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Mexico's political shifts, Brazil's fiscal hurdles, and Argentina's economic reforms are reshaping Latin America's financial landscape. Mexico City, Mexico. (UBS)

What do political changes mean for Latin American investments?

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During the last few weeks, domestic politics and policy have captured the spotlight in Latin America. What unfolded in key markets, and what are the investment implications?

Mexico — Concentration of power

Claudia Sheinbaum of the incumbent Morena party comfortably won the presidential election earlier this month, and her party unexpectedly obtained a de facto qualified majority in Congress. Investors are most concerned about potential constitutional reforms that could weaken checks and balances, hurt the business environment, and raise fiscal burdens. For example, the judicial reform proposes that Supreme Court judges will be chosen through popular vote, which could lead to politicized decision-making among the courts and the loss of technical expertise. The proposed pension reform would significantly raise already elevated fiscal expenditures. The road ahead for Mexico is clouded. However, positive secular tailwinds for the Mexican economy, such as nearshoring, remain solidly in place. We think Mexican assets will remain volatile in the coming months before regaining their footing in 2025. For more information, please see "Concentration of power" and "Has Mexico's moment finally arrived."

Brazil — Fiscal framework, or lack thereof?

The government's attempts at achieving primary results that comply with the fiscal framework approved last year seem to have reached their limit, resulting in a higher risk premium for Brazilian assets. To address market concerns, monetary and fiscal policy credibility must be regained. The latest decision of the central bank was a good first step toward this, as it paused easing amid unanchored inflation expectations. The ball is now in the government's court—it must propose a balanced 2025 budget with a credible plan to reduce public expenses. This will only be achievable by reducing some social expenses, which will be challenging given municipal elections later this year. We are skeptical on the ability to achieve a balanced budget in 2025, and thus we believe this will continue to weigh on Brazilian risk assets. For more information, please see "How to position portfolios for the second half of 2024."

Argentina — First legislative victory by the Milei administration

Milei has secured his first Congressional victory after the Senate's approval of the omnibus and fiscal bills. The bills have gone to the Lower House, where they are likely to be slightly modified and eventually passed. Although the bills were diluted, their passage should positively impact governability and growth. For example, the approval of tax incentives for investment projects should boost private sector sentiment. The ongoing fiscal consolidation, fast pace of disinflation, the IMF's disbursement of USD 800mn, and the extension of the FX swap agreement with China are additional positive tailwinds. Thus, the odds of Argentina avoiding a sovereign debt restructuring continue to rise. For more information, please see "Avoiding an external debt restructuring looks increasingly likely" and "Argentina's exceptionalism."

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Read the full report Investing in emerging markets: Opportunities in the second half 26 June 2024.

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