

Libertarian Dawn. Peronist dusk?

A surprising four-way race for the Presidency. Milei brings the house down. Peronism takes a thumping. Is PBA still in play?

Unlike the three previous presidential primaries, last night's election pushed the race into uncharted territory: Javier Milei had a momentous win, Peronsim dropped to third in its worst historical performance, and JxC underperformed expectations. Absenteeism climbed to a record 31%.

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Unlike the three previous presidential primaries, last night's election pushed the race into uncharted territory: Javier Milei had a momentous win, Peronsim dropped to third in its worst historical performance, and JxC underperformed expectations. Absenteeism climbed to a record 31%. The toughest piece I had to write in my career was the one summarizing the results after the 2019 Presidential Primaries. Polls had missed the mark wildly, and we had just been blindsided by a tidal wave of angry voters supporting the Peronist candidate. Four years later, here I am, sitting in the same place, trying to wrap my mind around another tidal wave of angry voters that turned the election cycle upside down. Unlike the 2019 Presidential election, the tsunami of Libertarian voters isn't completely out of the blue. Most pollsters have been warning that a black swan could hatch out of the Libertarian nest. The provincial elections with elevated blank votes suggested an elevated level of anger among voters. Still, most polls suggested that Mr. Milei had peaked in May and was gradually diluting. Turns out voters didn't get the memo. Mr. Milei performed about 10pp higher than expectations and clinched first place with 30.06% of the vote after carrying 18 provinces. JxC came up second, with 28.27%, underperforming its expectations substantially. In the primary competition, Mrs. Bullrich beat Mr. Larreta by over 5pp, though both candidates had a weak showing. Peronism took a thumping, coming in third with 27.24% of the vote, its worst performance in history, with Mr. Massa barely getting 21.4%. The Left had a very weak showing, suffering from many of its votes going to the Libertarians. Mr. Schiaretti got 3.8% of the vote, mostly from his home province.

Participation dropped to 69%, the lowest in history, and blank voting totaled 5pp. In other words, the group of voters who opted not to participate is larger than the Libertarian, JxC, and Peronist constituencies. If you look at the figures, it seems as if the Primaries resemble the three-way race pollsters suggested a few months ago (before surveys started to forecast a drop in support for Mr. Milei mistakenly), where a few points would separate the three largest parties. Except it's not. With the participation rate at a lowly 69%, the lowest since the return of democracy in 1983, and blank voting at 5pp, about 36pp of the electorate opted not to participate. That means that the electorate was divided into four constituencies: from largest to smallest, (i) absentee / blank, (ii) Libertarians, (iii) JxC, (iv) Peronism, each ranging from a third to a fifth of votes. The elevated level of abstention increases the uncertainty around the election because a sudden surge of non-participating voters picking an option in October could considerably skew the results of the next election.

Mr. Milei's surprising performance is grounded on harnessing voter anger, especially from Peronist and left-leaning voters. Mr. Milei's blowout win is based on building a large coalition putting far right and far left voters under the same roof. Both these voter groups share a dissatisfaction with traditional politics and the way that the economy is being run. In this context, voters on both ends of the political spectrum have much in common in this election cycle. When we look at the map, Mr. Milei's 30pp has a lot of formally Peronist voters. The Libertarians carried provinces that historically have tilted in favor of Peronism. He polled substantially higher than expected in the Greater BA area, coming in second in Kirchnerist strongholds like La Matanza. In that context, Mr. Milei's blockbuster performance mirrors Mr. Massa's catastrophe. The worst showings of Peronism in a Presidential race came at 38/39% of the vote in 1999 and 2015. Mr. Massa underperformed that threshold by over 10pp. Peronism carried a paltry five provinces. Mr. Massa had an especially rough night. As the sole Peronist candidate (Mr. Grabois was there, but he was never a competitive challenger), he got 21pp of the vote, securing fewer votes than his

tally in 2015, when he was a third wheel in the race between Messers. Macri and the CFK-backed Mr. Scioli. As expected, Mr. Massa's campaign was fatally caught in the contradiction of having the finance minister of a failed Administration promising to fix the problems of his tenure if voters returned him to another term.

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Mrs. Bullrich beat Gov. Rodriguez Larreta in a weak JxC outing. The silver lining is that PBA remains in play. In the only competitive primary, Mrs. Bullrich beat Mr. Larreta handily, beating him in Cordoba, Santa Fe, Mendoza, and Mr. Larreta's home turf by a huge margin. Mrs. Bullrich even carried PBA, where Mr. Larreta was the strongest. Mrs. Bullrich and Mr. Larreta made a unity display by the night's closing, vowing to work together in the coming months. While not a catastrophic election like Peronism's, there's little solace to be had from the JxC performance. After four straight elections polling close to 40%, JxC got less than 30%, underperforming Mr. Macri's dismal 2019 Primary. Looking ahead, there are two slivers of hope for JxC. The first is that with Mrs. Bullrich winning the primary, the chances of JxC votes flying to Mr. Milei look slim. The 28.3% harvest may look slim in this context, but it's a sound floor to build upon. The second is that the PBA race remains in place. Mr. Kicillof took 36.4% of the vote, with JxC finishing the night just shy of 33pp, with Mr. Grindetti beating Mr. Santilli. A marginal increase in the participation rate or some tactical voting from Mr. Milei's supporters could easily wipe out Mr. Kicillof's lead, putting PBA within JxC's grasp.

Where the race goes from here depends on how we read yesterday's result and what chances each candidate has to (i) secure a run-off slot and (ii) grow its vote to the 50% mark.

The path to the Presidency. Mr. Milei becomes the race's frontrunner.

Where the race goes from here depends on how we read yesterday's result and what chances each candidate has to (i) secure a run-off slot and (ii) grow its vote to the 50% mark. The most straightforward read to last night's results is that voters are angry at traditional politics and rejected both Peronism and JxC. The leading coalitions' Tammany Hall-like political machinery ground to a halt in the face of the scrappy Libertarian upstart. Another read is that voters want to burn down the house and start afresh. The first read would be consistent with Mr. Milei's lead being wobbly. The second view would be consistent with a Libertarian tidal wave. With the result set in stone, voters didn't understand the JxC competitive primaries nationally and in PBA. Voters went to the polls yesterday with a big FU sign to the large parties. The question is whether they'll stick to Mr. Milei in October or whether last night's wake-up call is enough and flip their vote. The other question is whether we'll see an influx of voters who didn't participate in yesterday's election skewing the results. If we take last night's snapshot, every outcome is possible. Milei seems to have secured a slot in the run-off but needs another strong showing in October. Mrs. Bullrich leads Mr. Massa, but the lead is uncomfortably tight. Mr. Massa took a beating last night, but he's not that far behind. The current snapshot suggests that the three alternatives for a run-off are feasible (Milei-Bullrich, Milei-Massa, Bullrich-Massa). Still, appearances are deceiving.

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In our view, the snapshot overstates Mr. Massa's chances of securing a run-off slot. The economy is likely to slant the turf further against Peronism. Mr. Massa's awful night included being the lowest-voted Peronist Presidential candidate in history and his wife losing their Tigre hometown to a primary challenger, despite the race being heavily biased in Mrs. Galmarini's favor. Still, UxP ended just 1pp behind JxC, which keeps his hopes alive. In our view, Mr. Massa's chances of making it to the run-off are wafer-thin in a context where Mr. Milei's strong showing is likely to send the economy into an even deeper tailspin. Mr. Massa, the finance minister, will face elevated volatility in the FX market in the coming days and the ensuing pass-through to inflation in the following weeks. Mr. Massa, the candidate, will see his chances to make it into the run-off as the deteriorating economy drags down support for his party and him personally. In that context, despite seemingly remaining in the contention in this morning's snapshot, the motion picture will probably write his part off pretty quickly.

Wooing votes from the Libertarian tally is a tougher challenge, considering that support from Peronist voters to Mr. Milei seems to be waning.

Mrs. Bullrich's chances of making it to the run-off (and winning the election) depend critically on driving higher voter participation in the coming elections and clawing back some votes from Mr. Milei and Mr. Schiaretti. The participation rate usually increases substantially between the primaries and the generals. Even if the current election cycle ends with high absenteeism, we're still likely to see a new influx of voters in October. JxC has traditionally done very well in wooing these voters. In this cycle, we believe the read of last night's election is critical to gauging Mrs. Bullrich's chances to grow from now to November. Suppose yesterday was just a big FU from voters to mainstream politicians, and voters pivot back to more centrist alternatives in the coming two elections. In that case, JxC should be ideally positioned to capture the influx of voters. With his weak performance and Mr. Grabois securing almost 6pp of votes, Mr. Massa's campaign

will probably pivot further towards Kirchnerism. Mr. Milei is likely to remain true to himself. That leaves the center ground for Mrs. Bullrich. Moreover, in that scenario, Mrs. Bullrich is likely to get some votes back from Messers. Milei and Schiaretti. All in all, while JxC is no longer the favorite to win, Mrs. Bullrich's chances of being inaugurated on December 10th remain substantial. This scenario probably includes JxC riding the influx of new voters to flip PBA in a context where Mr. Kicillof's lead looks vulnerable.

The final and harsher challenge is getting a share of the absentee / blank voting, which has been averaging over 30pp of the electorate in the provincial elections YTD.

Mr. Milei has the easiest path to the Presidency. With some luck, he could clinch the race in October, and if that fails, he could exploit the Kirchnerist voters' dislike of Mrs. Bullrich to win a run-off. If the read of yesterday's election is not voters protesting against mainstream politicians but rather the electorate trying to burn the house down, Mr. Milei could conceivably win in the first round. He's not that far away from it. He needs a higher participation rate to capture the influx of new voters and Mr. Massa to deflate a little. The economic deterioration is likely to continue pushing voters away from Mr. Massa's arms, and Mr. Milei has proven himself very adept at poaching those votes. Still, this remains a long shot. His clearest path to the Presidency is to secure a run-off slot and then exploit the antagonism between JxC and Kirchnerism to get CFK's voters to support him. Mr. Milei's problem is that while he's been successful at wooing disaffected lower-income Peronist voters, he's not done as well with the more ideologized CFK hardcore. If those voters opt to sit the run-off out, then Mr. Milei's path to the Presidency becomes murkier.

Strategy: Wait and see.

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Despite the surprise in the election outcome, we opt for a cautious approach and hold our position. The initial price action is more benign than we expected, but the local market would skew it to the downside. A couple of weeks ago, we moved to OW on the ARGENT curve in a context where polls suggested that the political scenario was on a convergent path. With 20/20 hindsight, it was the wrong call. When we moved to OW, the consensus was that JxC would poll in the mid-to-high 30s, the Government in the low-30s, and Mr. Milei below 20%. Many creditors thought that our OW was overly constructive because of the risk that Mr. Massa might do better than expected. Well, time to go back to the drawing board. The initial price action was about -4.5c, though the local market could still add to the short-term hurt, especially if the BCRA starts dumping bonds to shore up the FX. Consensus expectations forecast the FX to shoot to USDARS700, which could trigger the Government to try to prop the currency. With few dollars in the reserves (and a huge question mark on the IMF deal), the only firepower that the BCRA has is selling bonars. With demand faltering, the additional supply glut should add downward pressure to prices. Still, despite the outlook, we are taking a wait-and-see approach. At the mid-20s, the bonds have recovered a lot of optionality. Maybe Mr. Milei sputters. Maybe he continues to do very well but he falls short of winning the Presidency. Maybe he turns out a better alternative than expected. In this context, despite the hit, we're choosing a hold stance until we get some additional clarity.

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