



Authored by:
Trevor Yates

Date: October 12, 2023
Topic: **Emerging Markets,**
International



GLOBAL X ETFs RESEARCH

Is Argentina at a Political Inflection Point?

In less than two weeks, Argentinians will head to the polls to elect a new president. While always an important event, this election cycle feels particularly weighty. August's primaries defied expectations and seemed to signal voters' increasing wariness with the current political environment. Our visit to Argentina in July left us with a similar impression, as our talks with individuals on the ground gave us a sense of frustration with the nation's politics.

Given Argentina's long-standing rule under Peronist leaders, we see a potential change in political ideology as transformational for the country's outlook. This could include reining in spending, allowing for a free-floating currency, reducing or eliminating import controls, allowing for increased International Monetary Fund (IMF) cooperation, and/or generally boosting investor confidence, which could in turn attract capital and potentially result in the country regaining its emerging market designation.

Key Takeaways

- The PASO, or primary, election results signaled the population's desire for change, with the two leading candidates aiming to return to fiscal and economic orthodoxy.
- The probability of a negative scenario for investors appears to have diminished, with Peronist popularity waning and the likelihood of political gridlock reducing the possibility of radical reforms.
- We remain positive on Argentina's long-term potential, due to the country's natural resource base, well-educated population, and low credit penetration.

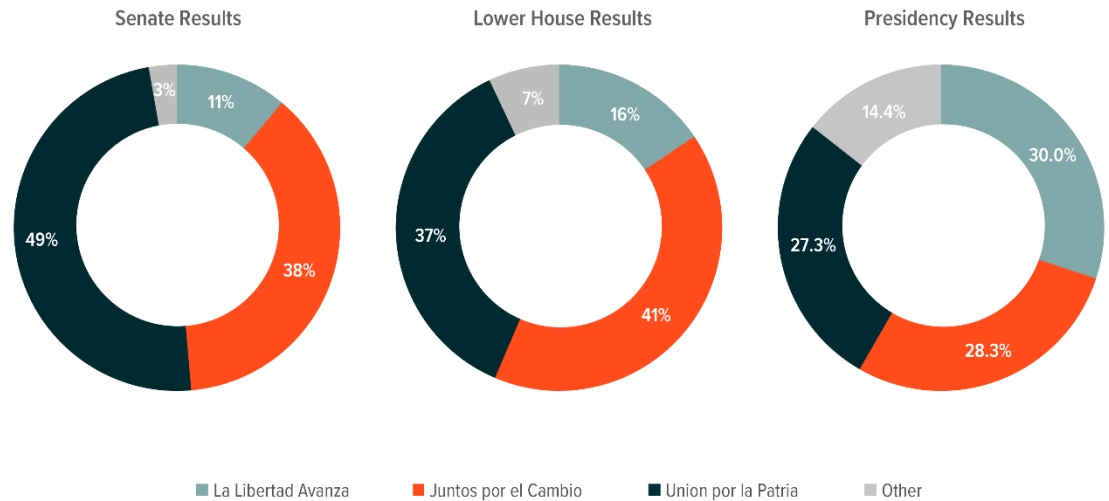
PASO Results Deliver Surprises

Argentina held its primary elections, known locally as the PASO, in August, with right-wing Javier Milei defying expectations and placing atop the polls. Milei received 30.04% of the vote versus the center-right Juntos por el Cambio's 28.28% and the incumbent Peronist Union por la Patria's (led by Sergio Massa) 27.27%.¹ Although Milei gained popularity at the Presidential level, his La Libertad Avanza party struggled when looking at the parliamentary results; the party only managed to secure 40 seats in the Lower House and eight seats in the Senate, representing 16% and 11% of the seats, respectively. The results were also seen as a disappointment for the two other parties, who both significantly underperformed the pre-election polls. Looking ahead, with Horacio Laretta having conceded the candidacy for the Juntos coalition to Patricia Bullrich, Bullrich, Milei, and Massa are set to be square off on October 22nd. Although the PASOs complicated the outlook for the final election result they, along with declining voter participation rates, appeared to indicate a growing wariness with the current political environment and seemed to signal the population's desire for change.



2023 PRIMARY ELECTION RESULTS

Source: Global X ETFs with information derived from: Bloomberg LP. Argentina Election Live Results.
Data as of August 14, 2023.



The Candidates

Javier Milei is representing La Libertad Avanza. He is a political outsider who gained popularity recently on the back of the population's growing discontent with the status quo. His main economic proposals, which include the dollarization of the economy and the elimination of the Central Bank, are considered radical. His political stance is generally characterized as right-wing and libertarian.

Patricia Bullrich is running under the Juntos por el Cambio banner. She is the former Security Minister under the center-right Macri Administration. Similar to Macri, her economic policy would be aimed at a return to orthodoxy through a full elimination of capital controls, fiscal adjustments, and normalization of monetary policy. Her political stance is generally characterized as center-right.

Sergio Massa represents Union por la Patria. As the current Economy Minister, Massa is seen as a more moderate choice than other Peronist candidates, but he is not expected to return the economy to orthodoxy. If elected, we expect his policies to be similar to those of the current Administration. His political stance is generally characterized as left-wing.

What to Make of the Results?

We take a constructive view of the PASO results, seeing reasons for optimism. Boasting radical ideas such as dollarizing the economy and eliminating the country's Central Bank, Javier Milei gained popularity by representing an important shift away from the current Argentinian political environment. He rejects Peronism and believes in more orthodox economic policy, which we see as a positive that could lead to a reduction in irresponsible fiscal spending and the elimination of capital controls. Furthermore, we see his party's poor performance in the Lower House and Senate elections leading to political gridlock, with him needing to work very closely with the center-right and economically orthodox Juntos por el Cambio coalition to accomplish the much-needed reforms while simultaneously hindering his ability to pass the more radical proposals. As a result, we consider a repeated PASOs election result as being market friendly, with the question now shifting to how much political will and public support the next administration will have to implement its agenda.



What's Next?

When analyzing the different potential outcomes, it is clear that a Bullrich victory represents the market's favored result. She plans on implementing similar fiscal adjustments and reforms to those of the Macri Administration (2015-2019), which would represent a significant shift from the current Alberto Fernandez Administration. Although a Milei victory may not be considered the optimal scenario, we still see such a scenario as a positive result, since it would represent a shift away from the current Peronist policies, while expected gridlock in the Senate and Lower House would likely push Milei towards the center. Finally, a Massa victory would be the clear negative scenario, in our view, with his administration likely to maintain the current Peronist and unorthodox approach to economic policy. The National Elections will take place on October 22nd, with a Presidential runoff to be held in November if no single candidate secures a majority.

Conclusion

Although the final election result remains uncertain, the primaries indicated an unlikely continuation of Peronist policies, representing the potential for a substantial improvement to Argentina's economic outlook. We see room for the next administration to work to normalize economic policy, potentially translating into lower inflation and unlocking the country's true growth potential. If successful, we see a path for Argentina's country risk premium to decline moving forward, possibly driving foreign direct investment. We remain positive on the long-term potential for Argentina, due to the country's vast and well-positioned natural resource base, its highly educated population, and the potential for considerable credit growth.

Footnotes

1. Bloomberg LP. Argentina Election Live Results. Data as of August 14, 2023.

Global X Management Company LLC (Global X) is an investment adviser registered with the U.S. Securities and Exchange Commission. Global X Management Company LLC serves as an advisor to the Global X Funds.

Investing involves risk, including the possible loss of principal. Diversification does not ensure a profit nor guarantee against a loss. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information is not intended to be individual or personalized investment or tax advice and should not be used for trading purposes. Please consult a financial advisor or tax professional for more information regarding your investment and/or tax situation.

The risks of foreign investments are typically greater in less developed countries, which are sometimes referred to as emerging markets. For example, legal, political and economic structures in these countries may be changing rapidly, which can cause instability and greater risk of loss. These countries are also more likely to experience higher levels of inflation, deflation or currency devaluation, which could hurt their economies and securities markets. For these and other reasons, investments in emerging markets are often considered speculative. Similarly, investors are also subject to foreign securities risks including, but not limited to, the fact that foreign investments may be subject to different and in some circumstances less stringent regulatory and disclosure standards than US investments. Geopolitical and other events, including war, terrorism, economic uncertainty, trade disputes, natural and environmental disasters, systemic market dislocations, public health crises and related geopolitical events have led, and in the future may lead, to increased market volatility, which may disrupt U.S. and world economies and markets and may have significant adverse direct or indirect effects on the value of a Fund and its investments.

This document may contain certain statements deemed to be forward-looking statements. All statements, other than historical facts, contained within this document that address activities, events or developments that Global X expects, believes or anticipates will or may occur in the future are forward-looking statements. These statements are based on certain assumptions and analyses made by Global X in light of its experience and perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate in the circumstances, many of which are detailed herein. The opinions expressed in these statements represent the



current, good faith views of the author(s) at the time of publication and are provided for limited purposes, are not definitive investment advice, and should not be relied on as such. Such statements are subject to a number of assumptions, risks, uncertainties, many of which are beyond Global X's control. Please note that any such statements are not guarantees of any future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.

The information presented in this presentation has been developed internally and/or obtained from sources believed to be reliable; however, Global X does not guarantee the accuracy, adequacy or completeness of such information. Predictions, opinions, and other information contained in this presentation are subject to change continually and without notice of any kind and may no longer be true after the date indicated. Any forward-looking statements speak only as of the date they are made, and Global X assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Actual results could differ materially from those anticipated.

