

## Elections Argentina: Don't believe the polls

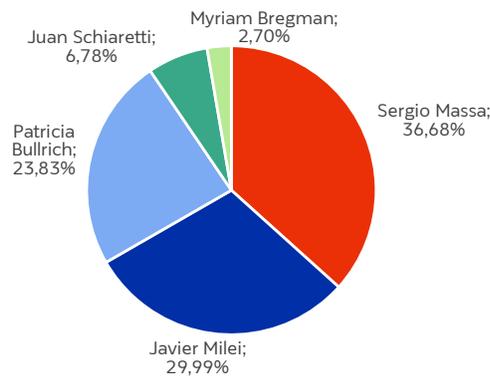
**The general elections of October 22, 2023 brought surprises and changed the base scenario relative to what opinion polls were saying.**

- Incumbent coalition obtains a leading plurality in the presidential race (37%) and increases the probability of Peronism remaining in power.
- Sergio Massa and Javier Milei will face each other in a runoff in November. They will battle to cajole the voting blocs of eliminated candidates, whose split is currently unclear.
- The traditional center right coalition (Juntos por el Cambio) has lost the opportunity to obtain the presidency.

### THE UNEXPECTED VICTORY

The elections held on October 22, 2023 produced a surprisingly good result for Peronism as its candidate Sergio Massa obtained a leading plurality in the presidential race with roughly 37% of the vote. He will face libertarian candidate Javier Milei, who obtained 30% of the ballots (Graph 1), in a runoff to be held on November 19, 2023.

**GRAPH 1. GENERAL ELECTION RESULTS**



Source: National Electoral Chamber

Opinion polls were proven wrong once again: The consensus amongst pollsters was that the election would produce a victory for Javier Milei, with Massa joining him in the runoff in second place. Sunday's election was characterized by a turnout of around 78%, a considerable increase relative to the 69.6% of the population that participated in the primaries held in August.

This election also contested the seats of 130 members of the chamber of deputies and 24 of the senate, as well as some governors. Despite the fact that Peronism obtained a vote share that is relatively much lower than it usually commands as a political juggernaut, when put in the context of economic deterioration, exchange rate volatility, increased poverty levels and an annual inflation rate of 138%, the results obtained by the governing coalition are remarkable.

There are several possible factors that may have favored the incumbents, including:

- An opposition candidate with low popular support: Patricia Bullrich, the candidate of Juntos por el Cambio, obtained less than 24% of the vote, the distribution of which resulted in a loss of seats in Congress (primarily to libertarian candidates) but an increase in governorships, from 4 to 10 provinces. Thus, the candidate's subpar showing may be an indication of the low appeal of her as a candidate rather than of the party in its totality, especially among young people and people of lower socioeconomic status.
- A campaign of fear: The government deployed a fear campaign, going as far as through the use of state resources, targeting the economic impact that an eventual victory of the libertarian candidate, Javier Milei, would have. An example of this is when the fare readers on the public transport began to show the current, heavily subsidized, fares

as well as the cost of the bus or train ride without subsidy, sometimes accompanied by the message "when they talk to you about subsidy, that is the difference in your price." This type of campaign may have led voters to fear the prospect of a Milei presidency, already viewed as radical, and more likely to support the traditional parties as a security response.

- Previous abstentions chose Peronism: In previous elections it had been noted that the increase in voter turnout between the primaries and the general election tended in its majority to choose the opposition. However, measures taken by the government between the primaries held last August and this past weekend may have managed to mobilize people to go to the polls for the ruling coalition. Some of these aforementioned measures consisted of tax benefits, such as the VAT refund on basic basket products (for certain types of consumers) and the increase in the floor of the salary subject to income tax, while others included increased spending, and all of which may have alleviated some of the economic malaise at the household level.

With an eye on the runoff, a further increase in voter turnout is expected, but not to the extent of previous elections. Massa can be expected to obtain the votes of Miriam Bregman (2.7%) should he manage to build a convincing case of his independence from Kirchnerism, those of Schiaretti (6.8%). Both candidates will also seek to attract the voters of Juntos por el Cambio (Together for Change), of which a contingent could support Massa. With this in mind, although it is premature to make projections today about a possible winner come November, Sergio Massa seems to be in a favorable position to become the next president of Argentina. However, several key economic and political developments will have to be monitored in the coming weeks, including a presidential debate a week before the polling places open on November 19, 2023.

The composition of Congress did not change significantly, but Javier Milei's party, "La Libertad Avanza" managed to secure 37 seats in the Chamber of Deputies (out of 257) and 8 in the Senate (out of 72), mostly at the expense of Juntos por el Cambio. However, no party has an outright majority, so compromise and agreement will be necessary for legislation to pass.

In the next two months, macroeconomic imbalances will continue to widen as a result of rampant inflation and the greater fiscal profligacy that could occur in the run-up to the runoff. The high volatility that we had observed in the exchange rate, with a *blue* dollar that exceeded ARS 1,000 per dollar, and depreciated sharply in the run-up to the elections, may be further contained by the likelihood that the elected administration will not be as disruptive.

Regarding the outstanding debt with the International Monetary Fund (IMF), Massa stated that Argentina will meet its obligations maturing in October for USD 2.6 billion this week, with funds obtained from the currency swap with China. The October maturities are divided into three dates, USD 1.2 billion on October 6, USD 640 million on October 12 and USD 673 million on October 31, the last business day of the month.

- Market reaction before the close:
  - The Argentine peso (official) will remain fixed until November 15 at ARS 350 per dollar, while the blue chip swap rate fell by 3.0% (indicating an appreciation of local currency).
  - The value of Argentine sovereign bonds (in USD) falls 7.0%, partially trimming losses from the lows of the beginning of the day.
  - Stock market falls ~5.1% in dollar terms, with the banking sector the only one to close the day in positive territory.

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