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Colombia: Strong Rally Not Supported by Fundamentals; Remain UW

Colombia - Underweight

Market Strategy
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Table 13: Performance, USD (%)

	1M	3M	1YR
Colombia	27.4	24.3	27.5
MSCI LatAm	9.6	2.2	(18.4)
USD-COP	5.7	7.0	(4.3)

Source: MSCI, Bloomberg Finance L.P. Prices as of February 19, 2025.

Table 14: Market Performance, USD (%)

	1M	3M	1YR
FIN	29.5	25.5	33.4
Colombia	27.4	24.3	27.5
UTE	20.2	20.4	10.3

Source: MSCI, Bloomberg Finance L.P. Prices as of February 19, 2025.

Distinctive country drivers

The macroeconomic scenario has not changed since our last revision. The January CPI logged a 0.94% m/m increase, and the last 12-month figure remained stable at 5.2% y/y. December 2025 inflation was maintained at 4.2%, with upside risks coming from food and gas prices. Regarding monetary policy, in the last meeting, the board decided to hold the policy rate stable at 9.5%. This board meeting was held with a new council, with two new board members appointed by President Gustavo Petro. According to our FX strategy team, this new board may have a more dovish approach. Regarding GDP growth for 2025, we expect Colombia to achieve 2.5% this year, below Peru (2.7%) and above Chile (2.0%). We see two risks that could impact Colombia equities. First, the approved pension reform suggests that inflows into the private system will be reduced by half. Although the specifics of the public system's regulation are yet to be determined, this reduction could lead to decreased dynamism in traded volumes due to the diminished inflows to AFPs (more details can be found in our pension reform note). The second factor is the Treasury's financing needs, which will continue to exert pressure on domestic financial conditions.

Factors driving future performance

While there has been more interest in Colombian equities following the recent rally (27% YTD), sparked by the short-lived tariff threat from the US, we still believe there are no substantial fundamental drivers on the horizon. We maintain our view that better opportunities exist in other Latin American countries. From a top-down perspective, we identify both local and external risks. Internally, Colombia continues to have one of the highest monetary policy rates in the region at 9.5%, and fiscal risks persist. A potential medium-term catalyst could arise with the May 2026 Presidential elections, which is to become a significant market driver at the same time that valuations remain attractive, currently at a 6.2x P/E. Still, we think it is premature to be positioned for that at this junction. In terms of external risks, President Trump may continue to use tariff threats against President Petro as a negotiating tactic on immigration issues, potentially leading to increased market volatility. Furthermore, efforts to boost U.S. domestic oil production could result in lower oil prices, which may negatively affect the currency and fiscal revenues.

Investment strategy

We currently have no Colombian stocks in our model portfolio. However, our preferred stock to gain exposure to Colombia is Cementos Argos (OW, Adrian Huerta).