



## MEXICO SUCCESSION CRISIS, THE CJNG POWER VACUUM & MARKET

### EXEC EXECUTIVE SUMMARY

On February 22, 2026, Mexican military forces killed Nemesio Oseguera Cervantes, known as "El Mencho", the founding leader of the Cartel Jalisco Nueva Generación (CJNG), one of the two most powerful criminal organisations in Mexico. The operation took place in Tapalpa, Jalisco, and triggered an immediate and widespread retaliatory response across the country. Within hours, cartel operatives erected burning vehicle blockades across 20 states, transforming Guadalajara into what witnesses described as a ghost town and forcing eight major airlines, including United, Southwest, Delta, and Alaska, to cancel or suspend flights into Puerto Vallarta and Guadalajara.

For markets, the event is not merely a security headline. It is a supply chain and capital flow event with discrete, measurable impacts across at least four industry verticals: air travel and tourism, hospitality and booking platforms, agri-food supply chains, and defense and intelligence technology. The last major CJNG escalation in 2020 caused a measurable spike in travel waivers, a two-week disruption in cross-border produce flows, and a short-duration but sharp CJNG-linked premium in US defense contractor earnings calls.

Critically, El Mencho died without a clear succession plan. His son widely expected to be a heir apparent is in US federal custody. Security analysts at the Council on Foreign Relations and InSight Crime project that the CJNG leadership vacuum will generate months to years of internal power struggles and territorial challenge from rival organisations, most notably the Sinaloa Cartel. This is not a one-day event. This is a multi-month geopolitical risk premium across the sectors outlined in this report.

The K2 Capital playbook: Two-sided trade. The short watch basket captures immediate and structural pain in travel, tourism, and consumer staple supply chains. The long basket captures the durable demand acceleration in surveillance, intelligence software, and defense hardware that follows any major Western-hemisphere security escalation of this magnitude.

### 01 THE EVENT — EL MENCHO'S DEATH & THE CJNG RETALIATION

#### El Mencho and CJNG: Rapid Context

The **Cartel Jalisco Nueva Generación** is one of the two dominant criminal organisations in Mexico (alongside the fragmented Sinaloa Cartel), operating in more than **30 of Mexico's 32 states** and maintaining a presence in approximately **50 countries** worldwide, primarily as a fentanyl and methamphetamine distribution network. The DEA and NCTC classify CJNG as one of the most dangerous and fastest-growing criminal organisations in the world.

El Mencho built CJNG from a regional Jalisco operation into a quasi-military structure following a split from the Milenio Cartel in 2011. Unlike the Sinaloa model — which historically preferred corruption and co-optation — CJNG pursued a strategy of **confrontational paramilitary force**, including ambushes on Mexican military personnel, shoot-downs of military helicopters, and coordinated multi-state blocking operations (known as "narcobloqueos") precisely of the kind now unfolding across Mexico.

## The February 22 Operation and Immediate Fallout

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Mexican military forces killed El Mencho on February 22, 2026, in Tapalpa, Jalisco. Within hours of the government announcement, CJNG operatives activated a pre-planned retaliation protocol across the country:

- **Narcobloqueos in 20 states:** Cartel operatives used burning vehicles — buses, trucks, private cars — to block major highways and access roads. The blockades were concentrated in Jalisco, Guanajuato, Michoacán, Colima, and Nayarit but extended as far north as Baja California.
- **Guadalajara paralysed:** Mexico's second-largest city and a major commercial hub was reported as effectively shut down for 36–72 hours. Businesses closed, employees sheltered in place, and surface transport was suspended.
- **Eight airlines cancelled flights:** United Airlines (UAL), Southwest (LUV), Delta (DAL), Alaska Airlines, Air Canada, WestJet, Porter Airlines, and Volaris (VOLAR/ACTO) all issued flight cancellations or travel waivers for Puerto Vallarta (PVR) and Guadalajara (GDL) — two of Mexico's top international tourist gateway airports.
- **Costco store attacked:** Reports confirmed that a Costco location was among the commercial properties targeted by cartel operatives during the retaliatory wave — a direct signal that large-format retail in Mexico faces operational risk during escalation events.
- **USDA produce inspections suspended:** USDA/APHIS field agents were instructed to avoid packing houses in Jalisco and surrounding regions, temporarily halting US-bound fresh produce certification and export processing.

## The Succession Problem: Why This Does Not Resolve Quickly

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The death of a cartel's founding leader historically produces one of two outcomes: a rapid power consolidation under a capable successor (Sinaloa post-Chapo in 2016), or a prolonged internal fragmentation and territorial war (Beltran Leyva, Zetas). CJNG's specific succession circumstances lean heavily toward the **fragmentation scenario**:

- El Mencho's son and designated heir, Rubén Oseguera González ("El Menchito"), has been in US federal custody since his extradition and is serving a lengthy sentence — eliminating the most likely succession candidate.
- CJNG's command structure was deliberately centralised around El Mencho's personal authority, making lateral succession to a co-equal leader structurally difficult.
- Rival organisations — particularly remaining Sinaloa factions, the Jalisco-aligned Viagra cartel in Michoacán, and the Nueva Plaza cartel — are expected to immediately contest CJNG territories.

Security analysts from InSight Crime and Al Jazeera's Mexico Bureau assess that the criminal landscape redesign will take **months to years** — implying a sustained, not episodic, geopolitical risk premium for the affected sectors below.

## 02 SHORT WATCH — AIRLINES & TRAVEL (IMMEDIATE IMPACT)

Airlines with meaningful Mexico revenue exposure are the **fastest and most directly impacted** names in this event. Flight cancellations are immediate, hard revenue losses. Cancelled bookings trigger refund obligations. Travel waivers create re-accommodation costs. And the reputational damage to Mexico as a leisure destination accumulates in forward booking data over weeks.

Ticker	Company	Mexico Revenue Exposure	View	Thesis
UAL	United Airlines	High (PVR, GDL, CUN, MEX)	<b>WATCH SHORT</b>	Large Mexico leisure network; PVR and GDL confirmed cancellations; forward leisure booking softness could persist 4–8 weeks
AAL	American Airlines	Very High (DFW-Mexico hub)	<b>WATCH SHORT</b>	Largest US-Mexico market share; Dallas hub disproportionately exposed; VFR (visiting friends and relatives) traffic also at risk
DAL	Delta Air Lines	Moderate-High	<b>MONITOR</b>	Delta confirmed in cancellation wave; premium leisure (Cancun, Riviera Maya) audience is rate-sensitive to travel advisories
LUV	Southwest Airlines	High (leisure-heavy)	<b>WATCH SHORT</b>	Southwest's customer base skews leisure; Mexico is key winter demand driver; travel waivers generate direct refund costs and future no-shows
ACTO	Volaris (Mexico)	Domestic only (100%)	<b>SHORT</b>	Entirely Mexico-domestic operation; blockade events disrupt ground transport connections to airports; Guadalajara shutdown directly impacts GDL hub operations

**Key monitoring signal:** Watch the US State Department travel advisory level for Mexico — a step up to Level 4 ("Do Not Travel") for any state beyond those currently at that level would trigger a second wave of institutional and corporate travel restrictions, materially worsening the airline revenue picture. Current elevated advisory states include Colima, Guerrero, Michoacán, Tamaulipas, and Zacatecas.

## 03 SHORT WATCH — HOTELS & BOOKING PLATFORMS

Hospitality and online travel aggregator (OTA) names experience a two-stage impact from a Mexico escalation event: **Stage 1** is the immediate cancellation wave generating refund obligations; **Stage 2** is the more damaging forward booking deterioration as travellers substitute Mexico with Caribbean alternatives (Dominican Republic, Jamaica, Bahamas), dampening Q1/Q2 forward booking curves for Mexico-heavy portfolios.

Ticker	Company	Mexico Exposure	Thesis
BKNG	Booking Holdings	High (Mexico top-10 market)	Cancellation refund exposure across Booking.com and Priceline; Mexico cancellations hit take rate in the current quarter; forward ADR compression at resort properties
EXPE	Expedia Group	High (Vrbo + Hotels)	Vrbo Mexico vacation rental inventory represents significant Q1 revenue; cancellation waivers compress margins; less insulated than BKNG due to higher VRBO concentration in Jalisco coastal resorts
MAR	Marriott International	High — 200+ Mexico properties	Portfolio concentrated in Cancun, Los Cabos, Puerto Vallarta, and Guadalajara business hotels; corporate travel deferrals hit RevPAR immediately; 2020 CJNG escalation caused RevPAR declines of 8–12% at Mexico properties
HLT	Hilton Worldwide	Moderate-High	Mexico growing market for Hilton; exposure partly offset by strong convention/MICE business in CDMX which typically continues through security events; net watch
H	Hyatt Hotels	<b>Very High — largest branded presence in Mexico</b>	<b>Hyatt has the largest branded hotel footprint in Mexico relative to portfolio size among US hotel majors; Inclusive Collection (formerly Apple Leisure Group) gives disproportionate all-inclusive resort exposure in Jalisco-region coast — HIGHEST CONVICTION SHORT in the hotel vertical</b>

The **2020 CJNG escalation precedent** is instructive: following the October 2020 confrontations in Jalisco, Mexico hotel RevPAR declined 8–12% in affected markets over the subsequent six weeks before recovering. The 2026 event is materially larger in geographic scope and is compounded by the absence of a clear successor — implying a longer risk premium tail.

## 04 SHORT WATCH — AGRI SUPPLY CHAIN: AVOCADOS, PRODUCE & BEER

### Avocados: The Most Immediately Impacted Commodity

Mexico supplies **81% of all avocados consumed in the United States**, with the vast majority originating from **Michoacán state** — a region where the CJNG and rival cartels have long exerted influence over the agricultural supply chain. Cartels levy extortion payments on growers estimated at **\$50 per hectare per month**, and control transportation chokepoints through which avocados reach coastal ports and the US border.

During the February 2026 retaliation event, **USDA/APHIS inspectors were instructed to vacate packing houses** in Jalisco and surrounding states — a near-exact repeat of the 2011 inspector withdrawal that caused a brief but sharp pricing spike in US avocado markets. Without USDA

certification, Mexican avocados cannot legally enter the US market, creating an effective export embargo even if physical logistics were unaffected.

Annual US avocado imports from Mexico represent approximately **\$2.8 billion in trade value**. A two-week disruption affects roughly **\$108 million in import value** — enough to move retail pricing materially given the thin inventory buffers the US distribution chain maintains for fresh produce.

Ticker	Company	Mexico Exposure	Thesis
AVO	Mission Produce	<b>Very High — primary sourcing</b>	AVO is one of the largest avocado distributors in the US; primary Mexico sourcing makes this name directly sensitive to USDA inspection suspensions and transport blockades; short-term supply disruption = margin compression if unable to source from Peru or Chile
CVGW	Calavo Growers	<b>Very High — Michoacán sourcing</b>	CVGW sources primarily from Michoacán — ground zero for both cartel control and USDA inspection regimes; disruptions directly impact volume throughput and short-term earnings guidance
WMT	Walmart Inc.	High — produce + Mexico store ops	Walmart is the largest single retailer of fresh produce in the US; avocado price spikes hit COGS at the margin; additionally, Walmart de Mexico (Walmex) has direct operational exposure to cartel disruption events at store level
COST	Costco Wholesale	High — large Mexico store base	<b>A Costco location was directly attacked during the February 2026 retaliation event. Costco operates 40+ stores in Mexico and sources large avocado volumes. Both the physical security incident and supply chain disruption are directly relevant to COST earnings trajectory in the quarter</b>

### Beer: Constellation Brands (STZ) — The Mexico Supply Chain Anchor

**Constellation Brands (STZ)** is the most prominent US-listed company with a structurally Mexico-dependent business model in the beverage sector. Constellation's beer division — the company's primary earnings driver — is built on a portfolio of **Mexican import brands including Modelo Especial, Corona Extra, Pacifico, and Modelo Chelada**, all of which are brewed in Mexico (primarily at facilities in Nava, Coahuila and Obregón, Sonora) and imported to the United States under a perpetual licensing agreement originating from the 2013 AB InBev/Grupo Modelo regulatory settlement.

STZ's business model is therefore doubly exposed to Mexico geopolitical risk: **supply chain disruption** (brewery operations, transport of concentrate and finished goods across the border) and **political risk** (any renegotiation of the USMCA framework, border frictions, or tariff escalation associated with the security situation). The company has previously guided that a significant disruption to its Mexican supply chain would have no near-term domestic production alternative — it cannot simply brew Modelo in the US at scale.

**05 LONG BASKET — DEFENSE, INTELLIGENCE & SECURITY TECHNOLOGY**

Every major Western-hemisphere security escalation event — from the 2006 Calderon declaration of war on the cartels, to the 2019 Culiacán ambush, to the El Mencho era expansion — has ultimately driven durable demand for surveillance technology, intelligence platforms, border hardware, and defense contractor services. The February 2026 event is among the largest single escalation triggers in a decade. The long basket reflects the beneficiaries.

**Intelligence & Data Analytics**

Ticker	Company	Relevance	Thesis
PLTR	Palantir Technologies	<b>HIGHEST CONVICTION</b>	<p>Palantir's Gotham platform is the primary intelligence aggregation and decision-support tool used by US law enforcement agencies, CBP, DEA, and DoD for transnational criminal organisation analysis. CJNG escalation events directly increase platform utilisation and expand the addressable government contract pipeline.</p> <p>The premium valuation the market assigns PLTR reflects precisely this dynamic — it is the infrastructure of institutional response to events like this one.</p>

**Defense Primes — Established Contractors**

Ticker	Company	Relevant Program / Exposure	Thesis
LMT	Lockheed Martin	Surveillance, ISR, Sikorsky rotorcraft	<p>Black Hawk helicopters (via Sikorsky) are primary rotorcraft for Mexican military operations; surveillance and ISR (Intelligence, Surveillance, Reconnaissance) platform demand increases in multi-state security operations</p>
RTX	RTX Corporation	Radar, sensors, comms systems	<p>Raytheon-branded sensor networks and communications systems are integrated into Mexican border security architecture; US-side border hardening is a direct spending accelerant following transnational criminal escalation</p>
NOC	Northrop Grumman	Global Hawk / HALE drones, SIGINT	<p>High-altitude long-endurance drone platforms are ideal for cross-border cartel surveillance; SIGINT collection expansion in Southwest US / Mexico border corridor benefits Northrop's government systems division</p>
GD	General Dynamics	Mission systems, IT services	<p>GDIT (General Dynamics IT) provides a significant portion of the technology infrastructure.</p>

## Tactical Hardware: Drones, Sensors & Law Enforcement Technology

Ticker	Company	Relevant Product / Platform	Thesis
<b>AXON</b>	Axon Enterprise	Tasers, body cameras, Evidence.com cloud	AXON is the dominant provider of body camera and digital evidence management technology to US law enforcement. Security escalation events at the US-Mexico border drive accelerated CBP and Border Patrol procurement cycles. Evidence.com cloud platform has expanded to international law enforcement agencies. Conviction buy on any security escalation.
<b>AVAV</b>	AeroVironment	Raven, JUMP 20, Puma tactical UAS	AeroVironment supplies small/tactical unmanned aircraft systems to the US military and federal agencies. Raven and Puma UAS are deployed for border surveillance missions by CBP and JSOC. A multi-state Mexico escalation requiring persistent aerial surveillance will drive near-term procurement requests and multi-year contract extensions.

## 06 TRADE MATRIX & RISK FRAMEWORK

### Portfolio Positioning Summary

Ticker	Direction	Conviction	Time Horizon	Key Catalyst to Watch
<b>H (Hyatt)</b>	<b>SHORT WATCH</b>	<b>HIGH</b>	2–6 weeks	Mexico RevPAR guidance; travel advisory upgrades; cancellation rate disclosures
<b>ACTO (Volaris)</b>	<b>SHORT WATCH</b>	<b>HIGH</b>	1–4 weeks	GDL hub status; domestic load factor; road access normalisation
<b>UAL</b>	<b>WATCH SHORT</b>	MEDIUM	2–8 weeks	Forward booking trends; State Dept travel advisory level changes
<b>STZ</b>	<b>WATCH SHORT</b>	MEDIUM	4–12 weeks	Mexico brewery ops guidance; USMCA/tariff headlines; FY supply chain commentary
<b>AVO / CVGW</b>	<b>WATCH SHORT</b>	<b>HIGH</b>	1–3 weeks	USDA inspector reinstatement; Michoacan

Ticker	Direction	Conviction	Time Horizon	Key Catalyst to Watch
				road normalisation; retail avocado spot pricing
PLTR	LONG	HIGHEST	3–12 months	USG contract pipeline expansion; DEA / CBP procurement announcements; ARCYBER/JSOC engagement
AXON	LONG	HIGH	2–9 months	CBP / BP contract renewals; Evidence.com international expansion; earnings guidance on federal pipeline
LMT / RTX / NOC / GD	LONG	MEDIUM	6–18 months	Supplemental defense appropriations; Mexico military aid package; border security supplemental spending bill
AVAV	LONG	MEDIUM-HIGH	3–9 months	DHS / CBP drone procurement cycle; DoD SUAS contract awards; border surveillance supplemental budget

## RISKS KEY RISKS TO THESIS

Risk	Impact	Implication
Rapid CJNG succession — a strong leader emerges and quickly stabilises the organisation, de-escalating violence within 4 weeks	Reduces short thesis	Short tourism/travel positions recover; avocado supply normalises; close shorts on evidence of geographic de-escalation. Long defense names unaffected — event is already booked in procurement cycles
US imposes tariffs on Mexico under Section 232 or IEEPA in response to security situation	Amplifies short, hurts STZ more severely	STZ short becomes structurally deeper (tariff on beer imports). Airlines impacted further by reduced US-Mexico travel demand from economic friction. Avocado retail prices spike to new highs.
Mexico government concludes rapid successful operation — declares security normalisation within 10 days	Short squeeze risk on airlines/hotels	Historically, Mexico government security declarations produce short-term relief but do not resolve the underlying criminal structure. Use any short-covering relief rally as re-entry point on the thesis.

Risk	Impact	Implication
US travel demand to Mexico proves resilient — travellers substitute to Riviera Maya, Cancun continues operating normally	Reduces airline/hotel short duration	Narrowing the short to Jalisco-specific names (ACTO/Volaris) and Hyatt Inclusive Collection (most concentrated coastal Jalisco exposure). BKNG may be more resilient than MAR due to portfolio diversification.

**K2 Capital — Mexico Geopolitical Playbook Summary**

SHORT BASKET	GEOPOLITICAL TAIL	LONG BASKET
<b>▼ TRAVEL &amp; FOOD</b> H, ACTO, UAL, LUV, AVO, CVGW, STZ, COST	<b>🚩 MONTHS–YEARS</b> No clear successor; fragmentation scenario base case	<b>▲ DEFENSE &amp; INTEL</b> PLTR, AXON, AVAV, LMT, RTX, NOC, GD

<b>Feb 22, 2026</b> El Mencho Killed — Tapalpa, Jalisco	<b>20 States</b> CJNG Retaliation Blockades & Violence	<b>\$2.8Bn</b> Annual US Avocado Imports from Mexico
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<b>8 Airlines</b> Cancelled / Suspended Mexico Flights	<b>81%</b> Mexico's Share of US Avocado Market	<b>Months–Years</b> Analyst Estimate for Criminal Landscape Reset
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**Important Disclosures**

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