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For investment professionals only

Ashmore

The Case for Latin American Equities (Abridged)

After ending 2024 at the bottom of regional EM equity performance tables, MSCI LatAm rebounded 30% in USD terms in the first half of 2025.

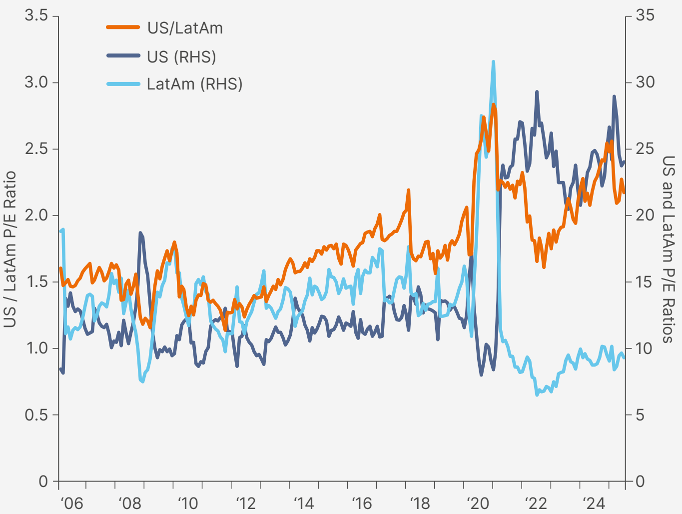
This rally has historical precedent. LatAm tends to perform well towards the end of the political cycle, but especially when left-wing incumbent parties look increasingly likely to be replaced by a more market-friendly, centre-right administration. Four out of the six major LatAm countries are being run by left-wing governments that are polling badly ahead of elections in 2025/2026.

For investors, this presents a cyclical opportunity to enter a market that remains attractively valued, stands to benefit from many domestic and global tailwinds over the long term, and has elevated dividend yields that can cap potential downside.

Valuations: Price is what you pay, value is what you get

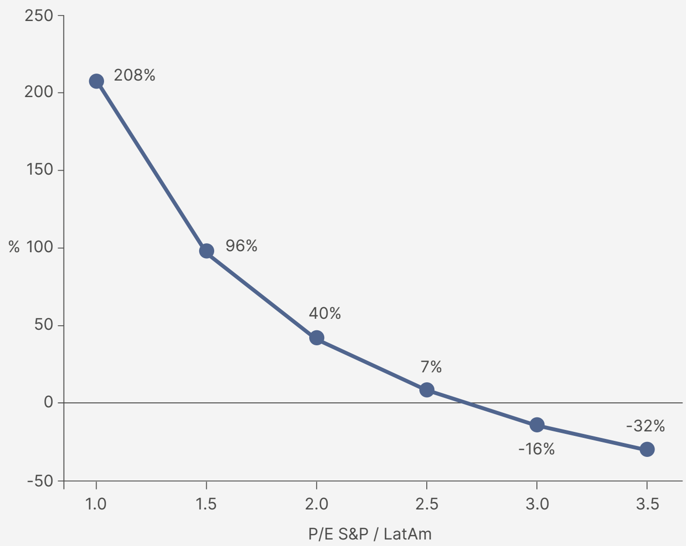
- After remaining largely rangebound between 1.0x and 1.5x in the last 20 years, the price-to-earnings (PE) ratio between the S&P 500 and MSCI LatAm jumped post-Covid to levels not seen since the 1990s (Fig 1).
- The discount over US stocks may be justified by the higher earnings-per-share (EPS) growth of the S&P 500 vs MSCI LatAm over the last 10 years, driven largely, in our view, by pro-cyclical fiscal expansion in the US.
- However, consensus now sees EPS growth converging from 2025-27, with LatAm at ~90 % of the S&P 500 growth.
- Fig 2 shows the forward three-year cumulative MSCI LatAm vs. S&P 500 returns at this growth ratio across differing PE differentials.
- The asymmetric ex-ante returns profile of LatAm equities over this period is explained by the region's current 5.7% dividend yield, which is cushioning downside. The S&P 500's dividend yield is currently just 1.3%.
- Further, LatAm has a 0.4 corelation and 1.15 beta to the S&P 500, giving the region a strong diversification appeal.

Fig 1:
S&P 500 / MSCI LatAm P/E ratios



Source: Ashmore, Bloomberg. Data as at June 2025.

Fig 2:
Cumulative 3-yr relative performance of MSCI LatAm vs. S&P 500 – for different P/E ratios, assuming similar EPS growth



Source: Bloomberg, Ashmore. Data as at June 2025.

Bird's eye fundamental views

- Valuations in LatAm markets are trading at crisis levels that do not reflect the economic fundamentals.
- Growth is surprising to the upside in most countries. Mexico is the exception, where the economy is slowing. However, the narrative is improving due to 'peak tariff fear' being over. It now seems more likely that most of its free-trade agreement with US will remain intact.
- Real interest rates are elevated across the region, a staggering 9% in Brazil, and still 4% in Mexico and Colombia. This provides ample room to cut rates into any material softening of growth.
- Unemployment is close to or below long run averages, and inflation is close to the target in all large LatAm countries, ex-Brazil.

Politics – steering to the right

- A quick glance at the political landscape and opinion polls for the next 18-month election cycle across the region shows dissatisfaction with incumbents and the political system.
  - Chile, 23 November 2025: Boric's disapproval at 65%. *(CEP, May)*.
  - Peru, 12 April 2026: Boluarte's approval just 2%. *(Ipsos, May)*.
  - Colombia, 25 May 2026: Petro sits at 29% approval, 64% disapproval. *(Invamer, 18 June)*.
  - Brazil, 4 October 2026: Government approval 28%; 'poor/terrible' ratings 40%. *(Datafolha, June)*.
- Bradesco's 2024 study of equity returns across LatAm election cycles since 1990 showed that Year 3 of the cycle delivers the highest average returns, as markets pre-price potential policy change very early.
- Colombia and Peru are at this point now, with Brazil entering it soon. Chile is coming to the end of the cycle.
- The LatAm equity market has shown that gains are increased when power swings from left to market-friendly centre-right, which is the scenario polls are now flagging. Centre-right, independents, and far-right candidates dominate voting intentions.
- Brazil underscores the upside: its market has averaged +50% in the year prior to the three left-wing incumbent/right-wing challenger elections in modern history.

Long term themes

- LatAm equities are backed by macro tailwinds which have the potential to propel EPS growth higher over the long-term.

Energy transition

- The buildout of new clean energy infrastructure on a global scale will require an abundant supply of metal.
- LatAm mines 35% of the world's copper, with demand predicted to increase by 70% over next 25 years (BHP).
- Lithium demand is expected to increase up to 40x over 15 years. Chile holds 25% market share. Argentina is a major producer.
- Silver is another key metal in the energy transition. Mexico (25%) is the world's largest producer, Peru third largest.
- Beyond raw materials, LatAm benefits from the energy transition through the imports of cheap Chinese solar panels.
- The region imported the equivalent of 7.3% of its generating capacity in 2023 and again in 2024, which will help drive down industrial power costs and boost manufacturing competitiveness.

Mexico nearshoring and whole region a relative tariff winner

- Mexico displaced China as top trade partner to the US in 2023, helped by US trade policy.
- Tariff uncertainty has slowed the nearshoring story, but Mexico's geographical position, competitive labour costs and favourable demographics should see it reclaim momentum once clarity on US trade policy improves.
- Most LatAm exports face just a 10% US 'reciprocal' tariff, while China, EU, and other 'surplus countries' may face steeper duties.
- LatAm's lower-tariff status makes it an attractive alternative in global supply chain shifts.

Sectors

- The relatively low correlation between LatAm and US equities comes down to sector composition: MSCI LatAm is dominated by real assets and cyclicals, unlike the tech-heavy US market.

Underinvestment

- Both international and domestic investors remain structurally underinvested in Latin America. Despite contributing 6% of global GDP, the region's weight in the MSCI ACWI has collapsed to 0.65%, down from 1.5% in 2010. This isn't a structural ceiling. Domestic underallocation to LatAm equities is increasingly misaligned with stronger economic fundamentals and rising financial inclusion. Regulatory liberalisation, a deepening financial market, and shifts in risk appetite all point toward rising domestic equity participation.

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Conclusion

The ongoing US dollar decline, the steepest H1 loss since 1973, points to a shift in global allocations. Flows are starting to follow, with Brazil receiving USD 3.8bn in May, the highest monthly inflow since 2019. Even so, global portfolios remain heavily overweight the US despite stretched valuations.

With elevated dividends, low valuations relative to the S&P 500 and meaningful diversification from tech-heavy US markets, LatAm equities present a potential opportunity that investors should no longer overlook.

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Emerging View

The Case for Latin American Equities

30 June 2025
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