MIRABAUD

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MIRABAUD WEALTH MANAGEMENT

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INTERNACIONAL

“THE FAULT, DEAR BRUTUS, IS NOT IN OUR STARS, BUT IN OURSELVES, THAT WE ARE UNDERLINGS.”
Shakespeare, Julius Caesar

In last year’s February letter, I wrote about the S&P 500 breaking the 5’000 level for the first time ever, hitting 500 all-time highs since I started working in finance in 1997 and multiplying by 50 its value (without including dividends) since I was born in 1971. The stars aligned that month, allowing for an interesting play on the number 50. Despite the usual concerns about investing at all-time highs, the Investment Committee decided to stay invested, and this decision proved rewarding, with the S&P 500 gaining 18.4% and the MSCI World rising 16.2% over the past 12 months.

This February, it wasn’t just the stars but the planets aligning—both figuratively and literally. On the last day of the month, we witnessed a rare planetary parade, with Mercury falling into line for a seven-planet alignment—a breathtaking spectacle, accompanied by red auroras, that won’t be seen again until 2040 (by which time I may well be retired). Historically, such celestial events have been viewed as bad omens, much like the red aurora recorded in Italy over a year before Julius Caesar’s assassination in 44 BC.

Yet, despite the astral conjunction, we still experienced 46 new all-time highs over the past 12 months, including two in February. While I won't be able to use the number 50 again this time, the market's resilience in the face of uncertainty is noteworthy. Despite the unease, the S&P 500 has broken through the 6,000 barrier, and if it maintains its historical trajectory, it could be closing in on 10,000 by the time I turn 60. Not bad for a world clouded by negative headlines—wars, geopolitical tensions, tariffs, and even speculation about the possible end of the Artificial Intelligence boom.

Funnily enough, in mid-February, a neighbor expressed concern that I might be too stressed, given all the negative headlines and the market's supposed struggles. Imagine her surprise when I told her that European equities were up by double digits, U.S. markets had gained around 5%, and bonds had climbed approximately 1%. And then there was gold—the true star of the market—soaring nearly 9% in just the first two months of the year. If only every year started with this kind of 'stress'!

Markets are not immune to headline risks and the last two weeks of February were a bit weaker as markets digested all the news, but more importantly, markets focused on company earnings, fundamentals and outlook! The latter is a bit less clear in the short term and I will dive into our view at the end of this letter, but the reality is that markets continue to perform well, as shown in the table below, which highlights the monthly and year-to-date returns of key asset classes. The only asset in 'the red' is the U.S. Dollar Index, following a strong rally last year. Meanwhile, the S&P 500 turned negative in February, experiencing a 5% correction after reaching another all-time high on February 19th.

« OUR BASE CASE SCENARIO IS THAT THE US ECONOMY WILL CONTINUE TO GROW, BUT AT A LOWER SPEED THAN IN 2024.»

PERFORMANCE OF THE MAIN FINANCIAL INDICES:

	Feb.	Feb. $	2025	2025 $	2024	2024 $	2023	2023 $	2022	2022 $	2021	2021 $
S&P 500	-1.30		1.44		25.0		26.3		-18.1		28.7	28.7
Stoxx 50	3.48	3.26	11.92	12.44	11.9	0.0	23.2	27.3	-8.5	-14.0	24.1	15.6
MSCI EM	0.50		2.31		8.0		10.1		-19.9		-2.3	
Brazil Bovespa	-2.64	-3.46	2.09	7.16	-10.4	0.0	22.3	33.1	4.7	10.1	-11.9	-18.1
Euro	0.13		0.20		-6.2		3.1		-5.8		-6.9	
US Dollar Index	-0.70		-0.80		7.1		-2.1		8.2		6.4	
Gold Spot	2.12		8.89		27.2		13.1		-0.3		-3.6	
Brazilian Real	-0.70		4.88		-21.4		8.9		5.4		-6.8	
Global Agg. Bond	1.43		2.01		-1.7		5.7		-16.2		-4.7	
Latam Bonds	1.27		2.67		10.5		11.1		-13.2		-2.5	
Global High Yield	0.79		2.17		9.2		14.0		-12.7		1.0	
US T Bills	0.33		0.70		5.3		5.1		1.3		0.0	
Brazil CDI	0.99	0.29	2.00	7.01	10.9	-12.9	13.0	24.8	12.4	18.4	4.4	-2.7

So I will repeat last year's question. Is it time to sell equities, wait for the dust to settle and then come back to equities? In our portfolios, the answer continues to be "No"! However, we have recently shifted toward more attractively valued sectors and regions, such as U.S. mid-cap and Canadian stocks (with hedged CAD exposure), as we believe valuations in the U.S. remain elevated. We also increased equity exposure through a diversified hedge fund allocation, which has historically performed as expected in both rising and falling markets, delivering approximately 70% of the MSCI World's returns with lower volatility. We reduced our cash positions to invest in hedge funds, reflecting our positive market outlook while acknowledging the need for caution. Especially considering current valuations following the strong equity market rally in recent years. The S&P 500 has risen by more than 20% in four out of the last six years while the MSCI World has done so three times. Coincidentally, the MSCI World has risen by more than 20% in each of the last four odd-numbered years. Just a coincidence and this is not our view for 2025.

I mentioned earlier a less clear short-term outlook, so what awaits us? Let me just perform one of my many daily check of my social media accounts to see what new policy has been announced, changed or delayed… We do expect more policy uncertainty especially until mid-April as we believe all major tariff announcements will have been communicated and/or implemented by then.

We also believe Germany will further advance its new policies in the upcoming weeks, which will allow Central Banks, companies and investors to have the opportunity to analyze the situation and act accordingly. I just hope it is weeks rather than months before the policies are in place.

Our base case scenario is that the US economy will continue to grow, but at a lower speed than in 2024. The latest business and consumer surveys published for February show a greater risk of stagflation as inflation may rise due to tariffs and tougher immigration stances. Stagflation is usually negative for stocks and bonds and we will closely monitor our portfolios and adjust our strategy as needed if our outlook evolves.. Similar to Trump's first term, we are prepared for increased volatility as markets adjust to changes in policy announcements.

Recent Changes to our asset allocation and next steps:

• In addition to the adjustments already made with respect to Hedge Funds and attractively valued equities, we continue to maintain an overweight position in equity markets and have increased our exposure to European and Asian markets as part of our ongoing diversification strategy;

• We remain invested in gold, which benefited from a decline in US yields and heightened uncertainty following the escalation of the trade war during the month;

• We have also increased our allocation to diversified financial services in Europe;

• Lastly, we maintain an overweight position in investment-grade credit and the US dollar.

Looking ahead, we will leverage our internal expertise to monitor global events, continuously reassess our core scenario, and diversify into areas offering the best risk-reward opportunities—all while staying invested. And I fully expect to be writing about new all-time highs in the February 2026 letter and beyond. But the S&P 500's journey to 10,000 is never a straight line.

Eric Hatisuka
CIO Mirabaud Brazil

BRAZIL

WHAT DOES TRADE WAR 2 MEAN FOR BRAZIL?

With Trump's return to power, we also saw the return of his foreign trade policy based on asymmetric economic pressure, unilateral tariffs and communication via social media, bypassing official channels.

Trade War 2, as named by market analysts, would be the accelerated continuation of the same trade policy applied by Trump between 2017 and 2020, in his first presidential term.

In this context, there was a lot of local media coverage of the fact that Brazil was mentioned name by the president of USA in his first speech on Capitol Hill as one of the targets of his infamous tariffs.

But before we go any further, a brief review of economic theory is in order. After all, what is the net effect of a protectionist policy based on raising import tariffs?

First of all, any analysis has to make use of some contextualizing assumptions ("boundary conditions"), which in economics are generally: (1) the assumption that every participant is infinitesimal size in within the system, i.e. their marginal contribution is negligible, and (2) that everything else remains constant ("ceteris paribus"), i.e. that the only change has been in the variable of interest and no other.

Based on this logic, practically the entire economic community has been unanimous in saying that the net effect of tariffs is to increase US inflation. The reasoning is simple and straightforward: if a tax is levied on a given product, this tax will result in an increase in the price of the goods sold, which will be passed on to the final consumer through price inflation.

However, when we talk about the United States and its import account, none of the 2 boundary conditions mentioned above hold up.

This is because the United States, as the world's largest economy, has the world's largest import account by nominal value (more than $4 trillion in 2024). In addition, it is the only major economy with a persistent trade deficit (to the point where many economic analysts state it as the "consumer of last resort") and the only country that pays 100 per cent of its imports in its own currency.

When the standard analysis is made, i.e. that import tariffs make goods more expensive within the importing country, the implicit reasoning is that the exporting country can sell its goods freely and competitively in any other market. But the truth is that, in most cases, there is no other net buyer of the good or service sold, except the United States. In other words, without American demand, the production of the good would simply "run aground", without enough buyers.

In other words, the United States, for many of the goods it consumes through imports, is a price-maker and not a price-taker, i.e. its demand is not just marginal, but makes up the bulk of global demand for the product, so that if the USA were to leave the system, the exporter would simply have no one to sell to and would be forced to discount prices to clear the market.

To summarize: in the neo-mercantilist world that has emerged since China's entry into the WTO, if tariffs increase the final price for the American consumer to such an extent as to reduce the total demand for the good in question, and in the absence of any other marginal buyer for the product, the tendency is for the producer to assume part (or even all) of the loss caused by the tariffs, in the form of a reduction in the price of the product sold just so that he can keep producing and employing in the factories of its origin, thus maintaining the socio-economic status quo (and perhaps political) unchanged.

The other premise that deserves to be re-evaluated for this analysis is the condition of "ceteris paribus", a Latin term for "all else being equal". Economists use the 'all else being equal' hypothesis to simplify and facilitate analysis, since it is more difficult (not to say impossible) to quantify the impact of several variables moving at the same time. Still in the field of economics, it is the exact difference between "partial equilibrium" and "general equilibrium".

« IN BRAZIL'S CASE, (...) THERE IS NATURALLY EVEN LESS BARGAINING POWER ON THE PRODUCER'S SIDE, SO BRAZIL WOULD TEND TO ABSORB MOST OF THE INCREASE IN TARIFFS...»

We call it partial equilibrium when we analyze it from the point of view of the two agents interacting with each other. General equilibrium is when the analysis is carried out considering all the economic relationships present and possibly affected.

By also relaxing this boundary condition, we can introduce another variable that becomes critical to understanding the aforementioned dynamics: the exchange rate parity between the countries that are carrying out the trade. As the USA is the only country that pays for its imports in its own currency, the advent of a reduction in its net imports also causes a concomitant reduction in the volume of dollars in circulation in the world, which paradoxically increases the value of the dollar and reduces the domestic price of the good to be imported (this paradox was already well specified in the 1960s by the economist Robert Triffin, in the thesis that went down in economic history as the "Triffin Dilemma").

When expressed in real (i.e. non-nominal) terms, we can say that a country's exchange rate would be the equivalent of its entire production of goods, services and capital stock relative to production of goods, services and stock of capital of another country. In other words, if the price of all goods, services and stock of capital of a country goes up at the same time, it is as if the real exchange rate of this country has gone up. Similarly, if one country's exchange rate rises, it is as if the other country's exchange rate has fallen, because everything always depends on the benchmark in which the changes are measured.

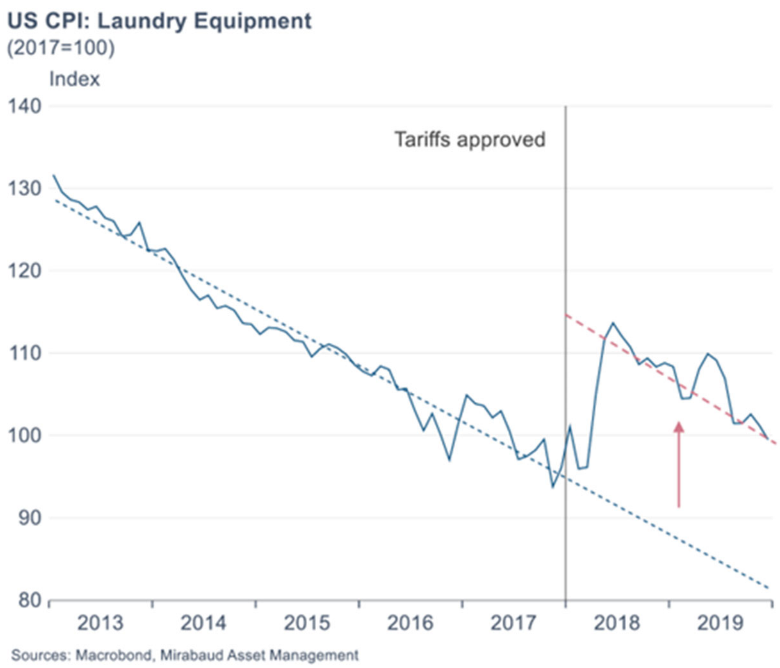
In short, if in simplistic univariate model simulation, using the standard boundary conditions, US inflation will rise in response to the Trump administration's new tariff wedge, in real life, a large part of the bill for these tariffs will be paid by the producer of the good or service in question and another large part will be paid by the exchange rate fluctuation of the parity between the countries involved. All it takes for this to happen is for the US to have a clear trade deficit in the goods or services in question.

On the other hand, while it is not possible to say that the US will see an increase in inflation of the same magnitude as the increase in tariffs (because part of this increase will be paid by the producer and part will be paid by the exchange rate fluctuation), it is also not possible to say that there will be a reduction in the quantum of the trade deficit in the good or product in question, since the recovery of the original relative prices tends to also rebalance the supply and demand balance in favor of the original quanta.

Everything must change to stay the same

The Mirabaud Group's economic team and the consultancy Macrobond have released a quick study to analyse what has happened to the prices of washing machines, the first consumer item to be surcharged under Trade War 1 at the start of 2018, due to the trade deficit with South Korea (graph below).

What we see is that 2-3 years after the initial shock, prices have converged to their previous values and back to the secular trend of falling prices (caused by technological innovation), exactly as predicted by economic theory.



In Brazil's case, because the bulk of our exports to the US are agricultural and primary products, i.e. commodities, there is naturally even less bargaining power on the producer's side, so Brazil would tend to absorb most of the increase in tariffs, either in the price of the product or in the exchange rate variation.

In fact, if we look at the fact that the Real had devalued by almost 10 per cent against the Dollar since Trump’s election to the end of 2024 (from R$ 5.68 to R$ 6.17), we can conclude that a large part of the expected tariffs against Brazil was already entering prices.

In short, from a strictly economic point of view, to the disappointment of the Trumpists (and why not?, also the anti-Trumpists), as long as the United States is the only major global net importer, there should be no lasting impact from Trade War 2 beyond the sharpening of the ideological dispute and the widening of the trade and geopolitical divide.

PERFORMANCE OF THE MAIN FINANCIAL INDICES:

Renda Fixa		28/02/25	MTD	3M	YTD
CDI	-	87,68	0,99%	2,95%	2,00%
IMA-B	-	9.817,79	0,50%	(1,08%)	1,58%
IMA-B 5	-	9.772,55	0,65%	2,26%	2,55%
IMA-B 5+	-	10.693,12	0,41%	(3,57%)	0,84%
IRF-M	-	18.861,47	0,61%	1,49%	3,20%
IMA-S	-	7.249,94	0,99%	2,98%	2,11%
Índices Globais	**País**	**28/02/25**	**MTD**	**3M**	**YTD**
Ibovespa	BRL	122.799,09	(2,64%)	(2,28%)	2,09%
Dow Jones	USD	43.840,91	(1,58%)	(2,38%)	3,05%
S&P 500	USD	5.954,50	(1,42%)	(1,29%)	1,24%
NASDAQ	USD	20.884,41	(2,76%)	(0,22%)	(0,61%)
Euro Stoxx 50	EUR	5.463,54	3,34%	13,72%	11,59%
FTSE 100	GBP	8.809,74	1,57%	6,30%	7,79%
MSCI Emerging	EM	43,21	1,15%	1,57%	3,32%
MSCI World	World	3.805,33	(0,81%)	(0,13%)	2,63%
Moedas	**País**	**28/02/25**	**MTD**	**3M**	**YTD**
Dólar/Real	USD	5,88	(0,69%)	1,46%	4,74%
Euro	EUR	1,04	0,13%	(1,91%)	0,20%
Franco Suíço	CHF	0,90	0,87%	(2,45%)	0,47%
Libra Esterlina	GBP	1,26	1,47%	(1,24%)	0,49%
Bitcoin	BTC	84.212,07	(17,53%)	(13,59%)	(10,14%)
Hedge Funds	**País**	**28/02/25**	**MTD**	**3M**	**YTD**
Ind. de Hedge Funds	BRL	5.361,13	0,11%	1,35%	0,98%

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Autorregulação ANBIMA
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Autorregulação ANBIMA
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