Global Investment Research | Equities

Brazilian equities: A market in transition

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AUTHORS

Mark Barnes, PhD
Head of Global Investment Research, Americas
mark.barnes@lseg.com

Alex Nae, MSc.
Quantitative Research Analyst,
Global Investment Research
alex.nae@lseg.com

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Introduction

Global trade is entering a more fragmented and strategic phase, in which economic resilience and geopolitical alignment are increasingly interlinked. Within this context, Brazil presents a case of gradual but notable recovery – not only due to its current fundamentals, but also its efforts to address long-standing structural weaknesses.

After nearly a decade of economic underperformance, shaped by fiscal imbalances, inefficient public spending, and political instability, Brazil has begun to implement reforms aimed at improving its institutional and macroeconomic framework. Since 2023, measures such as tax simplification, renewed fiscal discipline, and a more credible monetary stance have helped stabilize inflation and restore investor confidence.

These recent adjustments – combined with Brazil's structural strengths in industrial capacity, a large consumer base, and consistent adherence to monetary orthodoxy - point to the emergence of a more stable and self-sustaining macroeconomic model. In an environment of rising trade complexity and regional realignments, Brazil's economic diversification and reform momentum suggest a market regaining relevance. Understanding this transition requires revisiting the path that brought Brazil to this point – and framing its trajectory as a turnaround story instead of a missed opportunity.

In this article we start by reviewing the recent period of economic stagnation that is an important backdrop to the recent improvements seen in the country. Next, we describe some of the fundamental strengths and weaknesses of the Brazilian economy, and how these interact with the recent changes in policy. Finally, we show how the FTSE Brazil index reflects the structure of the economy, and how the recent economic changes have translated into change, and performance, of Brazil's equity markets.

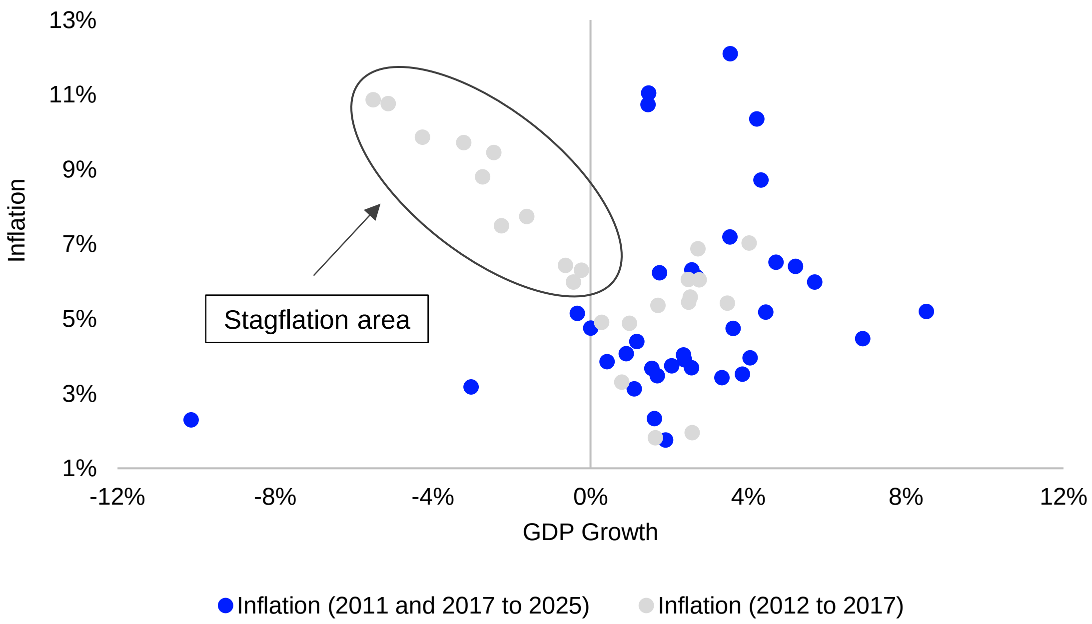
Contents

Structural challenges and economic stagnation (2011–2020)

Between 2011 and 2020, Brazil experienced a prolonged period of stagnation – characterized by minimal growth, declining productivity, and eroded investor confidence. Often labelled a case of “secular stagnation,” this period was shaped by both structural weaknesses and self-inflicted policy missteps (F. Filho, F. Terra, 2023).

Exhibit 1 illustrates Brazil’s stagflationary episode between 2012 and 2017. The grey dots highlight periods of elevated inflation coinciding with weak or negative GDP growth – an uncommon but damaging macroeconomic scenario. Many economists view this stagflation as largely self-induced, driven by flawed policy decisions.

Exhibit 1: Brazil’s stagflation period: inflation (y-axis), GDP growth (x-axis)



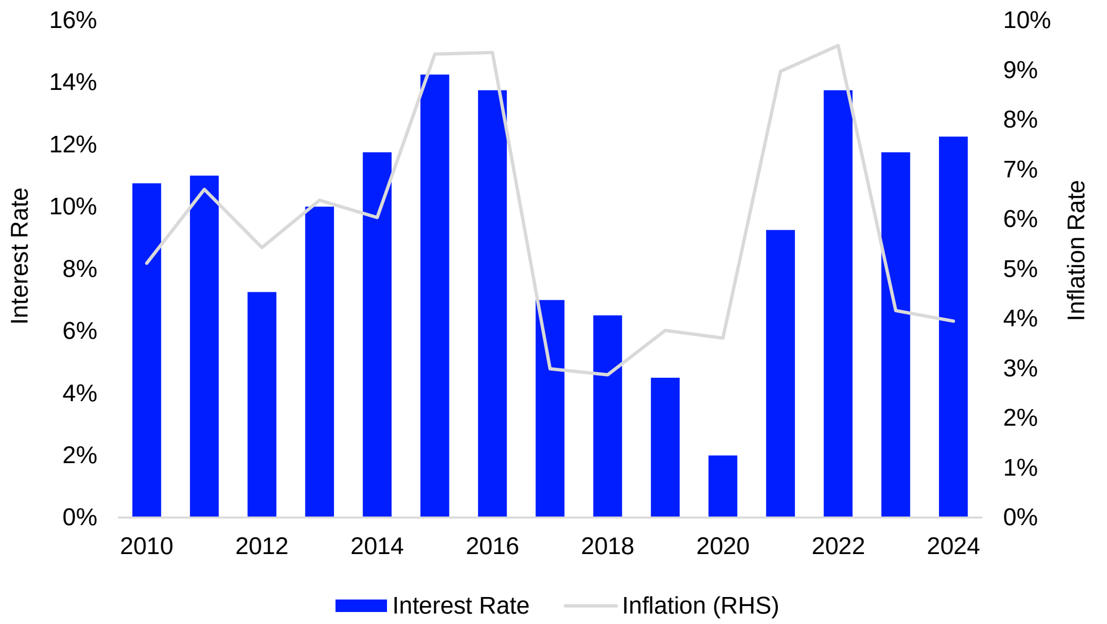
Source: FTSE Russell and LSEG, as of April 30, 2025

In 2011, policymakers assessed a Global Financial Crisis rebound as an overheating economy. In response, the government shifted from a developmentalist, demand-led approach to a more fiscally restrained policy stance. Public investment was reduced, credit conditions tightened, and social transfers – previously central to household consumption – were rolled back (Bastos & Aidar, 2019). These measures were aimed at stabilising inflation and improving fiscal metrics, but they led to weakening domestic demand.

By 2014, economic growth had sharply decelerated. Credit expansion faltered, consumption slowed, and private investment collapsed. Inflation, however, remained high – not due to overheating, but due to cost-push pressures. These included fuel and electricity price hikes due to deregulation, sharp currency depreciation, wage indexation effects, and a drought-driven surge in food prices.

Exhibit 2 shows that to contain inflation, the Central Bank of Brazil aggressively hiked its benchmark interest rate, known as the SELIC rate, from 10% in 2010 to a peak of 14.25% by 2015. This limited inflation expectations but further restricted credit and deepened the downturn. This stagflation episode also caused inflation to remain high at around 9% until 2017, meaning that the central bank could not lower rates to stimulate the economy. However, as inflation came down in 2017 to 3%, interest rates also decreased to 6%.

Exhibit 2: Brazil Selic Rate (interest rate) overlayed with inflation

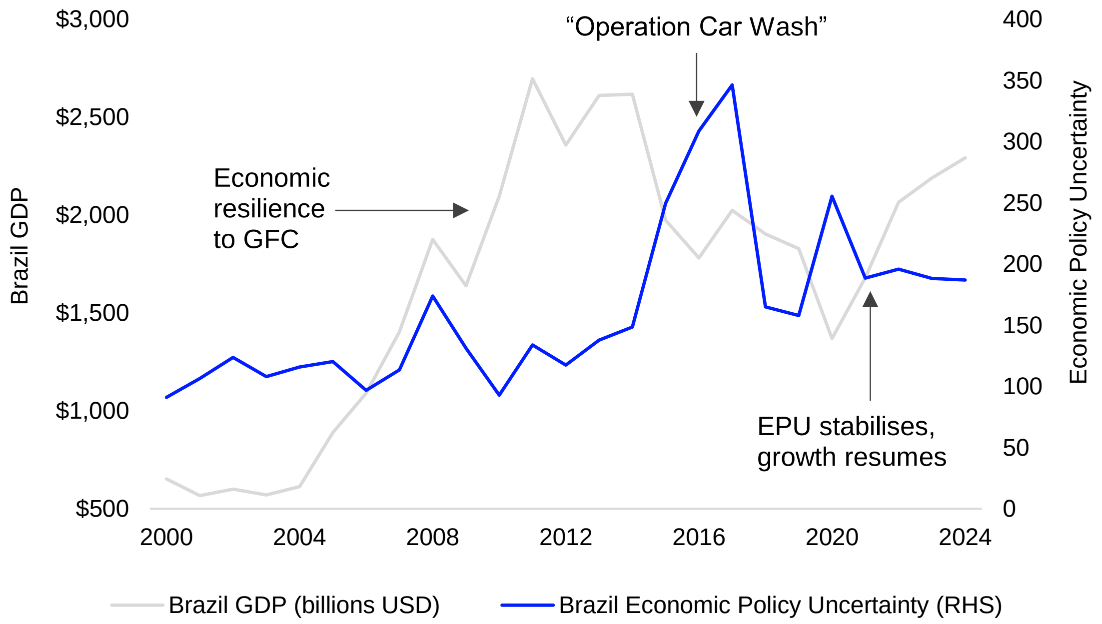


Source: FTSE Russell and LSEG, as of April 30, 2025

Political instability compounded Brazil's economic challenges. The *Operação Lava Jato* ("Operation Car Wash") investigation, beginning in 2014, implicated key political and corporate figures, severely damaging investor confidence and contributing to elevated borrowing costs. However, following President Rousseff's impeachment in 2016, borrowing costs began to decline as markets responded positively to the incoming administration's market-oriented agenda. The new government pursued a series of structural reforms, including labour deregulation and proposals for pension overhaul, which helped restore a measure of fiscal credibility.

But despite these reforms, recovery remained weak. Exhibit 3 shows that Economic Policy Uncertainty (EPU) jumped in 2016 and remained elevated through 2019 – coinciding with a decline in GDP. Only when EPU declined, did Brazil begin to exit its stagflationary trap. However, this also coincided with key factors such as disinflation, giving the central bank more room to lower rates.

Exhibit 3: GDP (billions of USD) and Economic Policy Uncertainty



Source: FTSE Russell and LSEG, and Economic Policy Uncertainty, as of April 30, 2025

While often viewed as a lost decade, Brazil's productivity declined just 0.21% between 2010 and 2025 – outperforming Mexico (-4%) and Argentina (-13.2%) over the same period. Chile was the region's only country to register productivity growth, with a 12% gain.

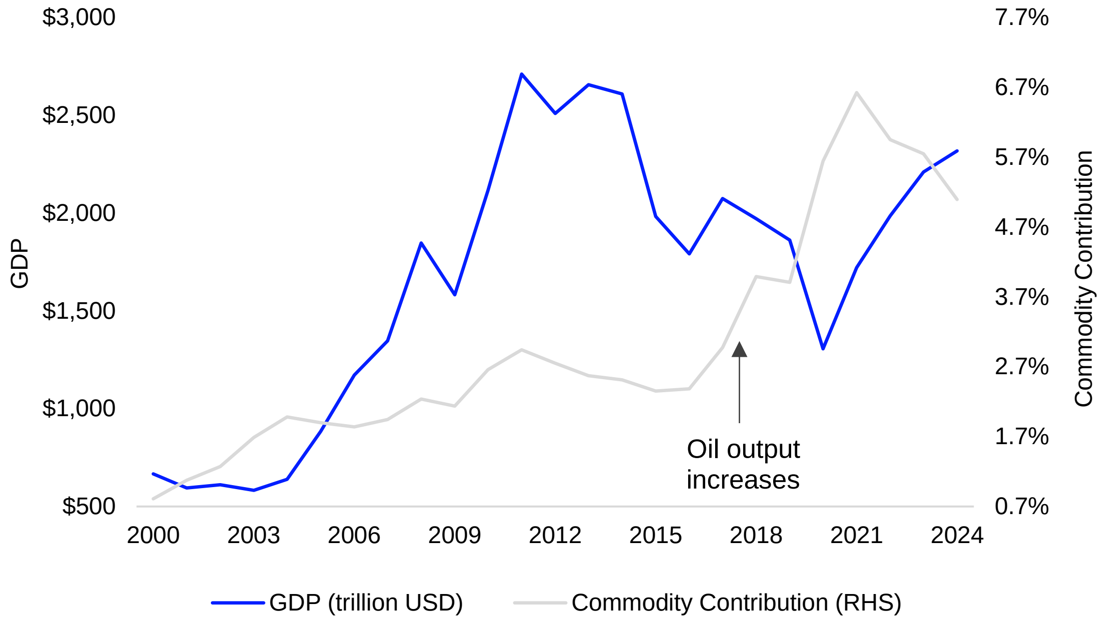
Despite stagflation, labour force participation remained stable until 2019 at 64.5%, before declining by 2% – in line with global post-COVID trends observed in the US and EU. However, Brazil's labour participation rate still stands 0.11% above the Latin American average, likely supported by its diversified commodity portfolio and broad domestic sector – as discussed below.

Commodity backbone and economic volatility: setting the stage for reform

Brazil is often thought of as an economy that relies on commodity exports – and too much reliance on exports of a single commodity can carry higher risk such as commodity price volatility and boom bust cycles. It can also give rise to something known as the Dutch Disease, where the heavy inflow of a commodity's revenues can lead the local currency to appreciate, causing other sectors of the economy to lose competitiveness.

In this context, Brazil is a major exporter of three commodities: oil, iron ore and soybeans. For example, in 2024 over 70% of China's soybeans imports came from Brazil – China is the largest importer of food in the world. In 2018, the share was around 50% before trade tensions with the US caused China to diversify away from US imports. Similar shifts in oil and iron trade could potentially create opportunities for Brazil.

Exhibit 4: Nominal Brazilian GDP (billions USD) and GDP contribution of oil, iron, and soybeans



Source: FTSE Russell and LSEG, as of April 30, 2025

Exhibit 4 presents Brazil's nominal GDP (2000–2024) alongside the combined export contribution to GDP from iron ore, oil, and soybeans. While GDP growth slowed during the 2010–2020 stagflation period, commodity contributions remained resilient – and began rising after 2017-2018 as production increased. Soybean output grew steadily, supported by annual expansion in planted areas. Oil's share also rose from 2018, as Petrobras ramped up pre-salt offshore production, boosting Brazil's energy output and diversifying its export base.

Overall, Brazil benefits from a relatively diversified export base across agriculture, energy, and industrial inputs. To break this down, in 2024, Brazil's key commodities accounted for 5.1% of GDP but a more significant 14.3% of total exports. And unlike many commodity-driven economies, this composition reduces reliance on any single resource, providing a degree of resilience to global demand shocks. This structure likely contributes to more stable employment conditions during periods of external volatility and helps cushion the labour market from the full impact of commodity price swings. For example, recent oil price weakness – linked to a negative global outlook and US trade tensions – can be partially offset by higher soybean exports to China – as China has signalled that it might increase food exports from Brazil to ensure food security. This balance positions Brazil as one of the few large commodity exporters capable of absorbing global volatility without derailing macroeconomic stability – provided domestic policy remains disciplined. Despite this, structural advantages alone are not sufficient to sustain growth – particularly in a more complex trade environment.

Recent economic confidence, monetary discipline and disinflation strategy

Following the pandemic-induced contraction, Brazil experienced a modest recovery between 2020 and 2023, supported by commodity exports, fiscal measures, and a rebound in domestic demand. More recently, coordinated fiscal and monetary policy has contributed to greater macroeconomic stability. This includes the introduction of a new fiscal framework, progress on tax reform, and continued commitment to an independent central bank focused on inflation control. These developments contributed to improving Brazil's credit profile, lowered perceived investment risk, and a strengthening GDP.

Fiscal reform

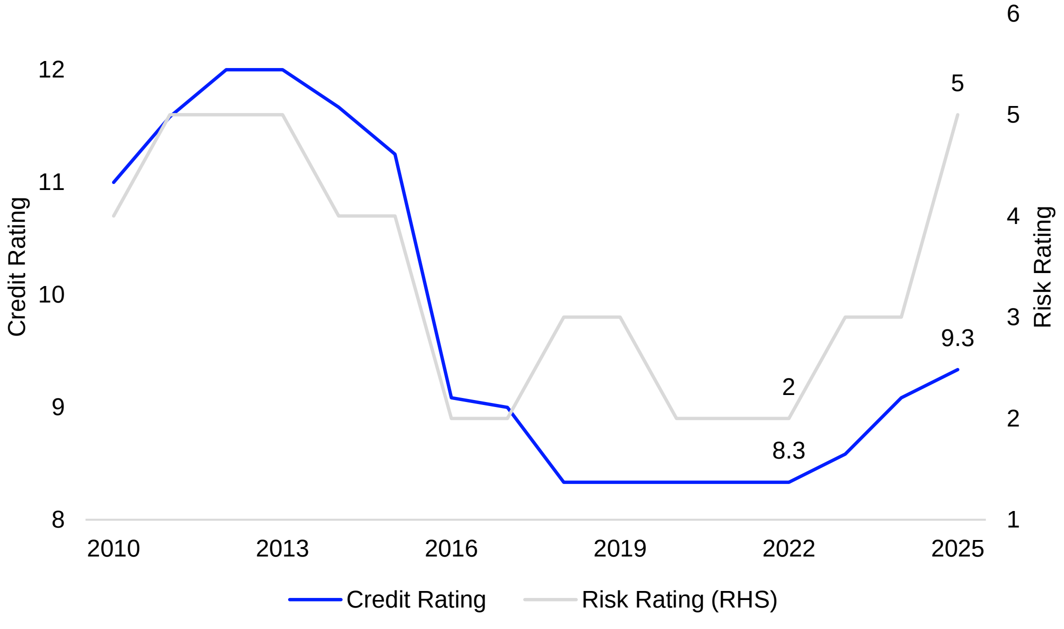
Two key policy packages have underpinned Brazil's fiscal strategy:

– **2023 fiscal framework:** Replacing the rigid 2016 cap, the new rule limits real federal spending growth to 0.6–2.5% annually, capped at 70% of revenue growth (or 50% if fiscal targets are missed). This rule contributed to narrowing the primary deficit from –0.5% of GDP in 2023 to –0.1% in 2024.

– **Tax simplification and structural reforms:** Congress approved a shift to a dual VAT system (federal and state) by 2026, aimed at reducing compliance costs and improving transparency. Measures also include digital taxation, anti-evasion enforcement, and expanded private infrastructure concessions.

These reforms have supported Brazil's credit standing. Exhibit 5 shows the Oxford Economics credit rating rising to a 10-year high of 9.6 (on a 0–20 scale, with 20 being AAA). Brazil's investor risk score, from Datastream, improved from 2 in 2022 to 6 in 2025 (with 7 indicating lowest risk).

Exhibit 5: Brazil Oxford Economics' credit rating and Datastream's risk rating

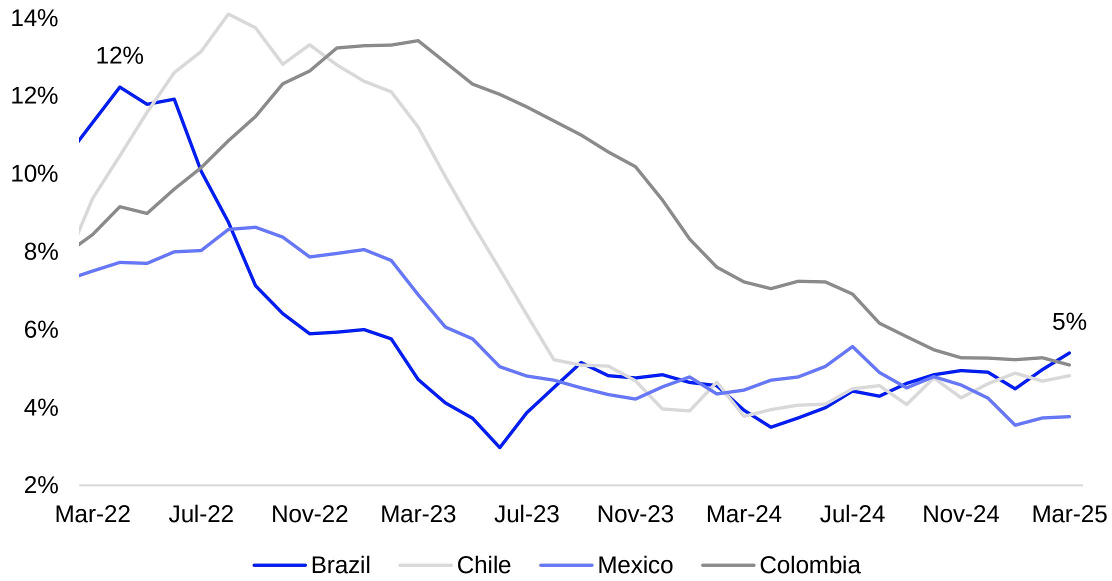


Source: FTSE Russell, LSEG, and Oxford Economics, as of April 30, 2025.

Monetary management

Brazil's central bank continues to adopt one of the region's most aggressive stances to tame persistent inflation, and the results are visible across Exhibits 6–8. This is particularly notable given Brazil's historical sensitivity to price instability.

Exhibit 6: CPI inflation rates, Latin America



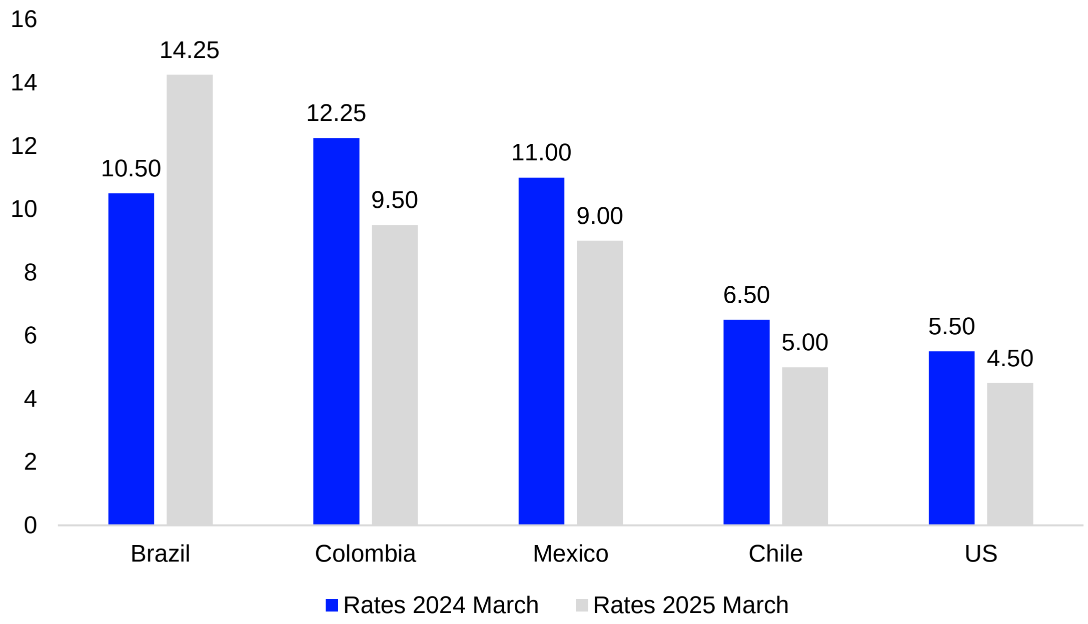
Source: FTSE Russell and LSEG, as of April 30, 2025.

Exhibit 6 shows that inflation peaked at over 12% in early 2022, fell below 4% by mid-2024, and recently ticked up to 5.4%. This trend remains broadly in line with the Latin American average (~5%) but above the Central Bank's 3% target (with a 1.5% tolerance band). The chart shows that Brazil managed to reduce inflation earlier than most regional peers, reflecting tighter and more consistent policy action.

Interest rates and policy trade-offs

To bring inflation under control, the central bank held the SELIC rate at 14.25% - the highest in the region (Exhibit 7). This compares to 9% in Mexico, 9.5% in Colombia, and 5% in Chile. The high policy rate has helped limit inflation expectations but also restricted credit availability, creating a trade-off with short-term growth.

Exhibit 7: Central Bank interest rates



Source: FTSE Russell and LSEG, as of April 30, 2025.

The case for remaining hawkish is underpinned by two factors:

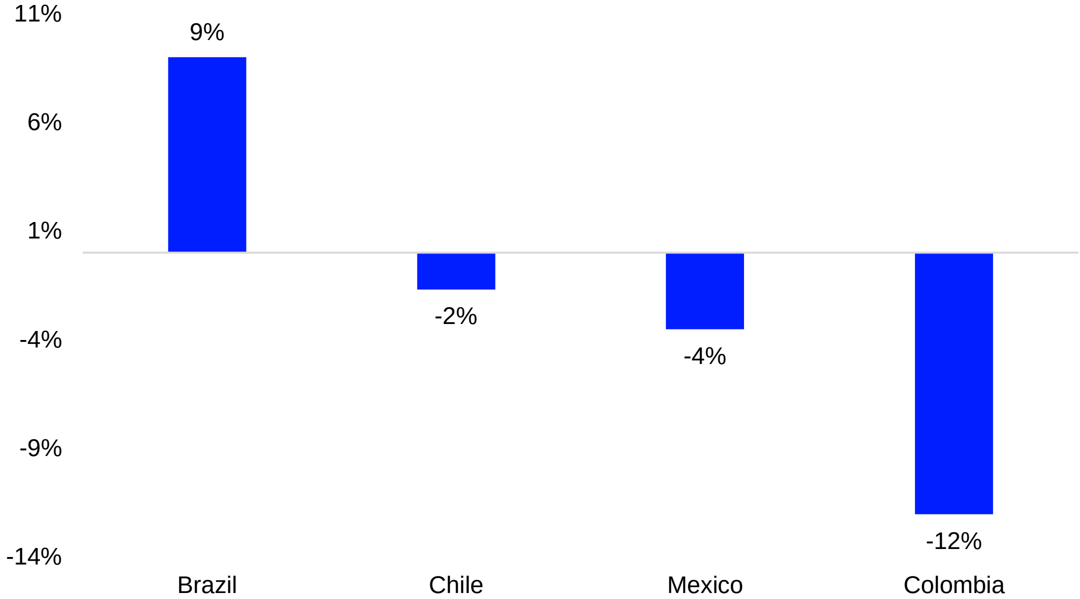
– Persistent global inflation, which adds external pressure to domestic prices.

– Elevated public debt: LSEG data shows Brazil's debt rose from 72% of GDP in 2022 to 76.5% in 2024 – the highest in the region. Colombia follows at 60%, unchanged since 2022.

Credit conditions

Exhibit 8 shows that Brazil is the only country from our sample to increase its credit to GDP ratio in Q3 of 2024 when compared to Q1 2022. This sustained lending reflects resilient domestic activity, but it also constrains the central bank's ability to ease policy without risking a surge in inflation.

Exhibit 8: 2021Q1-2024Q4 changes in credit to GDP ratio

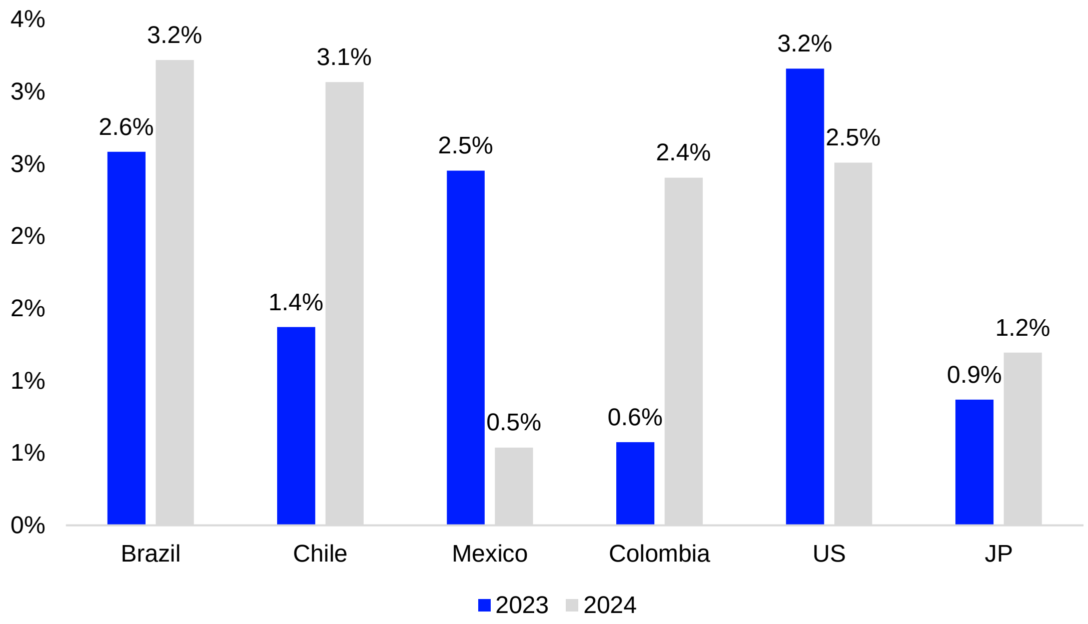


Source: FTSE Russell and LSEG, and Bank for International Settlements as of April 30, 2025.

A resilient macroeconomy – GDP growth surprises to the upside

In these conditions, Brazil's economy has regained momentum, outperforming expectations and showing better consistency than many of its regional and global peers. Exhibit 9 shows that while Latin American economies have fluctuated in response to global shocks, Brazil's GDP growth has accelerated over the past 12 months and remained stable between 2022 and 2024 – outpacing the regional average and even the US.

Exhibit 9: Recent regional GDP Growth, 2023 and 2024

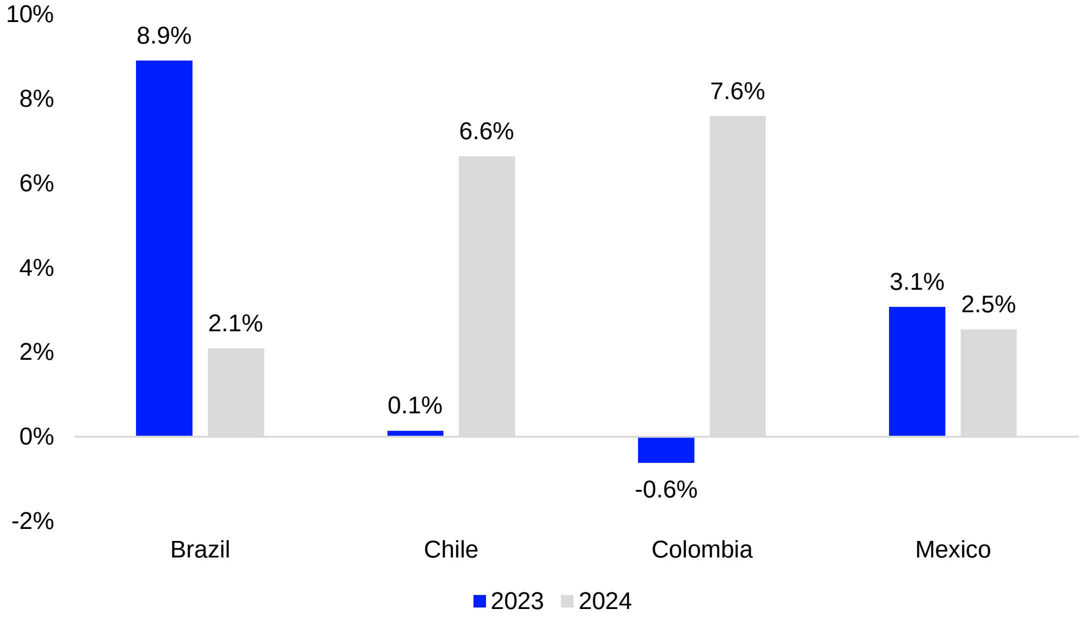


Source: FTSE Russell and LSEG, as of April 30, 2025.

Recent growth drivers: domestic demand offsets export slowdown

Despite healthy GDP growth, Brazil's exports have come under pressure from slowing demand in China – Brazil's largest trading partner. With export growth dropping to 2% in 2024 from 9% in 2023 (Exhibit 10). However, Brazil's diversified export destinations and its trade deficit with the US may help shield it from protectionist tariffs in a more fragmented trade environment.

Exhibit 10: Export growth in Latin America



Source: FTSE Russell and LSEG, as of April 30, 2025.

Although exports decelerated sharply in 2024, domestic demand remains robust. Brazil's industrial production index has risen 2.8% since 2022 – behind Chile (+3.1%) and Mexico (+4.5%) but ahead of Colombia (–1.8%) – reflecting steady domestic activity. In parallel, labour force participation has held firm post-COVID.

Simultaneously, Brazil's consumer base continues to expand – retail sales have risen 8% over the past year, outperforming the US (3%) and Japan (4%). Meanwhile, unemployment fell from 11% in 2022 to 6% in 2025, outpacing Chile (8.5%) and Colombia (9%). And as Exhibit 10 showed, despite export growth softening, the country's GDP growth has remained stronger than its peers (Exhibit 9) – underlining the importance of internal demand as a buffer against global volatility and highlighting that its large consumer base and industrial footprint can provide support during periods of lower export demand.

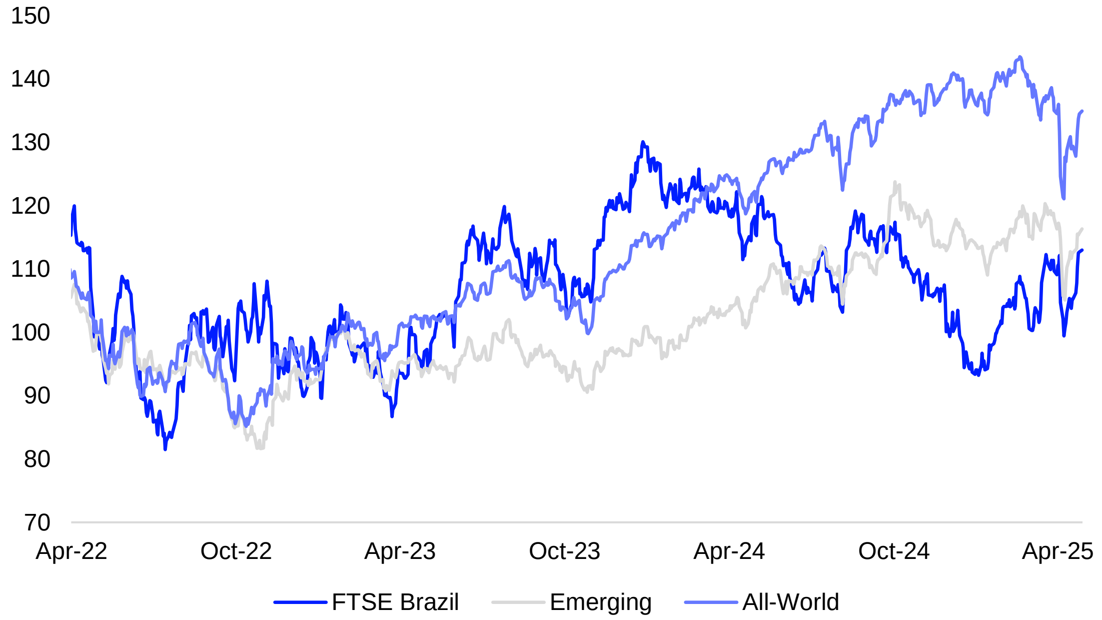
All in all, while macroeconomic performance has been relatively resilient, financial markets have told more of a mixed, but promising story. The FTSE Brazil Index – which tracks the country's large and mid-cap equities offers a useful view into how the underlying economy is reflected in terms of market performance.

Inside the FTSE Brazil Index: Structure and changes

Exhibit 11 shows cumulative returns from three indexes – FTSE Brazil, All-World, and Emerging. The All-World index benefited from a rally in US equities largely from AI optimism – around 69% of the index is made up of US equities, skewed towards technology. The Emerging index, also tech heavy, was too impacted by a rally in technology but performance was mixed with India performing well but China affected by a slowdown.

Exhibit 11 also shows that FTSE Brazil is down 13% since its peak in 2023. Up to that point the index was outperforming the FTSE Emerging and All-World indexes which can be attributed to a mini commodities-boom during 2022 and 2023. The need for fiscal reforms, high interest rates, end of the commodities squeeze, and Chinese economic slowdown likely contributed to this downturn. However, recent performance as of the start of 2025 also shows good potential for Brazilian equities – exhibits 12 to 18.

Exhibit 11: Cumulative returns, rebased USD



Source: FTSE Russell and LSEG, as of April 30, 2025.

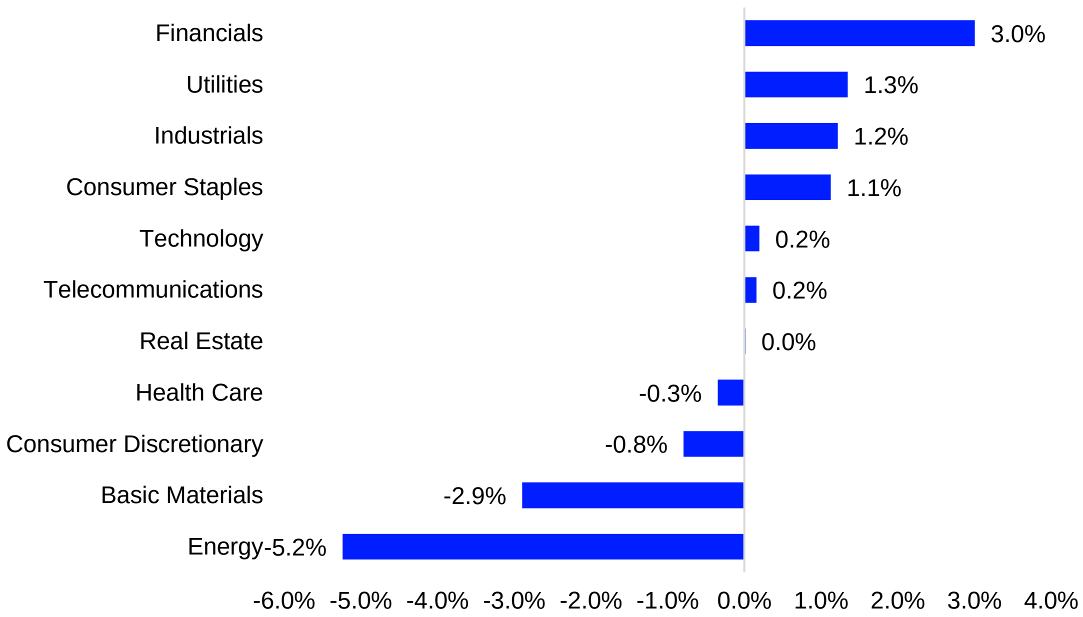
FTSE Brazil: has the index adapted to global changes?

Over the past 12 months, FTSE Brazil's equity performance has been positively influenced by domestically focused industries. Financials held the largest index weight at 27.8%, followed by Utilities at 12.9% and Industrials at 8.7%, combining for a total of 49.4% of the index.

While this reflects Brazil's tilt toward value and cyclical industries, Exhibit-12 shows how these industries contributed to overall index returns, rather than their share of total market capitalisation. Financials led with a 3% return contribution, followed by Utilities (1.3%) and Industrials (1.2%) – together delivering 7.1% of the total index return contribution.

However, the index's performance was also weighed down by losses in Energy (–5.2%) and Basic Materials (–2.9%), which together make up a sizable 35.6% of the index. These industries underperformed amid weaker Chinese demand and global disinflation trends. Meanwhile, growth sectors such as Technology and Healthcare – leaders in global markets – hold lower weights in FTSE Brazil, limiting upside during global rallies.

Exhibit 12: 12-Month Returns Contribution to FTSE Brazil, 2025 to 2024



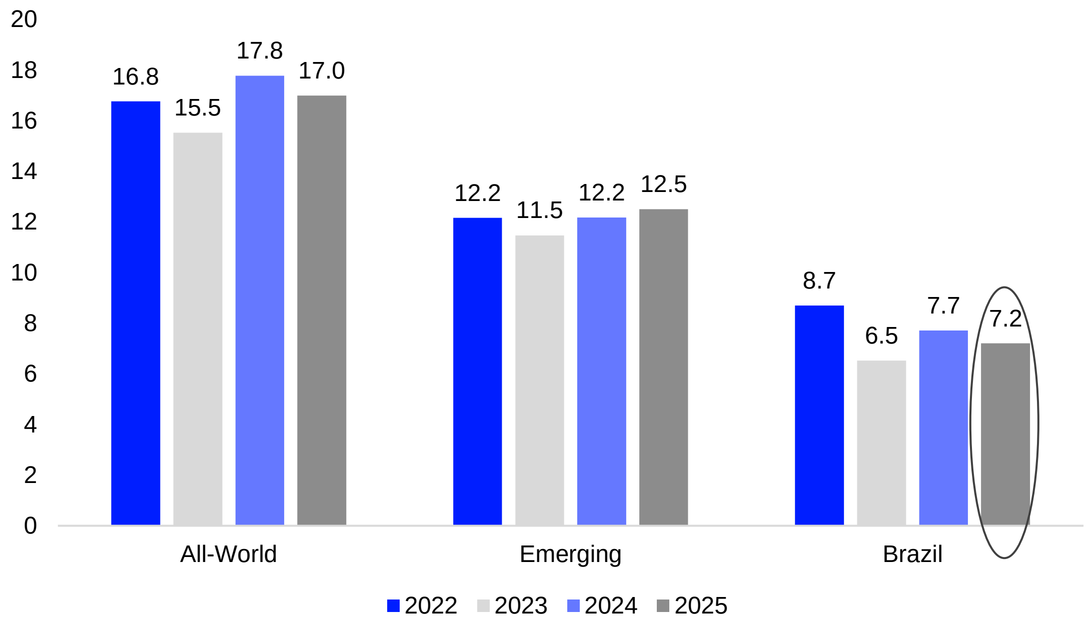
Source: FTSE Russell and LSEG, as of April 30, 2025.

Overall, FTSE Brazil delivered a marginal loss of 0.1% over the past year and a moderate gain of 2.7% from 2023 through early 2025. Importantly, March and April 2025 alone accounted for a sharp rebound of 12%, highlighting the market's potential upside and value orientation. This return pattern reflects improving credit conditions, infrastructure activity, and broader macro-policy traction – particularly across financials and utilities. That said, the past two years have been difficult for Brazilian equities, with cyclical pressures and external volatility weighing on returns despite improvements in domestic fundamentals.

Valuations: are Brazilian equities undervalued?

Exhibit 13 shows that FTSE Brazil trades at 7.21× forward earnings – a 58% discount to the FTSE All-World Index and 42% below the Emerging Markets average. This valuation, though still depressed, has improved since 2023, reflecting better policy credibility and easing inflation.

Exhibit 13: 12-Month Forward price to earnings ratios by index



Source: FTSE Russell and LSEG, as of April 30, 2025.

While global peers benefitted from disinflation and AI optimism, Brazil's latest rebound has been more internal: reforms, policy consistency, and earnings momentum have supported the valuation floor. If progress holds and commodity demand stabilises, the case for a re-rating strengthens.

Revenue drivers and strategic trade positioning

Looking beneath the surface, Exhibit 14 shows that 72.5% of the revenue from companies in FTSE Brazil comes from Brazil itself and that percentage has increased, indicating that Brazilian growth is becoming more dependent on domestic demand and less exposed to a slowdown in global growth.

Exhibit 14: FTSE Brazil 12-month revenue breakdown by country

Country	Share of FTSE Brazil revenue (%)	12-month revenue CHANGE (%)
Brazil (domestic)	72.50%	1.20%
China	6.80%	-21.50%
US	6.20%	17.40%
Japan	1.20%	-7.80%
Canada	1.10%	-0.90%
Germany	0.80%	-0.60%
United Kingdom	0.70%	8.30%
Argentina	0.70%	4.60%

Source: FTSE Russell and LSEG, FactSet, as of April 30, 2025.

This growing internal orientation suggests that Brazil's equity performance is becoming more reliant on domestic consumption and less vulnerable to external shocks.

However, global trade dynamics remain relevant. Revenue from China fell 21.5% over the past year, reflecting weaker Chinese demand due to subdued consumption, industrial slowdown, and lower Chinese exports to Europe and the US. Yet this decline was partially offset by rising revenues from the US (+17.4%) and the UK (+8.3%). These shifts indicate that Brazilian firms are increasingly able to rebalance trade exposure across trading partners.

Exhibit 15 adds key forward looking context: Brazil maintains a large trade surplus with China and a modest deficit with the US. This asymmetry may work in Brazil's favour under evolving US trade policy, which tends to target countries with persistent surpluses with the US. Brazil's ability to supply both industrial commodities and agricultural goods positions it to capture demand from both Chinese and US markets, even as bilateral tensions grow.

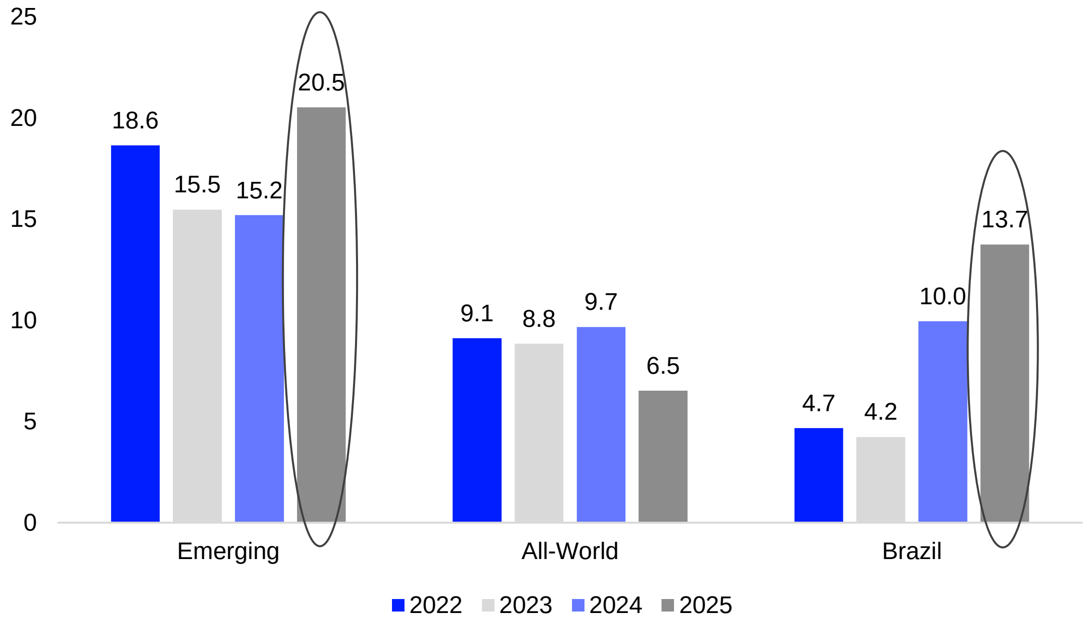
Exhibit 15: Brazil Trade Balance with China and the US (millions of USD)

Source: FTSE Russell and LSEG, as of April 30, 2025.

Earnings outlook: Brazil positioned for steady growth

Following on from low valuations and trade positioning, Exhibit 16 presents forecasted two-year earnings growth estimates for Brazil, Emerging Markets, and the FTSE All-World Index from 2022 to 2025. The data highlights Brazil's improving earnings profile, supported by a stabilising macroeconomic environment.

Exhibit 16: Earnings growth forecasts (%)



Source: FTSE Russell and LSEG, as of April 30, 2025

Brazil's two-year earnings growth forecast has more than tripled, rising from 4.2% in 2023 to 13.7% in 2025. This places it ahead of the FTSE All-World average (6.5%) and reflects a steady catch-up to the broader Emerging Markets index (20.5%). The Emerging index continues to benefit from cyclical momentum and stronger aggregate demand across select regions, but Brazil's trajectory is increasingly being shaped by internal factors. Amongst them are strong consumption, lower inflation, and improving fundamentals in financials, utilities, and industrials.

Diversification potential in global equity portfolios

Next, we turn to FTSE Brazil's role in a multi-asset equities portfolio. Exhibit 17 highlights Brazil's role as a potential diversifier. Its correlation with the US is relatively low at 0.58, compared to 0.87 with Developed ex-US. This suggests Brazil may help reduce exposure to global equity beta – especially for portfolios concentrated in US or tech-led markets.

Exhibit 17: Correlation of asset class returns, monthly USD, 5-years through 2025-03-31

Correlation Matrix	FTSE Brazil	US	Dev xUS	All World	Emerging
FTSE Brazil	1	0.58	0.68	0.65	0.61
US	0.58	1	0.87	0.98	0.65
Dev xUS	0.68	0.87	1	0.94	0.77
All World	0.65	0.98	0.94	1	0.76
Emerging	0.61	0.65	0.77	0.76	1

Source: FTSE Russell and LSEG, as of April 30, 2025

Although Brazil is part of the Emerging Index, its correlation with that index is moderate at 0.61. This reflects Brazil's distinct sector mix – more cyclical and commodity-driven compared to the broader Emerging index which is dominated by tech-heavy markets like China, Taiwan, and India, accounting for over 70% of its weight.

In this context, Brazil offers a more differentiated Emerging allocation, which is valuable for investors seeking lower correlation and broader sector exposure.

Conclusion

Brazil's economic story is one of transition, emerging from a decade of stagnation into a more stable and reform-driven period. Structural imbalances, political uncertainty, and policy missteps between 2011 and 2020 eroded investor confidence and somewhat hampered productivity. Yet since 2023, a clearer reform path has taken shape, with improved fiscal and tax overhauls, a disciplined central bank, and more effective coordination between policy levers. This macro reconfiguration has helped restore inflation control, narrow the fiscal deficit, and gradually rebuild market trust.

These improvements are not just theoretical. Brazil's GDP growth has outpaced regional and global peers in the past two years, driven by resilient domestic demand, a broad industrial base, and rising employment. Even as external challenges such as weaker Chinese demand and commodity price volatility dented exports, Brazil's internal dynamics remained robust. Retail sales, industrial production, and falling unemployment signal an economy with more balanced growth engines.

However, these gains must be viewed alongside persistent vulnerabilities. Government borrowing remains elevated, with public debt reaching 76.5 percent of GDP in 2024—the highest in the region. Inflation, while previously brought under control, has begun to rise again, testing the limits of monetary policy. These risks underscore that Brazil's turnaround, while encouraging, is still underway and contingent on continued discipline and reform momentum.

At the same time, the FTSE Brazil Index's underperformance (13 percent from its 2023 peak) has been shaped by global rate pressures and commodity downturns. Yet beneath the surface, the index has recalibrated, reducing exposure to basic materials and energy, while raising weights in financials, utilities, and industrials. Earnings growth is increasingly driven by internal factors, with earnings growth forecasts more than tripling from 2023 to 2025. Valuations remain depressed, at just 7.21 times forward earnings, offering meaningful upside if the macro picture improves.

Finally, Brazil provides portfolio differentiation. Its equity correlation with the US (0.58) and even broader emerging markets (0.61) remains moderate, reflecting a more cyclical, domestic, and commodity-linked sector mix. If global trade fragments and geopolitical blocs harden, Brazil's ability to straddle both US and Chinese demand, while maintaining fiscal credibility, strengthens its relevance in a global allocation framework.

In sum, Brazil is not just rebounding - it is realigning. And while risks remain, the building blocks of a more self-sustaining economy are in place. For investors, this is a market priced for caution but positioned for resilience, an overlooked value play within a shifting global order.

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