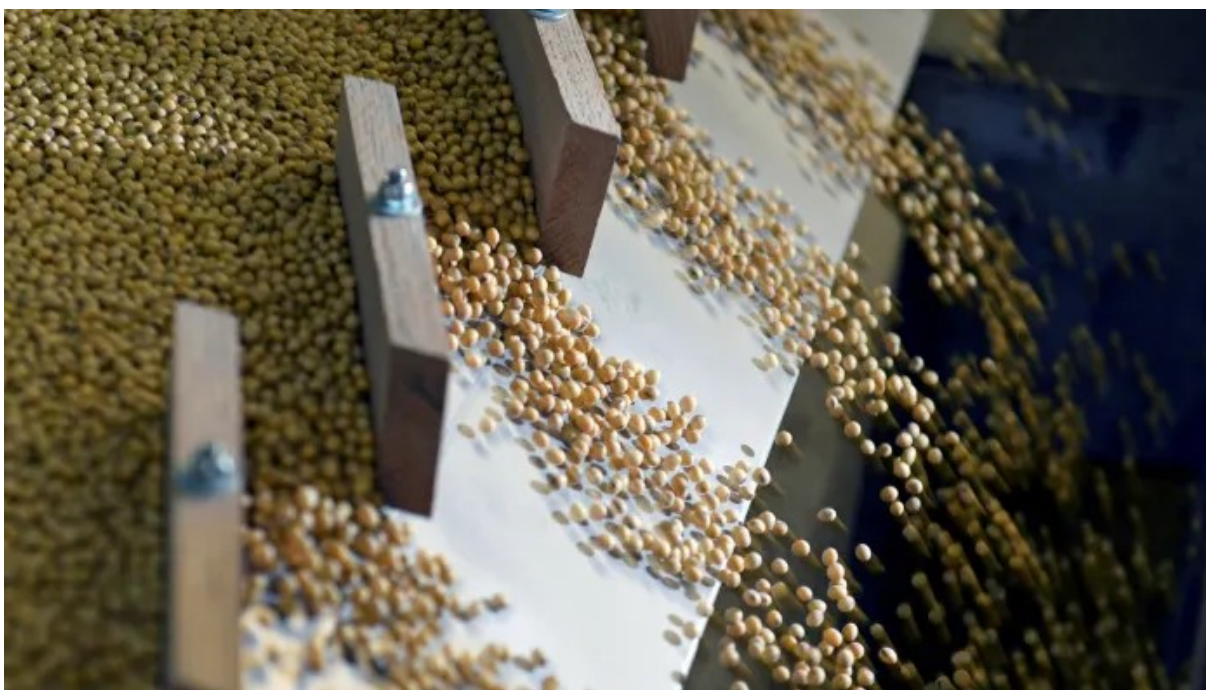


Opinion **Lex**

Latin America: region benefits from new commodity supercycle

LatAm countries gain from Western sanctions on Russia and disruption to Ukraine's agriculture



Brazil is one of the world's largest producers of soybeans © REUTERS

YESTERDAY

Equity investors have little to smile about these days. From the S&P 500 in the US to the Hang Seng in Hong Kong, global stock indices have been bruised and battered. But amid the sell-offs, one region has bucked the trend.

Latin America has emerged as one of the few winners from the turmoil. The MSCI Latin American Index is up [13 per cent](#) in 2022. Within this, bourses in Brazil, Chile, Peru and Colombia have gained between [19 to 30 per cent](#) in dollar terms. By contrast, the broader MSCI All-World index has fallen more than [12 per cent](#).

Investors are parking their cash in Latin America for two main reasons. Surging commodity prices is the obvious one. Brazil is one of the world's largest producers of soybeans, crude oil and iron ore. Chile leads the way in copper. Argentina is a big wheat grower. All benefit from Western sanctions on Russia and disruption to Ukraine's agriculture.

Cheap equity valuations add to the region's appeal. The MSCI Latin America index is priced at 8.6 times forward earnings, roughly half that of world bourses. This resurgence comes after the region trailed the MSCI EM index, not to mention the World index, over three, five, and 10 years.

Not all Latin American countries have rosy outlooks. The sharp rally in oil prices offers a net positive for crude exporters such as Brazil, Colombia, Ecuador and

Venezuela. But for Chile and Peru, which are big oil importers, the higher prices could hurt.

There are other risks. Elections in Brazil and Colombia will increase uncertainty. On a global level, the sharp rally in commodity prices threatens to push up inflation and put the brakes on economies. A global recession would eventually drag commodity prices back to earth.

For now, Brazilian equities remain a good bet. But Chile could also surprise on the upside if president-elect Gabriel Boric can carry through with his promise to introduce a new economic model that would end the country's commodity-fuelled boom and bust supercycle.

If you are a subscriber and would like to receive alerts when Lex articles are published, just click the button "Add to myFT", which appears at the top of this page above the headline.

[Copyright](#) The Financial Times Limited 2022. All rights reserved.
