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Relatório Econômico

January 2025

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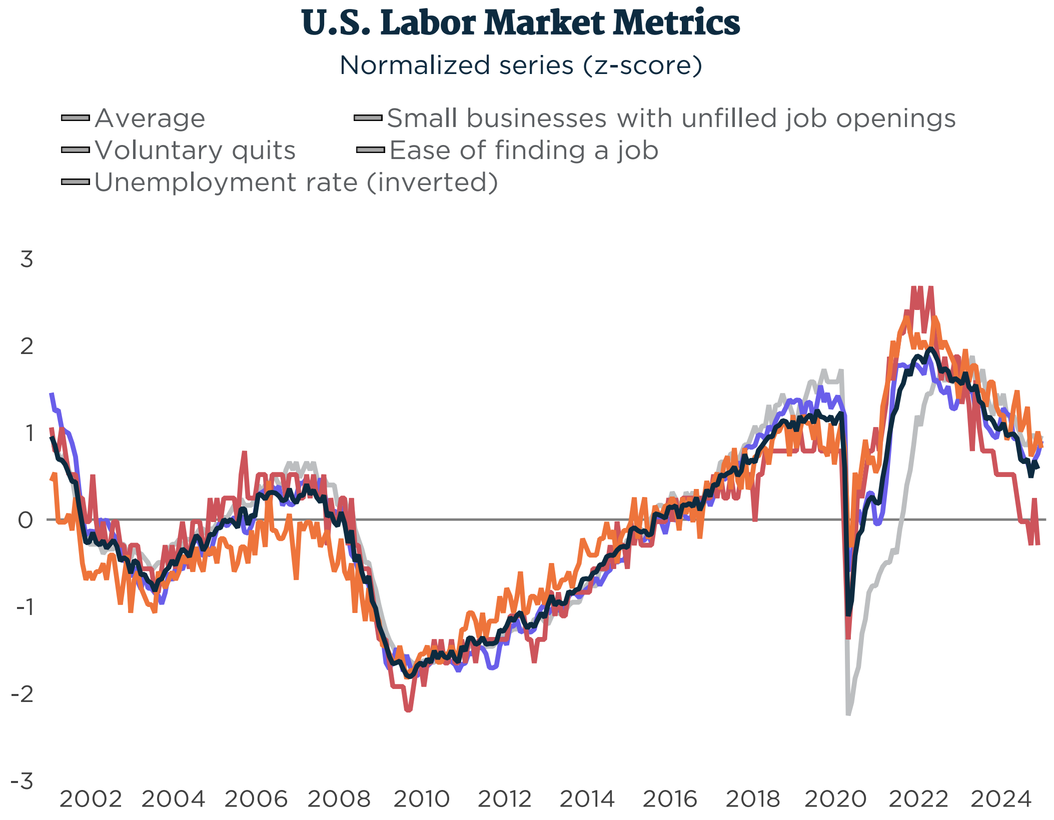
Labor Market:

Employment metrics surprised in December

Global

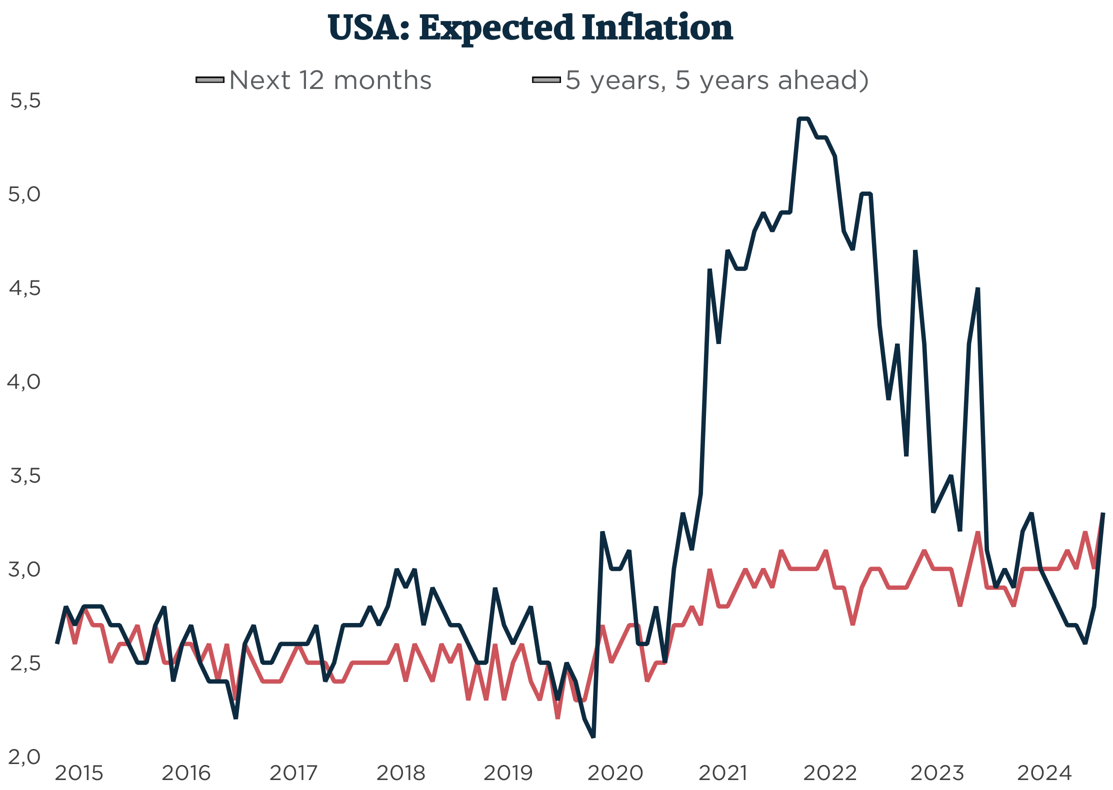


The U.S. economy continued to surprise in December, with the creation of 256,000 jobs in the Payroll report, significantly exceeding market expectations, accompanied by an unexpected drop in the unemployment rate. Other indicators, such as the number of job openings and unemployment insurance claims, also reinforced the diagnosis of a labor market that is hotter than previously anticipated, confirming the resilience of economic activity observed throughout the fourth quarter.

The chart on the left illustrates a set of key labor market variables, normalized by standard deviations relative to their historical averages. Despite a deceleration from the peaks recorded in 2022, many of these metrics remain approximately one standard deviation above their historical means, suggesting a still-robust labor market. This scenario helps reduce the risks of an abrupt slowdown in the economy in the short term.

Source: U.S. Bureau of Labor Statistics, Macrobond, Turim

Inflation:
Inflation and expectations remain above target
Global



The chart on the left illustrates inflation expectations captured by the University of Michigan's Consumer Confidence Survey. It is noticeable that both the 12-month horizon and the 5-to-10-year-ahead window recorded a sharp rise in the latest reading, approaching the 3.3% range. This movement may be attributed to several factors, including recent surprises in economic data and more inflationary outlooks associated with international trade tariff policies and immigration restrictions expected to be implemented by the Trump administration.

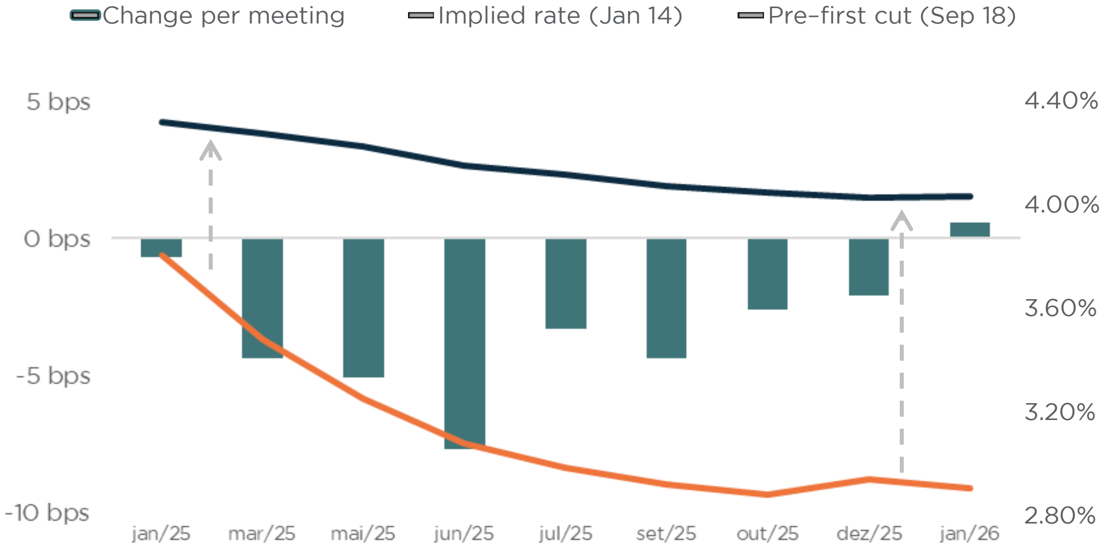
Although the survey is inherently volatile, additional caution is required when interpreting these results. If this trend is confirmed in future readings, the discussion around the anchoring of inflation expectations may return to the center of debate among members of the FOMC (Federal Open Market Committee).

Source: University of Michigan, Macrobond, Turim

Monetary Policy:
FOMC signals potential pause in the rate-cutting cycle in January
Global

FOMC: Interest Rate and Change per Meeting

Fed funds futures



Since the start of the monetary easing cycle in the United States, which began in September, futures interest rates have widened significantly, reflecting surprises in economic data and the anticipated policy implications of the new government, following a strong Republican victory in the elections. This aligns with the discussion presented by the FOMC in the minutes of the December decision, which resulted in a 25 basis point cut in the Fed Funds rate, despite a dissenting vote favoring no change.

In this context, market pricing has significantly reduced the number of cuts projected for the year and is already indicating the possibility of a pause in the cycle at the January meeting. By mid-January, futures rates were pointing to just one or two 25 basis point cuts through the end of the year.

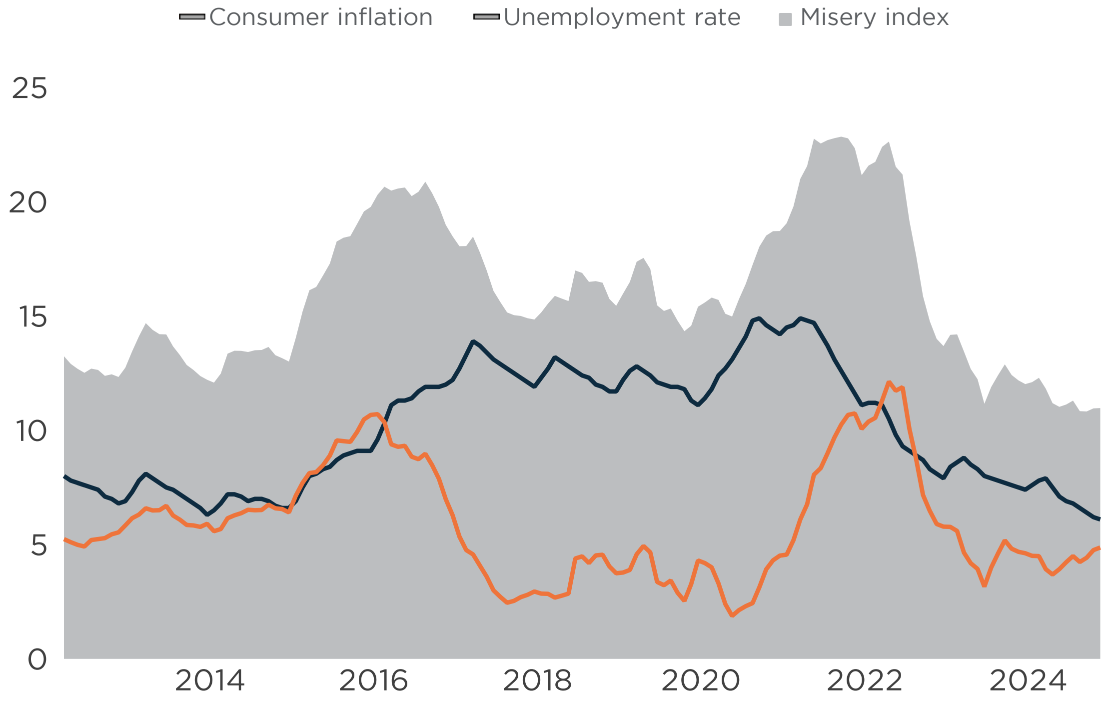
Source: Bloomberg, Turim

Politics:
Expected deterioration in economic variables may challenge government popularity

Brazil

Misery Index

12-month accumulated inflation + unemployment rate



The misery index, as shown in the chart on the left, is a simple metric that measures population well-being through key macroeconomic variables. It is calculated as the sum of the 12-month accumulated consumer inflation and the unemployment rate, under the premise that higher values indicate a more difficult economic situation for the population.

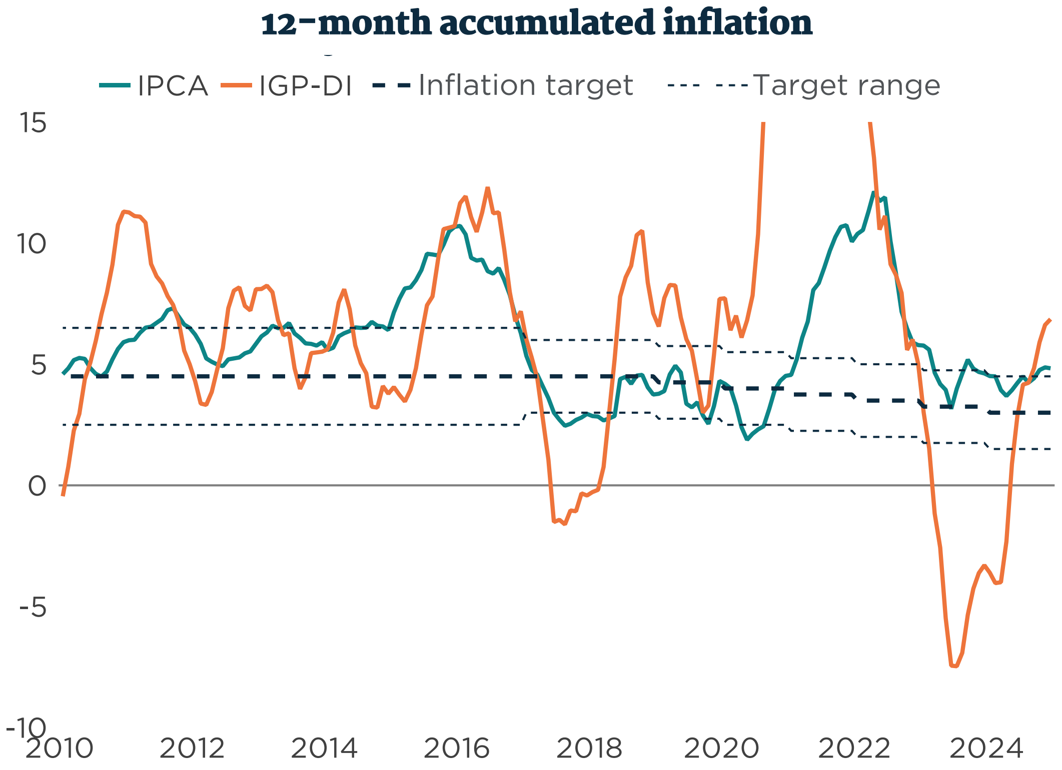
In 2024, the index reached historically low levels, reflecting a heated labor market and relatively subdued inflation by historical standards. However, it is unlikely that this "comfortable" situation will persist throughout the remainder of the current administration's term, given the projections of accelerating inflation and the current high interest rate level, which tends to weigh on unemployment. This deterioration could significantly affect President Lula's popularity, which is already below the levels seen in his earlier terms, and may ultimately influence the outcome of the upcoming elections.

Source: IBGE, Macrobond, Turim

Inflation:

Inflation exceeds target in 2024 and is expected to remain elevated throughout 2025

Brazil



Consumer inflation, measured by the IPCA, ended 2024 with a 4.8% increase, surpassing not only the established target of 3% but also the upper bound of the tolerance range of 4.5%. Other indicators, such as the IGP-DI – more sensitive to exchange rate depreciation – also showed acceleration throughout the year, closing with a 6.9% increase. The IGP-DI (General Price Index – Domestic Supply) reflects price changes across different stages of the economy, including wholesale, consumer, and construction, and is strongly influenced by exchange rate dynamics and commodity prices.

According to the open letter sent by the Central Bank to the Ministry of Finance, the failure to meet the inflation target was attributed to the "strong pace of economic activity growth, exchange rate depreciation, and climate-related factors, in a context of unanchored inflation expectations and inertia from the previous year's accumulated inflation."

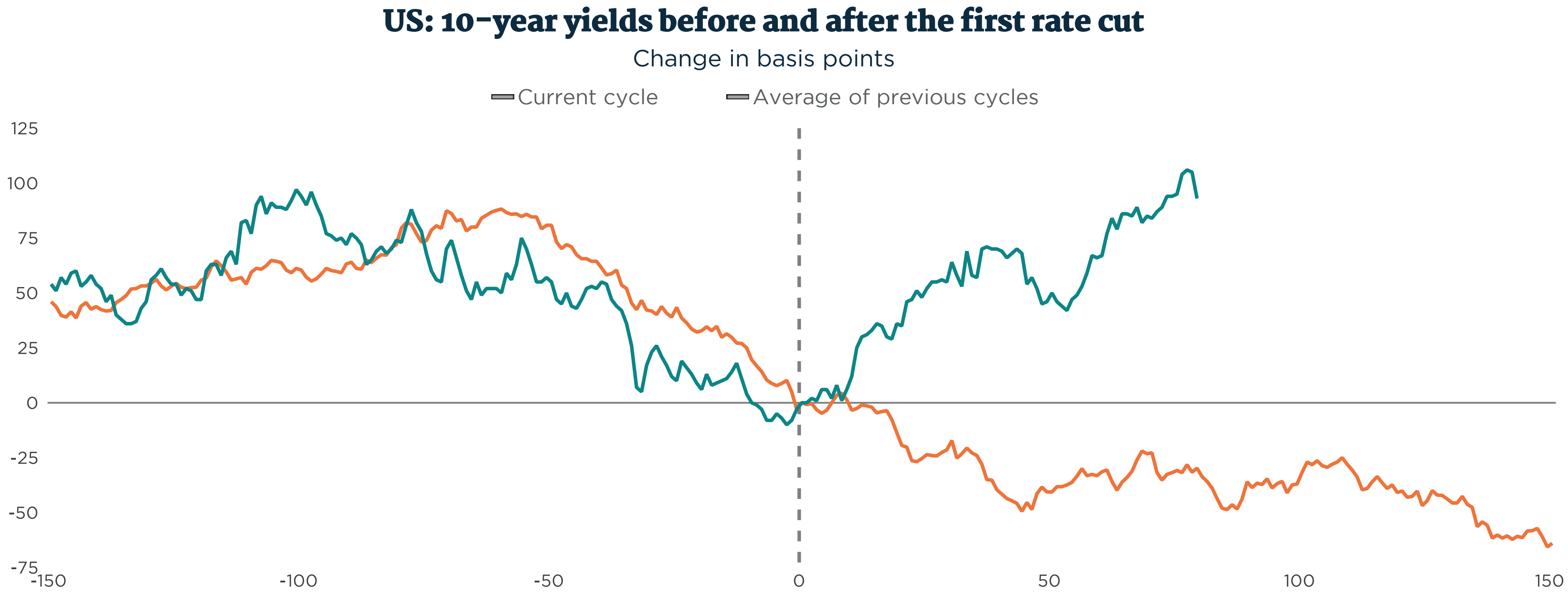
In the same document, the newly appointed president of the monetary authority, Gabriel Galípolo, emphasized that the COPOM's (Monetary Policy Committee) baseline scenario projects that inflation will remain above the upper limit of the target range until the third quarter of 2025, after which it is expected to begin declining. However, projections suggest that inflation will remain above the midpoint of the target for a considerable period.

Source: BCB, FGV, IBGE, Macrobond, Turim

Interest Rates:

Interest rate behavior in the current easing cycle deviates from historical pattern

Markets



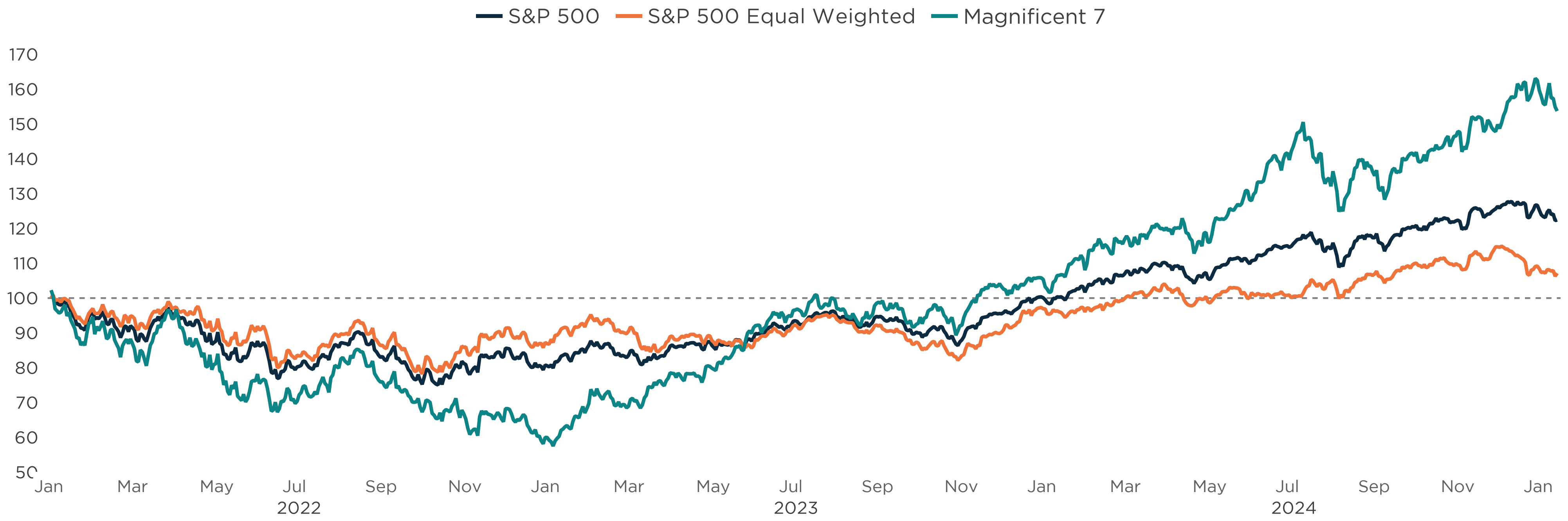
Historically, monetary easing cycles (rate cuts) led by the Federal Reserve have been accompanied by a decline in the yield of 10-year U.S. Treasury bonds, as shown by the orange line in the chart above. However, this pattern has not repeated in the current cycle. Since the first interest rate cut, the 10-year yield has risen by about 100 basis points, defying historical trends.

Source: Macrobond, Turim

Equities:
Stocks declined in December but marked two consecutive years of strong gains
Markets

US: Performance of stock indices

Base 100 = Jan/22



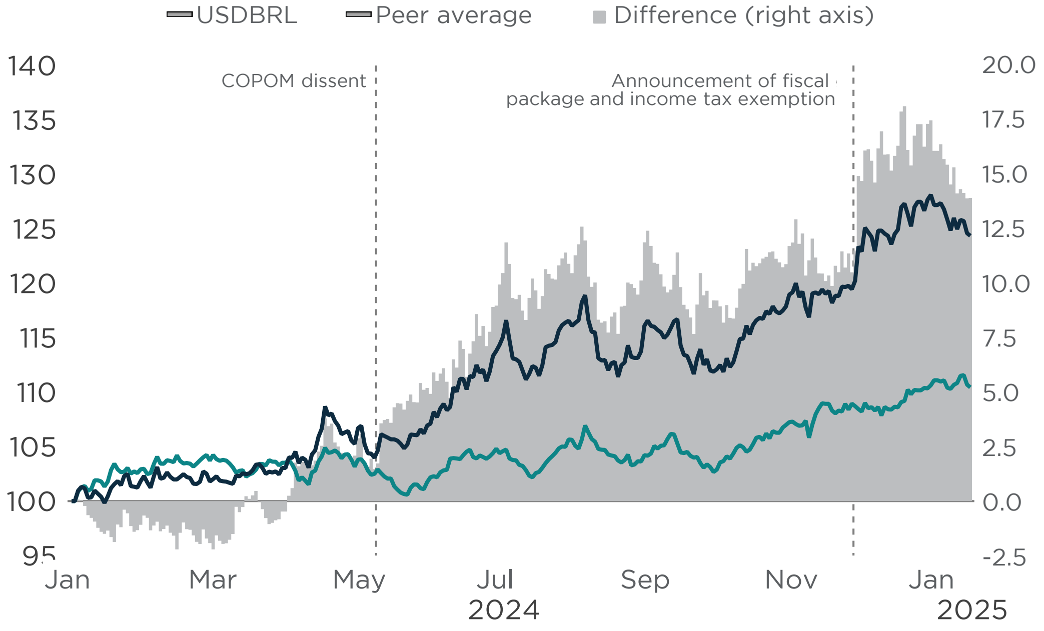
Despite the negative performance in December (-2.5%), the S&P 500 closed 2024 with its second consecutive year of growth above 20%, rising 23.3% for the year after a 24.2% gain in 2023. In both periods, the bulk of the gains were driven by the "Magnificent 7" (Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla, and Meta), which significantly outperformed the rest of the index constituents.

Source: Bloomberg, Turim

FX:
Brazilian real ends 2024 near historic lows
Markets

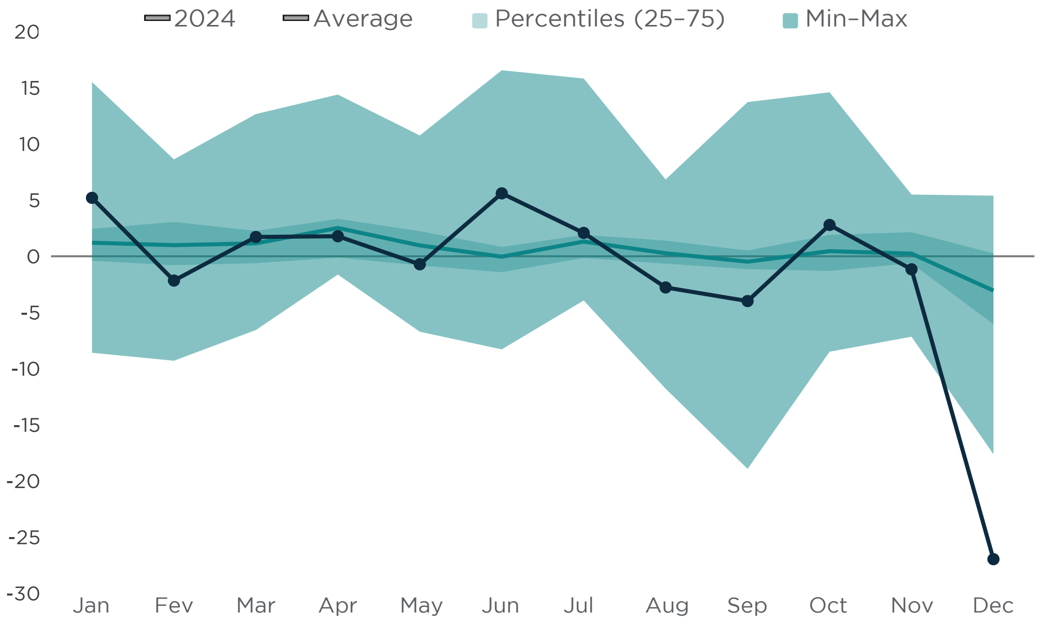
Performance of the BRL and similar currencies

Base 100 = Dec 30, 2023



Seasonal pattern of FX flows (1982–2023)

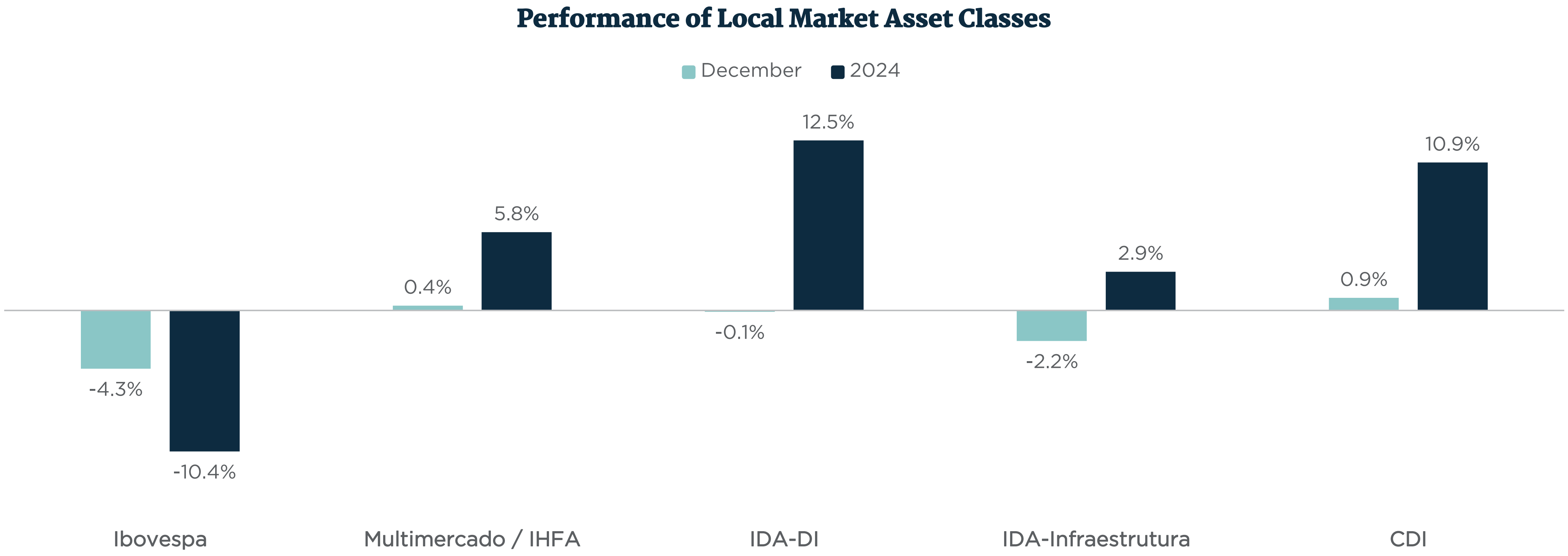
Billions of dollars



The Brazilian real, which hit a historic low in December (reaching 6.30 USDBRL), closed the year at 6.18 USDBRL, ranking as one of the world's most depreciated currencies in 2024. This movement can be attributed to both domestic and external factors, with a sharp intensification in December. At that time, worsening confidence in Brazil's economic outlook — especially following the joint announcement of a fiscal spending package and the expansion of income tax exemptions — coincided with record capital outflows. In response, the Central Bank intervened in the FX market several times throughout the month.

Source: BCB, Macrobond, Turim

Asset Classes:
Only the IDA-DI outperformed the CDI in 2024
Markets

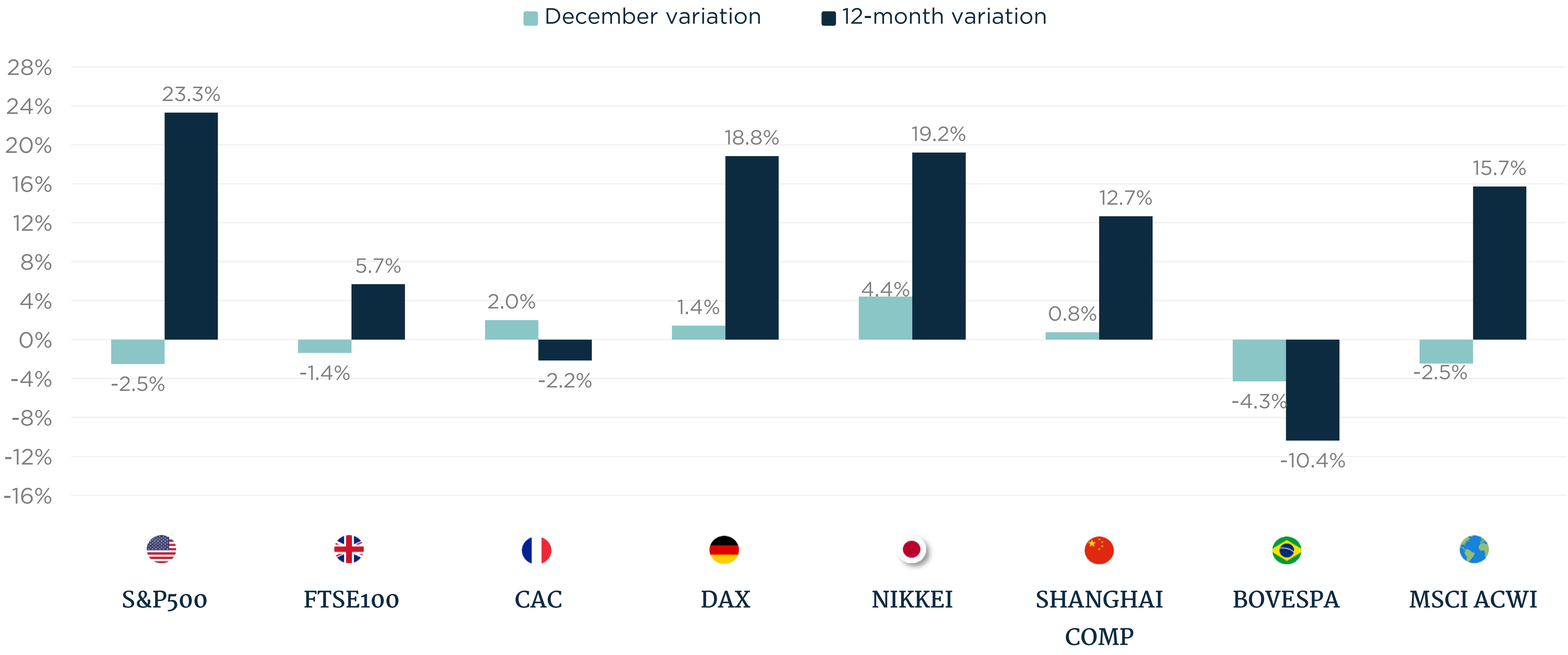


The vast majority of asset classes delivered lackluster returns in the domestic market. Among the selected benchmarks, only the private credit market, represented by the IDA-DI, outperformed the CDI in 2024—even though it posted a slight decline in December. The IDA-DI index tracks the performance of private credit instruments linked to the CDI and serves as an important reference for evaluating this segment's performance in the Brazilian financial market.

Source: Quantum, Turim

Equities

Markets



Source: Bloomberg

Indices

	December variation	Value in 12/31/2024	2024 variation	12-month variation
COMMODITIES				
OIL WTI	4.4%	71.72	0.1%	0.1%
GOLD	-0.7%	2,624.50	27.2%	27.2%
CURRENCIES (RELATIVE TO USD)				
EURO	-2.1%	1.04	-6.2%	-6.2%
POUND	-1.7%	1.25	-1.7%	-1.7%
YEN	-4.7%	157.20	-10.3%	-10.3%
REAL	-3.3%	6.18	-21.4%	-21.4%
ÍNDICES				
S&P500	-2.5%	5,881.63	23.3%	23.3%
FTSE100	-1.4%	8,173.02	5.7%	5.7%
CAC	2.0%	7,380.74	-2.2%	-2.2%
DAX	1.4%	19,909.14	18.8%	18.8%
NIKKEI	4.4%	39,894.54	19.2%	19.2%
SHANGHAI COMP	0.8%	3,351.76	12.7%	12.7%
BOVESPA	-4.3%	120,283.40	-10.4%	-10.4%
MSCI ACWI	-2.5%	841.33	15.7%	15.7%

*Values and results presented in local currency

Source: Bloomberg

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