GLOBAL X
by Mirae Asset

GLOBAL X INSIGHTS

2024 Elections: Unlocking Potential Opportunities in Emerging Markets

Trevor Yates
tyates@globalxetfs.com

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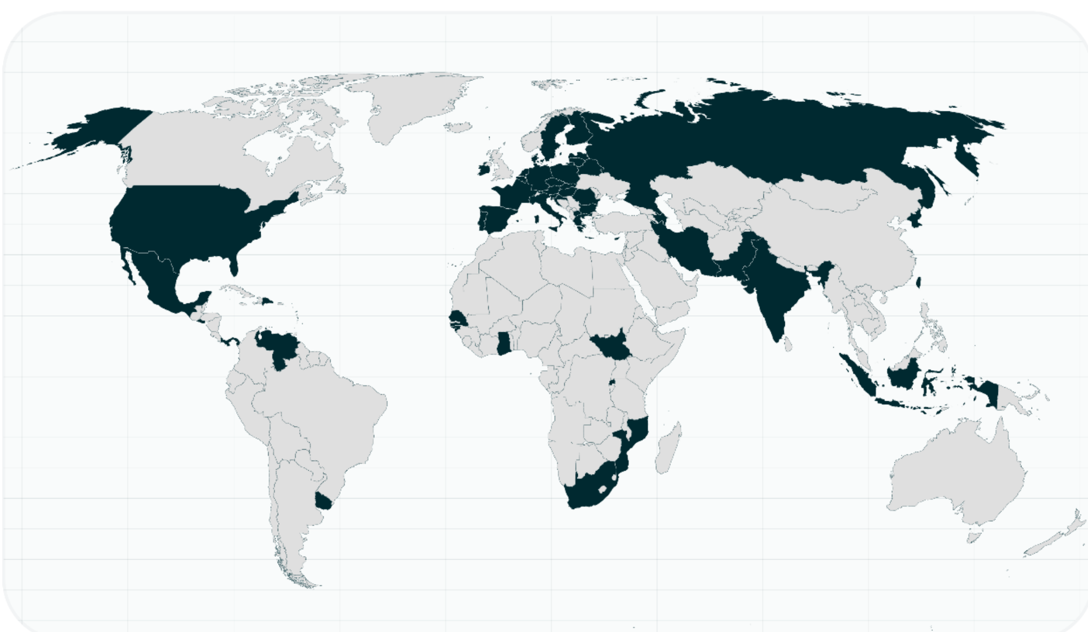
More than 40% of the world's population, representing over half of global GDP and nearly 80% of global market cap, will head to the polls in 2024, likely setting the stage for a year filled with political headlines, volatility, and potential change.[1,2] History tells us that politics can have an outsized influence on both a country's economic and equity market outlooks, emphasized by recent developments in Greece and Argentina. The 2024 election cycle has the potential to be extremely decisive, with geopolitical tensions remaining elevated, and as we witness both growing polarization and continued economic uncertainty. Despite the expected volatility, we see room for optimism, especially within emerging markets (EMs).

Key Takeaways

- Numerous pivotal elections are on tap in 2024, and the outcomes could have an outsized influence on economic and equity market outlooks in a wide range of both emerging and developed economies.
- The 2024 election cycle will likely bring both volatility and opportunity to emerging markets, a situation that could benefit active managers.
- Recent outcomes in Greece and Argentina underscore the impact politics can have on a country's equity markets, and we are paying particularly close attention to elections in Mexico, India, and the United States.

COUNTRIES SCHEDULED TO HOLD ELECTIONS IN 2024

Source: Global X ETFs with information derived from: National Democratic Institute. Global Elections Calendar. Data accessed on February 6, 2024.

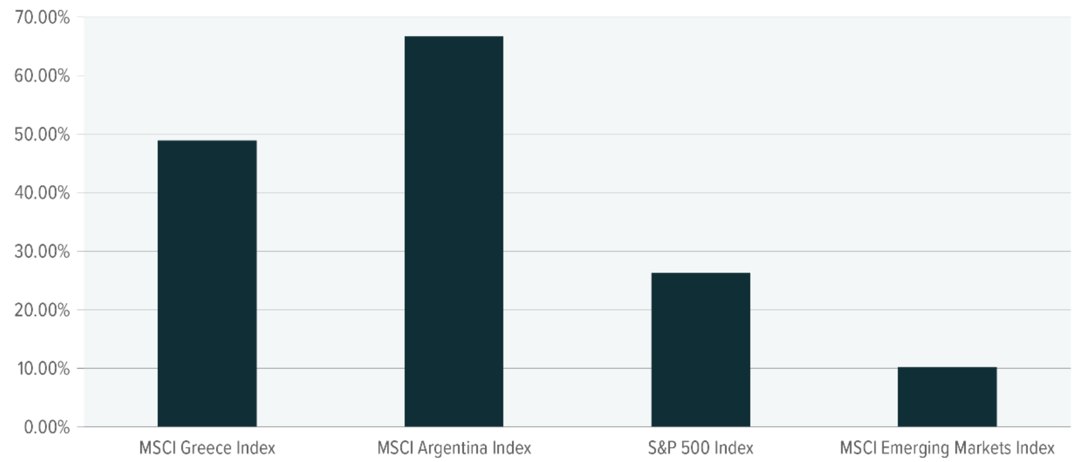


Transformative Power of Politics Was on Display in 2023

Greece and Argentina held critical elections in 2023, with both countries electing their respective pro-market candidates. In Greece, citizens definitively reelected incumbent Prime Minister Mitsotakis for a second term, with his New Democracy party gaining a majority in the Greek Parliament. Mitsotakis and his Administration have been key in the Greek economic recovery, implementing reforms and other pro-market policies that paved the way for Greece's sovereign credit rating to be upgraded to Investment Grade late last year.[3] In Argentina, the population decisively rejected Peronism, electing the neo-liberal Javier Milei as President. Since then, Milei has moved swiftly to normalize the economy, passing a series of measures aimed at reducing government spending and returning the economy to orthodoxy. Markets rewarded these favorable political outcomes, with the MSCI Greece and MSCI Argentina indices returning roughly 48% and 67%, respectively, in U.S. dollars in 2023.[4] The examples of Greece and Argentina emphasize the significance politics can play for both economic growth and equity performance. Looking at 2024, we identify potential similar opportunities within emerging markets.

2023 RETURNS: POLITICS CAN PLAY A SIGNIFICANT ROLE IN EQUITY MARKET PERFORMANCE

Source: Global X ETFs with information derived from: Bloomberg LP. Data accessed on February 5, 2024. 2023 returns measured from 12/30/22 to 12/29/23.



2024 EM Elections: Divergent Paths Underscore the Benefits of Active Management

- **India:** The world's largest democracy will hold elections in spring 2024, representing a significant potential catalyst for the equity market. Early polls are predicting Prime Minister Modi's strong and market-friendly track record will propel him to another victory.[5] Leading the country since 2014, Modi has had great success implementing key reforms, such as demonetization and market formalization, helping unlock significant economic growth. Looking ahead to the April/May (not officially set yet) national election, the current outlook makes us optimistic that Modi and his Bharatiya Janata Party (BJP) will be able to successfully maintain control of the Lower House for three main reasons. First, inflation remains a key issue for voters, and Modi moved quickly to squash any resurgence in food inflation, implementing measures to bolster domestic supply and limit exports of certain agricultural commodities such as sugar and rice. This, along with the rupee's resilience, should pave the way for continued disinflation and price stability in the first half of 2024. Second, we see Modi having further room to increase fiscal spending ahead of the election, with government revenue estimated to exceed the budgeted amount by roughly 0.6% of GDP during the current fiscal year (ends March 31st).[6] Finally, the BJT fared well in recent state elections, providing further evidence of the broad-ranging popular support we observed during our 2023 visit to Mumbai and indicated by Modi's 76% approval rating.[7] Although an opposition victory is not our base case, we don't see this scenario altering the strong demographic story that is key to India's investment case. As a result, we see an elevated probability of a market friendly Modi victory resulting in a continuation of the policies that transformed India into what we believe to be the best structural investment case within emerging markets.

PRIME MINISTER MODI'S RE-ELECTION CAMPAIGN APPEARED TO BE IN FULL SWING

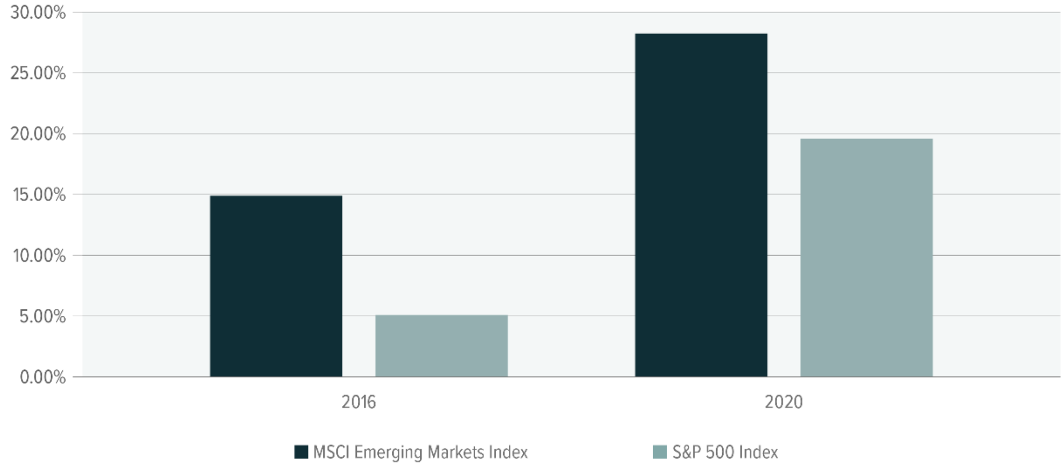
- **Mexico:** We are positive on Mexico's 2024 election because even if the incumbent Morena Party were to maintain control of the Presidency, the party's candidate, Claudia Sheinbaum, is considered more pragmatic than current President Andrés Manuel López Obrador (AMLO). Therefore, even in the less-market friendly outcome, we see an improvement from the current political environment in Mexico, which could translate into a lower risk premium for equities and further accelerate the already robust nearshoring trend.
- **Taiwan:** The country held Presidential and legislative elections in January, with Lai Ching-Te securing the Presidency for the incumbent Democratic Progressive Party (DPP). We expect a continuation of the current policies, while the DPP's minority in the legislature could lead to gridlock. As a result, this outcome is likely neutral from a geopolitical perspective, with Te set to strengthen ties with the U.S. and further decouple Taiwan's economy from China. The Chinese response was muted, with Beijing's focus on domestic economic issues probably limiting the potential for imminent escalation with Taiwan.
- **South Africa:** We expect elevated levels of electricity loadshedding and high unemployment to continue to weigh on the African National Congress' (ANC) popularity, likely paving the way for the party to lose their majority for the first time since the end of Apartheid in 1994. This would limit the ANC's ability to make progress on key energy reforms, while also increasing risks for the need to cooperate with smaller, more radical parties.
- **South Korea:** Following the election of Yoon Suk-Yeol as President in 2022, South Korea will hold Parliamentary elections in April. This election cycle represents a key moment for the current People Power Party (PPP) Administration, who are looking to enlarge their minority in the National Assembly to further advance their agenda.
- **Indonesia:** Benefitting from a prolonged period of political stability and market friendly policies throughout the two-term Joko Widodo Presidency, Indonesians elected Prabowo Subianto to be their next leader. Despite the change in leadership, we expect a continuation of the pro-business agenda, with Prabowo Subianto campaigning on similar policies of the previous administration.

U.S. Presidential Election

The consensus believes a Biden/Trump rematch is ahead in 2024. However, a large dissatisfaction for either candidate, and growing support for Robert Kennedy Jr., potentially opens the door for a third-party candidate to meaningfully enter the race. The main issues top of voters' minds are immigration, the economy, government spending, and certain social issues such as abortion rights. In terms of direct EM impacts, we expect that both candidates will maintain their hawkish rhetoric towards China, while Mexico could also come up in immigration discussions. However, we expect this to be more bark than bite, with limited tangible actions expected. On the domestic policy front, like in many election years, we expect little action out of the already gridlocked congress, with the government likely to kick most issues to the next administration. We see this gridlock as potentially negative for the U.S. dollar, making us positive on emerging markets given the strong boost EM countries receive from a weaker U.S. currency. We also note that during the six-month period leading up to the past two U.S. Presidential elections, EM equities outperformed the S&P 500 Index by a wide margin. As a result, we continue to be positive on emerging markets, which stand to benefit from higher expected growth rates while valuations remain comparatively attractive.

EM VS. DM RETURNS SIX MONTHS BEFORE RECENT U.S. PRESIDENTIAL ELECTIONS

Source: Global X ETFs with information derived from: Bloomberg LP. Data accessed on February 7, 2024.
Periods are 5/9/16-11/8/16 and 5/4/20-11/3/20.



Conclusion: Emerging Markets Appear Well Positioned in 2024

The plethora of elections in 2024 sets the stage for a year filled with political headlines, volatility, and policy change. Recent outcomes in Greece and Argentina underscore the impact politics can have on a country's economic and equity market outlooks. We see India and Mexico as likely beneficiaries of election results, while outcomes in the U.S., South Korea, and South Africa remain more uncertain. U.S. elections will likely result in congressional gridlock throughout the year, while China and Mexico could come under scrutiny in the leadup to the U.S. election. However, we don't expect concrete policy changes. As a result, we see emerging market equities as well positioned in 2024, while the expected volatility could create opportunities for active managers.

Footnotes

1. Brunswick Group. (2023, Dec 14). 2024 Look Ahead.
2. Bloomberg LP. Data accessed on January 23, 2024.
3. Reuters. (2023, Oct 20). S&P Upgrades Greece to Investment Grade For First Time Since 2010 Crisis.
4. Bloomberg LP. Data accessed on February 5, 2024.
5. India Today. (2024, Feb 8). Mood of the Nation Highlights: Survey Predicts Third Term for PM Modi.
6. Bloomberg Intelligence. (2023, Nov 8). India's Modi to Use Fiscal Room to Woo Rural Voters.
7. Times of India. (2023, December 9). With Approval Rating of 76%, PM Modi Most Popular Global Leader: Morning Consult.
