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What if candidate Lula
were against reelection?

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We believe it is still too early to be sure about the presidential election outcome. No matter in what direction the election polls indicate, the press reverberates, and the market considers the outcome inevitable; we remain cautious regarding the electoral process and only consider the probabilities.

Former President Lula da Silva appears as a favorite within the current probabilities. However, with the distance we still have until the election, the conviction in this result is still relatively low.

The most significant risk for the country in the new term of former President Lula is the return of a PT “hegemonic power plan.” This long-tailed risk had been structurally reduced after President Dilma's impeachment.

A new sequence of PT presidential mandates, starting with two consecutive mandates of former President Lula, would put back the risk of a “peronization” of the Brazilian political environment.

The Argentinian experience, very fond of Peronist ideas, was and is extremely harmful. To this day, that country finds itself around archaic ideas of government due to a vague memory of Juan Domingo Peron's mandates more than five decades ago.

We believe that the end of the presidential reelection is a measure that would structurally reduce this tail risk.

A commitment to extinguish reelection would generate benefits among different political players, including candidate Lula himself, and would significantly reduce the future probability of an “Argentinianization” of Brazilian politics.

It seems to us that there is currently an alignment of specific political conditions to facilitate the adoption of a legal change towards the end of the possibility of presidential reelection.

The most obvious risks of a new Lulista mandate

The prominent market issue related to a new PT mandate is its fiscal policy.

No wonder the market focuses on this topic. Brazil's debt ratio is 80%, which "binds" any government responsible for pursuing a contained fiscal policy to reduce this structural debt.

However, the history of PT governments is of aggressive expansion of tax expenditures that, if repeated, given our starting point, would lead Brazil to a new imbalance and consequent economic disorganization.

The root of this perception is due to an ideological belief of the Workers' Party that government spending is the primary driver of the economy. Therefore, there would be nothing else to be done by a new PT government besides pumping the gas into public spending.

However, when looking at Lula's profile, especially in the first term, it should not be the most likely scenario.

Although this is a significant risk and the keynote of the current political-economic debate, we believe it carries a strong cyclical component.

A possible new Lulista term spending profile seems to be conditioned to how the Brazilian economy will end in 2022.

In the possible scenario of a healthy GDP at the end of the year, pointing to a return to growth around its potential in 2023 (+2%), the probability of an irresponsible fiscal policy seems to decrease. The mere maintenance of the status quo would be enough for an economic revival and some life improvement for the population.

Otherwise, if 2023 starts in deceleration or eventual recession, the new government will feel compelled to take action to change the economy's negative direction. In this case, we believe that the PT spending DNA would rein.

Therefore, it seems to us that the fiscal issue remains very dependent on the 2022 economic developments, which must still be monitored, and therefore we refrain from giving an opinion on this topic.

Another issue discussed by society about a new Lula mandate is a government marked by revanchism, in which the presidency would be a vehicle for revenge on its former opponents.

In response to the revanchist concerns, Lula has been moving efficiently. He announced a potential alliance with Geraldo Alckmin, sought dialogue with former opponents, and consecutively defended the formation of a broader coalition than previous PT governments.

That is, until the end of the year, the concern about economic policy seems to us still dependent on current GDP; we are also counting on that Lula has learned something about the fiscal disaster of the Dilma government.

Regarding revanchism, the recent movements of the candidate Lula indicate a reduction in risk on this mandate profile.

The main risk

But the main risk would remain: a mandate that has as its central plan a new search for power hegemony that again disorganizes the political environment and its fragile balance structure.

In this regard, the risk would be to have a political system captured by a highly-skilled, popular, populist president and piloting the largest party in the country with the ambition of complete domination of power.

The power plan that was executed during the four PT mandates had relevant institutional risk characteristics:

- / Interference between powers highlighted in the influence of the executive over the legislative through well-documented corruption schemes and with strong popular support;
- / Support from civil authority institutions organized as unions and churches serving as a lever of direct communication of the executive with the population;
- / Aggressive expansion of the PT presence in the national political space through the election of hundreds of mayors, governors, members of the House of Representatives, and as well as a strong presence in the Senate;
- / A declared goal of dominating the national political scenario, building narratives such as parties historically known as center-left are right parties, or aggressive attacking old allies, as in the electoral dispute with Marina Silva in two elections;
- / Little democratic interaction with opposition parties, such as when Lula mentioned “eradicating” opposition political parties, said in 2010 about the DEM¹.

This combination of factors forms our most significant concern when we envision a new Lulista mandate.

¹ <https://g1.globo.com/especiais/eleicoes-2010/noticia/2010/09/precisamos-extirpar-o-dem-da-politica-brasileira-afirma-lula.html>

Argentina's experience shows that societies captured by populists who know how to drive the levers of power for the benefit of the construction of a hegemonic political power project have distant and damaging effects that capture the psyche of society for decades.

That is, we are less afraid of the economic policy of a new Lulista term, but we are terrified of the new construction of power that can capture the political system, changing the essential and still tenuous balance of forces in Brazilian democracy.

Histories of the societies are the consequence of historical accidents, difficult decisions to be evaluated at the current moment, and, especially, the result of mistakes and successes.

What we believe forms the basis for the evolution of a society is the improvement of the institutional framework through these experiences to align, change and improve the legal contours that limit and reduce the size of potential deviations.

The end of reelection as a risk mitigator

The end of the presidential re-election would be an essential institutional democratic advance given the main current tail risk.

Approved in plenary in January 1997 and sponsored by former president FHC, which has already recognized that it hurt our history, we believe that the structural change of the end of the presidential reelection may have a rare moment of alignment of interests between the candidate Lula and Brazilian society.

A formal commitment to the end of reelection during his campaign would be a measure widely accepted by the political system and especially by the markets, by reducing the main risk of a new Lula mandate.

Eduardo Leite, the current governor of Rio Grande do Sul, successfully embraced the same strategy. In a highly polarized environment in the

Rio Grande do Sul, the announcement of his non-reelection during his campaign helped him gain the support needed for his victory.

The end of the reelection made his term significantly more manageable since Eduardo Leite did not become a virtual opponent of the different local political forces from his first day as governor.

Thus, he obtained support from opposition parties for unpopular agendas, which structurally improved the governability of the state and consequently for the following mandates and politicians, in which the opposing parties would compete without the presence of the governor himself.

If candidate Lula commits not only to his non-re-election but especially to the legislative change of the rule of the re-election of the President, Lula would not only increase support for his candidacy but also improve the governability of his possible term.

Mainly, it would significantly reduce the odds of any new hegemonic power-building plan in Brazil.

A new Lula mandate with no possibility of re-election would help PT's reappointment to its natural position in Brazilian politics, a party that is the protagonist of the left-wing causes would rehabilitate the legacy and history of the former president but would leave open the field of democratic political dispute for the new generations and political frameworks in the 2026 election.

Even if Lula turns out to be an influential canvasser at the end of his term, we would have a dispute among new names without maintaining the same specific political group in future mandates.

Therefore we believe that today there is a rare alignment of interests between society, the political environment, and the candidate for office, which would benefit from reducing his rejection. We have to mention that Lula is an elderly man and would be 82 years old at the end of his term.

In our view, this would be a more truthful democratic alliance from Lula, in which such a decision would only generate anticipated benefits to

the candidate if it was perceived as credible and not just a campaign story. It is always important to remember that President Bolsonaro promised the end of the reelection during his campaign in 2018².

A political commitment of the candidate with a broad alliance of support desired by Lula today, transformed into a public campaign document to be executed at the beginning of the term, would have political credibility to benefit his candidacy and broad pressure for his execution after the election.

On the other hand, if pressed by the opposition to defend the end of the reelection but to deny it explicitly, it would become more apparent to voters the risk of a distant and hegemonic plan for the reconstruction of PT power, which could negatively affect the performance of his candidacy.

We believe that the end of the presidential re-election would be a kind of "Letter to the Brazilian people." The document could put him at a more significant advantage in the electoral race and, at the same time, reduce the structural risk tail of future political scenarios.

The great challenge and paradigm would be to have such a project executed by the party in front of the national politics hegemony.

2 <https://veja.abril.com.br/politica/bolsonaro-diz-que-vai-propor-fim-da-reeleicao-para-presidente/>



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