

WHY WE LIKE BRAZIL



James Syme
Senior Fund Manager



Paul Wimborne
Senior Fund Manager

- The Fund aims to generate long-term capital growth through active management of a portfolio of equities listed on emerging stock markets.
- For fund managers James Syme and Paul Wimborne, identifying the most attractive emerging markets in which to invest is the most important influence on investment performance.
- Complementing their top-down view is a stock selection process that focuses on identifying quality growth stocks within their favoured countries.
- Benchmark: MSCI Emerging Markets Index
- The use of the Index does not limit the investment decisions of the fund manager therefore the shareholdings of the Fund may differ significantly from those of the Index.
- Please refer to the Prospectus/ KIID for further information.

JOHCM Global Emerging Markets Opportunities Fund

Inflation under control, positive economic growth, valuations at half their long-term



Brazil has been one of our favourite emerging markets from late 2020, since when it has delivered strong USD total returns despite a significant negative return from the MSCI Emerging Markets Index. October's election has returned Luiz Inacio Lula da Silva (Lula) as the president, a position he held from 2002-2010. As Lula is from the left-wing Partido dos Trabalhadores (PT), the Workers' Party, and given recent hostile market reactions to left-wing electoral successes in Chile, Colombia and Peru, is it time to change our view on Brazil?

We remain very positive on Brazil in both an absolute sense and relative to other emerging markets. We do not see a Lula administration as a material risk to Brazil's economy or to financial markets, and continue to find attractive investment opportunities there.

Why are we sanguine about Brazil's political shift to the left?

1. The Brazilian economy remains relatively strong, helped by both commodity prices and by the recovery from the previous downturn. These conditions are similar to those when Lula previously was in power – which was a good period for equity investors (the MSCI Brazil returned an annualised 36.9% in USD terms; unlikely to be repeated this time around, but evidence that a left-wing president isn't necessarily a problem). Export prices and the trade balance remain strong in historical terms, which will support growth and the currency, while the domestic economy continues its recovery from the deep 2014-16 downturn (a recovery extended by the 2020 Covid-driven dip in activity); PMI surveys show continued expansion in both manufacturing and non-manufacturing activities.

2. Brazil's core institutions remain strong and market-friendly, which will constrain the more populist desires of the incoming administration. The central bank remains deeply orthodox regarding inflation-fighting, while the elections have skewed both Congress and Senate towards centre and right-wing coalitions. Right-leaning coalitions have seen their share of seats increased from 46% to 49% in the lower house and from 31% to 44% in the upper house. As the fiscal spending-cap (which Lula has indicated he would like lifted) is a constitutional measure, any reform would have to pass both houses.
3. Following on from that, since the start of 2021, monetary policy has been aggressively employed to reduce inflation with policy interest rates lifted from 2% to 13.75%. With both reported inflation and inflation expectations trending down, 2023 should see Brazil become one of the first major countries to move into a rate-cutting cycle, which should support both the economy and the equity market.
4. Equity valuations in Brazil are attractive, both against history and compared to other similarly sized emerging markets. The price/earnings ratio on 12 month forward consensus earnings of MSCI Brazil is just 6.6x, compared to a long-term average for Brazil of 11.2x and current levels of 21.6x for India, 14.6x for Saudi Arabia and 12.6x for Mexico. These levels would seem to price in a lot of political and policy risk.

In an emerging market-relative sense, and even in a global sense, Brazil's reasonably good conditions are extremely attractive. Net energy exports, a central bank that seems to have got on top of inflation, fiscal orthodoxy, moderate economic growth and attractive market valuations are conditions enjoyed by few countries anywhere. Given that, we think investors can live with a more left-wing government in Brazil. We certainly can.

Professional investors only.

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