Vista Multiestratégia FIM and Vista Hedge FIM returned -4.59% and -1.80% in October 2020, and had cumulative returns of 9.55% and 3.90% in the year, respectively.

*   *   *

Our macro funds remain with a long position in oil and gold by investing in Petrobras and a portfolio of shares of gold mining companies. The negative result of the month is also explained by these positions and is certainly below our expectation. We are still using a limited part of the fund's risk limit, according to the parameters of our risk management policy.

*

Our expectation is that such assets will act as hedges between themselves. On one side, only a higher inflation - that normally requires commodities appreciation - would reduce the level of monetary stimulus and affect gold prices. On the other side, a new and intense economic worsening, that could affect negatively oil in the current price levels, would demand more stimuli and would benefit the gold.

In other words, gold is benefited by lower real interests and oil performs well in inflationary environments. Historically, these two variables worked positively correlated, hence the hedging bias between assets.

With the implementation of new FED framework, our expectation is that this correlation would be inverted.

That is, with the recovery of inflation and nominal interest rates somewhat controlled by the central bank, real interest rates would converge to a lower level even in an economic recovery process. In this scenario, gold and oil would both have positive and correlated performances.

Recently, we observed that real interest rates have followed the rise in nominal interest rates, despite renewed concerns about the global pandemic.

In addition, the latest market movements have accentuated our discussion about the recent difficulty of hedging. As an example, a fall in the U.S. stock market over 3.5%, with interest rates on the rise and falling gold prices, has happened only three times in the last thirty years (all of them in 2020, two in March and the other last Wednesday in October).

What could explain such movements? In our view, these are the results of events that lead to a selling of all assets, being those directional positions or hedges. This happened at the beginning of the year, given the severity of the crisis, and now with the uncertainty regarding a second wave of contamination and the American electoral process.

Together with the expectation of a correlation normalization between gold and oil, we decided to take some directional risk again, respecting the risk limits and, above all, the current uncertainty.

Since August, we removed the long position on the U.S. stock exchange due to the uncertainties associated with the upcoming elections, despite the previously discussed expectation of multiples expansion. We aim to keep defensive positions during the process. The result was different of the one we wanted until here, but what calls our attention are asset prices and the prospect for 2021.

The scenario early next year could bring together a vaccine for risk groups (they are the ones occupying hospitals and generating the need for lockdowns), a large fiscal stimulus in the U.S. and central banks maintaining policies that are still very stimulative.

This is a rare situation, with a significant cyclical recovery accompanied by fiscal and monetary stimulus. All of this with asset prices at more attractive levels than those in August, especially for more cyclical assets.

For now, the second wave of covid-19 negatively impacts again Europe and some regions of the United States, where there is also a risk of a contested election within a rather fragile environment.

We don't know which side of the scale is the heaviest, but the time difference is unquestionable: the risks are likely to be in 2020 and the benefits in 2021.

Given that the market tends to look forward and anticipate the future. We are surprised by the size of the movement observed in the last days of October.

The fear of underscoring risks – repeating the mistake of the beginning of the year – can create and potentialize movements. However, a few months of new mobility restrictions should have a considerably limited effect on companies' valuation. The risk here is a lack of effectiveness of vaccines or a lack of action of central banks and governments.

In the U.S election, we also have a temporal problem. Either a Democratic or Republican government, fiscal and monetary policies should be stimulatives, to a greater or lesser extent, and the world is still at the beginning of this newly started economic cycle. The fears are that the election is contested and the effect that will come around this process.

Then the question remains: *what is the size of potential impacts on assets in case of a pandemic worsening and a challenging of the results of the election, when right up front we will have vaccine, stimuli and a president-elect?*

The funds hold long-term positions, largely without direct correlation with the electoral movement.

* * *

Among the potential risk additions, Brazil has room to be considered. Over the past year, our clients have observed our perception change.

Bolsonaro's first government year was marked by a position that reflected the expectation of accelerating growth, resulting from an increase in economic confidence, late effects of reforms made by Temer government, pension reform and the fall in interest rates. The following year was the other way around.

Since Bolsonaro gave up administrative reform and showed very little commitment to lead other important reforms, our bias has become negative. Throughout the year, we maintained pessimistic positions in interest rates, foreign exchange and implied inflation markets, except for the long position in Petrobras.

In recent months, it seems to us that reality has hit prices. The inability of the Ministry of Economy to promote a sustainable economic growth project for the country and the presidency's lack of appetite for implementing the reforms have brought down financial assets prices.

While we maintain a cautious bias on the political trajectory, new prices and some macroeconomic developments have been catching our attention.

In August, we explained that we were no longer comfortable in being short in Brazil. Today the interest rate curve is extremely inclined, the exchange rate is devaluated in all metrics (including the relative comparison against pairs with worse conditions) and the stock market is trading with compressed multiples.

What we have thought, even if in an incipient way, is whether some ongoing economic adjustments can overlap politics. The subject has dominated our meetings and will certainly be closely monitored in the coming months.

It is clear that a decision to break the spending ceiling and throw the country into the old known path of populism overlaps with any other theme. The middle of the road generates disputes that, unlike other times, are present in the academic world and asset managers. After all, the lack of consensus on the fiscal and monetary solutions of the current economic problems is something that defies and interests us.

So far we have more doubts than certainties, but without losing focus on Brasilia and the necessary resumption of the reform agenda, we will pay attention to the lame effects of the extremely undervalued exchange rate and real short-term interest rates at negative levels.

* * *

Some third-quarter 2020 results call our attention. Coincidently, Petrobras and Vale generated a free cash equivalent to 27% of the company's value. The numbers of other exporters are also surprising. Even domestic companies, directly affected by the pandemic, show better-than-expected results.

Are the competitiveness gains generated by the cheap exchange rate being greatly underestimated? We understand that our large exporting companies have always been relatively competitive worldwide, but this margin increase may expand to other smaller and/or privately held companies.

Can we see a better-than-expected positive current account when, in the face of the normalization of global trade and with time to develop exports, our companies turn to new markets? Will we significantly increase production where we are already very competitive?

As said, there are still more doubts than certainties, but it is unlikely that we will have a short structural position in reais at current prices.

On the fiscal side, more questions. *Which will be the ideal path, considering the risk of a fiscal cliff in 2021 and the need of a consolidate agenda of fiscal responsibility?* A government with more credibility would seek ways to overcome the issues of the pandemic that is still in progress, which would include the partial continuity of income transfer programs, and, at the same time, implement reforms that permanently modify the trajectory of mandatory spending. It is also worth questioning the electoral implications in 2022 of the more abrupt withdrawal of stimuli, especially while the center candidates are not defined. As we have seen recently in Argentina, left-wing candidacies on the political spectrum may benefit from an overly contractionary adjustment.

Wouldn't the stress in our LFT market happen in developed countries without quantitative easing programs, and therefore could Brazil consider the same path?

When the effect of emergency aid pass and the base effect of the devalued exchange rate dissipates, will our inflation continue to accelerate, even with the current product gap?

On the other hand, will the government's economic programs implemented in the pandemic, beyond what was needed in demand and far below from the necessary in supply, continue to put pressure on inflation? Or, will they not generate a large margin expansion effect for survivors, many of them in the stock market? In other ways, how long are the severe supply-side restrictions we're seeing in various industries will last?

Will perhaps a country with devalued exchange rate and low interest rate, with the lagged effects of reforms that come from the Temer government may not provide objective conditions for Brazil to surprise in the cyclical economic recovery of the coming years?

There are many questions and few answers, especially because the government and the Ministry of Economy do not cooperate, which reflects in a low possibility of prioritizing the agenda of reforms. Certainly, consolidating a framework of fiscal discipline is essential, but at the same time, when we have such a relevant shock in foreign exchange and interest rates, spaces are open for much more relevant macroeconomic discussions than the government's next empty and poorly formulated promise.

We remain at your service.

Vista Capital