DECEMBER - 2020

MONTHLY STATEMENT

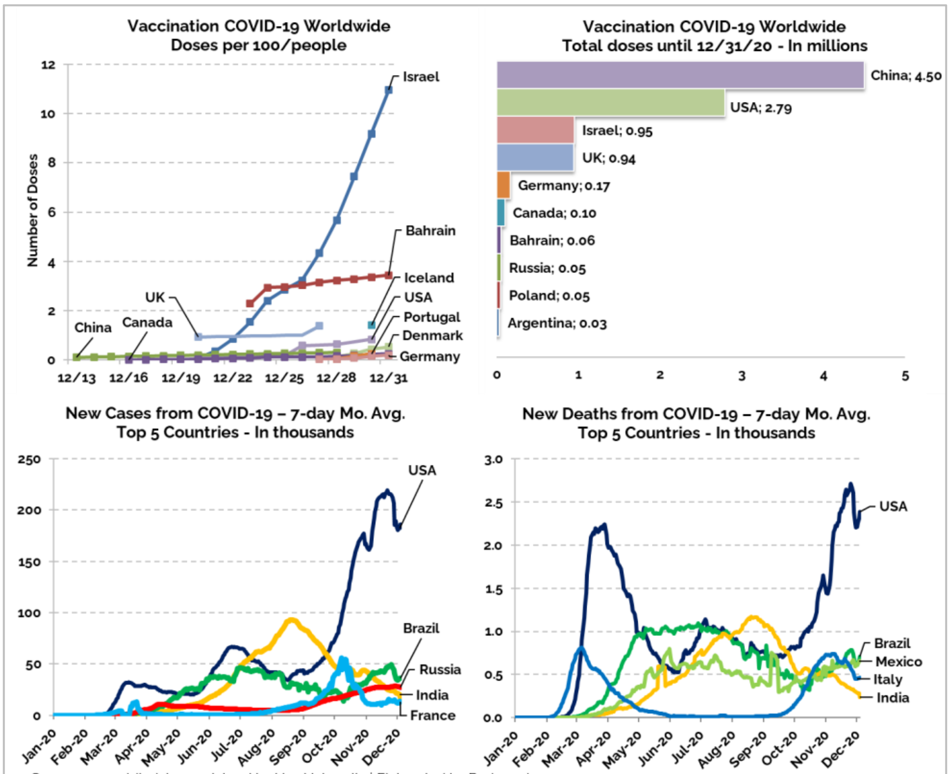
PLANNER REDWOOD ASSET MANAGEMENT

planner Redwood

"There is no vaccine against stupidity"

Albert Einstein – German Physicist

The year 2020 has come to an end, but our ills linger in all segments of society with enormous costs. In fact, apart from (and to a large extent also due to) the Covid-19 pandemic, the second year of President Bolsonaro's term ends, tarnished by an explosive mix of administrative incompetence, widespread denial of our fundamental problems and a lack of planning ability that is likely to embarrass the most reckless of managers. Anyone who thinks it is only public health is wrong. The range of trouble is widespread and unrestricted, saving only a few "islands of excellence", such as Infrastructure.



Source: ourworldindata.org; Johns Hopkins University | Elaborated by Redwood

Thus, when ending the year 2020 without further definition and pragmatic realignment of his campaign promises, Bolsonaro does not inspire us optimism, unfortunately. Numerous promises were simply "abandoned", such as support of Car Wash Operation, Privatizations and Reforms, and the repulsion towards approaches by political groups such as *Centrão*. There has been very little progress. So far, ideology has prevailed and with it the breeding paralysis of all our fundamental expectations. Result: an exodus of competent professionals (especially in Economics) who were irreparably disappointed.

There is no doubt that the pandemic exerts enormous pressure and the need for adjustments in the stance various sectors of society take, but this would be the right time for coordinated leadership and action. However, the federal administration opted for adverse paths, politicizing the use of masks, polarizing opinions and denying specialists' advice, in addition to underestimating the potential spread of the disease, ridiculing proposals for containment and discrediting the suffering of others. It could not be any worse!

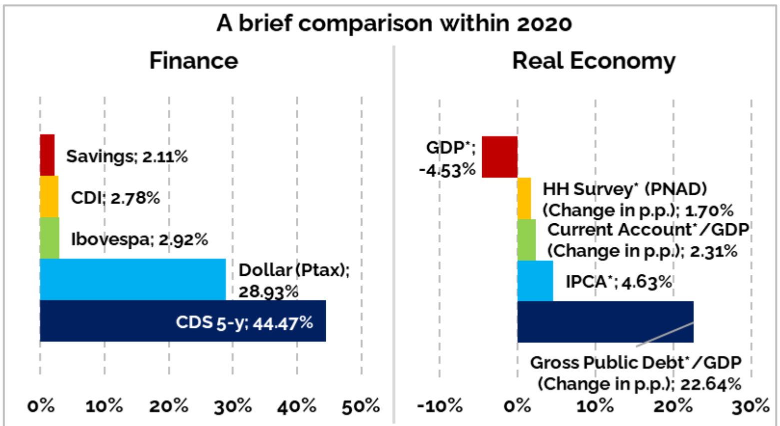
Now, with the possibility of effective vaccines, recklessness and incompetence, combined with a fierce politicization, are taking over, while other countries are moving forward. Even old-age stones know that no one will be vaccinated by force, but why not encourage it while preserving individual freedom? In addition to the final benefit to each one, it will support the country's return to normality, starting with the economy. It is very difficult to understand and rationalize certain stands, as they play against clearly stated objectives. It is very obvious that Brazil is being swept by two pandemics: that of Coronavirus and stupidity; against the former we have the hope of getting an effective vaccine.

The current administration urgently needs to take the country seriously, otherwise we will be unhedged against left-wing and/or opportunists on duty. Despite the hope for the Covid-19 vaccine, our challenges will not be any smoother in 2021. We need to bring efficiency to the public machine, once again, taking up the liberal plan and all the promises made in 2018. Without immediate drastic changes, 2021 can be even worse than 2020.

MONTHLY STATEMENT

DECEMBER 2020

The financial market, in the wake of international and domestic rising expectations, above all because of the hope of an effective vaccine against Coronavirus, displayed vigor and confidence, "going against" the economic fundamentals of Brazilian politics and economy. The rationality of the financial market in the short term is always a challenge, but in the medium and long term its performance is, as a rule, sustainable and understandable. Thus, the Ibovespa closed the month at + 9.3% in the third highest monthly appreciation of the year (behind only April and last month), now accumulating + 2.92%. The yield curve showed movements yielded quite significantly, demoting premiums and "risk" assessment. DI1F21 ended the month dropping from November levels (1.928%) by 1.90%; and DI1F25 closed at 5.65%, with a 1.13 point-retreat from last month. The slope is also accompanied by a wider oscillation for longer maturities, even greater than that seen last month, featuring more uncertainty, being 0.048 and 1.17 points for DI1F21 and DI1F25, respectively. The Brazil risk, as measured by the 5-year CDS, in line with the performance of other assets, fell to 142.74 points, an additional plunge of 14% this month. In this line, the final price of the Dollar (Ptax) in the month reached BRL 5.1967 - another important rise of the Real, after a within-year peak of BRL 5.9691, recording an accumulated annual depreciation of 28.93% at the end of 2020.



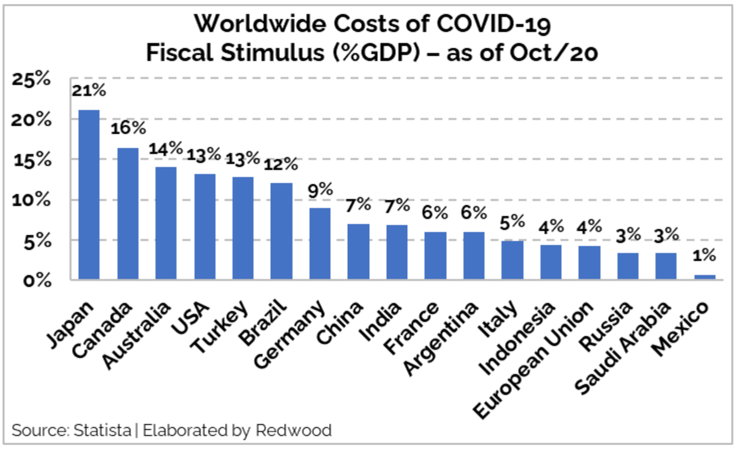
Source: Central Bank of Brazil; B3, Bloomberg; IBGE; IPEA; National Treasure | Elaborated by Redwood
*Redwood projections are used in place of lacking data in 2020.

Numbers never lie, and the comparative chart above proves it. The differences are striking and, although the market has recovered to a large extent and quickly from its worst moment at the end of the 1st quarter, the sequential movement and the positive "spillovers" to the economy remain to be effectively confirmed. Some mixed signs are still persistent, but the main one is the explicit cost in the economy, reflecting the pandemic and the ineptitude of the federal government in its conduct. This is where, most importantly, lies the greatest of all fears. The second wave of Covid-19 seems to have arrived in Brazil, and our inability to "convince" the population to take preemptive measures, coupled with the irresponsibility of ignoring obvious evidence and the constraints of our hospitals' capacity to supply care, can put us in a situation of calamity and collapse of health care systems in several states of the federation. As a second order problem, if we have not "planned" and envisaged mass vaccination, the Brazilian economy will again suffer from a possible replay of what we saw in 2020. Obviously, as we have discussed in this space, Brazil cannot stand another fiscal gap as the recent and the population cannot be left behind if limitations are imposed. The political costs, in this case, will be unsustainable, and with direct consequences for adjustments to a liberal economic policy, which in fact never took place. More than populist agendas and ravages for electoral purposes, the impacts of an adverse (but possible) scenario, thus, have the power to confuse and disrupt everything and everyone.

The recovery of the economy, so much vaunted for being happening in a V-shape, needs to be confirmed as it advances, because this is the only way out; without it, we will not solve our problems. However, even if such recovery happens, we will grow at a rate somewhere between 1% to 3% in the entire Bolsonaro term. That in a scenario without major externalities, return to Paulo Guedes' agenda, facing the serious problems of our public finances and putting the house in order. We have insisted that the irreversibility of the fiscal situation is a thermometer that has revealed the seriousness and the vulnerability to which we are subject. Not facing the fiscal challenge is not an option, even though we can "live with" it for some time, the financial market will not be sustained with eternal injections of capital around the world, disregarding the local reality. The reversal of this trend that we have been enjoying, with even greater economic consequences, can happen in the blink of an eye.

Therefore, the conclusions reached by the market and the actual economic performance do not necessarily have short-term correlations. What is beyond doubt is that the impacts are already enormous for the population. In a recent survey, 43% say they have less current income than before the pandemic, and that the recovery time will be long-lasting. This determines behavior, especially of caution and less confident expectations towards consumption and, therefore, stronger parsimony in the management of its resources.

Monetary Policy does not appear to be changing in the short term, even though inflation has shown its face (IPC diffusion index was 70% in Dec 2020). In a country where we "always" had positive real interest rates (for obvious reasons), this year with inflation hovering around 4.6%, above the target, real interest rates are negative. This is an absolutely transitory effect, but it has helped to pay the debt. This temporary benefit should end, as BACEN will leave the current 2% and increase Selic possibly even in the first half of 2021, calibrating for a real interest around zero in 2021. We do not believe anything different from this, considering the economic recovery and rising unemployment - moreover, the BACEN must correctly assess the behavior of inflation in the coming months, notably with the evolution in the treatment of public finances, reforms, etc. In exchange rate policy, there is no change in the *status quo* as to what the monetary authority thinks and does. This was the case this month and throughout the year 2020, and we see no reason for any change in posture to be implemented in 2021. As there are no parameters and limits of volatility or acceptable price levels or not, we are left with the value judgment of the "Group" that manages this policy. Although the Dollar is devalued worldwide by the "new" international environment, the election of Joe Biden in the USA and the American Democratic Senate facilitates new stimulus; also, even the reality of an effective vaccine against Covid-19 does not guarantee that there will be less intervention in the exchange rate by the Bacen.



Source: Statista | Elaborated by Redwood

On the fiscal side, after a year in which we spent (in cash!) almost everything we will be able to save in ten years ahead with the 2019 pension reform, the LDO for the year 2021 signals a deficit of BRL 247 million. Market conditions have improved, and the National Treasury, with huge debt to roll over in the Q1 2021, should have less difficulty in relocating its bonds. However, we must not care only about the ability to finance the debt while underestimating its size. We have repeatedly stated here that Brazil is "broke", but not yet to the point of default. Not yet.

Overseas, the effects of Covid-19 were no less striking. Lives lost, shattered economies and a global recovery that will also take a long time to bear fruits. Except for China, origin of the virus; the country will be, among the richest nations, the only one with positive performance in 2020 in its economic activity. It also seems that its recovery will be robust for 2021 and the following years, with some cooling from 2022. In Europe, the highlight of the month was finally BREXIT, an unequivocal way of retaking the "reins" for the British, at a cost that was absolutely priced in and accepted over the four years of discussions and adjustments with the EU. There will also be a change of the German Chancellor, but it is still too early for speculation whether there will be significant changes in the country's stand. Attention is focused, of course, on mobilizing and immunizing their populations with the Coronavirus vaccine. In the USA, the new wave of Covid-19 is a huge disaster, being the top country in number of deaths and new cases, totaling 1,054 deaths per million people. Confronting the pandemic will take place in an extremely sensitive political moment, with Joe Biden's taking office amid a deeply divided American nation. Donald Trump does not recognize that he has lost the elections, but democracy and American institutions, albeit with some turmoil, will prevail for the good of the country.

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