

Latibex: The key to capital inflow is simplification

Attended virtually by more than 60 companies together with 100+ global investors, the 23rd Latibex Forum took place at the BME Group's headquarters in Madrid between November 22-24. Panellists from leading corporates and financial institutions discussed a wide range of topical issues – including the underlying macro-economic situation in Latin America along with the region's growing commitment to digitalisation, sustainability and the implementation of robust capital market reforms.

Latam starts its pandemic recovery

After being disproportionately impacted by COVID-19, a number of LatAm economies are finally showing signs of recovery, a point made by Javier Hernani, CEO at BME. Having suffered from a heavy GDP contraction in 2020, the International Monetary Fund (IMF) anticipates LatAm and the wider Caribbean economies will grow by 6.3% in 2021 and 2.2% in 2022. However, panelists said there are a number of headwinds facing the region. Inflation – fueled by supply chain bottlenecks and energy price rises – is a risk facing several LatAm markets, and there is uncertainty among speakers as to whether this trend will be a permanent or transitory one. Either way, this is forcing a number of Central Banks in the region to increase interest rates to counteract inflationary pressures. Nonetheless, one expert expected that most LatAm markets will likely meet their inflation targets. With investors seeking out alpha, these high yields on offer in LatAm ought to be very attractive – relative to the negative or very low yields being offered in the European and North American markets.

The fundamentals underpinning LatAm as an investment destination are compelling with Thomas Zeeb, Head of Exchanges at SIX, highlighting the region had seen a number of exciting new listings, including EDP Brasil, a \$1.9 billion energy company which recently went public on Latibex, an international market for LatAm securities operated by BME, now owned by SIX. Despite this, Zeeb said European asset managers and pension funds still remained underweight in LatAm securities. "Portfolios managed from within Europe are traditionally underweight in LatAm securities. Surveys reveal that professional European investors are still quite unfamiliar with LatAm securities. This is despite the fact that over the course of its lengthy history – 40 companies from 10 different countries have been listed on Latibex, making them more approachable for European investors, as well as enabling them to participate in forums and other publicity activities and to be priced in euros on a daily basis," he said.

LatAm capital markets look to attract inward flows

Progress is being made with driving additional flows into LatAm. Beatriz Alonso, Head of BME Exchange, stressed that investment connectivity channels between Europe and LatAm – facilitated through Latibex – are helping to bring liquidity into the region. "Latibex is another extension of LatAm's historically productive relationship of collaboration that generates value for stakeholders. Together with the resources, expertise and diversification of SIX, we intend to support the Spanish stock exchange's hopes to maintain and strengthen as we move forward in an uncertain and sometimes irrational market environment. With the acquisition of BME, SIX has bolstered its standing as a European and global market operator and as part of this progress, it now counts Asia and LatAm as two pillars for it to implement its extensive knowledge of the financial industry so as to participate in business and projects that expand the group and enhance the economy in these regions," said Alonso.

Many of the local markets have also embraced industry best practices by developing central securities depositories (CSDs) and central counter-party clearing houses (CCPs), both of which are critical pre-requisites for foreign institutional investment. Colombia, for example, became one of the latest LatAm markets to launch a CCP for equity spots and securities lending, having already shortened its settlement cycle from T+3 to T+2, in what is part of a wider

initiative to attract inward investment and deepen liquidity. In addition, a number of LatAm markets are bolstering investor protection mechanisms while several local FMIs have strengthened their cyber-security protocols. One speaker commented that the number of cyber-attacks had skyrocketed during the pandemic, in what has heightened the importance of implementing quality operational resilience. By increasingly adopting internationally accepted best practices, LatAm markets will see greater inflows - and with it liquidity.

Although capital market reforms in LatAm have been forthcoming, there continues to be a copious absence of standardisation in the region - in marked contrast to that of the EU. This is not for a lack of trying, however. Despite the existence of MILA [(Latin American Integrated Market) - a connectivity scheme joining up the equity markets of Chile, Colombia, Mexico and Peru - one speaker said arbitrating rules across participatory countries remained an issue for foreign investors - meaning inflows had been limited. There are other barriers too. Certain markets such as Chile require allocators - even if they are investing through MILA - to appoint a local custodian - sowing further complexity. These divergences need to be resolved if inflows into LatAm markets are to gain greater momentum. Se está avanzando en la canalización de flujos hacia Latinoamérica. Beatriz Alonso, directora de BME Exchange, destacó que los canales de inversión entre Europa y LatAm -facilitados a través de Latibex- están ayudando a atraer liquidez a la región. "Latibex extiende a los mercados de capitales la colaboración histórica con Latinoamérica y genera valor para ambas partes. Mediante los recursos, la experiencia y la diversificación de SIX, pretendemos apoyar las expectativas de la bolsa española de mantenerse y fortalecerse mientras avanzamos en un entorno de mercado incierto y a veces irracional. Con la adquisición de BME, SIX ha reforzado su posición como operador de mercado europeo y global y, como parte de este progreso, ahora cuenta con Asia y Latam como dos pilares para poner en práctica su amplio conocimiento de la industria financiera y así participar en negocios y proyectos que amplíen el grupo y mejoren la economía en estas regiones", dijo Alonso.

The path to sustainability and digital

ESG (environment, social, governance) was a recurrent theme at the Latibex Forum with a number of LatAm markets vying to implement a sustainability-led recovery and create a more inclusive economy. Asset managers and banks are playing an integral role in facilitating this transition towards sustainability in sectors - which have historically been major polluters. Increasingly, asset managers are conducting deep-dive analysis on companies' ESG and engaging with them on how to make improvements to their business models. Meanwhile, banks are also refining their lending practices, in terms of how they provide financing to companies in energy intensive industries. Many banks are now making loans conditional on pollutant companies meeting specific sustainability KPIs. However, there is a growing recognition that shutting off funding or dis-investing entirely from carbon heavy businesses or energy producers is not practical - especially if demand for energy continues to increase. A balance, noted a speaker, is therefore required when helping companies become more sustainable.

On digital, LatAm is making enormous strides. Hernani highlighted that LatAm boasted a number of promising fin-techs, while another speaker at Latibex said the pandemic had accelerated digital trends, illustrated by the spectacular rise of e-commerce, e-learning and tele-health across the region - a development, which has fueled remarkable growth in a number of exciting technology companies.

LatAm comes to the forefront

Although investors - particularly in Europe - have historically been underweight in LatAm portfolio investments, the region shows tremendous promise. Aside from being attractive from a return perspective, LatAm is embracing market reforms, sustainability and digitalisation in what will further augment its investment credentials.