TFP Investment Counsel Corp.

the advisor

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Due South

"You can cut all the flowers but you cannot keep spring from coming."
Pablo Neruda
(1904–1973)

For many years, Latin America has remained largely off the radar of discerning investors - a region often viewed either as something to avoid or to sell short. Yet the continent may now be approaching a rare "spring" moment, in which geopolitics, easing monetary conditions and more pragmatic economic policies combine to create the potential for meaningful upside.

Latin America offers a blend of cyclical resilience, structural growth and diversification benefits that few other regions can match. For investors accustomed to the efficiency and predictability of mature markets, the continent's volatility often obscures its deeper virtues: economic cycles that are not perfectly synchronised with those of the developed world, favourable demographics in several countries, and rising participation in the global shift toward digital commerce and financial inclusion.

Naturally, there remain notable exceptions: countries such as Venezuela, Cuba and Nicaragua continue to struggle under distorted economic policy frameworks. Yet across much of the region the broader trajectory is gradually improving, with several economies strengthening their institutions and market credibility after decades of instability.

From a diversification perspective, the region's appeal lies partly in its relative independence from developed-market drivers. Latin American equity and bond markets frequently move out of phase with those of North America and Europe, offering a degree of natural diversification. Commodity export structures mean currencies and earnings often respond differently to global economic cycles, dampening overall portfolio correlation. Brazil's monetary cycle, Chile's fiscal discipline and Mexico's near-shoring advantage each reflect domestic dynamics rather than simply following the calendar of the U.S. Federal Reserve. In a period when valuations in the United States and Europe appear stretched, Latin American assets offers both yield and cyclical diversification.

The region is also a global powerhouse in natural resources. Latin America holds substantial reserves of industrial metals, energy and agricultural commodities - resources increasingly central to the world's re-industrialisation efforts and to the energy transition. These sectors are expected to attract enormous capital investment over the coming decade. The economic activity generated by these industries has supported urbanisation, infrastructure development and the expansion of a regional middle class.

On the growth side, the opportunity is twofold.

First, demographics remain comparatively favourable. Unlike the ageing societies of Canada, Europe and East Asia, much of Latin America still enjoys a relatively young workforce.

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Due South (cont'd)

With a median age in the early thirties, Latin America's middle class has expanded meaningfully over the past two decades and now represents an important economic force. According to the World Bank, roughly half of Latin America's population is now considered middle class, up dramatically from the early 2000s when barely one-fifth of the region qualified.[1]

This shift has strengthened domestic demand for housing, financial services, consumer goods, travel and digital commerce. Rising real wages, expanding credit markets and the rapid adoption of smartphones and online payments are formalising consumption patterns. The result is an economy less dependent solely on commodity exports and increasingly supported by a large, aspirational consumer base with growing purchasing power.

In countries such as Brazil, Chile and parts of the Andean region, inflation has eased significantly from post-pandemic peaks, allowing real wages to stabilise and in some cases grow. Formal employment linked to commodities, energy and supply-chain relocation has strengthened labour markets, while digital finance and online commerce continue expanding access to services and credit. Household balance sheets remain sensitive to interest rates and currency volatility, but the broader trend points toward expansion rather than retreat.

Second, policy frameworks have matured. Over the past two decades many Latin American countries have adopted inflation-targeting by central banks, more transparent fiscal regimes and deeper domestic capital markets. These reforms have not eliminated volatility, but they have strengthened policy credibility and reduced the likelihood of the extreme macroeconomic crises that previously characterised the region.

Political developments have also shifted in a more pragmatic direction in several countries. Across parts of the continent, governments recognise that investment, property rights and stable rules are prerequisites for sustainable growth. Argentina's 2024 turn toward market liberalisation reflects this broader debate, as policymakers grapple with the costs of decades of economic mismanagement. According to the World Bank, Brazil has advanced long-discussed tax reforms, while Chile and Peru continue to rely on institutional frameworks that moderate policy extremes.

Valuations further strengthen the investment case. After years of under-ownership by global investors, Latin American equities trade at notable discounts to developed-market peers. Corporate balance sheets in many sectors remain relatively conservative, while profitability in several industries sits near cyclical troughs. At the same time, local-currency bonds offer some of the highest real yields in the investable world.

Currency exposure, once viewed primarily as a deterrent, may also become a source of return. Several regional currencies remain undervalued relative to developed-market currencies on purchasing-power metrics. As inflation stabilises and external balances improve, selective currency exposure could add incremental return to diversified portfolios.

The region's diversification benefits extend beyond markets into policy and sectoral variety. Brazil's vast domestic economy, Chile's disciplined resource management, Peru's deep mining sector, Colombia's financial system and Uruguay's institutional stability provide contrasting exposures within a single geographic region. Investors can therefore balance growth opportunities with relative stability across a range of economic structures.

Challenges remain. Political transitions could still create volatility, and market liquidity is thinner than in developed economies. Yet these risks are better understood and, importantly, often reflected in valuations. The key is selectivity - favouring countries and companies where governance, capital discipline and institutional credibility continue to improve.

Ultimately, investing in Latin America is less about chasing speculative narratives and more about recognising a region gradually strengthening its economic foundations. Institutional reform, demographic momentum, technological adoption and cultural exports (music, cinema, literature) are reshaping the investment landscape.

The continent's path forward will, no doubt, be uneven. Currencies will fluctuate, political coalitions will shift and reforms will occasionally stall, and yet the economic track is becoming more resilient. A generation of technocratic policymakers, disciplined central bankers and digitally connected consumers is quietly altering the region's long-term trajectory.

Latin America remains imperfect, but its imperfections are increasingly familiar and increasingly priced into markets. The opportunity lies in recognising the steady consolidation taking place beneath the surface.

For patient investors willing to ignore the noise, the region offers something rare in global markets: diversification, tangible assets and participation in economies where the long arc of reform and development still points upward.

Spring rarely arrives overnight. It emerges slowly, almost imperceptibly, until one day the landscape has changed. Across much of Latin America, the first flowers are beginning to blossom.

Sources:

1. World Bank / LAC Equity Lab Updates (2019–2023)
2. Image previous page by ChatGPT