



Identifying Opportunities in Latin America

Description

Emerging markets have attracted considerable attention over the last decade, delivering outsized returns while proving to be relatively resilient to many of the economic headwinds impacting developed economies. To their detriment, many investors ignore them because of the higher degree of risk and volatility, but what they fail to appreciate is that returns can far exceed those delivered by developed markets.

Emerging markets also provide the [opportunity to diversify](#) and reduce investment risk because the TSX, according to the World Bank, only represents around 3% of the market capitalization of all stock markets globally.

Solid long-term outlook

The **MSCI Emerging Markets Index**, which measures the performance of the world's major emerging markets, has gained 8% since the start of 2019, despite fears of a global recession.

Latin America's largest economies have experienced solid growth over the last 10 years, with many expanding at double or even triple the rate of many developed nations. This has caused wealth to soar, bolstered the ranks of the middle class and sparked greater consumer as well as business confidence.

As a result, consumption has surged while demand for consumer credit, financial products, and online retailing has expanded significantly.

This has created tremendous opportunities with many Latin American nations expected to experience strong long-term growth as they continue to modernize and develop. The secret to investing in emerging markets is to invest in companies with easily understood businesses that provide investors with considerable transparency and possess solid growth prospects.

One emerging market stock that has been highly popular and delivered solid returns is **MercadoLibre** ([NASDAQ:MELI](#)). It has gained a whopping 89% since the start of 2019, despite an emerging economic

crisis in its home market of Argentina. The company, which has been described as Latin America's **Amazon**, is benefiting from the rapid uptake of online retailing and technology in Latin America.

By the end of the second quarter 2019, MercadoLibre had 293 million registered users across Latin American, giving it a significant presence in the region's major economies including Brazil, Mexico, and Argentina, which are the largest, second largest and fourth largest, respectively.

While there is a distinct degree of distrust associated with online retailing and banking in Latin America, the market is expanding rapidly. This is because of a young rapidly growing increasingly tech savvy middle class and rising wealth.

MercadoLibre's strong growth is evident from its second-quarter numbers where the total payment volume soared by 41% year over year, and the number of unique buyers shot up 14%, leading to it recording a net profit of US\$28 million compared to a US\$24 million loss a year earlier.

There is considerable growth ahead for MercadoLibre, particularly now that it has expanded into payment systems and lending in a region that is heavily underbanked and suffers from a lack of accessible consumer credit as well as digital transaction systems.

A Canadian stock that is poised to benefit from the same tailwinds propelling MercadoLibre is **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)). For the second quarter, Scotiabank earned 47% of its net income from its international operations. Most of that income came from Scotiabank's operations in Mexico, Chile, [Colombia](#), and Peru where it is ranked as the seventh-, sixth-, fifth-, and third-largest bank by assets, respectively.

Those nations make up a trade bloc known as the Pacific Alliance, and second-quarter loans originated in those countries grew by a whopping 41% year over year, and revenue soared by 26%.

Even the economic headwinds facing the Pacific Alliance members, including the U.S.-China trade war, won't have a sharp impact on Scotiabank's earnings growth in Latin America. This is because almost a decade of solid economic growth and the underbanked consumer markets in those countries has created substantial growth opportunities.

Foolish takeaway

Rapidly growing emerging markets in Latin America offer the opportunity to earn outsized returns and reduce investment risk through greater jurisdictional diversification. Despite the elevated risk associated with investing in the region, MercadoLibre and Scotiabank have proven themselves adept at operating in Latin America and avoiding many of the hazards that exist.

By investing in Scotiabank today, you can gain exposure to the region's considerable potential without leaving the safety of Canada and lock in a juicy 5% dividend yield.

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TICKERS GLOBAL

1. NASDAQ:MELI (Mercadolibre Inc.)
2. NYSE:BNS (The Bank of Nova Scotia)
3. TSX:BNS (Bank Of Nova Scotia)

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