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AMLO aces Mexican election

Key views

Anti-establishment candidate AMLO has won the Mexican election and looks to have a working majority in Congress, heralding profound changes for Mexico's policy and politics.

We could see Mexican assets rebound in the short run as political uncertainty has lifted, but see risk of a decline in the country's institutions over time.

We like emerging market areas where worries over U.S. dollar strength and trade wars have created value: selected hard-currency debt and equities.

Anti-establishment candidate Andrés Manuel López Obrador (AMLO) has won the Mexican presidential election and looks poised to reach a working majority in the country's Congress. The win has the potential to bring profound changes in Mexico's economic policy and politics. AMLO's victory represents a blow to a political establishment tainted by corruption charges, rising crime and persistent inequality, and suggests the forces of populism have not yet peaked around the world.

We expect AMLO's team to initially sound conciliatory and fiscally prudent notes, and could see Mexican assets rebound a bit from depressed levels caused by political uncertainty and investor worries over a potential dissolution of the North American Free Trade Agreement (NAFTA). In the medium term, we see much hinging on how AMLO will govern. Will he resort to the populist and confrontational stance taken at the start of the election campaign or revert to the more moderate and pragmatic style he displayed as mayor of Mexico City in the early 2000s?

AMLO started the campaign with unorthodox policy proposals such as achieving self-sufficiency in food production. As time wore on and his lead widened, he shifted gears. He stopped talking about reversing efforts to open up the energy sector and about corporations being part of a "power mafia" — instead emphasizing the high marks he received from rating agencies when he was Mexico City mayor. His economic advisors tied proposed spending programs to specific funding sources, claiming they are fiscally neutral. Controversial proposals faded to the background. If AMLO stays this course, we could see Mexican assets do well in the near future.

On the other hand, an AMLO set on implementing some of his more contentious campaign promises could risk Mexico losing its status among emerging markets (EM) as a reference of macroeconomic stability and sound economic policy. The worst fears: A drift toward the type of nationalist and profligate policies that can bring economic ruin. This would risk a deterioration in Mexico's fiscal balances, rising inflation, a drying up of foreign investment and declining asset prices, in our view.

AMLO, who had made two unsuccessful presidential runs, will formally start his six-year term on Dec. 1. Words will soon turn into actions, and we look to four early signposts for gauging his governing style this year: 1) cabinet nominations and confirmations; 2) the 2019 budget; 3) the appointment of a central bank board member; and 4) his approach to implementing energy sector reforms.

Either way, AMLO's ascent heralds the end of decades of technocratic governments made up of traditional parties that pursued economically conservative policies. A majority in Congress would give AMLO leeway for making significant policy shifts. It could also lead to a steady decline in Mexico's institutional strength, although we see the central bank's independence as relatively resilient.

The Mexican election result and the rise of populists in polls of the upcoming Brazilian election show Latin America's anti-establishment currents. See our BlackRock geopolitical risk dashboard for how this could risk reversing a trend toward pro-business governments in the region. Yet we do not see AMLO's victory affecting other EM assets in the short run. We like areas where worries over U.S. dollar strength and trade wars have created value: selected EM hard-currency debt and equities.

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