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INVESTMENT MANAGEMENT

Brazil: Rewiring the Economy

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For years, Brazil's story was one of boom and bust. A star performer during the 2000s, Brazil's gross domestic product (GDP) nearly quadrupled in size, from $670 billion in 2004 to $2.5 trillion by 2014, as it rode the commodity supercycle. But over the following decade growth stalled, echoing the "lost decade" of the 1980s. By 2024, Brazil's GDP had contracted by 16% to $2.1 trillion, even as the global economy surged by 40% to $111 trillion. While political turmoil and lax fiscal policy have dominated headlines, the country's economic story has become more nuanced and is likely improving *(Display 1)*.

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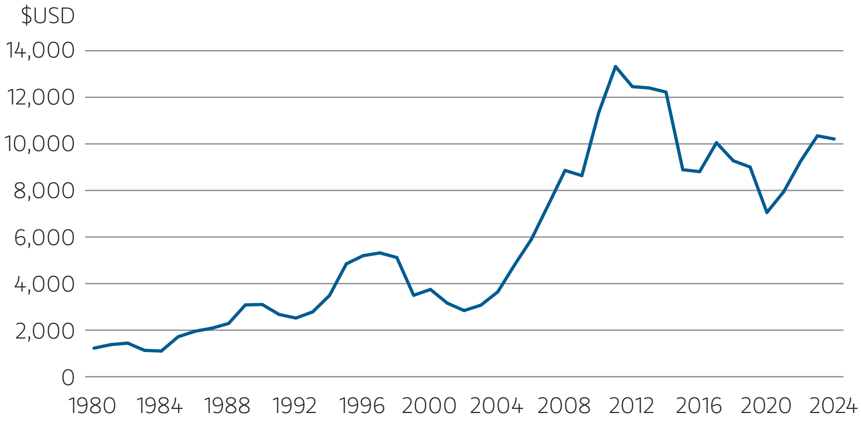
DISPLAY 1
Brazil's Growth Stagnated During Its "Lost Decade"
GDP Per Capita (USD)



Source: IMF. As of December 31, 2024.

Brazil has quietly implemented structural reforms over the past decade that are now beginning to reshape the country's long-term economic trajectory and raise its potential GDP.

A Decade of Reform

Since 2017, Brazil has addressed long-standing issues in the economy. Some of the most important included interest rate reform, state-owned enterprises reform, central bank independence and labor and pension reforms. These changes led to reduced state distortion and interference in the economy and have raised the country's potential growth rate. The International Monetary Fund (IMF) now estimates Brazil's potential growth rate has increased by 0.5 percentage points to 2.5%. While some of the GDP growth rate of more than 3% for the past three years can be attributed to fiscal stimulus, the foundation for more durable and self-sustaining growth is firmer than it has been in years.

Exports Strength

Brazil's trade integration remains among the lowest in major emerging markets, with imports at just 16% of GDP and total trade-to-GDP at 36% in 2024. However, despite this modest integration, exports have emerged as a key growth driver and a potential beneficiary from supply-chain realignments. The country is currently running a trade deficit with the U.S. while maintaining strong commodity ties with China.

Brazil's export profile is gaining macroeconomic relevance. Net exports of goods currently contribute 3-4% of GDP compared to a deficit of 0.5% 10 years ago—a meaningful change in external balances *(Display 2)*. Much of this outperformance is powered by two sectors: agribusiness and oil exports, which have emerged as centers of global competitive strength driven by investment and innovation.

Agricultural Powerhouse

Agriculture contributes over 8% of GDP and 16% of total employment, and makes up about 40% of total exports. This success is underpinned by vast arable land, abundant water and investment in yield-enhancing technologies, such as better seeds, fertilizers and mechanized harvesting.

The results speak for themselves: Brazil is now the world's largest net exporter of agricultural goods, ranking among the top five exporters in 34 different commodities. Agricultural exports (primary commodities and processed food products) have doubled over the past decade, reaching $108 billion in the 12 months ending in April 2025—equivalent to 5% of GDP *(Display 3)*.

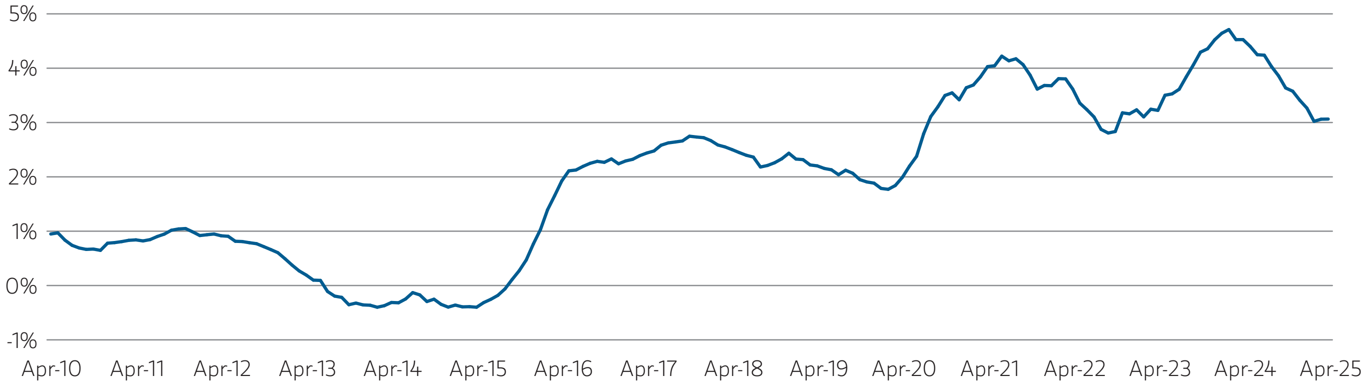
Hydrocarbon Success

Brazil's oil story is another underappreciated success. Since ending Petrobras' monopoly on oil exploration and refining in 1997, when the country pumped less than 1 million barrels a day (b/d), Brazil has grown into a notable crude exporter. Over the last 10 years, the country added about 1 million b/d to reach 3.5 million b/d. The government forecasts an additional 2 million b/d by 2030.

DISPLAY 2

Brazil's Export Profile Is Gaining Economic Relevance

Net exports % of GDP (goods)

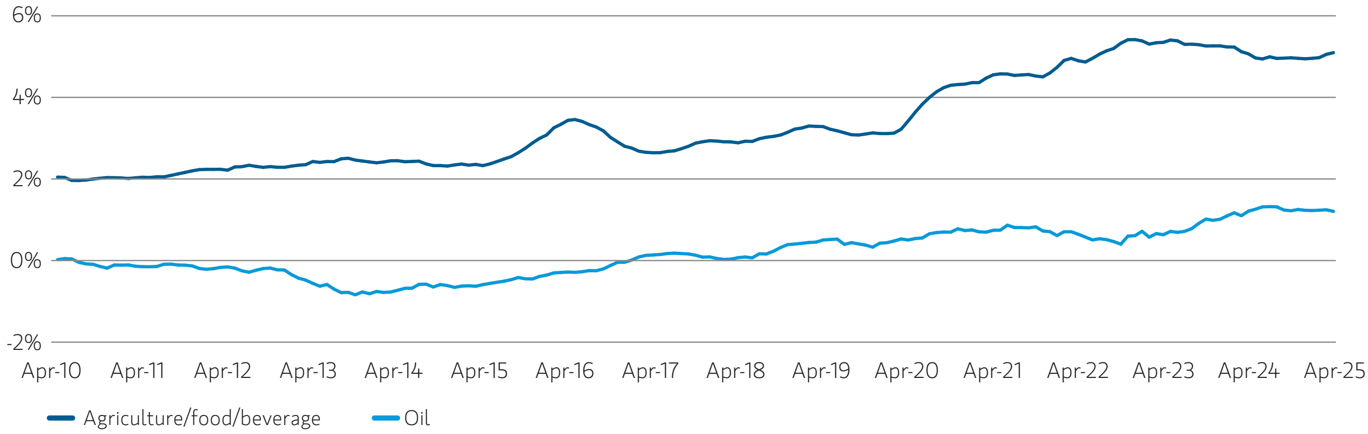


Source: Haver Analytics, Brazil commerce ministry, Brazil Central Bank. As of April 30, 2025.

DISPLAY 3

Agriculture and Oil Are Critical to Brazil's Transformation

Key net exports components (% of GDP)



Source: Haver Analytics, Brazil Commerce Ministry, Brazil Central Bank. As of April 30, 2025.

The discovery of pre-salt reserves offshore was a turning point for Brazilian crude-oil production, which has benefited from the latest developments in extraction technology. Today Brazil's fossil fuel net exports are a positive force in the economy, contributing about 1% to GDP, compared to a deficit of 0.5% 10 years ago *(Display 3)*.

A Renewable Leader

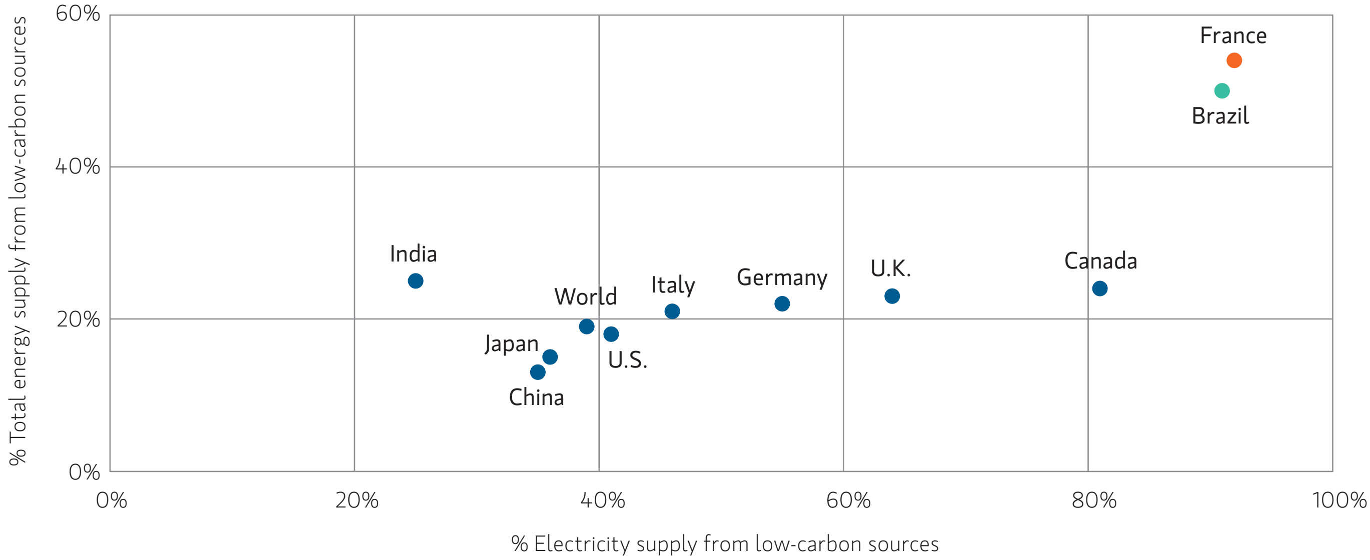
Today, Brazil stands out as a global leader in clean energy. Among G20 members, Brazil is the only country besides France where more than 50% of total energy comes from low-carbon sources, including nuclear, hydro, solar and wind *(Display 4)*. In 2023, half of the Brazilian energy supply came from oil, natural gas and coal, a 9% improvement from a decade earlier. Over 90% of Brazilian electricity comes from low-carbon sources. That compares with just 25% in India, 22% in Germany, 18% in the U.S. and 13% in China.

Brazil's success reflects deliberate reforms. Like its telecom and infrastructure sectors, the country has liberalized and privatized

DISPLAY 4

Brazil Is a Global Leader in Clean Energy

Sustainable electricity and total energy supply



Source: International Energy Agency (latest available data for each country 2022/2023).

its electricity industry. A strong regulatory framework underpins this shift, helping boost investment by the private sector and positioning the Brazil grid for long-term sustainability and cost competitiveness.

Fiscal Reform

Despite progress on many fronts, fiscal discipline remains Brazil's Achilles heel. But without credible fiscal reform the country won't unlock its full growth potential. The fiscal deficit now exceeds 8% of GDP, up sharply from pre-pandemic levels. Gross debt has soared to 87% of GDP, up from 65% just a few years ago. As a result, 10-year real interest rates have surged to nearly 8%—well above the 6% average of the past two decades. High real rates are a deterrent to private-sector investment, as companies find themselves crowded out by an inefficient public sector. The risk is clear: Fiscal drift could erode the progress made. Unlocking Brazil's potential requires aligning public policy with the dynamism of Brazil's private sector.

Path Ahead

A credible fiscal plan to lower the cost of capital and unleash the latent possibilities of the country will have to wait until after the next elections. Incumbent president Luiz Inácio Lula da Silva of the Workers' Party is eligible for a fourth term, but shifting from a primary deficit of -2% to a primary surplus of +2% of GDP is something Brazil has not done since 2004.

Yet, Brazil is not a fragile economy. With a population of over 200 million, a growing middle-class and GDP per capita of around $10,000, it has the ingredients for resilience. Its companies, from financial services and retail to health care and technology, are globally competitive and capital markets savvy, even amid policy headwinds.

As the 2026 elections approach, an inflection point looms. With structural reform momentum and the right fiscal course, the country has a rare opportunity to do more than just recover—it can redefine its trajectory.

Risk Considerations

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