

What should investors make of this year's emerging market election results?

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While they are just getting underway in developed markets, scheduled elections for 2024 in emerging markets are now complete.

Late May and early June saw a pick-up in market volatility in several emerging markets (EM) in the wake of key national elections – including here in South Africa.

There have been elections held in markets totalling over 50% of the MSCI Emerging Markets index, with mixed results, as the table below summarises. We assess the outcomes, market reaction and long-term implications for policy in these markets.

2024 MSCI EM elections complete – results mixed

Election	Outcome	Market anticipation		Market reaction to results	
		Prior 5-days	One day	Five days	Presidential inauguration/15 days
13 January: Taiwan elections	Incumbent DPP won presidential election but lost parliamentary majority.	0.1%	-0.3%	1.3%	
14 February: Indonesia elections	Perceived continuity candidate won presidential election in first round.	0.8%	1.4%	2.3%	
10 April: South Korea elections	Opposition Democratic Party won majority of seats in National Assembly.	-0.5%	-0.4%	-6.9%	
29 May: South Africa elections	ANC lost majority for first time in 30 years. Government of National Unity proposed.	-2.3%	-3.4%	-6.3%	6.4%
2 June: Mexico elections	Morena retained presidency under new leader, and outperformed expectations to win super majority in lower house of congress; Morena only a few seats short of supermajority in senate.	2.6%	-8.8%	-10.5%	
4 June: India election results	Incumbent BJP party lost parliamentary majority, but will lead a coalition government.	1.2%	-6.8%	-0.2%	

Past performance is not a guide to future performance and may not be repeated.

*Prior 5-days and market reaction date assessed relative to election result announcement. E.g. Indonesia based on initial 'quick counts' on 15 February (official results announced on 27 March). *India elections held 19 April to 1 June, results announced on 4 June. 15-days shown for South Africa to capture period permitted to form coalition. Traffic lights to show market reaction: Red = < -1%, Amber = -1% to 1%, Green = >1%. Source: Schroders Strategic Research Unit, as at 10 June 2024. USD total return.*

South Africa

South Africa held its general election on 29 May. Opinion polling had indicated that the African National Congress party (ANC), which has governed South Africa since 1994, would see a decrease in its share of the vote but win sufficient support to remain in power. In fact, the ANC's vote share fell from 57% in 2019 to 40%, far worse than expectations. The main opposition Democratic Alliance (DA) attained 22% of the vote, up slightly versus 2019. The vote share primarily moved to the MK Party (15%), founded only six months ago and led by former ANC leader and president, Jacob Zuma. The Economic Freedom Fighters (EFF) finished fourth with a 10% share. These results reflect a splintering in the ANC vote: these two parties are led by former ANC members and combining their vote share with the ANC would reach 65%, close to the historical vote share of the ANC.

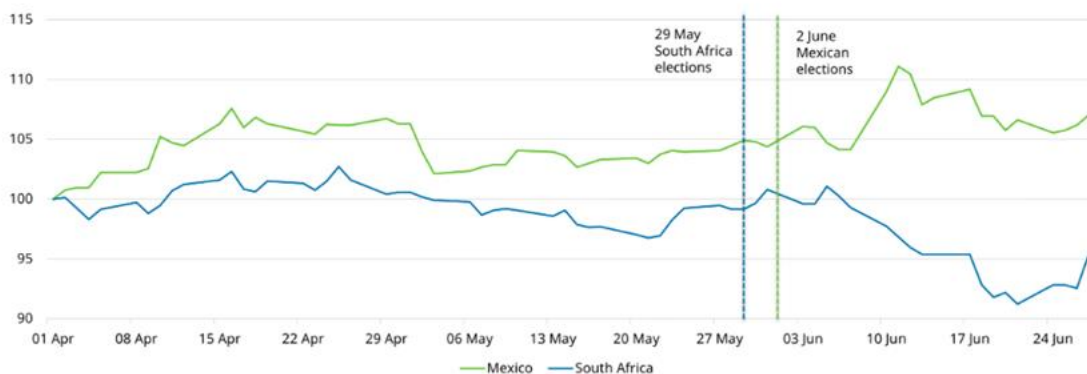
With the ANC losing its majority, uncertainty increased post the election result. The equity market fell over 3% in US dollar terms on the day after the election as the results began to filter through, and the rand fell 2%. Five days post the election the market was down 6%. The indecisive results ushered in a period of elevated uncertainty, though financial markets were somewhat resilient in the circumstances and did not reflect the most negative scenarios. Under the constitution, the ANC had two weeks after the election to agree a coalition or confidence and supply agreement with other parties. Various permutations were possible, but with very different implications for the policy trajectory.

President Ramaphosa proposed a 'Government of National Unity (GNU)', inviting all parties to the table. The EFF rejected the plan, given the inclusion of the DA, and the MK has indicated it would not work with the ANC whilst it is led by Ramaphosa. This left the ANC, DA, and smaller parties to form the GNU. It appears a shrewd move by the president as the optics show MK and the EFF rejecting the GNU, as opposed to the ANC opting to go into a coalition with the DA. Ramaphosa has since been re-elected president by parliament and inaugurated as president.

This outcome is market positive and should ensure continuation, and potentially an acceleration, in structural reforms. However, risks remain elevated. This is the first coalition in South Africa in the modern era, and the ANC and DA have some significant policy differences to overcome. The risk to the outlook is political gridlock, and in a worst case a collapse in the GNU, potentially opening the door for parties with significantly different policy agendas to come into a coalition government. There is also key man risk as, should Ramaphosa lose sufficient support within the ANC, he could be replaced at the next National Conference of the ANC, due towards the end of 2027.

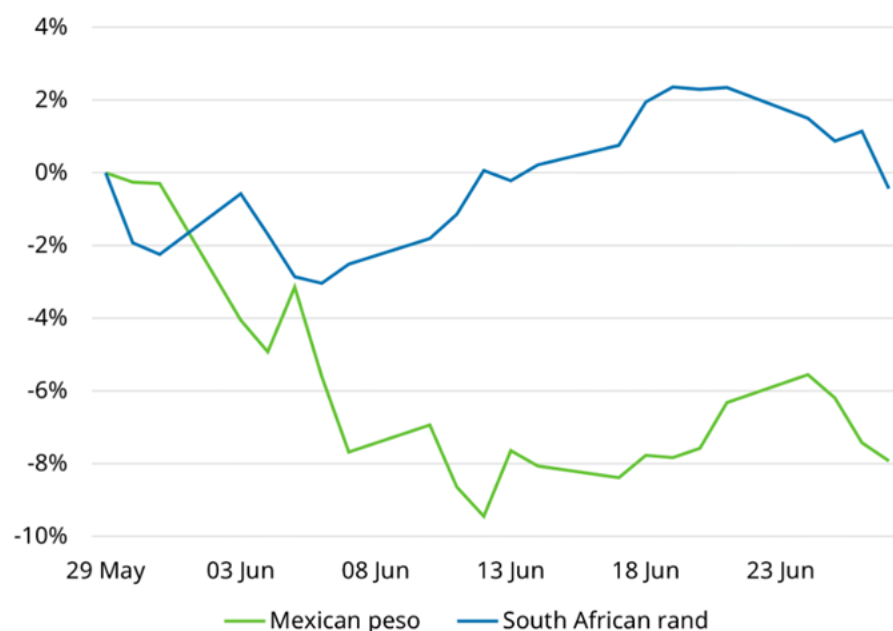
The equity market and the rand have picked up after announcement of the GNU and President Ramaphosa's inauguration. The MSCI South Africa is now up 2% in US dollar terms year-to-date (as at 27 June 2024). The rand has also recovered, and the 10-year government bond yield is down to 10.2%.

Mexico and South Africa 10-year government bond yields volatile since elections



Source: LSEG Datastream, as at 27 June 2024. 10-year government benchmark bond bid yields, Rebased to 100 as at 1 April 2024.

Mexican peso has been notably weak while the rand has been more resilient



Source: LSEG Datastream, as at 27 June 2024. Mexican peso and South African rand performance since 29 May 2024. NB. Mexican election held on 2 June.

Mexico

Presidential and general elections took place in Mexico on 2 June. Opinion polls unequivocally flagged Claudia Sheinbaum as the likely victor. Sheinbaum is the anointed successor of President Andres Manuel Lopes Obrador (AMLO), who has served a one-term limit.

Sheinbaum exceeded expectations and was elected president with the highest percentage of the vote since 1982 and will take over from AMLO on 1 October this year. Congressional election results were more surprising, however, with Sheinbaum's Morena party achieving a super majority in the lower house of congress. It was only a handful of seats short of a majority in the senate. This raises the prospect that Morena may be able to pass constitutional reforms. Given that there is a one-month period during which the new congress will overlap with the end of AMLO's term, this amplified market concerns. AMLO pushed for constitutional reform under his tenure, including a proposal (later rejected) to provide the state electricity company priority over private companies in electricity production. The congressional election results and associated risk triggered a 9% sell-off in the MSCI Mexico index in US dollar terms on the day of the results. This included a 4% fall in the peso versus the US dollar. Five days post the election the market was down almost 11% in US dollar terms.

The government initially took steps to show continuity, and the current finance minister committed to remain in office for at least two years. However, comments from both Sheinbaum and AMLO have reiterated their pledge to achieve constitutional reform, including judicial reform. Whilst structural growth drivers such as nearshoring should not be significantly impacted, policy uncertainty now prevails, amid concern around institutional weakening. Against this backdrop, the MSCI Mexico index is down over 16% year-to-date (as at 27 June) underperforming broader EM by a wide margin. As the charts below show, the peso and 10-year government bond yield have been volatile. The currency has depreciated around 8% versus the dollar since the election.

India

India's general election was held between 19 April and 1 June, with official results announced on 4 June. Prime Minister Modi's Bharatiya Janata Party (BJP) was widely expected to be re-elected with a larger majority.

Indeed, exit polls, released on 3 June suggested that this scenario had played out as expected. These ultimately proved to be inaccurate. Official election results on 4 June showed that while the BJP-led National Democratic Alliance retains a parliamentary majority, the BJP had lost its single party majority. Prime Minister Modi will remain in power but with a weaker, albeit solid mandate.

Market performance around election results saw some volatility. The exit poll data triggered a 4% rally in the market in US dollar terms. However, the release of the official results the next day saw the market fall almost 7%. Five days post the election the market had effectively recovered and was up in dollar terms if looking back before the rally on exit polls.

In the long term, the structural drivers of economic growth remain in place, but the election results mean a closer balance in parliament. This is likely to require greater consensus building, arguably a positive outcome. However, there is increased risk of populism, if the BJP seeks to court greater rural support, and potential delays in policy/reform execution that require legislative change.

Year-to-date, the MSCI India index has returned 17% (as at 27 June) outperforming broader EM. This has been driven by strong performance from the consumer discretionary and industrials sectors in particular.

South Korea

A general election took place in South Korea on 10 April, electing members of the 300-seat national assembly for another four-year term. Held mid-way through the president's term, these are often perceived as a gauge of public approval.

Opinion polls going into the election had implied a tight race between President Yoon's People Power Party (PPP) and the main opposition, the Democratic Party (DP). In the event, opinion polls were inaccurate, as the opposition won 175 seats to take a majority. The initial market reaction was muted but, five days post the election, equities were down almost 7% in US dollar terms.

Together with allied parties, the DP has a supermajority, which should enable it to pass legislation. Critically, it falls short of a large enough majority to impeach the president. The results may curtail some of President Yoon's most ambitious policies. The Corporate Value-Up Programme, launched earlier this year, seeks to encourage companies to act in cases of low valuation versus global peers. This includes improvement to corporate governance standards. Regulatory changes to support this are still expected, but tax incentives now seem unlikely to be legislated by congress.

Year-to-date the MSCI Korea index is close to flat in US dollar terms, with relative underperformance versus broader EM largely explained by won weakness. Industrials and materials sectors remain the key drags on the market this year.

Indonesia

Indonesian presidential and general elections were held on 14 February. Prabowo Subianto, who was the defence minister, won in the first round as indicated by initial Quick Counts on 15 February. Official results later showed Subianto with 59% of the vote, removing the need for a second round. Subianto takes over as president in October from Joko Widodo, who had completed a maximum of two five-year terms. The result was largely in line with opinion polls.

The initial result was welcomed by equity markets, which were up over 1% in US dollar terms on the release of the quick counts, and 2% in the five days after these results. Year-to-date, however the MSCI Indonesia index is down 12% (as at 27 June 2024). The election results appeared to remove uncertainty in the longer-term policy outlook and pointed to a continuation of the reforms initiated under the previous president. However, the external picture has deteriorated amid further US dollar strength.

Indonesia has twin current and fiscal deficits, and despite benign inflation, the central bank was forced to increase its monetary policy rate in April to support the currency. In addition, Prabowo is yet to announce a cabinet and there remains some uncertainty as to the extent to which policy could deviate from that under Widodo.

Taiwan

Taiwan held presidential and parliamentary elections on 13 January. Public opinion polls proved to be a reasonable guide to the outcome with the Democratic Progressive Party (DPP) retaining the presidency under the new leadership of William Lai Ching-te but losing its majority in parliament.

In contrast to the DPP's last two presidential election victories under Tsai Ing-wen (who had completed a maximum of two terms), its share of votes fell to 40% from 57% and 56% in 2020/2016 respectively. The main opposition party, the Kuomintang (KMT), also saw its share of the vote fall, with the Taiwan People's Party (TPP) the main beneficiary. Legislative elections for Taiwan's parliament, the Yuan, saw the DPP lose its majority, with the KMT picking up 14 seats to hold a total of 52 seats relative to the DPP's 51.

A key risk going into elections related to potential future policy and the impact on cross-strait relations with China. This outcome, broadly in line with expectations, is expected to constrain the policy agenda somewhat over this presidential term. Policy stability, specifically with regards foreign policy, and no significant deterioration in relations with China remains crucial to the market outlook in the longer term.

Markets responded accordingly, with the MSCI Taiwan close to flat in US dollar terms on the day of results. Five days post-election the market had advanced over 2%. Year-to-date (as at 27 June) Taiwanese equities have returned 28% in US dollar terms, with the market driven primarily by strong performance from the IT sector which represents 77% of the index.

Is election uncertainty now behind us?

The scheduled EM elections for 2024 are now behind us. The outcomes in the largest markets by market capitalisation, India and Taiwan, are neutral/positive for investors. Elsewhere, some uncertainty naturally lingers on, most evidently in Mexico but also in South Africa, linked to the ability of the GNU to enact reform.

EM now hands the election baton to developed markets, with major elections coming up in the UK, France and the United States in the second half of the year. The latter in particular will bear close monitoring given implications for US foreign and trade policy.