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Economic Report

March 2025

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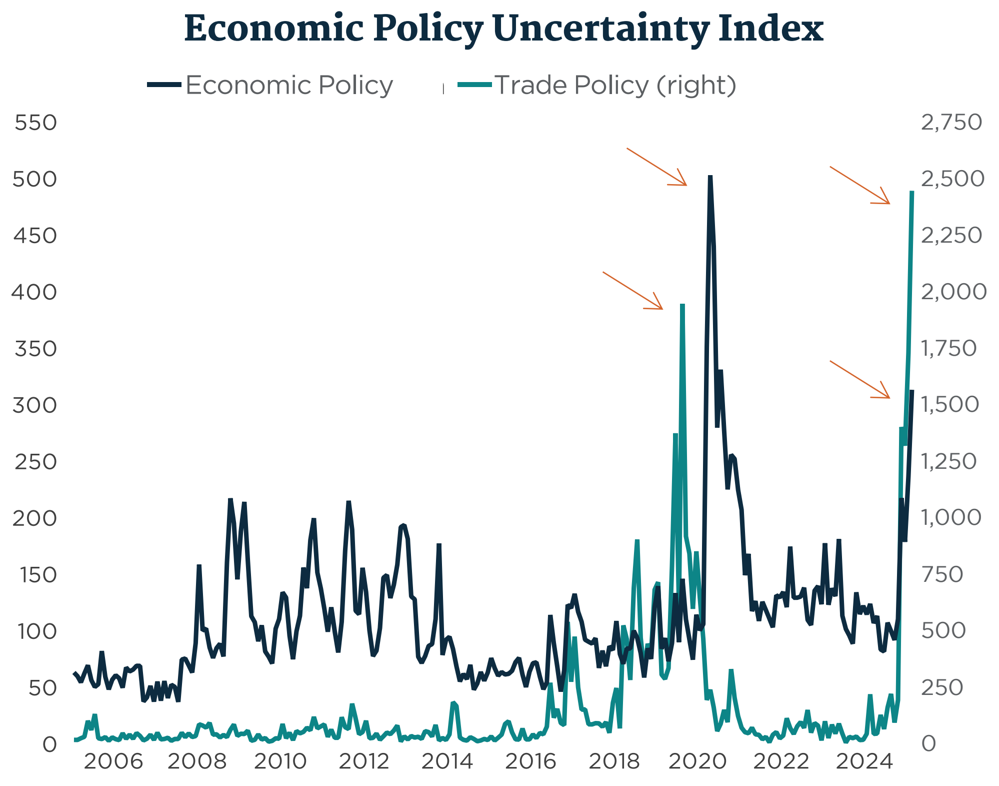
United States:

Policy-related uncertainty helps explain concerns over global growth

Global

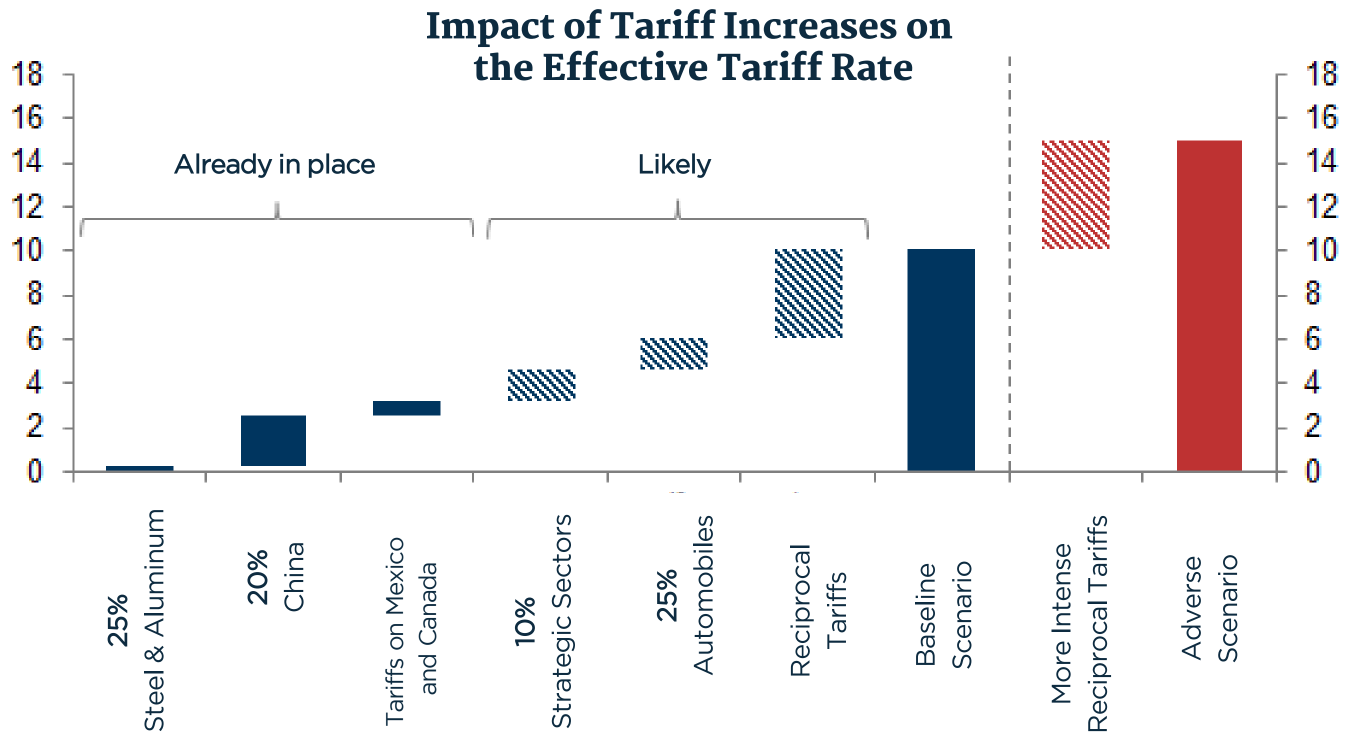


The U.S. government's recently announced policy agenda – whether implemented or not – has been fueling economic uncertainty since the start of President Donald Trump's administration. The adjacent chart illustrates this trend, highlighting two components of the Economic Policy Uncertainty index, derived from keyword frequency in major U.S. newspapers. Both economic and trade policy uncertainty remain elevated, with the latter surpassing its 2019 peak.

This rising uncertainty leads economic agents to postpone consumption and investment decisions, especially in durable goods – a key transmission channel of policy impact on growth. Additional headwinds include higher import costs and potential tightening in financial conditions due to tariff implementation

Source: Economic Policy Uncertainty, Macrobond, Turim

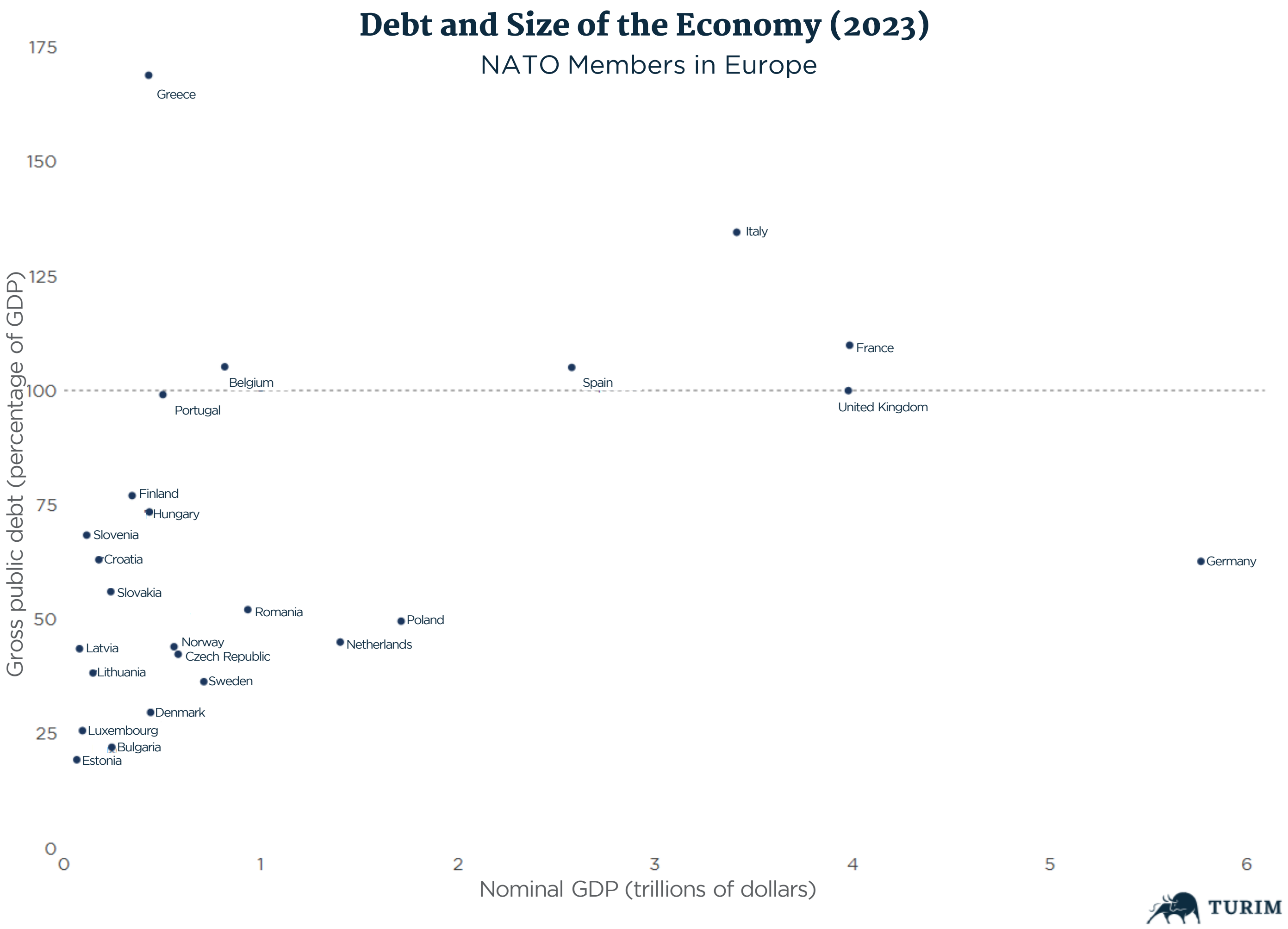
United States:
Effective Tariffs May Rise 10 Percentage Points, Doubling Previous Estimates
Global



The chart above, from Goldman Sachs Research, estimates the impact of enacted and prospective tariffs on core PCE (Personal Consumption Expenditures) inflation. The base case suggests U.S. effective tariff rates could increase by 10 percentage points – double earlier projections – potentially lifting core PCE inflation by 1 percentage point. In a more adverse scenario involving reciprocal tariffs, inflation could rise by as much as 1.5 percentage points.

Source: Goldman Sachs

Europe:
Germany intends to significantly increase investment in infrastructure and defense
Global



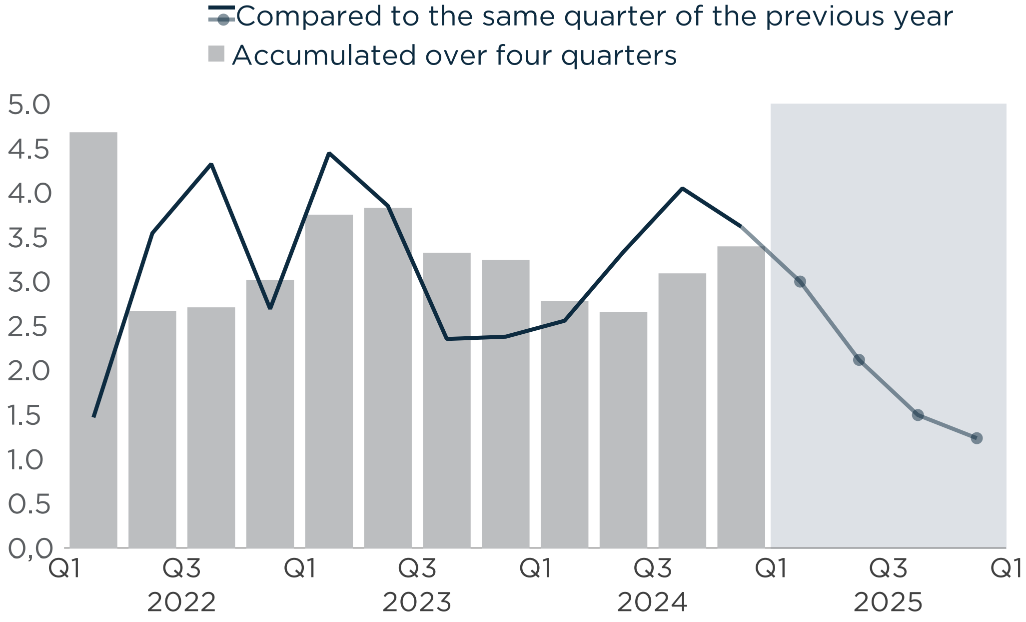
Germany announced its intention to implement a fiscal package unprecedented in recent decades, focused on investments in defense and infrastructure – a measure that may contribute to reversing the sluggish growth seen in recent years. In this context, the European Union has initiated discussions on the possibility of expanding the fiscal space allocated to defense investments among member countries.

However, as shown in the adjacent chart, no other country on the continent with comparable economic size (i.e., GDP) presents such an organized fiscal position, which tends to limit the feasibility of similarly sized packages in other economies within the bloc.

Activity:
Disappointing growth in Q4 2024 and gradual deceleration projected for 2025
Brazil

GDP Growth and Median of Focus Projections

Change compared to the same quarter of the previous year



In Brazil, GDP for the fourth quarter of 2024 recorded growth of only 0.2% compared to the previous quarter, a result below expectations, despite the significant cumulative growth in the year (3.4%). The composition of GDP on the demand side reinforces the signs of deceleration, with a decline in domestic absorption – which includes internal consumption and investment – compensated only by the positive variation in inventories.

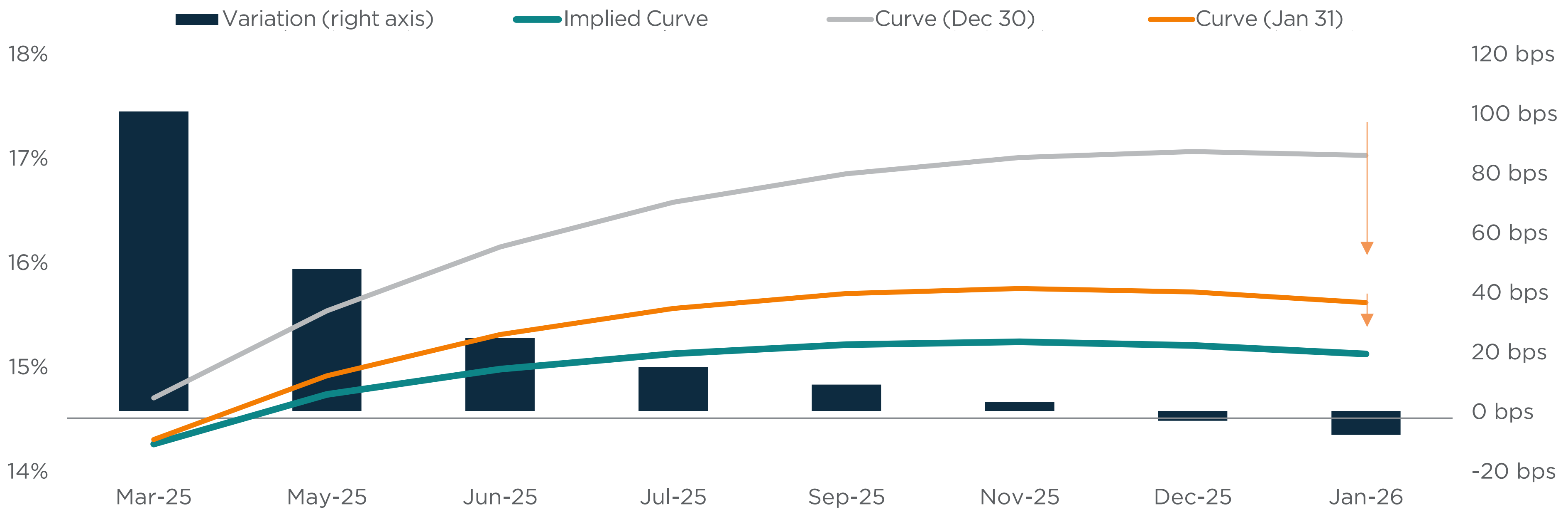
Even so, the expectation is that the deceleration throughout 2025 will occur gradually, influenced mainly by the lagged effects of contractionary monetary policy. The chart beside illustrates the recent performance of economic activity and the median Focus report projections for the next four quarters. In the short term, activity tends to maintain some resilience, mainly driven by the strong harvest forecast for the agricultural sector.

Source: IBGE, BCB, Macrobond, Turim

Monetary Policy:
Market signals the end of the interest rate hike cycle

Brazil

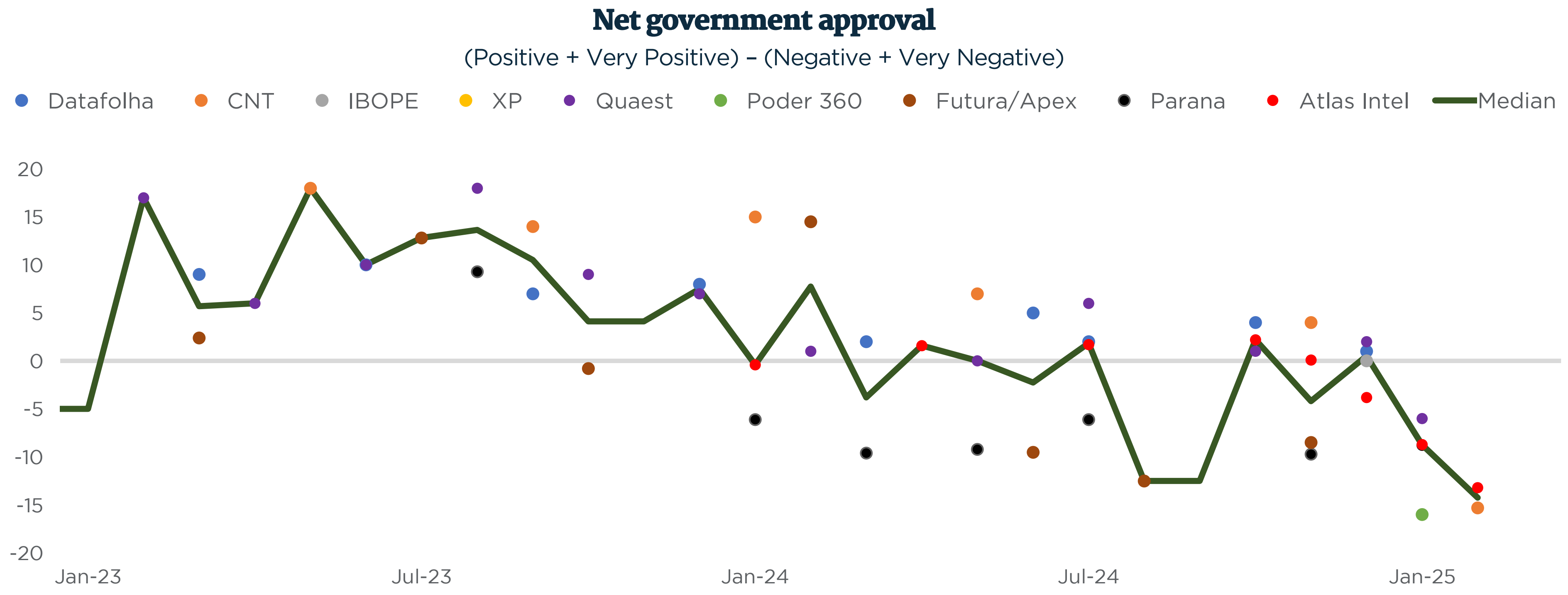
Future Selic rate and variation per meeting



Amid signs of economic activity slowdown, interest rate market pricing already indicates that COPOM is close to ending the current monetary tightening cycle. The so-called “terminal” rate – the highest point of the forward curve, which represents the final level of this cycle – has fallen from approximately 17% in December to levels close to 15.25% currently.

Source: Bloomberg, Turim

Politics:
Polls indicate a sharp decline in government approval
Brazil

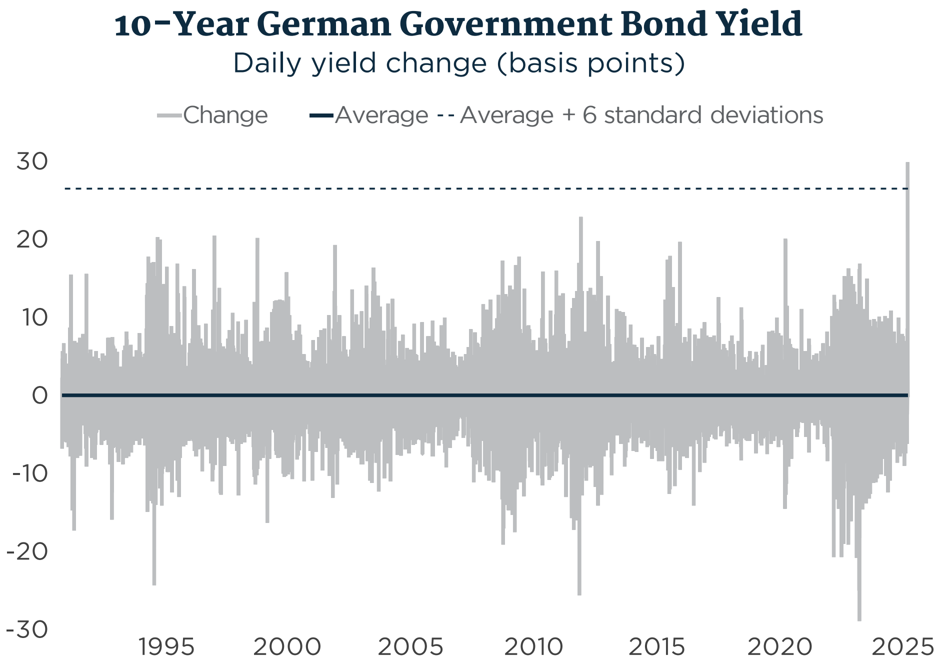


The government's “net approval” (balance between positive and negative ratings in opinion polls) continues in a downward trend. On one hand, the movement generates some optimism among a portion of the market that hopes the next elections will result in a more fiscally austere government. On the other hand, the phenomenon may also serve as a catalyst for the emergence of new expansionary measures in the short term, as a way to mitigate the economic slowdown and, consequently, curb the loss of government popularity – at the cost of an even greater fiscal deterioration.

Source: Research institutes (detailed in the chart), Turim

Interest Rates:
Germany's fiscal package led to a sharp rise in yields

Markets



The announcement of the fiscal package in Germany triggered a strong reaction in the market, with particular emphasis on the 10-year government bond yields, which recorded the largest daily change in recent decades – a nearly 30 basis point increase. The movement reflects what may be an abrupt shift in the government's stance and in the economic outlook for the European economy over the coming years, distancing the risk of a deflationary spiral in the region.

Source: Bloomberg, Turim

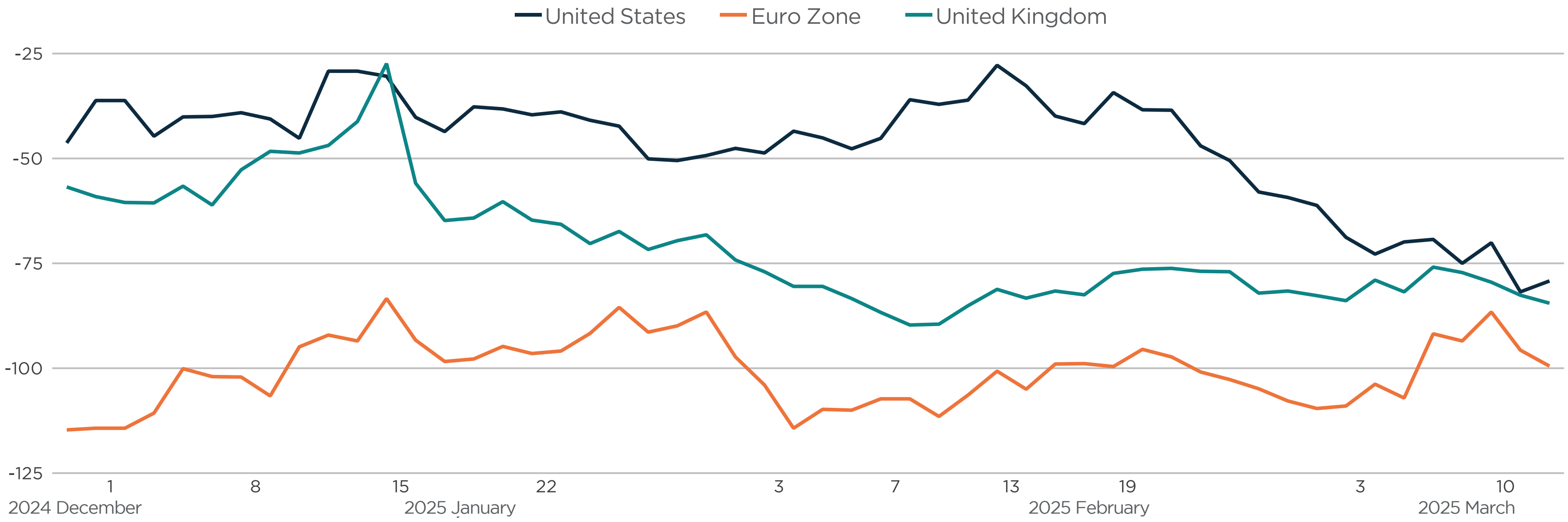
Interest Rates:

Interest rate differentials among developed economies have undergone a relevant adjustment

Markets

Interest rate cuts priced in by the market for 2025

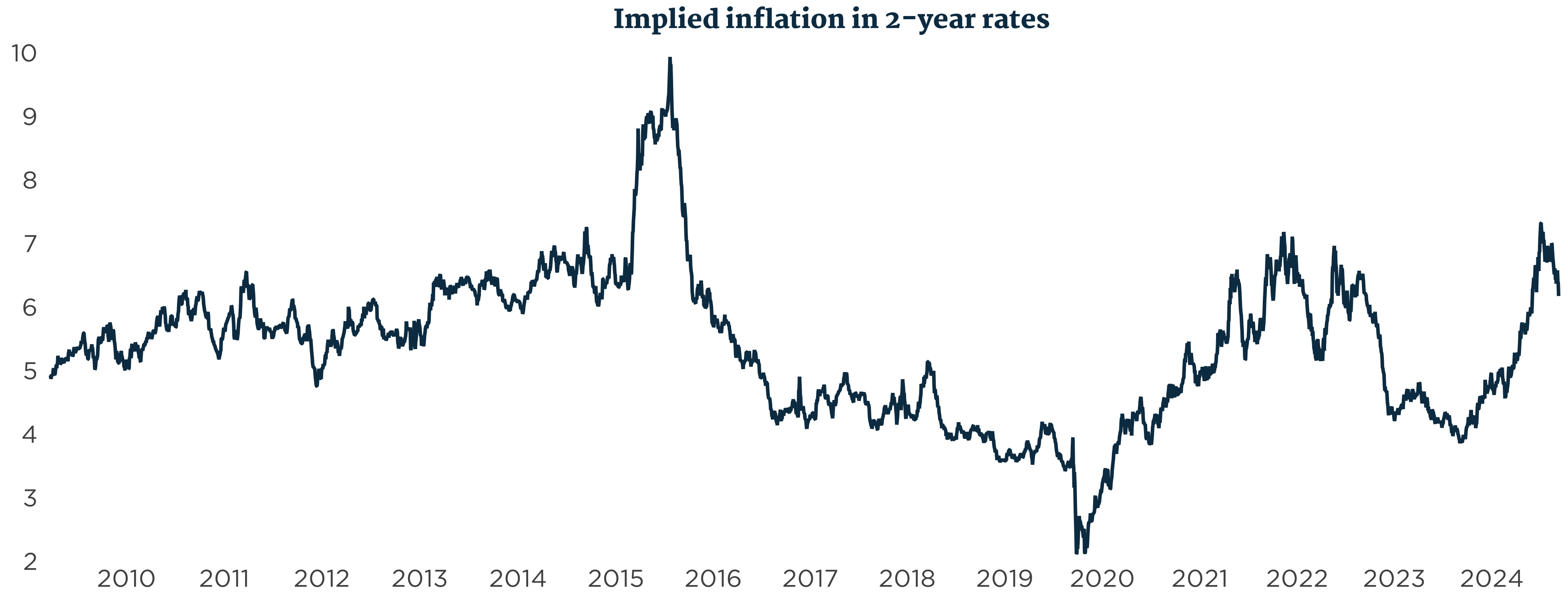
Difference between December 2024 and December 2025 rates (basis points)



The chart above shows market expectations for interest rate cuts in 2025 (considering the difference between the rate in December 2024 and the futures contract for December 2025). While pricing still points to something around four cuts (–100 basis points) for the Eurozone and a bit less than that for the United Kingdom, the U.S. interest rate market is now pointing to something around three cuts (–75 bps) for the year, coming from fewer than two until mid-February. This movement may help explain the recent depreciation of the DXY (Dollar Index), despite the implementation of tariff policies.

Source: Bloomberg, Turim

Interest Rates:
Implied inflation declines in Brazil
Markets



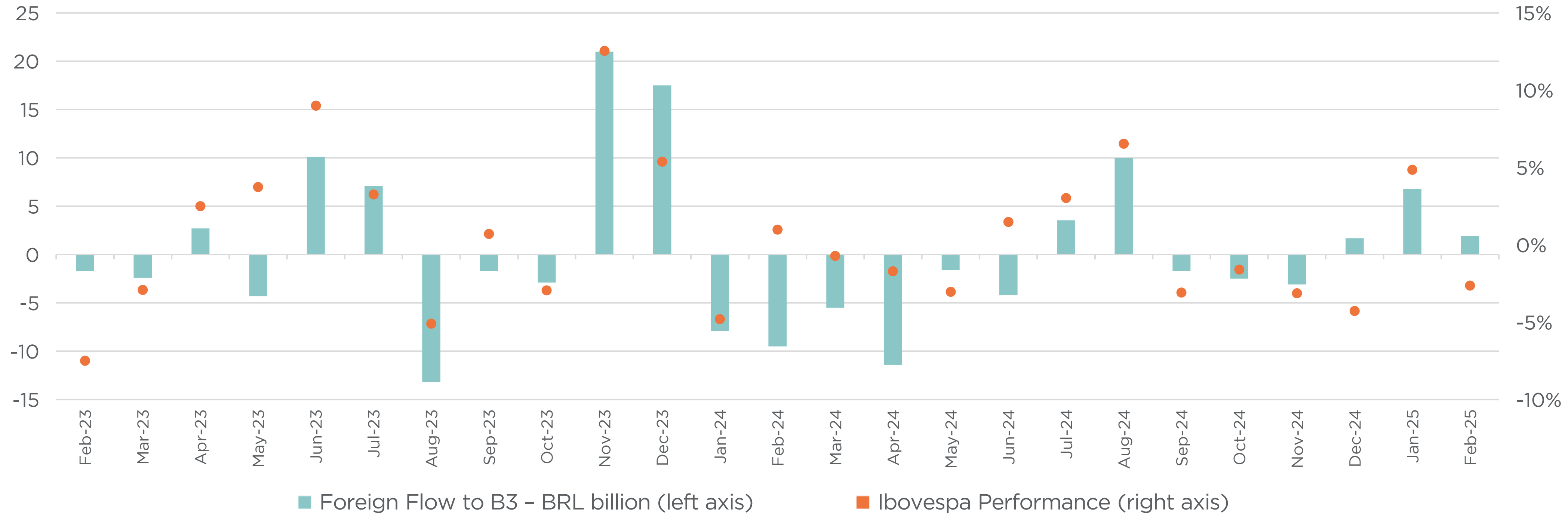
After a strong upward movement until the end of last year, interest rates in the Brazilian market have been declining since January, but (as can be seen in the chart above) most of the adjustment has been reflected in the implied inflation component, while real interest rates have shown less significant moderation.

Source: Bloomberg, Turim

Equities:
Flows to markets outside the United States may boost Brazil's performance

Markets

Foreign Flow vs. Ibovespa Performance

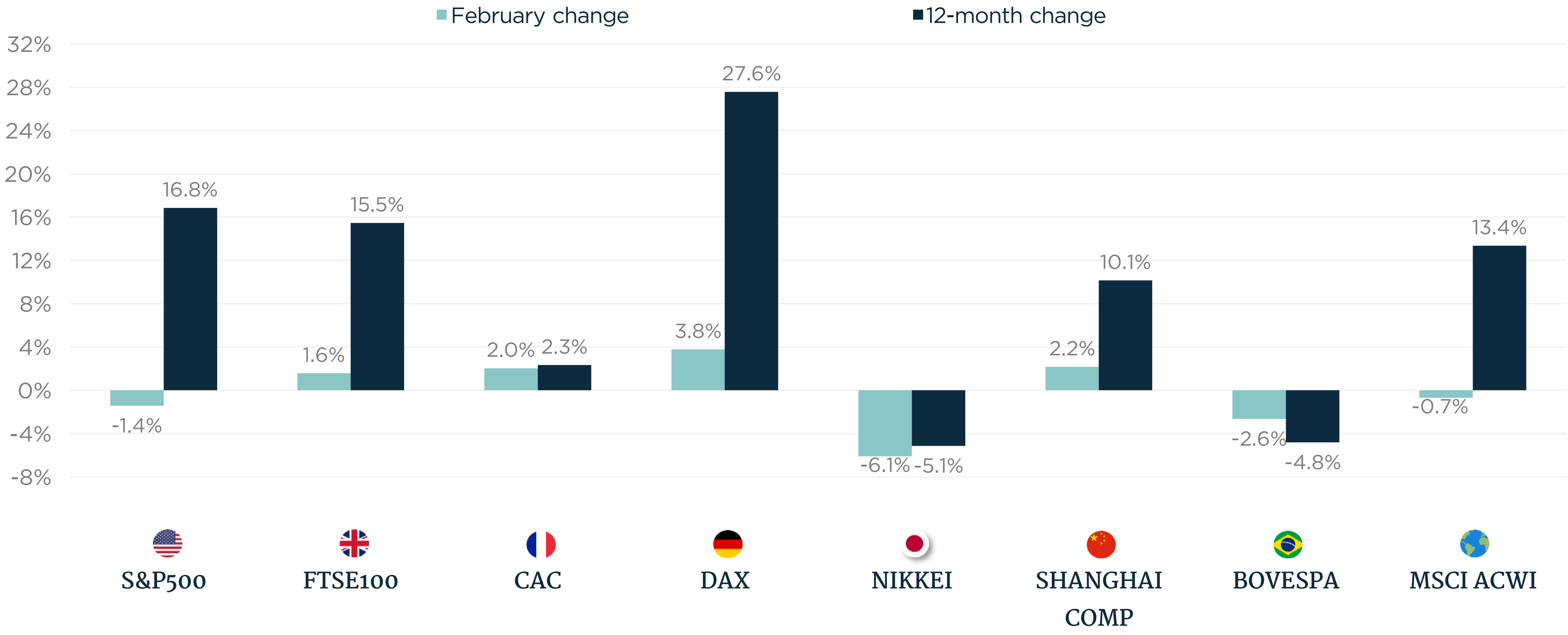


Foreign flows into the Brazilian stock market improved since the end of last year, helping Ibovespa appreciation in January. From February onwards, however, we observed some moderation in these flows (although still positive), in such a way that worsening local sentiment (typically linked to idiosyncratic factors) still resulted in a decline of the Ibovespa. Although it is not possible to predict such a movement, a potential scenario of intensified foreign inflows into B3, following a rotation in global portfolios seeking alternatives outside the U.S. market, could lead to a new round of stock market appreciation.

Source: B3, Bloomberg, Turim

Equities

Markets



Source: Bloomberg

Indices

	February change	Value on 02/28/2025	Change in 2025	12-month change
COMMODITIES				
WTI Oil	-3.8%	69.76	-2.7%	-10.9%
GOLD	2.1%	2,857.83	8.9%	39.8%
CURRENCIES (vs USD)				
EURO	0.1%	1.04	0.2%	-4.0%
POUND	1.5%	1.26	0.5%	-0.4%
YEN	3.0%	150.63	4.4%	-0.4%
REAL	-0.7%	5.88	5.0%	-15.5%
INDICES				
S&P500	-1.4%	5,954.50	1.2%	16.8%
FTSE100	1.6%	8,809.74	7.8%	15.5%
CAC	2.0%	8,111.63	9.9%	2.3%
DAX	3.8%	22,551.43	13.3%	27.6%
NIKKEI	-6.1%	37,155.50	-6.9%	-5.1%
SHANGHAI COMP	2.2%	3,320.90	-0.9%	10.1%
BOVESPA	-2.6%	122,799.09	2.1%	-4.8%
MSCI ACWI	-0.7%	862.95	2.6%	13.4%

*Values and results shown in local currency

Source: Bloomberg

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