



Market Commentary  
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English Version

# Latam Keeps Shining – Despite Itself

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## Latam Keeps Shining – Despite Itself

Latin America enters 2026 with renewed investor interest supported by a right-leaning political shift, resilient macro data, and monetary credibility, prompting a re-assessment of the region's opportunity set across asset classes.

In fixed income, USD-denominated Latam debt has outperformed broader EM since late 2023, while local-currency sovereign bonds stand out for their significantly higher real yields relative to U.S. Treasuries; still, fiscal sustainability remains a key differentiator across countries.

Equity markets continue to benefit from strong global inflows, favorable domestic political dynamics, easing cycles, and robust demand for commodities tied to electrification and AI trends, with valuations still appearing attractive relative to history.

Most regional currencies remain supported by high carry, improved political sentiment, and a softer

U.S. dollar, although country-specific elections, growth divergences, and idiosyncratic policy choices introduce meaningful dispersion in FX outlooks.

2026 is proving to be a year where diversification and resource allocation outside of typical narratives have proven to be profitable alternatives for the informed investor. Hence, we decided to revisit Latin America – a region that could be regaining its shine, to evaluate how to best position in the region for the upcoming year.

One cannot analyze Latam without considering the political backdrop. **Latin America is a region where the political pendulum swings markedly, influencing the investment climate.** Recently, it has swung to the right. In turn, this has warmed investors to the region and attracted capital inflows. The region has demonstrated resilient economic activity, benign inflation figures, and sound monetary policy decisions. With additional elections taking place in 2026, investors will have to be on the lookout for the results and what changes the incoming administrations may imply for their investments. Having set the stage, let us now review the region through the lens of the different asset classes.

**Graph 1: Latam Fixed Income has Outperformed World and Emerging Markets Fixed Income Since 2023**



**Fixed Income – It’s a Matter of Perspective**

Since the tail end of 2023, the first full year after most countries in the region began hiking monetary policy rates, Latin American fixed income has outperformed the full emerging markets complex, as well as fixed income assets in general (see Graph 1).

This outperformance corresponds to USD-denominated debt; however, mindful of recent dollar weakness, we would be remiss if we did not consider the local backdrop. When comparing the 10-year bonds of different Latam countries in terms of real rates, it is clear why the appetite for sovereign debt denominated in local currency has been robust in 2026, and why it could become a prevailing narrative. **Latin American sovereign debt in local currency (LCL) terms, could prove a more attractive investment opportunity when compared to the corresponding U.S. Treasury:** with data as of January 30, 2026, real rates are at least 250bps higher than the one from the U.S. Treasury bond (see table).

If inflation continues to come down, which should be the case in most Latin American economies, real rates would be even more attractive in local currency terms, and investing in sovereign debt would serve as an efficient diversification strategy within the fixed income realm. Still, the situation merits a word of caution: when choosing among the different economies, investors need to consider each country’s fiscal backdrop, and the government’s ability to face challenging situations in the form of larger fiscal deficits and/or increasing debt/GDP ratios. Ultimately, these concerns may dictate if investing in local Latam sovereign debt is a good investment strategy in the long run.

“Latin America is a region where the political pendulum swings markedly, influencing the investment climate.”

Country	10yr Bond (LCL)	Latest CPI (YoY)	Real Rate - 10yr (LCL)
Brazil	13.59%	4.26%	8.94%
Chile	5.34%	3.50%	1.78%
Colombia	12.39%	5.10%	6.94%
Mexico	8.86%	3.69%	4.99%
Peru	5.80%	1.70%	4.03%
United States	4.24%	2.70%	1.50%

Source: Bloomberg, Insigneo.  
Data as of January 30, 2026

### Equities: A Continuation of the Perfect Storm?

Latin American equity markets have had one of the strongest starts to the year in a long time. In the past month alone, the MSCI Emerging Markets Latam Equity Index rose by over 15%, and that is after rising by more than 50% in 2025. Strong moves in Brazil and Mexico pushed the region higher, which makes sense, given the fact that as of last month, both countries made up approximately 85% of the index. Given the preponderance of the Financials and Materials sectors in these two countries, it is no surprise that these two sectors saw the most significant appreciation in the region last year. **The impetus behind the appreciation of Latin American equity markets has been driven by a perfect storm of several factors, some global and some regional. We believe that many of these factors will continue to be in play this year.**

From a global perspective, we have seen a large amount of funds flow out of U.S. equity markets into global markets, as investors sought to increase their exposure to other regions of the world, following years of U.S. outperformance. According to data compiled by J.P. Morgan, 2025 saw net subscriptions into emerging market-oriented ETFs increase by more than two times the previous year's average. Out of these markets, Brazil was the market with the single largest level of inflows. Fund flows out of the U.S. and

into the rest of the world are likely to continue this year, as investors continue to reduce concentrated positions in U.S. markets and seek global diversification. We believe that region-specific factors will continue to make Latin American equity markets a preferred destination for global investors in 2026.

Within the region, as we mentioned before, the political pendulum continues to swing to the right. This dynamic is creating an environment that could entail an increased level of market-friendly policies and reforms across many Latin American countries, something that is already starting to be seen in countries like Argentina. Presidential elections in Brazil, Colombia, and Peru will be closely watched events this year, to gauge the continuity in the political realignment to the right.

Another dynamic in play is the fact that many countries in the region are entering monetary easing cycles, a macroeconomic environment that has historically boded well for equities. Brazil, which is expected to reduce interest rates soon, could see interest rate sensitive sectors such as Financials, Industrials, Utilities, and Materials benefit from potentially lower rates. In fact, several Latin American equity markets are likely to continue to see benefits at the sector level. As we know, many economies in the region are highly dependent on the export of commodities to bolster their coffers. Growth in artificial intelligence, coupled with increased electrification needs, has driven prices of

commodities such as copper and lithium higher. Along with a relatively weaker U.S. Dollar, the region is benefiting from a significant increase in demand for its highly sought after commodities, helping equity markets in Brazil, Mexico, Argentina, Chile, and Peru.

Lastly, relative valuations, measured by forward P/E ratios, continue to appear attractive for the region in general. Graph 2 shows the relative valuations of Latin American equity markets over the past four years. We can see that after remaining largely stagnant for several years, the trajectory for many of these markets' valuations has begun to inflect higher over the past year, something that we believe will continue in 2026, especially coming off historical lows. To this point, equity markets such as Brazil and Mexico, both which moved higher in 2025, continue to exhibit valuations that remain below their respective 10-year averages.

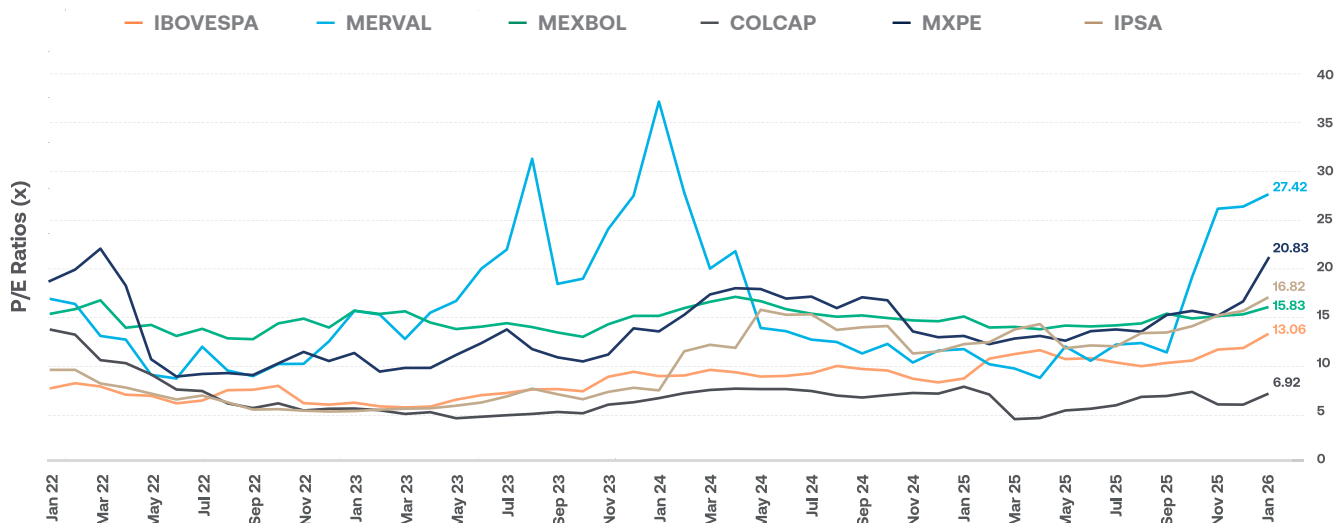
The convergence of factors that drove Latin American equity markets higher in 2025 is unusual. The region

sometimes benefits from one or two of the factors explored above, but having many of these come together at once is not the norm. **We believe that this confluence will likely continue in the year ahead, leading to the continuation of the perfect storm for Latin American equities in 2026, propelling their march higher.**

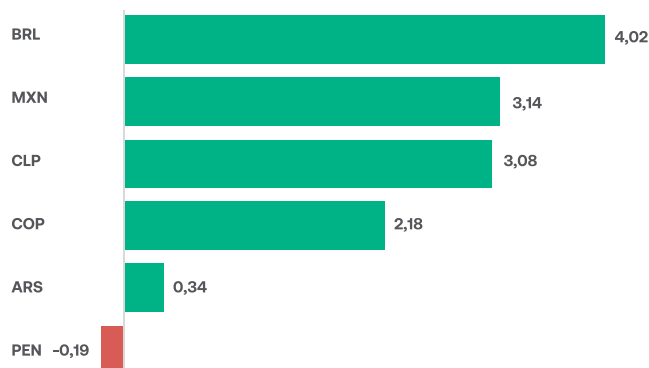
“The impetus behind the appreciation of Latin American equity markets has been driven by a perfect storm of several factors, some global and some regional. We believe that many of these factors will continue to be in play this year.”

**Graph 2- Relative Valuations of the Major Latam Equity Markets Over the Past Four Years**

Source: Bloomberg, Insigneo.  
Data as of January 30, 2026



**Graph 3: Latin American Currency Performance Compared to USD — January 2026**



Source: Insigneo, Bloomberg as of January 30, 2026

**FX – Between Politicians and Carry Trade**

After gaining more than 10% on average in 2025, Latin American currencies have started 2026 on similarly strong footing. As of January 30, 2026, major Lat-am FX are up about 2.1% on average (see Graph 3). While each currency has its own domestic story, the region’s strength mostly reflects four shared drivers: commodity prices, interest rates that keep carry-trades attractive, US dollar strength/weakness, and political stability.

Even though Latam FX often moves as a group, each country faces its own challenges. Still, carry-trades remain key drivers, as high rates continue to attract yield-seeking investors. The idea is simple: borrow in a low-rate currency and invest in a higher-yielding one, earning the rate gap if FX moves do not erode returns. Brazil and Colombia, with rates at 15% and 10.25%, respectively, offer a sizable pickup versus the US (3.50–3.75%).

Politics is also playing a major role. The region’s recent non-conformity swing has brought more market-friendly governments into power, improving sentiment in places like Argentina, or supporting Chile’s peso after December’s election. With presidential elections approaching in Peru, Colombia, and Brazil,

politics will remain central to the FX outlook: markets expect further pro-market shifts in Peru and Colombia, while Lula remains favored in Brazil, which could keep the Real relatively stable.

Finally, a softer dollar has also contributed to the trend. Stronger relative growth outside the US, rising policy uncertainty, limited upside from further Fed rate hikes, and equity flows rotating into emerging markets have all contributed to a more favorable backdrop for Latam currencies.

“While each currency has its own domestic story, the region’s strength mostly reflects four shared drivers: commodity prices, interest rates that keep carry-trades attractive, US dollar strength/weakness, and political stability.”

With this in mind, let's take a closer look at each currency below.

### **Brazil:**

Brazil's central bank held rates at 15% but hinted at a possible cut in March. Even so, **carry remains attractive for BRL.**

With elections looming in October 2026, Lula leads the polls, helping limit typical FX volatility.

- Last December, Bolsonaro's endorsement of his son Flávio triggered a 5% sell-off; YTD gains partly reflect a rebound from that move.

### **Mexico:**

MXN has not faced a major idiosyncratic shock and is now trading more in line with other EM currencies.

Despite sizable rate cuts in 2025, the peso is benefiting from a lower tariff-related risk premium.

US growth will be key for 2026, as **Mexico's economy is slowing, with rising unemployment and weaker consumption.**

- GDP growth is expected to average 0.8% between 2025–26.

**The USMCA revision remains a key risk to watch,** as it could become a peso-specific catalyst.

### **Argentina:**

Argentina's central bank will now **let the FX band adjust monthly with inflation,** giving the peso more room to weaken and helping rebuild reserves.

The shift is still gradual rather than a one-off devaluation, so the peso is likely to stay near the upper band as competitiveness pressures persist.

### **Colombia:**

COP has faced several idiosyncratic drivers, including

- USD 5bn debt issuance,
- Project to repatriate offshore investments held by pension funds into onshore ones,
- and a 100bps central bank hike that improved carry.

Despite recent outperformance, **the move looks more technical than fundamental,** with election-related volatility expected ahead of May's presidential race.

JPM analysts estimate the currency is about 4% overvalued versus fundamentals.

### **Chile:**

CLP has a positive backdrop, supported by strong terms of trade from **high copper prices and improved sentiment** after the December 2025 election.

With rates at 4.5%, the central bank remains dovish as inflation is expected to ease.

### **Peru:**

PEN ended 2025 at its strongest since 2020, up 11–12%, supported by a current account surplus, strong metals prices, and foreign bond inflows.

The central bank has bought ~USD 3bn since November 2025, helping slow appreciation as reserves remain ample.

With elections in April, political risks remain relevant. Past instability, such as impeachments, has driven 4–5% PEN underperformance versus peers.

#### **Uruguay:**

The CBU cut rates by 100bps to 6.5%, partly in response to peso appreciation, using FX as a key channel to manage inflation and financial conditions.

UYU is expected to remain fairly stable and withstand further rate cuts, supported by a benign

emerging market FX backdrop and the central bank's willingness to intervene if needed.

Latin America, a region often mired in political or economic turmoil, may be turning the corner for the better. If it can successfully achieve this feat, the benefits to its economies and local markets could be consequentially positive and potentially long-lasting. All it has to do is stay on course and, most importantly, stay out of its own way. ■



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# House Views Matrix

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

<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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