



Economic Report

December 2025

Indice

Global 03

Brazil 06

Markets 08

Indices 13



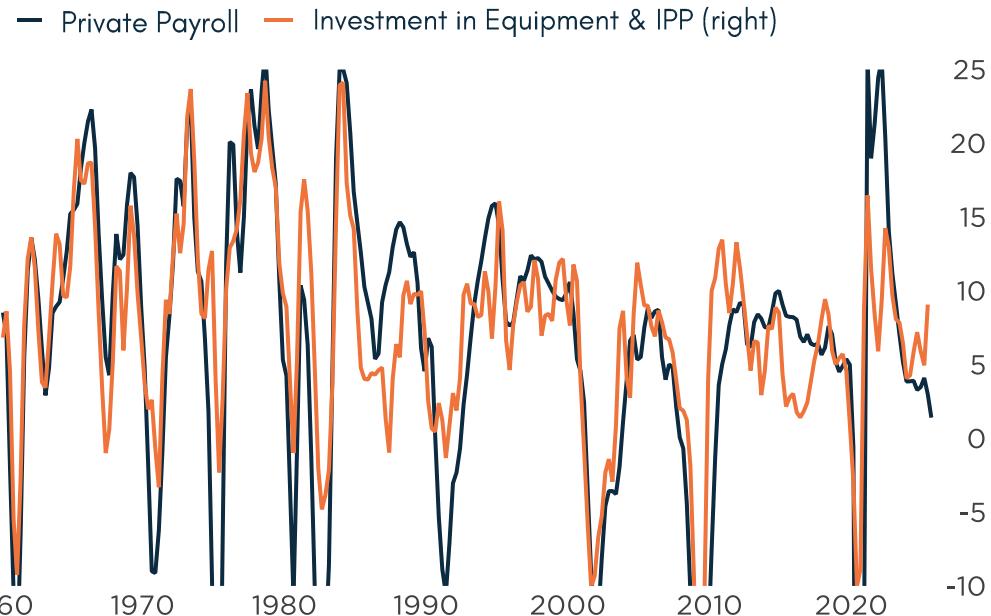
Labor Market:

An atypical dichotomy between Capex and hiring

Global

Employment x Private Investment

Updated semiannual change | Seasonally adjusted



Economic data in the United States are exhibiting an unusual contrast, with private-sector investment expanding amid a moderation in labor market conditions.

The chart alongside highlights a divergence in the trajectory of private-sector job creation (blue line) vis-à-vis Capex—here defined as investment in equipment and intellectual property products (IPP; orange line)—despite their historically high correlation.

The onset of this decoupling window coincides with the period in which the Artificial Intelligence (AI) thesis gained greater prominence following the launch of ChatGPT in 2023, triggering announcements of substantial investment across the sector. On the other hand, while it is often argued that the potential productivity gains arising from the adoption of AI models could lead to a structural shift in the composition of economic growth over the coming years, there is limited evidence that such effects are already materializing meaningfully in aggregate economic data. As a result, there remains significant uncertainty regarding the short-term sustainability of this phenomenon.

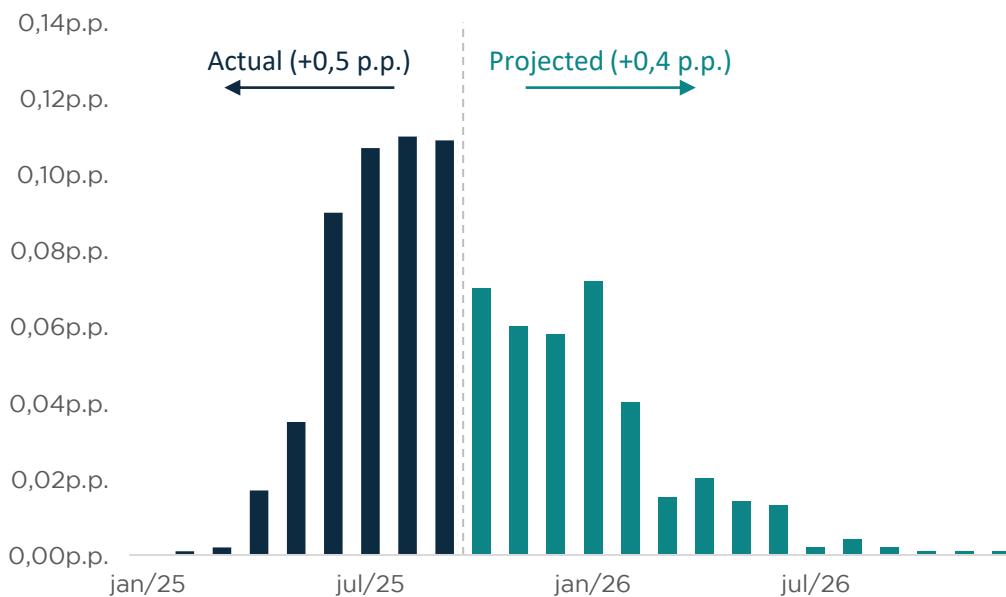
Inflation:

Tariff pass-through increasingly reaching consumers

Global

Impact of Rates on Core PCE

Contribution to the monthly change in the deflator



The interplay between tax revenue and import data suggests a deceleration in the pace of increases in the effective tariff rate during the second half of the year, although a greater pass-through of costs to final consumers has sustained a lagged inflationary effect. Since the beginning of the year, the impact of Rates has accounted for approximately 0.5 percentage points (p.p.) of the increase in core PCE inflation (Personal Consumption Expenditures Price Index), as shown in the chart alongside. A recent study by Goldman Sachs' research team suggests that the cumulative effect could double over the coming quarters, as the share of costs absorbed by consumers continues to rise.

From a monetary policy perspective, the effects of Rates appear relatively contained, given that in the absence of further material increases in the effective rate, most of the impact should dissipate by the end of next year. On the other hand, the elevated cost of living in the country has weighed on presidential approval ratings, increasing the likelihood of new measures aimed at easing household budget pressures—such as the reduction of Rates on food products and indications of a potential “tariff dividend” for the population.

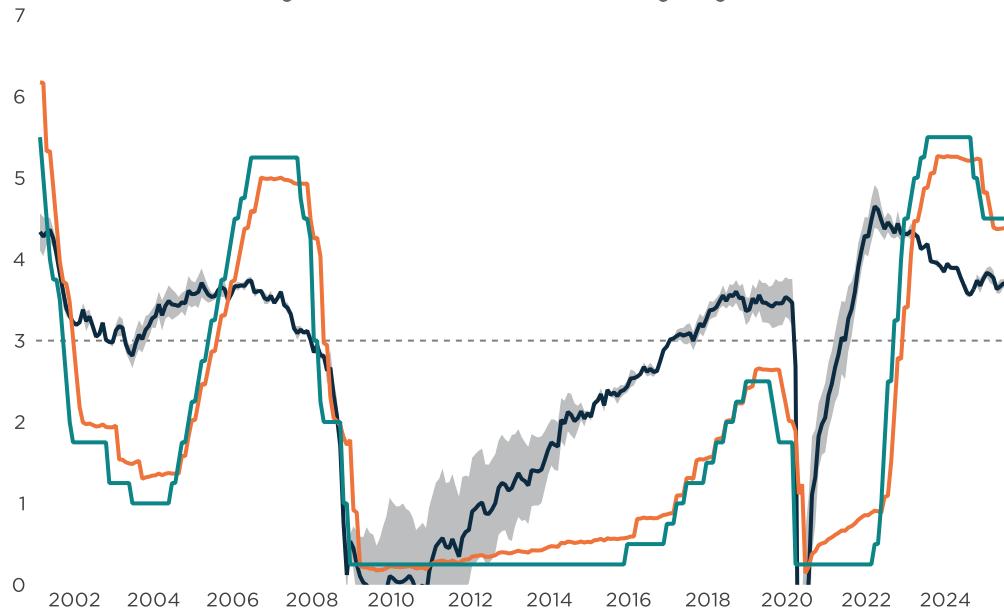
Monetary Policy:

Regardless of the relative weight of the mandates, room for rate cuts remains limited

Global

Taylor Rule

— Fed funds — Non-Inertial Taylor — Inertial Taylor
■ Range across different mandate weightings



As widely expected, the Federal Open Market Committee (FOMC), the Federal Reserve's monetary policy body, reduced the policy Interest Rates by 25 basis points, bringing the target range to 3.50%-3.75% per annum. The decision was not unanimous: Stephen I. Miran voted for a larger cut of -50 basis points, while Austan D. Goolsbee and Jeffrey R. Schmid favored maintaining the rate unchanged. In its statement, the Fed indicated that the median projection for the appropriate path of monetary policy remained broadly unchanged, although six participants signaled that they consider it appropriate for the rate to end the year between 3.75% and 4.00% per annum.

The chart alongside compares movements in the policy rate with estimates derived from central bank reaction function rules, suggesting that the initial pace of easing was faster than usual, reflecting a risk-management approach in response to labor market moderation. However, from next year onward, the combination of Inflation still above target and unemployment close to its "natural" level is likely to raise the bar for further cuts, at least until the end of Chair Powell's term in May 2026.

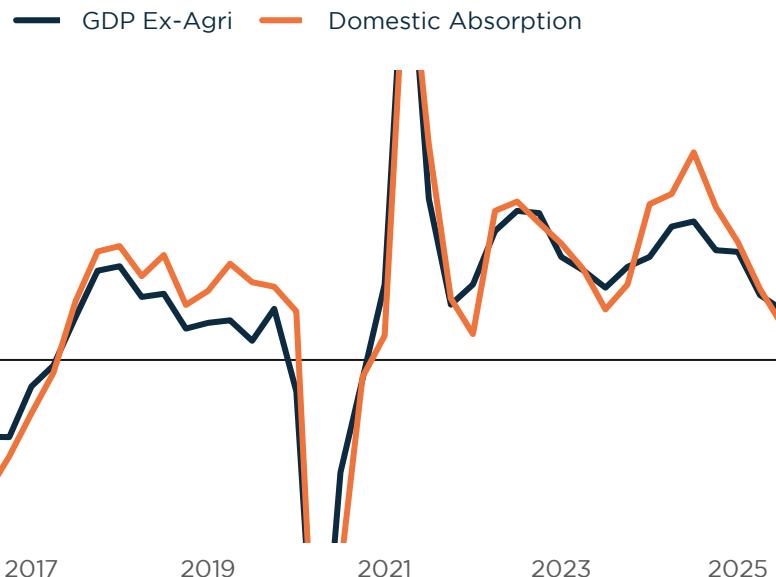
Activity:

The slowdown in activity was confirmed in the Q3 2025 GDP release

Brazil

GDP Components

Year-over-year



Brazil's GDP (Gross Domestic Product) increased by only 0.1% in the third quarter, slightly below the market consensus, which pointed to growth of 0.2%, and at a pace significantly weaker than that observed in previous quarters, although it still reflects a meaningful expansion of 2.7% over the last four quarters. The slowdown has been more evident in indicators that are more sensitive to the economic cycle, such as GDP excluding agriculture (blue line) and domestic absorption (orange line)—a measure that excludes net exports and changes in inventories—both shown in the chart alongside.

Markets expect a further slowdown next year (with the median Focus survey forecast for GDP around 1.8%), despite a set of measures scheduled for the election year, such as an expansion of the income tax exemption threshold and initiatives aimed at reducing household utility costs—including electricity bills, cooking gas, and public transportation—which are likely to support consumption.

Inflation:

Although still above target, core measures (on the margin) are converging toward the target

Brazil

Observed IPCA and Projections



Brazil's IPCA, the country's official Inflation index, rose by only 0.18% in November, marginally below expectations, bringing the 12-month rate back into the target's tolerance band at 4.46%. Overall, Inflation has moderated more than the market had been anticipating, supported by historically high Interest Rates, a stronger Exchange Rate, and declining food prices—creating a more constructive backdrop for the Copom, the Central Bank's Monetary Policy Committee.

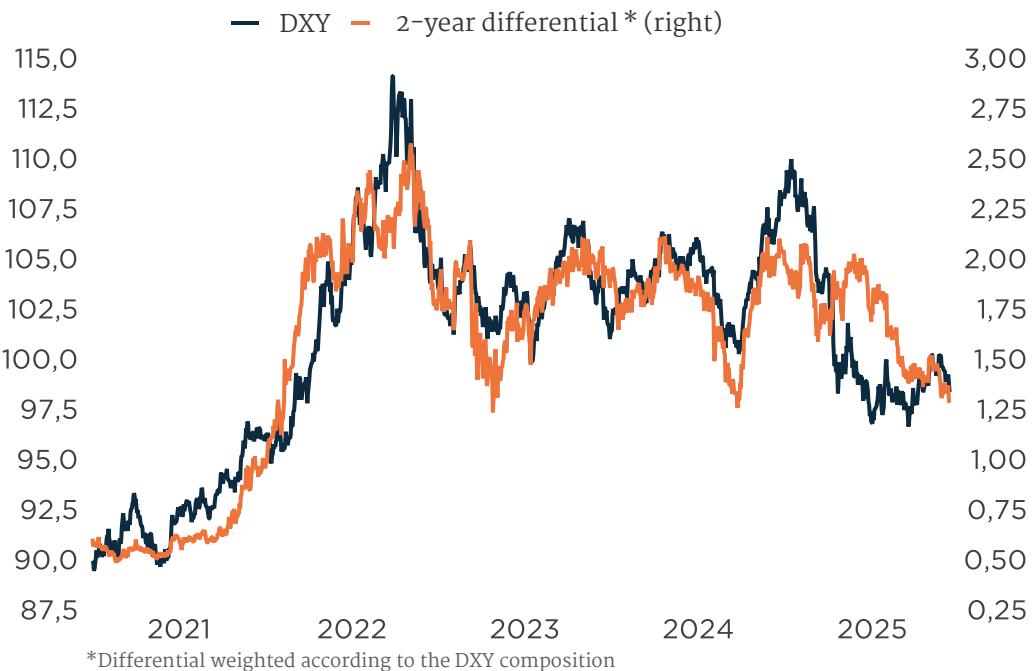
The chart alongside provides context for expectations derived from the Focus survey and from the Committee's reference scenario regarding the trajectory of 12-month accumulated IPCA inflation. Both point to a relatively linear, albeit gradual, disinflation process, allowing the index to remain within the target's tolerance band throughout the entire forecast horizon.

Dollar:

The DXY has reverted to converging with the interest rate differential

Markets

DXY and weighted interest rate differential



In a year marked by a sharp depreciation of the U.S. Dollar, recent months have shown a partial recovery in the currency's value against developed market peers, although this movement has not been mirrored to the same extent against emerging market currencies.

This marginal recovery of the Dollar is illustrated in the chart on the left, which compares the evolution of the DXY (an index that measures USD performance against a basket of foreign currencies) with the level of the 2-year interest rate differential, weighted by the index constituents' shares. Notably, the recent move has brought the exchange rate back toward levels consistent with the interest rate differential, which has been a predominant driver of currency dynamics in recent years. The adjustment suggests that the factors behind the dislocation observed after the announcement of reciprocal Rates in April have lost relative importance in the market's pricing of the currency.

Equities:

The market has begun to price Google as the primary winner in the AI landscape

Markets

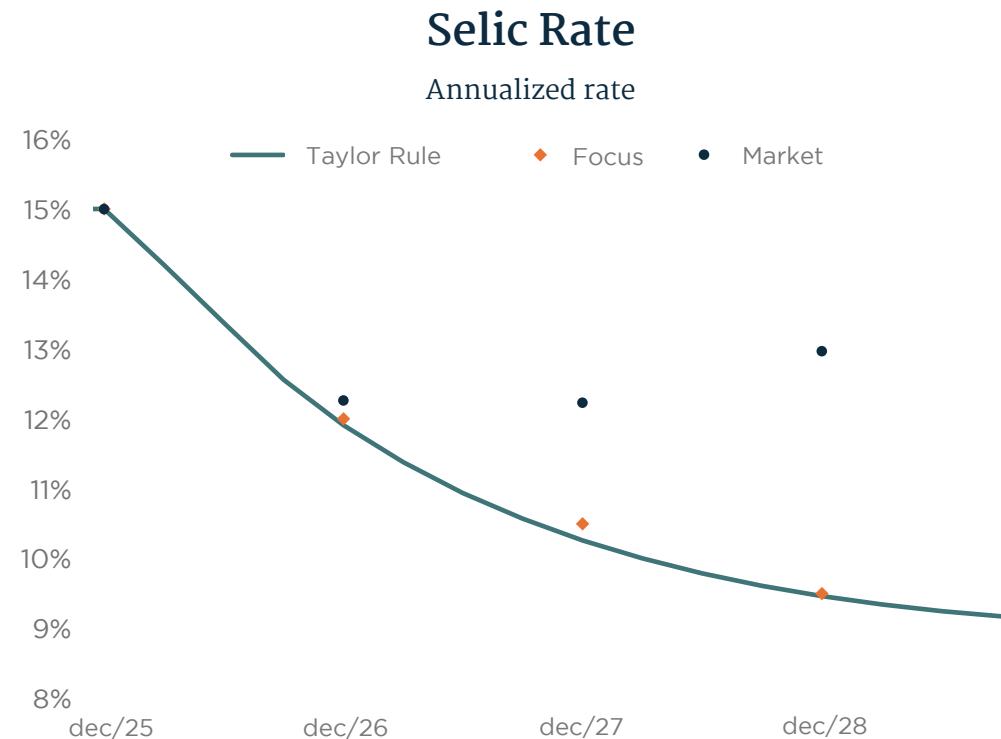


A significant portion of the debate surrounding the future of artificial intelligence has focused on the potential "winners" of the thesis. The chart above compares the performance of the two main corporate "complexes" within the segment: the group of companies associated with Google (green line) and the group linked to OpenAI (blue line). Both baskets had shown similar performance through October, when the Google complex took the lead, standing out as the most likely winner of the competition.

Interest Rates:

Divergence regarding the size of the rate-cutting cycle

Markets



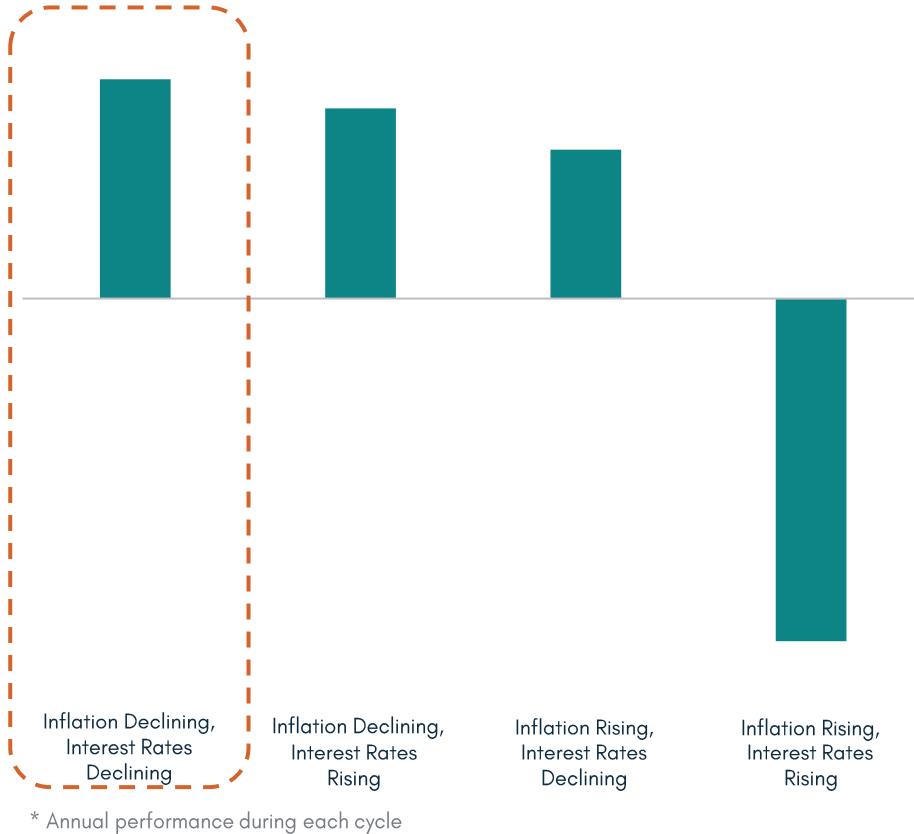
Copom kept the Selic rate unchanged at its final meeting of 2025, in a unanimous decision, as widely anticipated by the market. The communication was interpreted as more hawkish, as it reiterated that maintaining the policy rate at a high level for an extended period remains the appropriate strategy to ensure the convergence of Inflation toward the target. Despite the firm tone, the market still expects the Committee to begin an easing cycle in early 2026, bringing the policy Interest Rates to around 12% by the end of 2026.

The chart alongside compares the interest rate path implied by the central bank's reaction function rule, as applied in the authority's models, with the median expectations extracted from the Focus survey and with pricing in the forward curve. Notably, pricing for 2026 is broadly aligned with the path suggested by the model and by market expectations (Focus), but from 2027 onward, term premia appear significantly elevated. Moreover, from a historical perspective, a cutting cycle of only 300 basis points (as currently priced) would be materially smaller than usual, particularly given the current starting level.

Equities:

A scenario of declining interest rates and inflation is likely to be highly supportive for equities
Markets

Interest rate and inflation scenarios

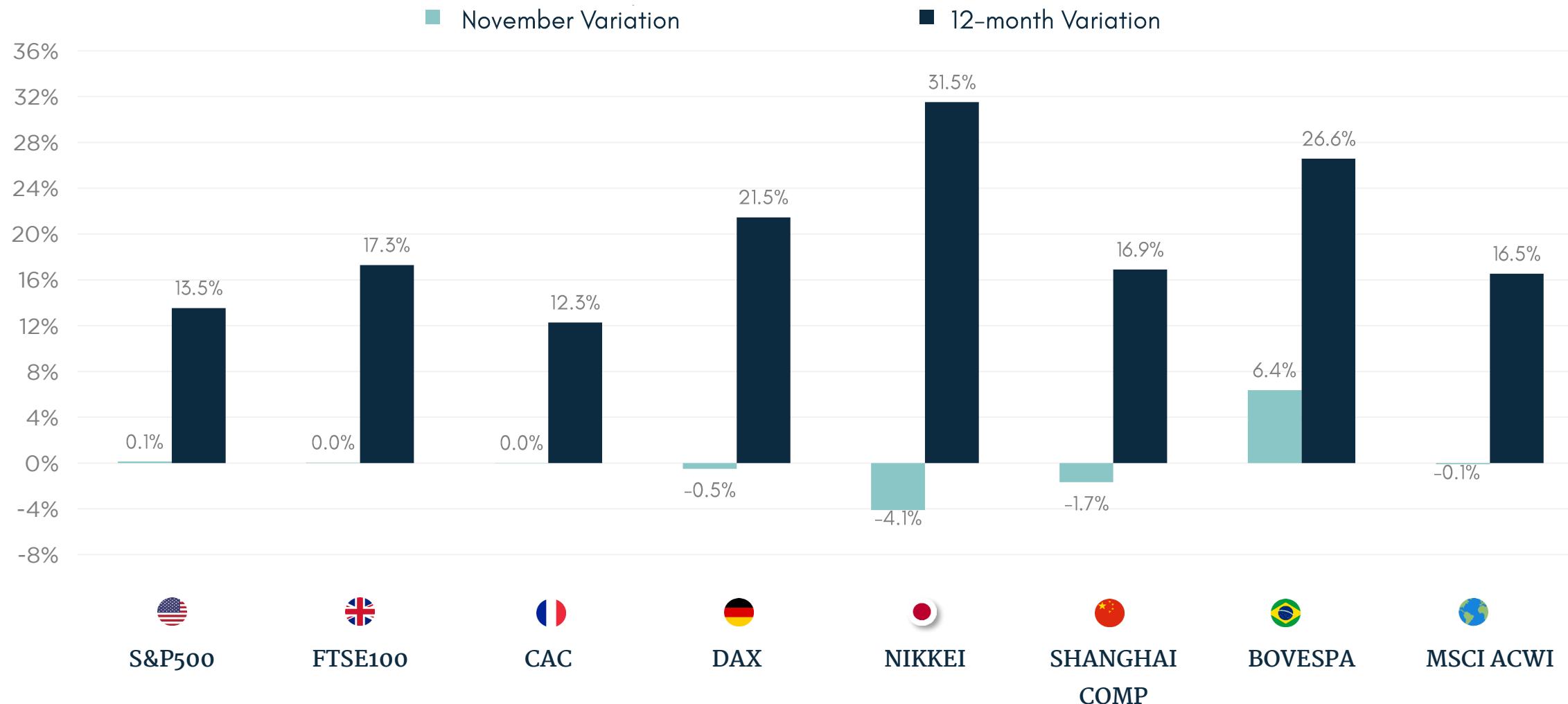


Local Equities have delivered strong performance since the beginning of the year, with the Ibovespa up more than 30% and the EWZ up more than 40% (USD-denominated). EWZ can also be understood as a USD-denominated proxy for the Ibovespa and is Brazil's largest Exchange Traded Fund (ETF), providing exposure to domestic equities traded abroad. We believe most of this move can be attributed to global dynamics, in line with the strong performance of other emerging market equities, although at the margin, expectations of a more aggressive cycle of interest rate cuts next year have also contributed.

The outlook for next year, with Interest Rates and Inflation declining, has historically been associated with periods of strong performance in Brazilian Equities, as shown in the chart alongside

Stock Markets

Markets



Indices

	Variation in August	Value on 31/08/2025	Variation in 2025	Variation in 12 months
COMMODITIES				
Oil WTI	-3.8%	58.64	-18.2%	-14.7%
GOLD	5.9%	4,239.43	61.5%	60.4%
CURRENCIES (VS. USD)				
EURO	0.5%	1.16	12.0%	9.7%
LIBRA	0.6%	1.32	5.7%	3.9%
YEN	-1.4%	156.18	0.7%	-4.1%
REAL	0.8%	5.34	15.8%	11.9%
INDICES				
S&P 500	0.1%	6,849.09	16.4%	13.5%
FTSE 100	0.0%	9,720.51	18.9%	17.3%
CAC 40	0.0%	8,122.71	10.1%	12.3%
DAX	-0.5%	23,836.79	19.7%	21.5%
NIKKEI	-4.1%	50,253.91	26.0%	31.5%
SHANGHAI COMP	-1.7%	3,888.60	16.0%	16.9%
BOVESPA	6.4%	159,072.13	32.2%	26.6%
MSCI ACWI	-0.1%	1,005.14	19.5%	16.5%

*Figures and results presented in local currency

Disclaimer

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