



IS LATIN AMERICA ON SALE?

The Coronavirus has definitely made headlines and has caused tremendous chaos and panic, not only to financial markets, but also to the whole economy in general.

At this point almost everyone knows the implications of this virus and what it has done to the different markets around the world, however the path to recovery is unclear.

What I would like to put into consideration in this article are the opportunities ahead and whether there may be a light at the end of the tunnel which eventually we all might see.

I do believe that the economy will recover steadily. This is, in part, because this situation does not have the same obstacles as a financial crisis. Central banks are moving quickly to address problems in credit markets, and governments in general are acting aggressively to improve the economy with fiscal measures.

The region's economic and political systems were already under strain in 2019 – 2021, and now the virus may push them to a breaking point. Now add to this situation the outflow of funds to the US (chasing what seemed to be an ongoing bull market), depreciating domestic currencies and news of riots.

To some, these factors paint a picture of doom and despair for these economies.

However, we take a more opportunistic and optimistic view of Latin American markets. Perhaps these markets can be viewed as being at an economic stage equivalent to a “sale”. After all, values should first go up and later drop.

Our main thesis relies on the macroeconomic and demographic data characteristic of these Latin American markets.

We believe that despite double digit drops across all major markets during the pandemic (*almost 47% in the case of Brazil, 38% in Mexico, 39% in Colombia, and close to 30% in Peru and Chile*), and the region as a whole taking a big hit, we have yet to see any credit downgrades at the sovereign level. We have seen proactive measures in the right directions to spur economic growth

Latin American markets have not only been hurt from an outflow of funds from these markets but also by the depreciation of domestic currencies that ensued. Indeed, it can be argued that weaker currencies promote exports, which in turn increases revenues and margins if the costs are kept at domestic currency levels.

Based on our experience in Latin America, we have seen that increases in exports are not immediately felt, but do contribute to the overall strength of an economy.

What we are trying to convey is that there are tools in the monetary policy toolbox that Latin American central banks can turn to in an attempt to accelerate their economies.

Keep in mind that as these currencies depreciate, the relative price of the underlying good or security in domestic currency becomes “less costly” for US dollar holders.

Chart 1 shows the depreciation of currencies across several Latin American countries during 2021 – think of it as “a discount” relative to the highest foreign exchange rates reached in the past years, with other conditions remaining the same, and how far the US dollar may go today.

We believe that the exchange rates could have reached their peak or they are very close to doing so; therefore, any appreciation is welcome for a portfolio like ours where the value of the security moves up when the currency gains some strength.

Based on Chart 1, if we have a recovery in the price of equities and the exchange rate starts to appreciate, there is an important upside potential as you can see in the last column of the chart.

Our fund is overweight in Brazilian investments. Despite the selloff amid the coronavirus, we are bullish on Brazilian stocks and we believe their economy is well-positioned to recover its growth momentum.

CHART 1			
CURRENCY	YTD (DEPRECIATION)	HIGHEST F/X RATE IN LAST 5 YEARS	DIFFERENCE FROM CURRENT TO HIGHEST F/X
Real (Brazil)	-5.6	3.05	45.2%
Peso (Mexico)	-4.4	17.17	16.3%
Peso (Chile)	-20.87	587.19	31.1%
Peso (Colombia)	-17.81	2706.37	33.4%
Sol (Peru)	-9.92	2.97	19.8%

Source: Bloomberg F/X – Foreign Exchange Rate

It is relevant if we compare the current conditions against the environment in 2015 during the last major Brazilian recession. The case here is that Brazil is fundamentally in a better position to manage the current crisis.

We look forward to the continuation of stimulus and reform measures as the Brazilian government attempts to support the economy and mitigate some of the near term impacts.

How do current valuations compare to historic highs? Are we going to see activity on the mergers and acquisition front or regional expansion plans in the 600 million plus populated Latin America region? We will explore this in our next opinion article.



This opinion article was written in January 2022 by Mauricio Alvarez of OTG Latin America Fund.

Important Information

Investors should consider the investment objectives, risks, charges and expenses of the Fund carefully before investing. This and other information is contained in the Fund's prospectus which may be obtained by calling 888.716.7116. Please read the prospectus carefully before investing.

Mutual fund investing involves risk, including possible loss of principal.

The risks of investing in foreign companies, including those located in emerging market countries, can increase the potential for losses in the Fund and may include currency fluctuations, political and economic instability, less government regulation, less publicly available information, limited trading markets, differences in financial reporting standards, including recordkeeping standards, less stringent regulation of securities markets and differences in accounting methods.

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.

The Fund is actively managed. An investment in the Fund is subject to the risk that the investment techniques and risk analyses applied by the Adviser will not produce the desired results.

Diversification does not eliminate the risk of experiencing investment loss.

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