Macro Outlook

Last month, we watched the turmoil involving US regional banks unfold. Although there was a marginal improvement in bank deposit outflows, plus a stabilization of lending through the FED, there was another crisis episode at the end of April. First Republic's quarterly financial results showed a significant amount of outflows, and that a large amount of its deposits exceeded the limit for coverage by the FDIC. The bank was eventually closed and part of its assets was acquired by JPMorgan Chase. This situation once again triggered a series of questions involving the stability of the American financial system, which resulted in more swings and market volatility. Regional banks' stock prices have come under pressure, with certain distressed banks still at risk. All the same, we saw central banks around the world raising their respective basic interest rates.

In the US, March data showed that inflation remains under pressure, and that job creation remains at a robust – though slowing at the margin - pace. The 1Q23 GDP also showed an acceleration in domestic demand compared to the end of 2022. The FED is still trying to calibrate monetary policy by balancing these stronger economic data with the impacts expected ahead from the tightening of credit and the cumulative increase in interest rates. At its May meeting, the FOMC raised the policy rate by 25 bps. The committee removed the sentence from the statement that signaled further hikes ahead. The consensus now is that data needs to surprise to the upside for new rate increases to materialize. Nevertheless, despite the institution communicating that monetary and financial stability policies operate through different instruments, the heightened banking stress makes this distinction even more tenuous.

The Eurozone avoided a recession in the past winter after near zero growth in the last quarter of the year, the region's GDP grew in the 1Q23 by 0.1%, compared to the last trimester. Additionally, the composite PMI for the region points to an acceleration in activity already in this second quarter, driven mainly by services. Inflation remains strong, but, has been showing signs of moderation, primarily in core goods, as seen in other countries. However, itis still being offset by services inflation, which is still accelerating. The credit data shows that the monetary policy transmission channel is working. As a result, the European Central Bank reduced the hiking pace to 25bps in May, but signaled that the cycle should continue in the coming months if data continues to match the base scenario. At the same time, the ECB announced that it would stop reinvesting in one of its asset purchase programs (APP) as of the month July.

In China, the month had stronger than expected data, especially in credit with clearer signs that households are taking mortgages. Goods and services consumption continues at a strong growth pace and should sustain a better GDP in this second quarter. We also note that authorities remain convinced that the foundations for sustainable and solid growth in this post-pandemic context depend on additional incentives. Hence, we should not see the government withdrawing support for the economy, despite better-than-expected growth earlier this year. On the other hand, the manufacturing PMI showed a contraction in April and signals that the economy is imbalanced considering the strength in the services sector, driven by the impacts of stimulus policies particularly bin the real estate sector.

In Brazil, the main concerns are still around the draft of the fiscal framework and its details of implementation. Even with the new texts brought by the government, it is still not clear how the rule will effectively look like, and we can still expect some modifications in Congress. However, what is clearly seen is that expenditure growth in 2024 should be above originally projected figures, and we have not seen a significant correction system in case of non-compliance with the targets. The high interest rate continues negatively impacting the credit market, especially in the corporate segment. However, the sector remains more resilient than expected. Something similar holds for activity, which is decelerating at a slower than expected pace. The labor market also showed better data, occupation rose again in the PNAD* (National Household Sample Survey) data and the creation of formal employment in Caged (General Register of Employees and Unemployed) accelerated. We continue to believe that convergence towards the inflation target requires a tougher deceleration of activity and the BCB has also made statements in this respect. On the other hand, we see the federal government abhorring an economic slowdown to avoid bad impact on popularity.

Positions

In rates, we opened long positions in Brazilian Inflation and raised short position in Japan and long positions in the United Kingdom. We maintained short positions in Europe

Inflation and reduced curve positions in the US. We closed the long position in Europe.

In equities, we reduced long and relative value positions in Brazilian equities and maintained short positions in global indices.

In currencies, we increased long positions in the Brazilian Real and short positions in the New Zealand dollar. We reduced long positions in the Euro, in the Mexican peso, the Japanese yen, South African rand, and in the Australian dollar, and we also reduced short positions in the Czech crown and the Polish zloty.

In commodities, we opened long positions in gold, and copper. We maintained short positions in silver and corn and closed soy positions.

Performance breakdown

Regarding performance, rates contributed positively and equities contributed negatively. In Brazilian equities, the main positive highlights were utilities, banks and healthcare. Losses were concentrated in metals & mining and pulp & paper

Fund's Performance breakdown

KAPITALO GLOBAL FUND SPC – ZETA USD (in US Dollars)

Strategies	Apr/23	2023	2022	2021	2020	2019	12M	24M	Since Inception*
Fixed Income	0.68%	2.43%	13.34%	1.54%	3.27%	1.83%	8.88%	17.41%	24.80%
FX	-0.37%	-0.11%	2.83%	-0.84%	1.17%	-1.03%	1.73%	3.25%	0.35%
Equities	-0.94%	-2.07%	-1.41%	6.44%	-2.70%	15.70%	-2.87%	-0.48%	21.12%
Commodities	-0.15%	-0.11%	0.48%	2.01%	1.09%	0.57%	-0.56%	1.25%	4.83%
Fees	-0.04%	-0.63%	-7.06%	-5.40%	-3.63%	-5.19%	-4.04%	-11.86%	-27.48%
Performance	**-0.82%**	**-0.50%**	**8.19%**	**3.74%**	**-0.81%**	**11.88%**	**3.14%**	**9.57%**	**23.62%**

(*) Inception date: September 5th, 2018

ZETA FIQ (in Brazilian Reais)

Strategies	Apr/23	2023	12M	24M	60M
Fixed Income	0.69%	2.75%	10.24%	21.53%	30.85%
FX	-0.43%	-0.11%	2.03%	3.46%	-2.25%
Equities	-1.15%	-3.18%	-7.50%	-8.38%	9.80%
Commodities	-0.14%	-0.18%	-0.89%	1.11%	5.17%
Fees	-0.18%	-0.94%	-3.50%	-8.85%	-23.57%
Performance	**-0.29%**	**2.54%**	**13.76%**	**30.31%**	**58.76%**
% CDI	-	60.49%	102.82%	141.35%	151.57%

*The IBGE's Continuous National Household Sample Survey (Continuous PNAD) investigates labor market conditions in the country from a sample composed of more than 210 thousand housing units spread in about 3,500 municipalities. Approximately two thousand survey agents visit the household sample every three months. The Continuous PNAD provides essential information about the workers in Brazil, even about those without a formal employment contract. It is one of the most advanced surveys in the world, in compliance with recommendations from international cooperation bodies, mainly from the International Labor Organization (ILO). Digital data collection has been employed in the Continuous PNAD since 2012.