Investment Manager's Report
June 2023

Macro Outlook

In the world, the main theme still revolves around a possible global recession and when it is likely to occur. Although many countries have created conditions to bring inflation back to target in the past few months, June presented strong inflation prints, which forced the main central banks to continue with rate hikes, even with signs of weakness in the economy. However, the labor market remains strong, not only in the United States but also in Europe.

In the United States, the FOMC decided to keep the Fed Funds rate unchanged in the June meeting. Nevertheless, the committee revised its activity and inflation projections upward for 2023, a move that was also complemented by an increase in interest rate projections. The FOMC is expected to raise the rates again after July, if employment and inflation data continue to be strong. However, the timing for a second hike is much more uncertain.

In Europe, the UK inflation numbers surprised to the upside again, with core and services numbers remarkably diverging from the trend of lower prints observed in the Euro Area and in the US. This led the BOE to accelerate the pace of hikes to 50bps, reaching 5%, with markets pricing a terminal rate above 6%. In the Eurozone, the ECB also raised rates by 25bps and signaled that it should hike again in July, as expected. However, the composite PMI decreased again in June, and unlike in the past few months, the decline was due to both manufacturing and services.

In China, we had another weak data round in the month. PMIs disappointed, home sales slowed down, and credit data suggest that households remain cautious to take on long-term loans. As a result, there has been a downward revision of Chinese growth for 2023, to numbers ranging between 5% and 5.5%. On some occasions, Chinese authorities have also expressed concerns about the weakness on activity. The People's Bank of China cut deposit rates and injected more money into the banking sector through small and medium-sized companies and rural areas. The State Council is expected to present some measures to support the economy in July. In the next weeks, we expect the announcement of fiscal stimulus measures targeted to the real estate sector and household consumption. We do not believe that these measures will be enough to adjust the slow growth pace that China is facing this year. The challenges faced by the economic outlook are important: the real estate sector is weak on various fronts (land sales, new projects, and sales), even after so many stimuli since 2022; the role of public investment is limited, especially due to a context of high indebtedness of the local governments and low liquidity for financing vehicles; and global demand has weakened, causing the contribution of net exports to GDP to slow down this year.

In Brazil, there were positive news on inflation over the past month. The IPCA prints were below expectations, with food and fuels less pressured. Thus, the government announced the maintenance of the inflation target at 3% and short and long-term inflation expectations dropped significantly. Moreover, economic activity and the labor market remained resilient, which did not prevent the market and the Central Bank from anticipating cuts in interest rate. The external sector data maintained a positive trend, with a strong surplus in the balance of goods and services. This scenario, combined with stronger economic activity and a still high interest rate differential, continued to boost the Brazilian real. The global economy is facing a good moment and the better trade-off between activity and inflation reduced the immediate risk of an economic policy potentially harmful to asset prices. Finally, it is worth observing two relevant political movements: the decision of the TSE to banformer President Jair Bolsonaro from holding political office and the beginning of the discussions regarding tax reform.

Positions

• Rates: we maintained long positions in inflation in Brazil and a short position in inflation in Europe; a short position in Japan and long position in Mexico; and curve positions in the US. We reduced our long position in the UK.

• Equities, we maintained long and relative positions in Brazilian equities.

• Currencies: we opened a long position in the Japanese yen and a short position in the euro; we maintained a long position in the Brazilian real, the Mexican peso, the Norwegian krone, and the Indian rupee. We increased short position in the Colombian peso and the Polish zloty, and reduced short position in the Chinese yuan and the New Zealand dollar.

• Commodities: we opened a long position in copper and a short position in iron ore; we increased long position in sugar and short position in soybeans and reduced long position in gold and oil and short position in coffee.

Performance breakdown

Regarding performance, currencies and rates positions contributed negatively. In the Brazilian equities, the highlights were gains in transportation and logistics, utilities, and financial. We had losses in mining and steel, technology, construction, and pulp and paper.

Fund's Performance breakdown

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

Strategies	Jun/23	2023	2022	2021	2020	2019	12M	24M	Since Inception*
Fixed Income	-1.45%	-1.03%	13.34%	1.54%	3.27%	1.83%	3.82%	14.21%	20.50%
FX	-0.45%	-0.25%	2.83%	-0.84%	1.17%	-1.03%	0.81%	2.40%	0.19%
Equities	0.17%	-1.53%	-1.41%	6.44%	-2.70%	15.70%	-0.42%	-1.87%	21.78%
Commodities	-0.02%	-0.25%	0.48%	2.01%	1.09%	0.57%	-0.65%	0.29%	4.66%
Fees	-0.13%	-0.89%	-7.06%	-5.40%	-3.63%	-5.19%	-3.38%	-10.89%	-27.80%
Performance	**-1.89%**	**-3.95%**	**8.19%**	**3.74%**	**-0.81%**	**11.88%**	**0.19%**	**4.14%**	**19.34%**

(*) Inception date: September 5th, 2018

ZETA FIQ (in Brazilian Reais)

Strategies	Jun/23	2023	12M	24M	60M
Fixed Income	-1.50%	-0.98%	4.51%	17.76%	26.90%
FX	-0.48%	-0.29%	0.86%	2.54%	-4.53%
Equities	-0.11%	-3.33%	-4.58%	-10.56%	12.12%
Commodities	-0.04%	-0.32%	-0.92%	-0.02%	5.72%
Fees	-0.18%	-1.37%	-3.76%	-8.52%	-24.78%
Performance	**-1.24%**	**0.21%**	**9.66%**	**24.63%**	**55.81%**
% CDI	-	3.25%	71.30%	105.18%	138.24%

Av. Brig. Faria Lima, 3144 • 10º Andar • Itaim Bibi
01451-000 • São Paulo/SP • Brasil
kapitalo.com.br
[T] +55 11 3956-0600