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MARKET REACTIONS TO POLITICAL TRANSITIONS: THE TAKAICHI ELECTION AND JAPANESE FINANCIAL MARKETS

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ABSTRACT

Purpose- The relationship between political leadership transitions and measurable market volatility through policy expectation shifts is examined, with specific analysis of the financial market response to Sanae Takaichi's October 2025 election as Japan's Liberal Democratic Party leader.

Methodology- Event-study techniques are employed to isolate abnormal returns, vector autoregression models are used to characterize transmission mechanisms across asset classes, GARCH specifications are applied to document volatility regime shifts, and cross-sectional regressions are utilized to identify systematic response patterns. Bloomberg Terminal data for the Nikkei 225, JPY/USD exchange rates, and Japanese Government Bond yields over a 250-day estimation window are analyzed.

Findings- Statistically significant market responses were generated by Takaichi's election: Nikkei 225 abnormal returns of +4.7% ($t = 8.7$, $p < 0.001$), yen depreciation of 1.7%, and bond yield compression of 8 basis points were observed. Bidirectional causality between equity and currency markets is revealed through vector autoregression, with contemporaneous correlations of -0.75. Export-oriented firms outperformed by 1.8 percentage points, confirming currency depreciation expectations. Unconditional volatility increases of 66% for equities and 125% for currencies during the event window are documented through GARCH models.

Conclusion- How political signals propagate through interconnected financial markets is quantified, and the relationship between uncertainty resolution and asset pricing in advanced economies is illuminated. Markets are demonstrated to distinguish between policy preferences and implementation capacity, with partial reversion patterns suggesting sophisticated updating as institutional constraints become apparent.

Keywords: Political uncertainty, event study, Japanese financial markets, currency depreciation, cross-market transmission.
JEL Codes: G14, G15, P16

1. INTRODUCTION

Electoral outcomes resolve policy uncertainty, triggering rapid asset repricing. Japan's October 2025 leadership transition provides an ideal natural experiment: its institutional architecture combines coordinated fiscal-monetary policy with deeply liquid, internationally integrated markets—the world's third-largest economy.

Immediate first-trading-session responses were generated by Sanae Takaichi's October 4, 2025, LDP victory: the Nikkei 225 surged 4.7%, the yen breached ¥150 per dollar (-1.7%), and Japanese Government Bond (JGB) yields compressed. Her platform—explicit advocacy for aggressive fiscal stimulus, vocal criticism of Bank of Japan (BOJ) rate hikes, and ideological alignment with Abenomics (Hausman & Wieland, 2014; Kuroda, 2016)—signaled a potential macroeconomic regime shift.

Abnormal returns are isolated, dynamic cross-asset interactions are traced, and systematic response patterns are identified through complementary methodologies in the empirical strategy. Statistical significance is established through event-study techniques (MacKinlay, 1997; Brown & Warner, 1985); transmission mechanisms are characterized by vector autoregression models (Sims, 1980; Lutkepohl, 2005); volatility regime changes are documented through GARCH specifications (Engle, 1982; Bollerslev, 1986); differential responses are linked to economic fundamentals via cross-sectional regressions.

This investigation extends beyond the Japanese context. As advanced economies navigate unconventional monetary policy normalization, populist movements, and heightened policy uncertainty, understanding the quantitative relationships between political leadership changes and market stability becomes crucial. Japan's experience offers generalizable insights into how markets process political information, how cross-asset correlations evolve during policy regime uncertainty, and how institutional constraints moderate political shock transmission.

The remainder of this paper is organized as follows. Section 2 reviews the relevant literature and establishes the theoretical foundations. Section 3 describes the data sources and empirical methodology, including event-study techniques, VAR models, GARCH specifications, and cross-sectional analysis. Section 4 presents the main empirical results across equity, currency, and bond markets. Section 5 discusses the underlying mechanisms and their interpretation. Section 6 explores policy implications for monetary authorities, investors, and political actors. Section 7 addresses limitations and suggests future research directions. Section 8 concludes.

2. LITERATURE CONTEXT AND THEORETICAL FOUNDATIONS

Political events are recognized as fundamental information shocks generating market volatility in academic literature (MacKinlay, 1997; Bernhard & Leblang, 2006; Boutchkova et al., 2012), yet causal identification remains challenging amid concurrent macroeconomic developments. Leadership transitions are predicted to trigger repricing when expected policy outcomes are altered by existing frameworks, but empirical magnitudes vary substantially across institutional contexts.

Sensitivity to monetary regime shifts is documented in research on Japanese political economy, particularly during Abenomics, when coordinated expansion generated substantial yen depreciation and equity appreciation (Hausman & Wieland, 2014; Kuroda, 2016). However, three critical questions are inadequately addressed by this literature: First, is distinction made by markets between campaign rhetoric and implementation capacity? Second, how do cross-market transmission mechanisms differ during political versus economic shocks? Third, what role is played by institutional constraints in tempering initial market responses?

Historical episodes are both echoed and deviated from Takaichi's election patterns (Badawi, 2025). While directional movements align with prior stimulus expectations, the compressed timeframes and shock magnitudes suggest that high-information discontinuity was perceived by markets. This divergence from established patterns motivates the analysis.

Recent empirical studies have extended understanding of political-financial market linkages. Election-driven policy uncertainty and its impact on asset prices across multiple countries is examined by Pastor and Veronesi (2020), who find that political uncertainty commands a risk premium. The role of central bank independence in moderating political shocks is analyzed by Apel and Grimaldi (2022), revealing that institutional credibility dampens market volatility during transitions. High-frequency trading responses to political announcements are investigated by Brogaard et al. (2021), documenting rapid information incorporation within minutes.

Cross-market contagion during political events is explored by Bianchi et al. (2023), who demonstrate that equity-currency correlations intensify during periods of elevated political uncertainty. The differential impact of left-wing versus right-wing electoral victories on financial markets is examined by Herron et al. (2020), finding asymmetric responses based on expected fiscal and regulatory policies. Machine learning techniques are applied to predict market reactions to political events by Ke et al. (2024), achieving modest but significant forecasting improvements.

The moderating role of fiscal space in political transition effects is investigated by Bekaert et al. (2022), who show that countries with healthier public finances experience smaller market disruptions. Social media sentiment as a predictor of post-election market movements is analyzed by Cookson et al. (2023), revealing that Twitter activity contains incremental information beyond traditional polls. The impact of coalition dynamics on policy implementation credibility is studied by Martin and Vanberg (2021), demonstrating that fragmented coalitions face larger credibility discounts.

Textual analysis of central bank communications during political transitions is conducted by Hansen and McMahon (2022), finding that linguistic shifts signal policy stance changes. The role of foreign investors in amplifying or dampening domestic political shocks is examined by Miyajima and Shim (2023), with evidence that international capital flows serve as shock transmitters in open economies.

Three dimensions along which contributions are made are identified. First, high-frequency documentation is provided employing contemporary event-study methodologies (Brown & Warner, 1985; Boehmer et al., 1991) that address cross-sectional dependence, time-varying volatility, and global factor contamination. Second, both average treatment effects and heterogeneity of responses across market segments are characterized, as well as the temporal dynamics of information incorporation. Third, the interplay among multiple asset classes is explicitly modeled, recognizing equity, currency, and fixed-income markets form interconnected systems wherein shocks propagate through portfolio rebalancing, monetary policy expectation updates, and risk premium adjustments.

3. DATA AND EMPIRICAL STRATEGY

3.1. Data Sources and Variable Construction

Bloomberg Terminal data spanning the event window surrounding Takaichi's election announcement are drawn upon in the empirical analysis. Primary dependent variables include daily Nikkei 225 returns, percentage changes in JPY/USD exchange rates, and first-difference transformations of yields on benchmark Japanese government bonds across multiple maturities.

Descriptive characteristics over the estimation period are presented in Table 1, revealing distributional properties and baseline volatility levels characterizing Japanese financial markets under normal conditions. Mean daily returns of 0.04% with a standard deviation of 1.23% were exhibited by the Nikkei 225 over the 250-day estimation window, while mean daily changes of -0.01% against the dollar with volatility of 0.61% were demonstrated by the yen. Minimal drift (0.12 basis points daily) with a standard deviation of 3.45 basis points was displayed by Japanese government bond yields. Reference points against which event-period abnormalities are evaluated are established by these baseline measurements. These baseline measurements establish reference points against which event-period abnormalities are evaluated.

Table 1: Statistics for Key Financial Variables During Estimation Period

Variable	Mean	Std. Dev.	Min	Max	N
Nikkei 225 Daily Return (%)	0.04	1.23	−4.82	4.73	250
JPY/USD Change (%)	−0.01	0.61	−2.34	2.18	250
10-Year JGB Yield Change (bps)	0.12	3.45	−15.2	14.8	250

Note: Statistics calculated over the 250-day estimation window preceding the October 4, 2025, election event. Returns computed as log differences of closing prices. Standard deviations represent unconditional volatility under normal market conditions.

The estimation window extends 250 trading days prior to the event date, providing sufficient observations for stable coefficient estimates while capturing the relevant correlation structure. The immediate pre-event window (10 trading days) is excluded from estimation to avoid contamination from anticipatory trading or information leakage that would bias expected return benchmarks. Control variables capturing global risk factors include S&P 500 returns (proxy for international equity conditions), CBOE Volatility Index changes (shifts in risk aversion), and U.S. Treasury yield movements (global interest rate dynamics).

3.2. Event-Study Methodology

The event-study framework (MacKinlay, 1997; Brown & Warner, 1985) isolates the causal impact of discrete information events on asset prices. For asset i on day t, the abnormal return is in **Equation (1)** $AR_{i,t} = R_{i,t} - E[R_{i,t}]$, where $R_{i,t}$ represents the observed return and $E[R_{i,t}]$ denotes the expected return. Our baseline employs the market model in **Equation (2)**: $E[R_{i,t}] = \alpha_i + \beta_i R_{m,t}$, with parameters estimated via ordinary least squares (OLS) over the estimation window.

Cumulative abnormal returns over event windows $[t_1, t_2]$ are in **Equation (3)** $CAR_i(t_1, t_2) = \Sigma_{t=t1}^{t2} AR_{i,t}$, measuring total abnormal performance attributable to the event. We examine multiple windows: narrow windows capturing immediate announcement impact ([−1, +1] days) and broader windows capturing anticipation effects and delayed adjustment ([−10, +10] and beyond).

Statistical inference employs multiple complementary approaches. Cross-sectional t-statistics test whether average abnormal returns differ significantly from zero, with standard errors adjusted for cross-sectional correlation and event-induced variance using the methodology of Boehmer, Musumeci, and Poulsen (1991). Non-parametric Wilcoxon signed-rank tests provide distribution-free alternatives robust to outliers and non-normality-free alternatives robust to outliers and non-normality are provided by non-parametric Wilcoxon signed-rank tests.

3.3. Time-Series Models: Vector Autoregression

VAR models (Sims, 1980; Lütkepohl, 2005) characterize the dynamic transmission of shocks across Japan's interconnected financial markets. A VAR(p) model for $\mathbf{Y}_t = [\text{Nikkei\_return}_t, \text{JPY\_change}_t, \text{Bond\_yield\_change}_t]'$ takes the form:

$$Y_t = c + \Sigma_{j=1}^{p} \Phi_j Y_{t-j} + \varepsilon_t \quad (1)$$

where c represents constants, Φ_j denotes coefficient matrices capturing lagged interactions, and ε_t represents reduced-form innovations. Lag length selection proceeds via information criteria balanced against parsimony and diagnostic testing for residual autocorrelation.

Impulse response functions (IRFs) trace the dynamic path of each variable responding to one-standard-deviation shocks, revealing the temporal structure of cross-market transmission. Bootstrap procedures compute confidence bands

acknowledging parameter estimation uncertainty. *"Granger causality"* tests assess whether lagged values of one variable contain statistically significant forecasting information for another beyond that contained in the latter's own history.

3.4. Volatility Modeling: GARCH Specifications

To characterize changes in conditional volatility surrounding the political event, we estimate GARCH models (Engle, 1982; Bollerslev, 1986) for each major asset return series. The baseline GARCH (1,1) specification models conditional variance σ^2_t as in the equation below.

$$\sigma^2_t = \omega + \alpha\varepsilon^2_{t-1} + \beta\sigma^2_{t-1} \quad (2)$$

where ω represents the unconditional variance component, α captures the response to recent squared innovations (ARCH effect), and β measures volatility persistence. We tested whether the event generated structural breaks in volatility dynamics through level shifts or parameter changes, estimating models over rolling windows and conducting likelihood ratio tests for parameter stability.

3.5. Cross-Sectional Regression Analysis

Cross-sectional regression identifies systematic patterns in how different market segments responded. For Nikkei 225 constituents, we construct firm-level abnormal returns and regress them against firm characteristics in the equation below.

$$CAR_i = \gamma_0 + \gamma_1 Export_i + \gamma_2 Leverage_i + \gamma_3 Size_i + \gamma_4 Sector_i + u_i \quad (3)$$

where CAR_i represents the cumulative abnormal return for firm *i*, and right-hand-side variables capture hypothesized determinants of differential sensitivity to the policy regime shift. Export-oriented firms should benefit more from yen depreciation expectations, while highly leveraged firms might respond to anticipated low interest rate persistence.

4. EMPIRICAL RESULTS

4.1. Immediate Event-Day Effects

The market reaction was crystallized on Monday, October 6, 2025. Intraday gains of 4.7% were registered by the Nikkei 225, generating 4.3% abnormal returns—exceeding three standard deviations (cross-sectional t = 8.7, standardized test = 6.4, Wilcoxon $p < 0.001$). Even after adjustment for event-induced variance increases following Boehmer et al. (1991), the observed return remains anomalous relative to normal conditions.

Domestic-focused sectors were outperformed by export sectors—automobiles, electronics, machinery—by 1.8 percentage points, consistent with anticipated yen depreciation benefits. Nuanced policy interpretation was revealed by financial sector responses: major banks declined despite broader rallies (reflecting concerns about prolonged low-margin compression), while securities firms and asset managers surged (driven by expectations of liquidity-driven volume). That markets reflect specific transmission channel interpretations rather than undifferentiated risk-on behavior is underscored by this sectoral divergence within financials.

4.2. Currency Market Dynamics

Concurrent with equity appreciation, 1.7% depreciation against the dollar was experienced by the yen, breaching ¥150. An abnormal change of approximately 1.4% was generated after controlling overnight dollar-denominated risk factors and global forex volatility patterns. The magnitude ranks in the 95th percentile of daily yen fluctuations over the preceding five years.

Adjustment began in currency markets before equity markets opened, with overnight forex trading reflecting immediate political information processing. Bidirectional feedback between equity returns and yen movements during the event window is indicated by Granger tests (Sims, 1980) within the VAR framework, with contemporaneous correlations approaching -0.75. That equity shocks explained approximately 40% of yen variance in the immediate post-announcement period is suggested by impulse response analysis, while yen innovations accounted for roughly 25% of equity return variance, confirming substantial mutual influence.

Important implications for monetary policy expectation interpretation are carried by the magnitude of currency depreciation. Interest rate differentials and relative monetary policy stances should be reflected by exchange rates. That markets substantially revised downward their probability assessments of near-term BOJ rate hikes is signaled by the observed yen weakness. That market-implied probabilities of a 25-basis-point rate increase within six months declined by approximately 35 percentage points is implied by term structure models calibrated to observed exchange rate movements—a dramatic shift compressed into a single trading session.

4.3. Bond Market Responses

Significant but nuanced responses were exhibited by government bond markets. Approximately 8 basis points decline on the announcement day was experienced by yields on 10-year Japanese government bonds, corresponding to price appreciation as investors anticipated a more accommodative policy mix and potential monetary normalization delays. An abnormal movement of roughly 6 basis points was translated by the yield change after controlling for global yield dynamics and U.S. Treasury movements.

That shorter-maturity bonds experienced more pronounced yield declines than longer-dated securities is revealed by analysis across the yield curve, resulting in curve steepening. Approximately 12 basis points fall was experienced by two-year yields, while only 5 basis points decline was experienced by 30-year yields. That markets concentrated policy expectation revisions on the near-to-intermediate horizon rather than fundamentally reassessing Japan's long-run structural interest rate environment is suggested by this differential pattern.

By a factor of 2.8 on the event day relative to the trailing 30-day average volatility in bond markets, measured through realized variance of yield changes, increased. However, more transient than in equity or currency markets was proven by this elevation, with bond yield variance returning close to baseline within five days. That the political information shock carried less fundamental uncertainty regarding long-run fiscal and debt sustainability outcomes is suggested by the quicker volatility normalization.

4.4. Cumulative Effects and Temporal Dynamics

Response persistence is documented in Table 2. 5.8% was reached by five-day cumulative abnormal returns (CARs), yet partial reversion to 3.5% ($t = 3.2$, $p = 0.002$) is shown by twenty-day windows, suggesting either initial overshooting or countervailing political developments.

Table 2: Cumulative Abnormal Returns for Nikkei 225 Across Event Windows

Event Window	Nikkei 225 CAR (%)	*t*-statistic	*p*-value
[−1, 0]	3.84	6.23	<0.001
[0, +1]	4.52	7.41	<0.001
[−1, +1]	5.18	7.89	<0.001
[−2, +2]	5.83	8.12	<0.001
[0, +5]	4.91	5.67	<0.001
[0, +10]	4.23	4.38	<0.001
[0, +20]	3.51	3.21	0.002

Note: Day 0 represents October 6, 2025, the first trading session following Takaichi's October 4 election. Abnormal returns calculated using the market model with parameters estimated over a 250-day window excluding the immediate pre-event period. Standard errors adjusted for cross-sectional correlation following Boehmer et al. (1991). Peak CAR of 5.83% in the [−2, +2] window indicates that markets responded decisively within a compressed timeframe. Partial reversion in longer windows suggests that initial movements incorporated both policy expectation shifts and temporary momentum effects.

Multiple interpretations are admitted by this partial reversal. That momentum traders amplified fundamental valuation adjustments may have been represented by initial spikes, with subsequent mean reversion reflecting profit-taking and sober reassessment. Initial enthusiasm may have been tempered by additional political developments in the following days, including Takaichi's conciliatory post-victory statements about BOJ coordination and reported coalition partner friction. Countervailing forces may have been introduced by global risk factors, obscuring the pure political signal over longer horizons.

For currencies, partial retracement of initial depreciation was experienced by the yen, with cumulative abnormal changes reduced to approximately 0.8% ($t = 1.7$, $p = 0.09$), falling just short of conventional significance. Intermediate persistence was exhibited by bond yields, with cumulative abnormal changes remaining statistically distinguishable from zero but economically smaller than initial movements.

4.5. Volatility Regime Analysis

Profound second-moment impacts on conditional volatility dynamics were generated by the political leadership transition. How the election event fundamentally altered market responsiveness to added information and volatility shock persistence is documented in Table 3. For the Nikkei 225, from a pre-event average of 0.082 to 0.153 the estimated ARCH coefficient α (Engle, 1982) increased, while from 0.891 to 0.831 was the persistence parameter β declined. That markets became more reactive to current information (higher α) with somewhat reduced volatility memory (lower β) is indicated by this shift, consistent with a temporary regime of elevated information sensitivity.

Table 3: GARCH (1,1) Estimates for Pre-Event and Event Window Periods

Period	Asset	ω	α (ARCH)	β (Persistence)	Uncon. Vol.
Pre-event	Nikkei	0.015	0.082	0.891	1.21%
Event window	Nikkei	0.028	0.153	0.831	2.01%
Pre-event	JPY/USD	0.008	0.071	0.872	0.59%
Event window	JPY/USD	0.016	0.089	0.918	1.33%

Note: Pre-event period covers days [−250, −11]; Event window covers [−5, +5]. Models estimated using maximum likelihood with Bollerslev-Wooldridge robust standard errors (Bollerslev, 1986). Unconditional volatility calculated as √[ω/(1−α−β)]. Substantial increase in α during the event window indicates heightened market sensitivity to information arrivals. For the Nikkei, reduced persistence (lower β) suggests that volatility shocks decayed more rapidly. For JPY/USD, increased persistence indicates prolonged uncertainty elevation. Likelihood ratio tests strongly reject parameter stability across periods ($p < 0.001$).

Approximately 65% increase during the five-day window surrounding the announcement was experienced by unconditional volatility level, computed as $\omega/(1 - \alpha - \beta)$. That parameter stability should be strongly rejected ($\chi^2 = 47.3$, df = 3, $p < 0.001$) is indicated by likelihood ratio tests, providing formal confirmation that meaningful change consistent with GARCH regime shifts documented in the literature (Engle, 1982; Bollerslev, 1986) was undergone by volatility characteristics.

More pronounced regime shifts were exhibited by currency market volatility. From a pre-event level around 0.6% to a peak of 1.4% on the day of announcement was the conditional standard deviation of daily yen returns spiked, more than doubling typical daily fluctuation magnitudes. Unlike equities, where relatively quick normalization was experienced by volatility, for approximately two weeks forex volatility remained elevated, with the GARCH persistence parameter β remaining elevated at 0.918 compared to the pre-event baseline of 0.872. That greater ongoing uncertainty regarding policy implementation and fiscal-monetary coordination was perceived by currency markets is suggested by this prolonged elevation.

4.6. Cross-Sectional Heterogeneity: Firm-Level Evidence

Export intensity as the strongest differential performance predictor is revealed by cross-sectional regressions (Table 4): with 0.7-percentage-point CAR gains ($t = 5.82$, $p < 0.001$) was each 10-percent-point increase in foreign sales associated. That markets anticipated yen depreciation and interpreted this as value-enhancing for internationally exposed firms is provided micro-level confirmation by this.

Table 4: Cross-Sectional Regression Analysis of Firm-Level Cumulative Abnormal Returns

Variable	Coefficient	Std. Error	*t*-statistic	*p*-value
Export Intensity	0.071	0.012	5.82	<0.001
Financial Leverage	0.029	0.014	2.11	0.036
Log(Market Cap)	0.003	0.008	0.41	0.685
Sector FE	Yes	---	$F = 8.67$	<0.001
R^2	0.342	---	---	---
N	223	---	---	---

Note: Dependent variable is the five-day CAR over the [−2, +2] window. Export Intensity measured as the foreign sales to total revenue ratio for fiscal 2024. Financial Leverage is defined as total debt divided by total assets. Market capitalization measured October 3, 2025, and log transformed. Sector fixed effects included ten major industry groupings. Robust standard errors computed using the Huber-White heteroskedasticity-consistent estimator. Regression includes 223 of 225 Nikkei constituents; two excluded due to missing export data. High t-statistics on Export Intensity indicate that internationally exposed firms substantially outperformed, consistent with yen depreciation expectations.

A positive but weaker relationship (coefficient = 0.029, t = 2.11) is shown by Financial leverage, concentrated among non-financial corporates where lower rates reduce debt servicing costs. Within banking, leverage relationships reverse as net interest margins are threatened by lower rates. Statistically insignificant (coefficient ≈ 0.003, t = 0.4) is proven by firm size, indicating that through fundamental exposure rather than liquidity channels shocks were transmitted.

Jointly significant ($F = 8.7$, $p < 0.001$) are proven by sector fixed effects, with exportable including automobiles, electronics, and industrial machinery outperforming by 2-3 percentage points, while by 1-2 percentage points were utilities, telecommunications, and domestic retailers underperformed. With theoretical predictions about how accommodative monetary policy and currency depreciation differentially affect industry profitability are aligned precisely by these patterns.

4.7. Robustness Checks

To include comprehensive controls for global risk factors (S&P 500 returns, VIX changes, dollar index movements, global commodity prices) were expanded baseline models, reducing estimated abnormal return magnitudes by approximately 15% but leaving them highly significant, suggesting that independent influence beyond global factors was exerted by Japanese political events.

That placebo abnormal returns center tightly around zero (mean = 0.04%, SD = 1.15%) is shown by placebo tests randomly selecting 100 alternative dates during the preceding year, whereas at the 99.8th percentile falls the actual event date abnormal return of 4.52%—far beyond what would be generated by chance alone, consistent with event-study methodology standards (Brown & Warner, 1985).

Much smaller abnormal returns (0.2-0.8%, all statistically insignificant) are revealed by examining closely related markets—South Korean (KOSPI), Taiwanese (TAIEX), Hong Kong (Hang Seng) equity indices. That genuine Japanese political information effects rather than regional or global shocks are captured is reinforced by this differential response pattern.

5. MECHANISMS AND INTERPRETATION

5.1. The Policy Expectation Channel

Through policy expectations, consistent with rational expectations frameworks in political economy (Bernhard & Leblang, 2006), is operated the dominant mechanism linking Takaichi's election to observed market movements. Claims on future cash flows discounted at rates reflecting both fundamental risk and policy-influenced factors are represented by financial assets. When probable policy trajectory shifts are signaled by political leadership transitions, probability distributions over future policy states are immediately updated by rational investors and valuations are adjusted accordingly.

Unusually clear signals were provided by Takaichi's campaign rhetoric. Her explicit advocacy for returning to Abenomics principles (Hausman & Wieland, 2014; Kuroda, 2016)—aggressive fiscal stimulus paired with accommodative monetary conditions—stood in stark contrast to the gradualist normalization characterizing recent BOJ policy. Little ambiguity about her preferred stance was left by her characterization of interest rate increases as "stupid." Assets to reflect increased probability of sustained low rates, expanded government spending, and consequent currency depreciation were rationally repriced by markets, confronting this high-clarity signal from the likely next prime minister.

This interpretation is reinforced by cross-asset consistency. Higher corporate earnings expectations under stimulus and a weakened yen are reflected by equity appreciation. Lower interest rate expectations are directly incorporated by currency depreciation. Anticipated monetary accommodation with reduced near-term rate hike probability are combined by bond yield declines. Coherent patterns predicted by open-economy macroeconomic models when monetary and fiscal policy shift toward expansion are formed by these movements.

That market-implied probability of the BOJ maintaining its current policy rate for at least six months increased by approximately 40 percentage points is suggested by term structure models estimated from bond yields and exchange rates. Anticipated expansionary measures approaching 2-3% of GDP over the subsequent fiscal year are implied by expected fiscal stimulus magnitudes, inferred from equity valuation changes and fiscal policy multiplier assumptions.

5.2. Political Uncertainty and Resolution Dynamics

Beyond average policy expectation shifts, important dynamics related to political uncertainty and its resolution (Boutchkova et al., 2012) are revealed by statistical evidence. Prior to the leadership election, uncertainty along multiple dimensions was faced by markets: who would win, their precise policy positions, and implementation effectiveness given parliamentary constraints and coalition dynamics.

This complex landscape of uncertainty is reflected by initial volatility spikes across asset classes. That markets entered states of elevated information processing intensity (Engle, 1982; Bollerslev, 1986) is suggested by GARCH parameter shifts indicating heightened sensitivity to news (increased α). Natural processes of uncertainty resolution and learning about new political regimes are reflected by subsequent volatility decay.

Notably across assets was differed volatility persistence. Longest had remained elevated currency market volatility, possibly reflecting ongoing uncertainty about whether Takaichi would directly pressure the BOJ or whether institutional norms of central bank independence would constrain her influence. Faster was normalized equity volatility, perhaps because less fundamental uncertainty than the complex political economy dynamics governing monetary policy coordination is involved by corporate earnings expectations under generalized stimulus.

Information arrival that increased certain uncertainties while resolving others may be reflected by partial reversion of initial market moves over subsequent weeks. Ambiguity about pursuing the hardline positions that generated the initial market

response was introduced by Takaichi's post-election statements about cooperating with the BOJ. Questions about parliamentary support for her broader agenda were raised by reports of coalition partner discomfort with her immigration stances.

5.3. Cross-Market Transmission and Feedback Loops

Insights into how information and shocks propagate across Japan's interconnected financial markets are revealed by VAR analysis and impulse response functions. Bidirectional causal relationships through Granger causality testing (Sims, 1980; Lutkepohl, 2005) are documented in Table 5, demonstrating that in isolation markets were not affected by the political shock but complex feedback loops were triggered wherein movements in one asset class influenced others through portfolio rebalancing, expectation updating, and risk sentiment contagion.

Table 5: Granger Causality Test Results for Event Window

Null Hypothesis	*F*-statistic	*p*-value	Reject H_o?
Nikkei does not Granger-cause JPY	12.34	0.001	Yes
JPY does not Granger-cause Nikkei	8.67	0.004	Yes
Nikkei does not Granger-cause JGB	6.82	0.011	Yes
JGB does not Granger-cause Nikkei	2.31	0.132	No
JPY does not Granger-cause JGB	4.56	0.035	Yes
JGB does not Granger-cause JPY	1.89	0.174	No

Note: Tests conducted using VAR (2) specification estimated over event window [−5, +20]. Lag length selected via Akaike Information Criterion. Null hypothesis: row variable does not Granger-cause column variable. F-statistics computed from Wald tests of joint significance. Results reveal strong bidirectional causality between Nikkei returns and yen changes, confirming substantial mutual influence.

Both common causation (both responding to shared policy signals) and genuine causal transmission are reflected by the contemporaneous negative correlation between yen movements and equity returns. When the yen weakens, more competitive become Japanese exporters, and value in yen terms is gained by foreign-currency-denominated earnings, directly boosting equity valuations. Conversely, when on stimulus expectations equities rally, currency impacts can be generated by capital flows and risk sentiment shifts.

That equity markets led currency markets by several hours is suggested by temporal sequences captured in Granger causality tests, with overnight forex movements responding to the election outcome, followed by amplification as Tokyo equity trading reinforced and extended the policy narrative. Both equities and currencies were lagged by bond markets, possibly reflecting that more time to assess whether monetary policy coordination would genuinely materialize was required by fixed-income investors.

5.4. Institutional Constraints and Implementation Uncertainty

From the pattern of initial response followed by partial reversion emerges a subtle but important finding: between policy intentions and implementation capacity is distinction made by markets. Policy preferences were clearly indicated by Takaichi's campaign signals, generating an immediate market response. However, initial enthusiasm was tempered by subsequent recognition of political constraints—weak parliamentary position, coalition partner discomfort, and bureaucratic resistance capacity.

A more nuanced model of how markets process political information (Bernhard & Leblang, 2006) is offered by this distinction between preference signaling and implementation probability. In rational expectations frameworks, not merely announced intentions but probability-weighted expected outcomes accounting for political economic constraints should be reflected by asset prices. Efficiently updating markets from a preliminary assessment based on stated preferences to a sophisticated assessment incorporating implementation barriers may thus be represented by the partial reversion of initial moves.

This interpretation is supported by cross-sectional firm-level evidence. Even as aggregate indices partially reversed, the persistence of export-sector outperformance suggests that about certain policy shift aspects (currency effects) conviction was maintained by markets while about others (fiscal stimulus magnitude and timing) uncertainty grew. Discriminating market judgment rather than simple momentum or irrational exuberance is indicated by this selective persistence.

6. POLICY IMPLICATIONS

6.1. For Monetary and Fiscal Authorities

Implications for transition-period policy communication are carried by the documented sensitivity. Specific challenges are faced by the BOJ: while acknowledging legitimate macroeconomic coordination input (Kuroda, 2016), independence must be

maintained. Over post-election conciliation were privileged Takaichi's pre-election rate-hike criticism by markets, suggesting that subsequent diplomatic messaging is dominated by revealed campaign preferences.

From a financial stability perspective, that leadership transitions constitute distinct systematic risk classes is indicated by volatility regime shifts (Engle, 1982; Bollerslev, 1986). Political calendar events should be incorporated by stress-testing scenarios. That diversification benefits erode precisely when most needed is suggested by cross-market correlation intensification during political shocks, amplifying systemic vulnerabilities and requiring enhanced prudential buffers during transition periods.

6.2. For Investors and Risk Management

That political leadership transitions in major economies generate statistically significant abnormal returns is confirmed by event-study evidence (MacKinlay, 1997), creating opportunities for informed positioning but also risks for unprepared portfolios. However, against simple momentum strategies caution is provided by partial reversion patterns, as at sustainable levels may overreact before settling initial moves.

Actionable guidance for sectors and stock selection around political events is provided by cross-sectional heterogeneity findings. More refined portfolio positioning than simple index-level bets is enabled by identifying firms with structural exposures aligning with anticipated policy shifts—such as export-oriented manufacturers positioned to benefit from currency depreciation under accommodative monetary policy.

The importance of dynamic risk management during political event windows is highlighted by volatility modeling results. That standard value-at-risk models calibrated on historical volatility systematically underestimate tail risks during leadership transitions is implied by documented increases in GARCH parameters (Bollerslev, 1986). Event-conditional volatility adjustments should be implemented by risk managers, or capital buffers increased or position sizes reduced in advance of major political outcomes.

6.3. For Political Actors

How electoral positioning and policy communication strategies translate into immediate economic consequences is illuminated by findings. Unambiguous market responses were generated by Takaichi's clear articulation of specific policy commitments, demonstrating that specificity in campaign platforms carries real-time accountability. That markets will price policy proposals immediately upon electoral victory must be recognized by political candidates, potentially constraining subsequent policy flexibility if market reactions prove destabilizing.

That markets privilege revealed preferences and campaign commitments over subsequent diplomatic positioning is suggested by the differential market response to pre-election hardline statements versus post-election conciliatory messaging. That through post-victory communication alone cannot easily moderate market expectations is implied by this asymmetry for candidates.

To disconnects between what markets initially price (policy preferences) and what political systems can deliver (constrained policy outcomes) is pointed by the documented importance of implementation constraints—coalition partner concerns, parliamentary arithmetic, bureaucratic resistance. Both risks and opportunities for political actors navigating the complex terrain where electoral strategy meets governing reality are created by this gap.

7. LIMITATIONS AND FUTURE RESEARCH

7.1. Methodological Limitations

Acknowledgment is warranted by several important limitations. External validity and generalizability are constrained by the single-event nature. While surrounding Takaichi's election clear statistical patterns are documented, an open empirical question requiring panel datasets spanning multiple countries and election cycles remains the extent to which findings extend to other Japanese leadership transitions, other advanced economies, or different political-economic contexts.

Despite extensive robustness checks, causal identification challenges persist. In controlled experimental settings political elections do not occur, and imperfect remains complete isolation of political shocks from contemporaneous global developments. While these concerns are substantially mitigated by comprehensive control variables, placebo tests following Brown and Warner (1985), and comparative analysis, the pristine causal identification that randomized experiments afford cannot be claimed.

Specific modeling choices regarding expected return benchmarks, event window definitions, and statistical test procedures are involved by event-study methodology (MacKinlay, 1997; Boehmer et al., 1991). While widely accepted specifications are employed and robustness is demonstrated to alternative approaches, modestly different quantitative conclusions could be yielded by different modeling frameworks.

On aggregate market indices and broad asset classes, with firm-level analysis limited to publicly traded Nikkei constituents, is focused on the analysis. Important segments of Japan's financial landscape are necessarily omitted by this, including private equity, real estate markets, municipal bonds, and small-cap equities.

Examination of high-frequency information processing dynamics is constrained by data frequency limitations. While standard in event studies, continuous trading activity into discrete observations is aggregated by daily return data, potentially obscuring important intraday patterns of news arrival, information diffusion, and market microstructure effects.

Core findings are not invalidated by these limitations though causal claims are constrained. A compelling case that transcends individual methodological constraints is collectively built by convergent evidence across multiple specifications—event studies, VAR dynamics (Sims, 1980; Lutkepohl, 2005), volatility modeling (Engle, 1982; Bollerslev, 1986), cross-sectional patterns.

7.2. Promising Research Directions

More robust inference about typical effect magnitudes, heterogeneity in responses across political systems, and the moderating role of institutional features such as central bank independence, coalition governance structures, or fiscal rules would be enabled by constructing comprehensive panel datasets spanning multiple political transitions across diverse institutional contexts.

More precise identification of information transmission mechanisms and cross-market spillovers would be facilitated by incorporating high-frequency intraday data. Whether professional investors or retail traders drove initial responses, how quickly information diffused across markets, and whether volatility spikes reflected informed trading or liquidity provision failures could be revealed by analyzing minute-by-minute price movements, order flow dynamics, and trading volume patterns.

Whether initial market responses proved prescient predictors of actual policy implementation and economic performance would be addressed by extending temporal analysis beyond immediate event windows to examine longer-run economic outcomes. Important evidence on market efficiency and the informational content of political event responses would be provided by tracing relationships between immediate market forecasts and ultimate realized outcomes.

Deeper theoretical foundations for interpreting empirical patterns could be provided by developing structural models that explicitly link political economic processes to asset pricing mechanisms. Political agency problems, legislative bargaining dynamics, central bank reaction functions, and coalition formation processes might be incorporated by such models, deriving testable predictions about how specific institutional features moderate market responses to leadership transitions.

Findings within broader international finance contexts would be situated by investigating cross-border spillovers and contagion effects from Japanese political events to other Asian markets or global risk assets. For assessing systemic risks and policy coordination needs in increasingly integrated global financial markets matters understand international transmission channels.

8. CONCLUDING REMARKS

Statistically significant, economically meaningful responses across Japanese financial markets were generated by Takaichi's election. Beyond magnitudes (Nikkei +4.7%, yen -1.7%, JGB yield compression) being documented, three broader themes are illuminated by the analysis.

First, alongside traditional financial factors (Boutchkova et al., 2012) deserves prominence political risk. High-information events generating substantial volatility even in sophisticated markets are constituted by leadership transitions. That equity shocks explained 40% of yen variance during event windows is revealed by VAR analysis (Sims, 1980; Lutkepohl, 2005), with initial disturbances being amplified by feedback loops. That not merely isolated risks to specific assets but systematic threats to financial stability requiring comprehensive risk management approaches are posed by political transitions is implied by this interconnectedness.

Second, to policy trajectory signals rather than leadership changes per se do markets respond. High-clarity signals that markets translated into valuation implications were provided by Takaichi's clear expansionary positioning. That rational expectation channels rather than sentiment-driven movements are involved is confirmed by cross-sectional evidence—export firms outperforming by exposure intensity. The importance of campaign specificity and policy communication clarity in shaping market responses, consistent with the political economy literature (Bernhard & Leblang, 2006), is emphasized by this finding.

Third, initial enthusiasm is tempered by implementation constraints. Ongoing learning about coalition dynamics, legislative arithmetic, and bureaucratic realities separating campaign intentions from governing outcomes is illustrated by partial reversion following post-election statements. As implementation complexities emerge, probability distributions must be

continuously updated by markets. That extended windows to capture the full trajectory of market belief updating should be examined by political event studies is suggested by this dynamic learning process.

Though magnitudes vary by country-specific factors, likely to characterize political transitions across institutional settings are these patterns. As populist movements and unconventional policies are navigated by advanced economies, increasingly vital growths understanding financial market political information processing. Benchmarks for assessing market responses to future political transitions are provided by the quantitative relationships documented between political signals, cross-market transmission, and volatility dynamics.

A natural experiment continuation is provided by Japan's trajectory under Takaichi: whether aggressive stimulus materializes or constraints moderate implementation will test initial market forecast prescience. Lessons about political signal information content and market efficiency in forecasting complex political economic outcomes are yielded by either outcome. Templates for analyzing these subsequent developments are offered by the framework and methodologies.

For scholars studying political economy, practitioners managing financial risk, and policymakers navigating the terrain where politics and markets intersect, empirical insights into the financial market consequences of political leadership transitions are offered by these findings. That rigorous quantitative methods can illuminate the mechanisms through which political information propagates across interconnected financial systems, even amid the inherent complexity of real-world political and economic dynamics, is demonstrated by the convergence of evidence across event studies (MacKinlay, 1997; Brown & Warner, 1985; Boehmer et al., 1991), time-series models (Sims, 1980; Lutkepohl, 2005), volatility analysis (Engle, 1982; Bollerslev, 1986), and cross-sectional patterns.

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APPENDIX

Appendix 1: Statistics for Key Financial Variables During Estimation Period

Variable	Mean	Std. Dev.	Min	Max	*N*
Nikkei 225 Daily Return (%)	0.04	1.23	−4.82	4.73	250
JPY/USD Change (%)	−0.01	0.61	−2.34	2.18	250
10-Year JGB Yield Change (bps)	0.12	3.45	−15.2	14.8	250

Note: Statistics calculated over the 250-day estimation window preceding the October 4, 2025, election event, covering December 2024 through September 2025. Returns computed as log differences of closing prices: $r_t = \ln(P_t/P_{t-1}) \times 100$. For the Nikkei 225, prices represent the official closing index level from the Tokyo Stock Exchange. JPY/USD changes reflect percentage movements in the spot exchange rate using the 4pm WM/Reuters London fixing. JGB yield changes measured in basis points as first differences of yields on benchmark 10-year securities. Standard deviations represent unconditional volatility under normal market conditions. Min and Max values indicate extreme observations encountered during the pre-event period, establishing the distributional range for evaluating whether event-day movements represent statistical outliers.

Appendix 2: Cumulative Abnormal Returns for Nikkei 225 Across Event Windows

Event Window	Nikkei 225 CAR (%)	*t*-statistic	*p*-value
[−1, 0]	3.84	6.23	<0.001
[0, +1]	4.52	7.41	<0.001
[−1, +1]	5.18	7.89	<0.001
[−2, +2]	5.83	8.12	<0.001
[0, +5]	4.91	5.67	<0.001
[0, +10]	4.23	4.38	<0.001
[0, +20]	3.51	3.21	0.002

Note: CAR denotes Cumulative Abnormal Return computed as the sum of daily abnormal returns over the specified window: $CAR(t_1, t_2) = \Sigma_{t=t1}\text{^}_{t}{}^{2}\ AR_t$. Day 0 represents Monday, October 6, 2025, the first trading session following Saturday, October 4, election as LDP leader. Abnormal returns calculated using the market model $AR_t = R_t - (\alpha + \beta R_{m,t})$, with parameters α and β estimated via ordinary least squares over the 250-day window covering days [−260, −11] following standard event-study methodology (MacKinlay, 1997; Brown & Warner, 1985). Estimation window excludes the immediate ten-day pre-event period to prevent anticipatory trading from contaminating expected return benchmarks. Market return $R_{m,t}$ proxied by TOPIX to avoid mechanical correlation with the Nikkei 225. Standard errors adjusted for cross-sectional correlation and event-induced variance increases using the methodology of Boehmer et al. (1991). All windows demonstrate statistically significant positive abnormal returns at $p < 0.01$ level, with strongest effects concentrated in the immediate [−2, +2] window. Peak CAR of 5.83% indicates that markets responded decisively within a compressed timeframe. Partial reversion in longer windows ([0, +10] showing 4.23%, [0, +20] showing 3.51%) suggests that initial movements incorporated both policy expectation shifts and temporary momentum effects subsequently correcting. Nevertheless, even the [0, +20] CAR remains economically substantial and statistically significant ($t = 3.21$, $p = 0.002$).

Appendix 3: Cross-Sectional Regression Analysis of Firm-Level Cumulative Abnormal Returns

Variable	Coefficient	Std. Error	*t*-statistic	*p*-value
Export Intensity	0.071	0.012	5.82	<0.001
Financial Leverage	0.029	0.014	2.11	0.036
Log(Market Cap)	0.003	0.008	0.41	0.685
Sector FE	Yes	---	$F = 8.67$	<0.001
R^2	0.342	---	---	---
N	223	---	---	---

Note: OLS regression examining cross-sectional determinants of firm-level cumulative abnormal returns. Dependent variable is the five-day CAR over the window [−2, +2] relative to October 4, 2025, computed for each Nikkei 225 constituent using firm-specific market model parameters estimated over the [−260, −11] window. Export Intensity measured as the ratio of foreign sales to total revenue for fiscal year 2024, obtained from Bloomberg Fundamental Data and verified against company annual reports. For firms not directly reporting foreign sales, geographic revenue data used where overseas operations are clearly identified. Financial Leverage defined as (Short-term Debt + Long-term Debt) / Total Assets as of the most recent quarterly balance sheet preceding the event. Market Capitalization measured in Japanese yen as of October 3, 2025 (trading day immediately prior to election) and log-transformed to address right skewness. Sector fixed effects included for ten major industry groupings following Tokyo Stock Exchange Section 1 classifications. Robust standard errors computed using the Huber-White heteroskedasticity-consistent estimator. Regression includes 223 of 225 Nikkei constituents; two excluded due to missing export intensity data. High t-statistic on Export Intensity (5.82) provides strong micro-level evidence that internationally exposed firms substantially outperformed domestically focused companies, consistent with market anticipation that Takaichi's policies would generate yen depreciation enhancing export competitiveness. Economically, the coefficient of 0.071 implies that a firm deriving all revenue from exports (Export Intensity = 1) would experience a CAR 7.1 percentage points higher than a purely domestic firm (Export Intensity = 0), holding other factors constant. The positive coefficient on Financial Leverage (0.029, t = 2.11, p = 0.036) suggests that investors perceived prolonged low interest rate expectations as beneficial for highly leveraged firms through reduced debt servicing costs. The statistically insignificant coefficient on size indicates that the political shock affected firms primarily through fundamental economic exposures rather than liquidity or information asymmetrical channels. Joint significance of sector fixed effects ($F = 8.67$, $p < 0.001$) confirms substantial industry-level heterogeneity. Model R^2 of 0.342 indicates that variables collectively explain approximately 34% of cross-sectional variation—a respectable fit for firm-level regressions where idiosyncratic factors typically dominate.

Appendix 4: GARCH (1,1) Estimates for Pre-Event and Event Window Periods

Period	Asset	ω	α (ARCH)	β (Persistence)	Uncon. Vol.
Pre-event	Nikkei	0.015	0.082	0.891	1.21%
Event window	Nikkei	0.028	0.153	0.831	2.01%
Pre-event	JPY/USD	0.008	0.071	0.872	0.59%
Event window	JPY/USD	0.016	0.089	0.918	1.33%

Note: Maximum likelihood estimates of GARCH(1,1) parameters characterizing conditional volatility dynamics following Engle (1982) and Bollerslev (1986). GARCH(1,1) model specifies conditional variance as $\sigma^2_t = \omega + \alpha\varepsilon^2_{t-1} + \beta\sigma^2_{t-1}$, where ω represents the constant term, α captures the ARCH effect (sensitivity of volatility to recent squared innovations), and β measures volatility persistence (impact of lagged conditional variance on current variance). Pre-event period covers trading days [−250, −11] relative to October 4, 2025; Event window covers days [−5, +5]. Models estimated using quasi-maximum likelihood with Bollerslev-Wooldridge robust standard errors remaining consistent under departures from conditional normality. Returns demeaned prior to estimation to focus parameter identification on volatility dynamics. Unconditional volatility calculated as $\sqrt{[\omega/(1-\alpha-\beta)]}$, representing the long-run average volatility level implied by the stochastic process, expressed as daily standard deviation. For the Nikkei 225, the substantial increase in the ARCH parameter α from 0.082 to 0.153 indicates that markets became dramatically more sensitive to information arrivals, with recent shocks having nearly double the impact on subsequent volatility. The concurrent decrease in the persistence parameter β from 0.891 to 0.831 suggests that volatility shocks decayed more rapidly during the event period. The net effect, captured in unconditional volatility, shows daily volatility increased from 1.21% to 2.01% (66% increase). For JPY/USD, the pattern differs: while the ARCH effect increased modestly (α: 0.071 to 0.089), the persistence parameter β rose from 0.872 to 0.918, indicating that currency market volatility shocks became more enduring. This elevated persistence suggests that foreign exchange markets perceived substantial ongoing uncertainty regarding policy implementation extending beyond the immediate announcement. The resulting unconditional volatility more than doubled from 0.59% to 1.33% daily. Formal likelihood ratio tests strongly reject parameter stability across periods for both assets: Nikkei LR = 52.7 ($\chi^2(3)$, $p < 0.001$); JPY/USD LR = 38.4 ($\chi^2(3)$, $p < 0.001$).

Appendix 5: Granger Causality Test Results for Event Window

Null Hypothesis	*F*-statistic	*p*-value	Reject H_o?
Nikkei does not Granger-cause JPY	12.34	0.001	Yes
JPY does not Granger-cause Nikkei	8.67	0.004	Yes
Nikkei does not Granger-cause JGB	6.82	0.011	Yes
JGB does not Granger-cause Nikkei	2.31	0.132	No
JPY does not Granger-cause JGB	4.56	0.035	Yes
JGB does not Granger-cause JPY	1.89	0.174	No

Note: Granger causality tests examine whether lagged values of one variable contain statistically significant information for forecasting another variable beyond what that variable's own lags provide, following the methodology of Sims (1980) and Lütkepohl (2005). Tests conducted within VAR(2) framework estimated over the extended event window spanning days [−5, +20] relative to October 4, 2025 (26 trading days total). Lag length p = 2 selected via Akaike Information Criterion after evaluating specifications from one to five lags; both AIC and Schwarz Bayesian Criterion favored two lags, and Ljung-Box tests confirmed no residual autocorrelation remained at this specification. Null hypothesis in each test: row variable does not Granger-cause column variable. F-statistics computed from Wald tests of joint significance of all lagged coefficients of the row variable in the column variable's equation, with degrees of freedom (p, T − kp − 1) where p is lag length, T is sample size, and k is number of variables. P-values derived from asymptotic F-distributions, verified using bootstrapped critical values. Strong bidirectional causality between Nikkei returns and JPY changes (both F-statistics exceed 8.5 with $p < 0.005$) confirms substantial mutual influence wherein equity market movements affect currency valuations and vice versa. The finding that Nikkei Granger-causes both JPY ($F = 12.34$, $p = 0.001$) and JGB yields ($F = 6.82$, $p = 0.011$) suggests that equity markets led in processing political information, with subsequent transmission to currency and bond markets. The asymmetric finding that neither JPY nor JGB significantly yields Granger-cause Nikkei returns further supports the interpretation of equity market informational leadership. The significant relationship between JPY to JGB yields ($F = 4.56$, $p = 0.035$) suggests that currency movements influenced bond market expectations through the implied monetary policy stance channel: yen depreciation signals accommodation expectations, compressing yields. These patterns illuminate the temporal sequencing of information transmission and the hierarchical structure of cross-market linkages during political shocks.