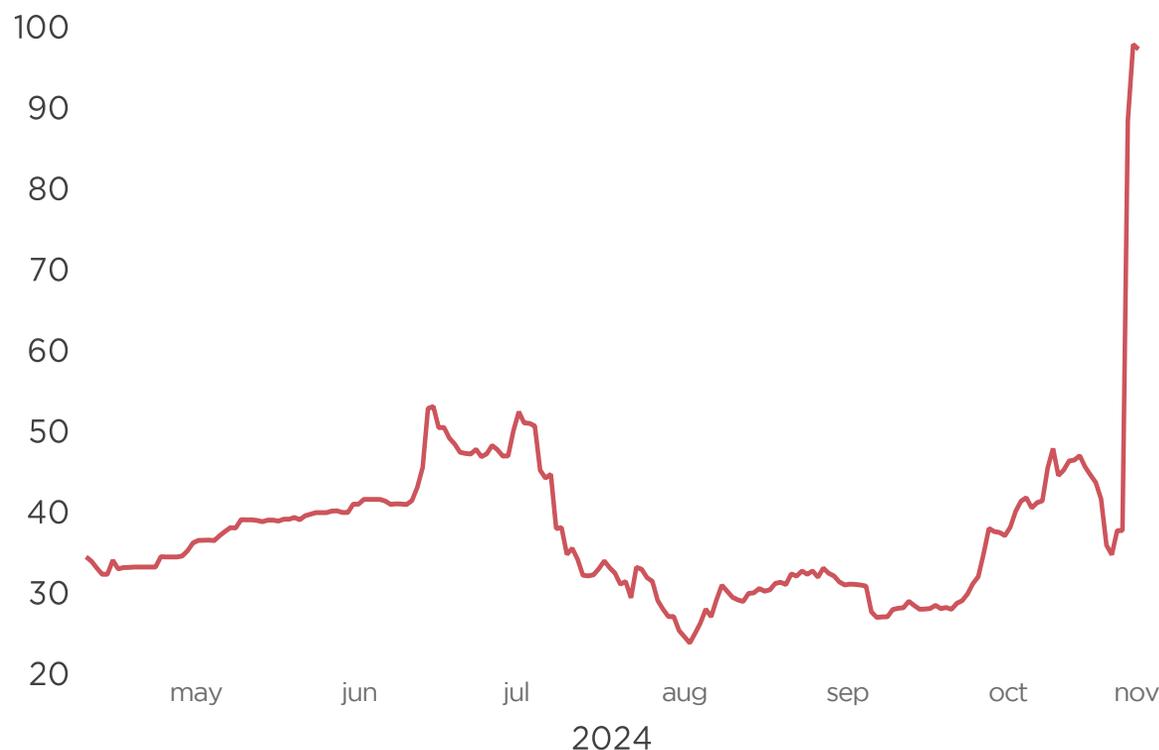# Economic Report

November 2024

American Election:
Preliminary results indicate a broad Republican victory
Global

Probabilidade de red sweep

The American elections are nearly decided, with the vote count close to completion. Preliminary data indicate a broad victory for the Republican Party. Donald Trump not only comfortably surpassed the required 270 delegates to secure the presidency, but he also led the majority of popular votes, exceeding expectations from polling intentions.

In addition to winning the White House, the Republican Party appears to be on track to secure a majority in both houses of Congress, which could provide greater freedom to pass the administration's agenda. Among the main proposals are measures for tax reduction, economic deregulation, increased tariffs on international trade, and stricter immigration controls.
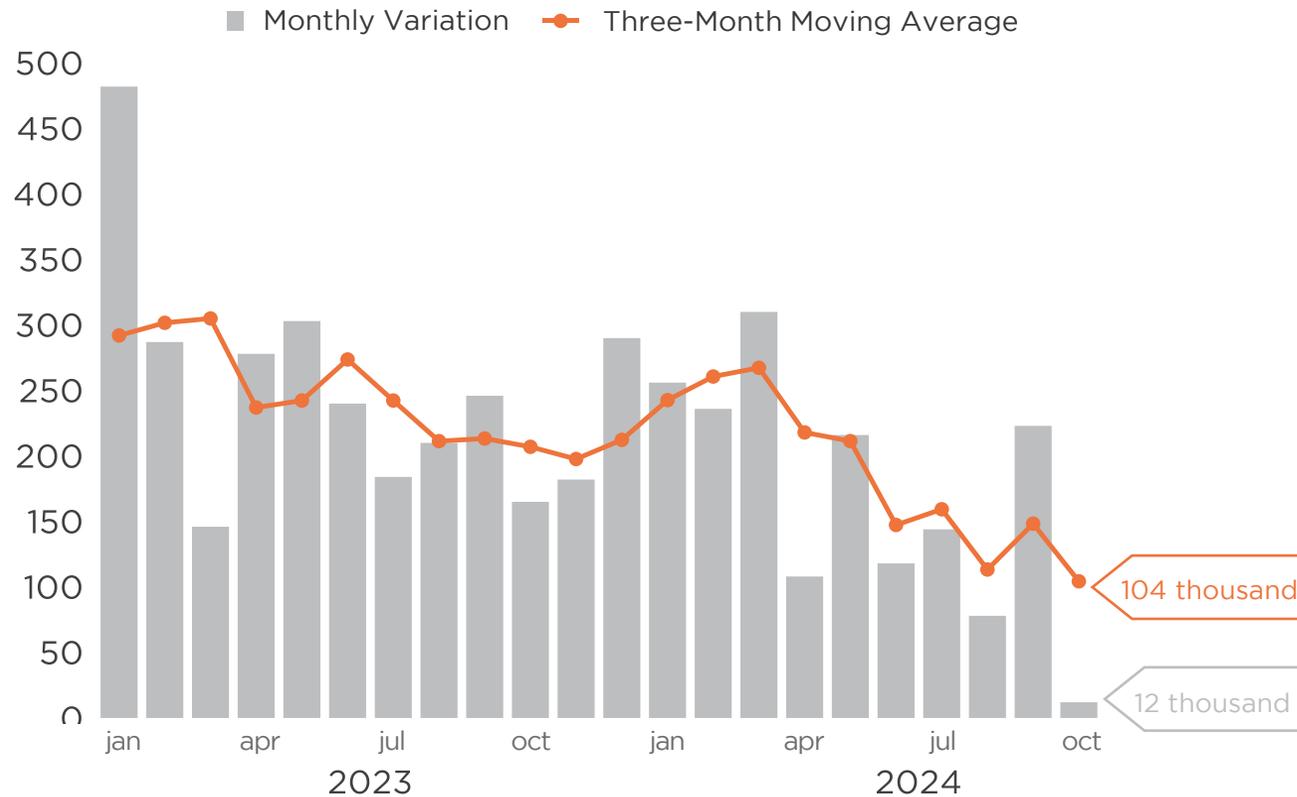
The chart on the side represents the probability trend of a simultaneous Republican victory across all branches (Executive, House, and Senate), as implied by the odds on a betting site. This probability rose significantly as election results were released.

Labor Market:
Job creation continues to decelerate
Global

Payroll: Net job creation

Monthly Variation — Three-Month Moving Average

104 thousand

12 thousand

jan apr jul oct jan apr jul oct
2023   2024

The American labor market has shown signs of a gradual slowdown over the past few years. Job creation is also following this trend, though in a somewhat uneven manner, as shown in the adjacent chart, which illustrates monthly job creation based on Payroll data. Despite the volatility in monthly results, it is observed that the three-month moving average for job creation has considerably slowed since the first quarter of this year.

However, it is important to note that the sharp deceleration seen in October was influenced by external factors, such as the hurricanes that struck the southeastern U.S. and the Boeing strike. Even so, the drop in job creation was more intense than the market had anticipated, resulting in only 12,000 new jobs in the month. Additionally, there was a net negative revision of 112,000 jobs over the previous two months.

Source : BLS, Turim

Inflation:
Inflation remains resilient, with few surprises
Global

PCE Price Index

— Headline — Core — Super Core

2,91%
2,35%
1,83%
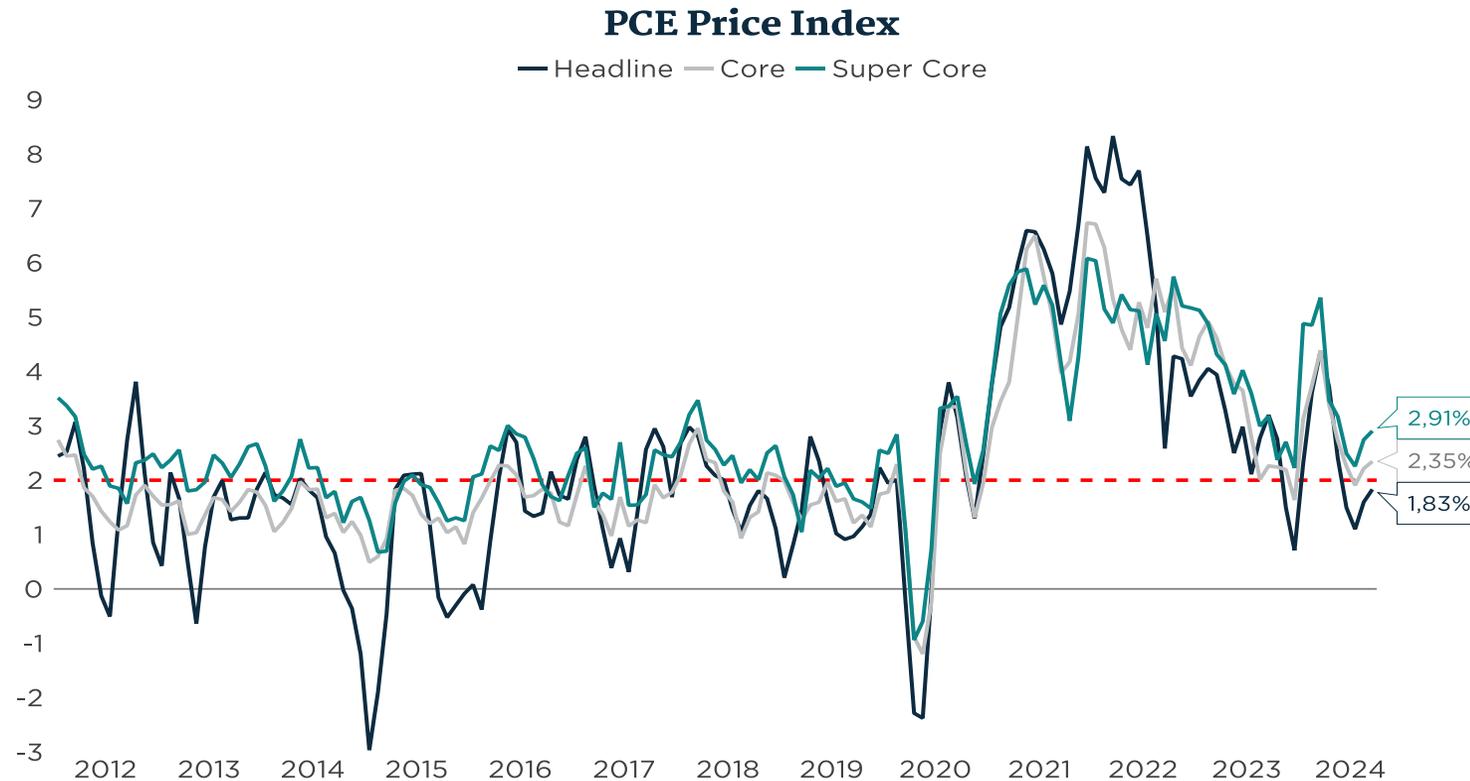
In the chart above, the overall index and the core components of the PCE deflator, the primary inflation measure monitored by the Federal Reserve, are shown. In the most recent release, covering September, the deflators displayed a slight acceleration, pushing the three-month variation of the core components slightly above the inflation target. Overall, the data indicates some inflationary pressure, but without significant surprises.

Fiscal:
Market awaits details of the government's expenditure reduction plan
Brazil

Gross Debt and Median of Projections
Percentage of GDP

81,2%

78,3%

The sustainability of public finances remains the primary challenge in the current local economic context. To meet the primary result targets established in the new fiscal framework over the coming years, the government is developing an expenditure cut package, estimated at around R$30 billion. Depending on its structure, the announcement of this package could help reduce the high risk premiums on local assets, such as the interest rate curve and exchange rate.

However, it does not eliminate the need for a structural fiscal adjustment in the future, which may include de-indexing social benefits and/or changes to the minimum wage policy.

The chart beside illustrates the evolution of the government's gross debt as a percentage of GDP, along with the median projections for the end of 2024 and 2025, according to data from Prisma Fiscal.
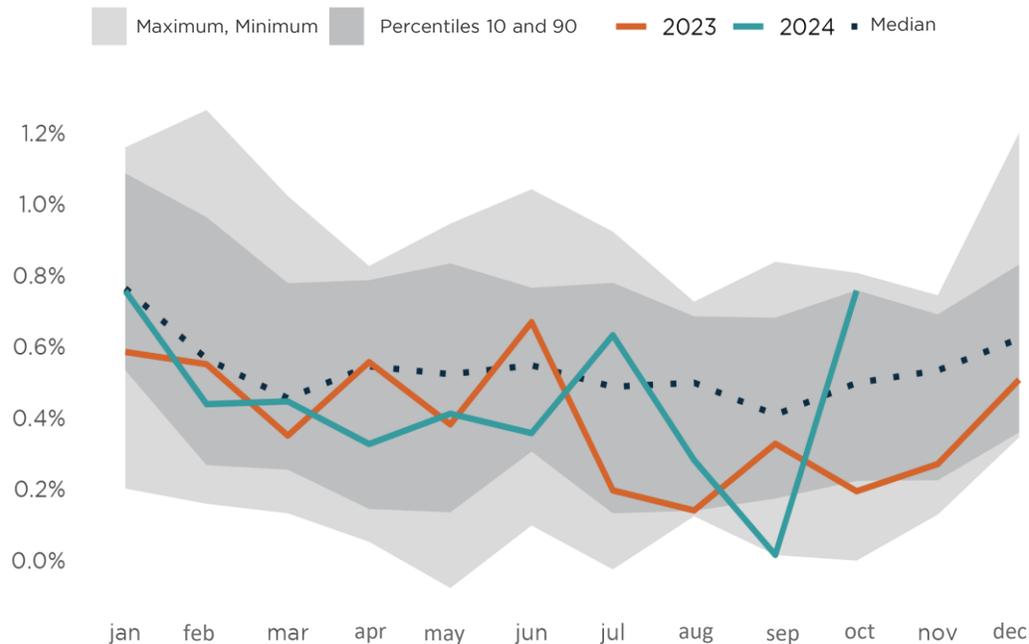
Inflation:
Consumer inflation accelerates again, including in more persistent metrics
Brazil

IPCA: Underlying Services

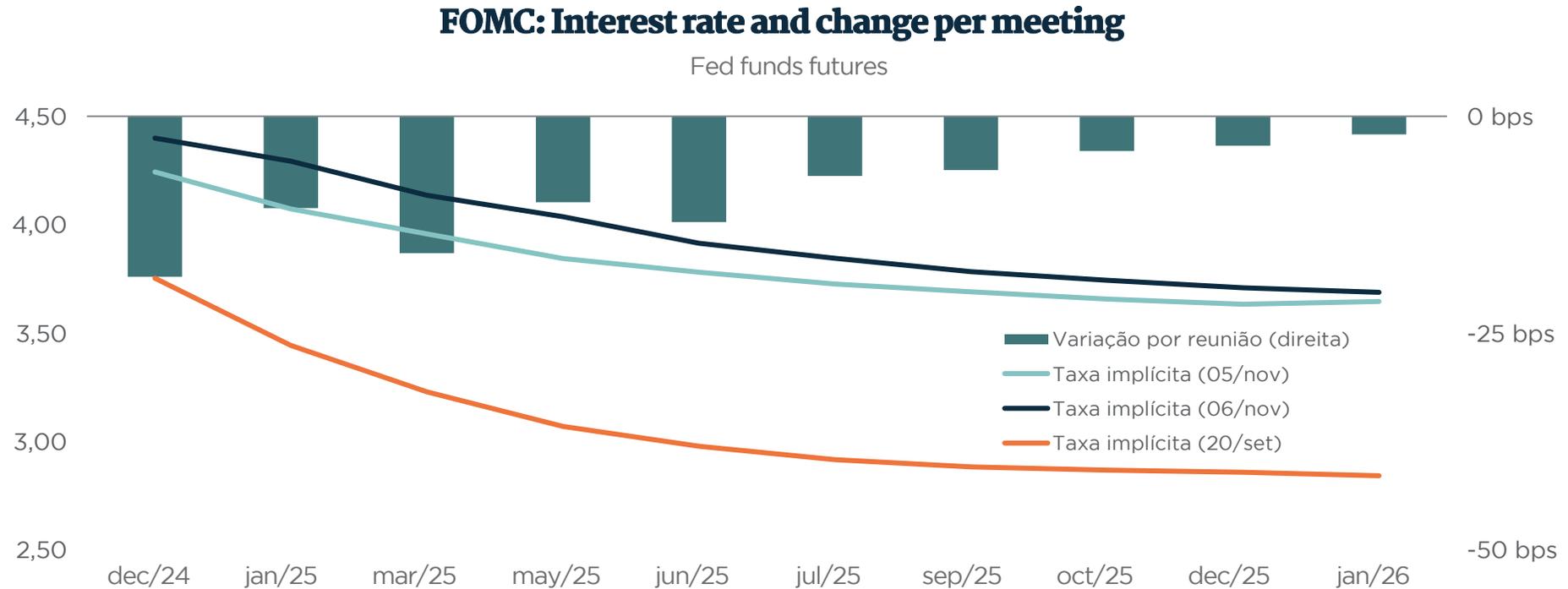Seasonal Pattern of Monthly Variation

After a few relatively benign readings, the IPCA recorded a significant acceleration in October, even in more persistent components, such as underlying services shown in the chart on the left. The previous two releases showed less-than-usual inflationary pressure for this time of year, but the data released this week indicated substantial acceleration.

It is important to note that this rapid acceleration is not a major surprise, as the market has been anticipating an uptick in inflation for some time, especially due to the heated economy, particularly evident in labor market statistics.

Monetary Policy:

Interest rate curve widens, and the market anticipates some spacing between cuts

Markets

FOMC: Interest rate and change per meeting

Fed funds futures

Legend:
- Variação por reunião (direita)
- Taxa implícita (05/nov)
- Taxa implícita (06/nov)
- Taxa implícita (20/set)

The November meeting of the FOMC (Federal Open Market Committee) resulted in a 25 basis point rate cut, bringing the upper limit to 4.75% per year, as widely expected by the market. The statement on the decision introduced few changes, and the press conference was similarly uneventful. Overall, the committee remains confident in the disinflation process, though the risks to economic activity appear to have decreased since the last meeting.
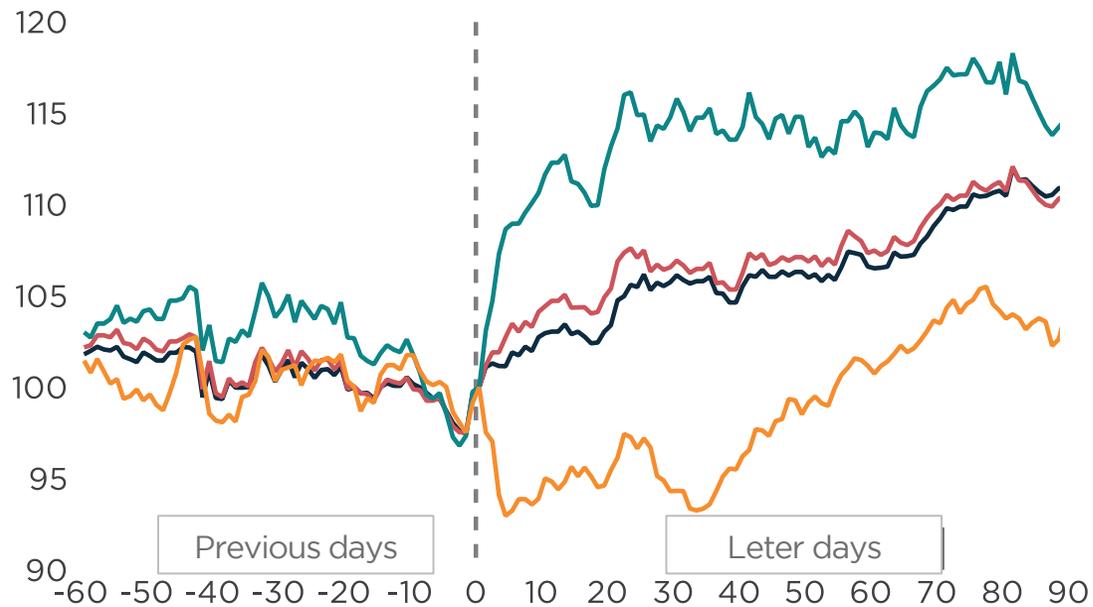
Equities:
U.S. stocks tend to perform well, while emerging markets struggle
Markets

Index performance before and after the elections

American Election of 2016 (base 100 = election day)

— S&P 500 — S&P 500 Equal Weighted — Russel 2000
— MSCI Emerging Markets

The chart on the left shows the performance of some major U.S. equity indices, as well as an index representing a basket of emerging market stocks, highlighting the relative performance of these assets in the days before and after Donald Trump's election in 2016. It can be observed that U.S. stocks performed well post-election, with the Russell 2000 (which has greater exposure to small caps and is typically more sensitive to the "real economy") outperforming other indices. In contrast, emerging market stocks showed weaker performance in response to the outcome.

The immediate reaction on the first day after the elections followed a similar pattern, with gains exceeding 2% in the S&P 500 and nearly 6% in the Russell 2000, while the MSCI Emerging Markets index recorded a decline of just over 1%.
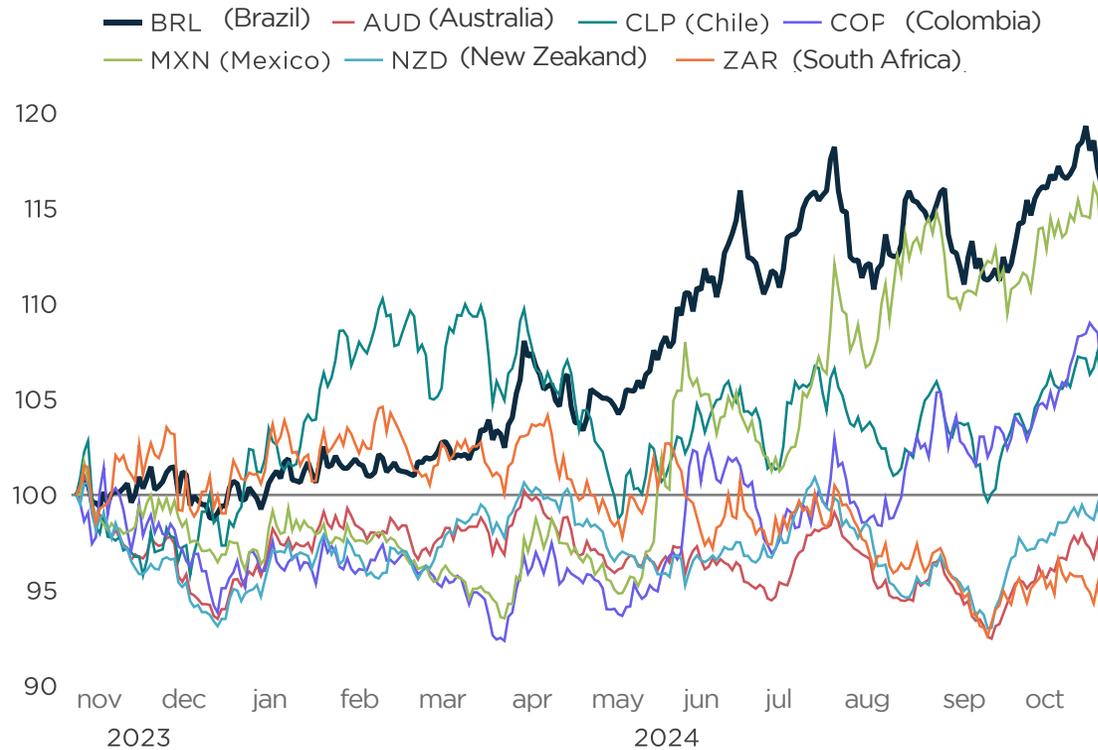
Source: Bloomberg, Turim

Exchange Rate:

Dollar Reaches New High Amid Local (Fiscal) and External (Election) Uncertainty

Markets

Performance of the Brazilian Real and Similar Currencies

Base 100 = 12 months ago

Even before the election results, the performance of several emerging market currencies was already reflecting the impact of "Trump trades" — market movements focused on strategies that could benefit from a Republican victory.

The chart on the side shows the performance of currencies with characteristics similar to the Brazilian Real, either because they belong to emerging economies or are sensitive to commodity prices. It can be observed that the recent performance of the Real was similar to that of other emerging currencies, like the Mexican, Colombian, and Chilean pesos. However, local fiscal uncertainty helps explain why the Real had the worst performance within this group over the past 12 months.
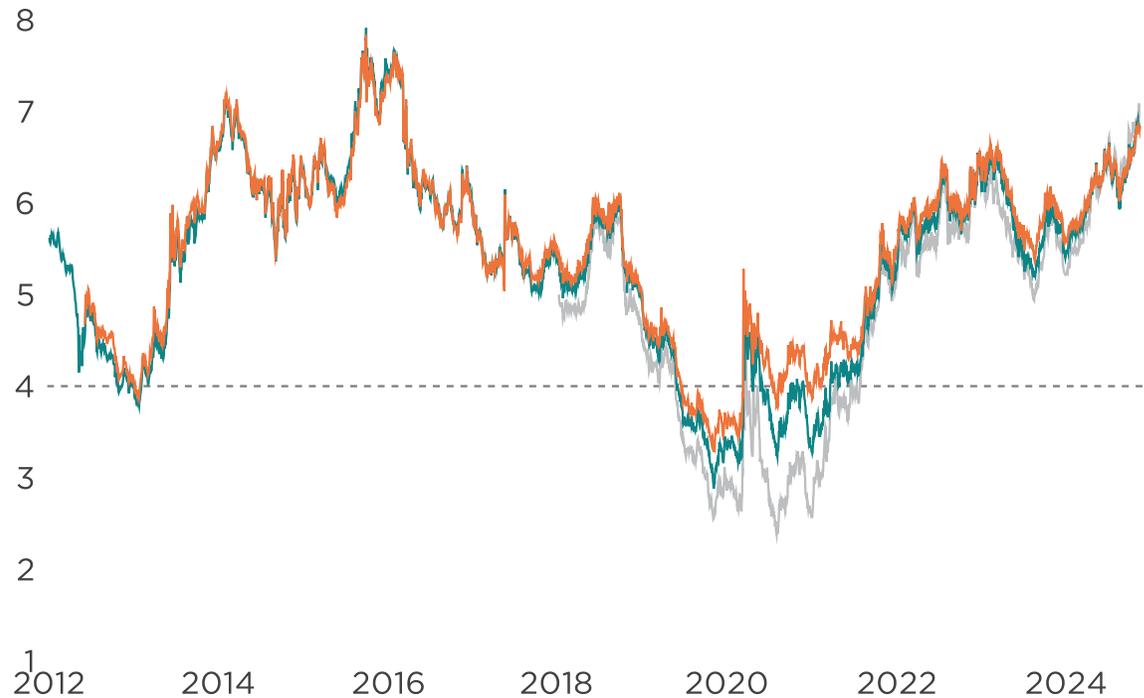
Interest Rates:
Real Interest rates approach historical highs
Markets

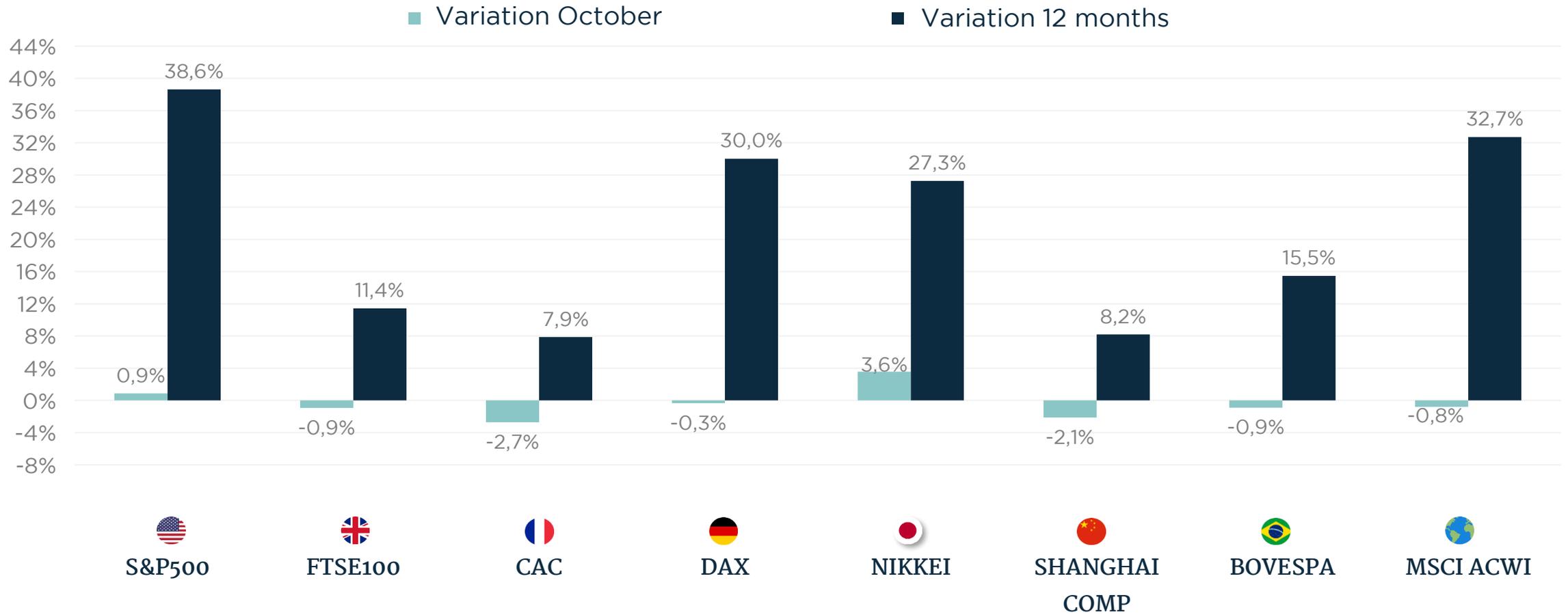## NTN-Bs: Real Interest Rates

— 2028 — 2035 — 2050

In recent weeks, positions in NTN-Bs (government bonds that pay the IPCA inflation rate plus a real interest rate) have been impacted by a new wave of interest rate increases. For some maturities, these bonds are now offering returns above 7% per year, a level not seen since the 2015 crisis during President Dilma's administration.

The stress in the interest rate market clearly reflects the high uncertainty regarding public debt sustainability, coupled with the still-pressured inflation scenario and consequent monetary tightening policy. However, it is important to note that the current situation differs significantly from the one experienced during the 2015 crisis.

Stock Markets

Markets

■ Variation October   ■ Variation 12 months

	S&P500	FTSE100	CAC	DAX	NIKKEI	SHANGHAI COMP	BOVESPA	MSCI ACWI
Variation October	0,9%	-0,9%	-2,7%	-0,3%	3,6%	-2,1%	-0,9%	-0,8%
Variation 12 months	38,6%	11,4%	7,9%	30,0%	27,3%	8,2%	15,5%	32,7%

Source: Bloomberg

Indices

	Variation October	Value in 31/10/2024	Variationin 2024	Variation12 months
COMMODITIES				
PETRÓLEO WTI	1,6%	69,26	-3,3%	-14,5%
OURO	5,8%	2.787,61	35,1%	40,5%
MOEDAS (EM RELAÇÃO AO US$)				
EURO	-2,5%	1,09	-1,7%	2,7%
LIBRA	-3,1%	1,30	1,8%	6,7%
YEN	-6,4%	153,42	-8,1%	-1,1%
REAL	-5,4%	5,76	-15,7%	-12,6%
ÍNDICES				
S&P500	0,9%	5.813,67	21,9%	38,6%
FTSE100	-0,9%	8.159,63	5,5%	11,4%
CAC	-2,7%	7.428,36	-1,5%	7,9%
DAX	-0,3%	19.257,34	15,0%	30,0%
NIKKEI	3,6%	39.277,39	17,4%	27,3%
SHANGHAI COMP	-2,1%	3.266,24	9,8%	8,2%
BOVESPA	-0,9%	130.639,33	-2,6%	15,5%
MSCI ACWI	-0,8%	844,94	16,2%	32,7%

*Amounts and results in local currency

Fonte: Bloomberg

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