Bank of America GTS Global FI Checking in Call
April 21, 2021

Coordinator: Good day, everyone, and welcome to the Bank of America GTS Global FI Checking in Call today hosted by Paul Taylor. My name's Allison and I'm your event manager. During the presentation your lines will remain on listen only. [Operator instructions]. I'd like to advise all parties this conference is being recorded for replay purposes.

And I'd now like to hand over to Paul. Please go ahead.

Paul: Thank you, Allison. Good morning, good afternoon, and good evening. My name is Paul Taylor. Welcome to today's Bank of America Checking In Call. Wherever you are, I hope you're staying safe, I hope you're staying well. Look, I speak for myself, I speak for all of us here at Bank of America, when I say that we really, really appreciate your making time to join us on the call today.

Now these calls, if you're joining for the first time, these calls are our way of sharing thoughts and perspectives with you as trusted partners from our senior leaders across the franchise, across the entire spectrum of banking here at Bank of America on their outlook, their personal outlook, for the world post COVID-19. Now, over the last few weeks we've used this call to bring you senior country and regional chief executives from around the globe at Bank of America. We've heard from the CEO of the bank in Europe, the president of the bank in LatAm, the country head from Mexico, a couple of weeks ago I was joined by Seguchi-san, our Co-President for the Asia Pacific region, and last week of course we heard from the fabulous Manuel Ebner, our country executive for Switzerland.

Today permit me to take you to the great country of Brazil. Now Brazil, as you well know, is the ninth largest economy in the world, the largest in South America. GDP in 2019 of $1.84 trillion, the ninth largest economy. And this is an economy which obviously runs the gamut of heavy industries, aircraft manufacturing, automotive manufacturing. They have minerals. They have energy. They have a ton of coffee, soya beans. This is a really, really diversified economy.

And so with that, this week I am delighted to be joined by Eduardo Alcalay, our Chief Executive of Bank of America in Brazil. Now Eduardo has been at the bank for a number of years now. Before that, he was a Managing Partner at GP Investments. Before that, he was CEO and Chairman of a company called Estacio, and has a really long and gilded background in investment banking and mergers and acquisitions.

Eduardo, my real pleasure to welcome you to the call today. Thank you for being here.

Eduardo It's my pleasure, Paul, and thank you very much for having me here. Good morning and good afternoon, our dear clients, wherever you are in the world. It is a pleasure and is delighting to connect and to share thoughts, ideas and views of the world, and again, we thank you all. Thanks for having me, Paul. It's a big pleasure to be here.

Paul Oh, great stuff. Eduardo, maybe just before we jump in, obviously I want to talk to you about what you've been seeing from a Brazil perspective over the last year and how you think about that for the future. But before I do that, I referred to your storied background. Would you care to just expand a little bit in terms of your background for the benefit of our friends on the labs [ph]?

Eduardo Absolutely. As you've said, now I just completed four years with BofA as the Chief Executive Officer for Brazil. And I'm delighted. I'm very happy. I'm very cheerful. And I look forward to a long, long time and journey with the bank. I know I've joined a great firm, I've joined a great culture and a great group of people.

As you said, before that I was a client. I was on the buy side. I was a partner in a private equity firm in Brazil, so I was a client in that position. But most importantly, in my tenure with the private equity firm, I was CEO and Chairman for four years and a half of an education company, Estacio is an education company, and that was where I acquired very interesting experience in terms of management capability. So I was managing the company, which had nothing to do with the financial market. I was managing 12,000 people spread around Brazil in a very peculiar business as education, which was a great management experience.

Before that, my first 15 years I acted in banking, investment banking mostly, always here in Brazil. So when I joined the bank, I bring up my banking familiarity combined with management capabilities. And that was where—what my boss kind of said, I want you more for your management team capabilities rather than your banking expertise because we have lots of bankers here; I need a manager.

And that was a great fit. We have a significant platform down here in Brazil. We have 600-plus colleagues working in our platform here, a fully implemented global banking and markets platform. So it's been a pleasure. It's been a great fit. And I've been very happy with this team. Hello, Paul?

Paul — Sorry, Eduardo. I was just saying here's to four years and here's to many, many more.

I was just saying in my intro, [indiscernible - 41:27] but you kind of forget how big the Brazilian economy is, $1.84 trillion, making it one of the largest economies in the world. With your perspective both as a client and now as a banker, how did that play out over the last 12 months? Obviously the pandemic has affected different economies in different ways. How did you see it playing out in Brazil?

Eduardo — Yes. Tough moments and tough times, like everywhere else, right? And with the caveat that unfortunately Brazil is and will take longer to get out of COVID, especially because of delays in contracting of vaccines for the population. We are in the middle of a big second wave of COVID, which started in the beginning of this year, and came strong, so we were late on our second wave, and the government was late on contracting and implementing a big vaccination program.

The good news though is that we have all vaccines contracted already to cover 90% of the population above 18 years of age. This will take as long as approximately September or October until we vaccinate all that population, and then about the middle of the second half of the year be able to start getting back to normality.

Up until then unfortunately we're going to have to be very careful. Again, I have to take and keep all the protective measures that we're taking, most working from home whatsoever. And obviously the metrics in terms of daily infections and daily deaths are still unfortunately high. But with vaccination going up, right now we are around 10% or a little bit more than 10% of the population vaccinate, and that should accelerate. Obviously over the next couple of months we expect the metrics to go in the right direction, and then towards the middle of the second half starting to get back to normality.

In spite of that, I slightly—and I guess as everybody else—positively surprised by how the country was able to open, both economically and socially. Like some other places, the fiscal and monetary stimulus were very effective and very strong, so vulnerable families were able to get basic income. SMEs were able to get financial support. And financial markets and the capital markets play an instrumental key role in providing liquidity to corporations.

Financial system, the local financial system, is pretty solid, holding high levels of liquidity and capital. And solvencies are still close to historical levels. And the streets are calm. Socially, there are no unrests, no protests whatsoever because of the social situation being cared for, so to speak.

So the metrics have been holding well, and we've been seeing a balance between the positive force of the liquidity and capital injection in the system, the economic and financial agents are operating well, and obviously the financial markets playing a role in terms of providing most employers, big corporations with liquidity. And obviously, the sectors who are winners in the COVID played well, employed more people, grew, and so forth.

Obviously, the challenge is how to keep that when fiscal and monetary stimulus are gone, how to reignite the economy on its own, and care for the poor, care for the unemployed, and resume fiscal equilibrium, which is a big Achilles heel in terms of a zero macro scenario, in a way that we can move forward without all the COVID-related packages.

One thing which plays very strongly in our favour is a change that started to happen even before the COVID, and it's a secular change for Brazil, which is the record low interest rates that we enjoy now. And this is not only because of the world is a low interest rate new world, but especially because the structural reforms which were already underway even before the COVID in Brazil, have allowed us to take interest rates down from the historical highs of Brazil. As most of you know on this conference, Brazil used to be the world champions in high interest rates for decades, and that was a big hindrance in all the ways that you could imagine to develop the economy, the financial system whatsoever.

Now, for a couple of years already we are enjoying very low interest rates, in reality right now zero or negative interest rates in real terms, and that changes everything in Brazil, as you might know. That changes the way families consume and manage their financial lives. That changes the way corporations plan and invest for the long-term. And also, most importantly, that changes the way investors allocate their capital.

So we are seeing massive amounts of capital which used to be, and this is an important number to have in mind, right now local saving, savings owned by Brazilian investors—families, institutional investors, whatsoever—totals $1.5 trillion US dollars, local savings sitting on low yield fixed income. Big amounts of this capital is now shifting towards higher return, more productive investments like equities—both public and private—real estate, private credit, infrastructure, and so forth. So you might imagine the expansionary force that this represents for an economy, and especially an economy in the current circumstances that we are. So that's why Brazil is weathering quite well, that crisis.

We have a big challenge ahead of us, which is, first of all, to put the fiscal equilibrium in the right path again. And what will work in our favour, is the economic recovery that will take place once we open up the economy, people roll out, start consuming, whatsoever. So good and bad. Big hit, big crisis, both economic and first sanitary health crisis, and then economic, but fortunately, because of doing things well, in spite of all political issues and so forth, but doing things well, ultimately benefitting from the overall backdrop of a world with low interest rates and big liquidity out there, we were able to hold up well. And we didn't even expect to get out of this in a smooth, consistent manner, fixing the economy for the long-term on its own.

Paul — Thank you, Eduardo. I'm still moving around in my head the number $1.5 trillion in savings. What an exceptional thought. Tell me, how did that backdrop—you've just us given the most fantastic tableau of how the country has been, how did that play out for you as the leader of a banking franchise where there's new themes in terms of what clients were talking to you about? Did you see a change in the client behaviour based on the themes that you've just shared?

Eduardo — Yes. That's interesting. Well first of all, as everybody else, we could not imagine being close to clients, being active, very active—and commercially speaking, no in front of clients, serving them in the different business fronts that we cover here in Brazil, as well as obviously taking care of our people, clients taking people and also support, control functions [ph] people. Again, I used to say, we in the financial institutions, we are very fortunate to have the set up and the dynamic that we have that allows us to be protected at home and still perform 100% of our business processes and so forth.

We here in Brazil, we are very cautious because of the pandemic, and we remain to be for obvious reasons. We have around 80% of our people working from home, which means about 500-something colleagues, and around 100 people working in the offices, mostly trading desks. And some operational functions which rely on critical systems that we decided to keep in our offices.

So we performed well. We reached out to clients. We served them perfectly well. We did lots of transactions, both in markets and in banking, as if we were working in normality, which we have to be grateful for that and recognize how fortunate we are.

In terms of the [indiscernible – 52:06] with the clients, it's been amazing how people were prepared for the worst. In March, April we thought, and everybody thought the world was going to hit a strong and solid wall and the world was going to crush and the market, the economy, employment, companies, whatsoever. So clients prepared for the worst. Clients raised money. Clients took care of liquidity and so forth.

And then as we saw in May, June onwards, because of the whole engine working towards relaying all of the liquidity and the capital markets functioning well, and the financial system functioning well, and the big monetary expansion program for income availability, basic income programs availability, the economy did not die. Some companies even flourished in that regard, and others that were supposed to disappear, they were able to get around.

So clients obviously focused on capitalizing their businesses, working on their liabilities management, and then started investing for the future. They did because they belong to the group that was growing a lot in the middle of the pandemic, but also those who were not growing a lot, who were taking care of themselves but were strongly investing in all sorts of processes, digitalization, everybody going digital for being competitive and being able to reach out to clients better. And also making their internal processes more effective, more productive, and more cost competitive and then care for profitability and return on their capital in a completely changed economic and competitive dynamics with the COVID.

But I have to say, the big corporate world was also benefitted. And we can see by the data in the financial markets, the capital markets, the amounts of IPOs, the amounts of flow alongs [ph], and the amounts of debt issuance globally, they hit new records. And that was a combination of good quality issuers and a lot of capital available for this investment. And very different situations in the spectrum of losers and winners with the COVID, from e-commerce and digital companies that went through the roof, down to airlines and ship carriers that were against the wall and having to work on their liabilities, all these companies went and raised capital in the financial markets.

So we've been able to perform that quite well here in the Brazilian market as well. Brazil has reached record levels of issuances last year again. This year, we started very strong. And then with some sort of the local not-so-good news—and I would say bad news in terms of the local front, politics, the COVID being stronger and longer than expected when we turned to the new year, when people were expecting to start getting out of the COVID, the COVID has laughed in our faces and said we're going to get longer on this, so the markets retrenched a little bit. But again, the low interest rates backdrop, it is, as I said, a structural change, and this will come back and capital will continue to navigate and go and pursue higher yields, more profitable investment in the real world, which is equities and productive investments like private credit as well as real estate and infrastructure.

Paul Thank you, Eduardo. Some of the things you just touched on echoes some of the updates we've had in the last couple of weeks from some of the other country leaders. I think it's reasonable to assume that a number of our friends and colleagues on the line here will not necessarily know the Brazilian economy. They won't necessarily be familiar with how they should be thinking about Brazil over the next 12 months, 24 months.

You mentioned earlier that obviously the country needs to be able to tackle the pandemic and to rollout the vaccinations and so on. But how should the folks on the line be thinking about the Brazilian economy over the next few years? What do you see as being the one or two key notes for Brazil that people should have in their mind as they think of the market over the next few years?

Eduardo Yes, listen, I'll try not to be totally biased here in terms of being a Brazilian, a Brazilian who loves his country and is always and forever—I wouldn't say an optimist, but positive about that. But again, trying not to be totally biased here, as you said, Paul, Brazil is the ninth largest economy in the world. We may lose some one or two slots given the currency devaluation and the current contraction in GDP whatsoever.

But again, we are 200-plus million people in one of the largest democracies and with a state of law in the world as well. We are a $1.7 trillion to $1.8 trillion GDP country, again, ninth, tenth largest country around the world. We have a pretty much diversified economy. We are a powerhouse in agro as well as hard commodities, metals, mining, whatsoever. We are the largest exporter of iron ore and some other metals. We are a strong relevant industrial footprint. We are strong in commerce and services. Again, a 200-plus million people market could not be different. And again, we are a pretty much diversified type of economy.

So as I used to say, you cannot avoid Brazil. And the signal with that is that a firm like ours, Bank of America, which is a global firm serving global clients, we have to be in Brazil because being the ninth or tenth largest economy in the world, lots, if not most or 100% of our largest clients around the world, they have operations, and big operations in Brazil.

Just so everybody knows, Bank of America Brazil itself, it's the fifth largest international franchise of Bank of America around the world. And if you take, whatever—Facebook, Netflix, Johnson & Johnson, Dow Chemical, Nestle, whatever, again, their Brazilian subsidiary, they rank between the fifth and the tenth or whatever largest platforms around the world. So you cannot avoid Brazil.

And why do I say that? Because yet Brazil has its problems. It is a relatively young democracy with all kinds of problems in terms of a country where the political systems are still evolving and still consolidating with strong institutions and so forth. Everybody knows the cases about corruption in Brazil, bad policies, the management of the COVID itself is a signal of we were not good and we were not capable of running that thing well.

Because of that, right now the big issue right now is fiscal equilibrium, which means public debt as a percentage of GDP has to go down, and the size of the government and the public deficit has to go down. What we have in place right now which helps us a lot is, as I said, the secular change in the monetary dynamics of the country which allows us to enjoy low interest rates for the first time in life, or I would say the recent lives in the economy, which is 50, 100 years. That helps a lot for obvious reasons. And starting by the cost of financing the public debt is pretty low right now.

Second, different from some of our friends in the Latin American states, mostly or virtually 100% of that public debt is held by local investors instead of being held by foreign investors. So that does not expose us to a big FX potential crisis or payment crisis whatsoever because all of the money of that big public debt is held by local Brazilian investors who will not take their money somewhere else and then making us viable to manage that down.

Arguably, we were on a good path to do so with the start of the Bolsonaro government and the [indiscernible 62:53] strong liberal economic agenda and so forth, and then came the COVID, and boom, hit it in the face and made it much more challenging. We have to get back to that once the COVID is gone.

It is a tough political negotiation process. It is a tough political sort of landscape with all different interests, organized groups pushing one way, the other way, and the third way. And then next year we come to elections, presidential elections, which as we used to say, since this is a relatively young democracy, things unfortunately may change a lot when a new president comes into office.

But what I used to say—and again, I'm a 52-year-old guy, I'm working in finance in Brazil for my whole 32 years of working, throughout the 32 years, we keep looking at that and we keep looking at big changes, big crisis here, and then the company gets back on track and starts to take off again and so forth. But throughout time Brazil resists, Brazil grows, Brazil develops itself, Brazil raises the overall quality of life for its population whatsoever.

We still have a very long way to go. But again, the Brazil of today is pretty much better than the Brazil of 50, 30 years ago. And the executives on this line here as executives of very important multinationals, most of them, if not all, are in Brazil for quite a while. And I think that Brazil is a little kid that gives us a lot of headaches sometimes, but I said in the beginning you cannot avoid it because it's too big to be out of it.

And with the democratic institutions growing stronger and stronger, with the financial and economic lives of economic agents and families changing for sure and in a secular way with the low interest rates now and then the financials shifting, working towards a more agile and a more dynamic, productive and long-term investment of economic activity, I think we have a great, great opportunity out there.

So we need to get out of this COVID, which we will, by the second half of the year, towards the end of the year. We need to tackle the macro issues of taming and taking down the public deficit and the public debt, and then this 200-plus million country economy with such a diversified economy among different systems—and what I forgot to say here when it comes to digital, when it comes to internet, when it comes to online, whatever segment on the new economy you would take, ballpark figure, Brazil is the third largest continental market when it comes to digital and online. First, it's US or China, or vice versa. And when you look around the world, where is the second massive continental hundreds of millions of users market? It's Brazil.

And that's why the online, the e-commerce, the digital economy in Brazil is going through the roof. We have many, many unicorns. We have many companies out there, all of the Facebooks, Amazons, Netflix's of the world have strong operations in Brazil, and Brazil will be part of that online revolution going forward.

And again, last but not least—and I'll finish here—when it comes to ESG, when it comes to environmental issues, which, yes, Brazil is not looking good right now because of the different discussions, and I will not get into details here in terms of what the government is doing right or wrong whatsoever, but yes, we have issues out there. To put it simply, my personal view, the Amazon is being treated like a big liability of Brazil. And actually, if we don't the things right, it is going to be a liability around or in front of all the other developed economies out there. But I think it's a matter of right management and I think it's a matter of getting it right instead of a liability for sure.

And you should take note that the Amazon is a big asset of Brazil going forward. In a green economy, in a green world, in a sustainable world, the Amazon is a big asset of Brazil. And not only the Amazon. Renewable energy, Brazil is by far one of the most advanced economies in terms of renewable energy, with all the hydraulic clean energy which is the bulk of our energy matrix here, the solar and wind energies are starting to ramp up here as well.

So on the online and on the sustainable green economy, Brazil is going to be a relevant player. I wouldn't say a leader, but a relevant positive, constructive player. So I hope that this getting our politics and our economy in the right path, Brazil has the potential to continue to be a relevant protagonist on the world economy and so forth. And as I said, you cannot and you will not be able to avoid Brazil going forward.

Paul — Love the passion. Love the optimism. I think you're the first global leader on these calls that has given us a bumper sticker, a t-shirt, "You Cannot Avoid Brazil." Eduardo, this was great. I really, really appreciate your time today. I appreciate your sharing your thoughts and your perspectives. So a huge, huge thanks to you.

To all of our clients, to all of our colleagues and partners on the line, a huge thanks to you for making time for these calls. I really appreciate your being here. If you have any follow up questions, feedback on today's call, please just drop me a line. You just need to hit reply to the planner in your diary.

We're back next week. We're back on Wednesday of next week. I'm beyond excited. I will be joined by Bank of America's President for International, Bernie Mensah. Bernie will join me on the call next Wednesday. I really, really hope you can make it. Until then, please stay safe, stay well, and we'll speak very soon. Thank you.

Eduardo — Thank you, Paul. Thank you all.

Coordinator — Thank you for the speakers today. That concludes your conference call. You may now disconnect your lines. Thank you for joining and enjoy the rest of your day.

[END OF CALL]