

Mexico's Domestic Opportunity



TALES FROM THE EMERGING WORLD | EMERGING MARKETS EQUITY TEAM | April 2026

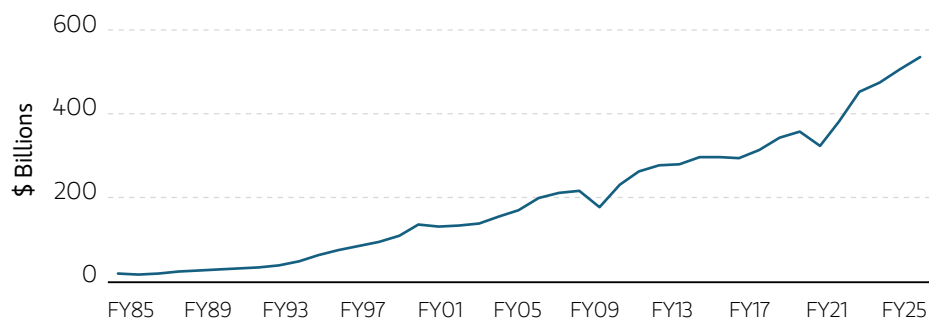
“Poor Mexico, so far from God, so close to the United States,” Porfirio Díaz once observed. However, over the last few decades, Mexico’s proximity to the U.S. has been an asset, not a liability; in fact it has been an important driver of economic growth. However, during our recent trip, we came away realizing international trade is not the only important issue driving the outlook for Mexico. The investment case hinges much more on the new administration’s ability to reinvigorate domestic growth and particularly private investment.

In his initial days back in office, President Trump threatened Mexico with tariffs, declared an emergency at the southern border and designated its drug cartels and associated criminal organizations as foreign terrorist organizations. Yet despite the Washington rhetoric, Mexico’s exports reached record highs last year (Display 1). In fact, since 2021, Mexican manufacturing exports to the U.S. have risen \$150 billion, lifting total exports to \$535 billion in 2025, driven by electronic products and machinery. Electronics is now the fastest-growing segment, offsetting weakness in the automotive sector (Display 2 - see following page). This rapid growth reflects Mexico’s deep entrenchment in the U.S. supply chain, supported by competitive advantages and a diversified industrial base.

DISPLAY 1

Despite Threats, Mexican Exports Continue To Rise North of the Border

Mexico’s exports to the United States



Source: Haver. As of Dec 31, 2025.

AUTHORS



ERIC CARLSON
Portfolio Manager and
Head of Sustainability,
Emerging Markets
Equity

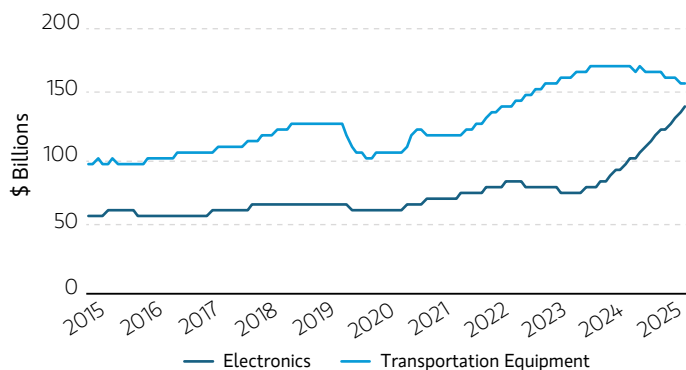


RAVI JAIN
Executive Director,
Emerging
Markets Equity

DISPLAY 2

Electronics Are the Fastest Growing Export Segment

Mexico component exports to the United States



Source: Haver. As of Dec 31, 2025.

The next key milestone is the renegotiation of the United States–Mexico–Canada Agreement (USMCA) slated for July 2026, with discussions advancing on rules of origin, tariff alignment and critical minerals. While issues around local-content rules, labor rights and energy policy need to be clarified, the direction of the talks appears constructive. Formal clarity would help Latin America’s second-biggest economy to unlock investments which have been postponed due to uncertainty.

Tough Inheritance

While net exports grew in 2025, the domestic economy stagnated and investments declined 8%, weighed down by domestic policy backsliding. Although President Claudia Sheinbaum has been in office for 18 months, the economy is still affected by certain “parting policy actions” left by the outgoing President Andrés Manuel López Obrador.

Firstly, a significant budget deficit of 5%, the highest in four decades, reflecting spending to complete flagship infrastructure projects such as the Tren Maya railway and the Dos Bocas refinery, both of questionable economic value. The second and more enduring was a set of far-reaching constitutional reforms under his Fourth Transformation Project, aimed at consolidating executive power. Most notably, the changes replaced the existing judicial appointment system with popular elections of state and federal judges, including the country’s Supreme Court. Together these measures have raised concerns over the enforcement of property rights, contracts and judicial independence, undermining business confidence and private investment.

Despite inheriting these challenges, Sheinbaum has struck a more constructive tone than her predecessor. Her cabinet appointments have been broadly viewed as competent, especially ministers responsible for finance and security. She has been adept in working with Washington, proactively tackling security issues and successfully engaging with the private sector. During our trip, CEOs across the board noted her willingness to listen and work with the private sector, reflecting her policy focus on boosting investment and growth.

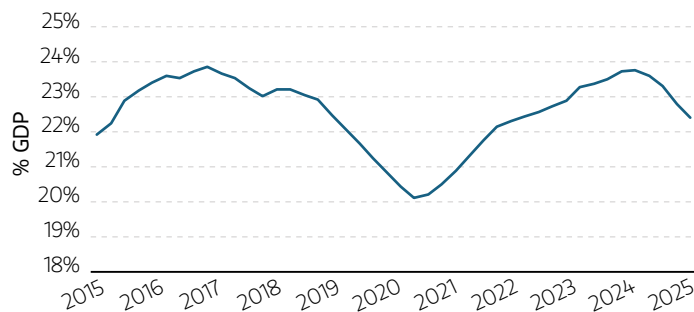
Reviving Domestic Investment

Sheinbaum’s flagship “Plan Mexico” aims to reduce inequality by boosting economic growth and getting more investment into the country. The plan targets an increase in investment to 28% of GDP from 22% in 2025, focusing on public-private partnerships, targeted infrastructure initiatives and the creation of 1.5 million formal jobs in specialty manufacturing and strategic sectors (Display 3).

DISPLAY 3

Mexico Needs to Reverse Its Investment Trend

Investment as a percentage of GDP



Source: Haver. As of Dec 31, 2025.

Plan Mexico is a step in the right direction. More than a policy framework, it signals a shift in attitude to support investment and address long-standing supply-side bottlenecks such as energy and infrastructure, which are critical if Mexico is to move up the manufacturing value chain and enhance productivity.

Much depends on whether Sheinbaum uses her strong approval ratings, currently around 70%, to pivot decisively from her predecessor’s approach and deliver much needed supply-side reforms to unlock investment. While it is early in her six-year term, if she successfully implements the spirit of Plan Mexico and encourages private sector investment, the country can become much more than merely the largest trading partner of the U.S.; Mexico can fully realize its own economic potential.

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