

Argentina – Strategy
October 23, 2023

The Peronist machinery pulls a miracle.

- **IN THIS PIECE.** We take a deep look at the results of the Presidential General Election and share some thoughts about the run-off scenario between Mr. Massa and Mr. Milei.
- **OUR KEY TAKEAWAYS.** Mr. Massa surprisingly added 10pp to his voter tally and leapfrogged Mr. Milei and Mrs. Bullrich, going from 3rd place in the primaries to 1st place in the October General Election. In this context, Mr. Massa, who took 36.7% of the vote, will compete in the November 19th run-off with Mr. Milei, who came up second with 29.98% of the vote. Mr. Massa's blowout bounceback was grounded on (i) a stellar night for the Peronist election machinery, which secured for Mr. Massa 3.2mn of the 3.7mn new votes resulting from the increase in participation, (ii) poaching about 400,000 moderate Larreta / UCR votes from JxC, especially in the City and the Province of BA, and (iii) a massive increase in the fiscal impulse, which shielded the Minister from the flak of accelerating inflation and a teetering FX market. Looking at the run-off, we believe Mr. Milei remains the favorite to win despite Mr. Massa's surprise win. Both candidates need to pivot to the center, with Mr. Massa seeking to add Mrs. Bregman's vote (probably through fear of Mr. Milei), Mr. Schiaretti's supporters, and the UCR voters. To secure these two, Mr. Massa needs to detach himself from the Kirchner's. In this context, it's unsurprising that his post-election address tried to frame the election as a contest between a broad coalition of traditional parties and an anti-system opposition, arguing that his win was a signal that politics was moving beyond Mrs. Kirchner. By contrast, Mr. Milei pivoted strongly from an anti-system message to a more centrist strategy, relying on the Kirchnerist-Antikirchnerist divide. Assuming that Mrs. Bullrich's 4.1mn votes from the Primaries are mostly comprised of hardcore anti-Kirchnerist voters who wouldn't consider voting for Mr. Massa, that limits the battlefield to the 2.3mn Larreta votes remaining in JxC and Mr. Schiaretti's 1.7mn votes. If we add Mr. Milei's general election tally with Mr. Bullrich's PASO hardcore, the Libertarian would need just 800,000 of those 4mn votes (Larreta + Schiaretti to win), while Mr. Massa would need to secure 3.2mn. In this context, while Mr. Massa pulled a surprising win, we believe Mr. Milei retains about a 60% probability of winning the run-off.
- **STRATEGY IMPLICATIONS.** We expect the market to take the election's outcome negatively, with price action in the -4 to -5c range, pushing the ARGENT35s down to the low-20s. From our pre-election survey of creditors, we believe the market consensus built into prices was a Milei-Massa run-off, with Mr. Milei leading by about 5pp. Our survey suggested that creditors thought that a scenario where Massa was more competitive (modeled as a tighter than 5pp Milei lead rather than Massa winning) was met with the expectation of a 2c deterioration in valuations. After Mr. Massa's surprising win, we expect the ARGENT35 to drop between 4 and 5cents, dropping to the low-20s. After the primaries, the market read the outcome positively, lumping Mr. Milei's, Mrs. Bullrich's, and Mr. Schiaretti's votes to conclude that two-thirds of the electorate had opted for a right-of-center alternative, suggesting that the Argy electorate was tired of Kirchnerist policies and was ready to endure a stabilization program. We had a different view, arguing that if you added Mr. Milei's and Mr. Massa's votes, plus the low participation rate, you could conclude that 75% of the electorate had either opted for a magical solution or failed to participate. In other words, while Mr. Milei remains a favorite to win, Mr. Massa's win has robbed creditors of their bull case: the conviction that Mr. Milei's program might be extremely aggressive, but voters had become receptive to it. By putting Mr. Massa first, voters confirmed our baseline that a Milei Administration would have to work with an electorate unwilling to suffer the initial pain that its disruptive economic program would bring. Mr. Massa's win also increases the fragility of a potential Milei Administration. Mr. Massa exits the election cycle as the leader of a Peronism that is likely to become the only national coalition in a context where voters returned a much larger than expected Peronist caucus in both houses of Congress, meaning that even combining the libertarian and JxC caucuses would still fall short of a majority.

Juan Manuel Pazos
Chief Economist
Santiago Resico
Strategist

Strategy – Argentina

October 23, 2023

The Peronist machinery pulls a miracle.

Massa leapfrogs Bullrich and Milei. LLA underperforms. JxC collapses.

Sergio Massa leapfrogged Mr. Milei and Mrs. Bullrich, ending Election Day with 36% of the vote and securing a run-off spot with Mr. Milei.

Sergio Massa leapfrogged Mr. Milei and Mrs. Bullrich, ending Election Day with 36% of the vote and securing a run-off spot with Mr. Milei. After coming third in the primaries, Mr. Massa bounced back in the general election, picking up 9pp of the votes, climbing to 36.68% of votes. Mr. Milei underperformed expectations, securing 29.98% of the vote, roughly unchanged from the primaries. Mrs. Bullrich came third at 23.83pp, underperforming the JxC tally by about 4pp. In this context, the presidential race will extend another four weeks until the run-off between Messers. Massa and Milei on November 19th. The participation rate improved by 9pp, with new voters mostly favoring Mr. Massa. All in all, Mr. Massa secured 9.6 million votes, up from 6.7mn in the Primaries. Both Mr. Milei gained about 400,000 votes while Mrs. Bullrich lost votes, from 7mn to 6.3mn, respectively. Mr. Massa’s win is as much a surprise as Mr. Milei’s PASO win, in a context where no pollster expected this outcome and the market consensus, while mostly pricing a Massa-Milei outcome, was expecting Mr. Massa to trail Mr. Milei.

Figure 1: Mr. Massa improved by 9pp of the vote to win the election.

	% of positive valid votes					
	2015		2019		2023	
	PASO	1st Round	PASO	1st Round	PASO	1st Round
Peronism	59.1%	58.5%	58.1%	54.4%	31.6%	43.5%
Kirchnerism	38.6%	37.1%	49.9%	48.2%	27.7%	36.7%
Non Kirchnerism	20.5%	21.4%	8.2%	6.1%	3.9%	6.8%
	FPV (Scioli)		FdT (Fernandez)		UP (Massa)	
	Frente Renovador (Massa)		Consenso Fed (Lavagna)		Hacemos (Schiaretti)	
Juntos por el Cambio	30.1%	34.2%	32.9%	40.3%	28.7%	23.8%
La Libertad Avanza					30.4%	30.0%
Participation Rate	75%	81%	76%	81%	69%	78%

Source: TPCG Research based on the Interior Ministry

Mr. Massa’s win is cemented on i) the Peronist machinery firing on all cylinders and ii) a massive increase in fiscal impulse, which offset a deteriorating macro outlook.

Mr. Massa’s win is cemented on i) the Peronist machinery firing on all cylinders and ii) a massive increase in fiscal impulse, which offset a deteriorating macro outlook. Mr. Massa carried 13 provinces, up from 5 in the primaries, including a blowup win in PBA, where he gained 800,000 votes or about half of his national gains. The Peronist election machinery, which had sputtered in the primaries, shined yesterday, regaining for Mr. Massa large swaths of voters that had slipped to Mr. Milei in August. Mr. Massa did especially well in those provinces where the Peronist machinery has the most influence, winning back most of the northern provinces and cutting the deficit in most western provinces. The best example is the Province of BA, where Massa got 4.2mn of his 9.6mn votes, gaining substantial backing in most of the Greater BA munis where Peronism had slipped in August. Mr. Kicillof got carried by this tidal wave, increasing his tally to 45% and retaining the province. JxC lost -6.5pp of the votes in the Greater BA, only retaining Vicente Lopez and San Isidro, two posh munis contiguous to the City of BA in the northern corridor, which Juntos have governed for decades. Every other muni flipped to Mr. Massa as Peronism surged 10pp, and the Libertarians roughly stood their ground (-1.6pp). On the other hand, economic policy amplified the impact of a better-functioning Peronist machinery. Since the Primaries, Mr. Massa abandoned the IMF deal, allowing a REER correction on Aug. 24th but freezing the official fixing since, and increasing fiscal impulse by 2pp of GDP through an increase in direct transfers and the scrapping of the income tax for individuals. Mr. Massa gambled that an aggressive increase in impulse could offset faster inflation and an FX market veering out of control. Voters proved him right.

Figure 2: The Peronist machinery delivered Mr. Massa 13 provinces, up from 5 in the primaries. Mr. Milei lost ground in the northern and southern provinces, and JxC only retained its foothold in the City of BA.

Presidential Election results, votes as % of registered voters	Paso 2023				1st Round 2023			
	UxP	JxC	LLA	Did not vote/Blank	UxP	JxC	LLA	Did not vote/Blank
Buenos Aires	22.3%	20.3%	17.1%	35.0%	32.8%	18.4%	19.7%	23.4%
City of Buenos Aires	16.4%	33.6%	12.4%	31.6%	24.2%	30.8%	14.8%	25.1%
Catamarca	26.7%	13.6%	16.4%	39.9%	30.5%	12.2%	22.8%	28.5%
Chaco	21.9%	16.8%	18.3%	39.1%	31.3%	17.3%	19.9%	28.2%
Chubut	15.4%	16.5%	26.7%	34.9%	23.5%	15.0%	25.5%	27.0%
Córdoba	5.8%	16.9%	22.6%	33.9%	21.8%	17.0%	25.2%	24.9%
Corrientes	19.7%	23.0%	19.6%	34.3%	28.1%	24.3%	20.3%	24.4%
Entre Ríos	20.9%	23.1%	15.8%	37.0%	24.6%	22.2%	22.0%	26.0%
Formosa	31.0%	14.4%	16.9%	35.3%	39.1%	11.5%	21.7%	25.2%
Jujuy	15.2%	17.4%	29.2%	30.0%	25.0%	15.4%	28.9%	22.6%
La Pampa	19.2%	19.3%	22.3%	33.2%	26.8%	16.9%	25.8%	23.0%
La Rioja	20.6%	13.3%	23.9%	35.6%	32.3%	9.3%	29.6%	21.3%
Mendoza	12.0%	20.1%	31.9%	30.2%	17.9%	19.3%	31.7%	25.2%
Misiones	17.8%	12.5%	28.3%	37.3%	28.0%	10.6%	31.1%	26.2%
Neuquén	14.5%	16.8%	28.7%	30.2%	24.5%	15.8%	28.3%	23.0%
Río Negro	18.1%	14.3%	25.3%	35.6%	28.1%	13.5%	25.1%	25.6%
Salta	15.3%	10.9%	31.3%	37.5%	27.6%	10.2%	29.7%	26.4%
San Juan	20.3%	19.5%	23.9%	32.2%	25.6%	17.9%	27.0%	23.0%
San Luis*	11.9%	16.1%	32.8%	33.9%	20.8%	16.0%	33.2%	23.4%
Santa Cruz	14.6%	10.7%	19.9%	51.2%	25.3%	10.9%	24.3%	33.0%
Santa Fe	13.9%	20.9%	23.3%	36.2%	21.4%	19.4%	23.4%	27.8%
Santiago del Estero	36.0%	7.2%	18.2%	34.6%	50.3%	6.2%	17.6%	23.1%
Tierra del Fuego	20.1%	14.3%	24.2%	33.4%	27.6%	10.8%	24.4%	27.8%
Tucumán	24.0%	15.9%	26.3%	29.0%	36.1%	11.7%	28.0%	19.7%

Source: TPCG Research based on the Interior Ministry

With the Peronist machinery functioning better and the increase in fiscal impulse, Mr. Massa managed to secure most of the increase in the participation rate.

With the Peronist machinery functioning better and the increase in fiscal impulse, Mr. Massa managed to secure most of the increase in the participation rate. The participation rate increased by 9pp, adding 3mn votes relative to the August primaries, while blank votes dropped from 1.1mn to a little over half a million. In this context, the positive, valid votes increased by 3.7mn million votes. UxP secured 3.2mn votes relative to the PASO. In other words, Mr. Massa's performance is grounded on i) galvanizing the Peronist vote and retaining the Grabois voters, ii) getting a vast majority of the increase in the turnout, and iii) poaching votes from JxC, which lost a little over 400,000 votes, or about one-fifth of Mr. Larreta's votes. A district-by-district view suggests that Mr. Massa made inroads into the UCR electorate in the City of BA and the Greater BA, confirming that part of Mr. Massa's gains came at the expense of JxC rather than exclusively from the participation rate. Mr. Milei increased his tally by over half a million votes, while Mr. Schiaretti secured almost 900,000 additional voters. In other words, Mr. Massa managed to woo voters who didn't turn out in August and traditionally vote for JxC.

Figure 3: The participation rate increased by 10pp, and blank voting dropped, adding 3.7mn new votes. Mr. Massa secured 3.2mn of those.

	2019				2019				2023			
	Number of Votes	General Elections	Δ	as % of votes	Number of Votes	General Elections	Δ	as % of Positive valid votes	Number of Votes	General Elections	Δ	as % of Registered Voters
Total Votes	24,021,816	26,048,446	2,026,630	74.9%	25,861,050	27,525,103	1,664,053	76.4%	24,016,776	27,100,675	3,083,899	69.6%
Total Positive Valid Votes	22,551,076	25,184,257	2,633,181	70.3%	24,660,382	26,838,336	2,177,954	72.9%	22,583,543	26,291,718	3,708,175	65.5%
Peronist Votes (Kirchnerism + Non-Kirchnerism)	13,359,978	14,725,467	1,365,489	55.6%	14,287,253	14,595,359	308,106	55.2%	7,368,126	11,430,298	4,062,172	21.4%
Kirchnerism	8,720,573	9,338,490	617,917	36.3%	12,205,938	12,946,037	740,099	47.2%	6,460,689	9,645,983	3,185,294	18.7%
Non-Kirchnerism	4,639,405	5,386,977	747,572	19.3%	2,081,315	1,649,322	-431,993	8.0%	907,437	1,784,315	876,878	2.6%
JxC votes	6,791,278	8,601,131	1,809,853	28.3%	8,121,689	10,811,586	2,689,897	31.4%	6,046,029	6,267,152	-211,123	18.0%

Source: TPCG Research based on the Interior Ministry

The Libertarians stalled, failing to validate expectations that Mr. Milei would continue leading the pack. Mr. Milei probably suffered from a disorderly campaign and voters' concerns regarding his disruptive proposals.

The Libertarians stalled, failing to validate expectations that Mr. Milei would continue leading the pack. Mr. Milei probably suffered from a disorderly campaign and voters' concerns regarding his disruptive proposals. Mr. Milei exited the primaries as the leader of the pack and the favorite to win the Presidency. Polls suggested that he was likely to ratify that positioning last night, while the market consensus had a high conviction that he was a lock for the run-off while discussing who would be his contender and whether he could win in the 1st round. In his closing rally, Mr. Milei assured his voters that he expected to end today's race. Clearly, the general election left plenty of frustrated expectations. Mr. Milei obviously suffered from the Peronist machinery churning votes more effectively, but more importantly, his campaign was dragged by internal disorder and Mr. Massa's effective FUD campaign. On the one hand, since the Primaries, Mr. Milei's campaign clumsily stumbled into every radioactive issue for voters, including the dispute with the UK over the sovereignty of the Falkland Islands, gender equality, the relationship with the Vatican, the human rights violations of the 1970s Military Juntas, etc. More

importantly, the Libertarian strategy proved misguided. Given the substantial overlap between his electorate and Mr. Massa's, Mr. Milei concluded that he had a better shot at beating Peronism in a run-off than JxC. In this context, since the PASO, Mr. Milei concentrated most of the flak on Mrs. Bullrich and JxC, going easy on Mr. Massa to an extent where he seemed collaborative at moments. The move backfired, allowing Mr. Massa to rebuild Peronism's competitiveness, exiting the 1st round as a more challenging contender. Finally, Mr. Milei's focus on pushing an economic agenda that seemed highly disruptive for his own voters ended up capping his appeal to newly participating voters, who were more receptive to Mr. Massa's message that the Libertarian program was likely to hammer the most vulnerable electorate.

JxC collapsed last night, coming out third and putting into question the coalition's viability going forward.

JxC collapsed last night, coming out third and putting into question the coalition's viability going forward. After a decade of disputing power with Kirchnerism and four elections averaging at least 40pp of the national electorate, JxC imploded last night, confirming every bad vibe that ensued from the Primaries. Mrs. Bullrich secured 23.8% of the vote, failing to clinch a run-off spot after the coalition i) lost about 400,000 votes relative to the primary and ii) failed to woo any of the 2.8mn votes who joined the race due to the increase in the participation rate. As most political analysts warned, Mrs. Bullrich failed to galvanize the JxC PASO votes, losing about one-quarter of Mr. Larreta's voters to Mr. Massa. The future for JxC looks grim, as each of the four parties will likely go separate ways, with both Mr. Massa and Mr. Milei trying to pick the spoils of an ugly divorce. Mr. Milei is likely going to woo the big chunk of Pro that follows Mr. Macri. Mr. Massa has signaled his intent to carve out the more centrist part of Pro and a part of the UCR. The more institutional part of the UCR, with Mrs. Carrio's Coalicion Civica, will likely regress to its pre-Cambemos positioning as a small congressional caucus with limited weight on a presidential election. Looking forward, the best path for the coalition is ironically to take a page from the Peronist playbook and shift the power from a few national leaders over to its many provincial governors, who have the incentive to remain together and negotiate as a block with the next Administration.

A quick and dirty view of the run-off. Have Mr. Massa's chances improved substantially?

The biggest question that Election Day left us with is whether Mr. Massa's chances of winning in the run-off have increased materially following his blowup performance.

The biggest question that Election Day left us with is whether Mr. Massa's chances of winning in the run-off have increased materially following his blowup performance. We believe his probability of winning a run-off has improved, but not enough to make him the favorite. Before the general election, our baseline view was that Mr. Massa was as likely as Mrs. Bullrich to make it to the run-off but had far fewer chances of winning the Presidency. Underpinning that view was Mr. Massa's dismal tenure as a finance minister. Mr. Massa was sworn to a 70%yoy inflation (6%mom) and a USDARS250 parallel FX rate. In his 12 months in office, inflation has doubled both in yearly and monthly terms, and the parallel FX has increased three-fold to USDARS1,000. The Kirchnerist dogma points out that a populist candidate can't win an election if he devalues the currency in an election year. Mr. Massa overcame a devaluation on August 14th, the day after the PASO. In other words, Mr. Massa's resiliency (or Peronism's ability to rally votes to the extent that it defies the law of gravity) pushes us to revise our expectations regarding his chances of winning a run-off. We're bumping Mr. Massa's chances of beating Mr. Milei from 10% to 40%. Ultimately, our baseline view shifted only marginally despite the surprise because Mr. Massa still has a challenging path to reach 50%. Mr. Massa has reached the Peronist 36-39pp floor, a necessary condition to get a shot at the Presidency, but he still needs to prove that his ceiling can grow an additional 14pp.

To win the run-off, Mr. Massa needs Mr. Schiaretti's votes, Mrs. Bregman's left-wing supporters, and to carve the UCR out of JxC.

To win the run-off, Mr. Massa needs Mr. Schiaretti's votes, Mrs. Bregman's left-wing supporters, and to carve the UCR out of JxC. Mathematically, Mr. Massa needs at least 4pp of JxC votes to beat Mr. Milei. Mr. Massa's blowout performance in the general election was grounded on wooing new voters relying on the Peronist machinery. With the participation rate at 78%, much closer to the normal 80%, the contribution of a higher turnout to Mr. Massa's chances of winning the run-off is likely to be substantially weaker. Unsurprisingly, Mr. Massa called on Mr. Schiaretti's, Mrs. Bregman's, and the UCR voters in his post-election address to support and help him beat Mr. Milei. Mr. Massa's strategy for the next four weeks seems obvious. Sweep his links to the Kirchner family under the rug, moving past the Kirchnerist-antikirchnerist divide and trying to frame the election as a contest between a broad coalition from every part of the political spectrum led by him and an anti-system movement led by Mr. Milei. Mr. Massa will probably try to woo Mrs. Bregman's voters by spooking them with the prospect of a hard-right, socially

conservative Milei Administration. Mr. Schiaretti's voters are a tougher nut to crack. With Cordoba remaining one of the most anti-Kirchnerist districts in the country, cutting a deal with Mr. Schiaretti is not enough. To have a shot, Mr. Massa must detach himself convincingly from the Kirchners. Even if he managed to secure all those votes, Mr. Massa would still be short 4pp of the 50% mark, which he would need to poach from JxC. To that end, Mr. Massa is likely to seek the support of the UCR by offering cabinet seats to friendly leaders like Messers. Yacobitti, Lousteau or Morales. Mr. Massa's logical strategy has an Achilles heel: he would follow in the footsteps of Mr. Larreta and Mrs. Bullrich, who also thought that stacking political leaders would translate to voter support.

Mr. Milei still has an easier path to the run-off. He needs to leverage the anti-Kirchnerist sentiment in JxC voters to win. Still, that requires a pivot in his campaign.

Mr. Milei still has an easier path to the run-off. He needs to leverage the anti-Kirchnerist sentiment in JxC voters to win. Still, that requires a pivot in his campaign. Mr. Milei's post-election address was also unsurprising, revealing his strategy. Mr. Milei tried to frame the run-off as a final confrontation with Kirchnerism, calling on anti-Kirchnerist voters, especially JxC supporters, to bury the hatchet and join him in ending Kirchnerism. Mr. Milei came across as more moderate, talking less about his polarizing agenda and more about building a coalition with like-minded voters seeking a regime change to end corruption. Interestingly, it means that Mr. Milei now needs to pivot his campaign to rely on the Kirchnerist-Antikirchnerist divide that his campaign has ignored during the entire election cycle. In other words, both candidates must pivot to the center and woo voters they have derided in the past few weeks. Mr. Massa is more articulate, and he's already been re-framing the election for the past few weeks, anticipating this moment. Still, he needs to address an electorate less receptive to his message. Mr. Milei is blunter and has antagonized JxC voters more, but he'll face an electorate sympathetic to his anti-K pivot.

JxC's electorate will tilt the election one way or the other. Mrs. Bullrich's meager tally suggests that UCR voters have already bailed out, leaving just the hardcore, anti-Kirchnerist Pro voters. In this context, we continue to see Mr. Milei as the favorite.

JxC's electorate will tilt the election one way or the other. Mrs. Bullrich's meager tally suggests that UCR voters have already bailed out, leaving just the hardcore, anti-Kirchnerist Pro voters. In this context, we continue to see Mr. Milei as the favorite. A run-off after a three-way third round is won by securing the votes of the large player that didn't make it to the ballotage. Unfortunately for Mr. Massa, that means that his path to the Presidency goes through the JxC electorate. If Mr. Milei could add Mrs. Bullrich's 23.8% to his 30% tally, he would beat Mr. Massa handily without even needing Mr. Schiaretti's Cordoba vote. In that context, the critical question to building a view about what could happen in the run-off is understanding who voted for Mrs. Bullrich. In our view, with the JxC tally dropping 430,000 votes, failing to gain new voters, and bleeding support in the Greater BA and the City of BA (Mr. Santoro gained 10pp there, mostly from Mr. Lousteu supporters), it's very likely that a large share of moderate voters, including UCR supporters have already abandoned Mrs. Bullrich, siding with Mr. Massa. If so, Mrs. Bullrich's 23.8% would be mostly comprised of hardcore JxC voters, among whom Kirchnerism is anathema. Among this electorate, the Kirchnerist-Antikirchnerist divide remains as strong as ever. Mr. Milei should safely add the 17pp of voters Mrs. Bullrich got in the primaries. That means the run-off battleground is probably limited to the 2.2mn Larreta votes still in JxC and Mr. Schiaretti's 1.8mn votes. Of these 4mn votes, Mr. Milei would need just over 800,000 to win. Mr. Massa needs 3.2mn.

Post-Election market action: A credit negative outcome, despite lower short-term FX market volatility and lower risks of financial system disruption.

We expect the market to take the election's outcome negatively, with price action in the -4 to -5c range, pushing the ARGENT35s down to the low-20s.

We expect the market to take the election's outcome negatively, with price action in the -4 to -5c range, pushing the ARGENT35s down to the low-20s. From our pre-election survey of creditors, we believe the market consensus built into prices was a Milei-Massa run-off, with Mr. Milei leading by about 5pp. Our survey suggested that creditors thought that a scenario where Massa was more competitive (modeled as a tighter than 5pp Milei lead rather than Massa winning) was met with the expectation of a 2c deterioration in valuations on the back of the expectation that Mr. Massa would continue to strain macro-fundamentals in an attempt to win the election and the prospect of a beefier Peronist caucus in Congress blocking Mr. Milei's agenda. In our view, Mr. Massa's surprising lead will likely mean a sharper drop in valuations in a context where the ensuing political landscape will become more fractious and complex to navigate for the next Administration. The prospect of a hegemonic Peronism remaining as the only national coalition, competitive and capable of recycling itself even after a deeply unpopular government and the gradual sunset of CFK's electoral prowess should turn voters less constructive about the chances of a regime change or a substantial improvement in the economic policy set. In this context, we

expect the ARGENT35 to drop between 4 and 5cents, dropping to the low-20s. Still, on the upside, it's a scenario with lower chances of short-term FX volatility or financial system disruption.

The General election outcome confirms our view that the market's read of the Primary was wrong and that the Argy electorate remains unwilling to support a stabilization and normalization program, much less has tilted to the right.

The General election outcome confirms our view that the market's read of the Primary was wrong and that the Argy electorate remains unwilling to support a stabilization and normalization program, much less has tilted to the right. After the primaries, the market read the outcome positively, lumping Mr. Milei's, Mrs. Bullrich's, and Mr. Schiaretti's votes to conclude that two-thirds of the electorate had opted for a right-of-center alternative, suggesting that the Argy electorate was tired of Kirchnerist policies and was ready to endure a stabilization program. We had a different view, arguing that if you added Mr. Milei's and Mr. Massa's votes, plus the low participation rate, you could conclude that 75% of the electorate had either opted for a magical solution (regardless of whether it came from the left or the right) or had failed to participate. We believe that Mr. Massa's bounce back confirms our view. Suppose the Argy electorate were ready to renounce economic populism and support a stabilization program. In that case, the Peronist electoral machinery and the increased fiscal impulse should have had a much more nuanced impact on the election. In other words, while Mr. Milei remains a favorite to win, Mr. Massa's win has robbed creditors of their bull case: the conviction that Mr. Milei's program might be extremely aggressive, but voters had become receptive to it. By putting Mr. Massa first, voters confirmed our baseline that a Milei Administration would have to work with an electorate unwilling to suffer the initial pain that its disruptive economic program would bring. In other words, Mr. Massa's win confirms our view that the biggest risk for the Milei Administration is following the trajectory of former President Lasso of Ecuador.

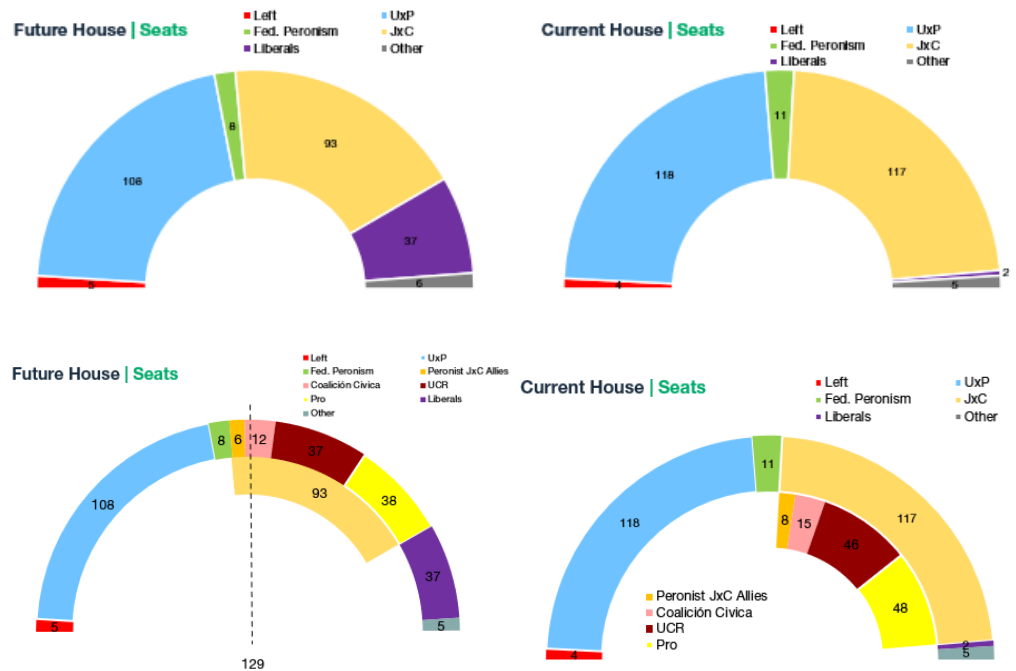
Mr. Massa's win also increases the fragility of a Milei Administration if he were to win. Mr. Massa exits the election cycle as the leader of a Peronism that is likely to become the only national coalition.

Mr. Massa's win also increases the fragility of a Milei Administration if he were to win. Mr. Massa exits the election cycle as the leader of a Peronism that is likely to become the only national coalition. One of the defining characteristics of the Kirchner Administrations (2003-15) was that, after the 2001 crisis, Peronism emerged as a hegemonic party, a national behemoth commanding a majority of votes and facing an atomized, regional opposition that couldn't coordinate at a national level. With JxC likely to splinter after this election and LLA commanding less than a third of seats in Congress and no provincial governments after December 10th, Peronism will likely become once again the only national party, even if Mr. Milei won the Presidency. This amplifies Mr. Milei's initial fragility and solidifies Mr. Massa's position as the leader of Peronism. If Mr. Massa were to win, he would have a fractious opposition, probably ill-equipped to steer the Administration away from Peronism's worst excesses. If Mr. Milei were to win, Peronism could shift to an obstructing opposition, with Mr. Massa ready to pick up the pieces if the Milei Administration failed. One way or the other, the outlook seems to be shifting away from the expectation of a stabilization program.

By polling close to 37% in the first round, voters returned a much larger than expected Peronist caucus in both houses of Congress, meaning that even combining the entire libertarian and JxC caucuses would still fall short of a majority.

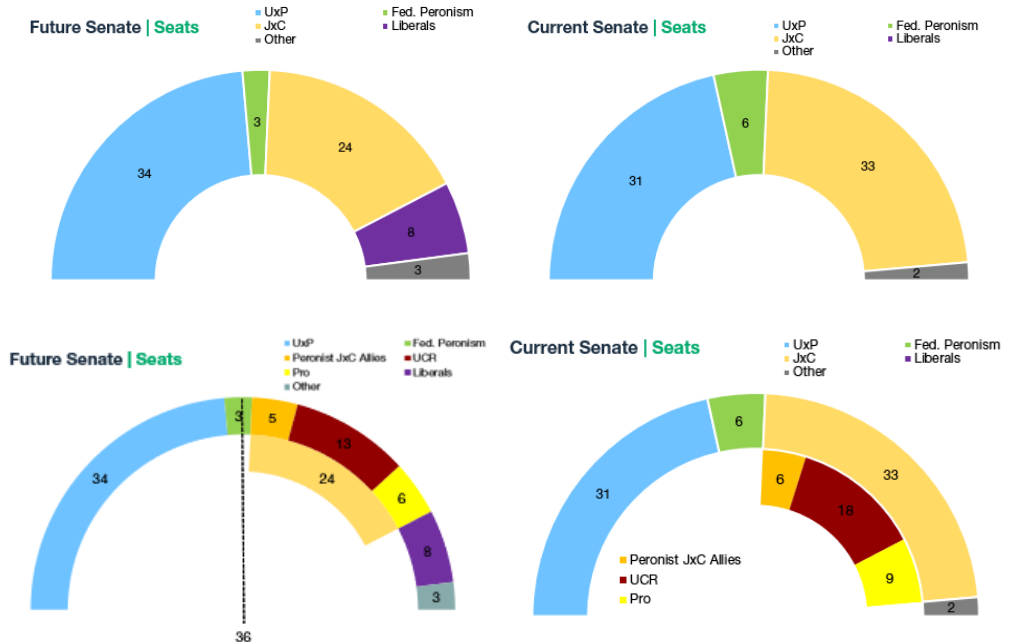
By polling close to 37% in the first round, voters returned a much larger than expected Peronist caucus in both houses of Congress, meaning that even combining the libertarian and JxC caucuses would still fall short of a majority. Governability was one of the creditors' critical concerns when considering a Milei Administration. Before the election, the market consensus was that Mr. Massa would get under 30% of the vote, which would have meant the Peronist caucus in the House dropping from 118 seats to 94 and the Senate caucus dropping one seat to 31. By securing almost 37% of the vote, Mr Massa has cut the shrinking of the Peronist House caucus by half, losing only 10 seats and ending with 108 representatives. In the Senate, Mr. Massa picked 3 seats, growing his caucus to 34. With the better-than-expected Peronist performance, A Milei Administration would need its 37 representatives and all but one of JxC's representatives to build a majority. In other words, Mr. Milei would need the UCR and CC seats to pass bills. In the Senate, the situation is even worse. Combining both caucuses would yield 32 Senators, 5 seats short of a majority. In other words, while Mr. Milei remains the favorite to win the run-off, the Congressional math for his Administration has become trickier.

Figure 4: With a smaller-than-expected JxC caucus, a Milei Administration would need all but one JxC Representatives to build a majority.



Source: TPCG Research based on the Interior Ministry

Figure 5: In the Senate, even combining the Libertarian and the JxC caucuses would fail to yield a majority.



Source: TPCG Research based on the Interior Ministry

In the short run, Mr. Massa's win probably means less FX volatility and lower chances of financial system disruption.

In the short run, Mr. Massa's win probably means less FX volatility and lower chances of financial system disruption. One of our biggest concerns over the past few weeks was that the ongoing run against the ARS and USD deposits could accelerate if Mr. Massa had done a weak election. The Government has almost no instruments to placate the drop in money demand. It can't tighten monetary policy effectively because fiscal and quasi-fiscal dominance means higher rates signal higher money printing in the coming months rather than a more hawkish bias. Negative net reserves mean that the BCRA doesn't have the firepower to assuage devaluation expectations by dumping hard currency in the market to defend the parity credibly. In this context, the only instrument the Government has left is using the State's coercive power to police the market,

tighten regulations, and scare market participants to dollarize themselves. The problem is that this instrument only works as long as Mr. Massa can threaten that he'll still be running the show come December 10th. Today's outcome keeps that scenario alive, which will probably allow Mr. Massa to extend last week's situation until the run-off in mid-November. The Government is likely to seek to keep the official fixing flat at USDARS350 until the run-off and to continue to police the parallel FX market to keep the BCS premium from spiraling out of control. In the coming days, pressures on the parallel market are likely to ease, and we would expect deposit flight not to deteriorate.

TPCG Analysts & Staff

Research

Juan Manuel Pazos	Chief Economist	jmpazos@tpcgco.com	+54 11 4898-6606
Paula La Greca	Corporate Research Analyst	plagreca@tpcgco.com	+54 11 4898-6638
Santiago Resico	Economist	sresico@tpcgco.com	+54 11 4898-6615

Sales & Trading

Juan Manuel Truppia	Head of Sales & Trading	jmtruppia@tpcgco.com	+54 11 4898-6659
---------------------	-------------------------	----------------------	------------------

Institutional Sales

Lucia Rodriguez Pardina	S&T Director	lrodriguezpardina@tpcgco.com	+54 11 4898-6614
Agustina Guadalupe	Sales	aguadalupe@tpcgco.com	+54 11 4898-6682
Maria Pilar Hurtado	Sales	mhurtado@tpcgco.com	+54 11 4898-6616
Juan Ignacio Vergara	Sales	jivergara@tpcgco.com	+54 11 4898-1936
Santiago Baibiene	Sales	sbaibiene@tpcgco.com	+54 11 4898-6648
Pedro Nollmann	Sales	pnollmann@tpcgco.com	+54 11 4898-6617
María Ruiz de Castroviejo Salas	Sales	mruiздеcastroviejo@tpcgco.com	+54 11 4898-6643
Victoria Faynbloch	Desk Analyst	vfaynbloch@tpcgco.com	+54 11 4898-6635

Trading

Felipe Freire	Trader	ffreire@tpcgco.com	+54 11 4898-1921
Homero Fernandez Bianco	Trader	hfbianco@tpcgco.com	+54 11 4898-6667
Andres Robertson	Trader	arobertson@tpcgco.com	+54 11 4898-6693

Corporate Finance

José Ramos	Head of Corporate Finance	jramos@tpcgco.com	+54 11 4898-6645
------------	---------------------------	-------------------	------------------

Corporate Sales

Camila Martinez	Corporate Sales Director	cmartinez@tpcgco.com	+54 11 4898-6621
Fernando Depierre	Corporate Sales	fdepierre@tpcgco.com	+54 11 4898-6636
Sol Silvestrini	Corporate Sales	ssilvestrini@tpcgco.com	+54 11 4898-6641
Nicolas Iglesias	Corporate Sales	niglesias@tpcgco.com	+54 11 4898-6612

Capital markets

Nicolás Alperín	DCM	nalperin@tpcgco.com	+54 11 4898-6604
-----------------	-----	---------------------	------------------

Wealth Management

Josefina Guerrero	Private Wealth Management Specialist	jguerrero@tpcgco.com	+54 9 11 6556 2401
-------------------	--------------------------------------	----------------------	--------------------

Asset Management

Ileana Aiello	Portfolio Manager	iaiello@tpcgco.com	+54 11 4898-6611
Claudio Achaerandio	Portfolio Manager	cacheerandio@tpcgco.com	+54 11 4898-6618

Important Disclaimer

The document, and the information, opinions, estimates and recommendations expressed herein, have been prepared by TPCG Valores SAU to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. TPCG Valores SAU is not liable for giving notice of such changes or for updating the contents hereof. The document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall the document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to the document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare the report. Therefore, investors should make their own investment decisions considering the said circumstances and obtain such specialized advice as may be necessary.

The contents of the document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by TPCG Valores SAU, and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. TPCG Valores SAU accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance. The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment.

Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances; investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

TPCG Valores SAU and/or any of its affiliates, as well as their respective directors, executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in the document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of the report, to the extent permitted by the applicable law.

TPCG Valores SAU or any of its affiliates' salespeople, traders and other professionals may provide oral or written market Commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, TPCG Valores SAU, or any of its affiliates' proprietary trading and investing businesses, may make investment decisions that are inconsistent with the recommendations expressed herein.

No part of the document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted without the prior written consent of TPCG Valores SAU. No part of the report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

For US persons only:

This report is a product of TPCG, which is the employer of the research analyst(s) who has prepared the informative report. The research analyst(s) preparing this report is/are resident(s) outside the United States (US) and is/are not associated person(s) of any US regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a US broker-dealer and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with US rules or regulations.

This report is intended for distribution by TPCG only to US Institutional Investors and Major U.S. Institutional Investors, as defined by Rule 15a-6(b)(4) of the US Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by the US Securities and Exchange Commission (SEC), in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a US Institutional Investors nor a Major U.S. Institutional Investor, as specified above, then he should not act upon this report and return it to the sender. Further, this report may not be copied, duplicated and/or transmitted to any US person, which is not a US Institutional Investor, nor a Major U.S. Institutional Investor.

In order to comply with the US regulations, our transactions with US Institutional Investors and Major US Institutional Investors are effected through the US-registered broker-dealer Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this report should be effected through Marco Polo or another US registered broker dealer.