

GLOBAL MARKETS FORUM

Join the conversation exclusively on
Refinitiv Messenger

@ReutersGMF #RefinitivMessenger



Q&A- U.S. stimulus to boost Mexico; LatAm stocks to outperform in short term - Alejo Czerwonko, UBS Global Wealth Management



Mexico's manufacturing-oriented economy will feel positive "shockwaves" from further U.S. economic stimulus and infrastructure spending, **Alejo Czerwonko, chief investment officer, Emerging Markets Americas at UBS Global Wealth Management** told the Reuters Global Markets Forum on Wednesday, February 3.

"[It's] a good environment for Mexican exports to the U.S. [Mexico's] economy is more geared toward manufacturing and the U.S. market," he said.

Czerwonko added that Mexico stands to benefit from a better environment for private investment and shifting supply chains under the United States-Mexico-Canada-Agreement (USMCA), a successor to the North American Free Trade Agreement (NAFTA).

Following are edited excerpts from the conversation:

Q: What's your outlook for Latin America (LatAm) over the next year in comparison to other emerging markets?

A: It's important to recognize that Latin America's socioeconomic fabric has been deeply disrupted by the coronavirus, and the region will suffer from the pandemic's effects for years to come. Although we expect the region's economy to grow north of 4.5% in 2021, levels of activity will remain tepid and the recovery will lag that of emerging Asia, the US, and Europe. Many countries in the region won't see levels of economic activity comparable to those observed in 4Q19 until 2022 or even 2023. All in, the macroeconomic outlook for LatAm looks quite challenging.

Allow me to share one piece of good news for LatAm, however, and that is the external environment. We expect global liquidity conditions to remain ample, fiscal policy in developed markets to accompany the recovery, and the global vaccine portfolio to continue to grow and diversify. In this context, we expect commodity prices to remain well bid, and the US dollar to depreciate vis a vis most global currencies. Overall, not a bad external backdrop for LatAm!

We talked about a gloomy macro picture for LatAm overall ... yet it is important to recognize that LatAm assets are already discounting a challenging outlook. Some of this "bad news" will likely be priced out in the coming months amid a supportive global environment.

Q: What factors have made Latin American nations lag the recovery in other EMs?

A: Well to begin with, LatAm was dealing with a number of structural challenges pre-pandemic.

And then, relative to other regions, COVID hit to LatAm has been disproportionately large, which exacerbates the regions' woes. And after a poor management of the pandemic, the vaccination outlook lags that of most of the developed and parts of the emerging world.

Of course, one needs to recognize that when looking under the hood, differences across the region do exist.

Q: Beyond the vaccine rollout, what are the other primary risks you see to the recovery?

A: Political risks, I'd say. The calendar is mined with elections in LatAm in 2021. Chile, Argentina, Mexico, Ecuador, Peru, etc. all face interesting choices in the ballots that can shape the region's politics for years to come

Q: On Brazil, how do you expect the current debate over additional stimulus to play out?

A: As you know, in order to counter the economic and social effects from the pandemic, the Brazilian government has delivered one of the most significant fiscal responses in the emerging world. As the fiscal deficit rose to nearly 14% of GDP in 2020, the economy is staging one of the fastest recoveries in the region.

In our baseline scenario, we expect the government to bend but not break the spending-cap limit. This means the 2021 budget won't feature an increase in expenses to a level that would derail public accounts and investor confidence. A fine line to walk, of course, but this week's news are supportive of the baseline scenario. Much will depend on the evolution of the pandemic and the rollout of vaccines.

Q: So no additional cash transfers?

A: If there are additional cash transfers, they should come hand in hand with assurances of fiscal moderation in other areas/in the very near future

Q: Do you see inflation remaining steady, or will the central bank have to front-load rate hikes?

A: We are seeing a normalization in inflationary dynamics that is having an impact on the monetary policy outlook. The Brazilian central bank will most likely start hiking before mid-2021

Q: After President Trump, what impact do you see from of new administration on relations with Latin American countries?

A: U.S. interest and involvement in the region was limited under Trump, as illustrated by the fact that he visited the fewest number of Latin American countries of any US president in almost a century.

We expect Biden to be more engaged with the region. He looks set to adopt a more collaborative stance on immigration, deeper focus on democracy and human rights, and a more aggressive green program. By and large, positive for the U.S.-LatAm relationships

That said, some relationships will regularly be tested - some aspects of the relationship I should say.

We could of course see sporadic schisms between the US and Brazil on the latter's environmental stance, or between the US and Mexico due to Mexico's domestic policies involving the energy sector, for instance.

Q: Do you see this more engaged U.S. stance impacting trade dynamics and foreign investment in the region?

A: Beyond whatever Biden might decide to do in the trade and geopolitical area, there's the macroeconomic channel. Further rounds of US stimulus should come in line in coming weeks and an increase in infrastructure spending cannot be ruled out. In Latin America, the most pronounced shockwaves are likely to be felt in Mexico, whose economy is more geared toward manufacturing and the US market while as you know others are more focused on commodities and deeper trade links with China -- a good environment for Mexican exports to the U.S.

Q: How do you gauge the impact of the United States-Mexico-Canada Agreement on Trade (USMCA) on Mexico so far?

A: Regarding USMCA, by and large Mexico stands to benefit from the updated deal. North American integration looks set to continue to deepen, providing a good environment for private investment in the country, and likely allowing Mexico to benefit from the ongoing rearrangement in supply chains.

Q: How could the U.S. and Canada respond if (Mexican President) Andrés Manuel López Obrador presses ahead with his electricity sector reforms, given it potentially violates the USMCA?

A: That is a clear area of tension, and I'd expect pressure from the U.S. and Canada to pick up. As you know, the bill introduced in the Mexican Congress would change the order in which electricity is dispatched, sending private investors to the back of the queue behind power from quasi-sovereign firms.

The other area of potential USMCA tensions is that of labor standards.

Q: Which markets/sectors in LatAm do you expect to outperform?

A: I think LatAm equities have room to outperform emerging markets in the next 3-6 months as the global economic recovery accelerates. And there is room for some LatAm currencies such as the Brazilian Real and the Mexican Peso to appreciate in coming months relative to the U.S.

Q: Do you anticipate much progress on the EU-Mercosur trade deal this year?

A: Snail pace progress, I'd expect. MERCOSUR and the EU are currently reviewing the agreement's text and additional changes are possible. Given outstanding points of contentions such as deforestation and the Falklands, together with relatively poor cooperation between Brazil and Argentina, progress will take time. Translations should follow, and approvals with each country's legislative bodies after that .

Q: What do you think of Brazilian fixed income and also, do you think Bolsonaro can ever get back to prudent fiscal reform during his term given Covid-19?

A: I think given the temptations to spend further in an uncertain Covid world, you have to remain selective within Brazil fixed-income. We find some opportunities, mainly in the USD denominated space.

About the Global Markets Forum

Moderated by experienced Reuters journalists, the Global Markets Forum (GMF) is an exclusive editorial community for financial market professionals [available for free on Refinitiv Messenger](#). The world's first macro, cross-asset class, cross-regional community, the forum surfaces the most critical market topics, the widest range of views, and hosts the most influential guest voices, in real-time. Hear peer opinion, take market temperature, and discover new connections: The Global Markets Forum offers content, conversation, and networking all in one place.

Check out the up to date topics, events & LiveChat with our weekly featured guests: [GMF Week Ahead](#)

 [@ReutersGMF](#) Follow us on Twitter

Don't have access?

Visit refinitiv.com/gmf