Identifying Opportunities in Latin America for 2020

### Description

The last five years have been tough for emerging markets amid fears of currency collapses, weak fiscal outlooks and softer commodity prices weighing heavily on their performance.

That has seen many emerging markets perform poorly, lagging the bourses of developed nations including the **TSX** and **NYSE**. The **MSCI Emerging Markets Index** gained around 15% during 2019, whereas the **S&P500** shot up by 30% and the **S&P/TSX Composite** rose by 19%.



A range of recent events have sparked considerable speculation that 2020 will be the year where emerging markets will finally perform, delivering considerable value for investors.

## Improving outlook

A key factor weighing on many emerging economies in 2019 was that a full-blown trade war would erupt between the world's two largest economies; China and the U.S.

This weighed heavily on China's economy, which is highly dependent on industrial activity and exporting the goods produced to drive economic growth; according to the IMF, that saw China's 2019 GDP growth fall to just over 6%, impacting global growth and demand for commodities.

This triggered considerable fallout for many other developing economies because they are highly dependent on the extraction and export of base metals, crude and other commodities to drive economic growth.

The economies of Latin America, notably Colombia, Peru and Chile were hit particularly hard because of their dependence on commodity production to drive GDP.

It is for this reason that the **MSCI Andean Index** failed to perform**,** losing 7% over the last year compared to the broader MSCI Emerging Market Index rising by 18%.

Signs that the U.S. China trade war is deescalating bodes well for global growth, manufacturing activity in China and hence greater demand for commodities including oil, copper, zinc, lead, nickel and steel.

Oil has rallied solidly since August 2019 to see the international Brent benchmark up by around 36% over the last year to be trading at over US$68 per barrel.

The performance of base metals so far has been mixed, while copper firmed by 4% over the last year, nickel surged by 26% and steel has gained around 4%, zinc is down 11% and lead has softened by 2%.

Nonetheless, the outlook for metals, like energy, in 2020 is upbeat and they are all expected to firm should the trade war come to an end. This, along with a more optimistic outlook for crude, will be a boon for the Andean nations of Chile, Colombia and Peru, creating an opportunity for investors to gain exposure to some of the region's fastest growing economies.

The easiest means of doing so is by investing in **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS). Canada's most international bank has invested considerable capital making a range of acquisitions in Chile, Colombia and Peru, which along with Mexico, form a trade bloc known as the Pacific Alliance.

This sees it ranked as a top five bank in those countries, meaning that it's well positioned to benefit from an economic resurgence in South America as commodity prices improve.



Scotiabank reported some solid 2019 growth for its international division despite increased volatility and growing economic uncertainty. Adjusted net income for international operations shot up by a healthy 13% year over year, most of which was driven by a notable increase in loan and deposits in the Pacific Alliance countries.

While recent civil unrest in Colombia and Chile sparked concerns over Scotiabank's ability to perform in 2020, much of that fear now appears to have been overbanked.

An improving economic outlook for Latin America and recent concessions made by both countries' governments has seen domestic tensions ease, boding well for further economic growth.

## Foolish takeaway

Scotiabank has been one of the worst performers among the Big Six banks, but an improving economic outlook in Latin America bodes well for the bank's performance in 2020.

When combined with a more upbeat outlook for Canada's economy and the domestic housing market, there is every indication that Scotiabank will deliver considerable value.

While investors wait for that to translate into a higher share price they will be rewarded by Scotiabank's sustainable dividend yielding a juicy 4.9%.

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**Date**
2025/08/16
**Date Created**
2020/01/06
**Author**
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