

LATAM'S RESURGENCE

Investing in Latin America is not always for the faint of heart. The region is seemingly in perpetual political turmoil and faces issues of erratic policymaking, a lack of gross fixed capital formation and, in some areas of the economy, downright corruption. Taking these points together, the region has struggled to diversify their economic dependence on commodity exports; subjecting them to boom-bust cycles. Latin America has thus offered an attractive tactical trade opportunity from time to time, but has not made sense from a buy-and-hold perspective. While it remains to be seen if the region can make sustainable improvements to political, social and economic stability (there is considerable upside potential...but we're not keeping our fingers crossed), we posit that the conditions are currently ripe for a period of substantial outperformance.

Monetary policy has impressed of late, as Latin American central banks did not assume burgeoning inflationary pressure was transitory, as most of their developed market peers did. Despite political pressure to support economic growth, central banks exercised their autonomy and aggressively hiked policy rates. The widening interest rate differentials propped up currencies, which in turn helped offset surging import costs. Now, with inflationary pressure in most countries cooling rapidly, it is likely that Latin American central banks will be amongst the first to loosen policy. Per the chart below, Brazil's SELIC target rate remains at 13.75%, while year-on-year inflation fell to 3.9% in May, giving the country an eye-watering real rate of almost 10%. For context, the US and Eurozone have a real policy rate of 1.1% and -1.5% respectively. As Latin American rates roll over, domestic activity should perk up and deeply depressed equity valuation multiples should begin to move towards longer-term average levels.

Industrial metals prices should be well-supported over the coming decade as major economies around the world make considerable public infrastructure outlays to modernize and decarbonize their electric grids. Copper is a stand-out in this regard, as it also benefits from the proliferation of electric vehicles (EVs), which require approximately three times more copper inputs than internal combustion engine

vehicles. Similarly, lithium demand is expected to grow quickly alongside EV battery production and renewable energy storage applications. The supply response is likely to be inadequate, after a decade of waning capital spending in the mining sector. These factors should provide a structural terms of trade boost to Latin American economies. Brazil is the world's second largest iron ore exporter, Chile and Peru are the top two copper exporters and the "lithium triangle" (estimated to hold over half of the world's lithium reserves) borders Argentina, Bolivia and Chile.

The investment thesis for equities in the region looks compelling. Yet, while commodity cycles tend to boost the popularity of incumbent leaders, there are no shortage of political risks. The recent "pink tide" pivot to the left in a number of Latin American countries has led to concerns of fiscal profligacy and less friendly business and investment conditions. For example, the recently announced plans to nationalize Chile's lithium industry unnerved investors. Balancing relations with the US and China has also become increasingly difficult for many countries worldwide as both nations attempt to form strategic alliances. This is particularly acute for Latin American nations like Brazil and Chile for whom China and the US are the first and second largest export destinations respectively. The aforementioned success of central banks in the region getting inflation under control has not been universal. Battered by economic mismanagement, a collapse in the peso and a historic drought, Argentina is currently contending with an annual inflation rate of 114%!

Accordingly, we prefer an active and selective approach to equity exposure in the region with Chile and Brazil our current top picks.

GLOBAL STRATEGY OVERVIEW

CASH

Institutional investor positioning surveys are showing some of the most extreme defensive positioning in recent history. Such extreme readings are a reliable contrarian indicator. Cash and equivalents have been decreased but remain modestly overweight in client portfolios.

BONDS

Staying short duration remains a key tenet of our fixed income strategy. However, with central banks at or near the end of their tightening cycles, a rotation from floating rate to fixed rate is warranted. Overweight floating rate exposure in Canada and the US has been replaced with short-term corporate bond exposure this quarter.

EQUITIES

When a recession occurs in a disinflationary environment, equity markets tend to bottom only once it becomes evident that the economy has bottomed. But in an

inflationary environment (as is the case today), stocks generally rally once central banks begin to ease monetary policy. With policy pauses and pivots drawing near in many economies worldwide, we opted to increase equity allocations in client portfolios.

OPPORTUNITIES

Industrial metals prices have been weak of late, as developed market demand concerns persist, while the economic recovery in China has been somewhat disappointing thus far. Regardless, metals remain attractive over a medium-to-longer term time horizon due to under-investment over the past decade and a forthcoming surge in demand from decarbonization initiatives. Industrial metals-sensitive exposures including Chilean, Brazilian and global metals and mining industry equities have been maintained in balanced and growth-oriented strategies.

FORSTRONG STRATEGIES	INCEPTION DATE	1 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEARS	SINCE INCEPTION
BALANCED								
Global Income	30/06/08	0.48%	2.38%	8.11%	2.00%	2.63%	5.86%	6.93%
Global Balanced	30/06/03	1.27%	3.80%	9.92%	4.79%	4.37%	7.22%	6.76%
Global Growth	30/06/03	2.33%	4.74%	10.45%	7.54%	5.73%	8.62%	7.88%
Core Income	30/06/08	0.76%	2.94%	6.75%	2.75%	3.06%	5.07%	5.93%
Core Balanced	30/06/03	1.54%	3.76%	8.70%	5.90%	4.90%	6.73%	6.86%
Core Growth	30/06/03	2.49%	4.15%	7.89%	8.50%	5.87%	7.83%	7.75%
GLOBAL EQUITY								
Emerging Markets Equity Focus	31/01/19	0.84%	-0.18%	0.51%	2.68%	-	-	1.41%
Global Ex-North America Equity Focus	31/12/19	1.45%	5.95%	14.86%	6.59%	-	-	3.29%
ALTERNATIVE INCOME								
High Income Opportunities	30/06/22	2.95%	5.18%	15.08%	-	-	-	15.08%

* Performance as of June 30th, 2023

Performance statistics for ETF Managed Portfolios are calculated from documented actual investment strategies as set by Forstrong's Investment Committee and applied to its portfolios mandates, and are intended to provide an approximation of composite results for separately managed accounts. Actual performance of individual separate accounts may vary with average gross "composite" performance statistics presented here due to client-specific portfolio differences with respect to size, inflow/outflow history, and inception dates, as well as intra-day market volatilities versus daily closing prices. Performance numbers are net of total ETF expense ratios and custody fees, but before withholding taxes, transaction costs and other investment management and advisor fees. Past investment results provide no indication of future performance. Future returns are dependent on the general investment environment, the nature of the investment mandate and specific portfolio risks. A rate of return for one year or less is not annualized.