BMI
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Global Outlook: US-Iran Conflict & LatAm Risks

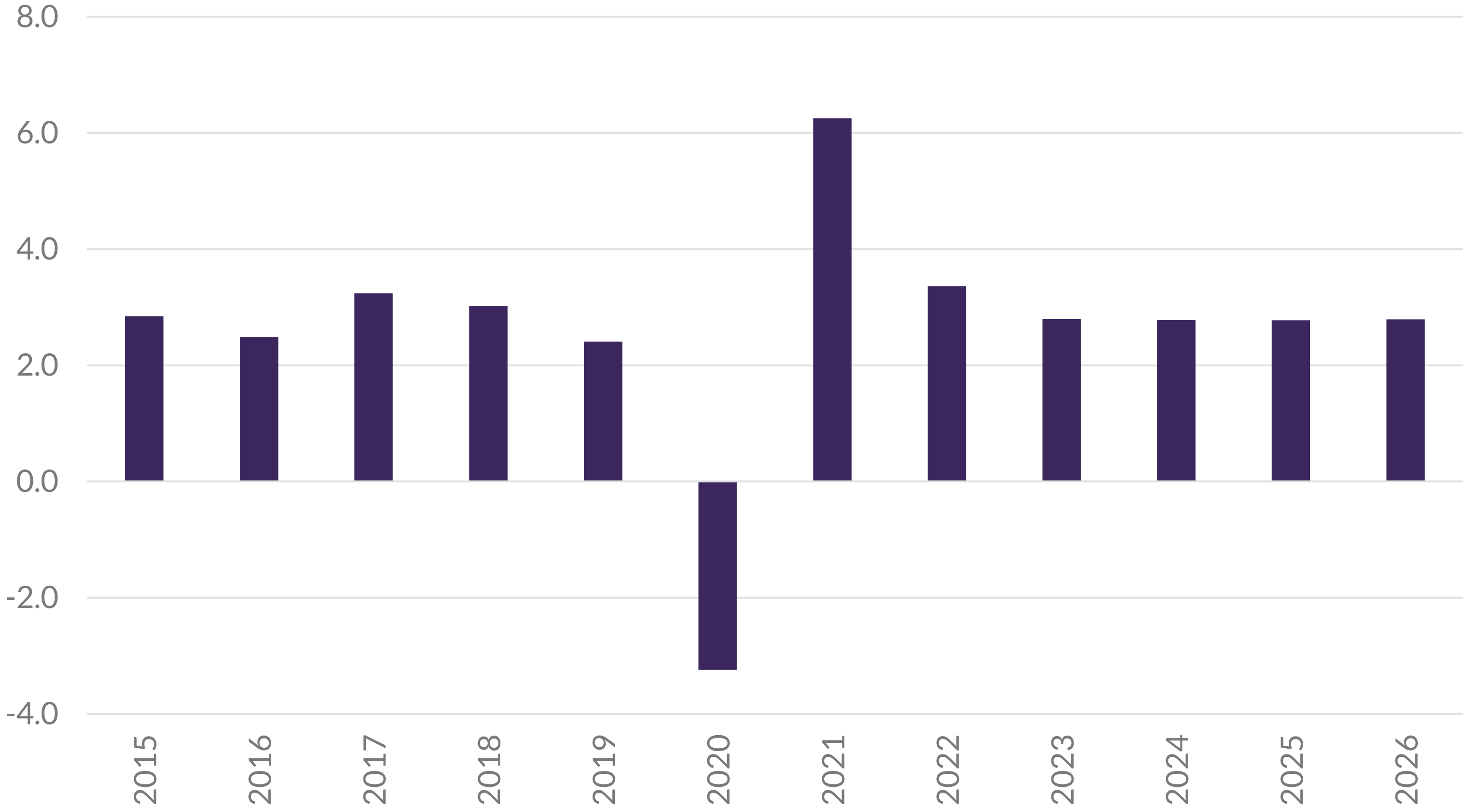
March 2026

Global Outlook

1. Global & US Growth Outlook
2. Tariff Update: SCOTUS Ruling Dents Tariffs Slightly
3. MENA Risks
4. Inflation & USD Outlook
5. Key Risks To Watch
6. Shifts In Trade Policy & Latin America Outlook

Transition From Economic Instability To Geopolitical Volatility

Global Growth Stable At Around 2.8%
Global - Real GDP Growth, %

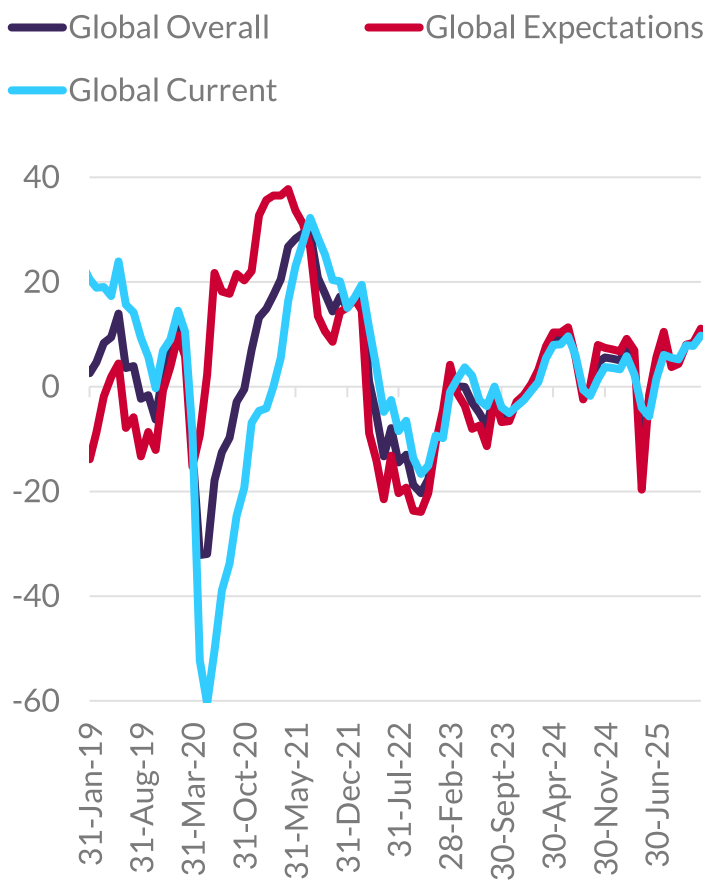


Source: BMI

- **Looking to 2026**, we expect a transition to economic stability and geopolitical volatility.
  - Still-loose fiscal policy in Mainland China, the US, Germany & Japan will support growth
  - Lower inflation and easing cycle, further lowering borrowing costs and boosting purchasing power
  - AI-related capex will continue, and commodity cycle will help EMs
  - Earnings will remain strong and robust M&A.
- **Economic Risks:** inflation, tariff uncertainty, labour market stress, AI bubble & Fed.
- **Geopolitical Volatility:** ‘Donroe Doctrine’ & (un)intended implications of muscular foreign policy: Venezuela, Cuba, Greenland, NATO, Iran, Russia.

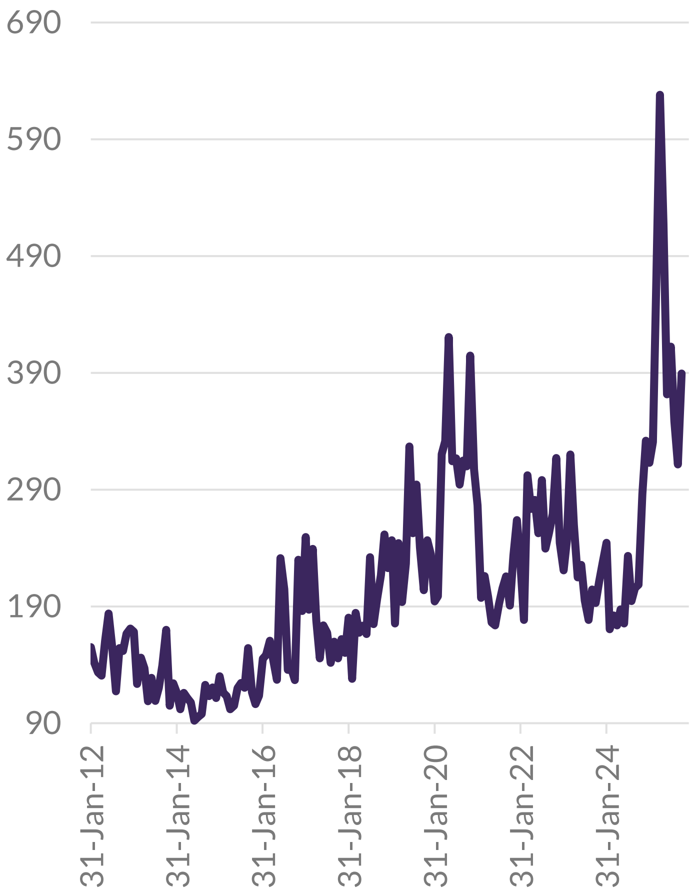
Sentiment Up, Uncertainty Down & OK PMI Readings

Sentiment Has Improved
Global – Sentix Sentiment Surveys



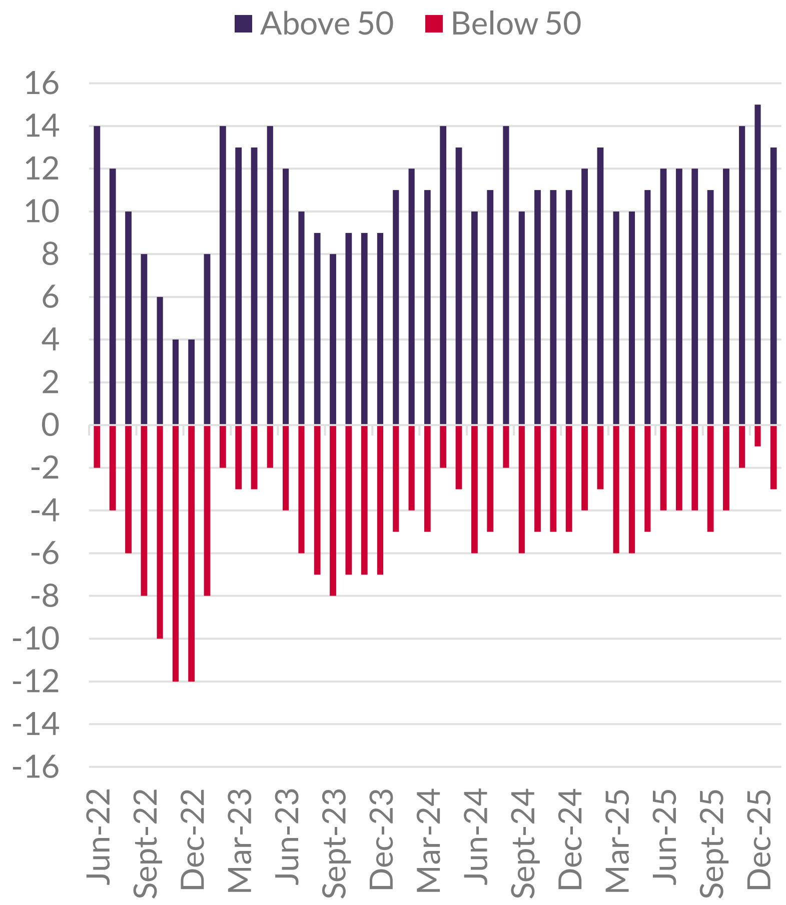
Source: Haver, BMI

Uncertainty Easing Sharply
Global – Policy Uncertainty Index



Source: Haver, BMI

Fewer Economies Are In Expansion
Global – Composite PMI Diffusion Index



Source: Haver, BMI

US Economy To Grow By 2.5% In 2026

- We forecast real GDP growth of 2.5% in 2026, with inflation easing to 2.3%.
- 1.4% print was weak, largely due to 0.9pp drag from Govt closure. Bounce back in Q1.
- Growth will be supported by several factors:
  - Fiscal expansion from the OBBB
  - Monetary easing as the Fed cuts twice in 2026
  - Continued investment in AI-related technology & productivity growth.
  - Relatively strong corporate earnings growth and M&A activity
  - A resilient consumer given tax rebates, easing inflation and falling rates
- Major risks include the potential for: a weaker labour market, AI bubble and an escalation in the MENA region, tariffs, Fed.

US Economy To Recover This Year

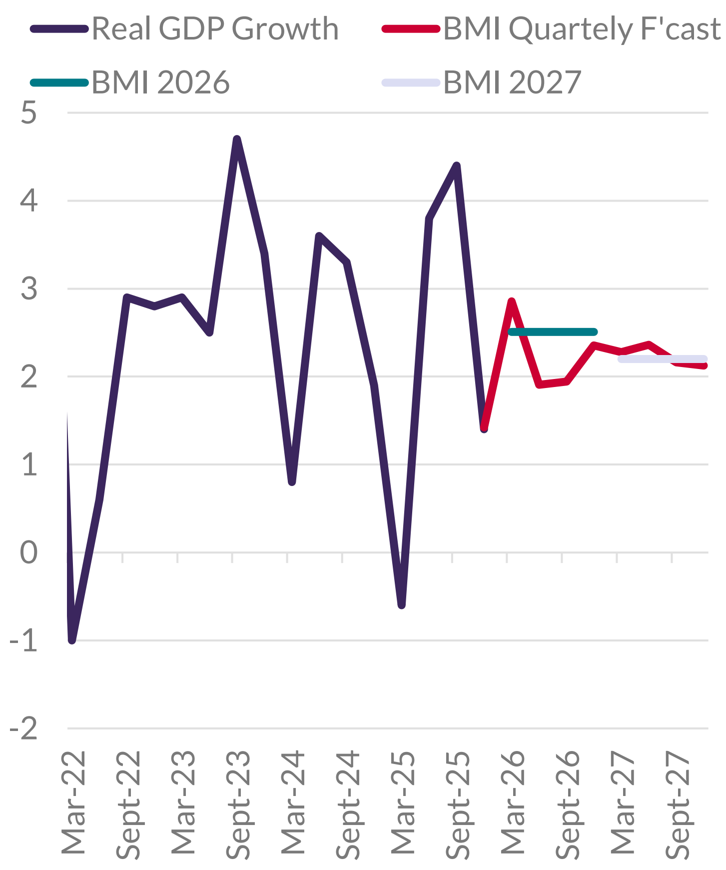
US – Key Macro Forecasts, %

	Latest	2025	2026f
Real GDP (Q4)	1.4	2.2	2.5
Inflation (Jan)	2.4	2.7	2.3
Unemployment (Jan)	4.3	4.4	4.4
Policy Rate (Jan)	3.75	3.75	3.25

f = BMI forecast. Source: Haver, BMI

Pick Up To 2.5% In 2026

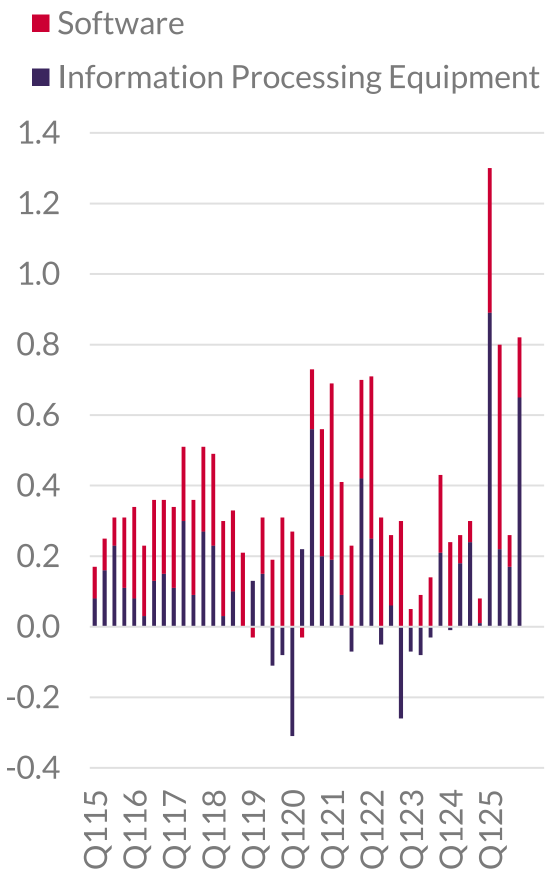
US – Real GDP Growth, %



Source: Haver, BMI

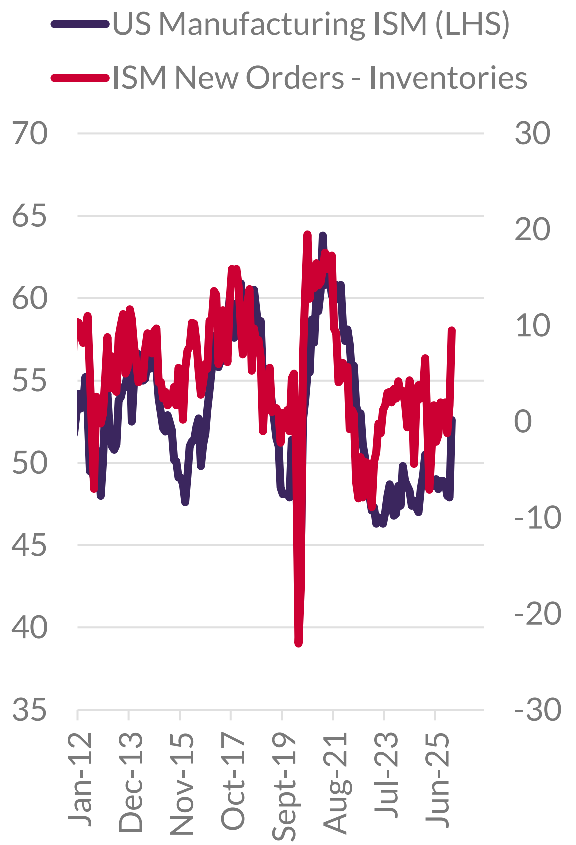
US Momentum Picking Up

AI Boom Happening
US – Real GDP Growth, pp contribution



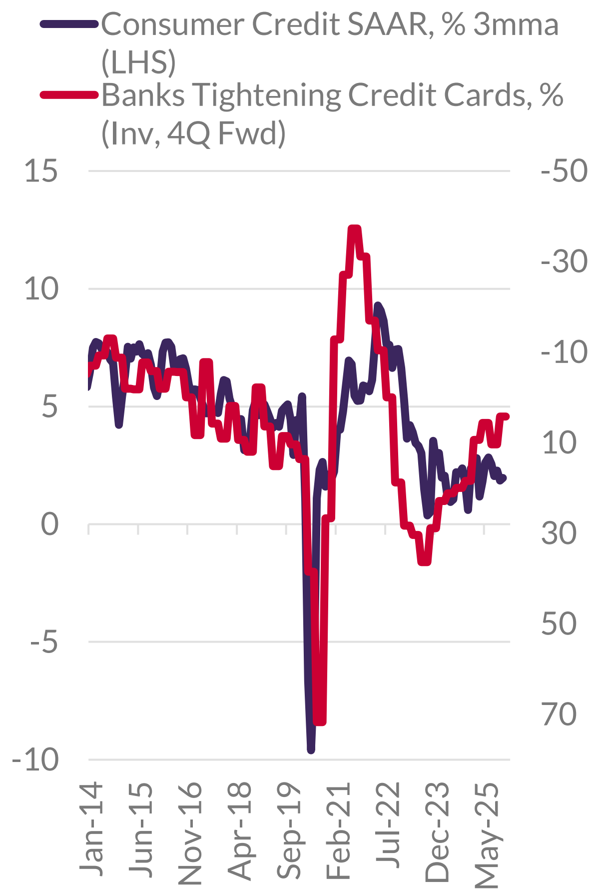
Source: Haver, BMI

PMI Data Popping Higher
US – ISM Survey Data



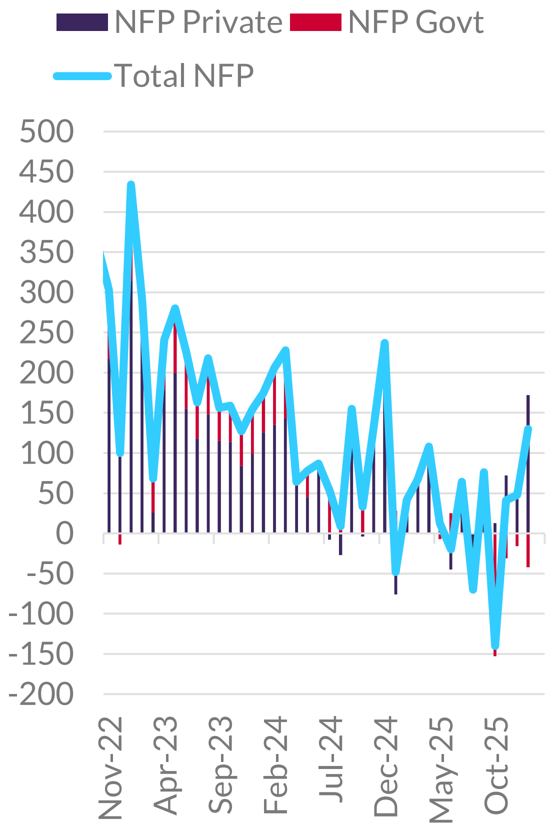
Source: Haver, BMI

Consumer Credit Optimism
US – Credit Conditions & Lending



Source: Haver, BMI

Jobs Surprise To Upside
US – Non Farm Payrolls, 1M Change

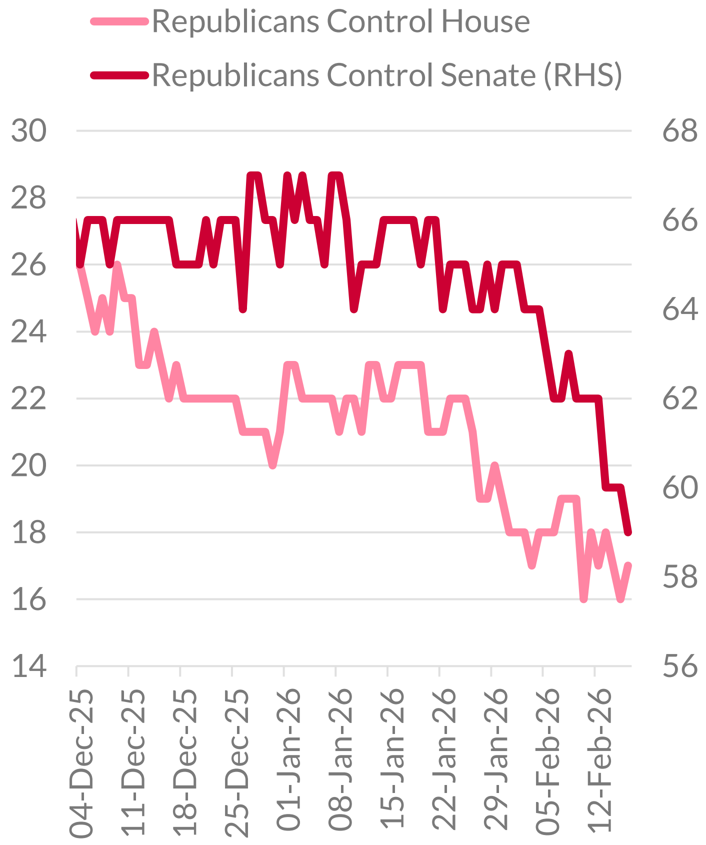


Source: Haver, BMI

US Midterms: Uphill Battle For Republicans

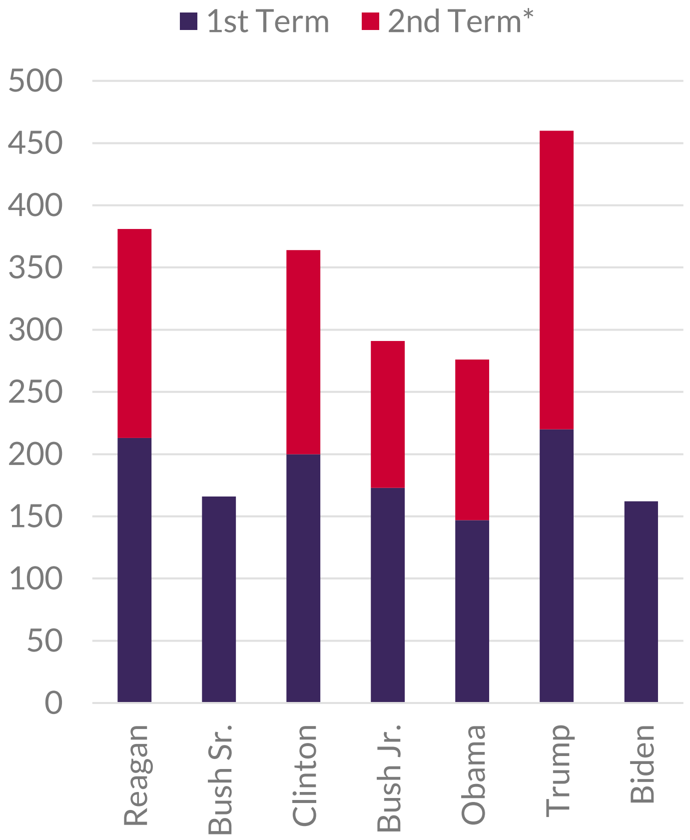
- Republicans face an uphill battle at the midterms. Trump's popularity and that of the Republicans has declined.
- There is only a 17% probability that Republicans keep the House, but a 59% probability that they keep the Senate.
- The electorate are particularly focused on issues such as: affordability, ICE raids, perceptions of corruption and tariffs, military intervention.
- However, this change is typical for a midterm election and will result in significant political wrangling.
- Trump's use of executive orders means that he can bypass Congress in some areas, albeit temporarily.
- Key to watch going forward include the Supreme Court's ruling on the 'firing' of Lisa Cook and birthright citizenship.

Republicans Face A Difficult Task
US – Polymarket Odds For 2026 Midterms



Source: Bloomberg, BMI

Trump Uses Presidential Powers
US – Number of Executive Orders

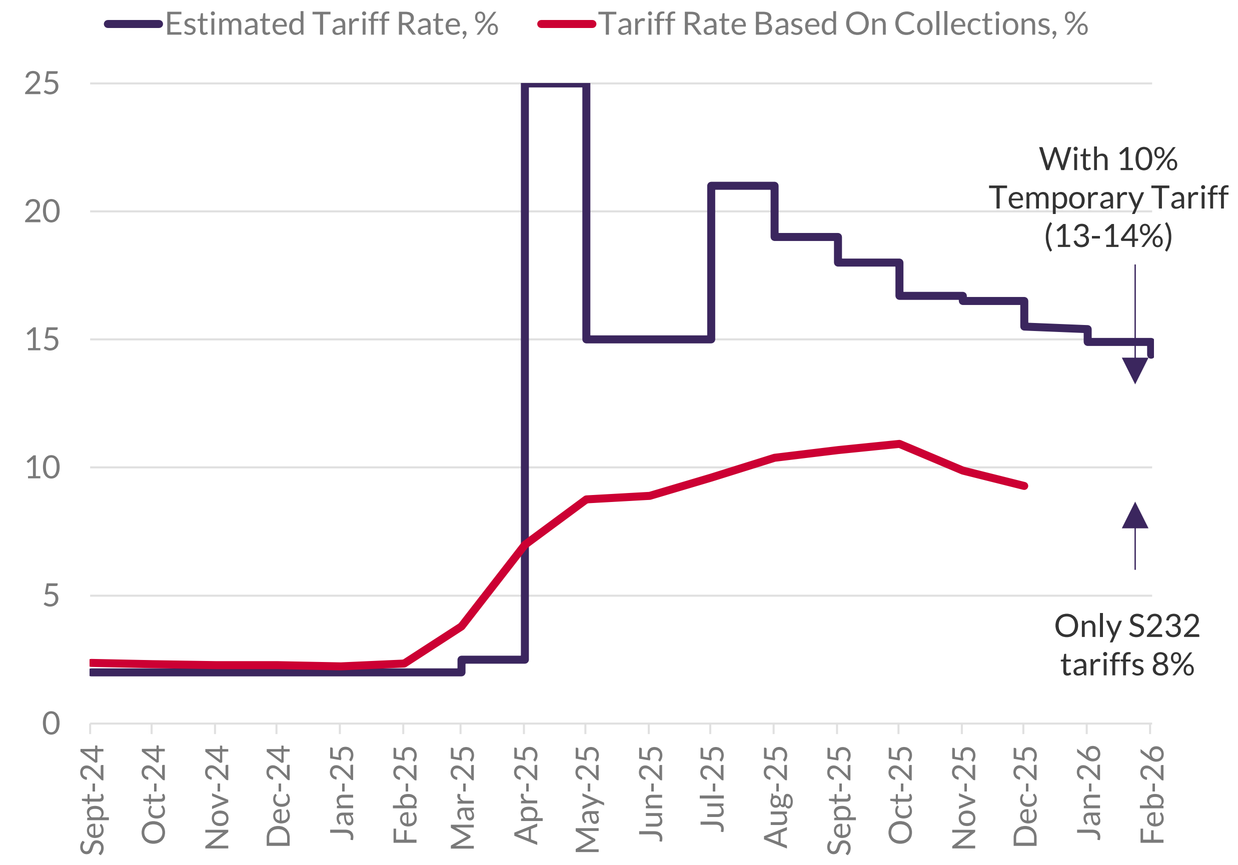


Source: USCB, BMI

Tariff Uncertainty Picks Up Again, But Not As Bad As Last Year

Keep An Eye On The Collected Tariff Rate

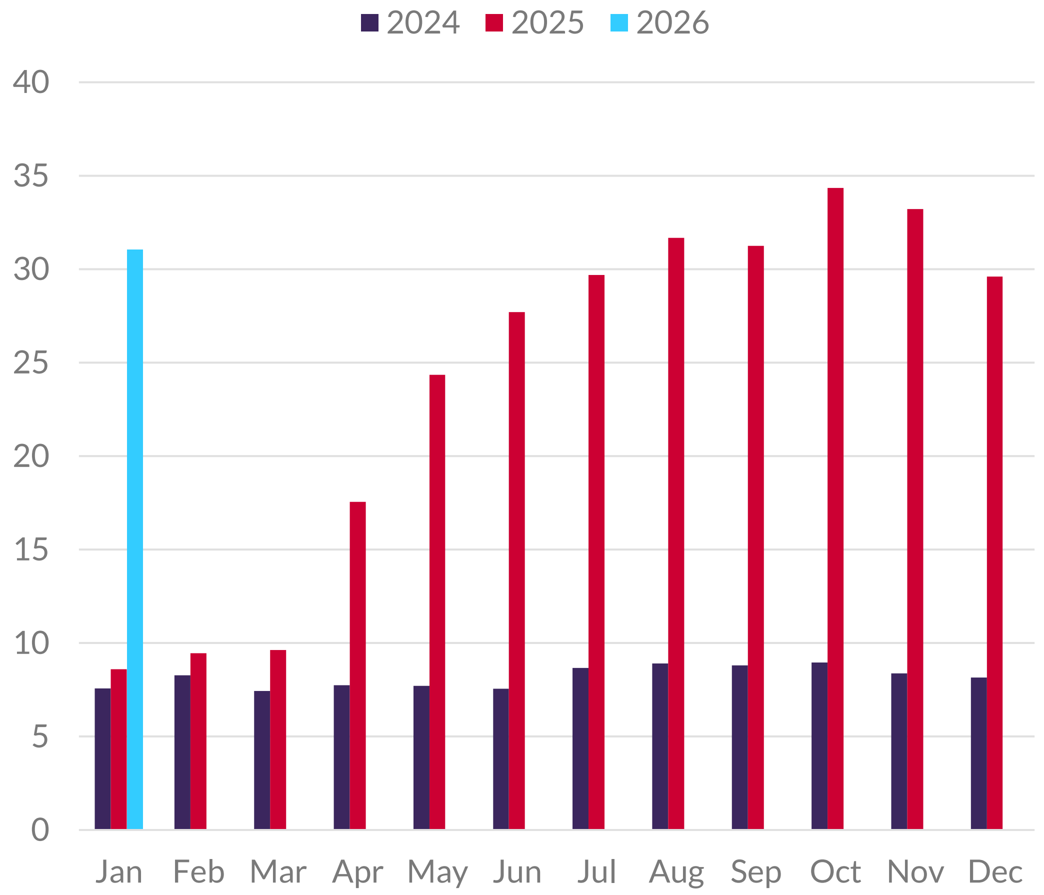
US – Average Effective Tariff Rate, %



Source: BMI

Collecting An Average of USD30bn Monthly

US – Tariff Collection By Month, USDbn



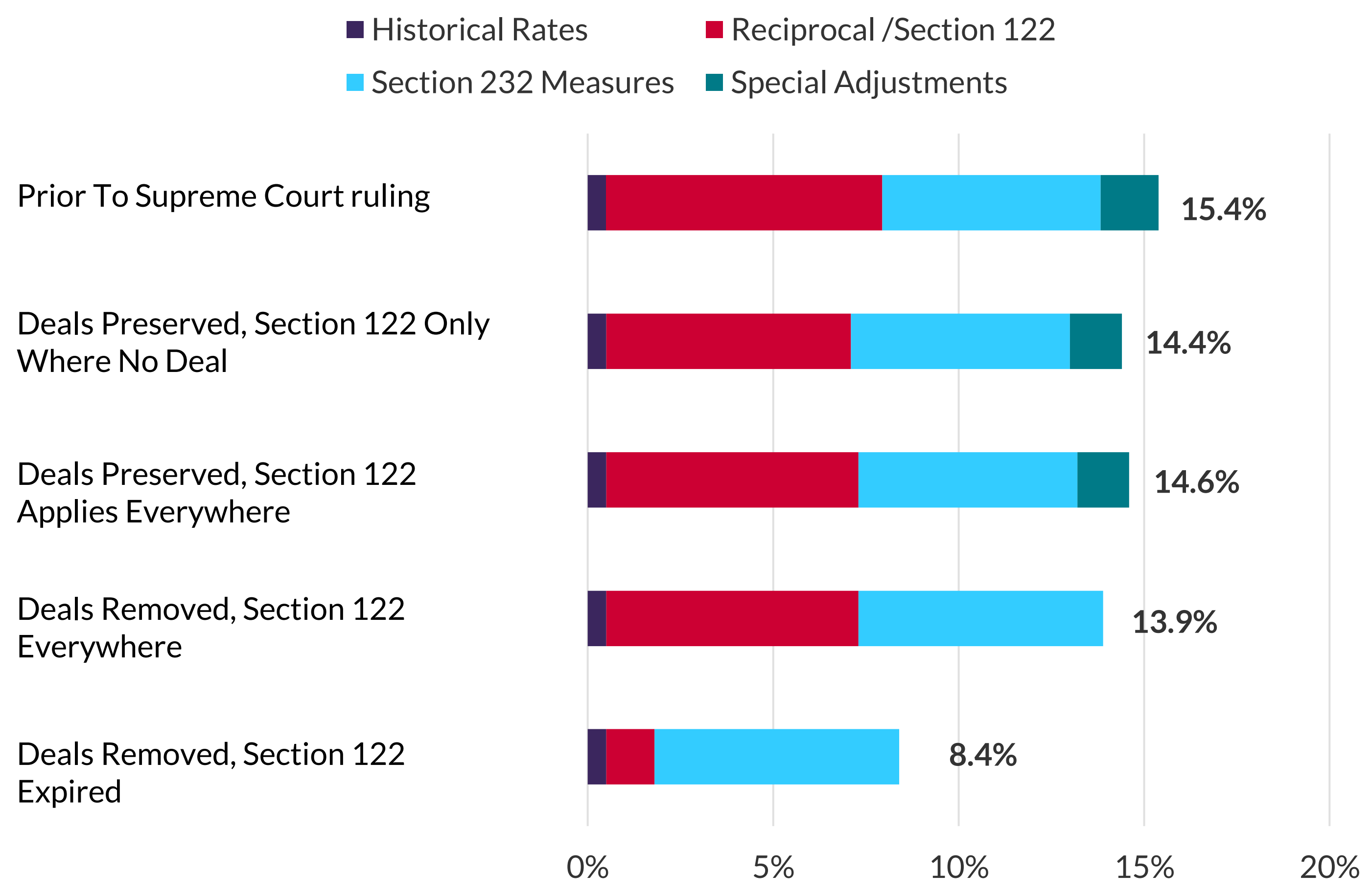
Source: Wharton, BMI

Some Economies Will Benefit More Than Others

- The shift from reciprocal tariffs under IEEPA to a blanket 10-15% under S122 has let to significant changes in tariff rates. China benefits, UK, Australia, Italy are worse off.
- However, as they are temporary measures, they will likely change again when the S122 are replaced by sector specific tariffs.
- Those with section 232/301s might get squeezed more over the longer-term if fewer reductions are made.
- Additional sector specific tariffs will be implemented as the Trump administration had already initiated several Section 232 investigations in mid-2025.
    - Robotics
    - Wind turbines
    - Protective equipment, medicines
    - Unmanned Aircraft Systems

What Really Changes?

Global – Potential Tariff Rates Under Different Scenarios, %

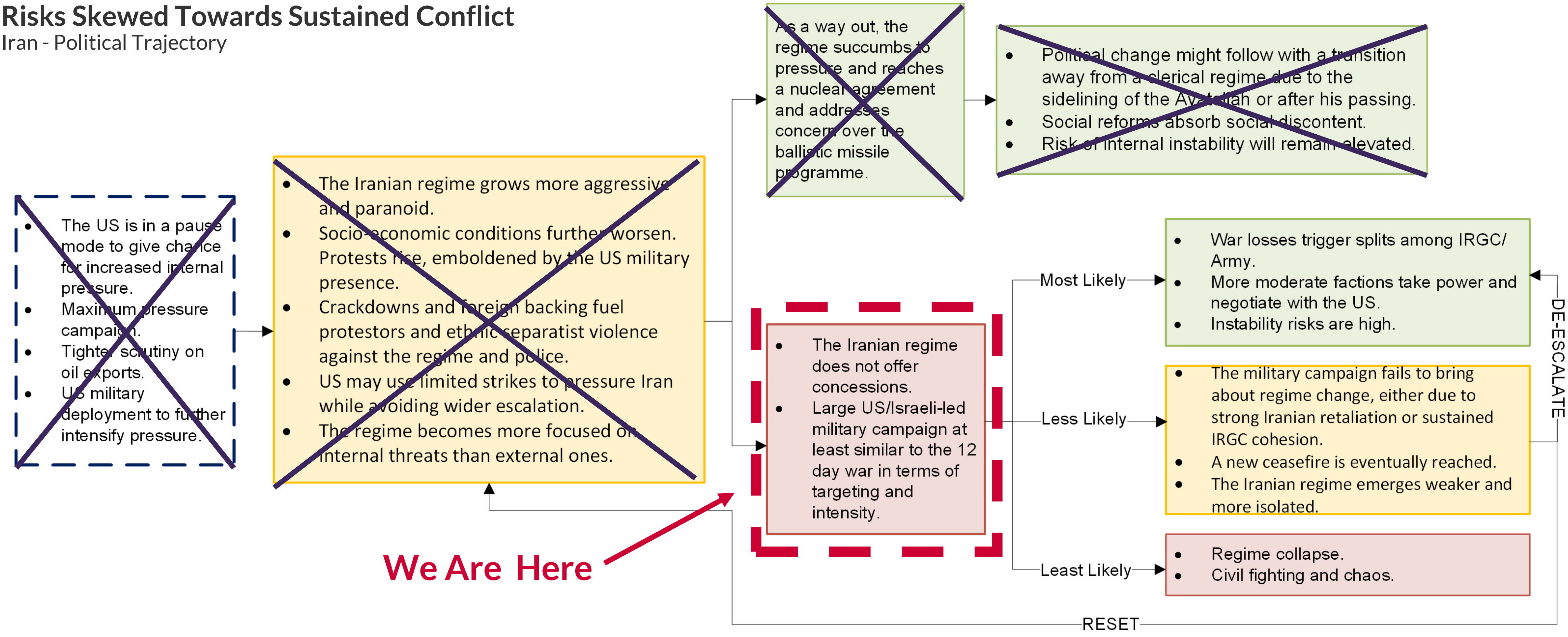


Source: Global Trade Alert, BMI

Short-Lived, Large Campaign, But With Greater Regional Spillover

Risks Skewed Towards Sustained Conflict

Iran - Political Trajectory



Source: BMI

US-Iran Scenarios For Escalation

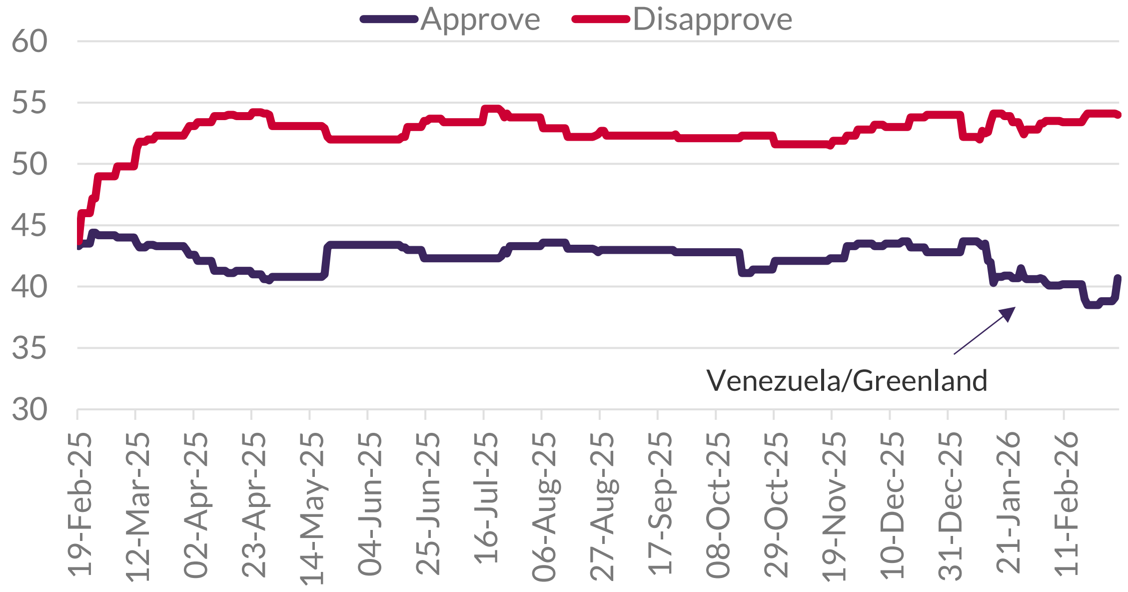
Scenario	Direction of Travel	Description	Brent USD
Scenario 1: Decisive, Short-Lived, Large Campaign With Contained Regional Spillovers	Past This	The US will seek a short, large-scale campaign coordinated with Israel to overwhelm Iranian defences and minimise retaliation against US assets, Strait of Hormuz shipping and the broader region. Targets would also include senior leadership figures to alter the set of actors with whom the US negotiates or achieve a significant reconfiguration of the regime.	
Scenario 2: Short-Lived, Large Campaign, But With Greater Regional Spillover, Partial/Full Hormuz Closure	**We Are Here**	If Scenario 1 fails due to operational mistakes by the US or more forceful Iranian retaliation than anticipated, we would expect the US to intensify attacks on regime assets and infrastructure. In response, Iran would sustain its strikes on US regional assets, and escalating tensions by disrupting shipping in the Strait of Hormuz. We would not rule out a ceasefire to prevent events from spiralling out of control.	75-110
Scenario 3: Prolonged, Large-Scale Campaign, Greater Regional Spillover, Partial/Full Hormuz Closure	Potential For This	The longer Scenario 2 persists, the more likely we transition to Scenario 3. Given the asymmetry in both sides' military capabilities, in an existential scenario, Iran could choose to concentrate large-scale missile fire against a limited number of targets. We would also expect greater oil market disruption as Tehran attempts a partial or prolonged full closure of the Strait of Hormuz.	110-130

Source: BMI

Trump’s Domestic Constraints Will Affect The US Approach

Trump’s Foreign Policy Approval Rating Has Been Falling

US: Share of Voters Approving/Disapproving of Trump's Foreign Policy Approach (%)



- Only 40% of Americans approve of Trump’s foreign policy approach.
- Only 36% approve of his approach to ‘affordability’
- A protracted conflict risks Republicans’ midterms prospects

Source: RealClearPolitics; Bloomberg; BMI

Trump’s objectives

1. **Destroying Iran’s missile programme.**
2. **Destroying Iran’s navy.**
3. **Ensuring Iran can never have a nuclear weapon.**
4. **Ensuring Iran does not fund proxy terrorist organisations overseas**

Why now?

1. Legacy seeking
2. Previously shown concern over nuclear weapon build up (North Korea)

Trump’s domestic constraints

- Domestic opinion on military conflicts (midterm
- Economic impact (especially inflation)
- Both worsen the longer the conflict lasts

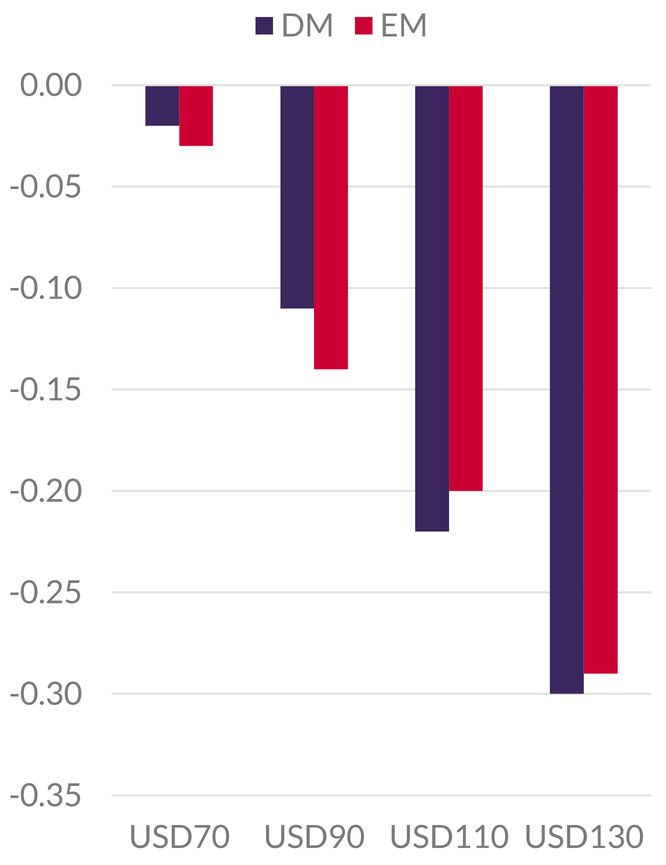
Trump’s possible off-ramps

- Still our view that Trump wants a short-lived conflict
- Content with regime reconfiguration
- Be aggressive for 4-5 weeks, then leave to others?

Oil Shocks Can Have A Significant Negative Impact

Oil Shocks Drag On Growth

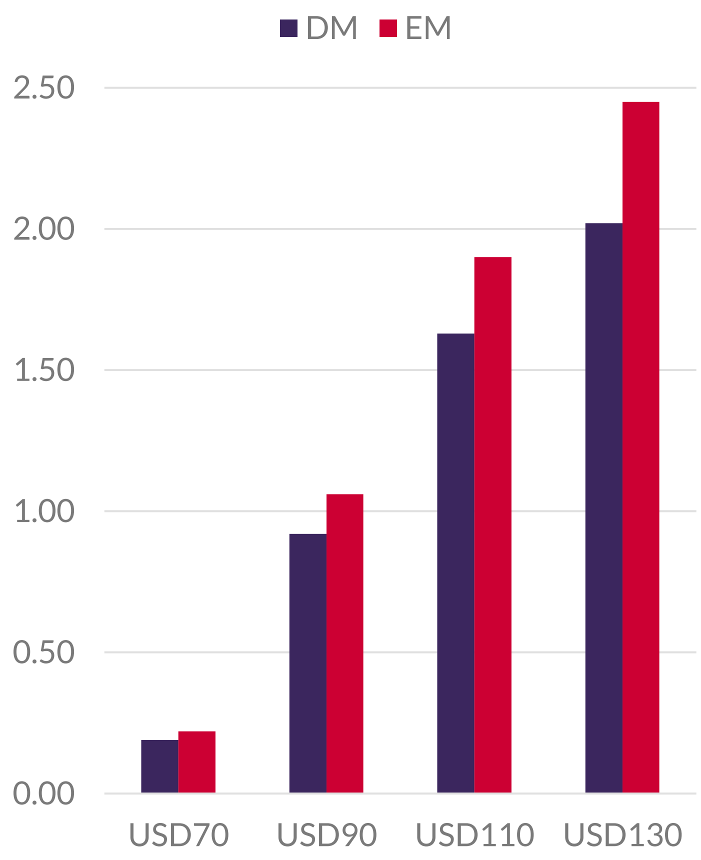
Global - pp Drag to GDP Growth From Oil Shocks



Source: BMI

Oil Shocks Add To Inflation

Global - pp Impact On Inflation From Oil Shocks



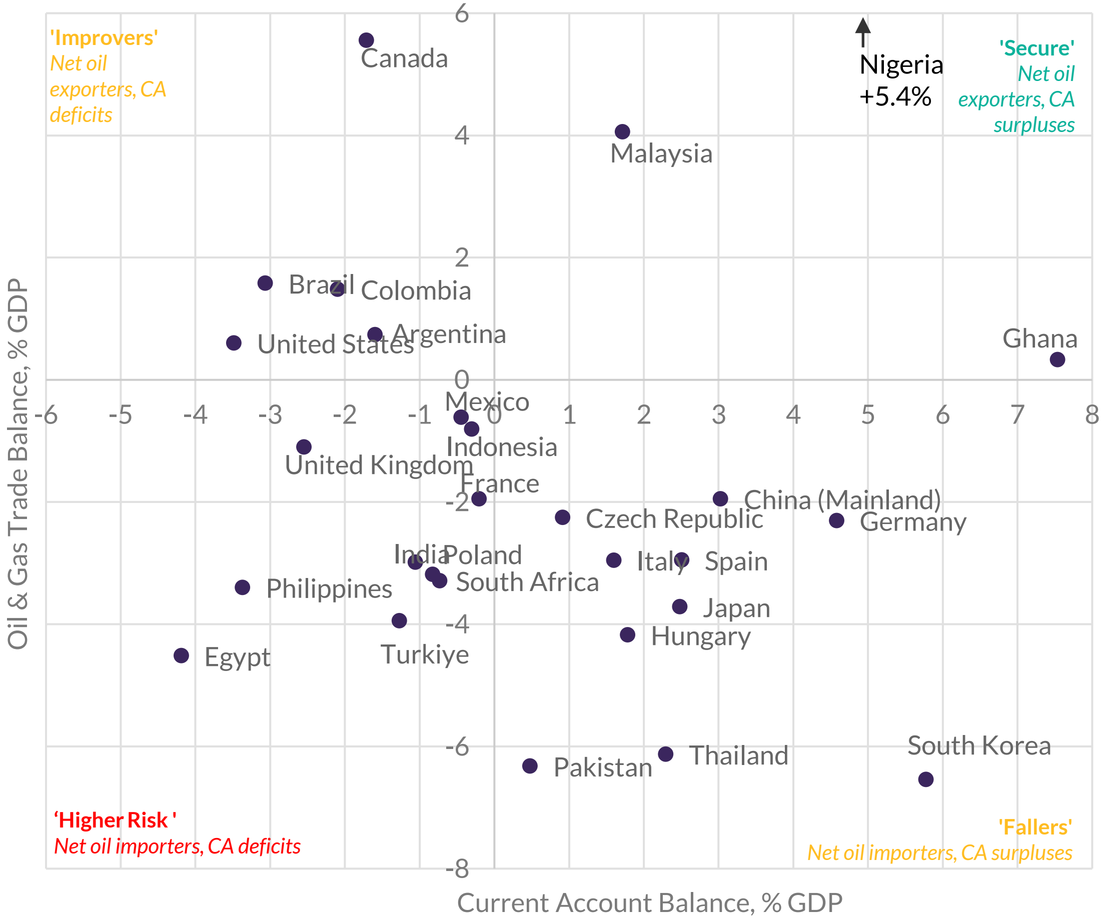
Source: BMI

- We have had three oil-related recessions in recent history: 1973, 1980, 1990.
- The model estimates that the drag on growth would be about 0.1pp-0.3pp depending on the increase in oil prices USD90-130/bbl.
- Inflation is much more sensitive to oil prices and could be pushed higher by 1.0pp-2.5pp
- While energy intensity has declined in recent decades, the impact on growth & inflation might be higher than the model assumes:
  - Central bank reaction functions may differ. Do they tighten or look through?
  - Fiscal subsidies could provide a buffer.
  - Physical oil scarcity is difficult to model and depends on inventory. Asia most at risk from Hormuz flows.

Which Economies Are More At Risk From Higher Oil Prices?

Higher Risk Economies To Watch

Global – Current Account vs O&G trade Balance, % of GDP



Source: BMI

Some Economies More Sensitive To Oil Prices

Global – Factors Potentially Impacting Policy

	Net Oil* Balance, % GDP	Net Gas* Balance, % GDP	Current Account, % GDP	Total Energy Subsidies, % of GDP	Budget Balance, % GDP	Real Interest Rate, %	Inflation Above/Below Target, pp	**Max = 100**
Egypt	-1.6	-2.9	-4.2	20.8	-7.0	7.2	4.8	**74.4**
Poland	-1.8	-1.4	-0.8	12.2	-7.2	1.6	-0.1	**66.8**
Turkiye	-1.7	-2.3	-1.3	12.0	-2.9	6.3	25.7	**66.3**
India	-2.3	-0.7	-1.1	10.0	-8.0	2.5	-1.3	**64.9**
Mainland China	-1.5	-0.5	3.0	13.1	-8.5	2.3	-1.3	**62.2**
Philippines	-2.8	-0.6	-3.4	5.4	-5.5	2.2	-1.0	**60.2**
Pakistan	-4.2	-2.2	0.5	8.2	-5.4	4.8	-0.3	**58.7**
South Africa	-3.1	-0.2	-0.7	11.9	-4.5	3.4	0.4	**58.5**
United States	0.2	0.4	-3.5	3.9	-5.8	1.2	0.4	**56.8**
Thailand	-3.5	-2.6	2.3	7.0	-4.8	1.7	-2.7	**56.7**
Colombia	1.8	-0.3	-2.1	6.3	-7.4	4.9	2.4	**56.3**
UK	-0.5	-0.6	-2.6	1.0	-5.1	0.5	1.2	**55.7**
Indonesia	-2.0	1.2	-0.3	11.2	-2.9	1.2	1.1	**53.6**
Hungary	-1.7	-2.5	1.8	3.6	-5.0	4.2	-0.9	**51.2**
France	-1.2	-0.7	-0.2	0.3	-5.2	1.7	-1.7	**50.8**
Brazil	1.7	-0.1	-3.1	3.3	-8.5	10.5	1.5	**50.4**
Mexico	0.4	-1.0	-0.4	4.9	-3.9	3.2	0.8	**49.7**
South Korea	-3.5	-3.0	5.8	4.5	-2.4	0.2	0.3	**49.5**
Japan	-2.0	-1.7	2.5	3.0	-2.3	-0.8	-0.5	**49.4**
Italy	-1.1	-1.9	1.6	0.9	-3.3	1.0	-1.0	**47.8**
Spain	-1.7	-1.3	2.5	0.6	-2.7	-0.2	0.2	**47.1**
Czech Rep	-0.9	-1.3	0.9	3.0	-1.9	1.8	-0.3	**45.8**
Malaysia	-0.4	4.5	1.7	10.5	-3.8	1.2	-0.4	**44.9**
Germany	-1.1	-1.2	4.6	1.0	-2.4	-0.1	0.1	**43.1**
Canada	4.7	0.8	-1.7	1.2	-2.5	0.0	0.3	**41.5**
Ghana	0.5	-0.1	7.5	1.6	-1.7	11.6	-4.1	**19.6**
Nigeria	8.6	6.0	5.4	4.4	-3.3	11.3	7.7	**14.7**

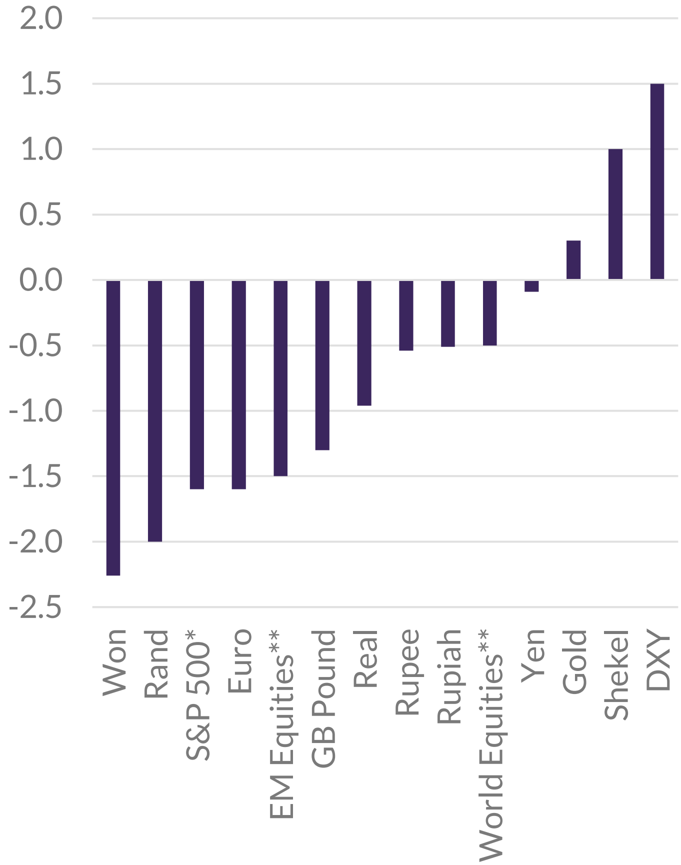
* Trade. Source: IMF, BMI

Markets Typically Recovery Quickly From US Military Attacks

- So far markets have had a muted response, despite the sharp move in oil prices.
- Since 1988 the US has launched eight major military operations in the Middle East, and we have calculated the average returns for several assets.
- On average, equity markets rallied by about 8-10% in the subsequent quarters.
- Oil prices declined in many cases. Oil prices typically rose sharply before US strikes, and then fell once the tensions eased, with this happening in a pronounced fashion during the Gulf War.
- On average, gold prices were higher over several months, although this is skewed by three episodes including the rally in gold prices in the months after the US bombed Iran's nuclear facilities in June 2025.
- The Dollar Index typically strengthened slightly, although there was significant dispersion, with the dollar strengthening in 1991 and 2014, but falling sharply in 2003.

Somewhat Muted Response…

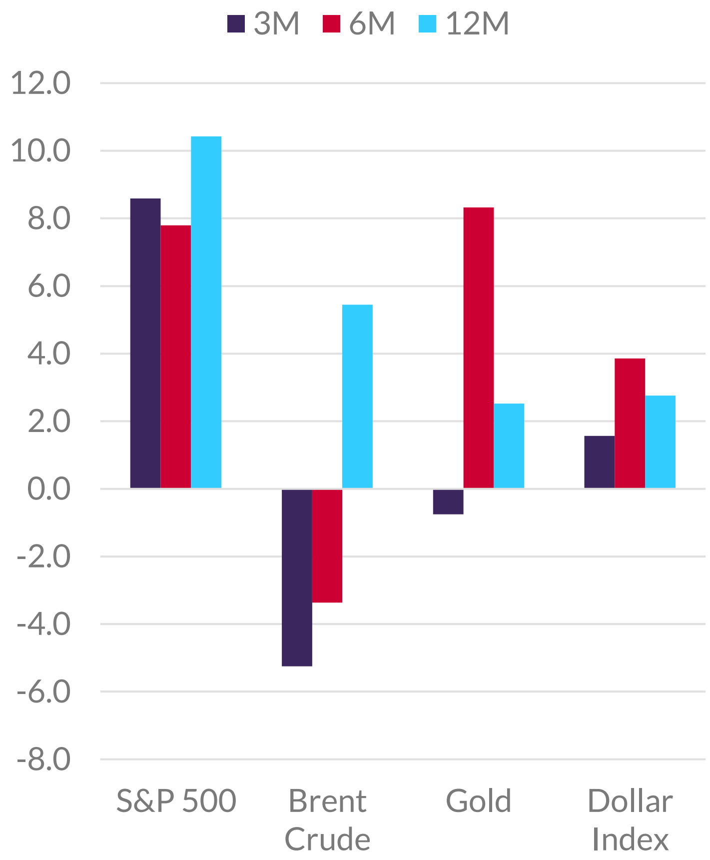
% Returns Since Feb 27



*= futures, ** MSCI. Source: Bloomberg, BMI

Asset Returns Vary Significantly

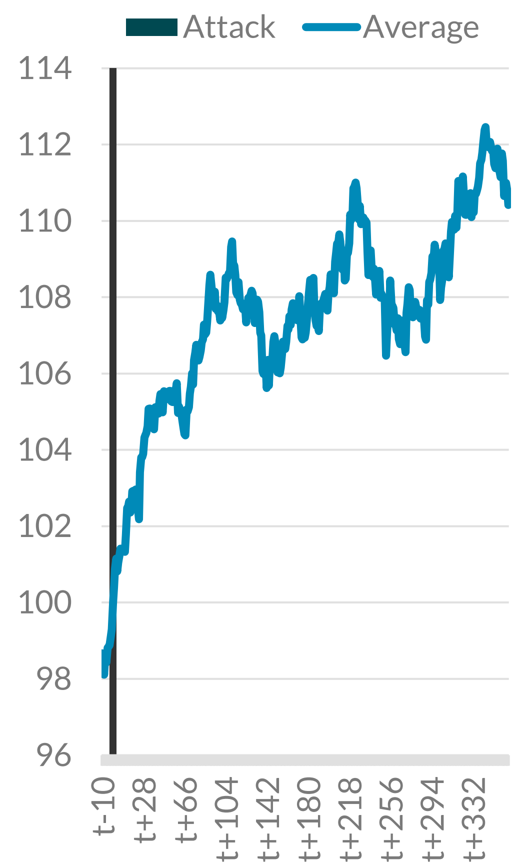
Av Performance Following US Attacks In MENA, %



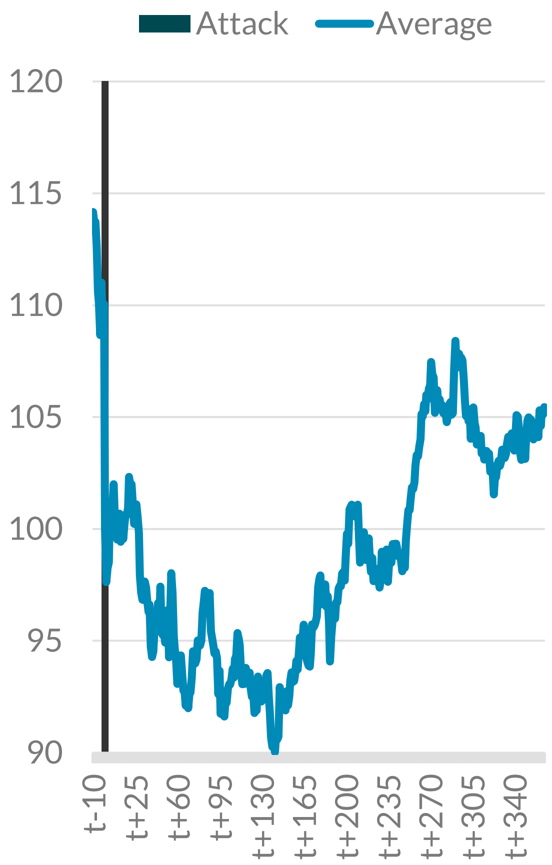
Source: Bloomberg, BMI

Asset Performance Differs Significantly Over 12M Period

Equities Rally After Fact
S&P 500 Returns, %*

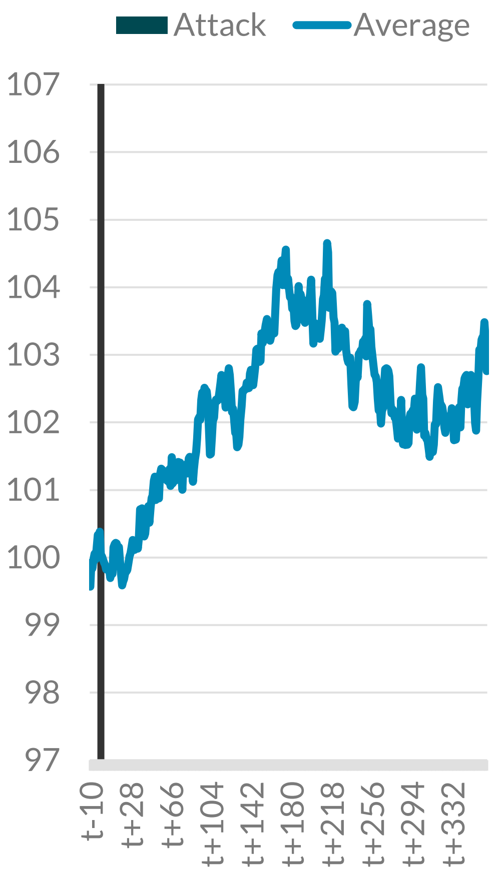


Brent Falls?
Brent Crude Returns, %*



Mixed Gold Picture
Gold Returns, %*

Slight Dollar Strength
Dollar Index Returns, %*



* Rebased to 100, Days Source: Bloomberg, BMI

Where Will Assets Go From Here? ... Not A Linear Path

Scenarios For Assets

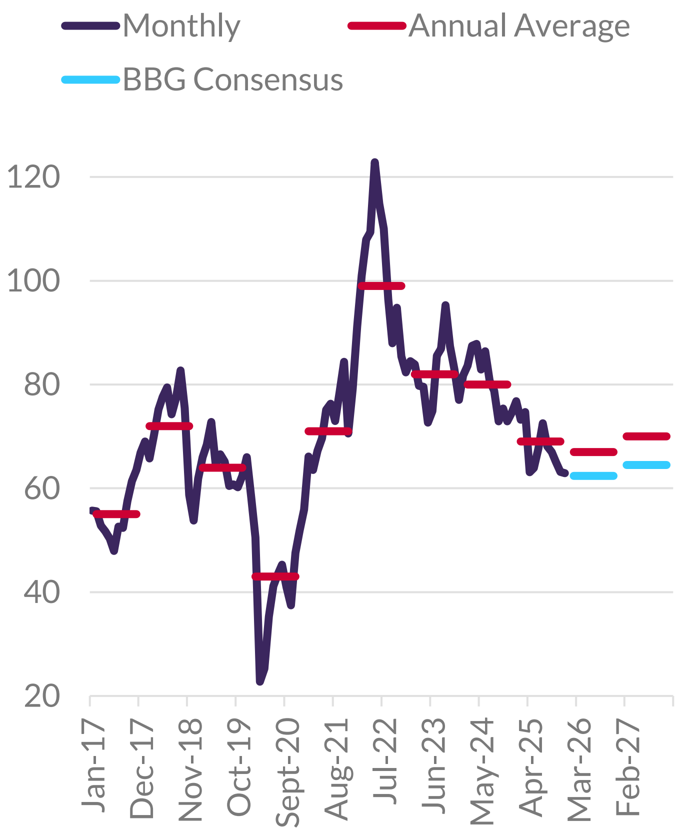
	USD 75-110bbl Spike Leads To Uncertainty and Inflation Risks (1-2M)	USD110-130/bbl Spike Leads To Recession Fears (2-3M)	Notes
Dollar Index	97 to 105	105 to 115	We expect the USD would act as a safe-haven asset and also benefit from the US's status as a net oil exporter.
Bond Yields	+40bp to +75 bp	-50bp to -75bp	Bond yields would rise due to some inflation fears, but any sign of recession concern would start to price in cuts.
Gold	+5% to +12%	15+%	Gold remains on a strong uptrend and would receive an immediate lift.
Equities	-5% to -15%	-15% to -25%	Equities would likely come under significant pressure, in what is typically a high-volatility year anyway (midterms).
US Fed Funds	3.75%	3.00-2.50%	Fed pauses cutting cycle, but likely looks through this as a temporary supply shock. Keeps an eye on the labour market for signs of economic weakness.

Source: BMI

Oil Markets In Flux, Uncertainty Looms Large

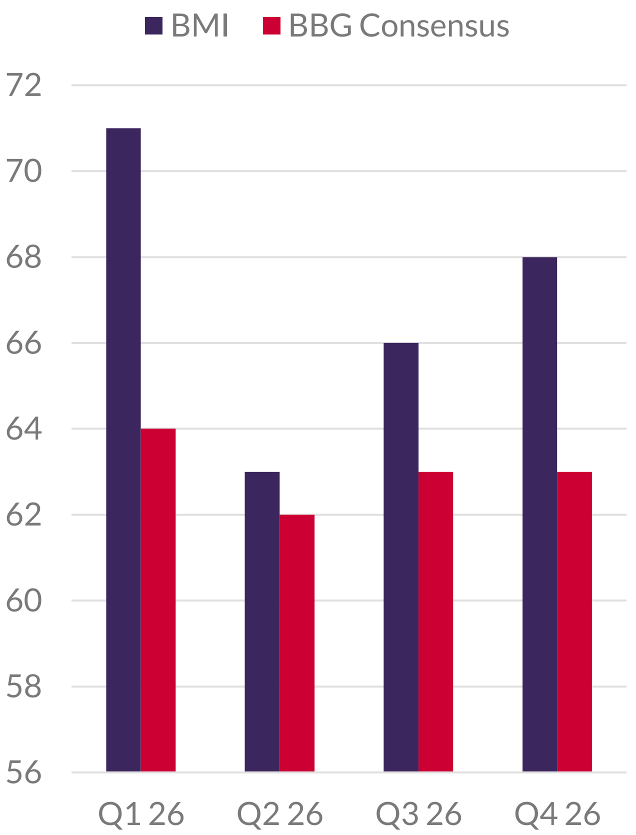
- We maintain our forecast of USD67/bbl for 2026, as we expect a resolution to the conflict to result in a sharp decline in prices. That said we outline three scenarios:
- ***Low Case (USD75-90/bbl):***
  - Physical: Strait open, but disruptions
  - Market: Prices spike short-term due to uncertainty
- ***Mid Case (USD90-100/bbl):***
  - Physical: Unreliable shipping thru strait, infrastructure outages grow
  - Market: Larger rise in risk premia as physical supply concerns grow.
- ***High Case (USD110-130+/bbl):***
  - Physical: Transit severely impaired, significant & sustained damage to export infrastructure.
  - Market: Structural repricing of risk and risk premia embedded in m-t pricing.

Sitting Wide of Consensus
Front-Month Brent Crude Oil, USD/bbl



Source: Bloomberg, BMI

Q2 Forecast Fraught With Risk
Quarterly Brent Crude Forecasts, USD/bbl

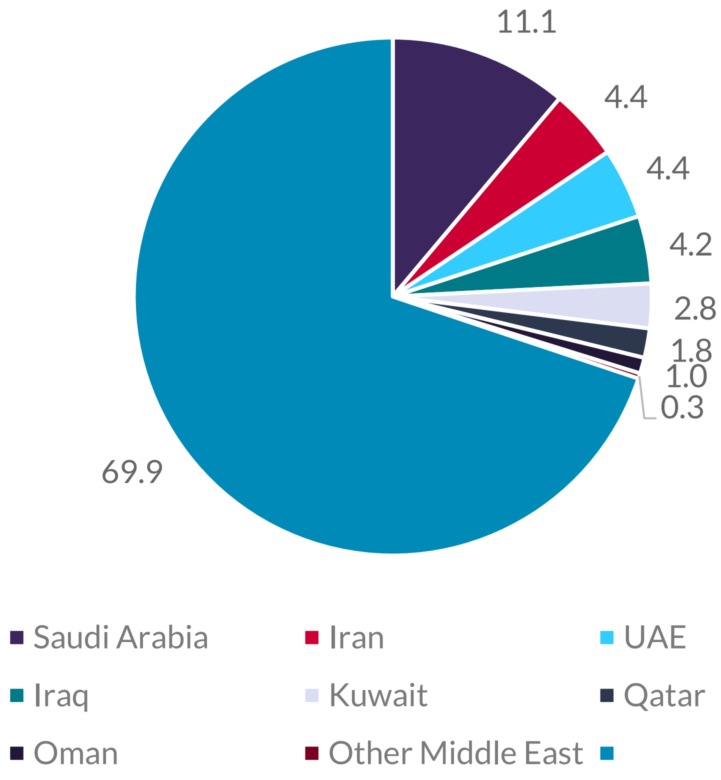


Source: Bloomberg, BMI

Critical Infrastructure At Risk Of Attack

Large Volumes Of Oil In The Crosshairs

Global - Share Of Crude, Condensate & NGL Production, % (2026f)



f = BMI forecast. Source: BMI

Key O&G Disruptions, As Of March 2

Asset Name	Asset Type	Location	Capacity	Operator	Status
Tawke and Peshkabir	Oilfield	Kurdistan Region, Iraq	80,000b/d	DNO	Pre-emptive shut down
Khor Mor	Gas field	Kurdistan Region, Iraq	8bcm	Dana Gas	Pre-emptive shut down
Karish	Gas field	Israel	8bcm	Energean	Pre-emptive shut down
Leviathan	Gas field	Israel	12bcm	Chevron	Pre-emptive shut down
Haifa	Oil refinery	Israel	197,000b/d	Bazan	Pre-emptive shut down
Ras Tanura	Oil refinery	Saudi Arabia	550,000b/d	Aramco	Shut down after drone strike
Mina Al-Ahmadi	Oil refinery	Kuwait	346,000b/d	KNPC	Hit by falling debris but remains operational
Ras Laffan	LNG complex	Qatar	77mtpa	QatarEnergy	Shut down after drone strike

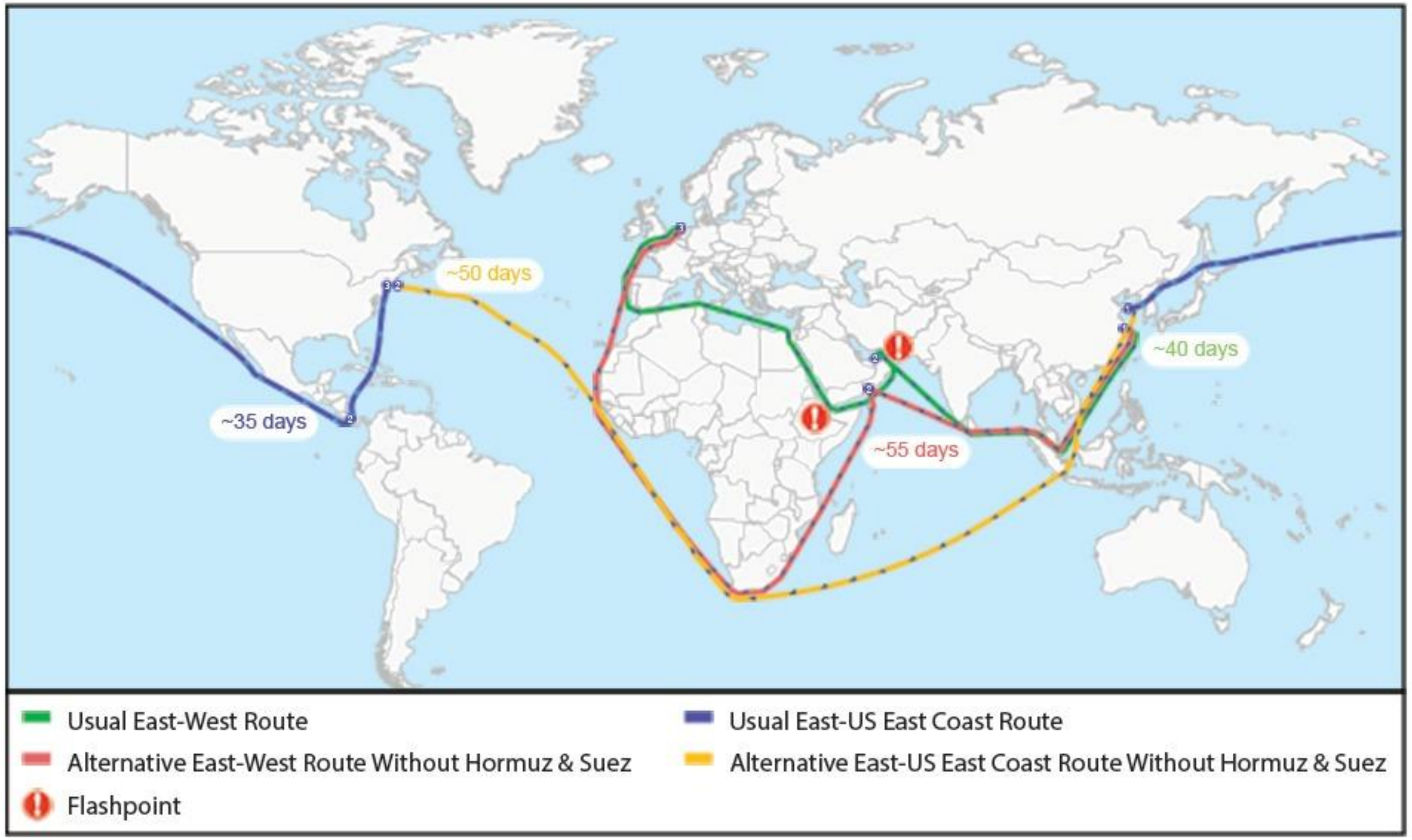
Source: Media reports, BMI

Hormuz, A Single Global Supply Chain Failure Point

- The Strait of Hormuz handles:
  - 25% of global maritime oil trade
  - 20% of global LNG trade
  - 3% of global container throughput
- With no viable bypass, major carriers have halted transits, rerouted via Africa, or paused tanker/LNG traffic.
- Insurers have withdrawn war-risk coverage for Gulf vessels.
- Limited pipeline and overland routes cannot absorb displaced volumes.
- The Strait has never fully closed, but its strategic role makes any disruption commercially costly and geopolitically untenable.

Middle East Disruptions Will Reverberate Through Global Supply Chains

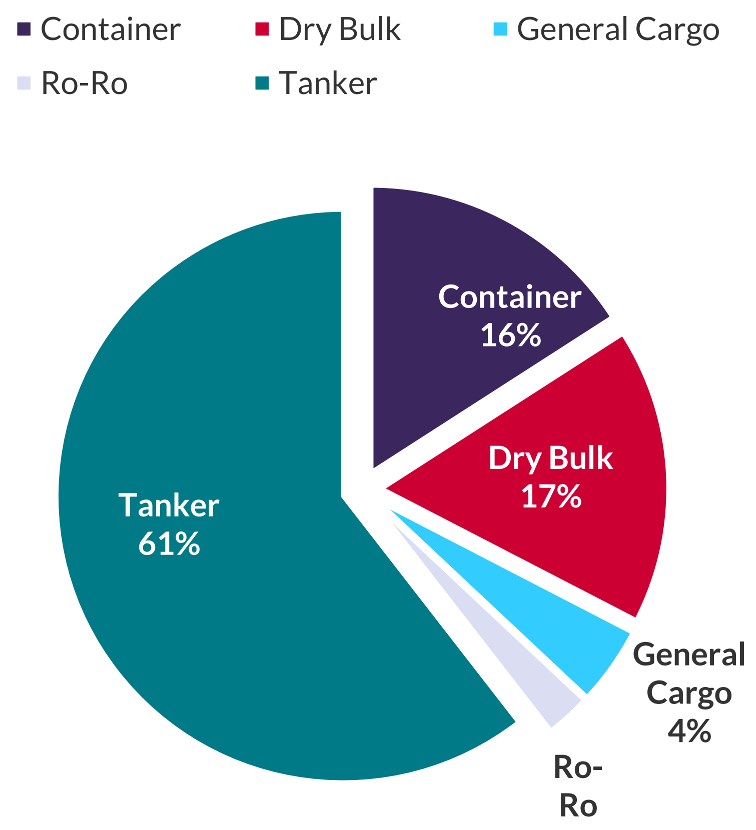
Major Global East-West Shipping Routes



Note: The Route Planner Map shows the shortest sea route and is for illustrative purposes only. Source: Vessel Finder, BMI

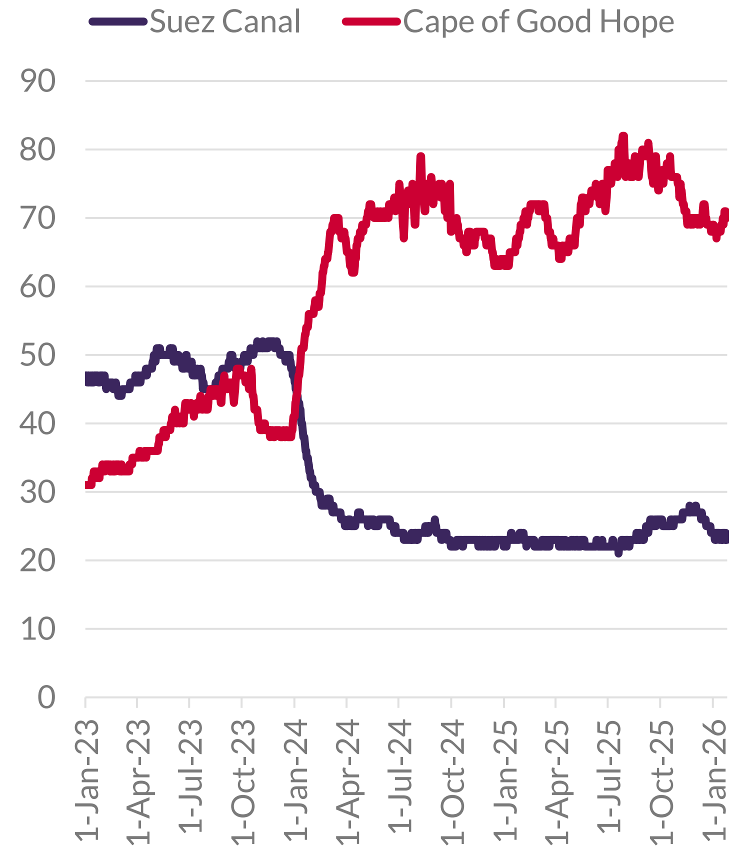
Conflict-Exposed Chokepoints Reshaping Global Freight Dynamics

Hormuz Cargo Traffic Faces Risks
Annual Vessel Composition, % Total Number of Ships



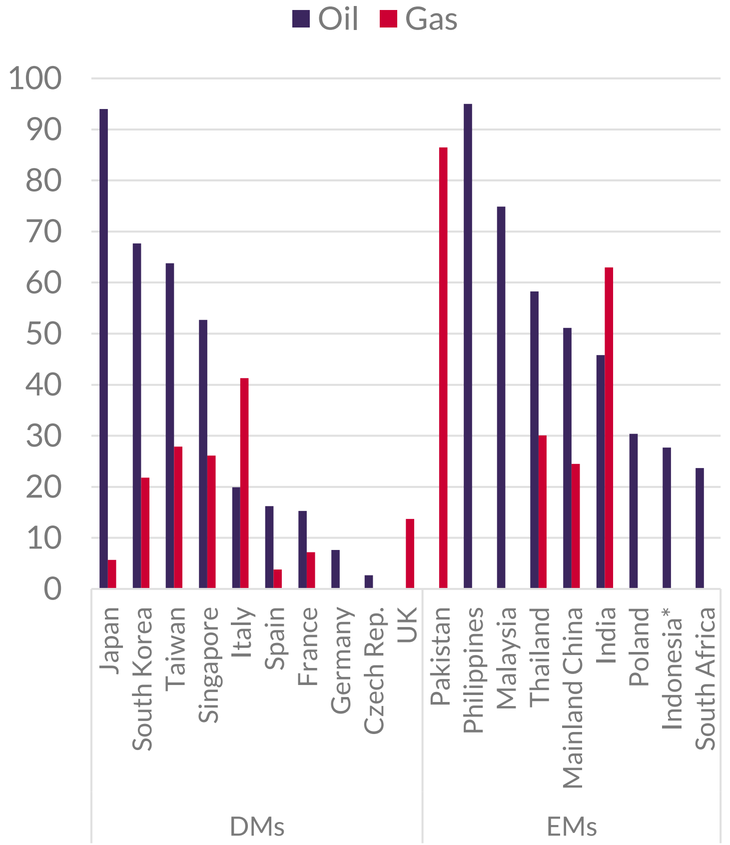
Source: IMF, BMI

Suez Traffic Return More Unlikely
Number of Transit Calls, 30-Day Moving Average



Source: Haver, BMI

Asia Most At Risk of Hormuz Closure
Share Of Oil & Gas Trade via Strait Of Hormuz, % of Total



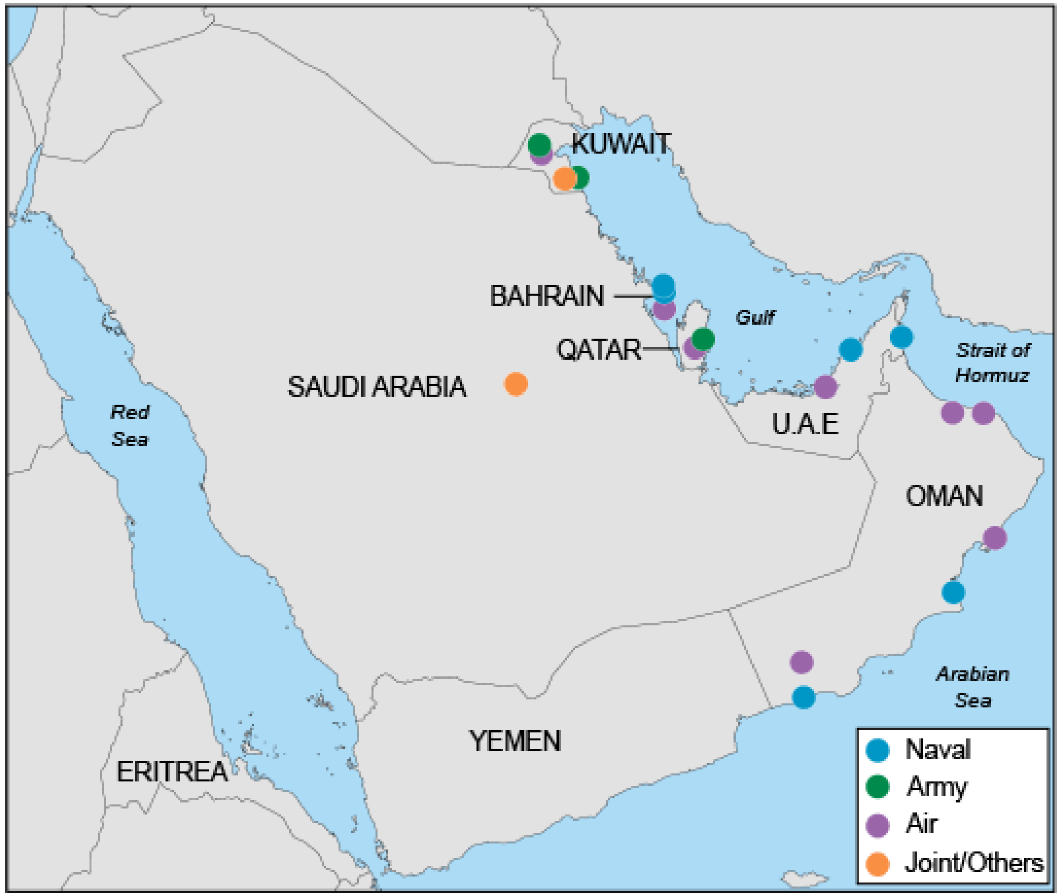
Source: BMI

Geopolitical Implications of Meaningful 'Regime Reconfiguration'

- The ascent to power of a more moderate Iranian regime would substantially reduce regional geopolitical tensions..
- A new regime may loosen ties with Russia, which has been too embroiled in its war in Ukraine to provide meaningful assistance to Iran.
- The US would look to shift Iran's foreign policy alignment away from Beijing, which has supported the Tehran regime for many years - including through the signing of a Comprehensive Strategic Partnership in 2021 - and has sought to incorporate Iran into the Belt and Road Initiative.
- The reintegration of Iran into the global economic system via looser sanctions could see Iran participate in new Western-backed transport corridors between Europe and southern Eurasia.
- Combined with the recent shift in Venezuela, the US would have more foreign policy sway on the world's largest oil producers, which in turn slightly increases its leverage over Beijing. Mainland China gets 13-14% of its oil from Iran.

US Has More Than 15 Bases In The Gulf Region

GCC - Map Of US Military Bases



Note: May include territories, special administrative regions, provinces and autonomous regions.
Source: BMI

Global Regimes: Major Changes Underway

Major Regime Changes Underway

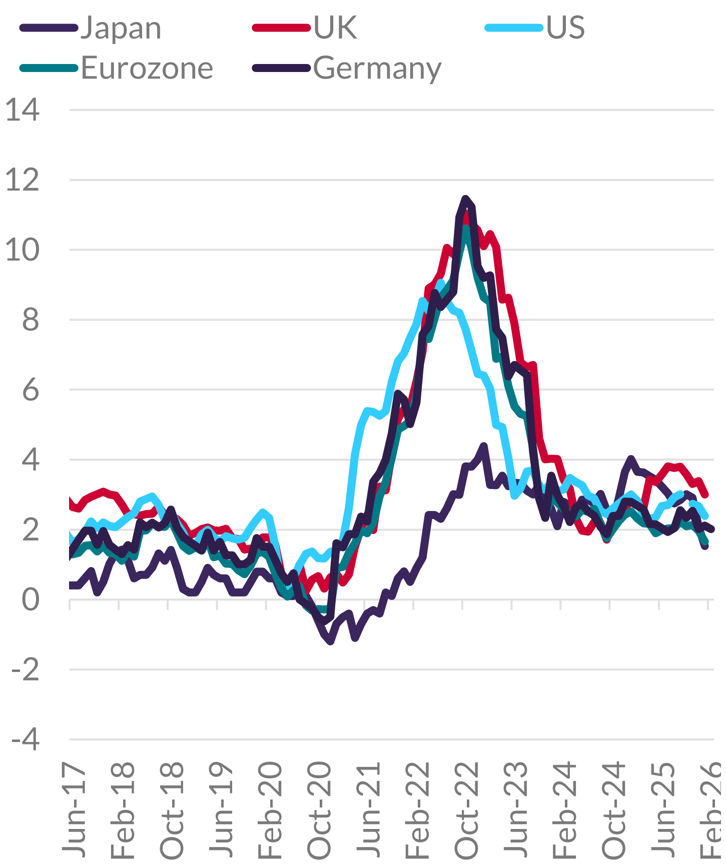
Global – Macro Dynamics Over Time

	1945-1970s	1970-80s	1990s	2000s	2010s	2020s
Geopolitical	Cold War	Cold War / OPEC Shock	US Hegemony	War on Terror / EU, NATO Expansion	Slight Fracturing / Rising China	Military Conflict / Fracturing / America First / Multipolarity
Monetary	Financial Repression	OPEC Inflation Shock	Inflation & Monetary Policy Normalisation	Loose Policy	Zero-Bound & QE	Higher Rates / Financial Repression
Fiscal	Deleveraging, But Expansion of Role of State	Petrodollar & OPEC Crises	Concerted Shrinking of State	GFC Rising Debt & Sovereign Crisis	Sovereign Crisis & Debt Stabilisation	Leverage & Rising Fiscal Constraints
Trade	Falling Tariffs, Mixed With Industrial Policy	Liberalisation	Liberalisation	Globalisation	Slowbalisation / Chinese B&R	Fragmentation / Bifurcation / Industrial Policy
Currency	Bretton Woods Pegged vs USD/Gold, Capital Controls	USD Devaluation & Flexible Pegs	Flexible Pegs, FX Crises, Major CNY Devaluation	Euro Adoption	Flexible / Digital Currencies Emerge	USD Reserve Competition / Gold Diversification / CBDCs / Crypto
Political	Independence Movements / Social Democracy	Authoritarian Regimes Under Pressure	Fall of The Berlin Wall / Democratic Transitions	Democratic Consolidation	Polarisation / Democratic Backsliding	Dysfunction / Polarisation / Democratic Backsliding
Technology	Microprocessors & Satellite	Personal Computers	Internet	Smartphones / Cloud Computing	Social Media / 3D Printing / Cloud	AI / Quantum Computing / Autonomous Robotics / US-China Tech Race/Job Loss
Demographics	Baby Boomers	Rising Global Population	Birth Rates Fall in DM / Rise in EM	EM Urbanisation / DM Ageing Populations	EM Urbanisation / DM Ageing Populations / Immigration	DM Policy Dilemmas / Job Creation / Immigration Backlash

Source: BMI

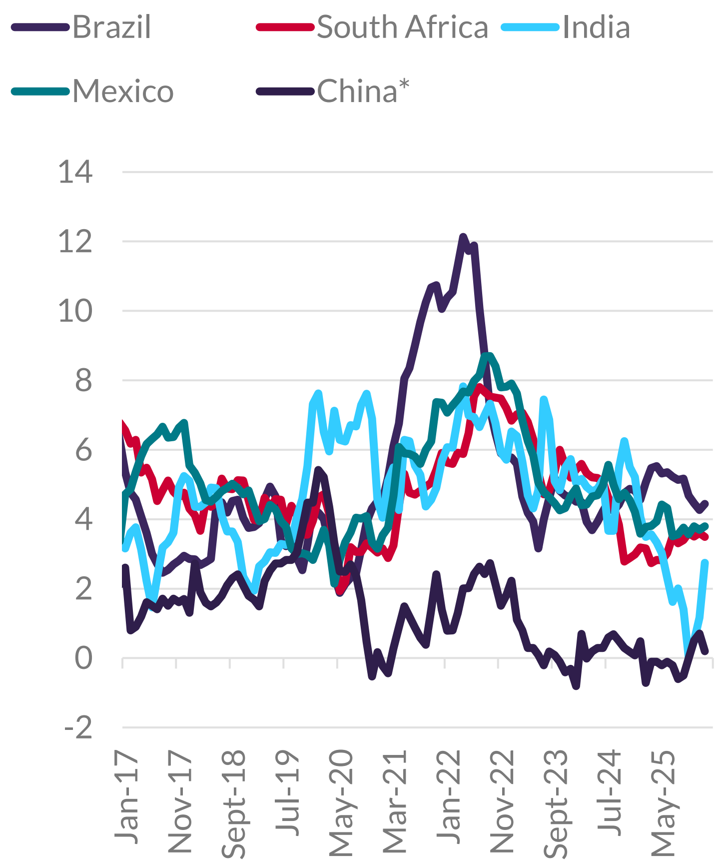
Low Inflation For Now... But Watch Inflation Expectations

Inflation Remains Anchored
DMs – Headline Inflation, % y-o-y



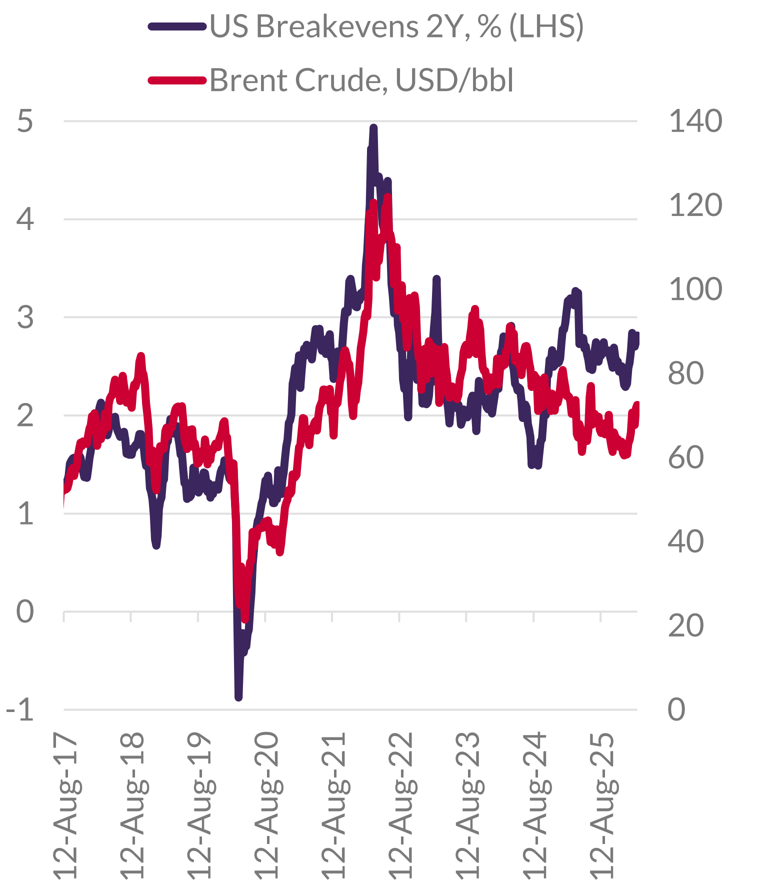
Source: Haver, BMI

EM Inflation Looks OK
EMs – Headline Inflation, % y-o-y



*Mainland. Source: Haver, BMI

Inflation Expectations Are Rising Slightly
Global– Inflation Expectations vs Oil



Source: Haver, BMI

US Dollar Acting As A Safe-Haven For Now… Four Possible Scenarios

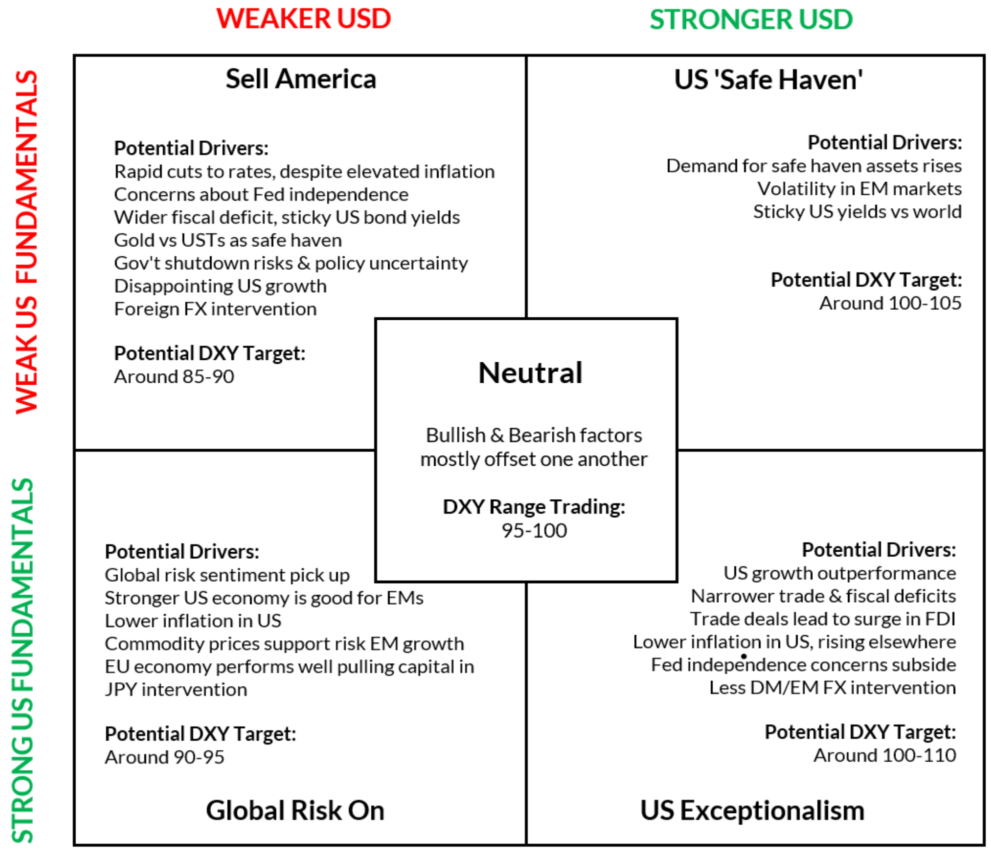
Slight Bump To Higher End of 95-100 Range

US –Dollar Index

Source: Bloomberg, BMI

Neutral For Now, But Could Shift

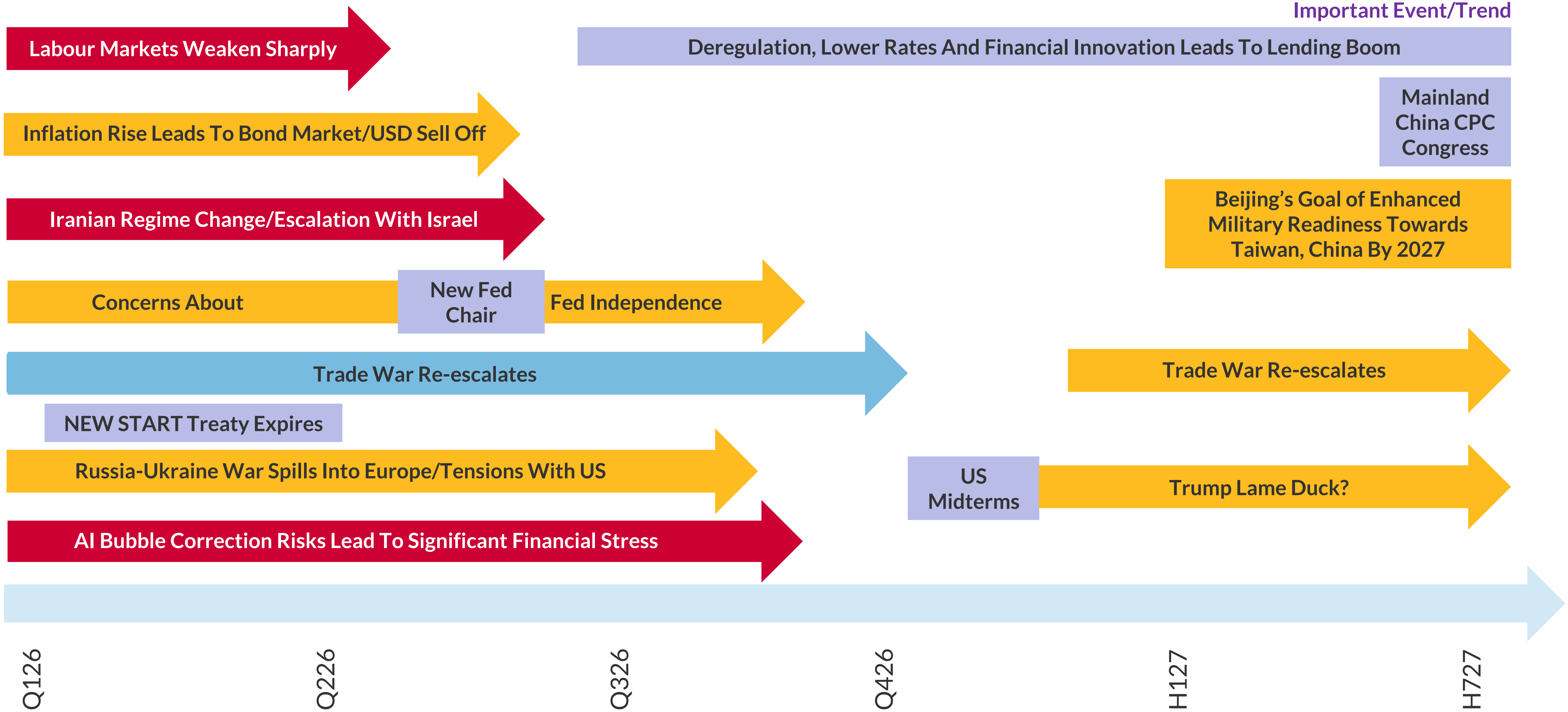
US – Various Scenarios For the USD



Source: BMI

Key Risks Timeline And Major Events

Low Risk
Medium Risk
High Risk
Important Event/Trend



Shifts In US Trade Policy

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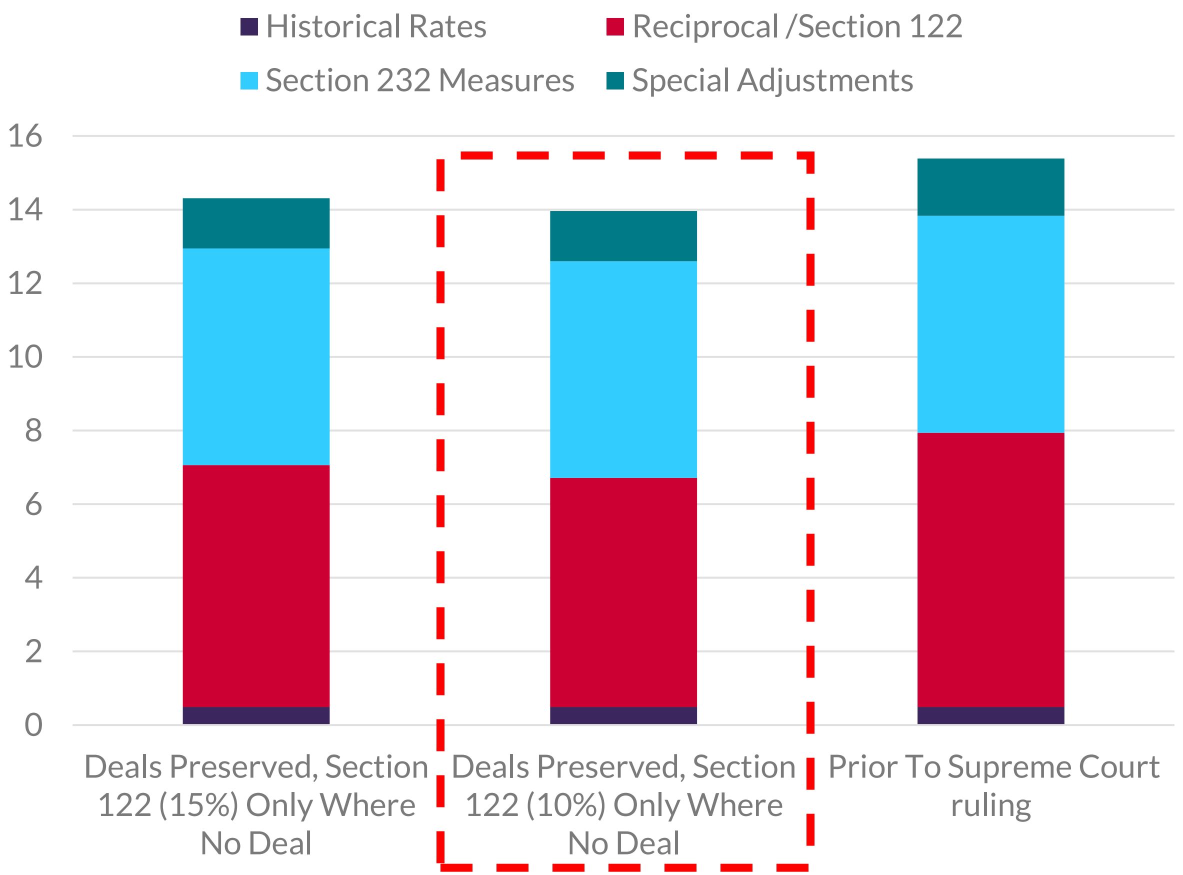
Supreme Court Decision Not A Gamechanger

Composition Of Tariffs Broadly Unchanged…

US – Average Effective Tariff Rate, %



Source: BMI

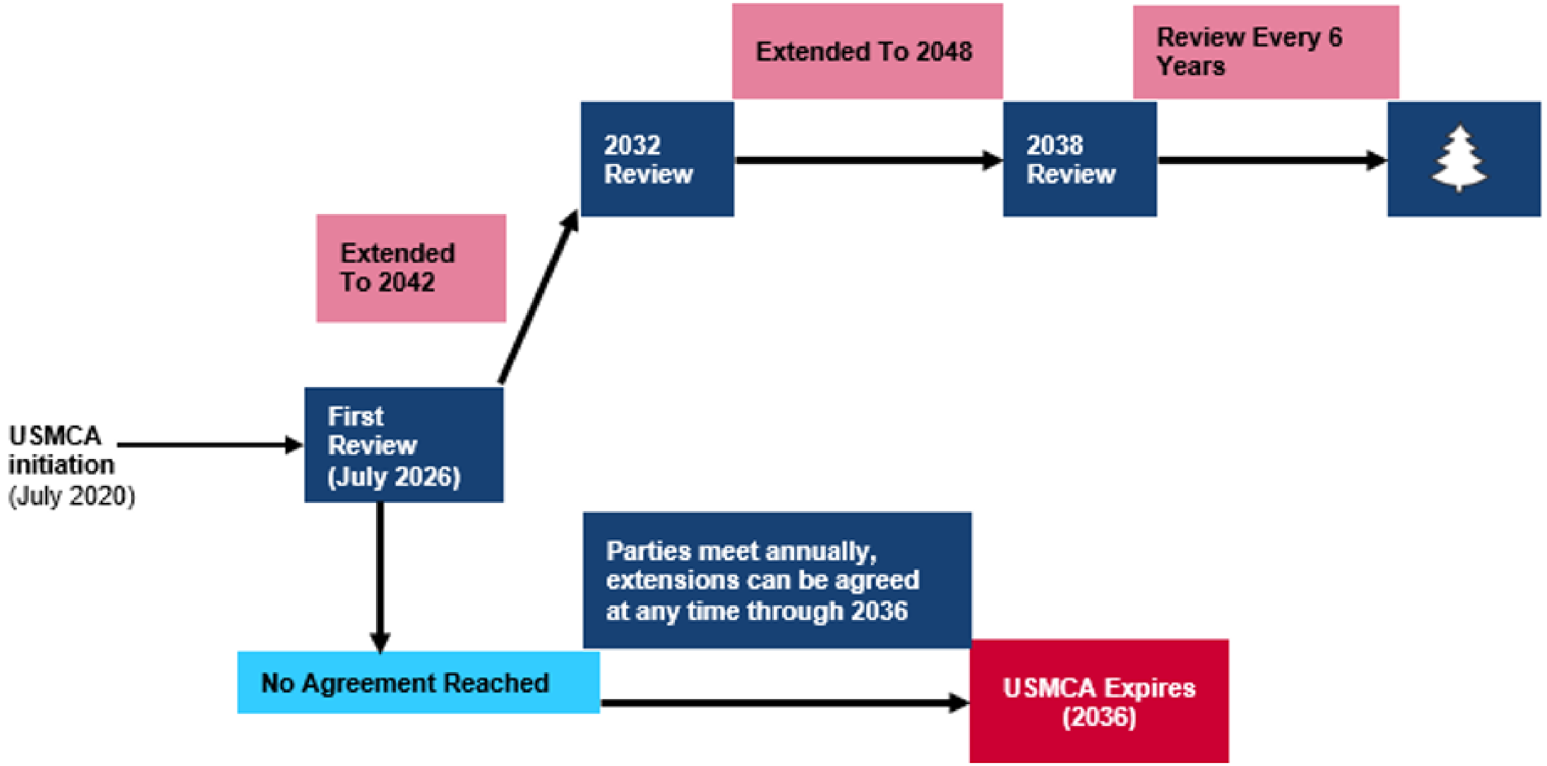
… And 122s Will Be Replaced Using Other Means

Legislation	Scope	Conditions
Section 338 of the Trade Act of 1930	All countries	50% tariff on countries discriminating against US commerce. Scope for full import ban if discrimination persists.
Section 122 of the Trade Act of 1974	Those running significant current account surpluses	Tariffs of up to 15% for up to 150 days. Congress can vote to extend for an additional 150 days.
Section 301 of the Trade Act of 1974	Country specific	Tariffs for up to 4 years on countries that discriminate against US commerce, after Trade Rep investigation.
Section 232 of Trade Expansion Act of 1962	Industry specific	Tariffs on specific goods judged to represent a national security threat, after DoC investigation.
Section 201 of the Trade Act of 1974	Industry specific	Tariffs on specific goods in response to a surge in imports of that good, following complaint from industry.

Source: BMI

USMCA Negotiations Shifting Into View (1)

USMCA Renewal Process

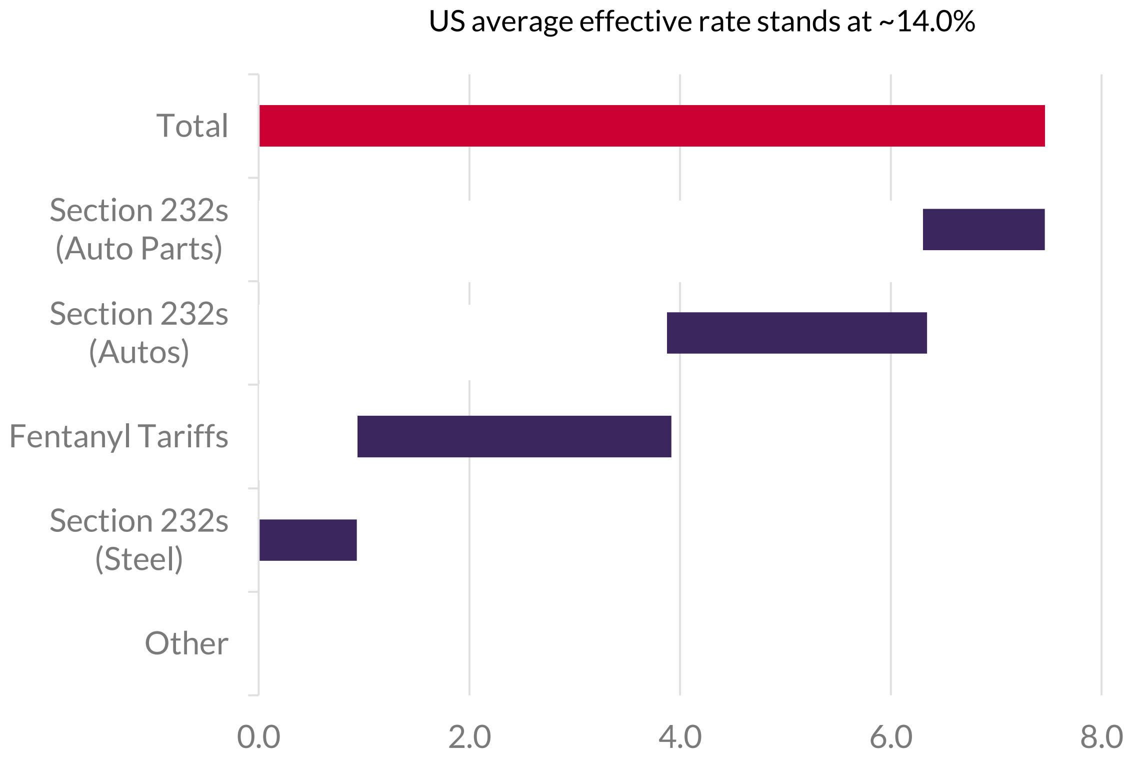


Source: BMI

USMCA Negotiations Shifting Into View (2)

Mexico Has Retained Preferential Access To The US…

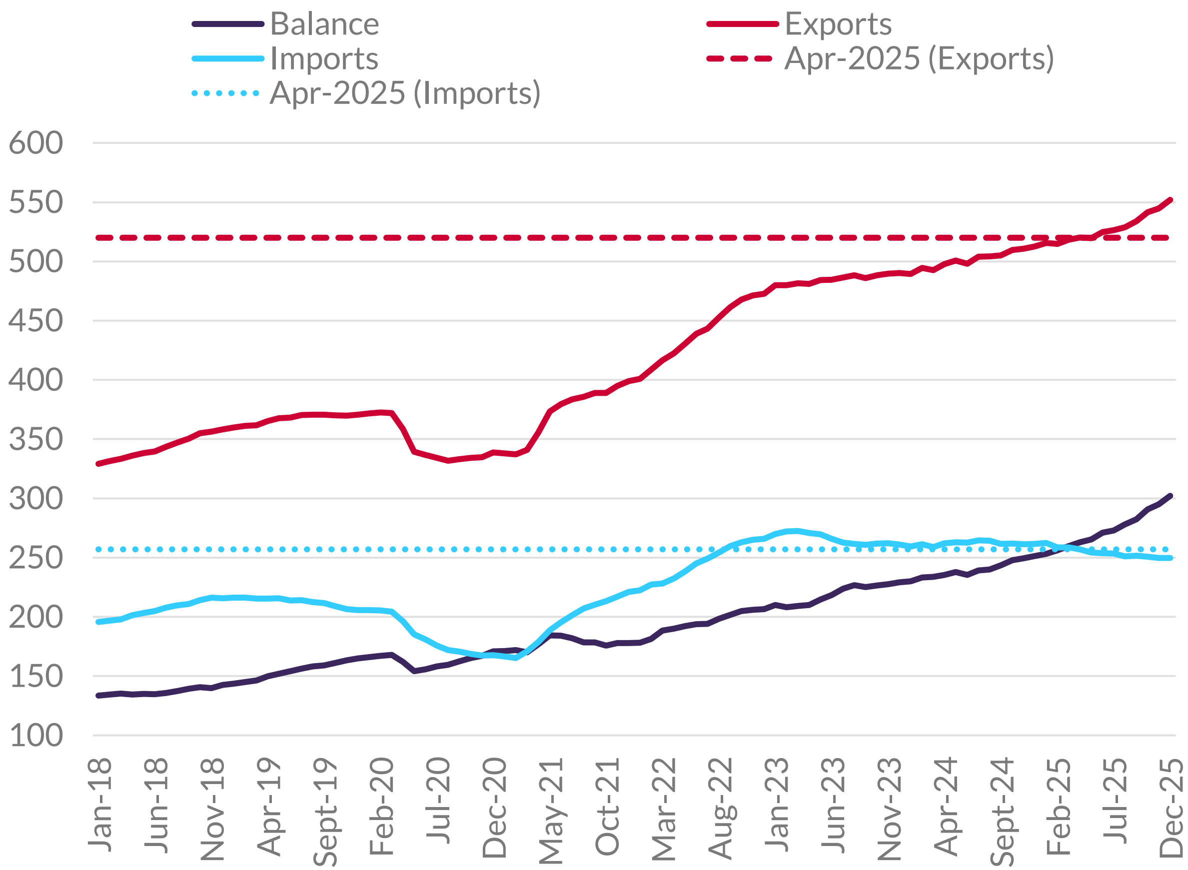
Mexico – Effective Tariff Rate Applied To Exports To US, %



Source: BMI

… Which Has Seen Trade Ties Strength Further

Mexico – 12-Month Moving Sum Of Bilateral Trade With The US, USDbn

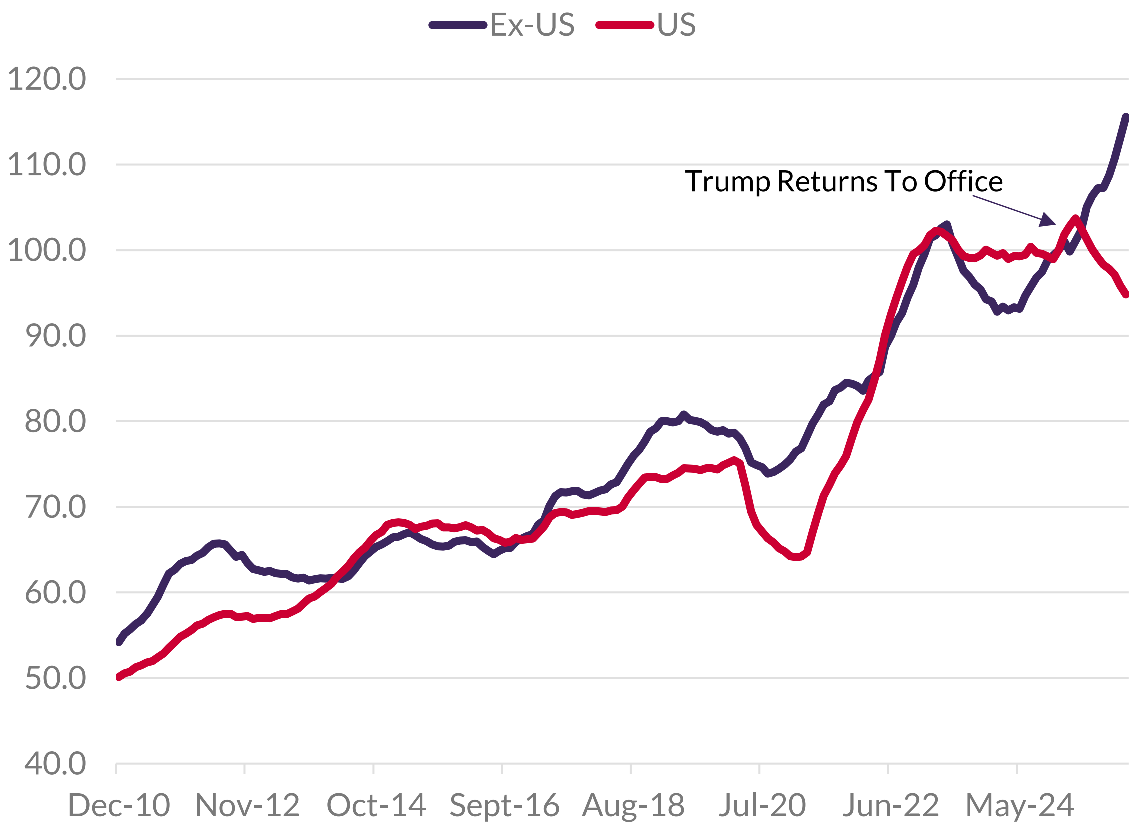


Source: Haver, BMI

USMCA Negotiations Shifting Into View (3)

Canada's Focus Is Diversification...

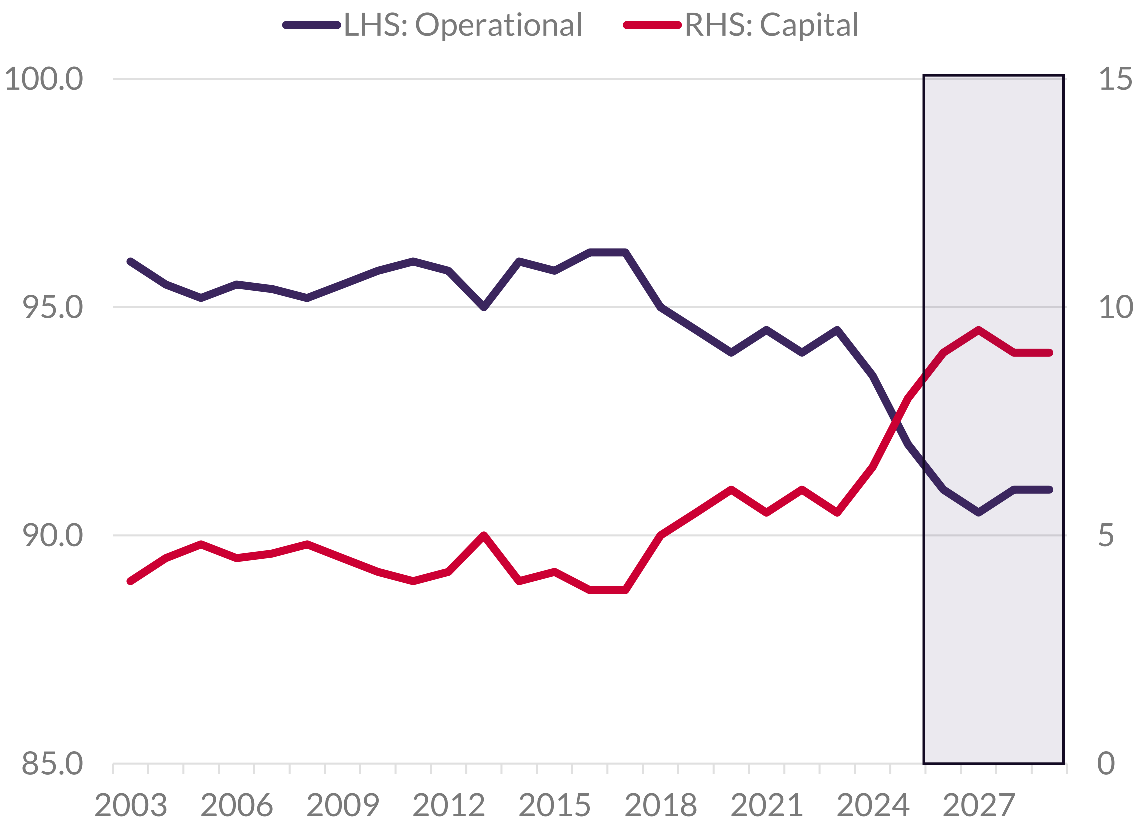
Canada – 12M Moving Sum of Goods Trade, Dec-2024 = 100



Source: Haver, BMI

... And Boosting Domestic Demand

Canada – Breakdown Of Government Spending, %



Note: Shaded area denotes forecast. Source: Statistics Canada, BMI

Outlook For The Americas

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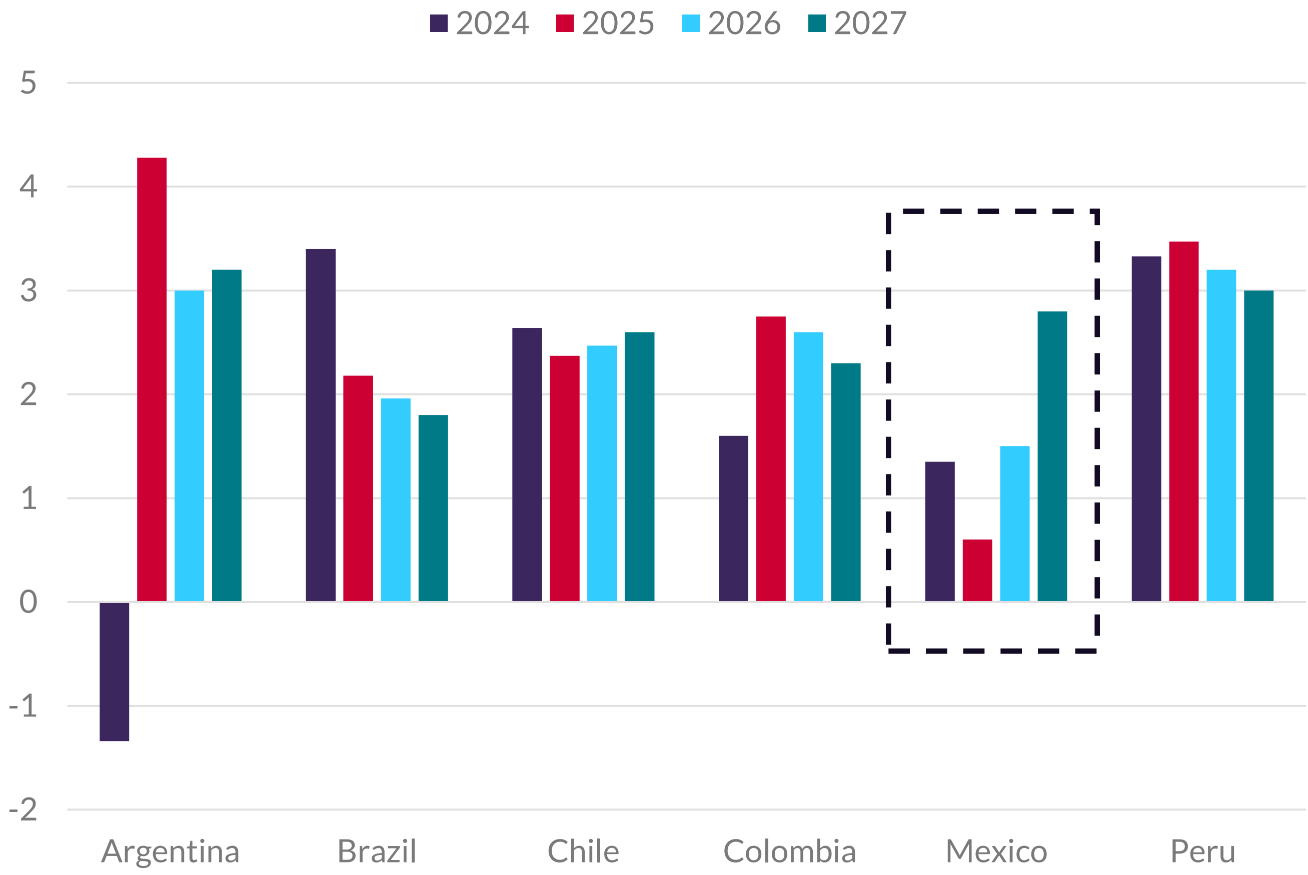
Mexico: Third Year Of Below Trend Growth, But Turning Point Nearing

Tentative Recovery Gradually Getting Underway…

Selected Economies – Real GDP Growth



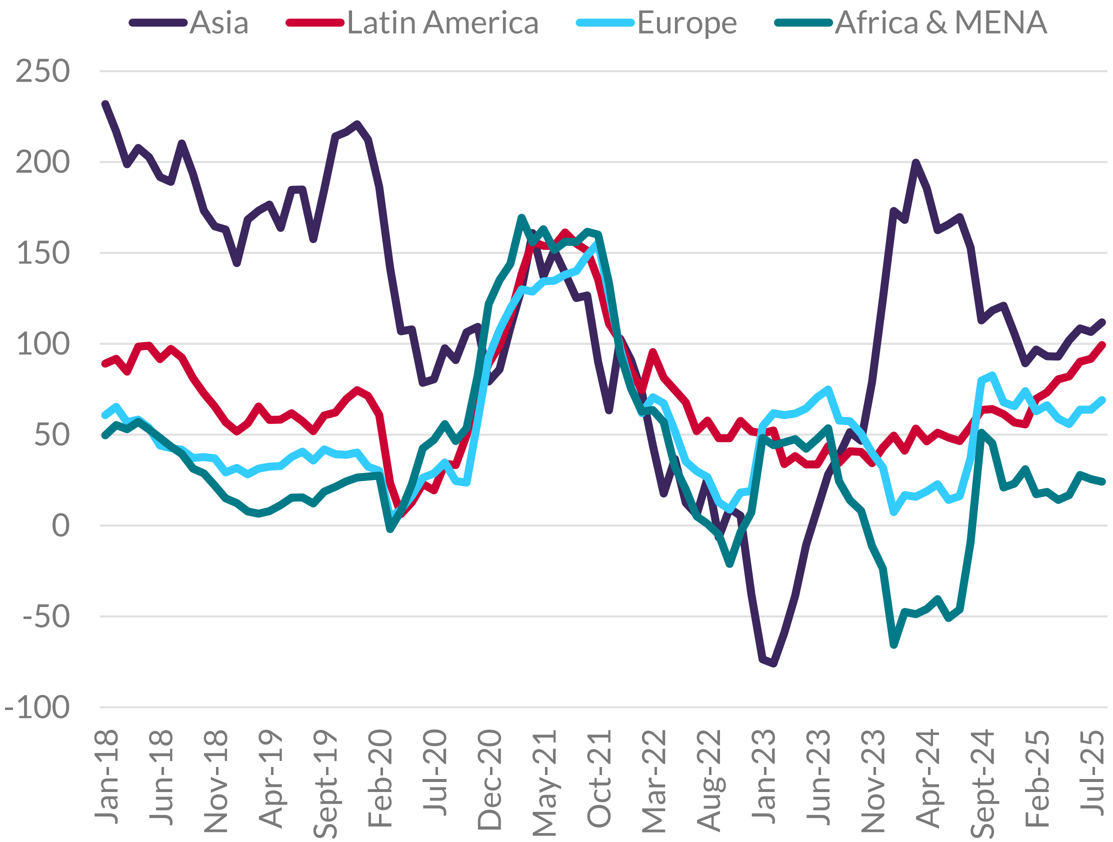
Source: Haver, BMI

- Mexican economy will pick up some steam in 2026, aided by favourable carryover effects, boost from the World Cup and an uptick in infrastructure spending.
- Extent of recovery capped by weakness in private sector investment linked to constitutional reforms and trade-related uncertainty, but some cause for optimism:
  1. Sheinbaum has made concerted effort to reach out to the private sector.
  2. Government has launch a renewed infrastructure drive.
  3. Trade tensions with the US are expected to gradually decline.
- Note that growth will pick up from 2027, but remain capped by concerns over the strength of Mexico’s political institutions.

Smell Of Change In The Air

Capital Inflows To The Region Have Surged...

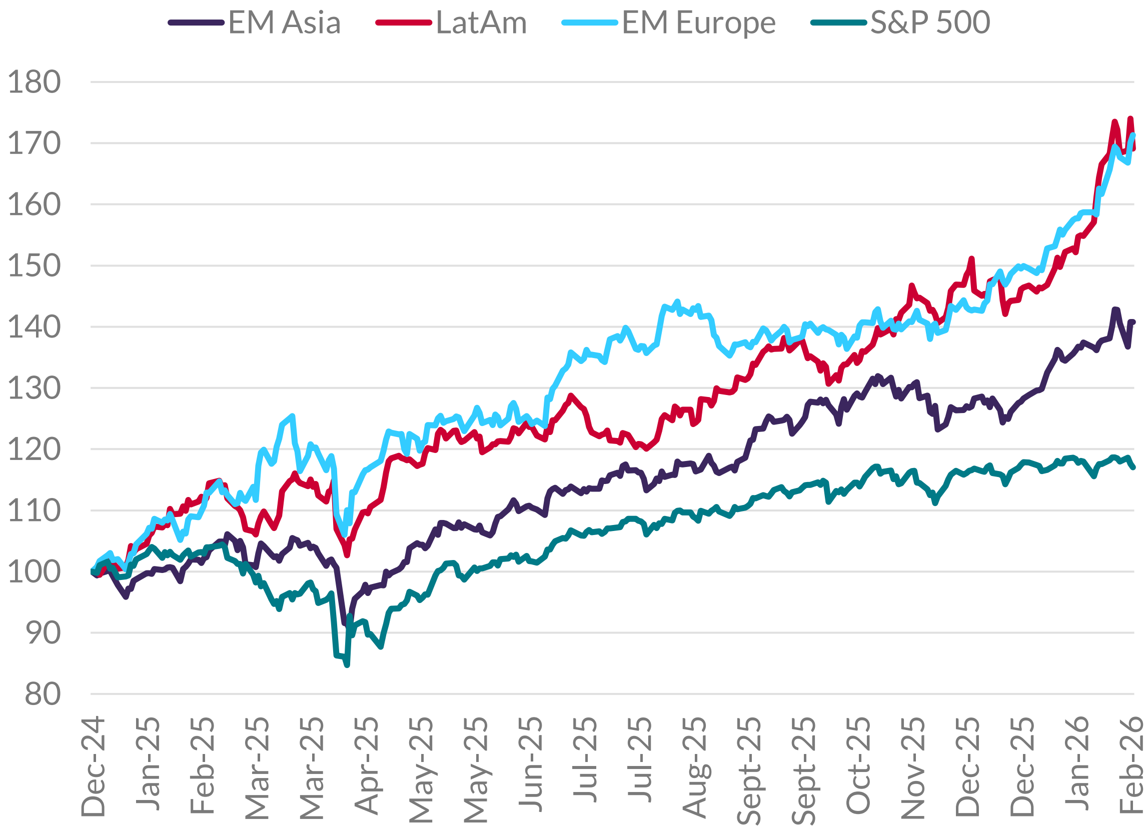
Emerging Markets – 12-Month Sum Of Capital Inflows, USDbn



Source: IIF, BMI

... Supporting Equity Market Outperformance

Emerging Markets – Benchmark Equity Indices In USD Terms, Dec-2024 = 100



Source: Bloomberg, BMI

Realignment Is Structural, Not Just An Anti-Incumbent Story

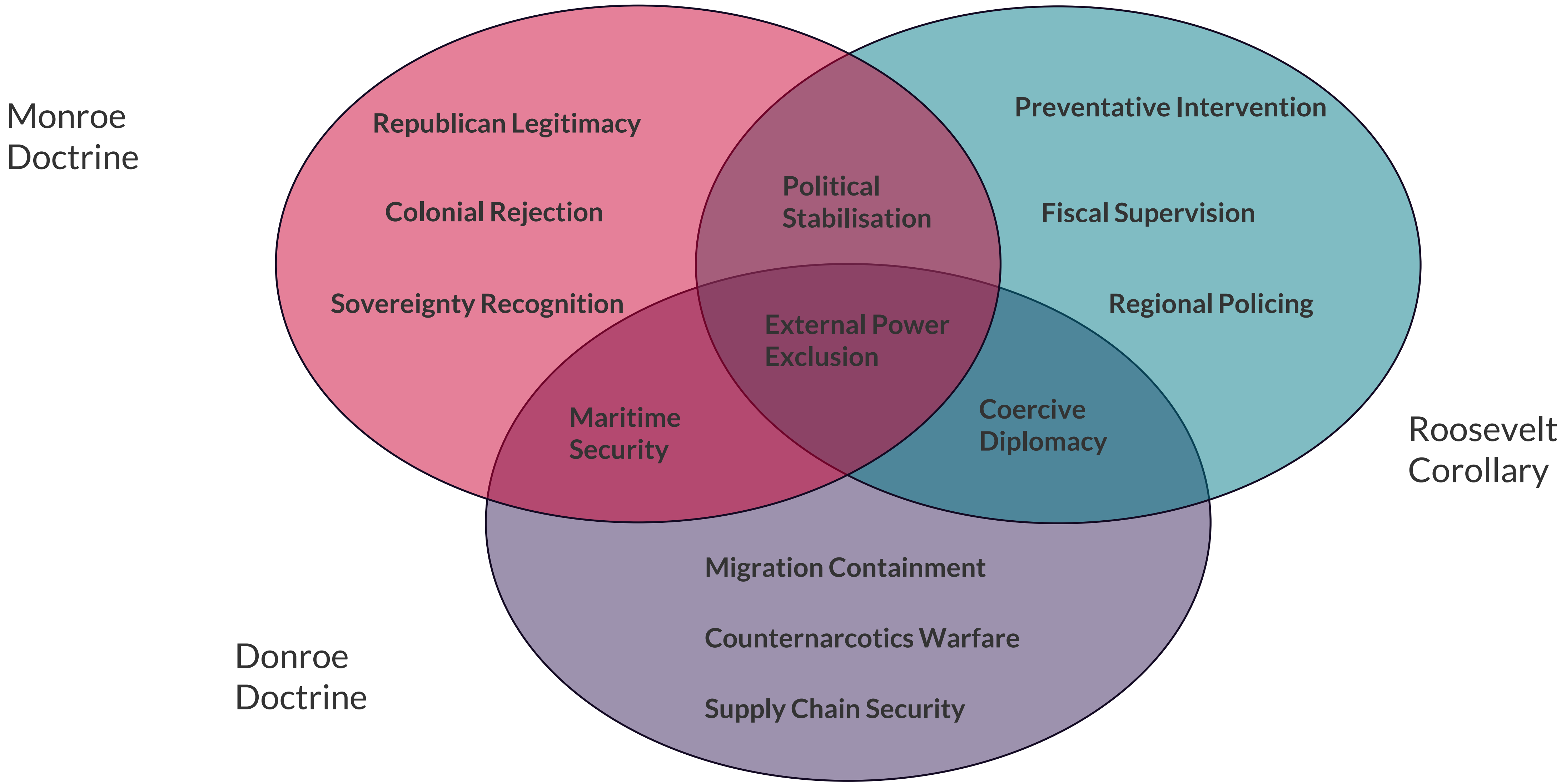
Expected Ideological Stance Of Governments By End-2026

Note: Some countries have been omitted for thematic reasons. Source: BMI

Three key factors driving regional realignment:

1. Public frustration with persistent economic performance over past two decades.
2. Increased demand for a much more hardline approach to crime.
3. Declining influence of leftist institutions, such as the union movement.

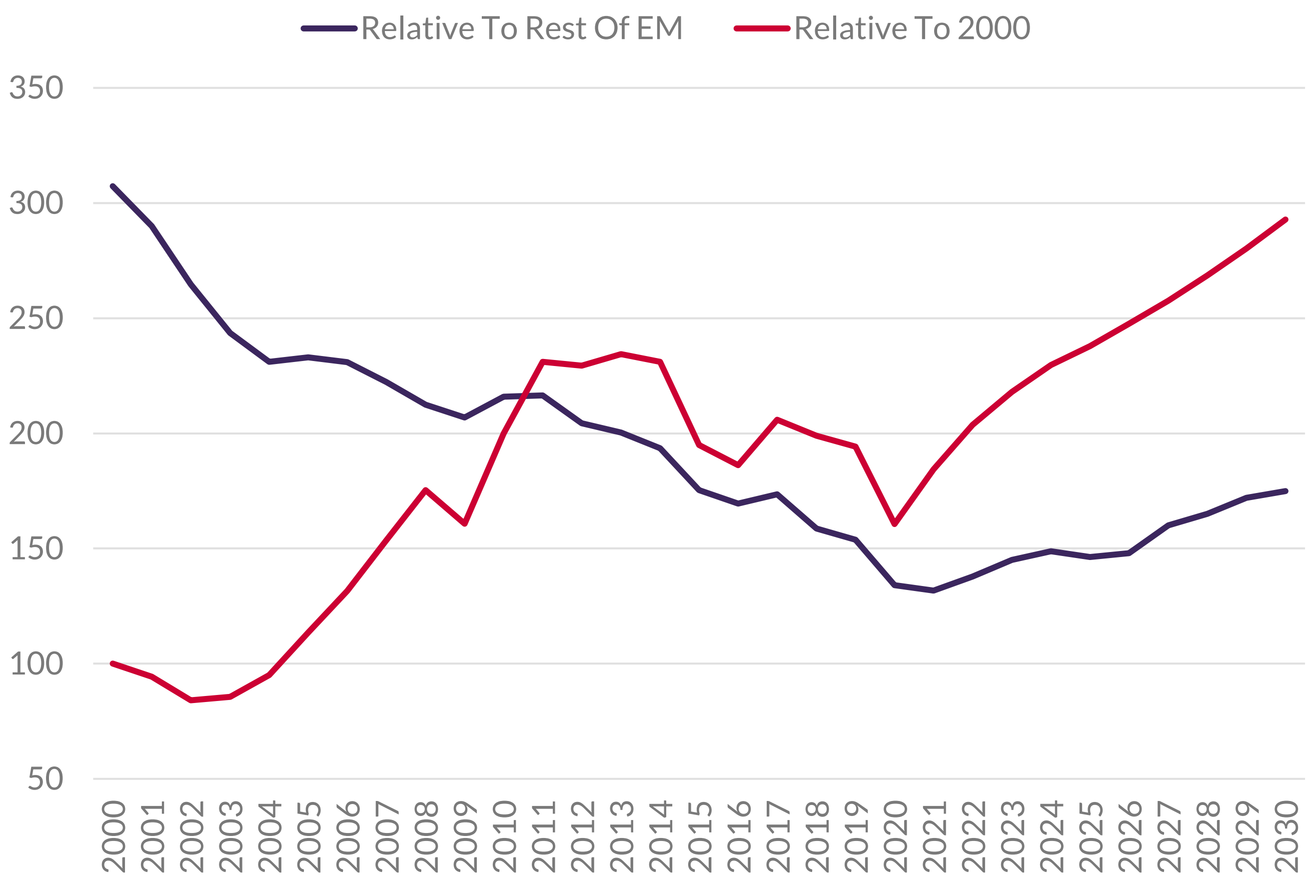
Introducing The Donroe Doctrine



Political Tailwinds To Unlock Growth

Period Of Regional Underperformance Nearing An End…

Latin America – Nominal GDP Per Capita



Source: Haver, BMI

- LatAm has structurally underperformed through the 21st century, with issues rooted in fiscal concerns and burdensome regulation.
- Milei-lite style agendas can unlock growth via ‘contractionary fiscal expansions’:
    1. Government achieves fiscal consolidation via spending cuts, while simultaneously cutting red tape.
    2. Interest rates decline, as inflation eases and fiscal concerns ease.
    3. Business investment takes off, as lower interest rates coincide with a marked improvement in sentiment.
- Growth further underpinned by favourable commodity price backdrop and improved relations with the US.

Q&A

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