BlueLine
ASSET MANAGEMENT

MONTHLY LETTER I October 2020

Results of the month. In October we saw the confluence of risks of various natures (Covid's reacceleration, vaccine anxiety, U.S. stimulus package delay and pre-election tension) cause a sharp swing in global markets, but our well-diversified portfolio (both geographically and by asset class) allowed us to deliver positive returns of 51bps in the Blue Alpha Feeder fund. Despite the drop in U.S. stock exchanges, the equities book maintained a 13bps positive result with gains in other geographies, especially in Asia, which continued to show solid growth and low vulnerability to Covid. On the rates side, the deterioration of local inflation generated gains in positions taken in short rates in Brazil, and the prospect of U.S. fiscal expansion brought gains in long positions taken in Treasuries, resulting in a return of 29bps for the fund. FX positions against the U.S. dollar also performed well last month, especially with Asian currencies at the long end, yielding 24bps. The cash and expense account was negative at 15bps.

International. With the main event in the 2020 calendar approaching, international markets were very volatile in October. After rehearsing a recovery of losses incurred in September, with international exchanges reaching highs of up to 5%, the month ended negatively once again. Two factors prevailed for this deterioration in the last third of the month: the fear of a contested U.S. election and a substantial increase in Covid cases in Europe. Looking ahead, we see the American elections as an important event in time, but one that does not shift the direction of the stock market. It does change the composition of the "baskets" of winners and losers, which in itself is already quite important. Our view of the global stock market is positive because we believe that the world will record a decent growth of around 5% in 2021, and real interest rates in both developed and emerging markets will be negative. The development of vaccines and effective therapeutic measures that can combat Covid 19 and return the "animal spirits" to the world as soon as possible is perhaps even more important than the U.S. election. And this seems to be coming true in the short term, with companies like Pfizer and Moderna ready to reveal their data on both the efficacy and safety of their vaccines. These are the reasons why we remain more optimistic about the international stock market scenario. We are therefore maintaining our global equities exposures, favoring regions with greater technological exposure, such as Asia and the U.S. In addition to exposure to the global equities, we maintain our short positions in USD, especially in Asian markets, a region we consider much better prepared from the point of view of the health crisis, as well as for a stronger growth recovery in 2021. The reduction in geopolitical risk brought by Trump's defeat also greatly helps Asian currencies.

Brazil Scenario. The parliamentary recess until the municipal elections seems to be generating positive dividends to the local market. Unfortunately, in the recent history of Brazil, "no news is good news..." Local markets are benefiting from the international rally in the run-up to Biden's U.S. election confirmation. And this will probably come with a divided Congress, which is the best possible scenario for the markets, as it lowers global geopolitical tensions without bringing in the unwanted corporate tax increase, something that was pretty clear on the Democratic candidate's agenda. But the fiscal problems in Brazil persist. The president insists on anticipating the 2022 election campaign, which coupled with the centrists' proximity to the Planalto Palace, creates an outlook of persistent fiscal uncertainties. Therefore, we remain with a more negative bias in Brazil, and this is reflected in a low local risk allocation. We continue to have no exposure in FX and rates in Brazil, maintaining only some exposure in the Brazilian equities, in some sectors indicated by our micro and fundamental analysis team.

Mexico Scenario. Just as some emerging countries are already feeling the negative side effects of the global Covid 19 crisis, as is the case of Turkey, Argentina, Russia, and Brazil, Mexico places itself in a much more comfortable position. If not from the point of view of economic growth, certainly from the fiscal and external accounts point of view. AMLO has adopted a much more conservative fiscal policy, which is ensuring Mexico a privileged position in the prospective resumption of global economic activity. This leaves us confident in the appreciation of the currency, as well as in the continuity of the process of decreasing interest rates. Even if that does not happen now at the Banxico November meeting, we believe the base rate in Mexico will consistently be lower by 2021.

Positions. Despite the remaining uncertainties surrounding the final result of the U.S. elections, our portfolio remains positioned assuming the victory of the Democratic candidate, despite the possibility of judicial challenge, which in our view would not have more drastic consequences. This portfolio encompasses more structural positions, based on medium- and long-term convictions that end up also benefiting from the outcome of the American elections. This is the case for our equities and FX bets in emerging Asian countries, which are trying to capture the growth differentials and rates, as well as better performance in the fight against Covid. In addition, we maintain our exposure to more cyclical sectors of the U.S. economy in the equities. Locally, we keep a small portfolio of equities in sectors such as commodities, finance, consumption, and logistics, but have closed our positions taken in rates in the front part of the curve. In rates, we maintain positions betting on monetary relaxation in the Mexican economy in the next twelve months.

Av. Brigadeiro Faria Lima, 3477 - Torre A - 5° andar - sala 52
Phone: +55 (11) 4280-7442
blueline.com.br