MARKET COMMENTARY

COPA AMERICA

19 June 2019

Brazil vs. Venezuela

Alejandro Arevalo, Fund Manager, Fixed Income

Alejandro joined Jupiter in November 2016 and is a Fund Manager in the Fixed Income team, specialising in Emerging Market Debt. He is manager of the Jupiter Global Emerging Markets Short Duration Bond fund (SICAVs).

Prior to joining Jupiter, Alejandro was an emerging markets corporate debt portfolio manager at Pioneer Investments for four years. Before that, he worked on emerging market debt strategies at Standard Bank Asset Management, Gibraltar Bank and the International Bank of Miami.

Alejandro has an MBA in Finance from Florida International University and graduated from Universidad Francisco Marroquin in Guatemala.

About Jupiter

The listed British investment manager with boutique-like investment approach, located in London and founded in 1985, employs more than 400 employees worldwide (thereof about 35 fund managers). Today Jupiter is one of the UK's most respected asset management groups.

„The Jupiter Global Fund SICAV“ (a Luxembourg based UCITS structure) provides clients outside the UK access to the diverse investment capabilities through its 29 sub funds which are registered for distribution in several European countries. Jupiter's total AUMs are GBP 42.7 bn as of 31 December 2018.

With the Copa America tournament in full swing, Alejandro Arevalo, Emerging Market Debt fund manager at Jupiter, looks at the second match from the series: Brazil vs Venezuela. In footballing terms, there should be little competition, and it's a similar story when it comes to the respective economic outlooks. Although Brazil has its own struggles, we consider Venezuela to be a no-go zone altogether.

Country profiles:

Brazil:

- Nominal GDP (2017): $2,056bn
- Inflation rate: 3.9%
- Current account balance: -0.8%
- Debt/GDP ratio: 77%
- Rating: Ba2/BB-/BB-
- Population: 209m

Venezuela:

- Nominal GDP (2014): $482.4bn
- Inflation rate: 1,304,494%
- Current account balance: 2.3%
- Debt/GDP ratio: 63.5%
- Rating: C/D
- Population: 31.9m

Brazil vs Venezuela is a one-sided affair, both on and off the pitch. Not only is Brazil arguably the biggest team in the tournament, it's also the largest economy in Latin America, with a nominal GDP of approximately $2 trillion and a population in the region of 209 million. In contrast, while Venezuela has the world's largest proven oil reserves, its economy continues to suffer. In fact, Venezuela is in the midst of a humanitarian crisis, with blackouts, hyperinflation (the rate currently stands at 1,304,494%), and mass unemployment.

From an investment perspective, there is little to be excited about in Venezuela. Given the sheer quantity of oil it possesses, the country's oil industry remains a very important sector, accounting for almost 95% of exports. However, the US has imposed sanctions on Venezuela's energy exports and there are expectations that the US will continue to increase economic actions against the country. Venezuela's oil exports dropped 17% in May in the face of this increased pressure.

These geopolitical and economic risks make it difficult for us to justify investing there. On top of this, there is very limited data and information available to investors. Without reliable economic data, it is extremely challenging to see the country's fundamentals clearly and therefore to invest in any of its companies. As a result, we prefer not to hold any Venezuelan corporate debt.

In comparison, we believe that Brazil has a positive investment outlook. However, that isn't to say that it doesn't have its own headwinds.

Jair Bolsonaro, the country's newly elected president, is pushing forward with pro-market reforms including an important plan to overhaul the country's pension system. Fiscal savings from pension reform are expected to reach between BRL 700bn and BRL 800bn over the next 10 years, which could lead to a recovery in credit and a pick-up in corporate lending. However, despite Bolsonaro's reassuringly pro-market rhetoric, the president's relationship with Congress is a key factor to watch.

For Brazil, the economic outlook hangs on reform. If Bolsonaro's pension reform does make it through Congress, it would give a much-needed boost to external investor confidence and would shore up the country's fiscal position. The Justice Committee approved the bill to proceed to Congress with only small changes, and figures from Congress have signalled that the reforms should be approved. From our point of view, we are confident that the pension reform should pass, paving the way for a positive year for Brazil. However, the economy will likely stagnate if reforms are held up by Congress.

From an investment perspective, we continue to favour the protein sector in Brazil as we believe Brazilian protein exporters are positioned to benefit from the spread of African swine flu in China. Pork is a key staple food in China and the spread of swine flu will create a scarcity in supply, which will likely boost demand and prices for other sources of protein as well as pork. As one of the largest animal-based protein producers in the world alongside the US, Brazil is perfectly placed to benefit from the supply shortage.

Ultimately, while Brazil has some headwinds to face – namely pushing through reform and reversing the economic contraction – these factors are dwarfed by the crises facing Venezuela. The country faces an uphill battle, dealing with

Alejandro Arevalo, Fund Manager, Fixed Income

Alejandro joined Jupiter in November 2016 and is a Fund Manager in the Fixed Income team, specialising in Emerging Market Debt. He is manager of the Jupiter Global Emerging Markets Short Duration Bond fund (SICAVs).

Prior to joining Jupiter, Alejandro was an emerging markets corporate debt portfolio manager at Pioneer Investments for four years. Before that, he worked on emerging market debt strategies at Standard Bank Asset Management, Gibraltar Bank and the International Bank of Miami.

Alejandro has an MBA in Finance from Florida International University and graduated from Universidad Francisco Marroquin in Guatemala.

About Jupiter

The listed British investment manager with boutique-like investment approach, located in London and founded in 1985, employs more than 400 employees worldwide (thereof about 35 fund managers). Today Jupiter is one of the UK's most respected asset management groups.

„The Jupiter Global Fund SICAV" (a Luxembourg based UCITS structure) provides clients outside the UK access to the diverse investment capabilities through its 29 sub funds which are registered for distribution in several European countries. Jupiter's total AUMs are GBP 42.7 bn as of 31 December 2018.

serious geopolitical risk as well as social and economic turmoil. The economic outlook is far more positive for Brazil – as are its chances of winning the game.

Sources of information:

https://tradingeconomics.com/brazil/inflation-cpi
https://tradingeconomics.com/brazil/current-account
https://tradingeconomics.com/brazil/government-debt-to-gdp
https://tradingeconomics.com/venezuela/inflation-cpi
https://tradingeconomics.com/venezuela/current-account-to-gdp
https://tradingeconomics.com/venezuela/government-debt-to-gdp