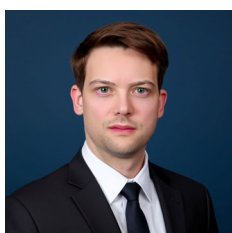


MONTHLY NEWSLETTER

MIRABAUD WEALTH MANAGEMENT



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INTERNATIONAL

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One may think that astrology and the dark arts belong to a realm far removed from financial markets. Yet forecasting markets is, in the eyes of its detractors, little more than divination; economists prefer to call it educated guessing based on probabilities. One of the oldest recorded bets on a forecast is a case in point. According to Aristotle, Thales of Miletus, having concluded from his knowledge of astronomy that the coming olive harvest would be abundant, paid small deposits to secure all the olive presses of Miletus and Chios, then rented them out at a handsome profit when the harvest came. Whether his

forecast was sound matters less than how he bet: had it failed, he would have lost only his deposits. Most investors today consult economists and models rather than the stars. Not all of them. More than two and a half millennia after Thales, a public treasurer hailed as a wizard was still looking to the sky, with none of Thales's science and far more than a deposit at stake.

In early December 1994, the senior officials of Orange County, California, met behind closed doors. The county was days away from what was then the largest municipal bankruptcy in American history. At that meeting, according to grand jury testimony later obtained by the Los Angeles Times, the finance director learned that the treasurer, Robert Citron, took interest-rate predictions from a mail-order astrologer and also consulted a psychic. The psychic had reportedly told him that December would be a bad month, but that his money worries would be over after that.

Citron was no fringe figure. First elected to county office in 1970 and re-elected seven times, his record seemed to prove his gift: between 1991 and 1993 his investment pool earned more than 8.5% a year, against about 7% for bond funds. Cities and school districts rushed to hand him their money; some even borrowed to do so.

His method rested on a single bet: that rates would stay low, or that any rise would be brief. At the end of 1993, short-term rates were below 3%, while five-year notes paid around 5.2%. Citron borrowed short term

against his bonds and used the cash to buy more, turning some USD 7.5 billion of public money into a USD 20.5 billion portfolio. When the Fed began raising rates in February 1994, he reassured an anxious investor that his strategy allowed for the "inevitable but unsustainable rise in short-term interest rates." The Fed raised rates six times that year, from 3% to 5.5%. His lenders demanded ever more collateral, until Credit Suisse First Boston refused to renew USD 1.25 billion of loans. On 6 December the county filed for bankruptcy; its losses would reach USD 1.64 billion.

Not in Our Stars

The psychic, it turned out, had been right. But prophecies, even those dressed up as economic forecasts, are treacherous in nature. They are seldom simply false; more often they come true in a way no one expected. The Latin formula *Ibis redibis non morieris in bello*, traditionally attributed to an ancient oracle, promises a soldier that he will return from war, or that he will perish in it, depending on where one places a comma.

That December was indeed a terrible month, and the storm eventually did pass: soon after the county sold its portfolio, rates fell by about 250 basis points, costing it an estimated further opportunity loss of some USD 1.4 billion. By then Citron had resigned, and the county could only watch.

What, then, is the real lesson of 1994? It is not simply "avoid bonds when central banks tighten." Most of Citron's bonds matured within five years; on their own, they carried only modest risk. It was disproportionate and reckless borrowing that swelled the portfolio to 2.7 times the money entrusted to it and multiplied its sensitivity to rates by the same factor. Worse, that borrowing was renewed from one day to the next, with no assurance that lenders would keep renewing it. The fault, as Shakespeare's Cassius would have put it, lay not in his stars but in himself: in how much his strategy needed him to be right, and how little time it gave him if he was wrong.

Thirty-two years later, the sky has again offered its omens. In May 1994, in the middle of the bond market rout, an annular eclipse crossed the United States; on 12

August this year, the first total eclipse over mainland Europe since 1999 swept from Iceland to Spain, and the moon's shadow dimmed skies across the continent. Within weeks, central banks were raising rates again, and investors were once more trying to divine what comes next. On 10 September the ECB hiked rates for the second time this year, to 2.5%, to stop the energy shock from spreading to wages and prices. The next day, drone attacks led Saudi Arabia to shut its East-West pipeline, its main export route while the Strait of Hormuz remains effectively closed. Brent rose to around USD 108 a barrel. On 16 September the Fed followed with its first hike since 2023, and most of its members expects another before year-end.

For monetary policy, this is in our reading a recalibration of rates rather than a regime shift. The path beyond it is anything but clear: for 2027, eight Fed officials project another hike, six a hold and four cuts.

« AMID MISLEADING STARS AND MISREAD ORACLES, A SHORT-DATED GOVERNMENT BOND HELD TO MATURITY IS THE RARE PROMISE WHOSE COMMA IS ALREADY IN PLACE: WHATEVER COMES TO PASS, THE CAPITAL GOES, AND IT COMES BACK, WITH INTEREST. »

Planets in Evil Mixture

If central banks are moving in small steps, bond markets are not. Sovereign bonds have been caught in a storm, a sharp selloff driven by more than monetary policy. As our house view has argued, central banks can no longer systematically look through supply shocks when inflation stays above target. Then comes an inauspicious planetary alignment for bondholders: public debt, persistent deficits, geopolitical uncertainty and a resilient US economy, all pushing long-term yields higher.

Following the Fed decision, our Investment Committee concluded that the selloff had created an opportunity and decided to reduce our underweight in sovereign bonds through the purchase of short-maturity government bonds in all reference currencies except the Swiss franc. With the SNB policy rate at 0% and the two-year Confederation yield close to zero, the Swiss short end still pays too little to justify the move.

The arithmetic is simple. On the day of the decision, the two-year Treasury yielded 4.74%, only 28 basis points less than the

ten-year, with about a quarter of its sensitivity to interest rates. In other words, almost the same income for a fraction of the risk. Roughly speaking, yields would have to rise by about 2.5 percentage points within a year before losses on a two-year note wiped out its income; for the ten-year, a rise of about 0.65 points would be enough.

Three Tomorrows, One Lesson

We do not claim to read the stars, nor do we rely on prophecies, even the self-fulfilling kind that markets sometimes produce. Our own educated guesses for the months ahead take the form of three scenarios, each with a probability attached, and 1994 helps read each of them, if only by contrast.

The most likely of these futures, a *soft reflation* to which we give a 50% probability, looks much like 1994: solid growth, inflation pressures and more rate hikes to come. It would test the short end, and a first test has already come: after our decision, markets briefly priced a 75% chance of another Fed hike in October, before that probability halved to below 40% at the end of September. Long yields did not follow; the ten-year Treasury

yield has since risen above 5.3%, its highest since 2007. Short maturities, as 1994 showed, are resilient, not immune. Two-year yields had risen some 200 basis points by early May, more than long-term yields; yet by mid-November, one- to three-year Treasuries had lost less than 5% of their price, against 20.5% for twenty-year bonds. And unlike 1994, when few expected so much tightening, several hikes are already priced today: the two-year yield sits 90 to 120 basis points above the Fed's policy rate. We are buying after the storm broke, not before it.

The omens could also be darker, in a way 1994, with its strong growth, never knew. In a stagflation, which we put at 30%, inflation would stay high while growth slows, and central banks would hold rates rather than raise them. Short-dated bonds would simply earn their yield; long-dated bonds would suffer from persistent inflation and fiscal strain. This is why we remain prudent, and why we have not bought long maturities.

The opposite turn would be a mild recession, to which we give 20%. Here too 1994 offers no exact parallel, since 1995 brought a slowdown rather than

a recession, but what followed it shows what happens once tightening ends: rates fell by about 250 basis points within a year. This is the scenario in which our choice would look too cautious. Long bonds would gain most, and a portfolio still underweight in sovereign bonds would lag. Short maturities would gain too, however, and without leverage they could be held to maturity, as Orange County's could not. It is a cost we accept, given the low odds we attach to that outcome.

The difference between a prophecy and a probability is that the first names one future, while the second prepares for several. In two of our three scenarios, short-dated government bonds earn at least their yield; in the third, our central one, they have a cushion of about 2.5 percentage points before a year's income is lost. Long bonds, by contrast, only clearly win in the least likely scenario. This is why we have increased our exposure to government bonds where it asks for the least prophecy, and nowhere else.

And because our central scenario still carries upside risk to rates, while stagflation would punish duration, we have halved our underweight rather than closed it. A cushion of that size is one no astrologer has ever offered, but by no means a dispensation from foresight.

Amid misleading stars and misread oracles, a short-dated government bond held to maturity is the rare promise whose comma is already in place: whatever comes to pass, the capital goes, and it comes back, with interest.

Thales risked his deposits; Citron risked the county. Neither lacked a forecast; only one had a margin for error. Today's oracle of Delphi sits in Washington, consulted by all and, now more than ever, sibylline.

PERFORMANCE OF THE MAIN FINANCIAL INDICES SINCE 2022:

	Sep.	Sep. \$	2026	2026 \$	2025	2025 \$	2024	2024 \$	2023	2023 \$	2022	2022 \$
S&P 500	-0.35		12.73		17.86		25.00		26.26		-18.13	
Stoxx 50	-2.22	-4.56	11.00	7.24	22.14	38.51	11.90	4.67	23.22	27.28	-8.55	-13.97
MSCI EM	-0.65		23.52		34.33		8.00		10.12		-19.87	
SMI	-3.06	-6.18	7.45	1.81	18.04	35.03	7.54	-0.29	7.06	17.61	-14.29	-14.99
Euro - USD	-2.48		-3.54		13.44		-6.21		3.12		-5.85	
US Dollar Index	2.03		3.18		-9.37		7.06		-2.11		8.21	
Gold Spot - USD	-6.31		-3.75		64.58		27.22		13.10		-0.28	
CHF - USD	-3.28		-5.16		14.47		-7.27		9.87		-1.32	
Brent	14.41		70.14		-18.48		-3.12		-10.32		10.45	
Bitcoin	6.05		-4.59		-6.47		120.46		157.01		-64.30	
Global Agg.	-2.38		-2.67		8.17		-1.69		5.72		-16.25	
US Agg.	-2.61		-2.91		7.30		1.25		5.53		-13.01	
US Treasury	-2.24		-2.77		6.32		0.58		4.05		-12.46	
US T Bills	0.28		2.70		4.30		5.29		5.12		1.30	
Global HY	-2.96		-0.14		12.06		9.19		14.04		-12.71	
Euro Agg.	-1.87	-4.30	-2.52		1.25		2.63	-2.71	7.19	10.99	-17.18	-22.02

**Eric Hatisuka**

CIO Mirabaud Brazil

BRAZIL

**“NOTHING IS MORE POWERFUL THAN AN IDEA WHOSE TIME HAS COME”.
(Victor Hugo)**

The French writer and playwright Victor Hugo, author of the novel *Les Misérables*, lived in a time of great turmoil. The July Revolution of 1830, the February Revolution of 1848 (the Spring of Nations) and the Paris Commune (1871) shaped a worldview that is revealed in the famous opening line of this text, taken from his book *The History of a Crime* (1877 and 1878).

The concept encapsulated in this simple sentence is incredibly powerful! After all, how many political, social, technological and similar revolutions were not already in the making even before a pivotal event ignited the spark that set the wheel of history in motion?

In the June Monthly Letter, we highlighted how the change in US fiscal policy, which began in 2017 and accelerated following the pandemic, is contributing to building inflationary pressures in the economy which, sooner or

later, would force the Federal Reserve to raise basic interest rates.

In the August Monthly Letter, regarding the interventions carried out by the US Treasury in the long-term government bond market, **we reiterated just how futile these would be**, given that this market is under dual pressure: in addition to inflation being (well) above target, which is putting pressure on risk premiums; there is also the need to finance the public deficit by increasing the supply of debt, which puts pressure on the rollover rates of US sovereign bonds as a whole.

Furthermore, in the same August Monthly Letter, we showed just how far current inflation rates in the main G20 countries are from their respective inflation targets, confirming that the resurgence of inflation is a global phenomenon, not just an American one.

Now, in September, we are witnessing the culmination of this slow process of erosion of confidence in central banks' ability to keep inflation under control: long-term interest rates have begun to soar worldwide, signalling that markets may be reaching their tolerance threshold for financing growing public debt at rates that fail to cover the blatantly evident inflationary risk.

The table below, taken from the August Monthly Letter and updated with the latest data, shows the extent to which inflation rates continue to exceed the nominal inflation targets, and by how much the interest rates on each country's 10-year government bonds (in local currency) have risen compared with the figures recorded at the start of the year.

Consumer Price Index (Inflação ao Consumidor)						10 Year Bond	
G7	Target	YoY Jan/2020	YoY Aug/2026	Dev. in 2020	Dev. in 2026	Yield (Taxa)	Var. YTD. (p.p.)
USA	2.0	2.5	3.4	+0,5	+1,4	5,28	+1,12
CANADA	2.0	2.4	3.0	+0,4	+1,0	3,99	+0,56
GERMANY	2.0	2.1	2,9	+0,1	+0,9	3,59	+0,73
UK	2.0	1,8	2,9	-0,2	+0,9	5,42	+0,95
FRANCE	2.0	1,5	2,4	-0,5	+0,4	4,86	+1,29
ITALY	2.0	0,5	3,3	-1,5	+1,3	4,61	+1,07
JAPAN	2.0	0,7	1,9	-1,3	-0,1	3,05	+0,99

Asia	Target	YoY Jan/2020	YoY Aug/2026	Dev. in 2020	Dev. in 2026	Yield (Taxa)	Var. YTD. (p.p.)
CHINA	2.0	5,4	0,5	+3,4	-1,5	1,67	-0,17
INDIA	4.0	7,6	4,5	+3,6	+0,5	7,19	+0,60
S. KOREA	2.0	1,2	3,1	-0,8	+1,1	4,40	+1,02
INDONESIA	2,5	2,7	3,2	+0,2	+0,7	7,13	+1,08
THAILAND	2.0	1,1	2,0	-0,9	-0,1	2,31	+0,67

Latam	Target	YoY Jan/2020	YoY Aug/2026	Dev. in 2020	Dev. in 2026	Yield (Taxa)	Var. YTD. (p.p.)
BRASIL	3.0	4,2	4,4	+0,2 *	+1,4	14,10	+0,36
MEXICO	3.0	3,2	3,1	+0,2	+0,1	9,62	+0,51
COLOMBIA	3.0	3,6	6,0	+0,6	+3,0	12,94	+0,30
CHILE	3.0	3,5	3,9	+0,5	+0,9	6,02	+0,63
PERU	2.0	1,9	4,1	-0,1	+2,1	6,67	+0,89

Source: Bloomberg

« ... WE CAN INFER THAT THE MARKET DOES NOT YET BELIEVE THAT JUST TWO 0.25 PERCENTAGE POINT RISES WILL BE SUFFICIENT TO BRING INFLATION BACK TO TARGET. »

As can be easily seen from the table, sovereign bond yields have already risen significantly this year, reflecting the markets' clear response to the evident risks that inflation poses to the preservation of the purchasing power of currencies over time; but also signalling the markets' reluctance to continue financing the current fiscal laxity.

Against this backdrop, the Federal Reserve decided, at its last meeting, to raise its key interest rates by 0.25 percentage point, from the 3.50–3.75% p.a. range to the 3.75–4.00% p.a. range, confirming the view that the time to tackle inflation may have arrived.

Most market analysts, for their part, interpreted the information provided by the Fed as a signal that there will be only two 0.25 percentage point rises over the entire cycle, including the one that has already taken place, which would bring the base rate to a final level of 4.00–4.25% p.a..

However, as US long-term interest rates have already risen by more than 0.35 percentage points since the Fed's meeting on 16 September, rising from

4.93% p.a. (on Sep, 10th) to 5.30 per cent p.a. (on Oct, 5th), we can infer that the market does not yet believe that just two 0.25 percentage point rises will be sufficient to bring inflation back to target.

Over the coming months, we will find out whether the time has truly come to tackle inflation; for if that is the case, Victor Hugo's words serve as a warning that the power of this idea could mean that any persistent inflation causes even greater damage to the prices of fixed-income securities worldwide.

And in Brazil, what lessons did the first round of the 2026 elections teach us?

Regardless of the results of the second round of the elections, there is one clear conclusion that can already be drawn at this stage: the Brazilian people have voted for change.

Indeed, the composition of the legislature that will be formed following these elections leans more towards the right, which has emerged from the election as the dominant ideological force.

The local market, for its part, explicitly celebrated the result through asset prices during the trading session on Monday, October 5th, the first session following the first round of voting.

Futures interest rates fell by more than 1 percentage point to 12.50 per cent, a level not seen since mid-2024, when the Lula government abandoned its commitment to the Fiscal Framework.

Furthermore, the exchange rate fell to below R\$5 per dollar and the Ibovespa rose by almost 8 per cent on the day, closing at a record high of 206,912 points. The euphoria in the markets reflects the easing of the risk premium that the recent sharp rise in public debt had already been causing. This rise in the risk premium had, in fact, already forced the Brazilian National Treasury to reduce the supply of long-term sovereign bonds at auctions held between August and September, due to the sharp fall in market demand for these securities.

In Brazil, just as in the United States (and, ultimately, across the globe), excessive government spending is already beginning to cause the markets

to recoil from increased public debt issuance and, in Brazil's case, the mere prospect of a change in this policy has already sparked a surge of euphoria, which will be confirmed (or not) on October, 25th.

Here in Brazil, the powerful realization that the Government DOES NOT have unrestricted permission to spend public money without accountability or transparency has, it seems, already set in.

Could the time for this realization also be approaching in the United States and the rest of the world?

PERFORMANCE OF THE MAIN FINANCIAL INDICES:

Renda Fixa		30/09/26	MTD	3M	YTD	
CDI	-	108,59	1,08%	3,32%	10,51%	
IMA-B	-	12.043,90	3,15%	6,25%	10,11%	
IMA-B 5	-	11.849,51	2,01%	4,68%	11,37%	
IMA-B 5+	-	13.181,59	3,82%	7,26%	8,85%	
IRF-M	-	23.612,86	2,09%	4,62%	9,29%	
IMA-S	-	8.997,65	1,06%	3,32%	10,62%	
Índices Globais		País	30/09/26	MTD	3M	YTD
Ibovespa	BRL	186.340,46	5,03%	7,84%	15,65%	
Dow Jones	USD	50.906,05	(4,29%)	(3,77%)	5,91%	
S&P 500	USD	7.651,54	(0,45%)	2,25%	11,77%	
NASDAQ	USD	30.408,50	3,23%	3,68%	20,43%	
Euro Stoxx 50	EUR	6.269,02	(2,35%)	(1,44%)	8,25%	
FTSE 100	GBP	10.606,00	(2,02%)	(0,44%)	6,79%	
MSCI Emerging	EM	66,79	(0,34%)	1,66%	22,71%	
MSCI World	World	4.902,65	(1,31%)	1,46%	10,66%	
Moedas		País	30/09/26	MTD	3M	YTD
Real/Dólar	USD	5,17	0,20%	0,51%	5,48%	
Euro	EUR	1,13	(2,48%)	(0,89%)	(3,54%)	
Franco Suíço	CHF	0,84	(3,28%)	(3,85%)	(5,16%)	
Libra Esterlina	GBP	1,33	(2,10%)	(0,61%)	(1,56%)	
Bitcoin	BTC	83.621,23	6,05%	35,93%	(4,59%)	
Hedge Funds		País	30/09/26	MTD	3M	YTD
Ind. de Hedge Funds	BRL	6.553,18	2,20%	3,79%	7,03%	



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