PERCEPTIONS OF REALITY

The United States presents itself as the "indispensable country" for trade and finance, drawing strength from its privileged position in the global circulation of people, goods, capital, and digital information. This centrality allows Washington not only to charge a price for access but also to consolidate influence through its control of narratives and information flows. Its reach rests not only on military power, financial depth, and economic scale but also on the ability to shape perceptions, define rules, and dictate the terms of participation. Political authority and economic concentration reinforce one another with a small circle of corporations both executing and benefiting from government strategy, narrowing the distribution of power.

The dollar's role as the world's clearing mechanism grants the US unmatched oversight of cross-border transactions, but the foundation of this privilege is weakening. Public debt has expanded far faster than underlying economic output, undermining fiscal credibility and raising the risk of a sudden repricing. A bond market crisis is no longer a remote possibility but a plausible outcome, as any shock—geopolitical conflict, cyber disruption, or financial accident—would accelerate the Treasury's funding needs precisely when foreign demand for U.S. securitised debt is fading. What once appeared as limitless external appetite is now constrained not only by balance sheet limits but also by politics: sanctions, extraterritorial regulation, and confrontational diplomacy have steadily weakened confidence in the United States as a trustworthy counterparty.

Confronted with persistently higher borrowing costs, the Federal Reserve would almost certainly resort to policy distortions —inducing inflation, obligating domestic institutions to absorb government debt, capping yields through curve controls, restricting capital flows, or even taxing foreign bondholders.

What distinguishes the current cycle from earlier periods of fiscal strain is that geopolitics are now embedded directly into asset pricing. The clash between a U.S.-centric financial architecture and resource-based alternatives advanced by the BRICS adds a structural layer of volatility, one that cannot be explained by earnings multiples or growth forecasts alone.

In principle, markets should reflect heightened political risk and questions of institutional credibility. Yet investors continue to reward U.S. assets as if dominance were uncontested and corporate profitability on an uninterrupted path higher. This contradiction defines the instability of the current cycle: valuations and money flows remain anchored in the perception of American resilience even as the foundations that once sustained the system are eroding.

Overlaying these dynamics is a technological dimension, adding further complexity. The growing use of large language models and advanced AI tools into asset management and trading has created new chains of sensitivities. A handful of large global asset managers, already dominant in capital flows, now deploy systems that amplify narratives, respond to signals at unprecedented speed, and reinforce herding behavior across markets. Adjustments that once unfolded gradually now can cascade instantly, triggered by sentiment shifts or geopolitical headlines and executed simultaneously by machines. The convergence of geopolitical fragility and AI-driven reflexivity has produced a market environment where volatility is systemic and perception often substitutes for reality.

The perception of U.S. markets as safe and indispensable therefore rests on increasingly fragile foundations. Liquidity and policy support have extended the impression of resilience, but growth has leaned heavily on leverage and financial engineering.

To be sure, the United States remains an innovative economy, with technological leadership that drives productivity in key technology sectors. Yet this dynamism coexists with fiscal imbalances and policy distortions that leave valuations dependent on the willingness of authorities to suppress volatility. Debt-financed expansion has tied asset prices to political choices rather than to sustainable earnings, exposing investors to regime shifts—from renewed inflation to yield-curve controls and capital flows restrictions. The contradiction between perceived stability and eroding fiscal and institutional credibility defines the current bull cycle and forces reassessment of risk and alternatives to the US centric model.

Brazil has long struggled with the reputation of being a country of "missed opportunities," cycling through repeated phases of investor enthusiasm followed by disappointment. Over the past half-century, the nation has failed to translate its vast endowments into sustained collective prosperity, leaving global investors wary. Yet the current alignment of factors suggests that Brazil is once again moving into focus as a potential alternative within global portfolios. Unlike past episodes, the case today rests not only on resources but also on the resilience of its financial system and the credibility of its conservative monetary management, even in the face of chronic fiscal fragility.

On valuations, Brazil's equity market trades at just about 8× forward earnings, near historic troughs and far below U.S. multiples. This valuation gap creates an asymmetry rarely seen, at a time when U.S. equities are priced at historically rich levels. Capital flows reflect this recalibration. Net foreign inflows into Brazilian equities resumed in 2024 and continued into 2025, while local bond markets have attracted renewed interest as investors seek real yield exposure—particularly through domestic government bonds which remain attractive in an environment of global financial repression.

Sentiment toward the country remains cautious, but positioning data suggest it is gradually shifting. Global asset managers, once heavily underweight, have begun to rebuild exposure, particularly in sectors tied to commodities, domestic consumption, and banks. In fixed income, international participation in local debt auctions has risen from historical lows. The currency market remains a barometer of credibility: the real tends to strengthen when monetary orthodoxy is reaffirmed, underscoring how much confidence depends not on fiscal rectitude but on the maintenance of credible monetary discipline.

The FX thus captures both the opportunity and the caution: speculative positioning on the real has oscillated this year, but with a bias toward appreciation whenever risk premiums ease, indicating that investors view Brazil as a tactical play on global dislocations.

In this mix of deep discounts, returning capital flows, and a cautious but improving investor stance, Brazil distinguishes itself from advanced economies weighed down by leverage and policy distortions. After decades of cycles where promise outpaced delivery, the country now presents investors with a different equation: the risks are still evident, but the asymmetry in valuations and the strength of its monetary anchor give Brazil a degree of resilience that markets have yet to fully recognize.