MONTHLY VIEW

International Investment Strategy

The Fed cuts by 0.50% in a strong economy

bradesco investments

OCTOBER

2024

Index

International Markets

Global financial markets saw continued volatility in September as equity markets fell sharply at the beginning of the month, but then steadily recovered. US equity markets rebounded especially strong, reaching record highs by the end of the month.

Late in the month, the Chinese government announced coordinated support for the Chinese property and equity markets which led to Chinese equity indices rising over 20%. While the announcements are having a positive impact on the financial markets, we are not yet convinced that this will lead to a recovery in consumer sentiment and spending. We believe further large-scale stimulus is necessary to ensure the property market can escape its downward spiral.

The key event was the Fed meeting on September 18 where the US central bank reduced rates by a larger than expected 0.50% as it started its rate cutting cycle. The market reaction to the Fed cut has been mixed. At the end of September, market pricing showed investors expected the Fed to cut rates a further 0.75% this year and then 1.25% next year, which is more aggressive than the Fed's own outlook of 0.50% in cuts this year and 1.0% next year.

The 0.50% cut was based on expectations of a weakening labor market. However, the better-than-expected September employment report (released in early October) showed 254k jobs added and the unemployment rate falling to 4.1% from 4.2%. This suggests the labor market's strong growth is continuing forcing market pricing to adjust with fixed income yields moving higher.

What is Fixed Income market pricing telling us now?
Fixed income markets had initially assumed the economy was weakening more than Fed expectations but with the strong jobs data, market assumptions are now approaching the Fed's outlook. Recession concerns have faded, and a higher growth outlook is now increasingly likely. The yield curve has steepened with the overall yield curve rising even higher after the jobs report. We believe the yield curve could rise somewhat higher due to increasing inflation concerns and a stronger overall growth outlook.

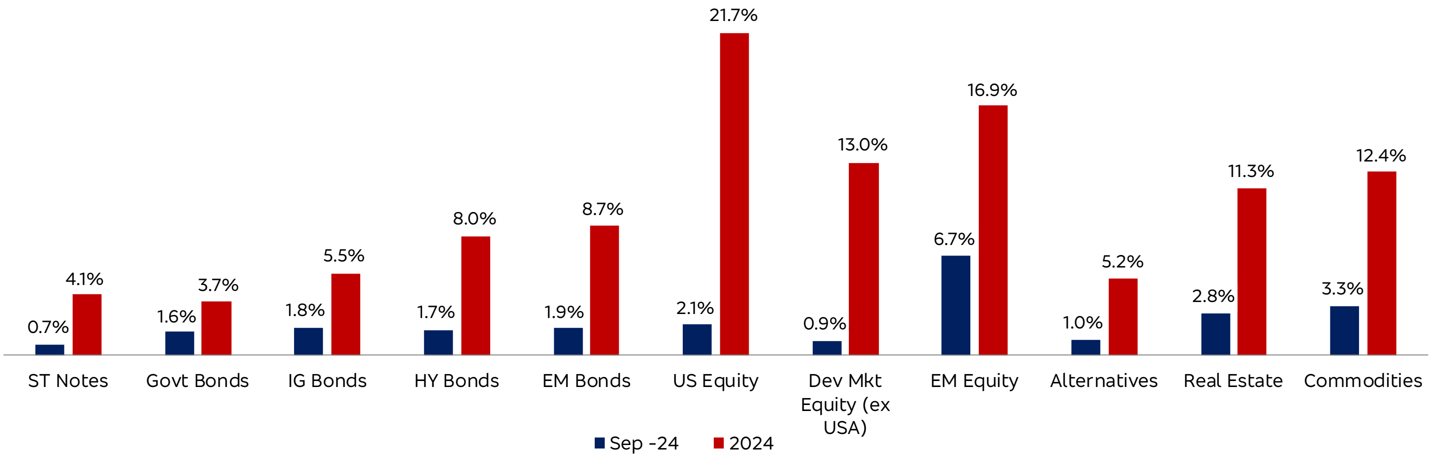
What is Equity market pricing telling us?
Equity markets continued to rally after the Fed rate cuts, assuming the Fed will do whatever it takes to protect the economy. The strong employment report suggests a soft-landing or even no-landing (economic growth continues without slowing down) scenario is likely which would be positive for equities as earnings could continue growing. However, assumptions of sharp Fed rate cuts have also faded, somewhat reducing one of the positive drivers for equities.

We continue to believe maintaining well diversified investment portfolios is important in the current volatile and unpredictable environment. We are not making any tactical adjustments to our model portfolios this month.

Source: Bradesco – October 2024

Asset Class Performance

Global markets continued gains as the US Fed cut rates by 0.50%

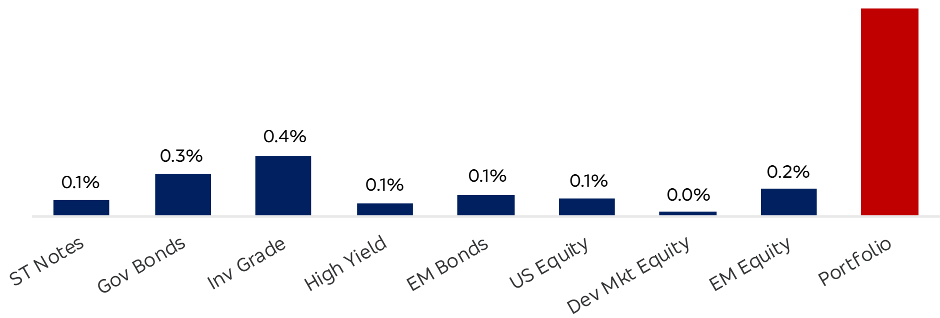


Source: Bloomberg/Bradesco – 1 October 2024

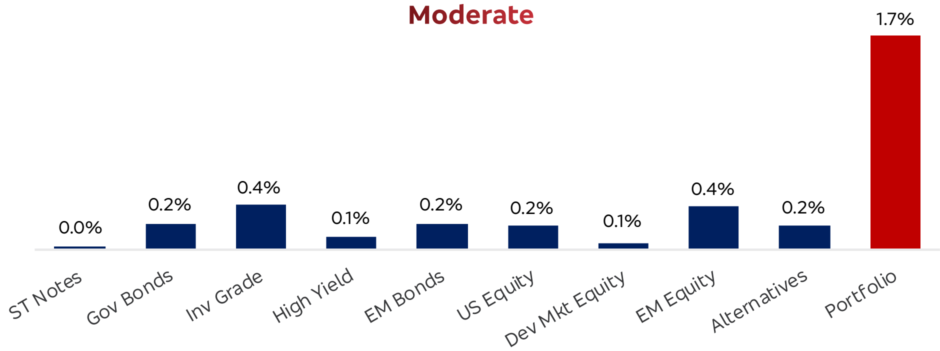
Cash/Short Term – BofAML 0-3 Year US Treasury Index / Gov. bonds – BofA Global Government Ex Japan /Investment Grade- BofAML Global Large Cap Corp / High Yield Global - BofAML Developed Markets High Yield Index / Emerging Market Bonds - J.P. Morgan EMBI Global Core / US Equities - S&P 500 Net Total Return Index / Dev Markets (Ex US) Equities - MSCI EAFE Net Total Return USD Index / Emerging Market Equities - MSCI Emerging Net Total Return USD Index / Alternatives - Credit Suisse Hedge Fund Index / Commodities - Thomson Reuters/Core Commodity CRB Commodity/ Real Estate - Wilshire Global REIT.

Model Portfolio Contribution to Returns – September 2024

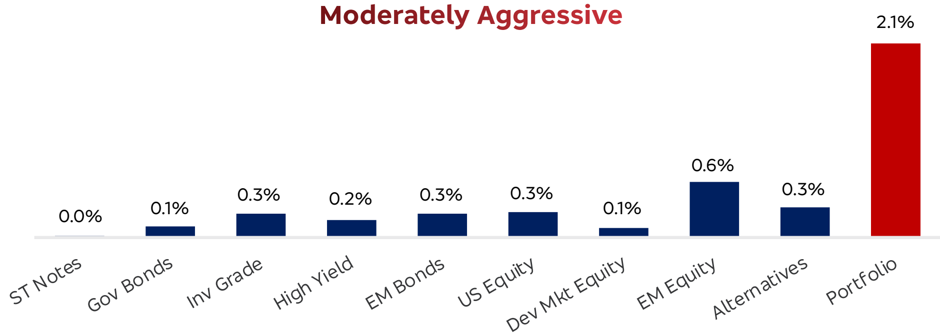
Conservative



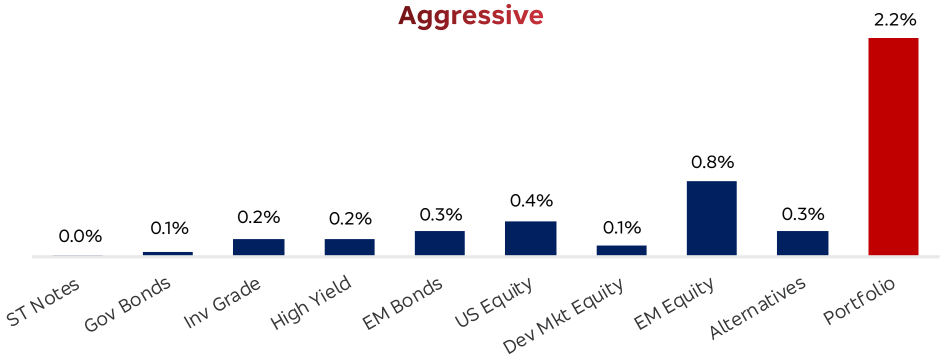
Moderate



Moderately Aggressive



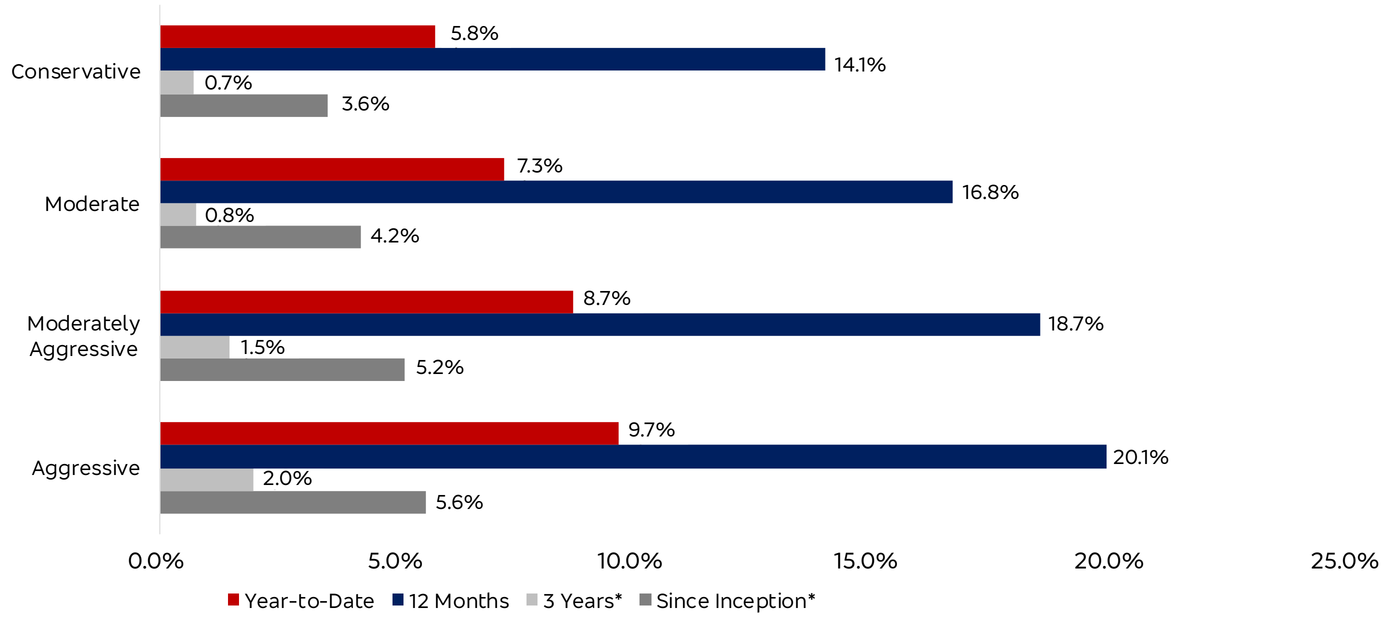
Aggressive



Past performance is not a reliable indicator of future results. Performance was calculated in USD. The return may increase or decrease as a result of currency fluctuations. Returns of the Model Portfolios are based on the allocations approved in the Bank's Strategy Commission and represent the weighted performance of each asset class component. For illustrative and informational purposes only.

Source: Bloomberg/Bradesco – 1 October 2024

Model Portfolio Performance



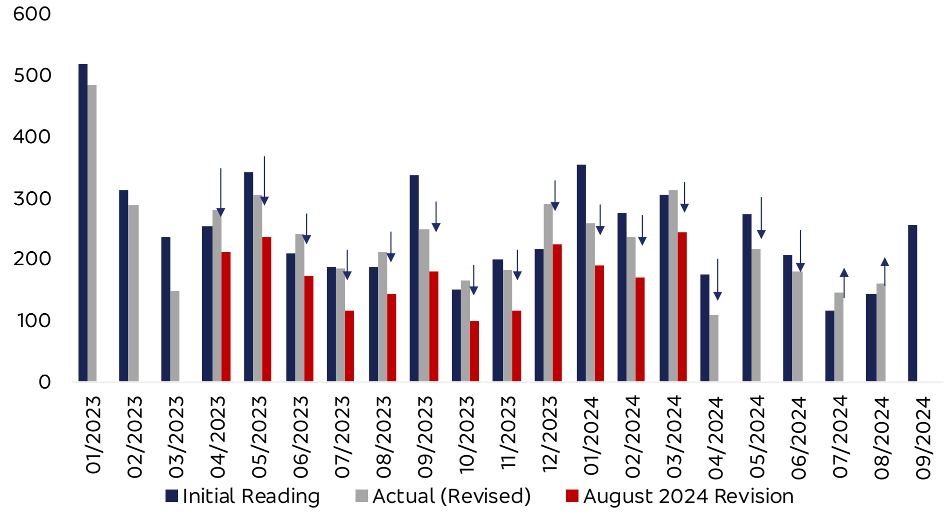
Source: Bloomberg/Bradesco – 1 October 2024

*Since Inception: Jan/16. 3 years and since inception - annualised returns.

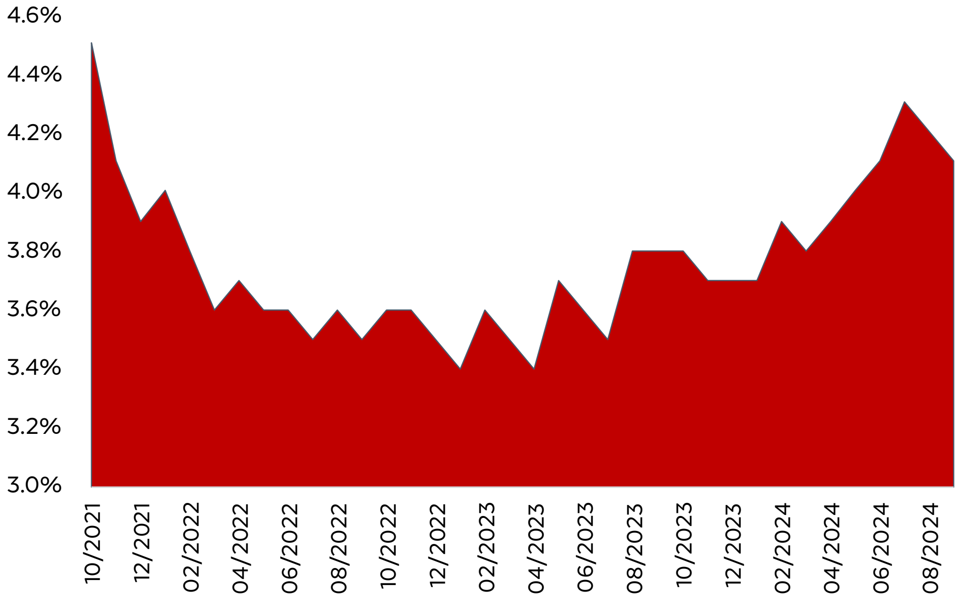
Past performance is not a reliable indicator of future results. Performance was calculated in USD. The return may increase or decrease as a result of currency fluctuations. Returns of the Model Portfolios are based on the allocations approved in the Bank's Strategy Commission and represent the weighted performance of each asset class component. For illustrative and informational purposes only.

September 4.1% unemployment rate and 254k jobs point to a stronger than expected labor market

254k jobs in September and first upward revision since March 2024



The unemployment rate fell to 4.1% in September



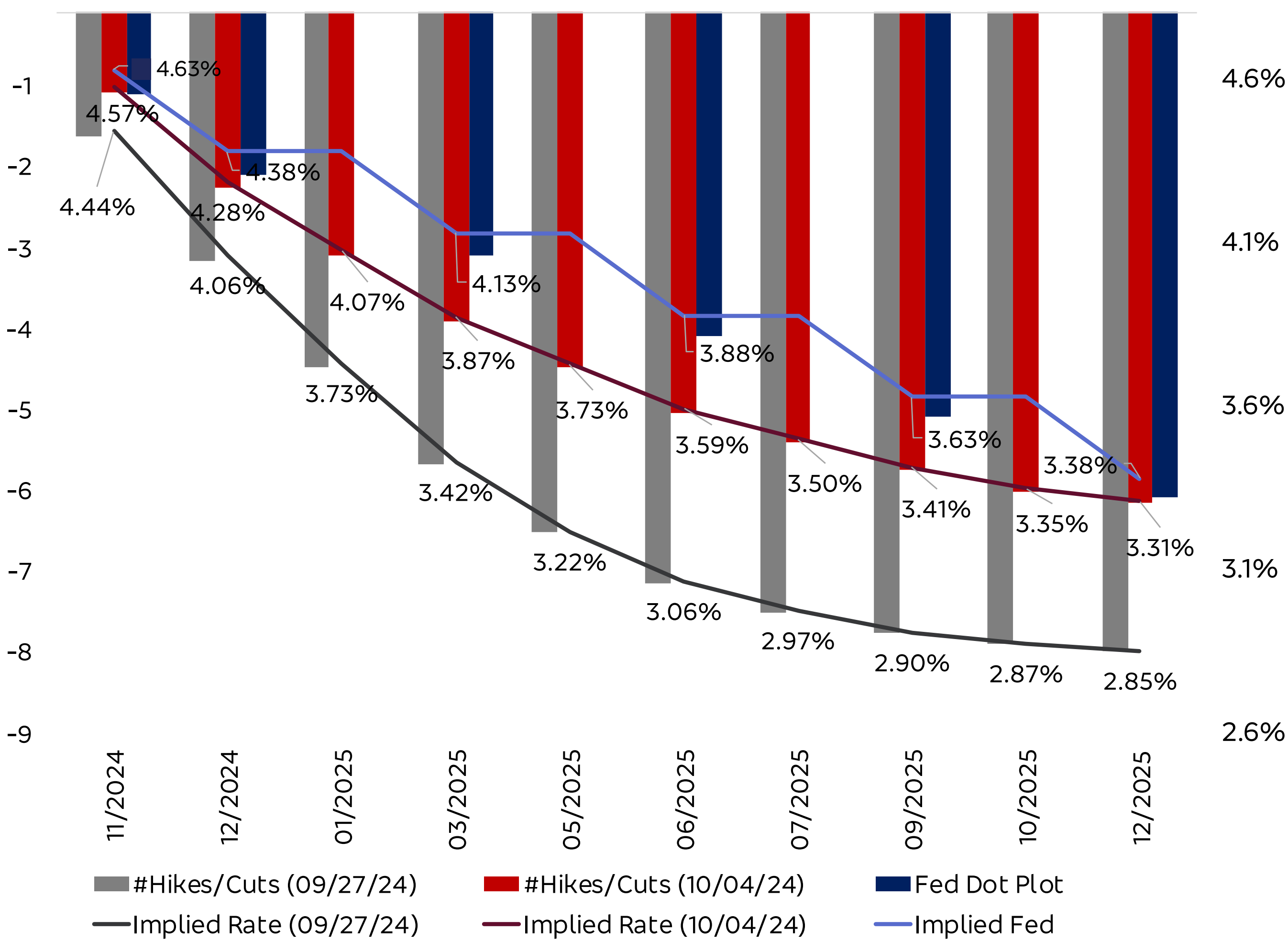
- The eagerly awaited September jobs report showed a stronger than expected labor market. 254k jobs were created in September and the unemployment rate surprisingly declined to 4.1% from 4.2% in August and after reaching its recent peak of 4.3% in July. Upward revisions to the previous 2 months data are a reversal of the consistent downward revisions over the past year.

- This data shows a labor market that is much stronger than expected, despite the Fed's concerns that there could be some weakness ahead. In addition, wage growth data showed some acceleration in wages at 4% YoY growth, which is a concern as it could drive inflation higher. A combination of stronger labor markets and potentially higher inflation could ultimately force the Fed to reconsider its expectations for the path of rate cuts.

Source: Bloomberg/Bradesco – 4 October 2024

Fed cuts 50 bps. Dot Plot says another 50bps in 2024 and 100bps in 2025. Markets unsure.

Fed Dot Plot path versus Market implied pricing.

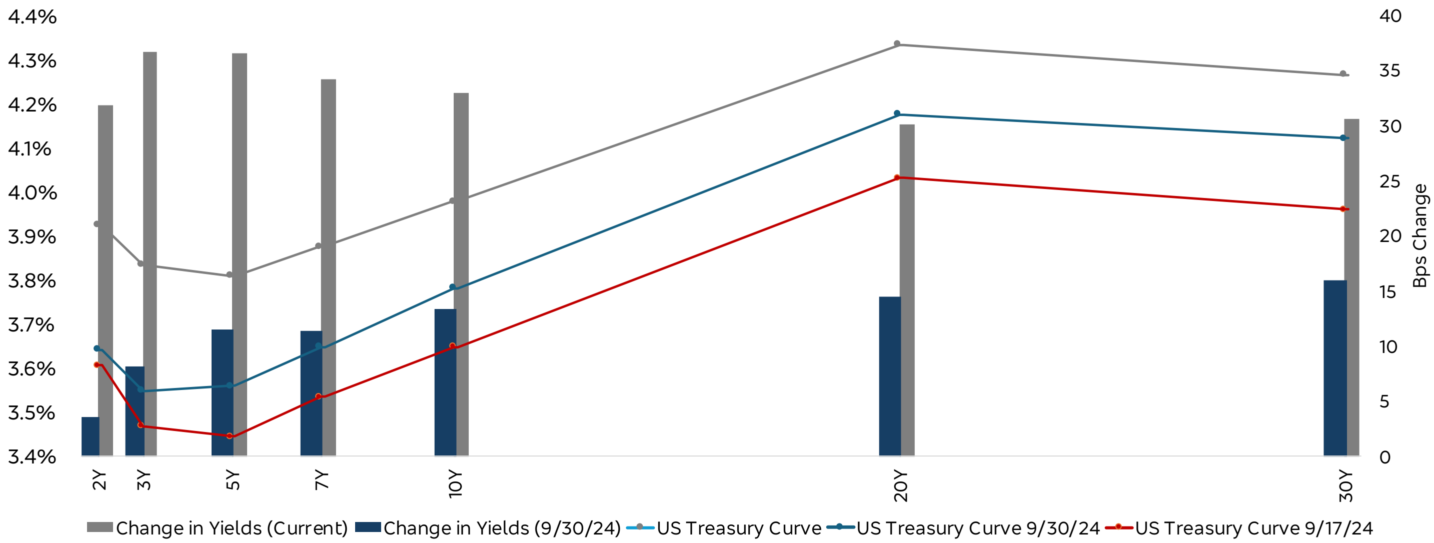


Source: Bloomberg/Bradesco – 4 October 2024

- The US Fed cut rates 50 bps at its September meeting to support the labor market.
- Fed Dot Plot indicates a further 50 bps in cuts expected in 2024 and then a further 100 bps in 2025.
- Market pricing had been more aggressive than the Fed, assuming the jobs market would deteriorate further. Market pricing was showing 75 bps in further cuts in 2024 then 125 bps in 2025 at the end of September.
- But the stronger than expected September employment report showed that financial markets and maybe even the Fed may have been overly pessimistic. Market rate cut expectations quickly shifted towards the Fed's outlook and Treasury yields moved higher.
- We believe pricing could further adjust with Treasury yields rising even more due to higher growth and inflation assumptions.

US Treasury curve rising after 50 bps rate cut and strong jobs report

US Treasury yields have been rising after the Fed meeting

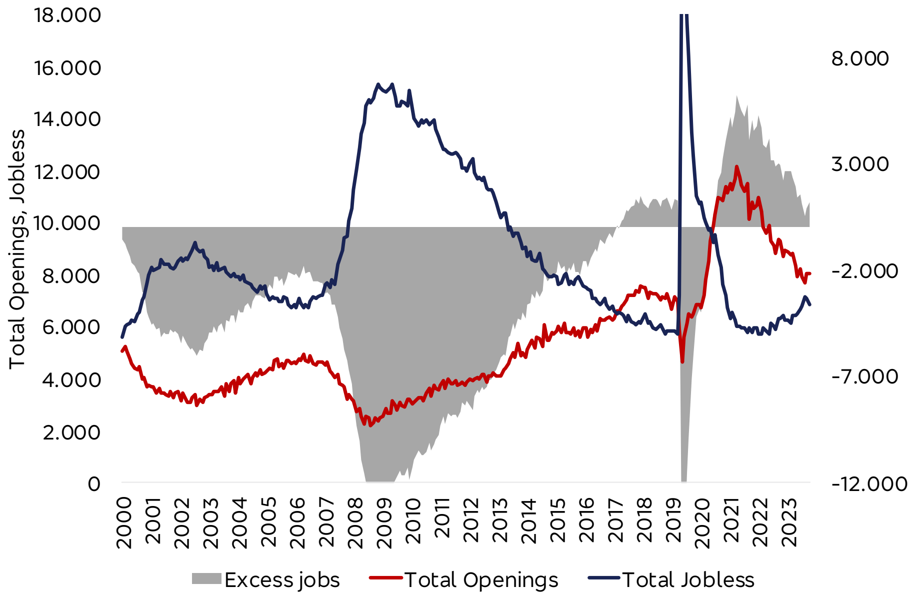


Source: Bloomberg/Bradesco – 4 October 2024

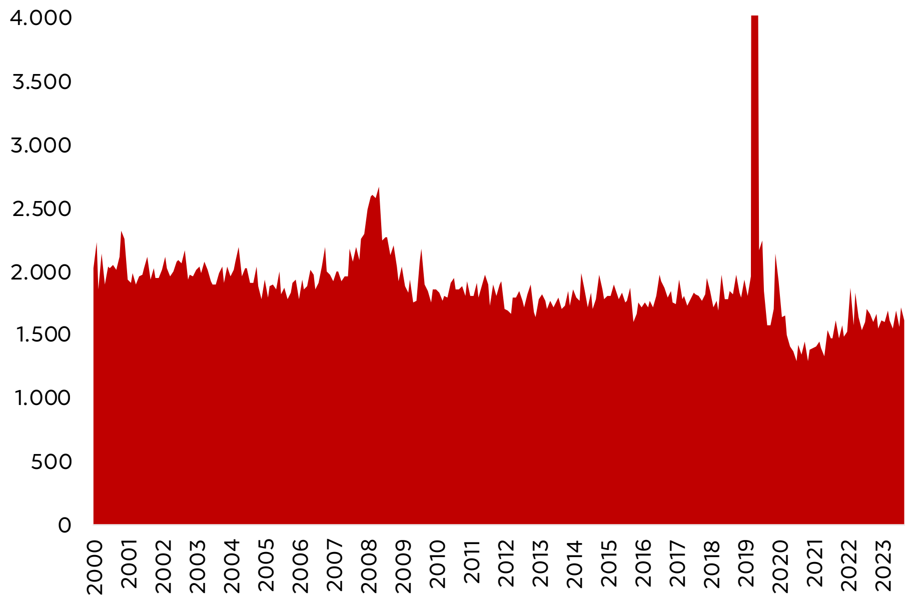
- Fixed income market pricing had been very aggressive in pricing rate cuts and declining yields across the yield curve up to the Fed meeting on Sept 18.
- With the large 50 bps rate cut, markets are re-calibrating. Initially, shorter yields were pricing in a few more rate cuts than the Fed Dot Plot suggested. But longer-yields were rising on the prospects of a soft-landing being achieved and some risks of higher inflation. At the end of September, the yield curve had steepened as longer yields increased 10-15 bps while shorter-yields remained steady.
- But after the very strong September jobs report, market pricing shifted again. Market pricing started to come in line with Fed expectations of 50 bps of further cuts this year and then a further 100 bps in cuts in 2025. This caused the overall yield curve to rise with the 2-year yield nearing 3.9% and the 10-year yield approaching 4%.

The US still has more jobs than jobless, but the market is starting to balance

The US has 8 million jobs available vs 6.8 million jobless



Layoffs at 1.6mn, still low historically



- The US employment market has been slowing but is not showing a collapse. The number of job openings has been steadily declining and as of August there were 8mn job openings. This is down from a peak of 12.2mn in 2022 but is still above the pre-pandemic average of 7.1mn in 2019. There are 6.8mn job seekers, up from a low of 5.7mn in 2022. There are still 1.2mn more jobs than available workers, although this is down from a peak of over 6 million in 2022.

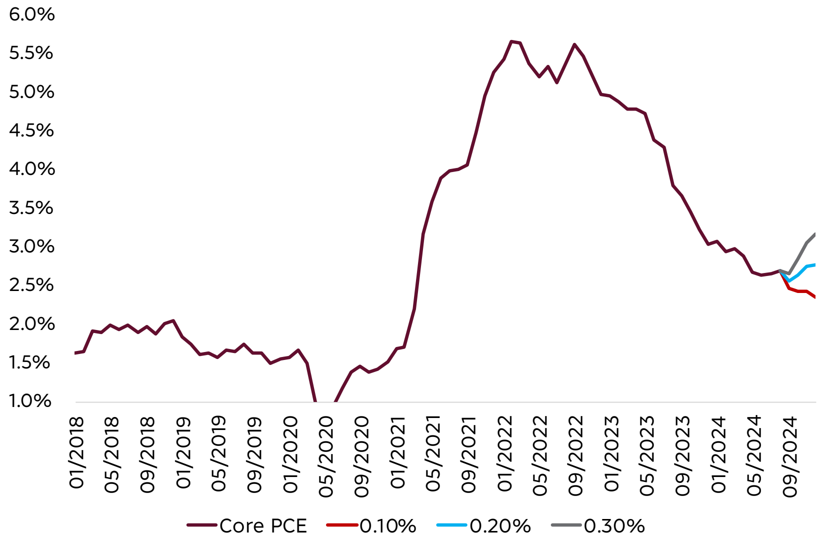
- Layoffs have remained low, with September showing 1.6mn layoffs, still about the average for this year. The level is still low historically and below the pre-pandemic levels. Companies have held on to workers when previously they may have fired them as hiring new workers has been difficult since the pandemic. This "labor hoarding" may limit the downside in the employment market if the economy weakens.

Source: Bloomberg/Bradesco – 4 October 2024

Inflation continues to moderate, but some signs of higher inflation appearing

Core CPI levelled off at 3.2% YoY in August, increased 0.3% MoM

Core PCE could rise by the end of the year

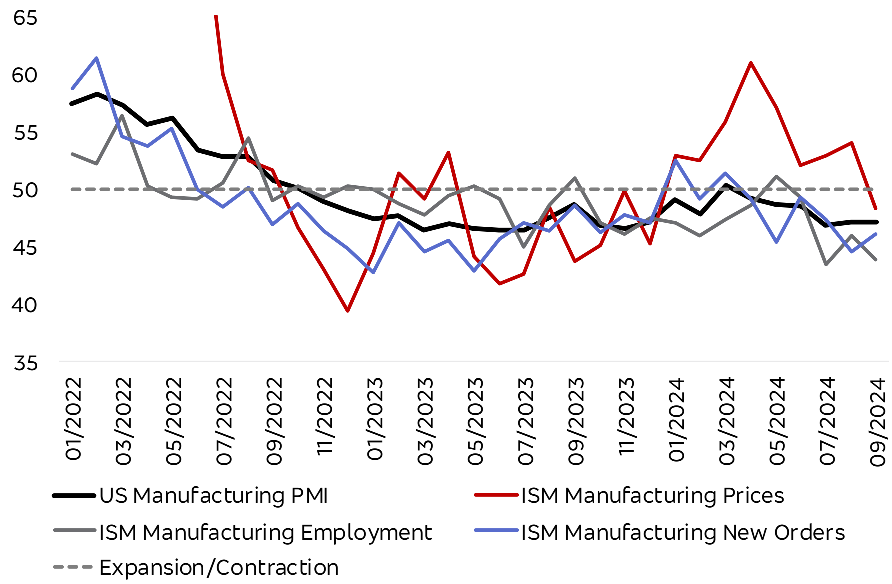


- Inflation has steadily declined after reaching peaks in 2022. PCE inflation fell from 2.5% to 2.2% and Core PCE increased from 2.6% to 2.7% in August. CPI fell from 2.9% to 2.5% and Core CPI was steady at 3.2% in August.
- Month-on-month inflation has moderated to around 0.2%, although Core CPI MoM was 0.3% and Core PCE MoM was 0.1% in August. If monthly inflation were to continue at 0.2%, Core CPI would continue declining through the rest of the year. However, Core PCE could end up increasing from the 2.7% level. Both could end up around 2.8%-2.9% by the end of the year but would then likely begin declining again in early 2025.
- Lower Goods inflation, especially in Used Cars has helped bring inflation down. But Shelter and Services inflation remain stubbornly high. Wage inflation has also increased with hourly earnings rising to 4% YoY and 0.4% MoM. The Fed will closely monitor wage inflation as higher levels could keep Services inflation high, making further falls to the 2% target difficult.

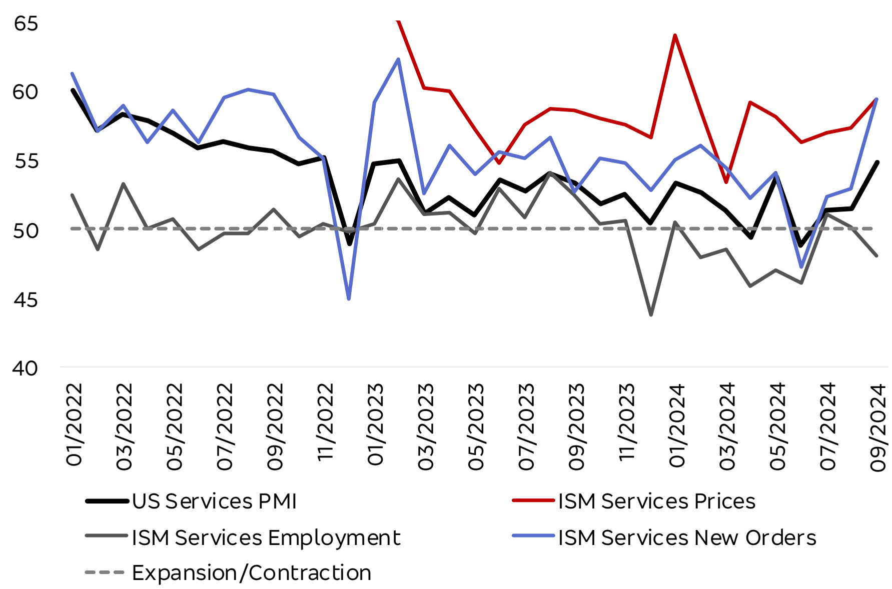
Source: Bloomberg/Bradesco – 4 October 2024

ISM PMIs shows consumers still spending on services while manufacturing remains in contraction

Manufacturing PMI strongly in contraction territory



Services PMIs strong but employment somewhat weak

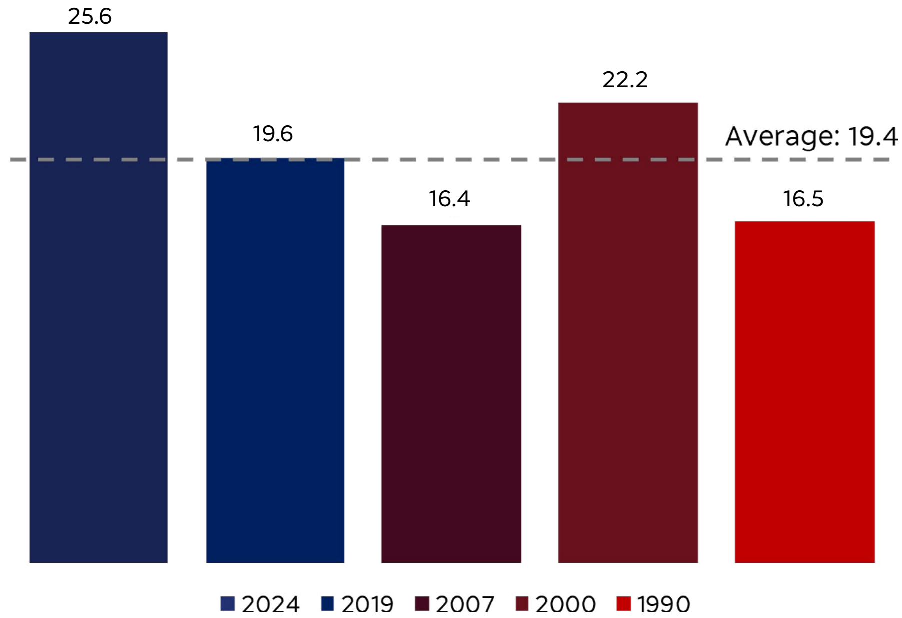


- ISM Services PMI and Manufacturing PMI show where the US consumers' priorities are and have been for most of the year. The Services PMI expanded at the fastest pace since February 2023, while Manufacturing remains below 50 where it has mostly been since November 2022.
- Prices paid reflected these trends and for Manufacturing they fell sharply, from 54 to 48.3, while prices paid for services expanded even more from a level of 57.3 to 59.4, indicating higher inflation levels could continue in the Services areas.
- The Employment and New Orders numbers trended in the same direction for Manufacturing and Services. Both employment numbers are in contraction now although this was contradicted by the very strong employment report in September. New orders for Services saw a large increase from 53 to 59.4 in September while Manufacturing remains in contraction though at a slower pace.

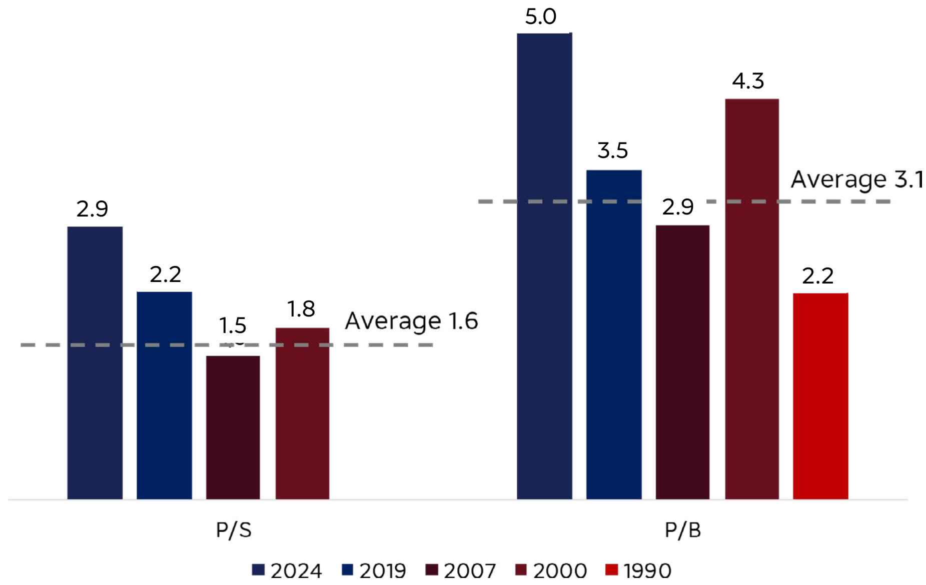
Source: Bloomberg/Bradesco – 4 October 2024

Current Equity valuations are the highest they've been at the start of a cutting cycle

A P/E of 26 is the most expensive the S&P 500 has been during rate cuts



P/S and P/B are over two standard deviations from the mean

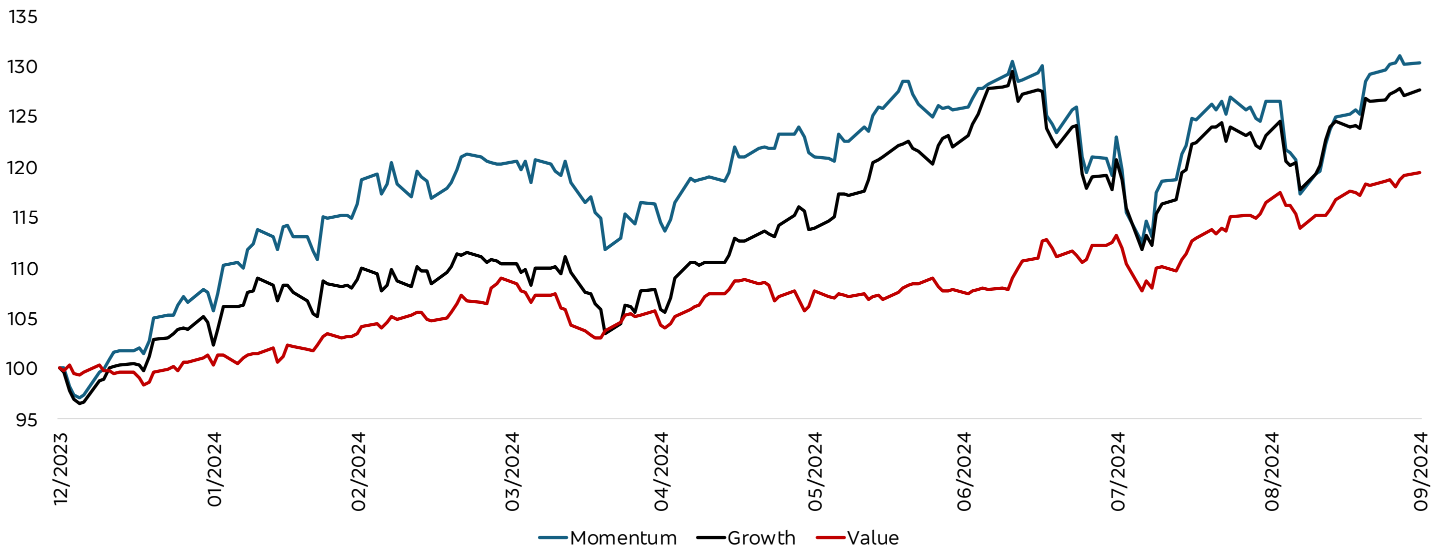


- Equity valuations, though down from peak levels, remain far above their historical averages. The current P/E is over one standard deviation from the mean of 19.4 while the current P/S and the P/B are both over two standard deviations from their respective means.
- Valuations have tended to come down prior to a rate cutting cycle, as the economy is usually weakening when the Fed begins cutting rates. But this time the markets are counting on the Fed achieving a "soft-landing", so equity valuations remain near record levels.
- As the Fed continues cutting rates, the shift out of Technology and other overbought sectors and into underbought sectors should continue. However, expensive valuations may limit absolute upside.

Source: Bloomberg/Bradesco – 1 October 2024

Equity markets like the rate cuts: Value rotation continues

Momentum and Growth peaked in June. Value has been making a comeback since then.

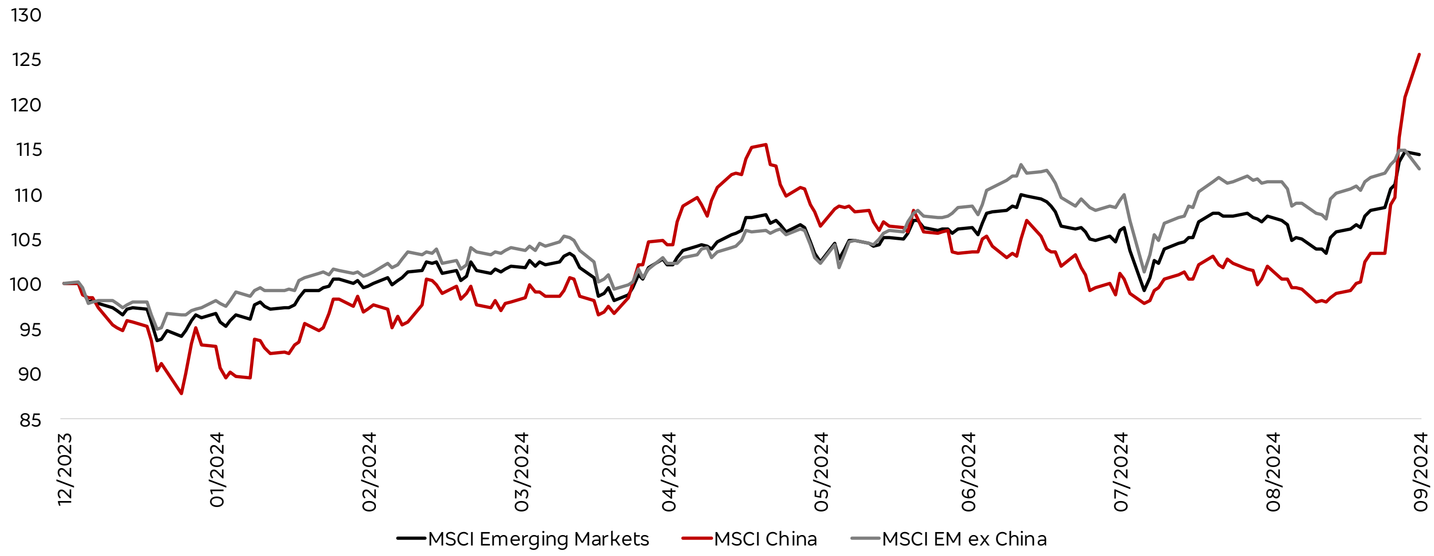


Source: Bloomberg/Bradesco – 1 October 2024

- 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 30% and 28% respectively but Value is catching up, rising 20% so far this year.
- Equity investors are counting on the Fed to continue aggressive rate cuts to achieve a soft-landing.

China's stimulus announcements propel MSCI China to a 26% YTD return

MSCI China moves from one of the weakest to one of the strongest markets this year after 23% gain in September



Source: Bloomberg/Bradesco – 1 October 2024

- The Chinese government announced coordinated fiscal and monetary stimulus to help the property and equity markets at the end of September.
- China had been a drag on the MSCI Emerging Markets index for most of this year, but with the rise in September, it is now strongly contributing to returns. As of the end of September, the MSCI China index is up 26%, the MSCI Emerging Markets index is up 14% and the MSCI EM ex China index is up 12.7%.
- While these stimulus measures have propelled the market recently, China has unveiled several measures over the past couple of years which have failed to boost the economy and consumer sentiment. We believe further large-scale stimulus may be necessary to drive higher consumer spending and to bring the property sector back to growth.

China Stimulus Timeline

China intervenes to revive its economy and boost consumer confidence

January 2023:

Cut the Reverse Requirement Ratio (RRR) by 50bps and lowered the Loan Prime Rate (LPR) by 15 bps. As well as a stock rescue package worth 2 trillion yuan.

March 2023:

Introduced additional fiscal measures, including EV subsidies and green energy incentives.

August 2023:

Reduced the policy interest rate by 20bps and announced plans to inject liquidity into the markets.

January 2024:

Cut RRR by 50bps

New guidelines for financial support for rental housing

Stock rescue package announced (2 trillion yuan)

February 2024:

Cut 5-year Loan Prime Rate (LPR) by 25bps.

Monetary stimulus (1 trillion yuan).

Introduced regulations to prevent market manipulation.

March 2024:

Cut the RRR by 50bps and lowered the interest rates for existing mortgages.

April - August 2024:

Announced it would issue bonds and allow local governments to issue bonds to help them buy unsold homes.

September 2024:

Announced that *soon* it will cut the reserve requirement ratios (RRR) by 50 bps (frees up about 1 trillion yuan - $142 billion). Could be dropped another 25-50 bps depending on liquidity.

Announced that it will *soon* cut the seven-day reverse repo rate by 20 bps along with other interest rates.

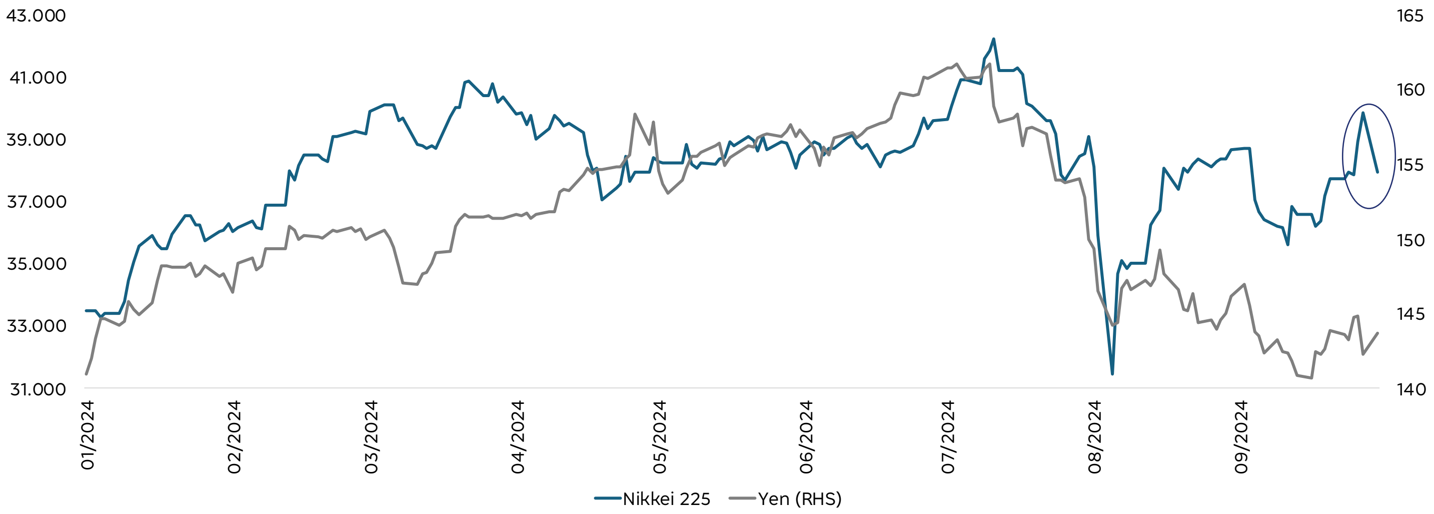
Announced a 50-bps reduction on average interest rates for existing mortgages and cut the minimum down payment requirement to 15% (down from 25%).

Will provide 800 billion yuan for funds, insurers brokers, and commercial banks to fund buybacks.

Source: Bloomberg/Bradesco – 1 October 2024

Japan's surprise new Prime Minister shakes up the market

Japan's Shigeru Ishiba won the LDP leadership election and called for a general election for October 27

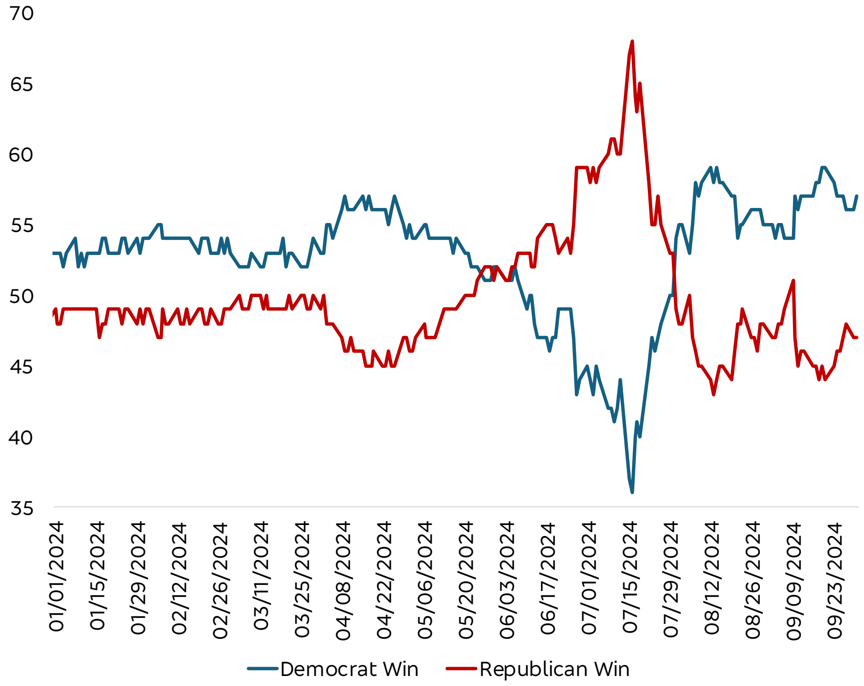


Source: Bloomberg/Bradesco – 1 October 2024

- Shigeru Ishiba ran on a platform focused on national security, backing an Asian NATO to bolster the region against threats mainly from China and expressed support for the BOJ's policy normalization.
- Mr. Ishiba beat Sanae Takaichi who was widely expected to be the winner of this election and who ran on a platform in favor of slowing down/ending the interest rate hikes expected by the BOJ.
- After the Ishiba win, the Japanese Yen strengthened 3% which drive the Japanese equity markets to fall nearly 5% on the next trading day.

US Elections: Most likely a divided government

Betting odds show Harris has widened lead over Trump



Battleground	Harris	Trump	Spread
Pennsylvania (19)	48.0	48.2	Trump +0.2
Michigan (15)	48.9	47.5	Harris +1.4
Wisconsin (10)	49.0	48.4	Harris +0.6
Georgia (16)	47.9	49.4	Trump +1.5
North Carolina (16)	48.4	49.1	Trump +0.7
Arizona (11)	47.2	49.3	Trump 2.1
Nevada (6)	48.7	47.6	Harris +1.1

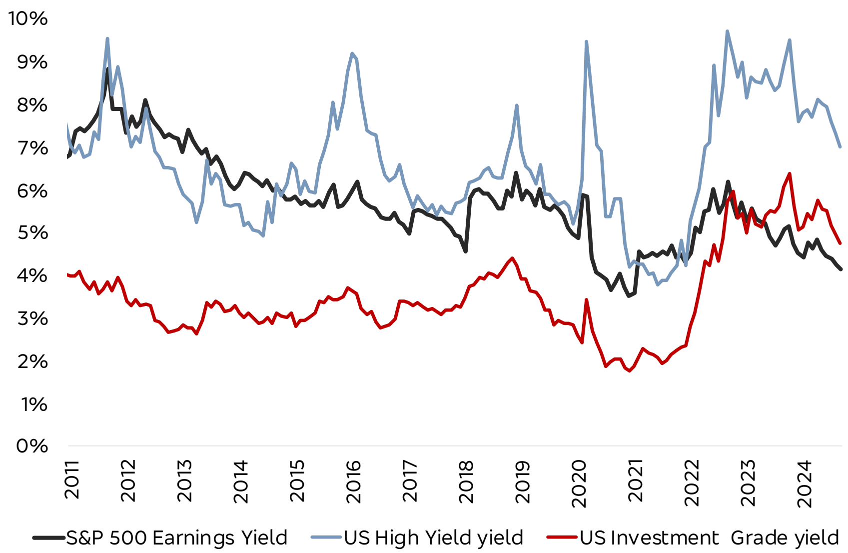
- Betting odds show Harris well ahead of Trump, but the 7 key battleground states show the race is essentially tied.
- The 7 battleground states will decide the election. Pennsylvania is the most important and the winner here will likely win the Presidency.
- The House and Senate are too close to call. 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.

Source: Bloomberg/Real Clear Polling/Bradesco – 1 October 2024

Yields down on as Fed rate cuts begin, spreads stay low on soft-landing hopes

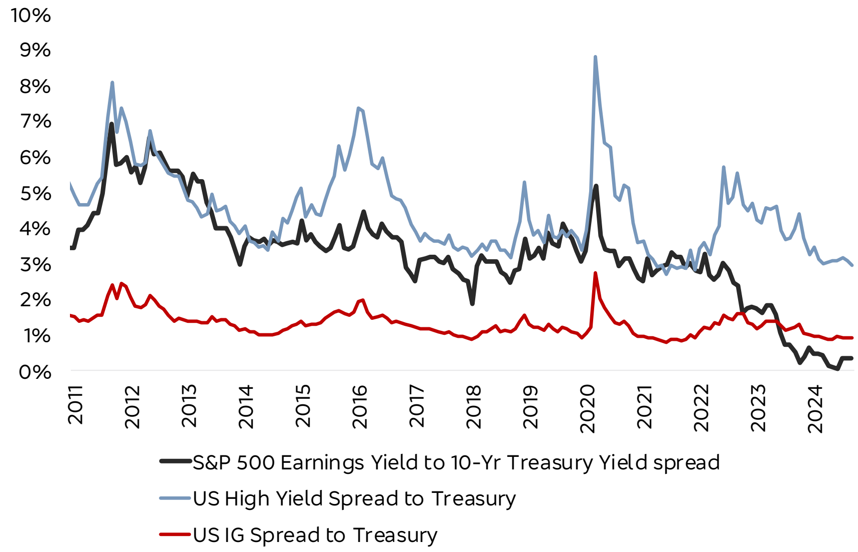
S&P 500 Earnings Yield versus High Yield and Investment Grade yields

(Earnings yields = earnings per share/share price)



S&P 500 equity risk premium vs High Yield and Investment Grade spreads

(Equity risk premium = earnings yield spread to 10-year Treasuries)



- Fixed income yields have declined sharply as weakening US employment data increases concerns of a possible recession. Investment grade yields have fallen under 5% and High Yield yields are around 7%. Equity earnings yields (inverse of the Price/Equity ratio) have continued to decline to around 4.1%.

- The S&P 500 Equity Risk Premium (difference between earnings yield and 10-year Treasury yield) is at 0.3%, still near the extreme lows near 0%, meaning equities are still expensive when compared to the fixed income spreads.

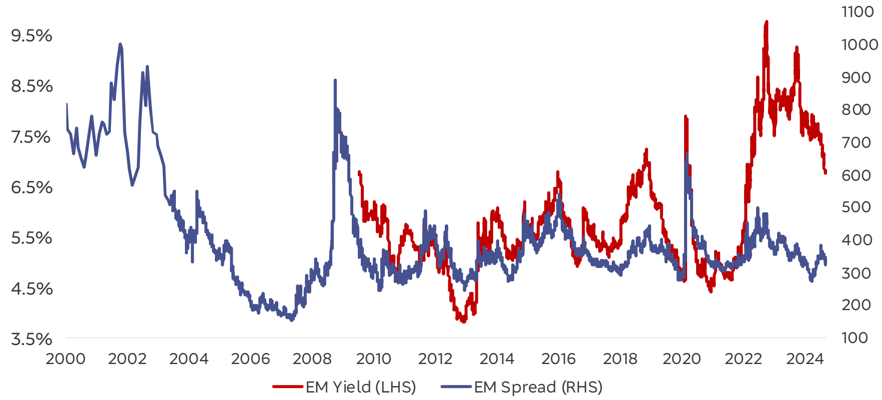
- High Yield spreads have fallen to 300 bps after briefly spiking higher in August and September. Investment Grade spreads are under 100 bps.

Source: Bloomberg/Bradesco – 1 October 2024

Fixed Income Yields and Spreads

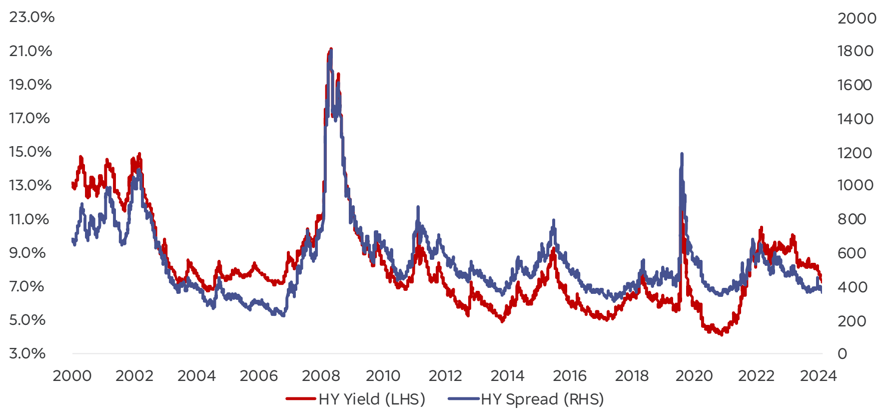
	Yield	Spread (bps)	Spread Avg/Range	Duration
US Investment Grade	4.72%	89	149 (76-618)	7.3
US High Yield	6.99%	302	444 (262-1099)	3.4
Global High Yield	7.29%	364	542 (220-1803)	3.9
Emerging Markets	6.79%	323	354 (151-1001)	7.2

Emerging Market Yields and Spreads



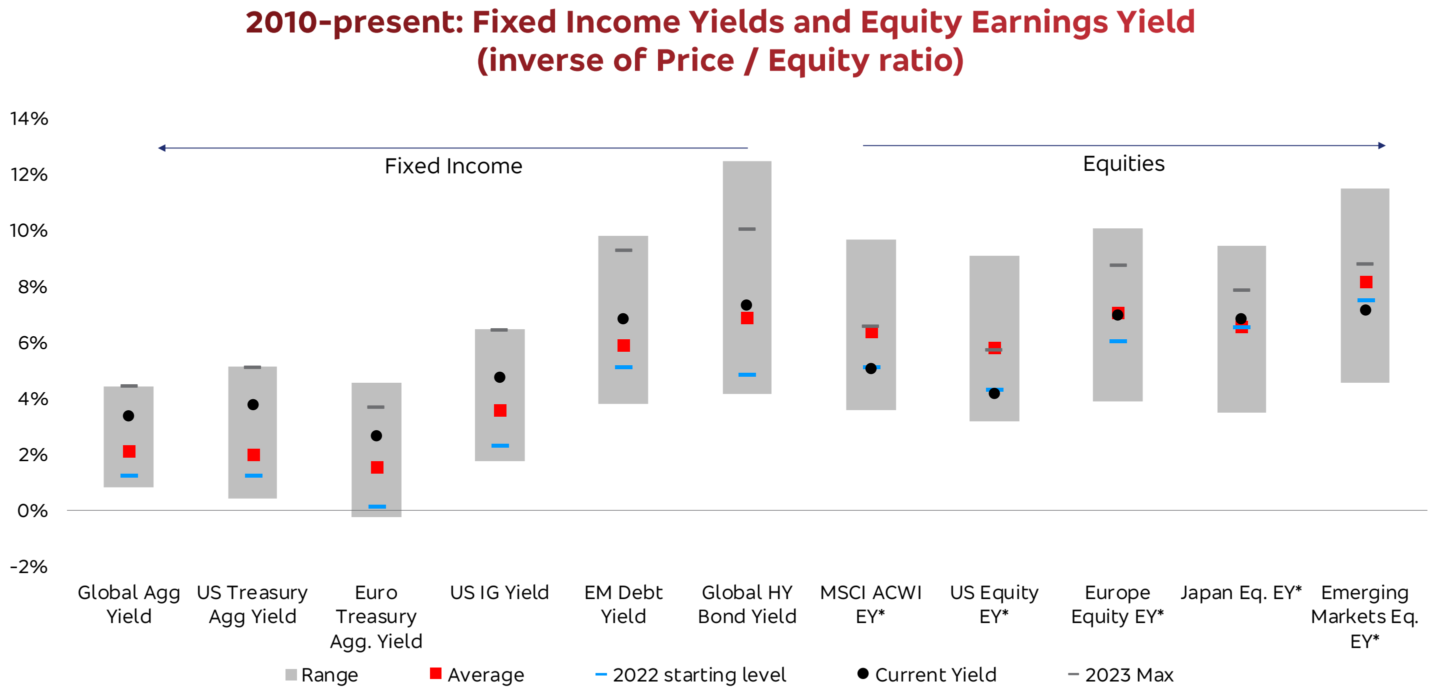
US Investment Grade Yields and Spreads

Developed Market High Yield Bond Yields and Spreads



Source: Bloomberg/Bradesco – 1 October 2024

Fixed Income yields continue lower, US equities still look expensive



Source: Bloomberg/Bradesco – 1 October 2024

Adjusting Tactical Allocations

		Under	Neutral	Over
Fixed Income	Liquidity/Short term		■	
	Developed Government Bonds			■
	Investment Grade Bonds		■	
	High Yield Bonds		■	
	Emerging Market Bonds		■	
Equities	US Equity	■		
	Developed Market Equity (Ex-US)		■	
	Emerging Market Equity	■		
	Alternatives		■	

Current Tactical Allocations

- We reduced Investment Grade bonds to Neutral from Overweight in July as spreads had reached very low levels and we expected some spread widening (which has occurred since then). We also initiated an allocation to Mortgage-Backed Securities (MBS) within our Government Bond asset class and increased the Government Bond TAA to Overweight at that time.

- We are therefore Overweight Government Bonds in the TAA and still maintain a longer-duration stance within Government Bonds.

- We are Underweight US and Emerging Market equities given expensive valuations in the US and China's structural difficulties. In US equities we maintain our shift to Value factor exposure. We are sceptical that the recent announcements by the Chinese government will result in a meaningful economic turnaround so the sharp gains in the Chinese markets may be short-lived.

- We have not made any Tactical adjustments to the portfolios for this month.

Source: Bloomberg/Bradesco – 1 October 2024

Model Portfolio: Strategic and Tactical Asset Allocations

	I CONSERVATIVE		II MODERATE		III MODERATELY AGGRESSIVE		IV AGGRESSIVE	
	SAA	TAA	SAA	TAA	SAA	TAA	SAA	TAA
FIXED INCOME	83%	**85%**	66%	**68%**	49%	**53%**	40%	**44%**
Liquidity/Short Term	18%	**18%**	6%	**6%**	3%	**3%**	2%	**2%**
Developed Government Bonds	28%	**30%**	21%	**23%**	8%	**12%**	3%	**7%**
Investment Grade Bonds	25%	**25%**	23%	**23%**	16%	**16%**	12%	**12%**
High Yield Bonds	5%	**5%**	6%	**6%**	10%	**10%**	10%	**10%**
Emerging Market Bonds	7%	**7%**	10%	**10%**	12%	**12%**	13%	**13%**
EQUITIES	17%	**15%**	26%	**24%**	39%	**35%**	50%	**46%**
US Equity	6%	**5%**	9%	**8%**	13%	**11%**	17%	**15%**
Developed Market Equity (Ex-US)	7%	**7%**	10%	**10%**	14%	**14%**	18%	**18%**
Emerging Market Equity	4%	**3%**	7%	**6%**	12%	**10%**	15%	**13%**
ALTERNATIVES			8%	**8%**	12%	**12%**	10%	**10%**

Source: Bloomberg/Bradesco – 1 October 2024

October Economic Calendar

30	1 • JOLTS Job Openings • S&P Global and ISM Manufacturing PMIs • **EZ CPI**	2 • ADP Employment Change • EZ Unemployment	3 • S&P Global and ISM Services PMIs • S&P Global Composite PMI • Jobless Claims • Continuing Claims • EZ PPI	4 • **Nonfarm Payrolls**
7 • Consumer Credit	8 • NFIB Small Business Optimism	9 • FOMC Minutes • JP PPI	10 • **CPI** • Jobless Claims • Continuing Claims	11 • **PPI** • University of Michigan Consumer Sentiment • **Unofficial Start of Earnings Season (JPM Reports)**
14 • Columbus Day • NY Fed 1-Yr Inflation Expectations	15	16 • **UK CPI**	17 • Jobless Claims • Continuing Claims • **Retail Sales** • **ECB Meeting** • **JP National CPI**	18 • Housing Starts
21 • Leading Index	22	23 • Existing Home Sales • Federal Reserve Releases Beige Book	24 • Jobless Claims • Continuing Claims • S&P Global PMIs (S) • MSFT and GOOGL Earnings	25 • University of Michigan Consumer Sentiment (F) • Durable Goods Orders • META and AMZN Earnings
28	29 • JOLTS Job Openings • Consumer Confidence	30 • ADP Employment Change • **Q3 GDP** • **EZ Q3 GDP**	31 • Jobless Claims • Continuing Claims • **PCE** • Personal Income/Spending • **EZ CPI** • **BOJ Meeting**	1 • **Nonfarm Payrolls** • S&P Global and ISM Manufacturing PMIs

Source: Bloomberg/Bradesco – 1 October 2024

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.