

The Rise of AMLO: Part II

March 20, 2017

In their next general election, Mexicans will cast their vote for the 64th president of the country's history. The two frontrunners are Margarita Zavala from the National Action Party and Andres Manuel Lopez Obrador (AMLO) from the National Regeneration Movement (MORENA). Although the election won't be held until July 2018, current polls suggest that AMLO would win by a small margin if the election were held today. His recent surge can be partially attributed to growing nationalism in Mexico due to Donald Trump's election as president of the United States.

AMLO's core supporters can be broken into two groups, those who are against neo-liberal economic reforms and those who want more social benefits. He derives most of his support from the southern region of Mexico, primarily in the states of Tabasco and Chiapas, where there is a significant indigenous population. To get an idea of how his supporters view him, imagine a politician with Bernie Sanders's righteousness and Donald Trump's brashness. AMLO is known for participating in protests, and was once left bloody from an altercation with police. He also hurls insults at his political rivals in the PRI and PAN parties, labelling them as the "mafia elite." Recently, he held a pep rally in California to criticize Donald Trump's immigration policies and vowed to take his complaints to the United Nations. If AMLO wins the presidency, it could adversely

affect the already tense relationship between the U.S. and Mexico.

This week's report will be divided into three sections. First, we will offer a brief biography on AMLO. Next, we will analyze his possible policy agendas and discuss the likelihood that he wins the presidency, followed by possible market ramifications.

AMLO from the Beginning

Andres Manuel Lopez Obrador was born in 1953 in Macuspana, Tabasco, located in southeast Mexico. The oldest of six children, he was raised in a middle-class family. His parents were Andres Lopez and Manuela Obrador. He studied political science and public administration at the National Autonomous University of Mexico from 1972 to 1976.

Upon graduation, AMLO joined the Institutional Revolutionary Party (PRI) to campaign for poet Carlos Pellicer's senatorial bid in his home state of Tabasco. As a reward for his efforts, he was offered the head job at the Indigenous People Institute (INI), which worked to preserve the culture of indigenous people as well as establish communication between indigenous groups and the local government. While working at the INI, he developed a knack for mobilizing large masses of people to pressure the federal government. In 1982, he stepped down from his position at the INI to join Enrique Gonzalez Perdero's campaign for governor of Tabasco. Perdero noticed AMLO's gift for attracting a loyal following and upon winning the nomination he selected AMLO as the PRI party's president of Tabasco.

Upon taking office, he immediately developed a reputation for being controlling and overbearing. His insistence that representatives should allocate at least 10% of their budget to social programs was seen by many as an overreach. As a result, many of the representatives grew agitated with him as they were already being forced to make budgetary cuts. AMLO's tenure as PRI president was also hindered by the Mexican Debt Crisis which constrained his policy initiatives. Frustrated, AMLO stepped down in 1983, the same year he assumed the position. Despite his abrupt departure, he still remained loyal to the PRI. The following year, he accepted a position at the National Institute of Consumer Protection (INCO), another government agency, as the director of Social Promotion.

During his time at INCO, AMLO associated himself with the left-wing of the PRI party and began embracing "neo-Cardenismo," named after former Mexican president Lazaro Cardenas.¹ Neo-Cardenismo is a form of populism that favors government control of natural resources and land. People who subscribe to neo-Cardenismo are generally opposed to reforms that promote free-market liberalism as it encourages the privatization of land and resources by foreigners. Many, including AMLO, credit this ideology for the "Mexican Miracle" that took place from 1940 to 1970.

As alluded to last week in Part I of this report, Cardenas's contribution to the Mexican Miracle is debatable. Due to resource depletion and diverted revenue, Mexico had to finance projects related to oil exploration and refinery development through debt. In other words, the Mexican Miracle was a debt-fueled boom that couldn't be sustained. In addition, much of

the money borrowed during the boom came from the same developed countries that were pressuring Mexico to implement economic reforms. That said, AMLO used Cardenas as a model of the ideal politician.

While working at INCO, AMLO became increasingly vocal in his opposition to neo-liberalism and globalization. He believed the austerity measures that came as a condition of receiving short-term debt relief unfairly hurt the poor. He also believed that free-market liberalism was unconstitutional. He would later deride many members of his own party for pursuing market-oriented policies against the will of the people. He even went so far as to demand that President Miguel de la Madrid hold a referendum on whether Mexico should continue with the debt negotiations.

In 1988, AMLO left the PRI party and joined the newly formed Democratic National Front (FDN), now referred to as the Democratic Revolution Party (PRD). The PRD not only gave AMLO a platform to promote his beliefs but also the funding to run for office. That same year, he competed in and lost the race for a gubernatorial seat in Tabasco. Since that election, AMLO has run for political office during every presidential election cycle. After each defeat he has alleged voter fraud and organized marches and rallies.²

Although many applauded AMLO's antics, they drew the ire of some of his supporters who felt he was making himself bigger than the cause. After holding a mock presidential ceremony and encouraging the support of a shadow government, PRD founder and son of Lazaro Cardenas, Cuauhtémoc Cardenas, stated that AMLO was an embarrassment to

¹ See last week's WGR, 3/13/17, [The Rise of AMLO: Part I](#).

² He lost the governor's race in 1988 and 1994, and he lost the presidential elections in 2006 and 2012. In 2000, he won the mayoral race in Mexico City.

the party.³ After losing the 2012 presidential election to PRI candidate Enrique Peña Nieto by a wider margin than his narrow loss in 2006, he told a crowd that “being pacifist does not mean that we should stay silent and accept this authoritarian and corrupt regime.”⁴ Fearing that AMLO was putting himself above the party, members of the PRD chose not to support AMLO in his quest to contest the results. He later left the PRD, although on good terms, to start his own party called the National Regeneration Movement (MORENA).⁵

AMLO’s Policies

During his time at INCO, he used his connection with Cuauhtémoc Cardenas and his affiliation with the PRD as vehicles to launch his political career. Despite leaving the PRD to form MORENA, his policy proposals have not changed significantly but have moderated a bit to appeal to a wider audience.

In 2000, he received his first, and so far only, chance at implementing his policies when elected mayor of Mexico City. During this stint, he proved to be less of a hard-liner and more of a quiet pragmatist. While openly criticizing then-President Vicente Fox for being too cozy with Mexico’s elites, he was simultaneously collaborating with Carlos Slim, the richest man in Mexico, to develop Centro Historico, a neighborhood in downtown Mexico City.⁶ In addition, he contracted with former New York City mayor Rudy Giuliani to help bring down the

crime rate in Mexico City, despite haranguing the U.S. for causing the rise of drug cartels in Mexico.⁷ Even so, AMLO has been able to follow through on his core promises such as extending social benefits to the elderly and poor while simultaneously balancing the budget by cutting government jobs and reducing tax evasion.

In order to refrain from making the same mistakes he made in the past two presidential elections, AMLO has shown some restraint in his critiques of market liberalism. In particular, with the exception of foreign investment in PEMEX, he seems to not be completely against receiving foreign direct investment in other areas of the economy, but does advocate for companies that do invest to be conscious of the effects they have on the poor. He has also vowed to respect the independence of the central bank and to hold referendum votes on reforms to energy, tax and education. This is a departure from his neo-Cardenismo ideology, which sought to empower the unions and reject foreign investment. The hiring of Alfonso Romo, the former advisor to Vicente Fox, as an advisor to his campaign also suggests that he has become more business friendly. That being said, there is some skepticism from investors who compare him to former Venezuelan president Hugo Chavez.

If elected, AMLO will have trouble trying to overturn some of the economic reforms put in place by his predecessor, Enrique Peña Nieto, as he will be met with resistance in the legislative branch. It is also unclear how he would negotiate with the Trump administration on changes to the NAFTA agreement. Despite criticizing President Trump about his remarks on illegal immigrants living in the U.S., he has stated

³ <https://www.stratfor.com/analysis/mexico-lopez-obradores-turning-point>

⁴ <http://www.elmundo.es/america/2012/12/01/mexico/1354401920.html>

⁵ It is worth noting that the word “morena” is Spanish for a woman with dark skin, perhaps a subliminal reference to the indigenous people who are typically dark-skinned.

⁶ <http://www.elfinanciero.com.mx/opinion/el-candidato-de-slim.html>

⁷ <http://www.miamiherald.com/latest-news/article1938834.html>

that he would like to open up a dialogue. In the past, AMLO has expressed skepticism of NAFTA but has refrained from an outright abandonment of the deal.

Chances of Success and Ramifications

Although AMLO has a reasonable chance of winning the election in July 2018, we believe it is unlikely that he will win. The establishment parties, PRI and PAN, have proven to be adept at co-opting rivals. They were able to thwart an AMLO victory in 2006 despite the fact that AMLO had a 30-point advantage in the polls at one point.

Recently, AMLO has been bombarded with negative publicity due to allegations that he receives 2.5 million pesos (about \$130,000) monthly from Javier Duarte, the disgraced former governor of Veracruz. It is rumored that the bribe is related to the Yuribia dam.⁸

⁸<http://www.eluniversal.com.mx/articulo/nacion/politica/2017/02/22/responde-yunes-amlo-recibia-25-mdp-al-mes-de-duarte>

The *Wall Street Journal* also ran an article stating that he did not fully disclose his holdings.⁹ Nevertheless, he has a loyal voter base who will support him. As a result, this race will likely be close.

If AMLO wins the presidency, it is likely to be bearish for the peso as we are unsure if he will get along with the Trump administration. Consequently, assets denominated in pesos would be pressured as well. U.S. treasuries should be bullish as investors look to hedge against possible currency risk.

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⁹ <https://www.wsj.com/articles/mexican-presidential-hopeful-andres-manuel-lopez-obrador-failed-to-disclose-all-his-assets-1475018561>

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