



2024: a record year of political elections

Emerging Markets
Equity team

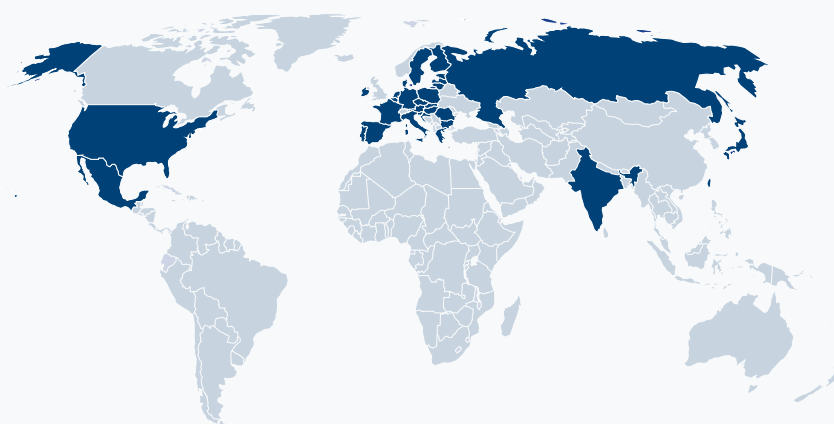
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“This year, approximately 4.2 billion people across more than 50 countries, representing half the world’s population or 68% of global equity market cap, will be casting votes.”

2024 is set to be the biggest election year in history, with half of the world’s population heading to the polls. In this report, we home in on the main political events in emerging markets (“EM”) and give our thoughts on the potential outcomes and implications.

This year, approximately 4.2 billion people across more than 50 countries, representing half the world’s population or 68% of global equity market cap, will be casting votes (Exhibit 1). In EM, over 50% of the EM equities benchmark is set to vote, across a range of presidential, legislative, and local elections (Exhibit 2)¹.

Exhibit 1: Nations with key and legislative leadership elections in 2024 and early 2025



■ Upcoming elections in 2024

Source: Wealth Outlook 2024 - Slow then grow (citibank.com).

¹ 2024 is the biggest election year in history | economist.com/interactive/the-world-ahead/2023/11/13/2024-is-the-biggest-election-year-in-history and forbes.com/sites/siladityaray/2024/01/03/2024-is-the-biggest-election-year-in-history-here-are-the-countries-going-to-the-polls-this-year/?sh=eeee66a65f99.

Exhibit 2: EM political calendar in 2024

Month	Day	Presidential	Legislative/ parliamentary	Local
Jan	13	Taiwan	Taiwan	
Jan	30			Israel
Feb	14	Indonesia	Indonesia	
Mar	31			Turkey
Apr	10		South Korea	
Apr-May	TBC		India	India
May	TBC		South Africa*	
Jun	2	Mexico	Mexico	Mexico
Jun	9			Hungary
Sep	TBC			Romania*
Oct	6			Brazil*
Nov	27			Indonesia
Nov	TBC	Romania*		
Dec	TBC		Romania*	

Source: HSBC Global Research, IFES Election Guide, National Democratic Institute, national sources.

Note: *Expected election timing.

While over the long term, the types of companies that we invest in – those with strong management teams and durable business practices – are able to endure economic and political cycles, in the short term, political events can at times have an impact in terms of investor sentiment and equity market returns.

As long-term investors, we would typically view bouts of uncertainty as an opportunity to add to select names. However, at the extremes, we would be cautious. Experience tells us that significant shifts in political leadership can have structural implications, both positive and negative, when it comes to the reform trajectory of a country and its long-term economic development.



Taiwan

Taiwan kicked off the political calendar on 13th January, when the pro-independence Democratic Progressive Party (“DPP”) made history by securing a third consecutive term in power. The current vice president, Lai Ching-te, won the tightest presidential campaign for the country in decades, securing 40% of the votes, followed by the more China-friendly candidates of the Kuomintang party (33% of votes) and Taiwan People’s Party (26% of votes). This granted the DPP four more years in power.

The continuation of DPP rule and the election of an anti-China candidate, someone who Beijing had branded a ‘troublemaker’, has raised concerns of worsening cross-strait tensions². While this is an important risk to consider, there are several factors that reassure us in the near term.

Firstly, the DPP won by a much smaller majority than in previous terms. This, in part, is reflective of the Taiwanese population’s discontent over increased tensions with China and its overriding desire to maintain peace. As a result, we have seen the DPP tone down its rhetoric against China and also make promises to the population in this respect.

The other two parties, who are more China friendly, secured almost 60% of the votes, and most likely would have won had they not failed to reach an agreement on which candidates to put forward.

² [Independence would mean war, China warns the Taiwan frontrunner \(bloomberg.com/news/articles/2023-08-15/china-says-taiwanese-presidential-frontrunner-brings-risk-of-war-llcep394?leadSource=uverify%20wall\)](https://www.bloomberg.com/news/articles/2023-08-15/china-says-taiwanese-presidential-frontrunner-brings-risk-of-war-llcep394?leadSource=uverify%20wall).

China's president, Xi Jinping, is currently focused on domestic issues, given the cyclical slowdown in the country. Increased geopolitical tensions would not be in his or the country's interests.

As a result, our base case would be that the China/Taiwan relationship remains stable, or marginally improves, in the near term. The next event to watch will be Lai's inauguration speech in May.

Indonesia

Southeast Asia's largest economy and the world's third-largest democracy will be holding its presidential and legislative elections on 14th February, when over 200 million people, of whom over half are under 40 years of age, are expected to cast a vote³.

The incumbent party, the Indonesian Democratic Party of Struggle ("PDI-P"), has been in power since 2014 under Joko Widodo, more commonly known as Jokowi, who continues to be very popular but has served his maximum of two 5-year terms.

In 2024, there are three key contenders for the presidency: Prabowo Subianto (Gerindra party), Ganjar Pranowo (PDI-P), and Anies Baswedan (Prosperous Justice Party). The latest polls suggest that Prabowo Subianto, the current defense minister and candidate seen as most likely to continue Jokowi's policies, is narrowly leading the race, with Jokowi's son, Gibran Rakabuming, as his running mate. Ganjar Pranowo, also expected to continue Jokowi's policies, and Anies Baswedan, the change candidate, are a distant second and third respectively.

There is a risk that the election in February will be followed by a second and final round in June, given the electoral stipulation that a candidate must secure at least 50% of the votes to win. Currently, the coalitions backing these candidates do not have 50% of parliament support versus the big-tent coalition backing the Jokowi government since the 2019 election.

While we expect significant volatility surrounding the elections, our base case is a continuation of Jokowi's policies and reforms. This would be a positive for the country's longer-term development, focused on down-streaming and encouraging foreign investment in value-added industries like smelting and refining, given Indonesia's large metal reserves.

Additionally, just as we saw after the 2014 and 2019 elections, any winning coalition – however small to begin with – should grow into a big-tent coalition, which would be positive for decision making and implementation.

South Korea

South Korea's legislative elections are due to be held on 10th April, to elect all 300 members of the National Assembly.

The incumbent conservative People Power Party ("PPP"), led by President Yoon Suk-yeol, will seek to gain a majority in the National Assembly after winning the presidential elections in 2022. This is important as President Yoon's legislative agenda has been blocked by the main opposition, the liberal Democratic Party of Korea ("DPK"), which currently has a majority in the Assembly. This means that Yoon has been unable to enact many of his policies since coming into power, which has negatively impacted his approval ratings.

“The last presidential election being the tightest in South Korean history also exemplifies the political polarisation within the country.”

We expect the upcoming elections to be more unpredictable than previous ones, given two prominent politicians from the PPP and DPK have announced their intentions to form new parties to challenge the traditional two-party race. The last presidential election being the tightest in South Korean history also exemplifies the political polarisation within the country.



³ UBS Global Research (December 2023), [The important elections in Asia in the first half of 2024 \(fortune.com/asia/2023/12/28/asia-elections-next-year-us-race-taiwan-indonesia-south-korea-indonesia/amp/\)](https://fortune.com/asia/2023/12/28/asia-elections-next-year-us-race-taiwan-indonesia-south-korea-indonesia/amp/).

So far, no party has a significant lead. According to polls conducted in December 2023, the PPP is leading with a 35% approval rate, followed by the DPK (33%), and Justice party (4%). 27% of poll participants remain undecided, reflecting the nation's lack of trust and disheartenment with the political elites⁴.

The PPP is seeking to regain voters' confidence under the leadership of Han Dong-hoon, an outspoken former prosecutor, who assumed the role of the party's interim leader in December after resigning from the position of justice minister. Meanwhile, the DPK continues to grapple with scandals and internal feuds which have so far prevented it from taking advantage of the public's growing discontent towards President Yoon and the governing party⁵.

While the picture continues to look uncertain, a positive outcome would be if the PPP was able to secure a majority at the National Assembly, as this would remove the current stalemate and allow it to pass through more policies. Overall, President Yoon's agenda is relatively pro-business and market friendly so we would view this as a positive development. From an equity markets perspective, we have seen an increased focus from the government on corporate reform and shareholder returns in the lead up to the general elections, given the surge in retail investors in South Korea since the pandemic. The number of these investors of the total voting population is currently around one-third, or 14.2 million people. A decade ago in 2014, this number was 4.4 million, or only 10% of the voting population⁶.

India

India, the world's largest democracy, will hold general elections between April and May this year, in which the incumbent National Democratic Alliance ("NDA"), led by Prime Minister Narendra Modi of the Bharatiya Janata Party ("BJP"), is seeking re-election for an unprecedented third term. The main opposition is a 26-party coalition of regional and national parties called the Indian National Developmental Inclusive Alliance ("INDIA"), led by the Indian National Congress ("INC").

While the elections are parliamentary in nature, with voters electing their local representatives, what is striking is that Modi's popularity and campaigning style have over the years turned these into presidential-style elections, with Modi as the face of the ruling party.

The strong showing by Modi's party in the key state elections in November and December 2023, when the BJP won three of the four important states, signals strong momentum for Modi heading into this year's national elections.



Additionally, current opinion polls show a comfortable margin for Modi and the ruling BJP. The opposition may have grievances with Modi's social policies, but economic reform and development have been impressive under his leadership. This includes simplifying labour laws, reforming the tax system, production-linked incentives, digitalising the finance sector, and investing in the country's infrastructure, which has historically presented a key bottleneck. We expect the focus on public investment to continue if Modi wins another term.

The main risk, albeit low currently, is if the main opposition, INDIA, is able to mobilise itself. This could create significant polarisation and uncertainty in the run up to the elections.

South Africa

South Africa follows a parliamentary system of government. This year, 400 members of the National Assembly will be elected, with 200 members from national parties and 200 more from the provincial parties, all following a proportional representation system⁷.

Election rules stipulate that the winning party/president needs 50% of votes to form a government. If the votes fall short of 50%, they can still form a government with the help of coalition partners.

While the African National Congress ("ANC") is likely to remain the largest party, recent opinion polls indicate a sharp drop in its vote share, to even below 50%. This is largely due to issues at state power utility, Eskom, which have led to a nationwide electricity crisis. This could prove to be the first time a coalition government comes to power in South Africa since the end of apartheid in 1994.

⁴ Gallup Korea, UBS Global Research, December 2023.

⁵ [2024 general elections likely to be neck-and-neck race \(koreatimes.co.kr/pages/article.asp?newsidx=366062\)](https://www.koreatimes.co.kr/pages/article.asp?newsidx=366062).

⁶ CLSA, KSD, January 2024.

⁷ UBS Global Research, December 2023.

There are several key alliances to watch. Firstly, the multi-party charter, which represents a coalition of seven opposition parties formed in August 2023, including the main opposition party, the Democratic Alliance (“DA”), with the objective of keeping the ANC out of power. These parties together hold a 28% share of seats in the current National Assembly. Additionally, the Economic Freedom Fighters (“EFF”), a break-away faction from the ANC, has 11% of seats. The party has a left-leaning philosophy and could come into play as a potential coalition partner for the ANC, should the latter fall below a 47% vote share⁸.

We continue to be cautious on the political landscape in South Africa and expect ongoing uncertainty and volatility. Overall, our base case is that even if the ANC does not secure a majority, it will likely remain in power through a coalition with smaller parties, which would be a continuation of the current challenging environment. A positive outcome would be if the ANC forms a coalition with the DA, the more market-friendly and anti-corruption party, while a negative outcome would be a coalition with the left-leaning EFF.

Mexico

Mexico’s general elections will be held on 2nd June to elect the president, all 500 members of the Chamber of Deputies, and all 128 members of the Senate of the Republic. Notably, for the first time in the country’s history, Mexicans will be choosing between two women for their president.

The current president, Andres Manuel Lopez Obrador (“AMLO”), will need to stand down, due to constitutional laws limiting him to a single 6-year term. Given AMLO’s remarkably high approval ratings of above 60%⁹, classing him as one of the most popular presidents in the world, former Mexico City mayor, Claudia Sheinbaum, is the frontrunning candidate for the incumbent Morena party and thus the most probable next president of the country.



“Every 12 years the electoral cycles of Mexico (6-year presidential terms) and the U.S. (4-year terms) align. 2024 is one of those years and it could be argued that the outcome of the U.S. election is even more important for Mexico than its own election.”

The leading opposition candidate, the outspoken Xóchitl Gálvez, has a noteworthy profile. The daughter of an indigenous father and a mixed-race mother, she comes from humble origins and has credibility as a corruption fighter. While Gálvez got off to a strong start when she was chosen as a candidate last August, she has since been hurt by the absence of a coherent and unified strategy against AMLO and the Morena party, largely reflecting an ideological division within her coalition.

Under Sheinbaum, our expectation is for a continuation of AMLO’s leadership. We do not expect to see any drastic changes in policy, except perhaps more investment and reform when it comes to the energy sector. This will be important for the nearshoring story to continue. The hope is that we can also see more investment into green energy, where Mexico has been falling behind.

One area to watch is U.S.-Mexico relations, where the two candidates have opposing policies. While Sheinbaum is expected to maintain the current government’s relationship with the U.S., Gálvez has signaled a willingness to take a more assertive stance on issues such as immigration and trade. Therefore, the outcome of the election could have a significant impact on the future of U.S.-Mexican relations.

Additionally, every 12 years the electoral cycles of Mexico (6-year presidential terms) and the U.S. (4-year terms) align. 2024 is one of those years and it could be argued that the outcome of the U.S. election is even more important for Mexico than its own election. A Trump win could lead to increased tensions and negative rhetoric around trade, which could cause currency pressure as we saw after the November 2016 elections¹⁰.

That said, given the interdependency of the U.S. and Mexico in terms of trade and the signing of the North American Free Trade Agreement (“NAFTA”), which will remain in place for several years, we do not expect the relationship to deteriorate meaningfully. Additionally, Mexico’s nearshoring story and foreign investment boom should continue to prove supportive for its economy and equity markets going forward.

⁸ UBS Global Research, December 2023.

⁹ [Approval Tracker: Mexico’s President AMLO | AS/COA \(as-coa.org\)](#).

¹⁰ [The prospect of a second Trump presidency looms over Mexico’s elections \(economist.com/the-americas/2024/01/23/the-prospect-of-a-second-trump-presidency-looms-over-mexicos-elections\)](#).

U.S.

The U.S. is gearing up for presidential and house elections in November, when the prospect of a Donald Trump win is looking increasingly likely. While the outcome and implications are still uncertain, a key consideration for EM investors is how a Trump win may impact relations with China.

Our overall view is that the impact could, in fact, be marginally positive. While the expectation under a Biden administration was for an improvement in relations and a reversal of Trump's trade policies on China, this did not actually play out, and what we have seen under Biden is a more aggressive stance focused on the issues of national security and sanctions. Our expectation and hope under a potential Trump presidency is that the focus would shift back to trade and deal making, which would overall be more constructive in terms of U.S./China relations and broader geopolitics. Indeed, Trump's rhetoric to-date is suggestive of this stance.

Another key consideration is the impact of the U.S. elections on Mexico. As discussed above, the risk is that a Trump win leads to renewed tensions between the U.S. and Mexico and negative rhetoric around trade, as was the case during his first term. While these concerns are likely to create uncertainty and volatility in the near term, the two countries' dependency on one another in terms of trade mitigate the risk of a significant deterioration. Additionally, there is a high correlation between the U.S. economy and the performance of Mexico's economy and equity markets. A strong U.S. economy under Trump could prove supportive in this case, while from a structural perspective, Mexico will continue to benefit from nearshoring trends and foreign investment.

“A key consideration for EM investors is how a Trump win may impact relations with China.”



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