

# The Fragreport



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## What does the Future hold for Latin America?

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March 2019 | Robert R. Fragnito | Chief Operating Officer

The fascination with Latin America has arrived at the forefront of international news for many reasons. From the perspective of the United States, the historic events in [Venezuela](#) are becoming of much interest to Americans. Fortunately, there is much more going on in Latin America than the images we see of civil unrest in Venezuela. It is a piece of a bigger transformation occurring in a region where many analysts continue to see as an area of growing potential.

### **The Receding Pink Tide**

Results of recent elections are showcasing an invigorated ideological economic competition between advocates of market orient systems against those who have traditionally favored command economies. The recent regional shift to the right in countries like Argentina, Brazil, Chile, and Columbia have for the moment receded the “[Pink Tide](#)” in Latin America. Although the right-shift phenomenon is considerable, leftist regimes are still maintained in Bolivia, Ecuador, and Venezuela.

An important counter-shift is [Mexico, Latin America’s second largest economy](#). The summer 2018 victory of leftist President [Andres Manuel Lopez Obrador](#), commonly known as AMLO, left international investors [unsettled](#) given his track record as the former mayor of Mexico City. It appears that fears are being curbed by his efforts to encourage economic development in the country.

These emerging political trends are noteworthy in displaying general [frustrations](#) shared by many across the region. We must understand that populism in Latin America is nothing new. In the past, populism was channeled by leftists, today the masses are testing another approach to perpetuating problems. Voters looked to outsiders to end violence, injustice, corruption, and lack of opportunity imposed by ruling elites.

### **Regional Showdown**

If we are to assume that this is an experiment, and it may very well be, two nations are positioned as front-runners in this contest. As it relates to international affairs, [Brazil and Mexico are rivals](#) and it is likely they will continue to operate within this narrative.

This rivalry is further enhanced by the leadership in both countries who are diametrically opposed on the political spectrum. In Brazil we have [Jair Bolsonaro](#), a former army captain and pro-market-oriented, right-wing populist who is seeking to [expand privatization, lower taxes, and execute pension reform](#).

Bolsonaro carries a strong market-oriented economic team in his arsenal. Including his economic minister, [Paulo Guedes](#), a University of Chicago educated investment banker. Despite strong criticism of his [social views](#), a true test of Bolsonaro’s fate is if he can bring much needed reform to the country’s [pension system](#). Considering regional dynamics and an opportunity for increased cooperation,

Bolsonaro enters his term at time where he is surrounded by [like-minded friends](#) in Argentina, Chile and Columbia.

After 25-years of pro-market policies in Mexico, AMLO aims to divert his nation's economy towards [state driven expansion into energy, infrastructure and agriculture](#). It is without question that he hails from the leftist camp, but his tenure as a mayor earned him acclaim for working with Mexican telecom tycoon Carlos Slim and for providing welfare programs to elderly citizens in Mexico City.

Despite maintaining historic [strong popular support](#), AMLO is under a watchful eye from investors. His government is taking steps to [stimulate the economy along the U.S. border](#) by initiating a plan to cut corporate taxes and increase wages for workers.

Trade with the U.S. is a sticking point for the AMLO government. Stipulations over steel and aluminum tariffs hang over the possibility of ratifying the new trilateral trade agreement with the U.S. and Canada ([USMCA](#)). Trade officials stated that [without the easing of tariffs, Mexico remains satisfied with NAFTA](#). Workers' wages also remain a priority for the Mexican President.

Competition between both countries will focus on encouraging and solidifying foreign investment. [Brazil is better positioned](#) to receive such investment given its aggressive orientation towards open markets and privatization. In addition to infrastructure projects, there are also opportunities [emerging in wealth management](#) in San Paulo and Rio de Janeiro. We should note that wealth opportunities are also present in Mexico City.

### **Emerging Potential**

Latin America has long been heralded as a region with tremendous [natural wealth](#) and a sizeable market. If we include the Caribbean, Central America and South America, the population of Latin America is roughly [643 million](#).

Latin America remains an area of opportunity for investors and is drawing attention on the international stage. Potential in natural resources, agriculture, infrastructure, [human capital](#) and the expansion of a younger wealthier consumer base presents an attractive area for foreign investment.

In the technology space, there are over [200 million](#) smartphone users constituting the region as the second-fastest growing mobile market in the world. Mobile technology generated over \$280 billion making it 5% of Latin American GDP in 2018.

The rise of the middle class in Latin America is of tremendous importance. Since the commodity boom of the 2000s, poverty rates in Latin America were [decreasing](#) 5% year-over-year leading up to 2012. As a result, the region witnessed [70 million](#) Latin Americans enter the middle class, 40 million of which were Brazilians.

Both China and the U.S. will be the predominant leaders in what could evolve into a heightened race for economic dominance in the region. It could be the principle battleground for both nations to exert economic influence and may yield intriguing cooperation in the region as never witnessed before.

For China, it is a reinforcement and future expansion of a commitment of over [\\$25 billion dollars](#) in investment that has multiplied 18-fold since 2000. For the Trump Administration, Latin America offers a

platform for putting “[socialism on trial](#)” and increasing cooperation in a region where American involvement in respective domestic spheres is often resented.

Latin America is at the crossroads. Voters spoke-out in harmony with other electorates around the region and we can infer they are willing to try new approaches in order to solve old problems. This year will prove very consequential in testing the resolve of this new political shift in the region.

[Elections in 2019](#) will take place in six nations throughout the region, of the six, Argentina and Bolivia will be followed closely. In addition, developments in Venezuela are also of serious consideration. The sustainability of this trend will be in play for some time to come and the road ahead for the region will not be without its challenges, of which there are many. When contemplating all these developments, investors feel comfortable enough to be willing to take a calculated risk to achieve great reward.

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