

# Why Brazil? And Why BRAZ?



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## Why Brazil?

### Near-Term Opportunities

- **Value:** Despite a 16.24% ROE (return on equity) and solid growth prospects, the MSCI Brazil Index (Net) only trades at a 7.04x price-to-earnings ratio (P/E) versus a five-year average of 9.26x, and even offered a dividend yield of ~6.7%.<sup>1</sup>
- **Advanced Monetary Policy:** We have seen the central bank make six consecutive 50-basis-point (bps) rate cuts between August and March 2024, with signals that there is room for more as Brazil moves into the advanced portion of its monetary policy cycle.<sup>2</sup> In the past six completed rate cutting cycles, we've seen the MSCI Brazil Index (Net) (USD based) rally in four of them and move down in only two.<sup>3</sup> Importantly, those rallies have averaged roughly 96.7% upside (cumulative), where the declines averaged only roughly 17.3% (cumulative).<sup>4</sup>
- **Potential U.S. Dollar Hedge:** Over the past 21 years, the U.S. dollar has historically carried a strong inverse relationship with Brazilian equities, with the MSCI Brazil Index (Net) climbing roughly 5% for every 1% decline in the U.S. Dollar Index (DXY).<sup>5</sup>
- **Underestimated:** Gross domestic product (GDP) has grown above consensus for 15 consecutive quarters.<sup>6</sup>

### Long-Term Potential

- **Commodity Powerhouse:** Brazil has a U.S. dollar buffer from its diversified commodity exports across iron ore, soybeans, cattle, and oil. Brazil boasts a trade surplus and as of 2022 was the second largest exporter of food in the world (number one on a net basis).<sup>7,8</sup> Brazil is also a key exporter of fossil fuels. The country plans to expand oil production to the point of being the fourth largest oil producer in the world by 2029.<sup>9</sup>
- **Reforms:** Brazil has gone through state-owned enterprise (SOE) reform, pension reform, central bank reform, fiscal reform, and tax reform over the past few years. Additionally, Brazil's U.S.-denominated external debt declined to only 3.6% of GDP by the end of 2023, down from 21% of GDP in 2020.<sup>10</sup> The individual improvements are starting to move the needle, and rating agencies are noticing, as seen by S&P upgrading Brazil's credit rating to BB in December of 2023.<sup>11</sup>
- **Low Geopolitical Risk:** Brazil has been relatively isolated from headwinds in Russia, Ukraine, Israel, Palestine, and the South China Sea.

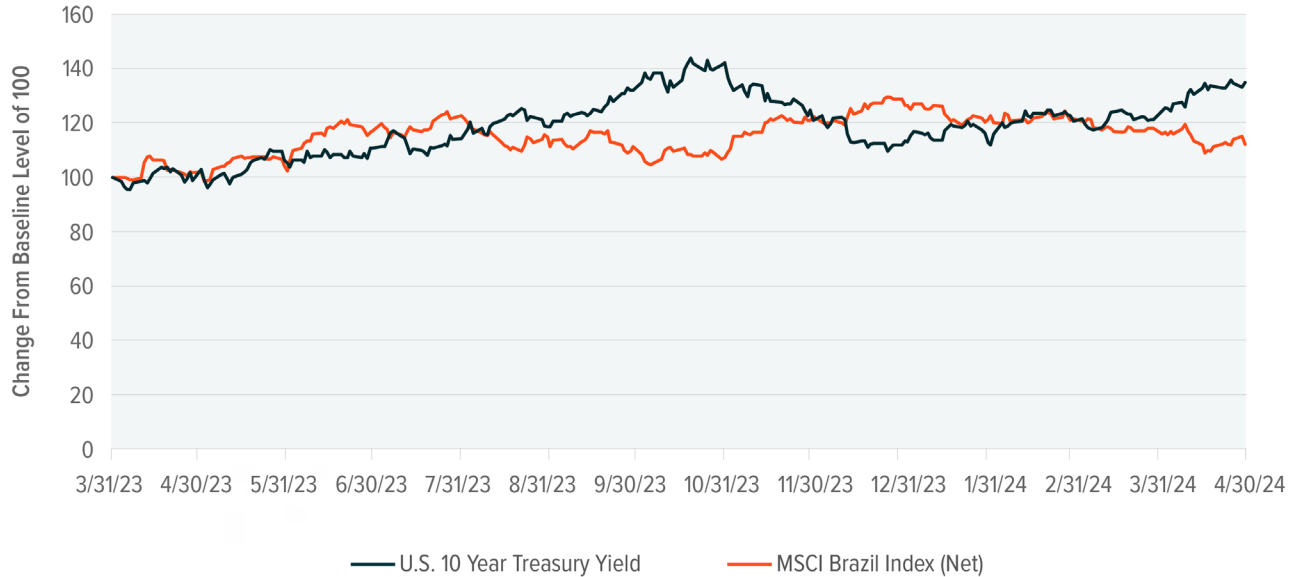
## Why BRAZ?

- **Leadership:** The Global X Brazil Active ETF (BRAZ) is the only active fund registered in the U.S. (ETF or Mutual Fund) dedicated to Brazilian equities.<sup>12</sup>
- **A Client Friendly Structure:** Offering bottom-up active management with a competitive fee, along with the liquidity and transparency of the ETF structure.
- **Expertise:** Managed with the support of a three-person team with deep personal, academic, and professional experience managing Brazil portfolios.
- **Concentration:** Leveraging our expertise to focus on what we deem as the best opportunities in Brazil, while avoiding those we deem risky. "Diversification may preserve wealth, but concentration builds wealth."  
— Warren Buffett
- **Looking Beyond the Benchmark:** We note that the broad MSCI Brazil Index benchmark has over 31% exposure to Petrobras and Vale combined and over 35% exposure to SOEs. BRAZ allows investors the chance to diminish these exposures and gain access to off-benchmark names.
- **Investment Philosophy:** We look for companies that benefit from both bottom-up and structural tailwinds, with moats helping them stand out from competition, management teams aligned with minority shareholders, and clear near- and long-term catalysts, exhibiting growth at a reasonable price characteristics. At the end of the day, we search for companies that we believe can consistently earn and compound returns above their costs of capital.
- **Investment Process:** A strict investment process based on a quantitative screen, sector specialists' stock analysis, and risk-adjusted portfolio construction.



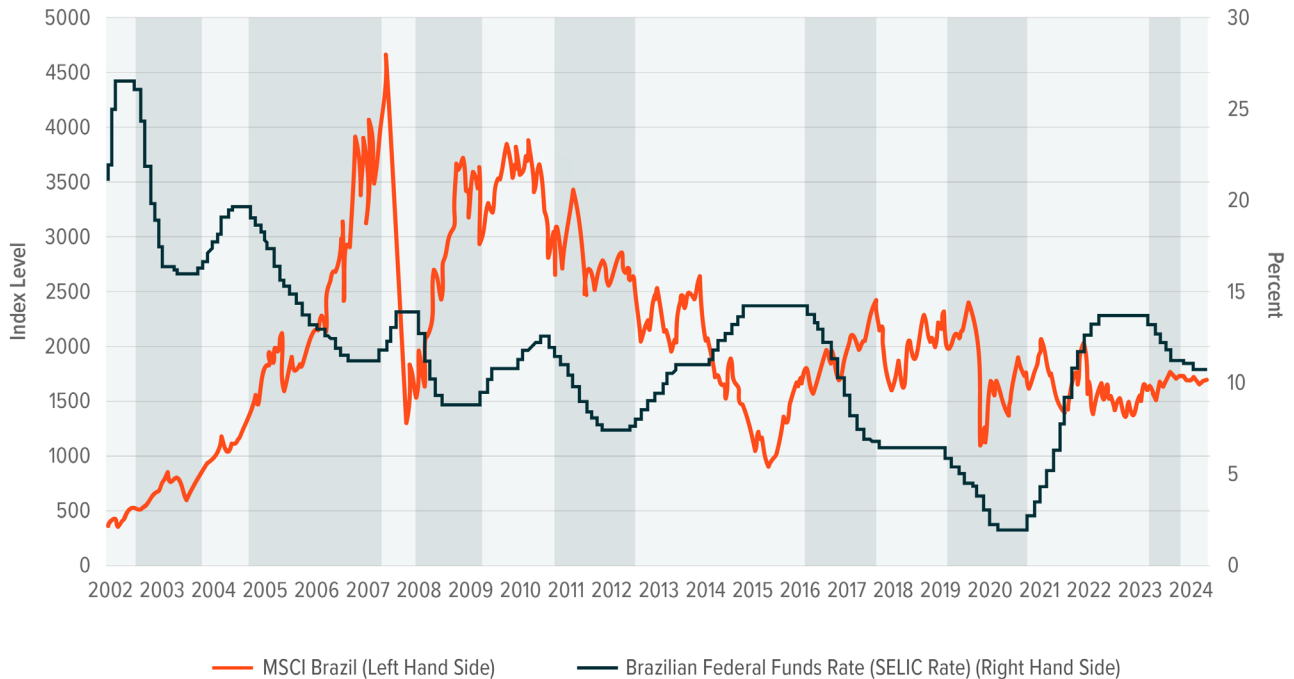
## INVERSE RELATIONSHIP BETWEEN 10-YEAR U.S. TREASURY YIELD AND BRAZILIAN EQUITIES (IN USD)

Source: Global X ETFs with information derived from: Bloomberg LP. Data as of April 30, 2024. Indexed at 100 as of March 31, 2023. An index value of 100 indicates that a result exactly matches the baseline average from March 31, 2023. Past performance is not a guarantee of future results.



## MSCI BRAZIL INDEX PERFORMANCE DURING PREVIOUS INTEREST RATE CUTTING CYCLES

Source: Global X ETFs with information derived from: Bloomberg LP. Data as of April 30, 2024. Past performance is not a guarantee of future results.





## Related ETF

### BRAZ – Global X Brazil Active ETF

*Click the fund name above to view current performance and holdings. Holdings are subject to change. Current and future holdings are subject to risk. As of April 30, 2024, Petrobras and Vale accounted for 10.49% and 9.64%, respectively, of BRAZ.*

## FOOTNOTES

1. Bloomberg LP. Data as of April 24, 2024.
2. Bloomberg LP. Data as of April 2, 2024.
3. Bloomberg LP. Data from January 3, 2000 through December 31, 2023.
4. Ibid.
5. Global X ETFs analysis of data from Bloomberg LP. January 1, 2003 through December 31, 2023. Data accessed on January 16, 2024.
6. Bloomberg LP. Data as of April 24, 2024.
7. Atlantic Council. (2024, Feb 14). Brazil Aims to Advance Its Bid For Leadership of the Global South Through Food Security.
8. U.S. Department of Agriculture Economic Research Service – Amber Waves. (2022, Sep 27). Brazil's Momentum as a Global Agricultural Supplier Faces Headwinds.
9. Oilprice.com. (2023, Nov 29). South America's Offshore Oil Boom Will Challenge OPEC's Dominance.
10. Statista. (2024, Apr). Gross Public Debt of Brazil From 2nd Quarter 2020 to 4th quarter 2023, by Type of Currency.
11. Reuters. (2023, Dec 19). S&P Upgrades Brazil to 'BB' Following Major Tax Reform.
12. Bloomberg LP. Data as of March 29, 2024.
13. Bloomberg LP. Data as of April 24, 2024.

## GLOSSARY

**U.S. Dollar Index (DXY)** The U.S. Dollar Index measures the strength of the U.S. dollar against a basket of foreign currencies.

**MSCI Brazil Index** The MSCI Brazil Index is design to measure the performance of large- and mid-cap Brazilian equities. As of March 29, 2024, the index had 49 constituents.

**Dividend Yield** An index's dividend yield is calculated by dividing one year of dividend payments of the constituents by the index's price.

**Credit Rating** Credit ratings are an assessment of a corporation's or country's ability to repay its debt obligations. Investment grade scores range from AAA (highest) to BBB, and speculative grades range from BB to D (lowest).

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BRAZ is non-diversified. BRAZ is actively managed, which could increase its transaction costs (thereby lowering the fund's performance) and could increase the amount of taxes you owe by generating short-term gains, which may be taxed at a higher rate. As actively managed funds, BRAZ does not seek to replicate a specific index. There can be no guarantee that active management strategies and processes will be successful.

Shares of ETFs are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns.

Index returns are for illustrative purposes only and do not represent actual Fund performance. Indices are unmanaged and do not include the effect of fees, expenses or sales charges. One cannot invest directly in an index. Past performance does not guarantee future results.

**Carefully consider the fund's investment objectives, risks, and charges and expenses before investing. This and other information can be found in the fund's full or summary prospectuses, which may be obtained at [globalxetfs.com](http://globalxetfs.com). Please read the prospectus carefully before investing.**

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