

Ecuador Strategy Flash

In a very eventful election day, correism managed to obtain several clear victories, with all eyes on the referendum results, which initially convey a grim picture for the administration.

Looking at the sectional elections, the correist candidates were able to take the field, profiting from a strongly atomized opposition.

Initial referendum results look unflattering for the administration, with the majority of the scrutiny still ahead of us.

In a very eventful election day, correism managed to obtain several clear victories, with all eyes on the referendum results, which initially convey a grim picture for the administration.

In a context where the sectional elections went mostly in favor of correism, the key issue continues to be the referendum results, which do not seem to be going in the administration's way for now. The administration had little to no stake in the provincial elections, as it had no mayor strongholds to defend, and nearly none of its candidates polled as frontrunners in their respective races. Instead, the government's hopes were riding on the referendum results, as Mr. Lasso hoped to find a way to manage to bypass the opposition's blockade in the Assembly, which was actively harassing the government's caucus. A solid result would have given the impression that the government counted with some momentum to present additional reforms, and that the general public agreed with the administration's plan, potentially softening the opposition in the assembly. A loss, on the other hand, would leave Mr. Lasso completely cut off in the political space, and would probably fire up the opposition, which would continue to siege the administration until the end of its tenure.

Looking at the sectional elections, the correist candidates were able to take the field, profiting from a strongly atomized opposition.

As current results stand, Correism is bound to take command of seven prefectures, more than doubling their last harvest in 2019. The large number of candidates was functional to correism, as they were able to grasp victories in several races of the largest-minority-wins fashion, and with no balloting at the provincial level, several correist candidates managed to win by a close margin. On positive news for the administration, the numbers showcased by correist candidates look relatively similar to those obtained by Mr. Arauz in the last presidential election, and do not point to a landslide win of correism fueled by an increased voter base, but rather to a party which managed to maintain its support but did not gain significant ground since 2021. Instead, most wins also come from the back from very poor performances of the PSC and other local parties. In Quito, correist Mr. Muñoz (Revolución Ciudadana, correist) edged a close victory over Mr. Yunda (Pachakutik), winning by only 3 points, with Mr. Freile amassing another 21.9% of the votes. In this context, the non-polarization of the electoral race favored correism, which could capitalize its large voter base to obtain a narrow win. At the provincial level, the scenario was similar, as Corresim edged Mr. Churuchumbi (PK) by just over two points, with Mr. Pozo (CREO) obtaining 15.8%. The lack of a clear anti-correist candidate sapped the strength of the non-correist parties, which saw their voter base fragmented. Guayas and Guayaquil offered a similar trend, with Mrs. Viteri and Mrs. González suffering from the large amount candidates. The correist party in this occasion carried the winning strategy, clustering their voter base in one candidate, who was generally able to beat the dispersed opposition, but without showcasing substantial growth relative to 2021.

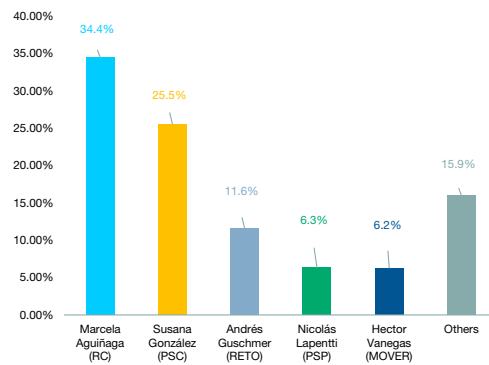
Initial referendum results look unflattering for the administration, with the majority of the scrutiny still ahead of us.

Polls indicated the eight questions should breeze past the No, with approval ratings ranging in between 81% and 58%, averaging three independent polls from IPSOS, Cedatos and Clima Social. Instead current results point at rejection rates surpassing the positive answers, with the No having an advantage ranging from 53% to 60%. However, there is a possible silver lining for the administration. The scrutiny for most questions does not surpass the 50% mark, and the higher the scrutiny, the tighter the difference between the positive and

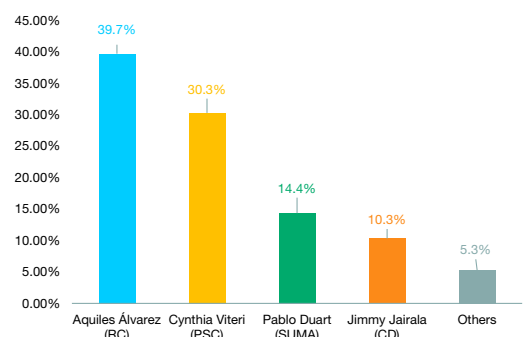
negative answers. Furthermore, both the Guayas and Pichincha provinces, the most populated of the country, are yet to be scrutinized, and initial data shows in said provinces the Yes is starting to edge the No, so the administration could still be able to scrape a victory. Still, uncertainty is very high, and it could go either way for the administration. With the topics of the questions being broad and related to the issues concerning the Ecuadorian society, a flat rejection across the board conveys the administration's support is indeed very low. This in turn signals that, even if correism does not seem to be able to win the next election yet, Mr. Lasso currently would be in no shape to enter a second round, with the candidate most likely to win in the next elections being a non-correist opposition member. The administration could be able to turn it around in the remaining years of its tenure, but blocked by the opposition in the assembly, it should have a hard time doing so. Still, it is too soon to tell which should be the outcome of the referendum, as key districts are yet to be scrutinized.

Figure 1: Results in the main districts favored correism

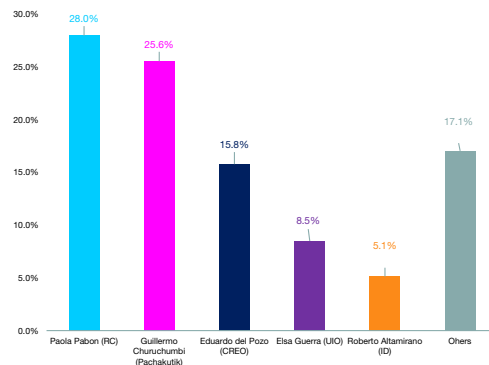
Election Results | Guayas



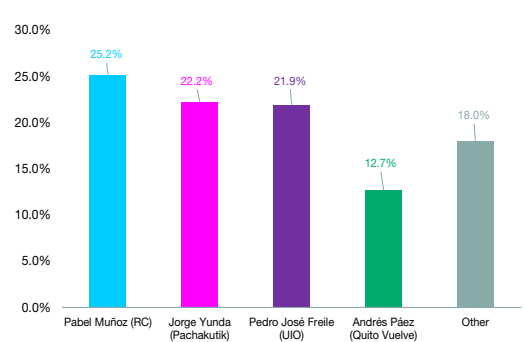
Election Results | Guayaquil



Election Results | Pichincha



Election Results | Quito



Source: TPCG Research based on CNE

In this context, we remain OW the ECUA space, on the back of the sharp drop in valuations, and the low chance a credit event materializes in the next two years.

In this context, we remain OW the ECUA space, on the back of the sharp drop in valuations, and the low chance a credit event materializes in the next two years. While we believe a defeat for the administration in the referendum is a negative outcome for the space, it is also true that Mr. Lasso still has two years ahead of him, with reduced GFN's, and no sinkings in the global curve until 2026, meaning the chances the administration is forced to restructure its debt in the short run seem low. Furthermore, the administration will probably have a cap on their spending capabilities, as we believe a negative election outcome should result in an IMF program this year. The current drop in valuations mark Ecuador's plan to return to international markets for financing look somewhat farfetched. Instead, the administration will probably have to opt for entering a new program with the IMF for financing. This should corset the administration into conserving its fiscal position at reasonable levels, and therefore should not mark a heavy deterioration of fiscal accounts. All in all, the election could still either way. It is difficult to see how the administration can come out strengthened of the election, but at least a victory (even a pyrrhic one) in the

referendum questions could leave the election outcome at a stalemate, allowing the administration to continue to muddle though.

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
Federico Martin	Strategist	famartin@tpcgco.com	+54 11 4898-6633
Santiago Resico	LATAM Strategist	sresico@tpcgco.com	+54 11 4898-6615

Sales & Trading

Juan Manuel Truppia	Head of Sales & Trading	jmtruppia@tpcgco.com	+54 11 4898-6659
Juan Martin Longhi	S&T Director	jlonghi@tpcgco.com	+54 11 4898-6656
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	mruidecastroviejo@tpcgco.com	+54 11 4898-6643
Victoria Faynbloch	Desk Analyst	vfaynbloch@tpcgco.com	+54 11 4898-6635
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 Banking

José Ramos	Head of Corporate Banking	jramos@tpcgco.com	+54 11 4898-6645
Camila Martinez	Corporate Sales	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

Fernando Lanus	Head of Capital Markets	flanus@tpcgco.com	+54 11 4898-6632
Nicolás Alperín	Investment Banking Analyst	nalperin@tpcgco.com	+54 11 4898-6604

Asset Management

Ileana Aiello	Portfolio Manager	iaiello@tpcgco.com	+54 11 4898-6611
Claudio Achaerandio	Portfolio Manager	catchaerandio@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 U.S. 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 (U.S.) and is/are not associated person(s) of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations.

This report is intended for distribution by TPCG only to U.S. Institutional Investors and Major U.S. Institutional Investors, as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by the U.S. 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 U.S. person, which is not a U.S. 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 U.S. registered broker dealer.