

APRIL - 2021

MONTHLY STATEMENT

PLANNER REDWOOD ASSET MANAGEMENT

“The only thing that scares politicians is the people taking the streets.”

Ulysses Guimarães – Brazilian politician and lawyer. Chairman of the National Constitutional Assembly 1987/88.

Nothing is healthier for democracy than the demonstration of the people. Demonstrations on the streets have been, in Brazil, an important thermometer of dissatisfaction and expression of claims and aspirations. More than that, politicians tend to “hear” the voice of the streets, albeit in a wide-encompassing and short-term way, but with greater intensity if the elections are close. The President has repeatedly expressed his discomfort with the direction and conduct of the Institutions and requested support from Brazilians. The month of April was one of organization and mobilization for this signal to be given on May 1st. An important portion responded to this “call-out”, which re-endorsed the mandate conferred with his election and “reauthorizes” him to follow his Constitutional commitments.

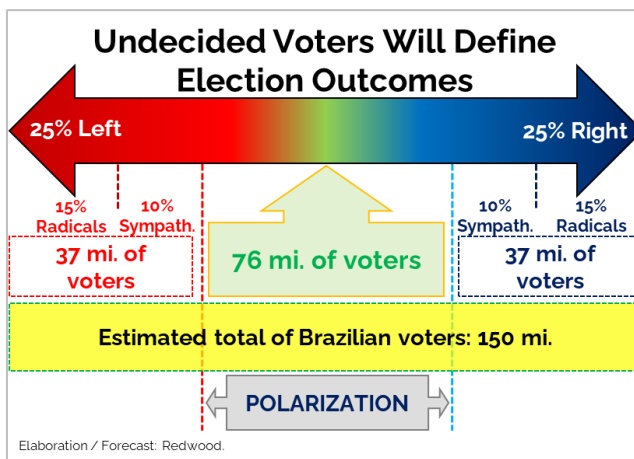
Within this group there are still other good Brazilians, sympathizers who are disappointed with the performance of the administration, but who want to see the Commander-in-Chief truly work in line with what he was elected for. In this sense, this group expects not to see the total derailment and the delivery of the 2022 election to the left on a tray, and for this reason, they endorse this movement as a “rebuke” on the President, that is, they demand that the elected official actually do something - within Constitutional limits. This is a newfound support that will be charged by those who joined, but also, in the event of frustration with corrective measures, it could serve as an arsenal against the government. Fear is a good feeling that makes us absolutely alert, and this movement must be interpreted by the administration this way - people are not silly.

The 2022 presidential race has begun amid the pandemic and its broad impacts on society and clearly signals its polarization. This concentration-cum-orientation has, on one side, the *unenlightened-mor-despot* and, on the

other, the *decision-power-expropriated-guy* by the Supreme Court, and now they both entail a clash of Titans. At this moment, combat is still on very ideological and psychotic ground, far beyond ludicrous in the face of our reality, and which fundamentally tends to bring together loyal and sympathetic voters, but leaving a significant vacuum not only for the government's support until the elections, but also its clearer delineation. Thus, although half of the voters remain undecided, if each pole manages to mobilize 1/3 of its captive voters, there are more than 12 million people on the streets - enough to fill any demonstration in all state capitals of the country. The “expression” might be huge, but statistically it may not be enough to convince the large crowd. It is not unlikely that this movement of democracy will repeat itself, on both sides, from now on.

One of the points that could foster this political escalation is Covid's congressional inquiry (CPI). With gigantic potential for politicization of its purposes ([Paper: Covid Congressional Inquiry and Game Theory](#)), its outcome is contrary and asymmetrical to the government's interest. It is clearly a point of weakness and destabilization for the continuity of the various pending government agendas. In the same sense, past reckless behavior and the current obstacles in the advance of vaccination, combined with the over-the-top declarations by Minister Paulo Guedes and the delay in the economic recovery with “rekindled” inflation ([Paper: The Pandemic Inflation](#)), they all make for a perfect soil for breeding polarization.

The quest for the undecided voter is at stake today. Currently, this battle is limited to the poles, but the hope is that, for the sake of democracy, we will have a 3rd way. A majority that, although silent, can exorcise and express its rejection to extremes.



The financial market, where rationality in the short and very short term run on shaky grounds, showed some cooling down of the stress seen in the past month. With no apparent improvement in the deterioration of the political and economic landscape in Brazil, investors remain cautious, but anticipate punctual relief, however momentarily. This way, the Ibovespa presented a smaller positive change, despite the 1.94% advance in the month, and practically compensated its annual devaluation, now standing at -0.1% in 2021. Yield curve movements continued upward in the short term, with DI1F22 ending the month at 4.67%, against 4.59% in April. On the other hand, DI1F25 closed at 7.80%, against 8.05% last month, with a 25 basis points drop - the first clear retraction in three months. The oscillations recorded between highs and lows were also minor variations, with DI1F22 going from 1.165 points in March to 0.24 in April. DI1F25 fluctuated even less in April compared to March, from 1.51 points to 0.80 points. If the level and oscillations "improved", BACEN cannot yet lower its guard in this segment, for the challenge is daunting. In this line of interest, Brazil risk's main indicator (the 5-year CDS) also improved and fell 32 points, ending the month at 192 points. The Dollar exchange price eased the pressure and ended the month at BRL 5.4036 (Ptax), with a significant 5.16% drop which amounted to a more than expected appreciation of the Real.

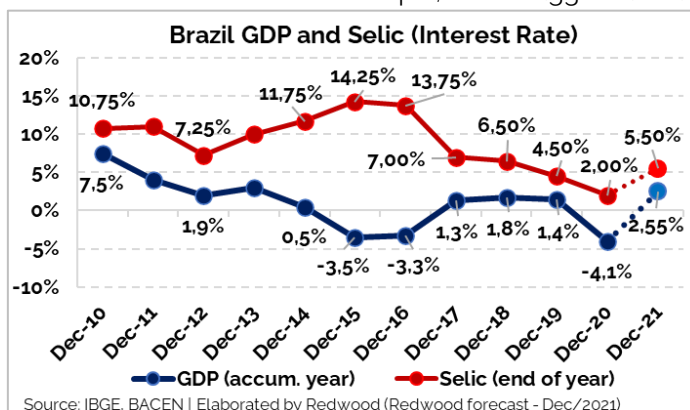
The "refreshment" experienced in April is not even contemplating a Mona Lisa smile. If the latent instability lies in the frustration of "non-reforms" and the general pandemic-economic breakdown, the increasingly worse political environment puts more and more on the government's agenda and, with this, a faster exit from "low growth and inflation" that may be on the way. Unlike many market players, our projections are not so encouraging. Strongly impacted by the rate of vaccination and with it the reopening of commerce and other segments, our models

project a recovery much slower than the market. Also without strong incentives as an inducing and supportive state, as seen in other developed countries, but for obvious reasons of our fiscal situation, we will not grow by 3% this year. Important detail: growth on a very low basis, since GDP / 20 decreased 4.1%.

"Leading" indicators seem to support our studies. An indicator considered "contracting of GDP" is Gross Fixed Capital Formation (GFCF), calculated by IPEA and released monthly, but with some delay. With components such as Consumption (machinery and equipment), Civil Construction and Other Assets, the indicator showed a decrease in the margin for the second consecutive month, -1.1% in February in relation to January / 21. On the other hand, we also consider positive and more recent facts of April, which suggest at least an assessment of the reduction

of pessimism. The Trade Balance (TB) did very well and surprised (USD 10 billion), and the Consumer and Business Entrepreneurship Confidence Indexes (CI) also improved. In both cases, caution prevails, as in the case of TB the commodity boom led by China may be the justification and, for CIs, the improvements only partially offset recent losses.

In Monetary Policy, in addition to the strong interest rate hike, BACEN's communication needs to be adjusted. In fact, communication coupled with credibility is strong enough to make monetary tightening or loosening less intense. Thus, the Central Bank is expected to abandon what it called "partial Monetary Policy normalization", although we agree with the temporary nature of some primary and secondary price shocks. At this moment, it is necessary to be assertive and forceful in words and actions, only in this way will the credibility and effectiveness of its policies be maintained. It is imperative to recognize the deterioration of the balance of risks, and that everything will be done to correct the downturn in inflation and realign



inflation expectations. In our assessment, COPOM should pursue (and warn about!) "neutral interest rate", eliminating noise and allowing degrees of freedom in its performance. In the Exchange Rate Policy front, if BACEN does nothing and proceeds with the monetary tightening cycle, admitting milder impacts coming out of the fiscal and foreign sectors (a strong premise at that), it may see some appreciation of the Real in the coming months. Do we bet on this outcome? Of course not, the Central Bank would not abandon its "floating - *pero no mucho* - exchange rate regime"; intervention is in its DNA.

On the fiscal side, the situation of public finances continues to go under, including the recent resumption of country-risk-linked revaluations. The work that supports the agencies is known as a whole, but the non-evolution of the indicators puts pressure on their positioning. Our fiscal anchors are less and

less important, especially by the political establishment, and the Minister of Economy is increasingly discredited - both as a credentialed negotiator in the National Congress (to carry out government agendas) and by his followers (another recent resignation of trusted members of his team).

If there is any encouragement on the fiscal front, perhaps it comes from what BACEN deems a problem, as mentioned above. The commodities boom and the depreciated Real hinder inflation control, but provide some relief in fiscal constraints, with the Trade Balance rising by 50% of our initial estimates of 2021, and the strong inflow to Brazil. Obviously, for us this is a narrow window that tends to close quickly, but it is still good to have a less troubled external scenario. As a matter of fact, what matters is that public finances could not be further deteriorated, despite

government actions to tackle the pandemic remaining fundamental. Thus, with positive externalities or not, fiscal counterparts are also essential to facilitate the approval of fiscal measures, namely: additional expenses (Cap or Ex-Cap) will all be factored in.

Overseas, all economies are fighting to recover, to nourish businesses and generate jobs and income. China was the only major country to have a positive economic performance last year and will enjoy nearly 8% growth rate this year, despite some signs of a slowdown. Q1 2020 GDP was meager 0.6%, against the exuberant 2.6% seen in Q4 2020. This reflex may be due to phasing out of repressed

demand and the toning down of PBoC stimuli. This does not detract, however, from its long-term goals of becoming the largest economy on the planet, thus dethroning the United States from its long-held post. In Europe, to a lesser extent, the ECB signals to a

reduction in purchases of assets from the emergency program adopted on account of the Coronavirus (PEPP), an intention relying on the behavior of inflation and financial conditions; that is, incentives there will remain strong!

In the USA, the 100-day honeymoon with the new administration continues. With a broad agenda and a huge challenge (as it was for Trump) to change the *status quo*, Biden strives to dismantle and insert policies dear for his Democratic party. Its members and supporters are delighted. In the economy, total stimulus may reach USD 8 tri, but this has not raised any warning signs of an overheating economy nor inflation. Other important areas, such as Foreign Policy and Immigration, cause a furor among non-supporters... but, for the time being, everyone is happy.

BIDEN'S MAIN PROPOSALS - FIRST 100 DAYS		ONGOING POLICY REVERSAL?
ECONOMY	COVID19 RELIEF BILL - USD 1,9 TRI	NEW
	US\$ 2,3 TRI INFRASTRUCTURE BILL	NEW
	"MADE IN AMERICA TAX PLAN" - INFRASTRUCTURE BILL FUNDING	NEW
	FEDERAL INVESTMENT ON EDUCATION ADICTIONNAL US\$ 1,8 TRI	NEW
HEALTHCARE	MANDATORY USE OF MASKS	YES
	200 MILLION VACCINE DOSES APPLIED (DOUBLE PREVIOUS TARGET 100 MI.)	YES
	STRENGTHENED AFFORDABLE CARE ACT	YES
	RETURNED TO WTO	YES
JUSTICE	SUPPORT TO GEORGE FLOYD BILL ON JUSTICE POLICING ACT	NEW
EDUCATION SOCIAL SERV.	ACCELERATED REOPENING OF SCHOOLS	NEW
IMMIGRATION	REVOKED BAN ON TRANSGENDERED FROM ARMED FORCES	YES
	RECINDED COMMITTEE 1776 - "PATRIOTIC EDUCATION"	YES
CLIMATE CHANGE	ENDED THE DIPLOMATIC STANCE PUSHING FOR "REMAIN IN MEXICO"	YES
	ASKED FOR REVISION ON BORDER WALL DECISION	YES
	RETURNED TO PARIS AGREEMENT	YES
FOREIGN POLICY	HOSTED GLOBAL CLIMATE MEETING IN FIRST 100 DAYS IN OFFICE	NEW
	SUSPENDED KEYSTONE OIL PIPELINE	YES
	EFFORTS TO REENACT THE US-IRAN NUCLEAR DEAL	YES
FOREIGN POLICY	ISSUED SANCTIONS/EXPULSED RUSSION DIPLOMATS (INTERF. WITH US ELECTIONS 2020)	NEW
	PROHIBITED US FIN. INST EUA FROM PARTICIPATING IN RUSSIAN PRIMARY BOND MARKETS	NEW
FOREIGN POLICY	REVERTED TAVEL BAN ON MUSLIM COUNTRIES	YES

Fonte: various websites | Elaborated by Redwood

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