Quantum technology	Fusion energy
Synthetic biology and biotechnology	Materials (critical minerals and component materials)
Aviation and space	Port logistics
Digital and cybersecurity	Defence industry
Content industry	Information and communications
Food tech	Marine and ocean
Resource, energy security and green transformation	

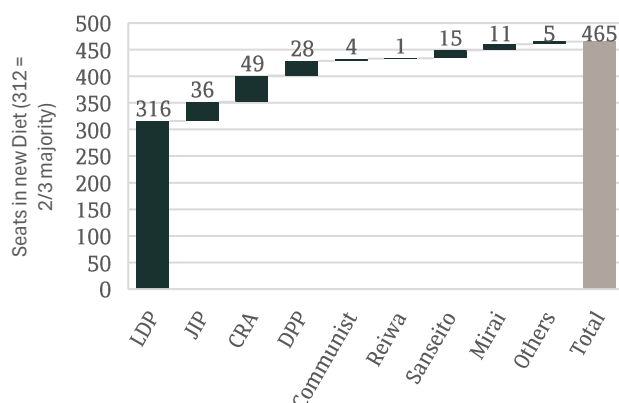
Source: BNP Paribas, ashi.com

TABLE 2: JAPAN'S EXPECTED POLITICAL EVENTS IN 2026

Date	Event
Feb 8th	General Election
Feb. 18th	Parliament reconvenes
March 19th	PM Takaichi to meet D. Trump in Washington
April	Annual budget passage
Spring	Revision of national defence strategies
Summer	Formulation of basic economic & fiscal policy
July 17th	Parliament adjourns
November	APEC summit
December	Conclusion of Social Security Reform Council

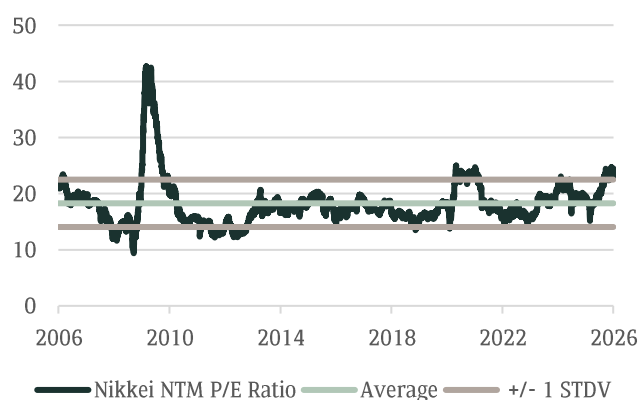
Source: BNP Paribas, Nikkei Asia

CHART 1: A LANDSLIDE VICTORY FOR THE LDP AS IT SECURED > 2/3 OF THE SEATS



Source: BNP Paribas

CHART 2: VALUATIONS ARE CLOSE TO THE PANDEMIC HIGHS...



Source: BNP Paribas, Bloomberg



BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world

Renewed pressure on the Bank of Japan

We continue to observe the government's preference for low interest rates, yet an expansionary fiscal stance in an environment of full employment is likely to exert upward pressure on inflation while weakening the currency. In our view, policymakers recognise that the inflationary and exchange rate effects of such fiscal expansion must be offset, at least partly, by monetary tightening. Moreover, the administration is likely to be cautious about a sharp depreciation of the yen, which could strain Japan's relationship with the United States. The next rate hike is expected in April, with further increases roughly every four to five months, aiming for a terminal policy rate of about 2% by late 2027. Because fiscal policy is projected to remain expansionary, the risk of a faster-than-anticipated tightening path and of a terminal rate that exceeds the 2% target remains material. We do not rule out the possibility that the Bank of Japan could bring the next hike forward to March, depending on currency movements. We believe government bond yields still have upside potential, especially if the planned consumption tax cut proceeds. This, together with an expected rise in the bond risk premium should keep yields elevated. Accordingly, we raise our 12-month target for the 10-year government bond yield from 2.10% to 2.40%.

Prime Minister Takaichi cannot ignore market dynamics. Should the yen weaken sharply or long-term yields spike, the government may postpone the tax cut. It appears that the prime minister views investment in economic security and defence upgrades as a higher priority than a reduction in the consumption tax.

More limited potential for the Yen to rebound

We believe the yen's outlook will be increasingly shaped by long-term factors such as debt and inflation dynamics rather than by yield differentials alone. As the chart below shows, real yields (after adjusting for inflation) have been a principal driver of the USD/JPY exchange rate. We anticipate further rate hikes in Japan while the Fed is likely to cut rates twice, which should narrow the yield differential. Nonetheless, concerns about a resurgence of inflation and rising government debt ratios are expected to cap the yen's upside. Accordingly, we revise our 3-month USD/JPY target to 158 and our 12-month target to 155 (price of one US dollar).

Guy Ertz, PhD.

Deputy Global Chief Investment Officer
BNP Paribas Wealth Management

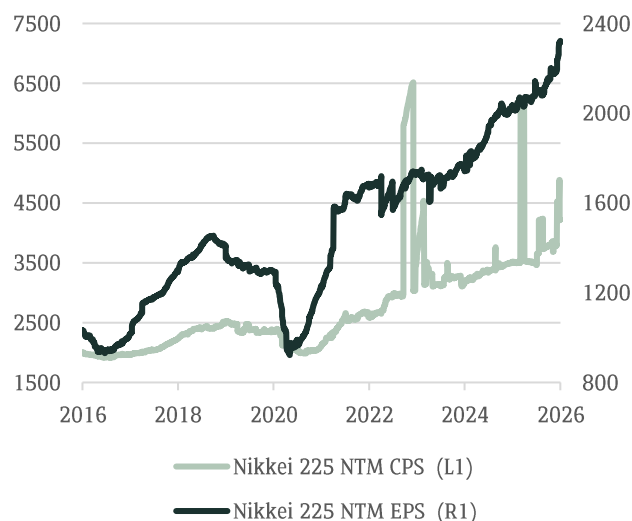


CHART 3: BUT LOOK FAR LESS EXTREME VS THE S&P 500



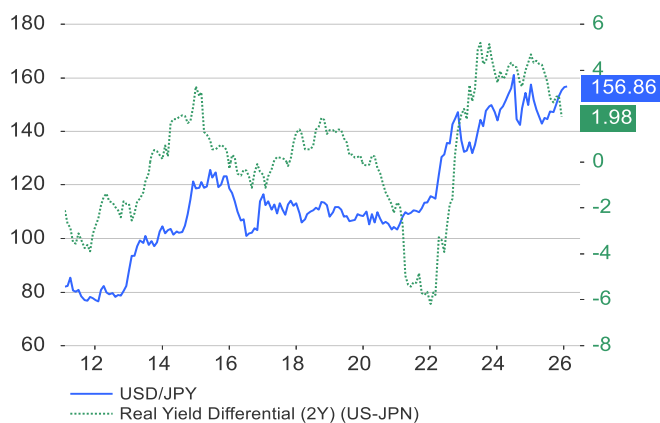
Source: BNP Paribas, Bloomberg

CHART 4: EARNINGS AND CASH FLOW EXPECTATIONS ARE PICKING UP



Source: BNP Paribas, Bloomberg

CHART 5: REAL YIELD DIFFERENTIAL VERSUS USD/JPY



Source: LSEG Datastream, 09/02/2026



BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world

TABLE 3 & 4: FX FORECASTS

	Country	Spot 08/02/2026	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD 1.18	Neutral	1.18	Negative	1.24
	United Kingdom	EUR / GBP 0.87	Neutral	0.87	Neutral	0.87
	Japan	EUR / JPY 185.39	Neutral	186	Negative	192
	Switzerland	EUR / CHF 0.92	Negative	0.94	Negative	0.94
	Australia	EUR / AUD 1.69	Negative	1.79	Negative	1.82
	New-Zealand	EUR / NZD 1.96	Neutral	1.97	Negative	2.07
	Canada	EUR / CAD 1.61	Neutral	1.63	Negative	1.67
	Sweden	EUR / SEK 10.66	Neutral	10.80	Neutral	10.60
	Norway	EUR / NOK 11.44	Neutral	11.60	Neutral	11.30
Asia	China	EUR / CNY 8.20	Neutral	8.26	Negative	8.68
	India	EUR / INR 107.16	Neutral	106.20	Negative	111.60
Latam	Brazil	EUR / BRL 6.18	Negative	6.37	Negative	7.07
	Mexico	EUR / MXN 20.46	Negative	21.24	Negative	22.63

	Country	Spot 08/02/2026	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD 1.18	Neutral	1.18	Positive	1.24
	United Kingdom	GBP / USD 1.36	Neutral	1.36	Positive	1.43
	Japan	USD / JPY 156.86	Neutral	158.00	Neutral	155.00
	Switzerland	USD / CHF 0.78	Negative	0.80	Positive	0.76
	Australia	AUD / USD 0.70	Negative	0.66	Negative	0.68
	New-Zealand	NZD / USD 0.60	Neutral	0.60	Neutral	0.60
	Canada	USD / CAD 1.36	Neutral	1.38	Neutral	1.35
Asia	China	USD / CNY 6.94	Neutral	7.00	Neutral	7.00
	India	USD / INR 90.67	Neutral	90.00	Neutral	90.00
Latam	Brazil	USD / BRL 5.23	Negative	5.40	Negative	5.70
	Mexico	USD / MXN 17.31	Negative	18.00	Negative	18.25
EMEA	South Africa	USD / ZAR 16.05	Negative	16.50	Neutral	16.00
	USD Index	DXY 97.63	Neutral	98.09	Negative	93.90

Source: BNP Paribas, Refinitiv Datastream. As at 9 February 2026

THE INVESTMENT STRATEGY TEAM

FRANCE

Edmund SHING

Global Chief Investment Officer

Hiba MOUALLEM

Investment Strategist

Isabelle ENOS

Senior Investment Advisor

Charles GIROT

Senior Investment Advisor

ITALY

Luca IANDIMARINO

Chief Investment Advisor

BELGIUM

Philippe GIJSELS

Chief Investment Advisor

Alain GERARD

Senior Investment Advisor, Equities

Patrick CASSELMAN

Senior Investment Strategist, PRB

GERMANY

Stephan KEMPER

Chief Investment Strategist

LUXEMBOURG

Guy ERTZ

Deputy Chief Investment Officer

ASIA

Prashant BHAYANI

Chief Investment Officer, Asia

Grace TAM

Chief Investment Strategist

Dannel LOW

Investment Services Analyst


BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world

CONNECT WITH US



wealthmanagement.bnpparibas

DISCLAIMER

This marketing document is communicated by the Wealth Management Métier of BNP Paribas, a French Société Anonyme, Head Office 16 boulevard des Italiens, 75009 Paris, France, registered under number 662 042 449 RCS Paris, registered in France as a bank with the French Autorité de Contrôle Prudentiel et de résolution (ACPR) and regulated by the French Autorité des Marchés Financiers (AMF). As marketing material, it has not been prepared in accordance with legal and regulatory requirements aimed at ensuring the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. It has not been submitted to the AMF or any other market authority.

This document is confidential and intended solely for the use of BNP Paribas SA, BNP Paribas Wealth Management SA or their affiliates ("BNP Paribas") and the persons to whom this document has been delivered. It may not be distributed, published, reproduced or disclosed by any recipient to any other person, nor may it be quoted or referred to in any document, without the prior consent of BNP Paribas.

This document is provided solely for information and shall not constitute an offer or solicitation in any state or jurisdiction in which such an offer or solicitation is not authorized, or to any person to whom it is unlawful to make such offer, solicitation or sale. It is not, and under no circumstances is it to be construed as, a prospectus.

Although the information provided herein may have been obtained from published or unpublished sources considered to be reliable and while all reasonable care has been taken in the preparation of this document, BNP Paribas does not make any representation or warranty, express or implied, as to its accuracy or completeness and does not accept responsibility for any inaccuracy, error or omission. BNP Paribas gives no warranty, guarantee or representation as to the expected or projected success, profitability, return, performance, result, effect, consequence or benefit (either legal, regulatory, tax, financial, accounting or otherwise) of any product or transaction. Investors should not place undue reliance on any theoretical historical information regarding such theoretical historical performance. This document may contain or refer to past performance; past performance is no guarantee for future performance.

The information contained in this document has been drafted without prior knowledge of your personal circumstances, including your financial position, risk profile and investment objectives.

Prior to entering into a transaction each investor should fully understand the financial risks, including any market risk associated with the issuer, the merits and the suitability of investing in any product and consult with his or her own legal, tax, financial and accounting advisors before making his or her investment. Investors should be in a position to fully understand the features of the transaction and, in the absence of any provision to the contrary, be financially able to bear a loss of their investment and willing to accept such risk. Investors should always keep in mind that the value of investments and any income from them may go down as well as up and that past performance should not be seen as an indication of future performance. Any investment in a product described herein is subject to the prior reading and understanding of the legal documentation concerning the product, and in particular the one which describes in details the rights and obligations of investors as well as the risks inherent to an investment in the product. Save as otherwise expressly agreed in writing, BNP Paribas is not acting as financial adviser or fiduciary of the investor in any transaction. The information, opinions and projections expressed herein reflect the opinion of their author at the time of writing; they are not to be relied upon as authoritative or taken in substitution for the exercise of judgment by anyone, and are subject to change without notice. Neither BNP Paribas nor any BNP Paribas Group entity accepts any liability whatsoever for any consequences that may arise from the use of information, opinions or projections contained herein.

As distributor of the products described herein, BNP Paribas may receive distribution fees on which you can obtain more information upon specific request. BNP Paribas, their employees or administrators may hold positions in these products or have dealings with their issuers.

By accepting this document, you agree to be bound by the foregoing limitations.

© BNP Paribas (2026). All rights reserved.



BNP PARIBAS
WEALTH MANAGEMENT

**The bank
for a changing
world**