Macro Outlook

As the impacts of monetary policy normalization become clearer, financial conditions continue to tighten in the world's main economies, but at a slower pace. However, the Fed and the ECB reinforced the commitment to bring inflation down and the need for more rate hikes. At the same time, attention is drawn to China's reopening. High frequency indicators have shown some improvement and we expect it to translate into a faster economic rebound in the short-term. Moreover, we expect this movement to benefit the global supply chains further.

In the United States, consumption indicators cooled in the end of 2022, registering moderate contractions compared to previous months. Even though it suggests a sharper slowdown of activity, seasonal factors may have worsened the drop in December. Hence, there are upside risks in the beginning of 2023. Furthermore, social security benefits increased in January and should generate gains in household's disposable income and, potentially, boost consumption. In addition, no signs of cooling were observed in the labor market. January's numbers surprised to the upside with 517,000 new jobs, registering the highest level since July. Meanwhile, the unemployment rate fell to 3.4%, the lowest level since 1969. At the same time, December's inflation releases marked the third consecutive month of more moderate numbers. Furthermore, initial signs of deceleration in wage growth measures were observed. Moderating inflation and wage growth figures allowed the Fed to reduce the pace of rate hikes to 25bps. Considering the extremely tight labor market and the pressured services inflation, we expect the committee to raise the interest rate in March and May by 25bps in each meeting.

In Europe, the sentiment towards economic activity and inflation improved throughout the month given the better perspective for gas prices. Activity surveys improved for the third month in a row, reaching levels close to neutral. Moreover, the Chinese economic reopening corroborates with growth revisions, now that a recession in the Eurozone this year is no longer expected. On the other hand, credit data suggests a risk to the outlook ahead. December's inflation came in below expectations, partly due to the drop in energy prices, while core inflation remained high. The decline in gas prices and the currency's appreciation are contributing to downward revisions to inflation projections. The ECB's next steps will depend on core inflation's persistence. In February, the ECB delivered a 50bps interest rate hike and stated the intent of another 50bps in the next meeting. However, in March the committee should reevaluate the pace based on revised projections.

In China, January was the first full month of reopening. The Chinese New Year registered strong mobility data, above the expected levels. We believe that the improvement in high frequency indicators should reflect in a fast economic rebound in the short-term. Similar to what we observed in other economies, the reopening should boost household consumption, particularly of services. The improvement of confidence indicators, along with measures to stimulate the economy announced this month, should contribute to additional property sales in the short-term. For 2023 we project a moderate 4.5% growth rate, above last year's, but still below pre-pandemic levels. Along with the unfavorable real estate sector scenario, the external sector will be more challenging. There is less space for fiscal policy, and household consumption should take time to recover to pre-pandemic levels.

In Brazil, after several of months with high real interest rates, we observe clearer impacts of the monetary normalization on the labor market. Our inflation projection for 2023 was significantly revised upwards, mainly due to administered and food prices. Qualitatively, on the other hand, inflation surprised positively once again. Our inflation measures that are more sensitive to economic cycle are falling below the expected levels. A weaker activity and a core inflation in decline would lead us to bring forward our projection of rate cuts, but the economic policy points to the opposite direction. After the significant fiscal expansion approved recently (PEC de Transição), the Minister of Finance published an initial adjustment plan that does not significantly change our debt dynamics. However, we will only have more clarity on the long-term fiscal policy in April, which is when the Government will announce the new fiscal outline. In addition, the President brought up discussions over a change in the inflation target, which affected prices and expectations. Altogether, it is possible that the few months ahead will be of more uncertainty in the economic policy field. Nevertheless, the BRL appreciated against other currencies, given a comfortable current account balance, China's reopening, commodity prices recovery and looser financial conditions in the world.

Positions

In rates, we opened short positions in South Africa, long positions in the Eurozone and maintained curve positions in the US and long positions in the UK and in Sweden. We reduced short positions in Chile and short positions in Brazilian inflation.

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

In currencies, we increased long positions in the Mexican peso, Japanese yen and Brazilian real and reduced long positions in the Australian dollar. We maintained short positions in the New Zealand dollar, Pound sterling, Chilean peso and Colombian peso.

In commodities, we opened long positions in natural gas and short positions in soybeans. We maintained long positions in oil and gold and short positions in palladium, and sugar.

Performance breakdown

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

Fund’s Performance breakdown

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

Strategies	Jan/23	2023	2022	2021	2020	2019	12M	24M	Since Inception*
Fixed Income	1.12%	1.12%	13.34%	1.54%	3.27%	1.83%	12.54%	16.73%	23.17%
FX	0.04%	0.04%	2.83%	-0.84%	1.17%	-1.03%	3.06%	3.96%	0.55%
Equities	0.67%	0.67%	-1.41%	6.44%	-2.70%	15.70%	-3.14%	6.34%	24.51%
Commodities	0.06%	0.06%	0.48%	2.01%	1.09%	0.57%	0.13%	2.58%	5.05%
Fees	-0.56%	-0.56%	-7.06%	-5.40%	-3.63%	-5.19%	-6.28%	-13.41%	-27.38%
Performance	**1.34%**	**1.34%**	**8.19%**	**3.74%**	**-0.81%**	**11.88%**	**6.32%**	**16.20%**	**25.90%**

(*) Inception date: September 5th, 2018

ZETA FIQ (in Brazilian Reais)

Strategies	Jan/23	2023	12M	24M	60M
Fixed Income	1.32%	1.32%	14.27%	20.28%	36.46%
FX	0.09%	0.09%	3.40%	4.14%	-2.97%
Equities	0.43%	0.43%	-8.15%	0.13%	26.20%
Commodities	0.06%	0.06%	-0.04%	2.78%	6.12%
Fees	-0.56%	-0.56%	-4.14%	-9.25%	-28.13%
Performance	**2.47%**	**2.47%**	**18.16%**	**36.58%**	**74.40%**
% CDI	219.45%	219.45%	141.56%	197.69%	202.59%