MANAGER'S REPORT OCTOBER 2024

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MACRO OUTLOOK

In October, major global economies demonstrated resilience, and the rate-cut cycle continued. Activity and inflation data will determine the pace of future cuts.

In the United States, Q3 GDP data indicated ongoing resilience in the economy, with a slight increase in private domestic demand, driven by consumer spending on goods. The labor market data points to a similar or slightly looser scenario than in 2019. After a strong September employment report, October's report fell short of expectations, with unemployment remaining at 4.1% but job creation significantly below forecast. Temporary factors like strikes and hurricanes likely contributed to this weakness, reducing the report's relevance to the Fed's assessment. Regarding inflation, it was seen an increase in September, but core measures remain stable. Overall, the movement of indicators over the past month was consistent with a 25 basis point cut at the November Fed meeting.

On the political front, Donald Trump won the presidential election, taking all the swing states. The Republicans also secured a majority in the Senate and, by all indications, are likely to achieve a majority in the House as well, although the margin remains uncertain. Clearly, control of the Executive and Legislative branches favors the implementation of the party's policies. While there is still considerable uncertainty regarding the details, the general points of the agenda are known. In particular, the expectation of a worse fiscal situation stands out, with the full extension of the tax cuts implemented during Trump's first term, which were set to expire at the end of 2025, as well as the possibility of additional tax cuts, though these are expected to be limited in scope. Furthermore, a more protectionist stance is anticipated, with increased import tariffs, with the primary focus being China. Lastly, a more restrictive immigration policy is also expected. Overall, these proposals are inflationary, which has already led to an upward movement in the interest rate curve.

In Europe, the ECB cut interest rates again by 0.25% in October. Although it initially signaled the intention to maintain quarterly cuts, the surprise from the September inflation data and the negative risks to economic activity prompted the consecutive rate cut. The shift towards data-dependency led the market to increase the likelihood of a 50 basis point acceleration in December. However, the latest economic data releases and divisions within the committee itself suggest that the most likely scenario is the continuation of the gradual pace of 25 basis points. However, the negative risk to economic activity, stemming from a more protectionist stance by the new Trump administration, increases the likelihood of a greater divergence between U.S. and European monetary policies.

Despite the still depressed level of PMIs, GDP growth in Q3 was a positive surprise, raising questions about the predictive power of surveys. Specific factors, such as the Olympics, boosted growth in Q3; however, the underlying trend still seems weaker. In October, inflation accelerated again to 2% and continues to run below the ECB's latest projections. However, on the margin, inflation gave back some of the downside surprise from last month.

In the United Kingdom, the new government's fiscal announcement exceeded expectations with historic high figures for increased spending, revenue, and bond issuance, raising inflationary concerns and potential BoE response.

In China, September data surpassed expectations in industrial, service, and infrastructure sectors, boosting GDP and reinforcing the 5% growth target for 2024. The release of October's PMI, also above expectations, and the first signs of an acceleration in real estate sales indicate an emerging recovery trend in China's economic data. Part of this improvement reflects the recent monetary package announced by the monetary authority, as well as expectations of a major fiscal package to be unveiled at the upcoming NPC in November. We believe that if the government presents a multi-year plan to support indebted provinces, assist developers in completing housing projects, and stimulate household consumption, China may follow a more favorable growth trajectory in the coming years.

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MACRO OUTLOOK

In Brazil, revenue data remain robust, and we maintain confidence in meeting the lower primary surplus target for this year. However, achieving the 2025 target presents significant challenges, with a potential fiscal shortfall emerging in 2026, as spending constraints may limit budget allocation flexibility. These concerns intensified over the month, underscoring the need for a long-term fiscal sustainability discussion. Two main topics dominated fiscal policy in October: the potential use of parafiscal mechanisms to bypass spending caps and expenditure cuts. Favoring public fund surpluses to circumvent spending limits would undermine transparency and avert necessary spending prioritization. Regarding expenditure cuts, we estimate the government will need to implement R$40 billion in reductions by 2026 to comply with spending limits.

In terms of activity, wage growth decelerated despite a strong labor market, with formal job creation remaining robust and unemployment dropping to 6.4%. Industry and consumption data suggest Q3 GDP may grow by around 0.9%, adjusted for seasonality, exceeding initial projections.

Inflation saw significant short-term pressure in October, primarily driven by rising cattle prices, leading to an upward revision in our 2024 inflation forecast from 4.4% to 4.7%. October's IPCA-15 revealed a qualitative deterioration, with core services acceleration and core measures reaching annualized, seasonally adjusted levels of 9% and 5.1%, respectively.

Following the start of the recent rate-hike cycle, the Monetary Policy Committee (COPOM) remains focused on strong economic activity and, more importantly, a highly competitive job market. Considering upward revisions in short-term inflation forecasts, a weaker currency, and rising food and commodity prices, the Central Bank raised rates by another 50 basis points in early November.

POSITIONS

Rates

We reduced positions in the UK, the U.S., the Eurozone, and Canada, while maintaining tactical positions in South Africa and Mexico;

Equities

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

Currencies

We increased long positions in the Australian dollar, Canadian dollar, and Hungarian forint, while holding short positions in the Chinese yuan, Hong Kong dollar, Swiss franc, and euro. We maintained long positions in the Indian rupee and Turkish lira and short positions in the New Zealand dollar, while reducing long positions in the Japanese yen and Mexican peso;

Commodities

We opened a short position in oil and a long position in coffee, increased long positions in gold and copper, and reduced short positions in soybeans.

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PERFORMANCE BREAKDOWN

In terms of performance attribution, equities, commodities, and currencies contributed positively, while rates detracted. Among Brazilian equities, the main positive contributions came from the Consumer, Pulp & Paper, Financial Services, Transportation & Logistics, and Capital Goods sectors. On the negative side, positions in the Mining & Steel, Healthcare, Oil & Gas, Banks, Education, Construction, Telecom, Utilities, Technology, and Mall & Properties sectors underperformed.

KAPITALO GLOBAL FUND SPC – ZETA USD

(in US Dollars)

STRATEGIES	OCT/24	2024	12M	24M	60M	SINCE INCEPTION*
Fixed Income	**-2.12%**	**-4.07%**	**-0.08%**	**-2.04%**	**11.93%**	**16.12%**
FX	**0.31%**	**-3.33%**	**-3.00%**	**-3.94%**	**-0.59%**	**-3.97%**
Equities	**1.89%**	**-13.49%**	**17.92%**	**18.92%**	**30.08%**	**47.39%**
Commodities	**0.22%**	**1.50%**	**1.60%**	**1.19%**	**5.90%**	**6.93%**
Fees	**-0.30%**	**-1.41%**	**-1.73%**	**-2.83%**	**-20.81%**	**-29.60%**
Performance	0.00%	6.18%	14.72%	11.31%	26.51%	36.86%

(*) Inception date: September 5th, 2018

ZETA FIQ (in Brazilian Reais)

STRATEGIES	OCT/24	2024	12M	24M	60M	120M
Fixed Income	**-2.20%**	**-4.67%**	**-0.34%**	**-2.05%**	**15.59%**	**71.74%**
FX	**0.30%**	**-3.63%**	**-3.27%**	**-4.98%**	**-3.75%**	**29.65%**
Equities	**1.56%**	**10.24%**	**14.00%**	**11.25%**	**18.76%**	**105.30%**
Commodities	**0.22%**	**1.61%**	**1.72%**	**1.17%**	**7.73%**	**15.85%**
Fees	**-0.34%**	**-2.50%**	**-3.33%**	**-6.40%**	**-23.19%**	**-60.51%**
CDI	**0.93%**	**8.99%**	**10.98%**	**25.87%**	**49.67%**	**142.04%**
Performance	0.46%	10.04%	19.76%	24.85%	64.82%	304.07%
% Benchmark (CDI)	**49.42%**	**111.65%**	**180.02%**	**96.06%**	**130.49%**	**214.08%**

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