OCTOBER - 2020

MONTHLY STATEMENT

PLANNER REDWOOD ASSET MANAGEMENT

planner Redwood

MONTHLY STATEMENT

OCTOBER 2020

planner Redwood

"Unfortunately power intoxicates, corrupts and destroys!"

Gen. Otávio Santana do Rêgo Barros – former Press Secretary of Bolsonaro's Administration

An administration's rational direction must target its campaign commitments. Nothing more logical and honest, especially to those who voted believing in the promises contained in the Government Plan and in public statements of their proposals. Deviations and minor route adjustments are acceptable, as long as they do not compromise the essence of one's purposes. The fundamentals that must prevail are trust, respect, responsibility and, above all, vested authority, at the cost of losing "legitimacy" as an elected leader.

Field	Some of the Main Campaign Promises (*)
Administration	Ending Quid Pro Quo • Reduce the number of Ministries • Super-Ministries
Social and Human Rights	Revamp Cash Transfer Programs (Bolsa Família, Abono Salarial • Renda Mínima)
Economy	Introduce private capitalization pension model
Economy	Simplify opening and closing of companies ("Balcão Único")
Economy	Secure growth with high employment and low inflation
Economy	Reduce gross public debt by 20% • Achieve primary surplus in 2020
Economy	BACEN (Central Bank) Independence
Economy	Green and Yellow Labor Registration Card • End Labor Union Unicity
Economy	Remove tariff and non-tariff barriers (Imports)
Economy	Cut tax burden • Unify Federal Taxes
Economy	Petrobras Foreign Mkt Prices • End Monopoly on Gas Extract • Asset Liquidation
Education	Purging the ideology of Paulo Freire • Military Schools in Capitals in 2 years
Infrastructure	Invst. Modern. Expand Airports • Reduce costs/terms boarding/arrival
Environment/Agriculture	Alter struct. Fed. Agric. • Reduce delay release Environmental License
Privatiz./Concessions	Various. Channel resources from privatizations to public debt redemption
International Rel.	Leave agreements with foreign dictators • Focus Bilat. Relations e Deals
Healthcare	Create the Cross-Referenced National Registry • Alter. Neonatal Program
Healthcare	Universal Licensing of Physicians • Prog. "Mais Médicos" – Revalida
Healthcare	Create State career for Physicians • Include Physical Ed. Instruct. and Family Healthcare
Justice and Public Safety	Zero Tolerance against crime/corruption/privileges •Priv. Inv.Prop.=Terrorism
Justice and Public Safety	End temp. leave of inmates • Reduce age of criminal responsibility to 16
Justice and Public Safety	Reformulate Civilian Unarming Statute • End sentence progression
Justice and Public Safety	Guarantee of Liability Exemption for police force and civilians
Justice and Public Safety	Remove from Constitution any relativization of private property
Accountability	Rekindle "Ten Measures Against Corruption"

Obviously, the development and effective implementation of the promises, as a rule, are not defined by deadlines and sequencing, but are premised on their completion by the end of the term. However, monitoring and collections must be carried out throughout the government, in order to assess their coherence, commitment and possible extension of the term (reelection) to bring those promises to fruition. Such harmony requires transparency and impartiality, so that populist and opportunistic contamination does not obscure the panorama and blind the real interested parties.

Main Personnel Losses - 1º Tier			Main Personnel Losses Economic Team – Exodus		
Who	Area / Position	Data	Who	Area / Position	Data
Gustavo Bebianno	Special Adviser to the President	Feb-19	Joaquim Levy	BNDES Chairman	Jun-19
Ricardo Veléz	Min. of Education	Apr-19	Marcos Cintra	Sec. of Revenue Services	Sep-19
Gen. Carlos A. dos Santos Cruz	Secretary to the President	Jun-19	Mansueto Almeida	Sec. of Treasury	Jun-20
Gen. Floriano Peixoto	Special Adviser to the President	Jun-19	Rubem Novaes	Banco do Brasil Chairman	Jul-20
Gustavo Canuto	Min. of Regional Development	Feb-20	Caio Megale	Executive Sec. of Finance	Jul-20
Osmar Terra	Min. of Citizenship	Feb-20	Salim Mattar	Special Sec. Destatization	Aug-20
Henrique Mandetta	Min. of Health	Apr-20	Paulo Uebel	Sec. De-bureaucratization, Mgmt. and Digital Govt.	Aug-20
Sergio Moro	Min. Justice and Public Safety	Apr-20	Vladimir k. Teles	Sub-secretary of Macroeconomic Policy	Aug-20
Nelson Teich	Min. of Health	May-20	José Ziebarth	Director of De-bureaucratization Prog.	Aug-20
Abraham Weintraub	Min. of Education	Jun-20	Marcos Troyjo	Special Sec. of Commerce	(**)

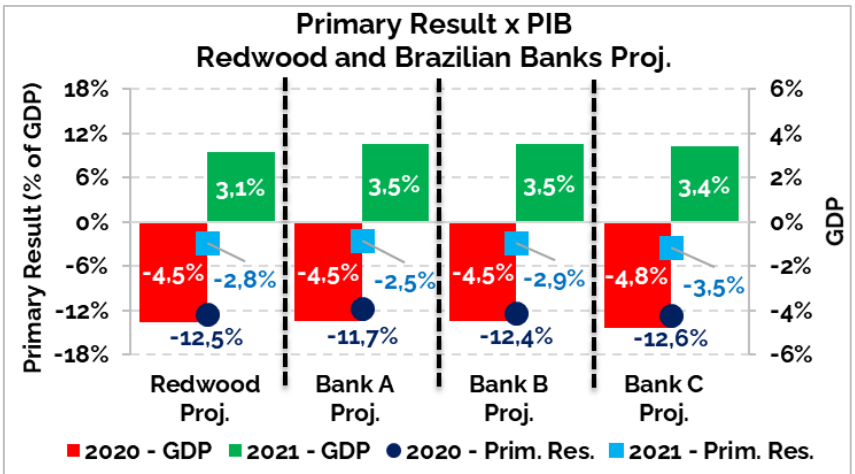
(*) Simplification, understanding and summary Redwood; (**) Gone to the New Development Bank - BRICS

In this line of an unbiased analysis and with giving the administration the benefit of the doubt, given the remaining deadline and changes in strategies, some forces play against the goals. The first and most striking of all is the exodus of Ministers and very important collaborators (for reasons of discontent or of "personal" nature). Symptoms are evident, and the reasons for them abound, a flagrant misalignment and frustrations with the promises and expectations developed. It is not difficult to parse out causes and consequences, let alone the resulting wide range abandonment of countless key parts of the process.

For Bolsonaro voters and goodwilled Brazilians who want the country's growth and development, the justifications that the Executive "depends" on other diverse powers and interests are all but convincing. The lack of leadership and/or the inability to navigate in this environment stands out, a difficulty well known from the start - and he was elected on that premise. Brazilians of various political colors want an unswerving commitment to the fairness of their leader's attitudes towards his promises, without departing from purposes and/or creating vacuous decision-making processes that will procrastinate fundamental deliberations and advances, even if they damage his electoral capital.

It is true that power intoxicates, corrupts and destroys, but that we already know and have experienced recently. The hope is not to resurrect the past, and for that to happen it is essential to correct the steering wheel... if there is still time.

The financial market in October continued to reflect investors' bad mood and escalated its deteriorating movement, reaching technically important and decisive levels towards new and greater corrections. Thus, the Ibovespa slipped 0.69% this month, registering a cumulative drop of 18.76% within the year. Yield curve movements slowed down and continued to price the deteriorating public finances, with even higher premiums for the longest maturities. DI1F21 ended the month still under pressure at 1.96% (against September 1.98) and DI1F25 closed at 6.74%, with an additional rise of 0.32 points compared to last month. The slope is also accompanied by a significant fluctuation for longer interest rates: 0.164 and 0.58 points for DI1F21 and DI1F25, respectively. The Brazil risk, as measured by the 5-year CDS, in contrast, retreated to 218 points, a 12% change. Disregarding this movement, the final dollar exchange rate (Ptax) ended the month at BRL 5.77 - an additional devaluation of the Real, for the fourth consecutive month, of approximately 2.3%. The Real remains among the worst performing currencies in the world.



Source: Redwood; Brazilian Banks | Elaborated by Redwood

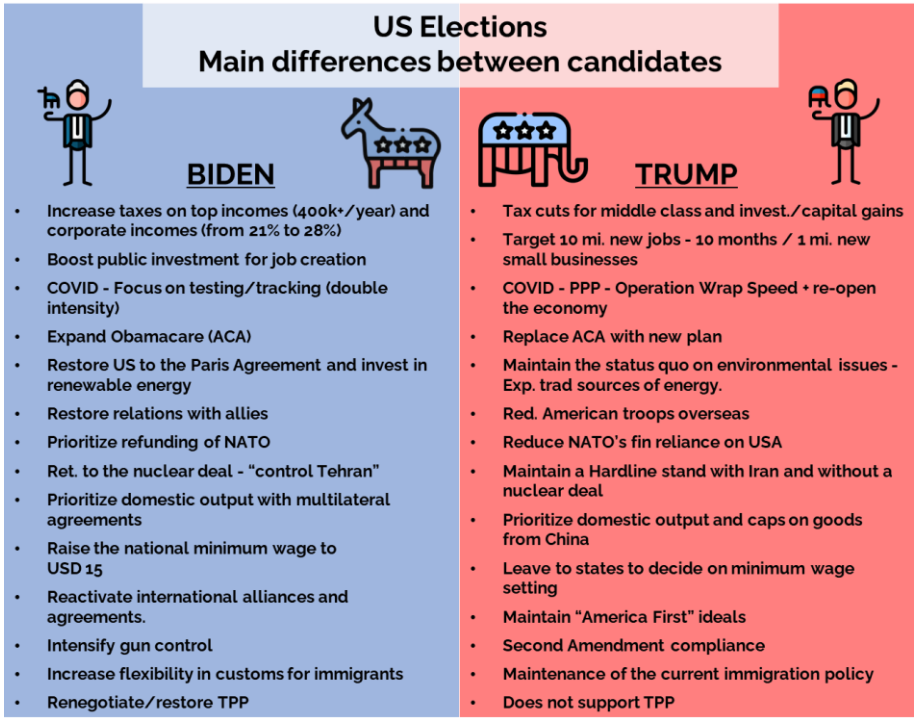
Although the Covid-19 contagion and deaths curves have a different and slower deceleration pace compared to what is observed in Europe, there does not seem to be, at the moment, any indication of a likely new wave of virus spread. This fact has allowed and fostered not only greater confidence in the population, but also the gradual opening of various activities in all states of Brazil. As a result, leading indicators do point to a recovery in the economy, although this recovery is far from being homogeneous across sectors. This is good news, but the continuity of the movement faces several obstacles ahead, the confrontation of which involves, above all, overcoming political hurdles, whether due to the ability to deal with powers or even dropping a populist agenda.

There is no doubt that economic recovery is the key to unlocking a good part of our traps, starting with jobs and income creation. If the pandemic seems to give us a "truce" (with or without a vaccine), there is an opportunity to control its dynamic and promote adjustments and signals for this recovery, including budget and aid definitions for those most in need in this transition. All of this needs to be properly explained and factored in so that we can assess the short- and medium-term impacts, as well as the trajectory of our predicament.

Our projections, as shown in the table opposite, are in line with those of the market and the main players. It seems quite clear not only the convergence of the forecasts for economic activity this year and 2021, but also the public accounts of both years. Although the numbers are alarming (primary deficit) and disappointing (GDP), at least the variance of projections has toned down, which ascribes a greater likelihood to these estimates. If this smaller dispersion of the projections is true and therefore the numbers are correct, the challenge is given. With the heterogeneity of impacts on the economic sectors, especially the service sector with greater spare capacity compared to the others, one can expect more gradualism in economic recovery.

Monetary Policy continues with the purpose of providing space for better economic performance, although at its last meeting, COPOM warned, more clearly, of the impacts of the fiscal on its policy. It is clear to us and to the Central Bank that recent rising inflation reflects momentary and temporary pressure, with no major concerns in the short term. However, respecting the Expenditure Cap, advances in reforms and the positive evolution in the treatment of public finances will drive the maintenance of Selic at historical lows, forward guidance, and its expectations regarding the relevant time horizon of

policy. If there is unpredictability in the general balance of risks, BACEN should proceed with caution and mince its words well, so that the use of its main tool, communication, is used with maximum potency. In the exchange rate policy front, BACEN registered a negative flow until October of USD 20 billion, an outcome directly linked to the USD outflow by investors, as a flight to safety - this, a "natural" movement which was verified in several parts of the world. However, the monetary authority also registered, on account of its operations, another negative result (following that of September) with losses of USD 7 billion with foreign exchange swap. In the cumulative value within 2020, the swap-related loss amounts to USD 74 billion ... it is a high cost to provide hedge and liquidity cushion to the market. The new exchange rate framework needs to evolve and, from there, we can move forward in the convertibility of the Real in the international market.



In finance, markets are finally taking a mature look at our fiscal problem. The projected primary deficit of almost BRL 900 billion and a Gross Debt/GDP close to 100% this year, puts us at a very bad starting point in 2021. Regarding other countries, we will start from a very different basis, first because we were already in a difficult situation before the pandemic, and secondly because we opted (albeit properly) to expand larger and irreversible expenditures. The tightening of financial conditions due to fiscal uncertainty is definitely our current biggest highlight and stress point to be properly tackled. The government urgently needs to go public with a clear statement and action plan to control the trajectory of our public finances. The delay and/or failure to follow this line will necessarily promote major repricing, especially with respect to Government bonds, which should be rolled over. In this specific case, with some room for reflections and spillovers to other investment segments, a debt rollover of BRL 650 billion is expected in the Q1 2021. It does not seem reasonable to admit greater reductions in debt duration, as we have had in the past, because before (1980) the Gross Debt/GDP was 35%, but now we are close to 100% - this makes a huge difference in risk perceptions and premium setting. For better or for worse, investors should be aware of this opportunity in Federal Government Bonds and other related ones, even though the rebalancing of portfolios may be carried out for different purposes - timeframe and risks.

Worldwide, the second wave of Covid-19 in Europe is a reality. Several lockdowns, although less restrictive and comprehensive, have already been announced by several countries to start in November. There is no doubt that such measures will have different impacts on European economies, but also on other countries with which trade relations are maintained. The ECB will certainly act with greater stimulus and QE, in line with the FED. China remains, among the major economies, the only one to show positive growth this year. Its maintenance and intensity, however, will depend on its business partners and the world as a whole. In the USA, all attention is focused on the results of the tight presidential election. Our predictions were pro-Trump, but the data indicates otherwise, it is possible that the final decision will be given by the Courts. To be seen.

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.

planner

Redwood

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