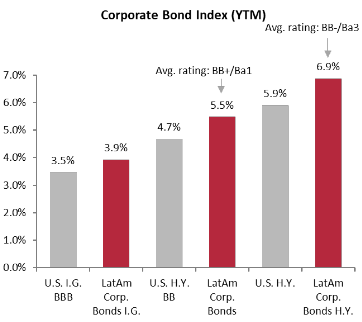
The global economy navigates through uncertain waters as we face high prices for commodities and the beginning of a hiking cycle by the Federal Reserve. Current geopolitical events in Eastern Europe have pressured prices of commodities, especially grains and energy, which have fueled inflationary concerns globally. These geopolitical events have also reduced the available investable emerging market universe due to sanctions applied on Russia. Moreover, they came after the Chinese government's market interventions last year that affected the domestic real estate sector that holds over 60% of the high yield Asian index. Both of these events highlight two of Latin America's strengths: democracy and peace. The region offers investors a geographical location far away from current conflicts and a political system that provides procedural institutions and transparency through debate and free press, despite sometimes having heightened political noise levels.

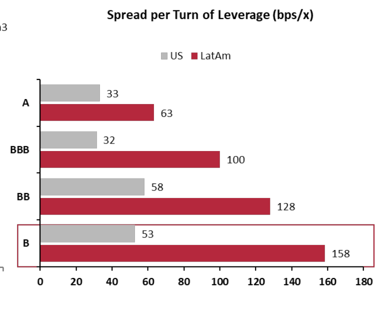
From a market perspective, Latin America has approximately 40% of its USD corporate credit benchmark composed of global energy and producers of basic materials, including major quasi-sovereign oil and gas producers like PEMEX, Ecopetrol, and Petrobras, as well as large commodity exporters like Vale, Volcan, CSN and Buenaventura.

Latin American corporate bonds offer attractive yields relative to many other fixed income alternatives and higher spreads per unit of leverage than U.S. corporates on a rating-matched basis.

Default rates should also remain below the long-term averages for the asset class as balance sheets are in the best shape of the decade. Analysts expect a 2.5% default rate for 2022, well below the anticipated 4.5% long-term average. When compared to Asia, Latin American corporates also look good. As a reference, 43% of high yield companies in Asia have leverage levels above seven times, compared to 13% in Latin America.

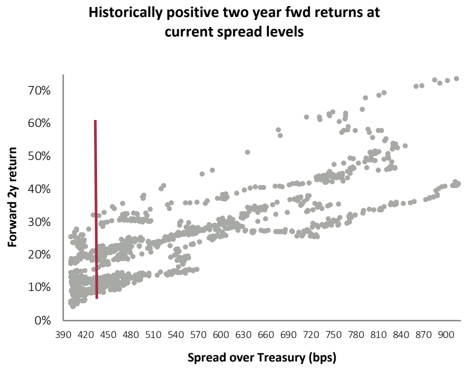


Source: JP Morgan, data as of January 31, 2022. Ratings from S&P/Moody's.



Source: Bank of America Merrill Lynch. Leverage and earnings data as of 2Q21; spread data as of January 31, 2022

Finally, as with any investment, timing plays a crucial role in the investment decision process. If history serves as a guide, we believe that there is an interesting opportunity at the current spread. On the dot plot chart (red line marks current spread), we have identified the two-year forward returns for the CEMBI Broad Index in the cases that has traded 400 bps or more above the treasury of the same duration. There have not been negative returns; on average, it has provided investors with a 23% return ranging from 73% to 4.3%.



Source: Compass Group.

Therefore, our view is that Latin American credit serves a dual purpose. First, it should protect the investors from increasing prices, as the level of uncertainty regarding inflationary pressures will probably persist over the next 12-24 months. Second, investors will be attracted to an asset class that offers interesting yield levels and access to companies with solid balance sheets that can withstand volatility, which should offer protection from an uncertain Federal Reserve hiking path.

Compass is uniquely positioned to select the best investments and deliver results due to our 27 years of experience, robust boots-on-the-ground research platform, and extensive regional footprint in the six major countries in Latin America[1]. Our proximity to companies, exemplified by more than 2,000 meetings held over the last twelve months, gives us an edge as we construct long-term symbiotic relationships with diverse company boards and management teams. We are committed to ESG values and practices across our investment processes and strive to become a reference for global investors who wish to take advantage of what the region has to offer.

[1] Compass Group LLC is a US SEC Registered Investment Adviser and has affiliates in Argentina, Brazil, Chile, Colombia, Peru and Mexico.

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