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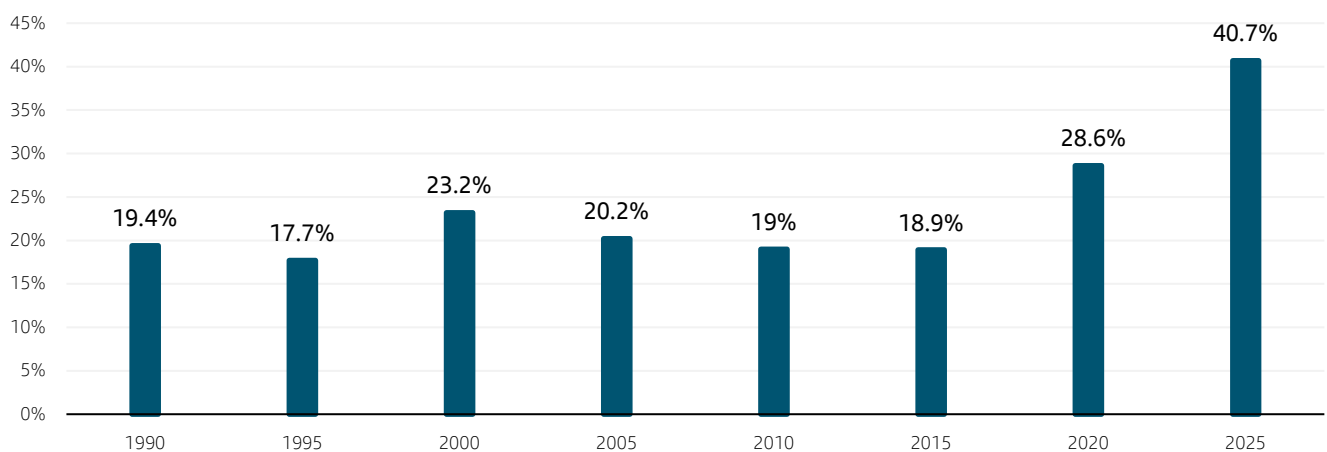
The strategic case for Brazil in a more concentrated emerging markets landscape

As global and emerging market portfolios concentrate around a narrower set of countries, sectors and themes, Brazil's diversification benefits may become more valuable, not less.

By end-2025, the 10 largest companies in the S&P 500 represented more than 40% of the index, the highest level since the mid-1960s, reflecting the dominance of technology, AI and digital infrastructure in recent returns. A similar pattern is visible within EM, where capital has gravitated toward fewer countries and themes.

Graph 1: Cumulative weighting of 10 largest S&P 500 companies by year

Sources: Bloomberg and SAM calculations



This concentration has been rewarded: over the three years to May 29, 2026, the MSCI Emerging Markets Information Technology Index returned 58.3% annualized, versus 25.2% for the MSCI EM. But it also leaves portfolios exposed to common assumptions: sustained technological leadership, continued AI-related investment and a growth model tied to the digital economy.

As portfolios become more exposed to the same drivers, differentiated sources of return become more valuable. For investors already committed to EM, the question is often not whether to invest in Brazil, but what role Brazil should play within a diversified EM allocation. Brazil occupies a distinctive place because it offers exposure to drivers that differ from those increasingly dominating global portfolios.



The strategic case

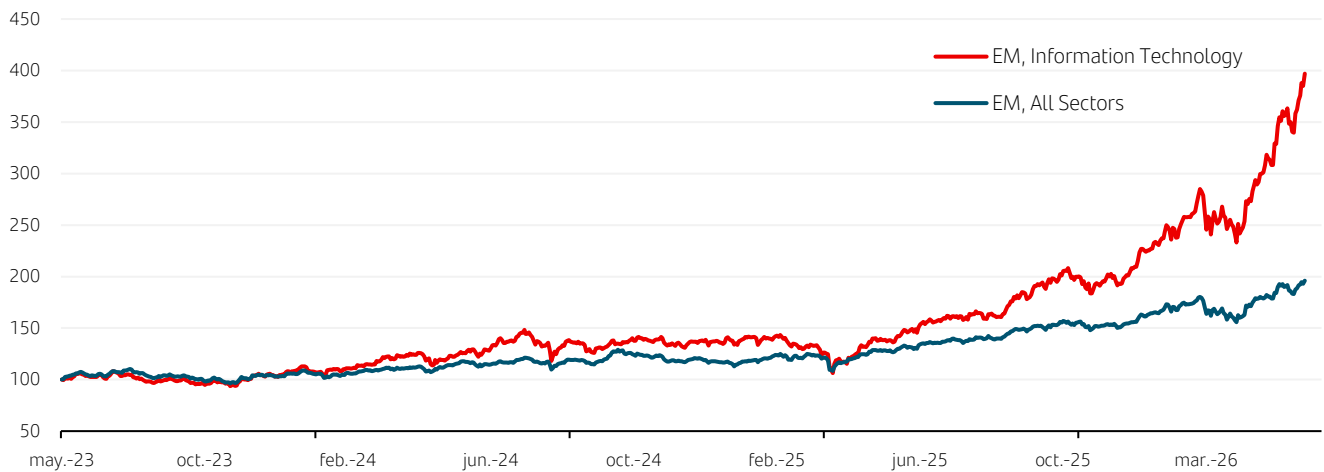
Unlike many emerging economies linked to manufacturing supply chains or technology exports, Brazil combines globally competitive commodity producers, a sophisticated financial system, a large domestic market and deep capital markets. These characteristics create sources of return influenced by a broader set of forces than those driving the largest positions in global and EM benchmarks.

This benefit extends beyond geography. In a world focused on disruption, investors may benefit from assets whose value is less dependent on innovation cycles and less vulnerable to obsolescence. Key Brazilian sectors—including agriculture, energy, infrastructure and financial services—remain tied to real assets, essential services and physical production, providing exposure distinct from the global technology ecosystem.

Brazil should not be seen only as a mature commodity producer. Several key industries still offer long-term growth potential. Agricultural productivity continues to benefit from technology and scale. Oil production is expected to expand as new projects come online, while livestock remain competitive relative to global peers. These areas still offer room for growth.

Graph 2: Performance of the MSCI Emerging Markets, last 3 years

31/05/2023 = 100. Sources: Bloomberg and SAM calculations



The rise of artificial intelligence may reinforce this argument. While attention is focused on software, semiconductors and computing power, the AI ecosystem also requires infrastructure, reliable energy and strategic resources. The more capital flows into the digital economy, the more important the physical economy supporting it becomes. Brazil's energy matrix, resource base and potential exposure to critical minerals may create opportunities not fully reflected in traditional narratives, including through private markets and alternatives.

Geopolitics provides an additional consideration. While no country is entirely immune to geopolitical developments, Brazil's geographic position and economic structure leave it less directly exposed to some strategic tensions elsewhere. As investors navigate trade fragmentation and geopolitical competition, this may provide another layer of diversification within EM portfolios.

Investment opportunities

Brazil also offers something uncommon in EM: breadth across asset classes. Investors can access local government bonds, inflation-linked securities, corporate credit, equities and currency exposure within a relatively deep and liquid market structure. Few emerging markets offer comparable scale.

This is especially relevant in fixed income. Brazil has historically maintained higher nominal and real interest rates than most developed and emerging economies. While partly linked to its risk profile, this also provides differentiated return potential. In markets where fixed income often offers limited real income, Brazilian assets can provide meaningful carry and risk premia.

Brazilian equities add another feature. They provide exposure to established franchises in banking, infrastructure, utilities, energy and commodities. Many of these businesses benefit from strong competitive positions, barriers to entry and a history of shareholder distributions.

Valuation further reinforces the case. While valuation alone is rarely sufficient to justify investment, current pricing levels appear to offer an attractive entry point for long-term investors. Uncertainty around fiscal sustainability, economic policy and the external environment remains reflected across Brazilian assets. For investors able to look beyond shorter-term volatility, current valuations may support maintaining Brazil exposure within a diversified EM allocation.

This matters because pricing is often influenced by investors with relatively short horizons. Debates around fiscal sustainability, policy direction and cyclical developments can generate volatility and reassessments of long-term fundamentals. For investors able to extend their horizon, these periods may create opportunities to capture risk premia that shorter-term participants are unwilling or unable to hold.

None of this implies that the near-term outlook is without challenges. The global environment remains uncertain, while domestic discussions around fiscal sustainability and economic policy are likely to remain important drivers of sentiment. Taken together, these factors suggest tactical caution, even if they do not materially alter the broader structural case.

Conclusion

Tactical considerations may influence positioning over shorter horizons. However, they should not obscure the structural rationale. The same forces that have increased concentration within global and EM portfolios have also increased the value of diversification. In our view, Brazil's combination of differentiated economic exposures, deep capital markets, commodity leadership, attractive real yields and broad investment opportunities supports an important role within diversified EM portfolios.

As portfolios become increasingly exposed to a narrower set of countries, sectors and technological outcomes, assets capable of providing differentiated sources of return become more valuable. Brazil's relevance within emerging markets should be viewed through that lens.

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