Background note

Capital market trends in Latin America

2023 OECD-Latin America Roundtable
on Corporate Governance

This background note served as one of the references to session 6 of the 2023 meeting of the OECD Latin America Roundtable on Corporate Governance on 27-28 November in Sao Paulo, Brazil. The note was authored by Valentina Cociancich, Adriana De La Cruz, and Giulio Mazzone under the responsibility of Caio de Oliveira, all from the Capital Markets and Financial Institutions Division of the OECD Directorate for Financial and Enterprise Affairs.

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1. Public equity markets

Equity markets can play a key role in the sustainable growth of an economy by providing access to long-term investments that help companies to develop productive and innovative activities. Equity markets also provide an opportunity for ordinary households to participate in the corporate value creation, offering them access to additional options for managing savings and planning for retirement.

In 2022, 1 059 companies were listed in the Latin American equity markets with a total market capitalisation of USD 1 608 billion (Table 1). Brazil's equity market represents half of the total market capitalisation of the region (48.9%), followed by Mexico (29.0%) and Chile (10.2%). The remaining 11.9% corresponds to Peru (4.6%), Colombia (4.3%), Argentina (2.9%) and Costa Rica (0.1%). On average, large companies represent 80% of the market capitalisation in each country.

Table 1. Listed companies in Latin America in 2022

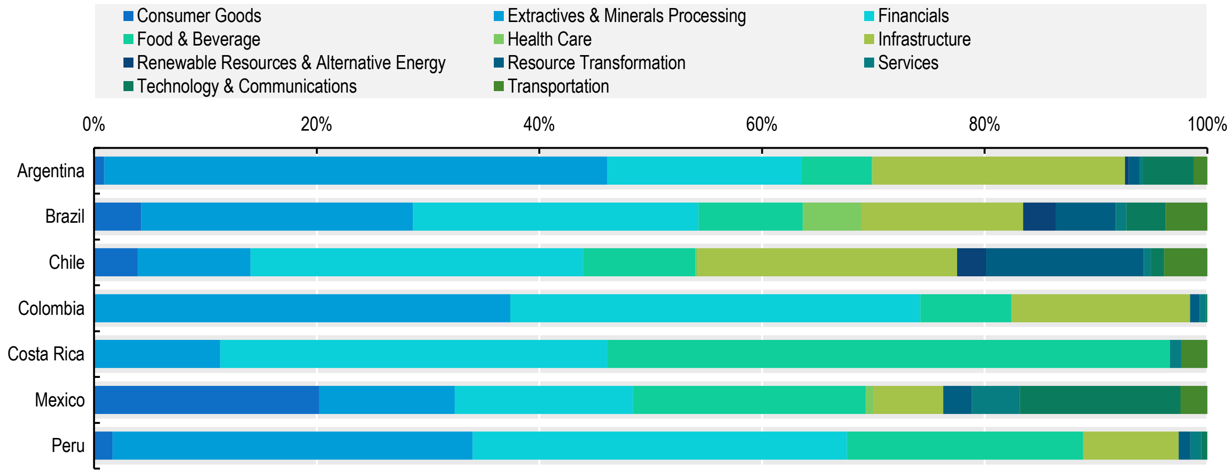
	No. of listed companies	Market cap. (USD billion)	No. of large companies	Market cap. of the large companies (USD billion)
Argentina	89	46	13	34
Brazil	392	787	105	725
Chile	189	164	36	135
Colombia	63	69	15	60
Costa Rica	7	2	1	1
Mexico	149	466	65	445
Peru	170	74	15	55

Note: Excluding investment funds and REITs, as well as companies whose equity was not traded in 2022. "Large companies" includes all companies with market capitalisation greater than USD 1 billion.
Source: OECD Capital Market Series dataset, LSEG.

Extractives and minerals processing is the largest industry in Argentina and Colombia among listed companies, accounting on average for 41% of the total market capitalisation, while the financial sector is predominant in Brazil, Chile and Peru (on average 30%) and food and beverage is the most important industry in Costa Rica and Mexico (36%). Health care, renewable resources and alternative energy, and services have the lowest shares of the equity markets in the entire region (

Figure 1).

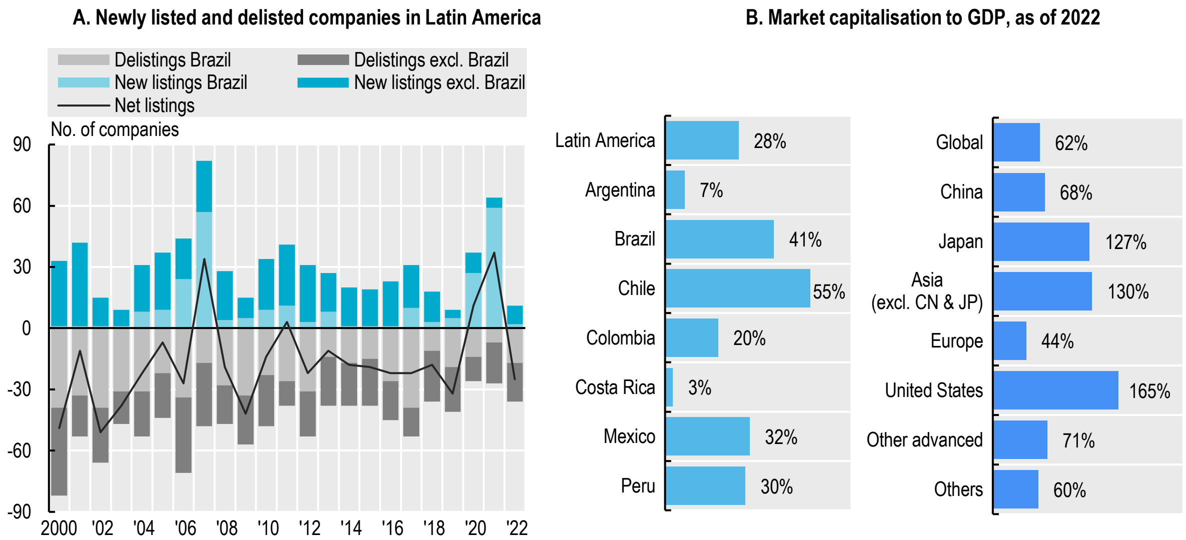
Figure 1 Main industries by market capitalisation in 2022



Note: Excluding investment funds and REITs. Source: OECD Capital Market Series dataset, LSEG.
Source: OECD Capital Market Series dataset, LSEG.

Between 2000 and 2022, 701 new listings and 1 085 delistings took place in the Latin American equity markets (Figure 2, Panel A). Net listings were only positive in 2007, 2011, 2020 and 2021, mainly driven by listings in the Brazilian equity market. In 2022, the market recorded a sharp turnaround, with only 11 new listings across the entire region. In contrast, 36 companies delisted their shares, including notably 17 companies in Brazil and 5 companies in Mexico and Peru, respectively. Total market capitalisation to GDP in Latin America ranges from 3% in Costa Rica to 55% in Chile, which is below the average in all other regions (Figure 2, Panel B).

Figure 2 Summary statistics of public equity markets

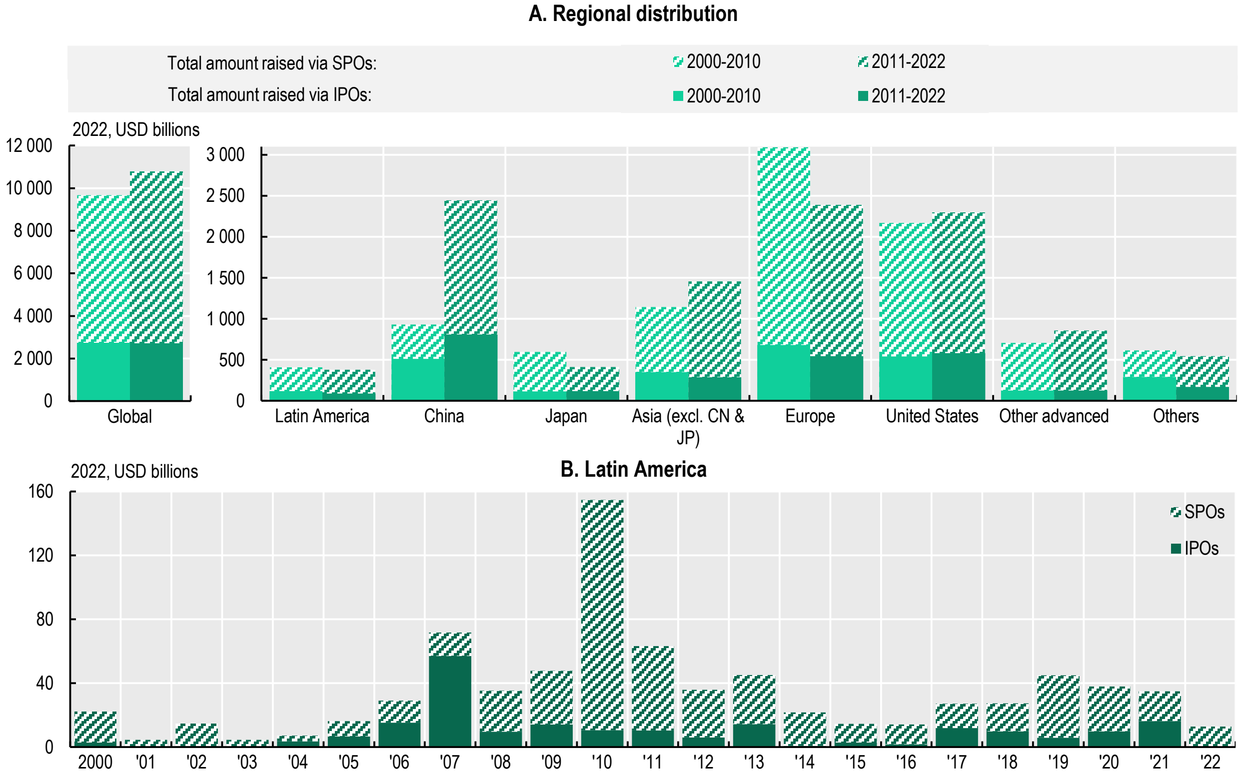


Note: Excluding investment funds and REITs.
Source: OECD Capital Market Series dataset, LSEG, and, for up to 2021, Latin American stock exchanges and securities regulators.

Globally, the total amount raised via initial public offerings (IPOs) has remained stable over the past 20 years, while the amount raised via secondary public offerings (SPOs) has slightly increased when compared to the previous decade. In 2000-10, the total amount raised via both IPOs and SPOs was mainly driven by Europe and the United States, while between 2011 and 2022 China contributed with a strong increase, notably in the total amount raised via SPOs. The United States and Europe still registered a significant amount of SPOs, although the latter had fewer IPOs and SPOs than in the previous years (Figure 3, Panel A).

In Latin America, over the past 20 years, SPOs have been significantly larger than IPOs in terms of the total amount raised. A significant exception is 2007, when the IPO market recorded almost USD 57 billion compared to USD 14.7 billion raised via SPOs. Since 2010, the year in which the largest amount of proceeds was raised via public equity offerings, the trend in Latin America has slowed down, with slight variations over the following 12 years. In 2022, Mexico recorded two IPOs, accounting for USD 117 million out of the USD 123 million raised via IPOs in the entire region (Figure 3, Panel B).

Figure 3. Initial public offerings (IPOs) and secondary public offerings (SPOs), total amount raised

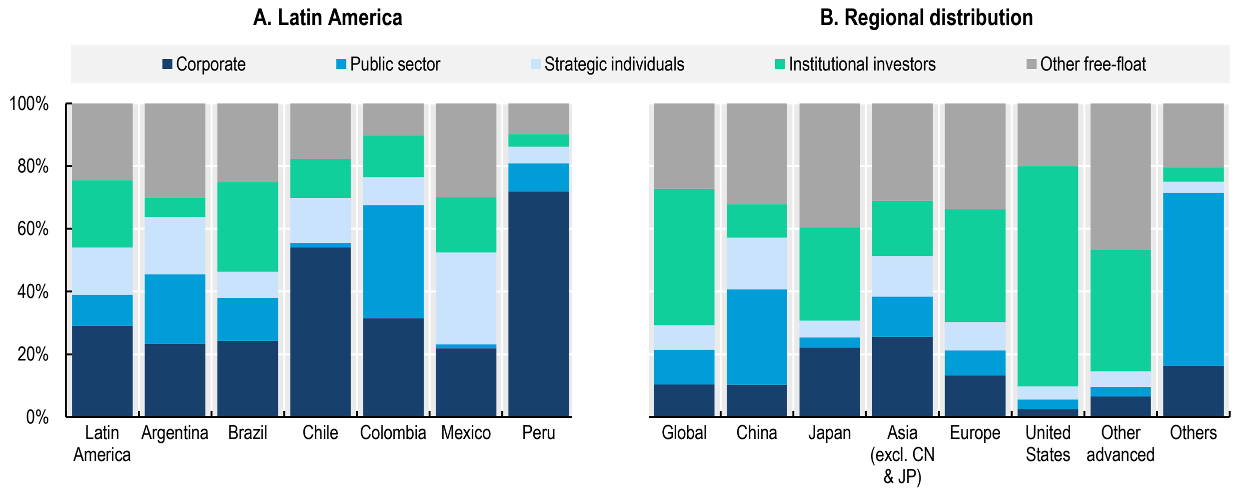


Source: OECD Capital Market Series dataset, FactSet, LSEG, Bloomberg.

2. Investors and ownership structure in public equity markets

Institutional investors dominate the ownership landscape of listed companies worldwide, holding on average almost half of the equity shares globally. They are important owners in Japan, Europe, and Other advanced, holding on average 35% of the listed equity, and in the United States where their stake amounts to 70% (Figure 4, Panel B). In Latin America, institutional investors' share of the listed equity totals 21%, ranging from an average of 5% in Argentina and Peru, up to 18% in Mexico and 29% in Brazil. Moreover, while corporations only hold 10% of the listed equity globally, in Latin America, they own almost one-third of the region's listed equity. Corporations hold 72% of the listed equity in Peru and 54% in Chile. The public sector is an important owner in Colombia (36%), Argentina (22%) and Brazil (14%) (Figure 4, Panel A).

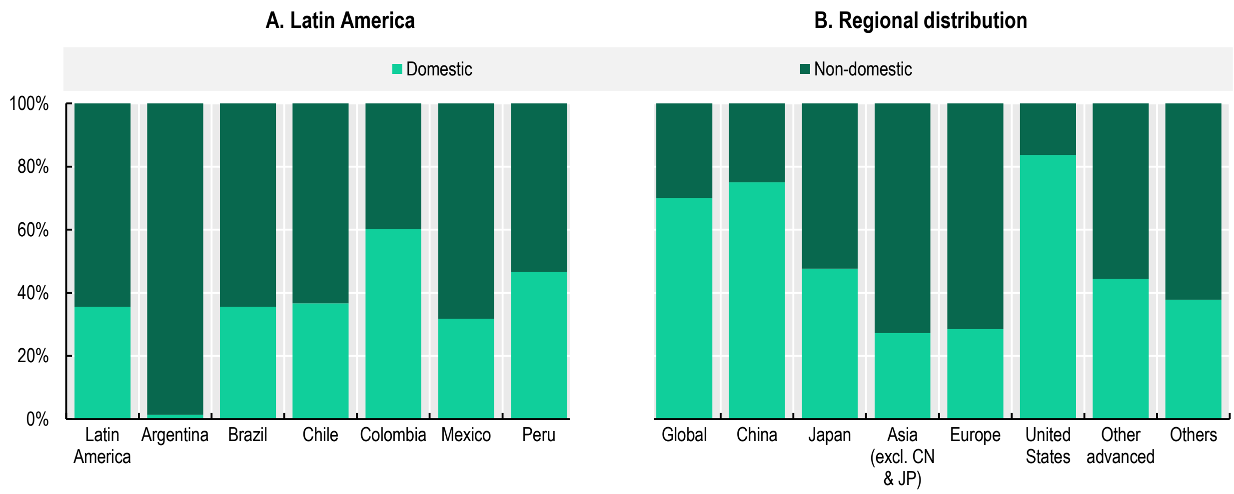
Figure 4. Investors' public equity holdings in 2022



Note: The figure shows the ownership distribution among different categories of owners, using the categories in the report Owners of the World's Listed Companies (De La Cruz, Medina and Tang, 2019[1]). "Other free-float" refers to the holdings by shareholders that do not reach the threshold for mandatory disclosure of their ownership records or retail investors that are not required to do so.
Source: OECD Capital Market Series dataset, FactSet, LSEG, Bloomberg.

Non-domestic institutional ownership is significant in Latin America's equity markets. More than 60% of the institutional investor ownership is attributed to investors domiciled outside the region, and, with the exception of Colombia, non-domestic institutional investors hold a larger equity share than domestic ones in all major Latin American markets (Figure 5, Panel A). In contrast, only in China and the United States, the domestic institutional investor participation is considerably larger than the non-domestic one (Figure 5, Panel B).

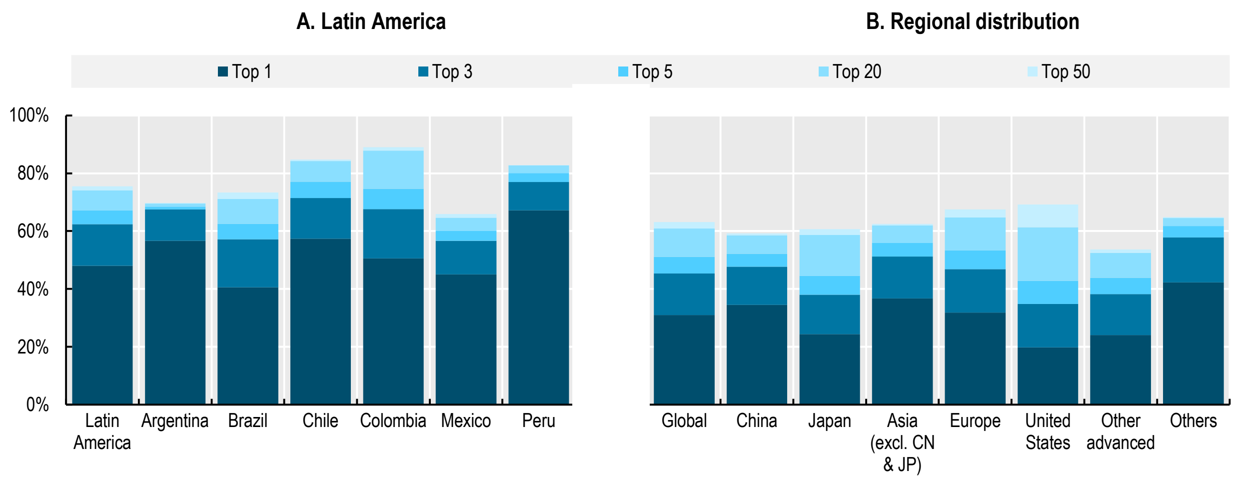
Figure 5. Domestic and non-domestic institutional ownership in 2022



Source: OECD Capital Market Series dataset, FactSet, LSEG, Bloomberg.

The ownership concentration in the listed sector is the highest in Latin America, when compared to other regions (Figure 6). The average combined holdings of the largest shareholder totals 48% in Latin America, while in the rest of the regions it averages 31%. For example, in Colombia the largest shareholder owns 51% of the equity shares, and the largest 50 shareholders own 85% of the equity shares. In the United States, for instance, the largest shareholder owns on average 20% of the equity shares, although this share increases up to 69% when considering the largest 50 shareholders.

Figure 6. Ownership concentration at the company level in 2022

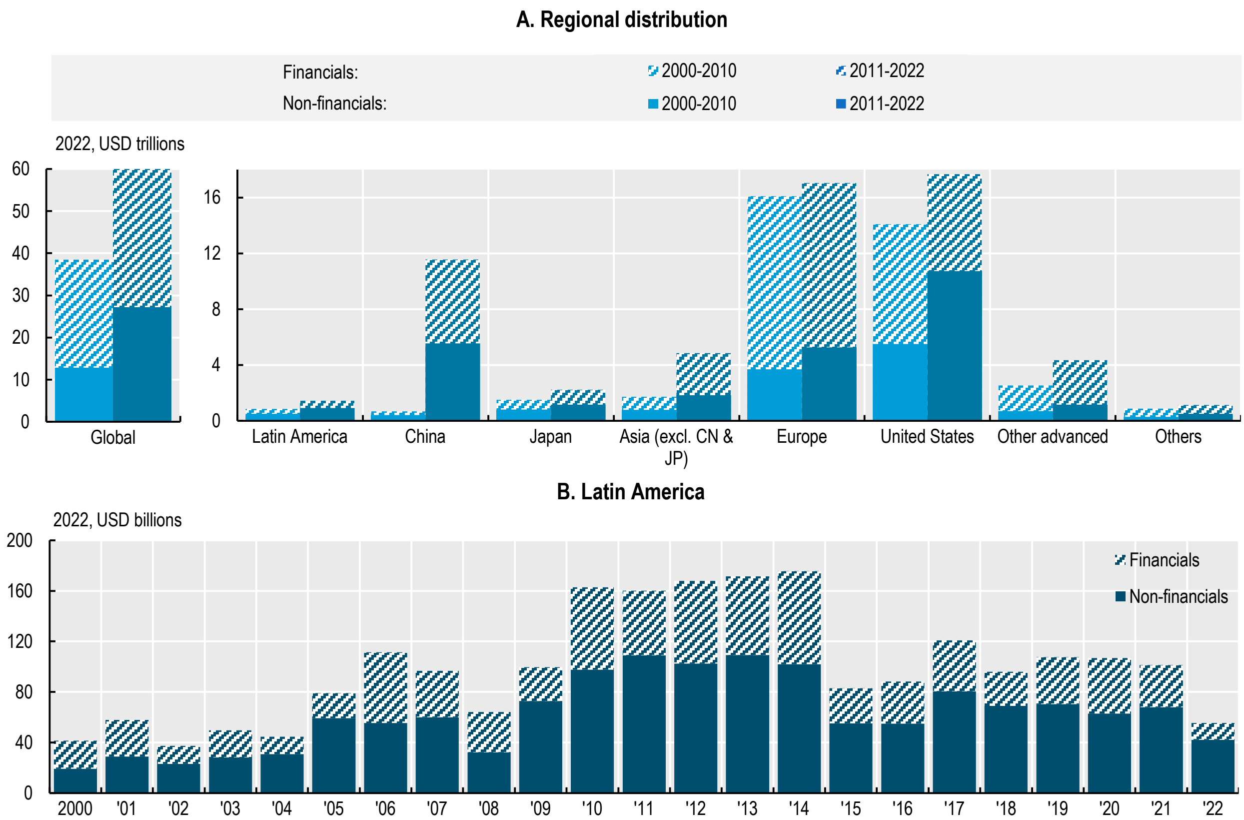


Source: OECD Capital Market Series dataset, FactSet, LSEG, Bloomberg.

3. Corporate bond markets

Globally, the corporate bond market has grown sharply over the past 20 years, with the global issuance rising from an annual average of USD 1.7 trillion between 2000 and 2010 to USD 2.5 trillion between 2011 and 2022. Europe and the United States are the largest contributors to the corporate bond issuance, while China recorded the biggest growth, issuing an annual average of USD 482 billion in 2011-22, which was 16 times more than the annual average amount issued in the previous decade (Figure 7, Panel A). In Latin America, the issuance of corporate bonds by non-financial companies has been predominant over the past 20 years, with the highest amounts recorded from 2010 to 2014. In 2022, only USD 55.4 billion was raised in corporate bonds in the region, more than half of which was issued in the Brazilian bond market (Figure 7, Panel B).

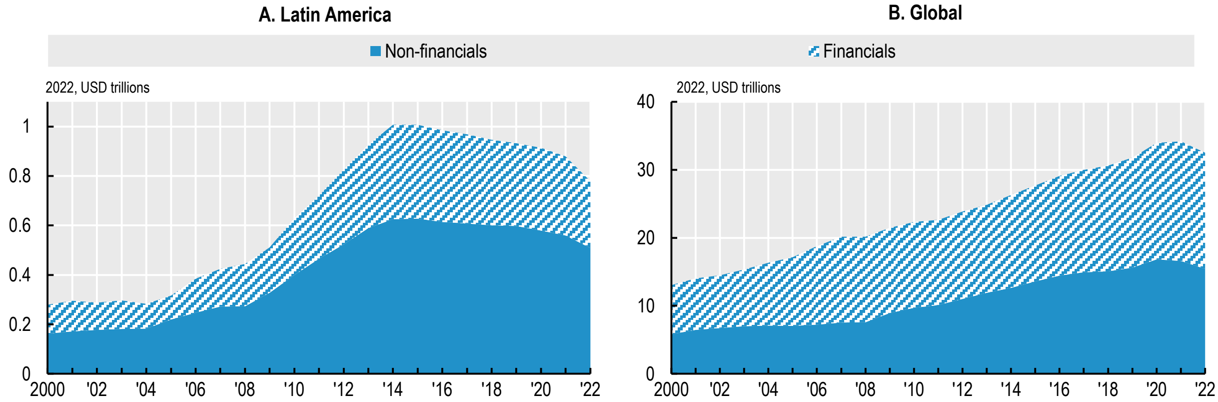
Figure 7. Corporate bonds issuance



Source: OECD Capital Market Series dataset, LSEG.

The outstanding amount of corporate bonds in Latin America followed an upward trajectory up to 2015, when it reached a record amount of USD 1 trillion. However, ever since, this amount has decreased amounting to USD 780 billion in 2022 (Figure 8, Panel A). Globally, the outstanding amount of corporate bonds increased consistently since 2000, peaking at USD 34.2 trillion in 2021 although it slightly decreased in 2022 (Figure 8, Panel B). Moreover, in 2022, Latin America's share in the global outstanding amount of corporate bonds issued by non-financial companies accounted for 3.3%, while the share stood at 1.6% for bonds issued by financial companies.

Figure 8. Outstanding corporate bonds in 2022

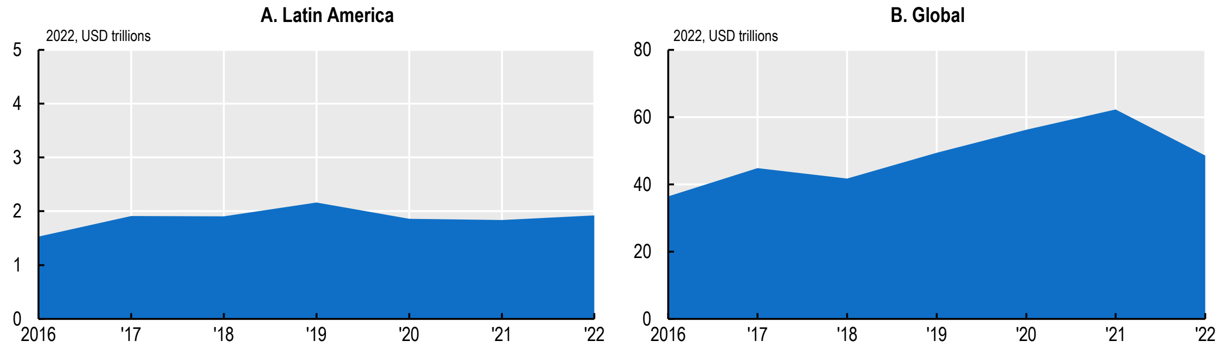


Source: OECD Capital Market Series dataset, FactSet, LSEG, Bloomberg.

4. Investment funds

Looking at the investment funds, an analysis of the assets under management (AUM) of ETFs and open-ended funds from 2016 to 2022 reveals a distinct trajectory between the Latin American and global investment funds (Figure 9). Globally, the AUM of ETFs and open-ended funds increased from USD 36.4 trillion to USD 48.6 trillion. In the same period, Latin America displayed a more stable trend, with AUM peaking at USD 2.2 trillion in 2019 and decreasing to USD 1.9 trillion in 2022. In this context, the Latin American share of AUM in investment funds accounted for 3.9% of the global aggregate in 2022.

Figure 9. Assets under management (AUM) of ETFs and open-ended funds



Source: Morningstar Direct. OECD calculations.

5. Reference

De La Cruz, A., A. Medina and Y. Tang (2019), *Owners of the World's Listed Companies*, OECD Capital Market Series, Paris, http://www.oecd.org/corporate/OwnersoftheWorldsListedCompanies.htm. [1]