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THE SWORD & THE SHIELD: THINKING FAST AND SLOW IN INVESTING

Introduction — Swift Enough to Pivot, Steady Enough to Prevail

Picture the screen bleeding red: markets lurch three percent in minutes, and your pulse jumps to match the ticker. That reflex—that urge to slam the sell button—belongs to **System 1**, the inner sprinter that kept our ancestors alive in the savannah. But fortunes are built in marathons, not dashes, and marathons belong to **System 2**: the cool strategist who checks the map before every stride.

Daniel Kahneman, Nobel laureate and behavioral pathfinder, named this tug of war in his bestseller Thinking, Fast and Slow.

Left unchecked, the sprinter buys the top, sells the bottom, and calls the wreckage “gut feel.” With well-placed guardrails to restrain panic and solid anchors to keep objectives fixed, the strategist can harness spurts of speed without veering off course.

This month, we explore what that fusion looks like in practice; set against the **backdrop** of 2025’s volatile markets.

Part 1 — Thinking Fast: Tactical Adjustments & Market Response

The year began with stubborn inflation, a Federal Reserve firmly in "higher-for-longer" mode, and bonds once again moving in tandem with equities—an echo of 2022's diversification failure.

By late January, our composite risk monitors were showing signs of caution in concert. Key market-health gauges—correlation patterns, price volatility, and valuations — hinted at growing fragility. Because we track these metrics continuously, the warning sparked no urgency; it simply activated the response protocol we had refined long before the turbulence arrived.

First, **we reduced equity market risk** by switching the public-equity exposure into dividend aristocrats and lower-volatility sectors. The objective was to reduce our downside capture with only a modest give-up in upside potential.

Next, **we tilted toward resilient cash-flows**, increasing weight in consumer staples, healthcare, and utilities. These sectors—often dismissed in bull markets—have historically widened their performance gap whenever margins compress, and indeed the MSCI World Staples index has outpaced the broad benchmark by 4.2 percentage points this year.

Finally, **we fortified liquidity by**, **raising cash**. Far from idling, this cash functions as a call option on future dislocation: history shows that the ability to buy when others must sell is worth more than any carry it forgoes. Because each lever had been stress-tested under multiple historical regimes, execution was swift yet orderly—System 1 speed channeled through System 2 design.

The portfolio remained present for rebounds while armored against shocks, proving that fast thinking works best when it rides on slow planning.

Part 2 — Thinking Slow: Yale Roots, Keynesian Flexibility & Buffett Discipline

If Part 1 is the sprint, Part 2 supplies the architecture that converts speed into sustainable distance. That architecture owes its intellectual DNA to three minds: **David Swensen**, **John Maynard Keynes**, and **Warren Buffett**.

« THE MONTHS AHEAD WILL BRING MORE NOISE (...) BUT EVERY TWIST ARRIVES WITH THE SAME QUESTION: ARE WE PREPARED TO ACT QUICKLY WITHIN A PLAN BUILT SLOWLY? THE ANSWER, BY DESIGN, IS YES.»

Swensen's Yale Endowment model sets the bones; Keynesian flexibility keeps the joints supple; Buffett's culture of patience and fortress-balance-sheet thinking provides the muscle that endows the structure with lasting strength.

Yale: Building by Return Drivers, Governing by Process. In his Yale Endowment Model, Swensen did not simply sprinkle alternatives into a 60/40 portfolio mix; he replaced the binary growth-versus-defensive paradigm with a mosaic of return drivers. Real assets to fight inflation, private equity for captured illiquidity premiums, absolute-return funds for policy dispersion—each tile confers value only if it behaves differently when stress hits. Yale's second breakthrough was governance: decisions are slow, data-laden, and subject to a devil's-advocate review before decisions are taken. We embed that doctrine verbatim. Any new sleeve must clear three gates. First, we map its economic engine—growth, carry, illiquidity, or inflation hedge—and stress it through historical regimes. Second, we test its correlation scaffold against the existing stack; ballast that sways with sails is ballast we discard. Third, we stress test the allocation: if it fails, we adapt accordingly.

Keynes: Facts Change, Portfolios Adjust. Keynes - Cambridge graduate and one of the most revolutionary economic minds - managed his own college's endowment through depression and war, compounding at 12 percent p.a. when few peers kept pace with inflation. His secret was intellectual humility: he pivoted from leveraged currency punts to concentrated value once the data proved the former fragile. Our portfolio reviews channel that humility. If fresh evidence shows an allocation's risk reward skew has shifted, the position morphs—or exits—without regard for legacy bias.

Buffett: Patience with Teeth. Warren Buffett's approach adds the final leg: be ready to wait, be ready to pounce. He shut his partnership in 1964 rather than chase mania, amassed cash through the 1970s, and recently announced his retirement from day-to-day oversight—passing the Berkshire ethos of cash-heavy optionality to the next generation. That ethos underwrites our own liquidity reserve held not as ballast but as a loaded spring. When forced sellers meet a liquid buyer, long-term returns are minted.

Alternative Allocations in Practice. Applying these three lenses, we increased exposure to alternative assets in the past year. A systematic CTA/trend following sleeve still earns its place for convexity against macro shocks. Macro hedge funds and co-investment private equity capture policy dispersion and AI-driven infrastructure demand, respectively, while specialist private credit helps us to lock-in floating, covenant-rich income. Our strategic gold weight has been doubled and remains the timeless hedge against the twin threats of inflation and tail-risk. We took advantage of the spike in volatility to invest in a reverse convertible structured product on equity indices to add stability and an attractive coupon.

Conclusion — System 1: The Sword's Flash, System 2: The Shield's Strength

Markets will continue to jolt and feint - sometimes rational, often not. Our edge is the choreography between reflex and restraint: **System 1 springs into action only where pre-drawn guardrails point the way, and System 2 keeps the compass steady once the dust settles.** That fusion lets us sidestep sudden potholes without wandering from the long road of compounding which does not necessarily mean that the performance is always a straight upward line.

Keynes warned that markets can out-crazy any single investor; Buffett proved that cash, patience, and grit can outlast the crazy. By welding those lessons to Swensen's evidence-first architecture, we aim to stay liquid when panic peaks and fully invested when value re-emerges. **System 1, honed for speed, is the sword—sharp, swift, deployed precisely when the opening appears; System 2, grounded in evidence and restraint, is the shield—broad, disciplined, absorbing blows and preserving strength for the next advance.**

The months ahead will bring more noise - AI booms, election cycles, shifting rate paths, unknown unknowns - but every twist arrives with the same question: are we prepared to act quickly within a plan built slowly? The answer, by design, is yes.

PERFORMANCE AND CHANGES TO ALLOCATIONS:

April was one of the more volatile months in equity markets history with daily market swings reminiscent of the COVID and 2008 crisis, but the final monthly returns for the developed markets will hardly draw any attention. The MSCI World rose 0.9% while the S&P 500 fell 0.7% and the EURO Stoxx 50 fell 1.06% in Euros, but rose 3.9% when measured in USD. What will stand out is the currency moves as the USD took a sword to the gut and fell by around 5% against the Euro and gold while falling 7% against the Swiss Franc.

	Apr.	Apr.$	2025	2025 $	2024	2024 $	2023	2023 $	2022	2022 $	2021	2021 $
S&P 500	-0.68		-4.9		25.0		26.3		-18.1		28.7	
Stoxx 50	-1.06	3.92	6.5	16.9	11.9	4.7	23.2	27.3	-8.5	-14.0	24.1	15.6
MSCI EM	1.34		4.4		8.0		10.1		-19.9		-2.3	
Brazil Bovespa	3.69	4.43	12.3	22.1	-10.4	-29.6	22.3	33.1	4.7	10.1	-11.9	-18.1
Euro	4.73		9.4		-6.2		3.1		-5.8		-6.9	
US Dollar Index	-4.55		-8.3		7.1		-2.1		8.2		6.4	
Gold Spot	5.29		25.3		27.2		13.1		-0.3		-3.6	
Brazilian Real	0.57		8.8		-21.4		8.9		5.4		-6.8	
Global Agg. Bond	2.94		5.7		-1.7		5.7		-16.2		-4.7	
Latam Bonds	0.22		2.6		10.5		11.1		-13.2		-2.5	
Global High Yield	0.85		2.7		9.2		14.0		-12.7		1.0	
US T Bills	0.35		1.4		5.3		5.1		1.3		0.0	
Brazil CDI	1.06	1.63	4.1	13.2	10.9	-12.9	13.0	24.8	12.4	18.4	4.4	-2.7

During the month of April, we reduced our equity exposure to an underweight positioning by selling Canadian and US Small cap stocks. We also reduced our exposure to Corporate bonds and took some profit on emerging markets bonds. Lastly, we reduced our US dollar exposure to neutral in Euro portfolios. Despite the dollar's recent depreciation, it is still overvalued from a long-term perspective and could depreciate further. Uncertainties related with trade policy will continue to weigh on US growth. Increasing geopolitical tensions could also accelerate a diversification out of US dollar into other foreign assets by central banks and investors.

Eric Hatisuka
CIO Mirabaud Brazil

BRAZIL

MY WAY (FRANK SINATRA, PAUL ANKA)

"And now, the end is near, and so I face the final curtain."

Yes, the end of the Selic rate hike cycle has arrived and the Central Bank did it the way he wanted to do it. His way.

By restarting the interest rate hike campaign in September 2024 and delivering a hike of 425 basis points in just 8 months, the Central Bank did it his way.

Despite the fact that inflation expectations really were (as they still are) unanchored, and that the recommended therapy in this type of situation is the pre-emptive raising of basic interest rates, it is still possible to see with a simple check of the Central Bank's Focus Report on August 30, 2024, that the median of market projections for the Selic Rate was 10.50% for the end of 2024 and 10.00% for the end of 2025.

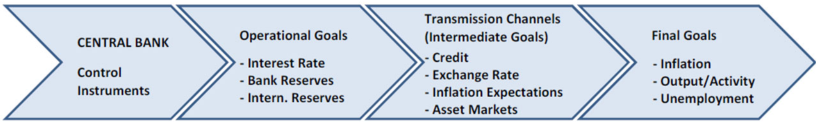
In other words, when we see that 2024 ended with the Selic Rate at 12.25% and that at the last meeting, on May 7, 2025, the Copom raised the Selic Rate to 14.75%, yes, we can conclude that the Central Bank did it his way.

It should be remembered, of course, that the IPCA accumulated over 12 months was 5.32% on the date of the last release, on May 9, 2025, certainly above the target, but still far from the value at which it can be said that the Brazilian economy is suffering from a pathology.

No, the Brazilian economy does not suffer from a pathology. It simply responds to the choices made by the fiscal policymakers - and it responds in the expected way, in a textbook analysis.

But what does good economic theory say about the mechanics of how monetary policy works? The diagram below shows how the effects of monetary policy are expected to propagate, according to Frederic Mishkin's 2007 textbook Monetary Policy Strategy.

« TO SAY THAT THE BRAZILIAN ECONOMY IS NOT SUFFERING FROM A PATHOLOGY IS NOT THE SAME AS SAYING THAT IT IS ON THE RIGHT TRACK (...)»



As one can see, there is no "Government" or "Fiscal Policy" in the diagram. This is because monetary policy is not intended to affect fiscal policy, which is autonomous and follows the decision of the public administration in progress. In economics, we say that fiscal policy is orthogonal to monetary policy, because their reaction functions lie on different Cartesian planes.

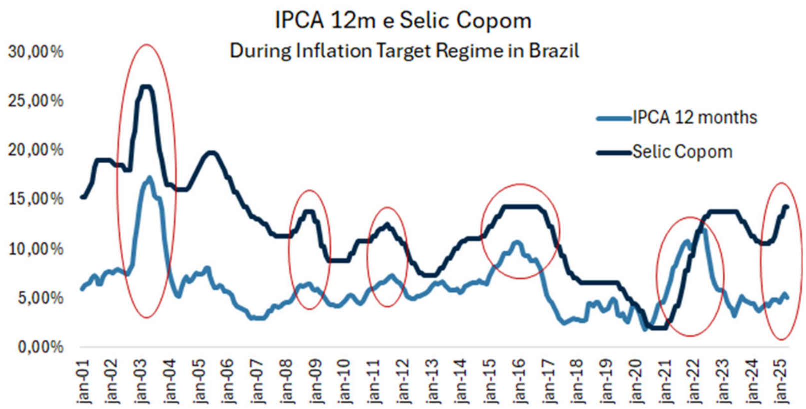
"My friend, I'll say it clear, I'll state my case, of which I'm certain."

Brazil's basic interest rates are already among the most volatile in the world. Just look at the graph below (Source: BCB) and you'll see that interest rates rarely stay fixed for long, both at the end of upward and downward cycles.

However, this time, compared to previous cycles (circled in red), interest rates rose much more than the deviation in the IPCA, showing precisely that expectations were deteriorating due to projections of a fiscal deviation, not a monetary one.

To say that the Brazilian economy is not suffering from a pathology is not the same as saying that it is on the right track: the Brazilian economy is responding correctly to the wrong stimuli to which it has been subjected.

The excessive use of fiscal policy as an inducer of growth tends to deepen our imbalances, increasing the tax burden and market interest rates, aggravating our process of deindustrialization and loss of external competitiveness,



as well as obviously increasing the public debt.

On the other hand, monetary policy used as a panacea is no less pernicious, making life more expensive for companies and increasing the risk of default for families.

But the worst thing is to see that, because it is immune to monetary policy, fiscal policy will continue to be expansionist and, with the spectre of the electoral race approaching, it tends to become more populist and ‘short-sighted’, with the government of the day redoubling its bet on benefits without any financial backing, and therefore with a clear inflationary bias.

Or, as the great Frank Sinatra would sing: “The record shows I took the blows and did it my waaaaay!!!”

In time: our projection for the Selic Rate is that it will remain at 14.75% until the 4th quarter of 2025, when it will gradually begin to fall back to the 12% p.a. level.

Because of this scenario and the continued inflationary risk, we are keeping our allocations concentrated in fixed income with inflation protection until 2030. For the time being, with low risk in equities and multimarkets.

PERFORMANCE OF THE MAIN FINANCIAL INDEXES:

Renda Fixa		30/04/25	MTD	3M	YTD
CDI	-	89,46	1,06%	3,22%	4,07%
IMA-B	-	10.208,14	2,09%	5,52%	5,62%
IMA-B 5	-	9.999,11	1,76%	3,75%	4,92%
IMA-B 5+	-	11.252,53	2,33%	6,88%	6,12%
IRF-M	-	19.694,86	2,99%	5,85%	7,76%
IMA-S	-	7.396,51	1,05%	3,22%	4,17%

Índices Globais	País	30/04/25	MTD	3M	YTD
Ibovespa	BRL	135.066,97	3,69%	8,17%	12,29%
Dow Jones	USD	40.669,36	(3,17%)	(9,04%)	(4,41%)
S&P 500	USD	5.569,06	(0,76%)	(7,37%)	(5,31%)
NASDAQ	USD	19.571,02	1,52%	(7,37%)	(6,86%)
Euro Stoxx 50	EUR	5.160,22	(1,68%)	(0,54%)	5,40%
FTSE 100	GBP	8.494,85	(1,02%)	(0,10%)	3,94%
MSCI Emerging	EM	43,76	0,14%	3,77%	4,64%
MSCI World	World	3.655,52	0,74%	(4,14%)	(1,41%)

Moedas	País	30/04/25	MTD	3M	YTD
Dólar/Real	USD	5,67	0,57%	3,90%	8,16%
Euro	EUR	1,13	4,73%	7,97%	9,41%
Franco Suíço	CHF	0,83	7,08%	9,23%	9,88%
Libra Esterlina	GBP	1,33	3,18%	6,64%	6,50%
Bitcoin	BTC	94.581,18	14,75%	(6,67%)	0,93%

Hedge Funds	País	30/04/25	MTD	3M	YTD
Ind. de Hedge Funds	BRL	5.571,69	4,00%	4,69%	4,95%

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