Established and growing

Brian Bollen discusses current investment opportunities in South America, the takeaways from BME's November Latibex Forum, and why State Street decided to open a new office in Chile

Where might one start with a feature about South America as an investment destination and its related asset services? Serendipitously, the Latibex Forum at the BME, which took place at the end of November, was well-timed in preparation for this piece. It allowed investors to "get to know the situation of the main South American and Spanish companies present in that region" said the BME, in a press release published after the event.

One of the key components was a fund managers' panel entitled 'Investment Opportunities in Latin America', featuring Ignacio Arnau, a portfolio manager at capital markets company Bestinver, Oscar Esteban Navarro, a sales director at Fidelity, and Alejandro Varela, a fund manager at financial services firm Renta 4.

"We have a special bond with South America, with offices in Chile, Peru and Colombia," said Varela, who has been in charge of the company's South American equities fund since 2016. "We are truly aware of the potential of the region and potential growth for investors," he added.

Addressing a suggestion that certain indices show South America to be always out of sync with the rest of the world, Bestinver's Arnau began by saying he doesn't believe the indices give a true representation of the economies in the region. This, he said, was because they are heavily biased towards certain sectors, including energy. "We focus 98 per cent on non-index names and that offers a different exposure to what you might normally get," he said.

Varela argued that there has been a turning point in the behaviour of currencies against the euro and even the US dollar, highlighting the real in Brazil and the peso in Mexico. This represents a large part of the return for European investors.

He added that there is a perception amongst investors that the centre of geopolitical-related risk has shifted from the west to the east, partly because of the war in Ukraine, making South America a safe haven as the price of raw materials has risen.

The South America indices have been polarised by Mexico and Brazil and the huge companies that are based there, added Fidelity's Navarro. "If you actively manage funds by analysing companies, you have a different result," he said.

In addition to geopolitical challenges, tensions in the energy market, technological disruption and sustainability, one of the key topics discussed at the Forum was South America's investment opportunities.

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Top managers highlighted the attractive returns offered by South America investments, against a backdrop of widespread stock market declines in Europe. The FTSE Latibex Top index is up 11 per cent over the year, the FTSE Latibex Brazil sits near 10 per cent, and the FTSE Latibex All Share is up more than 13 per cent.

During the meetings between companies and investors, which have returned to their original in-person format, several major South American companies set out their future plans.

"One of the common points among the panels was the optimism about the economic situation in South America, as the region is more prepared than ever to face the complex context of slowing global growth," affirmed Jesús González, general manager of Latibex, speaking at the Forum.

Time for expansion

The BME has maintained a continued presence in South America for decades. Two months ago, it signed a collaboration agreement on financial education with the Mexican stock exchange, BMV.

BME has an office in Bogota from which it manages, among other projects, market data services throughout the region, wealth technology products in Mexico, Costa Rica, Colombia and Chile, and technological infrastructure services in Mexico, Colombia, Bolivia and Venezuela.

In November, the board of directors of the Bank for International Settlements announced the appointment of Roberto de Oliveira Campos Neto, governor of the Central Bank of Brazil, as chairman of the BIS Consultative Council for the Americas.

Just a month earlier, State Street announced it would be opening a new office in Chile to help the firm serve and support institutional clients in South America, with a focus on custody, fund administration and securities lending.

The firm appointed Alberto Menendez to lead the Chile office and to serve as sales representative for Chile and Peru. State Street described the opening of the office as an "important milestone" as it "builds on its ongoing expansion of client capabilities in the region." The opening came a year after State Street's Brazilian bank began offering foreign exchange capabilities and sales operations.

Commenting on the news at the time, Menendez said: "State Street has brought market-leading solutions and unprecedented scale to the region, and the opportunity ahead is only growing as we continue to expand our capabilities on behalf of clients."

Marcia Rothschild, senior vice president, head of Latin America and The Caribbean at State Street, took the time to speak to Asset Servicing Times. She says: "We view South America as an integral part of our long-term growth strategy. The opportunities in the region are plentiful, fuelled by attractive demographics, a growing pool of assets looking for investments overseas, and local talent."

State Street is not new to South America, having long-standing client relationships for decades and strong relationships with regulators. According to Rothschild, it leverages the existing infrastructure it built in Brazil via its Brazilian bank, State Street Banco Comercial, to expand its local presence in other key markets in the region — namely Mexico, Colombia and Peru.

Commenting on why Chile was the new location of choice for State Street, Rothschild affirms: "Chile is the fifth-largest economy in South America by GDP, with a free market model, making it attractive for investing. We have a long history and track record of serving our clients in Chile and the opening of our office will further support our goals to be closer to our clients and regulators."

"The opportunity ahead is only growing as we continue to expand our capabilities on behalf of our clients who are looking for access to a broad range of services and technology, additional expertise and greater geographic reach," she adds. "South America demands a deep understanding of local and cross-border regulations, and strong connections with local regulators and industry bodies."

State Street is competing with a few of the same global players in the region as it does in North America, Europe and Asia. Over the last couple of years, the region has seen an increase of Asian players setting up local presence in South America, especially Chinese and Japanese banks, as those countries invest significantly in commodities produced by South America such as food, metals, mining and energy.

Looking forward, Rothschild concludes that State Street's plan is "on track to continue to expand its physical presence in the region and to serve and support its clients as their essential partner." ■