TURIM

Economic Report

December 2024

São Paulo

Rio de Janeiro

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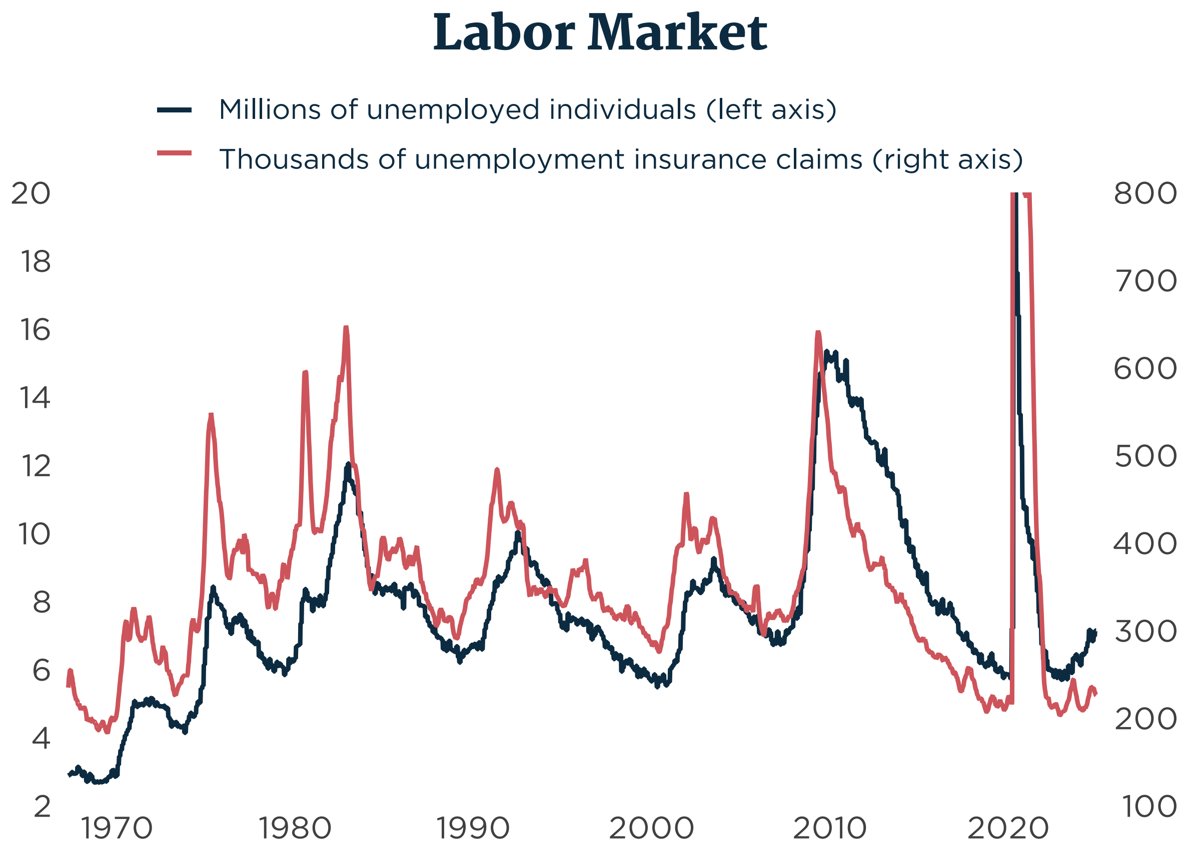
Employment:
Signs of deceleration in the labor market took a back seat

Global

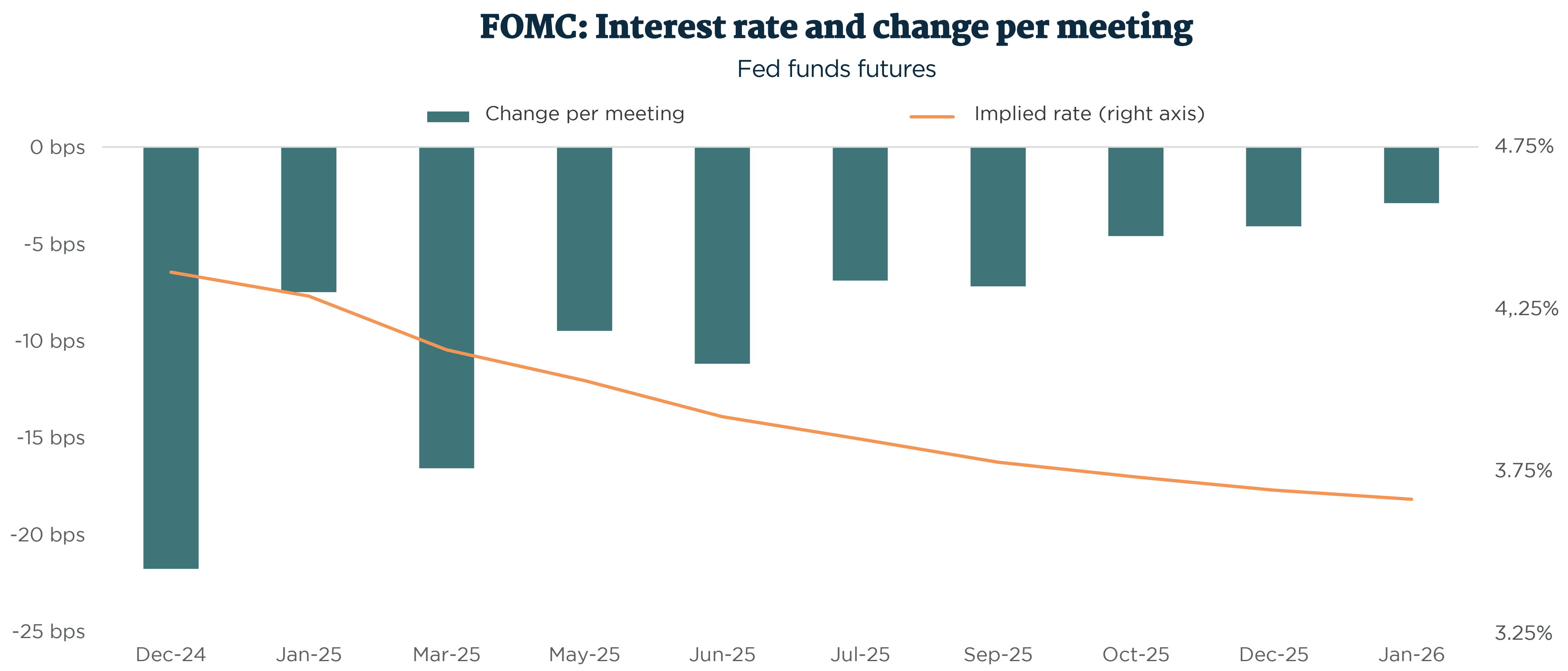


Although various metrics, particularly in the labor market, indicate a slowdown in the U.S. economy, market fears of a sharp economic downturn (hard landing) appear to have dissipated in recent months.

One factor supporting this "improved confidence" in the economy is the stability in unemployment insurance claims, which remain at historically low levels. As illustrated in the chart on the side, unemployment insurance claims and the number of unemployed individuals have shown a significant correlation over the past decades. This suggests that the current level of unemployment insurance claims does not appear consistent with a substantial increase in unemployment in the short term.

Source: U.S. Bureau of Labor Statistics, Turim

Interest Rates:
FOMC considers slowing down rate cuts
Global



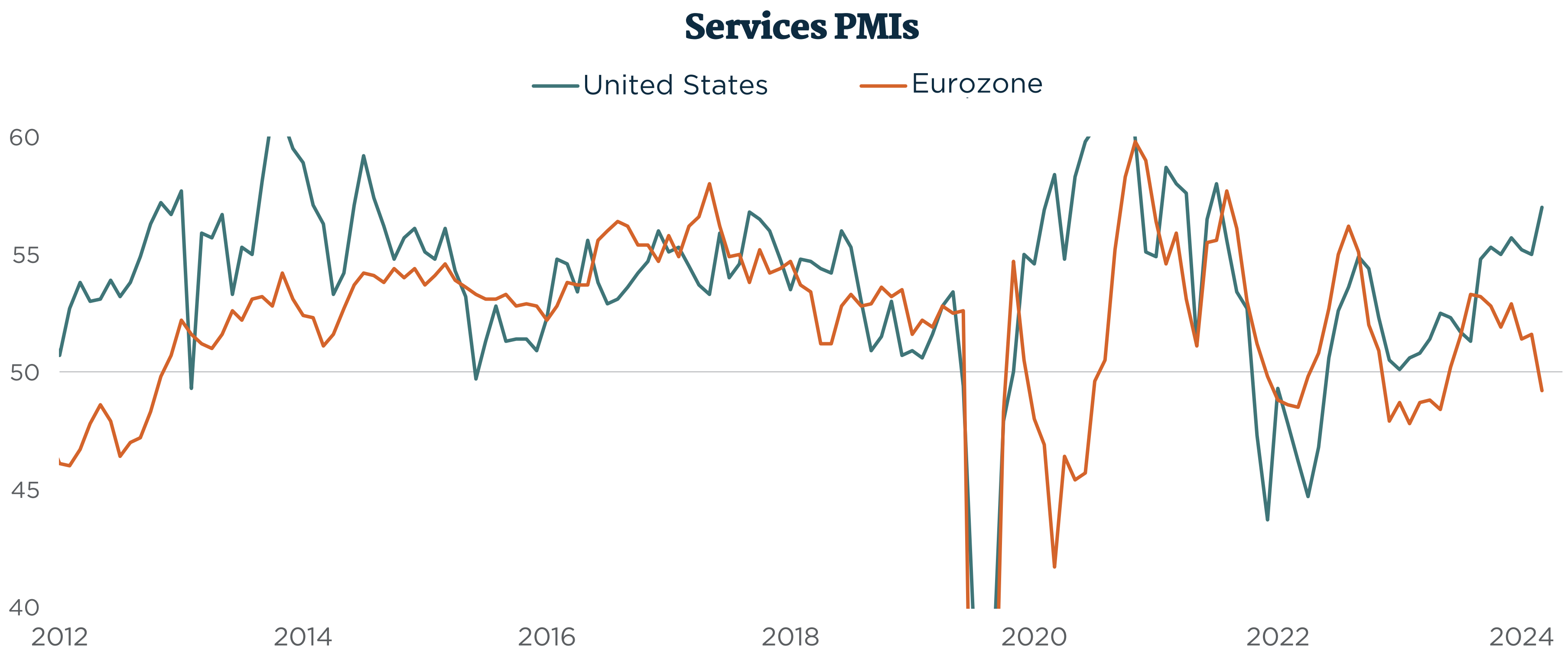
The resilience of the American economy has led members of the Federal Reserve's Monetary Policy Committee (FOMC) and the market to discuss the possibility of an even more gradual reduction in the Fed Funds rate, which could result in maintaining the rate during some of the upcoming meetings. The chart above illustrates how the current market pricing points to around two cuts over the next four meetings.

Source: Bloomberg, Turim

Activity:

Signs of divergence in the global economic cycle

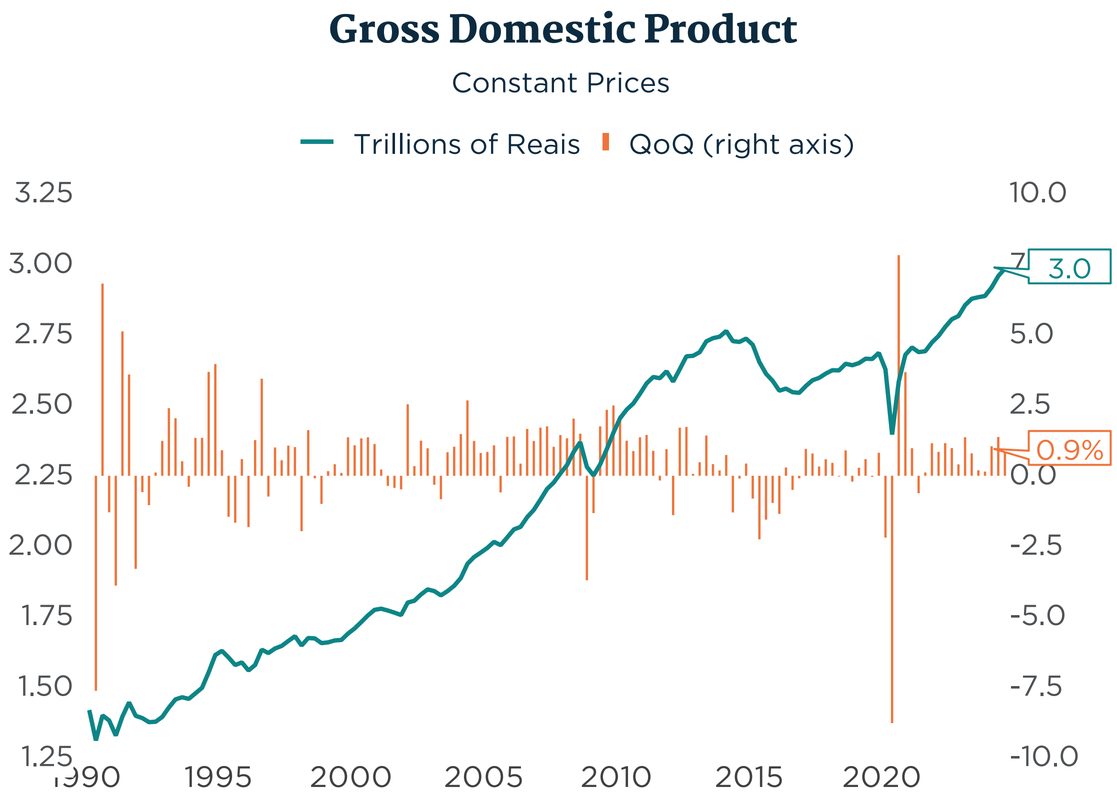
Global



Unlike the United States, the Eurozone shows consistent signs of economic slowdown. In this context, the likelihood of the European Central Bank (ECB) accelerating its monetary easing cycle increases. The chart above compares the evolution of services Purchasing Managers' Index (PMIs) in both regions, highlighting the disparity between the expansion of the services sector in the U.S. and the contraction observed in Europe.

Source: S&P Global, Turim

GDP:
Growth remains robust, but does not appear sustainable
Brazil



Economic activity indicators continue to show robust performance in Brazil. In the third quarter, GDP expanded by 0.9% (around 10 basis points above market consensus), resulting in a statistical carryover of 3% for 2024 growth. Excluding the decline in net exports and inventory changes during the quarter, domestic absorption growth was even more significant, reaching 1.4%.

However, the observed expansion level is significantly above potential GDP estimates, implying inflationary pressures. This growth rate does not appear sustainable in the long term, especially considering the high implied interest rate levels in the curve and the expectation of a slowdown in government spending growth.

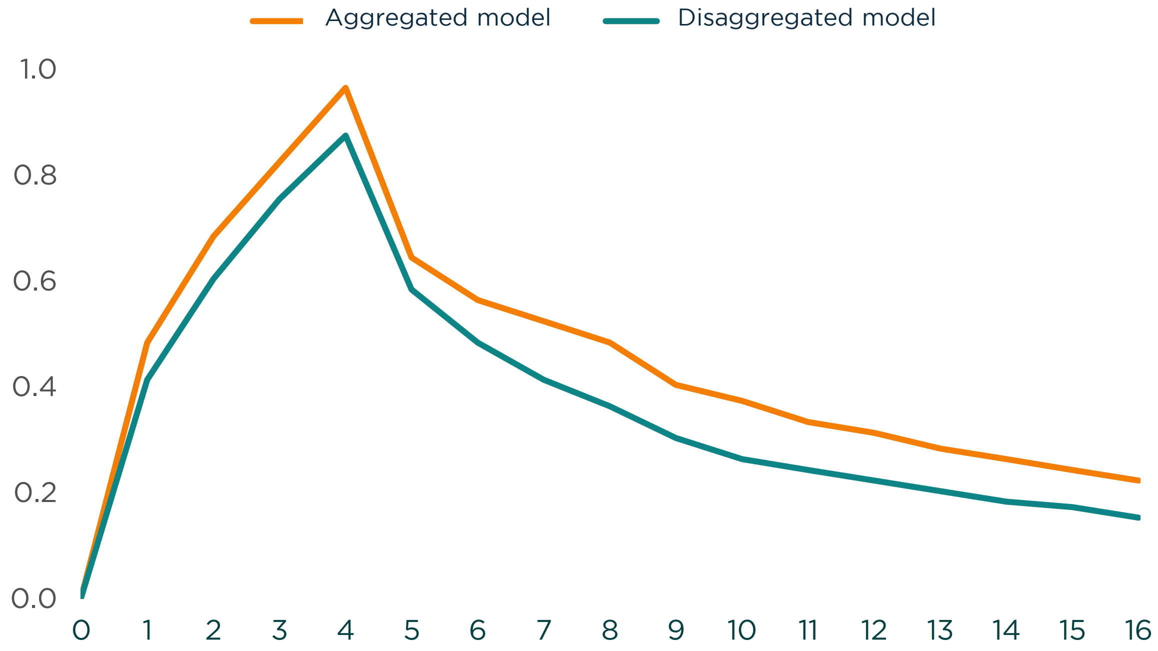
Source: IBGE, Turim

Inflation:
Deviation from the target likely to accelerate due to the impact of currency depreciation

Brazil

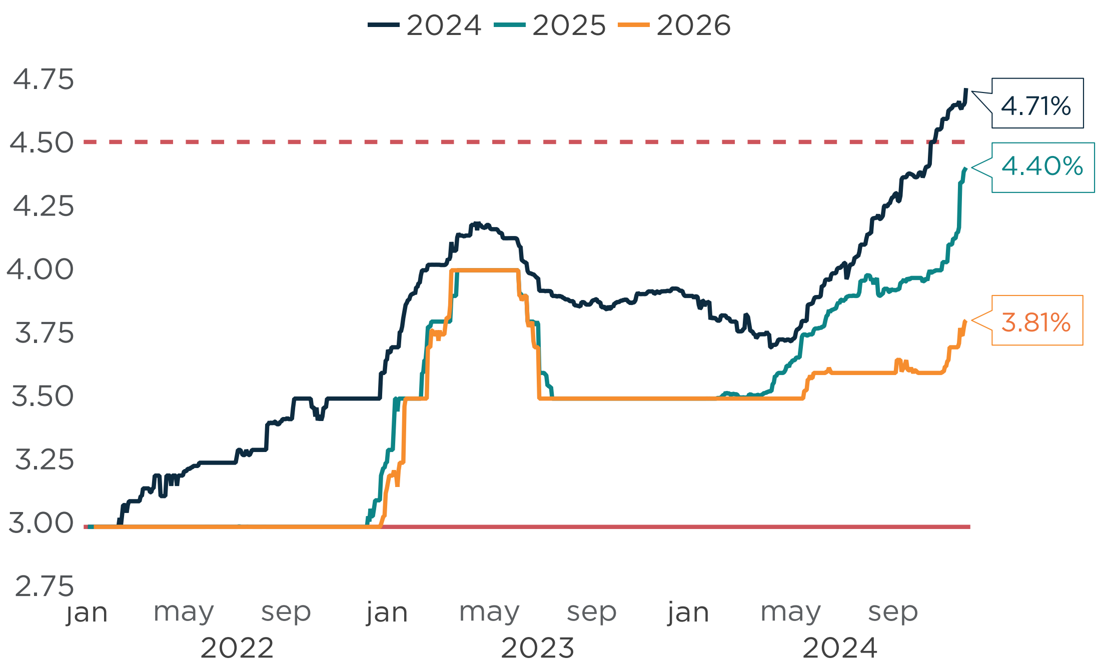
Inflation response to exchange rate depreciation shock

Accumulated variation over four quarters in the IPCA after a permanent 10% depreciation in the exchange rate



Consumer inflation expectations (IPCA)

Focus Report

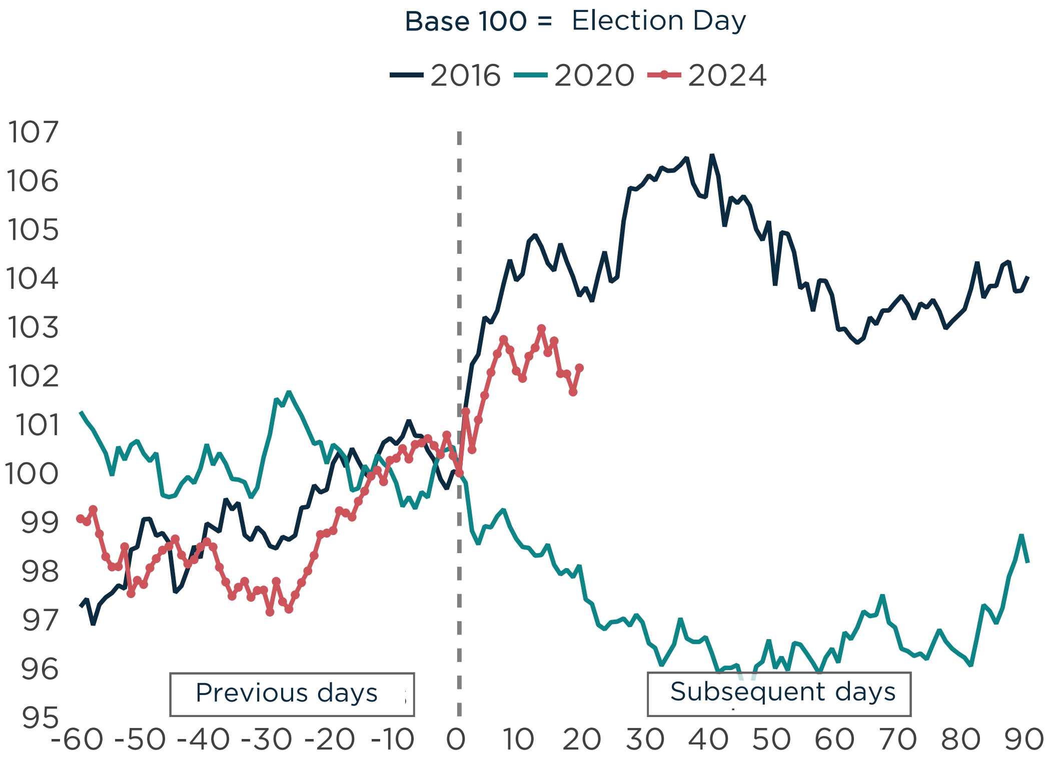


The increase in uncertainty in the local market, driven primarily by the unsustainability of public debt projections, has intensified pressure on the Central Bank. The continuous deterioration of inflation expectations and currency depreciation, within a context of still robust economic growth, have required increasingly higher interest rates to contain inflationary pressures. This scenario, in turn, exacerbates fiscal challenges due to the rising cost of carrying public debt.

Source: Central Bank, Turim

Exchange Rate:
Republican victory pressures additional rise in the Dollar
Markets

Performance of DXY Before and After the Election



Despite already being at a historically high level (read "expensive"), the Dollar, as measured by the DXY index*, experienced additional appreciation following the confirmation of the Republican victory. Beyond the expected impacts of the incoming administration's measures, this movement was further driven by the rise in U.S. interest rates.

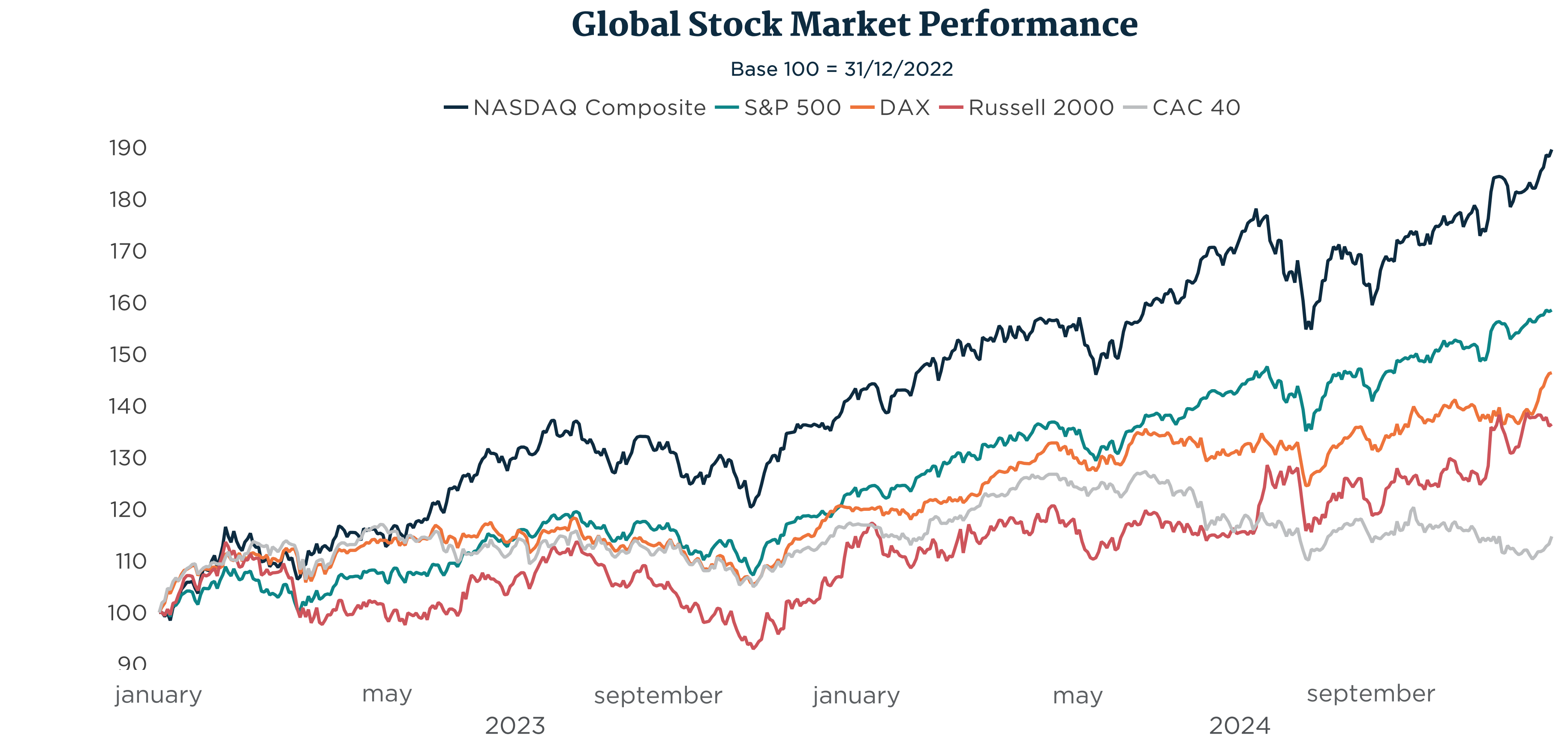
Since then, President-elect Donald Trump has announced some of the names likely to form his administration and proposed measures such as imposing tariffs on Mexico, Canada, and China, signaling the policies that may be implemented over the next four years. However, it remains unclear to what extent the campaign rhetoric will be translated into concrete actions.

**The DXY index measures the value of the United States dollar relative to a basket of foreign currencies*

Source: Bloomberg, Turim

Stock Market:
U.S. equities continue to perform following presidential elections

Markets



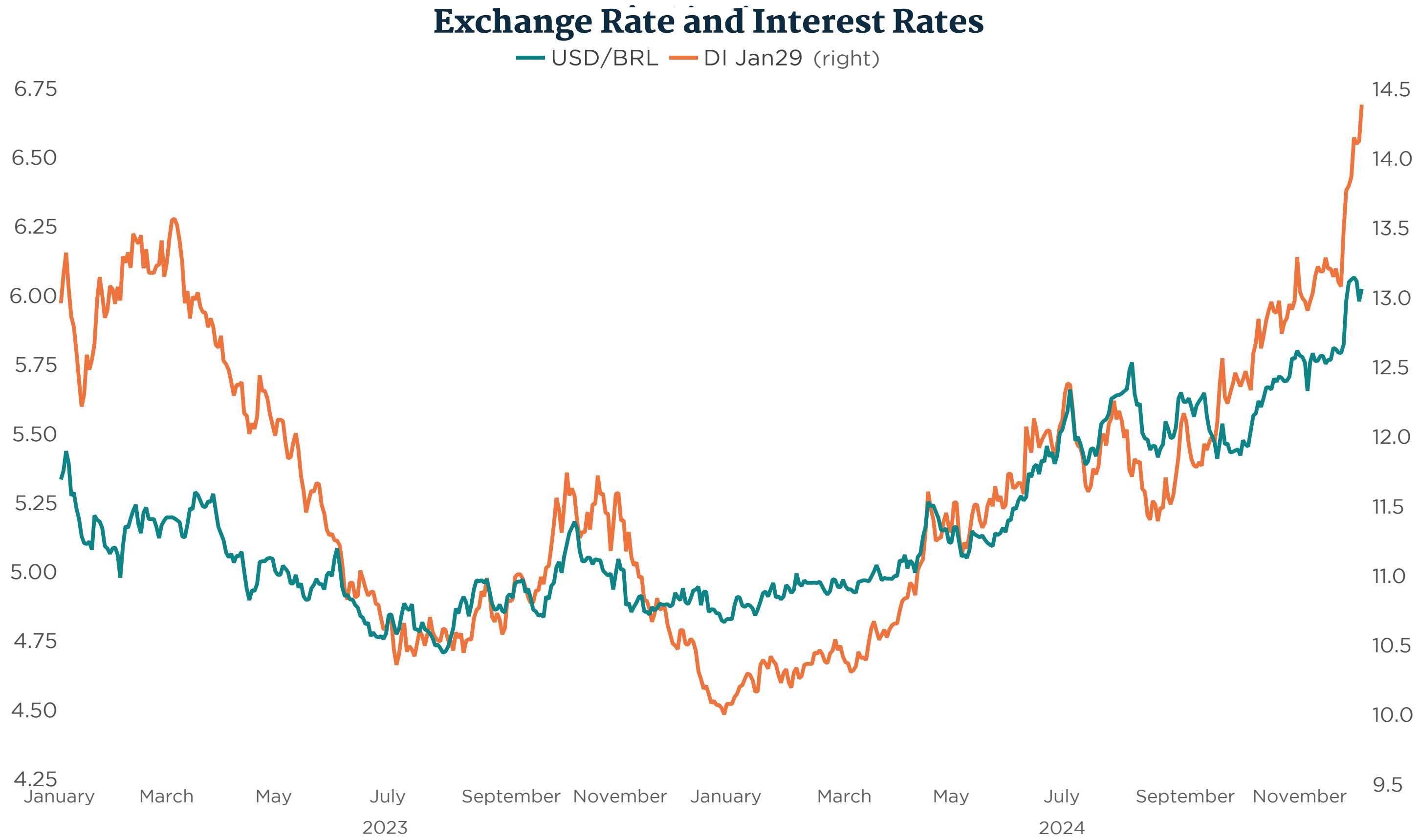
The resilient economic activity and favorable prospects for the private sector, intensified by the election results, have contributed to the positive performance of the stock market, despite a new round of interest rate hikes throughout November. The main risk for these assets now seems to be associated with elevated valuations, reflecting the market's strong optimism.

Source: Bloomberg, Turim

Exchange Rate:

Spending cut package overshadowed by Income Tax exemption, pushing the Dollar above R$6

Markets

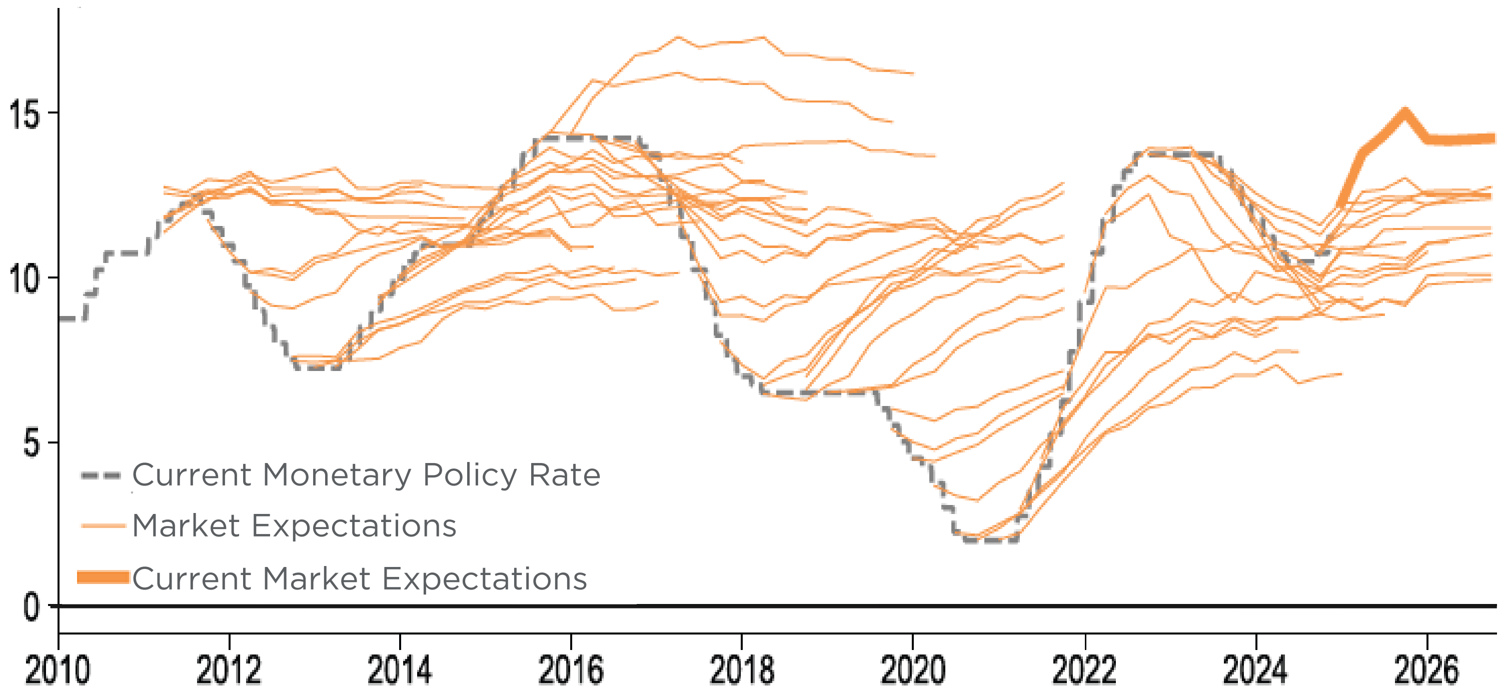


After more than a month of discussions, the government unveiled the much-anticipated spending cut package, with an official estimate of a 70-billion-reais impact over the next two years. However, market projections point to a smaller savings range, between 40 and 55 billion reais. The package was announced alongside a proposal to expand the income tax exemption threshold, increasing uncertainty around public finances and overshadowing efforts to bolster fiscal credibility. Unsurprisingly, the announcement led to a sharp rise in interest rates and the depreciation of the Real, which hit a historical high, trading between 6.00 and 6.10 USDBRL.

Source: Bloomberg, Turim

Interest Rates:
Market anticipates COPOM will accelerate the monetary tightening cycle
Markets

Selic Rate and Yield Curve Pricing Over Time

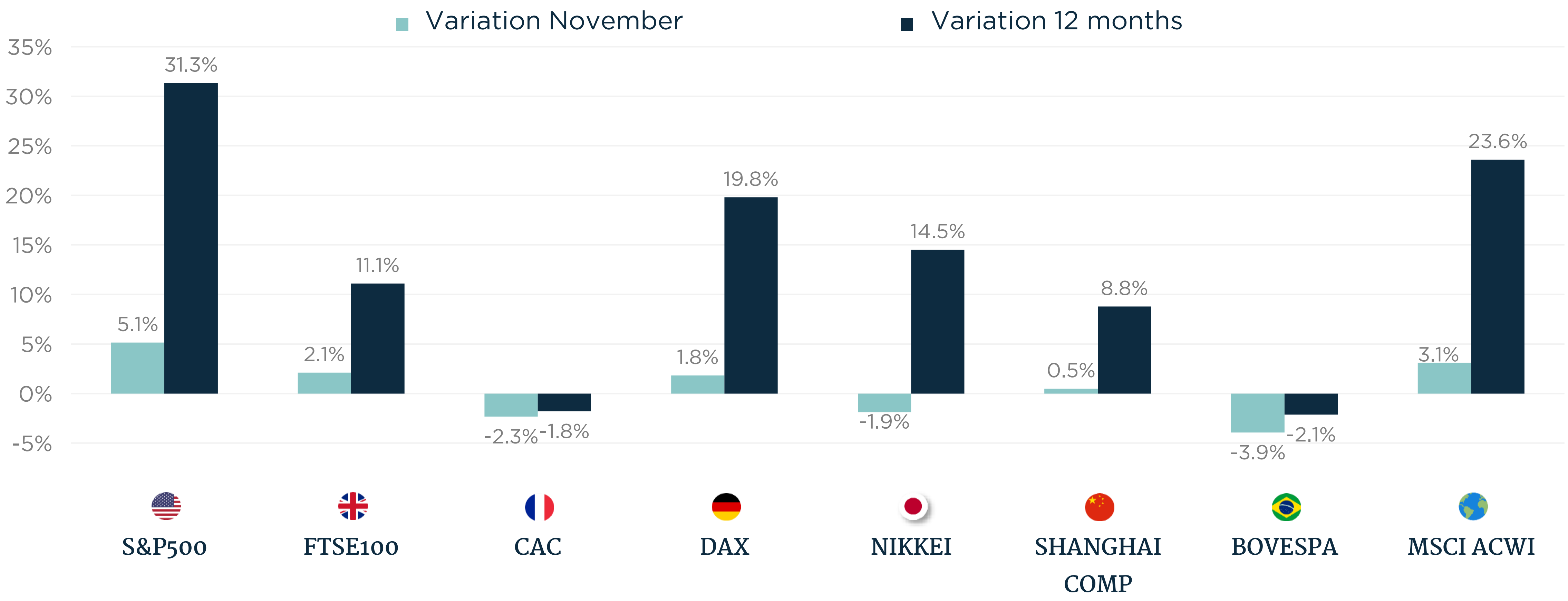


After accelerating the pace of Selic rate hikes from 25 to 50 basis points in November, the market is already pricing in further intensification at the next meeting, projecting two consecutive increases of 100 basis points in December and January. The rate, currently at 11.25% per year, could surpass the 15% level by the end of next year, as indicated by implied rates.

Source: JP Morgan

Stock Markets

Markets



Source: Bloomberg

Indices

	Variation November	Value in 30/11/2024	Variation in 2024	Variation 12 meses
COMMODITIES				
PETRÓLEO WTI	-0.8%	68.72	-4.1%	-9.5%
OURO	-3.9%	2.637.92	27.9%	29.5%
CURRENCIES (IN RELATIN TO US$)				
EURO	-3.1%	1.06	-4.4%	-3.1%
LIBRA	-1.6%	1.27	-0.3%	0.5%
YEN	0.3%	151.55	-6.9%	-2.2%
REAL	-3.7%	6.01	-19.2%	-18.2%
INDEXES				
S&P500	5.1%	5,998.74	25.8%	31.3%
FTSE100	2.1%	8,281.22	7.1%	11.1%
CAC	-2.3%	7,179.25	-4.8%	-1.8%
DAX	1.8%	19,425.73	16.0%	19.8%
NIKKEI	-1.9%	38,349.06	14.6%	14.5%
SHANGHAI COMP	0.5%	3,295.70	10.8%	8.8%
BOVESPA	-3.9%	124,610.41	-7.1%	-2.1%
MSCI ACWI	3.1%	858.31	18.1%	23.6%

*Amounts and results in local currency

Source: Bloomberg

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