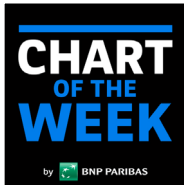


# CHART OF THE WEEK

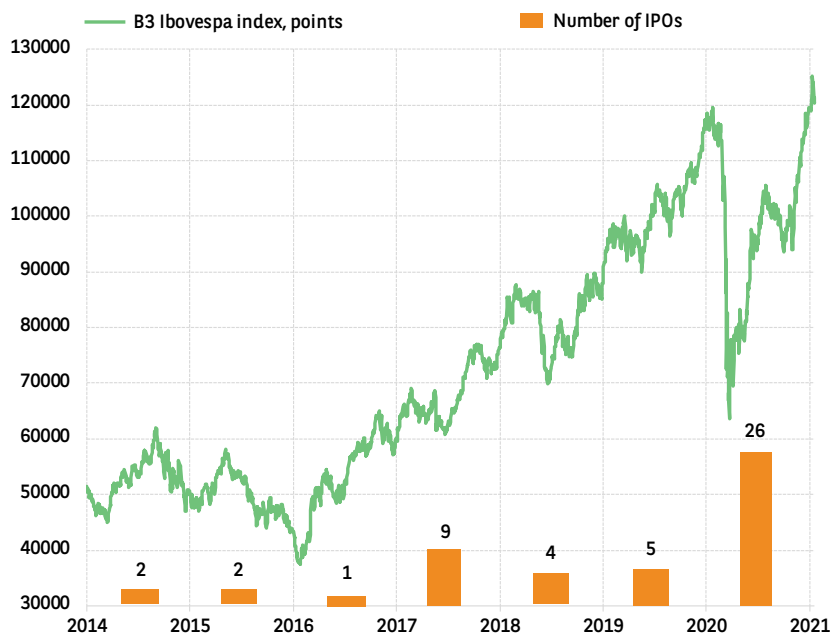


20 January 2021

## BRAZIL - THE STOCK MARKET'S RECOVERY: A LOCAL STORY

Salim Hammad

Brazil: swift rebound of the equity market amidst surge in IPOs



SOURCE: B3, AMBIMA, MACROBOND

In 2020, the Brazilian main equity index – the B3 Ibovespa – recovered swiftly from the commotion caused by the pandemic. After hitting record highs in January, the index lost 50% of its value in March before ending the year on a 3% gain. The year also ended with a record number of initial public offerings (26 IPOs and nearly USD 8 bn in funds raised – the highest level since 2007). The proceeds of these offerings were used to acquire assets or equity interests, cover working capital needs, pay down debt and invest in infrastructure – in that order.

Global factors have facilitated this rapid bounce back. Liquidity injections and record low interest rates across the globe in addition to vaccines development helped spur an increase in risk appetite.

The local story was however more dominant in explaining the quick recovery. First, foreign funds allocations to Brazilian equities and IPOs have been low by historical standards (previous IPO booms were primarily driven by foreign investors). Second, the large drop in the policy rate (the SELIC has been cut by some 12-percentage points since 2016 including 250 bps in 2020) has also encouraged local investors to allocate more heavily towards equities. Finally, the rally was supported by the large increase in the number of local retail investors – which has more than quadrupled since December 2018, aided by a dynamic Fintech industry which has facilitated the growth of online brokers and trading platforms.

salim.hammad@bnpparibas.com

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Bulletin édité par les Etudes Economiques - BNP PARIBAS  
Siège social : 16 boulevard des Italiens - 75009 PARIS / Tél : +33 (0) 1.42.98.12.34  
Internet : [www.group.bnpparibas.com](http://www.group.bnpparibas.com) - [www.economic-research.bnpparibas.com](http://www.economic-research.bnpparibas.com)

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