



Economic Report

November 2025

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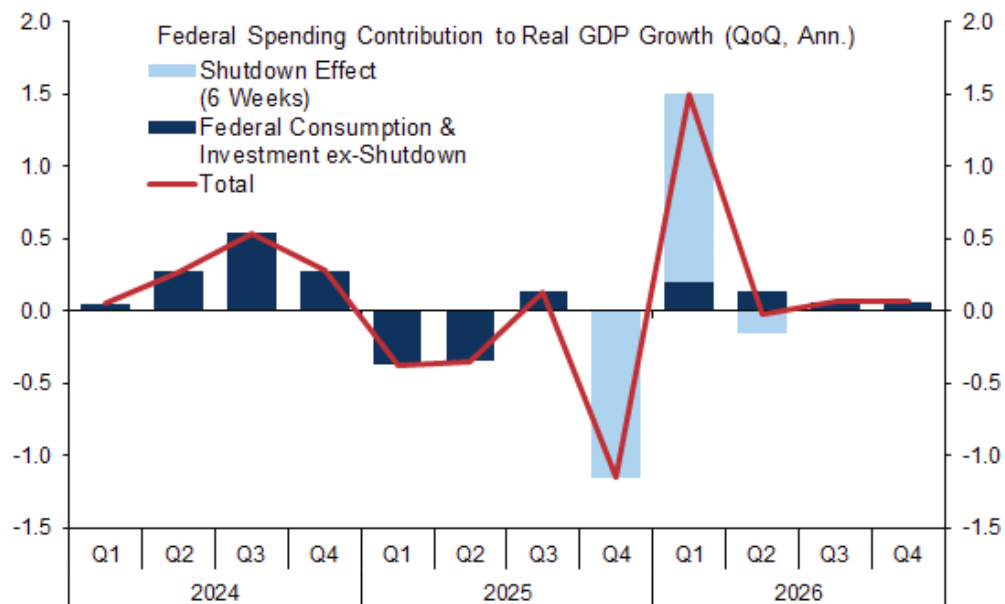


Activity:

Most of the shutdown's impact on the economy is expected to be temporary

Global

Expected GDP Growth and Shutdown Impact



The most significant development of recent weeks was the largest shutdown of the U.S. public sector in history, delaying (and in some cases potentially permanently preventing) the release of economic statistics and generating a negative impact on economic activity. The shutdown, which lasted 43 days, came to an end last Wednesday (12) following the presidential enactment of the budget bill that secures government funding through January 30, when Congress will once again need to reach an agreement for government operations to continue.

The impact on the level of activity—whether through the temporary suspension of wage payments or the interruption of public services—tends to be predominantly transitory. As illustrated in the chart on the left, current estimates indicate that the shutdown may result in an approximate 1 percentage point contraction in GDP in the fourth quarter of 2025 (light blue bar in the chart), a move that is nevertheless expected to be largely offset by a reacceleration at the beginning of next year.

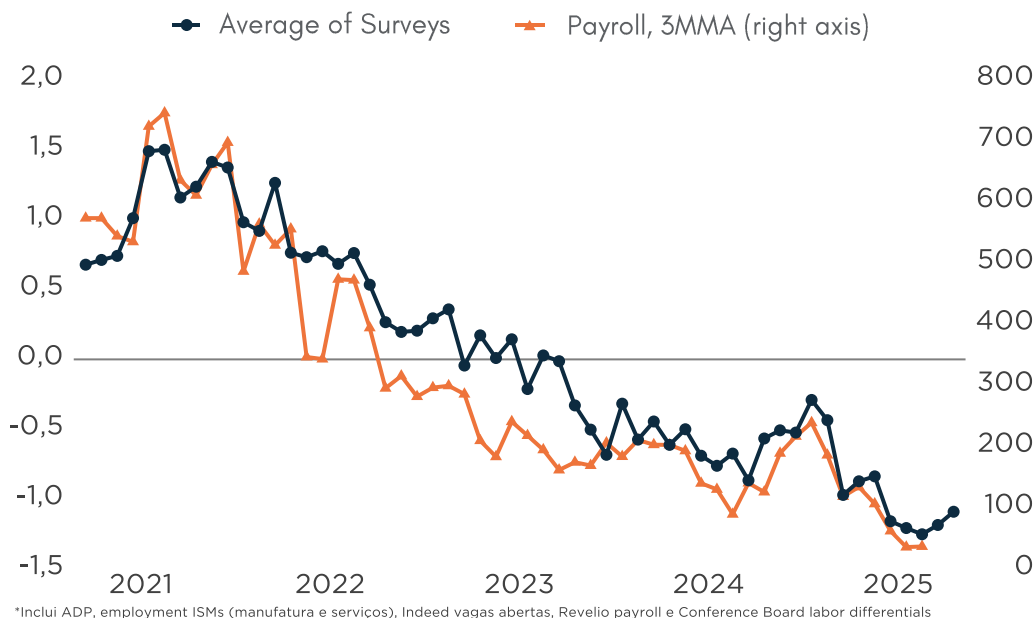
Labor Market:

In the absence of official data, alternative metrics gain prominence

Global

Selected U.S. Employment Metrics

Normalized data since 2021



The unavailability of economic data caused by the shutdown created an additional challenge for monitoring the business cycle, a factor of particular importance for monetary policy. In this context, the remaining statistics—especially sentiment surveys published by private institutions—have become more relevant.

In the chart alongside, we present a proxy (a substitute measure constructed from correlated variables) for net job creation in the Payroll report, the official monthly measure of employment growth in the United States. The series is shown as a three-month moving average (orange line) and was built using the average of selected indicators that were not affected by the public sector shutdown.

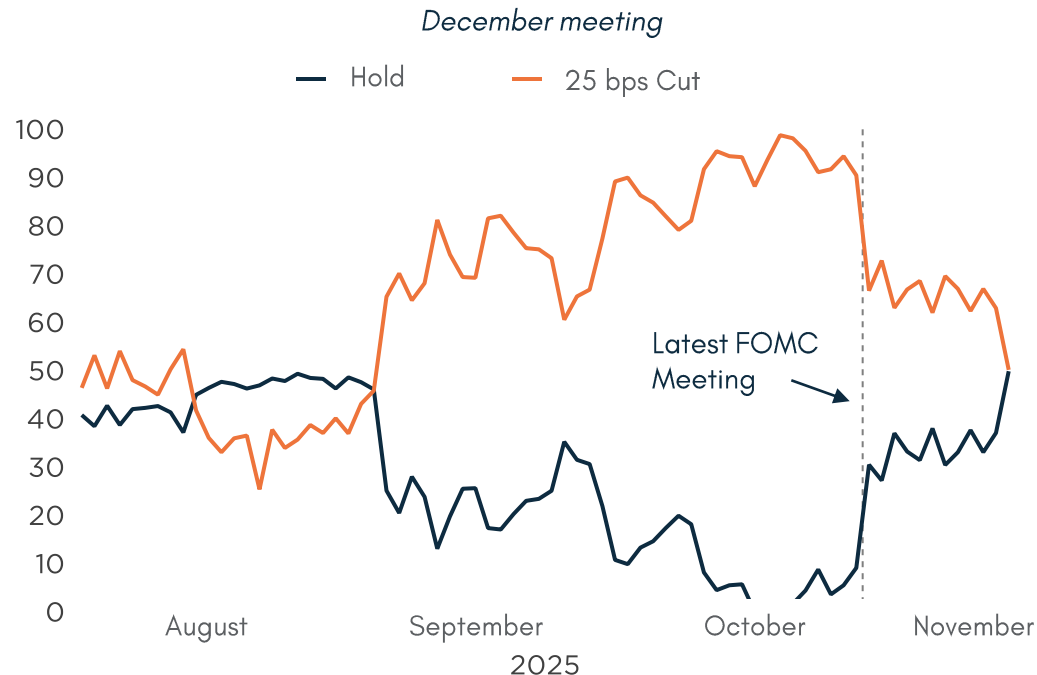
The blue line indicates that, over the past two months, this set of data has suggested some recovery, pointing to a possible stabilization in labor market conditions during this period. Nevertheless, this remains an estimate subject to a high degree of uncertainty, which limits the confidence that can be placed in these conclusions.

Monetary Policy:

Powell pushes back against December cut pricing following a divided October meeting

Global

Implied Probabilities for the FOMC Decision



The October meeting of the FOMC—the Federal Reserve’s monetary policy committee responsible for setting the benchmark Interest Rates in the United States—resulted in a 25 basis point cut, bringing the target range to between 3.75% and 4.00% per year. The decision, however, was not unanimous: there were two dissenting votes, one in favor of a deeper cut (Miran) and another advocating for maintaining rates unchanged (Schmid).

In the press conference that followed, Federal Reserve Chair Jerome Powell adopted a firmer tone, emphasizing that an additional cut in December is “far from guaranteed.”

“This shift in communication had an immediate impact on market expectations. The implied probability of a December cut—which on the eve of the decision was close to 100%—declined sharply and is now near 50%, as illustrated by the orange line in the chart alongside.

While the baseline scenario still points to a further reduction in Interest Rates, the decision will depend to a large extent on the set of economic indicators scheduled for release now that the shutdown has come to an end.

Economic Activity:

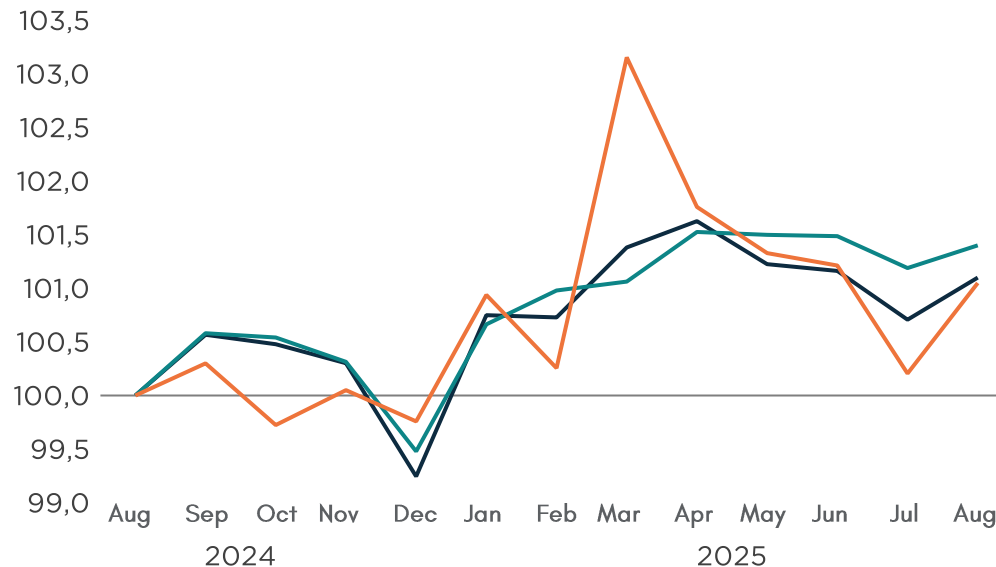
Signs of cooling, although the services sector remains resilient

Brazil

IBC-Br ex-Agriculture and Sectors

Base 100 = 12 months ago

— IBC-Br ex-Agriculture — Services — Industry



In response to the contractionary monetary policy stance, domestic activity is beginning to show clearer signs of deceleration, following four consecutive years of growth above 3%—a pace exceeding virtually all estimates of potential output.

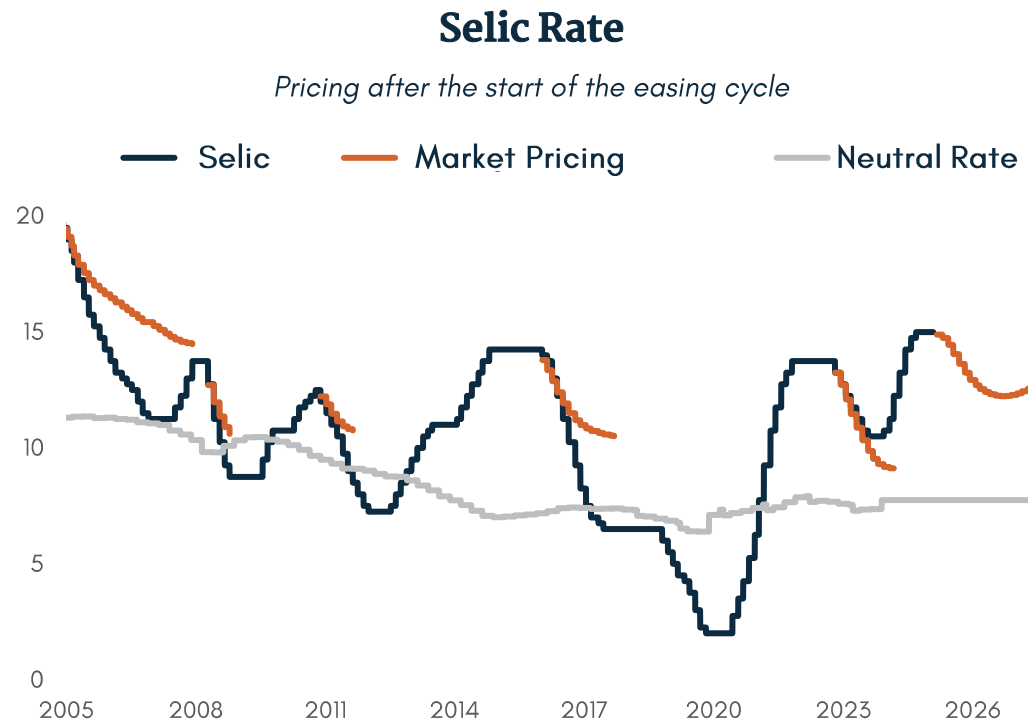
In the chart alongside, which presents the sectoral decomposition of the IBC-Br (a monthly indicator calculated by the Central Bank that serves as a proxy for GDP), non-agricultural activity has been declining since the beginning of the second quarter. The services sector, in turn, continues to display some resilience, albeit along a more moderate trajectory.

The convergence of recent data is reflected in expectations collected in the Focus Report: the median forecast currently points to growth of approximately 2.2% in 2025 and 1.8% in 2026.

Monetary Policy:

Rate cut pricing well below that of previous cycle

Brazil



The recent moderation in economic activity and Inflation has opened room for a potential cycle of Interest Rates cuts as early as the beginning of next year. Even so, the COPOM (the Central Bank's Monetary Policy Committee) has maintained a cautious stance, signaling that there is no urgency to begin the easing process despite the marginal improvement in recent indicators.

The Committee's projections continue to point to Inflation slightly above the target (3.3%) over the relevant policy horizon, which currently extends through the second quarter of 2027. It is worth noting that these estimates already incorporate the preliminary impact of the expansion of the personal income tax exemption threshold, reducing the risk of more "hawkish" revisions in upcoming meetings.

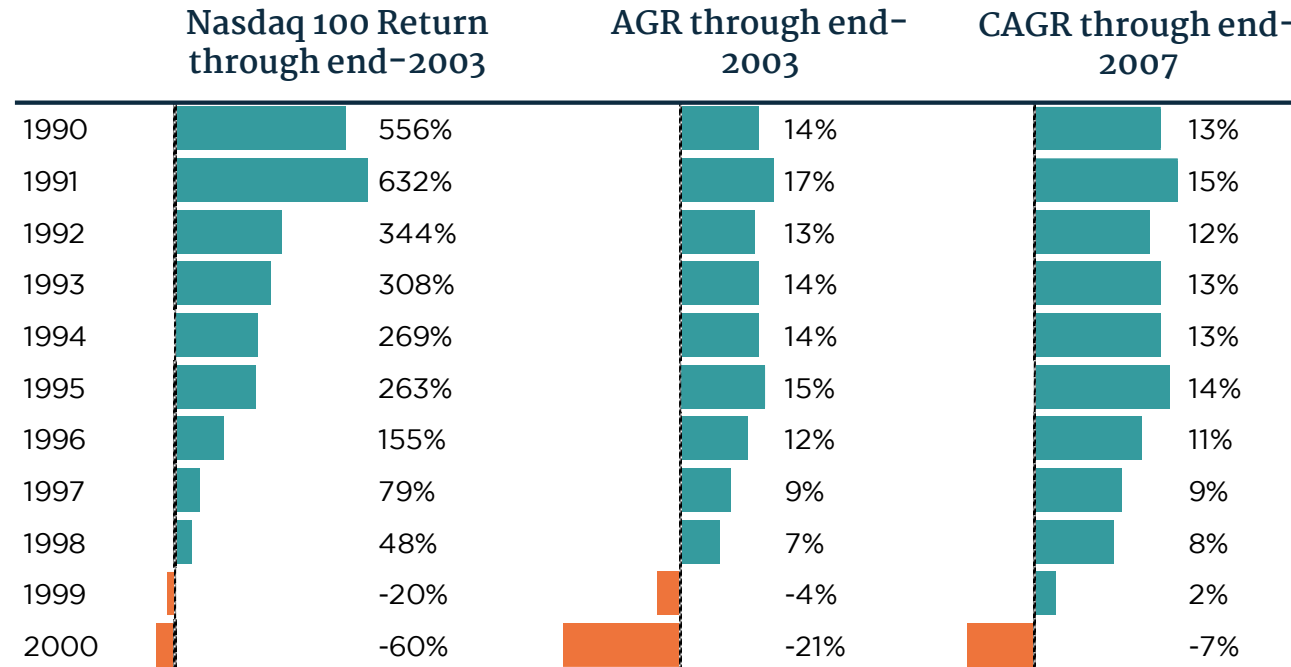
As shown in the chart, the Interest Rates market is pricing in a relatively moderate easing cycle—of less than 300 basis points, as indicated by the orange line. This more measured pace would imply a terminal rate still significantly above estimates of the neutral rate, represented in the chart by the gray line.

** Dovish & Hawkish:* Terms commonly used to describe the stance of monetary policy. A central bank is considered dovish when it displays a bias toward cutting Interest Rates or maintaining them at lower levels. Conversely, a hawkish stance refers to a bias toward raising Interest Rates or maintaining them at higher levels.

Equities:

Market debates bubble risk in AI-related equities

Markets



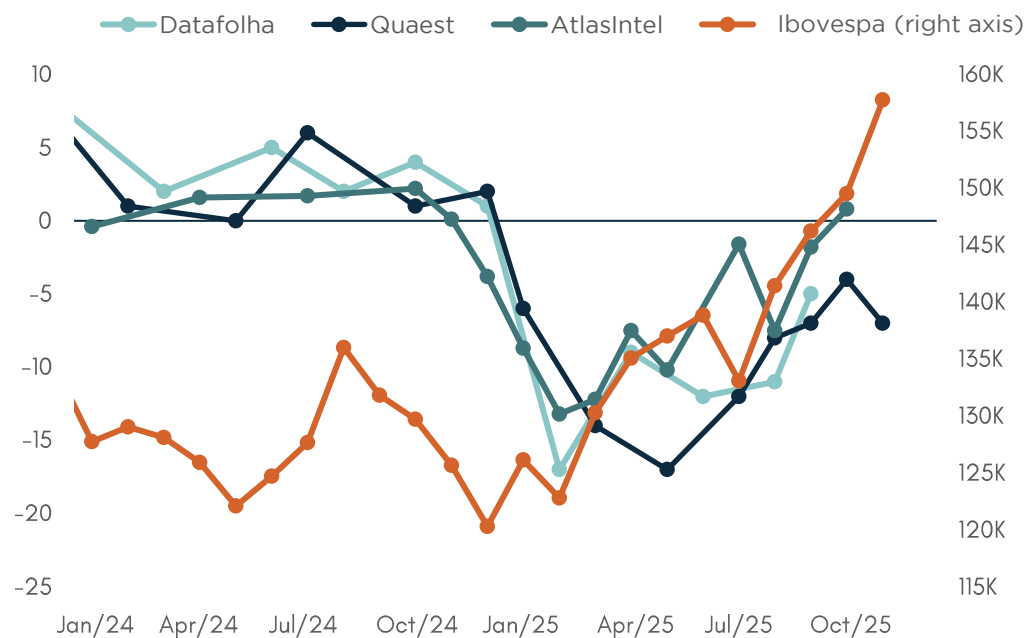
The strong performance of technology Equities—which have accounted for the bulk of the gains in major U.S. equity indices in recent years—has reignited the debate over the risk of a bubble associated with the Artificial Intelligence theme. For comparison, the chart above shows the return of the Nasdaq 100 in the years following the bursting of the Dot-Com Bubble, considering different investment entry points. What stands out is that, despite the sharp correction between 2000 and 2002, investors who entered the market as late as 1998 (only two years before the bust) still achieved very strong performance. At that time, investors allocated to the technology theme captured substantial gains, suggesting a high opportunity cost associated with “being out of the market.”

Equities:

Local dynamics continue to track global trends, despite the 2026 elections

Markets

Net Government Approval vs. Local Equities Market



As we have emphasized in recent months, the strong performance of the local market remains closely aligned with the dynamics observed abroad, despite domestic narratives that at times suggest otherwise.

The chart alongside illustrates that the sharp appreciation of the Ibovespa since the beginning of the year has occurred in parallel with an improvement in the government's net approval ratings across various opinion surveys (positive/good minus negative/poor). This pattern runs counter to the interpretation that Equities would have reacted primarily to expectations of a change in political leadership in next year's elections.

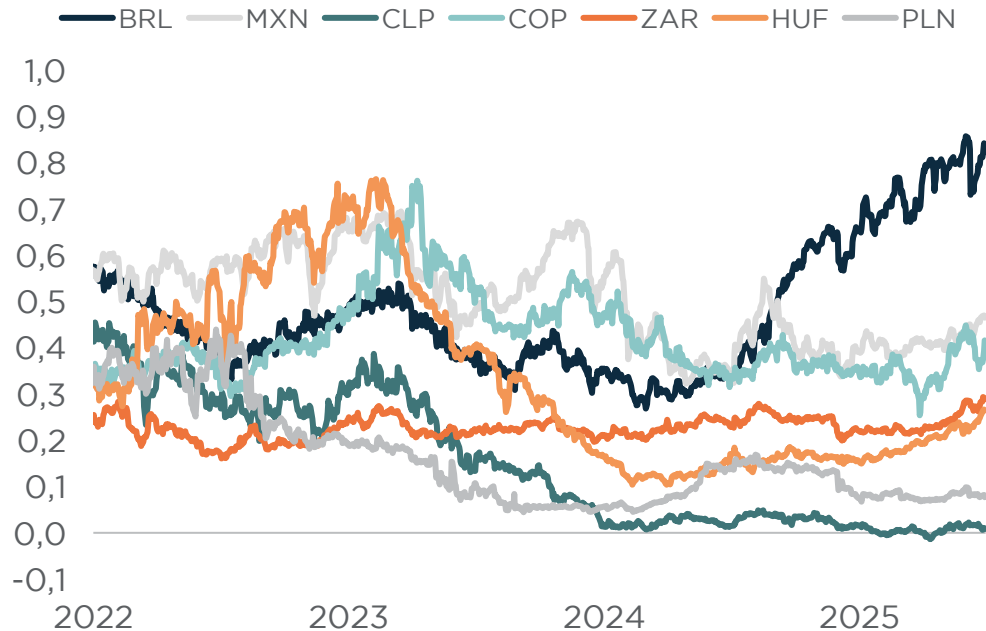
The key implication of this behavior is that the domestic equity market has not become relatively more "expensive" when compared with global indices, which have followed a similar trajectory. As a result, the potential gains associated with a scenario of improving prospects for 2026 remain relevant.

Exchange Rate:

In a low-volatility global environment, carry continues to provide support

Markets

Carry-to-vol: 3m



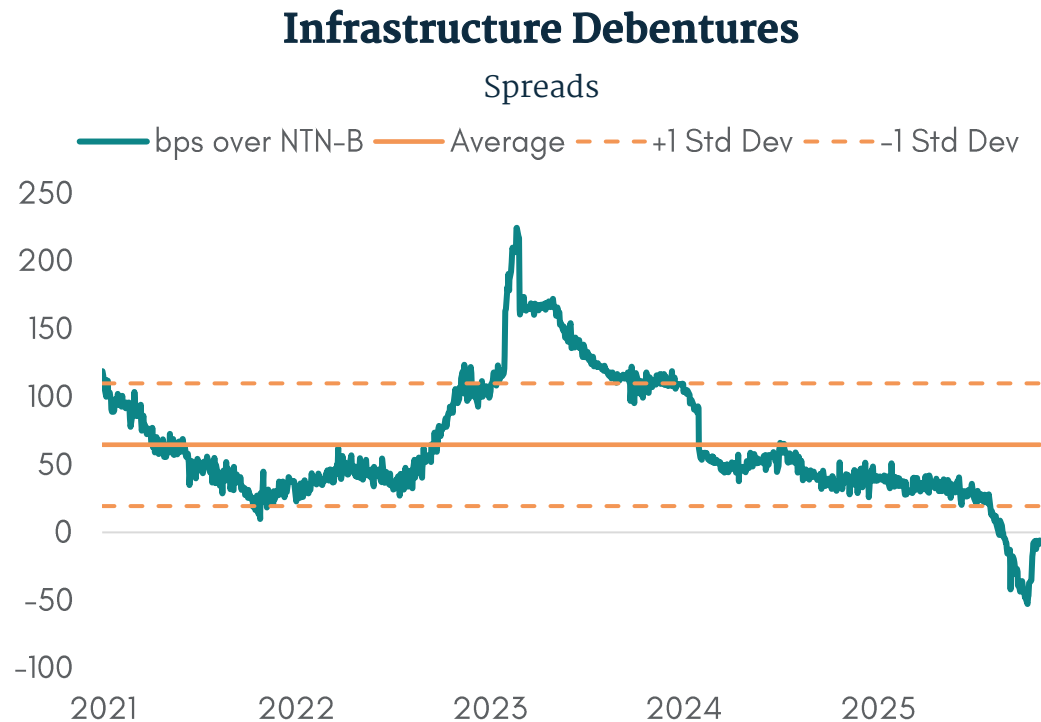
As in the equity market, the performance of the Brazilian Real has remained closely aligned with global market dynamics. In an environment of still-elevated domestic Interest Rates, combined with a weaker U.S. dollar and a period of lower volatility, carry trade strategies—operations in which investors borrow in low-yielding currencies and invest in assets from higher-yielding countries—have gained attractiveness, contributing meaningfully to the appreciation of the Real over the year.

The chart on the left highlights this movement: Brazil's interest rate return adjusted for Exchange Rate volatility has consistently stood out, making the country an increasingly competitive destination for carry trade strategies.

Credit:

Infrastructure debenture spreads correct following approval of the Income Tax reform

Markets



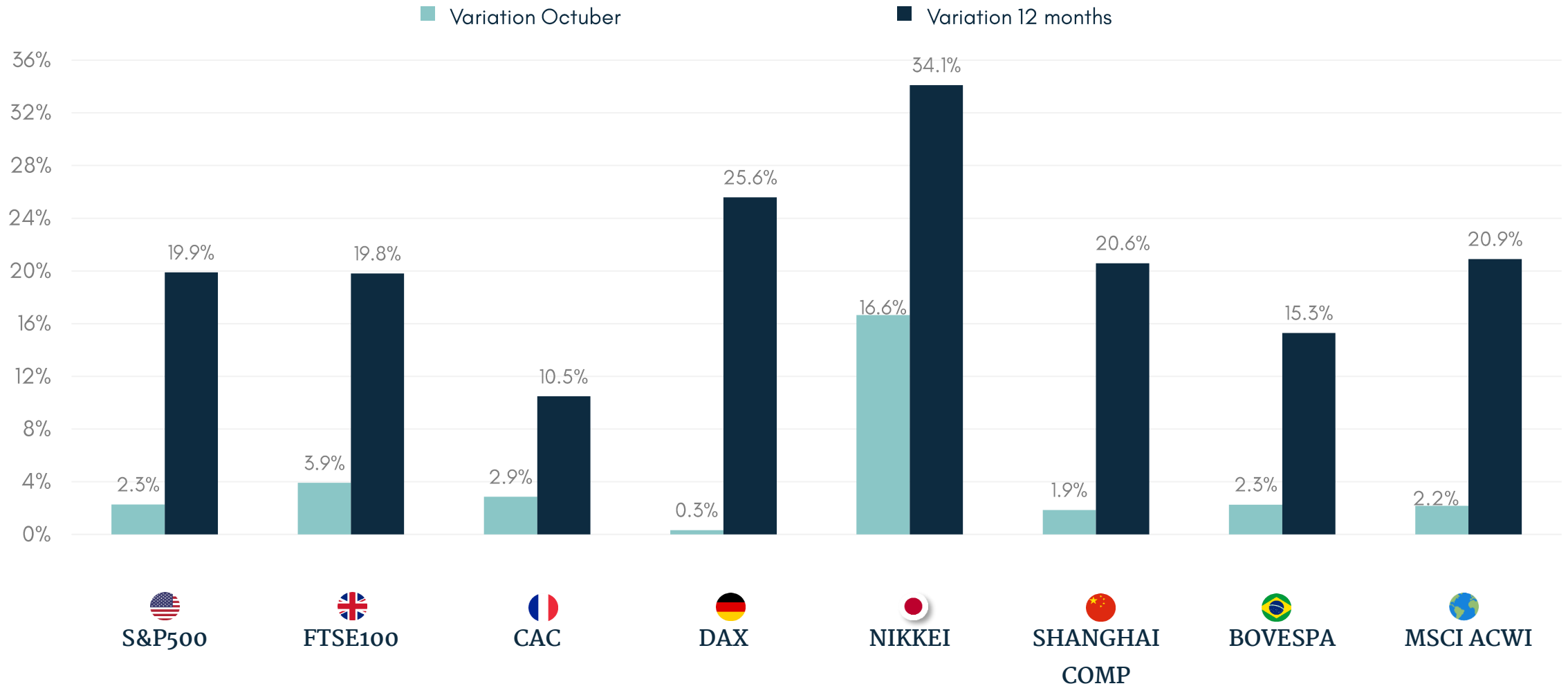
Against the backdrop of elevated Interest Rates, investment strategies focused on private credit instruments have delivered attractive performance in recent years, absorbing a significant share of financial flows that moved away from more volatile asset classes, such as Equities and actively managed funds. Demand was more heavily concentrated in income tax-exempt instruments, particularly following the relaxation of eligibility rules for new issuances.

This dynamic compressed credit spreads to very low levels—and, in some cases, even into negative territory (when the yield on a private credit instrument falls below that of a government bond with comparable duration), as observed in the infrastructure debenture market illustrated in the chart on the left.

More recently, with the rejection of Provisional Measure 1303/2025—which would have introduced taxation on currently tax-exempt investments starting next year—these instruments underwent meaningful corrections, reversing part of the recent spread compression, although spreads remain at historically tight levels.

Stock Markets

Markets



Índices

	Variation October	Value in 31/10/2025	Variation in 2025	Variation in 12 months
COMMODITIES				
OIL WTI	-2.2%	60.98	-15.0%	-12.0%
Gold	3.7%	4,002.92	52.5%	45.9%
CURRENCIES (vs. USD)				
Euro	-1.7%	1.15	11.4%	6.0%
Libra	-2.2%	1.32	5.1%	2.0%
Yen	-4.0%	153.99	2.1%	-1.3%
Real	-1.0%	5.38	14.9%	7.6%
EQUITY INDICES				
S&P 500	2.3%	6,840.20	16.3%	19.9%
FTSE 100	3.9%	9,717.25	18.9%	19.8%
CAC 40	2.9%	8,121.07	10.0%	10.5%
DAX	0.3%	23,958.30	20.3%	25.6%
Nikkei	16.6%	52,411.34	31.4%	34.1%
Shanghai Comp	1.9%	3,954.79	18.0%	20.6%
Bovespa	2.3%	149,540.43	24.3%	15.3%
MSCI ACWI	2.2%	1,006.23	19.6%	20.9%

*Values and results are presented in local currency

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