



letter: October, 2021

The Bolsonaro Paradox

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Before we get into this grey zone that is politics, we would like to make it clear that we are nonpartisan and strive to put ourselves in the shoes of each actor in the political process. We believe that judging political dynamics by considering our preferences would lead us to a wrong assessment.

Our intention is not to define “right” or “wrong” but to try to understand patterns and dynamics that indicate behaviors and possible future political results.

To talk about the Brazilian political scenario, we start by briefly analyzing what we understand to be the main characteristics of the Bolsonaro government.

On President Bolsonaro’s tenure, we will not extend to the sociological analysis of the reasons for his election. We will concentrate on his actions after he took office.

In our [first letter to investors, published in November 2019¹](#), we identified the “incorruptible” narrative that led Bolsonaro to victory and greatly frightened us when we drew a parallel with Robespierre's nickname, which quickly disbanded with the revelation of the Queiroz case.

From this episode, President Bolsonaro gradually abandoned the anti-politics facade and assumed his decades-old history in politics linked to the centrão and, in particular, to the Progressive Party (PP).

1 <https://www.marasset.com.br/en/mar-content/>

Bolsonaro in details

The politician Bolsonaro is characterized by his bellicose stance to draw attention to his agendas since his tenure as a congressman and his almost union attitude toward a single agenda in the Brazilian congress.

That is why his role as President of the Republic, through the provocation of national political players, does not surprise us. It seems natural that the president uses this strategy to make politics.

The significant problem of this position is the societal elites' expectation of the liturgy of the presidential role.

We (the financial market, the political class in general, entrepreneurs, intellectuals, and especially journalists) have clear expectations of how a President of the Republic should behave publicly and institutionally.

Bolsonaro purposely breaks all these codes to provoke the “intellectual elites” and activate his electoral base. In this dimension, the president achieves his goal quite successfully.

So much so that it leads its “imaginary opponents” to make mistakes that eventually undermine their credibility and supports the Bolsonarist narrative.

President Bolsonaro is a political figure, for us, of little obvious interpretation whether to characterize him in a wholly negative or positive way, as how most of society is divided in his regards.

For us, he walks in a gray zone that demands some effort to understand him.

However, one thing the president has in common with all other politicians is maintaining power as the primary goal.

From this premise, it is up to us to understand which tools and mechanisms are at his disposal and which ones this President feels able to deploy.

After almost three years in office, we risk saying there is a reasonably defined standard in his performance.

His priority is not to lose its core electorate, thus using several strategies to activate its support.

It is worth opening two parentheses on this.

The first is that the election of President Bolsonaro revealed a mass of voters who were thought to exist in Brazil but had never revealed themselves clearly.

Bolsonaro's proposal gave rise to a demand from the part of society that was identified and aligned strongly behind the conservative values contained in his narrative.

This conservative bolsonarist base makes up the core of his voters.

They exist, representing around 20% of the votes, and will continue to defend these agendas with or without Bolsonaro. Brazil's conservative right, which has felt oppressed for decades, now feels free to express itself.

The second parenthesis derives from the first: Bolsonarism rearranged the country's political rule.

In a “brilliant” way, trickily and clearly for his own benefit, Lula pushed the PSDB, originally left center/center party, to the right. He did so to the point of managing the Brazilian society to identify the PSDB as a “right-wing party.”

Bolsonarismo reorganized this framework, taking its place to the right, pushing PSDB back to the center and PT back to the left.

We believe this rearrangement is healthy for the political dispute and the debate about society's options and choices.

Therefore, President Bolsonaro understands that keeping this conservative base activated and aligned is vital to his political survival.

In this theme, this mandate lives a paradox that defines much of our analysis.

The Bolsonaro government, contrary to what most of the press and the politicized elite say, seems to us to represent a weak executive power and not a strong president as Bolsonaro wants people to believe in.

A powerful president controls and manages his power well and understands how to deploy the power levers.

A very powerful president who becomes a threat to the democratic system is the one who manages to advance on the other powers of the Republic. It is they who, in our view, represent the much-vaunted 'risk to democracy.' Presidents who, through their high popularity, can advance over the legislature, forcing it to extend and increase the concentration of power of the executive. In specific examples, it even changes the laws that define the number of judges in the supreme court or even the form of their appointment and/or dismissal.

In this way, the executive, using his high popularity, first advances on the legislative and, through changes in the laws, advances on the judiciary, thus transforming the democratic environment into a "modern dictatorship."

In the Brazilian case, we did not identify any of these characteristics. We have an isolated president who has had his powers reduced since his inauguration.

A President who, to our surprise, broke away from his party after electing the second majority in the House of Representatives, which could have resulted in significant leverage of institutional power.

He does not have an organized social base (trade unions, organized classes, etc.), has minimal influence on the judiciary, and lives with the press (fourth power) unanimously against its government on a daily basis.

So we believe that the risk to democracy posed by an isolated president with low popularity and limited levers of power is shallow.

When facing the paradox of keeping its base activated and aligned without being able to offer concrete actions that would satisfy it,

Bolsonaro uses bellicose and forceful rhetoric on themes sensitive to its base but anomalous to the central concerns of the country.

Themes that would normally be ignored by the establishment gain prominence through rejection and intense press coverage. This causes the impression of its real power to be magnified and that his supporters are satisfied.

So far, the threats made by the President have, in our view, been nothing more than empty speeches that surprisingly still enjoy prominence and "credulity" of the press. The latter ends up serving as a driving vehicle for the Bolsonarist strategy.

We do not believe that it is a coincidence that the debate on printed votes returned after the appointment of Senator *Ciro Nogueira* (licensed president of the PP) as Minister of the Civil House.

In a short period, Bolsonaro replaced two high-ranking and trusted generals, Gen. *Luiz Eduardo Ramos*, and Gen. *Braga Netto*, with two traditional politicians in key government positions.

First, Mrs. *Flávia Arruda* as Minister of Government Secretariat, representing the PL (party of *Valdemar Costa Netto*), indicated by *Artur Lira* (PP).

Then *Ciro Nogueira*, occupying the highest political position indicated by the government, the Civil House.

There are no more characteristic central parties than the PP and the PL.

These movements demonstrate an urgent need for support in the parliament of an isolated government but, at the same time, compromise his electoral speech, bringing to the core of the government what candidate Bolsonaro most flogged during his campaign, the "old politics."

Namely, the Brazilian traditional central supported all in exchange for the government access to power and public budget.

A perception of "electoral embezzlement" would be very costly in terms of losing support from the hard core of its electoral base. That is

why we witnessed the President's substantial rhetorical escalation that began with the printed vote and ended on September 7, effectively activating his base and diverting the focus from his most relevant recent political decisions.

The sign of surrender to the traditional policy of the Bolsonaro Government, exemplified by the exchange of ministers, was packed in the rhetorical noise of the printed vote and the demonstrations of September 7 (Brazilian Independence Day) to safeguard the support of its base.

A move that seems to have been very successful from the Bolsonarism perspective. Despite the ministerial exchanges, he managed to mobilize a massive contingent of supporters in the street demonstrations of September 7.

The demonstrations proved to the political world that Bolsonarism still mobilizes and has street support. This demonstration is especially relevant when we think the President has no political party and needs to negotiate his affiliation and support for the 2022 election.

If the perception were of a weakened Bolsonaro, the cost of the agreements would be higher for the President. With the September 7 demonstration of strength, it seems the President is trying to gain strength to face the negotiations that would happen in the coming months.

So what would the Bolsonaro government be beside the strategy of activating its base through the provocation of political players?

Separating the government by agendas, we have:

Security policy: we were unable to define any strategy.

Environmental policy: neither.

Educational policy: we remember the minister's name only because it is our job to follow the political environment. Do you remember?

Health policy: we only know the decisions about Covid, which have been confusing since the beginning of the pandemic, although we find the Brazilian vaccination process very successful.

That is, there is no clear and defined government policy on agendas that are key to society.

However, when it comes to economic policy, we diverge from consensus.

We understand that the Bolsonaro government has adopted a surprisingly positive economic policy. The government strengthened liberal values and fiscal responsibility, disputed during his campaign given Bolsonaro's term as a member of the House of Representatives, and approved significant reforms that tend to affect the Brazilian potential GDP in a structurally positive way.

Despite numerous attempts by political forces to break it in recent years, compliance with the spending ceiling is still our central scenario. This will make the Bolsonaro government the first in the post-dictatorship era that will end its four years of government with primary expenditures levels lower than at the beginning of his term.

Fiscal respect combined with structural microeconomic reforms, highlighting the approval of the Basic Sanitation PEC, makes us believe that there is relevant potential for the country's future growth.

In other words, the Bolsonaro government has a single effective policy: the economic agenda. That's where he bets all his chips for reelection, and it seems reasonable to us that he does so.

How to combine the dependence between the well-succeed economic guideline with the intense and frequent political noises to keep his base active?

Bolsonaro faces the challenge of maintaining his active and militant base but, simultaneously, allowing the economic policy to show its results.

The generation of odd political noises negatively affects the expectations of economic agents and, consequently, the practical results of sound economic policy.

Political uncertainty negatively affects the economy, which is the only effective government policy.

That is why we understand the “bite and blow” pattern deployed by the government as an attempt to equate these conflicting forces.

Bolsonaro seems to have a clear pattern of approaching the precipice repeatedly but never jumping, as this keeps his base activated and does not kill his economic policy. Thus, he is buying time so the economy would post positive results and facilitate the attraction of the center and center-right to his side until the elections.

How do we perceive it from now on?

Today the presidential political board has only two players, Bolsonaro and Lula. The current and the former president. We always like to remember that Lula is the most successful politician in the democratic period of the country from a presidential dispute perspective, having won four consecutive elections and controlling the party with the most significant popular identification, therefore a formidable opponent.

Here a qualification on the current electoral polls, which show Lula well ahead of Bolsonaro, deserves to be done.

At this point in the race, which still seems too early for any relevant prediction, we do not like to give credit to the stimulated votes poll (when the candidates' options are presented to the interviewee) but to the spontaneous ones (when the interviewee spontaneously tells his preference), when analyzing current electoral polls.

Stimulated voting intent is a good outcome indicator only on the eve of the election, as voters will be required to vote for someone. Today, to analyze the political situation, the intention of spontaneous voting is the one that best reveals the starting point of each candidate.

This starting point signals to the political class the probability of power perspective of each candidate who, during the electoral campaign, will build their support structures.

Unlike the stimulated electoral poll, the numbers of spontaneous voting intent show Lula only slightly ahead of Bolsonaro.

Economic recovery as a variable relevant to the political environment.

The state of the economy is always a relevant influence factor on the political environment. Currently, it is even more relevant, as it is an economic recovery after a deep health crisis. The *feel-good factor* inherent to the improvement of the economy will be enhanced by the return to normality of daily life.

As an initial exercise on this effect, we like to reflect on the American presidential election. Would it have been the same if the elections had been held at the end of 2021 instead of 2020?

The American environment in last year's elections was still surrounded by accelerating dynamics of the Covid-19 outbreak with mobility restrictions without a clear perspective of the vaccine.

With the environment that we have today in the U.S.A., normality of circulation in most parts of the country, good vaccination effectiveness, and *feel-good factor* starting to prevail would Trump have lost the elections?

Given our central case that the economic recovery in Brazil will strongly continue in the coming quarters, especially in the services field that creates most of the jobs, it seems imperative that the economic activity monitoring, especially the effects of the mobility normalization and jobs related to services, will be crucial to think about the Bolsonaro presidential popularity at the end of next year.

Our economic activity future scenario, unlike the recent more pessimistic market consensus, incorporates continued growth in the coming quarters with the effect of the return of mobility after the Covid-19 outbreak.

Even inflation, which today presents itself as a solid negative variable in the economic environment, tends to cool down during the following year, either due to the base effect or the dilution of shocks

(both demand and supply), and the risk of rationing seems reduced ([we released a recent study on the subject²](#)).

This positive economic environment is a central variable for us to conduct our prospective reflection on the current government.

The resumption of activity cannot alone carry government approval back to levels above 30%. Still, it is the basis for building a political environment favorable enough for the return of popularity to these levels.

For the government to regain its popularity, we understand that a combination of economic recovery with the moderation of the president's speech is necessary to restore part of the center voters who voted for him in the past elections.

Bolsonaro seems to have control, and it depends on him to see his position in the field so that the ball hits the goal.

Electoral races in which the current president is part of the dispute are defined by the actions and movements of the incumbent who has the government machine in his hands. Most of the time, the other players are responsible for reacting to the president's actions.

Building Electoral Scenarios

In a simplified way, we envision three scenarios for the elections, depending on the strategy adopted by the President.

1- Bolsonaro maintains his erratic behavior in favor of his bases, follows his process of political isolation, and fails to take advantage of the positive economic environment for popularity recovery.

² <https://www.marasset.com.br/en/mar-content/>

In this case, the trend would be continuity of dehydration of their support, making room for a center-right candidate within their political space.

Governor João Doria would be the most effective candidate to occupy the center-right space and compete for a second round with Lula, with good chances of victory.

2- Bolsonaro moderates his speech, contains the deterioration of his popularity, but not enough to win back his moderate voters from the last election.

In this scenario, the third way is squeezed between Bolsonaro, which retains its support base but does not expand it, and former President Lula, who starts with a high level of support despite also presenting limitations for its expansion.

An average recovery of the President's popularity would keep Lula with real chances of victory, keeping alive his candidacy against a Bolsonaro also competitive. The second round, between Lula and Bolsonaro, would be decided by conjunctural issues and campaign capacity.

3- Bolsonaro moderates his speech in a relevant way, waves to his former moderate voters, but maintains the support of the radical right for lack of an alternative for these voters.

In this case, Bolsonaro returns to his peak of popularity, becoming a favorite for the election.

Lula's candidacy becomes a relevant risk to the very survival of his party, the PT.

A defeat of Lula for Bolsonaro in the second round could accelerate the process of weakening the PT party, aborting its plan to regain the power and credibility they have had in the past.

In this environment, we even glimpse the withdrawal of Lula as a candidate and support the construction of a “*Concertación*” like the Chilean type, with an alternative candidacy that represents the idea, exaggerated in our view, but with the potential for victory, of the “union of democracy against authoritarianism.”

Governor Eduardo Leite would be the best candidate to unite the center/center-left and the left in a slate that would have the union of national democratic forces as its flag.

Thus, a Bolsonaro with a terrible or great recovery of popularity can make room for a third way in the second round.

In this election, two of the favorite candidates have similar voting characteristics, high floor, and low ceiling. For this reason, Bolsonaro needs Lula in the second round to win reelection, just as Lula needs Bolsonaro in the second round to win back the presidency. The main challenge of the third way is to get through the blockade of the first round to benefit from the high rejection of Bolsonaro or Lula in the second round.

Final comments

Our reading is that despite the noise and volatility, fiscal policy will remain for the next year, recent pessimism about economic activity tends to unravel as actual data are released, unemployment will continue to fall with the return to normality after Covid19, and inflation tends to give way, and the risk of rationing seems low.

The incumbent is “lucky” to have at his side a favorable economic environment in the year of the presidential election, but that alone is not enough to lead him to victory.

The dynamics of the electoral race depend to a large extent on President Bolsonaro's political stance and how he will move around observing potential electoral groups.

The moderation of the discourse and its decisions on how to walk in this environment will dictate the ability to win back its voters from the last election. Something that would seem reasonably simple to a

traditional politician is often incompatible with President Bolsonaro's political modus operandi.

Our analysis of the political situation naturally does not point to who we think will be the winner of the elections next year.

As Magalhães Pinto (former governor of Minas Gerais) said: "politics is like the cloud; you look at it in a way, when you look again, it's already different."

That is why we also follow with great attention and interest the primary elections of the PSDB, which will have their first round on November 21, the interesting movements of former Minister Luiz Henrique Mandetta, and the presence of former Judge Sergio Moro in the political environment.

Our idea in this text is to share our internal reflections and debates that serve as a structure of thought to follow the political developments in the next quarters.

We believe it is still too early for more bold predictions about the presidential election.

However, it is already possible to structure our scenario assessment to identify the actual signs and discard noise in an environment where we will see analyzes in the press that are always in an exaggerated tone on any topic related to the political polarization built in recent decades.

Separating the signs of noise in Brazilian politics will be a central challenge in the coming quarters and potentially help us manage the Mar Absoluto portfolio.

Reforms approved in recent years

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Fiscal reforms

- / Spending ceiling (Michel Temer)
- / Replacement of TJLP by TLP as BNDES interest rate (Michel Temer)
- / Social Security reform
- / Complementary Law 173/2020: Assistance Law to state and municipal governments, preventing salary increases for public officials for two years (2020-21)
- / Complementary Law 176/2020: the resolution of the liabilities of the Kandir Law
- / Complementary Law 178/2021: establishes triggers for states and municipalities and improvements in the LRF
- / Constitutional Amendment 109 (PEC 186 - Emergency)

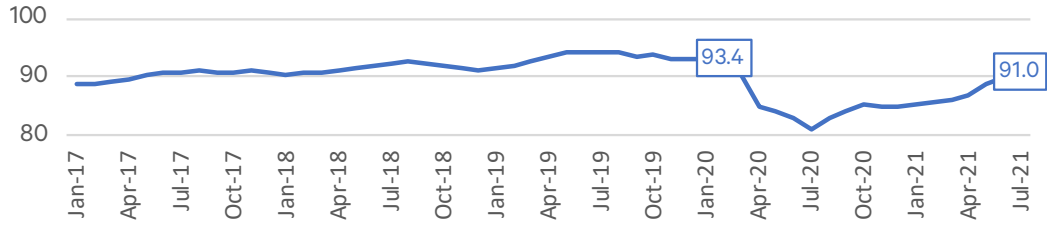
Pro-market reforms

- / High School Reform (Michel Temer)
- / Labor Reform (Michel Temer)
- / Law of State-Owned Companies (Michel Temer)
- / End of Petrobrás obligation to hold at least 30% participation and to be the sole operator of all oil exploration fields in the Pre-Salt (Michel Temer)
- / New Sanitation Landmark
- / New Bankruptcy Law
- / New Bidding Law
- / Autonomy of the Central Bank
- / New Gas Landmark
- / New Framework for Regulatory Agencies
- / Digital accounts
- / New landmark for Startups
- / MP of Eletrobrás
- / Auction 5G
- / Railway MP

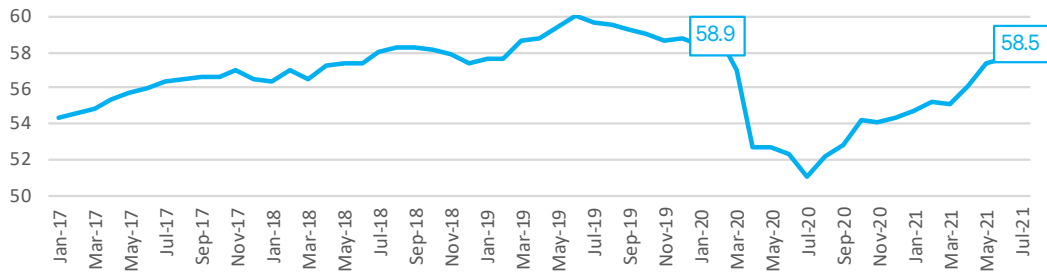
Labor Market Indicators

BCB, IBGE, Ministry of Finance, Mar Asset Management

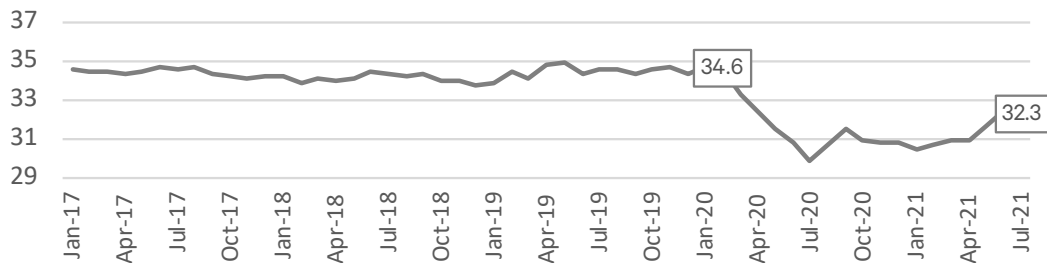
Total Employed Population



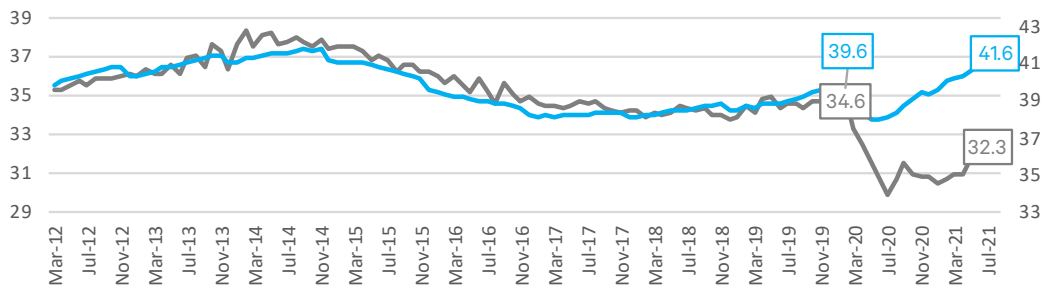
Employed Population - Other



Employed Population - CLT



PNAD CLT vs. Caged

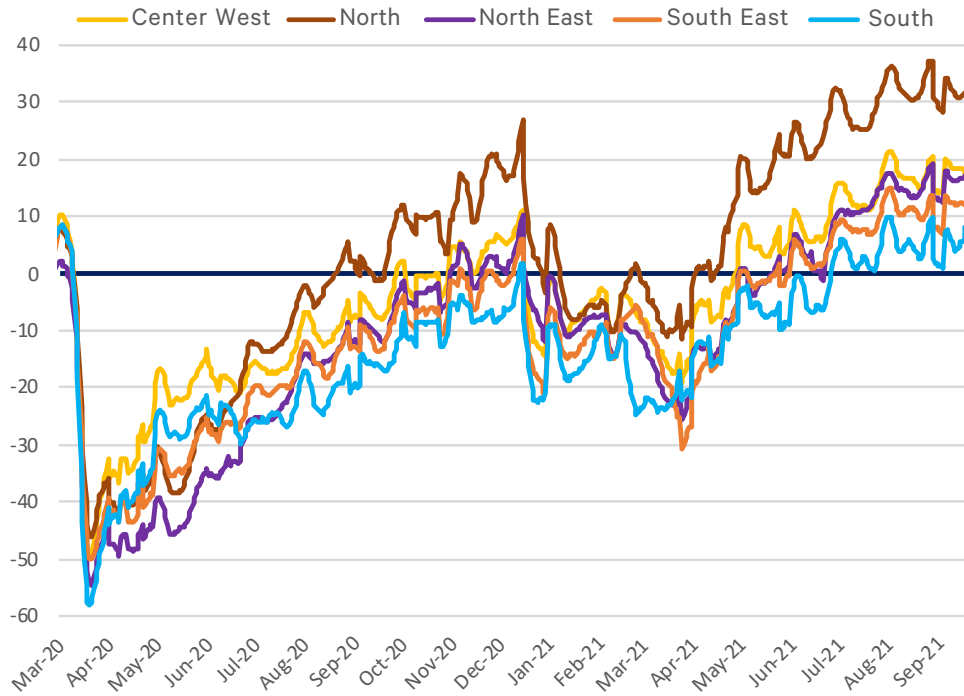


Social mobility

Google, Mar Asset Management

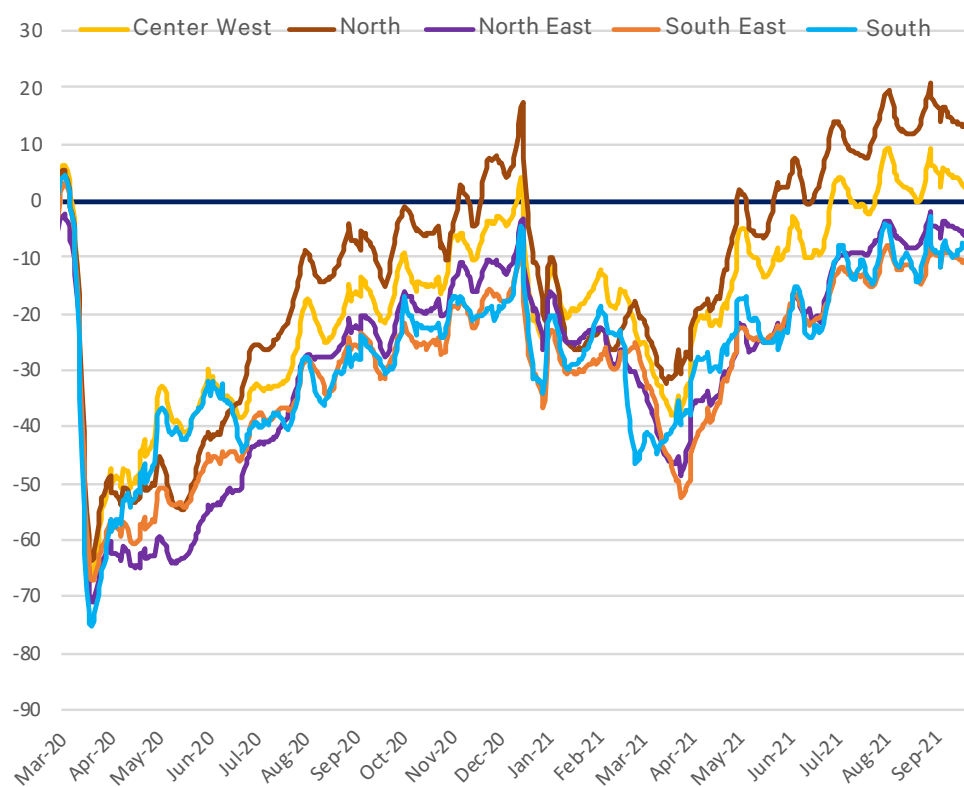
Google Social Mobility Index

(% compared to normal, MM7 days)



Google Retail Social Mobility Index

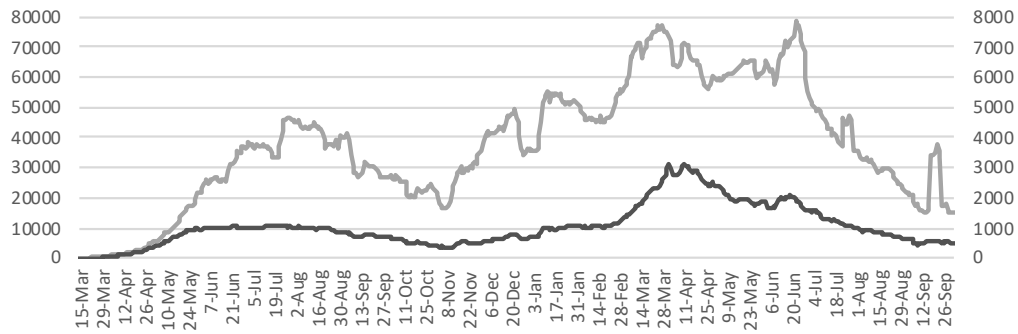
(% in relation to normal, MM7 days)



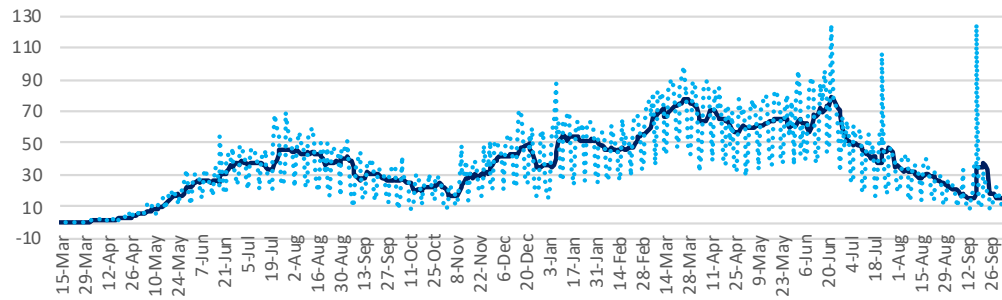
Indicators of the Covid-19 outbreak in Brazil

Ministry of Health, State Health Departments, Mar Asset Management

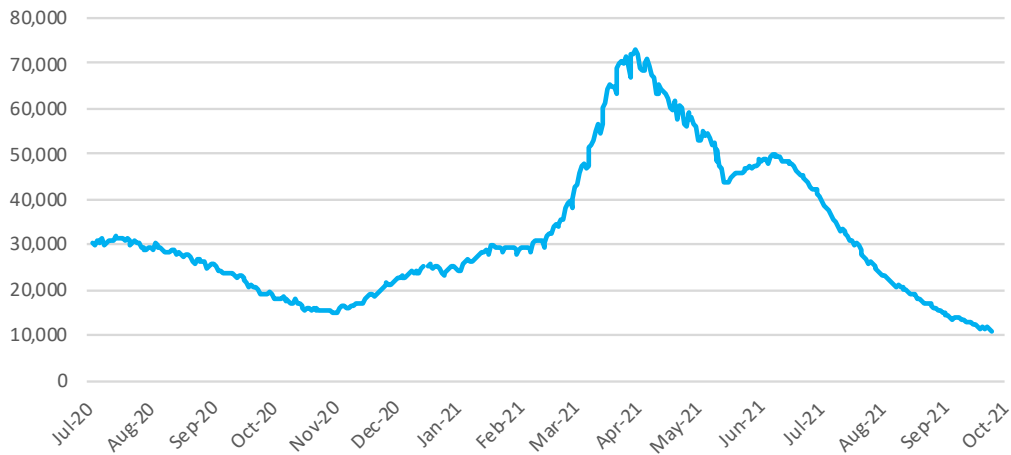
New cases and deaths (7-day moving average)



New cases



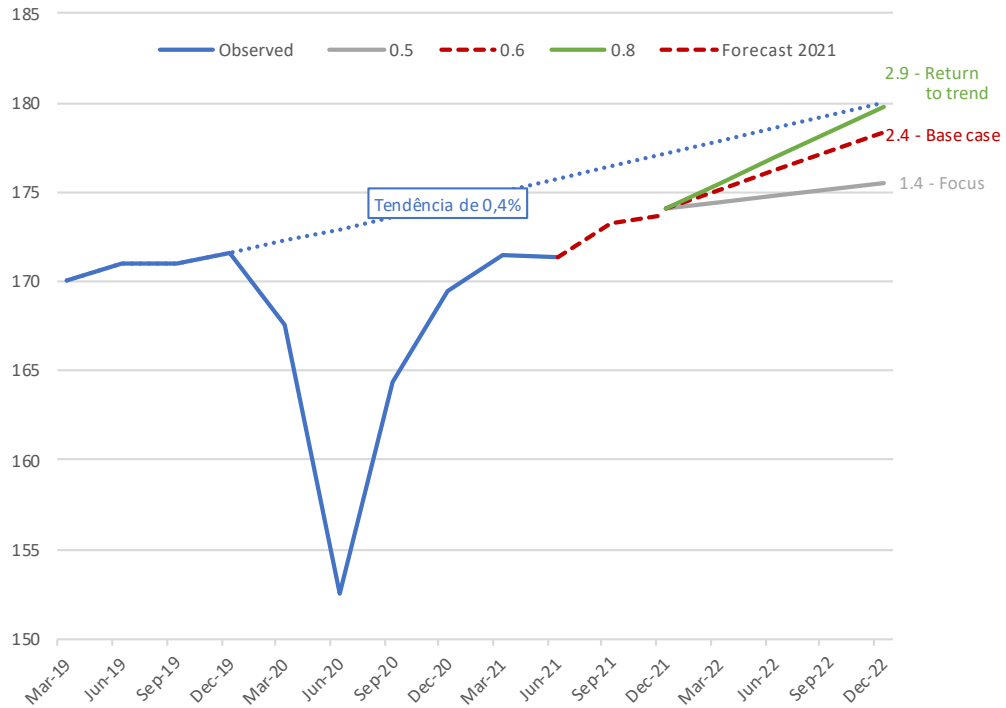
Total Hospitalizations



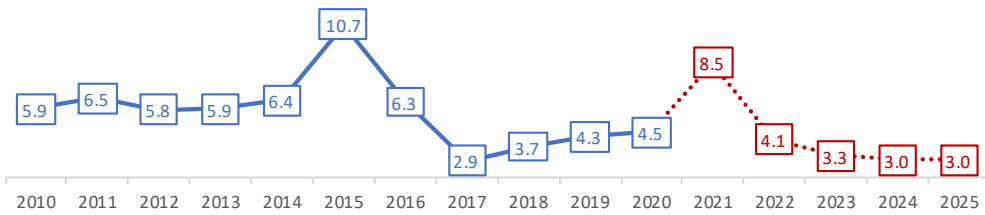
Economic indicators

BCB, IBGE, Ministry of Finance, Mar Asset Management

Simulations for annual GDP growth in 2022, based on quarterly average growth scenarios



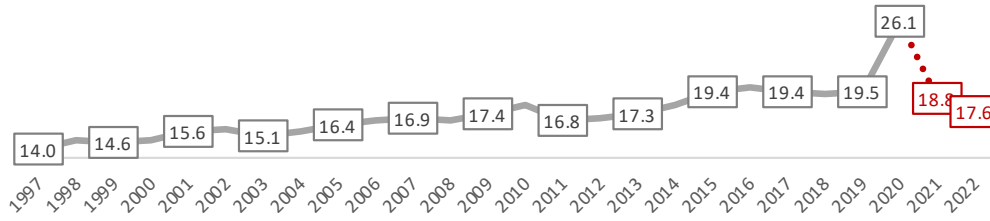
IPCA (% , yoy)



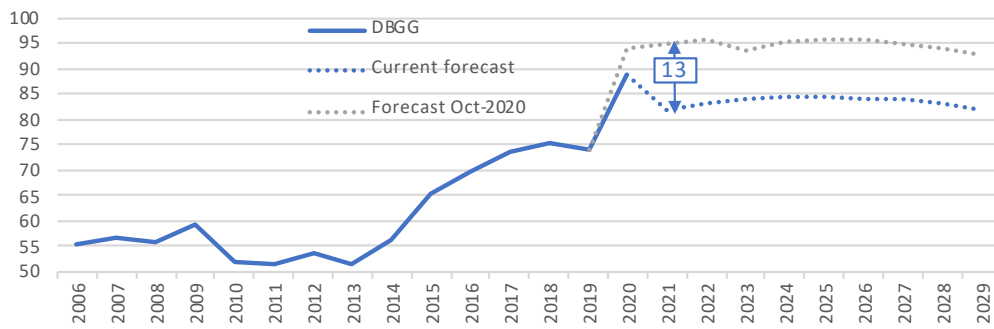
Economic indicators

BCB, IBGE, Ministry of Finance, Mar Asset Management

Central Government Primary Expenditure (% of GDP)



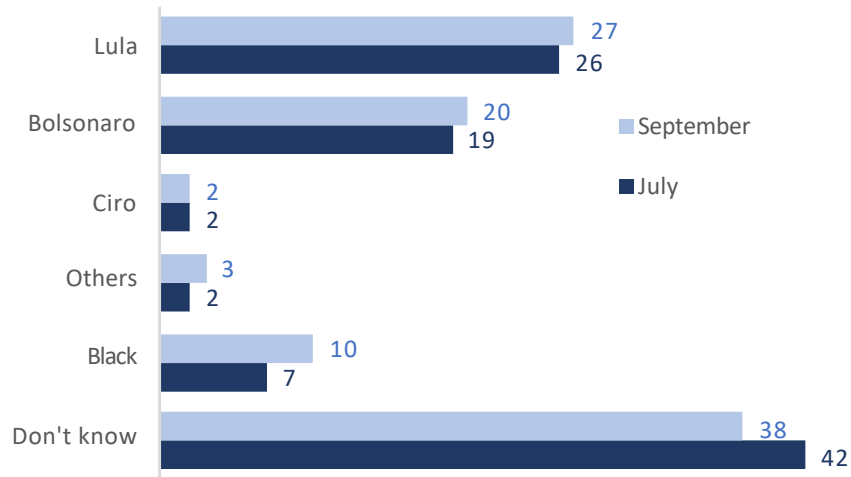
DBGG and projections



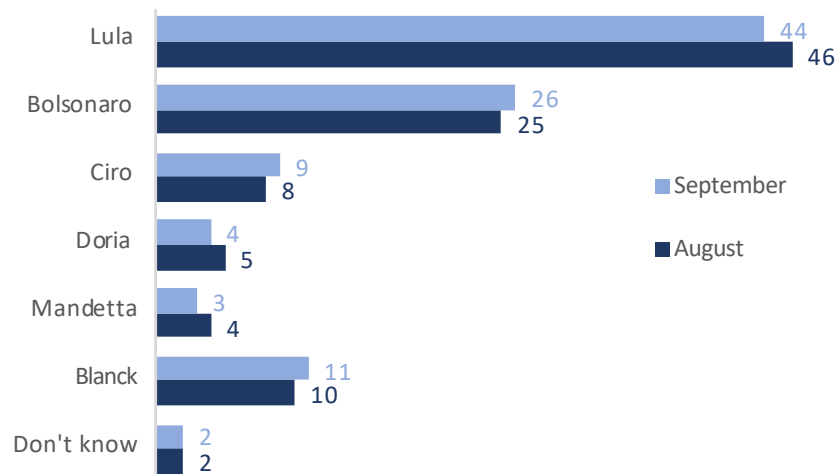
Surveys for the first round of the 2022 presidential elections

Datafolha, Mar Asset Management

Spontaneous research



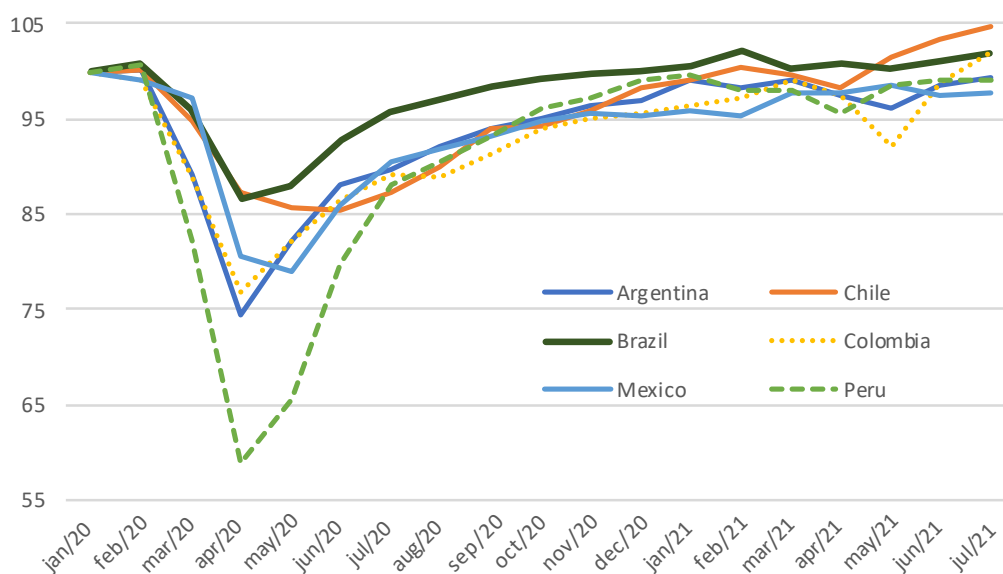
Stimulated research



Growth of Brazil and selected countries

Bloomberg, Mar Asset management

Index of economic activity (SA)



GDP

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Acumulado 2020-2021 |
|---------------------|------|------|------|------|------|------|---------------------|
| Brazil | 1.8 | 1.4 | -4.1 | 5.2 | 2.1 | 2.3 | 0.9 |
| Chile | 3.7 | 1.0 | -5.8 | 10.0 | 2.9 | 2.3 | 3.7 |
| Colombia | 2.6 | 3.3 | -6.8 | 7.3 | 3.8 | 3.3 | 0.0 |
| Mexico | 2.2 | -0.2 | -8.3 | 6.0 | 3.0 | 2.3 | -2.8 |
| South Africa | 1.5 | 0.1 | -6.4 | 4.9 | 2.3 | 2.0 | -1.8 |
| Russia | 2.8 | 2.0 | -2.9 | 4.0 | 2.5 | 2.1 | 1.0 |



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