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Peru Elections – of Old Acquaintances and Electoral Chaos

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Melissa Ochoa Cárdenas
Investment Strategist



Mauricio Viaud
Senior Investment
Strategist and PM

Peru Elections – of Old Acquaintances and Electoral Chaos

Peru held a highly fragmented presidential election with 35 candidates, reflecting political polarization, low institutional trust, and continued electoral volatility, while also electing a new bicameral Congress for the first time in three decades.

Preliminary results showed close margins among the leading candidates and no outright winner, triggering a runoff election amid delayed vote counting, logistical challenges, and shifting expectations about which two candidates would advance.

The leading candidates embody diverging political traditions and policy directions, reflecting long-standing tensions between continuity, reform, and institutional change in Peru's political landscape.

Electoral uncertainty has driven near-term volatility across currency, fixed income, and equity markets, while underlying macroeconomic stability and sectoral composition continue to anchor investor assessments.

On April 12th, Peruvians went to the ballots to elect their ninth president in the last ten years, against a backdrop of a polarized country with decreasing trust in institutions and with a ballot of 35 candidates.

After dealing with election difficulties that delayed the voting process in Lima, and which allowed for additional voting hours, Keiko Fujimori, the daughter of former president Alberto Fujimori, was leading the race with 17.04% of votes. In second place, according to preliminary results, was leftist lawmaker Roberto Sánchez from Juntos por el Perú party with 12.07% of the votes, who has openly supported former President Castillo, plans to pardon him, and

hopes to rewrite Peru's market-friendly constitution. In third place was Rafael López Aliaga – a former Lima mayor, with 11.85% of the votes, followed by Jorge Nieto from center-left Partido de Buen Gobierno, with 11.06% of the tally. An additional element to highlight from these elections is that Peruvians are also voting for a new bicameral Congress for the first time in 30 years. According to preliminary results, the newly conformed Senate would be right-leaning, with Renovación Popular and Fuerza Popular being the parties with the highest number of votes, but no party would hold a single majority. At the same time, the data for the metropolitan region of Lima for the Chamber of Deputies shows Renovación Popular is leading the race, followed by Partido de Buen Gobierno.

Given that no candidate obtained the required 50% of the votes to be elected president, a runoff will take place on June 7, where Keiko Fujimori will most probably face Sánchez, since he was running second according to the latest available data the evening of April 15th, equivalent to 91.70% of the votes counted. It is worth stressing that the race for the second run-off spot has been a close one, where Sánchez's rapid ascent should be noted. This could be explained by his popularity in more rural areas, which was not the case for either Fujimori or López Aliaga, whose main electoral front was in Lima.

Keiko Fujimori is a right-leaning candidate from the Fuerza Popular party whose proposals have been centered around making security the top priority, together with a market-favorable approach. Moreover, her party maintained ample influence over the current congress, despite not holding control. It is worth noting that this is her fourth consecutive presidential campaign. Meanwhile, Rafael López Aliaga is a far-right candidate from Renovación Nacional party, who would also adopt a pro-business approach, and who has been deemed a Trump fan.

On the other hand, Roberto Sánchez has called himself "Castillo's presidential candidate", where his main goal is to redeem former President Castillo's image. As mentioned, some of Sánchez's main proposals include a re-writing of the current Constitution through a Constitutional Assembly, the nationalization of natural resources that belong "to the people", and a law that protects informal miners.

Market reaction on Monday seemed to pencil in a conservative run-off between Fujimori and López Aliaga. However, with the extension of the voting process and the delay in the official tally, all polling numbers are to be considered preliminary. According to some local analysts, if the run-off were to occur between Fujimori and Sánchez, investors should discount additional market volatility. This could prove short-lived, since the left is expected to garner limited support, which in turn would limit any disruptive policy agenda.

Peruvian assets displayed mixed reactions to the early election results. The Peruvian Sol – PEN – remained relatively range-bound, amid a slight depreciation from its opening levels on Monday but weakened on Tuesday and Wednesday, once it became clear that the run-off could potentially be between Fujimori and Sánchez, and not López Aliaga. Meanwhile, the PEN-denominated sovereign curve has exhibited a more negative reaction between Friday's close and Wednesday's end-of-session: there was a generalized yield widening move across the curve that averaged ~10bps, with the 8-year tenor being the only one that tightened during that timeframe (-12bps). It is worth mentioning that these moves could be reversed depending on the final vote count that decides who Keiko Fujimori will face on June 7. **For now, the race remains deadlocked, with the ballot delays stealing the spotlight from the political component of the presidential race.**

Aside from the turbulent political backdrop, it is also worth highlighting the resilience of the Peruvian economy. Peru's central bank is a macroeconomic anchor, and its Governor, Julio Valverde, is steering the country's economy throughout the political turmoil. To that extent, the Peruvian central bank has maintained its policy rate stable since September of last year, against a backdrop of relatively controlled inflation that had been within its target range up until its March reading. Furthermore, during its last monetary policy meeting, the central bank – BCRP – stated that it expects inflation to return to its target range in 2027, as the supply shocks that are currently affecting it fade away, especially those that are not directly related to the Peruvian economy, including the increase in fuel prices due to the Iran war. In contrast, Peruvian activity remains around its potential, while expectations remain relatively optimistic. So much so that the February print of economic activity surprised the market to the upside by posting a 3.7% YoY increase, underpinned by strong demand at home. However, some analysts are pointing at potential headwinds that may disrupt this momentum, including a gas shortage due to a leak in a major gas pipeline.

With all the preceding as prelude, let us turn our attention to the implications for Peruvian assets.

Market implications

As of the time of this writing, it would appear that there is a higher probability that a right-leaning candidate would win the elections after the runoff later this year. If true, this dynamic could bring positive implications for Peruvian markets, as a win by the right would imply increased market-friendly policies for the country. However, given the limited options of investable assets in the country's public markets, a win by the right would translate into bullish prospects for the financial and commodity sectors.

In the financial sector, Credicorp stands out as one of Peru's largest financial institutions. As the holding company for institutions such as Banco de Credito del Perú and El Pacífico-Peruano Suiza, Credicorp's business lines range from retail and commercial banking to asset management and insurance. Business-friendly policies, which could potentially include lower regulations, could benefit financial institutions like Credicorp.

Commodities and mining also make up a meaningful portion of the country's GDP. Led by copper, gold, and silver, companies in this sector, such as Southern Copper, Compañía de Minas Buenaventura, and PanAmerican Silver, could benefit from less onerous regulations and potential incentives to attract investment in the industry. Although it has not been proposed in Peru, a program like Argentina's RIGI could meaningfully boost investments and consequently production over the long term.

In the fixed income front, when looking at Peruvian corporate issuers that are present in the USD market, we have seen Minsur as an issuer that allows for exposure to Peru's mining sector through a company that offers value and solid corporate earnings. If a market-friendly administration were to take office on July 28, we would expect investors' appetite for the Peruvian mining sector to increase, especially if there is government support for additional mining of natural resources.

Furthermore, the Peruvian financial sector could also benefit from a more market-friendly administration taking office this upcoming July. Specifically, issuers like Banco de Crédito de Perú and Cofide could see their spreads tighten, amid a potential improvement in credit conditions for Peruvians and the dissipation of electoral uncertainty.

The electoral story is a work yet to be completed, and the final page of this current electoral chapter will not be written until the second-round run-off this June. However, it is always beneficial to start thinking about potential investment opportunities ahead of time, when preparing for potentially market-friendly outcomes. ■



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