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Asset Management

# LatAm in transition: political shifts and corporate resilience

Notes from the road

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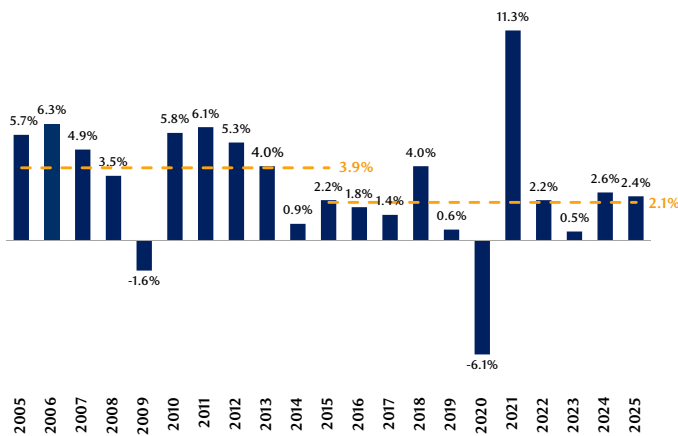
Arriving in Latin America – a region of contrasts, diversity and immense cultural influence – is always an exhilarating experience. However, this year in particular, change is in the air. Across the region, Colombia, Peru, and Brazil are due to hold elections, and a political shift is underway.

Travelling to both Chile and Brazil meant plenty of conversation and moments of reflection, and it became clear that security and economic predictability are dominating voter priorities. Right-leaning candidates are gaining traction not because of ideological enthusiasm but because voters associate them with order, discipline, and growth and want change from incumbents – mostly left-leaning populist parties.

## Chile

20 years ago, Chile seemed to be steadily moving towards developed world status. Known as the “Switzerland of Latin America”, institutions worked, policies were predictable, growth was solid, and the government was lean and efficient. The country felt safe. However, over the last decade, progress has stalled. Political fragmentation has weakened the former consensus, with a protracted constitutional process breeding uncertainty and slowing reforms and investments. Economic growth has nearly halved in the last 10 years compared to the prior decade, and crime has surged to become one of the population’s top concerns, albeit remaining among the lowest levels in Latin America (Exhibits 1 and 2).

**Exhibit 1: Yearly GDP growth (2005 to present)**

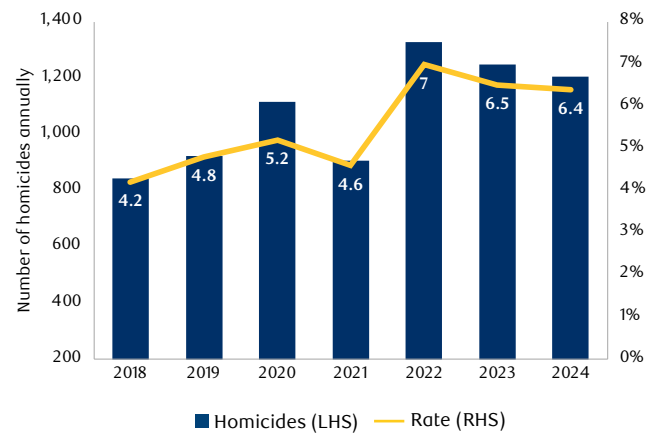


Source: JPMorgan, 2005-2025. Yellow dashed lines depict average growth rates from 2005-2015 and 2015-2025 respectively.

A critical inflection point came around 2020, when a confluence of factors – protests, Covid-related disruptions, and overstretched police forces – allowed Venezuelan gangs and drug traffickers to take root. Simultaneously, the economy lost momentum. Regulatory delays and inconsistent policymaking, particularly in mining, energy, and environmental permitting, have deterred investments. The country’s overreliance on mining has left the economy vulnerable, and it has failed to diversify fast enough to compete globally. Yet, Chile’s institutional foundations remain robust and stronger than most in the region. What the country needs now is renewed clarity, pragmatism, and a growth strategy aligned with modern global realities. Voters have demanded a return to order, safety, and economic opportunity, but this push is rooted in practicality, not ideology.

With José Antonio Kast now in office as the next Chilean president, the shift will be gradual and administrative, not revolutionary. Change will come at the margins, within existing institutional constraints. The most immediate impact will likely be personnel reforms – replacing hard-line ministers (especially in environment and energy) with pragmatic leaders willing to accelerate permitting, cut red tape, and signal openness to private investment.

**Exhibit 2: Chilean crime rates**



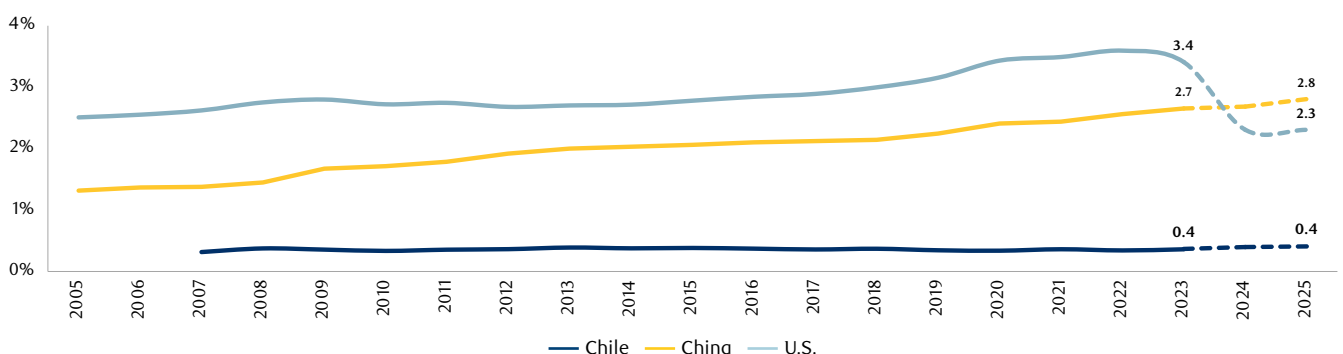
Source: Our World in Data, 2018-2024.



Meeting a copper producer at their office in Santiago, Chile.

Kast’s team also recognises innovation and R&D as critical weaknesses. For centuries, Chilean industry has thrived on resource extraction, avoiding risk beyond natural resources. Proposed tax incentives for R&D, which runs very low in the country, aim not to overhaul the economy overnight, but to nudge the private sector towards long-term competitiveness and global expansion (Exhibit 3).

**Exhibit 3: Chile investments in R&D versus the U.S. and China**



Source: World Bank, 2005-2025.



While Kast's intentions are undeniably constructive, the "how" remains unclear. The lack of a clear roadmap for implementation introduces uncertainty, yet the mere prioritisation of pro-business reforms and innovation is itself a positive signal for investors. Fiscal tightening is another priority, though politically fraught. Moves to reduce social spending, trim healthcare costs, and roll back recent welfare expansions will proceed slowly and contentiously.

Ultimately, Chile is course-correcting toward competence and security, not veering ideologically. Investors should expect policy stability with modest, pro-business adjustments over time and a pragmatic reset, not a radical break from the past. Incremental progress, when guided by clear intent, can rebuild confidence in Chile's long-term potential.

## Brazil

Brazil faces a presidential election in October 2026, with President Lula and the Workers' Party ("PT") currently favoured to win. Lula's political trajectory over the past year has been dramatic: his approval ratings declined in early 2025 amid high food inflation and rising support for right-wing candidates. However, his popularity rebounded significantly after he opposed the Trump administration's punitive 50% tariffs, imposed over the so-called witch hunt on former President Bolsonaro. Lula's stance resonated with Brazilian voters, who rallied behind their president amid U.S. pressure.

Despite turning 81 in October, Lula remains the left-wing's most popular candidate and is unlikely to withdraw unless health issues emerge before the election. Conversely, Brazil's right-wing remains fragmented. São Paulo Governor Tarcísio de Freitas is the market's preferred candidate, but he has yet to confirm whether he will run for presidency. He has repeatedly stated he will only enter the race with former President Jair Bolsonaro's support.



Meeting a brewing company in São Paulo, Brazil.

## Exhibit 4: Government shifts in Latin America (election years)



Source: several media sources, HSBC, as at January 2026.

## “Latin America has witnessed several left-to-right political transitions recently, such as in Argentina and Chile.”

As we departed Brazil, Flávio Bolsonaro – Jair Bolsonaro's son – announced his candidacy with his father's backing. This news triggered a sharp decline in Brazilian equities, as Flávio currently faces a high rejection rate among voters. The situation creates a critical dilemma: without Jair Bolsonaro's endorsement, Tarcísio won't run; yet that endorsement now appears committed to Flávio. We anticipate significant developments before October, but the right wing will need to unite behind a single candidate to have any realistic chance of defeating Lula.

Latin America has witnessed several left-to-right political transitions recently, such as in Argentina and Chile (Exhibit 4). A similar shift in Brazil would arguably be the most significant, given the country's economic scale and regional influence. Based on conversations with political analysts and corporate executives during our trip to the country, the October election outcome remains very uncertain and binary in nature. We expect this political uncertainty to sustain elevated volatility in Brazilian equity markets through the election period.

Brazilian corporates have demonstrated strong resilience in navigating a challenging macroeconomic and political landscape over the years. Despite headwinds that include elevated interest rates, inflationary pressures, and political uncertainty, many Brazilian companies have consistently delivered solid long-term returns on capital. This track record underscores the operational strength and management quality of leading Brazilian enterprises.

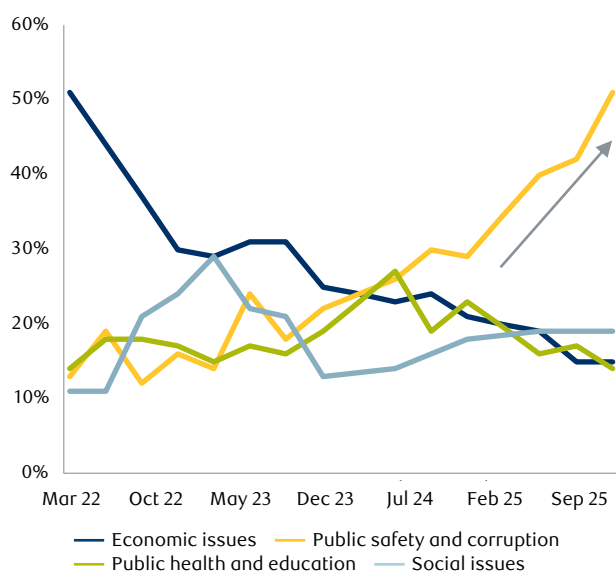
During our trip to Brazil, we attended an investor conference in São Paulo where we met with management teams of existing and potential holdings. The quality of corporates we encountered was impressive, reinforcing our conviction in Brazilian business leadership. At the conference we attended, there were several interesting presentations from macroeconomic experts and political analysts.

One of the most interesting meetings was a fireside chat with the CEO of Brazil's largest drugstore chain. The CEO highlighted the significant growth potential from weight-loss drugs. The Brazilian market for GLP-1 medications has already reached multi-billion dollar scale but the company expects these drugs to be the primary growth driver for drugstores for years to come. While studies estimate that over 30% of the obese U.S. population could be on treatment by 2030, with global adoption trending at 15-20%, the CEO expects Brazil to exceed global adoption rates due to social and cultural factors.

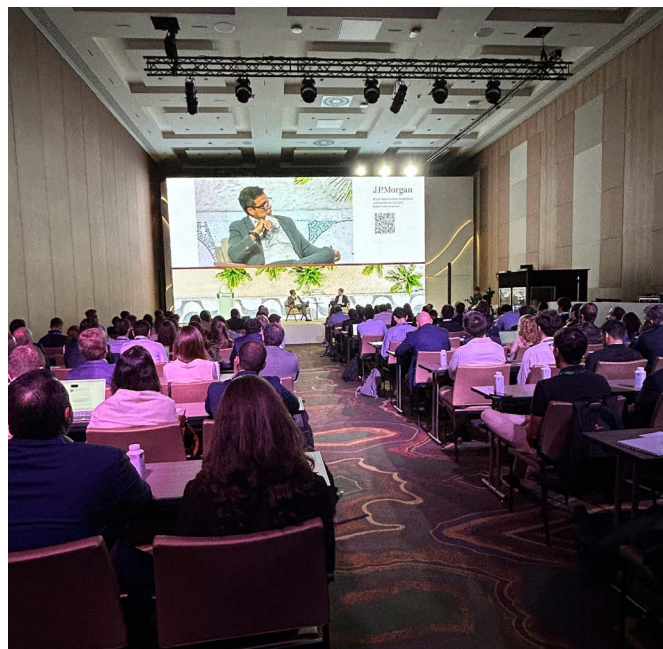
**“The Brazilian market for GLP-1 medications has already reached multi-billion dollar scale but the company expects these drugs to be the primary growth driver for drugstores for years to come.”**

Another conference highlight was a presentation from Roberto Campos Neto, who served as President of the Central Bank of Brazil from February 2019 to December 2024. Campos Neto observed shifting trends in public attitudes (Exhibit 5), with voters increasingly gravitating toward political candidates who promise to be tough on security while also focusing on economic prosperity and better opportunities.

**Exhibit 5: What is your main concern in Brazil?**



Source: Genial Quaest opinion polls, HSBC, January 2026.



Attending an interesting panel discussion with former President of the Central Bank of Brazil, Roberto Campos Neto.

Campos Neto also emphasised that Brazil's debt situation is becoming increasingly problematic. In his view, long-term supply-side reform measures are essential to improve the fiscal outlook and bring interest rates down sustainably. While acknowledging that necessary structural reforms would induce short-term economic pain, Campos Neto argued that this would represent the right path for Brazil's long-term economic health and stability.

### Summary

Latin America's political shift is not ideological, it is performance-based. Voters care less about labels and more about security, efficiency, and growth. Positive developments in key markets such as recently in Argentina, imminently in Chile and potentially also in Brazil later this year will likely be incremental rather than abrupt, especially where institutions act as shock absorbers. Still, even small improvements – streamlined ministries, clearer permitting, tax incentives for innovation, and incremental fiscal discipline – can have meaningful impact at the margins. There are also signs that the region may emerge as a relative beneficiary of increased U.S. cooperation and engagement, following Trump's invoking of the Monroe Doctrine.

There is real upside if governments can deliver competence instead of promises. The opportunity is vast: global demand for commodities, clean energy transitions, nearshoring, and digital modernisation all favour Latin America. The question in the coming elections is whether its leaders can genuinely respond to this demand – and whether political change can finally translate into tangible improvements in the daily lives of its people.

## Authors

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