

# MONTHLY NEWSLETTER

## MIRABAUD WEALTH MANAGEMENT



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### INTERNATIONAL

#### WUTHERING HIGHS

At university, financial markets were a topic analyzed in lecture halls, where professors structured, explained, and often over simplified complex dynamics. Cycles, correlations, and reactions to macroeconomic shocks were studied. Everything had a framework, a logic, almost a sense of predictability. But there comes a moment when one lifts their eyes from the textbook and sees markets as they truly are: moving, reacting, and often refusing to follow the neat logic of theory.

Since the beginning of the year, what has unfolded has been anything but textbook. The combination of geopolitical tensions, shifting interest rate expectations, movements across commodities, and the behavior of equity markets has created a dynamic that is difficult to fully capture in theory alone. What has perhaps been most striking is not just the events themselves, but the way markets have reacted to them, sometimes absorbing shocks with surprising resilience, sometimes moving in ways that challenge instinct.

From a theoretical perspective, the environment observed in April would normally be expected to weigh on financial markets. Higher oil prices fuel inflation concerns, rising sovereign yields tighten financial conditions, and geopolitical tensions add an additional layer of uncertainty. Taken together, these elements form a backdrop that, in theory, should lead to more cautious investor behavior. And yet, markets are never linear in their logic.

April was a reminder that what appears obvious in theory does not always materialize in practice, as multiple dynamics interact and sometimes offset one another. It is precisely in this type of environment that the divergence between expectation and reality becomes most visible. This month, the divergence took a particularly striking form.

#### Performance of the main financial indices since 2022:

	Apr.	Apr.	2024	2024\$	2025	2025\$	2024	2024\$	2023	2023\$	2022	2022\$
S&P 500	10.49		5.7		17.9		25.0		26.3		-18.1	
Stoxx 50	6.37	8.07	2.7	2.6	22.1	38.5	11.9	4.7	23.2	27.3	-8.5	-14.0
MSCI EM	14.74		14.6		34.3		8.0		10.1		-19.9	
Brazil Bovespa	-0.08	4.30	16.3	28.1	34.0	50.9	-10.4	-29.6	22.3	33.1	4.7	10.1
Euro	1.54		-0.1		13.4		-6.2		3.1		-5.8	
US Dollar Index	-1.91		-0.3		-9.4		7.1		-2.1		8.2	
Gold Spot	-1.08		6.9		64.6		27.2		13.1		-0.3	
Brazilian Real	4.56		10.9		12.3		-21.4		8.9		5.4	
Brent	-3.7		87.4		-18.5		-3.1		-10.3		10.5	
Bitcoin	12.13		-12.8		-6.5		120.5		157.0		-64.3	
Global Agg.	1.25		0.2		8.2		-1.7		5.7		-16.2	
Latam Bonds	2.60		1.9		13.2		10.5		11.1		-13.2	
Global HY	2.58		1.2		12.1		9.2		14.0		-12.7	
US T Bills	0.30		1.2		4.3		5.3		5.1		1.3	
Brazil CDI	1.09	5.68	4.5	15.9	14.3	28.4	10.9	-12.9	13.0	24.8	12.4	18.4

April was dominated by the conflict in the Middle East, which drove significant volatility in energy markets. Oil prices fluctuated sharply, briefly exceeding USD 126 per barrel before closing around USD 114, reinforcing concerns around supply disruptions.

This was quickly reflected in inflation figures, with U.S. headline inflation rising to 3.3% year-on-year and euro area inflation reaching 3.0%. At the same time, sovereign yields moved higher across major markets, with U.S. 10-year yields around 4.37% and European yields at their highest since the beginning of the 2010s.

**« ... THE LESSON IS NOT THAT MARKETS HAVE BECOME RISK-FREE, BUT THAT NEW HIGHS ARE NOT, BY THEMSELVES, ENDPOINTS.»**

Such a combination would typically weigh on equity markets. Despite this backdrop, the S&P 500 recovered strongly from March's weakness and moved to new all-time highs. The index gained +10.5% over the month, its best performance since November 2020. The move was even more pronounced in certain segments, with semiconductors up +38.4%, while European and emerging market equities also posted solid gains.

This naturally brings investors back to a key question: how should one approach markets once new highs have been reached?

The question is particularly relevant after such an uncertain period. Some investors may have reduced exposure during the market weakness and now hesitate to return to the market, feeling that new all-time highs make the entry point less attractive. Others, who remained invested through the volatility, may wonder whether reaching these levels is a signal to take profits. In both cases, the discomfort comes from the same impression: that a market at record highs must be closer to the end than to the continuation of its journey.

To address this, we looked beyond intuition and examined how markets have historically behaved following such episodes. Using daily data since 1980, we identified 983 instances where the S&P 500 reached a new all-time high and measured subsequent returns over different investment horizons.

The results offer a clear perspective. One month after a new high, the S&P 500 was positive in 61% of cases. This probability increased with time, reaching 69% over three months, 76% over six months, and more than 80% over nine months. Even over a twelve-month horizon, returns remained positive in more than 77% of cases.

Looking at the distribution of returns provides an additional layer of insight. Outcomes have been concentrated more often in positive territory, while large drawdowns have remained relatively rare. Over a twelve-month horizon, for example, the probability of gaining more than 10% was around 57%, compared with only around 9% for losses greater than 10%.

Median returns are particularly useful here because they are less affected by extreme market episodes and give a clearer sense of the "typical" outcome following an all-time high. In our analysis, they were positive across every horizon studied, rising from around +1% after one month to more than +13% over twelve months. In practical terms, investors who remained invested after an all-time high were more often rewarded over time than penalized for holding at elevated levels. Far from systematically marking a point of exhaustion, new highs have historically been followed by further progress more often than not.

The statistical evidence therefore helps put today's market level into perspective. Reaching an all-time high can feel uncomfortable, but history suggests that it should not automatically be interpreted as a warning signal.

This is particularly relevant today. In previous newsletters, we had already discussed the S&P 500 crossing 5'000 in February 2024 and then 6'000 in November of the same year, two levels that, at the time, naturally raised questions about how much further the market could go. Yet these milestones were passed

faster than many would have expected. With the index now above 7'000, the lesson is not that markets have become risk-free, but that new highs are not, by themselves, endpoints.

For investors, this distinction matters. The data argues simply because markets have reached a record level. Staying invested remains essential to participate in long-term market growth. At the same time, the current environment still calls for discipline. Geopolitical uncertainty, inflation pressures, and higher sovereign yields justify a more selective and cautious approach in portfolio construction.

This is precisely the balance that guided our latest decisions. The objective is not to step away from markets because they have reached new highs, but to ensure that portfolios remain positioned in a way that reflects both the strength of the current trend and the risks surrounding it. This is where responsibility and in-depth analysis matter: responsibility in protecting clients' capital through changing environments, and analysis in being able to distinguish between the noise and the over-arching forces at play.

This philosophy was reflected in the Investment Committee's April decision. Only one portfolio adjustment was implemented during the month, but it followed a broader reflection on how to position portfolios in an environment where signals were pulling in different directions. On one side, market momentum had clearly improved, equities were recovering strongly, and remaining too underexposed risked missing part of the rebound. On the other side, the macroeconomic and geopolitical backdrop still argued against a full return to risk.

The Committee therefore chose a measured response: reducing the equity underweight by half through an increase in global equity exposure. Even after this adjustment, portfolios remain cautiously positioned, with a significant cash allocation of at least double overweight coupled with a significant underweight exposure to fixed income given our concerns about a possible stagflation scenario. The objective was not to shift to an aggressive stance, but to recognize the strength of the market while preserving flexibility. In that sense, the decision illustrates the broader message of this note: participate when the trend

remains constructive, but do so with discipline, selectivity, and enough room to respond if conditions change.



**Eric Hatisuka**

CIO Mirabaud Brazil

## BRAZIL

### KEKULÉ'S DREAM

Back in 1861, the German chemist Friedrich August Kekulé lay awake at night trying to solve a problem that seemed particularly insurmountable: how to demonstrate the spatial configuration of the benzene molecule, whose stability seemed indisputable (though also inexplicable)?

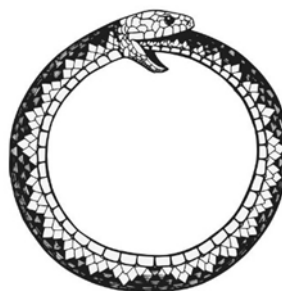
This doubt arose because, amongst the six carbon atoms in the molecular structure of benzene, it was not intuitively clear how the chemical bonds could stably accommodate the six hydrogen atoms also present in the molecule.

The world was still witnessing the early stages of what we now know as Organic Chemistry, that is, the branch of chemistry that studies hydrocarbons (petroleum and its derivatives),

and Kekulé, one of the most formidable chemists of his time, played a pivotal role in the development of this field of science.

However, for the petrochemical industry to reach the point where we are today, it was crucial to unravel the properties of the carbon bonds present in hydrocarbons, and to this end, an understanding of the benzene molecule was fundamental.

However, in an incident that is still remembered today as one of the most famous instances of serendipity, Kekulé, tired of pondering the structure of the benzene molecule, fell asleep. And, in his restless sleep, he dreamt of a snake swallowing its own tail in a cyclical and circular motion (figure below).



The moral of this simple tale is that Kekulé, inspired by his dream of a snake swallowing its own tail, postulated that the benzene molecule would have a hexagonal configuration, composed of alternating single and double covalent bonds, in which the carbon atoms would share electrons with the hydrogen atoms in a cyclical and dynamic manner, thus

stabilising its molecular structure in a manner as unusual as it is efficient; a fact which was subsequently proven with the advent of modern X-ray diffraction techniques.

The figure below shows 3 representations of the benzene ring and its alternating dynamic covalent bonds.



The symbol of Kekulé's dream, the serpent that swallows its own tail, is known as the "ouroboros" and is a widely recognised image in various mythologies, used to represent concepts such as the cycle of life, amongst others.

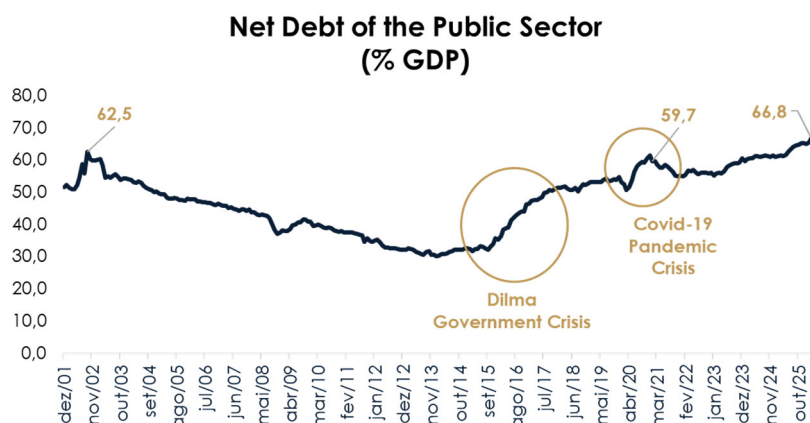
Similarly, the metaphor expressed by the ouroboros, the serpent that swallows its own tail, also explains in a simple and precise way the causality between interest rates and debt in Brazil.

Following the crises of the Dilma Government and the Covid-19 Pandemic, Brazil's public debt

grew rapidly, rising from 30% of GDP in 2014 to 56% of GDP in 2022. However, it was expected to stabilise following the approval of the Spending Cap constitutional amendment in 2017.

However, with the replacement of the Spending Cap by the Fiscal Framework in 2023, and its subsequent complete abandonment in 2024, economic policy guidance has come to be guided by commitments that are either vague or, at best, fragile, and which, unsurprisingly, tend to be completely abandoned in general election years.

The moral of the story is that, and there is absolutely nothing with the end of the Spending to suggest that it will stabilise at Cap, the Federal Public Debt these levels in the short term has risen from 56% of GDP in (see chart below). 2022 to the current 67% of GDP,



Source: Central Bank

However, just as important as the growth in debt is the composition of the excessive spending that is driving it up, characterised mainly by current expenditure, that is, the running costs of the public sector, consisting largely of civil servants' salaries and remuneration, INSS pensions and benefits, as well as state-provided welfare payments and grants.

The Brazilian State currently spends the equivalent of almost 50% of GDP annually and, within this expenditure structure, less than the equivalent of 3% of GDP corresponds to investment and infrastructure expenditure.

The composition of expenditure matters because, although both investment expenditure and operating expenditure are, ultimately, drivers of demand, only the former translates, in macroeconomic terms, into aggregate supply in the long run, contributing to increase productivity and the country's development.

In other words, in a country where the government is the economy's largest net consumer, and where this consumption takes the form of cash transfers and demand-boosting measures injected directly into the economy, the macroeconomic balance is heavily skewed in favour of

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spending, forcing the Central Bank to raise interest rates and keep them high, in an attempt to control the inflationary effects caused by the mismatch between supply and demand resulting from such a policy.

Finally, high interest rates end up making the rollover of public debt more expensive, being added to the principal as debt servicing costs and exponentially increasing the value of the debt stock over time, should no action be taken to prevent this.

In summary, primary public spending puts pressure on aggregate demand, forcing interest rates to rise, which in turn increases debt servicing costs, causing, as a secondary effect, a further rise in interest rates. And so, with each passing year, the snake swallows its own tail in Brazil.

It is worth noting that, in this environment of high interest rates, it is not only public sector debt that is rising, but also corporate and household debt.

It is no coincidence that we are witnessing not only many large Brazilian companies renegotiating their debts, under the threat of seeking judicial protection from creditors, but

also many heavily indebted households caught in a vicious cycle of renegotiation and re-indebtedness, the main culprit being the inflated Selic rate required to control inflation.

Only a credibility shock, that is, an explicit, firm and unwavering commitment to cutting public spending, could break the vicious circle of debt and interest in which Brazil is trapped.

For us, analysts and investors, it is essential to be able to separate the noise from the signal: without a radical change in Brazil's macroeconomic policy, which leans disproportionately towards excessive spending, there will be no improvement in prices, be it the stock market, exchange rates or interest rates, that is anything more than a fleeting deviation within a disastrous trajectory.

**Kekulé, the stock market, the exchange rate and interest rates in Brazil**

In 1861, when he discovered the benzene ring, Kekulé could never have imagined the scale the petrochemical industry would reach in the future, nor just how dependent the world would become on it, to an extent that goes far beyond fossil fuels.

Brazil, like other commodity-producing countries, benefited greatly from the events of the Iran War, by becoming an alternative source of oil production that does not need to pass through the Strait of Hormuz on its way to the end consumer.

The prices of Brazilian assets were not unaffected by this scenario. The Ibovespa is up 16% for the year and the Dollar has fallen 9.5% against the Real over the same period.

On the other hand, forward interest rates have remained virtually unchanged this year, which is somewhat paradoxical, given that, typically, positive sentiment and global liquidity tend to exert a unidirectional effect on Brazilian assets.

Indeed, in the overwhelming majority of risk-off events we have experienced in the past, the Ibovespa, the Real-Dollar exchange rate and interest rate futures have all moved in unison, with prices reflecting the perceived improvement in the country's macroeconomic outlook.

In the current case, the immediate conclusion is that the Ibovespa and the Real-Dollar rate moved in response to expectations of a rise in the trade balance, due to higher oil prices, but the significant mismatch between supply and demand in the Brazilian economy continues to prevent interest rate futures from anticipating a more decisive downward trajectory for the Selic rate.

We therefore expect that the Ibovespa and the Real-Dollar rate have already peaked in the short term, and that, without a sustained cut in interest rates to underpin this improvement, even this fragile equilibrium will prove to be merely a fleeting phenomenon.

## PERFORMANCE OF THE MAIN FINANCIAL INDICES:

Renda Fixa		30/04/26	MTD	3M	YTD
CDI	-	102,72	1,09%	3,51%	4,54%
IMA-B	-	11.468,62	1,81%	4,28%	4,85%
IMA-B 5	-	11.196,92	1,32%	4,33%	5,23%
IMA-B 5+	-	12.660,10	2,20%	4,24%	4,55%
IRF-M	-	22.391,13	1,24%	2,05%	3,63%
IMA-S	-	8.509,74	1,09%	3,57%	4,62%
Índices Globais	País	30/04/26	MTD	3M	YTD
Ibovespa	BRL	187.317,64	(0,08%)	2,97%	16,26%
Dow Jones	USD	49.652,14	7,14%	1,32%	3,31%
S&P 500	USD	7.209,01	10,42%	3,30%	5,31%
NASDAQ	USD	27.452,12	15,64%	5,83%	8,72%
Euro Stoxx 50	EUR	5.881,51	5,60%	(1,89%)	1,56%
FTSE 100	GBP	10.378,82	1,99%	1,68%	4,51%
MSCI Emerging	EM	63,99	12,68%	6,05%	16,96%
MSCI World	World	4.660,70	9,45%	2,19%	5,20%
Moedas	País	30/04/26	MTD	3M	YTD
Real/Dólar	USD	4,96	4,35%	4,43%	9,49%
Euro	EUR	1,17	1,54%	(2,57%)	(0,13%)
Franco Suíço	CHF	0,78	2,31%	(2,59%)	1,44%
Libra Esterlina	GBP	1,36	2,85%	(1,77%)	0,96%
Bitcoin	BTC	76.466,34	12,13%	(14,04%)	(12,76%)
Hedge Funds	País	30/04/26	MTD	3M	YTD
Ind. de Hedge Funds	BRL	6.251,16	2,05%	(0,40%)	2,10%



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