MANAGER'S REPORT SEPTEMBER 2023

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MACRO OUTLOOK

Last month, central banks from the main developed countries signaled that the cycle of interest rate hikes may be coming to an end. We still assign a high probability to the event of a global activity slowdown due to the cumulative tightening of financial conditions.

In the United States, the Fed kept interest rates unchanged in its September meeting, consistent with market expectations. The meeting also included updated projections: for 2023, the GDP growth projection was doubled compared to the previous estimate (from 1% to 2.1% in Q4/Q4 terms) and the unemployment forecast was revised downwards (from 4.1% to 3.8% in Q4). This year's projections have met expectations and reflect the stronger activity seen in the data. However, revised figures for activity and unemployment in 2024-25 surprised a little. They revealed a committee expecting that disinflation will result in decreased costs for achieving its dual mandate, indicating a more optimistic outlook for a soft landing. The median of the forecasts is for one additional 25bps rate hike this year, but this is highly dependent on inflation and activity data. In any case, the committee is nearing the end of its rate hike cycle. In this sense, communication has increasingly emphasized that they plan to keep the rate at restrictive levels for some time.

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In Europe, both the ECB and the BOE entered a new phase. The ECB raised interest rates by 25 basis points, reaching 4%, the highest level since 2008, but suggested a pause in future meetings. Meanwhile, the BOE maintained interest rates stable, following a downward surprise in inflation for August. Both have signaled the possibility of raising rates again, if necessary, but the bar seems high, especially given the signs of weakening activity in both regions. In the Eurozone, the ECB staff has revised growth downwards, but activity data continues to suggest risks of a contraction in Q3. The composite PMI showed a slight improvement in September, but it points to a stabilization at depressed levels, instead of the start of a recovery trend. Further supporting the pause in the tightening cycle, preliminary Eurozone inflation for September surprised to the downside, with core inflation falling more than expected. In the UK, the PMI pointed to another sharp drop in September, driven by the services component. Also, monthly GDP figures fell in July, indicating a risk of a slight contraction in the quarter.

In September, positive signs were observed in the Chinese economy. The data on industrial production and retail consumption surpassed expectations and indicated that the activity stabilized at the beginning of the second semester. Additionally, the data on provincial bond issuances indicated that local governments were making greater efforts to finance additional infrastructure projects. The most significant aspect of the economic outlook was the response of home sales to the stimulus measures taken in the previous month. As expected, this reaction has been limited to the most affluent cities. We are of the opinion that reversing the declining trend in home sales will require fresh rounds of measures that take into account the more challenging economic conditions of poorer cities.

In Brazil, the Central Bank reduced the SELIC rate once again by 50 basis points and signaled adjustments of the same magnitude at future meetings. Just like last month, the COPOM has indicated that the threshold for an acceleration of the pace of rate cuts is high and mentioned that changes in the external scenario have contributed to raising this threshold even higher. Our growth projection for this year has been revised to 3.2%, following the release of the second quarter GDP data. The National Accounts data shows a favorable composition, with particular emphasis on the strength of household consumption. We observed that the data for the beginning of the third quarter indicates a more resilient activity than previously anticipated. Labor market data continue to show a decrease in unemployment, with hiring rates above neutral levels that stabilize unemployment. The August IPCA was lower than expected by the market, but in line with our projection, while the September IPCA-15 was slightly below our and the market's expectations, which confirms the expected trajectories for the underlying inflation measures. Moreover, in September, there were concerns about the depreciation of the exchange rate and potential fuel price increases due to rising oil prices. On the fiscal side, tax collection data continued to slow down in August, due to less favorable external prices, the deflator effect and activity losing momentum, though slowly. There hasn't been much progress in Brasilia on the timetable for approving measures to increase fiscal revenues in 2024. It's crucial for the government to handle these issues effectively in the coming months.

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POSITIONS

Rates

We increased long positions in the US, maintained long positions in Mexico and Brazil, short positions in Japan, short positions in inflation in Europe and curve positions in the US.

Currencies

we opened a short position in the euro, increased long positions in the Mexican peso and Norwegian krone, maintained long positions in the Brazilian real and Australian dollar and short positions in the Colombian peso and Chinese yuan.

Equities

We reduced our long and relative value positions in Brazilian shares and increased our short positions in global indices.

Commodities

We increased long positions in oil, sugar and aluminum and short in corn. We remained long in copper and short in palladium and reduced our long position in gold.

PERFORMANCE BREAKDOWN

Regarding performance, rate positions contributed negatively, and equities, currency and commodity positions contributed positively. In Brazilian equities, the positive highlights were for positions in the consumer and pulp and paper sectors, while losses were concentrated in transportation and logistics and oil and gas sectors.

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ESTRATÉGIAS	SEP/23	2023	12M	24M	60M
Fixed income	**-2.13%**	**-2.90%**	**1.60%**	**12.79%**	**20.88%**
FX	**0.33%**	**-0.14%**	**-1.05%**	**2.98%**	**-4.76%**
Equities	**0.82%**	**-1.81%**	**-2.77%**	**-8.87%**	**13.68%**
Commodities	**0.03%**	**0.23%**	**0.02%**	**0.57%**	**6,35%**
Fees	**-0.22%**	**-2.25%**	**-3.43%**	**-8.38%**	**-24.33%**
Performance	-0.20%	3.04%	7.81%	24.92%	54.44%
%CDI	**-**	**30.66%**	**58.10%**	**96.45%**	**127.7%**

FUND'S PERFORMANCE BREAKDOWN

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

STRATEGIES	SEP/23	2023	2022	2021	2020	2019	12M	24M	Since Inception*
Fixed income	**-2.09%**	**-3.06%**	**13.34%**	**1.54%**	**3.27%**	**1.83%**	**0.85%**	**9.69%**	**17.97%**
FX	**0.34%**	**-0.01%**	**2.83%**	**-0.84%**	**1.17%**	**-1.03%**	**-0.71%**	**2.62%**	**0.49%**
Equities	**1.10%**	**1.56%**	**-1.41%**	**6.44%**	**-2.70%**	**15.70%**	**1.85%**	**1.28%**	**25.63%**
Commodities	**0.04%**	**0.29%**	**0.48%**	**2.01%**	**1.09%**	**0.57%**	**0.15%**	**0.74%**	**5.33%**
Fees	**-0.07%**	**-1.11%**	**-7.06%**	**-5.40%**	**-3.63%**	**-5.19%**	**-2.16%**	**-9.51%**	**-28.06%**
Performance	-0.68%	-2.32%	8.19%	3.74%	-0.81%	11.88%	-0.01%	4.83%	21.35%

*** Inception date: September 5th, 2018**