Ninety One

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Investing for a world of change

Latin American Corporate Debt

February 2022

Latin American Outlook

- Macroeconomic variables continue to normalize
  - Supportive global environment with ample liquidity and commodities prices remain above average
  - Regional central banks returning to neutral
  - Labor markets recovery and service sector normalization should support consumption

- Corporate balance sheets are healthy
  - We should see a continuation of the deleverage process on balance sheets due to higher EBITDA and good CF generation
  - But recovery will vary between countries and sectors
  - We expect another year of low default rates; below long-term historical averages

- "Technicals" remain well-supported
  - 2021 has shown another year of negative net supply

- Valuations are attractive, especially in the High Yield sector

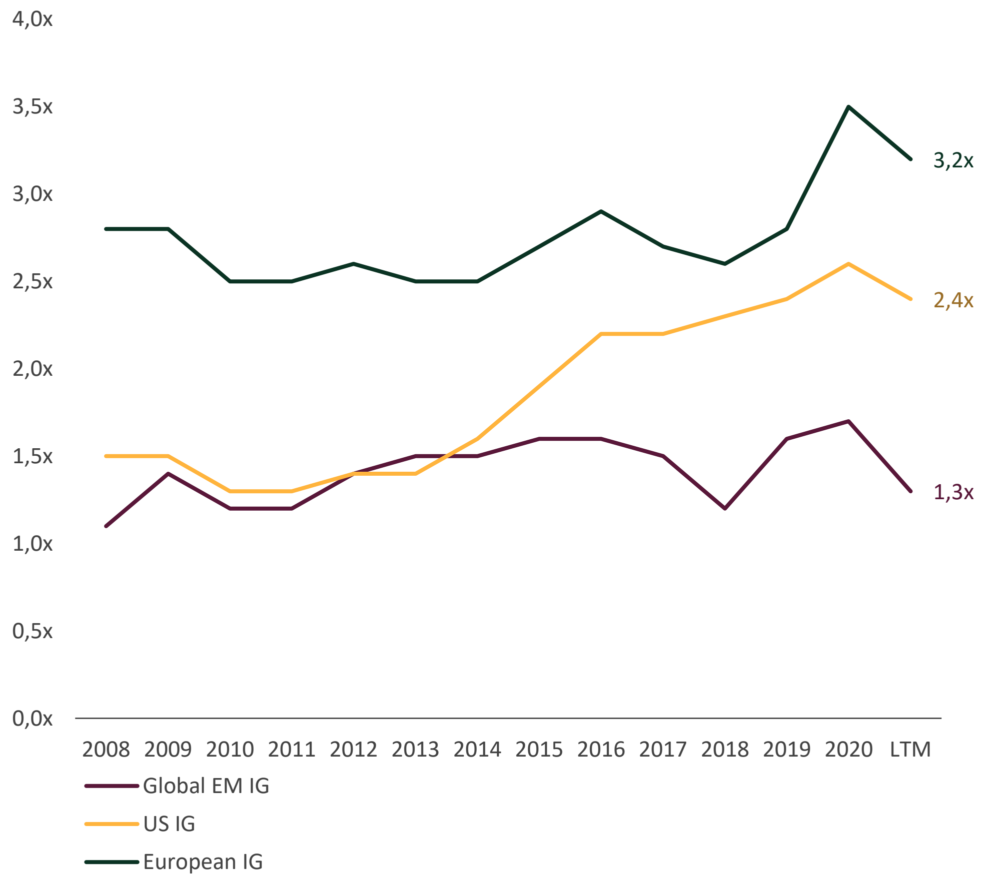
- Key risks for 2022: Policy mistakes and Latam politics

Source: Compass Group, as at January 2022 . Opinions based on current market conditions; subject to change without notice and without any obligation to update.

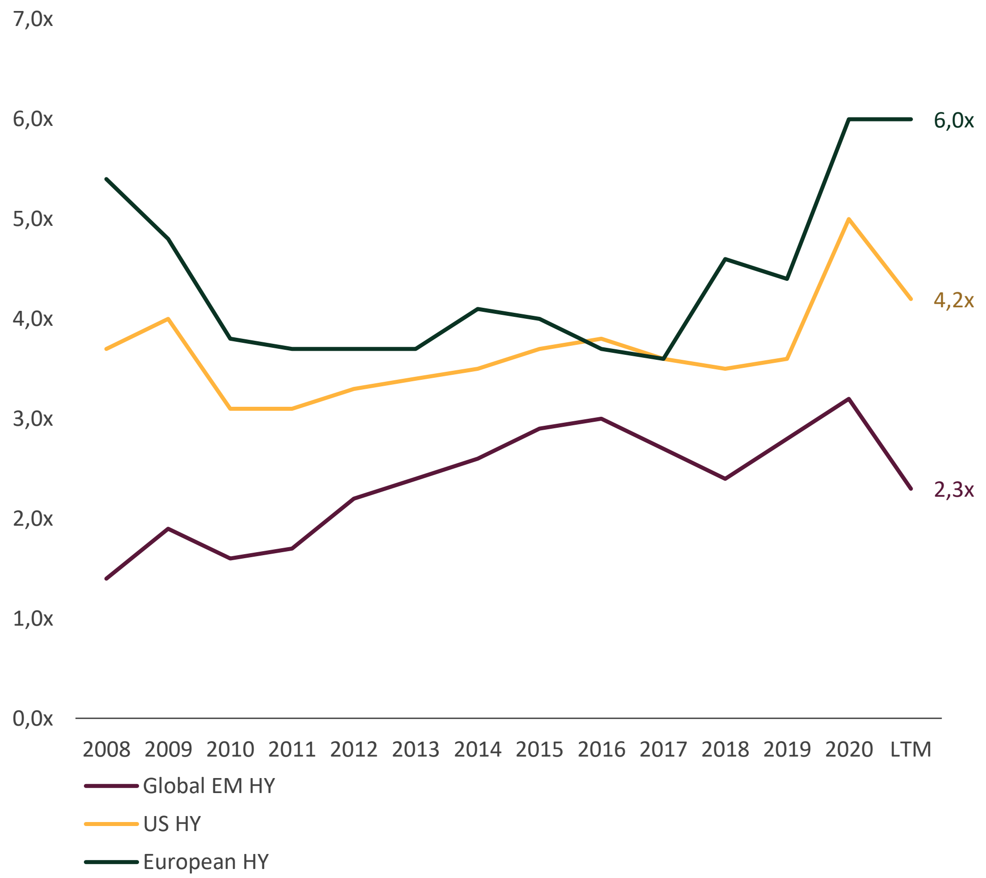
EM corporates a better position than peers

– Leverage levels in DM raised materially in 2020, for both IG and HY buckets

EM vs DM IG net leverage



EM vs DM HY net leverage

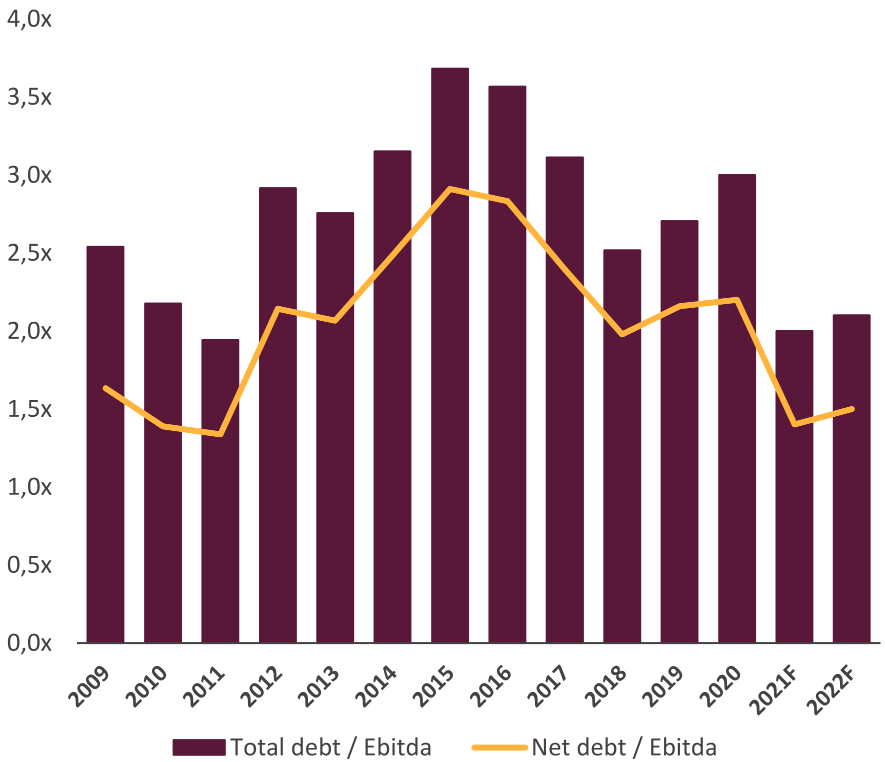


Source: JP Morgan estimates, as at 2Q 21.

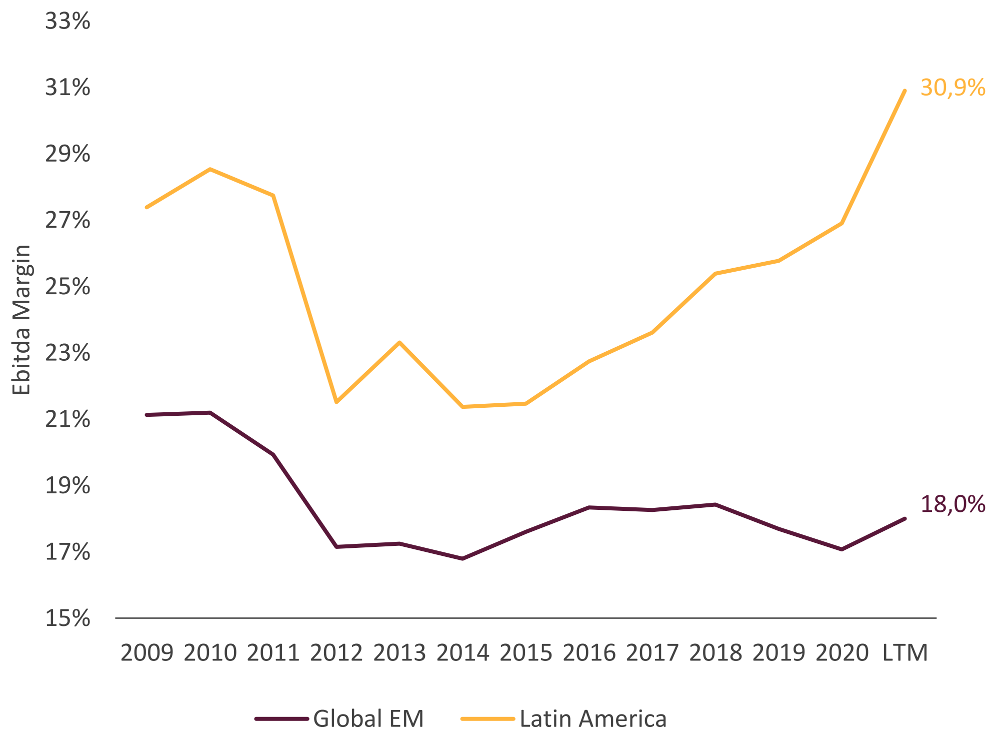
Corporate credit metrics are healthy

- LatAm credit fundamentals should improve in 2021 and 2022
- Recovery will differ from countries and sectors
- EBITDA growth in Latin America recovering faster than other emerging market regions (Latam +38% YoY vs EM +34%)

Leverage ratios peaked in Q2 2016



LatAm Corporates gaining efficiencies and saving costs

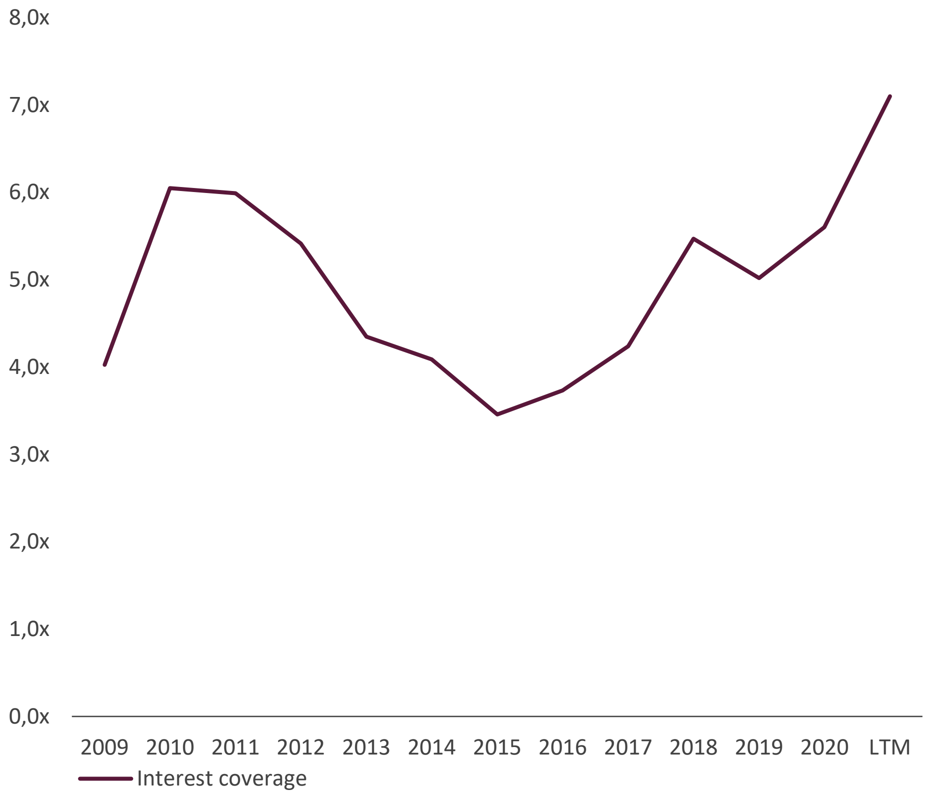


*Source: JP Morgan estimates, as at 23 November 2021.
**Source: JP Morgan estimates, as at 1Q 2021.

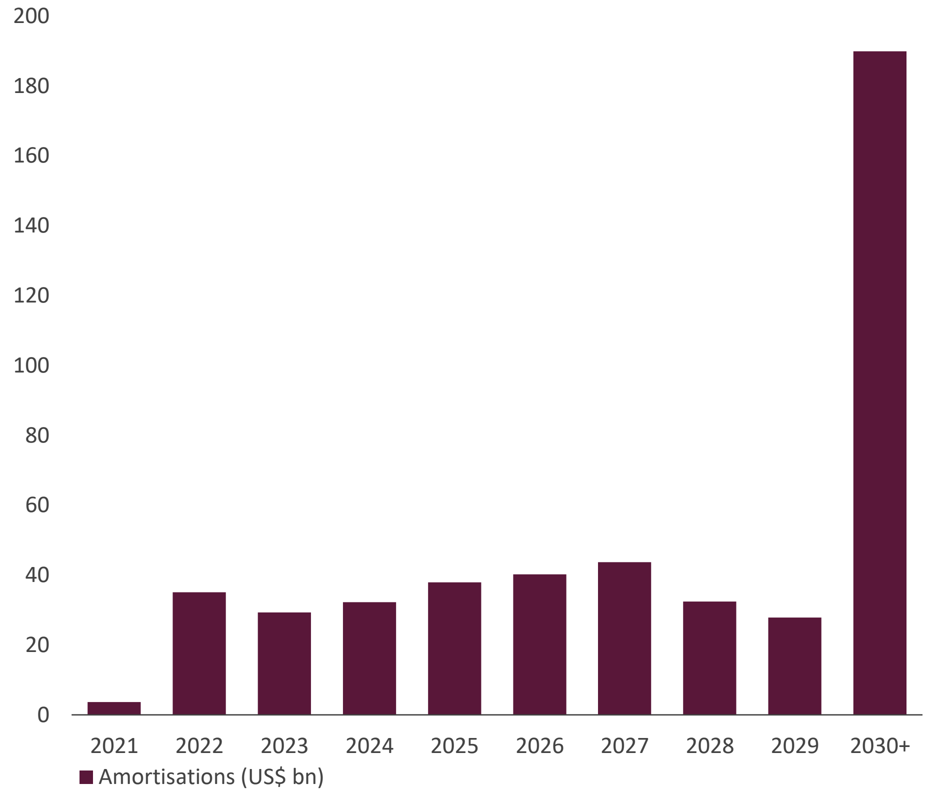
Manageable corporate balance sheets

– Most companies have healthy liquidity metrics and have extended maturities

Improving interest coverage*



Manageable amortisations over the next few years**

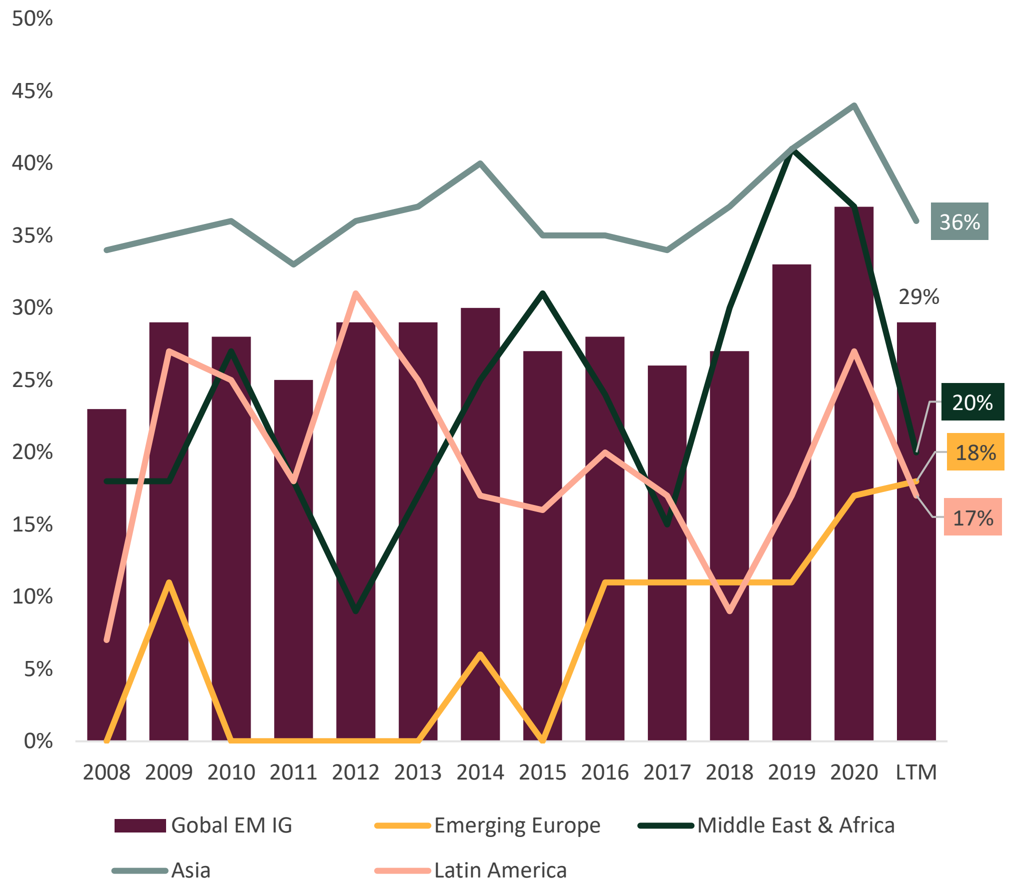


Source: JP Morgan estimates, as at 30 November 2021*.
Bloomberg and Compass Group estimates. Data as at 31 December 2021.**

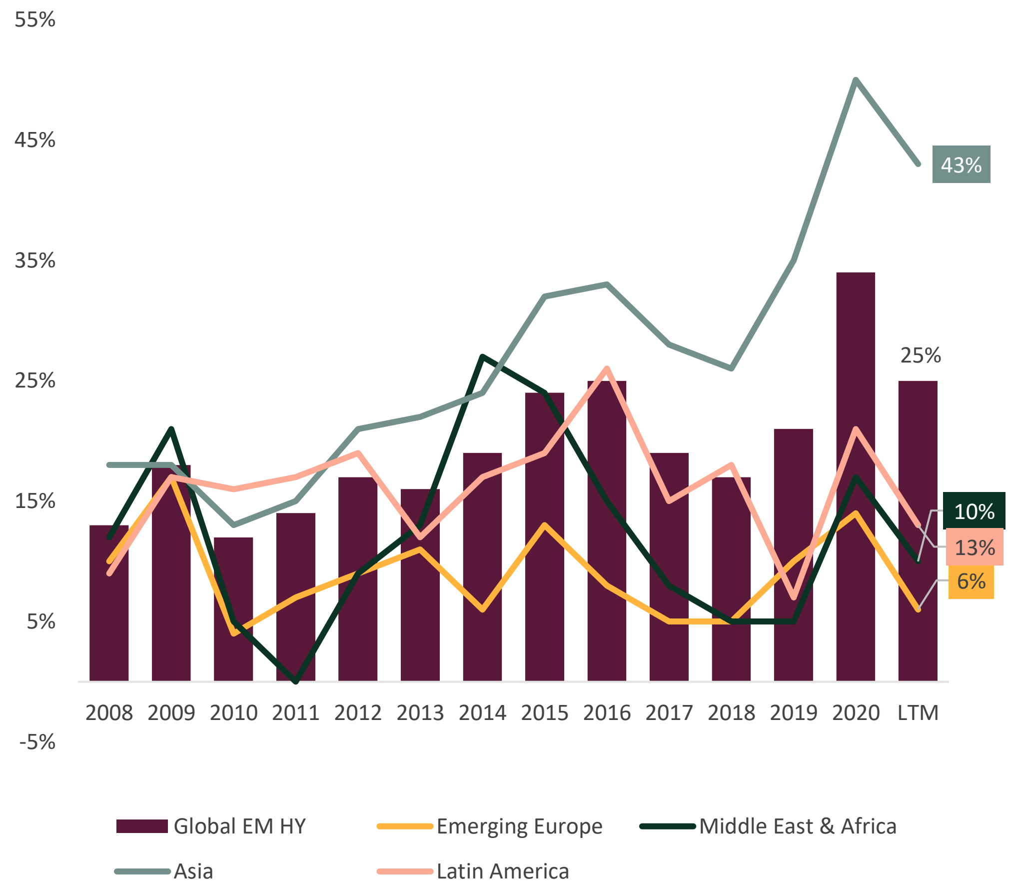
Asia stands out as the most levered region in EM

– Asia is the region with more companies with high levels of leverage in Emerging Markets

Share of EM IG companies with gross leverage > 4x



Share of EM HY companies with gross leverage > 7x or NM



Source: JP Morgan. As of 3Q 2021

Credit selection remains key

- Default in 2021 came down from 2020 levels, and 2022 is expected to remain low
- Argentine exchanges coming from FX regulation explain most of default cases this and next year
- Global EM corporate 2022 default rate forecast to 3.9% from 5.5% expected in 2021, but excluding China and Argentina remains low at 1.1%

Emerging Markets Default Rates (%)

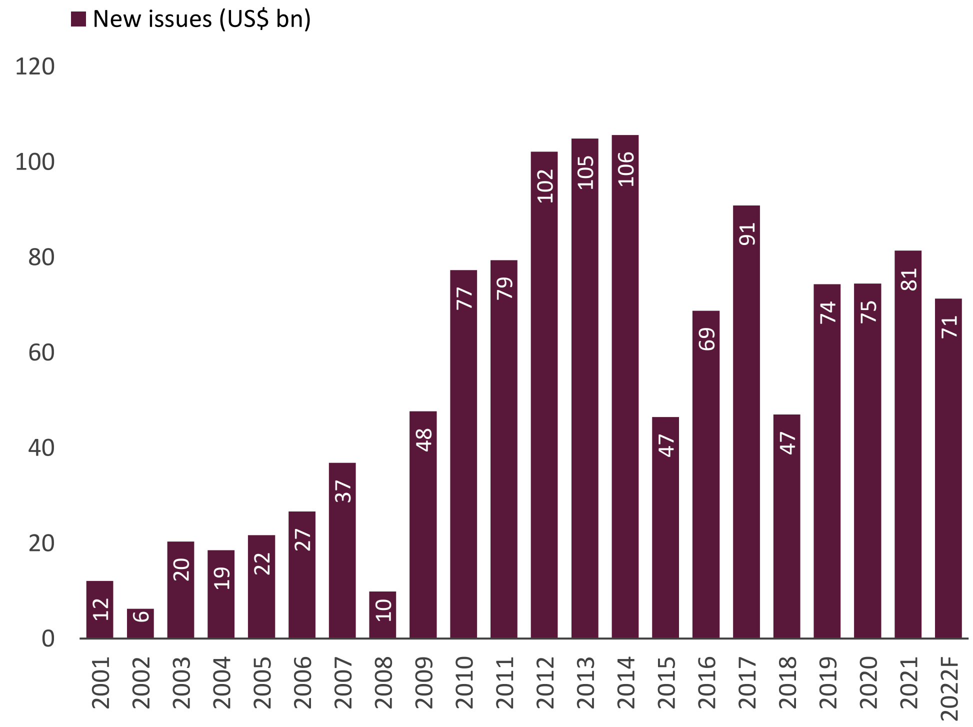
						2022F	
Region	2017	2018	2019	2020	2021	Base case	Ex. CN & AR
Asia	1	2.5	1.8	3.4	13.2	6.5	1.2
Emerging. Europe[1]	3.6	0	0	3.3	0	0.5	0.5
Latin America	2	2.1	2.3	4.4	2.5	2.5	1.5
M.E. and Africa	3.2	0	1.8	2.1	0	0.8	0.8
Global EM	2.2	1.6	1.7	3.5	0	3.9	1.1

Source: JP Morgan. Data as at 31 January 2021.
1 Excludes BTAS Recovery Notes issued in 2010 restructuring.

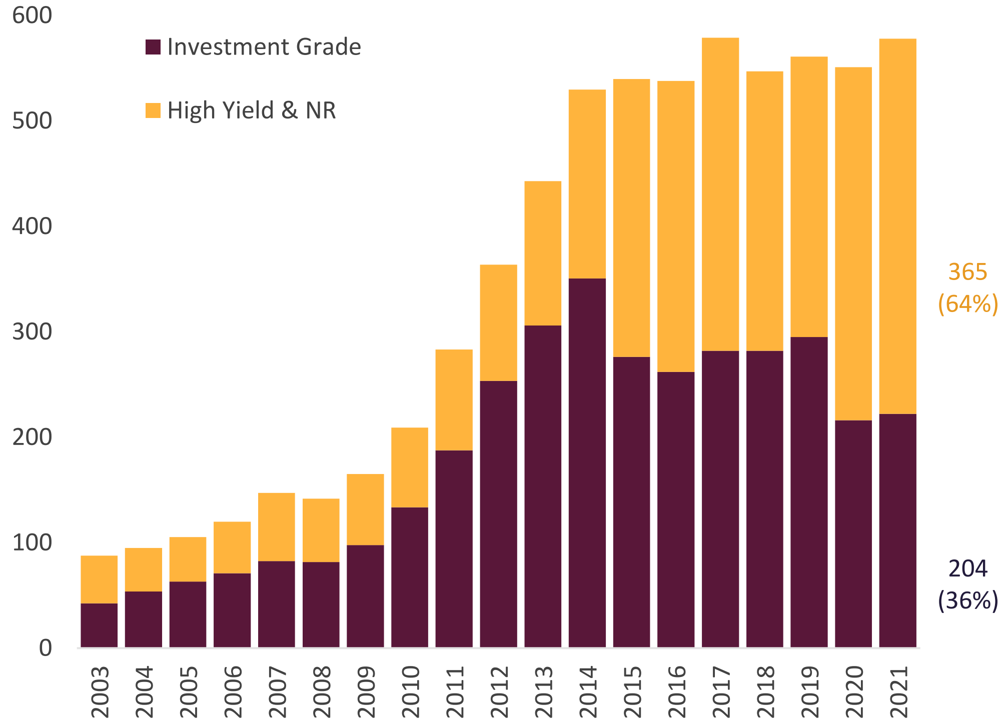
Supportive supply-side technicals

– Debt stock has grown more slowly since 2014 as gross issuance has declined
– Brazil sovereign downgrade means a more balanced mix of investment grade and high yield bonds

Latin America historical new issuance and 2020 issuance forecast*



Latin America corporate debt stock (US$ bn)**

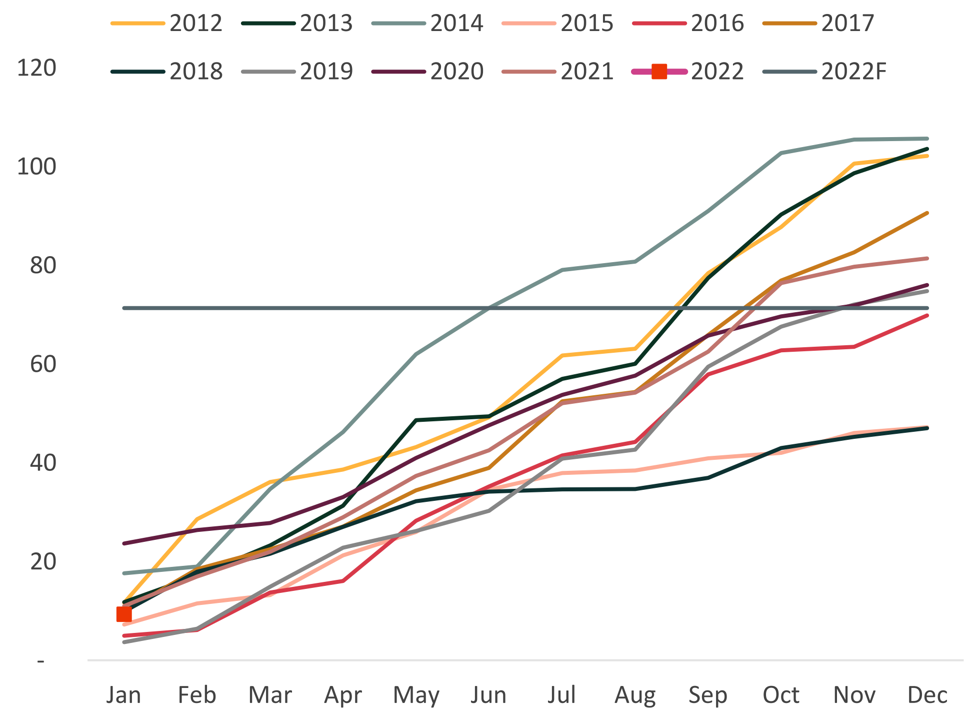


Forecasts are inherently limited and are not a reliable indicator of future results.
*Source: JP Morgan, 31 December 2021. Gross external debt issuance.
**Source: Bond Radar and JP Morgan, 31 December.
For further information on indices, please see the important information section.

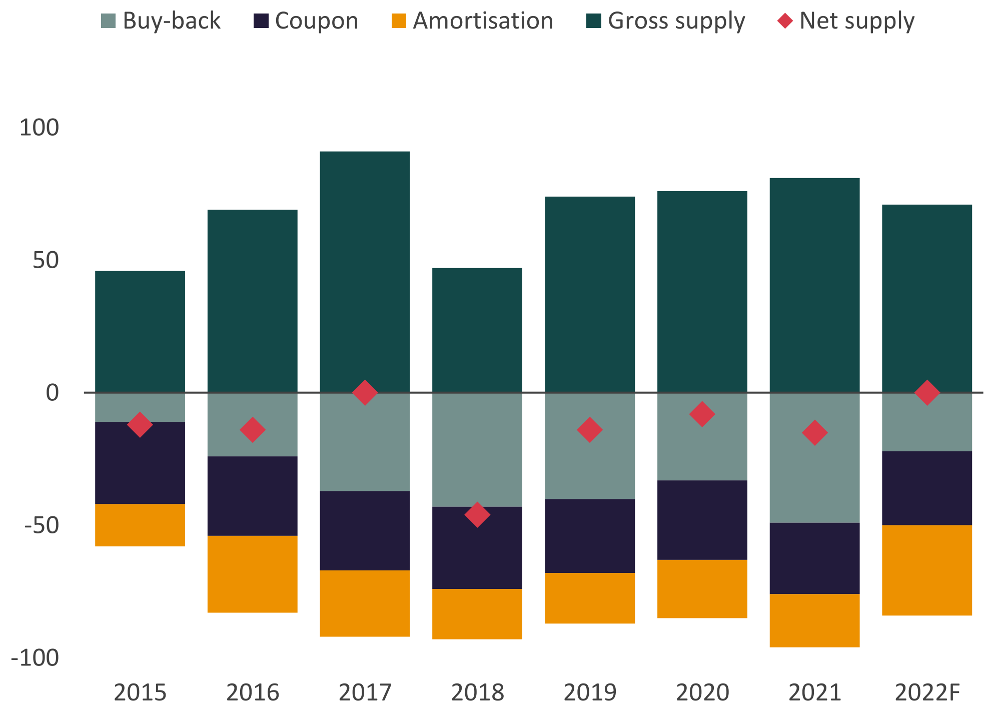
Supportive supply-side technicals

- Primary activity in the corporate market has surprised in the beginning of the year
- 2022 should be another year of negative net supply

New issuances expected to remain close to 2020 levels*



Negative “net supply” for LatAm**

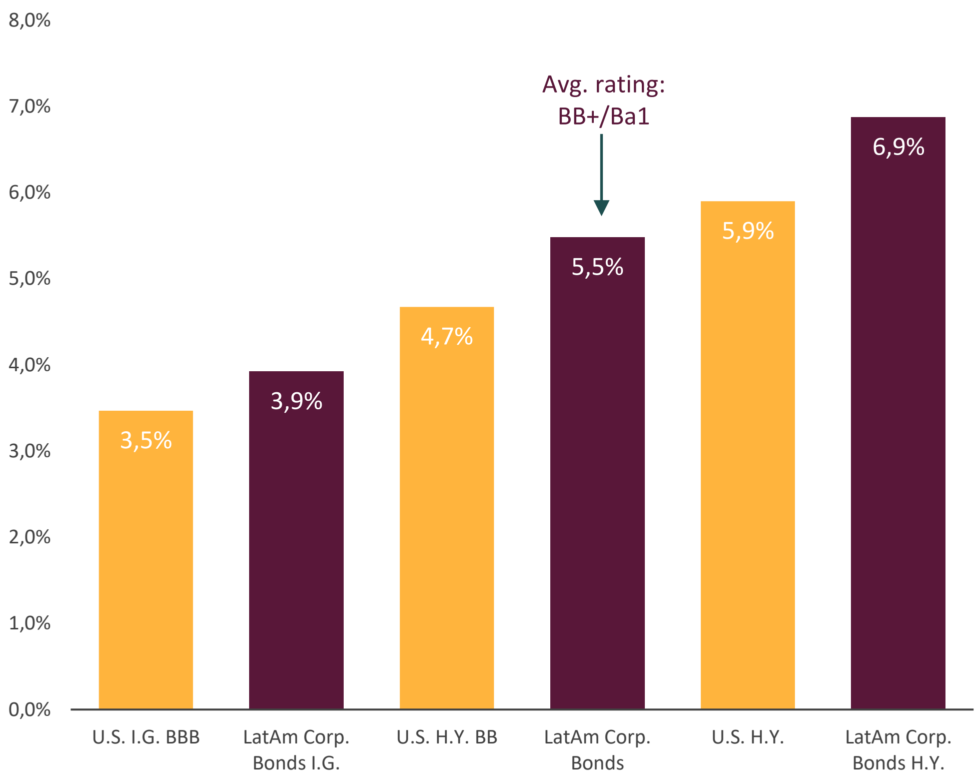


*Source: JP Morgan, 28 January 2022. Gross external debt issuance.
**Source: JP Morgan, 31 January 2022. Net supply defined as gross supply minus amortisations, coupons and buy-backs (calls, tenders and repurchases).

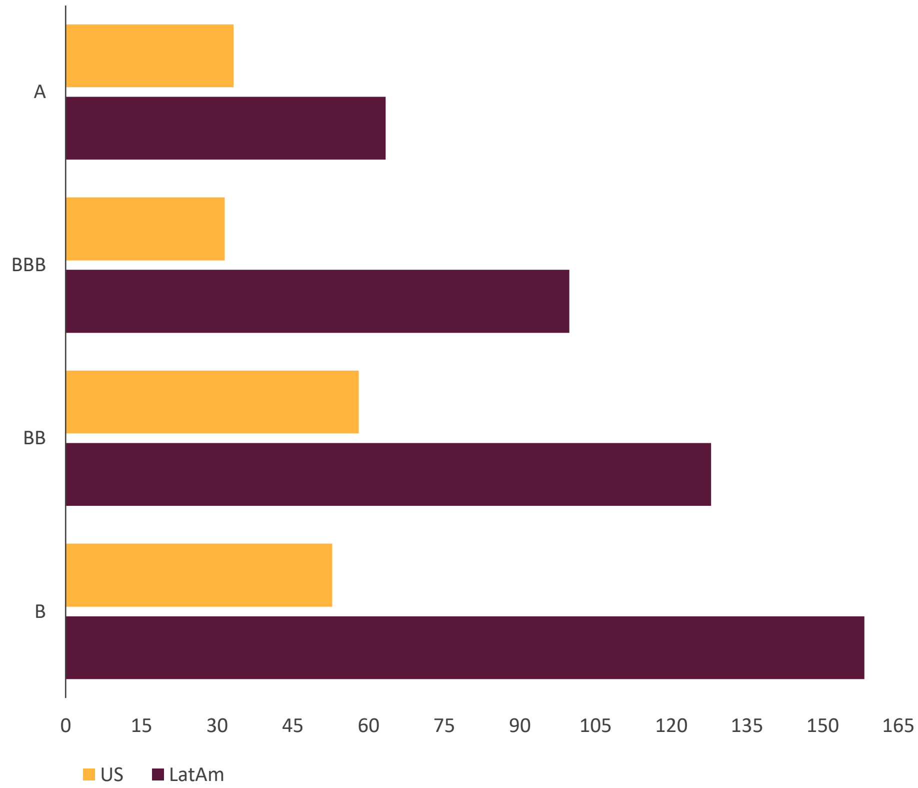
Still finding relative value in LatAm corporates

– Latin American corporate bonds offer:
  – Attractive yields relative to many other fixed income alternatives
  – Higher spreads per unit of leverage than U.S. corporates on a rating-matched basis, in most cases

Corporate bond index yields (YTM)*



Spread per turn of leverage (bps/x)**

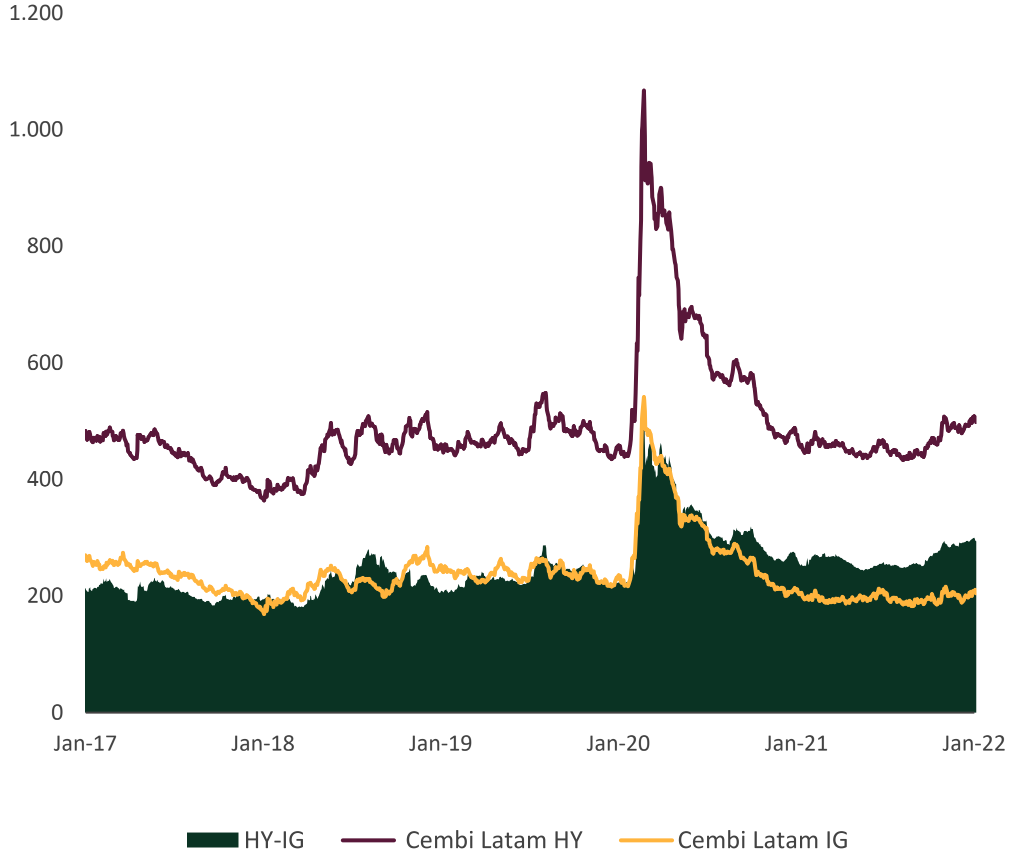


*Source: JP Morgan Index, 31 January 2021.
**Source: Bank of America Merrill Lynch leverage estimates, 2Q21; spread data as at 31 January 2021.

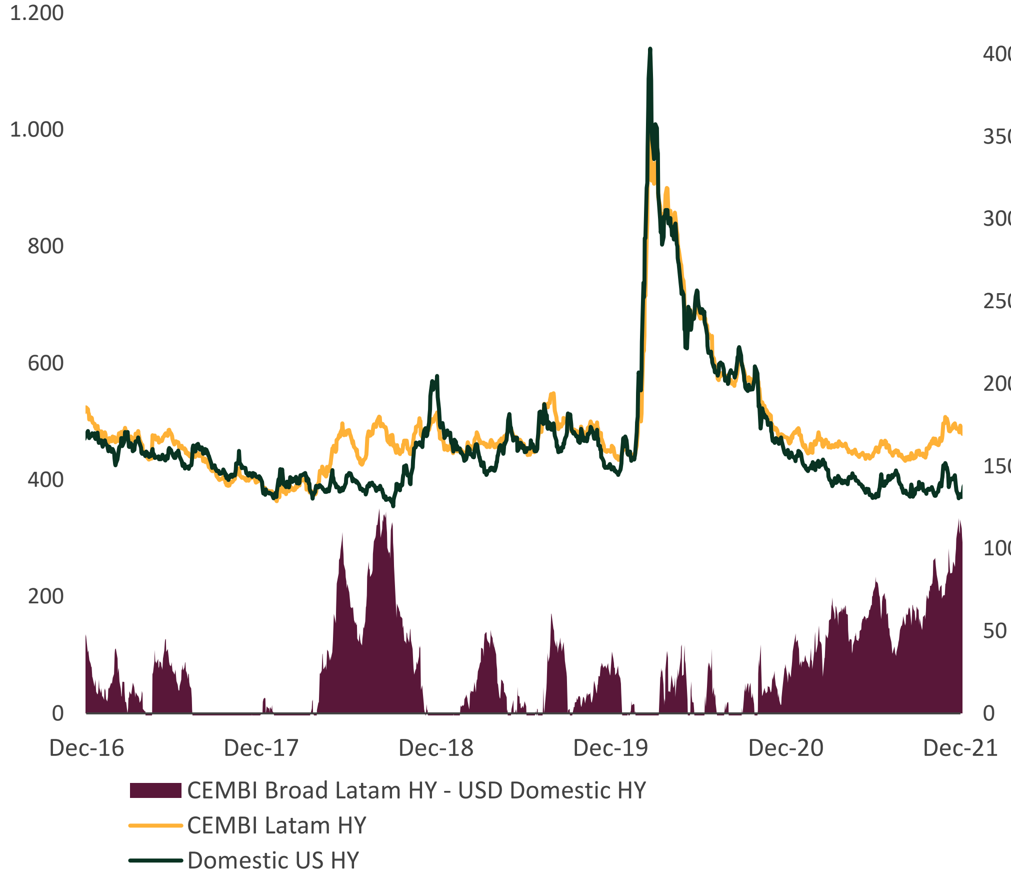
Latam HY spreads have room to compress

- CEMBI LatAm HY has room to compress vs. IG in a constructive economic environment
- The spread between the Cembi LatAm HY and the US Domestic HY bucket also looks attractive

CEMBI HY-IG remains on the wider side vs. the last years



Cembi LatAm HY spread difference vs. US Domestic HY

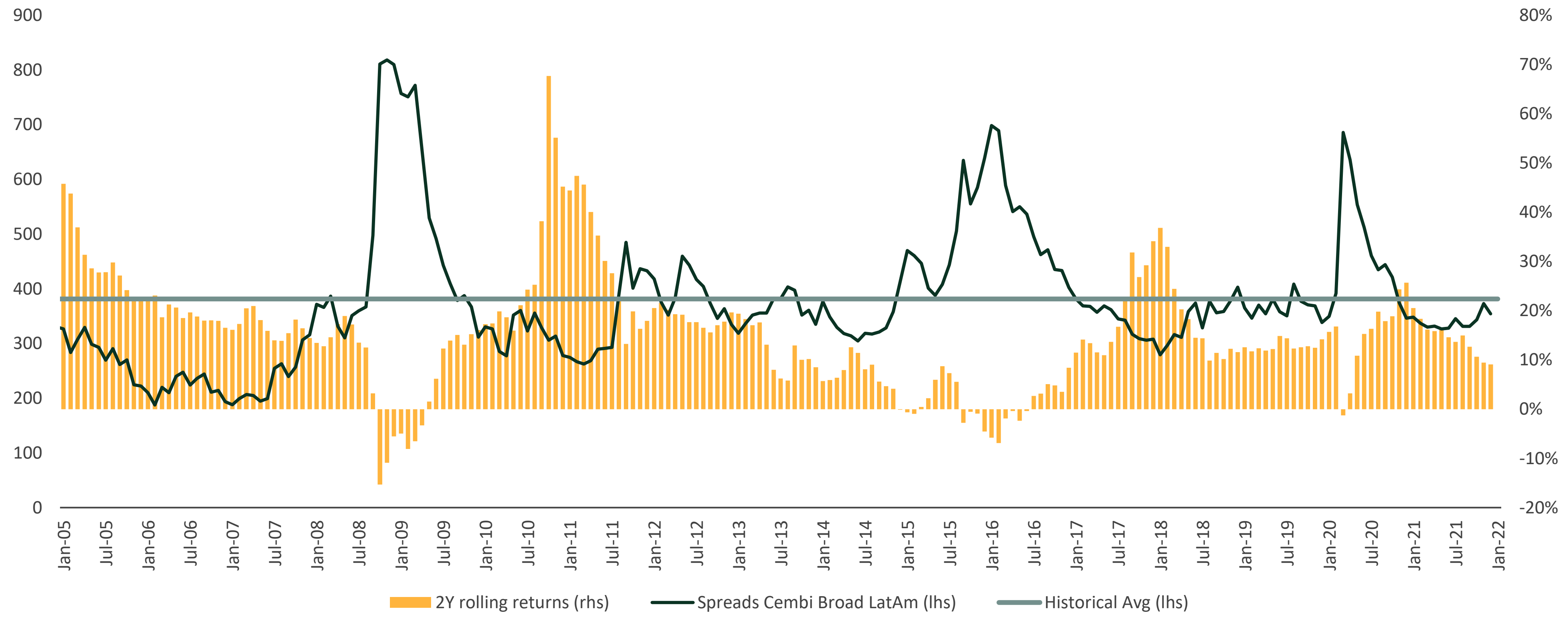


Past performance is not a reliable indicator of future results, losses may be made.
Source: JP Morgan. Rolling 10Y as of 31 January 2022.

CEMBI LatAm – rolling 2Y returns

- The CEMBI Broad LatAm spreads have recovered from an 11-year high of ~700 bps on 1Q20 but are still trading close to the long-term average

Evolution CEMBI Broad LatAm Spreads vs 2Y forward return

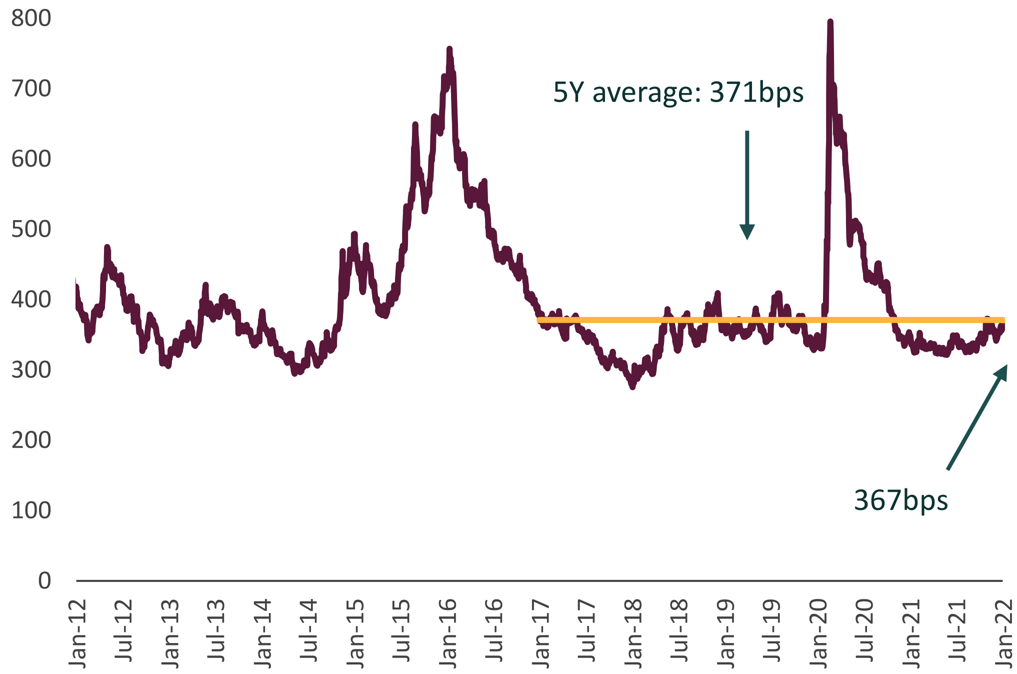


Past performance is not a reliable indicator of future results, losses may be made.

Source: Data as at 31 January 2022. “Rolling 2 years” returns correspond to the JP Morgan CEMBI Latin American Broad Index.

Value in the asset class

Latin America corporate bond spreads



12-month index return scenarios *

Spread level	1.25%	1.50%	1.75%	2.00%	2.25%	2.50%	2.75%
225	18.9%	16.5%	15.1%	13.7%	12.3%	10.9%	9.5%
275	15.1%	13.7%	12.3%	10.9%	9.5%	8.1%	6.7%
325	12.3%	10.9%	9.5%	8.1%	6.7%	5.3%	3.9%
375	9.5%	8.1%	6.7%	5.3%	3.9%	2.4%	1.0%
425	6.7%	5.3%	3.9%	2.4%	1.0%	-0.4%	-1.8%
475	3.9%	2.4%	1.0%	-0.4%	-1.8%	-3.2%	-4.6%
525	1.0%	-0.4%	-1.8%	-3.2%	-4.6%	-6.0%	-7.4%

Source: JP Morgan CEMBI Broad Latin America Spread. 31 January 2022.
For further information on indices, please see the important information section.
*Based on JP Morgan CEMBI Broad Latin America. Assumes no defaults or changes in duration. Estimated carry is based on current yield, assuming that entire spread change takes place on day 1 or day 365, then taking an average of the two extreme cases.

Final Remarks

– Supportive global environment continues to benefit Latin America
– Growth and inflation to moderate in 2022; Latam politics and local rates are key risks to monitor
– Even with higher US interest rates search for yield should continue into 2022
– Corporate balance sheets are at the stronger place over the last decade
– Default rates should remain below historical average
– Valuations are attractive and "Technicals" remain well-supported
– We prefer the HY bucket and shorter duration
– Credit selection will continue to play a key role next year
– We think there is space for capital gains which, together with the carry, should point to a solid target return for 2022

Thank you

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Joined the firm in 2006
Joined the industry in 2002

Mr. Venezian is a Partner at Compass Group, Head of Corporate Debt, and Co-Portfolio Manager of the Latin American Corporate Debt Strategies. Previously, he was Deputy Head of the Investment Strategies Team based in Santiago, Chile.

Prior to joining the firm, Mr. Venezian worked for three years as a Fixed Income Trader and was an Analyst for Principal Financial Group's insurance company, where he shared the responsibility of managing $1.5 billion dollars in assets under management. In 2002, Mr. Venezian was an Equity Trader and Analyst for Principal Financial Group's mutual fund company.

Mr. Venezian has a Bachelor of Science degree in Business Administration from Universidad de Los Andes in Chile (2001).

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