BlueLine
ASSET MANAGEMENT

MONTHLY LETTER

HIGHLIGHTS

- Equities and Rates were the main drivers of June's returns.
- Lower global growth and central banks reassuring the markets..
- Emerging economies recover from the trade war hit.
- The FED under the market's scrutiny.
- Latin America countries in diverging trends.

Dear Investor,

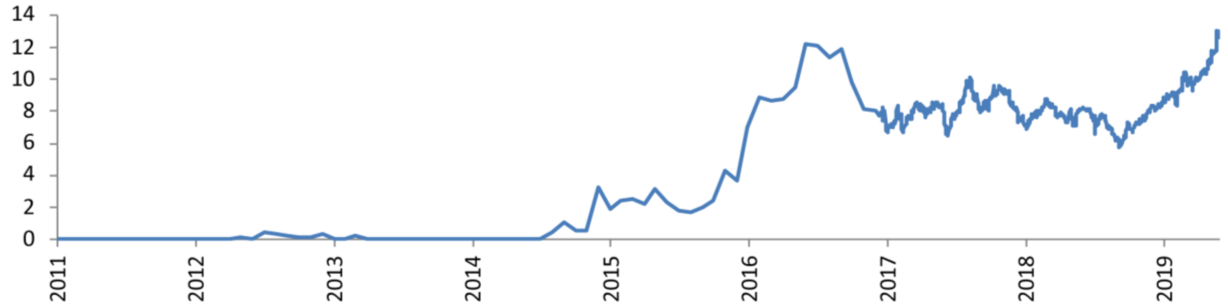
We are very happy to launch our BLUE ALPHA fund. BlueLine is a Latin American investment management firm, led by a group of six partners that have worked together and have 22 years average industry experience at leading international and local financial institutions as JP Morgan and Banco BBM. The company counts with a team of 19 people that focuses on Brazil and also has vast experience in trading Latin America. BLUE ALPHA's portfolio management is done by our qualified team of experts in rates, FX, and equities, with the support of a solid micro and macro research team

Equities and Rates were the main drivers of June's returns. The returns from equities resulted from long and short stock picking in Brazil and external markets. In rates, our directional and options position was favored by the increasingly high likelihood that the social security reform will finally be approved, and Brazil's Central Bank tilt towards monetary easing. The drop in yields in developed markets have also positively affected local markets in Latin America. We have adopted a neutral position in the FX market, which has faced crosswinds of trade war fears and the FED's monetary policy stance.

Lower global growth and central banks reassuring the markets. The data flow in June continued to show softer growth around the globe and especially in Latin America, due to a manufacturing slowdown. At the same time, the trade war between China and the US - despite the risk it represents to global growth - is now temporarily in the backseat, given the outcome from the G20 meeting in Osaka. The remaining doubt is: will this trade war become a currency war, with FX devaluation in many countries? In the case of Latin America, it might suffer from the trade and technological wars - via lower global growth, production chains or business confidence - but local idiosyncrasies and the central banks' capacity to react might limit this impact.

The lower global growth prompted the main three central banks, the Federal Reserve, the ECB, and the BoJ, to show clear signals that they are willing to ease monetary conditions, if to a different extent. Markets reacted well to the news, reducing the odds that the current slowdown evolves to a recession.

Global | Sovereign debt stock paying negative interest in the world - USD tn



Emerging economies recover from the trade war hit. The cooling down of the trade and technological wars between China and the US, even if risks remain in the horizon, added up with the proactive stance of central banks thus boosting a favorable run in many different risky assets, which made the 1Q19 one of the best quarters in recent history, in terms of returns. The highlight was in the emerging markets front, which were impacted the most by recent trade war fears.

The FED under the market's scrutiny. The sudden change in the stance of the main central banks already prompted monetary easing across the globe. Australia cut 25bps and in Latin America, Chile surprised the markets by cutting 50 bps. Eyes are on the FED now, as markets wait to see if the Board will deliver the 85bps cut already priced in the 1-year horizon.

Latin America countries in diverging trends.. Meanwhile, in Latin America, countries are showing diverging trends, despite the common theme which is help from the perception of easing from the major central banks. In this scenario, it is crucial to follow each countries specifics.

In Brazil, we hold a more constructive view. The people's support to the social security reform has added pressure to politicians in Brasília, with the main political leadership in congress showing their support in favor of the reform. This is despite a still shambolic political coordination on behalf of the administration. We recognize the pressing need for the country to follow with a liberal economic agenda after the social security reform passes in both Houses, in order to improve potential growth (long-term). But we see room for a gradual cyclical recovery already in the second half of this year, as business confidence should be boosted by the social security reform approval, Brazil's central bank is expected to resume monetary policy easing, and financial assets' rally. Even assuming this recovery scenario, the amount of economic slack leaves room for growth without adding pressure to core inflation measures, despite any fluctuation that may occur as a respect of external shocks, mainly in food prices, that could impact headline inflation.

In Argentina, the highlight was the move to the center of the two main candidates: President Macri being joined by Miguel Pichetto on the ballot, and CFK joining Alberto Fernandez's ticket. Both were able to capture more votes with this move, but president Macri has shown better dynamics in relevant run-off polls. The still very binary political scenario and low liquidity of Argentinean assets makes it challenging to trade the country. Also, while the markets might improve with a more likely reelection of president Macri, challenges remain, as the president already had four years in office and could not solve Argentina's macroeconomic problems, largely inflation.

In Mexico, we remain cautious given the downside surprises on growth amidst rigid inflation, recent tariff threats, and new downgrades for both the sovereign and Pemex. Despite slower growth, recent wage increases and low productivity gains have been fueling inflation. Another source of risk is a potential second downgrade of Pemex (the company with the largest corporate debt in the world) to below investment grade levels. This seems likely, given the lack of a structural solution to the company's problems, which might require support from the Treasury.

In Chile, we saw the first material reaction in the region to the new global monetary policy stance, as the Central Bank surprised the markets with a rate cut. The Board cut rates by 50bp to 2.5%, due to negative surprises with local growth and inflation significantly below the target. The base case scenario in Chile is stable rates ahead, barring more negative surprises on growth.

In Colombia, we are focusing on the high current account deficit and weaker growth, as the main drives of FX and rates. The Andean region, which also counts with Chile and Peru, has been able to show an interesting growth profile, sustaining a more dynamic performance vis-à-vis the big three countries in Latin America.

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