

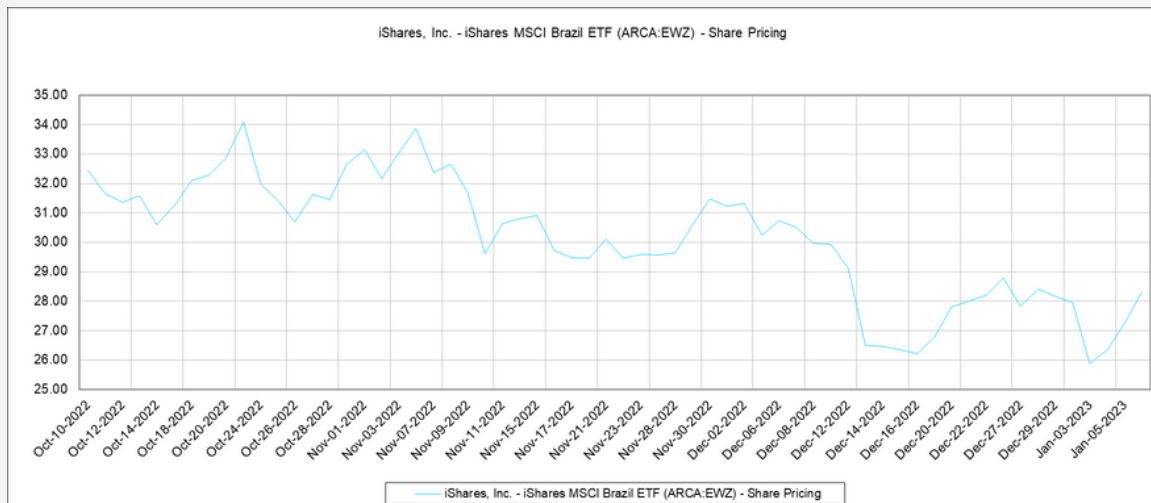
# Brazil Macro Comment

## Equity Research

Images of Bolsonaro supporters storming the Brazilian parliament will definitely not help ease top-down concerns weighing on Brazil's equity market since the election result.

In recent weeks, Brazilian equities suffered losses, mainly led by state-owned companies.

### EWZ performance



This serves as a timely reminder of the significance of top-down and government policies in emerging market investments.

Looking at the table below, there are several structural issues and key uncertainties to address when forecasting Brazil's macro scenario.

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### Macro data

	2015	2016	2017	2018	2019	2020	2021	2022	2023
GDP growth (annual %)	-3.5	-3.3	1.3	1.8	1.2	-3.9	4.6	2.8	1.2
Inflation (%)	9.03	8.74	3.45	3.66	3.73	3.21	8.3	5.9	4.9
Selic (%)	14.25	13.75	7	6.5	4.5	2	9.25	13.75	13.75
Debt to GDP (%)			83.6	85.6	87.9	98.7	93.01	88.2	-
GDP growth data provided by the OECD, inflation and selic from the Banco Central do Brazil and inflation estimates from Bloomberg									

As seen in the table, Brazil's growth has struggled in the past few years. For 2023, growth is again expected to be low. High-interest rates, fiscal uncertainty, and the broader global slowdown are weighing on growth and leading to downward revisions in estimates. Brazil's central bank cut its official GDP forecast from 2.5% to 2.1% but looking at economists' consensus, the expectation is lower at 0.8%.

### 2023 Forecast

# 1.2%

Annual GDP growth

# 4.9%

Inflation

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Looking at Brazil's history, inflation is a key concern, considering the history of hyperinflation. Brazil's central bank operated aggressively in combating inflation and raise rates from 2% in March 2021 to 13.75% (!) in August 2022.

The current expectation is for rates to remain stable at this high level for several more months.

In general, and considering the global scenario, inflation in Brazil was very much under control but still above the central bank's target. In recent months, we have already seen inflationary pressures cool off a bit.

The duration of a high-rate environment and inflation expectations are highly linked to government policies announced.

Finally, in recent years, Brazil's debt-to-GDP ratio has risen to 88.2%.

Therefore, Brazil's fiscal path remains a key area to watch for investors. Given the early days of Lula's administration, it's difficult to know the exact fiscal policy mix and its impact on potential GDP growth and leverage.

Considering Brazil's capital markets' depth and breadth, it is exactly times like this when interesting opportunities are created – buying an excellent business from a bottom-up perspective while paying a discounted price considering the geography in which this business is located. The focus remains on private sector names, where the uncertainty is much lower.

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### Highlights from Deshe Analytics' Brazil buy list

Ticker	Country	Name	Filing Date	Sector	Industry	Market Cap	Growth	Value	Cashflow	Grade by Sector	Full Analysis
ITUB4	Brazil	Itaú Unibanco Holding S.A.	10/11/2022	Financials	Banks	\$44.6B	75	83	71	79	Buy
ITSA4	Brazil	Itaúsa S.A.	11/11/2022	Financials	Banks	\$15.6B	73	92	54	79	Buy
SBSF3	Brazil	Companhia de Saneamento Básico do Estado de São Paulo - SABESP	25/11/2022	Utilities	Water Utilities	\$7.1B	78	86	55	79	Buy
IFCM3	Brazil	Infocommerce CXaaS S.A.	11/11/2022	Information Technology	IT Services	\$259.7M	64	79	83	80	Buy
LEVE3	Brazil	MAHLE Metal Leve S.A.	24/11/2022	Consumer Discretionary	Auto Components	\$713.3M	69	93	79	80	Buy
PSSA3	Brazil	Porto Seguro S.A.	23/11/2022	Financials	Insurance	\$2.7B	75	84	74	80	Buy
CSMG3	Brazil	Companhia de Saneamento de Minas Gerais	03/11/2022	Utilities	Water Utilities	\$1.1B	84	79	56	80	Buy
PRIO3	Brazil	Petro Rio S.A.	31/10/2022	Energy	Oil, Gas & Consumable Fuels	\$5.6B	71	54	76	81	Buy
INTB3	Brazil	Intelbras S.A. - Indústria de Telecomunicação Eletrônica Brasileira	31/10/2022	Information Technology	Communications Equipment	\$1.6B	64	87	80	82	Buy
MGLU3	Brazil	Magazine Luiza S.A.	10/11/2022	Consumer Discretionary	Multiline Retail	\$3.6B	83	69	94	82	Buy
RECV3	Brazil	Petroreconcavo S.A.	24/11/2022	Energy	Oil, Gas & Consumable Fuels	\$1.7B	73	79	81	82	Buy
GETT3	Brazil	Getnet Adquirência e Serviços para Meios de Pagamento S.A. - Instituição de Pagamento	05/11/2022	Information Technology	IT Services	\$875.3M	68	77	82	82	Buy
VIAI3	Brazil	Via S.A.	10/11/2022	Consumer Discretionary	Specialty Retail	\$739.2M	94	86	84	83	Buy
VITF3	Brazil	Vitória Fertilizantes e Biológicos S.A.	11/11/2022	Materials	Chemicals	\$311.3M	77	87	83	84	Buy
WZS3	Brazil	Wiz Soluções e Corretagem de Seguros S.A.	10/11/2022	Financials	Insurance	\$216.3M	89	85	71	85	Buy
CMG4	Brazil	Companhia Energética de Minas Gerais	11/11/2022	Utilities	Electric Utilities	\$5.2B	86	78	75	85	Buy
HBSA3	Brazil	Hidrovias do Brasil S.A.	10/11/2022	Industrials	Marine	\$309.9M	73	92	85	85	Buy
TTEB3	Brazil	Três Tentos Agroindustrial S/A	07/11/2022	Consumer Staples	Food Products	\$857.5M	66	85	95	86	Buy
CEEB3	Brazil	Companhia de Eletricidade do Estado da Bahia - COELBA	26/04/2022	Utilities	Electric Utilities	\$2.1B	79	81	74	86	Buy
ELMO3	Brazil	Eletronidia S.A.	05/11/2022	Communication Services	Media	\$292.2M	80	78	82	87	Strong Buy
BRML3	Brazil	BR Malls Participações S.A.	10/11/2022	Real Estate	Real Estate Management & Development	\$1.3B	76	77	93	87	Strong Buy
BRIT3	Brazil	Brisanet Participações S.A.	14/11/2022	Communication Services	Diversified Telecommunication Services	\$207.2M	79	81	88	91	Strong Buy
CXSE3	Brazil	Caixa Seguridade Participações S.A.	05/11/2022	Financials	Insurance	\$4.7B	82	94	78	91	Strong Buy

Running a simple screening – country Brazil / macro cap > 250 (to avoid illiquid micro caps) – and receiving a Brazilian recommended portfolio – the highest sector names, sectorally diversified.

In the consumer discretionary sector, **MGLU3** is highlighted with a very high cash flow score versus its peers.

In the financials sector, **Itaú** and **Itaúsa** score as buys. Itaúsa's value score is very high versus peers at 93.

Only **Vittia** is highlighted as a buy in the materials space, which is consistent with the recent strength in the agriculture space.

In the energy sector, small caps like **PetroRio** and **Petroreconcavo** are benefiting from rising global energy prices, while state-owned Petrobras remains an underperformer, despite recent declines.

In line with top-down expectations (primarily impact on the real estate sector with **Selic** at 13.75%), the real estate sector has a very low presence with only **BR Malls**.

Mixed presence for the utility sector, with **Cemig**, highlighted as a buy, scoring nicely on growth versus its peers.

For the full list and company reports, please use the Deshe Analytics' [screener](#).