GLOBAL
Insight

Monthly focus

March 2024

A worldwide wave of elections

2024 marks a case of rare planetary alignment, with close to half the world's population heading to the polls. While the brightest spotlight will fall on the U.S. election, we focus on elections beyond the U.S. and why they matter to investors.

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All values in U.S. dollars and priced as of market close, Feb. 29, 2024 unless otherwise stated.
Produced: March 1, 2024 4:27 pm ET; Disseminated: March 6, 2024 11:30 am ET

MONTHLY
Focus

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A worldwide wave of elections

2024 marks a case of rare planetary alignment, with the biggest election cycle in history. More than 75 countries home to 4.2 billion people, or close to half the world's population, will head to the polls this year.

While the brightest spotlight will certainly fall on the U.S. election, this article focuses on elections beyond the U.S. and why they matter to investors. We assess the factors that have historically made electoral outcomes momentous for economies and financial markets, zeroing in on several pivotal elections that could have repercussions for investment portfolios.

Key points

- **Historically, elections that significantly impacted a country's economy and financial markets were those where the elected government implemented a sweeping structural reform programme, modified fiscal or monetary policies, or refashioned international relations.**
- **In emerging markets, we believe the outcomes of this year's elections will have important implications for ongoing reforms and economic stability. For some, how the elections play out may accelerate the breakdown of the post-Cold War world order.**
- **In developed markets, at this juncture a centrist government appears likely, in our view, to win the next UK general election, while voting for the European Parliament may give populist nationalists a greater voice, further threatening the cohesion of the EU.**

Elections as game changers?

Every now and then, elections have deep, long-term implications for economies and financial markets. In particular, those where an elected government has promised wide-ranging economic changes, such as:

- The 1979 UK election of Prime Minister Margaret Thatcher brought privatization of state-owned companies, financial system deregulation, and labour market reform that initially worsened the UK's long economic downturn but ultimately reshaped its economic structure.
- Brazil's 1994 election led to a transformation of monetary policy orthodoxy for its central bank, which helped tame the hyperinflation that had gripped the country for years.

The subsequent improvement in both economies paved the way for lasting bull markets in their respective domestic equity markets.

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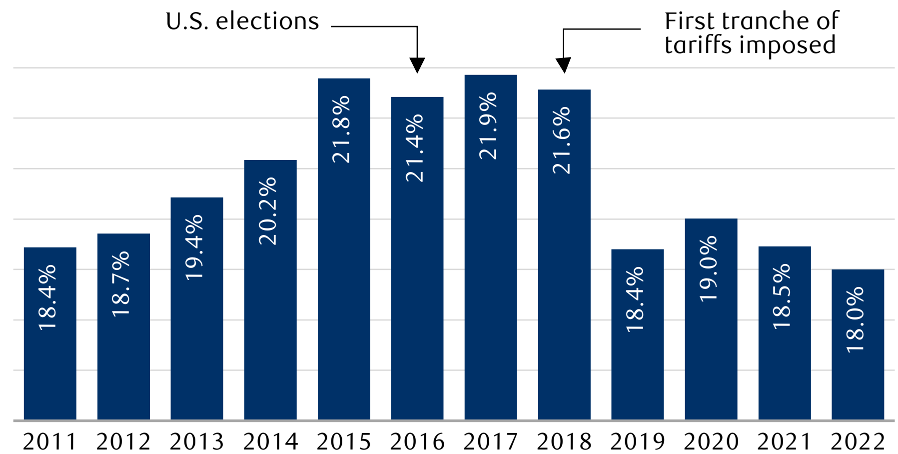
We've also seen how elections have upended international relations, be it foreign policy or trade:

- After the election of Donald Trump as U.S. president in 2016, his administration imposed a series of tariffs starting in 2018 that kicked off a trade war with China and contributed to the fracturing of the post-Cold War world order. A frostier geopolitical backdrop, among other factors, may have contributed to the underperformance of Chinese equities relative to U.S. equities since then.

After tariffs were imposed, the contribution of imports from China fell

U.S. imports from China as a percentage of total



Source - World Bank

Campaign promises of change, though, do not mean an election outcome will be momentous enough to fundamentally alter the economy and markets. Governments typically need the ability to implement these changes via a legislative majority. It's far easier to accomplish this in countries with only two major political parties, such as the U.S., the UK, and India.

Countries where several parties vie for the electorate often end up with coalition governments, the norm for many European countries. To successfully and efficiently implement changes, it's best if the coalition shares common political ideologies. Coalitions that hold divergent views and/or are cobbled together mainly to topple the incumbent tend to be unstable and have a poor track record at bringing about meaningful changes.

Absent the means to effect change, grandiose proposals can be watered down or never become reality:

- Javier Milei, the self-described "anarcho-capitalist" elected president of Argentina in November 2023, is a case in point. He promised drastic economic measures including cutting public spending by 15 percent, abolishing the country's central bank, and making the U.S. dollar the country's legal currency. But his party only controls about a quarter of the seats in each house of Congress, making it difficult to pass legislation.

A WORLDWIDE WAVE OF ELECTIONS

Will the 2024 election cycle herald big changes?

Few of the 2024 elections are likely to be as pivotal as the ones outlined above—after all, many countries have already introduced sweeping reform programmes, and most central banks are now independent and have demonstrated their usefulness by taking dramatic action to lower inflation. Nevertheless, how this year's elections shake out will have crucial ramifications for ongoing reform programmes, economic stability, and international relations, in our view.

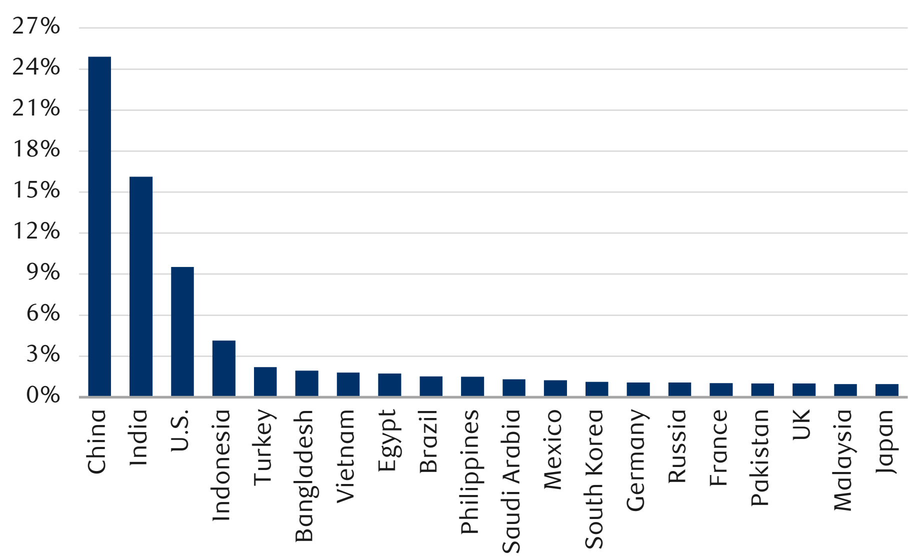
The ones to watch

Emerging markets

According to the IMF, emerging economies will generate more than 60 percent of global GDP growth over the next five years. So, we think it is more important than ever to understand how some of this year's elections may influence emerging economies' prospects.

China and India are anticipated to be the main GDP growth drivers over the next five years

Share of world GDP growth from 2023 to 2028



Note: Based on IMF forecast from 2023 to 2028.

Source - International Monetary Fund (IMF) World Economic Outlook October 2023, Macrobond, RBC Global Asset Management

Many countries, such as Indonesia and India, have introduced reforms relatively recently, but we think they still have much to do. Whether elected governments remain committed to such efforts will likely determine if countries can maintain a growth trajectory, in our opinion.

For some nations, such as Pakistan and Sri Lanka, which recently signed financing agreements with the International Monetary Fund (IMF), we believe maintaining economic orthodoxy is key to promoting economic stability.

Finally, electoral results in Taiwan, Bangladesh, Mexico, and Venezuela will have consequences for international relations.

A WORLDWIDE WAVE OF ELECTIONS

Below, we focus on two countries, India, given its increasingly large role in the global economy, and South Africa, as the ruling African National Congress potentially losing its majority could cause ripples in financial markets.

India – Will it remain the darling of EM investors?
India is likely to be the second-largest contributor to global economic growth after China over the next five years, and it has gradually opened its economy to foreign investors. Meanwhile, Indian government bonds have recently been incorporated into the Emerging Markets Global Diversified Bond Index, a key benchmark.

Polina Kurdyavko, head of RBC BlueBay Emerging Markets, attributes India's newfound role in the global economy to several factors:

- *The country's relative neutrality amidst global conflicts; India is a member of both the BRICS bloc (along with Brazil, Russia, China, and South Africa) and the U.S.-led Quadrilateral Security Dialogue, commonly known as the "Quad," along with Japan and Australia.*
- *Relative political stability.*
- *Proximity to the Middle East, as well as improved relations with Saudi Arabia, the United Arab Emirates, and Egypt, all of which contributed to helping India become a new regional power.*
- *High levels of employment with 70 percent of the population working and labour costs now lower than those in China. This enables India to offer solutions to countries facing recent workforce shortages by increasing its manufacturing capacity, easing supply chain bottlenecks, and bridging labour gaps.*

Between April and June, as many as 945 million eligible Indian voters will head to the polls, the largest-ever democratic event. The central government will be formed by the party—or parties—that achieves a majority in the 543-seat lower house of parliament (the Lok Sabha). The election appears likely to provide the country with leadership continuity.

Prime Minister Narendra Modi enjoys an approval rating of 77 percent, the highest level of any democratically elected leader in the world despite having already served two terms, according to Morning Consult, a market research firm.

Modi's humble background and economic track record are appealing to the electorate. His government oversaw a wide-ranging supply side reform programme which included:

- A broad bank recapitalization package and a new bankruptcy code (in Modi's first term).
- Labour reforms and a new digital identification system that enabled digital payments and data-management platforms (in the second term). These initiatives gave most Indians access to public services and facilitated the receipt of popular government cash transfers.

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Underpinned by the reforms, India's economy has grown at enviable rates of close to six percent annually on average during his tenure. The stock market has similarly been on an uptrend, gaining more than 200 percent since his election in 2014.

Additional gradual structural reforms are needed for India to maintain its economic momentum, in our opinion. Job creation remains low, with a large percentage of the population underemployed. Education levels are still inadequate for an aspiring economic power.

We believe it's important that a stable government with a working parliamentary majority emerges from the election, be it a single-party majority or a sturdy coalition. This would heighten the prospects that reforms face few obstacles in the Lok Sabha, are implemented efficiently, and have a greater likelihood of resulting in healthy economic growth over the coming years. Failing this, we think foreign investor confidence might be shaken and could result in capital outflows.

South Africa – Unsolid ground

With its general election approaching in May, South Africa is facing many challenges, and we think the outcome could generate more turmoil. In particular, with the spread on South African 10-year government bonds versus U.S. Treasuries reaching a 20-year high in 2023, we are keeping an eye on this election. An outcome that leads to abandoning fiscal and monetary rectitude could rattle financial markets, in our view.

Following a crippling energy crisis, the ruling ANC under President Cyril Ramaphosa could lose its majority for the first time in 27 years. In 2023, the state-owned power utility was unable to supply close to half of its potential generation capacity to consumers, setting off blackouts that continue to plague the country.

Should the ANC form a coalition with the left-wing Economic Freedom Fighters, it could pressure the South African Reserve Bank, one of the few central banks which is not independent, to abandon its arduous fight against inflation. Moreover, what we believe is much-needed fiscal consolidation to rein in budget deficits would be less likely to be implemented. With both monetary and fiscal policy loose, concerns regarding national sovereign debt risks, already high, could mount and spreads could widen further, setting off jitters across financial markets.

South Africa's debt levels soared from less than 30 percent of GDP before the global financial crisis to 70 percent of late. This debt load is even higher once state-owned enterprises are included.

The table in the appendix highlights some other key elections taking place in emerging economies over 2024.

Developed markets

Among the developed economies (apart from the U.S.), the UK general election and European parliamentary elections should attract the most attention. Having flirted with populist and nationalist sentiment since the Brexit referendum, we think the UK seems poised to embrace a more centrist government.

A WORLDWIDE WAVE OF ELECTIONS

UK – Winds of change?

In the UK, polls have been decidedly pointing to a Labour government, with the party sustaining a 20 percent lead over the incumbent Conservatives for more than a year.

Labour leader Sir Keir Starmer has made much of wanting to return the UK economy to a growth path. Still, with fiscal and monetary policy being tight, any new government will have little room to maneuver, in our view, given the UK deficit is running at over five percent of GDP and the Bank of England's ongoing fight against inflation. If elected, one area Starmer could tackle is the relationship with the EU, which continues to be the country's largest trading partner.

Over the past few months, the EU has shown willingness to engage with the UK in a more flexible manner—that is, without requiring discussions about rejoining the single market or the EU Customs Union. In July 2023, cognizant that the geopolitical context had darkened substantially over the past few years, EU officials raised the idea of a formal collaboration on global issues with its former member.

As the engineer of Brexit, the Conservative government declined that offer. But a Labour government may well be more open to greater collaboration in areas of mutual interest. For example, agreements such as one covering freedom of movement between the UK and EU could be a boon to the struggling UK economy and stock market, which has suffered significant outflows since the Brexit referendum.

European Parliament elections – Louder radical right and anti-establishment populist voices

Over three days from June 6, 450 million Europeans will elect 750 representatives for the bloc's next Parliament. The European Parliament's main role is to consider budgets and legal proposals made by the European Commission in Brussels.

At stake are Brussels' support for Ukraine, the bloc's ambitious measures to tackle climate change (including targets for cutting carbon emissions), and immigration. The extent of Brussels' involvement in national economic, fiscal, and regulatory policies is also in the balance.

The European Council on Foreign Relations (ECFR), a think tank, suggests a more populist, right-leaning European Parliament is likely to emerge from the elections, based on recent polls and its own assessment of potential coalitions. Such an outcome may hinder the passing of legislation necessary to implement the next phase of the European Green Deal and lead to a harder line on migration, while support for Ukraine and EU enlargement may soften over time. Overall, this scenario could amplify dissent within the bloc.

A right-leaning European Parliament would also influence national governments' domestic politics. For instance, if citizens in a particular country were to vote in the European Parliament elections for a party that does not support the Green Deal agenda, we think it would very likely affect the position that country's government may feel able to take when formulating its own national policies on curbing carbon emissions.

A WORLDWIDE WAVE OF ELECTIONS

Meanwhile, the outcome of the U.S. election will also influence the bloc's policies, economy, and industries. If he returns to the White House, Trump plans to impose a broad minimum 10 percent tariff on all imported goods, as well as to likely retaliate against European digital services taxes that target U.S. tech leaders. It would also mean Europe's ally would be less engaged. Some European leaders, such as French President Emmanuel Macron, may increase calls for the Continent to depend less on America for defense. However, the rise of populist, anti-establishment parties, some of which are more sympathetic towards Russia, would make this aim more difficult to achieve, in our view.

In a nutshell

The results from this year of elections will shape the economic landscape for a number of nations, in our opinion. Where new governments put reform programmes at risk, financial market volatility may increase. Where voters embrace reform efforts, those countries may be able to continue on a growth path. Elsewhere, anti-establishment voices holding more sway may result in increased difficulty in effectively setting and implementing policies.

Overall, we believe the breakdown of the post-Cold War world order is likely to continue. Much will be decided by an outside factor, in our view, as the outcome of the U.S. election will also be a key driver and could shift prospects significantly for many nations.

Appendix: Key emerging market elections in 2024

Bangladesh Election date: January 7 Type: Parliamentary At stake: International relations	• The government's shift towards autocracy is straining relations with the EU and the U.S., the country's main export markets. • Sanctions on the key textile export sector remain likely, and could push the country towards China's orbit. • **Outcome:** Prime Minister Sheikh Hasina secured a fourth consecutive five-year term.
Taiwan Election date: January 13 Type: Presidential At stake: International relations	• The island's relationships with the U.S. and China are key issues. • **Outcome:** Pro-independence candidate William Lai was elected president, but his Democratic Progressive Party failed to take a majority of seats in the legislature.
Pakistan Election date: February 8 Type: General At stake: Economic stability	• Terms of a new long-term loan from the IMF will likely require tight monetary and fiscal policies. • **Outcome:** After inconclusive results and accusations of vote rigging amid a deep economic crisis, two major political parties will form a coalition. The agreement between the Pakistan People's Party (PPP) and the Pakistan Muslim League-Nawaz (PMLN) will effectively shut out the Pakistan Tehreek-e-Insaf (PTI), which gained more votes than either coalition party but failed to secure a majority. A tilt towards China is possible.
Indonesia Election date: February 14 Type: Presidential & parliamentary At stake: Reforms	• The election served, in part, as a referendum on continuing the economic policies of former President Joko Widodo (Jokowi), during whose tenure the country's GDP increased by more than 40%. • **Outcome:** Prabowo Subianto, Jokowi's defence minister and a former military officer, claimed victory alongside Jokowi's son Giban Rakabuming Raka as vice president. Despite promises to continue "Jokowinomics," it remains to be seen whether Subianto will follow through. His government could maintain Jokowi's approach of balancing relations to favour China economically and the U.S. strategically.
South Korea Election date: April 10 Type: Parliamentary At stake: Reforms	• Labour market and service sector reforms could lift the struggling economy. • A recent assassination attempt against the leader of the opposition Democratic Party (DP) may lead to a sympathy vote that would help the DP preserve its parliamentary majority and enable it to block President Yoon Suk Yeol's domestic policy agenda, which is focused on waning growth and a cost-of-living crisis. The country is due to hold presidential elections in 2027.
India Election date: April – June Type: General At stake: Reforms	• Further economic reforms could unlock the country's growth potential. • Prime Minister Narendra Modi and his right-wing Hindu nationalist Bharatiya Janata Party (BJP) are leading in recent polls. An electoral win would empower them to continue the policy initiatives of the past two terms.
South Africa Election date: May 24 Type: General At stake: Economic stability & reforms	• The unpopular incumbent government risks losing its majority. • Because the country's central bank is not independent, a potential coalition with a left-wing party would likely lead to looser monetary policy, while fiscal consolidation may be elusive. This could worsen the country's sovereign debt issues.
Mexico Election date: June 2 Type: General At stake: International relations	• Bilateral relations with the U.S. are a key issue, particularly since Mexico became the U.S.'s largest trading partner in 2023. The future course of this relationship also depends on the outcome of U.S. elections. • Claudia Sheinbaum, former mayor of Mexico City and protégé of President Andrés Manuel López Obrador, is a leading candidate for the presidency.
Sri Lanka Election date: Before September Type: Presidential At stake: Economic stability	• After the previous government collapsed, the country reached an agreement with the IMF based on economic orthodoxy that included significant tax increases. At issue is whether a new government will continue to abide by those terms. • President Ranil Wickremesinghe appears committed to sticking to the plan, though some fiscal policy changes may be inevitable ahead of elections.
Venezuela Election date: Unknown Type: Presidential At stake: International relations	• Uncertainty is high, as leading candidates including opposition leader and former lawmaker María Corina Machado have been barred from participating. • The incumbent Maduro government agreed to hold free elections in late 2024 in exchange for the U.S. lifting sanctions on the country's oil sector. The conduct and timing of this election could affect whether the U.S. continues to apply sanctions.

Note: There are also presidential elections in Russia, Mozambique, and Tunisia; parliamentary and presidential elections in Romania; and general elections in Ghana.

Source - Foreign Policy, national election commissions

Research resources

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