TURIM

Economic Report

March 2023

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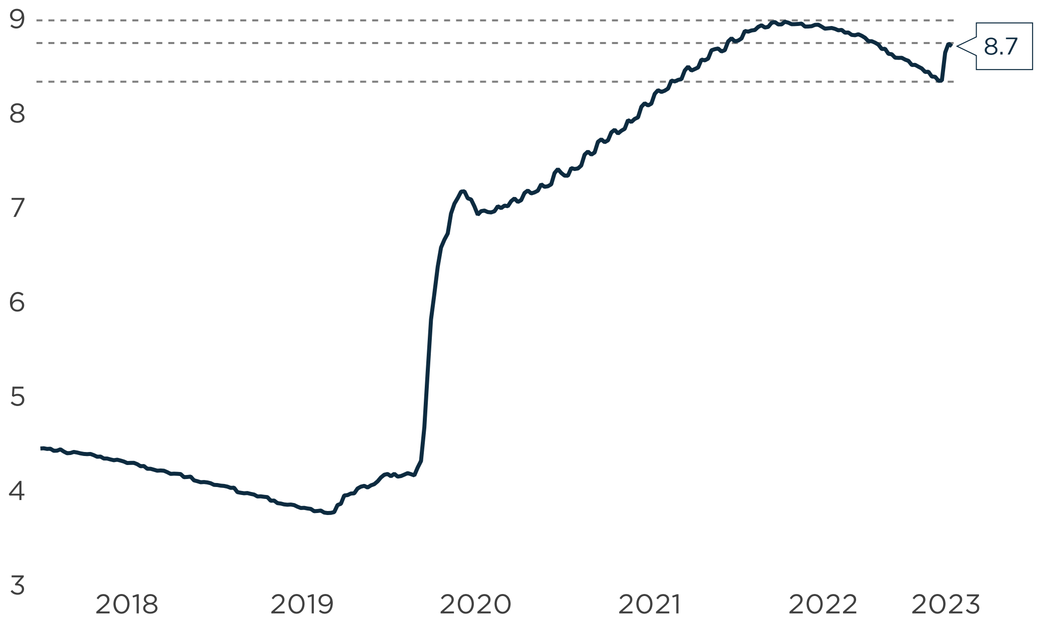
Global:
Main monetary authorities continue to hike interest rates despite the stress in the global banking sector

Global Economy

Federal Reserve assets balance

US$ trillion



March 2023 marks one year since the start of the process of raising interest rates in the United States, leading to a cumulative total increase of 475 basis points* to date, one of the fastest in recent history. The effects of this rapid rise are beginning to produce instability in the financial sector as banks such as Silicon Valley Bank and Signature Bank were declared bankrupt after suffering massive withdrawals. The Federal Reserve, the Treasury and the FDIC have had to announce liquidity-enhancing measures to staunch potential contagion from a run on other regional banks.

The accompanying graph shows how the emergency loans made by the Fed resulted in a significant expansion of its assets balance, reversing more than half of the reduction that had been implemented with Quantitative Tightening (reducing the money supply in the economy through the maturity of some of the assets held by the central bank) since the middle of last year.

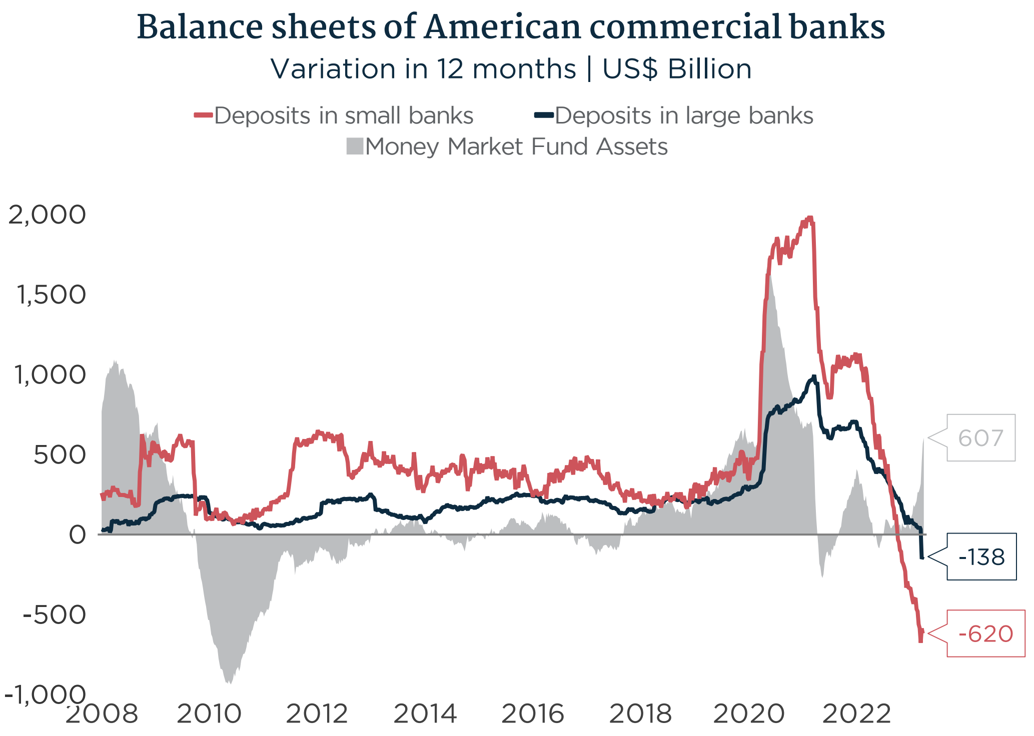
Despite this move, both the American, European, UK and Swiss central banks continued to raise interest rates. They differentiated in their statements between policies aimed at price stability and measures to ensure the stability of the financial system.

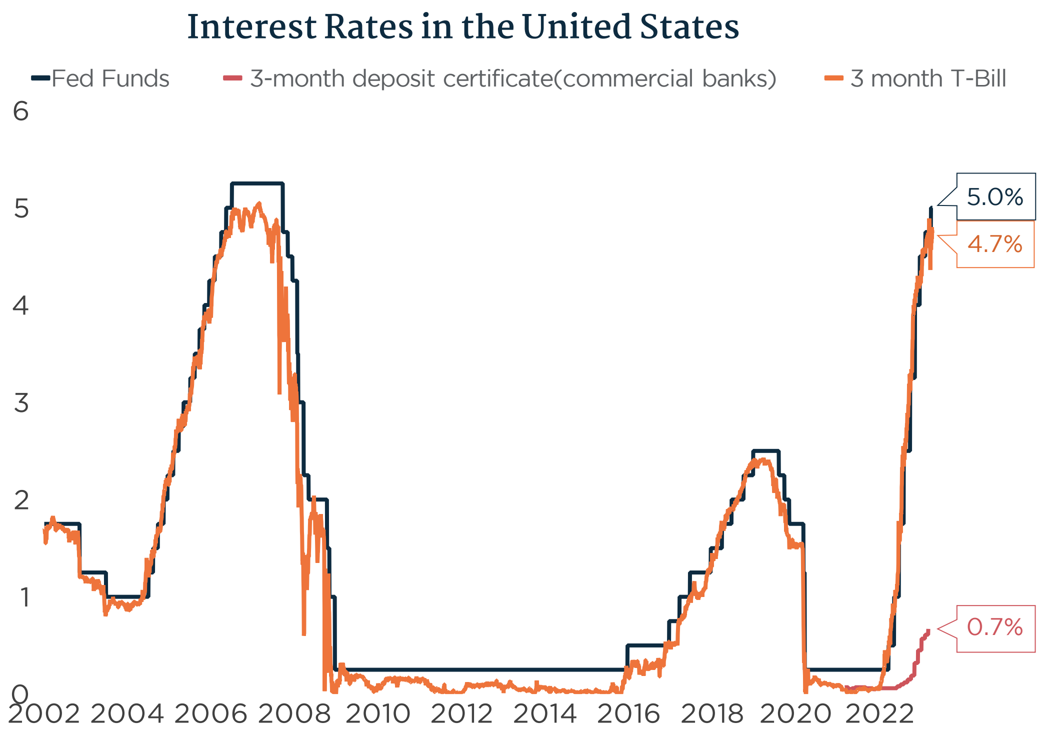
1 basis points or 1 bp = 0.01% or 1/100 percentage points

Source: Macrobond

United States:
Deterioration in banking sector led to incease in deposit withdrawals

Global Economy





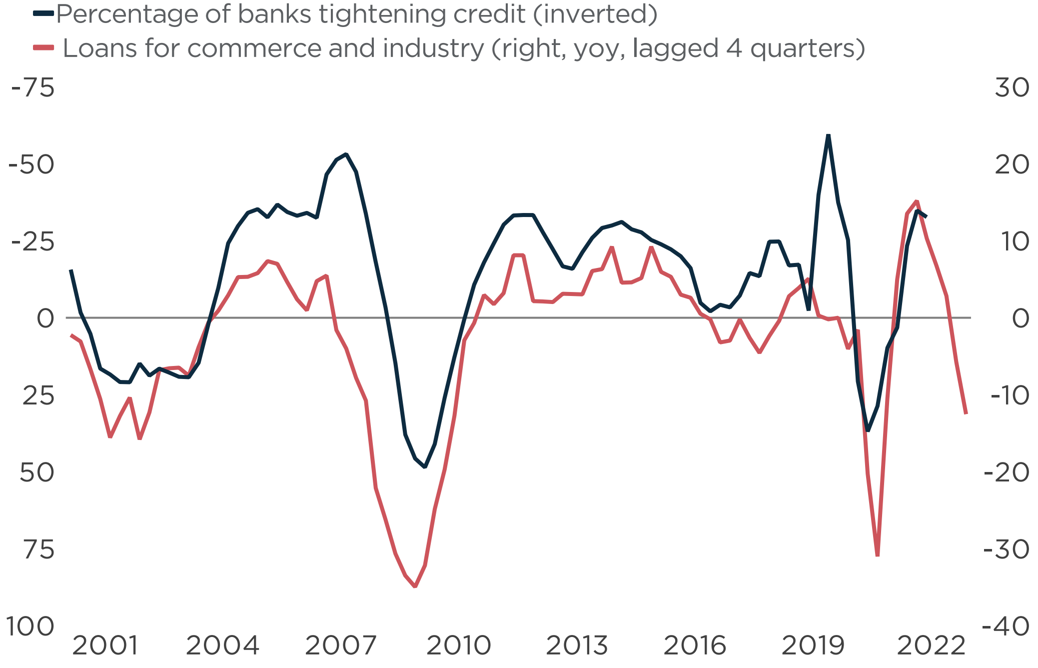
The concern caused by the stress in the banking sector catalyzed the acceleration of deposit withdrawals from commercial banks, particularly small and mid-sized institutions. It is worth noting that this movement had already been underway since the beginning of the interest rate hike cycle, as the rates that remunerate bank deposits had not kept up with the other market rates (Fed rate and 3-month US Treasury bill), creating a significant spread between this alternative and the money market funds (US mutual investment funds).

Source: Macrobond

United States:
Banks were already squeezing credit and this should continue to do the monetary policy's "work"

Global Economy

Credit to commerce and industry vs. tightening of credit



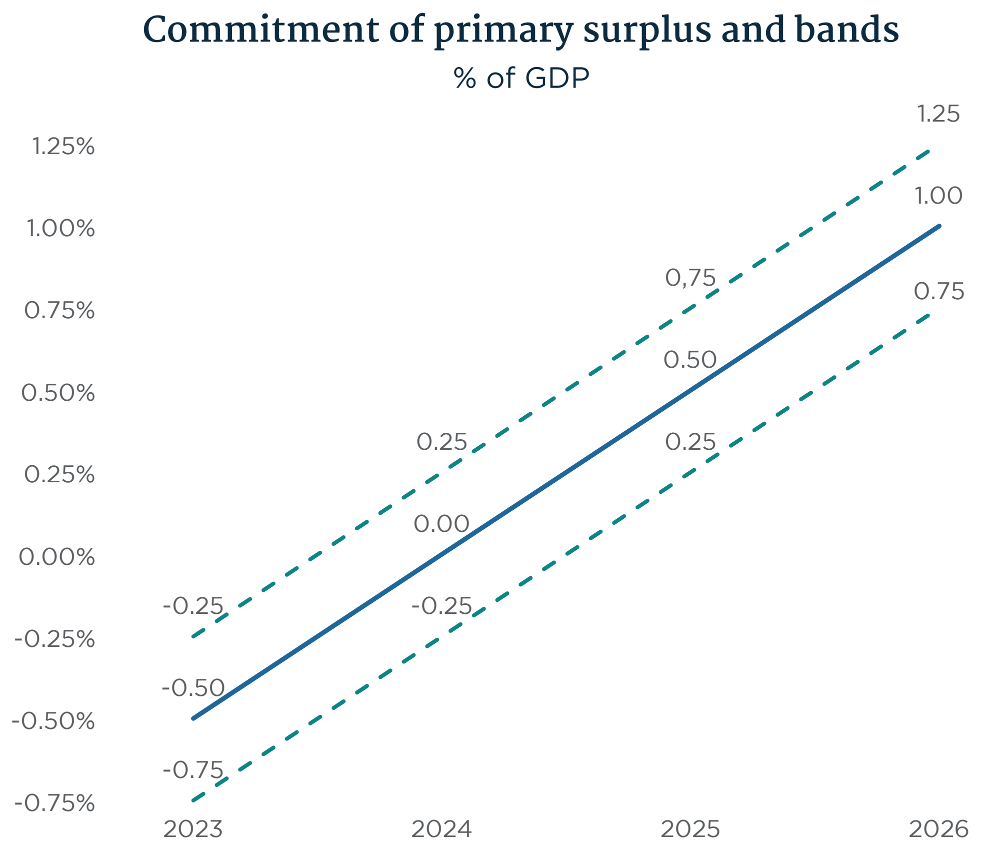
Now that the initial shock to the financial system has been overcome, with the swift action of the monetary authorities, the risk of a systemic crisis is low. However, we expect a further tightening in the American credit market. In practical terms, the drop in lending should have a similar effect to increases in the fed funds rate (the main US interest rate), as referred to by the Fed president, Jerome Powell, in the press conference at the March meeting.

The accompanying graph shows how historically the variation in the stock of credit for the commerce and industry sectors (right-hand axis) has responded, with some lagged effect (four quarters in the graph), to the percentage variation of banks that declare a tightening in credit conditions (left-hand axis, inverted) in a survey carried out by the Fed. In this context, this should bring a decline in lending in the near future.

Source: Macrobond

New fiscal framework:
Overall sign is positive due to a commitment to primary surplus targets

Brazilian Economy



The main news in Brazil was the announcement of the Finance Ministry's proposal for the new fiscal framework. The announcement made on March 30 can be described as a "letter of intent" since it assumes primary result targets (see accompanying graph) and presents a rule for expanding government spending below the increase in revenues. There are still some details missing and we are unsure how these targets will be met.

Despite these qualifications and uncertainties surrounding the implementation of the model, the market gave the announcement a positive reception as it eliminates the risk of public debt getting out of control. What does seem clear to us is that the government will need to find ways to increase its revenues to meet the targets. This usually occurs through tax increases.

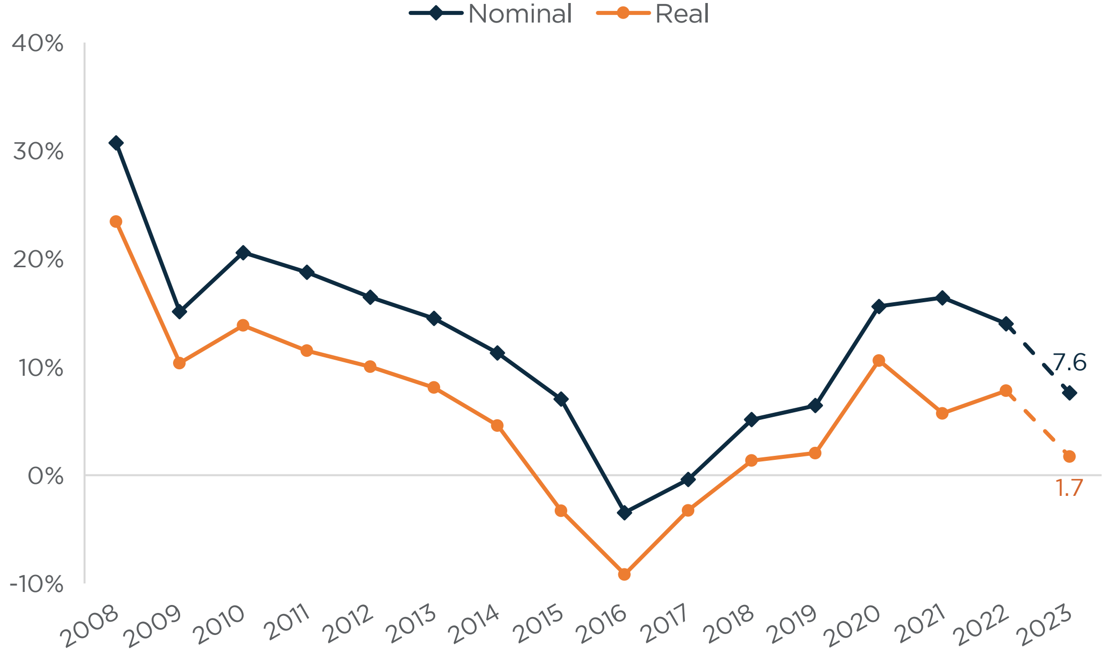
Source: Ministério da Fazenda

Credit:
Supply of credit continues to slow and enters the Central Bank's radar

Brazilian Economy

Balance of credit and projection

Variation accumulated over 12 months



The slowdown in the credit market has also been gaining more attention in Brazil, including being mentioned more often in documents published by the Central Bank. In the first quarterly inflation report of the year, the Monetary Policy Committee (Copom), made a negative revision in its estimate for the variation in the stock of credit, showing very moderate real growth in 2023. The issue was included shortly before this in the March statement in the committee's balance of risks due to the possibility of a "slowdown in domestic credit granting larger than what would be compatible with the current stance of monetary policy."

This means, the monetary authority now recognizes more clearly the slowdown in the stock of credit that may prove to be a key issue in the campaign to combat inflation in Brazil.

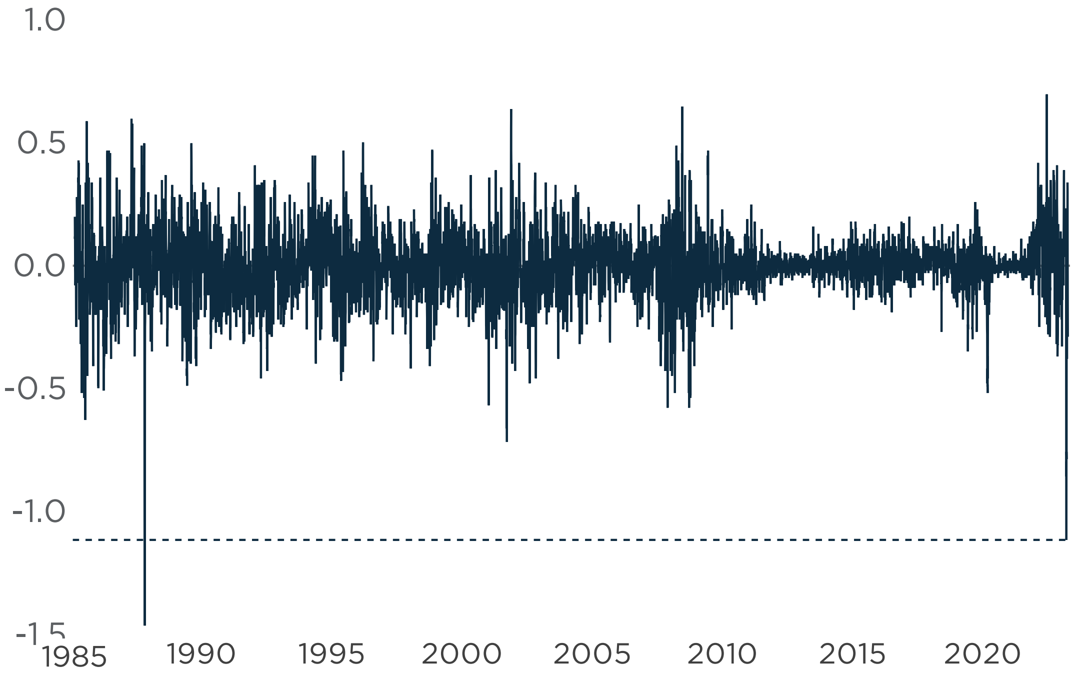
Source: Banco Central

Interest rates:
A month of unprecedented volatility in recent decades

Markets

Weekly variation in 2-year interest rates in the United States

Average measured in percentage points in 5-day moving windows



Against a backdrop of subsequent upward revisions for inflation in developed countries, the stress in the American banking sector and the potential for a systemic crisis pushed interest rates down in March. As a result, a number of vertices of the yield curves (graphical representation that reveals market expectations for interest rates in the future) in developed markets reached levels of volatility unprecedented in recent decades.

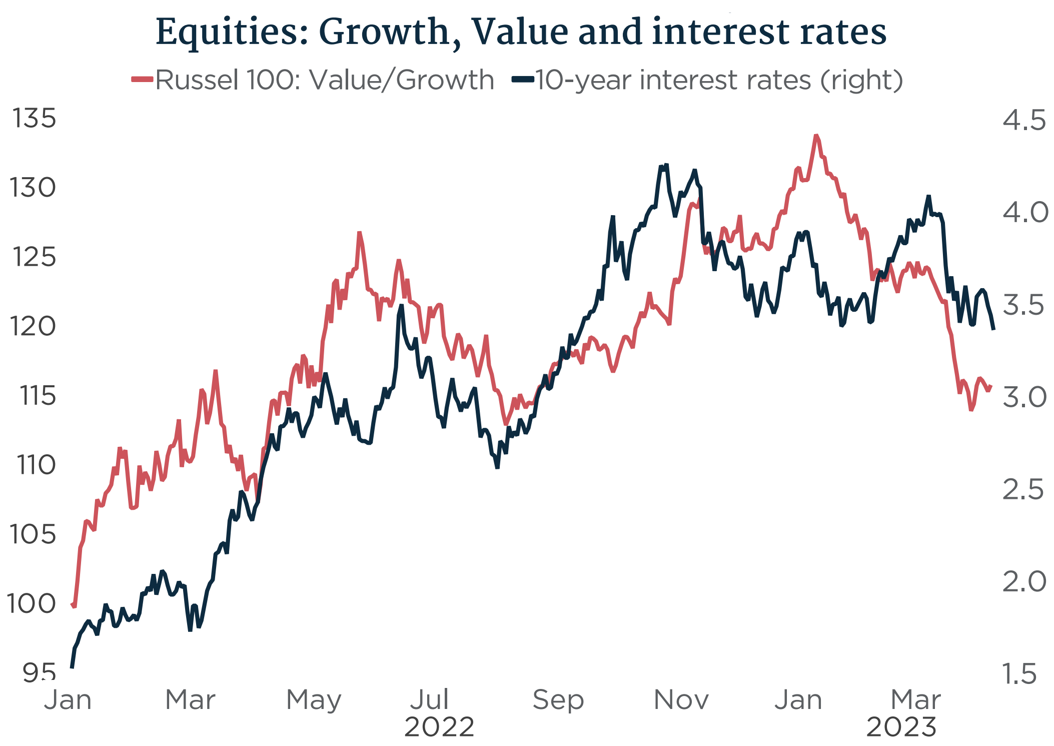
The accompanying graph shows how the variation in the rate of the two-year US Treasury bond fell more than 100 basis points* in just five working days. This is something that has not happened since the 1987 stock market crash.

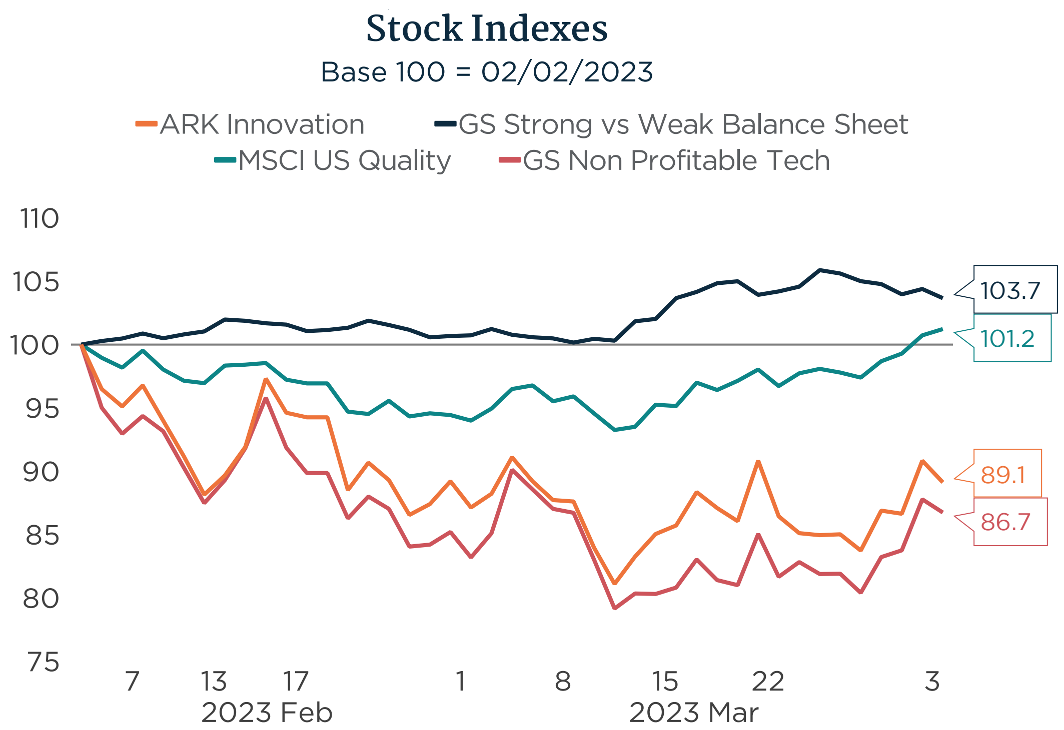
**1 basis points or 1 bp = 0.01% or 1/100 percentage points*

Source: Macrobond

Stocks:
Movement of interest rates boosted growth stocks but not in an indiscriminate way

Markets





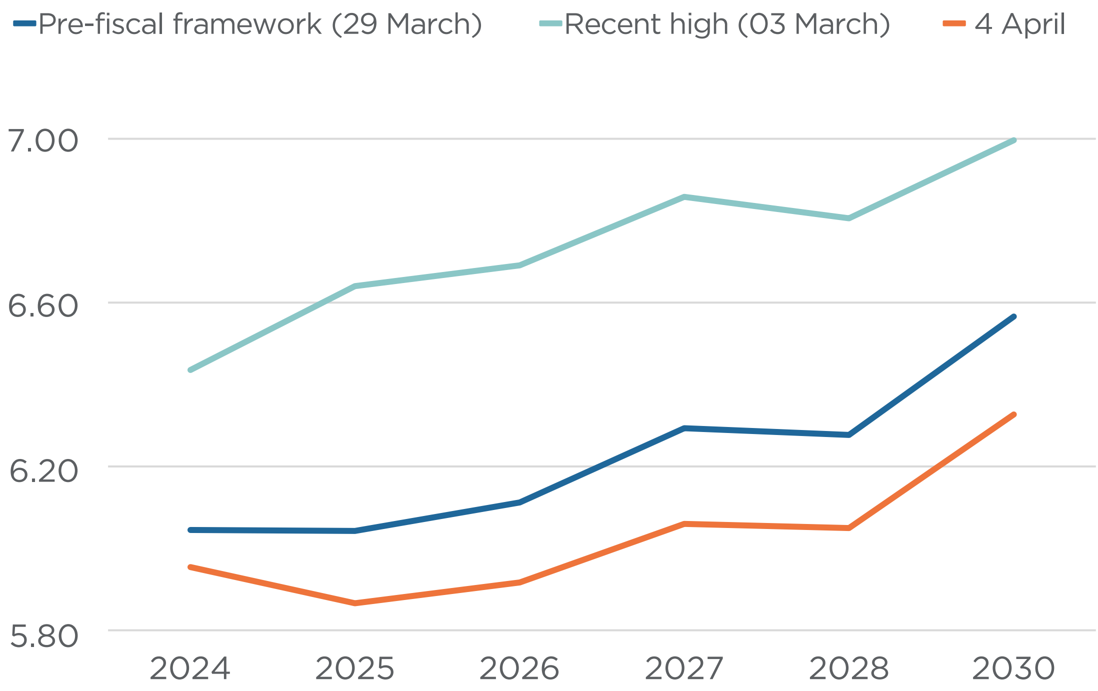
Despite the recent turbulence, the US stock market proved to be relatively resilient, particularly in assets that are more sensitive to the variation in interest rates. However, the effect of the closing of interest rates was not so widespread among growth stocks and was restricted to higher quality assets, i.e. those with stronger balance sheets.

Source: Macrobond, Bloomberg

Interest rates:
Moderation of fiscal risk reduced inflationary premium but level is still high

Markets

Term structure of implicit inflation (proxy)



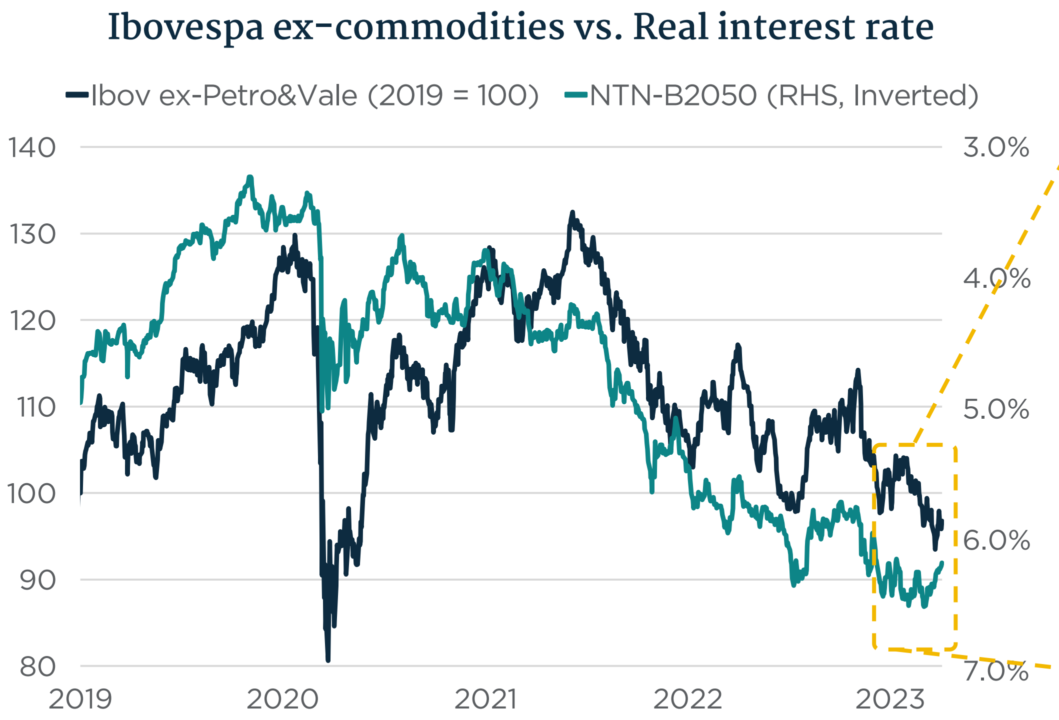
The yield curves and implicit inflation in Brazil dropped after the announcement of the new fiscal framework.

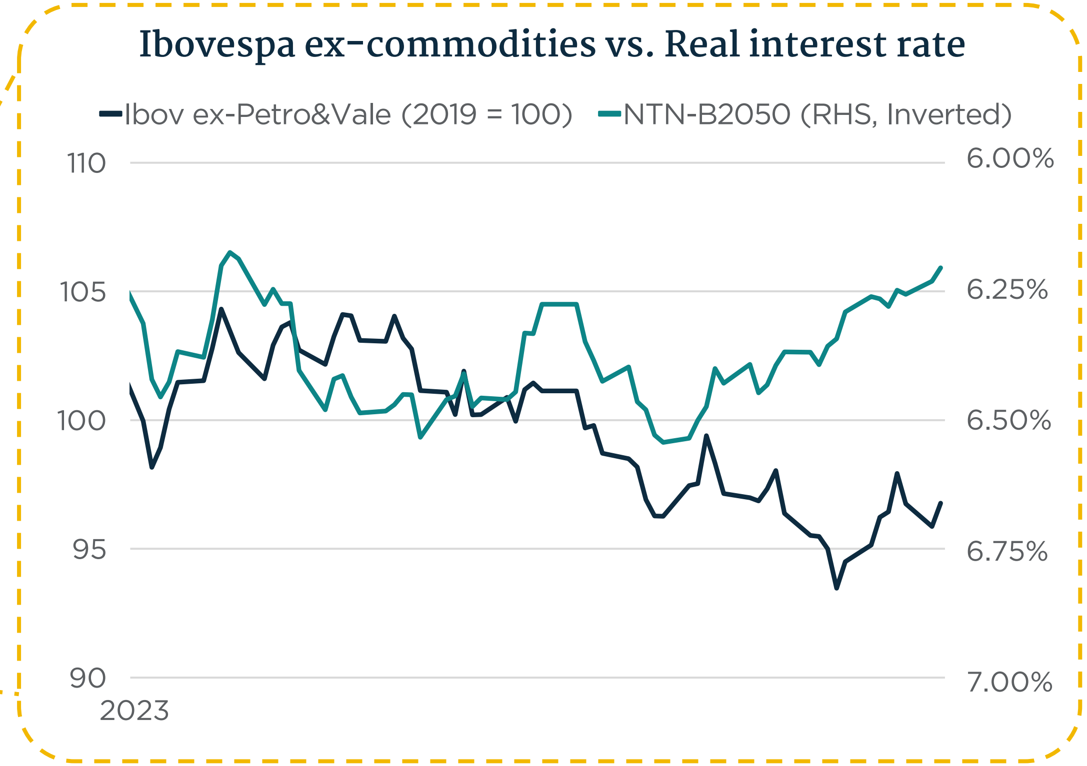
The accompanying graph shows the closing of the curve from the year's high until the eve of the official announcement of the proposal – when a lot of information had already started to circulate unofficially – and continued closing after the announcement.

Source: Bloomberg, Turim

Stocks:
Discussions on increasing the tax burden

Markets



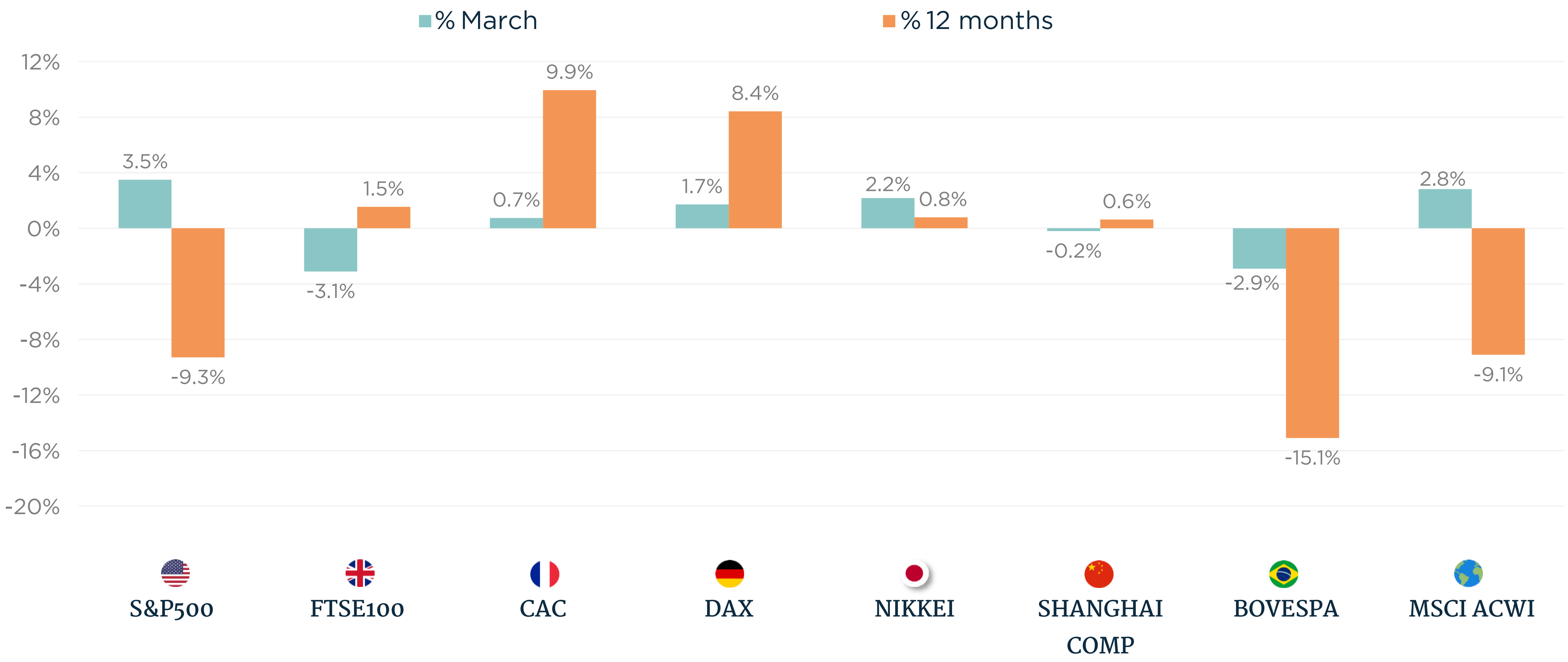


Despite the closing of the yield curves, the local stock market has not performed positively over the last few weeks. The main reason seems to be the prospect of an increase in the tax burden – which would come in the wake of commitments made in the new framework – which could affect the results of various companies.

Source: Bloomberg, Turim

Stock markets

Markets



Indexes

	Variation March	Value on 31/03/2023	Variation in 2023	Variation 12 months
COMMODITIES				
OIL WTI	-1.8%	75.67	-5.7%	-24.5%
GOLD	7.8%	1,969.28	8.0%	1.6%
CURRENCIES (IN RELATION TO THE US$)				
EURO	2.5%	1.08	1.3%	-2.1%
GBP	2.6%	1.23	2.1%	-6.1%
YEN	2.5%	132.86	-1.3%	-8.4%
REAL	3.4%	5.06	4.3%	-6.3%
INDEXES				
S&P500	3.5%	4,109.31	7.0%	-9.3%
FTSE100	-3.1%	7,631.74	2.4%	1.5%
CAC	0.7%	7,322.39	13.1%	9.9%
DAX	1.7%	15,628.84	12.2%	8.4%
NIKKEI	2.2%	28,041.48	7.5%	0.8%
SHANGHAI COMP	-0.2%	3,272.86	5.9%	0.6%
BOVESPA	-2.9%	101,882.20	-7.2%	-15.1%
MSCI ACWI	2.8%	646.76	6.8%	-9.1%

*Amounts and Results in local currencies

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