

For institutional, professional and wholesale investors only

JUNE 2024

Over the last week we have seen elections in India and Mexico, with surprising results. On one side, India's Narendra Modi and the Bharatiya Janata Party (BJP) saw its majority unexpectedly cut. In Mexico, leftist Claudia Sheinbaum unexpectedly won a substantial majority.

We highlight our Global Emerging Markets team's thoughts on the expectations, outcomes and implications for markets following the results.

India

The 2024 Indian election is arguably the largest democratic exercise in the world. The country's electoral commission estimates that in 2024 there are 968 million registered voters¹. The elections for 18th Lok Sabha, the lower house, took place from 19 April to 1 June in seven phases covering 543 constituencies.

The BJP led by Prime Minister Narendra Modi was expected to maintain a majority on its own. This has been shaken up by an unexpectedly strong result for the opposition Indian National Congress (Congress Party). Modi is now dependent on his coalition partners of the National Democratic Alliance (NDA) and potentially faces making concessions to coalition partners.

Expectation: The BJP maintains a majority



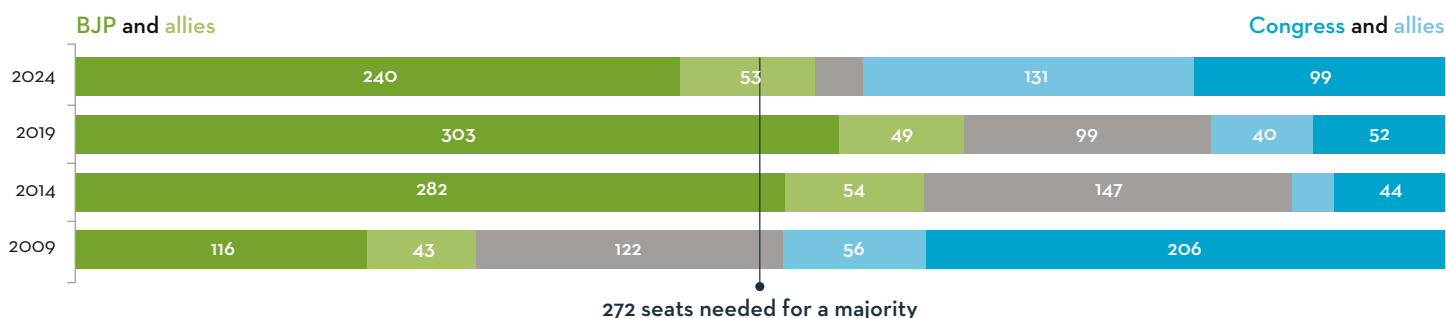
The exit polling implied that Modi's BJP alliance (with NDA) would have between 360-400 seats in the Lok Sabha (lower house). This implied that BJP itself would win 272+ seats to maintain a clear majority from the 543 seats. By maintaining a clear majority, BJP would not need to make any material concessions to its coalition partners going forward.

Result: Modi dependent on coalition partners



The BJP failed to win the required 272 seats to form a majority government on its own. They had to depend on their NDA coalition partners to maintain their majority. Modi's coalition partners have backed him as Prime Minister for a third term.

The market reacted negatively to the result of a reduced Modi majority with a US\$400 billion rout, and overseas investors selling a record US\$1.4 billion shares².



Source: Bloomberg, as of 5 June 2024.

Implications: Growth to continue regardless



Modi's historic reforms are benefitting growth today. In 2018, India was 8% of MSCI Emerging Market index; at end of 2023 it was 18%³. We expect that growth will continue in India, GDP is forecasted to grow at an average of 6.5% annually over the next five years⁴. High-quality Indian businesses have the potential to accelerate their growth and compound returns, the two-year forecast Earning Per Share (EPS) for the MSCI India is 16%⁵. Politics will not disrupt the country's strong growth outlook.

¹Source: Statista Research Department and Indian Electoral Commission, 22 April 2024.

²Source: Bloomberg as at 6 June 2024.

³Source: MSCI as at 31 December 2023. Weighting MSCI India 31 December 2018 versus 31 December 2023.

⁴Source: Statista and IMF World Economic Outlook. Data calculated to 31 December 2023, released in April 2024, amended 21 May 2024.

⁵Source: FactSet and MSCI, as at 31 December 2023.

Mexico

Mexico went to the polls on 2 June to elect their next President. For the first time in history, the election was between two female candidates. Claudia Scheinbaum of the ruling Moreno Party (National Regeneration Movement) is close to incumbent President Andrés Manuel López Obrador (known as AMLO). Scheinbaum's platform was focused on continuing AMLO's policies of inclusive economic growth and sustainable development. Her opponent, Xóchitl Gálvez of the National Action Party (PAN), is known for her advocacy on indigenous rights and technological innovation with her platform had a focus on governance reform.

Contrary to expectations, Scheinbaum and the Moreno party won by a significant margin. This gives them the ability to pass significant reforms. After losses on both the domestic stock market and a sell-off of the peso⁶, the market will now be focused on gaining confidence around potential reforms and the drivers of fiscal growth.



Expectation: Scheinbaum to win by a 'simple majority'

A week ahead of the election, polls suggested that Scheinbaum and the Moreno Party would win the election by a mid-teens margin over second-runner, Galvez, in terms of the popular vote.

Furthermore, the market expected that the Moreno Party would win only a simple majority in the congress, around 52-53%. In Mexico you need a two-thirds majority, known as a "Qualified Majority", to pass significant constitutional reforms.



Result: Scheinbaum wins a 'Qualified Majority'

The preliminary results by the election authority of Mexico showed Scheinbaum and the Morena party delivered a 30% margin in the Presidential election. This is equivalent to nearly ~38million people.

More importantly, the Morena party won a qualified majority in the house and is set to potentially deliver a qualified majority in the Senate. Of the nine state governor elections, the Morena party won seven, including control of the all-important Mexico City Governorship.



Implications: Market needs confidence on potential reforms

Many constitutional reforms have been discussed ranging from changes to the autonomous agencies in Mexico to the appointment of the Supreme Court. Most believe that Scheinbaum will continue pro-economy, poverty reduction policies such as continued increases in the minimum wage. Economic policy will be a key focal point going forward.

Both the market and the Mexican peso fell sharply over fears of ability of the Scheinbaum administration's ability to implement potentially market unfriendly policies⁶, further volatility is expected. The market will now look for confidence around measures such as Pemex reform (the state owned energy firm), finance ministry, and fiscal revenue engines.

⁶Source: Bloomberg as at 6 June 2024.



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