

The LatAm Feedbaker

Locals constructive in BZ but external scenario dominates discussions

Mild domestic catalysts

We spent the last two days visiting Brazil local clients in Rio. Clients we met are relatively constructive but see limited domestic catalysts for Brazilian rates and equities. Perception is that lower local rates (and ultimately a broader rally in asset prices) are mostly dependent on the external scenario. Domestic concerns also include fiscal, the presidency of the central bank and de-anchored inflation expectations. Consensus trades: based on the investors we spoke with are long BRL, US soft landing, quality.

Top of mind: Fed, US elections, China.

Our base case is also for a US soft landing and lower US rates which would eventually be beneficial for EM inflows. Most recognize that global asset prices at year-end were too optimistic. Even so Fed cuts sometime in 1H is still the consensus view. Investors are starting to discuss US elections and expect news flow to intensify in the second semester. The key question on this is the impact for the USD. Chinese equities are seen as oversold but most agree geopolitical risk could cap upside.

Conviction on the BRL, not so much on rates

Weak dollar is consensus and almost everyone we talked to was long BRL. We sense little conviction on rates, both on the short and long end, and talks about a possible acceleration of the pace of cuts are officially over. Visibility is low given the change of the President of the Brazil Central Bank at the end of the year. Most see terminal selic at around 9% (market prices 9.5%, we also forecast 9.5%). Some were more optimistic than others when it comes to domestic inflows coming back into equities at that level.

Another day, another fiscal debate

On fiscal, we are more optimistic than consensus a -0.4% primary deficit for this year (consensus has -0.8% deficit – [see our views here](#)). Either way, investors convey that a small fiscal deficit is unlikely to drive asset prices this year. Most agree that fiscal will likely be worse in 2025 as the govt tries to anticipate revenues into 2024. In the past, the current ruling party governed with high rates, strong currency and fiscal stimulus and clients are debating if this is the scenario ahead.

Equities: screening for earnings momentum

Investors were constructive on equities and agree that the first leg of multiple expansion on the back of lower long-term rates happened last year. For this year, they like quality names with earnings momentum and operations that could benefit from the lower selic. We heard neutral views on main commodities (iron ore/oil). Most mentioned industries were utilities and financials (quality banks, payments, capital markets). Discussions also touched on the impact of the tax changes across the different sectors.

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