

Santander AM Latin American Equity Opportunities

1 / 2026

Fund commentary

The U.S. economy continues to show decent growth, while inflation continues to move closer to central banks' targets. The digital revolution that began in the late 1990s has entered a new phase with the global adoption of large language models. AI investment is large and broad-based, spanning energy-intensive data centers and mineral-intensive advanced microprocessors. The scale of this investment is bold, but it carries meaningful potential to lift productivity and reinforce disinflationary forces over time.

This soft-landing backdrop is driving a gradual reshuffling of global assets, with risk assets remaining a key destination for incremental flows. This is not a "negative U.S." call—capital continues to be deployed in size—but the macro setup is increasingly supportive of diversification and, in particular, of ex-U.S. opportunities such as emerging markets and commodities. Even a small rotation at the DM level can translate into a material wave for Latin American assets, given the region's smaller market footprint. LatAm stands to benefit from both the EM diversification impulse and continued demand for commodities—especially metals linked to the energy transition and the AI capex cycle.

Despite the 2025 rally, Latin American assets continue to trade below their own historical valuation ranges and at a wider-than-normal discount versus DM. The region has already started its easing cycle, with inflation expectations on a glide path back into central banks' comfort zones. Chile was the first mover, followed by Peru and Mexico, while Brazil is expected to join the cutting cycle this quarter. Growth across the region has been softer, but remains healthy, and earnings are set to grow in 2026 and 2027. In our view, this combination of resilient growth, declining rates, and discounted valuations positions Latin American assets as an attractive candidate for continued global demand—while lower domestic rates should also support a gradual reallocation of local savings toward equities across the region.

January performance was fully consistent with the macro setup described above. ACWI rose +2.8%, while EM gained +8.0% and LatAm advanced +15.2%. Within the region, returns were broad-based and particularly strong in the higher-beta markets—Brazil +16.6%, Mexico +8.4%, Chile +12.0%, and Colombia +27.4%—highlighting how incremental global risk appetite and diversification flows can translate into outsized moves in LatAm when supported by easing optionality and commodity-linked earnings leverage.

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Brazil led regional gains as the market continued to price a constructive 2026 setup: resilient activity, better inflation expectations, and increasing confidence around the start of an easing cycle. Within this environment, our positioning remains focused on cash-flow visibility, balance-sheet quality, and asymmetric return profiles, with core exposure anchored in Bradesco, Copel, and Cyrela.

From a portfolio perspective, our most relevant Brazil changes reflected risk-return discipline and capital allocation differentiation. We increased Vivara given a more attractive upside/downside at current levels. In utilities, we began rotating from Energisa into Equatorial, driven by the compelling internal return profile embedded in Equatorial's numbers and our increased emphasis on capital allocation execution into 2026—where we view Equatorial as best-in-class.

Mexico delivered a solid +8.4% month, supported by easing-cycle continuation, improved 2026 economic growth and consumption outlook, and a constructive dialogue with the Trump administration. On top of that, a positive USMCA outcome and renewed government infrastructure spending could provide an extra boost to 2026 growth. In line with this setup, we continued adding to Mexican consumer exposure, increasing positions in FEMSA and Walmex, where we see a better 2026 outlook, and quite attractive valuations for high-quality business profiles that compound through cycles. These positions remain central to our Mexico allocation and fit well with our preference for resilient earnings and strong execution.

Andean performance was also strong and consistent with the broader risk-on rotation, led by Colombia and Chile. In Chile, we reduced BCI after a significant rally as the risk-return asymmetry became less compelling. In Peru, we continue to hold Credicorp as a key position, reflecting our preference for high-quality financials with strong profitability and disciplined risk management, and with leverage to a healthier macro and rate trajectory.

We remain constructive on the opportunity set into 2026. Globally, the combination of a soft-landing trajectory, inflation converging toward target, and a broadening AI investment cycle continues to support risk appetite and reinforces the case for diversification into EM and real assets. In Latin America, the mix of discounted valuations, improving inflation expectations, and a lower-rate path should remain supportive of both global flows and a gradual re-engagement of local capital into equities, even as episodic volatility persists.

Against this backdrop, our approach remains unchanged: a high-conviction, bottom-up portfolio built around balance sheet strength, cash-flow visibility, and capital allocation discipline, with a clear preference for businesses that can compound value through cycles. We will continue to focus on asymmetry—protecting downside while preserving meaningful upside—by rotating toward best-in-class operators when the opportunity set improves and trimming where rallies compress prospective returns.

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