Vista Multiestrategia Fund and Vista Hedge Fund registered returns of -2.17% and -0.66% respectively in March and 5.23% and 1.87% respectively in 2021.

The losses in March were concentrated in relative value positions in Brazilian stocks and hedging in emerging currencies.

March repeated the pattern observed in other months of the year - excessive volatility in some specific assets, albeit without major changes in fundamentals. In January, there was the short squeeze event associated with the Gamestop phenomenon. In February, there was the fall in technology stocks. In March, oil was the protagonist of the strong oscillations. The debacle around Asian technology stocks also called our attention, which had as background pockets of excess leverage in the system.

In line with what we discussed in previous letters, we believe that this new volatility regime tends to be the norm, not the exception. Market volatility is what separates the necessary from the feasible allocation. The only alternative to escape the tax implicit in the new economic policies is to face the hiccups of the market, since the difficulty of finding asymmetric hedging persists.

With respect to the external scenario, and having as background the possibly more stimulating post-war policy mix, the American recovery is beginning to change gears. The speeding in vaccination and the ongoing cash transfer programs for families tend to enhance the process of american exceptionalism. Although the effects are positive for growth, some side effects worry us.

In addition to the current market debate on inflationary risks, we have been asking ourselves about the impact of this new economic policy regime on some emerging countries, especially those that are not based on a sustainable growth model and with important restrictions, whether fiscal or external ones.

In any case, the fund's international position has undergone little changes, still focusing on scarce and finite assets. Commodities are the main translation of the scenario that has been discussed over the past few months.

With positive expectations in both supply and demand, the oil position, followed by gold, remains the main risk allocation in the portfolio.

In a smaller size, a basket of global stocks, other commodities and hedgings in emerging currencies complement the portfolio.

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Idiosyncratic shocks aside, especially in countries like Turkey or Brazil, emerging markets have been navigating relatively well towards a world of stronger growth and higher market interest rates. We have been asking ourselves frequently if this movement is sustainable.

In emerging commodity-exporting countries case, we understand that the major shock in terms of trade in past quarters would suggest some currencies appreciation, somewhat replicating the positive moment we experienced in the first half of this century.

The lure to seek parallels with previous cycles is inherent in our business, but we understand that we cannot underestimate the key differences between the two cases. At the beginning of the century, several emerging countries were still breathing the liberal reforms of the Washington Consensus of the 1990s. Credit cycles were still very unripe, there was a reasonable dose of political stability, and the boom in China triggered one of the most robust investment cycles in contemporary history in these countries.

Almost twenty years after the beginning of that cycle, it is fair to affirm that China is in a transition for a less intensive model in investment, especially in infrastructure and residential construction. This, by itself, limits the multiplying effect.

In the case of Brazil, an exponent of the previous cycle, there are several headwinds - we have already gone through the best moment of the demographic bonus, families and the public sector are much more leveraged, and we are very far from the global production function of the future.

Despite the reforms made since Temer administration, we have not moved forward in the productivity increase agenda, we have a disastrous environmental policy, and we continue to be a benefits factory, sustaining distortions and inefficiencies. Brazil seems firm in its intention to move from being the country of the future to being the country of the past.

Salles (2021) pins some of these points precisely - “Despite the national populist rhetoric, Brazil is little. It is not an economic, scientific, technological or geopolitical power. Far from it. Five hundred years after the Portuguese arrived on the coast of Bahia, we don't have much to show the world. The scenario ahead is not a promising one also. In a century that is no longer organized around things, but knowledge, our perspectives seem mediocre ”.[1]

We also ask ourselves to what extent even very competitive sectors such as agribusiness and oil may eventually be disrupted by technological processes or affected by the increase in the agricultural frontier in other countries. Salles (2021) also admits this concern: “What really matter is that we produce food." Turns out that soy in the Brazilian Midwest is identical to soy grown on the African continent or in Siberia. If Brazil knew how to make its agricultural revolution, other countries can make theirs, as predicted by the climate changes and the technological transformations underway. It remains to be seen whether the strongest competition will come from the new frontiers of planting or laboratories ”.[2]

The long stagnation of the Brazilian economy and the breakthrough of automation and digitalization processes around the world also upset us. After all, we cannot dismiss the thesis of some hysteresis in the labor market, which means that millions of people can remain unemployed, with social and fiscal implications.

Although rambling about the future may seem irrelevant in a country with such political instability, we believe that the effects on portfolio construction and politics are relevant.

In other emerging countries, we note problems that should not be underestimated and are aggravated by the slow vaccination or the worsening of the pandemic - the Mexican government has changed the rules of the energy sector and reports a pension reform in reverse; Erdogan once again fired the president of the Turkish central bank; South Africa must deal with extremely high structural unemployment and the difficulty of advancing the reform agenda, despite having a competent government.

[1] SALLES, João Moreira. Arrabalde Part VI_ O aqua queremos? (What Do We Want? - free translation). Piauí, São Paulo, n. 175, p. 28, abr. 2021

[2] *Ibid.*, p. 28

Is it just a coincidence? Historically it is difficult for emerging countries to make tough and unpopular decisions, without the enforcement caused by the pressure of the markets. It also adds to the problem the lack of a clear growth model, a higher level of indebtedness, historically low interest rates and delays in the vaccination process.

Although the political response is orthodox, as we saw in the final phase of the Macri government, society needs to see a prospect of income growth and improved well-being. Otherwise, orthodox arrangements are not necessarily politically sustainable.

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Going deeper into the Brazilian case, some issues continue to worry us on the political economy side. Austerity fatigue is increasingly evident, which is consistent with some results from the fiscal policy literature.

This recent discussion of the budget was symptomatic. At the expense of creative accounting exercises and damage to the credibility of the fiscal policy, policy makers try to make the most from a budget that is already quite lean and might add an additional 0.3% of GDP with discretionary amendments.

The real adjustment of almost 50% in discretionary expenses since 2014 shows that we may be at the limit of the adjustment and, therefore, the spending ceiling as an anchor for fiscal policy would not be sustainable. Without a thorough reform of mandatory spending or an increase in the tax burden, both events of insignificant probability in this government, it is difficult to trust that the current arrangement is sufficient to have a benign fiscal trajectory.

Furthermore, even though it is argued that the spending ceiling could gain a 2022 survival due to inflation distortions, we must bear in mind the enormous fiscal pressures that will arise, even more so in an election year - the fuel stabilization fund, the tax on cooking gas, the end of the temporary CSLL, demands for wage readjustment by part of the civil service, the new *Renda Brasil* (“Brazil Income Program”) and the infrastructure works of ministers that do not respect the spending cap.

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Considering the closeness of the electoral picture, we cannot, therefore, attribute relevant probabilities to any scenario for 2022 or 2023 in Brazil. That is, in this case the uncertainty is dominant. In the most academic language, we have a Knightian uncertainty process.

We understand that, despite the distance to the electoral event itself, Brazil is already breathing the electoral process. As soon as vaccination progresses, we will likely come out of the covid crisis directly into street demonstrations and electoral discussions.

In other words, as much as the health crisis improves, there is a huge political uncertainty for 2022. Will economic agents use the positive window to invest more or to protect themselves? In the next election, will we discuss the need for adjustment, as in 2018, or the size of cash transfer programs?

It is worth resorting, once again, to what the monetary aggregates reveal to us - in the last 15 years, the M4/GDP ratio went from 60% to 113%, something close to 8 trillion reais.

The fund is no longer exposed to implicit inflation. Petrobras' position is now hedged by a short position in large banks and a short position in Real.

We remain at your service.

Vista Capital