



LETTER | SEPTEMBER 2026

Anticipation

"We can never know about the days to come, but we think about them anyway."

OTRCAPITAL · SEPTEMBER 2026

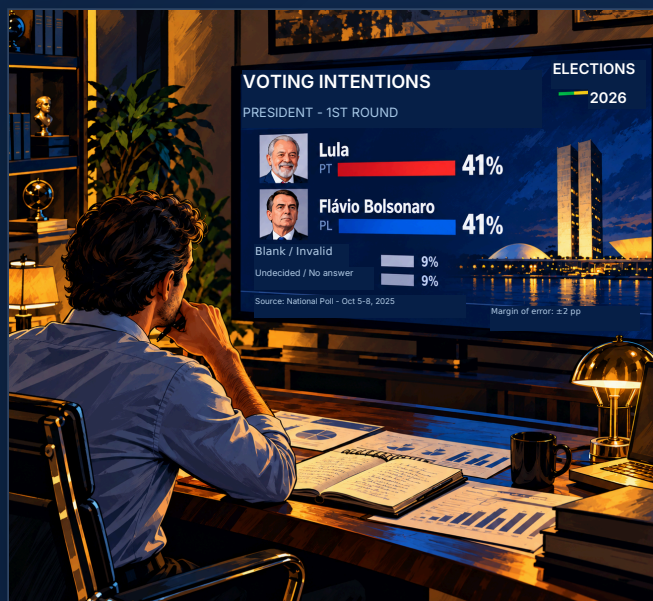


Illustration: OTR Capital

Anticipation

Anticipation was written by Carly Simon in 1971 while she waited for Cat Stevens to arrive for dinner. According to the singer, almost the entire song emerged during that wait: a simple moment, yet one filled with expectation.

That is precisely where its strength lies. The song begins with a very human idea: we cannot know the days ahead, yet we think about them all the time.

It is not about predicting the future, but recognizing that anticipating what might happen already changes how we experience the present.

That is why we chose Anticipation as the title of our September letter.

Markets work the same way. The future event has not yet happened, but expectations about it already move prices, narratives and decisions.

The market does not wait for inflation to arrive, an election to take place, a deficit to emerge, the Fed to change rates, growth to slow or a company to report results. It tries to price in these possibilities beforehand.

This is central to understanding the current backdrop. Expectations shape yield curves, redefine risk premiums and change perceptions of asset values long before the facts fully appear in the data.

In periods of greater uncertainty, this becomes even clearer: the contest is no longer just about what happened, but above all about what people believe will happen.

The same logic is at the heart of valuation. A stock's price today is essentially an attempt to distill expectations about future cash flows, growth, risk and discount rates. Investing, in this sense, is always an exercise in anticipation.

Markets do not trade only facts. Above all, they trade expectations. The future has not yet arrived, but anticipating it is already reshaping prices today.

Gabriel Rocha | OTR Capital

Enjoy the read.

Monthly Performance

OTR CAPITAL PORTFOLIO

+8.16%

September 2026

IBOVESPA

+5.03%

September 2026

Close: 186,340 points

S&P 500

-0.45%

September 2026

Close: 7,651.54 points

In September, the OTR Capital portfolio gained 8.16%, outperforming the Ibovespa's 5.03% rise. The positive gap versus the domestic benchmark was 3.13 percentage points. In the U.S. market, the S&P 500 ended the month down 0.45%.

Sources: Ibovespa - B3 / market data; S&P 500 - S&P Dow Jones Indices / market data.

Domestic Environment

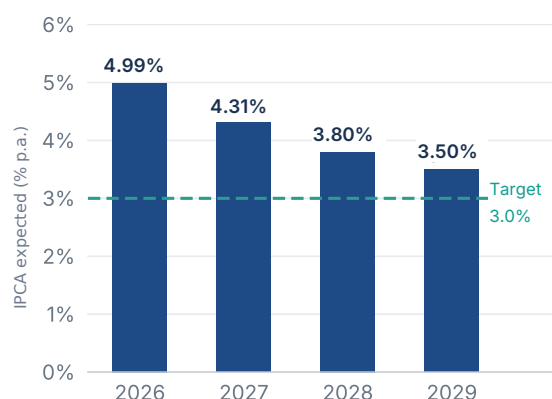
Brazil's central bank cut the Selic again at the latest Copom meeting, to 13.75% p.a., amid more moderate economic activity and clearer signs of disinflation. Under normal conditions, this would leave room for further easing.

However, uncertainty over post-election fiscal policy and still-unanchored inflation expectations pull in the opposite direction. Expectations for 2027 and 2028, for example, stand at 4.3% and 3.8%, respectively, still above the 3% target.

In our view, this increases the likelihood of a temporary pause in the easing cycle, not necessarily because the assessment of activity and inflation has changed, but to preserve room for maneuver while the fiscal outlook for the coming years remains unclear.

Inflation expectations remain above target

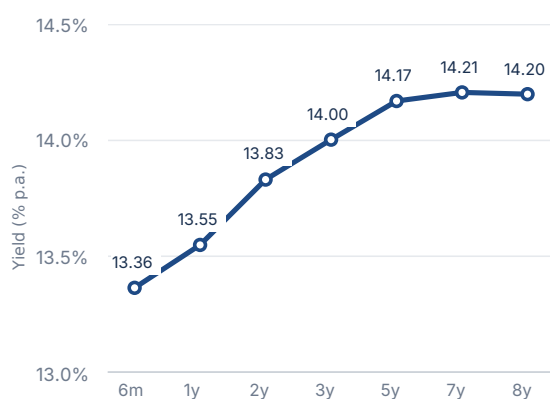
Focus median for IPCA (% p.a.) · Sep 28, 2026



Source: Central Bank of Brazil - Focus survey.

Long-term nominal yields remain elevated

Nominal term structure (% p.a.) · Sep 25, 2026



Source: ANBIMA.

Part of the recent improvement in inflation reflects the transmission of tighter monetary policy, with slowing activity and more favorable signs in some components. However, temporary factors have also contributed to disinflation.

In August, the main one was residential electricity, which fell 7.63% and subtracted approximately 0.33 percentage points from the IPCA. A significant part of this move reflected the Itaipu bonus, a temporary credit applied to electricity bills.

Given its one-off nature, this does not necessarily represent a structural improvement in inflation. The central bank itself notes that part of the recent decline in the index reflected this temporary discount.

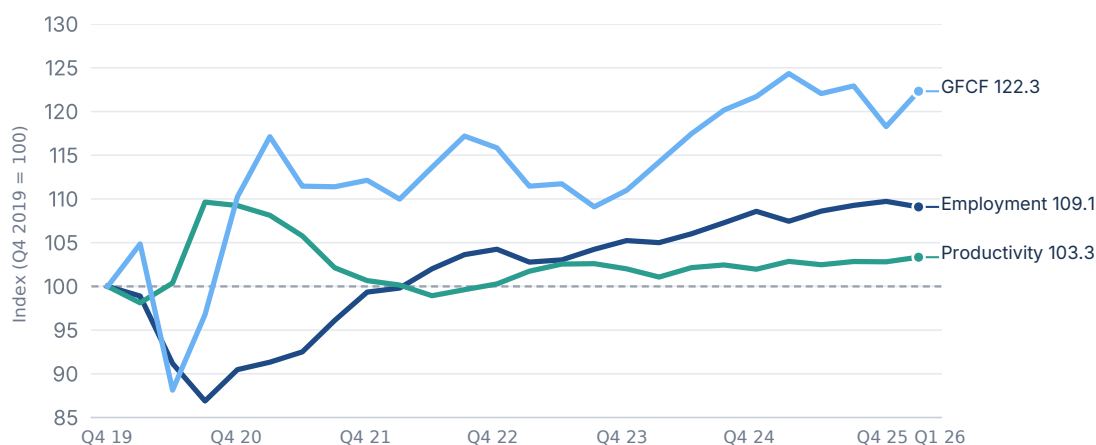
The main challenge remains services inflation, which slows more gradually and is still under pressure from a strong labor market. Here, an important feature of Brazil's recent expansion stands out.

The country's per capita income has exceeded its pre-pandemic trajectory, but mainly through employment and consumption growth rather than significant productivity gains. According to the IMF, productivity and labor force participation have lagged in the post-pandemic recovery.

The post-pandemic recovery combined strong employment growth and a rebound in investment with much more modest productivity gains.

Employment, productivity and investment since the pre-pandemic period

Index, Q4 2019 = 100 · quarterly data through Q1 2026



Sources: IBGE / Continuous PNAD; FGV IBRE / Regis Bonelli Productivity Observatory; IBGE / Sidra. Employment: quarterly average of employed persons (monthly PNAD).

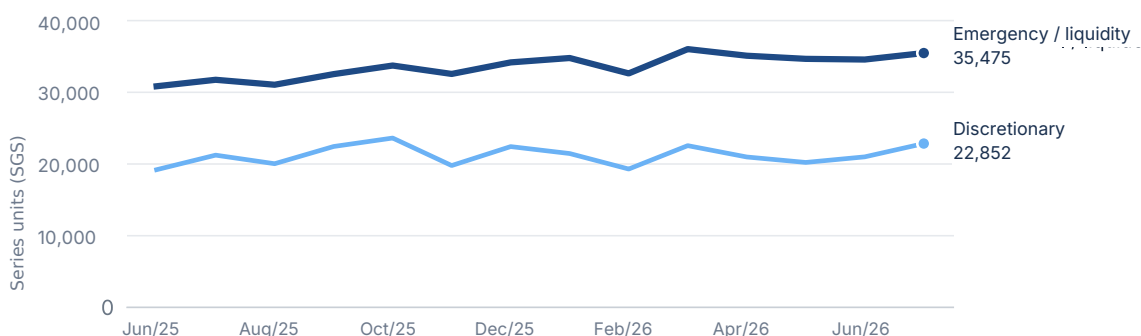
At the same time, unemployment remains near historical lows while labor force participation is still below pre-pandemic levels. The labor market is therefore tight, yet operates with a relatively smaller supply of workers.

As the economy approaches full employment, sustaining expansion simply by adding workers becomes harder. Without productivity and investment growth, still-high labor demand may continue to push up wages and, consequently, services inflation.

The credit market also reflects this backdrop. Financial conditions remain restrictive and household debt-service burdens stay elevated, constraining consumption and financing decisions most sensitive to interest rates. Meanwhile, more expensive emergency borrowing still accounts for a significant share of household budgets.

Emergency credit remains above discretionary credit

Simple average of selected categories · monthly data, Jun 2025-Jul 2026



Source: Central Bank of Brazil / SGS. Note: series aggregated using a simple average of selected categories. Discretionary: vehicle financing and non-payroll-deducted personal loans. Emergency / liquidity: overdrafts, revolving credit cards and credit card installment financing.

But the main concern remains on the fiscal side.

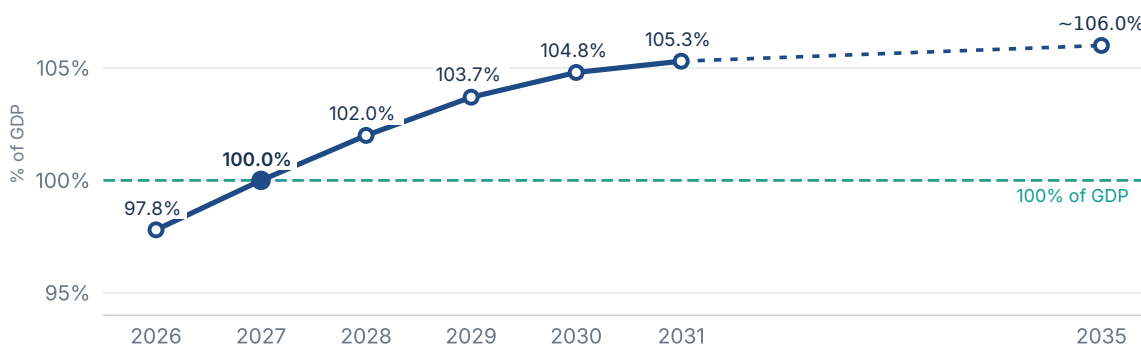
As discussed in Thunderstruck, expansionary fiscal policy in an economy with more limited productive capacity can complicate monetary policy. Persistent deficits and a debt trajectory perceived as unsustainable also raise investors' required premium and, consequently, the government's own financing costs.

This mechanism is particularly important because markets do not need to wait for fiscal deterioration to occur before reacting. If expectations for future deficits and debt worsen, long-term rates can rise today, tightening financial conditions before the projected scenario even materializes.

The IMF estimates that general government gross debt will reach approximately 98% of GDP in 2026 and notes that stronger fiscal adjustment would help reduce financing costs and create room for investment.

Gross debt is projected to exceed 100% of GDP and remain high

General government gross debt - IMF baseline (% of GDP)



Source: IMF - baseline for Brazilian general government gross debt. Dashed line between 2031 and 2035: intermediate years not reported.

This is where expectations and monetary policy meet. With unanchored expectations and exposure to supply shocks, the central bank must assess not only their initial impact, but whether they start generating second-round effects on wages, services and inflation expectations.

This helps explain why Copom continues to advocate caution on interest rates despite signs of moderating activity and inflation.

Our view remains that a more structural decline in Brazil's long-term rates depends less on a few favorable inflation readings and more on sustained improvement in perceptions of the fiscal trajectory and the anchoring of expectations.

Elections enter this equation because they can change investors' perceptions of future fiscal and economic policy. The impact on the yield curve, however, will depend on the policies signaled and subsequently implemented, rather than simply on the electoral result itself.

Ultimately, this is one of the most important features of markets: prices do not wait for the future to happen. They adjust as expectations about that future change.

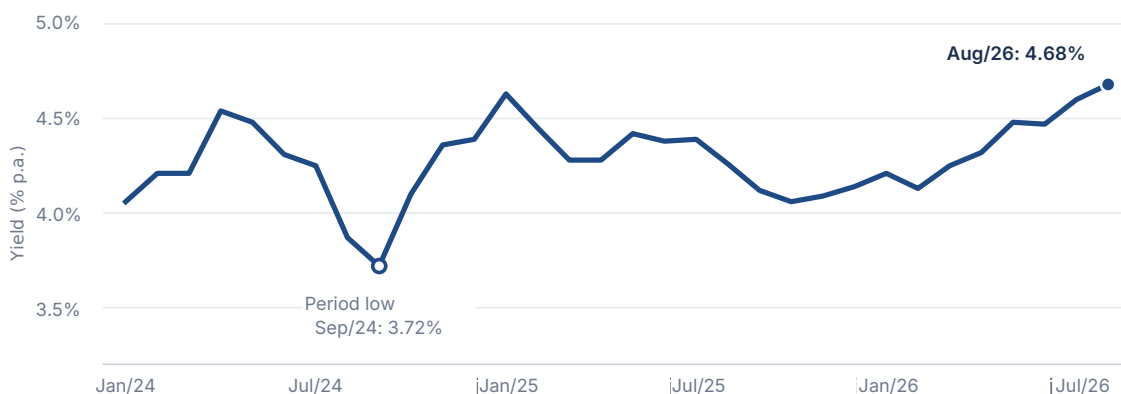
External Environment

The obstacles to further monetary easing in Brazil extend beyond the domestic environment.

In the United States, large fiscal deficits, inflation still above target and geopolitical uncertainty are keeping upward pressure on long-term rates. The CBO projects a fiscal deficit of 5.8% of GDP in 2026 and rising public debt, while the 10-year Treasury yield reached 5.18% at the end of September.

U.S. long-term yields remain under upward pressure

10-year Treasury yield, % p.a. · monthly average, Jan 2024-Aug 2026



Source: Federal Reserve - H.15, 10-Year Treasury Constant Maturity.

Meanwhile, Middle Eastern oil supply restrictions are keeping energy prices elevated and adding another inflation risk. The EIA estimates that some restrictions on regional exports will persist through year-end, after Brent averaged US\$91 per barrel in August.

In this environment, the Fed unanimously raised the federal funds target range by 25 bps to 3.75%-4.00%. The decision came as the economy continued to grow solidly, with resilient consumption, strong productivity, robust investment and little change in unemployment, while inflation remained elevated.

Three important drivers help explain part of this inflation persistence.

The first is energy, pressured by conflicts and constraints on global oil supply. The second is tariffs, whose price impact occurs both directly on imported goods and indirectly, with longer lags, through supply chains.

A New York Fed study estimates that approximately 26% of tariff increases pass through to consumer prices, while the Minneapolis Fed estimates that tariffs currently add around 0.2-0.4 percentage points to core PCE inflation. Even without that effect, underlying inflation would remain approximately 1 percentage point above the 2% target.

The third driver is the strong artificial intelligence investment cycle, fueled by data center construction and demand for equipment and infrastructure.

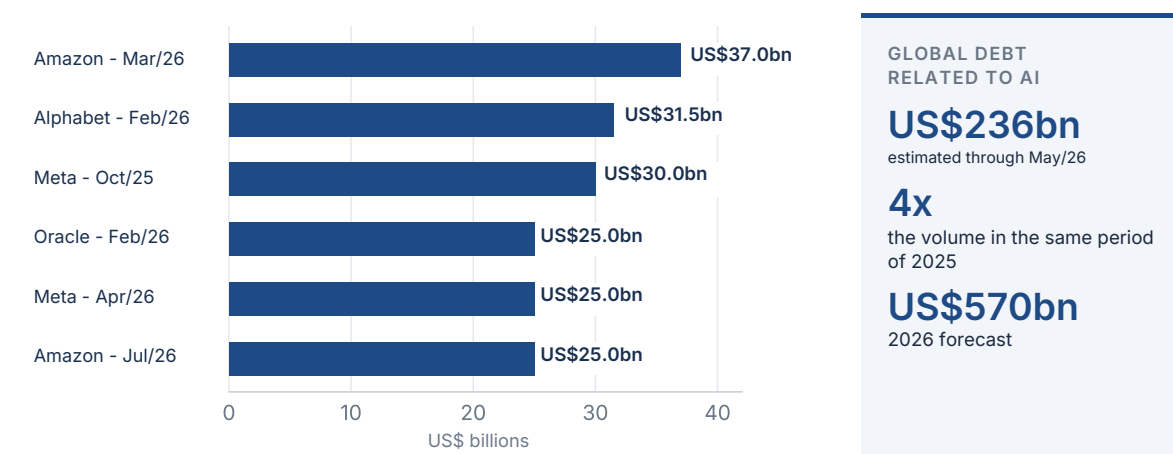
Unlike energy and tariffs, this is not an adverse supply shock, but an investment cycle supporting demand for capital, energy and equipment and already putting pressure on some relative prices. In the medium term, productivity gains may work in the opposite direction.

The scale of this cycle is also becoming visible in financial markets. As capex grows faster than cash generation, major technology companies are increasingly issuing debt, adding to long-term bond supply and competing for investor demand.

This does not alone explain rising U.S. yields, but it adds another source of supply to a market that already has to absorb large volumes of government debt.

Large debt issues accompany the AI investment cycle

Selected issues, US\$ billions



Source: Morgan Stanley.

The relevant question is why the Fed raises rates in response to pressures that monetary policy cannot directly resolve. After all, higher rates do not produce oil, eliminate tariffs or increase the supply of equipment.

The goal is to prevent these shocks from becoming persistent inflation. If initially temporary price increases spread to expectations, wages and services prices, their effects may remain even after the original shock disappears.

At the same time, the resilience of the U.S. economy gives the Fed more room to maintain restrictive monetary policy. As long as activity and the labor market remain solid, the cost of fighting inflation through higher rates tends to be less immediate.

This is where the U.S. backdrop begins to affect Brazil directly.

Higher Treasury yields increase the return available on assets considered lower risk and, consequently, the return required to take emerging-market risk. This can keep Brazil's long-term rates elevated even as its central bank cuts the Selic.

Moreover, as the Fed keeps rates high and Brazil's central bank lowers domestic rates, the interest-rate differential narrows. This reduces Brazilian assets' relative appeal and increases the risk of exchange-rate pressure. A weaker real can, in turn, feed into inflation and inflation expectations.

In practice, the central bank may face a domestic economy that would justify lower rates, alongside an external environment that keeps the global cost of capital, the yield curve and currency risks elevated.

Importantly, none of this requires future events to have materialized. If markets begin to expect higher U.S. rates for longer, greater fiscal deterioration or more persistent inflation, Treasuries and other financial conditions can adjust immediately.

Once again, expectations about the future begin to affect the economy today.

Risk Assets

The logic is no different for risk assets. Today's prices reflect expectations about interest rates, growth, risk and cash flows that still lie in the future.

This leads to a recurring question: is the Brazilian equity market cheap?

To answer it, we need to understand how a company is valued.

Valuation is often described as a combination of art and science. The art lies in the assumptions: we must estimate revenues, margins, investments and cash flows that do not yet exist and depend on views about the future.

The science comes when we discount those future cash flows to the present.

We use a discount rate representing the return required by the company's capital providers. For free cash flow to the firm, this is normally the weighted average cost of capital, or WACC, which combines the cost of equity and the cost of debt.

This is precisely where the entire backdrop discussed so far begins to show up directly in asset prices.

The cost of equity starts with a rate considered risk-free and adds the premiums investors require for market risk and, where applicable, country risk. Higher long-term real rates in Brazil therefore raise investors' opportunity cost, while elevated Treasury yields and greater aversion to emerging markets may increase the return required to invest in the country.

The interpretation is simple: the higher the discount rate, the lower the present value of future cash flows.

This helps explain why trading below historical multiples does not necessarily make a company cheap. If today's cost of capital exceeds the level seen during much of the past decade, a lower fair multiple is a natural outcome.

The impact, however, is not the same for every company.

Companies whose value depends on more distant cash flows are more sensitive to discount rates. This applies to many growth companies, where a significant share of value is tied to results expected several years ahead.

More leveraged companies face another problem. Beyond higher discount rates reducing the present value of their cash flows, refinancing debt in a high-rate environment can increase financial expenses and reduce earnings and cash flow available to shareholders.

Companies more dependent on the domestic cycle, such as parts of retail and construction, also suffer through a third channel: high rates reduce credit availability and customers' ability to consume and invest.

In other words, a company can simultaneously face a lower present value, higher financing costs and weaker demand.

This backdrop helps explain some of the discount in parts of Brazil's equity market, but not every discount is an opportunity: in some cases, it simply reflects a higher required return or deteriorating fundamentals.

We have therefore sought investments whose thesis does not depend exclusively on sharp rate cuts or a significant acceleration in Brazil's economy.

In agribusiness, we remain exposed to companies with their own growth drivers. SLC Agrícola continues to expand operations and delivered strong yields in recent harvests, while Boa Safra is diversifying beyond soybeans. In Q2 2026, new crops, services and inputs already represented almost 19% of its order book, gradually reducing business concentration.

We also maintain a position in Banco do Brasil. Profitability remains under pressure from worsening credit quality, mainly in agribusiness and certain consumer lending categories. Loans overdue more than 90 days reached 5.61% overall and 6.27% in agribusiness in the second quarter.

Even so, we believe current prices reflect a significant share of this deterioration, and we continue to monitor the bank's ability to gradually normalize profitability.

Internationally, we remain exposed to the semiconductor value chain. AI-related demand remains strong, especially for leading-edge technologies and computing infrastructure. TSMC, for example, raised its 2026 capital expenditure budget to US\$60-US\$64 billion in response to customers' structural demand for AI and high-performance computing.

We also continue to study sectors where we see significant structural changes, such as rare earths and defense, always seeking situations where asset quality is accompanied by a price offering a margin of safety.

After all, investing is not just about finding good companies.
Buying well is just as important as buying good assets.
