Santander Asset Management

Marketing Communication

Santander AM Latin American Equity Opportunities

8 / 2025

Fund commentary

Latin American equities delivered a strong performance in August, with the MSCI Latam Index advancing +7.3% in USD, outperforming both developed and broader emerging markets. The rally was broad-based, with Colombia, Brazil, Chile, Mexico, and Peru all contributing positively.

MSCI Colombia led regional performance with a +12% return in USD, supported by improved sentiment around fiscal discipline and oil-related flows. Brazil followed closely with a +10.5% gain, rebounding sharply from July's correction as investors re-engaged with rate-sensitive sectors and domestic cyclicals. Chile also posted a strong month (+9.5%), supported by commodity-linked names and a recovering local rate environment. Mexico delivered solid gains (+2.9%), maintaining its role as a relatively defensive, USD-leveraged market within the region.

The region benefited from a weaker U.S. dollar, which fell −2.2% during the month, helping reverse outflows and support valuations. The backdrop remains constructive for selective positioning in EM assets, particularly across Brazil and the Andean region, where monetary conditions continue to improve.

The Fund's regional overweight was well-positioned to capture the bounce, particularly via allocations to Colombia, Brazil, and Chile, while maintaining risk-managed exposure in Mexico and select names in Peru.

Brazilian equities posted a strong recovery in August, with the MSCI Brazil Index (EWZ) gaining +10.5% in USD, positioning Brazil as one of the best-performing major markets globally for the month. The rally was driven by improved investor sentiment around greater conviction that the Selic rate has peaked.

Recent macro data showed that GDP grew +0.4% QoQ in Q2, broadly in line with expectations. Growth was supported by resilient consumption and a still-tight labor market, while investment remained weak following prior monetary tightening. The agriculture sector slowed sequentially, contributing to a more balanced growth composition.

Looking ahead, the economic outlook points to further moderation in H2, particularly in credit and investment-sensitive sectors. The Central Bank maintained its policy rate at 15%, reiterating its guidance for a prolonged pause before any easing cycle begins. Current projections continue to point to a Selic rate of 15% at the end of 2025, with rate cuts likely to begin only in the first half of 2026, ending next year at 12.5%.

Inflation continued to ease gradually, with headline CPI falling to 5.2% YoY, though core inflation remains above the 3% target, warranting caution. The outlook remains moderately constructive but requires selective positioning.

Within the Fund, we increased our exposure to Brazil, adding to already invested names like the homebuilder Cyrela and financial giant Bradesco. Our core allocations in Brazil remain within rate-sensitive names like utility companies Copel, Energisa, and mall operator Multiplan.

Mexican equities posted gains in August, with the MSCI Mexico Index (EWW) advancing +2.9% in USD, extending its year-to-date performance to nearly +30%, one of the strongest in the region. The market continued to benefit from its structural exposure to the U.S. economy and quality defensive nature.

On the macro front, attention remained focused on the incoming Sheinbaum administration, which has sustained a pragmatic tone in its early policy signaling.

Banxico continued with its monetary easing cycle, maintaining a gradual pace of rate cuts as inflation remains contained. The central bank's cautious stance helped anchor expectations.

Within the Fund, our largest investment in Mexico is Grupo Aeroportuario del Pacífico (GAP), the country's leading airport operator. GAP offers the best mix of business and leisure travel among Mexican airport stocks, coupled with a strong balance sheet, predictable cash flow generation, and an attractive dividend yield, making it a core holding aligned with our focus on resilient, income-generating assets in the region.

Colombia and Chile led regional equity performance in August, with the MSCI Colombia Index rising +12.0% and the MSCI Chile Index advancing +9.5%, both outperforming the broader MSCI Latam Index.

In Chile, political headlines made waves after a cabinet reshuffle. Despite the change in leadership, markets remained focused on macro stability and policy continuity, allowing risk appetite to hold firm.

Colombian equities gained alongside a steady monetary policy backdrop, as the Central Bank held its policy rate unchanged at 9.25%.

Argentina was the only negative contributor to LatAm performance, as investor sentiment remained volatile ahead of the legislative elections. The MSCI Argentina Index fell −3.1% in USD during the month.

In Peru, the market continued its upward trend, supported by positive earnings revisions at Credicorp, which helped anchor broader investor confidence across local equities.

Our largest position within the Andean region is mall operator Parque Arauco, a name we view as a high-quality, rate-sensitive asset with strong fundamentals and exposure to improving consumer dynamics across Chile, Peru, and Colombia.

During August, we adjusted the portfolio to reflect opportunities created by regional rebounds and macro policy shifts across Latin America.