MANAGER'S REPORT MAY 2025

ZETA

MACRO OUTLOOK

In May, the global environment remained marked by trade uncertainties, uneven economic activity across regions, and still cautious monetary policies. While the United States kept interest rates unchanged and Europe signaled further cuts, China showed signs of moderate deceleration, and Brazil continued to display recovery signals, supported by rising consumption and falling inflation.

In the U.S., the tariff agenda remained volatile. There was a de-escalation of tariffs on Chinese goods: following initial discussions, both countries agreed to roll back the increases implemented after April 2, representing a 115-percentage point reduction in tariffs on both sides. As a result, the tariff hike imposed during Trump's second term on Chinese products now stands at 30 percentage points (down from the previous 115%). While still high, this level is likely not prohibitive to trade and reduces the probability of more adverse scenarios for activity and inflation. Nonetheless, a more definitive agreement between the parties is still needed. Meanwhile, Trump announced tariff hikes on steel and aluminum, from 25% to 50%.

There was also growing debate over the legality of the tariff increases by the executive branch. A court ruling initially paused the implementation of tariffs under emergency authority, but the Trump administration subsequently secured a favorable decision that reinstated them. The case is expected to progress to the Supreme Court. These developments delay the tariff agenda, but Trump could still impose tariffs through other legal channels if the Supreme Court overturns the current implementation mechanism.

So far, economic data have not shown significant impacts from tariffs on inflation or the labor market. The effects are expected to become more evident in the second half of the year.

Regarding the Fed, the committee held rates steady at the May meeting and reiterated that monetary policy is in a good place, with no urgency for further moves.

In Europe, trade-related risks and uncertainties increased toward the end of May. Initially, President Trump threatened to raise tariffs to 50%, claiming that Europe's proposals were insufficient. He later agreed to continue negotiations until early July (July 9). However, some U.S. demands – such as changes to the VAT system and sanitary barriers – seem difficult to meet quickly. In addition, while U.S. courts blocked tariffs under IEEPA, they were subsequently reinstated and remain in effect. Sector-specific tariffs on steel, aluminum, and especially vehicles continue to impact European exports. There is also a risk that the U.S. administration may increasingly resort to such measures.

Given this backdrop, downside risks to activity are expected to lead the ECB to implement another rate cut at the June meeting. Wage growth has also been slowing faster than expected, reinforcing the committee's confidence in the deceleration of services inflation. The appreciation of the euro, combined with falling commodity prices, should also contribute to lower inflation projections and help the ECB meet its target sooner.

In China, the 90-day pause announced by the Trump administration and the tariff rollback have made bilateral trade viable again. If maintained through year-end, this new arrangement is expected to have an impact of approximately -1% on 2025 GDP. Detailed trade balance data suggest some trade triangulation via Southeast Asian countries, which may mitigate this impact. Other economic indicators released in the month pointed to a moderate deceleration compared to Q1.

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In Brazil, Q1 GDP figures confirmed an expected rebound from the previous quarter, driven by household consumption and the agricultural sector. These results indicate a strong start to the year despite tighter monetary policy and weaker fiscal stimulus. Labor market data released in May surprised both us and the market: formal job creation accelerated (on a moving average basis), and the unemployment rate declined once again. As a result, we revised our forecast for real household income growth in 2025 to closer to 5%, which should continue to support consumption in GDP. Robust credit data published by the BCB also stood out, credit data published by the BCB, showing an overall acceleration in lending. We are beginning to see the initial – albeit modest – impact of the government's new payroll loan program, which is also supporting economic activity.

On the fiscal front, revenue collection remains in line with expectations, while federal spending has been slower than in the same period last year. We expect an acceleration in spending execution over the coming months, which should help sustain growth in the second half of the year. In May, the government released its second bimonthly budget report, announcing a larger-than-expected budget freeze due to the recognition of additional expenditures – particularly for Social Security – and downward revenue revisions. This suggests a shift in fiscal strategy compared to 2024: the government appears more willing to acknowledge fiscal shocks and surprises throughout the year. On the other hand, during the same day as the report's release, the government announced changes to IOF (a Brazilian financial transactions tax) rates to boost revenue and reduce the need for further spending freezes. This measure drew criticism from Congress, which is now attempting to reverse or amend it. Negotiations are still ongoing, and a resolution is expected in early June. The government has since issued a revised decree with milder terms, following congressional backlash.

May's preliminary inflation reading came in below market expectations, with a slight improvement in composition. Nonetheless, core measures remain elevated: the three-month seasonally adjusted and annualized average of core inflation fell to 5.6%, while core services inflation remained high at 7.4%. On one hand, a potential decline in commodity prices could ease inflation going forward; on the other, labor market tightness and resilient activity continue to make the inflation outlook challenging.

Finally, the Central Bank slowed the pace of monetary tightening in May, raising the SELIC rate by 50 basis points. In its statement, the Copom lowered its inflation projections for the relevant horizon and noted that monetary policy is starting to impact activity. The minutes and public statements from board members also highlighted expectations that the recent SELIC hike will have a significant effect on the economy in the coming quarters, with the lagged effects of monetary policy expected to contribute to a wider output gap and convergence of inflation toward target.

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POSITIONS

Interest Rates
we increased long positions in Sweden and the UK, reduced tactical positions in Mexico and long positions in the U.S. and Eurozone, and maintained long positions in real rates in Brazil and nominal rates in the U.S.

Equities
we maintained long and relative value positions in Brazilian equities and reduced long positions in global equities.

Commodities
we increased short positions in oil, maintained long positions in gold and natural gas, and short positions in soybeans and coffee.

Currencies
we opened a long position in the Brazilian real and increased long positions in the euro, Japanese yen, and Hungarian forint. We reduced long positions in the Mexican peso and short positions in the Hong Kong dollar and Indian rupee. We maintained short positions in the Swiss franc and Polish zloty.

PERFORMANCE ATTRIBUTION

Regarding performance attribution, equities, commodities, and interest rate positions contributed positively, while currency positions detracted. In Brazilian equities, positive contributions came from positions in Financial Services, Consumer, Oil & Gas, Banks, Mining & Steel, Healthcare, Utilities, Capital Goods, and Telecom sectors. Negative contributions were concentrated in Transportation & Logistics, Pulp & Paper, Construction, Technology, Education, and Shopping Mall sectors.

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ZETA USD	MAY/25	2025	12M	24M	60M	SINCE INCEPTION
Fixed Income	**0.19%**	**3.85%**	**5.12%**	**-3.92%**	**15.66%**	**17.44%**
FX	**-0.24%**	**-0.30%**	**-1.94%**	**-3.31%**	**3.16%**	**-3.31%**
Equities	**2.94%**	**-0.19%**	**9.91%**	**23.45%**	**38.29%**	**50.06%**
Commodities	**0.25%**	**0.62%**	**1.51%**	**2.68%**	**6.59%**	**7.95%**
Fees	**-0.40%**	**-1.66%**	**-3.01%**	**-3.83%**	**-21.92%**	**-32.18%**
Performance	2.73%	2.33%	11.58%	15.07%	41.79%	39.97%

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(in Brazilian Reais)

	MAY/25	2025	12M	24M	60M	120M
Fixed Income	0.25%	3.76%	5.23%	-5.53%	24.52%	75.91%
FX	-0.24%	-0.29%	-2.07%	-4.05%	2.92%	8.19%
Equities	2.45%	-3.02%	4.64%	14.92%	24.67%	104.44%
Commodities	0.29%	0.98%	1.76%	3.18%	9.28%	17.62%
Fees	0.06%	-0.51%	-2.67%	-5.95%	-25.89%	-57.23%
CDI	1.14%	5.26%	11.78%	25.21%	56.63%	142.91%
Performance	3.94%	6.17%	18.67%	27.78%	92.14%	291.84%
% Benchmark (CDI)	346.09%	117.32%	158.40%	110.22%	162.70%	204.21%

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