

JULY - 2020

MONTHLY STATEMENT

PLANNER REDWOOD ASSET MANAGEMENT

planner 

Redwood

"Whoever is suspicious invites treason."

François-Marie Arouet (Voltaire) – Playwright and Enlightenment French philosopher.

With little more than a year and a half of Bolsonaro's government, we are witnessing an important shift in the Commander-in-Chief's administration stances. For reasons generally known as "personal", the economic team, for example, lost key people this month, such as Caio Megale (special advisor to economic team), Mansueto Almeida (Treasury Secretary) and Rubem Novaes (Banco do Brasil Chairman). Paulo Guedes, astute and enlightened, has to his avail professionals to put in place, but the political tone seems to have changed, which raises doubts about his reach in the only area that has the ability to redeem us from the imbroglia of the adopted belligerent stance by the President so far.

One of the main promises of the campaign, delivered thus far, was of absolute intolerance towards corruption, with the right, even, to see General Heleno

humming a popular song "...if one screams arrest that thief, there will be none left, brother!". Bolsonaro's approach to the so-called "Centrão" scares his voters, as well as his metamorphosis in terms of attacks and demonstrations. A significant change not only for the President, but also for those around him with the same attitude. This shift in form and content challenges Brazilians to understand what is going on.

As far as it is known, there is nothing to point out about this administration's corruption, an important mark not seen for a long time. Thus, the Government enjoys absolute credibility in this regard, but criticism of virtual leniency is rising when the Attorney General of the Republic raises his tone against the Car Wash probe. Articulation among branches of government is republican

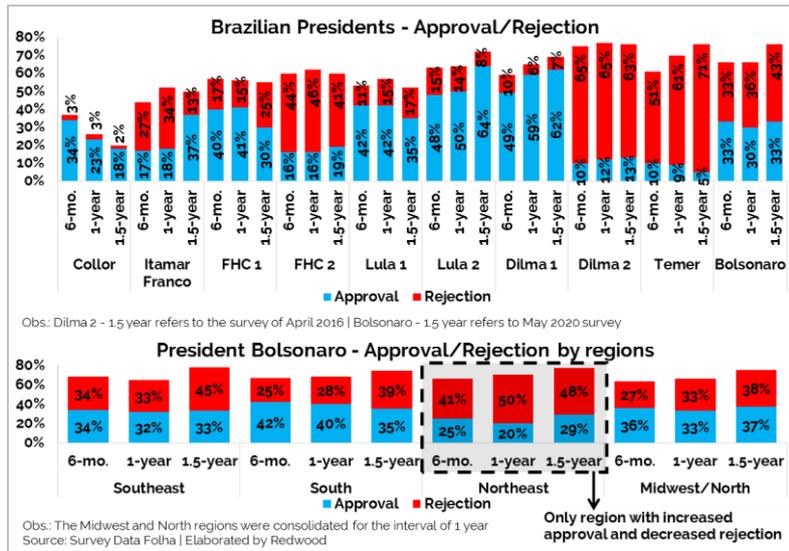
and desirable, but not with properly "tarnished" politicians, until recently, which is striking. All of this in a new articulation in the National Congress, with the right to change leaders and impose a new stance.

This "new normal" of the Bolsonaro administration causes chills, especially in the portion of its voters and Brazilians who have so much invested in his Government platform. In this line, it seems to be precisely them who are disappointed with what they see, in general, in these 19 months of this term. The President's popularity suffers under the Covid-19 pandemic that ravages the population,

without the coordination legally determined by Law 8080/90. Here a different strategy may be in place, trying to "improve" his performance where it usually goes wrong. At this point, the Coronavirus has become a "stepping stone" for Bolsonaro. He discovered, like Lula, that spending on the

vulnerable works. The signs are that Bolsonaro will not interrupt relief cash transfers, relabeling the Bolsa Familia as "Income Brazil", with a 20% increase in average benefits. Everything socially and morally justified, of course.

The fact is that entering into a "campaign" with more than 2.5 years to go is a temerity - in every sense. With a bit of "luck" and an effective vaccine, Covid-19 will be controlled and the 2022 elections will be an eternity away. On the other hand, the economy and other problems that may not be faced now will be the focus ahead. But what about the newly-acquired friends right now? They will likely be of help at *this* time, and will turn their backs, if necessary, with the same versatility they got onboard. That's how this "Centrão" brethren works. We are all very suspicious.

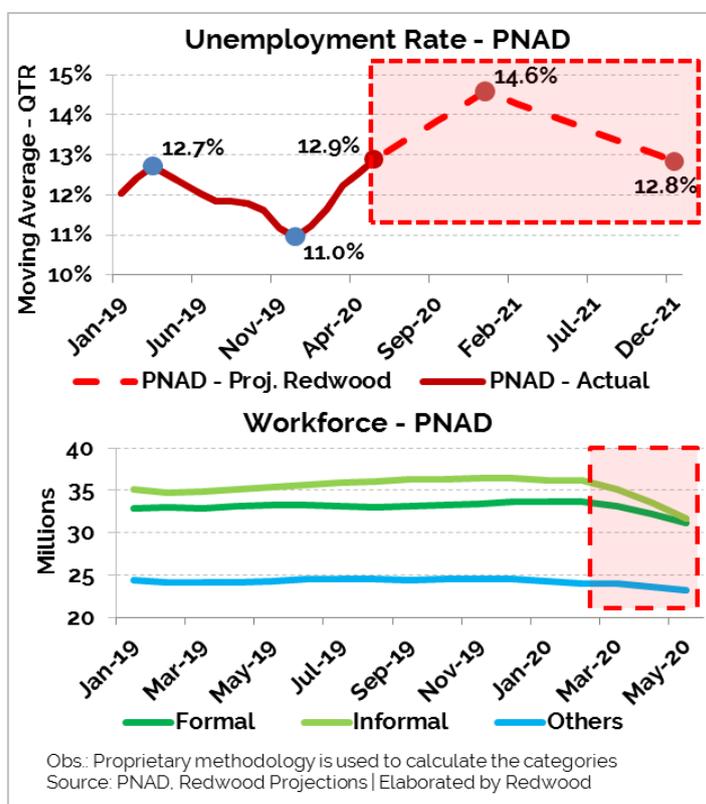


The financial market advanced positively in July, presenting a performance that is not related to the real economy, which still stumbles. Thus, the Ibovespa now has an annual drop of 11.01%, since it rose 8.27% this month. The yield curve saw movements of the D11F21 and D11F25 maturities and showed even smaller oscillations in relation to June, registering the difference between highs and lows at 0.25 and 0.58 points for the referred maturities, respectively. D11F21 ended the month at 1.915%, with lows at 1.895%, and D11F25 fell to 5.21%, with a low at 5.15%. The Brazil risk, measured by the 5-year CDS, fell 34 points to 217 points, another important change that this time impacted the Dollar price (Ptax sale), which ended the month at BRL 5.203 - that is, a rise of the Real by approximately 5%.

At the same time that for us the expected retraction of the economy continues around 6%, with a very limited aggregate demand and a level of exorbitant idle capacity, market economists now estimate 5.66% for 2020, after projecting a fall of the GDP of 6.5% four weeks ago. This is an "improvement", priced by the market, of approximately 1% in a very short period of time. In one way or another, and with countless uncertainties still lingering, our information is confirmed that possibly the worst is over, and short-term leading indicators agree with this. Obviously, the evolution of control and an effective vaccine could ratify these indicators, but other obstacles remain ahead of us with the potential to stifle the pandemic control. The unemployment rate seems to corroborate the analysis, but it has a methodology that can understate, in the short term, the real measure of disaster. In other words, the figures released are better than imagined, but the correct

record will arrive soon. Due to the relief programs, the effective search for jobs will take place gradually, which is why we expect the percentage of unemployed to increase, as those looking for work are considered unemployed. Another important feature of this crisis is that job destruction is affecting informal workers, something uncommon at this level in previous crises. The expectation, of all sorts, is that with the recovery of the economy, both formal and informal jobs will be resumed, although not in the same proportion.

One of the important points that can frustrate the



most optimistic projections is our fiscal problem. The failure to restore pre-crisis pace of public finance control, and the privatization and concession agenda will be our Achilles' heel. Doubts? None. The number of primary deficit for the consolidated public sector in June was BRL 188.7 billion. Side note: it was the worst fiscal breakdown in a single month in the BACEN time series. At this rate, we will reach 100% of Gross Debt-to-GDP ratio this year. Highlight: the National Congress "studies"

alternatives to bypass the Expenditure Cap, withdrawing investments and public works from the limit of the rule. Here, too, we suspect and challenge the common sense of those behind these developmental ideas and plans contrary to Paulo Guedes' thinking. The traditional rule of spending more and covering the gap with increased taxes must remain a thing of the past. Increasing the tax burden in response to the crisis is not a solution. Expansion of the tax base and increase in collection efficiency, yes. This is the reason why the tax reform cannot be sliced or run over by new taxes without proper presentation and studies. Prices will react.

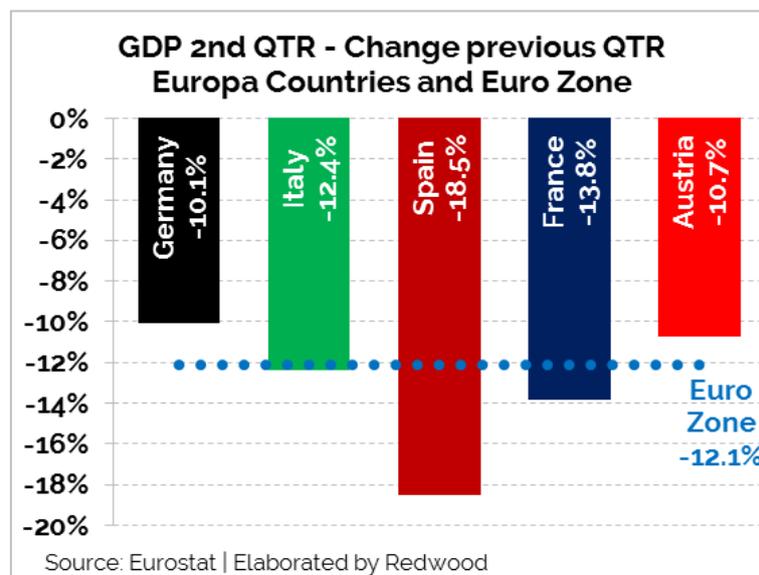
In this line, Monetary Policy, which has been well managed by BACEN, needs to be attentive. Prices can react quickly, even though we are "structurally" protected in the medium term. For this reason, the market anticipates a further reduction in the SELIC rate, bringing the basic interest rate to the lowest level at 2%. Despite this pricing, the effects on the real economy are slower and the effects of monetary policy are revealed and persist in the long run, especially as (the rate) will enter further into the stimulus stance. In terms of exchange rate policy, this month BACEN does not seem to have followed the IMF guideline, which says that "exchange rate intervention may be appropriate to alleviate disorderly market conditions". With such support, it is difficult to convince that floating exchange is actually a huge shock absorber.

In finance, markets seem to evolve still on the back of countless stimuli verified worldwide. These stimuli of all sorts and on all sides, tend to come to a halt and, as they end, there will also come not only a cooling of the observed rally, but also some correction - until a new rally sets in, eventually. It would be a healthy move. In Brazil, in many ways, this assessment is quite reasonable. The Ibovespa has a P/E of 19,38x, a historical high, surpassing the 19,21x mark registered in April 2018. If we evaluate the prospects in terms of speedier interest rate cuts and the consequent upside to the stock market, we also find that this space is reduced enormously. On the other hand, it is "clear" that our Stock Exchange is "cheap" in Dollars... but the gringos continue to leave. The big picture also does not deviate from domestic economic analysis, which, although it does not appear to be pricing the balance of risks for the moment, it will not take long to do so. Thus, in general (it does not apply to particular and specific cases), the

indices are "stretched" in the balancing of all factors, so that a correction cannot be ruled out - until we can understand the way forward (politically, economically, etc.) and a new bull market can arise in the trail of consistent economic recovery. In any case, it is imperative that investors understand short-term noise and adhere to their long-term strategies. In other words, trying to surf market timing can be a disaster. On March 23rd, for example, the Ibovespa had fallen 47% from its high on January 23rd, and since then it has retrieved 62% - that is - without a solid investment strategy, the risk of capital loss is enormous.

Overseas, the effects of the Coronavirus present the bill to the economy: recession has affected almost

everyone. In Europe, the data projected by the market hit the nail on the head, -12.1% between April and June compared to the previous quarter. This is the worst performance since 1995. In some cases, such as Spain, the retraction was even greater (18.5%) and erased all the recovery enjoyed in recent years. In Italy, France and



Germany, their GDP also fell: -12.4%, -13.8% and -10.1%, respectively. In the US, where the pandemic still does not seem to be under control, the decline was 9.5%. Smaller than in Europe, but with the lack of pandemic control, other lockdowns in some American states and their consequences on economic activity are not ruled out (although unlikely). However, given the typical issues of an election year in the US, President Trump will do anything to speed up economic recovery and thus capitalize on his re-election. It won't be a surprise if the Coronavirus vaccine surprisingly comes out before the election. In China, where it all started, economic recovery is underway, but will have to respond for the cost of Covid-19.

MONTHLY STATEMENT

JULY - 2020

planner 
Redwood

DISCLAIMER

This material has been prepared by Redwood Administração de Recursos LTDA. (Redwood) and is for information purposes only and does not constitute a recommendation for investment, offer or solicitation of an offer to acquire securities or any financial instrument. The information, opinions, estimates and projections refer to the present date and may contain information about future events and these projections / estimates are subject to risks and uncertainties related to factors that exceed our ability to control or estimate accurately, such as market competitive environment, fluctuations of currency value and inflation, changes in regulatory and governmental entities, as well as other aspects that may differ materially from those projected without prior notice. The information herein contained is based on the best available information collected from public, official or credible sources, which we believe to be reliable and of good faith. However, they have not been independently verified and, neither express nor implied warrant is given as regards their accuracy. We are not responsible for any omissions or errors, and even as we have taken all precautions to ensure that the information contained herein is not false or misleading, Redwood is not responsible for its accuracy or completeness. The opinions expressed solely reflect our opinions at the moment. We reserve the right at any time to buy or sell such securities. These projections and estimates should not be construed as a guarantee of future performance. Redwood undertakes no obligation to publish any revisions or update such projections and estimates in light of events or circumstances that may occur after the date of this document. This material is provided for the exclusive use of its recipients and its contents may not be reproduced, redistributed, published or copied in any form, in whole or in part, without the express permission of Redwood.

©2020 Redwood Administração de Recursos LTDA. All rights reserved.



planner 

Redwood

Avenida Brigadeiro Faria Lima, 3900 - 10º andar
São Paulo - SP | CEP 04538-132
+55 (11) 2172.2600
planner.com.br