

Latin America Strategy Bulletin

May 13, 2021

Has Brazil's Populist Bark Gone Quiet?

Jorge Amato, Head – Latin America Investment Strategy | +1 212-559-0114 | jorge.amato@citi.com

Summary

- We've seen significant improvement in dynamics in Brazil. These have translated in a shift in momentum and market sentiment and price levels. Over the past month, the BRL rallied nearly 9% from 5.70 to 5.20 and equities measured in USD terms are also up almost 10%. This compares with -1.5% for global equities and the S&P. Meanwhile, sovereign credit risk rallied 50bps from 230bp to 180bp in the 5yr default swap market.
- As discussed in [here](#), we are not of the view that this administration will make a sharp turn to populism, but rather quite the opposite. Attempts will be made on the executive and legislative side to work on reforms and to maintain a fiscal anchor, despite the challenges posed by Covid related spending.
- The Lower House and Senate leaders met yesterday to discuss a strategy on how to debate a tax reform bill. The bill does not focus on raising taxes, but rather making the current famously convoluted tax code more efficient, eliminating loopholes and incentivizing investment. In order to increase the chances of success, lawmakers are considering splitting the reform into 5 bills, that can be approved independently. We expect future legislative progress in the coming months but not without the usual headline risks.
- Related to the legislative process, the lower house is considering changes to internal rules that could help speed up what is a complex process of rules required to pass legislation.
- On the political front, polls are showing Lula leading in a potential 2022 candidacy. We believe it is too early to price in 2022 elections (look for June next year to do this in serious fashion). In addition, a Lula advantage in the polls is more likely to push the current administration -and congress- to increase their efforts to pass reforms and stabilize the economy in our view.
- Average new Covid cases have stagnated close to 80k per day over the past week. 54mm vaccine doses have been administered thus far and we continue to expect vaccinations to ramp up in the coming months. Retail & recreation mobility indicators show the population has been more active since late March, early April. This is totally consistent with the fact that average new daily cases peaked in that period and have fallen since. Cases drive mobility. At the same time, improvements in mobility have proven to continue to support economic activity with industrial production and retail sales printing better than expected.
- The improvement in economic data coupled with positive signals on the political front have allowed markets to recover over the last month. Notwithstanding yesterday's broad risk off retracement, Brazil's currency and equity market have been shown strong performance over the last month. The currency hit 5.20 (higher than our 5.25 1st target). While Brazil markets will not be immune to a global market selloff and despite their large upside move over the last month, we see further upside over 2021 -notwithstanding broad market risks which we have addressed in other publications and for which active investors could look to hedge against.
- Our Asset Allocation strategies maintain an Overweight position to Brazil and Latam equities.

Figure 1: Vaccinations are accelerating...

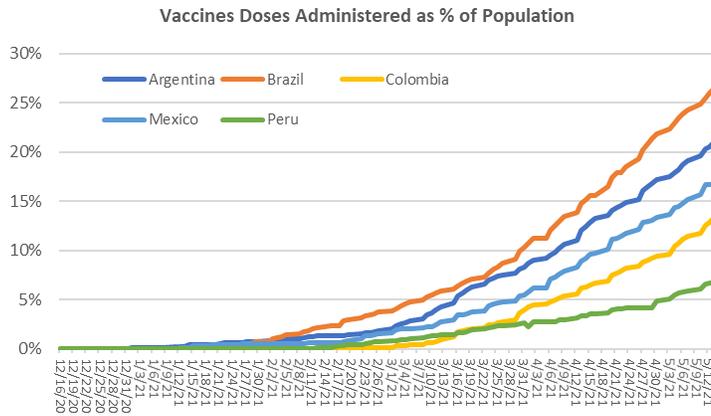
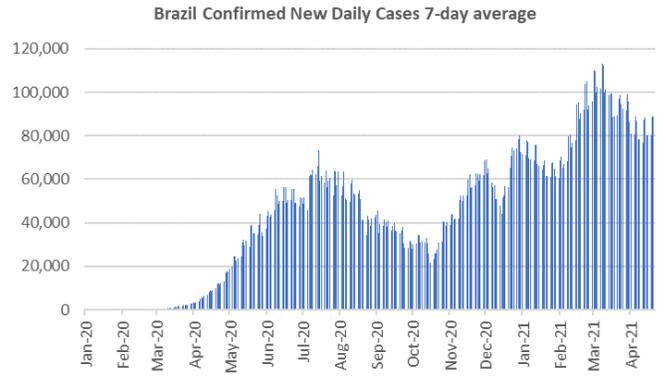


Figure 2: Cases in Brazil may have peaked in late March



Source: Bloomberg as of 13 May , 2021

Figure 3: Mobility increasing as cases fall, improving activity and financial market confidence...



Figure 4: Equities have rallied but are still far from pre-Covid levels...



Source: Google, Bloomberg as of 3 May 2021

Note: Percentage of change in mobility is measured against the baseline .

The baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020.

Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Past performance is no guarantee of future results. Real results may vary.

This email contains promotional materials. If you do not wish to receive any further promotional emails from Citi Private Bank, please email donotspam@citi.com with "UNSUBSCRIBE" in the subject line. Email is not a secure environment; therefore, do not use email to communicate any information that is confidential such as your account number or social security number.

Citi Private Bank is a business of Citigroup Inc. ("Citigroup"), which provides its clients access to a broad array of products and services available through bank and non-bank affiliates of Citigroup. Not all products and services are provided by all affiliates or are available at all locations. In the U.S., investment products and services are provided by Citigroup Global Markets Inc. ("CGMI"), member FINRA and SIPC, and Citi Private Advisory, LLC ("Citi Advisory"), member FINRA and SIPC. CGMI accounts are carried by Pershing LLC, member FINRA, NYSE, SIPC. Citi Advisory acts as distributor of certain alternative investment products to clients of Citi Private Bank. CGMI, Citi Advisory and Citibank, N.A. are affiliated companies under the common control of Citigroup.

Outside the U.S., investment products and services are provided by other Citigroup affiliates. Investment Management services (including portfolio management) are available through CGMI, Citi Advisory, Citibank, N.A. and other affiliated advisory businesses. These Citigroup affiliates, including Citi Advisory, will be compensated for the respective investment management, advisory, administrative, distribution and placement services they may provide.

[Read additional important information.](#)

Past performance is not indicative of future results. Real results may vary

MBS are also sensitive to interest rate changes which can negatively impact the market value of the security. During times of heightened volatility, MBS can experience greater levels of illiquidity and larger price movements

Important information, including information relating to risk considerations can be found in the link above.

Views, opinions and estimates expressed herein may differ from the opinions expressed by other Citi businesses or affiliates, and are not intended to be a forecast of future events, a guarantee of future results, or investment advice, and are subject to change without notice based on market and other conditions. Citi is under no duty to update this presentation and accepts no liability for any loss (whether direct, indirect or consequential) that may arise from any use of the information contained in or derived from this presentation.

© 2021 Citigroup Inc. All Rights Reserved. Citi, Citi and Arc Design and other marks used herein are service marks of Citigroup Inc. or its affiliates, used and registered throughout the world.

www.citiprivatebank.com