



Economic Report

December 2022

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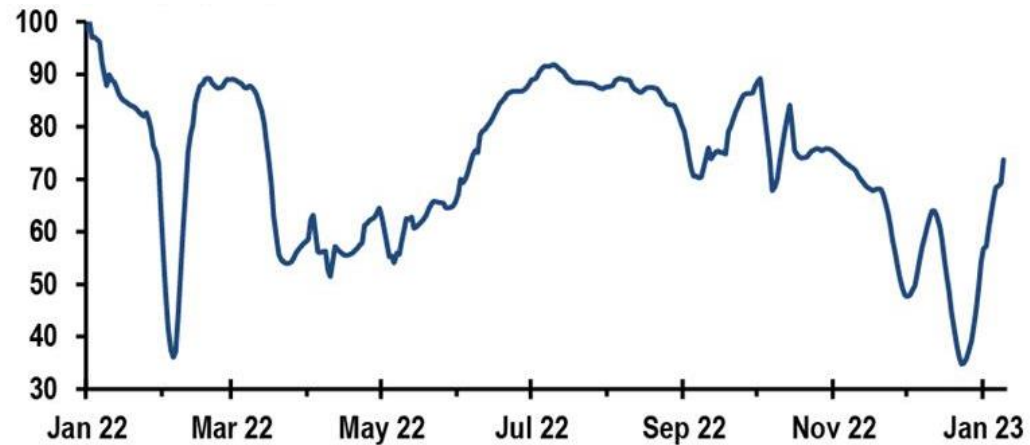
China:

Importante reopening for the global economy

Global Economy

Metro rail traffic index in China

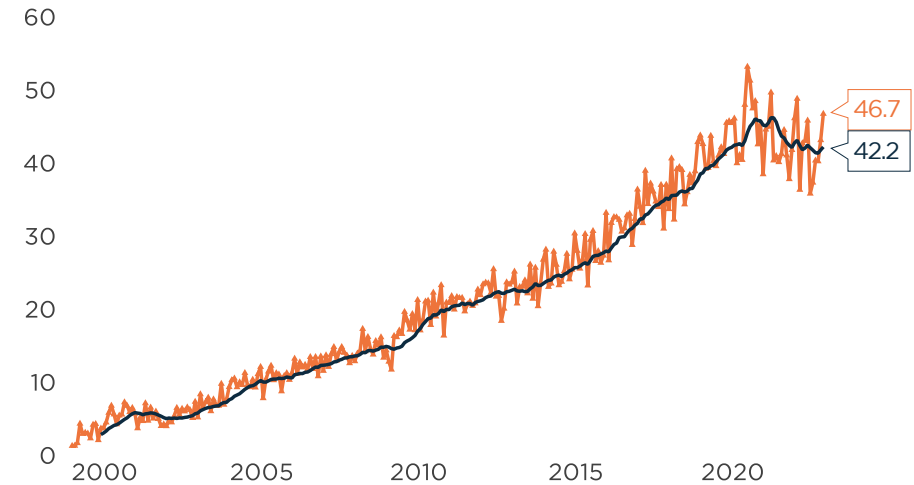
Average of 29 cities weighted by the percentage of GDP/MM7D



Volume of oil imported by China

Million tons

— 12-moving average — Demand

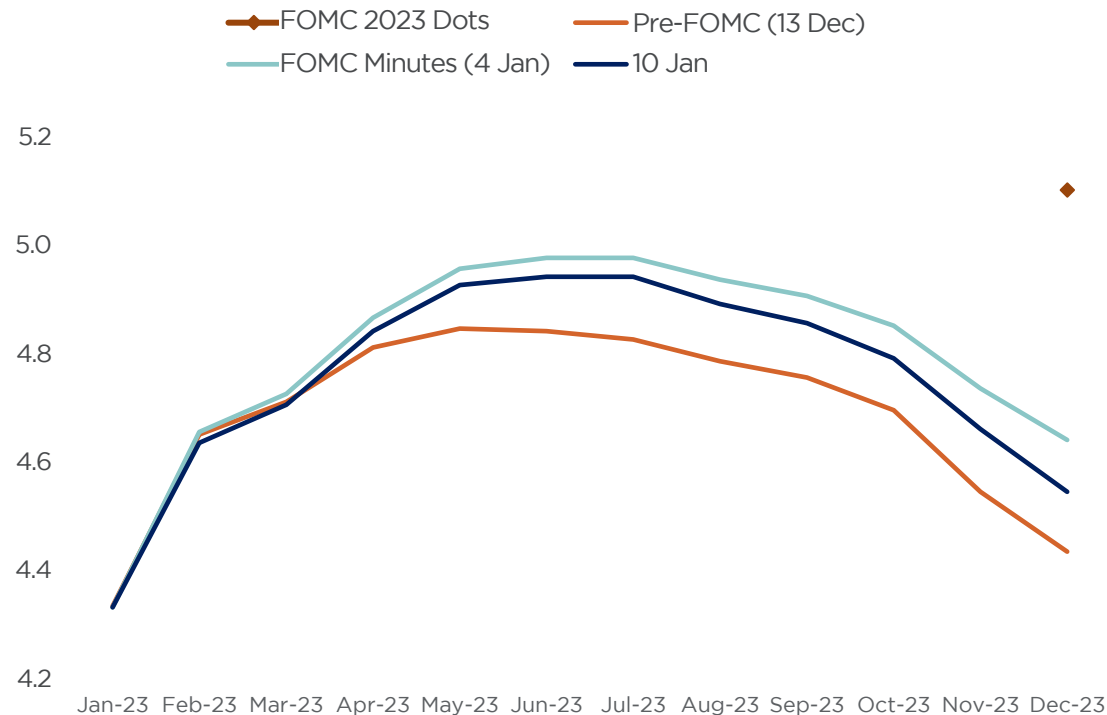


One of the major changes as we transitioned into the new year was the reopening process of the Chinese economy with the ending of the Covid Zero policy. The Chinese authorities have been removing Covid-19 related restrictions since late last year and announcing a series of economic stimulus measures. There is speculation that the development of this process will result in additional support for oil prices. China is one of the largest importers of oil.

FOMC: Market factors in cuts, diverging from Fed expectations

Global Economy

Interest rates and FOMC estimates

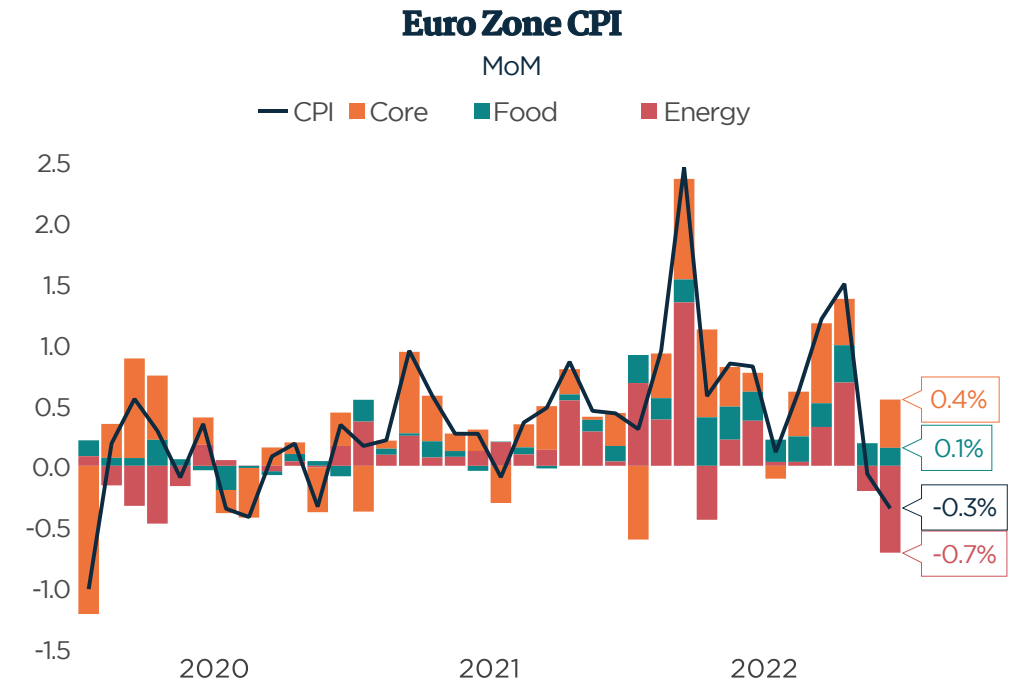
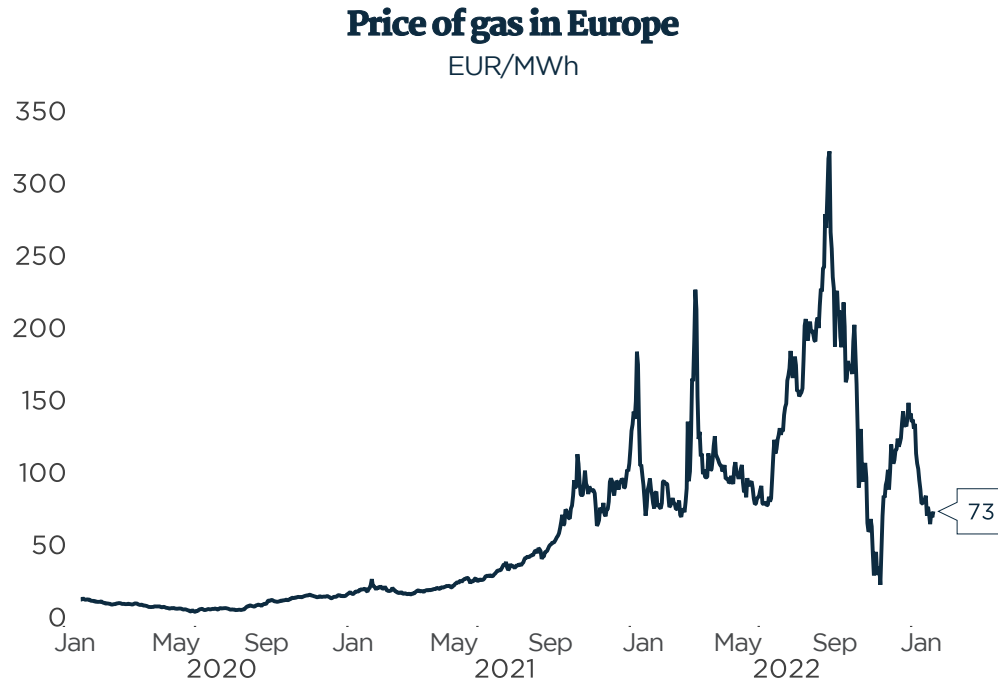


The year 2022 was marked by rising global interest rates specially the U.S. government bond market, as monetary authorities tried to combat rising inflation. More recently, the weaker economic data, particularly in relation to inflation, has led to a significant movement towards the curve closing.

As the accompanying graph shows, this phenomenon resulted in pricing a rate at the end of the year which is much lower than that projected by the FOMC - the Fed's monetary policy committee. This divergence has been a cause of concern for committee members who continue to stress that they still do not intend cutting interest rates this year.

Europe: Gas price retreats and helps reduce inflation

Global Economy



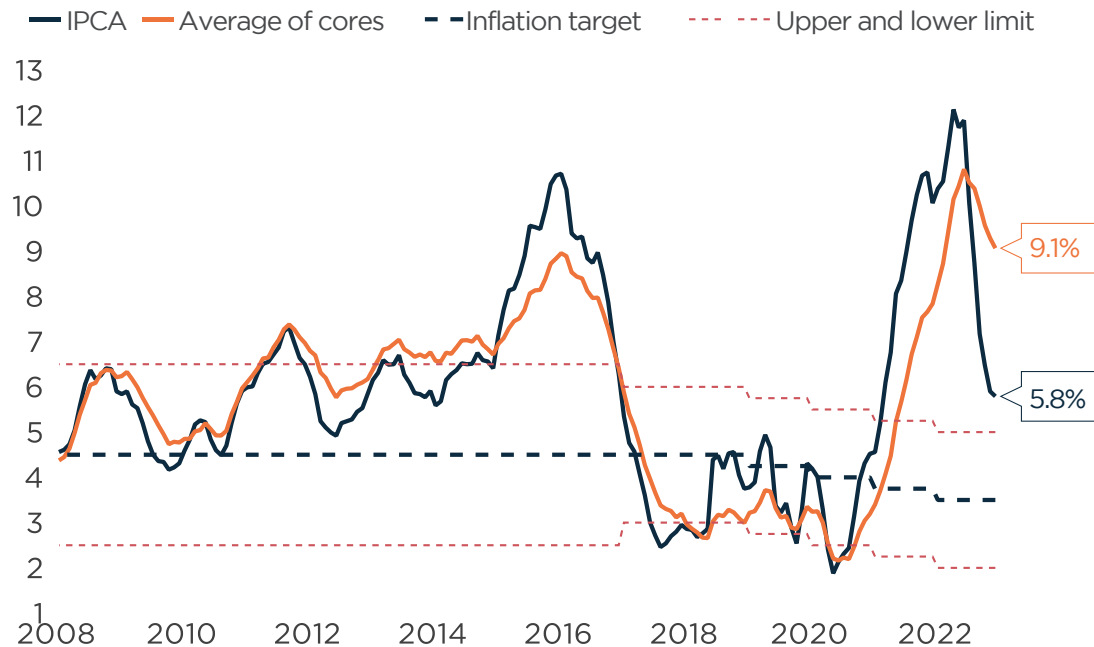
Winter's arrival in the northern hemisphere sprung a positive surprise as the cold turned out to be less severe than feared. This led to a steep drop in gas prices in Europe (left graph), with implications for December's inflation (right graph) which showed a decline in the headline index despite the pressure on the core..

Inflation: Inflation ends year above target ceiling

Brazilian Economy

IPCA and cores against inflation target

Accumulated over 12 months



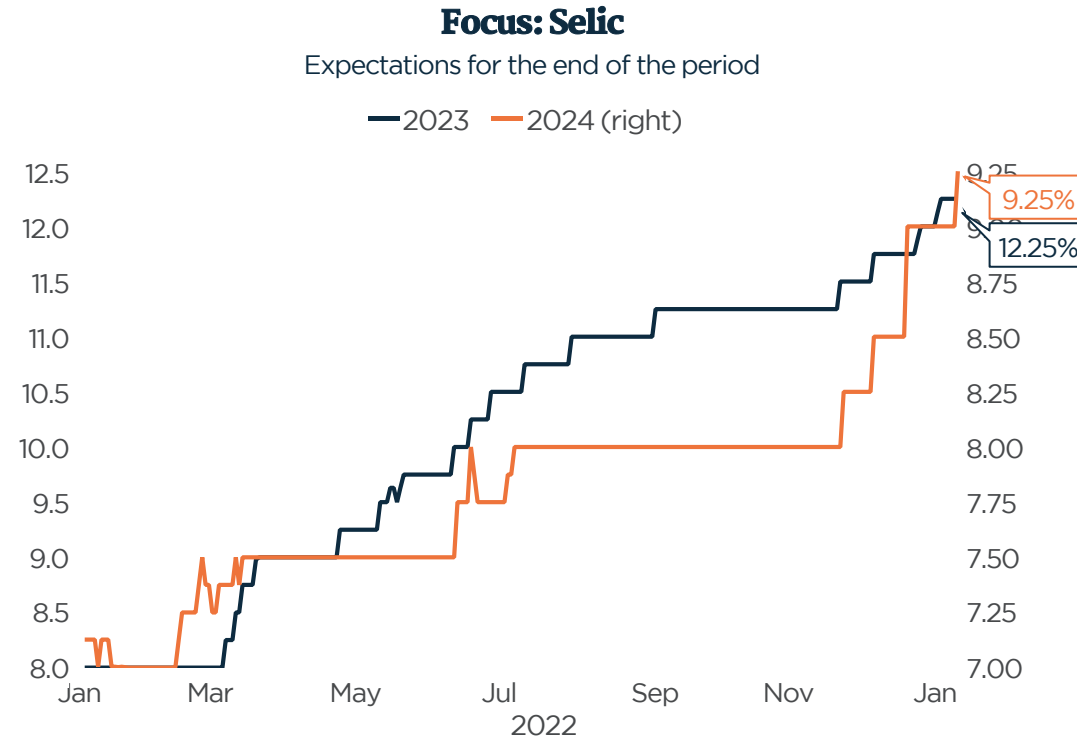
The variation of the IPCA index in December surprised the market by almost 20 basis points*, with a big contribution arising from the normalization of items affected by Black Friday promotions. This result led the accumulated inflation for the year to 5.8%, above the target ceiling (5%). The average of the cores monitored by the Central Bank, in turn, remain at a high level, as shown by the orange line in the accompanying graph.

It is worth noting that the accumulated inflation over the year reflects a truly widespread increase, despite the fall in fuel and electricity prices.

*1 basis points or 1 bp = 0.01% or 1/100 percentage points

Focus Report: Fiscal risk raises expectations for interest rates

Brazilian Economy

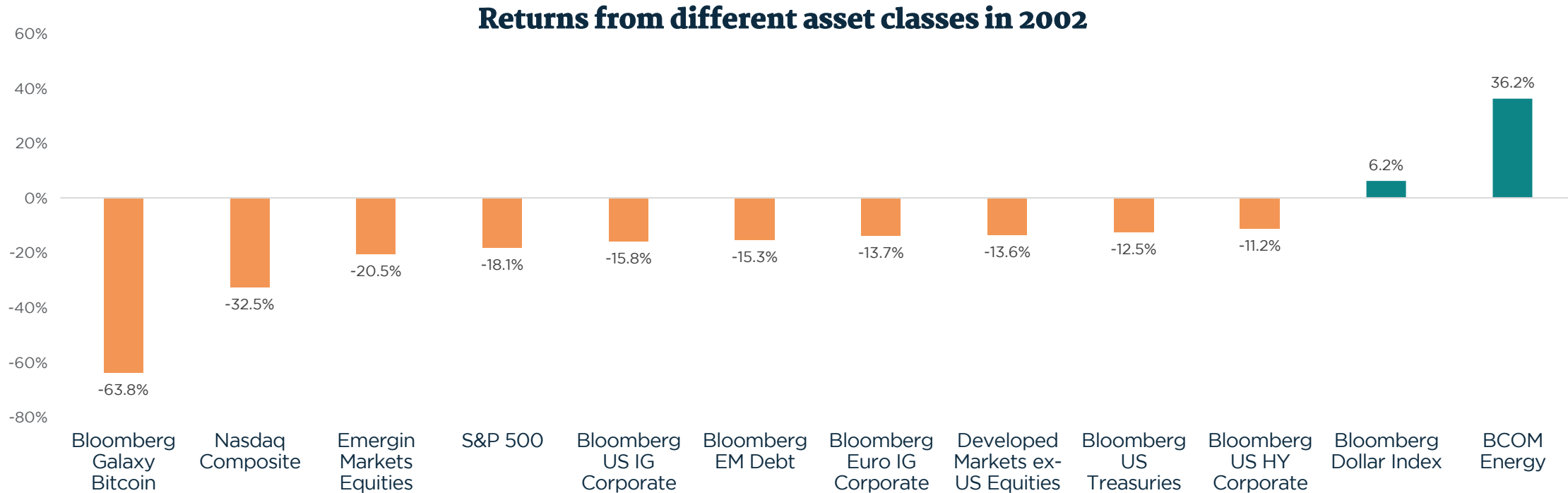


Despite the ongoing disinflation process in the second half of last year, escalating fiscal risk has brought great uncertainty over future inflation and its implications for the monetary policy.

A symbolic sign of this is shown in the expectations for the interest rate (Selic) in the coming years, as we can see in the Focus Report. The graph on the left shows that we started to see a rise in expectations again in the last months of 2022 after a relatively long period of stability. This occurred as the extent of the fiscal expansion planned for 2023 was being discussed.

Markets: 2022 had few winners and lots of losers

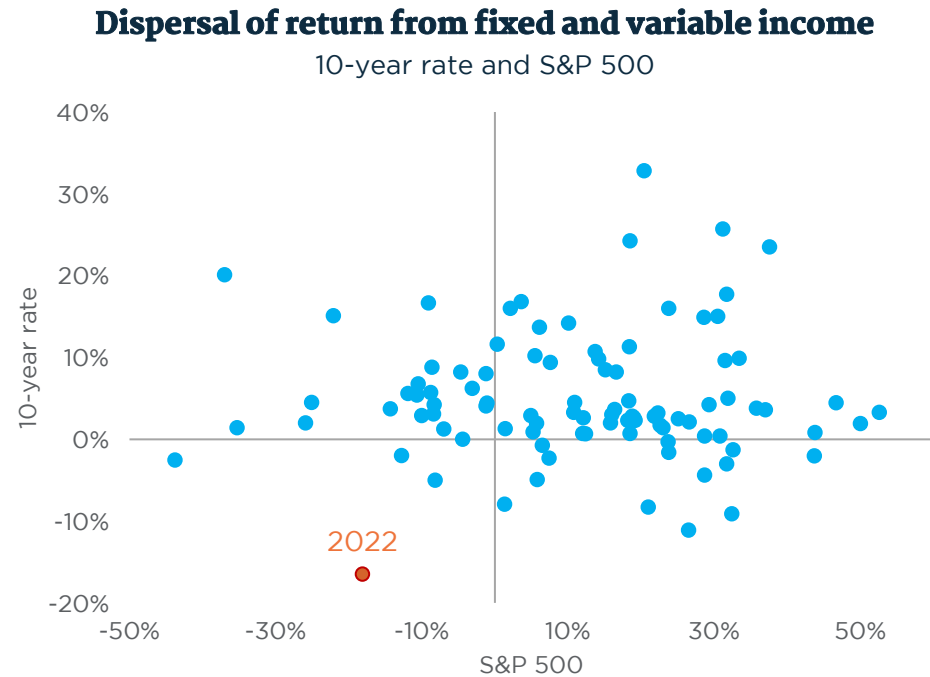
Markets



The year 2022 showed widespread losses across asset classes, with even sharper falls in items that are more sensitive to interest rate hikes. On the other hand, one of the few exceptions were assets linked to the energy sector which benefited from the rise in oil prices throughout the year.

Markets: Positive correlation between fixed and variable income marked a challenging year in portfolio management

Markets



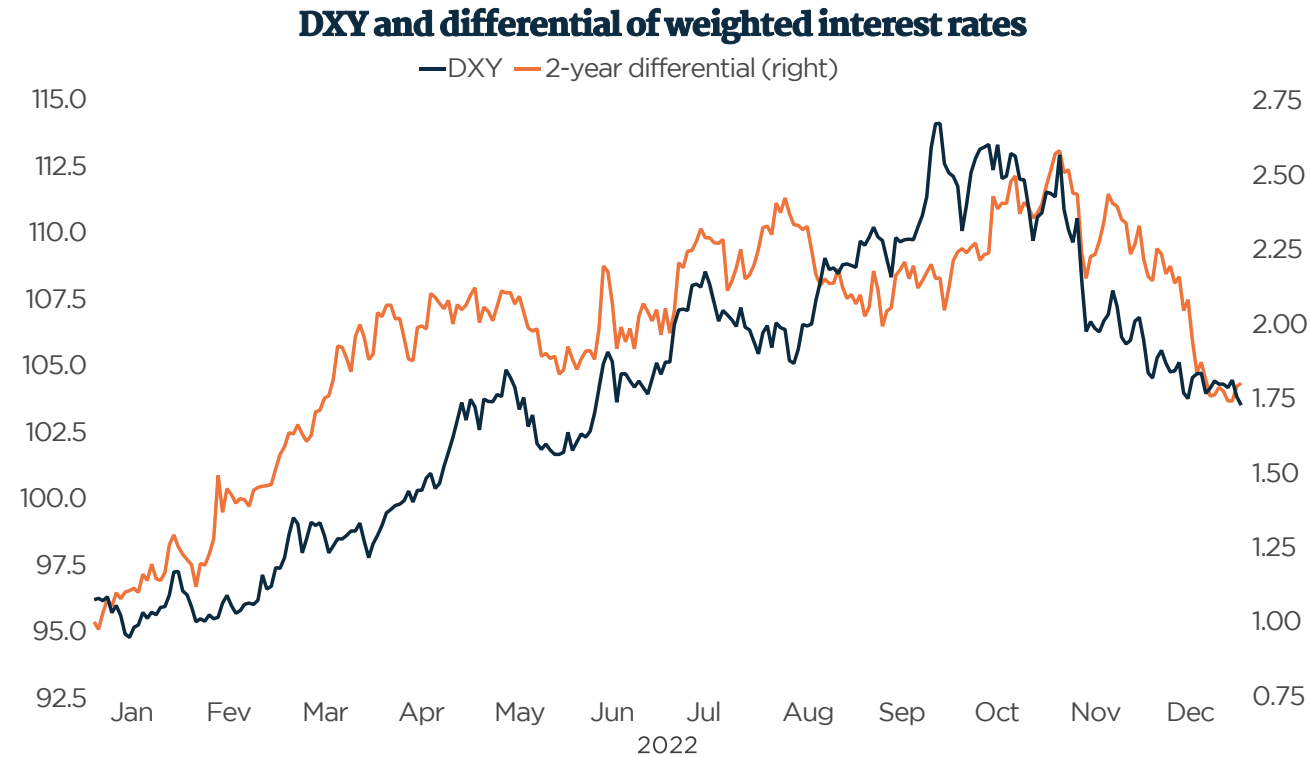
Worst years of a portfolio 60/40 (1928 and 2022)

Year	S&P	10-year	60/40
1931	-43.8%	-2.6%	-27.3%
1937	-35.3%	1.4%	-20.7%
2022	-18.1%	-16.5%	-17.5%
1974	-25.9%	2.0%	-14.7%
2008	-37.0%	20.1%	-13.9%
1930	-25.1%	4.5%	-13.3%
1941	-12.8%	-2.0%	-8.5%
2002	-22.1%	15.1%	-7.1%
1973	-14.3%	3.7%	-7.1%
1969	-8.2%	-5.0%	-7.0%

Against a backdrop of high inflation and rising interest rates, the usual relationship between fixed and variable income in the United States was inverted. The positive correlation between these classes was shown to be one of the biggest challenges facing portfolio management in the recent period. It should also be noted that in 2022 the performance of 10-year US Treasury bonds was the worst for a full year in the sample presented above, dating back to 1928.

DXY: Dollar remained strong while interest rates rose

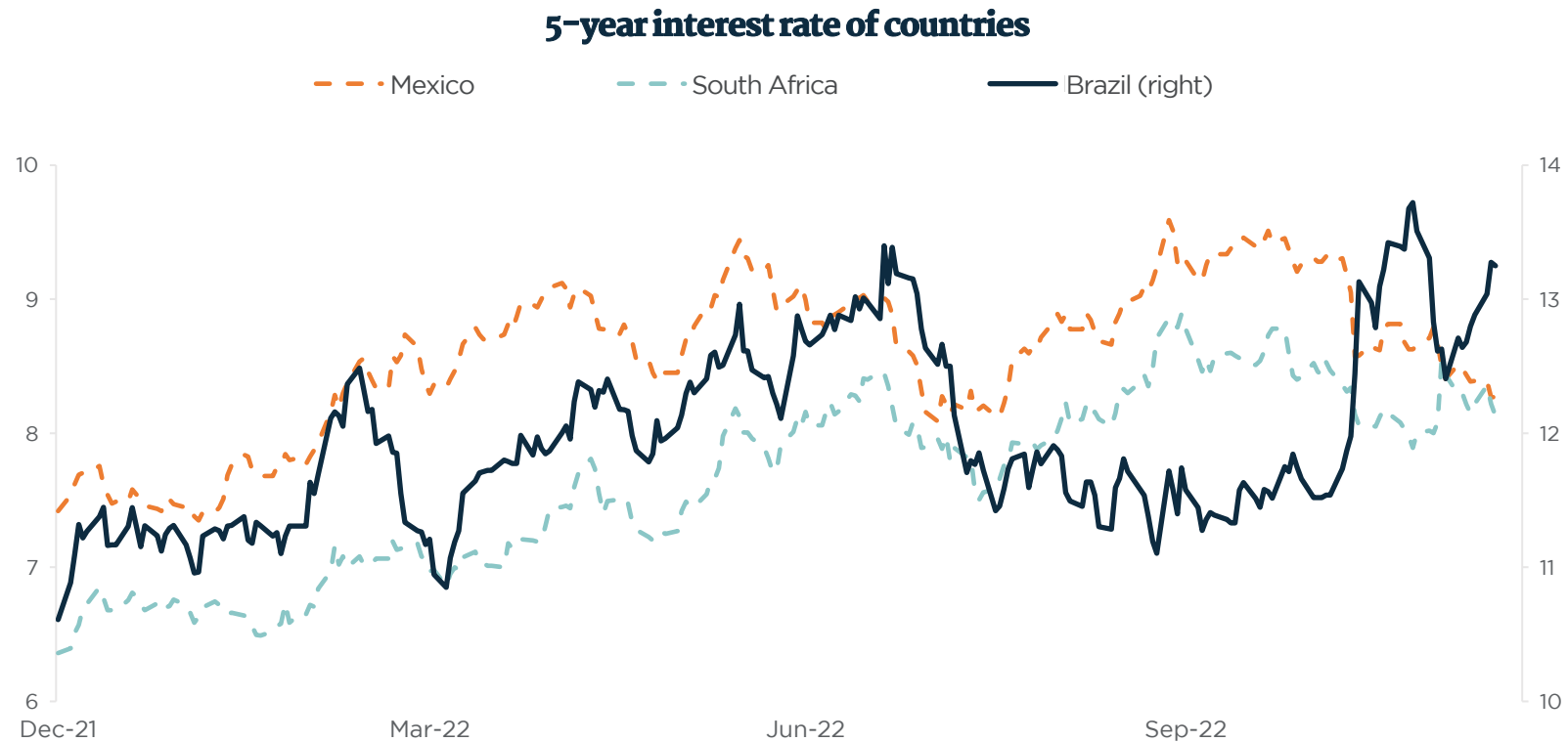
Markets



The US dollar had a very positive performance throughout the year and a big reason for this seems to be linked to the rise in US interest rates. The above graph shows a comparison between the performance of the DXY (an index that measures the dollar against a basket of currencies from developed countries) and a proxy for the interest rate differential between the U.S. economy and a weighted average of the two-year rates of the countries that are part of the basket that makes up the DXY. Note that the dollar lost strength at the end of the year while this interest rate differential fell.

Interest rates: Domestic rates rose again compared with the rest of the world

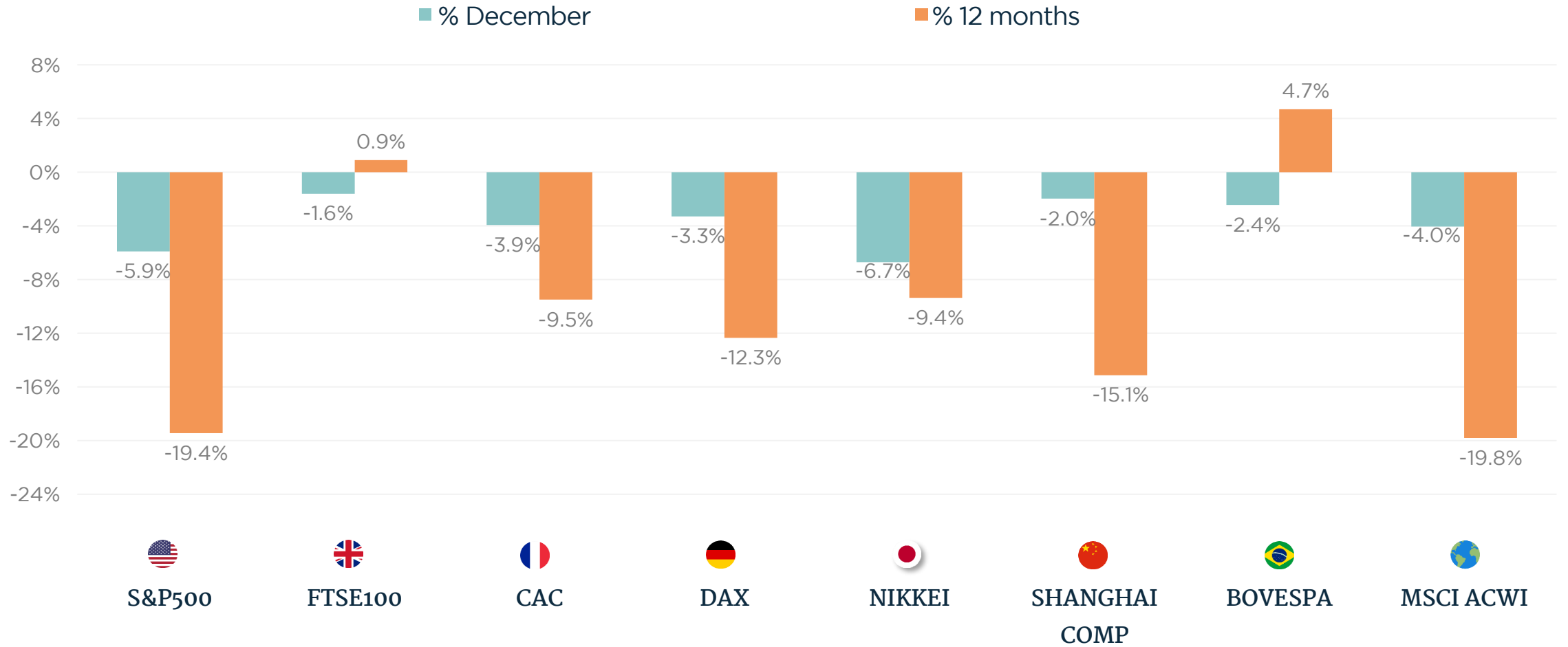
Markets



The movement of interest rates in Brazil started to distance itself from its peers in the second half of the year when the one-day interest rate reached its peak and inflation started to show signs of losing momentum. On the other hand, the curve widened again at the end of the year with the return of the fiscal risk, putting Brazil against the trend of other emerging economies.

Stock markets

Markets



Indexes

	% December	Value on 31/12/2022	% 2022	% 12 months
COMMODITIES				
OIL WTI	-0.4%	80.26	4.2%	4.2%
GOLD	3.1%	1,824.02	-0.3%	-0.3%
CURRENCIES (IN RELATION TO THE US\$)				
EURO	2.9%	1.07	-5.8%	-5.8%
GBP	0.2%	1.21	-10.7%	-10.7%
YEN	5.3%	131.12	-12.2%	-12.2%
REAL	-1.7%	5.8	5.6%	5.6%
INDEXES				
S&P500	-5.9%	3,839.50	-19.4%	-19.4%
FTSE100	-1.6%	7,451.74	0.9%	0.9%
CAC	-3.9%	6,473.76	-9.5%	-9.5%
DAX	-3.3%	13,923.59	-12.3%	-12.3%
NIKKEI	-6.7%	26,094.50	-9.4%	-9.4%
SHANGHAI COMP	-2.0%	3,089.26	-15.1%	-15.1%
BOVESPA	-2.4%	109,734.60	4.7%	4.7%
MSCI ACWI	-4.0%	605.38	-19.8%	-19.8%



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