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Divergent Perceptions Between Locals and Foreigners

Roadshow Feedback

We have been on the road over the past few weeks, engaging with investors from Brazil, U.S. and Europe. While Brazil has benefitted from the U.S.-E.M. rotation-related inflow, we note a divergent sentiment between onshore and offshore investors, with foreigners showing a more risk-off stance on Brazil-beta names vs. locals. That said, while we continue to see an easing interest cycle in Brazil as supportive for domestic names, **we believe that** [recent political developments] **support a more constructive view for high-quality/partly defensive names**, particularly those with domestic exposure mitigated by exports, hedging strategies, and/or other compensating factors (*more details below*).

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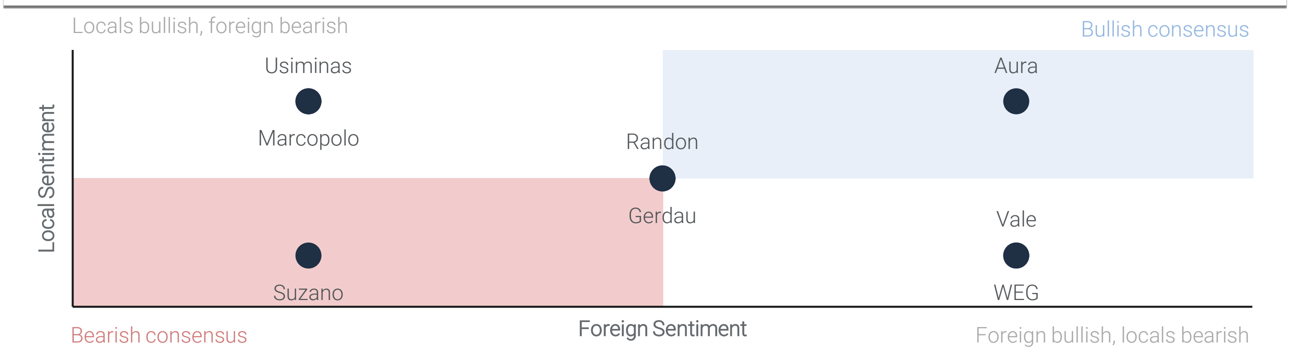
A more selective approach from foreign investors. On a global markets landscape, we see Brazilian equities as well-positioned, illustrated by recent inflow following a U.S.-E.M. rotation movement, especially toward large cap names with **(i)** higher stock liquidity, **(ii)** recognized as "high-quality" assets, and **(iii)** supported by solid bottom-up stories. Within our coverage universe, often mentioned names were Vale, WEG, Embraer, and Gerdau, while Suzano continues to face significant foreign skepticism under the current (more challenging) outlook for pulp prices. However, regarding Brazil's domestic/high-beta names, we note a still cautious stance, with country risk still present in many discussions (while recent political developments reinforce such pushback). All things considered, sentiment from foreign investors appears relatively more resilient compared to local positioning should next year's elections result in a scenario perceived as less favorable to capital markets.

Higher risk appetite from onshore investors. Domestic investors appear to be in a slightly more risk-on mood, showing less interest than foreigners in stocks such as Vale (which has outperformed YTD) and WEG (trading at richer valuation levels). We also note a mildly optimistic stance toward the domestic macro environment, with a relatively larger interest in names that could benefit from a rate-cut cycle, such as Marcopolo and Randoncorp.

Our view. We see the sentiment divergence between onshore and offshore investors as understandable, as foreign investors perceive more limited downside risk as the election process unfolds, though still favoring names with a somewhat more resilient profile. While the political backdrop remains fluid, we believe that recent developments support a more constructive view for higher quality/partly defensive names, particularly those with domestic exposure mitigated by exports, hedging strategies, and/or other compensating factors, including **Aura**, **WEG**, **Marcopolo**, and **Gerdau**. For **Suzano** and **Klabin**, we believe light positioning offers a favorable technical backdrop (and seen as relatively "cheap" BRL-hedges). Finally, we expect continued positive operating momentum to sustain interest for stocks such as **Vale** and **Embraer** (although valuation remains as headwinds to us on those names).

Figure 1: Key Divergences and Consensus Following Recent Discussions[1]



Sources: XP Research. *Notes: (1) Qualitative*

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