



The New Cold War

March 2026

Dear investors,

When we read about history, each episode seems to have been clearly set off by some notable event. World War II began on September 1, 1939, when Nazi Germany invaded Poland. The Cold War between the United States and the Soviet Union began on March 12, 1947, with the announcement of the Truman Doctrine. Yet this clarity is the result of the didactic organization that historians apply with the benefit of hindsight. The boundaries of historical episodes are far murkier when lived in the present.

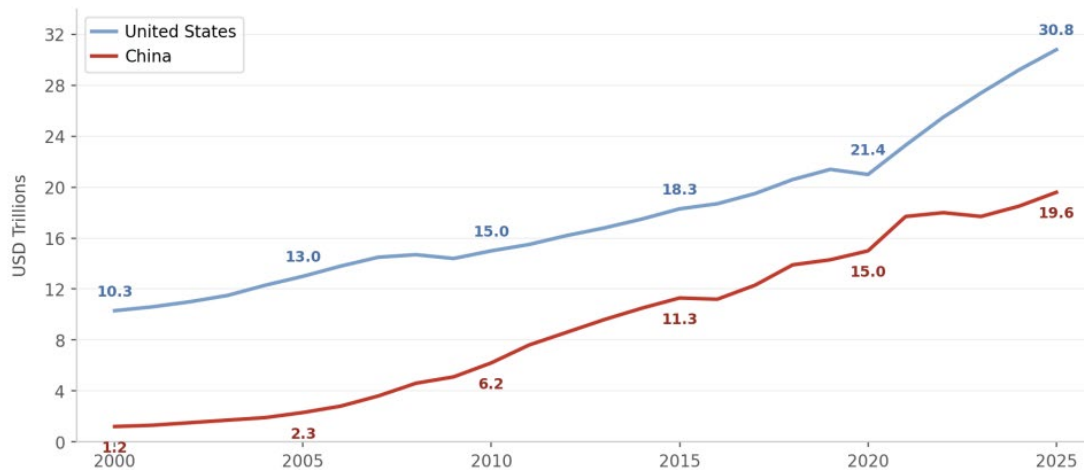
The rivalry between the United States and China, quite obvious today, has been intensifying for more than a decade. Some argue we are heading toward a new world war; others contend that the conflict will remain contained by the deep economic interdependence the two nations still share. It is difficult to predict how far things will go, but it is already clear that the rivalry has caused profound shifts in global geopolitics. We share our reflections on those shifts and how they may shape the future.

History of the Rivalry

In the 2000s, China was not a concern for the American government. In fact, the United States was the main architect of China's accession to the World Trade Organization in December 2001. The rationale at the time was that integrating China into the global economy would bring enormous cost advantages to American companies through the exploitation of cheap Chinese labor, and that China's economic development within the global trading system would lead it to adopt Western practices and converge toward a democratic political regime. Neither prediction came true in the decades that followed.

China's economic development was faster and larger than anticipated. Between 2000 and 2025, China's GDP grew 16-fold, while that of the United States grew 3-fold. China went from representing 12% of the American economy to 64%.

US and China GDP Evolution



Source: Federal Reserve Bank and World Bank

The prediction that integrating China into global trade would bring economic benefits to the West was borne out. The United States and many other countries outsourced much of their manufacturing to China and achieved significant improvements in living standards thanks to the falling cost of consumer goods. However, the prediction that China's economic development would make the country democratic and politically aligned with the West did not materialize.

China continues to operate with a culture, political system, and economic dynamic that differ substantially from the models idealized by the West. Its worldview and development plans do not necessarily fit within the global order architected by Western powers and led by the United States. With a population of 1.4 billion and as the world's second largest economy, it is inevitable that the United States views China as a threat to its supremacy.

A Paradigm Shift

After the end of the Soviet Union in 1991, we lived through an era of peace among the great powers, with most countries operating under diplomatic agreements defined by the Western bloc after the World Wars and under the general principle of cooperating toward global development and well-being.

In democratic political regimes, and in the absence of imminent major geopolitical threats, governments' priorities came to be guided by their populations' desire for a better quality of life — strongly correlated with economic efficiency. We watched Germany, an enemy of Russia in both World Wars, increase its dependence on Russian gas to lower energy costs and pursue environmental goals. The United States warned of the geopolitical risks and applied diplomatic pressure on Germany to try to stop the move. Even so, economic logic prevailed. Populations prefer to reduce their cost of living rather than mitigate geopolitical risks, and what populations prefer generates more votes. This episode captures well the mindset of that era, in which economic optimization was the supreme objective of nations.

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Suddenly, national security became more important than economic efficiency. Germany stopped buying Russian gas — at least directly — to avoid generating profits for Russia and financing the war machine advancing toward the European Union. The United States banned the sale of advanced technologies to China. American companies will earn less as a result, but they will no longer be contributing to the advancement of the country that threatens to become the new global leader.

This is not a shift confined to the strategies of politicians and diplomats. Ordinary people themselves have been growing aware of geopolitical conflicts and reacting accordingly. In one episode that took place shortly after the invasion of Ukraine, British port workers refused to unload Russian oil even without any legal obligation to do so.

Prioritizing national security over economic interests may seem strange to current generations, but it is the mindset that has prevailed for most of human history. During the World Wars, a French citizen would never have bought Nazi products simply because they were cheaper than the French equivalent. The last few decades were a period of exception — one that now appears to be coming to an end.

What We Expect for the Future

The pursuit of national security will inevitably lead each country to try to reduce its economic dependence on politically misaligned nations — either by nationalizing parts of its supply chain or by developing suppliers in countries that pose no threat. This will likely reduce global trade flows and, as a result, produce lower economic growth and higher inflation, as production costs rise when economic efficiency is no longer the exclusive criterion guiding business decisions.

There is a tendency for the United States and China to seek to strengthen their spheres of influence over geographically closer countries, since geography is decisive in military matters. Projecting military power to distant regions is expensive and risky — it depends on complex logistical operations with more vulnerabilities than operations near one's own territory. This gives rise to the logic of not allowing a neighboring country to fall under the control of rival powers.

The competition for influence, typical of cold wars, may bring opportunities for developing countries. One option is to maintain neutrality in order to preserve commercial relations with any nation offering favorable terms — as Switzerland did even during the World Wars. Another possibility is to discreetly auction one's loyalty, negotiating financial assistance, technology transfers, and military protection in exchange for political

alignment, as many countries did during the Cold War between the Soviet Union and the United States.

There will also be an intensification of the technological race and investment in infrastructure necessary in the event of military conflict — a risk that is always present and has been growing more explicit. This race is independent of the stated intentions of each bloc. The weaker side fears the power of the stronger and seeks to develop itself to match it. As the weaker side advances, the stronger fears being overtaken and accelerates its own development to defend its leadership position. Thus, even if both sides have purely defensive intentions, there will be competition for economic and military power.

The dynamics we are describing are far from new. Although they have not been part of our direct lived experience, history is full of episodes of this nature.

Impact on Investments

Since these geopolitical conflicts can strongly impact the economy — broadly or concentrated in specific sectors — we must begin factoring them into our analysis of investment opportunities.

Traditional fundamentals remain valid. We still want to invest in companies with competitive advantages and high profitability, but we have begun to assess whether a business is exposed to potential impacts from economic sanctions and/or tariffs.

The risk is most relevant for export-oriented companies. If a company's home country becomes the target of sanctions or tariffs, it may lose customers or be forced to reduce its prices to offset the new levies. In such situations, competitive advantages do not guarantee the protection of the business. In the case of total sanctions, a company may lose sales even if it is the sole producer of something with price-inelastic demand. For example, Nvidia is prohibited from selling its most advanced chips to China, as the American government decided to restrict access to cutting-edge technologies that could be used for military purposes.

Companies focused on the domestic market tend to be more resilient. They may even benefit if a significant portion of their competition comes from imported products. If the country itself imposes sanctions or tariffs on other nations, competition diminishes and these companies tend to capitalize on the vacuum created in the local market.

There may also be indirect impacts across an entire country's economy if an important sector is affected. For example, if Brazilian agricultural exports were impacted, the entire country would suffer.

Fortunately, Brazil is far from the center of current geopolitical conflicts, and the likelihood of being severely harmed by sanctions and tariffs is low. We are among the countries likely to benefit from the search for trading partners that pose no geopolitical threat. A recent example is the free trade agreement between the European Union and Mercosur — under negotiation for decades and now on the verge of entering into force — which only advanced due to the European Union's desire to reduce its dependence on the United States.

At present, our portfolio has very low exposure to geopolitical risks. But in any case, we believe it is prudent to begin monitoring these global geopolitical developments and to exercise an extra degree of caution when evaluating opportunities in sectors that may be considered strategic.