

Vista Multiestratégia FIM and Vista Hedge FIM returned 12.2% and 4.4% in November 2020, and had cumulative returns of 22.9% and 8.5% in the year, respectively.

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As mentioned in the previous letter, the loss of performance correlation between oil and gold - which were and are the main exposures of the portfolio - generated losses in September and October. In a risk aversion scenario, notably due to the uncertainties associated with the US election and the second wave of COVID, both positions were performance detractors. That was an expected behavior for oil, but unexpected for gold.

In November, negative correlations were reestablished. Gold suffered from the reduction of uncertainties, although for us, it was more than expected. Oil, in turn, was benefited by the news on vaccines, that brings closer or, in a certain way, guarantees the decisive reopening of the global economy.

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With the cyclical improvement that gains momentum in the post-vaccine world, the debate about the beginning of the withdrawal of monetary stimulus, perceived as excessive at first, has increased, mainly with regard to the FED. As already discussed, the new FED framework creates an environment where the central bank's reaction

function in previous cycles does not apply. In practice we do not believe that the normalization of activity in 2021 will be accompanied by the beginning of a normalization of monetary policy. Before discussing, for example, the reduction in the pace of expansion of FED's balance sheet, we will still be able to see new measures of monetary stimulus, although of a more incremental nature. If our thesis proves to be correct, we will enter into a more prolonged wave of increase in the nominal value of the assets.

The market consensus does not yet seem to believe in this longevity of stimuli, which prevents the correlation inversion between gold and oil.

Therefore we believe that the new FED framework will be tested when some metrics of full employment and inflation indicate the need to reduce stimuli, at least from the perspective of previous cycles, and the FED does not endorse this expectation, which is our base scenario.

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The main contributors to the results of the funds were Petrobras, stocks of companies benefited from the reopening and the long position in Japan. Positive results also came from a short position in Dollar against some currencies, such as the Real and the Ruble.

The long position in gold miners, the short position in the South African currency and some credit hedging were detractors.

During the month of November the funds increased the long position in sterling pound and the exposure to Brazilian assets. Moreover, a position long in Asia was added.

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A recurring theme in our discussions has been the perennial changes that COVID has brought to the world, such as the widely discussed trends in accelerating e-commerce and many companies adopting remote work. It seems to us that keeping an eye on Asia in the construction of portfolios, for reasons that we will discuss later, is something that is here to stay.

Although Asia accounts for an increasingly relevant share of global GDP and a vigorous middle class, and is the birthplace of some of the most innovative companies in the world, there is a significantly underweight structural allocation of global portfolios to the continent. For example, if we consider that China and Japan account for 12% of the global MSCI only, while representing around 25% of global GDP (PPP), there is evidence in this direction. Looking at it in a complementary way, Asia ex-Japan accounts for 36% of global GDP and just over 10% of global MSCI. The comfort with more liquid and deep markets, and closer market practices between the United

States and Europe explain an important part of this domestic bias in western investors. In addition, the difficulty of investing in China helped made investors comfortable with under allocating in the region. In parallel, the performance of the US market did not create a need to seek allocations in other markets.

2020 brought some insights:

*i)* BOJ was at the forefront of monetary activism considered now as mainstream in the universe of the main central banks, either through the quantitative easing programs in 2001 or the YCC (Yield Curve Control) policy in 2016.

*ii)* The gigantic Japanese debt that was perceived for the last two decades by many investors as an inedible disaster became closer to what is accepted as normal in a world of negative real interests, favorable demography and active central banks.

In both cases, the rest of the developed world has moved towards Japan.

*iii)* Chinese government has demonstrated the willingness to speed up the trend of liberalization of the capital account, mainly on the inflow side.

The appreciation of the yuan reflects that direction, also reinforced by the high interest rate differential in relation to other countries.

- iv)** During COVID, Asian societies once again demonstrated a huge ability for social organization, with strong and restrictive measures (such as the Chinese example) or mild but effective ones when respected, such as the use of masks and social distancing.

It is also worth noting that the success of Asian “governance”, also present in other countries of Oceania, is even more evident when compared to the recent trajectory of the Western world. In the United States, record numbers of the pandemic, continued social protests and attacks on institutions from the executive authority, brought new questions. In Europe, there are still some issues around the Recovery Fund and the preparation for Covid's second wave fell far short of what was reasonable.

We believe that this relative strengthening movement will continue in 2021. Since the beginning of the previous month, both funds are long on equities and currencies from Japan, China and Australia against a short position in Europe.

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The letter from October highlighted that the reality had reached the prices of Brazilian assets, which reinforces a constructive view from our side. Without prejudice to the more structural questions exposed throughout the year, we remain marginally more optimistic in regards to Brazil, even though current prices are less attractive than a few weeks ago. The reduction of some bearish risks, discussed later, also leads us to the same conclusions.

Little happened on the fiscal side. The upside, from the point of view of the solvency of public debt, is that in a scenario where nothing happens, we no longer have the emergency aid payment and the spending ceiling is maintained, at least for 2021.

Continuing on questions raised on the last letter, the devalued exchange rate, the lagged effects of the new level of real interest rates, the very positive shock of terms of trade and the recovery of the global economy seem sufficient vectors to offset, even if partially, the contractionary impact generated by the end of emergency aid.

An even stronger resumption is still possible if the logistics for the vaccine is done quickly and efficiently, but now it is still far from clear.

In the political field, the news is also interesting. After the 2016 municipal election and the impeachment still fresh in the memory of society, it was expected a regain of territory, although small, by the left in 2020.

However, even with a right-wing federal government facing several difficulties, the left's shrinkage and division of forces has deepened.

There was also division in the center and right fields, with two clear and opposing groups. The center group is led by Rodrigo Maia and seeks to make political articulations on the right and left. The President, in turn, steers the conservative right and much of the political bloc associated with the old *Centrão*.

This dispute is likely to lead to the next election. Last month, a meeting between two possible candidates from this center group appears to have started the 2022 electoral process.

Perhaps anticipating the winds of the political reform that will have to reduce in more than half the political parties in the next years, Brazil seems to walk for a division in three great political groups.

Further to the center, Rodrigo Maia's group - looking for a candidate - fights for territory with Bolsonaro, while flirting with the center-left. The traditional *Centrão* can be divided or accommodated on either side. This is a decision that historically happens on the eve of the election, depending on the popularity of the President.

On the left, PT, PSOL, PSB and PDT fight for leadership. The consolidation attempt is possible, as we observe in Sao Paulo, even though it was very

shy. But the base scenario is still a dispute for space, as we saw in some capitals in these elections.

In summary, a lesser number of parties and a result of the municipal elections that benefited good managers and less heterodox politicians bring winds potentially less negative for 2022.

The short-term difficulty seems to be to implement a reformist agenda in the face of this ongoing political dispute. With the election of the House of Representatives right around the corner, it seems unlikely that Congress would want to approve, for example, the mandatory spending reform agenda, which could even increase the space for the implementation of more robust cash transfer programs.

We remain at your service.

**Vista Capital**