

The LatAm Feedbaker

Chile: bearish local sentiment

Investment Strategy

Bearish sentiment around

We spent the last few days attending our Chile Macro day in Santiago as well as visiting local pension funds, insurance companies and local banks. The conference had more than 90 participants and focused on the prospects for the global and LatAm economies, prospects for Chile and innovation through ESG. Sentiment remains bearish as economic growth is weak, CLP remains volatile and market participants await the results of the Constitutional referendum on December 17th.

Further rate cuts ahead

Our Chile economist Sebastian Rondeau believes that the macro scenario showing disinflation and a stagnant economy allows for further significant rate cuts ahead. He expects a 50bp policy rate cut to 8.5% in December, and a further decline to 6.5% by the end of 2024. According to his view, inflation risks remain with volatile CLP (and oil prices) amid tight global financial conditions and as GDP should rebound amid lower policy uncertainty and expansionary fiscal policy. He forecasts a 2% GDP growth next year after a 0.3% contraction in 2023 (see: [Underlying inflation remains low, despite headline pick-up. More rate cuts justified.](#))

Global picture in the spotlight

Locals with whom we met remain very focused on the prospects for the global economy and in particular on the views for US rates ahead. Notably, our US economic team recently changed their call for the Fed and now believe that the tightening cycle is over (see: [October CPI Inflation: The straw that broke the hiking cycle's back](#)). Local pension funds have been receiving in US rates and suffered as yields increased. The recent decline in yields across the US curve improves sentiment and performance at the margin.

What to watch: Constitutional referendum and reforms

Local investors are waiting for the results of the Constitutional referendum on December 17th. Although there is uncertainty about the outcome, the perception is that one way or another the discussion of constitutional changes from the last few years will likely end for the time being. On the reforms front, locals with whom we spoke are skeptical about the potential approval of tax increases and pension reform in Congress.

Equities: pending on US rates

Chile was in a unique position this year as it was one of the first countries in LatAm to cut rates. A decline in risk premium on the back of the end of the Constitutional process was also a driver but possibly already priced in at this time. Still, the biggest trigger today for LatAm markets continue to be lower US rates which would allow for lower local rates in the region.

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