

A low-angle, upward-looking photograph of several modern skyscrapers with glass facades. The buildings are set against a pale, overcast sky. A large, semi-transparent red rectangular area is overlaid on the right side of the image, partially covering the buildings. The overall mood is professional and corporate.

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PLANNER REDWOOD ASSET MANAGEMENT

decade, unfortunately. The good news is that we are facing a new and much more credible and sustainable future!

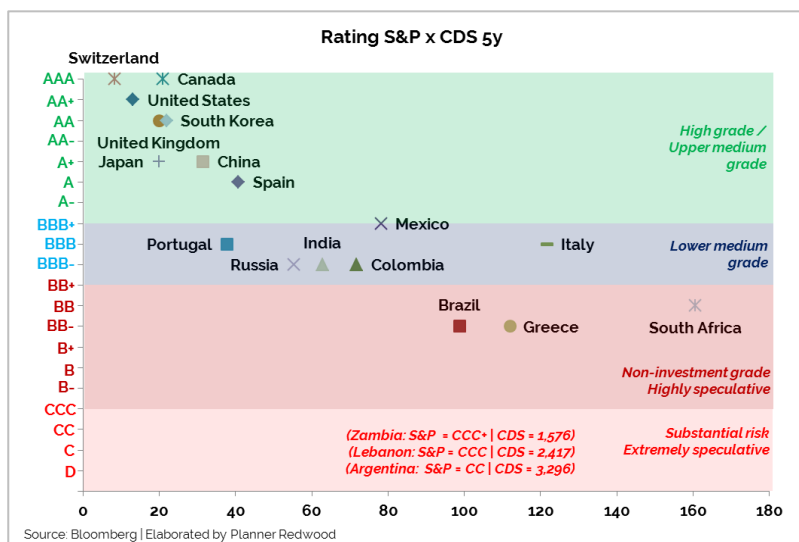
As for markets, optimism has surfaced this month. The Ibovespa closed at 6.85%, ending 2019 with a 31.58% return. Interest rates DI1F20 and DI1F25, in turn, varied - 0.26 and -0.07 points, respectively, closing the month at 4.4% for DI1F20 and 6.44% for DI1F25 - this movement was verified across the entire yield curve in December. The Brazil risk, measured by the 5-year CDS, was a highlight of the month, mainly because it closed below 100 points, at 98.8. The Dollar (Ptax) also did not lag behind and had a significant reduction, leading the price to 4.0307 with negative change of 4.58%, although momentarily, moving away from the definitive break of 4.20.

Economic activity in 2019 seems to confirm that we will grow just above 1%. However, given the momentum perceived in the released Q3 2019 national accounts data, in particular in October data for manufacturing - but also from services and consumption - 2020 GDP could be much better, more than double the growth rate observed in 2019. Better and easier credit conditions (the release of funds trapped in the FGTS and PIS-Pasep account were of great help!) led the economy to gain some traction. In this line, construction has everything to be a protagonist in 2020, with low interest rates and innovative financing methods, such as fixed rates. Unemployment, although still very high, shows signs of continued cooling. By 2019, around 1 million new jobs should have been created. CAGED figures have shown job creation successively higher than estimated, and above the mark compared to recent periods. More importantly, there has been a greater growth in formal than informal job creation recently.

At any rate, despite all the optimism about the stronger economic recovery, with a lingering positive output gap, companies facing much idle capacity and high unemployment, foreign investors remain reticent when it comes to Brazil. In fact, in our opinion, this "exaggerated" caution on the part of foreigners is really more related to the insecurity and volatility of our "political environment". There is also much to say about the instability of our neighboring countries - with political dysfunctions and economic upheavals - and the geopolitical issues around the world that naturally bring risk aversion. However, with the evolution of reforms and evidence of the seriousness of the changes and their continuity, the return on foreign investment is a sure thing - and it will be huge. The

consequences of this, of course, will be widespread increases in asset prices. Opportunities by the thousands will make Brazil the next big move.

Monetary policy has put inflation under control and properly anchored (despite



acceleration in November and December 2019) and, with the economy showing signs of "stronger" recovery and the CAGED (employment) data (not counting the external environment), it seems to have found its bottom level at a 4.5% basic interest rate. And this is the level to last throughout 2020, but certainly tightening from 2021 on. Should this likely future cycle be well calibrated and adequately conducted, it will impose little impact on markets. As for the conduct of the exchange rate policy, it divides opinions, but we maintain our unwavering opinion: Central Bank, as a rule, harms more than it helps. To be fair, this government has "improved" a bit (we didn't need Minister Guedes's views on the exchange rate!), especially regarding spot currency auctioning. Thus, disregarding currency volatility (and the cost of swaps directly

impacting public finances), the Real depreciated less than many other emerging country currencies, so that we ended with a "small" + 4.02% change in the accumulated 2019.

On the fiscal front, namely our Achilles heel, public finances seem to end 2019 much better than we had expected earlier this year – except for Minister Guedes himself. The primary deficit will be close to half of the BRL 139 billion target, and the austerity guideline for states and municipalities, especially for pension reform, has risen to mantra status. In this line of adjustments, although dangerously belated, the Government should send, early this year (at the cost of losing its timing), proposals for administrative and tax reform. The focus and zeal for the country's fiscal management are unquestionable and the reflexes are from monetary policy to Brazil's perception of risk.

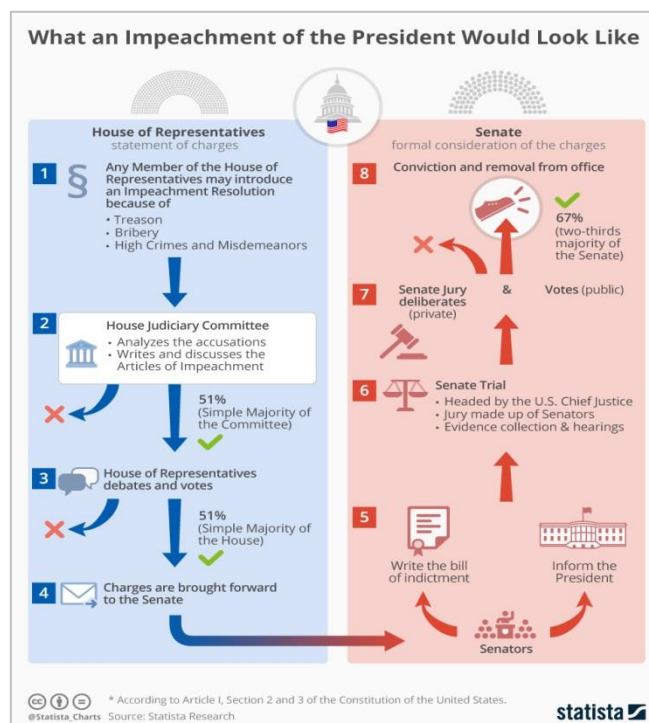
In financial markets, the month of December and the rest of the year 2019 was quite fortunate. With expectations and optimism renewed, the forecasts remain favorable. The country risk level (CDS 5 years) clearly already puts us in a better position compared to our current rating by the major agencies. Returning to Investment Grade is a concrete yet distant reality. This is a rank that, although critical to risk rating agencies, is mandatory for large investors to reinvest their resources in Brazil. The yield curve today is largely at its historical lows, and also with diminishing room for arbitrage. The Stock Exchange (Ibovespa), in turn, has risen to 115,645 points – a historical record - but in the last ten years it loses out to inflation. Thus, the financial market festival tends to continue in 2020, but the macro-allocation of assets must necessarily be different if reasonable returns are desired.

The Ibovespa in Dollar terms is still "cheap", and the coming of foreign investors can boost its rally. In the Fixed Income world, life has already changed. Indeed, the Investment Funds industry (which celebrates 2019) is likely to undergo significant changes towards more sophisticated and/or alternative products. Direct purchases of Federal Government Securities, for example NTNBs, should no longer perform as well. The gist is, therefore, that several opportunities will appear, but will require more sophisticated financial instruments and analysis. Professionalization needed in selection,

management and analysis of individual or institutional portfolios rises to a whole new level. Portfolio risk management is given absolute prominence. In summary, this is a new environment: more challenging and competitive.

Overseas, President Trump's impeachment - a clear political move to get him out of the 2020 election - reigned over the news in December 2019, but for the year at large, the focus fell on the US-China trade war, a conflict that has troubled the

world but that seems to come to an end. Indeed, the WTO maps the intensification of restrictive measures among its members annually, and over the past two years there has been a significant increase in such behavior. In the UK, BREXIT finally looks like it is ready to go until January 31st 2020, putting an end to this impasse and starting a new moment for everyone involved. In Asia, China's indicators suggest a rapid economic downturn. In Latin America, we highlight the inauguration and the economic promises made by the new Argentine government. Should he carry out his promises, disaster will find them shortly. It is quite a pity for the Argentine people, and other countries of the region, unfortunately.



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