WELLS FARGO

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Latin America Elections Outlook: The Shift to the Political Right is in Motion

Summary

Always—but especially over the next twelve months—political developments across Latin America will be paramount for investors and corporates with exposure to the region. Rapid policy change across the major Latin American economies could take shape depending on election outcomes, while local financial markets may experience sharp pre- and post-election volatility as policy platforms emerge and elections are decided. As we have noted in the past, we believe Latin America is headed toward its second "Conservative Wave"—an expression to reflect our view that right-leaning policy platforms will win all the upcoming elections through the end of next year. This "Conservative Wave" trend started in 2024, gathered momentum in 2025 and is still on track to continue in 2026. In this note, we offer updated views on major regional elections and policy platforms that could be implemented, along with our perspective on the longer-term direction of local currencies as a result of each election.

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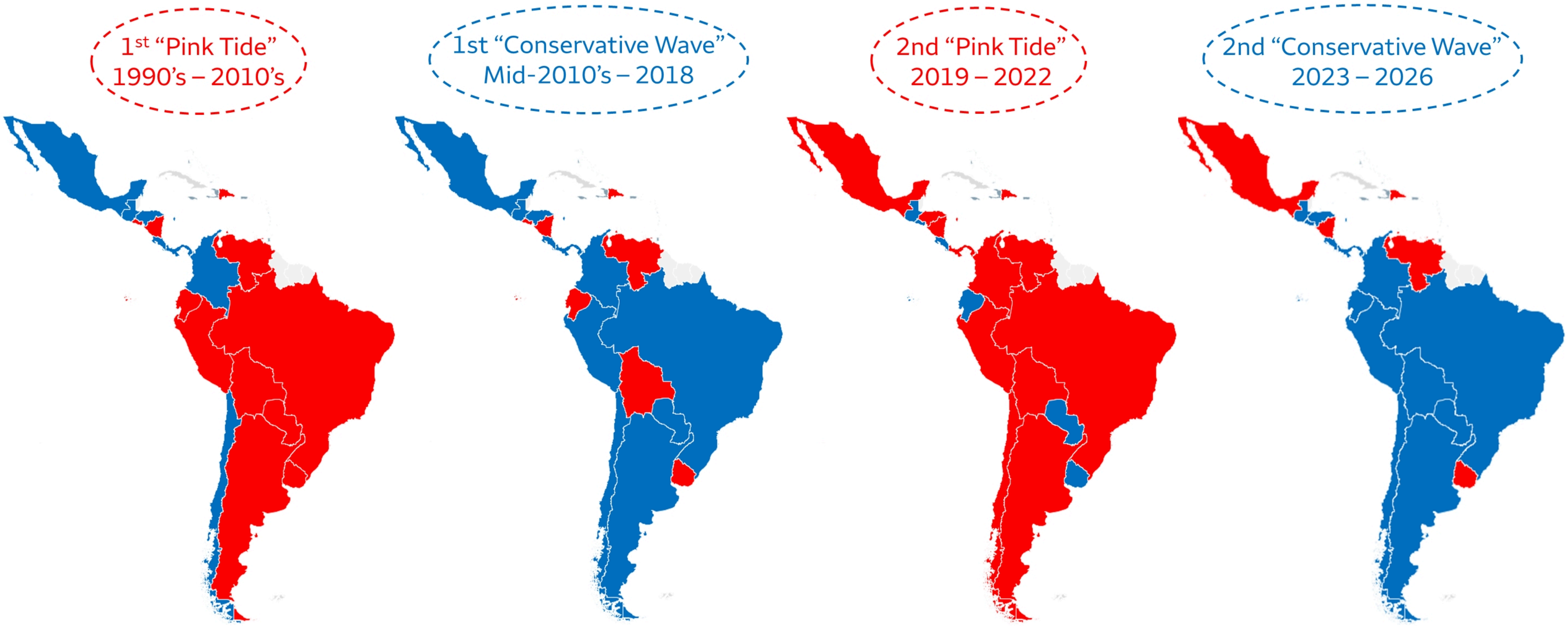
In our view, Latin America will unwind the post-pandemic 2nd "Pink Tide" for a 2nd "Conservative Wave"

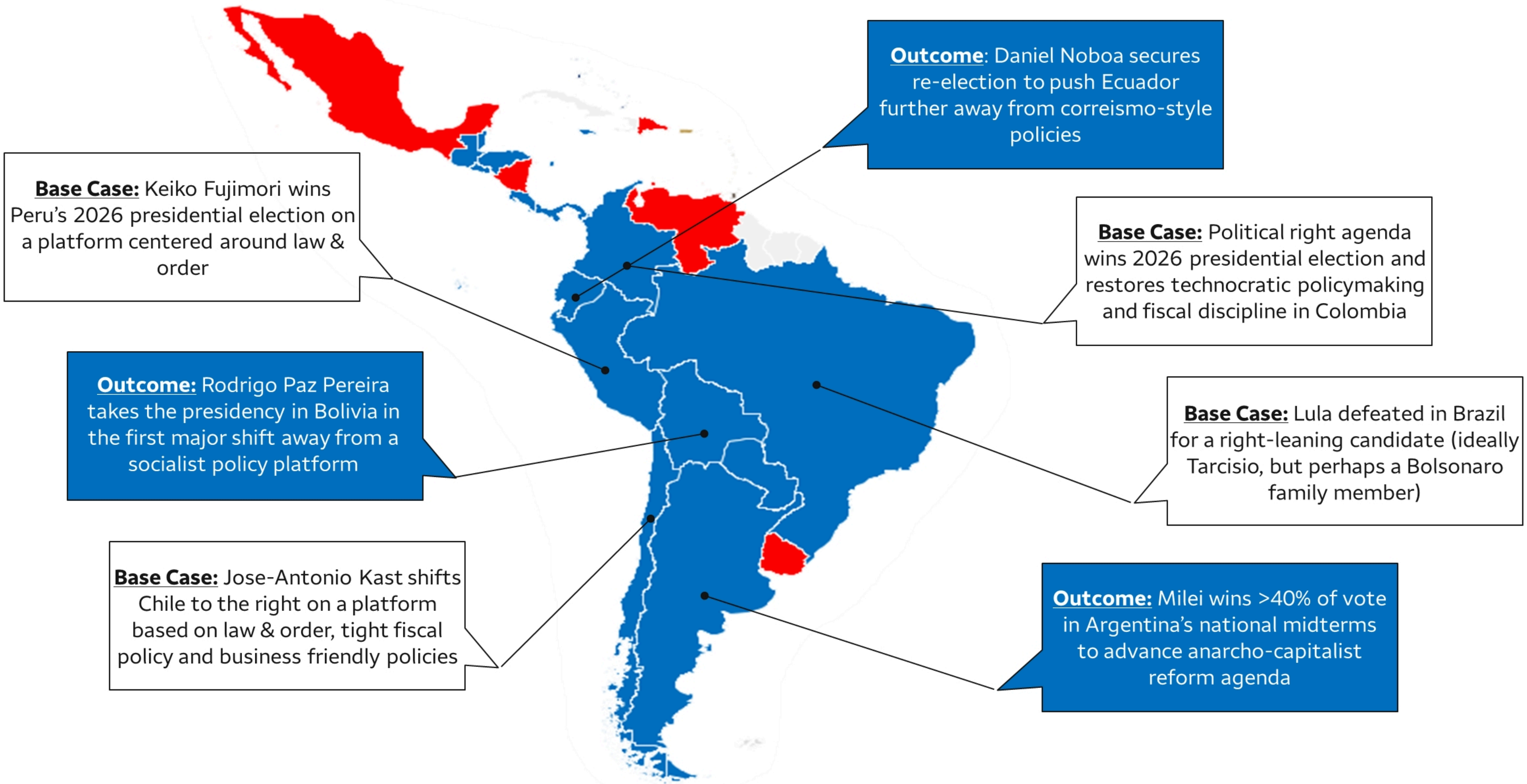
Regional politics have shifted across the political spectrum over the last few decades. Following the pandemic, thematically, left-leaning policy platforms were elected in mass for the second time (2nd "Pink Tide"). However, we believe elections in 2025 and 2026 will yield a broad shift back to the right (2nd "Conservative Wave")



Source: Wells Fargo Economics

Momentum behind the 2nd "Conservative Wave" theme is starting to pick up pace

Conservative policy platforms won recent elections in Ecuador, Bolivia and Argentina, further advancing Latin America's shift to the right-side of the political spectrum. Upcoming major elections, in our view, will complete the region's "2nd Conservative Wave"



Source: Wells Fargo Economics

The rising popularity of Jara, and slipping support for Kast, complicates Chile's shift to the right

Jeannette Jara

Likelihood: 35%

Scenario: Boric administration achievements, specifically minimum wage increases, a reduced work week and pension reform convinces voters for state-interventionist policies. Jara's affiliation with communism is digested by voters, and proposals for larger minimum wage hikes, cash transfers to households, subsidies for small-businesses, eliminating private pensions and tax hikes on high-income earners is an effective form of populism. Her policy platform, combined with a heavily fractured political right, scores Jara a first-round win. Should the election go to a runoff the likelihood of a Jara presidency would decline.

Policy Platform: Jara's platform would be anchored around economic issues, social equity and public safety. Job creation through the formation of public sector companies, cash transfers and subsidies to contain cost of living pressures and minimum wage hikes are all pursued. Proposals to tax wealthy households are considered, while Jara potentially pursues broader wealth redistribution policies. A Jara administration would also likely take an active role in improving domestic security, and while initially Jara encouraged immigration into Chile, her stance has changed to reflect a need for tighter border control, possibly by military force.

CLP & BCCh Outlook: A Jara first-round win would be a shock, and CLP weakens sharply. The composition of congress may determine the magnitude and duration of the selloff, but USDCLP pops higher. BCCh policymakers have tolerance for FX depreciation, although broader policy uncertainty delays re-starting the easing cycle into mid-2026.

Matthei or Kaiser

Likelihood: 10%

Scenario: Conservative voters who oppose Kast align with Kaiser's far-right platform, while centrist voters who support change pivot toward Matthei as the centrist solution. Kaiser gains in popularity due to his fiscal discipline and anti-crime platform, while Matthei's recalibrated campaign for a sharper focus on domestic security and economic liberalism resonates. Kaiser attracts voters looking for radical change, while Matthei's moderate tone resonates with older voters and youth engagement appeals to younger demographics. Kaiser or Matthei defeat Jara in a runoff.

Policy Platform: To differing degrees, but both Matthei and Kaiser's policy platforms are centered on improving domestic security, deregulation, shrinking the state, fiscal discipline and cutting corporate tax rates. For Matthei, she will be focused on improving domestic security through anti-crime measures and prison expansion but will also focus on reducing public expenditures through ministry mergers and streamlined social programs. For Kaiser, his platform will also be centered around improved security measures and fiscal responsibility, although Kaiser is likely to be more aggressive on the proposed fiscal adjustment as well as on anti-crime and security measures.

CLP & BCCh Outlook: Modest CLP volatility materializes as Matthei or Kaiser getting to the runoff against Jara would be a surprise, although margin relative to Jara determines the magnitude of CLP weakness. A Matthei or Kaiser win settles CLP, and external drivers influence CLP weaker over a longer-term horizon. BCCh policymakers can tentatively restart the easing cycle in early 2026.

Jose Antonio Kast

Likelihood: 55%

Base Case: Concerns around public security and corruption drive popularity among Chilean voters for a shift back to a conservative policy platform. Stagnant economic trends following the pandemic also prompt a shift in voter sentiment toward the right. Kast represents a tough on crime and business-friendly platform that resonates well with voters, and given Kast has run in multiple prior elections he holds brand name recognition that carries weight at the polls. Kast may be challenged by a fractured right, although he still manages victory against Jara in a runoff.

Policy Platform: Kast's "Plan Implacable" outlines an agenda centered around stricter rule of law, increased presence for public security and a hardline stance on immigration. Business deregulation and a broad reduction in state intervention across the economy would also likely be priorities. Chile's public finances have also worsened over time, and Kast would likely implement a more fiscally conservative budget that reduces social assistance and financial support for indigenous populations to address fiscal and debt trends. At the same time, Kast also pursues lower tax rates, particularly corporate tax rates, which may offset a portion of the fiscal adjustment.

CLP & BCCh Outlook: CLP volatility may ensue after the first round, but a Kast victory stabilizes local markets. External drivers (i.e., Fed monetary policy, China, etc.) become more influential over the longer-term direction of the peso. CLP weakens over a 12-month horizon and BCCh policymakers tentatively ease monetary policy in early 2026.

Source: Wells Fargo Economics

Brazil's election is fraught with complexities, but we believe the political right will unseat Lula

Lula Victory — Likelihood: 45%

Scenario: Lula deploys a populist policy platform centered around enhancing fiscal support to households ("Bolsa Familia" conditional cash transfer program, in particular) and defending Brazil's judicial and electoral processes from foreign interference. Fiscal stimulus and defending Brazil's institutions resonates with voters across the wealth and income spectrum, and the recent jump in Lula's approval ratings and overall support is sustained through the end of next year's election cycle. Lula also benefits from a unique position to defer any local market volatility or slowdown in economic activity on U.S. tariffs/tariff threats. He uses plausible markets and economic deniability to redirect attention away from his administration to elsewhere to help capture a fourth presidential term.

Policy Platform: A fourth Lula term would likely be similar to his prior administrations. In the past, and during his current term, Lula administrations have been defined by loose fiscal policy and the state playing a larger role across Brazil's economy. We would expect similar dynamics in a fourth term, where Lula uses fiscal stimulus as means to generate robust consumer spending and resilient economic activity, while also promoting local development banks (BNDES) to lead low-interest rate lending. Select expenditures may be scaled back; however, Brazil's government debt-to-GDP ratio continues to climb toward 100% by the end of Lula's fourth term. "Fiscal dominance" concerns remain top of mind in another Lula-led government, and the Brazilian Central Bank (BCB) turns more cautious toward interest rate reductions in an effort to defend against runaway inflation expectations.

BRL & BCB Outlook: We feel confident in Lula's pre-election fiscal stimulus playbook, which is tentatively underway, but likely to pick up pace. Given Brazil's unsustainable debt trajectory and market participants' focus on local fiscal trends, BRL weakens sharply as Lula's election playbook is fully deployed pre-election as well as post-election. Sporadic BCB FX intervention does little to disrupt BRL depreciation as political and fiscal risk premium rises, and BCB policymakers pause the easing cycle as uncertainty builds toward the back end of 2026 and into 2027.

Lula Defeated — Likelihood: 55%

Base Case: Elevated inflation and local markets volatility prompts voters to opt for a change in the direction of policy. Candidates focused on fiscal responsibility and placing government debt on a more sustainable trajectory gather momentum, especially when fiscal discipline is framed in the context of how spending restraints can result in softer inflation, stable financial markets and lower interest rates. While official candidates are still to be determined, we take the view that the overall conservative policy platform rather than the specific candidate will be the driving force of voter intentions in 2026. Recent trade and broader tensions with the United States, as well as Bolsonaro's disqualification and home imprisonment, add additional layers of complexities for the political right that candidates will have to navigate.

Policy Platform: To varying degrees, but candidates that may declare their candidacy (Eduardo Bolsonaro, Michelle Bolsonaro, Tarcisio de Freitas) represent fiscal discipline. While most of Brazil's budget expenditures are rigid and difficult to adjust without constitutional amendments, attempts at social assistance-related expenditure cuts and broader public sector expenditure reductions can gather momentum. Tax reform and privatizing state-owned assets to raise revenue would likely be pursued, while commitment to Brazil's existing fiscal framework, or an improved version, is reinforced. Winning the presidency is key; however, congressional support will be just as important. Implementing fiscal adjustment needs constitutional amendments with any amendment requiring 3/5th's policymaker support in both houses of congress, a threshold that may be difficult and certainly less likely than the probability of our base case scenario unfolding.

BRL & BCB Outlook: A shift toward a fiscally conservative government improves investor sentiment toward the Brazilian real and BRL experiences a sharp relief rally after the election that persists into 2026. Brazilian Central Bank policymakers adopt a more confident posture that they can lower policy rates more rapidly after the election as fiscal risks subside and currency strength materializes. H2-2026 easing is more rapid relative to H1-2026 rate cuts; however, BRL is unphased as broad-based capital inflows into Brazil materialize and fiscal discipline is adopted.

Source: Wells Fargo Economics

Colombia's election will reveal whether the move left was temporary or a true shift in sentiment

Left-leaning Experiment Continues Likelihood: 45%	Shift Back to the Center/Right Likelihood: 55%
Scenario: While Petro's approval rating has trended lower during his term and remains suppressed, recent data show support is improving. Petro himself cannot run for re-election, but recent improvements in his approval rating could result in renewed support for his platform as well as voter interest in whomever Petro endorses as his potential successor. Petro has not officially endorsed a candidate just yet; however, the internal consultation of Petro's Historic Pact recently elected Ivan Cepeda as the coalition's 2026 presidential candidate. For now, Cepeda is the front-runner to be the candidate representing the political left. Cepeda is well-known in local political circles and has a similar background to President Petro. Should Petro's support improve, perhaps on the back of tensions with the U.S., combined with brand name recognition associated with Cepeda, the left could sneak away with back-to-back wins at presidential elections. **Policy Platform:** With Cepeda coming out of the Historic Pact primary, we will focus on the policy platform he may look to implement. In our view, Cepeda is very similar to Petro also from a policy perspective and we would view a Cepeda administration as the Petro policy continuity outcome. In that sense, fiscal balance may be elusive, and wide fiscal deficits can persist for an extended period. Public debt dynamics would be unlikely to improve, and Colombia's sovereign debt burden would continue to rise quickly. Cepeda has not made any formal declarations on his potential policies toward restarting new oil exploration activities, but should Petro-administration energy policy remain intact, Colombia's external position could continue to weaken. **COP Outlook:** A Cepeda victory in 2026 would keep local political risk elevated and additional underlying FX fundamentals would unlikely improve. In that sense, COP would continue to be a "high vulnerability" EM currency that is particularly sensitive to shocks and broader risk-off market sentiment. A Cepeda administration, especially if further fiscal slippage materializes, would likely be associated with an additional risk premium as the erosion in fiscal metrics and public finances would likely be perceived as longer-lasting and not just a temporary dynamic related to President Petro.	**Base Case:** Historically, Colombian voters have preferred right-leaning and conservative policy platforms, with the election of Petro in 2022 the first major shift to the left side of the political spectrum in Colombian politics. Rather than further test how left-leaning policies impact the economy, Colombian voters opt for a shift back right as elevated inflation, rising crime rates, sluggish economic growth and broader policy certainty incentivize voters for a return to conservative policies. Our base case scenario is for a conservative-leaning candidate to win the presidency; however, we have stronger conviction in the direction of policy rather than candidate that will ultimately win the election. Multiple technocratic candidates in the center/on the right are emerging (Sergio Fajardo and Victoria Davila), which can lead to political fragmentation and keeps our conviction in this scenario materializing restrained for the time being. **Policy Platform:** In a scenario where Fajardo or Davila wins, and while full details are yet to be revealed from either candidate, reinstating Colombia's fiscal anchor and restoring orthodoxy to the broader policy agenda would be paramount. Implementing corruption control and tough on crime policies as well as a more technocratic economic policy agenda (i.e., reinstating oil exploration activities) would also be priorities. Other right-leaning candidates (Abelardo De La Espriella) are likely to pursue similar proposals, although with varying degrees of aggression and preference. Regardless of the candidate, we believe a right-leaning administration would put Colombia's fiscal accounts on an improving trajectory and reduce overall country risk. **COP Outlook:** The Colombian peso has become a "high vulnerability" currency over the course of the Petro administration as political risks have remained elevated and underlying economic fundamentals have deteriorated. In our view, a shift back toward the center or right, but especially under Fajardo or Davila, will reduce overall FX vulnerability. An additional degree of FX risk premium may be lifted off the peso as the trajectory for Colombia's public finance position improves. CDS and sovereign spreads can narrow, while downgrade pressure on Colombia's sovereign rating can stabilize.

Source: Wells Fargo Economics

For additional publications focused on Latin America political developments, please refer to the below links:

Argentina's Transition to a Post-Peronism Economy is in Flux (September 2025)

Latin America Elections Outlook (August 2025)

Brazil's Post-Tariff Threat Economic & Electoral Outlook (July 2025)

Argentina Travel Takeaways (July 2025)

Unwinding the Tide. Latin America's Shift to the Political Right (June 2025)

Argentina's Tidal Wave of a Sea Change, But Did The Crest Come Too Soon? (April 2025)

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