FLASH NOTE

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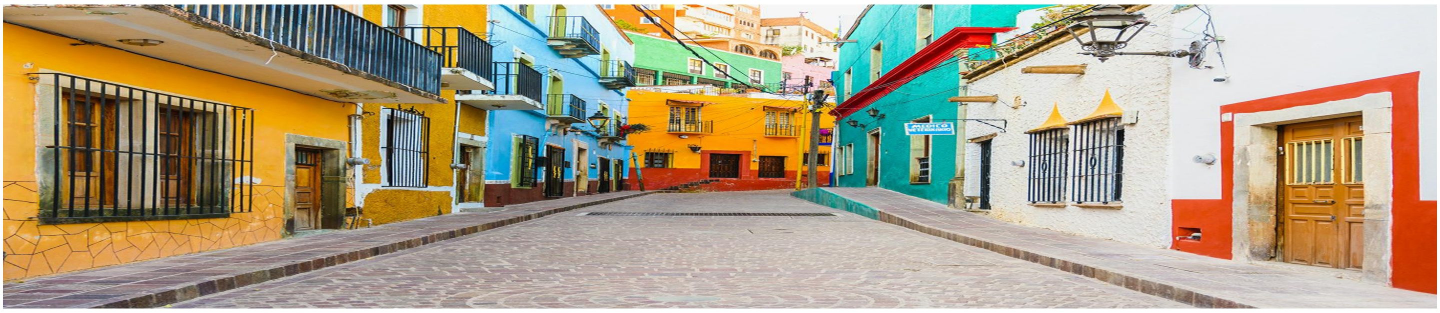

Emerging markets: a focus on Latin America

Chapter 2

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With double-digit bond yields and clear outperformance over other emerging equity markets in 2022[1], Latin American countries may merit investors' attention this year.

Last year was turbulent for all financial markets across the world, but it also allowed new opportunities to emerge, especially in emerging markets. In the previous chapter, we discovered Asian markets, **but some Latin American countries are also well placed to perform well.**

Latin America: a market rich in resources

As a major exporter of commodities, Latin America serves as a new resource for importer countries at a time when war is decimating Ukraine and freezing Russian operations. **The reopening of China,** a major importer and trading partner for the region, will also hugely benefit Latin American economic activities, for example in Chile or Brazil.

In parallel, political strains between China and the US are allowing other countries to return to the forefront. Coupled with the still present after-effects of the pandemic, these strains have led to a reorganisation of supply chains benefiting South American countries, especially Mexico.

Most central banks in these countries have also demonstrated their ability to **actively manage inflation.** While monetary tightening continues in developed countries, some Latin American economies are showing signs of slowing and will likely be among the first to launch a cycle of rate cuts, starting from today's very high levels.

In this supportive environment, and encouraged by better economic fundamentals and a recovery in the commodities cycle, the region can offer **attractive returns today in several asset classes** for investors with the flexibility to seize them. At Carmignac, we have identified two countries worthy of investors' attention, in our view.

Brazil's attractiveness

Brazil, the biggest market in Latin America, is a true economic powerhouse that has what it takes to capitalise on this new global geopolitical order. As a major exporter of soya, iron ore and oil, Brazil has hugely contributed to global consumption, and its growth in 2022 was partly driven by rising commodity prices. This trend has continued in 2023, although its growth outlook is impacted by the global economic slowdown.

Brazil is also set to benefit from the reopening of China, its biggest trading partner. The world's second-largest economy accounted for more than a third of Brazilian exports in 2021. **This fresh momentum could boost Brazilian equity markets, which offer attractive valuations today.**

Brazilian monetary tightening is also well underway. After inflation peaked at 12.1% in April 2021 – the highest level in almost 20 years – it fell back to 5.8% in December 2022[2]. Though higher than the central bank's target of 3.25%, Brazil may be one of the first countries to restore a more accommodative policy, while its policy rate currently stands at 13.75%, **offering particularly attractive yields for bond investors:**

- With 10-year yields in double digits, significantly higher than US debt,**Brazilian sovereign debt** offers very attractive real interest rates – among the highest in the world – along with a potential appreciation of its currency.
- As a major financial market in Latin America, Brazil also harbours some attractive credit opportunities, such as **B3, the Brazilian stock exchange.**

DID YOU KNOW?

As an expert in emerging debt since 2015, we created a Fund dedicated to this asset class in 2017, **Carmignac Portfolio EM Debt.**

Visit the Fund’s webpage

Mexico’s manufacturing advantage

The Mexican economy is forecast to grow by 1.7% in 2023[3], mainly driven by domestic consumption and trade with major partners, such as the US.

The drastic health policy imposed by the Chinese government in response to the Covid-19 crisis, together with the resulting supply chain pressures, have considerably impacted trade balances across the world. To allay these difficulties, the principal importer regions – Europe and, of course, the US - have turned to geographically closer countries to diversify their supply chains, a phenomenon known as ***nearshoring***. Europe is relocating its production in Eastern Europe, **while the US is massively repatriating its production lines to Mexico.**

Besides their geographical proximity, the two regions have strengthened their ties over the years. In 2020, the US was the biggest source of foreign direct investment (FDI) in Mexico, accounting for around 34%[4]. Trade agreements give Mexico preferential access to the North American market. These include the USMCA (United States-Mexico-Canada Agreement), guaranteeing free trade between these countries. In parallel, growing political strains between the US and China have only amplified the nearshoring phenomenon in Mexico's favour.

On the bond market front, although the Mexican central bank began raising interest rates later than other emerging countries, its policy rate stands today at 11%[5]. The general improvement in Mexico's fundamentals also make it an attractive issuer.

In these conditions, **attractive opportunities can be found in Mexican equity and bond markets** to capitalise on this momentum:

Within equity markets, the bank **Grupo Banorte** is benefiting from this growing *nearshoring* phenomenon and offers attractive growth prospects in a still under-penetrated market in Mexico.

Bond markets offer very attractive real yields, a consequence of the central bank's fight against inflation, and especially on local debt, which offers close to double-digit interest rates over ten years.

DID YOU KNOW?

Our **Carmignac Portfolio Emerging Patrimoine** fund is able to invest flexibly in all asset classes comprising the emerging investment universe: equities, bonds and currencies.

Visit the Fund's webpage

Besides the Brazilian and Mexican markets, other Latin American countries benefit from a supportive economic environment and produce the commodities required for global consumption. This is the case of Chile for example, the world's leading copper exporter and also a producer of lithium, both key resources for the energy transition.

Latin America is not the only continent to produce the commodities the world needs: discover next month the third and last article in the series on emerging markets to find out more about opportunities in the emerging region of Europe, Middle East and Africa.

Would you like to find out more about our sustainable approach to emerging markets?

Read the dedicated article

Contact us

[1] Source: Index factsheet, MSCI Emerging Markets Latin America Index (USD), at 28/02/2023 https://www.msci.com/documents/10199/5b537e9c-ab98-49e4-88b5-bf0aed926b9b

[2] Source: Ministry of Economy, Brazilian economic news, week of 5 to 12 January 2023.

[3] Source: IMF 2022

[4] Source: IMF

[5] Source: Banxico, February 2023

Carmignac Portfolio Emerging Patrimoine A EUR Acc

ISIN: LU0592698954

Recommended minimum investment horizon

Lower risk Higher risk

1	2	3*	4	5	6	7

Main risks of the Fund

EQUITY: The Fund may be affected by stock price variations, the scale of which is dependent on external factors, stock trading volumes or market capitalization.

INTEREST RATE: Interest rate risk results in a decline in the net asset value in the event of changes in interest rates.

CREDIT: Credit risk is the risk that the issuer may default.

EMERGING MARKETS: Operating conditions and supervision in "emerging" markets may deviate from the standards prevailing on the large international exchanges and have an impact on prices of listed instruments in which the Fund may invest.

The Fund presents a risk of loss of capital.

Carmignac Portfolio EM Debt A EUR Acc

ISIN: LU1623763221

Recommended minimum investment horizon

Lower risk Higher risk

1	2	3*	4	5	6	7

Main risks of the Fund

EMERGING MARKETS: Operating conditions and supervision in "emerging" markets may deviate from the standards prevailing on the large international exchanges and have an impact on prices of listed instruments in which the Fund may invest.

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In France, Luxembourg, Sweden: The risks, fees and ongoing charges are described in the KID (Key Information Document). The KID must be made available to the subscriber prior to subscription. The subscriber must read the KID. Investors may lose some or all their capital, as the capital in the funds are not guaranteed. The Funds present a risk of loss of capital. The Funds' prospectus, KIDs, NAV and annual reports are available at www.carmignac.com/en, or upon request to the Management.

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