

Santander AM Latin American Equity Opportunities

11 / 2024

Fund commentary

Market Analysis:

November was a mixed month for global risk assets. On one hand, the world advanced by 3.6%, led by the US. On the other hand, Emerging Markets (EM) suffered on the back of the US elections. The EM index fell by 3.7%, while Latin America (LatAm) underperformed both Developed Markets (DM) and EM, falling 5.5% and accumulating a negative return of 21.8% year-to-date.

Brazil was the worst-performing market in LatAm, falling by almost 7%, with all other markets, except Colombia, declining during the month. The main driver was the US Election, where market fears centered on the newly elected President Trump potentially proceeding with an aggressive stance on foreign trade, especially with China, a key trading partner for LatAm economies. This also led to currency depreciation and increasing rates across the region.

On local news, Brazilian fiscal reform fell short of market expectations, causing equities and the Brazilian Real (BRL) to sell off. Compounding the issue was a proposal on income tax that would exempt lower-income brackets. These factors drove the two-year market rate to reach 14%, whereas the Selic Rate stands at 11.25%.

Positioning:

Despite the short-term volatility, we maintained our positioning toward companies that will post strong earnings during the next two years and eventually benefit from falling global interest rates.

Regarding country allocation, we have a relative preference for Brazil over Mexico, mainly based on Brazil's attractive valuations, to the detriment of Mexico, which still faces uncertainties regarding US growth and the US elections.

Finally, in terms of sectors, we continue to be overweight in utilities and consumer names, with most of the financing coming from commodities.

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