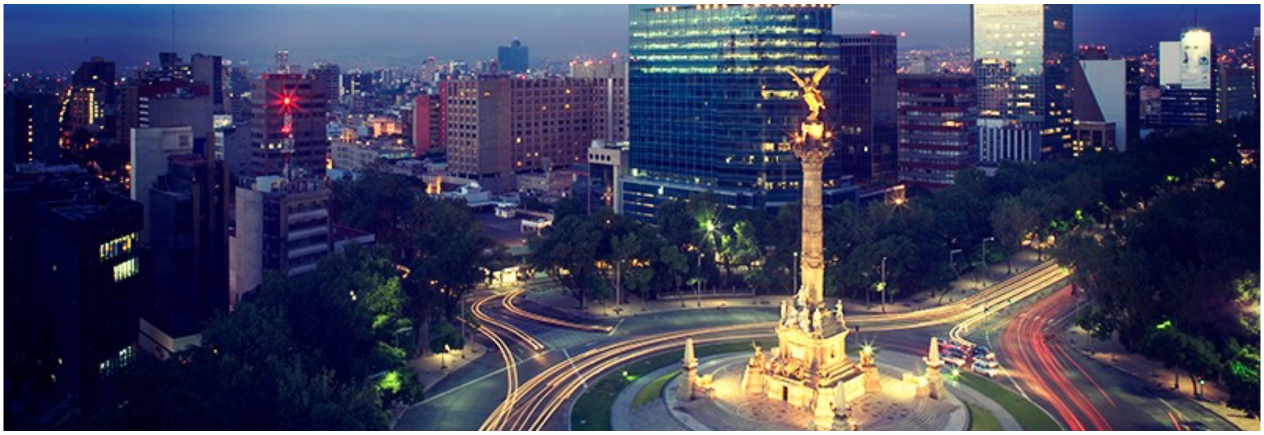

Monthly Report on Mexican Politics, the Economy, Energy, and U.S.-Mexico Relations

June 2026

Executive Summary

Mexican President Claudia Sheinbaum abandoned her "cool-headed" approach to dealing with the Trump administration and forcefully drew a second red line in U.S.-Mexico security cooperation: in addition to rejecting joint operations, Mexico will not extradite elected Mexican officials. Interestingly, the fiery rhetoric in her speech announcing this did not provoke a strong U.S. reaction. Instead, the U.S. adopted its own "cool-headed" approach in the interest of preserving security cooperation. Going forward, we expect Sheinbaum to rely on a mixture of diplomatic strategies: de-escalation of conflict on trade matters and a more nationalist rhetoric, while maintaining close cooperation, in the security realm. On the USMCA review, recent events have reinforced our long-standing view that the process will result in annual reviews rather than an extension for another 16 years. Mexico is coming to terms with this, and the Trump administration continues to signal that it is its preference.

Sheinbaum's new nationalist tone has been coupled with accusations that most of her political opposition is colluding with the global extreme right to undermine the Fourth

Transformation. The president is trying to exploit this threat to unify Morena, increase her influence in the party, and reduce her reliance on its two allied parties. This has included a constitutional reform allowing elections to be annulled if there is foreign interference, albeit without the implementing legislation required for it to apply to the 2027 midterm election. Sheinbaum is also using this new rhetoric to tar the opposition as anti-nationalists, thereby blunting the impact of its accusations that she is leading a narco-government. These accusations are further motivating the president to sustain her successful security strategy, including cooperation with the United States.

As we expected, Morena legislators amended the judicial reform to delay the second election of judges until 2028, improve the skill and experience of elected judges, and contain the influence of a pro-government Supreme Court. Although these changes are important for reviving private-sector confidence in the judicial system, they are unlikely to be sufficient for Sheinbaum to overcome her economic bind: a lack of investment and growth needed to instantiate the Fourth Transformation into the future. S&P's revision of Mexico's sovereign outlook to negative and Moody's downgrade of Mexican sovereign debt served as a stark reminder of this bind. While the modernization of the European Union-Mexico free trade agreement is good news, it is insufficient to drive foreign investment that relies more on the USMCA review, much less domestic investment that depends on reversing weak business confidence in the Fourth Transformation.

In energy-related news, Mexico's power sector is about to enter a new implementation phase following CFE's first Mixed Investment auction in which 37 renewable projects from 31 developers, totaling approximately 7.4 GW, were awarded. In addition, SENER last month launched a new call for renewable generation and standalone battery storage projects. Together, these developments confirm that private investment remains necessary, but will now be channeled through a more structured, planning-driven and state-led framework. For industrial users, the relevance is clear: power availability, storage, and regional grid reliability are becoming key factors for investment decisions in Mexico. Monarch's monthly *Mexico*

Energy Report is available upon request to clients who are interested in a deeper analysis of the recent awards, calls for new power projects, and their market implications.

Sheinbaum Draws a Red Line and the U.S. De-Escalates

Since the beginning of the Trump presidency, Sheinbaum has pursued what she calls a "cool-headed" strategy toward her northern neighbor. This has involved refraining from responding in kind to Trump's rhetorical outbursts and quietly working to convince him, through over a dozen phone calls, that his preferred policy toward Mexico would harm rather than advance his core objectives. Even in the wake of evidence of illegal CIA operations in Mexico and the April 28 U.S. indictment of the governor of Sinaloa, President Sheinbaum continued to speak softly and insist that there was no crisis in bilateral relations. This changed in mid-May.

The statements of individuals close to Sheinbaum and the sequence of events suggest that the catalyst was the May 15 leak of a Department of Justice internal conference call in which Associate Deputy Attorney General Aakash Singh instructed prosecutors to build cases against Mexican politicians, saying the department "should be tripling the number of indictments of corrupt government officials in Mexico." This development seems to have been the final straw after months in which the Trump team constantly moved the goalposts, convincing President Sheinbaum that it would always ask for more regardless of what she delivered. Moreover, extraditing a single sitting governor, let alone several, would likely undermine Sheinbaum's authority among Morena power brokers concerned that they could be next. She thus drew a line.

In a May 15 speech, she forcefully insisted that no foreign government would reverse the country's transformation and later pointed to the interventionist attitudes of some Trump advisors. Three days after what was said to be a terse May 21 meeting with U.S. Homeland Security Secretary Markwayne Mullin, Sheinbaum announced a May 31 speech to celebrate the second anniversary of her election victory. It was a fiery address delivered to tens of thousands of her supporters, rejecting any U.S. interference in Mexican internal affairs. The tone and content of the relevant passages are worth quoting:

> "When it is determined from outside who is guilty and who is not…when the idea that another country can interfere in matters that correspond only to Mexicans becomes normalized, we are no longer speaking of cooperation, we are speaking of interference. And Mexico, listen clear and listen strong: don't accept interference! We are a free, independent, and sovereign country!"

> "…it is legitimate to doubt the true interest behind the extradition requests for elected authorities. Because first, it must be clear: they come for some, later for others, until the offices of the Department of Justice become Mexico's main elector. This we cannot permit. Mexican history shows where that path leads. Intervention has never provided justice and well-being for the people."

While President Sheinbaum made clear that Mexican security cooperation with the United States would continue (indeed, the following day Security Minister Omar Garcia Harfuch announced the arrest of high-ranking members of the Chapitos faction of the Sinaloa cartel), it would not take place at the expense of national sovereignty. In other words, Mexico will not extradite its politicians to the United States and instead insists on exercising its sovereign authority to judge them domestically.

Interestingly, Sheinbaum's speech produced a muted U.S. response. Information was leaked to the *Los Angeles Times* three days later, identifying two additional governors under investigation by the U.S. Justice Department. This was not surprising, however, given the May 15 meeting transcript leak suggesting many high-ranking politicians are being investigated. Otherwise, the only U.S. criticism came from Ambassador Ronald Johnson, who lamented the political distraction from strengthening security cooperation. Later in the week, statements from Homeland Security Secretary Mullin and Ambassador Johnson did not mention the speech and instead lauded the depth of U.S.-Mexico security cooperation and, in the case of Mullin, accepted Mexico's central demand in exchange for that cooperation—that the United States respect Mexican sovereignty. This was followed by the first telephone conversation between U.S. Secretary of State Marco Rubio and Mexico's new foreign minister, Roberto Velasco, and an agreement to hold a June 12 meeting of the two countries' security cabinets. In this instance, it was the United States that demonstrated a "cool-headed" approach.

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In short, crisis averted, and the Mexican message was received. President Sheinbaum was able to send a clear message to the United States about where her second red line lies (the first being no joint operations with U.S. forces on Mexican territory). For its part, the United States' muted reaction demonstrated the value it places on Mexico's high level of security cooperation. We still expect additional U.S. indictments of Mexican elected officials and continued nationalist reactions from President Sheinbaum, but this should not disrupt bilateral security cooperation, despite not leading to important extraditions. Nor does it indicate that Sheinbaum's "cool-headed" diplomacy is completely dead. Instead, it will now be coupled with a parallel nationalist strategy.

Annual USMCA Reviews Are Coming

Events surrounding the USMCA review process this past month reinforced our view that the process will lead to annual reviews for the remainder of the Trump administration.

In mid-May, Mexican Economy Secretary Marcelo Ebrard acknowledged for the first time that the USMCA talks were apt to be drawn out, insisting that Mexico is in no rush to complete the review. On the U.S. side, at a Council of the Americas event, Deputy U.S. Trade Representative Geoffrey Goettman said the U.S. would not withdraw from the USMCA, but neither would Trump accept it as it stands, a position reinforced by ensuing administration actions and comments.

U.S. Trade Representative Jamieson Greer cancelled his participation at the last minute in the first formal review talks, held in Mexico City from May 27-29, but made a point of noting Trump's dissatisfaction with the "huge" U.S. trade deficit with Mexico and his intention to continue applying tariffs to Mexico until it is reduced. Trump followed this up with his widely reported June 10 statement: "I'm not looking to renew [the USMCA]," while reasserting that there is nothing Mexico or Canada produce that the U.S. needs. He did not, however, say he was looking to withdraw from the agreement. At the same time, the United States continues to give special trade treatment to its USMCA partners. To wit, the USTR exempted exports complying with USMCA rules from its June 2 recommendation that tariffs be imposed on 60 countries for failing to exclude forced labor from their export supply chains. As a side note, these proposed levies are now subject to a written comment period ending July 6 and public hearings expected to begin July 7.

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Events over the last month suggest that Mexico is coming to terms with annual reviews of the USMCA and the United States remaining on that course. Evidence includes Ebrard's statements and Trump's suggestion that he is not inclined to renew the USMCA. The fact that he did not suggest the U.S. might leave the agreement means that this statement does not indicate a shift in U.S. policy. Further, the decision to exempt USMCA-compliant exports from the recent Section 301 tariffs shows that the agreement still shapes U.S. policy. Trump clearly dislikes the USMCA, but he also understands that he cannot dismiss it, leading to a high likelihood of annual reviews.

Sheinbaum Turns a Lemon (U.S. Indictments) into Lemonade

Mexico's concern over U.S. intervention in its internal affairs has provided President Sheinbaum with a perfect tool to strengthen her influence within the ruling coalition and undermine the opposition's chances in the 2027 midterm elections.

Within Morena, Sheinbaum is exploiting U.S. actions to demand party unity in the face of potential foreign interference in the 2027 election, a position backed by an otherwise rambling June 4 missive from former president Andrés Manuel López Obrador posted on his X account. Further, the party is now controlled by Sheinbaum allies following the May 25 resignation of the former president's son, Andrés Manuel López Beltrán, who plans to run for a seat in the Chamber of Deputies from his home state of Tabasco.

Within the ruling coalition, Sheinbaum is setting up Morena to operate without its traditional coalition partners, the Labor (PT) and Green (PVEM) parties. The president is still resentful of these parties' decision to vote against her electoral reform earlier this year, and she is aware of the PVEM's growing doubts about the benefits of its alliance with Morena. PVEM politicians are concerned that accusations of Morena ties with organized crime will hurt the party more than it benefits from its alliance with the ruling party. Sheinbaum is thus considering having Morena candidates run against their erstwhile coalition allies.

If Sheinbaum decides to pursue this course of action, it will make it much harder for the Fourth Transformation to maintain its two-thirds majority in the Chamber of Deputies in the 2027 midterm elections (senators will not be up for election). To enhance its chances, Sheinbaum is likely to reinforce her anti-crime efforts, including cooperation with the United States, given that her administration faces public dissatisfaction with its security and organized crime policy results. This could include placing a prominent Morena politician in jail. She is also likely to intensify her attacks on the opposition, tarring its members as anti-nationalist sellouts to foreign actors.

This line of attack began with rhetorical attacks on the opposition governor of Chihuahua for betraying the nation by allowing the CIA to participate in an anti-cartel operation and thereby violate Mexican law. It has included attacks on the governor's party, the National Action Party (PAN), and, more broadly, on the Mexican right. On May 26, Sheinbaum accused the Mexican right of orchestrating "a campaign together with the international right—especially in Argentina, Spain and the U.S.—to attack the Mexican government from there." In her May 31 speech, Sheinbaum went further, railing against opposition politicians and commentators for colluding with the global extreme right to weaken the Fourth Transformation. Despite this, she insisted, "no one is going to stop the transformation of our country."

Beyond rhetoric, the Mexican Congress held a special session to fast-track approval of a constitutional reform allowing Mexican election authorities to annul an election if there is evidence of foreign interference. Morena politicians representing Chihuahua also introduced legislation to impeach their governor for treason. Interestingly, Sheinbaum later pragmatically backtracked on both initiatives in response to political opposition.

Regarding the annulment of elections, the circumstances under which this could take place were more clearly defined; the constitutional reform was not accompanied by approval for its implementing legislation, meaning it will not apply to the 2027 midterm elections; and a justice of the Electoral Tribunal insisted that annulling an election for any reason is the least desirable option for the court. Sheinbaum also killed the effort to impeach the Chihuahua governor because of its unpopularity among Chihuahua voters and its likely negative impact on Morena's chances in the 2027 gubernatorial election.

As a final election note, the Institutional Revolutionary Party's (PRI) June 7 landslide in local elections in Coahuila should not be interpreted as a sign of the opposition's electoral recovery. For local reasons, the PRI has never lost control of this state, while Morena continues to be a weak political force there. As such, these results are not generalizable to the national level.

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All of this indicates that Sheinbaum's nationalist and anti-rightist rhetoric will continue in the coming months, forming the foundation of Morena's 2027 political campaign. Sheinbaum will persistently tar her opposition as being in league with foreign extremists, focusing on right-wing personalities as well as the PRI and PAN. The muted U.S. response to Sheinbaum's May 31 speech, meanwhile, implies that the Trump administration will generally discount this rhetoric as domestic politics (although occasional rhetorical excesses from the U.S. side are also to be expected). Meanwhile, much of the Mexican opposition will campaign against what it calls Mexico's narco-government, a strategy that Sheinbaum will attempt to blunt through the continuation of her anti-crime policies in cooperation with the United States.

Improving the Judicial Reform

As we indicated last month, Morena used a special late-May session of Congress to rapidly approve revisions to the 2024 judicial reform, advancing the judicial skill and experience of elected judges and improving Supreme Court operations. Most significantly, this constitutional reform requires all judicial candidates to receive a certificate of competence from the National School for Judicial Training and limits the power of the pro-government Supreme Court by necessitating a two-thirds vote for all decisions regarding constitutionality.

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These changes are designed to improve private-sector confidence in the Mexican judiciary and thereby help remove an obstacle to investment. At the same time, the Sheinbaum security team is redoubling its efforts to fight extortion due to strong private-sector concerns about the crime. While these efforts will be appreciated by domestic investors, they seem unlikely to reverse the private sector's weak confidence in the Fourth Transformation.

Sheinbaum's Economic Bind Persists

President Sheinbaum requires economic growth to reverse public discontent with the economic situation and to generate much-needed fiscal revenues. Events last month both underlined this economic bind and provided a ray of hope.

So far this year, economic growth and job creation have been stagnant, while inflation has outpaced wage increases. Most troubling for Sheinbaum's electoral base, inflation in Mexico's "basic basket" of consumer goods is increasing at roughly twice the rate of the broader consumer price index, undermining the purchasing power of lower-income earners. As a result, consumer confidence is falling, as is popular support for Sheinbaum's management of the economy.

Simultaneously, two ratings agencies highlighted Sheinbaum's challenge. Standard & Poor's revised Mexico's sovereign outlook to "negative," and Moody's downgraded Mexican debt to one notch above investment grade. S&P justified its decision based on slower-than-expected fiscal consolidation leading to an increase in debt and debt service payments, as well as slow growth making improvement difficult. Moody's likewise pointed to the weakening of the country's fiscal position due to low growth and rigid spending requirements.

The signing of Mexico's updated free trade agreement with the European Union, however, provided hope for additional investment and export-led growth. The modernized accord makes 94% of EU-Mexico trade tariff-free, including most agricultural exports and all autos and auto parts. It also opens the door to increased EU investment in Mexico, in part because it includes a permanent tribunal to resolve investment disputes between European investors and the Mexican government. This was followed by a June 4-5 visit to Mexico by Spain's economy minister, who suggested that Spain, Mexico's second largest source of foreign investment, would invest 100 billion euros in Mexico and double trade by 2030.

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The Sheinbaum administration is in a deep economic bind, needing economic growth to underpin the long-term survival of the Fourth Transformation but lacking the investor confidence needed to generate growth. While the EU-Mexico agreement matters, foreign investor confidence depends more on the future of the USMCA, while domestic investors remain concerned about the long-term implications of the judicial reform and Morena governance more generally. Sheinbaum's economic bind is unlikely to let up soon.

Energy: First Mixed Investment Awards and New Tenders Announced

Mexico's electricity sector is beginning to move from policy redesign into implementation. CFE's first Mixed Investment awards selected 37 renewable projects from 31 developers, representing approximately 7.4 GW of new generation capacity and confirming that private capital will remain part of Mexico's power expansion strategy, although under a more structured and state-led framework. The concentration of awards in the Peninsular and Northeast regions (though all regions received a healthy number of awards) also shows that the government is prioritizing areas where electricity supply, grid reliability and industrial growth are becoming increasingly connected.

At the same time, SENER has opened a new process for renewable generation and standalone battery storage projects of 0.7 MW or more, with priority given to projects aligned with Mexico's binding electricity planning. For industrial companies, the main takeaway is that energy availability, storage and grid reliability are becoming central to Mexico's competitiveness agenda, particularly as nearshoring, manufacturing growth and electrification continue to increase demand. Clients interested in a more detailed assessment of the projects, developers, regional implications, and investment opportunities may request Monarch's full *Mexico Energy Report* for this month.

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