TURIM

Economic Report

December 2023

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Inflation:
A year of intense global disinflation

Global Economy

	CPI Year over Year	Dez/22	Jan/23	Fev/23	Mar/23	Apr/23	May/23	Jun/23	Jul/23	Aug/23	Sep/23	Oct/23	Nov/23	Dec/23
Developed Markets	United States	6.5	6.4	6.0	5.0	4.9	4.0	3.0	3.2	3.7	3.7	3.2	3.1	3.4
	Canada	6.3	5.9	5.2	4.3	4.4	3.4	2.8	3.3	4.0	3.8	3.1	3.1	3.4
	Japan	4.0	4.3	3.3	3.2	3.5	3.2	3.3	3.3	3.2	3.0	3.3	2.8	
	United Kingdom	10.5	10.0	10.4	10.1	8.7	8.7	8.0	6.9	6.7	6.6	4.6	3.9	
	Euro Area	9.2	8.7	8.5	6.9	7.0	6.1	5.5	5.3	5.2	4.3	2.9	2.4	
	Germany	8.1	8.7	8.7	7.4	7.2	6.1	6.4	6.2	6.1	4.5	3.8	3.2	3.7
	France	5.9	6.0	6.3	5.7	5.9	5.1	4.5	4.3	4.9	4.9	4.0	3.5	3.7
	Italy	11.6	10.0	9.1	7.6	8.2	7.6	6.4	5.9	5.4	5.3	1.7	0.7	0.6
	Spain	5.7	5.9	6.0	3.3	4.1	3.2	1.9	2.3	2.6	3.5	3.5	3.2	3.1
	Switzerland	2.8	3.3	3.4	2.9	2.6	2.2	1.7	1.6	1.6	1.7	1.7	1.4	1.7
	Sweden	12.3	11.7	12.0	10.6	10.5	9.7	9.3	9.3	7.5	6.5	6.5	5.8	4.4
	Norway	5.9	7.0	6.3	6.5	6.4	6.7	6.4	5.4	4.8	3.3	4.0	4.8	4.8
Emerging Markets	China	1.8	2.2	1.1	0.8	0.3	0.3	0.1	-0.2	0.2	0.1	-0.1	-0.4	-0.3
	Indonesia	5.5	5.3	5.5	5.0	4.3	4.0	3.5	3.1	3.3	2.3	2.6	2.9	2.6
	South Korea	5.0	5.0	4.7	4.2	3.7	3.4	2.7	2.4	3.4	3.7	3.8	3.3	3.2
	Taiwan	2.7	3.1	2.4	2.4	2.3	2.0	1.8	1.9	2.5	2.9	3.0	2.9	2.7
	Thailand	5.9	5.0	3.8	2.8	2.7	0.5	0.2	0.4	0.9	0.3	-0.3	-0.4	-0.8
	Philippines	8.1	8.7	8.6	7.6	6.6	6.1	5.4	4.7	5.3	6.1	4.9	4.1	3.9
	Malaysia	3.8	3.7	3.7	3.4	3.3	2.8	2.4	2.0	2.0	1.9	1.8	1.5	
	India	5.7	6.5	6.4	5.7	4.7	4.3	4.9	7.4	6.8	5.0	4.9	5.6	5.7
	Argentina	94.8	98.8	102.5	104.3	108.8	114.2	115.6	113.4	124.4	138.3	142.7	160.9	211.4
	Brazil	5.8	5.8	5.6	4.7	4.2	3.9	3.2	4.0	4.6	5.2	4.8	4.7	4.6
	Chile	12.8	12.3	11.9	11.1	9.9	8.7	7.6	6.5	5.3	5.1	5.0	4.8	3.9
	Colombia	13.1	13.3	13.3	13.3	12.8	12.4	12.1	11.8	11.4	11.0	10.5	10.1	9.3
	Mexico	7.8	7.9	7.6	6.8	6.3	5.8	5.1	4.8	4.6	4.5	4.3	4.3	4.7
	Russia	11.9	11.8	11.0	3.5	2.3	2.5	3.2	4.3	5.2	6.0	6.7	7.5	7.4
	Czech Republic	13.3	12.3	12.1	11.5	10.0	8.6	7.5	6.8	6.0	5.0	4.2	3.9	3.6
	Poland	16.7	17.4	19.1	16.6	15.1	13.2	11.5	10.7	9.8	7.7	6.1	6.1	6.1
	Hungary	24.5	25.7	25.4	25.2	24.0	21.5	20.1	17.6	16.4	12.2	9.9	7.9	5.5
	South Africa	7.5	7.2	7.3	7.3	7.1	6.6	5.7	4.8	4.8	5.5	6.1	5.6	
	Turkey	64.3	57.7	55.2	50.5	43.7	39.6	38.2	47.8	58.9	61.5	61.4	62.0	64.8

The disinflation process that was seen throughout 2023 was more intense than the overwhelming majority of players expected at the start of the year. The reorganization of the production chains and the easing of commodity prices helped bring about an "opportunistic disinflation" amidst a synchronized global monetary tightening by almost all the world's central banks.

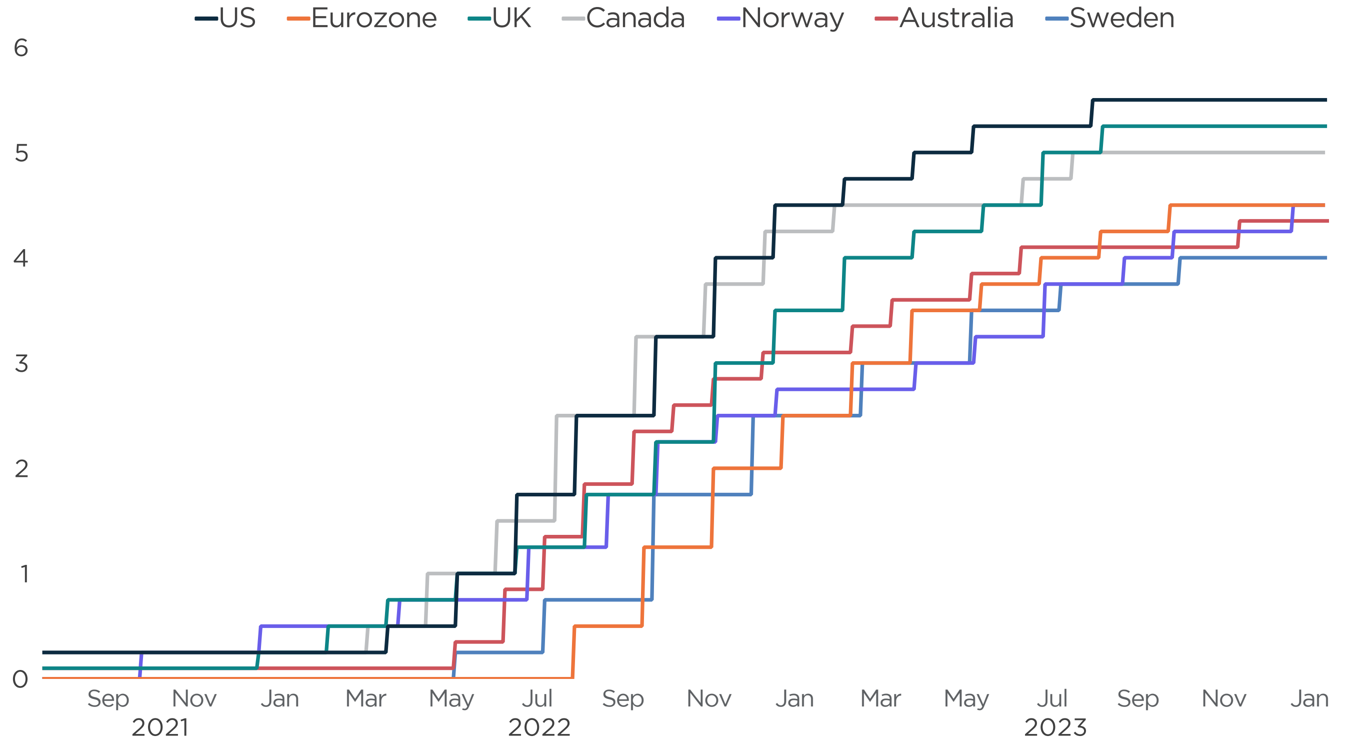
The accompanying heat map visually reflects the decline in inflation indices across various countries. Generally, the improvement was led by the goods segment, but as the end of the year approached, the service sectors – typically more inertial and susceptible to monetary policy – also assumed a benign composition.

Source: Macrobond. Turim

Monetary Policy:
Disinflation allowed the main economies to end the cycle of interest rate hikes

Global Economy

Interest rates in the developed economies



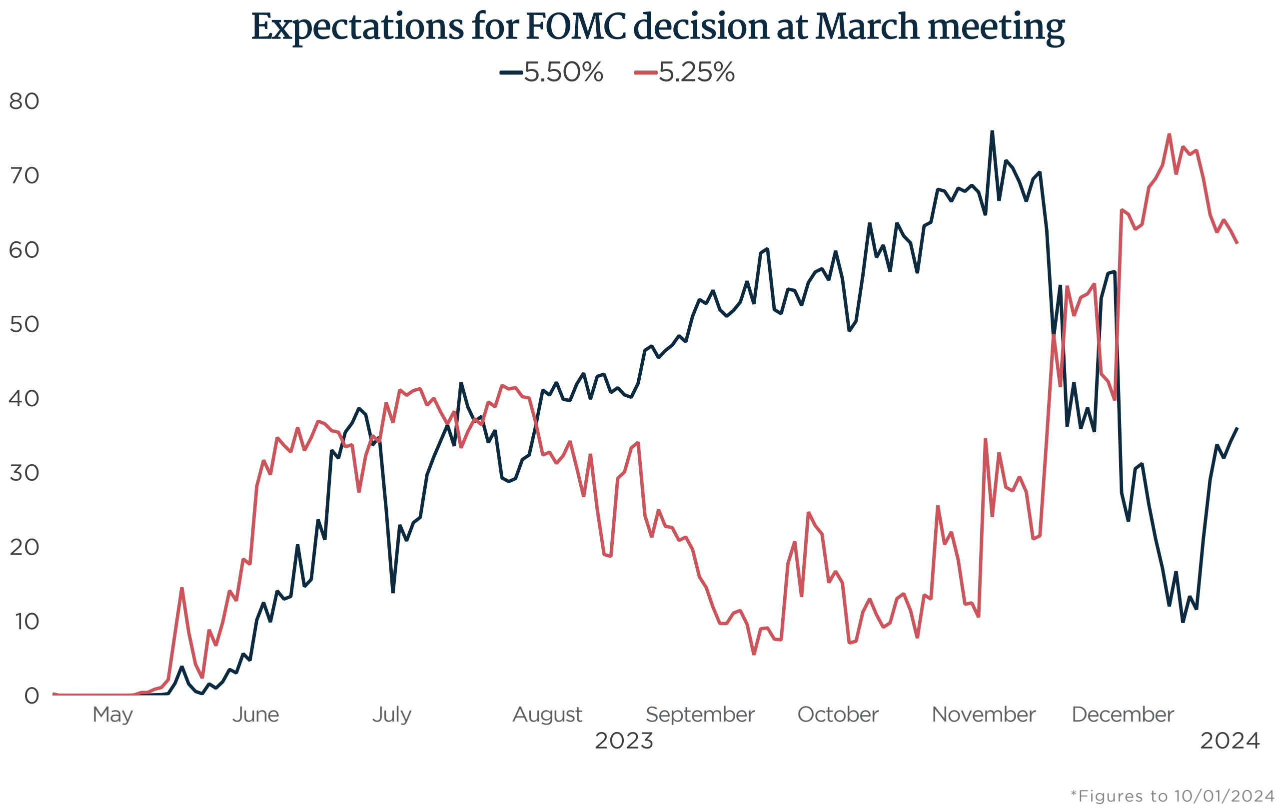
*Figures to 10/01/2024

The relatively rapid slowdown in inflation allowed the main central banks to achieve a better balance between their mandates – i.e. to drive inflation towards its target while reducing the deviations from the output gap. In practice, this outlook has allowed these economies to head towards the end of their respective interest rate hike cycles.

Source: Macrobond

FOMC:
Interest rate cuts expected to get underway in the first quarter of 2024

Global Economy



Once the consensus view was that the interest rate hike cycle in the United States was over, the market began speculating on the starting date of the next round of cuts in the base rate.

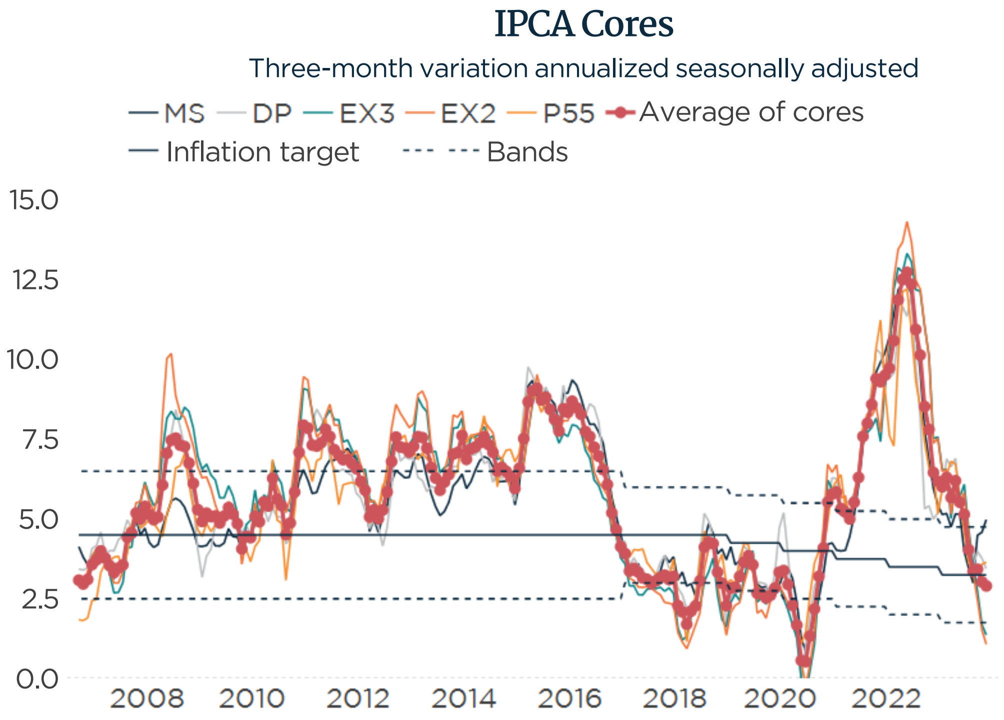
After a dovish* turn at the December meeting, the implicit likelihood that the FOMC (Federal Reserve Monetary Policy Committee) would start cutting rates at the March meeting gained strength. The mild tone was maintained in the minutes released in January.

Dovish & Hawkish: These terms are used as a benchmark for the conduct of an economy's monetary policy. When a Central Bank is "dovish". there is a downward bias for interest rates. The opposite is the case when it is "hawkish" and there is an upward bias for interest rates..

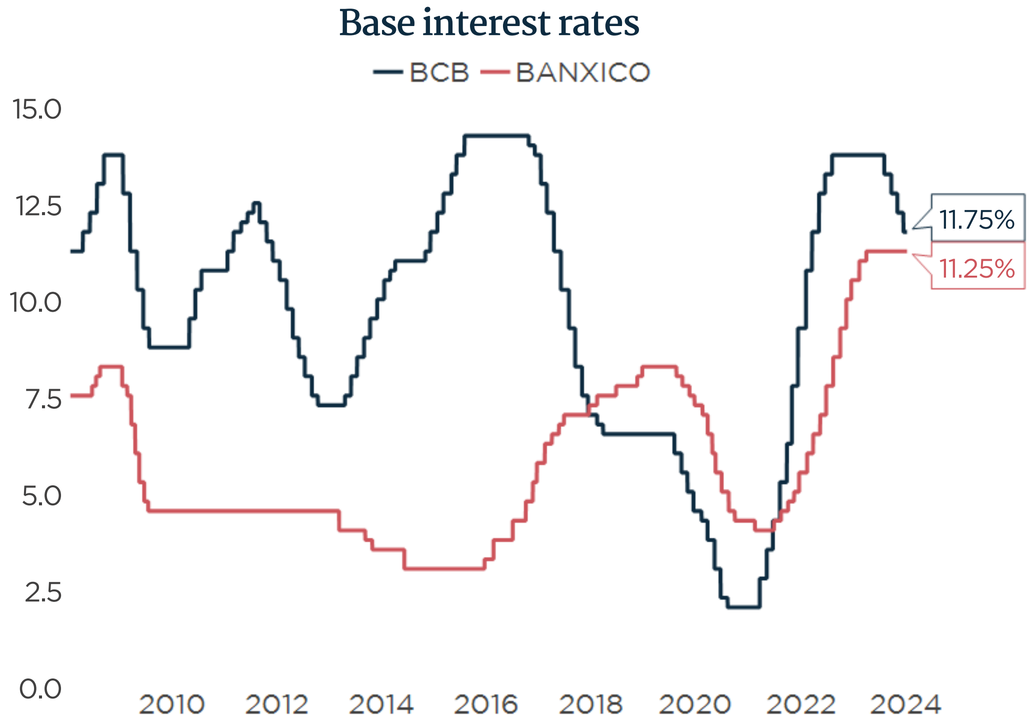
Source: Macrobond

COPOM:
Despite the improved outlook, the committee showed no sign of speeding up the rate of cuts

Brazilian Economy



*Figures to 12/2023



*Figures to 10/01/2024

Meanwhile, Brazil's monetary policy committee took a tougher stance. Despite a clear improvement in the outlook, with the disinflation process continuing and global financial conditions easing, the COPOM continued to indicate that it sees the current pace of cuts (50 basis points*) as adequate for the upcoming meetings, ruling out the possibility of steeper cuts at future meetings.

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

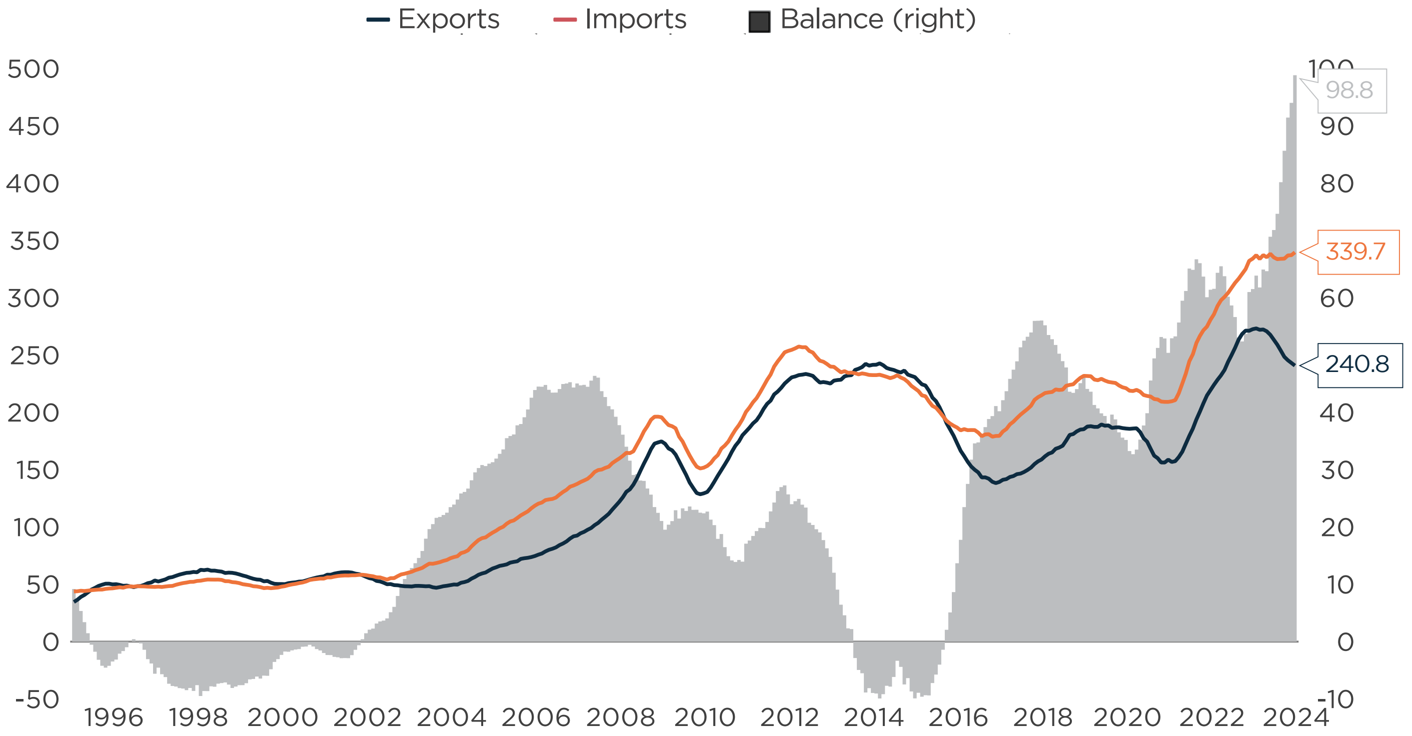
Source: Macrobond

External Sector:
Trade balance ended 2023 with a surplus of almost 100 billion dollars

Brazilian Economy

Trade balance

Accumulated over 12 months/Billion dollars



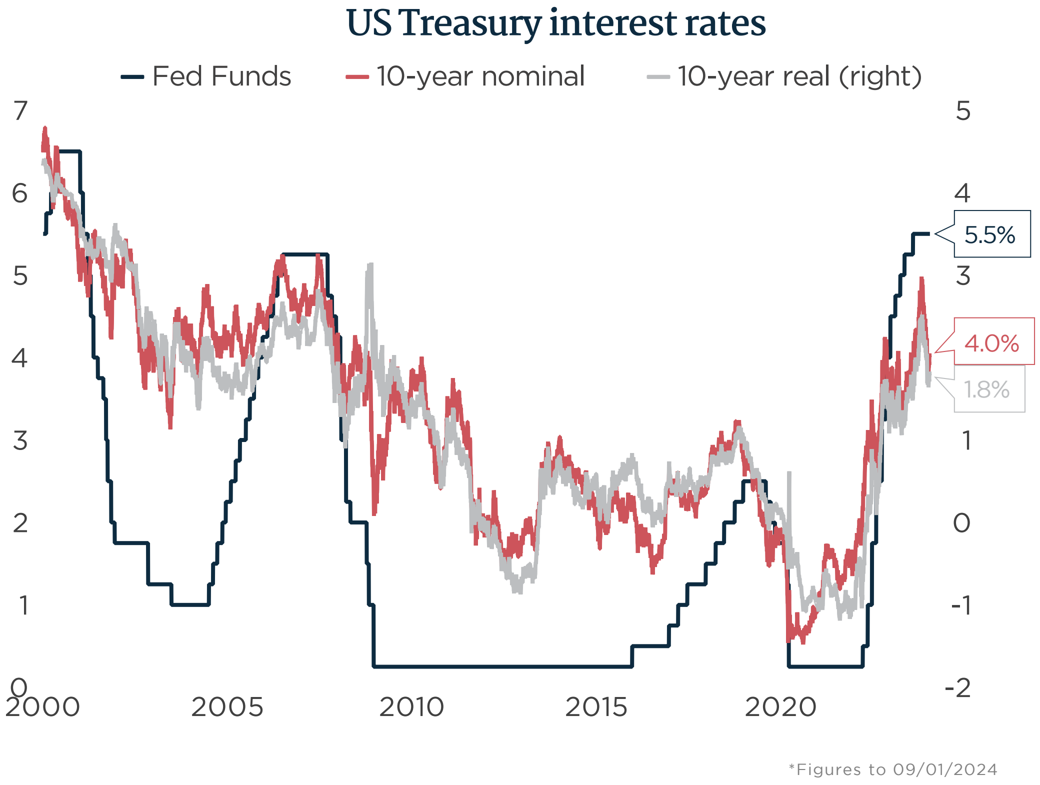
*Figures to 12/2023

Figures from the Foreign Trade Secretariat showed that Brazil's net exports ended 2023 with a balance of almost 100 billion dollars, an outstanding record result (grey area in the above graph). A large part of this performance reflected an increase in the volume exported despite the fall in the prices of most of the commodities on the country's list of exports.

Source: Macrobond

Interest rates:
Interest rates fell in December

Markets



December was marked by interest rates continuing to close, a tendency that began in the second half of October and strengthened after the announcement of the FOMC decision.

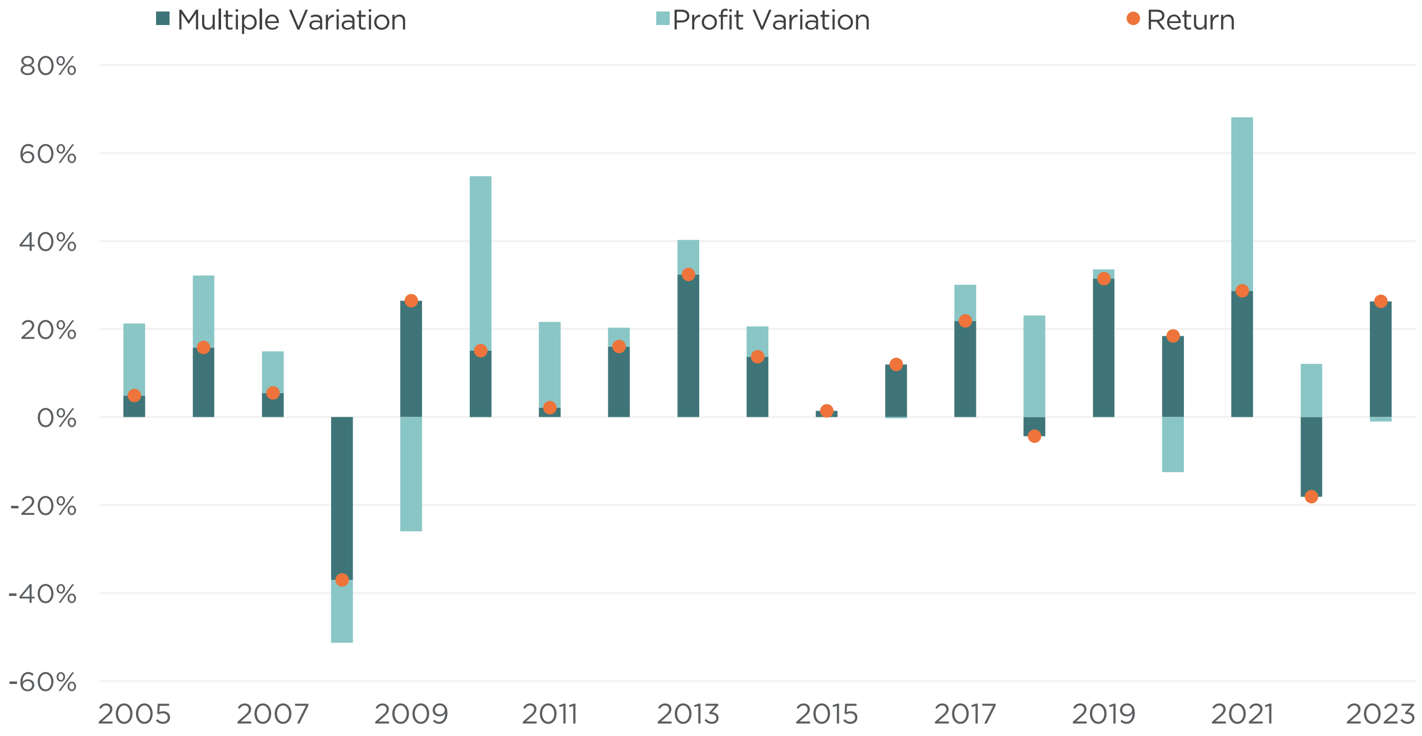
The movement was not only contained to the shorter-term vertices but also extended to the longer part of the curve. As a result, long-term interest rates (10 years) which hovered around the 5% mark in October fell to less than 4% in December. These rates opened up slightly again after the turn of the year.

Source: Macrobond

Equities:
Variation in multiples was the main driver of performance over the year

Markets

Breakdown of return of the S&P

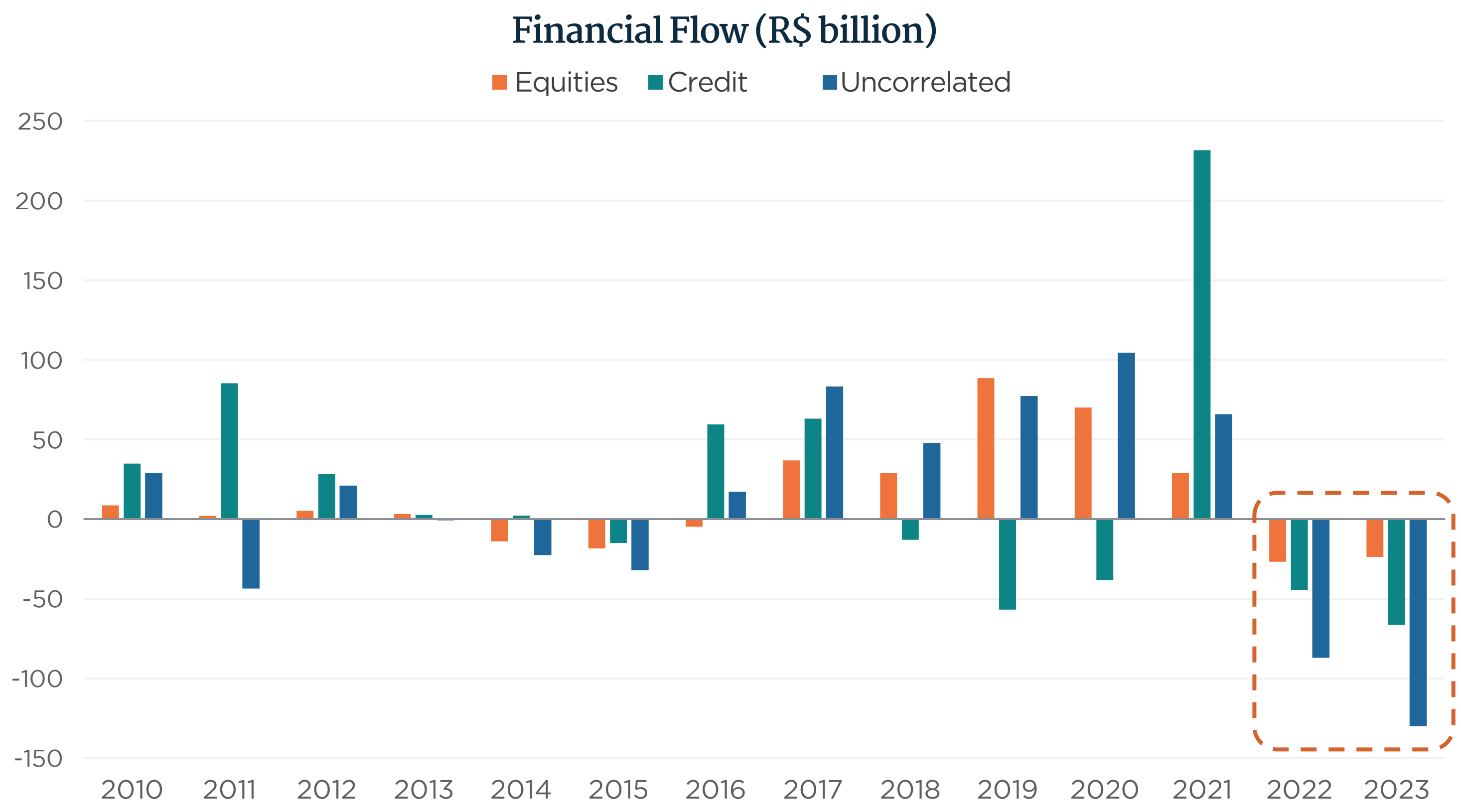


Most of the stock market's performance over the course of 2023 was concentrated on a few names. For example, around 75% of the S&P 500 return was due to the "Magnificent 7" – name given to a hypothetical basket of seven of the largest technology companies in the index. It is no coincidence that much of the 2023 return resulted from an increase in multiples.

Source: Bloomberg. Turim

Funds:
Negative flow in the main strategies: equities, credit and uncorrelated

Markets



Investment funds experienced a highly negative flow for the second year running, as shown in the above graph. The movement continued across all kinds of funds – equities, credit and uncorrelated – amid a challenging outlook, particularly in the face of high interest rates.

Source: BTG Pactual. Turim

Exchange rate:
Record in the balance and high carry trade helped strengthen the Real in 2023

Markets

Performance against the Dollar in the year

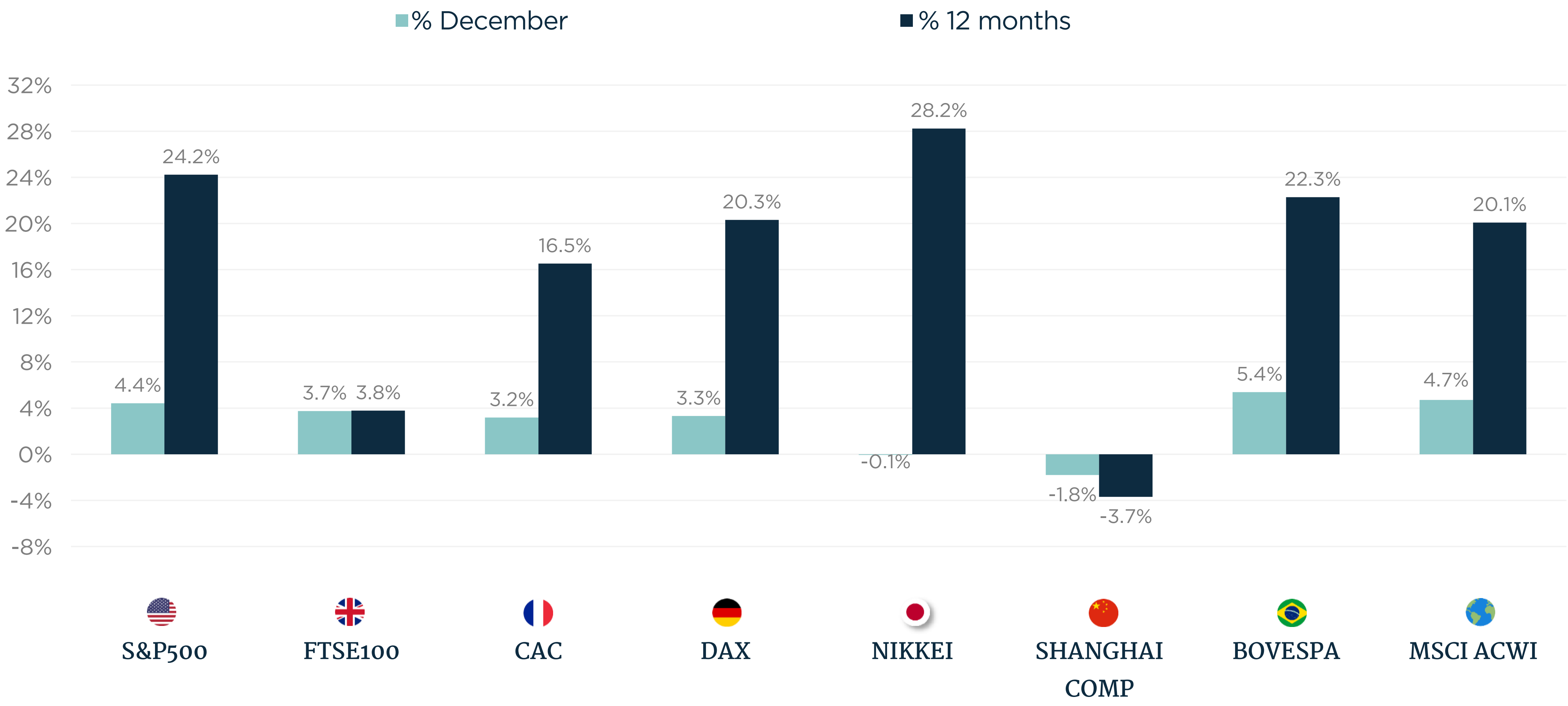
Weekly basis

The Real was one of the top performing currencies last year, as can be seen in the above heat map. A large part of this movement was due to the strong trade balance but it is also worth mentioning the importance of the high "carry trade" (the difference between the interest paid on the local market compared with the foreign market) which helped the Real appreciate. This was also the case with some of its peers.

Source: Macrobond

Stock markets

Markets



Indexes

	Variation December	Value on 31/12/2023	Variation in 2023	Variation 12 months
COMMODITIES				
OIL WTI	-5.7%	71.65	-10.7%	-10.7%
GOLD	1.3%	2,062.98	13.1%	13.1%
CURRENCIES (IN RELATION TO THE US$)				
EURO	1.4%	1.10	3.1%	3.1%
GBP	0.8%	1.27	5.4%	5.4%
YEN	5.1%	141.04	-7.0%	-7.0%
REAL	1.3%	4.86	8.7%	8.7%
INDEXES				
S&P500	4.4%	4,769.83	24.2%	24.2%
FTSE100	3.7%	7,733.24	3.8%	3.8%
CAC	3.2%	7,543.18	16.5%	16.5%
DAX	3.3%	16,751.64	20.3%	20.3%
NIKKEI	-0.1%	33,464.17	28.2%	28.2%
SHANGHAI COMP	-1.8%	2,974.94	-3.7%	-3.7%
BOVESPA	5.4%	134,185.24	22.3%	22.3%
MSCI ACWI	4.7%	727.00	20.1%	20.1%

*Amounts and Results in local currency

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