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Latin America: International investment banking – the brittle relationship

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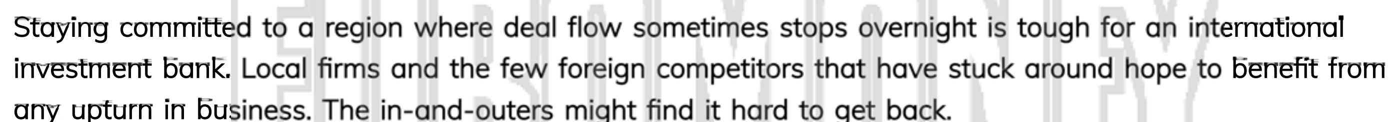

Staying committed to a region where deal flow sometimes stops overnight is tough for an international investment bank. Local firms and the few foreign competitors that have stuck around hope to benefit from any upturn in business. The in-and-outers might find it hard to get back.

You might be forgiven for thinking that after the history of crises, setbacks, false dawns and balance-sheet-shredding losses over the last 50 years, international investment banks might have given up on Latin America.

PROFILES

However, the relationship between the region and foreign firms is a complex one. Some have stayed committed through thick and thin. A few have been more like serial monogamists, in and out with an alarming regularity.

Others have tried to maintain the illusion of commitment through a long-distance relationship: we're still fully engaged, they say, from their offices in New York, Miami or Houston. Since the financial crisis, a few firms – especially those from Europe – have given up the pretence that the relationship has a long-term future.

It's understandable. Latin America's volatile environment has created a huge challenge for international banks keen to develop new revenue streams in the region but unable to count on any level of sustainability.

Brazil, despite its scale and developed local capital markets, effectively disappeared from the international issuance radar between 2015 and 2018.

Other markets, such as Colombia and Peru, offer more consistency, but even their peaks of activity are not sufficient to build a broad-based business for a cluster of investment banks. Chile, the most stable of all, offers scant opportunities for the internationals as it is largely able to self finance.

Throughout, investment banks' coverage models have appeared to be more of an art than a science. And then the 2008 crisis smashed into the capital structures of the international banks and was compounded by harsher regulations for global systemically important banks (G-Sibs) and other regulatory costs.

Many of the Europeans gave up and went home. The US investment banks consolidated. The universals ditched their retail businesses but continued to talk commitment to corporate and investment banking. (HSBC has been populating an office in São Paulo in anticipation of the expiration, at the end of 2018, of the non-compete clause it agreed on local capital markets activity with Bradesco).

And all the while the locals grew. And grew. They either added local investment banks – like Itaú did when it bought BBA Creditanstalt – or grew organically by hiring teams from the competition, like Bradesco BBI.

Sometimes international banks fortified their brand and reach with local acquisitions. In 1998, Credit Suisse bought Garantia in Brazil and that business remains a reason for the bank's strong position today. The success of that acquisition also led Credit Suisse to buy the asset manager Hedging Griffo to develop its private banking coverage in 2006.

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> We have almost forgotten what it is like to have an environment where you have positive economic surprises
>
> - Roberto Sallouti, BTG Pactual

It was a trick that UBS tried to emulate with the acquisition of Pactual, only for it to lose that bank's management. Ultimately it sold back Pactual to a group of ex-employees, led by André Esteves, who had established local investment bank BTG.

Although the Pactual transaction did not work out, UBS still retains regional ambitions and an appetite for local acquisitions. Tom Langford, who heads the region for the bank, tells Euromoney that it covers the region from its three offices in Mexico City, São Paulo (where it bought the largest family office in the country, Consenso, in 2017) and Buenos Aires.

Roberto Sallouti is now chief executive of BTG Pactual and presides over the only true pan-regional investment bank with a reputation akin to those of its Wall Street competitors. He says the bank is exactly where it needs to be, following its existential wobble in 2015 when the then chief executive and largest shareholder Esteves was caught up in the Lava Jato corruption scandal (the charges were eventually dropped and Esteves is re-establishing his authority at the bank).

"We haven't had wind in our sails since 2012, and in that period Brazil's per capita income contracted by 10%," says Sallouti. "So we have almost forgotten what it is like to have an environment where you have positive economic surprises."

When BTG had to rationalize it held on to its pan-Latin American business, which includes firms like Celfin Capital in Chile and Bolsa y Renta in Colombia. The bank's global ambition may have been trimmed by realism, but its regional presence was preserved above other businesses.

Sallouti says that decision is now paying off.

"Becoming a regional player for us was so important because it raised our profile and enabled us to get international mandates," he says. "That explains our mandates from Shell, from APP, from Enel. We're the only pure Latin American investment bank, and it makes a difference for sure."

Meanwhile, BTG Pactual's home market of Brazil is the obvious example of local banks building international capital markets credibility – muscling in on mandates by reminding corporates of the value of their balance sheets. Over time, they have grown into credible partners for bookrunning teams. It is also true in Colombia and Peru.

And now, as fresh hope of stability and capital markets activity builds in the region, the international banks are rebuilding too.

Goldman Sachs re-entered Argentina in 2017 and Deutsche Bank is opening a representative office. (Deutsche's almost wholesale withdrawal from the region announced in 2015 – Brazil remained – was emblematic of the European retrenchment).

Santander Brasil is building its investment banking team, keen to make its impressive growth in corporate banking pay off in the fee-based business. BBVA is trying to build a Brazilian investment bank of a scale similar to what it has established in Mexico.

Sallouti expects new entrants to his home market of Brazil if the optimistic scenario for investment banking in the next couple of years materializes.

"That always happens," he says. "I started working in this business in the early 1990s, and it's a cycle. Very soon we'll see international banks talking about acquisitions here again."

The region has gone from being underbanked to overbanked and then to rationalization. Now is it in danger of becoming overbanked again?

"The world is overbanked!" laughs a chief executive of Latin America for an investment bank in New York. "There is still too much capacity everywhere."

Client coverage

The build-up of comprehensive investment banking platforms that span the whole region and offer all products has required investment – and increased the banks' cost base.

The build-up has increased revenue streams, which is good. It has also increased annuity streams – revenues that will flow in from services to clients regardless of the headline deal-flow. That's also good. But it has also increased the competition for the business from the large local corporates that require these international services and financial access, as well as the multinational clients operating in the region.

That has led to a new religion: client coverage. The aim of all the banks is not necessarily to win more clients but to increase the 'share of wallet' of the clients that they have. There are, of course, still efforts to win new clients, but really only those that can be plugged into all the areas of the corporate platform.

Take Bank of America Merrill Lynch. James Quigley, now executive vice-chairman of global corporate and investment banking, was one of those at Merrill Lynch in 2006 who championed the idea that investment banking in Latin America meant more than just Brazil and Mexico.

"Anyone who runs a big business on Wall Street that looks at Latin America has to have concluded that it needs to be a LatAm-wide strategy," he says. "I think the most positive thing that has happened in the past 20 to 30 years is that, even among the most conservative and risk-averse bankers, broad diversification over the footprint of all the asset classes is, by definition, the best preventative medicine to a shock in your businesses."

Today, the bank has large onshore offices throughout the region and in some places, such as Brazil, has developed local markets capability. It is not a business that the bank really wants to develop, certainly at the moment, but it does so to be able to offer a full range of services to local corporates.

“We got pretty active in a number of the local currency markets between 2006 and 2010 and, as a large institution, we felt a fiduciary responsibility to the countries to try to develop their domestic markets,” says Quigley.

It wasn’t all altruistic; these domestic markets prevented ‘the bid of last resort’ being from an international investor.

“Having the ability to fund locally – or structure local debt – enables us to be comprehensive in how we serve clients,” says Alex Bettamio, BAML’s president of Latin America. “For example, if international markets are volatile, then local structures can either be a bridge to an international take-out or present a better option. To be able to speak across the complete range of financing options only strengthens the client’s perspective. Also, having been in the region for several decades, we have a long-term view that shapes how we grow our business responsibly.”

Treasury services

Treasury services are also a great way to forge ties with the clients. While this core corporate operation doesn’t usually excite investment bankers, they readily admit that it ties clients to the bank and increases touch points.

“Treasury services embed clients,” says Claudio Alfasso, head at Citi’s South Cluster Global Subsidiaries Group in Argentina. “It helps us to build up a holistic relationship, and the more often that we talk to clients the better our knowledge about what that client intends to do. Therefore, we can anticipate our proposal of new financing strategies to fulfill our client’s strategic goals.”

Alfasso points out that when Citi sold its retail business in Argentina it opened 10 new corporate branches throughout the country to help it retain its corporate clients by offering collection and other corporate products in physical locations.

There are downsides to this coverage model. It essentially forces banks to try to win business from important clients – even to the point where the banks feel they are buying business. The obvious example is sovereign debt transactions. Fees have compressed to the point that, frankly, angers some investment bankers.

“The fees are ridiculously low, but we still play there for the relationships and the league tables,” says one banker who declined to be named. “It’s an unfair relationship. We provide them with research, we cover all the investor base, we make secondary market trading and then we compete for almost no fees.”

When questioned, finance ministry officials point out that it is almost impossible for them to not mandate the banks that offer the lowest price.

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>
> - Gonzalo Garcia, Goldman Sachs

And let's not forget that banks do tend to make money, but the days that Gerardo Mato, HSBC's head of global banking for the Americas, remembers of fees north of 2% for breaking new ground have gone. Mato cites the perpetual he led for Pemex: "The Mexicans called the perpetual 'nunca pagar' or never pay!"

Fee compression isn't just an issue for the jumbo debt deals. In Brazil, fees on equity deals have been falling and have been compounded by bookrunner inflation – more and more banks being added to the list for relationship reasons.

When asked about the issue, BTG Pactual's Sallouti is diplomatic but clear: "I do envy those US IPOs."

Gonzalo Garcia, co-head of Latin America for Goldman, has recommitted the bank to the region in the full knowledge of typical fees and the cyclical nature of deal activity.

"We have to be comfortable over the cycle," he says. "There are going to be good and bad times in every country. I also believe there are going to be opportunities for us throughout the ups and downs of the cycles. We just have to be nimble enough to react to those opportunities and know our clients well – we need to be talking to them about the right things at the right time."

The mantra of 'diversification and client coverage' also works within verticals, says Lisandro Miguens, head of Latin America debt capital markets for JPMorgan, based in New York.

Miguens was charged with leading JPMorgan's debt financing in the region at the end of 2014. He immediately set the bank on a course of diversifying away from the plain vanilla international debt transactions and into what he classifies as "non-traditional/structured financing."

The bank targeted building up its project finance, illiquid credits, private placements, rating advisory and restructuring. These sit alongside and complement the bank's traditional set of debt products, the bonds and loans.

"We used to have 100% of the business comprised of loans and syndicated loans, as well as bonds and some plain vanilla asset liability management transactions," says Miguens. "Our revenue streams in 2016, 2017 and 2018 have been the highest for JPMorgan in the history of Latin American DCM, despite much lower wallet coming from the traditional bond and loan markets."

Local capital markets

The most likely challenge for the international banks in the next five to 10 years – and the greatest opportunity for the locals – will be the growth of local capital markets.

BAML's Augusto Urmeneta, head of Latin America investment banking, says that, to date, the international markets have dominated: "I think the development of the local capital markets – which everybody expected to grow in tandem with the size of the economies and the growth in the size of the large local corporates – has generally evolved at a slower pace than expected."

This has limited the areas of conflict between locals and the internationals. There has been some overlap – some international banks can issue locally (although with little enthusiasm) to build scale. The greater conflict has been over some local banks' international markets aspirations, but generally it has been a delineated marketplace.

However, this is likely to change in the coming years, especially in Brazil, where a couple of factors are expected to revolutionize the deep but extremely conservative buy-and-hold market.

The first factor is already in train: interest rates – real and nominal – are at all time lows and could go lower still. Institutional investors, private bank clients and retail investors have long been accustomed to high returns on sovereign short-term debt. With inflation tamed and plans for an attack on the fiscal deficit likely to lead to currency stability, this low interest rate environment could persist.

A move into equities has already started, and bankers report that institutional investors are building internal capabilities to assess private credit as they are forced down the credit spectrum and into duration.

The expectation of pension reform is widely cited as the reason for this shift. The market-friendly reform agenda of Brazil's new finance minister Paulo Guedes is spurring forecasts for this sustainable low interest rate environment. But some also point out that the pension reform will further boost the liquidity of the local markets by incentivizing millions of Brazilians to start their own private pension savings as the government cuts the value of its pension promise.

"Pension reform could provide a huge boost to the Brazilian savings rate," says John Moore, head of Latin America and chairman of global capital markets for Morgan Stanley. "That formation of capital would be a spur to the local capital markets."

The potential for this trend explains the apparently surprising statement from the Brazilian head of one of the bulge-bracket Wall Street firms that he would like to develop local markets capability. The problem, he notes, is that to do so would require building a balance sheet that would probably be able to generate higher returns elsewhere in the business.

Focus on Brazil

If local markets evolve quickly in Brazil, that could also complicate the revenue targets being set for Latin American banking teams. Brazil is clearly expected to be the engine of growth for international investment banks in the coming years. Local markets won't get in the way of 2019 and 2020 activity, but in the medium term they might.

Equities bankers are Brazil-focused. Talking in February, one senior ECM banker on Faria Lima says that he expects 12 deals to have been mandated by the end of February or beginning of March. The banker seems excited and fearful of the outcome of these mandates in equal measure: he will either have succeeded in getting an important foothold in the new wave of ECM deals or already be behind his competitors and face awkward questions from his bosses in New York.

"That sounds about right," says BAML's Urmeneta about the mandates in the market. He is excited about the potential pipeline from Brazil – not just in the short term but throughout this year, next year and potentially longer. He goes back to the country's fundamentals – those lower-for-longer interest rates – as a reason for grounded optimism on a large volume of equity issuance.

"I think we should have a great few years in Brazil," he says. "Low interest rates and low inflation is causing a migration from fixed income in the country, so by definition we're likely to see a tremendous amount of activity in the equity markets. Our pipeline is growing by the day."

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> \- Martin Marron, JPMorgan

DCM bankers are equally focused on Brazil.

"Brazil is going to be the engine for the DCM market," says Miguens, "because of the size of the economy, number of issuers, pickup in M&A activity and upcoming privatizations that the new government will pursue."

Meanwhile, José Olympio Pereira, chief executive of Credit Suisse Brazil, pours little cold water on Miguens' hopes for the privatization-driven element to the DCM pipeline. He believes those privatizations will flow mainly through equity sales and will help create a total pipeline of issuance close to R$200 billion over the next four years.

"I think it's politically a lot easier to sell to the market than it is to sell to a strategic buyer," says Olympio Pereira. "Many companies will be privatized progressively through the capital markets. I expect in many cases the government is going to reduce its ownership below 50%, but they will remain the largest shareholder."

Privatization scepticism

Ricardo Lacerda, founder and chief executive of BR Partners, is a little more sceptical about the scale of the privatization programme in the next couple of years. First, he says, of the four most sellable assets – Petrobras, Banco do Brasil, Caixa Economica and Eletrobras – the government has said it is not going to sell three of them.

The government is publicly committed to the sale of Eletrobras, but some M&A analysts question if it will be politically feasible as the powerful MDB party has strong ties with the company and will try to keep it in government hands.

He thinks there will be big asset sales, with airports and energy assets the most likely to sell. He questions the commercial interest in some of the government's identified real estate assets, such as football stadia.

The Brazilian government has also been antagonizing China, which has been a big source of inbound M&A, and this could complicate the administration's hope for foreign direct investment. In 2018, the volume of inbound Chinese M&A to the region was $106 billion – down from the peak year of $218 billion in 2016.

Martin Marron, head of Latin America for JPMorgan, points out that the 2018 figure was more in line with the annual rate for 2013 and 2015, and that 2016 was the outlier – the fall in the last couple of years is more a return to the norm than a sign of a Chinese lack of interest in the region.

He believes China remains committed to buying assets in the region and will continue to be an important source of finance for China's traditionally favoured sectors: energy, commodities and, to lesser extent, agriculture.

One M&A banker thinks the Chinese pull back is less about displeasure with comments from Brasilia and more a reflection that the Chinese allowed themselves to get into a buying frenzy in 2016 and ended up paying irrational prices.

"The Chinese government is now trying be much more analytical and careful in articulating a path to monetization of assets in Latin America," he says.

Marron says: "M&A is a function of access to finance and about the growth of companies – we believe both will be strong in the region in the coming years. M&A accounted for roughly $4 trillion globally in 2018 – the third best year after 2007 and then 2015. We think the underlying fundamentals that drive this activity will be strong in the region. That will open up a healthy pipeline of M&A throughout Latin America in the coming years."

Infrastructure

Brazil typifies the infrastructure and project finance requirement that is facing the region. The needs are spectacular, not just in the areas of rail, roads and airports to boost logistics and productivity but also energy and water and sewage management.

“We don’t have the ability to invest in infrastructure, and our current infrastructure is falling apart,” says Lacerda. “It’s a really critical situation and I think we have to understand that we don’t have enough savings to grow without capital. And we don’t have the breathing room to wait [for our savings rate to grow], so we are going to need foreign capital.”

But despite the recognition that the region’s governments will need to bring in foreign money, the problem is the currency issue on long-term financing.

Lacerda thinks tax breaks will help bring in foreign capital to fund local-currency denominated long-term financing.

It would certainly help, but as the taper tantrum showed, emerging markets’ currencies can depreciate and undermine the long-term financial rationale very quickly. The ideal is to develop onshore or offshore pockets of local-currency debt; once that liquidity has built up, to try to add in the credit risk of project finance. It’s a tough ask, the number of investors that are happy with both local currency and project finance risk is small.

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>
> \- Lisandro Miguens, JPMorgan

Consistent issuance of local-currency bonds would be an encouraging sign. Gabriel Bochi, head of credit markets for the Americas at BBVA, isn’t sure the asset class will ever mature to stability.

“The global bonds in local currency always come in waves,” he says. “That usually comes when you have a bullish market, in terms of both the currency and rates. The supply of bonds isn’t the cause of the sporadic nature. There are always corporates that want to issue in local currency to diversify their investor base and to avoid the currency mismatch that comes with issuing deals of a size that just aren’t possible in the local markets.”

The concern is the investors.

Bochi points out: “Even today, there just are not that many pockets of money that want corporate bonds in local currency in the international format. There are about 20 or so real money guys who invest in these deals – not 300.”

“That’s one of the key questions for me,” says Miguens. “To what extent will international investors, who buy hard currency LatAm corporate debt, migrate to local currency? Can we eventually combine these liquidity pools in an issuance with both local and international investors? That’s a central question to be answered and, either way, it will have a profound effect on the development of the region.”

Weak Argentina

Argentina is, because of its lack of domestic capital markets, the negative image of the rest of the region. For example, whereas Colombia offered a small element of dollar-denominated structures for its fourth-generation toll roads, the sticking point generally for Latin American countries other than Argentina is local currency financing.

Meanwhile, Argentina’s toll-road financings are all dollar-denominated. Had it not been for the August collapse in the peso, which created issues for the chosen consortium of the six projects, it is likely that the international markets would have assumed the long-term financing of these particular projects.

The country has no domestic markets to speak of; short-term financing is only available in dollars and that is currently at prohibitive 50%-plus rates and with little tenor. For Argentina to grow it is going to need to tap the international markets.

Perhaps this is why the internationals are so bullish on Argentina. If president Mauricio Macri (or someone else from the Cambiemos party) is re-elected, the country will continue to be a frequent issuer of debt in the international capital markets. Equity too will flow and, with Buenos Aires stock exchange’s index, the Merval, also lacking depth, the international banks will continue to list Argentine stocks in New York.

M&A will also begin to flow and bring in the last, crucial part of the Argentina economic plan: foreign direct investment.

However, the local market weakness hasn’t prevented Argentina’s market regulator, CNV, beginning a journey to encourage the growth of the capital markets. With the re-privatization of the national pension fund organization Asnes off the table for a mix of mainly political reasons, Marcos Ayerra, chairman of CNV is pursuing a wide mix of policies aimed at improving the onshore liquidity of the capital markets.

“We have embarked on a huge series of capital markets reforms over the last three years,” says Ayerra. He points to tax reforms – the first attempt by the government to both increase revenues and repatriate capital.

The reform was a success in the former aim, less so on the latter, but Ayerra acknowledges that it will take time to turn the Argentine financial system away from its purely transactional nature and into one that appeals to both local and international investors. It won’t be a quick transformation, even given sound

regulatory reform and economic growth.

Ayerra has overseen a change in equity transaction taxes that were prohibitive (a flat 15% tax on sales regardless of whether investors made or lost money on the transaction) and the regulators have also reformed corporate governance and other rules to boost investor confidence. Beyond these high-level changes, Ayerra has also been sponsoring the development of digital syndications of small and medium-sized enterprise loans to try to jump-start investment and growth.

He concedes that the impact of these reforms has been muted, given the recent crisis, but if and when the economy rebounds, the hope is that the regulatory friction to growth should have been substantially reduced.

Brazil's revival will help Argentina secure this growth. Argentina's revival will help the region's short-term performance. The Andeans are doing well. There is evidently nervousness about Mexico under new president Andrés Manuel López Obrador, but the economic fundamentals he inherited would take some carelessness to demolish. And now Venezuela appears to be back in play. The outcome is far from certain, but there may yet still be a path back for the oil-rich country to financial orthodoxy.

Bankers are happy to discuss the individual country scenarios, but some seem reluctant to draw their optimistic outlooks into a single narrative for the region. Could all the big countries – for the first time in Euromoney's 50-year history – be drivers of growth? And what would this mean for the region and its relative attractiveness in the emerging market world?

There are also sceptics of course.

"Let's not get too carried away while the IMF is holding up Argentina," says one. "And there is a lot of nervousness about the IMF's commitment to Mexico. They have a credit line of about $70 billion to the country; I've spoken to some officials who are getting worried about that – especially with its heavy financial commitment to Argentina."

But HSBC's Mato isn't afraid of being positive.

"The opportunities in EM in the past decade have been skewed to Asia, the Middle East and EMEA," he says. "But we've never had Brazil, Mexico, Colombia, Argentina, Chile and Peru all firing at the same time. If this happens, it could really drive Latin American outperformance in the EM world."

He leans back in his chair. "And then you just need Venezuela."

Gonzalo Garcia, co-head of Latin America, Goldman Sachs: The comeback kid

Over the decades, many international investment banks have been inconsistent in their Latin American coverage strategies. So perhaps it is unfair that Goldman Sachs has become synonymous with the phenomenon of banks establishing offices in growing markets only to beat a path out the door when the cycle inevitably turns.

Gonzalo Garcia was given the mantle of co-managing the region two years ago. His first task was to do an audit of the bank's structure, capabilities and talent in the region.

Garcia drew three main conclusions: first, he was impressed with the team. But he realized that the type of business the bank was pursuing in Latin America wasn't aligned to what the bank prioritized in its US and western European business. Another not unrelated conclusion was that the Latin American team was more 'siloed' – the investment banking team, the securities business and the investment management team were all largely doing their own thing.

A third conclusion was that the bank had been "too hasty" to leave Argentina and so it has re-opened in Buenos Aires.

The bank sent Matias Rotella from New York to open that office, while Garcia also did selective strengthening of other offices and product areas in the region. The Brazil office headcount went back up again from 30 to 40, including the recruitment of former BNDES president Maria Silvia Bastos Marques to be chief executive of the country. This could be a shrewd move since the development bank's clients will be seeking more private-sector financing as BNDES reduces its lending capacity.

Garcia acknowledges the bank's reputation for flightiness. Part of his audit was to meet with clients of the firm.

"People only had good things to say about the firm," he says, "but they immediately said: 'Where have you been for the past two or three years? We miss you!'"

Part of Garcia's job has been to assure clients and prospects that the bank's future growth is based on an enduring commitment to the region.

"We probably spent the first six to nine months telling people we are back, but now that's done. We have now moved on to having more fluid conversations and they now know that we are going to deliver. And as a bank, our team knows that they are going to be measured on the relationships they build with our clients in the region."

The build up has been timed nicely and fee revenue has reportedly surged.

"We are off to a good start in Latin America, but if I compare where we are in the US and western Europe, then we are still in our infancy," says Garcia. "I do believe in the long term it will be very rewarding for the firm if we stay, but we need to do some catch up."

Martin Marron, chief executive for Latin America & Canada, JPMorgan: The true believer

Martin Marron doesn't have to be asked about whether or not he believes Latin America has been transformed. He immediately volunteers this observation. The only thing that has remained the same in the region, he says, is the relative size of each country.

"The big countries continue to be big and the small are relatively small," he says. "But the fundamentals have totally changed."

During the last 50 years many of the countries have experimented with military dictatorships and populist economics. Now free-market policies are embedded in many and becoming adopted in the stragglers.

"Latin America has rejected populism, with a few exceptions, and even when compared to Europe or the US, it looks more orthodox," he says. "It's ironic, but completely logical. Latin America has had all the political phenomenon that we are now seeing in the US, Greece or Italy, but most countries concluded that these moves don't work."

Marron is confident that Argentina's adoption of orthodoxy will continue and he believes changes in Venezuela are "inevitable".

The conversion of all these economies to market-oriented policies would be powerful – and unique – in the region's history. But while Marron might be optimistic about this alignment, he is still realistic about the work that needs to be done to get the most vulnerable economies into sustainable recovery.

The vital ingredient will be local capital markets with large institutional investors.

The development of local markets will add greater resilience, as they did when international investors reacted negatively towards Brazil in 2001 when it became clear that Luiz Inacio Lula da Silva would become the country's next president.

The prospect of a left-wing leader in Brazil led many investors to conclude that Brazil would follow Argentina into default. The sovereign bonds traded as low as 47 cents, but the local pension fund industry kept buying the bonds as the internationals left.

It is this long-term confidence in the future of the region that has led JPMorgan to maintain a physical presence in Argentina and Venezuela through their wilderness years.

While Marron's expectations of improvements in Argentina – and particularly Venezuela – may demand a little faith, his optimism about Brazil is more evidence-based.

"I'm very optimistic about Brazil," he says. "Activity in the capital markets has been repressed there for the last three or four years; now that there seems to be a market-friendly government, I believe activity will eventually materialize in 2019."

John Moore, head of Latin America, Morgan Stanley: Close to the action

John Moore joined Morgan Stanley in 1985 as an analyst but couldn't get close enough to the main Latin American action – the debt renegotiations that Bill Rhodes was leading on behalf of the commercial banks.

A sideways move to Citibank to get closer to the man running the syndicate held little appeal. He was under no illusion that, as an associate, his experience would have begun and ended with creating research reports, with perhaps the odd glimpse of a busy conference room.

So the young Moore went where he could be of most use and gain most access. He went into the non-profit sector, working for the Salvadoran Foundation for Economic and Social Development from 1987 to 1988 before returning to Morgan Stanley.

The experience was transformative, and when Moore rejoined Morgan Stanley in the middle of the 1990s, the bank was building up its presence in the region – ostensibly through underwriting of government and corporate bonds, state privatizations and creating sales and trading desks for the main Latin American asset classes.

"The business grew steadily through the 1990s on small volumes – during that decade there were continually setbacks from EM [emerging markets] crises that led to all sorts of contagion," says Moore, citing inter-regional crises as well as external shocks. "The Asia crisis affected the Latin American markets, even though they were completely unrelated. By that time, portfolios had become much broader and deeper within regions but they hadn't completely de-linked from the EM Group."

Today it's different.

"Latin American markets trade more based on their own unique dynamics – of the individual countries and companies that populate this very different region. The whole notion of Brics is a concept from the past."

Moore became Morgan Stanley's chief executive for the region in 2015 – not an easy time in which to begin his leadership. Latin America was suffering from the fall in commodity prices driven by a slowdown in China. The negative impact of these external shocks was compounded by recessions in Brazil and Argentina, where fiscal subsidies were being withdrawn (and the Brazilian Car Wash, or Lava Jato, scandal added further injury throughout the region).

But despite the short-turn downturn, Moore is convinced that Latin America has been transformed since the beginning of his career. For a start, the scale is now vastly different.

"Brazil is a $1.8 trillion economy, the region as a whole is around $3.5 trillion," he says. "The GDP of LatAm is bigger than Asean countries combined [Asia ex-China and Japan]."

The implication is that if true secular growth takes hold from this base, then that growth will create the opportunity for innovative and disruptive companies and industries.

And when they do, Moore means for Morgan Stanley to be close to the action.

Roberto Sallouti, chief executive, BTG Pactual: Brazil's Charles Schwab?

The English language is constantly changing, but it is not good at evolving compounds. However, Roberto Sallouti is far less concerned with such linguistic rules than the opportunity he is so excited to convey.

"Brazil is going through CharlesSchwabization," he says. "More and more money is leaving the big retail banks for specialized houses focused on investments, like ourselves."

BTG Pactual bet on this phenomenon with its launch of BTG Pactual Digital in 2016.

The digital investment platform then aimed to win a 10% market share of the then R$650 billion ($176 billion) market for managing the affluent sector in Brazil. The bank still does not provide specific data for the digital unit, but assets under management in the asset management unit, in which it is housed, grew by 30% in 2018.

It is unlikely that the internal models of the economy upon which the original business plan was based were as rosy as Brazil has today.

Brazil's base rate is at an all-time low of 6.5% – and the next move is more likely to be down than up. The rate curve is flattening as investors absorb the market-friendly policies of the new government and the good initial signs for its ability to implement its policy agenda.

Brazilian savers at all levels are facing a sustainable real rate environment that they have never seen before. This is leading to a migration to risk products, as investors move down the credit curve or lengthen tenors or move away from fixed income altogether into asset classes such as equities.

"Just look at the amount of money that has flowed into credit funds – it's mind-boggling," says Sallouti. "For me that's just the first step. Pretty soon we are going to start to see high-yield credit funds, structured credit funds, securitization of receivables. You are going to see this more and more."

BTG Pactual is offering the mass market the same fees as its private clients, radically undercutting the costs charged to affluent retail customers of the main banks. It is clearly working. Witness a recent public spat between the market disrupter XP and BTG.

The specific allegations of anti-competitive behaviour are less important than the signal that BTG has riled XP, which had become used to being the clear market leader.

Meanwhile the banks (with the exception of Bradesco) are opening their platforms to third-party funds, which increases BTG Digital's distribution network.

Sallouti believes that the growing awareness of the potential growth of this business within the 'traditional' investment bank is a big reason behind the recent rise in the bank's share price. So far this year, the bank's stock has risen from R$22 to R$34 in mid February.

"We're still not making money on [BTG Digital] because there is a ramp-up stage with development costs, but the ability to leverage off that platform with additional scale is going to be tremendous," says Sallouti.

Ricardo Lacerda, chief executive, BR Partners: The moderate

The chorus among São Paulo's bankers is that locals are far more optimistic about Brazil than international investors, who remain cautiously on the sidelines. The line is repeated so consistently it begins to feel like a rare example of consensus. But it's not a consensus: not quite.

Ricardo Lacerda, founder and chief executive of independent bank BR Partners, isn't being swept along by the local fever. Speaking to Euromoney as the Bovespa pushed towards 100,000, Lacerda's tone wavers between realism and scepticism.

"I think the financial markets have anticipated a lot of the recovery," he says. "The truth is I have been talking to a lot of clients – industrialists and retailers – and the real economy is not moving so well."

Lacerda does not believe that the increase in financial flows, asset prices and investor spirits will automatically spark a revival in the real economy.

It is clearly a concern, because without growth in GDP and an improvement in the real economy, the buoyancy of the financial markets will not be sustained. And that is the bet of not just locals but of the international bankers that are targeting Brazil to be their main driver of revenues in 2019 and 2020.

"One month, we have good news about the economy, and then the next disappoints," he says. "Retailers tell me they have a good week and then don't sell anything in the next two. We still have 13 million unemployed, and we need the real economy to have a real improvement to get the unemployment rate down dramatically. The expectation for this year was around 3.5% GDP growth; now people are revising it to about 2%. So it's not great."

Lacerda's sober assessment contrasts so sharply with his peers, the obvious pushback is: if the pension reforms pass, won't there be a whole new investment wave?

"A lot of that expectation is in the price already," he says. "But my real fear is that if the economy does not respond then you start to have a problem. We can have the same problem that they had in Argentina and to a certain extent France, when you have people winning with the right reform proposals, but if the economy doesn't respond then they start to lose popularity very quickly."

EvenLacerda's prediction for pension reform is more downbeat than elsewhere on Faria Lima.

"Something will get done," he says. "But it's going to be the usual Brazilian compromise solution. It won't be the perfect reform because they will not be able to get the vote. Forget it, it's impossible. It will be something right at the level to avoid bankruptcy."

Suddenly, the view across São Paulo from BR Partners' conference room looks a lot more gloomy.

Gerardo Mato, chairman of global banking, Americas, HSBC: Building from scratch

In 2002, when HSBC began to sound out Gerardo Mato about joining from Merrill Lynch, he wasn't interested. Why leave the US bank, with its established Latin American network and regional businesses, for a firm with little more than aspiration?

Then again, the Merrill Lynch of 2002 was in flux: chief executive David Komansky was leaving, and much of the staff were questioning the bank's commitment to the region in the new post-9/11 world.

In this context, Mato eventually decided to go and find out more about what HSBC had to say.

"Stuart Gulliver became a very close friend over the years," he says. "But when I first met Stuart, he didn't like what I told him. He was astonished that I had been involved in LatAm for so long and I had not seen HSBC involved in Latin American deals. I remember telling him that in all my career, I have never done a deal with HSBC."

Gulliver was dismayed but undaunted and quickly changed Mato's track record. Mato agreed to join HSBC and brought with him a team of Merrill Lynch bankers to supercharge the creation of a pan-Latin American corporate and investment banking operation.

"Many Brazilians in the early 2000s even thought HSBC stood for Hospital Sao Bernardo do Campo," says Mato. "We clearly needed to fix that perception very quickly as we were aiming to position ourselves as a top investment bank in the country and in the region; which we clearly did. We now rank at the top of the most relevant league tables in Brazil."

Mato and his team started working their contact books. They made some quick initial progress with a sole bookrunning mandate for Pemex, the only time it has ever done a sole international mandate. Mato recalls they won the $500 million deal by pitching a floating-rate structure – something the company had never done – and the deal blew out on demand. The success of that format prompted Pemex to replicate it with a $1.5 billion floating-rate note the following year.

HSBC also steadily built its presence in the dollar bond market, initially through targeting non-traditional execution. Mato gives the example of a deal for Pemex: the issuer wanted to tap perpetual dollars but without going to US investors.

Mato says other banks were telling Pemex there was perhaps $200 million of demand out there. HSBC led a RegS (not 144A registered) deal that created $6 billion in demand without including a single onshore US investor. HSBC also opened other markets for LatAm issuers, including Singapore dollars, Taiwanese dollar, offshore renminbi and panda, formosa, sukuk and Australian dollar.

Mato's mission isn't complete – the equities business is proving to be a tough nut to crack – but no one thinks HSBC is a hospital any more.

José Olympio Pereira, chief executive, Credit Suisse Brazil: The bull

Not everyone can quantify their optimism about Brazil, but José Olympio Pereira can.

"I'd say we can triple revenues in the next five years," he says. "That's a realistic estimate, so the optimistic case would be higher."

The proviso with these estimates is that the new Brazilian government passes pension reforms. But Olympio Pereira believes that it will and is excited by the economic agenda under finance minister Paulo Guedes.

"In my 35 years [of a banking career in Brazil], I have never seen a government that is so economically liberal; the plan is, in general, very good," he says. "The risk – and there is risk – is execution. But to start off with, a good plan makes a big difference."

Given sound implementation of the plan, Olympio Pereira foresees a long cycle of growth. The bank ran an investors' conference in São Paulo in the last week of January and Olympio Pereira had his outlook reinforced by those attending.

"The level of optimism that pervaded the conference was incredible," he says. "I think we're about to get into a very positive cycle in which we're going to have a lot of money invested – both locally and from international investors. The locals have started already. The internationals are still sitting on the sidelines, but they'll come."

In defence of his bullish prediction (which he says could be a sustainable level of growth), he points out that he anticipates growth across Credit Suisse's Brazilian business. It's not just burgeoning capital market activity that will cause revenues to leap.

The bank's wealth management business (Credit Suisse Hedging Griffo) is seeing strong assets under management and fee income growth as record low interest rates have sparked risk-appetite into life – as well as expected growth from liquidity events. Many of the same dynamics are already boosting the asset management business.

However, despite the broad-based sources for growth, it is Olympio Pereira's expectations for the equity market that is most eye-popping.

He says the next few years could see levels of issuance that surpass even the 2007 frenzy; with a total pipeline of issuance close to R$200 billion ($54 billion) over the next four years. He points out that on the local exchange, the B3, the number of companies that have market capitalizations above $2 billion (a level that would be considered small cap in the US, he notes) and that trade more than $10 million a day is around 60.

"That number in other EM countries, like India and China, is in the thousands," he says. He argues there is a lot of room for the Brazilian equity markets to catch up, and he says that there are "a lot" of business owners in the country that are readying to sell as the multiples of listed companies on the exchange rise to meet their own valuations.

Any particular sectors, Euromoney asks, about the companies Olympio Pereira expects to come to market?

"All of them," he beams.

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