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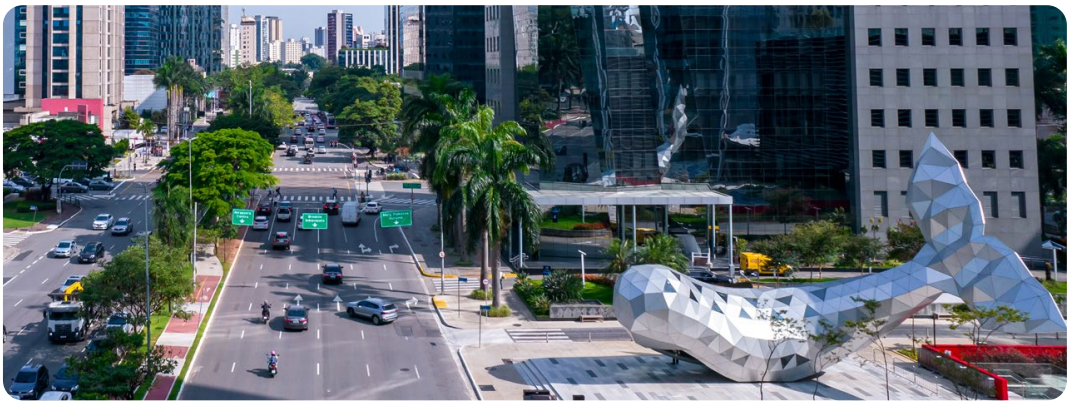
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Perspective from
**Franklin Templeton ETFs**

# Global capital is rotating back to Brazil—here's why



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Despite being one of the world's largest economies and a key supplier of agricultural goods, energy and critical minerals, Brazil has spent much of the past decade in the shadow of faster-growing global markets. While investor capital has chased returns elsewhere, tapping into China's scale, South Korea's innovation and India's structural growth story, Brazil has moved through political transitions and fiscal recalibration with far less attention from global allocators.

Today, the country's macro backdrop looks increasingly differentiated within emerging markets (EM). Unemployment is near multi-year lows, median wages are at record highs and inflation has cooled sufficiently for policymakers to signal that a long-awaited easing cycle could begin as early as March.

Through mid-February, broad EM indexes gained more than 7% year-to-date, compared with a roughly 0.08% decline in the S&P 500 Index, suggesting that the strength that defined EMs in 2025 has carried into 2026.[1] Against this backdrop, Brazil has stood out. Its equity market is up roughly 24% year-to-date, outperforming broader EM benchmarks by approximately 16 percentage points.[2] Yet Brazil still represents less than 5% of major EM indexes—underscoring how underallocated the market remains in global portfolios.[3]

Renewed appetite has translated into flows. Brazil-focused ETFs attracted approximately US$3.4 billion over the past three months, with net inflows equivalent to more than 20% of beginning assets under management.[4]

## Sector leadership: Utilities lead, cyclicals reaccelerate

The Brazilian real has also stabilized against the US dollar after a period of volatility, reinforcing foreign investor confidence. A firmer currency helps curb inflation by lowering import costs and supporting purchasing power, though sustained appreciation could weigh on export competitiveness in key exports—presenting a nuanced trade-off for policymakers.

Performance leadership has been broadening. In 2025, utilities were Brazil's top-performing sector, delivering total returns over 80% and benefiting from defensive cash flow characteristics and regulated pricing structures. Financials and materials also posted strong gains.[5] That strength is not purely defensive. As enterprise adoption of artificial intelligence (AI) accelerates across financial

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services, agribusiness and public services, power availability and grid reliability are becoming binding constraints for data center expansion globally. Brazil's utilities sector is viewed as strategic infrastructure in this AI buildout.

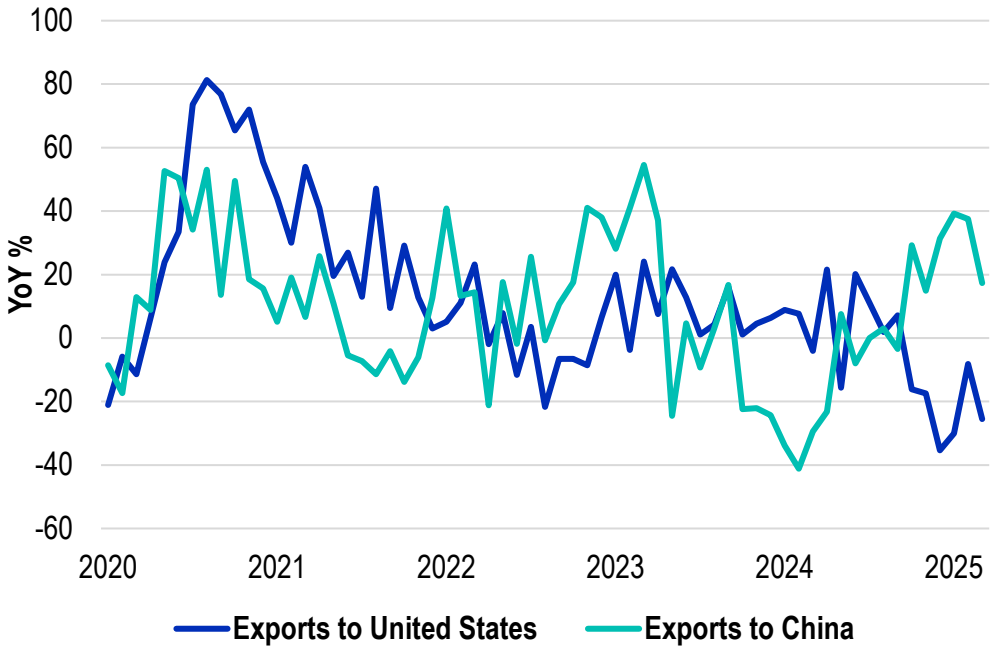
More recently, cyclical exposures—particularly materials and energy—have gained momentum as commodity prices stabilize and investors anticipate eventual rate cuts. Brazil's equity market remains heavily tilted toward materials, energy and financials, positioning it well for a broader cyclical upswing.

Despite recent efforts in US–China agricultural trade—such as negotiated purchases of American soybeans under a trade truce—commercial trade dynamics continue to favor Brazilian supply. Through much of 2025, China accounted for nearly 80% of Brazil's total soybean exports, highlighting its dominant role in one of Brazil's largest agricultural export categories.[6] While China has outlined ambitions to reduce reliance on imported soybeans over time, structural constraints, such as limited arable land, suggest that meaningful import substitution would be quite gradual. For now, Brazil remains central to China's supply chain. The upward trajectory in Brazilian exports continued through the last quarter of 2025, with merchandise exports advancing by around 17% year over year.[7]

In the face of US tariff uncertainty, Brazil has shown resilience and adaptability in global trade. While exports to the United States declined sharply in late 2025 (down 38% year-over-year in October), exports to China rose 33% over the same period, effectively offsetting weakness in US demand.[8] Additional diversification may come from Europe. Earlier this year, the European Union reached a long-negotiated trade agreement with Mercosur, the South American trade bloc that includes Brazil, Argentina, Paraguay and Uruguay. While final ratification is still pending, the agreement is expected to move forward provisionally, opening the door to stronger trade ties between the two regions. Brazilian beef exports to the European Union could see an estimated boost of nearly 80% under the agreement.[9]

## China Steps In: Filling Brazil's Export Gap to the United States

**Brazil's Exports to Key Trade Partners**
November 30, 2020 to January 30, 2026




Note: Brazil's exports to China increased 17.3% year-over-year (YoY), while exports to the United States decreased 25.5% YoY in January 2026.
Source: FactSet, MDIC.

For Brazil, this dynamic is constructive. China's expanding demand—not only for soybeans, but for iron ore and other key commodities—helps sustain export revenues and cushion the economy against volatility in developed markets. Beyond commodities, Brazil's energy mix is among the cleanest globally, with renewables accounting for roughly 90% of its electricity generation.[10] This clean energy advantage is increasingly relevant to enterprise-scale AI infrastructure and Brazil has emerged as a leading Latin American AI hub. With more than 7,000 kilometers of coastline, Brazil also has direct access to major submarine cable systems linking the Americas, Europe and Africa—an increasingly important advantage as data intensity and cross-border digital traffic expand.

## Domestic tailwinds and policy impact

Domestically, recent policy moves have boosted near-term economic sentiment. President Luiz Inácio Lula da Silva's (Lula's) government implemented a new income-tax exemption that nearly halves the number of Brazilians paying income taxes. The move is anticipated to inject an estimated US$5 billion to US$6 billion into the economy this year. This measure, a hallmark Lula campaign promise, has boosted consumer purchasing power and may add economic tailwinds ahead of Brazil's October 2026 presidential election.

## Monetary policy: Cautious easing on the horizon

Brazil's central bank has maintained a high benchmark rate (Selic) at around 15%, the highest in nearly two decades. Economist forecasts suggest room for rate cuts in the coming months as inflation moderates. If implemented, lower interest rates could support consumption, credit growth and domestic investment—key drivers for Brazil's cyclical sectors. A lower-rate environment may also support a rotation into equities.

Brazil's outlook, however, is not without constraints. Its fiscal position remains a structural headwind. Public debt is projected to approach high levels later this decade, driven by mandatory spending on pensions and tax expenditures. While recent reforms have introduced dividend taxation and trimmed some exemptions, deeper structural changes—particularly comprehensive pension reform and broad tax-base rationalization—remain politically difficult. Fiscal challenges remain and reform execution will require political discipline. Even so, with improving domestic conditions, supportive external demand and renewed capital flows, we believe Brazil is transitioning from overlooked to increasingly appealing within EM allocations.

**Endnotes**

1. Source: Bloomberg, as of February 12, 2026. The MSCI Emerging Markets Index captures large- and mid-cap representation across 24 EM countries. With 1,196 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. The FTSE Emerging Index provides investors with a comprehensive means of measuring the performance of the most liquid large- and mid-cap companies in the emerging markets. **Past performance is not an indicator or a guarantee of future performance.** Indexes are unmanaged and one cannot invest directly in an index. Important data provider notices and terms available at www.franklintempletondatasources.com.
2. Source: Bloomberg, as of February 12, 2026. The FTSE Brazil RIC Capped Net Tax Index represents the performance of Brazilian large- and mid-capitalization stocks. Securities are weighted based on their free float-adjusted market capitalization and reviewed semi-annually. The "Net Tax" designation indicates that the index performance is calculated after withholding taxes on dividends, making it a more accurate reflection of actual returns for international investors. **Past performance is not an indicator or a guarantee of future performance.** Indexes are unmanaged and one cannot invest directly in an index. Important data provider notices and terms available at www.franklintempletondatasources.com.
3. Sources: MSCI and FTSE Russell, as of January 30, 2026. The MSCI Emerging Markets Index captures large- and mid-cap representation across 24 EM countries. With 1,196 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. The FTSE Emerging Index provides investors with a comprehensive means of measuring the performance of the most liquid large- and mid-cap companies in the emerging markets. Indexes are unmanaged and one cannot invest directly in an index. Important data provider notices and terms available at www.franklintempletondatasources.com.
4. Source: Bloomberg, period spans November 12, 2025, to February 12, 2026.
5. Source: Bloomberg, as of February 12, 2026.
6. Source: China International Import Expo Bureau. October 2025.
7. Sources: Brazil's Ministry of Development, Industry, Trade and Services; Haver Analytics.
8. Source: "EU-Mercosur agreement." European Commission. Accessed February 11, 2026.
9. Sources: FactSet, Brazil's Ministry of Development, Industry, Trade and Services.
10. Source: "Renewables account for 88% of Brazil's power generation mix in 2024." Renewables Now. August 27, 2025.

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