

The Opportunity Set in Latin America Keeps Growing and Growing... Where are the Value Investors?



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Unlike many pockets of global markets that performed well last year, Latin America was one area of the investment universe that was hit particularly hard in 2021. It was a region that was adversely impacted by the pandemic fairly late relative to the rest of the world, and where the initial health response (notably in terms of the vaccine roll-out) was relatively slow to take hold. Many *businesses* in the region have seen their *stock prices* negatively impacted by challenging macroeconomic and political environments, which have weighed on both the value of the local currencies as well as general equity market sentiment across the region. In general, a combination of pandemic-related, political and/or macroeconomic uncertainty has cast a pall over both equities and local currency values across a wide swathe of the region, including Argentina, Brazil, Chile, Colombia, and Peru.

Clearly, the uncertainty described above is out of the control of individual company management teams in the region. However, more importantly from our perspective as bottom-up, long-term investors, we have observed many cases of company-specific developments that have, in our view, generally been encouraging, as Latin American businesses continue to recover from the worst of the pandemic, albeit to varying degrees. In some specific situations, management teams have been busy at work, taking actions that we believe are building business value over the long run, even if the stock prices languish in the near term due to overarching factors beyond their control. This, we believe, bodes well for the potential future of select Latin American investments if the dark clouds ever clear, which we believe they eventually will, as dark clouds often do. Indeed, for long-term investors who can look beyond quarter-to-quarter volatility, we believe that Latin America is one of the most interesting places in the world to be investing at the moment.

Granted, it might not feel exciting or comfortable to invest in an area when skies are darkest. Indeed, there is quite a bit of hand-wringing and hair-tearing among investors going on in Latin America right now. Uncertainty abounds, be it of the political variety in Chile and Peru following recent elections and in Brazil and Colombia with upcoming elections, or of the macroeconomic variety (concerns about local currencies depreciating, inflation rising, interest rates increasing, etc.), or of the pandemic-related variety. Investors have been fleeing the region in response. Such a backdrop of unusually heightened fear sometimes results in babies being thrown out with the bathwater, temporarily offering longer-term investors attractive opportunities that we believe will prove lucrative over the long run. We believe that is currently the case in Latin America, and that this is an exciting time to be deploying capital there.

We have been investing in Latin America for over 20 years. The present environment, as described above, stands in sharp contrast to earlier periods in which we scoured the opportunity set for years at a time but often came up empty-handed because of rich valuations. This is because, from our perspective, historically many people have thought of investing in Emerging Markets as the playing field of Growth investors, with valuations in such markets tending to be extended most of the time –

in our view, due to the potential for higher rates of economic growth than most Developed Markets typically offer.

Although investors have historically not tended to approach investing in Emerging Markets from a Value perspective, given the clouds hovering over the region at the present time, very good value is precisely what we believe we are finding in Latin America today – what we see as significantly undervalued opportunities, the kinds of which, based on our experience, only appear occasionally and fleetingly given the region’s relatively attractive longer-term growth potential.

In closing, it is important to emphasize that the increasing availability of potential opportunities for investment in Latin America that we perceive should, in no way, be construed to imply that we have particularly rosy forecasts for the outcomes of the various political contests or macroeconomic uncertainties that are currently overhanging the various countries. More simply, the near-term political and macroeconomic uncertainty in Latin America has resulted in our current opportunity set being increasingly populated by a number of well-run companies that are attractively valued without making tenuous assumptions about the future.

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