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Brazil - structurally bullish, tactically wary

- Brazilian equities have been a star performer in 2022. As a resource rich country, they are a clear winner in a world where Russian isolation impacts commodities.
- [EWZ](#), the iShares MSCI ETF tracking Brazil, has been rich on Qi for a few months now. Currently, it is 1.7 sigma (15.3%) rich to macro. On Monday that Fair Value Gap was 2 sigma, a 1y high.
- It is also rich versus its EM peers – [EWZ vs. EEM](#) is not in regime but it is 1.9 sigma (17.3%) rich to model.
- There are clear reasons why Brazil has benefitted from the sanctions fall-out & why that premium versus macro fundamentals has existed. Why flag the FVG now?
- Because **RETINA™ has just flashed a bearish inflection signal** – over the last 3 days both spot price of EWZ & Qi model value have turned lower.



- To reiterate, this is not a big bear call on Brazilian equities. The trend in the red line for Qi macro-warranted model value has yet to break the 2022 uptrend. The positive Terms of Trade shock for Brazil in the apparent new world order is hard to argue with.
- But, near term at least, it appears as though **the market has run a little ahead of itself**. At a minimum, this is not the time to be adding fresh longs.

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