



## Ordem E Progresso

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This seems like a good time to remind ourselves about the motto that graces Brazil's flag - "Order and Progress" - the promise to the Brazilian people. Yet few would say that the dream has been achieved so far. Brazil is all too often dismissed as the country "with a great future behind it".

The past weekend saw the election of Jair Bolsonaro as their latest President, in a runoff election against Fernando Haddad. As a former Army Captain, and vocal supporter of President Trump, Bolsonaro has promised to be BIG on the "Ordem" part.

Given the mess the Partido dos Trabalhadores (PT) created, from the massive corruption scandal known as *Lava Jato*, through to the worst recession since

independence, one can hardly blame the Brazilian people for “throwing the bums out”. For most of their 14 years in power the PT did little substantive to move their country forwards. Real problems required real solutions, not short-term fixes that result from random acts of Government.

President elect Bolsonaro promises to be more business friendly, and has already named Paulo Geddes, one of Brazil’s most respected economists, as his Finance Minister. As Bolsonaro established himself the front runner during the early stages of the election, the markets rallied, and continued to do so as he went into the second round of voting with a commanding lead in the polls. So, it is certainly clear that the markets see him as an improvement on the incompetence of Dilma Rousseff, and the weakness of Michael Temer.

But can he deliver?

Temer’s elevation to the Presidency was also seen as a step forward, as moving on from the Dilma era, but that enthusiasm soon faded as it became clear he lacked the ability to make progress on the key pieces of legislation needed to fix Brazil’s problems, such as pension reform.

Bolsonaro is only a recent convert to economic orthodoxy. Previously, he had said that former President Fernando Henrique Cardoso (FHC) should be tried for treason for the privatisation program he set in motion, now Bolsonaro is apparently a fan of privatisations – except those of Petrobras, Eletrobras, or Banco do Brasil, probably the 3 most important privatisations of all. His Chief of staff has already had to walk back comments made prior to the election about exchange rate targeting.

Paulo Geddes himself has already said his biggest hold over the President elect is that the markets will tank if Geddes walks away from the job; right now, few would doubt that.

We approached the election with a fair degree of cynicism. Yes, we were happy to see the hugely corrupt PT lose the election, but we remain unconvinced that Bolsonaro is the right man to pull Brazil through the next several years, yet are more than willing to be proven wrong.

Although his party did better than expected, it remains weak within a fractured Congress. His bellicose style suggests he is going to find making the necessary coalitions hard, and so will struggle to get key legislation through. We want to see how keen he is to expend his limited political capital on economically sensible policies, and we are disinclined to give him the benefit of the doubt *ex ante*.

At this point, we see most of the risk as political, so in both our core Emerging Markets strategy and in our Alternative Emerging Markets strategy, we will position ourselves accordingly, and remain as hedged as possible.

