Vista Multiestrategia Fund and Vista Hedge Fund registered returns of 1.52% and 0.60% respectively in April and 6.82% and 2.48% respectively in 2021.

In the month, the positive results in commodities and equities were partially offset by losses in currencies.

The main recent change in the fund's positioning was in Brazil. At the end of 2019, when the government gave up moving forward with administrative reform and asset prices were already discounting an important improvement in the scenario, we reevaluated our optimistic view and started to work with a liquid short or neutral position in Brazil. More recently, in 2020 and the current year, the core position in Petrobras has been permanently hedged, whether sold in the currency, long in interest rates, long in implicit inflation or, in recent months, with a short position in banks.

After almost two years, the fund is more exposed to Brazil risk and with less hedging, despite the electoral uncertainty, the demand for more spending and the questions surrounding our long-term growth model, topics we discussed in the previous letter. We understand that there is a positive risk-return relation in some developments that might be relevant in view of what we believe to be a favorable technical position.

First of all, we have been looking at some of the great global pandemic peaks, such as those seen in South Africa, England and the USA. Although measures to restrict mobility and the effect of vaccinations hinder the search for a common factor, the curves of these countries suggest that immunity from infection, although not lasting, plays a role in the drop in the rate of reproduction of the virus. In the Brazilian case, the strong contamination seen in recent months might be a mitigating factor in the reproduction of the virus in the short term.

On the vaccination side, it is worth remembering that we have had two predominant vaccines within the national immunization program. Coronavac, which accounted for more than 80% of the doses distributed until March, and AstraZeneca, which in April was responsible for about 75% of the doses.

Some recent research and studies suggest that Coronavac is efficient in 2 weeks after the second dose, mainly in reducing severe cases.[1] In turn, AstraZeneca would be quite effective already a few weeks after the first dose. Specifically a study by the University of Oxford, in partnership with the English government, with a sample of 370,000 adults, found that Pfizer and AstraZeneca would be equally effective in reducing Sars-Cov2 infection, considering a period of 3 weeks after the first dose.[2]

For a secular coincidence, good part of the resultant immunity of the millions of doses of Coronavac will coincide with the immunity conferred for the first dose of AstraZeneca.

[1] ARAOS, Rafael. Effectiveness of the inactivated CoronaVac vaccine against SARSCoV-2 in Chile. Presentation by the Ministerio de la Salud, Chile. Apr 16 2021

[2] PRITCHARD, Emma et. al. Impact of vaccination on SARS-CoV-2 cases in the community: a population-based study using the UK's COVID-19 Infection Survey. Preprint in medRxiv. Apr 22 2021

In parallel, in the latest SoroEpi serological survey for the municipality of São Paulo and carried out between January 14th and 23rd, 29.9% of the adult population in São Paulo already had antibodies against SARS-CoV-2. Although the uncertainties around the variants remain, it is possible that this number has increased due to the gravity of the last wave of contamination.

In any case, the simultaneous effects of the immunity acceleration processes, due to infection or vaccination, should generate, over the next few months, a significant drop in hospitalizations and deaths.

The relief of the health situation, despite the humanitarian drama that we are still experiencing can also bring a less troubled political environment. The pressures for extending the emergency aid should be reduced and the spending ceiling is likely to survive a little longer, albeit full of patches. The partial progress of the agenda of reforms and some privatizations are also events with increasing probability.

Regarding the electoral framework, even if the Knightian uncertainty remains, it seems unlikely that we will have news in the short term. With two main candidates with a high level of rejection, it is unlikely that we will see significant upward fluctuations in their voting expectations. On the other hand, any surprise that reduces prospects of a second round between the current President and the PT candidate, automatically opens space for a third way, which would have positive effects on the market.

Finally, we still ask ourselves what will be the result of this new macroeconomic balance of a persistently devalued exchange rate and lower real interest. We cannot rule out that, leveraged by an extraordinarily positive cycle of commodities, the economic growth ends up positively exceeding expectations. The resilience of the economic activity to the recent wave of contamination by the virus, also clear in very positive results in the collection of federal taxes and in exports, are possible signs of this trend.

Although we are not very confident regarding these issues and questions upstage certainties, it is difficult to anticipate the negative surprises that would show up. Faced with what we believe to be a positive asymmetry, we are long in Brazilian Reais, which is still quite out of line with the huge positive shock of terms of trade, and we have increased our directional allocation on equities.

* * *

On the international side, we are still invested in commodities - oil, gold, copper and uranium. International equities position, in turn, has been significantly reduced.

In the macro field, the debate over the effect of major changes in economic policy in the United States is increasingly intriguing and interesting. Clear misalignments between supply and demand, accentuated by recent stimuli, will result in a significant increase in inflation in the coming months. While the FED strengthens its vision of the inflationary pressures transience, part of the market has a more inflationary vision. On our side, we see good points on both sides of the debate, but we believe that we have a very robust portfolio to the eventual more persistent rise in consumer inflation.

In any case, the debate about the possible persistence of price increases must be analyzed in a broader perspective. The distortions associated with COVID, both on the side of disruption in production chains and in the demand for services, should not necessarily be extrapolated beyond 2021 and 2022. However, the continued use of fiscal policy as an expansionary lever and an eventual relative loss of central bank independence is probably the most important factor in understanding whether we will have a change in the inflations regime.

Taking a step back, we remind you that these themes have gone through this forum over and over again. On the fiscal side, we discussed some similarities with the 1960s and 1970s. In particular, the Biden administration's social and redistributive policy proposals bear similarities to the "Big Society" of the Lyndon Johnson administration.

Regarding inflationary problems on the supply side, in the March 2020 letter we questioned the strong consensus around a global deflationary process:

"In a recent speech, Boris Johnson called his mandate a "war government", given the need to implement "unprecedented measures since the World War II". In one of them, the British State decided to pay most of the unemployed wages, just as in most other parts of the world. In 1940, John Maynard Keynes wrote "How to Pay for the War", which became one of the best debates on finance in war times. Keynes argued: war efforts and fiscal deficit had allowed the population to live in full job with high available income in the midst of the conflict. As national production was predominantly intended for arms production, there was a natural restriction on the supply of other products. The strong demand without a supply production would ask for some solutions/suggestions, such as, for example, an income tax of up to 97%. Therefore you could finance the debt and avoid running out of scarce items. Bringing the discussion to our current war, if the goal is achieved and the fiscal expansion supports aggregate demand, would a supply shock - be it logistics, production, working capital, etc. - could disrupt the biggest consensus of all, that the crisis is deflationary?

* * *

The FED has insisted on the transitory thesis of inflationary pressures arising from supply bottlenecks, which we also agree. The reopening acceleration is also expected to have significant effects on inflation, causing another shock of relative prices between services and goods.

"We think of bottlenecks as things that, in their nature, will be resolved as workers and businesses adapt and we think of them as not calling for a change in monetary policy since they're temporary and expected to resolve themselves" Powell (2021)

Our big question is whether or not we are experiencing a tectonic change in the tax regime. The doubts surrounding the political viability of the infrastructure spending plans and social policies launched by the Biden Government and the apparent favoritism of the Republicans in the 2022 elections are important questions that are still open.

In any case, we still believe in commodities. That is where the supply is depressed by several years of underinvestment and what will be needed for new projects, whether in traditional infrastructure, electrification or expansion of new energy matrices. And, in addition, it is the commodities that can intensify fears surrounding the inflationary process.

We remain at your service.

Vista Capital