



Economic Report

October 2025

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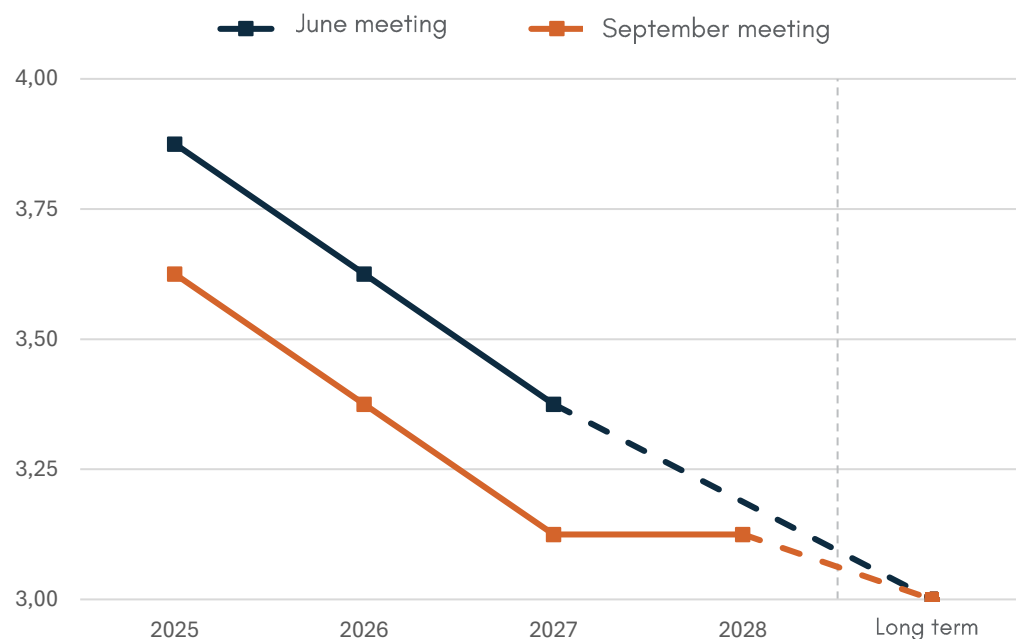


Monetary Policy:

FOMC resumes rate-cutting cycle and anticipates two more moves by the end of the year

Global

FOMC: interest rate expectation



The latest FOMC meeting marked the resumption of the interest rate cutting cycle, reducing the benchmark rate by 25 basis points to a range between 4% and 4.25% per year (as expected). However, the vote of newly appointed member Stephen I. Miran, chairman of the Council of Economic Advisers at the White House, dissented in favor of a 50-basis-point cut.

The chart on the left illustrates the shift in the median projections of committee members for interest rates between the June (blue) and September (orange) meetings. It is notable that members anticipate two additional cuts by the end of 2025, even as revisions to growth and unemployment forecasts suggest a stronger-than-expected economy in the coming year compared to projections made in June.

In his press conference, Jerome Powell emphasized that the decision reflected adjustments in the balance of risks, given the signs of moderation in the labor market.

Fiscal:

Shutdown may affect economic activity and hinder monetary policy management

Global

History of U.S. Government Shutdowns

Date	President	Duration (days)
22/12/2018	Trump	35
16/12/1995	Clinton	21
01/10/1978	Carter	17
01/10/2013	Obama	16
01/10/1977	Carter	12
01/10/1979	Carter	11
01/10/1976	Ford	10
01/11/1977	Carter	8
01/12/1977	Carter	8
14/11/1995	Clinton	5
18/12/1982	Reagan	3
11/11/1983	Reagan	3
06/10/1990	Bush	3
21/11/1981	Reagan	2
01/10/1984	Reagan	2
20/01/2018	Trump	2
01/10/1982	Reagan	1
04/10/1984	Clinton	1
17/10/1986	Reagan	1
19/12/1987	Reagan	1
09/02/2018	Trump	1

After a standoff between Democrats and Republicans over healthcare funding in the federal budget, the U.S. government entered a shutdown, halting several public sector activities as of October 1. The last shutdown occurred during Donald Trump's first term in 2018 and as shown in the chart, was the longest since the 1970s, lasting 35 days.

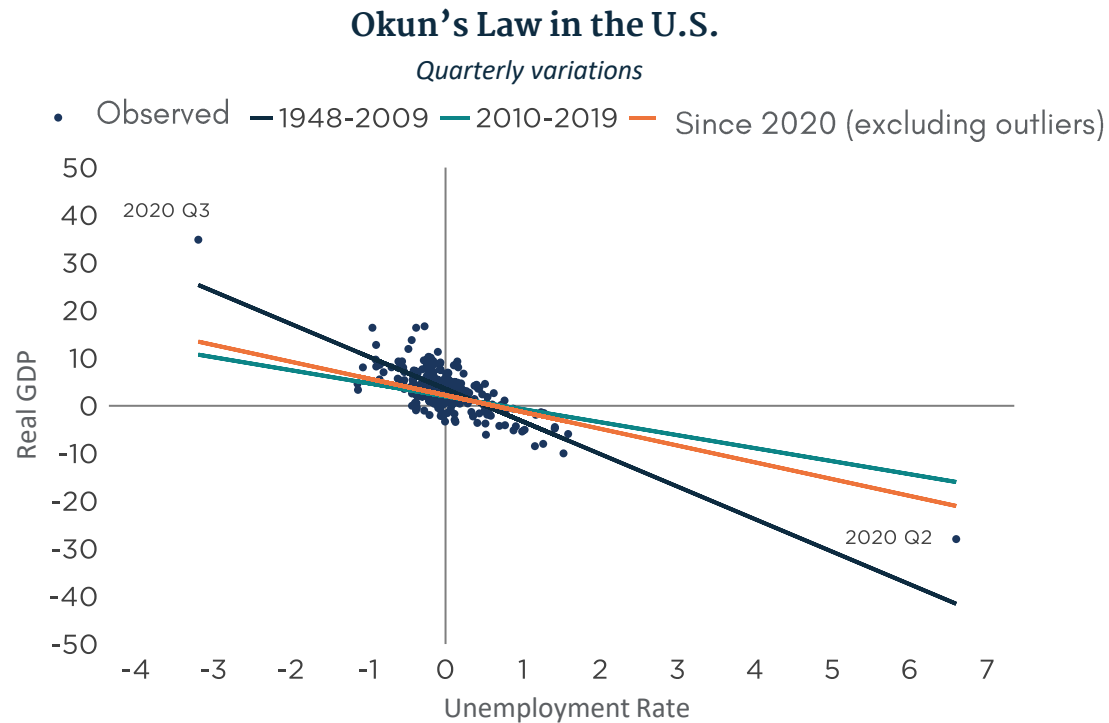
In terms of economic impact, estimates suggest a negative contribution of roughly 0.1 percentage point to GDP per week. Currently, expectations are that the shutdown will not last much longer than two weeks — in which case, its effects on GDP should remain temporary. A more prolonged disruption, however, could result in lasting economic losses.

Additionally, the shutdown suspends the release of key economic indicators, such as the September Payroll report, which was scheduled for October 3. This gap in data reporting further complicates the conduct of monetary policy, which has become increasingly dependent on timely economic information.

Activity:

Growth revision surprises, indicating an economy that remains resilient

Global



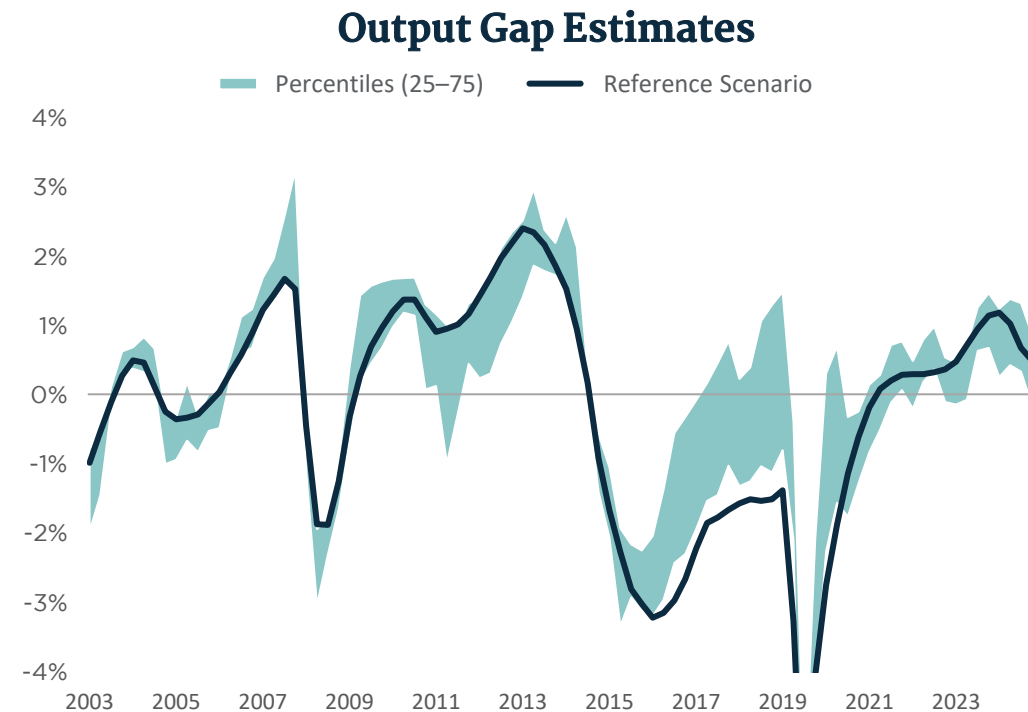
The final reading of U.S. GDP, released a few days before the shutdown, showed a significant upward revision of +0.5 p.p., bringing the annualized growth rate for the second quarter to 3.8%. The adjustment was mainly concentrated in household consumption (+0.8 p.p.), which rose 2.5% in the quarter, indicating still strong domestic demand.

Although the resilience in activity may appear to contrast with signs of moderation in the labor market, in practice, the relationship between GDP growth and changes in the unemployment rate remains very similar to the pattern observed in the pre-pandemic period. This relationship is illustrated through Okun's Law, estimated in the chart on the left for three distinct periods: pre-Global Financial Crisis (1948-2009), pre-COVID (2010-2019), and the recent period (since 2020, excluding two outliers highlighted in the chart). A simple visual inspection shows that the lines representing the two most recent periods are closely aligned, despite the higher volatility in more frequent data.

Monetary Policy:

Tight output gap justifies maintaining inflation projections within the relevant horizon

Brazil



One point of surprise in the Central Bank of Brazil's latest decision was the maintenance of its inflation forecast for the relevant horizon (currently corresponding to Q1 2027) at 3.4%, despite improvements in market inflation expectations and the appreciation of the exchange rate.

The Monetary Policy Report, released a few days later, helped clarify the reasoning behind the decision. The committee revised its estimate for the output gap upward in the second quarter of 2025 (from 0.5% to 0.7%), indicating greater pressure on productive capacity. Nonetheless, the Central Bank still expects moderation ahead, with a mild slowdown already projected for the third quarter (0.5%), as shown in the chart.

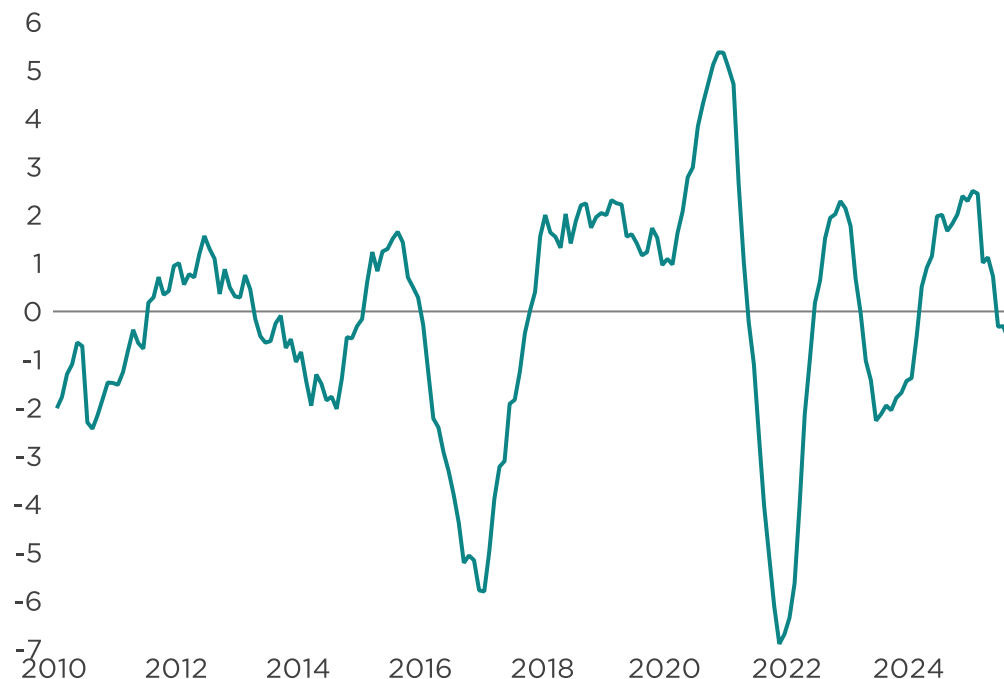
The report also included specific studies on labor market dynamics, highlighting that part of the recent labor market tightness reflects not only cyclical but also structural factors — such as the expansion of digital services in passenger transportation and delivery, as well as demographic changes in the working-age population.

Credit:

Decline in credit impulse expected to help slow down activity

Brazil

Credit Impulse



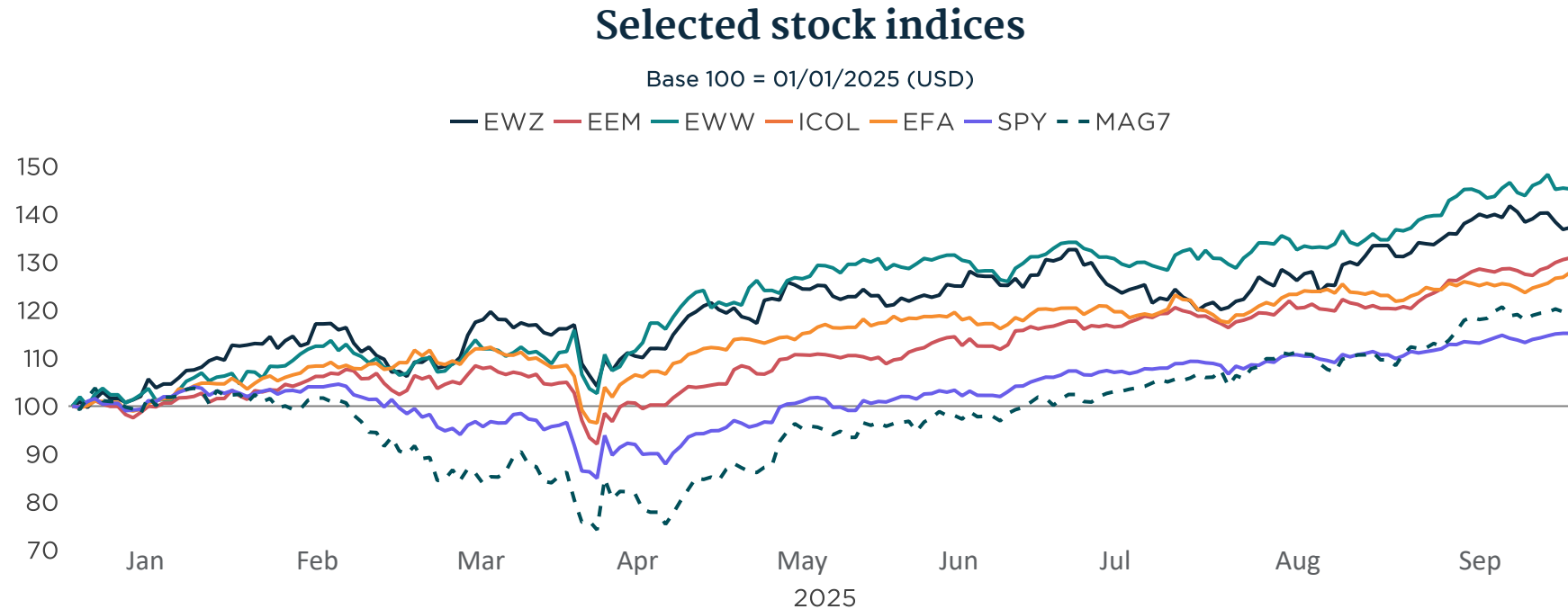
After a period of strong credit market expansion, the effects of tight monetary policy are beginning to show. The chart on the left illustrates the evolution of the credit impulse, calculated from the second derivative of the credit stock as a share of GDP — that is, the change in the rate of credit growth in the economy. The measure has been slowing since the start of the year and entered negative territory in the second half of 2025.

Despite this decline, the credit market does not appear to be approaching a breaking point. The main point of attention remains the delinquency rate, which has risen significantly since early 2025. However, according to Central Bank studies, roughly 70% of this increase can be attributed to regulatory changes rather than a structural deterioration in credit quality.

Equities:

Global markets performed well, led by technology stocks and emerging economies

Markets



Overall, major global equity indices continued to deliver positive performance in September, as shown in the chart above. At the international level, emerging markets stood out, rising around 7% in the month. In the United States, the main indices also advanced, largely driven by technology companies — reflected in gains of 5.6% for the Nasdaq Composite and 6.8% for the Magnificent 7. However, the continued appreciation of technology stocks calls for caution, given signs of potential overvaluation.

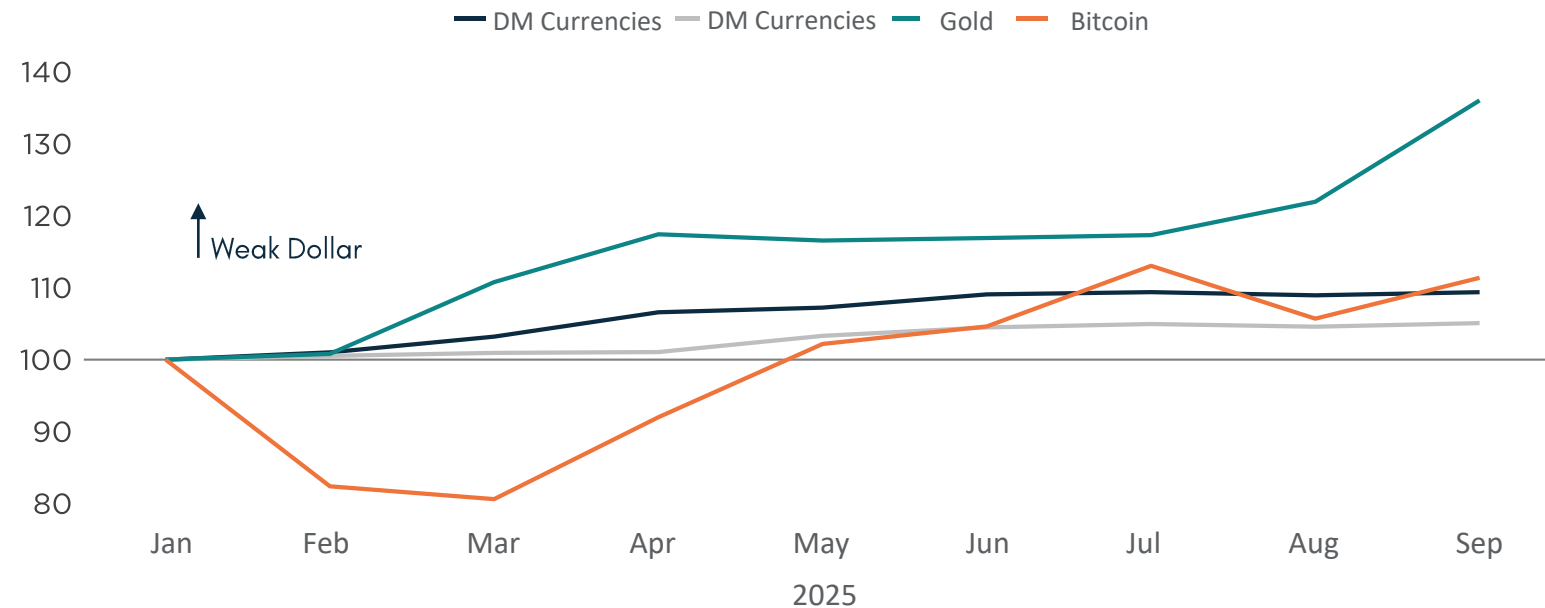
Dollar:

Alternative stores of value continue to appreciate

Markets

Dollar performance

Base 100 = Jan/2025

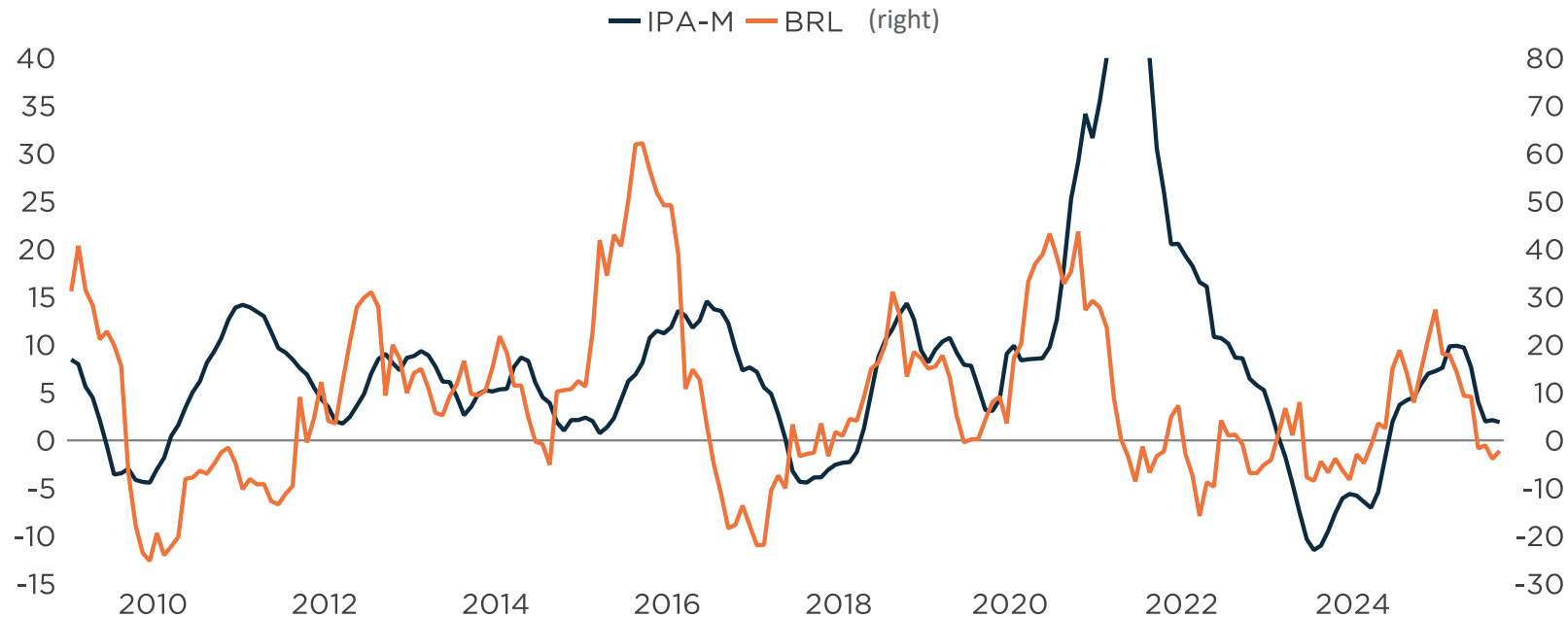


The Dollar's depreciation trend, evident since Liberation Day, continued through September, despite the stability of the DXY index — which measures the Dollar's performance against a basket of currencies, mainly the Euro (57.6%), Japanese Yen (13.6%), and British Pound (11.9%). What stood out during the month was not the movement in traditional exchange rates, but rather the strong performance of alternative stores of value, such as metal commodities and cryptoassets, as shown in the chart above.

Exchange Rate: Falling dollar continues to support food and industrial prices

Markets

Inflation vs exchange rate



The trend of a weaker Dollar continued to benefit the Brazilian Real, which appreciated by around 2% in September and has now accumulated a 16.1% gain for the year. This sustained exchange rate appreciation has helped to ease inflationary pressures in Brazil, particularly in wholesale prices. Part of this effect has also extended to food inflation, which has historically been an important factor in shaping public perception of the government.

Equities:

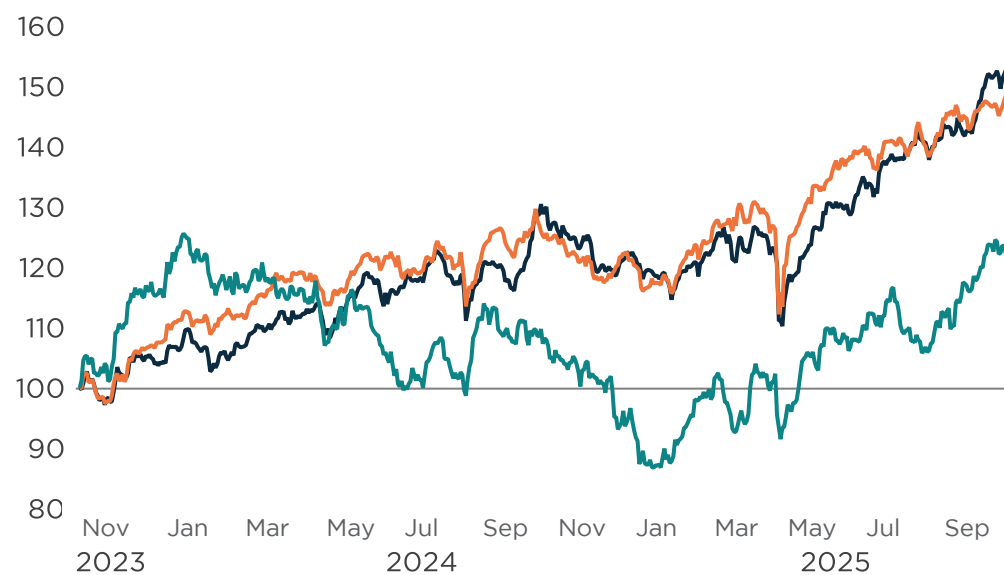
Local assets also followed global performance

Markets

Global stock market performance

Last 24 months

— MSCI Brazil — EFA — EEM

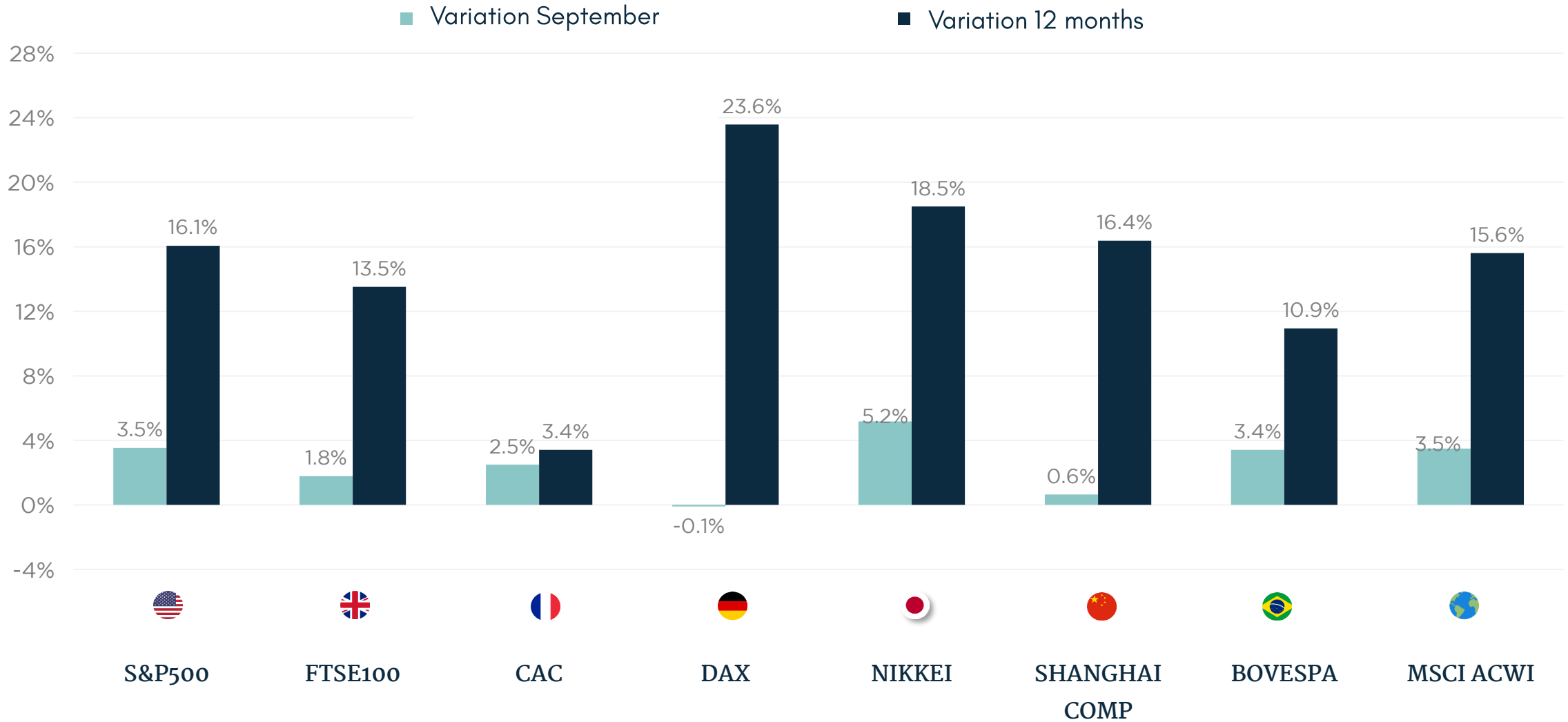


The main equity indices in Brazil also delivered positive performance, with the Ibovespa up 3.4% and the Small Caps Index advancing 1.6%. Gains were particularly strong among utilities companies, which appreciated by around 7%. The chart on the side illustrates how this positive momentum in the Brazilian market, represented by the MSCI Brazil (EWZ), mirrored the movements of emerging markets (EEM) and developed markets ex-US (EFA).

In contrast, the interest rate market moved in the opposite direction — a development that may better reflect the country's domestic fiscal dynamics, marked by heightened uncertainty, particularly surrounding new government measures that could affect the public accounts trajectory.

Stock Markets

Markets



Indices

	Variação Setembro	Valor em 30/09/2025	Variação em 2025	Variação 12 meses
COMMODITIES				
OIL WTI	-2.6%	62.37	-13.0%	-8.5%
GOLD	11.9%	3.858,96	47.0%	46.5%
CURRENCIES (AGAINST USD)				
EURO	0.4%	1.17	13.3%	5.4%
LIBRA	-0.4%	1.34	7.4%	0.5%
YEN	-0.6%	147.90	6.3%	-2.9%
REAL	2.0%	5.32	16.1%	2.4%
INDICES				
S&P500	3.5%	6.688,46	13.7%	16.1%
FTSE100	1.8%	9.350,43	14.4%	13.5%
CAC	2.5%	7.895,94	7.0%	3.4%
DAX	-0.1%	23.880,72	19.9%	23.6%
NIKKEI	5.2%	44.932,63	12.6%	18.5%
SHANGHAI COMP	0.6%	3.882,78	15.8%	16.4%
BOVESPA	3.4%	146.237,02	21.6%	10.9%
MSCI ACWI	3.5%	984.78	17.1%	15.6%

*Values and results presented in local currency

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