



MONTHLY STATEMENT

JUNE 2023

Redwood

REDWOOD ASSET MANAGEMENT

"Democracy is a relative concept."

Luiz Inácio Lula da Silva – 39th Brazilian President

Statement given at an interview for Rádio Gaúcha on June 29th 2023

The sly president has yet some more to say! With sophistry time and again, he constantly tries to persuade the unattentive, inside and outside the country. His choices, there is no doubt about it, bear the mark of shame and thus we experience a total and complete inversion of values. His crowd of sycophants enlist inventions, enact fiascoes and try to make us believe that we are, now, living in a democracy. It is enough to see the statements and elusive behavior in total savagery and attempt to appease the country. The "getting even" motto, disguised as justice, tries to rewrite history and, thus, the leftist rage prospers in leaps and bounds. They strictly fulfill their promise. Brazil is dominated!

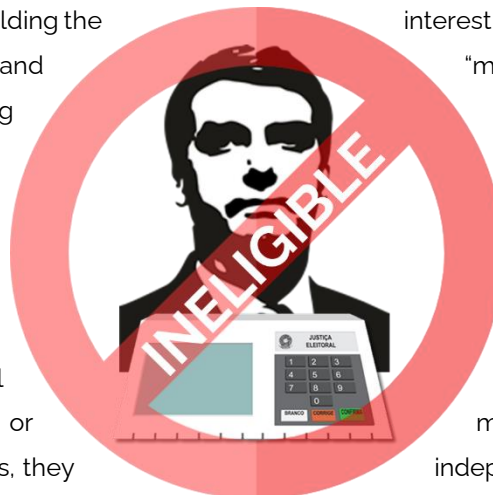
The PT seems invested in changing the space-time relationship, challenging reality and rebuilding the past, boosting the present and charismatically selling out a promising future. Floating all the time in a rationality void and the incompatibility of ill-judged decisions, but disguised as elaborate populism, thus reins in the well-known and efficient government marketing machine. But the gravitational pull of facts and our situation, sooner or later, will put us back on the ground. Yes, they screw things up, and without an error correction code (it doesn't even cross their minds!) there is no stability; as a result, various anomalies ensue and compensatory measures are exacerbated, which alleviate, but simply postpone, the structural damage.

The Minister of Finance strives and fights against the inconsequential economic vandalism that his environment fosters. Despite its DNA, there is a "Rocky Mountain spotted fever" that permeates the cognitive fabrics of government teams, which does not give it a chance to compromise with logic, so that not even an earthquake of cataclysmic proportions can alter the course of ideology, intention and understanding about the economy, and how it should be conducted. Thus, under this political dystopia that produces constant "outages", any argument is irrelevant or useless, or

leads to the limit of stressful relations among institutions – examples abound in six months. Without a coordinated articulation, the President himself took the lead, making use of his history and expertise, but it has not worked out very well. Purposes seem mixed, and it has brought too much discord to the country. Believing that a fair share of the administration abide by the rule of reason, and that they are guided by what is rational and fair, equals to believing in the imperative, categorical, as well as inconsequential, rhetoric.

This has been going on for a while. And this is the reason why "nobody" is interested in Brazil, inside or outside the country – or at least how "attractive" we could be in the world situation. The government's quarrel with BACEN over interest rates exposes the anatomy of this "madness", and how trainbearer ministers and related politicians are responsible for criticizing BACEN, without the slightest technical knowledge. They agree to take it to the limit, trampling established rules to please the proud communist leader. Our Tupiniquim Asmodeus will do everything to undo the BACEN's marriage with its autonomy and independence, thus returning to interference and the sub-optimal conduct of its policies. But that's not all: we're back to cronyism, with constant bargaining for positions (quid pro quo), often preferring a competent politician to a technocrat... there's no way to detach this "policy" from the country's economic environment, and expect that markets will be under hypnosis or a sort of "satanic trance" so as to believe in the economy's firm and steady recovery.

A president who truly thinks too highly of himself, as an unprecedented historical figure and pursues worldwide recognition, perhaps a Nobel Prize (in Chemistry, Physics or Peace?)... makes us look like idiots for working hard and paying taxes. As Aldo Rebelo says: "you have to govern the country from within, not from without". It is a humiliation for us and a deception for Brazil. Have we been sent out to the hyenas? Possibly, but we are in a "democracy"... albeit relative.



MONTHLY STATEMENT

JUNE 2023

Redwood

In financial markets, optimism was widespread. Political missteps, once again, had no price and the market moved away, at least momentarily, from this toxicity that will invariably (if not reversed) contaminate the business environment and hold the economy down. There were several determinants for such behavior, with reasons both inside and outside the country: the Fed did not raise its interest rate, the upgrade (perspective) of Brazil's credit rating by Standard & Poor's (S&P) - with a consequent cut in country risk assessment -, a decelerating IPCA, probable approval of the fiscal framework without major changes, the weakening of the Dollar, etc. In fact, there are indeed cross effects and a certain feedback among these variables, which tend to adjust in sequence.

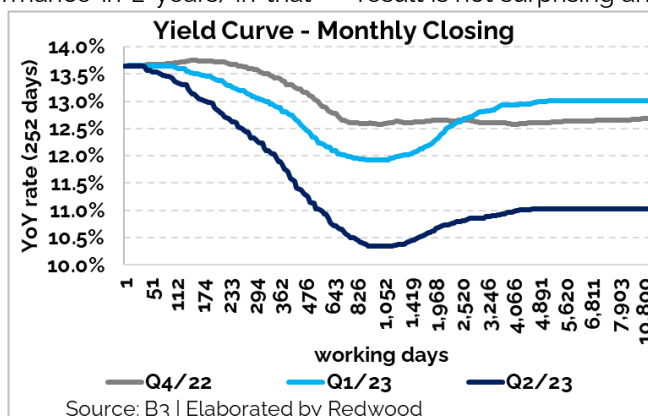
Along these lines, the Ibovespa had an exuberant performance (best monthly performance in 2 years) in that month, and ended June with a 9.00% rise, reaching 118,087 points, thus reversing its negative performance within the year, hiking to +7.61%. An improvement necessarily linked to the environment described above, but mainly due to the down-shift of the yield curve. In this segment, the yield curve sent positive signals in numerous directions by adjusting with reductions across the curve. Thus, the shorter DI fluctuated from 13.225% to 12.85%, the one maturing in 2025 went from 11.520% to 10.745%, with a greater retraction for the ones due in 2031, which dropped from 11.54% to 10.59%. The larger falls in the long end of the curve do "endorse" greater confidence that the fiscal policy will not go up in an explosive route, while also signaling a more favorable horizon for BACEN to think about loosening its interest rate policy in the coming months.

As for the Brazil risk, priced by the 5-year CDS, pessimism here was also left behind this month. In line with what was described above, the market saw a new drop, closing the month at 175.83 points! - a 36.5-point retraction or approximately 17% in the month. The Dollar, as highlighted last month, has now aligned itself with expectations and

corrected its course: the Brazilian currency closed at around BRL 4.82 - an important reduction of 5.43%. The appreciation of the Real was expected and has the potential for more of that. A general summary for investment perspectives - on the Interest, Stock Exchange and Exchange (FX) basis - is that the maximum conservatism position (LFTs) since the beginning of 2H/22, opens some room for some small risk-taking. Caution is still required, especially due to the political environment and the economic assessment presented below - both domestic and international.

In the economy, expectations for 2023 GDP continue to be adjusted upwards by the market - we maintain our growth projections around potential GDP this year and just above 1% in 2024. The unemployment rate in the quarter ended in May stood at 8.3%, slightly below the 8.5% registered in April: the result is not surprising and is in line with our forecasts for the end of the year around 9%. The average real income of workers in the quarter ended in May was R\$ 2,901, and the mass of real income usually paid to employed persons added up to R\$ 280.9 billion in the same period - results of 6.6% and 7.9%, respectively, in relation to the same period of the previous year. Good.

In Monetary Policy, the pressure for BACEN to relax is generalized, and the market may be giving some sign of this possibility. The table on the side displays last quarter's significant reduction in forecast peaks - a necessary, but not sufficient, condition for a reduction in the SELIC. Thus, taking into account the possible re-anchoring of future inflation in the upcoming months, and the maintenance of the inflation target by the CMN at 3%, we revised our perspectives of what BACEN "should do" (Reaction function), that is, in our opinion, the SELIC cuts should start in September. However, "should start" does not mean that "it will", and across this "gap" lies "flexibility", or even, a divided COPOM, and it will not surprise us if this effective beginning of SELIC cuts starts with 0, 25% in August. It would be within the tolerable range of the models, and without major risks to their credibility.



In the exchange rate policy, BACEN finds itself in "trouble" when it tries to explain the exchange rate. So much so that chairman RCN went out in public to declare: "We have actually seen the improvement of some emerging currencies. The very large agricultural crop also generates a strong inflow of exchange (Dollars), and the perception that BACEN is doing the right job and that inflation is converging. High interest rates also work as an anchor, because the interest differential is favorable". Of course! But why so many interventions then? To provide hedge, right? Oh no, not only that, and RCN also recalls that, for BACEN, what matters is not the exchange rate itself, but its impact on both current inflation and expectations. Any justification will do! There is not the slightest chance that this group recognizes that they are wrong and that they hinder the proper functioning of the market.

On the fiscal front, there is much bet that the fiscal framework will be approved once and for all and that the tax reform will be carried out as soon as possible (original ideas PEC nº 45 – attention to the substitute!). This is because the most ministries play against at all times, with measures that hinder the running of the secretary of Finance. Brazil is in a hurry, if we miss this window of opportunity now, the "best expectations" we hope for will not come. After the BRL 20.3 billion surplus in April, the consolidated public sector (Central Government, States, municipalities and state-owned companies, except Petrobras and Eletrobras) recorded a primary deficit of BRL 50.2 billion in May. It was the worst performance of the country's consolidated accounts for the month since 2020, and the fiscal result was composed of a BRL 43.2 billion deficit by the Central Government (TN, BACEN and INSS), while regional governments (States and municipalities) negatively influenced the result with BRL 6.82 billion. The General Government Gross Debt increased for the second consecutive month in May, adding up to BRL 7.56 trillion, or 73.6% of GDP. Structurally cutting costs is not easy, and this is not expected from this government, but if it sticks to the initial projections of a non-explosive trajectory – it will

already be a huge achievement. Improving fiscal outcomes is mandatory for the better functioning of the economy, and will definitely be one of the triggers for the consolidation of a more sustained course of economic growth, with increasing productivity, while unleashing investors' confidence in their investments in the financial markets and the real economy.

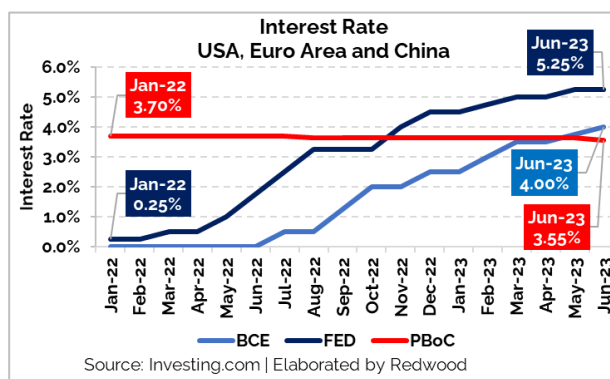
Overseas, extreme events and long-term effects took over this month on the planet. We went from a "riot" in Russia, with the advance of the Wagner Group (mercenaries) planning to capture key Russian defense officials (weakening and putting Putin's control in check), passing through the burning of the Koran in front of a mosque in Stockholm (Sweden), inciting hatred and spreading demonstrations in various places, to widespread confusion in France after an act

in honor of a 17-year-old teenager killed by a policeman. No less important, but in this arguably more controversial case, was the US Supreme Court's decision to strike down the Affirmative Action program (admissions process) at the Universities of North Carolina and Harvard. From the point of view

and socioeconomic relevance of Affirmative Actions (adopted in so many countries), the analysis (and criticism) of economist and social theorist (black) Thomas Sowell is worth it.

In the US, the Fed chose to pause its monetary tightening – it failed miserably, in our opinion. They will have to go back up and the process will be more expensive. The ECB, which was delayed in its effective start, seems not to want to waver and maintains its trajectory of successive hikes, while China practically stays put. Incidentally, in the Asian country, its Industrial PMI (49) confirms that the economy is struggling with weak exports and pressure from the housing sector. One should expect greater government stimulus, yes!

Nearby, Argentina is in trouble, and asks us for help. It is clear that the current administration will not let *los hermanos* down – one way or another, Brazil will help. Let's not underestimate Brazil's ingenuity in formulating plans with the BRICS and the IMF... truly an absurd... and outlandish idea!



MONTHLY STATEMENT

JUNE 2023

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.

©2023 Redwood Administração de Recursos LTDA. All rights reserved.



Redwood

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