Macro Outlook

As inflation persists, financial conditions continue to tighten in the world’s main economies, but at a slower pace. The ECB continue to adopt hawkish tones as strong data is released both in Europe, reinforcing the need to bring inflation down. While in the US, uncertainty regarding monetary policy rose due to recent events. At the same time, attention also remains focused on China’s reopening. Mobility indicators have shown significant improvement and expectations are towards a 3% growth in the first quarter, versus the same period in 2022.

In the United States, this month’s highlight was the set of unfavorable data to the Fed’s inflation control. Inflation indicators were revised due to new seasonal factors, evidencing that the decline was less pronounced than previously thought. In addition, inflation accelerated significantly in the first month of 2023, with more pressure on goods and services. Furthermore, there was an increase in real consumption of goods and services in January, supporting the hypothesis that at least part of the weakening at the end of 2022 was due to seasonal adjustment issues. The PMIs also accelerated marginally, but manufacturing remained at contractionary territory. Although activity and inflation indicators released up to early March pointed to a more aggressive course of action from the FED, heightened instability in the banking sector generated uncertainty over future monetary policy actions and led to a dovish repricing in rates.

In Europe, the ECB raised interest rates by 50bps in both February and March, taking rates to 3%, in spite of financial stability concerns. However, the committee still appears divided on the pace in future meetings. However, a more hawkish communication, stronger activity data, and core inflation led the market to extend the cycle and increase the terminal rate. January's inflation data surprised positively once again, coming in below expectations due to energy and food. However, the core is still accelerating. The PMI reached its highest level in 9 months, clearly a positive bias compared to the GDP contraction risk projected by ECB in the first quarter of the year.

In China, we continue to observe improvement in the mobility data. The New Year was marked by significant progress of these indicators, and expectations are now towards 3% growth in the first quarter of 2023 compared to the same period in 2022. In addition, home sales in China’s wealthiest cities started to recover and credit data came in above expectations. It was an encouraging start of the year. The National People’s Congress (NPC) took place by the end of the month and set important economic guidelines for 2023. The GDP’s target growth was set to around 5% and frustrated the market, whose expectations were around 5.5%. There were no surprises regarding fiscal policy and employment targets. The authorities kept their speech that further stimuli must be delivered in the correct amount, to avoid imbalanced and low quality growth, as said the Chinese Communist Party.

In Brazil, we continue to see the impact of high interest rates on economic activity, but some sectors, such as services, are more resilient. Our inflation projection changed slightly in the month of February, but the latest CPI releases interrupted the favorable sequence of surprises to the downside. The data came more in line with our projection that considers there is no slack in the economy. In January, the Worker’s Party had already signaled dissatisfaction with the legal framework that governs monetary policy. In February, discussions were focused on changes to the inflation target and/or in the BCB's board of governors, always with the goal of increasing leniency with inflation. Even though nothing has been officially deliberated, analysts consulted by the BCB began to substantially revise their inflation projections upwards. Unanchored expectations make the Central Bank's job more difficult. Moreover, even if the target set by the CMN were to increase, we believe it would not lead to a decrease in the nominal interest rate.

Positions

In rates, we opened long positions in Mexico, maintained short positions in implied offshore rates in Brazil and curve positions in the US. We closed positions in the UK and Sweden.

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

In currencies, we opened short positions in the Australian dollar and in the Hungarian Forint. We increased long positions in the Israeli shekel and in the Euro. We maintained long positions in the Mexican peso and short positions in the Neo Zealand dollar, Columbian peso and Chilean peso. We reduced long positions in the Japanese yen and Brazilian real and short positions in the Pound sterling.

In commodities, we opened short positions in corn and coffee, increased positions in oil and maintained positions in gold. We reduced short positions in palladium.

Performance breakdown

Regarding performance, equity, rates, FX and commodities contributed negatively. In Brazilian equities, the main positive highlights were education, pulp & paper, construction and technology. Losses were concentrated in metals & mining, consumption, oil & gas and healthcare.

Fund's Performance breakdown

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

Strategies	Feb-23	2023	2022	2021	2020	2019	12M	24M	Since Inception*
Fixed Income	-0.27%	0.94%	13.34%	1.54%	3.27%	1.83%	11.71%	16.70%	22.94%
FX	-0.15%	-0.11%	2.83%	-0.84%	1.17%	-1.03%	2.84%	4.59%	0.36%
Equities	-1.11%	-0.44%	-1.41%	6.44%	-2.70%	15.70%	-1.75%	4.62%	23.14%
Commodities	-0.10%	-0.02%	0.48%	2.01%	1.09%	0.57%	0.09%	2.05%	4.95%
Fees	0.17%	-0.37%	-7.06%	-5.40%	-3.63%	-5.19%	-6.10%	-13.02%	-27.15%
Performance	**-1.47%**	**0.00%**	**8.19%**	**3.74%**	**-0.81%**	**11.88%**	**6.79%**	**14.94%**	**24.24%**

ZETA FIQ (in Brazilian Reais)

Strategies	Feb-23	2023	12M	24M	60M
Fixed Income	-0.20%	1.12%	13.31%	20.39%	33.10%
FX	-0.17%	-0.08%	3.28%	4.96%	-3.38%
Equities	-1.30%	-0.89%	-6.62%	-1.69%	21.44%
Commodities	-0.12%	-0.06%	-0.12%	2.10%	5.70%
Fees	0.12%	-0.44%	-4.43%	-9.01%	-26.25%
Performance	**-0.76%**	**1.69%**	**18.43%**	**36.19%**	**67.95%**
% CDI	-	82.40%	141.63%	186.23%	181.97%