Research @ Citi Podcast, Episode 39: Latin America – Where Politics Meets Prosperity

Recorded: June 17, 2025

Published: June 25, 2025

Host: Lucy Baldwin, Global Head of Research, Citi

Guest: Luis Costa, Global Head of Emerging Markets Strategy, Citi

Luis Costa (00:00)

You have to give credit to Latin America policymakers and government leaderships because they managed to, in a way, find a midfield here between China support and Western support without too much conflict and without too much noise.

So, this is definitely one important thing, and it continues to support the equity space a lot.

Lucy Baldwin (00:21)

Welcome to the Research @ Citi podcast. I'm your host, Lucy Baldwin, Global Head of Research at Citi. I'm joined today by Luis Costa, our Global Head of Emerging Market Strategy, here at Citi London.

Luis, welcome to the podcast.

Luis Costa (00:37)

Thank you, Lucy.

Lucy Baldwin (00:38)

It's great to have you here. Now, today we want to talk about Latin America, which has been massively in focus for a lot of investors this year. Maybe we can start with the backdrop and the politics and what you're seeing. Because it strikes me, Luis, that Latin America has really migrated over the last few years from having seen the big left turn, as it was often referred to back in the early 2000s, to a different system. A system that's perhaps characterized still by some left-leaning parties, but maybe more coalitions. Certainly a more complex system.

Perhaps you can tell us a little bit more about that and the politics and then how you think that has really changed the economic policy across the continent, which of course is driving a lot of what we're seeing today.

Luis Costa (01:20)

Absolutely. This is fascinating because if one understands the movie, you can actually figure out how bad or how good the picture is. Right? So, if you go back to the period of the late ‘90s, beginning of the 2000s, that's when we had the so-called Pink Tide. Right?

So, all across the board, we had Lula in Brazil, we had Kirchener in Argentina, Correa in Ecuador. So, that was the first big fiscal boost in the region since the early ‘90s.

And after that, we had the so-called post-Pink Tide, which was a period of a little bit of fragmentation. I mean, there was a little bit of a pushback to the left-leaning parties or left-leaning coalitions; you know, more coalition politics, which kind of dilutes the leftist agenda a little bit.

And now here we are. We are in this post period, which is very important because it's post-COVID, let's not forget that the COVID effect for most of the emerging economies, especially in LATAM, was definitely a boost in terms of fiscal impulse. And we are dealing with politics and an economic reality that is very much tied into large fiscal balances and inflationary trends. Which is something that got exacerbated by COVID as well.

So now we are in an environment where we can actually have a little bit of pushback to the left-leaning agenda. Let's see how it goes. It's going to be very interesting. For example, Chile, at the end of 2025, if you look at the major candidates, they are they are not necessarily left-leaning candidates. They are, you know, right candidates or right-center.

So, I think it's going to be a Brazilian politics or Brazilian elections next year, you know, what's going to happen to Lula? But I think this is very important for us to understand why some curves, some markets in LATAM, they are either flirting with fiscal dominance or they are in fiscal dominance. That was probably the case of Brazil at the end of last year. It's the case of Colombia now. I mean, with repeated dislocations in terms of fiscal expectations and knowing that, of course, after a certain level, that starts hitting assets or that starts influencing the way we investors look at the assets can be both external or local. So, this history of Latin America politics had a significant influence to it.

Lucy Baldwin (04:37)

And so very clearly, we can hear you're telling us that this sort of economic byproduct has been, we've had a more social agenda over the last few years, obviously, accentuated by COVID and that's led to these bigger fiscal impulses and also some inflationary pressures building across the region.

‘25 has clearly been a year of a lot of change, significant change in the global economic order. How is that impacting things on the ground across Latin America? What's going on in terms of President Trump coming in, some significant foreign policies, whether it's around tariffs, immigration, whether it's relationships with China. What does that mean in terms of economic policies across the region that the new politicians across Latin America are having to put in place? And how's all that panning out?

Luis Costa (05:28)

Well, I think it's very interesting, Lucy, because it's a little bit of a mixed bag and it's not entirely negative. Well, it hasn't been entirely negative, to be honest. Back last year, talking to investors and even ourselves here in Citi Research, we were so much focused on Mexico, right? Because we knew what was coming in.

There was pressure coming from the Trump administration in several potential angles and so far so good to be very honest with you. If you look into the asset array in Latin America, maybe you have to give credit to the Sheinbaum administration, the way they are chasing targets with the U.S. administration, trying to come to agreements, trying to do their homework on some important points of the agenda. I mean, the fentanyl side, the cartel side. There's all aspects in terms of domestic security. So that was definitely a catalyst.

But, generally speaking, if you look at the way we investors, we analysts look at it, it's been generally positive. There is an interesting differentiation here. And I still think it's valid, in terms of how emerging markets can cope with this new tariffs framework or potential tariffs framework.

We don't know exactly what the final stage will be, but it's in current mutation. But we know that tends to be more detrimental to EM industrials rather than EM commodities, right? And we know that in LATAM there is a natural commodity bias. I mean, we’ve got Brazil, which is a commodity play, but also very strong industrial-wise, especially when it comes to providing this industrial base in the South Cone.

But Mexico and the others, they tend to be a lot more commodity bias. I mean, we've got the Colombias of the world, the Chiles of the world, with copper and other minerals. So, that in a way has been supportive of the region, not necessarily suggesting that like the industrials, we are actually going to see so much of a downturn only because of the tariff war.

All that said, central banks have been very cautious. That could be further easing in the region in terms of policy rates. But effectively, except for Brazil, we are fairly down compared to the peaks of policy rates we had in 2021, 2022. That tells you that there has been a lot of easing already.

But when it comes to the coming quarters, I still detect a lot of caution coming from policymakers in the region. Because they just don't know what the final print will be on the global trade side and any secondary effects to that. I mean the whole argument that that can be deflationary outside the United States, that's still on hold. Many policymakers want to make sure this is right before they act.

Lucy Baldwin (08:40)

And of course, if you think about how this has all translated to the performance of Latin American assets this year, to your point, in equities across the region we've seen a rebound after what was generally a fairly tough 2024.

You've got some very strong equities performances in areas like Argentina, Chile and Colombia. You know, the big equity market of Brazil up around 15%, as we talk now in June, so halfway through the year. And I guess that's been on the back essentially of some cheap valuations relatively vs. the globe, the commodities backdrop that you're referencing, this kind of reassuring narrative, plus some reforms, of course.

You know, tell us a little bit more about some of those themes and trends, and then again, a little bit deeper into fixed income. To your point, we've still got some pretty high yields on offer across the region. There's still this expectation of more rate cuts to come, some of that being obviously tempered by concerns, to your point around tariffs and other President Trump-related policies. How are you expecting these markets to perform from here as we go through the back end of this year, 2025?

Luis Costa (09:57)

It feels like Latin America is in a reasonably positive position here in the global background of emerging markets and I'll tell you why. Going back to one of our first topics in our conversation here, the legacy of high interest rates reacting to fiscal and inflation. This story is still leaving us with very interesting real rate valuations across the region.

And let's not forget, this conversation is taking place in a backdrop of a weak dollar, which is, generally speaking, even nowadays with the geopolitical dislocations that we are getting out of the Middle East, it's still difficult basically to negate the possibility of the lapse down in the dollar, right? So, you and I know that I was just in Asia seeing clients and it was fascinating. I've never seen so much interest in local currency products in my marketing trips in Asia. So that can have further lags and we know that in the grand scheme of things for EM, investors will probably have a tendency to look for, you know, the high carry, the high real yield valuations.

Central banks, they're still cautious, but you know because of the caution, you're still dealing with pretty decent carry compared to the hard-currency carry. So, I think that's one very interesting topic to discuss.

You mentioned in the previous question as well, and I don't think I touched on it enough, which I think is definitely valid to this question as well, which is the mix of capital support. I mean, China, is still very strong in the context of Latin America: deeply involved, and as a matter of fact one of the first lenders, at silver level, and in many countries such as Chile and such as Brazil. I mean, as a member of the BREI, we continue to see despite the fact we are off the peaks in terms of China lending to the region, we continue to see a lot of interest and a lot of intensity in terms of how the Chinese see the Latin American markets.

And you see this all across the region, automotive sector, I mean with the BYDs of the world and infrastructure lending, the participation in all the natural resources, industries, and it goes and it goes. So this is actually a very interesting mix. Because the beautiful thing about Latin America is for the most part, that never conflicted with Western participation. So, you actually have a mix different from other countries, in other regions. You cannot say the same thing about some African investment jurisdictions.

But in the case of Brazil, I mean, that in a way co-exists. You have to give credit to Latin America policymakers and government leaderships because they managed to, in a way, find a midfield here between China support and Western support without too much conflict and without too much noise. So, this is definitely one important thing, and it continues to support the equity space a lot.

Lucy Baldwin (13:30)

That's really interesting. And it sounds as though you're fairly optimistic about the ability of the region to manage those challenging geopolitics between the United States and China as we go forward because to your point, it's quite multifaceted.

The relationship between China and the region has obviously grown significantly in the last 20 to 25 years. I think China is the second-largest trade partner now after the U.S., for the region overall. I know it's the number one partner for a couple of key countries within the region. You've got quite large levels to your point of FDI and some major, major partnerships in infrastructure, whether it's shipping, hydropower, batteries, et cetera, and obviously that increasing role around the Renminbi trade. Any concerns or thoughts on how the region can continue to balance this relationship from here?

Luis Costa (14:28)

Well, it would depend a lot on how the White House will decide to go for it. I think that they have so much on their plate right now. So, you can imagine that some countries are definitely closer to, let's say, U.S. policy – El Salvador or Argentina, which is a very topical case now in Latin America. I don't see these countries necessarily trying basically to increase the intensity of the relationship with China in order not to bother the good relationship with the White House, with the current U.S. administration.

But other countries, as we know, and I think Brazil is probably a very interesting case: They managed to, in a way, reach this midfield, not necessarily getting at odds with the U.S. administration. At least for now, it doesn't seem to be necessarily a high priority in U.S. foreign policy. But definitely surfing this tide of China involvement and engagement more and more in several industries.

So, I don't think this is necessarily a topic that we are going to discuss this noise around, Latin America being sandwiched, right, between U.S. power and China engagement. But, you know, eventually, it's a topic for 2026 and beyond. But it doesn't seem to be a high priority for the White House now, which is good news for Latin America growth.

Lucy Baldwin (16:05)

When you think about the agenda from here, politically, what are the big events that you're watching over the course of this year, next year in terms of elections and how are you thinking about the impacts of those at a country level on the different markets?

Luis Costa (16:23)

Two big events for us this year, probably in a pecking order of relevance to the markets. I think the first one is Argentina: In the month of October legislative elections are going to be very interesting because given the performance in the primaries, I think it looks like Javier Milei will maintain dominance, and they obviously want to go for a big win. They don't want to go for a win only in order basically to consolidate the reforming agenda, which has been incredible, something that goes well beyond any expectations back in 2024.

We've got Chile as well, which is going to be a very interesting. We were talking about disruptions on the left and potential replacements. Very interesting presidential and legislative elections taking place in November and December this year.

Why? Because if you look at polls and surveys, they seem to be a little bit biased towards two candidates, which are not necessarily left-leaning. They are right-center/right candidates. So, it's going to be very interesting to see what happens there.

Next year will be super exciting. We've got another Brazilian election, needless to say, big question mark is Lula staying? Is Lula willing to stay? Some vacuum in the opposition in case Bolsonaro is not able to run. So, it's going to be very interesting for the markets now and the markets will trade this very actively. I think long before the spring 2026, I do believe that politics will probably dominate, especially local assets in Brazil.

Colombia is another – we were talking about fiscal dominance, right? Colombia is now unfortunately the poster child of fiscal dominance. I mean, they have just made a change. They are pretty much canceling the fiscal law for the next three years. That suggests not-fantastic fiscal dynamics as we go into 2026 and that can be trouble. So, it's going to be very interesting to see if Petro will manage to stay in power. And still we aren't sure which leaders in the opposition will be able to run, but that's definitely one country where the markets will trade a potential change of regime. And away from Petro back into something a little bit more central-right.

So, it's going to be a huge and needless to say, given the recent developments on the fiscal side, investment sentiment towards Colombia now is very depressed. So we could have actually a big change of sentiment as we go into the next year.

Lucy Baldwin (19:22)

Fantastic. It's going to be an exciting few months for sure and into 2026 across Latin America, so we will be watching to see what impact all these elections are going to have across the region and of course, to your point, the impact that will then have on markets. Luis, thank you so much for joining us. It's been great having a chat to you today.

Luis Costa (18:42)

Thank you very much. It's been a pleasure.

Lucy Baldwin (19:44)

This episode of Research @ Citi was recorded on Tuesday, June 17th, 2025. I'm your host, Lucy Baldwin. Join us next time as we discuss the Big Beautiful Bill with our economist Rob Sockin. Please also join us when we have Andre Mazzini talking about Brazil for a Deep Dive ahead of our Latin American Conference, which is coming up at the beginning of July.

Disclaimer (20:08)