Vista Multiestrategia Fund and Vista Hedge Fund registered returns of -3.77% and -1.27% in January, respectively.

The negative result was concentrated in the long positions on gold mining companies, international equities, and BRL currency.

Throughout the last months, we have emphasized that the outcome of the new FED framework would be a regimen of greater market volatility. The financial repression environment hinders the efficient use of bonds as hedging, in such a way that the use of options stands out as the most usual form of protection. Considering the high level of implied volatility, options as an alternative for hedging bring up some questions.

We believe that the first weeks of 2021 reflect, at least partially, the very challenging environment described above. Thus we do not believe that the recent volatility is an indicator of a reversal of the directional trend of the markets. In fact, there are increasingly signs of an environment of abundance of liquidity, which is usually accompanied by a nominal valuation of assets.

In the midst of the confusing last days of January, we observed the continued fall in the shortest-term real interest rates in the USA, in line with our previously debated scenario and consistent with a greater understanding of the FED's new monetary policy regimen. Other developments of a cyclical or regulatory

nature have drawn our attention and reinforced the optimism in some assets: (i) the sharp reduction in oil supply; (ii) the new US government's ban on oil exploration on federal lands; (iii) the acceleration of the vaccination process, especially in England and the United States; and (iv) growing signs that the Biden Government's initial fiscal plan will be largely approved, consolidating what we believe to be an important change in the fiscal policy regimen.

On the international side, the fund maintained the same positions.

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On the domestic front, albeit with some skepticism regarding the federal government's execution capacity, we have become more constructive in the short term.

Arthur Lira and Rodrigo Pacheco’s victories bring renewed expectations to the market of a greater focus on reforms. Although the reality is challenging, a cohesive and encouraged base can help in solving the president's chronic duality, which is to approve reforms with the least possible personal toll.

In such a scenario, the fund has increased its long positions in the Brazilian real, where we found a reasonable valuation margin, and made minor changes to the equities part of the portfolio.

On the other hand, inflation still is a growing concern. The supply and demand imbalances resulting from losses on some supply chains and the inefficient response to the pandemic, with excessive stimuli on the demand side and little attention on the supply side, have taken their toll.[1]

The microeconomic breakdown together with the important export stimulus from the devalued exchange rate creates a shortage of products and inputs.

The result has been not only an important relative price shock, usual in an environment of abrupt changes in the consumption basket, but also a more widespread process of price hikes. The recent strong appreciation of commodities in reais helps to exacerbate our concern. While the supposedly contractionary fiscal policy in 2021 contributes to reduce some pressures, there is no longer any safety margin in inflation to accommodate a new shock and, without an adequate monetary policy response, inflation expectations can be contaminated.

There are also signs that inflationary pressures are beginning to bother political agents, which can be illustrated by the delay in transfer of the rise in diesel prices to the final customer. In parallel, it also seems clear to us that there is a certain adjustment fatigue after a few years of fiscal austerity. Thus, the pressure for cash transfer programs is likely to continue, which will eventually make the spending ceiling unsustainable without an aggressive reform of compulsory expenditures.

In this context, the fund added positions on interest and implicit inflation as hedging for the long position in local currency and equities.

We remain at your service.

Vista Capital

[1] In our monthly letter from May 2020, we highlighted the shyness of the national assistance program for *PMEs* compared to the programs of our neighbors.