

Santander AM Latin American Equity Opportunities

4 / 2025

Fund commentary

April was a volatile month for global equities. First, Trump's tariffs announced on Liberation Day were deemed higher-than expected, especially for China, and triggered a sharp sell-off in risk assets that pushed volatility to the highest levels since the pandemic. Days later, Trump called for a 90-day tariffs pause that sent global risk assets soaring. By the end of the month, global markets had erased most of the losses, while some outliers posted gains. While it seems like the worst of the tariffs' shock could be behind us, we need to stay vigilant as the threat of US stagflation keeps looming, and short-term optimism can change swiftly with the next Tweet.

Of note, USMCA trade partners Mexico and Canada were left out of Trump's tariffs list and thus have been considered "early trade winners". Similarly, Brazil and South America face no material changes to trade policy, so the region is a net beneficiary. Trump's tariffs agenda has sent a clear signal that the main trade target is China. So as long as the US-China divergence remains front and center, Latin America should remain a relative winner in the inevitable global trade reconfiguration.

In general, these are the times when active portfolio management strategies gain extreme relevance, as they can adapt to market-moving events, incorporate the changing macro landscape, and take advantage of volatility to capture portfolio opportunities. Specifically, we believe the impact of tariffs will be uneven across countries, companies and sectors, and we will reflect that in our portfolio. In parallel, we are prepared to face wider swings in interest rates, foreign exchange, economic growth, and earnings expectations.

LatAm Equities Summary

In Latin America, the MSCI Latam was up by 6.97%, with the main contributions coming from Mexico and Brazil, which rose 13% and 5% respectively. Following, we will share key highlights from these markets:

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Brazil

Market Overview

Brazilian performance (MXBR +5.08%) was driven by the combination of rising stock prices and currency appreciation. As stated above, Brazil benefitted from tariff-related fears. Additionally, although positioning remains light, investors have shown more optimism towards Brazil since it is getting very close to the end of the hiking cycle. In this sense, our economists expect the Copom to increase the Selic rate by +50bps at the May meeting to reach 14.75%. Further, the government is facing high disapproval rates across different population groups. Still, despite these potential medium-term tailwinds, we continue to closely monitor shorter-term macro risks, like rising inflation, fiscal deterioration, and recession risk.

Positioning

We marginally decreased our active risk last month. The main changes were the reduction in commodities and the increase in high-quality names in financials, real estate and capital goods.

Mexico

Market Overview

Mexico's performance (MXMX +13.0%) was driven by rising stock prices and currency appreciation. Despite an economic slowdown and continued political noise, Mexico's strong YTD outperformance is a reminder that an under-owned but resilient stock market can rally quickly and unexpectedly. In local macro news, CPI remains within Banxico's inflation target and supports our view that Banxico has room to continue cutting rates in 1H25 regardless of the Fed – a key macro tenet that can further drive a re-rating. Notably, the consumer keeps showing signs of moderation, but we still find pockets of strength. In corporate news, the 1Q25 earnings season has ended, showing solid double-digit YoY growth rates at the index level (local currency), partially benefitting from a weaker MXN: Sales +13% / EBITDA +13% / Net Income +19%. A wide dispersion between stock reactions to beats/misses was observed.

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Positioning

We continue favoring stocks with foreign revenue exposure, such as consumer multinationals and mining exporters. Further, we remain constructive on names that benefit from the rates easing cycle, mainly via microlender Genera but also through Real Estate. Moreover, we maintain a positive stance on regulated stocks with strong profitability and high visibility, such as Airports. Lastly, we keep a selective stance in consumer names and are thinking of rotating food and beverage exposure to retailers.

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