

Electoral Year and Political Risk Perception in Latin America

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Flags from Latin American countries

Introduction

The 2026 electoral cycle in Latin America occurs in an increasingly unstable geopolitical scenario, and will likely have longstanding political and economic effects in the region. With high levels of political polarisation and President Trump's growing interest in regional politics, elections in Latin America are drawing attention from markets for both its risks and potentials. Public security and political instability are not recent concerns; however, since the American military operation in Venezuela in January and Nicolás Maduro's abduction, foreign policy became deeply entangled with domestic issues. For Brazil and Colombia, two countries holding elections this year, public security and government actions against drug cartels and organised crime became a central topic in political debate, in face of American threats of local interventions to fight drug trafficking.

The prospect of American interference and highly polarised elections has increased the investors' perception of higher political risk in the region, but also generate potential business opportunities. Colombia and Peru already chose their new leaders, Brazil is holding general elections in October, so markets and investors have been constantly adjusting their

positions and strategies at every new development. Here, I explore some of the elements helping shape those perceptions.

Brazil

Brazil's political future is still undecided before one of its most polarised elections to date. Left-wing President Lula seeks re-election for an unprecedented fourth term, and former President Jair Bolsonaro's son, Flávio Bolsonaro, consolidated himself as the main opponent. The Lula administration has entered the global spotlight over the past year for openly opposing the Trump administration's tariffs on Brazil, reaffirming the country's sovereignty and political autonomy, and condemning American interventions in sovereign states, such as Venezuela. If Lula wins, his main issues will be to balance his social welfare agenda with Brazil's worsening fiscal situation, on the economic side, and to improve public security on his terms while maintaining a relatively stable relationship with the Trump administration, on the foreign policy side. The threat of a potential direct American intervention in Brazil to fight criminal organisations, violating the country's sovereignty and worsening already delicate diplomatic relations, is the main source of geopolitical-driven political risk in this scenario.

Flávio Bolsonaro is the strongest candidate in the right-wing opposition, and, although his political agenda is very similar to that of his father, former President Bolsonaro, his rhetoric is considerably less combative and perceived often as less extreme. The Bolsonaro family has built a close relationship with the Trump administration, even showing support for the tariffs imposed against Brazil in 2025, and Flávio's proposals for public security and fight against organised crime in the country are often aligned with the White House. With a relatively pro-market agenda, the country under his administration may become more attractive to investors, but public debt inherited from the current government will continue to be a concern nevertheless. Bolsonaro's main challenge, as it would also be to Lula on the domestic side, would be building a strong support base in a growingly divided Congress, in order to implement his agenda. Over the next few months, the Congress' composition can become even more important than who wins the presidential election in Brazil, as it will determine the political agenda in the country for the next four years.

Colombia

Right-wing candidate Abelardo de la Espriella was elected Colombia's new President in June, promising to dismantle organised crime in the country, fight drug cartels and improve public security in the country. His electoral victory comes months after tensions with the United States escalated and Trump threatened to conduct a military operation in Colombia to fight organised crime, as the Trump administration relationship with former President Gustavo Petro deteriorated. De la Espriella's election pleases

both markets and the American government, as he is perceived as more business-friendly and more suited to deal with the country's worsening fiscal situation, and his heavy-handed security proposals are often in line with Washington's interests. As for public security, he is promoting a close alliance between Colombia and the US to fight drug cartels, supporting joint military efforts between the two countries and receiving constant public support from the Trump administration, often being compared to El Salvador's Bukele. On the economic front, de la Espriella pledged to reduce government spending by reducing up to 40% of the size of the state, and to reduce government interventionism and taxes on businesses. The main potential source of concern for his administration is still balancing public debt and building enough support in the Congress in order to implement his economic proposals. As for his relationship with the United States, markets seem to understand this shift from Petro's outright opposition as a positive sign, reducing perceptions of instability and political risk.

Peru

Peru have become an outlier in this context because, even after ten years of dramatic political instability, having had eight different presidents during this period, its economy is considerably stable, different governments have consistently adopted a pro-business position and its institutional apparatus manages to contain adverse effects of political uncertainty. After a very divided and tense election, with over 35 candidates, right-wing candidate Keiko Fujimori, daughter of former President Alberto Fujimori, was elected the new President of Peru in July. She pledges to fight organised crime in the country as violence rises, and often adopts a market-friendly and pro-investment rhetoric. In Peru, organised crime is often linked to illegal mining activities and cocaine trafficking, due to its proximity to Colombia and its ports to the Pacific. The country is the world's third largest copper producer, and Fujimori plans to rise private investment in the sector, already establishing a cabinet expected to please markets and investors. However, like in Brazil, Fujimori is likely to face governability issues with a highly fragmented Congress, since her party controls the largest blocs in both houses, but still lack majority.