Julius Bär

LATIN AMERICA OUTLOOK

November 2020

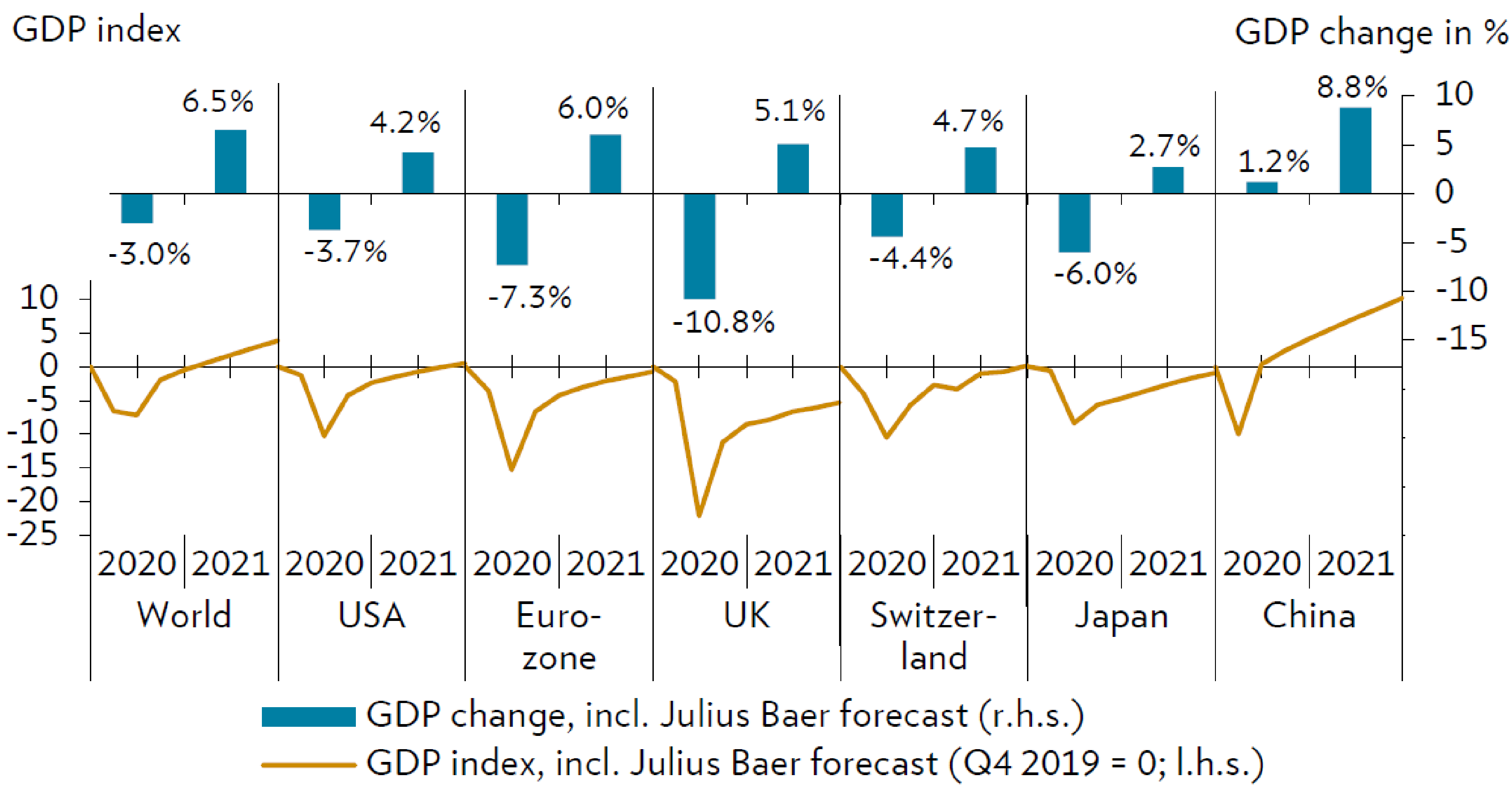
Esteban Polidura, CFA
Head Americas Advisory & Products

THE BIG PICTURE

V-SHAPED RECOVERY ON TRACK

After strong unprecedented GDP decline in Q2 2020, a strong rebound is expected in the second half of this year. The easy part of the recovery is over, however.

GLOBAL AND REGIONAL GDP GROWTH FOLLOWS A 'V'



Source: Datastream, Bloomberg Finance L.P., Julius Baer; GDP = gross domestic product

GROWTH SCENARIOS

Prospects after the recession caused by Covid-19.

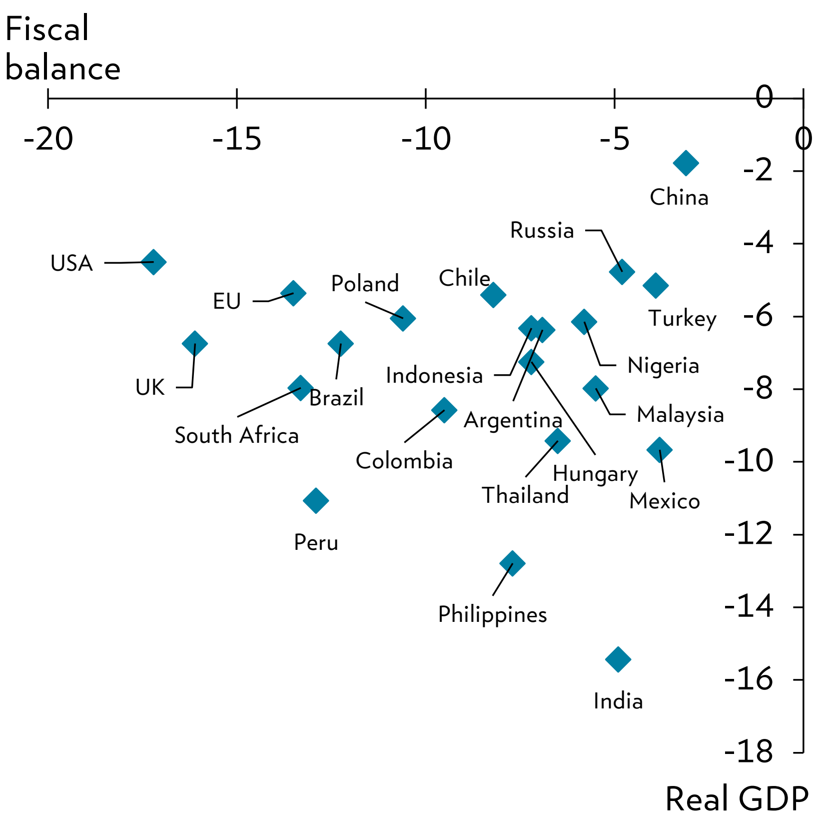
	SYSTEMIC CRISIS	STEADY RECOVERY	SWIFT RECOVERY
PROBABILITY NEXT 6-12 MONTHS	15%	75% (MARKETS TODAY)	10%
ASSUMPTIONS	• The pandemic demoralises, and exhausts health systems. • Harsh containment measures persist.	• The pandemic gradually ebbs off and economies adapt to live with the virus. • Containment measures gradually ease, vaccination is available in 2021.	• The pandemic ends, only local epidemic hotspots remain, virus fears ease, containment measures unwind. • Vaccination in use globally in early 2021.
ECONOMY	• Economic activity suffers paralysis. Negative feedback loops deepen the recession, lead to a depression. • Distrust runs deep and stimuli stay all-in, with central banks introducing yield curve control and helicopter money. • 2021 growth: 1.0% global; -2.5% USA; -3.7% Eurozone; -3.4% Switzerland; 6.4% China	• V-shaped recoveries with regionally significant growth divergences. • Unconventional fiscal and monetary stimuli with inflation tolerance. • Lasting negative impacts for countries and businesses, where social frictions and structural deficiencies surface. • Return of GDP to pre-crisis levels: After China by mid 2020, core Europe by early 2021, USA by late 2021, South America by 2022.	• Swift V-shaped recoveries with regionally lasting growth divergences. • Unconventional stimulus measures remain in place longer than needed. • Crisis accelerates structural trends and brings more lasting economic pain in selected businesses. • Return of GDP to pre-crisis levels: After China by mid 2020, core Europe by early 2021, Asia and North America by mid-2021, South America by 2022.
CAPITAL MARKETS	• S&P 500: revisiting 2,500; US BBB corporate spread: return to 500bps. • Treasuries: new lows at 0.2%; Gold: new record highs above USD 2,100. • EUR/USD low at 1.00	• S&P 500: rising to 3,500; US BBB corporate spread: steady below 150bps. • Treasuries: rising towards 2%; Gold: slow retreat from peak above USD 2,000.	• S&P 500: rising beyond 3,500; US BBB corporate spread: settles around 125 bps • Treasuries: rising beyond 2%; Gold: reversal towards USD 1,500.

EMERGING MARKET VULNERABILITIES

The tide no longer lifts all boats as divergence is becoming to prominent to ignore. Selectivity is becoming more important in 2021.

BBG CONSENSUS AGGREGATE 2020/21

Change in consensus forecasts between January and now



SOURCE: BLOOMBERG FINANCE L.P., JULIUS BAER

EM VULNERABILITIES DASHBOARD

	External debt to GDP Total	in LC	in FC	Short-term debt to export of goods	FX reserves in month of imports
Argentina	78	4	73	460	11
Brazil	38	8	29	177	22
Chile	75	7	68	123	7
Colombia	43	1	41	158	13
Ecuador	43				2
Mexico	36	9	27	38	5
Peru	30	0	29	73	18
India	20	7	13	125	14
Indonesia	35				9
Malaysia	63				6
Phlippines	22	1	22	116	8
Thailand	31	11	19	81	12
China	14			0	19
Czech Rep	76	39	37	523	11
Hungary	90	23	67	41	4
Poland	58	21	37	87	6
Romania	48	7	40	177	6
Russia	28	8	19	37	27
Turkey	61	3	58	225	5
Ukraine	78	4	74	289	6
South Africa	51	26	26	123	7

* Last available IMF data, situation in various countries worsened considerably since the last data report

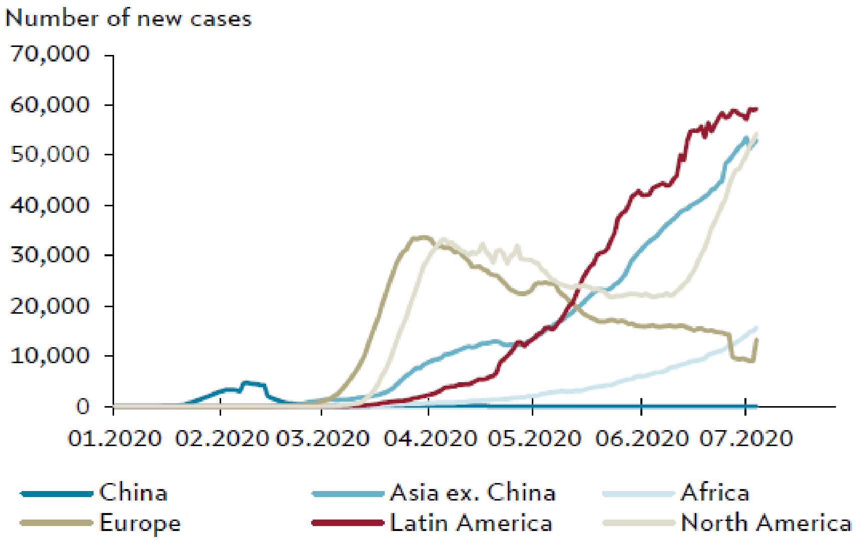
SOURCE: IMF, JULIUS BAER

LATIN AMERICA

COVID-19 UPDATE: VIRUS STILL RAVAGING THE REGION

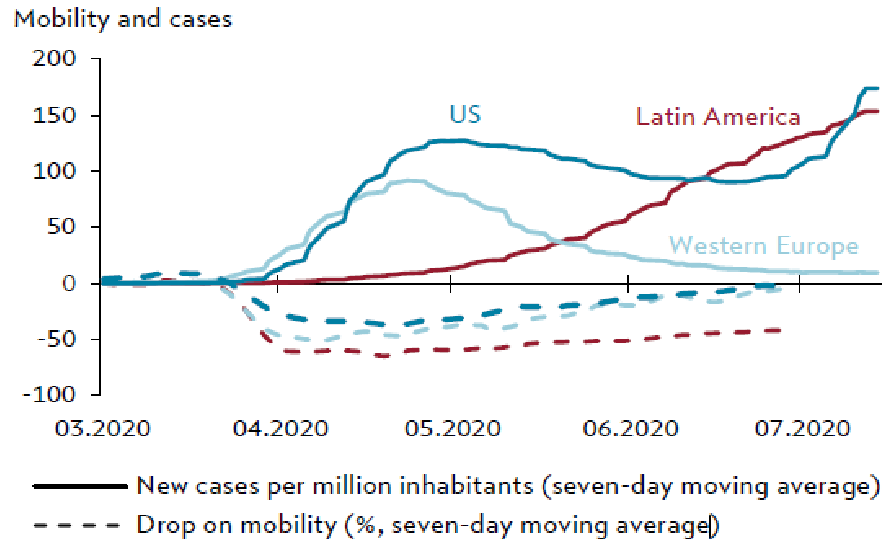
Although only a few countries in the region have managed to flatten the curve of new infections, most of them are pressing ahead with exit strategies.

LATIN AMERICA REMAINS HEAVILY AFFECTED BY THE COVID-19 OUTBREAK



SOURCE: WORLD HEALTH ORGANIZATION, JULIUS BAER

THE NUMBER OF NEW CASES CONTINUES TO RISE DESPITE THE SHARP DROP IN MOBILITY

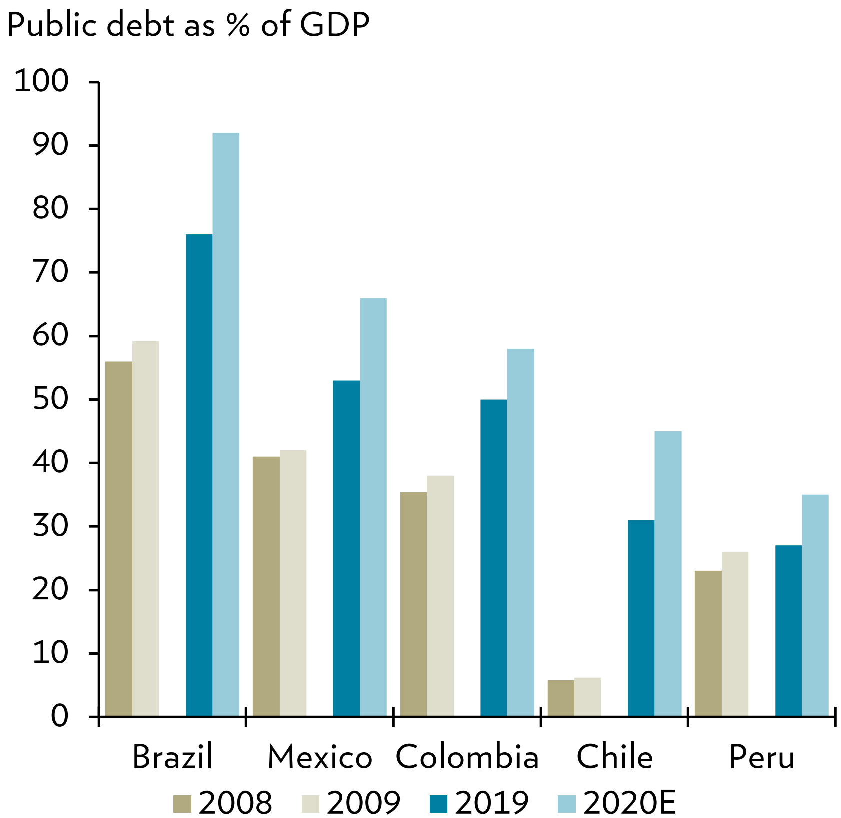


SOURCE: WORLD HEALTH ORGANIZATION, BLOOMBERG FINANCE L.P., JULIUS BAER

LATAM: MOUNTING FISCAL CONSOLIDATION PRESSURES

Most countries will likely face increasing fiscal consolidation pressures given the sharp increase in public debt levels. Political stability and policy credibility will be key.

PUBLIC DEBT TO INCREASE MUCH MORE THAN DURING THE GFC



SOURCE: BLOOMBERG FINANCE L.P., JULIUS BAER

FISCAL STIMULUS TO COUNTERACT SLOWDOWN

- Most countries in Latam have eased fiscal policy to combat the Covid-19 inflicted economic slowdown.
- Fiscal deficits are unavoidable and the correct thing to do to fight the economic crisis!
- Fiscal consolidation once the pandemic is over will be key to the region’s outlook (esp. for Brazil, Mexico, Colombia)

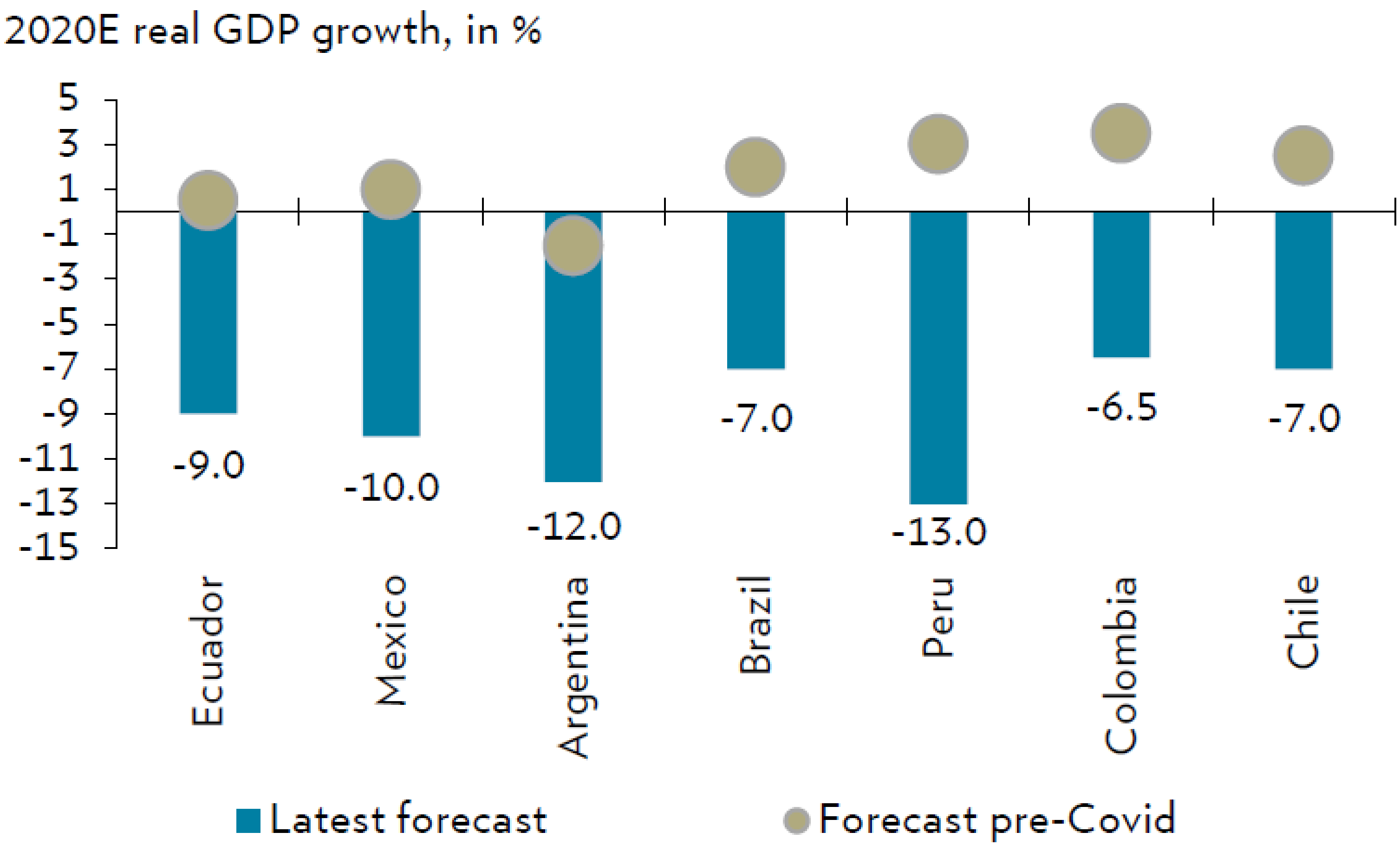
POLITICS WILL PLAY A KEY ROLE

- Populist governments in the region are usually fiscally responsible when they can afford it, i.e. when their popularity is high.
- Any increase in social discontent and drop in popularity could lead to an increase in government spending, in turn making further downgrades of sovereign debt unavoidable.

→ Once again, politics will play a key role in defining the outlook for the region.

LATIN AMERICA IS SET FOR A DEEP RECESSION THIS YEAR

On a positive note, inflation should remain in check across the region.

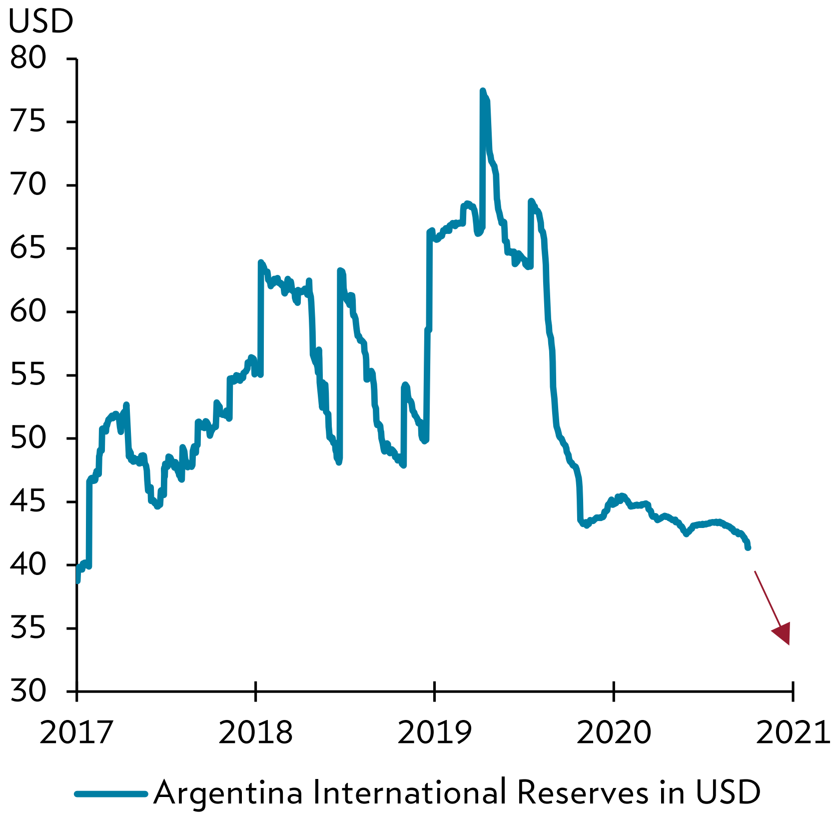


SOURCE: BLOOMBERG FINANCE L.P., JULIUS BAER

ARGENTINA: STILL A LARGE CREDIBILITY SHORTFALL

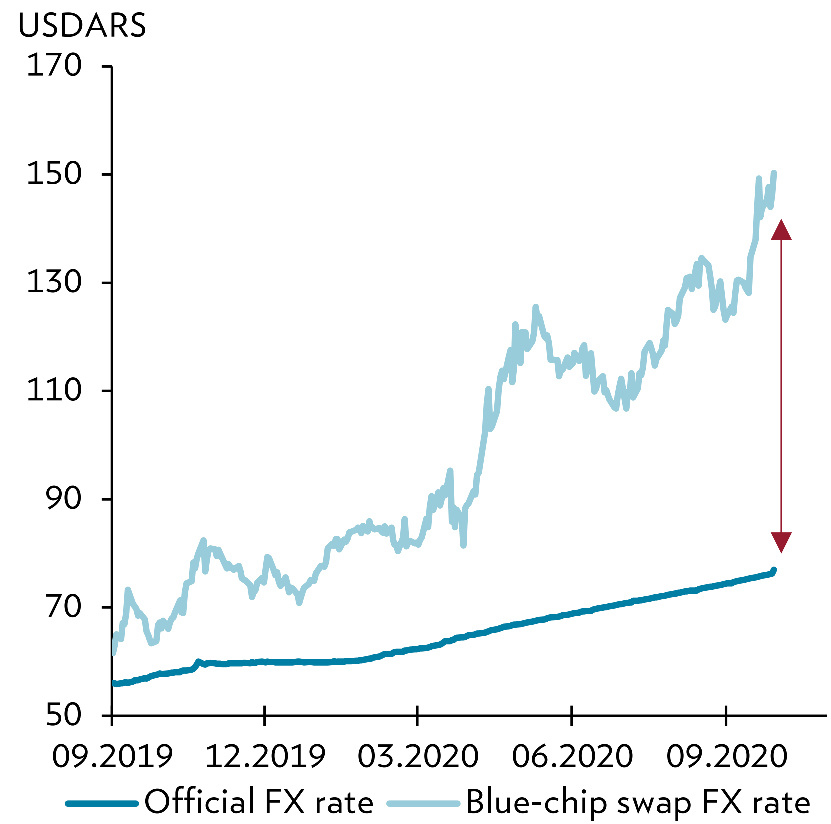
While the new policy measures are helpful, there is no explicit attempt to tackle the structural issues behind the declining peso real demand.

INTERNATIONAL RESERVES ARE DWINDLING



SOURCE: BLOOMBERG FINANCE L.P., BCRA, JULIUS BAER

UNOFFICIAL FX SUGGEST ARGENTINE PESO IS OVERVALUED

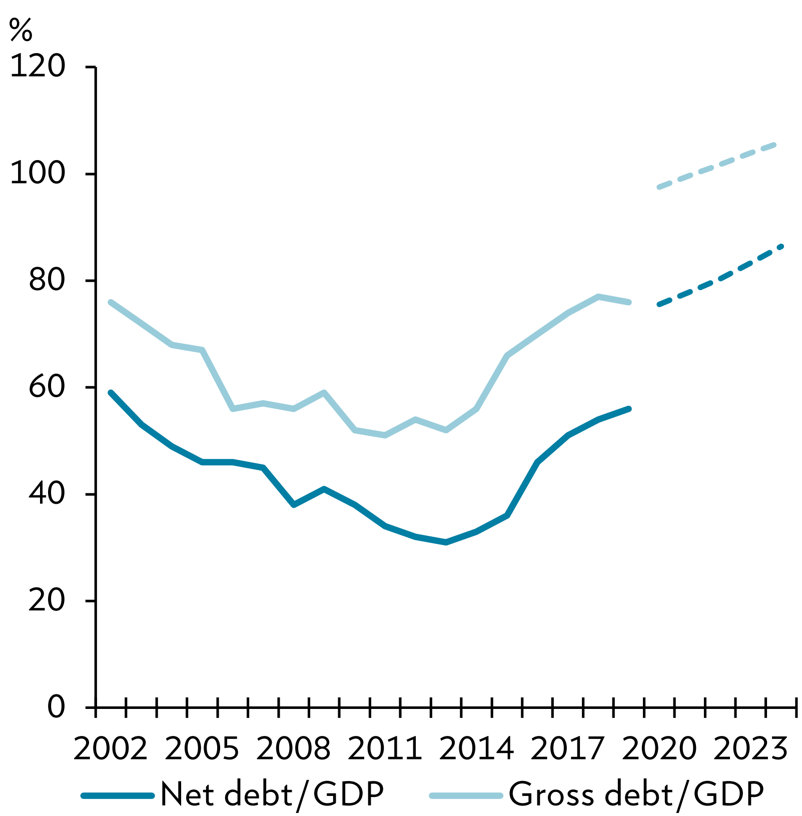


SOURCE: BLOOMBERG FINANCE L.P., BCRA, JULIUS BAER

BRAZIL: SOCIAL SPENDING DILEMMA

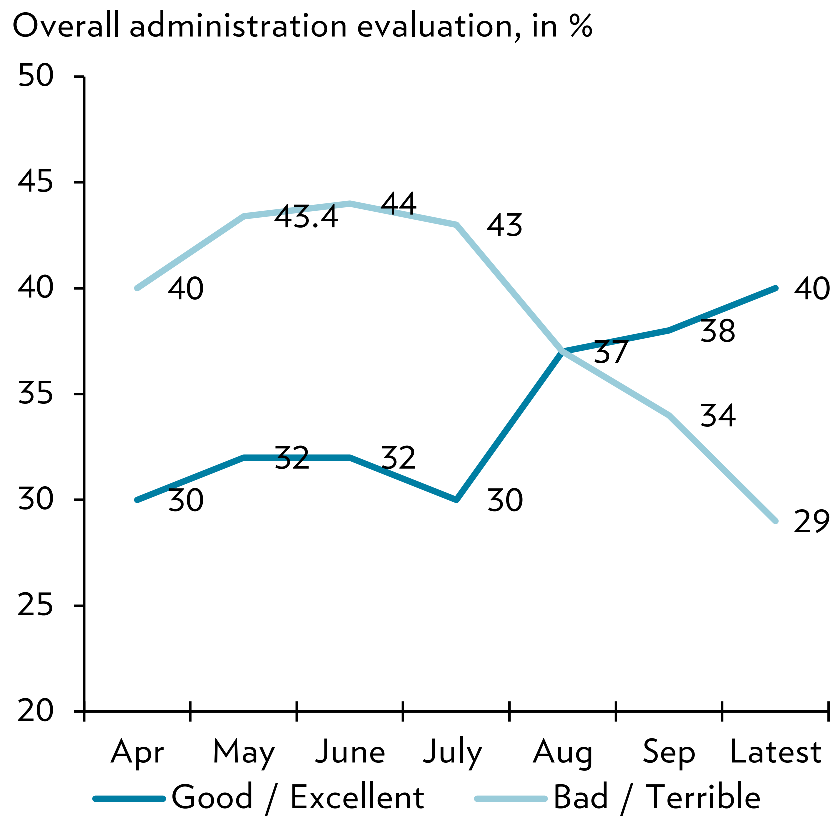
Bolsonaro is pressured to extend the social programme beyond year-end. Brazil's fiscal credibility has taken another hit following the latest announcement.

BRAZIL'S DEBT TO GDP RATIO EXPECTED TO REACH 100% NEXT YEAR



SOURCE: BLOOMBERG FINANCE L.P., JULIUS BAER

APPROVAL RATING OF GOVERNMENT INCREASED OVER THE PANDEMIC

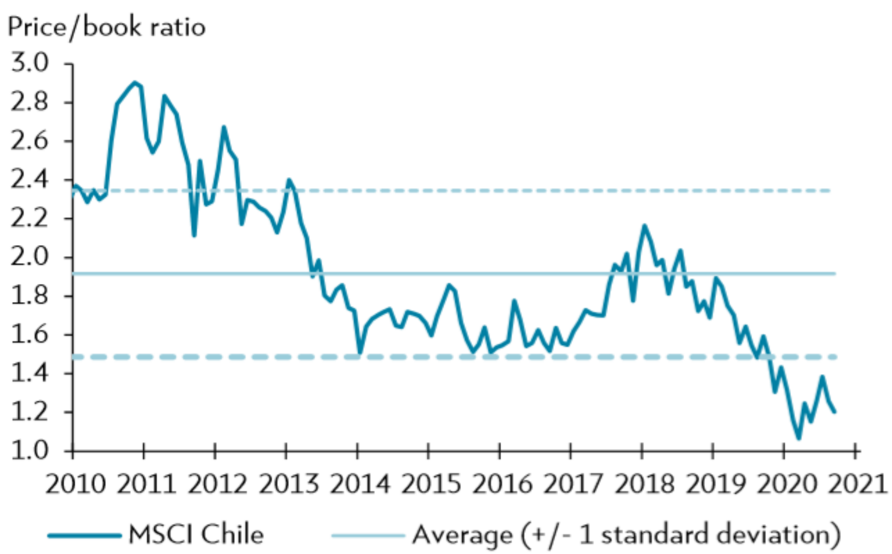


SOURCE: BLOOMBERG FINANCE L.P., JULIUS BAER

CHILE: AT THE CROSSROAD

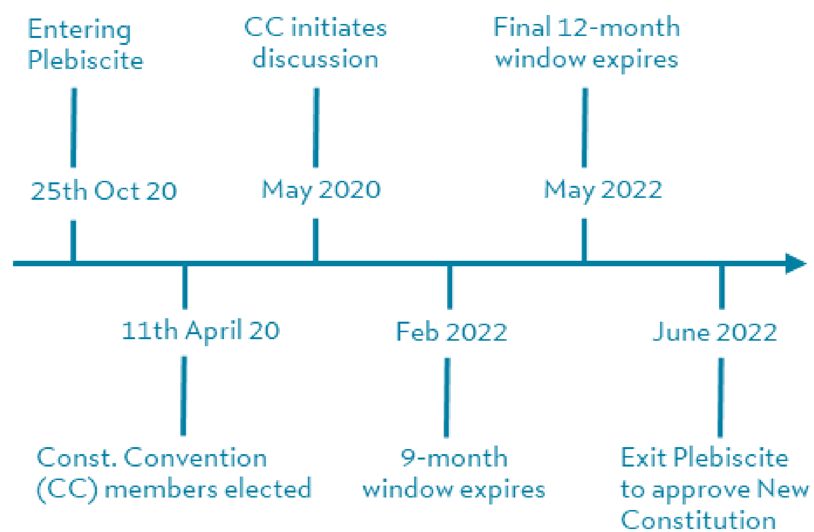
The constitutional debate will likely prove a watershed event on the outlook for Chilean assets. In the short-term, high uncertainty will weigh on post-Covid recovery.

CHILEAN EQUITY VALUATIONS NEAR RECORD LOWS



SOURCE: BLOOMBERG FINANCE L.P., JULIUS BAER PAST PERFORMANCE AND PERFORMANCE FORECASTS ARE NOT RELIABLE INDICATORS OF FUTURE RESULTS. THE RETURN MAY INCREASE OR DECREASE AS A RESULT OF CURRENCY FLUCTUATIONS

LENGTHY PROCESS AHEAD WITH HIGH INSTITUTIONAL UNCERTAINTY

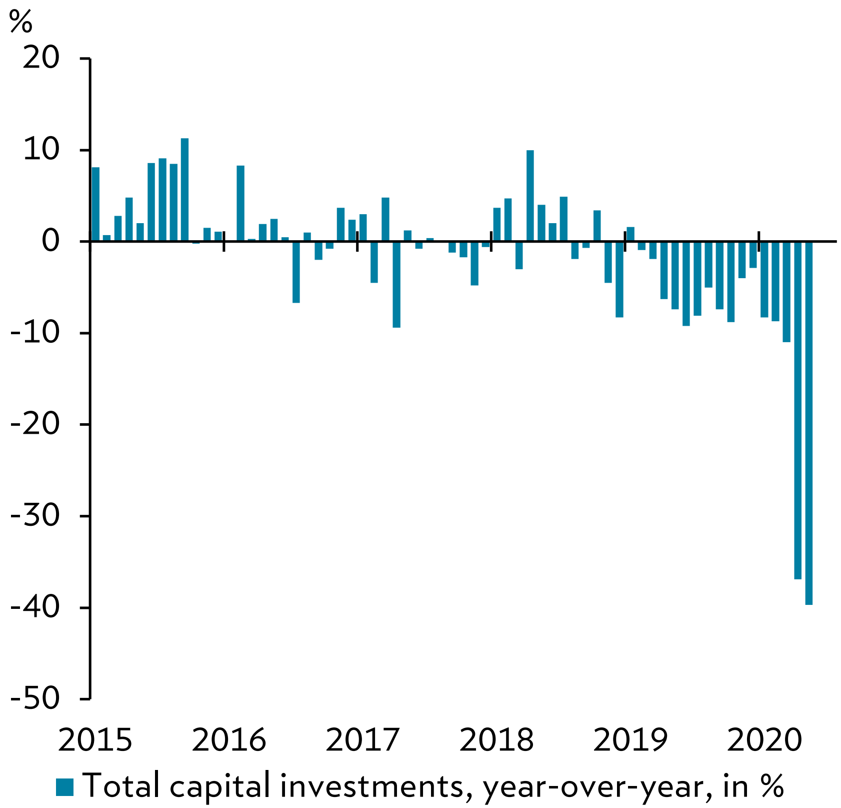


SOURCE JULIUS BAER

MEXICO: WEAK POLICY REPONSE

The economy was already on a weak footing before the pandemic struck, mainly due to weak gross fixed investments driven by the country's high policy uncertainty

INVESTMENTS FELL SINCE FEBRUARY 2019



SOURCE: BLOOMBERG FINANCE L.P., JULIUS BAER

ECONOMIC BACKDROP

- Economic backdrop already weak before the pandemic struck (Capital investment negative since Feb 2019)
- Limited policy response to the pandemic, AMLO sticks to fiscal austerity.
- → Analysts expect a sharp contraction (-10%) this year.
- → Recovery will be slower compared to the rest of the region.

POLITICAL BACKDROP

- Policy uncertainty still on top of investor's minds
- Approval rating remains very high (>50%) throughout the crisis

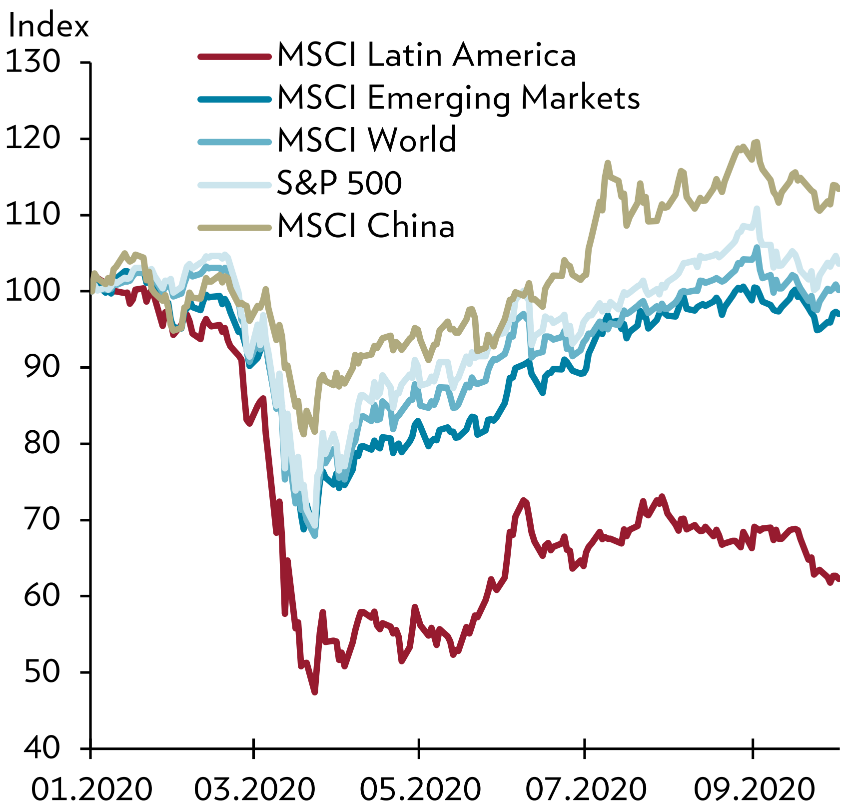
INVESTMENT RECOMMENDATION

- Equity Strategy: Underweight
- Fixed income: Hold Sovereigns, focus on single companies
- Currency: USD/MXN 24.0 and 23.5 for 3m and 12m

LATIN AMERICA: BETTER OPPORTUNITIES ELSEWHERE

Idiosyncratic risks have returned in countries across the region. We continue recommending to invest in Asian markets.

LATIN AMERICA IS SET FOR A DEEP RECESSION THIS YEAR



SOURCE: BLOOMBERG FINANCE L.P., JULIUS BAER

IDIOSNYCRATIC RISKS FLARING UP ACROSS THE REGION

- Latin America is still struggling to contain the virus.
- The associated economic malaise triggers political woes across the region.
- Fiscal consolidation post-Corona remains key

INVESTMENT OUTLOOK FOR LATAM

- Equity strategy: Underweight Latam, wait for rotation into value stocks
- Fixed income: Neutral sovereigns, selective opportunities in corporates (e.g. Brazil)
- FX: Neutral BRL, Bearish MXN

INVESTMENT OUTLOOK FOR EM OVERALL

- Equity strategy: Remain U'weight, Focus on Asia, in particular China
- Fixed income: Focus on Asia (China), Middle East

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LATIN AMERICA OUTLOOK

THANK YOU!

Esteban Polidura, CFA
Head Americas Advisory & Products

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