The Neutrality Premium:

How MERCOSUR's Industrial Sectors Are Capitalizing on a Fractured World

The Geopolitical Safe Haven

The global economy is navigating one of its most turbulent and fragmented periods in modern history. As trade tensions intensify, supply chains are reshaped by political priorities, and tariffs are used to protect domestic industries, multinational corporations are being forced to make difficult strategic choices. The era of frictionless globalization is decisively over. Today, global supply chains are increasingly influenced by geopolitical alliances rather than economic efficiency alone. For investors and institutions allocating capital, these tensions create substantial and difficult-to-predict risks for manufacturing and industrial portfolios. A factory located in a region exposed to sudden export bans, sanctions, or maritime disruptions can no longer be treated as fully secure.

Enter MERCOSUR (the Southern Common Market), a bloc with a market of more than 270 million consumers. This South American bloc—anchored by Brazil and Argentina and expanding its strategic reach and resource base through the addition of countries such as Bolivia—remains relatively less constrained by the binary alignment pressures affecting other major regions. While the Northern Hemisphere is caught in an escalating cycle of protectionism and technological decoupling, the Southern Cone is quietly positioning itself as a comparatively neutral platform for trade and investment.

This diplomatic neutrality is no longer merely a political principle; it is becoming a measurable economic advantage. Corporations and global investors are increasingly willing to pay a "neutrality premium" to establish operations, logistics hubs, and manufacturing centers in a region that maintains commercial relationships with North America, Europe, and Asia. Recent data provides evidence of this structural shift. According to UNCTAD's World Investment Report 2026, global foreign direct investment (FDI) increased by 6% in 2025, while flows to Latin America and the Caribbean rose by 14%, driven primarily by South America.

Global capital is voting with its wallet, and the Southern Cone is attracting growing attention. Multinational companies increasingly recognize that an industrial base within MERCOSUR can offer broad access to global markets while reducing exposure to some cross-border sanctions and trade restrictions. This influx of FDI is not speculative "hot money"; it is longer-term capital financing factories, deep-water ports, and regional energy networks. This relative geopolitical shelter supports the bloc's second major advantage: structural resilience based not only on what is extracted from the ground, but also on what is manufactured above it.

| The Compounding Growth Engine

For decades, investors viewed MERCOSUR as the world's farm and quarry, a region highly dependent on the cyclical movement of commodity prices. To understand the scale of the current opportunity, the region's economic evolution must be viewed in its historical context. Our analysis begins in 2003 because that year captures the early stages of the commodity supercycle. This starting point allows us to compare the region's past reliance on raw material exports with the more diversified and sophisticated industrial base that has emerged since then.

The data points to a significant structural transformation. MERCOSUR is no longer limited to exporting raw iron ore or unrefined lithium; it is increasingly processing and industrializing its natural resources. The bloc's strength today lies in the scale of its integrated industrial base and its expanding manufacturing capabilities. The manufacturing corridor connecting Brazil and Argentina has developed into a deeply integrated regional network. In 2025 alone, Brazil exported more than $18.11 billion to Argentina. Importantly, the largest category in this bilateral trade was not agricultural products, but "Vehicles and Heavy Machinery," which accounted for $7.83 billion. This trade pattern reflects a substantial internal industrial ecosystem capable of supporting regional activity when global demand weakens.

MERCOSUR's industrial firms are moving away from a model focused mainly on short-term distributions. Instead, corporate boards are pursuing long-term growth by reinvesting profits and operating cash flow. By placing greater emphasis on reinvestment, these companies can help finance logistics networks, energy transitions, and expansions in industrial capacity. Over time, this approach strengthens balance sheets, supports capital formation and reduces reliance on expensive external financing in a high-interest-rate global environment.

This financial discipline is complemented by the gradual institutional integration of the bloc's newer members. When evaluating cross-border investments and the incorporation of Andean economies into the MERCOSUR framework, consistent currency assumptions are essential.

The Investment Imperative

We are at a critical juncture in global capital allocation. Investment approaches that performed well over the last decade—often relying on concentrated technology exposure in North America or outsourced manufacturing in Asia—are now facing significant structural pressures. In a world shaped by geopolitical friction, supply-chain uncertainty, and fragmented trade networks, MERCOSUR offers a rare combination of strategic advantages: diplomatic flexibility to trade with a broad range of partners, production scale, and an increasingly sophisticated corporate sector focused on long-term growth.

For global investors, the strategic implication is increasingly clear. The era of viewing South America only as a volatile commodities market is giving way to a broader understanding of the region's industrial potential. Today, exposure to MERCOSUR's industrial sector can be more than a diversification tool; it may also contribute to a more resilient global portfolio. The region's leading industrial companies are capturing opportunities created by a fractured world, operating from a relatively neutral geopolitical position, and pursuing reinvestment strategies that can support long-term growth.

We believe the market may not yet fully reflect this structural transformation, creating a potential valuation gap. While global capital remains concentrated in established safe-haven markets in the Global North, the benefits of the "neutrality premium" are beginning to emerge across the industrial corridors of the Southern Cone. Overlooking this shift may mean missing one of the more compelling risk-adjusted growth opportunities available in today's global market. This environment warrants closer consideration of MERCOSUR's structural growth before the region's industrial transformation becomes more broadly recognized.

Ultimately, the narrative surrounding Latin America is changing. For investors willing to look beyond outdated stereotypes and apply rigorous company-level analysis, MERCOSUR represents an important frontier of modern industrial growth. It is a region where geopolitical flexibility and the disciplined reinvestment of capital are supporting tangible, long-term value creation.

This opinion article was written on July 22, 2026, by the analyst team at OTG Asset Management.

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Latin America Risk. The Fund's performance is expected to be closely tied to social, political, and economic conditions within this region and may be more volatile than the

performance of funds that invest in more developed countries and/or in more than one region.

Currency Risk. Currency conversion costs and currency fluctuations could erase investment gains or add to investment losses. Currency exchange rates can be volatile.