

# Our View On-The-Ground

## REGIONAL MARKET VIEWS

### Colombia's Election

#### *Fiscal Credibility and Market Risk Premium Amid Policy Uncertainty*

The presidential election in Colombia is taking place in a context of elevated political polarization, fiscal sensitivity, and renewed debate over the future direction of economic policy. Unlike electoral processes in countries where macroeconomic institutions have been able to fully separate political volatility from asset pricing, Colombia's current cycle is more directly connected to the market's assessment of fiscal credibility, regulatory continuity, and the country's ability to restore investor confidence. The first round of the presidential election, scheduled for May 31, 2026, represents not only a significant political event, but also a catalyst for the repricing of risk across the Colombian peso, local-currency sovereign debt, external bonds, and equity sectors exposed to regulation and domestic investment.

The electoral landscape is highly polarized and increasingly concentrated around three leading candidates: Iván Cepeda, Abelardo de la Espriella, and Paloma Valencia. Each represents a distinct interpretation of Colombia's post-Petro political cycle. Cepeda embodies policy continuity with the progressive agenda of the current administration; De la Espriella represents a more disruptive hard-right alternative centered on security, state reduction, and a strong pro-market narrative; and Valencia represents a more institutional right-wing alternative associated with the Democratic Center, security policy, private investment, and a more conventional governance structure. This configuration gives the election a clear market dimension: investors are not only evaluating ideology, but also the probability of fiscal consolidation, respect for institutional anchors, the future of the energy sector, and governability under a fragmented Congress.

#### **| Iván Cepeda (Senator)**

Represents the continuity alternative within the left and progressive spectrum, with a strong connection to the political project initiated by President Gustavo Petro. His profile is rooted in human rights, peace negotiations, victims' rights, and a broader agenda of social transformation. From a policy perspective, his candidacy is associated with a larger role for the state, continuity in social reforms, renewed emphasis on peace negotiations, and a redistributive approach to public policy. This platform may appeal to voters seeking to consolidate Petro's agenda, but it is likely to be interpreted by markets as the scenario with the highest degree of policy continuity and therefore the greatest need for clear fiscal signals. The key question for investors would not be whether Colombia's institutions remain functional, but whether a Cepeda administration would commit to credible fiscal consolidation, preserve the independence of the Central Bank, and reduce uncertainty for private investment.

## | **Abelardo de la Espriella (Lawyer and outsider candidate)**

Positions himself as the most disruptive candidate within the right-wing spectrum. His political narrative is centered on public order, security, a hardline approach against organized crime, and a sharp reduction of the size of the state. His platform includes proposals to reduce taxes, attract private investment, strengthen the security apparatus, and revive sectors such as hydrocarbons. From a market standpoint, this agenda could trigger an initially constructive reaction in Colombian assets, especially if accompanied by a credible economic team and a disciplined fiscal framework. However, the same outsider profile that strengthens his anti-establishment appeal also introduces execution risk. A more confrontational style could generate uncertainty around governability, social conflict, relations with Congress, and the feasibility of implementing deep reforms without undermining institutional predictability.

## | **Paloma Valencia (Senator)**

Embodies a more institutional alternative within the right, rooted in the Democratic Center and the political tradition associated with former President Álvaro Uribe. Her platform emphasizes security, the restoration of internal order, private investment, lower tax burdens, support for the energy and mining sectors, and a more orthodox approach to economic management. Compared with De la Espriella, her candidacy may be perceived as less disruptive and more predictable from an institutional perspective. For the market, this makes Valencia potentially the most orderly pro-market scenario, especially if her administration were to combine fiscal consolidation with pragmatic reforms and a constructive relationship with Congress. The main risk would be the ability to transform a pro-investment narrative into executable policy in a politically fragmented environment.

This range of candidates reflects two competing electoral axes. The first is the continuity-versus-change axis, defined by the market's interpretation of whether the next administration will extend Petro's economic and regulatory approach or move toward a more pro-private-investment model. The second is the institutional-versus-disruptive axis, which distinguishes between a conventional right-wing alternative and an outsider candidacy that may be market-friendly in economic terms but more uncertain in its political execution. For financial markets, this second axis is critical: the most positive policy platform can still carry a risk premium if investors doubt its legislative viability, institutional discipline, or social sustainability.

From a fixed-income perspective, the election is directly connected to Colombia's sovereign risk premium. The country has historically benefited from a credible central bank, a flexible exchange rate regime, deep local capital markets, and a relatively sophisticated institutional framework. However, the deterioration of fiscal indicators has weakened the starting position for the next

government. A widening fiscal deficit, rising debt levels have increased the sensitivity of external bonds, and credit spreads to political signals. In this context, the primary risk for the debt market is not the election itself, but the possibility that the next administration fails to deliver a credible path back to fiscal consolidation while preserving growth and social stability.

A Cepeda victory or a strong first-round result would likely keep local rates and sovereign spreads under pressure unless accompanied by immediate reassurance regarding the Ministry of Finance, the fiscal rule, and the independence of the Banco de la República. Markets would likely demand greater compensation for policy risk. Conversely, a strong showing by Valencia or De la Espriella could generate an initial compression of risk premia, especially if investors interpret the result as a shift toward lower regulatory uncertainty, stronger support for private investment, and a more favorable approach toward energy and infrastructure. The difference between the two right-wing scenarios would be the quality of execution risk: Valencia may be viewed as more institutionally predictable, while De la Espriella may offer a larger policy shift but with higher political volatility.

In the currency market, the Colombian peso is likely to remain highly sensitive to the election because it combines local political risk with external drivers such as oil prices, U.S. rates, global risk appetite, and emerging-market flows. A scenario of policy continuity without strong fiscal anchors could produce depreciation pressure and higher volatility, particularly if investors expect delays in fiscal adjustment or additional regulatory pressure on private investment. A pro-market outcome could trigger a relief rally in the peso, although the magnitude would depend on whether the incoming administration presents credible fiscal and governance signals. The peso's role as a shock absorber will remain central, but excessive volatility could complicate inflation expectations and slow the pace of monetary normalization.

In the equity market, the electoral impact is mainly reflected through expectations for regulation, taxation, security, credit growth, and sectoral investment. Financial institutions would likely benefit from a more market-friendly scenario that reduces uncertainty around taxation, credit policy, and regulatory intervention. Energy, oil, gas, and mining companies would be among the most sensitive sectors because the election may redefine the balance between decarbonization, fossil-fuel exploration, fiscal revenue needs, and energy security. Infrastructure and construction could benefit from a government able to combine fiscal discipline with project execution and private-sector participation. Conversely, a policy-continuity scenario with greater state intervention could weigh on valuation multiples for regulated sectors, although defensive and domestically oriented companies may remain supported by consumption and public spending dynamics.

At the macroeconomic level, Colombia retains important stabilizing factors. The Banco de la República remains a central institutional anchor, inflation has been gradually easing from its post-pandemic highs, international reserves are adequate, and the flexible exchange rate continues to absorb external shocks. Nevertheless, the country's main challenge is now fiscal credibility. The

next administration will face the challenge of reconciling social demands, security pressures, infrastructure gaps, and debt sustainability. This makes the composition of the economic cabinet particularly important. The appointment of a technically credible finance minister could materially reduce market stress under any electoral outcome, while an ambiguous or confrontational appointment could magnify risk even under a theoretically pro-market administration.

Recent evidence suggests that Colombian assets are more sensitive to political signals than Peruvian assets, because the investors perceive a closer link between electoral outcomes and policy direction. In Peru, political instability has often been discounted as noise so long as macroeconomic orthodoxy remains intact. In Colombia, by contrast, the election directly affects expectations about fiscal consolidation, energy policy, tax structure, security, and the recovery of private investment. For this reason, the political discount embedded in Colombian assets can either widen or compress more meaningfully depending on the signals that emerge from the first round and the subsequent runoff scenario.

In essence, Colombia's presidential election represents a significant event for financial markets, but its structural impact will depend less on campaign rhetoric and more on the institutional signals that follow. A Cepeda scenario would likely require stronger reassurance to prevent an increase in risk premium. A De la Espriella scenario could support an initial pro-market rally, though likely with a higher premium for political execution and social conflict. A Valencia scenario would likely be interpreted as the most orderly pro-market alternative, although fiscal consolidation and congressional governability would still determine the durability of any asset repricing. The central market question is therefore not only who wins, but whether the next government can rebuild confidence while preserving Colombia's institutional anchors and restoring a credible fiscal path.

*This opinion article was written on May 27, 2026, by OTG Asset Management.*

---

**Disclosure: Foreign Investment Risk.** Foreign investment risks include foreign security risk, foreign currency risk, and foreign sovereign risk. The prices of foreign securities may be more volatile than the prices of securities of U.S. issuers. In addition, changes in exchange rates and interest rates may adversely affect the values of the Fund's foreign investments.

**Latin America Risk.** The Fund's performance is expected to be closely tied to social, political, and economic conditions within this region and may be more volatile than the performance of funds that invest in more developed countries and/or in more than one region.

**Currency Risk.** Currency conversion costs and currency fluctuations could erase investment gains or add to investment losses. Currency exchange rates can be volatile.