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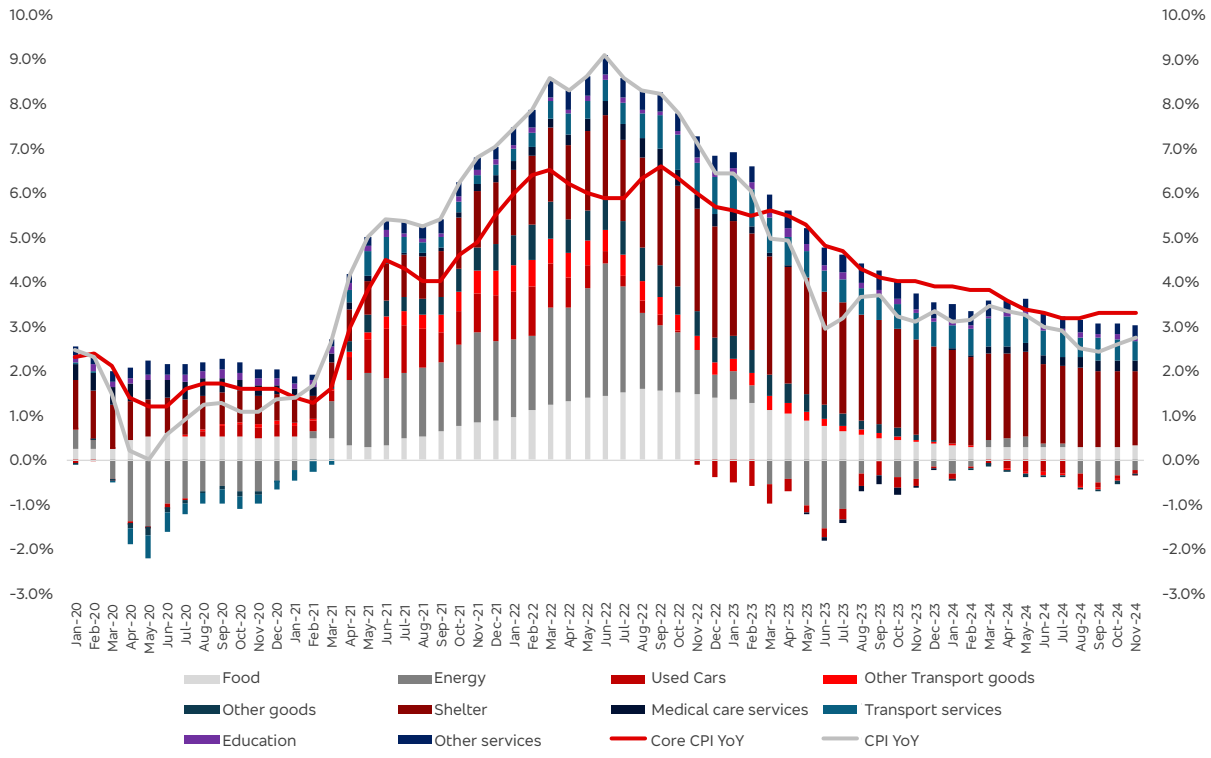
November's CPI inflation report showed overall inflation rising from 2.6% to 2.7%, while Core (ex. food and energy) was steady at 3.3% for a fourth consecutive month. On a month-on-month basis, overall inflation was up 0.3% from October, higher than the 0.2% that it had been for the 4 months prior but in line with expectations with Core also increasing by 0.3% for a fourth consecutive month. This trend could solidify the idea that inflation is steadying out at higher levels and that it may persist at this rate for some time.

This report should not be enough to cause the Fed to pause at their next meeting, but it does increase the pressure on the Fed. Trump's election win adds potential higher inflation pressures depending on the policies he implements, especially on tariffs, making the path of rate cuts even more difficult to determine for the Fed. At their next meeting on December 18th, the Fed will provide an update to their economic outlook, and we believe it will signal less rate cuts for 2025 than the 1.0% it signaled in the September meeting. As a base case, we believe the Fed will cut rates by 0.25% at its December meeting then cut 2 more times in 2025, by 0.25% in March and June. We then expect the Fed to pause its rate cutting cycle as it considers if inflation is continuing towards the 2% target given any policy changes by the new administration.

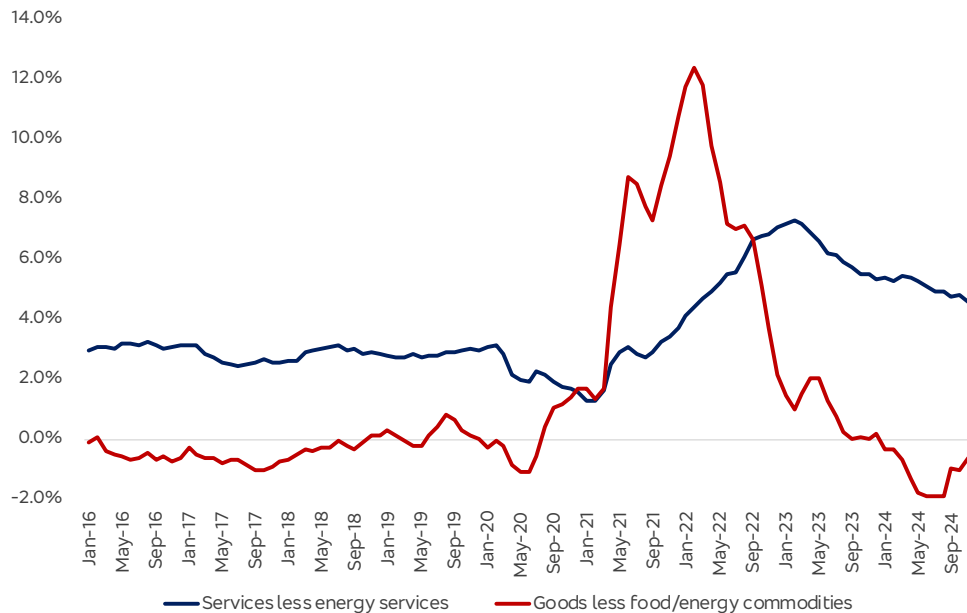
Some details on the CPI report:

- Headline inflation was 2.7% YoY, rising from 2.6% the previous month. Core inflation stayed steady at 3.3%. On a month-on-month basis, headline inflation was 0.3% and Core was 0.3%, all in line with expectations.
- Food inflation was 2.4% YoY the highest reading since January. The increase was driven by the Food At Home category where eggs rose 37.5% YoY, up sharply on an annual basis given the low comparison prices from the end of last year.
- Goods prices (ex food and energy) were -0.6% YoY as prices for many goods continue to decline from last year but at a slower pace than the past few months.
- Services remain elevated though the pace slowed this month to 4.6% from 4.8%. Shelter inflation was 4.7% YoY down from 4.9%. Owner's Equivalent Rent (OER) was up 4.9% down from 5.2% while Rent of Primary Residence increased 4.4% down from 4.6%. Lodging Away From Home increased by 3.7% after two consecutive months of negative growth.

Inflation rises to 2.7% YoY while Core inflation remains steady at 3.3%



Goods prices in deflation, but Services inflation still high at 4.6% YoY



Source: Bloomberg/Bradesco

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