

Overweight Latin American Equities/Underweight Emerging Markets Equities

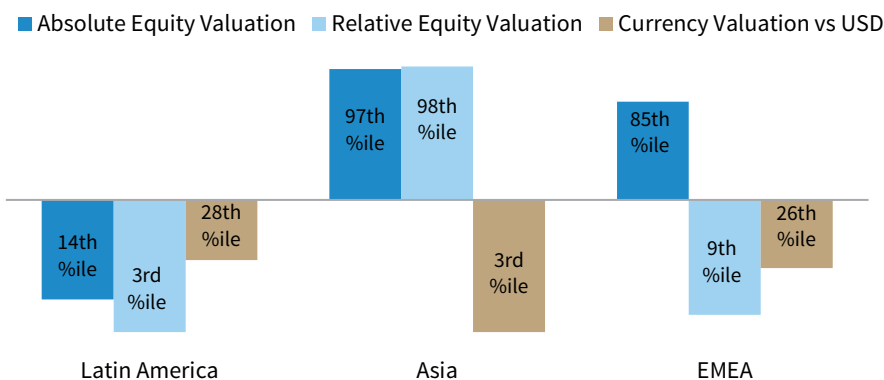
Recommended since June 30, 2025

Investment thesis: We expect Latin American (LatAm) equities will outperform emerging markets (EM) equities in an environment of 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 peers in Asia. While headline risks persist around US imposed tariffs, recent trade deals with LatAm countries offer relative positivity for the region.

Key support 1: LatAm equities trade at a 51% discount to broader EM, 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 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 support performance.

Equity and currency valuations of major EM regions

As of November 30, 2025 • Percentile relative to trailing 20-yr history

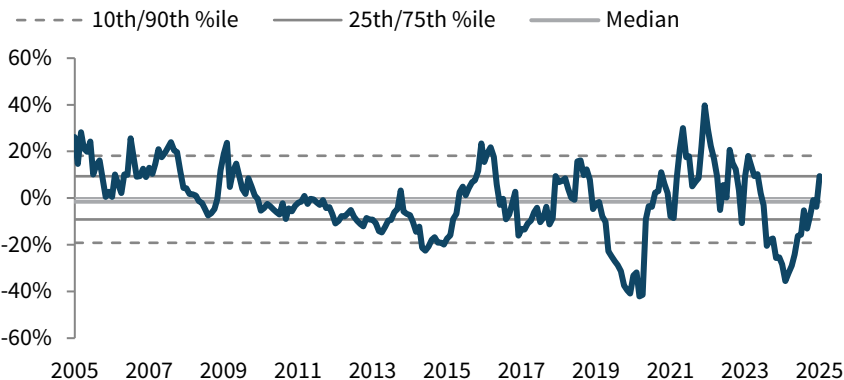


Key support 2: LatAm should be relatively insulated from US policy uncertainty. The region tends to run trade deficits or modest surpluses with the United States, in contrast to the export-heavy Asia region. This suggests elevated downside risk to EPS growth for the latter as tariffs lead to slower growth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

Key risks: Political and fiscal risks are top of mind. Further US tariff escalation could weigh on investor sentiment toward 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. LatAm is also underweight technology sectors, which could return to favor.

12-month relative price momentum: Lat Am vs EM

June 30, 2005 – November 30, 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.