

# Our View On-The-Ground

## REGIONAL MARKET VIEWS

### **Stop Thinking About Commodities. Start Thinking About Structural Growth**

*Macroeconomic Stability and Structural Tailwinds in Latin America*

For decades, Latin America has been viewed by global investors as a wildcard region with immense natural wealth but plagued by political drama, inflation, and a boom-and-bust economy tied entirely to global commodity prices. Today, that old stereotype is outdated. Thanks to a combination of disciplined financial management, massive global shifts in manufacturing, and the world's desperate need for green energy, Latin America is experiencing a historic transformation.

#### **| The Macro Setup - Why the Economics Work in 2026**

**The Interest Rate Masterclass:** To understand Latin America's current strength, you have to look at how it handled the recent global inflation crisis. While the U.S. and Europe were slow to react to rising prices, Latin American central banks (in countries like Brazil and Mexico) remembered the painful hyperinflation of their past. They acted aggressively and early, raising interest rates aggressively before the rest of the world.

Because they took their medicine early, their inflation is now largely under control. This places Latin America in a highly advantageous position in 2026: while much of the developed world is still dealing with elevated rates, Latin American central banks are actively cutting their interest rates.

For businesses and consumers, this is the ultimate economic stimulant. Lower interest rates mean it is cheaper for companies to borrow money to build factories, and cheaper for consumers to get mortgages or auto loans. Furthermore, when interest rates on safe government bonds drop, local investors and pension funds shift capital out of savings and into the local stock market, driving up the value of Latin American companies.

**The Currency Advantage:** Historically, emerging markets get crushed when the U.S. dollar is strong. However, Latin America has bucked this trend. Because Latin American countries kept their interest rates high, they attracted foreign money seeking good returns, which kept their local currencies (such as the Brazilian real and Mexican peso) remarkably strong and stable.

Now, as the global cycle shifts toward a weaker U.S. dollar, Latin America is perfectly positioned to benefit. A weaker U.S. dollar has historically been a massive tailwind for emerging markets, making it easier for them to pay off dollar-denominated debts and making their exports more competitive.

## | Global Megatrends Fueling the Region

Latin America's current boom is not just a temporary spike in the price of soybeans or oil. It is anchored by two permanent, structural shifts in how the world operates.

**"Nearshoring" and the Rewiring of Global Trade:** The COVID-19 pandemic and rising political tensions between the U.S. and China taught American companies a hard lesson: you cannot rely on factories located halfway across the world. In response, corporations are aggressively relocating their supply chains closer to home.

Mexico is the undisputed champion of this trend. Sharing a massive land border with the U.S. and governed by the USMCA free trade agreement, Mexico has become the premier destination for relocated manufacturing. Billions of dollars are flowing into the country to build industrial parks, warehouses, and logistics networks. This isn't a temporary bump; building a factory takes years and ties a company to the region for decades.

**The Backbone of the Energy Transition and AI:** The global economy is currently undergoing two massive transitions: the shift to green energy (electric vehicles, wind, solar) and the explosion of artificial intelligence (which requires enormous, power-hungry data centers). Both of these transitions require unprecedented amounts of physical materials, specifically copper and lithium.

You cannot build a green grid or an AI data center without these minerals, and Latin America holds is one of the world's primary suppliers of these materials. Chile and Peru are among the largest global suppliers of copper and lithium. Because the demand for these materials is expected to remain sky-high for decades, these nations have a guaranteed, long-term stream of foreign investment and export revenue.

## | Breaking the China Habit and Focusing Inward

A major historical risk for Latin America has been "China dependency." For years, the region shipped massive amounts of raw materials to feed China's rapid industrialization. But China is changing. Its population is shrinking, its real estate market has suffered significant setbacks, and its economic growth is projected to slow to just 4.1% in 2026. Relying solely on China is no longer a viable growth strategy.

To adapt, the smartest Latin American economies are pivoting inward. Latin America has a young, growing, and increasingly urbanized population. Historically, many of these people operated in the "informal" cash economy. Today, thanks to digital banking and mobile apps, millions of Latin Americans are getting their first bank accounts, credit cards, and online shopping profiles.

## | Country-by-Country Breakdown

Latin America is not a single entity; it is a collection of vastly different economies. In 2026, it is crucial to tell the winners from the laggards.

- **Mexico:** Expected to grow between 1.3% and 1.5% in 2026. The country is thriving due to the nearshoring boom, creating massive opportunities in construction, cement, and commercial real estate.
- **Chile & Peru:** Anchored by the global demand for copper and lithium. Peru is showing incredible economic resilience (expected to grow near 3%), maintaining strong central bank policies despite having a highly fragmented political landscape.
- **Argentina:** The region's highest-risk, highest-potential-reward market. Under President Javier Milei, the country is undergoing extreme "shock therapy" market reforms. Inflation is projected to plummet from over 200% down to roughly 17-18% in 2026. The country is also sitting on the massive Vaca Muerta energy field. If the government's reforms hold, the deeply discounted Argentine stock market could see significant growth potential.
- **Brazil:** The heavyweight of the region is facing a delicate balancing act. Inflation is easing, allowing the central bank to cut rates and stimulate the economy. However, the government must prove it can keep its spending in check as it heads toward a 2026 election, otherwise, it risks weakening investor confidence.
- **Colombia:** Currently lagging behind. Colombia has struggled with stubbornly high inflation, forcing its central bank to keep interest rates higher for longer than its neighbors. This has slowed down business investment and economic growth.

Latin America in 2026 is fundamentally different from the volatile region of the past. By combining the immediate benefits of falling interest rates with the long-term tailwinds of nearshoring and the green energy boom, the region is poised for sustained growth. For investors willing to look past the old stereotypes and utilize local expertise, it represents one of the most compelling value opportunities in the global market today.

*This opinion article was written on May 6, 2026, by the team of analysts at OTG Asset Management.*

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