



Market Commentary  
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English Version

# Russia, the US, and their influence in Latam

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## Russia, the US, and their influence in Latam

Much has changed in the last month on the world stage, and markets have not been immune from the latest developments stemming out of Eastern Europe. Specifically, the world order was challenged the morning of February 24 when Russian president Vladimir Putin announced on national tv the beginning of a “special military operation” in Ukraine with the goal to “demilitarize”, but not occupy, the country. With this speech, Russia abandoned the non-violent approach that had reigned over the region in previous sessions and continued to shatter the apparent state of peace that had been present in Europe since World War II – just like it had done in 2014 with the Crimea and Donbas invasion.

As events continue to unfold at the time of this writing, the Ukrainian capital of Kyiv is close to falling to Russian attacks, while the West continues to impose sanctions on Russian banks, debt, and members of Putin’s cabal. Those efforts initially paid off when Russia announced it would agree to hold talks with Ukrainian leadership and send a delegation to the Belarusian border, but no clear end is yet in sight.

Apparently, President Putin’s main goal is to achieve a regime change in Ukraine and instill a pro-Kremlin administration just like it did with Belarus. This maneuver seems to be yet an additional step of President Putin’s plan to shield Russia’s near abroad from Western influence. Furthermore, President Putin believes that “Great Powers” should be free to exercise their sovereignty over other nations, which is precisely what Russia is trying to do with Ukraine, even if it means removing a democratically elected government such as President Zelensky’s.

These are changing times, and nothing will be finalized until a clearer resolution is reached by all parties. However, it is worth reassessing the economic impact of this geopolitical crisis in a region seemingly left out of the controversy for now – Latin America.

The ties between Latam and the United States have always been tight, more so since the establishment of the Monroe Doctrine in the 1800s, when the US declared its opposition to further European territorial expansion in Latin America. Thereby, and after recognizing the formation of several Latin American nations out of the remnants of the Spanish and Portuguese empires, the US entrenched its dominance on this side of the world within its own exclusive sphere of influence.

Nonetheless, the US’s dominance over Latam has waned over the last few years, opening the door for other key players like Russia and China to enter the region and form partnerships with Latin American

countries. Therefore, the previous status quo that the world was used to – one where the US was the single, dominant power of the Western hemisphere – is now being put to the test. This shift in the geopolitical order, which Russia has tried to challenge since 2008, was further tested with the COVID-19 pandemic when both Russia and China stepped up to help Latam with vaccine distribution, pushing their vaccines to be produced in the region and spurring technology transfers and scientific collaboration. Furthermore, this willingness to help Latam strongly contrasted with the US's lack of support to the region. This laid the groundwork for further collaborations between the Eurasian giants and Latam.

In January, during the initial phase of the Ukrainian crisis, Russia's Deputy Foreign Minister stated that Russia could not rule out the possibility of deploying military forces to Venezuela and Cuba. Even if this move would make no strategic sense and would be very costly for the Russian government, it was a warning to the US. Furthermore, Russia has long been aware of the key industries it shares with Latam, and that those allow for it to leverage and generate a deeper political engagement. Those industries are, among others, oil and gas, the military-industrial complex, nuclear power, and mining. Additionally, Russia has also exploited the trading front with Latam, given that it has bought meat from countries like Argentina, Brazil, and Paraguay, while also being an important purchaser of other agricultural commodities. Furthermore, the development of the Russian-Ukrainian conflict has caused a spike in commodity prices, more specifically on oil, which has reached price highs not seen since 2014. Even if this price gain

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should bode well for oil-exporting countries such as Colombia or Mexico, the direct effect this increase has in inflation could backfire and become a headwind for the region's growth instead of a tailwind in an already challenging year that will also have to incorporate a tighter monetary policy from the developed economies, a growth outlook that looks less promising, and the aftermath of a non-receding inflation.

In sum, with his latest maneuvers, Putin seems to be implementing his own version of the Monroe Doctrine by unequivocally stating that he will not allow for invasions or conflict anywhere near the Russian realm. Even if his main focus is currently closer to home, Latam seems to have gained additional importance to Russia as a geopolitical battlefield of the future. If the US wishes to maintain the status quo, then it better start paying closer attention to the land beyond its southern border.

# House Views Matrix

	TACTICAL (UP TO 3 MONTHS)	CYCLICAL (UP TO 12 MONTHS)
US Equities <sup>1</sup>	NEUTRAL	OVERWEIGHT
European Equities	UNDERWEIGHT	OVERWEIGHT
Japanese Equities	NEUTRAL	NEUTRAL
Emerging Market Equities	OVERWEIGHT	OVERWEIGHT
Chinese Equities	OVERWEIGHT	OVERWEIGHT
US Treasuries <sup>2</sup>	NEUTRAL	UNDERWEIGHT
Investment Grade Fixed Income	UNDERWEIGHT	NEUTRAL
High Yield Fixed Income	UNDERWEIGHT	OVERWEIGHT
Emerging Market Sovereign	NEUTRAL	NEUTRAL
US Dollar	NEUTRAL	UNDERWEIGHT
Energy <sup>3</sup>	OVERWEIGHT	OVERWEIGHT
Precious Metals	OVERWEIGHT	OVERWEIGHT
Cash	OVERWEIGHT	NEUTRAL

<sup>1</sup> Relative to global equities in USD

<sup>2</sup> Relative to aggregate fixed income markets in USD

<sup>3</sup> Relative to an overall commodity allocation



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