



Economic Report

May 2024

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Inflation: Strong numbers in the first quarter followed by a slight relief in April

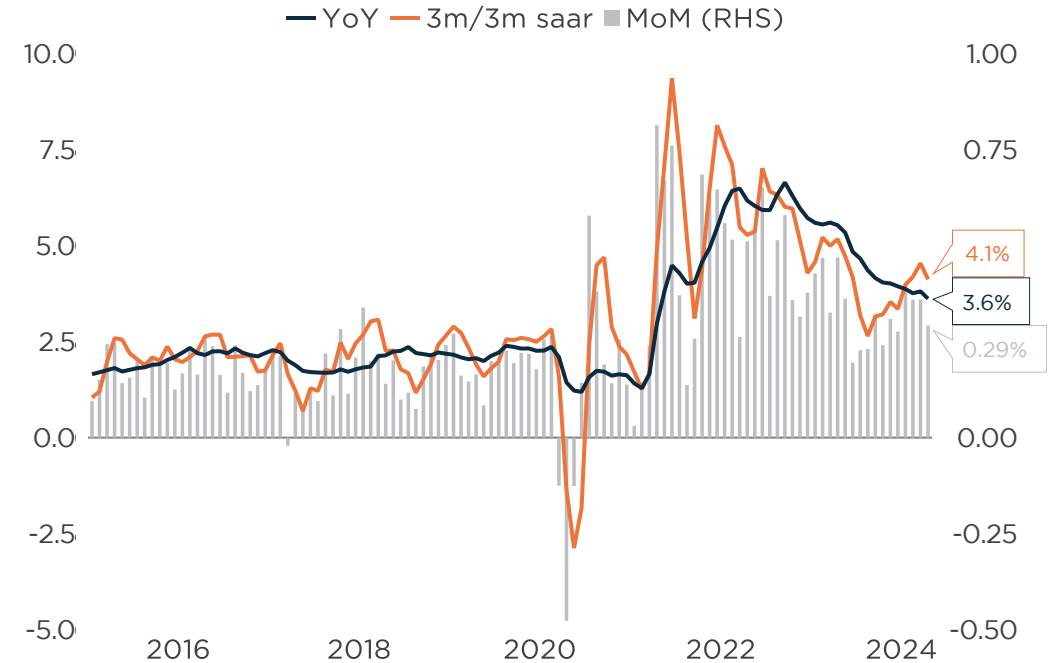
Global Economy

Core consumer inflation measured by the PCE

Variation over three months annualized and seasonally adjusted



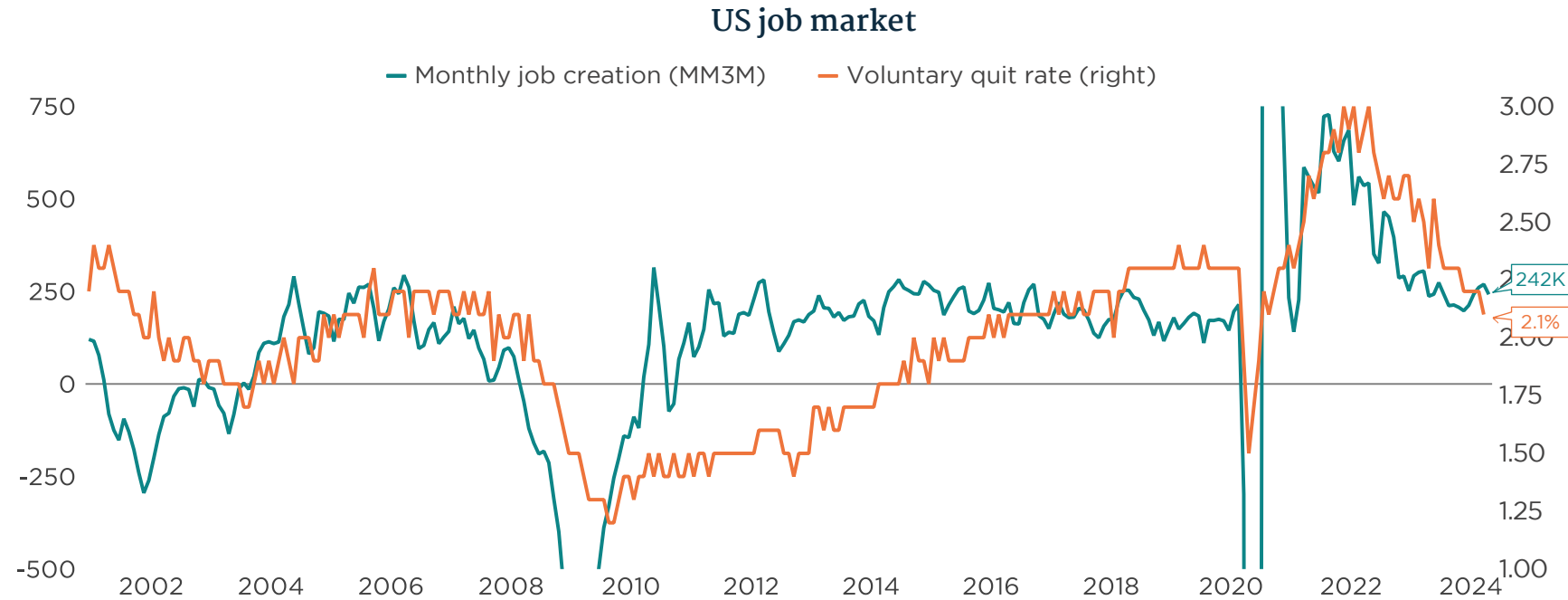
Core CPI



The inflation data was consistently stronger throughout the first quarter of the year, with an even greater surprise from the quarterly PCE (Personal Consumption Expenditures) release which led to a significant revision of the January figures. On the other hand, consumer inflation measured by the Consumer Price Index (CPI) showed some signs of moderation and was slightly lower than expected in the April reading. This helped soothe the market's "bad mood".

Employment: Moderation in the job market helps markets

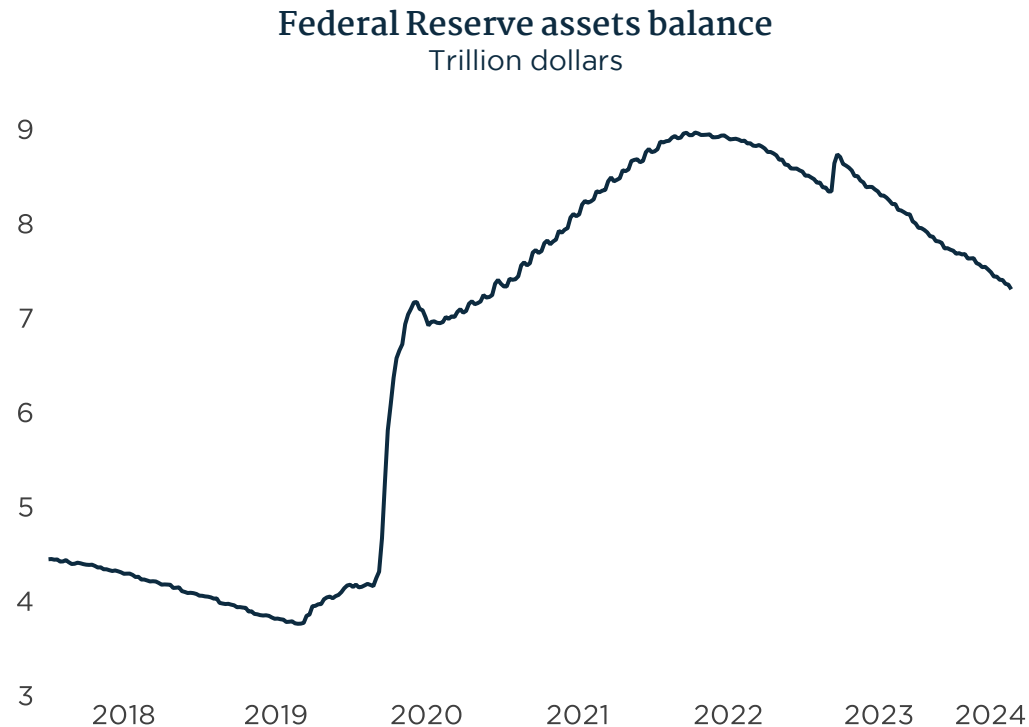
Global Economy



The labor market continues to show signs of a gradual slowdown in the American economy. Net job creation fell below expectations in April, even coming in below the estimates for neutral job creation (the monthly net job creation rate that keeps the unemployment rate stable, considering the increase in labor supply due to demographic factors or immigration). Additionally, wage metrics and the unemployment rate also showed some moderation.

Monetary Policy: FOMC maintains tough tone but announces a slowdown in Quantitative Tightening

Global Economy

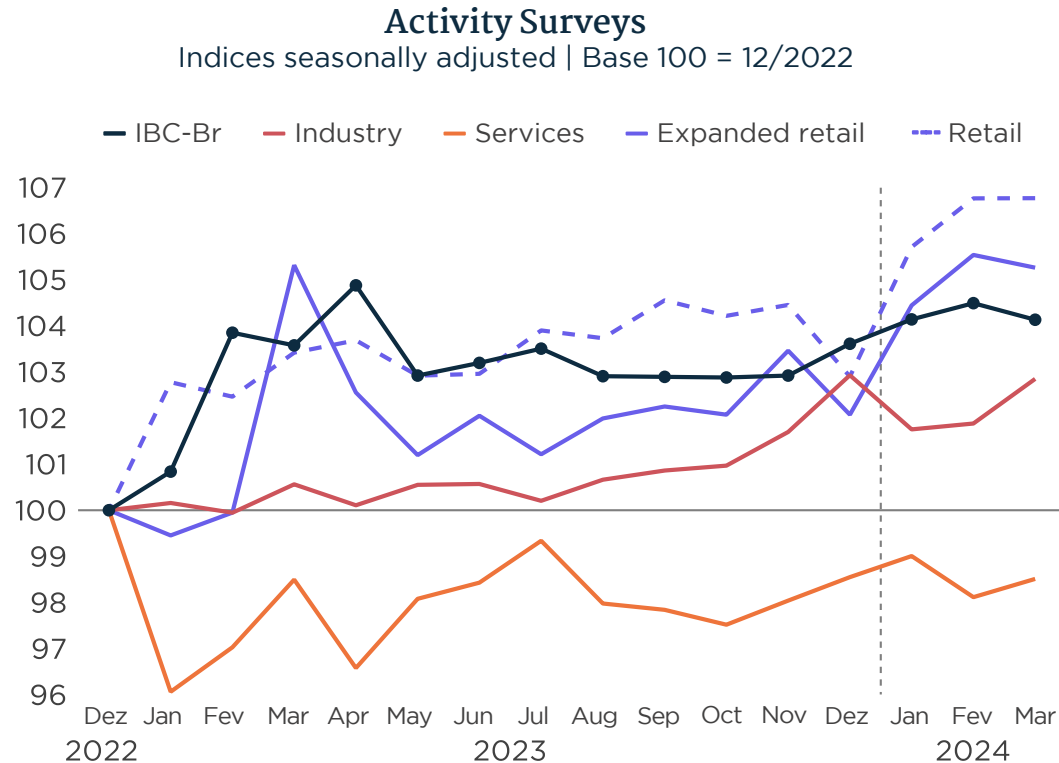


The latest statement by the Federal Reserve's Monetary Policy Committee (FOMC) acknowledged recent lack of progress in the disinflation process. However, it also announced the beginning of a slowdown in quantitative tightening (QT), Fed's program aimed at reducing the central bank's balance sheet to drain liquidity from the economy.

The reduction will begin in June, decreasing the FED's monthly balance sheet reduction from \$60 billion to \$25 billion, as shown in the accompanying chart. It is anticipated that further slowdown announcements will be made throughout the year until the program is officially concluded.

Activity: March data confirms strong growth in the first quarter

Brazilian Economy



Activity	Oct23	Nov23	Dec23	Jan23	Feb23	Mar23
Industrial production (MoM)	-0.3	0.2	0.8	0.1	-0.5	-0.5
Volume of Services (YoY)	-0.9	0.0	-0.1	2.8	-2.5	0.2
Retail Sales (MoM)	-0.7	0.0	-1.2	2.3	2.5	0.3
Expanded Retail Sales (MoM)	-0.7	0.8	-1.5	2.0	2.0	-1.0
IBC-Br (MoM)	0.0	0.2	0.1	0.0	0.1	-0.1
General Employed & Unemployed Register CAGED ('000 jobs)	55.4	-28.1	-60.2	95.4	70.1	51.3
Unemployment (%)	0.0	0.0	-0.2	-0.2	0.0	-0.2

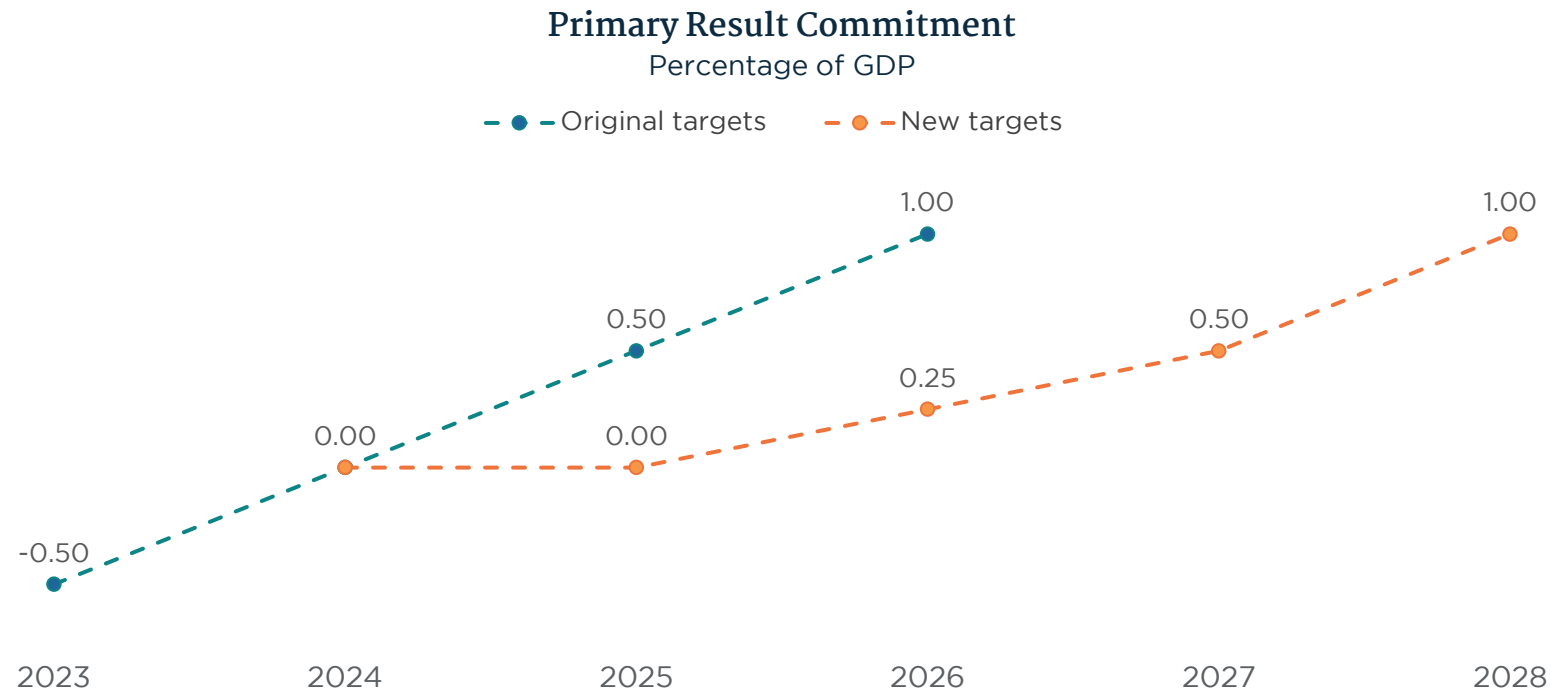
Key: Downward/upwards surprise

The sector activity surveys (see accompanying chart), along with labor market data, remained strong in March despite some negative surprises (particularly in industrial production and the retail sector). These figures reinforce the reading of a robust first quarter and help explain expectations of GDP growth above 2% this year despite the still-high interest rate and the tragedy affecting Rio Grande do Sul state.

Fiscal:

Government alters primary result target from 2025 onwards

Brazilian Economy

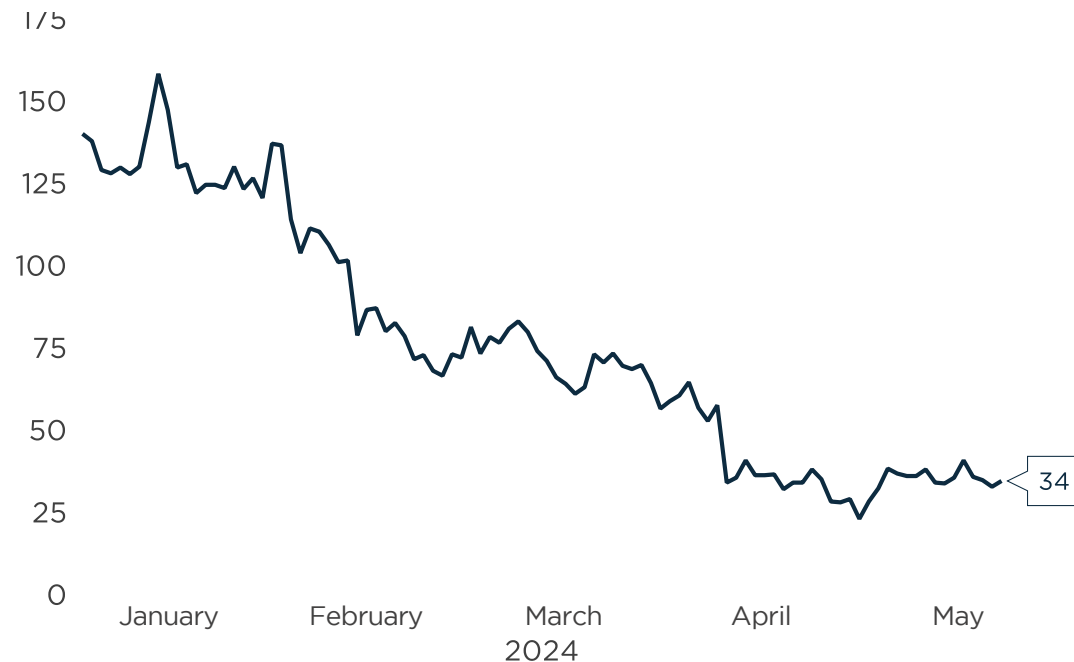


In mid-April, the government confirmed the anticipated revision of the primary surplus target for 2025. The surplus target, previously set at 0.50% of GDP, was revised to 0.00%, while the target for 2026 was reduced from 1.00% of GDP to just 0.25%. Although this revision was expected, it emphasizes the fragility of the fiscal framework, indicating that the government does not seem inclined to reduce its expenses sufficiently to ensure the sustainability of public finances. Oddly enough, Moody's (one of the world's leading credit rating agencies) raised Brazil's rating outlook from stable to positive, citing consistently higher growth and some progress towards fiscal consolidation.

Interest rates: Expectation for cuts in interest rates this year continue to fade

Markets

Interest rate cuts in 2024 priced into Fed Funds Futures
Basis points

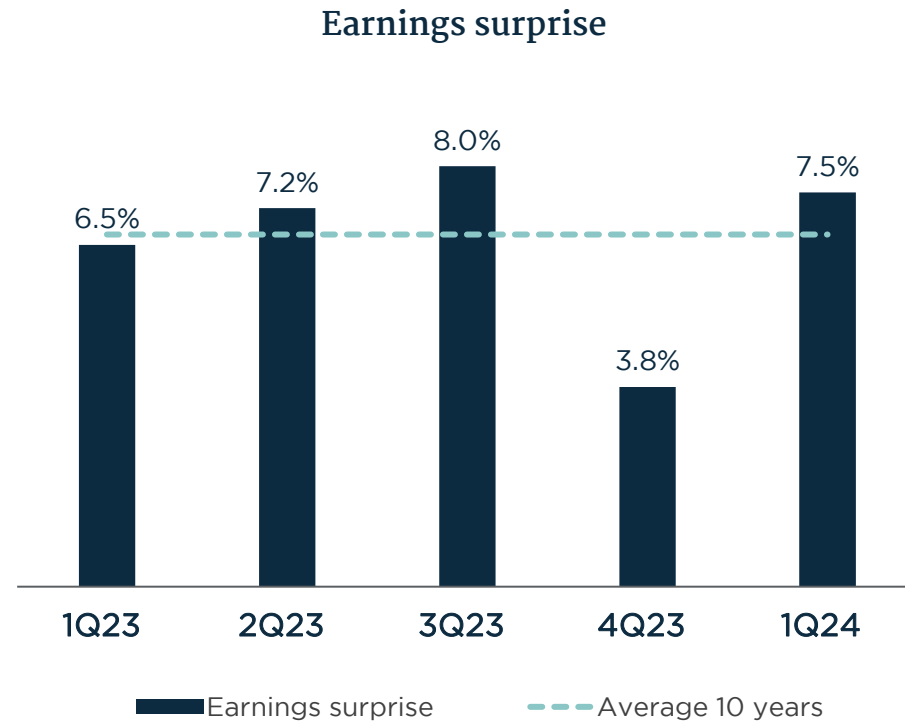


As inflation turned out stronger than expected in 2024, the date that had been expected for the start of interest rate cuts in the United States has been postponed.

On the other hand, communications from FOMC members indicate that the possibility of additional interest rate hikes is also far from becoming a necessity. Faced with this prospect, market pricing today is split between the likelihood of one or two cuts of 25 basis points by the end of the year.

Equities: Corporate earnings exceed expectations in the first quarter

Markets

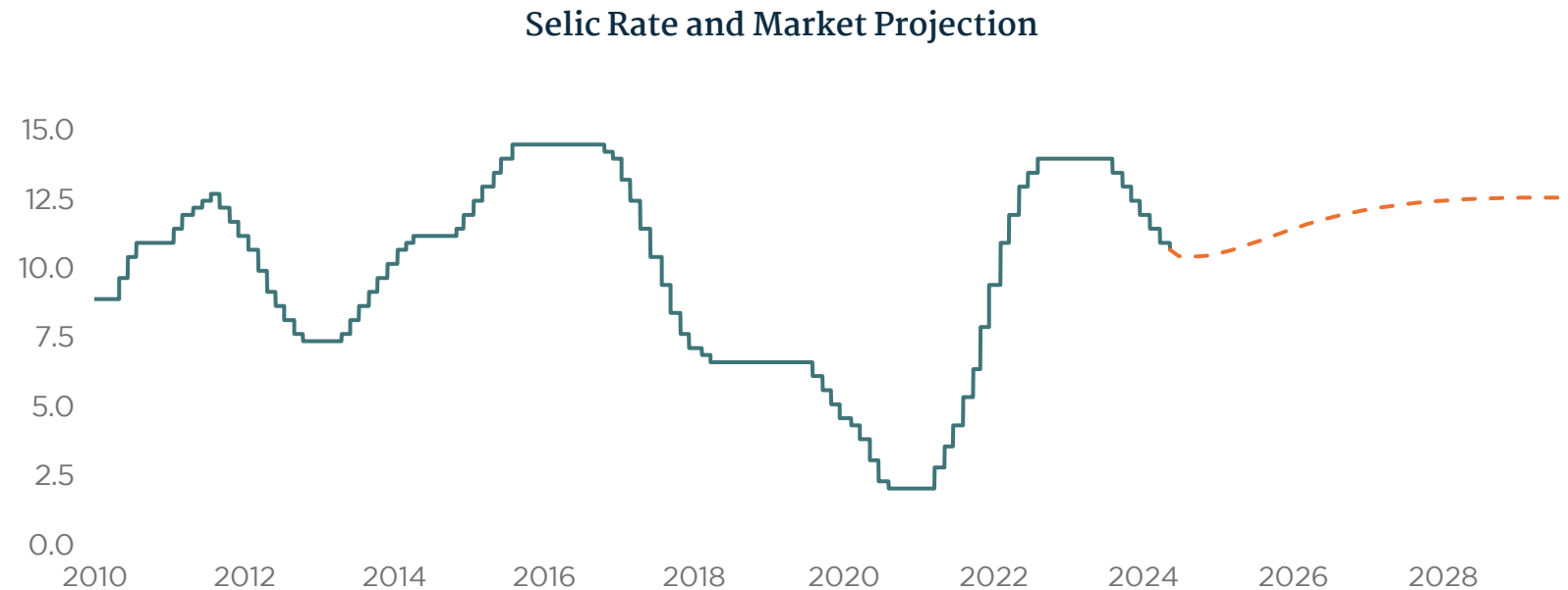


The earnings season for companies traded on the US stock market has come to an end with positive results. Corporate earnings for the period were about 7.5% higher than market expectations compared with an average surprise for the last 10 years of around 6.7%.

Expectations for the year's profits are also on the rise and have increased by about 2% since the start of 2024. This goes against the seasonal pattern of an average fall of 5% over the course of each year. The improved outlook for earnings helps explain the strong performance by the S&P 500 (up 5.6% by the end of April).

Interest rates: COPOM cuts rate by only 25 bps in May, diverging from forward guidance

Markets



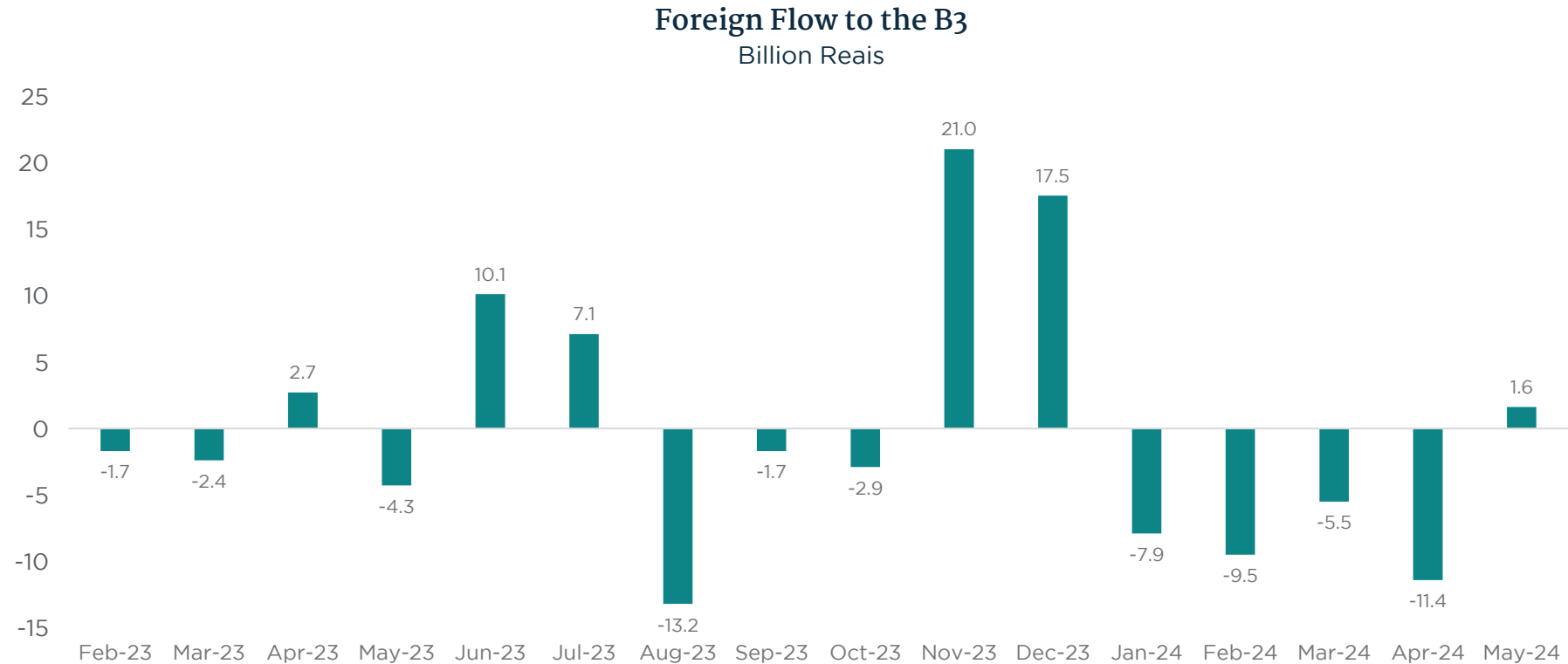
The Brazilian Central Bank's Monetary Policy Committee (COPOM) opted to cut the Selic rate by only 25 basis points at its May meeting, despite indications of a likely cut of 50 basis points* at the previous meeting. The decision resulted from a split vote in which the five members appointed by the previous government voted for a milder cut while the four new members advocated maintaining the forward guidance**. This decision caused unease in the market which felt the vote highlighted the risk of the committee taking a more lenient approach towards inflation starting next year, when the new appointees become the majority. However, the committee was unanimous on the need for caution going forward, reducing the possibility of further cuts in the short term.

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

** "Forward guidance" is a strategy used by central banks to communicate their future monetary policy decisions and influence market expectations.

Stock market: Negative foreign flow helps explain Ibovespa's performance in the year to date

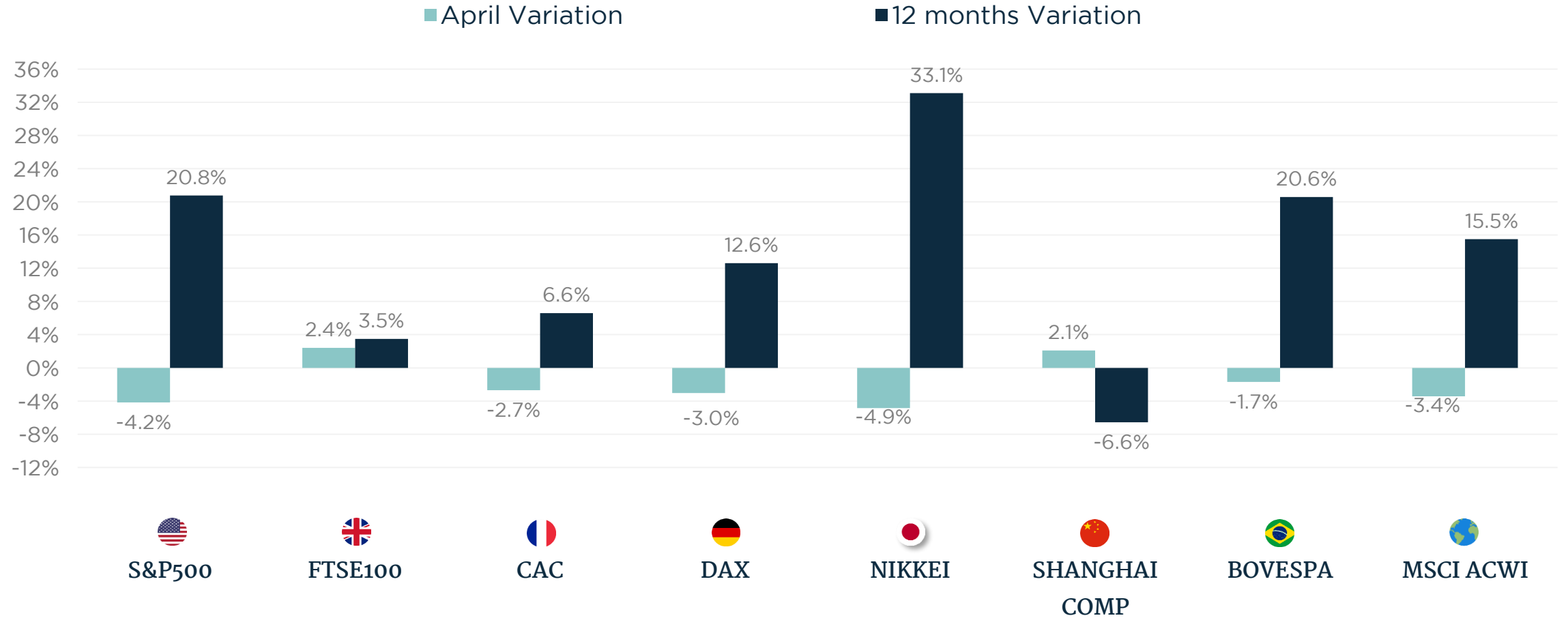
Markets



The first four months of 2024 were marked by a consistent outflow of foreign investment from the local stock market. This negative flow helps explain the negative performance of the index for the year (-6.2% as of the end of April). In contrast, we are observing small signs of reversal in the preliminary data for May.

Stock markets

Markets



Indexes

	Variation April	Value on 30/04/2024	Variation in 2024	Variation 12 months
COMMODITIES				
OIL WTI	-1.5%	81.93	14.3%	6.7%
GOLD	2.5%	2,286.25	10.8%	14.9%
CURRENCIES (IN RELATION TO THE US\$)				
EURO	-1.1%	1.07	-3.4%	-32%
GBP	-1.0%	1.25	-1.9%	-0.6%
YEN	-4.1%	157.80	-10.6%	-13.6%
REAL	-3.5%	5.19	-6.5%	-4.0%
INDICES				
S&P500	-4.2%	5,035.69	5.6%	20.8%
FTSE100	2.4%	8,144.13	5.3%	3.5%
CAC	-2.7%	7,984.93	5.9%	6.6%
DAX	-3.0%	17,932.17	7.0%	12.6%
NIKKEI	-4.9%	38,405.66	14.8%	33.1%
SHANGHAI COMP	2.1%	3,104.82	4.4%	-6.6%
BOVESPA	-1.7%	125,924.19	-6.2%	20.6%
MSCI ACWI	-3.4%	756.61	4.1%	15.5%



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