Market Commentary
December 2022

English Version

Latam, its political nuances, and a potential solution

Get guidance on investments, and the major structural factors behind your clients' portfolios.

insigneo

Melissa Ochoa Cárdenas
Investment Strategist
Insigneo Financial Group

Latam, its political nuances, and a potential solution

The last two years have included a plethora of political changes in Latin America, with the region experiencing a stark shift toward left-leaning governments that initially undermined investor confidence and further contributed to the already volatile market environment. Notwithstanding, it is worth highlighting that not all left-leaning governments in Latam are the same and that their nuances should be considered when analyzing the region. These differences were perfectly encompassed by a map posted by Boz at the Latin America Risk Report that became viral on Twitter, which later led to a blog post explaining the reasoning behind the picture.

In a nutshell, Boz portrayed the following points in his explanatory post after the map went viral. Firstly, he stated that for Latin America, the real political analysis should be focused on the additional, more nuanced adjectives that come after the "leftist" denomination and not on the "leftist" adjective per se. This, taking into account that Boz considers that the left-right divide in terms of ideological grouping has become murkier but that the left-right economic spectrum still conceals some value, and this value comes from the additional adjectives that come after the initial political orientation of the country in question.

Furthermore, Boz also highlights that the political spectrum of Latam is ever so changing – take the Peruvian government as an example – which makes its mapping a daunting task. Against this backdrop, left-leaning governments tend to be haunted by the ghosts of past governments. Lastly, Boz states that it would be more useful to divide the leaders in Latam into 'old' and 'new' authoritarians: the old group would comprise Cuba, Venezuela, and Nicaragua, whereas the new authoritarians include El Salvador, Guatemala, and to a lesser extent Costa Rica. These new authoritarians attempt to portray their label as a trait to be worn with pride – something not achieved by the 'old' authoritarians, and which could also be an attribute that would reshape the left-right map in the future.

This initial take on how the political spheres have changed in the region also made us wonder if there had been any repercussions in the markets after an election in Latam. After all, the political sphere is not only mercurial in the region, but it trickles over into the investment landscape as well. Take the 5-year CDS, for example. When we look at the behavior of those risk premia for Latam, we can tell that the two countries that had the tightest elections (Brazil and Colombia), with both countries shifting to the left, as a result, are the ones with the highest CDS YTD. However, if we look at the region's performance in November, even amid some political crises like Bolsonaro not accepting the results from the presidential election, AMLO hosting a pro-government march that had several supporters take to the streets, and the Peruvian presidential drama, most Latam currencies appreciated in that period and all equity markets – except Brazil – had positive returns in November. It turns out it would not be wrong to assume that the region has learned to outlive its inherent chaos, or at least partially.

After these reflections and analyses, we posed the question of whether investing in local currency fixed income in the region would present attractive opportunities in the upcoming year. Against a backdrop of receding inflation in most of the countries that we focus on, a potential Fed pivot in the horizon that would imply a pause in the monetary policy tightening and currently high interest rates due to the shock that embattled the Latam debt market in 2022, there is an opportunity to lock attractive rates before the rally begins. Thus, we developed a fixed income monitor that will give investors an overview of the Latin American markets we tend to focus on and how their local currency curves and key fixed income variables behave. The monitor includes the monetary policy rates and 5-year CDS for Brazil, Chile, Colombia, Mexico, and Peru, as well as the historical behavior of their real rates for different maturities and a comparison of the local currency curves. We hope you find this release timely, as we believe that EM local currency debt could be one of the rising stars for 2023.

— "After these reflections and analyses, we posed the question of whether investing in local currency fixed income in the region would present attractive opportunities in the upcoming year."

House Views Matrix

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

[1] Relative to global equities in USD
[2] Relative to aggregate fixed income markets in USD
[3] Relative to an overall commodity allocation

insigneo

Important Legal disclaimer

This material is intended only to facilitate general discussions and is not intended as a source of any specific recommendation for a specific individual. Please consult with your account executive or financial advisor if any specific recommendation made herein is right for you. This does not constitute an offer or solicitation with respect to the purchase or sale of any security in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it would be unlawful to make such an offer or solicitation. Brokerage and investment advisory account investments are subject to market risk including loss of principal.

Insigneo Financial Group, LLC comprises a number of operating businesses engaged in the offering of brokerage and advisory products and services in various jurisdictions, principally in Latin America. Brokerage products and services are offered through Insigneo International Financial Services, LLC, headquartered in Puerto Rico, and through Insigneo Securities, LLC, headquartered in Miami. Both are members of the Financial Industry Regulatory Authority (FINRA) and Securities Investors Protection Corporation (SIPC). Investment advisory products and services are offered through Insigneo Advisory Services, LLC, an investment adviser registered with the Securities and Exchange Commission. In Uruguay, advisory services are offered through Insigneo International Asesores de Inversion Uruguay, SA, Insigneo Asesores de Inversion Latam, SRL, and Insigneo Asesores de Inversion de Uruguay, SRL, in Argentina through Insigneo Argentina, SAU, and in Chile through Insigneo Asesorias Financieras, SPA. Collectively, these eight operating businesses make up the Insigneo Financial Group. To learn more about the Broker Dealers including their conflicts of interest and compensation practices, please go to https://insigneo.com/disclosures/ or via https://www.finra.org. To learn about Insigneo Advisory Services, LLC and any conflicts related to its advisory services, please see its Form ADV and brochure which can be found at Investment Advisor Public Disclosure website https://adviserinfo.sec.gov/