Santander Asset Management

Marketing Communication

Santander AM Latin American Equity Opportunities

10 / 2026

Fund commentary

October was a volatile month for global and Latin American markets. Global investors continued to navigate resilient economic growth alongside persistent inflation and elevated interest rates. U.S. long-term yields remained high, while oil prices stayed elevated amid geopolitical tensions. At the same time, the AI investment cycle continued to support activity and earnings across parts of the technology complex, reinforcing the divergence between companies with strong structural growth and those more dependent on lower funding costs.

In Latin America, Brazil dominated market performance following the presidential election. The election outcome triggered a significant repricing of Brazilian assets as investors reassessed the outlook for fiscal policy, inflation and interest rates. Brazilian equities sold off, the currency weakened and the yield curve repriced higher, with expectations shifting toward a higher-for-longer interest-rate environment.

This change in the macro environment led us to reduce our exposure to Brazil to underweight. With higher interest rates, tighter financial conditions and a weaker growth outlook, we believe the risk-reward for domestic equities is less attractive. Rather than treating the market correction indiscriminately as an opportunity, we have become more selective, reducing exposure where the macro backdrop has weakened the earnings outlook and concentrating capital where we see better asymmetry.

Within financials, we sold our entire position in Bradesco. We also exited XP as the prospect of rates remaining higher for longer materially weakens the company's growth outlook. In this environment, the investment case increasingly shifts from earnings growth toward dividend yield carry. We believe there are other alternatives that offer attractive carry with a better risk-reward profile.

At the sector level, we also reduced our exposure to oil. We sold our positions in PRIO and Vista Energy as the combination of strong share-price performance and elevated oil prices left valuations increasingly reflective of a favorable commodity environment. These were primarily valuation decisions rather than a deterioration in our view of the underlying businesses. With less upside asymmetry at prevailing valuations, we preferred to redeploy capital elsewhere.

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Outside Brazil, diversification across Latin America remains valuable. Mexico offers a comparatively more stable macro backdrop, although monetary policy has limited room to ease aggressively given inflation expectations that remain above target. Within Mexico, we continue to like FEMSA, while we have increased our positions in Fibra Prologis and Vesta. We remain bullish on industrial real estate, supported by attractive secular trends and the strong competitive positioning of both companies. Their high-quality portfolios and exposure to structurally growing demand for logistics and industrial space provide a combination of earnings visibility and long-term growth that we find particularly attractive.

The Andean economies offer a more differentiated picture. In Chile, the near-term growth outlook has weakened, with some economists revising 2026 growth into negative territory. However, stronger investment and mining activity should support a recovery in 2027, which remains our base case.

The common thread across our portfolio changes during the month was asymmetry. We reduced positions where the macro environment weakened the earnings outlook or where valuations had already captured a favorable scenario, while reallocating capital toward opportunities where we see stronger structural growth, greater earnings visibility and more attractive risk-reward.

October was also an important reminder that markets can reprice macroeconomic expectations much faster than underlying businesses change. We focus on identifying companies capable of generating attractive returns across different environments and use changes in prices, fundamentals and macro conditions to continuously reassess the asymmetry of each investment.

Ultimately, our objective remains unchanged: to own a concentrated portfolio of our best ideas across Latin America, focusing on quality businesses, predictable cash flows, disciplined capital allocation and durable competitive advantages. By reducing exposure where either fundamentals or valuations have become less attractive and reallocating toward opportunities with better long-term asymmetry, we aim to compound capital over time while protecting it through more challenging periods.

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