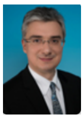
AMUNDI FUNDS LATIN AMERICA EQUITY

Monthly Portfolio Update

30/04/2025

Meet the Team



Patrice Lemonnier

Global Head of Emerging Markets Equity

Andrea Salvatori

Senior Portfolio Manager - Head of ESG Strategies Emerging Markets

Lionel Bernard

Senior Portfolio Manager - Emerging Markets

Market environment

Global equities continued to sell-off in the first part of April post the "Liberation Day" announcement and a rapid escalation with China on so called "reciprocal tariffs". Then, with a 90-day reprieve on the reciprocal tariffs (except China), some carve outs offered to China and some electronic products, markets recovered some of the lost ground. Amid heightened trade policy uncertainty, the MSCI EM Latin America index climbed another 6.9% in April (in USD, net returns), outperforming both the MSCI Emerging Markets (+1.3%) and MSCI World (+0.9%) indices. Mexico (+13%) and Colombia (+6.6%) outperformed Brazil (+5.1%), Chile (+3.2%) and Peru (+2.3%). Year-to-date, the Latin America index is up 20%, while the MSCI World index is down almost 1%, hit primarily by fading "US exceptionalism" (MSCI USA: -5%), while the US dollar has depreciated by over 8% against a basket of currencies during the period.

Latin America in general was among the least impacted regions from the high reciprocal tariffs initially announced by the US administration. The region could pay average tariffs around 6 to 8% (below the 10% universal tariff, after accounting for exemptions), while Europe may have to pay near 20%, Asia (ex-China) above 25% average, and China 145% tariff. Although these tariffs are expected to come down after the 90-day pause announced in order to start bilateral negotiations, they set a favorable pre-deal base for Latin America. The relief was especially impactful for Mexico as countries part of the USMCA trade agreement (Mexico and Canada) have been spared from incremental tariffs. As a result, the MXN appreciated 4.5% against the US dollar in April. Nevertheless, an economic recession seems unavoidable in 2025, resulting from weak investment and demand side indicators. This scenario should lead Banxico to keep cutting rates in its next meetings. President Sheinbaum's leadership and popularity keep shining. In Brazil, the political environment was relatively quiet this month. Inflationary pressures persist on the back of resilient activity and unemployment ending Q1 at a record-low of 7%. For the first time this year, however, inflation expectations seem to have reached a tipping point in April. Updated Chilean election polls show Evelyn Matthei (right-wing coalition) advancing to a second round runoff against either Carolina Tohá (left) or José Antonio Kast (far-right) who are currently in a technical tie. With persistent deficit and insufficient revenue, the Colombian fiscal situation is getting worse. The economy may start to decelerate, even more so in the context of lower oil prices. Peru showcases solid economic growth (near 4% annualized pace in Q1) and low inflation. The political landscape, however, remains fluid.

Portfolio review

The portfolio slightly outperformed its benchmark again in April. Sector allocation and stock picking in Chile (mainly real estate, materials and staples), Mexican financials, Brazilian discretionary consumption and materials drove the main positive contributions. The primary detractors were stock picking in Brazilian financials and industrials.

The investment team went from neutral to overweight (vs. the benchmark, MSCI EM Latin America index) on Mexico, following a better-than-expected preliminary outcome on the US tariffs front. Exposure was raised mainly through real estate, banks and consumption. Exposure to energy and exporters in Brazil was trimmed further, mainly on expectations of lower oil and pulp prices in the foreseeable future.

Market outlook

The investment team believes that the worst of the trade tariffs saga is possibly behind us. However, President Trump remains unpredictable, generating a lingering uncertainty likely to further delay many sizeable investment decisions, impacting global growth and corporate earnings. Meanwhile, equity valuations in the US remain significantly above historical averages and the multi-billion tech investments announced in 2024 may have to be downsized. Global investors may therefore continue to seek asset diversification outside of US equities and the US dollar.

Latin America is certainly not fully insulated from a global slowdown, which could lessen demand for its exports. In relative terms, however, the team sees good reasons for the region to continue to fare well.

With minimal direct impact from US tariffs, a weaker US dollar and lower oil prices, Brazil could potentially see inflationary pressure ease, in turn supporting a less hawkish stance on local rates. While there is still a long way to the November 2026 General Election, when a fiscal U-turn seems inevitable, the team continues to see a positive risk-reward balance. Valuations remain discounted, with attractive dividend yield and a still depreciated Brazilian currency, including vis-a-vis Brazil's main trading partners. Expectations of a soft-landing support the carry and upside of the investment case despite the concerning fiscal trajectory and self-inflicted, hugely restrictive monetary policy.

Mexico's President Claudia Sheinbaum has been showing leadership skills and pragmatism towards the US administration. The team understands that the USMCA trade agreement is still alive and that Mexico's nearshoring role could be revived by a US trade war against China. The trade agreement renegotiation, which is set to start in the second half of this year, may nonetheless bring some tightening of local and US content rules, and renewed investment flows into Mexico may take some time, until key US trade deals bring some much-needed clarity. Despite the country's economic and institutional challenges and the recent rally, the Mexican stock market remains inexpensive. The investment team keeps a cautiously positive bias, keeping in mind that a US growth deceleration could have some repercussions on the earnings of Mexican companies.

The team's preference goes to rate-sensitive and defensive domestic stocks, with resilient cash generation, and limited exposure to global demand. The main overweight sectors are utilities, real estate, discretionary consumption, selected staples and banks with attractive yield. Aerospace and defense stay overweight on strong intrinsic fundamentals and as a currency hedge. Base metals and lithium remain underweight. In Chile, the team stays constructive due to economic recovery, lower oil prices and, especially, expectations of a positive general election outcome by the end of the year.

In spite of the year-to-date rally, the team continues to see Latin America as a sensible source of diversification with still solid upside potential in the next 12 to 18 months. Valuations, yields and currencies remain attractive while rates have room to go down in the major index countries, Mexico and, especially, Brazil. Pro-business regime shifts through-out most of Latin America (Chile in November 2025, Peru-Colombia in April-May 2026 and, most importantly, Brazil in October 2026) could be a clear source of additional upside.

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