When politics turns pro-market: Latin America's reform dividend

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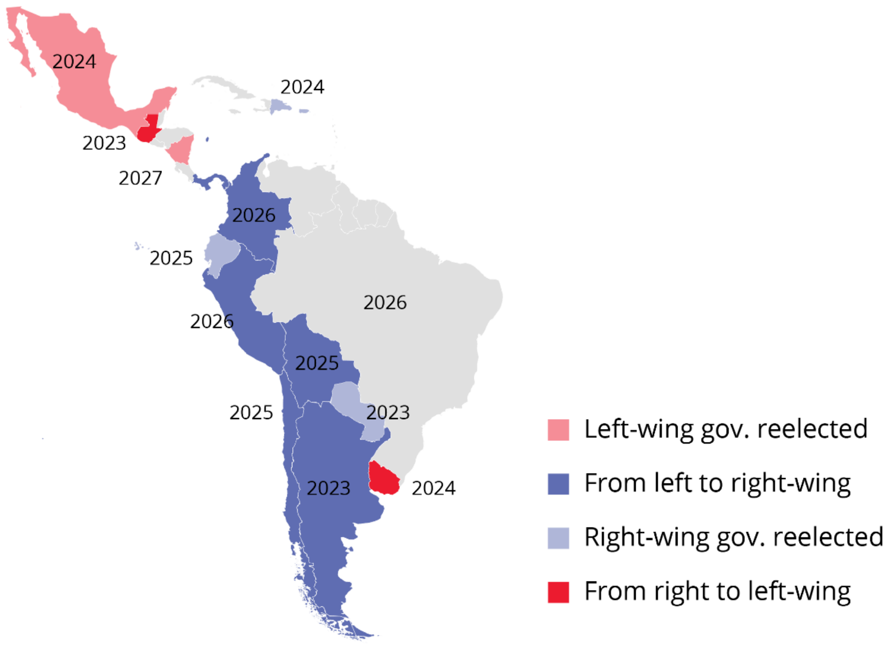
A significant political shift towards economic orthodoxy is underway in Latin America, with electorates choosing right-of-centre governments to try and improve economic conditions in their respective countries. Taken together with falling US rates, a weaker dollar and early signs of a new commodities upswing, these changes suggest that last year's rally in Latin American equities could mark the start of a more durable re-rating.

Chart 1: Political shifts in Latin America (election years)



Source: Redwheel, Bloomberg 9 February 2026. The information shown above is for illustrative purposes.

In 2026, elections are due in Brazil, Colombia and Peru and the shift to the right is likely to continue except for Brazil, Lula being the left-wing incumbent. In Peru, Lopez Aliaga leads a multi- candidate field.

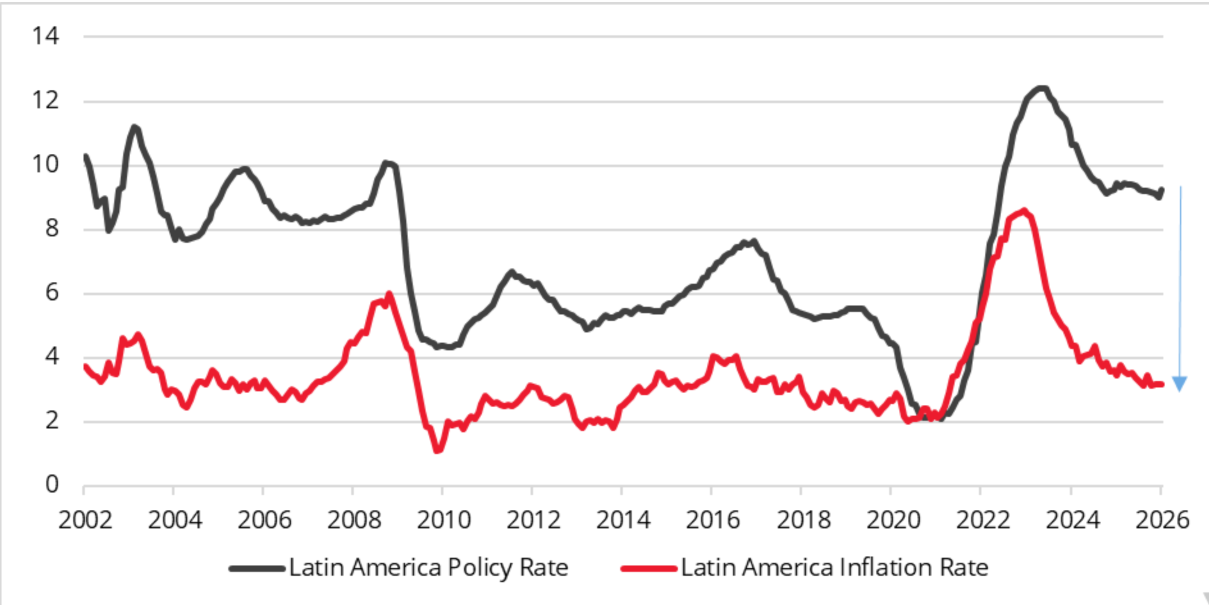
Country	Polymarket forecasted outcome	1st round	2nd round	Polymarket odds
Brazil	Lula wins	4-Oct	25-Oct	53%
Colombia	Cepeda loses	31-May	21-Jun	61%
Peru	López Aliaga wins	12-Apr	7-Jun	46%

Source: Polymarket, Redwheel 31 January 2026. The information shown above is for illustrative purposes only and is not intended to be, and should not be interpreted as, recommendations or advice.

From high real rates to a virtuous circle

The return of a more conservative economic approach that emphasizes fiscal prudence, control of inflation and a relatively limited role for the State should allow high real rates of interest to come down, thereby boosting growth and providing a tailwind to equity market performance. The US Federal Reserve resumed its monetary easing in September 2025 and Latin American central banks are in a position to follow suit; Banco Central do Brasil indicated in its January 2026 meeting that it would begin to reduce its benchmark SELIC rate in March this year[1].

Chart 2: Latin America policy rates & inflation (%)

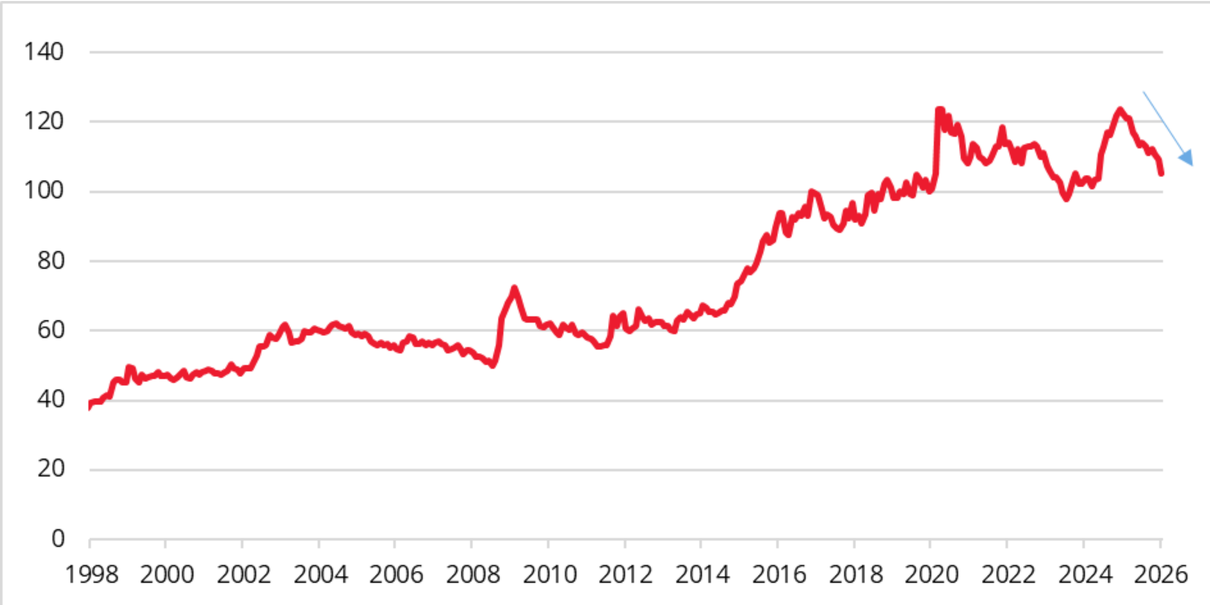


Source: HSBC, Redwheel 31 January 2026. The information shown above is for illustrative purposes. Past performance is not a guide to the future.

Latin America could be about to enter a virtuous circle. Lower interest rates stimulate non-inflationary growth and engender market confidence, allowing currencies to strengthen further against the US dollar. This trend began when President Trump took office in January 2025 and has become more pronounced as Republicans have implemented dirigiste economic policies with which they have not previously been associated. As investor confidence is waxing in emerging markets while waning in the US, Latin American currencies are among those appreciating against the US dollar. President Trump appeared to validate a weak dollar policy in January when he responded that the value of the dollar was "doing great" to a question about whether the currency had declined too much[2].

[1] Bloomberg, 28 January
[2] Bloomberg, 28 January

Chart 3: US dollar vs Latin American Currencies Index

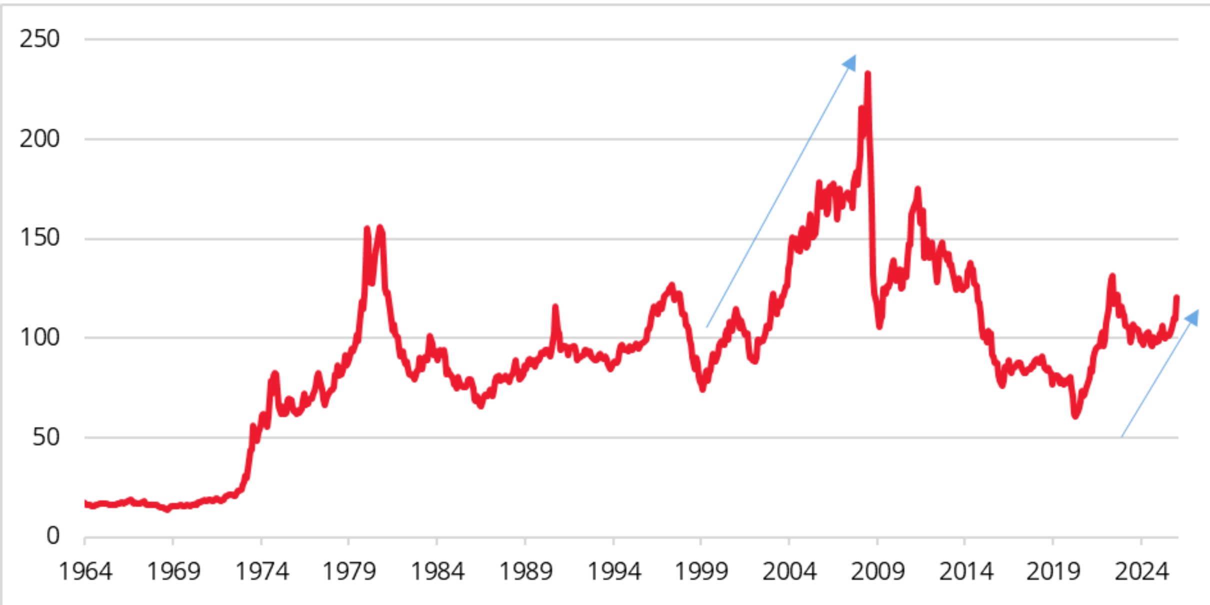


Source: Bloomberg 30 January 2026. Past performance is not a guide to the future.

Commodities, earnings and the case for a re-rating

A weak US dollar also contributes to rising commodity prices, as happened in the Super Cycle of the first decade of the millennium. The Bloomberg Commodity Index, which climbed roughly 200% from its trough in 1999 to its peak in 2008, also began to recover strongly in late 2025 – but is still about 50% below its 2008 peak and could rise further.

Chart 4: Bloomberg Commodity Index



Source: Bloomberg 30 January 2026. Past performance is not a guide to the future.

The energy and materials sectors are significant weights in the MSCI Latin America Index, accounting for almost 30% of its constituents' free-float market capitalization[3]; this cyclical exposure is currently acting as a tailwind to Latin American corporate earnings, which have begun to inflect from their trough levels of early 2025.

[3] Bloomberg, 30 January

Chart 5: MSCI EM Latin America - Earnings per share (USD)

Source: Bloomberg 30 January 2026. Past performance is not a guide to the future.

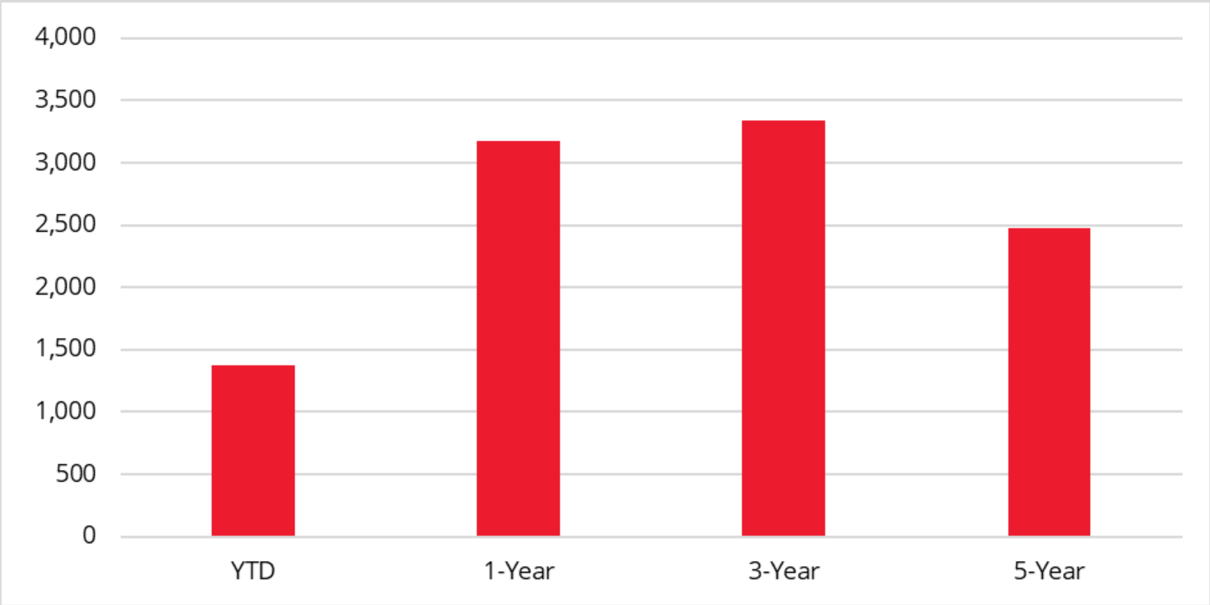
The rebound in corporate earnings and optimism over commodity prices and currencies have fuelled Latin American equity performance, with the index having risen 77% since its trough in January 2025. Nevertheless, the MSCI Latin America Index remains about 40% below its 2008 peak.

Chart 6: MSCI EM Latin America Index

Source: Bloomberg 31 January 2026. Chart uses the monthly closing price of the MSCI EM Latin America Index.

Despite strong performance, Latin American equities are only at long-run average valuations. The 12-month forward P/E multiple of 12.5 times exceeds the extremely low valuation that afflicted Latin America in the early 2020s but is below the levels seen in the teens and has room to expand with earnings growth, improving ROE and lower interest rates. Latin American equity performance has not escaped international investors, with nearly $1.5 bn of subscriptions to Latin American equity ETFs in January 2026 alone, meaning that financial flows to Latin American equities in the past year exceed commitments over the previous five, and demonstrate the return of Latin America to emerging market equity allocations.

Chart 7: Latin America ETF flows (USD, mn)



Source: Bloomberg. All periods up to 30 January 2026.

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