Vista Multiestrategia Fund and Vista Hedge Fund registered returns of 7.42% and 3.08% in January 2022, respectively.

The funds' gains came from long positions in oil, Brazilian equities and local currency, and a short position on U.S. equities. Other strategies had a slightly negative contribution to the funds.

The busy start of 2022 indicates that we will have an exciting year in the macro portfolio management universe, considering the range of uncertainties on several fronts, whether in the geopolitical field, energy market, or in economic policy. On one side, there are not only evident signs of a very tight physical oil market, but also tensions involving Russia and the entire international diplomatic framework designed in the post-war period. On the economic policy side, we have continuity of hawk surprises coming from the Fed and other central banks, the end of the expansionary fiscal regime in the US and the continuity of inflationary surprises on a global scale.

Despite the relevance of the above themes, our focus in this letter is on an issue raised in this same forum in November, when we discussed the possible decline of what is conventionally called American exceptionalism:

"The significant inflationary acceleration in recent months (much higher than seen in other developed economies), the very troubled and polarized political environment, the decline of the American role in the global geopolitical scene and the valuation premium over other markets have been sources of internal debate. In the next 10 years, will we look to present times as the symbol of the end of American exceptionalism, at least as far as financial markets are concerned?

"We do not have definitive answers to these questions of a more structural nature, but growing evidence of a very tight labor market, unlike the rest of the world, profit margins around historic peaks, and the beginning of a monetary tightening process do not seem to us a trivial combination for the continuation of this long trend in favor of American equities."

We have no question about the quality and adaptability of US companies, nor are we skeptical about the historic resilience of the US economy to shocks, but we are skeptical of the short and medium-term prospects for US assets.

The scenario on the political side is not an encouraging one. The Biden administration has fallen far short of initial expectations and the likely loss of control of Congress later this year should make it a premature lame duck. In turn, the prospect of Donald Trump return to power in 2024, will also be a source of instability for the largest democracy in the world.

In the management of economic policy, the signs are also frustrating. On the fiscal policy, the Democratic Party has huge disagreements over the next steps on the legislative agenda, and the only bipartisan consensus in Washington is that fiscal deficits don't matter. Despite this, a major fiscal contraction is expected for 2022, with potentially important effects on the economy.

In the monetary policy, the Fed appears to be undergoing a process of institutional deterioration. Despite the Powell management's success in averting a financial crisis at the outbreak of the pandemic in 2020, recent signs are erratic and chaotic. Between the insistence on the transitoriness of inflation speech until a few months ago and the successive messages progressively more hawkish in recent weeks, the conclusion that remains is that, unlike his predecessors, we have a central bank without a defined flight plan and that will fluctuate with inflation and employment data.

As much as we have transitory components associated with this important inflationary shock that is still ongoing, notably associated with the disruptive effects of the pandemic on global supply chains, there is a relevant risk associated with the labor market. The most restrictive immigration policy since the Trump years, the aging population [1]and early retirement of part of society, the crisis of opioids and other drugs[2], and the persistent gap in women participation rate vis-à-vis other developed countries justify, among other factors, a greater concern that the current shortage of labor supply is not such a transitory phenomenon.

The above debate is valid, and considering the already unfavorable starting point of inflation, accentuated by the continuity of the energy shock, the trade-offs to be managed by the FED between inflation and employment become even more complex. That is, we have a propitious scenario for a policy mistake. The worsening of the regulatory environment for investing in fossil fuels, in the midst of a complex energy transition, is a major complicating factor, especially as it is self-inflicted.

On the geopolitical front, we are witnessing a growing of a more isolationist orientation, a stance that is still rooted in the Obama administration. The confused moves towards the Iran nuclear deal, the botched exit from Afghanistan, the hesitant signals towards Russia and China, and the growing erosion of their soft power since the Trump years are thermometers that the US is no longer the sheriff of the world. In the last Democratic government, such a stance helped to foment the Arab Spring, with effects that have not yet dissipated on the oil supply.[3]

[1] *According to CENSUS, the US population growth in 2021 of 0.1% was the lowest in the historical series, which started in 1900.*

[2] *CHO, David, GARCIA, Daniel I., MONTES, Joshua, & WEINGARDEN, Alison. Labor Market Effects of the Oxycodone-Heroin Epidemic. Finance and Economics Discussion Series. Federal Reserve Board. Washington D.C. April, 2021*

[3] *Until 2011, Libya produced 1.5 million barrels of oil per day and in January 2022 it would have produced approximately 800,000 barrels.*

"There is far more continuity between the foreign policy of the current president and that of the former president than is typically recognized. Critical elements of this continuity arose even before Trump's presidency, during the administration of Barack Obama, suggesting a longer-term development—a paradigm shift in the United States' approach to the world. Beneath the apparent volatility, the outlines of a post–post–Cold War U.S. foreign policy are emerging.

In the absence of a new American internationalism, the likely outcome will be a world that is less free, more violent, and less willing or able to tackle common challenges. It is equal parts ironic and dangerous that at a time when the United States is more affected by global developments than ever before, it is less willing to carry out a foreign policy that attempts to shape them."[4]

Public health policies related to the pandemic, both under the Trump and Biden administrations, also proved to be far from reasonable, whether in the difficulty of advancing the testing process or in the failure to convince a portion of the population about the benefits of vaccination.

In general terms, we do not intend here to make a diagnosis of what is behind the US political and institutional deterioration, but the effects on long-term potential growth do not seem encouraging.

Simply put, potential growth is explained by growth in the workforce and productivity. With the difficulties of expanding the labor supply, the increase in interest rates and the shift in fiscal policy, we have headwinds for economic growth in the coming years. However, aware of the long history of resilience and adaptation of the American economy, we will be attentive to the potential productivity gains associated with the post-pandemic digitalization and automation boom. This debate will be extremely important for markets in the coming months and years, especially considering the proximity of full employment and the discussions around the economy's neutral interest rate and the necessary policy stance for the Fed.

In addition to this more structural background, we have also questioned whether there has not been an excess of foreign capital allocation in the United States after 2008, especially in recent years.

Translating our questions to the portfolio, we assess that changes in the outlook for monetary and fiscal policies, doubts about potential growth, signs of institutional deterioration and unattractive valuations put us on the defensive side. During January, we worked with a net short position on US equities, financing an allocation in Brazilian equities and commodities.

[4] *HAASS, Richard. The Age of America First. Foreign Affairs. November/December. 2021*

Even more, the break in the dollar's correlation with US interest rates and other risky assets draws attention. If our previous hypothesis proves right, we will see the beginning of a process of relocation of US capital to the rest of the world, which is not the expected effect from the usual risk-off movements in US stocks. For this reason, in addition to selling American equities, the fund also has a short position in the US dollar.

Who could participate in this capital reallocation process? Brazil, a commodity exporter, with discounted valuations and an important real interest rate differential, had a significant inflow of foreign capital in January. Our expectation is that this process will be accentuated and extended to other countries.

We also understand that the populist measures being discussed in Brasilia, stimulated by the current administration, could make the construction of a new fiscal anchor by the next government more complex. Even so, considering the electoral transition already underway, we believe that foreign investors will give little weight to the economic policy measures of the current administration.

Finally, we remain confident that our Brazilian equity portfolio is very attractive, despite the important macroeconomic challenges that a stagnant country with high inflation will face for the next few years. We are, once again, positioned in the steepening of the yield curve as hedging.

We remain at your service.

Vista Capital