Citi Global Wealth Investments

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Outlook 2024 – Latin America

- Global markets could see another year of positive returns in 2024 under our base case scenario of post-Covid normalization of the economy. The strong November-December rally might have brought some of the expected 2024 returns forward. Political uncertainty and geopolitical challenges will be a strong feature this year. This is likely to mean that, whilst positive, markets returns could be more muted than in 2023.
- The global economy should enter a new cyclical phase in 2024. At the OCIO we expect a bottoming of activity in the first half of the year, but no recession. A rebound of the economy should follow in the later part of the year. Inflation in developed markets should continue to decelerate towards Central Bank targets allowing them to pivot. The Fed could cut 100bp in 2024 allowing for a more visible growth trend to appear in 2025. Other mayor Central Banks should follow, easing global financial conditions and helping the slowdown reach a trough.
- After a better than expected 2023, Latin America could grow around 2% in 2024. Inflation continues to recede, and Central Banks should continue to cut rates, easing financial conditions. External accounts remain well supported by commodity exports, foreign direct investment and portfolio inflows. Focus will remain on fiscal accounts and legislative reform agendas. Much of the policy and political noise that was expected in 2023 has not materialized and executive branch outreaches remain constrained by institutional frameworks.
- Over half the world's population will go through mayor elections in 2024, providing a potential source of uncertainty for global markets. In the US, another faceoff between Donald Trump and Joe Biden seems likely. Trump is currently leading in the polls. Mexico will elect a new President as well. Morena candidate and Lopez Obrador successor Claudia Sheinbaum will face coalition candidate Xochitl Galvez. Sheinbaum is leading comfortably in the polls. El Salvador, Panama, Dominican Republic and Uruguay will also hold general elections. Brazil and Chile will hold local municipal elections.
- The 6-12 month Citi Research outlook for commodities is bullish for gold and silver; neutral-to-bullish for aluminum, nickel, platinum and sugar; neutral for zinc, soybeans and coffee; neutral-to-bearish for crude oil, copper, iron ore, wheat and cocoa; and bearish for lithium and corn. Beyond 2024, the long-term price outlook is expected to be bullish for copper and lithium. El Nino conditions have the potential to disrupt precipitation patterns and impact crop production, energy prices and inflation.
- We find Latin American local rates, foreign currency debt and equity markets attractive under our global base case scenario and believe investors can benefit from selective opportunities as long as global risk appetite provides broad support to markets. Local interest rates offer local and international investors high real and nominal rates. Currencies are far from their most attractive levels and do present some risk as Central Banks continue to ease, so more active hedging strategies might be sensible for international investors. Dollar denominated debt has rallied in 2023, but history suggests it remains attractive given mid-to-high single digit nominal yields. Equities also rallied in 2023 but multiples remain depressed on a historical basis, and earnings should remain well supported by growth and commodity prices presenting investors with attractive tactical opportunities.

Global and Regional Macro Landscape

The global economy should enter a new cyclical phase in 2024. We expect a bottoming of activity in the first half of 2024 and a rebound in the later part of the year. A more visible growth trend should be in place for 2025. Inflation is decelerating as global supply chains have normalized and consumer demand is feeling the tighter financial conditions brought upon Central Bank's restrictive policy interest rates. We forecast US CPI at or near 2.5% by end-'24. Employment growth in the US is slowing down. The Federal Reserve (Fed) and the European Central Bank (ECB) have signaled they are on hold and that lower policy rates are an option for 2024. Our base case is that the Fed could be ready to reduce rates by mid-year, likely in a series of 25bp cuts and potentially to around 4.00-4.50% by year end.

Latin America's economic performance during 2023 could be characterized as resilient, with real GDP growth surprising to the upside. Sensible monetary and fiscal policy remain well anchored. External accounts remain well supported by still advantageous commodity prices. The region was expected to grow close to 2% in 2023, a measure that could be repeated in 2024 with more evenly distributed growth rates among the mayor economies.

FIGURE 1: Selected macroeconomic variable forecasts for major Latam economies

	Nominal GDP'24 (USD bn)	Real GDP growth '23 (% YoY)	Real GDP growth '24 (%YoY)	CPI inflation '24 (%YoY)	Fiscal Balance '24 (% GDP)	Current account balance '24 (% GDP)	Expected average FX for '24
Argentina	633	-2.50	2.80	93.70	-3.70	1.20	N/A
Brazil	2295	3.10	1.50	4.00	-8.70	-1.90	5.00
Chile	335	-0.10	1.90	3.30	-1.90	-3.20	890
Colombia	421	1.20	1.50	5.60	-4.20	-3.00	4060
Mexico	1765	3.30	2.00	4.50	-5.40	-1.00	18.50
Peru	281	6.50	3.70	2.80	-4.80	-1.00	3.70

Source: Bloomberg as of January 12, 2024. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

The inflation path in Latin America followed that of other mayor regions and economies but with a multiplier from higher food stuff components and from a more sensible passthrough effect derived from long memories of high periods of inflation. Medium term, however, inflation expectations remain well anchored. El Nino presents potential upside risks for inflation, particularly in the Andean region where its impact could be more significant.

FIGURE 2: Headline CPI inflation is falling...

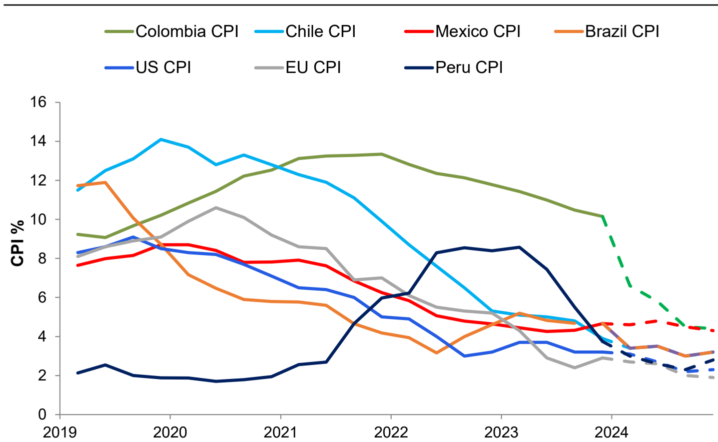
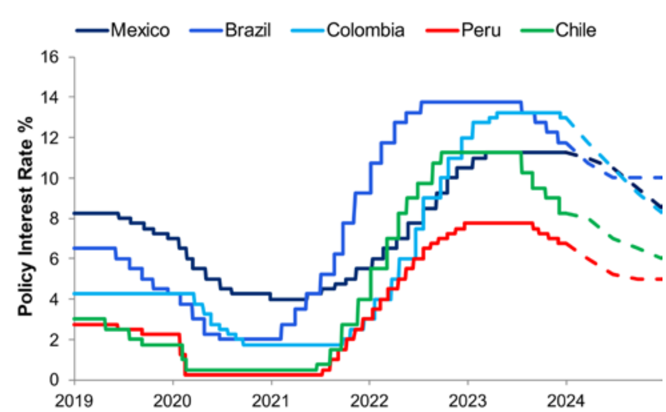


FIGURE 3: Policy interest rates should fall accordingly...



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Mayor Central Banks in the region were very responsive to post-Covid inflationary pressures and began raising rates in 2021, almost a year before the Fed or the ECB. Ex-ante real overnight interest rates are lowest in Peru at around 4%, but higher in other economies, around 7-8%. These high real rates should give Central Banks further room to cut in 2024 as inflation measures could continue to head towards Central Bank targets/bands. We expect Brazil, Chile and Peru to continue cutting rates throughout 2024 while Mexico's easing cycle could be slowed, or delayed, by a combination of still stubborn core services component and election uncertainty. Nevertheless, nominal policy rates in Mexico could come down to below 9% from current 11.25% levels. Colombia began its easing cycle in December with an understandably cautious 25bp cut. A sharp disinflationary trend, however, is expected to drive Banco de la Republica to cut a non-trivial 450bp during 2024.

FIGURE 4: Central Bank policy interest rates could be cut as inflation decelerates further in 2024

	Expected policy rate end '23	Expected policy rate end '24	Ex-Ante Real O/N Rates	Year end '23 headline CPI	Expected year end '24 headline CPI	Inflation target
US	5.50	4.50	2.90	3.80	2.60	2.00
ECB	4.00	3.00	1.70	5.50	2.30	2.00
BoJ	-0.10	-0.10	-2.20	3.20	2.10	2.00
Brazil	11.75	10.00	7.75	4.60	4.00	3.00 (+/-1.50)
Colombia	13.00	8.50	8.60	9.30	4.40	3.00 (+/-1.00)
Mexico	11.25	8.50	6.95	4.40	4.30	1.00-3.00
Chile	8.25	5.00	4.75	3.90	3.50	3.00 (+/- 1.00)
Peru	6.75	5.00	4.35	3.20	2.40	1.00-3.00

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On the fiscal front, reigning in government spending policies remains a challenge, especially after the increases implemented during and after the pandemic. Citi Research estimates that, on average, a primary balance of 1.4% of GDP would be necessary to stabilize debt to GDP ratios. Unfortunately, they forecast primary balances in the region to be closer to -0.5%, implying the need for 2% of fiscal consolidation, a difficult feat given the low growth rates expected combined with the need for political support. This suggests that growth could be curtailed by crowding out effects on both the quantity of investment and the cost of capital.

Country Views

Mexico's economy should slow down to around 2% in 2024, from the strong 3.2% expected in 2023. Resilient domestic consumption, a strong US economy and large flows of foreign direct investment from near shoring were the drivers of the strong 2023 performance. Despite the slower growth forecasted for 2024, the Mexican economy could be set up for a solid medium term growth path if the new administration can take full advantage of the near shoring trend. It is estimated that Mexico received $35bn in foreign direct investment in 2022, a figure that is in line with pre-pandemic levels, but of which roughly 45% is new investment -versus new investment being less than 40% of total FDI in previous years. For the 1H 2023, a record high $29bn is estimated to have been invested in Mexico -according to data from Hacienda. As has been the case for years, the U.S. is the largest investor in Mexico.

FIGURE 5: US investors continue to see Mexico as an attractive destination for capital

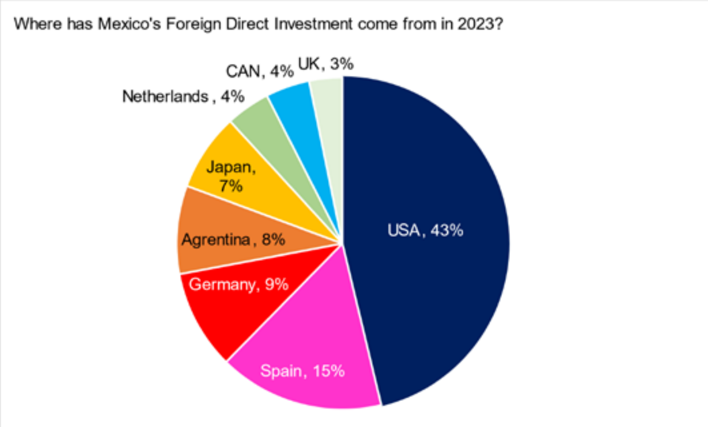
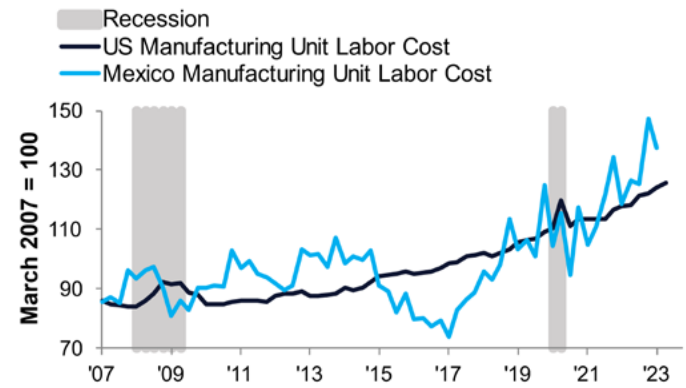


FIGURE 6: Mexico's unit labor cost rises have kept up pace with those in the US



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Medium term, we believe near shoring flows will provide a strong anchor to domestic activity and will create implicit incentives to the incoming administrations to increase investment in transportation and energy infrastructure as well as education -all to satisfy the corresponding increased demand generated by foreign investment as well as to increase productivity and compensate for the high pace of growth in domestic labor input costs.

On the monetary policy front, Banxico could begin a cutting cycle that should ease financial conditions. There could be enough room for policy rates cuts to end the year at around 8.50%. The market consensus is expecting cuts to begin in March.

We don't expect the elections to result in a significant medium-term risk for policy, however, the months preceding it could generate uncertainty, delay economic decisions and create market volatility.

Another source of uncertainty for investors might be the potential noise from the U.S. election where President Trump appears to be leading. The USMCA is up for its first major review in July 2026 and it is uncertain what position a potential Trump foreign policy might mean.

Brazil experienced stronger than expected growth in 2023 with real GDP likely finishing the year up roughly 3.1%. A disinflationary process is expected to continue, but slower, and inflation is likely to be inside the Central Bank's upper band of 4.5% by year end. Ex-ante real rates of around 8% and inflation within the target implies that more policy rate cuts could be expected in 2024. Consensus is for the SELIC rate to fall below 10% from current 11.75% during the year, loosening financial conditions and stimulating credit and consumption. While a 10% SELIC would still imply high levels of real rates (around 6%) this would be consistent with the Central Bank's historically cautious approach to policy easing, particularly when considering uncertainty around certain aspects of the fiscal accounts and the tight labor market. An economic slowdown to around 1.5% is the most likely scenario in our view.

Fiscal policy focus will be around consolidation. A primary fiscal target of 0% will be a challenge without increased tax collections. It is unclear that President Lula's political capital will allow him to muster enough support to successfully achieve this target.

Under President Javier Milei, **Argentina** is undergoing its most significant policy shifts in decades. The new administration was quick to announce economic targets and measures. The first phase included a 5% public budget adjustment, a sharp devaluation of the official exchange rate from 370 to 800 ARS/USD and strong initiatives to deregulate the economy. The long-term impact of these measures could be quite positive. The next few months, however, are likely to still prove disruptive as macroeconomic variables normalize. The transition period is likely to include higher inflation, relative price distortions, a sharp recession and the potential for social discontent which could derail government policy. We believe the 1H 2024 will prove to be the make-or-break months for this administration's attempt to overhaul the economy. Argentina will be "the" macro and market story in the region for 2024.

Chile's performance in 2023 was poor relative to the other major economies. While the region averaged around 2% of real GDP growth, Chile's economy is likely to have contracted slightly, -0.1% in 2023. Activity could pick up in 2024, driven by lower inflation, easier monetary conditions, less political uncertainty and limited legislative risk. The Central Bank of Chile has already cut rates by 300bp, to 8.25%. With inflation expected to near 3% by year-end (the target is 3%), the monetary authority could continue to have room for another 225bp of cuts to around 6%. As is the case with other economies in the region, El Nino is a potential source of volatility for inflation, monetary policy and economic activity. On the political front, President Boric's approval ratings stand at around 30%. The second attempt towards a new constitutional draft was rejected in December, a third attempt is not on the table. The next political debate will be centered around Pension Reform. The government has, however, lost significant political capital and it is unclear that it will be able to push much through Congress. Medium to longer term, the economy could see a strong tailwind from higher copper and lithium prices.

Colombia experienced a strong deceleration in 2023 to around 1.2% of real GDP, compared with the strong 7.2% growth seen 2022. Activity is expected to slightly improve in 2024, to 1.5% real growth. Banco de la Republica made it first move and began its easing cycle in December, with a shy 25bp cut to 13%. A 50bp cut could follow in the January meeting. Inflation has surprised to the downside and could end 2024 below 5% from last year's 9.3%. External accounts should remain well supported, with around 3% current account deficit (roughly $12bn) and fairly strong flows of foreign direct investment of around $15.5bn and international reserves at the Central Bank of around $58bn. On the fiscal front, the administration has indicated plans for a new tax reform. A crowded legislative calendar, however, might imply investors won't get to see much on this front any time soon.

Peru's economy could grow around 2.5% in 2024, a marked improved versus the small 0.2% contraction likely seen in 2023. The mid-2023 economic impact of El Nino to fisheries and agriculture appears to be abating, albeit we might not be sure until March or so. Inflation continues to head towards the 2% (+/-1%) target allowing for further rate cuts.

A Busy Electoral Calendar Ahead

Latin America will host a busy electoral calendar in 2024 with five general elections (Mexico, Uruguay, El Salvador, Dominican Republic and Panama) and three local or municipal elections (Brazil, Chile and Costa Rica). Over the past few years, elections results have been characterized by sharps shifts in voter preferences along with the appearance of either extreme leaning or surprise anti-establishment candidates. In our view, this is evidence of the strong discontent with the status quo offered by the traditional political classes and of the lack of growth and advancement prospects perceived by the populations. Voters are taking more risk with their ballot and this has the potential to bring about both positive and negative change.

FIGURE 7: A busy electoral calendar

Country	Election	Date
2023		
Chile	Constitutional Plebiscite	17-Dec
2024		
Costa Rica	Municipal	4-Feb
El Salvador	General	4-Feb
Panama	General	5-May
Domincan Republic	General	19-May
Mexico	General	2-Jun
Brazil	Municipal	6-Oct
Uruguay	General	27-Oct
Chile	Regional and Municipal	27-Oct

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The highlight of the political calendar will be the Mexican Presidential elections, whereas per the Constitution, the President is only elected for one 6-year term with not possibility of reelection. Mexicans will go to the polls on 2 June 2024 to elect a new president as well as members of Congress. Incumbent Andres Manuel Lopez Obrador (AMLO) party MORENA currently has a simple majority in Congress, which they could retain. The two front runners for the presidency are Claudia Sheinbaum and Xochitl Galvez, all but guaranteeing that Mexico will have its first female president. Sheinbaum is a long time AMLO ally and is currently ahead in the polls with around 50% of voting intentions versus around 20% for Galvez who is representing a coalition for the opposition composed of the PAN, PRI and PRD parties. Undecided votes account for about 20%. It is unlikely that Galvez can bridge this large gap to Sheinbaum given the strong political machinery of the incumbent party.

Sheinbaum was elected Mayor of Mexico City in 2018 -she has had to quit to run for president- and is a long time AMLO supporter. She has a B.S. in Physics, a Masters in Energy Engineering as well as a PhD, suggesting she could be quite actively involved in energy policy decisions. Sheinbaum is seen as AMLO's successor and while she would be expected to follow a line of governing very similar to his, it is unclear whether she might be more pragmatic in her relationships with the private sector and foreign investment as well as her position around the key energy sector and the state-owned oil company. Another key question would be her relationship with AMLO and the potential for being influenced by the ex-president who is unlikely to drop completely from the political scene.

Whoever the winner, the next administration will face challenges. While AMLO is widely seen as running prudent fiscal management, the incoming administration will be challenged by a slowing US economy, looser but still restrictive monetary policy, high government spending in flagship projects and social spending. Another potential unknown for Mexico's next president will be the review of the USMCA in 2026, which will happen under the next U.S. administration.

Brazil will hold local municipal elections in October. While not as attention grabbing as presidential or congressional elections, these results are important in terms of the overall balance of power. The legislative agenda might also be disrupted during the July-August period as the candidates are confirmed and the electoral races kick into higher gears.

In Central America, election results could imply some degree of continuity. In El Salvador, President Bukel continues to sway strong support (a Gallup poll in December gave him 93% support) and is likely to be reelected. Panama's former President Martinelli is leading the polls and is staring at a likely win. In the Dominican Republic incumbent Abinader is leading the polls with a large enough gap to the opposition that he is also the most likely outcome.

Commodities Outlook

The 6-12 month Citi Research tactical outlook is mixed: bullish for gold and silver; neutral-to-bullish for aluminum, nickel, platinum and sugar; neutral for zinc, soybeans and coffee; neutral-to-bearish for crude oil, copper, iron ore, wheat and cocoa; and bearish for lithium and corn.

FIGURE 8: Commodities outlook

	Bullish	Neutra-to-bullish	Neutral	Neutral-to-bearish	Bearish
Energy		EUA Carbon, Uranium	US Gas	Brent, WTI, Asia, LNG, EU Gas	
Industrial Metals		Aluminum, Nickel, Tin	Lead, Zinc	Copper	
Battery Metals			Cobalt		Lithium Hydroxide
Precious Metals	Gold, Silver	Platinum		Palladium	
Bulks			Thermal Coal	Iron Ore, Coking Coal	
Agrilculture		Sugar	Soy Bean Coffee	Wheat, Cocoa	Corn

FIGURE 9: Citi Research commodity forecasts

Commodity	Spot Price (as of 12/29/23)	2024 Average Price Forecast	2025 Average Price Forecast
Gold (USD/t.oz)	2,063	2,045	1,950
Silver (USD/t.oz)	24	27	26
Sugar (USd/lb)	21	23	20
Nickel (USD/MT)	16,375	17,000	19,000
Soybean (USd/bu)	1,298	1,173	1,000
Iron Ore (USD/MT)	130	120	100
Brent (USD/bbl)	77	74	60
Copper (USD/MT)	8,559	8,200	12,000
Corn (USd/bu)	471	406	350
Lithium (USD/MT)	13,568	16,800	22,000
Wheat (USd/bu)	628	514	475

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Citi Research expects crude oil prices to range trade with a downward bias through early 2024. Absent further OPEC+ cuts demand/supply dynamics could go into surplus. Non-OPEC+ supply is ample and the global economy is slowing. Brent average prices could be around 75dpb in 2024, versus 82dpb in 2023. Further out, global oil demand growth should slow as the trend towards electrification continues. Geopolitical events pose risk to supply but these have historically been short lived.

FIGURE 10: Brent Crude in a range

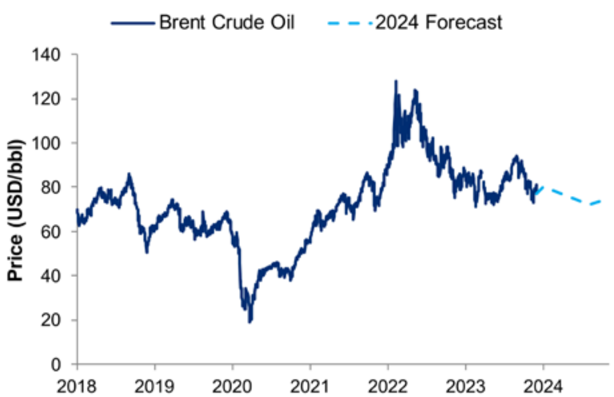
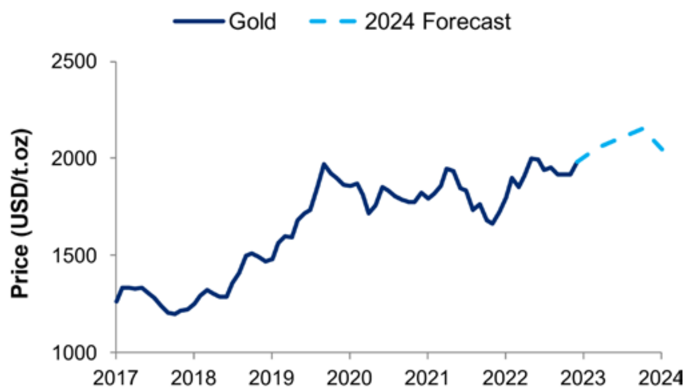


FIGURE 11: Gold price could average higher



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The outlook for gold is constructive. Citi Research expects record high average prices near $2,050 an ounce for 2024. This forecast includes a mid-2024 price target of $2,150 an ounce and the notion that markets should expect high baseline prices, north of $1,900, through 2025. Factors that can support gold prices include the Fed pivot and resulting lower nominal and real interest rates, safe-haven demand from a global economic slowdown, record official sector purchases and historically light futures and ETF positioning.

The outlook for copper prices has nuances worth detailing. Citi Research expects copper prices to hold at around $8,500 per ton in the early part of this year, as global economic activity softens. The average price forecast for 2024 is around $8,200 per ton. A much more bullish picture is set for 2025 and 2026 with average prices, expected to reach around $12,000 per ton due to the continued demand boom for energy transition towards 2030 global targets for renewable power capacity. This bullish outlook should be quite beneficial for the Chilean and Peruvian economies, supporting their trade accounts and supporting their currencies. Chile produces nearly 5,400 kilotons of copper per year and is the world's top producer by a factor of 2x. Peru's production is between the 2nd and 3rd largest at around 2,600 kilotons. Peru and Chile are expected to account for about 38% of global copper mining in 2024, making them critical for the energy transition over the years ahead.

FIGURE 12: Copper at the intersection of markets, the economy and social responsibility

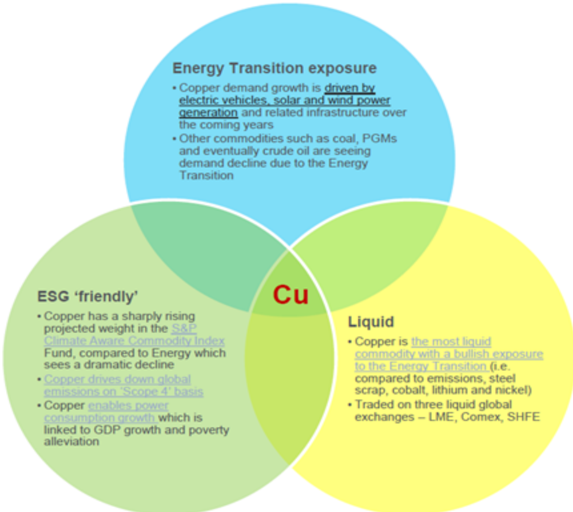
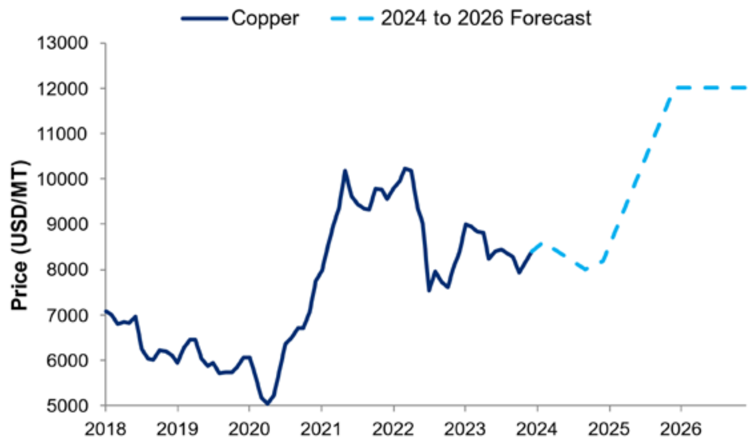


FIGURE 13: Copper prices – stable through 2024, upside in 2025-2026



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Lithium is not yet a mayor export for the region, but sizeable reserves and resources in Argentina and Chile provide the potential for large impact to their economies in the coming years. As of April 2023, Chile had economically viable reserves of 9.3 million metric tons -the largest in the world- while Argentina had 2.7 million -the 2nd largest after Australia. At year-end 2023 Lithium prices ($16,772 per metric ton), these reserves represented an economic value equal to 48% of Chile's GDP, and around 13% of Argentina's GDP (measured at $350bn). If one considers the resources (estimated lithium in the ground, not yet proven to be economically viable), the long-term impact could be much greater for Argentina as it has an estimated 20 million metric tons in resources, equaling to 96% of its GDP. The development of lithium mining in Argentina will be key to follow over the coming years.

FIGURE 14: Lithium reserves and resources

	Reserves metric/tons	Resources metric/tons	Reserves USD bn	Resources USD bn	Reserves % GDP	Resources % GDP
Australia	3,800,000	7,900,000	$59	$122	3%	7%
Chile	9,300,000	11,000,000	$144	$171	44%	52%
China	2,000,000	6,800,000	$31	$105	0%	1%
Argentina	2,700,000	20,000,000	$42	$310	12%	89%

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Near term, however, the tactical price outlook for lithium is not very encouraging according to Citi Research, with a base case scenario of a 22% drop over the next 3 months from $16,700 to $13,000 metric ton, with the potential of an overshooting to $10,000-12,000 metric ton if mines don't close or battery restocking doesn't take place. This bearish outlook is predicated on a wave of supply additions, triggered by the higher prices of the previous 2 years, now colliding with slowing demand in the electric vehicle market. This demand slowdown is likely more a temporary deceleration rather than demand destruction. Citi Research remains bullish on the EV and battery technology space. Looking deeper into 2024, supply rebalancing and resurging demand is expected drive lithium prices higher, towards the $17,000 metric ton level by 2024 year-end.

FIGURE 15: Lithium to stabilize after a sharp correction

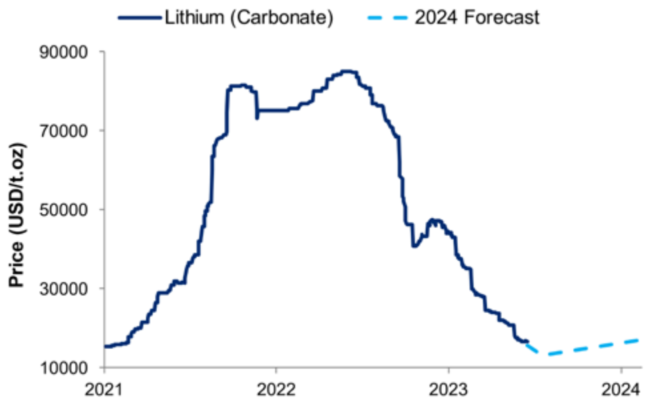
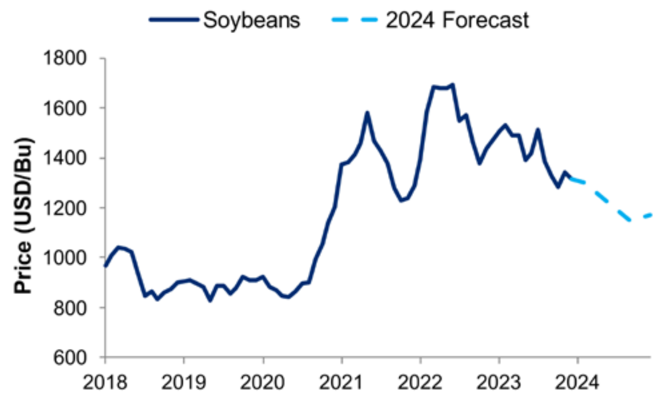


FIGURE 16: Soybeans price could suffer from loose supply conditions



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Soya beans and its derivatives are a large export for Brazil and Argentina. Citi Research believes fundamentals in the soybean complex are tight in the near term but expect a loosening of supply in the following months -as long as there are no major disruptions in their harvests and if the US farmers increase planting area. Brazil is set to plant a record 45-46 million hectares, which could deliver a record 160 million metric tons of soybeans. Meanwhile, Argentina could see wetter conditions after a disastrous drought and should be able to produce around 50 million metric tons of soy. Soybean prices are expected to average $1,173 per bushel in 2024, and $1,000 in 2025, compared to $1,376 per bushel in 2023.

El Niño is back. Its potential impact yet uncertain.

El Niño meteorological conditions have been in place since mid-2023 and are expected to prevail into the spring of 2024. What is El Niño? ENSO (El Niño Southern Oscillation) is a climate phenomenon characterized by the periodic warming of sea surface temperatures in the central and east Pacific Ocean. El Niño is the warm phase of ENSO while the cold phase is called La Niña. This warming phase usually occurs every two to seven years and it can last for several months which can ultimately lead to disruptions in weather patterns and have the potential to cause significant economic impact.

During an El Niño phase, the normal trade winds weaken and cause a shift in the distribution of warm water across the Pacific Ocean. This leads to change in air circulation and weather patterns, most notably sharp variations in precipitation, causing floods and droughts, depending on the region, and leading to potentially large impacts on agriculture, fisheries and various ecosystems.

The typical El Niño tends to generate drier conditions in Colombia and most parts of Brazil while higher than average precipitation can occur in Chile, Peru, parts of Argentina, and northern Mexico.

FIGURE 17: El Niño's typical impact on conditions

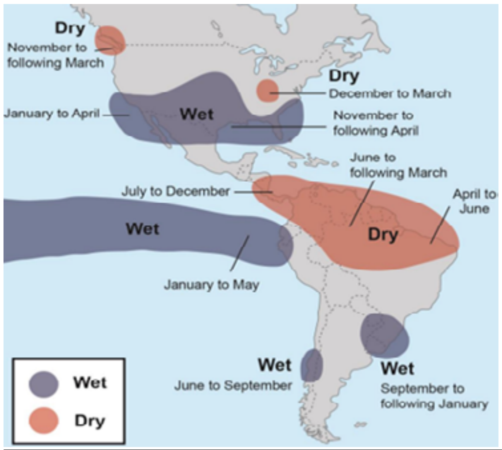
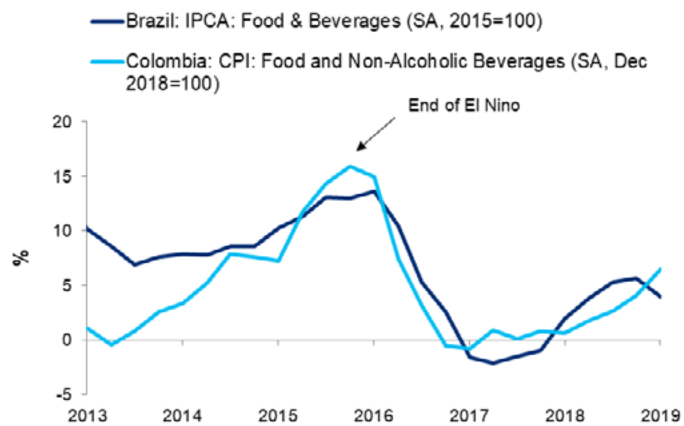


FIGURE 18: Brazil and Colombia food & beverage prices have suffered from previous El Niño's



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The 2014-2015 El Niño was the most intense of recent years. It's impact on the region contributed to poor crops, lower hydroelectric power generation, higher inflation and a drop in exports. We believe the 2023-2024 El Niño will bear monitoring as it represents a potential risk of disruption for economic policy and hence markets.

Market Opportunities

Local Rates and Foreign Currency – We see the major Latam free floating currencies (BRL, MXN, COP, CLP, PEN) as roughly fairly priced from a real effective exchange rate (REER) perspective. Aggressive, early monetary policy continues to provide attractive nominal and real carry in local rate fixed income, albeit we expect cutting cycles to increasingly erode their attractiveness during 2024. A medium-term positive outlook for commodities like copper and lithium should provide support for the Chilean Peso (CLP) and the Peruvian Sol (PEN) but investors should not expect this to be a near term dynamic but rather a longer term one. At the margin, we see contained policy risk in the region, which should also limit capital outflows. The Colombia Peso (COP) has seen a remarkable 24% recovery from the 2022 post-election panic levels. At current levels around/sub 4000 we find the COP with some, but limited, appreciation potential and closer to fair value in real terms.

FIGURE 19: Latam local fixed income yield-to-maturity

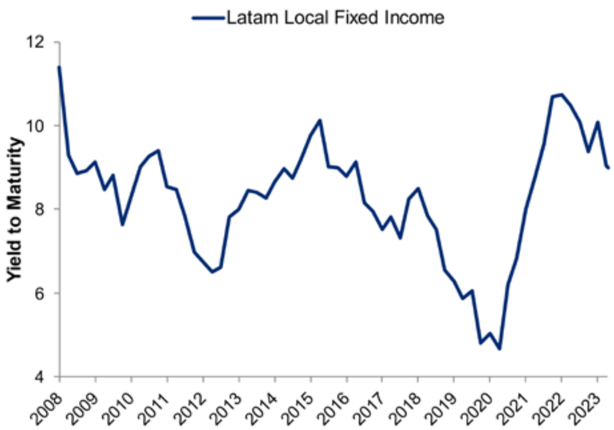


FIGURE 20: Latam local fixed income return (unhedged) table

Year	Latam Local Fixed Income Annual Return
2009	36.48%
2010	15.69%
2011	1.02%
2012	14.26%
2013	-8.01%
2014	-3.36%
2015	-22.24%
2016	18.65%
2017	13.88%
2018	-3.30%
2019	12.32%
2020	-2.03%
2021	-13.42%
2022	3.72%
2023	28.80%

Source: Bloomberg and Citi Research of January 12, 2024. Yields and returns are for the Bloomberg Latin America Local Currency Unhedged Index. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary

The Mexican Peso (MXN) has appreciated roughly 25% from its late 2022 lows. A strong US economy combined with record foreign direct investment flows from near-shoring have been the main drivers. We view the 16.50-17.00 area as one with limited upside when we consider the currency's value in real terms. While we don't expect the June Presidential elections to result in material policy shifts, we could see increased market volatility around them. The U.S. Presidential elections could also be considered a potential source of volatility for Mexican markets. The combination of these dynamics lead us to the conclusion that while local rate exposure could be attractive, we would layer it with an active currency hedging strategy, which could be initiated, at least partially at sub 17.00 levels and reduced near 19.00.

FIGURE 21: Mexican Peso MXN/USD

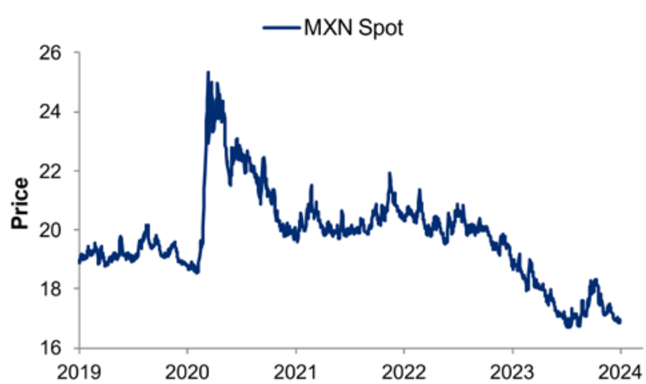
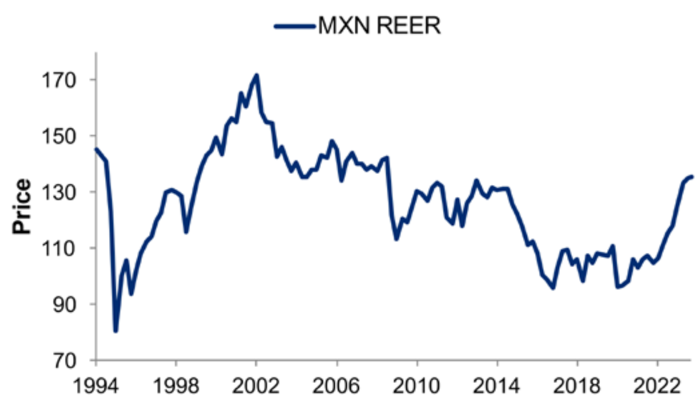


FIGURE 22: Mexican Peso REER



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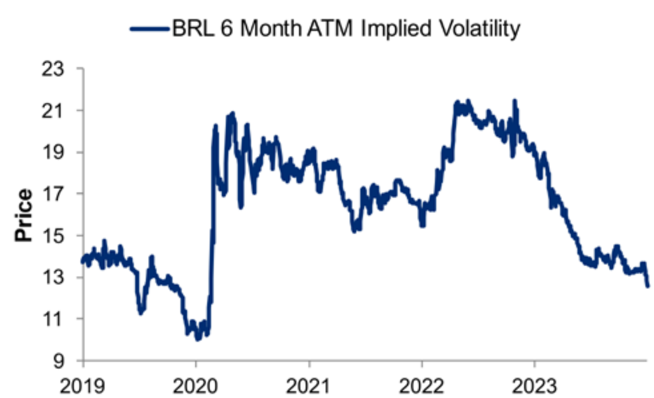
The Brazilian Real (BRL) has been in an appreciating trend, gaining around 15% against the USD since late 2021. High nominal and real rates, along with a conservative Central Bank, should continue to provide support to the BRL. To note, this is a currency that can exhibit periods of high realized volatility, in the 15-25% range, and 6-month at-the-money implied option volatility is trading around 12.5%, very close to the lower end of a 9-25% long term range. This would suggest a relatively high degree of complacency with current spot levels. When we look at the BRL in real terms -around 10% below the 30-year average- and combine it with the high nominal carry in rates, we can find some supporting arguments for such complacency. We find the nominal local carry trade as attractive in Brazil. At current BRL levels around 4.90 we are not particularly inclined to hedge the currency, even though we recognize the potential for volatility to spike and the currency depreciate temporarily. Triggers could be surprises that lead to tighter global financial conditions and/or increased domestic noise around the fiscal accounts. At these levels we would much rather play the upside potential towards 4.60 and hedge then. As downside risk, a breakout above 5.10 would be considered a strong signal to run a full notional hedge.

FIGURE 23: Brazilian Real BRL/USD

FIGURE 24: Brazilian Real 6 month at-the-money implied volatility



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Foreign Currency Fixed Income – The outlook for nominal USD rates is constructive and broadly positive for fixed income as the Fed could be begin a cutting cycle in 2024. While the term structure of USD interest rates should not be expected to reach medium term equilibrium levels at or near the averages of the last decade, we could see a steeper curve as Fed Funds eventually move towards 3% over the next 24 months. External accounts in the region remain on solid footing, with portfolio outflows discouraged by high local rates, manageable current account deficits and good price prospects for some key commodities like copper and lithium allowing for the accumulation and availability of foreign currency. We also do not expect any major policy changes in Brazil, Mexico, Chile, Colombia or Peru that would alter or curtail foreign currency availability for corporates. The Latin America Bloomberg USD bond index returned roughly 11% in 2023. The index is currently showing a yield of 8.40%, lower than the 9.75% peak reached in October 2022, but still providing a historically attractive yield. The duration of the index is around 7yrs, slightly higher than our current preference for global fixed income duration of about 5yrs, so while investors could expect some contribution to portfolio price volatility, we believe the nominal yield and potential for spread compression to be adequate compensation. In the sovereign space spreads are generally tight, with the exception of Colombia where we find credit event probabilities overpriced and hence attractive. Argentine sovereign bonds -which amortize but have very low coupons- will likely remain very volatile and hence more equity than fixed income like. In terms of credit quality we believe there are attractive opportunities in selected BB corporates names in Brazil and Colombia as well as selected corporates with implicit or explicit government ownership or participation.

FIGURE 25: Bloomberg Latam USD denominated index yield-to-maturity

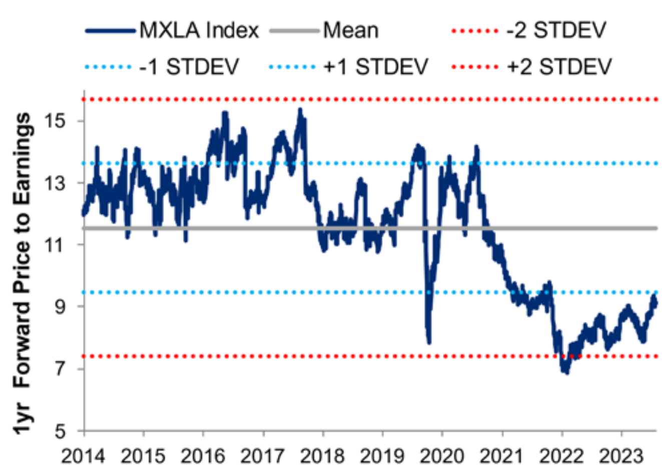
FIGURE 26: Latam USD debt has performed well after peak yield cycles

Peak	12 Month Forward Price Return	24 Month Forward Price Return
Mar-05	17%	33%
Oct-08	43%	78%
Jan-16	20%	29%
Apr-20	18%	6%

Source: Bloomberg and Citi Research as of January 12, 2024. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary

Equity Markets – Latin American equity index performance is dominated by its two largest markets, Brazil and Mexico, both accounting for more than 2/3 of weights and hence returns. According to Bloomberg, the 2023 total return of the Latam MSCI Index was 33.6%. This compares with 26.3% for the S&P500 and 22.3% for the Global Equity MSCI index. Latam equity price/earnings multiple has recovered from the 2022 lows of just below 7x, but at around 9x it is still providing a deep discount to earnings -which are currently not far from the 2012 commodity super cycle highs. Valuation alone, however, is not enough to suggest structurally overweight exposure. Emerging markets in general are highly cyclical, resulting in very volatile price action which tends to be better suited to highly tactical and opportunistic strategies. Given our global macro outlook we are generally constructive on equity risk. The 4Q 2023 risk rally, however, has already provided a fair amount of return that was expected for full year 2024. While we like the overall construct of the Latam equity trade, given its multiples and large discount gap to developed markets, at current levels of the Latam MSCI (around 2600 as of 12Jan24) we feel the need to be more tactically more cautious. Renewed momentum for global risk might be all it takes to make us change tack and undertake more aggressive positioning, maybe a breakout above 2760. Alternatively, we would look to take advantage of corrections towards 2300-2400 as better levels to add.

FIGURE 27: Latam forward PE earnings at deep historical discounts



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Alpha and/or numeric symbols used to give indications of relative credit quality. In the municipal market, these designations are published by the rating services. Internal ratings are also used by other market participants to indicate credit quality.

Bond credit quality ratings		Rating agencies	
Credit risk	**Moody's[1]**	**Standard and Poor's[2]**	**Fitch Ratings[2]**
Investment Grade			
Highest quality	Aaa	AAA	AAA
High quality (very strong)	Aa	AA	AA
Upper medium grade (Strong)	A	A	A
Medium grade	Baa	BBB	BBB
Not Investment Grade			
Lower medium grade (somewhat speculative)	Ba	BB	BB
Low grade (speculative)	B	B	B
Poor quality (may default)	Caa	CCC	CCC
Most speculative	Ca	CC	CC
No interest being paid or bankruptcy petition filed	C	D	C
In default	C	D	D

1 The ratings from Aa to Ca by Moody's may be modified by the addition of a 1, 2, or 3 to show relative standing within the category.
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Past performance is no guarantee of future results.

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