

## **Prudent's Comments on the Brazilian Election**

*October 29<sup>th</sup>, 2018*



Dear Investors, Colleagues and Friends,

We are pleased to announce the victory of Social Liberal Party (PSL) candidate, Jair Bolsonaro in the 2018 Brazilian general election. As widely expected, President Bolsonaro defeated opponent Fernando Haddad of the Workers Party by securing 55% of the valid votes in the second round of the election last night.

A sense of exuberance is spreading throughout the country, as the people look forward to the future and impending changes during this President's incumbency. Throughout the course of the election Bolsonaro has widely been viewed as the most market-friendly candidate. This, to a large extent, is due to his promise of implementing favorable economic policies to facilitate a more efficient economy and his adamant stance on eliminating the corruption which has hindered the growth of the country under previous administrations. The new President "promises to open up the resource-rich economy to private investment, strengthen ties to the U.S. and unleash an aggressive crackdown on epidemic crime".

On the economic front Bolsonaro has appointed Paulo Guedes as his leading economic advisor, and has vowed to give him free reign over a new ministry combining the responsibilities of the finance, planning and trade ministries. This has been met with much enthusiasm as Guedes is well

known for his liberal economic ideas. He has proposed to restructure the inefficient pension system, shrink the government's role in the economy, support privatization of government-owned companies such as Petrobras and Banco do Brazil, and give the central bank full independence. Bolsonaro's economics team shows that these privatizations would yield the government BRL 800 billion (~USD 200 billion), which will allow them to reduce the government's debt by almost 20.0% (bringing it back down to similar levels of previous years). As a comparison, Brazil still boasts the lowest Government Debt to GDP of many major economies in the world, including Germany, the U.K., France, the wider EU area, and the USA. This administration's focus on reducing government debt will further strengthen Brazil's position in the global economy.

Additionally, Bolsonaro has stood firm against the proposal of opposing candidates to induce lower interest rates. As of late September, he shot down a proposal for a new financial transaction tax, essentially putting an end to speculation of his pursuit of these liberal economic and financial reforms.

The market has reacted favorably to the potential of a Bolsonaro presidency, evident from both the rise in the Real by 1.8% and 'Brazilian investor anxiety', as measured by the Real's one-month implied volatility, falling by the most in four years directly following Bolsonaro's first round commanding victory.

Economist project the incoming administration will initially lead to a stronger Brazilian Real, a short-term rally in Brazilian stocks, a rally in long-term domestic bonds, and wider external debt spreads.

Majority of analysts expect the Real to gain ~10.0% against the USD in the near future as investors cheer the fiscal plan crafted by Guedes, which will unquestionably encourage more optimism, a greater sense of security for the public, less crime and a more business-friendly outlook from external investors towards the Brazilian market.

According to IMF estimates, the Brazilian economy is expected to grow by 2.3% in 2018 and 2.5% in 2019. Inflation seems to be stabilizing at 4.0%, in contrast to higher historical norms in the country. Although the economic and financial outlook for Brazil could improve with a market-friendly outcome. These will be the key to passing the necessary reforms required to restore economic growth and confidence in Latin America's largest economy.

At Prudent, we look forward to participate in the economic resurgence in Brazil. The proposed economic policies of the Bolsonaro administration will create an environment which will allow the SME's we work with to expand as a flourishing economy will attract additional foreign investments. We will continue to monitor the developments and make the proper adjustments to position ourselves for continued future success.

For any questions or more information about our new offerings, please contact:

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