

THE FOUR AMIGOS: LATIN AMERICAN EQUITY INDICES TAKE TOP PLACES IN JANUARY 2022

SUMMARY

This report focuses on the factors that may impact the future performance prospects of four indices with the highest returns during January 2022. They included MSCI Brazil, MSCI Chile, MSCI Peru, and MSCI Colombia. The idea behind writing this report was to understand tailwinds, or factors that would help these indices finish on the pedestal or at least in the “Top 10” out of fifty country equity indices in the Beyond Borders Investment Strategies, LLC universe at the end of 2022, and headwinds, factors that are likely to hurt the indices’ performance. It is essential to do it because sometimes indices that won the January stage proceed to win the entire annual competition. For example, after winning the January 2021 stage, the MSCI United Arab Emirates (UAE) index won the 2021 annual competition.

At this point, I believe that most tailwinds are of a global nature, but most headwinds are local. A short-term performance rebound from the below-par performance – in both absolute and relative terms – is one of the tailwinds. All four indices had negative performance in 2021. For investors, though, it is essential to realize that they can welcome the rebound as a positive phenomenon but should not count on it happening in 2022 or any other year. The report talks about a sad story of a company that counted on the performance rebound happening every year.

Apart from a short-term performance rebound, the report focuses on a longer-term rebound that potentially started happening in December 2021 and January 2022. I am talking about Value stocks outperforming Growth stocks. This trend is very important because Growth stocks outperformed Value stocks for more than 14 years, from the end of June 2007 until the end of November 2021. The outperformance of Value stocks in December 2021 and January 2022 may mark the return to a long trend of Value stocks massively outperforming Growth stocks since 1926. I believe that the high weight of Value stocks and Commodity-related stocks in the countries’ stock markets led to the outperformance by the ‘Four Amigos’ indices. The world’s hunger for commodities and high inflation across the globe can propel the stock markets of the four countries to the top positions at the end of the year.

To forecast whether all or some of the January 2022 winners can stand on the pedestal at the end of 2022, I also analyzed some public health, economic, and political risks that the four Latin American countries would face in 2022 and beyond. Like many other countries around the world, all four countries did not cover themselves in glory regarding their responses to the COVID-19 pandemic. If the pandemic makes a comeback, the countries and investors in their stock markets will suffer. The upcoming rate increases by the US Fed may lead to the depreciation of the four countries' currencies versus the US Dollar. The devaluation would make it more difficult for the countries to repay their dollar-denominated debts, potentially leading to further currency depreciation and negative performance by the countries' stock markets.

However, I believe that in three out of four countries, political risks trump every other risk. Presidents with extreme anti-business views were elected or led in presidential polls in these countries. In Peru, Pedro Castillo, the current president dreaming about the nationalization of its industries, is focused on forming his fourth government during just six months in power. In addition, Mr. Castillo has already survived the first impeachment attempt that was launched because of alleged corruption in his government. From the investment standpoint, his struggles in governing the country may not be too bad for the Peruvian equities because his economic program was very anti-business. Still, markets can be negatively surprised by unexpected events with a president like this in the office.

In Chile, previously the most stable country in Latin America that investors treated as a "safe haven" for their assets, Gabriel Boric, the newly elected president, was elected on a promise to destroy the country's neoliberal system that helped lift Chile out of poverty and replace it with some type of socialism. In the meantime, he created a cabinet where ministers seemed to be selected not on their professional competencies but based on their identities, political views, and loyalty to the president. On a positive note, the president-elect appointed Mario Marcel, the country's Central Bank governor, as his finance minister. After the presidential election, this particular candidate for the finance minister became the favorite of the markets due to his moderate views compared to some left-wing firebrands. While Mario Marcel is an independent politician now, he is also a former member of the Socialist Party with which he maintains strong relations. Investors have to be highly aware of the situation in the country after the president takes power on March 11, 2022.

In both Peru and Chile, the world's second and first producer of copper and also significant producers of lithium and other commodities, the tailwinds for the stock markets would be the world's appetite for

commodities. Chile has the world's largest reserves and is the second-largest producer of lithium, a strategically important metal required for electric vehicle batteries.^{1 2} But both governments could derail their stock market growth.

In Colombia, a traditionally conservative country, Gustavo Petro, a former socialist guerilla-turned-politician, leads the polls before the presidential election and may become the first leftist president in the country's history. As the Chilean president-elect, he promised to destroy the country's neoliberal system. In Colombia, Mr. Petro is known as the "Garbage Catastrophe" architect. As a Mayor of Bogota, he decided to nationalize the city's garbage collection industry. It went terribly wrong. Now Gustavo Petro plans to halt new oil exploration to eventually wean the country off of extractive industries and transition away from fossil fuels. However, he does not explain how he would replace the country's two primary exports – oil and coal. The country exported more than \$22.3 billion of these commodities in 2019 (the last 'normal' year before the pandemic). But there is a chance that Gustavo Petro would not win the election, and Colombia would avoid another catastrophe in the garbage collection or other industries.

Finally, Brazil is the only country where none of the leading contenders during the upcoming presidential elections are extremists in terms of their economic platforms. Two of the top candidates are Center-Left and two – Center-Right. The most significant risk is that Lula, a former president of the country who was indicted on corruption charges and sentenced to 26 years in prison, was released on a technicality in 2021. The country's Supreme Court decided that Lula would be retried in a different geographic location. The country's former president decided to run for the presidency again. Since the facts related to the corruption charges and conviction did not change, Lula may be indicted again and most probably impeached for this, potentially leading to high volatility and poor performance of Brazil's stock markets in 2022 and beyond.

PART 1: TAILWINDS FOR THE INDICES' PERFORMANCE IN 2022

1. The Performance Rebound Phenomenon: People who have been reading my reports know that I compared the performance competition among 50 stock market indices in BBIS' universe to a major international bicycle race with 12 monthly stages. The first stage is in the books. I am very grateful to

¹ Wikipedia, "List of Countries by Lithium Production, 2021." Downloaded on February 6, 2022.

² Wikipedia, "Lithium." Downloaded on February 6, 2022.

the stock market indices of the four Latin American countries and investors who invested in them for providing a perfect example of the performance rebound this January. As you can see from the right column in the Performance Tables section at the end of the report, MSCI Brazil, MSCI Chile, MSCI Peru, and MSCI Colombia led the field of 50 equity market indices with total returns of more than ten percent as of January 31, 2022. That is not during a year, but just over one month. Notably, the leading quartet did it after being among just 13 indices with negative performance in 2021.

If the “Top 4” indices manage to stay in the “Top 10” group by the end of 2022, they could serve as a picture-perfect example of the “last year losers becoming next year winners” phenomenon. The rebound happens, in large part, due to lower valuations that markets achieve because of their negative performance the previous year. Importantly, this phenomenon occurs during some years but not for all countries and not during all years. For example, not a single index from the “Bottom 10” in 2020 made it to the “Top 10” in 2021 (*see Columns 1 and 2 in the Performance Tables at the end of the report*).

The reason that I am focusing on the uncertain nature of the rebound phenomenon is that recently an investment firm invested millions of dollars of its capital and raised millions from investors for an ETF that followed a strategy that allocated money to the “Bottom 5” performers counting on a significant rebound next year. At the beginning of the year, the company would allocate by far the largest position – 30% – to an ETF benchmarked against the worst performing index the previous year. The rest of the capital was evenly split among the other four “Bottom 5” country indices. According to the firm’s quantitative model, the worst performer was expected to have an excellent performance the following year. The strategy was advertised as a simple and elegant solution for achieving international diversification in investment portfolios.

Many investors and advisors loved it. There was only one rule – easily quantifiable – that investors had to pay attention to, and advisors had to explain to their clients. It was simple. In retrospect, it was too simple. Tragically, the strategy turned out to be deadly for the capital of people who invested in this strategy. As luck would have it, the worst-performing country stock index one year ended up being the worst performer next year AGAIN. The price of the ETF, which the company was marketing, collapsed. The ETF was closed.

The firm and its launch of the ETF may serve as a cautionary tale: we can learn from its mistakes. The main error included thinking that the performance rebounds every year rather than sometimes. Let me use an analogy to explain it. A person can drown in a shallow river where the average depth is a foot or even less. This tragedy may happen because the average value masks that the river may have a few deep spots. In the same way, investors may lose their money because “average” and “usual” rules do not work every time.

Finally, a complex world can rarely be modeled precisely by any model, but especially by a model with just one rule! It is very appealing to all of us to explain the investment strategy with just one rule, but unfortunately, it does not work most of the time. As Albert Einstein said, “Everything should be made as simple as possible, but no simpler.”³

- 2. Value Stocks Started Outperforming Growth Ones:** Apart from the rebound over a one-year period, there is a longer-term rebounding process afoot. Value stocks started outperforming Growth stocks in December 2021 and January 2022. The investment indices of the ‘Four Amigos’ – MSCI Brazil, MSCI Chile, MSCI Peru, and MSCI Colombia have high weights of Value stocks (*see below in this section*). As I wrote in the report, “*Potential Change of Leadership from US and Growth Stocks to International and Value Stocks in 2021-2023*” on September 28, 2021, I believed that Value stocks might start outperforming Growth stocks over the next two-plus years. Increasing interest rates due to the Quantitative Easing (QE) tapering would increase discount rates used in the valuation models.⁴ Higher discount rates usually result in lower valuations of all stocks, but especially of Growth ones (*for the explanation, see pages 10 and 13 of the September report*). The most expensive Growth stocks trading at high valuations compared to other Growth stocks are most susceptible to price drops due to the valuation compression.

Below is a link to the report:

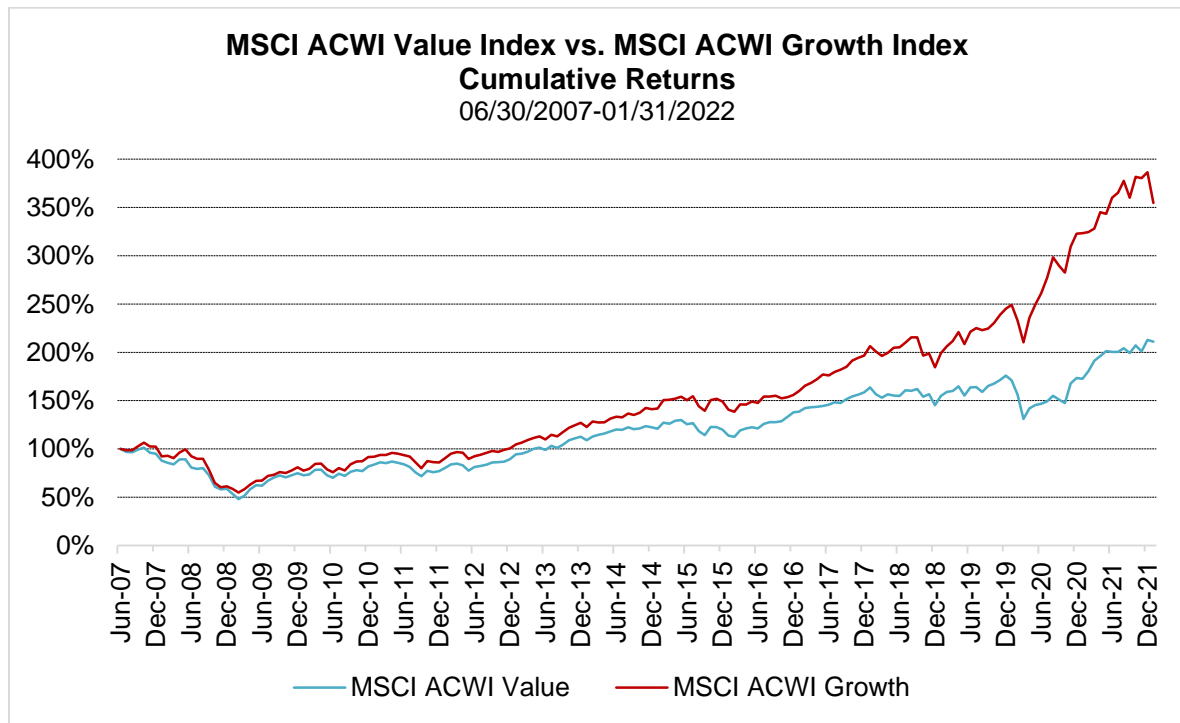
<http://bbistrategies.com/our-publications--events/report-potential-change-of-leadership-from-us-and-growth-stocks-to-international-and-value-stocks-in-2021-2023>

³ Championing Science, “In Honor of Albert Einstein’s Birthday – Everything Should Be Made as Simple as Possible, But no Simpler,” March 15, 2019.

⁴ Vitaly Veksler, Beyond Borders Investment Strategies, “Potential Change of Leadership from US and Growth Stocks to International and Value Stocks in 2021-2023,” September 28, 2021.

The prediction that I made in late September 2021 started to turn into reality two months later, in December 2021. After fourteen years of underperformance since June 30, 2007, global Value stocks outperformed global Growth stocks in December 2021 and January 2022, both on a month-over-month basis and a year-over-year basis. During these two months, the MSCI All Country (ACWI) World Value index outperformed the MSCI ACWI Growth index by a significant 11.8%. While the MSCI ACWI Value Index’s total returns were positive 5.1%, the MSCI ACWI’s total returns were negative 6.8%. ⁵ As a reminder, these indices include stocks in 27 developed and 23 emerging countries. ⁶

Chart 1. Cumulative Returns: MSCI All Country (ACWI) World Value Index vs. MSCI All Country (ACWI) World Growth Index, June 30, 2007 – January 31, 2022.



The weights of four sectors that are often considered Value – Energy, Financials, Industrials, and Materials – are high in the ‘Four Amigos’ Latin American indices. As of January 31, 2022, the weights range from 68.8% in the MSCI Chile Index to 73.8% in the MSCI Brazil Index to 80.6% in the MSCI

⁵ Source: Refinitiv.

⁶ Factsheets of the MSCI ACWI Value and MSCI ACWI Growth indices. All data are as of January 31, 2022.

Colombia Index to 100% in the MSCI Peru Index.⁷ For comparison, the weight of these Value sectors in the MSCI USA Index is just 24.6% and in the Standard & Poor's 500 Index is 25.0%.⁸

3. Commodities Are a Hedge Against Inflation: Another factor that fueled the excellent performance of the four indices and Value stocks, in general, was high inflation and the commodities' role as a hedge against inflation. Commodities as tangible assets and equities of commodity-producing companies usually do well during inflationary periods. The weight of Commodity-related sectors – Energy and Materials - in the four Latin American equity indices is high. It ranges from 26.6% in the MSCI Colombia Index to 38.7% in the MSCI Chile Index to 41.0% in the MSCI Brazil Index to 42.6% in the MSCI Peru Index.⁹ For comparison, these sectors' weight is just 5.7% in the MSCI USA Index and 5.9% in the Standard & Poor's 500 Index.¹⁰

A. Inflation Has Been High in Many Countries Worldwide and Is Expected to Be High in 2022-2023: The US's annual inflation rate (CPI) accelerated to 7.0% in December 2021, a fresh high since June of 1982.¹¹ According to the IHS Markit estimates, *“Worldwide inflation will likely remain near 5.0% in early 2022 before gradually easing in response to declines in industrial and agricultural commodity prices. On an annual basis, global consumer price inflation picked up from 2.2% in 2020 to 3.8% in 2021 and will average 4.1% in 2022 before subsiding to 2.8% in 2023. Risks to the inflation outlook are concentrated on the upside.”*¹² It is likely to stay high in the future due to factors discussed below – some related just to the United States and some global. These factors were discussed in detail on pages 6-7 and 25-27 of the *“Potential Change of Leadership from US and Growth Stocks to International and Value Stocks in 2021-2023”* report (see the link to the report above.)¹³

a. Huge Infusion of Money into the Largest Economies Around the World: For example, the US Fed infused more than \$4 trillion into the US economy from the beginning of the

⁷ Factsheets of the MSCI Brazil, MSCI Chile, MSCI Colombia, and MSCI Peru indices. All data are as of January 31, 2022.

⁸ Factsheets of the MSCI USA and Standard and Poor's 500 indices. All data are as of January 31, 2022.

⁹ Factsheets of the MSCI Brazil, MSCI Chile, MSCI Colombia, and MSCI Peru indices. All data are as of January 31, 2022.

¹⁰ Factsheets of the MSCI USA and Standard and Poor's 500 indices. All data are as of January 31, 2022.

¹¹ Trading Economics, US Inflation Rate, January 12, 2022.

¹² Sara Johnson, IHS Markit, “The Global Economy disrupted: Higher Inflation and Slower Growth in the 2022 Outlook,” January 24, 2022.

¹³ Vitaly Veksler, Beyond Borders Investment Strategies, “Potential Change of Leadership from US and Growth Stocks to International and Value Stocks in 2021-2023,” September 28, 2021.

- pandemic in the US in early March 2020.¹⁴ The EU adopted the large stimulus package that consisted of the long-term budget, coupled with NextGenerationEU (NGEU), the temporary instrument designed to boost the recovery.¹⁵ A total of €2.02 trillion (\$2.26 trillion) using the exchange rate of €1 equaling \$1.12 as of January 31, 2022) was dedicated to helping rebuild a post-COVID-19 Europe.^{16 17}
- b. **Minimum Wage Increases in the US:** Their wages increased in 24 US states in 2021, putting upward pressure on the above-minimum wages in these states and also on the minimum and above-minimum wages in the 26 states that have not increased the minimum wages.¹⁸
 - c. **Supply Chain Disruptions:** These disruptions happened for many reasons, some of which included the policy of zero tolerance to COVID-19 in China, the world's largest manufacturer, and COVID-related closures in other manufacturing hubs (i.e., Vietnam).¹⁹
^{20 21}
 - d. **Massive Maritime Freight Rates Spikes due to the Supply Chain Disruptions:** The instability and disruptions of manufacturing led to the hoarding of freight containers and increased freight rates. For example, the freight rate to ship one container from Shanghai to Los Angeles increased 20 times from \$1,500 pre-pandemic to \$30,000 in September 2021.²²
 - e. **Upcoming Negotiations between Ports of Los Angeles and Long Beach, the Country's Largest and Second Largest Ports, and Labor Unions Scheduled for July 2022:** These negotiations may result in inflationary cargo handling slowdowns.²³

¹⁴ Board of Governors of the Federal Reserve System, Credit and Liquidity Programs and the Balance Sheet, Recent Balance Sheet Trends. The Fed Balance Sheet was \$4.16 trillion on February 24, 2019 - before the COVID-19. The Balance Sheet's value skyrocketed to \$8.87 trillion on January 31, 2022, in response to the COVID-19 pandemic.

¹⁵ The European Commission, "Recovery Plan for Europe." Downloaded on February 4, 2022.

¹⁶ Ibid.

¹⁷ Google, "US Dollar to Euro Converter." Calculated on February 4, 2022.

¹⁸ Andrew Soergel & Sara Clarke, US News & World Report, "24 U.S. States Will See a Minimum Wage Increase in 2021," August 2, 2021.

¹⁹ Daniel Yergin and Peter Tirschwell, CNBC, "Op-ed: Supply Chain Delays Won't Be Easily Fixed and Trouble Will Continue into Next Year," September 1, 2021.

²⁰ CNBC, "China's Zero-Covid Policy Is So Strict That It Shut Down a Whole Shipping Terminal After Just One Case," August 12, 2021.

²¹ CNBC, "Companies Scramble to Shift Manufacturing Out of COVID-Crushed Vietnam in Time for Holidays," September 22, 2021.

²² Daniel Yergin and Peter Tirschwell, CNBC, "Op-ed: Supply Chain Delays Won't Be Easily Fixed and Trouble Will Continue into Next Year," September 1, 2021.

²³ NFI Industries, Insights, "What the Approaching ILWU-PMA Contract Renewal Means for Shippers," July 1, 2021.

- f. **New Climate Regulation Rule Is Likely to Add to Shortage of Containers:** In 2023, the International Maritime Organization, the United Nations body that regulates shipping, may require ships to sail at lower speeds to cut emissions. This measure would further add to inflation by exacerbating the shortage of containers and further increasing freight times and rates. ²⁴
- g. **Shortage of Truck Drivers May Continue to Exert Inflationary Pressures in the US:** Young people are not interested in becoming truck drivers. According to a recent study, nearly 57% of all truck drivers are older than 45, and 23% are in the 55+ age bracket. Reasons for not joining the industry include: the relative dearth of younger workers; people do not perceive that driving in inclement weather or high-crime US cities is desirable; the legalization of marijuana led to an increase in the number of people who did not pass the drug test (approximately 40,000 people) or are not even willing to take it. ²⁵

B. Not All Commodity-Producing Countries' Indices Would Rally at the Same Time: A word of caution... As with the performance rebound phenomenon, one must be careful and differentiate between commodity-producing countries. Their indices do not necessarily perform in sync with each other. When the majority of commodity indices rally, some do not. Most often, this happens due to country-specific reasons. For example, MSCI Australia and especially MSCI New Zealand, two major commodity exporters, performed really poorly in January. The MSCI Australia was in the 45th position with a loss of 8.8%, while the MSCI New Zealand Index performed worse than any other index in the BBIS 50-index universe. Its value dropped by striking 14.5%.

The Australian stocks were hurt by the weakest consumer confidence in 30 years. ²⁶ The Omicron surge impacted Australia in December 2021 and January 2022. In January, Australians' confidence was lower than during the 2020 lockdowns when the Delta variant surged. ²⁷ According to Gareth Aird, Commonwealth Bank economist, the large number of COVID-19 cases was hurting the employment market. He estimated that one million people were in isolation and reduced spending on goods and services. ²⁸ The New Zealand stock market declined in

²⁴ Daniel Yergin and Peter Tirschwell, CNBC, "Op-ed: Supply Chain Delays Won't Be Easily Fixed and Trouble Will Continue into Next Year," September 1, 2021.

²⁵ Emily Newton, Global Trade, "Why Do We Have a Trucking Shortage?" September 5, 2021.

²⁶ Sue Lannin, ABC News Australia, "ASX Gives Up Gains, Weakest January Consumer Confidence in 30 Years," January 17, 2022.

²⁷ Ibid.

²⁸ Ibid.

January on the news that the US Fed would increase interest rates in 2022. Also, the Omicron surge continued unabated through the end of January.²⁹ As in Australia, consumer confidence dropped in New Zealand. In my estimate, it was one of the most important factors that resulted in the terrible stock market performance.

Despite their current difficulties, I would be looking carefully at the developments in Australia and New Zealand. As COVID-19 fears subside, the countries' stock market prices may recover.

PART 2: HEADWINDS FOR THE INDICES' PERFORMANCE IN 2022

High global inflation and high percentages of Commodity and Value stocks within the 'Four Amigos' indices are likely to be tailwinds. Can they win the annual competition within the BBIS universe? Yes, they can. Will they or one of them win the 2022 competition? I wish I could answer this question as confidently as the previous one. The best answer that comes to mind is, "It depends." It depends on the catalysts discussed above and some significant risks that the indices face discussed in this section below. All four indices remind me of supremely talented cyclists who are unfortunately injury-prone due to such factors as a not stellar response to the COVID-19 pandemic that may strike these countries again. Some of the four countries have high debts, especially debts denominated in US Dollars. Also, all four can sabotage their future performance by political choices their countries made during the presidential elections in 2021 (Peru and Chile) and may make in 2022 (Colombia and Brazil).

Significant Risks to the 'Four Amigos' Indices: All four Latin American indices will face risks in 2022 in such areas as public health, macroeconomics, and politics. Below are some of these risks.

- 1. Potential Comeback of the COVID-19 Pandemic:** If the COVID-19 pandemic makes a comeback, all four countries may be impacted by it. Their politicians and public health systems were not among the world's best in their response to the pandemic. Peru had the world's highest level of deaths from COVID-19 – 6,129 per million people as of January 30, 2022.³⁰ This level was more than twice as high as the level of the COVID-19 related deaths in Brazil – 2,919 per million.³¹ Brazil had the fifteenth highest rate of COVID-19 deaths out of 223 countries and territories in the Worldometer universe. It

²⁹ Focus Economics, "New Zealand Consumer Confidence January 2022," February 2, 2022.

³⁰ Sources: Worldometer for COVID-19 deaths per country. World Population Review for the countries' populations.

³¹ Ibid.

was a high unwanted place in a competition that no country wanted to win. Colombia's deaths per million rate was 2,610 (#23), while Chile's - 2,065 (#37).³² For comparison, the world's average death per one million level was 718.³³

- 2. Potentially Significant Depreciation of Local Currencies vs. the US Dollar, Especially in Countries with High Dollar-Denominated Debt:** In anticipation of the US Fed raising rates during 2022, Latin American countries' local currencies may depreciate versus the US Dollar (USD). This depreciation would make repaying debt denominated in US Dollars more difficult for all countries. When the local currencies depreciate, the countries would have to pay more for the debt denominated in dollars in local currency terms. While it is not desirable, especially in countries that have experienced and may be prone to high inflation, if governments need to repay their debt denominated in local currencies, they can simply print more local money. However, this printing would most likely result in the local currencies' additional depreciation and would make it really difficult to repay dollar-denominated debt.

But the problem of repaying the dollar-denominated debt is more immediate than that of the local-currency-denominated debt. The countries cannot print US Dollars. The problem of repaying the dollar-denominated debt will be especially acute for the countries with a high portion of debt denominated in hard currency (usually, US dollars). Peru and especially Colombia would have more difficulties repaying their US debts than Chile or Brazil, despite Brazil's higher overall debt (*see Table 1 below*). The problems with debt repayment may result in a further decline of the local currencies versus the USD. Potential or actual local currency depreciation may also result in lower returns of stock markets, even in local currencies. Local and international investors may withdraw their funds from the markets in response to the actual or expected depreciation of the local currency. The local currency depreciation would further subtract from the 'Four Amigos' index returns measured in US Dollars.

³² Ibid.

³³ Ibid.

Table 1. Latin American Countries' Total Debt and Its Hard-Currency Denominated Portions.

34 35 36

Countries	Total Government Debt as % of GDP, 2020	Dollar-Denominated Portion as % of Total Government Debt, 2020	Dollar-Denominated Portion of Total Government Debt as % of GDP, 2020
Chile	32.5%	15.0%	4.9%
Brazil	98.9%	5.0%	4.9%
Peru	35.1%	38.4%	13.5%
Colombia	65.4%	31.0%	20.3%

- 3. Political Risks Dominate All Other Risks: Three of the Four Countries May Have Socialist Presidents in 2022 and One Country May Have the Future President Impeached:** In my opinion, political risks are the most important ones for all countries. Three out of four countries – Peru, Chile, and Colombia – are either led or may soon be led by presidents that ran on extremely business-unfriendly platforms. In my opinion, if their ideas about industry nationalization or the neoliberal system destruction are implemented, they would cause market crashes and sabotage their countries' economic growth.

Due to the self-inflicted nature of the risks – nobody makes people vote for presidents who offer socialist solutions that look good only on paper but never in practice – these countries remind me of supremely talented cyclists who after losses replaced their coaches with new coaches who made bold claims that they would help the cyclists win the competition. Unfortunately, the new coaches have questionable reputations, have never led other cyclists to success, and as a matter of fact, have a history of leading cyclists, whom they coached in the past, to failures.

The whole world had horrible two years due to the COVID-19 pandemic. In some countries, voters realized this. They continue to work hard to hit the ground running after the pandemic passes without losing their bearings. But in some countries, people bring the “quack doctor” politicians that sell the

³⁴ The International Monetary Fund, World Economic Outlook Database, October 2021.

³⁵ For Chile, Brazil and Colombia - Paulina Restrepo Echavarría and Praew Grittayaphong, The Federal Reserve Bank of St. Louis, “Dollar-Denominated Public Debt in Asia and Latin America,” August 03, 2021.

³⁶ For Peru’s Foreign Debt Portion – Theresa Romero, Statista, “Gross Public Debt of Peru from 2nd Quarter 2020 to 4th Quarter 2020, By Type of Currency,” August 03, 2021. For Peru’s Total Government Debt - The International Monetary Fund, World Economic Outlook Database, October 2021.

dreams of socialism, which has not worked anywhere, to heal their countries. In an article with a strikingly appropriate title, “Mercury Was Considered a Cure – Until It Killed You,” about a book “*Quackery: A Brief History of the Worst Ways to Cure Everything*,” the authors Lydia Kang, MD, and Nate Pedersen talked about how doctors used mercury to heal a wide range of diseases from the sixteenth to the twentieth century.^{37 38} During the period, healers used mercury to cure a range of diseases such as melancholy, constipation, syphilis, influenza, parasites, babies’ teething, Yellow Fever, and others.³⁹ During the time, the doctors honestly believed in mercury’s healing powers. However, by the middle of the twentieth century, doctors realized that mercury created significantly more problems for patients than it solved. Among the side effects were skin peeling, skin discoloration, burning sensation that resembled small insects crawling on or under the skin, muscle weakness, poor coordination, numbness in the hands and feet, kidney problems, decreased intelligence (especially among children), and lethal mercury poisoning.⁴⁰

But still, some dishonest “quack doctors” continued to offer healing people with mercury even though they knew about its horrible side effects. In addition, some uninformed doctors did not know about the side effects even when these effects were widely publicized and honestly believed that they heal people. Both categories of the “quack doctors” – dishonest profiteers and uninformed believers – remind me of politicians selling the idea of socialism. By now, most people realize that the “medication” has not worked anywhere. But during the turmoil, when societies lose their collective bearings, suffering populations may choose to bring the political “quack doctors” to ‘heal’ their societies. People’s dreams about their new healers improving their societies always turn into nightmares when people realize that their new “emperors” are naked and that their own dreams of a better tomorrow are futile. Sometimes it happens fast, sometimes it takes longer, but the realizations always happen and invariably prolong the societies’ suffering. To be fair, the countries above are not the only ones who seem to elect less than competent presidents and governments to rule them.

In Brazil, where all presidential candidates are business-friendly, the markets may be shocked if former President Lula is elected president again and gets convicted of corruption again. He may be

³⁷ Lydia Kang and Nate Pedersen, The Star, “Mercury Was Considered a Cure – Until It Killed You,” October 22, 2017.

³⁸ Lydia Kang and Nate Pedersen, Thomas Allen & Son Limited (Canada) and Workman Publishing Company, Inc., *Quackery: A Brief History of the Worst Ways to Cure Everything*, October 2017.

³⁹ Lydia Kang and Nate Pedersen, The Star, “Mercury Was Considered a Cure – Until It Killed You,” October 22, 2017.

⁴⁰ Wikipedia, “Mercury Poisoning.” Downloaded on February 6, 2022.

impeached. If this political drama happens, the markets may respond by performing poorly as they did during President Dilma Rousseff's investigation and impeachment process in 2014-2015.

A. Peru – An Almost Comical Instability in the World's Second Largest Copper Producer:

Since July 2021, Peru has been led by Pedro Castillo, a Marxist-Leninist president.⁴¹ He has serious trouble letting go of the idea of nationalizing the country's economy. As somebody who has not managed anything – the closest to the management experience was a less than one year stint of being among teachers' union strike leaders in 2017 – he has a severe problem governing the country. During just six months in power, Mr. Castillo has to form the fourth government. Two of the previous governments 'governed,' if I may use this word, for just several months. The most recent 'governed' for just four days. Mr. Castillo has already survived an impeachment attempt. Below are some details about his short but eventful stay in power.

During his presidential election campaign on the Marxist-Leninist platform of the *Peru Libre* party in 2021, the eventual winner, Pedro Castillo, promised to nationalize the country's gas and mining sectors.⁴² His first Prime Minister, Guido Bellido, also from the *Peru Libre*, threatened to nationalize the Camisea natural gas consortium.⁴³ On October 6, President Pedro Castillo replaced Guido Bellido with Mirtha Vasquez, a left-wing former head of Congress, who was still much more centrist than the bellicose extreme-left Mr. Bellido.⁴⁴ The Peruvian stock market and currency (Nuevo Sol) started rallying on October 6, the day Ms. Mirtha Vasquez became the prime minister. I wrote about the transition in a report titled "*Unknown Unknowns or a Delayed Confirmation Vote for Peru's Cabinet of Ministers.*" Below is the link to the report:

<http://bbistrategies.com/our-publications--events/unknown-unknowns-or-a-delayed-confirmation-vote-for-perus-cabinet-of-ministers>

While the political situation seemed to stabilize with an appointment of the prime minister who was acceptable to most of the society in early October 2021, the president, once again, destabilized it by urging the country's Congress to draft a bill for the nationalization of Peru's

⁴¹ Wikipedia, "Pedro Castillo." Downloaded on February 6, 2022.

⁴² Marcelo Rochabrun and Marco Aquino, Reuters, "Peru's Castillo Urges Congress to Draft Bill to Nationalize Gas Sector," October 25, 2021.

⁴³ Ibid.

⁴⁴ Marcelo Rochabrun and Marco Aquino, Reuters, "Peru's Castillo Swears in New Prime Minister in Bid to Calm Political Instability," October 6, 2021.

natural gas sector.⁴⁵ This move was opposite to his previous statements in which he said he would not seek to nationalize parts of the economy. In her comments addressed to Congress, Prime Minister Mirtha Vasquez took a more conciliatory tone and stated that the Castillo administration would respect private property.⁴⁶ *“We are conscious of the importance of private investment in generating economic growth,”* Ms. Vasquez said.⁴⁷

The political drama in the government of the world’s second-largest exporter of copper continued with Congress’ attempt to impeach the president for the alleged corruption in his administration. On November 18, 2021, the impeachment was requested by Patricia Chirinos, legislator of the right-wing alliance Avanza País, who appealed to Castillo’s “moral incapacity.”⁴⁸ Specifically, the investigators found \$20,000 in the bathroom of the office of Bruno Pacheco, Pedro Castillo’s Chief of Staff.⁴⁹ “The raid was part of an investigation into allegations that Mr. Pacheco pressured the head of Peru’s tax and customs agency to give certain companies run by his friends more favorable terms.”⁵⁰

Corruption may not be limited just to Mr. Castillo’s administration members but to him personally. On November 28, 2021, while Congress was already considering starting an impeachment process, a TV news program presented images of Castillo meeting secretly, late at night, with a woman in a building not intended for official government business.⁵¹ The woman was later identified as Karelím López, a lobbyist for a company that won a \$64-million government contract hours after the meeting by bidding 27 centimos, Peruvian cents, or around 7 US cents less than its competitor.⁵²⁵³⁵⁴ It is extremely rare to have almost identical large bids unless somebody passed the information on an already presented proposal to another competitor. In the US, we call it *“insider information or non-public material information.”* It is illegal to disclose

⁴⁵ Marcelo Rochabrun and Marco Aquino, Reuters, “Peru’s Castillo Urges Congress to Draft Bill to Nationalize Gas Sector,” October 25, 2021.

⁴⁶ Ibid.

⁴⁷ Ibid.

⁴⁸ Market Research Telecast, “Decisive Day in Peru: Congress Decides Whether to Advance the Vacancy Request Against Pedro Castillo for “Moral Incapacity”, December 7, 2021.

⁴⁹ BBC, “Peru’s Chief of Staff Stashed \$20,000 in Palace Bathroom,” November 24, 2022.

⁵⁰ Ibid.

⁵¹ Andrea Moncada, Americas Quarterly, “Pedro Castillo Isn’t Out of Danger,” December 9, 2021.

⁵² Market Research Telecast, “Decisive Day in Peru: Congress Decides Whether to Advance the Vacancy Request Against Pedro Castillo for “Moral Incapacity”, December 7, 2021.

⁵³ Ibid.

⁵⁴ Libertad Digital, “Karelím, the Mysterious Visitor of the Offices of the Government of Castillo,” December 1, 2021.

information on received bids before all bids are presented, especially to competitors. The coincidence seems to be even more suspicious when you look at the proposals in Nuevo Sols (Peruvian Currency). The firm that Karelím López represented won the bid with a smaller bid of 232,587,014.30 Nuevo Sols, while the competitor bid 232,587,014.57 Nuevo Sols.⁵⁵ If President Castillo disclosed this information, what has he received in return?

President Castillo survived the impeachment scare as support for it in Congress was not adequate to start the trial on December 7, 2021.⁵⁶ Castillo's own party, the Marxist *Peru Libre*, had at one point considered supporting the motion to impeach but came around and rallied behind the president despite clashing with him over policy.⁵⁷

According to some observers, "*Castillo's real problem seems to be that he seems uninterested in governing, and instead seems focused on using his position to favor his allies, and perhaps himself.*"⁵⁸ During President Castillo's very short time in power, in addition to three full cabinets of ministers, a number of individual ministers of his cabinets resigned due to accusations ranging from supporting the *Shining Path* terrorist organization (Foreign Minister) to having more than 150 reprimands in the past as a police officer (this heck of a Justice Minister would have done some 'serious' justice) to forcing military commanders to promote the minister's allies in the military (Defense Minister) to appointing the union head accused of robberies in shopping centers (Transportation Minister).⁵⁹

Finally, the president's alleged corrupt behavior led to another high-profile defection by the president's circle members. Prime Minister Mirtha Vasquez resigned on January 31, 2022, less than four months after being appointed.⁶⁰ In her resignation letter, Ms. Vasquez referred to several crises, including "*regretfully, potential acts of corruption or irregularities committed by officials at the highest level of this administration.*"⁶¹ She referred to accusations of the commander of the police force leading a bribery scheme that involved some of Castillo's close

⁵⁵ Ibid.

⁵⁶ Marco Aquino, Reuters, "Peru's Castillo Fends Off Congress Impeachment Vote Amid Protests," December 7, 2021.

⁵⁷ Ibid.

⁵⁸ Andrea Moncada, Americas Quarterly, "Pedro Castillo Isn't Out of Danger," December 9, 2021.

⁵⁹ Wikipedia, "Presidency of Pedro Castillo." Downloaded on February 4, 2022.

⁶⁰ Marcelo Rochabrun, Reuters, "Peru's Castillo Rattles Andean Country with New Cabinet Shake-up," January 31, 2022.

⁶¹ Ibid.

advisors.⁶² President Castillo named Hector Valer to the prime minister position on February 1, 2022. But Mr. Valer had to resign in just four days – on February 5 – due to allegations that he beat his daughter and late wife.⁶³

As I write this report, I do not know who will become the new prime minister, but it will be the fourth in six months. I do not think that too many other people can predict the identity and longevity of the next prime minister. In this context, one of the most important figures that investors are looking at is the country's Economy and Finance Minister. Pedro Francke was a popular figure among investors since the Castillo administration was formed. However, Mr. Francke resigned with the rest of the Mirtha Vasquez Cabinet. He was replaced by Oscar Graham, "a long-serving bureaucrat who worked at Peru's finance ministry between 2011 and 2016, and for over ten years at the central bank."⁶⁴ While the instability in Peru's government may continue, at least for now, the Finance Minister cannot be labeled as a radical and seems to be a pragmatist.

When Peruvians voted for a member of the Marxist party with no management experience of running anything, they were clearly voting for change. However, I do not think they were voting for a change that Mr. Castillo, with his inability to govern – he spends most time fighting fires – provides. The silver lining for investors is that Mr. Castillo came with an extremely business-unfriendly program. If he continues fighting accusations of corruption and irregularities in his inner circle, his program may not be implemented. And the commodity tailwinds would help Peruvian stocks get attractive returns.

- B. Chile – What Will Replace the Neoliberal Model That Turned a Poor Inflation-Infested Country in Shambles into the Latin American Tiger?:** Chile is another country that will soon be run by a left-wing candidate whose only management experience was running protests – student protests in this case. The newly elected President of Chile, Gabriel Boric, who assumes power on March 11, 2022, is another 'protest' candidate. He does not come from such far-left as his Peruvian counterpart, Pedro Castillo. But not too far. He would not have to defend his left-wing credentials before his comrades. In 2018, he organized a left-wing political party *Social Convergence*. It was created from the merger of four other parties: the *Autonomist Movement*,

⁶² Andrea Moncada, America's Quarterly, "What to Make of Peru's Latest Crisis Under Castillo," February 5, 2022.

⁶³ Reuters, "Peru PM Confirms Departure after Four Days on Job; Castillo Faces Cabinet Reshuffle," February 5, 2022.

⁶⁴ Andrea Moncada, America's Quarterly, "What to Make of Peru's Latest Crisis Under Castillo," February 5, 2022.

Libertarian Left (with the *Libertarian Communist Organization* as one of its founding organizations), *New Democracy*, and *Socialism and Liberty*.⁶⁵ During the presidential elections, he became the presidential candidate representing the *Broad Front*, a political coalition of the left-wing parties. “The *Broad Front*’s Declaration of Principles states five central aims as their reasons for political action:

1. *Promote an inclusive country that respects the environment and safeguard social rights (such as education and healthcare).*
2. *Move away from neoliberal economic policies and towards a socialist model of development.*
3. *Create an alternative to challenge the center-left and center-right political coalitions that have ruled Chile since the end of the Pinochet regime.*
4. *Promote the unity of diverse, progressive forces and ensure their political independence from corporate power.*
5. *Build a participative democracy.”*⁶⁶

At least three of these goals have an aggressive attitude towards the existing economic and business institutions of a country that became known as the Latin America Tiger for its successes in these spheres. (For Chile’s unofficial nickname that reflected its extraordinary economic accomplishments, see, for example, the University of Virginia – Darden Business School’s business case “*Chile: A Changed Jungle for the Latin American Tiger*,” published in 2008.)⁶⁷

Goal 4: “*Promote the unity of diverse, progressive forces and ensure their political independence from corporate power.*” This goal clearly creates antagonistic relations with corporations. Not only this. The only unity that the party cares about is of its progressive forces rather than the country as a whole.

Goal 3: “*Create an alternative to challenge the center-left and center-right political coalitions that have ruled Chile since the end of the Pinochet regime.*” This goal makes sure that the *Broad Front* is not a centrist organization that would rule for all and could be accepted by Chileans from various

⁶⁵ Wikipedia, “Social Convergence.” Downloaded on February 6, 2022.

⁶⁶ Wikipedia, “Broad Front (Chile).” Downloaded on February 6, 2022.

⁶⁷ University of Virginia, Darden School of Business, Darden Case No. UVA-BP-0461, “Chile: A Changed Jungle for the Latin American Tiger,” October 21, 2022.

sides of the political spectrum. They present themselves as an alternative to the center-left, putting themselves onto the far left-wing of Chilean politics.

Goal 2: “Move away from neoliberal economic policies and towards a socialist model of development.” During the presidential campaign, Gabriel Boric reiterated his support of this goal, maybe the most concerning out of three for investors. “If Chile was the cradle of neoliberalism, it will also be its grave,” said Boric shortly after becoming the presidential candidate of the left *Apruebo Dignidad* (Approve Dignity) coalition. The coalition included the *Communist Party* and parties representing various flavors of socialism, including all five members of the *Broad Front*.⁶⁸

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Over the last almost 50 years – neoliberalism became Chile’s official state policy in 1975 – the development model allowed the country to achieve impressive accomplishments.⁷⁰ For example, the country’s annual inflation dropped from 150% in 1972 (the last full year under the Socialist President Salvador Allende) to just 1.9% in September 2019, the last month before massive protests against inequality started.⁷¹⁷² Anyone who experienced such high inflation, which Chile experienced in the 1970s, knows that it destroys your life from multiple angles. Chile successfully reduced poverty – between 1987 and 2017, the poverty level dropped from 52% (more than half of the population!!!) to just 3.6%.⁷³ On the negative side, the reforms created inequality. Chile is a country with the second-highest level of inequality (just behind Costa Rica) among the thirty-eight members of the Organization for Economic Co-operation and Development (OECD).⁷⁴

Chile’s neoliberal model of development allowed the country to achieve so much. Of course, like any model, it could be improved. For example, the Chilean authorities might have focused on helping people develop marketable skills necessary to earn decent money and close the income gap. Without these marketable skills, it is impossible to close the income gap. But instead of

⁶⁸ Fabio Cambero, Reuters, “Former Protest Leader Boric Seeks to Bury Chile’s Neoliberal Past,” November 19, 2021.

⁶⁹ Wikipedia, “Apruebo Dignidad.” Downloaded on February 6, 2022.

⁷⁰ Alison J. Bruey, The Oxford Research Encyclopedia of Latin American History, “Neoliberalism,” May 29, 2020.

⁷¹ Wikipedia, “Miracle of Chile.” Downloaded on November 14, 2021.

⁷² Refinitiv, Datastream. Chile’s CPI inflation for September and October 2019.

⁷³ Macrotrends, “Chile Poverty Rate 1987-2021.” Downloaded on November 14, 2021.

⁷⁴ OECD, “Income Inequality – Gini Coefficients.” Downloaded on November 14, 2021.

improving a strong but not perfect economic model that helped the country achieve so much, the new president is planning to destroy it and replace it with socialism.

The socialist development model has not worked long term anywhere. In the shorter term, it worked in countries where authorities implemented socialism without any tolerance for its and their criticism. They would not hesitate to enforce it with the utmost brutality. Remember the *Soviet KGB*, *East German Stasi*, *Romanian Securitate*, *Cambodian Khmer Rouge Santebal Secret Police*, *Ethiopia's Derg*, *Venezuelan Colectivos*, etc. Each socialist country has had one or several brutal enforcement units that many "socialist-paradise" fantasy followers in the West do not seem to know or think about.

All socialist regimes depended on their enforcement organs needed to enforce the bedrock principle of socialism that goes against human nature – redistributing fruits of labor from more productive members of the society to less productive to the point when everybody is equal. While the principle may be good in theory for some people, it only works if enforced, not because it is natural. Indeed, why should people who are more talented, hardworking, who chose specialties that they are passionate about, or more productive for any other reason subsidize their less capable, less hardworking (sometimes by a long shot), those who entered specialties not because they loved them but due to various groups' promotion programs, or those less productive for any other reason compatriots? This principle resulted in very low productivity and deficits of everything in socialist societies. The productive members did not have an incentive to work over the required minimum because the fruits of their labor would be taken from them. The unproductive members of the society would not work because everything would be provided to them by the government. You can also imagine which of these two groups – productive or unproductive – usually support socialism.

I have written a report, "*Chilean Presidential Elections: To Destroy is Easier than to Create*," about Chile's neoliberal system on November 14, 2021, before Chile's first round of presidential elections on November 21, 2021. Below is a link to the report:

<http://bbistrategies.com/our-publications--events/chilean-presidential-elections-to-destroy-is-easier-than-to-create>

On the positive side, Gabriel Boric toned down his bombastic rhetoric after winning the election. He appointed the country's Central Bank governor, Mario Marcel, as his Finance Minister.⁷⁵ Mario Marcel is an independent politician and a former member of the Socialist Party with which he maintains strong ties. *"Marcel was the favorite of the markets, which view his appointment as a sign of moderation in the economic reforms Boric had vowed to implement."*⁷⁶

According to the *Americas Quarterly* article published after his victory, "Boric's model is Sweden or France, not Venezuela."⁷⁷ I do not think that either European country would call itself socialist as it was written in Goal 2 of the Broad Front's Declaration of Principles. An article from *The Orlando Sentinel*, "Putting an End to the Venezuela vs. Sweden Debate," clearly explains the difference between the socialist model in such countries as Venezuela, Nicaragua, and the USSR and the capitalist Scandinavian model.⁷⁸ It is worth reading if people are interested in the topic. I just use one quote from the article in this report. *"Far from socialist, the Nordic countries are actually closer to true laissez-faire capitalism than the U.S., as reflected in the Heritage Foundation's [Economic Freedom Index](#), year after year."*⁷⁹ Below is a link to the article:

<https://www.orlandosentinel.com/opinion/os-op-us-democratic-socialists-dont-get-scandinavia-20181025-story.html>

Danish Prime Minister Lars Løkke Rasmussen, who knows a thing or two about the Nordic economic model, said during his speech at *Harvard's Kennedy School of Government* in 2015 that it was wrong to call his country, as well as Sweden and Norway, socialist. *Vox's* article is simply titled "Denmark's Prime Minister Says Bernie Sanders Is Wrong to Call His Country Socialist."⁸⁰ Below is a link to the article:

<https://www.vox.com/2015/10/31/9650030/denmark-prime-minister-bernie-sanders>

⁷⁵ France 24, "Reserve Bank Chief Will Be Chile's New Finance Minister," January 21, 2022.

⁷⁶ Ibid.

⁷⁷ *Americas Quarterly*, "Reaction: Boric Taps Mario Marcel as Finance Minister," January 21, 2022.

⁷⁸ Jesse Plunkett, *The Orlando Sentinel*, "Putting an End to the Venezuela vs. Sweden Debate", *October 25, 2018*.

⁷⁹ Ibid.

⁸⁰ Matthew Yglesias, *Vox*, "Denmark's Prime Minister Says Bernie Sanders Is Wrong to Call His Country Socialist," *October 31, 2015*.

There was a recent attempt to build something reminding of socialism in France. France's Socialist President Francois Hollande did it. He imposed an income super-tax of 75% on people with incomes of €1 million and up in September 2012.⁸¹ The tax lasted for only two years and was scrapped in 2014.⁸² The tax, which made the current French President Emanuel Macron famously call France under Hollande "*Cuba without the Sun*," was scrapped because it hurt France's competitiveness and business reputation. It resulted in the wealthy leaving the country but brought only meager tax revenues.⁸³

Despite the apparent mischaracterization of the economic models that he wants to implement in his country as socialist, it is encouraging to see that Chile's president-elect does not want his country to become another Venezuela or Cuba.

As a person who cares about the competence of professionals in any field, I was a bit surprised by Boric's Cabinet of Ministers' nominations. The Chilean ministers were selected based on their identities and political views but seemed to lack competencies in the fields they are supposed to lead. For example, Gabriel Boric appointed Maya Fernández Allende, a trained biologist and veterinarian, as the new Minister of National Defense.⁸⁴ I think she was selected not because of her skills but because of who she is – a granddaughter of Salvador Allende, Chile's socialist president in the 1970s.⁸⁵ While her early support of Gabriel Boric's candidacy may be endearing to him on a personal level, her lack of any experience in dealing with the military may be alarming from a national standpoint. Hopefully, Chile will not have to fight in any wars or conflicts while she is in office.

What is even more concerning, Mr. Boric appointed Izkia Siches, a 35-year-old doctor, who served as a former president of the Medical Association and played a fundamental role in his presidential campaign during the second round, to lead the Ministry of the Interior.⁸⁶ As a Minister of the Interior and Public Security, Ms. Siches will be in charge of police and will have to address

⁸¹ Hannah Murphy and Mark John, Reuters, "France Waves Discreet Goodbye to 75 Percent Super-Tax," December 23, 2014.

⁸² Ibid.

⁸³ Mary McDougall, Investors Chronicle, "Lessons from History: France's Wealth Tax Did More Harm than Good," February 11, 2021.

⁸⁴ Wikipedia, "Maya Fernández Allende." Downloaded on February 4, 2022.

⁸⁵ Latin American Post, "Salvador Allende's Granddaughter and Other Surprises from Boric's New Cabinet in Chile," January 25, 2022.

⁸⁶ Ibid.

such large and complex issues as immigration, the increase in crime, the emergence of drug trafficking, and the conflict in the southern macrozone (region). Ideally, a minister would have experience solving all or at least any of these issues. One's intelligence and success in the medical field, driven by compassion, may not bring success while dealing with (hardened) criminals. As the saying goes, "You do not want to eat cakes baked by a shoemaker and wear shoes made by a baker." If crime gets out of control, the whole society, including its businesses, cannot operate normally.

As an investor, I would be looking very carefully at the new laws and regulations that President Gabriel Boric and his government will introduce. Some of them may be damaging to investments in Chile's economy. I hope that Chile, a country that investors and business people from all over the world treated as a "safe haven" in Latin America until 2019, would not follow Peru on its current course of the tragic comedy of errors.

C. Colombia – Beware of the “Garbage Catastrophe” Creator Who Wants to Become First Left-Wing President in a Traditionally Conservative Country: Colombia's economy as that of Chile was built on the neoliberal model foundation.⁸⁷ Like in Chile, an extreme-left candidate may win presidential elections in 2022. Colombia will have presidential elections on May 29, 2022, with a potential runoff scheduled for June 19, 2022.⁸⁸ The primary elections for three blocs – Left, Right, and Center – will occur on March 13, 2022. According to *Wikipedia*, there are 14 candidates for the presidency.⁸⁹ Out of these candidates, only four attracted more than 6% in an influential poll from the *Centro Nacional de Consultoría (CNC)* for the *Semana* at the end of December 2021.

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Three of the four leading candidates are either centrist or conservative. They include Rodolfo Hernandez (Center-Right candidate with 11% support in the poll), Sergio Fajardo (Center-Left with 7.3% support), and Oscar Ivan Zuluaga (Conservative candidate with 6.4% support).⁹¹ If any

⁸⁷ Helen Murphy and Luis Jaime Acosta, Reuters, "Former Guerrilla Petro Fights to Become Colombia's First Leftist President," June 15, 2018.

⁸⁸ Holly K. Sonneland and Hope Wilkinson, AS/COA, "Explainer: Who's Who in Colombia's 2022 Presidential Race," February 3, 2022.

⁸⁹ Wikipedia, "2022 Colombian Presidential Election." Downloaded on February 6, 2022.

⁹⁰ Americas Quarterly, "Elections 2022: Meet the Candidates: Colombia," December 21, 2021.

⁹¹ *Semana*, "¡Despegó Rodolfo Hernández! La Segunda Vuelta Presidencial Podría Ser Entre él y Gustavo Petro," December 11, 2021.

of them wins, they would not be trying to destroy the neoliberal system in the heart of Colombia's economy. However, the political risk for investors is that the most popular candidate in the December poll may win the presidential election in 2022. According to the survey, Gustavo Petro, a Left-Wing candidate or a "progressive leftist" as he calls himself, had the highest support, with 25.4% polling for him.^{92 93}

Gustavo Petro is a former M-19 guerilla, the second largest guerilla group in the country after the infamous FARC. The M-19's ideological orientation was a mixture of populism and nationalistic revolutionary socialism.⁹⁴ The group often sought political support from Nicaragua and Cuba.⁹⁵ After spending 18 months in prison for illegal possession of arms, Mr. Petro managed to graduate from only two Colombian programs out of five educational programs that he started in Colombia, Belgium, and Spain.⁹⁶

After what was supposed to be a search for the meaning of life, Gustavo Petro found his calling in politics. After serving as congressman and senator, he ran for the Mayor of Bogota, won the position, and stayed in it from 2012 to 2016.^{97 98} He was relieved from it temporarily in 2014 by the president of the country for an episode that was dubbed by the *Semana* newspaper as the "Garbage Catastrophe."⁹⁹ In December 2012, Gustavo Petro attempted to nationalize the garbage collection in Bogota.¹⁰⁰ The operation was poorly thought through and even more poorly executed. Mr. Petro fired private contractors and created a single public operator for waste collection.¹⁰¹ The process involved imports and rental of second-hand waste collection trucks from the United States with disastrous results: the trucks were not up to standard. This left tons of smelly garbage piled around the city during the hot summer days of December 2012.¹⁰² Furthermore, Mr. Petro decreed that dump trucks could be used to collect the trash, which was

⁹² Ibid.

⁹³ Sibylla Brodzinsky, *Americas Quarterly*, "Who's Afraid of Gustavo Petro?" October 31, 2017.

⁹⁴ Federal Research Division of the US Library of Congress, *Country Studies Series*, "Colombia: The 19th of April Movement," December 1988.

⁹⁵ Ibid.

⁹⁶ Wikipedia, "Gustavo Petro." Downloaded on February 6, 2022.

⁹⁷ Ibid.

⁹⁸ Holly K. Sonneland and Hope Wilkinson, AS/COA, "Explainer: Who's Who in Colombia's 2022 Presidential Race," February 3, 2022.

⁹⁹ Luke Finn, NACLA, "The Petro Purge and Political Cleansing in Colombia," December 24, 2013.

¹⁰⁰ Ibid.

¹⁰¹ Ibid.

¹⁰² Ibid.

explicitly forbidden by Colombian law, and an operator of one of these trucks died attempting to do his job.¹⁰³

The whole episode was not a big surprise. Before becoming Bogota's Mayor, Mr. Petro did not have any experience of running anything. And while most countries, including those that previously built "socialist paradise" for decades before dropping it, were privatizing their industries to make them more efficient, Mr. Petro decided to move in the opposite direction and prove that socialist nationalizations would work in Colombia.

He ran for the president of Colombia in 2018 and ended up as a runner-up to President Ivan Duque with 41% of the popular support.¹⁰⁴ Most of it came from the left-leaning students and professors in the universities and poor people with a strong appetite for redistributive politics.¹⁰⁵ These segments of the population are likely to support Gustavo Petro in 2022. He may win the presidential election in 2022 because all around the world people vote for members of the parties opposite to the ones that were in power during the COVID-19 pandemic. Except for a very few countries (i.e., Taiwan, Denmark, South Korea), governments worldwide made mistakes or were simply powerless in protecting their populations from the pandemic. They did not have vaccines, masks, ventilators, personal protective equipment, not even talking about the knowledge and experience of fighting epidemics. The government of Ivan Duque, a Conservative, was not an exception.

If Gustavo Petro wins the election, the prices of all Colombian financial assets would most likely decline. Like Gabriel Boric, Chile's president-elect, Gustavo Petro, is likely to try to destroy the neoliberal model in Colombia. He has said that a continuation of Colombia's neoliberalism will eventually "destroy the country."¹⁰⁶ Also, like Chile's president-elect, Gustavo Petro supports the nationalization of the country's employee pensions and health savings accounts that are now administered by private banks.¹⁰⁷ I wrote about Gabriel Boric's intent to replace the Chilean privately operated pension system with a state-owned one and the risks involved in this undertaking on pages 3-4 in a report, "*Chilean Presidential Elections: To Destroy Is Easier Than*

¹⁰³ Ibid.

¹⁰⁴ Americas Quarterly, "Elections 2022: Meet the Candidates: Colombia," December 21, 2021.

¹⁰⁵ Ibid.

¹⁰⁶ Ibid.

¹⁰⁷ Michael Puscar, "Colombia Focus, Foreign Investors Are Beginning to Worry – Could Gustavo Petro Actually Win Colombia's Presidency?" February 15, 2018.

to Create,” in November 2021 (see the link to the report below).¹⁰⁸ Like Francois Hollande, France’s former president, Gustavo Petro, proposed a tax increase on the wealthy. He specifically wants to impose it on the 4,000 wealthiest Colombians.¹⁰⁹

Below is a link to the BBIS report, “*Chilean Presidential Elections: To Destroy Is Easier Than to Create*”:

<https://bbistrategies.com/our-publications--events/chilean-presidential-elections-to-destroy-is-easier-than-to-create>

Gustavo Petro plans to halt new oil exploration to eventually wean the country off extractive industries and transition away from fossil fuels. The major problem is that crude oil and coal are responsible for most of the country’s exports – 56.5% – of the total 2019 exports of \$39.5 billion.¹¹⁰ Crude petroleum is the larger of the two exports, while coal trails in second. Oil and coal are responsible for \$20.8 billion of the country’s exports. Plastics, products made out of oil, constituted another 3.9% of Colombia’s exports, or another \$1.6 billion. What is Mr. Petro planning to replace these exports – \$22.3 billion – with? If he does not, he may become an author of another “Garbage Catastrophe,” now on a much larger national level.

His anti-business views are exacerbated by his unwillingness to listen to other people’s opinions if they contradict his. As a proverb says, “*Power corrupts. Absolute power corrupts absolutely.*” In Gustavo Petro’s case, corruption does not involve bribes. Gustavo Petro does not listen to others to show that he is the boss. As a congressman and candidate for Mayor of Bogota, Mr. Petro was open to opinions and enjoyed debating politics and policies.¹¹¹ But in 2011, when he became the Mayor, Gustavo Petro began to show an autocratic side, said a former collaborator. “*He didn’t want to hear people who contradicted him,*” the collaborator recalled. “*He just stopped listening. It was his way of showing the world, ‘I’m the boss here.’*”¹¹²

¹⁰⁸ Vitaly Veksler, Beyond Borders Investment Strategies, “Chilean Presidential Elections: To Destroy Is Easier Than to Create,” November 14, 2021.

¹⁰⁹ Americas Quarterly, “Elections 2022: Meet the Candidates: Colombia,” December 21, 2021.

¹¹⁰ The World Bank, “The World Integrated Trade Solution, Colombia.” Data for 2019. Downloaded on February 6, 2022.

¹¹¹ Americas Quarterly, “Elections 2022: Meet the Candidates: Colombia,” December 21, 2021.

¹¹² Ibid.

More than two dozen of his colleagues, including his closest supporters, rejected this attitude and resigned from the Bogota government. After this, he surrounded himself with yes-men, mostly from his M-19 days.¹¹³

As another of his close colleagues said, Mr. Petro, when in power, seeks to create ruptures with less powerful people. *“Beyond policies and ideology, this is why business leaders fear Petro: They see him as a catalyst for divisions in Colombian society. He’s “dangerous for the country,”* said the CEO of a manufacturing firm who asked to remain anonymous because he fears retribution if Petro comes to power.”¹¹⁴ And while Gustavo Petro leads in the presidential candidate polls in terms of people supporting him, he trails every other candidate in terms of the overall favorability, which is calculated as the percentage of people with favorable opinions about him minus the percentage of people with unfavorable views.¹¹⁵

Of course, I cannot vote in the Colombian presidential elections. But I hope that the voters would choose one of the centrist candidates – no matter whether they tilt Left or Right – who would unify rather than divide the country. As I said above, if Gustavo Petro comes to power, I do not think the Colombian stock market would perform well.

- D. Brazil – Lula’s Past Sins May Haunt Brazilian Stock Markets in the Future:** Out of all four countries, Brazil has the lowest risk of having a “cut-a-branch-that-the-country-still-sits-on” economic revolutionary as its next president. The country will have presidential elections on October 2, 2022, with a potential runoff scheduled for October 30, 2022. Brazil is likely to have a president with centrist economic views. Four candidates have received more than 5% support in public opinion polls in 2021 and 2022. In most recent polls, former President Luiz Inacio Lula da Silva, or Lula, has had the highest support. For example, according to the *Quaest/Genial* poll that measured support for the presidential candidates on January 6-9, 2022, President Lula received 45% of the votes. The current president, Jair Bolsonaro, received only 23% of the votes, while Sergio Moro received 9%, and Ciro Gomes - 5%.¹¹⁶

¹¹³ Ibid.

¹¹⁴ Ibid.

¹¹⁵ Holly K. Sonneland and Hope Wilkinson, AS/COA, “Explainer: Who’s Who in Colombia’s 2022 Presidential Race,” February 3, 2022.

¹¹⁶ Wikipedia, “Opinion Polling for the 2022 Brazilian General Election.” Downloaded on February 6, 2022.

Suppose we were to forecast the results of the first round of the elections. In that case, there will likely be a runoff with Lula and Bolsonaro representing Center-Left and Center-Right, respectively. Sergio Moro is a Center-Right candidate and the former federal judge in charge of the “*Operation Car Wash*” that resulted in Lula’s imprisonment on the corruption charges.¹¹⁷ His voters would probably never support Lula and vote for President Jair Bolsonaro instead. Ciro Gomes served in multiple ministerial positions, including in Lula’s government.¹¹⁸ Most likely, his voters would support Lula in the runoff. As the situation stood in January, Lula would be more likely to win the election in the runoff. According to the polls, which may or may not be reflecting reality, the voters intend to punish President Bolsonaro for his far-from-the-perfect handling of the COVID-19 pandemic.¹¹⁹

Brazil’s most significant political risk is not in the elections per se. Regardless of whether they are right or left from the center, all four candidates are not economic extremists and are pro-business. While investors were concerned with Lula’s rhetoric during his previous election campaign, during Lula’s time in the office (2003-2010), the stock market increased by 500%.^{120 121}

In my opinion, the most significant risk to the stock markets would be if Lula is elected president but then convicted of corruption again, goes to prison again, and – most importantly for the markets – is impeached or threatened with impeachment. Stock markets do not like uncertainty.

Let’s briefly look at the recent historical precedent in Brazil. The anti-corruption “*Operation Car Wash*” that, among other targets, focused on Petrobras and Dilma Rousseff - its chair of the board of directors from 2003 to 2010 and president of Brazil from 2011 - started in 2014.^{122 123} The investigation claimed the highest target, President Dilma Rousseff, who was impeached in April 2016. The official impeachment trial began in December 2015.¹²⁴ The MSCI Brazil index was among the worst performers in 2014 and 2015 as the cloud of uncertainty about corruption in the “high places” appeared. The index became the best performer in 2016 when the uncertainty

¹¹⁷ Americas Quarterly, “Brazil Elections 2022: Meet the Candidates,” January 5, 2022

¹¹⁸ Ibid.

¹¹⁹ Ibid.

¹²⁰ BBC News, “Lula: Brazil Ex-President's Corruption Convictions Annulled,” March 9, 2021.

¹²¹ Americas Quarterly, “Brazil Elections 2022: Meet the Candidates,” January 5, 2022.

¹²² Wikipedia, “Operation Car Wash.” Downloaded on February 6, 2022.

¹²³ Wikipedia, “Impeachment of Dilma Rousseff.” Downloaded on February 6, 2022.

¹²⁴ Ibid.

related to the impeachment of President Rousseff dissipated after her impeachment. In 2014, the MSCI Brazil Index was in 42nd place out of 49, with a total return of negative 13.7%. In 2015, when the possibility of an impeachment process was first discussed, and later the process started, the MSCI Brazil index declined by stunning 41.2% (48th place out of 50). In 2016, when the uncertainty of the impeachment was replaced with the certainty of its happening, the market delivered total returns of 66.7% (1st place out of 50).

Lula, President Dilma Rousseff's political mentor at the Workers Party and the person who picked Dilma Rousseff to succeed him as the candidate for Brazil's presidency, also became a target of the "Operation Car Wash."¹²⁵ In 2017, Lula was found guilty of accepting upgrades to a beachfront apartment worth \$1.1 million. He was buying it from an engineering and construction firm, Grupo OAS, in Guaruja, a city in the state of Sao Paulo. In return, Lula was accused of helping Grupo OAS win contracts with Petrobras.¹²⁶ ¹²⁷ Lula was sentenced to nine and a half years in prison.¹²⁸ After Lula's appeals, the appeals court not only upheld the conviction but also extended his prison term to 12 years and one month.¹²⁹ Additionally, Lula was sentenced to 12 years and 11 months for corruption because the same engineering and construction Grupo OAS extensively redecorated a farmhouse that Lula frequently visited.¹³⁰ While the house was owned by Lula's friend, the prosecutors argued that Lula controlled it – he ordered all redecorations.¹³¹ The costs of the redecorations were another \$270 thousand.¹³² Overall, Lula was given a prison term of 26 years on charges of taking bribes.¹³³

In March 2021, Supreme Court Justice Edson Fachin, appointed by President Dilma Rousseff, annulled Lula's conviction on a technicality. He agreed with Lula's lawyers that the court located in the city of Curitiba in Parana state should not have tried Lula because the crimes he was accused of did not occur in that state.¹³⁴ The "*Operation Car Wash*" was run out of the city of

¹²⁵ BBC News, "Brazil's Lula to be President Rousseff's Chief of Staff," March 17, 2016.

¹²⁶ BBC News, "Brazil ex-President Lula Loses Appeal Against Corruption Conviction," January 25, 2018.

¹²⁷ Peter Prengaman and Marcelo Silva De Sousa, AP News, "Lula Conviction in Brazil Spotlight: Was It Sham or Solid?" August 29, 2018

¹²⁸ Ibid.

¹²⁹ Ibid.

¹³⁰ BBC News, "Lula: Brazil Court Adds 13 Years to Ex-President's Sentence," February 6, 2019.

¹³¹ Ibid.

¹³² Ibid.

¹³³ DW, "Brazil's Supreme Court agrees Lula Convictions Are Void," April 16, 2021.

¹³⁴ BBC News, "Lula: Brazil Ex-President's Corruption Convictions Annulled," March 8, 2021.

Curitiba. Federal Judge Sergio Moro served in Curitiba.¹³⁵ When Lula was allegedly getting the bribes, he lived in Brasilia. Justice Fachin annulled four corruption cases against Lula and ordered they be retried in Brasilia.¹³⁶ Brazil's Supreme Court confirmed a decision to annul criminal convictions against Lula in 2021.¹³⁷ Due to the slow speed of the Brazilian justice system, it is unlikely that these cases would be judged until after the upcoming presidential elections.¹³⁸

In my opinion, the most significant risk arises if Lula is elected president and then is convicted of corruption. While the decision on whether he is convicted of corruption is being made, Brazil's stock markets are likely to be very volatile. If he leaves the president's office, the volatility will last until the successor is chosen. If any other candidate wins the election, they would not likely create problems for the Brazilian stock markets in 2022 or 2023.

Please let me know if you have any questions about BBIS, the firm's investment strategies, or would like to invest some of your funds with the firm. Thank you.

Best regards,
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¹³⁵ Felipe Oliveira de Sousa, Center for Law, Behaviour and Cognition (CLBC), Ruhr-Universität Bochum, "Lula is Free: The Brazilian Supreme Court's Habeas Decision and the 2022 Election," March 17, 2021.

¹³⁶ Ibid.

¹³⁷ DW, "Brazil's Supreme Court agrees Lula Convictions Are Void," April 16, 2021.

¹³⁸ Felipe Oliveira de Sousa, Center for Law, Behaviour and Cognition (CLBC), Ruhr-Universität Bochum, "Lula is Free: The Brazilian Supreme Court's Habeas Decision and the 2022 Election," March 17, 2021.

BEYOND BORDERS INVESTMENT STRATEGIES, LLC
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 FEBRUARY 7, 2022

PERFORMANCE TABLES

TOTAL RETURNS = PRICE APPRECIATION + DIVIDEND YIELD

Year to Date - 2020 December 31, 2020			Year to Date - 2021 December 31, 2021			January 2022 January 31, 2022		
1	South Korea	45.2%	1	UAE	50.2%	1	Brazil	13.0%
2	Denmark	44.4%	2	Austria	42.3%	2	Chile	12.6%
3	Taiwan	42.0%	3	Saudi Arabia	37.9%	3	Peru	11.8%
4	China	29.7%	4	USA (S&P 500)	28.7%	4	Colombia	10.6%
5	Nigeria	24.8%	5	Netherlands	27.9%	5	Saudi Arabia	9.3%
6	Netherlands	24.4%	6	USA (MSCI)	27.0%	6	Qatar	7.9%
7	Sweden	24.4%	7	Canada	26.9%	7	South Africa	6.8%
8	Finland	21.7%	8	Taiwan	26.8%	8	Greece	6.6%
9	USA (MSCI)	21.4%	9	India	26.7%	9	Turkey	5.6%
10	New Zealand	20.2%	10	Vietnam	24.8%	10	Argentina	5.2%
11	USA (S&P 500)	18.4%	11	Sweden	23.5%	11	Philippines	4.1%
12	India	15.9%	12	Norway	23.4%	12	UAE	3.5%
13	Portugal	15.5%	13	Mexico	22.9%	13	Pakistan	2.9%
14	Ireland	15.5%	14	Argentina	20.9%	14	Hong Kong	1.0%
15	Israel	15.2%	15	France	20.6%	15	United Kingdom	0.9%
16	Vietnam	15.0%	16	Switzerland	20.3%	16	Nigeria	0.8%
17	Japan	14.9%	17	Russia	20.0%	17	Indonesia	0.6%
18	Switzerland	12.8%	18	Denmark	19.5%	18	Thailand	0.2%
19	Argentina	12.7%	19	United Kingdom	18.5%	19	Norway	0.0%
20	Germany	12.3%	20	Italy	16.1%	20	Canada	-0.8%
21	Australia	8.9%	21	Israel	15.6%	21	Singapore	-1.1%
22	Canada	6.2%	22	Qatar	15.2%	22	India	-1.4%
23	Hong Kong	5.8%	23	Finland	10.1%	23	Spain	-1.5%
24	France	4.7%	24	Australia	9.6%	24	Taiwan	-2.0%
25	Malaysia	3.7%	25	Poland	8.9%	25	Austria	-2.1%
26	Italy	2.4%	26	Ireland	8.8%	26	Italy	-2.5%
27	Saudi Arabia	0.9%	27	Greece	8.2%	27	China	-2.9%
28	Norway	-0.9%	28	Egypt	7.6%	28	Poland	-3.1%
29	UAE	-0.9%	29	Germany	5.9%	29	Malaysia	-3.6%
30	Mexico	-1.6%	30	Singapore	5.7%	30	Germany	-3.7%
31	Qatar	-2.4%	31	Nigeria	4.3%	31	France	-3.8%
32	Austria	-2.8%	32	South Africa	4.3%	32	Portugal	-4.0%
33	Philippines	-2.9%	33	Belgium	2.8%	33	Vietnam	-4.3%
34	South Africa	-3.5%	34	Indonesia	2.6%	34	Egypt	-4.3%
35	Chile	-4.1%	35	Japan	2.0%	35	Belgium	-5.0%
36	Spain	-4.5%	36	Spain	1.7%	36	Japan	-5.1%
37	Peru	-4.7%	37	Portugal	1.1%	37	USA (S&P 500)	-5.2%
38	Singapore	-7.4%	38	Thailand	-1.1%	38	Mexico	-5.2%
39	Indonesia	-7.5%	39	Philippines	-3.4%	39	USA (MSCI)	-5.7%
40	Belgium	-7.6%	40	Hong Kong	-3.9%	40	Finland	-6.3%
41	Turkey	-8.6%	41	Malaysia	-6.2%	41	Ireland	-7.2%
42	United Kingdom	-10.4%	42	South Korea	-7.9%	42	Switzerland	-7.8%
43	Poland	-11.3%	43	Colombia	-13.7%	43	Israel	-8.5%
44	Thailand	-11.4%	44	Chile	-15.1%	44	Russia	-8.6%
45	Russia	-11.6%	45	New Zealand	-16.8%	45	Australia	-8.8%
46	Pakistan	-16.5%	46	Brazil	-17.2%	46	Sweden	-10.1%
47	Colombia	-18.5%	47	Peru	-19.9%	47	South Korea	-10.1%
48	Brazil	-18.9%	48	China	-21.6%	48	Denmark	-11.3%
49	Egypt	-22.2%	49	Pakistan	-24.0%	49	Netherlands	-11.6%
50	Greece	-26.7%	50	Turkey	-27.8%	50	New Zealand	-14.9%

Sources: Refinitiv, Beyond Borders Investment Strategies (BBIS). Used MSCI country index performance for 48 countries - all but the US. The US performance is represented by MSCI USA and S&P 500 indices. All performance series measure total returns of US Dollar-denominated indices.

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