MONTHLY VIEW

International Investment Strategy

Trump wins and Republicans sweep Congress: Macro and Market Implications

bradesco investments

NOVEMBER

2024

Index

International Markets

The highly anticipated US elections were expected to be very close, but in the end, Trump won by a wide margin in both electoral votes and the popular vote. Importantly, the Republicans are expected to also control both houses of Congress, winning back the Senate and likely to hold a slightly larger majority in the House.

Financial markets had been increasingly anticipating such an outcome over the past month as fixed income yields rose strongly, the Dollar strengthened from near lows of the year, and US equity markets weakened somewhat but still held near record highs. US Treasury yields rose 50-60 bps across the key maturities in October, leading to fixed income markets falling for the first time since April and posting the worst month for fixed income for a year.

The combination of Trump winning and Republicans controlling Congress means much of the Republican wish list of policies may be approved. These include renewing the lower personal tax rates, reducing corporate taxes even further, raising import tariffs significantly, and reducing immigration. The details of Trump and the Republicans actual policies will not be known for many months, but we expect the results to be, at the very least, higher inflation and worse budget deficits once implemented in the coming years.

In the short-term, consumer and business confidence are likely to rise which should support consumption and economic growth in the coming quarters. In the medium to longer-term, the tax cuts could be slightly positive for economic growth, but immigration restrictions and tariffs could be negative depending on their severity.

Our initial outlook for the impact on global asset classes:

- Even higher Treasury yields as the US economy continues to expand and inflation remains at higher levels. The Trump win and Republican Congress mean inflationary policies could be approved leading to the Fed to pause its rate cut cycle in 2025. Higher budget deficits means even more Treasury supply and upward pressure on longer-term yields.

- Investment Grade and High Yield bonds could see even tighter spread but overall yields are likely to rise, leading to weakness for now.

- The potential for higher import tariffs, especially against China, is overall negative for Emerging Markets both equities and fixed income. China is set to announce details of a large stimulus package soon which could offer some short-term reassurance.

- US equities are very expensive on any valuation measures, but the potential for continued economic growth and lower tax rates could drive further gains.

- Developed Market equities (European and Japanese) could suffer if Trump's proposed 20% tariffs on all imports were to be implemented. The impact could be partially offset by weakening currencies against the Dollar.

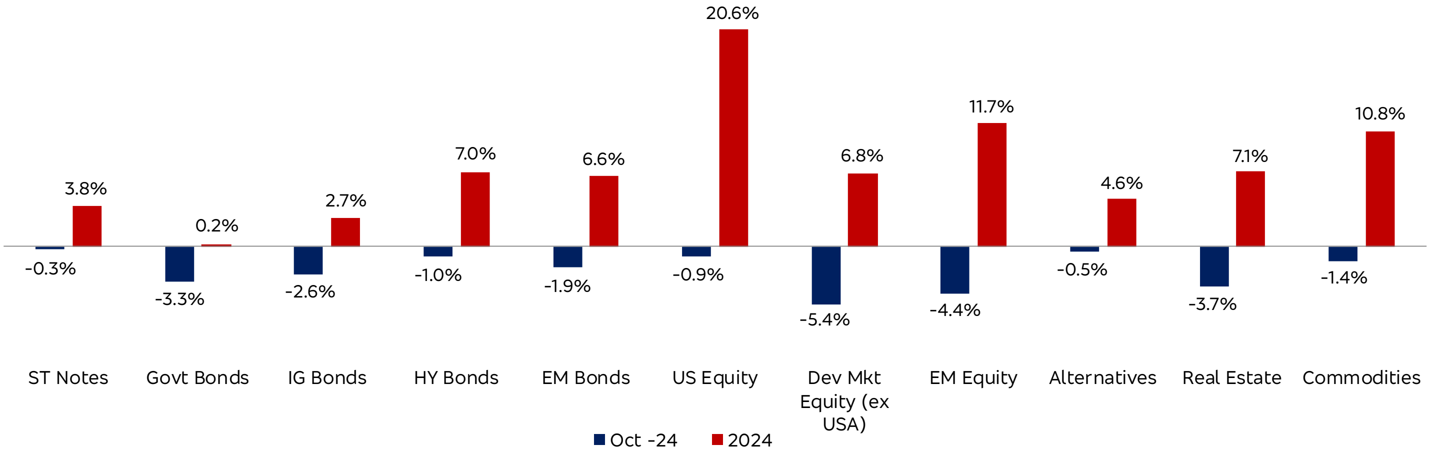
- The US Dollar should strengthen further.

We have reduced our longer-duration positioning within Government Bonds in our tactical asset allocation for this month in anticipation of a possible further rise in Treasury yields due to the election results. We will be making further adjustments in the coming months as the implications of the Republicans taking control of the government become clearer.

Source: Bradesco – November 2024

Asset Class Performance

Global markets fell in October as fixed income yields jumped higher on the possibility of a Trump win

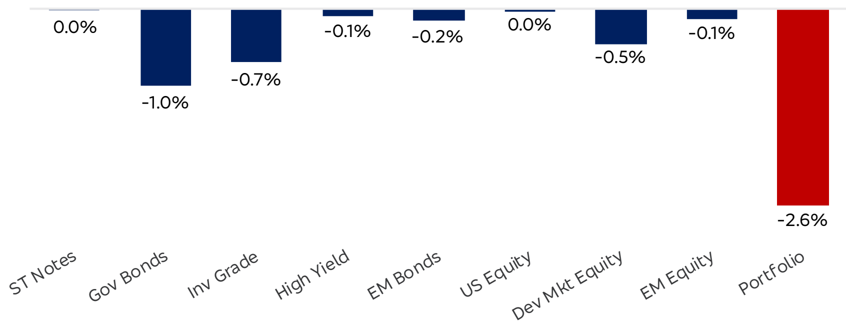


Source: Bloomberg/Bradesco – 1 November 2024

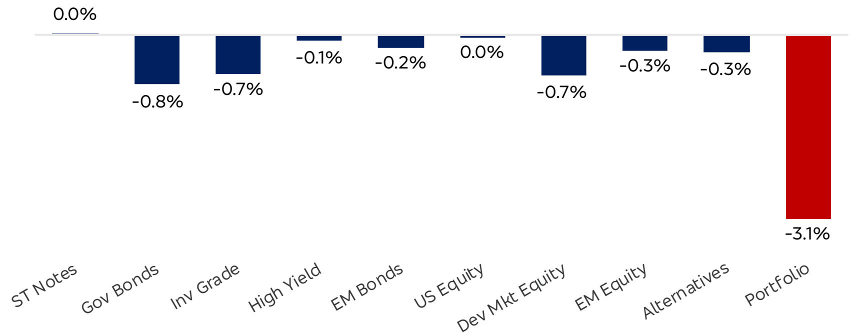
Cash/Short Term – BofAML 0-3 Year US Treasury Index / Gov. bonds – BofA Global Government Ex Japan /Investment Grade- BofAML Global Large Cap Corp / High Yield Global - BofAML Developed Markets High Yield Index / Emerging Market Bonds - J.P. Morgan EMBI Global Core / US Equities - S&P 500 Net Total Return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

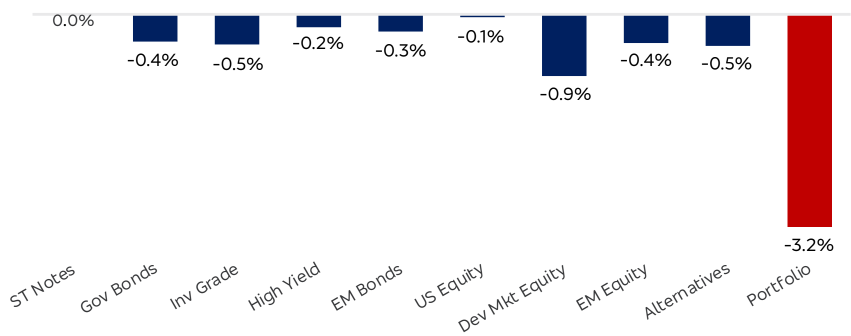
Conservative



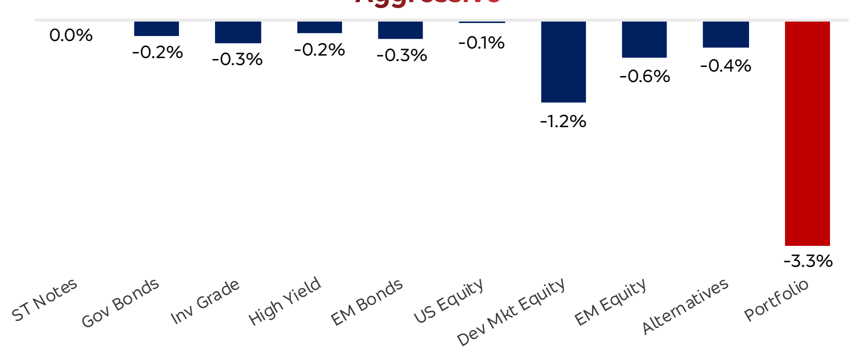
Moderate



Moderately Aggressive



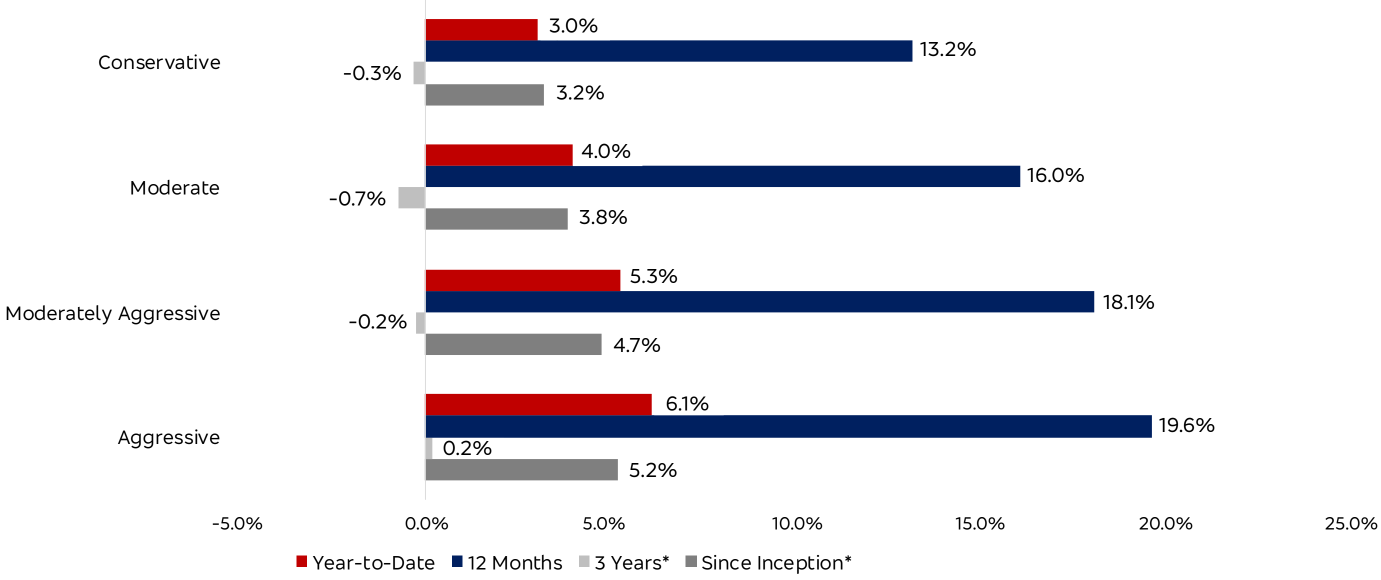
Aggressive



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 November 2024

Model Portfolio Performance



Source: Bloomberg/Bradesco – 1 November 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.

Trump wins: What does he want to do on taxes and tariffs, and what does it mean?

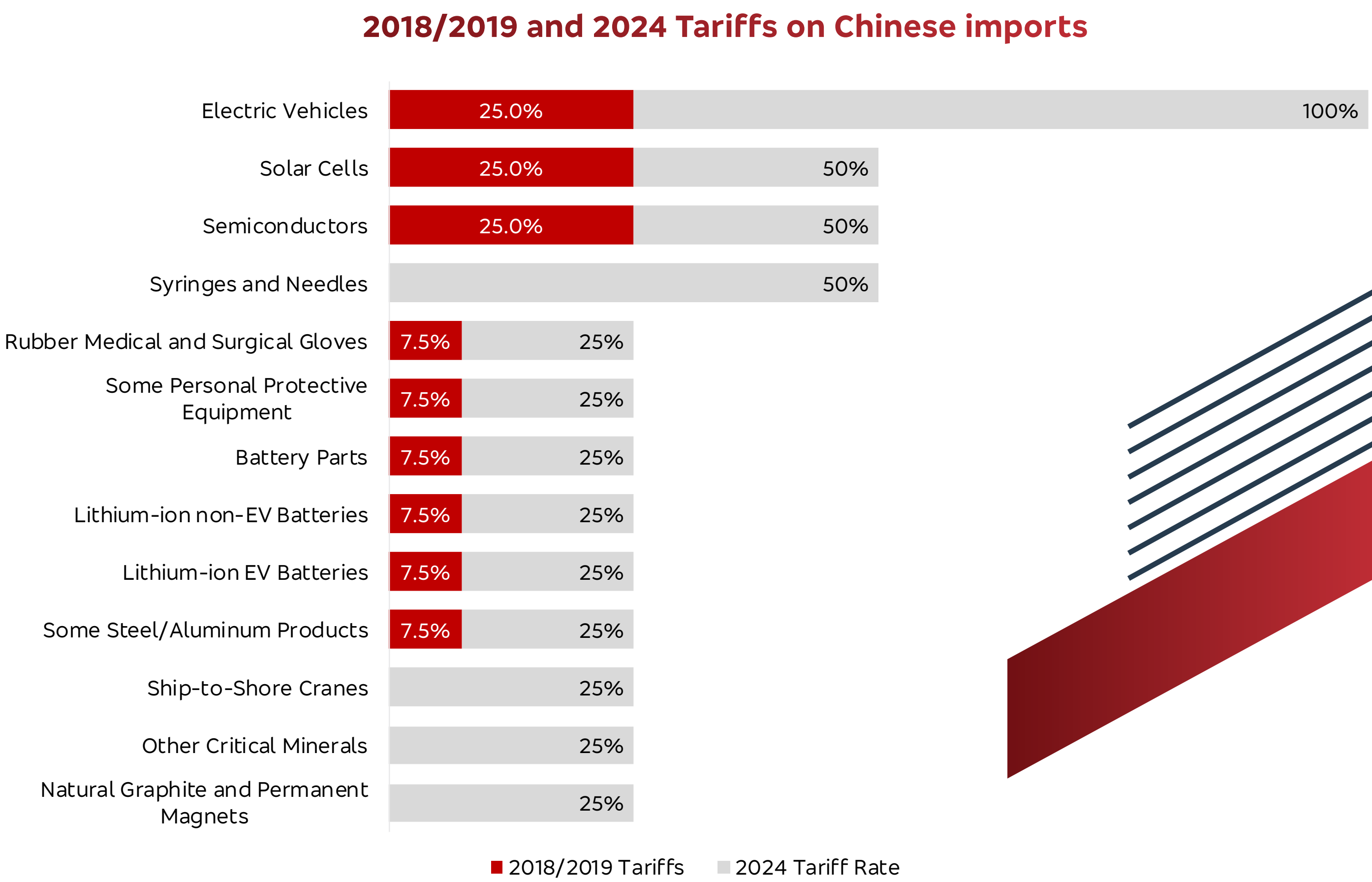
Taxes
Raise tariffs on Chinese goods to at least 60% and minimum tariffs on all other countries to at least 10%-20%
Extend the 2017 Personal Tax Cuts set to expire in 2025
Lower Corporate Tax Rate to 20% from 21%
Lower Corporate Tax Rate to 15% for Domestic Manufacturers
End Taxation of Social Security, Overtime and Tip Income

Other Key Proposals
Secure the Border and Deport Unauthorized Immigrants
Strengthen and Modernize the Military
Enact Housing Reforms, Including Credits for First-Time Homebuyers
Reverse Current Energy/Environment Policies and Expand Production

Trump/Republican priorities and macro/market implications
Renewing the 2017 personal tax cuts and reducing corporate taxes likely to be a priority for Republicans when they come to power in 2025
GDP growth remains robust, and tax cuts could help increase it marginally but would also lead to somewhat higher inflation
Trump is also focused on increasing tariffs against China and other countries and reducing immigration
But raising tariffs and reducing immigration will lead to higher inflation and could lead to lower GDP growth
Trade partners will inevitably retaliate against the US which could lead to global trade wars and economic weakness in a worst-case scenario
In any scenario, Debt/GDP will increase above baseline levels, putting further upward pressure on Treasury yields

Source: Bloomberg/Bradesco – 6 November 2024

Tariffs: Even higher China tariffs and 10%-20% on all imports.

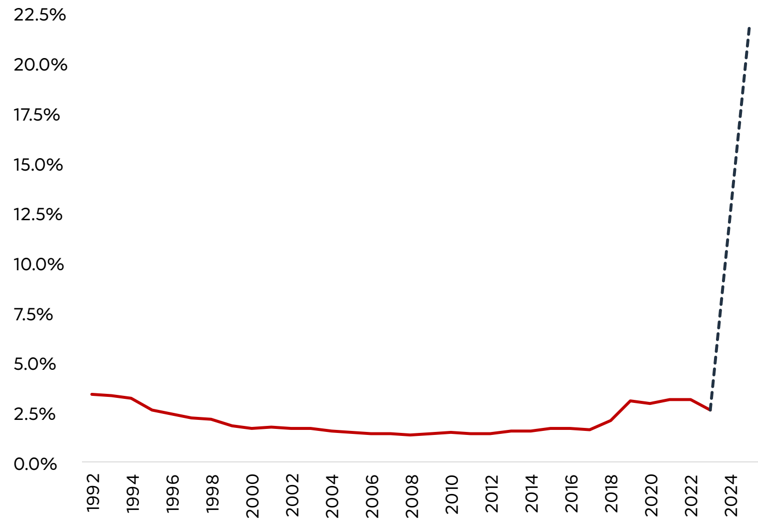


- Trump is proposing 10%-20% tariffs on all imports to the US. The current average tariff rate is about 2.6%.
- He also wants to impose 60% on all Chinese imports.
- Section 301 tariffs against China were implemented in 2018/2019 under Trump and further in 2024 under Biden after it was found that China was conducting unfair trade practices.
- Current Chinese tariffs apply to over $300 billion of Chinese imports.
- In 2023, imports to the US totaled $3.8 trillion of which $430 billion were Chinese imports.
- In 2024 (FY to September), US government revenue was $4.92 trillion. 49% or $2.43 trillion was from individual income taxes. Customs duties raised $82 billion.
- The budget deficit was $1.6 trillion and could rise further. Proposals to cut taxes but shrink the deficit by raising tariffs are not likely to succeed.

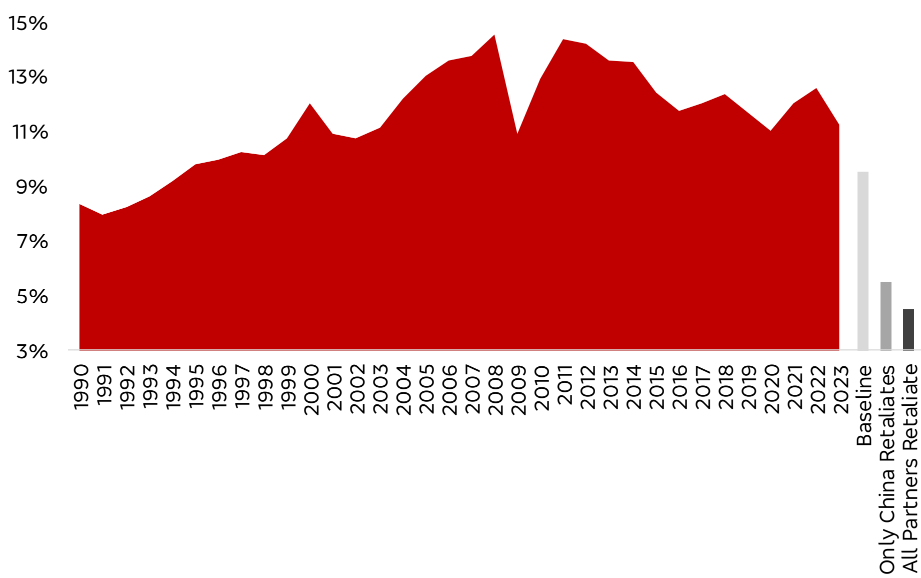
Source: Bloomberg/Bradesco/Visual Capitalis – 6 November 2024

A sharp rise in tariffs could threaten global trade with a severe trade war

The average tariff rate could increase to 22%



Imports could fall to half of current levels in a severe trade war scenario



- Trump's proposals to increase tariffs on all Chinese products to at least 60% and the rest of the world to 10%-20% would severely disrupt global trade and would likely lead to a global trade war with downside risks for GDP and upside risks for inflation. Average import tariff rates are now 2.6% and could rise to 22% if all the proposed tariffs are implemented.

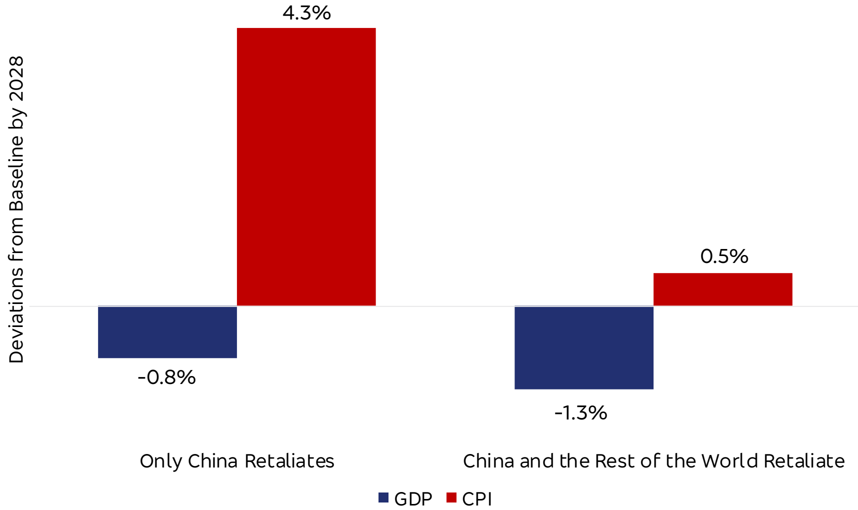
- Imports are now above 11% of GDP and could fall to near 5% in a trade war if China and other countries retaliate against the US. This would be the lowest levels since the 1970s. If only China retaliates, imports as percent of GDP could still fall to under 6%.

- Such an increase in tariffs would impose a historic supply shock to the economy with GDP growth slowing, inflation rising, and unemployment rising. The reduction in imports would mean the revenue potential from tariffs would be much lower than initially expected.

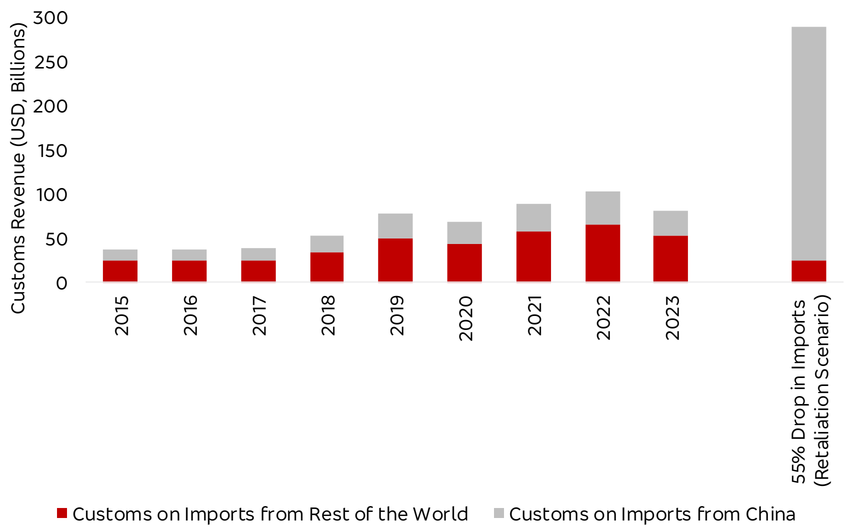
Source: Bloomberg/Bradesco/Bureau of Economic Analysis – 6 November 2024

Trump tariffs plans will lead to higher inflation and potentially weaker GDP

GDP weaker in any scenario while inflation highest if only China retaliates



Tariffs could raise up to $300bn versus $82bn in 2023



- The US economy should continue growth with tax cuts boosting the growth outlook marginally. However, increasing tariffs to levels Trump has proposed risks weaker GDP and higher inflation. In the scenario that only China retaliates, inflation could be 4.3% higher in 4 years (inflation higher by about 1% each year), with GDP weaker by 0.8% from where it otherwise would have been.

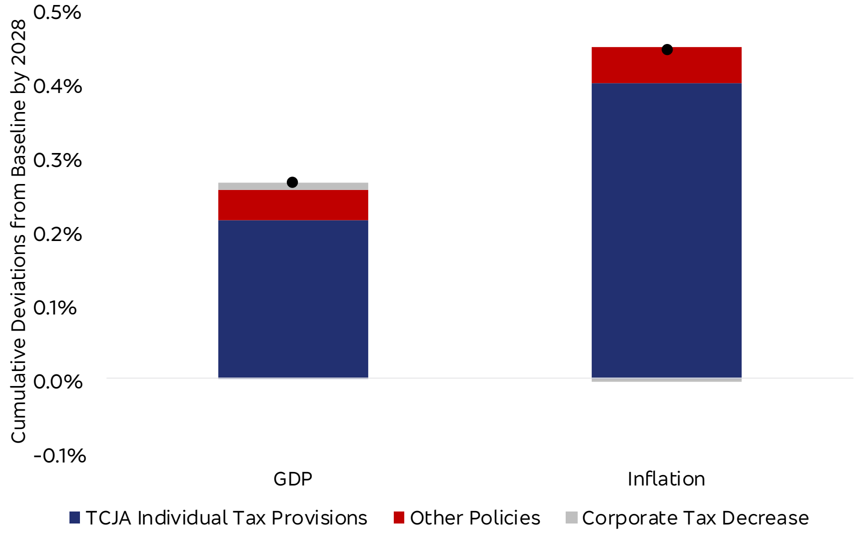
- If the tariffs lead to a global trade and tariff war, economic growth could slow even more, by 1.3% as US exporters (farmers, manufacturers, etc) suffer and the US, and likely the world, enters a recession. The weakness in the domestic economy would reduce some of the inflationary pressures leading to 0.5% higher inflation. This worst-case scenario will likely not occur as Trump uses the threat of tariffs for trade negotiations but some increase in tariffs will happen, meaning higher inflation and weaker GDP.

- Raising tariffs and inevitable retaliation by trade partners means overall lower trade volumes. Bloomberg estimates imports could fall by 55% in a trade war. Tariff revenues would rise to around $300 billion in such a scenario versus $82 billion as of 2023.

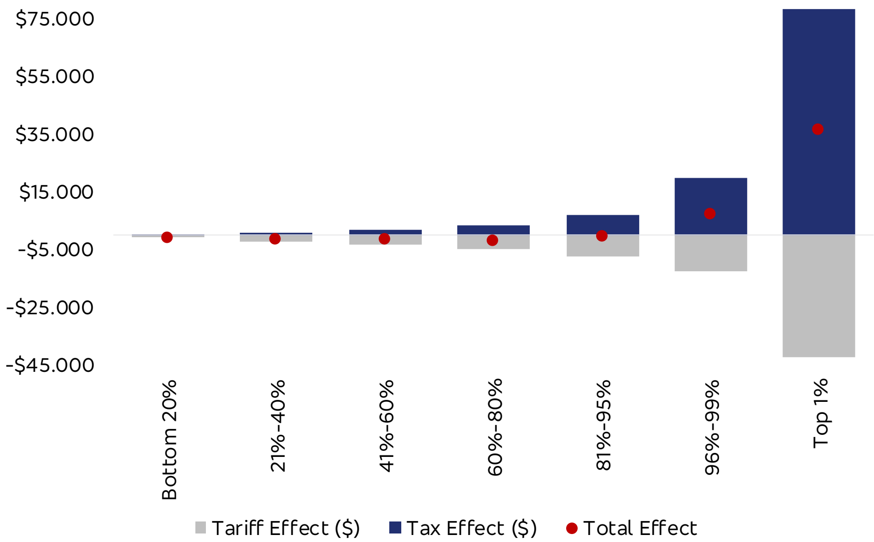
Source: Bloomberg/Bradesco – 6 November 2024

Trump tax policies would increase GDP and inflation marginally; top 1% benefit the most

GDP and Inflation will grow faster though only modestly



Tax cuts benefit the top 1% the most, even with tariffs



- The impact of Trump's tax policies would be marginally positive for GDP but would also cause higher inflation. Bloomberg analyzed the impact on GDP and inflation due to: (1) making the 2017 business and individual tax cuts permanent, (2) removing taxes on tips and (3) lowering the corporate tax-rate among other things

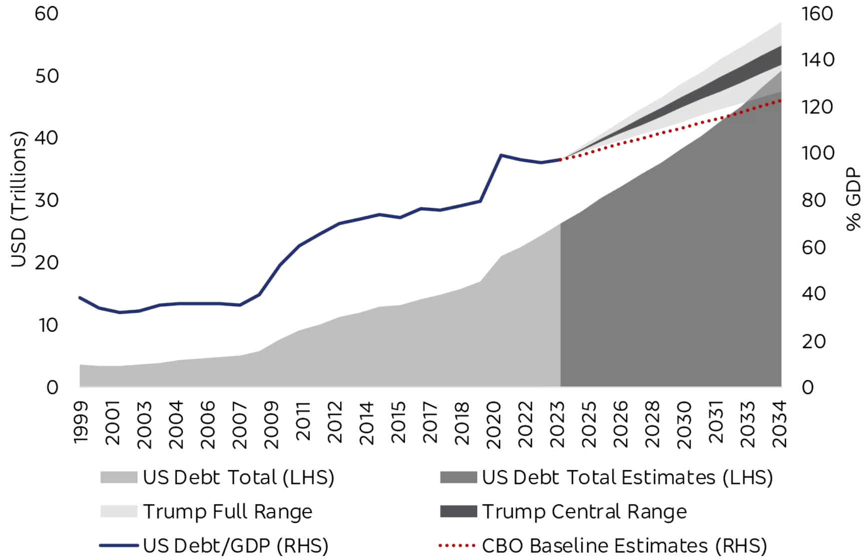
- Including all the proposals, 2028 GDP would increase by approximately 0.27% from the baseline while inflation would increase about 0.45% from its baseline.

- The combination of extending tax cuts and raising tariffs will have mixed benefits for consumers depending on income segment. The top 1% could benefit by $90k in tax reductions and extension of existing tax cuts (or 3% of their tax rates) while getting hit with higher prices from tariffs and elimination of green tax benefits, resulting in a net savings of $36k (1.3%). The bottom 60% would see net costs rise of between $800-$1,500 (2%-5%) as their "savings" from the tax cut extensions are small and they spend a larger portion of income on imports so get hit harder by the tariffs.

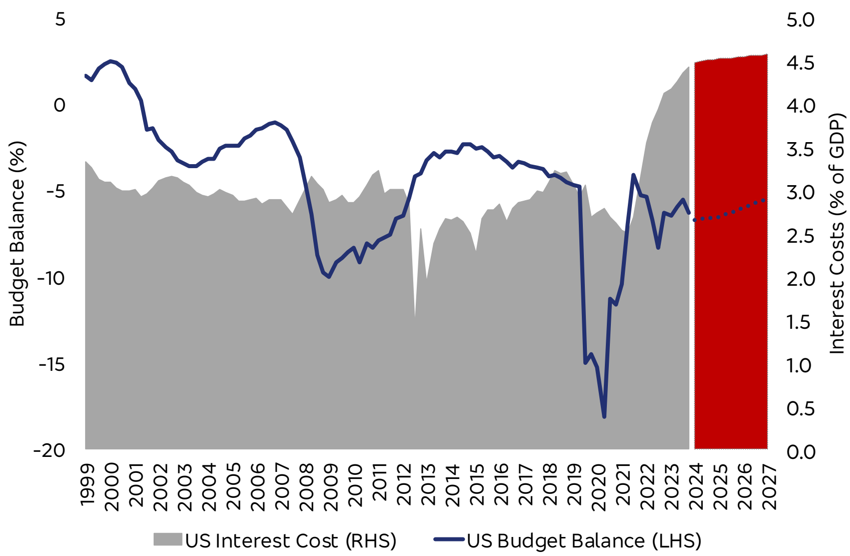
Source: Bloomberg/Bradesco/Institute on Taxation and Economic Policy – 6 November 2024

Debt/GDP could rise to a range of 116% to 134% by 2030

GDP growth would not offset the need for borrowing under Trump



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. This is likely to deteriorate further in the coming years if Trump's tax cuts and tariffs are implemented.
- Trump and the Republicans will try to push through tax cuts, some increased spending and higher tariffs. In essentially all scenarios, the budget deficit and debt/GDP will deteriorate well beyond current longer-term estimates by the Congressional Budget Office. The debt/GDP ratio could reach a range of 116%-134% by 2030, up from 97% in 2023.
- Trump's policies would force the government to borrow heavily, feeding into a negative feedback loop of borrowing at higher rates, increasing interest costs for the government. Total federal debt has expanded to $26 trillion and could reach $40 trillion in the coming years. Interest costs alone for the debt could reach $1 trillion in 2025, above 4% of GDP.

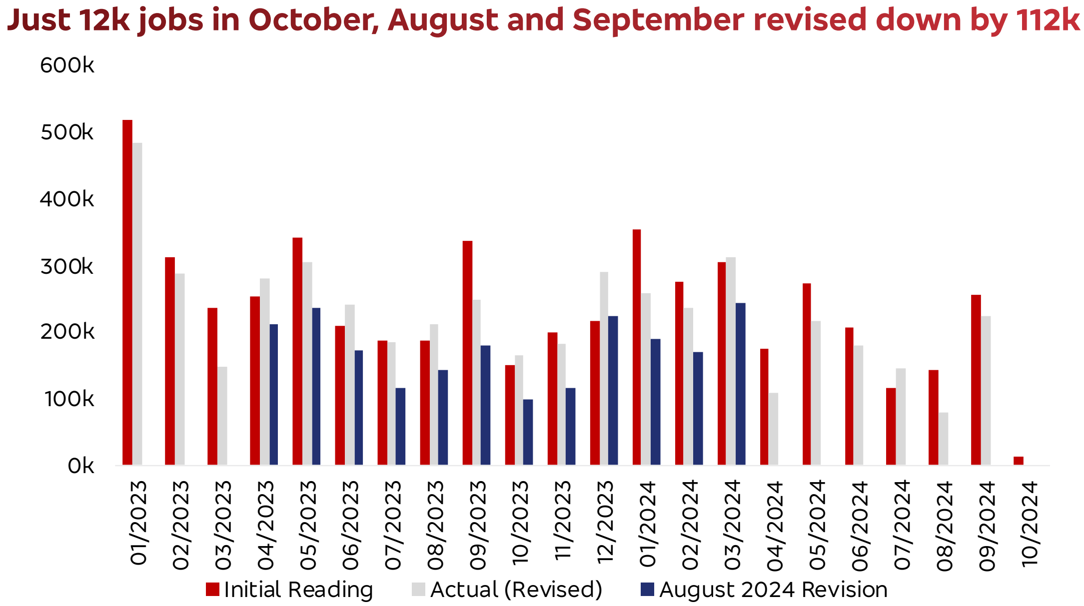
Source: Bloomberg/Bradesco/US Treasury/Congressional Budget Office – 6 November 2024

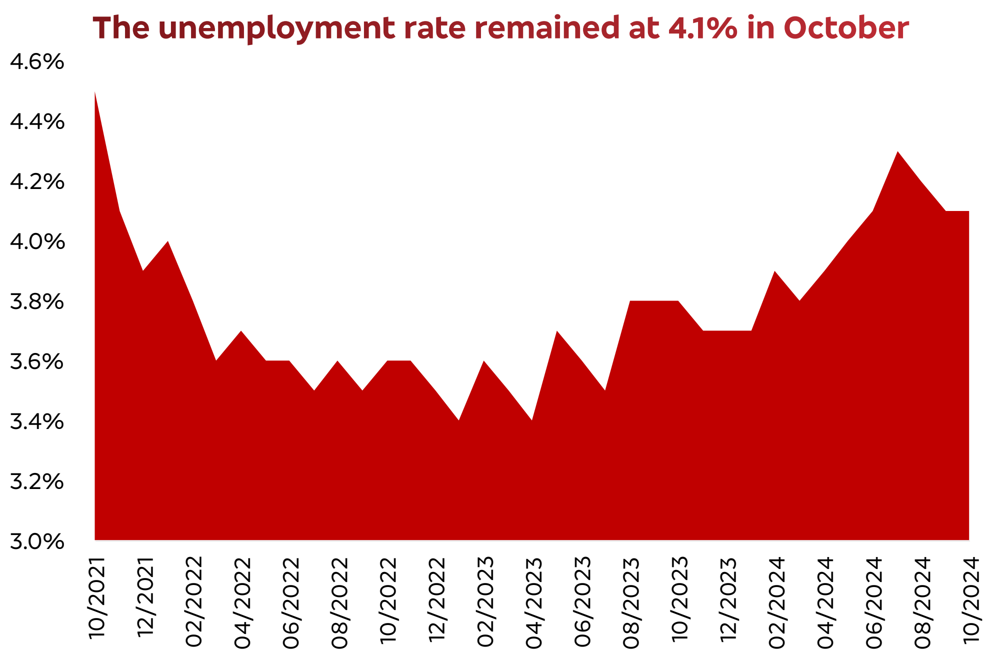
Trump's policies positive for Equities in the short-term, mixed in the medium-term

Sector	Effect	Explanation
Financials	▲	Looser regulation on bank capital requirements should benefit banks. Higher yields could lead to losses in fixed income positions but increase the margin between deposits and loans. Less antitrust regulations should increase M&A activity.
Industrials	▲ ▼	The extension of capital expensing provisions on new machinery should leave tax rates low. Tariffs should bring back some manufacturing activity though the net effect is unclear. Any reshoring benefits would be at least partially offset by higher import costs for equipment/materials while immigration policies would lead to higher labor costs. Aerospace & Defense should get a boost from increased defense spending.
Health Care	▬	Trump would partially repeal the IRA and let parts of the ACA (Obamacare) expire. He would still like to reduce prices to levels paid outside of the U.S. but has no replacement for Obamacare. Less antitrust regulation should benefit M&A activity in the sector, depending on appointees.
Materials	▲ ▼	Increased industrial activity should in theory be good for the sector, however the effects of Tariffs may largely offset any benefit from it. Companies that produce and sell within the U.S. will benefit while those that rely on importing and/or exporting will not due to the U.S Tariffs as well as any retaliatory ones. Inflationary pressure should restrict growth by borrowing due to higher rates.
Energy	▲	A partial repeal of the IRA, specifically the clean energy incentives, should reduce costs for energy companies that have had to invest heavily in new technology to meet climate goals.
Technology/Communications	▲	Looser antitrust regulation will depend on who Trump appoints to lead the FTC and DOJ, but they will likely be more M&A friendly than a Harris administration. Lower corporate taxes should allow companies to keep spending on AI.
Consumer Staples/Discretionary	▬	Tariffs on products imported from China and the elsewhere should drive inflation higher as companies pass on some of the costs to consumers, reducing spending, though that could be offset by lower taxes.
Utilities	▬	Higher rates may restrict borrowing by Utility companies, though subsidies could offset those effects. Buildouts of datacenters for AI in the U.S. should continue being a positive for the sector.
Real Estate	▼	Inflationary pressures from tariffs are expected to drive yields higher, putting upward pressure on long-term rates which in turn drive mortgage rates higher, reducing demand for home buying.

Source: Bloomberg/Bradesco – 1 November 2024

Unemployment rate stays at 4.1%, only 12k jobs added due to hurricanes and labor strikes





- The October job report was likely impacted by Hurricane Helene and Hurricane Milton, and also by the Boeing labor strike that affected about 44,000 workers. The initial reading for October reported that only 12k jobs were added while the last two months were revised down by a total of 112k jobs. However, the unemployment rate did not see any impact from the hurricanes or the strike, remaining at 4.1%.

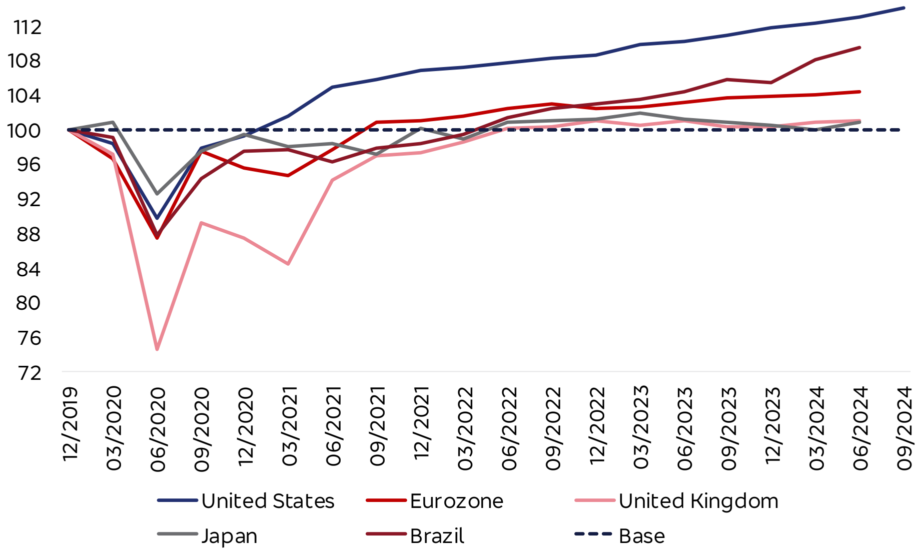
- Wage growth remains strong, Average Hourly Earnings increased 4% from a year ago and 0.4% from a month ago.

- This month's jobs data saw the lowest response rate going back to January 1991 due in part to the hurricane disruptions. Jobs data in November will likely show a rebound from the low October levels, as well as large revisions so it may not be until December when the data starts to normalize.

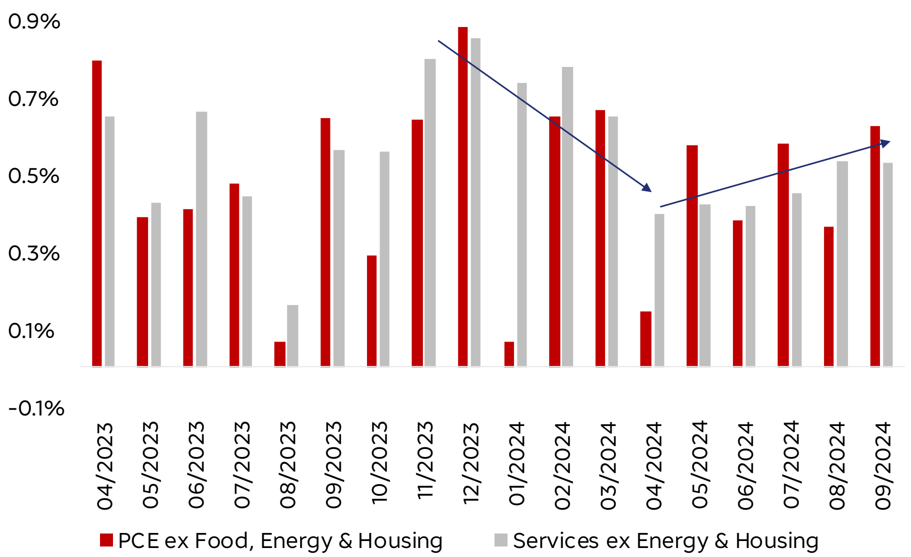
Source: Bloomberg/Bradesco/Bureau of Labor Statistics – 1 November 2024

US consumer spending continues, helping maintain GDP growth

US consumers have been spending far more than other regions
(Quarterly real consumer spending levels normalized to 100 at 4Q 2019)



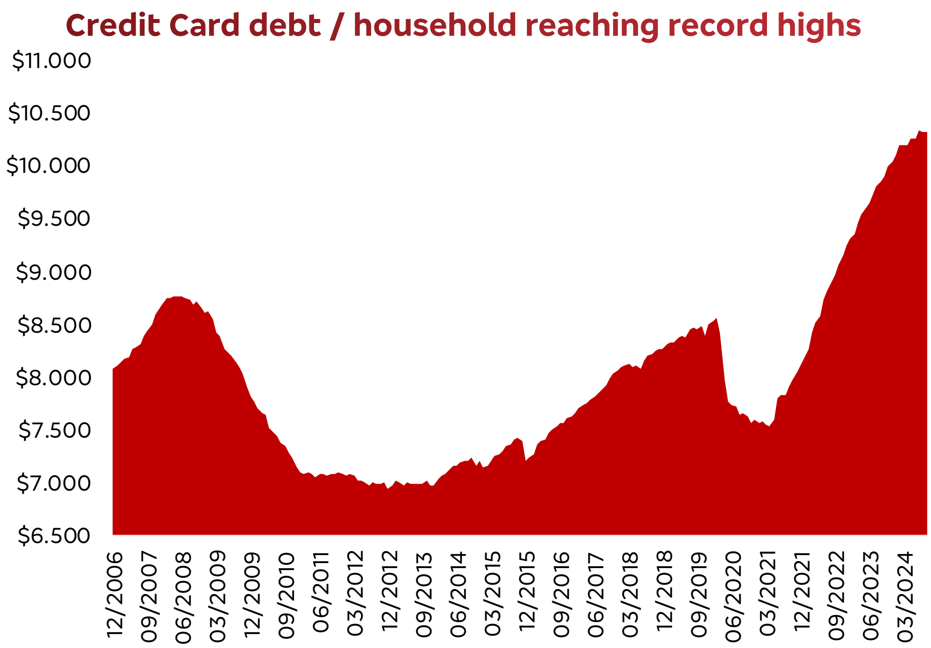
Recent monthly data shows steady consumer spending growth
(US month-on-month spending %)

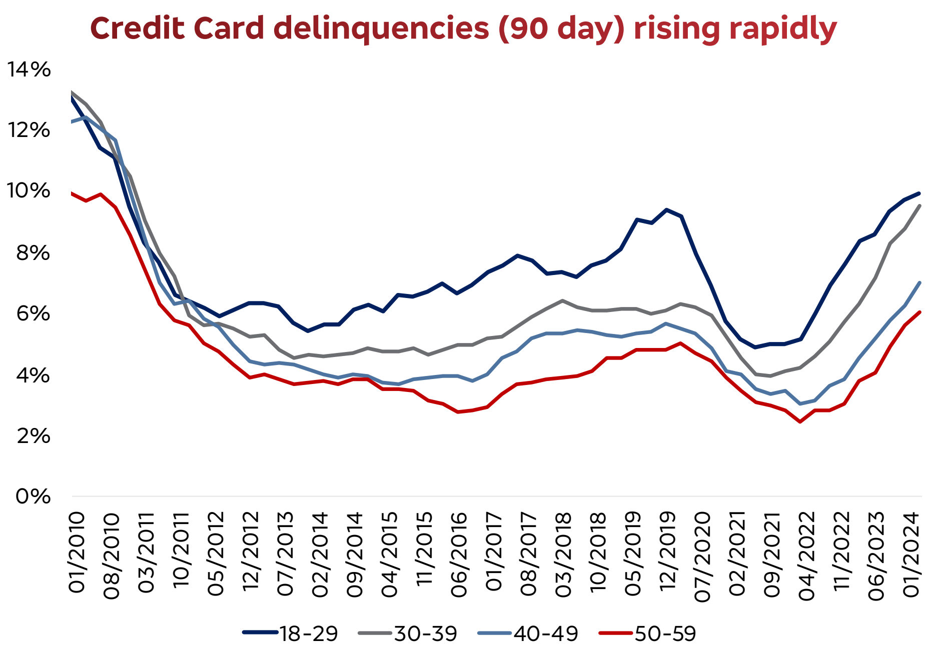


- US consumers have been spending far more than other regions since the pandemic. As of 3Q 2024, US consumer spending is up 14% since the pandemic. As of 2Q 2024, the US was up 13%, Europe up 4%, the UK and Japan up 1% and Brazil up 9.4%.
- Strong spending has helped maintain strong GDP growth but has also kept inflation higher than the 2% target.
- Consumer spending showed some slowing from peaks at the end of 2023 to April 2024. But more recent data, from May through September shows monthly spending on non-essentials has even accelerated somewhat to near 0.5%/month.

Source: Bloomberg/Bradesco/Eurostat/UK Office for National Statistics/Economic and Social Research Institute of Japan – 6 November 2024

Consumers have relied on debt that they can't afford, how much more is possible?





- Consumers are increasingly relying on debt to finance spending. At the end of 2023, credit card debt was above $1.3 trillion, up from $970 billion in early 2021. It now stands at $1.32 trillion, with credit card debt/household above $10,000. Credit card debt/household has levelled off in the past three months and could indicate a limit has been reached.

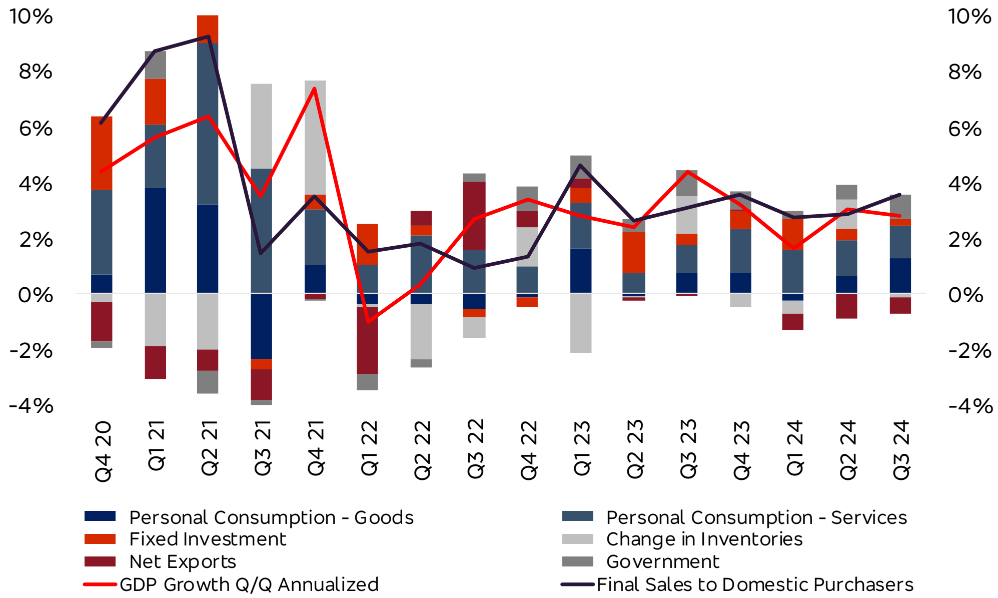
- Credit card delinquencies have increased rapidly and are now well above pre-pandemic levels. High balances and high interest charges (20-30%) are causing financial pain for consumers who are also being hit with high prices for goods and services.

- Increasing wages and income seems to be supporting continued usage of credit cards. While we expect a slowdown in credit card growth, we do not expect a collapse, and this should help to maintain consumer spending and GDP growth.

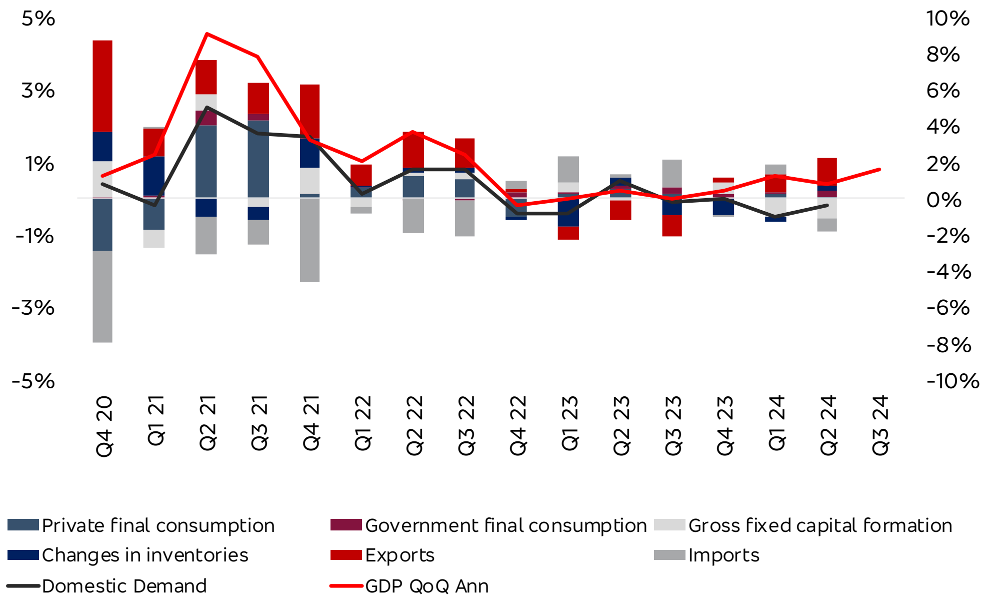
Source: Bloomberg/Bradesco/Federal Reserve/FRBNY Consumer Credit Panel/Equifax – 7 November 2024

US GDP growth increases to 2.8% QoQ Ann; Eurozone grows stronger than expected at 1.6%

GDP grew 2.8% in Q3, Final Sales to Domestic Purchasers 3.6%



Eurozone grows 1.6%, strongest for 2 years

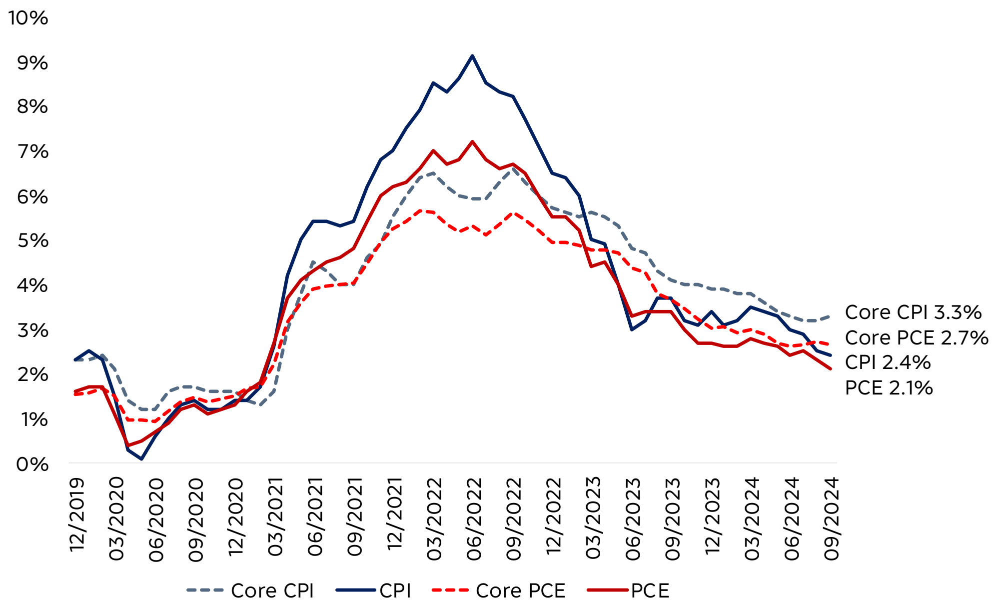


- US Q3 GDP was 2.8% QoQ Ann, vs 3% in Q2 and 1.6% in Q1. Final Sales to Domestic Purchasers, which strips out Change in Inventories and Net Exports was a very strong 3.6%.
- GDP growth was expected to slow in the second half of 2024 but so far has not due to continued strong consumer spending. Personal Consumption grew 3.7% in Q3, the strongest since Q1 2023. Services Consumption continued growing at 2.6% but Goods Consumption showed very strong expansion at 6%.
- Eurozone GDP grew 1.6% QoQ Ann in the third quarter, the fastest growth for 2 years and above expectations. Germany was expected to contract but showed some growth. France was likely boosted by the Olympics and Spain was very strong. Growth is expected to slow in the coming quarters.

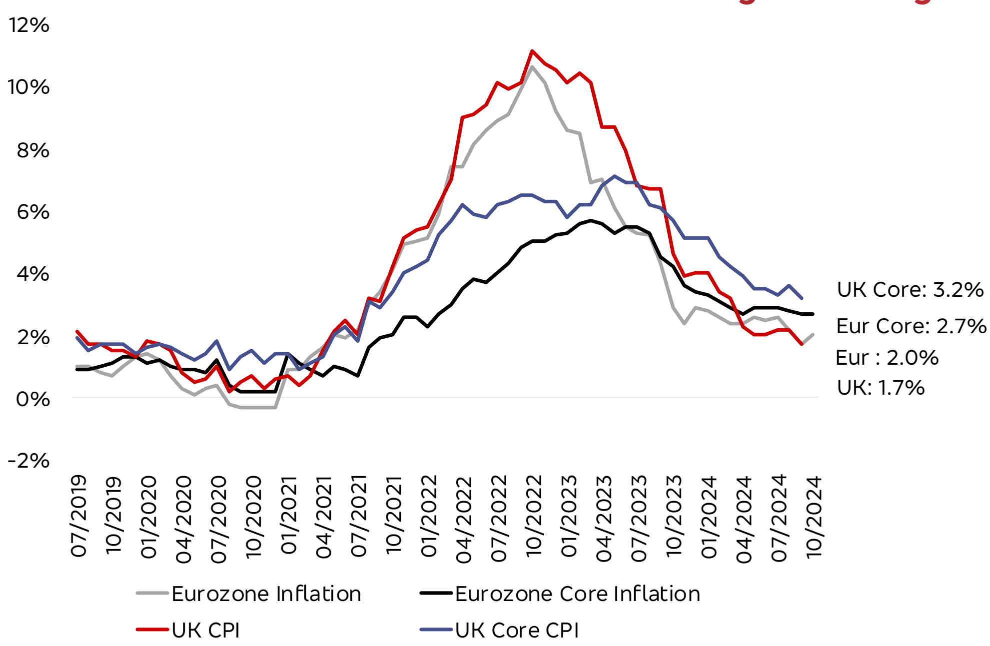
Source: Bloomberg/Bradesco/Bureau of Economic Analysis/Eurostat – 6 November 2024

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

US inflation stabilizing around 3%



UK and Eurozone core inflation also stabilizing above target

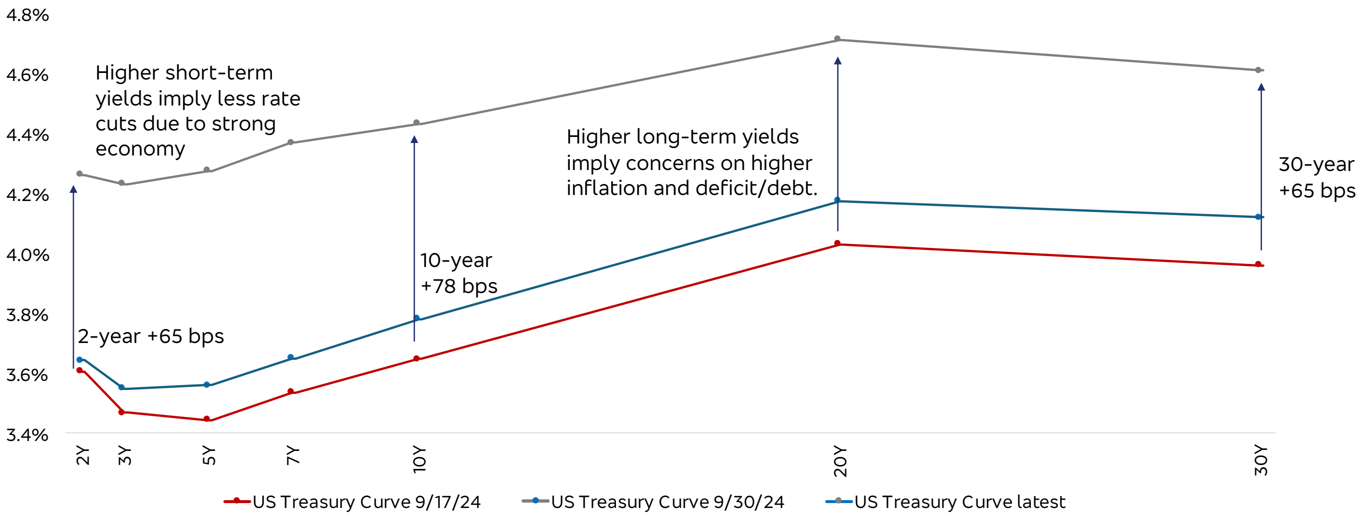


- US CPI fell to 2.4% in September, but Core CPI is stabilizing above 3%. Core PCE is at 2.7%. Further declines to the 2% target could be difficult to achieve. Shorter-term trends in services inflation show a recent increase and continued consumer spending indicates a quick fall in inflation is unlikely.
- The stabilization of core inflation around 3% and potential upward inflation pressure from Trump tax and tariff policies mean the Fed could pause its rate cut cycle in 2025.
- Inflation in Europe has fallen, but core inflation is still above target and is only declining slowly. However, the ECB is expected to continue cutting rates by 25 bps at its upcoming meetings due to the weak economic growth outlook.

Source: Bloomberg/Bradesco/Bureau of Economic Analysis/Eurostat – 6 November 2024

Fed has cut 75 bps. Why are Treasury yields rising?

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

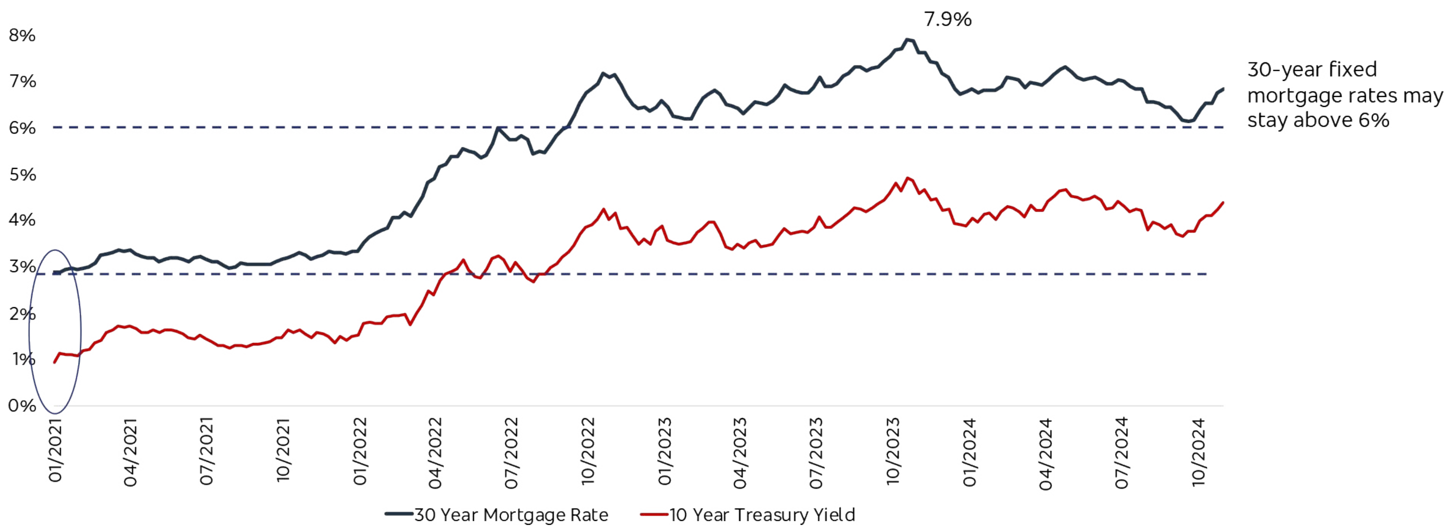


Source: Bloomberg/Bradesco – 6 November 2024

- The Fed cut rates by 50 bps on Sept 18 and a further 25 bps on November 7 and is likely to cut another 25 bps in December. Its outlook calls for another 100 bps in cuts in 2025 with the Fed rate reaching 3.25%-3.5% by end 2025. With such aggressive cutting, Treasury yields were expected to fall, but instead they have been rising strongly, up over 65 bps across most maturities since just before the Fed started cutting rates through November 6 (the day after the US elections).
- The shorter-term yields were influenced by the stronger jobs, inflation, consumer spending and GDP data. Longer-term yields increased as investors believe the election results could mean higher inflation and worse budget deficits in the future under Trump. We believe yields can continue to rise as the Republican sweep of Congress means the combination of tax cuts and higher tariffs could drive inflation much higher.

US mortgage rates: 6%-7% or higher 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.

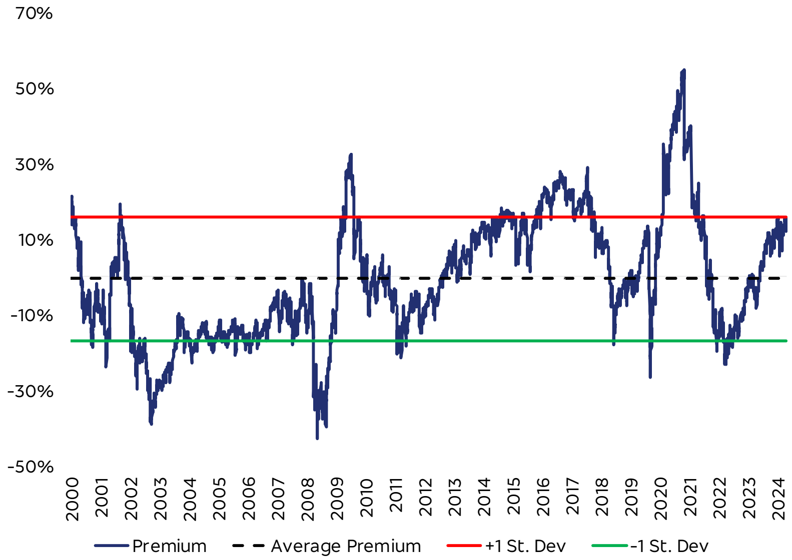


Source: Bloomberg/Bradesco/MBA – 1 November 2024

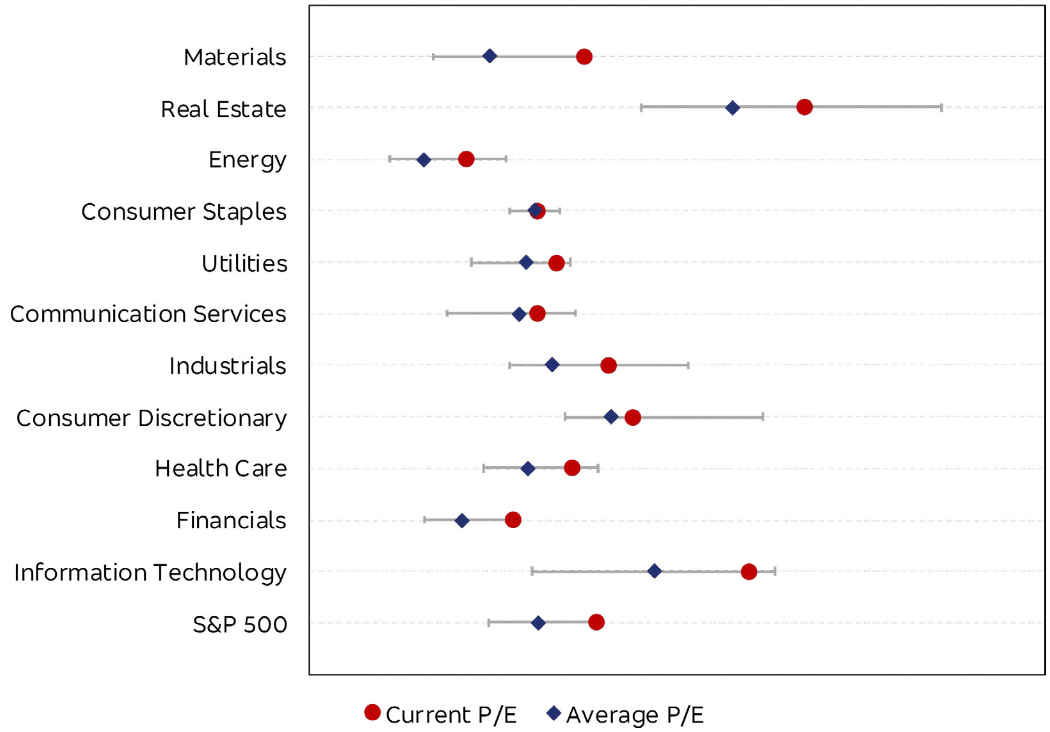
- US 30-year fixed mortgage rates reached below 3% in late 2020/early 2021 as 10-year Treasury yields reached under 1%.
- But mortgage rates have been between 6%-8% since September 2022, peaking at 7.9% in Oct 2023.
- Those who took out 6%-8% mortgages over the past 2 years may have been counting on mortgage rates to fall back to 5% or below so they could re-mortgage. And many have been waiting for rates to fall back to 5% to purchase property. But this may not happen. Higher yields mean mortgage rates could stay in the 6-7% or higher range going forward. This could have wide-ranging impacts on real estate and the housing market.

US equities' valuations are relying on future growth expectations and strong fundamentals

S&P 500 P/E close to 1 standard deviation away from average



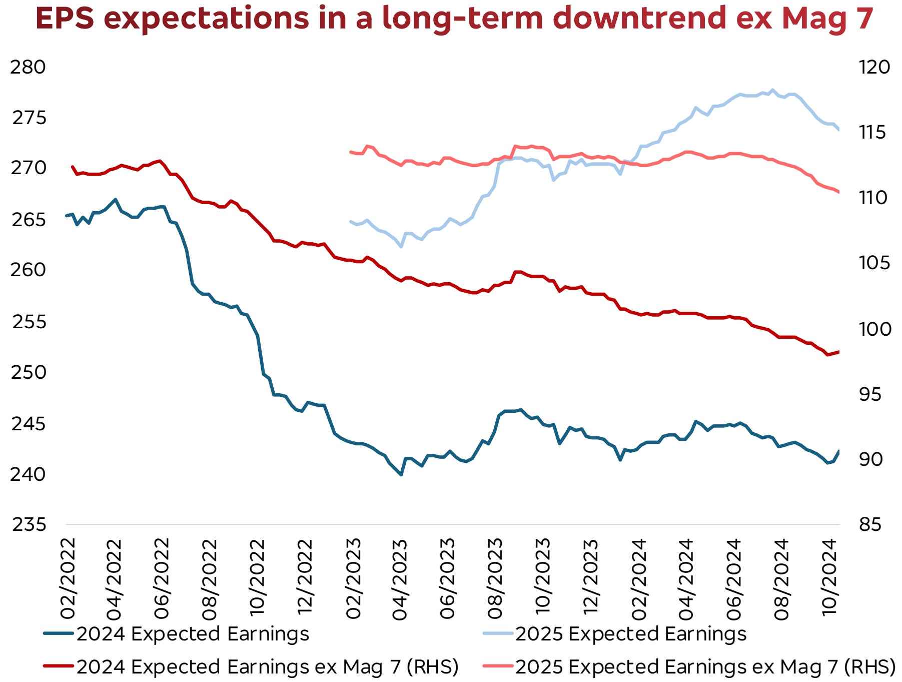
All sectors trade at a P/E that's higher than the 3-year average

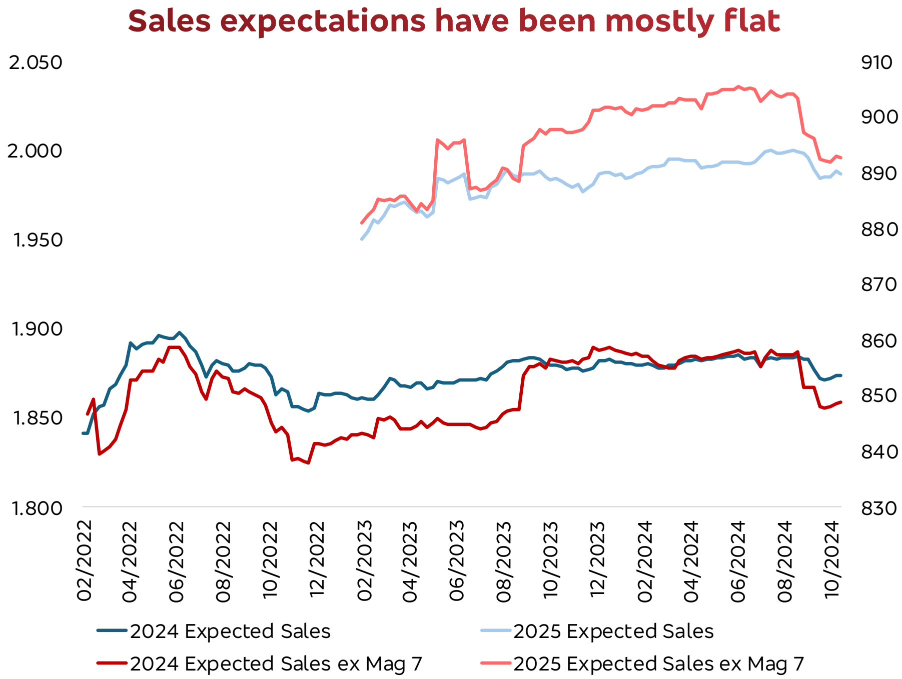


- US equities had been relying on a Trump win to continue their rally. Trump's tax cut proposal for corporations would lower their current tax bill, meaning stronger earnings growth.
- Equities are currently trading above their 3-year average P/E, while overall, the S&P 500 is close to a range where it has historically seen large pullbacks. We could see a short-term rally as the Trump trades become amplified but over the long-term, companies will need to continue delivering strong fundamentals.

Source: Bloomberg/Bradesco – 6 November 2024

EPS and Sales growth potential relies on the Magnificent 7 though less so in 2025





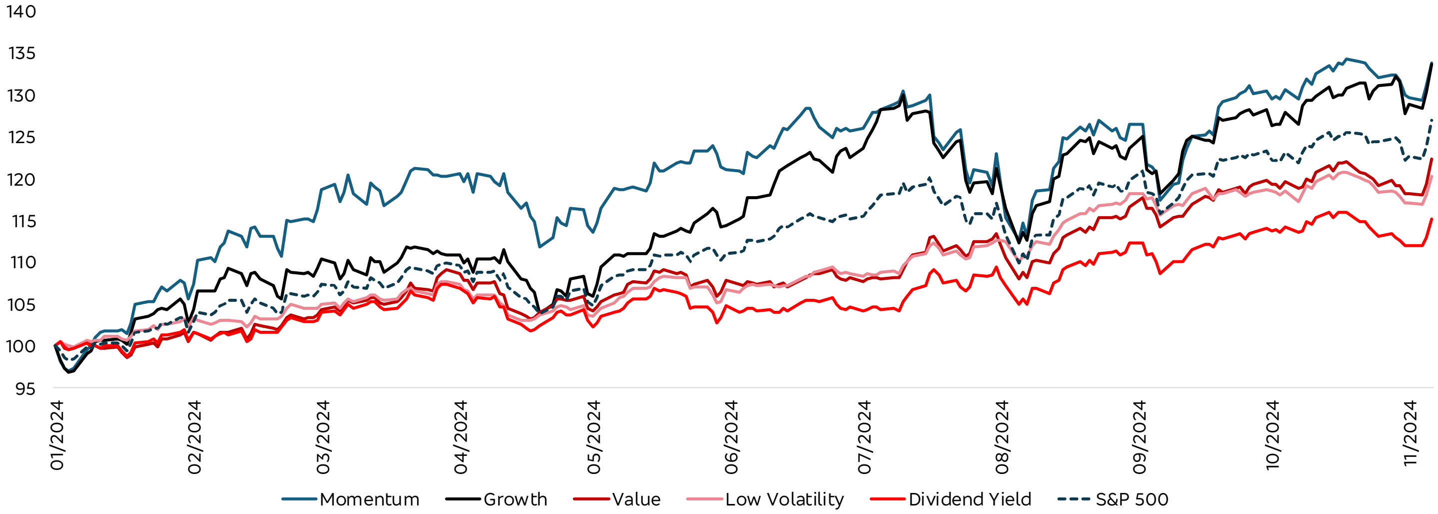
- Excluding the Magnificent 7, the S&P 500 EPS has struggled to grow in 2024. Expectations for the end of the year are that excluding the Magnificent 7, Net Income will fall by 5.5%, but including the Mag 7, the index is expected to grow by 9.5% from a year ago. The difference in sales is not as large. For 2025, the growth narrows even more as the Mag 7 need to contend with a higher baseline and the rest of the companies enjoy a lower one.

- Lower taxes should have a large positive impact on the bottom-line, however, tariffs could offset most of that, especially for companies that rely heavily on imports.

Source: Bloomberg/Bradesco – 6 November 2024

Equity markets welcome the Trump win with a Republican Congress

Federal Corporate income tax rates could decrease from 21% to 20%, could be even lower for Domestic Manufacturers

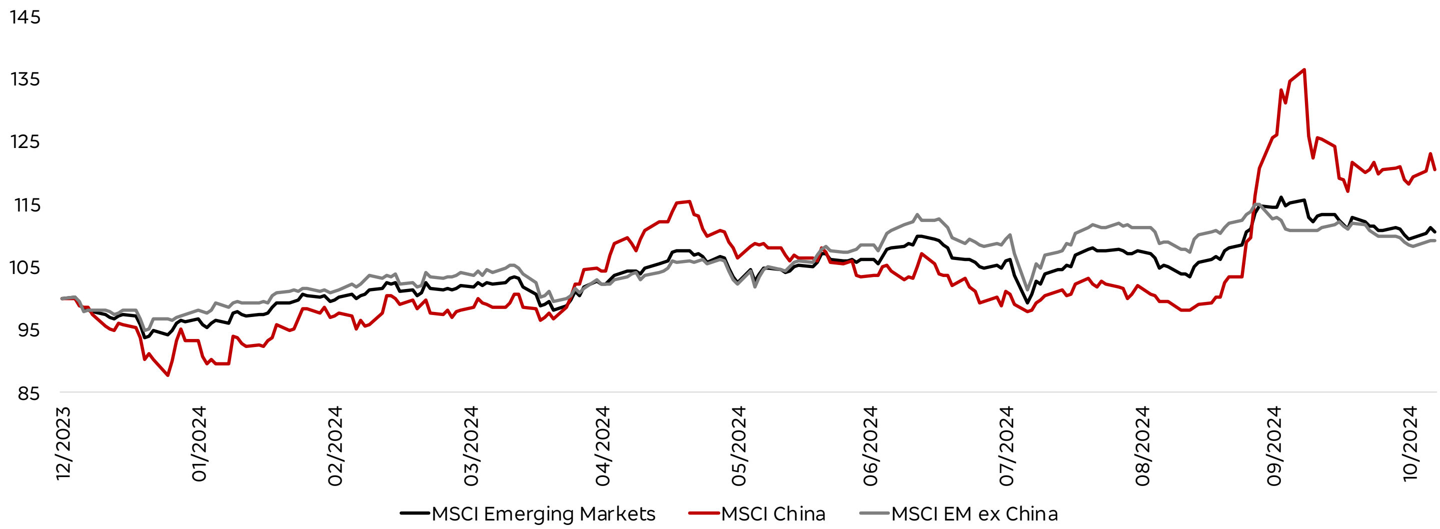


Source: Bloomberg/Bradesco– 6 November 2024

- US equity markets (S&P 500) were up 19.6% as of the end of October but jumped higher in early November after Trump won the US election with a Republican Congress.
- Momentum and Growth have led the market performance for most of the year but questions on tech earnings growth led to some weakness in October.
- Value has steadily gained and was particularly strong the day after the US election, gaining 2.5% on the day.
- Equity markets are welcoming the potential for tax cuts and continued economic growth. However, we do not believe equity markets are yet factoring in the potential for slower economic growth as a result of high tariff rates.

Investors wait for details on the size of China's stimulus

MSCI China gained 23% in September but gave up 5.9% in October as investors wait for further details on stimulus



Source: Bloomberg/Bradesco – 6 November 2024

- The Chinese government announced coordinated fiscal and monetary stimulus to help the property and equity markets at the end of September which drove the MSCI China index up 39% from the lows in September to the highs in early October. For the month in September, the index was up 23%, but then fell 5.9% in October as investors wait for details on the size of the overall stimulus for supporting the real estate sector.

- The strength in China helped the MSCI Emerging Markets index rise 6.5% in September, but it gave up some of the gains in October, falling 4.4%. The MSCI EM index is up 9.4% for the year.

- We believe China faces structural issues maintaining longer-term growth but large stimulus measures may help maintain GDP growth in the 4% range in 2025. Details on the stimulus should be announced during November. China faces the added risks of high tariff rates from the Trump administration.

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.

October 2024:

Pulled forward 200 billion yuan ($28 billion) for spending from next year.

Expanded "whitelist" of real estate projects and sped up bank lending for unfinished developments to 4 trillion yuan ($561.8 billion) by the end of the year.

Lowered the Loan Prime Rate (LPR) by 25 bps.

November 2024:

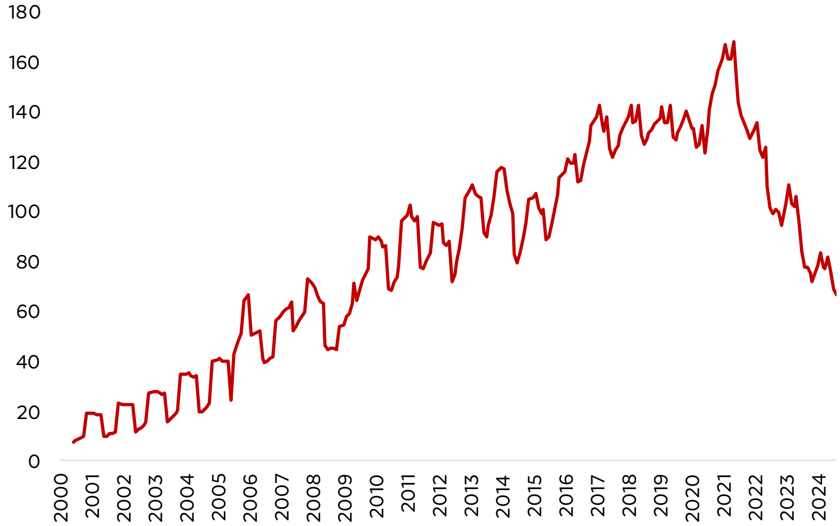
Chinese officials are scheduled to meet in early November to finalize a stimulus package which is rumored to range anywhere from 1 trillion Yuan to 15 trillion Yuan.

Source: Bloomberg/Bradesco – 6 November 2024

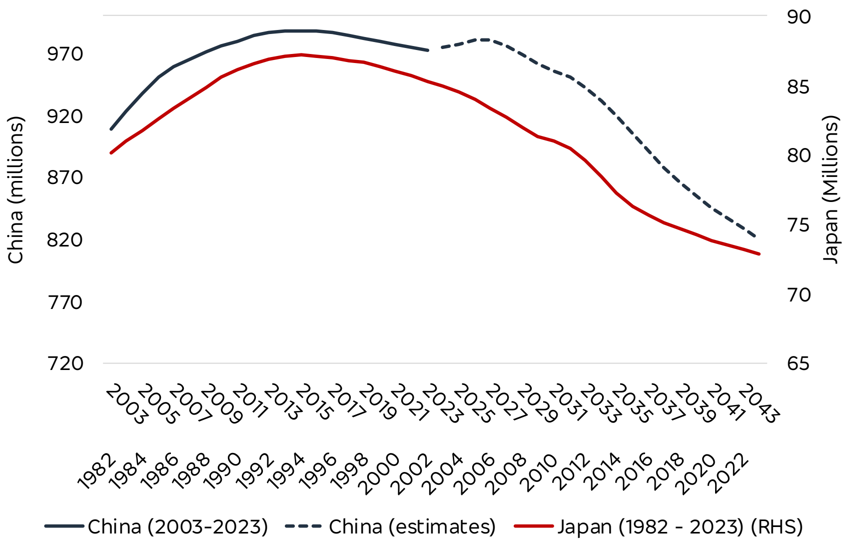
China faces growth challenges as property market weakens and population declines

Residential sales volumes have collapsed as sentiment falls

(Average monthly residential buildings floor space sold)



China's working age population is declining, similar to Japan



- China is facing significant growth challenges. The collapse in the property market over the past few years has led to weak consumer spending and deflation. And local government revenues have fallen due to declining land usage rights sales and this limits the ability of local governments to spend on social and economic growth projects.

- Residential sales volumes have declined over 60% from peaks in 2021 and are at the lowest levels since 2010. Prices for second-hand homes have fallen 12-16% on average and are continuing to decline. This compares to prices falling 23% in the US during the financial crisis.

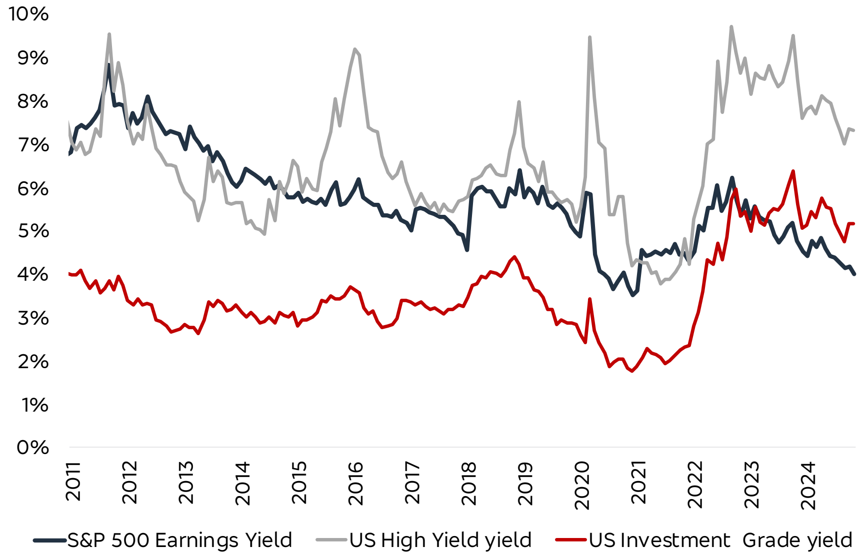
- Longer-term, China is facing similar demographic trends to Japan. China's working age population peaked in 2015 (Japan's in 1994). From 1994-2023, Japan's working age population declined 16.5%, which is almost exactly the same as expected from China's decline from 2015-2044. Japan's GDP growth fell to the 0-2% range in the decades after its population peaked and we believe China may face similar growth in the coming years.

Source: Bloomberg/Bradesco – 6 November 2024

Yields rise in October, but spreads stay low on economic optimism

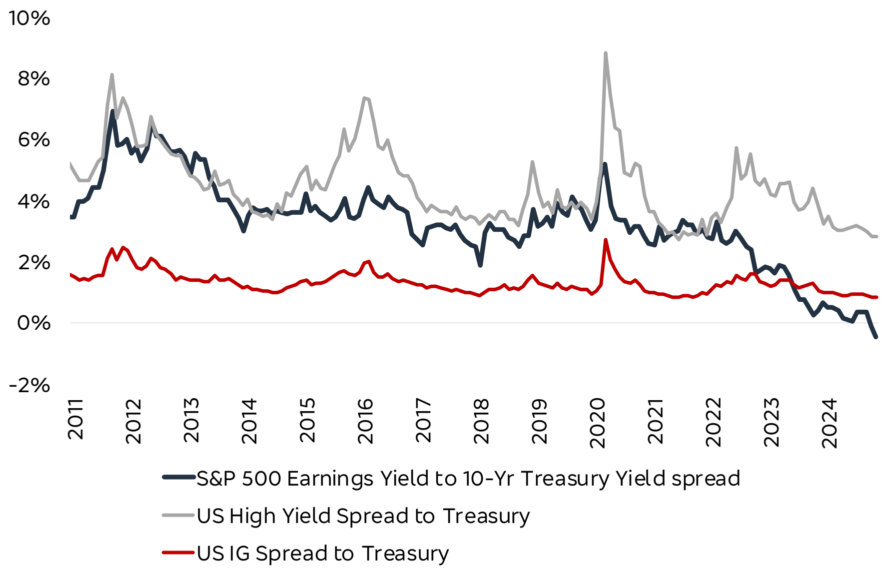
S&P 500 Earnings Yield versus High Yield and Investment Grade yields

(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 had been falling for the past 5 months, but in October started increasing from lows of the year as stronger economic data showed a slowdown is not imminent and inflation concerns still exist. Investment Grade yields have increased to above 5% again while High Yield yields are above 7%. Equity earnings yields (inverse of the Price/Equity ratio) have stayed low near 4.1%. Fixed income yields may continue rising due to higher inflation risks.

- The S&P 500 Equity Risk Premium (difference between earnings yield and 10-year Treasury yield) is now at lows of negative 0.1%. Equities look very expensive compared to the fixed income spreads.

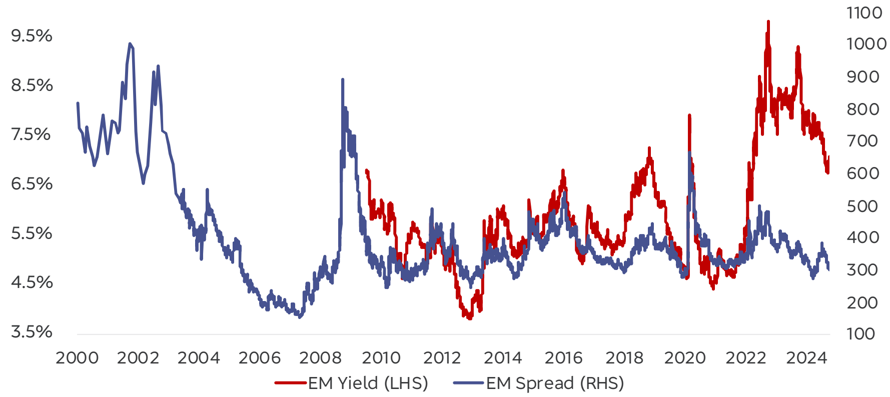
- High Yield spreads have fallen to 282 bps, approaching the lows of 2021/2022. Investment Grade spreads are around 84 bps.

Source: Bloomberg/Bradesco – 6 November 2024

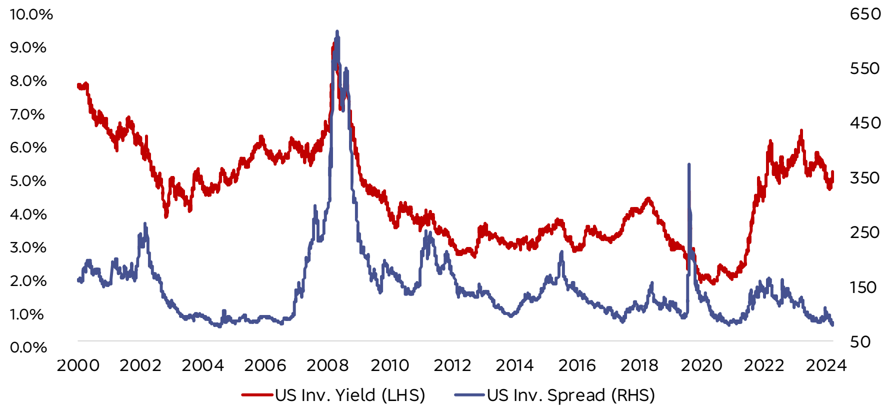
Fixed Income Yields and Spreads

	Yield	Spread (bps)	Spread Avg/Range	Duration
US Investment Grade	5.16%	84	149 (76-618)	7.1
US High Yield	7.33%	282	443 (262-1099)	3.5
Global High Yield	7.47%	338	542 (220-1803)	4.0
Emerging Markets	7.05%	305	354 (151-1001)	7.1

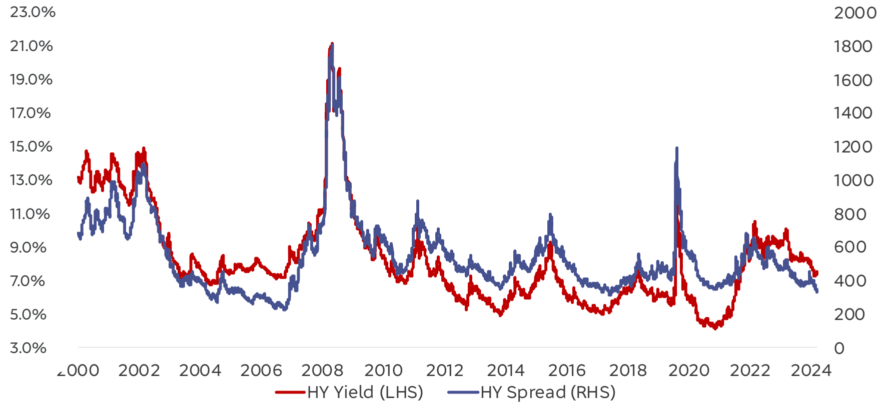
Emerging Market Yields and Spreads



US Investment Grade Yields and Spreads

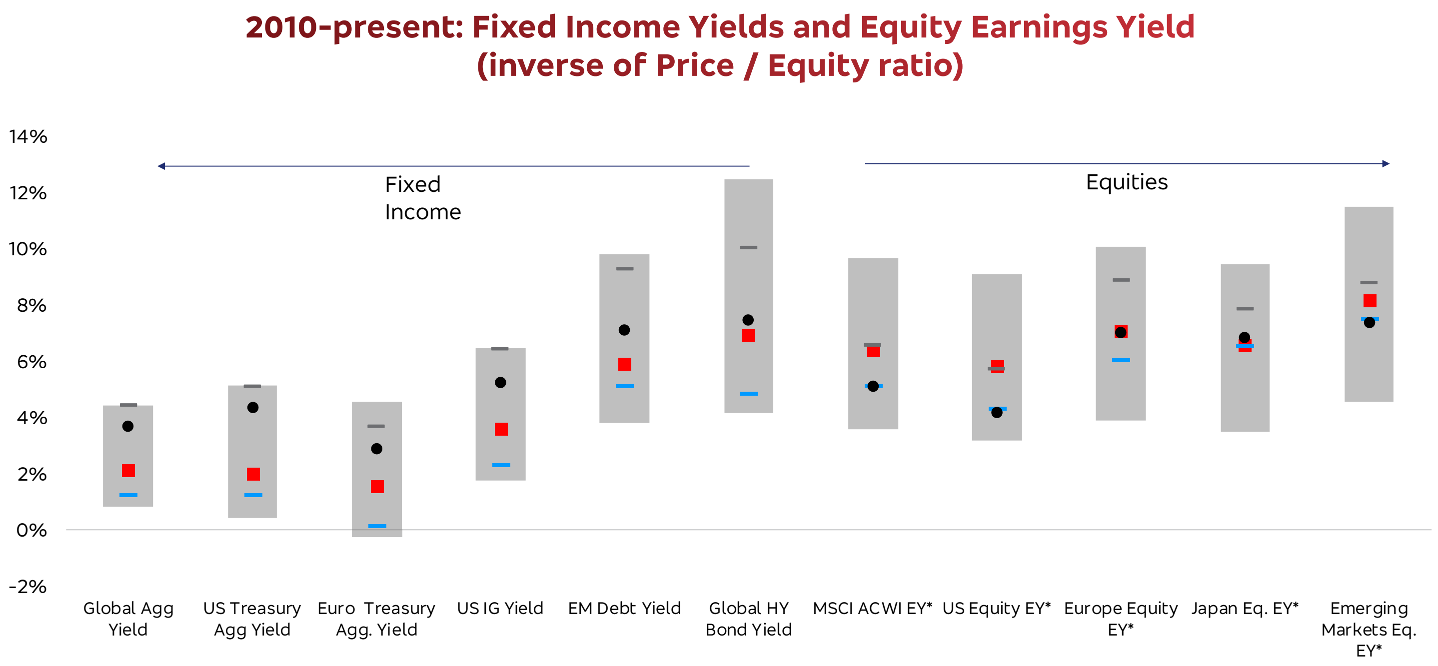


Developed Market High Yield Bond Yields and Spreads



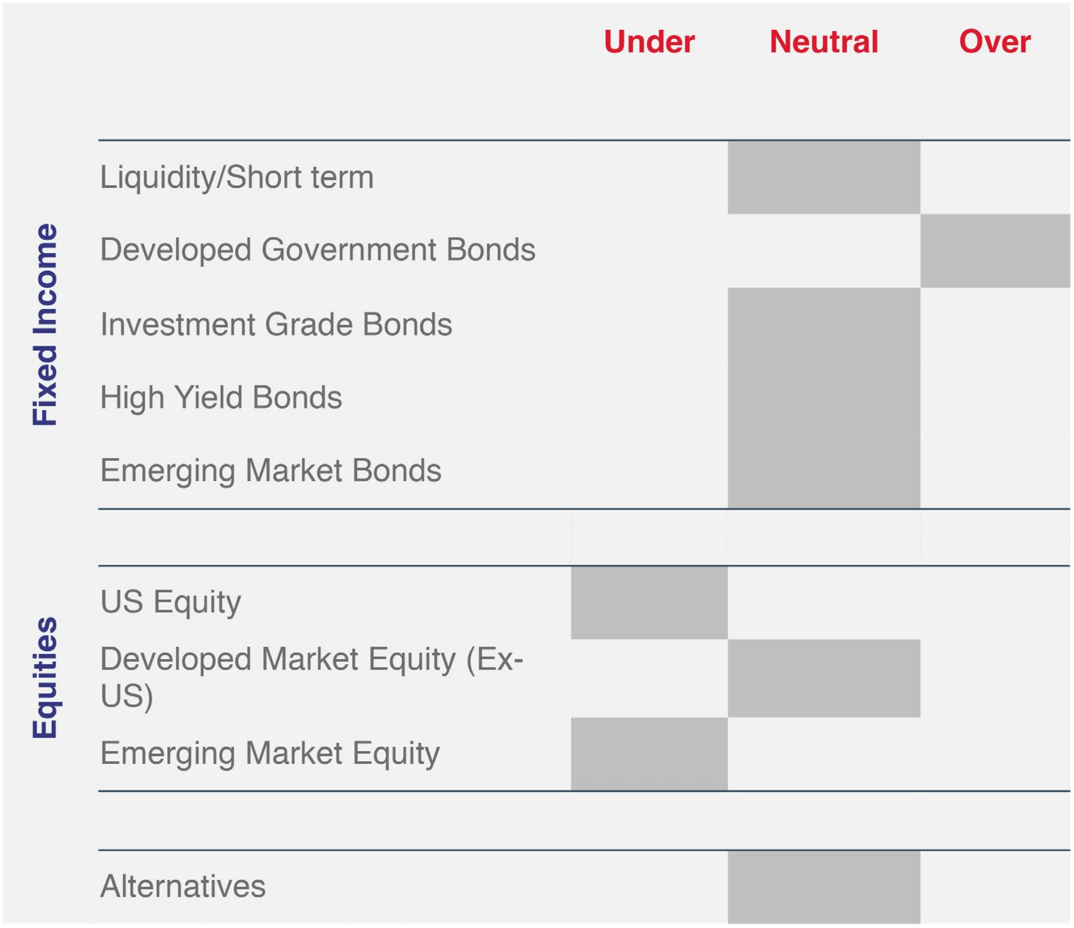
Source: Bloomberg/Bradesco – 1 October 2024

Fixed Income yields continue lower, US equities still look expensive



Source: Bloomberg/Bradesco – 1 November 2024

Adjusting Tactical Allocations



Current Tactical Allocations

- We are reducing our Duration within Government Bonds in a Tactical adjustment this month due to the risks of a Trump and Republican win in the US elections which would drive fixed income yields higher.
- 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.
- While we are Overweight Government Bonds in the TAA, our Duration stance is slightly below average due to the risks of higher inflation and rising yields.
- 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 will re-assess our positioning after the US elections as there could be global macro and market asset class implications. We also await details from the Chinese government on the size and scope of its stimulus program which should be announced in November.

Source: Bloomberg/Bradesco – 1 November 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 November 2024

November Economic Calendar

				1 • **Nonfarm Payrolls** • S&P Global and ISM Manufacturing PMIs
4 • Durable Goods Orders	5 • **US Election** • ISM Services PMI	6 • S&P 500 Services and Composite PMIs	7 • Jobless Claims • Continuing Claims • **Fed Meeting** • Consumer Credit • **BOE Meeting**	8 • University of Michigan Consumer Sentiment
11 • Veteran's Day (Equity Markets Open)	12 • NFIB Small Business Optimism	13 • **CPI**	14 • Jobless Claims • Continuing Claims • **PPI** • **EZ GDP (P)** • **UK GDP (P)** • **JP GDP (P)**	15 • Republic Day (Brazil Holiday) • Retail Sales
18	19 • EZ CPI	20 • UK CPI	21 • Jobless Claims • Continuing Claims • **JP National CPI**	22 • University of Michigan Consumer Sentiment (F) • S&P 500 Manufacturing, Services and Composite PMIs
25	26 • FOMC Minutes • Consumer Confidence	27 • **Q3 GDP (S)** • **PCE** • Durable Goods Orders • Jobless Claims • Continuing Claims	28 • Thanksgiving (US Holiday)	29 • EZ CPI

Source: Bloomberg/Bradesco – 1 November 2024

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