

# BlackRock Latin American Investment Trust plc

## A decade of promise for long-term investing in Latin America

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It is a unique time for Latin America. Having emerged from a period of transition, it is now in a powerful position to take advantage of shifting geopolitics, of global demand for the precious natural resources it holds, and of its own technological and economic progress. Policymakers across the region are harnessing this opportunity through a series of economic, social and environmental reforms. We believe there is an exciting decade ahead for long-term investing in Latin American equities.

**Capital at risk.** The value of the investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount they originally invested.

### Shifting geopolitics and a new world order

The past few years have been characterised by increasingly fractious geopolitics across the globe, with Russia's invasion of Ukraine, rising tensions in the Middle East, and volatile US/China relations. Against this backdrop, Latin America has managed to engineer a neutral stance, maintaining diplomatic relationships with both sides.

Brazil, for example, has retained good diplomatic relationships with both the East and the West. The US and China are its two largest trading partners<sup>1</sup> and it also trades freely with countries across Europe and with India. It is part of the BRICS trading organisation, a powerful trading block that includes Russia, India, China and South Africa, but its trade with the US is still worth \$86 billion annually. Its ability to trade freely with each side is likely to improve the economy in Brazil in the next few years.

A similar picture has been seen in Mexico, which has become a key beneficiary of the re-engineering of supply chains across the globe with manufacturers establishing factories in Mexico. This allows them to export tariff-free into the US as part of the United States, Mexico, and Canada (USMCA) trade agreement signed in 2018.<sup>2</sup> Mexico is building a name for itself in high-end manufacturing, particularly in the auto and airplane sectors.<sup>3</sup>

One example of a global player setting up shop in Mexico is the Chinese furniture group, Man Wah, who has built a 2.5m square-foot, state-of-the-art facility in Northern Mexico.<sup>4</sup> The move is designed to help it expand into the North American market. The final product will be considered completely Mexican – allowing the Chinese firm to avoid the US tariffs and the restrictions imposed on Chinese goods.<sup>5</sup> It is one of many Chinese companies recognising this opportunity. We think the increase in FDI could be a possible driver for long-term growth in Mexico.



<sup>1</sup> Institute of Directors - Trade Profile Brazil - April 2024 <sup>2</sup> International Trade Administration - USMCA Home <sup>3</sup> HSBC Business insights - Mexico: an essential trade and manufacturing hub - July 2022 <sup>4</sup> Furniture Today - Man Wah expands manufacturing into Mexico - July 2022 <sup>5</sup> BBC - How Chinese firms are using Mexico as a backdoor to the US - April 2024



## Expanding economies across Latin America

When President Lula returned to power in Brazil at the start of 2023, he said reviving the country's global trade was a top priority for his first year in office. The country needed to move on from being an "eternal exporter of raw materials,"<sup>6</sup> he said. In this, he reflected a desire for progress seen across Latin America. The region has the potential to become a consumer, technology and sustainability powerhouse, and it is already making considerable progress.

Brazil, for example, is a global trailblazer in payment mechanisms. It can boast a better network than many of its developed market peers.<sup>7</sup> The government developed Pix in 2019, a state-backed instant transfer service.<sup>8</sup> It has been fully operational since 2020 and is credited with transforming day-to-day transactions in Brazil, and significantly broadening financial inclusion.

In a recent research paper, the World Economic Forum said: "The explosion of digital payments in Brazil has created an innovative financial ecosystem that works for ordinary people. This progress is the result of a combination of an overhaul in the payments regulatory framework, intensive use of technology, entrepreneurship and a focus on creating products that address the needs of Brazilian customers."<sup>9</sup> These payment systems have implications for the wider economy, reducing frictions and allowing free-flowing trade.

The retail sector has seen similar developments. Mexico is now one of the top five countries in the world in terms of the growth of ecommerce, following a dramatic acceleration during the pandemic.<sup>10</sup> It is predicted to grow to \$70.4 billion by 2027. Argentinian online shopping champion Mercado Libre now operates across 18 countries in the region, and has 100m unique users.<sup>11</sup>

This development has caught the eye of international retailers. In November 2022, Alibaba's logistics arm Cainiao announced it would open its Latin American headquarters in Sao Paulo, Brazil.<sup>12</sup> The group plans to expand its reach to 10 cities in Brazil for package and food delivery over the next three years. It will also build nine more distribution centres in seven states in Brazil.<sup>13</sup>

Technology is also a key pillar of Brazil's new industrial policy, with the government prioritising investment in areas such as biotechnology and chip development. It is early days, but the policy aims to stimulate productive and technological development, promote better jobs, attract investments, and increase international competitiveness. It is also focused on improving existing industries, such as agriculture, improving efficiency and productivity.<sup>14</sup> These initiatives should create growth opportunities across Latin America.

**6** Reuters - Lula promises to unite a divided Brazil, seek fair global trade - October 2022 **7** World Economist Forum - Brazilians are adopting digital payments faster than anyone else - May 2022 **8** FT - Brazil counts success with Pix payments tool - September 2023 **9** World Economist Forum - Brazilians are adopting digital payments faster than anyone else - May 2022 **10** International Trade Administration - Mexico ecommerce - November 2023 **11** Mercado Libre - About Us **12** CNBC - Alibaba's Cainiao opens Latin American headquarters in Brazil - November 2022 **13** Euromonitor - Latin America top consumer trends in 2024 - January 2024 **14** Forbes - Technology Takes Center Stage In Brazil's New Industrial Policy - January 2022

# Latin America's natural resources continue to benefit its economies

Latin America can still rely on its abundant natural resources. The region's economies have been benefiting from high commodity prices across the globe, including iron ore in Brazil, lithium and copper in Chile, gold in Ecuador, or oil and silver in Mexico. The region has vast resources – Chile produces around a quarter of the world's copper,<sup>15</sup> Brazil, a fifth of its iron ore.<sup>16</sup> The region is home to almost 20% of the world's oil reserves and more than 30% of its primary forests.<sup>17</sup>

This gives the region particular strategic importance today. Many of the resources held in Latin America are crucial for the world's transition to clean energy: copper is a crucial part of electrification; lithium for electric batteries; silver for solar panels. Many of these commodities are facing supply deficits over the coming years as demand increases.<sup>18,19</sup>

Other countries are competing to get their hands on these resources. Peru, for example, is about to open a \$3 billion megaport, designed as a new gateway to Asia. Funded partly by Chinese investment, it will offer a faster Pacific Ocean route to China for sea cargo from this part of Latin America.<sup>20</sup>

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<sup>15</sup> International Trade Administration - Country commercial guide: Chile Mining - December 2023 <sup>16</sup> Mining Technology - Data Insights: iron ore in Brazil - July 2023 <sup>17</sup> Cepal - Natural resources outlook in Latin America and the Caribbean - July 2023 <sup>18</sup> BNEF - Copper prices may jump 20% as supply deficit rises - October 2023 <sup>19</sup> Energy Policy - Factsheet: lithium supply in the energy transition - December 2023 <sup>20</sup> South China Morning Post - Peru megaport opens new Pacific trade route - September 2023

## Political reform across Latin America

Latin America has historically been associated with political and financial instability. Populist governments were prone to bouts of over-spending, while cronyism and corruption have also been a feature in some countries. Currency crises were commonplace, and Latin American citizens grew used to navigating periods of volatility.

However, these crises have become the exception rather than the rule as countries across the region have embraced fiscal discipline and sound economic management. In Brazil, for example, it had been feared that President Lula, elected on a populist mandate, would run fast and loose with the country's purse strings. Instead, he has appointed a prudent and respected academic, Fernando Haddad, who is working tirelessly to keep public finances in check.<sup>21</sup>

The region's central banks – now independent in most cases – have shown their strength in dealing with inflation. They started to raise rates in August 2021,<sup>22</sup> a full eight months before the Federal Reserve. Having dealt with inflationary pressures before, they proved more adept at addressing inflation before it escalated. This mature approach has allowed them to emerge more quickly, and the inflation rate comparison with the rest of the world is favourable. Interest rates are now starting to come down,<sup>23</sup> which we think will bode well for the economy as domestic activity should start to pick up.



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<sup>21</sup> Americas quarterly – Fernando Haddad: still the odd man out? - January 2024 <sup>22</sup> Trading Economics – Brazil interest rate - May 2024 <sup>23</sup> The Banker – Latin American central banks face stern test in 2024 - November 2023



## Changing environmental and social policies across Latin America

This careful stewardship does not just extend to financial policy. Increasingly, countries across Latin America are taking a more serious and responsible approach to the climate crisis than their developed market peers. Mexico's new president, Claudia Sheinbaum, is a former climate scientist and has been elected with a pledge to spend \$14 billion on clean energy projects.<sup>24</sup>

Brazil's Da Silva came to power with a pledge to deliver zero deforestation by 2030. The country has also updated its climate change commitments to the United Nations. In 2016, it proposed reducing emissions by 37% by 2025 and by 43% by 2030 (over 2005 levels).<sup>25</sup> It has extended its ambitions, pledging to cut emissions by 48% and 51% respectively. Brazil has subsequently made its debut in the sustainable government bond markets.<sup>26</sup>

There are signs that these commitments are starting to have a real-world effect. These actions saw the number of trees lost in tropical forests in Brazil and Colombia fall dramatically last year, according to the World Resources Institute. Researchers welcomed new leaders prioritising the environment, with tree losses in the Brazilian Amazon down by almost 40%.<sup>27</sup>

There are also developments in social policy across the region. In Chile, the Chile Solidario has provided a sound foundation for a national system of social protection.<sup>28</sup> At the start of this year, the Chilean Ministry of Finance launched a five-year 'social bond' in the international markets with the aim of financing new social programmes.<sup>29</sup> In Brazil, da Silva has developed a conditional cash transfer programme, Bolsa Familia, which has helped lift many families above the poverty line.<sup>30</sup>

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<sup>24</sup> The Guardian - Mexico's new president ran on climate goals. Will she follow through? - June 2024 <sup>25</sup> Nature - Politics and the environment collide in Brazil: Lula's first year back in office - December 2023 <sup>26</sup> World Bank - Brazil Sovereign Sustainable Bond: Financing a greener, more inclusive, and equitable economy - February 2024 <sup>27</sup> BBC - Climate change: Logging decline after political change in Brazil, Colombia - April 2024 <sup>28</sup> World Bank - Chile social protection - April 2014 <sup>29</sup> GFL - Chile places a new social bond - January 2024 <sup>30</sup> World Bank - Bolsa Familia

# Latin American equity markets

These developments are leading to increasingly attractive opportunities in Latin American equities, we believe. New companies are coming to market, adding depth and diversity and providing greater choice for investors in the region. For example, in Brazil there are more than 100 companies waiting to come to market via IPOs.<sup>31</sup> These companies are coming from a range of sectors, including infrastructure and technology.

This is happening at a time when Latin American markets have been largely overlooked by international investors. Latin America forms a diminishing share of the MSCI Emerging Market index,<sup>32</sup> having been overtaken by the dominant markets in Asia. There are signs that investors are starting to recognise the value on offer. The MSCI Latin America index has outpaced the wider emerging markets index over the past three years, delivering an annualised return of 4.55%, compared to a fall of 5.85% for the broader index.<sup>33</sup> Yet the dividend yield of Latin American companies remains higher.<sup>32</sup> This creates plenty of opportunities for active investing in Latin America.



31 White & Case - Turning the tide: Global IPOs look for a rebound in 2024 32 MSCI Emerging Markets - May 2024 33 MSCI Latin America - May 2024

# The BlackRock approach

We believe the best insights come from a deep understanding of the region. We frequently travel to the continent, visiting both the larger and the smaller countries in Latin America. For example, in the first half of 2024, we travelled to Argentina, Chile, Costa Rica, Ecuador, Mexico, Panama, Peru and Guyana. These extensive visits have allowed us to build an unparalleled network of economists, politicians, policymakers and journalists, alongside business leaders and academics. This network delivers a 360-degree view of economic and social policy, helping us build a comprehensive understanding of the macroeconomic cycles, political climates, and corporate dynamics.

This research allows us to identify investment opportunities that others may overlook, but also to manage the risks that inevitably come with investing in emerging markets. The close interaction with a broad spectrum of local entities—from corporate executives and government officials to community members—fuels a conviction in our investment choices that aligns with the evolving economic narrative of the region.

We meet companies regularly – those in which we invest, plus their competitors, suppliers and disruptors. Being on the ground gives us a more rounded perspective on their prospects.

At the BlackRock Latin American Investment Trust, we are excited by the opportunities emerging in Latin America – new technologies, new innovation and reform-minded governments. We think these remain largely overlooked by international and domestic investors, leaving them at cheap valuations compared to their own history and to developed markets. It is, in our view, a fantastic time to be an active investor in this exciting region.

**For more information on how to access the opportunities presented in Latin America, please visit [www.blackrock.com/uk/brla](http://www.blackrock.com/uk/brla)**

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**Capital at risk.** The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

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**Currency Risk:** The Fund invests in other currencies. Changes in exchange rates will therefore affect the value of the investment.

**Emerging Markets:** Emerging markets are generally more sensitive to economic and political conditions than developed markets. Other factors include greater 'Liquidity Risk', restrictions on investment or transfer of assets and failed/delayed delivery of securities or payments to the Fund.

**Gearing Risk:** Investment strategies, such as borrowing, used by the Trust can result in even larger losses suffered when the value of the underlying investments fall.

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