FSSA Investment Managers



Global Emerging Markets

Brazil after the election: looking beyond the market reaction

November 2026

Brazil's recent presidential election had come at an important juncture for the economy. A few of the FSSA team were in Brazil on a company research trip towards the end of October – the week before the final election vote – allowing us to assess the impact of the economic and political environment first-hand. While the polls had tightened that week, Senator Flávio Bolsonaro, with a lead of more than two million votes in the first round, was widely expected to win.

Against this backdrop, Luiz Inácio Lula da Silva's victory was a clear election upset. The market reaction was sharp; but this should be viewed in the context of the rally that preceded it. With a Bolsonaro victory looking increasingly likely, investors had begun to price in a potential change of government. In the month leading up to the election, Brazilian equities rose by around 10% on expectations of a more favourable fiscal and interest-rate outlook, only to fall 14% on the day of Lula's election win.[1]

With Lula remaining in office, the main concern is that Brazil's fiscal profligacy will be unresolved and real rates will remain high and constraining. Government debt has increased materially in recent years (Brazil's government debt to gross domestic product, GDP is now more than 90%, up from mid-80s when Lula took office in 2023),[2] and high interest rates have pushed up debt servicing costs for households and corporates alike.

Bolsonaro's campaign was widely expected to tackle the budget deficit. But policy detail had been light on both sides, and by all accounts it was a populist election. We believe the enthusiasm for Bolsonaro was more about credibility than the policy programme itself. Meanwhile, recent congressional elections has produced a marked shift to the right, with conservative and centre-right representation having risen in both chambers of the house. This should provide some constraint on the government's fiscal agenda (although it also increases the risk of political gridlock).

Implications for our holdings

Brazilian equities have lagged other Latin American markets meaningfully in recent years. Productivity growth has been poor, and the demographic tailwind has faded. However, as bottom-up investors, we invest in companies, not markets. In the FSSA GEM Focus portfolio, our Brazil holdings include TOTVS, MercadoLibre, Nu Holdings and Raia Drogasil. Each company benefits from structural growth drivers that are not dependent on a particular political outcome or require a lower cost of capital to grow.

During our recent company meetings in Brazil, we were broadly reassured on their underlying fundamentals, though there were several key areas to monitor.

At **TOTVS**, we remain comfortable with our position. We like its recurring-revenue software model and established position in Brazilian enterprise software. Our discussions with the CFO around elevated customer churn, which was attributed to the macroeconomic environment rather than disruption or increased competition, were reassuring.

1 Source: FactSet, Brazil Bovespa rose by 10% in local currency from 30 September to 23 October 2026; and fell by 14% on 26 October.
2 Source: Gavekal Research/Macrobond, 26 October 2026

Our meeting with **MercadoLibre** was also encouraging. Its credit business and performance on lending remains strong, and in e-commerce, there is growing evidence that Shopee is a rational number two. However, TikTok's organic traffic in the region and its implications for the competitive landscape are areas we are examining further.

At **Nu Holdings**, our meeting provided reassurance on credit discipline, including the company's initial conservative approach to payroll lending, as other banks that entered this segment more aggressively have seen rising levels of non-performing loans (NPLs). This is particularly relevant given efforts to shift Brazilian consumers from unsecured towards secured forms of borrowing. We continue to monitor the broader consumer backdrop closely, given elevated leverage and debt-servicing costs.

At **Raia Drogasil**, recent attention has centred on potential competition from MercadoLibre. Our view is that the near-term competitive risk is lower than perceived but warrants attention over the longer term. The position remains small.

Across these four holdings, the common thread is that their investment cases do not depend on a broad recovery in Brazil, falling interest rates or a market re-rating. Rather than relying on a singular outcome to lift the broader Brazilian market, we seek to invest selectively in good businesses capable of compounding through a range of economic and political environments.

Looking ahead...

In a world where energy, commodity and food constraints are increasingly shaping the growth outlook, Brazil's abundant natural resources provide a degree of structural resilience. Resolving its fiscal challenges would strengthen that position considerably. Vice President Geraldo Alckmin, a centrist and moderating influence with a record of advocating fiscal discipline, is among those being considered for the Finance Ministry in Lula's administration. If appointed, this would send a positive signal on fiscal credibility and help to rebuild investor confidence, creating a more supportive environment for Brazilian equities.

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