

January 2025

## CEO Insight:

### **2024 and Beyond: Insights into Political, Economic, and Market Dynamics**

In 2024, the Noto Peninsula earthquake (magnitude 7) struck on New Year's Day, followed by devastating heavy rains in September in the same region. These events marked a year of frequent natural disasters.

The political scene was dominated by a major scandal involving under-the-table funds from political fundraising events by the ruling Liberal Democratic Party (LDP). In the October general election, the LDP suffered a significant loss, dropping to 191 seats, with its coalition partner Komeito losing 24 seats, resulting in a total of 64 fewer seats for the ruling bloc, which failed to secure a majority in the House of Representatives. The opposition parties saw gains, with the Constitutional Democratic Party of Japan (CDPJ) increasing by 50 seats to 148, and the Democratic Party for the People increased fourfold to 28 seats.

On the economic front, the Bank of Japan took initial steps toward normalizing its monetary policy, which was a positive development. However, as the result of the weak JPY versus Euro, Japan's GDP was overtaken by Germany, dropping to 4th place in the world. Aside from sports, 2024 was a year with few positive headlines.

With the widespread adoption of the internet and smartphones, the world has become more interconnected, eliminating borders but intensifying competition like never before.

In year 2025, the spotlight will initially be on the U.S. presidential inauguration on January 20. Following the November elections, the Republican Party gained a majority in both the Senate and the House of Representatives, paving the way for President-elect Donald Trump's administration to implement its policies.

According to press reports, the incoming administration may utilize the International Emergency Economic Powers Act (IEEPA), which gives the president the authority to control imports in the event of a national emergency, to justify newly proposed tariffs. Trump has also criticized former President Carter's decision to return control of the Panama Canal to Panama and implied the use of military force to regain control of the Panama Canal or acquire Greenland.



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Elon Musk, a prominent businessman who will hold a key position in the Trump administration, is expected to receive significant media attention. Prioritizing economic growth over climate change measures, the Trump administration will likely focus on economic boosting policies especially during its first two years. The unpredictable nature of both Trump and Musk could lead to a highly volatile global market.

The trend of prioritizing domestic issues is not limited to the United States. France, Germany, and South Korea are grappling with internal challenges.

In Germany, Chancellor Olaf Scholz's decision to dismiss Finance Minister Christian Lindner led to the collapse of the coalition government of the center-left Social Democratic Party (SPD), Green Party, and FDP. Early federal elections are set for February 2025, pending the expiration of the parliamentary term in the fall.

There is speculation that the Christian Democratic Union (CDU) and Christian Social Union (CSU) may form the next government, though it remains uncertain which parties they would ally with: the SPD, the Green Party, the FDP, or the emerging left-wing party Sahra Wagenknecht Alliance (BSW)?. For Europe to counterbalance the Trump administration, stronger unity will be required, making Germany's election a key event.

Two wars continue to rage, and while Trump's aversion to war is evident, and there are expectations for his leadership, the future remains uncertain.

Against this background of political and geopolitical risks, diversification emerges as the key strategy for managing uncertainty.

Currently, the policy interest rates are: Japan at 0.25% (interest rate on excess reserve deposits among BOJ current accounts), Europe at 3.00% (central bank deposit rate), and the U.S. at 4.25–4.50% (FF rate). Major monetary policy meetings, including the Bank of Japan's meeting on January 23–24, the U.S. Federal Reserve's FOMC on January 28–29, and the ECB Governing Council meeting on January 30, will shape the year's financial outlook.

In terms of direction, the Bank of Japan is expected to move toward rate hikes, the European Central Bank toward rate cuts, and the U.S. Federal Reserve (FRB) also toward rate cuts. However, the U.S. employment data released on the 10th showed much stronger results than market expectations, indicating a healthy labor market and robust economic conditions in the U.S. It is not a situation where a series of rate cuts by the FRB can be anticipated.

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Under the Trump administration, deregulation will likely fuel growth in artificial intelligence (AI), which has already been pivotal in the U.S.'s economic expansion. While the U.S. IPO market in 2024 was subdued, AI startups significantly contributed to venture capital funding, a trend expected to continue in 2025.

Meanwhile, Europe will remain committed to its goal of carbon neutrality by 2050 through a clean and circular economy, despite political risks.

For Japanese investors, the narrowing interest rate differential will reduce hedging costs, particularly for EUR/JPY. In 2025, opportunities will likely arise in AI investments in the U.S. and renewable energy in Europe.

Amid the challenges, Japan's issuance of new banknotes in July 2024 brought some positivity. The ¥10,000 note features Eiichi Shibusawa, the ¥5,000 note features Umeko Tsuda, and the ¥1,000 note features Shibusaburo Kitasato. While Shibusawa is well-known, Tsuda's legacy as the founder of Tsuda University in 1900 is particularly inspiring.

Japanese women gained the right to vote in 1946, but Tsuda Umeko established the Joshi Eigaku Juku (now Tsuda University) in 1900. At the time of its founding, she reportedly stated, "Regardless of gender, social standing, or age, anyone with the will to learn can do so at any time. Develop the ability to think, make your own choices, and take action. Do not be bound by what is considered ordinary or conventional. Only you can determine your own life. Build your life together with your peers."

Tsuda's philosophy—emphasizing critical thinking, autonomy, and action—is a lesson in thriving amidst fierce global competition. It's a reminder that to succeed, one must go beyond simply "knowing" and take bold, independent action to shape their destiny.

In an increasingly competitive world, thriving on a global stage may require more than just claiming to "know." It may require the ability to think independently, make one's own choices without being constrained by conventional norms or common practices, and take decisive action.

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