Navigating Turbulent Waters

January 2026

Dear investors,

We closed 2025 with a 38.76% return in Ártica Long Term FIA, nearly 5 points ahead of the Ibovespa's 33.95% — but it wasn't a year of much excitement or optimism in Brazil. Even with the stock market rallying, the equity fund industry saw net outflows, as most investors migrated to fixed income instead, drawn in by the CDI's fixed 14.25% return for the year. As the saying goes, fortune favors the bold. But the real lesson from 2025 is simpler: predicting the market is hard.

This new year will be just as challenging. The political tension building around the elections will likely hog more attention than it deserves, and inflate its importance in investment decisions. As a result, expect the market to swing with every new poll and every sophisticated political take — grounded or not. None of this makes for a bad backdrop to invest in. Shocks tend to create opportunities. But it's essential to stay level-headed and rational, so as not to get swept up in the crowd.

The Role of Luck

Some principles are easy to grasp but hard to truly internalize. One of them: the return on any single investment depends as much on luck as on the quality of the decision behind it. That's unavoidable, because investment analysis only ever produces rough probabilities — never certainties. A rational investor should back an opportunity with an 80% chance of a good outcome, but that still leaves the investment depending on luck for the 20% downside case not to hit. That creates a few headaches.

Separating skill from luck in investing is hard, and it takes time. A good investor can be unlucky and post weak returns for years, just as an unskilled one can ride pure luck to an excellent run. Short-term returns are not a good predictor of skill. Only across many years and many decisions does the math start to favor genuine skill over noise.

The problem: human psychology isn't built for the long game. Instinctively, whatever's making money right now feels smart, and whatever's losing money feels dumb. Left unchecked, that instinct can kill a sound strategy hit by bad luck, while pouring more capital into a bad one that got lucky. The person who wins the lottery jackpot isn't a genius. Copying their method, or hiring them to pick your numbers next time, is a strategy doomed to fail either way. The better approach is finding a method that holds up on average, across a large number of decisions.

In our experience, the right approach is to stay focused on what can be predicted with reasonable accuracy, and limit exposure to what's pure chance. It also means sizing up how much each factor can actually move a given business, so more attention goes to what's genuinely critical.

Let's apply this to the case at hand: Brazil's election year.

The Election Year

Election years tend to follow a familiar script. The closer we get to election day, the more exaggerated and polarized the victory scenarios each side puts out tend to get. It's an inevitable part of campaigning. If you want to win over more voters, the winning formula is claiming your candidate's victory will cure all ills, and the opponent's would bring total ruin. More sophisticated audiences just get a fancier, marginally more coherent version of the same message.

Another pattern: election talk crowds out everything else in the public conversation, even stories with a bigger, longer-lasting impact. At some point, front pages and market reports start reading as if the election is the only thing that matters for the country's future. It's worth pausing on that.

Election outcomes are hard to call even mid-campaign, with polling in hand. This far out, without even knowing who the candidates will be, any prediction is pure speculation.

Government policy doesn't usually define the future of most businesses — the exceptions being state-controlled companies, or heavily regulated ones facing extreme intervention. For agribusiness as a whole, next year's weather will matter more than next year's president. Even for Petrobras, the textbook example of a Brazilian state-owned company, the price of oil tends to matter more than who's in office.

Finally: when we value a company, we discount all its future cash flow back to the present — in theory, forever. The nearest years carry the most weight, but even so, the next four rarely make up more than a fifth of total value.

Our take: this year, the market will spend a lot of energy on something that's both unpredictable and less consequential than it looks. Amid all that noise, investors who stick to the classic playbook — staying focused on the microeconomic fundamentals that actually matter to each business over the long run — will have the edge.

With that preamble out of the way, here's our outlook for Brazil.

Outlook for Brazil

We genuinely don't have a strong view on who wins. There's a global trend favoring right-wing, conservative parties. On the other hand, Brazil's left runs stronger campaigns, and the PT has won 5 of the last 6 elections. That's why we'd rather focus on what doesn't hinge on that binary outcome.

The current administration has every incentive to juice the economy in the short term — at least on the metrics voters actually notice — since the electorate tends to reward continuity when recent experience has been good. Expect populist measures in 2026 that come with a bill due in the years after.

Whoever wins will inherit the fiscal imbalance problem. Economists' go-to fix is austerity; politicians' go-to fix is leaning on the central bank to print money and fund spending instead. Right-leaning governments tend toward the former, left-leaning ones toward the latter, which inevitably stokes inflation. Either way, it's not an easy problem to solve, and fixed-income investors should stay cautious. In inflationary environments, anything denominated in nominal currency — credit of any kind — suffers more than real assets like equities, real estate, or commodities.

One thing worth watching: trade diplomacy, which may end up mattering more to our economy than local political theater. Global geopolitics is being redrawn, opening a real opportunity for Brazil — historically a fairly closed economy — to expand its foreign trade. We're close to finalizing a free trade agreement between Mercosur and the European Union, decades in the making. If it goes through, it would be a major win for Brazilian exporters, especially in agriculture. Given how much this could matter, it's gotten surprisingly little news coverage or public debate. We're a bit cautious here — Brazil has a long history of squandering this kind of opportunity, and we notice the government seems eager to take positions on international issues where the country has more to lose than gain — but we're hopeful Brazil eventually leverages its neutral stance to become more relevant in global trade, and maybe even build out higher-value-added industries down the road.

How We Are Positioned

Given this uncertainty, and bracing for a turbulent stretch ahead, we're sticking with defensive businesses — ones largely insulated from government policy, and trading at prices we see as meaningfully depressed.

Despite last year's rally in Brazilian equities, the gains weren't shared evenly. Plenty of names are still flying under the radar and look mispriced to us. Over the past few quarters, we've reallocated more than half of our portfolios, and today we see very attractive upside in the companies we hold.

Even with good companies in the portfolio, political volatility is probably unavoidable. We won't make any investment decision based on electoral speculation. Our approach is to keep our analysis of current holdings — and a carefully chosen watchlist of others — current, ready to move fast if a price shock opens up an unusually attractive chance to buy or sell.

As always, the whole management team keeps the majority of their personal wealth invested in our own funds. We don't think the Brazilian stock market is anywhere close to overheating, so there's still plenty of return left to capture in local companies. At the same time, we keep expanding our coverage of foreign companies, as a hedge against a future where Brazil no longer offers as many attractive opportunities as it does today.