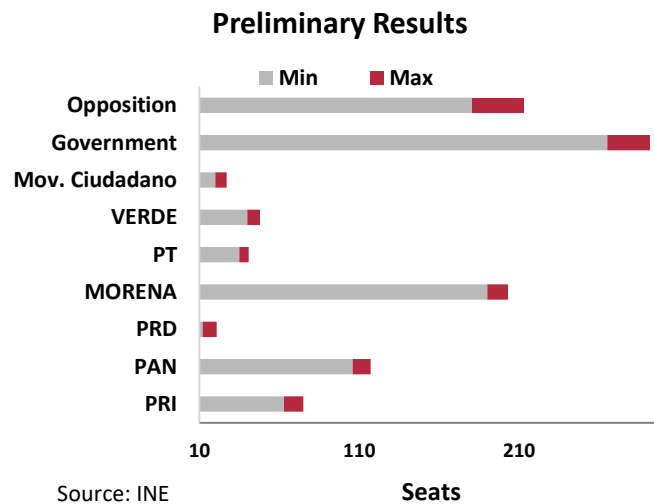


**Over the weekend of June 5-6, Mexico and Peru went to the ballot for their midterm and second round presidential elections respectively. While results are not official yet, we discuss our analysis of the preliminary vote count and the possible implications for the short-term dynamics.**

Over the weekend, Mexico went to the ballot to elect 15 governors, 30 state legislatures and the 500-member lower chamber. The National Electoral Institute (INE for its Spanish acronym) released its preliminary results that give the ruling coalition to Movimiento Regeneración Nacional (Morena) party, of which President Andrés Manuel Lopez Obrador (AMLO) is its leader. Morena won over 50%, but was shy of the 2/3 threshold necessary for implementing a constitutional reform. On the governors' side, Morena and its allies secured 12 out of the 15 seats for governors while the opposition and independents won three, in what is perceived to be as a significant loss for the traditional Partido Revolucionario Institucional (PRI) party. Out of the 15 governors announced, six are women which represents an historic win for female representation in Mexico.

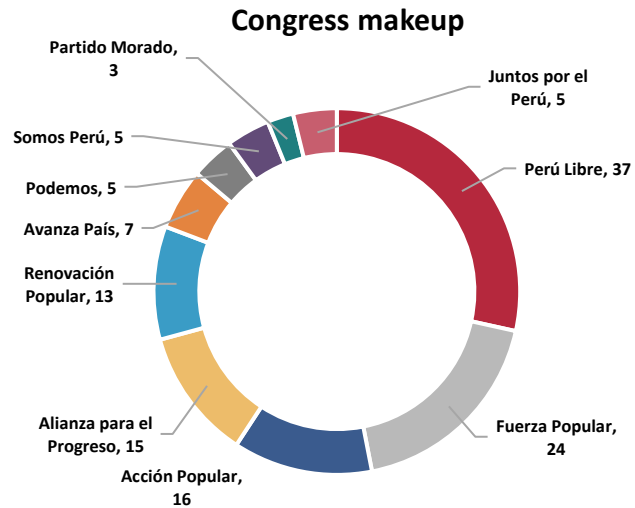


The results were in line with market and poll expectations; in our view, this scenario will allow AMLO to enact simple laws but should not allow him to advance with a major institutional reform by amending the constitution. On the one hand, AMLO might likely focus on the energy sector which has been a priority for his administration. On the other hand, he will not have enough time to reform the state comptroller institutions that regulate markets and specific sectors such as telecom. A minor risk to have on the radar is the fact that AMLO might try to fast track a constitutional reform before the new lower chamber is sworn on September 1, 2021.

The market reaction was positive with the Mexican Peso appreciating 0.7% against the dollar, while the local stock market climbed 1.8%. Fixed income markets stayed mainly flat with the 10 year International bond reflecting no changes in its price.

In conclusion, we anticipate this result being positive for Mexico as it might allow AMLO to feel secure in his position and advance his agenda. Nonetheless, the opposition will have enough power to regain competitiveness towards the Presidential elections in 2024 while limiting the President's current national agenda.

In Peru's case, voters participated in their second round of their Presidential election between the leftist candidate Pedro Castillo and the center right populist Keiko Fujimori. With 98% of the vote counted, there are still no clear results as Castillo received 50.2% and Keiko 49.8% of the votes. The result shows a high level of polarization among the Peruvian electorate with a clear division in preferences between the big cities such as Lima for Keiko and the periphery for its contender.



As of market closing on Monday June 7, 2021, the current difference between the candidates stands at 75 thousand votes with 900 thousand still to be counted. The votes left mainly come from Peruvians voting abroad, isolated regions and contested votes, thus creating challenges for forecasting due to the uncertain preferences of these voters. The results will present the next Peruvian President a clear governability challenge arising from a fragmented congress and a divided electorate.

The market reaction in Peru contrasts with Mexico's response. The Peruvian Sol depreciated 2.1% against the dollar, while the local stock market fell 7.74%. Fixed income markets suffered with the Peruvian 10 year bond falling two points and the 10 year CDS widening eight bps.

If you have further questions please feel free to reach out to us for additional information regarding the upcoming events.

# PERU AND MEXICO: ELECTIONS UPDATE

June 2021



COMPASS GROUP

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