Macro Outlook

During the month, the American banking crisis stirred up the markets, increasing uncertainties regarding monetary tightening in the main economies. Despite the Fed and ECB delivering rate hikes, the uncertain financial risks resulted in no forward guidance regarding future meetings. In China, official data indicated a strong economic rebound and an encouraging start of the year.

In the United States, the month was marked by the outbreak of a banking crisis. It began with the bankruptcy of regional Silicon Valley Bank on March 10th, which suffered a multibillion dollar loss in bonds due to the rise in interest rates, triggering a bank run and ultimately leading to the closure of the institution by regulators. Two days later, Signature Bank also went bankrupt. The markets experienced increased volatility and repricing of interest rates. This crisis has the potential to result in further tightening of credit conditions, affecting economic activity and inflation, which is a key consideration for the Fed. However, the full effects of these developments are still unknown. At its March meeting, the FOMC delivered a 25bps rate hike and maintained its terminal rate projection at 5.1% in 2023. However, Chairman Powell emphasized that financial instability generates uncertainty. Data related to the banking sector, including deposits and loans, will be of particular importance in the coming weeks. Such data can provide an indication of the impacts on the real economy and the viability of separating monetary and financial stability policies.

The crisis in the United States generated knock-on effects on the European banking system, leading to a drop in stock prices and an increase in banks' CDSs. To prevent the collapse of Credit Suisse, a merger with UBS was orchestrated. The likelihood of systemic issues seems limited, as the European banking system scores well on stress and resilience metrics. However, the increase in the cost of financing may weigh on bank loans, which were already decelerating. Despite the tension in the banking system, the ECB raised its policy rate by 50bps to 3.0%. Nevertheless, the bank provided open forward guidance for the next meetings due to financial risks, adopting an even more data-dependent stance. The latest ECB staff projections, despite not incorporating financial stress, indicate inflation above the target by the end of the forecast horizon, potentially leaving room for higher interest rates in the next meetings. Comments made by committee members reinforced that, in the baseline scenario, the ECB should continue delivering rate hikes to contain inflation risks. Inflation has peaked and started a downward trend, which is expected to continue in the coming months with the base effect and the decline in energy inflation. However, core inflation is still rising despite the sequential deceleration in March compared to February. The latest data suggests the beginning of a reversal of goods inflation, but with services inflation still persistent. In addition, despite the uncertainty regarding the impact of tighter credit conditions on the economy, last month's PMI activity survey surprised again on the upside, reaching the best level since May/22, mainly driven by the activity of the services sector.

In China, official data for the beginning of the year confirmed that the post-zero COVID economic activity recovery was very strong. The numbers suggest growth in the first quarter above expectations, with emphasis on services provided to families. Credit concessions remain strong, and home sales have already surpassed 2019 levels. Traditional Chinese growth engines, such as the real estate sector and local government infrastructure investments, started the year on a strong note. The sustainability of these instruments, along with the resilience of family consumption in this context of pent-up demand, will determine China's economic performance in 2023.

In Brazil, we have been expecting a more significant slowdown in activity for quite some time, but only at the beginning of this year we began to see signs in that direction. However, last month we were positively surprised: confidence indicators increased, and job creation data accelerated again. Additionally, the credit market is slowly decelerating, despite the impact on the capital markets resulting from issues in two relevant companies. This resilience in activity data, coupled with the significant increase in inflation expectations, makes inflation convergence towards the current target harder. This difficulty prevents the Central Bank from cutting interest rates, which displeases the current government, who has shown enormous aversion to any economic slowdown, even if it is only temporary. Thus, uncertainty regarding the monetary policy framework remains, including the definition of targets and/or changes in the BCB board towards being more lenient with inflation. In late March, the finance ministry published additional details of the new fiscal policy framework. Two rules were presented: i) a very challenging primary results trajectory and ii) a new spending ceiling, which will increase more than inflation in any circumstance. Since the new spending ceiling is insufficient to guarantee the robust trajectory of primary results promised, it can be inferred that the government has in mind a significant increase in revenues. Therefore, the focus will be on the promised tax hikes by the finance minister. It will be necessary to analyze the political feasibility of the proposals and their possible long-term growth impacts

Positions

In rates, we opened short positions in Europe and Chile and long positions in the United Kingdom and Sweden. We maintained short positions in implied offshore rates in Brazil and curve positions in the US. We closed the long position in Mexico.

In equities, we maintained long and relative value positions in Brazilian equities and reduced short positions in global indices.

In currencies, we opened long positions in the South African rand and Australian dollar. We increased long positions in the Euro and the Japanese yen and short positions in the Czech crown, the Polish zloty, the British pound, and the Chinese yuan.

In commodities, we opened long positions in soy, sugar and cocoa, increased long positions in gold and reduced long positions in oil. We maintained short positions in corn, coffee, silver and palladium.

Performance breakdown

Regarding performance, rates and FX contributed positively and equities contributed negatively. In Brazilian equities, the main positive highlights were transportation & logistics and utilities. Losses were concentrated in healthcare, oil & gas, pulp & paper and metals & mining.

Fund's Performance breakdown

KAPITALO GLOBAL FUND SPC – ZETA USD (in US Dollars)

Strategies	Mar/23	2023	2022	2021	2020	2019	12M	24M	Since Inception*
Fixed Income	0.81%	1.75%	13.34%	1.54%	3.27%	1.83%	9.71%	17.55%	23.95%
FX	0.37%	0.26%	2.83%	-0.84%	1.17%	-1.03%	2.63%	4.34%	0.82%
Equities	-0.67%	-1.11%	-1.41%	6.44%	-2.70%	15.70%	-3.15%	1.93%	22.30%
Commodities	0.05%	0.03%	0.48%	2.01%	1.09%	0.57%	-0.43%	1.77%	5.01%
Fees	-0.23%	-0.60%	-7.06%	-5.40%	-3.63%	-5.19%	-4.75%	-12.68%	-27.43%
Performance	**0.33%**	**0.33%**	**8.19%**	**3.74%**	**-0.81%**	**11.88%**	**4.01%**	**12.91%**	**24.65%**

(*) Inception date: September 5th, 2018

ZETA FIQ (in Brazilian Reais)

Strategies	Mar/23	2023	12M	24M	60M
Fixed Income	0.86%	2.01%	11.08%	21.62%	30.11%
FX	0.41%	0.33%	3.24%	4.77%	-2.27%
Equities	-1.06%	-1.98%	-8.07%	-5.35%	16.86%
Commodities	0.04%	-0.03%	-0.74%	1.74%	5.68%
Fees	-0.29%	-0.75%	-3.57%	-8.97%	-24.81%
Performance	**1.13%**	**2.84%**	**15.22%**	**34.40%**	**63.79%**
% CDI	96.07%	87.32%	114.58%	167.05%	166.90%

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