Overweight Latin American Equities/Underweight Emerging Markets Equities

Recommended since June 30, 2025

Investment thesis: We expect Latin American (LatAm) equities to outperform broader emerging markets (EM), driven by attractive valuations, limited direct exposure to US trade policy disruptions, and strong structural tailwinds such as commodity demand and improving policy environments. While political risks in the region persist, the trade benefits from more moderate exposure to recent Middle East developments than other EM regions. Ongoing reforms and significant capital inflows also support a constructive outlook for the region.

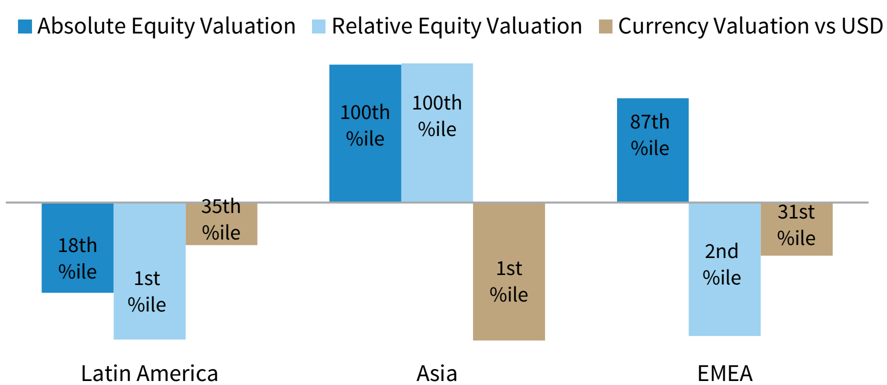
Key support 1: LatAm equities trade at a 53% discount to broader EM—one of the most attractive levels on record, partly due to richer valuations in Asia. Currency valuations are also low, around the 35th percentile, against a 20-year lookback period. While strong momentum since 2024 has weakened of late, such a starting point in relative valuations has historically been associated with strong subsequent performance.

Key support 2: LatAm should be relatively insulated from geopolitical disruptions (e.g., the Iran War and US trade policy) and is well positioned to benefit from global structural themes. The region's countries tend to be net energy exporters, in contrast to many Asian countries, which are reliant on energy imports. In addition, expectations for central bank policy rate cuts should be supportive, while LatAm's significant commodity wealth—particularly in copper, lithium, and nickel—positions the region to benefit from global trends such as AI and electrification.

Key risks: Political and fiscal risks remain elevated. Upcoming major elections could create market volatility, especially the October Brazilian election given the country's large weight within the LatAm index. Fiscal deficits and elevated rates present additional challenges. Further US tariffs or intervention, as well as the upcoming USMCA review negotiations, could disrupt markets. Lower direct exposure to AI momentum than Asian equities could be a headwind moving forward.

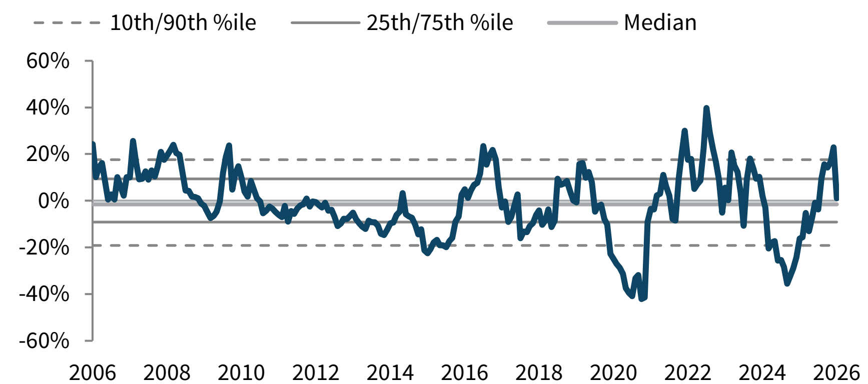
Equity and currency valuations of major EM regions

As of April 30, 2026 • Percentile relative to trailing 20-yr history



12-month relative price momentum: Lat Am vs EM

June 30, 2005 – April 30, 2026 • 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.