

Santander AM Latin American Equity Opportunities

6 / 2022

Fund commentary

Latin American Equities corrected during the month, in line with global de-risk mode the markets were involved. The region closed year to date performance just below zero. In any case, the region continues to outperform the global and emerging markets reference indexes in 2022.

After June's -17% correction for the regional index, Chile and Brazil are leading the pack, showing positive returns in dollar terms. Contrary to last year, Mexico lags other countries. Currencies lost value during June against the dollar with no exception. Nonetheless, the Real, Mexican Peso and Peruvian Sol demonstrated resilience during the year. Colombia was the worst market amid the presidential election second round.

Sector-wise, the month reversed for the winners of 2022. Financials, Materials and Consumer Discretionary sectors corrected the most. No sectors ended the month in positive territory.

As it was the case of Colombia during last month, we will be facing elections in Brazil during October. Current President Bolsonaro and former twice President Lula da Silva are leading the polls.

The Central Banks have been active since 2021, taking nominal interest rates to levels seen on a few occasions during the last two decades to contain inflation. The Brazilian economy, for example, is already under a positive real rate environment. Notwithstanding the monetary tightening, the economy has been recovering beyond market's expectations. Inflation continues to be an issue to monitor and tackle, as it is the case for the region.

By almost any valuation metric, the region shows attractive levels when compared to its history. Corporate earnings are improving and being incorporated by investors and consensus at a faster pace than indexes performance.

Flows into the region were positive during the month, accumulating 2b US\$ year to date, in line with emerging markets. Brazil was the country receiving the bulk of the money flows. Colombia and Chile are showing redemptions year to date.

In terms of portfolio, we remain underweight Mexico as well as not holding any company in Peru. The fund holds its largest exposure toward Brazil, with a high representation of the Financial Sector, Energy and Basic Materials. During the month we have increased the cash position. No structural changes were made to the portfolio.

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