BlueLine
ASSET MANAGEMENT

MONTHLY LETTER I November 2020

Results of the month. The string of positive global events (U.S. elections and Covid vaccines) earlier this month brought gains for Blue Alpha's diversified strategy in November of 263bps, particularly in equities and FX positions. Equities accounted for 264bps, with most of the gains coming from offshore positions (U.S. and Asia), but we did not fail to take advantage of the rally in Brazil with a more restricted portfolio of equities connected to the commodity cycle. As for FX, our mostly short position in U.S. dollars generated gains of 59bps, mainly by buying Asian currencies, which benefited from robust growth and lower geopolitical risks. In terms of rates, the book showed a slightly negative result of -10bps due to the position taken in U.S. rates. In Mexico, the result of positions betting on a drop in rates was positive, despite the intra-month fluctuation. In Brazil, the lack of fiscal visibility kept us out of the rates market in November. The cash and expense account was -50bps.

International. November was one of the most exuberant months in the recent history of global financial markets. Two major events linked to huge expectations throughout the year proved much more positive than expected by the market, namely: the U.S. elections and the results on the effectiveness of the Pfizer and Moderna vaccines. Regarding the U.S. elections, Joe Biden's undisputed victory and a divided Congress, with a Republican Senate and a Democratic House, is undoubtedly the best possible scenario for the market.One should note that results for the Senate still depend on voters going to the polls in the state of Georgia, which will happen in early January, but everything points to Republicans maintaining the majority. As for the test results for the two vaccines, both were more than 90% effective, and the FDA requires a minimum of 50% efficacy to begin its vaccine approval process. These two important events end up solidifying our international strategy of maintaining our equities exposures preferably in the U.S. and Asia, which is the biggest risk in our portfolio. The idea of maintaining our short positions in USD against currencies preferably in Asia also remains intact.

Brazil Scenario. The country is experiencing a critical moment, both from an economic and an institutional point of view. After undergoing a very difficult period in dealing with the pandemic, we are now in a quite fragile fiscal situation and will face huge challenges ahead. Here is how we see the current state of affairs in the country: we need to find good answers to at least three questions that will be raised from late 2020 to early 2021: (1) non-extension of emergency aid, under penalty of exceeding the spending cap for 2021; (2) reelection of Rodrigo Maia as Speaker of the House of Representatives; (3) approval of the Emergency PEC (Proposed Amendment to the Constitution), which would signal an attempt at fiscal balance in the medium term. Failure in any of these cases could jeopardize 2021 for Brazilian assets. Still, even by overcoming the challenges above, we are already facing a formidable situation, as inflation is on the rise and the withdrawal of fiscal stimulus will jeopardize next year's growth. Having said that, we maintain a low risk allocation in Brazil, favoring equities, long positions in USD, and flatteners in the DI curve.

Mexico Scenario. Mexico's strategy for fighting the pandemic has proven to be quite effective, both from a fiscal point of view and in terms of measures to vaccinate the population, despite all the initial criticism of the AMLO administration. Fiscal austerity, coupled with a diversified strategy in the purchase of vaccines, which will guarantee doses for the entire population, have proven to be very correct one-off measures in these difficult times of the pandemic. This is already being instrumental in differentiating Mexico from other emerging countries, especially in this recovery rally we are experiencing in global markets. We still have very constructive views in Mexico, especially in rates and FX. We do not like the equities because we believe that growth tends to disappoint next year.

Positioning. Our prospective scenario remains optimistic in the medium term, assuming a strong recovery in global growth in 2021 and a less troubling geopolitical environment. With that in mind, we have maintained the allocation in global risk assets and positions against the dollar, but the perception that some assets have already appreciated enough has motivated a portfolio rotation movement to assets with well-aligned fundamentals, but that were left behind in November. This involves equities and currencies more connected to the commodity cycle, currencies with good rates and in countries with good growth prospects.

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