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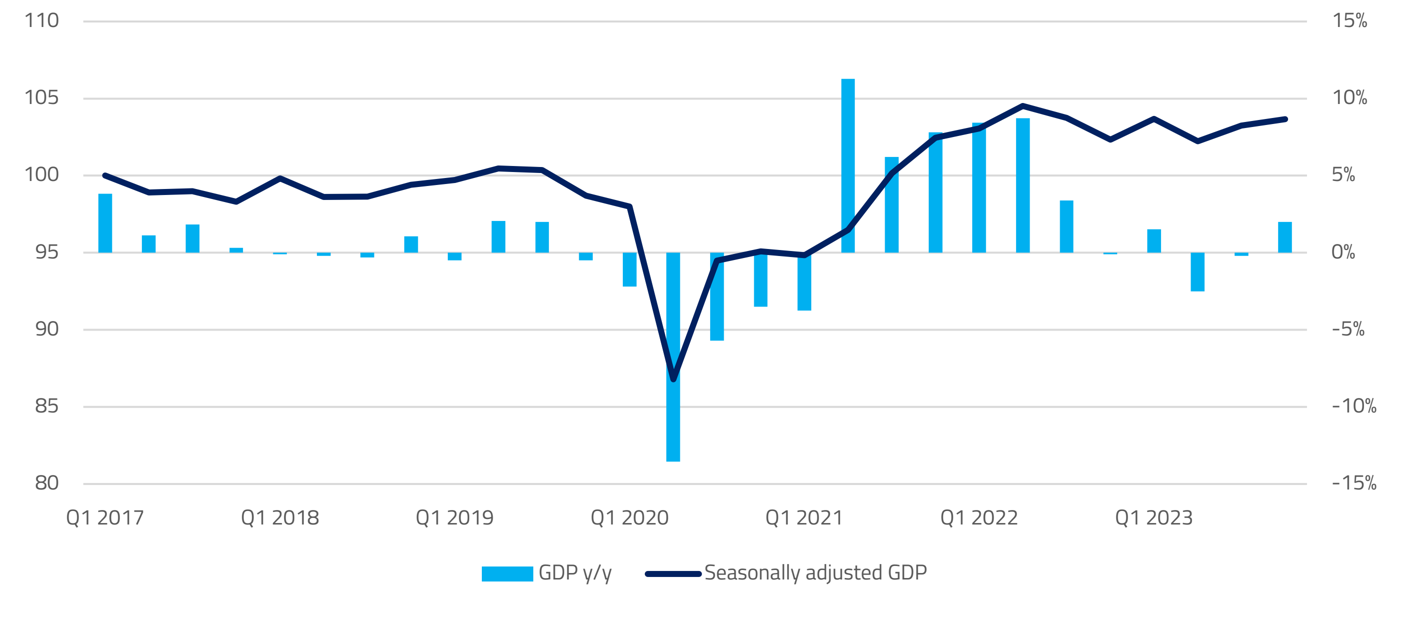
URUGUAY STRATEGY

In February, inflation continued its downward trajectory, reaching 4.7% y/y, benefiting from favorable comparative bases. Economic growth remained subdued throughout 2023, averaging just 0.4%, largely due to supply shocks such as the early-year drought, completion of the second UPM plant, and the Ancap refinery maintenance shutdown in the fourth quarter. Additionally, the local currency has maintained its strengthening trend, hitting its highest level since September 2023, which began towards the end of last year. Looking ahead, Uruguayans are gearing up for a closely contested election in October, with no clear frontrunner emerging yet. While ruling coalition parties appear to have a confirmed candidate for the national elections, except for the Partido Colorado, which is facing significant internal challenges, the opposition is gearing up for a tight race between its two most popular contenders.

The economy saw sluggish growth, averaging a mere 0.4% in 2023. Despite an initially promising tourist season, various negative supply shocks hampered growth throughout the year. The year began with a lingering drought from Q4 2022, severely impacting electricity generation. Simultaneously, the completion of the second UPM pulp mill plant significantly affected the construction industry, while maintenance work on Ancap's refinery in Q4 further dampened activity. Comparatively, GDP levels were 2% higher than Q4 2022 and 0.4% higher than the previous quarter. Notably, divisions directly affected by these supply shocks were the primary drivers of this performance. Manufacturing, for instance, saw a 1.6% decline, contributing -0.2% to the overall index due to the refinery's pause in activity. The electricity, gas, and water sector suffered a significant 9.2% decline throughout the year, contributing -0.3% to the general index, mainly due to the drought. Meanwhile, the construction division experienced a 5.6%

Exhibit 1. GDP growth was slow in 2023.
GDP seasonally adjusted level and y/y change (rhs)

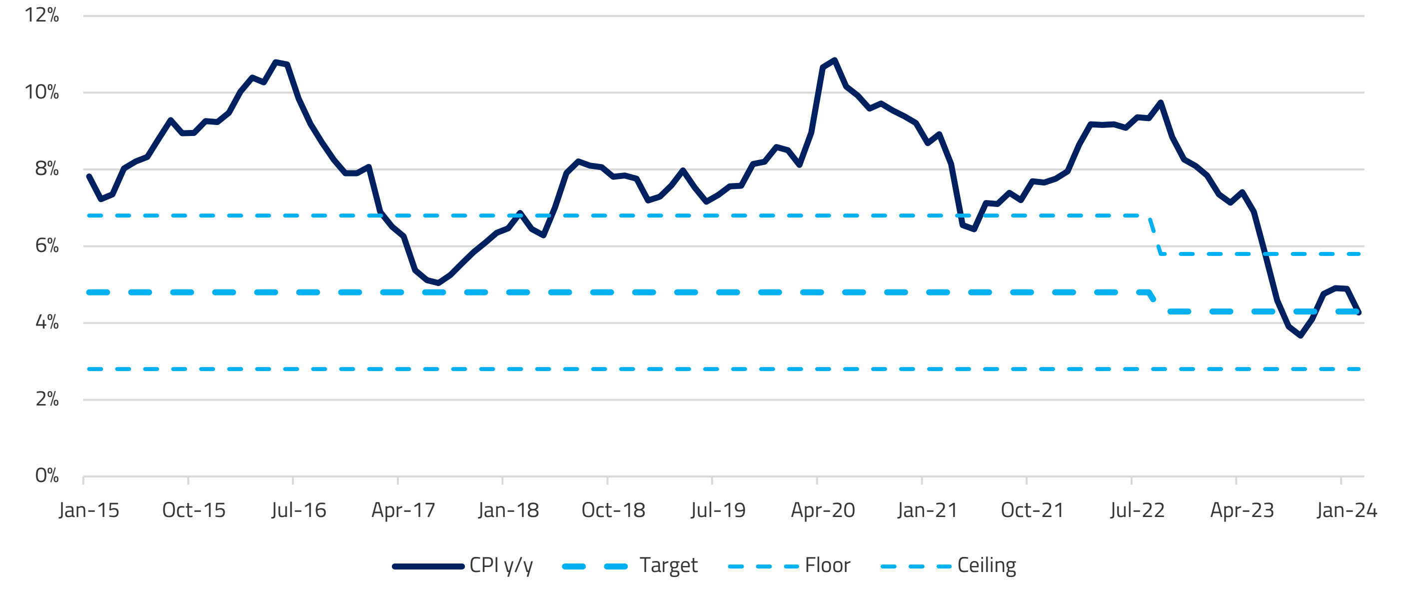


Source: CBU

contraction (-0.3% contribution) due to the completion of the UPM plant, though increased cellulose exports partially offset this decline. On the demand side, household consumption remained resilient, buoyed by real wage increases and higher employment levels. Private consumption expanded by 3.6%, contributing +2.2% to the overall index. However, gross capital formation declined by 2.7%, driven by a 7% reduction in fixed capital investment. Looking ahead, GDP is projected to grow by 3.5% in 2024, driven by a favorable comparative basis and the resolution of previous supply shocks. Additionally, the job market is anticipated to sustain positive performance, albeit at a slower pace, with salaries expected to outpace inflation. Furthermore, reduced price differentials with Argentina and elevated inflation levels have narrowed the price gap between the two countries, benefiting the retail sector in neighboring cities and curbing outbound tourism, thereby bolstering the retail sector overall.

Inflation came close to expectations in February. In February, prices experienced a modest increase, averaging 0.64% m/m, slightly below the median estimate of 0.70%. Over the past 12 months, prices have risen by 4.71%, marking the 8th consecutive month within the target range. The food and non-alcoholic beverages division emerged as the primary contributor, adding 0.17% to the index, followed by the transport division, which, despite a decline in diesel fuel prices, saw a 0.11% increase fueled by a substantial 20.66% rise in airplane ticket costs. Core inflation, which excludes volatile components such as fruits, vegetables, gasoline, and gas, grew by similar levels, rising by 0.61% m/m and 4.47% y/y. The success of monetary policies and the appreciation of the local currency throughout the year have contributed to containing inflationary pressures thus far. However, we anticipate this trend may be approaching its conclusion, as negative comparative bases are expected by May. Between February and April of 2023, inflation was significantly influenced by the drought, resulting in double-digit increases in prices of fruits and vegetables each month and an average monthly inflation rate exceeding 1%. As conditions normalized, prices of affected products declined by similar margins, leading to a decline in monthly inflation to -0.17% in the subsequent 4 months. We anticipate inflation to challenge current levels and test the upper limit of the central bank's target range. While the government's forecast of 4.9% year-on-year inflation by December appears optimistic, the median analysts' consensus of 6.3% seems pessimistic in our view. We expect inflation to end the

Exhibit 2. Inflation remains close to the center of the target range.
y/y CPI



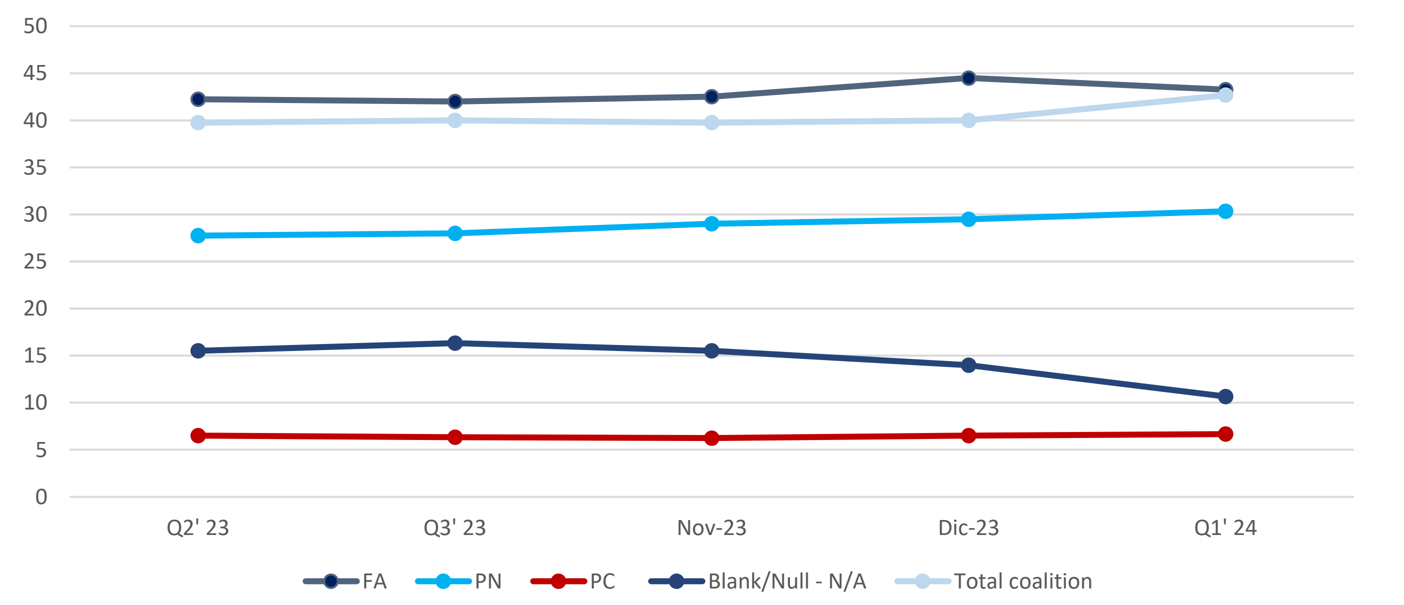
Source: INE

year close to the upper limit of the target range, although its trajectory may be influenced by central bank interventions and external factors such as oil prices.

The upcoming October election in 2024 is shrouded in uncertainty as Uruguayans prepare to cast their votes to determine the country's leadership from March 2025 to March 2030. Current surveys indicate a tight race between the ruling coalition and the opposition Frente Amplio (FA). The ruling coalition comprises four distinct parties—Partido Nacional (PN), the party of the incumbent president, Partido Colorado (PC), Cabildo Abierto (CA), and Partido Independiente (PI). While these parties will independently contest the October elections, they are likely to unify for a second-round campaign should no individual candidate secure a majority of 50% +1 of the total votes. On the other hand, the opposition, predominantly the Frente Amplio (FA), is a coalition of various parties including the communist party, socialist party, and other smaller groups. Despite this diversity, they have largely operated under a unified structure since the restoration of democracy in 1985. Uruguay's electoral system mandates compulsory voting for both first and second round elections, although internal party elections to select candidates are not obligatory. This often benefits more radical candidates whose electoral base tends to exhibit higher levels of loyalty. Currently, it seems that CA and PI will not face contested internal elections, with their respective leaders, Senator Manini Rios and Secretary Pablo Mieres, likely to be the candidates. While the PN has already rallied behind former Secretary of Presidency Álvaro Delgado as their clear favorite, the PC presents a more uncertain scenario. Having close to a 7% voting intention and eight different pre-candidates, pollsters have struggled to identify any clear frontrunners. Nevertheless, none of these candidates has managed to significantly differentiate themselves, as the party's voting intention remains close to historical lows.

The internal election within the opposition is becoming increasingly competitive with each passing week. Until recently, Yamandú Orsi, the Mayor of Canelones, was considered the clear frontrunner over Carolina Cosse, the Mayor of Montevideo. Orsi, despite enjoying the support of former President Mujica's political faction, is viewed as the more moderate candidate, embodying the characteristics of an average Uruguayan—a calm and conciliatory individual. Furthermore, his origin outside of Montevideo may enhance his appeal among voters from that region,

Exhibit 3. Polls show a contested election in October.
Average voting intention from available polls

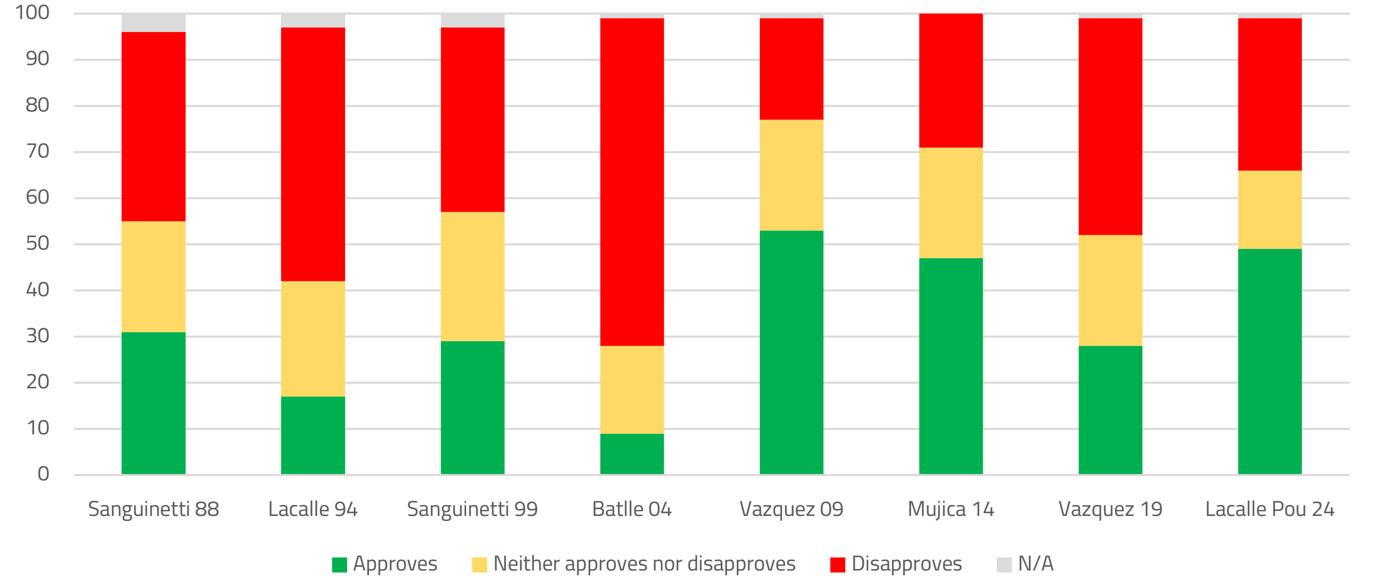


Source: Factum, Opción, Cifra, Equipos

which has historically been favorable to the traditional parties. In contrast, Cosse, who gained prominence during Mujica's presidency as the President of Antel, and further exposure during Vázquez's presidency as the Secretary of Industry, has garnered support from the Communist Party and benefits from the electoral platform provided by Montevideo, where nearly 40% of voters reside and where the Frente Amplio typically secures between 50% and 60% of the votes. Cosse could be perceived as the more radical candidate, potentially giving her an edge in an internal election that, according to the latest polls, appears to be a dead heat. However, it seems that Cosse's image faces stronger resistance outside of Montevideo, where voters typically align with the party rather than the individual candidate.

The ruling party should aim to leverage the presidential approval rating. In a country where consecutive reelections are prohibited, the president's approval rating at the end of their term may not carry as much weight as in other political systems. However, it's worth noting that there's often a correlation between the government's performance and the president's approval rating. It's not coincidental that the FA lost power in the same year that presidential approval reached its lowest point. Currently, according to Equipos, President Lacalle Pou holds a 49% approval rating, second only to the 53% achieved during the first term of President Vázquez, which resulted in an absolute majority for the FA in the subsequent elections. President Mujica had a 47% approval rating, leading to a third consecutive term for the FA. However, President Vázquez's approval rating plummeted to 28%, paving the way for a victory for the PN for the first time in 30 years. Despite being a former member of the government, Álvaro Delgado has not yet been able to capitalize on this trend. Nonetheless, we can expect to witness the momentum of the campaign building up after the Easter holidays.

Exhibit 4. Delgado should aim to capitalize Lacalle Pou's image.
Presidential approval Q1 election year



Source: Equipos

In conclusion, our outlook for the current year remains optimistic on several fronts. We anticipate that economic growth will continue its upward trajectory, likely finishing the year in the range of 3.5% to 4%. While there may be a potential uptick in inflation starting in Q2, we anticipate it will stay within the target range, although we cannot rule out temporary spikes due to exceptionally low comparative bases. Although current interest rates remain attractive for local currency debt, the recent appreciation of the local currency may impact total returns in USD. The UYU has strengthened by 4% since the beginning of the year, but we anticipate this trend to reverse in the short term. Therefore, we would advise waiting for more favorable levels for those seeking USD total returns. While the outcome of the elections could influence debt perspectives, we do not foresee major changes in the policy framework. Despite no announcements yet on the monetary policy front, and indications that the opposition has previously accepted higher inflation levels, the current monetary policy adjustments have proven successful. Additionally, historical precedent suggests that new governments often build upon successful policies of their predecessors. With that in mind, we maintain our preference for inflation-indexed debt. In the short term, we expect increased volatility in inflation levels, but in the longer term, we anticipate that indexed bonds will outperform nominal instruments, especially considering the expected rate cuts in the current year and the uncertainty surrounding the closely contested election in October.

Exhibit 4. Projections

Inflation	2022	2023	2024	2025
MEF	8.1%	5.1%	4.9%	n/a
CBU	8.1%	5.1%	5.0%	5.3%
Mkt Consensus	8.1%	5.1%	6.3%	6.0%
Latin Securities	**8.1%**	**5.1%**	**5.7%**	**5.4%**

GDP growth	2022	2023	2024	2025
MEF	4.9%	0.5%	3.5%	3.1%
CBU	4.9%	1.0%	4.0%	4.0%
Mkt Consensus	4.9%	0.5%	3.3%	2.5%
Latin Securities	**4.9%**	**0.5%**	**3.5%**	**3.0%**

Exchange Rate	2022	2023	2024	2025
MEF	40.1	39.0	44.5	n/a
Mkt Consensus	40.1	39.0	41.4	43.3
Latin Securities	**40.1**	**39.0**	**41.5**	**44.0**

Source: CBU, Latin Securities, MEF

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