

Investors Look Abroad Amid Political Tensions: Chile Market Chat

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► Wealth managers encouraging ‘dollarization’ of portfolios

► Chile is writing a new constitution after a wave of protests

As Chile’s new Constituent Convention starts the long process of rewriting the country’s constitution in order to “refound” the nation, as the assembly’s president said, local investors are looking abroad to invest their money.

Local assets may seem cheap after almost two years of political turmoil, but the domestic outlook remains rocky and opportunities abroad are too good to ignore, according to wealth management experts who participated in the second “Chile Market Chat” organized by Bloomberg News. The guests were:

- Gonzalo Trejos, partner and strategy manager at Quest Capital
- Rodrigo Bustamante, partner and CEO at Sartor Capital Wealth Management
- Rene Sepulveda, CEO at Alcala Inversiones

“We’ve faced a strong process of de-investment in the last two years, and we’ve been recommending lowering exposure to local assets and dollarization whenever we see a more attractive exchange rate,” Sepulveda said.

A wave of protests that started in October 2019 led to the creation of the new Constituent Convention, which kicked off Sunday with the election of a president and vice-president. As the members start to write the new charter, Chile will also begin a presidential campaign culminating in elections in November.

Investors will be watching closely as left-wing and independent members dominate the Convention, while a communist candidate is leading some early polls for the presidential election.

Amid all the uncertainty, Bustamante says many investors have stepped up investment abroad, with about half of their portfolios now outside of the country.

Chile’s S&P IPSA stock index fell 12% in the second quarter, with stocks trading near their biggest discount to emerging-market peers on record. The fixed income market has also posted declines, with the yield on the Treasury’s 10-year benchmark jumping 200 basis points in the last five months. Additionally, the central bank could raise the policy rate as soon as this month due to increasing inflation.

The shift away from local assets has been dominated by medium-size clients, given that bigger ones already had an “international bias” to counter important investments they have in Chile and the region, Trejos said.

Alternative investment: A rising star

Demand for alternative investments in venture capital and private credit is on the rise, to the detriment of more traditional assets, the wealth managers said. The new trend has motivated the creation of funds abroad.

Quest launched a closed residential real estate investment fund this year in the U.S., and plans to open it to the public on the stock exchange, according to Trejos. The interest from clients means the company is already working on a new fund for real estate development, also in the U.S., he said.

Sartor will also launch a real estate development fund soon in partnership with a U.S. firm, Bustamante said. “The trend is to look for more thematic investments, targeting some specific niches,” he said.

Together with an increase in demand for alternative assets, there is also a search for investments in new technologies, such as clean energies, Sepulveda said.

Going forward

The aversion to local assets in general and the dollarization trends could deepen further in the coming months or years, the wealth managers said.

If the communist candidate, Daniel Jadue, wins the presidential election, it would lead to structural changes to the economic model, setting fresh systemic risks, Trejos said. Besides politics, Chile’s trend GDP, which was revised down by the central bank in its last monetary policy report, will also weigh on the appetite for local assets.

Chile is not the only stumbling block for investors. Latin America is undergoing a “super cycle” of political changes loaded with uncertainty, and this is one of the main concerns the market is watching, Sepulveda said.

“Fearing local politics, it’s not rare to even hear investors saying ‘I want to leave the country’,” Bustamante said.