JANUARY - 2020

MONTHLY STATEMENT

PLANNER REDWOOD ASSET MANAGEMENT

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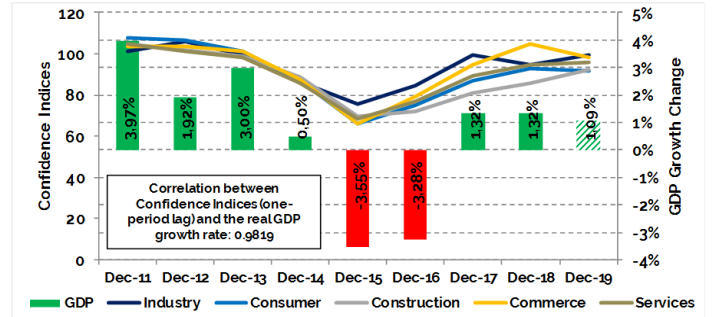
"Great minds discuss ideas; average minds discuss events; small minds discuss people."

Eleanor Roosevelt – Former US First Lady (1933-1945).

We have completed one year of Bolsonaro's administration. The Brazilian people voted to have a radical change in everything we were experiencing. It is undeniable that the environment the current president found imposed enormous challenges on him, and much has been done. However, the comparison needs to be made, especially with the expectations that had been created, of which the current administration has fallen widely short.

Amid the usual nitpicking, diffuse "game", ignorance of how the government works, hubris and a lot of heat, we watched petty discussions and sordid pitfalls that alienated important people and distanced others that could have helped in the first and most significant year of government. The year 2020 has started and in its first month, we continue to see more of the same. Some areas of the government, such as Finance, Infrastructure and Justice, among others, even try to set the tone differently, but the work as a whole strongly lacks an articulator that can foster and guide the defense of innovative and truly disruptive ideas, as we believed at the time we vote to change the direction of Brazil. The pace and adherence to change need a new impetus, and the time is now - in the Q2 2020, Congress will be "busy" with municipal elections. Just as the Pension Reform was matured, discussed and approved with praise, the Administrative and Tax reforms also lack the same determination, understanding and approval. Similarly, we need to move forward in privatizations and concessions of public utilities. The government appears to be much more conservative in speech than in practice. We voted to have a smaller, stronger government, and not remain bloated and weak.

Year	GDP		Confidence Indices				
	Nom. GDP (Bl. BRL)	GDP Growth Change	Industry	Consumer	Construction	Commerce	Services
2011	4.376,38	3,97%	101,1	107,5	104,6	103,6	105,1
2012	4.814,76	1,92%	105,8	106,5	101,9	103,8	101,1
2013	5.331,62	3,00%	99,5	101,5	98,6	101,2	98,2
2014	5.778,95	0,50%	86,5	87,1	88,8	87,8	85,7
2015	5.995,79	-3,55%	75,8	65,9	69,8	66	68,6
2016	6.269,33	-3,28%	84,5	75,3	71,9	78,9	76,8
2017	6.583,32	1,32%	99,4	87,2	81,1	94,9	89,4
2018	6.889,18	1,32%	94,8	93	85,5	105,1	94,6
2019	*7.200,00*	*1,09%*	99,5	91,6	92,3	98,1	96,1



Source: IBGE, FGV | Elaborated by Planner Redwood (Planner Redwood Forecast - GDP 2019)

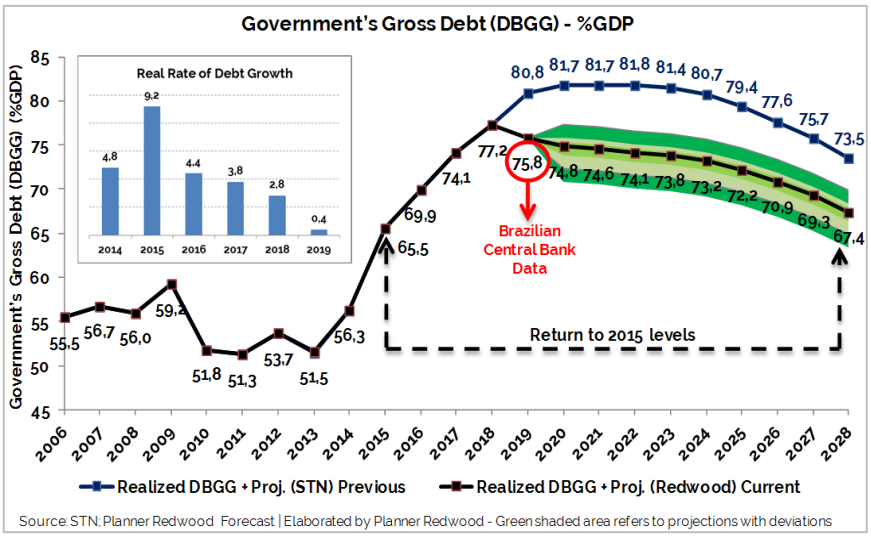
The main principle that we still hope for is that we have a profound revamping of government. Choosing the right people to conduct their offices is critical, but we shouldn't be concerned about minor events. Still, the big shift we expect is not in the reduction of the public sector or in the fiscal rebalancing - both essential, although likely to be ephemeral. We need to discuss ideas and realign the fundamental guidelines for the country, and prevent the current situation from perpetuating. The Brazilian citizen and society as a whole need to feel represented, and the pillars of a reformed state must be solid enough to withstand adversity and meet the population's wishes.

We are on the right track, but at a slow pace ... and everything in life hinges on timing! The measures taken so far demonstrate how it all can be better. With the achievements of the areas that impose a differentiated tone, especially those mentioned above, the results are quite impressive. We need to follow suit in others, as in Healthcare, Itamaraty (Foreign Affairs) and Education.

The response to these actions is, albeit mild, immediate. It doesn't matter. What matters is that they were done and that they are interpreted as permanent and sustainable changes. Only then will confidence be restored and consolidated. And with confidence back to various sectors and a good management of our image – domestically and abroad - based on structural, transparent and democratic policies and ideas, the future lies brightly ahead!

In January, if markets (domestic and international) showed in the first days a very high tolerance to geopolitical tensions, especially given the enormous prevailing liquidity, in recent days they seem to have succumbed to the outbreak of the New Coronavirus. The Ibovespa closed down -1.63%, after a start that led to accumulate 3.36% until JAN 23rd. Interest rates DI1F21 and DI1F25, which were somewhat more moderate, varied -0.16 and -0.20 points, respectively, ending the month at 4.38% for DI1F21 and 6.24% for DI1F25. The Brazil risk, measured by the 5-year CDS, with some bump during the month, registered 104 points on the last day. The Dollar (Ptax sale), much more impacted, ended the trading session on JAN 31 quoted at 4.2669 with a positive variation of 5.92%, bringing, once again, the "ghost" of quotes above 4.20.

Economic activity continues lethargic, plus the news that manufacturing output and the trade balance for the end of 2019 and JAN 2020, respectively, have frustrated expectations. In any case, the set of other variables and the dynamism seen recently reinforce the positive trajectory of better economic growth. Unemployment shows important signs, although still timid. The unemployment rate reached 11% in the quarter ending in DEC 2019 (PNAD - lowest rate since MAR 2016), an annual average of 11.9% against 11.6% in 2018, with an average real income of BRL 2,340 and wage bill of BRL 216 billion (Q4 2019), an increase of 2.5% compared to the same period in 2018. The confidence indexes, although still below the 100 mark, mostly continue to recover. Likewise, despite the Current Situation Index without improvement, the Expectations Index goes up. This is a clear sign that conditions will continue to evolve. Under this interpretation and the confirmation of the prevailing correlation of confidence indexes with GDP, economic activity will continue to grow.

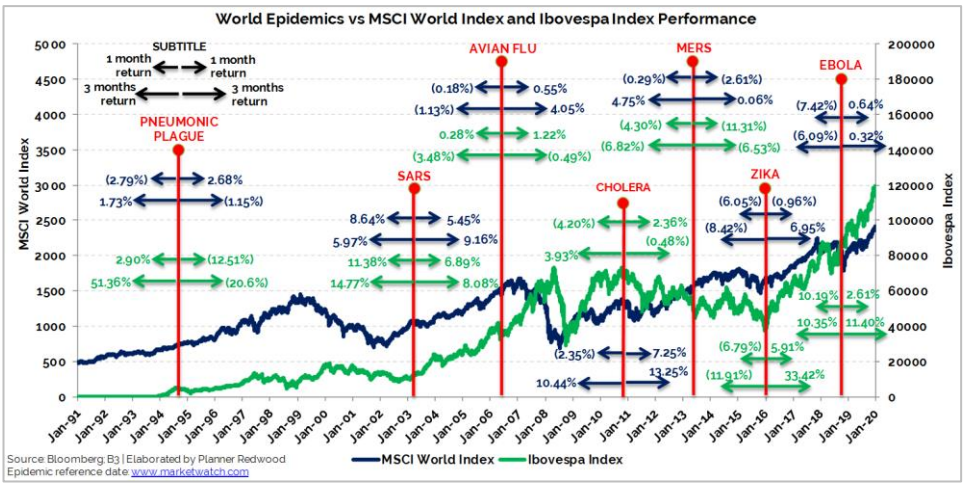


Source: STN; Planner Redwood Forecast | Elaborated by Planner Redwood - Green shaded area refers to projections with deviations

Monetary Policy, in turn, has also swiftly helped expectations, based on absolutely controlled inflation, thus signaling possibilities for long-term investments at significantly lower costs. With inflation projected for 2020 at around 3.5% (below the target), monetary tightening by the Central Bank is not likely before 2021. In fact, the monetary authority seems to pay special attention to the level of economic activity in the face of its comments and, despite knowing the lagged effect of monetary policy, further cuts in the Selic are not ruled out (despite our disagreement - 4.25% is a limit). As for exchange rate policy, they "ignore" any exchange rate pass-through effect ... in fact, they seem to "signal" that they are at peace with the current level of the exchange rate... well, let the market adjust!

On the fiscal front, we have some perspectives, all ranked in rising levels of frustration. If we were to give credit to Minister Guedes' promises to eliminate the primary deficit, we would be very frustrated. If, on the other hand, we were on target or even exceeded BRL 139 billion, we would be devastated. We were left, then, with the bitter taste of those who firmly believed in closing the year with a deficit of BRL 80 billion and in fact we did hit BRL 95 billion. No problem, with the austerity that seems to have taken hold, adjustments underway and greater harmony, the tendency is to have surpluses long before we imagined. In this line, our new Government's Gross Debt projections as a % of GDP point to an important downward trend - based on the approval of the Reforms. If this proves correct, this dynamic will put us in a better position with rating agencies – and by improving our ratings will attract investors' attention.

In financial markets, domestic and foreign, the month of JAN 2020 may represent a change in face of the strength that we have seen lately. The outbreak of the New Coronavirus in China is a Black Swan, according to the Nassim Taleb's theory. It is a highly unlikely event and one that we cannot ignore, although a history of other epidemics does not demonstrate lasting impacts. Thus, the Stock Exchange (Ibovespa), which had been breaking records, reached 119,527 points - on JAN 23rd, a historic high - but dropped all back to 113,761 points. An important highlight was foreign investors fleeing from B3, which totaled BRL 19.2 billion - in a single month, 4 times more than in 2019. In Fixed Income, the impacts for now are "modest", apart from the shorter vertices (in real terms) that showed significant fluctuations, the 5-year CDS, representing the level and perception of country risk, fluctuated 10.27 points between the lows and highs of the month. The Dollar was more affected, with a fluctuation of BRL 0.27 and a volatility of 8.20% yearly reaching a high 4.2785. In the main world indices, the impacts (also far from a sell-off stance, for the time being), were DAX -2.02%, FTSE 100 -3.40%, S&P -0.16% and NIKKEI -1.91%.



Another important point to highlight is that the coronavirus outbreak seems to be far from being under control, and the reflexes so far in the countries' markets and economies are far from a reasonable estimate of its impacts. However, we believe that the current measures will soon come to fruition - in line with the previous events studied - but, because there is no guarantee of this expectation materializing, investors with different profiles can adjust themselves by taking measures to protect their portfolios (limit company allocations more "vulnerable"), and take advantage of those that are more solid and have suffered greater discounts. In other words, we remain optimistic about the markets and believing in the fundamentals - that is - the current moment can be an opportunity as soon as the horizons clear up and the crisis passes.

On the other hand, the economic implications in the countries (which can influence markets distinctly), even if the outbreak is contained in the coming weeks, we will only know ahead. This is because, we have no doubt that the governments of the most affected countries will come in strongly and quickly to intervene in order to minimize the impacts. More evident, of course, is the reduction in Chinese economic activity, which should not be lower than that seen in the SARS in 2003. Similarly, but keeping eyes on changes in trade flows, and given the importance of China and Asia for the world economy, including Brazil, although temporary, the impacts may affect more or less some sectors.

Overseas, with the exception of the New Coronavirus, we finally see BREXIT - after more than 3.5 years, celebrated as statement of "independence" by the United Kingdom. In the U.S., we watched the hoax of President Trump's impeachment process end melancholy for the Democratic party. A USMCA agreement was also reached, which will bring significant changes for all. Finally, the presidential race in the USA takes shape, and this event is indeed a guide for the performance of several economies in the world. In the Arab world, the reflexes of the Peace Plan presented by the USA were strongly rejected by the Palestinians. In China, an arsenal is set up to contain the effects of the New Coronavirus, both in the markets and in its economy. 2020 is full of surprises down the road!

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