Economic Report

June 2025

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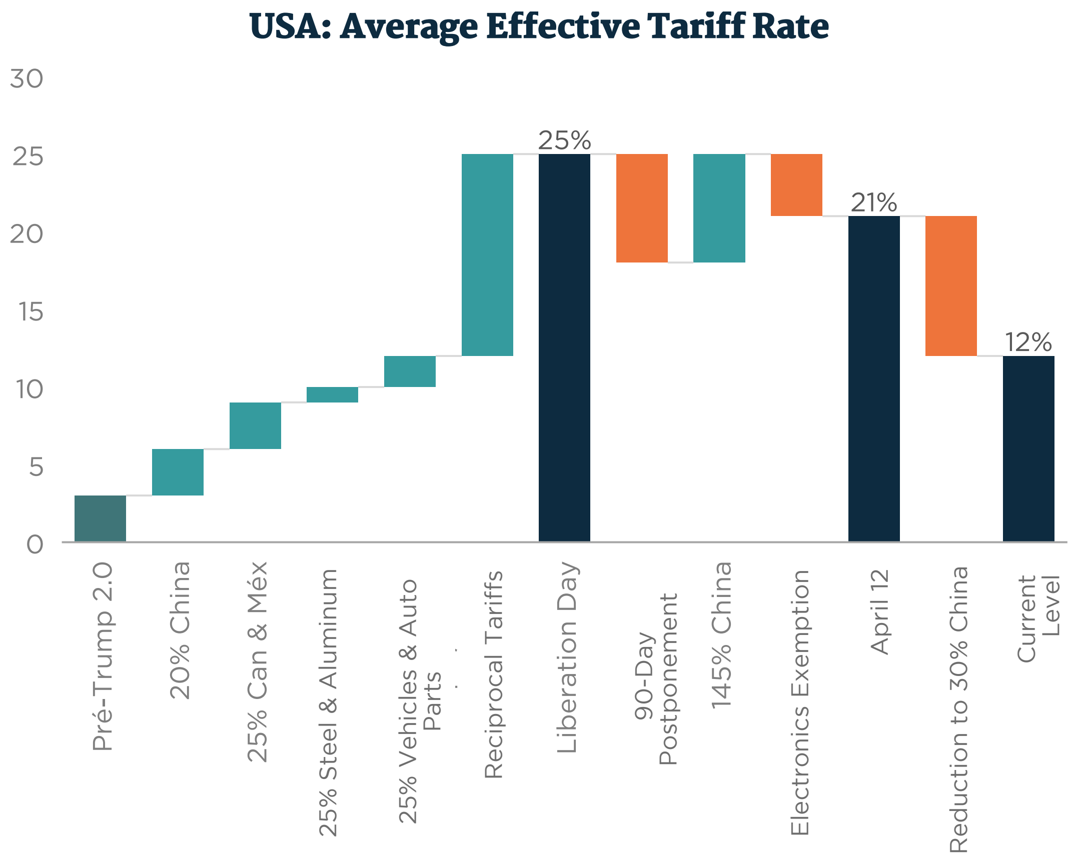
Indice

TURIM

Rates:
Estimates Have Declined Since Liberation Day, but Impacts Remain
Global



The chart on the left illustrates the recent trajectory of average effective tariff estimates in the United States. Despite recent rollbacks by President Donald Trump — such as the postponement of tariffs and the exemption of electronic products — the current tariff level still poses a significant impact on global trade.

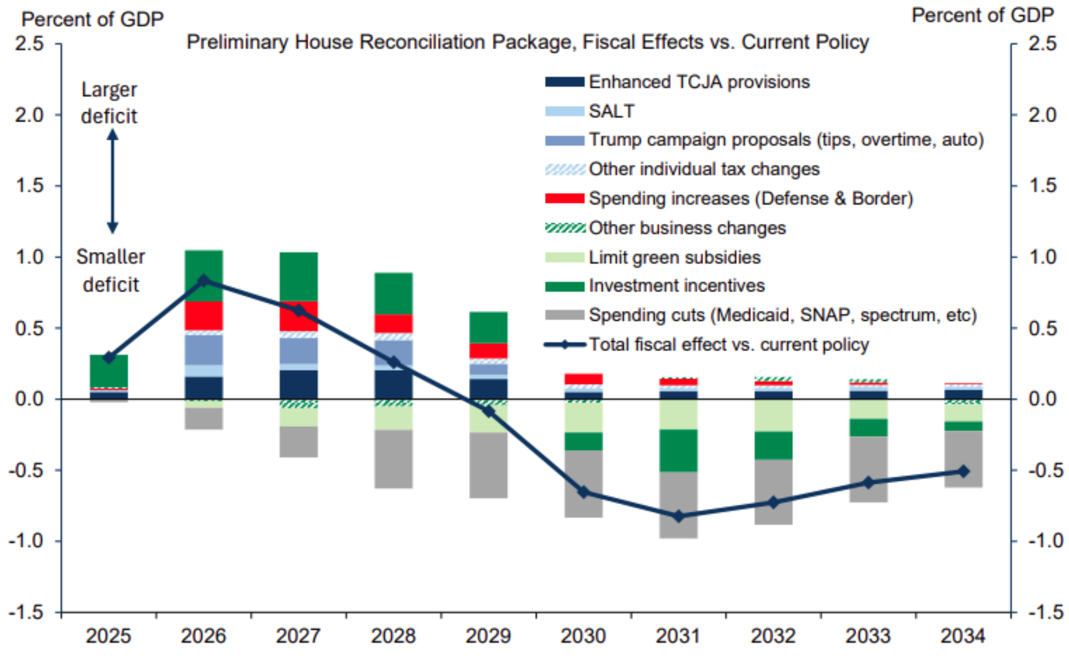
However, the effects of these measures have yet to be fully reflected in inflation and economic activity data.

The recent reduction in tariffs by the U.S. administration has reinforced the narrative known as the "TACO trade" (Trump Always Chickens Out), a strategy adopted by investors who bet on the reversal or softening of the more aggressive trade policies implemented under the Trump administration, particularly those affecting relations with China.

Source: Schroders, Turim

Fiscal:
Tax Cuts Upfront, Spending Cuts Deferred
Global

Front-Loaded Tax Cuts, Back-Loaded Spending Cuts



"The One Big Beautiful Bill Will", the fiscal package currently under discussion in the U.S. Congress, uses the reconciliation mechanism, which allows for the approval of fiscal measures with a simple majority in the Senate. The package combines an extension and expansion of the tax cuts approved in 2017 (TCJA) with significant changes to public spending.

Key highlights include increased expenditures on defense and border security, alongside projected cuts in other areas such as subsidies for green energy programs and public health policies.

As illustrated in the chart, this fiscal package tends to significantly increase the public deficit as a percentage of GDP during the initial years of implementation — particularly throughout Donald Trump's current term — with sharper spending containment measures only coming into effect later.

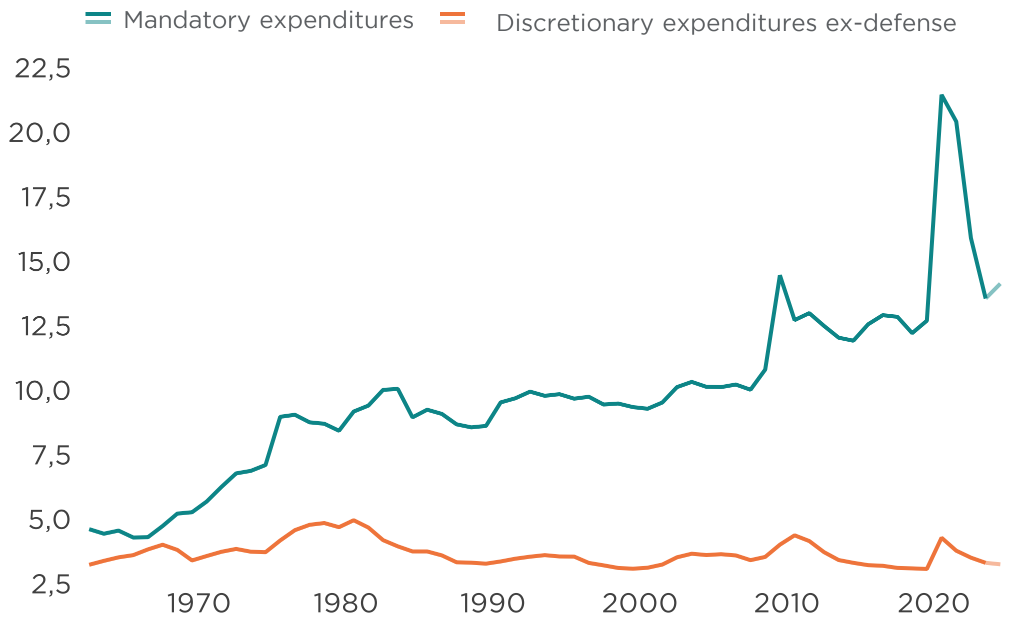
In addition, the bill passed by the House includes a provision that would enable the implementation of the so-called revenge tax, a potential new levy on foreign investors that could raise the overall tax burden in the U.S.

Source: Goldman Sachs

Fiscal:
Focusing Solely on Discretionary Spending Is No Longer Sufficient
Global

CBO: U.S. Government Expenditures

As a Percentage of GDP

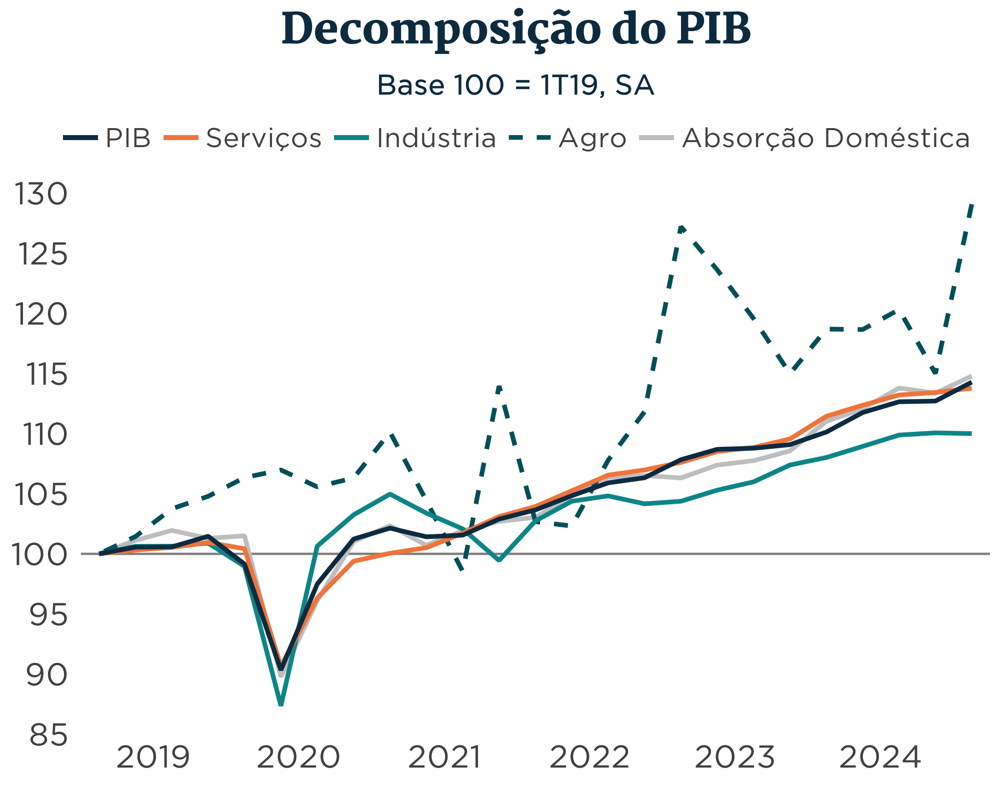


Over the past decades, the U.S. government has run persistent fiscal deficits, largely driven by the sharp increase in public spending. The chart on the left illustrates the evolution of mandatory expenditures (such as social security benefits, public healthcare, and debt servicing) and discretionary expenditures excluding defense (i.e., those subject to annual Congressional approval, such as education, housing, and transportation), as a percentage of GDP.

In recent years, rising interest rates have further worsened the nominal deficit — a trend seen not only in the U.S. but also across other global economies. According to the credit rating agency Moody's, which downgraded the U.S. sovereign rating from Aaa to Aa1 in May, mandatory expenditures are expected to account for approximately 78% of total federal spending by 2035, significantly constraining the country's fiscal flexibility.

Source: CBO, Turim

Activity:
Q1 2025 Growth Driven by Strength in the Agribusiness Sector
Brazil



Brazil's GDP grew by 1.4% in the first quarter of 2025 — a solid result, albeit slightly below market expectations. This performance was primarily driven by the agribusiness sector, which benefited from another favorable harvest early in the year. Other sectors of the economy have shown more moderate expansion, as depicted in the chart on the left.

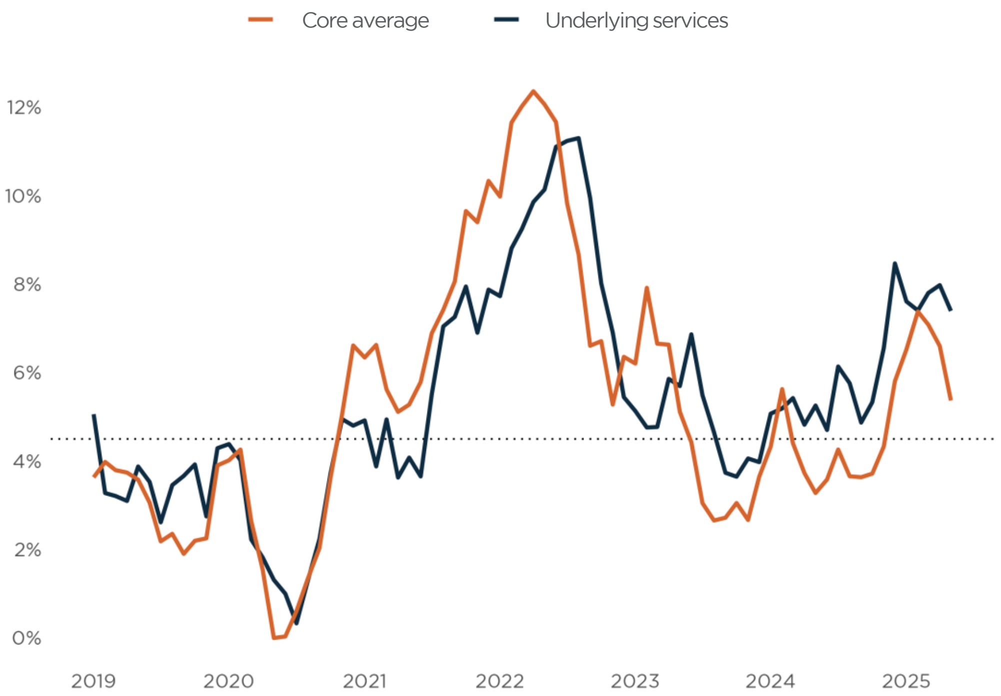
It is worth noting that, although volatile, the real growth of agricultural GDP has frequently outperformed the rest of the economy in recent years. Meanwhile, sectors more sensitive to the domestic cycle — such as services and industry (on the supply side) as well as domestic absorption (a proxy for internal demand) — have shown growth rates closer to the country's structural economic potential.

Source: IBGE, Turim

Inflation:
Marginal Improvement, but Still at Elevated Levels
Brazil

IPCA: Core Measures

MM3M SAAR



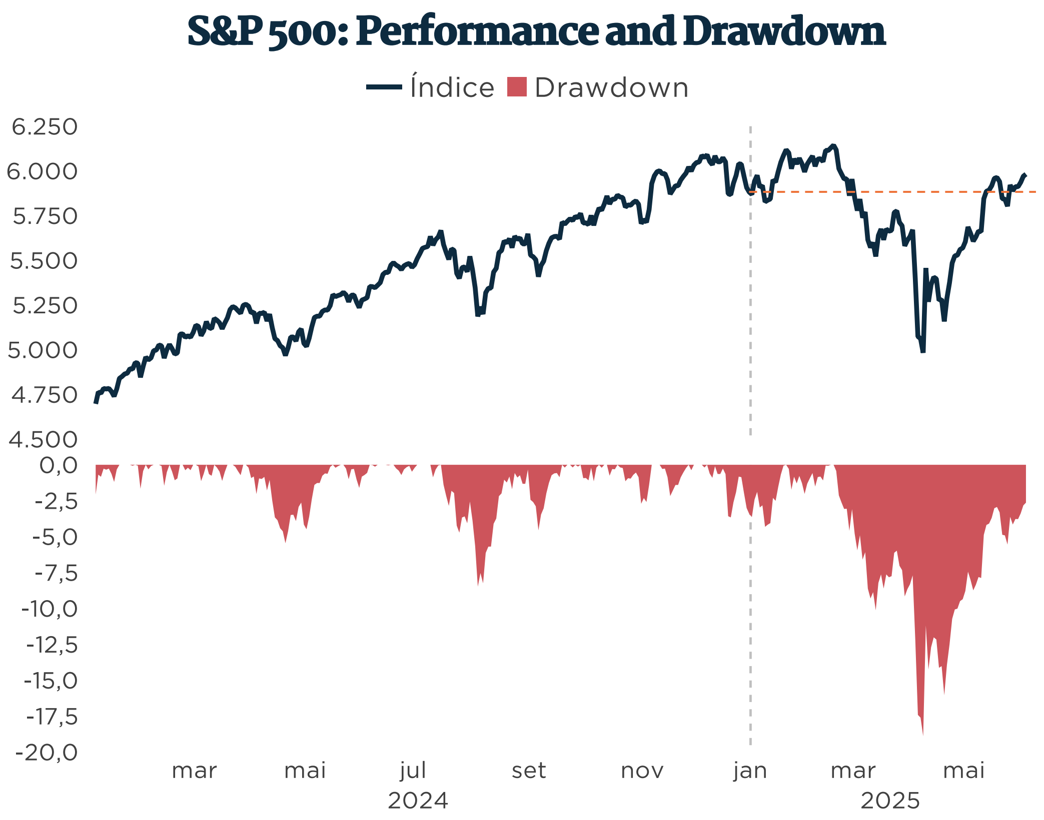
Recent IPCA readings have brought positive surprises, indicating a gradual moderation in consumer inflation in Brazil — even in stickier components such as core inflation and underlying services, both shown in the chart to the left.

Although current levels remain above the upper bound of the Central Bank's inflation target range, the trend in core measures suggests ongoing disinflationary progress.

This improvement may be partially attributed to the appreciation of the Brazilian real: the U.S. dollar closed the month of May near R$5.70, below the level observed at the beginning of the year (above R$6.00). Looking ahead, the still contractionary stance of monetary policy is expected to continue supporting the gradual disinflation process.

Source: IBGE, Turim

Equities:
Initial Market Drop Reversed Following Trump's Retreats
Markets



The perception that Donald Trump would adopt a more moderate stance — despite continued combative rhetoric — helped popularize the term TACO (Trump Always Chickens Out), used to describe a pattern of strategic pullbacks under market pressure. This expectation supported the recovery of equity markets, alongside declining volatility observed between April and May.

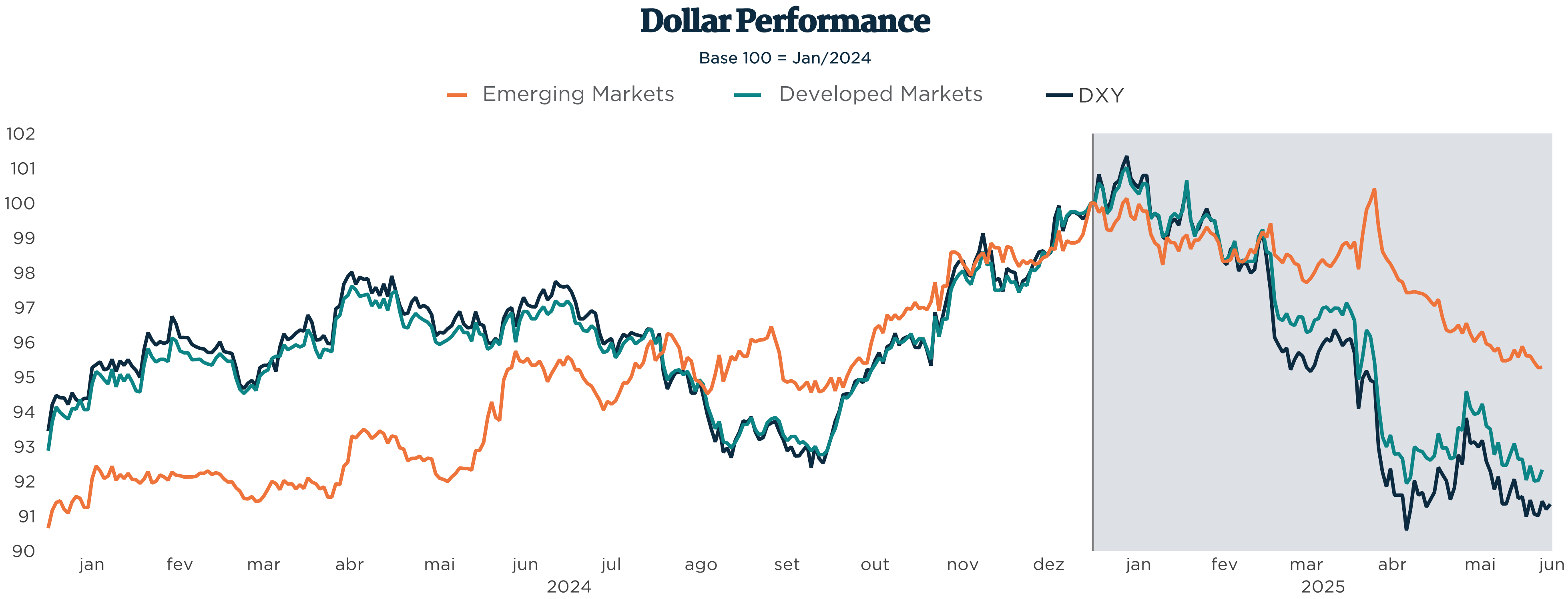
As a result, the U.S. stock market, represented in the chart by the S&P 500 Index, regained much of its drawdown, which had reached approximately 17%. The index has since posted a positive year-to-date performance and is once again approaching the peak levels observed before the so-called Liberation Day. This recovery was even more pronounced among the Magnificent Seven stocks, whose drawdown approached 30%, but also posted a strong rebound in recent weeks.

**Drawdown: cumulative loss from historical peak*
*** Apple, Microsoft, Alphabet, Amazon, Meta, Nvidia, and Tesla*

Source: Bloomberg, Turim

Exchange Rate:
Dollar Weakness Continues, with Emerging Markets Standing Out at the Margin

Markets



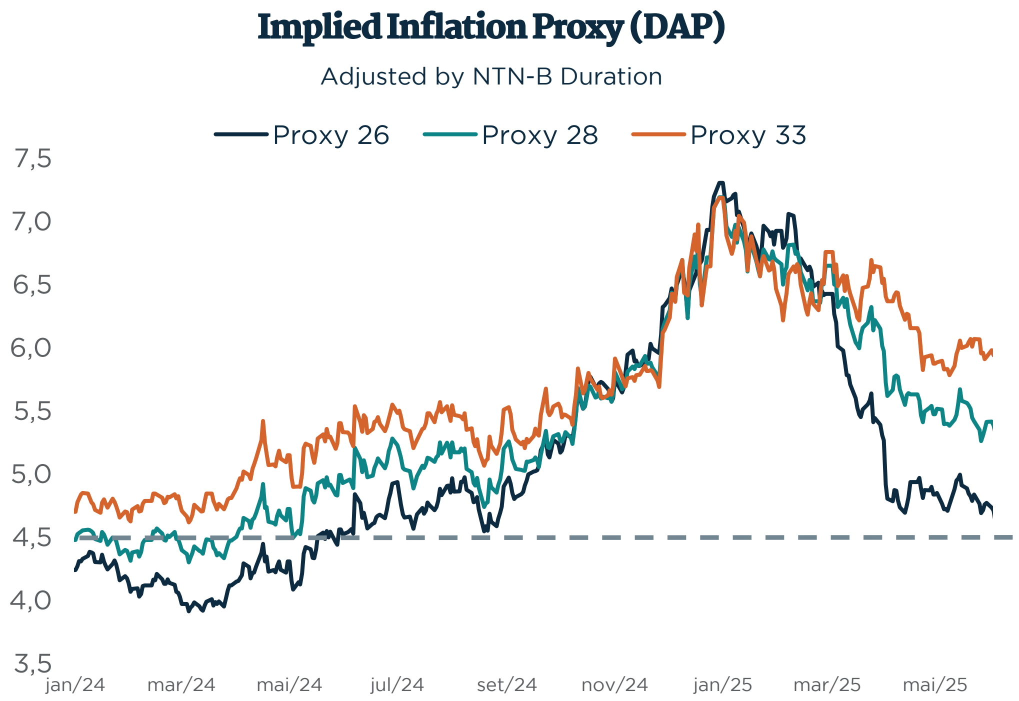
The chart above shows the performance of the U.S. Dollar against a basket of developed market currencies (closely tracked by the DXY Index) and against currencies from emerging markets.Throughout 2025, the Dollar has undergone a depreciation trend — initially more concentrated against developed market currencies, especially following the announcements of reciprocal tariffs. More recently, this trend has also extended to emerging market currencies, with some convergence in the trajectories throughout the month of May.

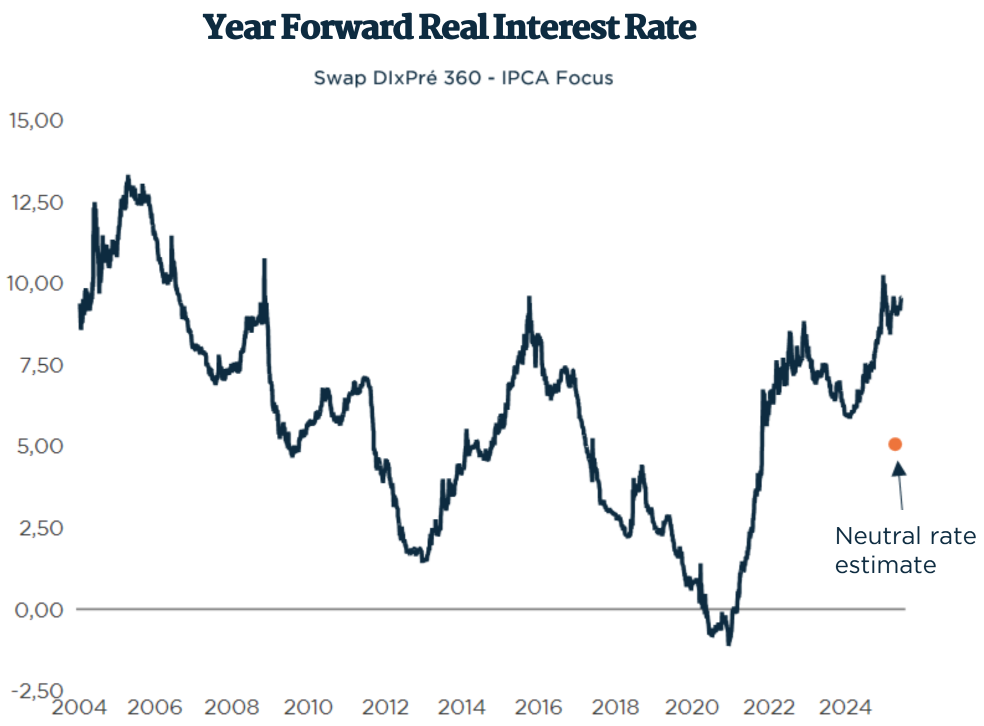
Source: Federal Reserve, Turim

Interest Rates

Implied Inflation Continues to Moderate

Markets





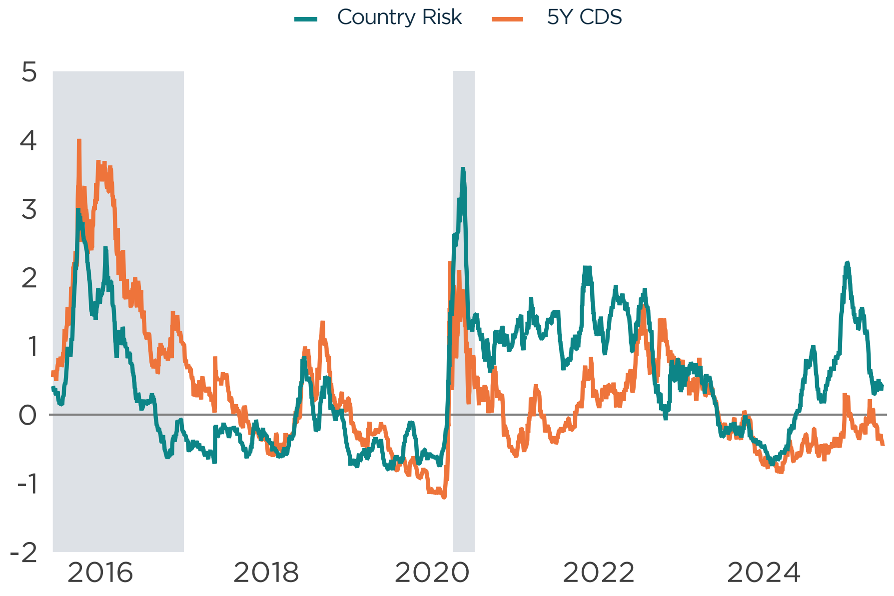
The current level of real interest rates in Brazil, around 9% per year for the next 12 months (as shown in the chart on the right), has supported a gradual re-anchoring of inflation expectations, represented by the implied inflation proxies on the left-hand chart.These indicators — derived from the pricing of inflation-linked government bonds (NTN-Bs) — are already nearing the upper bound of the Central Bank's inflation target in certain maturities. This trend reflects, to a large extent, the impact of the Central Bank's more assertive communication, which has signaled an intention to maintain high interest rates for an extended period in order to ensure inflation convergence.

Source: Bloomberg, Turim

Risk:
Traditional Metrics Fail to Capture Marginal Deterioration in Country Risk Despite Shocks
Markets

Estimated Country Risk vs. CDS

Normalized series (z-score)



Despite recent episodes of political instability — such as debates around the IOF (Tax on Financial Transactions) and fiscal challenges related to the budget — local asset prices have shown relative resilience, with no abrupt short-term repricing.

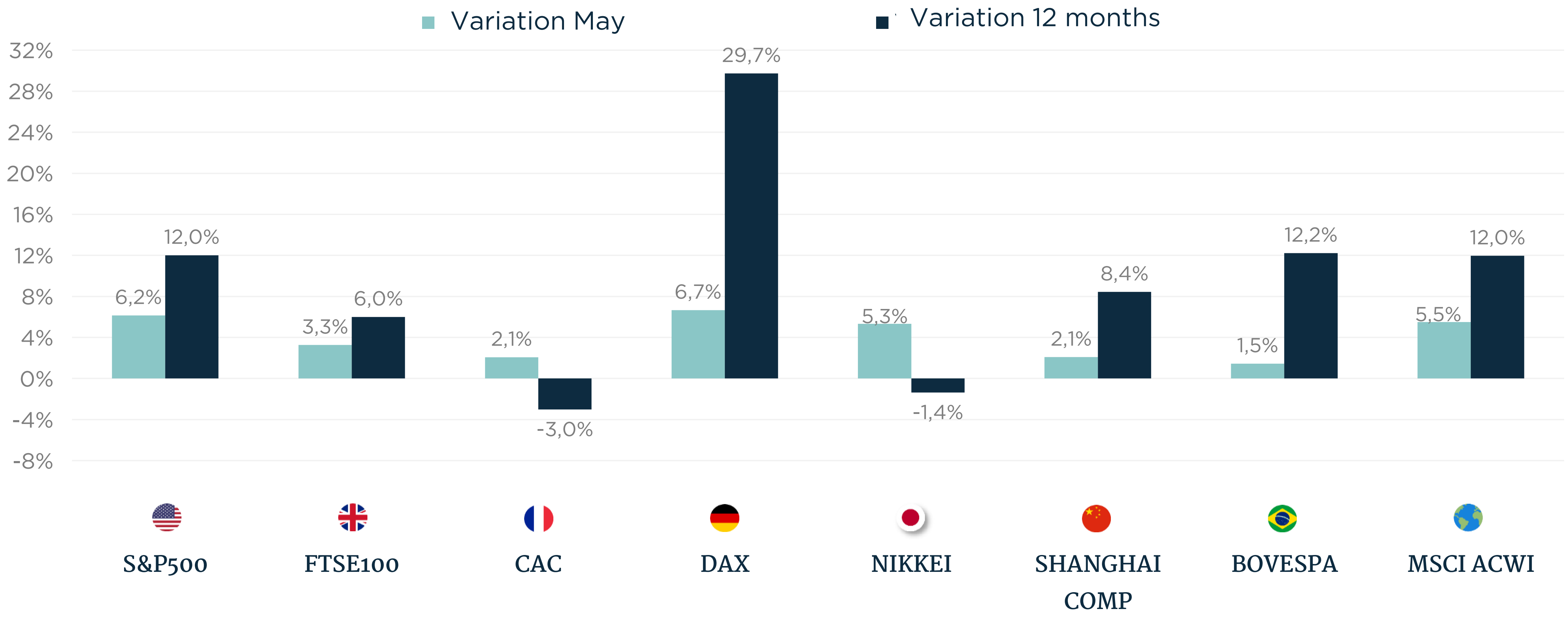
The chart on the left compares two country risk metrics: the 5-year CDS (a traditional sovereign risk indicator) and a proprietary index that incorporates a basket of market variables such as Exchange Rate volatility and implied inflation. Both series are presented in z-score format to facilitate relative comparison.

It is worth noting that, despite recent tensions, these measures have remained close to historical averages, with moderation since the beginning of the year. This behavior seems to reflect both a more constructive external environment and positive market anticipation regarding the 2026 election cycle.

Source: Bloomberg, Turim

Stock Markets

Markets



Fonte: Bloomberg

Indices

	Variation May	Value in 31/05/2025	Variation in 2025	Variation in 12 months
COMMODITIES				
OIL WTI	4,4%	60,79	-15,2%	-21,0%
GOLD	0,0%	3.289,25	25,3%	41,3%
MOEDAS (EM RELAÇÃO AO US$)				
EURO	0,2%	1,13	9,6%	4,6%
LIBRA	1,0%	1,35	7,5%	5,6%
YEN	-0,7%	144,02	9,2%	9,2%
REAL	-0,9%	5,72	7,9%	-8,3%
ÍNDICES				
S&P500	6,2%	5.911,69	0,5%	12,0%
FTSE100	3,3%	8.772,38	7,3%	6,0%
CAC	2,1%	7.751,89	5,0%	-3,0%
DAX	6,7%	23.997,48	20,5%	29,7%
NIKKEI	5,3%	37.965,10	-4,8%	-1,4%
SHANGHAI COMP	2,1%	3.347,49	-0,1%	8,4%
BOVESPA	1,5%	137.026,62	13,9%	12,2%
MSCI ACWI	5,5%	879,50	4,5%	12,0%

*Amounts and results in local currency

Source: Bloomberg

Disclaimer

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