

LETTER | JULY 2026

Thunderstruck

“We look around and realize that, in some of these developments, there may no longer be a way back.”

ROCK CAPITAL · JULY 2026



AC/DC · "Thunderstruck" · The Razors Edge, 1990
Illustration: Rock Capital

I THUNDERSTRUCK

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III AGRIBUSINESS

IV ARTIFICIAL INTELLIGENCE

In this letter

Three distinct developments share one feature: forces that have been building for some time, with consequences that are becoming increasingly difficult to ignore.

TOPIC	WHAT WE ARE WATCHING	IMPLICATION
BRAZIL	Expansionary fiscal policy and unanchored inflation expectations, as monetary policy works with lags.	Higher rates for longer
AGRIBUSINESS	Lower commodity prices, fertilizer cost pressure and expectations of a strengthening El Niño.	Wider performance dispersion
AI	Accelerating hyperscaler capex, with returns on invested capital still uncertain.	Preference for suppliers at infrastructure bottlenecks

14.25 %

SELIC TARGET
JUN/2026

9.61 %

EX-POST REAL RATE
JUN/2026

4.64 %

IPCA
12 MONTHS

73.5 %

HISTORICAL PERCENTILE
OF THE REAL RATE

Ex-post real rate calculated as the Selic target less 12-month IPCA inflation. Percentiles and averages refer to the monthly series from January 2000 to June 2026. Source: Consolidated Macro Data database (SGS / Brazil's central bank).

ROCK CAPITAL TEAM

Enjoy the read.

Thunderstruck

THE METAPHOR OF THE MONTH

Thunderstruck was released in 1990 as the opening track on *The Razors Edge* and grew out of a short guitar exercise by Malcolm Young. The most interesting point, however, lies in the title itself. Literally, thunderstruck means something close to “struck by lightning”; in the song, the word becomes a metaphor for an experience so intense that it leaves the person living through it stunned.

The lyrics open by building exactly that feeling. The narrator faces a situation with no way back: his heart races, tension rises, and everything around him seems to take on an almost explosive dimension.

That feeling led us to choose Thunderstruck as the title of this month's letter.

July confronted us with three developments that, although seemingly unrelated, share a common feature: forces that have been building for some time, with consequences that are increasingly hard to ignore.

These include Brazil's debt trajectory, which keeps rising as the room for adjustment narrows; expectations of a possible Super El Niño and its effects on agribusiness; and the global race for computing capacity, with hundreds of billions of dollars still flowing into the infrastructure needed to support the advance of artificial intelligence.

Across different markets and for different reasons, the feeling is becoming similar to the one described in the song: we look around and realize that, in some of these developments, there may no longer be a way back.

Brazil

INTEREST RATES, EXPECTATIONS, FISCAL POLICY AND RISK PREMIUMS

A Selic rate around 14%-15% should be an emergency setting. What stands out, however, is that even at this level, Brazil's central bank still struggles to begin a sustained easing cycle.

Although these rates may initially seem excessive, especially against the historical average, the central bank does not base its decisions solely on today's inflation. Its focus is much more on future inflation and, above all, expectations, which remain far from the target.

CHART 1

Rates are back at levels that should be exceptional - real rates reveal the tightening

Selic target and ex-post real rate (Selic less 12-month IPCA inflation), monthly series from January 2000 to June 2026, % p.a. The Selic is 2.0 pp above its period average (65th percentile); the real rate is 3.6 pp, or 61%, above its own average (74th percentile).



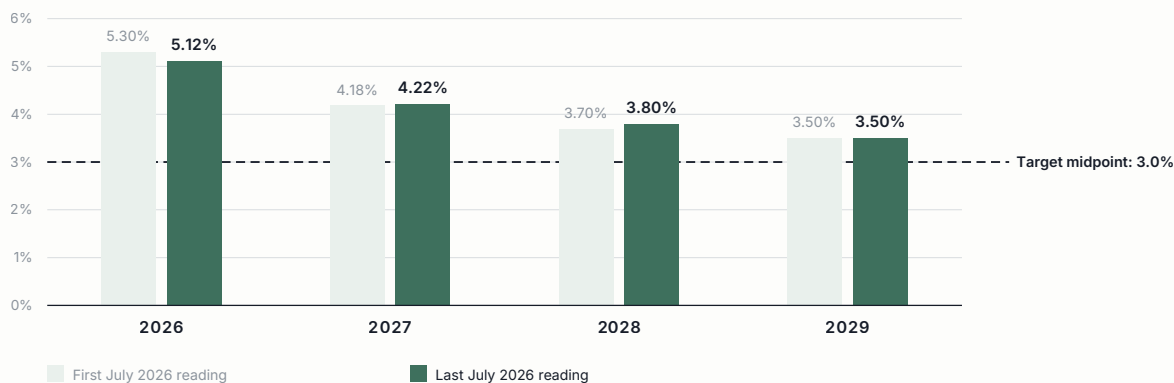
Source: Consolidated Macro Data database (SGS - Time Series Management System / Brazil's central bank), supplied by Rock Capital. Latest observation: June 2026. Averages, percentiles and differences calculated from the series itself.

The Focus survey shows inflation forecasts for the coming years still above target, signaling that expectations remain unanchored.

CHART 2

The market still does not expect inflation at target through 2029

Median calendar-year IPCA expectations in the Focus survey, comparing the first and last readings of July 2026, in %. During the month, the 2026 forecast fell while those for 2027 and 2028 rose - the adjustment comes from the longer horizons.



Source: Focus survey (Brazil's central bank), via the Consolidated Macro Data database supplied by Rock Capital. The 3.0% target midpoint follows the same database.

This is particularly important because monetary policy works with lags. The Selic set today will mainly affect economic activity and inflation in the coming quarters, rather than next month's IPCA.

In other words, the central bank needs to act preemptively to prevent future inflation from moving further away from target. Moreover, despite high household indebtedness, elevated defaults, more selective lending and high interest rates, several indicators still point to a resilient economy.

Unemployment remains near historical lows, consumption is still relatively strong and spare capacity is limited. Against this backdrop, the central bank believes the economy is still absorbing the effects of high rates and that monetary policy transmission has probably not yet worked through all its channels.

The truth is that nobody likes high interest rates. But for them to fall sustainably, economic fundamentals need to be sound - and that is not yet the case in Brazil.

Brazil has high public debt and faces a particularly difficult combination: the central bank applies the brakes to contain demand and inflation, while expansionary fiscal policy works in the opposite direction. Historically, the country has seen prolonged periods of strong real growth in public spending, even outpacing the economy itself.

When this persists, the state's share of the economy rises, making structurally low interest rates harder to sustain, especially without equivalent gains in productivity and supply.

This problem is even more relevant because Brazil's supply response is constrained. When demand grows quickly, productive capacity does not always

keep pace. In this environment, part of the stimulus to demand can translate into inflation, requiring tighter monetary policy.

A problematic dynamic then emerges: expansionary fiscal policy supports demand and hinders disinflation, potentially requiring higher rates for longer. At the same time, high rates raise the cost of servicing debt and can worsen its dynamics, while a deteriorating fiscal outlook increases investors' required risk premium and puts particular pressure on long-term rates.

The country can therefore enter a cycle that is hard to break: high interest costs worsen public finances, while fiscal weakness keeps risk premiums and the government's own financing costs elevated.

The situation becomes even more challenging when U.S. monetary policy is restrictive. Higher U.S. rates, a strong dollar and tighter global financial conditions reduce emerging economies' room for maneuver.

When the real becomes more vulnerable, the exchange rate is an important transmission channel for both external conditions and domestic weaknesses. Currency depreciation raises the cost of imported goods and inputs and can make disinflation even harder.

As a result, Brazil cannot always capture the full benefit when the external backdrop improves. While other countries can reprice their yield curves downward more quickly, we remain constrained by domestic challenges.

The problem, then, is not just oil, war or the Fed. It also involves fiscal policy, the labor market, credit conditions, the exchange rate and a structurally high risk premium.

Likewise, the solution is not simply a central bank decision to cut rates. Sustaining structurally lower rates requires improving the fiscal trajectory and stabilizing the debt-to-GDP ratio.

One adjustment option would be to limit real spending growth for a period. If GDP keeps growing in real terms while spending remains relatively stable, the spending-to-GDP ratio tends, all else equal, to decline gradually.

More important than the immediate accounting effect would be the impact on expectations. If households, businesses and investors come to believe in a sustainable path for public finances, the fiscal risk premium may fall, supporting lower long-term real rates and better financial conditions across the economy.

This creates the opposite dynamic to today's: lower perceived risk reduces financing costs, improves debt dynamics and gives monetary policy more room to operate with structurally lower interest rates.

The central point is that structurally lower interest rates depend on stronger fiscal fundamentals.

IN SUMMARY

The central bank is not just fighting today's inflation. It is trying to prevent tomorrow's.

As long as expectations remain unanchored, the economy stays relatively resilient and fiscal policy supports demand and raises risk premiums, the cost of cutting rates prematurely may exceed the cost of keeping them high for longer.

III

Agribusiness

CYCLE, COSTS, EL NIÑO AND OPERATING EFFICIENCY

In agribusiness, the current cycle of lower agricultural commodity prices, combined with cost pressure from fertilizers and crop protection products, has been squeezing farmers' operating margins.

This also affects other links in the chain, such as agricultural machinery and equipment, as less well-capitalized farmers tend to postpone investment.

But the entire chain is not affected equally. In animal protein, especially poultry, we have seen a more favorable production-cost environment thanks to lower grain prices, mainly corn and soybeans, which account for a significant share of feed costs.

Among agricultural inputs, fertilizer prices rose sharply, especially nitrogen-based products. In response, some supply chains reduced or delayed purchases while waiting for more favorable prices.

Since cyclicalities are part of the sector's dynamics, operating efficiency is one of the main ways to protect margins. Companies with higher productivity, cost control, scale, good inventory management and capital allocation capabilities tend to weather unfavorable phases better.

Another important factor for agribusiness is the expected strengthening of El Niño in the second half, with forecasts pointing to a potentially very strong event late in the year. The scale of the impact will depend mainly on companies' geographic exposure, the intensity of changes in rainfall and, above all, when these anomalies occur within the crop cycle.

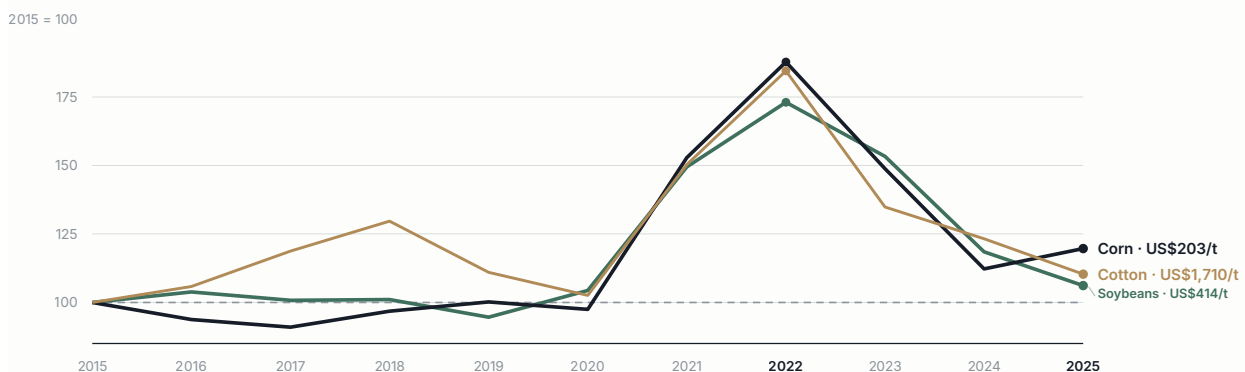
SLC Agrícola, for example, has significant exposure to Mato Grosso, so changes in rainfall patterns and distribution there may affect yields and, consequently, the company's results.

Beyond the direct impact on companies, there is also an effect on commodity prices. A crop shortfall reduces supply and may push prices higher, partly offsetting lower yields for some producers. The net effect, however, depends on the scale of the shortfall, geographic exposure and each company's productivity.

CHART 3

Prices have already fallen nearly 40% from the 2022 peak

Annual average prices in US\$ per metric ton, indexed to 2015 = 100. From the 2022 peak to 2025, soybeans fell 38.7%, corn 36.3% and cotton 40.2% in nominal terms; all three remain above 2015 levels but far from the cycle peak.



Source: World Bank Pink Sheet annual average prices (US\$ per metric ton), via the Commodities - Production and Price database supplied by Rock Capital. Latest database observation: 2025.

Visibility should improve as we enter the planting and development period for major crops, but markets naturally try to anticipate these changes. Agribusiness stocks and commodity prices may therefore start pricing in climate risks before their effects show up in company results.

HOW WE ARE POSITIONED

In this context, we like the SLC Agrícola investment case and remain confident in its ability to create long-term value, supported by expanding planted acreage and steadily improving operating efficiency.

Artificial Intelligence

CAPEX, BOTTLENECKS AND WHO IS ALREADY BENEFITING FROM THE RACE

In artificial intelligence, investment forecasts continue to rise significantly. The largest hyperscalers, including Amazon, Alphabet, Microsoft and Meta, are aggressively expanding investment in data centers and computing capacity, with sector capex potentially approaching US\$1 trillion in 2027.

With investment growing, financing needs rising and returns still uncertain, the market is beginning to question not just these companies' growth potential, but also their return on invested capital.

The discussion is no longer just about how much artificial intelligence can grow. It now includes an equally important question: how much of that growth will actually translate into cash generation and shareholder returns?

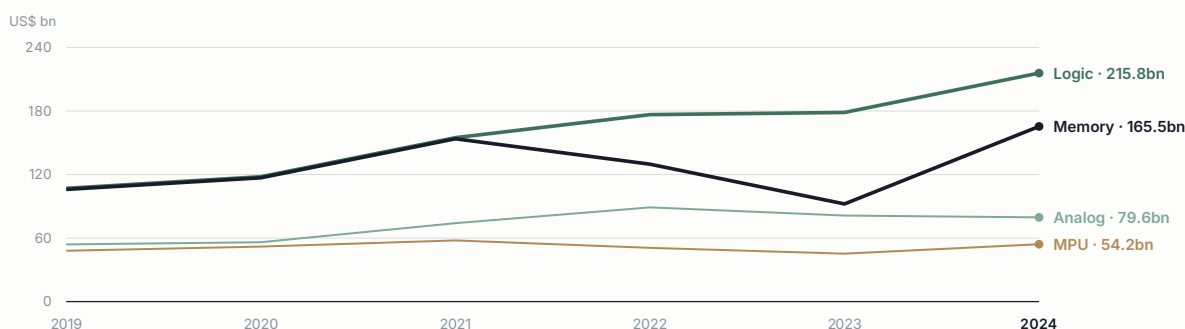
The most interesting aspect is that, while hyperscalers must invest today without full visibility on future returns, companies serving the most capacity-constrained parts of the infrastructure supply chain are already benefiting from this demand.

In this sense, GPUs, accelerators, advanced memory and semiconductor manufacturing equipment are among the main beneficiaries of the current AI investment cycle.

CHART 4

Money is already flowing to the bottlenecks: logic and memory lead the global chip market

Global sales by product category, US\$ billions. Between 2019 and 2024, the total market rose from US\$414bn to US\$630.5bn (+52.3%), with logic up 101.7% and memory up 56.1%.



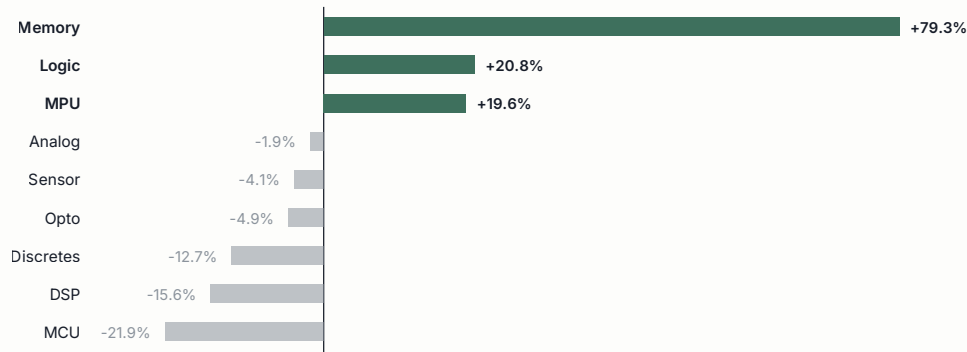
Source: SIA - Semiconductor Industry Association, via the Semiconductors database supplied by Rock Capital. Latest available database observation: 2024.

Regardless of which model, platform or hyperscaler captures the most value in the future, all need more computing capacity. That requires chips, memory, manufacturing equipment, networking and data centers.

CHART 5

A selective cycle: memory and logic rise in 2024 while most of the market contracts

Change in global semiconductor sales in 2024 versus 2023 by product type, in %. Advanced memory, one of the main AI infrastructure bottlenecks, grew 79.3% in a year when six of nine segments contracted.



Source: SIA - Semiconductor Industry Association, via the Semiconductors database supplied by Rock Capital. Annual growth calculated from the same database.

In other words, while parts of the value chain still need to prove the economic returns from AI, suppliers at key infrastructure bottlenecks are already generating revenue from building the infrastructure that makes it possible.

ROCK CAPITAL VIEW · HOW WE ARE POSITIONED

Although big tech companies continue to report strong and growing results, we have avoided allocations to them given uncertainty over future returns on the enormous amounts of capital being invested. We do, however, like the semiconductor investment case, especially foundries and memory.

In this environment, companies such as TSMC and Micron may remain well positioned to capture value throughout the cycle. We maintain active exposure through these companies and passive exposure through ETFs, especially SMH.

Perhaps this is where Thunderstruck finds its clearest parallel.

The current AI investment cycle combines speed, intensity and excess. Demand for computing capacity grew at a pace for which the world was simply unprepared, creating bottlenecks across the supply chain and triggering a global race to build the infrastructure needed to meet this new demand.

A race is underway, but we do not yet know who will find the gold.

So, while the market tries to identify which companies will turn artificial intelligence into extraordinary long-term returns, we currently prefer exposure to some of those supplying the machinery that makes this race possible.

AFTER ALL

In a gold rush, you do not always need to know who will find the next big mine. Sometimes, it may be more attractive to stand alongside those selling the shovels.

SOURCES AND METHODOLOGICAL NOTES

- Chart 1 - Selic target and 12-month IPCA inflation, monthly series from Jan 2000 to Jun 2026, Consolidated Macro Data database (SGS / Brazil's central bank). The ex-post real rate is the Selic target less 12-month IPCA inflation; averages, percentiles and differences were calculated from the series itself.
- Chart 2 - Focus survey (Brazil's central bank), weekly readings in July 2026, Consolidated Macro Data database. The 3.0% target midpoint follows the same database.
- Chart 3 - Annual average soybean, corn and cotton prices (World Bank Pink Sheet, US\$ per metric ton), Commodities - Production and Price database, indexed to 2015 = 100. Latest observation: 2025.
- Charts 4 and 5 - SIA (Semiconductor Industry Association), global sales by product type, Semiconductors database. Latest available year: 2024.

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