November 17, 2020 10:00 PM GMT

2021 Latin America Equity Outlook | Latin America

At the Crest of the Global Reflation Wave

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We forecast +20% USD return for Latin American equities in 2021. We are overweight Brazil, Chile & Colombia, and underweight Mexico, Peru & Argentina. Our top 10 stock ideas are 1) ITUB, 2) XP, 3) BPAC11, 4) VALE, 5) LREN3, 6) GGB, 7) MGLU3, 8) WALMEX, 9) MELI, and 10) GLOB.

Investment conclusion: Our 2021 base case year-end target for the MSCI Latin America index is 2,500 points (+20% USD return). The key drivers of our regional price target are: a) bottom-up USD earnings growth of +99% in 2021 and another +16% in 2021 and b) a slightly lower forward P/E multiple (-9% to 13.5x from 14.8x previously). Further, we see an attractive risk-reward, with +35%/-18% in our bull/bear cases.

We have set our year-end target for the local Brazilian Bovespa index at 120,000 points, and for the Mexican Bolsa at 43,000 points. Our target for Brazil implies +25% upside in USD (+15% in local currency), with an attractive 5.9x bull/bear USD skew. Meanwhile, our target for Mexico implies a mere +2% upside in USD (+5% in LC), with a small 0.4x bull/bear USD skew.

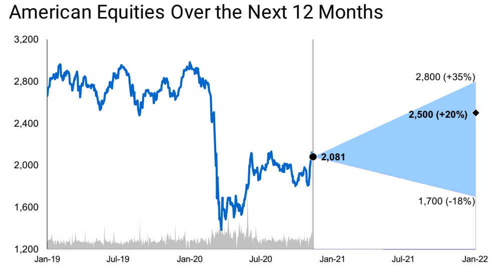
We currently advocate a barbell strategy with growth (via technology and equitization) and value (commodities and banks) stocks in the short term. Rising Covid-19 cases in the US and Europe should weigh on global economic growth prospects over the next 2-3 months. As we get closer to 2Q, the effects of select lockdowns in developed countries and the start of mass vaccination should contribute to an improvement in global growth prospects, and strengthen the global reflation trade. We would then increase our exposure to value stocks at the expense of their growth peers.

What to own? At the sector level, in Brazil, we like sectors leveraged to stronger economic growth in 2021. Our key overweights are Banks, Retail, Mining and Energy. Meanwhile, in Mexico, we like companies geared to the recovery trade and the economic reopening. We are overweight Industrials, Real Estate, Metals & Steel and Infrastructure.

What to avoid? At the sector level, in Brazil, we dislike some domestic defensive sectors. Our key underweights there are in Beverages, Food, Telecom, and Utilities. Meanwhile, in Mexico, our key underweights are Financials, Food, and Telecom.

Updated top stock ideas. Our top 10 stock ideas in Latin America are: 1) Itau, 2) XP, 3) BTG Pactual, 4) Vale, 5) Lojas Renner, 6) Gerdau, 7) Magazine Luiza, 8) Walmex, 9) Mercadolibre, and 10) Globant.

Exhibit 1: We Expect +20% USD Return for Latin American Equities Over the Next 12 Months



Source: Bloomberg and Morgan Stanley Research estimates

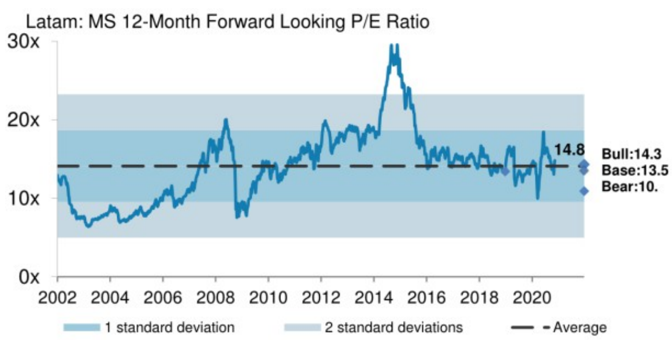
Executive Summary

Our 2021 base case year-end target for the MSCI Latin America index is 2,500 points (+20% USD return). The key drivers of our regional price target are: a) bottom-up USD earnings growth of c. +100% in 2021 and another +16% in 2021 and b) a relatively lower forward P/E multiple (-9% to 13.5x from 14.8x previously). Further, we see an attractive risk-reward, with +35%/-18% in our bull/bear cases.

Our colleague Jonathan Garner has a 1,250-point base case target for the MSCI Emerging Markets index, and thus he forecasts a +5% USD return for the asset class in 2021. We think Latin American equities (which are commodity and banks heavy) can perform well in 2021, especially as the region benefits from a global reflation wave that triggers a more sustainable rotation from growth to value.

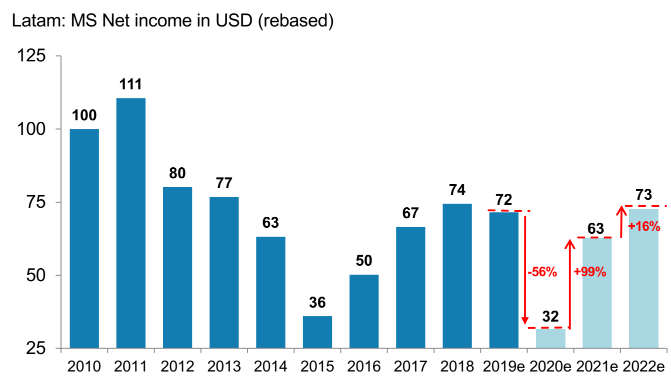
We have set our year-end target for the local Brazilian Bovespa index at 120,000 points, and for the Mexican Bolsa at 43,000 points. Our target for Brazil implies +25% upside in USD (+15% in local currency), with an attractive 6.0x bull/bear USD skew. Meanwhile, our target for Mexico implies a mere +2% upside in USD (+5% in LC), with a paltry 0.4x bull/bear USD skew.

Exhibit 2: We See a Relatively Stable Multiple and...



Source: Bloomberg and Morgan Stanley Research

Exhibit 3: ...Higher USD Earnings in 2021 and 2022



Source: Bloomberg and Morgan Stanley Research estimates

Our regional economics team expects real GDP growth in Latin America to improve from -6.9% in 2020 to +5.0% in 2021, and then to +2.9% in 2022. This acceleration should be supported by a broad pick-up in economic activity as a result of the reopening of regional economies, historically low interest rates, and materially higher commodity prices.

We see 3 of the most important external drivers for EM economies and markets being positive next year:

1. An unprecedented acceleration in global growth from -3.5% in 2020 to +6.4% in 2021, with a solid +4.4% in 2022, underpinned by EM (from -2.0% to +7.4% to +4.7%);

2. A US Fed on hold throughout 2021 and 2022, and a moderate increase in the US 10-year Treasury yield to 1.45% by 2021YE (spot 0.90%); and

3. A 4% weaker USD (DXY) with a front-loaded decline in 1H21, helped by Covid-19 availability and accommodative US monetary conditions.

The two important wild cards for the global economic outlook next year are: a) the US Senate elections in Georgia on January 5 and b) the successful deployment of a safe Covid-19 vaccine throughout the world.

We advocate a barbell strategy with growth (via technology and equitization) and value (commodities and banks) stocks in the short term. Rising Covid-19 cases in the US and Europe should weigh on global economic growth prospects over the next 2-3 months. However, a more pragmatic approach toward the pandemic in the US in early 2021, combined with the approval of a small reactive stimulus package by US Congress, should provide a fiscal bridge during winter in the Northern Hemisphere. Consequently, US 10-year nominal rates should remain relatively contained, and the growth to value rotation in equities should sputter.

As we get closer to 2Q, the effects of select lockdowns in developed countries during winter, seasonally higher temperatures, and the start of mass vaccination should contribute to an improvement in global growth prospects, and strengthen the global reflation trade throughout the rest of the year. We would then increase our exposure to value stocks at the expense of their growth peers. Latin American equities — heavily indexed to commodities and banks — should benefit and perform well.

What to Own in Latin America

At the country level, we favor in 2021:

- *Brazil* because a) a stronger than expected economic rebound in Brazil (i.e., retail sales at a new historical high and already 7.7% above pre-Covid levels in September) should continue to provide a positive tailwind for domestic equities; b) local authorities have continued to gradually ease social distancing measures throughout the country, and a relatively low pace of growth of the infection over the past weeks (low single digits) coupled with the start of the summer season reduces the risk of new lockdowns; and c) the prospects for some limited progress on fiscal consolidation which keeps investors' hopes alive, even though we have a less sanguine view about the topic.

- Chile because a) the country's coordinated domestic fiscal and monetary stimulus package (~12% and 18% of GDP, respectively — the biggest in the region) should counteract the negative economic impact of the Covid-19 pandemic, and the government's solid execution track record (i.e., 90%+ fiscal budget execution over the past 5 years) should support the economic recovery and b) expectations of policy continuity as the ongoing rebound in domestic economic activity should further help to improve President Pinera's approval rating and, more important, support for moderate presidential candidates in the November 2021 election.

- Colombia because of a) the leverage of local equities to the ongoing global rotation from growth to value stocks; b) higher energy prices as a result of a global reflation trade, which should continue to limit further public sector fiscal deterioration; and c) the early stage of a new domestic economic cycle, supported by historically low interest rates, rising energy prices, and low capacity utilization.

Our 3 key investment themes in Brazil (and in Latin America) throughout 2020 have been 1) secular growth, 2) lower interest rates, and 3) global reflation. We believe these 3 themes are still alive after the US election, and the recent announcement of a successful Covid-19 vaccine opens the door for 4) a global reopening trade.

The main risks for our 1) secular growth and 2) financial services investment thesis is a unified US government (i.e., higher long-term US interest rates) as a result of the January 5 special election. In addition, the relevant risk for our 3) global reflation and 4) global reopening themes is a stronger than expected 2nd Covid-19 wave. However, successful Covid-19 vaccine announcements partially mitigate this risk.

What to Avoid in Latin America

At the country level, we disfavor in 2021:

- *Mexico* because of a) the current state-centric approach to the development of the energy and infrastructure sectors, which creates uncertainty for private sector companies and investment, and b) the Mexican "Trilemma" and its impact on the overall growth and investment narrative. The 2021 midterm election should determine the composition of Congress for the next 3 years, and it will be important for the integrity of institutional checks and balances during the period, while further progress in the current state centric approach under a unified government scenario should increase the difficult set of trade-offs faced by the current administration.
- *Peru* because of a) the government's historically subpar fiscal budget execution, which should limit the potential impact of the announced fiscal stimulus package (circa 13% of GDP) in 2020-21; b) the country's high informality rate and limited real wage mass growth, which should continue to be a drag for corporate earnings; and c) the ongoing economic recession, which should overlap with rising political uncertainty ahead of the April 2021 presidential election, especially after the recent impeachment of former President Vizcarra.

- *Argentina* because policy uncertainty at both a) the macro level (e.g., high growth in monetary base coupled with capital controls) and b) the industry front (e.g., price freezes for telco industry amid high inflation) should delay a recovery in investment, overall GDP growth, and corporate profitability.

At the sector level:

- *In Brazil*, we dislike some domestic defensive sectors. Our key underweights there are in Beverages, Food, Telecom, and Utilities.
- *In Mexico*, our key underweights are in Financials, Food, and Telecom.

Top Stock Ideas

Our updated top stock ideas in Latin America are:

- *Brazil: Itau, XP, BTG Pactual, Vale, Lojas Renner, Gerdau, and Magazine Luiza*
- *Mexico: Walmex*
- *Others: Mercadolibre and Globant*

Market Fundamentals

Exhibit 4: We Forecast +20% Return in USD Terms for Latin American Equities by 2021YE...

11/13/2020	Index Level		USD upside	P/E NTM		Forex		MS USD EPS growth			Bull/Bear
	Current	Target 2021YE	Base	Current	Target 2021YE	Current	Target 2021YE*	2020	2021	2022	ratio in USD
Brazil (Ibovespa)	104,723	120,000	**25%**	14.9	14.0	5.46	5.00	-57%	94%	20%	5.9x
Chile (IPSA)	4,005	4,800	**15%**	15.9	14.7	767	800	-70%	227%	13%	1.4x
Colombia (COLCAP)	1,210	1,300	**8%**	9.9	8.9	3640	3628	-55%	75%	15%	1.1x
Peru (S&P Select)	316	320	**7%**	17.3	17.2	3.64	3.45	-53%	137%	-3%	1.0x
Mexico (Mexbol)	40,792	43,000	**2%**	14.8	12.5	20.41	21.00	-42%	87%	11%	0.4x
Argentina (MSCI)	1,576	1,600	**2%**	30.5	17.3	-	-	-95%	252%	61%	0.9x
Latin America (MSCI)	**2,081**	**2,500**	**20%**	**14.8**	**13.5**	**-**	**-**	**-56%**	**99%**	**16%**	1.9x
Emerging Markets (MSCI)	**1,188**	**1,250**	**5%**	**14.8**	**14.0**	**-**	**-**	**-8%**	**26%**	**14%**	0.7x

*Consensus; Source: Bloomberg and Morgan Stanley Research estimates

Exhibit 5: ...Supported by Positive Earnings Growth in the 2021-22 Period*

MS estimates	EV/Ebitda		P/E		P/BV	DY	MS Ebitda growth		MS EPS growth		ROE
11/13/2020	2021e	2022e	2021e	2022e	2021e	2021e	2021e	2022e	2021e	2022e	2021e
Brazil	7.1	6.3	14.3	12.1	2.0	7.5%	8%	9%	94%	20%	14%
Mexico	6.2	6.0	13.3	11.1	1.8	10.4%	22%	4%	137%	-3%	14%
Chile	6.4	7.1	14.4	13.4	1.2	7.9%	27%	2%	227%	13%	8%
Colombia	6.5	4.1	18.1	9.0	1.4	4.4%	25%	8%	75%	15%	8%
Peru	8.3	7.0	13.7	12.9	1.1	8.7%	30%	-10%	87%	11%	8%
Argentina	4.5	4.5	0.0	11.3	1.5	5.8%	20%	11%	252%	61%	8%
Latin America	**6.9**	**5.6**	**13.2**	**11.9**	**1.6**	**8.1%**	**16%**	**6%**	99%	16%	**12%**
MSCI EM**	**9.9**	**8.9**	**14.0**	**12.1**	**1.6**	**2.5%**	**22%**	**17%**	**26%**	**14%**	**10%**

*Valuation multiples may not match figures in the Regional & Country Index Targets and Country Valuations because of sample considerations; EBITDA and EPS growth in USD; **Consensus estimates for MSCI EM; EPS growth estimate are MS research. Source: Bloomberg and Morgan Stanley Research estimates, except as noted.

Exhibit 6: Argentina, Mexico and Chile have been the best performing equity markets in 2020

	Weight	11/13/20	52w Hi	52w Lo	Ytd	5d	1m	3m	6m	12m
Argentina	2%	1,576	1,724	815	**-1%**	-6%	-3%	2%	35%	21%
Mexico	22%	4,121	5,094	2,695	**-13%**	6%	11%	12%	33%	-12%
Chile	7%	1,073	1,364	689	**-18%**	1%	16%	6%	18%	-18%
Peru	3%	1,226	1,714	931	**-27%**	-7%	5%	0%	14%	-25%
Brazil	64%	1,557	2,432	1,007	**-34%**	-2%	9%	0%	40%	-27%
Colombia	2%	412	707	255	**-40%**	1%	12%	7%	26%	-37%
Global Markets	100%	606	610	379	**7%**	1%	4%	6%	27%	11%
Developed Markets	87%	2,529	2,546	1,579	**7%**	1%	4%	6%	26%	11%
Emerging Markets	**13%**	**1,188**	**1,200**	**752**	**7%**	**0%**	**6%**	**9%**	**32%**	**13%**
Technology	2%	31	35	14	**19%**	-7%	-5%	2%	48%	28%
Materials	18%	463	516	239	**-5%**	-2%	5%	7%	49%	6%
Industrials	7%	214	266	114	**-18%**	-3%	7%	11%	66%	-6%
Telecommunications	7%	155	212	122	**-22%**	0%	8%	3%	16%	-19%
Health Care	2%	52	72	28	**-24%**	-1%	13%	5%	44%	-10%
Consumer discretionary	8%	288	398	156	**-24%**	-7%	1%	-6%	37%	-14%
Consumer staples	15%	350	477	262	**-24%**	3%	10%	4%	22%	-20%
MSCI Latin America	-	2,081	2,989	1,365	**-29%**	-1%	10%	3%	35%	-23%
Utilities	6%	131	195	93	**-31%**	-3%	7%	-3%	18%	-23%
Financials	25%	498	844	343	**-39%**	-1%	15%	5%	37%	-35%
Energy	9%	235	425	122	**-44%**	2%	19%	-2%	37%	-39%
Real Estate	1%	509	1,112	404	**-51%**	-3%	10%	-2%	21%	-46%

Source: Bloomberg and Morgan Stanley Research

Top Ten Stock Ideas

Exhibit 7: Our Focus List Has a Simple Mean Expected Total Return (Upside Plus Dividend Yield) of +22%...

11/13/2020 Ticker	Company	Ccy	Price	Target	DY 2021	Total return	Mkt Cap (USDm)	Investment thesis
XP.O	XP Inc	USD	38.57	58.0	0.6%	**51%**	21,283	Brazilian investment platform well-positioned to capture industry growth and asset allocation shift in savings
BPAC11.SA	BTG Pactual	BRL	80.7	100.0	3.3%	**27%**	13,356	Brazilian top investment bank with e-platform growth opportunity
VALE.N	Vale	USD	11.7	14.0	7.1%	**27%**	59,899	Brazilian attractively valued iron ore producer leveraged to a potential global reflation trade in 2021
GGBR4.SA	Gerdau	BRL	20.9	26.0	2.4%	**27%**	6,517	Brazilian steel producer leveraged to a potential global reflation trade in 2021
ITUB.N	Itau Unib.	USD	5.2	6.3	5.2%	**26%**	50,862	Brazilian retail bank should benefit from a potential global rotation from growth to value in 2021
WALMEX.MX	Wal-Mart	MXN	55.7	65.0	3.3%	**20%**	47,676	Mexican retailer shouldd benefit from stronger domestic growth and e-commerce opportunity
LREN3.SA	L. Renner	BRL	45.7	53.0	2.0%	**18%**	6,662	Brazilian top of the class apparel retailer that should benefit from stronger economic growth in Brazil
MELI.O	Mercadolibre	USD	1,301.7	1,500.0	0.0%	**15%**	64,705	Argentine e-commerce and payments platform with a growing marketplace and micro-merchant TPV penetration
GLOB.N	Globant	USD	187.5	210.0	0.0%	**12%**	7,637	Argentine tech firm with net cash position leverage to global digitalization trends
MGLU3.SA	Magazine Luiza	BRL	25.1	23.5	0.0%	**-6%**	30,164	Brazilian omni-channel retai leader with focus on eletronics, houseware and other products
Simple average return						**22%**		

Source: Bloomberg and Morgan Stanley Research estimates. Price targets are those of the Morgan Stanley analysts covering these stocks.

Exhibit 8: ...And a Weighted Projected ROE of +19%...

11/13/2020		Mkt cap	EV/E	P/E	P/BV	Div. Yld.	MS Ebitda growth			MS EPS growth			ROE
Ticker	**Company**	**(USDm)**	**2021**	**2021**	**2021**	**2021**	**2021**	**2022**	**CAGR**	**2021**	**2022**	**CAGR**	**2021**
XP.O	XP Inc	21,283	33.9	43.0	10.1	0.6%	33%	31%	nm	32%	24%	nm	**27%**
WALMEX.MX	Wal-Mart	47,676	11.4	22.3	5.2	3.3%	14%	11%	13%	36%	13%	24%	**25%**
VALE.N	Vale	59,899	3.5	6.6	1.5	7.1%	-11%	-20%	-15%	3%	-24%	-11%	**23%**
LREN3.SA	L. Renner	6,662	14.7	33.8	5.8	2.0%	37%	32%	34%	-14%	42%	10%	**18%**
ITUB.N	Itau Unib.	50,862	nm	10.9	1.8	5.2%	nm	nm	nm	44%	22%	33%	**18%**
BPAC11.SA	BTG Pactual	13,356	nm	16.9	2.5	3.3%	nm	nm	nm	14%	24%	19%	**16%**
MELI.O	Mercadolibre	64,705	nm	nm	31.9	0.0%	40%	74%	56%	127%	92%	109%	**11%**
GLOB.N	Globant	7,637	nm	90.1	8.5	0.0%	53%	31%	42%	44%	57%	51%	**10%**
GGBR4.SA	Gerdau	6,517	6.0	12.5	1.0	2.4%	28%	10%	19%	68%	20%	42%	**9%**
MGLU3.SA	Magazine Luiza	30,164	nm	nm	19.4	0.0%	47%	51%	49%	150%	62%	101%	**8%**
Focus List			**6.0**	**11.9**	**3.2**	**3%**	**-3%**	**-8%**	**-5%**	**19%**	**0%**	**9%**	**19%**
MS universe			**6.9**	**14.7**	**1.8**	**3%**	**16%**	**6%**	**11%**	**124%**	**16%**	**61%**	**13%**
Difference (%)**			**-13%**	**-19%**	**76%**	**-13%**	**-19%**	**-14%**	**-16%**	**-105%**	**-16%**	**-52%**	**52%**

Percentage points for EBITDA and EPS growth; Source: Bloomberg and Morgan Stanley Research estimates

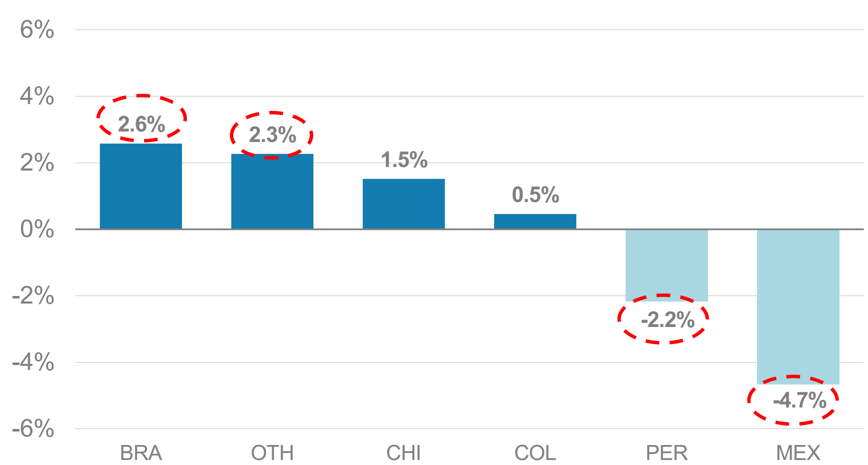
Exhibit 9: ...And 2021 EPS Forecasts That Are +5% Higher Than Consensus for 2 of Our Top 10 Stock Ideas

			EBITDA						EPS					
			MS		Consensus		% diff.		MS		Consensus		% diff.	
Ticker	**Company**	**CCY**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**
MELI.O	Mercadolibre	USD	442	770	352	667	25%	15%	4.13	7.93	2.96	7.37	**39%**	8%
WALMEX.MX	Wal-Mart	MXN	84,630	91,634	81,602	86,870	4%	5%	2.57	2.82	2.42	2.67	**6%**	6%
ITUB.N	Itau Unib.	BRL	nm	nm	nm	nm	nm	nm	2.57	3.03	2.49	2.95	**3%**	3%
XP.O	XP Inc	USD	628	823	655	922	-4%	-11%	0.90	1.11	0.89	1.16	**1%**	-4%
GGBR4.SA	Gerdau	BRL	7,867	8,352	7,238	7,532	9%	11%	1.65	1.90	1.66	1.65	**-1%**	15%
BPAC11.SA	BTG Pactual	BRL	nm	nm	nm	nm	nm	nm	4.68	5.62	4.93	5.86	**-5%**	-4%
LREN3.SA	L. Renner	BRL	2,509	3,188	2,444	2,922	3%	9%	1.33	1.82	1.45	1.79	**-8%**	2%
MGLU3.SA	Magazine Luiza	BRL	2,154	3,132	2,205	3,086	-2%	2%	0.10	0.15	0.12	0.18	**-19%**	-14%
VALE.N	Vale	USD	17,082	13,691	21,483	18,701	-20%	-27%	1.76	1.35	2.39	2.02	**-26%**	-33%
GLOB.N	Globant	USD	178	233	198	250	-10%	-7%	2.08	3.28	2.99	3.73	**-30%**	-12%

Source: Bloomberg and Morgan Stanley Research

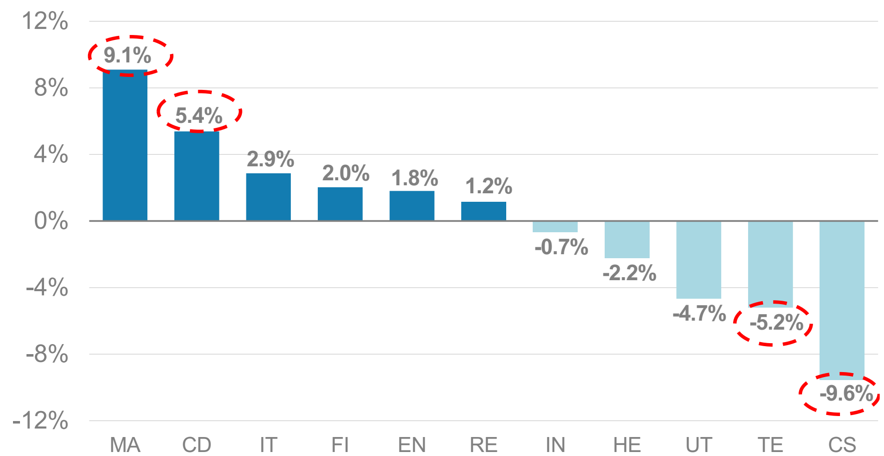
Latin America Model Portfolio

Exhibit 10: We Like Brazil and Chile at the Individual Country Level...



Source: Morgan Stanley Research

Exhibit 11: ...And Materials and Consumer Discretionary at the Sector Level



CD=C. Discretionary, CS=C. Staples, EN=Energy, FI=Financials, HE=Health care, IN=Industrials, IT=Info tech, MA=Materials, TE=Telecom , UT=Utilities, RE=Real estate; Source: Morgan Stanley Research

Exhibit 12: Weight and Stock Changes to Our Latin America Model Portfolio

Ticker	Company	Country	Sector	Last Price	New Weight	Old Weight	Change
CCRO3.SA	CCR	Brazil	IN	11.8	3.0%	0.0%	**3.0%**
BRDT3.SA	BR Distribuidora	Brazil	EN	21.6	2.4%	0.0%	**2.4%**
WALMEX.MX	Wal-Mart	Mexico	CS	55.7	4.8%	2.6%	**2.2%**
OMAB.O	OMA	Mexico	IN	46.3	2.0%	0.0%	**2.0%**
GCC.MX	Cem. de Chihuahua	Mexico	MA	105.1	2.0%	0.0%	**2.0%**
ALFAA.MX	Alfa	Mexico	IN	15.4	1.9%	0.0%	**1.9%**
VALE.N	Vale	Brazil	MA	11.7	11.9%	10.4%	**1.5%**
MGLU3.SA	Magazine Luiza	Brazil	CD	25.1	5.3%	4.0%	**1.3%**
RENT3.SA	Localiza	Brazil	CD	67.0	4.0%	3.0%	**1.0%**
COPEC.SN	COPEC	Chile	MA	6,289.0	2.5%	2.0%	**0.5%**
SQM.N	Soquimich	Chile	MA	43.6	3.9%	3.6%	**0.3%**
GGBR4.SA	Gerdau	Brazil	MA	20.9	2.9%	2.7%	**0.2%**
SUZB3.SA	Suzano	Brazil	MA	51.9	2.9%	2.8%	**0.1%**
ORBIA.MX	Orbia	Mexico	MA	38.4	1.9%	1.8%	**0.1%**
BPAC11.SA	BTG Pactual	Brazil	FI	80.7	3.1%	3.1%	**0.0%**
MELI.O	Mercadolibre	Others	IT	1,301.7	2.0%	2.0%	**0.0%**
FIBRAPL14.MX	Prologis Property	Mexico	RE	44.0	2.0%	2.0%	**0.0%**
GLOB.N	Globant	Others	IT	187.5	2.0%	2.0%	**0.0%**
BAP.N	Credicorp	Peru	FI	125.2	1.0%	1.1%	**-0.1%**
CIB.N	Bancolombia	Colombia	FI	29.2	2.7%	2.8%	**-0.1%**
LREN3.SA	L. Renner	Brazil	CD	45.7	3.7%	3.9%	**-0.2%**
XP.O	XP Inc	Brazil	FI	38.6	2.5%	3.0%	**-0.5%**
BSAC.N	Santander Chile	Chile	FI	17.9	2.0%	2.6%	**-0.6%**
IENOVA.MX	IENOVA	Mexico	UT	74.6	1.4%	2.3%	**-0.9%**
FMX.N	Femsa	Mexico	CS	68.4	0.7%	1.6%	**-0.9%**
ITUB.N	Itau Unib.	Brazil	FI	5.2	7.5%	8.8%	**-1.3%**
LINX3.SA	Linx	Brazil	IT	36.8	0.5%	2.0%	**-1.5%**
PBR.N	Petrobras	Brazil	EN	8.5	7.7%	9.2%	**-1.5%**
B3SA3.SA	B3	Brazil	FI	53.7	4.1%	6.1%	**-2.0%**
FIBRAMQ12.MX	Macquarie	Mexico	RE	25.9	0.0%	2.0%	**-2.0%**
BBD.N	Bradesco	Brazil	FI	4.4	4.3%	6.9%	**-2.6%**
AMX.N	A. Movil	Mexico	TE	13.9	1.4%	5.7%	**-4.3%**

Source: Morgan Stanley Research

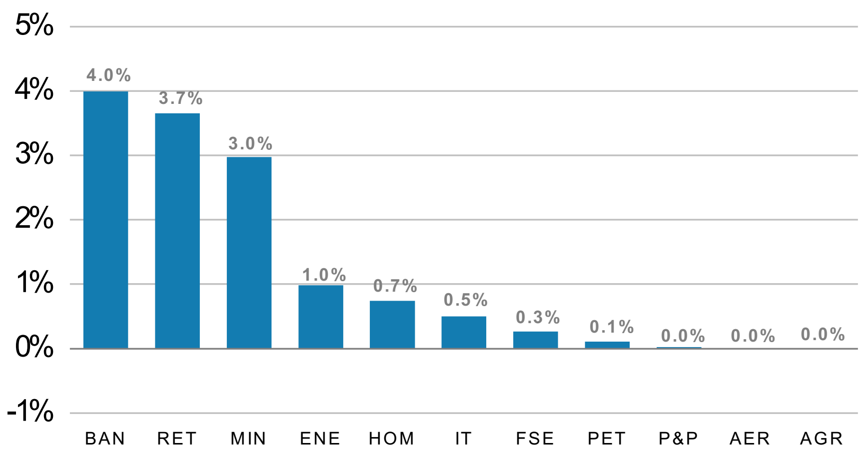
Exhibit 13: Morgan Stanley Latin America Model Portfolio

11/13/20 Ticker	Company	Country	Sector	Rating	Weight	MSCI Latam	Over/ Under	Ccy	Price	12-mth PT/FV	Implied Return	Mkt Cap (USDm)	EV/EBITDA 2021e	EV/EBITDA 2022e	P/E 2021e	P/E 2022e	P/BV 2021e	Div Yld 2021e	EBITDA G.* CAGR 20-22	EPS G. * CAGR 20-22	ROE 2021e
VALE.N	Vale	Brazil	MA	OW	11.9%	8.4%	**3.5%**	USD	11.7	14.0	27%	59,899	3.5	4.4	6.6	8.7	1.5	7.1%	-15%	-11%	23%
ITUB.N	Itau Unib.	Brazil	FI	OW	7.5%	4.5%	**3.0%**	USD	5.2	6.3	26%	50,862	nm	nm	10.9	8.9	1.8	5.2%	nm	33%	18%
SQM.N	Soquimich	Chile	MA	EW	3.9%	0.9%	**3.0%**	USD	43.6	31.0	-26%	11,481	18.9	18.3	37.3	36.3	5.5	2.7%	9%	7%	15%
RENT3.SA	Localiza	Brazil	CD	EW	4.0%	1.5%	**2.5%**	BRL	67.0	55.1	-17%	9,269	21.5	16.9	42.2	31.9	7.4	0.6%	33%	59%	19%
LREN3.SA	L. Renner	Brazil	CD	OW	3.7%	1.2%	**2.5%**	BRL	45.7	53.0	18%	6,662	14.7	11.0	33.8	23.8	5.8	2.0%	34%	10%	18%
XP.O	XP Inc	Brazil	FI	OW	2.5%	0.0%	**2.5%**	USD	38.6	58.0	51%	21,283	33.9	25.9	43.0	34.6	10.1	0.6%	nm	nm	27%
CCRO3.SA	CCR	Brazil	IN	EW	3.0%	0.5%	**2.5%**	BRL	11.8	16.3	42%	4,344	5.7	5.8	16.0	17.3	2.5	3.2%	6%	32%	17%
MGLU3.SA	Magazine Luiza	Brazil	CD	OW	5.3%	2.8%	**2.5%**	BRL	25.1	23.5	-6%	30,164	nm	nm	nm	nm	19.4	0.0%	49%	101%	8%
BPAC11.SA	BTG Pactual	Brazil	FI	OW	3.1%	0.6%	**2.5%**	BRL	80.7	100.0	27%	13,356	nm	nm	16.9	13.6	2.5	3.3%	nm	19%	16%
WALMEX.MX	Wal-Mart	Mexico	CS	OW	4.8%	2.8%	**2.0%**	MXN	55.7	65.0	20%	47,676	11.4	10.3	22.3	19.9	5.2	3.3%	13%	24%	25%
GGBR4.SA	Gerdau	Brazil	MA	EW	2.9%	0.9%	**2.0%**	BRL	20.9	26.0	27%	6,517	6.0	5.3	12.5	10.4	1.0	2.4%	19%	42%	9%
GCC.MX	Cem. de Chihuahua	Mexico	MA	OW	2.0%	0.0%	**2.0%**	MXN	105.1	150.0	44%	1,706	6.9	6.1	15.3	13.5	1.3	1.6%	3%	-2%	9%
FIBRAPL14.MX	Prologis Property	Mexico	RE	OW	2.0%	0.0%	**2.0%**	MXN	44.0	60.0	42%	1,829	17.5	12.0	10.7	7.8	0.8	6.0%	16%	93%	8%
OMAB.O	OMA	Mexico	IN	EW	2.0%	0.0%	**2.0%**	USD	46.3	36.3	-20%	2,276	15.2	10.3	25.3	17.0	3.8	1.2%	50%	53%	16%
BSAC.N	Santander Chile	Chile	FI	EW	2.0%	0.0%	**2.0%**	USD	17.9	20.0	18%	8,433	nm	nm	11.7	10.2	1.6	6.4%	nm	21%	14%
MELI.O	Mercadolibre	Others	IT	OW	2.0%	0.0%	**2.0%**	USD	1,301.7	1,500.0	15%	64,705	nm	nm	nm	nm	31.9	0.0%	56%	109%	11%
COPEC.SN	COPEC	Chile	MA	OW	2.5%	0.5%	**2.0%**	CLP	6,289.0	7,911.0	26%	10,655	9.1	8.2	17.6	9.8	1.0	0.5%	22%	484%	6%
BRDT3.SA	BR Distribuidora	Brazil	EN	OW	2.4%	0.6%	**1.8%**	BRL	21.6	32.0	54%	4,604	8.0	7.0	14.1	12.0	2.5	5.5%	nm	nm	18%
CIB.N	Bancolombia	Colombia	FI	OW	2.7%	1.0%	**1.7%**	USD	29.2	31.0	7%	7,026	nm	nm	12.0	7.7	0.8	0.9%	nm	124%	7%
PBR.N	Petrobras	Brazil	EN	OW	7.7%	6.2%	**1.5%**	USD	8.5	15.5	84%	55,635	4.3	3.2	15.3	7.6	1.0	1.8%	18%	nm	7%
ORBIA.MX	Orbia	Mexico	MA	OW	1.9%	0.4%	**1.5%**	MXN	38.4	50.0	35%	3,948	5.4	4.8	11.8	10.5	1.4	4.4%	17%	77%	13%
ALFAA.MX	Alfa	Mexico	IN	OW	1.9%	0.4%	**1.5%**	MXN	15.4	23.0	56%	3,702	4.3	3.8	10.6	9.4	1.0	6.3%	21%	197%	10%
SUZB3.SA	Suzano	Brazil	MA	OW	2.9%	1.4%	**1.5%**	BRL	51.9	64.0	25%	12,827	6.7	5.9	12.8	9.8	11.1	2.0%	20%	nm	132%
IENOVA.MX	IENOVA	Mexico	UT	OW	1.4%	0.4%	**1.0%**	MXN	74.6	115.0	56%	5,606	7.7	7.1	12.6	11.3	1.0	2.0%	16%	14%	9%
GLOB.N	Globant	Others	IT	OW	2.0%	1.5%	**0.5%**	USD	187.5	210.0	12%	7,637	nm	31.0	90.1	57.2	8.5	0.0%	42%	51%	10%
LINX3.SA	Linx	Brazil	IT	++	0.5%	0.0%	**0.5%**	BRL	36.8	nm	nm	1,276	nm	nm	29.7	29.7	nm	nm	nm	nm	nm
BBD.N	Bradesco	Brazil	FI	OW	4.3%	4.3%	**0.0%**	USD	4.4	6.3	46%	35,501	nm	nm	8.3	6.9	1.2	4.9%	nm	30%	16%
B3SA3.SA	B3	Brazil	FI	EW	4.1%	4.1%	**0.0%**	BRL	53.7	64.0	25%	20,067	16.0	14.0	24.3	21.3	4.6	5.9%	12%	9%	19%
BAP.N	Credicorp	Peru	FI	OW	1.0%	1.7%	**-0.7%**	USD	125.2	180.0	47%	9,940	nm	nm	10.4	7.6	1.3	3.3%	nm	328%	13%
FMX.N	Femsa	Mexico	CS	OW	0.7%	2.2%	**-1.5%**	USD	68.4	70.0	3%	24,471	5.7	5.0	23.6	20.7	1.9	1.1%	13%	120%	8%
AMX.N	A. Movil	Mexico	TE	OW	1.4%	4.4%	**-3.0%**	USD	13.9	16.0	18%	45,981	4.8	4.4	13.9	9.6	4.2	3.3%	8%	80%	34%
Model portfolio					**100%**						**31%**		**10.2**	**9.3**	**19.2**	**15.4**	**4.6**	**3.3%**	**17%**	**57%**	**19%**
MS universe											16%		6.9	6.4	14.7	12.7	1.8	3.5%	11%	61%	13%
Model portfolio vs MS universe											**15%**		**47%**	**45%**	**31%**	**21%**	**152%**	**-3.3%**	**6%**	**-5%**	**6%**

*CAGR; Source: .Bloomberg and Morgan Stanley Research estimates. For important disclosures regarding companies that are the subject of this screen, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/researchdisclosures. Stock ratings: OW = Overweight, EW = Equal-weight, UW = Underweight, NC = not covered. ++ Stock Rating, Price Target, or Estimates for this company have been removed from consideration in this report because, under applicable law and/or Morgan Stanley policy, Morgan Stanley may be precluded from issuing such information with respect to this company at this time.

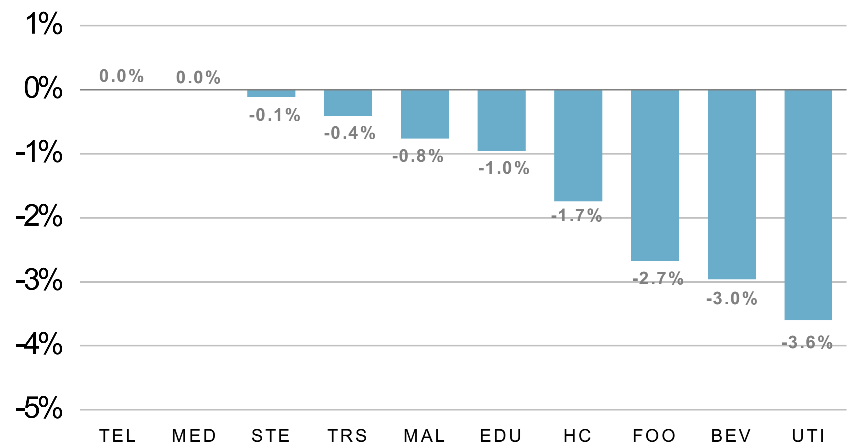
Brazil Model Portfolio

Exhibit 14: We Like Banking, Retail, and Mining While...



Source: Bloomberg and Morgan Stanley Research

Exhibit 15: ...We Do Not Favor Utilities, Beverages, and Food



Source: Bloomberg and Morgan Stanley Research

Exhibit 16: Weight and Stock Changes to Brazil IBX-50 Model Portfolio

Ticker	Company	Sector	Last Price	New Weight	Old Weight	Change
NTCO3.SA	Natura	Retail	51.0	3.0%	0.0%	**3.0%**
CCRO3.SA	CCR	Transp. & Ind.	11.8	2.8%	0.0%	**2.8%**
MGLU3.SA	Magazine Luiza	Retail	25.1	6.3%	3.6%	**2.7%**
CYRE3.SA	Cyrela	Homebuilder	25.8	1.5%	0.0%	**1.5%**
GNDI3.SA	Intermedica	Health care	74.5	4.1%	2.9%	**1.2%**
LAME4.SA	Americanas	Retail	24.1	2.8%	2.0%	**0.8%**
VALE.N	Vale	Mining	11.7	15.7%	14.9%	**0.8%**
UGPA3.SA	Ultrapar	Petrochem	20.7	2.7%	2.3%	**0.4%**
SUZB3.SA	Suzano	Pulp & paper	51.9	3.3%	2.9%	**0.4%**
GGBR4.SA	Gerdau	Steel	20.9	2.9%	2.8%	**0.1%**
AZUL.N	Azul	Transp. & Ind.	16.0	1.5%	1.5%	**0.0%**
XP.O	XP Inc	Financial Services	38.6	2.0%	2.0%	**0.0%**
JBSS3.SA	JBS	Food	21.2	0.4%	0.4%	**0.0%**

Ticker	Company	Sector	Last Price	New Weight	Old Weight	Change
LREN3.SA	L. Renner	Retail	45.7	4.5%	4.8%	**-0.3%**
BPAC11.SA	BTG Pactual	Banking	80.7	3.1%	3.4%	**-0.3%**
ABEV3.SA	AmBev	Beverages	15.1	0.5%	0.9%	**-0.4%**
BBSE3.SA	BB Seguridade	Financial Services	26.5	0.0%	0.5%	**-0.5%**
BBD.N	Bradesco	Banking	4.4	7.9%	8.6%	**-0.7%**
RENT3.SA	Localiza	Transp. & Ind.	67.0	2.4%	3.1%	**-0.7%**
LINX3.SA	Linx	Info tech	36.8	0.5%	2.0%	**-1.5%**
RAIL3.SA	Rumo	Transp. & Ind.	19.3	2.1%	3.6%	**-1.5%**
ITUB.N	Itau Unib.	Banking	5.2	12.0%	13.8%	**-1.8%**
B3SA3.SA	B3	Financial Services	53.7	6.9%	8.8%	**-1.9%**
CEAB3.SA	C&A Modas	Retail	12.7	0.0%	2.0%	**-2.0%**
PBR.N	Petrobras	Energy	8.5	11.1%	13.2%	**-2.1%**

Source: Morgan Stanley Research

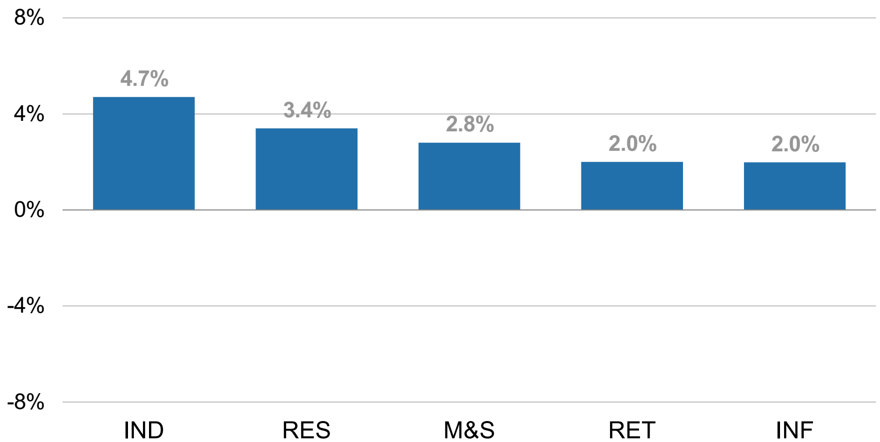
Exhibit 17: Brazil IBX-50 Model Portfolio

11/12/2020 Ticker	Company	Sector	Rating	Weight	IBX-50	Over/ Under	Ccy	Price	12-mth PT/FV	Implied Return	Mkt Cap (USDm)	EV/EBITDA 2021e	EV/EBITDA 2022e	P/E 2021e	P/E 2022e	P/BV 2021e	Div. Yld. 2021e	EBITDA* 2020-22	EPS* 2020-22	ROE 2021e
ITUB.N	**Itau Unib.**	**Banking**	Overweight	12.0%	7.4%	**4.6%**	BRL	5.1	6.3	29%	49,789	nm	nm	10.5	8.8	1.8	5.3%	nm	32%	18%
VALE.N	**Vale**	**Mining**	Overweight	15.7%	12.7%	**3.0%**	USD	11.5	14.0	29%	58,924	3.4	4.3	6.5	8.5	1.5	7.3%	-15%	-11%	23%
LREN3.SA	**L. Renner**	**Retail**	Overweight	4.5%	2.0%	**2.5%**	BRL	45.4	53.0	19%	6,627	14.5	11.0	33.3	23.8	5.7	2.1%	34%	10%	18%
BBD.N	**Bradesco**	**Banking**	Overweight	7.9%	5.5%	**2.4%**	BRL	4.3	6.3	52%	34,297	nm	nm	7.9	6.7	1.1	5.1%	nm	30%	16%
CCRO3.SA	**CCR**	**Transp. & Ind.**	Equal-Weight	2.8%	0.8%	**2.0%**	BRL	11.7	16.3	43%	4,331	5.7	5.8	15.8	17.3	2.5	3.3%	5%	32%	17%
XP.O	**XP Inc**	**Financial Services**	Overweight	2.0%	0.0%	**2.0%**	USD	38.5	58.0	51%	21,239	32.1	25.1	40.7	33.5	9.8	0.6%	nm	nm	27%
BPAC11.SA	**BTG Pactual**	**Banking**	Overweight	3.1%	1.1%	**2.0%**	BRL	79.7	100.0	29%	13,207	nm	nm	17.1	13.6	2.4	3.3%	nm	24%	15%
MGLU3.SA	**Magazine Luiza**	**Retail**	Overweight	6.3%	4.3%	**2.0%**	BRL	25.5	23.5	-8%	30,655	nm	nm	nm	nm	19.5	0.0%	48%	101%	8%
UGPA3.SA	**Ultrapar**	**Petrochem**	++	2.7%	1.2%	**1.5%**	BRL	20.0	na	nm	4,090	nm	nm	nm	nm	na	nm	nm	nm	nm
GGBR4.SA	**Gerdau**	**Steel**	Equal-Weight	2.9%	1.4%	**1.5%**	BRL	20.7	26.0	28%	6,446	6.0	5.3	12.2	10.3	1.0	2.5%	18%	41%	9%
GNDI3.SA	**Intermedica**	**Health care**	Overweight	4.1%	2.6%	**1.5%**	BRL	69.3	76.0	10%	7,747	20.3	16.0	41.5	30.0	5.2	0.9%	19%	24%	13%
LAME4.SA	**Americanas**	**Retail**	Overweight	2.8%	1.3%	**1.5%**	BRL	23.9	38.0	59%	8,178	9.7	8.0	40.2	32.9	3.1	0.4%	22%	75%	8%
CYRE3.SA	**Cyrela**	**Homebuilder**	Equal-Weight	1.5%	0.4%	**1.1%**	BRL	24.8	16.0	-35%	1,815	28.6	17.8	67.9	33.6	1.9	0.4%	nm	nm	3%
AZUL.N	**Azul**	**Transp. & Ind.**	Equal-Weight	1.5%	0.5%	**1.0%**	BRL	15.4	14.9	-3%	1,750	5.3	5.1	nm	nm	nm	0.0%	129%	nm	nm
PBR.N	**Petrobras**	**Energy**	Overweight	11.1%	10.1%	**1.0%**	BRL	8.3	15.5	89%	54,004	4.2	3.1	14.7	7.4	1.0	1.9%	18%	nm	7%
SUZB3.SA	**Suzano**	**Pulp & paper**	Overweight	3.3%	2.3%	**1.0%**	BRL	48.6	64.0	34%	12,008	6.4	5.6	11.9	9.2	10.3	2.2%	19%	nm	132%
NTCO3.SA	**Natura**	**Retail**	Equal-Weight	3.0%	2.5%	**0.5%**	BRL	49.3	48.0	-3%	12,556	16.0	12.8	nm	51.8	2.1	0.0%	nm	nm	2%
RAIL3.SA	**Rumo**	**Transp. & Ind.**	Overweight	2.1%	1.6%	**0.5%**	BRL	19.0	25.0	32%	6,452	10.6	8.9	36.1	25.2	2.1	0.7%	nm	nm	6%
LINX3.SA	**Linx**	**Info tech**	++	0.5%	0.0%	**0.5%**	BRL	36.0	na	nm	1,249	nm	nm	29.1	29.1	nm	nm	nm	nm	nm
B3SA3.SA	**B3**	**Financial Services**	Equal-Weight	6.9%	6.9%	**0.0%**	BRL	53.8	64.0	25%	20,139	16.8	14.9	24.7	21.1	4.6	5.8%	10%	11%	18%
RENT3.SA	**Localiza**	**Transp. & Ind.**	Equal-Weight	2.4%	2.4%	**0.0%**	BRL	65.5	55.1	-15%	9,065	20.9	16.5	40.8	31.3	7.1	0.6%	33%	58%	19%
JBSS3.SA	**JBS**	**Food**	Overweight	0.4%	1.9%	**-1.5%**	BRL	21.0	35.0	68%	10,253	4.1	4.4	6.6	8.2	1.7	1.0%	-9%	76%	30%
ABEV3.SA	**AmBev**	**Beverages**	Equal-Weight	0.5%	3.5%	**-3.0%**	BRL	14.6	14.0	1%	42,489	10.6	9.3	21.8	18.6	3.6	5.2%	10%	18%	17%
Portfolio				100%						**32%**		**10.2**	**8.6**	**18.7**	**15.9**	**4.0**	**3.5%**	**16%**	**27%**	**19%**
MS Brazil coverage										**60%**		**2.8**	**2.4**	**25.9**	**17.1**	**0.9**	**0.3%**	**9%**	**52%**	**14%**
Difference										**-28%**		**267%**	**265%**	**-28%**	**-7%**	**365%**	**1215%**	**7%**	**-24%**	**5%**

*CAGR; Source: Bloomberg and Morgan Stanley Research estimates. For important disclosures regarding companies that are the subject of this screen, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/researchdisclosures. ++ Stock Rating, Price Target, or Estimates for this company have been removed from consideration in this report because, under applicable law and/or Morgan Stanley policy, Morgan Stanley may be precluded from issuing such information with respect to this company at this time.

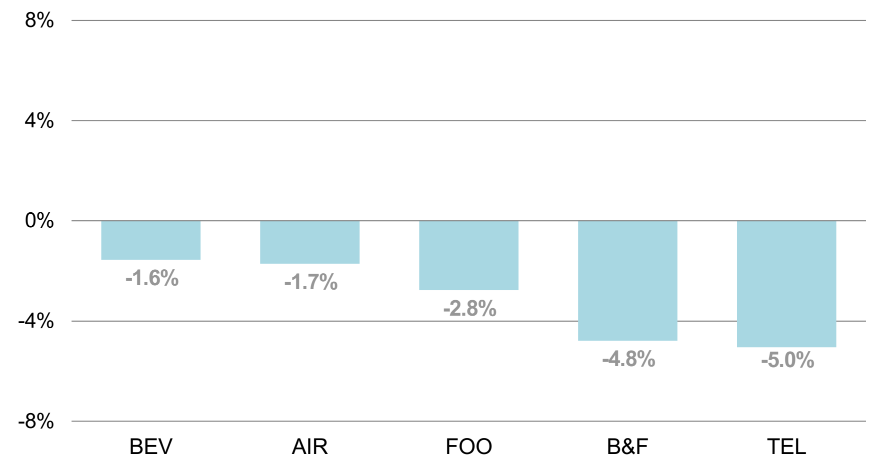
Mexico Model Portfolio

Exhibit 18: We Like Industrials, Real Estate, Metals & Steel, Retail, and Infrastructure...



Source: Bloomberg and Morgan Stanley Research

Exhibit 19: ...While We Dislike Telecom, Financials, Food & Beverage, and Airports



Source: Bloomberg and Morgan Stanley Research

Exhibit 20: Weight and Stock Changes to Mexico Model Portfolio

Ticker	Sector	Last Price	New Weight	Old Weight	Change
GFNORTEO.MX	Bank & Financial	101.8	7.7%	5.9%	1.8%
DANHOS13.MX	Real Estate	22.1	1.0%	0.0%	1.0%
OMAB.O	Airport	45.5	1.5%	1.0%	0.5%
ASR.N	Airport	149.2	2.5%	2.1%	0.4%
TV.N	Media	7.9	3.1%	2.8%	0.3%
GMEXICOB.MX	Mining & Steel	64.0	10.5%	10.3%	0.3%
IENOVA.MX	Energy	72.8	2.6%	2.5%	0.2%
CUERVO.MX	Beverage	46.6	3.0%	2.9%	0.1%
ALPEKA.MX	Industrial	15.8	1.0%	1.0%	0.0%
GCC.MX	Infrastructure	104.4	2.0%	2.0%	0.0%
BIMBOA.MX	Food & Consumer Products	43.7	4.0%	4.0%	0.0%
ALSEA.MX	Retail	20.7	1.0%	1.0%	0.0%

Ticker	Sector	Last Price	New Weight	Old Weight	Change
FMX.N	Beverage	66.5	10.5%	10.6%	-0.1%
ORBIA.MX	Industrial	37.4	3.6%	3.7%	-0.1%
ALFAA.MX	Industrial	15.3	4.2%	4.3%	-0.1%
FUNO11.MX	Real Estate	17.6	3.1%	3.4%	-0.2%
PENOLES.MX	Mining & Steel	321.4	2.2%	2.5%	-0.3%
FIBRAPL14.MX	Real Estate	42.8	1.5%	2.0%	-0.5%
CX.N	Infrastructure	4.4	6.8%	7.4%	-0.6%
WALMEX.MX	Retail	54.4	12.9%	13.7%	-0.8%
AMX.N	Telecom	13.7	15.1%	17.0%	-1.8%

Source: Morgan Stanley Research

Exhibit 21: Mexico IPC Model Portfolio

11/12/2020				MS	MSCI	Over/	Model		12-mth	Implied	Mkt Cap	EV/E		P/E		P/BV	DY	EBITDA*	EPS*	ROE
Ticker	Company	Sector	Rating	Weight	Weight	Under	Ccy	Price	PT/FV	Return	(USDm)	2021e	2022e	2021e	2022e	2021e	2021e	2019-21	2019-21	2021e
ALFAA.MX	Alfa	Industrial	OW	4.2%	1.7%	**2.5%**	MXN	15.3	23.0	51%	3,631	4.2	3.8	10.5	9.4	1.0	6.3%	-7%	3%	10%
GMEXICOB.MX	Grupo Mexico	Mining & Steel	OW	10.5%	8.1%	**2.4%**	MXN	64.0	69.0	13%	24,158	4.8	5.9	8.5	12.3	1.8	8.7%	17%	25%	22%
ORBIA.MX	Orbia	Industrial	OW	3.6%	1.6%	**2.0%**	MXN	37.4	50.0	36%	3,807	5.3	4.8	11.5	10.3	1.4	4.5%	3%	28%	13%
CUERVO.MX	Becle	Beverage	OW	3.0%	1.0%	**2.0%**	MXN	46.6	57.0	24%	8,098	18.3	13.4	28.7	20.8	3.2	1.8%	19%	21%	12%
GCC.MX	Cem. de Chihuahua	Infrastructure	OW	2.0%	0.0%	**2.0%**	MXN	104.4	150.0	44%	1,676	6.8	6.0	15.0	13.3	1.3	1.7%	-6%	-2%	9%
FIBRAPL14.MX	Prologis Property	Real Estate	OW	1.5%	0.0%	**1.5%**	MXN	42.8	55.0	34%	1,762	13.2	11.5	8.7	7.8	0.8	5.9%	14%	17%	9%
OMAB.O	OMA	Airport	EW	1.5%	0.0%	**1.5%**	USD	45.5	36.3	-20%	2,236	15.0	10.3	25.0	17.1	3.8	1.2%	-27%	-27%	17%
CX.N	Cemex	Infrastructure	OW	6.8%	5.4%	**1.4%**	USD	4.4	6.0	38%	6,778	7.2	6.8	9.4	9.1	0.9	0.0%	2%	nm	10%
BIMBOA.MX	Grupo Bimbo	Food & Consumer Products	OW	4.0%	2.8%	**1.2%**	MXN	43.7	54.0	25%	9,614	6.0	5.4	20.8	17.3	2.7	1.9%	10%	19%	14%
DANHOS13.MX	Danhos	Real Estate	OW	1.0%	0.0%	**1.0%**	MXN	22.1	27.0	26%	1,581	13.3	12.6	13.1	12.4	0.6	6.2%	-18%	-25%	4%
ALPEKA.MX	Alpek	Industrial	OW	1.0%	0.0%	**1.0%**	MXN	15.8	26.0	74%	1,614	4.8	4.8	8.4	7.9	0.8	17.9%	-13%	-25%	10%
WALMEX.MX	Wal-Mart	Retail	OW	12.9%	11.9%	**1.0%**	MXN	54.4	65.0	23%	46,060	11.1	10.1	21.7	19.6	5.1	3.4%	4%	4%	25%
ALSEA.MX	Alsea	Retail	OW	1.0%	0.0%	**1.0%**	MXN	20.7	37.0	78%	837	3.3	2.8	17.0	10.6	2.9	0.0%	-2%	nm	18%
IENOVA.MX	IENOVA	Energy	OW	2.6%	1.6%	**1.0%**	MXN	72.8	115.0	60%	5,413	7.5	7.0	12.2	11.1	1.0	2.1%	6%	-3%	9%
FUNO11.MX	Fibra Uno	Real Estate	OW	3.1%	2.2%	**0.9%**	MXN	17.6	27.0	60%	3,518	13.2	11.3	6.2	5.0	0.5	7.5%	-1%	nm	8%
PEOLES.MX	Ind. Peñoles	Mining & Steel	OW	2.2%	1.8%	**0.4%**	MXN	321.4	454.0	42%	6,192	3.4	3.7	8.3	11.0	1.6	0.9%	62%	nm	21%
ASR.N	ASUR	Airport	UW	2.5%	2.5%	**0.0%**	USD	149.2	92.0	-37%	4,476	17.3	12.7	41.5	26.1	2.2	1.3%	-27%	-38%	5%
TV.N	Grupo Televisa	Media	OW	3.1%	3.1%	**0.0%**	USD	7.9	8.0	2%	4,433	5.7	5.3	32.8	20.5	1.2	1.0%	-5%	nm	4%
FMX.N	Femsa	Beverage	OW	10.5%	10.5%	**0.0%**	USD	66.5	70.0	8%	23,788	5.6	4.9	23.1	20.5	1.8	1.1%	-4%	-2%	8%
GFNORTEO.MX	Banorte	Bank & Financial	UW	7.7%	10.9%	**-3.2%**	MXN	101.8	92.0	-9%	14,232	nm	nm	10.1	8.7	1.2	5.1%	nm	-14%	13%
AMX.N	A. Movil	Telecom	OW	15.1%	19.3%	**-4.2%**	USD	13.7	16.0	19%	45,090	4.7	4.4	13.8	9.6	4.2	3.3%	-1%	-3%	34%
Portfolio				**100%**						**21%**		**7.5**	**6.8**	**16.1**	**13.7**	**2.4**	**3.7%**	**3%**	**3%**	**17%**
MS Universe (only Mexico)										**15%**		**6.0**	**5.7**	**13.4**	**12.2**	**1.7**	**3.8%**	**6%**	**6%**	**12%**
Difference										**6%**		**25%**	**19%**	**20%**	**13%**	**42%**	**-2%**	**-3%**	**-4%**	**5%**

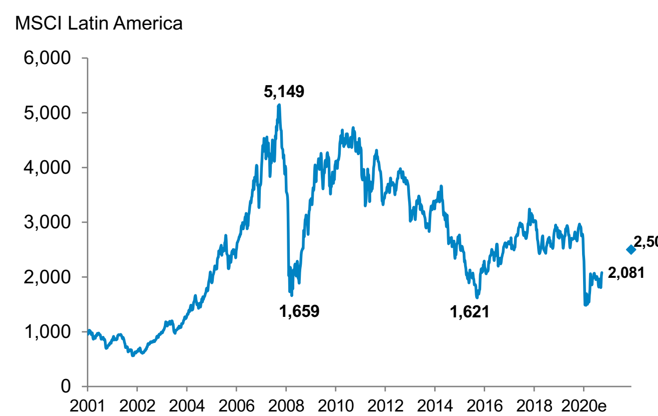
*CAGR; Source: Bloomberg and Morgan Stanley Research estimates. For important disclosures regarding companies that are the subject of this screen, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/researchdisclosures. Stock ratings: OW = Overweight, EW = Equal-weight, UW = Underweight, NC = not covered.

Equity Strategy

2021 Outlook: At the Crest of the Global Reflation Wave

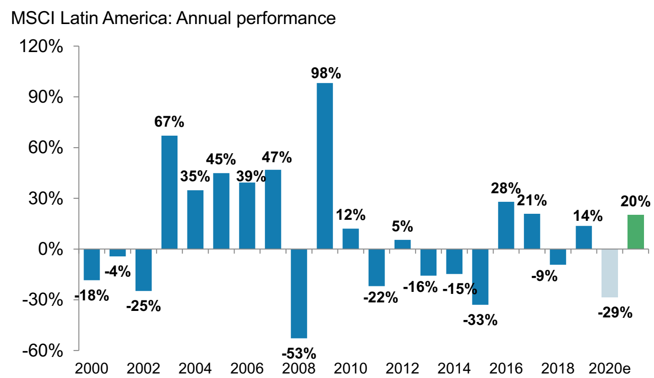
The MSCI Latin America index should post a positive double-digit USD return in 2021 (and partially revert the loss in 2020). Year-to-date the regional equity benchmark is down 29% in US dollar terms as a result of a deep earnings contraction generated by lockdown measures to help temporarily contain the Covid-19 pandemic in the region during the first half of the year.

Exhibit 22: Year-to-Date Latin American Equities Are Down 29% USD...



Source: Bloomberg and Morgan Stanley Research

Exhibit 23: ...However We Forecast a Positive 20% Return in 2021



Source: Bloomberg and Morgan Stanley Research estimates

We have a 2,500-point 2021YE base case price target for the MSCI Latin America index (circa +20% USD return). We expect 2021 to be an overall positive year for regional equities, driven by a) a continuation of the economic recovery in the region (MSe Latam real GDP growth +5.0% in 2021) after positive news on Covid-19 vaccine development, b) broad-based corporate operational leverage in the region after a severe but temporary recession (for more details see here), c) material global fiscal and monetary stimulus (circa US$30 trillion year-to-date), and d) lower for longer interest rates.

Exhibit 24: We Believe Brazilian, Chilean and Colombian Equities Have Interesting Risk-Reward Profiles for 2021

		11/13/2020	YE2021	Upside		FX		NTM P/E		EPS growth in USD			Bull	Bear	Bull/Bear
Country	**Index**	**Spot**	**Target**	**LC**	**USD**	**Spot**	**YE2021***	**Current**	**Target**	**2020**	**2021**	**2022**	**Case**	**Case**	**ratio USD**
Brazil	IBOV	104,723	120,000	15%	25%	5.46	5.00	14.9	14.0	-57%	94%	20%	130,000	90,000	5.85x
Mexico	MEXBOL	40,792	43,000	5%	2%	20.41	21.00	14.8	12.5	-42%	87%	11%	44,000	37,000	0.41x
Chile	IPSA	4,005	4,800	20%	15%	767	800	15.9	14.7	-70%	227%	13%	5,000	3,600	1.43x
Colombia	COLCAP	1,210	1,300	7%	8%	3,640	3,628	9.9	8.9	-55%	75%	15%	1,500	950	1.15x
Peru	SELECT	316	320	1%	7%	3.64	3.45	17.3	17.2	-53%	137%	-3%	350	250	1.04x
Argentina	MXAR	1,576	1,600	2%	2%	-	-	30.5	17.3	-95%	252%	61%	1,900	1,200	0.86x
Latam	**MXLA**	**2,081**	**2,500**	**12%**	**20%**	**-**	**-**	**14.8**	**13.5**	**-56%**	**99%**	**16%**	**2,800**	**1,700**	**1.88x**
EM	**MXEF**	**1,188**	**1,250**	**-**	**5%**	**-**	**-**	**14.8**	**14.0**	**-8%**	**26%**	**14%**	**1,400**	**900**	**0.74x**

*Consensus forward estimates. Source: Bloomberg and Morgan Stanley Research estimates

However, investors will have to proactively manage short-term risks associated with a) the Coronavirus outbreak dynamics, b) the magnitude and timing of a potential additional US fiscal stimulus, c) the need for fiscal adjustment and progress in the structural reform agenda in Brazil and Colombia, and d) upcoming elections in Peru, Chile, and Mexico.

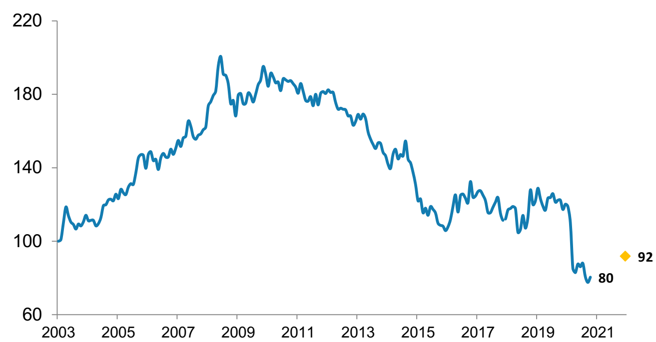
We see circa +25% USD return for the Brazilian Bovespa (6.0x bull/bear ratio) in 2021, +15% for the Chilean IPSA (1.4x), and +8% for the Colombian Colcap index (1.5x). Meanwhile, we are more cautious with a +7% USD return for Peruvian Select index (1.0x), +2% for the Mexican IPC (0.4x), and +2% for the MSCI Argentina index (0.9x).

Our colleague Jonathan Garner is somewhat sanguine on EM, but he expects China to continue to outperform the rest of the asset class in 2021. For instance, he has a 1,250-point 2021YE base case price target for the MSCI EM index (+5% USD return; 14.0x forward P/E multiple, +26% USD EPS growth in 2021 and +14% in 2022).

However, Garner is skeptical that some of the more aggressive expectations in the market for a new era of EM equities' outperformance of DM equities can come to pass. This view is linked to his prior work on the challenges EM faces to reinvent itself in a multi-polar world. In addition, he thinks investor optimism on EM was linked to a focus on a "Blue Sweep" scenario that now looks less likely, although the double US Senate runoff races in Georgia still have the potential to deliver a bare Senate majority to the Democrats.

Exhibit 25: Latin America Has Underperformed Emerging Markets in 2020...

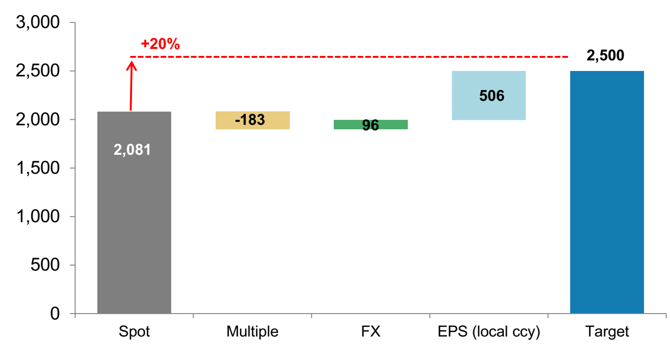
MSCI Latin America vs EM (rebased)



Source: Bloomberg and Morgan Stanley Research

Exhibit 26: ...However, We Expect Our Region to Post Solid Returns In 2021

MSCI Latin America (points)



Source: Bloomberg and Morgan Stanley Research

Our constructive view on Latin America for 2021 is predicated upon a continuation of our 3R investment thesis: 1) Reflation (Global), 2) Rotation (from Growth to Value) and 3) overnight Rates (Lower for Longer). Indeed, we agree that a US "Blue Sweep" scenario (less likely now) would likely super-charge the global economic cycle, and be the best possible scenario for our commodity producing countries — this is our bull case scenario, which we discuss in more details in the next section. However, in our base case, in which the Republicans retain control of the US Senate, we believe the deployment of a Covid-19 vaccine combined with the year-to-date amount of global fiscal and monetary stimuli (circa US$30 trillion) — and a potential additional small US fiscal package in early 2021 — should lead to an acceleration in global growth.

Indeed, we see 3 of the most important external drivers for EM economies and markets being positive next year:

1. An unprecedented acceleration in global growth from -3.5% in 2020 to +6.4% in 2021, with a solid +4.4% in 2022, underpinned by EM (from -2.0% to +7.4% to +4.7%);

2. A US Fed on hold throughout 2021 and 2022, and a moderate increase in the US 10-year Treasury yield to 1.45% by 2021YE (spot 0.90%); and

3. A 4% weaker USD (DXY) with a front-loaded decline in 1H 2021 helped by Covid-19 availability and accommodative US monetary conditions.

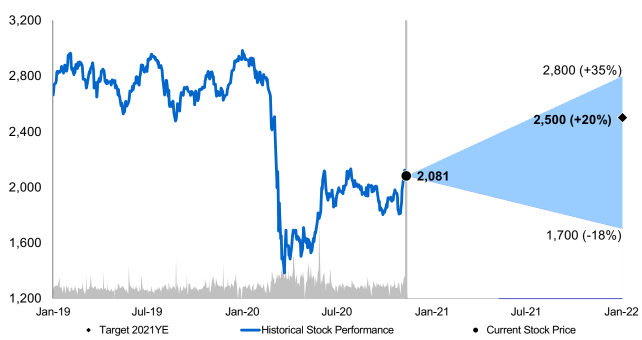
The two important wild cards for the global economic outlook next year are: a) the US Senate election in Georgia on January 5 and b) the successful deployment of a safe Covid-19 vaccine throughout the world.

Latin America: Base, Bear, and Bull Cases

We tie together now the views of our global and regional economics team with our outlook for equity markets in Latin America. In addition, we discuss with more details two of the three main drivers of equity returns (i.e., earnings growth and foreign exchange rates) and the views of our global team in the Global Fundamentals section.

Base Case: A split US government with a smaller and more reactive fiscal stimulus, stable fiscal accounts in Brazil with no structural reforms and maintenance of the macro status quo in Mexico

Exhibit 27: We Expect +20% Returns For Regional Equities In 2021



Source: Bloomberg and Morgan Stanley Research estimates

We forecast +20% USD return for Latin American equities in 2021 in our base case scenario (MSCI Latin America target 2,500 points). The regional forward P/E multiple should de-rate (from 14.8x now to 13.5x), while USD earnings growth should total c. +100% in 2021 and another +16% in 2022 (for a combined +130% over the period).

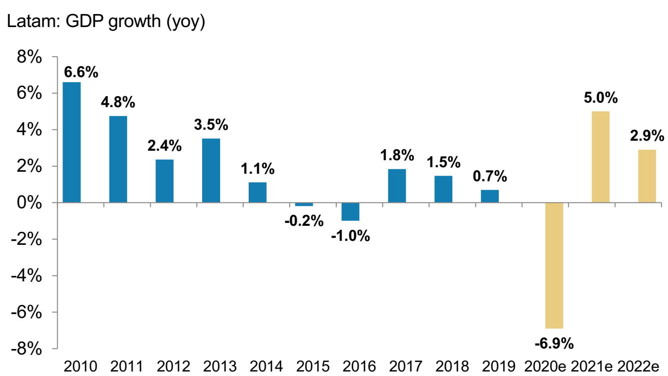
In the short term, rising Covid-19 cases in the US and Europe should weigh on global economic growth prospects over the next 2-3 months. However, a more pragmatic approach towards the pandemic in the US in early 2021 combined with the approval of a small reactive stimulus package by US Congress should provide a fiscal bridge during winter in the northern hemisphere. Consequently, US 10-year nominal rates should remain relatively contained, and the growth to value rotation in equities should sputter. However, as get closer to Q2, the effects of select lockdowns in developed countries during the winter, seasonally higher temperatures, and the start of mass vaccination should contribute to an improvement in global growth prospects, and strengthen the global reflation trade throughout the rest of the year. We would then increase our exposure to value stocks at the expense of their growth peers. Latin American equities — heavily indexed to commodities and banks — should benefit and perform well.

Our economics team expects the global economy to reach its pre-Covid path in 2Q21 (pre-Covid levels have already been reached). Moreover, the team now calls for synchronous global growth (both DMs and EMs growth accelerating), an event which has only happened in 12 out of the last 40 years, with gradually higher inflation supported by accommodative fiscal and monetary policies.

Meanwhile, in Latin America, our senior economist Fernando Sedano expects our region to benefit from this favorable external environment. Therefore, the ongoing economic recovery — which is somewhat heterogenous across the region — should have legs. He believes Latin America's real GDP should get to pre-Covid levels by 2Q22, with Chile and Brazil ahead of the pack (1Q and 3Q 2021, respectively). Meanwhile, Mexico and Colombia should lag (3Q22) and Argentina should round up the group (2Q24).

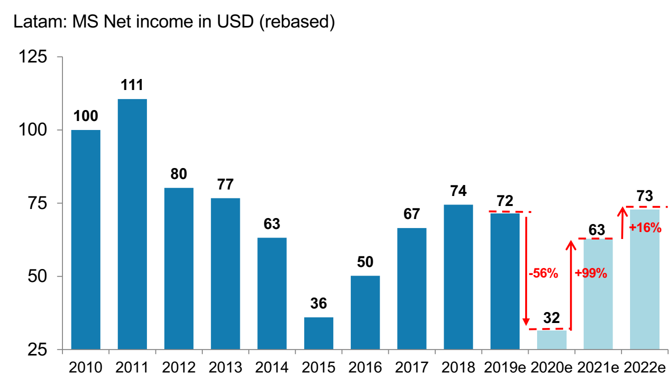
In addition, our regional economics team expects real GDP growth in Latin America to improve from a circa -7.0% contraction in 2020 to a +5.0% expansion in 2021, and a more moderate +2.9% pace in 2022. For instance, the Brazilian economy should finish 2020 at -4.0%, but bounce in 2021 to +4.3% and moderate in 2022 to +2.7%. Meanwhile, the Mexican economy should contract a material -9.0% in 2020, but rebound a solid +5.8% in 2021 and another +3.0% in 2022.

Exhibit 28: Real GDP Growth in Latin America Should Improve in 2021 & 2022...



Source: MS Latam Economics and Morgan Stanley Research estimates

Exhibit 29: ...And Support a Solid Rebound in Regional Corporate Profitability



Source: Company data and Morgan Stanley Research estimates

Regional equities should benefit from the benign global and local macro environment. Latin corporates earnings growth and profitability should improve supported by broad based operational leverage after a severe but temporary recession in early 2020 (for more details see here). We expect regional USD earnings growth to reach c. +100% in 2021 and another +16% in 2022 (for a combined +130% over the period).

We recognize that the debate around fiscal adjustment and structural reforms in the region is bound to generate asset price volatility, and they are key risk elements to monitor that could endanger our constructive outlook for the region. For instance, tax reform discussions in Brazil and Colombia and the Constitutional reform process in Chile should continue to create policy uncertainty. Meanwhile, in Mexico, the state centric approach of the current government to the development of the energy and electricity sectors should lead to either a gradual deterioration in the public sector fiscal accounts or decline in crude oil production in the country. Finally, general elections in Peru and Chile are key political events to monitor in the Andean markets.

Bear Case: A split US government with a smaller and more reactive fiscal stimulus, weaker fiscal accounts in Brazil with no structural reforms and more heterodox macro policies in Mexico

We forecast -18% USD return for Latin American equities in 2021 in our bear case scenario (MSCI Latin America target 1,700 points). The regional forward P/E multiple would deflate (from 14.8x to 10.9x), while USD earnings growth would total +75% in 2021 and +15% in 2022 (for a combined +100% over the period, or basically 30 p.p. lower than in our base case).

The bear case envisions a combination of a weaker global economic recovery and less favorable domestic macro conditions. From the global side, the world economy loses some steam as a result of new and stricter lockdown measures to control the resurgence of the Covid-19 virus in developed economies, while there is marginal additional expansionary fiscal and monetary policies.

Meanwhile, from the domestic side, weaker fiscal accounts in Brazil and Colombia, no progress in structural reforms and macro policy regime changes after elections in Peru and Chile weigh on the economic outlook. Moreover, in Mexico and Argentina, the implementation of more heterodox macro policies further negatively impact business and consumer confidence.

Bull Case: *An unified US government with a bigger and more proactive fiscal stimulus. Stronger fiscal accounts with reforms in Brazil, and a more balanced approach to the energy sector in Mexico*

We forecast +35% USD return for Latin American equities in 2021 in our bull case scenario (MSCI Latin America target 2,800 points). The regional consensus forward P/E multiple would de-rate marginally (from 14.8x to 14.3x), while USD earnings growth would total +112% in 2021 and another +19% in 2022 (for a combined +150% over the period, or basically 20 p.p. higher than in our base case).

The bull case is a combination of more favorable global and local macro conditions. From the global side, the world economy gains further momentum helped by a limited resurgence of the Covid-19 virus and a comprehensive fiscal stimulus package in the US. Moreover, rapid availability of a vaccine de-risks the growth outlook and boost investors' confidence about the ongoing economic recovery.

Meanwhile, in Latin America, the growth outlook improves supported by progress in the fiscal consolidation efforts in Brazil and Colombia. Moreover, the political uncertainty diminishes in Chile and Peru after their general elections, and we see evidence in Mexico of a more balanced approach between the private and public sector to develop the energy and electricity sectors.

Latin America Country Allocation

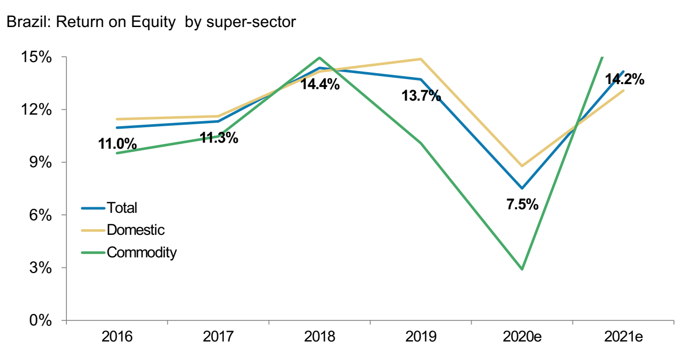
Brazil

We are overweight Brazilian equities in our Latin America Model Portfolio. We see circa +25% upside in USD (+15% in local currency) to our 120,000-point 2021YE base case target for the Bovespa index, with an attractive 5.9x bull/bear ratio. Our forecast for the local equity benchmark is predicated upon:

- A global synchronous recovery with both DM and EM economies accelerating at the same time (an event which as only happened in 12 out of the last 40 years) and a stronger than expected economic rebound in Brazil (i.e., retail sales at a new historical high and already 7.7% above pre-Covid levels in September) should continue to provide a positive tailwind for domestic equities.
- Local authorities have continued to gradually ease social distancing measures throughout the country, and a relatively low pace of growth of the infection over the past weeks (low single digits) coupled with the start of the summer season reduces the risk of new lockdowns.
- The prospects for some limited progress on fiscal consolidation which keeps investors' hopes alive, even though we have a less sanguine view about the topic.

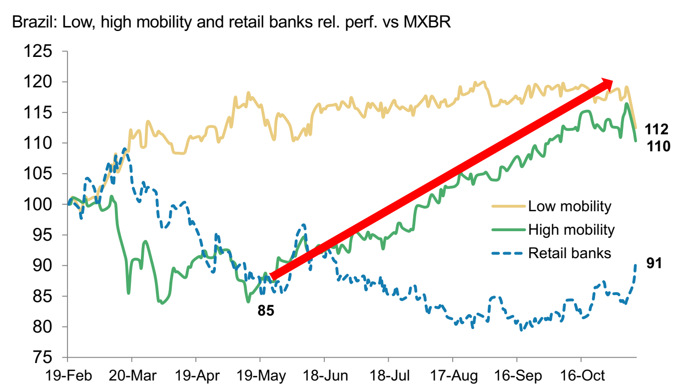
We assessed the fundamentals behind the forecasted improvement in Brazilian corporate profitability in 2021 by applying a DuPont analysis in a recent note. Our fundamental analysts expect Brazilian stocks to post a +14.2% ROE in 2021, or a material +670bp higher than the expected +7.5% mark for 2020, and 100bp above the +13.2% average for the 2017-19 period. The improvement comes as a result of: a) better profit margins as they improve from +5.0% in 2020 to +8.8% in 2021; and b) improvements in revenue generating efficiency from 0.25x (2017-19 period) to 0.28x in 2021.

Exhibit 30: Our Analysts Expect Brazilian Stocks to Post a +14.2% ROE in 2021 as They Benefit from Operating Leverage...



Source: Morgan Stanley Research

Exhibit 31: ...And High Mobility Stocks Should Continue to Benefit from the Ongoing Reopening of the Economy



Source: Morgan Stanley Research

Our 3 key investment themes in Brazil (and in Latin America) throughout 2020 have been 1) secular growth, 2) lower interest rates and 3) global reflation. We believe these 3 themes are still alive after the US election, and the recent announcement of a successful Covid-19 vaccine opens the door for 4) a global reopening trade.

1. *Secular growth during the Covid-19 pandemic. At the stock level, we recommend Magazine Luiza and Lojas Americanas;*

2. Financial Services to benefit from the local equitization of savings amid the lower for longer short-term interest rate environment. At the stock level, we favor Pactual and B3;

3. Commodity producers to play the global reflation theme. At the stock level, we like Vale, Gerdau, and Petrobras; and

4. High mobility Compounders or Rising Angels, which should benefit from the deployment of a successful Covid-19 vaccine. At the stock level, we favor Overweight rated Renner and Equal-weight rated CCR. We would also add Itau in the retail banks segment.

The main risks for our 1) secular growth and 2) financial services investment thesis is a unified US government (i.e., higher long-term US interest rates) on January 5. In addition, the relevant risk for our 3) global reflation and 4) global reopening themes is a stronger than expected second Covid-19 wave. However, successful Covid-19 vaccine announcements partially mitigate this risk.

Mexico

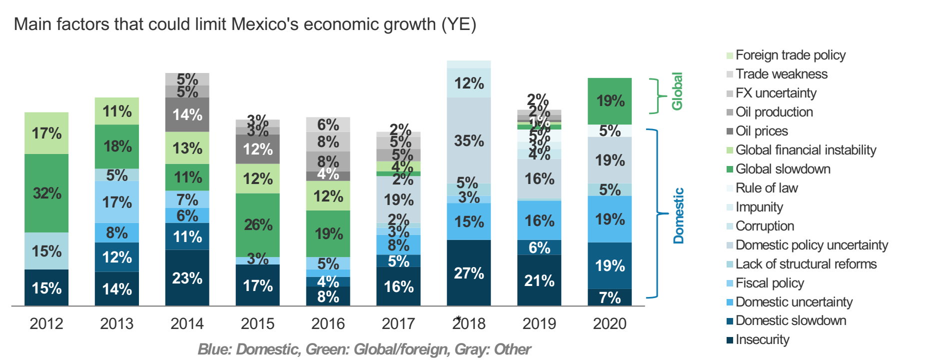
We have an Underweight recommendation for Mexican equities from a regional perspective. We only see +2% upside in USD (+5% in local currency) to our 43,000-point 2021YE base case target for the Mexbol index. Our forecast for the local equity benchmark (and for our bull and bear cases) is predicated upon:

- The current state centric approach to the development of the energy and infrastructure sectors, which creates uncertainty for private sector companies and investment. The 2021 midterm election should determine the composition of Congress for the next 3 years, and it will be important for the integrity of institutional checks and balances during the period.

- The Mexican "Trilemma" and its impact on the overall growth and investment narrative. Further progress in the current state centric approach under a unified government scenario should increase the difficult set of trade-offs faced by the current administration. We believe the Mexican government is unable to balance 3 clashing objectives — to keep a prudent fiscal stance, to boost social and infrastructure spending, and invest to grow energy production — without the help from the private sector.

We continue to prefer names geared to the recovery trade and the economic reopening. We are overweight (vs. the Bolsa index) in Industrials, Real Estate, Metals & Steel, and Infrastructure, and underweight Financials, Food and Beverage, Airports, and Telecom.

Exhibit 32: Domestic Policy Continuity Concerns Have Moved Up In The List Of Investors' Concerns



Note: 2020 data as of October 2020. Source: Banxico (Encuesta sobre las Expectativas- Octubre 2020), Morgan Stanley Research

Chile

We have an Overweight recommendation for Chile in our Latin America Model Portfolio. We see +15% upside in USD (+20% in local currency) to our 4,800-point 2021YE base case target for the IPSA index, with a positive 1.4x bull/bear ratio. We remain constructive on the equity market because :

- *Strong sovereign balance sheet*. The Chilean government has announced a coordinated domestic fiscal and monetary stimulus package (circa 12% and 18% of GDP, respectively — the biggest in the region) to counteract the negative economic impact of the Covid-19 pandemic, and it has a solid execution track record (i.e., 90%+ fiscal budget execution over the past 5 years). Consequently, the sovereign net debt to GDP ratio should increase to a still relatively low 15.3% by 2020YE.

- *Expectations of policy continuity*. The ongoing rebound in domestic economic activity should further help to improve President Pinera's approval rating and, more important, support moderate presidential candidates in the November 2021 election.

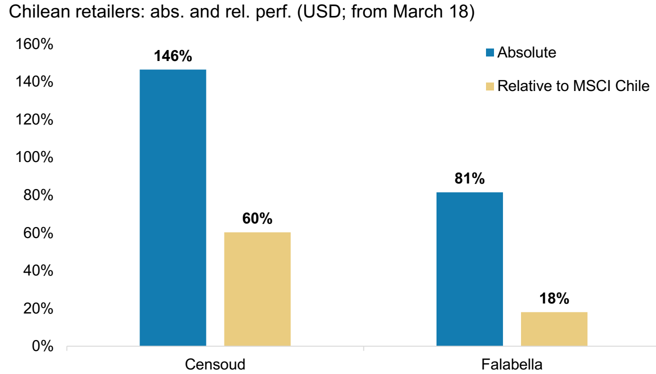
- *Global reflation*. We like to have exposure to global growth because the circa US$30 trillion in fiscal and monetary stimulus by the G4 countries (US, UK, EU, and Japan) plus China should support a global reflation trade. Copper accounts for circa 50% of Chile's exports and 11% of its gross domestic product.

- *Attractive valuations*. Chilean equities are attractively valued at 17.2x 12-month forward consensus earnings, or basically in line with their 17.5x 10-year historical average.

Going forward, on the domestic front, we expect a government policy–driven boost to consumption (through higher pension and wages), which should provide a tailwind for domestic-oriented stocks. For instance, local retailers Cencosud and Falabella have outperformed the MSCI Chile index by circa 60% and 20%, respectively, from the March 18 low. We acknowledge the increase spending should lead to a sizeable deterioration in the sovereign fiscal accounts and indebtedness level. However, for now, the Chilean government has a comfortable starting point to heed popular demand for increased spending.

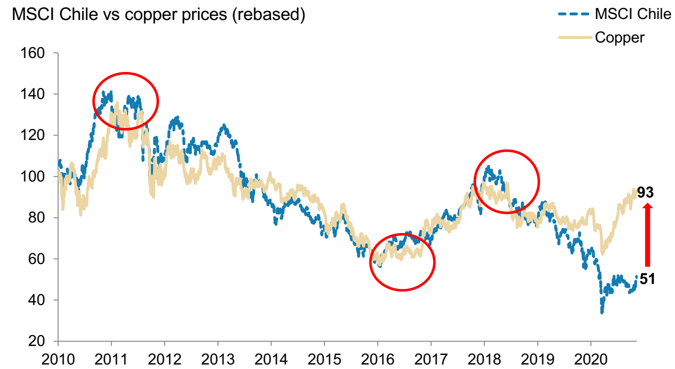
On the commodity front, Chilean equities should benefit from higher copper prices. The ongoing economic rebound in China appears to be in a stronger footing, and it has helped drive copper prices back to pre-pandemic levels sooner than our commodity team had anticipated. Our commodity strategists believe many markets are now in a period of consolidation, as China digests some excess inventory, while uncertainty around another fiscal stimulus round and potential fresh Covid-19 restrictions hangs over markets. However, by 2021, our colleagues see a new period of price gains emerging across commodity markets as the global economy returns to strong growth and inflation makes a comeback, bringing a price premium to industrial metals over and above those implied by market supply-demand fundamentals.

Exhibit 33: Chilean Retailers Have Performed Well, as Cencosud and Falabella Have Beaten MSCI Chile by c. +60% and +20% from March 18...



Source:Bloomberg and Morgan Stanley Research

Exhibit 34: ...Meanwhile, on the Commodities Front, Higher Copper Prices Should Provide a Tailwind for the Chilean Economy and Local Asset Prices



Source: Bloomberg and Morgan Stanley Research

An important domestic risk (to both the upside and the downside) for Chilean equities is local politics. For instance, Chile should run through a gauntlet of important political events (from Constitutional reform to Presidential elections) over the next 12 months. We have a constructive view as we believe the odds of macro policy continuity are high (i.e., bigger than 60%) — for more details see our recent notes here and here.

Our favorite stock in Chile is Soquimich. However, we also like Falabella and Santander Chile among domestics. The main risks for our constructive view are social unrest and/or politics (i.e., constitutional reform and presidential election)

Soquimich (18.9x MSe 2021 EV/Ebitda; US$32m ADTV). Our lithium analyst Javier Martinez has an Equal-weight rating on the name as he believes the company's role in the secular electric vehicle shift and low leverage makes it a resilient story despite challenges related to Covid-19, Brent prices and Chilean politics. Moreover, he sees the company as the best lithium player globally, with low cost, capex integrated operations, and superior growth-margins. However, Javier is cautious as he believes that, despite higher EV demand forecasts, the lithium market remains well supplied with limited price improvement (even when considering incentivizing new capacity). For more details see here.

Falabella (9.5x MSe 2021 EV/Ebitda; US$12m ADTV). Our retail and e-commerce analyst Andrew Ruben has an Equal-weight rating on the name as the company ranked in the top 5 of his omni-channel scorecard, supported by scale. However, further back-end integration is needed to cement omni-channel leadership, in their view. For more details see here.

Santander Chile (1.6x MSe 2021 book value; US$21m ADTV). Our financials analyst Jorge Kuri has an Equal-weight rating on the name as he thinks client growth, higher inflation, low rates, high coverage ratio, and cost control initiatives should help offset the likely increase in Covid-19 related provisions. The bank's digital & inclusion initiatives provide attractive upside in the mid-term. For more details see here.

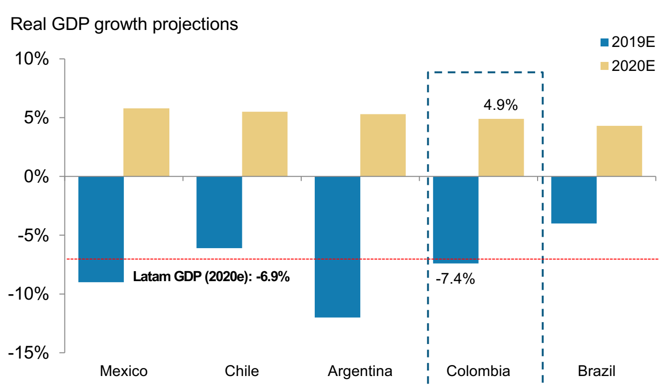
Colombia

We have an overweight recommendation for Colombia in our Latin America Model Portfolio. We see +8% upside in USD (+7% in local currency) to our 1,300-point 2021YE base case target for the Colcap index, with a 1.1x bull/bear ratio. Our forecast for the local equity benchmark is predicated upon:

- The leverage of local equities to the ongoing global rotation from growth to value stocks. Higher energy prices, as a result of a global reflation trade, should continue to limit further public sector fiscal deterioration.
- The ability of the Colombian government to continue its fiscal adjustment effort in 2021, specially on tax reform, a necessary key step to maintain its investment grade status.
- The early stage of a new domestic economic cycle, supported by historically low interest rates, rising energy prices and low capacity utilization.

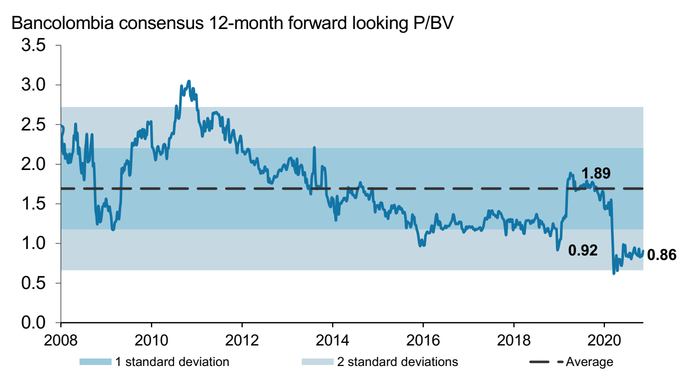
Our favorite stock in the financial sector is Bancolombia. Our fundamental analyst Jorge Kuri has an Overweight rating on the stock, and he believes CIB's strong balance sheet seems well positioned to stand a pick-up in delinquency. Operational turnaround in Central America and focus on revenue generating and cost discipline in Colombia could improve profitability on a multi-year basis. We remain bullish on long term potential and valuations. CIB currently trades at 0.86x P/BV, or far below its 1.91x 12-year historical average. For more details see here.

Exhibit 35: Colombia' s Real GDP Growth Should Reach Close to +5% In 2021



Source: Bloomberg, Morgan Stanley Research

Exhibit 36: CIB's 0.86x Forward P/BV Is 1.5 S.D. Below Its 12-Year Historical Mean



Bloomberg, Morgan Stanley Research

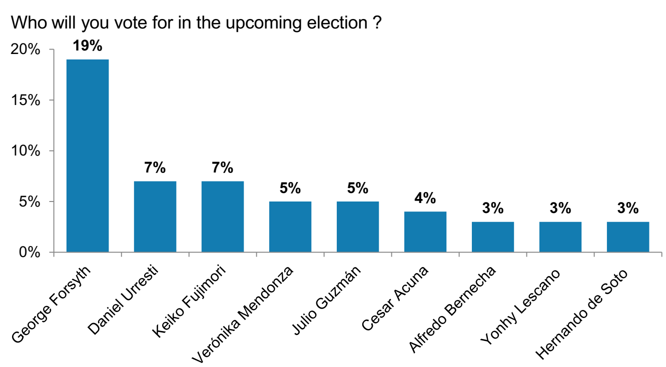
Peru

We have an underweight recommendation for Peru in our Latin America Model Portfolio. We see +7% upside in USD (+1% in local currency) to our 320-point 2021YE base case target for the Peru Select index, with a 1.0x bull/bear ratio. Our forecast for the local equity benchmark is based upon:

- The government's historically subpar fiscal budget execution which should limit the potential impact of the announced fiscal stimulus package (circa 13% of GDP) in 2020-21.
- The country's high informality rate and limited real wage mass growth which should continue to be a drag for corporate earnings.
- The ongoing economic recession which should overlap with rising political uncertainty ahead of the April 2021 Presidential election, specially after the recent impeachment of former President Vizcarra.

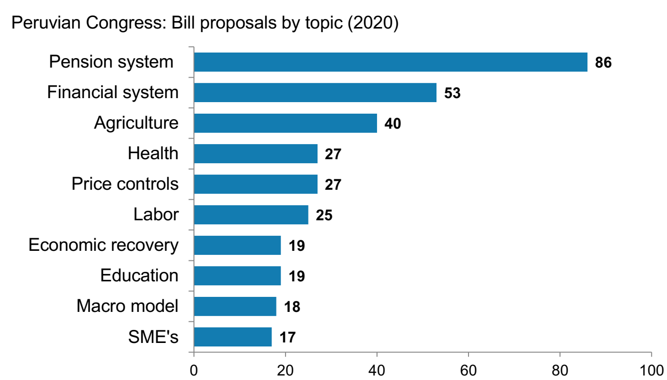
One of the pillars of our cautious view on the Peruvian equity market is the possibility of macro policy regime change after the April 2021 general election. Our view is supported by an apparent swing in vote intentions and policy preferences, which are evident in the recent a) low poll readings for the center-right Fujimori Party and b) several congressional initiatives to influence private sector behavior. However, we should highlight we still see fragmented voter support for more unorthodox alternatives.

Exhibit 37: Center Right Candidates Have Struggled in Recent Poll Readings...



Source: Morgan Stanley Research

Exhibit 38: ...While Congress Has Tried to Influence Private Sector Behavior



Source: APOYO and Morgan Stanley Research

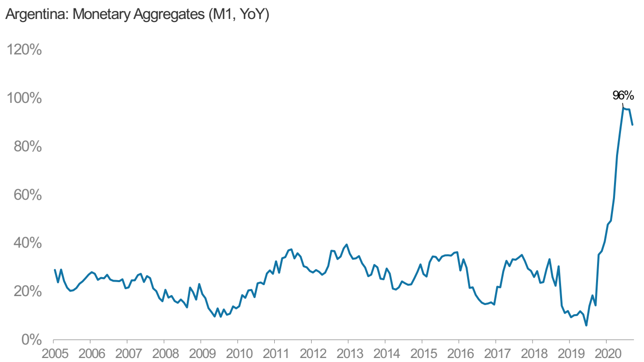
Argentina

Last, but definitely not the least, we have an underweight on Argentina. We see +2% upside in USD to our 1,600-point 2021YE base case target for the MSCI Argentina index, with a balanced 0.9x bull/bear ratio. Our cautious view for the equity benchmark is predicated upon:

- Policy uncertainty both at 1) the macro front (e.g., capital controls amid high growth in monetary base) and 2) the industry level (e.g., price freezes for the telecommunications industry amid high inflation);
- These distortions should delay a recovery in investment, overall GDP growth and corporate profitability.

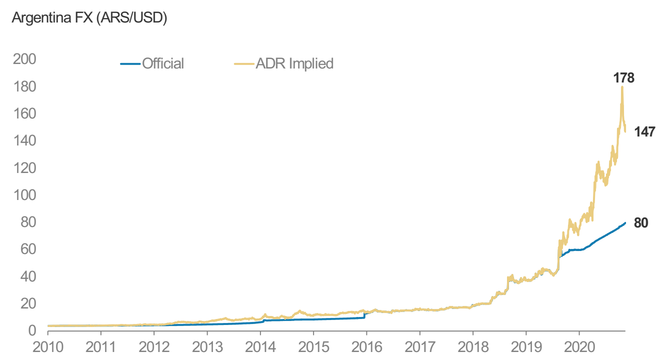
Our favorite stock is Globant (GLOB US). For more details on our positive view on the name please see: "Stronger for Longer on Digital Transformation."

Exhibit 39: Policy distortions at the macro level and industry front...



Source: HAVER and Morgan Stanley Research

Exhibit 40: ...could delay a recovery in investment, overall GDP growth and corporate profitability



Source: Bloomberg and Morgan Stanley Research

Earnings Growth and Currency Outlook

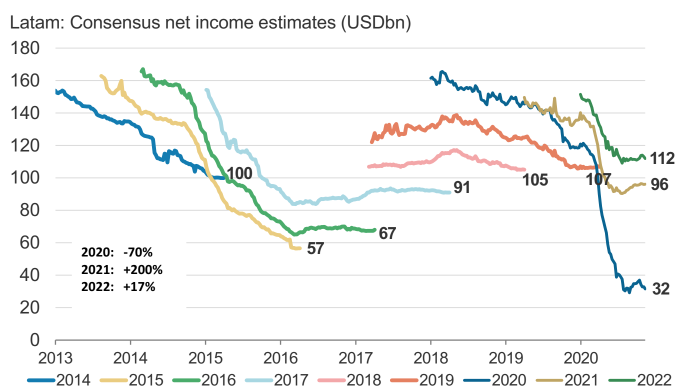
We have two key objectives in this section:

1. To discuss current 2021 and 2022 consensus USD earnings growth expectations, and analyze what is the historical pattern of earnings revisions; and
2. To provide a brief commentary about our regional foreign exchange rate estimates.

1.a) 2021 & 2022 consensus earnings growth analysis

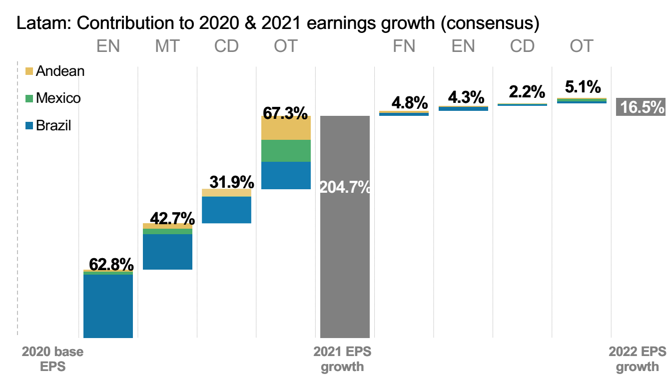
Regional earnings are on track to shrink a material -70% in USD in 2020 — the first decline recorded over the past 5 years. However, consensus forecasts a strong +205% rebound in corporate earnings in 2021, and an additional +17% in 2022. We discuss briefly below the anatomy of consensus earnings growth forecasts for Brazil and Mexico over the next 2 years.

Exhibit 41: Consensus Expects Positive Earnings...



Source: Bloomberg and Morgan Stanley Research

Exhibit 42: ...Growth in Both 2021 and 2022

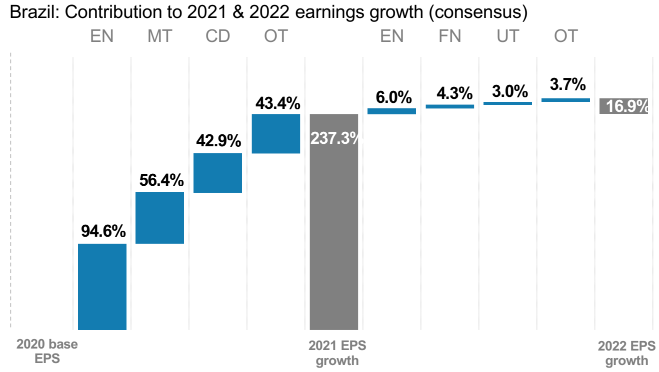


Source: Bloomberg and Morgan Stanley Research

Brazil – Energy, Materials and Consumer Discretionary explain the earnings growth profile:

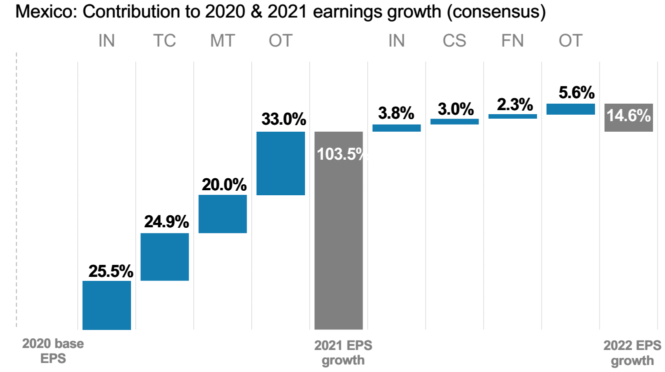
- Consensus expects a material +237% USD earnings growth for Brazilian companies in 2021. The lion's share can be explained by earnings growth in Energy (+95 p.p.), Materials (+56 p.p.) and Consumer Discretionary (+43 p.p.). At the stock level, the main drivers behind the annual profit increase are Petrobras (+106 p.p.) and Azul (+35 p.p.);
- Consensus expects another +17% USD earnings growth for Brazilian corporates in 2022. The Energy sector contributes with +6 p.p. for total growth, followed by Financials (+4 p.p.) and Utilities (+3 p.p.). At the stock level, Petrobras leads again (+5 p.p. of contribution), followed distantly by Itau Unibanco (+2 p.p.). Meanwhile, the biggest negative contributor to earnings growth in 2022 is Vale (-3 p.p.).

Exhibit 43: In Brazil, Energy, Materials & Consumer D. Explain the Growth Profile...



Source: Bloomberg and Morgan Stanley Research estimates

Exhibit 44: ...While in Mexico, Industrials, Telecom and Materials Lead the Pack



Source: Bloomberg and Morgan Stanley Research estimates

Mexico – It's about Industrials, Telecom and Materials:

- Consensus forecasts +104% USD earnings growth for Mexican companies in 2021. Industrials and Telecom explain earnings growth for the most part (both +25 p.p.), followed by Materials (+20 p.p.). At the corporate level, America Movil is the biggest contributor (+25 p.p.), followed distantly by with Grupo Mexico (+8 p.p.);
- Consensus also estimates another +15% USD earnings growth in 2022. The main pillars behind the increase are Industrials (+4 p.p.), Consumer Staples (+3 p.p.) and Financials (+2 p.p.). At the stock level, the main drivers behind the annual profit increase are again America Movil (+2 p.p.), followed by Femsa, Aeromexico and Banorte (each +1 p.p.).

1.b) Historical consensus earnings growth analysis

How does the current +200% consensus earnings growth expectations for Latin American stocks in 2021 stack up versus history? Are they too optimistic or are they too pessimistic?

We have been writing regional outlook reports for several years now, and we used to argue initial consensus growth expectations usually followed the 3/20 rule in any given year, independently of recent and current macro trends; +3% for real GDP growth and +20% for USD earnings growth. Obviously, 2021 should be a very different year, but we can already see the above in the mid to h igh teens earning growth estimates for 2022.

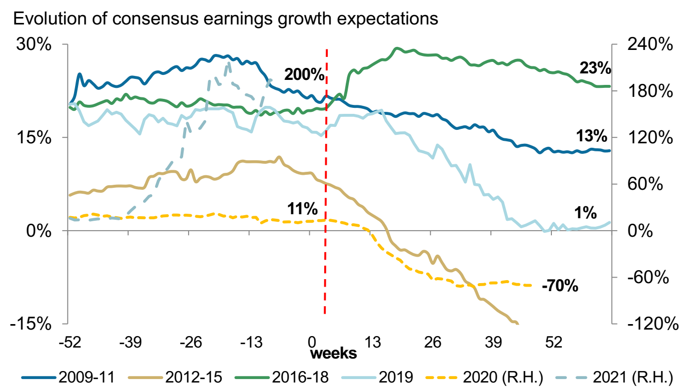
We have actually built a database of historical consensus earnings forecasts over the past 12 years (2009-2020). We understand 12 years may be a relatively short period of time, but the region has gone through several different global and local macro shocks over the period. For instance, at the global level, we went through the 2009 to 2011 reflation period, the 2012 to 2016 global liquidity trap stint and, more recently, the 2020 Covid-19 global recession. Meanwhile, at the local level, we have seen the implementation of several market friendly (Mexico 2012, Argentina and Brazil 2016) and market unfriendly (Brazil and Chile 2014-15) reforms throughout the region.

Historically, the next Exhibit shows annual consensus earnings growth expectations usually start at the +15% yoy level 52 weeks before January of any calendar year (week -52). These estimates then on average trend up to an +19% yoy peak level at week -15, and then go on a steady fall towards +16% yoy at week 0, +5% yoy at week +29 and, finally, -4% at week +64. The average -4% yoy historical growth rate at the end of a calendar year is heavily influenced by the tumultuous 2012 to 2015 period (negative terms of trade and Brazilian economic recession) and more recently by the massive contraction in 2020 on the back of the Covid-19 pandemic.

Exhibit 45: Historically, Consensus Earnings Revisions Tend to Move Lower...

Source: Bloomberg and Morgan Stanley Research

Exhibit 46: ...During the Calendar Year Because of the 2012-2015 & 2020 Bias

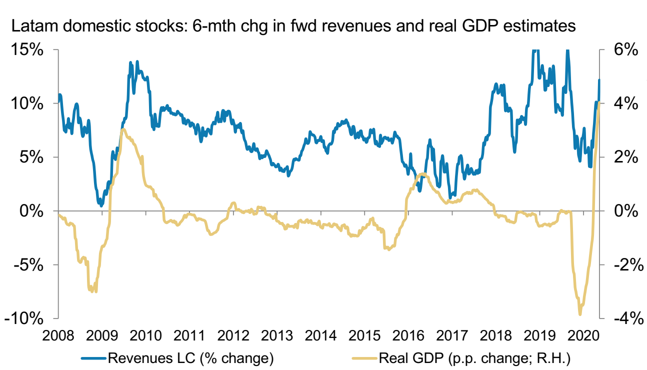


Source: Bloomberg and Morgan Stanley Research

We depict in the Exhibit above the evolution of annual consensus earnings growth expectations for the 2009 to 2011, 2012 to 2015, 2016 to 2018, 2019 and 2020 periods. All the annual series start in positive territory, from roughly +6% to +24% yoy at week -52. However, opposite to what happened during the 2012-15 period from weak 0 onwards, the 2009-11, 2016-18 average estimates turned out to be more resilient, and they finished at +13% and +23% yoy, respectively, at week +62.

We highlight the massive decline in earnings expectations for 2020 because of the deep economic recession triggered by the Covid-19 pandemic. For instance, regional earnings should fall by -70% this year, or the steepest decline in our series.

Exhibit 47: Growth Forecasts for Both Real GDP and Domestic-Oriented Stocks Have Moved Materially Up Recently...

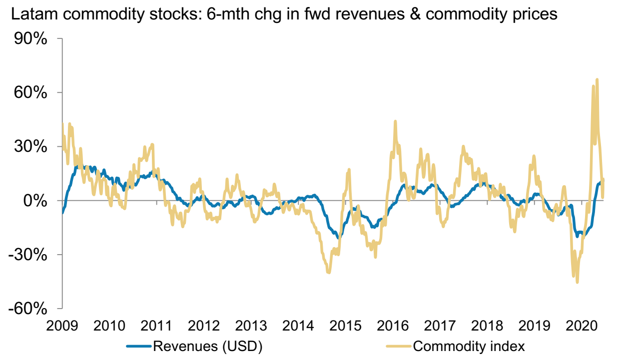


Source: Bloomberg and Morgan Stanley Research

However, we should note the 2021 earnings estimate series has a completely unique path, as consensus expects a +200% earnings rebound in 2021. The historically high earnings growth expectations for 2021 come on the back of market expectations of a sharp economic recovery after a profound, yet transitory, economic shock in 2020.

Historically, consensus revenue rather than earnings forecasts for Latin companies have exhibited a stronger relationship with regional real GDP growth expectations. Therefore, not surprisingly, we have seen both variables rebound recently. For instance, the consensus forward real GDP growth estimate has increased from -1.6% to 2.5% over the past 6 months, while consensus revenue forecast for domestic oriented companies has jumped from +7% to +12% in local currency over the period. Looking forward , we expect an acceleration in regional economic growth to support top line expansion of Latin American companies.

Exhibit 48: ...And Commodity Prices Have Experienced a Sizeable Upward Move in 2H20 After a Sharp Decline in 1H20



Source: Bloomberg and Morgan Stanley Research

Meanwhile, we find the recent rebound in commodity prices to be a tailwind for the top line of commodity producing companies in Latin America. For instance, we estimate the price of a basket of the main commodities produced by regional companies (crude oil, metals and pulp) to have increased by roughly +12% in USD over the past 6 months.

Consequently, revenue growth estimates for this group of firms have move up by +11% during the same period. Looking forward, the commodity group should continue to benefit from a global reflation trade.

2. Forex outlook (by Andres Jaime & Ioana Zamfir)

In Latam Fixed Income markets, we expect high-beta currencies to lead the rally in 2021. As we have previously laid out (see here and here), Latam forex, which includes the BRL, MXN, and COP, should benefit the most from potential positive vaccine developments over the next few weeks as their economies continue to be severely impacted by the virus relative to other regions. In addition, we expect economic policy uncertainty to decrease to more 'normal' levels, which should help the EM investment narrative and potentially coincide with better prospects for rest of the world growth. We expect CLP and PEN to perform well versus G3 currencies but to lag on the back of lower carry.

Exhibit 49: Latin America Foreign Exchange Rate Forecasts 2021-22

	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22
USD/BRL	5.30	5.25	5.10	5.30	5.30	5.17	5.04	4.90	4.77
USD/MXN	20.25	20.00	19.75	20.00	20.00	20.00	20.00	20.00	20.00
USD/ARS	83.00	97.00	103.00	110.00	130.00	135.00	140.00	145.00	150.00
USD/CLP	745	735	725	750	770	766	762	758	754
USD/COP	3660	3550	3600	3550	3600	3518	3436	3353	3271
USD/PEN	3.57	3.53	3.49	3.50	3.50	3.48	3.47	3.45	3.44

Source: Morgan Stanley Research

Global Fundamentals

2021 Outlook - Keep Faith In The Recovery

by Andrew Sheets

The following is an excerpt from our global team's 2021 Global Strategy Outlook, published on November 15, 2020. *Due to the nature of the fixed income market, the issuers or bonds of the issuers recommended or discussed in this report may not be continuously followed. Accordingly, investors must regard this report as providing stand-alone analysis and should not expect continuing analysis or additional reports relating to such issuers or bonds of the issuers. Andrew Sheets is a fixed income strategist and is not opining on equity securities.*

2020 was defined by abnormality. A global pandemic. A 31%Q drop in 2Q20 US real GDP. US$7.3 trillion of G4 central bank balance sheet expansion year-to-date. Oil prices trading at -US$37. Some of the fastest declines, and rallies, for markets on record.

We think 2021 will be defined by a return to more normal conditions. This feels odd to write, as the global pandemic rages and many lives remain disrupted. But we think that it will be true. The year ahead should see economic growth recover, control of the virus improve and uncertainty decline. Challenges remain, 'new normals' will materialize at the 'micro' level and we doubt that the recovery will be a smooth, one-way street. But we think that things will be better. Trust the recovery, keep the faith.

Similarities to 2010

2010 followed a terrible recession and an aggressive policy response. It dawned with a still-weak economy, the Fed at the zero lower bound and a significant outperformance of 'liquid' indices such as CDX IG and the S&P 500 relative to equity volatility or securitized credit. It saw a major growth scare and a 15%+ correction in global equities. But 2010 was ultimately a solid, above-average year for returns.

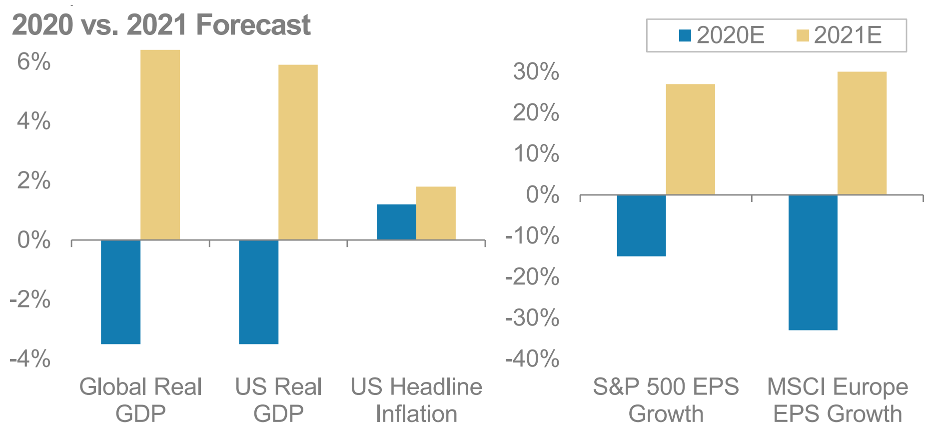
Exhibit 50: Markets Today Versus 2010 – Risk Premiums And Implied Vol Elevated Then And Now

	Today	Jan '10	Jan '11	'10 Change
Global Equity ERP	5.8%	5.8%	3.6%	**-2.2%**
CDX IG (bp)	53	85	83	**-2**
CLO AAA (bp)	134	225	205	**-20**
Equity Vol (VIX, bp)	25	22	18	**-4**
Rate Vol (MOVE, bp)	40	108	106	**-2**
US 10Y Yield	0.8%	3.8%	3.3%	**-0.5%**
US 2s10s (bp)	67	270	274	**4**
US Unemployment	6.9%	9.9%	9.3%	**-0.6%**

Source: Bloomberg, Morgan Stanley Research; *Global Equity ERP is a market cap-weighted average of our US, Europe, Japan and EM long-term expected risk premium forecasts. CLO AAA is a new issue series.

The lesson from 2010, which we think also applies to 2021, is that the cycle usually wins out. We are strong believers that markets care more about 'rate of change' than level and, following a recession, these cyclical tailwinds are powerful. We forecast 6.4%Y global real GDP growth next year, 25-30% earnings growth across major markets and significant declines in corporate leverage. Yes, this is partly because these are coming off 'weak' levels, but we think that the effect will be powerful all the same.

Exhibit 51: It Gets Better: Forecast Change In Global GDP, US GDP, Earnings And US Leverage



Source: Morgan Stanley Research forecasts; Note: We show real GDP and headline inflation here.

Our cycle model paints a similar picture. Data that are below-average but improving tend to support equities and credit doing somewhat better than their valuations would imply. Our economists' call for higher inflation gives a similar answer; inflation that is below trend, but rising, tends to support a compression of risk premium.

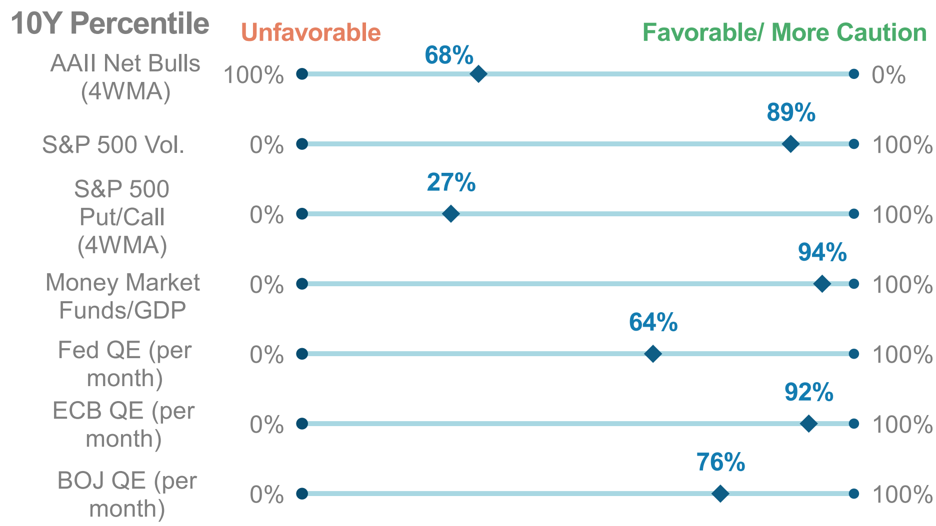
Exhibit 52: Equities And Credit Do The Best When Data Are Below-Average And Improving ('Repair' Phase)

	Median Fwd 12M Rtns vs LT Avg			
	Downturn	Repair*	Recovery	Expansion
EQUITIES				
S&P 500	-2%	3%	3%	2%
MSCI Europe Local	-9%	3%	5%	5%
TOPIX	-7%	3%	7%	0%
MSCI EM	-7%	9%	-9%	1%
GOV'T BONDS				
UST 2Y	2%	-2%	-4%	0%
UST 10Y	0%	0%	-2%	-2%
Bunds 10Y	-1%	1%	1%	-2%
UST vs Bunds 10y	2%	-1%	-4%	0%
CREDIT				
US IG XS	-2%	3%	1%	0%
US HY XS	-8%	10%	4%	-1%
FX				
DXY	0%	-3%	3%	1%
EURUSD	-4%	2%	-4%	-2%
GBPUSD	2%	-5%	-4%	0%
JPYUSD	2%	8%	-4%	-4%

Source: Bloomberg, Morgan Stanley Research; Note: Based on our US cycle indicator. Data from 1985 where available. *Repair phase returns are based on forward returns in 'repair' phase, ***post-trough***.

Post-recession, early-cycle environments also frequently benefit from favorable 'technicals'. And again, we think that this applies today. Uncertainty over public health and the political environment has helped to keep money 'on the sidelines'. Ongoing QE by global central banks continues to restrict net supply. The recent jump in sentiment *is* a little concerning, but ultimately we think that the other 'techncials' win out.

Exhibit 53: Technicals Remain Largely Favorable



Source: Bloomberg, Haver Analytics, Morgan Stanley Research

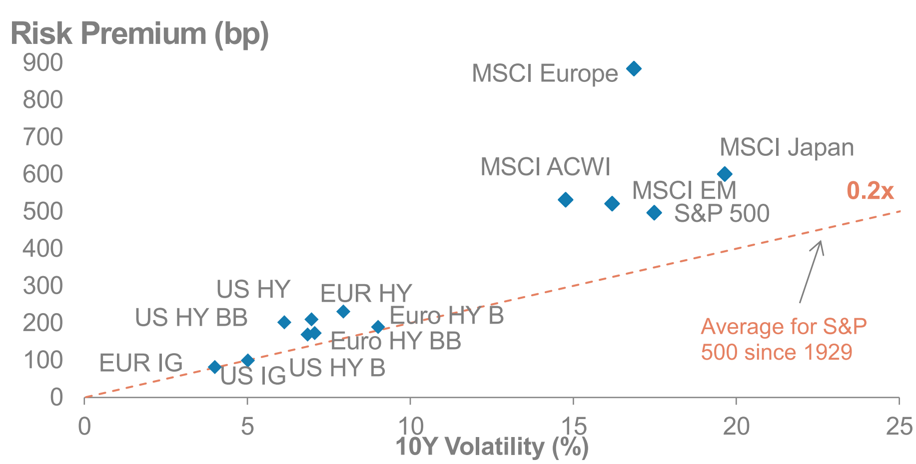
In short, **we think that 2021 will see above-average risk-adjusted returns in equities and credit,** and support a modestly above-average weighting (i.e., a modest overweight) to both. We think that it will generally favor reflationary, early-cycle strategies, and both our allocations and our top trade ideas attempt to reflect this.

We think that the *risks* for the year ahead are also similar to 2010: whether or not the recovery is sustainable, and whether markets are already priced for a better tomorrow. Let's address those next.

Debate #1: What about valuations?

Like 2010, we enter 2021 after a large post-recession rally. While this has compressed valuations, we think that these remain reasonable. Exhibit 54 compares estimated risk premium relative to historical volatility for a number of risk assets. Most are still at or above the realized risk premium of the S&P 500 since 1929.

Exhibit 54: Risk-Adjusted Valuations Are Reasonable



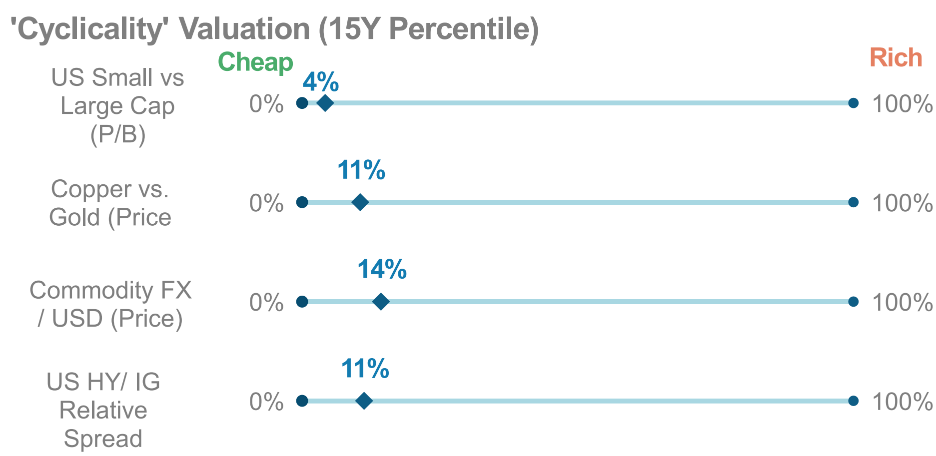
Source: Bloomberg, Morgan Stanley Research; Note: For equities we show our long-term expected risk premium forecasts, and for credit we show loss-adjusted spread. 10Y vol is realized vol of monthly returns. The dotted line shows the annualized return for S&P 500 versus UST 10Y since 1929 relative to realized vol of monthly returns over the same period.

Also like 2010, valuations are *uneven*. Stocks in Europe and Japan have trodden water for five years, while US small-caps and EM equities have trodden water for three. EMFX, NOK, CLOs, CMBS and equity volatility are just a few examples of assets where valuation looks cheap.

These distinctions matter. In 2010, liquid CDS indices ended the year unchanged while less-liquid credit tightened. US small-caps almost doubled the return of the S&P 500. Starting valuation is key.

Interest rates, in contrast, are in a very different place compared to the last cycle. While today's fed funds rate is the same as January 1, 2010, today's US 10-year yield is almost 300bp lower. US 6m10yr swaption volatility is ~80bp lower. That's night and day. While buying government bonds and selling rate volatility were fantastic post-recession trades in the last cycle, we think that this cycle will be different (in part) because the starting valuation is very different.

Exhibit 55: Owning 'Cyclicality' Is Cheap Now



Source: Bloomberg, Morgan Stanley Research; Note: Commodity FX here is the average 15-year percentile of AUD, CAD and NOK versus USD.

Debate #2: The virus and a 'K-shaped' recovery

A second concern with echoes of 2010 is whether the recovery is sustainable. Following the GFC, worries centered on high levels of consumer and corporate debt, weakness in the labor market and whether the financial crisis had shifted behavior permanently. Today, worries center on a highly unequal recovery, high levels of government debt, weakness in the labor market and whether the pandemic has shifted behavior permanently.

Similar to 2010, we think that our economic forecasts see these challenges as serious, but surmountable. Fiscal and monetary stimulus have been larger than what followed the GFC, and so far the recovery has been faster. A successful vaccine will be important, but Morgan Stanley's biotechnology team is optimistic, especially with recent announcements. Rising COVID-19 cases suggest some slowing in 4Q20 and 1Q21, and could drive tactical weakness. But through the end of next year, our key economic call is that the global recovery will be sustainable. Use near-term weakness to raise strategic exposures.

Allocations and key trades

Our strategic allocations are based on the combination of cycle-adjusted risk premiums and Morgan Stanley strategists' 12-month forecasts. Both suggest above-average risk-adjusted returns for equities and credit over the next 12 months. Conversely, we see yields rising and underperforming the forwards, and expect US duration to underperform first. We recommend that investors hold modest overweights in global equities and credit, and modest underweights in cash and government bonds (Exhibit 56). In currencies, we see modest USD weakness. We think that commodity prices rise, but our forecasts see this strength as back-loaded, and with high dispersion given an uneven supply/demand dynamic. For now, we prefer to allocate exposure towards equities and credit.

Exhibit 56: Our Framework Likes Equities And Credit

		Top-Down Risk Premium	Cycle Boost/Drag	(A) Top-Down Expected Returns: Cycle-Adj Returns	(B) Bottom-Up 12M Outlook**: MS Base Case Rtn Forecast	(C) Avg (A, B - Cash): Forecast Excess Rtn	(D) (C)/ Vol: Framework Expected Rtn/ Vol	MS Asset Allocation vs Benchmark
Equities	US	▲	●	8.2%	12.0%	10.1%	0.5	+1%
	Europe	●	◆	11.9%	13.3%	13.0%	0.7	+2%
	Japan	▲	▲	9.1%	10.5%	9.9%	0.5	+1%
	EM	●	●	14.0%	7.9%	10.9%	0.6	+0%
Bonds	Treasuries	◆	▲	1.2%	-2.7%	-0.9%	-0.2	-3%
	Bunds	◆	▲	0.7%	-3.1%	-0.5%	-0.1	-1%
	JGBs	◆	◆	0.0%	0.5%	0.4%	0.2	+0%
	EM Local*	-	-	-	-0.6%	-0.7%	-0.1	+0%
Credit	US IG	▲	●	3.9%	2.5%	3.2%	0.7	+1%
	US HY	▲	●	9.1%	5.9%	7.5%	1.1	
	EUR IG	▲	●	2.5%	1.2%	1.9%	0.9	+2%
	EUR HY	▲	●	9.7%	4.8%	7.3%	1.2	
	EM $	▲	●	6.8%	4.8%	5.8%	0.8	+0%
	Securitised^	-	-	-	1.1%	1.1%	0.7	+1%
	Commodities	-	-	-	0.6%	0.5%	0.0	+0%

Legend: ● (LT Rtns): LT Z-score > 0.5 (Cyc): Phase with best returns for the asset ◆ LT Rtns): LT Z-score < -0.5 (Cyc): Phase with worst returns for the asset

Source: Morgan Stanley Research forecasts; Note: *EM Local is FX-hedged. ^Securitized is an average of Agency MBS, CLO AAA and CMBS AAA. 'Cycle-Adj Returns' shows cycle-adjusted long-term expected returns when US cycle is in post-trough 'repair' phase. All returns for credit are excess returns. 12m cash rate is for the respective region. 12m bottom-up numbers are annualized returns of December 2021 target levels.

Equities: Improving earnings growth should offset modest de-rating across markets, a usual 'handoff' for equities following a recession. We prefer DM over EM and our sector and style preferences remain skewed to 'early-cycle', cyclical exposure. We like US small-caps over large-caps, India, and Australia over Taiwan.

Government bonds: Given how much dovishness is 'in the price', we think that US and EU yields can rise modestly and underperform the forwards as the economy improves. Long US 5s30s steepeners and sell UST 30y versus Bunds and ACGBs 30y.

FX: Early-cycle recovery and hope for a vaccine should see USD weaken modestly by ~3% in 2021. EMFX and commodity currencies will likely see the biggest uplift. Long cyclical G10 FX (SEK, NZD. NOK) versus USD.

Credit: We think that we remain in a supportive, early-cycle environment for credit, and expect high yield outperformance as the economy heals. Sell protection in CDX HY versus CDX IG. We are also bullish on Asia credit.

Commodities: A benign macro backdrop of recovery and a weaker dollar is offset by bearish micro fundamentals like high inventories and oversupply, leading to a mixed picture for commodities overall. The one market where bottom-up demand-supply dynamics are aligned with the cycle is copper; long copper versus gold, sell Brent 3M calls.

Volatility: The gap between equity/credit and FX/rate volatility remains extreme, and we think that this can narrow as global economic conditions normalize.

The bull case – a vaccine and a large fiscal kicker

Our 'bull case' is a realistic (~20% likely) scenario that would drive even stronger growth and inflation. The catalysts would be threefold: i) Multiple versions of a COVID-19 vaccine prove successful, accelerating roll-out; ii) The US executes larger, more proactive fiscal easing, as either Democrats gain control of the Senate in Georgia's special elections, or compromise is found on issues like infrastructure; and iii) The winter wave of COVID-19 isn't as severe as our base case expects.

We think that such a scenario would simply accelerate trends towards the market pricing in a more 'normal' recovery scenario.

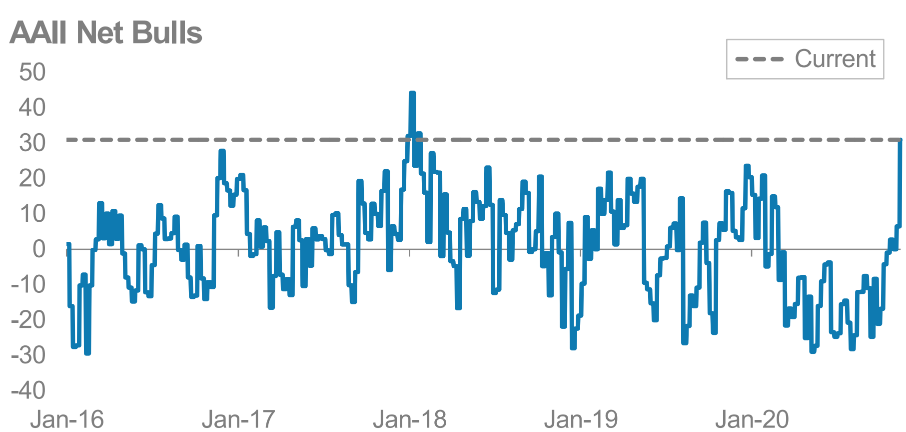
The bear case – an air pocket, then austerity

The bear case is dominated by an immediate risk, and a lingering one.

Immediately, it is the risk that the winter wave of COVID-19 is worse than expected. As of this writing, cases in the US and Europe are making new highs, and rising rapidly. A transition to a new US president could delay fiscal action in the face of such deterioration. And data over the next several months stall even in our base case. Meanwhile, sentiment has become much more bullish, with the AAII survey moving to its highest level of 'net bulls' since January 2018. The result could be a near-term 'air pocket' for markets.

Longer term, we worry about a return to austerity. Following the GFC, policy-makers placed too much emphasis on arbitrary debt/GDP targets, leading to a decline in public sector demand as private sector demand remained weak. This delayed the recovery and supported deflation. Our base case assumes that the same mistake isn't repeated. One can never be sure.

Exhibit 57: Sentiment Has Become More Bullish



Source: Bloomberg, Morgan Stanley Research

What's Changed

Exhibit 58: What's changed in our forecasts – economics

	OLD FORECASTS		NEW FORECASTS		Δ from Last Forecast	
	2020e	2021e	2020e	2021e	2020e	2021e
Real GDP						
Global (%Y)	-3.6	6.3	**-3.5**	**6.4**	0.1	0.1
G10 (%Q, SAAR)	-5.6	4.7	**-5.4**	**5.1**	0.2	0.4
US	-3.6	5.5	**-3.5**	**5.9**	0.1	0.4
Euro Area	-7.2	5.0	**-7.2**	**5.0**	0.0	0.0
Japan	-5.8	1.7	**-5.2**	**2.4**	0.6	0.7
UK	-11.7	4.4	**-11.4**	**5.3**	0.3	0.9
EM (%Y)	-2.2	7.4	**-2.0**	**7.4**	0.2	0.0
China	2.3	8.9	**2.3**	**9.0**	0.0	0.1
India	-5.0	9.5	**-5.7**	**9.8**	-0.7	0.3
Brazil	-4.5	3.6	**-4.0**	**4.3**	0.5	0.7
Russia	-4.8	3.3	**-4.0**	**3.4**	0.8	0.1
CPI (%Y)						
Global	2.3	2.6	**2.2**	**2.1**	-0.1	-0.5
G10	0.7	1.5	**0.7**	**1.2**	0.0	-0.3
US	1.1	2.2	**1.2**	**1.8**	0.1	-0.4
Euro Area	0.4	1.1	**0.3**	**0.9**	-0.1	-0.2
Japan	0.1	-0.2	**0.1**	**-0.2**	0.0	0.0
UK	0.8	1.6	**0.8**	**1.3**	0.0	-0.3
EM	3.4	3.4	**3.3**	**2.8**	-0.1	-0.6
China	2.9	3.1	**2.6**	**1.6**	-0.3	-1.5
India	6.1	4.4	**6.5**	**4.5**	0.4	0.1
Brazil	3.0	3.6	**3.1**	**4.0**	0.1	0.4
Russia	3.1	3.2	**3.2**	**3.6**	0.1	0.4

Source: Morgan Stanley Research forecasts; Note: Old forecasts refer to latest published forecasts, as of November 12, 2020.

Exhibit 59: What's changed in our forecasts – assets

What's Changed - Assets			
Base Case Forecasts	**OLD**	**NEW**	**Δ from last f'cast**
	Q2 2021	**Q4 2021**	
Equities			
S&P 500	3,350	**3,900**	16%
MSCI Europe	1,610	**1,730**	7%
Topix	1,550	**1,870**	21%
MSCI EM	1,000	**1,250**	25%
FX			
USD/JPY	112	**105**	-6%
EUR/USD	1.20	**1.25**	4%
GBP/USD	1.25	**1.32**	6%
Rates (% percent)			(bp Δ)
UST 10yr	1.00	**1.45**	45
DBR 10yr	0.05	**-0.20**	-25
UKT 10yr	0.45	**0.70**	25
JGB 10yr	0.00	**0.00**	0
Credit (bps)			(bp Δ)
US IG	135	**100**	-35
US HY	550	**350**	-200
EUR IG	80	**60**	-20
EUR HY	400	**350**	-50
Italy 10yr	90	**85**	-5
EM Sovs	400	**360**	-40
US CMBS AAA	95	**70**	-25

Source: Morgan Stanley Research forecasts; Note: Old forecasts refer to latest published forecasts, as of November 12, 2020.

Global Equities - Strong Growth, Strong Returns

by Michael J. Wilson, Graham Secker and Jonathan Garner

The following is an excerpt from our global team's 2021 Global Strategy Outlook, published on November 15, 2020.

From late-cycle to early-cycle in 12 months…via a pandemic: Looking back at what we wrote in our 2020 global equity outlook last November highlights just how much the investment landscape has changed over the intervening 12 months. Last year our concerns about a late-cycle economic backdrop, elevated valuations and heightened investor optimism translated into materially below-consensus EPS expectations and subdued single-digit prospective returns. While we never predicted the subsequent pandemic, its consequences leave us in a very different place today. We believe that we have now transitioned to an early-cycle environment, which implies strong profit growth that we believe is not yet priced in to markets despite the sharp rally in the last two weeks (Exhibit 60).

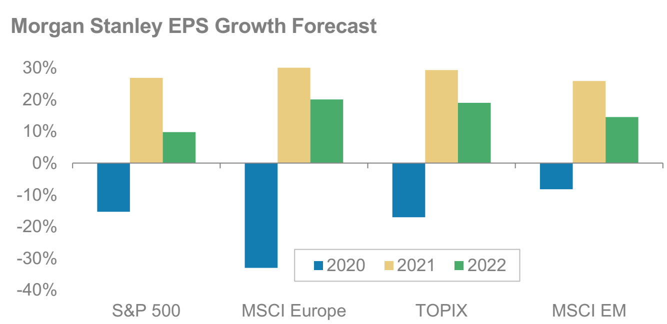
25-30% global EPS growth likely in 2021: Whenever economies move out of recession, there is always concern about the speed and strength of recovery, but the degree of uncertainty here is arguably higher than normal, given the combination of an unprecedented pandemic against record monetary and fiscal stimulus. Although the ongoing increase in COVID-19 cases in Europe and the US may lead to some near-term weakness in economic activity, this is very unlikely to derail a strong profit rebound over the next 12 months, in our opinion. Instead, strong nominal GDP growth next year implies a sizeable acceleration in revenue growth, which should be turbocharged by impressive operating leverage. As illustrated in Exhibit 61, our top-down EPS growth forecasts for all regions are 25-30% for next year, with further double-digit growth expected in 2022 too. Together, these estimates imply MSCI ACWI EPS growth of 27% for 2021, which would represent the second-best out-turn in 30 years (after 2010).

Exhibit 60: We Forecast Solid Equity Returns Across DM Over The Next 12 Months

Index	Current Price	New Target Price - December 2021 (% from current levels)			Old Target Price - June 2021 (% from current levels)		
		Bull	Base	Bear	Bull	Base	Bear
S&P 500	3,537	4,175	**3,900**	3,375	3,700	3,350	2,900
		18%	*10%*	*-5%*	*5%*	*-5%*	*-18%*
MSCI Europe	1,562	1,870	**1,730**	1,410	1,810	1,580	1,280
		20%	*11%*	*-10%*	*16%*	*1%*	*-18%*
TOPIX	1,726	2,000	**1,870**	1,300	1,830	1,550	1,200
		16%	*8%*	*-25%*	*6%*	*-10%*	*-30%*
MSCI EM	1,182	1,400	**1,250**	900	1,300	1,000	790
		18%	*6%*	*-24%*	*10%*	*-15%*	*-33%*

Source: FactSet, Morgan Stanley Research forecasts

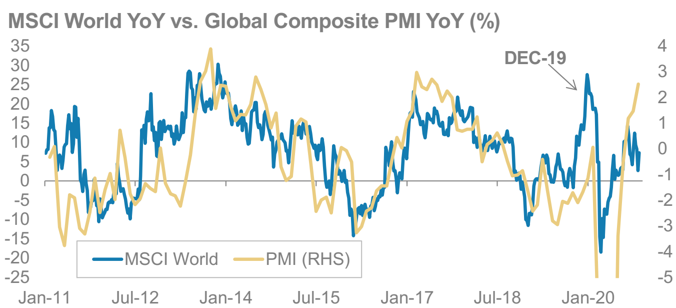
Exhibit 61: We Expect A Strong Recovery In EPS Across All Regions Next Year



Source: Morgan Stanley Research forecasts

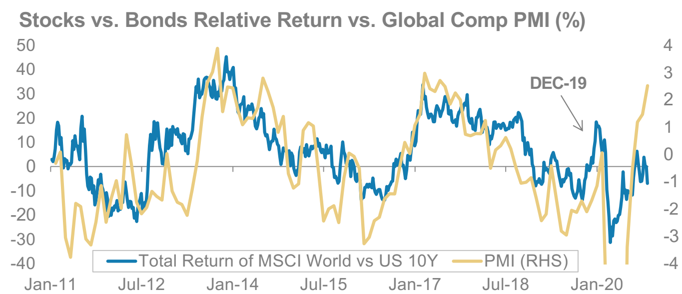
Strong growth outlook not priced in: Although rising COVID-19 cases and recent geopolitical uncertainty can be unsettling for investors, they also have the benefit of muting investor sentiment and ensuring that the strong growth outlook that we envisage is not priced in to equity markets, in our opinion. For example, Exhibit 62 shows a close link over time between the year-on-year change in the global PMI and MSCI World, but the latter is currently lagging by an unusual amount – note the contrast with this time last year, when equities were running ahead of the PMI. This analysis becomes even more compelling when we measure the PMI against the relative 12-month return of stocks versus bonds (Exhibit 63); for the latter to catch up to the former would require c.35% outperformance. Alternatively, we can flip this logic around and say that asset markets are pricing in a sub-50 global PMI instead of the current 53.3.

Exhibit 62: We Can Observe An Unusual Lag Between The YoY Change In MSCI World And That Of Global PMI...



Source: MSCI, Markit, Morgan Stanley Research

Exhibit 63: ...And The Gap Is Even Wider If We Compare PMI Trends To The Relative Return Of Stocks Versus Bonds

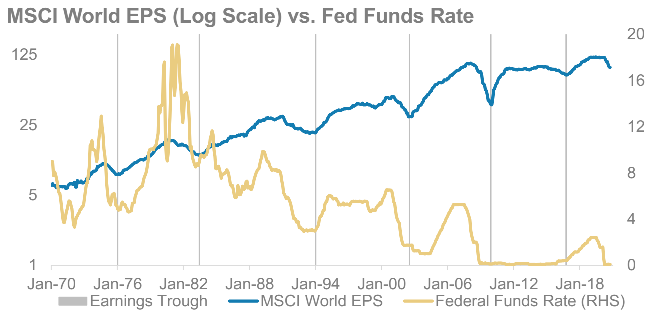


Source: MSCI, Markit, Morgan Stanley Research

Sustained policy support into the recovery... The unique cause of the 2020 recession has meant that policy-makers have been given unprecedented latitude to respond without meaningful pushback, whether that is record peacetime fiscal deficits or large-scale quantitative easing (G3 central banks have expanded their balance sheets by c.US$7 trillion year-to-date). While this has proved critical in supporting asset markets through this year, what may also prove unique is its persistence into the recovery, with our economists expecting further fiscal and monetary stimulus during 2021. In their recent report, our bond strategists highlighted that DM central banks look set to add liquidity worth 0.76% of annual nominal GDP, on average, every month in 2021.

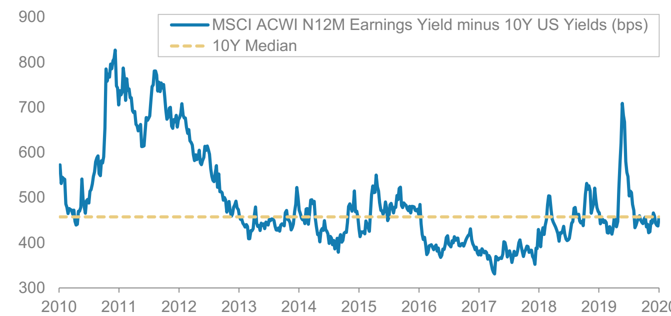
…suggests that P/E ratios may hold up even as EPS recovers: This desire from policy-makers to maintain substantial policy support into the recovery should allow early-cycle elevated equity valuations to remain higher for longer as the proverbial punchbowl is left in place even as growth recovers. Hence, although equity valuations look somewhat elevated in absolute terms, we expect these multiples to moderate only modestly over the next 12 months, given that: i) Central banks will not be tightening policy into the earnings recovery (as usually happens as per Exhibit 64); and ii) Equity valuations continue to look attractive versus bonds (Exhibit 65), and this should arguably provide even greater support to stocks at the beginning of a new cycle, when confidence about the subsequent EPS outlook is highest.

Exhibit 64: In Previous Cycles, Monetary Policy Tends To Tighten Post An EPS Trough – Unlikely To Happen In 2021



Source: MSCI, Morgan Stanley Research

Exhibit 65: MSCI ACWI's Next 12 Months Forward Earnings Yield Gap Is Exactly In Line With Its 10-Year Median



Source: MSCI, IBES, Morgan Stanley Research

Risks skewed to the upside: We believe that risks around our base case lean in a positive direction, with Exhibit 66 illustrating that the implied upside under our bull case assumptions is materially bigger than the downside in our bear case for the US and Europe. We believe that the most likely bear case narratives for equities revolve around either a COVID-19-related disruption having a longer-lasting impact on economies than currently expected or, in contrast, a more significant rise in bond yields that could drive a more significant valuation de-rating and style rotation. Upside risks could come from greater-than-expected operating leverage (pushing EPS growth even higher) or a further rise in equity valuations, perhaps prompted by an asset allocation shift into equities (as investors gain confidence in our early-cycle thesis), or an upturn in M&A given an encouraging backdrop of rising earnings, reasonable valuations and cheap and abundant liquidity.

Regional preferences: We prefer DM over EM. Within the former we see limited scope for regional alpha, with our top-down forecasts suggesting comparable upside across all three main regions, albeit with different drivers. For example: i) Strong ongoing price and earnings momentum should continue to support the US; and ii) Europe and Japan should benefit from our global reflation call, given their greater Value characteristics. Within Asia/EM we expect China outperformance versus EM ex China to moderate (we continue to prefer A-shares) and upgrade India to overweight.

Recommendations: As befits the start of a new cycle, we have a general preference for cyclicality across all regions, but especially in the US and Europe, where we are also overweight financials. The prospect of higher bond yields and strong earnings growth suggests that greater valuation discipline is needed than previously, so we are cautious on expensive defensive/growth stocks. We are overweight healthcare in most regions outside Europe, where relative valuations make it an underweight.

Exhibit 66: Morgan Stanley Base Case EPS And Index Price Targets For 2021

Index	Current Price	Dec-2021 Base Case Index Target (% Upside)	MS Base Case (Old)	MS Top-down Base Case EPS Forecast			Consensus EPS Forecast (YoY Growth)			MS Base Case N12M P/E Dec-2021	Current Consensus N12M P/E
				2020	2021	2022	2020	2021	2022		
S&P 500	3,537	3,900	3,350	138	175	192	138	168	195	20.3	21.8
		10%	*-5%*	*-15%*	*27%*	*10%*	*-15%*	*22%*	*16%*		
MSCI Europe	1,562	1,730	1,580	67	87	105	68	93	109	16.5	17.1
		11%	*1%*	*-33%*	*30%*	*20%*	*-32%*	*37%*	*17%*		
TOPIX	1,726	1,870	1,550	76	98	117	76	99	121	16.0	17.8
		8%	*-10%*	*-17%*	*29%*	*19%*	*-17%*	*30%*	*22%*		
MSCI EM	1,182	1,250	1,000	62	78	89	63	83	96	14.0	14.9
		6%	*-15%*	*-8%*	*26%*	*14%*	*-7%*	*31%*	*16%*		

Source: FactSet, MSCI, Morgan Stanley Research forecasts

Exhibit 67: Sector And Style Recommendations By Region

Sector & Style Preferences	S&P 500	MSCI Europe	TOPIX	MSCI EM
Sector Preferences	**OW:** Financials, Industrials, Materials, Healthcare	**OW:** Financials, Materials, Consumer Services, Utilities	**OW:** Comm. & W/Sale Trade, Pharma, Steel & Non-ferrous	**OW:** Discretionary, Materials, Healthcare, Internet
	UW: Staples, Utilities	**UW:** Staples, Healthcare, Energy, Software	**UW:** Transport/Logistics, Energy, Electric Power & Gas	**UW:** Energy, Financials, Communic. Services
Style Preferences	1) OW Re-opening / Cyclicals . 2) OW GARP 3) UW Expensive Defensives and Expensive Growth	1) OW Cyclical Value as befits an early cycle set-up 2) UW Expensive Quality 3) OW Financials.	1) Blue Paper Innovation Leaders 2) Self-Help Beneficiaries 3) Quality and Cyclicals	1) APxJ-EM Best Business Models v8 2) Quality and GARP 3) Cyclicals, FCF and Revisions

Source: Morgan Stanley Research

Our key regional forecasts and views

US equities (Mike Wilson)

Show me the money: We see upside into 2021 on the back of robust earnings, not valuations. With nominal US GDP growth of ~7%Y and global GDP growth of ~9%Y, we expect the top line to rebound with powerful flow-through to earnings, given corporates' focus on costs. This recovery is no different from others and we'll pass peak earnings before peak sales as margins lead the way. Evidence for the rebound has been mounting, with most parts of the market outside of a few areas more directly impacted by COVID-19 already seeing a return to year-on-year operating profit growth as cost cuts have offset top-line declines. Our base case for additional fiscal stimulus even in a divided government scenario supports the consumer balance sheet and a path to reopening from the end of 1Q. As such, we think that earnings growth will be explosive and surprise to the upside. Higher back-end rates will be a headwind to valuation, but we expect a partial offset from falling equity risk premium. On net, we see upside as earnings growth exceeds multiple compression.

Higher conviction in the longer term: Normally, uncertainty rises with time, but today we have higher conviction in our 6-12-month view than our 3-month view. Near term, we think that the market will still need to work through COVID-19's second wave, doubts around fiscal stimulus and the US Senate race. Ultimately, we expect fiscal support to come through and see the size of support as correlated with the impact of the virus. In other words, we see a fiscal put around COVID-19's economic fallout and take 2020's lesson that concerted fiscal and monetary policy can be an effective support for the economy. In the near term, with markets fully valued and a seasonal gap in data points to confirm better earnings, we see the market as range-bound with risks skewed lower. We advise using pullbacks to add risk, particularly to assets with cyclicality.

Sector/style preferences: In line with our recession playbook, we retain our preference for small-caps over large-caps and cyclicals over defensives. High-quality and certain secular growth stocks remain richly valued and are likely to re-rate relatively lower as interest rates rise at the back end. We continue to recommend a barbell of reasonably priced growth stocks with cyclicals that will flourish in the recovery. At the sector level, we are overweight financials, industrials, materials and healthcare. We are underweight staples and utilities.

European equities (Graham Secker)

Strong growth rebound: 2020 looks set to go down as the worst year for European relative performance since the 1980s, reflecting the region's materially weaker economic and profit growth out-turn as per Exhibit 61. However, poor performance this year should set Europe up for a strong 'bounce-back' next year and into 2022 as well – we forecast EPS growth of 30% in 2021 and 20% in 2022.

Catalysts to keep valuations at the top end of the historical range: Given that COVID-19 has had a more significant impact on the European economy than elsewhere the region, it should be a relative beneficiary of positive vaccine news, while a further increase in the ECB's QE program should drive a further meaningful decline in Italian bond spreads. The EU recovery fund should also be formally signed off in due course, with proceeds starting to be distributed in 2H21 and supporting materially above-trend GDP growth in 2022 and 2023. Europe's relative valuation characteristics also mean that it is less vulnerable to a de-rating driven by higher global yields.

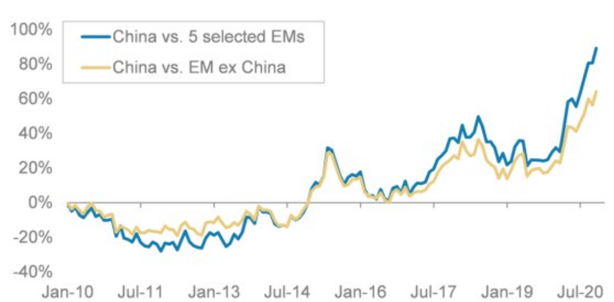
Cyclical Value > expensive Quality: Within Europe, we prefer cyclicals over defensives and selected Value sectors over expensive Quality stocks; reopening beneficiaries look attractive to us as a source of cheap cyclicality with an impending catalyst. We are overweight financials, materials and consumer services; we are underweight consumer staples, healthcare, energy and software. ESG should also remain an important theme and we remain overweight utilities in that regard.

Asia and EM equities (Jonathan Garner)

'Reversion to the mean' thinking is particularly dangerous in an era of profound and accelerating structural challenge including technological disruption, COVID-19/healthcare, climate change/ESG and the investment implications of a shift to a Multipolar World.

While we are making some important changes today – for example downgrading IT hardware to E/W and upgrading India to O/W – we are leaving several key core preferences unchanged. Most notably, we still expect Japan and China (specifically A-shares) to continue to outperform versus Asia/EM over the cycle, with energy and banks lagging. We think that Quality in the form of our Best Business Models approach will also continue to outperform other styles over the cycle.

Exhibit 68: Performance of MSCI China versus EM ex China and 5 selected larger EMs* – we stay O/W China but expect a smaller extent of outperformance in 2021



Source: RIMES, MSCI, Morgan Stanley Research; Data as of October 28, 2020. *5 selected EMs refer to Brazil, Indonesia, Russia, South Africa and Mexico, on an equal-weighted basis. EM ex China is compiled on a market cap-weighted basis.

Our 2021 outlook top trades are: 1) Continue to prefer China and Japan to EM ex China; **2)** Upgrade India to O/W given structural reforms and a strong expected growth recovery; **3)** Stay O/W Australia, Korea and Brazil versus U/W Taiwan; downgrade Singapore to E/W but move O/W Hong Kong; **4)** Transition to late-cycle plays versus early-cycle plays in China and continue to prefer A-shares versus offshore China; **5)** Stay O/W internet/software, discretionary, materials and industrials and remain U/W energy and financials; **6)** Downgrade tech hardware and semiconductors to E/W, upgrade healthcare to O/W; **7)** Maintain a balanced Growth/Value position but favor cyclicals over defensives; **8)** We launch our APxJ-EM Best Business Models v8 list and generally favor Quality as a through-the-cycle style preference; **9)** In Japan, we reiterate our focus on Productivity and Innovation Leaders v2 launched in September.

Regional & Country Index Targets

Index Targets

We summarize our 2021 year-end regional and country index targets in this section. We forecast circa +20% USD total return for Latin American equities in 2021. A solid +99% and 16% earnings growth in 2021 & 2022, respectively, and slightly lower forward P/E multiple (from 14.8x now to 13.5x) underpin our target. In general, we see current regional valuations de-rating slightly but still above their historical averages (Country, Sector and Stock Valuations). Meanwhile, we see upside risk for earnings estimates for both domestic oriented and commodity producing companies in 2021.

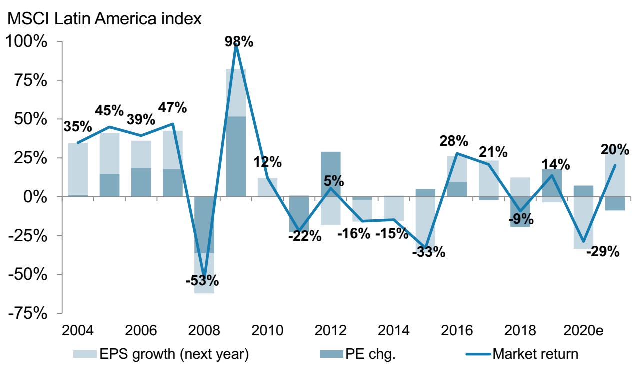
Exhibit 69: We See +20% Upside for Latin American Equities Over the Next 12 Months

	Index Level		USD upside	P/E NTM		Forex		MS USD EPS growth			Bull/Bear
11/13/2020	**Current**	**Target 2021YE**	**Base**	**Current**	**Target 2021YE**	**Current**	**Target 2021YE***	**2020**	**2021**	**2022**	**ratio in USD**
Brazil (Ibovespa)	104,723	120,000	**25%**	14.9	14.0	5.46	5.00	-57%	94%	20%	5.9x
Chile (IPSA)	4,005	4,800	**15%**	15.9	14.7	767	800	-70%	227%	13%	1.4x
Colombia (COLCAP)	1,210	1,300	**8%**	9.9	8.9	3640	3628	-55%	75%	15%	1.1x
Peru (S&P Select)	316	320	**7%**	17.3	17.2	3.64	3.45	-53%	137%	-3%	1.0x
Mexico (Mexbol)	40,792	43,000	**2%**	14.8	12.5	20.41	21.00	-42%	87%	11%	0.4x
Argentina (MSCI)	1,576	1,600	**2%**	30.5	17.3	-	-	-95%	252%	61%	0.9x
Latin America (MSCI)	**2,081**	**2,500**	**20%**	**14.8**	**13.5**	**-**	**-**	**-56%**	**99%**	**16%**	1.9x
Emerging Markets (MSCI)	**1,188**	**1,250**	**5%**	**14.8**	**14.0**	**-**	**-**	**-8%**	**26%**	**14%**	0.7x

*Consensus forward estimates. Source: Bloomberg and Morgan Stanley Research

Approach and Methodology

Exhibit 70: Year-To-Date Latin Equities Have Declined 29% Because Of A Material Earnings Contraction



Source: Bloomberg and Morgan Stanley Research

Our valuation framework is based on our view that we can break down stock, sector, or country returns for any given period of time (e.g., 12 months) into two components:

1) Earnings growth: the change in stock price that can be attributed to changes in a company's earnings power in the near future (i.e., next two years); and

2) Re- or de-rating: the change in the stock price that can be attributed to changes in a company's earning power beyond the near future (i.e., after two years).

Earnings growth usually accounts for the lion's share of equity market returns over the long run because a market's multiple tends to mean revert (or at least, it can't expand or contract forever). Thus, we expect earnings growth to account for 100% of regional equity market returns in 2021, after an almost 7% multiple re-rating experienced in 2020.

1. Earnings Growth

For the earnings growth component of our analysis, we use the forward-looking estimates from Morgan Stanley's fundamental analysts. We aggregate their 12- to 24-month forward earnings forecasts for the 190+ Latin companies under coverage by country, and then use these country earnings growth estimates in our target models because they are not yet embedded in the market's 12-month forward P/E ratios.

2. Re- or De-Rating

For the component of our analysis based on the change in a market's P/E multiple, we estimate the re- or derating potential based on global and local macroeconomic conditions.

On a global basis, changes to investors' risk appetite are key in determining equity flows to emerging economies. Meanwhile, on a local basis, we believe there is a negative correlation between the level of interest rates and the equity market price/earnings multiple. Simply put, every investor — local or foreign — implicitly or explicitly makes an asset allocation decision between bonds and equities based on their expected returns.

Lastly, in the next section we discuss in detail our updated risk-reward views for the six main equity markets in Latin America.

Region and Country Risk-Reward

MSCI Latin America (MXLA, 2,081, PT 2,500)

Source: Morgan Stanley Research

Price Target **2021YE 2,500**

Derived from base-case scenario and consistent with individual country targets. All EPS growth figures below are in USD.

Bull **2,800**

14.3x Bull Case NTM EPS in 2021YE

Unified US government with a bigger and more proactive fiscal stimulus. Stable fiscal with reforms in Brazil, and more private sector participation in the energy sector in Mexico. Regional earnings rise +112% (commodity +246%, cyclicals +101%, defensives +48%) in 2021, and another +19% (+5%, +30%, +20%) in 2022.

Base **2,500**

13.5x Base Case NTM EPS in 2021YE

Split US government with a smaller and more reactive fiscal stimulus. Stable fiscal in Brazil with no reforms and maintenance of the macro status quo in Mexico. Regional earnings rise +99% (commodity +209%, cyclicals +92%, defensives +45%) in 2021, and another +16% (+5%, +24%, +16%) in 2022.

Bear **1,700**

10.9x Bear Case NTM EPS in 2021YE

Split US government with a smaller and more reactive fiscal stimulus. Weaker fiscal in Brazil with no reforms and more heterodox macro policy in Mexico. Regional earnings increase +75% (commodity +165%, cyclicals +69%, defensives +32%) in 2021, and grow +15% (+4%, +24%, +15%) in 2022.

Investment Thesis

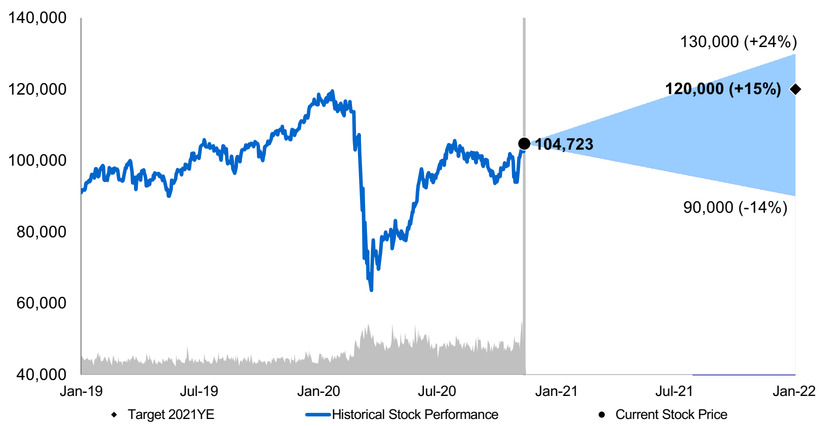
- Our year-end 2021 target for the MSCI Latam index is 2,500 points (for circa +20% USD return). We are overweight Brazil, Chile and Colombia (leverage to a global reflation trade and rotation from growth to value), and underweight Mexico, Argentina and Peru (asymmetric political and macro-economic risks);
- We believe a successful Covid-19 vaccine de-risks the global growth outlook and supports an economic recovery in 2021. Our macro team expects the global economy to grow 6.4% in 2021;
- Regional equity returns should depend on: 1) pandemic dynamics in early 2021, 2) the magnitude and timing of a potential additional US fiscal stimulus, 3) fiscal adjustment and progress in the structural reform agenda in Brazil and Colombia , 4) macro and energy sector specific policies in Mexico, and finally, 5) regional elections.

Key Value Drivers and Risks

- *Coronavirus*: the outbreak dynamics, and specially new quarantine measures around the world, should be a risk for economic growth in early 2021;
- *Commodity prices*: smaller than expected US fiscal stimulus or a weaker global economic recovery could result in lower prices for key commodities like crude oil, iron ore, copper, pulp and grains;
- *Local fiscal fundamentals*: the ability of Latin governments to resume their fiscal adjustment effort in 2021 is key to maintain domestic and international investors' confidence in local denominated assets;
- *Elections*: some Latin countries will go the polls to elect new presidents (Chile and Peru in 2021, Brazil and Colombia in 2022) over the next 2 years. Moreover, Chile will continue its Constitutional reform process.

Brazilian Bovespa (IBOV, 104,723, Overweight, PT 120,000)

Risk-Reward View in Local Currency



Source: Morgan Stanley Research

Price Target **2021YE 120,000**

Base-case scenario. All EPS growth figures below are in USD.

Bull **130,000**

14.9x Bull Case NTM EPS in 2021YE

Unified US government (i.e., bigger and proactive fiscal stimulus). Stronger fiscal with reforms support domestic growth. Local earnings rise +106% (commodity +343%, cyclicals +88%, defensives +28%) in 2021, and another +24% (+15%, +31%, +23%) in 2022.

Base **120,000**

14.0x Base Case NTM EPS in 2021YE

Split US government (i.e., smaller and reactive fiscal stimulus). Stable fiscal with no reforms lead to a gradual economic recovery. Local earnings grow +94% (commodity +303%, cyclicals +79%, defensives +24%) in 2021, and another +20% (+15%, +25%, +15%) in 2022.

Bear **90,000**

10.8x Bear Case NTM EPS in 2021YE

Split US government. Weaker fiscal with no reforms weighs on the economic recovery. Local earnings rise +73% (commodity +242%, cyclicals +61%, defensives +14%) in 2021, and increase +20% (+15%, +25%, +15%) in 2022.

Exhibit 71: Brazil: MS 12-Month Forward Looking P/E Ratio

Source: Bloomberg and Morgan Stanley Research

Investment Thesis

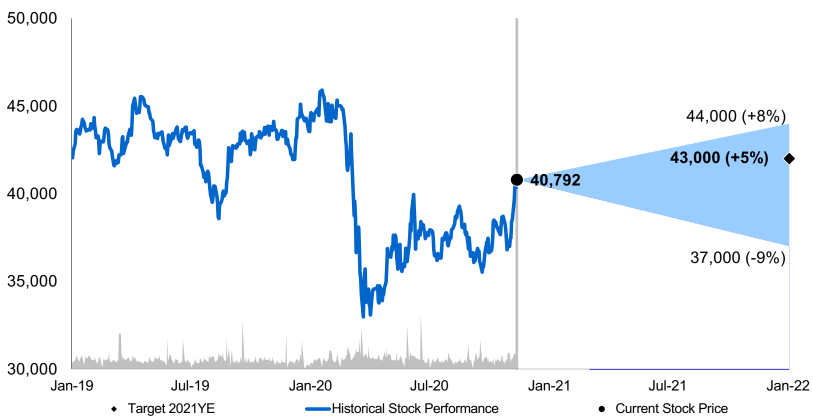
- We are overweight Brazilian equities in Latin America. Our year-end 2021 target for the Bovespa index in local currency is 120,000 points (+15% BRL, +25% USD);
- From a global perspective, the drivers of our investment thesis are: a) corporate operational leverage (see here) b) global fiscal and monetary stimulus (c. USD 30 trillion in 2020) and c) lower for longer rates. Meanwhile, from a local perspective, the Brazilian government to muddle-through in the fiscal and structural reforms fronts;
- Our 3 key investment themes in Brazi in 2020 have been 1) secular growth, 2) lower interest rates and 3) global reflation. These 3 themes are still alive, and the likely deployment of a Covid-19 vaccine opens the door for 4) a global reopening trade;
- At the sector level, in our Brazil Model Portfolio, our preference is for mining and energy among commodities, and banking and retail among domestic cyclicals;
- Top Stock Ideas: Vale (VALE.N), Gerdau (GGBR4.SA), Itau (ITUB.N), XP (XP.O), BTG Pactual (BPAC11.SA), Magazine Luiza (MGLU3.SA) and Lojas Renner (LREN3.SA).

Key Value Drivers and Risks

- *Commodity prices*: smaller than expected US fiscal stimulus or a weaker global economic recovery could result in lower prices for key commodities like crude oil, iron ore, pulp and grains;
- *Local fiscal fundamentals*: the ability of the Brazilian government to resume its fiscal adjustment effort is key to maintain investors' confidence in local denominated assets;
- *Political dynamics*: Further progress in the structural reform agenda (i.e., Tax and Administrative reforms) are important potential catalysts for local asset prices;
- *Global liquidity:* changes in global monetary conditions in late 2021 could have meaningful influence over sovereign and equity risks premiums in Brazil.

Mexican IPC (MEXBOL, 40,792, Underweight, PT 43,000)

Risk-Reward View in Local Currency



Source: Morgan Stanley Research

Price Target **2021YE 43,000**

Base-case scenario. All EPS growth figures below are in USD.

Bull **44,000**

13.2x Bull Case NTM EPS in 2021YE

A new energy reform leads to a balanced public-private sector relationship. No fiscal slippage and 2021 elections lead to a divided Congress. Local earnings increase +98% (commodity +149%, cyclicals +147% and defensives +55%) in 2021, and +12% (-14%, +27%, +22%) in 2022.

Base **43,000**

12.5x Base Case NTM EPS in 2021YE

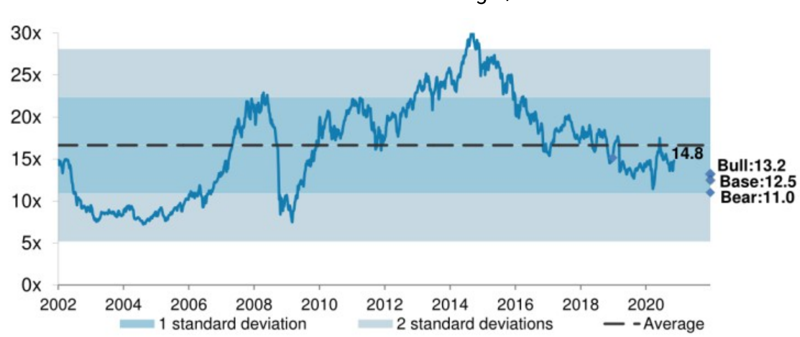
Energy policy uncertainty prevails, and limited fiscal slippage. Government keeps relative majority in Congress. Local earnings increase +87% (commodity +126%, cyclicals +135%, defensives +50%) in 2021 and +11% (-14%, +21%, +22%) in 2022.

Bear **37,000**

11.0x Bear Case NTM EPS in 2021YE

State centric energy agenda moves forward. Material fiscal slippage and government gains absolute majority in Congress. Local earnings grow +68% (commodity +104%, cyclicals +100% and defensives +38%) in 2021, and increase +11% (-14%, +21% and 22%) in 2022.

Exhibit 72: Mexico: MS 12-Month Forward Looking P/E Ratio



Source: Bloomberg and Morgan Stanley Research

Investment Thesis

- We are underweight Mexican equities. Our year-end 2021 target for the local IPC index is 43,000 points (+5% LC return and +2% in USD);
- We see less downside risks for earnings due to a cyclical rebound – especially for sectors and stocks linked to the US recovery – and for the overall narrative due to relatively stable fiscal accounts. However, 2021 midterm elections will be key to determine policy paths, particularly for private sector investment in the energy sector. We prefer to stay Underweight until we have more visibility for these issues;
- We continue to prefer names geared to the recovery trade while gaining exposure to reopening beneficiaries. At the sector level, we are overweight Industrials, Real Estate and Metals & Steel, and underweight Financials, Food & Beverage and Telecom;
- Top Stock Ideas: Walmex (WALMEX.MX).

Key Value Drivers and Risks

- Congress composition after 2021 midterm elections;
- Changes in global financial conditions and additional stimulus in the US could impact local equity market;
- Investment and spending are key for the growth and fiscal stories;
- Issues of public security, international agreements and institutional transparency could require more scrutiny for investments in infrastructure and energy;
- Oil price has implications for fiscal, investments and the consumer outlook, and thus for asset allocation.

Chilean IPSA (IPSA, 4,005, Overweight, PT 4,800)

Risk-Reward View in Local Currency

Source: Morgan Stanley Research

Price Target **2021YE 4,800**

Base-case scenario. All EPS growth figures below are in USD.

Bull **5,000**

14.8x Bull Case NTM EPS in 2021YE

Strong domestic economic recovery and policy continuity in the country, coupled with a bigger and more proactive US fiscal stimulus. Local earnings advance +239% (commodity +206%, cyclicals +175% and defensives +412%) in 2021, and another +15% (+32%, +25% and -7%) in 2022.

Base **4,800**

14.7x Base Case NTM EPS in 2021YE

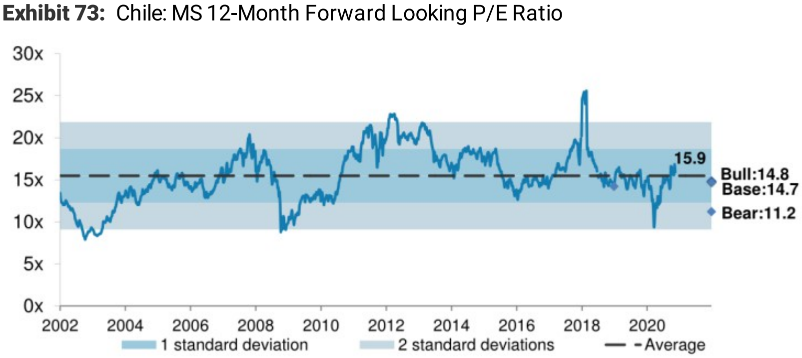
Solid domestic economic recovery and policy continuity in the country, coupled with smaller and more reactive US fiscal stimulus. Local earnings grow +227% (commodity +178%, cyclicals +170% and defensives +402%) in 2021, and +13% (+32%, +22% and -8%) in 2022.

Bear **3,600**

11.2x Bear Case NTM EPS in 2021YE

Sluggish domestic economic recovery and no policy continuity in the country, coupled with smaller and more reactive US fiscal stimulus. Local earnings grow +174% (commodity +150%, cyclicals +116% and defensives +327%) in 2021, and another +12% (+32%, +22% and -11%) in 2022.

Exhibit 73: Chile: MS 12-Month Forward Looking P/E Ratio



Source: Bloomberg and Morgan Stanley Research

Investment Thesis

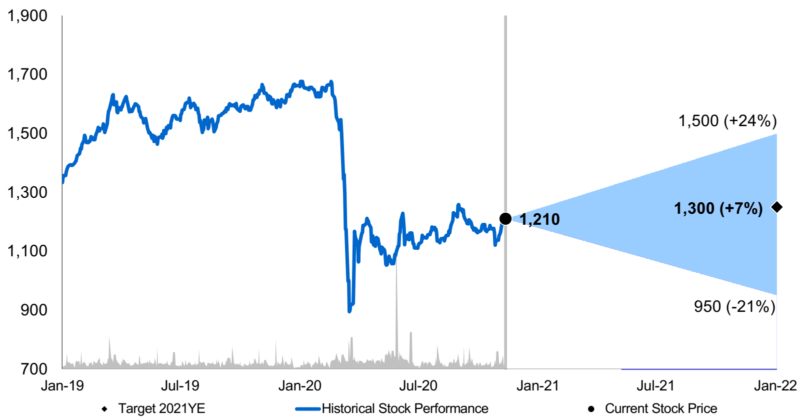
- We are overweight Chilean equities. Our year-end 2021 target for the IPSA index is 4,800 points (+20% LC return, +15% in USD);
- We believe local equities provide an interesting risk reward equation vs the rest of the region supported by: 1) ample policy stimulus supported by strong sovereign balance sheet and execution track record, 2) expectations of macro policy continuity and 3) attractive valuations;
- The Chilean government has announced a coordinated domestic fiscal and monetary stimulus package (circa 12% and 18% of GDP, respectively — the biggest in the region) to counteract the negative economic effects of the Covid-19 pandemic, and it has a solid execution track record (i.e., 90%+ fiscal budget execution over the past 5 years);
- In our view, any potential Constitutional changes would aim to tackle social demands, while the pro-business related content and core institutional framework should remain in place. Chile's strong fiscal position allows the country to respond to additional social expending demands; and
- Our favorite stocks in Chile are Banco Santander (BSAC.N), Falabella (FALABELLA.SN), and Soquimich (SQM.N).

Key Value Drivers and Risks

- *Coronavirus*: the outbreak dynamics should be a risk for economic growth in 2021;
- *Commodity prices*: smaller than expected US fiscal stimulus or a weaker global economic recovery could result in lower prices for key commodities like crude oil, copper and gold;
- *Social protests*: additional macro weakness or deterioration of the political backdrop ahead of the 2021 Presidential elections could potentially spur social demonstrations;
- *Political and electoral risk*: Constitutional reform process and presidential elections in 2021 should influence asset prices.

Colombian COLCAP (COLCAP, 1,210, Overweight, PT 1,300)

Risk-Reward View in Local Currency



Source: Morgan Stanley Research

Price Target **2021YE 1,300**

Base-case scenario. All EPS growth figures below are in USD.

Bull **1,500**

9.5x Bull Case NTM EPS in 2021YE

Stronger domestic economic recovery, progress on tax reform and higher energy prices improve fiscal. Local earnings grow +89% (commodity +271%, cyclicals +55% and defensives +10%) in 2021, and another +18% (+9%, +33% and +13%) in 2022.

Base **1,300**

8.9x Base Case NTM EPS in 2021YE

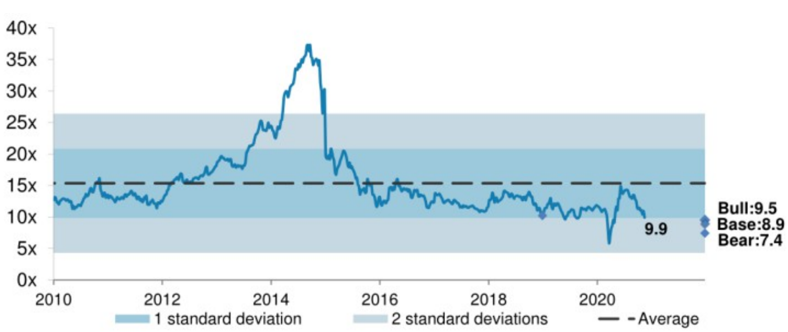
Solid domestic economic recovery, limited progress on tax reform, stable energy prices helps fiscal. Local earnings grow +75% (commodity +209%, cyclicals +55% and defensives +10% in 2021, and another +15% (+9%, +27% and +8%) in 2022.

Bear **950**

7.4x Bear Case NTM EPS in 2021YE

Weaker domestic economic recovery, no progress on tax reform and lower energy prices weighs on fiscal. Local earnings grow +47% (commodity +147%, cyclicals +32% and defensives -1%) in 2021, and again +8% (+2%, +19% and +2%) in 2022.

Exhibit 74: Colombia: MS 12-Month Forward Looking P/E Ratio



Source: Bloomberg and Morgan Stanley Research

Investment Thesis

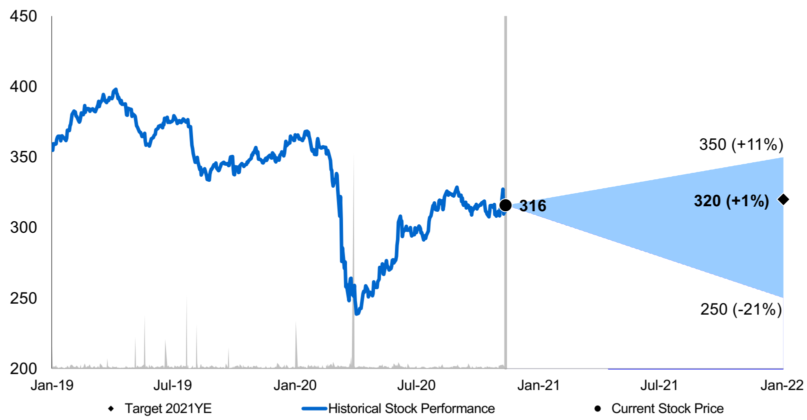
- We are overweight Colombian equities. Our year-end 2020 target for the local COLCAP index is 1,300 points (+7% LC return and +8% in USD);
- Colombian equities should benefit from the ongoing global rotation from growth to value stocks. Higher energy prices, as a result of a global reflation trade, should help limit further fiscal deterioration;
- The ability of the Colombian government to continue their fiscal adjustment effort in 2021, specially on a the tax reform front, is key to maintain its investment grade status;
- The local economy is at the early stages of a new economic expansion cycle, supported by historically low interest rates, stable energy prices and low capacity utilization.

Key Value Drivers and Risks

- *Coronavirus*: the outbreak dynamics should be a risk for economic growth in 2021;
- *Tax reform:* delays in the approval process of a tax reform bill could negatively impact fiscal consolidation efforts and end in investment grade loss;
- Energy prices: weaker than expected global growth could result in lower than expected crude oil prices. Alternatively, escalating geopolitical tensions could support energy prices beyond our base case assumptions;
- *Social protests*: additional macro weakness or deterioration of the political backdrop amid the reform agenda in 2021 could potentially spur social demonstrations.

Peruvian SELECT BVL (SPBLPSPP, 316, Underweight, PT 320)

Risk-Reward View in Local Currency



Source: Morgan Stanley Research

Price Target **2021YE 320**

Base-case scenario. All EPS growth figures below are in USD.

Bull **350**

18.2x Bull Case NTM EPS in 2021YE

Stronger economic rebound, lower political tension and no macro policy regime change. Local earnings rise +183% (commodity +122%, cyclicals +703% and defensives +46%) in 2021. Meanwhile, earnings contract -2% (-23%, +40% and +24%) in 2022.

Base **320**

17.2x Base Case NTM EPS in 2021YE

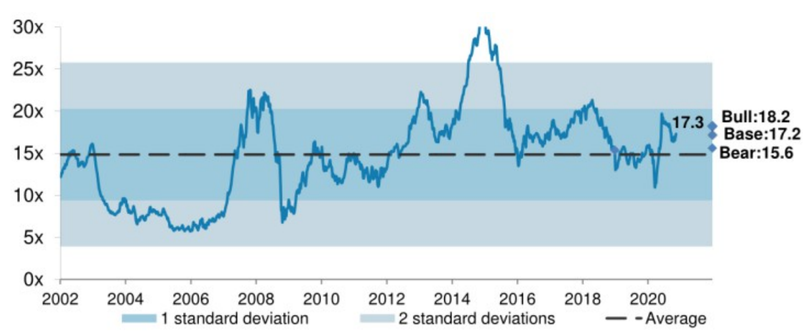
Political uncertainty weighs on economic growth but no macro policy regime. Local earnings grow +137% (commodity +85%, cyclicals +477% and defensives +46%) in 2021, and decrease -3% (-23%, +34% and +18%) in 2022.

Bear **250**

15.6x Bear Case NTM EPS in 2021YE

Weaker economic growth and macro policy regime change. Local earnings increase +102% (commodity +57%, cyclicals +390% and defensives +31%) in 2021. Meanwhile, earnings grow -6% (-28%, +34% and +18%) in 2022.

Exhibit 75: Peru: MS 12-Month Forward Looking P/E Ratio



Source: Bloomberg and Morgan Stanley Research

Investment Thesis

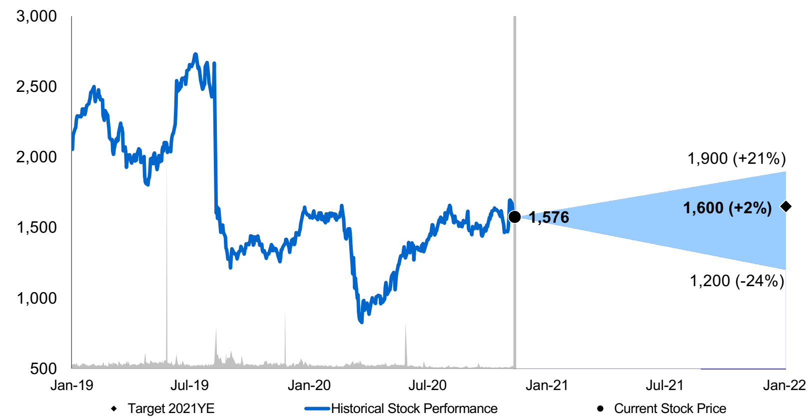
- We are underweight Peruvian equities. Our year-end 2020 target for the local S&P Select index is 320 points (+1% LC return and +7% in USD);
- The impeachment of President Vizcarra and the presidential election in April 2021 has increased political uncertainty, and it should weigh on the local economy in 1H 2021;
- The government's historically subpar fiscal budget execution should limit the potential impact of the announced fiscal stimulus package (c. 13% of GDP) in 2020-21;
- The country's high informality rate and limited real wage mass growth should continue to be a drag for corporate earnings; and
- Social unrest near mining areas continues to be a constant causing disruptions to the country's mining output.

Key Value Drivers and Risks

- *Coronavirus*: the outbreak dynamics should be a risk for economic growth in 2021;
- *Commodity prices*: smaller than expected US fiscal stimulus or a weaker global economic recovery could result in lower prices for key commodities like copper and gold;
- *Social protests*: additional macro weakness or further deterioration of the political backdrop ahead of the 2021 Presidential elections could potentially spur social demonstrations;
- *Political and electoral risk*: Presidential elections in April 2021 and Congressional initiatives to influence private sector should influence asset prices.

MSCI Argentina (MXAR, 1,576, Underweight, PT 1,600)

Risk-Reward View in USD



Source: Morgan Stanley Research

Price Target **2021YE 1,600**

Base-case scenario. All EPS growth figures below are in USD.

Bull **1,900**

17.8x Bull Case NTM EPS in 2021YE

Sustained decline in sovereign yields. Local earnings grow +329% (cyclical +5%, commodity and defensive n/m) in 2021. Meanwhile, earnings grow +54% (cyclical +10%, defensive +218% and commodity n/m) in 2022.

Base **1,600**

17.3x Base Case NTM EPS in 2021YE

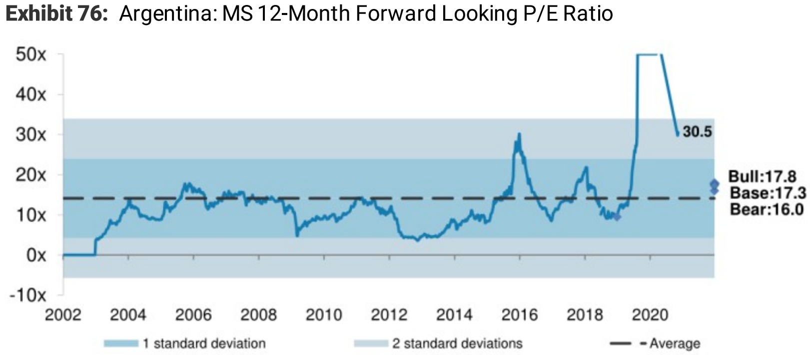
Prolonged uncertainty. Local earnings grow +252% (cyclical 0% while commodity and defensives come from a negative base) in 2021. Meanwhile, earnings grow +61% (cyclical +10%, defensive +218% while commodity n/m) in 2022.

Bear **1,200**

16.0x Bear Case NTM EPS in 2021YE

Increased policy distortions. Local earnings increase by +180% (cyclical -15%, commodity and defensive n/m) in 2021. Meanwhile, earnings grow +65% (cyclical +10%, defensive +218%, commodity n/m) in 2022.

Exhibit 76: Argentina: MS 12-Month Forward Looking P/E Ratio



Source: Bloomberg and Morgan Stanley Research

Investment Thesis

- We are underweight Argentinean equities. Our year-end 2021 target for the MSCI Argentina index is 1,600 points, which implies +2% upside in USD;
- Our view on Argentine equities is predicated on heightened uncertainty regarding both 1) domestic top-down imbalances (e.g., high monetary emission with capital controls) and 2) policy distortions at the industry level (e.g., price freezes for the telecom industry amid high inflation rates);
- Top Stock Ideas: Globant (GLOB.N) and Mercadolibre (MELI.O).

Key Value Drivers and Risks

- Domestic macro policy direction and country's external position;
- Negotiations with different stakeholders (e.g., IMF and creditors);
- Industry measures (e.g., price freezes) that could delay investment recovery and growth;
- Portfolio flows surrounding MSCI status (EM vs Frontier); and
- Grain prices, domestic Covid-19 trends and investors' appetite for EM countries.

Country, Sector and Stock Valuations

Country Valuations

We provide a valuation check-up for the 6 key equity markets in Latin America. Our work focuses on traditional metrics such as EV/EBITDA, P/E, P/BV, and DY. We aggregate these metrics in one comparable yardstick: the valuation composite.

- *Brazil:* Our valuation composite suggests Brazilian stocks are very close to their historical average. We are constructive on local equities due to a global reflation trade and a rotation from growth to value stocks in 2021.
- *Mexico:* Our valuation composite suggests Mexican stocks are now 0.9 standard errors below their historical average. However, we believe they should remain a value trap until the government changes its state centric approach to develop the energy sector.
- *Chile:* Our valuation composite suggests Chilean stocks are 1.5 standard error below their historical mean. We are positive on equities because of attractive valuations, ample policy stimulus and expectations of macro policy continuity.
- *Colombia:* Our valuation composite shows stocks are now 0.7 standard errors below their historical average. We are believe the country is in the early stages of an economic recovery, and the local equity market is leveraged to a global reflation trade.
- *Peru:* Our valuation composite suggests Peruvian stocks are very close to their historical average. We are concerned about political uncertainty over the next 6 months, and therefore expect limited room for positive earnings revisions.
- *Argentina:* Our valuation composite suggests Argentine stocks are 0.2 standard deviation below their historical average. However, we worry though about the ongoing economic growth stagnation, sovereign debt dynamics and industry regulations.

Exhibit 77: Latin American Equities Currently Trade Slightly Below Their Historical Average Levels

	12 month forward multiples						
	EV/E	**P/E**	**P/BV**	**Div. yld***	**Val. Comp.**	**Implied EPS Growth**	**Rel. P/E to EM**
Brazil	6.7	14.0	1.9	3.4%	0.2	2.1%	1.0
Mexico	6.1	15.1	1.9	3.5%	-0.8	-0.1%	1.0
Chile	7.1	17.2	1.2	8.2%	-0.9	-1.0%	1.2
Colombia	6.3	11.9	1.1	3.2%	-0.5	-1.3%	0.8
Peru	7.9	16.5	2.1	3.0%	0.1	1.6%	1.1
Latam	6.6	14.6	1.8	3.7%	-0.1	1.6%	1.0
Argentina	3.7	20.5	1.0	3.3%	-0.1	22.1%	0.5

	Discount or premium to historical average (standard deviation)						
	EV/E	**P/E**	**P/BV**	**Div. yld***	**Val. Comp.****	**Implied EPS Growth**	**Rel. P/E to EM**
Brazil	-4% (-0.2)	8% (+0.2)	9% (+0.3)	17% (+0.5)	0% (+11%)	(-0.3)	-16% (-0.4)
Mexico	-17% (-0.8)	-12% (-0.4)	-22% (-0.8)	-37% (-1.4)	31% (+12%)	(-1.0)	-32% (-0.9)
Chile	-24% (-2.1)	-3% (-0.1)	-22% (-0.9)	-63% (-0.7)	29% (+16%)	(-1.9)	-19% (-0.9)
Colombia	-21% (-0.6)	-28% (-0.7)	-36% (-1.4)	22% (+0.7)	19% (+6%)	(-1.4)	-43% (-1.1)
Peru	5% (+0.2)	6% (+0.2)	-17% (-0.4)	22% (+0.4)	19% (+13%)	(-0.9)	-18% (-0.5)
Latam	-11% (-0.5)	-1% (0.0)	-6% (-0.2)	-2% (-0.1)	19% (+22%)	(-0.2)	-24% (-0.7)
Argentina	-19% (-0.7)	55% (+1.0)	-1% (0.0)	-30% (+0.4)	29% (+19%)	(+1.8)	-52% (-1.1)

*Signs inverted for dividend yield readings; **Average return and standard error over the next 12 months; Source: Bloomberg and Morgan Stanley Research

Methodology

We calculate 12-month forward-looking valuation ratios for the five countries by adding and then dividing nominal data for individual companies (for example, the P/E ratio is the aggregate market capitalization divided by aggregate net income) rather than by calculating individual multiples and then market-cap-weighting them. In our opinion, this methodology better reflects reality because of the non-linearity of valuation multiples (i.e., they tend toward infinite when the denominator tends toward zero).

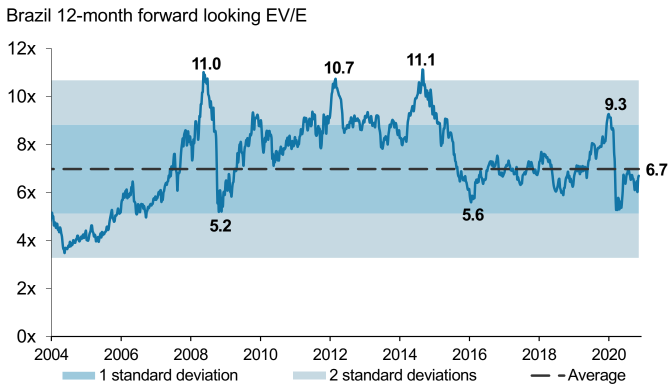
To sum up our work, we aggregate the average z-score* of the four valuation metrics mentioned earlier in a single comparative index — the valuation composite — and back-test performance by calculating the average return posted by stocks over the next 12 months when our valuation index was at different levels.

*The z-score can be interpreted as the number of standard deviations above or below a time series historical average.

Brazil

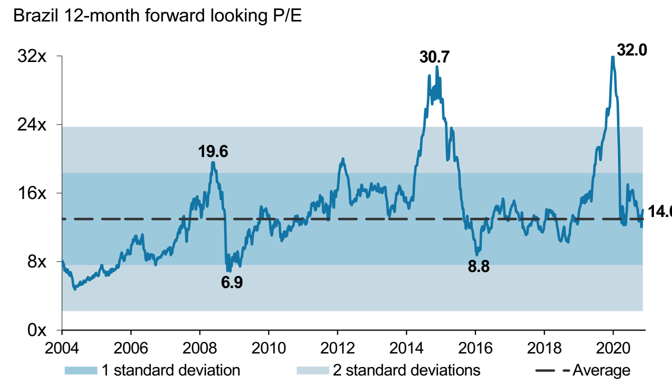
We estimate Brazilian equities currently trade at 6.7x enterprise value to next 12-month EBITDA, which is a small 4% or 0.2 standard deviation discount to their 7.0x 17-year historical average.

Exhibit 78: Brazilian Stocks Appear to Be Fairly Priced...



Source: Bloomberg and Morgan Stanley Research

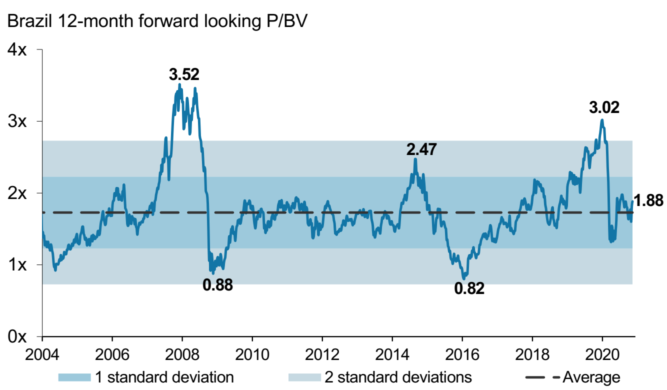
Exhibit 79: ...With All 4 Fundamental Valuation Metrics...



Source: Bloomberg and Morgan Stanley Research

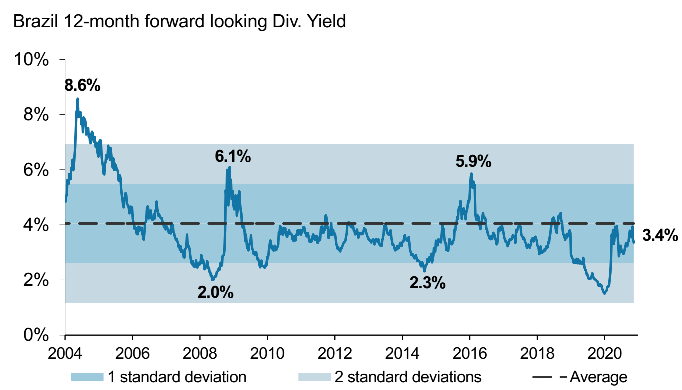
Furthermore, they now trade at 14.0x next 12-month net income, which is a 8%, or 0.2 standard deviation, premium to their 13.0x 17-year historical mean. We also compute Brazilian stocks trade at 1.88x next 12-month book value, which is a 9%, or 0.3 standard deviation, premium to their 1.73x 17-year historical average.

Exhibit 80: ...Trading Between -0.2 and +0.5 S.D. Discounts...



Source: Bloomberg and Morgan Stanley Research

Exhibit 81: ...To Their Respective 17-Year Historical Averages

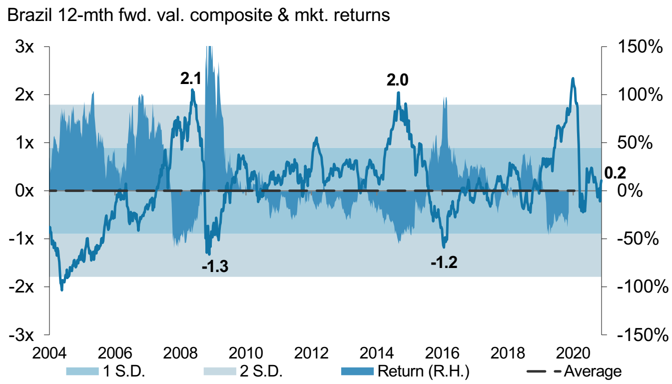


Source: Bloomberg and Morgan Stanley Research

Lastly, the dividend yield of these stocks for the next 12 months is currently 3.4%, which is a 17%, or 0.5 standard deviation, premium (inverted) to the 4.1% 17-year historical average.

Therefore, our valuation composite — which is the average z-score of these 4 traditional valuation metrics — for Brazil is currently trading at a +0.2x score, or 0.2 standard deviations above its 17-year historical mean. The indicator suggests that Brazilian stocks are valued close to (i.e., in line with) their 17-year historical average.

Exhibit 82: Our Valuation Composite for Brazil Is Currently at +0.2x Score (+0.2 Standard Error)...



Source: Bloomberg and Morgan Stanley Research

Exhibit 83: ....A Level Which Has Generated On Average an Almost Flat -1% Return Over the Next 12 Months

Val. Range	Average 12-month Return	St. Dev. 12-month Return	# Stand. Deviations	Hit ratio Positive Return
x<-1.5	89%	21%	**4.2**	100%
-1.5<x<-1	62%	21%	**2.9**	100%
-1<x<-0.5	69%	22%	**3.1**	100%
-0.5<x<0	28%	16%	1.8	89%
0<x<0.5	**-1%**	**11%**	**-0.1**	**43%**
0.5<x<1	0%	8%	**0.0**	16%
1<x<1.5	-37%	10%	**-3.7**	0%
1.5<x<2	-40%	7%	**-5.9**	0%
x>2	-45%	1%	**-32.2**	0%

Source: Bloomberg and Morgan Stanley Research

Historically, Brazilian stocks have posted on average an almost flat -1% return over the following 12 months when our valuation yardstick was between 0.0x and +0.5x score levels. Therefore, current valuations suggest that stocks are fairly priced. However, we are optimistic about the country's outlook as we believe the local equity market should continue to benefit from a global reflation trade and a rotation from growth to value stocks in 2021.

Several investors have highlighted their views that traditional valuation work, which compares current multiples with history, is no longer valid — or at least the results should be handicapped. The rationale is that the interest rate convergence process that has occurred over the past 16 years, especially in Brazil, makes the historical comparison invalid, and the current output gap in the local economy provides a long runway for corporate profits to grow above trend for some time.

We agree. Therefore, we have devised a valuation model that takes into consideration the level of local real interest rates and diminishes the impact of the economic cycle.

The simplest way to value a stock is to calculate its value in perpetuity; the formula is:

*Price = EPS_{T0} * (1+growth rate) / (cost of equity – growth rate);*

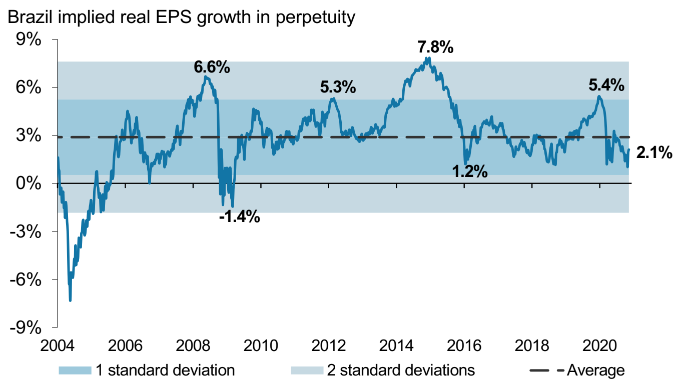
After some algebra and a couple of assumptions, we get to:

*Growth rate = [(Price * Cost of Equity) – EPS_{T+1}] / (Price).*

Therefore, we can back out the implied real earnings growth rate in perpetuity for a stock, sector or country based on their cost of equity, current price and earnings forecast for period T+1 — in other words, based on the cost of equity and the forward looking price-to-earnings ratio — see the next exhibit.

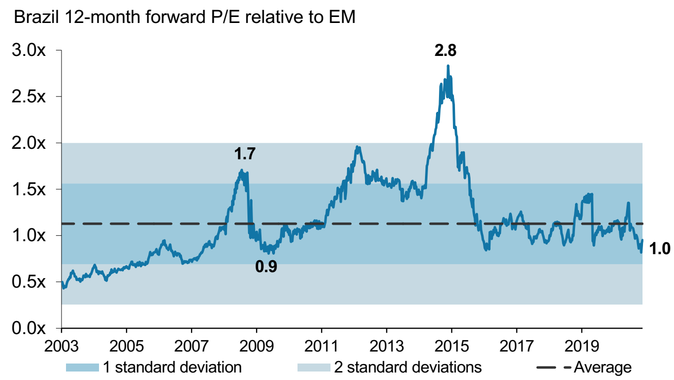
The current implied real earnings growth rate of +2.1% in perpetuity is 0.3 standard deviations below its +2.9% 17-year historical average. Therefore, Brazilian stocks appear to be moderately cheap after we adjust for lower interest rates.

Exhibit 84: The Current Implied Real Earnings Growth Rate in Perpetuity for Local Stocks Is +2.1%



Source: Bloomberg and Morgan Stanley Research

Exhibit 85: Brazilian Equities Appear to Be Valued Slightly Cheaper Than Emerging Markets



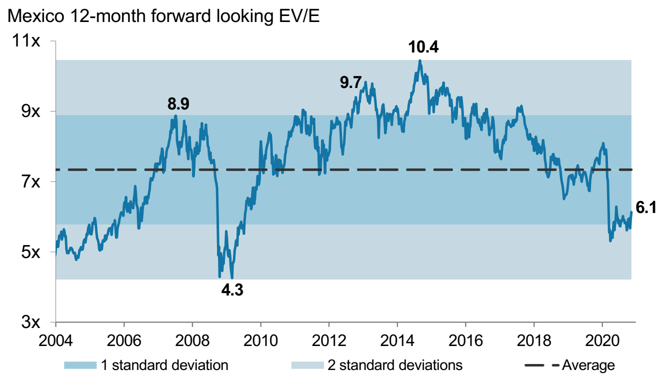
Source: Bloomberg and Morgan Stanley Research

Lastly, we estimate Brazilian equities currently trade at 1.0x the next 12-month price-to-earnings ratio for Emerging Markets, which is a 16% or 0.4 standard deviations discount relative to their 18-year historical mean. Therefore, we see the current valuation level of Brazilian stocks relative to the rest of Emerging Markets as slightly cheap.

Mexico

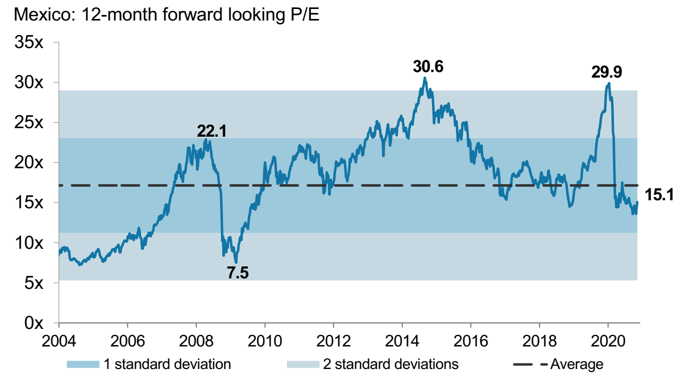
Mexican equities currently trade at 6.1x enterprise value to next 12-month EBITDA, which is a 16%, or 0.8 standard deviation, discount to their 7.3x 17-year historical mean.

Exhibit 86: Mexican Stocks Look Moderately Attractive Valued...



Source: Bloomberg and Morgan Stanley Research

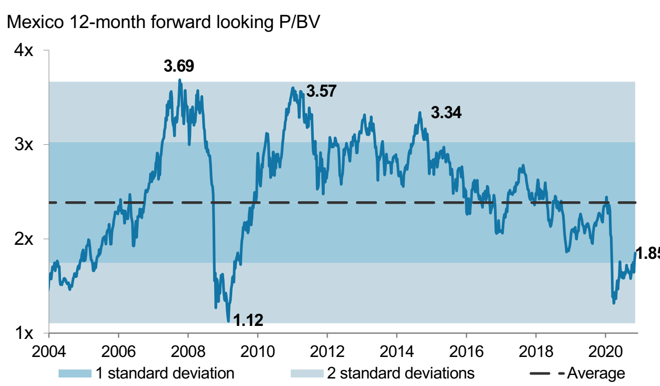
Exhibit 87: ...With All 4 Fundamental Valuation Metrics...



Source: Bloomberg and Morgan Stanley Research

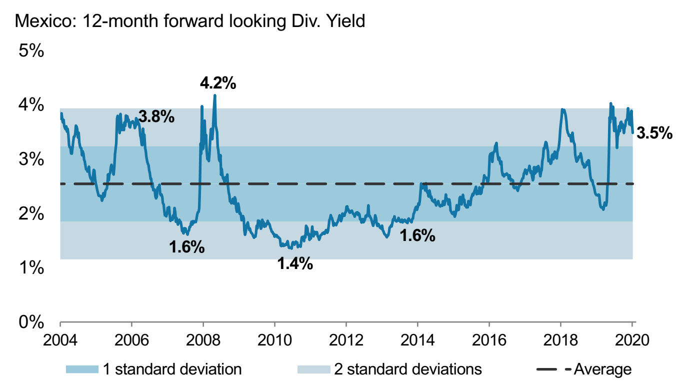
Furthermore, they now trade at 15.1x next 12-month net income, which is a 12%, or 0.4 standard deviation, discount to their 17.1x 17-year historical mean. We also estimate Mexican stocks trade at 1.85x next 12-month book value, which is a 22%, or 0.8 standard deviation, discount to their 2.38x 17-year historical average.

Exhibit 88: ...Trading Between -1.4 and -0.4 S.D. Discounts...



Source: Bloomberg and Morgan Stanley Research

Exhibit 89: ...To Their Respective 17-Year Historical Averages



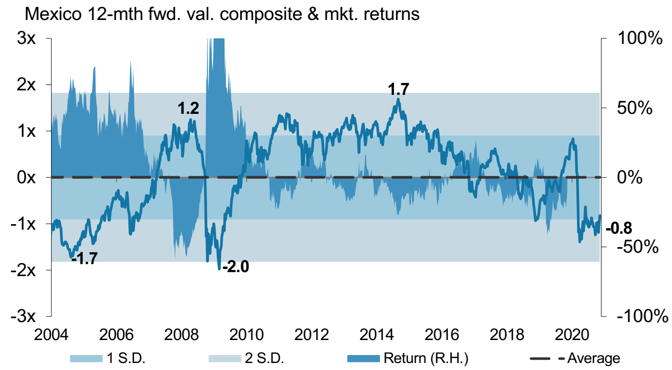
Source: Bloomberg and Morgan Stanley Research

Lastly, the dividend yield of these stocks for the next 12 months is currently 3.5%, which is a 37%, or 1.3 standard deviation, discount (inverted) to their 2.5% 17-year historical average.

Therefore, our valuation composite — which is the average z-score of these 4 traditional valuation metrics — for Mexico is currently trading at -0.8x, or 0.9 standard deviations below its 17-year historical average.

The indicator suggests that Mexican stocks are attractive valued relative to their historical average. However, the key question for investors is if Mexican equities are a value trap or not? We believe they should continue to be until the government changes its state centric approach to develop the energy and electricity sectors.

Exhibit 90: Our Mexican Valuation Composite Is Currently at -0.8 Score (-0.9 Standard Error)...



Source: Bloomberg and Morgan Stanley Research

Exhibit 91: ...A Level Which Has Generated on Average a +33% Return Over the Next 12 Months

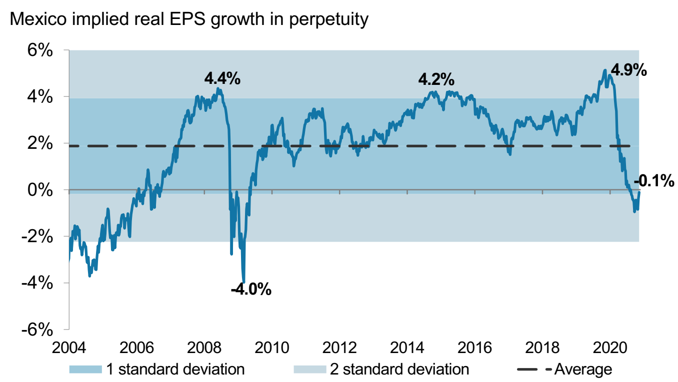
Val. Range	Average 12-month Return	St. Dev. 12-month Return	# Stand. Deviations	Hit ratio Positive Return
-2<x<-1.5	91%	18%	**5.0**	100%
-1.5<x<-1	56%	21%	**2.6**	100%
-1<x<-0.5	**33%**	**13%**	**2.5**	**88%**
-0.5<x<0	5%	10%	**0.6**	54%
-0.5<0	4%	6%	**0.6**	57%
0.5<x<1	-6%	9%	**-0.7**	39%
x>1	-15%	7%	**-2.2**	5%

Source: Bloomberg and Morgan Stanley Research

Historically, Mexican stocks have posted on average a positive 33% return over the following 12 months when our valuation yardstick was between -0.5x and -1.0x score. Therefore, there is material upside for multiple re-rating if the current government reviews its state-centric strategy for the development of the energy and electricity sectors.

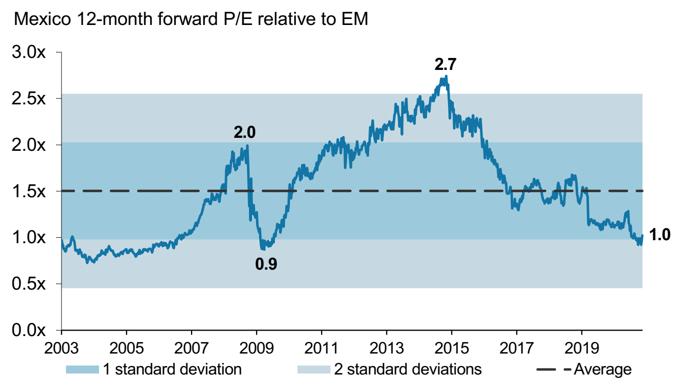
We also back out the implied real earnings growth rate in perpetuity for Mexican stocks based on their cost of equity, current price and earnings forecast for period T+1. We estimate local stocks currently price in a -0.1% real earnings growth rate in perpetuity, which is 1.0 standard deviation below the +1.9% 17-year historical average.

Exhibit 92: The Implied Real Growth Rate for Earnings In Perpetuity Is at Only -0.1%



Source: Bloomberg and Morgan Stanley Research

Exhibit 93: Mexican Equities Appear to Be Attractive Versus Emerging Markets



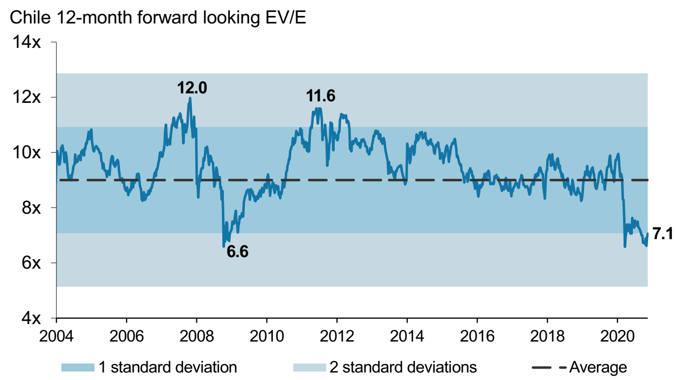
Source: Bloomberg and Morgan Stanley Research

Lastly, we estimate Mexican equities currently trade at 1.0x next 12-month price-to-earnings ratio for emerging markets, which is a 32%, or 0.9 standard deviation, discount to the 18-year historical mean. Therefore, we can see that multiples of Mexican stocks relative to the rest of Emerging Markets have de-rated significantly over the past 6 years and they are now considerably attractive.

Chile

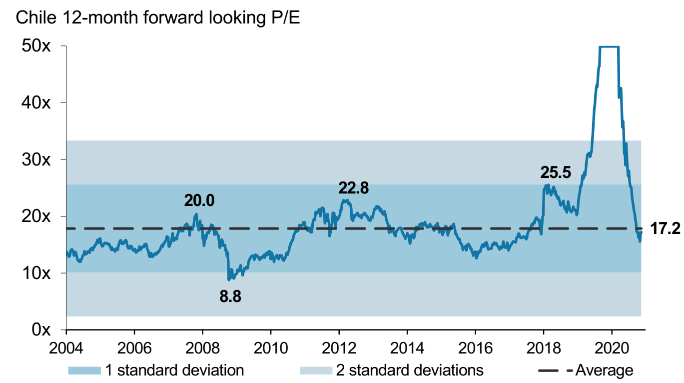
We estimate Chilean equities currently trade at 7.1x enterprise value to next 12-month EBITDA, which is a 24%, or 1.0 standard deviation, discount to their 9.0x 17-year historical average.

Exhibit 94: Chilean Equities Appear to Be Attractive Valued...



Source: Bloomberg and Morgan Stanley Research

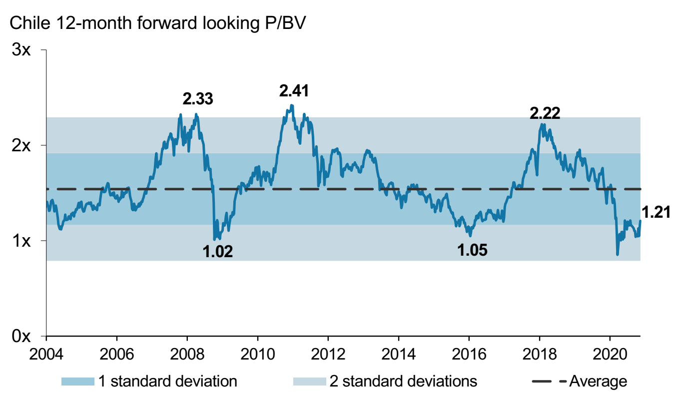
Exhibit 95: ...With All 4 Fundamental Valuation Metrics...



Source: Bloomberg and Morgan Stanley Research

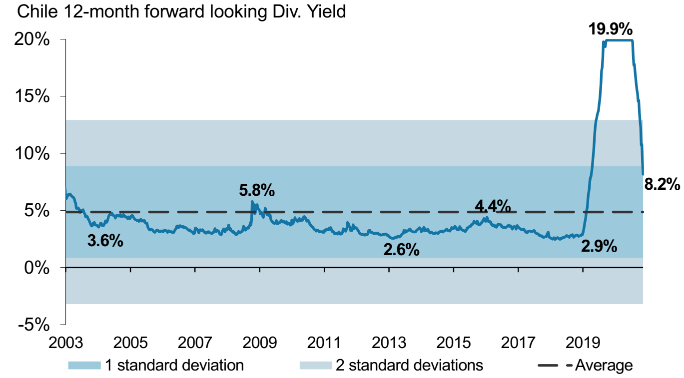
Furthermore, they now trade at 17.2x next 12-month net income, which is a 3%, or 0.1 standard deviation, discount to their 17.7x 17-year historical mean, according to our valuation model. We also calculate Chilean stocks trade at 1.21x next 12-month book value, which is a 22%, or 0.9 standard deviation, discount to their 1.54x 17-year historical average.

Exhibit 96: ...Trading Between -1.0 and -0.1 S.D. Discounts...



Source: Bloomberg and Morgan Stanley Research

Exhibit 97: ...To Their Respective 17-Year Historical Averages

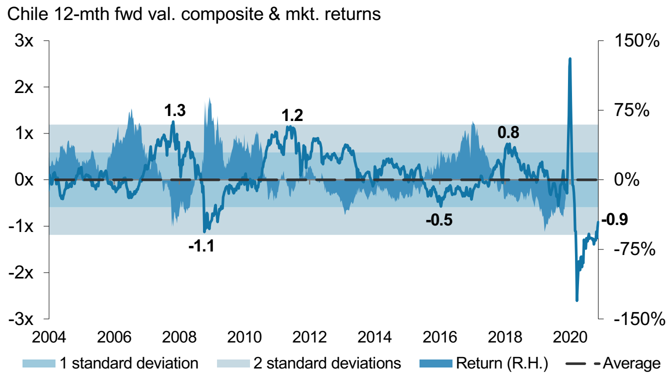


Source: Bloomberg and Morgan Stanley Research

Lastly, the dividend yield of these stocks for the next 12 months is currently 8.2%, which is a 63%, or 0.8 standard deviation, discount (inverted) to their 5.0% 17-year historical mean.

Therefore, our valuation composite — which is the average z-score of these 4 traditional valuation metrics — for Chile is currently trading at -0.9x, or 1.5 standard deviation below its 17-year historical mean. Our valuation composite suggests that Chilean stocks are materially attractive valued.

Exhibit 98: Our Chilean Valuation Composite Is Currently at -0.9x Score (-1.5 Standard Errors)...



Source: Bloomberg and Morgan Stanley Research

Exhibit 99: ...A Level Which Has Generated on Average +39% Return Over the Next 12 Months

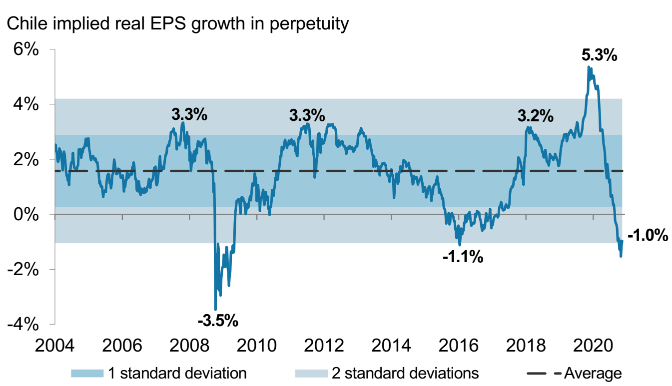
Val. Range	Average 12-month Return	St. Dev. 12-month Return	# Stand. Deviations	Hit ratio Positive Return
-1.5<x<-1	90%	15%	**5.9**	100%
-1<x<-0.5	**39%**	**13%**	**2.9**	**84%**
-0.5<x<0	25%	18%	**1.4**	86%
0<x<0.5	-4%	12%	**-0.3**	38%
0.5<x<1	-11%	7%	**-1.5**	27%
1x<1.5	-22%	3%	**-6.3**	0%

Source: Bloomberg and Morgan Stanley Research

Historically, Chilean stocks have posted on average a positive 39% return over the following 12 months when our valuation yardstick was between -1.0x and -0.5x score. We are positive about the medium term outlook for equities due to attractive valuations, ample policy stimulus and expectations of macro policy continuity.

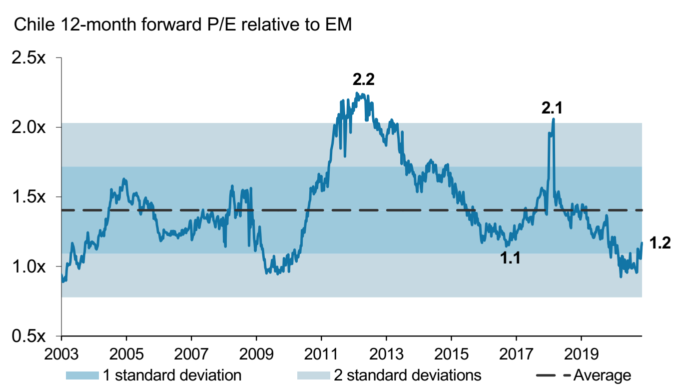
We also back out the implied real earnings growth rate in perpetuity for Chilean stocks based on their cost of equity, current price and earnings forecast for period T+1. We estimate local stocks price in -1.0% real earnings growth rate in perpetuity, which is 1.9 standard deviations below the +1.6% 17-year historical average.

Exhibit 100: The Implied Real Growth Rate for Earnings In Perpetuity Is Only at -1.0%



Source: Bloomberg and Morgan Stanley Research

Exhibit 101: Chilean Stocks Appear to Be Attractively Value Cheap Versus Emerging Markets



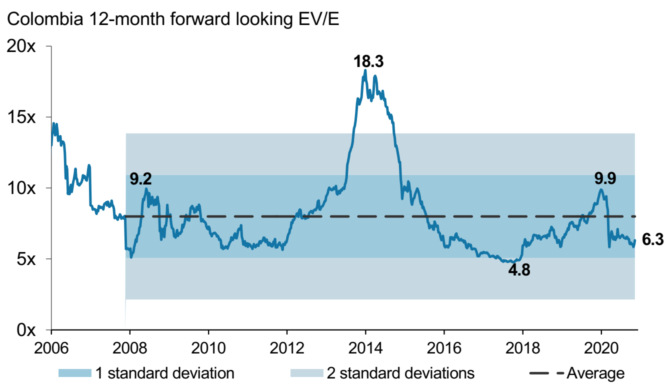
Source: Bloomberg and Morgan Stanley Research

Lastly, we estimate Chilean equities currently trade at 1.2x next 12-month price-to-earnings ratio for emerging markets, which is a 17%, or 0.8 standard deviation, discount to their 18-year historical mean.

Colombia

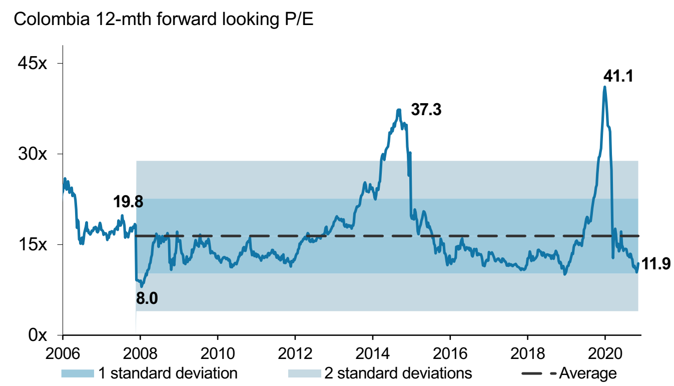
We estimate Colombian equities currently trade at 6.3x enterprise value to next 12-month EBITDA, which is a 21%, or 0.6 standard deviation, discount to their 8.0x 13-year historical average – a period during which an important blue chip energy company has been listed.

Exhibit 102: Colombian Equities Appear Attractive Valued...



Source: Bloomberg and Morgan Stanley Research

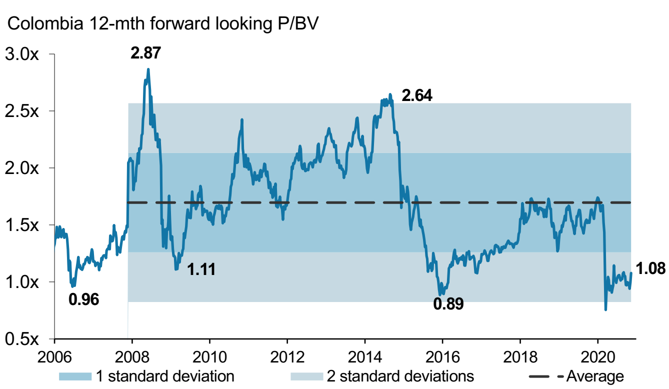
Exhibit 103: ...With 3 Out of 4 Fundamental Valuation Metrics...



Source: Bloomberg and Morgan Stanley Research

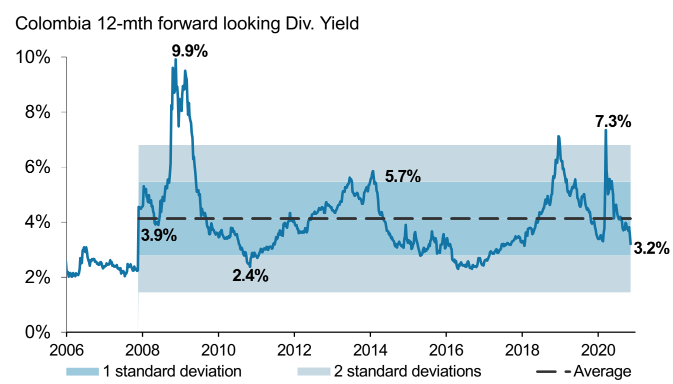
Furthermore, they now trade at 11.9x next 12-month net income, which is a 28%, or 0.7 standard deviation, discount to their 16.4x 12-year historical mean, according to our valuation model. We also calculate Colombian stocks trade at 1.08x next 12-month book value, which is a 36%, or 1.4 standard deviation, discount to their 1.70x 13-year historical average.

Exhibit 104: ...Trading Between -1.9 and -0.8 S.D. Discounts...



Source: Bloomberg and Morgan Stanley Research

Exhibit 105: ...To Their Respective 13-year Historical Averages

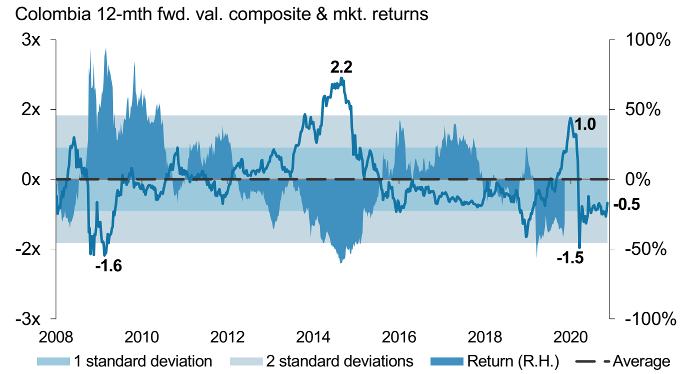


Source: Bloomberg and Morgan Stanley Research

Lastly, the dividend yield of these stocks for the next 12 months is currently 3.2%, which is a 22%, or 0.7 standard deviation, premium (inverted) to its 4.1% 12-year historical average.

Therefore, our valuation composite — which is the average z-score of these 4 traditional valuation metrics — for Colombia is currently trading at -0.5x, or 0.7 standard deviations below its 13-year historical mean.

Exhibit 106: Our Colombian Valuation Composite Is Currently at -0.5x Score (-0.7 Standard Errors)...



Source: Bloomberg and Morgan Stanley Research

Exhibit 107: ...A Level Which Has Generated on Average +18% Return Over the Next 12 Months

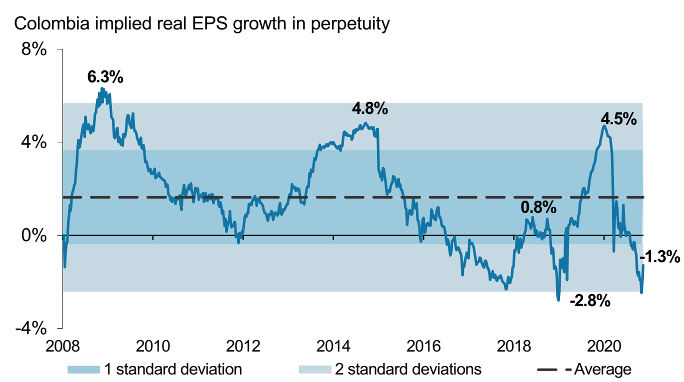
Val. Range	Average 12-month Return	St. Dev. 12-month Return	# Stand. Deviations	Hit ratio Positive Return
x<-1.5	86%	7%	**12.1**	100%
-1.5<x<-1	61%	9%	**6.5**	100%
-1<x<-0.5	**18%**	**6%**	**2.9**	**89%**
-0.5<x<0	13%	15%	0.9	68%
0<x<0.5	-5%	8%	**-0.6**	35%
0.5<x<1	-27%	6%	**-4.2**	0%
1<x<1.5	-30%	5%	**-6.4**	0%
x>1.5	-50%	9%	**-5.5**	0%

Source: Bloomberg and Morgan Stanley Research

Historically, Colombian stocks have posted on average a positive 18% return over the following 12 months when our valuation yardstick was between -1.0 and -0.5 score. We are upbeat about the outlook for Colombian equities as they should benefit from the ongoing global rotation from growth to value stocks. Higher energy prices, as a result of a global reflation trade, should help limit further fiscal deterioration.

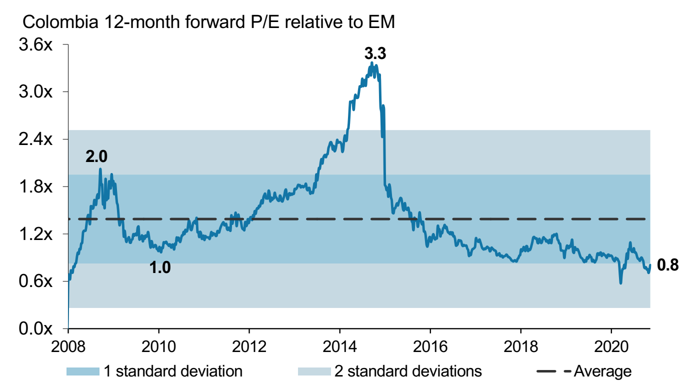
We also back out the implied real earnings growth rate in perpetuity for Colombian stocks based on their cost of equity, current price and earnings forecast for period T+1. We estimate local stocks price in a -1.3% real earnings growth rate in perpetuity, which is 1.4 standard deviations below the +1.6% 13-year historical average.

Exhibit 108: The Implied Real Growth Rate for Earnings In Perpetuity Is at -1.3%



Source: Bloomberg and Morgan Stanley Research

Exhibit 109: Colombian Equities Also Appear Cheap Versus Other Emerging Markets



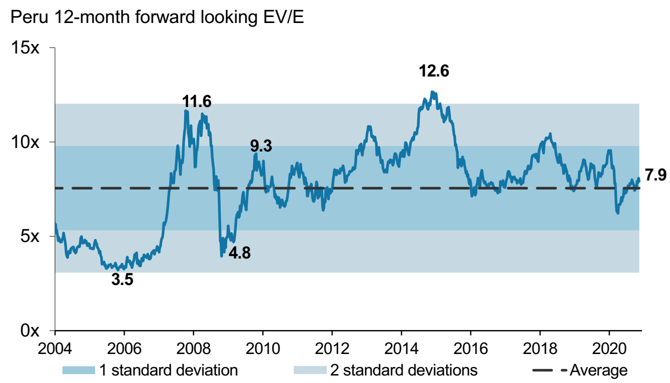
Source: Bloomberg and Morgan Stanley Research

Lastly, we estimate Colombian equities currently trade at 0.8x next 12-month price-to-earnings ratio for emerging markets, which is a 42%, or 1.0 standard deviation, discount to its 13-year historical mean. Therefore, the current relative valuation of Colombian stocks versus Emerging Markets appears attractive.

Peru

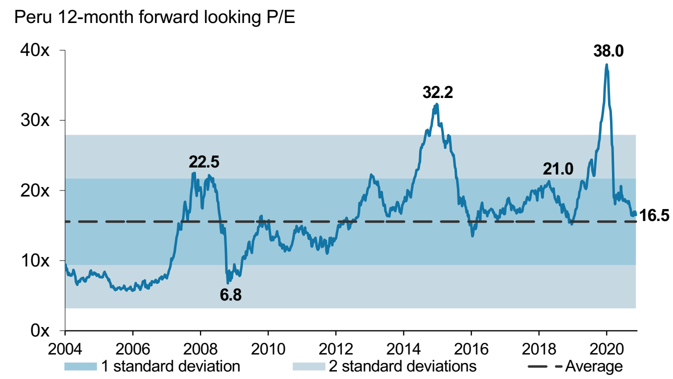
Peruvian equities currently trade at 7.9x enterprise value to next 12-month EBITDA, which is a 5%, or 0.2 standard deviation, premium to their 7.6x 17-year historical average.

Exhibit 110: Peruvian Equities Look Fairly Valued...



Source: Bloomberg and Morgan Stanley Research

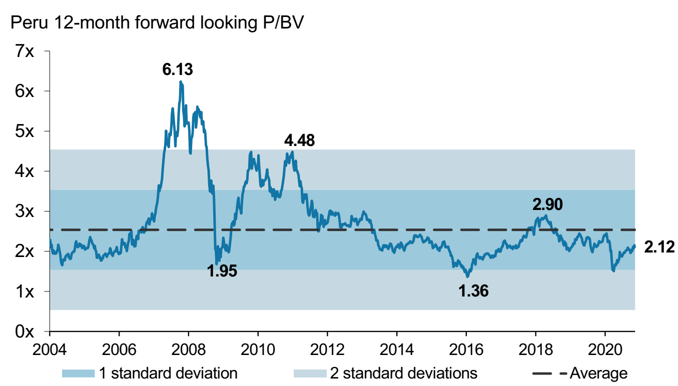
Exhibit 111: ...With All 4 Valuation Metrics...



Source: Bloomberg and Morgan Stanley Research

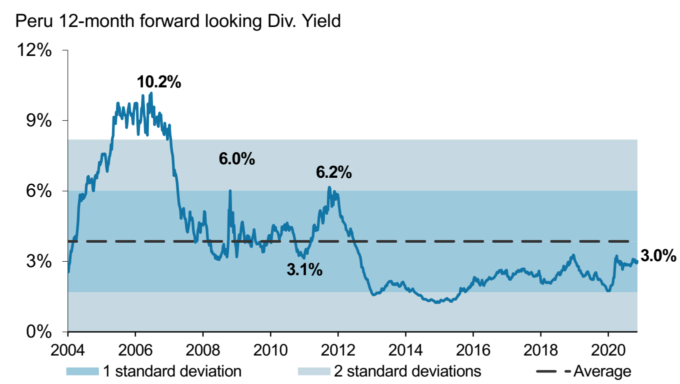
Furthermore, they now trade at 16.5x next 12-month net income, which is a 6%, or 0.2 standard deviation, premium to their 15.6x 17-year historical mean. We also estimate Peruvian stocks trade at 2.12x next 12-month book value, which is a 17%, or 0.4 standard deviation, discount to their 2.54x 17-year historical average.

Exhibit 112: ...Trading Between -0.4 Discount and +0.4 S.D. Premium...



Source: Bloomberg and Morgan Stanley Research

Exhibit 113: ...To Their Respective 17-Year Historical Averages



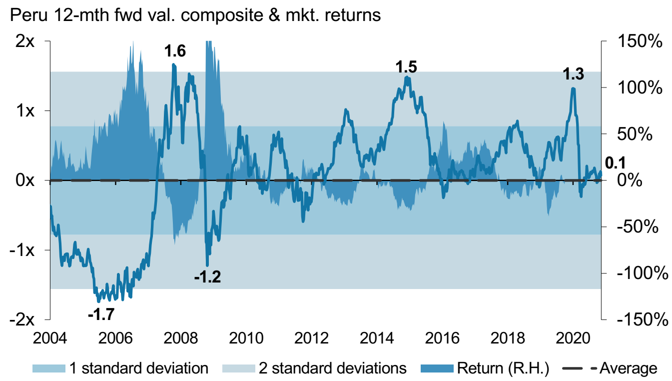
Source: Bloomberg and Morgan Stanley Research

Lastly, the dividend yield of these stocks for the next 12 months is currently 3.0%, which is a 22%, or 0.4 standard deviation, premium (inverted) to the 3.9% 17-year historical average.

Therefore, our valuation composite — which is the average z-score of these 4 traditional valuation metrics — for Peru is currently trading at +0.1x score, or 0.1 standard deviations above its 17-year historical mean.

The indicator suggests that Peruvian stocks are fairly priced on an absolute basis. However, we are cautious about the outlook for local stocks because of increased political uncertainty after the impeachment of former president Vizcarra and ahead of the presidential elections in April 2021.

Exhibit 114: Our Peruvian Valuation Composite Is Currently at +0.1x (+0.1 S.D. Above Its Historical Mean)...



Source: Bloomberg and Morgan Stanley Research

Exhibit 115: ...A Level Which Has Generated on Average a Positive 9% Return Over the Next 12 Months

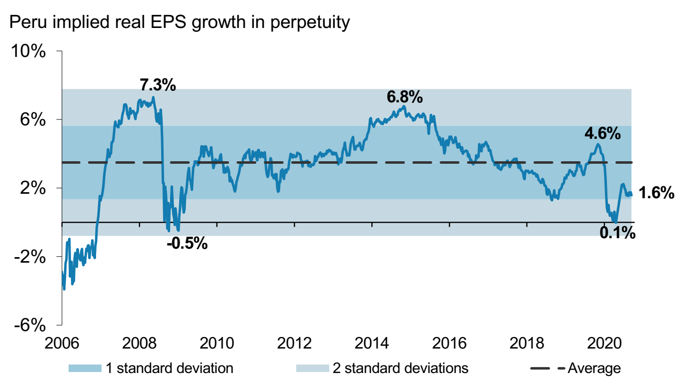
Val. Range	Average 12-month Return	St. Dev. 12-month Return	# Stand. Deviations	Hit ratio Positive Return
x<-1	65%	27%	**2.4**	100%
-1<x<-0.5	74%	27%	**2.8**	100%
-0.5<x<0	30%	15%	**2.0**	91%
0<x<0.5	**9%**	**10%**	**0.9**	**66%**
0.5<x<1	-14%	7%	**-1.8**	12%
1<x<1.5	-30%	9%	**-3.5**	0%
x>1.5	-57%	4%	**-12.9**	0%

Source: Bloomberg and Morgan Stanley Research

Historically, Peruvian stocks have posted on average a positive 9% return over the following 12 months when our valuation yardstick was between 0.0x and +0.5x score.

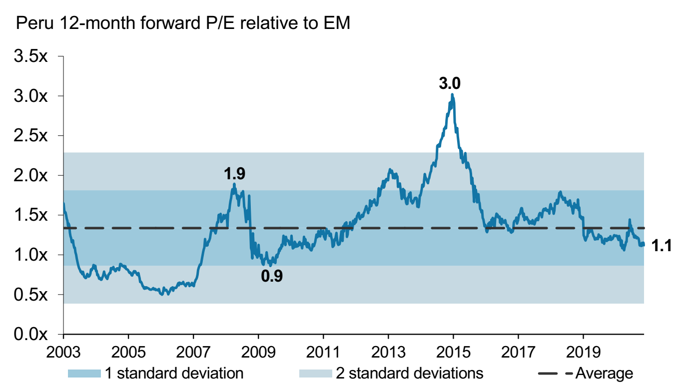
We also back out the implied real earnings growth rate in perpetuity for Peruvian stocks based on their cost of equity, current price and earnings forecast for period T+1. We estimate local stocks price in only +1.6% real earnings growth rate in perpetuity, which is 0.9 standard deviations below its +3.5% 15-year historical average.

Exhibit 116: The Implied Real Growth Rate for Earnings in Perpetuity Is Only +1.6%



Source: Bloomberg and Morgan Stanley Research

Exhibit 117: Peruvian Equities Trade at a Small Discount To Emerging Markets



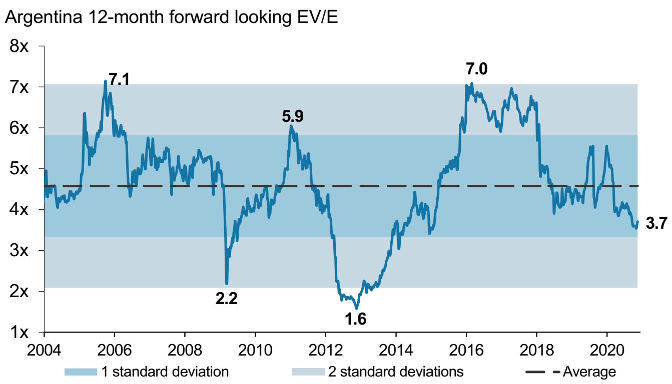
Source: Bloomberg and Morgan Stanley Research

We estimate Peruvian equities currently trade at 1.1x next 12-month price-to-earnings ratio for emerging markets, which is a 16%, or 0.5 standard deviation, discount to its 18-year historical mean. Therefore, Peruvian stocks look moderately attractive compared to the rest of the asset class.

Argentina

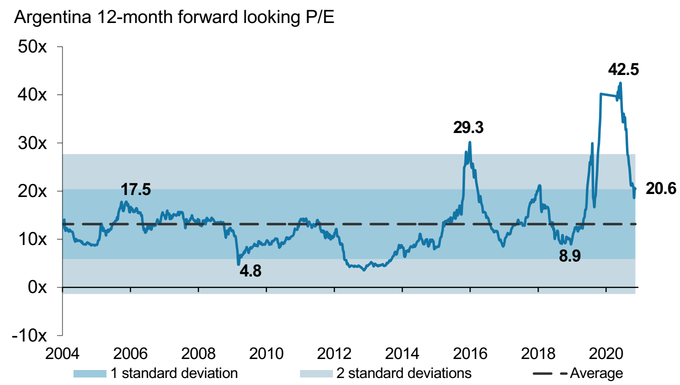
Argentinean equities currently trade at 3.7x enterprise value to next 12-month EBITDA, which is a 19%, or 0.7 standard deviation, discount to their 4.6x 17-year historical average.

Exhibit 118: Argentinean Equities Appear to Be Close To Fair Value..



Source: Bloomberg and Morgan Stanley Research

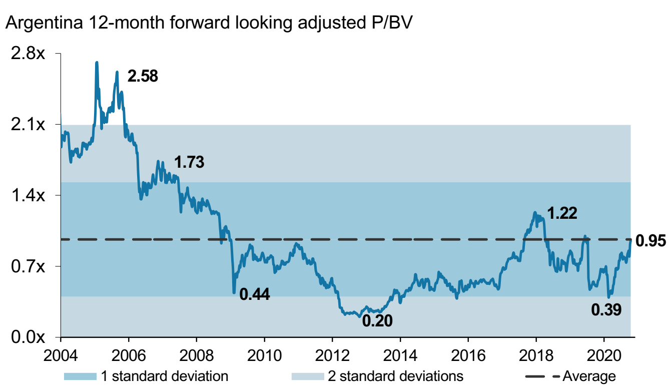
Exhibit 119: ...With 4 Out of 4 Fundamental Valuation Metrics...



Source: Bloomberg and Morgan Stanley Research

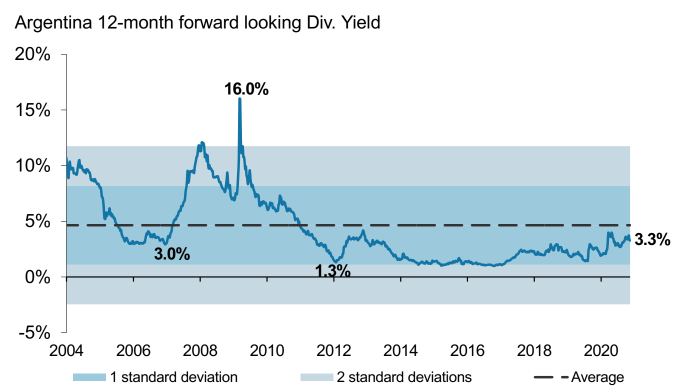
Furthermore, they now trade at 20.5x next 12-month net income, which is a 55%, or 1.0 standard deviation, premium to their 17-year historical mean of 13.2x. We also estimate Argentinean stocks trade at 0.95x next 12-month adjusted book value, which is practically in line with its 17-year historical average of 0.96x.

Exhibit 120: ...Trading Between -0.7 and +1.0 S.D. Premiums...



Source: Bloomberg and Morgan Stanley Research

Exhibit 121: ...To Their Respective 17-Year Historical Averages



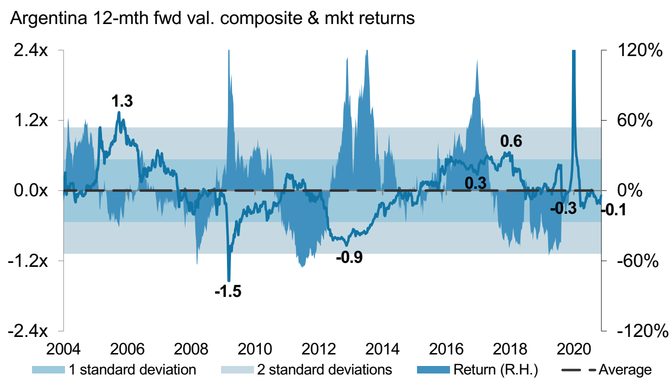
Source: Bloomberg and Morgan Stanley Research

Lastly, the dividend yield of these stocks for the next 12 months is currently 3.3%, which is a 30%, or 0.4 standard deviation, premium (inverted) to the 4.6% 17-year historical average.

Therefore, our valuation composite — which is the average z-score of these 4 traditional valuation metrics — for Argentina is currently trading at -0.1x score, or 0.2 standard deviations below its 17-year historical mean. Historically, Argentinean stocks have posted on average a 0% return over the following 12 months when our valuation yardstick was between -0.5x and 0x score.

The indicator suggests that Argentinean stocks appear to be attractively valued. However, we have a bearish stance on local equities predicated upon heightened uncertainty regarding both 1) domestic top-down imbalances (e.g., high monetary emission with capital controls) and 2) policy distortions at the industry level (e.g., price freezes for the telecom industry amid high inflation rates).

Exhibit 122: Our Argentina Valuation Composite Is Currently Trading at a -0.1x Score (-0.2 S.D. Below Its Historical Mean)...



Source: Bloomberg and Morgan Stanley Research

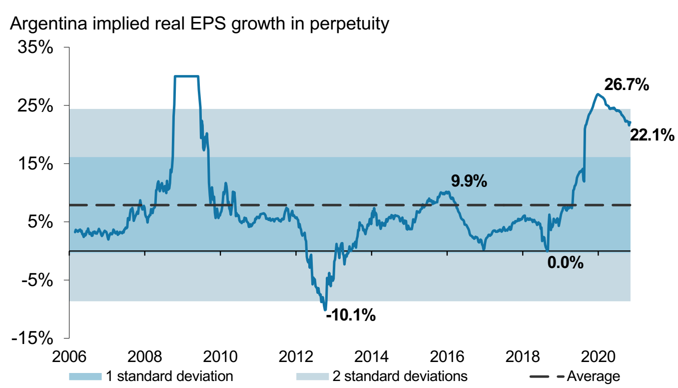
Exhibit 123: ...A Level Which Has Generated on Average 0% Return Over the Following 12 Months

Val. Range	Average 12-month Return	St. Dev. 12-month Return	# Stand. Deviations	Hit ratio Positive Return
-1.5<x<-1	146%	21%	**7.1**	100%
-1<x<-0.5	56%	20%	**2.7**	97%
-0.5<x<0	**0%**	**17%**	**0.0**	**51%**
0<x<0.5	-1%	21%	**0.0**	45%
0.5<x<1	-5%	8%	**-0.7**	35%
1<x<1.5	-21%	3%	**-7.6**	0%

Source: Bloomberg and Morgan Stanley Research

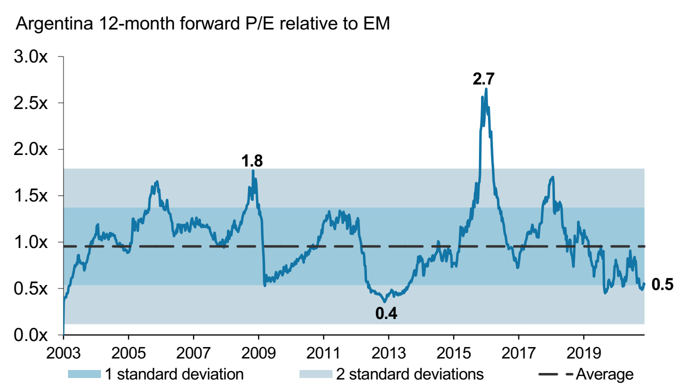
We also back out the implied real earnings growth rate in perpetuity for Argentinean stocks based on their cost of equity, current price and earnings forecast for period T+1. We estimate local stocks price in a +22.1% real earnings growth rate in perpetuity, which is 1.7 standard deviations above the +7.9% 15-year historical average.

Exhibit 124: The Implied Real Growth Rate for Earnings in Perpetuity Is +22.1%



Source: Bloomberg and Morgan Stanley Research

Exhibit 125: Argentinean Stocks Trade Considerably Below Their Emerging Markets Peers



Source: Bloomberg and Morgan Stanley Research

Lastly, we estimate Argentinean equities currently trade at 0.5x next 12-month price-to-earnings ratio for emerging markets, or 1.0 standard deviations below its 18-year historical mean. Therefore, Argentinean stocks seem considerably cheap relative to Emerging Markets.

Sector And Stocks: Valuation and Profitability

We present below our 2021 valuation and profitability analysis for sectors and stocks in Brazil, Mexico, Chile, Peru, Colombia and Argentina. This section presents the data in summary charts (by sectors for Brazil and by stocks for the other markets) with detailed stock data for Brazil in the appendix.

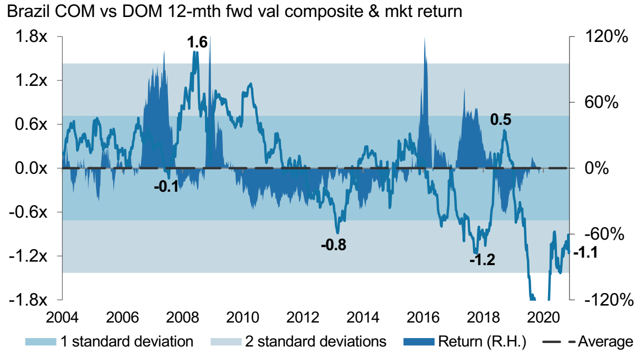
Brazil

The Brazilian equity market is pretty much a tale of two groups of stocks: commodities (i.e., Materials and Energy) and domestics (Consumer Staples, Discretionary, Financials, Health Care, Industrials, Telecom, and Utilities).

Their forward-looking valuation multiples are:

- Commodities: The group is trading at 4.3x enterprise value to Ebitda, 10.4x price to earnings, 1.3x book value and 3.7% dividend yield.
- Domestics: The group is trading at 10.4x enterprise value to Ebitda, 15.9x price to earnings, 2.2x book value and 3.2% dividend yield.

Exhibit 126: Commodities Look Attractively Valued Versus Domestics in Brazil



Source: Bloomberg and Morgan Stanley Research

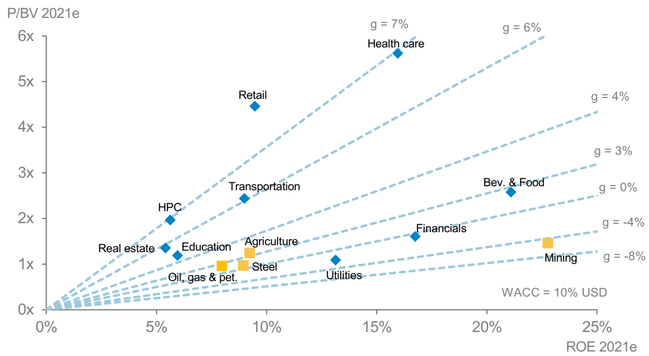
Our valuation composite — which is based on the multiples above — for commodities is at 0.6 standard deviation discount to its 17-year historical average, while for domestics it is at a 0.9 standard deviation premium. Therefore, currently, commodities are trading at a 1.5 standard deviation discount (-1.1x score) to domestics based on our estimates (side Exhibit).

Going to the GICS level, we focus our analysis on valuation versus profitability. The next exhibits displays forecast price to book value (PBV) multiples and return on equity (ROE) figures for 2021 by sector. However, we have added growth-neutral lines to help us compare different sectors.

The growth-neutral lines plot different PBV-ROE combinations with implied equal growth prospects.

In other words, if a sector has a 10% ROE and trades at 1.5 PBV, and if another has 20% ROE and trades at 3.0 PBV, both are pricing in similar EPS growth prospects (+4%) in perpetuity – see the next exhibits.

Exhibit 127: Financials Have Weaker Growth Prospects Than Other Domestic Sectors According to Investors



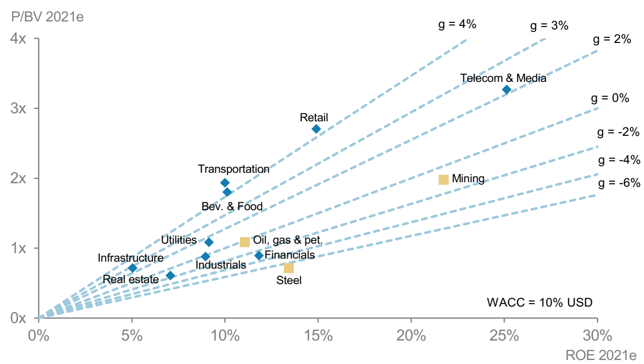
Source: Company data and Morgan Stanley Research

Our key conclusions from the exhibit are:

- Financials stocks appear attractively valued versus other domestic oriented companies because the market is currently pricing in growth prospects for Financials similar to Utilities and Food & Beverage companies;
- Retail companies are currently pricing in a stronger growth outlook than any other sectors in the market; and
- Lastly, we see long-term value in Mining, a sector which is pricing in lower earnings growth prospects than others in the commodity group.

Mexico

Exhibit 128: Retail, Transportation and Beverage & Food Are Pricing In a More Optimistic Growth Outlook Than Other Domestics



Source: Company data and Morgan Stanley Research

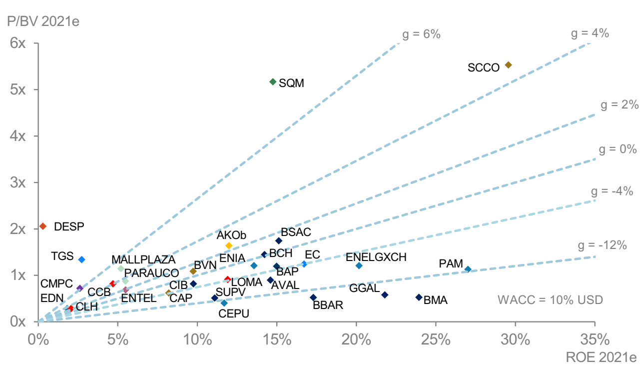
Again, we focus our analysis on valuation versus profitability. The next exhibit displays forecasted price to book value (PBV) multiples and return on equity (ROE) figures for 2021 for each sector.

Our key conclusions from the exhibit are:

- Retail, Transportation and Beverage & Food companies are currently pricing in a more optimistic growth outlook than other domestic oriented sectors;
- Meanwhile, Steel and Financials appear to be on the other side of the spectrum pricing in a weaker growth outlook versus the rest of the market.

Andean Region & Argentina

Exhibit 129: The Mining Sector in Peru and Lithium in Chile Are Pricing In Higher Earnings Growth Prospects Than Other Sectors

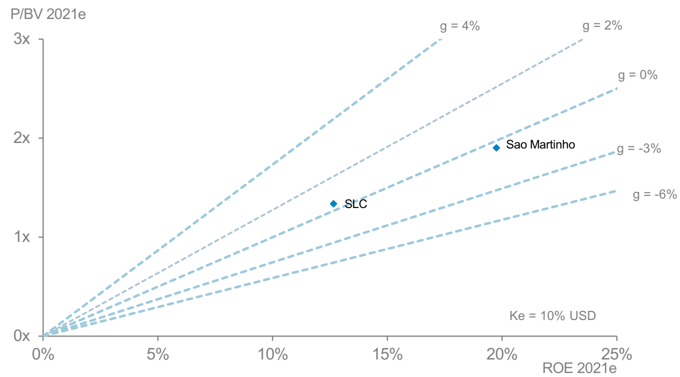


Lastly, we repeat our valuation versus profitability analysis for the Andean region (Chile, Colombia and Peru) and Argentina.The next exhibit displays forecast price to book value (PBV) multiples and return on equity (ROE) figures for 2021 by stock (each sector has a particular color).

- Financials in Chile, Peru and Colombia are correctly pricing stronger growth outlooks than their peers in Argentina;
- Chilean Real Estate stocks are pricing in some of the highest earnings growth rates in the sample.

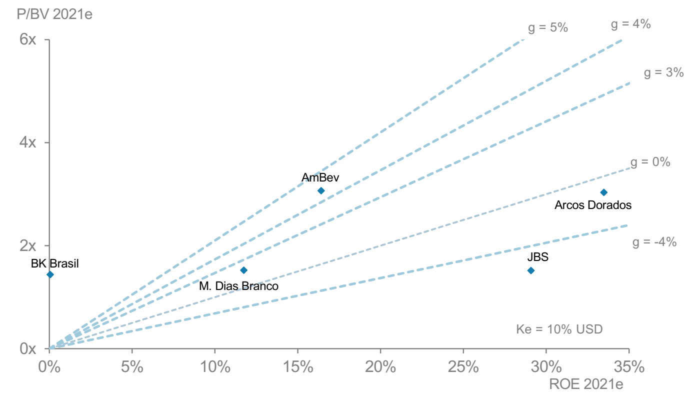
Appendix - Brazil: Valuation versus Profitability

Exhibit 130: Agriculture



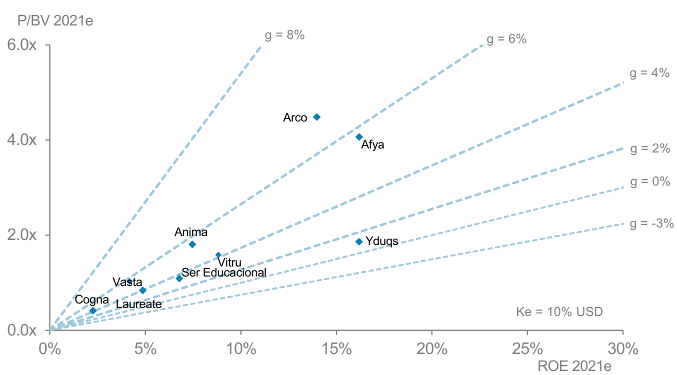
Source: Morgan Stanley Research

Exhibit 131: Beverage & Food



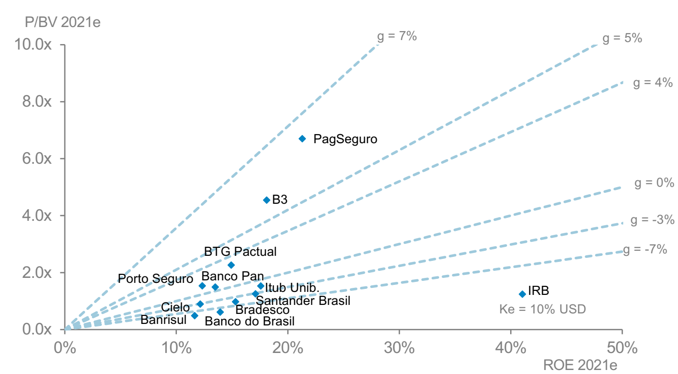
Source: Morgan Stanley Research

Exhibit 132: Education



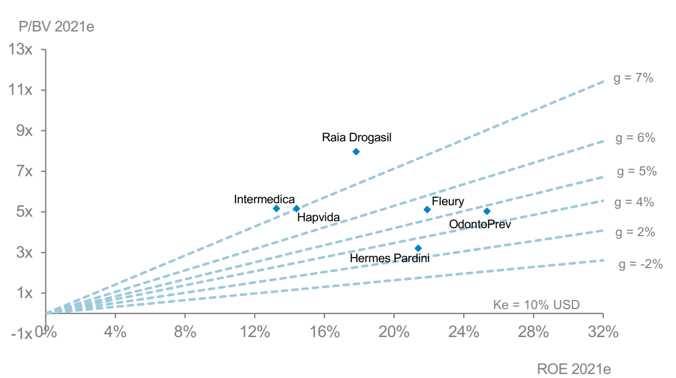
Source: Morgan Stanley Research

Exhibit 133: Financials



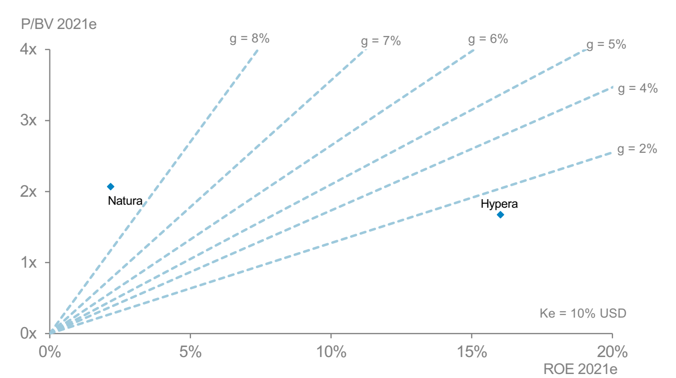
Source: Morgan Stanley Research

Exhibit 134: Health Care



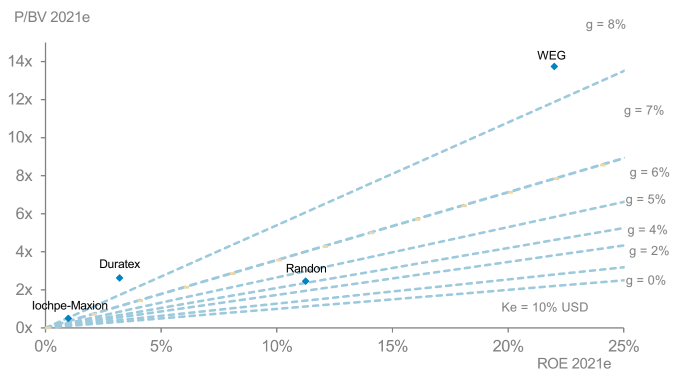
Source: Morgan Stanley Research

Exhibit 135: HPC



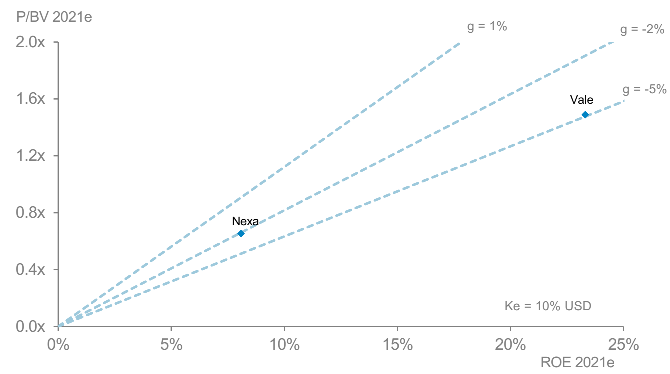
Source: Morgan Stanley Research

Exhibit 136: Industrials



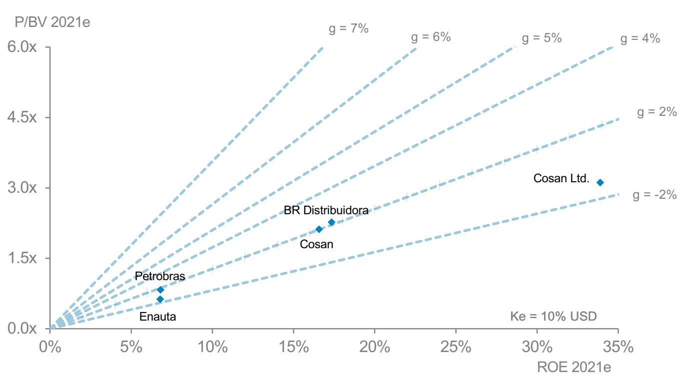
Source: Morgan Stanley Research

Exhibit 137: Mining



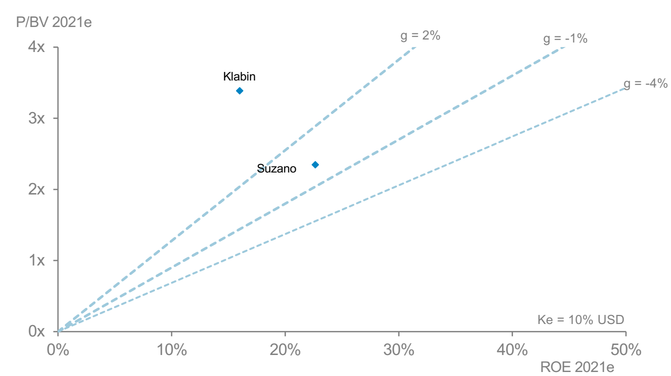
Source: Morgan Stanley Research

Exhibit 138: Oil, Gas & Petrochemicals



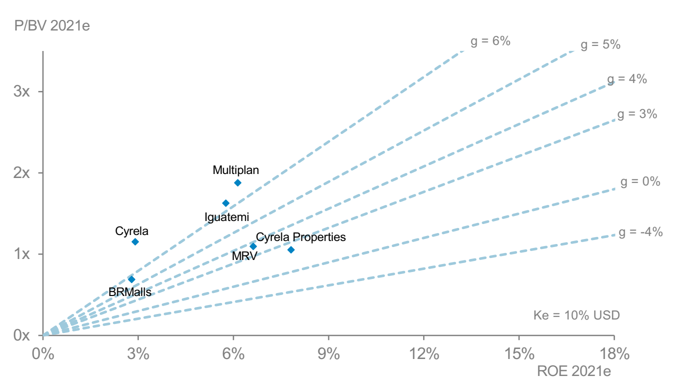
Source: Morgan Stanley Research

Exhibit 139: Pulp & Paper



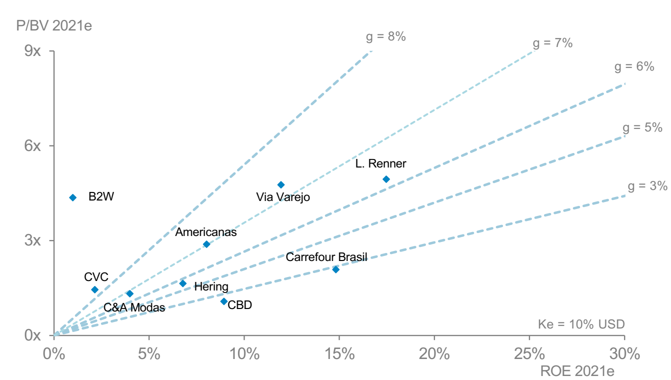
Source: Morgan Stanley Research

Exhibit 140: Real Estate



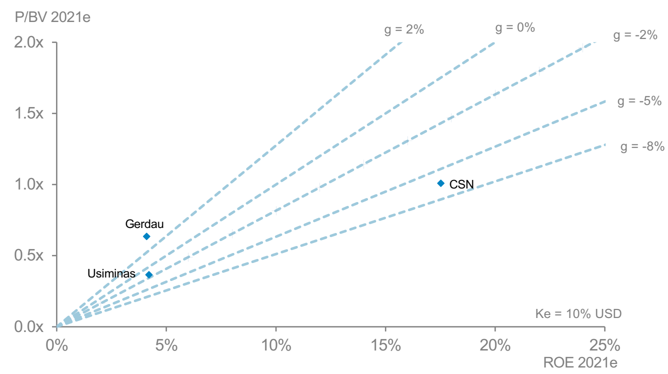
Source: Morgan Stanley Research

Exhibit 141: Retail



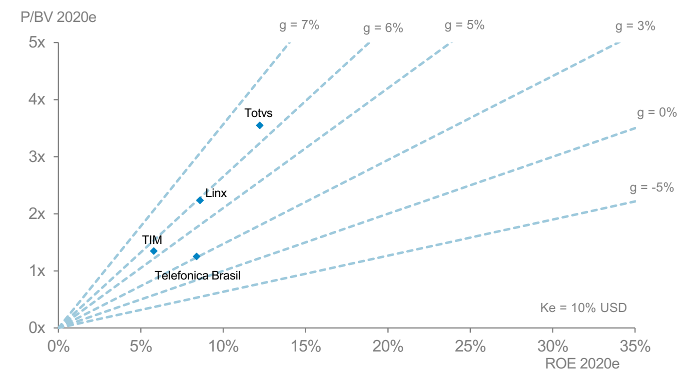
Source: Morgan Stanley Research

Exhibit 142: Steel



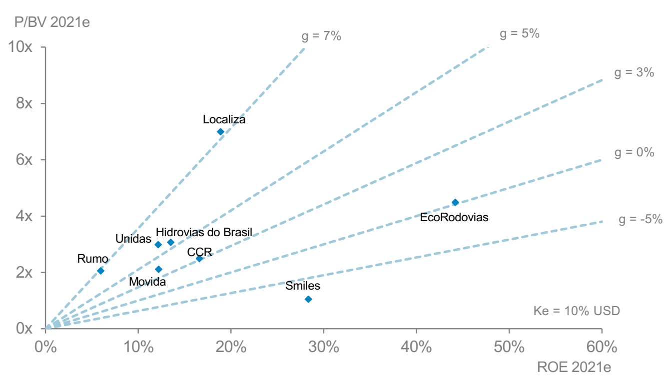
Source: Morgan Stanley Research

Exhibit 143: Telecom & Info Technology



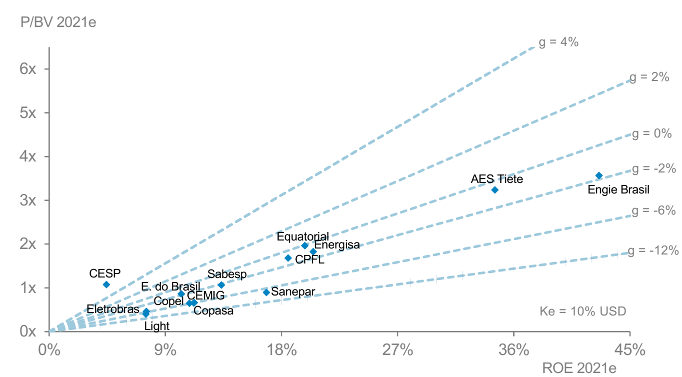
Source: Morgan Stanley Research

Exhibit 144: Transportation



Source: Morgan Stanley Research

Exhibit 145: Utilities



Source: Morgan Stanley Research

Top Ten Stock Ideas: Price Targets, Valuations and Estimates

We normally base our Focus List on high conviction short-term calls from our fundamental analysts that we agree with. However, our opinion can differ from those of our colleagues occasionally, and from time to time we will include a stock that is not a consensus call among the research department. There are no considerations for benchmark allocation, and therefore our Focus List could exhibit a high concentration of stocks in a specific country, sector or size strata of the market.

Our current Focus List members are:

- **Brazil:** Itau, XP, BTG Pactual, Vale, Lojas Renner, Gerdau. and Magazine Luiza.
- **Mexico:** Walmex.
- **Argentina:** Mercadolibre and Globant.

Exhibit 146: Our Focus List Has a Simple Average Expected Total Return (Upside Plus Dividend Yield) of +22%...

11/13/2020 Ticker	Company	Ccy	Price	Target	DY 2021	Total return	Mkt Cap (USDm)	Investment thesis
XP.O	XP Inc	USD	38.57	58.0	0.6%	**51%**	21,283	Brazilian investment platform well-positioned to capture industry growth and asset allocation shift in savings
BPAC11.SA	BTG Pactual	BRL	80.7	100.0	3.3%	**27%**	13,356	Brazilian top investment bank with e-platform growth opportunity
VALE.N	Vale	USD	11.7	14.0	7.1%	**27%**	59,899	Brazilian attractively valued iron ore producer leveraged to a potential global reflation trade in 2021
GGBR4.SA	Gerdau	BRL	20.9	26.0	2.4%	**27%**	6,517	Brazilian steel producer leveraged to a potential global reflation trade in 2021
ITUB.N	Itau Unib.	USD	5.2	6.3	5.2%	**26%**	50,862	Brazilian retail bank should benefit from a potential global rotation from growth to value in 2021
WALMEX.MX	Wal-Mart	MXN	55.7	65.0	3.3%	**20%**	47,676	Mexican retailer shouldd benefit from stronger domestic growth and e-commerce opportunity
LREN3.SA	L. Renner	BRL	45.7	53.0	2.0%	**18%**	6,662	Brazilian top of the class apparel retailer that should benefit from stronger economic growth in Brazil
MELI.O	Mercadolibre	USD	1,301.7	1,500.0	0.0%	**15%**	64,705	Argentine e-commerce and payments platform with a growing marketplace and micro-merchant TPV penetration
GLOB.N	Globant	USD	187.5	210.0	0.0%	**12%**	7,637	Argentine tech firm with net cash position leverage to global digitalization trends
MGLU3.SA	Magazine Luiza	BRL	25.1	23.5	0.0%	**-6%**	30,164	Brazilian omni-channel retai leader with focus on eletronics, houseware and other products
Simple average return						**22%**		

Source: Bloomberg and Morgan Stanley Research estimates. Price targets are those of the Morgan Stanley analysts covering these stocks.

Our Focus List has a simple average expected total return of +22% based on our analysts' price targets versus +18% for the 170 stocks in our Latin American universe of coverage. Furthermore, our top stock ideas trade at an aggregated average 6.0x EV/EBITDA and circa 12.0x P/E multiples for 2021, or 13% and 19% discounts to our regional sample means, respectively.

Our top ten list also has a weighted average +19% projected return-on-equity for the next year, which is 52% above the average for our Latin American universe of coverage. The Focus List has projected -5% EBITDA and +9% EPS compounded annual growth rate over the 2021-22 period, which is 16 p.p. and 52 p.p. lower than our regional sample average, respectively.

Exhibit 147: ....And A Weighted Projected Return-On-Equity Of +19%...

11/13/2020		Mkt cap	EV/E	P/E	P/BV	Div. Yld.	MS Ebitda growth			MS EPS growth			ROE
Ticker	Company	(USDm)	2021	2021	2021	2021	2021	2022	CAGR	2021	2022	CAGR	2021
XP.O	XP Inc	21,283	33.9	43.0	10.1	0.6%	33%	31%	nm	32%	24%	nm	**27%**
WALMEX.MX	Wal-Mart	47,676	11.4	22.3	5.2	3.3%	14%	11%	13%	36%	13%	24%	**25%**
VALE.N	Vale	59,899	3.5	6.6	1.5	7.1%	-11%	-20%	-15%	3%	-24%	-11%	**23%**
LREN3.SA	L. Renner	6,662	14.7	33.8	5.8	2.0%	37%	32%	34%	-14%	42%	10%	**18%**
ITUB.N	Itau Unib.	50,862	nm	10.9	1.8	5.2%	nm	nm	nm	44%	22%	33%	**18%**
BPAC11.SA	BTG Pactual	13,356	nm	16.9	2.5	3.3%	nm	nm	nm	14%	24%	19%	**16%**
MELI.O	Mercadolibre	64,705	nm	nm	31.9	0.0%	40%	74%	56%	127%	92%	109%	**11%**
GLOB.N	Globant	7,637	nm	90.1	8.5	0.0%	53%	31%	42%	44%	57%	51%	**10%**
GGBR4.SA	Gerdau	6,517	6.0	12.5	1.0	2.4%	28%	10%	19%	68%	20%	42%	**9%**
MGLU3.SA	Magazine Luiza	30,164	nm	nm	19.4	0.0%	47%	51%	49%	150%	62%	101%	**8%**
Focus List			**6.0**	**11.9**	**3.2**	**3%**	**-3%**	**-8%**	**-5%**	**19%**	**0%**	**9%**	**19%**
MS universe			**6.9**	**14.7**	**1.8**	**3%**	**16%**	**6%**	**11%**	**124%**	**16%**	**61%**	**13%**
Difference (%)**			**-13%**	**-19%**	**76%**	**-13%**	**-19%**	**-14%**	**-16%**	**-105%**	**-16%**	**-52%**	**52%**

**Percentage points for EBITDA and EPS growth figures; Source: Bloomberg and Morgan Stanley Research estimates

Finally, we highlight our fundamental analysts' and consensus EBITDA and EPS forecasts for 2021-2022. We then compare the figures to identify the potential for upward revisions that could lead to stock outperformance, or downward revisions that could lead to underperformance.

Our findings are that Morgan Stanley's 2021 EPS forecasts are more optimistic than consensus (difference equal to or bigger than 5%) for two of our top 10 stock picks for this month (Mercadolibre and Walmex). Meanwhile, Morgan Stanley earnings estimates are in line (between +5% and -5%) with consensus for another four of our top 10 names (Itau, XP, Gerdau, and BTG Pactual). Lastly, our analysts' forecasts are less optimistic (difference larger than -5%) than consensus for four of our top ten stock ideas (Lojas Renner, Magazine Luiza, Vale, and Globant).

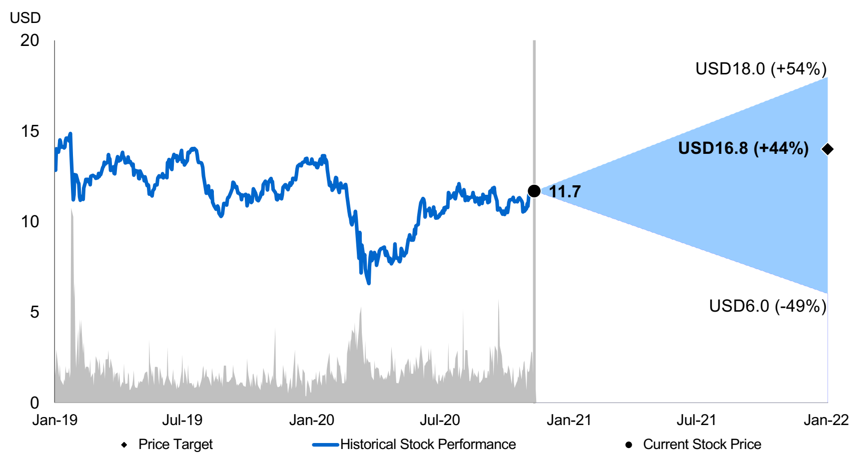
Exhibit 148: ...And 2021 Earnings Forecasts That Are +5% Higher Than Consensus for 2 Of Our Top 10 Stock Ideas

			EBITDA						EPS					
			MS		Consensus		% diff.		MS		Consensus		% diff.	
Ticker	Company	CCY	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
MELI.O	Mercadolibre	USD	442	770	352	667	25%	15%	4.13	7.93	2.96	7.37	**39%**	8%
WALMEX.MX	Wal-Mart	MXN	84,630	91,634	81,602	86,870	4%	5%	2.57	2.82	2.42	2.67	**6%**	6%
ITUB.N	Itau Unib.	BRL	nm	nm	nm	nm	nm	nm	2.57	3.03	2.49	2.95	**3%**	3%
XP.O	XP Inc	USD	628	823	655	922	-4%	-11%	0.90	1.11	0.89	1.16	**1%**	-4%
GGBR4.SA	Gerdau	BRL	7,867	8,352	7,238	7,532	9%	11%	1.65	1.90	1.66	1.65	**-1%**	15%
BPAC11.SA	BTG Pactual	BRL	nm	nm	nm	nm	nm	nm	4.68	5.62	4.93	5.86	**-5%**	-4%
LREN3.SA	L. Renner	BRL	2,509	3,188	2,444	2,922	3%	9%	1.33	1.82	1.45	1.79	**-8%**	2%
MGLU3.SA	Magazine Luiza	BRL	2,154	3,132	2,205	3,086	-2%	2%	0.10	0.15	0.12	0.18	**-19%**	-14%
VALE.N	Vale	USD	17,082	13,691	21,483	18,701	-20%	-27%	1.76	1.35	2.39	2.02	**-26%**	-33%
GLOB.N	Globant	USD	178	233	198	250	-10%	-7%	2.08	3.28	2.99	3.73	**-30%**	-12%

Source: Bloomberg and Morgan Stanley Research.

Vale (VALE.N, USD11.7, Overweight, PT USD14.0)

Overweight as we think the stock is cheap and we expect one catalyst to unfold in the ST



Source: Thomson Reuters, Morgan Stanley Research Estimates.

Price Target **USD14.0**

Our 2021YE PT is derived using the average of a multiple valuation (50%) and a DCF model (50%). In the first approach, we use a P/E multiple of 8.5x, 21% below Vale's 2014-18 historical avg., on our 2022E EPS. The discount is equivalent to 100% of the avg. discount, relative to their historical multiple, at which British Petroleum and Volkswagen traded after their environmental incidents. In our DCF model, we use a 8.7% WACC and a 0% growth rate.

Bull **USD18.0**

Fe (CIF): 2021E:$106/t;bull case DCF

Demand disruption from the covid-19 outbreak recovers faster than expected, driving commodity prices higher. Stronger-than-expected IO demand in China and Europe drives higher medium to long-term iron ore prices.

Base **USD16.8**

Fe (CIF): 2021E: $81/t; LT: $64/t; base case DCF

The global recession driven by the covid-19 outbreak impacts iron ore demand less than other commodities supported by China steel production. Strong Chinese steel production results in a balanced market for 3Q20, but the recovery in seaborne iron ore shipments and seasonal slowdown in China's demand lead to a surplus in 4Q20 driving down iron ore prices. S11D ramp-up and lower capex needs drive solid FCF generation. We factor in an additional $4bn Brumadinho provision in 1Q21.

Bear **USD6.0**

Fe (CIF): 2021E:$64/t; bear case DCF

The covid-19 driven global recession lasts longer than expected negatively impacting demand for commodities and Chinese steel consumption. The global slowdown leads to a faster-than-expected decline in bulk and base metals demand, negatively impacting commodities prices. We consider an additional $7.0Bn in payments for Brumadinho (maximum fine – i.e., 20% of gross revenues – under the Brazilian anti-corruption law).

Investment Thesis

- We remain OW Vale as we think the stock is cheap and we expect one potentially significant catalyst to unfold in the next six months: settlement of a possible comprehensive agreement between Vale and the Brazilian public prosecutors on Brumadinho.
- We project Vale to post solid FCF in the coming years, despite lower iron ore price forecasts and future payouts on the Brumadinho accident, which should allow the company to return excess cash to shareholders via dividends/buybacks.
- The stock's risk-reward is skewed to the upside and valuation looks attractive vs. historical average.

Key Value Drivers

- Vale benefits from low production costs vs. the industry, supporting above-average margins and cash flow
- Carajas' high quality ore (high in Fe content, low in contaminants) enables Vale to benefit from quality premiums

Risks to Achieving Price Target

- (+) China steel output growth surprises to the upside, iron ore prices move higher
- (+) Vale re-rates on improved ESG practices
- (-) China and/or Europe reduces steel consumption/production and/or cuts iron ore imports
- (-) Global growth slows down led by China; lower global demand for commodities
- (-) Commodity prices lower than our base case
- (-) Vale has pay a large unexpected amount for Samarco, Brumadinho accidents

Analyst

- Carlos De Alba, +1 212 761 4927

Exhibit 149: Vale - Fundamentals vs. peers

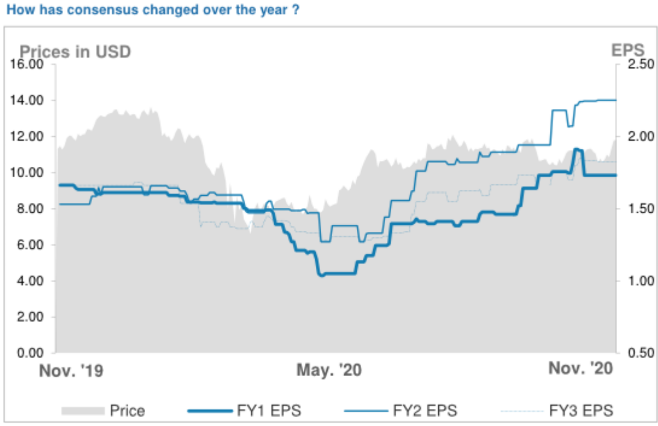
	Vale – Quintile range (vs. peers): Lowest				Highest	Peer median
Valuation						
P/E (FY0)	6.5x					9.9x
P/E (FY1)	8.5x					10.9x
P/E (FY2)		9.0x				10.8x
P/Book				1.5x		1.0x
P/FCF			10.0x			10.8x
P/Op Rev				1.6x		1.0x
Curr EV/Ebitda		3.7x				5.3x
EV/Op Rev			1.5x			1.4x
Stock Performance						
Pchange 1month			2.4%			2.4%
Pchange 3 month		1.6%				3.4%
Pchange 12 month			(0.1%)			4.4%
Pchange YTD	(13.0%)					4.1%
Efficiency						
Cash Turnover	2.7					3.5
Fixed Asset Turnover			1.0			1.0
Inventory Turnover				8.2		6.3
Total Asset Turnover		0.4				0.5
Trade receivable turnover					16.2	9.7
Cash Flow						
FCF/Market Cap				0.10		0.1
FCF/Rev				0.16		0.1
FCF/EPS		0.7				0.8
Liquidity						
Cash/ST debt			6.5			6.5
Cash/Net debt					10.2	0.6
Current ratio		1.7				2.5

	Vale – Quintile range (vs. peers): Lowest				Highest	Peer median
Growth						
EPS-1yr history				3.3%		(35.8%)
EPS-3yr history			16.6%			16.6%
EPS-1yr forward		(23.5%)				(7.2%)
EPS-2yr foward		(27.7%)				(1.2%)
BVPS-1yr history	1.5%					7.8%
DPS-1yr history		28.5%				104.1%
EBIT-1yr history		(12.5%)				71.0%
Op Rev-1yr history	1.0%					17.2%
Margins						
ROA					10.6%	4.7%
ROE				23.5%		9.9%
EBIT margin				37.5%		21.3%
Net inc. margin					24.1%	9.8%
Payout ratio				47.4%		20.8%
Gross margin						35.9%
RNOA					24.4%	9.8%
Financial Leverage						
Debt/Assets		0.2				0.2
Debt/Equity		0.4				0.5
Int Cov Ratio				7.7		5.4
Net Debt/Equity	0.0					0.4
Capex Discipline						
R&D-1yr change						(25.5%)
Capex/Deprec				157.6%		106.9%
Capex/Op Rev				12.9%		11.4%
R&D/Op Rev						0.4%
Depr 1yr chng	(2.7%)					3.0%
Shares out 1yr chng	(0.0%)					0.0%
Capex 1yr chng		19.9%				23.9%

Source: Company Data, Morgan Stanley Research

Exhibit 150: Vale - Earnings forecasts vs. consensus

How has consensus changed over the year ?



Source: Thomson and ModelWare

How do our P&L forecasts compare to consensus ?

	FY1	FY2	FY3
Revenue	37,036 36,857	39,247 37,411	38,957 35,128
EBITDA	19,270 19,163	20,170 17,082	17,493 13,691
EPS	1.73 1.70	2.25 1.76	1.83 1.35

Morgan Stanley I/B/E/S median estimates

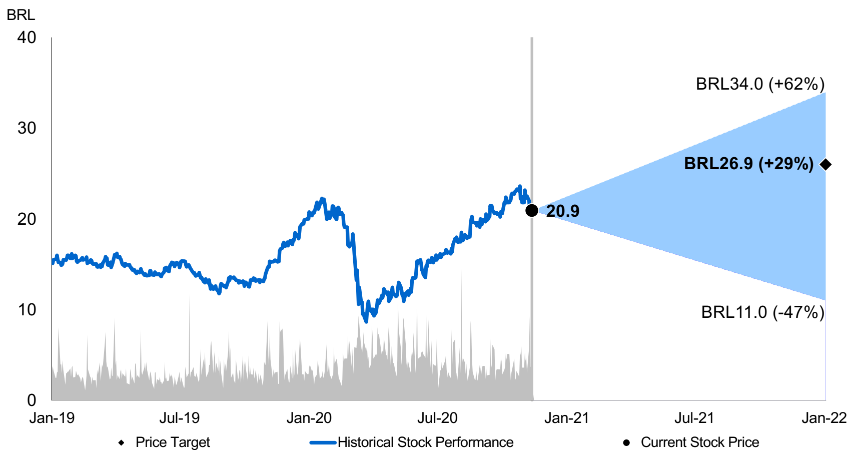
USD in millions except per share amount

Source: Thomson and ModelWare

Source: Thomson and Morgan Stanley Research

Gerdau (GGBR4.SA, BRL20.9, Equal-weight, PT BRL26.0)

Equal-weight on balanced risk-reward



Source: Thomson Reuters, Morgan Stanley Research

Price Target **BRL26.0**

Our year-end 2021 PT for GGBR is derived using the average of a multiple valuation (50%) and a DCF model (50%). In the first approach, we use an EV/EBITDA multiple of 6.5x, in line with historical average, on our 2022E EBITDA. In our DCF, we use a 8.4% WACC and 2.0% growth rate.

Bull **BRL34.0**

Bull case DCF

Demand disruption from the covid-19 outbreak recovers faster than expected, driving steel prices higher. Steel demand in Brazil remains strong in the coming years driving higher shipments and prices. Better volumes and prices across the other business units on faster global recovery. Gerdau does not pay any penalty for CARF/Zelotes cases.

Base **BRL26.9**

Base case DCF

V-shaped demand recovery takes place in Brazil in 2H20, Gerdau benefits from strong sales to the construction sector. Brazil domestic shipments increase by ~8% in 2020 and prices increase, on average, 6% due to weaker BRL and higher international steel prices. We assume volumes decrease by 1% in the NA unit and by 23% in Special steel unit. GGBR pays only 50% of the NPV we estimate for the CARF/Zelotes cases' penalty.

Bear **BRL11.0**

Bear case DCF

The covid-19 driven global recession lasts longer than expected negatively impacting steel demand. Brazil's economy grows below expectations and a slower than expected recovery in global steel markets' demand results in lower prices and shipments for the other Gerdau's business units. Gerdau pays 100% of the NPV we estimate for the CARF/Zelotes cases' penalty.

Investment Thesis

- We are Equal-weight on Gerdau shares on a balanced risk-reward
- Gerdau is a well-run company, but the steel demand recovery we see in the coming quarters seems already mostly discounted in the stock
- We prefer Gerdau over Usiminas given its exposure to the construction sector that is driving the v-shaped demand recovery in the Brazilian steel market

Key Value Drivers

- Operating flexibility, due to the combination of low-cost EAF facilities and an integrated plant, provides strong leverage to steel prices in Brazil.
- Relatively low fixed costs result in high sensitivity to operating rates.

Risks to Achieving Price Target

- (+) Demand disruption from the covid-19 outbreak recovers faster than expected
- (+) Section 232 provides a stronger than expected benefit to Gerdau's North America business unit.
- (+) Faster than expected recovery of steel demand in Brazil
- (-) Global GDP decelerates weighing on global steel demand
- (-) Slower than expected recovery of steel demand conditions in Brazil.
- (-) Potentially high CARF/Zelotes case penalty.

Analyst

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Exhibit 151: Gerdau - Fundamentals vs. peers

Gerdau S.A. — Quintile range (vs. peers)

	Lowest				Highest	Peer median
Valuation						
P/E (FY0)				12.5x		9.9x
P/E (FY1)			10.9x			10.9x
P/E (FY2)		9.3x				10.8x
P/Book			1.1x			1.0x
P/FCF					15.1x	10.8x
P/Op Rev		0.7x				1.0x
Curr EV/Ebitda			5.4x			5.3x
EV/Op Rev		0.9x				1.4x
Stock Performance						
Pchange 1month	(5.4%)					2.4%
Pchange 3 month				14.8%		3.4%
Pchange 12 month				36.2%		4.4%
Pchange YTD			4.1%			4.1%
Efficiency						
Cash Turnover					10.9	3.5
Fixed Asset Turnover					2.8	1.0
Inventory Turnover		5.3				6.3
Total Asset Turnover					0.8	0.5
Trade receivable turnover				12.8		9.7
Cash Flow						
FCF/Market Cap		0.07				0.1
FCF/Rev		0.05				0.1
FCF/EPS			0.8			0.8
Liquidity						
Cash/ST debt		2.1				6.5
Cash/Net debt			0.4			0.6
Current ratio			2.9			2.5

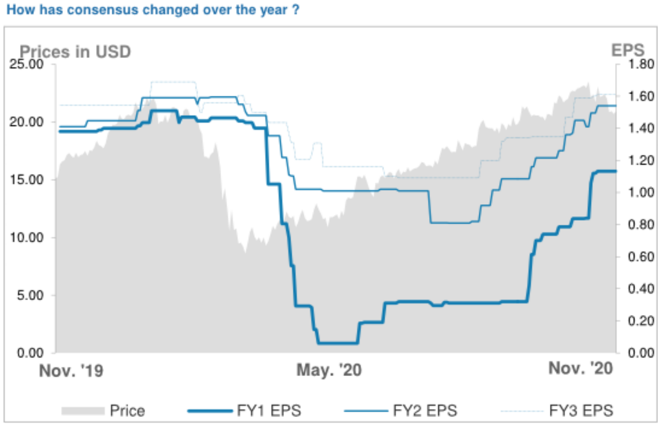
Gerdau S.A. — Quintile range (vs. peers)

	Lowest				Highest	Peer median
Growth						
EPS-1yr history					74.3%	(35.8%)
EPS-3yr history			18.8%			16.6%
EPS-1yr forward				15.4%		(7.2%)
EPS-2yr foward					34.4%	(1.2%)
BVPS-1yr history		5.6%				7.8%
DPS-1yr history				251.9%		104.1%
EBIT-1yr history			51.1%			71.0%
Op Rev-1yr history			15.9%			17.2%
Margins						
ROA			4.4%			4.7%
ROE			8.9%			9.9%
EBIT margin	10.5%					21.3%
Net inc. margin		5.7%				9.8%
Payout ratio				29.9%		20.8%
Gross margin		19.1%				35.9%
RNOA		8.0%				9.8%
Financial Leverage						
Debt/Assets				0.3		0.2
Debt/Equity			0.5			0.5
Int Cov Ratio		3.9				5.4
Net Debt/Equity			0.4			0.4
Capex Discipline						
R&D-1yr change						(25.5%)
Capex/Deprec		98.7%				106.9%
Capex/Op Rev		5.4%				11.4%
R&D/Op Rev						0.4%
Depr 1yr chng				7.8%		3.0%
Shares out 1yr chng						0.0%
Capex 1yr chng					66.7%	23.9%

Source: Company Data, Morgan Stanley Research

Exhibit 152: Gerdau - Earnings forecasts vs. consensus

How has consensus changed over the year ?



Source: Thomson and ModelWare

How do our P&L forecasts compare to consensus ?

	FY1	FY2	FY3
Revenue	42,344 41,576	49,073 47,179	53,038 50,150
EBITDA	6,109 5,924	7,867 7,136	8,352 7,410
EPS	1.13 0.95	1.65 1.54	1.90 1.61

Morgan Stanley — I/B/E/S median estimates

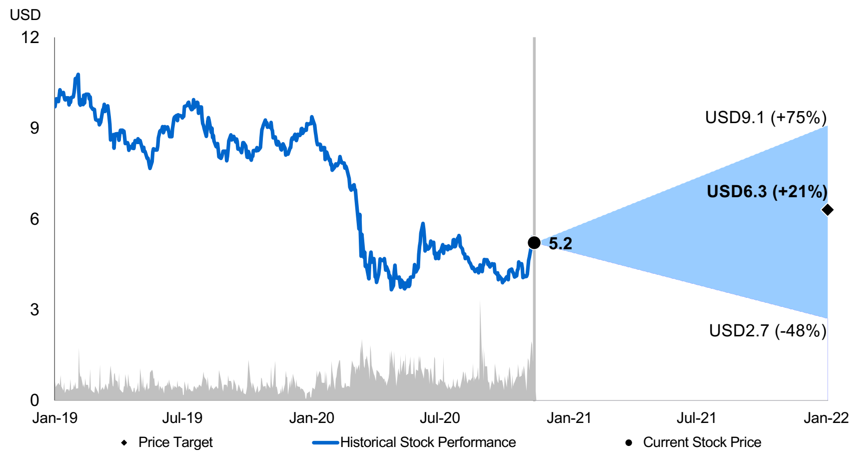
BRL in millions except per share amount

Source: Thomson and ModelWare

Source: Thomson and Morgan Stanley Research

Itau Unibanco (ITUB.N, USD5.2, Overweight, PT USD6.3)

Overweight on valuation and resilience



Source: Thomson Reuters, Morgan Stanley Research

Price Target USD6.3

Our valuation work and price targets are based on residual income analysis. Our valuation model uses a discount rate of 10.1% and long-term ROE of 20%.

Bull USD9.1

10% EPS CAGR 2019-2025

Better than expected economic recovery. More structural reforms, accommodative financial conditions and stabilization of global trends results in better than expected economic recovery. Credit expands 16% per year, improving BS mix and lengthening credit maturity. Cost efficiency improves significantly on the back of revenue pick-up and cost control initiatives. We estimate a 2019-2025 EPS CAGR of 10% and ROE reaching 22% in 2025.

Base USD6.3

7% EPS CAGR 2019-2025

Strong BS & high profitability provide resilience. Global conditions stabilize gradually and further reforms are approved. The economy gradually recovers, as does confidence, investment, unemployment & credit growth. Lending expands 12% per year. Efficiency improves to 40% in 2025, from 48% in 2019. We estimate a 2019-2025 EPS CAGR of 7% and ROE reaching 20% in 2025.

Bear USD2.7

2% EPS CAGR 2019-2025

A turn for the worse. Tough global macro conditions persist longer than expected and the current administration fails to pass further structural reforms. Credit expands in the low to mid-single digits and asset quality deteriorates sharply. Fintech disruption hurts spreads and fees more than expected. The bank is unable to improve cost efficiency. We estimate a 2019-2025 EPS CAGR of 2% and ROE reaching 14% in 2025.

Investment Thesis

- Brazil banks' strong BS & high profitability provide resilience to the recession. Large-cap banks are well positioned to weather higher delinquency in Brazil, even with 2020 GDP at -4.5%, as they have been de-risking the BS over the last 3-4 years. However, lower rates could pressure NIM, as most banks are asset sensitive. We believe the top line growth story for Brazil banks remains attractive on a multi-year basis, driven by re-leveraging on all-time low interest rates. Itau's strategic foresight & operational capabilities are key competitive advantages. And, tighter global financial conditions could limit fintech competition. Itau is trading at 1.9x P/BV, below its 10-yr avg. of 2.3x.

Key Value Drivers

- Interest rates
- Loan growth
- Rationalization/Efficiency improvements
- Contribution of non-banking business units
- Delinquency and provisions

Risks To Achieving Price Target

- (+) Structural reforms
- (+) Sustainable low interest rates
- (+) BS mix / maturity
- (+) Efficiency gains
- (+) NPL resilience
- (-) Recession/unemployment impact delinquency & loan growth
- (-) Higher taxes
- (-) Fintech disruption
- (-) High exposure to credit cards
- (-) FX volatility/inflation/fiscal deficit

Analyst

- Jorge Kuri, +1 212 761 6341

Exhibit 153: Itau - Fundamentals vs. peers

Itau Unibanco Holding S.A. — Quintile range (vs. peers)

	Lowest				Highest	Peer median
Valuation						
P/E (FY0)				10.5x		9.2x
P/E (FY1)				8.9x		7.5x
P/E (FY2)				8.0x		6.9x
P/Book				1.8x		1.2x
P/FCF						
P/Op Rev				2.8x		2.2x
Curr EV/Ebitda			7.0x			5.9x
EV/Op Rev				2.9x		2.3x
Stock Performance						
Pchange 1month					17.5%	11.1%
Pchange 3 month				10.6%		3.5%
Pchange 12 month		(40.3%)				(25.2%)
Pchange YTD		(44.3%)				(31.3%)
Efficiency						
Cash Turnover						
Fixed Asset Turnover					13.9	6.3
Inventory Turnover						
Total Asset Turnover	0.0					0.1
Trade receivable turnover						2.4
Cash Flow						
FCF/Market Cap						
FCF/Rev						
FCF/EPS						
Liquidity						
Cash/ST debt						
Cash/Net debt						
Current ratio						1.9

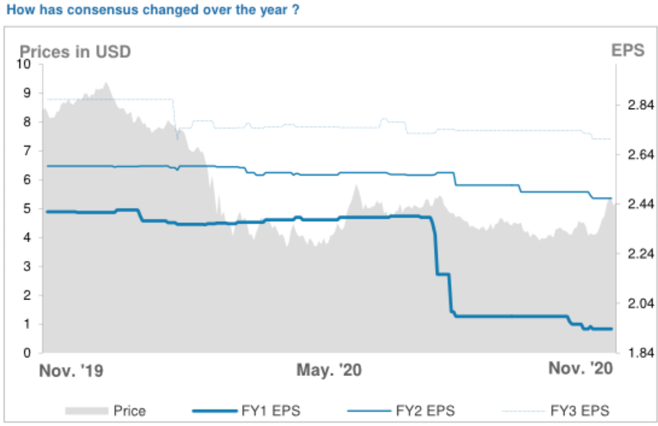
Itau Unibanco Holding S.A. — Quintile range (vs. peers)

	Lowest				Highest	Peer median
Growth						
EPS-1yr history				39.3%		25.9%
EPS-3yr history	(31.4%)					(3.2%)
EPS-1yr forward			17.7%			17.7%
EPS-2yr foward		30.6%				33.9%
BVPS-1yr history					14.9%	9.7%
DPS-1yr history					1599%	84.9%
EBIT-1yr history					376.4%	35.4%
Op Rev-1yr history					64.7%	20.5%
Margins						
ROA		1.1%				1.3%
ROE				19.2%		15.0%
EBIT margin			41.4%			40.1%
Net inc. margin				26.6%		24.7%
Payout ratio					55.0%	40.0%
Gross margin						
RNOA				17.8%		14.7%
Financial Leverage						
Debt/Assets						0.0
Debt/Equity						0.0
Int Cov Ratio						37.7
Net Debt/Equity						0.1
Capex Discipline						
R&D-1yr change						
Capex/Deprec						
Capex/Op Rev						
R&D/Op Rev						
Depr 1yr chng						6.5%
Shares out 1yr chng						0.0%
Capex 1yr chng						

Source: Company Data, Morgan Stanley Research

Exhibit 154: Itau - Earnings forecasts vs. consensus

How has consensus changed over the year ?



Source: Thomson and ModelWare

How do our P&L forecasts compare to consensus ?

	FY1	FY2	FY3
Revenue	21,062 18,315	24,642 21,856	26,049 24,143
EBITDA			
EPS	0.36 0.33	0.57 0.47	0.66 0.57

Morgan Stanley I/B/E/S median estimates

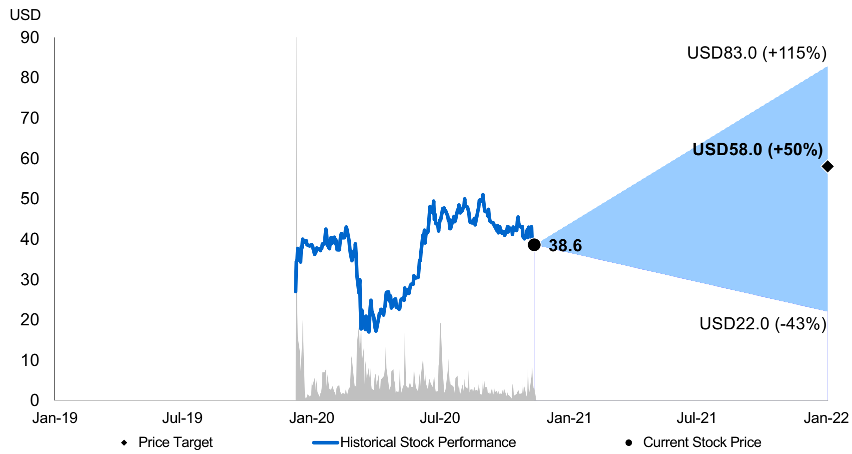
USD in millions except per share amount

Source: Thomson and ModelWare

Source: Thomson and Morgan Stanley Research

XP Inc. (XP.O, USD38.6, Overweight, PT USD58.0)

Overweight on strong EPS growth and ROE expansion



Source: Thomson Reuters, Morgan Stanley Research

Price Target **USD58.0**

Our valuation work is based on Discounted Free Cash Flow and Economic Profit model. We assume a WACC of 7.7% and long-term FCF margin of 23%.

Bull **USD83.0**

46% 2019-25 EPS CAGR

Better economic recovery & higher share of wallet. Economic recovery surprises to the upside following stabilization of global trends, more structural reforms, and accommodative financial conditions. Unemployment recovers rapidly, as confidence improves and investments return. Regulation remains constructive while competition stays under control. Cross-selling and share of wallet improve significantly on the back of digital banking initiative. XP picks up meaningful market share. We expect a 2019-25 EPS CAGR of 46% with ROE reaching 30% in 2025.

Base **USD58.0**

35% 2019-25 EPS CAGR

Sustainable low rates & secular AUC growth. Sustainable long-term growth and low interest rates drive AUC growth and asset allocation shift in savings to higher-yielding products beyond the 2020 recession impact. Capital markets conditions, an important driver of revenues, gradually improve in 2021. Asset diversification boosts profitability, while expansion into new verticals results in higher share of wallet. We expect a 2019-25 EPS CAGR of 35% with ROE reaching 27% in 2025.

Bear **USD22.0**

25% 2019-25 EPS CAGR

Tougher economic or competitive environment. Global macro conditions remain challenging and the current administration fails to pass further structural reforms. Hence, a weak economy and high unemployment last longer than expected. Competition from incumbents and new entrants intensifies. Regulatory changes negatively impact effectiveness of the IFA network. We expect a 2019-25 EPS CAGR of 25% with ROE reaching 21% in 2025.

Investment Thesis

- Well-positioned to capture strong secular industry growth and asset allocation shift in savings. Highly synergistic business model, open platform, leading IFA network and entrance into new verticals allow for fast EPS growth and ROE expansion. EPS growth at the top of our coverage. We think valuation looks attractive relative to LT growth and ROE expansion: XP is trading at 66x 2020 P/E and 50x 2021 P/E.

Key Value Drivers

- Client base expansion
- Growth of assets under custody
- Expansion of IFA network
- New products added to the platform
- M&A

Risks to Achieving Price Target

- (+) Stronger than expected recovery
- (+) Lower rates & higher disposable income support asset allocation shift in savings to higher-yielding products
- (+) IFA network supports higher share of wallet
- (+) Product ecosystem synergies
- (-) Economic challenges impact AUC growth
- (-) Regulatory risks
- (-) Tougher competition
- (-) Limited disclosure
- (-) Inflation/ interest rates/ fiscal deficit/ FX volatility
- (-) Potential conflict of interest with Itau

Analyst

- Jorge Kuri, +1 212 761 6341

Exhibit 155: XP Inc. - Fundamentals vs. peers

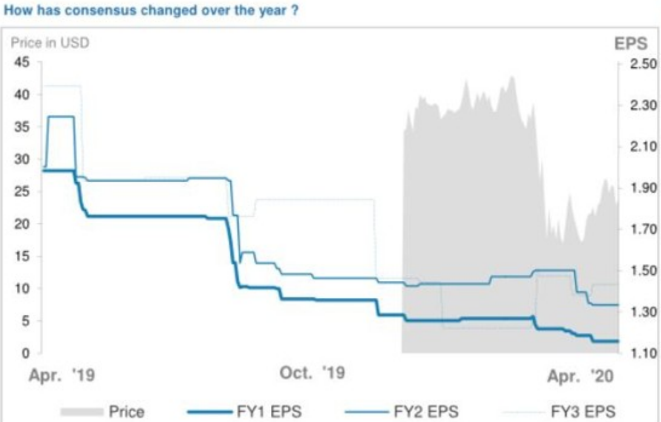
XP Inc — Quintile range (vs. peers)	Lowest				Highest	Peer median
Valuation						
P/E (FY0)					43.8x	9.2x
P/E (FY1)					35.2x	7.3x
P/E (FY2)					27.5x	6.8x
P/Book					10.5x	1.2x
P/FCF						
P/Op Rev					10.1x	2.1x
Curr EV/Ebitda					34.6x	5.8x
EV/Op Rev					10.1x	2.3x
Stock Performance						
Pchange 1month	(9.5%)					11.1%
Pchange 3 month		(17.3%)				(1.3%)
Pchange 12 month					11.7%	(23.4%)
Pchange YTD					(0.1%)	(28.2%)
Efficiency						
Cash Turnover						
Fixed Asset Turnover					57.4	6.2
Inventory Turnover						
Total Asset Turnover				0.1		0.1
Trade receivable turnover						2.4
Cash Flow						
FCF/Market Cap						
FCF/Rev						
FCF/EPS						
Liquidity						
Cash/ST debt						
Cash/Net debt						
Current ratio						1.9

XP Inc — Quintile range (vs. peers)	Lowest				Highest	Peer median
Growth						
EPS-1yr history				31.1%		25.5%
EPS-3yr history					284.3%	(0.8%)
EPS-1yr forward			21.4%			18.6%
EPS-2yr foward				50.7%		34.7%
BVPS-1yr history					22.4%	9.4%
DPS-1yr history		31.1%				49.3%
EBIT-1yr history			33.0%			34.2%
Op Rev-1yr history				40.0%		19.8%
Margins						
ROA					2.9%	1.3%
ROE					30.0%	15.0%
EBIT margin	27.7%					40.1%
Net inc. margin			23.0%			24.4%
Payout ratio	25.0%					40.0%
Gross margin						
RNOA					23.3%	14.6%
Financial Leverage						
Debt/Assets		0.0				0.0
Debt/Equity		0.0				0.0
Int Cov Ratio						37.7
Net Debt/Equity	0.0					0.1
Capex Discipline						
R&D-1yr change						
Capex/Deprec						
Capex/Op Rev						
R&D/Op Rev						
Depr 1yr chng					24.0%	6.5%
Shares out 1yr chng						0.0%
Capex 1yr chng						

Source: Company Data, Morgan Stanley Research

Exhibit 156: XP Inc. - Earnings forecasts vs. consensus

How has consensus changed over the year ?



Source: Thomson and ModelWare

How do our P&L forecasts compare to consensus ?

	FY1		FY2		FY3	
Revenue	1,422	0%	1,816	0%	2,333	0%
	1,422	0%	1,816	0%	2,333	0%
EBITDA	356	0%	479	0%	655	0%
	356	0%	479	0%	655	0%
EPS	0.43	0%	0.57	0%	0.77	0%
	0.43	0%	0.57	0%	0.77	0%

Morgan Stanley   I/B/E/S median estimates

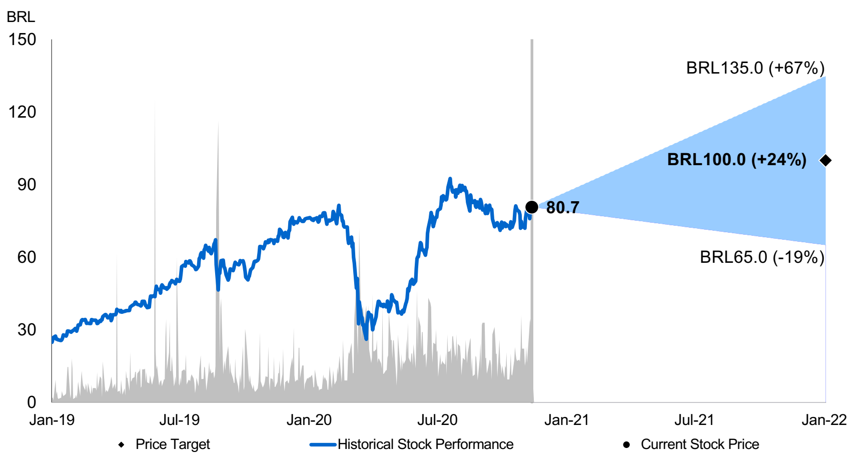
USD in millions except per share amount

Source: Thomson and ModelWare

Source: Thomson and Morgan Stanley Research

BTG Pactual (BPAC11.SA, BRL80.7, Overweight, PT BRL100.0)

Attractive Risk-Reward Profile Underscores our Overweight Rating



Source: Thomson Reuters, Morgan Stanley Research

Price Target **BRL100.0**

Our valuation work and price targets are based on residual income analysis. Our valuation uses a discount rate of 9.1%, and long-term ROE of 19%.

Bull **BRL135.0**

16% 2019-25 EPS CAGR

Better than expected economic recovery. More structural reforms, accommodative financial conditions and stabilization of global trends results in better than expected economic recovery. Unemployment recovers rapidly, as confidence improves and investments return. AUM expands 20% per year, potentially accelerating due to new online broker venture. Net revenue grows 13% per year. Operating leverage improves as expenses remain under control. We estimate 2019-25 EPS CAGR of 16% and ROE reaching 20% in 2025.

Base **BRL100.0**

11% 2019-25 EPS CAGR

Variable costs help in challenging environment. LT sustainable growth and low rates drive penetration and sophistication of Brazil's CM and AM industry on a multi-year basis. Global conditions and the Brazilian economy gradually recover in 2021, and so does confidence, investment, and unemployment. AUM expands at a 2019-25 CAGR of 14%. Net revenue grows 11% per year. Expenses remain under control, helping offset weaker revenues due to a recession in 2020. We estimate 2019-25 EPS CAGR of 11% and ROE reaching 19% in 2025.

Bear **BRL65.0**

9% 2019-25 EPS CAGR

A turn for the worse. Tough global macro conditions persist longer than expected and the current administration fails to pass further structural reforms. Hence, a weak economy and high unemployment last longer than expected. Most business units deliver subdued top line growth. Improvement in sales & trading is short-lived as the bank reduces its market exposure. Competition intensifies, putting pressure on IBD, AUM growth, and overall fees. We estimate 2019-25 EPS CAGR of 9% and ROE reaching 12% in 2025.

Investment Thesis

- Top line growth story for BTG continues to look attractive on a multi-year basis, amid all-time low interest rates. We see revenue growth driven by rising penetration and sophistication of Brazil's capital markets and asset management industry, where BTG has a strong franchise and leading market share. Sizable share of variable costs should allow BTG to navigate through a challenging economic environment in 2020. Fast growing digital broker platform could provide significant upside to BTG's market capitalization over the medium term. BTG valuation looks attractive at 3.1x P/BV relative to our ROE estimate of 14.6% in 2021.

Key Value Drivers

- Trading volumes & capital markets activity
- AUM growth
- Divestment/turnaround of non-core assets
- Leverage of excess capital
- Pricing and competition

Risks to Achieving Price Target

- (+) Stronger than expected recovery
- (+) Sustainable low rates and LT growth support wealth creation, rising penetration & sophistication of financial markets
- (+) Successful divestment/turnaround of non-core assets
- (+) New online broker venture
- (-) Financial market conditions deteriorate on weak growth/unemployment/FX volatility/inflation/fiscal deficit
- (-) Tougher competition
- (-) Weak performance of non-core assets
- (-) Regulation

Analyst

- Jorge Kuri, +1 212 761 6341

Exhibit 157: BTG Pactual - Fundamentals vs. peers

Banco BTG Pactual SA — Quintile range (vs. peers)

	Lowest				Highest	Peer median
Valuation						
P/E (FY0)				17.6x		9.2x
P/E (FY1)				14.3x		7.3x
P/E (FY2)				12.1x		6.8x
P/Book				2.6x		1.2x
P/FCF						
P/Op Rev					8.0x	2.1x
Curr EV/Ebitda					14.0x	5.8x
EV/Op Rev					8.0x	2.3x
Stock Performance						
Pchange 1month			11.1%			11.1%
Pchange 3 month		(8.7%)				(1.3%)
Pchange 12 month					21.1%	(23.4%)
Pchange YTD					6.3%	(28.2%)
Efficiency						
Cash Turnover						
Fixed Asset Turnover	0.9					6.2
Inventory Turnover						
Total Asset Turnover	0.0					0.1
Trade receivable turnover						2.4
Cash Flow						
FCF/Market Cap						
FCF/Rev						
FCF/EPS						
Liquidity						
Cash/ST debt						
Cash/Net debt						
Current ratio	0.1					1.9

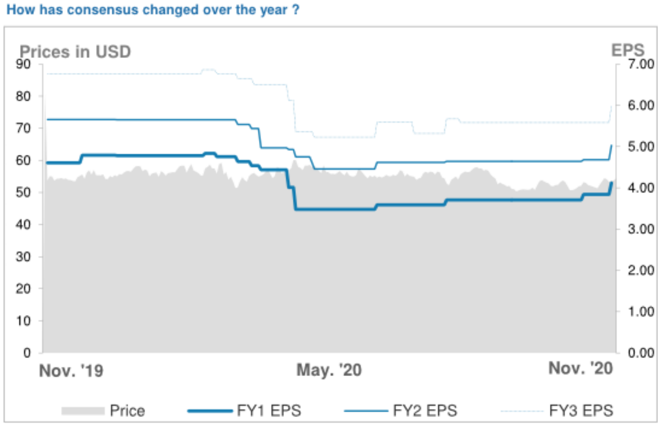
Banco BTG Pactual SA — Quintile range (vs. peers)

	Lowest				Highest	Peer median
Growth						
EPS-1yr history			25.2%			25.5%
EPS-3yr history					69.1%	(0.8%)
EPS-1yr forward				23.1%		18.6%
EPS-2yr foward			45.1%			34.7%
BVPS-1yr history		7.0%				9.4%
DPS-1yr history		26.4%				49.3%
EBIT-1yr history		23.6%				34.2%
Op Rev-1yr history			19.1%			19.8%
Margins						
ROA				1.5%		1.3%
ROE			15.6%			15.0%
EBIT margin					56.6%	40.1%
Net inc. margin					45.4%	24.4%
Payout ratio						40.0%
Gross margin						
RNOA		12.7%				14.6%
Financial Leverage						
Debt/Assets						0.0
Debt/Equity						0.0
Int Cov Ratio						37.7
Net Debt/Equity						0.1
Capex Discipline						
R&D-1yr change						
Capex/Deprec						
Capex/Op Rev						
R&D/Op Rev						
Depr 1yr chng						6.5%
Shares out 1yr chng						0.0%
Capex 1yr chng						

Source: Company Data, Morgan Stanley Research

Exhibit 158: BTG Pactual - Earnings forecasts vs. consensus

How has consensus changed over the year ?



Source: Thomson and ModelWare

How do our P&L forecasts compare to consensus ?

	FY1	FY2	FY3
Revenue	8,756 8,495	9,246 9,246	12,484 10,892
EBITDA			
EPS	4.12 3.99	5.03 4.68	5.98 5.62

Morgan Stanley | I/B/E/S median estimates

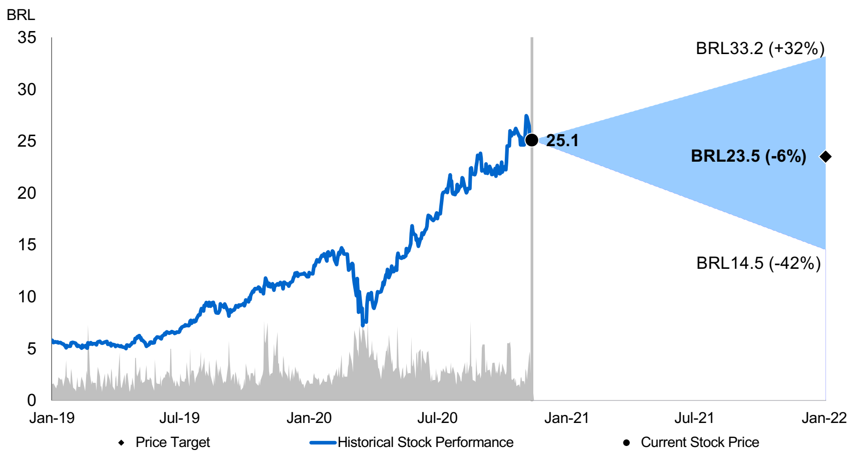
BRL in millions except per share amount

Source: Thomson and ModelWare

Source: Thomson and Morgan Stanley Research

Magazine Luiza (MGLU3.SA, BRL25.1, Overweight, PT BRL23.5)

Omni-Channel Leader, Pivoting to Tech



Source: Thomson Reuters, Morgan Stanley Research

Price Target **BRL23.5**

Our price target is derived from a BRL-denominated DCF that assumes a 10.9% cost of capital, 7.5% terminal growth rate, and 15.2% terminal adj. EBIT margin. PT implies 4.6x 2021e EV/Revenue.

Bull **BRL33.2**

6.0x 2021 EV/Revenue

Digitalizing Brazil. MGLU's pivot to tech comes faster than expected. Bull Case implies a 21% stores' revenue CAGR between 2019-2022e, with 10% average SSS growth and an 8% area CAGR. Online GMV grows at a 54% CAGR over the period, reaching 62% of the total. Net revenue grows at a 29% CAGR, while EBITDA margin (ex-IFRS16) expands +160bps, reaching 8.1% in 2022e. Bull Case is based on 6.0x EV / 2021e Bull Case Revenue.

Base **BRL23.5**

4.6x 2021 EV/Revenue

Pivoting to Tech. MGLU grows above the eCommerce market and increasingly pivots towards becoming a seller of technology. Base Case implies an 11% stores' revenue CAGR between 2019-2022e, with 2% average SSS growth and 7% area CAGR. Online GMV grows at a 49% CAGR over the period, reaching 66% of the total. Net revenue grows at a 24% CAGR, while EBITDA margin (ex-IFRS16) remains stable at 6.5%.

Bear **BRL14.5**

3.3x 2021 EV/Revenue

Remaining a Retailer. MGLU's tech transition falters, and macro headwinds / store closures persist. Bear Case implies a 6% store revenue CAGR between 2019-2022e, with -1% average SSS growth and a 6% area CAGR. Online GMV grows at a 37% CAGR over the period, reaching 63% of the total. Net revenue grows at an 18% CAGR, while EBITDA margin (ex-IFRS16) contracts -200bps, reaching 4.5% in 2022e. Bear Case is based on 3.3x EV / 2021e Bear Case Revenue.

Investment Thesis

- Magazine Luiza is a retail company pivoting to become a tech company, through (1) demonstrating omni-channel leadership, (2) developing a robust 3P marketplace, and (3) becoming a seller of software services complementary to the marketplace.
- Magalu has managed well through the 2020 store closure period, with accelerating eCommerce growth. Magalu's ~50% of 2019 GMV online provides insulation and a meaningful upside driver versus other discretionary goods retailers.

Key Value Drivers

- Secular growth in LatAm eCommerce
- Shifting from a developer to a seller of technology
- Online/offline retail integration

Risks to Achieving Price Target

- (+) MGLU expands into new business lines and adjacent tech-focused TAMs
- (+) Competition in eCommerce and physical retail eases
- (+) Accelerated expansion into new product categories
- (+) Store closures end
- (-) Incremental stores' expansion proves to be dilutive
- (-) Software uptake by analog retailers remains slow
- (-) Competitors (including Amazon) meaningfully ramp their focus on LatAm eCommerce
- (-) Store closures persist

Analyst

- Andrew Ruben, +1 212 761 4415

Exhibit 159: Magazine Luiza - Fundamentals vs. peers

Magazine Luiza S.A. — Quintile range (vs. peers)

	Lowest				Highest	Peer median
Valuation						
P/E (FY0)				262.9x		36.8x
P/E (FY1)					168.2x	54.4x
P/E (FY2)					115.5x	16.0x
P/Book					20.5x	2.2x
P/FCF					1122.6x	46.7x
P/Op Rev					5.2x	1.6x
Curr EV/Ebitda					76.6x	13.2x
EV/Op Rev					5.1x	1.6x
Stock Performance						
Pchange 1month		(2.0%)				(1.6%)
Pchange 3 month					27.3%	13.4%
Pchange 12 month					135.3%	4.7%
Pchange YTD					114.1%	(17.5%)
Efficiency						
Cash Turnover					13.9	6.0
Fixed Asset Turnover					10.9	3.8
Inventory Turnover		5.8				7.1
Total Asset Turnover					1.3	0.7
Trade receivable turnover		6.0				9.2
Cash Flow						
FCF/Market Cap	0.00					0.0
FCF/Rev	0.00					0.0
FCF/EPS	0.2					0.9
Liquidity						
Cash/ST debt					15.4	4.0
Cash/Net debt				(0.7)		(0.7)
Current ratio		1.5				2.0

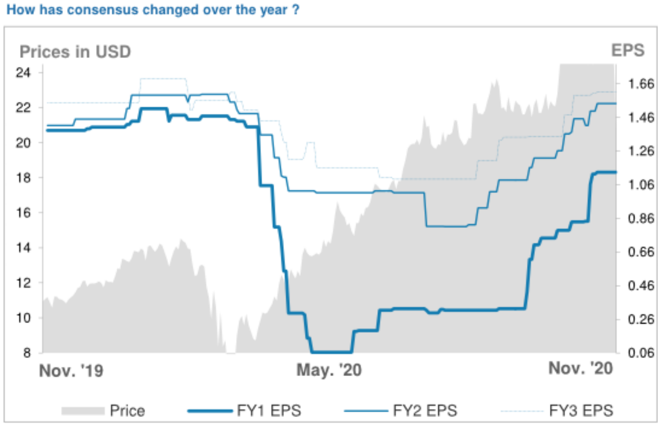
Magazine Luiza S.A. — Quintile range (vs. peers)

	Lowest				Highest	Peer median
Growth						
EPS-1yr history					159.1%	(64.5%)
EPS-3yr history					(1.2%)	(31.2%)
EPS-1yr forward				56.3%		17.8%
EPS-2yr foward				127.6%		108.5%
BVPS-1yr history				7.6%		6.4%
DPS-1yr history			(50.3%)			(62.7%)
EBIT-1yr history			86.6%			86.6%
Op Rev-1yr history				24.4%		19.5%
Margins						
ROA			2.5%			2.5%
ROE				8.4%		7.4%
EBIT margin	3.9%					5.4%
Net inc. margin		2.0%				3.2%
Payout ratio				9.6%		2.0%
Gross margin	29.0%					38.8%
RNOA					19.7%	5.4%
Financial Leverage						
Debt/Assets	0.0					0.2
Debt/Equity	0.1					0.3
Int Cov Ratio		1.9				2.6
Net Debt/Equity		(0.4)				(0.1)
Capex Discipline						
R&D-1yr change						38.9%
Capex/Deprec		77.5%				103.6%
Capex/Op Rev	2.1%					6.0%
R&D/Op Rev						7.2%
Depr 1yr chng					21.4%	6.3%
Shares out 1yr chng						0.0%
Capex 1yr chng				51.2%		50.1%

Source: Company Data, Morgan Stanley Research

Exhibit 160: Magazine Luiza - Earnings forecasts vs. consensus

How has consensus changed over the year ?



Source: Thomson and ModelWare

How do our P&L forecasts compare to consensus ?

	FY1	FY2	FY3
Revenue	25,898 25,898	32,208 32,208	38,309 38,309
EBITDA	1,411 1,411	2,154 2,154	3,132 3,132
EPS	0.04 0.04	0.10 0.10	0.15 0.15

Morgan Stanley | I/B/E/S median estimates

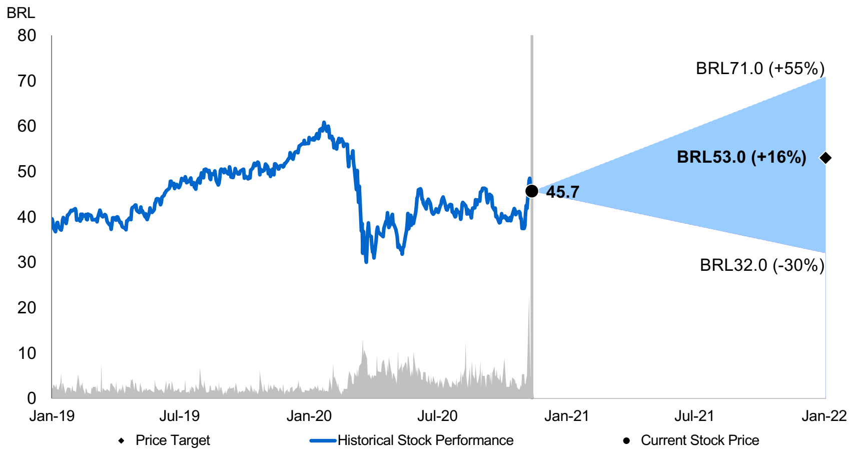
BRL in millions except per share amount

Source: Thomson and ModelWare

Source: Thomson and Morgan Stanley Research

Lojas Renner SA (LREN3.SA, BRL45.7, Overweight, PT BRL53.0)

Best-In-Class Brazil Apparel Retailer; Steady Share Gain Continues



Source: Thomson Reuters, Morgan Stanley Research.

Price Target **BRL53.0**

Our price target is derived from a BRL-denominated DCF that assumes 10.6% cost of capital, 6.0% terminal growth rate, and 21.2% terminal adj. EBIT margins. PT implies 40x 2021e P/E, 29x 2022e.

Bull **BRL71.0**

40.0x 2021e P/E

Share Gains Accelerate. Renner's omni-channel initiatives further widen the operating spread versus peers, enabling accelerating share gains. Bull Case implies retail revenue grows at an 11% CAGR over 2019-2022e, with comps growing 10% on average, and selling area increasing at a 6% CAGR over the period. Retail EBITDA margin expands +470bps to 23.3% in 2022e. Financial services reaches 23% of total EBITDA. Bull Case value is based on 40x P/E on our 2021e Bull Case estimates.

Base **BRL53.0**

40.0x 2021e P/E

Quality Compounding Continues. Renner continues to gain market share as stores reopen, while improving the profitability of its core retail business. Base Case implies retail revenue grows at an 8% CAGR over 2019-2022e, with comps growing 7% on average, and selling area increasing at a 6% CAGR over the period. Retail EBITDA margin expands +90bps, reaching 19.6% in 2022e. Financial services accounts for 22% of total EBITDA.

Bear **BRL29.0**

36.0x 2021e P/E

Persisting Macro Headwinds. Incremental market share gains prove to be harder than expected and Renner faces macro plus persistent closure headwinds. Bear Case implies retail revenue increases at a +3% CAGR over 2019-2022e, with comps increasing +3% on average, and selling area increasing at a 4% CAGR over the period. Retail EBITDA margin contracts -20bps to 18.5% in 2022e. Bear Case value is based on 36x P/E on our 2021e Bear Case estimates.

Investment Thesis

- Renner is a best-in-class apparel retailer in Brazil. Within this fragmented market, we believe Renner has room to increase market share from 8% today.
- On digital, we think Renner is resilient to the online-only threat due to the company's private brand products, in-house development, and integrated supply chain, which cannot be easily replicated by online marketplaces.
- We believe Renner's steady, compounding growth business model supports a premium trading multiple for the stock, and believe Renner will come out of the store closure / macro disruption period more favorably than peers.

Key Value Drivers

- Profitable store footprint expansion
- Omni-channel retail integration

Risks to Achieving Price Target

- (+) Renner omni-channel path drives sales upside
- (+) Renner's 'Realize' segment succeeds in the fintech space
- (+) Apparel retail competition eases
- (+) Store closures and associated operating headwinds end
- (-) Increasing competition pressures Renner's market share
- (-) eCommerce marketplaces accelerate their apparel focus
- (-) Non-core store concepts do not gain traction
- (-) Store closures and associated operating headwinds persist

Analyst

- Andrew Ruben, +1 212 761 4415

Exhibit 161: Lojas Renner - Fundamentals vs. peers

Lojas Renner SA — Quintile range (vs. peers)

Valuation	Lowest				Highest	Peer median
P/E (FY0)			34.2x			35.5x
P/E (FY1)			25.0x			39.7x
P/E (FY2)			21.5x			18.7x
P/Book				6.0x		2.3x
P/FCF			28.1x			28.1x
P/Op Rev				3.9x		1.8x
Curr EV/Ebitda			14.6x			13.9x
EV/Op Rev				4.0x		1.6x

Stock Performance	Lowest				Highest	Peer median
Pchange 1month					13.8%	(0.4%)
Pchange 3 month			8.7%			11.0%
Pchange 12 month			(7.6%)			(1.5%)
Pchange YTD			(18.7%)			(18.1%)

Efficiency	Lowest				Highest	Peer median
Cash Turnover		5.0				5.6
Fixed Asset Turnover		2.6				3.5
Inventory Turnover			7.2			7.2
Total Asset Turnover		0.6				0.7
Trade receivable turnover	2.0					7.6

Cash Flow	Lowest				Highest	Peer median
FCF/Market Cap			0.04			0.0
FCF/Rev					0.14	0.0
FCF/EPS				1.2		0.9

Liquidity	Lowest				Highest	Peer median
Cash/ST debt	1.3					3.8
Cash/Net debt					1.6	(0.7)
Current ratio		1.6				1.9

Lojas Renner SA — Quintile range (vs. peers)

Growth	Lowest				Highest	Peer median
EPS-1yr history			(10.9%)			(37.7%)
EPS-3yr history					3.4%	(28.3%)
EPS-1yr forward				36.8%		24.0%
EPS-2yr foward			59.1%			83.8%
BVPS-1yr history			6.0%			6.2%
DPS-1yr history					177%	(50.3%)
EBIT-1yr history			64.9%			75.8%
Op Rev-1yr history					42.5%	21.9%

Margins	Lowest				Highest	Peer median
ROA					6.4%	2.5%
ROE					18.5%	7.9%
EBIT margin					17.8%	5.9%
Net inc. margin					11.3%	3.3%
Payout ratio					67.3%	2.0%
Gross margin					55.8%	39.4%
RNOA				15.9%		6.1%

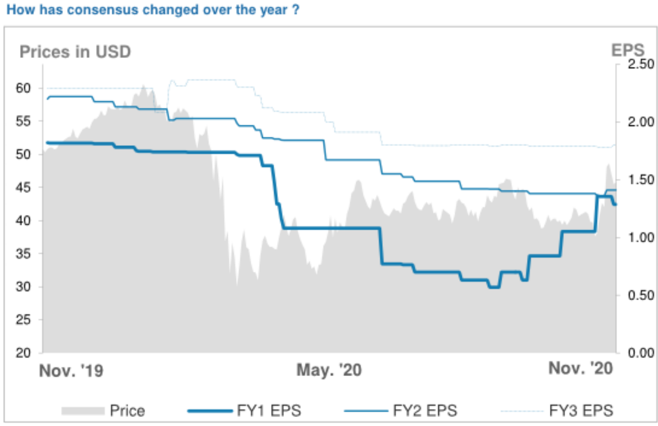
Financial Leverage	Lowest				Highest	Peer median
Debt/Assets					0.2	0.2
Debt/Equity				0.6		0.4
Int Cov Ratio					5.7	2.7
Net Debt/Equity					0.2	(0.1)

Capex Discipline	Lowest				Highest	Peer median
R&D-1yr change						38.9%
Capex/Deprec			108.9%			106.2%
Capex/Op Rev					9.8%	6.0%
R&D/Op Rev						7.2%
Depr 1yr chng				11.6%		8.5%
Shares out 1yr chng					0.1%	0.0%
Capex 1yr chng		39.8%				47.6%

Source: Company Data, Morgan Stanley Research

Exhibit 162: Lojas Renner - Earnings forecasts vs. consensus

How has consensus changed over the year ?



Source: Thomson and ModelWare

How do our P&L forecasts compare to consensus ?

	FY1	FY2	FY3
Revenue	6,573 6,573	9,368 9,368	10,744 10,744
EBITDA	1,764 1,764	2,509 2,509	3,188 3,188
EPS	1.49 1.49	1.33 1.33	1.82 1.82

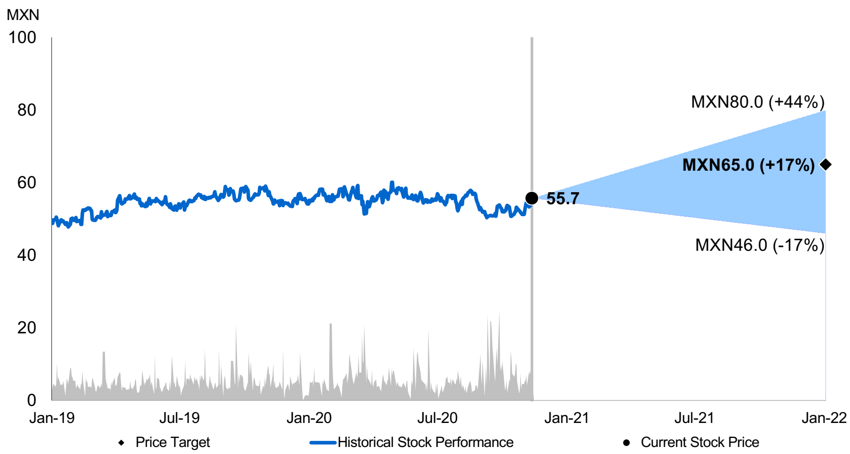
Morgan Stanley I/B/E/S median estimates
BRL in millions except per share amount

Source: Thomson and ModelWare

Source: Thomson and Morgan Stanley Research

Wal-Mart de Mexico (WALMEX.MX, MXN55.7, Overweight, PT MXN65.0)

Best-In-Class Retailer With Emerging Omni-Channel Upside



Source: Thomson Reuters, Morgan Stanley Research

Price Target **MXN65.0**

Our price target is derived from a MXN-denominated DCF that assumes a 10.9% cost of capital, 5.5% terminal growth rate, and 9.0% terminal adj. EBIT margins. PT implies 26x 2021e P/E.

Bull **MXN80.0**

29x 2021e P/E

Pulling Away from Peers. Positive cycle of growth and ROIC expansion, driven by superior omni-channel execution. Bull Case implies revenue grows at an 12% CAGR over 2019-2022e (12% Mexico, 10% Central Am.), with comps growing 8.0% on average in constant FX (8.9% Mexico, 3.5% CA), selling area increasing at a 4.7% CAGR (4.2% Mexico, 8.6% CA) and eCommerce penetration reaching 6.4% in 2022e. EBITDA margin expands +50bps, reaching 11.5% in 2022e. Bull Case value is based on 29x P/E on our 2021e Bull Case estimates.

Base **MXN65.0**

26x 2021e P/E

Best-In-Class Operator; Omni-Channel Upside. Walmex grows steadily with increasing omni-channel share, while continuing to improve returns. Base Case implies revenue grows at an 8% CAGR over 2019-2022e (8% Mexico, 6% Central Am.), with comps growing 5.8% on average in constant FX (6.6% Mexico, 2.0% CA). selling area increasing at a 2.2% CAGR (1.7% Mexico, 6.2% CA) and eCommerce penetration reaching 5.7% in 2022e. EBITDA margin expands +20bps, reaching 11.2% in 2022e.

Bear **MXN46.0**

21x 2021e P/E

Competition Pressures Returns. Growth slows down from eCommerce competition and macro headwinds, driving stagnating returns. Bear Case implies revenue grows at a 5% CAGR over 2019-2022e (5% Mexico, 4% Central Am.), with comps growing 3.7% on average in constant FX (4.5% Mexico, -0.3% CA), selling area increasing at a 1.3% CAGR (0.8% Mexico, 5.3% CA) and eCommerce penetration reaching 4.6% in 2022e. EBITDA margin contracts -80bps, reaching 10.2% in 2022e. Bear Case value is based on 21x P/E on our 2021e Bear Case estimates.

Investment Thesis

- Walmex is a leading grocery and general merchandise retailer, with >50% share of the formal self-service grocery market in Mexico. Operations span discount stores, hypermarkets, membership clubs and supermarkets.
- Walmex is a best-in-class operator with industry-leading ROIC, at >20% versus the Mexico peer average of 10%. Our analysis shows ROIC has a high 0.6 correlation with trading multiples.
- With its top-tier omni-channel capabilities, we believe Walmex's eCommerce business can grow from less than 2% of sales in 2019 to 9% in 2024.

Key Value Drivers

- Economies of scale and execution
- Omni-channel retail integration

Risks to Achieving Price Target

- (+) Omni-channel path drives sales upside
- (+) Competition in retail and eCommerce eases
- (+) Cashi mobile wallet uptake meaningfully inflects
- (-) Intensifying competition from offline and eCommerce players
- (-) Difficulties finding sites for productive store expansion
- (-) Omni-channel investments erode profitability and returns

Analyst

- Andrew Ruben, +1 212 761 4415

Exhibit 163: Wal-Mart de Mexico - Fundamentals vs. peers

Wal-Mart de Mexico — Quintile range (vs. peers)

Valuation	Lowest				Highest	Peer median
P/E (FY0)		21.1x				30.4x
P/E (FY1)			19.3x			36.8x
P/E (FY2)			17.5x			16.7x
P/Book				5.1x		2.3x
P/FCF		22.8x				23.8x
P/Op Rev			1.3x			1.4x
Curr EV/Ebitda			11.0x			12.1x
EV/Op Rev			1.2x			1.4x

Stock Performance	Lowest				Highest	Peer median
Pchange 1month				2.3%		(0.4%)
Pchange 3 month		(3.3%)				9.5%
Pchange 12 month			0.4%			2.6%
Pchange YTD			0.3%			(8.6%)

Efficiency	Lowest				Highest	Peer median
Cash Turnover					21.0	6.2
Fixed Asset Turnover			3.8			3.8
Inventory Turnover				9.4		7.7
Total Asset Turnover					1.9	0.7
Trade receivable turnover				51.1		10.3

Cash Flow	Lowest				Highest	Peer median
FCF/Market Cap				0.04		0.0
FCF/Rev				0.05		0.0
FCF/EPS			0.9			0.9

Liquidity	Lowest				Highest	Peer median
Cash/ST debt						4.0
Cash/Net debt		(1.0)				(0.8)
Current ratio	1.0					1.9

Wal-Mart de Mexico — Quintile range (vs. peers)

Growth	Lowest				Highest	Peer median
EPS-1yr history				31.5%		(31.0%)
EPS-3yr history					22.3%	(28.3%)
EPS-1yr forward		9.7%				16.7%
EPS-2yr foward		20.8%				79.6%
BVPS-1yr history			7.1%			6.7%
DPS-1yr history				(9.8%)		(50.3%)
EBIT-1yr history	11.1%					58.1%
Op Rev-1yr history	7.4%					16.8%

Margins	Lowest				Highest	Peer median
ROA					11.3%	2.5%
ROE					25.6%	7.9%
EBIT margin					8.6%	5.9%
Net inc. margin				5.9%		3.3%
Payout ratio					72.3%	2.0%
Gross margin	23.0%					37.1%
RNOA					29.4%	6.1%

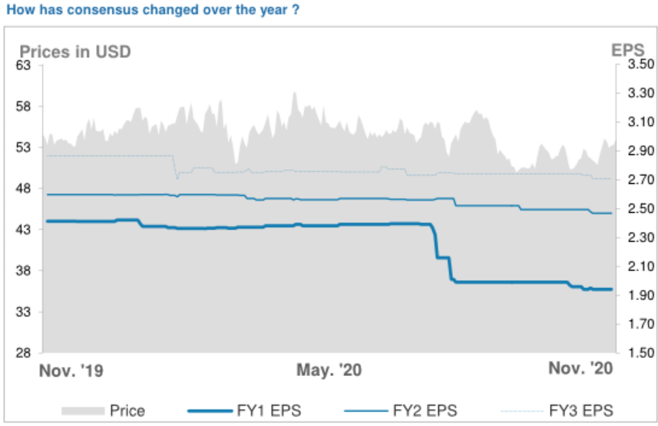
Financial Leverage	Lowest				Highest	Peer median
Debt/Assets						0.1
Debt/Equity						0.3
Int Cov Ratio					9.6	2.7
Net Debt/Equity		(0.2)				(0.1)

Capex Discipline	Lowest				Highest	Peer median
R&D-1yr change						38.9%
Capex/Deprec			121.3%			112.4%
Capex/Op Rev		3.1%				5.1%
R&D/Op Rev						7.2%
Depr 1yr chng			6.5%			6.4%
Shares out 1yr chng						0.0%
Capex 1yr chng	13.5%					47.6%

Source: Company Data, Morgan Stanley Research

Exhibit 164: Wal-Mart de Mexico - Earnings forecasts vs. consensus

How has consensus changed over the year ?



Source: Thomson and ModelWare

How do our P&L forecasts compare to consensus ?

	FY1	FY2	FY3
Revenue	706,049 706,049	758,093 758,093	816,153 816,153
EBITDA	76,926 76,926	84,630 84,630	91,634 91,634
EPS	1.96 1.96	2.57 2.57	2.82 2.82

Morgan Stanley | I/B/E/S median estimates

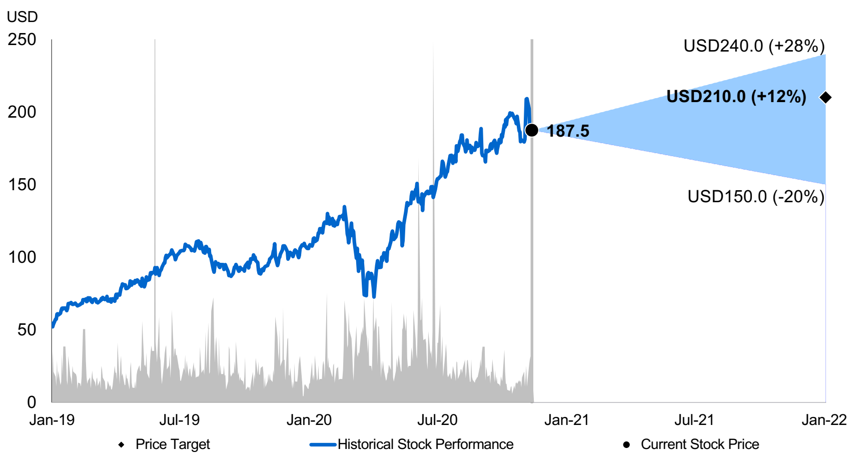
MXN in millions except per share amount

Source: Thomson and ModelWare

Source: Thomson and Morgan Stanley Research

Globant (GLOB.N, USD187.5, Overweight, PT USD210.0)

Resilient growth with forex tailwinds



Source: Thomson Reuters, Morgan Stanley Research

Price Target **USD210.0**

Derived from our DCF analysis in USD, which considers a WACC of 9.6% and a terminal growth rate of 3.0%.

Bull **USD240.0**

~6.8x Bull Case NTM Rev. of USD1.40bn by YE2021e

Revenue acceleration (+29% 2019-22 revenue CAGR in USD). Higher client activity in the US and Latin America leads to higher sustainable growth that supports multiple expansion.

Base **USD210.0**

~6.5x Base Case NTM Rev. of USD1.27bn by YE2021e

Sustainable growth (+25% 2019-22 revenue CAGR in USD). An inflection point in Latam tech spending, coupled with robust trends in client activity in the US, support current valuation multiples.

Bear **USD150.0**

~5.5x Bear case NTM Rev. of 1.07b by YE2021e

Slowdown and de-rating (+18% 2019-22 revenue CAGR in USD). Latam tech spending fails to materialize and the firm is not able to deepen client engagement in the US. Amid more muted growth expectations, trading multiples decline.

Investment Thesis

- GLOB is a pure-play global leader in Digital Transformation, one of the fastest growing categories of IT spending, as evidenced by our own CIO surveys and industry forecasts
- Growth outlook supported by: 1) deep relations with Blue Chip firms (e.g., Disney) with ample cross-selling opportunity, 2) new studio launches that help clients navigate evolving B2B & B2C technology ecosystems, especially after 5G roll-out and post-COVID environments, 3) ability to develop top human talent
- We expect GLOB to deliver +25% USD CAGR in revenues 2019-22, with +20% EBITDA margin
- GLOB has a solid ~90% customer renewal rate and yet is trading at a sizable discount vs its high-growth-high-margin global peers.

Key Value Drivers

- New client contracts in the US, Latam or Europe
- Trends in human talent (net hires and productivity) to support profitable growth
- Strategy execution to improve and expand studios (organic and via M&A)
- MSCI decision on Argentina

Risks to Achieving Price Target

- (+) Relations with Blue Chip clients and cross selling exceed our expectations
- (+) Acceleration in global DX spend and GLOB's B2B initiatives
- (-) Volatility for the overall global market and specifically the technology sector.
- (-) Failure to sustain client engagement, headwinds affecting its main industries or clients
- (-) Difficulty in attracting and retaining human talent to support growth in top line and productivity

Analyst

- Cesar Medina, +1 212 761-4911

Exhibit 165: Globant - Fundamentals vs. peers

Globant SA — Quintile range (vs. peers)

	Lowest				Highest	Peer median
Valuation						
P/E (FY0)					88.7x	36.9x
P/E (FY1)				56.4x		24.1x
P/E (FY2)					41.7x	19.5x
P/Book					8.4x	1.5x
P/FCF					98.5x	12.6x
P/Op Rev				7.2x		1.0x
Curr EV/Ebitda				41.3x		6.3x
EV/Op Rev				6.9x		2.2x
Stock Performance						
Pchange 1month		(6.3%)				1.6%
Pchange 3 month			6.0%			8.9%
Pchange 12 month					77.6%	(13.5%)
Pchange YTD					74.2%	(14.6%)
Efficiency						
Cash Turnover	2.4					3.9
Fixed Asset Turnover					4.6	1.2
Inventory Turnover						56.0
Total Asset Turnover					0.8	0.5
Trade receivable turnover		4.6				6.0
Cash Flow						
FCF/Market Cap			0.01			0.0
FCF/Rev				0.08		0.1
FCF/EPS		0.9				1.6
Liquidity						
Cash/ST debt					14.7	3.1
Cash/Net debt	(1.3)					0.3
Current ratio					3.8	1.7

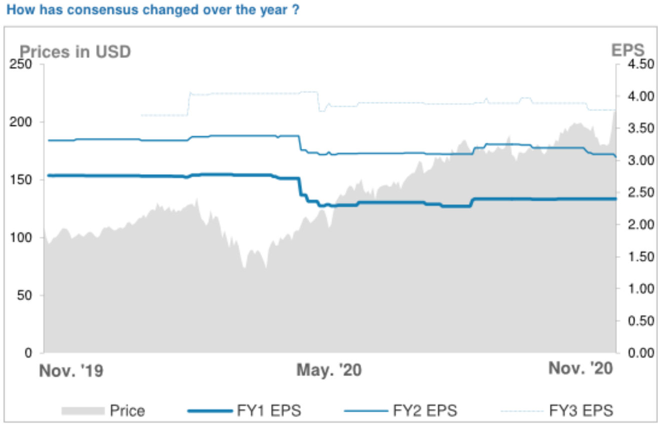
Globant SA — Quintile range (vs. peers)

	Lowest				Highest	Peer median
Growth						
EPS-1yr history				40.6%		(41.1%)
EPS-3yr history				48.2%		(51.0%)
EPS-1yr forward				57.5%		44.5%
EPS-2yr foward					112.9%	90.0%
BVPS-1yr history				10.5%		6.5%
DPS-1yr history						73.4%
EBIT-1yr history				60.4%		47.3%
Op Rev-1yr history				27.9%		9.8%
Margins						
ROA					6.9%	1.8%
ROE				10.4%		5.6%
EBIT margin			13.4%			13.4%
Net inc. margin				8.4%		4.3%
Payout ratio						12.5%
Gross margin					38.1%	37.3%
RNOA					15.4%	7.5%
Financial Leverage						
Debt/Assets	0.1					0.5
Debt/Equity	0.2					1.7
Int Cov Ratio				2.7		2.1
Net Debt/Equity	(0.3)					1.1
Capex Discipline						
R&D-1yr change						
Capex/Deprec				97.4%		87.8%
Capex/Op Rev		4.0%				18.0%
R&D/Op Rev						
Depr 1yr chng					33.2%	(0.1%)
Shares out 1yr chng	(0.1%)					0.0%
Capex 1yr chng		(65.9%)				(50.1%)

Source: Company Data, Morgan Stanley Research

Exhibit 166: Globant - Earnings forecasts vs. consensus

How has consensus changed over the year ?



Source: Thomson and ModelWare

How do our P&L forecasts compare to consensus ?

	FY1	FY2	FY3
Revenue	792 792	1,013 1,013	1,274 1,274
EBITDA	150 150	208 208	271 271
EPS	1.48 1.48	2.08 2.08	3.28 3.28

Morgan Stanley | I/B/E/S median estimates

USD in millions except per share amount

Source: Thomson and ModelWare

Source: Thomson and Morgan Stanley Research

Mercadolibre (MELI.O, USD1301.7, Overweight, PT USD1500.0)

LatAm eCommerce Leader with Dual Retail & Payments Secular Growth Drivers

Source: Thomson Reuters, Morgan Stanley Research

Price Target **USD1500.0**

Our price target is derived from a DCF analysis which assumes 10.9% cost of capital, 6.5% terminal growth rate, and 18.5% terminal EBIT margins for the whole company. PT implies 11.5x 2021e EV/Revenue for the whole business.

Bull **USD1930.0**

13.0x 2021e EV/Revenue

Pulling Away. MELI extends its lead in eCommerce and has success in growing new payments businesses. Bull Case implies a 39% online GMV USD CAGR (69% ex-FX) between 2019-2022e, with a 28% USD CAGR in Brazil, 42% in Argentina and 57% in Mexico. Total TPV USD CAGR of 66%, with offline transactions reaching 69% of the total. Revenue grows at a 71% CAGR (USD), while Adj. EBITDA margin expands +2,130bps to 17.8%. Bull Case is based on 13.0x EV / 2021e Bull Case Revenue.

Base **USD1500.0**

11.5x 2021e EV/Revenue

Staying Ahead. MELI continues to focus on topline growth in payments and eCommerce, with a near-term expense ramp supporting long-term share gains. Base Case implies a 28% online GMV USD CAGR (56% ex-FX) between 2019-2022e, with a 17% USD CAGR in Brazil, 28% in Argentina and 48% in Mexico. Total TPV USD CAGR of 52%, with offline transactions reaching 69% of the total by 2022e. Revenue grows at a 56% CAGR (USD), while Adj. EBITDA margin expands +1,230bps to 8.8%.

Bear **USD900.0**

7.5x 2021e EV/Revenue

Competition Catching Up. MELI faces intensifying competition and macro headwinds. Bear Case implies a 22% online GMV USD CAGR (48% ex-FX) between 2019-2022e, with a 12% USD CAGR in Brazil, 20% in Argentina and 42% in Mexico . Total TPV USD CAGR of 41%, with offline transactions reaching 67% of the total. Revenue grows at a 46% CAGR (USD), while Adj. EBITDA margin expands +400bps to 0.5% in 2022e. Bear Case is based on 7.5x EV / 2021e Bear Case Revenue.

Investment Thesis

- MELI is the eCommerce leader in LatAm and has a strong payments business. We see the company well positioned to capture the secular growth opportunities on both fronts.
- On payments, we see a micro-merchant TPV opportunity which could be 10x higher than today in the long run, along with an emerging mobile wallet growth opportunity. On eCommerce, we believe MELI can further monetize its online marketplace as it adds product categories and offers new value-added services.

Key Value Drivers

- Secular growth in LatAm eCommerce
- Greater uptake of credit cards among micro-merchants; mobile wallets among consumers

Risks to Achieving Price Target

- (+) MELI expands into new business lines and adjacent TAMs
- (+) Competition in eCommerce and payments eases
- (+) More color on the PayPal partnership
- (-) Competitors (including Amazon) meaningfully ramp their focus on LatAm eCommerce
- (-) Incumbent payments operators increase focus on the micro-merchant segment
- (-) MELI faces headwinds when expanding the marketplace beyond core categories
- (-) Global macro headwinds

Analyst

- Andrew Ruben, +1 212 761 4415

Exhibit 167: Mercadolibre - Fundamentals vs. peers

Mercadolibre Inc. — Quintile range (vs. peers)

	Lowest				Highest	Peer median
Valuation						
P/E (FY0)					320.1x	36.8x
P/E (FY1)				163.4x		54.4x
P/E (FY2)				112.3x		16.0x
P/Book					31.8x	2.2x
P/FCF				107.0x		46.7x
P/Op Rev					10.3x	1.6x
Curr EV/Ebitda					140.4x	13.2x
EV/Op Rev					9.8x	1.6x
Stock Performance						
Pchange 1month					6.6%	(1.6%)
Pchange 3 month				16.6%		13.4%
Pchange 12 month					159.5%	4.7%
Pchange YTD					126.6%	(17.5%)
Efficiency						
Cash Turnover	2.7					6.0
Fixed Asset Turnover					9.7	3.8
Inventory Turnover					25.0	7.1
Total Asset Turnover				0.8		0.7
Trade receivable turnover					70.1	9.2
Cash Flow						
FCF/Market Cap		0.01				0.0
FCF/Rev					0.10	0.0
FCF/EPS					3.0	0.9
Liquidity						
Cash/ST debt			3.8			4.0
Cash/Net debt			(0.7)			(0.7)
Current ratio	1.4					2.0

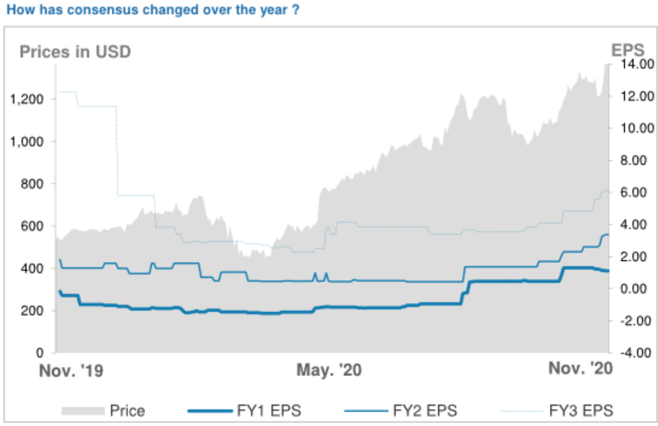
Mercadolibre Inc. — Quintile range (vs. peers)

	Lowest				Highest	Peer median
Growth						
EPS-1yr history				132.5%		(64.5%)
EPS-3yr history	(592.8%)					(31.2%)
EPS-1yr forward					95.9%	17.8%
EPS-2yr foward					185.1%	108.5%
BVPS-1yr history					13.1%	6.4%
DPS-1yr history					(0%)	(62.7%)
EBIT-1yr history		29.6%				86.6%
Op Rev-1yr history					58.9%	19.5%
Margins						
ROA				2.6%		2.5%
ROE					11.2%	7.4%
EBIT margin		4.2%				5.4%
Net inc. margin			3.2%			3.2%
Payout ratio			2.0%			2.0%
Gross margin				40.0%		38.8%
RNOA	(20.1%)					5.4%
Financial Leverage						
Debt/Assets			0.2			0.2
Debt/Equity					0.6	0.3
Int Cov Ratio			2.6			2.6
Net Debt/Equity	(1.6)					(0.1)
Capex Discipline						
R&D-1yr change					38.9%	38.9%
Capex/Deprec					237.9%	103.6%
Capex/Op Rev					6.8%	6.0%
R&D/Op Rev					7.2%	7.2%
Depr 1yr chng					59.1%	6.3%
Shares out 1yr chng					0.0%	0.0%
Capex 1yr chng				52.0%		50.1%

Source: Company Data, Morgan Stanley Research

Exhibit 168: Mercadolibre - Earnings forecasts vs. consensus

How has consensus changed over the year ?



Source: Thomson and ModelWare

How do our P&L forecasts compare to consensus ?

	FY1	FY2	FY3
Revenue	3,940 3,940	6,262 6,262	8,726 8,726
EBITDA	315 315	442 442	770 770
EPS	1.74 1.74	4.05 4.05	7.93 7.93

Morgan Stanley I/B/E/S median estimates

USD in millions except per share amount

Source: Thomson and ModelWare

Source: Thomson and Morgan Stanley Research

Top Ten Stock Ideas & Model Portfolios (Additions & Deletions)

Top Stock Ideas (Additions)

- *Lojas Renner:* We added the stock to gain exposure to a high mobility compounder stock in Brazil, which should benefit from the ongoing reopening trend of the economy. Moreover, our retail analyst Andrew Ruben has an Overweight rating on the stock, as he believes Renner has room to increase market share as it pulls ahead of smaller peers that are unable to make the required digital and supply chain investments. The stock currently trades at 32.1x forward consensus earnings, or 2.2 standard deviations above its 11-year historical average of 21.4x.

- *Walmex:* We included the stock because we believe the pace of domestic economic activity in Mexico should benefit from an acceleration in US economic growth in 2021 supported by additional fiscal stimulus and a Covid-19 vaccine. Furthermore, our retail analyst Andrew Ruben has an Overweight rating on the name due to its best-in-class operations and upside to its omni-channel business. The stock currently trades at 24.0x forward consensus earnings, or 0.4 standard deviations above its 11-year historical average of 23.1x.

Top Stock Ideas (Deletions)

- *Soquimich:* We removed the stock because we prefer to play the global reflation trade theme through base metals producers Vale and Gerdau in Brazil. Moreover, our lithium analyst Javier Martinez has an Equal-weight rating on the name due to lower for longer prices and political uncertainty on the upcoming elections in Chile (for more details see here). Currently, SQM trades at 32.6x forward consensus earnings, or 2.3 standard deviations above its 11-year historical average of 21.9x.

- *Grupo Mexico*: We deleted the stock because we would rather play the global reflation trade theme through its base metals producing peers Vale and Gerdau in Brazil. Currently, the stock trades at 6.1x forward EV/EBITDA, or 0.2 standard deviations above its 5.8x 11-year historical average.

Latin America Model Portfolio (Additions)

- *CCR:* We added the stock because the recent positive Covid-19 vaccine news should accelerate the reopening of the economy in Brazil and support high mobility compounders like CCR. For more details see our recent note here. Currently, the stock trades at 17.9x forward consensus earnings, or in line with its 11-year historical average.

- *BR Distribuidora:* We included the name because we would like to gain exposure to the high mobility stock segment in Brazil. We believe the deployment of a successful Covid-19 vaccine in 2021 should help mobility trends and thus fuel consumption. Currently, the stock trades at 9.1x forward EV/EBITDA, or 0.3 standard deviations below its 9.5x limited 3-year historical average.

- *Cementos Chihuahua:* We added the stock because we would like to gain exposure to a potential acceleration in the US economy in 2021. Moreover, our cement analyst Nikolaj Lippmann sees the company as a best in class player in the sector that has a unique operation that benefits from its geographical footprint in the US and Mexico. The stock currently trades at 13.3x forward consensus earnings, or 0.6 standard deviations below its 10-year historical average of 20.2x.

- *OMA:* We included the stock because it should benefit from the recent positive news on a Covid-19 vaccine. The stock currently trades at 20.2x forward consensus earnings, or 0.7 standard deviations above its 11-year historical average of 17.5x.

- *Alfa:* We added the stock because we like the self help story. Our analyst Nikolaj Lippman sees plenty of value creation with the potential spin-off of Nemak and sale of Axtel and Newpek (for more details see here). The stock currently trades at 11.9x forward consensus earnings, or in line with its 11-year historical average.

Latin America Model Portfolio (Deletions)

- *Fibra Macquarie:* We deleted the stock because we would like to have exposure to domestic oriented names in Mexico that could benefit from the ongoing reopening of the economy. Moreover, we believe the lion's share of the local monetary easing cycle is done, and a potential increase in long term US rates in 2021 should put steepening pressure in global yield curves. Currently, the stock trades at 7.9x forward consensus earnings, or 0.8 standard deviations below its 7-year historical average of 10.3x.

Brazil Model Portfolio (Additions)

- *CCR:* We added the stock because the recent positive Covid-19 vaccine news should accelerate the reopening of the economy in Brazil and support high mobility compounders like CCR. For more details see our recent note here. Currently, the stock trades at 17.9x forward consensus earnings, or in line with its 11-year historical average.

- *Natura*: We included the stock because we like the self help and secular growth story after the acquisition of Avon in 2019. Moreover, we like the company's exposure to international markets. Currently, the stock trades at 87.0x forward consensus earnings, or 3.8 standard deviations above its 11-year historical average of 24.1x.

- *Cyrela:* We added the name as it is a member of our Brazilian high mobility segment, which should benefit from the ongoing reopening of the economy. For more details see our recent note here. The stock currently trades at 20.3x forward consensus earnings, or 1.0 standard deviation above its 11-year historical average of 13.0x.

Brazil Model Portfolio (Deletions)

- *BB Seguridade:* We removed the stock because we prefer to have exposure to the financials space through retail banks, as they should benefit from the ongoing global rotation from growth to value stocks. Moreover, our financials analyst Jorge Kuri has an Equal-weight rating on the name due to the expectation of weaker demand for financial products on the back of ongoing Covid-19 challenges, particularly as unemployment and wage mass deteriorates. Currently, the stock trades at 8.5x forward book value, or 1.4 standard deviations above its 6.7x 7-year historical average.

- *C&A Modas*: We deleted the stock as we prefer to play the reopening of the Brazilian economy through more liquid stocks like Lojas Renner, which we added to our Top Stock Ideas list (see above). Currently, C&A trades at 42.0x forward consensus earnings, or in line with its limited 1-year historical average.

Mexico Model Portfolio (Additions)

- *Danhos:* We add Fibra Danhos as it could benefit from the reopening phase. Especially after 3Q20 figures in which the retail portfolio - with the most exposure to A tenants in Latin America - saw better cash rent recoveries than expected. Danhos' low leverage combined with a higher percentage of formal A type (formal USD billion businesses) tenants could prove to be a major and growing advantage post reopening. The stock currently trades at 11.2x forward consensus earnings, or 0.8 standard deviations below its 7-year historical average of 15.5x.

Morgan Stanley is currently acting as a financial advisor to StoneCo Ltd ("StoneCo") in relation to their agreement for STNE Participações S.A., a controlled company of Stone to merge its business with Linx S.A. ("Linx") through a merger of shares, as announced on August 11, 2020. The proposed transaction is subject to usual conditions precedent for these types of transactions, including the approval by the antitrust authority in Brazil (CADE) and Linx shareholders. This report and the information provided herein is not intended to (i) provide voting advice, (ii) serve as an endorsement of the proposed transaction, or (iii) result in the procurement, withholding or revocation of a proxy or any other action by a security holder. StoneCo has agreed to pay fees to Morgan Stanley for its services, including transaction fees and financing fees that are subject to the consummation of the proposed transaction. Please refer to the notes at the end of the report.

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(as of October 31, 2020)
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	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
STOCK RATING CATEGORY	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	**1358**	**40%**	**361**	**45%**	**27%**	**597**	**40%**
Equal-weight/Hold	**1462**	**43%**	**357**	**44%**	**24%**	**681**	**45%**
Not-Rated/Hold	**4**	**0%**	**1**	**0%**	**25%**	**3**	**0%**
Underweight/Sell	**539**	**16%**	**85**	**11%**	**16%**	**220**	**15%**
TOTAL	**3,363**		**804**			**1501**	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.
Not-Rated (NR) - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country MSCI Index on a risk-adjusted basis, over the next 12-18 months.
Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country MSCI Index, on a risk-adjusted basis, over the next 12-18 months.
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