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Investment Event

Left-wing candidate López Obrador wins Mexican Presidential election

Andrés Manuel López Obrador has won the 2018 Mexican Presidential election

His coalition with the Labour Party and Social Encounter Party is on track to become the most influential bloc in Congress

A moderation of populist language during the campaign lessens concerns over the possible roll-back of structural reforms

Our views

We have not revised our asset class views. On an unhedged basis, we think Mexican equities and government bonds denominated in local currency provide attractive valuations to US-dollar-based investors

Victory for López Obrador and MORENA

Left-wing candidate Andrés Manuel López Obrador (widely known as AMLO), in his third attempt, has won the Presidential election. The outcome was widely expected, as he had consistently led opinion polls throughout the campaign. His term will last six years.

The details

Prior to the elections, AMLO's National Regeneration Movement Party (MORENA) formed a coalition with two other parties: the Labour Party (PT) and the Social Encounter Party (PES).

According to the exit polls, at the time of writing the leftist coalition is on track to win a simple majority in Congress, followed by an alliance led by the National Action Party (PAN). It is unclear whether the coalition will obtain a super two-thirds majority of seats.

The new Mexican Congress will begin their session on 1st September. The incoming administration will enter a five-month transition and the new President will be sworn in on 1st December.

Policy outlook

The win will give AMLO scope to push ahead with his anti-corruption and security agenda. Encouragingly for markets, the campaign trail saw AMLO soften his populist rhetoric. This alleviates the possibility of reversing market-friendly policies, such as the energy sector reform. Nevertheless, an overall populist movement remains a key concern for investors.

Regarding fiscal spending, AMLO's advisors have said that they will aim to keep debt-to-GDP from rising and will finance new social programmes and infrastructure plans through targeted cutbacks and joint public-private investments. While this is an ambitious agenda, his tenure as Mexico City's mayor (2000-2005) suggests some evidence of discipline. The 2019 fiscal budget will likely be approved by Q4 this year.

NAFTA discussions likely to be slow

On trade, AMLO's advisors have repeatedly said that he is a supporter of a renegotiated North American Free Trade Agreement (NAFTA), despite being a critic in the past. While NAFTA negotiations stalled prior to the elections, we believe a trade representative from the newly-elected government will join the Mexico team almost immediately to allow for a smooth transition in the next few months.

However, progress in discussions is likely to be slow. Combined with US mid-term elections in November, the likelihood of an agreement in 2018 is small and a complete agreement could take place next year.

Investment implications

The election outcome is in line with our expectations and therefore we have not revised our asset class positioning. On an unhedged basis, we think Mexican equities and government bonds denominated in local currency provide attractive valuation to US-dollar-based investors.

Using our big data approach (Nowcast), we measure Mexico's average economic activity at 3.0% in the first six months of 2018, versus 2.9% for 2017.

Although economic activity looks good, a populist government has added to the list of rising downside risks such as uncertainty around NAFTA negotiations, a more aggressive Fed tightening, and currency volatility. The Mexican peso's weakness since April has raised upside risks to inflation, which could prompt the central bank to raise interest rates further. We will continue to monitor these risks closely.

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