

## Do you have a clue what happens now?

### Oceans rise, empires fall. Mr. Milei won the Presidency in a landslide win. Peronism takes a whopping.

**Javier Milei pulled a landslide win last night, beating Sergio Massa by over 11pp to become the next President-Elect of Argentina.**

Javier Milei pulled a landslide win last night, beating Sergio Massa by over 11pp to become the next President-Elect of Argentina. With 99.3% of ballots counted, the preliminary count finished with Mr. Milei beating Mr. Massa 55.7% to 44.3%. The eleven-point lead was substantially higher than the previous run-off, in which Mr. Macri beat Mr. Scioli by a little over 1pp. Mr. Milei carried 20 of the 23 provinces, securing landslide wins in Cordoba, Mendoza, and Santa Fe, pulling unexpected wins in most of the North and Patagonia, and losing in the Province of BA by about 1pp. Mr. Milei’s resounding win contrasts with the expectations of a tight race. Mr. Milei became the most-voted president in Argentina’s history, edging even Cristina Kirchner’s 54% in 2011. The electorate ratified our view that the core demand in this election was the change, ultimately punishing Mr. Massa’s dismal stewardship of the economy. Still, despite this vantage of rationality, a confounding election cycle ended disconcertingly. After the run-off, is Mr. Milei a strong or a weak president? His party’s weak representation in Congress would suggest an inherent weakness, but his landslide win (especially the 11pp margin over Peronism) should strengthen his position, at least initially.

**Figure 1: Mr. Milei secured an eleven-point lead over Mr. Massa to become the next President.**

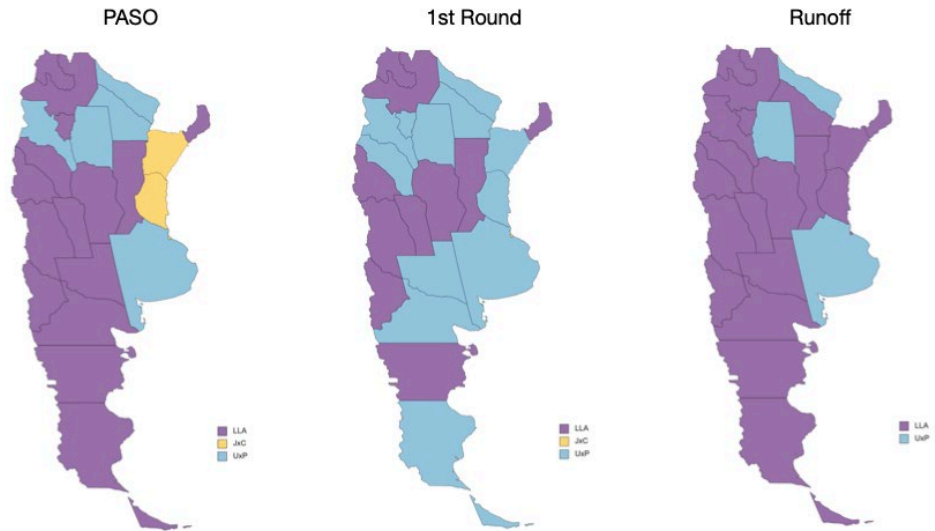
2023 Presidential Elections	PASO		1st Round		2nd Round	
	N° of Votes	% of Positive Votes	N° of Votes	% of Positive Votes	N° of Votes	% of Positive Votes
LLA	7,352,244	31.6%	8,034,990	30.0%	14,476,462	55.7%
UxP	6,719,042	28.9%	9,853,492	36.8%	11,516,142	44.3%
JxC	6,895,941	29.6%	6,379,023	23.8%	-	-
Blank/Null	1,666,287	7.2%	832,286	3.1%	856,196	3.3%
Participation	24,935,583	70.4%	27,623,920	77.0%	26,848,800	74.8%
Absentees	10,469,430	29.6%	8,230,202	23.0%	9,064,041	25.2%

Source: TPCG Research based on the Interior Ministry

**Mr. Milei’s win was cemented on landslide wins in Cordoba, Mendoza, and Santa Fe, surprising wins in the North and Patagonia, and a substantially better-than-expected performance in the Province of Buenos Aires.**

Mr. Milei’s win was cemented on landslide wins in Cordoba, Mendoza, and Santa Fe, surprising wins in the North and Patagonia, and a substantially better-than-expected performance in the Province of Buenos Aires. Since the general election, we’ve argued that despite Mr. Massa’s surprise performance that night, Mr. Milei remained the favorite to win. Our rationale was that the swing electorates in the run-off (those voters who had opted for either Mrs. Bullrich, Mr. Schiaretti, or Mrs. Bregman) tended to be severely anti-Kirchnerist and unlikely to be receptive to Mr. Massa’s messaging. To have a shot at winning, Mr. Massa needed (i) a lead over 10pp in the Province of Buenos Aires, (ii) securing at least 35pp of the vote in Cordoba, (iii) getting as close as possible in Mendoza and Santa Fe, and (iv) secure resounding wins in the North and Patagonia. Nothing broke his way. In PBA, Mr. Massa led Mr. Milei by a meager 1.5pp after the Libertarian secured a landslide win in the 1<sup>st</sup> Section and the interior, almost offsetting the Peronist lead in the 3<sup>rd</sup> Section. In Cordoba, Mr. Massa secured 10pp less than he needed, as Mr. Milei edged him 75-25, a 3-to-1 lead that bested Mr. Macri’s performance in the province in 2019 and 2015. In Mendoza, Mr. Milei got a 30pp lead, winning 71-29, and in Santa Fe, he pulled a 25pp lead, edging Mr. Massa 63-37. Mr. Milei pulled unexpected wins in Patagonia in Tierra del Fuego, Santa Cruz, and Rio Grande. In the North, he won in Chaco, Salta, Catamarca, La Rioja, and, surprisingly, Tucuman. Of the Peronist northern blue wall, Mr. Massa only managed to retain Santiago del Estero and Formosa, two feudal regimes where the Peronist strongmen leading the province pulled over 80% of the vote in their gubernatorial races.

**Figure 2: The map of the country following the run-off resembles the one after the PASO much closer than the one after the 1<sup>st</sup> round.**



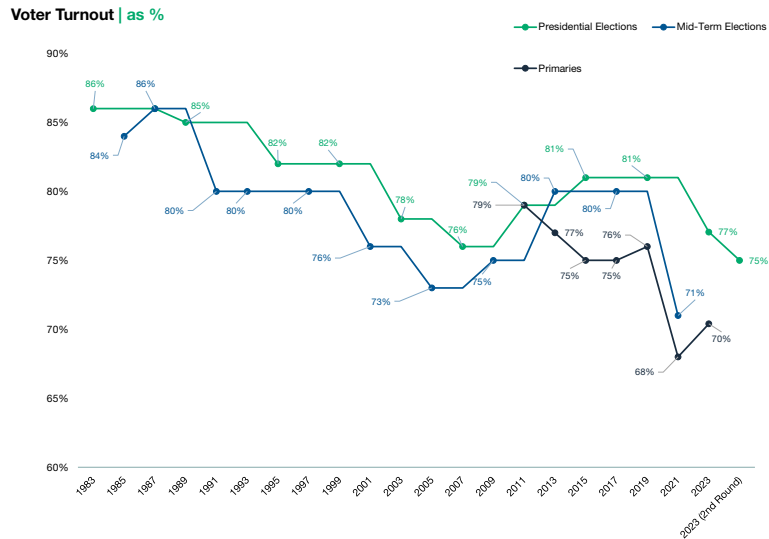
2023 Presidential Election results, votes as % of registered voters	PASO				1st Round				2nd Round		
	UxP	JxC	LLA	Did not vote/Blank	UxP	JxC	LLA	Did not vote/Blank	UxP	LLA	Did not vote/Blank
Buenos Aires	22.3%	20.3%	17.1%	35.0%	32.8%	18.4%	19.7%	23.4%	37.7%	36.6%	25.7%
City of Buenos Aires	16.4%	33.6%	12.4%	31.6%	24.2%	30.8%	14.8%	25.1%	30.7%	41.1%	28.2%
Catamarca	26.7%	13.6%	16.4%	39.9%	30.5%	12.2%	22.8%	28.5%	33.0%	36.8%	30.2%
Chaco	21.9%	16.8%	18.3%	39.1%	31.3%	17.3%	19.9%	28.2%	35.9%	36.0%	28.1%
Chubut	15.4%	16.5%	26.7%	34.9%	23.5%	15.0%	25.5%	27.0%	28.9%	41.8%	29.3%
Córdoba	5.8%	16.9%	22.6%	33.9%	21.8%	17.0%	25.2%	24.9%	18.8%	53.5%	27.7%
Corrientes	19.7%	23.0%	19.6%	34.3%	28.1%	24.3%	20.3%	24.4%	34.7%	39.4%	25.9%
Entre Ríos	20.9%	23.1%	15.8%	37.0%	24.6%	22.2%	22.0%	26.0%	28.9%	46.2%	24.8%
Formosa	31.0%	14.4%	16.9%	35.3%	39.1%	11.5%	21.7%	25.2%	41.7%	32.1%	26.2%
Jujuy	15.2%	17.4%	29.2%	30.0%	25.0%	15.4%	28.9%	22.6%	31.4%	44.0%	24.5%
La Pampa	19.2%	19.3%	22.3%	33.2%	26.8%	16.9%	25.8%	23.0%	31.5%	42.3%	26.2%
La Rioja	20.6%	13.3%	23.9%	35.6%	32.3%	9.3%	29.6%	21.3%	35.7%	41.5%	22.7%
Mendoza	12.0%	20.1%	31.9%	30.2%	17.9%	19.3%	31.7%	25.2%	21.3%	52.4%	26.3%
Misiones	17.8%	12.5%	28.3%	37.3%	28.0%	10.6%	31.1%	26.2%	31.2%	41.1%	27.7%
Neuquén	14.5%	16.8%	28.7%	30.2%	24.5%	15.8%	28.3%	23.0%	30.1%	45.9%	23.9%
Río Negro	18.1%	14.3%	25.3%	35.6%	28.1%	13.5%	25.1%	25.6%	33.5%	39.7%	26.8%
Salta	15.3%	10.9%	31.3%	37.5%	27.6%	10.2%	29.7%	26.4%	31.0%	42.5%	26.4%
San Juan	20.3%	19.5%	23.9%	32.2%	25.6%	17.9%	27.0%	23.0%	29.6%	45.6%	24.7%
San Luis	11.9%	16.1%	32.8%	33.9%	20.8%	16.0%	33.2%	23.4%	24.0%	51.0%	24.9%
Santa Cruz	14.6%	10.7%	19.9%	51.2%	25.3%	10.9%	24.3%	33.0%	28.4%	39.4%	32.2%
Santa Fe	13.9%	20.9%	23.3%	36.2%	21.4%	19.4%	23.4%	27.8%	26.8%	45.3%	27.8%
Santiago del Estero	36.0%	7.2%	18.2%	34.6%	50.3%	6.2%	17.6%	23.1%	53.0%	24.5%	22.6%
Tierra del Fuego	20.1%	14.3%	24.2%	33.4%	27.6%	10.8%	24.4%	27.8%	33.1%	37.8%	29.0%
Tucumán	24.0%	15.9%	26.3%	29.0%	36.1%	11.7%	28.0%	19.7%	39.0%	42.2%	18.7%

Source: TPCG Research based on the Interior Ministry

**Mr. Massa’s strategy backfired spectacularly. He failed to de-mobilize the JxC vote or make inroads into the UCR electorate by scaring more progressive voters of the prospect of a Milei Administration.**

**Mr. Massa’s strategy backfired spectacularly. He failed to de-mobilize the JxC vote or make inroads into the UCR electorate by scaring more progressive voters of the prospect of a Milei Administration.** After his blowout performance in the 1<sup>st</sup> round, Mr. Massa charted a path to win the run-off. He needed to woo UCR voters and the softcore JxC electorate, adding them to his tally, and to de-mobilize the hardcore JxC voters. His campaign quickly pivoted to these objectives. Mr. Massa started calling for a national unity government, vowing to put a JxC finance minister and to appoint opposition leaders to half of the seats in the BCRA board. He secured the backing of high-ranking UCR leaders like Messers. Morales, Lousteau, and Yacobitti, despite the party’s official neutral position. His speeches started making veiled references to Mr. Alfonsín, the first President after the reinstatement of democracy and leader of the UCR. Finally, he repeatedly leaked that he would have liked Mr. Larreta to be his finance minister, a jab at the softcore Pro vote. On the other hand, he assumed that the hardcore Pro votes would never vote for him. In this context, he sought to de-mobilize that electorate to cut the participation rate to bias the positive vote to his side. Two great examples of this were (i) the Government maintaining the Nov 20<sup>th</sup> holiday unchanged to push upper-class voters away from the ballots and (ii) Mr. Massa’s debate strategy where, rather than seeking to gain votes, his sole objective was to paint Mr. Milei as unfit for office to the JxC voters’ eyes. Neither of these stratagems worked. The UCR and the softcore Pro vote overwhelmingly sided with Mr. Milei, the participation rate held steady, and blank voting remained low, increasing the 50% threshold to a number of votes that was unattainable to Mr. Massa.

**Figure 3: Mr. Massa's stratagems failed like Willie E. Coyote's ACME gizmos. Most UCR and softcore JxC votes sided with Mr. Milei; the participation rate held strong, and blank voting remained low.**



Distribution of 1st Round Voters	Orphan Voters			2nd Round Distribution						
	Total	Other Candidates	Blank	Mr. Milei	Mr. Massa	Blank	Mr. Milei	Mr. Massa	Blank	
		o/w JxC		as % of Positive Votes	as % of Orphan votes	as % of Positive Votes	as % of Orphan votes	as % of Positive Votes	as % of Orphan votes	
CABA	47.84%	41.23%	2.51%	50.35%	37.26%	74.00%	10.57%	20.99%	4.89%	9.71%
Buenos Aires	31.32%	24.05%	3.36%	34.68%	23.53%	67.85%	7.78%	22.43%	3.19%	9.20%
Catamarca	25.14%	17.13%	7.84%	32.98%	20.71%	62.80%	4.42%	13.40%	2.56%	7.76%
Córdoba	53.00%	22.63%	1.63%	54.63%	40.47%	74.08%	12.52%	22.92%	3.68%	6.74%
Corrientes	35.92%	32.13%	2.51%	38.43%	26.32%	68.49%	9.59%	24.95%	2.32%	6.04%
Chaco	28.51%	24.10%	1.65%	30.16%	22.25%	73.77%	6.25%	20.72%	1.86%	6.17%
Chubut	32.65%	20.57%	2.87%	35.52%	23.98%	67.51%	8.66%	24.38%	4.46%	12.56%
Entre Ríos	36.95%	30.03%	5.58%	42.53%	31.74%	74.63%	5.20%	12.23%	3.27%	7.69%
Formosa	18.63%	15.38%	1.89%	20.52%	14.43%	70.32%	4.19%	20.42%	1.77%	8.63%
Jujuy	30.29%	19.96%	2.41%	32.70%	20.98%	64.16%	9.30%	28.44%	2.71%	8.29%
La Pampa	31.63%	21.90%	1.84%	33.47%	23.84%	71.23%	7.78%	23.24%	3.36%	10.04%
La Rioja	21.23%	11.80%	2.27%	23.50%	16.09%	68.47%	5.13%	21.83%	2.07%	8.81%
Mendoza	33.61%	25.82%	3.04%	36.65%	28.76%	78.47%	4.84%	13.21%	3.65%	9.96%
Misiones	19.88%	14.39%	3.32%	23.20%	14.60%	62.93%	5.27%	22.72%	2.09%	9.01%
Neuquén	31.50%	20.56%	4.40%	35.90%	23.68%	65.96%	7.81%	21.75%	4.32%	12.03%
Río Negro	28.39%	18.13%	4.46%	32.85%	20.48%	62.34%	7.90%	24.05%	3.91%	11.90%
Salta	21.73%	13.80%	3.09%	24.82%	17.58%	70.83%	4.14%	16.68%	2.31%	9.31%
San Juan	31.62%	23.20%	2.47%	34.09%	25.60%	75.10%	6.01%	17.63%	2.88%	8.45%
San Luis	29.34%	20.91%	3.00%	32.34%	24.66%	76.25%	4.67%	14.44%	3.22%	9.96%
Santa Cruz	25.90%	16.41%	7.90%	33.80%	21.75%	64.35%	4.14%	12.25%	3.41%	10.09%
Santa Fe	37.78%	26.88%	2.13%	39.91%	30.30%	75.92%	7.47%	18.72%	3.78%	9.47%
Santiago del Estero	11.39%	8.01%	2.06%	13.45%	8.74%	64.98%	2.64%	19.63%	1.45%	10.78%
Tucumán	20.07%	14.64%	3.21%	23.26%	16.98%	72.94%	3.08%	13.23%	2.02%	8.68%
Tierra del Fuego	27.98%	14.99%	3.07%	31.05%	19.47%	62.71%	8.50%	27.38%	4.28%	13.78%

Source: TPCG Research based on the Interior Ministry

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Besides a losing strategy, last night's results suggest that the Peronist machinery didn't work as hard as on October 22nd to get Mr. Massa elected. Mr. Massa has been fighting against gravity. A finance minister who had overseen inflation shooting up from 4%mom to 12%mom weakened the currency from USDARS300 to USDARS1,000, increased poverty, pushed the economy into recession, cratered reserves to -USD11bn, and accumulated over USD50bn in trade arrears and debt, should have been a radioactive candidate. Still, the Peronist machinery kept him competitive until the 1st round, helping him pull an unlikely first-place finish in the October generals. The Peronist machinery churned millions of votes for Mr. Massa in October, pulling a miracle (please see [here](#) and [here](#)). In the first round, the Peronist machinery didn't cajole as many voters for Mr. Massa. Compared to the October election, his performance in many Northern provinces where the Peronist Tammany Hall antics are more widespread was lackluster, with Mr. Milei carrying many provinces he had lost in October. The situation was even more striking in the Province of BA. Mr. Massa underperformed his October election everywhere. He lost the interior, took a whopping in the critical 1st Section, and saw his lead tighten in the usually safe 3rd Section. We venture two explanations for the Peronist Machinery throttling back in the run-off. The first is that, unlike in October, Governors and mayors didn't have a stake in the game. Peronism was pushing to get as many national Congress, Provincial Legislature, and local assembly seats as possible in October. Also, mayors in the Province of Buenos Aires needed to secure their re-election. More importantly, Kircherism needed Mr. Kicillof to retain the Province of Buenos Aires

and secure a haven to rebuild in the coming years. In other words, for most of the Peronist party, the October election was relevant, but the November election was Mr. Massa's problem, which would explain the inordinate amount of resources that Peronism poured into the October election to secure a win. The second explanation is that while CFK needed Mr. Massa to provide a competitive ticket for her candidates down the ballot (governors, mayors, senators, representatives, and assemblymen), she was better off if he failed to win the Presidency. Mr. Massa's October performance had delivered everything Kirchnerism needed, but if he went on to become President, he could challenge Mrs. Kirchner's leadership of the party. In that context, it wouldn't be surprising if Kirchnerism pulled its punches last night.

**Figure 4: The Peronist machinery failed to churn votes for Mr. Massa like in October.**

2023 Presidential Election results, votes as % of registered voters	PASO				1st Round				2nd Round			
	UxP	JxC	LLA	DIJ not vote/blank	UxP	JxC	LLA	DIJ not vote/blank	UxP	LLA	DIJ not vote/blank	
<b>1st Electoral Section</b>	<b>22.4%</b>	<b>20.3%</b>	<b>17.1%</b>	<b>34.7%</b>	<b>33.2%</b>	<b>18.5%</b>	<b>18.5%</b>	<b>23.4%</b>	<b>37.8%</b>	<b>30.7%</b>	<b>25.5%</b>	
Campana	17.5%	27.9%	16.5%	33.3%	28.3%	23.4%	20.3%	22.8%	35.6%	39.3%	25.0%	
Escoibar	22.9%	16.6%	20.1%	35.3%	32.8%	15.4%	23.2%	23.0%	35.8%	39.4%	24.7%	
Gral. Las Heras	22.2%	26.4%	17.7%	29.4%	33.9%	21.1%	20.4%	19.1%	38.6%	39.3%	22.1%	
Gral. Rodriguez	22.2%	16.7%	17.0%	40.0%	34.1%	13.6%	21.0%	26.7%	37.4%	33.7%	28.8%	
Gral. San Martin	23.5%	19.7%	16.4%	34.6%	33.0%	18.3%	18.4%	24.7%	38.1%	35.0%	26.8%	
Hurlingham	26.5%	18.4%	15.8%	33.6%	34.9%	17.4%	18.7%	23.2%	39.8%	34.5%	25.6%	
Ituzingo	23.4%	22.0%	16.2%	31.6%	33.8%	20.0%	17.8%	22.1%	39.3%	35.5%	24.8%	
Jose c Paz	24.3%	12.1%	17.7%	39.8%	40.8%	10.9%	19.1%	23.6%	44.0%	29.5%	26.4%	
Luján	20.7%	22.7%	17.7%	34.7%	28.3%	21.2%	21.0%	24.3%	32.2%	42.1%	25.6%	
Malvinas Arg.	26.5%	14.0%	18.8%	34.8%	39.5%	12.6%	20.3%	21.8%	43.2%	33.0%	23.7%	
Marcos Paz	25.3%	15.9%	16.1%	37.8%	39.4%	13.2%	18.7%	23.8%	43.6%	31.2%	25.2%	
Mercedes	20.7%	25.2%	18.2%	31.8%	27.3%	23.7%	22.3%	21.7%	31.0%	45.3%	23.6%	
Merlo	23.4%	13.2%	16.4%	40.1%	39.4%	11.8%	18.4%	24.7%	44.0%	29.4%	26.6%	
Moreno	27.3%	12.1%	17.6%	37.6%	39.7%	11.0%	19.5%	24.3%	43.9%	29.9%	26.1%	
Mojon	21.4%	24.4%	16.0%	31.6%	31.4%	22.7%	17.8%	22.0%	37.1%	37.9%	24.9%	
Navarro	22.3%	25.8%	17.6%	31.0%	24.7%	23.5%	24.4%	23.4%	28.5%	46.9%	24.3%	
Pilar	23.6%	17.6%	20.5%	33.9%	33.5%	15.9%	23.1%	22.5%	36.3%	39.5%	24.1%	
San Fernando	23.5%	21.1%	17.6%	32.7%	33.7%	19.4%	19.2%	22.7%	38.1%	37.8%	24.0%	
San Isidro	14.0%	35.9%	14.9%	30.9%	21.5%	31.9%	18.2%	23.5%	26.1%	47.5%	26.0%	
San Miguel	21.1%	22.5%	17.3%	34.3%	31.4%	20.5%	20.1%	22.6%	36.9%	38.4%	24.7%	
Salipacha	23.7%	25.9%	18.1%	30.1%	30.8%	24.7%	21.3%	19.8%	35.6%	42.3%	22.0%	
Tigre	21.4%	20.1%	18.1%	35.6%	31.9%	18.4%	20.6%	23.5%	35.7%	38.8%	25.4%	
Tres de Febrero	21.3%	23.8%	16.3%	32.7%	31.2%	21.3%	18.4%	23.3%	37.2%	37.1%	25.6%	
Vicente Lopez	15.0%	35.4%	14.1%	29.9%	21.4%	33.3%	16.9%	23.1%	27.5%	45.0%	26.5%	
<b>2nd Electoral Section</b>	<b>23.2%</b>	<b>21.5%</b>	<b>18.0%</b>	<b>34.7%</b>	<b>33.7%</b>	<b>15.3%</b>	<b>18.0%</b>	<b>24.4%</b>	<b>43.3%</b>	<b>31.2%</b>	<b>24.3%</b>	
Aimonte Brown	25.4%	15.7%	16.9%	35.2%	39.0%	14.2%	17.8%	22.8%	44.2%	30.9%	24.9%	
Avellaneda	26.9%	19.8%	14.2%	33.0%	38.0%	15.5%	18.2%	22.4%	43.2%	31.8%	24.9%	
Berazategui	26.3%	16.4%	18.9%	31.9%	38.4%	14.7%	20.3%	20.2%	43.5%	34.5%	21.9%	
Berisso	24.8%	19.2%	14.7%	34.6%	37.5%	17.0%	17.8%	22.2%	43.2%	33.4%	23.4%	
Brandsen	19.5%	24.0%	18.6%	33.4%	28.8%	21.8%	22.3%	21.9%	34.1%	41.6%	24.3%	
Cafielas	24.3%	19.7%	19.3%	31.5%	34.0%	16.6%	22.4%	21.0%	37.2%	39.4%	23.4%	
Ensenada	30.4%	14.6%	14.9%	33.8%	42.7%	13.4%	16.5%	22.4%	47.2%	28.7%	24.1%	
Esteban Echeverria	23.2%	16.7%	20.1%	33.5%	35.6%	15.2%	21.2%	21.9%	40.3%	35.6%	24.0%	
Estiba	25.0%	14.6%	21.1%	34.3%	37.1%	12.8%	23.5%	21.2%	40.1%	37.1%	22.7%	
Florencio Varela	27.2%	11.4%	17.2%	38.0%	42.4%	9.6%	15.3%	24.3%	46.9%	27.4%	25.7%	
La Matanza	27.0%	14.3%	16.0%	35.4%	41.0%	12.8%	17.4%	22.8%	46.0%	29.2%	24.8%	
Lanus	24.9%	21.5%	14.4%	33.2%	35.6%	20.4%	15.7%	22.8%	41.8%	32.7%	25.4%	
Lobos	17.0%	29.0%	17.8%	32.6%	23.2%	26.5%	22.0%	22.3%	28.4%	45.9%	24.6%	
Lomas de Zamora	26.4%	15.3%	16.3%	32.7%	33.9%	16.8%	17.0%	21.8%	44.4%	31.4%	24.2%	
Magdalena	16.9%	27.9%	16.6%	25.5%	25.1%	25.7%	21.2%	23.2%	32.8%	42.5%	24.7%	
Presidente Peron	24.1%	11.3%	19.0%	39.6%	40.5%	10.0%	19.9%	24.2%	45.3%	30.0%	24.7%	
Punta Indio	19.3%	24.8%	16.4%	35.6%	27.2%	22.3%	21.5%	23.6%	30.9%	43.0%	26.0%	
Quilmes	25.4%	20.4%	14.8%	33.9%	37.9%	17.8%	17.4%	21.8%	43.0%	32.9%	24.1%	
San Vicente	26.4%	14.0%	17.2%	38.2%	38.6%	12.9%	19.7%	24.2%	41.3%	33.1%	25.6%	
<b>Greater Buenos Aires Area</b>	<b>24.1%</b>	<b>28.6%</b>	<b>18.6%</b>	<b>24.7%</b>	<b>35.9%</b>	<b>16.8%</b>	<b>18.7%</b>	<b>22.6%</b>	<b>42.7%</b>	<b>34.2%</b>	<b>25.0%</b>	

Source: TPCG Research based on the Interior Ministry

**What comes next? A slightly better-than-expected short-term scenario, but over the medium term, the execution risks remain.**

We expect last night's outcome to prove credit-positive in the short run, with three critical questions driving valuations: (i) governability, (ii) the economic program, (iii) the transition, and Mr. Massa's role in the coming weeks.

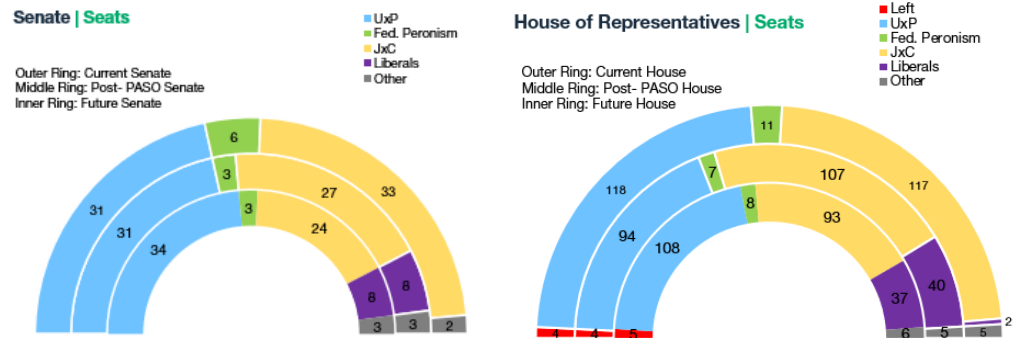
We expect last night's outcome to prove credit-positive in the short run, with three critical questions driving valuations: (i) governability, (ii) the economic program, (iii) the transition, and Mr. Massa's role in the coming weeks. Before the run-off, our baseline was that Mr. Milei was slightly favored to win, with about 51-49 odds. Under that scenario, our informal poll of market participants coalesced around a consensus view that bond valuations could respond by improving by 1c (or about 3% in the first week). In that context, while Mr. Milei's win is not necessarily a surprise (it was, after all, the most likely outcome), the magnitude of his win was clearly not expected. We believe that the size of the win will tilt for the better three critical issues that participants identified as the main drivers of valuations in the short term: (i) Mr. Milei's perceived chances of running a stable administration (Governability), (ii) what will the shape of a Milei Administration, especially regarding cabinet appointments and policy mix (the economic plan), and (iii) who will pay for the costs of devaluing the official fixing (the transition). We believe that all three issues today are better than expected on Friday, and, in this context, we're increasing our expectation of a positive price action in the first week to a 10-15% gain.

For starters, Mr. Milei's landslide win is likely to offset his party's weak congressional representation initially.

For starters, Mr. Milei's landslide win is likely to offset his party's weak congressional representation initially. Throughout the election cycle, the market had two significant misgivings with the prospect of a Milei Administration: (i) a weak representation in Congress, controlling less than one-third of the seats in either house of Congress, and (ii) whether Mr. Milei would seek to enlarge his coalition with like-minded people from JxC and Peronism. Governability is at the core

of both questions. With its surprising performance on October 22<sup>nd</sup>, Peronism secured a majority in the Senate and came very close to controlling the House, increasing the doubts regarding the chances of a Milei Administration to push its reform agenda forward. Last night's 11pp lead changed the math. While Mr. Milei has few seats in Congress, he also has a much stronger-than-expected mandate from voters. Mr. Massa made the run-off a referendum on whether voters sought to maintain the current state-centric Kirchnerist model or leap to a liberal administration. Voters overwhelmingly opted to abandon the current model. Mr. Milei's mandate today is substantially clearer than it was the day after the primaries, mostly thanks to Mr. Massa's campaign, which pushed a majority of voters to reject the failed policies of the past four years.

**Figure 5: Mr. Milei's landslide win could make congressional math easier in the coming months.**



Source: TPCG Research based on the Interior Ministry

**Additionally, Mr. Milei's landslide win should allow him to grow his congressional caucus as the political space reconfigures.**

**Additionally, Mr. Milei's landslide win should allow him to grow his congressional caucus as the political space reconfigures.** The Libertarian campaign's fortunes improved considerably after Mr. Milei cut a deal with Pro. Mr. Macri provided (i) competent voter oversight machinery to prevent fraud and, more importantly, (ii) turned Mr. Milei more palatable to JxC voters who had misgivings regarding Mr. Milei's fitness for office. After Mr. Milei's concession speech, it would seem as if the Milei-Macri pact is likely to transition into a government coalition, with Pro figures filling critical cabinet spots and doubling the size of the Libertarian caucus. Still, that would still leave the Government's caucus about 30 seats short of a majority in the House and about 20 short in the Senate. Last night's landslide win will probably help Mr. Milei bridge that gap. For starters, a large number of UCR representatives and Senators will need to decide if they follow their former JxC partners from Pro and work with the Milei Administration or if they decide to remain in opposition. While a part of the UCR and most of CC are unlikely to vote aligned with the Libertarian-Pro caucus, a majority of them will, given that an overwhelming majority of UCR voters sided with Mr. Milei. That would put the Government just a few votes away from a congressional majority. Second, Mr. Massa's whopping last night will probably generate some tectonic moves in Peronism. CFK's leadership is looking long on the tooth, with Kirchnerism increasingly going into a succession where Messers. De Pedro, Kicillof, and Kirchner will vie for Mrs. Kirchner's blessing to wear the mantle. The rest of Peronism could conclude that the last four years of trying to coexist with Kirchnerism were a failed experiment, severing ties with CFK to become competitive again rather than remaining condemned to repeating Mr. Massa's fate. Mr. Milei could fish in those murky waters for the seats it needed to build a congressional majority, something that would be unlikely to happen if he had won by a slender lead as polls suggested.

**The prospect of a less extreme policy mix and sensible cabinet appointments should reinforce the expectation of improved governance.**

**The prospect of a less extreme policy mix and sensible cabinet appointments should reinforce the expectation of improved governance.** After hitting a brick wall in the generals in October, Mr. Milei had to make a tough choice: remain ideologically pure or be president. He chose the latter and cut a deal with Mr. Macri and Pro, critical players in the political establishment he had derided throughout his rise to power. A side product of that deal is that a path to a diluted Libertarian program emerged. The original libertarian program included (i) 15pp of GDP in fiscal cuts between Federal, Provincial, and Muni governments; (ii) an aggressive de-regulation plan, especially in international trade, and (iii) an anti-inflation program pivoting around dollarization and the scrapping of the BCRA. In our view, that program was highly disruptive, had limited chances of making it through Congress, and even had lower chances of succeeding with voters. The deal with Mr. Macri seems to have diluted the program to a substantial fiscal anchor but mostly concentrated around Federal spending cuts, a more palatable de-regulation platform, and less

disruptive monetary policy. Last night, in a measured address, Mr. Milei refrained from discussing scrapping the BCRA, stating that he planned to “repair the Central Bank.” In a radio interview this morning, he revealed that he was working on a financial mechanism to neutralize the Leliq bomb ASAP before releasing capital controls. This plays with the rumors that Mr. Milei might opt for Federico Sturzenegger as a finance minister, which would also signal his intent to pursue a less disruptive economic policy mix, assuaging one of the biggest market concerns regarding his Administration. In this context, Mr. Milei could boost valuation substantially by making sensible cabinet appointments and announcing a consistent policy mix, as most signs seem to point to after the first round.

**In the short run, the biggest issue will be the transition, especially the reopening of the FX market tomorrow.**

**In the short run, the biggest issue will be the transition, especially the reopening of the FX market tomorrow.** Since it ran out of money in late September, the Government has been keeping the FX market from blowing up by threatening legal action against investors who tried to dollarize themselves and financial institutions helping them to do so. This policy instrument is problematic because it’s only effective as long as the Government can convince agents that it will remain in power after inauguration day. The moment that the prospect of policy continuity dilutes, the instrument loses its teeth and becomes irrelevant. In other words, the Government has no backstop to prevent the FX market from correcting tomorrow when the local market opens. More importantly, with the end of the blended FX for exporters last Friday, we expect zero inflows in the FX market without a REER correction consistent with the next Administration’s program. That creates a problem for the Government. Unilaterally moving the FX market to the USDARS500 area (or any other FX for the case) would not be enough to stabilize the FX market unless the Milei team signals that they are okay with that level. If Mr. Milei argued that he thinks that the REER remains more appreciated than his target, then inflows would remain scarce, creating disruptive volatility. While the official FX market remains tight on the back of pervasive capital controls, the tensions could manifest as deposit flight and a weaker parallel FX. In this context, the Government’s best shot is to strike a deal with Mr. Milei, in which the current Administration undertakes the ugly task of normalizing the REER in exchange for Mr. Milei securing a fluid transition to the next Administration. The alternative, of course, looks substantially less appealing.

**Mr. Massa’s decision to remain in office until December 10th helps with the transition, as he’s the best-suited player to unwind the mess he has created of the economic policy mix since August.**

**Mr. Massa’s decision to remain in office until December 10<sup>th</sup> helps with the transition, as he’s the best-suited player to unwind the mess he has created of the economic policy mix since August.** Over the past two months, Mr. Massa has increased the fiscal impulse by 2pp of GDP, accumulated billions in trade arrears, drained almost USD10bn from net reserves, and repressed both the official and the parallel FXs to an unsustainable point. Unwinding this mess will be politically costly, especially in a context where Mr. Milei’s program remains disruptive enough that it could scare agents whom this Administration forced into a long-ARS positioning into dollarizing themselves. For a split second last night, Mr. Massa seemed to try to jettison from the Fernandez Administration to shield himself from the flak of the coming weeks. In his concession speech, Mr. Massa argued that he would leave Messers. Fernandez and Milei to negotiate a transition and that (i) this stage of his political career had ended last night and (ii) whatever happened in the coming weeks would be the sole responsibility of Mr. Milei. Minutes later, government-friendly media broke the news that Mr. Massa was considering taking leave until December 9<sup>th</sup>. Mr. Massa recanted later, confirming that he planned to remain in office until inauguration. This creates a window where Mr. Massa remains at the helm throughout the transition, using the last of his political capital for the required corrections.

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