



Lessons from Latin America's elections extend far beyond the ballot

Recent election results point to a political pivot with positive implications for debt markets. Dynamics in this key region are reflective of broader shifts across the maturing EM debt market.



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Key takeaways

- In Peru and Colombia, the electorate has voted for change. While security and crime tipped the balance towards the winning candidates, in both cases their fiscal stance also creates a favourable long-term outlook for investors.
- Brazil's vote later in the year could offer a similar opportunity for investors prepared to look past near-term political noise.
- A recent visit to Peru signalled an important shift – acceptance across the political spectrum of the limits the country's institutions place on government. Resilient institutional frameworks are translating into reduced political risk for investors.
- Dynamics in Latin America are reflective of trends across the EM debt asset class: credible policymaking, institutional integrity, strengthening macroeconomic fundamentals, and credit rating improvements.
- These structural dynamics will play out in markets long after this election cycle concludes.

As results come in, a common theme is emerging

This is a big election year for Latin America. Colombia and Peru have both been to the polls, and Brazil follows towards the end of the year. The results so far reveal a real appetite for change. While close outcomes point to significant division in both Colombia and Peru, voters in both countries opted for candidates that promise a break with the recent past. Security and crime were the deciding factors in each case, but the winning candidates also offer a more sustainable fiscal path.

In Colombia, Gustavo Petro's 2022 victory as the country's first left-wing president was, for many international investors, a red-flag moment. This time round, the right-wing lawyer Abelardo de la Espriella won a closely contested runoff. The result reflects growing distaste for persistent attacks on institutions that ultimately proved resilient, with security and crime also key priorities for voters, as noted earlier. Relief that the last four years won't be repeated drove a strong rally in asset prices into the second round. Further ahead, the prospect of fiscal consolidation – although not central to the campaign – could drive a positive structural shift for the economy.

Peru's election result was even closer, with Keiko Fujimori declared the winner after a prolonged recount – finally succeeding after three previous attempts. That matters because her party is the largest force in Congress, reducing the likelihood of an impeachment. Combined with the reintroduction of a second chamber, this raises the bar for removing a sitting president and paves a clear path for fiscal reform. Peru's macro backdrop is already strong: terms of trade are at record levels, and growth could plausibly move to between 5% and 6% if that stability holds. Coupled with an expected period of relative political stability following a decade that has seen eight presidents come and go, this is a strong structural story.

Next up in the region's election calendar is Brazil, with voting scheduled for October. Polls currently favour the incumbent, President Lula, over Flávio Bolsonaro – son of the former president – whose own campaign has been marred by scandal. Here too, security is likely to be as decisive an issue for voters, so a tight race appears likely. Markets would likely prefer a Bolsonaro win given his focus on tackling Brazil's long-standing fiscal issues. But a fourth Lula term is unlikely to cause big market moves: he is a known quantity, and the market has operated effectively under him before. The key variable to watch would be his fiscal agenda. We believe Lula would make some adjustment to the fiscal framework over time and that current market pricing does not reflect this.

Elections aside, political risks in the region may be waning

Before the Peru election, a visit to Lima in May signalled an important shift in political backdrop. A meeting with the campaign team of Roberto Sánchez, the left-wing candidate, revealed a far more moderate posture than his rhetoric on the campaign trail suggested. His team showed a clear awareness of the limits Peruvian institutions place on government, for example, recognising that pursuing a new constitution was effectively a non-starter, in contrast to the candidate's own public statements. The takeaway was that whoever won, Peru looked set to remain in a reasonably good place from a macro perspective, with respect for institutions intact and upside potential in growth, fiscal performance and terms of trade. That is a notable shift from the heightened instability of recent years, and it reinforces the idea that institutional guardrails, not just election outcomes, are what ultimately matter for debt investors.

A reflection of broader asset-class dynamics

The pattern that is emerging in Colombia and Peru is not confined to Latin America. Hungary provides a useful recent comparison: political risk was elevated, yet macro fundamentals stayed broadly resilient and the institutional framework remained firmly in place.

Similarly, credible policymaking is a common theme across emerging markets. In Latin America, countries have generally stuck to central bank independence (a legacy of the hyperinflation of the 1980s and 1990s), and this has helped bring down inflation to low levels. Fiscal rules have also broadly held. Both have been tested: central bank independence came under pressure from Petro and, separately, Lula, who has called for lower rates; on the fiscal side, Petro's government suspended Colombia's rule in its final year, but the direction of travel under the new Colombian government is expected to be a return to that discipline. Orthodox policymaking and credible central banks are something we observe across the EM debt universe, as we noted [here](#).

Evidence of a broader structural improvement across emerging markets, not just Latin America, is clear when looking at credit rating dynamics: the balance of credit rating upgrades versus downgrades across EM is at its highest level in more than 20 years. That is consistent with generally improving fiscal and external surpluses, low inflation and healthy FX reserves across the EM universe.

Implications for investors

Election results are notoriously difficult to forecast and short-term market moves are inevitable. But their implications can extend far beyond the final ballots. For long-term investors, this creates plenty of opportunities for alpha capture.

A key takeaway for investors is that the fundamentals underpinning the EM debt asset class are robust and strengthening, and there is a plethora of bottom-up opportunities stemming from political change and structurally improving economies. Colombian local markets are already up more than 20% year to date, with room to continue now the election result is known, and Brazil's vote later in the year

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could offer a similar opportunity for investors prepared to look past near-term political noise.

Longer term, the fiscal consolidation path of economies in the region could unlock significant value for investors. Argentina provides a useful reference in this regard (albeit from a different starting point as the country's debt was distressed); since the new administration took office at the end of 2023, the turnaround has been remarkable, with hard currency sovereign bonds delivering a total return of over 160%.

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