Overweight Latin American Equities vs Emerging Markets Equities

Recommended Since June 30, 2025

INVESTMENT THESIS: We expect Latin American (LatAm) equities will outperform emerging markets (EM) equities in an environment characterized by disruptive shifts in US trade policy. LatAm valuations are deeply discounted, performance momentum has rebounded, and the impact of tariffs is likely to be limited compared to major EM peers in Asia. Recent US tariff proposals on Brazilian imports have introduced headline risk, but their impact will be mitigated given that direct trade exposures are modest.

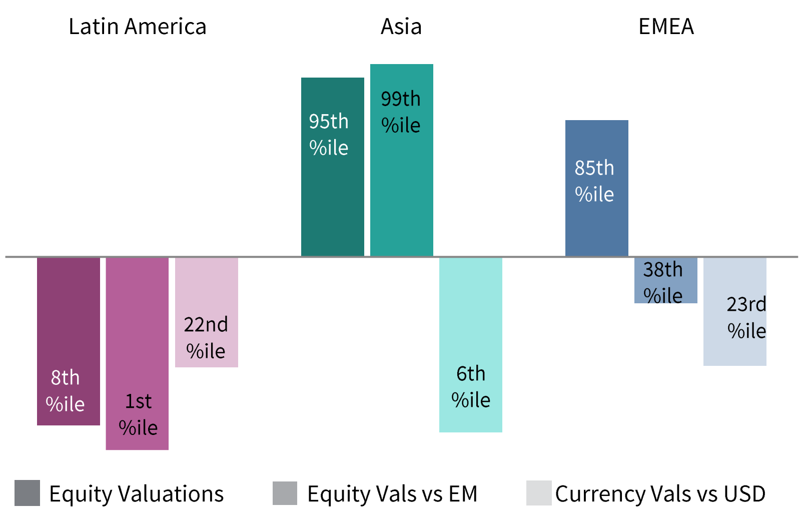
- **KEY SUPPORT #1:** LatAm equities trade at a 51% discount to broader EM stocks, which is one of the cheapest levels on record and driven, in part, by rich valuations for their Asian peers. Starting relative valuations for this pair have shown a meaningful relationship with subsequent performance over tactical time horizons. Momentum has rebounded, recovering from oversold conditions in 2024. However, prior cycles and current momentum metrics suggests potential for further upside. This combination of cheap valuations and budding momentum will continue to support performance.

- **KEY SUPPORT #2:** LatAm should be relatively insulated from US policy uncertainty. Economies in the region tend to run trade deficits or modest surpluses with the United States, in contrast to the export-heavy Asia region. This suggests elevated downside risk to EPS growth for the latter as tariffs lead to slower growth and reduced trade volumes. Global investors tend to be underweight the LatAm region, which is an attractive destination for global capital flows given their low equity and currency valuations. Potential for higher commodity prices owing to escalating geopolitical tensions, a softer US dollar, and structural trends (e.g., energy transition and increased energy demands from AI) would support LatAm performance.

- **KEY RISKS:** Political and fiscal risks are top of mind. Further US tariff escalation could weigh on investor sentiment towards the region. Major elections will be held across LatAm in the coming years, with spending likely to increase in the lead up amid already wide current account and fiscal deficits. Interest rates are elevated, which may restrict economic activity in the near term. LatAm is also underweight technology sectors, which could return to favor.

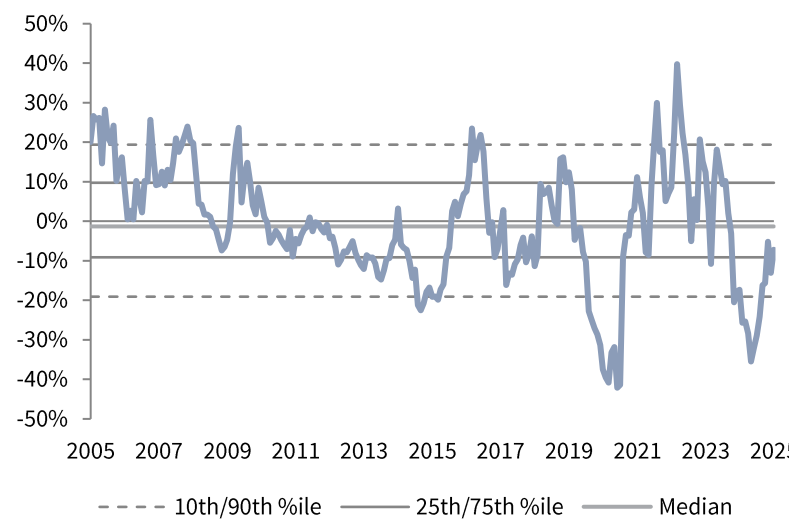
EQUITY AND CURRENCY VALUATIONS OF MAJOR EM REGIONS

As of August 31, 2025 • Current Percentile Relative to Trailing 20-Yr History



12-MONTH RELATIVE PRICE MOMENTUM: LATAM VS EM

June 30, 2005 – August 31, 2025 • Percent (%)



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.
Notes: Equity valuations are based on the cyclically adjusted price-to-cash earnings ratio (CAPCE) using five-year trailing average real cash EPS. Relative equity valuations for the EM regions are compared to broader EM. Currency valuations are based on equal-weighted baskets of real exchange rates versus the US dollar for 20 of the 24 countries within the MSCI Emerging Markets Index. Greece (which uses the euro), Qatar, Saudi Arabia, and United Arab Emirates (which employ a fixed rate versus the US dollar) are excluded.