



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

May 2026

Executive Summary

There have been few slow periods in Mexico during the Trump era, but the last month was particularly newsworthy on several fronts: (a) the U.S.-Mexico relationship entered uncharted territory, creating a problematic environment that makes a successful USMCA review even less likely; (b) a series of personnel changes in President Sheinbaum's Morena party and cabinet significantly increased her political authority; (c) Sheinbaum continued to take action to promote investment, though her efforts were partially undermined by a Supreme Court decision limiting property rights; and (d) the Sheinbaum administration announced new tenders and a more streamlined permitting process to address power shortages and speed up development of renewable energy in Mexico.

On U.S.-Mexico relations, the discovery that two CIA agents illegally participated in a drug bust, the U.S. indictment of a sitting Mexican governor, and the releases of the 2026 U.S. National Drug Control Strategy and the 2026 U.S. Counterterrorism Strategy pushed the bilateral security relationship into dangerous, uncharted waters. The unusually blatant

disregard for Mexico's deep sensitivity around national sovereignty led President Sheinbaum to strongly restate the inviolability of Mexican law and sovereignty while buying time to find an off-ramp. The success of this strategy is far from assured, while the palpable tension in bilateral relations will inevitably have a negative effect on the USMCA negotiations.

On a more cooperative note, a second successful round of bilateral pre-USMCA review talks resulted in an announcement that the first official U.S.-Mexico negotiating round for the USMCA review will be held in Mexico City the week of May 25. Bilateral tensions, however, reinforce Monarch's belief that the outcome will not be a successful review but annual reviews for the remainder of the Trump administration. The consequent tariff uncertainty will be reinforced by the likely recurrence of U.S. tariff threats on Mexican exports. Nor will the USMCA be a free trade agreement since Section 232 tariffs on Mexican (and Canadian) steel, aluminum, and cars are unlikely to end. The good news is that the review process should end with Mexico and Canada enjoying tariff rates lower than the rest of the world.

In Mexico, President Sheinbaum made changes in Morena's leadership to improve her party's chances in the 2027 midterm elections, and in her cabinet to enhance Mexico's economic performance and negotiating position in the USMCA talks. Together, these personnel moves increase Sheinbaum's authority over her party and her government. She also acted on several fronts to improve investor confidence and thus economic growth, but these advances were partially offset by a Supreme Court ruling giving Mexico's financial investigations office the power to freeze private bank accounts without a court order if the account holder is suspected of involvement in money laundering.

The Bilateral Security Relationship Enters Uncharted Territory

A series of U.S. actions last month created a level of bilateral tension not seen in generations, raising tangible fear in Mexico of unilateral U.S. action against Mexico-based drug cartels.

Two CIA agents died in a car crash in a mountainous area of Chihuahua, making public their participation in a state-led drug raid. Although foreign agents can provide intelligence and training to Mexican authorities, participating in ground operations is strictly prohibited under Mexican law. It is also a firm red line President Sheinbaum has repeatedly insisted upon in her dealings with the Trump administration and in phone calls with the U.S. President.

Nevertheless, Sheinbaum tried to close the book on the episode a week later, saying she did not think it would complicate bilateral relations and adding, “Let’s hope it’s an exceptional case...and that a situation like this never happens again.” Later the same day, April 27, her government announced the arrest of the second most powerful figure in the Jalisco New Generation Cartel (CJNG), demonstrating again the effectiveness of successful bilateral security cooperation.

Despite this important advance, the U.S. publicly announced the indictment on drug-trafficking charges of Sinaloa Governor Rubén Rocha Moya, the mayor of Sinaloa’s capital city, Culiacán, a Morena senator from the state, and seven other politicians and police officials. Never has the U.S. government publicly indicted and demanded the extradition of a sitting Mexican governor, and never in the past century has it so blatantly interjected itself into Mexican domestic affairs.

The next day, at her morning press conference, Sheinbaum outlined her position relative to these charges: “truth, justice, and defense of sovereignty.” If there is “conclusive and irrefutable evidence” of a crime under Mexican law, her government will act accordingly. “We will not cover up for anyone,” she said. This was followed by an emphatic and repeated

“however,” setting up an important caveat: if there is no such evidence, Mexico can only conclude “that the objective of the Department of Justice is political.”

Two days later, at the request of Sheinbaum, the governor and mayor took a leave of absence while their cases are under investigation. Despite this, acting U.S. Attorney General Todd Blanche promised on May 5 that more indictments are coming, further complicating Sheinbaum’s effort to balance the demands of the U.S. government with those of her left-nationalist Morena-led political alliance.

The Trump administration dropped its next bombshells on May 4 and May 7 with the releases of the 2026 National Drug Control Strategy and the 2026 Counterterrorism Strategy, respectively. For the first time in history, the U.S. government cast bilateral security cooperation in counterterrorism rather than law-enforcement terms. The bottom line for Mexico is an effective ultimatum: Mexico must take measurable, verifiable action against two foreign terrorist organizations (FTO), the Sinaloa and Jalisco New Generation Cartels, implicitly including action against politicians associated with them. Further, the Counterterrorism Strategy states the U.S. will work with local governments “when they are willing and able to work with us. If they cannot, or will not, we will take whatever action is necessary to protect our country, especially if the government in question is complicit with the cartels.”

Making the point even finer, in relation to the Counterterrorism Strategy, President Trump stated: “We have a problem because the cartels rule Mexico, nobody does anything. They just rule it.” In other words, if Mexico does not act, the United States will feel free to take unilateral action, using all the tools unlocked by the FTO designation: military, financial, and trade.

As the coup de grâce for the week, the U.S. State Department announced that it will audit all 53 Mexican consulates in the United States to see if they have interfered in U.S. politics by praising anti-immigrant protests and assisting migrants targeted by immigration raids. The

U.S. will close any consulates found guilty of these diplomatic missteps. Given the current U.S. penchant to put pressure on Mexico from as many angles as possible, Monarch expects there will be some consulate closures further complicating bilateral relations.

Monarch Analysis

Thus far, Sheinbaum's response has been unsurprising. She instinctively acted to protect Mexican sovereignty from its historically overbearing northern neighbor, employing nationalist rhetoric to unite her country (and party) to build a bulwark against U.S. interventionism (which has ruffled feathers in Washington). She is very unlikely to extradite the accused governor, both because of his close ties to former president Andrés Manuel López Obrador (AMLO) and because doing so would not satiate a Trump administration that has moved the goal posts every time Mexico has met one of its security demands.

Sheinbaum's penchant for "cool head" diplomacy and the need to protect the USMCA review from tensions in the bilateral security relationship coupled with her domestic political challenges all suggest a buying-time strategy. This strategy could include the detention of the indicted Mexican politicians, and it should involve contingency planning for a U.S. military strike on the cartels. Its relative effectiveness, however, is unclear and will operate as an important wild card in U.S.-Mexico relations and Mexican domestic politics.

Real Progress on USMCA, but It Is Unlikely to Be Enough

Amid tensions in the security relationship, USTR Jamieson Greer visited Mexico April 20 and agreed to begin formal USMCA negotiations with Mexico on May 25. Yet a successful review remains unlikely due to stagnation in the parallel U.S.-Canada pre-review talks, Trump's penchant for tariffs, and the bleeding of security matters into the trade relationship.

During his visit to Mexico, Greer met with President Sheinbaum, held a series of meetings with Mexico-based business leaders, and participated in the first day of the second round of

pre-USMCA review talks. Despite the Trump administration's continued frustration that tariffs have not increased U.S. auto production significantly and that transshipment through Mexico to the United States continues, Greer agreed to begin formal USMCA negotiations with Mexico on May 25.

This decision came in the context of some private sector pressure on Greer to protect the USMCA. The Business Roundtable wrote Greer calling on him to maintain the tariff exemptions for the USMCA, and Autos Drive America, a trade group for foreign automakers in the U.S., warned that its members would not be able to continue supplying low-cost models in the U.S. market without the certainty of the USMCA and a significant reduction in tariffs on autos and auto parts.

Following Greer's trip, on April 30 the USTR removed Mexico from its Priority Watch List on intellectual property rights, another of the non-tariff barriers the U.S. wanted Mexico to address before the initiation of the USMCA review. And on May 7 the international trade court declared Trump's Section 122 global tariff of 10% unconstitutional.

Mexican business leaders, meanwhile, reported that in their meetings with Greer, he said the Trump administration will not give up its Section 232 tariffs on steel, aluminum, autos, and auto parts, although he did suggest a willingness to negotiate on the latter two. This drives home the reality that the USMCA will no longer be a free trade agreement. However, in his April 17 comments to the press, Greer implied that the U.S. is amenable to Mexico's fallback position of preserving a lower North American tariff rate than in the rest of the world.

Security, importantly, is becoming increasingly intertwined with trade. The USTR's 2026 National Trade Estimate Report on Foreign Trade Barriers notes the presence of Mexican organized crime in illegal logging and fishing that undercuts U.S. prices when exported. Meanwhile, a USMCA labor panel, which the USTR made public on March 26, is looking into complaints about labor intimidation by a "known drug trafficker" at the behest of union leaders.

Finally, looking north to the “C” in USMCA, USTR Greer expressed frustration last month that Canada was not addressing U.S. demands that a series of non-tariff barriers be dealt with before initiating the USMCA review. He also indicated that the United States was “kind of at the end of [its] rope” with the Canadian provincial boycott of U.S. spirits, noting that only Canada and China had retaliated against U.S. tariffs. Canadian Prime Minister Mark Carney shot back that U.S. tariffs on steel, aluminum, and autos were violations of the USMCA, saying “we’re not sitting here taking...instruction from the United States.”

Monarch Analysis

Despite progress in the USMCA review process, its successful conclusion remains unlikely due to stagnant U.S.-Canadian negotiations, Trump’s refusal to lower Section 232 tariffs in North America, and the integration of security concerns into trade discussions. Rather than an extension of the agreement, we expect annual reviews for the remainder of the Trump administration. The good news is that Mexico and Canada are likely to continue to enjoy lower tariff rates than the rest of the world when the review process is over for this year.

Sheinbaum Puts Her Stamp on Morena and the INE

A series of personnel changes in President Sheinbaum’s Morena party and the National Electoral Institute (INE) significantly increased the President’s influence in both institutions in advance of the 2027 midterm elections.

After months of arguing that the party should manage its internal affairs without significant presidential interference, in mid-April President Sheinbaum named Citlalli Hernández head of Morena’s new National Elections Commission. A week later, Morena’s outgoing president became Sheinbaum’s legal counsel, opening the way for the party to elect a Sheinbaum ally, Ariadna Montiel, as its new president on May 3. Motivated by instability in the party and the broader Fourth Transformation (4T) electoral alliance, these actions are designed to improve the 4T’s electoral chances in the 2027 midterm elections.

Close to Sheinbaum, Hernández will oversee selecting Morena candidates for the upcoming elections and repairing the damage between Morena and its small party allies generated by the electoral reform and Morena's hardline stance toward them. Hernández is known for her political acumen, and her selection was greeted warmly by the Labor and Green parties.

Montiel is also very close to the president and is tasked with reviving unity in the party leadership that suffered under her predecessor. As former Secretary of Welfare, Montiel brings a strong relationship with the ministry's 20,000 field soldiers, the *Servidores de la Nación*, who are likely to skirt election law and help with the campaign. Andrés Manuel López Beltrán, AMLO's son, also known as "Andy," remains the party's Secretary of Organization responsible for mobilizing the vote, despite constant rumors that he would be replaced.

At the National Electoral Institute (INE), Congress selected three new board members to replace those whose terms expired. All the new board members are allies of the Fourth Transformation, unlike those they replaced, and in one case, the only apparent qualification for the job is a close relationship with Sheinbaum. The INE is thus unlikely to pose obstacles to any electoral machinations designed to enhance the 4T's performance in the 2027 elections.

Monarch Analysis

Together, these moves consolidate Sheinbaum's grip on both Morena and the electoral machinery ahead of the 2027 midterms. By installing close allies atop the party's candidate-selection and mobilization apparatus, and by stacking the INE with 4T-aligned commissioners, Sheinbaum has materially reduced the institutional friction that could check her party's performance. The 4T coalition already holds a two-thirds supermajority in both chambers, with the Senate's composition locked in until 2030. The risk for investors and counterparties is therefore not electoral uncertainty but the opposite – that the coalition preserves its lower-house supermajority in the 2027 midterms, sustaining unobstructed constitutional-reform capacity through the end of Sheinbaum's term.

Sheinbaum Makes Significant Changes in Her Government

To improve Mexico's prospects in the USMCA review and for economic growth, Sheinbaum made changes to her USMCA negotiating team and in her cabinet.

In the USMCA team, the president nominated a new ambassador to the United States, Roberto Lazzeri, known for his economic acumen and his proven skills at bilateral crisis management, as noted in our [April 28 Client Alert](#). Sheinbaum also expanded the team to include one of her closest confidants, Diana Alarcón, currently Mexico's representative at the World Bank, who brings significant knowledge of Washington. And the president added the agriculture minister, Julio Berdegué, to the team but quickly replaced him as minister with a younger and more dynamic agricultural engineer, Columba López, the first woman to be Secretary of Agriculture.

Economy Secretary Marcelo Ebrard remains at the head of the team despite the appearance of a new scandal tied to him. When serving as foreign minister in the AMLO administration, Ebrard arranged for his son to live rent-free at the Mexican Embassy in London. When confronted with this misuse of public office, his damage control consisted of insisting he did nothing wrong and arguing that any parent would do the same for their child. Sheinbaum protected her pivotal economic team leader by justifying his action as an error in judgment due to a lack of clear guidelines governing such matters.

President Sheinbaum also made important changes in the Economy Ministry, as we noted in our [May 4 Client Alert](#). These changes were motivated by a desire to improve policy implementation and government-investor relations at a time when the investment climate remains unsettled by uncertainty surrounding the USMCA and inconsistent signals from the Sheinbaum administration. She named a new Undersecretary of Industry and Commerce, replacing Vidal Llerenas with Ximena Escobedo, and a new Director General of Trade

Facilitation and Foreign Trade, replacing Wilfrido Márquez (who resigned to run for elected office) with María Salgado.

Monarch Analysis

Sheinbaum is assembling a more technocratic, Washington-literate team precisely when the USMCA review and the broader investment climate require it. Lazzeri and Alarcón strengthen Mexico's negotiating bench, while the Economy Ministry reshuffle signals responsiveness to private sector complaints about implementation.

Good News, Bad News for Investors

To encourage private investment in the Mexican economy, the Sheinbaum administration made four policy changes this past month. These were followed by a judicial election reform proposal that would improve the qualifications of future elected jurists. But these positive developments were overshadowed by a Supreme Court ruling threatening property rights.

First, the government announced that it would rely 100% on Mexican steel in public works to increase demand for a product that has seen exports collapse under the pressure of a 50% U.S. import tariff. Second, Sheinbaum replaced the tax official responsible for large contributors, following complaints by large U.S. firms about the aggressive tactics of this office. Third, the president named a new head of customs who is very close to her tech czar and confidant, José Merino, with the promise of using new technologies to improve and streamline customs collection.

Fourth, Sheinbaum signed a [May 4 decree](#) to promote investment. It creates a Presidential Office for Investment Promotion and an interagency Investment Committee, simplifies procedures, and reduces bureaucracy associated with investing. Investment projects in strategic sectors – including energy, data centers, textile and apparel, semiconductors and microelectronics, automotive and auto parts, medical devices, pharmaceuticals and

biopharmaceuticals, aerospace, and chemicals – together with projects located in government-designated industrial hubs (*Polos de Bienestar*), and any project of MXN \$2 billion (~US\$116 million) or more, qualify for a fast-track authorization that the Investment Committee must issue within 30 business days of a complete application (mining, financial services, and public or mixed-investment projects are excluded). Separately, for investment-related permits processed through the new National Digital Investment Window (*Ventanilla Digital Nacional de Inversiones*) that do not go through this authorization track, if the relevant authority does not resolve them within 90 business days of a complete filing, they are deemed approved.

In another encouraging sign for investors, a close political ally of Sheinbaum introduced legislation to modify the constitution to postpone the second round of judicial elections from 2027 to 2028. The proposal also requires that all judicial candidates receive a certificate of competence from the National School for Judicial Training to ensure they are qualified to serve in the judiciary. And it calls for modifications to the Supreme Court to make it more efficient by dividing the court into two chambers, as in the past, and to make it less impactful by requiring a two-thirds vote on all decisions of constitutionality, rather than the current simple majority. The leader of Morena in the Chamber of Deputies, Ricardo Monreal, proposed a special session of Congress to discuss and approve this reform if necessary.

These investment incentives were partially overshadowed by an early April Mexican Supreme Court decision. In a divided vote (6-3), the Court ruled that the country's Financial Intelligence Unit (UIF) has the power to freeze bank accounts without a court order on the mere suspicion of money laundering or terrorism financing. The majority argued that this was necessary for the country to meet its responsibilities under international agreements, implicitly referring to money laundering cooperation with the U.S. government. The minority emphasized the lack of clarity in the conditions under which the government could seize property, echoing private sector concerns about the potential for the arbitrary use of this power.

Monarch Analysis

The Sheinbaum administration's four policy changes to attract investment over the last month are directionally positive. The UIF ruling, however, points the other way. The net signal to investors this past month is therefore mixed – the administration is actively courting capital while the Supreme Court has simultaneously expanded the discretionary power of the state over it.

The Last Month Has Been Pivotal for Energy Policy

Sheinbaum Announces Commission to Study Fracking

On April 15, President Sheinbaum announced the creation of a committee led by respected academic and scientific institutions that will assess whether unconventional gas resources can be developed with limited environmental impact. This marks a notable shift from the categorical opposition to hydraulic fracturing maintained under AMLO. The process will be headed by Cuauhtémoc Cárdenas, the respected son of Lázaro Cárdenas who nationalized the oil industry in 1938, whose participation provides political credibility and helps shape the discussion as a matter of national energy strategy and technical advancement rather than ideological change. ***A separate report addressing fracking and other energy issues from April is available on request.***

New Power Generation Tenders Announced

On May 11, Mexico's Energy Ministry (SENER) announced new initiatives to attract investment aimed at accelerating renewable generation, battery storage, and industrial self-supply projects. These include two new tenders for renewable and storage projects and a streamlined permitting platform for self-supply projects of 20 MW or less. Renewable projects will be required to include battery storage equivalent to 30% of plant capacity with

at least three hours of duration, and companies must commit to start commercial operations between 2027 and the first half of 2030.

The program adds to a much larger power expansion strategy valued at roughly USD 43 billion, which aims to add 32 GW of new generation capacity and more than 6 GW of electricity storage by 2030. Within that plan, renewable generation and storage projects alone represent close to USD 36 billion in expected investment. CFE is expected to develop 11.3 GW of renewable capacity and 3 GW of storage, while private developers would contribute another 10.6 GW of renewables and 2.5 GW of batteries. The government's broader objective is to increase Mexico's clean energy share from 24% today to 38% by the end of the decade.

The new tenders and permitting process will follow the government's "binding planning" model, meaning projects will be evaluated not only on capacity or pricing, but also on interconnection feasibility, regional reliability needs, environmental and social viability, and their ability to relieve grid congestion. The prior mixed investment scheme with CFE [that we wrote about in February 2026](#) has already attracted more than 220 proposals totaling 38 GW, with 81 projects advancing to the next stage. Industry expectations place renewable pricing between USD 35 and USD 70 per MWh, with storage emerging as a critical competitive requirement.

Alongside the utility-scale tenders, the government also introduced a fast-track mechanism for industrial self-supply projects between 0.7 MW and 20 MW. The new digital permitting platform consolidates multiple procedures into a single process involving SENER, CENACE, CFE, and the National Energy Commission, reducing permitting timelines for interconnected projects from roughly 15 months to around six months. Authorities expect the mechanism to accelerate industrial and nearshoring-related investments by improving certainty for companies seeking on site power generation and more reliable electricity supply.

Monarch Analysis

The formation of a commission to study the potential of unconventional resource development is a welcome shift to a more pragmatic approach to addressing Mexico's perceived overreliance on imported natural gas. While the government will not be reopening the hydrocarbons sector under a liberalized model similar to the 2013 reform, current signals suggest it is exploring a tightly controlled framework that could allow selective private and foreign participation in unconventional gas development. On the electricity side, the new tenders and streamlined permitting announced this week by the Sheinbaum administration are another positive step in the broader reopening of the Mexican power sector to private capital.

Following the ultra-nationalist approach to private energy investment in the AMLO administration, his successor is putting her mark on energy policy having concluded that meeting Mexico's reliability and clean energy goals will require significant private investment albeit under a centralized planning model that gives the government control over project selection and grid integration. [As described in our prior work](#), we see the potential for foreign investors to participate in helping Mexico meet its significant natural gas and power needs, but the most recently announced opportunities, as with those before them, will accrue to companies who understand the market deeply and are comfortable working within the government-defined construct for new projects.

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The Monarch Global Strategies Team

Michael C. Camuñez

President & CEO
mcamunez@monarch-global.com
Los Angeles

Luis Ricardo Rodríguez

Managing Partner
lrodriguez@monarch-global.com
Monterrey

Geoffrey G. Jones

CFO & SVP Development
gjones@monarch-global.com
Washington, D.C.

Pamela K. Starr

Senior Advisor
pstarr@monarch-global.com
Los Angeles

Juan Pablo López Rojas

Senior Analyst
jplopez@monarch-global.com
Washington, D.C.

Pedro Niembro

Senior Advisor
pniembro@monarch-global.com
Mexico City

Juan Casillas

Senior Advisor
jcasillas@monarch-global.com
Mexico City

Gerardo de la Peña

Senior Advisor
gdelapena@monarch-global.com
Mexico City

Begoña Sánchez

Senior Director
bsanchez@monarch-global.com
Monterrey

Patricio M. Martínez

Senior Associate
pmartinez@monarch-global.com
Monterrey

Gabriel Cavazos

Senior Advisor
gcavazos@monarch-global.com
Monterrey / Mexico City