MANAGER'S REPORT JULY 2025

ZETA

MACRO OUTLOOK

In July, the global environment remained challenging, with monetary policy still at the center of attention and new trade tensions emerging between major economies. In the U.S., weaker labor market data increased the likelihood of interest rate cuts ahead, while the impact of tariffs once again put upward pressure on inflation. In Europe, economic activity showed occasional resilience, whereas China remained within its growth targets, despite signs of deceleration in consumption and investment. In Brazil, the focus shifted to negotiations with the U.S. and their potential effects on the domestic economy, which continues to slow down gradually.

In the U.S., the Federal Reserve held rates steady in July, as expected, and emphasized its data-dependent approach going forward. On the margin, the incoming data has presented a more complex picture for the Committee. June inflation began to reflect more clearly the effects of tariffs on goods, and those pressures are expected to intensify in the coming months. At the same time, July's labor report showed significant downward revisions to previous job creation figures, to levels inconsistent with a stable unemployment rate. This latest report has increased the pressure for the Fed to resume its rate-cutting cycle in the September meeting. Until then, the Committee will have one more jobs report and two inflation prints to guide its decision.

On trade policy, President Trump announced new import tariffs on several trade partners, including duties on copper imports. If implemented as currently proposed, these measures would result in another increase in the effective tariff rate – albeit less severe than in April. Nevertheless, they reinforce the upward risks to inflation and the downside risks to growth in the U.S. economy.

In Europe, the ECB kept interest rates at 2%, as previously indicated. However, the tone of the press conference was somewhat more hawkish than expected, leaving the door open to either another rate cut or the end of the current easing cycle.

The disinflation process remains underway. July's key highlight was the deceleration in services inflation, which had been more persistent. On the other hand, goods inflation picked up slightly, which could warrant a more cautious stance from some members of the Governing Council. While activity in the first half surprised to the upside, some indicators suggest this strength may have stemmed from specific sectors benefiting from export front-loading and inventory rebuilding.

In the context of tariffs, the European Union reached an agreement with the United States, which raised tariffs on most exports to 15%. Although less than the 30% initially threatened, this still marks a significant increase relative to the original 5% average. The agreement also included EU commitments to invest in the U.S. and increase imports of energy and defense-related goods.

In China, GDP grew 1.1% in Q2, slightly above expectations. June activity decelerated relative to May, with retail sales and fixed asset investment both coming in below expectations. On the other hand, industrial production accelerated and surprised to the upside, again driven by the high-tech sector. Housing data remained weak. Overall, the Chinese economy continues to grow at a pace consistent with government targets, and we have not observed meaningful tariff-related impacts on external accounts. This perception appears to be shared by the Politburo, the Communist Party's executive body, which concluded the month without announcing new stimulus measures.

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In Brazil, the tariff issue dominated the economic debate in July. On July 9th, the Trump administration announced 50% tariffs on most Brazilian exports, initially set to take effect on August 1st. However, on July 30th, the White House postponed implementation and granted exemptions covering nearly half of Brazil's export basket to the U.S. Among the excluded sectors are orange juice, fertilizers, aircraft, and energy. There is also a possibility that further negotiations may lead to the removal of additional key sectors – such as coffee and tropical fruits – from the list. Given this scenario, we estimate only a limited impact on Brazil's trade balance, with a modest reduction in exports. On the inflation front, any pass-through from currency depreciation or increased domestic supply is also expected to be limited, mitigating the risk of significant price pressures.

July's data releases were mixed. While business confidence and credit activity came in weaker, labor market data surprised to the upside. We believe the uncertainty around U.S. tariffs weighed on sentiment, and specific factors also contributed to the subdued credit figures – such as the elevated IOF tax on certain loan types in June (which declined in July), regulatory effects inflating delinquency indicators, and temporary frictions in pensioner lending stemming from fraud cases at the INSS (Brazil's Social Security Institute) identified months earlier. Taken together, the data still points to a gradually cooling economy.

On the fiscal front, the income tax reform bill was submitted without major surprises – its final version was largely in line with the government's initial proposal. The IOF tax (a tax on financial transactions) issue was resolved by the Supreme Court, also in favor of the government. Lastly, the third bimonthly report indicated a sizable release of budget contingencies, reflecting an upward revision in expected revenues for the year. Once deployed, these resources could help soften the slowdown expected in the second half of the year due to tight monetary conditions.

Meanwhile, current inflation continued to improve in July, with the IPCA (Brazil's official consumer price index) forecast for 2025 falling to around 5.0%. The three-month seasonally adjusted and annualized moving average for core services fell to 5.6%, and that of underlying inflation dropped to 4.4%. There was also a slight improvement in inflation expectations, although they remain significantly unanchored. Despite recent progress, the resilience and tightness of the labor market continue to raise doubts about the room for a more consistent improvement in inflation ahead.

As expected, the Central Bank of Brazil paused its hiking cycle in July. In its statement, the Central Bank signaled one more hold in the next meeting, conditional on its inflation and activity forecasts materializing.

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POSITIONS

Interest Rates

We increased long positions in both real and nominal rates in Brazil, and in nominal rates in Sweden, the Eurozone, the UK, and Canada. We maintained tactical positions in Colombia, South Africa, and Mexico.

Commodities

We increased our long position in gold and our short position in oil. We maintained long exposure to natural gas and short exposures to palladium, zinc, soybeans, and coffee.

Equities

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

Currencies

We increased our long exposure to the Mexican peso and Indian rupee and our short exposure to the Brazilian real. We maintained long positions in the Japanese yen and short positions in the Swiss franc and Thai baht. We reduced our long position in the euro and short position in the Colombian peso.

PERFORMANCE ATTRIBUTION

Equities contributed positively to performance, while interest rates, commodities, and currencies had negative contributions. Within Brazilian equities, the positive highlights came from positions in the following sectors: Transportation & Logistics, Capital Goods, Construction, Oil & Gas, Education, Pulp & Paper, Utilities, and Shopping Malls. Negative contributions came from positions in Banks, Consumer, Financial Services, Metals & Mining, Healthcare, Telecom, and Technology.

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	JUL/25	2025	12M	24M	60M	SINCE INCEPTION
Fixed Income	-1.26%	3.17%	1.95%	-4.21%	13.31%	16.51%
FX	-0.25%	-0.77%	-1.20%	-2.95%	1.51%	-3.95%
Equities	2.45%	4.32%	13.81%	26.73%	43.24%	56.24%
Commodities	-0.51%	0.12%	0.20%	1.47%	5.63%	7.26%
Fees	-0.32%	-2.36%	-3.42%	-4.43%	-21.88%	-33.15%
Performance	0.11%	4.49%	11.35%	16.60%	41.80%	42.92%

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	JUL/25	2025	12M	24M	60M	120M
Fixed Income	-1.54%	2.87%	1.47%	-6.12%	20.85%	76.57%
FX	-0.26%	-0.77%	-1.20%	-3.56%	0.71%	1.53%
Equities	1.82%	0.39%	8.46%	17.93%	30.20%	112.31%
Commodities	-0.52%	0.52%	0.37%	1.85%	8.20%	16.20%
Fees	-0.30%	-1.25%	-2.88%	-6.39%	-26.51%	-57.32%
CDI	1.28%	7.77%	12.54%	25.49%	59.71%	143.23%
Performance	0.48%	9.52%	18.75%	29.20%	93.16%	292.51%
% Benchmark (CDI)	37.54%	122.58%	149.58%	114.58%	156.01%	204.22%

(in Brazilian Reais)

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