Brazil: the case for selective exposure

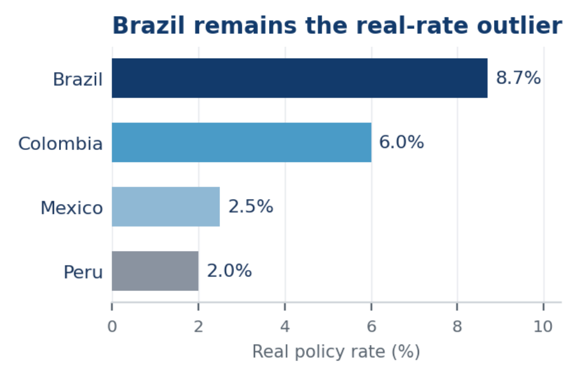
Brazil remains one of the most attractive expressions of EM real yield and commodity beta into year-end.

Pablo Barrientos
Senior Credit Analyst

1. Real yields and the export complex still pay. The public-debt path does not.

Brazil still pays investors to wait. Last week the Copom (Brazil's rate-setting committee) cut the Selic (Brazil's policy interest rate) by 25bp to 13.75% in a unanimous decision, the fifth consecutive 25bp step and 125bp of easing since March. The statement was essentially unchanged from August 5th: policy stays "adequately restrictive," calibrated to incoming data, with no guidance on the next move. The ex-ante real policy rate is still about 8.7%, well above the 5% the Banco Central (Brazil's central bank or BCB) treats as neutral, and a clear outlier versus regional peers. High real local yields and contained external spreads remain the reason why the country attracts both local-rate and hard-currency inflows.

Two more meetings sit on the 2026 calendar, the first on November 4th, after the October presidential vote. The current base case is for another 25bp cut in November and again in December, taking Selic to 13.25% by year-end. Risks that knock the BCB off that path are a sharp oil spike or a post-election currency break, not the campaign rhetoric itself.



The real economy underneath those yields is a commodity superpower, not a single-crop story. Brazil is a first-rank supplier of soy, corn, sugar, coffee, beef, iron ore and crude. Terms of trade remain supportive and China's import share of Brazilian goods has risen more than almost any large peer since 2016. Also, Brazil sits far from the world's main conflict zones, so ships and trucks here can keep moving when other supply chains freeze. That said, while higher oil prices help Brazil and Petrobras, they squeeze truckers who pay more for diesel.

What is not in the bull case is a solved fiscal problem. Headline general-government debt is ~82% of GDP; on an IMF-comparable basis it is ~96% and still drifting higher.

Brazil's fiscal framework has real enforcement mechanics, but neither presidential campaign is putting a primary path on the table that stabilizes the ratio. That is why we own real yields and exporters, not long Brazil local currency government bond, into the vote.

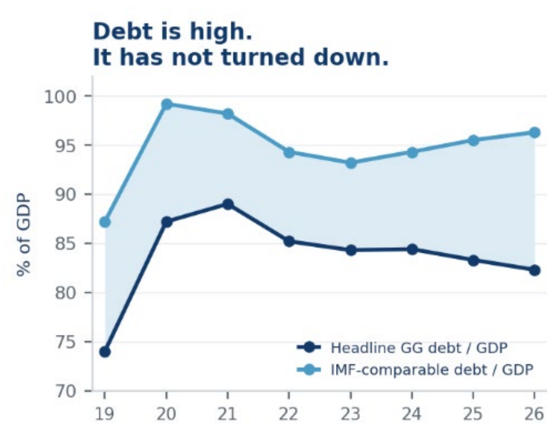


Figure 1. Bloomberg Economics.

Figure 2. Headline series ~82% of GDP; IMF-comparable ~96%. Stylized paths based on BCB headline debt and IMF-comparable debt.

2. Price the runoff and the November Copom — not the first-round result.

The first round of Brazil's presidential election is October 4th. If nobody wins outright, the runoff is October 25th. Mid-September first-round polls cluster Lula at 36–42 and Flávio Bolsonaro at 30–37 (Datafolha 39–35; Nexus 42–37; Quaest 36–31; CNT/MDA 40.5–30.4). Runoff polls are split: CNT/MDA has Lula 47.3–40, while Nexus/BTG, AtlasIntel and Ideia have been at or inside a statistical tie. ***Prediction markets disagree with the poll average.*** On Kalshi's winner contract, which includes a runoff, Flávio trades near 55% and Lula near 45% on roughly $4.4 million of volume.

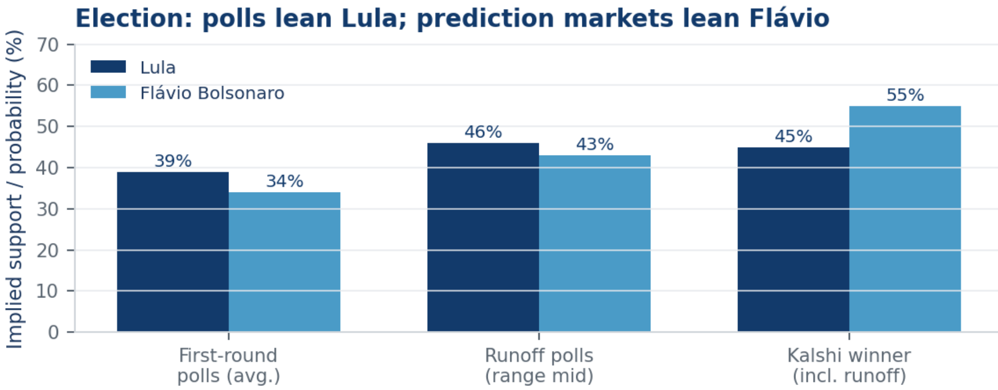


Figure 3. First-round and runoff poll averages versus Kalshi winner probability, mid-September 2026. Polls: Datafolha, Nexus, Quaest, CNT/MDA, AtlasIntel, Ideia; prediction market: Kalshi. LM Capital compilation.

3. El Niño changes where you take the risk. It does not end the real yield case.

Brazil's official weather services (INMET and INPE) confirmed El Niño in June and assign a high probability it persists into early 2027. NOAA's base case is a very strong event into the October–December peak. The geographic pattern is the usual one: wetter South, drier Center-North / North / Northeast, warmer almost everywhere.

Food inflation historically runs hotter in El Niño years. A June BCB survey put the shock at about 30 bp on 2026 headline inflation (IPCA, Brazil's CPI) and 40 bp on 2027; only about half of that 2027 impact was then in the forecasts.

A shorter planting window in the Center-North grain belt would squeeze the second-crop corn (*safrinha*), while heat and dryness would also stress pastures. Diesel costs on $100+ Brent make logistics worse on top of that. That is why we would be more selective in agro and transport credits, but not a reason why we would exit Brazil.

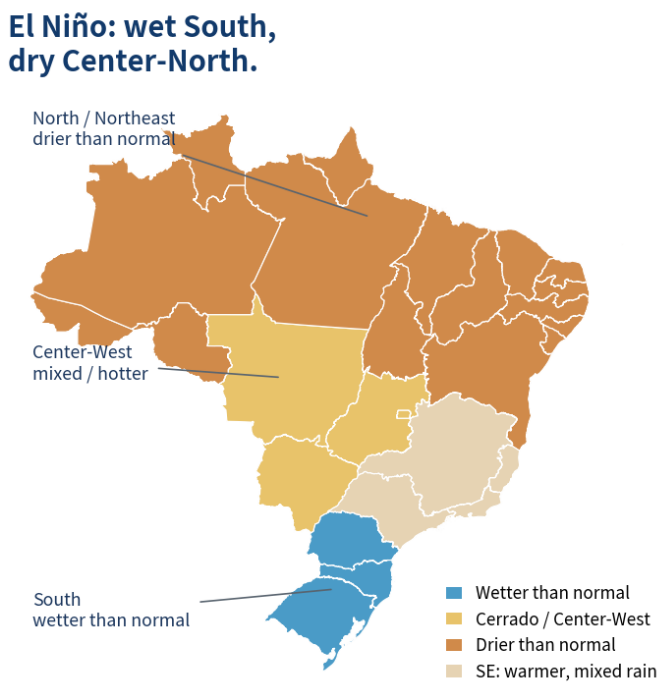


Figure 4. Typical El Niño rainfall pattern in Brazil. Schematic based on INMET / CPTEC-INPE / FUNCEME seasonal guidance.

4. Three names: overweight protein, selective rail, avoid the rural book.

Minerva (BEEFBZ) — regional protein, not a Brazil cattle-cycle bet (preferred)

Minerva now runs operations and sales across Brazil, Paraguay, Argentina and Colombia, including the capacity absorbed from Marfrig. A dry Center-West or a wet South does not hit the whole platform in the same quarter. Sales are mostly dollarized and tied to long-cycle global protein demand. Leverage is moving the right way: net debt/EBITDA toward sub-2.5x by year-end on current credit agency paths, after the 2025 equity injection and 2026 liability management.

Rumo (RAILBZ) — the corridor is strong; the parent is the constraint (selective)

Rumo is Brazil's main rail operator moving grain from the farm belt to the Port of Santos for export. In 2025 the Northern Operation delivered about 80% of net revenue. El Niño's extra rain is in the South, which is only about 20% of the book. Rail uses less diesel per ton-kilometer than trucks, so $100 oil makes rail even more competitive versus trucking. The credit rating is the issue, not the corridor. Cosan parent linkage has S&P at BB− / CreditWatch Negative and Fitch at BB+ on Rating Watch Negative. Cosan owns about 20% of Rumo and is in talks to sell part of that stake. A clean sale would delever the parent and could ease rating pressure on Rumo. A messy process, or no deal, leaves parent liquidity as the constraint.

Banco do Brasil (BANBRA) — rural-book exposure into the next crop (cautious)

Banco do Brasil is the system's dominant farm lender. The book is already in cleanup: rural non-performing loans are up, about R$37 billion of rural debt was renegotiated over the past year, 2025 profit fell about 45% on agro provisions, and 2026 guidance was cut. El Niño is the next crop, not the last one. That exposure is the opposite of Minerva's multi-country export book.

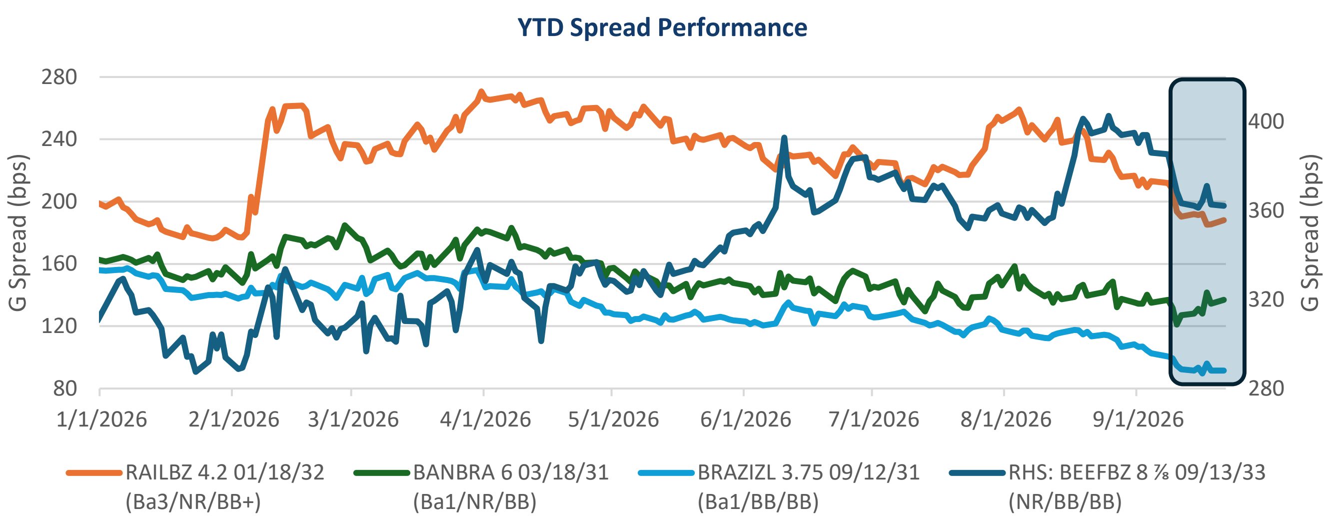


Figure 5. Bloomberg.

What would change our mind

A worse El Niño over the Center-North grain belt than in past episodes. That hits Rumo volumes, Minerva's cattle costs, and Banco do Brasil's rural book in the same season.

A sharp rise in oil that lifts inflation expectations and forces Copom to pause after last week's cut.

A Cosan problem that turns into a funding problem for Rumo.

Weaker Chinese demand for protein or iron ore while the primary deficit remains.

A post-election drop in the Real that lifts the 1Q28 inflation forecast and ends the 25 bp easing path.

Dates that matter: October 4th for the Real and local rates; October 25th for the economic team; November 4th for whether Copom delivers another 25 bp cut.

750 B Street, Suite 3010, San Diego, CA 92101
info@lmcapital.com | 619-814-1401
www.lmcapital.com

For more information please contact

Gerry Dodd
Senior Vice President – Business Development
817-538-4315

Adrienne Gaines
Senior Vice President – Business Development
619-814-1401

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