ZETA

MACRO OUTLOOK

This month was defined by the progression of the protectionist agenda in the U.S., fiscal adjustments across Europe, and stimulus measures in China. Economic data points to a slowdown in activity, while inflation continues to pose a challenge for central banks.

In the United States, the highlight was the evolution of the Trump administration's policies, which has proven to be more aggressive than expectations prior to his inauguration. Regarding immigration, the first effects can already be observed in the data, with the number of apprehensions of immigrants illegally crossing the southern border reaching its lowest level since at least the year 2000. Additionally, efforts to reduce the federal government workforce have begun. Announcements so far indicate that one hundred thousand civil servants have been dismissed or have opted for voluntary resignation programs, and the number of dismissals is expected to increase.

There has also been significant movement regarding import tariffs. As of March 12, tariffs of 25% have been implemented on the importation of steel, aluminum, and derivative products from all countries (previously, major trade partners were exempt from tariffs on these products). Additionally, at the beginning of March, President Trump increased tariffs on Chinese imports by 10 percentage points, bringing the total increase since the start of his administration to 20 points. On March 4, contrary to market expectations, 25% tariffs on Mexican and Canadian goods (except Canadian energy, which is subject to a 10% tariff) went into effect. However, given the significant impact of tariffs at these levels on economic activity and inflation, should they become permanent, there is still room for negotiation, potentially leading to reductions or the elimination of these specific tariffs on Mexico and Canada.

Regarding economic data, January inflation figures were released, once again surprising expectations on the upside. On the activity front, consumption started the year slightly weaker, indicating some deceleration in domestic demand in the first quarter. Another highlight was the February PMIs and confidence data, which began to show signs of weakening, mainly attributed to uncertainties surrounding the Trump administration's policies. Overall, these policies are expected to reduce growth and increase inflation. More broadly, with economic activity and the labor market still resilient and inflation worsening at the beginning of the year, the Fed is likely to keep interest rates unchanged at the next meeting, awaiting better inflation data and greater clarity on the impact of government policies.

In Europe, the debate focused on possible reactions to pressure from the U.S. government and the geopolitical conflict between Russia and Ukraine. In particular, the need to increase defense spending was highlighted, as last year's expenditure reached only 2% of GDP, while in the U.S., the average over the last decade was between 3.0-3.5% of GDP. Additionally, discussions are ongoing regarding the possibility that Europe may need to replace U.S. support for Ukraine and, in the event of a peace agreement, contribute to the country's reconstruction costs.

The conclusion of the electoral process in Germany provided momentum for fiscal policy discussions, which are expected to have implications for the broader European Union bloc. Even before the new parliament took office, political leaders reached an agreement on a set of measures that signal a shift in approach, setting aside fiscal restrictions and potentially freeing up significant space for new spending, particularly in defense and infrastructure investments. Despite the likelihood of fiscal stimulus, the European Central Bank cut interest rates by another 25 basis points at its March meeting. The meeting's guidance was more hawkish but still left the door open for further cuts.

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In China, although first-quarter data has not yet been released, travel and consumption indicators during the holiday period, as well as PMIs, suggest a positive start to the year for the Chinese economy. February was marked by anticipation surrounding the National People's Congress announcements, where key economic targets for the year are defined. Some information has already been released, and so far, authorities have met market expectations by maintaining the GDP growth target and increasing fiscal stimulus to address domestic growth challenges and mitigate the negative impacts of the new tariffs imposed by the U.S. government.

In Brazil, data released throughout February revealed weaker economic growth at the end of last year. Our projections indicate that GDP growth in the fourth quarter of 2024 was less than half the pace of the previous three quarters, seasonally adjusted. On the other hand, early indicators for this year suggest that industrial production, retail sales, and service consumption did not continue to decline. This confirms our outlook for gradual deceleration, influenced by more pronounced monetary tightening and reduced fiscal stimulus on one hand, and the real increase in the minimum wage and robust agricultural production, whose positive effects spread to other sectors, on the other.

On the fiscal front, the government announced that spending on the "Plano Safra", a government program that provides credit and incentives to support the agricultural sector, and the "Pé-de-Meia" program, a financial aid initiative to support low-income students, would not be included within expenditure limits. Additionally, the Senate approved authorization to use Outstanding Payables from previous fiscal years in 2025, increasing expenditures above the fiscal framework limit. While this does not have a direct budgetary impact, new legislation allowing partial withdrawals from FGTS (Workers' Severance Fund in Brazil) for those who opted for the "anniversary withdrawal" and discussions on a new payroll loan structure with private banks indicate a clear intention to prevent any economic slowdown. Given the low approval ratings of the federal government in recent polls, similar initiatives are expected to intensify.

Inflation remained pressured in February but showed no additional deterioration in its composition. The seasonally adjusted and annualized three-month moving average of core services inflation slowed to 7.9%, indicating a slight moderation in underlying inflation. Nevertheless, price increase dispersion remains high, reinforcing the scenario of inflationary inertia and challenges in anchoring expectations to the target.

Finally, there were few public statements from Copom (Brazilian Central Bank's Monetary Policy Committee) members during the month. In the rare instances when they did speak, they largely avoided mentioning the de-anchoring of expectations. When it was mentioned, the emphasis was on downplaying its importance. The message conveyed suggests that the monetary tightening cycle is nearing its end.

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POSITIONS

Interest Rates
We increased long positions in real rates in Brazil and maintained long positions in nominal rates in Sweden, the United States, and the United Kingdom.

Equities
We maintained long and relative value positions in Brazilian equities and increased long positions in global equities.

Currencies
We increased long positions in the Japanese yen, Hungarian forint, and Norwegian krone. We reduced long positions in the Brazilian real and Turkish lira, and short positions in the Chinese yuan and Hong Kong dollar.

Commodities
We reduced long positions in gold, corn, and copper. We closed short positions in soybeans, opened long positions in sugar, and short positions in natural gas. We maintained short positions in coffee, zinc, and aluminum.

PERFORMANCE ATTRIBUTION

Regarding performance attribution, interest rate and currency positions contributed positively, while equity and commodity positions had a negative impact. In Brazilian equities, the main positive contributions came from positions in the Transportation & Logistics, Healthcare, Capital Goods, Mining & Steel, Banking, Construction, Telecom, and Shopping Mall sectors. Conversely, the main negative contributions came from positions in the Consumer, Pulp & Paper, Oil & Gas, Technology, Financial Services, Education, and Utilities sectors.

ZETA USD

KAPITALO GLOBAL FUND SP

	FEB/25	2025	12M	24M	60M	SINCE INCEPTION
Fixed Income	**0.45%**	**1.71%**	**-3.40%**	**-6.77%**	**10.30%**	**14.51%**
FX	**0.25%**	**0.51%**	**-1.27%**	**-2.05%**	**3.60%**	**-2.20%**
Equities	**-1.28%**	**-3.76%**	**10.40%**	**17.77%**	**27.41%**	**45.19%**
Commodities	**0.16%**	**-0.43%**	**0.56%**	**1.27%**	**5.12%**	**6.52%**
Fees	**-0.19%**	**-0.58%**	**-2.17%**	**-2.92%**	**-20.44%**	**-3.71%**
Performance	-0.60%	-2.55%	4.11%	7.30%	26.00%	33.30%

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(in Brazilian Reais)

	FEV/25	2025	12M	24M	60M	120M
Fixed Income	0.45%	1.31%	-4.59%	-8.91%	15.06%	64.83%
FX	0.29%	0.53%	-1.37%	-2.61%	2.52%	22.43%
Equities	-1.95%	-4.83%	5.93%	9.43%	12.82%	89.22%
Commodities	0.20%	-0.20%	0.62%	1.44%	6.90%	13.86%
Feed	-0.18%	-0.23%	-2.98%	-6.23%	-24,.05%	-54.07%
CDI	0.99%	2.00%	11.12%	25.28%	53.11%	142.46%
Performance	-0.20%	-1.41%	8.73%	18.41%	66.37%	278.74%
% Benchmark (CDI)	-	-	78.49%	72.80%	124.97%	195.66%

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