



[Home](#) > [Insights](#) > [Market views](#)

## Market View

# Will Japan see a new wave of economic reforms?

from [Jeremy Sterngold](#) Deputy Chief Investment Officer

Date 31 October 2025

Reading time 7 minutes



At a glance

Japanese equities have surged this year driven by corporate reform and attractive valuations

Sanae Takaichi became Japan's first female prime minister, marking a historic political shift amid populist trends and new coalition dynamics

Takaichi's economic policy, seen as a possible extension of Abenomics, signals a move towards fiscal expansion and maintaining low interest rates

It has been a remarkable year in Japan. A combination of corporate reform, shareholder-friendly policies and attractive valuations has helped buoy equities, pushing the Topix up 21% and the Nikkei up 31% so far this year through 30 October in local currency terms.

Against this backdrop, Japan has also witnessed a historic political shift. Sanae Takaichi, a veteran conservative lawmaker who cites Margaret Thatcher as an influence, became the country's first female prime minister on 21 October, with her victory representing a milestone in a country where women have long struggled for influence.<sup>1</sup> Her path to becoming prime minister was not straightforward – her leadership election victory on 4 October led to the collapse of a long-standing coalition – but after securing a new coalition partner, she was elected prime minister by Japan's parliament on 21 October, breaking an important barrier and marking a significant moment for the country.<sup>2</sup>

Takaichi, a protégé of former Prime Minister Shinzo Abe, now faces a host of complex issues, including an ageing population, geopolitical upheaval, a sluggish economy, rising inflation and increasing unease about immigration.

Her victory has left investors wondering whether a new set of policies will reshape Japan's economic framework. Is this Abenomics 2.0, or something different altogether?

## Who is Japan's first female prime minister?

Takaichi, a former government minister, TV host and an avid heavy metal drummer is anything but conventional. The relationship with the United States is in focus, as she aims to build up Japanese military strength but hopes to work more closely with US President Donald Trump.

Takaichi is expected to move Japan further to the right in response to a recent populist wave that bears similarity to Trump's MAGA movement. She has embraced hawkish policies on China and promised to strictly regulate immigration and tourism.<sup>3</sup>

As for her economic policies, details are just now emerging about her plans, which are being interpreted by some as a continuation of Abe's policies but with more emphasis on fiscal expansion.

# Is this Abenomics 2.0?

Takaichi's policy, dubbed 'Sanaenomics', is expected to have significant implications for Japan's monetary policy, fiscal discipline and yen exchange rate.

## Abenomics

Introduced by then-Prime Minister Abe in 2012, Abenomics was a set of economic policies designed to revive the Japanese economy after decades of stagflation. The three arrows of Abenomics included monetary easing by the Bank of Japan (BoJ); increased government spending to stimulate demand and investment; and structural reforms to deregulate industries, encourage innovation and competition.

Like Abenomics, Sanaenomics has three pillars. The first aims to strengthen national crisis management capabilities and promote economic growth through investment. The second will involve expanding fiscal policy through taxation and efficient use of existing government funds. The third states that the government will assume responsibility for monetary policy, while the BoJ will retain autonomy in selecting specific policy tools.<sup>4</sup>

This last pillar has been the most impactful on markets, as it has dampened expectations of rate hikes. The BoJ held rates steady at 0.5% on 30 October, resulting in the yen giving up some of its gains relative to the dollar. While Japan faces pressure not to raise interest rates, the US's Federal Reserve (Fed) cut rates by 0.25% the previous day and faces calls to lower them further by the Trump administration.

Although the two policies share similarities, their primary focus differs. Abenomics prioritised aggressive monetary easing, while Sanaenomics appears more focused on fiscal expansion, emphasising 'anti-inflationary measures', such as increasing subsidies to local governments and introducing refundable tax credits.<sup>5</sup>

## A complicated relationship

Given her concerns about Japan's reliance on the United States, many were keen to see how her highly anticipated first meeting with Trump would go. Takaichi and Trump found an easy rapport. However, the series of meetings provided little clarity about trade deals. The leaders signed two vaguely worded agreements – one declaring a new "new golden age of the US-Japan alliance" and another to cooperate on expanding the supply chain for rare earth metals.<sup>6</sup> The agreement covering critical minerals and rare earths – a sector long dominated by China – came after Beijing tightened export controls on rare earth minerals, which are used in everything from semiconductor chips to fighter jets, although these threats have de-escalated

following talks between Trump and Chinese President Xi Jinping in South Korea this week.<sup>7</sup>

Takaichi essentially bought more time to plan out how to spend the \$550 billion her government has pledged to invest as part of an earlier trade deal with the US. In return for this investment into the US, Japan negotiated a 15% tariff rate on its exports,<sup>8</sup> lower than the 25% Trump initially threatened.

## What can we expect?

Japan stands at a critical juncture. The strong gains in equities and the historic ascent of its first female prime minister underscore a period of transformation. Yet Takaichi faces an enormously daunting task of translating campaign rhetoric into effective policy at a time when discord and tensions are rising.

While Japan's recent political and economic shifts mirror trends seen in the US – especially the rise of populist leadership and a renewed emphasis on national strength – key differences remain. Japan's preference for consensus-driven reform and incremental monetary policy changes diverge from the more aggressive moves seen from the Fed.

As both nations grapple with complex domestic and global headwinds, we will see whether Takaichi's approach prioritises Japan's blend of stability and change or signals a break towards a more US-style approach to populism and economics. Whether this new policy era proves to be a true successor to Abenomics or carves its own path, its impact on Japan's economic and geopolitical trajectory will become clear in the months and years to come.

[1] [Sanae Takaichi is Japan's New Prime Minister, and She's a Heavy Metal Drummer - The New York Times](#)

[2] [Sanae Takaichi sees herself as the successor to Shinzo Abe. But changes in Japan's politics present big challenges | Chatham House – International Affairs Think Tank](#)

[3] [Sanae Takaichi is Japan's New Prime Minister, and She's a Heavy Metal Drummer - The New York Times](#)

[4] ["Sanae Economics": The 2.0 Version of "Abenomics"?](#)

[5] ["Sanae Economics": The 2.0 Version of "Abenomics"?](#)

[6] [Trump Bonds With Japan's Leader Over Baseball and U.S. Beef - The New York Times](#)

[7] [Donald Trump lowers China tariffs and announces end to 'rare earths roadblock' after meeting Xi Jinping - BBC News](#)

[8] [Trump Bonds With Japan's Leader Over Baseball and U.S. Beef - The New York Times](#)

*This communication is provided for information purposes only. The information presented herein provides a general update on market conditions and is not intended and should not be construed as an offer, invitation, solicitation or recommendation to buy or sell any specific investment or participate in any investment (or other) strategy. The subject of the communication is not a regulated investment. Past performance is not an indication of future performance and the value of investments and the income derived from them may fluctuate and you may not receive back the amount you originally invest. Although this document has been prepared on the basis of information we believe to be reliable, LGT Wealth Management UK LLP gives no representation or warranty in relation to the accuracy or completeness of the information presented herein. The information presented herein does not provide sufficient information on which to make an informed investment decision. No liability is accepted whatsoever by LGT Wealth Management UK LLP, employees and associated companies for any direct or consequential loss arising from this document.*

*LGT Wealth Management UK LLP is authorised and regulated by the Financial Conduct Authority in the United Kingdom.*

## About the author



**Jeremy Sterngold**  
Deputy Chief Investment Officer

Jeremy is our Deputy Chief Investment Officer. He sits on the Investment Committee and chairs the Fixed Income Committee. His coverage encompasses both rate and credit products and works closely with the funds team.

Investors should be aware that past performance is not an indication of future performance, the value of investments and the income derived from them may fluctuate and you may not receive back the amount you originally invested.

LGT Wealth Management UK LLP is authorised and regulated by the Financial Conduct Authority (FCA). Registered in England and Wales: OC329392. Registered office: Fourteen Cornhill, London, EC3V 3NR.