MONTHLY VIEW

International Investment Strategy

Fed gets ready to cut rates. Is the US heading towards recession?

bradesco investments

SEPTEMBER

2024

Index

I. Market Review and Commentary

II. Market and Model Portfolio Performance

III. Market Update

IV. Tactical Positioning

V. Model Portfolios

International Markets

Global financial markets had a reasonably strong August, but this was only after significant volatility. August started very weak as risk assets fell the most this year after rising US unemployment increased concerns the US economy was near recession. This led to falls in US Treasury yields with the 10-year yield falling to as low as 3.66% on August 5.

The impact on the markets spread globally as lower Treasury yields led to a sharp strengthening in the Japanese Yen to 142 Yen/USD after reaching a multi-decade low of 162 Yen/USD in July. This led to an unwinding of the "carry-trade" where investors had been borrowing Yen at near 0% rates and then converting to higher yielding currencies or other assets. The Yen strengthening forced investors to sell their risky investments to pay back their Yen borrowings, which led to extreme falls in equities and other assets globally.

However, by the end of August, the markets had recovered much of their declines as subsequent economic data showed growth is slowing but not collapsing. Investors are also counting on easier financial conditions as the Fed gets set to start cutting rates at its September meeting and other central banks continue cutting rates.

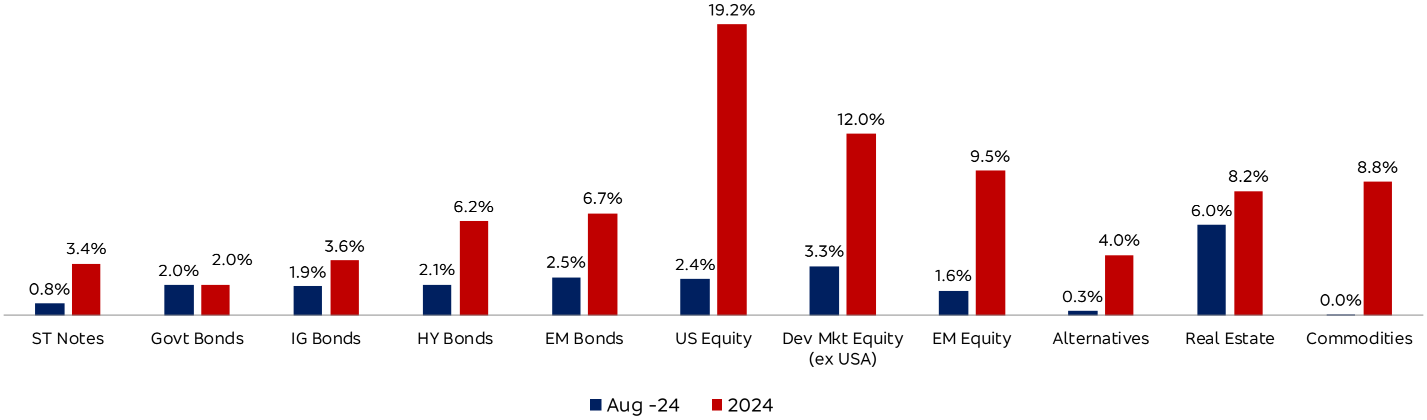
The outlook for the US and global economy is still uncertain. While a soft landing of the US economy is likely, a sharper slowdown is still possible which would lead to a repricing of financial markets around the world. However, so far, the economic data still supports a moderation of growth in the US, and not a sharper slowdown into recession. The most recent labor report showed the unemployment rate declining slightly from 4.3% to 4.2% but jobs growth somewhat disappointing at 142k for August. We believe this still supports the outlook of a soft-landing for the economy as there are no obvious indications of a collapse, hard-landing, or recession occurring.

In this environment, we believe maintaining diversified investment portfolios is especially important. We are not making any tactical adjustments to our model portfolios this month.

Source: Bradesco – September 2024

Asset Class Performance

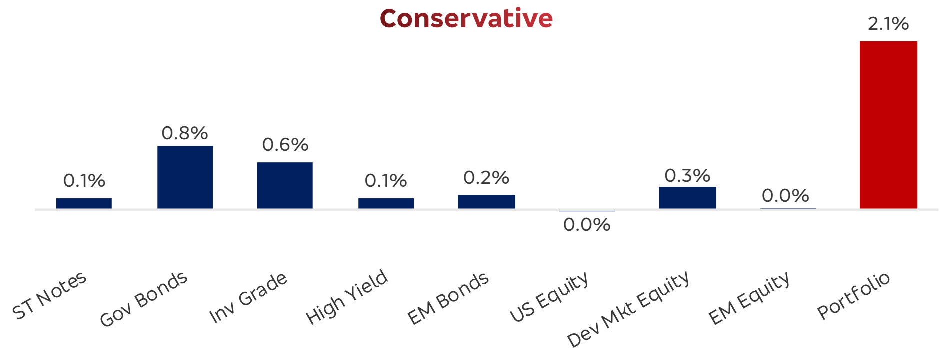
Despite extreme volatility in early August, global markets gained by the end of the month

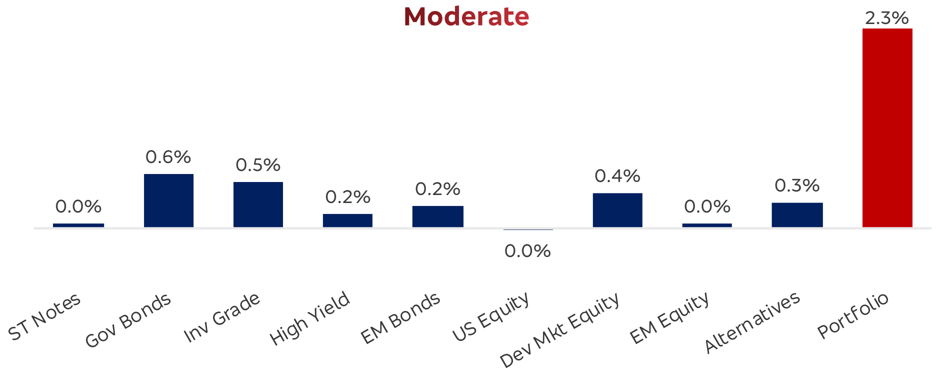


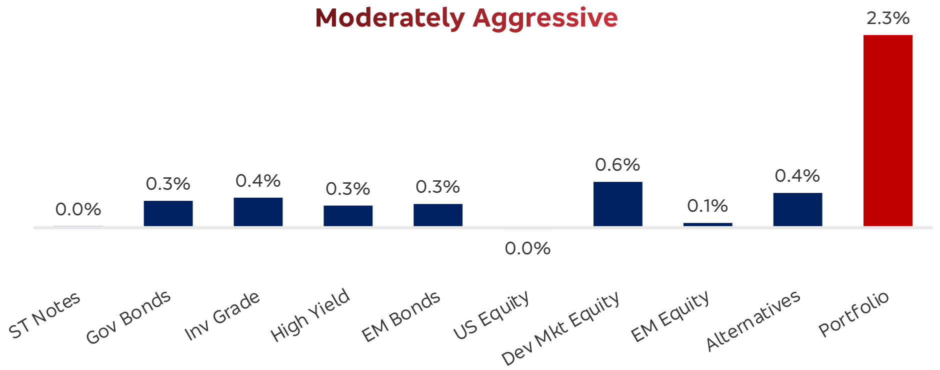
Source: Bloomberg/Bradesco – 1 September 2024

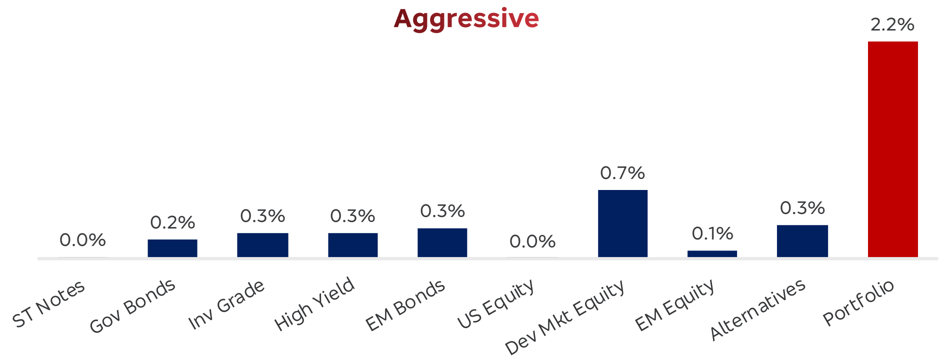
Cash/Short Term – BofAML 0-3 Year US Treasury Index / Gov. bonds – BofA Global Government Ex Japan /Investment Grade- BofAML Global Large Cap Corp / High Yield Global - BofAML Developed Markets High Yield Index / Emerging Market Bonds - J.P. Morgan EMBI Global Core / US Equities - S&P 500 Net Total Return 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 – August 2024





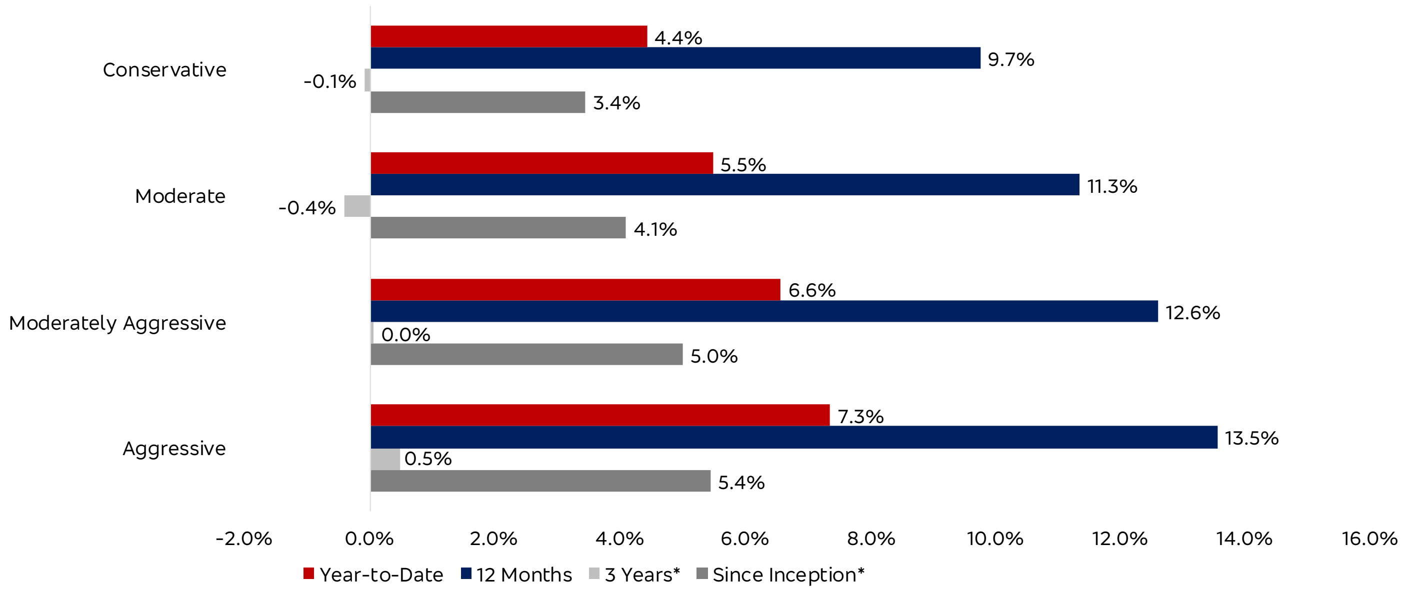




Past performance is not a reliable indicator of future results. Performance was calculated in USD. The return may increase or decrease as a result of currency fluctuations. Returns of the Model Portfolios are based on the allocations approved in the Bank's Strategy Commission and represent the weighted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

Source: Bloomberg/Bradesco – 1 September 2024

Model Portfolio Performance



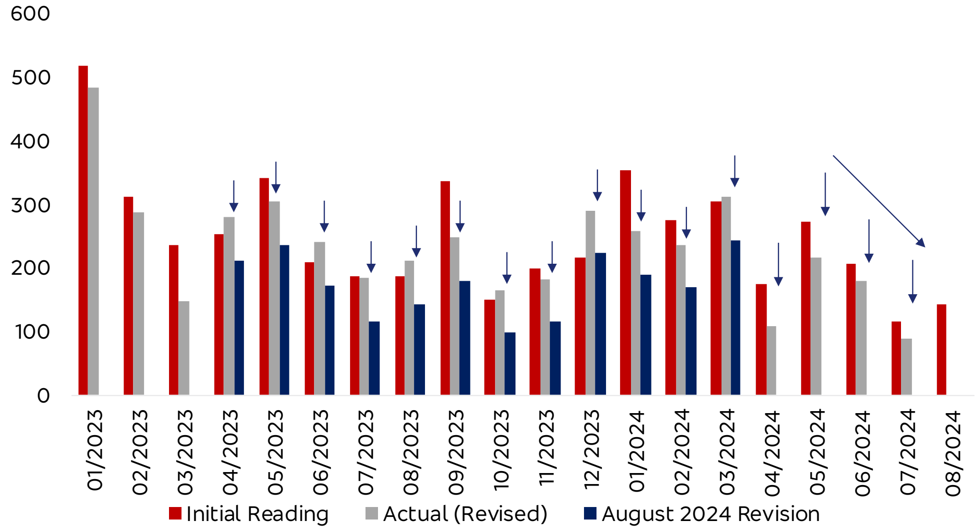
Source: Bloomberg/Bradesco – 1 September 2024

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

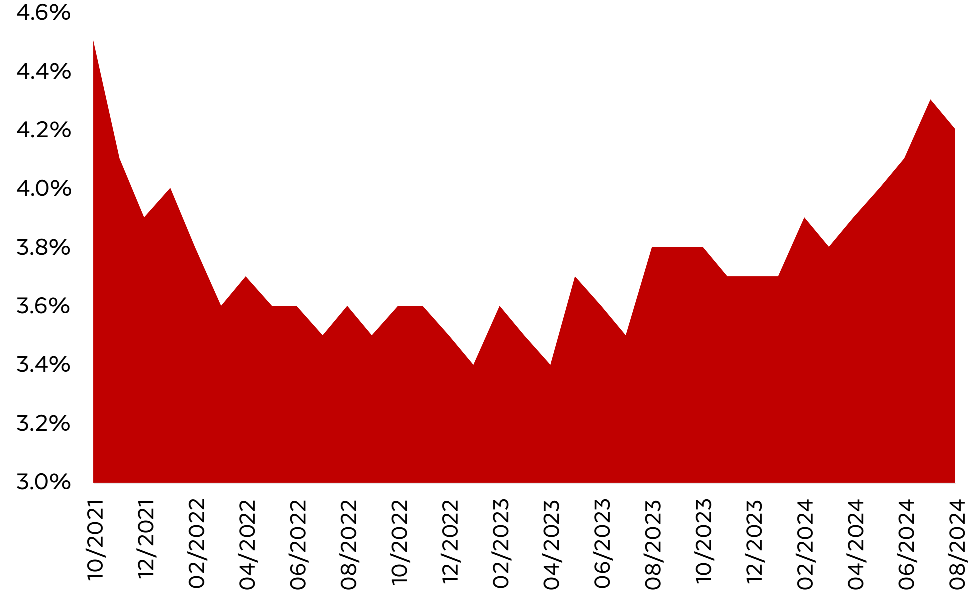
Past performance is not a reliable indicator of future results. Performance was calculated in USD. The return may increase or decrease as a result of currency fluctuations. Returns of the Model Portfolios are based on the allocations approved in the Bank's Strategy Commission and represent the weighted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

August 4.2% unemployment rate and 142k jobs shows economy slowing but not collapsing

142k jobs in August with 86k in downward revisions to previous months



The unemployment rate declined to 4.2% in August

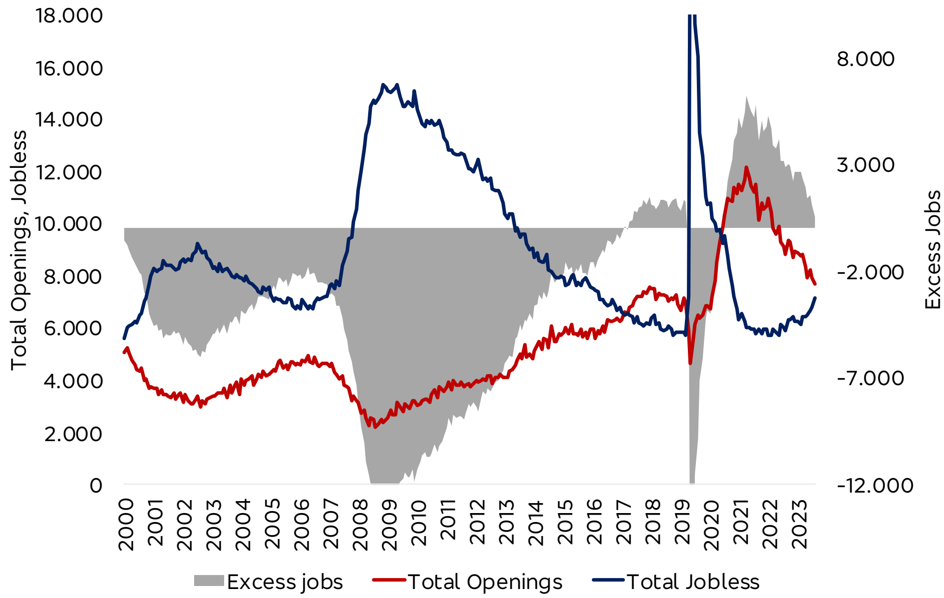


- The eagerly awaited August jobs report showed 142k jobs created in August and the unemployment rate declining slightly from 4.3% to 4.2%.
- The data shows a slowing but not collapse in the labor market and does not suggest the Fed will be forced to cut by 0.50% at its September meeting. Higher wage growth at 0.4% MoM shows wage inflation is still a concern. The CPI inflation report on September 11 will be in focus as higher inflation would limit the Fed's ability to cut rates aggressively.
- The jobs market had been very strong through 2023 but a downward revision of 818k to the number of jobs created April 2023-March 2024 showed growth was less robust than initially reported. Overall jobs created declined from 2.9mn to 2.1mn during that period. Average monthly job gains thus fell from 242k to 174k.

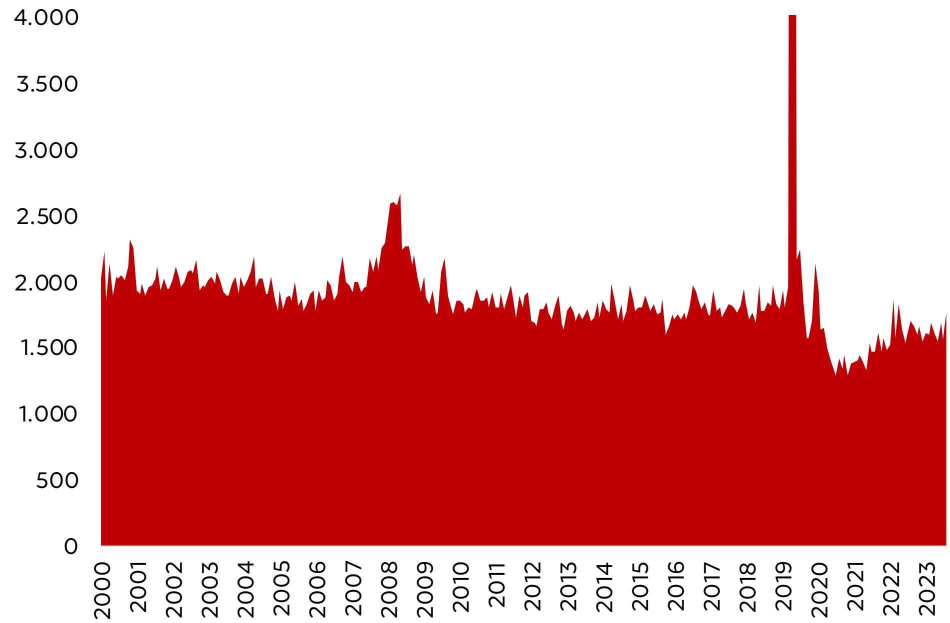
Source: Bloomberg/Bradesco – 6 September 2024

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

The US has 7.7 million jobs available vs 7.1 million jobless



Layoffs at 1.76mn, still low historically



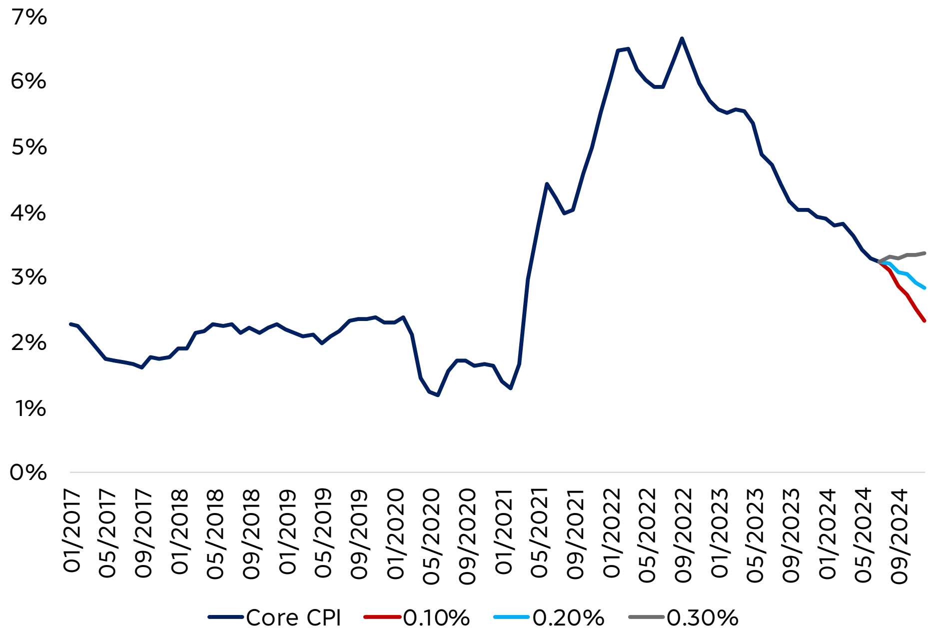
- The US employment market has been slowing but is not showing a collapse. The number of job openings has been steadily declining and as of July there were 7.7mn job openings. This is down from a peak of 12.2mn in 2022 but is still above the pre-pandemic average of 7.1mn in 2019. There are 7.1mn job seekers, up from a low of 5.7mn in 2022. There are still 0.6mn more jobs than available workers, although this is down from a peak of over 6 million in 2022.

- Layoffs have been at lower levels but increased to 1.76mn in August, which is the highest level for the past 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.

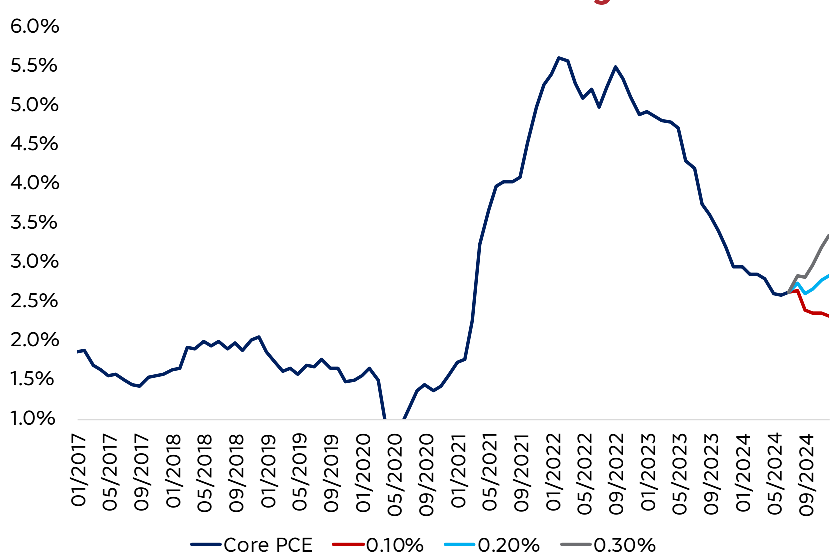
Source: Bloomberg/Bradesco – 6 September 2024

Inflation has come down, but may level-off in the coming months

Core CPI to continue declining, but August could be flat



Core PCE could rise in the coming months



- Inflation has steadily declined after reaching peaks in 2022. PCE inflation reached 2.5% and Core PCE reached 2.6% in July, although both were steady versus June levels. CPI reached 2.9% and Core CPI reached 3.2% in July, both down 0.1% from June levels.

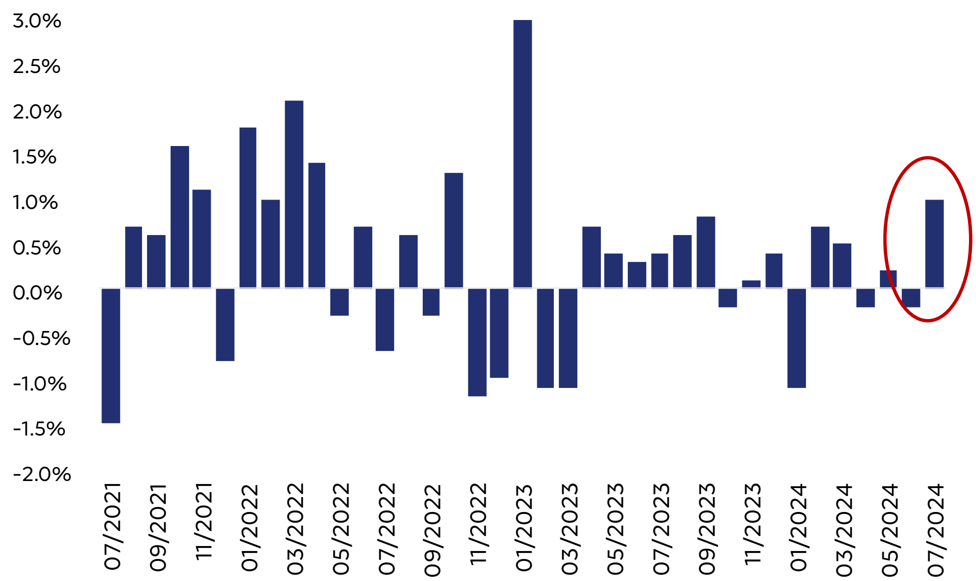
- Month-on-month inflation has moderated to around 0.2%. If monthly inflation were to continue at 0.2%, Core CPI would remain flat at 3.2% for August and then continue declining through the rest of the year. However, Core PCE could end up increasing from the 2.6% level. Both could end up around 2.9%-3.0% by the end of the year but would then likely begin declining again in early 2025.

- Higher wage growth in the August jobs report increases the risks that underlying inflation will remain strong. A month-on-month reading above 0.2% would be unwelcome by the Fed.

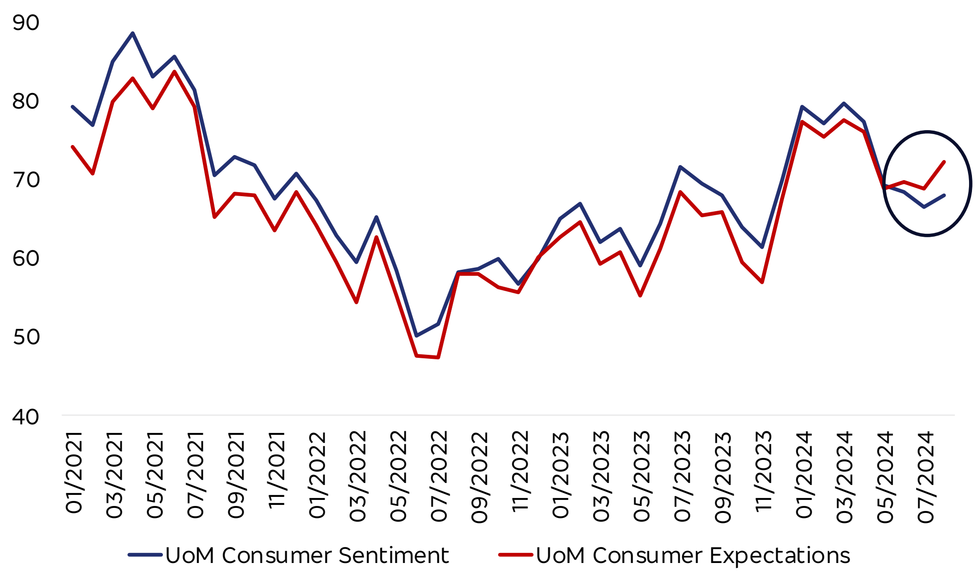
Source: Bloomberg/Bradesco – 6 September 2024

Consumers are still spending, and sentiment is rising again

MoM retail sales ticked up 1% in July, strongest since early 2023



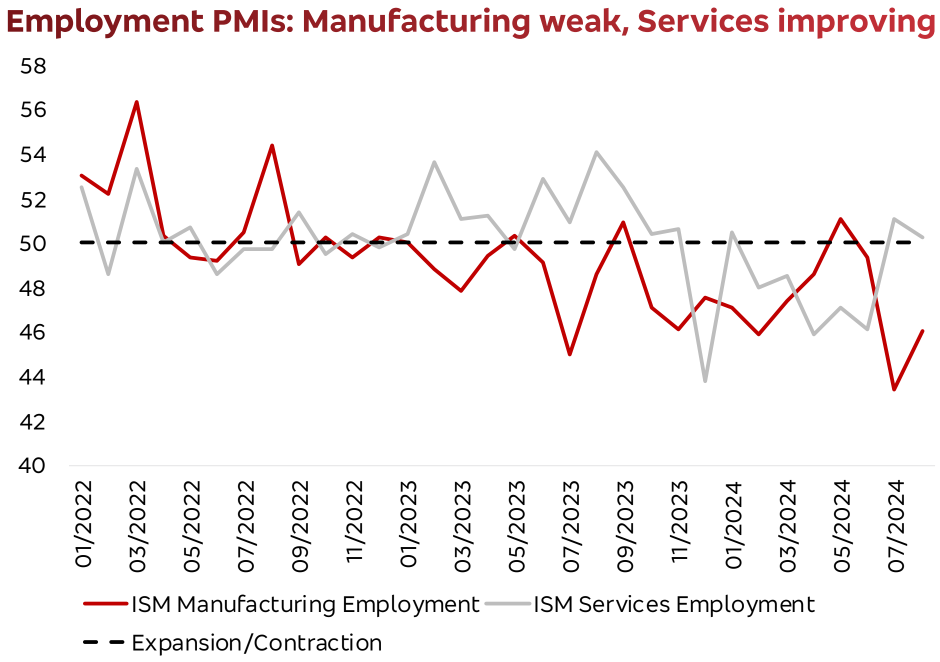
U. of Michigan Consumer Sentiment rising after a couple of weak months

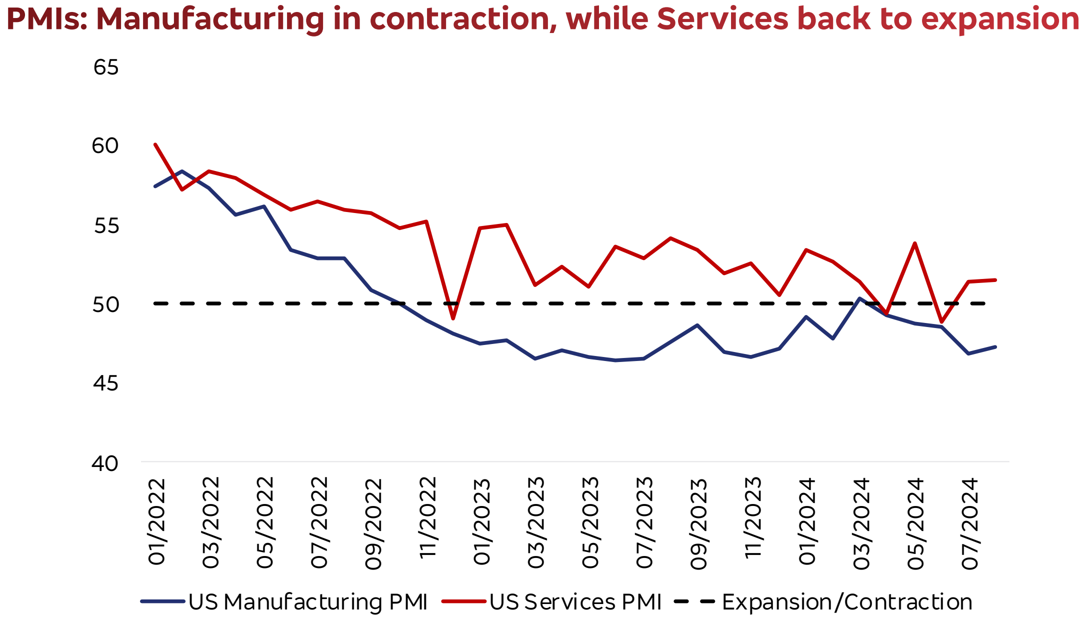


- Despite concerns on the jobs market and the state of the economy, consumer spending remains strong. July saw the strongest monthly increase in retail sales since early 2023. Consumer spending accounts for around 70% of US GDP so as long as consumer spending remains strong, the US economy will not fall into recession.
- Consumer sentiment has also started to recover after some weakening earlier this year. We will continue to monitor consumer sentiment and spending in case a sudden deterioration were to occur.
- Strong wage growth in August could support continued consumer spending, which would reduce the risks of a hard-landing of the economy.

Source: Bloomberg/Bradesco – 1 September 2024

PMIs still show a slowdown but not hard landing or recession



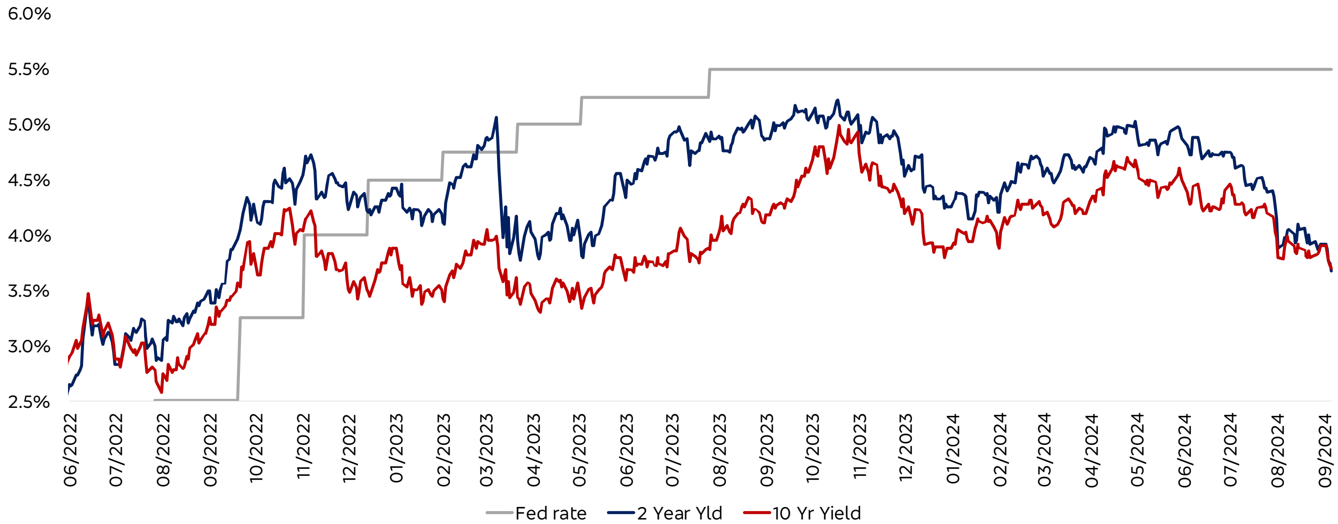


- ISM PMIs are still showing a slowdown but not a hard landing or recession. Manufacturing has been in contraction territory since 2022. Services has been mostly above 50 (in expansion territory) but with some volatility around the 50 level.
- Employment indicators has been more volatile, fluctuating around the expansion/contraction line since early 2022. July manufacturing employment fell to 43.4, reaching levels only seen during major crises but it did recover to 46 in August. Services, after being in contraction for most of the year, has increased to above 50 for the past 2 months.
- These surveys show that although some sectors of the economy are slowing, others are still growing which does not support the outlook for a hard landing of the economy or recession. Additional data in the coming weeks on inflation and retail sales should give some more insight into the state of the economy.

Source: Bloomberg/Bradesco – 5 September 2024

Markets think the Fed is late in cutting rates and will make things worse with the delay

Treasury 2 and 10-year yields falling rapidly while the Fed keeps rates high

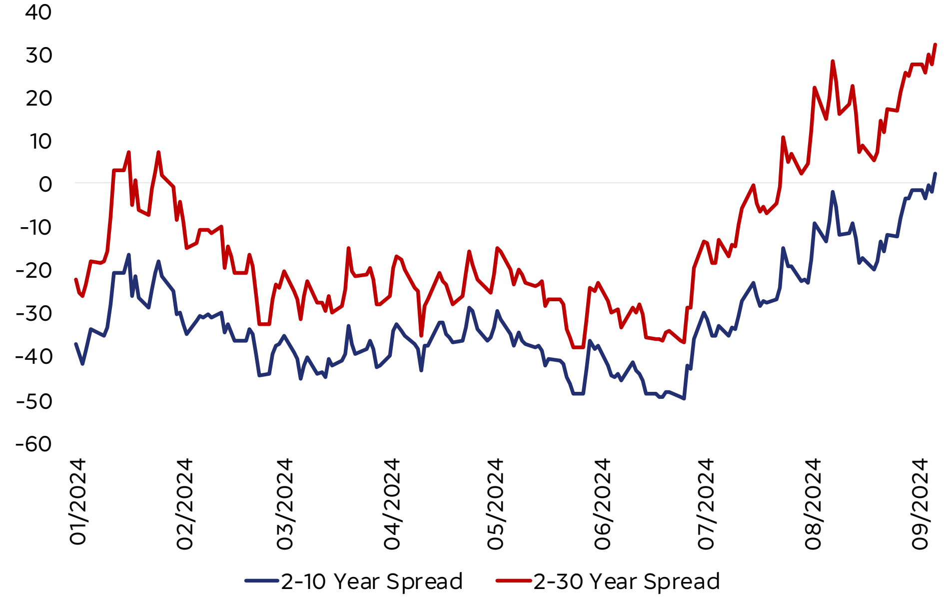


Source: Bloomberg/Bradesco – 6 September 2024

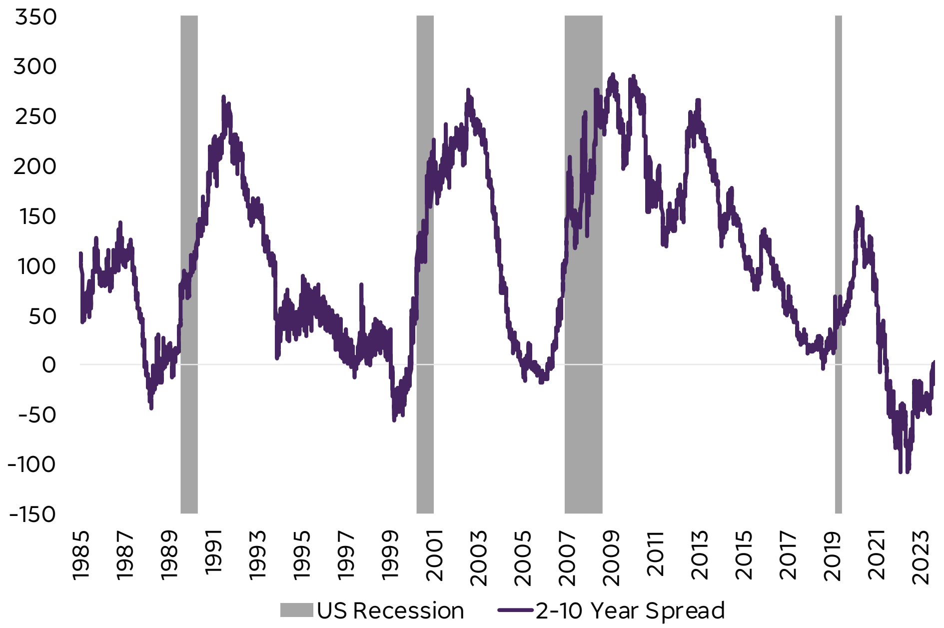
- The Fed has held rates at 5.25%-5.5% since July 2023 and is expected to start cutting rates at its September 18 meeting. Weak employment data has convinced the markets that the Fed is already late in lowering rates as it waits until the September meeting, and that this could make the downturn even worse.
- Treasury yields have fallen rapidly. The 10-year yield was 4.25% on July 22 and fell 55bps since then to 3.7% as of early September. The 2-year yield fell 80 bps from 4.5% to near 3.7% during the same time.
- Market pricing implies investors believe the Fed will cut rates by 1.0% or 1.25% this year (in September, November, and December). And for there to be 2.5% in total rate cuts by the end of 2025. We believe these assumptions may be aggressive and if the economic data does not indicate a sharp slowdown, the Fed would not be this aggressive in cutting rates and yields could actually rise from current levels.

Does yield curve steepening signal a recession ahead?

Shorter yields declining more as rate cuts in sight



Steepening could indicate a recession is near

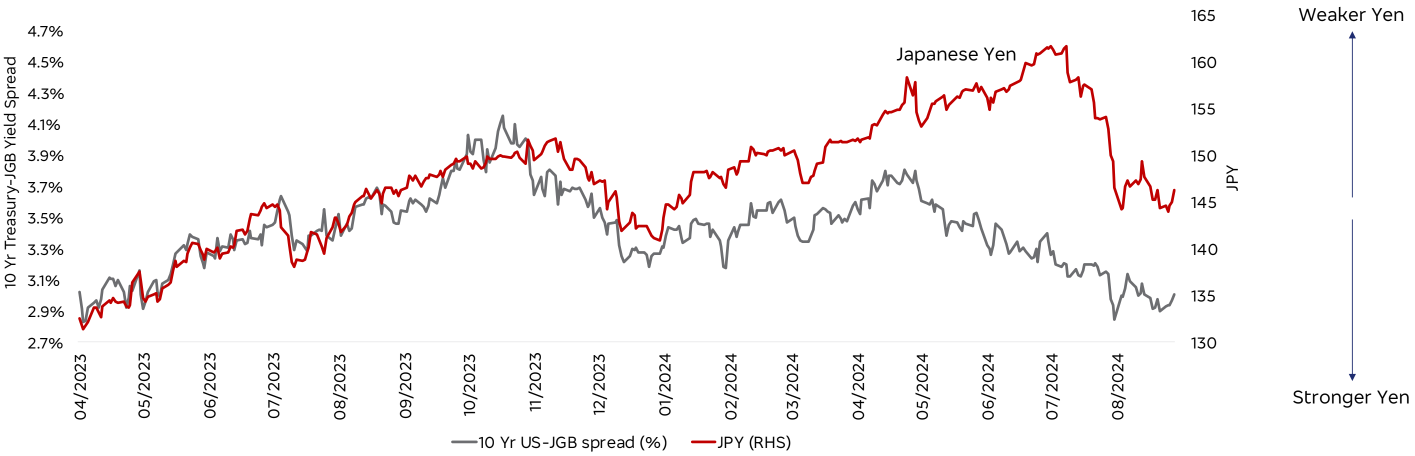


- The Treasury yield curve has steepened sharply over the past 2 months as 2-year yields have declined by nearly 100bps in anticipation of Fed rate cuts and the 10-year yield has declined by about 70 bps (from end June to early September).
- The 30-year yield has declined by just 55 bps since end-June showing the long-end of the yield curve has declined but is struggling to reach lower levels. Concerns about US fiscal deficits and potential inflationary policies (depending on the presidential election) are keeping longer yields higher (versus shorter yields).
- A steepening yield curve with the 2-10 spread rising above 0% has been a signal of a recession previously. The 2-10 spread briefly increased above 0% in early September and will likely rise further in the coming weeks. While this does indicate a slowing economy, it does not necessarily mean a recession is inevitable.

Source: Bloomberg/Bradesco – 6 September 2024

Falling Treasury yields and hawkish Bank of Japan has reversed the Yen weakness

The spread between the 10-year US Treasury and Japanese Government Bond yields could indicate where the Yen could reach



Source: Bloomberg/Bradesco – 6 September 2024

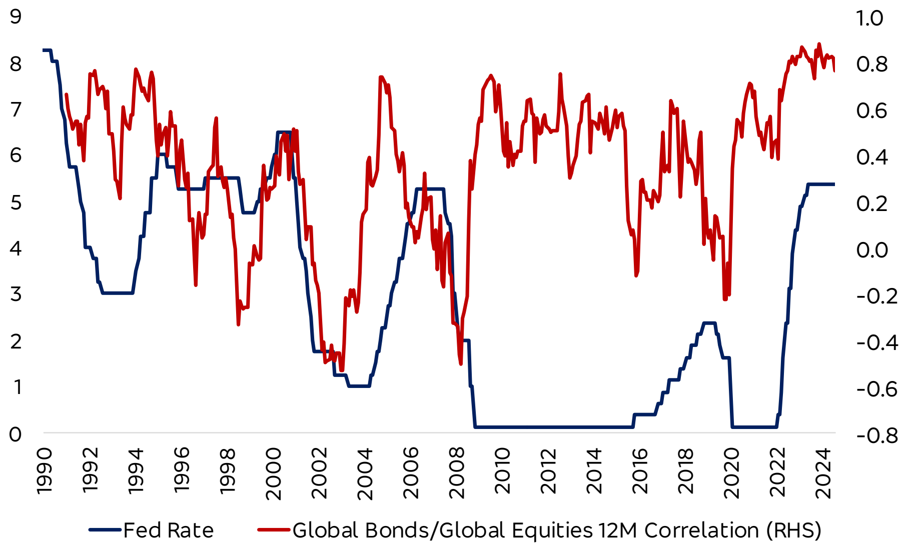
- The Japanese Yen previously traded on the yield differential between Treasury and JGB yields. But this year, the relationship broke down and the Yen weakened considerably as global "carry trades" pushed it to extreme weakness.

- In July, it reached 162 Yen/USD, a 38-year low, when yield differentials indicated it "should" have been closer to 140 Yen/USD. With the weakening US economy and further rate increases possible in Japan, the Yen strengthened sharply from the July lows. By early September, it reached around 142 Yen/USD and some further strengthening towards 135 (decline in the JPY rate) could mean it is reaching fair value.

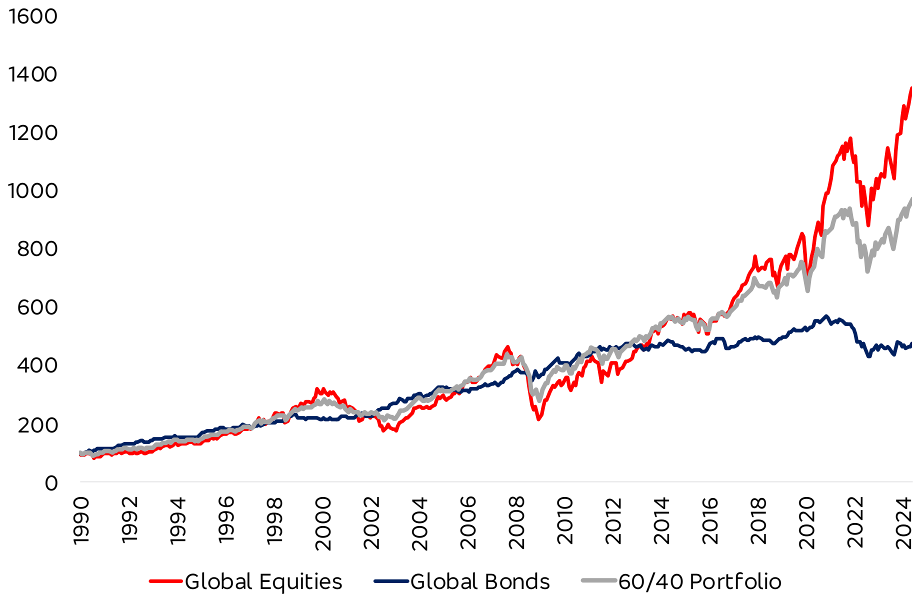
- The rapid strengthening of the Yen and the unwinding of the carry trade was one of the causes of the extreme market sell-off during August.

Fed rate hikes mean equity/fixed income correlations should fall … 60/40 back in vogue

Correlation should start declining as the Fed starts cutting rates



Fixed Income provides protection and equities provide upside

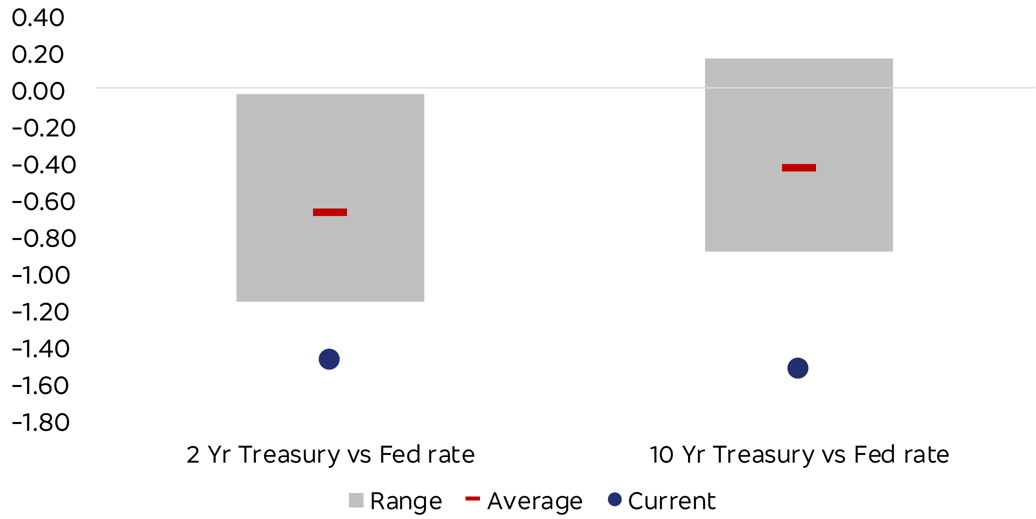


- Fixed income/equity correlations have historically been at higher levels before Fed rate cuts start, then they start to decline as rate cuts are set to begin. The current 12-month, correlation is 0.81 which is historically high, corresponding to the 96th percentile of correlations all the way back to 1991. But we expect correlations to begin falling.
- If the Fed can achieve a soft landing, it could mean some differences in market performance. Fixed income should still do well, but yields would not drop rapidly lower. Equities can continue higher, but given expensive valuations some of the upside may already be priced in.
- A hard landing would lead to fixed income yields declining further and generating strong returns. Equities would be more volatile as earnings would be at risk and there would be more downside given valuations are expensive.

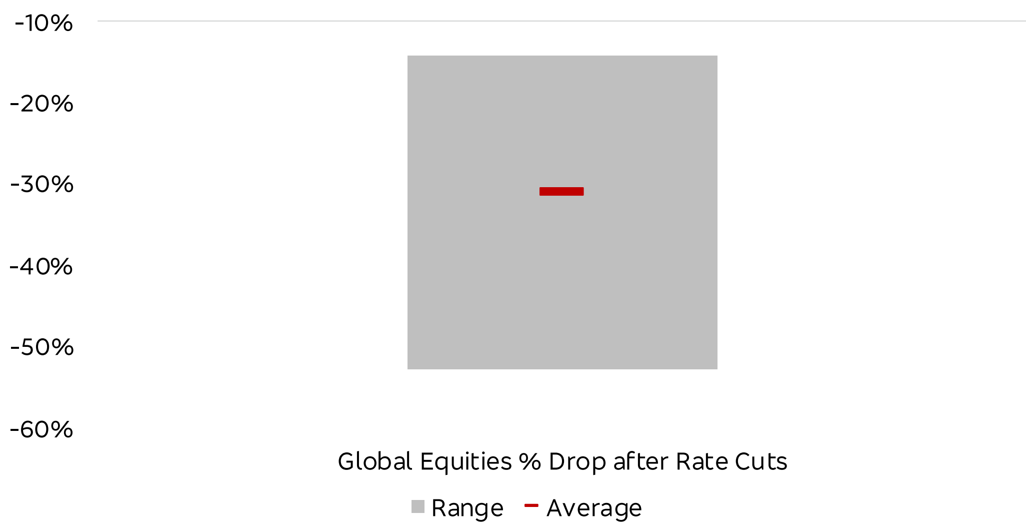
Source: Bloomberg/Bradesco – 6 September 2024

Yields are already very low as the Fed starts cutting rates. Equity outlook weak if a hard-landing

US 2 and 10-year Treasury yields at record lows vs Fed Rate before rate cuts



Historically Global Equities have fallen by as much as 50% after cuts



- Treasury yields are about 150 bps below the Fed rates as the markets prepare for Fed rate cuts to start in September. This is very low compared to where yields usually are before Fed rate cuts start and indicates that markets are already discounting significant rate cuts in the coming years. Market pricing shows 1.0%-1.25% in rate cuts priced in by the end of the year and 2.5% in rate cuts priced in by the end of 2025.

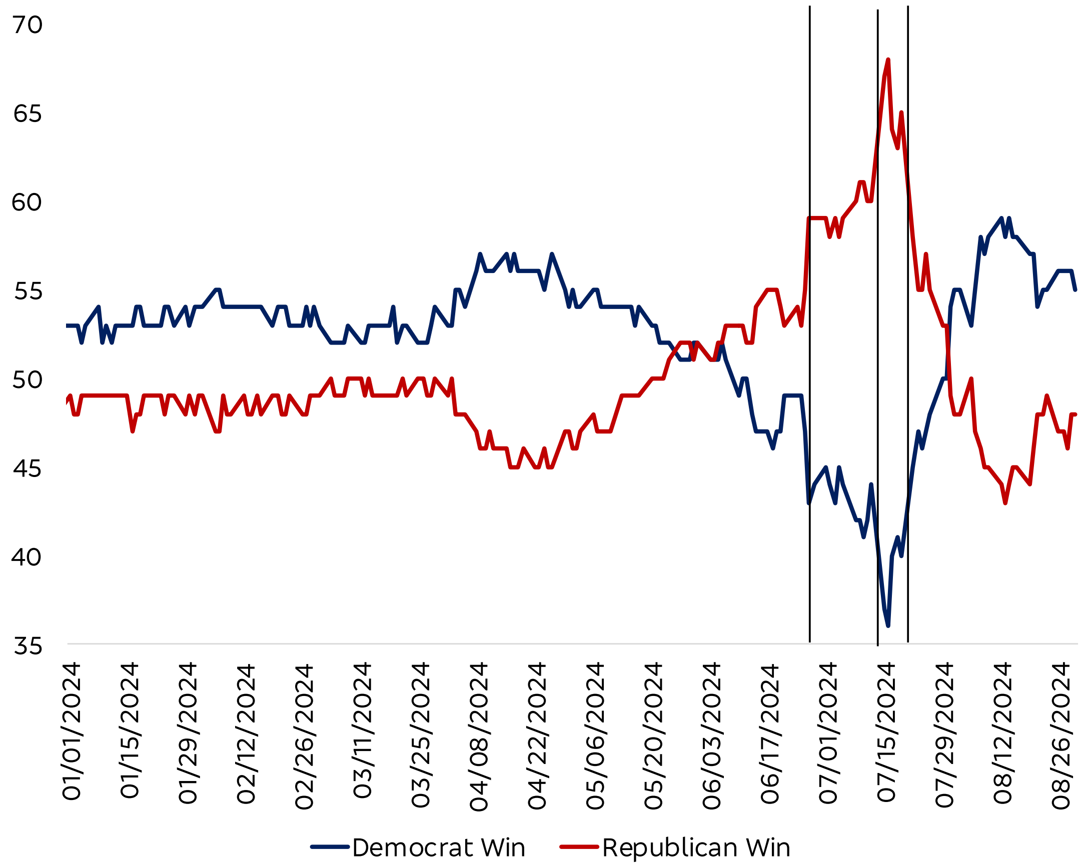
- In a soft-landing scenario, Fed rate cuts would not be that aggressive and the Fed is likely to indicate higher rate levels in its economic projections at its September meeting. This could lead to yields rising from the current low levels.

- Historically, equity markets reach near record highs just as central bank rate cutting cycles begin. This is the case currently as most US and global equity indices reached or were near record highs over the past month in anticipation of rate cuts starting in September. Once rate cuts start, equities have declined 15%-50% during past rate cutting cycles. This happens because rate cutting cycles are typically due to economic weakening and recessions, which is a bad environment for equities. However, in the rare soft-landing scenario, as happened in 1995 in the US, equities can continue rising without significant drawdowns.

Source: Bloomberg/Bradesco – 6 September 2024

US Elections: Most likely a divided government

Betting odds show Harris has quickly built a lead over Trump



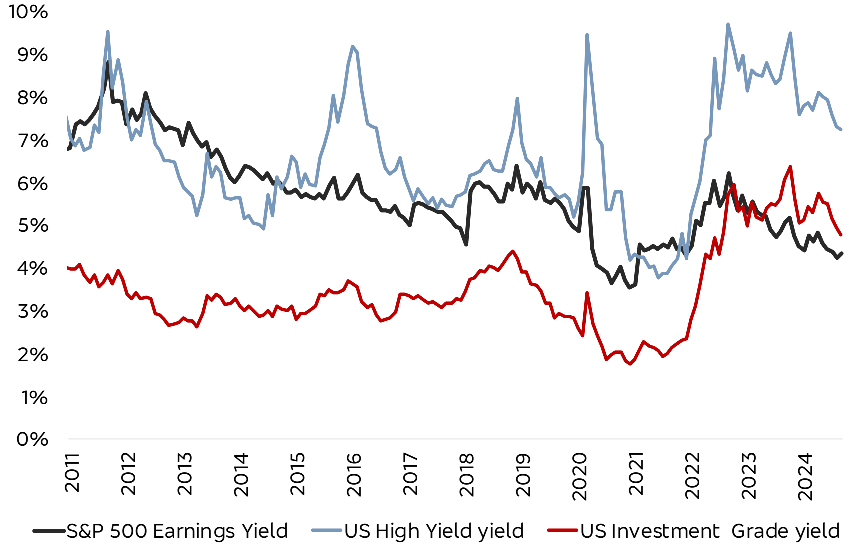
Source: Bloomberg/Bradesco – 1 September 2024

- President Biden dropped out of the election on July 21, and Vice-President Harris announced her own campaign for the presidency.
- She has quickly reversed much of Biden's polling weakness and has erased Trump's lead in many key swing states including: Pennsylvania, Wisconsin, Michigan North Carolina, Nevada, Arizona and Georgia.
- 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 much of the campaign promises and economic proposals made by both sides will not be implemented.
- The Trump tax cuts (Tax Cuts and Jobs Act) reduced corporate taxes to 21% from 35%. This will not expire so it should continue under most election scenarios.
- Individual taxes were reduced but these lower rates will expire at the end of 2025. Harris is proposing to maintain lower taxes for those making under $400,000/year but raising tax rates for those making more.

Yields down on recession fears, but spreads widening

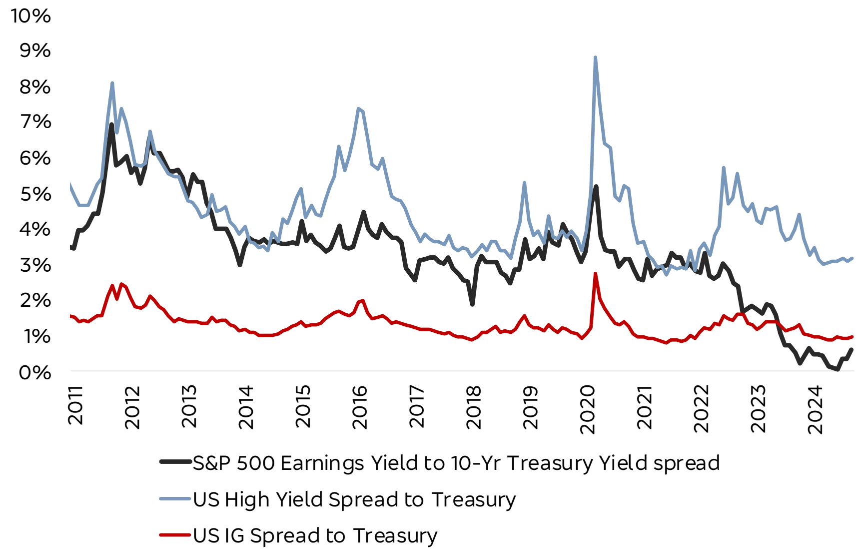
S&P 500 Earnings Yield versus High Yield and Investment Grade yields

(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 (through early September) as weakening US employment data increases concerns of a possible recession. Investment grade yields have fallen under 5% and High Yield yields are 7-7.5%. Equity earnings yields (inverse of the Price/Equity ratio) have continued to decline to around 4.2%.

- The S&P 500 Equity Risk Premium (difference between earnings yield and 10-year Treasury yield) has increased to 0.6%, still near the extreme lows near 0%, meaning equities are still expensive when compared to the fixed income spreads.

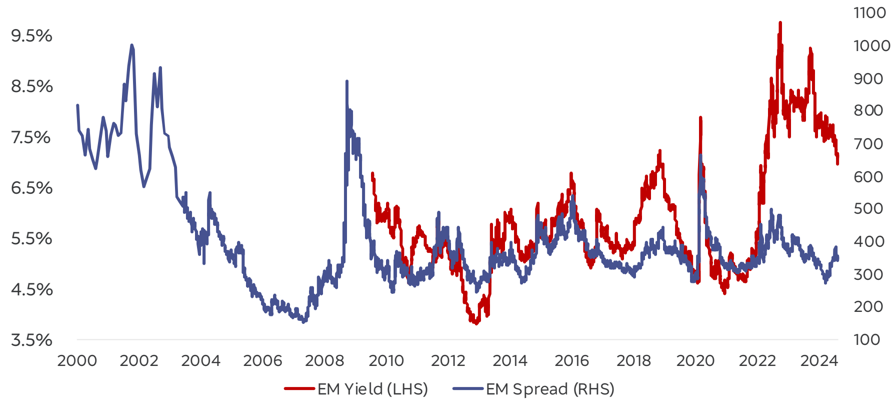
- High Yield spreads have increased with the market disruptions, at the highs in August reaching 380bps, but settling around 320 bps by early September. Investment Grade spreads increased about 10 bps to around 100 bps.

Source: Bloomberg/Bradesco – 6 September 2024

Fixed Income Yields and Spreads

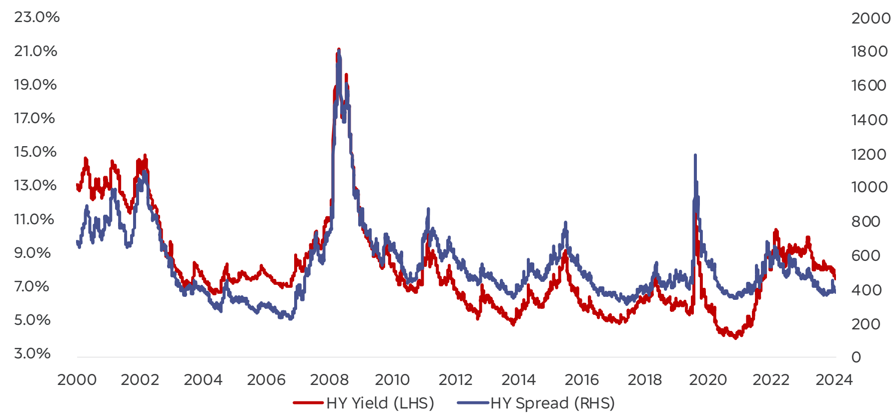
	Yield	Spread (bps)	Spread Avg/Range	Duration
US Investment Grade	4.78%	97	149 (76-618)	7.3
US High Yield	7.23%	315	445 (262-1099)	3.5
Global High Yield	7.60%	388	543 (220-1803)	4.0
Emerging Markets	6.98%	347	354 (151-1001)	7.2

Emerging Market Yields and Spreads



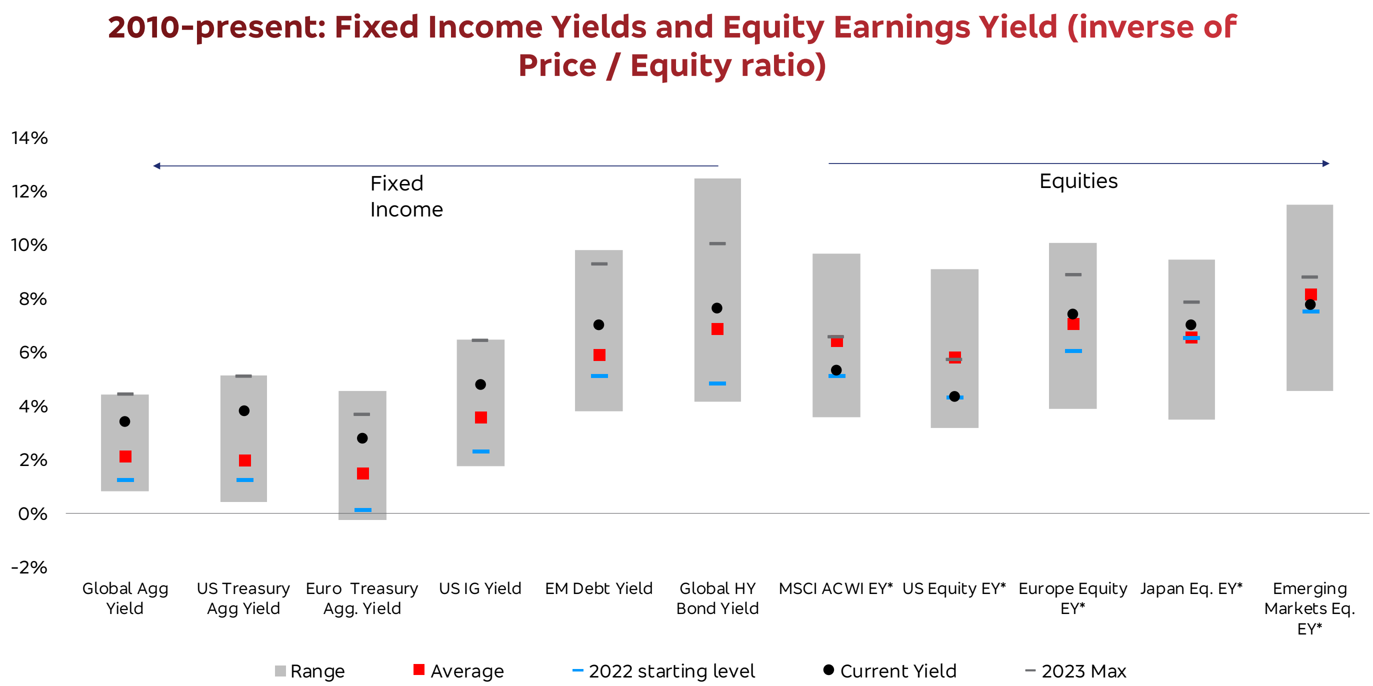
US Investment Grade Yields and Spreads

Developed Market High Yield Bond Yields and Spreads



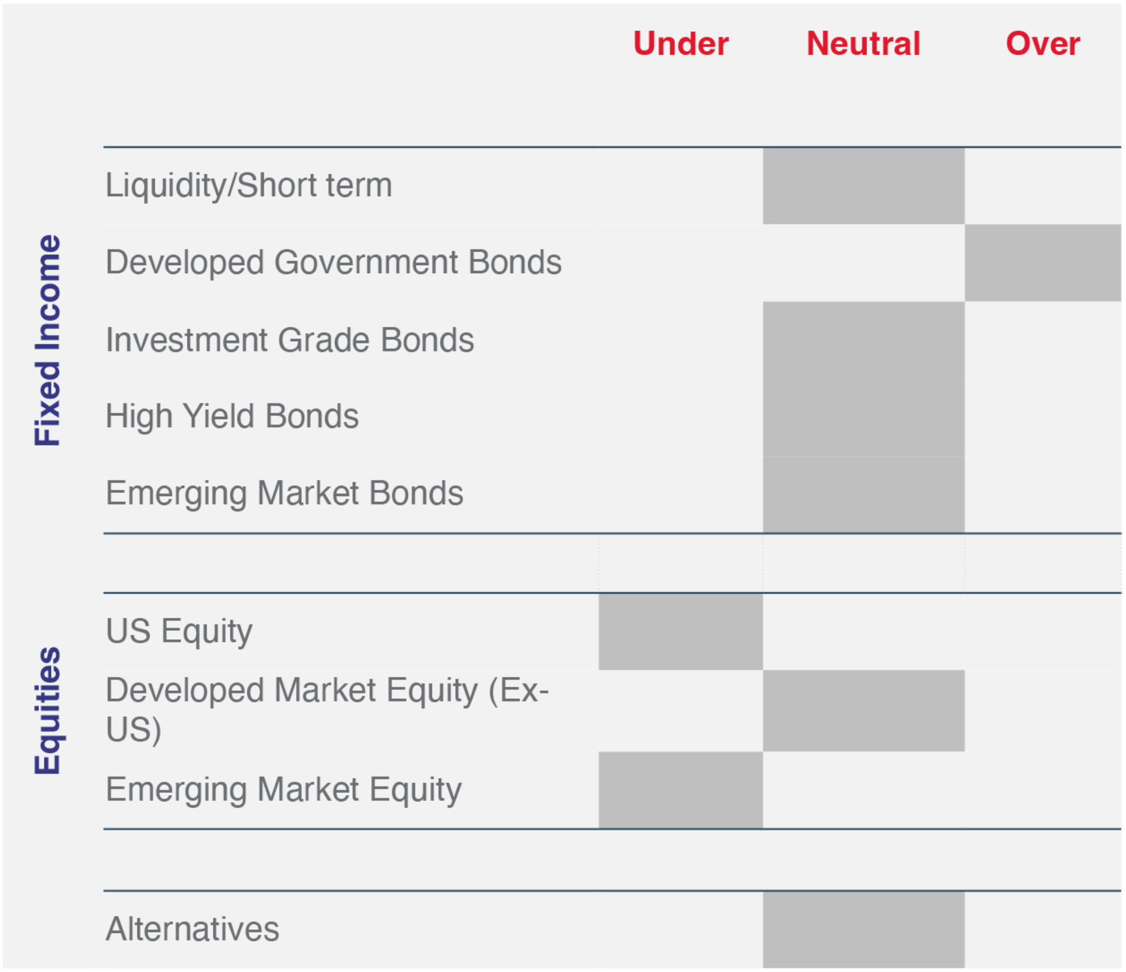
Source: Bloomberg/Bradesco – 6 September 2024

Fixed Income yields down from highs, US equities still look expensive



Source: Bloomberg/Bradesco – 1 September 2024

Adjusting Tactical Allocations



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 initiating an allocation to Mortgage-Backed Securities (MBS) within our Government Bond asset class and increased the Government Bond TAA to Overweight.
- 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 have not made any Tactical adjustments to the portfolios for this month.

Source: Bloomberg/Bradesco – 1 September 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 September 2024

September Economic Calendar

2 • Labor Day	3 • S&P Global and ISM Manf. PMI	4 • JOLTS Job Openings • Factory Orders • Durable Goods Orders • EZ PPI	5 • S&P Global and ISM Services PMIs • S&P Global Composite PMI • Jobless Claims • Continuing Claims • ADP Employment Change	6 • **Nonfarm Payrolls**
9 • Consumer Credit • NY Fed 1-Yr Inflation Expectations • JP GDP (F)	10 • NFIB Small Business Optimism	11 • **CPI** • JP PPI	12 • **PPI** • Jobless Claims • Continuing Claims • **ECB Meeting**	13 • University of Michigan Consumer Sentiment
16 • Empire Manufacturing	17 • Retail Sales • Industrial Production	18 • **Federal Reserve Meeting** • **EZ CPI** • **UK CPI**	19 • Jobless Claims • Continuing Claims • Leading Index • Existing Home Sales • Philadelphia Fed Business Outlook • **BOE Meeting** • **JP National CPI**	20 • **BOJ Meeting** • UK Retail Sales
23 • S&P Global PMIs	24 • Conference Board Consumer Confidence	25 • New Home Sales	26 • Jobless Claims • Continuing Claims • Q2 GDP (T)	27 • **PCE** • Personal Income/Spending • University of Michigan Consumer Sentiment (F)
30 • MNI Chicago PMI • Dallas Fed Manufacturing Activity • UK Q2 GDP (F)	1 • S&P Global and ISM Manf. PMI • JOLTS Job Openings • **EZ CPI**	2 • ADP Employment Change • EZ Unemployment	3 • Jobless Claims • Continuing Claims • S&P Global and ISM Services PMIs • S&P Global Composite PMI • Factory Orders • Durable Goods Orders • **EZ PPI**	4 • **Nonfarm Payrolls**

Source: Bloomberg/Bradesco – 1 September 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.