

Global Fundamental



A year of emerging market elections – what to expect



Ewan Thompson
Fund Manager



Thomas Smith
Fund Manager



Ruth Chambers
Fund Manager

Around half of the world's population – a record proportion – live in countries undergoing elections this year. When considered in terms of global equity benchmarks, approximately three quarters of the MSCI All-Country Index and over half of MSCI Emerging Markets Index will be directly affected by 2024 elections (despite a third of this index being represented by countries that do not hold elections). In all, over 2 billion people will be casting their ballots during the next 12 months, with potentially meaningful impacts on economies and markets in these countries, and beyond. In emerging markets, elections will be occurring from Asia to Latin America, but the US presidential election in November also has the potential to have a significant impact globally and especially within emerging markets given the prominence of China within US foreign policy, particularly regarding trade, technology and the question of Taiwan. Below we seek to highlight the main issues at stake in a number of the key electoral contests in emerging markets.

Taiwan – population 25 million

Taiwan's elections will take place on 13 January and will be crucial in deciding the country's future relations with China and, consequently, will influence global levels of geopolitical risk. The two main parties running are the incumbent Democratic Progressive Party (DPP) and the opposition Kuomintang (KMT). Beijing claims sovereignty over Taiwan and although both parties have rejected the idea of unification, the KMT is Beijing's preferred party as it is in favour of closer ties with the mainland. If the KMT's candidate, Hou Yu-ih, wins, it could mean increased reliance on and influence from China and a delay in Chinese aggression.

The DPP's candidate, Lai Ching-te, is set to continue the work of the current president, Tsai Ing-wen, who has worked to maintain independence in Taiwan, fight influence from China and strengthen international ties. If Lai were to win, cross strait relations could worsen; Beijing has

called this race a “choice between war and peace” while increasing intimidation tactics across the strait. Increased tensions would have ramifications for US-China relations as the US supports Taiwan’s democracy and Taiwan is one of the US’s most important trading partners, particularly as a key manufacturer of semiconductors.

The incumbent vice president Lai Ching-te has been leading opinion polls throughout 2023, though in recent months the polls have tightened. Support has been growing for the opposition KMT, which in turn has benefited from decreased support for the third party (TPP) and other minor candidates. At this juncture a KMT victory would still be a surprise – though one that could be received positively by the market given the potential for calmer cross-strait relations with China and a potential deferral of contentious arms deals with the United States.

Indonesia – population 275 million

In February, Indonesia sees national, regional, local and Senate elections, as well as presidential and vice-presidential votes. There is a second round for the presidential election (if required) in June. The current incumbent, the highly popular Joko Widodo (commonly known as Jokowi), has seen out two successful five-year terms and is not eligible to stand again. As with India, the market is looking for policy continuity – the Jokowi government has been synonymous with disciplined fiscal targets and a reform agenda executed even through the pandemic, focusing on labour laws, investment, tax, healthcare and state-owned enterprises.

Jokowi is widely seen as improving service delivery (health and unemployment insurance) as well as infrastructure (transport, reservoirs, power plants) while running lower deficits and delivering solid economic growth. One of the key focus areas for the government has been an industrial policy driving commodity downstreaming in order to capture more of the commodity value chain rather than just exporting raw materials in their simplest form. As a key global producer of nickel – in demand for batteries to serve the growing electric vehicle market – Indonesia seeks to benefit from keeping more of the battery material supply chain onshore. All candidates are supportive of industrial downstreaming, modernising the armed forces and controlling inflation.

The key candidates to replace Jokowi are Prabowo Subianto, who represents policy continuity (Jokowi’s son, Gibran, is even his running mate); Ganjar Pranowo, from Jokowi’s party (PDI-P) and also representing policy continuity, with a specific focus on modernising the agriculture sector; and Anies Baswedan, former mayor of Jakarta and the policy change candidate, advocating inclusive growth and social justice. Prabowo is currently leading head-to-head polls against the other candidates and has extended his lead throughout the second half of 2023. Both leading contenders (Prabowo Subianto and Ganjar Pranowo) are viewed favourably by the market. The surprise election outcome would be an Anies Baswedan victory, though he is currently polling with only a 25% vote share.

India – population 1.4 billion

Indians are expected to go to the polls for the 2024 General Election sometime between 1 April and 31 May, with prime minister Narendra Modi and his BJP party looking for a third consecutive term in power. Since Modi’s first-term victory in 2014, India has enjoyed a decade of the political stability afforded by a single-party majority, allowing a series of economic reforms to be enacted, unleashing India’s economic potential. Indeed, the 2014 victory was the first single-party majority in India for 30 years.

Current polling suggests Mr Modi is on track for an historic third term – which would be the first time a party and PM were elected for a successive third term since 1962. With the Indian economy now embracing a powerful investment cycle following a decade of political and economic reform, continuity and continuance of Modi’s leadership would be the most positively received outcome for the stock markets. Modi continues to be one of the most popular political leaders India has seen, with an approval rating of 60-70% through his tenure, thanks to

implementation of social schemes, jobs-oriented growth focus and strong communication. For the stock market, his capex driven growth policies are the most important.

This election will have 125 million young first-time voters and more than 50% of the voting population is under the age of 40, making the youth vote important for all parties – the BJP's digital India program and promotion of sports tournaments has resonated with this group. Opinion polls suggest that the BJP should take an overall majority of seats in the lower house (Lok Sabha), ahead of the principal opposition party, Congress. That said, coalitions between regional allied parties are common in India, so success is based not only on winning votes, but also striking and maintaining alliance groups.

For this election the 26 opposition parties have sought to form a grand alliance (Indian National Democratic Inclusive Alliance, or I.N.D.I.A.) though in recent state elections the BJP positively surprised with wins in several key states, and far better than exit polls have suggested, with gains in both seat numbers and vote share. The BJP requires 272 seats to reach a majority, with anything below this requiring coalitions. Were the BJP's seat count closer to 200 than 250 this would have the potential to hamper further reforms and we would expect a relatively sharp negative market reaction in this event. Were the BJP to win over 300 seats (it currently holds 301) then we would expect to see markets respond positively.

Mexico – population 127 million

Mexicans will go to the polls in June to elect their first ever female president in the country's largest ever election. As well as voting for a new president, the population will also elect all members of both the Chamber of Deputies (Lower House) and the Senate.

The two leading candidates for the presidency are Claudia Sheinbaum, incumbent president Andres Manuel Lopez Obrador's (widely known as AMLO) chosen successor and former mayor of Mexico City, and opposition candidate Xochitl Galvez. With Mexico's economy continuing its strong post-pandemic recovery, aided by resilience in the US and strong nearshoring momentum, unemployment near record lows and consumer confidence rising, AMLO's popularity remains high. This has translated into a sizeable early lead in the polls for Sheinbaum, under whom we would expect to see continuity of many of AMLO's policies such as expanding social programs and allowing the government a greater role in sectors such as energy and infrastructure. It seems unlikely that she would maintain AMLO's combative approach to the private sector and a thawing of relations would be well received by both the business community and investors.

In the event of a Galvez victory, we would expect to see wholesale change in government policies. This would involve much less state involvement in key sectors of the economy, potentially even stretching as far as privatisation of state-owned oil company Pemex, and a much more constructive relationship with the private sector. In this instance we really could see a revival of animal spirits that have been lying dormant under AMLO.

Given where valuations stand, it seems that the market is pricing in continuity of a Morena government with similar levels of interference. Therefore, a closely fought election or signs that Sheinbaum will be less confrontational than her predecessor could pose upside risks as the election campaigns kick off in earnest.

South Africa – population 60 million

South Africa will elect a new government sometime between May and August, and while the ANC is widely expected to remain the largest party and stay in government, polls are suggesting a significant drop in their share of votes. This could even fall below 50%, leading to a coalition government for the first time since the ANC came to power three decades ago.

The opposition has already formed an alliance in an effort to keep the ANC out of power, made up of seven parties and led by the main opposition, the Democratic Alliance. Polling in the high 20s, their only chance to form a government would be if the ANC needed to and was unable to form a coalition. More likely, in the event that the ANC does need a coalition partner, is that a government would be formed with the left-wing Economic Freedom Fighters (EFF), a breakaway faction from the ANC.

A strong victory for the ANC is likely to see the status quo prevail with little incentive for major reforms or to address the problems facing electricity and transport infrastructure. A coalition with the EFF would see a shift to the left and would likely lead to a weaker currency and higher risk premiums, while the best case for markets could be a narrow ANC victory where pressure to advance reforms is greatest. That is, of course, assuming the opposition is unable to close the gap over the coming months.

While it's hard to predict the outcome of any election – let alone in such a disparate group of countries – what seems certain is that it will be an eventful year ahead for investors.

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