MANAGER'S REPORT SEPTEMBER 2024

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MACRO OUTLOOK

In September, major global economies either began or continued their interest rate cut cycles, as economic activity and inflation data pointed to a slowdown. The focus has now shifted to the pace of future rate cuts. In China, the persistent economic deceleration in recent months led the government to implement new fiscal and monetary stimulus measures aimed at boosting growth.

In the United States, the Federal Reserve initiated its rate cut cycle during the September meeting. Although widely anticipated, the size of the reduction remained uncertain until the committee opted for a 50-basis-point cut, instead of a more moderate 25-basis-point reduction. This move indicated a more dovish stance from the committee, though Chair Powell emphasized in the press conference that 50-basis-point cuts should not be considered the new norm.

Regarding economic data, inflation has been well-behaved in recent months, with core inflation's moving averages ranging between 2.0% and 2.5% on an annualized basis. Both goods and services are experiencing disinflation, with the housing sector showing the most persistence. Powell expressed confidence that, as long as rental prices continue to moderate, housing inflation will likely decrease. However, he noted that this process might take longer than in previous cycles. On the labor market front, data suggest conditions similar to, or slightly more relaxed than, those in 2019. Still, the September jobs report exceeded expectations, showing robust job creation and a decline in the unemployment rate. This raises the likelihood that the Fed will slow the pace of cuts to 25 basis points at its next meeting in November.

In Europe, the ECB reduced interest rates by 0.25%, bringing them to 3.5% in September. The new projections included a slight downward revision in growth and an upward revision in core inflation.

During the Q&A session, President Lagarde indicated reluctance to cut rates again in October, though she left that option open. However, subsequent data pointed to increased downside risks, particularly in economic activity. The PMI worsened, with the services indicator giving back earlier gains, likely boosted by the Olympics effect. Additionally, the manufacturing indicator showed an even deeper recession. Preliminary inflation data pointed to a decline from 2% to levels below the previous month, partly due to the energy base effect, but also reflecting a slowdown in core inflation, driven by services.

In China, the central bank announced a significant stimulus package at the end of September. Statements from other officials suggest a high probability of additional fiscal measures being announced soon. This coordinated response signals that Chinese leaders recognize the significant challenges the economy faces, which are unlikely to be overcome without further intervention. Notably, part of the recent measures directly targets stimulating household consumption and supporting the real estate sector, even easing conditions for second-time homebuyers.

In Brazil, on the fiscal side, we continue to see strong revenue growth. Combined with a more favorable trajectory in pension expenditures — the main component on the spending side — this suggests that the primary deficit for the year is likely to remain within target, excluding extraordinary spending related to the tragedy in Rio Grande do Sul. Despite this more positive scenario compared to expectations earlier in the year, the trajectory of the General Government Gross Debt (GGGD), as estimated by the National Treasury, was revised upward. The latest projection suggests the debt-to-GDP ratio, previously expected to close the year at 76.6%, has been adjusted to 77.8%. Projections for 2028 were also revised from 79.6% to 82%.

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This is due to the recognition that rapid revenue growth is unlikely to be sustained, combined with rising expenses exceeding the limits established in the fiscal framework and the recent interest rate hikes by the Monetary Policy Committee (COPOM). We are concerned that the fiscal policy debate – which should prioritize controlling the debt trajectory – has been limited to a discussion solely focused on primary results targets. By nature, these targets are merely tools to achieve a broader objective. This approach raises concerns about the fiscal framework's ability to stabilize the debt trajectory, while also ignoring the temporary effects of revenue measures.

In terms of economic activity, the second-quarter GDP data was reviewed in September. Once again, we were surprised by robust growth, primarily driven by household consumption. Although some slowdown is expected in the second half of the year, annual GDP growth is expected to exceed 3%. Simultaneously, the labor market remains strong, with the lowest unemployment rates seen in a decade. The August IPCA (broad consumer price index) indicated improvement in current inflation, with the 12-month cumulative inflation slowing to 4.2%, primarily due to food deflation. Additionally, core services and the seasonally adjusted 3-month average core inflation came in at 5.3% and 4.5%, respectively, indicating qualitative stabilization.

Finally, the Central Bank raised the benchmark interest rate by 25 basis points, as expected. The statement provided projections suggesting the SELIC rate could reach 12.5% annually. This perception was reinforced by the acknowledgment of an asymmetric balance of risks. In the minutes, the Central Bank provided more detail, indicating that the output gap is more positive than previously expected, with the 50-basis-point revision highlighted in the Inflation Report (IR). Strong economic growth and unanchored inflation expectations seem to be the two primary challenges now faced by the Central Bank.

POSITIONS

Rates
We increased long positions in the UK and reduced long positions in Canada and the US;

Equities
We reduced long and relative value positions in Brazilian equities and long positions in global equities;

Currencies
We increased long positions in the Japanese yen, Turkish lira, and Canadian dollar; maintained long positions in the Mexican peso, Indian rupee, Australian dollar, and Hungarian forint; and short positions in the New Zealand dollar and Swiss franc. We reduced long positions in the Norwegian krone and short positions in the Chinese yuan, Hong Kong dollar, and British pound;

Commodities
We opened a long position in cattle and a short position in sugar. We increased long positions in gold and oil and reduced short positions in soybeans and aluminum.

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PERFORMANCE BREAKDOWN

In terms of performance attribution, interest rate and equity positions contributed positively, while commodity and currency positions detracted from performance. Among Brazilian equities, the sectors that stood out positively were Mining & Steel, Construction, Financial Services, Utilities, Education, Technology, Telecom, Capital Goods and Mall & Properties. On the negative side, positions in the Consumer, Oil & Gas, Healthcare, Pulp & Paper, Transportation & Logistics, and Banks sectors underperformed.

KAPITALO GLOBAL FUND SPC – ZETA USD

(in US Dollars)

STRATEGIES	SEP/24	2024	12M	24M	60M	SINCE INCEPTION*
Fixed Income	2.28%	-1.82%	0.94%	1.71%	16.87%	19.02%
FX	-0.15%	-3.66%	-3.98%	-4.73%	-1.37%	-4.39%
Equities	0.84%	11.49%	16.01%	17.65%	30.45%	44.80%
Commodities	-0.05%	1.26%	1.08%	1.22%	5.79%	6.63%
Fees	-0.16%	-1.09%	-1.27%	-3.08%	-22.09%	-29.19%
Performance	2.75%	6.18%	12.78%	12.76%	29.64%	36.86%

(*) Inception date: September 5th, 2018

ZETA FIQ (in Brazilian Reais)

STRATEGIES	SEP/24	2024	12M	24M	60M	120M
Fixed Income	2.30%	-2.12%	0.79%	2.50%	22.13%	73.48%
FX	-0.13%	-3.87%	-4.28%	-5.81%	-4.88%	30.49%
Equities	0.47%	8.34%	11.99%	9.64%	18.81%	98.20%
Commodities	-0.03%	1.33%	1.10%	1.20%	7.44%	14.94%
Fees	-0.29%	-2.13%	-2.95%	-6.63%	-23.57%	-59.42%
CDI	0.83%	7.99%	11.06%	25.98%	49.01%	142.08%
Performance	3.16%	9.54%	17.70%	26.89%	68.93%	299.77%
% Benchmark (CDI)	378.48%	119.37%	160.10%	103.48%	140.66%	210.99%

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