SPECTRA
INVESTMENTS

INVESTMENT LETTER

SEPTEMBER 2026

THE GDP MYTH

It makes no sense to invest in the Brazilian stock market. That is the widespread sentiment that has taken hold on Faria Lima, São Paulo's financial hub. Local returns are mediocre, and the US market is the only rational destination for global capital. After all, that is where the tech monopolies are, along with an infinite capacity for permanent reinvention — so-called American exceptionalism. This is the conviction that prevails among local investors.

Brazil has a collection of intractable obstacles, from chronic bureaucracy to legal uncertainty, which lead to higher systemic and institutional risks. Hence the axiom: a country that works has a stock market that makes sense; a country that doesn't, doesn't.

But does this logic hold up in practice?

Before accepting the axiom, we analyzed two extremes:

1. **Argentina**: A country with recurring institutional collapse and lower economic growth than Brazil.
2. **China**: The greatest GDP growth phenomenon in modern history.

Interestingly, over long return windows in dollars, Argentina delivered returns competitive with other markets, while China posted an anemic performance, approaching Brazil's.

Table 1 – Internal Rate of Return of stock market indices in US Dollars[1]

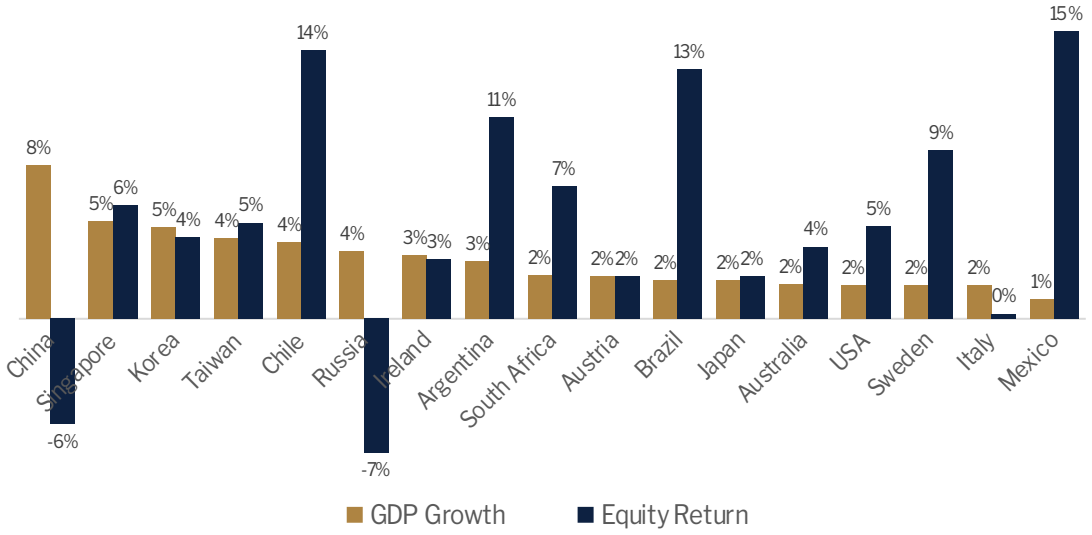
Period	Shanghai	Merval	S&P 500	Ibovespa
5 years	2.8%	25.6%	11.3%	7.1%
10 years	3.1%	7.4%	13.2%	6.6%
15 years	2.5%	6.8%	12.4%	-0.8%
20 years	5.6%	7.0%	9.3%	3.4%

THE HISTORICAL DISCONNECT

We dug into a few dozen academic *papers* on the subject. There appears to be a categorical consensus: **there is no meaningful correlation between a country's GDP growth and the appreciation of its stock market over the long term**. In fact, the papers find a negative correlation in both developed and emerging markets[2].

[1] Through August 2026.
[2] Jay R. Ritter. 2012. Is Economic Growth Good for Investors? Journal of Applied Corporate Finance

Figure 1 – GDP growth and annualized stock market return between 1970 and 2011[3]



GDP measures total economic output, but the equity investor only captures earnings per share. The reason for this disconnect rests on four pillars:

(1) **Expectations**: Today's price already incorporates tomorrow's growth.

(2) **Capital Flows**: Price is dictated by the balance between supply and demand for assets, not just by earnings.

(3) **Dilution**: The index often grows through new companies or equity issuances that dilute existing shareholders.

(4) **Cost of Capital**: The discount rate applied to future earnings is what really moves the needle.

1. THE MARKET AS A NET PRESENT VALUE MACHINE

In the early 2000s, Chinese growth became the consensus. The market priced in decades of expansion in just a few years. When the growth actually came, it was already in the price. Since then, geopolitics and the cost of capital have explained performance, while GDP kept rising in a vacuum.

[3] Javier Estrada. 2012. Blinded by Growth. Journal of Applied Corporate Finance

Figure 2 – Shanghai stock index performance in dollars

2. ECONOMIC GROWTH IS NOT THE SAME AS ASSET APPRECIATION

Since 1989, GDP growth has explained only about 25% of the appreciation of US companies. The rest is explained by margins, capital allocation efficiency and changes in the cost of capital.

Table 2 – What explains the growth of the US stock market?[4]

Driver	1952-1988	1989-2017
Economic growth	100%	25%
Earnings growth (higher capital share of income)		40%
Decline in the risk premium		21%
Decline in the real interest rate		14%

3. THE AMERICAN RETURN IS, TO A LARGE EXTENT, MULTIPLE INFLATION

In recent years, B3 companies delivered net revenue growth of **11%** p.a., while NYSE companies grew **9%** p.a. The significant difference in returns did not come from operations, but from multiple expansion. While EV/EBITDA in the US jumped from **8x** to **17x**, in Brazil it withered to levels of **5x**.

[4] Greenwald, Lettau & Ludvigson. 2025. How the wealth was won: factor shares as market fundamentals. Journal of Political Economy.

Figure 3 – Annual net revenue growth of NYSE and B3 companies in local currency

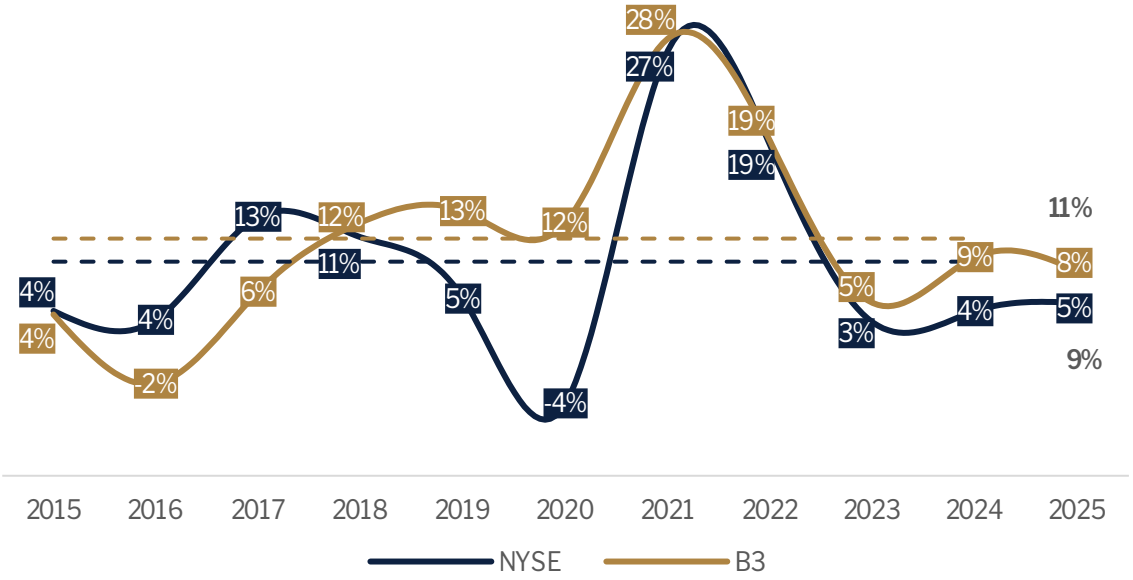
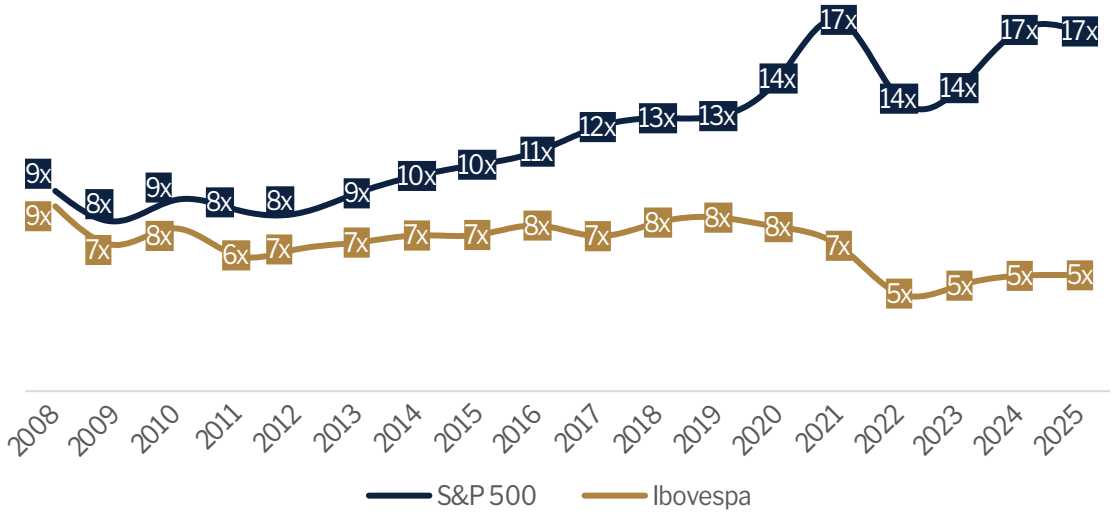
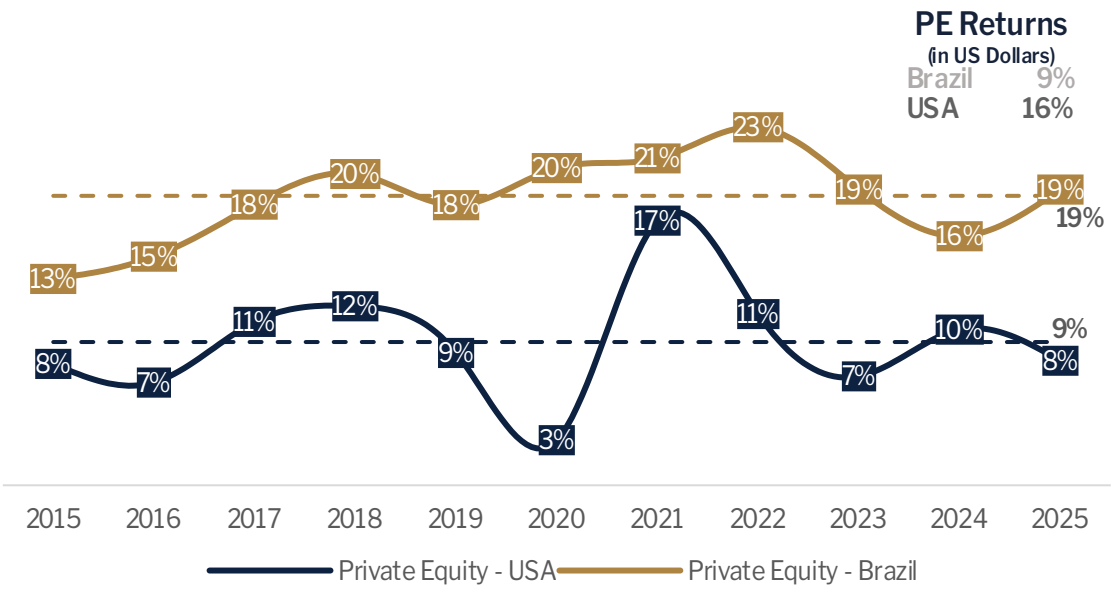


Figure 4 – EBITDA multiple for S&P 500 and Ibovespa companies



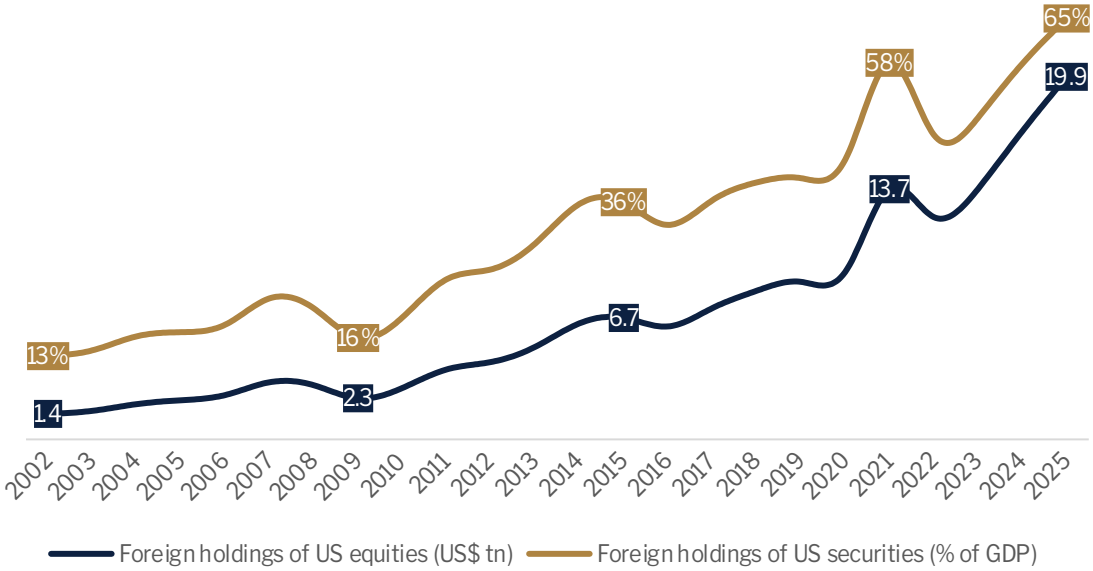
The same phenomenon is found in the world of Private Equity. Even though portfolio companies in Brazil grow faster than those in the US, returns there are better due to price inflation.

Figure 5 – Net revenue growth of Private Equity portfolio companies in local currency[5]



Part of this multiple inflation came from an international capital flow that migrated to the US. At the end of 2010, foreign investors held US$2.8 trillion in stocks traded on US exchanges. By the end of 2025, this amount had grown to US$19.9 trillion. Foreign investors' holdings of US assets went from about 10% of US GDP in 2002 to more than 60% in 2025. This flow moves markets.

Figure 6 – Foreign ownership of US-listed companies[6]



[5] Cambridge Associates, Spectra Investments
[6] Treasury International Capital System – U.S. Department of the Treasury

CONCLUSION: THE PRICE OF THE APOCALYPSE

We disagree with the view that "it makes no sense to take risk in Brazil". The return on an investment does not stem from expected growth, but from the gap between what the market prices in and what reality delivers.

Spectra's case illustrates this well, since we have a relatively diversified portfolio, with more than 700 assets having passed through it. Our portfolio has a bias, as we believe we invest in companies that perform better than average. Even so, it illustrates the point that, if well managed, it is possible to achieve returns uncorrelated with the Brazilian economy.

We show each year's GDP growth, the aggregate growth of the portfolio in the same year, and the IRR that all investments made in that year have delivered to date (or upon exit).

Table 3 – GDP growth, internal rate of return by investment year and growth of portfolio companies[7]

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
GDP	-3.6%	-3.3%	1.3%	1.8%	1.2%	-3.3%	4.8%	3.0%	3.2%	3.4%	2.3%
Portfolio revenue growth	28%	29%	28%	29%	24%	33%	30%	35%	30%	28%	32%
Gross IRR of each year's investments	33%	50%	21%	34%	37%	25%	15%	19%	31%	48%	>100%

Brazil's structural problems are nothing new; they are the base case and are already fully priced in at current market prices. The cost of capital here is high, which creates a severe asymmetry: any absence of disaster turns into profit. In the US, optimism is embedded in multiples that require perfection to be justified.

Every major market turn begins when the consensus seems unquestionable. And today, the consensus is to give up on Brazil.

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[7] Data through March 2026.