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Results analysis: BlackRock Latin American

BRLA reports full year results for the 2024 financial year...

Update
10 April 2025

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- **BlackRock Latin American (BRLA) has reported results for the financial year ending 31/12/2024. The NAV total return of -35.7% in dollar terms compares to -26.4% for the MSCI EM Latin America Index, the trust's benchmark. This followed a strong year in 2023, which saw the trust deliver +37.8%, ahead of the benchmark's 32.7%.**

- **Latin American currencies fell over the year, which was a significant factor behind the poor performance. The Brazilian Real depreciated by 21.4%, whilst the Mexican Peso fell 18.5%. This contributed to underperformance of the broad index by these two markets, the largest in the region. BRLA's overweight to Brazil was a key reason behind its underperformance of the benchmark.**

- **The managers, Sam Vecht and Christoph Brinkmann, took advantage of the sell-off in Mexico to build up a significant overweight by the end of the year, having started 2024 underweight; they remain slightly overweight Brazil.**

- **The share price fell 35.3% in dollar terms over the year, and 34.1% in sterling, and the discount ended the year at 11.6%, marginally wider than the 11.5% at which it started. The board has not bought back shares for a number of years, preferring to rely on the dividend policy and a conditional tender offer to manage demand for the shares.**

- **This tender offer, for 24.99% of the shares, will be made if the annualised total NAV return does not exceed the benchmark's by more than 50 basis points over the four years to 31/12/2025 or the average daily discount exceeds 12% over that time.**

- **BRLA pays dividends worth 1.25% of the trust's USD NAV each quarter. For 2024, it paid 24.7 cents per share overall, with the payments declining as the year went on and the NAV fell.**

- **Board Chair Carolan Dobson said: "Latin America has weathered many turbulent political periods of its own making, so may have more experience and skill when handling the current political turmoil, created from outside its borders. It is rich in natural resources of crude oil and natural gas and is a major source of copper and lithium which are critical materials for the green energy transition. It is a large food supplier and has many efficient manufacturing companies. These factors should continue to attract investors in spite of the greater uncertainties that we are seeing in the world today."**

Kepler View

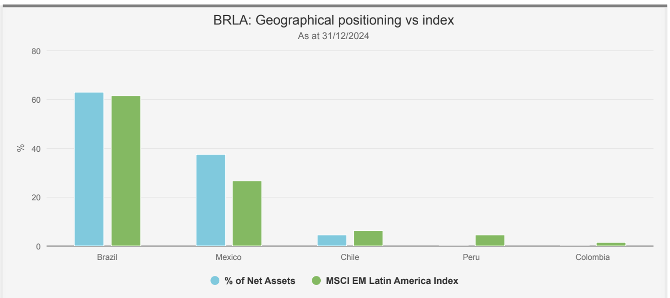
This was a tough year for Latin American equity markets, driven by domestic travails in Brazil and a mixture of domestic and international factors in Mexico. This sort of volatility is an unfortunate drawback of investing in the region, but it also provides opportunity.

The managers report that asset prices in the region are trading at attractive levels after the sell-off. For example, in the two key markets of Brazil and Mexico, which make up c. 88% of the benchmark, many stocks trade on single-digit multiples while paying double-digit dividend yields. Examples include Mexican bank Grupo Financiero Banorte, Brazilian natural resource companies Vale and Petrobrás as well as real estate developer Cyrela Brazil Realty. Flows out of Latin America were substantial in 2024, and Sam and Christoph note the potential for a sizable rebound if these reverse, given the cheap valuations. In addition, we note **BlackRock Latin American's (BRLA)** double digit share price discount and gearing, with 105% considered the neutral amount, add to the potential for a sharp recovery.

The key issue for Brazilian equities over 2024 came from policy: the central bank was forced to re-raise rates later in the year as inflation remained stickier than expected, while the fiscal position deteriorated thanks to the Lula administration allowing the deficit to rise to meet social spending. Sam and Christoph have shifted their positioning into less leveraged companies and into more defensive companies with stronger balance sheets. These characteristics should allow them to withstand a period of higher rates and potentially take advantage of more indebted rivals. They note that elections are due in late 2026, where a more market-friendly candidate might win. They argue markets could start to anticipate this earlier than usual thanks to the extreme value in the markets.

Mexico is the largest overweight in the portfolio by some margin. The managers see the potential for rate cuts from the current high 10% over 2025. They argue that the threat of tariffs from President Trump are factored into valuations, and that Mexico is likely to remain attractive as a site for nearshoring supply chains. As such, they anticipate buying more on any weakness, with the potential for volatility to continue in the short term as the Trump administration negotiates with Mexico. Diverse positions include Grupo México, a Mexican mining and transport conglomerate, with a major exposure to copper and highway operator PINFRA, which they expect to benefit from a government drive to boost infrastructure investment.

Fig.1: Geographical Positioning



Source: BlackRock, MSCI

Clearly global equity markets are digesting the significance of US tariffs on trade, and the uncertainty is having a negative impact on countries and companies exposed to global trade. However, after last year's sell-off the Latin American region looks cheap, while its natural resources remain vitally important to global economic growth. With the region now making up such a small proportion of global emerging market or global equity indices, we think investing via a specialist team to take advantage of these markets in a period of weakness is appealing.

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