MANAGER'S REPORT MARCH 2025

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MACRO OUTLOOK

The month of March was marked by the intensification of trade tensions, with the United States announcing new tariffs and signaling a more aggressive stance. Meanwhile, China and Europe advanced with relevant fiscal stimulus measures in an effort to support growth amid rising uncertainties. Economic activity remained resilient across several regions, but inflation continued to be under pressure, demanding caution from central banks.

In the United States, the highlight was President Trump's announcement of a reciprocal tariff plan. The plan includes a minimum 10% import tariff for nearly all countries and tariffs ranging from 11% to 50% for countries with which the U.S. has significant trade deficits. If maintained, both the reciprocal tariffs and those previously announced are likely to have a considerable inflationary impact and a negative effect on activity. Two days later, China retaliated by announcing a 34% tariff—matching the U.S. rate—on all products imported from the U.S., effective April 10. This escalation and retaliatory moves increase the probability of a recession, not only in the U.S. A key point will be monitoring whether other countries retaliate against the U.S., or whether there is room for bilateral negotiations. In either case, the uncertainty and abrupt policy shifts create a negative environment for economic growth. Even in the case of negotiations, final tariff levels will likely remain elevated compared to expectations before Trump's inauguration.

In March, the FOMC held its monetary policy meeting and, as anticipated, kept interest rates steady. Persistently high inflation and a still-strong economic backdrop suggest the Fed is likely to maintain this stance through the upcoming May meeting. Looking ahead, mounting pressure for a rate-cutting cycle will hinge on the unfolding of the tariff plan and its broader economic repercussions. At the press conference, Chair Powell emphasized that the committee is not in a hurry to cut interest rates, though the overall tone was dovish. He explicitly stated that the committee's base case assumes the inflationary impact of import tariffs will be transitory and attributed at least part of the early-year inflation pressure to these tariff effects.

In Europe, the German government approved the fiscal package that allows for increased spending on defense and infrastructure. However, as the government still needs to formalize the coalition and approve the 2025 budget, we believe it will take some time to implement the spending increase due to administrative and planning constraints. The impact on economic activity should also be limited by the need to import part of the defense equipment.

As expected, the European Central Bank cut interest rates by 25 basis points at its March meeting. Despite a more hawkish tone, another rate cut is likely in April, considering progress in the disinflation process and the near-term risks associated with tariff increases, which are expected to have a more immediate impact than fiscal stimulus.

In China, the month began with the National People's Congress (NPC) signaling a significantly stronger fiscal stimulus for 2025, with the budget deficit widening by more than two percentage points of GDP compared to 2024. The government will take the lead in driving growth by stimulating household consumption of durable goods and services and investing in strategic areas.

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Also in March, the data for the first two months of the year were released, indicating stronger-than-expected economic activity, particularly in the high-tech manufacturing sector. These better-than-expected numbers led to a wave of upward revisions to China's 2025 GDP projections. Still, we remain concerned about the impact of new U.S. tariffs on Chinese goods and attentive to the alternatives Chinese authorities may adopt to offset their effects. At the same time, stabilizing the real estate sector remains a priority, as early-year sales lost some of the momentum seen at the end of last year.

In Brazil, early-year data does not suggest the economy is undergoing a rapid deceleration. Despite the need for caution with seasonal adjustments this quarter – as noted by the Central Bank in its latest Quarterly Inflation Report – February and March should contribute to stronger growth compared to late 2024, excluding agribusiness's contribution to GDP. While short-term indicators remain resilient, newly announced government measures raise questions about the intensity of the projected deceleration ahead. Notably, the new payroll loan scheme for private sector employees began operating in March. Also worth highlighting was the better-than-expected performance of the formal labor market, which surprised both market and our forecasts. We now see short- and medium-term upside risks to our GDP projections for 2025 and 2026.

On the fiscal side, Congress approved the 2025 Budget Law in March, which did not bring significant new information. We continue to believe the government will struggle to meet this year's primary surplus target, although the challenge will likely be smaller than in 2024, also with respect to the spending cap. In March, the government also submitted a proposal to reform personal income tax, including notable provisions such as dividend taxation and a new rate-reduction mechanism. We will closely monitor how Congress edits the bill, especially changes to the compensation measures for tax exemption.

Inflation remained under pressure in March. Although the headline index came in slightly below expectations—driven by more volatile components—the qualitative breakdown deteriorated again: the average of core inflation measures reached 7.4% on a seasonally adjusted and annualized three-month moving average, while core services inflation accelerated to 8.1% on the same metric. In a context of resilient economic activity and significantly de-anchored inflation expectations, convergence to the target appears increasingly distant.

Finally, at its latest meeting, the Central Bank's Monetary Policy Committee (Copom) raised the Selic rate by 1 percentage point, as pre-announced at the previous meeting. The committee also signaled a smaller hike for the May meeting and, in its statement, left the door open for another increase in June.

POSITIONS

Interest Rates
Increased long positions in Sweden and the Eurozone. Maintained long positions in real rates in Brazil and nominal rates in the United States and the United Kingdom.

Currencies
Increased short positions in the Chinese yuan and Brazilian real and long positions in the Mexican peso. Reduced long positions in the Japanese yen and Hungarian forint, and short positions in the Swiss franc.

Equities
Maintained long and relative value positions in Brazilian equities and long positions in global equities.

Commodities
Increased long positions in gold and short positions in platinum, zinc, and palladium. Reduced short positions in natural gas and long positions in oil. Closed short positions in coffee.

PERFORMANCE ATTRIBUTION

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

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	MAR/25	2025	12M	24M	60M	SINCE INCEPTION
Fixed Income	0.68%	2.36%	-2.03%	-6.82%	14.67%	15.41%
FX	-0.64%	-0.12%	-2.07%	-3.10%	3.49%	-3.06%
Equities	0.72%	-3.06%	7.13%	19.16%	39.83%	46.15%
Commodities	0.12%	-0.31%	0.37%	1.34%	5.67%	6.68%
Fees	-0.29%	-0.86%	2.23%	-3.01%	-22.68%	-31.09%
Performance	0.59%	-1.97%	1.17%	7.57%	40.98%	34.08%

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(in Brazilian Reais)

	MAR/25	2025	12M	24M	60M	120M
Fixed Income	0.82%	2.13%	-2.94%	-9.00%	22.73%	73.95%
FX	-0.66%	-0.11%	-2.23%	-3.88%	3.51%	13.28%
Equities	0.19%	-4.69%	2.15%	10.95%	28.26%	92.21%
Commodities	0.16%	-0.05%	0.44%	1.58%	7.81%	14.43%
Feed	-0.17%	-0.40%	-2.79%	-6.06%	-27.38%	-54.78%
CDI	0.96%	2.98%	11.26%	25.02%	54.06%	142.28%
Performance	1.30%	-0.13%	5.89%	18.60%	88.98%	281.39%
% Benchmark (CDI)	135.21%	-	52.30%	74.36%	164.62%	197.76%

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