International Investment Strategy

Brazil-American Chamber of Commerce of Florida

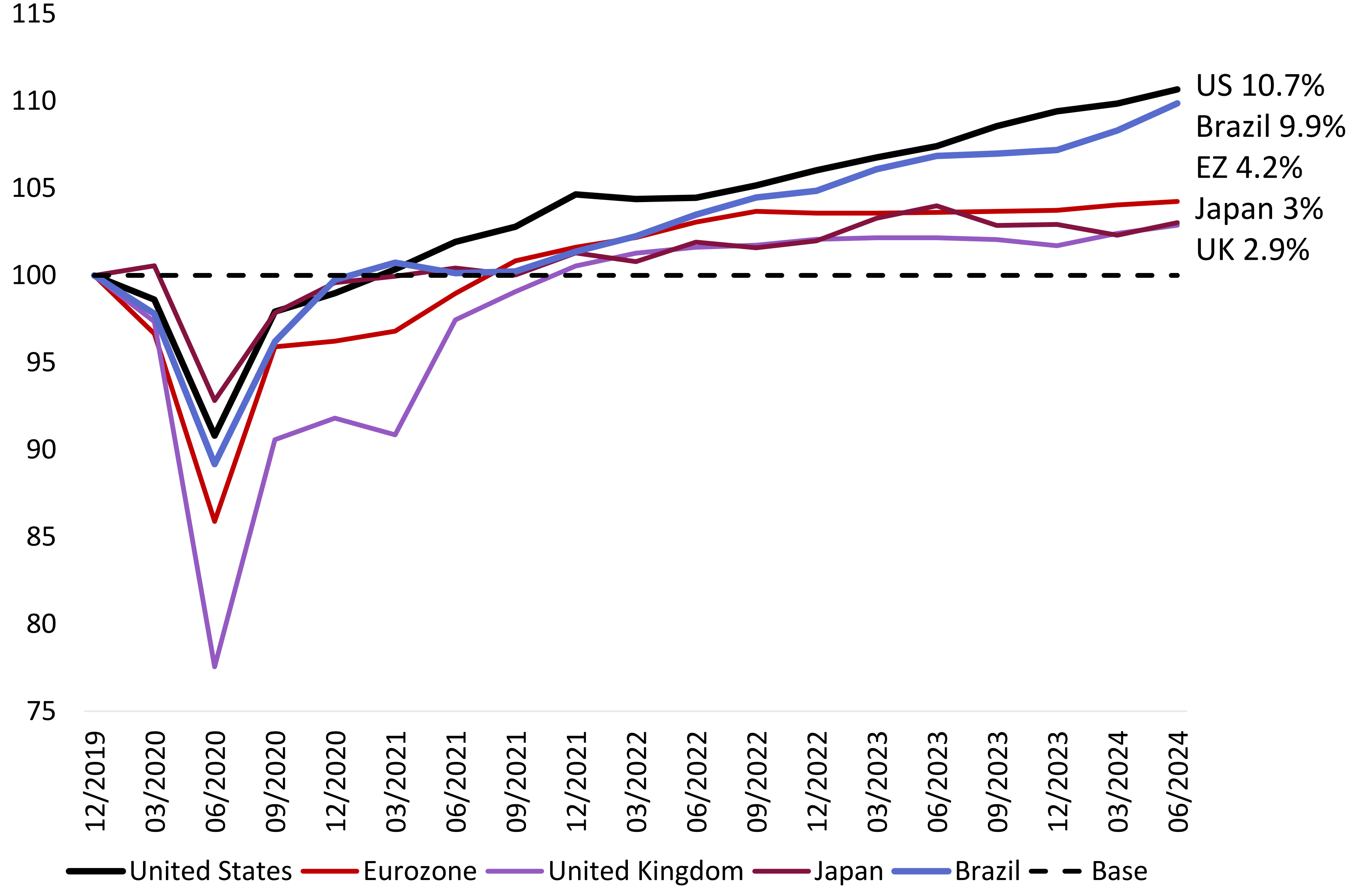
Eiji Aono
Chief Investment Officer
eiji.aono@bradescobank.com

OCTOBER
2024

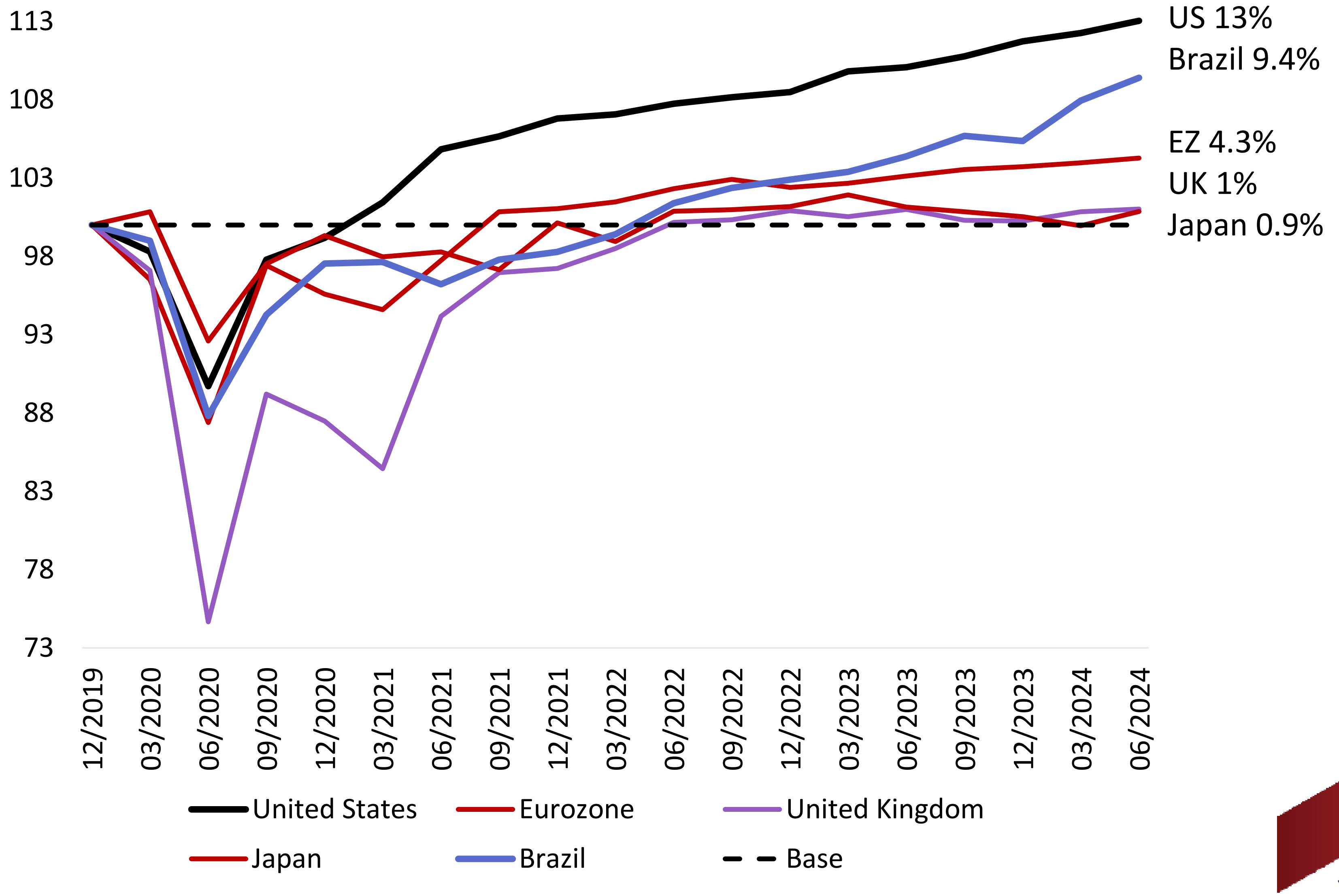
bradesco investments

US economy has been the strongest since the pandemic … driven by consumer spending

GDP growth, US economy 10.7% larger since pandemic, Brazil +9.9%



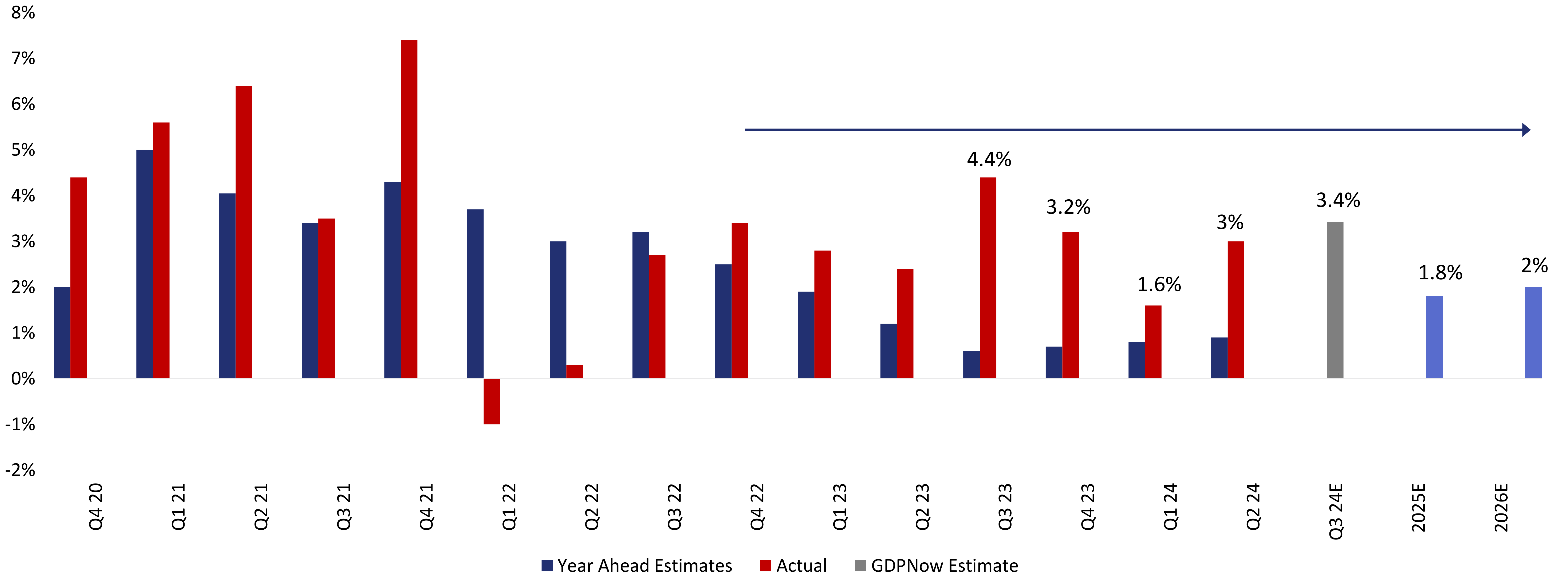
US consumer spending 13% higher vs pre-pandemic, UK/Japan flat



Source: Bloomberg/Bradesco/BLS/Eurostat/UK ONS/ESRI JP/IBGE– 22 October 2024

US economic growth has consistently surprised to the upside

US QoQ annualized GDP and market estimates 1 year prior

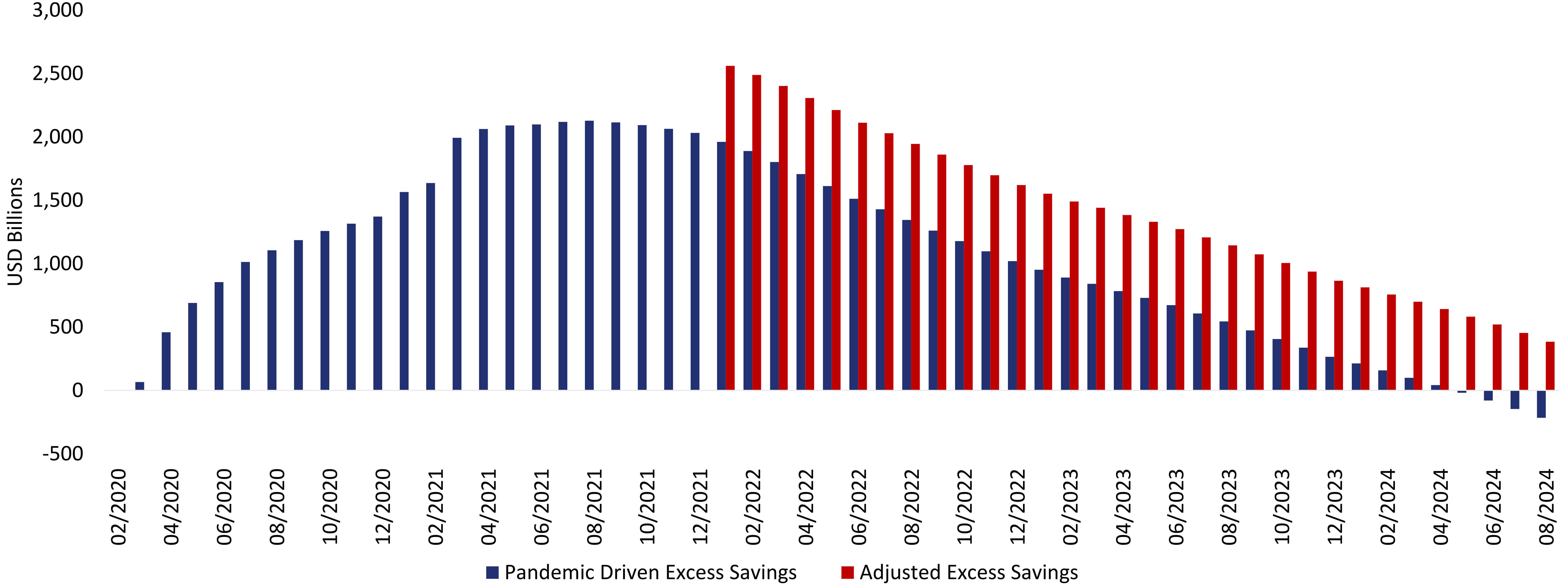


- Economists are still trying to understand the changes to the economy after the pandemic. US growth unexpectedly slowed in early 2022, but since then growth has been much stronger than expected.
- The economy was largely expected to fall into a shallow recession by mid to end-2023, but instead was growing at a 3-4% annualized pace and this strong growth has continued in 2024.
- Economic growth should slow in the coming years but may avert a recession as the jobs market and consumer spending remain strong.

Source: Bloomberg/Bradesco/BLS/Atlanta Fed – 22 October 2024

Excess savings and low mortgage rates have helped, but funds now running down

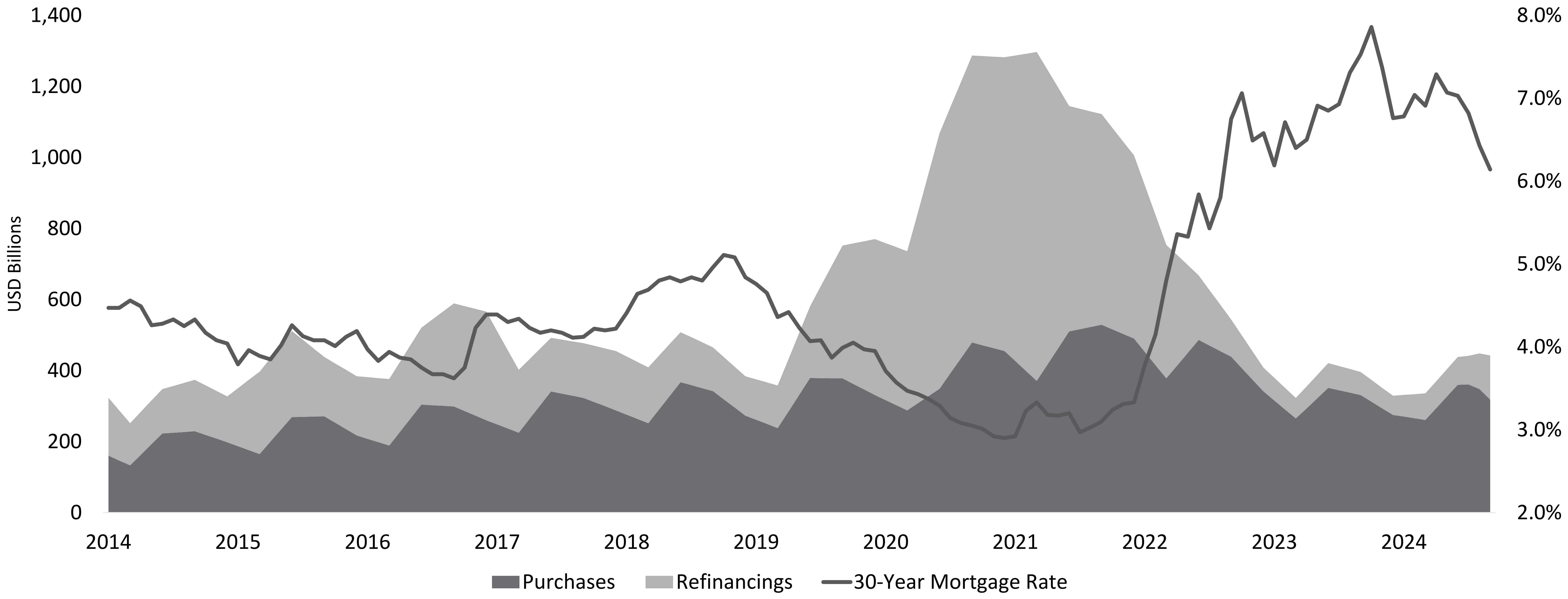
Consumer excess savings reached $2 trillion during the pandemic; low mortgage costs added another $600 billion



- Pandemic assistance: $1.8 trillion families, $1.7 trillion businesses, $750 billion state/local governments, $500 billion healthcare

Source: Bloomberg/Bradesco/FRBSF – 22 October 2024

$9 trillion in mortgages at historic low rates 2020-2022 helped homeowners continue spending



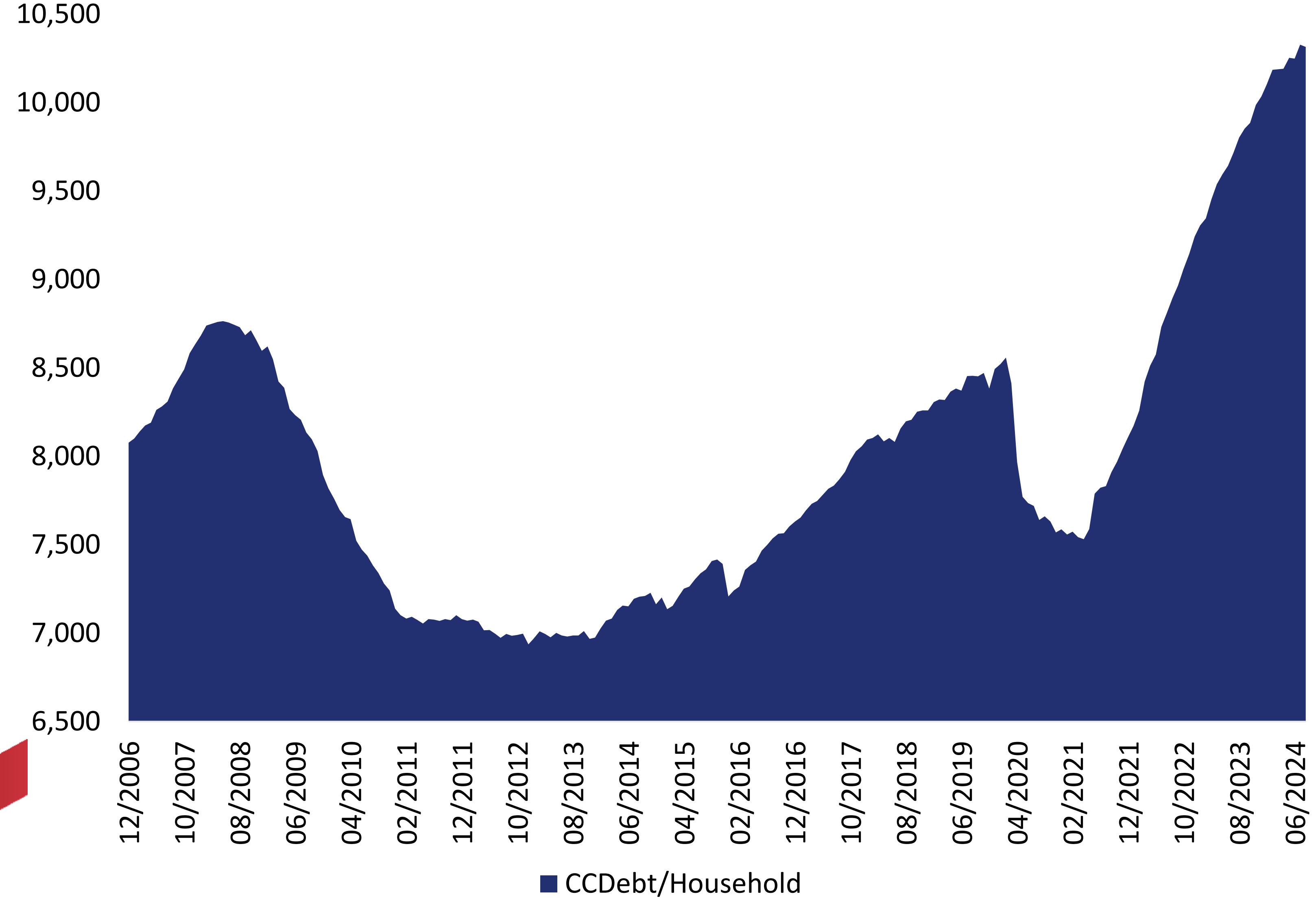
- 2Q 2020 – 1Q 2022 when mortgage rates fell to historic lows around 3% or below, there were $9 trillion in mortgages, $5.4 trillion were re-mortgages.
- Compares to $12 trillion in total mortgages outstanding.
- Homeowners / mortgage holders have very low mortgage costs, helping them continue spending.

Source: Bloomberg/Bradesco/Fannie Mae/MBA – 22 October 2024

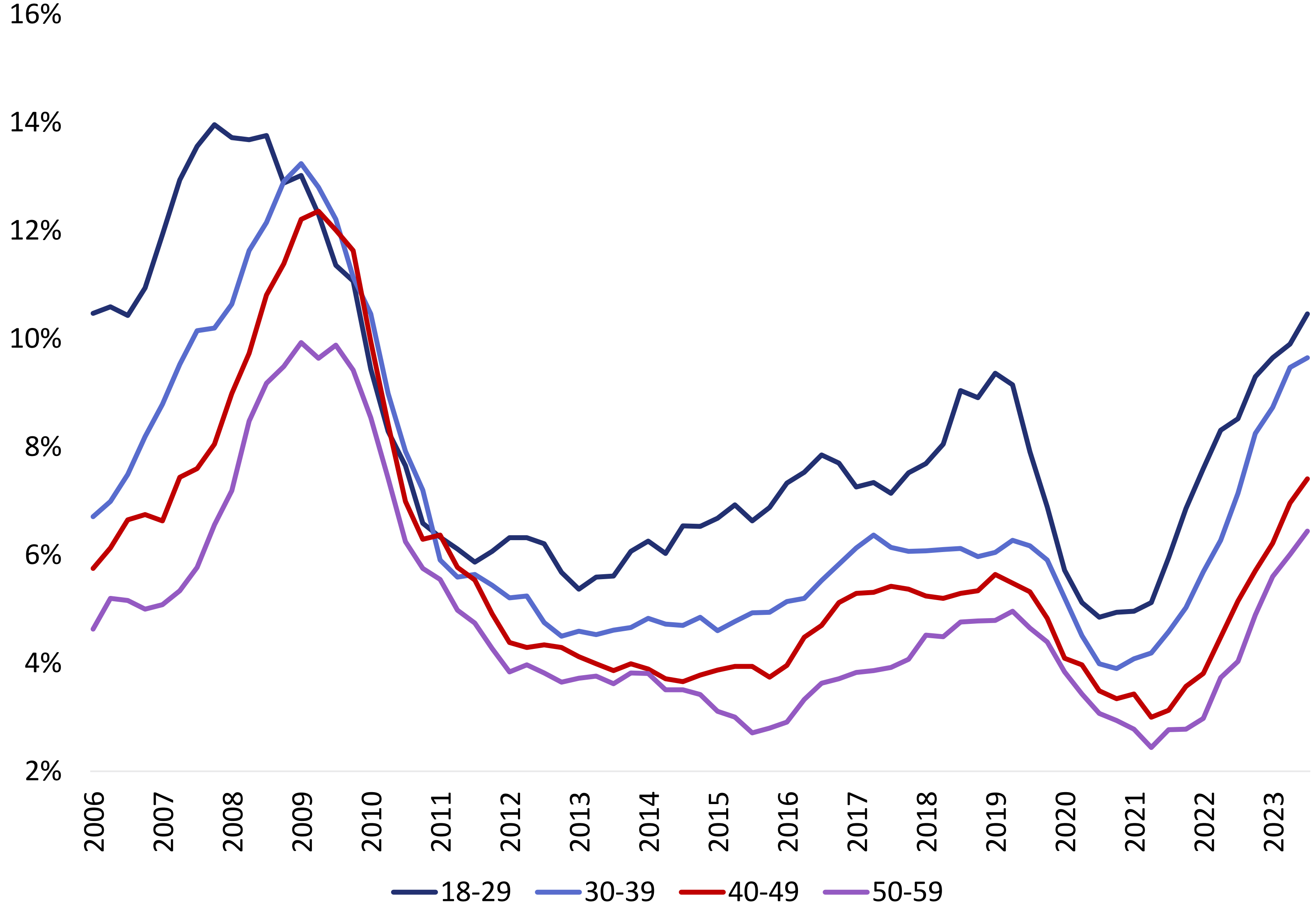
bradesco investments

Consumers relying on credit cards to continue spending

Credit Card debt / household reaching record highs



Credit card delinquencies (90 day) above pre-pandemic peaks



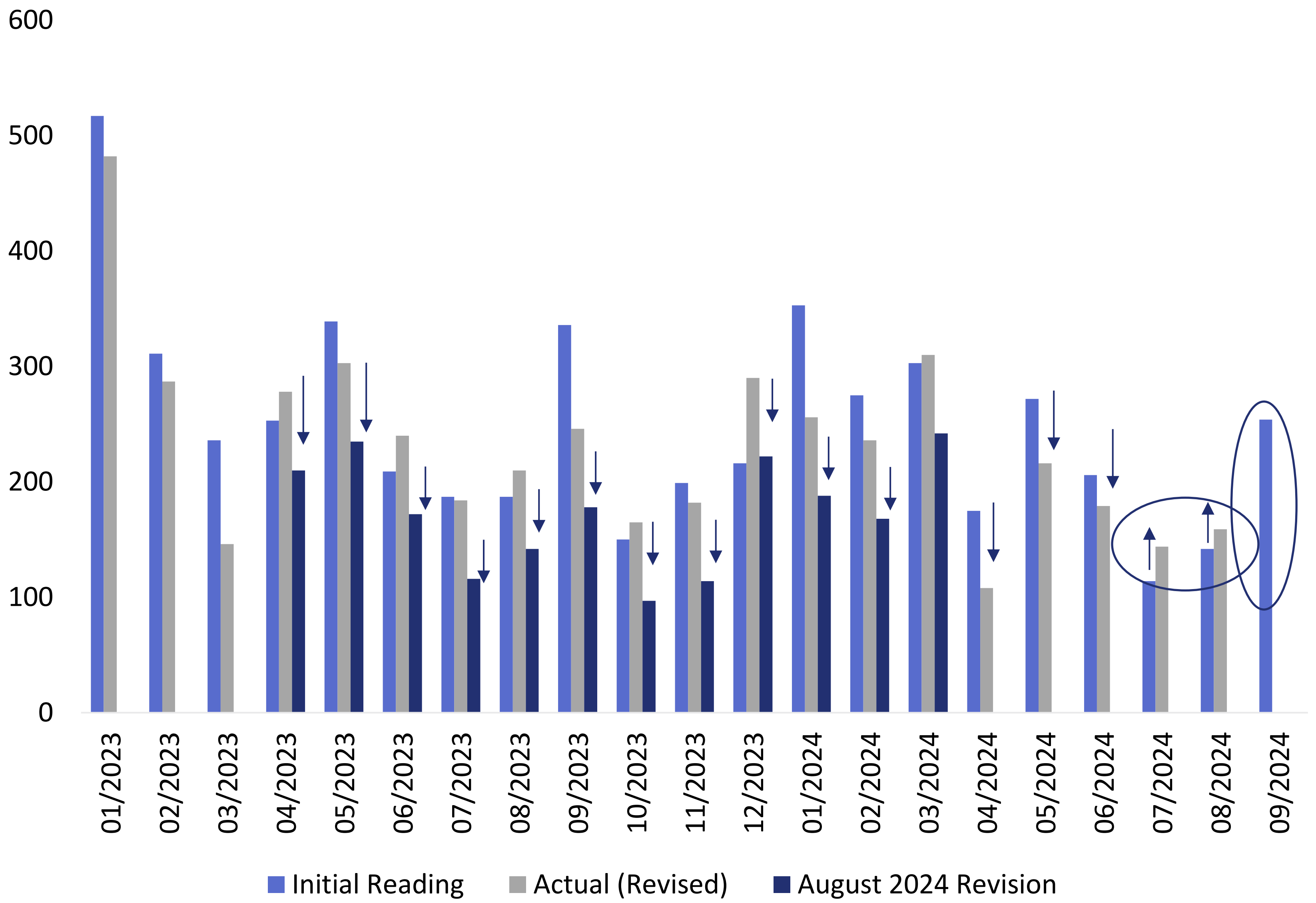
- Credit card usage has skyrocketed as consumers used up their pandemic era excess savings and continue to spend. CC debt/household above $10,000.
- Delinquency rates rising as high interest rates, high balances, and high overall costs put more consumers at risk.
- Auto-loan delinquencies show similar patterns.

Source: Bloomberg/Bradesco/U.S. Fed/U.S. Census Bureau/FRBNY/Equifax – 22 October 2024

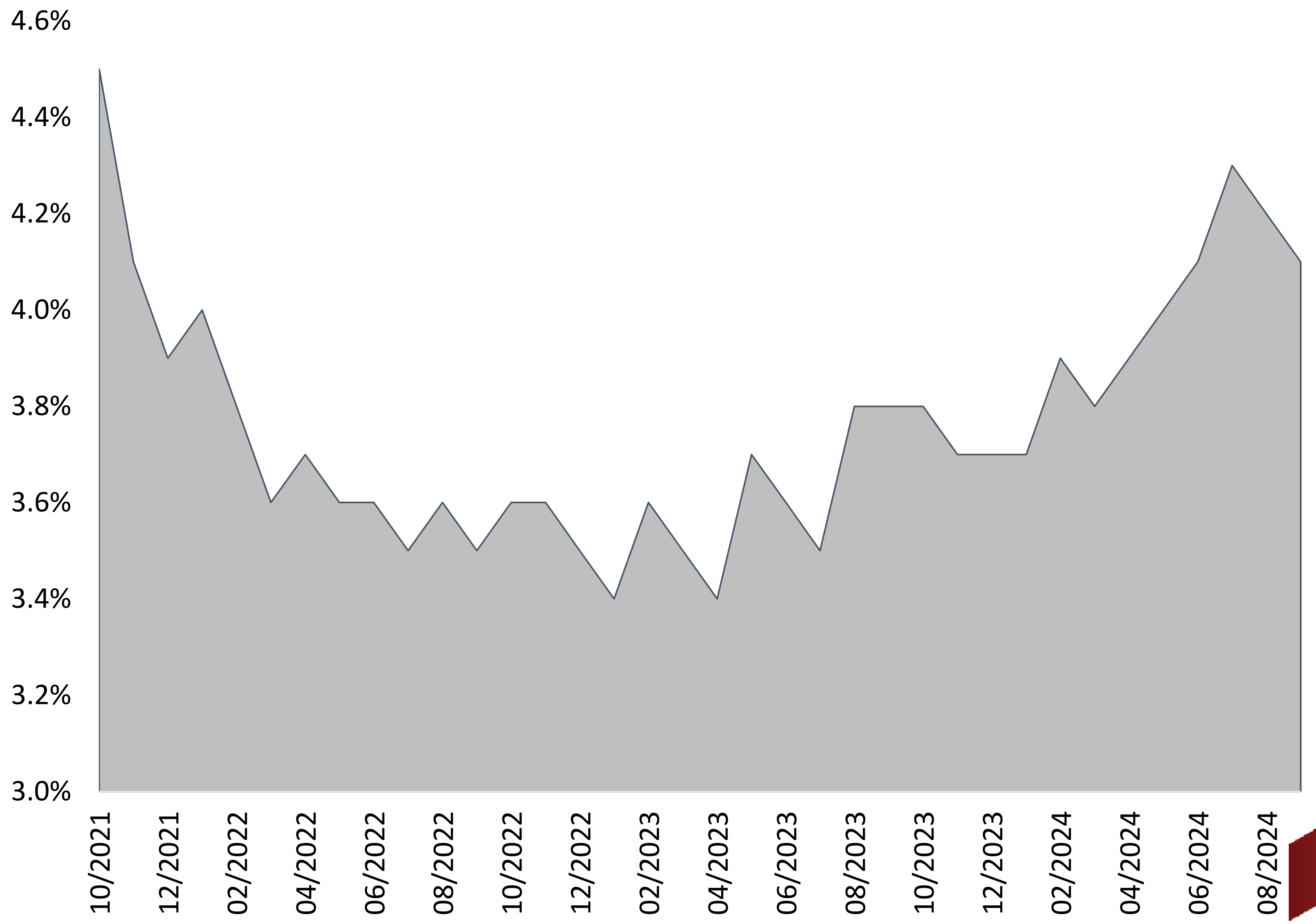
bradesco investments

US jobs market showed surprising strength in September after recent weakness

254k jobs in September and first upward revision since March



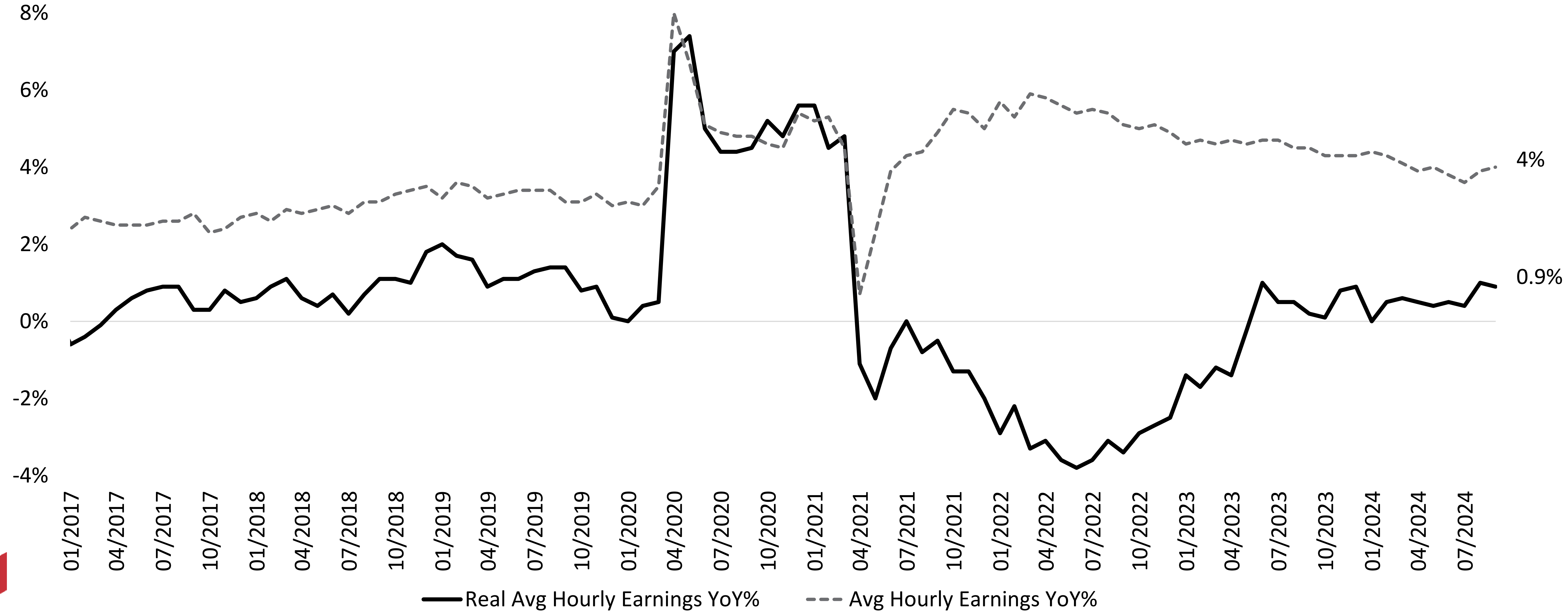
The unemployment rate fell to 4.1% in September after rising to 4.3% in July



- The Fed cut rates by 0.50% at its September 18 meeting, due mainly to concerns about the jobs market. But the September jobs report (released early October) showed surprising strength as 254k jobs were created, upward revisions to the previous 2 months, and the unemployment rate dropped to 4.1% from 4.2% in August and 4.3% in July.
- There are still more jobs available (8mn) than jobless (6.8mn), which should keep the unemployment rate from rising significantly higher.

Source: Bloomberg/Bradesco/BLS – 22 October 2024

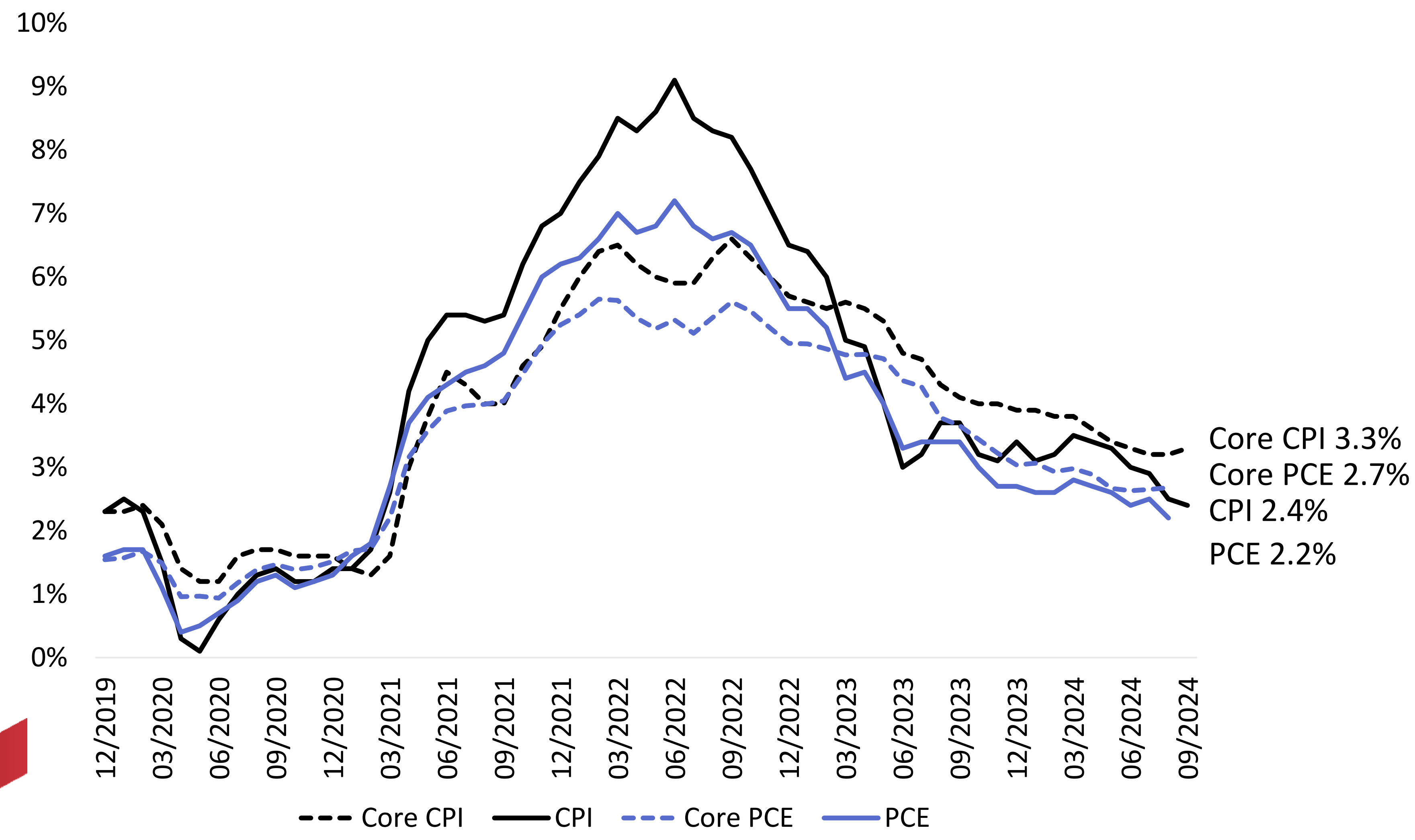
Wage growth helping consumer spending



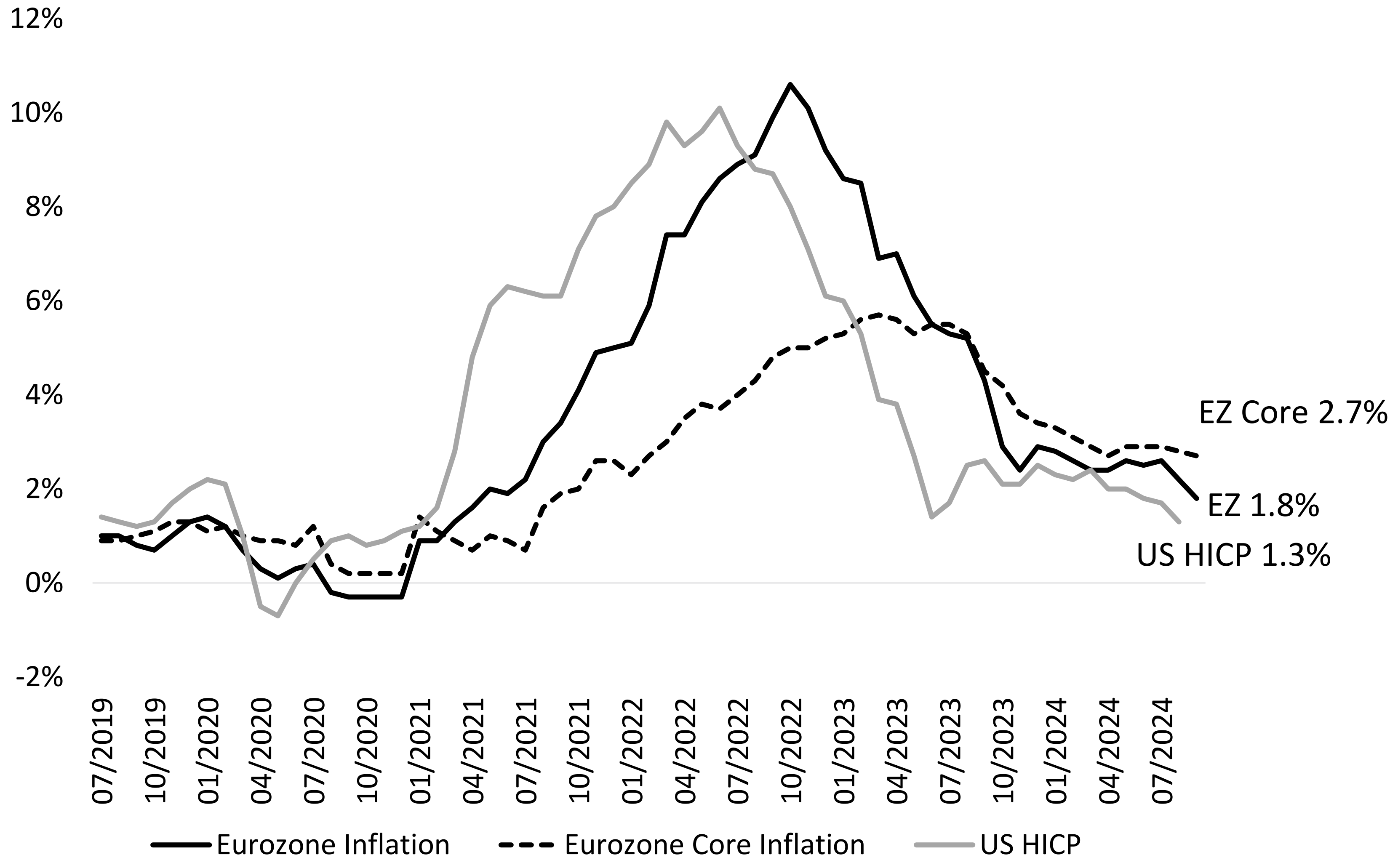
- Wages are still growing 4% YoY, down from 6% in 2022.
- Real wages (after inflation) were negative during the peak of inflation in 2022/2023, but with inflation declining and wages still growing, real wage growth is about 1%.
- Continued nominal and real wage growth is helping consumers continue spending, despite running down excess savings and high credit card debt levels.

Inflation down from peaks, but reaching 2% target could be a challenge

US inflation stabilizing around 3%



Eurozone inflation falling as economy slows

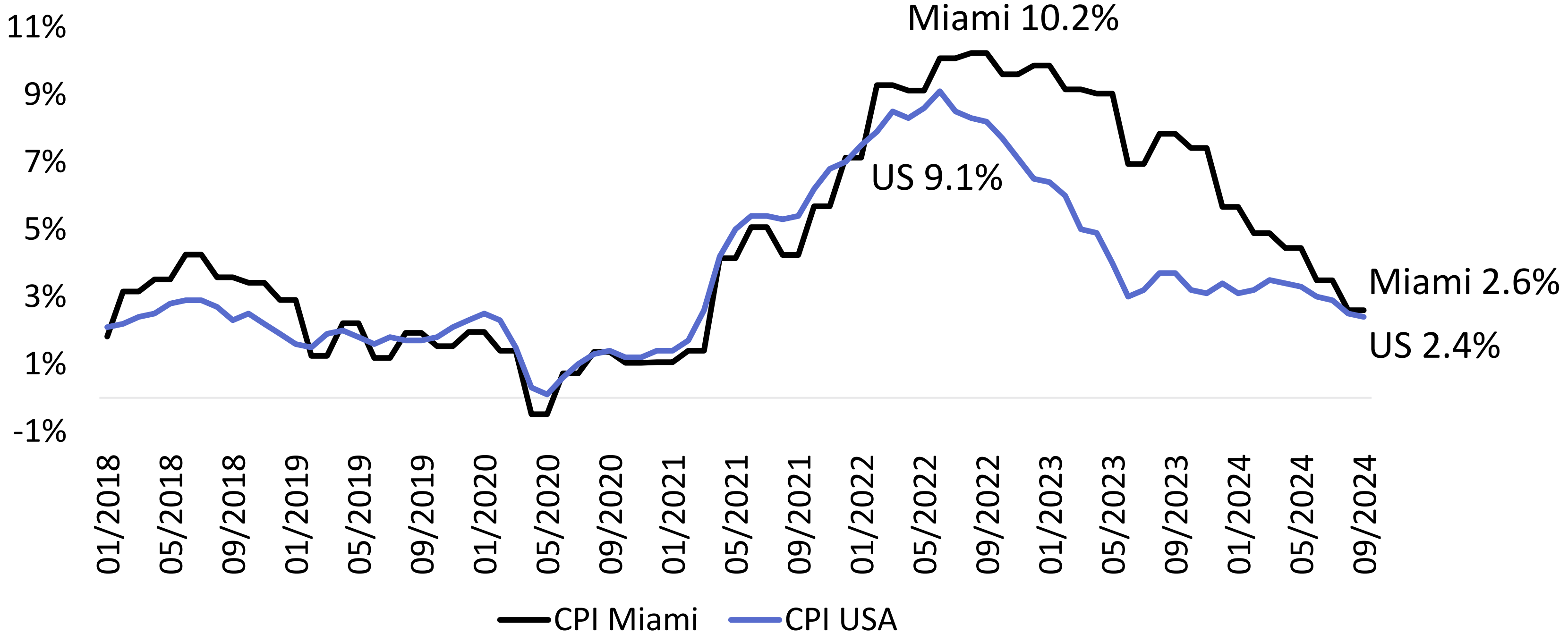


- US CPI fell to 2.4% in September, but Core CPI is stabilizing above 3%. Core PCE is at 2.7%. Further declines to the 2% target could be difficult to achieve.
- Eurozone inflation is now under 2%, but Core inflation is at 2.7%. US inflation on European methodology is 1.3% as of August. Most of the difference is due to shelter/housing costs, which are still elevated in the US.
- Core US CPI MoM annualized has increased to 3.8% while Core PCE is just under 2%. The rising trend for CPI shows inflation pressures continue. Most of the higher inflation pressures are coming from Core Services which is at 4.75% YoY and 4.4% MoM annualized.

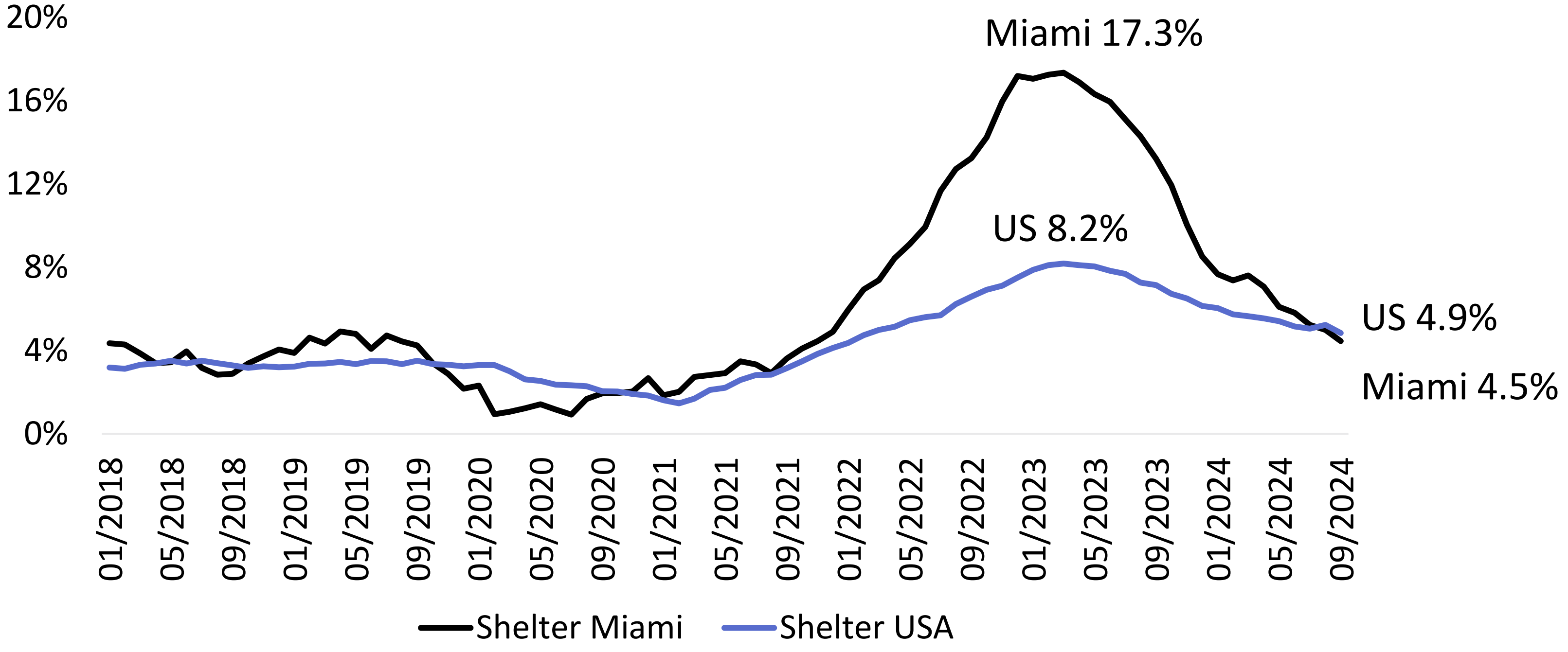
Source: Bloomberg/Bradesco/BLS/Eurostat – 22 October 2024

Miami had the highest inflation in the US, due to Shelter, but now returning to average

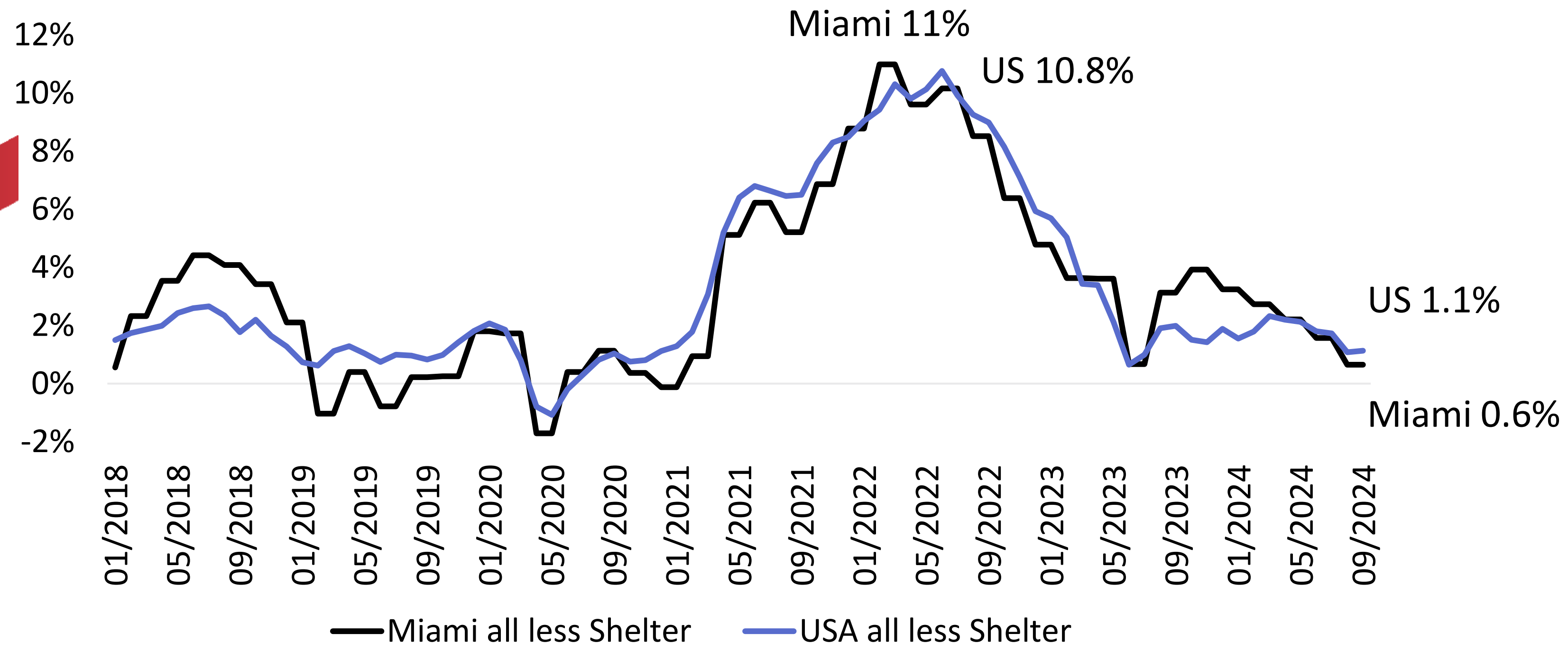
Miami inflation has returned to US average, YoY %



Miami Shelter inflation was the largest driver of inflation, YoY %



Ex. Shelter, Miami inflation is slightly below national average, YoY %

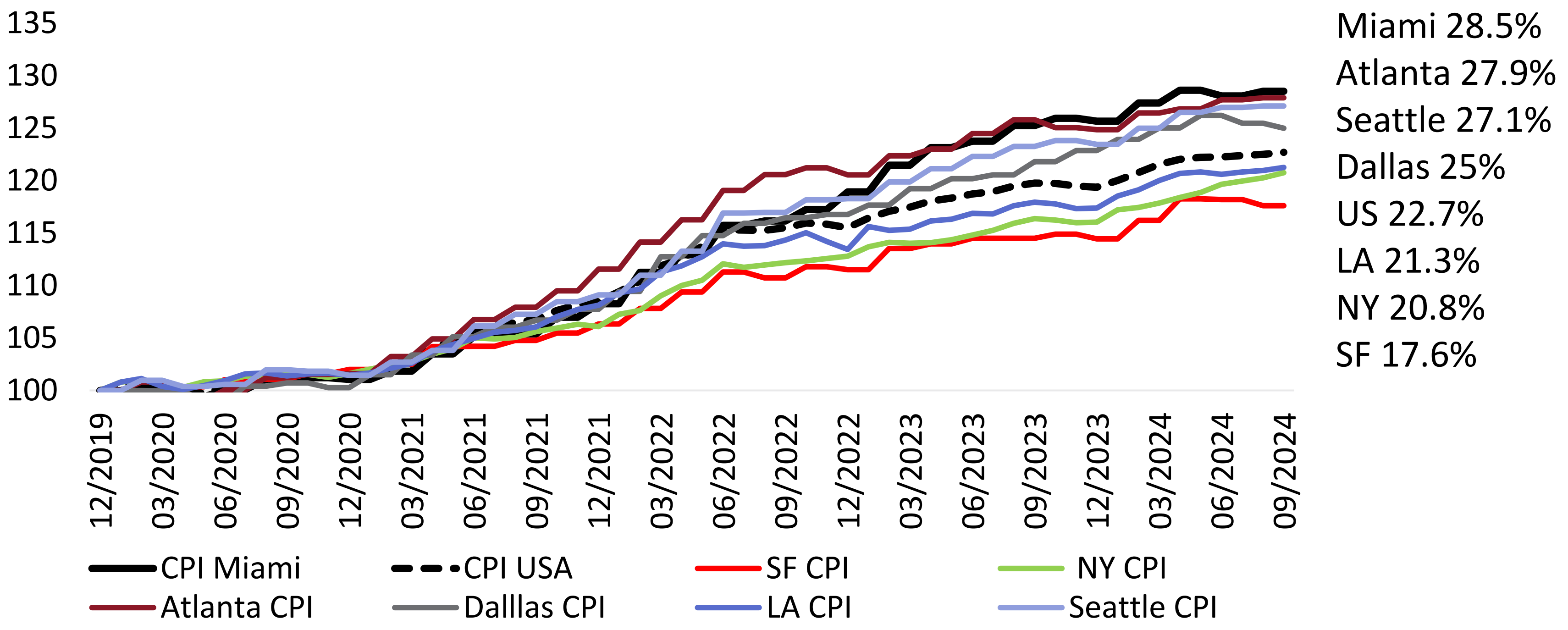


- Miami had been suffering through the highest inflation in the country for the past 3 years, mainly due to very high Shelter inflation, which had peaked at over 17% YoY in 2023
- Note that over 1/3 of the inflation basket is Shelter. And over 25% is Owners Equivalent Rent, which is a survey of homeowners. Actual homeowner costs are less while for those renting, costs are higher.
- Inflation ex. Shelter is not far different from the national average and is even slightly below average more recently

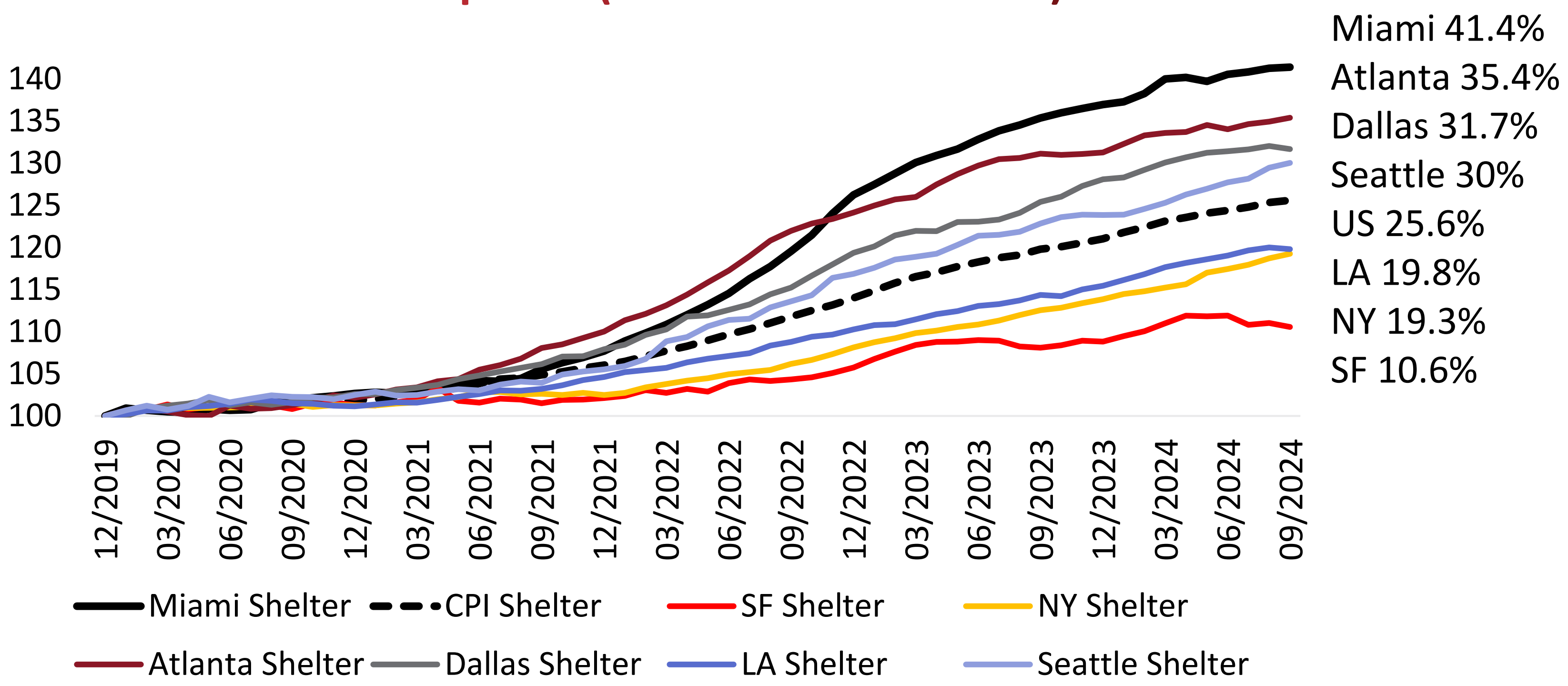
Source: Bloomberg/Bradesco/BLS – 22 October 2024

Inflation has cooled, but costs in Miami are higher (again due to Shelter)

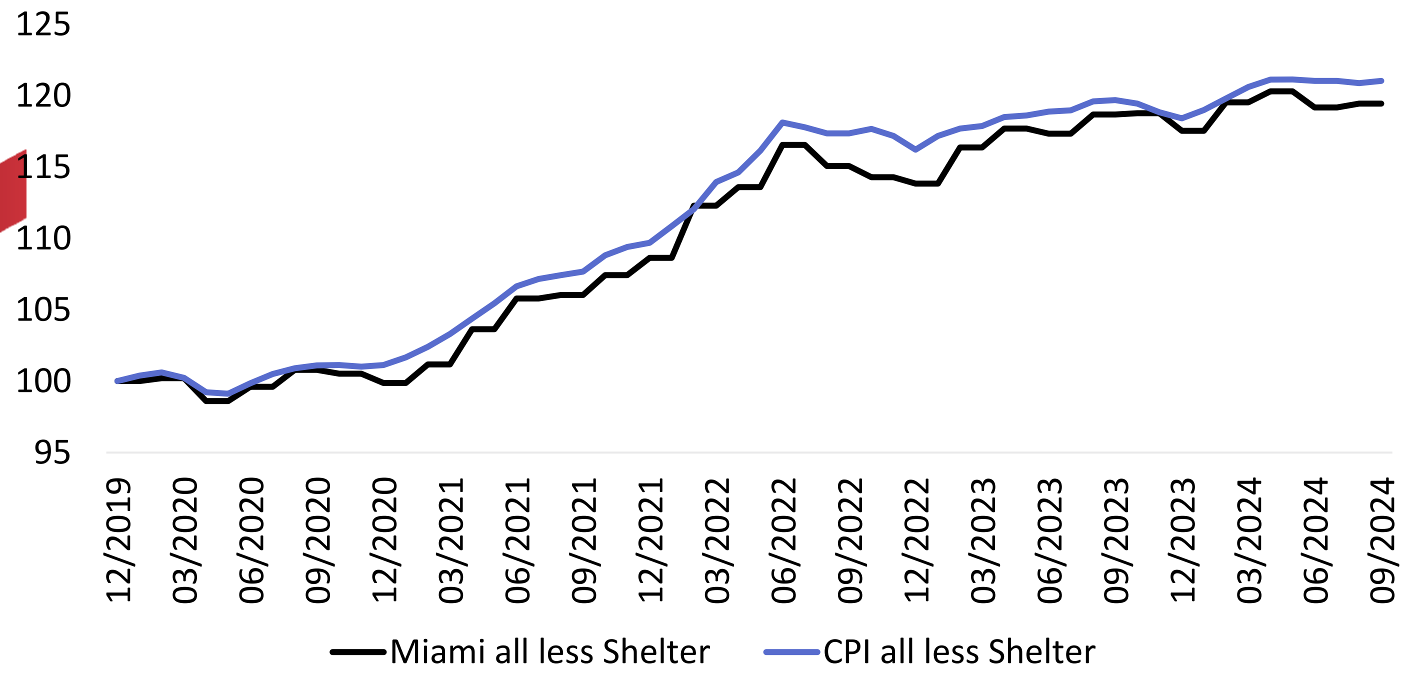
Miami cost up 28.5% since pandemic (vs 22.7% for overall US)



Miami Shelter costs up 41% (vs 25% for overall US)



Ex. Shelter, Miami costs up 19% (vs 21% for overall US)

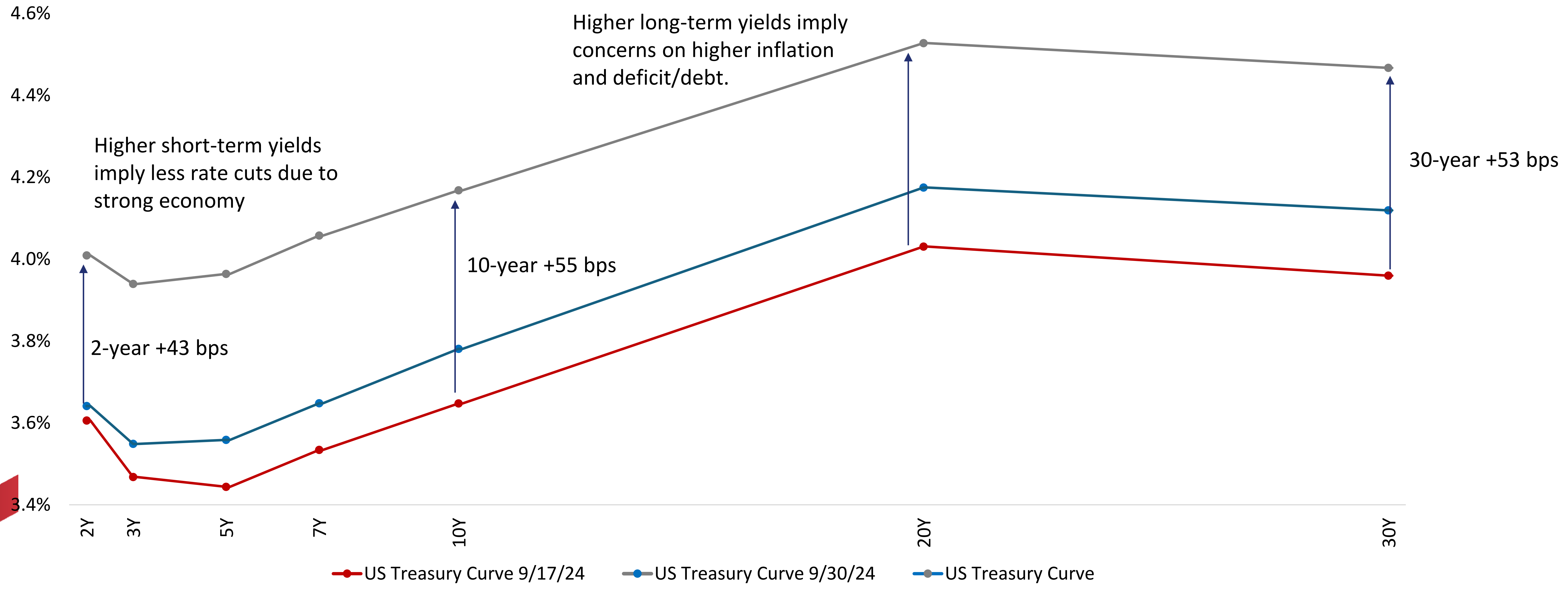


- Year-on-year inflation has moderated in Miami and is now near the national average.
- But overall costs are much higher than pre-pandemic, mainly due to Shelter.
- Shelter costs up 41%, but rental costs up 44% vs pre-pandemic.
- Homeowners with low rate mortgages (or no mortgages) have seen far lower cost increases.

Source: Bloomberg/Bradesco/BLS – 22 October 2024

Fed cut by 50 bps. Why are Treasury yields are rising?

Fed is aggressively cutting … yields are rising? Higher yields may be a feature of the economy going forward

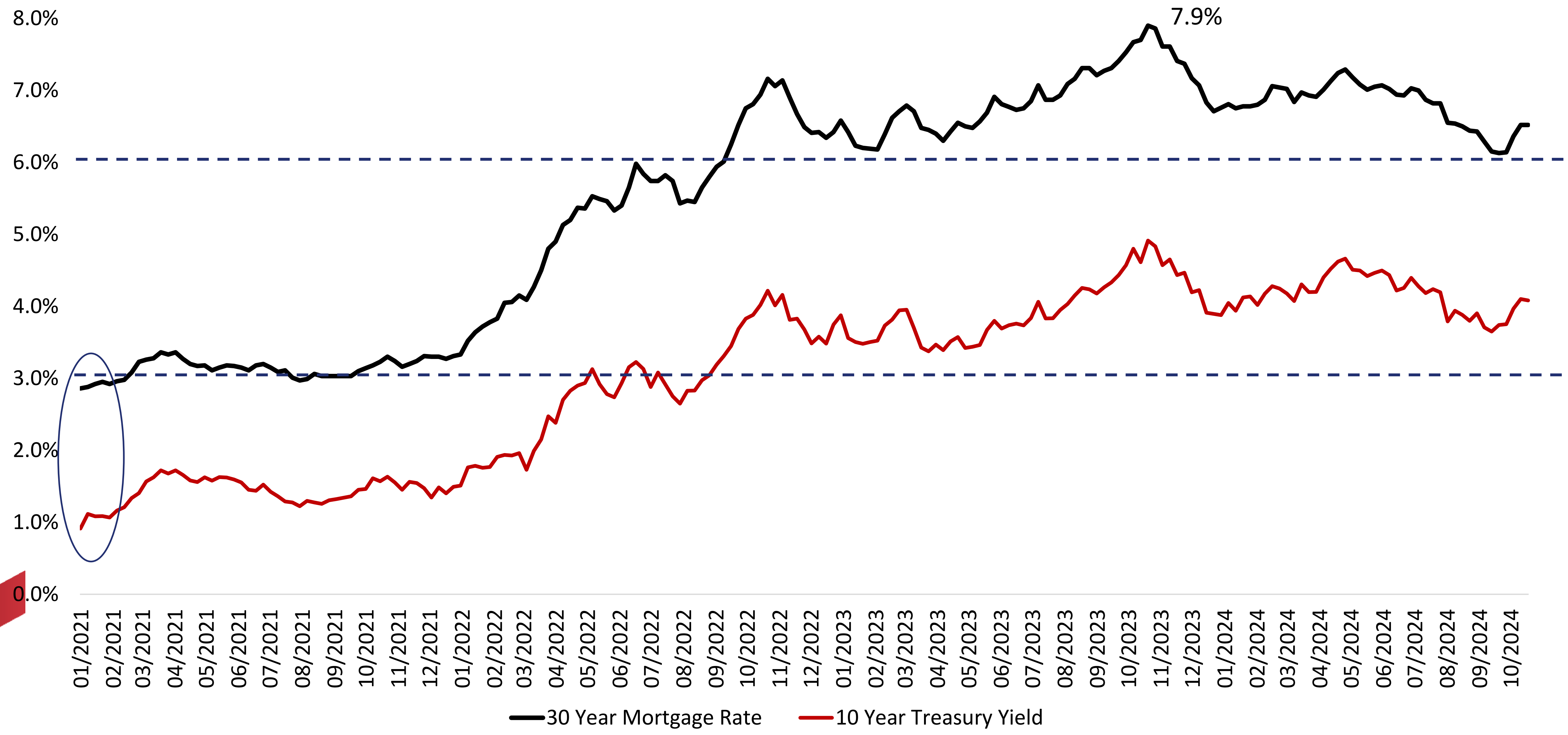


- Fed cut rates by 50 bps on Sept 18 and indicated it could cut a further 50 bps in 2024 and then a further 100 bps in 2025, reaching 3.25%-3.5% by end 2025. At first, market pricing said the Fed would cut more than this. But with stronger economic data, market pricing implies the Fed may not cut rates so aggressively.
- Market assumptions of less rate cuts due to the stronger than expected jobs report, higher CPI inflation, and stronger retail sales has led to yields rising rather than falling.
- What if the Fed stops cutting rates at 3.75%, or 4% or 4.5%?? Yields could rise further on any higher inflation data or stronger economic growth or depending on the election results. **10-year Treasury yields could be closer to 4.5% rather than 3.5% going forward.**

Source: Bloomberg/Bradesco – 22 October 2024

Mortgage rates may have already reached lows. 6%-7% mortgage rates may be the new normal

30-year fixed rate mortgages move with the 10-year US Treasury yield. Sub 6% mortgages unlikely unless the economy falls into recession.



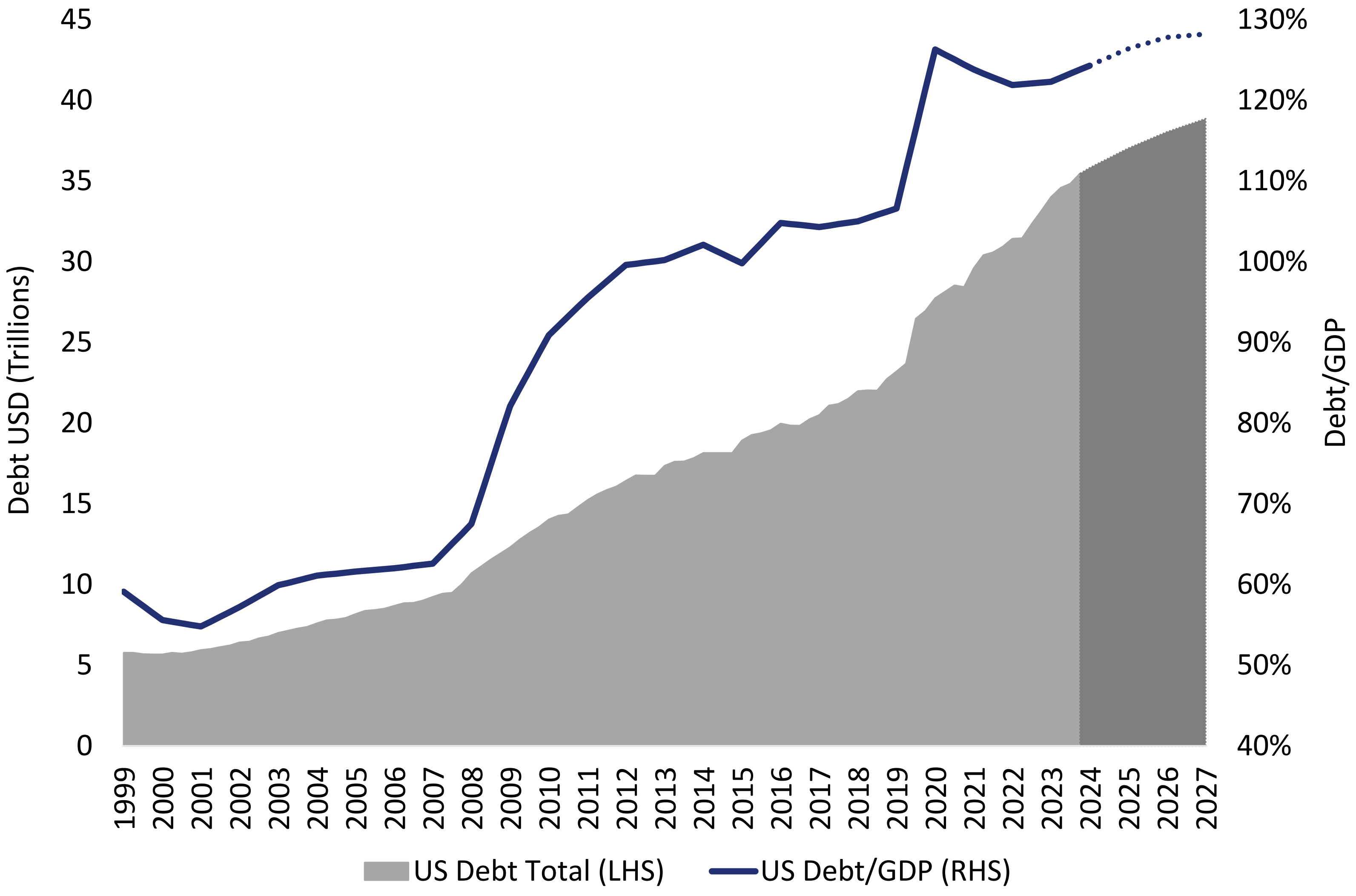
30-year fixed mortgage rates may stay above 6%

- 30-year mortgage rates reached below 3% in late 2020/early 2021 as 10-year Treasury yields reached under 1%.
- 30-year mortgage rates have been between 6%-8% since September 2022, peaking at 7.9% in Oct 2023.
- Those who took out 6%-8% mortgages over the past 2 years may have been counting on mortgage rates to fall back to 5% or below so they could re-mortgage. But this may not happen. Higher yields mean mortgage rates could stay in the 6-7%+ range going forward.

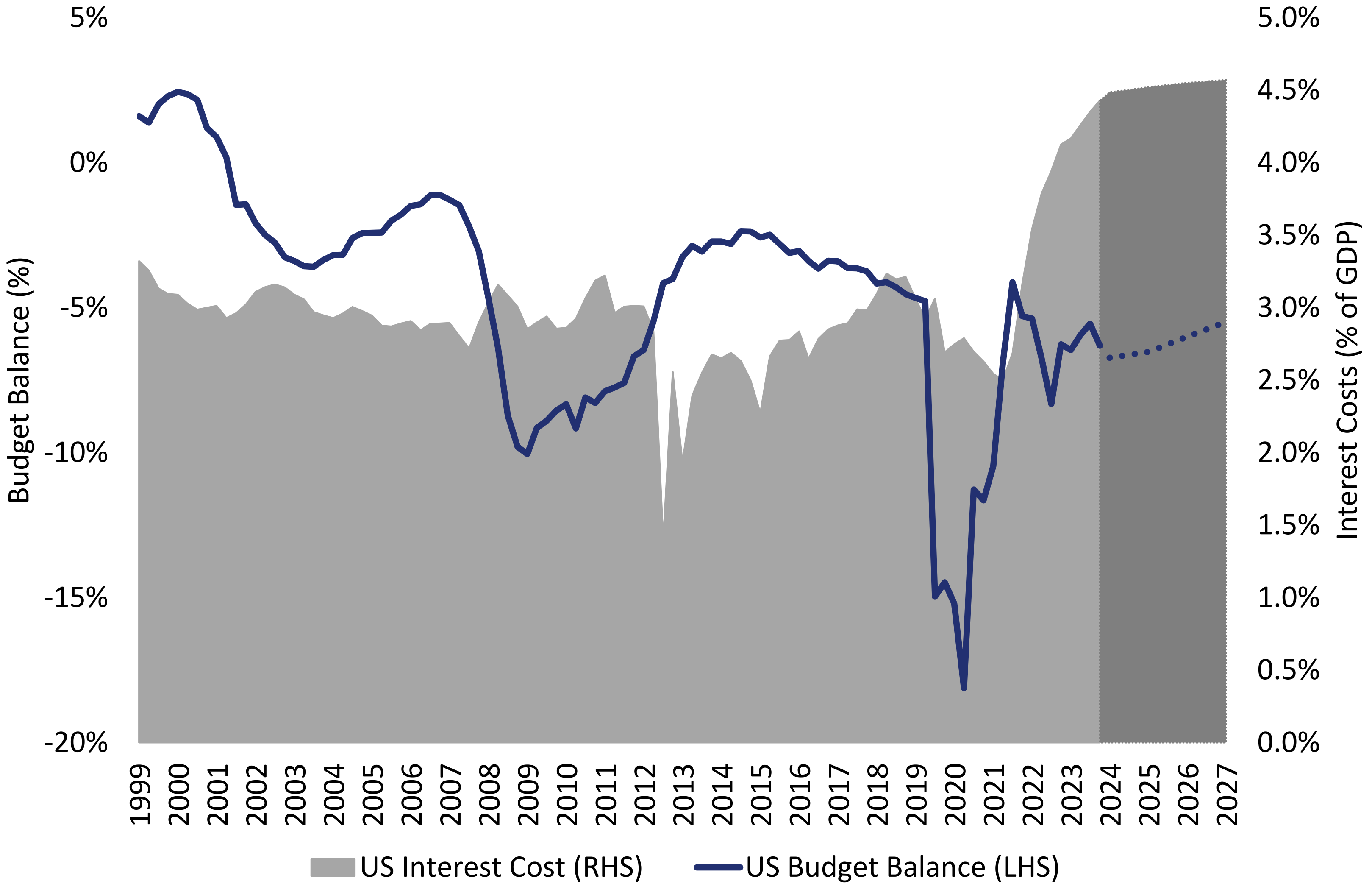
Source: Bloomberg/Bradesco/MBA – 22 October 2024

Rising US Federal debt means more Treasury issuance, upward yield pressure

Total US Debt reaching $36trn, debt/GDP at 124%



Interest costs set to rise with higher rates and yields



- Normally, in times of strong economic expansion, the US budget balance should be near 0% or even positive (a surplus). The US is running a 7% budget deficit despite very strong economic growth. And this is expected to only marginally improve over the coming years if at all.
- Total federal debt has thus expanded to $36 trillion and could reach $40 trillion in the coming years. Interest costs alone for the debt could reach $1 trillion in 2025 and above 4% of GDP. As a reference, Social Security $1.5trn, Medicare $875bn, National Defense $875bn
- Higher bond yields could mean even higher interest costs in the future.

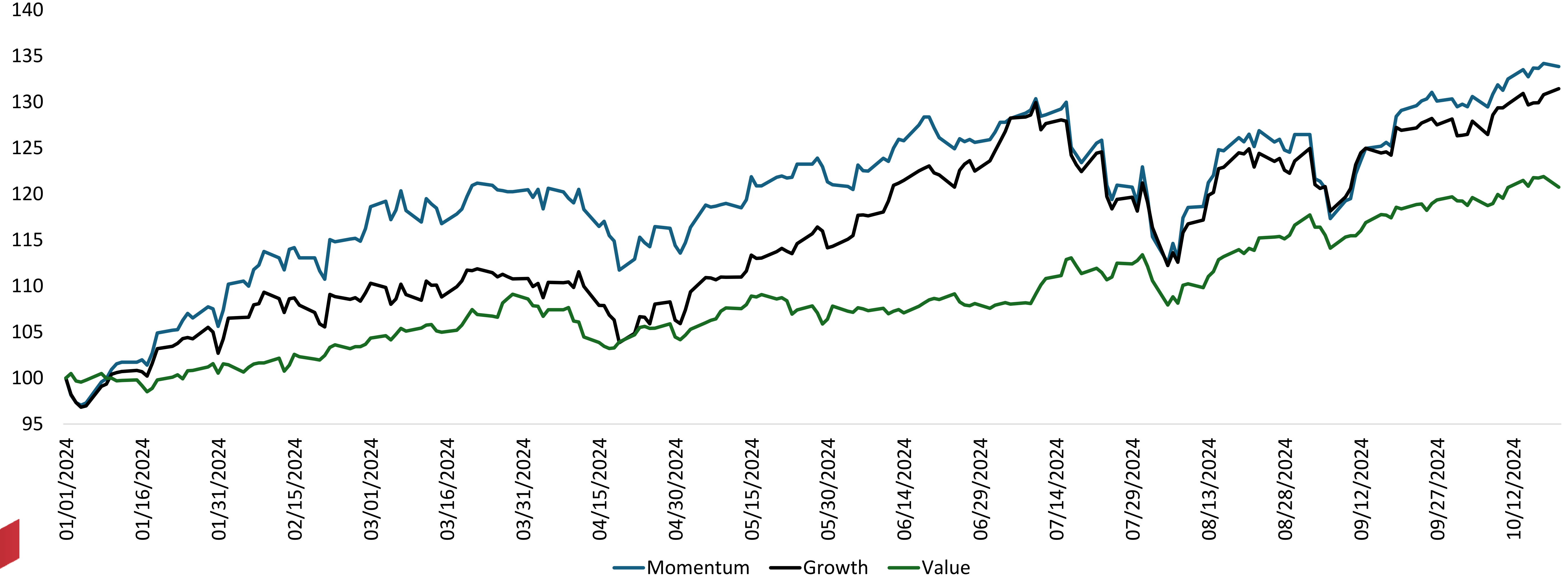
Source: Bloomberg/Bradesco/US Treasury/Congressional Budget Office

Organization for Economic Co-operation and Development – 22 October 2024

bradesco investments

Equity markets like the rate cuts: Value rotation continues

Momentum and Growth peaked in June, declined and have recovered. Value has been rising steadily

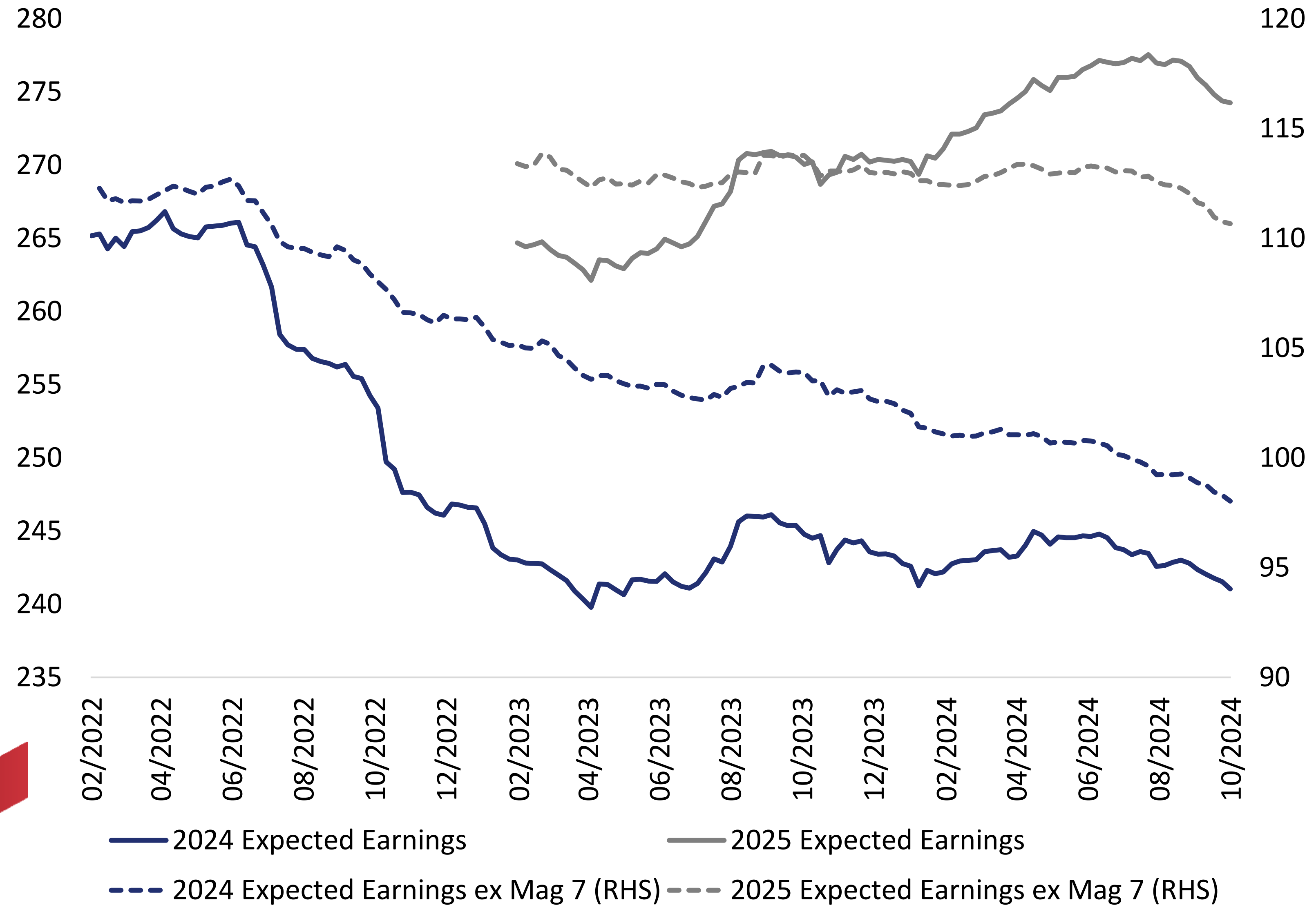


- US equity markets (S&P 500) are up over 20% this year. Up to June, the performance was led by the Momentum and Growth factors as large technology stocks gained due to the euphoria around artificial intelligence.
- But since June, Value has gained strongly as more defensive and value-oriented parts of the market have come back into favor. Momentum and Growth are back near their highs for the year and are up 34% and 30% respectively but Value is catching up, rising 21% so far this year.
- Equity investors are counting on the Fed to continue aggressive rate cuts and for the economy to continue growing without falling into recession.

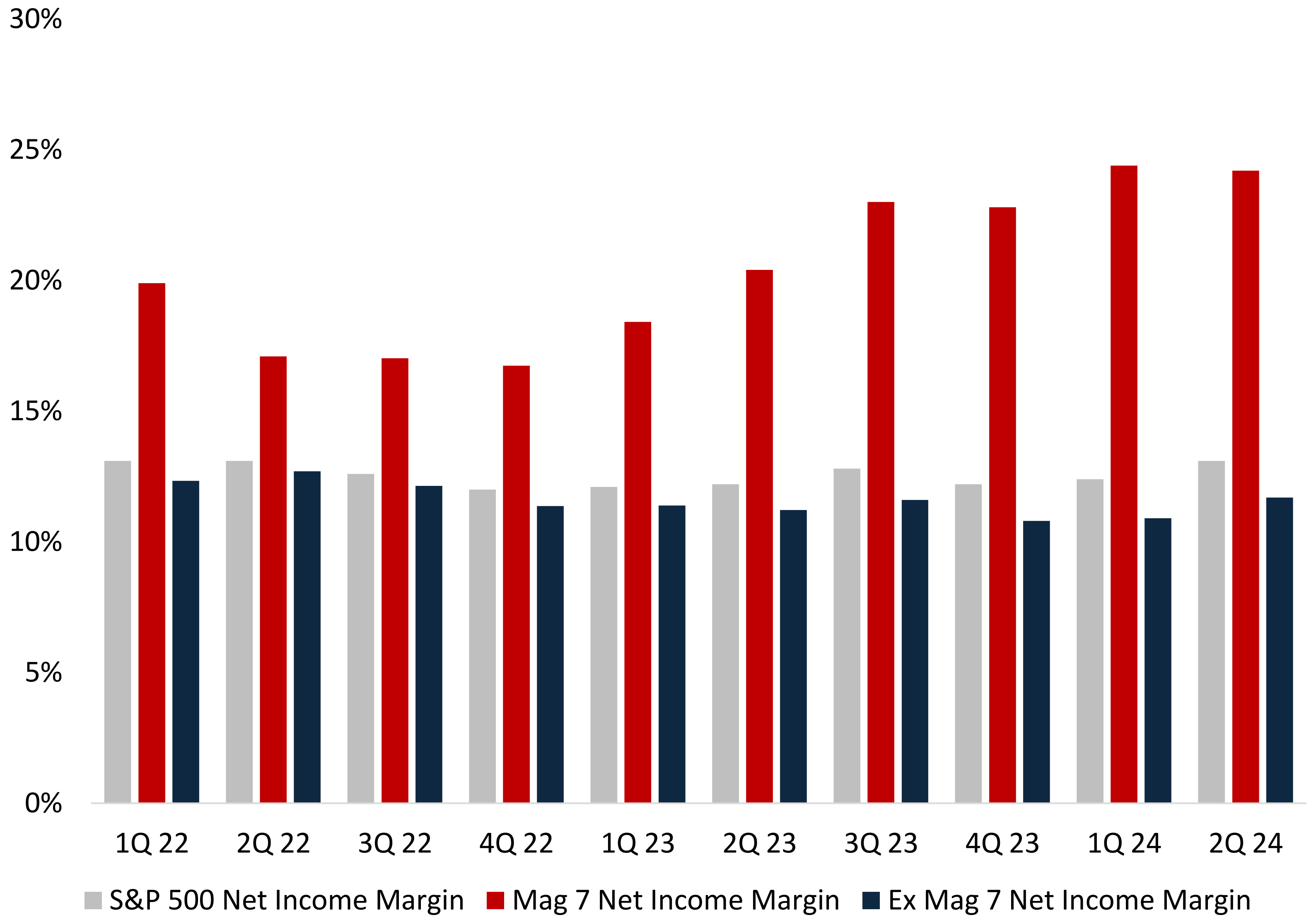
Source: Bloomberg/Bradesco/MSCI – 22 October 2024

S&P 500 margins and earnings relying on Mag-7 strength

S&P 500 earnings outlook weak, apart for Mag-7



S&P 500 profit margins rising due to Mag-7



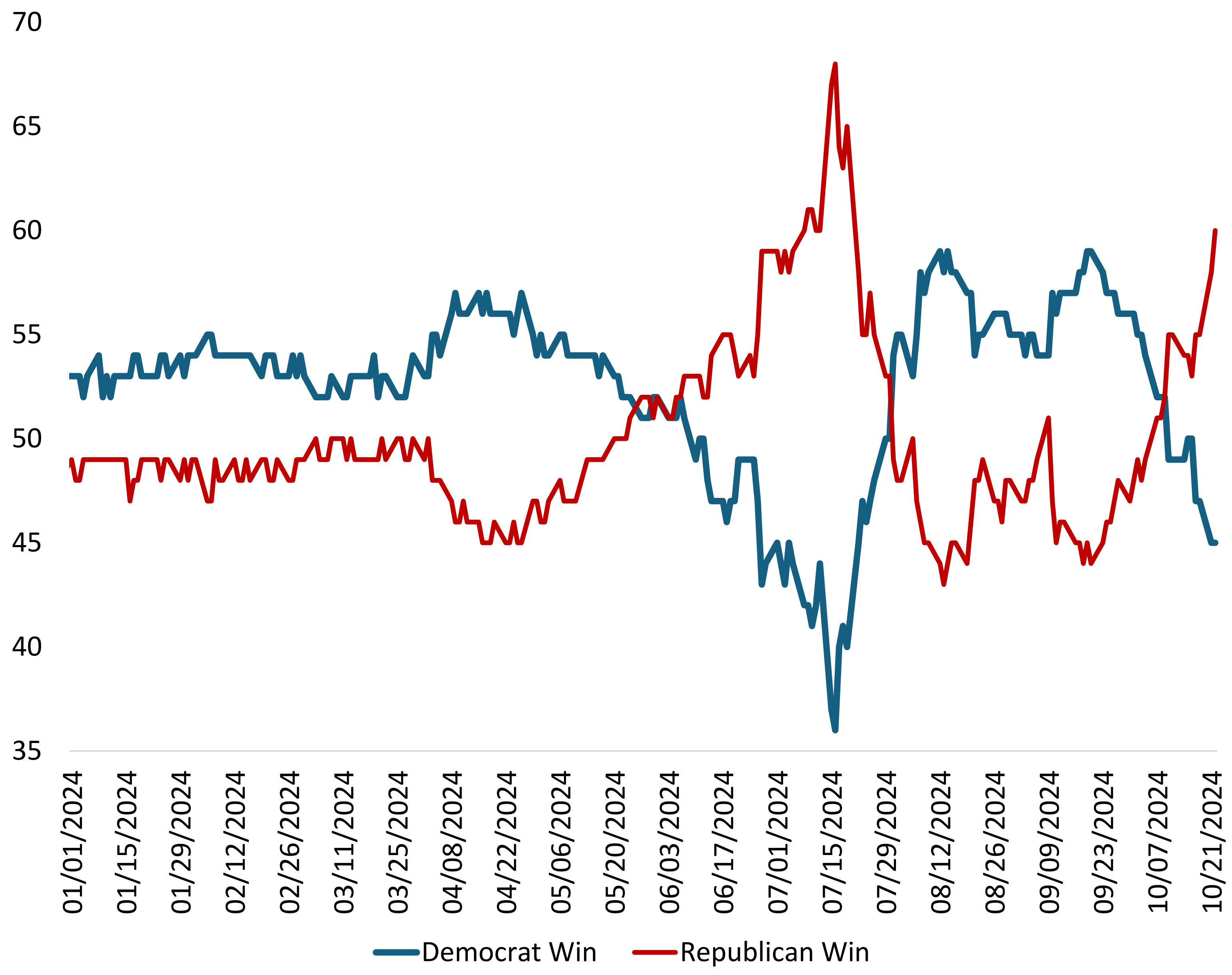
- S&P 500 profit margins have increased to over 13%, but all of this has been due to strongly rising margins at some of the largest tech stocks in the index.
- Nvidia margin has increased from 30% in 2022 to 55% now. Amazon was at 1.5% and now around 7.5%. Meta was 23% in 2022 and now at 36%.
- Ex-Mag 7, margins have decreased somewhat and earnings expectations have declined over time.

Source: Bloomberg/Bradesco – 22 October 2024

bradesco investments

US Elections: Most likely a divided government

Trump takes the betting odds lead as he gains in battleground states



Source: Bloomberg/PredictIt/Real Clear Polling/Bradesco – 22 October 2024

Battleground	Harris	Trump	Spread
Pennsylvania (19)	47.1	47.9	Trump +0.8
Michigan (15)	47.2	48.4	Trump +1.2
Wisconsin (10)	47.9	48.3	Trump +0.4
Georgia (16)	46.4	48.9	Trump +2.5
North Carolina (16)	47.9	48.4	Trump +0.5
Arizona (11)	47.3	49.1	Trump +1.8
Nevada (6)	46.9	47.6	Trump +0.7

- Trump has taken the lead in the betting odds as the 7 key battleground states show him ahead in 7 out of 7 states.
- The differences are all at 1% or less, except for Georgia and Arizona, but all are well within the margins of error so the race should be seen as essentially tied.
- The 7 battleground states will decide the election. Pennsylvania is the most important and the winner here will likely win the Presidency.
- The House and Senate are too close to call. Republicans will most likely take the Senate, and the House can go either way.
- Expect a divided government. This means legislative progress will be limited and many new economic proposals will not pass.

Disclosures

Nothing in this presentation shall be regarded as an offer, solicitation, recommendation, or advice (whether financial, accounting, legal, tax or other) given by Bradesco Investments and/or its officers, employees nor affiliates, irrespective of whether such communication was given at your request. Any solicitation or offer to buy, sell, or hold any security must be made and discussed with your relationship officer at Bradesco Investments for it to be considered a solicitation for a transaction. In this regard, Bradesco Investments will make all efforts to only recommend and/or solicit investments in your best interest. Please be aware that the securities, investment views or strategies described herein may not be in the best interest of all investors and are subject to investment risks. Investors may get back less than they invested, and past performance is not a reliable indicator of future results. Asset allocation does not guarantee a profit or protect against loss. Nothing in the presentation should be relied upon in isolation for the purpose of making an investment decision. You are urged to consider carefully whether the services, products, asset classes (e.g. equities, fixed income, alternative investments, commodities, etc.) or strategies discussed are suitable to your needs. You must also consider the objectives, risks, charges, any potential conflict of interest, costs and expenses associated with an investment service, product, or strategy prior to making an investment decision.

The information contained in this is presentation is created using information from third parties that are believed to be reliable; however, Bradesco Investments does not represent or warrant its accuracy, reliability, or completeness, or accept any liability for any loss or damage (whether direct or indirect) arising out of the use of all or any part of the materials within this presentation. No representation or warranty should be made with regard to any computations, graphs, tables, diagrams or commentary, which are provided for illustration/ reference purposes only. The views, opinions, estimates and strategies expressed constitute our judgment based on current market conditions and are subject to change without notice.

Investments and brokerage services are provided by Bradesco Investments, US SEC Registered broker/dealer, member of FINRA and SIPC and not by Bradesco Bank®. Securities products purchased or sold in a transaction are: (i) not insured by the Federal Deposit Insurance Corporation (“FDIC”), (ii) not deposits or other obligation of Bradesco Bank® and are not guaranteed by Bradesco Bank®; and (iii) subject to investment risk, including possible loss of the principal invested. Bradesco Investments, Bradesco Bank, Bradesco Global Advisors and Banco Bradesco, SA are affiliated entities under common control. For more information on Bradesco Investments and its business, including possible conflict of interests, please visit: https://brokercheck.finra.org/firm/summary/19453. Investment Advisory services are provided by Bradesco Global Advisors, a Registered Investment Advisor with the United States Securities and Exchange Commission. For more information on Bradesco Global Advisors, its services and potential conflicts of interest please visit the SEC public disclosure website at https://adviserinfo.sec.gov/firm/summary/134416.