



Market Commentary
July 2025

English Version

Life After Tariffs

What You Missed While Obsessing Over Trump

Quarterly Call Q3 | 2025

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

insigneo



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Chief Investment Officer

Executive Summary

- The focus of the investment outlook has moved away from Trump-era trade wars and tariffs, emphasizing that while these dominated headlines, more enduring and transformative global developments were unfolding beneath the surface.
- Key global trends include the rapid adoption of AI across industries, a U.S. manufacturing revival driven by reindustrialization, Europe’s strategic geopolitical awakening, and Latin America’s economic resurgence fueled by nearshoring and reforms.
- Despite political noise, markets have remained strong, supported by broadening corporate earnings, low unemployment, and sustained innovation. Structural forces like technological progress and capital investment are the true engines of long-term prosperity.
- The U.S. economy is expected to avoid recession in

2025, with modest GDP growth around 1.5%. Inflation remains subdued despite trade tensions, and while fiscal deficits remain high, they are stabilizing due to policy shifts like the One Big Beautiful Bill Act (OBDDA).

- U.S. equities are projected to end the year strong, supported by resilient fundamentals and anticipated Fed rate cuts. Global markets, especially in Latin America, show selective upside, while commodities like gold and digital assets such as Bitcoin are gaining appeal as alternative stores of value.
- Although tariffs are no longer market-moving news, they continue to exert inflationary pressure. Structural constraints and global supply chain realities are tempering policy impacts but concerns about stagflation and constrained consumer spending persist.

Introduction

Greetings to our global clients and partners as we enter the third quarter of 2025. Let us get one thing out of the way upfront. The title of our quarterly investment conference, “Life After Tariffs, What You Missed While Obsessing Over Trump,” is one of the few times that you will read or hear us utter the words “Trump” or “tariffs.” Apart from the fact that we devoted much attention to them since last year, we simply feel that there are far more interesting topics to discuss.

First, a quick victory lap. In our annual 2025 outlook, titled [“Nation Over Empire: The US Pivot and Its Global Ripples”](#) we correctly predicted the key themes of the second Trump Administration. Back in January, we noted that Americans had opted for a decisive inward turn, with the administration laser-focused on “domestic production, re-industrialization, and trade protectionism,” recalibrating America’s role from global enforcer to rebuilding at home. We dissected how “America First” policies would ripple across markets and regions, and those insights have aged well.

Today, our agenda lies elsewhere as the world has been busy. While headlines were glued to trade wars and tweet storms, here is a quick tour of what you might have missed:

AI Advancements, Everywhere: The pace of global AI progress has been relentless. Generative AI and automation are permeating every industry with 78% of firms worldwide reported using AI in 2024, up from just 55% the year before. The U.S. still leads the AI revolution, driving productivity and market resilience, and innovation-driven industries remain a bright spot.

U.S. Manufacturing Renaissance: We are seeing advanced manufacturing plants spring up across the country, fueled by business-friendly policies and innovation. American manufacturing is growing again and poised to keep expanding as government and industry prioritize industrial innovation. Sectors like autos, industrials, and regional banks are benefiting from deregulation and “re-shoring” protectionism, think of it as the Rust Belt Revival.

Europe’s Geopolitical Re-Awakening: Across the Atlantic, Europe is stirring from its slumber. The continent is experiencing a “geopolitical awakening” that is beginning to reshape its economic landscape. We are seeing a newfound strategic focus, from defense coordination to energy independence. After years of minimal growth, the EU is showing signs of life, openly discussing those structural inefficiencies, and embracing reform.

Latin America’s Rediscovery: Like the US, investors are rediscovering Latin America. Under Monroe 2.0, the western hemisphere occupies center stage. Countries like Mexico, Brazil, and Chile are leveraging nearshoring trends and commodity demand to their advantage. And, notably, Argentina is undergoing a historic economic liberalization. The country’s new leadership is aligning with Washington (without alienating Beijing) in the hopes of making Argentina great again.

Fintech & New Frontiers: Meanwhile, whole new industries are blossoming. Fintech innovation continues to disrupt banking, and digital assets are maturing. Take stablecoins, for example, once a niche crypto concept, now so mainstream that the U.S. Congress is passing laws to integrate them into the financial system. This move is expected to unleash a wave of adoption. Imagine a future where major payments and remittances use stablecoin infrastructure under prudent oversight. Well, that future is being built as we speak. And beyond that, new industries from space tech to biotech are all advancing at a breakneck pace.

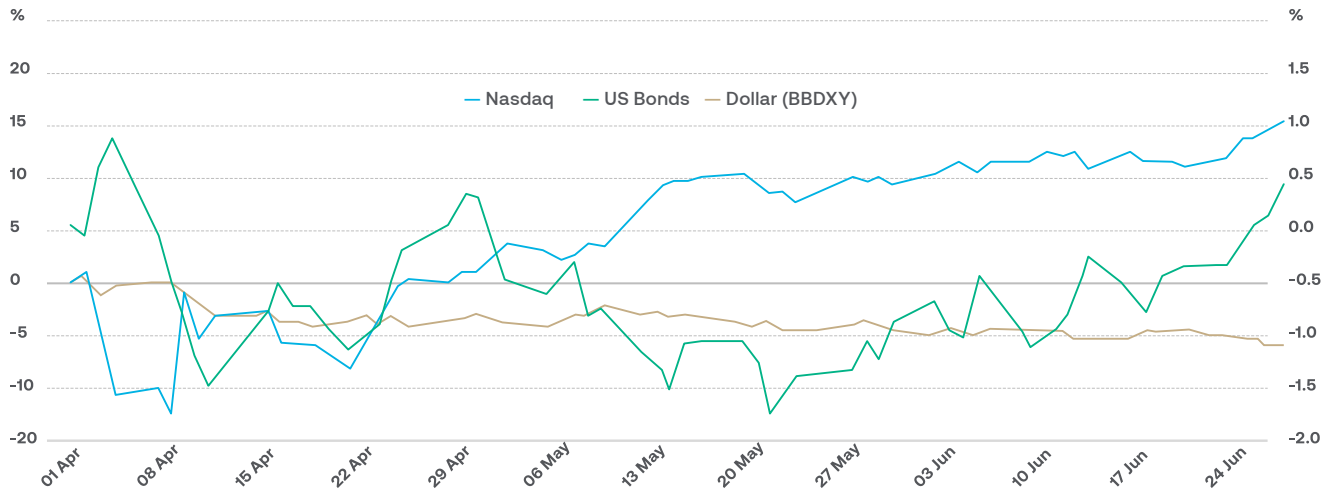
These are just a few of the captivating threads in the global tapestry right now, threads with far more longevity than any one politician. Through all that sound and fury, the fundamentals did not miss a beat. Consumers kept spending, companies kept turning profits, and technological progress kept accelerating. Corporate earnings, for instance, have continued to grow and, importantly, broadened beyond the handful of mega-cap tech darlings to a wider swath of companies. In 2024, the “Magnificent Seven” hogged ~75% of S&P 500 earnings growth. So far this year, their share is dropping to one-third as other industries pick up the slack. Unemployment stayed low, innovation stayed high. Structural forces like productivity gains and capital investment have marched inexorably forward, indifferent to political drama. Indeed, since Liberation Day, the Nasdaq is 15% higher, US treasuries are up 0.5%, and only the US Dollar is 8% below its level on April 2nd. Incidentally, we expect these trends to continue throughout the year, equities and bonds will be higher, while the Greenback will remain weak.

In the end, the market action this year underscores a timeless lesson. One of our favorite illustrations of this comes from economic history. Across many metrics, wealth and living standards were essentially flat for most of human history. The rise and fall of

1. U.S. Assets Since Liberation Day.

Source: Bloomberg; Eurizon

Performance since “Liberation Day” - April 2, 2025



Egypt, Rome, the Black Death, Genghis Kahn...nothing mattered as we were caught in a Malthusian trap that ebbed and flowed for millennia. Suddenly, a vertical leap after about 1800. The Industrial Revolution triggered an exponential inflection in growth, utterly dwarfing everything that came before. The possibilities for material consumption changed forever once modern growth took hold. Once the engines of technological progress ignited, growth became exponential, rendering short-term disruptions relatively trivial in the long arc of history.

So, as we kick off Q3 2025, we encourage you to

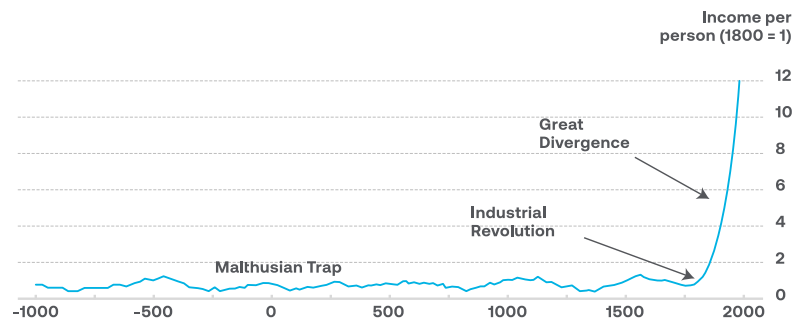
keep that big picture in mind. History’s momentum is on the side of innovation and prosperity, a force far stronger than any populist. Let us dive in. Welcome to life after tariffs.

Macroeconomic Outlook

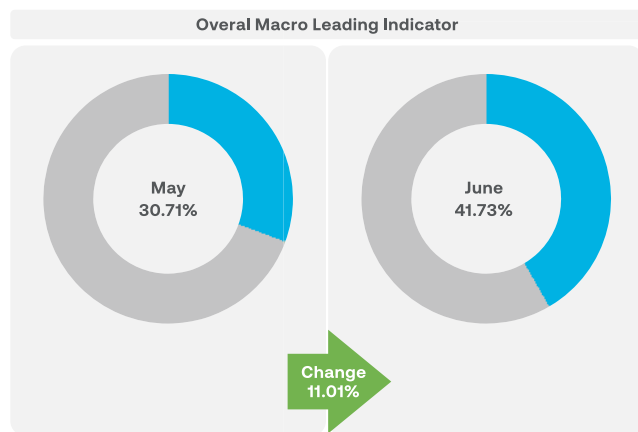
Our baseline macroeconomic outlook anticipates no recession in the United States for the remainder of 2025, despite elevated risks. Our internal recessionary probit model currently assigns a 40% probability to one within the next six months, while our

2. In Human History, Only One Event Matters for Growth: Britain’s Industrial Revolution

Source: Clark, G. (2007). A farewell to alms: A brief economic history of the world. Princeton University Press.



3. Quantitatively, U.S. Recession Probabilities Two Calendar Quarters Forward



Source: Insigneo-Forefront Recessionary Probit Model

Markov-based model places this likelihood slightly lower at 30%. Consequently, our base-case scenario involves a continued, albeit moderated, expansion in the U.S. economy, projecting real GDP growth at approximately 1.5% for the full year.

Although the trade war causes some uncertainty to

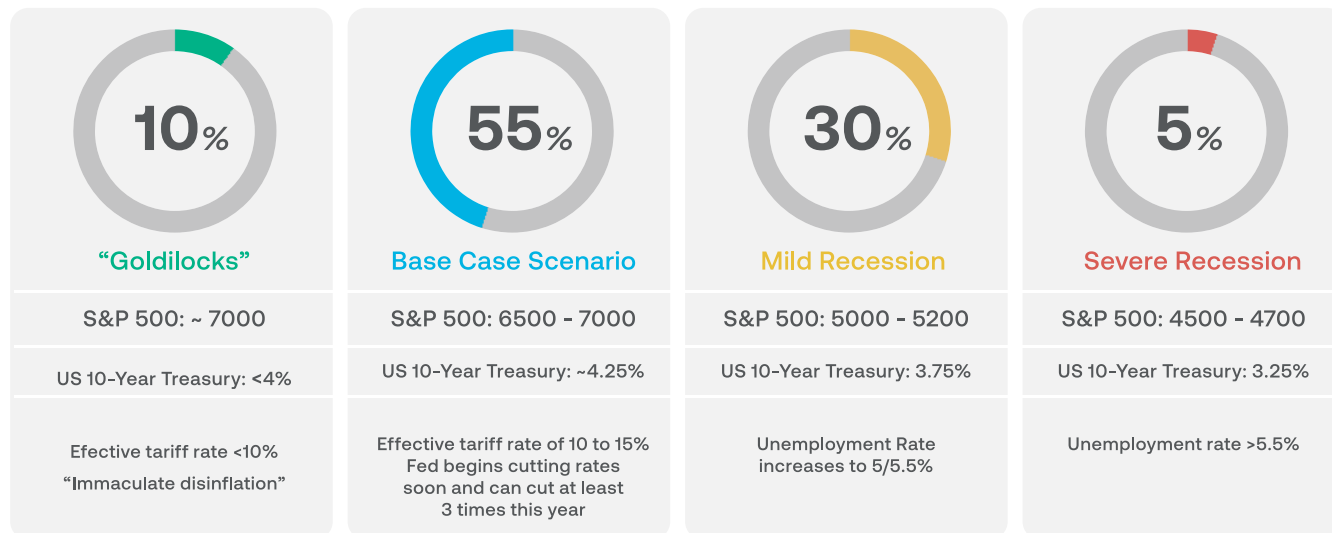
linger, it will likely result in a manageable soft landing for the U.S. economy, accompanied by temporarily higher inflation. Globally, economic conditions remain stable, allowing central banks to adopt more stimulative policies.

Inflation in the U.S. remains subdued and continues to decline, contradicting expectations of tariff-induced price surges. Structural trends such as re-globalization, technological advancements, and demographic shifts should further support this trend. This low-inflation environment suggests that the Federal Reserve will soon cut interest rates significantly, given that real interest rates have risen unintentionally while nominal rates stayed constant amid declining inflation.

Are we concerned about the One Big Beautiful Bill Act (OBBBA)? Yes, the fiscal deficit is bad and not getting better. But it is also not getting worse. We expect the combination of OBBBA, tariffs and DOGE to keep the federal budget deficit roughly unchanged at a historically large 6.5% of GDP next year, better than projections of 7 to 8% earlier this year. Impor-

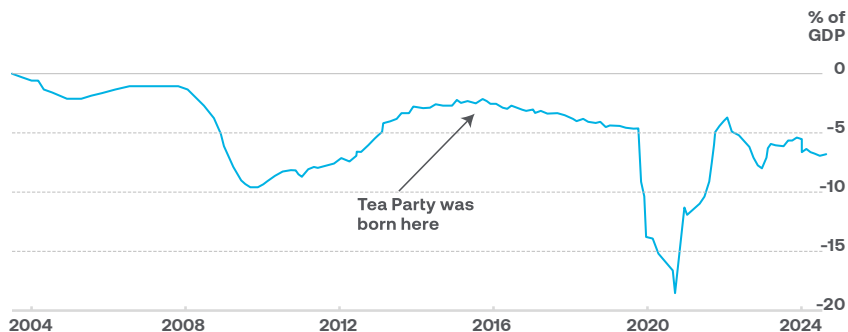
4. Subjective Probabilities for US Assets Under Four Potential Scenarios

Source: Insigneo



5. US Fiscal Deficit Not Poised to Grow

US: Federal Budget Deficit



Source: BEA; US Department of the Treasury; BCA; Macrobond

tantly, this represents a surprising downshift in US levels of spending, and it could eventually lead to lower deficits over the next five years. For now, it seems that the day of reckoning for the US government has been delayed. That day may yet arrive, but it will be the bond vigilantes that impose austerity on the US as there is no domestic political will right now from either party.

Is the tariff era over? Our answer is both “no” and “yes.” No, because tariffs are not going anywhere, and we are modeling a 12.5% effective tariff rate in the US for the near future. As with the last administration, tariffs will outlast Trump’s time in office. But as far as being market-relevant news? Yes, that time has passed, in our opinion, because policy has already changed course. Just last quarter, we predicted that within 6 to 12 months markets would yawn at the word “tariff.” Today, the tariff tantrum has given way to tariff tedium. What changed? In a word, reality. It turns out that Trump’s preferences are one thing, but geopolitical and economic constraints are another. We have been reminding clients to focus on those constraints, not the preferences. Global supply chains and alliances exert a powerful force on policy. No matter his preferences, Trump is bound by these constraints.

Nevertheless, inflationary pressures remain a critical area of concern. The recent trade disputes have in-

terrupted the prior trajectory of declining core inflation. Although labor market dynamics indicate moderated wage growth potential (limiting the risk of a sustained wage-price spiral), inflation expectations remain elevated, maintaining some upward pressure on prices. The stagflationary impulse from tariffs could intensify, potentially constraining consumer spending more significantly than expected.

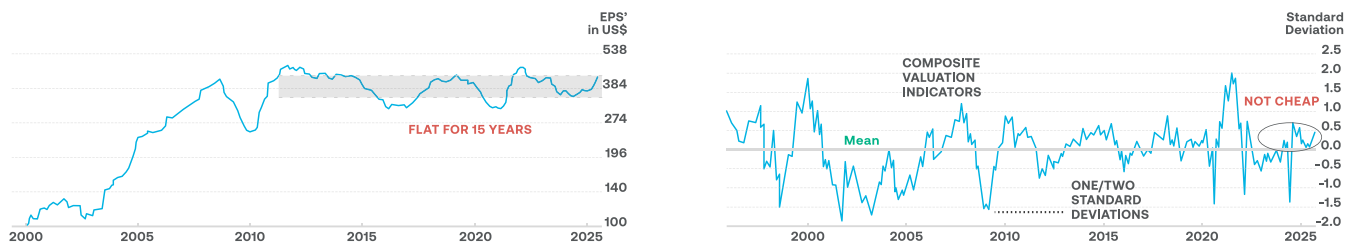
Overall, while we acknowledge substantial near-term headwinds from trade policy and inflationary pressures, the balance of evidence suggests sufficient economic resilience to avoid recession, driven by supportive fiscal measures and resilient personal incomes.

Market Forecasts

Our market forecasts reflect our cautious yet constructive macroeconomic stance. For U.S. equities, we reiterate a year-end target range for the S&P 500 of between 6,500 and 6,700. This forecast acknowledges potential near-term volatility stemming from tariff-related uncertainties and geopolitical events, yet it anticipates supportive economic fundamentals to underpin equity markets broadly.

In fixed income markets, we anticipate a sequence of

6. EM Equities: EPS Growth Has Been Flat for 15 Years & Are Not Cheap



Source: BCA Research

easing actions totaling between 75 and 100 bps worth of rate cuts for the rest of the year, slightly more than what is currently discounted. Accordingly, we expect U.S. Treasury yields to decline modestly, with the 10-year yield projected at approximately 4.25% by year-end.

Regarding global equities ex-U.S., we foresee relative outperformance in European and emerging markets but would not get too excited beyond a catch-up trade. EM earnings' growth, which is the fundamental

driver of stocks over the long-term, has been essentially flat for 15 years and they are fairly valued. Within EM, we see particular upside potential in Latin American markets, buoyed by rapprochement with the US. We particularly like Argentina, Chile, Peru, and Mexico.

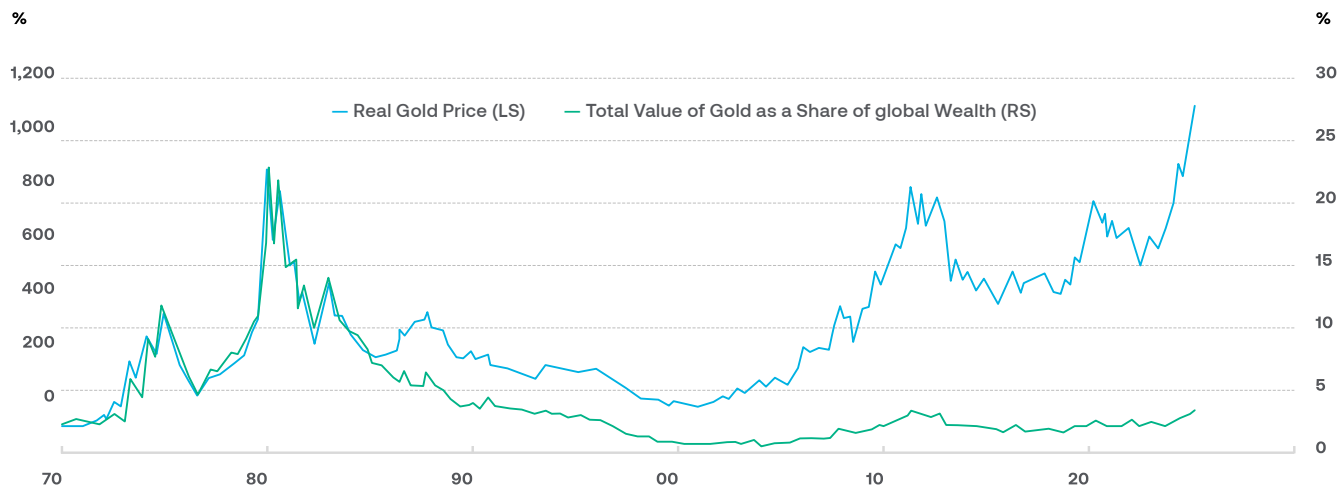
In commodity markets, we maintain our longstanding bullish call for gold. Despite gold's record-run, it still has much relative catch-up to other assets. Our big call is that the bullion hits USD 6,000/oz by the end of the decade as it remains the only true alterna-

7. Country Allocation for EM Equity Portfolios

Source: Insigneo Research

	OVERWEIGHT	NEUTRAL	UNDERWEIGHT
STOCKS	Mexico	Phillipines	Colombia
	Chile	Malaysia	Turkey
	Peru	Singapore	India
	Vietnam	Taiwan	Hong Kong SAR
	Thailand	Indonesia	South Africa
	Korea	Saudi Arabia	Brazil
	Chinese A-Shares	Egypt	Chinese Offshore Stocks
	Central Europe		
	Argentina		

8. Gold Prices Are Near Record Levels, But Likely Still Have Further to Go



Source: Credit Suisse; MSCI, Inc.; OECD; BCA

tive to the US Dollar for those wanting to diversify. We would also advise tactical long positions in silver and platinum, recognizing their potential to perform well amid geopolitical uncertainties and dollar depreciation. Conversely, we would continue to underweight oil.

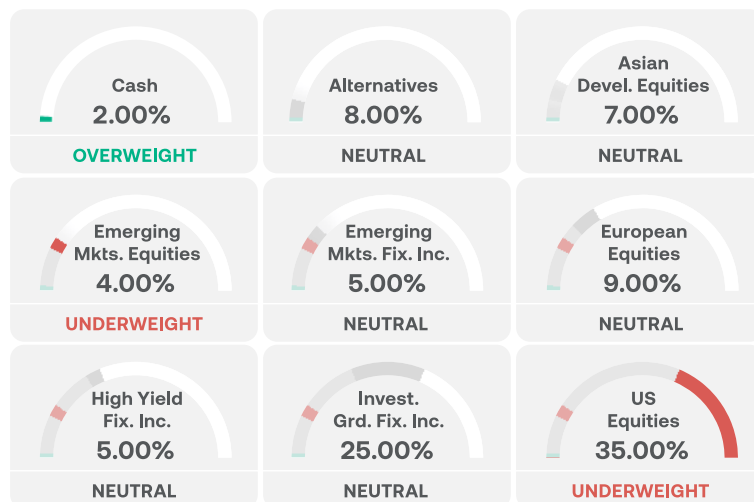
Overall, despite ongoing trade war risks and geopo-

litical tensions, financial markets appear poised for continued strength, benefiting from resilient economic fundamentals and accommodative monetary policies.

A final word on Bitcoin. Multipolarity and economic fragmentation ended decades of low and stable inflation. To maintain resilience, portfolios must evolve

9. Insigneo Investment Committee's Recommended Asset Allocation for Q3 2025.

Balanced Risk Profile



Source: Insigneo Investment Committee

and consider emerging assets, including digital ones. Historically seen as a safe hedge, bonds have struggled, with low returns and significant real drawdowns. As bonds falter, bitcoin, due to its scarcity and decentralized structure, offers a promising alternative. Despite volatility, its historical upward trend, network maturity, and growing adoption make it an attractive potential diversifier. Bitcoin's value as a non-sovereign asset could rise further if global monetary supply continues to expand. Ultimately, investors must reassess strategies and consider alternative assets, like bitcoin, in response to today's evolving economic realities. Our year-end target for bitcoin is USD 120,000.

Stablecoins: Next-Gen Money or Modern-Day Sham?

- Stablecoins, digital tokens pegged to fiat currencies like the U.S. dollar, have grown into a USD 250+ billion market, offering fast settlement and digital liquidity. However, their use in traditional commerce remains limited compared to mainstream payment networks.
- While stablecoins offer utility for liquidity management and digital asset trading, they carry higher counterparty and regulatory risks than traditional cash instruments. Their appeal to investors depends on use case, risk tolerance, and the evolving regulatory landscape.
- Stablecoins could become a formalized asset class if regulatory frameworks like the GENIUS Act are enacted. Until then, they remain a promising but risky sector, requiring careful due diligence and prudent allocation strategies.

Stablecoins, or digital tokens pegged to fiat currencies like the U.S. dollar, have grown from a niche cu-

riosity into a USD 250+ billion market. **By combining blockchain technology with reserve backing (typically cash or short-term U.S. Treasury bills), stablecoins aim to provide the price stability of traditional money alongside the settlement speed and accessibility of cryptocurrencies.** In this section, we will assess their viability as an asset class, and their effects on markets, including the demand for U.S. Treasuries. We will also evaluate opportunities and risks to help investors judge whether to allocate capital to this evolving sector.

Viability of Stablecoins as an Asset Class

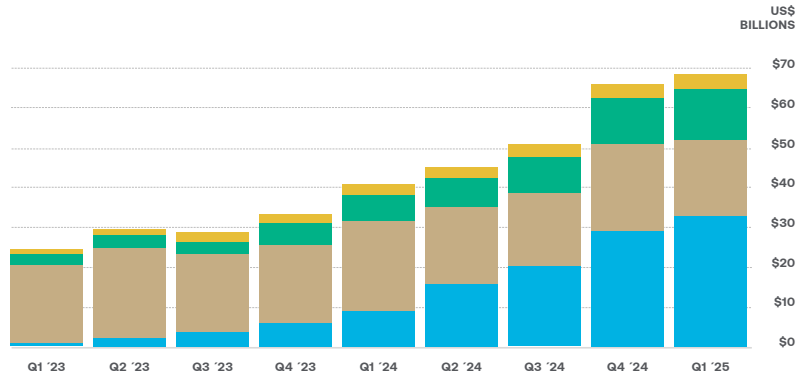
Stablecoins are designed to maintain a stable value (1-to-1 with a reference currency) and thus are not held for price appreciation, but rather for transactional utility and as a store of value in digital form. Their viability as an asset class depends on trust in their stability and redemption mechanism.

In 2025, only USD 70 billion of stablecoin transaction volume (a tiny fraction of the total) is tied to traditional commerce, such as consumer payments, business transactions, or remittances. By comparison, mainstream payment networks manage orders of magnitude more. For example, the ACH network processed USD 86 trillion in 2024, and Visa's card network handles around USD 10–15 trillion annually. This indicates that stablecoins have limited penetration into traditional economic activity so far.

One striking consequence of the stablecoin boom is the creation of a new class of large U.S. dollar money holders outside the traditional banking system. To maintain 1-to-1 pegs, major stablecoin issuers invest heavily in U.S. Treasuries and other short-term safe assets. This has effectively made some issuers significant participants in U.S. government debt markets. This additional source of demand for

10. Stablecoins Payments by Type, Annualized Run Rate

- B2C (business to consumer)
- P2P (peer to peer)
- B2B (business to business)
- Card (typicall debit/prepaid card linked to wallet)



Source: Artemis Analytics, February 2025

Treasuries can be viewed as a byproduct of global demand for dollar liquidity via stablecoins. Policymakers have noted that stablecoin flows can impact money markets.

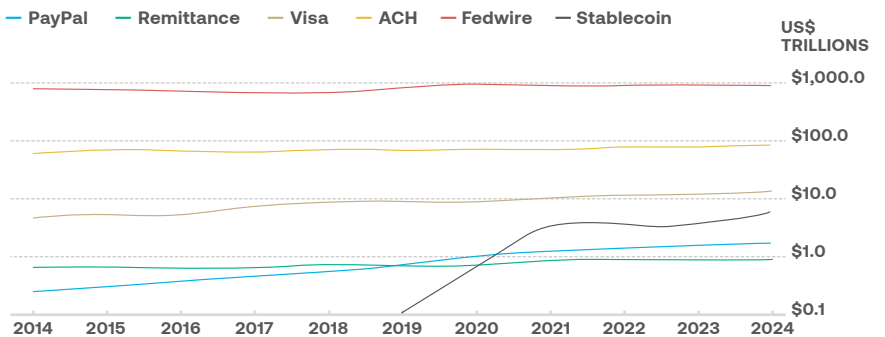
Should Investors Allocate to Stablecoins?

From an asset allocation perspective, it is important to recognize that investing in stablecoins is less about growth and more about liquidity management and yield pickup. In their current form, holding a stablecoin is roughly equivalent to holding a short-term USD cash instrument, one that can be nimbly deployed in digital markets but comes with higher counterparty risk than a bank deposit or Treasury bill. Sophisticated investors might consider using stablecoins tactically. For example, funds active in digital asset trading or arbitrage may keep a portion of cap-

ital in stablecoins to move quickly between exchanges. Some institutions are also exploring stablecoins for treasury operations to benefit from faster settlement. However, any allocation should be contingent on risk tolerance and regulatory clarity. Conservative institutional investors (such as money managers with fiduciary duties) have so far been cautious, given the lack of insurance or explicit guarantees in stablecoins.

The decision to allocate also depends on the use case. If an investor has no need for on-chain liquidity or exposure to crypto markets, the case for holding stablecoins is weak relative to traditional money-market funds. On the other hand, if one anticipates growth in the stablecoin sector, for instance, stablecoin issuers generating significant revenue from interest spreads, or the potential equity value of such firms, then one might invest indirectly (e.g., in the stock of a future stablecoin issuer or in related

11. Stablecoins Annual Transaction Volume



Source: Visa Onchain Analytics; Castly Island Ventures, 2024

infrastructure). That would be an investment in the sector's growth rather than in the coins themselves. Looking ahead, stablecoins appear likely to remain part of the global financial system, particularly as bridges between traditional money and digital markets. They could even grow into a more formalized asset class if regulatory regimes like the GENIUS Act are implemented, effectively turning stablecoins into a regulated form of digital narrow bank. This might increase confidence and make stablecoins more suitable for mainstream investment (like how money market funds gained acceptance). Until then, investors should weigh the opportunity of greater efficiency and yield against the structural risks. We have witnessed many instruments that promise USD 1:1 liquidity without banking safeguards encountering

runs. Therefore, any capital allocated to stablecoins should be done with careful due diligence on the issuer, a keen eye on regulatory developments, and appropriate sizing relative to the potential risks.

In conclusion, stablecoins represent an innovative convergence of technology and finance, with the potential to form a new sector influencing payments and capital markets. They offer tangible benefits (fast global settlement, access to dollar assets, yield opportunities) that make them an intriguing tool for certain strategies. Yet, they also carry familiar financial stability risks and uncertainties that warrant a cautious approach. Investors should approach this sector as they would an emerging market. It is promising, but it requires prudent risk management. ■



Melissa Ochoa Cárdenas
Investment Strategist

Latam's Political Pendulum Swing – In the Lead-Up to the Elections

- Latin America has emerged as an investment alternative outside of the U.S. for its resilient performance and attractive returns, despite ongoing political and macroeconomic challenges.
- The upcoming presidential elections in Chile, Brazil, and Colombia are expected to reshape the region's political landscape, with right-leaning, market-friendly candidates gaining momentum amid widespread dissatisfaction with current administrations.
- Market performance in the first half of the year suggests growing optimism around a potential shift toward administrations that are friendlier to investors, with political risk expected to ease after the 2025–2026 electoral cycle.

In a year where US exceptionalism appears to be waning, investors are beginning to look to other regions for potential pockets of profit that have not been previously considered. Enter the current Latin American landscape where, **even if the usual political pain points remain, the region has exhibited resilience and attractive returns on the back of investors looking to diversify their portfolios.**

Aside from the diversification trade that is starting to gain momentum for the second half of the year, the political component needs to be closely monitored for the remainder of 2025 and into 2026, considering that several countries will hold presidential elections whose outcome will probably swing the political pendulum.

The first case we need to analyze is Chile, where the left's primaries took place on June 29. There, Jeanette Jara, a former labor minister, emerged as a winner with over 60% of the votes, with Carolina Tohá, former interior minister from the Boric administration, coming in second place.

What is notable from this tally is that, in stark contrast to the 2021 elections, voter participation was low, mainly due to waning support for the center-left alternative. On the other hand, when reviewing right-wing candidates, it is worth noting that José Antonio Kast is now displaying a larger advantage over Evelyn Matthei, whose voting intention has waned in recent weeks. This situation seems to underscore the current challenges faced by centrist candidates in garnering support around a credible narrative, against the backdrop of a country that is increasingly polarized.

Still, the market exhibited a muted reaction to Jara's victory – a sign that most investors are not considering a left-wing candidate as the most likely winner in the November 16 presidential and legislative elections. This view is underscored by the Cadem survey from June 29, which shows Kast with the

highest voting intention (24%), followed by Jara (16%). In runoff scenarios, the survey shows Kast as the winner against both Jara and Matthei, whereas Matthei would win against the remaining candidates. It is worth noting that the presidential runoff, if needed, would take place on December 14.

Turning to 2026, the key presidential elections in the region will take place in Peru, Colombia, and Brazil. Brazil will hold its presidential elections on October 4, with its runoff, if needed, on October 25. This election process will take place against a challenging macroeconomic backdrop of high inflation that is forcing the central bank to hike its monetary policy rate aggressively. The deteriorating fiscal situation is playing a significant role in driving monetary tightening. Even if the latest fiscal figures published by the Central Bank display a narrowing of Brazil's consolidated public sector, the country's near-term fiscal outlook remains daunting, with higher disbursements expected in the second half of 2025 that could add to Brazil's already high debt levels.

Even if the election is more than a year away, some surveys are starting to emerge that portray a statistical tie between current President Lula and ex-president Jair Bolsonaro. A projected tie is also forecast in a scenario between Lula and the former first lady Michelle Bolsonaro. When set against other right-leaning candidates, such as Tarcísio de Freitas, São Paulo's governor, and Eduardo Bolsonaro, Lula leads the voting intention in the first round. **There is still a high level of uncertainty surrounding the potential candidates, considering that President Lula has been facing several health issues, and ex-President Bolsonaro is legally barred from running for president, despite his firm intentions to do so.**

Colombia will hold its first round of presidential elections on May 31, with a potential runoff scheduled for June. Colombia's macroeconomic landscape is also

quite challenging, with inflation proving stickier than previously expected, a more cautious central bank at a crossroads with the Petro administration, and mounting fiscal pressures that led to the suspension of the fiscal rule. All these concerns have recently resulted in a credit rating downgrade.

On the back of what has been deemed as poor management, investors are starting to price in a policy change for the upcoming administration as the best outcome for Colombian assets. Still, candidates for the presidential election need to be determined, either through a primary election or by the candidates reaching the necessary signature threshold to run as independents.

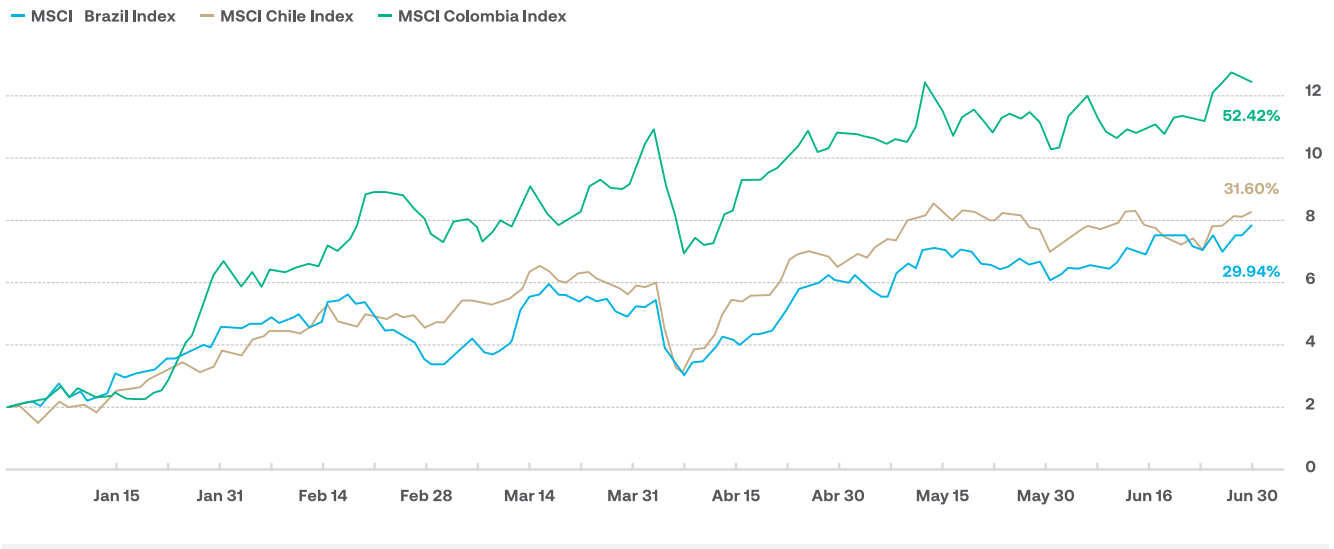
The trend of early positioning in Chilean, Brazilian, and Colombian assets to profit from the upcoming elections is an investment thesis that has been underpinned by the positive performance of these countries' different asset classes. As of the close of Q2, the Brazilian real was the best-performing Latam currency versus the dollar, with the Colombian and Chilean pesos ranking fourth and fifth, respectively. This currency appreciation has also translated into equity overperformance, with the MSCI USD indices of the three countries displaying total year-to-date returns above or nearly 30%.

In terms of fixed income, the positive performance of the three countries is not as pronounced as that of their equity markets. Still, the Bloomberg Emerging Markets Sovereign Total Return Indices for the three countries exhibit a positive performance: as of the close of Q2, the Brazilian index had a total return of 7.90%, the Chilean index had a 5.44% return, and Colombia exhibited a return of 4.07%.

Even if the electoral processes are just beginning, market performance seems to be setting the stage for the political pendulum to swing right. The cur-

12. Latam equity markets have overperformed in 2025

Source: Bloomberg. Data as of June 30, 2025



rent administrations of the three countries we mentioned face low approval ratings that, together with the implementation of looser, less responsible fiscal policy, do not bode well for the investment climate. If the markets are correct and right-leaning, more market-friendly administrations are to take office after the upcoming presidential elections, there would be more room for outperformance as political risks dissipate. ■



Mauricio Viaud

Senior Investment Strategist
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Latin America's Fintech Industry: Trends and Publicly Traded Players

- Latin America's fintech sector has surged, with startups growing 340% between 2017 and 2023, fueled by the region's "double leapfrogging" from limited traditional infrastructure directly into mobile and digital financial services.
- Once largely unbanked, nearly 80% of Latin Americans now have access to financial accounts, thanks to fintech solutions focused on payments, loans, and digital banking.
- Brazil leads the fintech boom with major players like Nu Bank, Stone, and PagSeguro, while companies like DLocal and Mercado Libre are expanding rapidly. With the fintech industry poised for continued growth, new entrants are racing to capture market share.

Decades ago, Latin America was not a region that would have first come to mind when thinking of high-tech leadership. Now, the region is flourishing with technological opportunities, standing as a powerhouse in one industry in particular: Financial Technology, or Fintech

The Inter-American Development Bank (IADB) estimates that between 2017 and 2023, the number of fintech startups in Latin America grew by an astonishing 340%, more than tripling in a mere six years. What led to such an extraordinary level of growth? **Simply put, necessity converged with innovation.** Like many regions in the developing world, Latin America experienced what is known as "technological leapfrogging" when an economy effectively skips over an intermediate technology, moving directly from a world of low technology to a high-tech one. **Latin America experienced what could be considered a "double leapfrog", jumping from a lack of telephone services, directly into mobile phones, as well as moving from limited banking services, directly into mobile banking.**

As much of the population in the region remained unbanked just a decade ago, innovation and technology came together to address an unmet need. **It is estimated that before 2017, approximately 45% of adults in Latin America found themselves unbanked. According to a study by Mastercard, just eight years later, nearly 80% of Latin Americans now have access to a financial account or a debit card.** With the majority of fintech services centered around payments, loans, credit, and digital banking services, several differentiated companies, sometimes tailored to individual countries and demographics, emerged. A study led by the IADB showed that in 2023, the number of fintech startups in the region exceeded 3,000. Although many of these companies remain as relatively small, privately-owned entities, there is a handful of publicly traded companies that

have become leaders in Latin America's burgeoning fintech industry.

— “According to a study by Mastercard...nearly 80% of Latin Americans now have access to a financial account or a debit card.”

As the leader in the region's financial industry, Brazil holds the largest number of fintech companies in Latin America. As a result, it is no surprise that some of the region's largest and fastest growing players reside in this country. With close to 90 million customers across the region, Nu Bank, for example, is undoubtedly the largest purely fintech company in Latin America. With services ranging from credit cards and loans to digital banking, this company arguably has the widest reach in the regional industry. However, Brazil's Stone and PagSeguro have emerged as some of the country's, if not the region's, fastest growing payment service companies. However, Uruguayan-based payment processor, DLocal is quickly catching up, as it is looking to expand not just in Latam, but in other developing markets around the world. Lastly, a retail company that has taken the Latam fintech industry by surprise is Mercado Libre. A company that started out as a leader in e-com-

merce in the region, now sees over 40% of its revenues stemming from fintech services. Through proprietary platforms like Mercado Pago, Mercado Libre's rapidly growing fintech offerings range from providing loans and credit cards, to facilitating payment services. Needless to say, many other traditional banking institutions across the region are quickly integrating their financial offerings into technology platforms to capture a piece of this growing industry. With expectations that the region's fintech market will grow from USD 13bn in 2024 to close to USD 50bn by 2033, we are likely to see many new entrants into this space in the future.

While You Were Looking Away, AI Kept Going...

- While markets were preoccupied with U.S. tariff policies, artificial intelligence—particularly in training, inferencing, and generative capabilities—continued to advance rapidly, shifting from model development to real-world applications across industries.
- The evolution of AI has triggered massive capital expenditures, especially by tech giants like Google and Microsoft, not only in computing infrastructure but also in energy consumption.
- AI is entering a new phase with Agentic AI, capable of autonomous decision-making. This has intensified competition in the hardware space, with companies like AMD and Broadcom challenging Nvidia's dominance, while hyperscalers develop custom chips to support increasingly complex AI workloads.

They say that innovation does not wait for anyone, apparently not even for the President of the United

States. Over the first half of the year, markets have been myopically focused on the President's tariff wars and their effects on the U.S. and global economies. However, technological innovation, mainly in the form of artificial intelligence, remained unphased. Shifting our focus away from tariffs and back to AI, we explore some of the changing dynamics that evolved over the first half of the year, while the market was looking the other way...

When it comes to AI, the terms “training” and “inferencing” are often used. As a refresher, training involves teaching AI models what to do, mostly through repetition, while inferencing involves having those models make predictions based on what they learned. Think about “training” as teaching a young child basic math skills using multiple practice problems. Now picture that same child, now in college, using those skills learned through repetition, to make predictions and solve complex problems. That is “inferencing”. **It can take years of learning before a human can successfully begin making inferences based on learned knowledge, let alone apply it to problem solving. In the world of AI, this can take days or even hours.** As a result, it should come as no surprise that, before markets became laser-focused on tariffs earlier this year, most of the talk on AI had revolved around training Large Language Models (LLMs) like ChatGPT and DeepSeek. However, if investors were to shift their focus back towards AI, they would now see that many of these models they last saw in their training phases are quickly evolving into advanced inferencing technologies, with applications potentially reaching across multiple industries.

As if the leap from training to inference was not enough, investors are also being faced with the beginning of a boom in Generative AI. Think of Generative AI as using Artificial Intelligence to create or “generate” things. Going back to the analogy of the

evolution of AI and that of a child, the same child who we last saw learning new skills through training has not only evolved to making predictions and solving problems through inferencing, but it is also now actually creating things. Granted what AI is currently creating, mostly pictures and videos, can be seen as rather basic, but based on how quickly the technology is evolving, it is easy to imagine its potential over time. As seen in Graph 13 below, **Bloomberg Intelligence estimates that in less than ten years, the Generative AI market could grow by close to 40% to USD1.6tn, comprising approximately 15% of all technology spending over that period. If we think about it, USD 1.6 tn is higher than the GDPs of all but the top 15 countries in the world.**

Interestingly, the path of AI's evolution through training, inferencing, and generation is not exhaustive, but in a way, regenerative. In other words, once the training phase is done, it does not mean that it will not be revisited again. The faster and more powerful the evolution of inferencing and generation becomes, the more rigorous the training will need to be. A case in point is the large amounts of capex being spent on creating the infrastructure needed to support the evolution of AI, increasing training capacity in the short-term, but improving various forms of AI in the long term.

Before the advent of DeepSeek, companies such as Amazon, Microsoft, Meta, and Google, also known as the “hyperscalers”, were developing and training their own LLM models, albeit at their own pace. However, DeepSeek's open architecture framework, coupled with its relatively low production costs, seemed to provide the motivation that hyperscalers needed to monetize their models and AI platforms. **As a result, there has been an increased push this year for companies like Meta to monetize models such as LLaMA, at the same time pulling forward the integration of the model's inferencing and generation**

capabilities. This push is also leading to high levels of capital expenditure from the hyperscalers, a trend that is only expected to grow stronger. According to a recent report by Bloomberg Intelligence, capital spending by hyperscalers could grow as much as 13% annually through 2032, potentially surpassing USD 2tn in that timeframe. In fact, during their last quarterly earnings reports, many of the hyperscalers stated that they are seeing demand for AI increasing at breakneck speeds, a pace that is only being held back by the limited amount of infrastructure, like servers, necessary to support this demand.

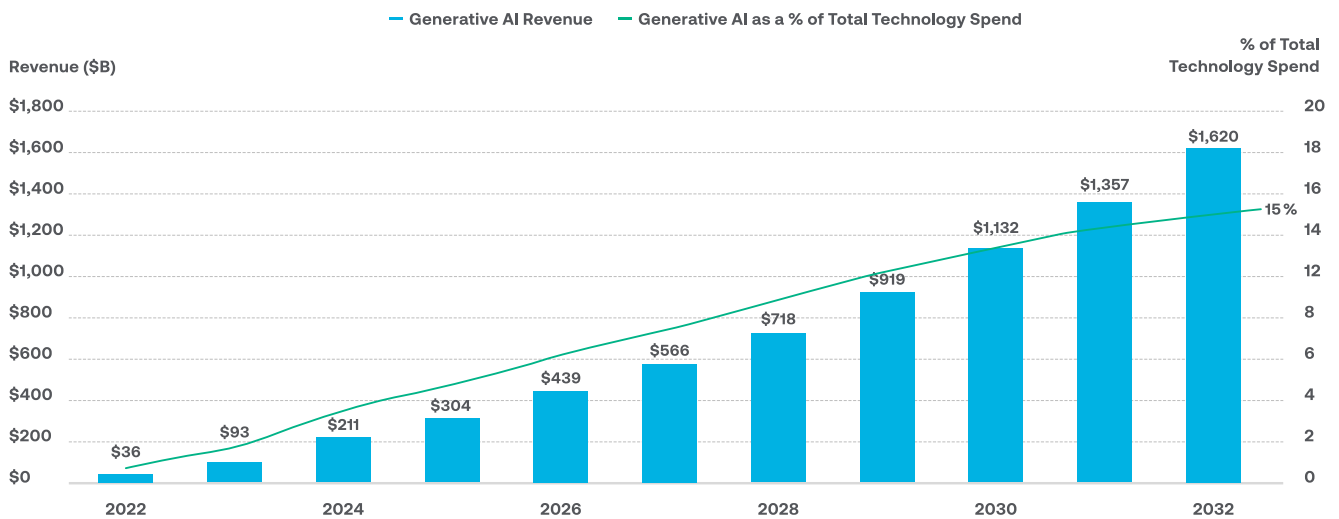
The increase in expenditure has not only been limited to increased spending on servers, but also on the infrastructure needed to power them. As a result, this past quarter saw a growing number of electric power generation companies such as Constellation Energy, Vistra Energy, and Dominion Energy attempting to sell power directly to the hyperscalers to feed their growing army of servers. In fact, in its 2025 Sustainability Report, Google recently announced that it saw its electricity demand increase

by nearly 30% last year, closely matching Microsoft’s demand growth metrics. However, a recent report by Barclays highlighted that the demand for AI services saw a meaningful inflection point in March of this year, likely propelled higher by the increased use of inferencing analytics, an increase that is yet to be reflected in power demand usage numbers. This year’s metrics are bolstering the case that power consumption and infrastructure spending will only continue to increase.

Software and infrastructure are not the only two industries that have seen AI-induced changes this year; hardware has not been spared. Nvidia, the creator of the original building blocks needed for the proliferation of artificial intelligence, is seeing increased competition for its high-end chips. Companies such as Broadcom and AMD are looking to provide cheaper yet efficient alternatives to Nvidia’s ultra-fast GPUs. After all, not everyone needs a Ferrari, sometimes a Toyota can do just fine. At the same time, Microsoft and Google are looking to create their own, in-house versions of high-end chips. Nvidia has

13. Generative AI Spending

Source: eMarketer, IDC, Bloomberg Intelligence. Data as of November, 2024



responded in turn, taking things up a notch by focusing on producing super-clusters of chips needed to run the most powerful applications of AI, such as Agentic AI, which relies on the combination of inferencing and Generative Artificial Intelligence.

Think of Agentic AI as the newest evolution of the proverbial AI child, going from learning, to predicting, to creating, to now being able to make its own decision and give advice. The child that we were just training to learn basic skills is now giving us advice. In the world of parenting, it is often said that children grow up in the blink of an eye. In the world of AI, this is not far from the truth as well. ■

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