

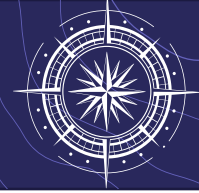
The LATAM Potential in Emerging Markets

Politics – you might be surprised to hear us praise two left-leaning leaders, and praise might be too strong a word, but the regimes of AMLO (Mexico) and Lula (Brazil), have been more positive than expectations. Perhaps this is more an indication of the institutional improvements made in both Latin America's largest economies in recent years. AMLO followed a sensible path during covid, and, by and large, has not upset the apple cart too much in his nearly completed time in office. Continuity looks likely from his expected successor. Lula's second stint has seen fiscal responsibility strengthened and a new, simplified tax regime proposed.

Geopolitics – In the current global environment South America is at least a neutral, if not a friendly place to do business for the US in particular. Lula and others might court Chinese investment and sell them their commodities but, financially, ties are much stronger to the US. Mexico stands alone as the world's leading beneficiary of the US/China tensions and the nearshoring trend. It is the recipient of an avalanche of investment from companies all over the world, including both the US and China, wishing to export to the US. The result is falling unemployment, rising incomes and a buoyant consumer.

Economic Policy – The wave of inflation unleashed on the world by the Fed and others washed up on Latin shores with a vengeance. However, this was met by a strong reaction from most central banks and local rates were hiked aggressively. Brazil's Selic rate rose from 2% to 13.75% in less than 2 years. Mexico's response was similar. While this was very hard on the local economies, inflation quickly subsided, and their respective currencies remained stable and even strengthened. The good news is that this process has now reversed and rates are steadily falling, allowing real incomes to rise again, and recovery to take hold.

Valuations – Across our watchlist and Latin American portfolio, valuations look reasonable with typically mid-teens PEs and high teens or more growth rates. Given the picture painted above, namely that structural improvements are ongoing, and a cyclical recovery which might well exceed expectations if we are right on inflation, then there is possible upside to these growth forecasts. This is not in the price today.



Biography

Rob Brewis | Investment Manager



Rob, who joined Aubrey in 2014, is a Director and Fund Manager of the GEMs strategy.

An engineering graduate from Cambridge University, Rob began his career in 1988 at Thornton Management in London. Then he spent ten years in Hong Kong as an Asian fund manager with Credit Lyonnais International Asset Management. This company was later bought by Nicholas Applegate and then Colonial First State, where Rob ran the North Asian investment team as well as managing the Asian Special Situations Fund and a number of single country funds investing in India, Pakistan, Indonesia and Thailand.

He then went on to co-found emerging markets investment boutique BDT Invest LLP in London in 2000. Whilst at BDT, Rob co-managed a number of emerging market portfolios as well as the BDT Asian and Oriental Focus Funds.

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