

DXA Investments Economic Perspectives Private Equity 2050

Oscar Decotelli Founder and Ceo of DXA Investments

Emerging markets will dominate the world's top 10 economies in 2050 (GDP at PPPs)

	2016	2050	
China	1	1	China
US	2	2	India
India	3	3	US
Japan	4	4	Indonesia
Germany	5	5	Brazil
Russia	6	6	Russia
Brazil	7	7	Mexico
Indonesia	8	8	Japan
UK	9	9	Germany
France	10	10	UK

E7 economies
 G7 economies

New York, Feb 5, 2019 (IssueWire.com) - While the investment world is discussing US slowdown, China Trade wars and Europe mess the new Alpha Opportunity is Brazil & South America. Stable economy and new government agenda will prove to be a safe haven for investors in the next 3-5 years “ Highlights of my view, Oscar Decotelli CEO and Founder of DXA Investments.

Expect a major capital inflow to Brazil to buy public equities, private equity, infrastructure logistics large projects, privatizations. We expect more than US\$ 100 billion of inflow in 2019/2020.

Global uncertainty

- Economic slowdown on the developed countries with prices on the public markets still very stretched (S&P is at 20x P/E even after recent corrections)
- Volatility in the markets is expected to double this year
- Political uncertainty has now become a reality, with movements such as the government shutdown and trade discussions with China bringing extra risk to the market
- In Europe, we see challenging growth scenario with difficult political situations specially with Brexit and the Italian budget crisis.
- China's position as a favorite capital destination in EM will be challenged in the years to come and countries such as Brazil, India and Indonesia shall play a larger role.

Latin America

- The region accounts for 8% of the population of the world and approx. 10% of the world GDP today.
- However, less than 2% of investments have been driven to the region.
- The region went through economic and political instability in the past years and now, a more stable situation, investments will return.
- We expect that a new “decouple” will happen between South America and the developed world. This shall become stronger in 2020-2021 when the US might go through a recession period.
- PWC projects that Brazil will become the 5th largest economy (ahead of Germany, Japan, UK...) in 2050.

Brazil

Macro fundamentals

As a USD denominated investor, whenever you are looking to invest in private local emerging markets opportunities you will look for 4 fundamentals:

- Stable Inflation – Brazil currently has one of its lowest levels of inflation in history and one of the lowest among emerging market countries
- Low Interest rates – Brazil has the lowest in history
- Currency – the Real has suffered a significant devaluation in the recent period

- Legal Framework (RULE OF LAW) – During the last years, Brazil has tested its judicial system with respect to corruption prosecution, new bankruptcy law and title assurance. Although a still complicated system, it has proven to guarantee ownership.

Brazil is on the path to consolidate itself as a true superpower in the world, some highlights:

- The country has a lot of “slack” in the economy, with a 11,6% unemployment rate and a 75% industry capacity utilization, there is room for immediate growth;
- GDP in 2019 is expected to grow close to 3% with a low interest rate and low inflation environment, boosting consumer and business confidence.
- Brazil is consolidating as the major food exporter in the world and with a local economy which will be impacted by an increase in local consumption, thus less dependent on external factors.

What is the current fiscal challenge? The stability of such an environment is dependent on the country's ability to deal with the fiscal deficit it faces today and the impact on the growing debt/GDP ratio. However, with U\$ 370 billion in external reserves, the country has some time (1-2 years) to resolve the matter.

The major villain is the social security imbalance, a problem created by the populist/ socialist measures taken in the past decades. During the PT government, such problem increased dramatically because the growth of wages and benefits to public servants and the growth of the size of the government in the economy created an anomaly not common in developing countries: A public employee in Brazil makes 1.7 times more than a private employee in current wages. 7 out of 10 public employees are part of the 10% richest people in the country.

Political Scenario

The new president, Jair Bolsonaro, has created a “dream team” of prominent individuals to form his cabinet. This has made the “Bolsonaro Government” probably the best equipped and interest aligned government in Brazilian history.

There are two major pillars to the government: Economic development and Corruption clean up, lead by Dr. Paulo Guedes (Minister of Economy) and former Judge Sergio Moro (Minister of Justice) respectively.

What are the main economic propositions they are defending?

- Reduction of Government expenditure
- Social Security Reform
- Delinking of the budget
- Tax Reform

- Privatizations to reduce Government Debt

- Reduction of Bureaucracy
- SME – believes the country should invest more in the small and medium companies to drive innovation and job creation (as opposed to the investments done by former government solely on the large conglomerates)

Conclusion

Expect a major capital inflow to Brazil to buy public equities, private equity, infrastructure logistics large projects, privatizations. We expect more than U\$ 100 billion of inflow in 2019/2020.



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