

How have financial assets behaved in recent election cycles?

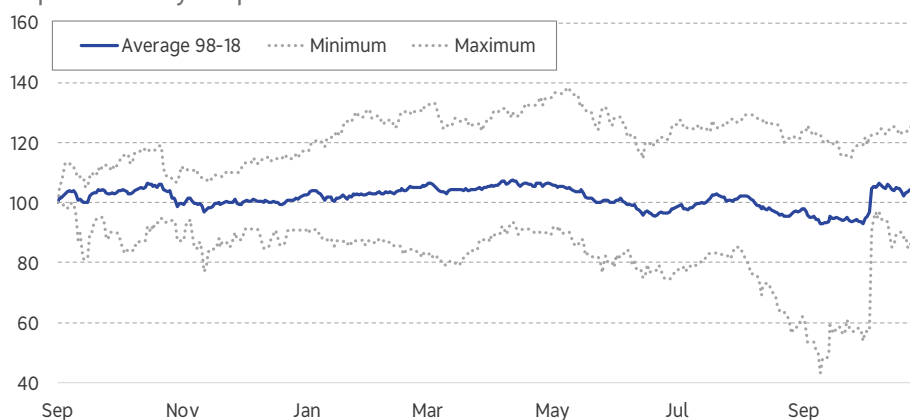
Myriã Bast
Renan Bassoli Diniz

Financial asset behavior has varied greatly over the last 6 election cycles. Although this behavior's distribution was not uniform, it was possible to notice that most assets became more volatile around May of the election year. This is the period when the candidacies are officially launched and the election polls become more frequent. The average behavior showed a drop in the stock market from May until the definition of the election, currency depreciation in the same period, increase in the CDS, increase in the Swap 360, and near stability in the 10-year interest rates. Regarding the economic outlook, also as of May, it is possible to notice that there was a reduction in the GDP forecasts and an increase in the consumer inflation projections.

Analyzing the behavior of the presidential elections since 1998, we see that the stock market fell 15% on average between May and the beginning of October during the election year. This behavior may be related to several factors unrelated to the elections, such as international commodity prices, internal price shocks, among others. One way to at least partially control the external effects on prices is to use the variation of the North American stock market. Even then, the stock market fell an average 13% between May and October of the election years. It is worth mentioning that after the 1st round of voting, there was an appreciation in the following months, practically returning to previous levels (-0.7%). The largest downturns were recorded in 1998 (-42%) and 2018 (-17%). And the only year with an upswing was in 2010 (8%), when a drop was registered after the 1st round of voting (-3%), a fact that was only repeated in 2014 (-3%). Nevertheless, the dispersion of maximum and minimum values is quite large¹.

Chart 1: Stock Market/S&P500

Base 100 = 01/Sep from the year prior to the election



Source: Bloomberg, Bradesco

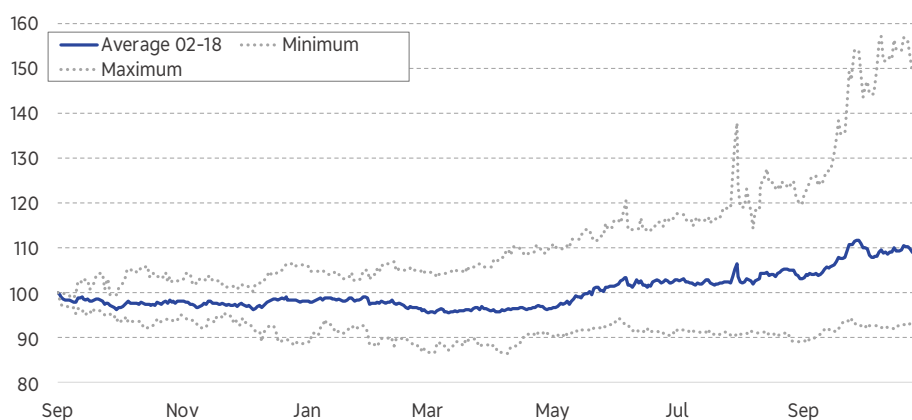
The exchange rate showed similar dynamics, with an average depreciation of 16% between May and early October of the election year. Again, it is important to control for external effects that may have influenced this result, so we used the basket of emerging currencies as a control. In this metric, the average depreciation was 14% until early October. The highest depreciation happened in 2002 (56%).

¹ The maximum and minimum values were calculated considering the daily results of all the series of the analyzed elections.

After the 1st round of voting, there was appreciation in two elections: 2010 (-1.3%) and 2018 (-12%). Even in the most recent elections, the effects on the exchange rate remained more evident only in May.

Chart 2: Exchange rate/basket of emerging currencies

Base 100 = 01/Sep from the year prior to the election



*Emerging currency basket: Turkey, Russia, Colombia, Chile, South Africa, Mexico, Indonesia and India

Source: Bloomberg, Bradesco

There is also heterogeneity when it comes to interest rates. We are always considering the difference between the analyzed rate and the effective Selic and the controls used are the 1-year and 10-year treasuries, respectively. In the case of the 10-year interest rate, the sample is only three elections. In the case of Swap360, there was a relevant increase in relation to the Selic in the 2002 election, +2.95 p.p. as of May, and a closing in that of 2010, -1.56 p.p. as of August. The behavior in 2002, in fact, is quite different from the other periods. Excluding this election, there was a 0.27 p.p. increase on average. The behavior of the 10-year rates was also too heterogeneous to find an average trend of election years – there has already been a reduction of 1.5 p.p. (2010) and increase of 1.6 p.p. (2018).

Chart 3: Interest rates/1-year Treasury

Swap360 spread vs the Selic rate

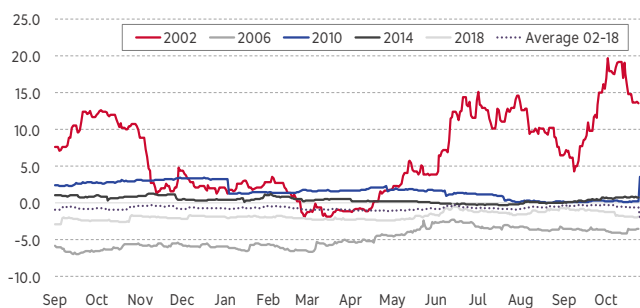
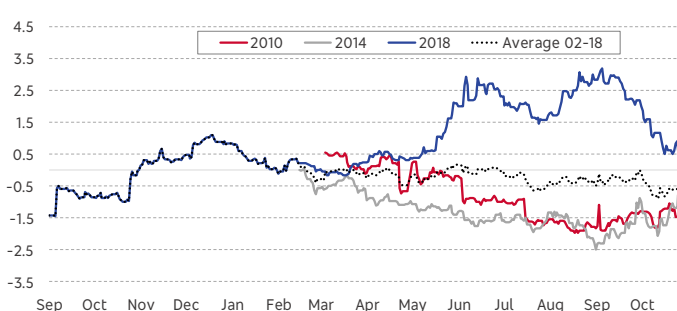


Chart 4: Interest rates/10-year Treasury

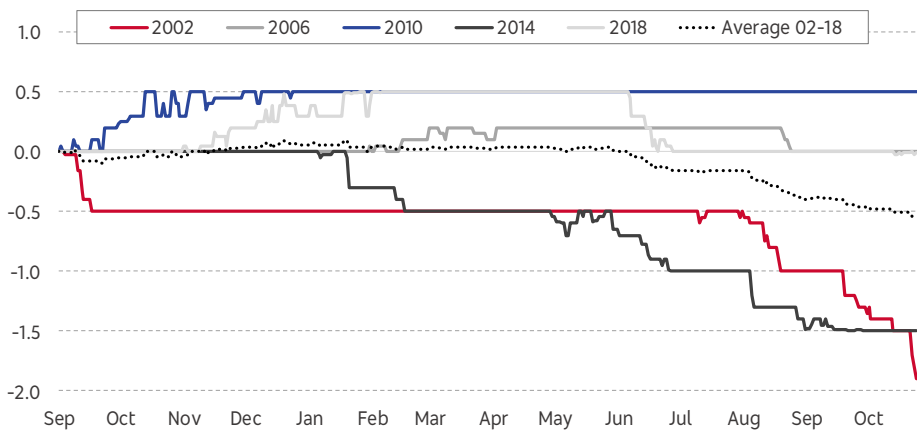
10-year generic interest spread vs the Selic rate



Source: Bloomberg, Bradesco

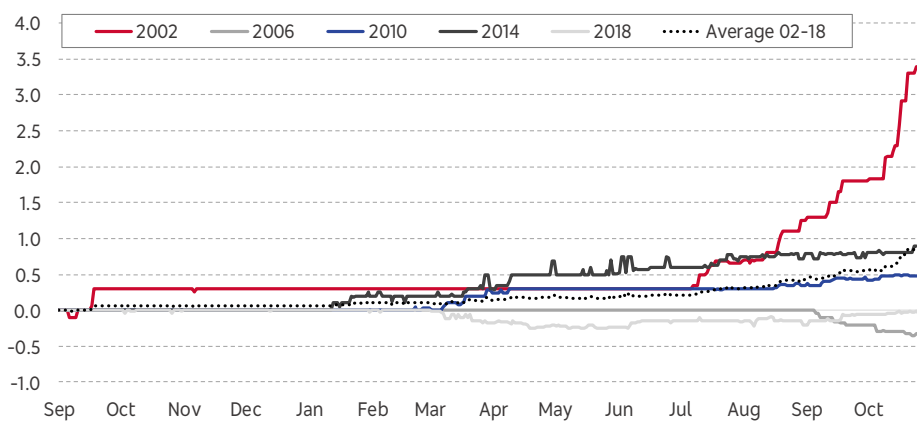
Election years also affected the growth and inflation projections, with great dispersion. Here too, the effect of the elections became more noticeable as of the middle of the election year. The GDP forecasts for the election year dropped 0.6 p.p. on average, and during the first year in office they retreated 0.5 p.p., as of June of said year. In the case of inflation, there was an increase of 0.05 p.p., while for the IPCA of the first year in office, the average revision is +0.34 p.p. This average, however, was driven up significantly by the revisions in 2002, in the average of the other election years the revisions were quite different: -0.28 p.p for the election year and +0.1 p.p for the first year in office.

Chart 5: GDP forecast for the first year in office – Focus



Source: BCB, Bradesco

Chart 6: IPCA forecast for the first year in office – Focus

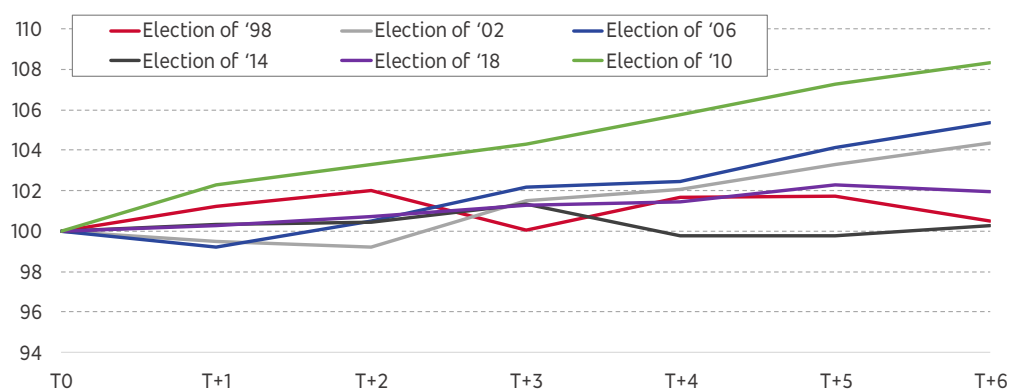


Source: BCB, Bradesco

In the case of the actual growth of the economy during election years, we find no signs of a particularly negative effect on the GDP. During election years, there was growth in virtually every quarter. The year 2010 was marked by a strong expansion of fiscal policy, which is not even allowed by current legislation. If the growth of the Brazilian economy starting in the third quarter of 2021 replicates the average pattern of the last six elections, excluding that of 2010, the 2022 GDP growth would be 1.7%². Even in the specific case of investments, the series do not show a clear trend of deceleration in election years. Considering the median of these periods, there was a drop in the 2nd quarter (-0.5%), which was recovered in the following quarter (+1.4%). Part of this result can be explained by public investments, which have decreased in recent years.

Chart 7: Effective GDP

Base 100 = 2nd quarter of the year prior to the election



Source: IBGE, Bradesco

In general, financial assets started to react more intensely to the elections in May of the election year itself, and there is great heterogeneity between the maximum and minimum behavior in the period. This pattern does not seem to have changed even in more recent elections. On average, we see that the electoral uncertainty has negatively affected the stock market, the exchange rate, and short-term interest rates until the first round of voting is defined. Despite the effect on growth forecasts as well, the actual growth data have not registered a relevant negative effect in recent election cycles. A good part of the assets registered some correction with the electoral definition, returning to the levels of the beginning of the year. Each election cycle is distinct by its nature, and the starting point of economic policy, interest rates, public debt, and inflation have a major impact on the performance of the overall scenario.

² Considering growth of 5.2% this year and excluding 2010 from the average.

Technical Staff

Director of Economic Research and Studies

Fernando Honorato Barbosa

Economists

Ana Beatriz Moreira dos Santos / Constantin Jancsó / Fabiana D'Atri/ Felipe Wajskop França / Myriã Tatiany Neves Bast / Priscila Pacheco Trigo / Renan Bassoli Diniz / Thiago Coraucci de Angelis / Vitor Vidal Costa Velho

Interns

Bruna Andreata Valentino / Gabriel Sartor Ganzarolli / Henrique Monteiro de Souza Rangel / Lorena Pires Sene / Lucas Daniel Duarte / Rafaela de Sousa Silva

economiaemdia.com.br

DEPEC – BRADESCO may not be held liable for any acts/decisions taken on the basis of the information available through its publications and projections. The information and opinions provided herein are carefully checked and prepared by fully qualified professionals, but should not be taken as a basis, support, guidance or standard for any document, assessment, judgment or decision of formal or informal nature, under any circumstances. Therefore, the user hereby undertakes sole responsibility for all consequences arising from the use of the data or analyses hereof, hereby exempting BRADESCO from all claims thereof. Upon accessing the information hereof, users hereby accept these terms of use and responsibility. Total or partial reproduction of this publication is strictly prohibited, except upon due authorization from Banco BRADESCO or full citation of the source (including the authors, the publication, and Banco BRADESCO).