



# Economic Report

## December 2021

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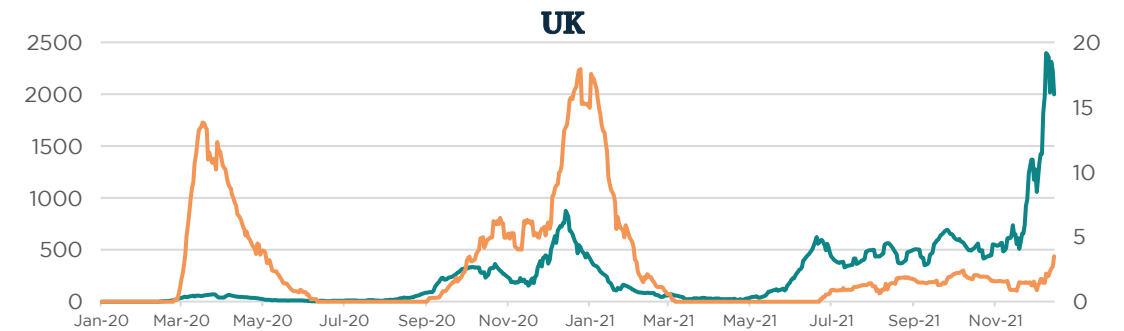
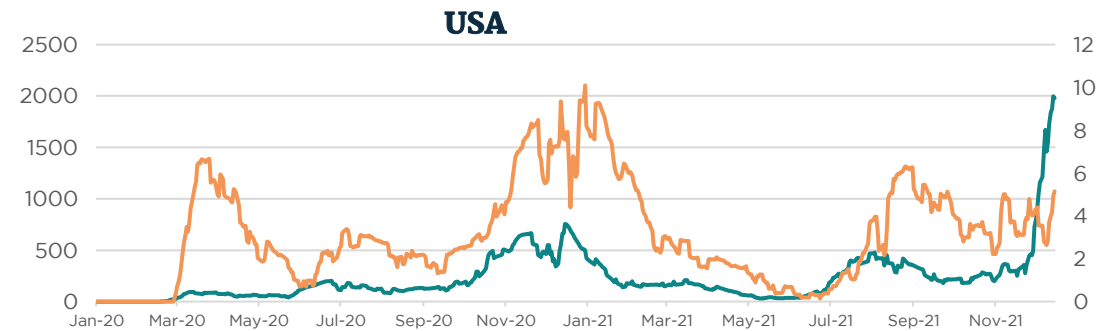
# Global: Omicron leads to a record number of cases but fewer hospitalizations and deaths

## Global Economy

Per Million | Weekly Moving Average

■ New Cases (LHS)

■ New Deaths



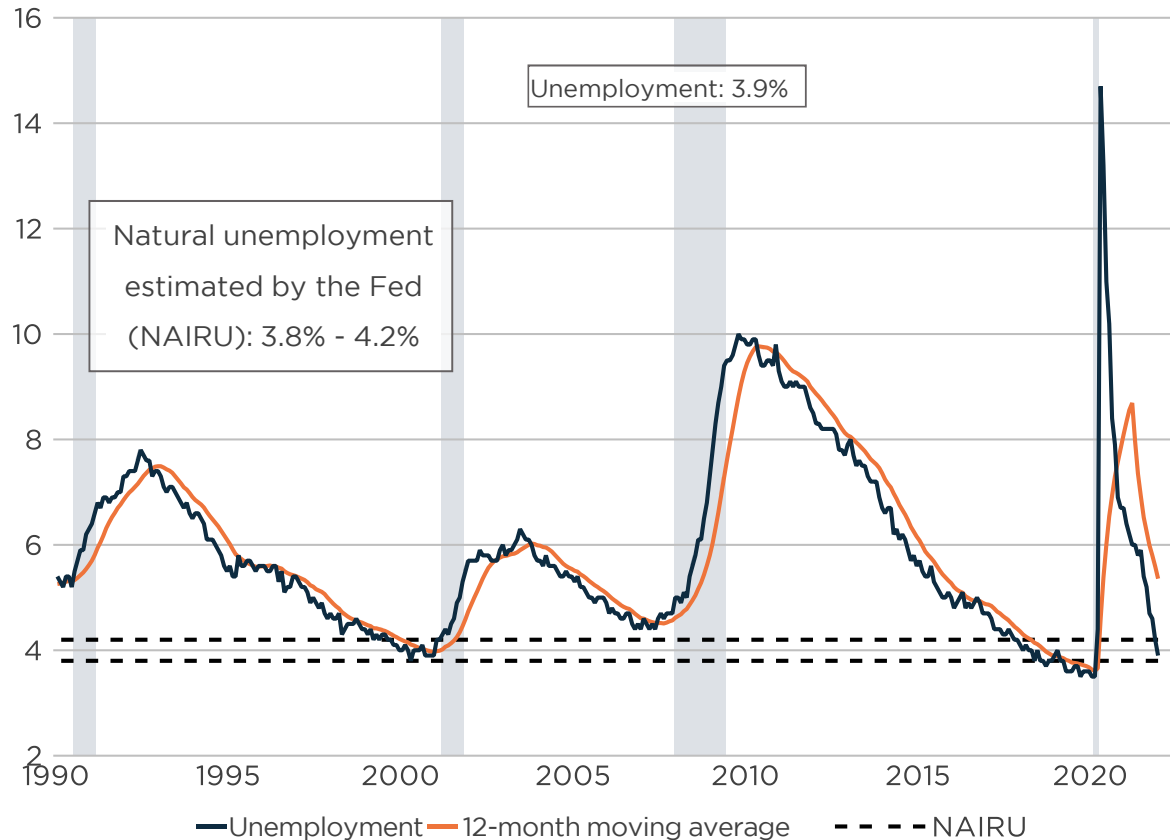
The Omicron variant has led to a new wave with record numbers of Covid cases, as shown in the graphs above. On the other hand, the number of hospitalizations and deaths has not kept pace with the increase in the number of cases.

As with previous waves, activity indicators are expected to respond negatively, particularly those related to services. However, we believe that this movement will reverse itself quickly, as happened in previous waves.

# US: Job market remains very heated

## Global Economy

### Unemployment in the United States

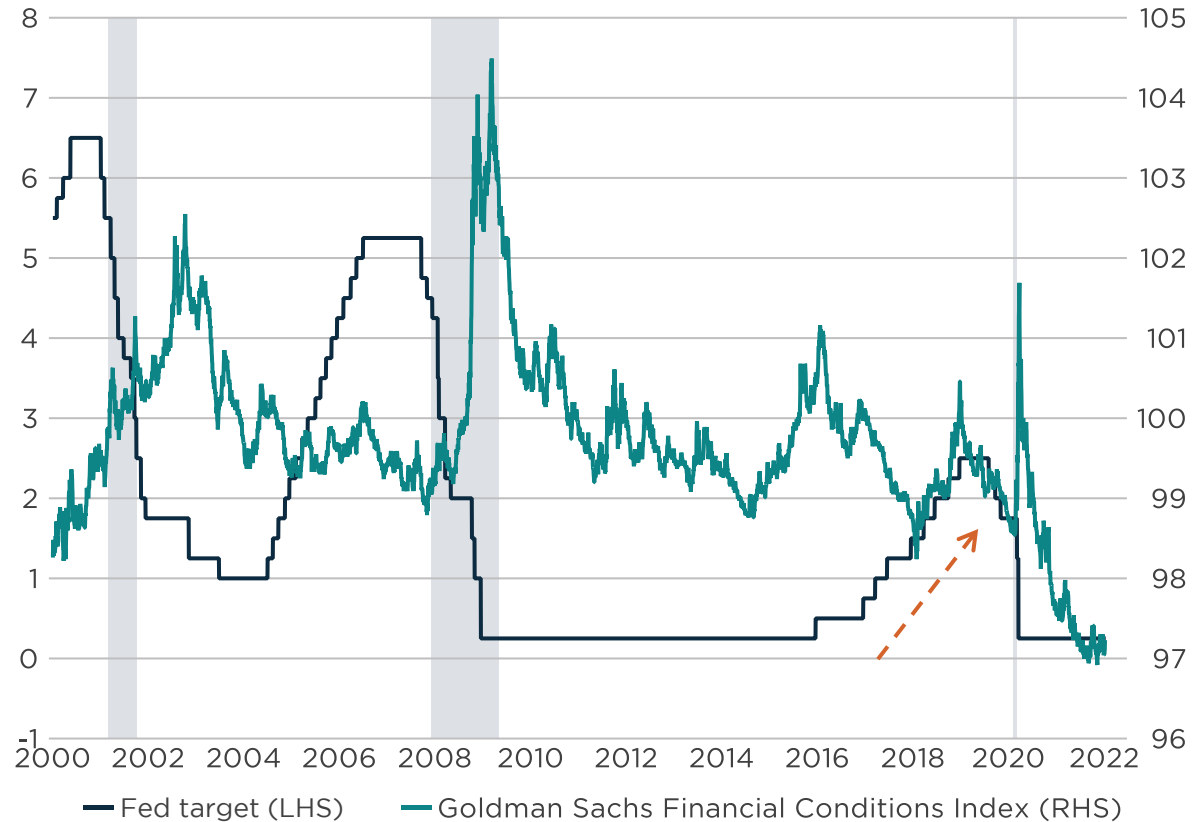


The American labor market has recovered rapidly although the population in employment has not returned to the pre-Covid level: at the current rate of expansion, the number of jobs would only reach the pre-pandemic level by the end of 2022, according to the Payroll. On the other hand, the unemployment survey is already virtually in line with the pre-pandemic level, within the natural rate band estimated by the Federal Reserve. A number of other statistics point to a very heated labor market (i.e. wages, numbers of people resigning, surveys).

# US: Fed indicates that process to shrink its balance sheet should get underway in 2022

## Global Economy

### Fed Funds vs Financial Conditions



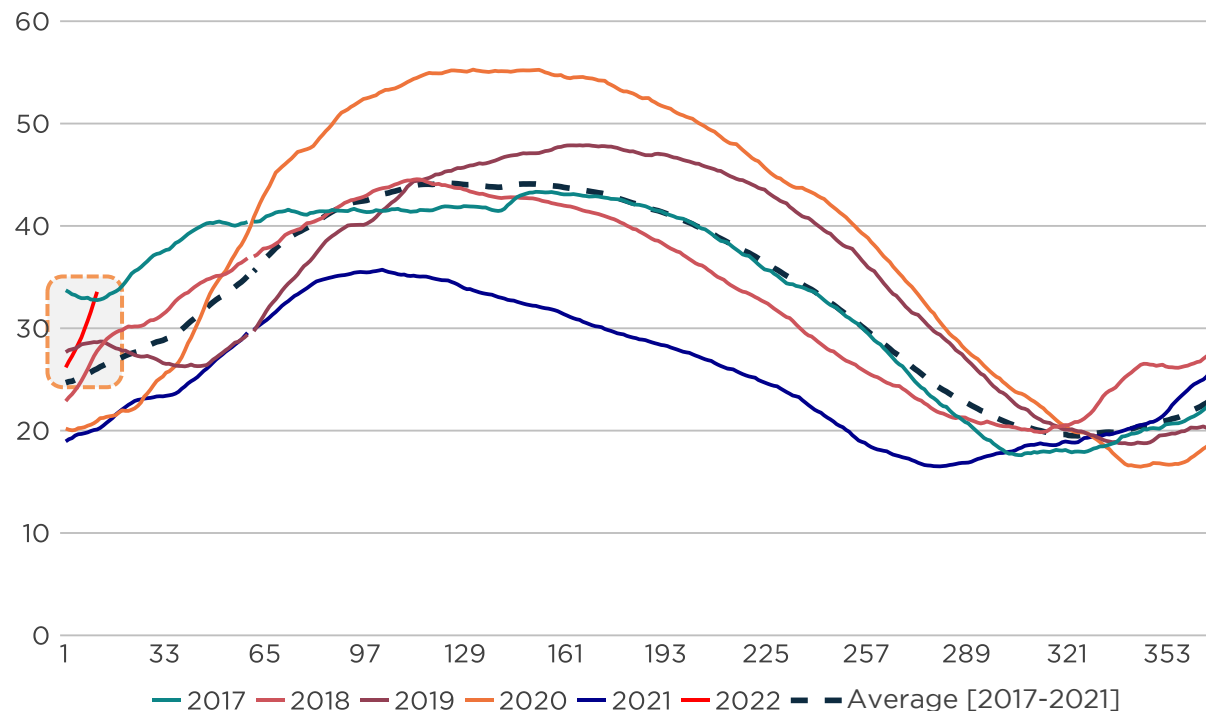
The Fed has been adopting an increasingly harder tone in relation to the fight against inflation since the end of last year, as inflation, activity and - above all - employment data approach more dramatic levels.

The latest statements from the members of the FOMC (Federal Open Market Committee) indicate that the asset purchasing program will already be wrapped up at the end of this year's first quarter, leaving room for a sequential increase in interest rates. Moreover, there is now talk of reducing the Fed's asset balance sheet through the process of quantitative tightening. At the end of the day, the monetary authority's aim will be to tighten financial conditions, which are currently highly stimulative.

# Energy: Rainfall management system brings positive surprise

## Brazilian Economy

### Levels of the reservoirs in the Southeast/Midwest sub-system



In contrast to expectations, the rising levels of the reservoirs have come as a positive surprise, in line with the heavier rainfall, as shown in the accompanying graph.

If the level of the reservoirs continues to improve, the risk of rationing - already highly unlikely - becomes even less important. At the same time, the improved hydric conditions may reduce inflationary pressure on consumer electricity bills (known as the yellow/green tariff) in 2022.

# Interest Rates: Sharp rise in short-term curve of American interest rates

## Markets

### Two-year interest rates in the United States

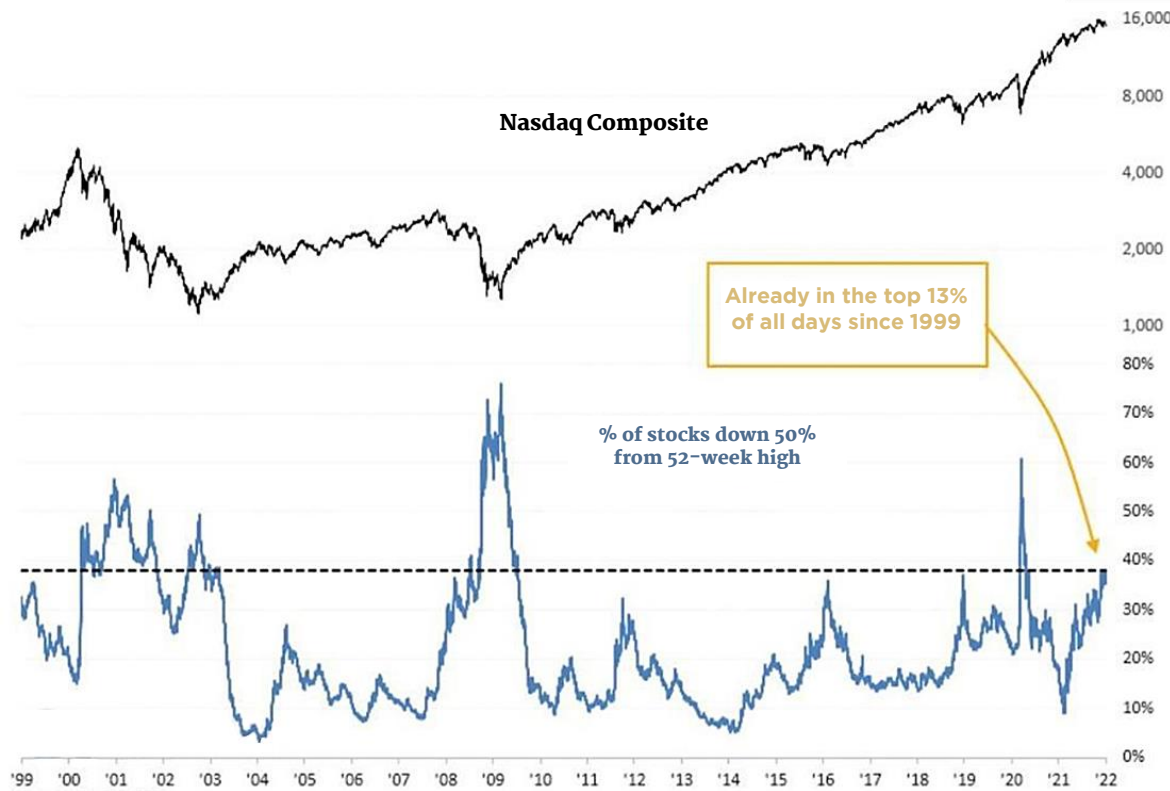


One of the most important issues for this coming year should be the dynamics of the interest rate hike cycles. It is worth noting that there has already been a significant movement in the repricing of interest rates in different markets. In the United States, in particular, this movement has been extremely lively in recent months, as shown in the accompanying graph.

# Shares: 40% of shares traded on the Nasdaq with drawdown of more than 50%

## Markets

### Nasdaq Breadth



Amid lower liquidity, global equities - particularly in the technology sector - have had a very mixed performance. While indexes such as the Nasdaq remain close to historical highs, bolstered by the performance of the big techs, several stocks have accumulated significant drops from the highs seen recently.

The accompanying graph shows that the percentage of stocks where the price has fallen by more than 50% in the 52-week period has reached 40%, the highest level in more than 10 years.

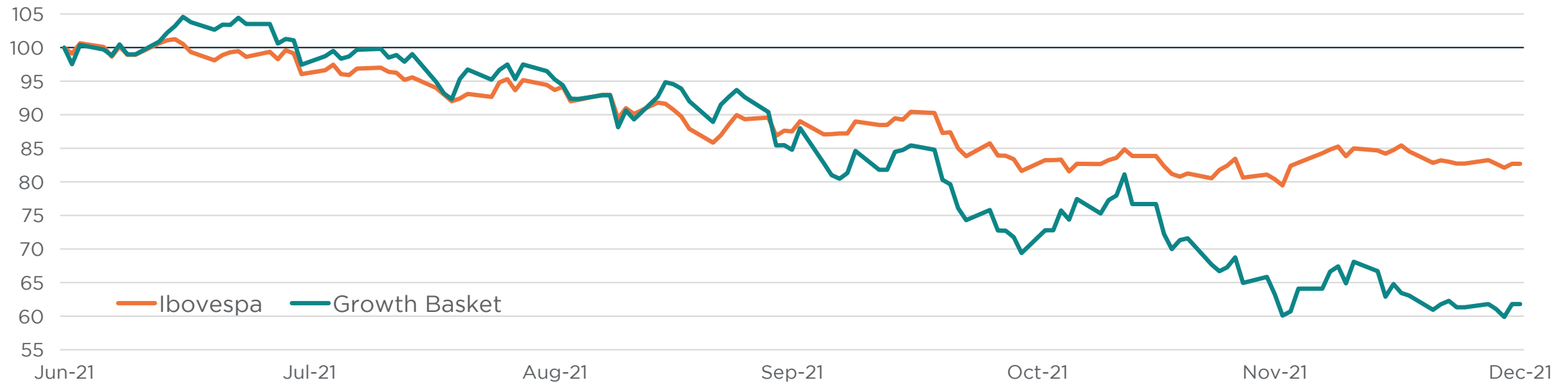


# Stock Market: Big decline in growth companies

## Markets

### Performance of a Basket of Growth Assets vs Ibovespa

Base 100 = 30/06/2021



Basket consisting of BIDI11, LWSA3, BPAC11, EMBR3, PETZ3, BPAN4, GNDI3, HAPV3, SOMA3, CASH3, TOTS3, MGLU3, LREN3

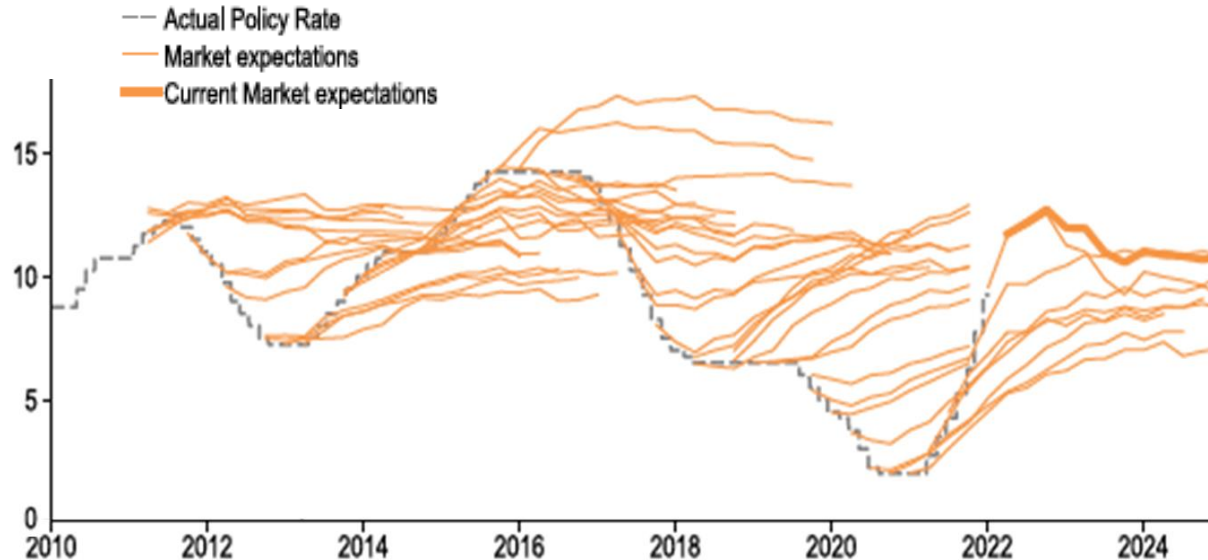
The corrections in growth companies seen globally were also apparent in the Brazilian market. Several sectors such as retail, technology, fintechs and such have shown dramatic drawdowns.

# Interest: How long will we have a high Selic rate?

## Markets

### Policy Rate with Market Forecast

%

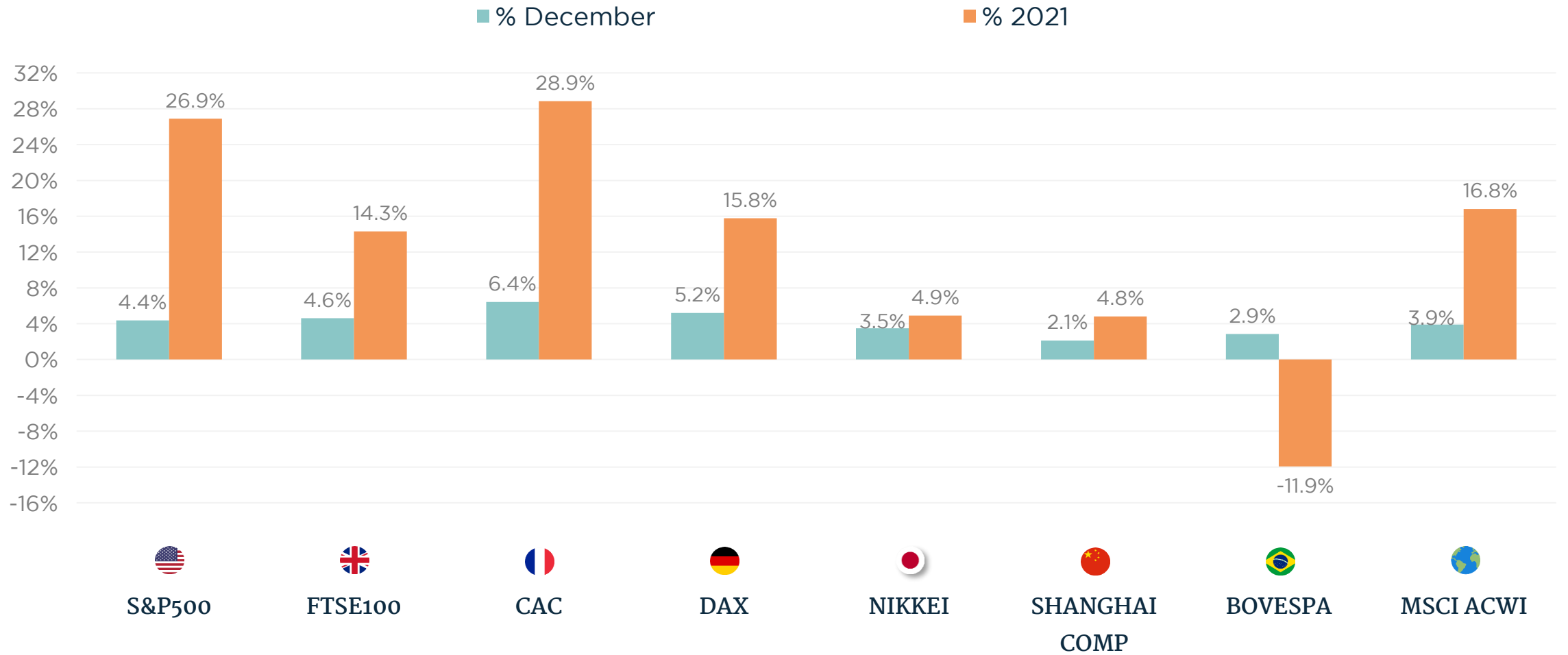


The accompanying graph shows the historic performance of the Selic (Brazil's basic interest rate) at each moment in time and a series of estimates priced into the market over this period. It is worth noting that the current upward cycle was much faster and more intense than the market was projecting at the beginning of 2021.

The high level of interest rates combined with the upcoming presidential elections point to a complicated outlook for risk assets although, at the same time, this situation could create investment opportunities with attractive valuations in several cases.

# Stock Markets

## Markets



# Indexes

	% December	Value on 31/12/2021	% 2021	% 12 months
<b>COMMODITIES</b>				
OIL WTI	16.3%	76.99	58.7%	58.7%
GOLD	3.1%	1,829.20	-3.6%	-3.6%
<b>CURRENCIES (IN RELATION TO THE US\$)</b>				
EURO	0.3%	1.14	-6.9%	-6.9%
GBP	1.8%	1.35	-1.0%	-1.0%
YEN	-1.7%	115.08	-10.3%	-10.3%
REAL	0.9%	5.58	-6.8%	-6.8%
<b>INDEXES</b>				
S&P500	4.4%	4,766.18	26.9%	26.9%
FTSE100	4.6%	7,384.54	14.3%	14.3%
CAC	6.4%	7,153.03	28.9%	28.9%
DAX	5.2%	15,884.86	15.8%	15.8%
NIKKEI	3.5%	28,791.71	4.9%	4.9%
SHANGHAI COMP	2.1%	3,639.78	4.8%	4.8%
BOVESPA	2.9%	104,822.40	-11.9%	-11.9%
MSCI ACWI	3.9%	754.83	16.8%	16.8%



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