MANAGER'S REPORT DECEMBER 2024

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MACRO OUTLOOK

In December, the interest rate cutting cycle continued across major global economies. Despite signs of economic resilience, fiscal concerns and monetary adjustments point to challenges in controlling inflation in 2025.

In the United States, the December FOMC meeting delivered a hawkish surprise. While the expected 25-basis-point rate cut was implemented, updated projections and Chair Powell's communication indicated a more cautious approach to future cuts. Inflation projections for 2025 and 2026 were revised upward beyond expectations, reflecting the anticipated effects of Trump's proposed policies, particularly the inflationary impacts of import tariffs. Consequently, the Fed's "dot plot" now suggests only 50 basis points of cuts in 2025, compared to the prior expectation of 75 basis points. The estimate for the long-term nominal rate also ticked slightly higher, with the median now at 3%. Given this backdrop, the likelihood of a rate cut at the January meeting appears significantly diminished. By March, the chances improve, though inflation data will need to be notably benign.

In Europe, the ECB reduced interest rates by another 25 basis points at its December meeting. The central bank signaled its intention to continue sequential rate cuts in the coming months, potentially reaching neutral levels. While the current pace of cuts is likely to persist, negative surprises in economic activity—such as tariff announcements—could prompt an acceleration and increase the scope for rate reductions.

In China, the real estate sector remains robust, and the economy is showing increasingly consistent signs of achieving the government's 5% growth target for 2024. As is customary at year-end, attention is turning to the early 2025 meetings of Chinese authorities, which will outline additional fiscal measures, new stimulus packages, growth targets, and other economic priorities.

In Brazil, after significant collaboration with Congress, the government successfully passed the legislative projects and constitutional amendment (PEC) that comprised the spending package presented in late November. Some modifications were made to more sensitive topics, particularly the eligibility criteria for the Continuous Cash Benefit (BPC), but the core structure of the measures was preserved. These adjustments are expected to enhance the credibility of the fiscal rule through 2026. However, since the announcement of the income tax exemption, market concerns regarding Brazil's fiscal trajectory have intensified. The country's debt dynamics are worrying investors, and we believe the government will need to propose additional measures to address this issue.

Economic activity data continue to reflect an economy growing above its potential, driven primarily by household consumption. Although credit issuance has slowed, it remains at elevated levels. Labor market indicators, including formal and informal job creation, suggest that this trend will continue to support growth in the coming quarters. Initial Q4 data indicate that GDP growth is unlikely to decelerate significantly by year-end, reinforcing this outlook.

Domestically, inflation worsened in December, with notable impacts from currency depreciation, rising inflation expectations, and persistent economic activity. As a result, we revised our 2025 inflation forecast from 4.8% to 5.3%. Although December's IPCA-15 surprised positively in the headline index, driven by volatile items like airfares and fresh foods, underlying components showed deterioration. Core services inflation accelerated sharply, reaching an annualized, seasonally adjusted three-month moving average of 8.2%.

Finally, at its last meeting in December, the Central Bank raised the SELIC rate by one percentage point and signaled two additional hikes of the same magnitude in upcoming meetings if the projected scenario materializes. The Bank emphasized its concern over accelerating inflation, driven by a widening output gap and rapidly increasing inflation expectations. The Central Bank adopted a more hawkish stance to curb rising inflationary pressures and slow economic growth.

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POSITIONS

Rates

We reduced long positions in Brazil, the United Kingdom, Canada, and the United States.

Currencies

We increased long positions in the Hungarian forint and Canadian dollar and short positions in the Polish zloty. We maintained long positions in the Turkish lira and Mexican peso. Meanwhile, we reduced long positions in the Japanese yen and Colombian peso and short positions in the Chinese yuan, Hong Kong dollar, and Swiss franc. We closed short positions in the Brazilian real and euro.

Equities

In equities, we reduced long and relative value positions in Brazilian equities while maintaining long positions in global equities.

Commodities

We reduced long positions in gold and closed relative value positions in corn. We maintained long positions in copper and short positions in soybeans.

PERFORMANCE ATTRIBUTION

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

KAPITALO GLOBAL FUND SPC – ZETA USD

(in US Dollars)

STRATEGIES	DEC/24	2024	12M	24M	60M	SINCE INCEPTION*
Fixed Income	**-2.67%**	**-7.13%**	**-7.13%**	**-7.73%**	**9.92%**	**12.17%**
FX	**0.44%**	**-2.51%**	**-2.51%**	**-2.73%**	**0.46%**	**-2.90%**
Equities	**1.20%**	**15.78%**	**15.78%**	**21.45%**	**26.12%**	**50.33%**
Commodities	**-0.13%**	**1.63%**	**1.63%**	**1.71%**	**5.49%**	**7.10%**
Fees	**-0.08%**	**-1.70%**	**-1.70%**	**-2.64%**	**-19.46%**	**-29.97%**
Performance	-1.24%	6.08%	6.08%	10.05%	22.52%	36.73%

(*) Inception date: September 5th, 2018

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ZETA FIQ (in Brazilian Reais)

STRATEGIES	DEC/24	2024	12M	24M	60M	120M
Fixed Income	-2.55%	-8.13%	-8.13%	-9.11%	15.01%	70.29%
FX	0.43%	-2.72%	-2.72%	-3.36%	-2.19%	30.73%
Equities	0.78%	11.86%	11.86%	14.07%	12.75%	114.76%
Commodities	-0.35%	1.53%	1.53%	1.59%	7.12%	16.03%
Fees	-0.33%	-3.11%	-3.11%	-6.42%	-23.46%	-62.36%
CDI	0.93%	10.87%	10.87%	25.34%	51.11%	141.86%
Performance	-1.10%	10.31%	10.31%	22.13%	60.34%	311.31%
% Benchmark (CDI)	-	94.78%	94.78%	87.33%	118.06%	219.44%

Autorregulação ANBIMA
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