



Monthly Report on Mexican Politics, the Economy, Energy, and U.S.-Mexico Relations

March 2026



Executive Summary

All eyes were on the U.S. Supreme Court last month. It finally ruled that the Trump administration's use of the International Emergency Economic Powers Act (IEEPA) to impose tariffs was unconstitutional. This will have a minimal impact on Mexican exports to the United States, since nearly 90% were already exempt from IEEPA tariffs. Still, it will influence bilateral trade relations and the USMCA review. As we expected, Trump turned to other mechanisms at his disposal to continue imposing tariffs and to find other, non-tariff tools to continue strong-arming Mexico and Canada. This likely will include a failed USMCA review that forces leverage-enhancing annual reviews of the agreement for the next ten years.

Bilateral security cooperation helped take down Nemesio Oseguera, a.k.a. "El Mencho," the leader of the Jalisco New Generation Cartel who had a \$15 million U.S. bounty on his head.



The Trump administration attributed this success entirely to its pressure on Mexico despite the operation having been performed by the Mexican military, indicating that U.S. demands for Mexico to do more will continue. In Mexico, the death of Oseguera triggered a day of violence affecting 20 states, though concentrated in Jalisco and amplified by a great deal of disinformation. His elimination is apt to generate additional violence in the coming months, but how much depends on the organization of the cartel, how rival cartels react, and the capacity of the government to control the territory currently occupied by organized crime. In the short term, the operation reinforced popular support for the president and her security strategy.

The war in Iran is unlikely to have significant consequences for Mexico even if it lasts more than a few weeks. Mexico will face higher prices for its imported gasoline and natural gas, which should translate into an uptick in inflation. More important for Mexican stability, however, is President Sheinbaum's decision to invite her small party allies to vote against her electoral reform due to two popular provisions that threaten their political survival. Now that they have done so (the Chamber of Deputies rejected the reform on March 11), she plans to use their unpopular decision against them in the 2027 mid-term elections to convince their voters to switch to Morena. Her aim is to secure a Morena majority large enough to free the government from the constraints created by its reliance on the Labor and Green parties.

Finally, in energy, a stronger-than-expected response to CFE's mixed investment call suggests that the framework published in January has successfully attracted early market interest despite lingering regulatory uncertainties. For CFE, the large pipeline of competing proposals is likely to strengthen its negotiating position during the project selection phase, potentially enabling the utility to push for more competitive PPA pricing and tighter commercial terms.



Trade Prospects After the IEEPA Ruling

The Supreme Court's 6-3 decision declaring IEEPA tariffs unconstitutional should have a marginal impact on Mexican exports to the United States but will still influence the broader bilateral relationship and the USMCA review. Trump's first use of the International Emergency Economic Powers Act was his February 1, 2025, decision to impose a 25% tariff on Mexico and Canada to force their cooperation in stopping the flow of migrants and fentanyl into the United States. But a month later, the U.S. government announced an exception for all goods that were USMCA-compliant, setting off an avalanche of efforts among Mexico-based exporters to make their goods compliant. As a result, Monarch's analysis of U.S. International Trade Commission (USITC) data shows that 89.0% of U.S. imports from Mexico entered the country tariff-free under the USMCA as of November 2025, up from 45.1% in January 2025. The Supreme Court ruling, and the ensuing Trump decision to use Section 122 tariffs as a substitute, thus reduced the U.S. tariff from 25% to 10%, but only for about ten percent of Mexican exports.

The bigger problems for Mexico are Section 232 and 301 tariffs. Currently, there is a 50% 232 tariff on Mexican steel and aluminum exports and a 25% tariff on its auto exports, albeit with U.S. content excluded. At Monarch, we fully expect President Trump to rely even more on these sector-specific tariffs in the future since his Section 122 tariffs will expire in 150 days. Further, on March 11, the U.S. Trade Representative, Jamieson Greer, announced 301 investigations into Mexico and several other U.S. trading partners' alleged excess manufacturing capacity, evidenced by their trade surpluses with the United States. The investigation process should take a few months and include an opportunity for public comments, which can be submitted [here](#), and a scheduled May 5 public hearing in Washington, D.C.



And then there is the USMCA, which faces a July 1 joint review through which each country can request changes to the agreement and agree to its extension for an additional 16 years, or fail to extend and kickoff an annual review process that could lead to the USMCA's termination in 2036. Given that the U.S. Supreme Court struck down the IEEPA tariffs because the Constitution gives the power to levy taxes, including tariffs, to Congress alone, any revision of the USMCA tariff structure would likely have to be approved by the U.S. Congress. Yet Trump has made clear his preference for avoiding congressional involvement, making it much less likely that the USMCA review will include increased tariffs. Meanwhile, the USTR and Mexico's Economy Ministry simultaneously announced the March 16 initiation of formal bilateral talks as part of the USMCA review. Nevertheless, we still do not think that an extension of the USMCA - at least this year - is the most likely outcome.

In part, this reflects U.S. tension with Canada. Despite advances in negotiations with Mexico, U.S. Trade Representative Jamieson Greer noted last month that talks with Canada have been more difficult. Indeed, this seems to be the context of President Trump's most recent broadside against the USMCA. On February 11, he posted on social media: "Canada has taken advantage of the United States on Trade for many years," and the same day he is reported to have privately questioned advisors about pulling out of the USMCA.

A successful review that results in an extension would also have to resolve the increasingly sharp disagreements over Mexico's energy policies, Canada's dairy policies, and the U.S. effort to tighten the rules of origin in the auto sector. Indeed, the President's 2026 Trade Policy Agenda, released on March 3, identifies as "problems" Mexico's preferential treatment for its "national champions" in the energy sector and Canada's dairy policies. Regarding Mexican problems, the document also points to lax enforcement and inadequate labor laws, a deteriorating investment climate, and a large and growing trade surplus with

the United States. These issues will be difficult to resolve by the time the USMCA's Free Trade Commission initiates its review of the agreement on July 1.

Potentially most importantly, President Trump will be reticent to accept anything that might further limit his capacity to coerce Mexico and Canada to make concessions on a wide range of issues. Without IEEPA tariffs, the USMCA could become a substitute. We thus believe the most likely scenario is a failed review that triggers annual reviews for at least the remaining two years of the Trump administration, giving Trump continuing leverage over his North American partners, with annual reviews possible until the agreement's current expiration on July 1, 2036.

Security Cooperation and the “El Mencho” Operation

U.S.-Mexico security cooperation last month was striking. It included the arrival of 19 U.S. Navy SEALs for a two-month Mexican training mission and 12 members of the special operations unit of the U.S. Northern Command to participate in five months of joint exercises with their Mexican counterparts. Cooperation extended to a joint naval operation that led to the seizure of several tons of cocaine in Mexican territorial waters southwest of the Baja California Peninsula. It also involved joint intelligence gathering and sharing that led to the February 22 operation that killed Mexico's notorious crime lord “El Mencho.”

This successful operation was precisely the kind of ambitious action against high-value targets the U.S. government has been calling on Mexico to undertake. As such, it should help smooth over bilateral tensions, creating a more positive climate for the USMCA review. It will not, however, bring an end to persistent U.S. pressure on Mexico to deliver more.

Although President Trump called his Mexican counterpart the day after the “El Mencho” operation, he sent a different message the following day in his State of the Union address. He continued to argue that the cartels run Mexico and took full credit for eliminating “El

Mencho” and for nearly stopping the flow of drugs across the U.S. southern border. At the same time, the head of the U.S. Office of National Drug Control Policy, Sara Carter, visited Mexico from February 24 to 27. After meeting with Mexican officials, she returned to the United States and gave an interview to Fox News lauding the close security cooperation between the U.S. and Mexico, but she attributed it entirely to President Trump. In other words, Mexico is cooperating with the United States on security matters, but only due to U.S. pressure which consequently will not let up.

Domestic Implications of El Mencho’s Death

The March 22 death of Nemesio Oseguera, alias “El Mencho,” produced an enormous wave of property destruction by his Jalisco New Generation Cartel (CJNG). Although the violence extended to 20 of Mexico’s 32 states, just four states felt the brunt of the cartel’s carefully orchestrated violence, with its epicenter in Jalisco. Cartel operatives blocked main highways, burned buses and cars as well as convenience stores and government-owned banks, aiming to create a viral image of chaos in Mexico. This was amplified by significant disinformation circulating on social media that seeped into the mainstream media in Mexico and the United States. These developments resulted in the death of 26 law enforcement officers and about 34 criminals, but few civilians died and no foreigners were harmed. The government reestablished order the next day. In short, this was an impressive, targeted show of force by the cartel designed to create chaos and fear, and to prevent the apprehension of their leader. They have employed this strategy successfully many times in the past, but this time it failed to save “El Mencho.”

The immediate impact of the operation was evident in polls taken in its wake. Mexicans showed wide support for the operation, and their satisfaction with the President Sheinbaum and her security policy increased as a result. Within the president’s political coalition, support was less enthusiastic, especially from the radical wing of the movement.

Recognizing this, Sheinbaum insisted that this operation did not signal a change in her security strategy. It was simply a continuation of her plan to address the root causes of crime while strengthening the National Guard, intelligence and investigation, and cooperation.

The longer-term impact of “El Mencho’s” death is unclear. Typically, taking out a kingpin leads to increased violence as ambitious operatives in the affected cartel fight over the leadership position and rival cartels try to take advantage of this temporary weakness to expand their operations in disputed zones. In the case of the Sinaloa Cartel, the 2024 kidnapping and arrest of “El Mayo” set off an internal civil war a month and a half later that continues to this day. The CJNG case, however, might be different.

“El Mencho” suffered from kidney failure, which could have motivated him to set up a succession plan. If so, and if it is respected by all the aspirants, internal cartel violence would be contained. In addition, the CJNG does not have the hierarchical structure of most cartels but instead is more of a federation, with its regional affiliates operating with significant autonomy. This structure could militate against internal rivalries over cartel leadership among its different factions.

Nevertheless, increased violence seems likely, especially in Guanajuato and Michoacán where territorial control is disputed with other criminal groups. And despite Mexico’s improved security capabilities, the government’s ability to control territory remains weak, making it difficult to contain the violence that erupts.

Iranian Noise

In response to the U.S.-Israeli attack on Iran, President Sheinbaum unsurprisingly refused to either support or formally oppose it but instead took refuge in Mexico’s historic demand for the peaceful resolution of disputes. This should reinforce the low likelihood that this geopolitical development will have large implications for Mexico. There is a long shot

possibility of Iranian agents based in Mexico undertaking a terrorist attack on the United States, but the probability of this scenario is low. Nor is Mexico likely to feel the impact of distortions in global shipping since most of its trade is overland to and from the United States. Mexico's reduced reliance on oil exports also means it will not benefit much from increased oil prices. However, Mexico is apt to pay higher prices for its substantial imports of gasoline and natural gas, especially if the conflict persists. An extended war could also produce price increases and reduced demand in the U.S. economy, which should translate into Mexican inflationary pressures and slower growth. Finally, Mexico could also benefit from a war that directs U.S. policy attention away from its southern neighbor, but recent developments suggest otherwise. On March 2, the USTR released the President's 2026 Trade Policy Agenda noted above. The next day, the United States and Ecuador initiated a joint operation targeting organized crime in that South American country. And on March 7, President Trump held his Shield of the Americas Summit among like-minded Latin American leaders, calling for a military solution to the drug problem.

Sheinbaum Deals with Rebellions in the 4T

In mid-February, Marx Arriaga, a member of Morena's radical wing, refused to accept his dismissal from his position as director of education materials in the Education Ministry. He argued that his removal would permit neoliberals in the ministry, meaning Education Secretary Mario Delgado, to undermine the new approach to education instituted under President López Obrador. The deep mistrust between these representatives of different Morena factions led Arriaga to barricade himself in his ministry office in protest and transmit his complaints live on social media. Four days later, President Sheinbaum's emissaries were finally able to convince him to step down to avoid legal action.

More significantly, President Sheinbaum's electoral reform went down to defeat on March 11, when the Chamber of Deputies rejected it by a vote of 259 in favor to 234 against, well

short of the two-thirds majority required for a constitutional amendment. Yet the president could still win by losing. Her Labor Party (PT) and Green Party (PVEM) allies rebelled against two aspects of the electoral reform: cutting government funding for political parties and eliminating all plurinominal legislators (a quarter of the Senate and two-fifths of the Chamber of Deputies). Seeing support for the provisions as political suicide, the PT and the PVEM tried to negotiate. After weeks of discussion, it appeared the two sides were reaching a compromise that could garner the two-thirds legislative vote needed to approve this constitutional reform. In mid-February, however, Sheinbaum shifted gears.

Apparently frustrated by these parties' ability to prevent her from keeping a campaign promise, Sheinbaum sent word that she would not accept the developing compromise and instead doubled down on her original proposal. Although she ultimately accepted some important changes, the electoral reform legislation she sent to the Mexican Congress on March 4 retained a 25% cut to party financing, eliminated plurinominal senators, and required that plurinominal deputies be selected by voters instead of parties.

This placed the PT and PVEM between a rock and a hard place. They could vote with President Sheinbaum and effectively commit political suicide, or they could vote against the initiative and become the target of a campaign accusing them of favoring party privilege over a popular electoral reform (polls show huge majorities supporting the direct election of all legislators and reductions in government funding for parties). They chose the latter.

President Sheinbaum, meanwhile, is betting she can win by losing. Even before the vote, she argued that by introducing the legislation, regardless of the result, she fulfilled her campaign promise. In the *mañana*, she denied the outcome would constitute a defeat, saying, "On the contrary, the people will say the President kept her word, it was others who didn't vote for it." She then added, "there are limits to what one is willing to negotiate." She further indicated that the people would take note of who voted for this popular initiative and who did

not. In other words, an extremely popular president, her party, and its candidates will campaign on this issue, aiming to convince PT and PVEM voters to support Morena, and thereby win a large legislative majority, eliminating the need for pesky small party allies.

Economic Notes

In the economy, the Bank of Mexico reported that FDI reached a record high of US\$41 billion in 2025, a 7.7% increase over the previous year. Even more significant, this included US\$7.4 billion in new investment, nearly 80% higher than in 2024. The Bank also increased its growth estimate for 2026 to 1.6%, nearly matching the 1.5% private-sector consensus. The phased-in 40-hour work week, meanwhile, became law with its publication in the *Diario Oficial de la Federación* (Mexico's official federal register).

TV Azteca, controlled by Ricardo Salinas Pliego, declared the Mexican equivalent of Chapter 11 bankruptcy, blaming the move on license fees and increased tax obligations after losing its legal battle with the government over past-due taxes. This should help the company reduce its debt payments and could help shield it from a U.S. court order requiring TV Azteca to pay its foreign creditors US\$480 million. Finally, Pemex reported a 94% drop in its operating deficit, from 781 billion pesos in 2024 to just 45 billion pesos (about US\$2.5 billion) in 2025. The firm's annual report also shows that half of this remaining deficit is due to fuel theft.

CFE's Mixed Investment Tender Attracts Strong Market Response

As [previously reported](#), in late January Mexico's Ministry of Energy (*Secretaría de Energía*, SENER) published in the *Diario Oficial de la Federación* the Guidelines for Mixed Development Schemes (*Esquemas de Desarrollo Mixto*) applicable to the state utility, Federal Electricity Commission (CFE).



The framework enables CFE to develop new generation capacity in partnership with private investors through several contractual formats, including long-term production arrangements and mixed-equity project structures. Across these alternatives, CFE retains a central coordinating role and will act as the primary off taker of electricity, providing the long-term revenue certainty needed to support project financing.

The initiative is also tied to the federal government's Infrastructure Investment Plan for Development with Well-Being 2026–2030, which identifies power generation as a priority area for expansion. Authorities have indicated that the mixed development model could facilitate the addition of approximately 7.5 GW of new capacity by 2030, largely through solar and wind projects, though the framework does not exclude other technologies where system reliability considerations warrant them. More broadly, the approach reflects the administration's effort to expand national generation capacity while channeling private participation through partnerships led by the state utility.

SENER kicked off the process to develop new public-private generation capacity by setting a very quick February 20 deadline for companies to submit indications of interest in joint development projects throughout Mexico. The deadline was extended a week to allow developers additional time to evaluate the technical and contractual parameters of the scheme, but not due to lack of interest. Sources within Mexico's energy authorities indicate SENER received a significantly larger number of proposals than originally anticipated, with participation reportedly spanning both domestic and international developers. Although the authorities have not yet disclosed official figures, the volume of submissions appears to have greatly exceeded initial planning assumptions and is viewed internally as a very positive signal regarding investor interest in the new model.

A direct implication of this response may be increased pricing discipline in the long-term power purchase agreements (PPAs) expected to underpin these projects. With a deeper

pipeline of competing proposals, CFE is likely to evaluate the proposals with greater leverage in commercial negotiations, potentially pushing developers to offer more competitive tariff structures and risk allocations to secure participation in the program. In practical terms, the strong response could translate into lower PPA pricing as bidders compete to align their proposals with the utility's cost and reliability priorities.

At the same time, the government has continued exploring financing mechanisms to support the emerging project pipeline. Discussions have reportedly included engagement with commercial lenders as well as the possibility of additional debt issuance by CFE to strengthen its investment capacity as projects move into the evaluation and structuring stages.

The proposed structure has nonetheless generated debate across Mexico's energy and financial communities. One recurring concern relates to governance and risk allocation within the joint ventures. Because CFE will retain majority ownership, authorities have acknowledged the need to provide private investors with preferential economic rights until agreed return thresholds are achieved. Some analysts argue that this arrangement could complicate corporate decision-making or influence financing conditions if lenders perceive limited governance rights for minority shareholders. Others point to persistent regulatory uncertainties -particularly around interconnection procedures, permitting timelines, and dispatch rules administered by the *Centro Nacional de Control de Energía* (CENACE)- which are key risk pressure points for privately developed projects in Mexico.

Despite these concerns, the initiative represents a pragmatic attempt to reintroduce private participation in generation while preserving the government's objective of maintaining a strong state role in the electricity sector. Its long-term viability will depend largely on the clarity of contractual arrangements, transparency in project selection, and effective coordination with CENACE to secure interconnection and dispatch conditions for new

capacity. If those elements are addressed, the mixed-investment framework could become a central mechanism for expanding Mexico’s generation fleet over the coming decade. For international renewable developers, the structure offers potential advantages, including alignment with federal investment priorities, long-term project horizons, defined exit conditions, and the opportunity to partner with the national utility.

We will continue to monitor the next stage of the process, particularly project evaluation and selection, and PPA conditions, to assess how the pipeline evolves and where potential collaboration opportunities with CFE may emerge.

Pemex Receives a Small but Positive Injection of Funds

During February 2026, Petróleos Mexicanos (Pemex) took several steps aimed at stabilizing its financial position amid continued pressure from a large debt burden and significant repayment obligations in the coming years. Most notably, the company returned to Mexico’s domestic capital markets for the first time in several years, placing approximately US\$1.77 billion in bonds on the Mexican Stock Exchange. The issuance -structured across multiple maturities- attracted demand well above the amount offered, reflecting sustained investor appetite for Pemex securities despite the company’s elevated credit risk profile. Proceeds from the transaction are expected to be used primarily to refinance liabilities maturing in 2026, when Pemex faces a substantial repayment schedule.

The move comes as the company continues to manage one of the largest debt loads among global oil producers, with total financial obligations estimated at more than US\$80 billion. With a significant portion of that debt coming due over the next several years, Pemex has increasingly relied on a combination of market refinancing, operational adjustments, and support from the federal government to maintain liquidity and meet its commitments.



Access to the domestic bond market represents an important element of this strategy, helping the company diversify its funding sources while addressing near-term maturities.

At the same time, authorities have continued efforts to address liquidity pressures across Pemex's supply chain, particularly through mechanisms designed to accelerate payments to contractors and service providers. Programs coordinated with federal financial institutions have sought to reduce outstanding liabilities to suppliers, which had accumulated in recent years and created operational constraints in some areas of the company's upstream and services segments. Taken together, these measures reflect an important ongoing effort by both Pemex and the financial authorities to manage the company's immediate financial pressures while preserving access to financing and maintaining operational continuity.

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