TURIM

Economic Report

April 2023

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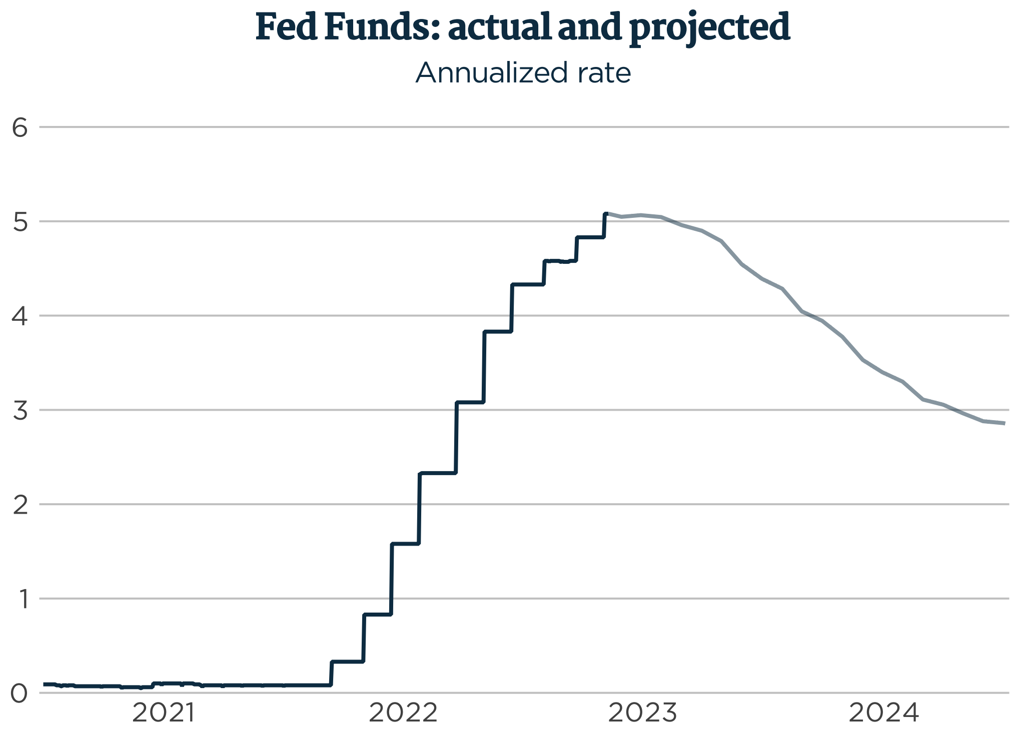
Federal Reserve:
Conditions for a pause in rise in interest rates seem in place

Global Economy



The latest meeting of the Federal Reserve's monetary policy committee (FOMC) resulted in a 25 basis points* hike in the interest rate, as expected, raising the upper band of the Fed Funds rate to 5.25% per year.

There was also an important adjustment in the accompanying statement, with the removal of the passage in which the committee anticipated "some additional tightening of monetary policy" in order to achieve a sufficiently restrictive degree consistent with the convergence of inflation to the target. This meant the FOMC was leaving the door open to pause – or even end – the cycle of interest rate hikes, depending on how the situation develops.

The softer tone from the committee, combined with a favorable trajectory of economic data, led to a flattening of the yield curve, which already includes interest rate cuts in 2023.

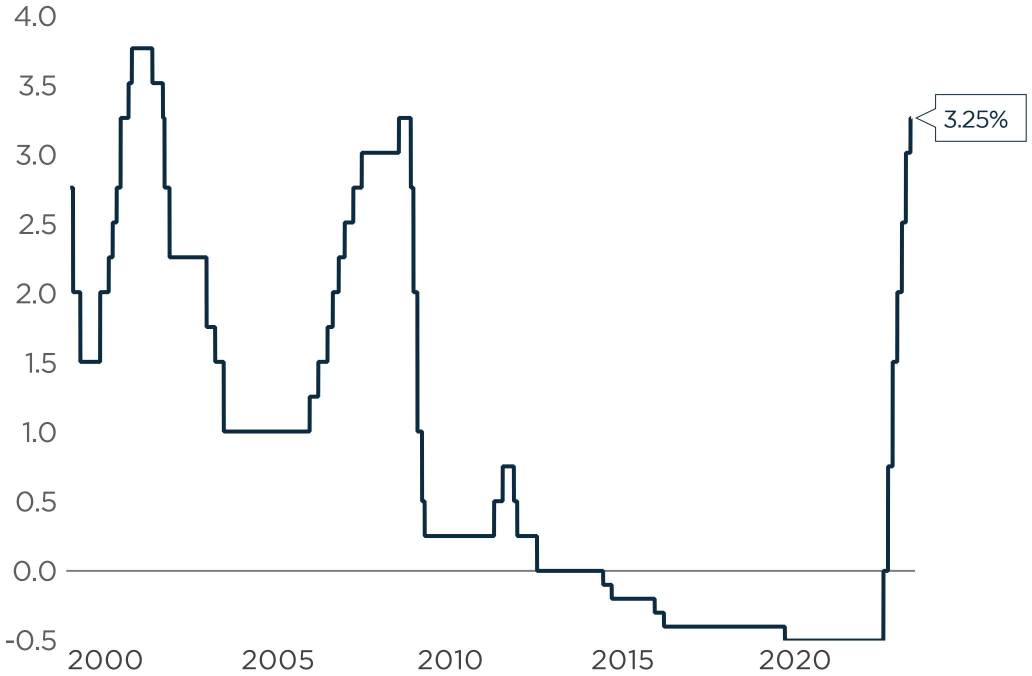
**1 basis points or 1 bp = 0.01% or 1/100 percentage point*

Source: Macrobond

European Central Bank:
ECB slowed down tightening cycle, as expected, but a pause doesn't seem imminent

Global Economy

ECB interest rates



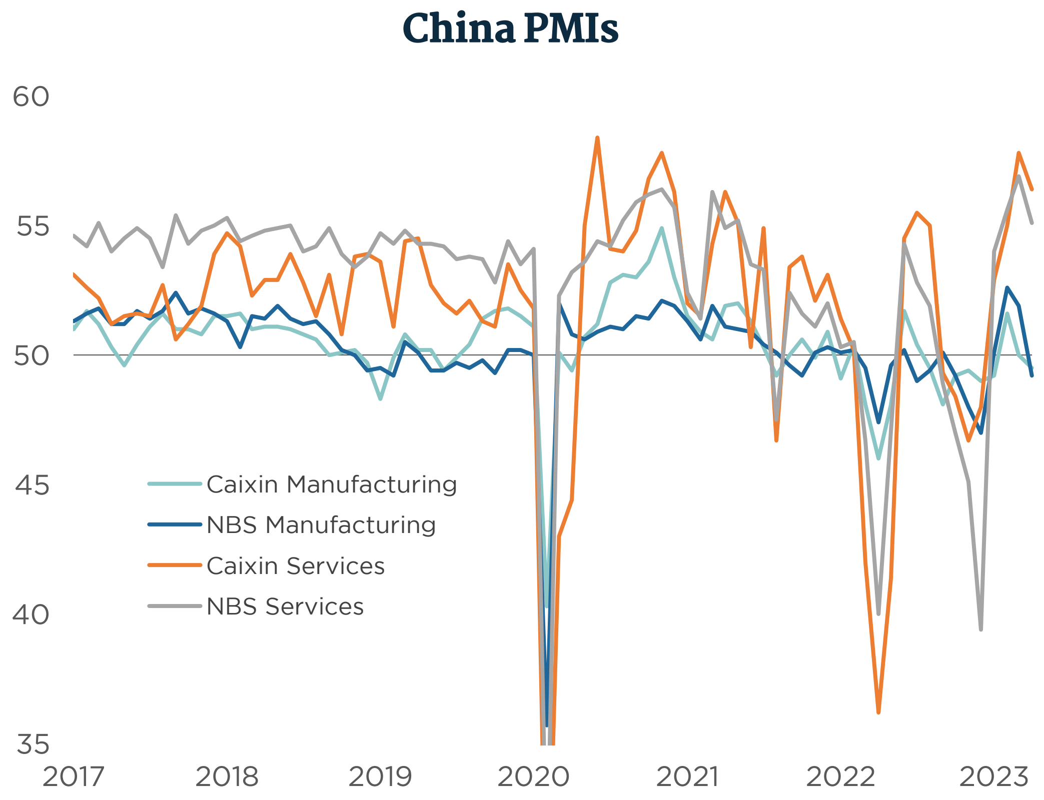
ECB: expectations for terminal rate

The European Central Bank also delivered a 25 basis points increase, in line with the market consensus, slowing the pace after three consecutive 50 bps hikes. On the other hand, the tone remained tough, indicating that there is still work to be done. Not by chance, the terminal rate priced after the meeting indicated there was a reasonable chance of one or two more increases before the end of the upward cycle.

Source: Macrobond

China:
Economy moving at two rhythms, showing more moderate growth than expected earlier this year

Global Economy



In China, the April PMIs* showed weaker activity compared to the previous month, both in the services component and in manufacturing activity – although the former continues to show expansion, while the latter has entered a contractionary phase (below 50, represented by the black line in the adjacent graph).

This dichotomy between services and industry can be explained by the post-Covid reopening process which favored the recovery of pent-up demand, clearly reflected in the expansion of domestic consumption but not so much in manufacturing. Faced with this situation, the Chinese authorities are expected to maintain expansionary practices in both fiscal and monetary policies.

**PMI (Purchasing Managers' Index): Economic indicator used to assess prevailing conditions of important sectors within an economy*

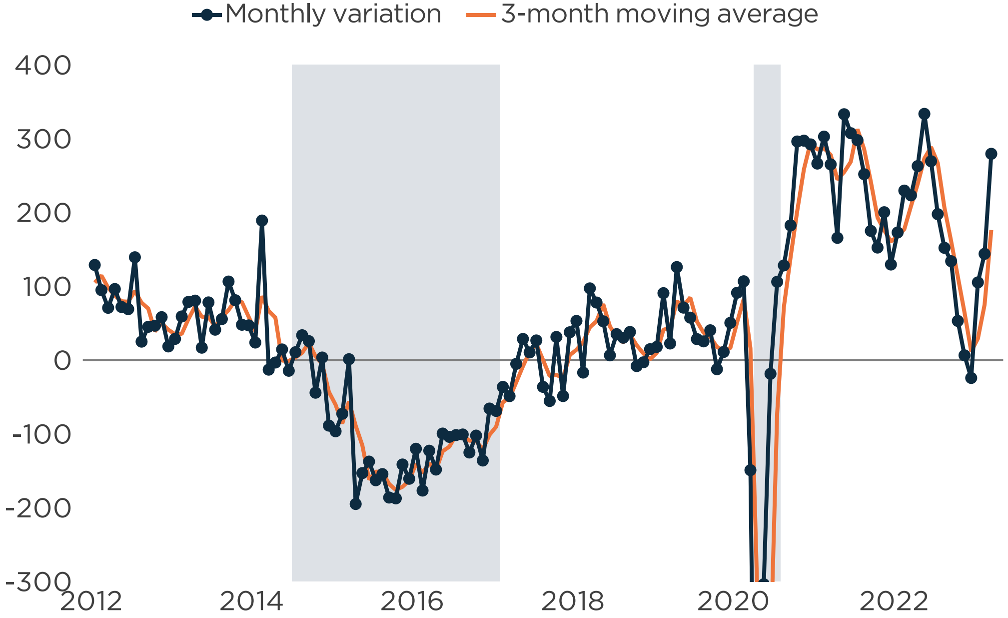
Source: Macrobond

Labor market: March data showed that the job market is still robust

Brazilian Economy

CAGED: variation in formal employment

With own seasonal adjustment



The Brazilian labor market data for March are worth highlighting as they proved to be stronger than expected. This was clearly reflected in the formal labor market where the net creation of jobs was nearly 200,000 in the month, surpassing market expectations of less than 100,000. The Continuous PNAD (National Household Sample Survey) figures, which also considers the informal market, were stronger and showed an unemployment rate of 8.8%.

If this movement proves to be more persistent, it could pose yet another obstacle for inflation to converge to its target, further complicating the work of the Central Bank.

Source: Macrobond

COPOM: Subtle adjustments in the statement still suggest no cut in interest rates

Brazilian Economy

2023	2024	2025	2026
Monetary Policy Director: **Gabriel Galípolo**	International Affairs and Corporate Risk Management Director: **Fernanda Guardado**	Administration Director: **Carolina de Assis Barros**	Licensing and Resolution Director: **Renato Dias de Brito Gomes**
Supervision Director: **Ailton de Aquino Santos**	Institutional Relations and Citizenship Director: **Mauricio Moura**	Regulation Director: **Otavio Ribeiro Damaso**	Economic Policy Director: **Diogo Abry Guillen**
		Governor: **Roberto Campos Neto**	

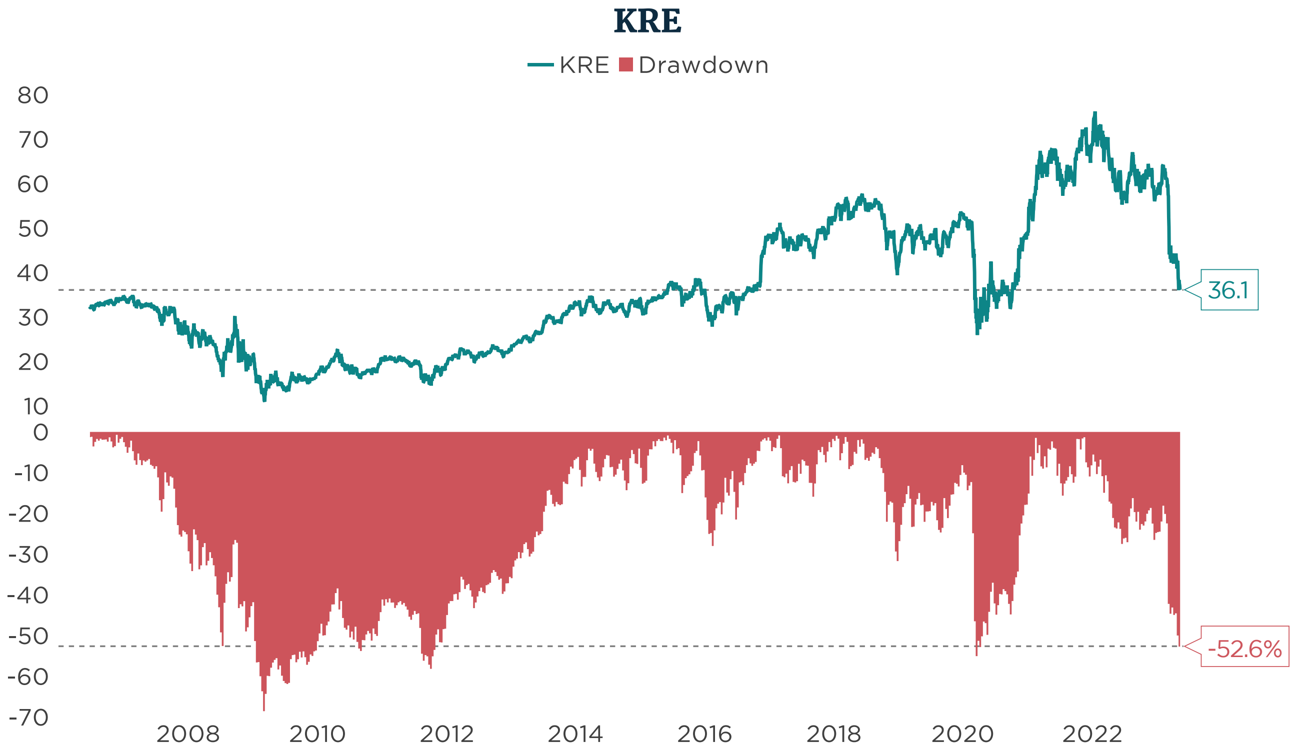
The Monetary Policy Committee (Copom) kept the Selic interest rate stable at 13.75% for the sixth consecutive meeting, as widely expected. The committee also made specific adjustments in its communication, maintaining a tough tone and concluding that “it will not hesitate to resume the tightening cycle if the disinflationary process does not unfold as expected,” although adding that was a “a less likely scenario”. The Copom minutes also stated that the neutral rate could be higher than the estimate used in the Central Bank’s projections which would imply a lower level of monetary tightening than previously imagined.

On the other hand, the government nominated two new directors for the Copom, taking charge of monetary policy and supervision. The government's choice for these positions raised market concerns over the composition of the monetary authority in the coming years, particularly in terms to the conduct of monetary policy.

Source: Turim

Stocks:
Despite ongoing issues with small and mid-sized banks there are no signs of a systemic stress

Markets

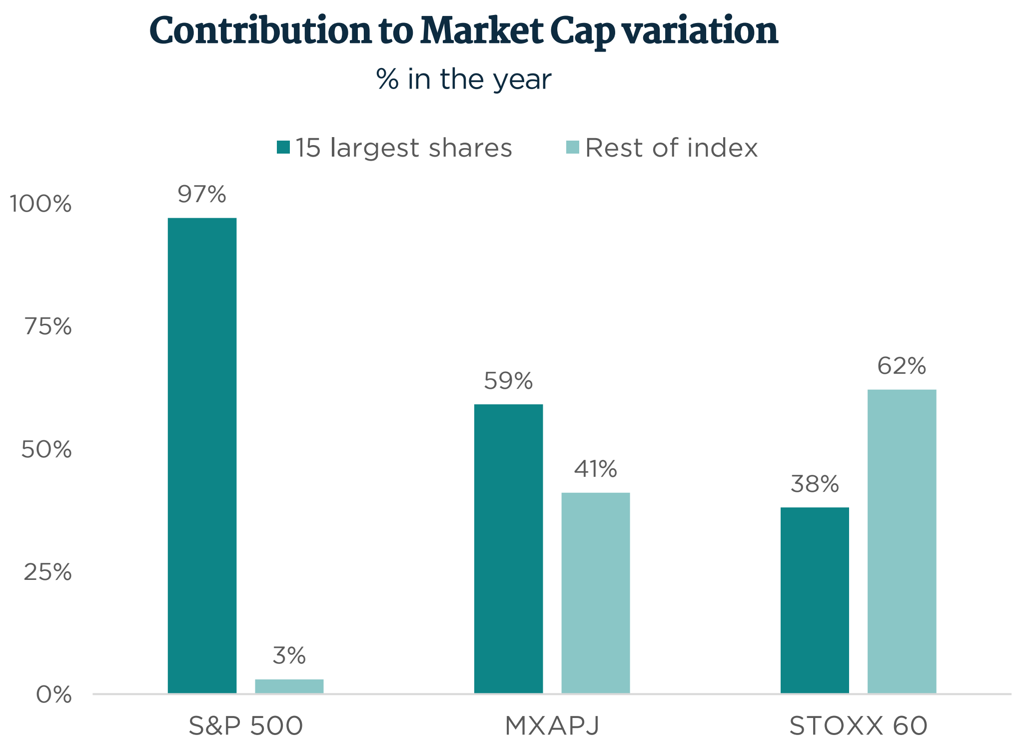


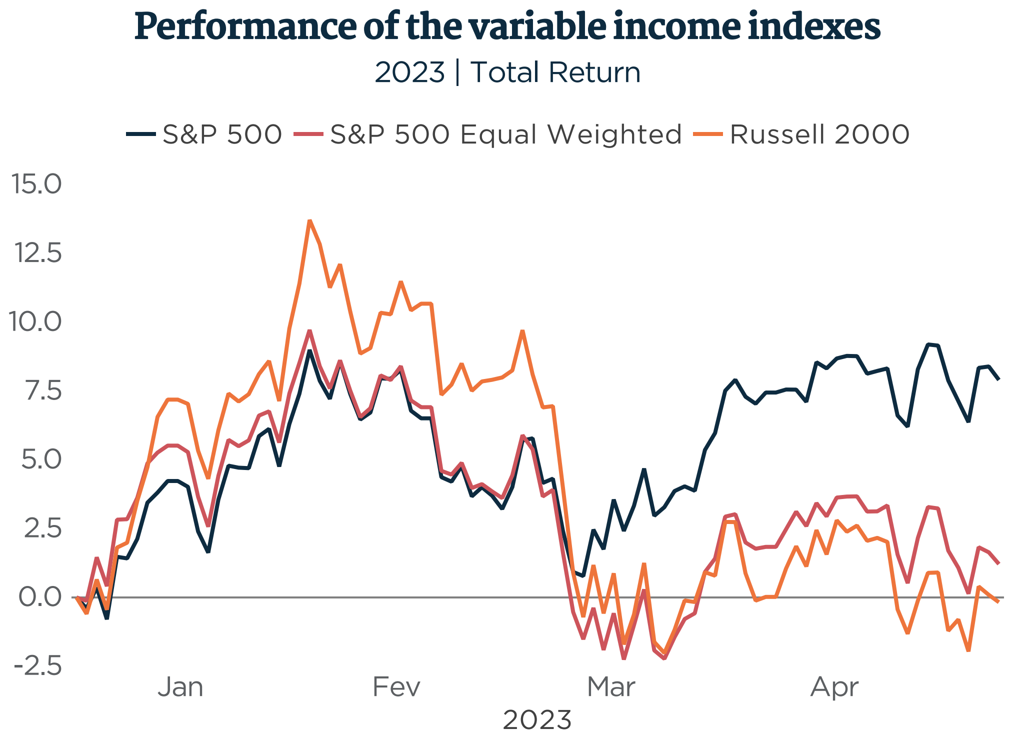
Following the collapse of two large banks in March (Silicon Valley Bank and Signature Bank), it was First Republic Bank's turn, which ended up being mostly acquired by J.P. Morgan. This stress in the sector had repercussions on the traded stocks. The graph above shows the performance of an ETF (KRE) made up of shares of regional banks in the United States, which has been on a downward trend since March.

Source: Bloomberg

Stocks:
S&P 500's year-to-date increase concentrated in the largest companies

Markets



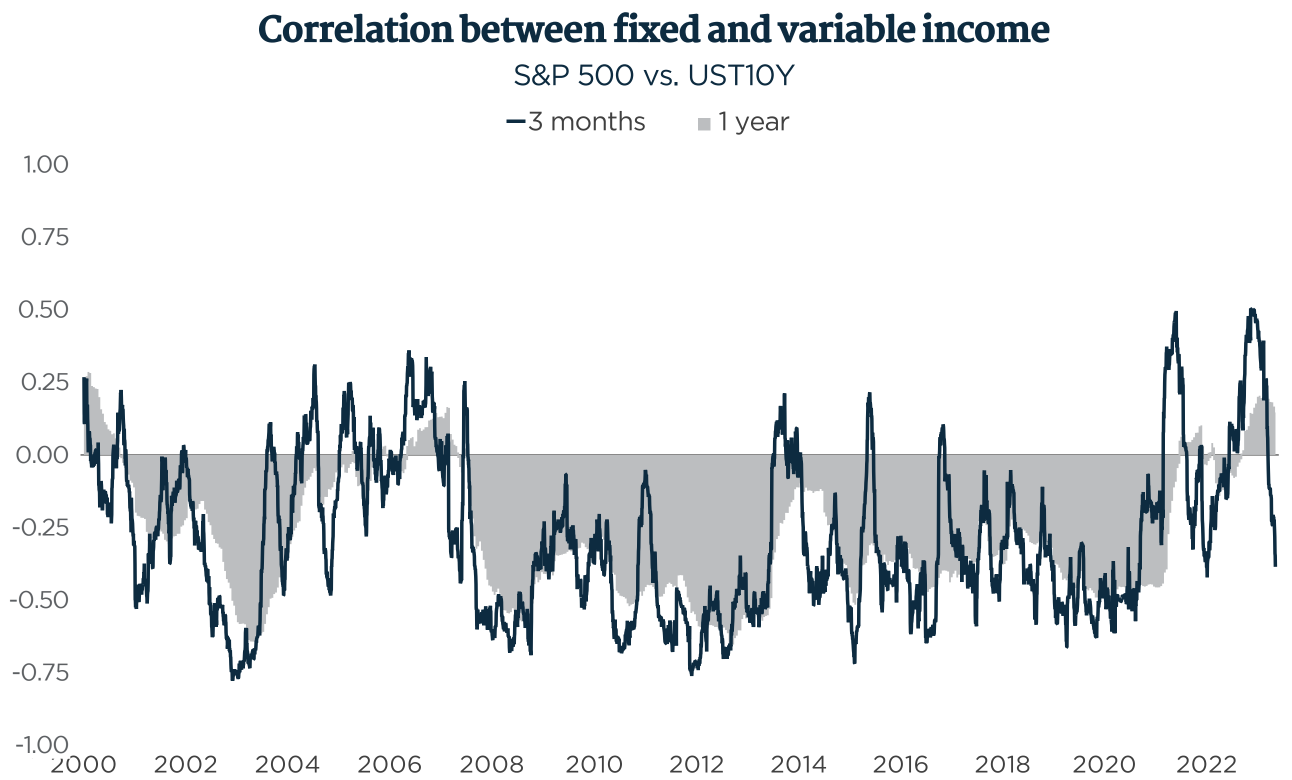


Despite the stress in the financial sector, the S&P 500 has been performing positively since March. However, the drivers of this movement have been highly concentrated in companies with higher market value (mainly in the technology sector), while the rest of the index has had much more moderate performance.

Source: Macrobond, Goldman Sachs

Interest Rates vs Stocks: Will the correlation between fixed income and stocks return to being negative?

Markets



Developments on the global scenario, especially in light of a probable end to the cycle of interest rate hikes in the American economy, indicates that the correlation between fixed income and stocks in shorter-term horizons seems to be back in negative territory. It is still too early to say whether this trend will be valid once again but, if confirmed, it should eliminate one of the biggest challenges facing portfolio management recently.

Source: Bloomberg

Stocks:
Profits without major revisions in the last 12 months

Markets

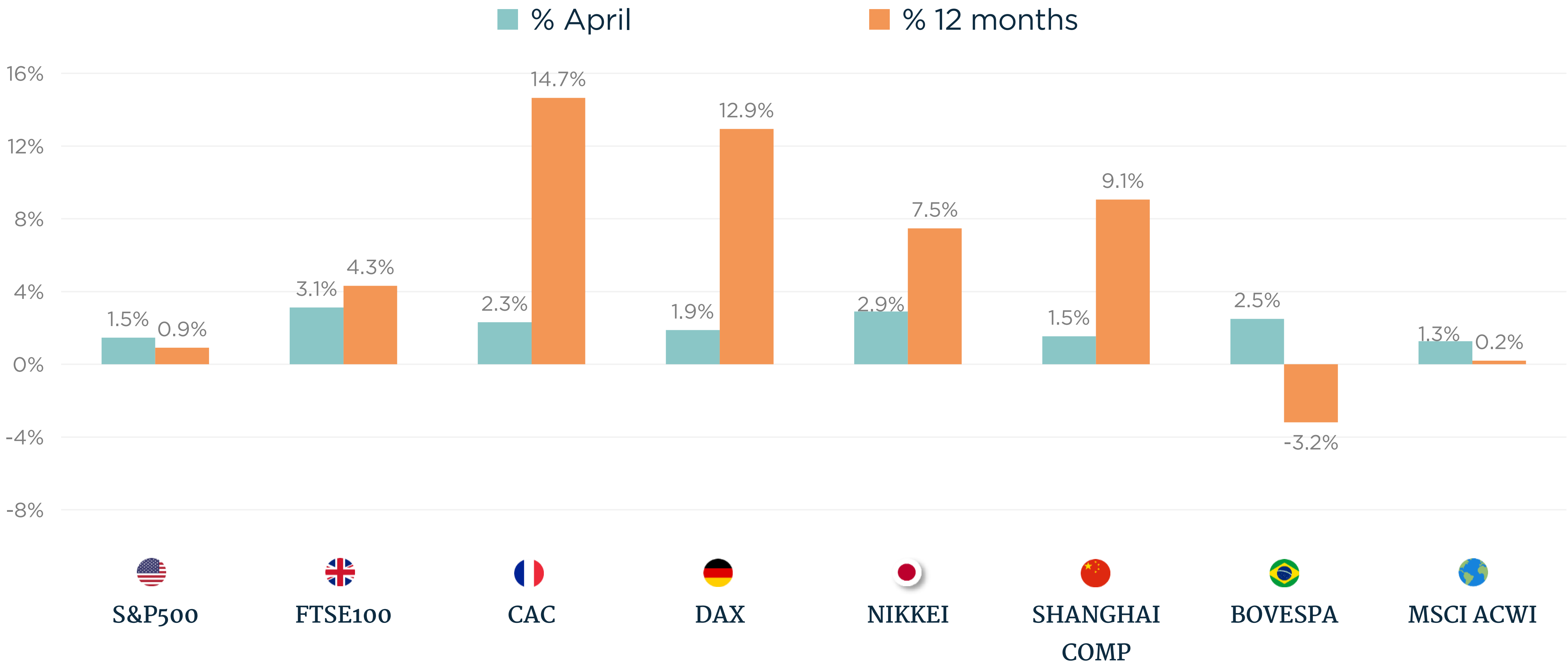
Ibovespa: Earnings per Share

Earnings per share expectations for the Ibovespa have varied significantly since the beginning of the year, at times penalized by the decline in commodity prices which affect some of the largest companies in the index. However, over a 12-month horizon, they have remained relatively stable when looking at 2023 and 2024.

Source: Bloomberg

Stock markets

Markets



Indexes

	Variation April	Value on 28/04/2023	Variation in 2023	Variation 12 months
COMMODITIES				
OIL WTI	1.5%	76.78	-4.3%	-26.7%
GOLD	1.1%	1,990.00	9.1%	4.9%
CURRENCIES (IN RELATION TO THE US$)				
EURO	1.7%	1.10	2.9%	4.5%
GBP	1.9%	1.26	4.0%	-0.1%
YEN	-2.5%	136.30	-3.8%	-4.8%
REAL	1.5%	4.99	5.9%	-0.3%
INDEXES				
S&P500	1.5%	4,169.48	8.6%	0.9%
FTSE100	3.1%	7,870.57	5.6%	4.3%
CAC	2.3%	7,491.50	15.7%	14.7%
DAX	1.9%	15,922.38	14.4%	12.9%
NIKKEI	2.9%	28,856.44	10.6%	7.5%
SHANGHAI COMP	1.5%	3,323.28	7.6%	9.1%
BOVESPA	2.5%	104,431.63	-4.8%	-3.2%
MSCI ACWI	1.3%	655.00	8.2%	0.2%

*Amounts and Results in local currency

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