TURIM

Economic Report

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São Paulo

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Monetary Policy:
FOMC starts cycle with a 50 basis points cut, but pace still depends on data progression

Global

FOMC Expectations Median

Projections (September %)	2024	2025	2026	2027	Long term
GDP Growth Rate	**2.0**	**2.0**	**2.0**	**2.0**	**1.8**
June Projection	2.1	2.0	2.0	-	1.8
Unemployment Rate	**4.4**	**4.4**	**4.3**	**4.2**	**4.2**
June Projection	4.0	4.2	4.1	-	4.2
PCE Inflation	**2.3**	**2.1**	**2.0**	**2.0**	**2.0**
June Projection	2.6	2.3	2.0	-	2.0
Core PCE	**2.6**	**2.2**	**2.0**	**2.0**	**-**
June Projection	2.8	2.3	2.0	-	-
Interest Rate	**4.4**	**3.4**	**2.9**	**2.9**	**2.9**
June Projection	5.1	4.1	3.1	-	2.8

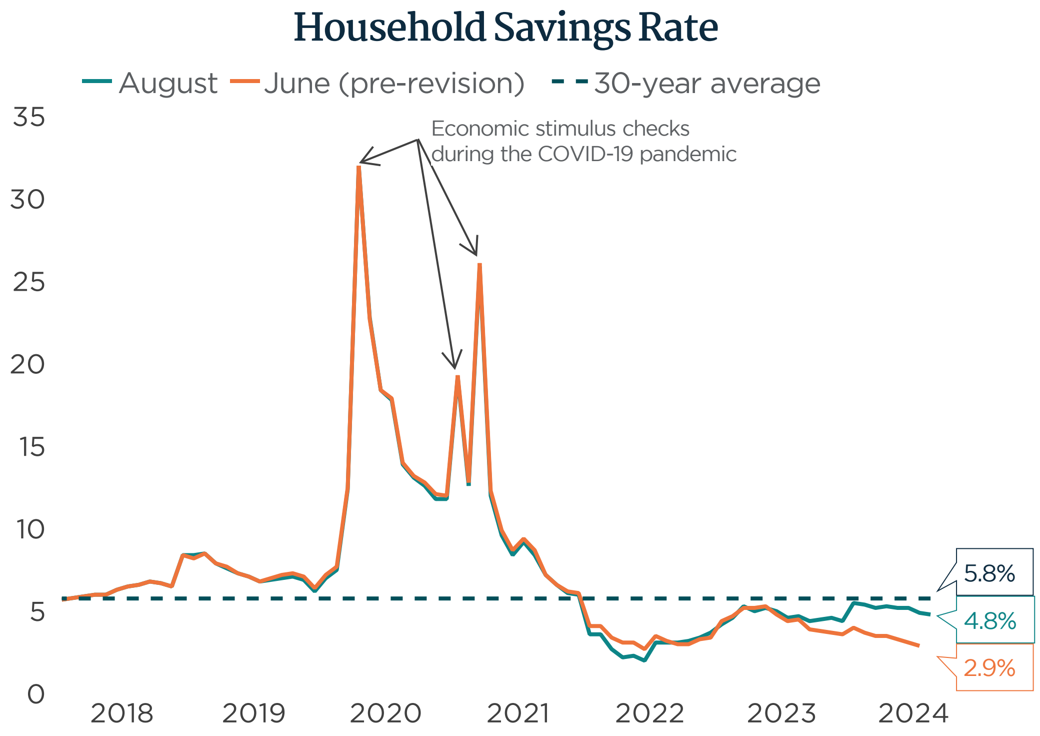
In the last FOMC meeting, the committee responsible for the Federal Reserve's monetary policy initiated a new rate-cut cycle. The first move was a 50 basis points (bps) reduction, bringing the reference rate to the 4.75% – 5.00% range. At the time of the decision, the market was divided between a 25 bps (0.25%) or 50 bps (0.50%) cut expectation.

Besides this adjustment, committee members updated their economic forecasts, as shown in the adjacent table. A significant revision was made to interest rate projections, which dropped more than expected in the short term. However, for the long term, a slight 10 bps (0.10%) increase was noted. Regarding the unemployment rate, the forecast also increased slightly, surpassing the current 4.2% level reported in August.

Source: Federal Reserve

Activity:
Revision in the savings rate suggests some normalization in family behavior

Global



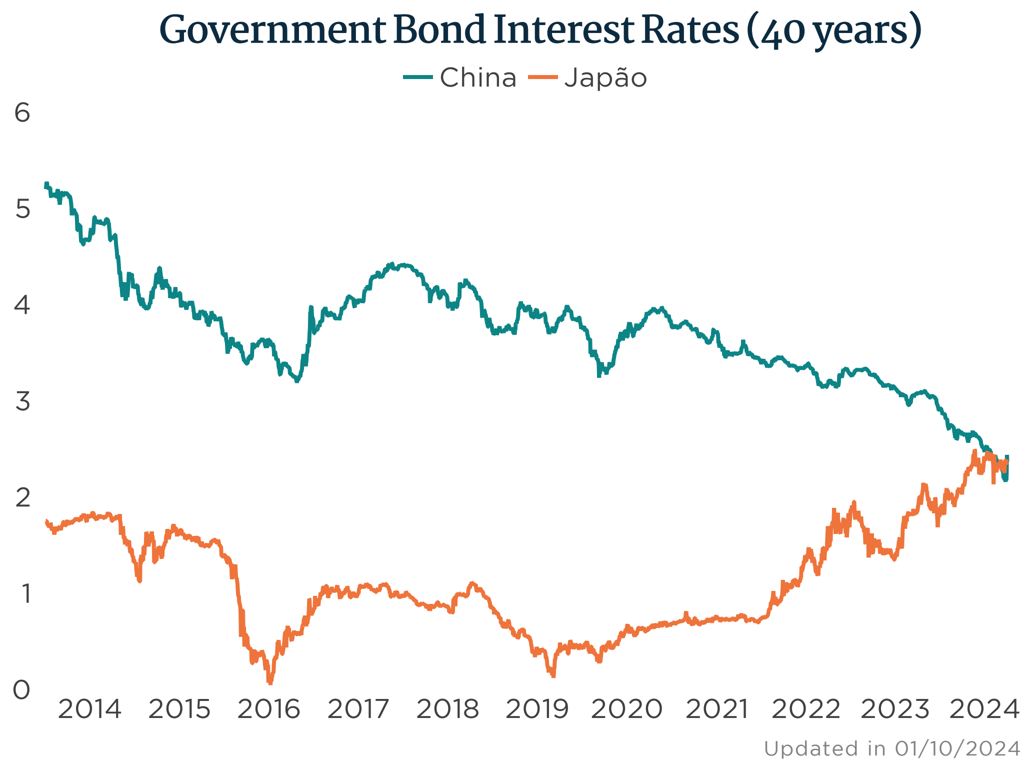
The chart on the left shows the household savings rate, which refers to the portion of disposable income that families save. Disposable income is the net income after the payment of direct taxes, such as income tax and social security contributions. The chart highlights the magnitude of the series revision in August and the average observed over the last thirty years.

We observe an initial period of substantial savings accumulation, driven by stimulus measures adopted in response to the economic shocks generated by the COVID-19 pandemic. Among these measures, the government's income transfer programs, known as "stimulus checks," provided direct financial support to families. Additionally, sanitary restrictions during the pandemic limited the consumption of various services, such as travel and dining, contributing to increased savings.

Over the last few years, this excess savings – meaning the amount saved beyond pre-pandemic trends – has been gradually consumed. Currently, savings levels appear to be converging towards values closer to historical averages.

Source: Bureau of Economic Analysis, Macrobond, Turim

China:
China announces stimulus packages in response to the slowdown in domestic demand
Global



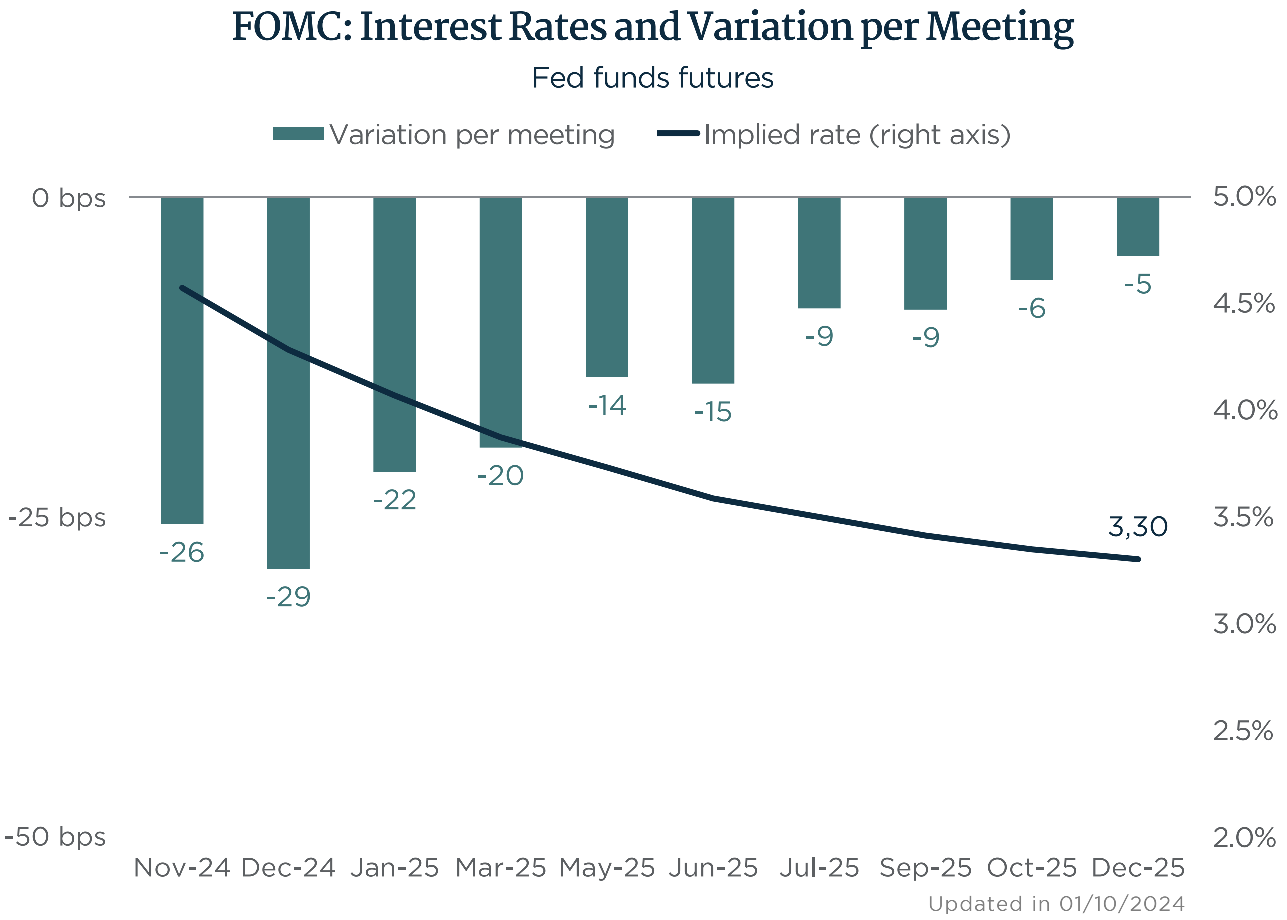
At the end of September, the Chinese government announced the largest stimulus package since the start of the pandemic, aimed at boosting domestic demand. The measures included interest rate cuts and reductions in the reserve requirement ratio (the minimum amount banks must hold in reserve), along with specific actions targeting the real estate and stock markets. Chinese President Xi Jinping also spoke at an extraordinary Politburo meeting (the leadership committee of the Chinese Communist Party), suggesting that more stimulus is coming, including fiscal measures. The market reaction was positive, resulting in strong gains in Chinese stocks and iron ore, a key input for the construction sector.

The chart compares long-term government bond interest rates (40 years) for China and Japan. This comparison can be interpreted as an indicator of how investors view the long-term outlook for both countries. Japan, after the bursting of its speculative bubble in the 1990s, went through a long period of economic stagnation and, more recently, has been trying to normalize its monetary policy and return to growth. China, which experienced robust growth for a long period, is now facing a significant slowdown in domestic consumption, also following the bursting of a real estate bubble.

Source: Macrobond

Interest Rates:
Market divided on the pace of cuts, but already pricing terminal rate below 3%

Global

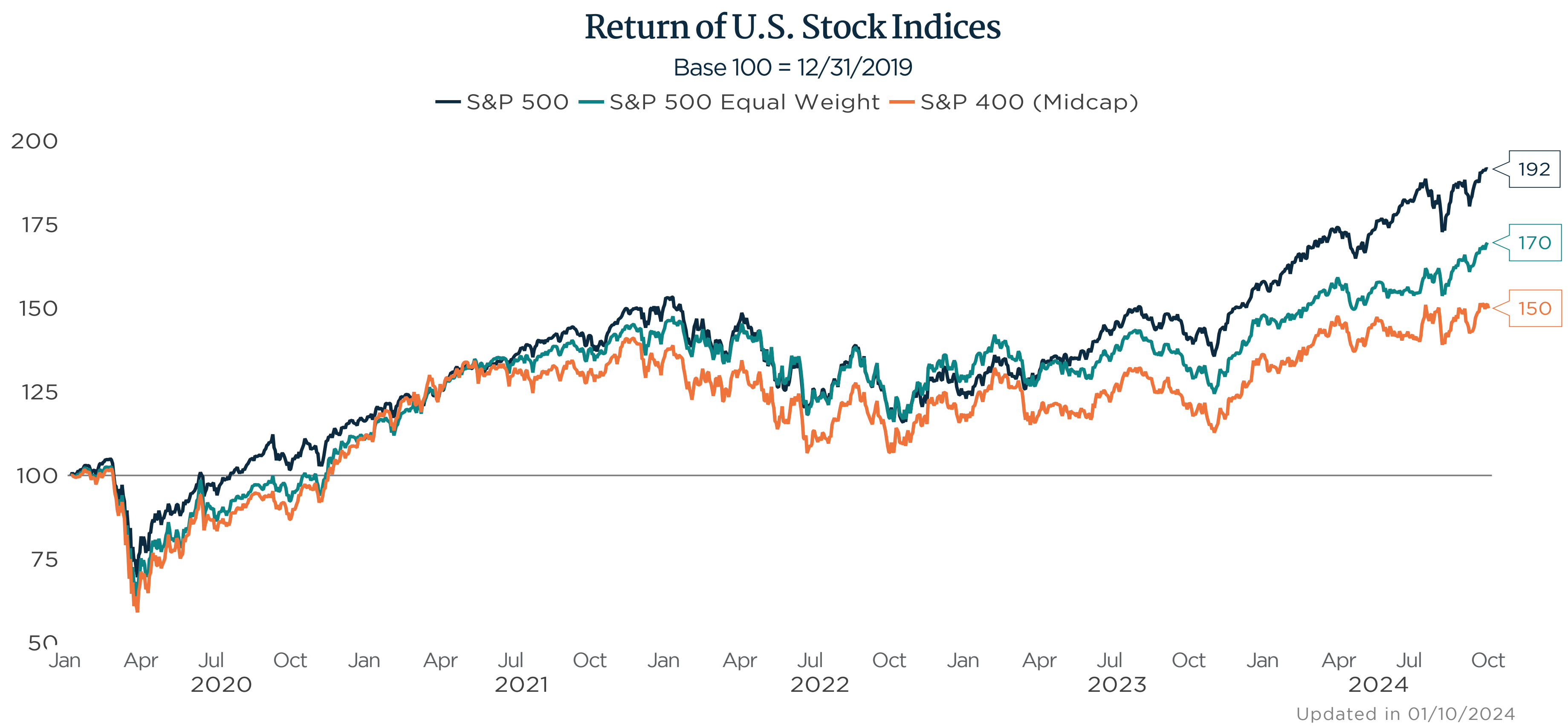


Although the first interest rate cut by the Federal Reserve in this cycle was sharper, with a 50 bps reduction, the central bank's chairman, Jerome Powell, has emphasized that there is no rush to implement further cuts. He suggested that the next adjustments should be smaller, 25 bps per meeting, depending on economic data. However, signs of a more pronounced slowdown in the U.S. economy could lead to an acceleration in the pace of cuts.

Currently, the market is divided regarding the magnitude of cuts in the upcoming decisions. The graph illustrates the evolution of the implied interest rate based on the market's expectations, along with the projected adjustments for each of the upcoming FOMC meetings. It is also noted that the market expects the terminal rate (the rate at the end of the cut cycle) to fall below 3%, a level considered neutral from a monetary policy perspective – that is, a rate that neither stimulates nor restrains economic growth.

Source: Bloomberg, Turim

Equities:
Confirmation of a Soft Landing could catalyze mean reversion in U.S. stocks
Global

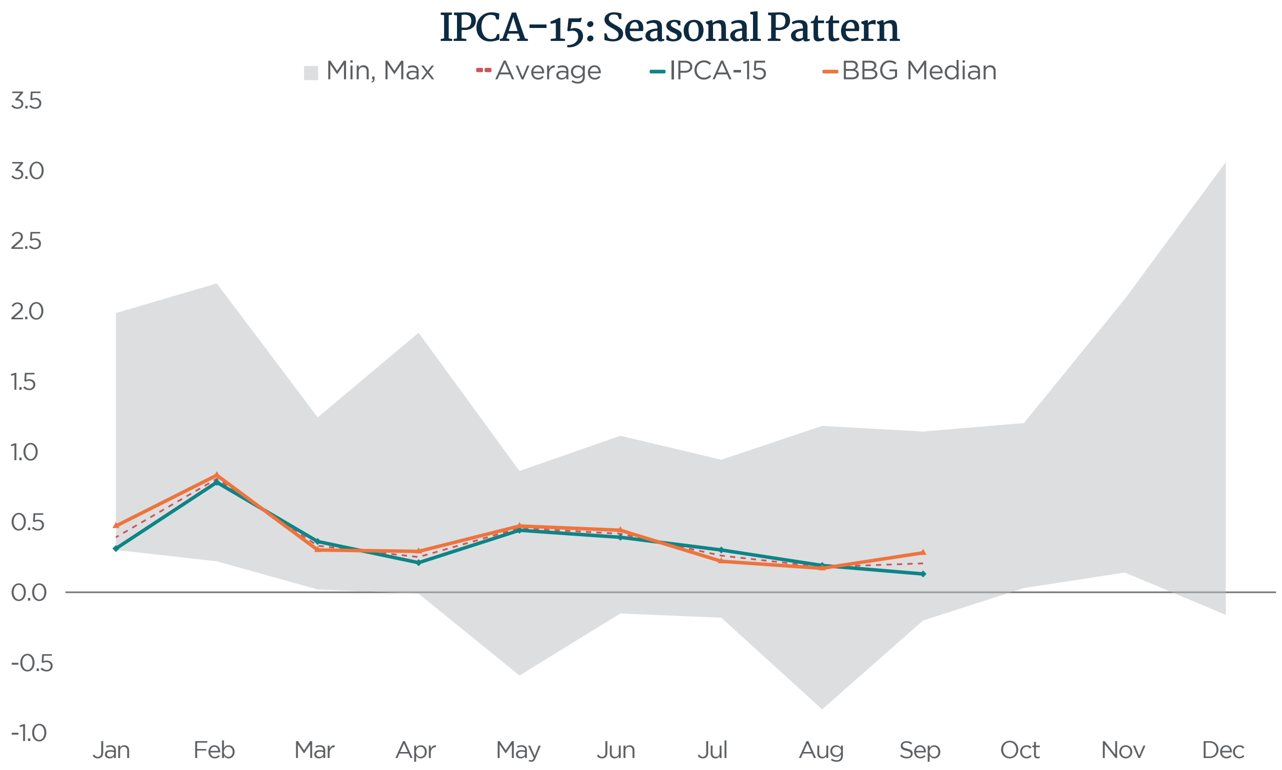


The graph above represents the performance of stocks listed on the U.S. stock exchange, reflected by the S&P 500, S&P 500 Equal Weight, and S&P 400 indices, which represent mid-cap companies. It can be observed that the S&P 500 had a relatively better performance compared to the other indices in recent years, resulting in a significant difference in the valuations of these indices. We believe that confirmation of a "soft landing" scenario in the U.S.—a result implying a controlled economic slowdown without a recession—could favor a movement of mean reversion for these assets.

Source: Bloomberg, Turim

Inflation:
IPCA-15 better than expected, although volatile items helped

Brazil

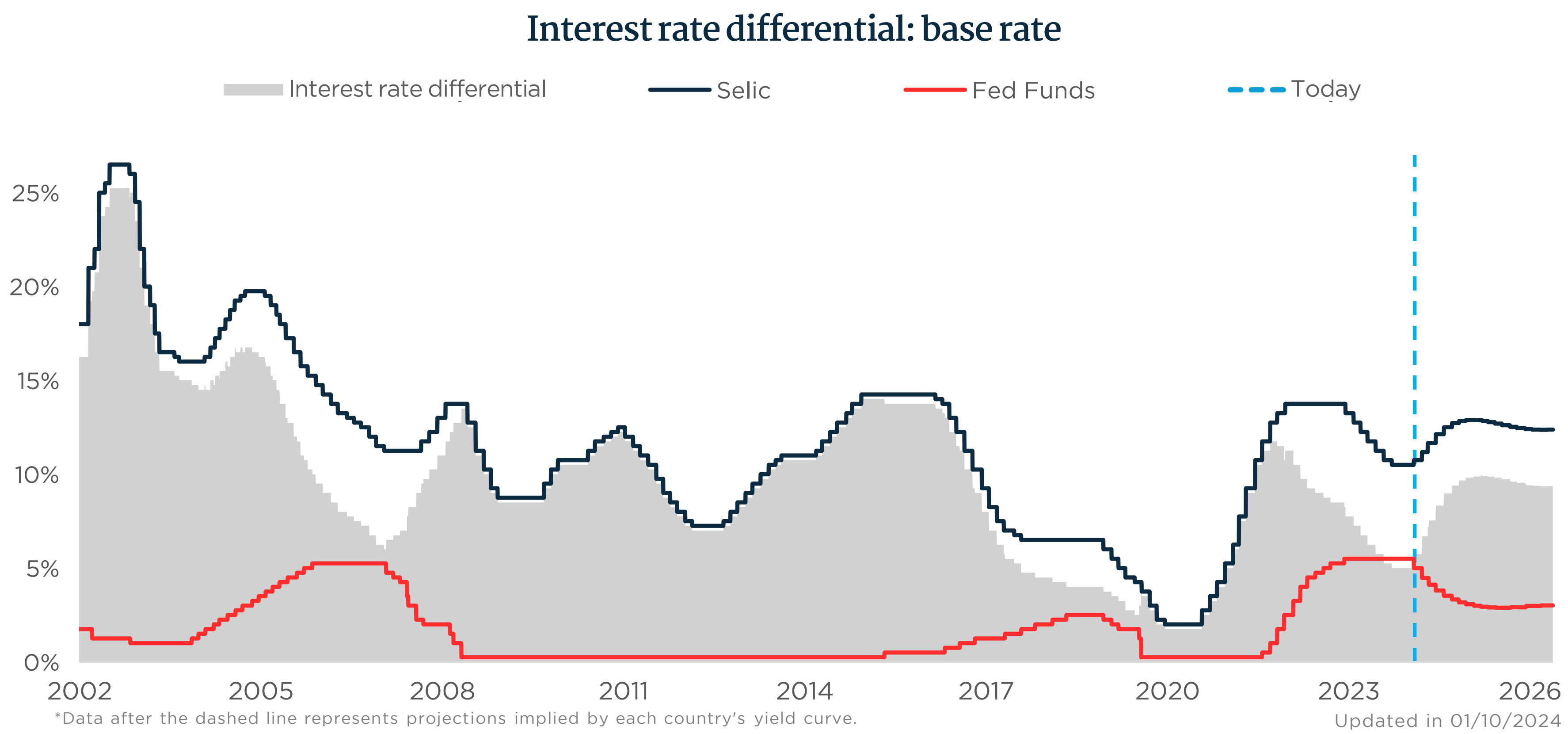


The IPCA-15, which measures consumer inflation variation between the 15th of each month, presented results well below market expectations in September. Much of this positive surprise was explained by the performance of the services sector. However, it's important to highlight that volatile components, such as airfare and vehicle insurance, played a significant role in this downward movement. While this result is good news, caution is necessary. The heating economy, especially in the labor market, suggests this improvement may not be sustainable, as strong economic activity could pressure prices again.

Source: Bloomberg, IBGE, Macrobond, Turim

Exchange Rates:
Interest rate differential expected to widen in the coming months

Brazil



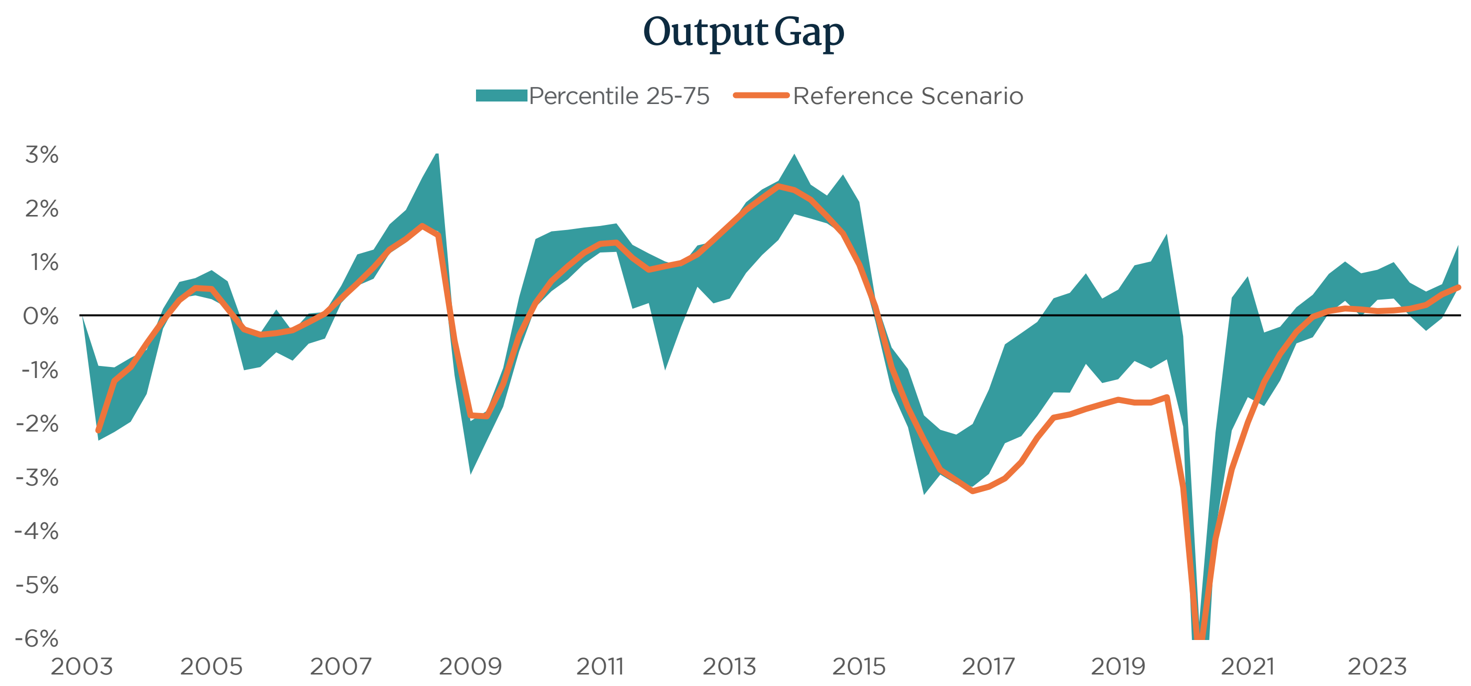
The start of the monetary tightening cycle in Brazil, in contrast with the easing cycle implemented in the United States and several other economies, is reflected in a widening interest rate differential between local currency investments and U.S. fixed income. The chart above illustrates the evolution of one-day interest rates in Brazil and the U.S., as well as the difference between them. Additionally, the chart signals the future trajectory of these rates based on current market pricing.

Source: Bloomberg, Turim

COPOM:

COPOM initiates rate hike cycle with 25 bps, linking inflation projections to a heated economy

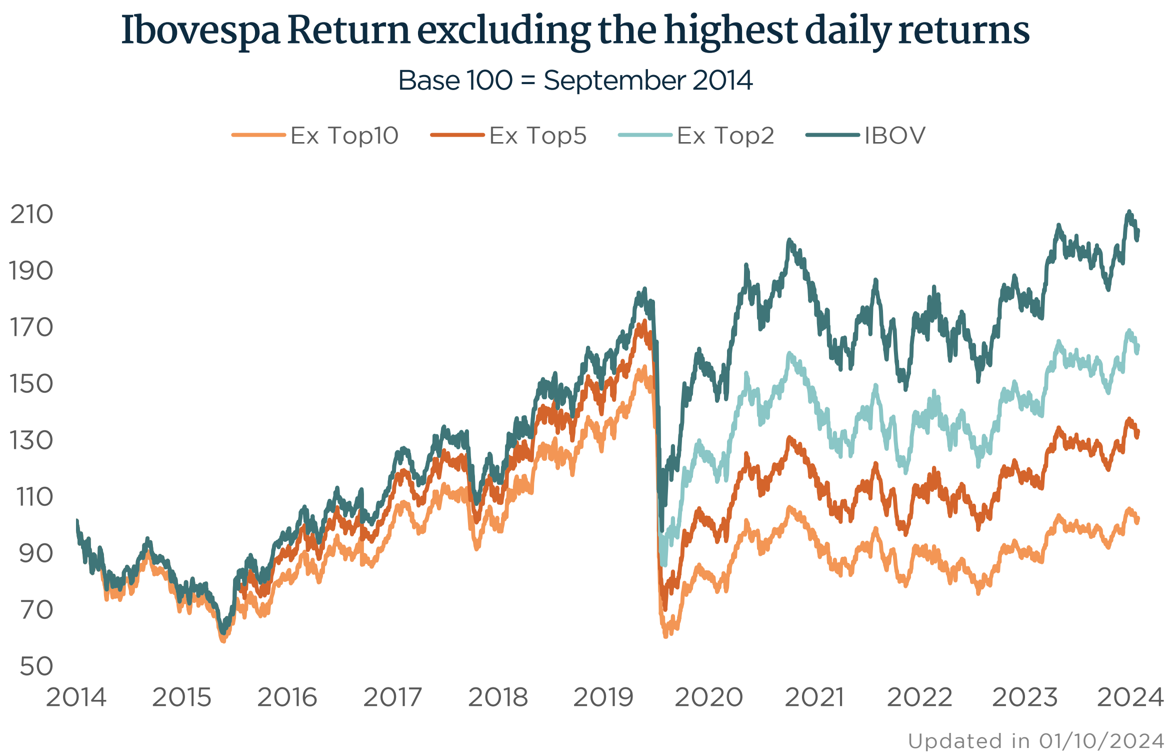
Markets



COPOM has initiated a new interest rate hike cycle with a first increase of 25 basis points (bps), raising the base interest rate to 10.75% per year, as expected by the market. The decision occurred in a context of deteriorating inflation projections, mainly due to the revision of the output gap estimate (as shown in the graph above), which rose to 0.5% in the Central Bank's reference scenario. The output gap represents the difference between actual output (what the economy is currently producing) and potential output (what the economy can sustainably produce without generating inflation). When economic activity exceeds full capacity, inflationary pressures arise due to the economy "overheating."

Source: Banco Central

Equities:
Allocation in equities still makes sense despite challenges
Markets



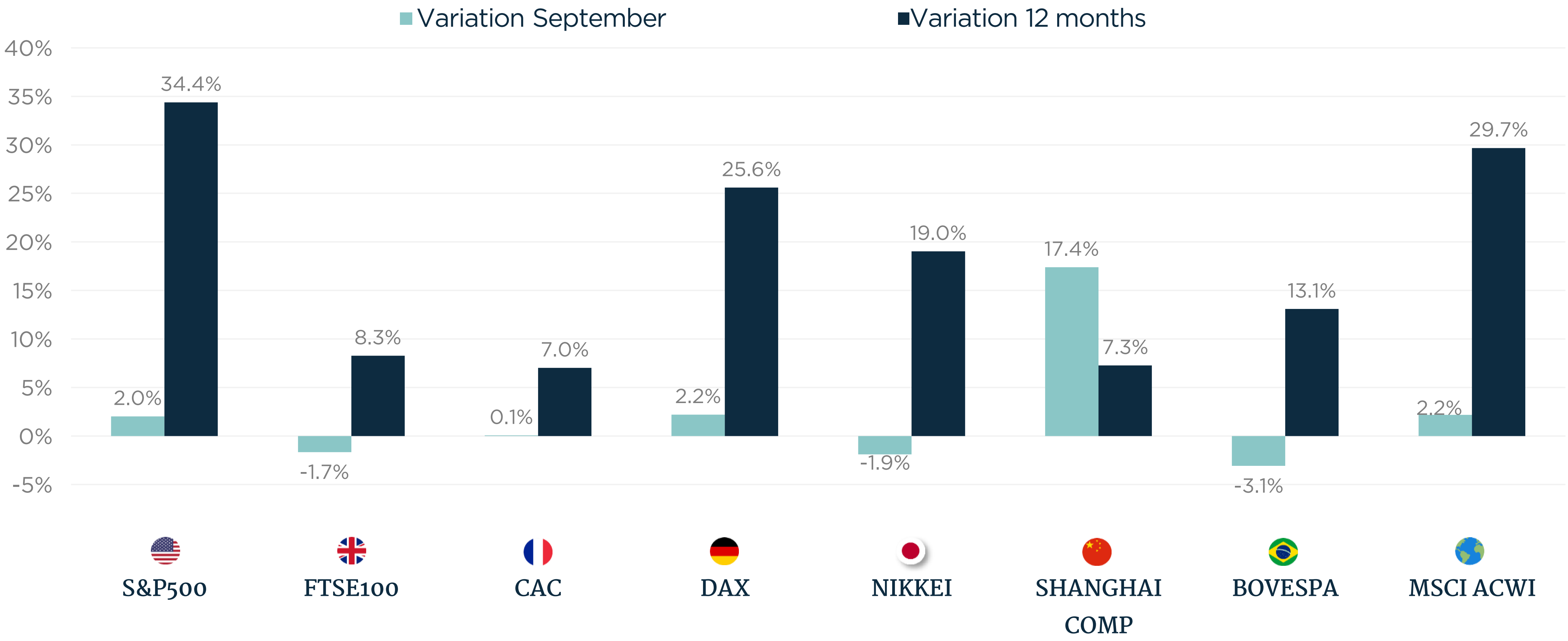
Although the stock market has historically underperformed fixed income during interest rate hike cycles, there are still reasons to maintain some level of allocation to this asset class, which currently presents compressed (and therefore attractive) multiples in a still robust economy. Additionally, a favorable external environment, with rate cuts in developed economies, economic stimulus announcements in China, and expectations of a favorable outcome for emerging markets in U.S. elections, could result in positive flows into the stock class.

The chart compares the return of the Ibovespa over recent years, considering consistent allocation throughout the period and excluding the highest daily returns (2, 5, and 10 days). The idea is that a zero allocation, especially during times of stress, carries the opportunity risk of missing out on a significant portion of this asset class's performance.

Source: Bloomberg, Turim

Stock Markets

Markets



Source: Bloomberg

Indices

	Variation September	Value in 30/09/2024	Variation in 2024	Variation 12 months
COMMODITIES				
PETRÓLEO WTI	-7.3%	68.17	-4.9%	-24.9%
OURO	5.2%	2,634.58	27.7%	42.5%
CURRENCIES (IN RELATION TO THE US$)				
EURO	0.8%	1.11	0.9%	5.3%
LIBRA	1.9%	1.34	5.1%	9.6%
YEN	1.8%	143.63	-1.8%	4.0%
REAL	2.9%	5.45	-10.9%	-7.6%
INDICES				
S&P500	2.0%	5,762.48	20.8%	34.4%
FTSE100	-1.7%	8,236.95	6.5%	8.3%
CAC	0.1%	7,635.75	1.2%	7.0%
DAX	2.2%	19,324.93	15.4%	25.6%
NIKKEI	-1.9%	37,919.55	13.3%	19.0%
SHANGHAI COMP	17.4%	3,336.50	12.2%	7.3%
BOVESPA	-3.1%	131,816.44	-1.8%	13.1%
MSCI ACWI	2.2%	851.78	17.2%	29.7%

*Amounts and results in local currency

Source: Bloomberg

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