

## Vanguard economic and market outlook for 2026

### Mexico: Cautious Rebound Amid External Tailwinds

Mexico enters 2026 balancing cyclical challenges with longer-term economic optimism. After a sluggish 2025 marked by tariff uncertainty and fiscal consolidation, GDP growth is expected to firm modestly to around 1.5%, slightly above consensus but below pre-pandemic averages. The rebound will be driven primarily by external demand from a strong US consumer and lower global trade policy uncertainty.

Domestic dynamics remain mixed. Slowing real-wage growth and declining remittance inflows from the US are expected to partially offset the household consumption tailwinds of a stabilizing labor market, higher tourism spending from co-hosting the FIFA World Cup, and roughly 8.5 million workers experiencing a pay bump from the minimum wage increase effective January 1<sup>st</sup>, 2026.

Banxico's gradual policy easing, likely bringing the policy rate toward 6.5% by year-end, should support credit-sensitive sectors and household consumption, but lingering cost pressures will limit the bank's appetite for more aggressive monetary easing. With our expectation that the gap between US and Mexico policy rates will be relatively unchanged in 2026 and the increasing role of the Peso in global carry trade dynamics, we expect the Peso to end 2026 between 18 and 18.50.

Fiscal policy will prioritize consolidation over stimulus. The government targets a primary surplus of 0.5%–0.6% of GDP and a stable debt ratio near 52%, achieved through spending cuts and selective tax adjustments. While these measures reinforce macro stability, they constrain public investment in infrastructure, leaving private capital to shoulder the burden of growth.

Overall, Mexico's 2026 outlook is one of cautious optimism: a stronger U.S. economy and modest policy easing should lift activity from 2025's soft patch. Nearshoring trends and relative tariff advantage continue to buttress Mexico's manufacturing exports, particularly in automotive and electronics, though the looming USMCA review and regulatory uncertainty is tempering business investment. Export-oriented industries benefit from Mexico's competitive labor costs, favorable demographics, and deep integration into North American supply chains reinforce its long-term economic advantages despite short-term volatility. Cyclical momentum should edge higher in 2026, but a firmer, investment led expansion in the years ahead would benefit from structural reforms in education, energy, and regulatory frameworks.

#### Relative tariff gap has turned in Mexico's favor



**Notes:** Post-Liberation Day Expectation is measured using all announced tariffs as of 5/27/2025. 2024 Tariff rates are measured using trade volumes and import duties from 4Q 2024.

**Sources:** Vanguard calculations based on data from Oxford Economics and US International Trade Commission. Data as of 12/9/2025.

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