The next chapter for Latin America

Newsflow around Latin America reflects a changing picture...

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We write fairly often on Kepler Trust Intelligence about the case for emerging markets as a whole, but occasionally it is helpful to look more closely at a specific region.

Recently, Latin America has come onto our radar more frequently than usual. Both the news cycle and fund managers are finding successive reasons to focus on the region and its constituents. And while the news may not be universally positive, it certainly merits some discussion.

Given that inflation and interest rates have dominated market chatter globally over the last two years, the first interesting point to note is that the largest Latin American economies are ahead of developed market peers when it comes to both controlling inflation and, in turn, normalizing interest rates.

Indeed, after raising rates to 13.25%, Brazil's central bank reduced rates by 50 basis points in August after inflation fell below its 3.25% target. The bank joined those in Costa Rica, Chile and Uruguay in cutting rates. Elsewhere, Mexico's central bank has been able to pause rate rises following inflation falling to 4.79% in July.

With other global economies continuing to struggle to control inflation, the strength of some of the region's constituents points to strong underlying market systems and a resilient economic foundation, in contrast to popular perception.

The proactiveness of the region's central banks in tackling rising inflation could go some way to explaining the strength of external investment in the region in 2022. **As highlighted by the FT this week**, data from the UN shows that it was a record year for foreign direct investment, rising 55% on the previous year and hitting a historic high.

Beyond forward-thinking central bank policy, there are other tailwinds for Latin America. Notably, the trend for nearshoring is strongly benefitting the Central American economies. At the same time, the war in Ukraine has drawn attention to the need for energy producers to diversify their supply chains.

While this has had the happy impact of boosting investment into Latin America, this has centered on fossil fuel production, with Latin American leaders incentivized to encourage this investment in order to avoid their natural resources becoming stranded assets. This obviously presents a challenge to sustainability-minded investors.

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BlackRock Latin American (BRLA) is a specialist investor into the region, managed by an experienced team that draw on the resources of one of the world's largest asset managers. As a result, it has been well-positioned to take advantage of the news flow circling the region over the last year, with the managers focused on taking significant overweight positions on their highest conviction stocks. BlackRock does have dedicated ESG analysts focused on emerging markets and, as a result, rates above average for sustainability among its peer group according to Morningstar.

Elsewhere, Kepler Income & Growth rating holder **Utilico Emerging Markets (UEM)** focuses heavily on Latin America, with a particular emphasis on utilities and infrastructure stocks. As a result, it offers a very differentiated perspective on both emerging markets and Latin America, especially given the targets of foreign direct investment discussed. As a result of this tilt though, there are some sustainability challenges associated. The trust focuses most heavily on the governance aspect of ESG and also invests in renewable energy sources such as wind farms and solar.

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