

Cumberland Advisors Market Commentary – Cry for Brazil, and also for Latin America

The coronavirus is tearing through Brazil, a country ill-equipped to fight the pandemic. It's hard-right populist leader, Jair Bolsonaro, has dismissed the virus as a "little flu." COVID-19 is spreading through the population of 210 million, savaging both the inhabitants of the indigenous villages of the Amazon and the 13 million people packed together in the slums (favelas) of Brazil's cities. It is overwhelming the country's hospitals.



As this note is being written, Brazil has 271,628 people who have tested positive, surpassing Italy, Spain, and the UK. Only the US and Russia have more positive cases. Brazil is now the fastest-growing coronavirus hotspot. Last week 13% of all new cases globally were in Brazil. Recorded deaths from the virus of 17,971 are the sixth highest toll in the world. The actual numbers of infected and dead are likely to be much higher, as testing in Brazil has been more limited than in the US and Europe. Brazil has tested under 300 people per million inhabitants while the US has tested 9,482 per million.

What would have been a horrific health crisis under the best of domestic conditions has been made worse by a policy of denial by President Bolsonaro and by political discord between him and some members of his government as well as state governors and mayors. The health ministry advised social distancing; and governors and mayors imposed partial lockdowns, including closures of business and schools and restrictions on public transport. The president said these measures were "scorched earth" policies. He openly violated

the social-distancing recommendations of his health ministry and fired his health minister. The new health minister, Nelson Teich, resigned after just four weeks in office, after publicly opposing Bolsonaro's efforts both to ease social distancing and to promote the use of hydroxychloroquine to treat COVID-19. Teich's departure statement was noteworthy: "Life is made of choices, and today I chose to leave."

While many local governors and mayors have enacted stay-at-home policies, the popular support for social isolation measures had declined by early April to a bare majority, according to polls, despite sharply rising infection and death rates. Economic pressures are overcoming fear of the virus for many. Are those who listen to Bolsonaro's claim that people who are athletic have little to fear aware that the virus is now overwhelming a healthcare system that is not prepared for a pandemic of such a magnitude? The death toll among medical workers is staggering. As of May 7, at least 116 nurses have died, exceeding the deaths of 107 nurses in the US, a country which at that time had more than six times the total pandemic deaths of Brazil.

While Bolsonaro's base appears to support his demands for ending lockdowns and restarting the economy, his approval ratings have declined. Quite aside from the coronavirus crisis, there has been a strong negative reaction to the resignation of the justice minister, Sergio Moro, who accused the president of political interference in criminal investigations. Bolsonaro fired the head of the federal police, Mauricio Valeixo, whom Moro had appointed. This happens at a time when the president's three sons, all public officials, are linked to several investigations for corruption. The action was criticized as rolling back the independence of law-enforcement institutions and as a threat to democracy in Brazil. The market reaction was a 7.6% tumble of the main stock exchange index, the Ibovespa, and a 3.5% slide in the Brazilian currency, the real.

Brazilian business leaders who have been supporters of Bolsonaro's free-market views are said to be increasingly concerned about the economic damage from the coronavirus and the growing political crisis. An index of business confidence fell to the lowest level on record in April. The economic reform program of the highly respected economy minister, Paulo Guedes, has been sidelined by emergency measures that threaten his fiscal-responsibility agenda. Bolsonaro has tried to reassure investors that Guedes is still the "man who decides the economy in Brazil," but fears that the economy minister may resign persist.

The Brazilian economy is the ninth largest economy in the world and by far the biggest in Latin America, and thus the dominant economic force in the region. Brazil has relatively open borders with 10 other Latin economies. Both disease and negative economic winds can readily flow to the rest of the continent. China is Brazil's top export market, followed by the US, Argentina, and Europe. Commodities accounted for some two thirds of Brazilian exports in 2015. The deep decline in commodity prices has since become a serious headwind for the economy, now worsened by the global shock to demand dealt by the coronavirus.

Back in November, the OECD predicted that "On the assumption that the reform agenda continues to advance, growth is projected to gain momentum in 2020, advancing 1.7%." Only five months later, in April, the IMF projected that the Brazilian economy will decline 5.3% this year. This estimate is close to the 5.12% decline projected by Brazil's central bank, Copom. That number now looks optimistic to us. And we fear that a recovery in Brazil and much of Latin America may take several years. Brazil's Congress has passed a constitutional amendment that allows the central bank to finally engage in quantitative easing to combat the recession. A massive quantitative easing program now looks very likely. There are some concerns about this development, as the central bank actions could be

susceptible to political interference. The bank's latest statements no longer express concerns about the possibility of excessive monetary easing.

The tragedy unfolding in Brazil looks likely to be repeated in many other countries in Latin America. While the governments of some of these countries have acted more wisely to address the virus, none will be able to escape the pandemic or the severe economic downturn. The continent is the most unequal in the world. More than one third of the population lives in poverty. Adequate testing and social distancing are impossible in the crowded favelas. Half of the region's workers are in the informal sectors of the economy. Lockdowns will very difficult to design and enforce. Medical facilities are grossly inadequate, as are the levels of public health care broadly available. A humanitarian crisis appears all too likely. We will be writing several more commentaries discussing the effects of the pandemic on other countries in Latin America, including Mexico, Chile, Peru, and Argentina.

Bill Witherell, Ph.D.

Chief Global Economist & Portfolio Manager

[Email](#) | [Bio](#)

Sources: Bloomberg, Financial Times, Wall Street Journal, New York Times, [OECD.org](#), [IMF.org](#)

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