



Trip
Insights

LatAm

October 2026

This is the 24th edition in our series of Trip Insights, where we share our travel experiences and investment insights. This edition covers a comprehensive trip taken by Sarah Shaw, Global Portfolio Manager, to Latin America in late August 2026. Sarah visited sites across a number of airports and infrastructure assets, meeting with management teams from regulated utilities and transport companies, as well as gathering insights from political and economic experts within Mexico and Brazil.

This trip came at a pivotal moment for the region. Brazil is heading into the runoff of a deeply polarised election, Mexico is managing an annual United States–Mexico–Canada Agreement (USMCA) review and an increasingly assertive Washington, and both are contending with high real rates, fiscal pressure and one of the strongest El Niño events on record.

Against that backdrop, what stood out was the resilience of the infrastructure operators: disciplined management teams executing on strong fundamentals and capital programs, under regulatory frameworks that we expect to remain intact whichever way the politics falls. The trip reinforced our conviction and highlighted how well positioned Latin America is for a world increasingly driven by energy, security and geopolitics.

This piece outlines the key themes and takeaways from the trip, and how these have shifted our positioning across the region.

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Trip agenda

Investor meetings included the following companies and regulators:

Company	Sector/topic	Location
GAP	Airports	Guadalajara
ASUR	Airports	Mexico City
OMA	Airports	Mexico City
Itau	Infrastructure	Mexico City
Itau	Politics/economics	Mexico City
Santander	Infrastructure	Mexico City
Airport site visits	Guadalajara, Mexico City, Sao Paulo	

Santander Brazilian Conference (including presentations from)

- Minister of Finance – Dario Carnevalli Durigan
- Vice President of Brazil – Geraldo Alckmin
- President of Central Bank – Garbriel Galípolo
- Presidential Candidate Romeu Zema (former governor of Minas Gerais)
- Presidential Candidate Renan Santos (Missao Party)
- Presidential Candidate Ronaldo Caiado (former governor of Goias)

All sectors

Sao Paulo

Governor of Sao Paulo – Tarcisio de Freitas

Ecorodovias	Toll roads	Sao Paulo
Motiva	Transport	Sao Paulo
Copel	Utilities	Sao Paulo
CPFL Energia	Utilities	Sao Paulo
Sabesp	Utilities	Sao Paulo
Axia Energia	Utilities	Sao Paulo
Equatorial Energia (incl. Investor Day)	Utilities	Sao Paulo
TAESA	Utilities	Sao Paulo
Rumo	Rail	Sao Paulo
Engie Brasil	Utilities	Sao Paulo
Alupar	Utilities	Sao Paulo
Energisa	Utilities	Sao Paulo
Itau	Politics/economics	Sao Paulo

Itau	Utilities	Sao Paulo
Itau	Infrastructure	Sao Paulo

Politics-the single biggest catalyst

The domestic and global political environment is likely to remain a significant catalyst, both positive and negative, for Latin America over the next 12 months. Politics at home and abroad, fiscal positions, currencies, security and tariffs are all driving opportunity and risk, with important ramifications for countries, equity markets and infrastructure fundamentals. Encouragingly, infrastructure frameworks look robust whatever the political outcomes.

Mexico: Sheinbaum—a steady ship

Domestically, Mexico feels politically stable, with a popular president and no credible opposition. The trip reinforced our confidence in that stability and raised no new concerns. Discontent on the ground was minimal, with the only real area of complaint being cost of living, a global phenomenon given oil, inflation and yields.

Positively, we gained greater insight into a resurgence of political support for infrastructure and for private investment in it, which is very promising. We do not, however, see new investment opportunities as imminent. Much of the new pipeline, including the mixed-investment power projects and toll-road public–private partnerships (PPPs), is unlisted and still before financial close, so listed exposure remains concentrated in airports, the existing toll-road concessions and the Comisión Federal de Electricidad (CFE) Fibra E.

A popular president

Sheinbaum goes into her third year of office (1 October) with strong support. El Financiero had her at 68% approval ahead of her second annual report, ahead of her two predecessors at the same point in the term. Social programs are her strongest area (64% favourable), while economic management sits around 50%. There has been some erosion over the past 12 months: Pew found her favourability fell from 83% to 64%, and Morena's from 78% to 61%. She is stable, but not invincible.

Importantly, while Morena holds constitutional majorities, its allies have shown they can veto. Her flagship electoral reform stalled, and the recall referendum was fixed for 2028, after the Partido del Trabajo (PT) blocked the proposal to move it to 2027. Given market concern about an unchecked supermajority, we view this constraint positively. The partial walk-back of the judicial reform suggests the government is also responsive to institutional and market pushback.

The 2024 judicial overhaul has been partly scaled back in practice. This year's bill shortened the terms of judges elected in 2025 and restored two sections to the Supreme Court. Judges are still elected, however, so the core concern about judicial independence remains.

The next test is the June 2027 midterms, expected to be the largest in Mexico's history, with 17 governorships, the entire Chamber of Deputies and thousands of local offices on the ballot.

The US relationship

The model is 'cooperation without subordination': loud about sovereignty at home, accommodating in practice. So far it is working well for Sheinbaum, but issues remain, particularly around the USMCA and cartel activity.

- **Trade** – the US declined to confirm a 16-year USMCA extension at the 1 July joint review, triggering annual reviews until the parties agree or the agreement expires in 2036. Importantly, and often misunderstood, the agreement itself remains fully in force. Unresolved US demands have fallen from 54 to 14, while Mexico holds 13 counter-demands centred on steel, aluminium, autos and labour. The main sticking point is Washington's demand that vehicles contain 50% US-made components to qualify for preferential

access. Mexico wants the Section 232 tariffs (25% on autos, 50% on steel and aluminium) adjusted before it concedes on other issues. US Trade Representative Jamieson Greer is aiming for interim arrangements by year-end 2026, with the harder automotive, labour and environmental issues likely extending into 2027. The view was that while the arrangement would not be as clean as it has been historically, the status quo of strong trade relations was unlikely to change.

- **Security** – the rhetoric has escalated while operational cooperation has deepened. Cartel leader El Mencho was captured in a February operation, with US intelligence support, and according to officials died as a result. At the recent UN General Assembly, Trump called Mexico an "epicenter" of cartel violence and said the US was prepared to use its military might to defend its interests. He also rallied the US-led Shield of the Americas coalition, which Mexico has not joined. Yet in the same month Mexico's Senate authorised 139 armed members of the 101st Airborne to enter Chihuahua for joint training requested by Sheinbaum's government. The more acute risk is US action against Mexican politicians. The April indictment of Sinaloa Governor Rubén Rocha Moya (on charges he denies) shows how Washington could force Sheinbaum to choose between the relationship and her own party. Cartels are a recognised issue in Mexico, but the impact of the violence this year has been particularly disruptive nationally, as well as in certain regions, as perceptions of safety deteriorate.

On China, Mexico has sided firmly with the US bloc. It imposed tariffs on 1,400 Chinese-origin products as part of a strategy to position itself as Washington's preferred regional partner. The US–Mexico relationship is one of mutual dependence, but with an asymmetric pain threshold, giving Sheinbaum strong incentive to keep confrontation with Trump within limits.

- Roughly 80% of Mexican exports go to the US, equivalent to about 25% of Mexico's gross domestic product (GDP). Mexico is the US's largest trading partner, so it matters a lot to Washington, but US exports to Mexico are worth just over 1% of US GDP.
- Losing preferential access would be a macro shock for Mexico and a sectoral supply problem for the US (autos and manufacturing, agriculture and energy). So far they are managing this well.

The infrastructure story – very constructive

Mexico's infrastructure policy has changed more than its politics. The López Obrador (AMLO) government (2018–2024) treated private capital in energy and transport as something to contain, which was a real overhang for energy security and economic prosperity. Sheinbaum's government has kept the state-control framing but rebuilt the channels for private money, largely because it needs private balance sheets to fund a capex program the government's fiscal position cannot carry alone. The market response has been strong: state utility CFE's first mixed-development power tender awarded 7.4GW of renewables from nearly 38GW of bids. For an investor, the contracts are increasingly workable.

What continues to hold capital back is sovereign counterparty risk, execution and institutional risk after the judicial reform, not the economics of the projects.

- Sovereign counterparty exposure remains real given so much of the new pipeline depends on CFE or federal payment and the sovereign is only one notch above junk.
- Institutional risk – after the judicial reform, recourse through domestic courts is less reliable, which raises the value of international arbitration, investment-treaty protection and dollar-linked cash flows. However, the partial judicial reform rollback this year is an encouraging signal that the government responds to institutional pushback.
- Execution – capex peaks in 2027–2029, straight after the midterms and while the government is committed to cutting the deficit. Mixed structures are partly a way to deliver infrastructure without it landing on the fiscal balance. Encouragingly, the government has recognised that essential infrastructure investment cannot wait.

We discuss sector opportunities in Appendix E.

What to watch

- An interim USMCA deal or Section 232 relief by year-end.
- Any further US action against sitting Mexican officials.
- Candidate selection for the 2027 midterms, and signs of friction with the PT and the Partido Verde (PVEM).
- The rate gap between the US Federal Reserve (Fed) and the Bank of Mexico (Banxico) and the peso, and any further rating action.
- Whether new foreign direct investment (FDI), rather than reinvested profits, picks up once there is trade clarity.

Brazil—a polarised and pivotal election

The presidential election was the dominant topic of conversation in Brazil, and it is likely to shape the macro and equity outlook into 2027. Our view going into the vote was that this was a genuinely open race between two deeply rejected candidates. Flávio Bolsonaro's stronger-than-expected first round on 4 October has since tilted the odds in his favour. In our view, infrastructure frameworks are secure whoever wins. The real difference is the fiscal path.

This is a high-stakes and very contentious election cycle. The first round of presidential voting was held on 4 October. As expected, no candidate won more than 50% of valid votes, so the race goes to a runoff on 25 October, as every presidential election since 2002 has. Voters also elected the entire Chamber of Deputies, two-thirds of the Senate and state governors on the same day, with right-wing parties gaining ground in Congress, which will matter as much for governability as the presidential result.

The election is effectively a rematch. Left-wing incumbent Luiz Inácio Lula da Silva (Lula), now 80 and seeking an unprecedented fourth term, faces Senator Flávio Bolsonaro, who is carrying his father's political movement forward. Jair Bolsonaro is barred from running and has endorsed his son to lead the family's right-wing movement into this race. Thirteen candidates were on the ballot (we met three of them in Brazil), but it is truly a two-horse race. On our trip, consensus was for a Lula re-election and pre-election polls had Lula leading the first round by low single digits (Datafolha, 22–24 September: 40% to 36%). Instead, Flávio beat expectations, winning 47.03% of valid votes to Lula's 45.16%, a margin of about 2.2 million votes. Analysts attribute part of his vote to protest votes against Lula.

Ahead of the first round, runoff polls had shown a statistical tie, but prediction markets moved quickly after the result to make Flávio the clear favourite. The view had been that a Lula margin of 2–3% would see a very tight runoff, with Flávio expected to take a larger share of the eliminated candidates' votes in a runoff. As such, Flávio's first-round win has swung the momentum in his favour.

Looking at past presidential elections, we note:

- Treat September polls with caution. First-round polls underestimated the Bolsonaro vote in 2018 and 2022, and did so again in 2026.
- Markets move on the first round, not the final result. The first-round outcome resets expectations for the runoff. This played out on 5 October: the real rallied more than 4% to below R\$5 to the dollar for the first time in around five months, the Ibovespa hit a record above 200,000 points and futures interest rates fell.
- A first-round lead has never been reversed in a runoff since redemocratisation, which makes the first-round gap the key signal. Runoff margins have been razor-thin, however: about three points in 2014 and two in 2022. History therefore favours Flávio, although his first-round lead is narrow.

'Polarising' – the election of rejection

The single most used adjective to describe the election throughout the trip was 'polarising'. The electorate has split into two large camps, defined as much by opposition to the other side as by support for their own.

As a result, rejection rates matter more than voter support. Each candidate has a large bloc of voters who say they would never vote for him, and the winner is likely to be the one fewer people reject, not the one more people like.

The divide is both geographic and demographic.

- Lula dominates the poorer Northeast, lower-income voters and Catholics.
- The Bolsonaros are strongest in the South, Centre-West, the agribusiness interior and among evangelical Christians, who are now roughly a third of the electorate.

Both have large bases, but each also carries baggage that makes a big share of voters reject it outright. In short, Lula's unpopularity rests on corruption memories, cost-of-living frustration and fatigue. The Bolsonaros' rests on the assault on democratic institutions, the pandemic and a sense that the family puts itself first. With no credible alternative, a very divided electorate ends up choosing the one it rejects less.

The specific drivers of each candidate's rejection are set out in Appendix A.

Economic policy – continuity vs consolidation

This is one of the sharpest policy contrasts between the two camps, and very important for markets.

Lula promises to keep the current fiscal framework while expanding investment and social programs. He would retain the tax reform, strengthen industrial policy and push to lower the cost of credit, without setting a target for the Selic rate.

His fiscal credibility is already under pressure. Official technical bodies flagged the fiscal trajectory as 'insustentável' (unsustainable) at the start of the year, as expansionary spending, including a 2026 stimulus package, continued under the more flexible fiscal framework that replaced the old spending cap in 2023. Local asset managers cite currency and inflation risk as their main concerns, alongside Brazil's structural macro volatility more broadly.

His campaign argues that gradualism is essential to protect programs for the poor. Spokespeople have committed to keep improving the primary balance until it reaches an effective surplus of 1.3% of GDP in 2030, from the 0.4% deficit projected this year. That implies an adjustment of about 1.7 points of GDP over the term.

Many people see the credibility problem as Lula himself. His economic ministers have been reassuring investors, including at the conference we attended, but his public statements feed doubt. At a rally in Curitiba in September he told supporters it was time to stop "essa babaquice de fazer superávit" ("this nonsense of running surpluses"), arguing that interest rates, not spending, are Brazil's real debt problem. A campaign source insists the fiscal plan is known to and endorsed by the president but says no final decision has been made on which measures to adopt.

Flávio puts fiscal balance at the centre of his platform. He promises primary surpluses, stabilising and then reducing public debt, spending cuts and eliminating at least 10 ministries. He would revise parts of the tax reform and expand private participation in investment. His team describes a fiscal adjustment package, nicknamed the 'tesouraço', covering discretionary and mandatory spending across all three branches of government. Other proposals include a new fiscal rule anchored on debt and scrapping the 12% oil export tax.

The core argument is that speed itself creates credibility: his advisers promise an adjustment of about 1.5% of GDP within 18 months through a constitutional amendment anchored on gross debt. However, his tax-cutting pledges pull the other way (see Appendix A).

There was scepticism about how much of it he would deliver. A common view was that he has limited interest in economics and could spend his political capital on an amnesty for his father and on seeking the

impeachment of Supreme Court justice Alexandre de Moraes. The market's hope is that he would at least give his finance ministry autonomy.

In our view, neither plan closes the gap. Lula's plan is more internally consistent but deliberately slow. Flávio's plan is more ambitious and less coherent.

A Flávio win in the first round has seen an immediate market rally: a stronger real, lower long-term real yields and higher expectations for rate cuts, all on the promise of front-loaded consolidation. The durability depends on whether the constitutional amendment passes in a recognisable form in the first six months. A now unexpected Lula win in the second round would likely bring an initial sell-off in long-dated bonds, with the recovery depending on how quickly his team makes the floor reforms and tighter targets concrete.

Beyond economics, the candidates also differ on labour, security, the judiciary and foreign policy. Security stands out: it was very clear on the trip that personal security is a decisive issue for voters, and in our view Flávio has the advantage on it. Labour reform (ending the 6x1 working schedule) is a vote winner for Lula. These differences are detailed in Appendix A.

Infrastructure not contentious

Importantly, the two candidates agree on infrastructure. Brazil's concession and privatisation program has continued under Lula, and neither candidate is proposing to reverse the regulatory frameworks for toll roads, airports, transmission and sanitation. The difference is at the margin:

- A Flávio win probably means a more aggressive privatisation and concession pipeline and a potential market rally on fiscal credibility, which would lower long-term real rates and could be a tailwind for the infrastructure sector. The risks are execution, given a thin economic agenda and a fight with the Supreme Court over his father, and institutional noise.
- A Lula win means continuity: the fiscal framework, a steady concessions agenda and more state-led industrial policy. That keeps the fiscal risk premium in the curve, but the rules stay predictable.

A tight election outcome

After a very close 2022 result, Bolsonaro supporters stormed Brasília's government buildings and Jair Bolsonaro was later convicted of plotting to stay in power. Another narrow margin would have ramifications:

- It increases the risk that the result is contested.
- A president elected by a narrow margin faces a fragmented Congress dominated by the transactional *centrão* bloc and half the country deeply hostile. That makes contested reforms, including the fiscal adjustment either candidate would need, much harder to pass. The composition of the new Congress will matter as much as the presidential margin.
- Because the two camps offer sharply different economic models, election-driven swings in the real and long-dated bonds are typical.

What to watch

- The runoff campaign. Flávio leads after the first round (47.0% to 45.2%), so the key question is whether Lula can win back the protest vote, gain significantly from the supporters of the eliminated candidates, or motivate the more than 20m people who did not vote to participate in the second round.
- The composition of the new Congress, particularly the size of the *centrão* and the Liberal Party's (PL's) Senate representation.
- The winner's first fiscal signals: Flávio's constitutional amendment, or the specifics of Lula's health and education floor reforms.
- The central bank's path from the November meeting.

- Any contesting of the result after 25 October.

Tarcísio – the 2030 hope

Tarcísio de Freitas (Republicanos) was comfortably re-elected governor of São Paulo in the first round on 4 October, winning 62.65% of valid votes against 36.42% for Fernando Haddad (Workers' Party, PT). He made his name as Jair Bolsonaro's infrastructure minister from 2019 to 2022, running one of the most extensive concession and auction programs in Brazil's history. He has carried that approach into São Paulo, most notably with the 2024 privatisation of the water utility Sabesp. That combination makes him the market's favourite politician on the right. He pairs Bolsonaro-aligned credentials with a pragmatic, pro-investment style that appeals to moderates, and for much of 2025 he was the investor community's preferred presidential candidate, before the Bolsonaro family backed Flávio instead.

For infrastructure investors, a second term would mean continuity in Brazil's largest and most active state-level concession pipeline. His comfortable win also cements him as a leading figure on the centre-right, and if Flávio loses the runoff, Tarcísio becomes the natural front-runner for 2030.

We saw him speak again on this trip, which reinforced our view that he is likely to be a central figure in Brazilian politics. Not as president this time, but 2030 beckons, and in the meantime São Paulo remains the national poster child for fiscal discipline and infrastructure expansion.

Regional context shift to the right?

Brazil's vote is being watched as a bellwether for Latin America's political direction, following right-leaning wins in Argentina, Chile, Bolivia, and elsewhere. A Flávio win would extend that trend, while a Lula win would keep Brazil as a counterweight. The first-round result, and the right's broader gains, suggest the trend is intact.

The new ESG Energy, security and geopolitics

The traditional environmental, social and governance (ESG) framing continues to suffer setbacks. Policymakers are struggling to balance its competing arms, and it has become increasingly politically polarising and disconnected from hard economic realities.

The acronym has been rewritten by the world. ESG's soft power (environmental ambition, social licence, governance box-ticking) has been overtaken by a harder trinity: Energy, Security and Geopolitics. Russia weaponised gas flows, China cornered critical minerals, and the West is waking up to the fact that a decarbonisation plan built on someone else's supply chain is a sovereign risk.

For infrastructure investors, this is not just a rebrand. It is a reframing of capital allocation. Grid resilience beats green credentials. Sovereign risk and counterparty exposure matter more than a sustainability score. Energy security is now the core strategic goal.

This trip highlighted how capital allocators and governments are reframing these priorities and how parts of LatAm are winners:

- **Energy security, stability and independence:** diversifying supply chains, reshoring critical minerals and semiconductor production, and balancing decarbonisation with reliability and affordability.
- **National security:** screening foreign investment and restricting Chinese involvement in critical infrastructure.
- **Geopolitical risk:** re-evaluating exposure to authoritarian regimes, trade blocs and sanctioned governments.

These considerations now often outweigh pure sustainability scoring in investment decisions. The assets that win in this new reality are not necessarily the cleanest. They are the ones that keep the lights on when geopolitics turns hostile, and that keep populations fed as food security becomes a strategic issue in its own right.

In practice, the shift shows up as a sharper focus on regulatory and sovereign support, grid resilience and fuel diversity in the energy mix. It also means closer scrutiny of ownership and counterparty exposure to geopolitically sensitive supply chains, and more onshoring or diversification of supply partners. Climate and governance considerations remain core but now sit inside a security-first wrapper.

Latin America did not drive this shift, but it is very well positioned to capitalise on it, because it owns the assets the new world needs.

Mexico the nearshoring beneficiary, if infrastructure keeps up

Mexico could be the geopolitical winner. Its border with the world's largest consumer market, USMCA preferential access and lower labour costs make it the default landing pad for manufacturers retreating from China-dependent supply chains. This is not theoretical: it is already showing up in industrial land absorption in the Bajío and the northern border states.

However, nearshoring is a promise the infrastructure has not yet caught up with. Power, water, roads and rail into the north are no longer just about connectivity. They are critical to Mexico's position in the new world order, and as such have become a significant political agenda item:

- ***Grid and transmission*** – capacity in the north (Nuevo León, Chihuahua, Coahuila) is becoming a bottleneck, with industrial parks in Nuevo León and the Bajío stalling on transmission constraints. CFE's ability to deliver reliable, competitively priced power to new manufacturing clusters is now a matter of national competitiveness, not just a utility metric.



Source – photos taken in Mexico City

- **Energy security** – Mexico's dependence on US pipeline gas is a vulnerability. Its solar and wind resources in the north offer a genuine diversification play, but only if policy lets private capital back in and investors are confident their contractual and regulatory terms will be upheld. The early signs are encouraging: CFE's first mixed-investment power tender awarded 7.4GW of renewables from nearly 38GW of bids.
- **Rail and logistics** – corridors such as the Interoceanic Corridor gain strategic weight as an alternative to the Panama Canal chokepoint and a hedge against Pacific shipping disruption.
- **Airports** – traffic is following industry. Monterrey, the hub of northern nearshoring, grew traffic 8.5% in 2025, making the northern airport network a direct play on the manufacturing shift. Guadalajara is also benefiting from this trend.

Brazil—what energy security looks like

Brazil's angle is different, and arguably even stronger. It is not replacing China as a manufacturing base; it offers the world a way to reduce its dependence on China. It has one of the cleanest grids on earth, critical mineral reserves the West is seeking to source outside Beijing's orbit, energy self-sufficiency most G20 economies can only envy, and an agricultural base that makes it central to global food security. Under the new trinity, the assets that connect these endowments to world markets have become strategic infrastructure.

Brazil also plays the geopolitics from a position of non-alignment. China remains its largest export market, even as Washington courts its minerals, and both US and Chinese capital compete for its assets. That is a strength, since Brazil is a swing supplier both sides need. It is also a risk, since every strategic asset now carries a geopolitical overlay.

Brazil's strengths span clean energy, transmission, critical minerals, digital infrastructure and food security. Each is set out in Appendix B.

Brazil – a real winner

Brazil offers the new trinity in its purest form: clean power, strategic minerals and food security, all in a non-aligned democracy with a long-established concession framework. In our view, the best risk-adjusted exposure lies in regulated, availability-based infrastructure (transmission, logistics/road/rail concessions and ports) rather than in the commodities themselves or in merchant generation. The risks to execution are more domestic: real interest rates of about 9%, a polarised 2026 election, the unresolved question of curtailment compensation, and a growing assertiveness over who gets access to Brazil's strategic resources.

Economics ~~and~~ politics in the driver's seat

While economics and politics are interlinked, and the macro environment is always important, the focus of this trip was on political influences ahead of the macro environment itself.

Mexico – stable but subdued

Mexico's macro position is defensible in the short term but fragile further out. Monetary policy is credible, the currency has been strong year to date (but weakened in September) and there is no external financing strain. But growth is stuck near 1.5%, public debt is rising, the sovereign rating is one notch above junk, and the main outside anchors (US trade access, Fed trajectory, remittances) have all weakened at once.

- **Growth** – a 1.4% 2026 consensus forecast is solid given the current global environment, but still well below the government's 2.3% official projection. Exports are holding up but not driving much, while investment is the weak spot, with companies maintaining their Mexican capacity, not expanding it. That is unlikely to change until the USMCA outcome is known, and governance, security and infrastructure constraints remain headwinds.
- **Inflation and interest rates** – the easing cycle is over. Headline inflation is above expectations, while core is sitting at the top end of the target band. Banxico held at 6.50% in September, noting there are no demand pressures but that risks remain tilted to the upside. This marks the end of a cycle that delivered 475bp of cuts across 15 meetings from March 2024. The real ex-ante rate of about 2.35% is already slightly below the midpoint of Banxico's neutral range, so policy is not especially tight.
- **FX – headwinds on companies easing** – the peso was one of the strongest currencies globally in 2025, driven by macro and geopolitical stability, structural USD weakness, trade tailwinds supported by the USMCA protections and wide interest rate margins versus the Fed, supporting carry trade flows. In 2026, the peso strengthened 6% but gave up those gains in September when the Fed hiked rates. The carry spread has now narrowed (as Banxico has been on hold), and there is greater uncertainty on the new USMCA negotiation outcomes. A stable or weaker peso helps those Mexican airports with USD tariff revenues. A stronger peso was being felt on the ground at the time of our visit, so we see a weakening currency as a positive.
- **External accounts** – no immediate stress, but the old cushions are weakening. Mexico has no current-account problem, with trade roughly balanced and a flexible currency. But two traditional supports are softening. Remittances fell in 2025 and the structural trend is flat at best, with US immigration policy, the new 1% cash remittance tax and demographics all weighing. Remittances matter heavily to consumption in the poorer southern states. The other support is new FDI, which has largely stalled.

Fiscal – the real vulnerability

The credit story has deteriorated steadily. Moody's cut Mexico to Baa3 in May, one notch above speculative grade, citing structural deficits, rigid redistributive spending and continued support for Pemex. Fitch rates Mexico BBB- and S&P BBB with a negative outlook, so all three are at or near the bottom of investment grade.

The 2025 deficit came in at 4.8% of GDP on independent estimates, against the roughly 4.3% the finance ministry had forecast. In the first half of 2026, the deficit rose 36% year on year as real revenue grew just 0.1% while spending rose 2.1%. The 2027 package, submitted on 8 September, targets a deficit of 3.9% of GDP. That is narrower than 2026's 4.1% but wider than the 3.5% officials floated in April. The headline change relies heavily on the reduction in financial support promised for Pemex – support that is not optional. We consider the 2027 package plausible, but it depends on optimistic assumptions: 2% growth against a 1.4% consensus, a 6.0% policy rate while the Fed is tightening, and a Pemex that needs much less debt support. If more than one of those misses, a downgrade to junk by the ratings agencies becomes a real 2027–28 risk.

Upside, base and downside scenarios for the next 12 months are set out in Appendix C.

Brazil—slowing but resilient

Brazil's economy is slowing but resilient, with near record-low unemployment, a strong harvest and gradually falling inflation, yet it is held back by real interest rates of about 9% and a rising public debt that the next president will have to confront. It is difficult to separate the economic outlook from the political contest, so we summarise the situation the winner will inherit.

- **Growth** – slowing, but relatively resilient. Consensus has eased to 1.9% growth for 2026 and just 1.45% for 2027. The labour market is still the strong point: unemployment was 5.4% in Q2, the lowest since the series began in 2012, and real average income was up 2.8% year on year. That supports consumption, and this was visible, but it is also what worries the central bank.
- **Inflation** – real progress, but expectations remain above target. Disinflation has been real, with prices falling in August and 12-month inflation inside the target band. However, expectations remain a constraint: the 2026 year-end consensus of 4.90% implies inflation re-accelerates above the 4.5% ceiling late in the year, and the 2027 forecast has edged up to 4.30%. El Niño could also put pressure on fruit and vegetable prices as early as late 2026, as could a recovery in protein prices, with the reopening of exports to China lifting demand and pressuring domestic prices.
- **Rates** – a slow easing cycle. The Monetary Policy Committee (Copom) cut 25bp to 13.75% on 16 September, its fifth consecutive cut, in a unanimous decision. However, it avoided committing to next steps and kept its decisions data-dependent. The market expects the Selic to stay at 13.75% through year-end and fall to 12% in 2027. With inflation expectations around 4.3%, the ex-ante real policy rate is about 9%, one of the highest in the world.
- **Fiscal** – the binding constraint. This is where the outlook is weakest, as covered earlier, with gross debt at 82.5% of GDP, up more than 10 points under the current government. Budget rigidity compounds the problem with mandatory items making up 91.7% of primary spending. The fiscal risk premium is what keeps long-term real rates high regardless of central bank credibility.
- **External position and currency** – stable. The real had been steady, with consensus for R\$5.20 per dollar at the end of 2026, but it rallied to below R\$5 after the first round of the election. Brazil's commodity mix works in its favour in the current global environment. As a net oil exporter and with a record grain harvest, it benefits from higher energy and food prices in its terms of trade. The global headwinds are the Fed hike and US long-term yields near 20-year highs, which squeeze the carry differential. With the Selic about 975bp above the Fed, however, Brazil's cushion is far larger than Mexico's.

The election is the key variable

After Flávio's stronger-than-expected first round, he goes into the 25 October runoff as the favourite, although the margin is narrow. Markets will price the result almost entirely through the fiscal channel.

- A Flávio win would probably bring a front-loaded rally in long real rates and the currency on the promise of rapid consolidation. Markets began to price this on 5 October, with the real, equities and long bonds rallying sharply. The risk is that it fades if his constitutional amendment stalls in Congress.
- A Lula win means continuity with gradual adjustment and a stable risk premium.

Upside, base and downside scenarios for the next 12 months are set out in Appendix C.

Positively, the macro backdrop is supportive of infrastructure operating cash flows: full employment, rising real incomes, a strong harvest driving logistics and export volumes, and inflation-linked tariffs locking in inflation pass-through. Real rates near 9% keep regulated and concession assets cheap relative to their cash yields, and the main upside catalyst is a credible fiscal anchor that brings long real yields down. That makes the 2027 fiscal response, rather than growth, the thing to watch.

El Niño 2026–winners & losers

This is shaping up as one of the strongest El Niños on record, with a peak expected between November and January, and it came up in most meetings. Mexico faces water stress, partly offset by a quiet Atlantic hurricane season and Panama Canal restrictions that strengthen the case for Mexican alternatives. In Brazil, drought threatens northern hydro and Amazon grain routes and adds to food inflation, while wind generation and availability-based transmission revenue provide natural hedges. Detail is in Appendix D.

Infrastructure—strong conviction in region

While much is happening across Latin American infrastructure, this trip highlighted and reinforced some strong themes, including:

- ***The new ESG (Energy, Security and Geopolitics)***: Latin America did not drive the shift to a security-first investment lens, but it is very well positioned to capitalise on it because it owns the assets the new world needs. Mexico is the default nearshoring beneficiary, provided its power, water and logistics infrastructure keeps pace. Brazil offers clean power, strategic minerals and food security. In both, we believe the best risk-adjusted exposure lies in regulated, availability-based infrastructure rather than commodities or merchant generation.
- ***Mexican airports***: Structural long-term traffic demand remains attractive despite a difficult 2026 where a combination of largely cyclical headwinds has weighed on traffic. Execution of newly approved development plans is on track, and each operator has adapted differently to the regulatory shift to a weighted average cost of capital (WACC) model. We see the market's reaction to 2026 traffic as overdone and continue to position for GAP's long-term structural growth and strongest near-term catalysts, ASUR's value and visible terminal catalysts, and OMA's yield.
- ***Brazilian transport***: Existing fundamentals and future growth remain very attractive, and most of last year's calls have been delivered. Motiva and Ecorodovias continue to deliver strong organic growth, margin expansion and improved capex execution, with growth now coming from amendments rather than increasingly aggressive auctions. We remain positive on both.
- ***Brazilian rail***: Our concerns from last year have eased. Rumo has completed its tariff reset, recovered market share and pivoted from 11 years of cash-burning expansion to margin, cash generation and deleveraging, with 2027 the inflection year. The value is attractive and, in our view, warrants a position, but the rerating hinges on a manageable El Niño season, deleveraging below 2x and a clean resolution of the Cosan stake, and structurally we still hold larger positions elsewhere.
- ***Brazilian electricity***: As elsewhere in the world, the network investment need is significant, and capex is running above plan across operators. A large stock of investment yet to enter the asset base, plus a

constructive regulatory agenda (smart-grid recognition, WACC methodology), offers further upside. Transmission assets remain highly valuable, but auction competition has squeezed returns, so we are selective on growth. By contrast, we continue to avoid generation investment, with the exception of hydro.

- **Brazilian water & sanitation.** A large growth opportunity. Sabesp's tariff-reset overhang has been removed and Copasa's privatisation adds a new platform, so execution is now the key. We like both as standalone investments, as well as the strategic controller, Equatorial, which is one of our preferred ways to own both Brazilian distribution and water.
- **Capital discipline.** A key takeaway from this trip was the discipline of management teams in a high-rate, highly competitive environment. Many are benchmarking new investment against the internal rate of return (IRR) implied by their share price, favouring amendments and secondary-market acquisitions over aggressive auctions, and walking away when returns do not work. They are also increasingly cognisant of investor demands around leverage and shareholder returns.

We touch on each of these below, as well as wrap up a few other sector dynamics.

Mexico – an improving opportunity

As discussed above, the opportunity for private investment in Mexico's infrastructure plan is improving, albeit with risk. We continue to favour the stability of the airport sector, but toll roads could prove interesting. The sector-by-sector opportunity (power generation, transmission, toll roads, airports, rail and energy security) is set out in Appendix E.

Mexican airports: structural growth intact, near-term turbulence

The long-term fundamentals for the Mexican airport sector remain strong. However, near-term traffic headwinds persist, weighing on the 2026 earnings outlook and share prices year to date.

Scorecard: how our 2025 expectations played out

Last year we expected near-term traffic headwinds to fade into 2026 while the structural story stayed intact. The structural calls have held: business hubs gained share, the development plans are on track and OMA's plan was approved. The recovery did not arrive, though. The US overhang broadened, new headwinds emerged, and the rebound has been pushed into 2027.

2025 expectation	2026 status	Verdict
US-Mexico tensions a short-term overhang; airlines not cutting seats	Overhang broadened: Delta-Aeromexico JV unwind, US restrictions on Mexican carriers, VFR weakness (Tijuana down 9–11% in March–April), and Spirit's collapse removed seats	Worse than expected for 2026
Mexico City slot limits push traffic to Guadalajara and Monterrey	Business hubs outperformed (Guadalajara +10.5% in August, Monterrey +8.5% in 2025)	Confirmed
Traffic recovery into 2026 as fears dissipate	2026 hit by cartel violence, Spirit, oil, sargassum and a strong peso; recovery pushed into 2027	Not delivered
ASUR's Cancún T1 opening in H2 2026	Slight delay to year-end on equipment delivery, Oaxaca on track for Q1 2027	Slight delay
GAP's terminal expansions deliver over the coming years	On time and on budget, Puerto Vallarta opens Q1 2027	On track
OMA's development plan to deliver a solid outcome, upside priced in	Plan approved; OMA held up better than peers but has fewer catalysts	Delivered
ASUR's US acquisition a low-margin platform rather than a value-accretive win	Further US expansion planned; we remain sceptical	Consistent
Neither GAP nor ASUR aggressive on Motiva's airport portfolio	ASUR completed the 20-asset acquisition	Surprise
OMAmorphing into a cash-cow yield play	Confirmed, with hotels and industrial parks as add-ons	Confirmed

Traffic – cyclical headwinds, structural demand intact

Despite optimism about a traffic recovery at the start of the year, the 2026 outlook remains well below structural demand trends. The weakness reflects a combination of largely cyclical and interlinked drivers: Pratt & Whitney (P&W) engine inspections, February's cartel violence, Spirit Airlines' collapse, US–Mexico aviation policy, higher oil prices, a record sargassum season, a strong peso for most of the year and the Trump overhang on tourism and visiting friends and relatives (VFR) travel. Each is discussed in Appendix F.

Together, these factors have significantly reduced US passenger numbers and are likely to keep traffic depressed through 2026. However, H2 is expected to be better than H1, and most of the causes are cyclical and expected to ease into 2027. The weaker traffic base will also be reflected in the next master development program (MDP) reset, which should support future tariffs.

Importantly, the longer-term outlook remains very strong. Structural demand growth, new aircraft deliveries, the full resolution of the P&W engine issues, the ramp-up of nearshoring investment and more international routes to Mexico should, in our view, drive a traffic CAGR well above GDP growth. That growth supports the significant investment pipelines currently being executed.

Capex execution on track

With all three operators having finalised their MDPs, the discussion has moved to execution, and all three are on track. ASUR's Cancún T1 has slipped slightly to year-end, with Oaxaca due in Q1 2027; GAP's Puerto Vallarta terminal opens in Q1 2027, and Guadalajara is on track, supporting the largest program of the three; and OMA's Monterrey expansion is under way, with some disruption before commercial benefits arrive in 2028 (see Appendix F).

Maximum tariffs – the strong peso bites

The recent environment has put pressure on maximum tariffs with the operators having varying degrees of success in fully passing through the regulated levels:

- ASUR has been most successful and is still targeting a 99% pass-through by year-end, while acknowledging that a strong peso¹ could make that difficult.
- GAP is projecting just 90% pass-through for 2026, with 100% challenged by the strong peso, weaker traffic and above-average inflation. It is difficult to see it at 100% by the end of 2027, but we expect it to be much closer.
- OMA is targeting 93–95% by the end of 2026 and closer to 100% by the end of 2027 as it too balances real increases with inflation pass-through and FX pressures.

The easing peso should help the operators realise stronger pass-through in H2 and into 2027.

Regulatory shift – optimising the WACC

One of the biggest changes in the revamped regulatory model was the move from a 'cost of equity' discount model to a WACC-based one. This required the operators to rethink their leverage strategy to maximise the return profile and each of them has gone about it differently as dictated by the nuances of their airport base.

ASUR is raising debt at the Cancún airport level to fund international growth, which is excluded from leverage calculations, OMA keeps all debt at the holding company limiting leverage, and GAP is launching a FIBRA E (a Mexican energy and infrastructure trust), which keeps its airports unlevered for regulatory purposes and should unlock about MX\$600m of annual tax savings. We were sceptical ahead of the meeting but now support the issue. Detail on each approach is in Appendix F.

Diversification opportunities – different paths to growth

With strong balance sheets on top of the capital committed under their MDPs, the operators are taking different approaches to diversification. ASUR is building a US platform and integrating the Motiva airport portfolio; we are comfortable with the latter but remain sceptical of the former. GAP is expanding its successful Guadalajara World Trade Centre (GWTC) logistics model, where margins have risen from about 40% to 65–70%. OMA is adding hotels and industrial parks while remaining a cash-cow yield play. Detail is in Appendix F.

Positioning across the names

Despite the near-term traffic weakness, we remain positive on the Mexican airport sector, as we believe it offers long-term structural upside and attractive value at these levels, given the market overreaction to 2026 traffic. Each of the operators offers different dynamics:

- GAP – in our view, the strongest long-term growth story, with strong expansion and traffic/commercial upside at its core airports. We expect the strongest H2 recovery and, given a very difficult H1 in Mexico and Jamaica, believe it has the strongest near-term catalysts.
- ASUR – visible catalysts from the opening of T1 in Cancún at the end of this year and Oaxaca in Q1 2027. It offers, in our view, the most attractive value at these levels, but we continue to be a bit wary of the US strategy. Risk/reward is strong, but it is not our top pick.
- OMA – more stable passenger outlook in a volatile environment, and it has held up better than peers. However, it has fewer catalysts and is morphing into a cash cow. It is worthy of a position but is our smallest exposure among the three.

Brazilian user pay conviction strengthened

¹ Maximum tariffs are set in pesos but international passenger charges are collected in US dollars, so a stronger peso reduces their peso value and pulls the average tariff further below the regulated cap.

We managed to explore the opportunity set across the Brazilian transport space and came away strengthened in our conviction of the fundamental opportunity in the sector, but with certain subsectors offering better structural risk/return.

Rail—from expansion to cash generation

The heavy-lifting phase for Rumo is done: the tariff reset is complete, market share has recovered, the Mato Grosso railway has commenced operations and capex is peaking. Rumo is pivoting from 11 years of cash-burning expansion to margin, cash generation and deleveraging. Management has resized the capex program, deferred new construction until beyond 2027–28, and shifted focus to getting more out of existing capacity. Positively, the near term is well supported by contracted volumes and a strong crop outlook:

- Capacity is more than 80% contracted for the rest of the year, and contracting into next year has already started on a very strong crop forecast.
- In terms of yields, the compression is over and management expects Q3 to be flat year on year (with higher volumes) and Q4 to be ahead, with mid-single-digit yield growth, roughly in line with inflation.
- Management expects this to translate to a solid H2 and about 10% EBITDA growth next year.
- Lower capex, rising EBITDA and capex disbursements renegotiated with regulators to match cash flow should turn Rumo cash-positive for the first time in over a decade, and management is targeting leverage below 2x (from 2.1x).

Management is guiding to capacity headroom without major capex: the network moves about 35 million tonnes of grain and can reach about 45 million tonnes within three to five years through brownfield investments, including a new terminal. Management's monitoring shows no major competing rail projects emerging in the medium term, which further supports deferring its own new builds.

However, the stock is not without risk and its rerating depends on:

- El Niño – Management estimates about 5 million of Mato Grosso's roughly 50 million tonnes of soybeans are at risk, implying about 2 million tonnes of Rumo's 35 million. That is material but contained, and trading houses have already bought about 20% of the next soy crop.
- Structural softening of corn exports. Corn ethanol demand in Mato Grosso is projected to reach about 20 million tonnes next year, up from zero in 2018, and exports have plateaued as a result. The exportable surplus is shrinking even as production grows.
- Demand pacing. Management acknowledges it overbuilt capacity. China's slowing demand growth means future volume depends on other Asian and Middle Eastern markets.
- Input costs. High fertiliser costs, especially urea for second-crop corn, may lead farmers to cut back on inputs, which puts yields at risk.

In summary, execution risk is falling, pricing discipline is proving itself, and the cash-flow inflection is visible for 2027. However, the rerating hinges on three things: a manageable El Niño season, visible deleveraging below 2x, and a clean resolution of the Cosan stake by year-end. The valuation is very attractive, but structurally Rumo remains less attractive than some of its peers.

Roads & urban transport—delivering, with more to come

We again had strong meetings in Brazil with Motiva and Ecorodovias, which reinforced our positioning in both names. The focus of the meetings was on:

- organic growth and continued margin expansion – positive;
- execution of existing capex programs – positive;

- future growth opportunities – amendments rather than new auctions;
- balancing leverage with growth, including peak leverage, asset recycling and potential equity raises; and
- catalysts – amendment timing, the election and the path of Brazilian real rates.

Scorecard: how our 2025 expectations played out

Most of our post-trip stock expectations from last year were achieved. Motiva completed the airport sale, set more ambitious efficiency targets and kept leverage within its commitment, while Ecorodovias resolved its licensing delays and confirmed that its new roads are performing ahead of bid assumptions. The competitive dynamic we flagged has also played out, with aggressive bids by new entrants – positively, the incumbents showed discipline.

The one delay has been amendments at both companies, which have taken longer than expected, partly because of the election, although the value is intact and Motiva's pipeline has grown.

Motiva

2025 expectation	2026 status	Verdict
Airport sale by late Q3 2025, 4-5 bidders	Completed for about R\$5bn, acquired by ASUR	Delivered - positive outcome
Investor Day to target opex/net revenue below 30% by 2035	Target of 28% by 2035	Upgraded
Capex execution at 93-97%	Targeting 95-100% from 2026 on about R\$9bn capex	On track
Leverage kept below 4x	About 3.5x, falling to about 3.0-3.1x in Q3	Delivered
Amendments announced within 6-12 months; R\$15-20bn opportunity	Still pending, with announcements expected before year end. The pipeline has grown to about R\$23-24bn	Delayed, but larger
Targeting two new auction wins over 12 months	Four concessions won, plus Minas SP via relicitation	Exceeded, enhancing growth and also some execution risk
Equity raise considered, but not before 2027	Funding shifted more to asset recycling	Improved
MSVia low-risk after renegotiation	Pantanal traffic softer, but the government absorbs 90% of deviation beyond 5%	Protection holding
Shareholder overhang could turn positive	Bradesco acquiring Mover's stake, pending antitrust approval	Progressing, not resolved

Ecorodovias

2025 expectation	2026 status	Verdict
Margin to about 85% by 2030	Target now minimum 83% by 2030	Different terminology but on track
Capex execution only 80–85% because of licensing delays	On track for R\$5.5bn this year	Improved
New roads performance: "need more data points"	Most ahead of plan, some about 20% above projections	Positive
Immigrantes rebalance announced within 12 months	Package delivered, but negotiations deferred until after the election; works 1H27 at best	Delayed
Equity raise only if new growth arises	Follow-on now likely to fund Immigrantes Line 3	Still growth driven
Selective on new auctions	Won't bid on any of the R\$20bn pipeline	More conservative
Leverage to about 4.5x, below the 4.75x covenant	Peak at end-2026/early-2027, declining after 2030	Consistent

Organic growth – across every metric

Both companies continue to deliver strong organic growth, supported by inflation-linked tolls, traffic growth above GDP and extensive demand-risk sharing. As per last year, the big organic theme remains margins, with both operators delivering on efficiency programs that should drive strong margin expansion over the rest of the decade. Motiva now targets opex at 28% of net revenue by 2035, and Ecorodovias expects at least an 83% margin by 2030 (see Appendix G).

Existing growth – new assets ahead of plan

Both companies are executing well on significant capex programs, and the new assets are performing ahead of expectations. Motiva is targeting 95–100% capex execution against a R\$65b backlog, while Ecorodovias has resolved last year's licensing delays and most of its new concessions are running ahead of plan (see Appendix G).

Future opportunities – amendments offering best risk/return

The competitive dynamic we flagged last year has played out. Aggressive bidding by financial investors and new entrants has resulted in problem contracts, and Motiva expects consolidation and re-auctions over time. This favours disciplined incumbents, and Motiva's Minas SP acquisition is the first proof of this. Both operators continue to prioritise amendments to existing contracts over new auctions, given the known risk matrix, lack of competition and attractive returns. Amendment timing has slipped against last year's expectations, but the value is intact and the pipeline has grown.

Motiva's amendment pipeline (AutoBAn, SPVias, Rodoanel Oeste and Morro do Cavalo), a R\$8b metro extension and the Minas SP acquisition, alongside Ecorodovias' Imigrantes Lane 3 (a R\$10–11b project targeting a 17–18% levered IRR, not yet in company models), are detailed in Appendix G.

Balance sheets – peak leverage in sight

Both companies are close to peak leverage and are balancing growth against deleveraging, although their funding strategies have diverged since last year.

- **Motiva.** Leverage of about 3.5x net debt/EBITDA falls to about 3.0–3.1x in Q3 on receipt of the airport sale proceeds, before rising again with the capex cycle, but remains within its commitment to stay below 4x. Asset recycling remains a funding lever. The Rio road assets (worth more than R\$1.5b) are likely to follow after their capex cycle, as is potentially a 40–50% urban mobility stake for a strategic partner (potentially Transdev, Vinci or MTR).
- **Ecorodovias.** Leverage should peak around year-end or early next year and decline thereafter, with capex slowing after 2030, and capex timing flexibility in contracts if needed. The holding-company limit was raised to 4.75x in coordination with debenture holders and rating agencies. The debt structure mitigates some leverage risk: 77% is linked to the Extended National Consumer Price Index (IPCA), matching indexed tariffs, and 72% sits at the special purpose vehicle (SPV) level, mostly market debt without covenants or guarantees, with Brazilian Development Bank (BNDES) grace periods matched to project cash flows. We believe an equity raise is likely if Lane 3 proceeds.

Catalysts – positive rerating events

The election and the path of Brazilian real rates remain the biggest catalysts over the coming 12 months. Both operators also have their own fundamental catalysts.

Company	Catalyst	Direction	Expected timing
Motiva	SPVias amendment signature	Positive	Before year-end 2026
	AutoBAN amendment announcement	Positive	End-2026 / early 2027
	Rodoanel Oeste amendment	Positive	Q4 2026
	Morro do Cavalo amendment	Positive	Possibly by year-end 2026
	Minas SP ramp-up	Positive	2026–2029
	Delivery of efficiency targets and continued operational gains	Positive	Ongoing
	Further asset recycling (Rio road assets, urban mobility stake)	Positive	2027 onward
	Shareholder base: Bradesco acquiring Mover's ~15% stake (pending antitrust approval); unclear whether it joins the shareholder agreement or sells to the controlling shareholders	Overhang	2026, but could be delayed by a second antitrust approval
Ecorodovias	Continued margin expansion	Positive	Ongoing, to 2030
	Leverage peaking, with deleveraging thereafter	Positive	Peak around year-end 2026
	Imigrantes Line 3 negotiations formally starting	Positive	After the election; works potentially from 1H27
	El Niño impact on the one Amazon-linked concession (traffic specialist hired to monitor river levels)	Unknown	2026–27 wet season

Positioning – continued conviction in both names

We remain positive on both names. Motiva has strengthened its position since last year, delivering on the airport sale, the efficiency targets and leverage, and in management's view the amendment value still being announced is not yet in the share price, offering a further rerating opportunity. Ecorodovias is operationally very well positioned, with traffic ahead of plan, indexed revenue and peak leverage close. Its higher leverage and the prospect of an equity raise make it the higher-beta way to play Brazilian rates. We believe rates are moving in the right direction, and the quality of the portfolio warrants a continued position.

Brazilian utilities network preference

We again explored all four segments of the Brazilian utility sector, and our views are broadly unchanged, with conviction strengthened in some areas:

- Electricity generation remains structurally broken for wind and solar. The long-awaited reform has compensated only part of the legacy curtailment losses and left the core oversupply problem untouched,

and new renewable investment across the sector has effectively stopped. Hydro is the clear exception: every operator we met is on the buy side for hydro and constructive on long-term power prices. We remain negative on renewables, positive on hydro.

- Electricity transmission remains stable and predictable, but auction competition has intensified further, with discounts now above 50%. Strategies are diverging: some operators are stepping back from auctions to focus on integration and secondary acquisitions, while others are still winning through cost and execution advantages. Positive on the assets, selective on exposure.
- Electricity distribution has delivered on our key call, with concession renewals signed. Regulated asset base (RAB) growth is accelerating, a significant stock of investment has yet to be recognised, and the regulatory agenda (smart-grid recognition, the WACC methodology) is a potential upside catalyst. Delinquency and extreme weather are the new watchpoints, and Enel remains the core sector M&A story. We remain positive on the sector.
- Water remains the growth sector. Sabesp's first tariff reset has removed the key overhang, and Copasa's privatisation has added a new platform. We remain positive on the sector.

Scorecard: how our 2025 expectations played out

Most of last year's calls have been borne out. Distribution renewals were signed, Sabesp's tariff reset de-risked the stock, transmission competition intensified exactly as flagged, and our preference for hydro is now the consensus among operators. Generation reform arrived sooner than some expected, but compensation covers only part of the losses (CPFL estimates about half) and excludes the oversupply-driven curtailment we identified as the core problem. Enel's exit has not happened as an orderly sale. It has instead become a regulatory confrontation, and our meetings suggest a clean resolution is unlikely.

2025 expectation	2026 status	Verdict
Generation negative without DG reform	Reform passed, but it excludes oversupply curtailment and leaves the DG subsidy intact, curtailment is worsening	Confirmed
Renewable bankruptcies likely	Distress is spreading, so far mainly among energy traders	Emerging
Favour hydro within the integrated mix	Engie raised equity to buy 40% of the Jraú hydro plant & debate about early renewal of Hydro concessions	Positive direction
Long-term power price higher than market expects	Axia, CPFL and Copel all expect structurally higher prices (Copel: R\$250-300/MWh)	Confirmed
Transmission competition intense	Discounts at their highest since 2020, reaching up to 59%	Confirmed
Distribution renewals imminent	14 renewals signed; Enel's three concessions excluded	Delivered
Enel to exit distribution	No sale yet, a forfeiture process is under way at Enel SP	Evolving but complex
Equatorial to prioritise distribution and water	Copasa acquired; distribution and water confirmed as core, transmission sold	Delivered
Sabesp tariff reset the key overhang	Reset delivered in line with expectations; overhang removed	Resolved positively
New water asset auctions in to 2026	Copasa privatised, with Equatorial as reference shareholder	Delivered

Electricity generation reform, but not the one needed

Congress passed the long-awaited power sector reform in November 2025. It is an important step but falls short of the structural fix required. Compensation covers only curtailment caused by external failures and reliability constraints, not the oversupply-driven curtailment created by the growth of distributed generation (DG), which remains protected. Curtailment is worsening, distress is spreading (starting with energy traders), and the operators' response has been unanimous: no new renewable investment. Detail is in Appendix H.

Hydro is the opposite story, and our meetings strengthened last year's view that long-term power prices are likely to be higher than the market expects. Axia, Copel and CPFL all expect structural repricing (Copel: R\$250–300/MWh), and every operator we met is on the buy side for hydro (see Appendix H).

We remain concerned about operators with significant wind or solar exposure and continue to favour hydro. On El Niño, operators are relaxed about prices. Axia notes the effect on the Southeast, where most reservoirs are, is historically inconclusive, and higher temperatures lift demand. The greater concern is physical: storms interrupting transmission and distribution networks.

Electricity transmission—much needed but still competitive

The fundamentals remain attractive: a simple regulatory model, very high margins and a large investment need. But competition has intensified further. The first 2026 auction contracted R\$3.3b of investment at discounts of up to 54.8%, the highest since 2020. The second stage in July saw discounts of up to 59%. The next auction, on 30 October, has nine lots and about R\$8.9b of investment. TAESA's observation is that competitive advantage now comes less from capex efficiencies, and more from faster licensing and early energisation, which carries its own risk from strikes, logistics and interconnection dependencies.

Strategies are diverging: TAESA is stepping back from auctions to integrate acquired assets, Alupar and Axia are still winning in the primary market, and Copel prefers the secondary market. Questions are also emerging over renewal at expiry. Detail is in Appendix H.

The trip reinforced last year's view that returns on new lines are being squeezed while operating assets become more valuable. The pure plays face a harder growth path: TAESA and Alupar remain disciplined bidders, but winning at these discounts is difficult, and their investment cases rest more on the existing asset base and yield than on auction growth. We continue to see capital recycling out of transmission by integrated players as rational. The battery storage auction in December and the growing curtailment problem both underline that grid investment is the binding constraint in Brazil's energy transition.

Electricity distribution—renewals delivered and RAB growth accelerating

The key thesis from last year has been delivered. The federal government formalised the renewal of 14 distribution concessions for 30 years in May. The new contracts include investment commitments in network modernisation, digitalisation, smart metering and climate resilience, which support the RAB growth thesis.

The exception is Enel. Its three concessions (Ceará, Rio de Janeiro and São Paulo) were the only ones left pending, even though the regulator, the Brazilian Electricity Regulatory Agency (ANEEL), had recommended renewal in Ceará and Rio. In São Paulo, ANEEL recommended keeping the forfeiture process after reviewing Enel's appeal, finding that its arguments did not overturn the evidence of contract breaches. The Enel Rio contract expires in December 2026. CPFL thinks an Enel exit is more likely than continued operation.

CPFL describes the concession renewals as welcome but operationally unchanged, since it was already investing two to three times depreciation, and argues that distribution concessions for good operators should effectively be treated as perpetual. Copel, whose concession runs to 2045, is more conservative and models its asset value only to that date, expecting an auction afterwards.

As elsewhere around the globe, the network investment cycle is strengthening, and capex is running higher than expected. Operators consistently described capex coming in above plan, driven by quality requirements,

climate resilience, network expansion, electrification and DG, and none expect it to normalise quickly. Equatorial (R\$20.5b of investment yet to enter its asset base), Copel (a reset remuneration base of R\$20b, above expectations) and CPFL (high capex for five to 10 more years) illustrate the trend (see Appendix H).

The regulatory agenda is offering further upside. Management teams see a more constructive relationship with ANEEL, with more frequent dialogue and faster responses. The key items are annual RAB recognition for smart-grid investment, a review of ANEEL's WACC methodology and fixes to lags in cost recognition. New watchpoints include rising delinquency, extreme weather and the opening of the free power market. Detail is in Appendix H.

Sector M&A – Enel the main event

Enel is the only real game, and it is complicated. Last year we expected an orderly sale. Instead, the M&A opportunity may come through forfeiture or a forced sale. Interest is strong: CPFL has confirmed it would look at Enel SP, and Equatorial and Iberdrola have reportedly approached Enel's parent company. Bidding could be competitive, but in our view Enel is unlikely to realise what it paid for the assets. CPFL sees São Paulo as recoverable with two to three years of investment, but Rio as structurally impaired, with commercial losses of about 50%, and would attribute it near-zero value. Selling the assets separately is unlikely to work because Rio is unsaleable on its own, while a single package limits the larger players such as CPFL, Neoenergia/Iberdrola, Copel and perhaps one or two others.

Otherwise, the M&A pipeline is thin: Celesc and Cemig are privatisation candidates depending on the election outcome.

We remain positive on the sector and continue to increase our exposure to Brazilian distribution.

Water overhang removed, platform expanding

Last year's key overhang for Sabesp, its first tariff reset, has resolved positively. The regulator set it at 6.8% from January 2026. The market saw it as an important de-risking event, confirming management's ability to deliver a solid regulatory asset base valuation in its first cycle after privatisation.

Equatorial and Sabesp both played down Sabesp's weaker Q2 results as normal volatility in a turnaround. Capex has tripled to accelerate universalisation by 2029, bringing non-recurring effects, which management says have been corrected, with a recovery expected over the coming quarters.

Sector consolidation has continued. Copasa, the largest water privatisation of 2026, chose Equatorial as its reference shareholder. That strengthens Equatorial's position as an integrated distribution-and-water platform, consistent with the capital allocation priorities it set out last year. The auction pipeline remains active, with Brazil expected to hold seven water auctions this year, four of them in states with low coverage. Balance-sheet capacity has become the differentiator. Aegea has proposed a capital increase of up to R\$2.1b amid financial and reputational challenges, and Equatorial expects more secondary-market opportunities as leveraged players sell assets while capital markets are effectively closed to them. Equatorial describes its approach as bidding only where the returns work and preferring asset-base regulation over contractual management models.

Equatorial presented Copasa as a less demanding asset than Sabesp, with a longer universalisation deadline, a supportive regulator and a clear 100-day plan (see Appendix H).

With Sabesp's regulatory risk behind it, the sector's investment case now rests on executing very large capex programs and bidding with discipline in new auctions. Copasa must now execute its post-privatisation clean-up. We remain positive on both Sabesp and Copasa, with Equatorial one of our preferred ways to own both Brazilian distribution and water.

Conclusions reaffirming LatAm conviction

This trip sees us reaffirm our investment in Latin America. The political and macro backdrop remains the key near-term catalyst, both positive and negative: Brazil's 25 October runoff, where Flávio Bolsonaro now holds the advantage after a stronger-than-expected first round, and the path of its real rates, and Mexico's USMCA review and fiscal position. But the fundamentals of the infrastructure operators are very strong, and in our view, the regulatory frameworks supporting them are secure whoever wins. Near-term headwinds, notably Mexican airport traffic and high Brazilian real rates, are largely cyclical, and we believe the market has overreacted to them, leaving quality infrastructure names at very attractive valuations. A credible post-election fiscal anchor in Brazil and trade clarity in Mexico would be significant catalysts for a rerating.

As always, we maintain a diversified portfolio of high-quality infrastructure names globally, and at the moment, we believe that parts of our LatAm universe warrant overweight positions.

Appendix A Brazil's election: voter rejection & policy differences

Why voters reject Lula and the Bolsonaros

- Lula's rejection stems from
 - **The corruption legacy.** The Mensalão vote-buying scandal and the Lava Jato ('Car Wash') investigation defined the Workers' Party (PT) for a generation of voters. Lula was convicted and jailed in 2018. The Supreme Court later annulled the convictions on procedural grounds, which let him run in 2022, but many voters never accepted that as exoneration.
 - **Crime.** Public security is a top voter concern, and the left is widely seen as weaker on it. This was a topic repeatedly raised as an election winner with personal security and phone theft seen as persistent threats.
 - **The economic memory of the Dilma years.** The deep 2014–16 recession under Dilma Rousseff, which ended in her impeachment, still colours perceptions of PT economic management.
 - **Current frustrations.** Despite record-low unemployment, many households feel squeezed by high food prices and very expensive credit with the Selic at 13.75%. Quaest has this government's disapproval at 50% against 43% approval, and disapproval in the Northeast rose from 29% to 35% between July and September.
 - **Fatigue and age.** Lula turns 81 in October and has dominated the left for more than three decades. For younger voters in particular, he represents the past rather than renewal.
- Bolsonaro's rejection stems from
 - **Attacks on democracy.** For a large part of the electorate, the defining image is the January 2023 storming of Brasília's government buildings, followed by Jair Bolsonaro's conviction for plotting a coup and his 27-year sentence.
 - **The pandemic.** Bolsonaro's dismissal of COVID-19, his opposition to lockdowns and his delays on vaccines are remembered alongside a death toll of around 700,000, one of the world's highest.
 - **The US tariff backlash.** When Washington imposed tariffs on Brazil in 2025 explicitly linked to Bolsonaro's prosecution, with his son Eduardo lobbying in Washington, many voters saw the family as putting its own interests ahead of the country's.
 - **A candidacy seen as dynastic.** Flávio is running largely because his father is barred. Critics note that his stated priorities include amnesty for his father and a campaign against Supreme Court justice Alexandre de Moraes. He was also investigated over an alleged salary kickback scheme (rachadinha) from his time as a Rio state deputy, which he denies; the courts later threw out the case on procedural grounds.
 - **An economic program many find vague.** As discussed below, his economic plans are light on detail, which feeds scepticism beyond his base.

Flávio's fiscal plan in detail

The core argument is that speed itself creates credibility. His team favours a rapid adjustment as a confidence shock to bring down long-term interest rates. His advisers promise an adjustment of about 1.5% of GDP within the first 18 months. The vehicle would be a constitutional amendment containing a new fiscal framework, which the campaign says it would push to pass this year if he wins. The anchor would be gross debt to GDP, with real spending growth potentially frozen until the ratio returns to a healthier level. The team has not said publicly what that level would be. His economic adviser Adolfo Sachsida has written that a spending freeze while debt is above 65% of GDP, nearly 20 points below the current level, would help restore order. In practice that implies years of frozen real spending. Campaign economic coordinator Daniella Marques has also

proposed a fiscal governance council spanning all three branches of government, arguing that structural measures cannot move forward until the executive, Congress and the judiciary first restrain their own spending.

The revenue side, however, pulls the other way. Flávio has pledged to reverse the Lula government's increase in the IOF financial transactions tax and has said he will not save money at the expense of minimum-wage earners or pensioners. He also campaigned in Manaus wearing a '100% Zona Franca' shirt, backing a tax incentive regime that costs close to R\$30b a year.

Other policies

The economic stance is by far the biggest distinction between the two candidates, but other areas of contention include:

- **Campaign positioning** – Rather than his 2022/23 'rebuilding democracy' framing, Lula's team is testing an 'anti-establishment' pivot – aiming fire at the financial elite rather than just Bolsonaroism, a lane usually occupied by the right.
- **Labour** – Lula wants to end the 6x1 schedule (six days on, one off) and move to a 40-hour week with no pay cut. Flávio would keep the current schedule and prioritise flexible hours negotiated directly between companies and workers. This is a vote winner for Lula among lower-income workers.
- **Security** – Lula proposes closer coordination between federal, state and municipal governments, investment in intelligence, body cameras and community policing, a constitutional amendment on public security and a dedicated security ministry. Flávio's campaign has centred on crime and corruption, launching in Rio de Janeiro with the message that Brazil had "lost its sovereignty" to organised crime. Flávio's line is much harder, including five new federal maximum-security prisons, 500,000 additional prison places, a lower age of criminal responsibility, wider use of facial recognition, and designating the Primeiro Comando da Capital (PCC), the Comando Vermelho and the militias as narco-terrorist organisations. It was very clear on the trip that personal security is a decisive issue and that many voters want tougher laws. In our view, Flávio has the advantage on this issue.
- **The judiciary** – Lula proposes no change to the Supreme Court's powers. Flávio wants to limit single-justice rulings, remove the court's original criminal jurisdiction and impose a one-year quarantine before ministers can be appointed to it. We doubt this is a vote winner. It appears driven largely by his father's case.
- **Foreign policy** – Lula's platform is built on Brazilian autonomy, meaning non-alignment and the BRICS orientation. Flávio seeks closer cooperation with the United States. Given how hostile Washington has been to the Lula government, including the tariffs imposed over the treatment of Jair Bolsonaro, the outcome matters for trade relations as much as for diplomacy. Flávio offers better relations with Washington, but the tariff episode makes this a mixed issue for him with voters.

Appendix – Brazil's strategic assets under the new ESG

Energy: clean, secure and increasingly self-sufficient

- **A clean backbone.** Renewables make up more than 85% of Brazil's electricity mix, with hydro providing the backbone and the flexibility, although climate variability is itself an energy-security risk.
- **Hydrocarbons and biofuels.** Pre-salt oil production has made Brazil a net oil exporter, and a mature ethanol and biodiesel industry displaces imported fuel. Gas remains the gap. Growing domestic supply to reduce exposure to imported liquefied natural gas (LNG) is a genuine security play.

Transmission: the bottleneck, and the opportunity

- Curtailment is the system's biggest weakness. The consequences for generators are real: in 2025 the regulator withdrew 509 wind and solar authorisations after developers concluded the projects were no longer viable. Reform has brought only partial compensation for these losses, and none for oversupply-driven cuts.
- Part of the fix is transmission, and the model works. Recent auctions have focused on large high-voltage direct current (HVDC) lines to carry Northeast power to the Southeast. ANEEL is already consulting on future auctions including 3,245km of new lines across 13 states at an estimated R\$12.9b.
- Storage is next. Brazil's first dedicated battery auction is scheduled for 2 and 4 December 2026, with 6,091 projects registered, 71% of them in the Northeast.

For investors, this is the clearest illustration of the new ESG. The value in Brazil's energy transition has shifted from generation, now exposed to curtailment and merchant risk, to the grid that makes it deliverable.

Critical minerals: the West's alternative supply chain

- **Rare earths** – Brazil holds the world's second-largest rare earth reserves after China. Production is only just beginning, however, so reserves are the story, not output. The flagship is Serra Verde's Pela Ema mine in Goiás, among the few operations able to mass-produce heavy rare earths outside China. It secured a US\$565m financing package from the US International Development Finance Corporation, and in April USA Rare Earth agreed to acquire it for about US\$2.8b.
- **Resource nationalism is a real risk.** Brazil's antitrust regulator opened an investigation into the Serra Verde deal. Washington is also still trying to finalise a critical minerals pact with Brazil: despite talks since January, it has only a regional memorandum of understanding with the state of Goiás. Brazil will sell its minerals to the West, but on its own terms.
- **Niobium and lithium.** Brazil supplies the vast majority of the world's niobium, which is critical for high-strength steel, and Minas Gerais' 'Lithium Valley' is emerging as a supplier to Western battery chains. Rail, roads and ports that move these minerals are now strategic assets, not just bulk logistics.

Digital infrastructure: clean power attracts data centres

Brazil's clean grid has become a competitive advantage in the AI build-out. By August, it had about 700MW of data centre capacity, about half of Latin America's total. Another 660MW is under construction, 56% of it pre-committed. Most hyperscalers demand green power for their data centres and secure it mainly through power purchase agreements (PPAs), which directly links digital infrastructure demand to Brazil's generation and transmission pipeline. Redata, a new tax-incentive regime for data centres with clean-energy contracts, adds further support. Grid constraints are the main risk: without more transmission, data centre operators could face unexpected costs.

Food security: the breadbasket's logistics

Brazil is the world's largest exporter of soybeans, beef, chicken, sugar and coffee, making it central to global food security. The binding constraint is logistics: getting grain from the Centre-West interior to the ports. That

gives strategic weight to rail concessions, northern export corridors and port capacity. Its main vulnerability is heavy dependence on imported fertiliser, which is exactly the kind of supply-chain exposure the new ESG prices.

Appendix – Economic scenarios for the next 12 months

Mexico

Scenarios for the next 12 months

- Upside, an interim USMCA deal and Section 232 relief by early 2027 – the peso holds, new FDI resumes and growth moves toward 2%, easing the fiscal arithmetic.
- Base case, talks drag into 2027 – growth around 1–1.5% and investment in a holding pattern. The debt ratio keeps rising slowly, and Banxico stays on hold until the Fed turns.
- Downside, US escalation on trade or security combined with a fiscal miss – peso weakness forces Banxico to stay tight into a slowdown, and Moody's and Fitch both cut Mexico to junk.

Brazil

Scenarios for the next 12 months

- Upside, credible fiscal anchor: a winner who quickly delivers a credible adjustment (Flávio's constitutional amendment passing in recognisable form, or Lula's team making the health and education floor reforms concrete) brings long real yields down sharply, strengthens the real and lets the Copom accelerate cuts in 2027.
- Base case, gradual drift: growth of around 1.5%, a Selic easing slowly towards 12%, debt continuing to rise and the fiscal risk premium largely intact.
- Downside, fiscal disappointment combined with a contested result: expectations de-anchor, the real weakens, and the Copom is forced to pause or reverse into a slowing economy.

Appendix ~~El~~ Niño 2026–2027: Mexico and Brazil in detail

Overview

This is shaping up as one of the strongest El Niños on record and was a topic mentioned in most meetings and general conversations. The US National Oceanic and Atmospheric Administration (NOAA) puts the chance of a very strong event this northern autumn and winter at more than 90% and gives a 75% chance it becomes the strongest in the record back to 1950. The Niño 3.4 index reached +3.0°C in mid-September. The event is expected to peak between November and January and weaken through 2027. Its effects are asymmetric: the Amazon, northern Brazil and Central America face drought, while southern Brazil, Uruguay, Paraguay and north-eastern Argentina face flooding.

Mexico: water stress, with some offsets

The downside is water. Mexico is among the regions most likely to suffer water deficits in a strong El Niño. That matters for the Pacific ports handling trade with Asia (Manzanillo, Lázaro Cárdenas) and for thermal and hydro generation already under chronic water stress. For CFE, the stress comes from northern drought and spikes in electricity demand for irrigation pumping. Water security in Monterrey and Mexico City is the political flashpoint, and it lands straight on the nearshoring corridor. Pacific hurricane risk also tends to rise in El Niño years.

The upside is in the Atlantic. The Atlantic hurricane season has been extremely inactive so far, which lowers the risk to Gulf and Caribbean assets such as Cancún airport, the Gulf ports and energy infrastructure. The Panama Canal is the second, less obvious upside. Its authority has already started restricting the number and size of ships, and those limits will tighten as El Niño intensifies. The disruption in 2023–24 drove up global freight rates. Each canal constraint strengthens the case for Mexican alternatives, including the Interoceanic Corridor and the US–Mexico rail links.

Brazil: a hydro problem, but a grid built for it

The biggest downside is in the north. Drought in the Amazon hits the northern hydro plants (Belo Monte, Madeira), river levels on the Amazon barge routes that carry Arco Norte grain exports, and fire risk. It echoes 2023–24, when drought across Brazil, Bolivia, Colombia and Peru brought record-low river levels and crop failures. If reservoirs fall, more expensive thermal plants run, higher tariff surcharges pass through to bills and hydro generators face shortfall costs. That adds to food-price risk at a time when the Copom is already worried about inflation expectations. Flooding risk rises in the South, recalling the 2024 Rio Grande do Sul disaster, and the Centre-West soy planting window could be disrupted.

There are offsets. Wind generation peaks from June to November, exactly Brazil's hydro dry season, which provides natural balancing. Transmission owners are largely indifferent to the weather because their permitted annual revenue (RAP) does not depend on flows. Wetter conditions in the South also tend to support southern crops.

Appendix – Mexico's infrastructure opportunity by sector

- **Power generation** – the 'mixtos' test case. CFE awarded 37 renewable projects totalling 7,411MW, the largest private capital mobilisation in the power sector since the 2016–2018 clean energy auctions. Importantly, demand was strong – more than 200 projects representing nearly 38GW bid, roughly five times the volume on offer. The structure is important – CFE keeps a minimum 54% stake in each project and contributes assets in proportion, under private-law reference contracts. The headline economics are attractive: 25-year dollar-denominated, inflation-linked PPAs with CFE. But investors are minority partners to the state utility that is also their offtaker, and the sector regulator now sits much closer to the energy ministry than it did under the former Energy Regulatory Commission (CRE). The Ministry of Energy (SENER) has said one more call should cover the roughly 16,500MW of renewables needed this administration, so the pipeline is real but finite.
- **Transmission and grid.** This is arguably the more durable opportunity because the constraint is physical. CFE has started a MX\$244b program to upgrade transmission and distribution. Banobras has put together a US\$4b package to support private participation, pooling commercial banks, domestic pension funds and international institutions. A grid that cannot absorb new generation or serve nearshoring load is the binding constraint on the whole Plan México story, which gives transmission political priority regardless of who wins in 2027.
- **Toll roads:** front-loaded procurement, back-loaded spend. The Ministry of Infrastructure, Communications and Transportation (SICT) is tendering every remaining priority highway contract in 2026 under a new infrastructure investment law. This sits within a 2025–2030 plan of MX\$1.33 trillion (about US\$77b). Spending on the priority corridors peaks between 2027 and 2029, with 79% of that budget disbursed from 2027 onward. SICT is also overseeing 2,500km of mixed-investment toll highways: four completed, 10 under way and three about to start. For incumbents like Pinfra, the pipeline is supportive. The long-standing strength of Mexican toll concessions is inflation-linked tariffs with extension mechanisms, which have historically held through changes of government.
- **Airports** – this remains the cleanest regulatory framework. This is the most mature and predictable regime. All three airport master development programs (MDPs) under the adjusted regime have now been approved, de-risking the sector, and investment is under way.
- **Rail** – tolerated, not favoured. The passenger-rail push inherited from AMLO sits on freight rights of way. Sheinbaum has reaffirmed her commitment to existing freight concessions and private investment. For Ferromex (26% owned by Union Pacific) and CPKC, the risk is shared track access and capacity rather than expropriation, but it is not zero.
- **Energy security.** This connects back to the US discussion. Mexico's heavy dependence on US pipeline gas feeds the combined-cycle fleet CFE relies on. That supports midstream and gas-to-power as strategically essential, but it also ties Mexican energy security to Washington's goodwill at a time when Washington is using every lever it has.

Appendix Mexican airports: the detail

Traffic drivers

- **Pratt & Whitney engine inspections.** The geared turbofan (GTF) engine inspection program, which has hit Volaris and Viva Aerobus hardest, continued to have a greater impact. Full resolution is now expected by the end of 2026. That will support traffic momentum in 2027, albeit off low comparables.
- **Cartel violence.** The February violence after El Mencho's death grounded flights at Guadalajara and Puerto Vallarta for two days. Guadalajara, the business-driven hub, quickly recovered (+10.5% in August). Tourist-driven Puerto Vallarta fell 24.4% in March and was still down 10.3% in August (compounded by the Spirit Airlines collapse). The event increased concerns that Mexico was not safe and has been an overhang on tourism nationwide this year.
- **Spirit Airlines' collapse.** The May shutdown removed an estimated 200–300 weekly flights and 40,000–60,000 weekly inbound seats from the US–Mexico leisure corridor during peak season, hitting Cancún, Los Cabos and Puerto Vallarta hardest. Cancún's international traffic fell 11% in May, and Puerto Vallarta's recovery from the February violence slipped back in June, when the collapse fully fed through. These seats are gradually being reallocated.
- **US–Mexico aviation policy.** The US Department of Transportation forced Delta and Aeromexico to unwind their joint venture by 1 January 2026, alongside 'America First' restrictions on Mexican carriers. The partnership accounted for about 60% of US–Mexico City passenger traffic. Both measures stem from disputes over slot allocation at Mexico City airport and the 2022 relocation of cargo carriers. An appeal is under way, but the uncertainty has weighed on transborder capacity.
- **Higher oil prices.** Fuel is typically an airline's largest or second-largest cost, and largely unhedged US carriers have absorbed the Iran-war spike almost directly. Airlines cut their weakest routes first, and price-sensitive leisure routes from secondary US cities to Mexican beach destinations are exactly those routes. Higher fares also reduce discretionary leisure travel far more than business or family travel, which is why tourist airports have underperformed business and domestic hubs like Guadalajara and Monterrey.
- **A record sargassum season,** arriving in January rather than the usual April or May and peaking at up to 54 million tonnes across the Atlantic. This has weighed on tourist regions such as Cancún, although it is difficult to isolate how much of the passenger drop is due to the seaweed alone.
- **A strong peso year to date.** At around 17.3 to the dollar at the time of our visit, the peso has made Mexico more expensive for US visitors, on top of higher fares. The September weakening, if it persists, should ease pressure on both tariff realisation and US visitor costs into 2027.
- **The Trump overhang.** US immigration enforcement and the new 1% tax on cash remittances have deterred visiting-friends-and-relatives (VFR) travel, hitting GAP's operations: Tijuana fell 8.7% in March and 10.5% in April. Broader political tension has also weighed on US tourism to Mexico, affecting ASUR's Cancún and other tourist destinations.

Capex execution

- ASUR flagged a slight delay to the planned opening of Terminal 1 in Cancún due to the delivery of equipment from Italy. Otherwise, the capex is on time and on budget with little pressure on pricing. Once it is operational, ASUR will move to the extension of T4 as dictated by expansion triggers. The new Oaxaca terminal is also on track to be delivered in Q1 2027 with significant incremental commercial spend/passenger on opening.
- GAP has the largest pipeline in this MDP. Positively, all is on track and within budget. The Puerto Vallarta terminal is in its final stages, with a planned opening in Q1 2027 that will add 74,000 square metres and 7–8 million in annual passenger capacity, effectively doubling the airport's size without creating runway

constraints. The Guadalajara expansion, set for completion by the end of 2029, will increase terminal capacity by 58%. In Tijuana, the Terminal Two expansion is slated for a 2028 completion, adding 65% more space.



Source – photos from site visit of new Guadalajara Terminal construction

- OMA has less capex incorporated into its MDP. It is executing well on Monterrey terminal expansion with little pressure to date on pricing. However, the expansion is causing some disruption to operations (2026/27) before it forecasts strong real growth in commercial spend per passenger in 2028 once completed.

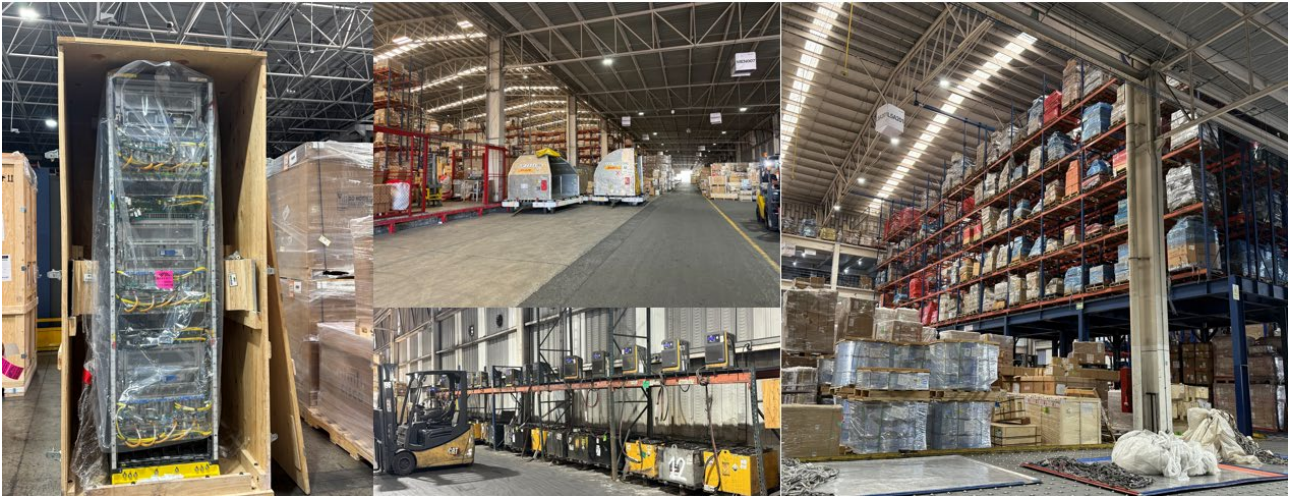
Regulatory shift how each operator is optimising the WACC

- ASUR is raising debt at the Cancún airport level to fund international expansion – according to the regulatory wording this does not impact the leverage used to calculate the regulatory discount rate and allows ASUR to avoid cash trap at the airport level.
- GAP is implementing a FIBRA E (a Mexican energy and infrastructure trust) as a strategic financing vehicle for its MDP. We were sceptical ahead of the meeting, but the CFO made a persuasive case and we now support the issue. This structure addresses two key challenges.
 - First, it allows the company to fund capex without adding debt at the airport subsidiary level. This is critical because leveraging the subsidiaries would lower their WACC and, due to the regulatory model's sensitivity, result in a lower maximum tariff. By using the FIBRA to make capital contributions, the airports remain unlevered for regulatory purposes, preserving a higher WACC that is equal to the cost of equity.

- Second, the FIBRA E resolves a significant tax inefficiency at the holding company level. Currently, GAP cannot fully deduct its interest expenses because dividends from its tax-paying airport subsidiaries are not considered taxable income at the holding level, leading to an annual tax overpayment of approximately MX\$600m. The FIBRA E will transition the Mexican airports to a pass-through tax regime. The airports will distribute earnings before tax (EBT) to GAP and the FIBRA, allowing GAP to consolidate these revenues and fully deduct its interest expenses. This change is expected to generate MX\$600m in annual cash savings and enable the recovery of approximately MX\$1.8b in tax losses from the past three years.
- OMA is keeping all debt at the holding company level while airport operations remain debt free (discount rate becomes cost of equity). It has a transfer pricing model between the airports and the holding company, so it can generate revenue at the holding company to fully deduct the interest costs. This works for OMA as it is lowly leveraged at 1x net debt/EBITDA, but it limits its ability to gear up.

Diversification opportunities

- ASUR continues to focus on airport M&A with expansions in the US through its 2025 retail & commercial concession acquisition and more recently the completion of the 20-asset airport portfolio from Motiva.
 - It is looking to expand further into the US using the existing portfolio as a platform. It is a very low-margin business but arguably a scale game, and ASUR sees solid absolute EBITDA growth from the platform.
 - On the Motiva portfolio, the next step is to buy out minorities in the Brazilian assets and optimise the operational performance of the entire portfolio.
 - We are comfortable with the Motiva portfolio but remain sceptical of the US exposure given its very low margin and poor visibility of value accretion.
- GAP continues to explore incremental logistics opportunities following its very successful GWTC acquisition, supported by the positioning of its airport network in areas able to capitalise on the cargo opportunity. As part of this trip, we managed to tour the GWTC as well as the site for the Guadalajara airport expansion and were impressed with both.
 - Since acquisition, the margin expansion at GWTC has been impressive, from about 40% to 65–70% (according to management) with further upside expected.
 - GAP has also internalised the technical assistance services to improve airport margins moving forward.
 - Discussions have also begun with the government regarding a potential extension of the Montego Bay concession, which expires in 2034, though no agreements have been reached.
 - GAP recently acquired the Cross Border Xpress (CBX) in Tijuana facilitating improved operations and border crossings.
 - The GWTC expansion is much needed and in the planning stage, and GAP is also looking at similar logistics operations at other airports, replicating the GWTC model.



Source – photos taken as part of GWTC site visit

- OMA is not targeting major M&A but is looking to expand diversification activities where possible – two new hotels are under construction and industrial parks are expanding. It will remain sub-optimally leveraged and more a cash cow yield play to support its parent (Vinci's) more diversified M&A pipeline.

Appendix – Brazilian toll roads: company detail and the growth pipeline

Organic growth

- **Motiva.** The company delivered on last year's promise of more ambitious efficiency targets. It now targets opex at 28% of net revenue by 2035, better than the sub-30% target we flagged last year, supported by the airport sale, centralisation and technology. Traffic historically grows at 1.3–1.5x GDP, with a mix of about 55% commercial and 45% light vehicles. Recent softness in Pantanal and Paraná, linked to agricultural and fertiliser disruption and rail competition, is expected to be temporary and is well protected: in Pantanal, the government absorbs 90% of any deviation beyond 5%. The effective tax rate should also fall towards 34% as holding-company debt is paid down, further supporting earnings growth.
- **Ecorodovias.** Management is forecasting about 9% real revenue growth, driven by GDP elasticity of about 1.8x, average real tariff increases of about 1.9%, and traffic shifting onto newly tolled corridors. More than 50% of revenue is covered by risk-sharing mechanisms, and newer contracts include escrow accounts for rebalancing and tenor adjustments that extend the concession if traffic falls. With revenue growth strong and opex rising below inflation, the group expects at least an 83% margin by 2030, marginally below last year's 'around 85%' but still a strong expansion path. Centralised operations (four concessions now run from one control centre) and automation (90% complete at Castello by 2027) support the target.

Existing growth

- **Motiva.** Capex execution continues to improve, with the company targeting 95–100% of budget in 2026. Investment of R\$8–9b a year is planned over the next five years, with a R\$65b backlog, 80% of it in new concessions. Budget buffers of 4–10% on complex segments and limited input cost pressure (asphalt is about 4% of capex, with about R\$30m of oil-price impact to date) mitigate execution risk.
- **Ecorodovias.** Last year's licensing delays, which held capex execution to 80–85% of budget, have been resolved, and the company is on track to invest R\$5.5b this year. Last year's key unknown, the performance of the new roads, has also resolved positively. Most concessions are ahead of their original business plans, with two 20% ahead of projections and one about 10% above contract levels. Only two are in line with plan rather than ahead. Capex itself drives revenue: tariff increases are triggered as works are delivered, and duplicating a lane can lift tariffs on that stretch by up to 40%. Capex pressure has again been muted to date with asphalt and diesel each only about 9% of the total.

Future opportunities

- **Motiva**
 - A substantial amendment pipeline, mostly in São Paulo, where the political alignment is favourable:
 - AutoBAn (about 35% of EBITDA): R\$6–7b of additional capex for up to about 10 years of extension (subject to a 2045 concession cap), with about R\$2.5b likely to be agreed in 2026.
 - SPVias: about R\$6b for a 7–8-year extension beyond the current 2030 expiry, at about 12% real, unlevered IRR.
 - Rodoanel Oeste: a R\$150m safety project.
 - Morro do Cavalo (Santa Catarina): a potential transfer from Arteris to Via Costeira, with R\$3.0–3.5b of new investment.
 - Urban mobility: a R\$8b metro extension is under negotiation.

- Opportunistic M&A remains on the table. Motiva bought the former Arteris Fernão Dias concession (now Minas SP) for R\$390m, against about R\$1.1b of book value, booking a one-off, non-cash bargain-purchase gain of R\$750m. The concession targets about R\$1b of EBITDA in three to four years, with engineering savings of about 20% on capex and tight traffic risk-sharing.
- Ecorodovias
 - The company has reiterated that it will not bid for new auctions, including the roughly R\$20b current pipeline, but rather will focus on its existing growth cycle.
 - Imigrantes Lane 3 remains the main priority and upside option. It is a new three-lane reversible road, mostly in tunnel, designed to lift heavy-truck capacity to the Port of Santos by 145%. The cost is estimated at R\$10–11b, with a targeted unlevered real IRR of about 12% and a levered IRR of 17–18%. It is structured as an amendment, with no revenue or capex risk and geological risk priced back-to-back with the government. The company has delivered the full licensing, engineering and risk-allocation package at a cost of R\$160m. Negotiations on funding and rebalancing are being kept deliberately low-profile until after the election, but works could begin in the first half of 2027 at best. It is not in company models.

Appendix B Brazilian utilities: supporting detail

Generation – the reform and its limits

- **Legacy curtailment compensation.** The law gives wind and solar generators the right to compensation for curtailment between September 2023 and the law's entry into force, but only for cuts caused by external failures and system reliability. Oversupply curtailment, the most frequent kind and the one created by the growth of distributed generation (DG), is excluded. Compensation is available through a commitment agreement with the government, and generators must drop any lawsuits. A mechanism run by the power trading chamber (CCEE) will issue tradable titles backed by these credits, with compensation paid through concession extensions of up to seven years. About 53GW of capacity (91% of eligible plants) has registered for the settlement. CPFL signed it as the best available option, recovering about R\$250m of roughly R\$500m lost last year, and acknowledges that half the problem remains unresolved.
- **DG largely protected.** The Finance Ministry's proposals to bring forward the end of DG subsidies and include DG in sharing the cost of curtailment compensation were not adopted. DG consumers were excluded because of strong legislative protections, and the subsidy continues to attract new installations. The compromise is a charge on new DG entrants that do not store energy, which distributors will use to fund substation storage. Distributors can also now reject new DG connections in saturated grid areas, and regulators are exploring time-of-use tariffs as a longer-term fix. CPFL doubts the lobby will allow meaningful tariff reform. At distribution level, DG is causing reverse power flows that have led the grid operator (ONS) to impose restrictions in Goiás, and DG fraud is becoming more sophisticated.
- **Curtailment is getting worse.** Brazil recorded 51 critical curtailment days (days on which cuts exceeded 60% of available renewable output) in 2026 up to August, against 30 in the same period of 2025. On 12 of those days, cuts reached 80%. The problem is also no longer confined to the Northeast and has begun to affect projects in Minas Gerais.
- **Distress is spreading, starting with traders.** Tradener filed for judicial recovery with an estimated R\$1.7b of liabilities, citing pricing-methodology changes, the growth of solar and curtailment. The Elétron group, which also owns about 10 generation plants, followed with R\$1.16b of liabilities. Industry participants warn that without a solution there could be a wave of judicial recoveries and defaults among Northeast renewable companies.
- The operators' response has been unanimous: **no new renewable investment.** Alupar has cancelled five planned wind and solar parks and does not see enough long-run price support to justify new renewables even without curtailment, with new thermal and reserve capacity adding competition. Copel has frozen further renewable investment (18% of its portfolio) because of curtailment and price uncertainty. CPFL notes the supply chain has deteriorated, with many suppliers leaving Brazil. Equatorial keeps generation under review rather than as a priority.

Hydro – operator views

- **Axia (formerly Eletrobras)** sees a structural shift towards higher and more volatile prices. Intermittent renewables are growing while reservoir capacity is shrinking relative to demand, making hydro the system's 'battery'. It holds a large uncontracted position (27–43% for 2027) and will only sell forward at prices that compensate for submarket and weather risk. It is firmly on the buy side for hydro and sees potential re-auctions of other operators' plants as a growth opportunity, alongside modernisation, capacity auctions and pumped storage.
- **Copel** expects long-term prices of R\$250–300/MWh, based on the marginal cost of expansion. It won two capacity auction contracts adding more than 2GW for 15 years (R\$5b of capex, operational by 2030), and focuses its generation growth on hydro capacity and hydro M&A. Unlike Axia, it stays highly contracted (85% for 2026, 80% for 2027).

- **CPFL** expects the marginal cost of new generation, with conservative curtailment assumptions and storage costs priced in, to drive a structural repricing, with price floors already higher in 2025 and 2026.
- Hydro concession renewals are a point of divergence. Copel and Axia expect plants to be re-auctioned at expiry rather than renewed early. Alupar, whose hydro concessions mostly expire around 2040, expects extensions to be 'natural'. Engie carried out a follow-on equity offering to buy a 40% stake in the Jirau hydro plant from its parent and is hopeful of early renewals of hydro capacity to shore up the system.

Transmission how operators are responding

The pure plays are responding differently to the changing market:

- **TAESA** is stepping back from new auctions after acquiring five transmission assets from Energisa, and will spend the next six months integrating them. Management sees the secondary market as the better opportunity, as developers sell after construction and distributors recycle capital. It is, however, only looking at assets near its existing operating bases.
- **Alupar** is still winning in the primary market. It won a lot on 3 July at a discount of about 50%, supported by capex estimates about 30% below benchmark and advanced supplier negotiations (more than half of the cable already contracted). It plans about R\$10b of deployment through 2031, including US\$700–800m of opportunities in Colombia, Peru and Chile this year.
- **Axia** won three of the four lots in July and has guided to R\$12–14b of annual capex for this year and the next two, driven by auction wins and reinforcements of existing assets. It sees execution capacity, not finance, as the constraint on growth.
- **Copel** will not bid for greenfield transmission, expecting returns to compress, and sees the secondary market as the better way in.
- **Equatorial**, having sold its transmission business, keeps the segment under review.

Two regulatory questions are emerging.

- **Renewal at expiry.** TAESA expects an 'O&M-plus' renewal model at lower returns and intends to keep its assets, while CPFL says the regulator currently plans to re-auction, which it argues would kill investment incentives in the decade before expiry.
- **Curtailment.** TAESA argues it is a market design problem rather than a transmission shortfall, which tempers the view that more grid alone will fix it.

Distribution company detail

- **Equatorial.** Organic distribution capex is running above 3.6x depreciation, with a large non-discretionary share needed to meet regulatory obligations. About R\$20.5b of investment has yet to enter the regulatory asset base and should add R\$3–4b of regulated revenue once recognised. Management points to a value inflection in 2028–2030 as that happens and current obligations are completed. The portfolio is at different stages of maturity:
 - Mature concessions (Maranhão, Pará, Piauí and Alagoas) have 71% of consumers within regulatory quality targets.
 - Concessions still maturing (Rio Grande do Sul, Amapá and Goiás) average 32%, recently reaching 40%.
 - The Goiás turnaround is progressing, with better quality, lower losses and compensation payments, fewer complaints and a stabilised political environment. Equatorial has filed for an extraordinary tariff review to sustain the pace of investment and soften the tariff impact expected in 2028, and ANEEL has been receptive.

- **Copel.** The recent tariff review set a remuneration base of R\$20b, above the R\$18.5b presented at Copel Day, despite a 20% tariff increase that still leaves rates among Brazil's lowest. It plans R\$13.5b of investment over the next five years, ramping up towards the end of the cycle, and about 2.5x depreciation in the long run (with a commitment to at least 2x).
- **CPFL.** Expects high capex for at least five to 10 more years. Data centre consumption in its São Paulo areas is also stepping up, most recently rising 35% quarter on quarter.

Distributionthe regulatory agenda

- **Smart-grid recognition.** CPFL expects annual RAB recognition for smart-grid investment, which already has a legal basis, to be approved for 2027. That would allow continuous rather than end-of-cycle deployment. Equatorial expects smart metering to cut unproductive field visits by 25–30%, although it recognises the rollout faces hurdles including supplier capacity, labour and rural communications coverage.
- **The WACC methodology.** This is the most significant item. Equatorial argues that ANEEL's methodology is out of step with the macro environment and discourages investment, citing a very low or even negative beta based on US references, gaps in the comparable-company data and an opaque cost-of-debt approach. The company will ask ANEEL and the Ministry of Mines and Energy to freeze the current WACC and begin a methodology review by February 2027, proposing bands with a review trigger or a spread over yields. A successful review would be a meaningful upside for the sector, especially if long real rates stay high.
- **Cost recognition.** Equatorial is also pushing to fix the lag in cost recognition (under public consultation) and update a reference price database more than a decade out of date, with a deadline of March 2027.

A few new watchpoints emerged:

- **Delinquency is rising.** at CPFL it went from about 0.8% to 1.08%. Management expects it to stay below about 1.5% but sees no near-term path back to 1%, blaming high rates and household indebtedness, and is stepping up disconnections in the second half. Equatorial is responding with an external consultant, low-income customer benchmarking, integrated collection and loss-reduction teams, and AI. Satellite imagery identifies illegal connections with 32% effectiveness, and AI validation of field inspections increased billed energy by 27% in an Amapá sample.
- **Extreme weather** is the biggest operational challenge: CPFL has increased tree removals from about 2,000 a year before 2023 to more than 20,000, and a strong El Niño is expected to bring heavy rain to Rio Grande do Sul and intense storms to São Paulo.
- **The reform law** opens the free power market to low-voltage commercial and industrial consumers from August 2026 and to all remaining consumers by December 2027. Distributors keep the wires and the RAB, but the transition, including managing legacy supply contracts as customers migrate, is a risk worth monitoring.

Battery storage is a new asset class

CPFL is participating in the first auction (up to 2GW) with Northeast projects, attracted by fixed, inflation-indexed, availability-based revenue similar to transmission, though it warns lower entry barriers may compress returns. Copel will not participate, and Equatorial keeps storage under review.

Water-Copasa versus Sabesp

Equatorial presented Copasa as a less demanding asset than Sabesp:

- A more manageable program. Copasa has a longer universalisation deadline (2033 against 2029), less complex capex focused on the state's interior, and better water availability in the Belo Horizonte region.

- A supportive regulator. Management describes the Copasa regulator, Arsae-MG, as technical, predictable and non-political. Visibility is good until 2029, although the methodology for the following cycle is not fully specified.
- Manageable tariff pressure. Capex will raise tariffs, but not disruptively, particularly at the 2029 transition, and the contract allows tariff deferrals.
- A clear 100-day plan. New Copasa management takes office in October. The priorities are reactivating inactive connections (about 15% of properties), cutting commercial losses, cutting opex quickly in the first cycle, when the share of efficiency gains passed to consumers is lowest, strengthening works safety after recent incidents at Sabesp and CSA, and building relationships with a potentially new state government after the Minas Gerais election.
- Equatorial is already at the limit of the shareholding in Sabesp it can hold. Future water capital will therefore go to Copasa, where it can hold up to 45%.

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