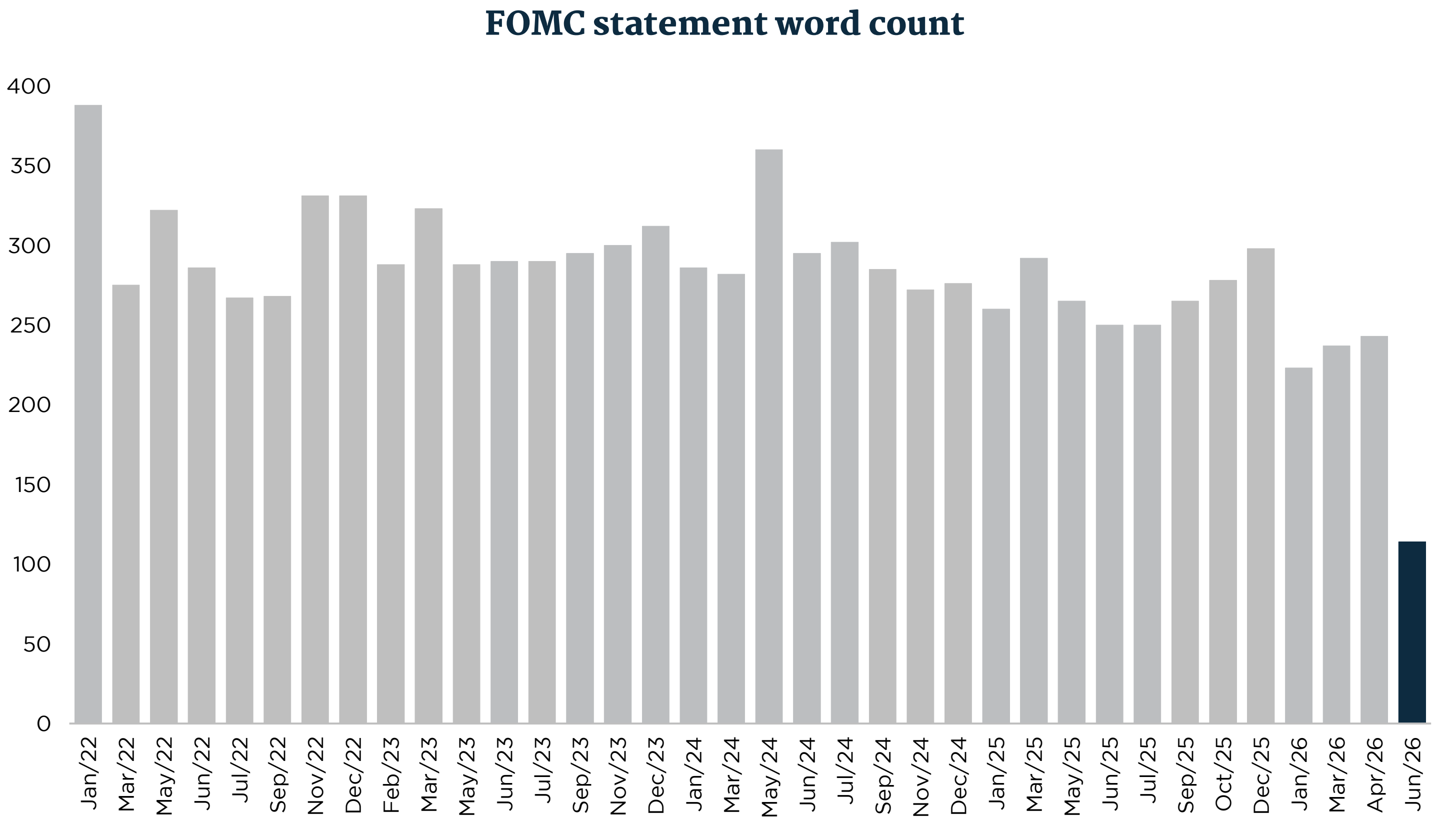
TURIM 25 ANOS

Economic Report

July
2026

Monetary Policy

Less guidance, potentially greater uncertainty



At its latest meeting, the FOMC kept the federal funds rate unchanged, in line with market expectations. The meeting marked Kevin Warsh's debut as Chair of the Federal Reserve and introduced notable changes to the Fed's communication strategy, most visibly through a more concise policy statement. As shown in the chart above, the word count of the post-meeting statement declined significantly relative to the pattern observed in recent years, highlighting a simplification of its previous format.

One of the new Fed Chair's apparent objectives is to reverse the process of closer engagement with financial markets that began two decades ago under former Chair Ben Bernanke.

Another key development was the revision to the median projections for the federal funds rate, which removed the rate cut previously expected for 2026. At the same time, roughly half of the committee members now project additional rate hikes this year. The median dot for 2026 increased from 3.4% to 3.8%. For 2027 and 2028, despite an upward revision to the projected terminal rate, the Committee continued to anticipate one additional rate cut in each year, with median projections of 3.6% and 3.1%, respectively.

Source: Federal Reserve, Turim

Inflation

Significant upside surprises relative to the pre-shock baseline amid AI-driven pressures

Contributions to Core PCE from components most exposed to semiconductors

	2023	2024	2025	YTD (May)
Telephone & Communication Equipment	-2	-2	-1	-4
Computers & Peripheral Equipment	-2	-3	0	8
Computer Software & Accessories	-11	2	5	59
Cellular Telephone Services	-5	-3	-5	1
Games, Toys & Hobbies	-3	-3	1	4
Total Contribution	**-24**	**-9**	**0**	**68**
Core PCE (%)	3,1%	3,0%	3,0%	4,2%*

Note: Contributions in basis points
*Year-to-date, annualized

With the effects of the tariffs announced by Donald Trump last year gradually fading, inflation was expected to converge toward the Federal Reserve's 2% target over the course of this year. The conflict between the United States and Iran, however, altered this outlook by generating renewed inflationary pressure through a sharp increase in oil prices. As a result, inflation data released between March and May surprised to the upside relative to market expectations formed before the escalation of the conflict.

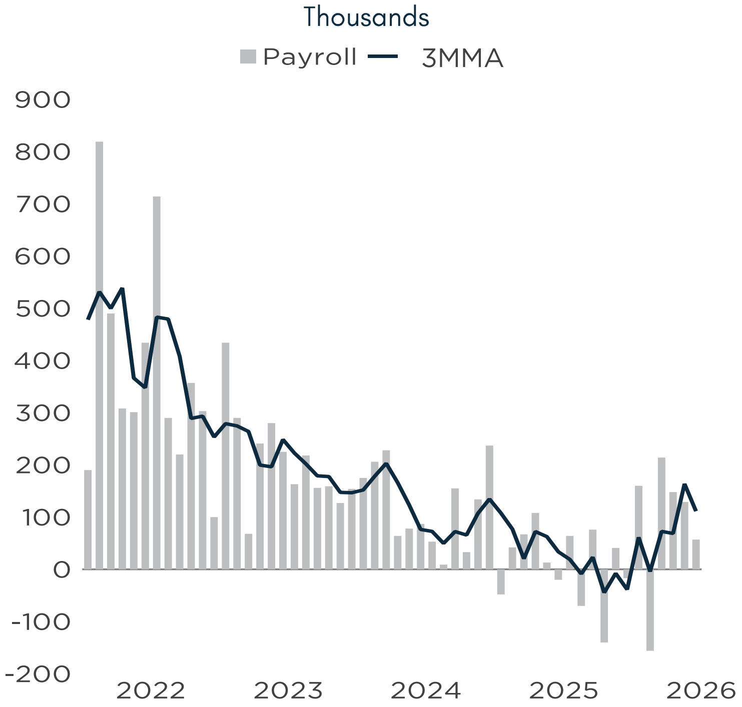
Beyond higher energy prices, strong investment in artificial intelligence infrastructure has also contributed to rising inflation. The table above presents the Core PCE components most exposed to semiconductors, a key input for AI infrastructure. Of the 4.2% annualized increase in Core PCE recorded so far this year, approximately 0.7 percentage point can be attributed to these components.

Source: Bureau of Economic Analysis, Turim

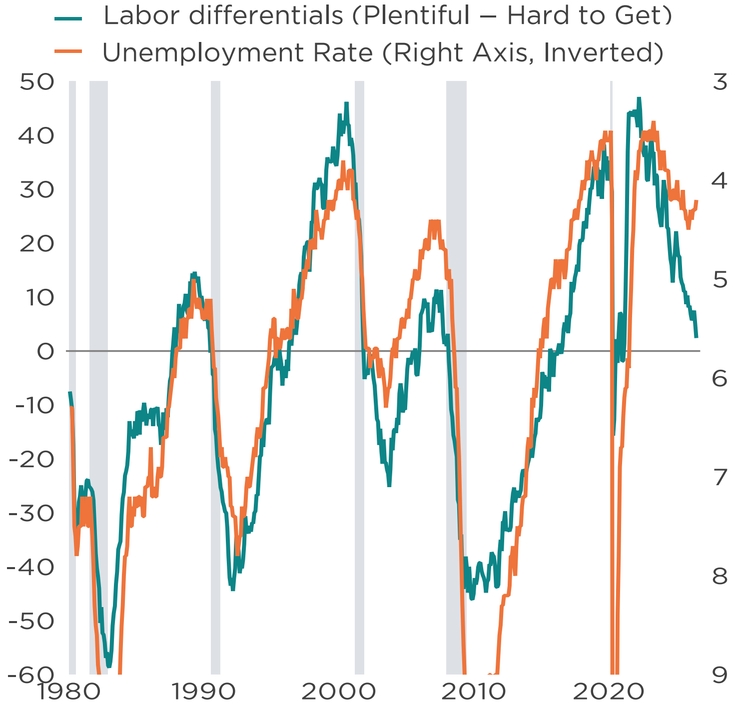
Labor Market

Recent data weaken the case for a reacceleration

Payroll: Net Job Creation



Labor Differentials vs. Unemployment



The latest Payroll report weakened the case for a reacceleration in the U.S. labor market, as net job creation surprised to the downside after three consecutive months of robust readings. In June, the economy added 57,000 jobs, below the market consensus of 113,000. The chart on the left summarizes this dynamic: the gray bars represent monthly job creation and show that the latest reading was significantly weaker than those of the previous three months. Even so, the three-month moving average remains above estimates of neutral job creation, suggesting that the labor market is still far from entering a contractionary phase.

Beyond the Payroll report, other indicators also point to a moderation in the U.S. labor market. One example is the Labor Differential, shown in the chart on the right, a Conference Board survey measure that captures consumers' perceptions of job availability. Because this indicator is negatively correlated with the unemployment rate, its recent decline suggests upward pressure on unemployment in the coming months, reinforcing signs that labor market conditions are gradually easing.

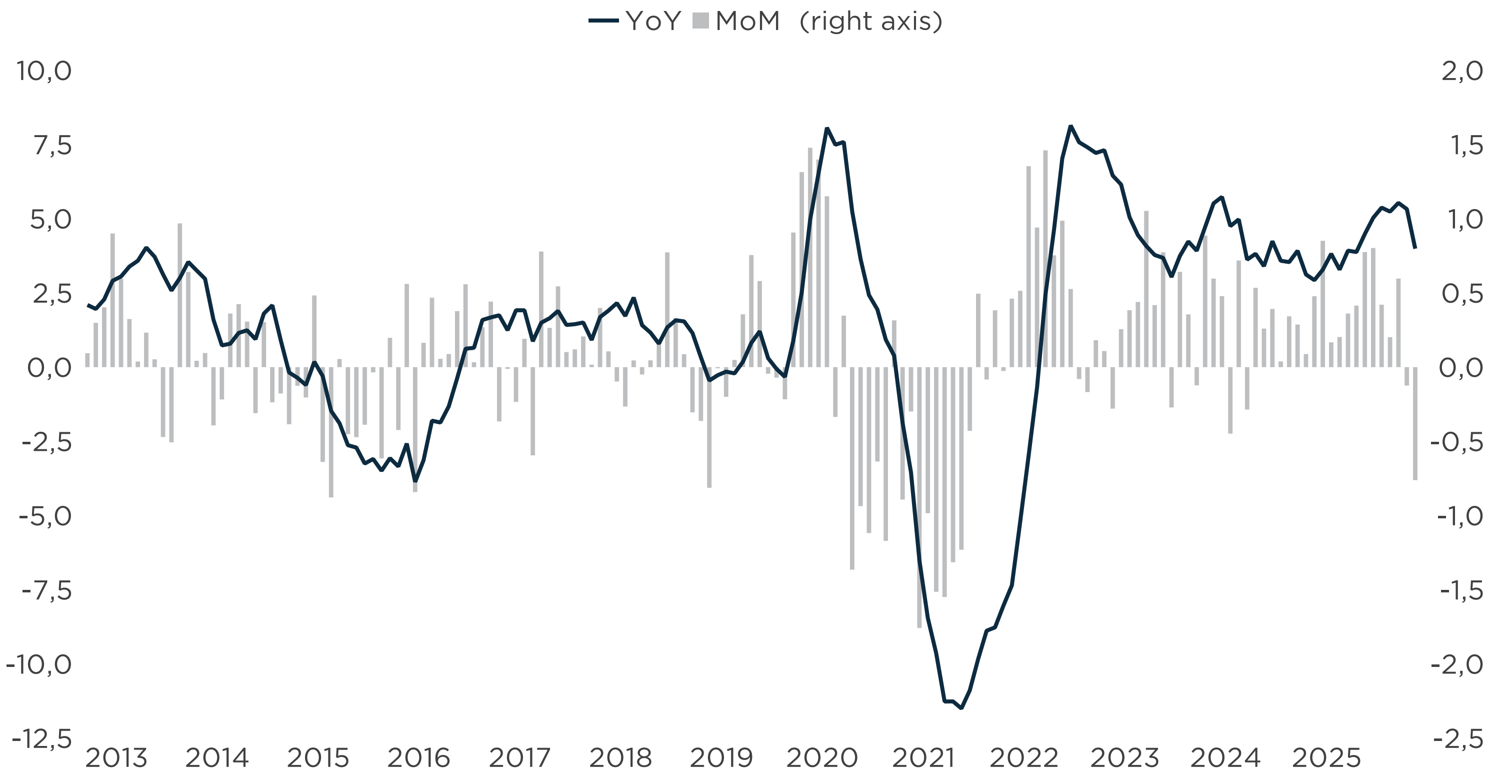
Source: Bureau of Labor Statistics, Turim

Labor Market

Signs of gradual moderation

Real Average Wage Growth

Seasonally Adjusted



In Brazil, the resilience of the labor market has been one of the main obstacles preventing Copom from delivering more substantial cuts to the Selic rate. This has been reflected both in the unemployment rate, which had been reaching successive historical lows, and in the dynamics of real wages, which maintained a strong pace of growth over the past year. The chart above shows the evolution of average real wages, as reported by the Brazilian Institute of Geography and Statistics (IBGE) through its Continuous PNAD survey, highlighting an acceleration throughout 2025 and a peak of nearly 5.5% year over year at the beginning of this year. The two most recent readings, for April and May, point to a reversal at the margin, with average real wages declining in both months.

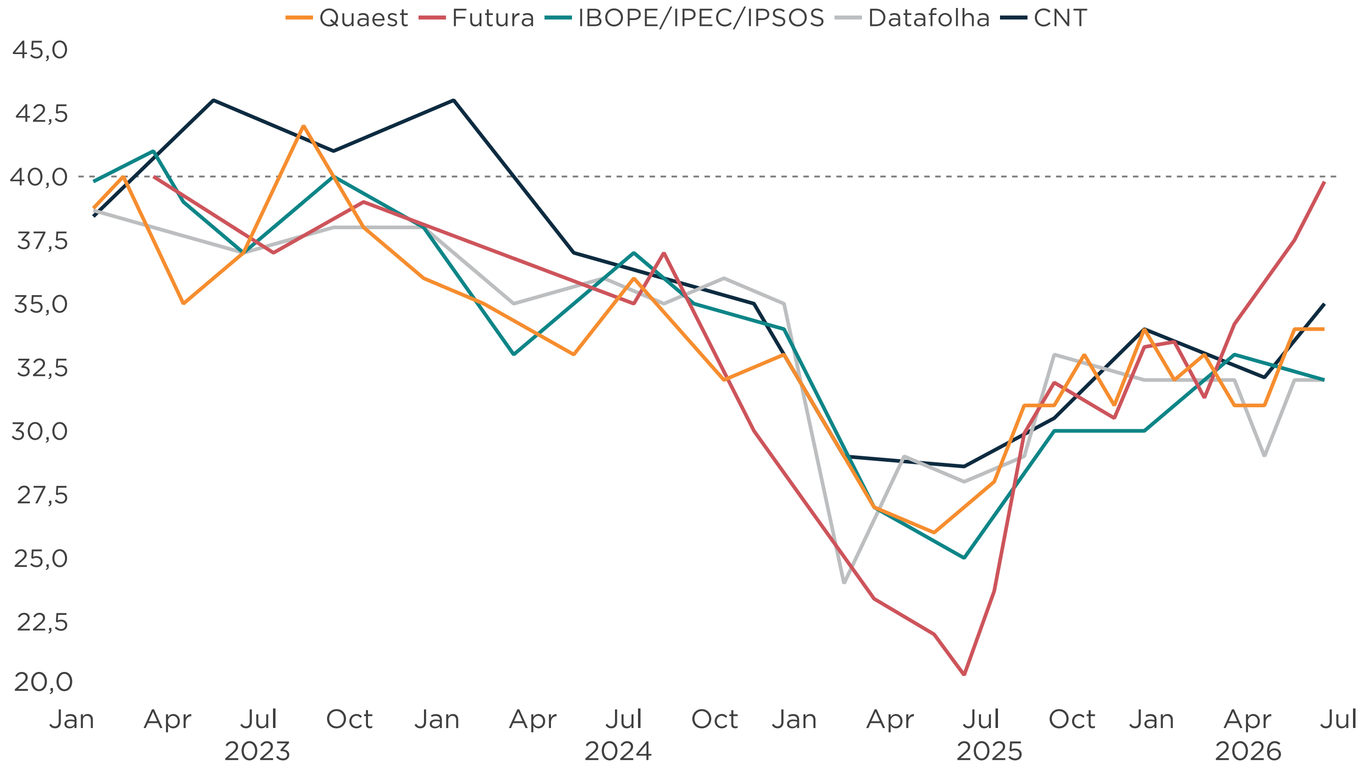
In addition, the May Caged report reinforced signs of moderation, showing net formal job creation of 73,000, well below the market consensus of 130,000. On a seasonally adjusted basis, the three-month moving average, which smooths short-term fluctuations, continued its downward trend, reinforcing the perception of a gradual moderation in labor market conditions.

Source: IBGE, Turim

Elections

Setback for Flávio's campaign, but challenges remain for Lula

Government Approval: Good/Excellent



The election calendar is drawing closer, with the first round scheduled for October 4. As the campaign gains prominence in the public debate, opinion polls are expected to provide a more accurate picture of the electoral landscape and become an increasingly important gauge for financial markets.

The chart above presents the government's approval rating ("good" and "excellent"), as measured by different polling firms. The indicator reached its lowest levels in the middle of last year, with Futura reporting approval close to 20%, while other pollsters showed readings around 25%. Since then, approval has recovered steadily. In the latest surveys, Futura reports approval approaching 40%, while other polling firms have converged to around 35%. This improvement appears to reflect two factors: the stimulus measures adopted by the government in recent months and setbacks involving the leading opposition candidate.

Even so, the outlook remains challenging for the incumbent. Despite the recent recovery, positive approval ratings remain below 40% in most polls, a level that has historically been associated with the minimum threshold needed for reelection.

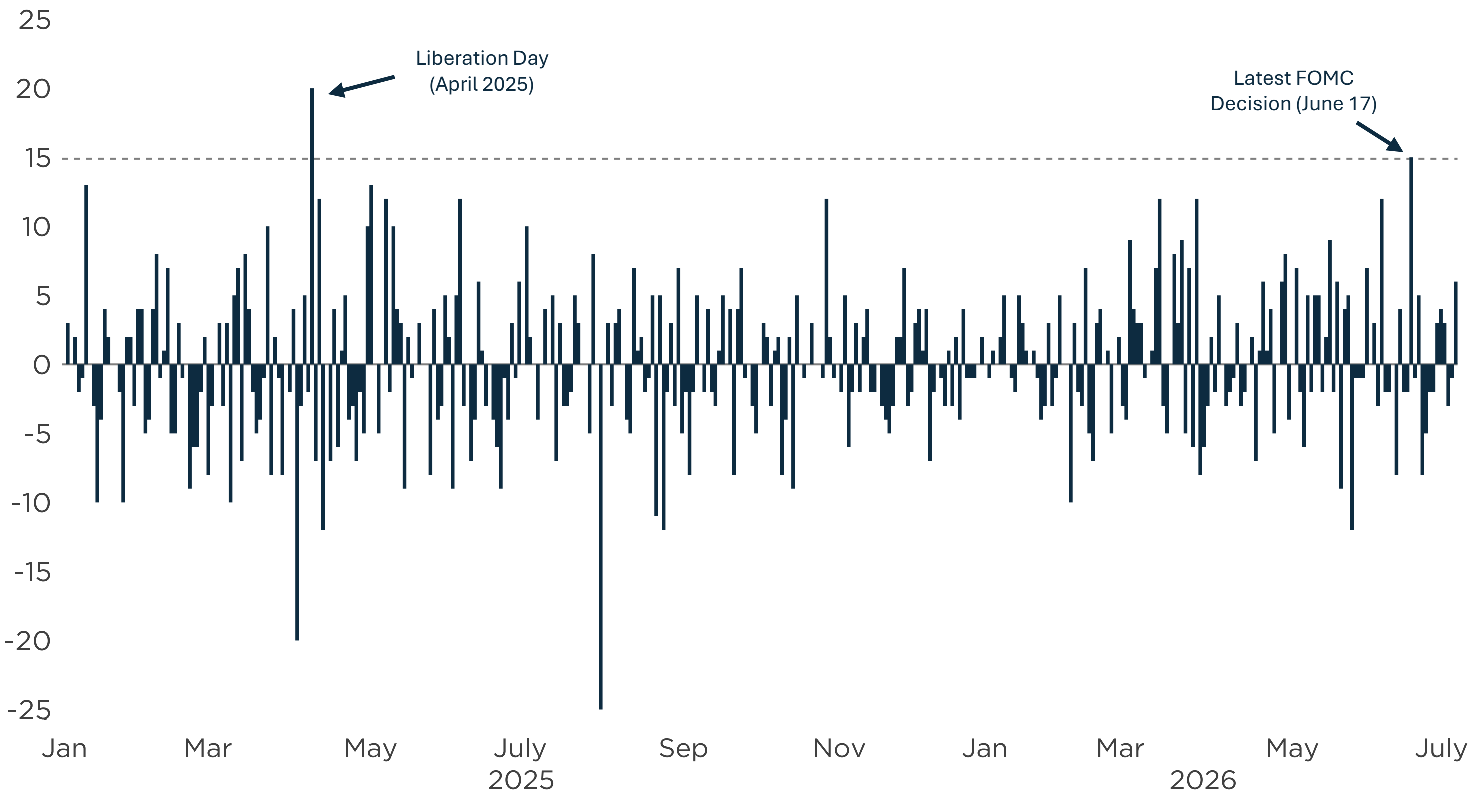
Source: Polling firms included in the chart, Turim

Interest Rates

FOMC decision triggers a sharp reaction in interest rates

2-Year U.S. Treasury Yields

Daily Change (Basis Points)



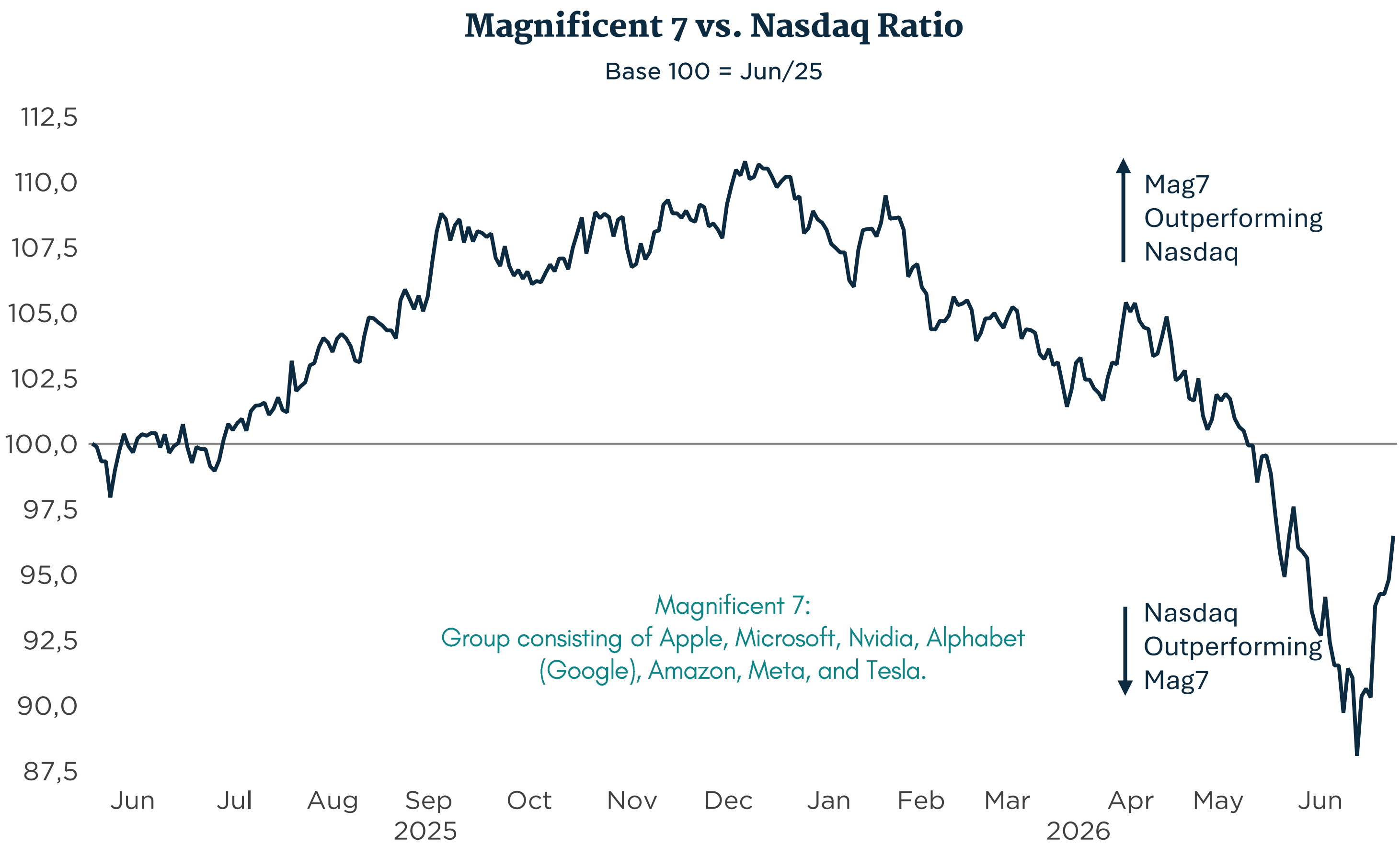
The latest FOMC decision triggered a significant reaction in interest rate markets, with a sharp rise in short-term Treasury yields. Part of this move can be attributed to the new Fed Chair's effort to reinforce the central bank's commitment to its inflation target. At the same time, the absence of clearer forward guidance may have led markets to place greater weight on the rest of the Committee's inflation projections, which were revised upward.

The chart above illustrates the magnitude of this reaction through the daily changes in two-year Treasury yields. The increase recorded on June 17, the day of the FOMC decision, was the largest since Liberation Day in April 2025. The meeting ranked among the most volatile events for the U.S. fixed income market over the past two years, highlighting the magnitude of the ongoing repricing of monetary policy expectations.

Source: Bloomberg, Turim

Equities

The Magnificent 7 continue to face corrections



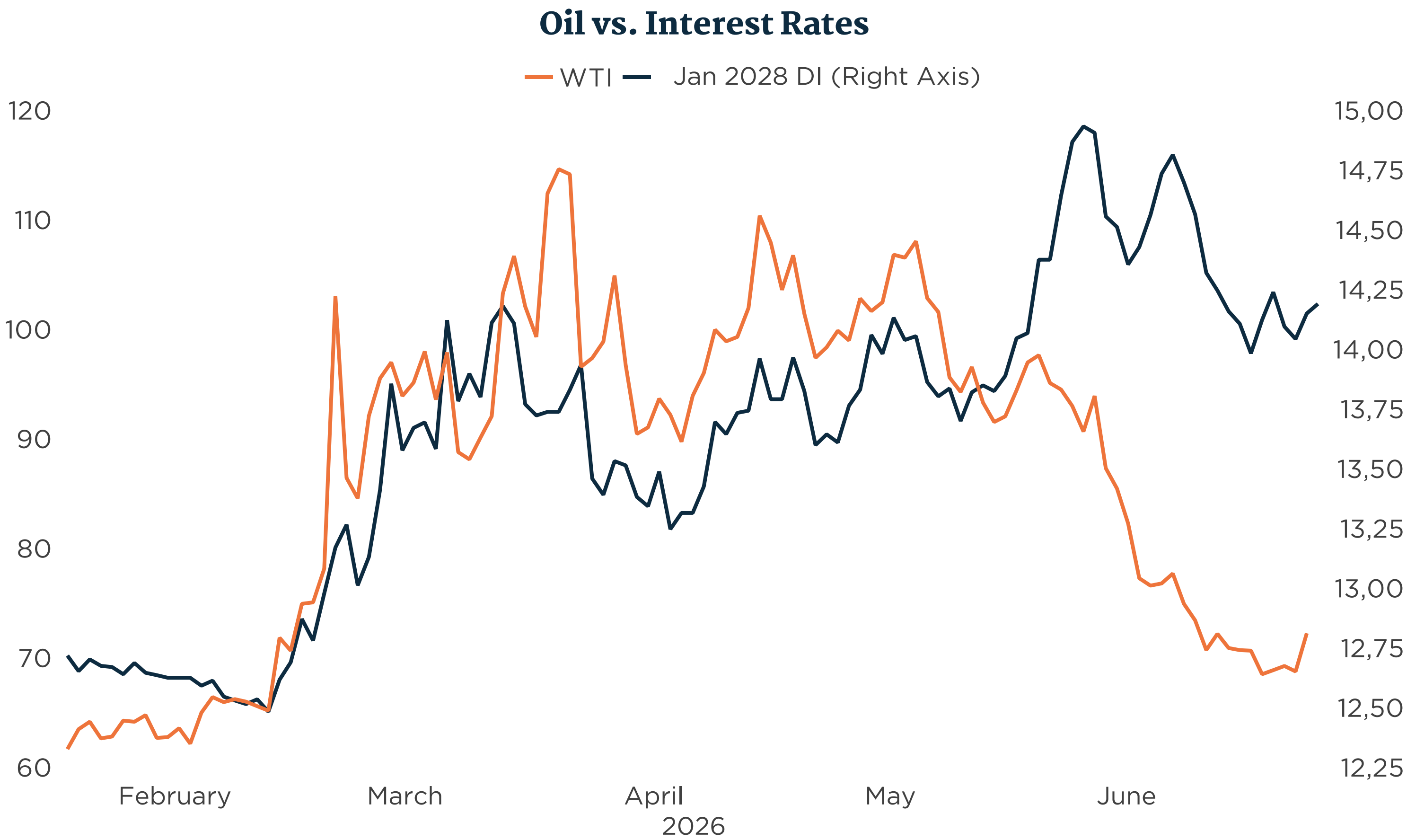
Artificial intelligence remains one of the main drivers of global equity market performance, particularly in the United States and selected emerging markets. In assessing this trend, markets appear to have anticipated part of its impact on the Magnificent 7, based on the view that these companies would need to undertake exceptionally large investments to build AI infrastructure, while the primary short-term beneficiaries would be suppliers along the value chain, such as semiconductor manufacturers and equipment producers.

The chart above illustrates this dynamic by showing the ratio between the performance of the Magnificent 7 and the Nasdaq. When the line rises, the group outperforms the index; when it declines, it underperforms. Since the beginning of the year, as these companies have raised their capital expenditure (CapEx) projections to finance AI infrastructure, investors have applied a larger discount to their shares, reflecting the growing impact on free cash flow generation. As a result, the ratio has declined steadily, highlighting the Magnificent 7's significant underperformance relative to the broader technology sector.

Source: Bloomberg, Turim

Interest Rates

Rate pricing failed to follow the decline in oil prices



At the beginning of March, the sharp rise in oil prices triggered by the conflict between the United States and Iran led to a significant upward shift in global interest rate curves, a move that was also observed in Brazil. By June, however, oil prices had returned to levels close to those seen before the conflict, as negotiations between the two sides progressed and shipping through the Strait of Hormuz normalized. Even so, interest rates remained elevated.

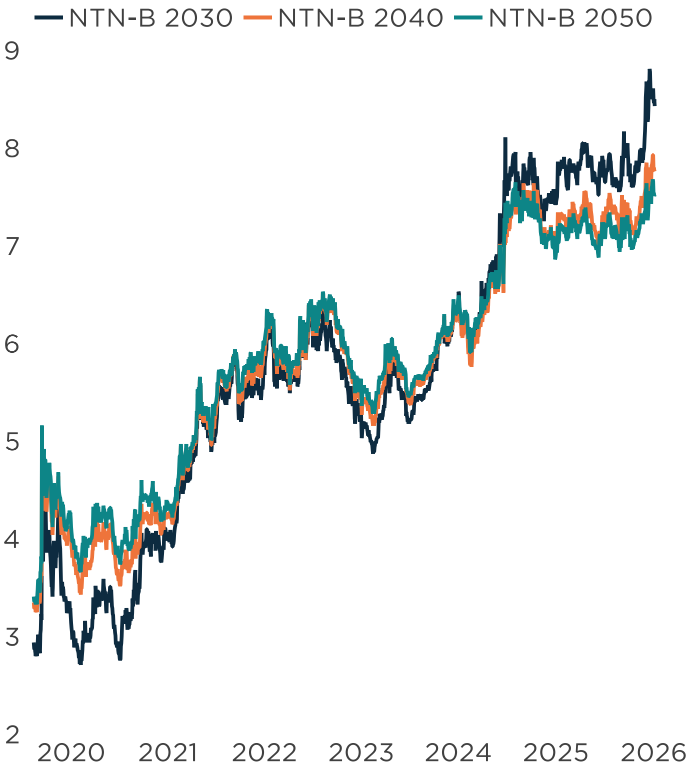
As shown in the chart above, WTI crude oil (orange line) and the January 2028 DI futures contract (blue line) moved higher together at the beginning of March. In June, however, only oil prices declined significantly. The January 2028 DI futures rate remains around 14% per year, compared with levels below 13% before the conflict.

Source: Bloomberg, Turim

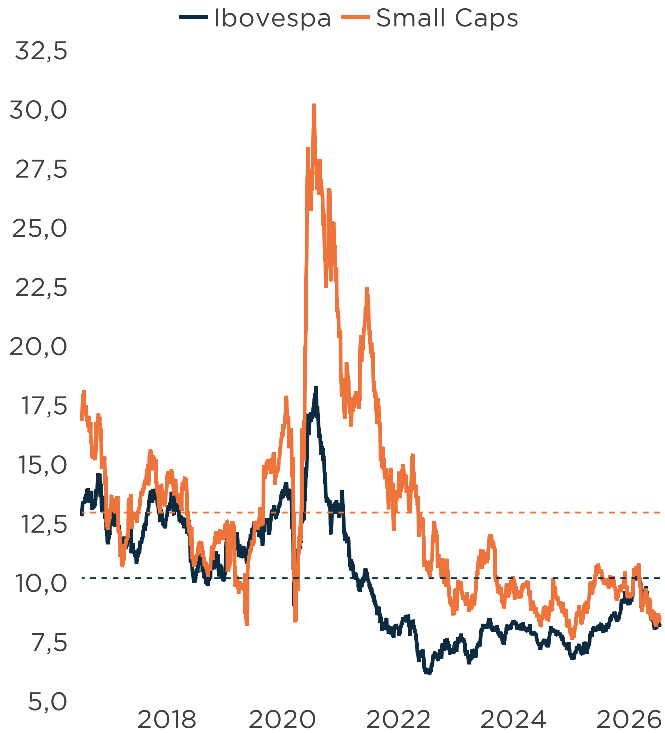
Equities

Real yields return to recent highs as equity multiples contract

Real Interest Rates



B3 Equity Index Valuation Multiples



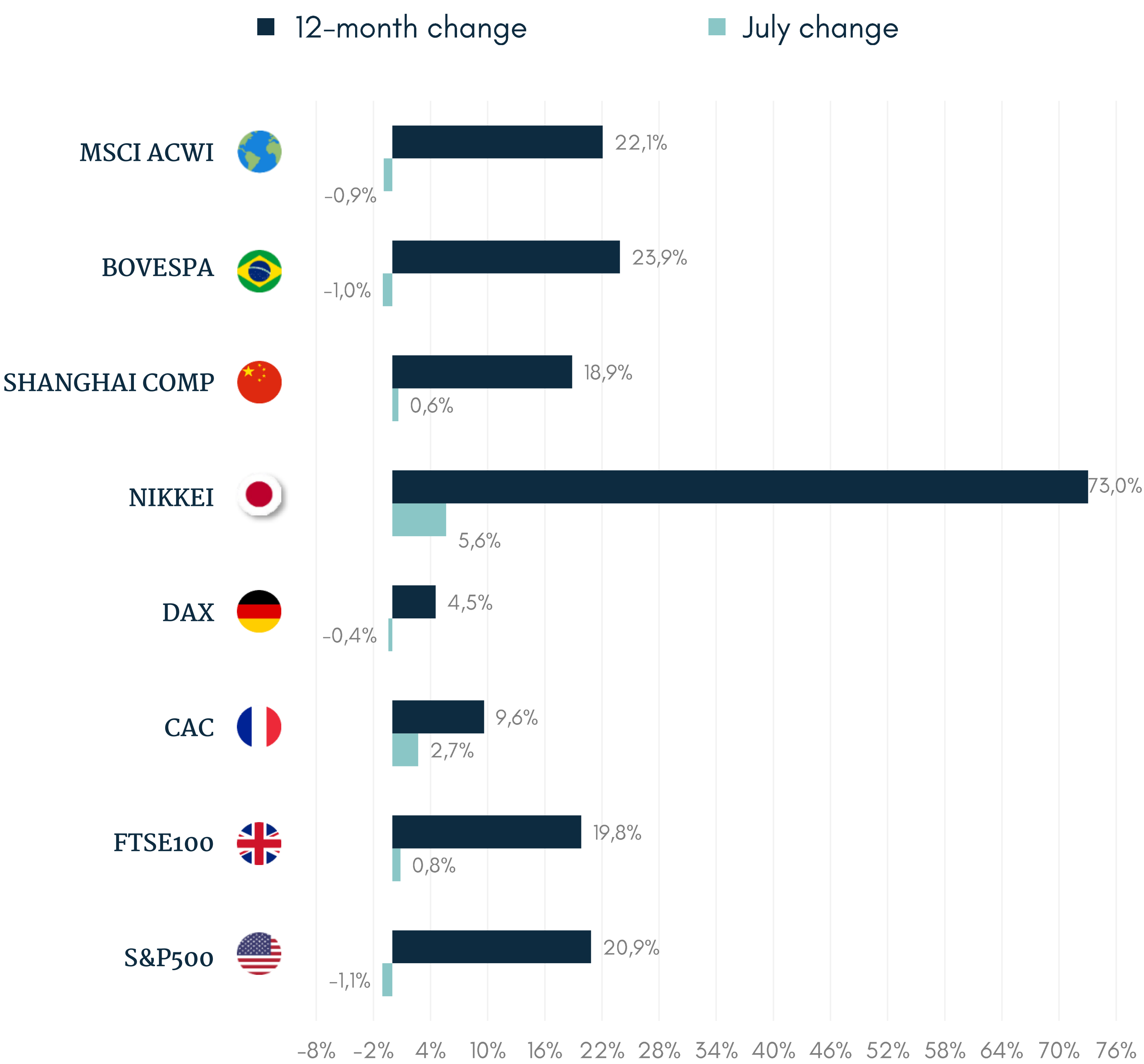
Horizontal lines represent the 10-year averages

The yields on NTN-Bs have reached their highest levels in the past 15 years, as illustrated by the chart on the left, although the series shown begins in 2020. Bonds with maturities of around ten years are currently trading at yields that, in nominal terms, would allow an investment to double in value in approximately six years. While such elevated real yields enhance the attractiveness of long-term fixed income investments, they also put pressure on equity valuations by increasing both the discount rate applied to future cash flows and the opportunity cost of investing in stocks.

The chart on the right shows the 12 month forward P/E of the Ibovespa, the main equity index of Brazil's B3 exchange, and the Small Cap Index, which is more heavily concentrated in companies exposed to the domestic economy. In both cases, valuation multiples have declined in recent months, falling back below their respective ten year averages (dotted lines) and leaving Brazilian equities trading at relatively attractive valuation levels. This discount is likely to persist as long as real interest rates remain elevated. More than a valuation issue, a rerating of these multiples will depend on the evolution of long-term interest rates.

Source: Bloomberg, Turim

Stock Markets



Source: Bloomberg

	July Change	Value on 31/07/2026	Change in 2026	12-month Change
COMMODITIES				
WTI Crude Oil	-21.4%	68.69	19.6%	5.5%
Gold	-11.7%	4,008.02	-7.2%	21.3%
CURRENCIES (VS. USD)				
Euro	-2.0%	1.14	-2.8%	-3.1%
Pound Sterling	-1.4%	1.33	-1.6%	-3.4%
Yen	-2.0%	162.55	-5.6%	-11.4%
Brazilian Real	-2.4%	5.16	6.1%	5.2%
INDICES				
S&P 500	-1.1%	7,499.36	9.6%	20.9%
FTSE 100	0.8%	10,497.12	5.7%	19.8%
CAC 40	2.7%	8,405.99	3.1%	9.6%
DAX	-0.4%	24,995.81	2.1%	4.5%
Nikkei	5.6%	70,062.32	39.2%	75.0%
Shanghai Composite	0.6%	4,094.40	3.2%	18.9%
Bovespa	-1.0%	172,024.12	6.8%	23.9%
MSCI ACWI	-0.9%	1,120.46	10.4%	22.1%

*Figures and results presented in local currency

Source: Bloomberg

Disclaimer

Our analyses and views are based on continuous and comprehensive monitoring of a wide range of sources, including global studies and reports produced by various market participants.

All opinions expressed in this report reflect our judgment as of this date and are subject to change at any time without prior notice.

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