



# Economic Report

September 2024

São Paulo

Rio de Janeiro

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**Global Economy 03**

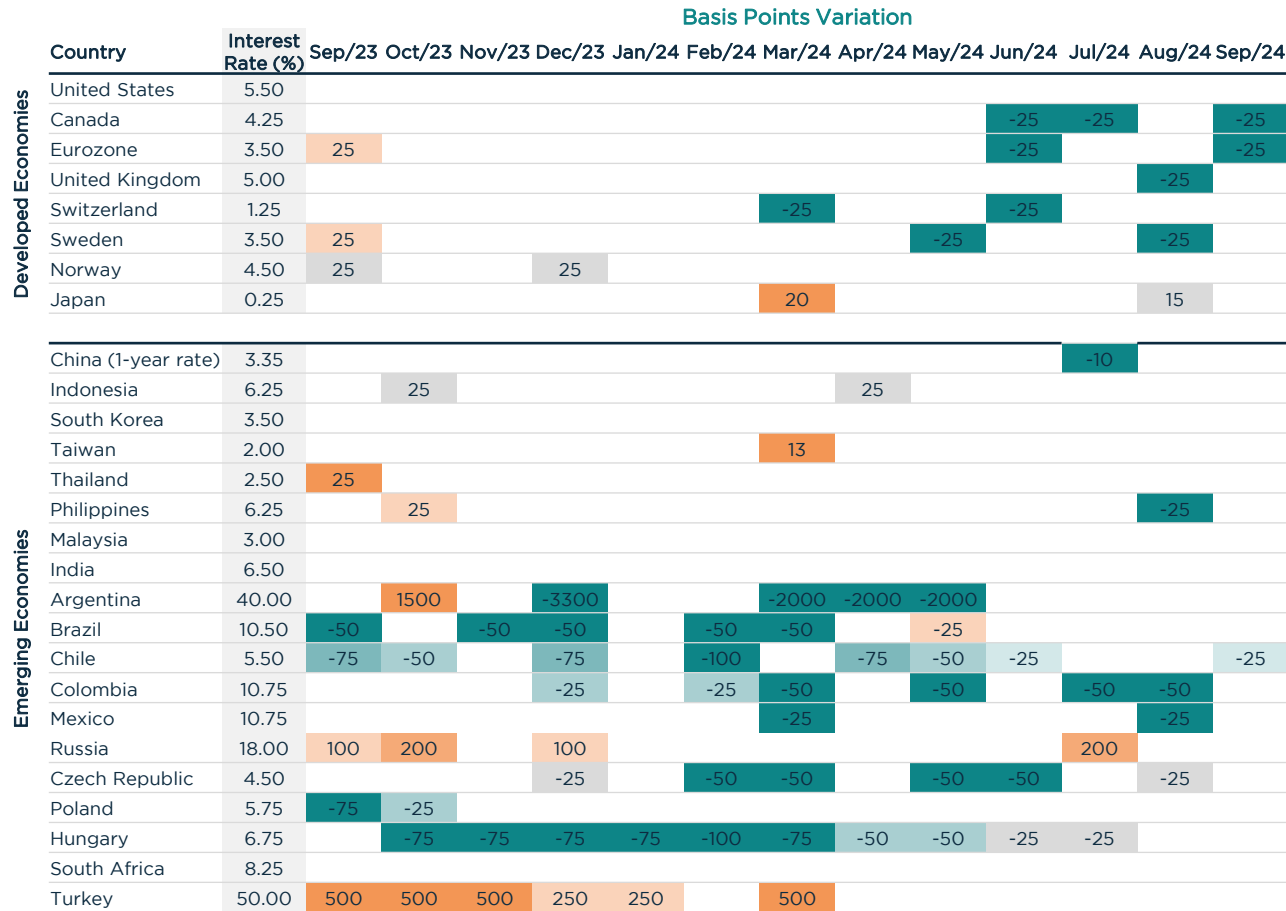
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# Monetary Policy: FOMC to join the rest of the world, initiating its rate-cutting cycle

## Global



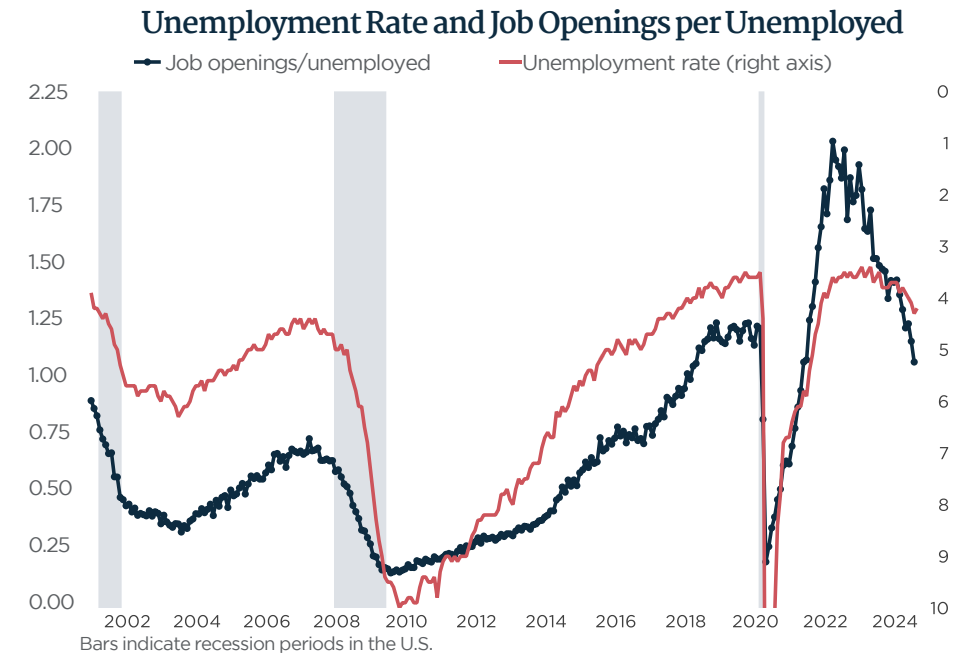
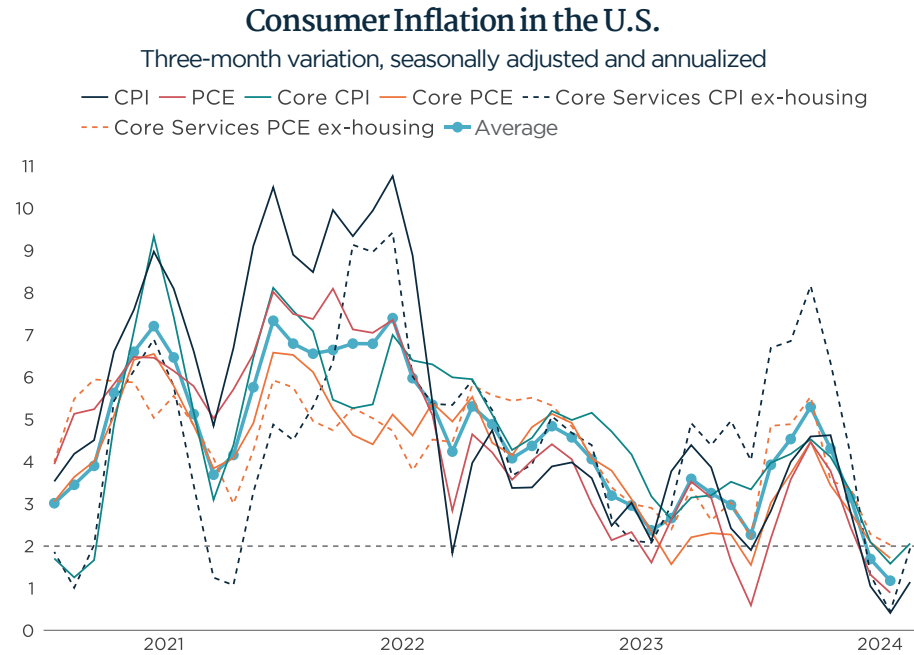
The improvement in inflation data and the slowdown in the labor market observed in recent months allowed Federal Reserve Chairman Jerome Powell to indicate the start of a rate-cutting cycle in September during his speech at the Jackson Hole Symposium. The decision comes about six months after the first central bank of a developed economy (Switzerland) made the first rate cut of the year.

The heatmap on the left shows the most recent decisions made by monetary authorities from a range of developed and emerging economies until September 12. It is noted that developed economies took longer to begin their respective rate-cutting cycles compared to emerging markets, but now appear relatively synchronized, with a few exceptions, such as the U.S., which has not yet made its first move.

# Monetary Policy:

## Inflation at target and employment moderation explain Federal Reserve's movement

### Global



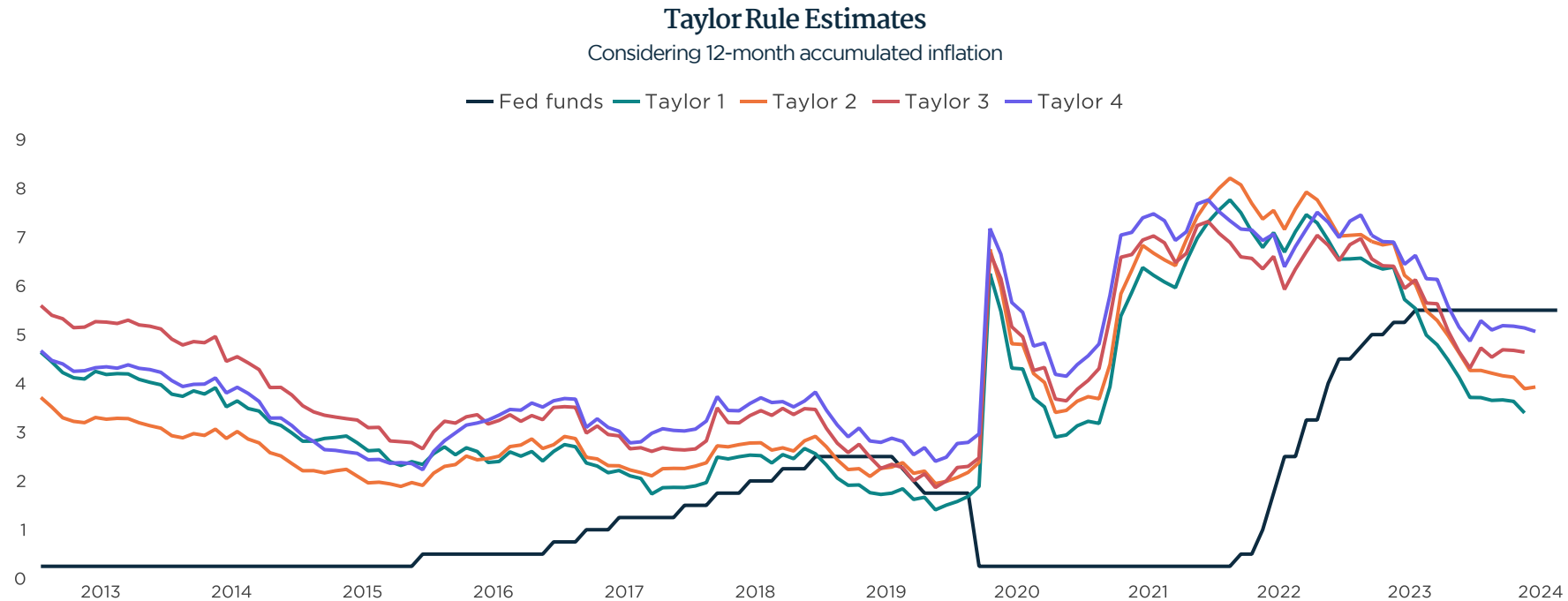
The shift to a "dovish" stance by the Federal Reserve can be explained by two main factors: the broad moderation in various consumer inflation metrics in the U.S., which are now at levels consistent with the inflation target over three-month windows (as shown in the left graph), and the slowdown in the labor market, which has returned to levels similar to those observed before the pandemic (right graph).

*Dovish & Hawkish: These terms refer to a sentiment towards monetary policy. A dovish stance implies a bias towards interest rate cuts or maintaining rates at lower levels, whereas hawkish indicates a bias towards raising rates.*

# Monetary Policy:

## Current scenario already justifies more than 200 basis points cuts in Fed Funds

### Global



The graph above represents different estimates of the Taylor Rule — a formula developed as a simple rule for conducting monetary policy, which considers the inflation gap relative to the target and the degree of economic overheating — applied to the United States. It shows that some of these metrics today indicate room for more than 200 basis points (1 basis point = 0.01%) of cuts in the U.S. interest rate. This margin may be even larger depending on future developments in economic data.

## Activity:

# Surprise in GDP growth should result in further upward revisions of expectations for the year

## Brazil

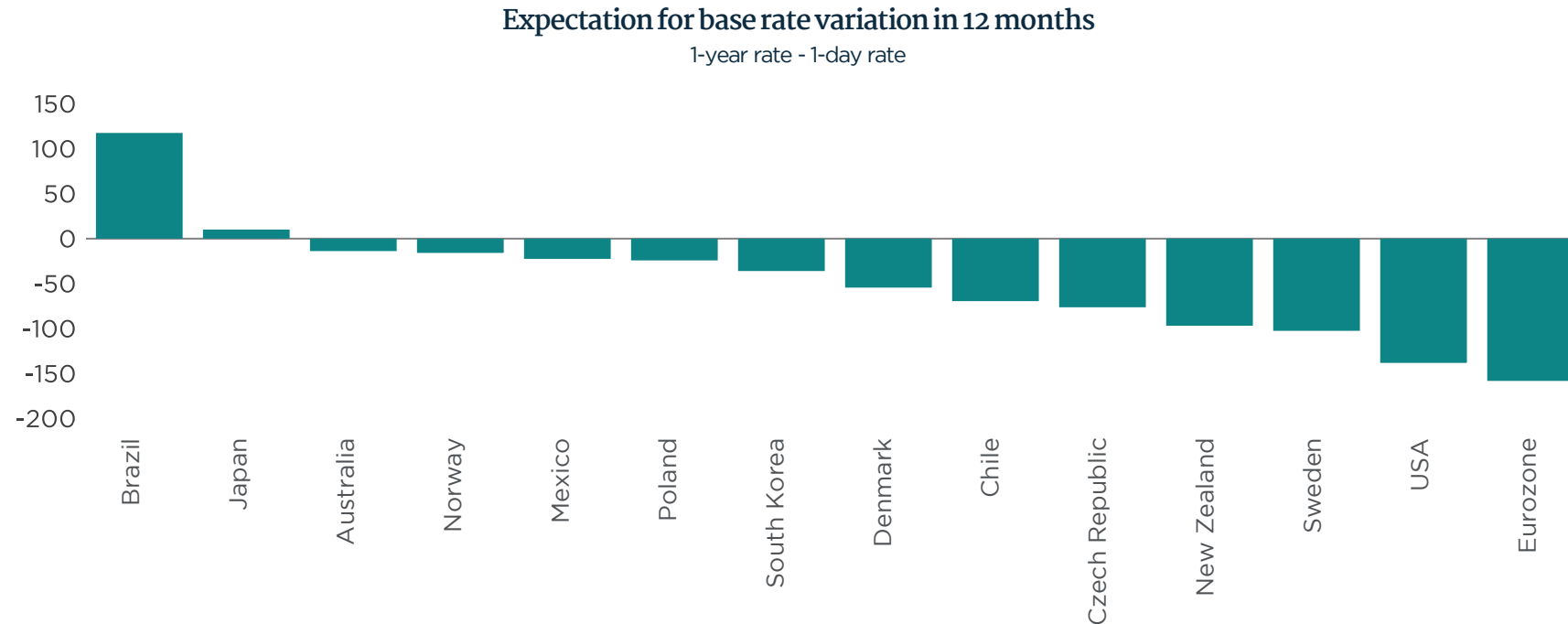


The second-quarter GDP grew by 1.4% compared to the previous quarter, significantly above market consensus, driving a widespread movement of upward revisions for 2024. In practice, positive surprises in economic activity have consistently been seen over the past few years, leading growth estimates (as shown in the chart above) to be revised upwards during this period. If this trend continues, 2024 could mark the third consecutive year of growth around 3%, well above most estimates for the country's potential output (the maximum production level an economy can achieve sustainably without generating inflationary pressures).

## Monetary Policy:

Brazil is one of the few economies with a forecasted interest rate hike in the near future

### Brazil

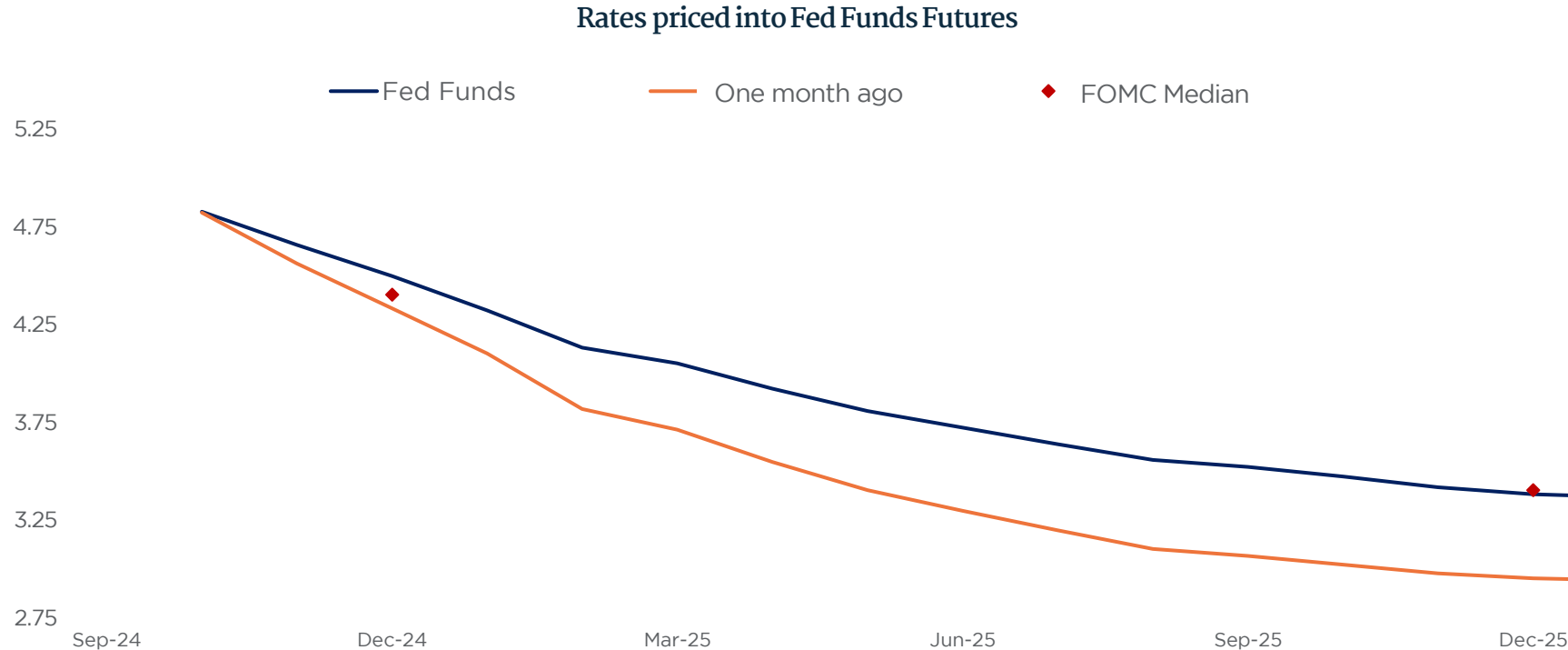


The strong economy and the halt in the disinflation process in the Brazilian economy led the Central Bank to initiate a new rate hike cycle starting in September. As a result, Brazil stands out as one of the few economies in the world with an expected increase in interest rates over the next 12 months, alongside Japan (as shown in the chart above), although the expected magnitude of the increase varies significantly between the two countries.

# Interest Rates:

## Futures market prices in more than 200 basis points of rate cuts for the U.S.

### Markets



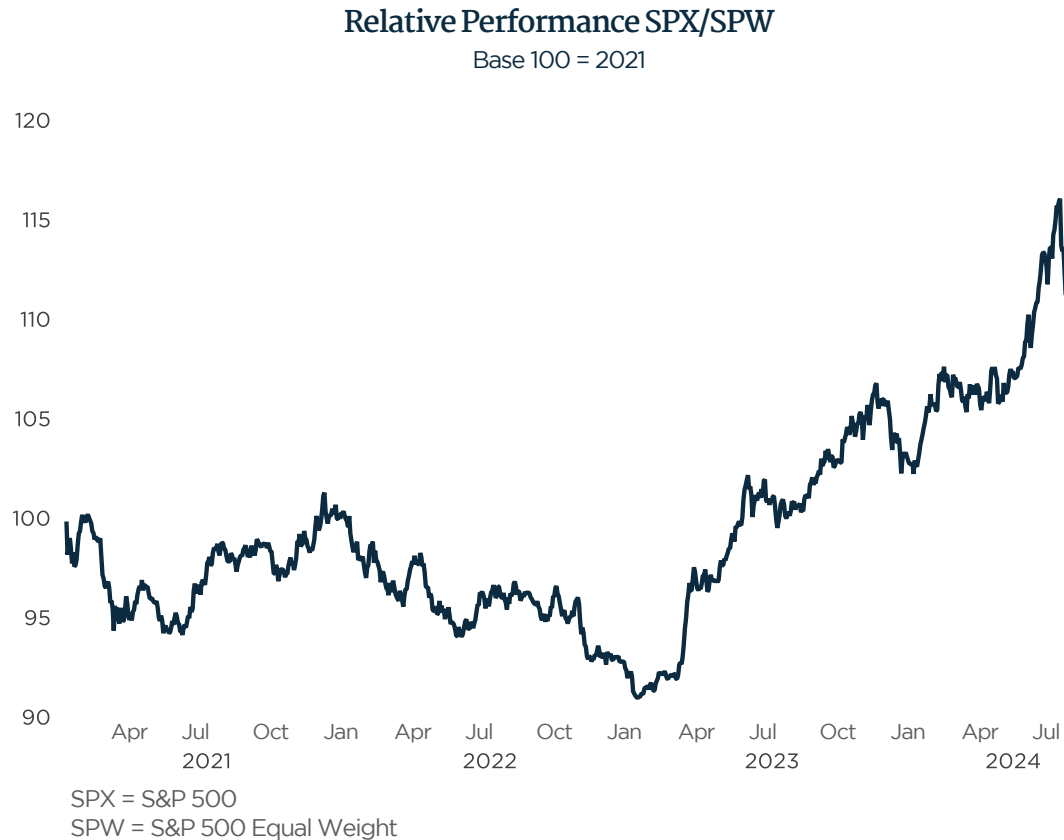
Given the data evolution and statements from FOMC members (Federal Reserve's Monetary Policy Committee, U.S. central bank), the futures interest rate market has been adjusting over the past few months. Currently, the market is pricing in a reduction of over 200 basis points in interest rates (as shown in the graph), primarily aligned with estimates provided by the Taylor Rule.



## Equities:

# Confirmation of a "soft landing" scenario tends to benefit other stocks besides the big techs

## Markets



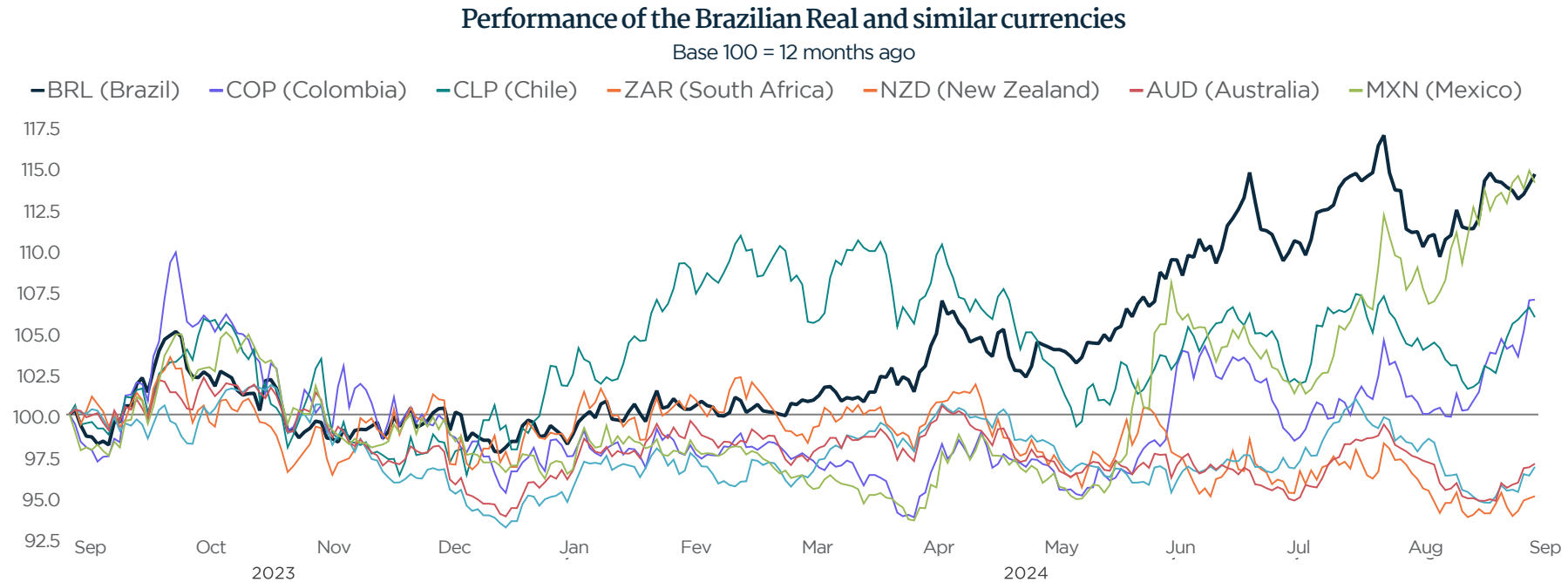
Since the beginning of last year, the performance of the main stock indices in the U.S. has been driven by a small group of stocks, especially in the technology sector. This movement becomes evident when comparing the performance of the traditional S&P 500 (SPX - main U.S. stock indices) with its equal-weight version (SPW - S&P 500 Equal Weight).

In recent months, this trend in relative performance has shifted (as the chart shows), reflecting the perception of a "soft landing" scenario, meaning interest rate cuts without a sharp slowdown in economic activity.

# Foreign Exchange:

## Currency still pressured despite some moderation in country risk perception

### Markets

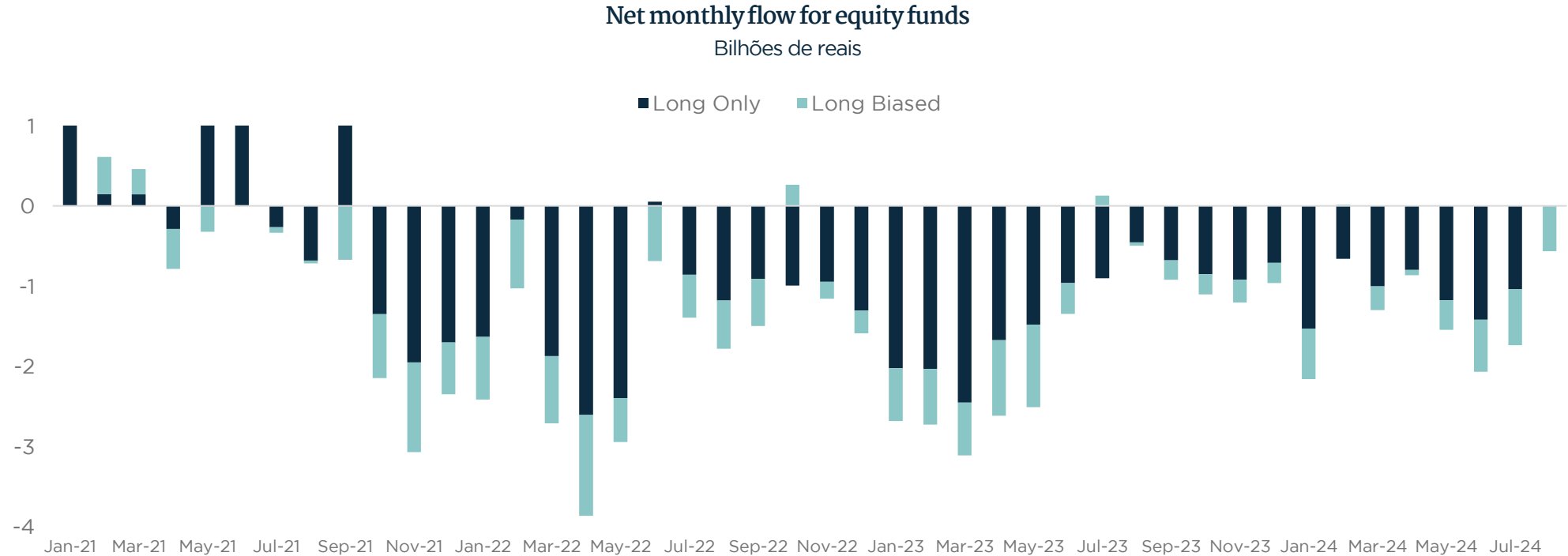


The Brazilian Real (BRL) continues to face a period of depreciation, despite some partial decompression of risk premiums associated with other local assets, such as the long end of the implied inflation curve, for example. It is also worth mentioning that some currencies similar to the Real have also experienced weak performance recently, especially since the last interest rate hike in Japan.

## Equities:

Multiples remain attractive, but performance depends on an improvement in flows

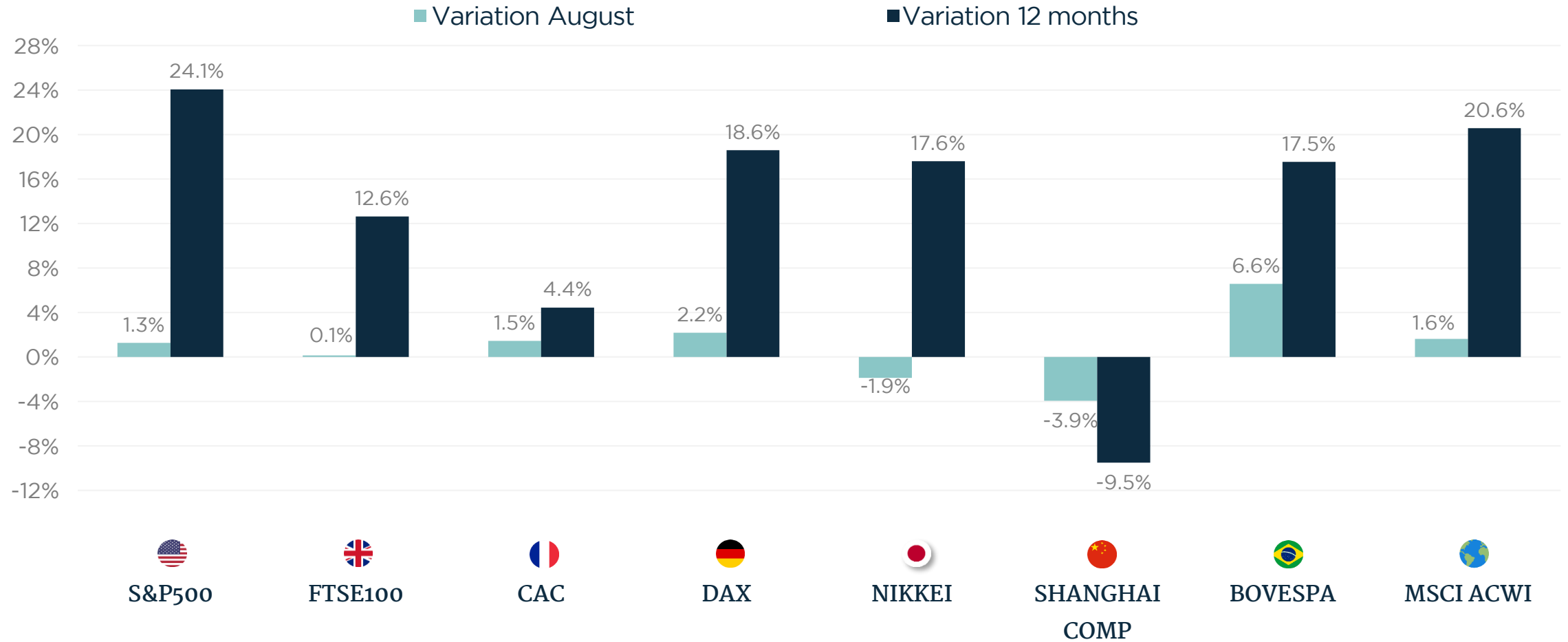
### Markets



The chart above represents the net monthly flow for a sample of equity funds that we consider representative of the local industry. It shows that we are currently in a prolonged period of redemptions. While we consider the current market multiples attractive, it remains challenging to foresee a significant appreciation in the short term without a trigger to reverse the flow towards the asset class.

# Stock Markets

## Markets



# Indices

	Variation August	Value in 31/08/2024	Variation in 2024	Variation 12 months
<b>COMMODITIES</b>				
OIL WTI	-5.6%	73.55	2.7%	-12.1%
GOLD	3.0%	2.521.40	22.2%	30.0%
<b>CURRENCIES (IN RELATION TO THE US\$)</b>				
EURO	2.3%	1.11	0.3%	2.2%
LIBRA	2.4%	1.32	3.4%	3.9%
YEN	3.4%	144.99	-2.7%	0.4%
REAL	0.4%	5.63	-13.7%	-12.0%
<b>INDICES</b>				
S&P500	1.3%	5,591.96	17.2%	24.1%
FTSE100	0.1%	8,379.64	8.4%	12.6%
CAC	1.5%	7,640.95	1.3%	4.4%
DAX	2.2%	18,912.57	12.9%	18.6%
NIKKEI	-1.9%	38,362.53	14.6%	17.6%
SHANGHAI COMP	-3.9%	2,823.11	-5.1%	-9.5%
BOVESPA	6.6%	136,041.35	1.4%	17.5%
MSCI ACWI	18.6%	827.34	13.8%	20.6%

\*Amounts and results in local currency



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