



Brazil's forecast: cloudy with a chance of sunlight

Notes from the road

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Published July 2026

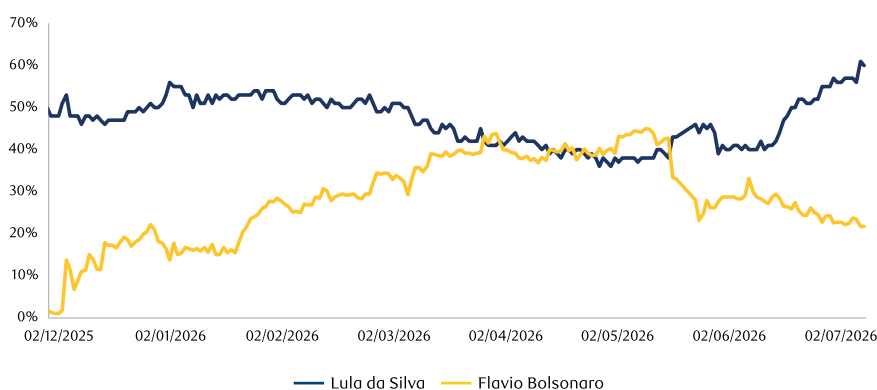
“A recurring debate was the health of the economy – specifically, whether Brazil would enter a technical recession in 2027, given high rates and growing attention on fiscal sustainability.”

I landed in São Paulo to overcast skies – not the Brazil I’d imagined for my first visit. As it turned out, the weather was a fitting preview of the more cautious outlook I’d encounter throughout the trip.

At the start of the year, Brazil was a consensus overweight. The narrative was compelling: rate cuts on the horizon and optimism around the upcoming election. That story has since partially unwound. The outbreak of conflict in the Middle East and stronger economic activity has kept inflation stickier than expected, leading the easing cycle to be put on hold for the rest of the year. While material cuts may not transpire in 2026, we believe this is a temporary pause and the easing cycle should resume in 2027.

On the political front, polling suggested a close contest between incumbent Luiz Inácio Lula da Silva (PT Party) and Flávio Bolsonaro (Liberal Party). Headlines surrounding potential corruption allegations against Bolsonaro have shifted momentum in Lula’s favour, with locals suggesting his victory is all but certain and Polymarket pricing Lula at 61% (Exhibit 1). However, given the broader rightward shift across Latin America, a surprise result cannot be ruled out. With voting in early October, we believe there’s still time for the narrative to shift.

Exhibit 1: Polymarket odds – Lula versus Bolsonaro



Source: Polymarket, as at July 2026.

Beyond politics, a recurring debate was the health of the economy – specifically, whether Brazil would enter a technical recession in 2027, given high rates and growing attention on fiscal sustainability. Our conversations with corporates, however, painted a more optimistic picture. Several were eager to emphasize that the Brazilian economy is more resilient than the market believes, noting that rising household debt reflects new entrants into the formal economy rather than overleveraging, and highlighting the government’s continued expansionary stance to support consumers.

That optimism was visible on the ground. Entering a mall in Rio de Janeiro, concerns about the consumption environment seemed distant – shops were bustling and entertainment areas packed. The mall itself was unlike any I had visited, featuring a theatre, cinema, VIP lounge, and even a mini theme park! This exemplifies the broader shift of malls from purely shopping venues to experience-oriented destinations. With the explosion of e-commerce raising questions about the relevance of physical retail, management teams conveyed their strategy clearly: create an environment where consumers spend not just a few hours, but an entire day across multiple touchpoints. Funnily enough, I met perhaps the only Brazilian hoping for an early World Cup exit – so consumers would spend more time in malls!

Prior to the trip, I expected the banking sector to be among the most challenging, given concerns over the credit cycle and higher rates. However, conversations with several of the country’s top financial institutions offered reassurance. Much of the stress in asset quality has been concentrated in the agricultural sector, and larger banks had anticipated this deterioration and de-risked their portfolios accordingly.

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Another standout theme is the importance of healthcare and aesthetics in Brazil. Cosmetics stores are thriving, and every clothing retailer we visited has a dedicated athleisure section. It was therefore unsurprising that GLP-1 drugs featured prominently in our discussions, given the potential for widespread adoption.

The Brazilian GLP-1 market is projected to reach BRL51 billion by 2030, growing at a CAGR of approximately 40%¹. Brazil represents one of the largest addressable populations globally for GLP-1 therapies, with over 120 million adults classified as overweight or obese¹.

¹ Itaú, June 2026.



Cloudy skies greeted us as we arrived in Brazil.



The first Apple store in Brazil.



Part of the mini theme park in the mall.

Industry estimates suggest fewer than one million Brazilians currently use GLP-1 therapies – less than 0.5% of the population – providing ample runway for future penetration².

Against this backdrop of mixed signals, the market has de-rated and now trades below historical averages. Brazil has notably underperformed other Latin American markets and the broader MSCI EM Index, with MSCI Brazil returning +8.65% year-to-date compared to +21.51% for MSCI Emerging Markets³. A stronger US dollar has provided an additional headwind.

As long-term investors, we believe this creates opportunities, particularly in quality names that have navigated the uncertainty well and now trade at attractive entry points. The skies over Brazilian equities might remain grey for now, but we see sunlight ahead.



We had to get a photo of the World Cup!

² Banco BGT Pactual, June 2026.

³ Bloomberg, July 2026.

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Published July 2026

RE/0408/07/26



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