MONTHLY VIEW

International Investment Strategy

The start of Trump 2.0 adds further uncertainty to the markets

FEBRUARY 2025

bradesco investments

Index

International Markets

Global financial markets saw an increase in uncertainty in January as investors tried to determine what the policies of the new Trump administration would look like and how these would impact the US and global economies and markets.

Over the past few months, the general assumption was that Trump would be more reasonable than some of his aggressive campaign statements suggested. However, after taking office, his quick moves to crack-down on illegal immigration and to declare large tariffs on close trading partners indicate he is willing to do what he said he would do.

On February 1, Trump signed executive orders putting 25% import tariffs on Mexican and Canadian goods, but just 10% on energy imports from Canada. And he increased tariffs on Chinese goods by an additional 10%. Financial markets responded with weakness as equity prices fell worldwide due to the risk of a global trade war starting. However, a last-minute reprieve on the Mexican and Canadian tariffs show that any moves can be modified through negotiations, but investors remain wary as policies can change from day to day.

Tariff announcements against Europe are expected during February which could keep volatility high for global markets. The Republican Congress will also set out their budget priorities in preparation for the eventual budget reconciliation process. This could re-focus investor attention on the spiraling government debt and interest costs, which may lead to further yield curve steepening.

Fixed income asset classes gained in January as yields fell but this is only after 10-year US Treasury yields reached 4.8% during the month, the highest levels since November 2023. A still strong US economy, lingering inflation, and high deficit and debt levels will keep upward pressure on fixed income yields. But the potential for slower economic growth due to possible trade wars can push yields down. The Fed held rates at the 4.25%-4.50% range in its January meeting and is also waiting to see how Trump's policies can affect the US economy.

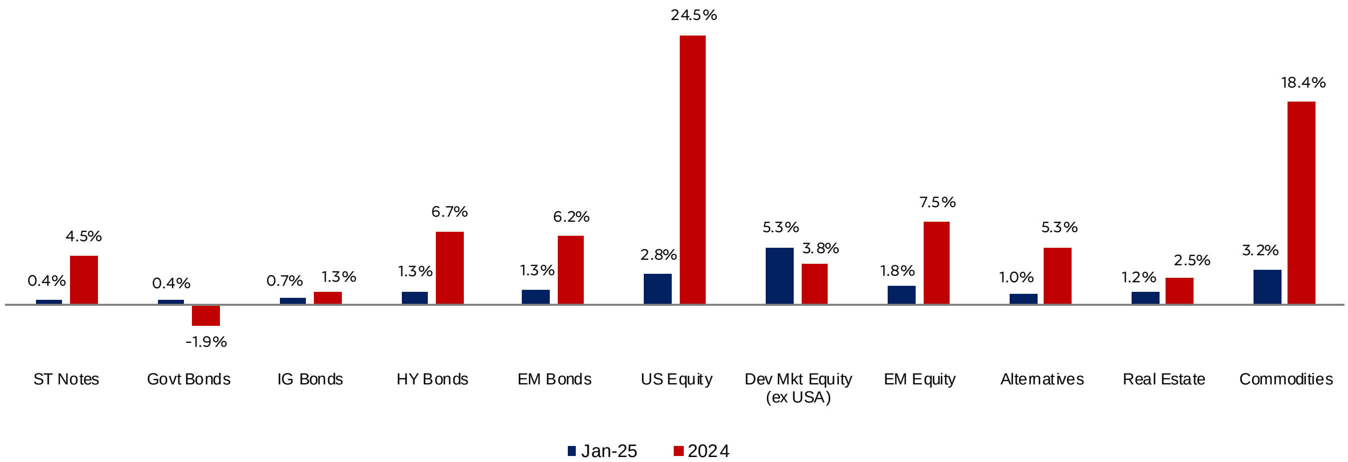
Equities gained in January due to strong economic growth in the US and the hope that President Trump would enact tax cuts and deregulation while being reasonable in his policies on trade, tariffs and immigration. European equities were particularly strong during the month due to further rate cuts by the ECB and the perception that tariffs on European goods would not be that onerous. It seems the tariff moves by President Trump are taking shape starting in February so the optimism in January may have been premature and this could mean higher volatility going forward.

After adjusting our portfolios in January to reflect our updated Strategic and Tactical Asset Allocations, we are maintaining our Tactical Asset Allocations for this coming month.

Source: Bradesco – February 2025

Asset Class Performance

A good start to the year as all asset classes up in January

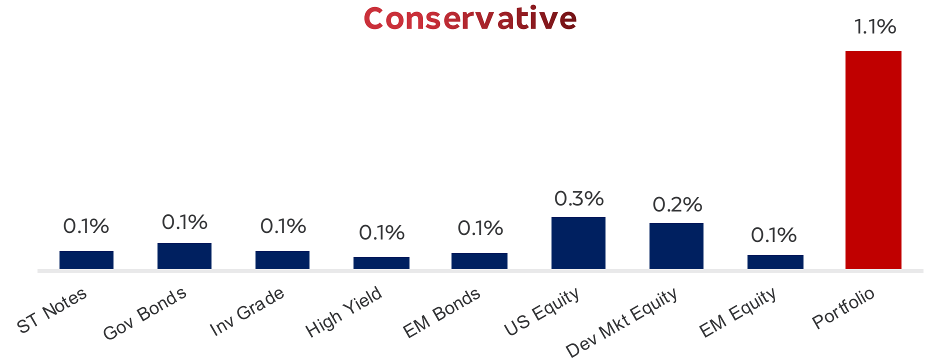


Cash/Short Term – BofAML 0-3 Year US Treasury Index / Gov. bonds – BofA Global Government Ex Japan /Investment Grade- BofAML Global Large Cap Corp / High Yield Global - BofAML Developed Markets High Yield Index / Emerging Market Bonds - J.P. Morgan EMBI Global Core / US Equities - S&P 500 Net Total Return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

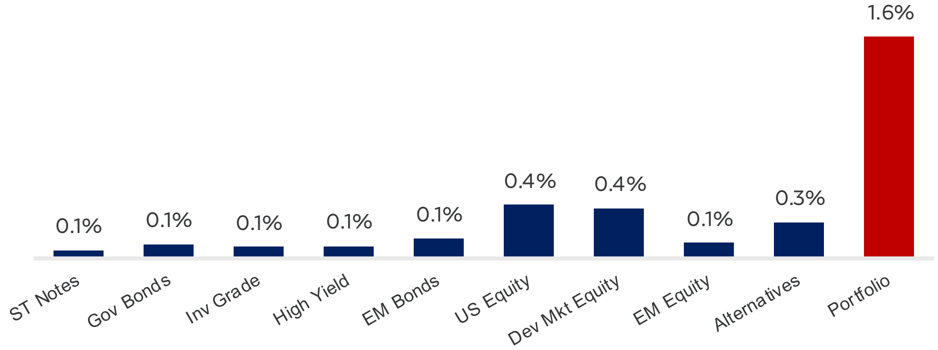
Source: Bloomberg/Bradesco – 1 February 2025

Model Portfolio Contribution to Returns – January 2025

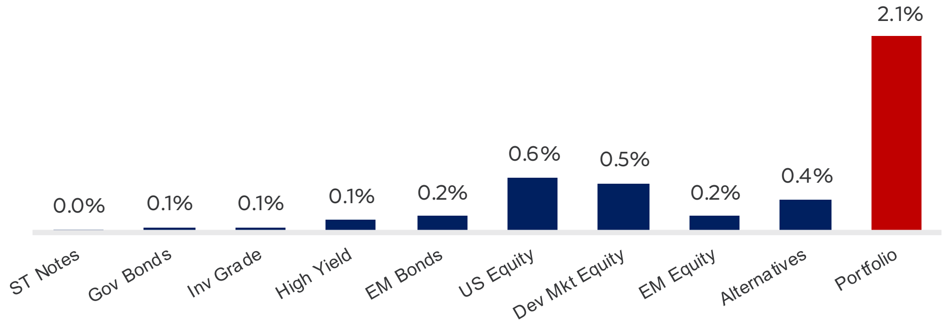
Conservative



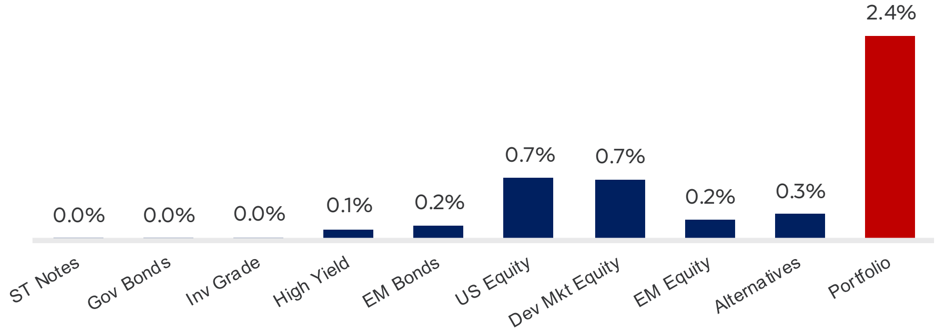
Moderate



Moderately Aggressive



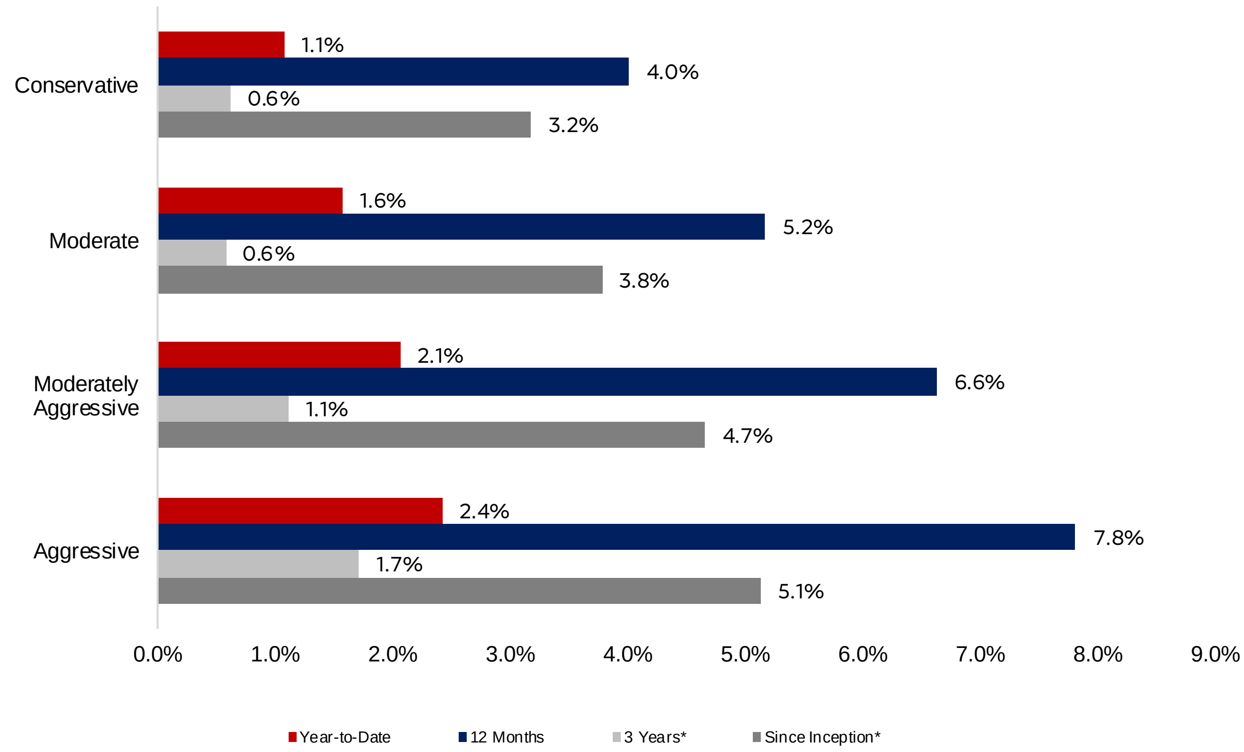
Aggressive



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 February 2025

Model Portfolio Performance

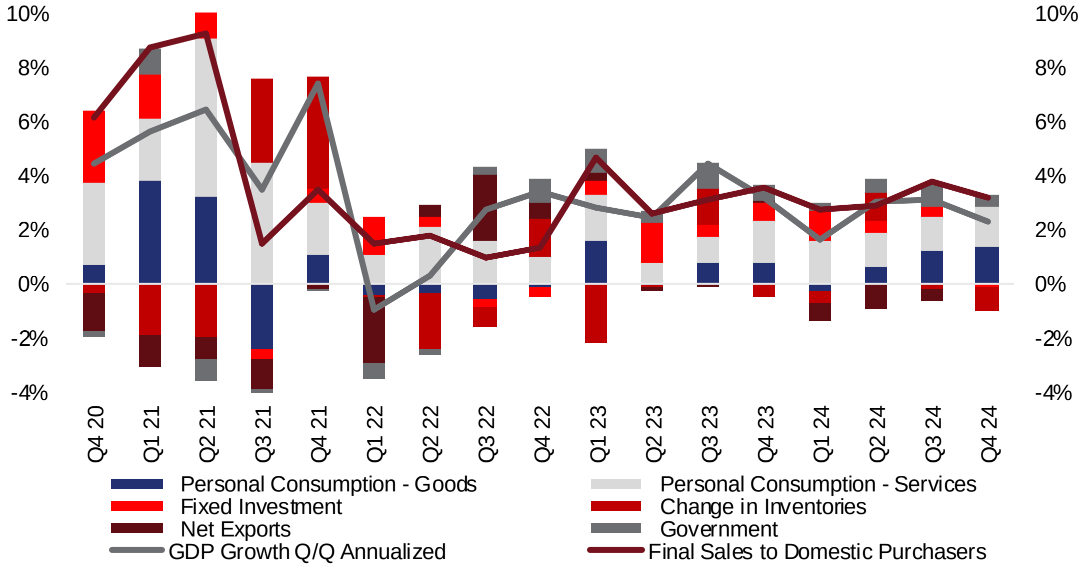


Past performance is not a reliable indicator of future results. Performance was calculated in USD. The return may increase or decrease as a result of currency fluctuations. Returns of the Model Portfolios are based on the allocations approved in the Bank's Strategy Commission and represent the weighted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

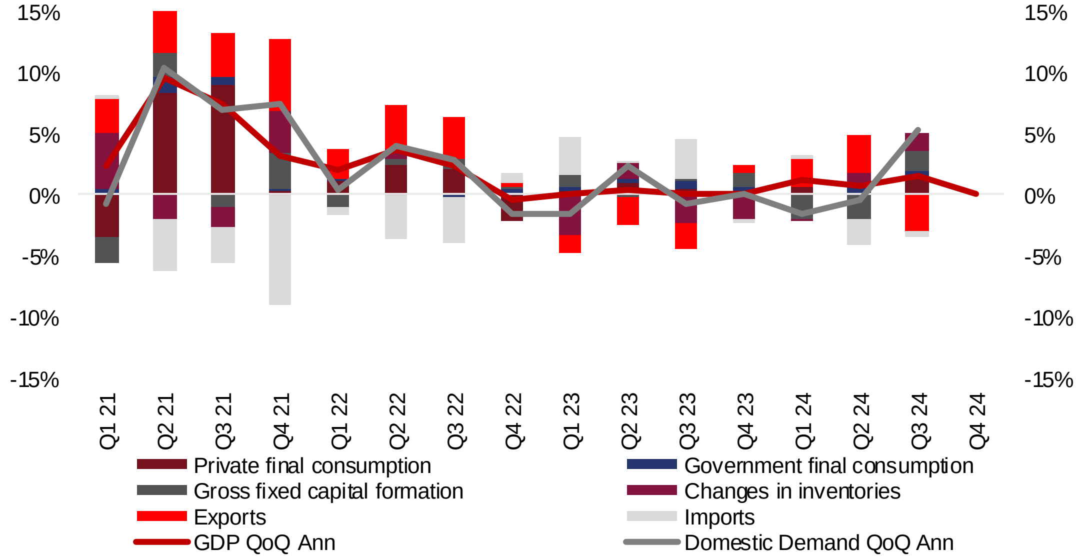
Source: Bloomberg/Bradesco – 1 February 2025

4Q GDP: US grew 2.3% QoQ Ann; Eurozone stagnates with 0% growth

GDP grew 2.3% in Q4, Personal Consumption Expenditures grew 4.2%



Eurozone growth stagnates

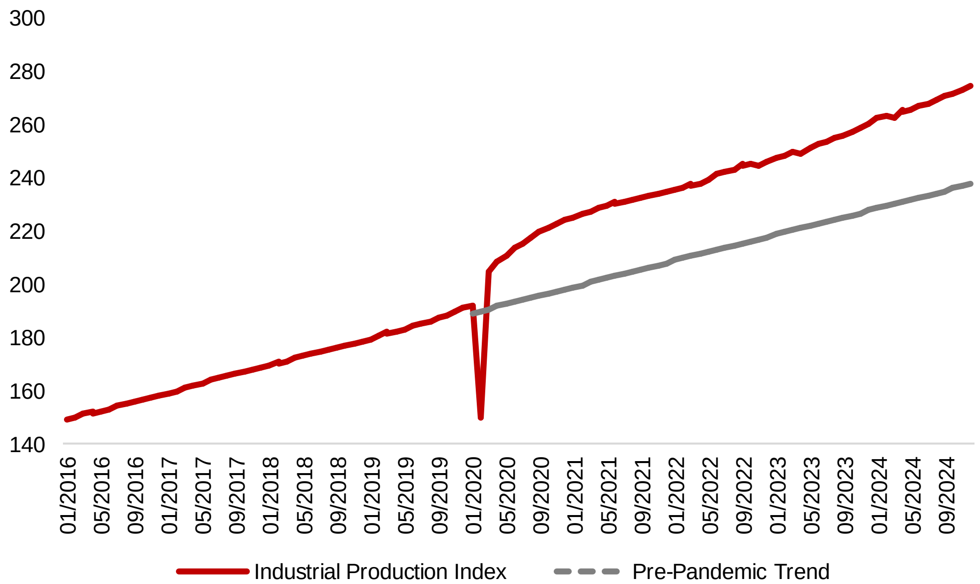


- US Q4 GDP was 2.3% QoQ Ann, vs 3.1% in Q3 and 3.0% in Q2. Final Sales to Domestic Purchasers, which strips out Change in Inventories and Net Exports was a very strong 3.1%.
- GDP growth was expected to slow in the second half of 2024 but did not due to continued strong consumer spending. Personal Consumption grew 4.2% in Q4, the strongest since Q1 2023. Services Consumption continued growing at 3.1% but Goods Consumption showed very strong expansion at 6.6%.
- Eurozone GDP stagnated in the 4th quarter with 0% growth as both Germany and France contracted. Full year GDP growth was likely just 0.7% versus nearly 3% in the US. Possible US tariffs, weakness in China, and political uncertainty in Germany and France will continue to hold back economic growth in Europe for 2025.

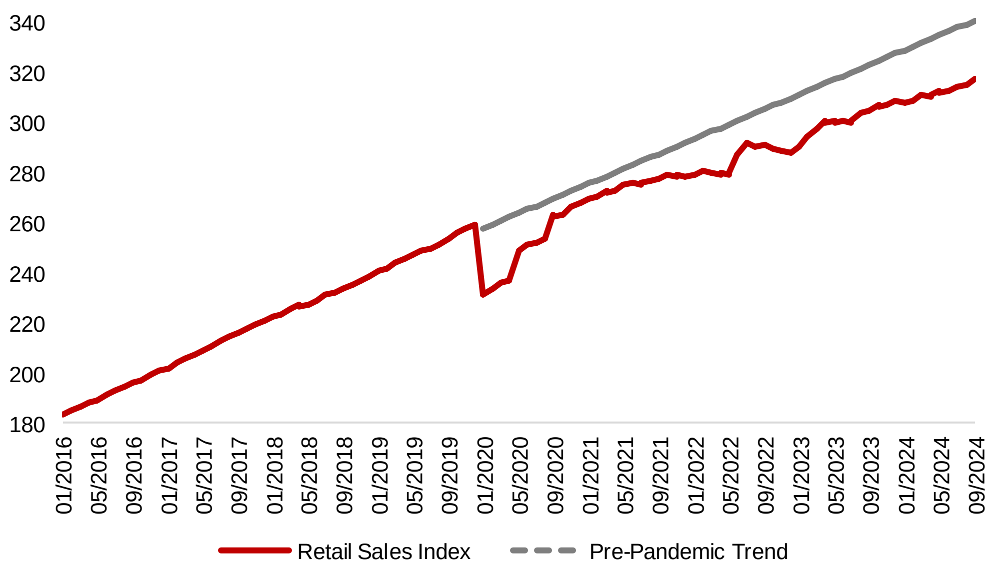
Source: Bloomberg/Bradesco/Bureau of Economic Analysis/Eurostat – 30 January 2025

China's GDP expanded 5% in 2024, though heavily reliant on trade and manufacturing

Industrial Production is 16% above its pre-pandemic trend



Conversely, retail sales are 7% below, weighed by consumer confidence

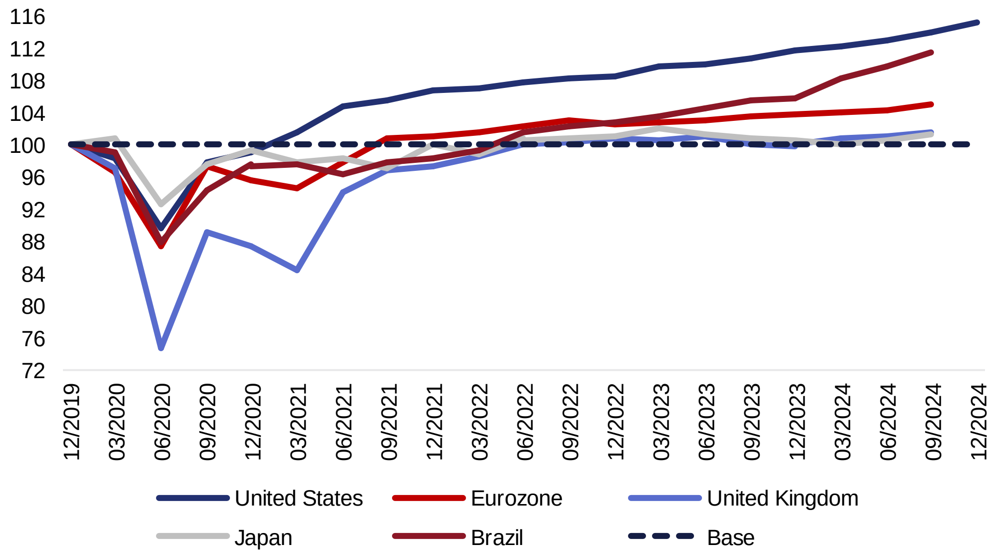


- China's GDP expanded by 5% in 2024 meeting growth expectations, though it was mostly due to reliance on trade and manufacturing while consumer spending remains very weak.
- The government cited the various stimulus measures that it implemented over the past year as the reason for meeting its goals. However, China faces structural issues maintaining longer-term growth, while Trump's stance against China could put even more pressure. Large stimulus measures may help maintain GDP growth in the 4% range in 2025, but the country will need to increase consumer confidence to achieve a better balance of its sources of growth.

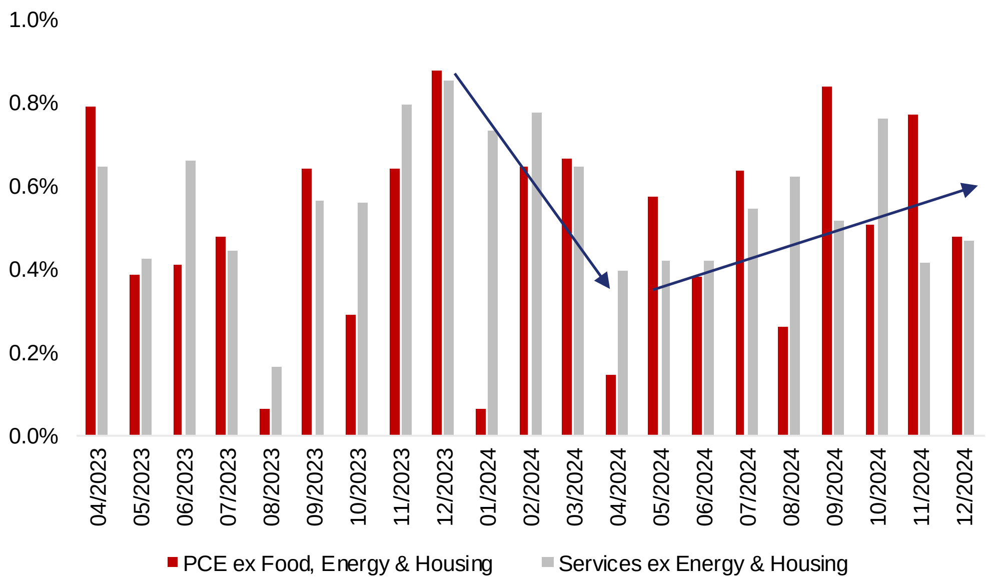
Source: Bloomberg/Bradesco/National Bureau of Statistics of China – 17 January 2025

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 %)

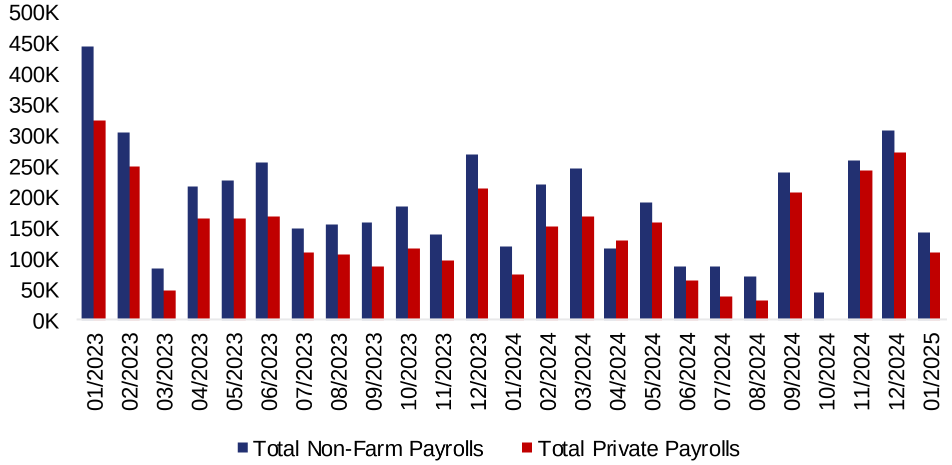


- US consumers have been spending far more than other regions since the pandemic. As of 4Q 2024, US consumer spending is up 15.2% since the pandemic. The Eurozone was up 5%, the UK and Japan were up 1.5% and Brazil was up 11.5% as of 3Q 2024.
- Strong spending in the US has helped maintain strong GDP 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, shows monthly spending on non-essentials has accelerated.

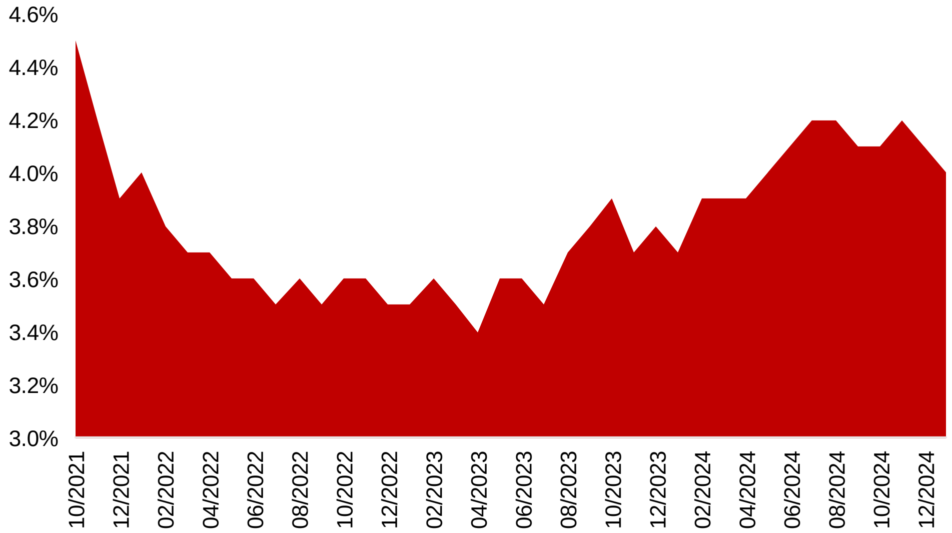
Source: Bloomberg/Bradesco/BLS/Eurostat/UK Office for National Statistics/Economic and Social Research Institute Japan/IBGE – 31 January 2025

Strong US jobs data could keep upward pressure on inflation even after revisions

Somewhat weaker January but previous months were stronger



Unemployment rate falls for second consecutive month, down to 4%

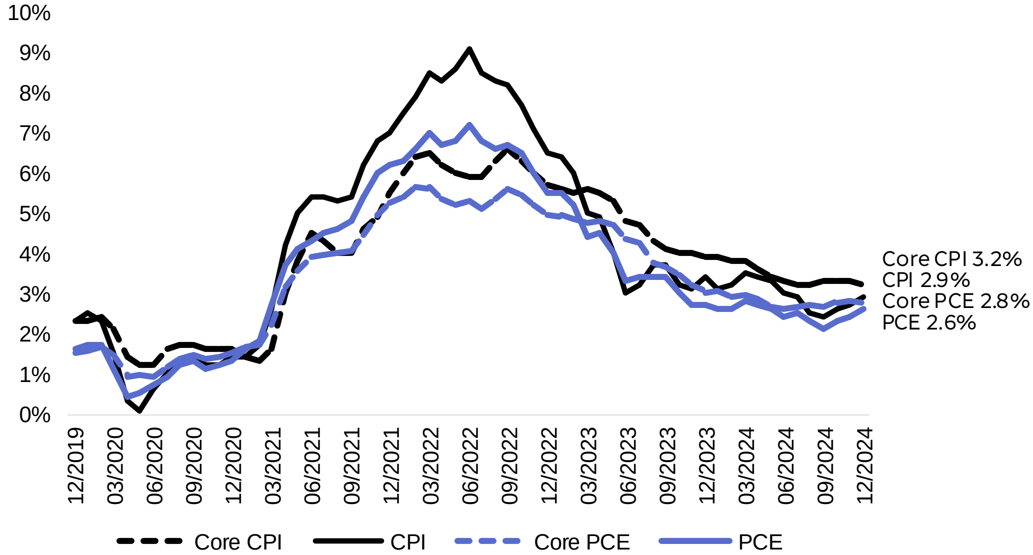


- The December US jobs data showed the unemployment rate falling to 4.0% from 4.1% with 143k jobs created during the month, below expectations for 175k jobs. Private payrolls increased by 111k during the month, also below expectations of 158k. However, there were large upward revisions for the prior two months with December revised higher to 307k from 256k while November was revised to 244k from 195k.
- The strong data could keep upward pressure on inflation. Wage growth accelerated to 0.5% MoM from 0.3% and was at 4.1% YoY in January. Trump's immigration crackdown and highly publicized deportations could reduce labor availability and increase wage inflation and costs even further.
- There were also major revisions to 2024 data showing there were 589k less total jobs during the year and monthly jobs gains averaged 166k versus 186k initially reported. However, the revisions showed a weaker beginning of year and stronger numbers through the end of the year showing there is strong momentum in the economy heading into 2025.

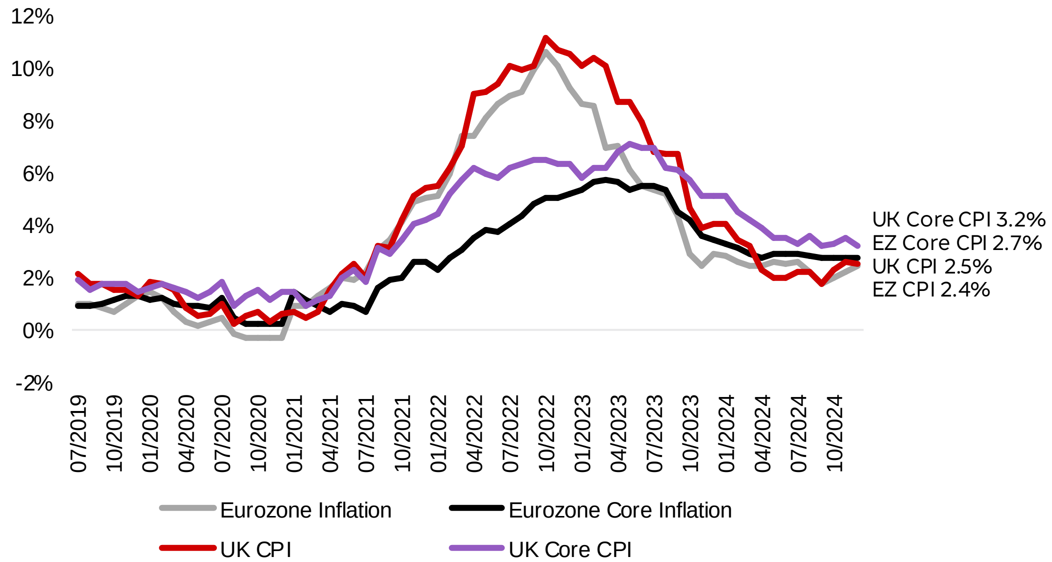
Source: Bloomberg/Bradesco/BLS – 7 February 2025

Inflation has declined from peaks, but has stagnated around 3%

US inflation stabilizing around 3% versus 2% target



UK and Eurozone core inflation also stabilizing above target

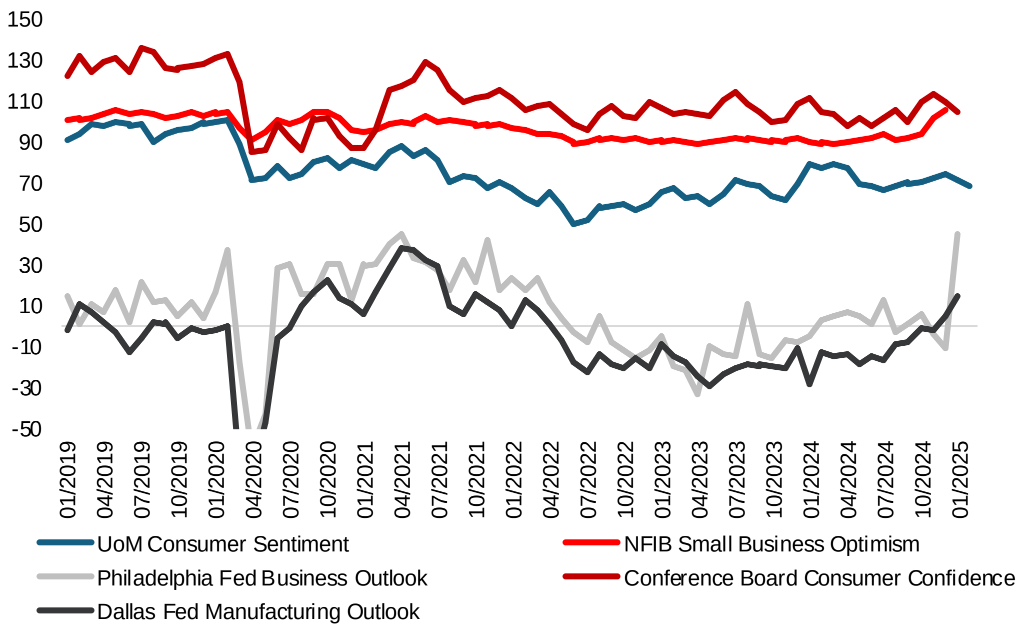


- US CPI rose to 2.9% in December and Core CPI slowed to 3.2%. Core PCE held at 2.8% while PCE rose to 2.6% from 2.4%. Core inflation seems to be stabilizing around the 3% level, still higher than the 2% target.
- We believe continued economic strength and stubbornly high inflation means the Fed will pause in its rate cutting cycle in 2025. Tariff, tax and immigration policies under Trump could increase inflation pressures further, meaning a pause in 2025 is even more likely.
- Inflation in Europe has fallen, but core inflation is still above target and progress towards the goal appears to have stalled. However, the ECB is expected to continue cutting rates by 25 bps at its upcoming meetings due to the weak economic growth outlook.

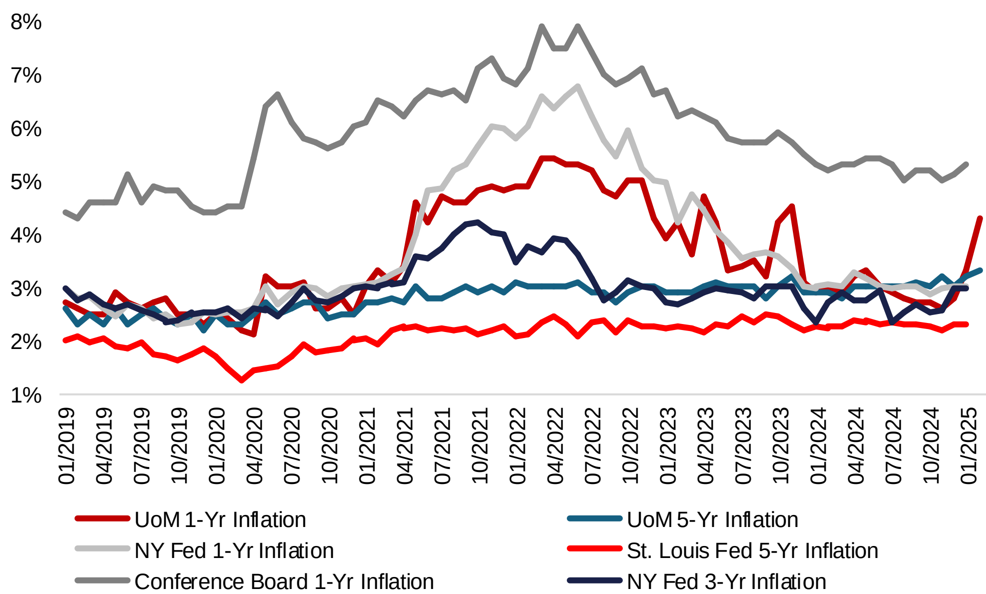
Source: Bloomberg/Bradesco/BLS/Eurostat/UK Office for National Statistics – 30 January 2025

Trump win increases business confidence but inflation expectations also rise

Most sentiment indexes jumped after Trump's win in November



Inflation expectations have also ticked up

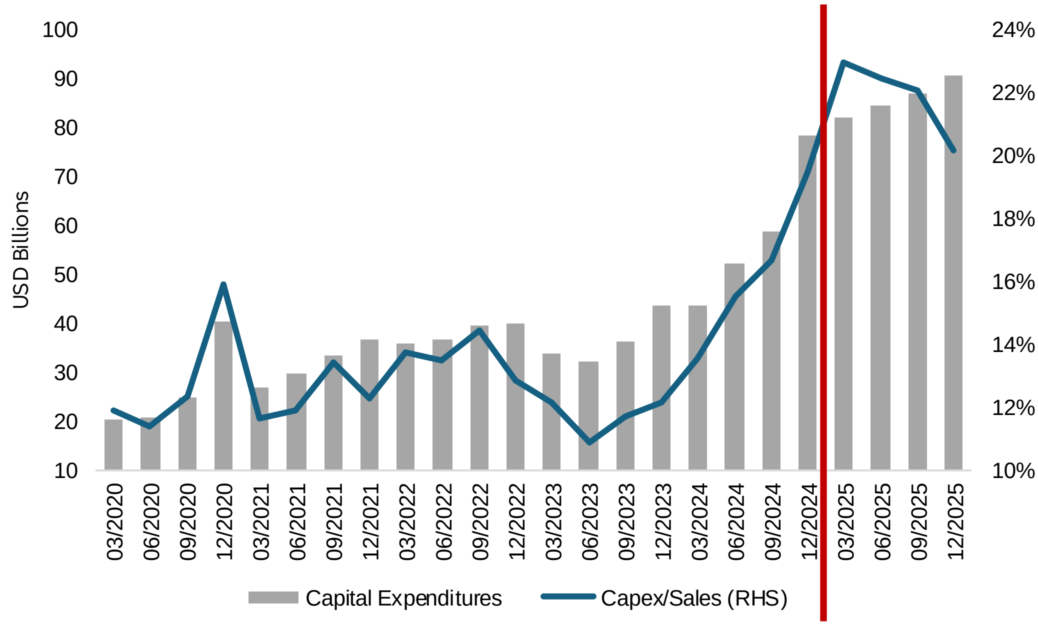


- Most sentiment indicators increased in December after Trump's win. Consumers and businesses are more optimistic that Trump's "America First" policies will provide a boost. Consumers believe that lower taxes and a strong economy will benefit them while businesses believe deregulation, lower taxes and the boost to consumers will benefit them in the end.
- However, inflation expectations are also rising. The University of Michigan inflation surveys show a sharp rise in 1 year and 5-10 year expectations. And the Conference Board 1 year expectations has also increased sharply.

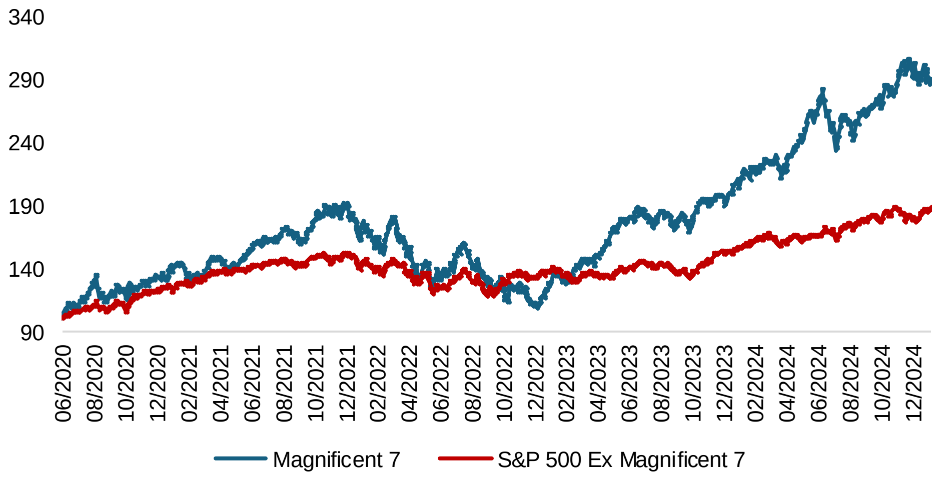
Source: Bloomberg/Bradesco/UoM/Philadelphia Fed/Dallas Fed/NFIB/Conference Board/St. Louis Fed – 5 February 2025

The large increase in spending on Artificial Intelligence is driving market euphoria

$380 billion in capex by the largest tech companies in the past 2 years



The Mag-7 tech companies rising strongly on AI euphoria

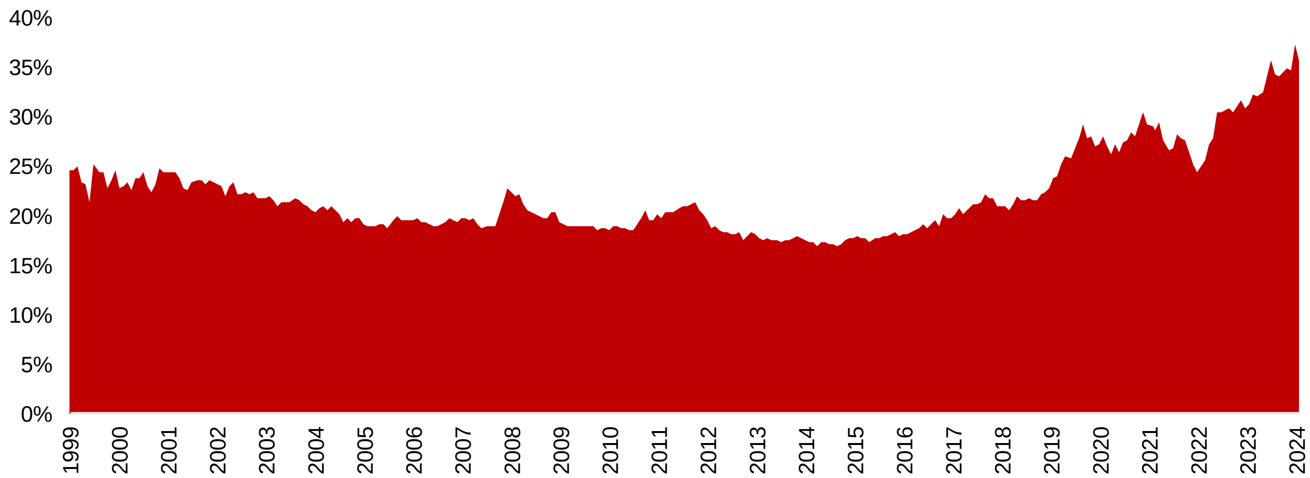


- Meta Platforms, Alphabet, Microsoft and Amazon collectively spent $380 billion in capital expenditures over the past two years and close to $78 billion in the fourth quarter of 2024 alone, with most of that earmarked for spending in developing their AI capabilities, from buying AI optimized chips to building out datacenters.
- For 2025, the companies have guided to further increases in capex. Microsoft from $44bn in 2024 to $80 billion in 2025. Meta from $37bn to $60 - $65 billion. Google from $52bn to $75 billion. And Amazon from $83bn to $105bn.
- The surprise announcement by DeepSeek and its very advanced but low cost R1 model has raised questions about the need for such large spending. The company was able to develop a model that performs on par to OpenAI's most advanced model but was able to do it at a fraction of the cost and without using Nvidia's most advanced chips.

Source: Bloomberg/Bradesco/Company Filings – 6 February 2025

US equity concentration is worrying

The top 10 stocks in the S&P500 now account for over 35% of the index

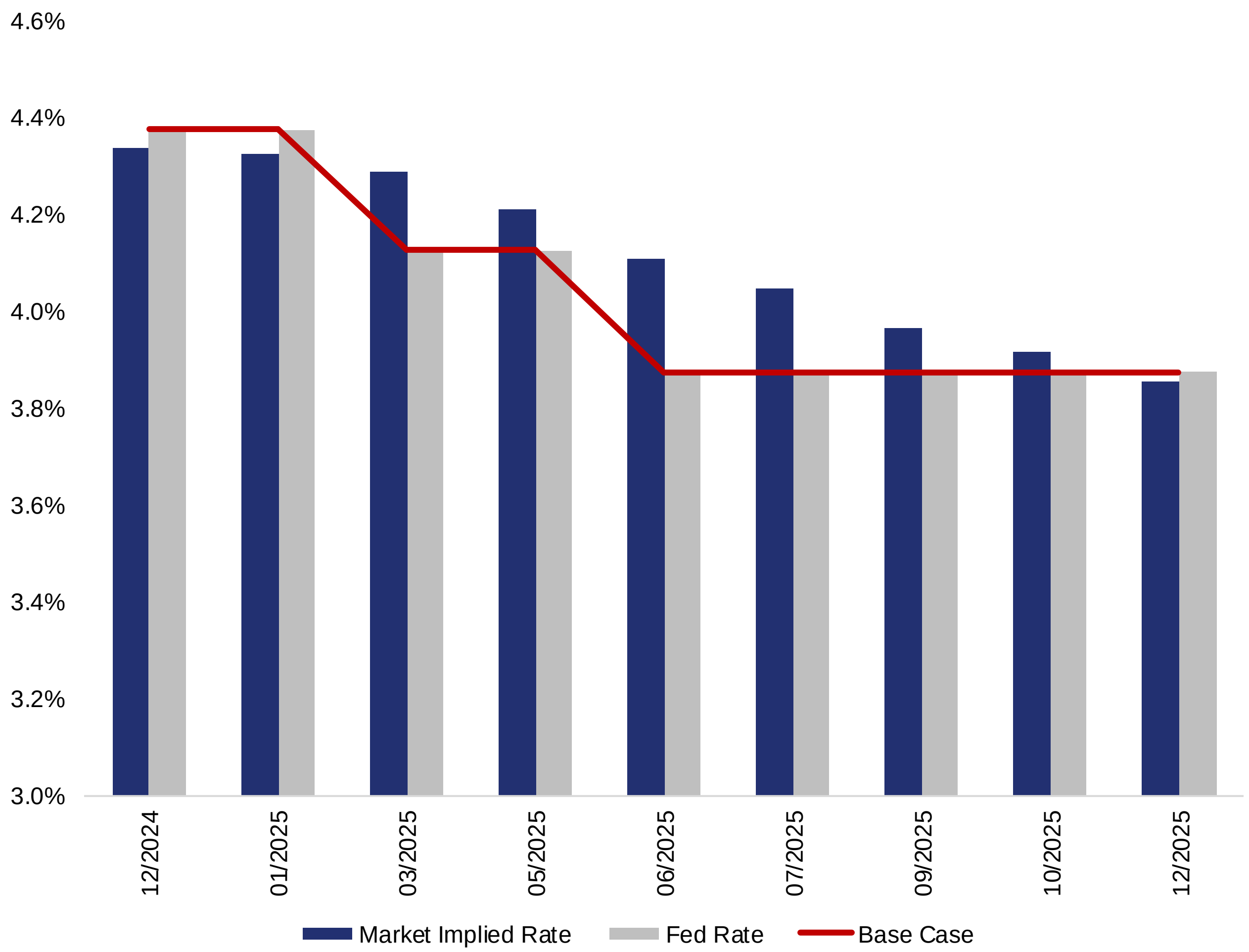


- The rise of the Magnificent 7 has focused more of the index on the largest stocks leading to a high concentration of the index in the top 10 largest companies. The top 10 concentration increased to over 37% in December before dropping to 35.6% after Deepseek's announcement, higher than even during the peak of the Internet bubble in 2000.
- A high concentration leads to increased market risks as any declines in the largest stocks would have outsized impact on the overall index.
- This is one of the reasons why we have included the Equal-Weight position within US equities for this year.

Source: Bloomberg/Bradesco – 27 January 2025

The Fed held rates steady during their January meeting on a strong economy

Fed has adjusted its outlook for rate cuts in 2025 to just 0.50% from 1.0% as inflation persists

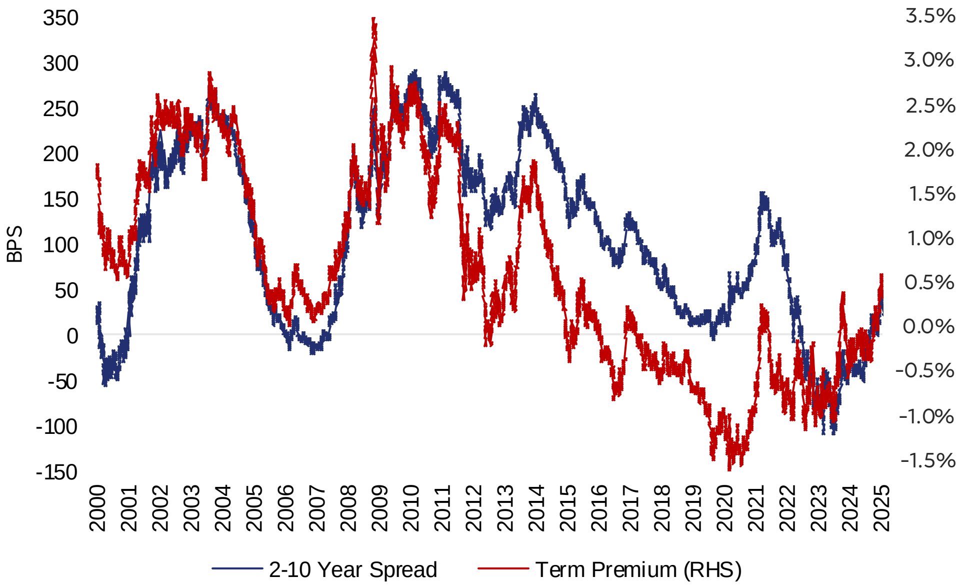


- The Fed made significant adjustments to it's economic outlook when it published its estimates in December. Its September projections had shown 1.0% in cuts in 2025 but its December projections reduced this to 0.50% in cuts.
- In their press release, the Fed noted that inflation remains somewhat elevated versus previous language indicating inflation had made progress toward its 2% objective. Combined with a solid labor market, this seems to indicate the Fed feels the economy remains strong with continued concerns about lingering inflation
- The Fed's outlook, our outlook and the market's perception are in sync, with only two cuts for 2025.
- Our Base Case outlook remains for the Fed to cut rates by 0.25% in March and June and then pause at the 3.75%-4.0% range mid-2025.
- Tax and tariff policies by the Trump administration may influence the Fed into delaying further rate cuts if it seems they will be inflationary.

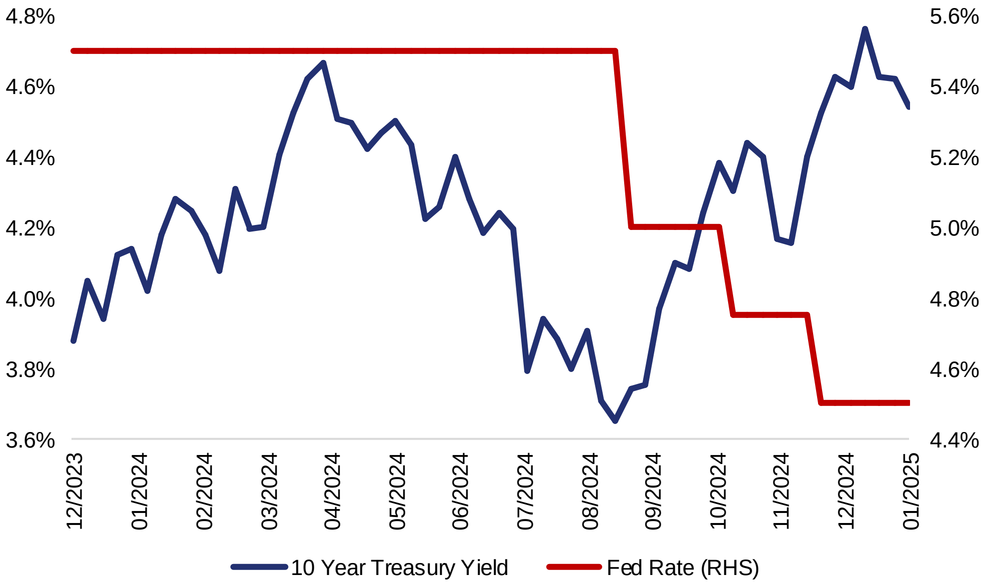
Source: Bloomberg/Bradesco – 5 February 2025

Yields increase despite central banks cutting rates due to increase in the term premium

Term premiums push up long end of the curve



Treasury yields rose despite the Fed cutting rates in 2024



- Global fixed income was expected to show gains in 2024 as the major central banks started their rate cutting cycles. The US Fed, European Central Bank, Bank of England and others central banks did start cutting rates in 2024 as expected, but yields ended up rising during the year rather than falling.
- Stubbornly high inflation and the prospect that the US Fed would not cut rates as much as expected led to yields rising by the end of the year. As rising yields lead to falling prices in fixed income, this led to the weakness in fixed income for the year.
- Yields may stay at higher levels for longer as inflation stays high and trade and economic policies of the Trump administration could add to inflation pressures.

Source: Bloomberg/Bradesco – 5 February 2025

Trump and Republican Congress priorities and possible implications

	Trump's Stance
Taxes	Extend the expiring 2017 Personal Tax Cuts. Lower corporate tax rates to 20% and to 15% for Domestic Manufacturers. End Taxation of Social Security, Overtime and Tip Income.
Trade	Raise tariffs on Chinese goods to at least 60% and minimum tariffs on all other countries to at least 10%-20%.
Immigration	Secure the border and deport unauthorized immigrants.
Energy	Reverse current energy/environment policies and expand production.
Defense	Strengthen and modernize the military. Increase pressure on allies to bolster defense spending.
Healthcare	Could seek to curtail subsidies expiring in 2025. Increase price transparency.
Regulation	More accommodative to Banks and Energy while maintaining the current stance on Big Tech.
Monetary Policy	More involvement in the Fed's policymaking process.

	Market/Macro Implications
GDP	While tax cuts could bolster GDP, tariffs could drag it down by increasing costs and reducing imports. In the extreme, tariffs could lead to global trade wars and global recession. Mass deportations would have a negative impact on productivity.
Inflation	Tariffs, tax cuts and mass deportations could all be inflationary. Tariffs will trickle directly to the consumer though it will be a one-time increase. Reducing taxes will incentivize consumers to spend while allowing companies to raise prices and deportations will lead to increased labor costs.
Trade	Tariffs will likely lead to retaliation from most countries unless the administration can implement trade agreements with those countries with which it has large trade deficits. Tariffs could ultimately lead to a global trade war while having a very limited impact on revenues.
Budget Balance	Increased defense spending and lower taxes will worsen the deficit and despite increased tariff revenue, the benefit will be too small to cover any decrease in revenues (up to $300 billion from $77 billion in FY24).
Debt	In any scenario, Debt/GDP will increase above baseline levels, putting further upward pressure on Treasury yields

Source: Bloomberg/Bradesco – 1 January 2024

Trump's first days in office

Immigration

- **Immigration Crackdown**: Declared a national emergency at the US-Mexico border and issued a broad ban on asylum for immigrants. Has started his mass deportation promise using military planes to depart illegal migrants.

Budget, Spending and Workforce

- **Ordered a temporary freeze on federal grants and loans** related to programs, projects, and activities implicated by the executive orders, such as ending DEI, the green new deal, and funding nongovernmental organizations that undermine the national interest.
- **Federal Workforce Changes:** Order federal workers back to the office and issued a freeze on federal hiring, except for some roles.
- **DOGE: The "Department" has gained access to has demanded and been given access to sensitive government databases and the Treasury Department's payment system instilling concerns by Democrats and some Republicans alike.**

Tariffs

- Directed federal agencies conduct a **trade review**. Agencies have until **April 1** to report their findings and provide recommendations.
- Trump has yet to implement tariffs on any nation though he stated that he would implement **25% tariffs on all goods from Mexico and Canada starting February 1st as well as an additional 10% on China**.
  - **Delayed tariffs on Mexico and Canada for a month and reduced the level of tariffs on oil from Canada to 10%**
  - **Tariffs on China went into effect at midnight February 3. China retaliated with 15% tariffs on LNG and 10% on oil products among other measures.**
- Used tariffs as a threat against Colombia after the Colombian president denied the arrival of a plane containing Colombian deportees.

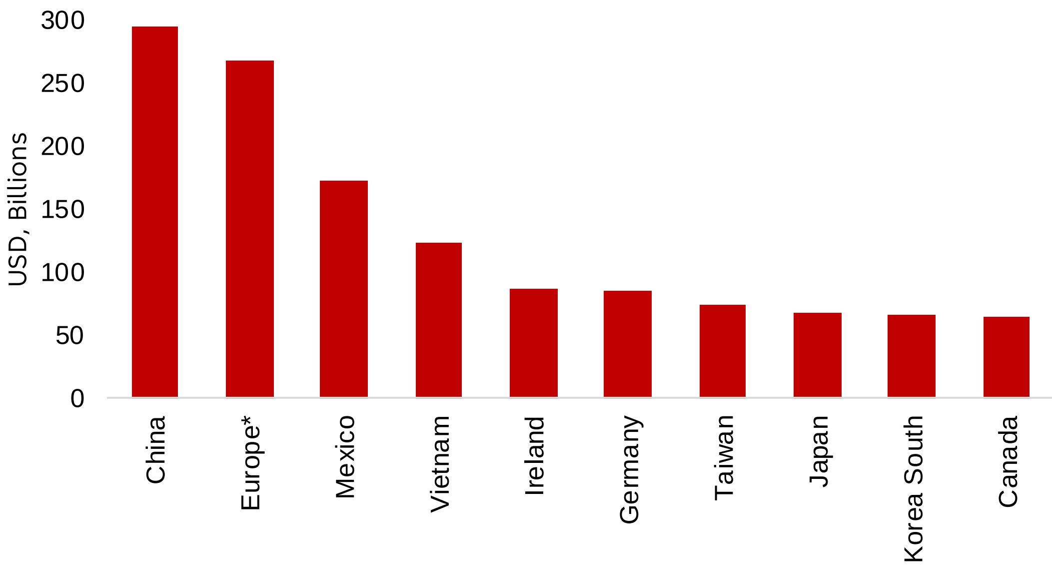
Other actions

- Began the process of withdrawing the US from the World Health Organization (WHO).

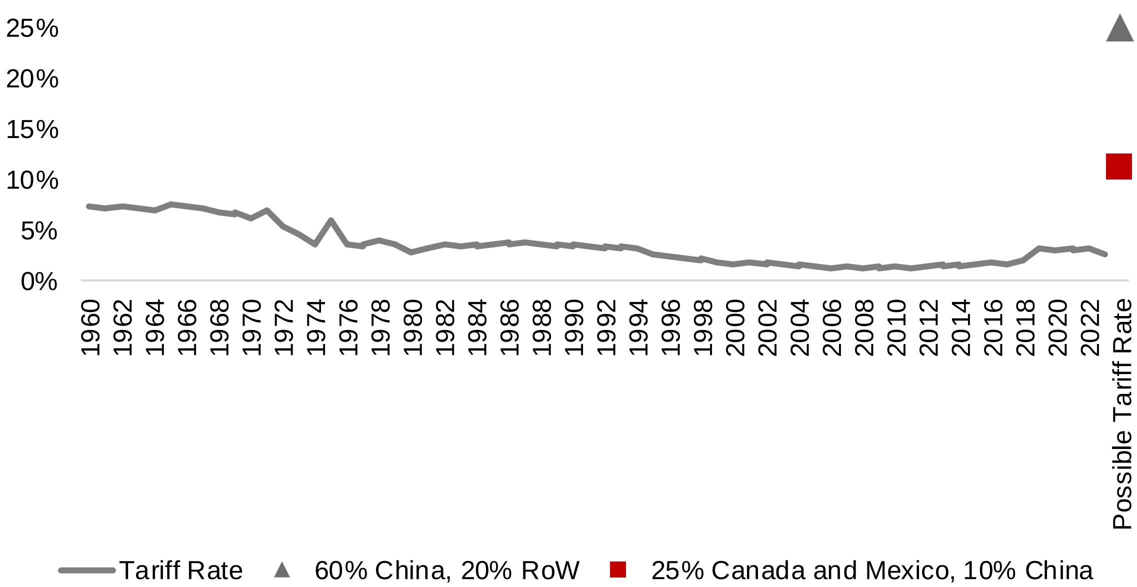
Source: Bloomberg/Bradesco– 27 January 2025

Tariffs are coming. Who are the targets? How much will they rise?

Trump will likely target countries with which the US has large trade deficits



Average rate will rise from current 2.6%, but how high?

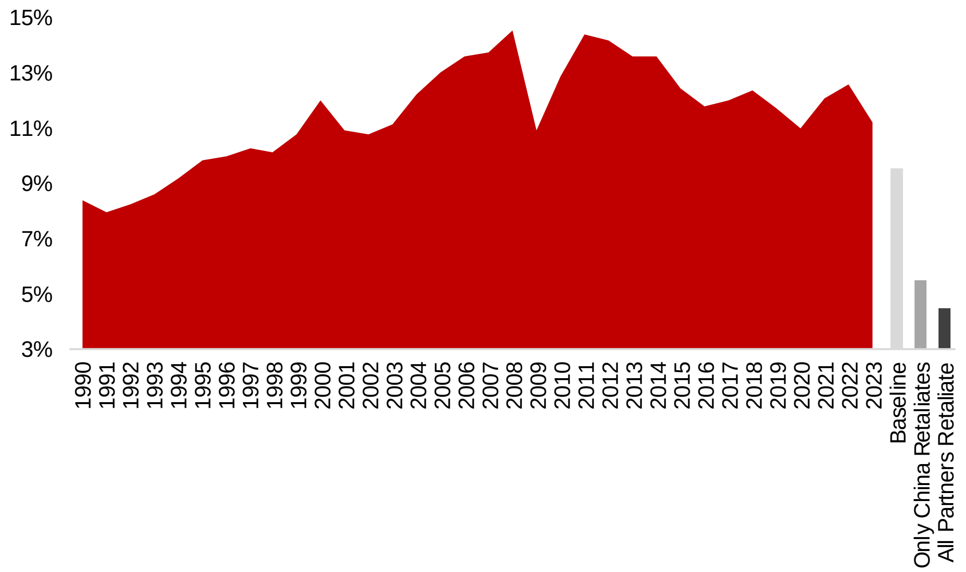


- Countries with large trade dependencies (total trade) and with large trade surpluses with the US will likely face the most tariff pressures in the coming years.
- While China is the prime target as it has the largest trade surplus with the US of nearly $290 billion, Europe, Mexico, Canada and other countries could also face tariff threats.
- Close neighbors and allies will not be spared. Trump has already threatened Mexico and Canada with immediate 25% tariffs if they do not reduce illegal immigration and drugs crossing the borders.
- Average import tariff rates are now 2.6% and could rise to 25% if all the proposed tariffs are implemented. The average tariff rate could increase to about 11% if Trump's proposal of 25% tariffs on Mexico and Canada and 10% additional tariffs on China eventually go into effect.

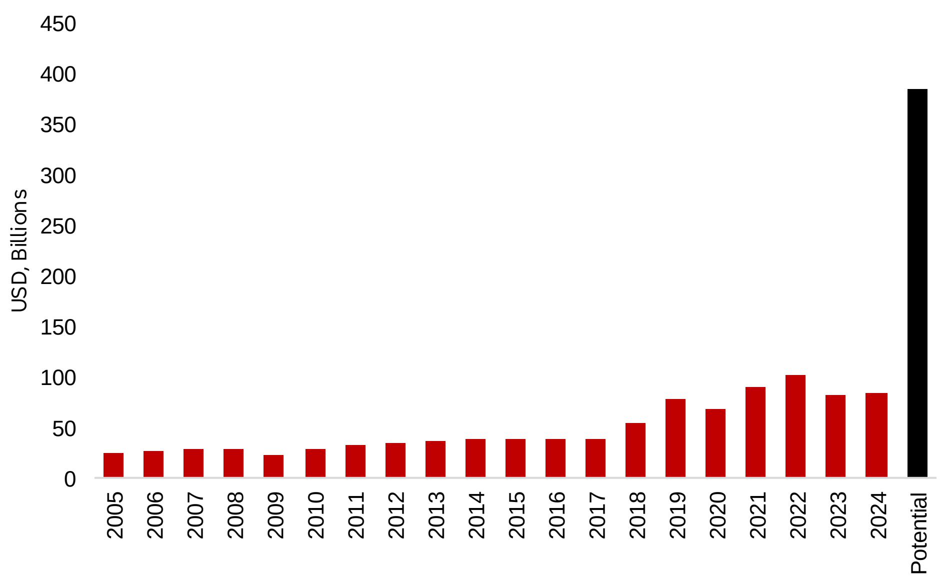
Source: Bloomberg/Bradesco/Bureau of Economic Analysis – 4 February 2025

Tariffs will lower imports, reducing revenue potential

Imports will decline as tariffs rise. A sharp fall possible on high tariff rates



Tariffs may reach $400bn maximum as imports volumes decline

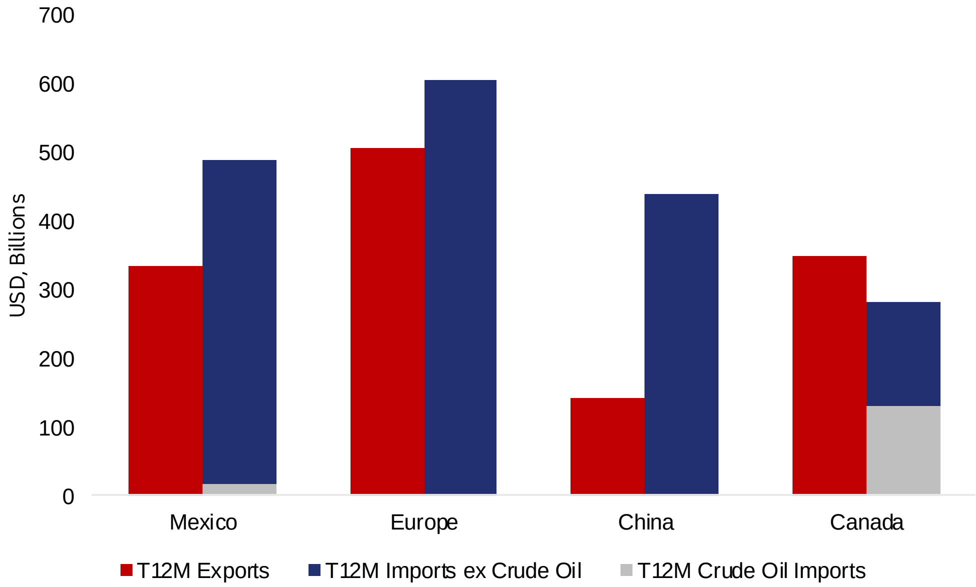


- Trump's proposals to increase tariffs on all Chinese products to at least 60% and the rest of the world to 10%-20% would severely disrupt global trade and would likely lead to a global trade war with downside risks for GDP and upside risks for inflation.
- Imports are now above 11% of GDP and could 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%.
- Increasing tariffs would likely mean lower imports so the revenues raised would not be as much as expected. At the extreme tariff levels, just $400bn in tariff revenues might be raised, not nearly enough to balance the budget. And at the cost of a global trade war and likely global recession.

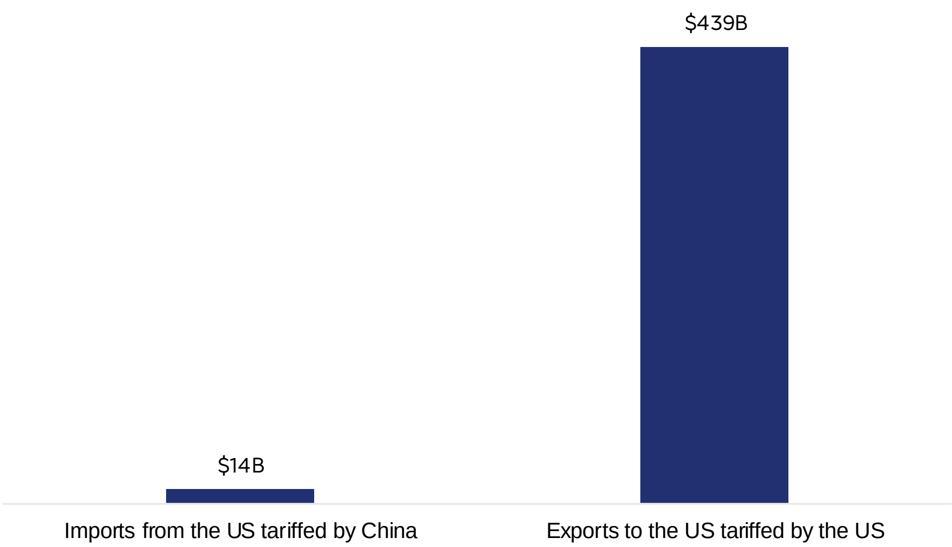
Source: Bloomberg/Bradesco/U.S. Census Bureau – 27 January 2025

Canada and Mexico the first targets, but tariffs delayed for now

All could be hit with tariffs due to large trade deficits



China's responds in a limited way to the US 10% tariff

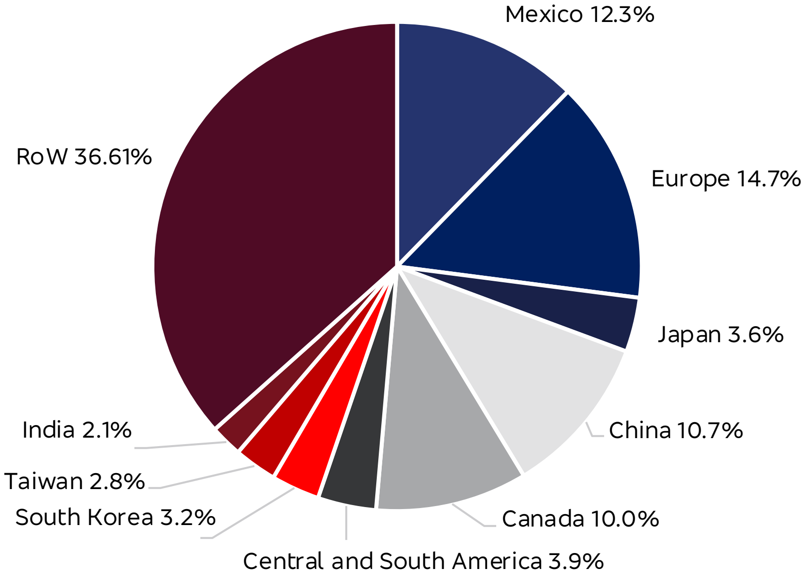


- Countries with large trade dependencies (total trade) and with large trade surpluses with the US will likely face the most tariff pressures in the coming years.
- While China is the prime target as it has the largest trade surplus with the US of nearly $290 billion, Europe, Mexico, Canada and other countries could also face tariff threats.
- Trump's threat to Mexico and Canada was set to go into effect February 3rd but last-minute negotiations delayed their implementation by one month. Trump threatened Mexico and Canada with 25% tariffs on all goods (10% on Canadian oil) if they do not reduce illegal immigration and drugs crossing the borders.
- Additional 10% tariffs on Chinese products did start in February, targeting $439bn of imports to the US. China responded with 10-15% tariffs targeting $14bn of imports from the US. The large difference shows that China is in a weaker position since the US imports much more than China.

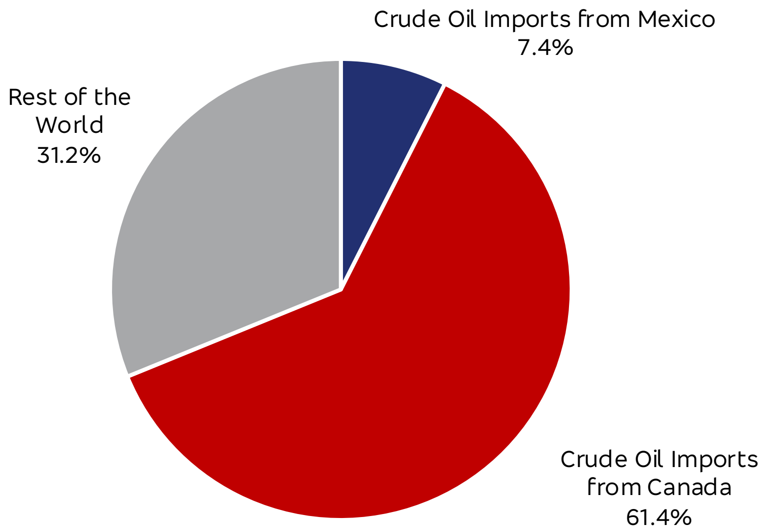
Source: Bloomberg/Bradesco/U.S. Census Bureau – 4 February 2025

$4.1 trillion in imports at risk for tariffs

$4.1 trillion in overall imports could face additional tariffs



$166 billion in crude oil imports: Canada and Mexico top suppliers

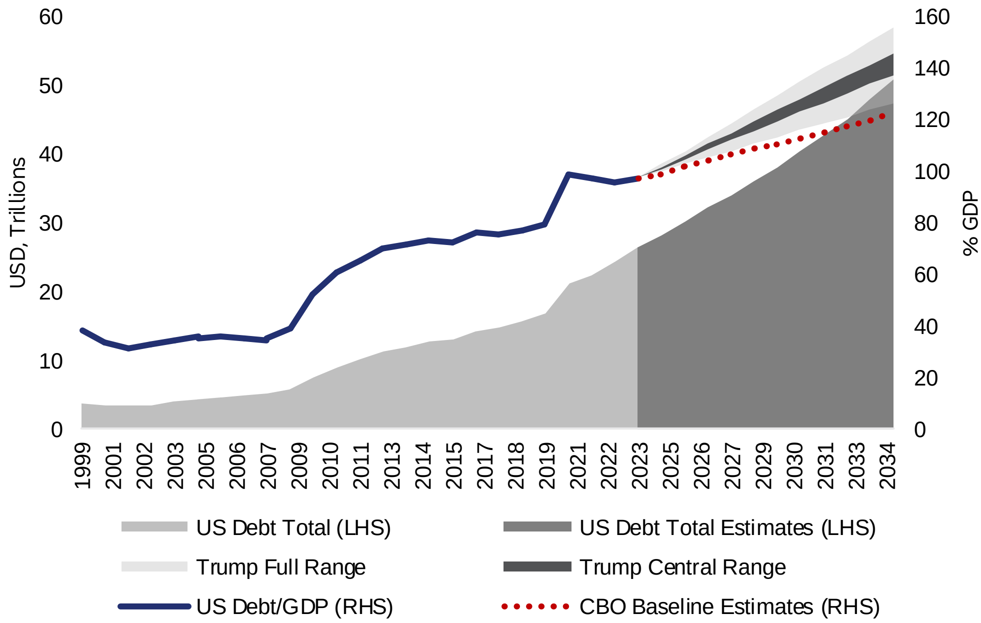


- US imports were $4.1 trillion in 2024, including $606 billion from Europe, $439 billion from China, $506 billion from Mexico and $413 billion from Canada.
- The US still imports crude oil as refineries in the US need the heaver Canadian and Mexican crude. Most of the $166 billion in crude imports come from Canada (about 4mn barrels/day and some from Mexico (about 453,000 barrels/day).
- The US is also cancelling the "de minimus" exemption for China, Canada and Mexico, which let shipments of less than $800 value come in tax free. In 2024, there were 1.36 bn packages imported under de minimus, valued at $65 billion. About 2/3 of the package volumes come from China.

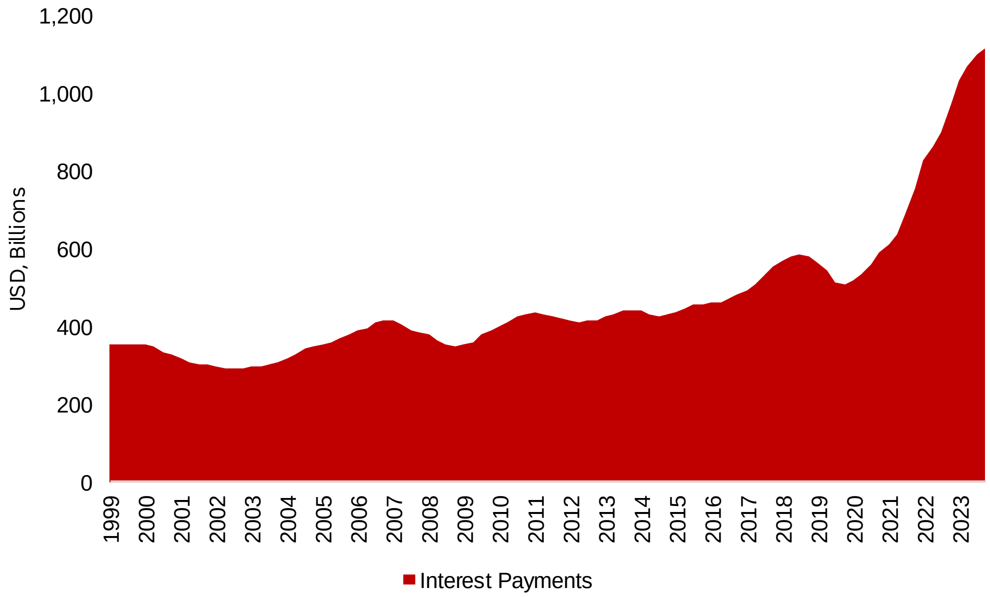
Source: Bloomberg/Bradesco/U.S. Census Bureau – 27 January 2025

US deficits to deteriorate significantly further

Tax cuts and interest expenses to push up deficit



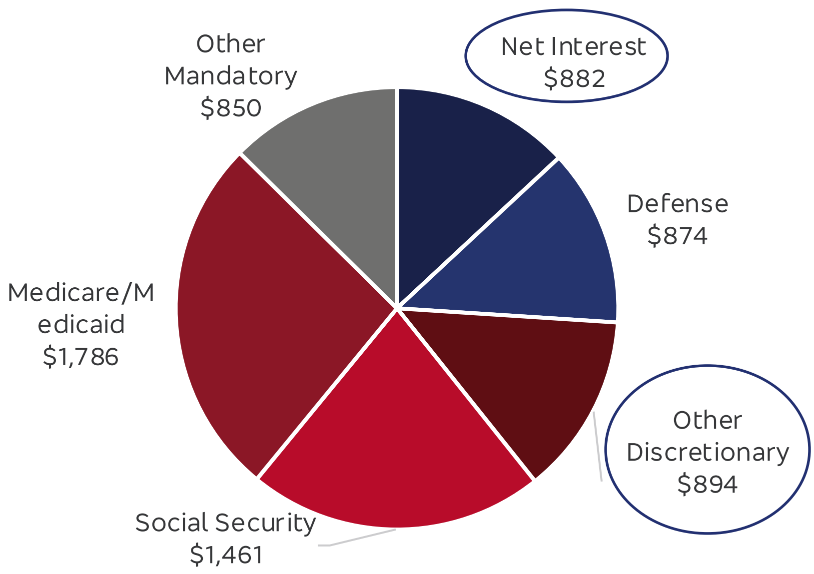
Interest costs alone rising to $1 trillion and higher

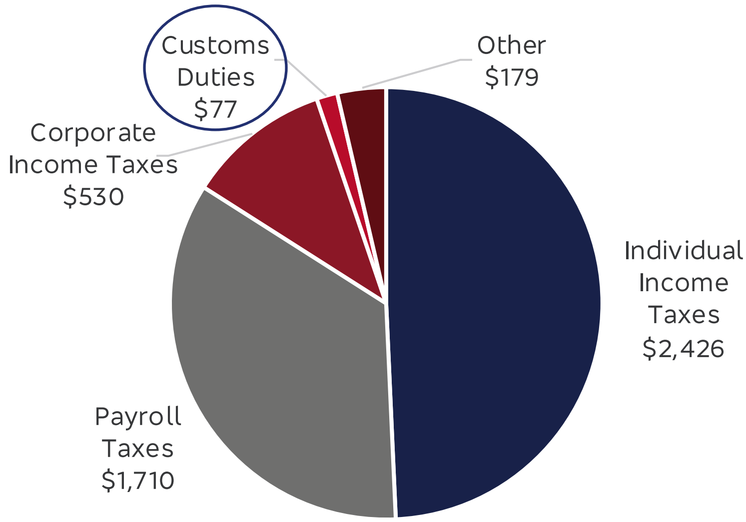


- The US Debt (debt held by the public) to GDP is nearly 100% in 2024 and this could quickly rise to 116%-134% by 2030. This is far worse than estimates by the Congressional Budget Office as Trump and the Republican Congress are likely to extend the 2017 tax cuts and could even implement further tax cuts.
- The US is running a 7% budget deficit ($1.8 trillion deficit in 2024), which is worrying as unemployment is low and the economy is growing strongly. With such a strong economy, the budget deficit should be far smaller or even in a surplus.
- Total Federal debt is at $26 trillion and could rise to $40 trillion or more in the coming years. Interest costs have increased sharply and could reach $1 trillion in 2025 and continue rising in the future.

Source: Bloomberg/Bradesco/US Treasury/CBO/BEA – 1 February 2025

US Government spent $6.7 trillion while revenues were just $4.9 trillion in 2024



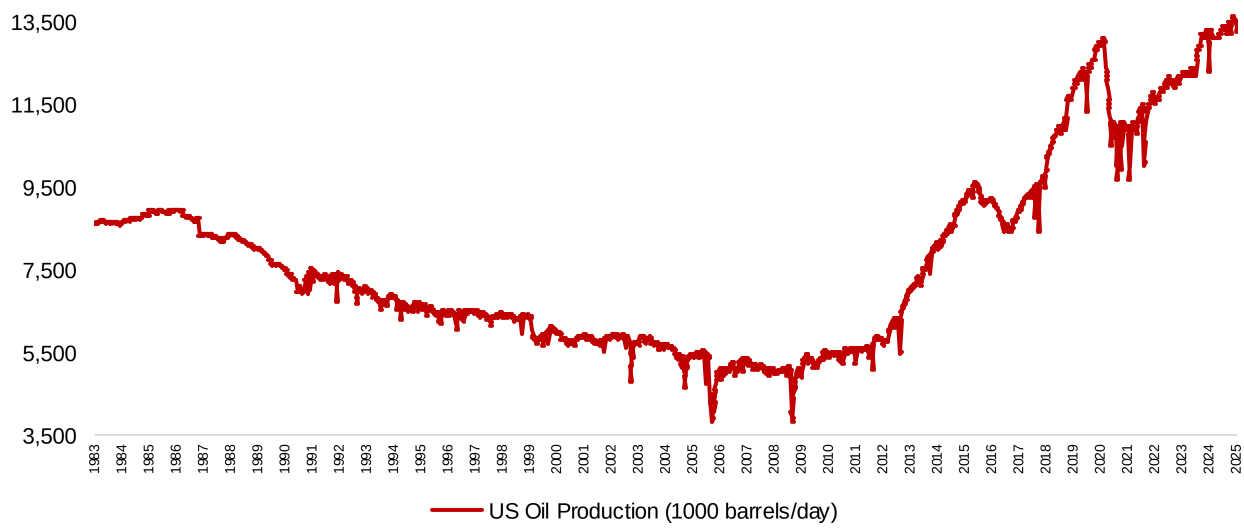


- The US budget deficit in 2024 was $1.8 trillion as the $6.7 trillion in spending was far higher than the $4.9 trillion in revenues.
- Balancing the budget by just reducing spending is not feasible as most of the budget is so called mandatory spending or interest expenses or spending on the military. The remaining spending (other Discretionary) is $900 billion so eliminating all of this would still not balance the budget.
- Customs duties (tariffs) brought in just $77 billion in revenues. Overall imports to the US are around $4 trillion/year. Raising tariff rates could bring more revenues but would also reduce imports so customs duties would reach just $300-$400 billion if tariffs are increased to maximum levels. This would have just a small impact on the deficit but could drive the US and global economy to a recession due to possible trade wars.

Source: Bloomberg/Bradesco/US Treasury – 1 February 2025

"Drill baby drill" may not have much impact as oil production already at record highs

Trump's emergency declaration likely to do little to increase production within the United States



- According to the Energy Information Administration (EIA), the US is already producing around 13,477,000 barrels per day. That's more than at any other time in history.
- The US is the largest crude oil producer and also the largest including natural gas liquids.
- With crude oil prices in the $70/barrel range, oil producing companies may not be so eager to expand capacity significantly further as this could impact their profitability.

Source: Bloomberg/Bradesco/EIA – 1 February 2025

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

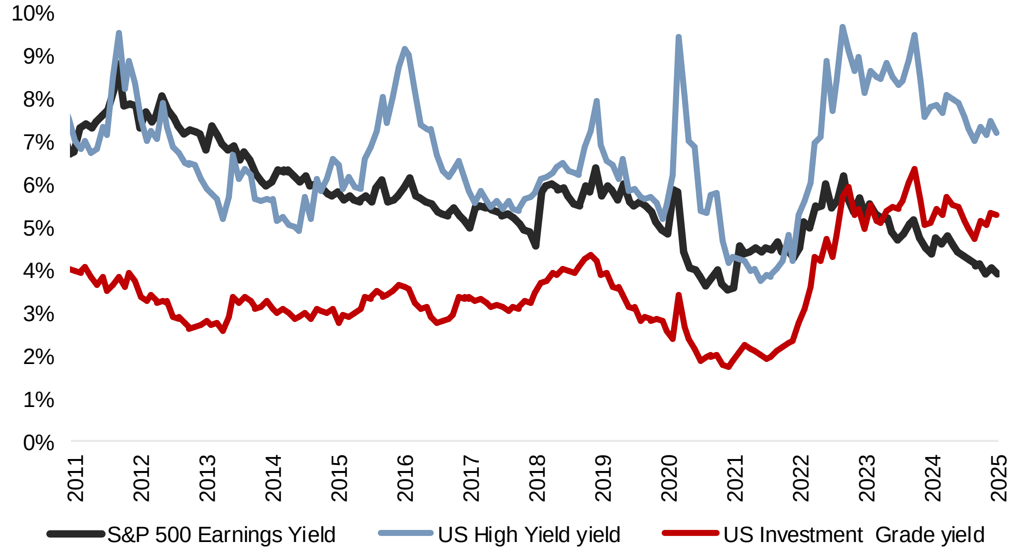
Sector	Effect	Explanation
Financials	▲	Looser regulation on bank capital requirements should benefit banks. Higher yields could lead to losses in fixed income positions but increase the margin between deposits and loans. Less antitrust regulations should increase M&A activity.
Industrials	▲ ▼	The extension 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.
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. **Domestic producers could benefit from tariffs since higher prices for imported materials means that they can raise their own prices, those that do business with tariffed countries will most likely suffer from higher prices**. 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. **Trump's national energy emergency declaration and his call for lower energy prices will be hard to implement, the US is already at record level productions and increasing that would be costly. Natural Gas could benefit since the US is the largest exporter.**
Technology/Communications	▲	**Current Trump nominees appear to be against Big Tech, but they will likely be more M&A friendly. Lower corporate taxes should allow companies to keep spending on AI. AI should continue to be the most important theme with The Stargate Project announcing $500 billion in investments over the next four year to build new AI infrastructure.**
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. **If Tariffs on Mexico and Canada go into effect, prices at grocery stores will undoubtedly increase due to already low margins. The tariffs on China and the elimination of the de minimis rule would hurt online retailers.**
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 since current capacity is very limited**.
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. **Tariffs on Canada, Mexico and China could mean higher costs to build real estate which would translate into higher prices for consumers.**

Source: Bloomberg/Bradesco – 1 January 2025

Spreads continue to decline, helping High Yield and Investment Grade to gain

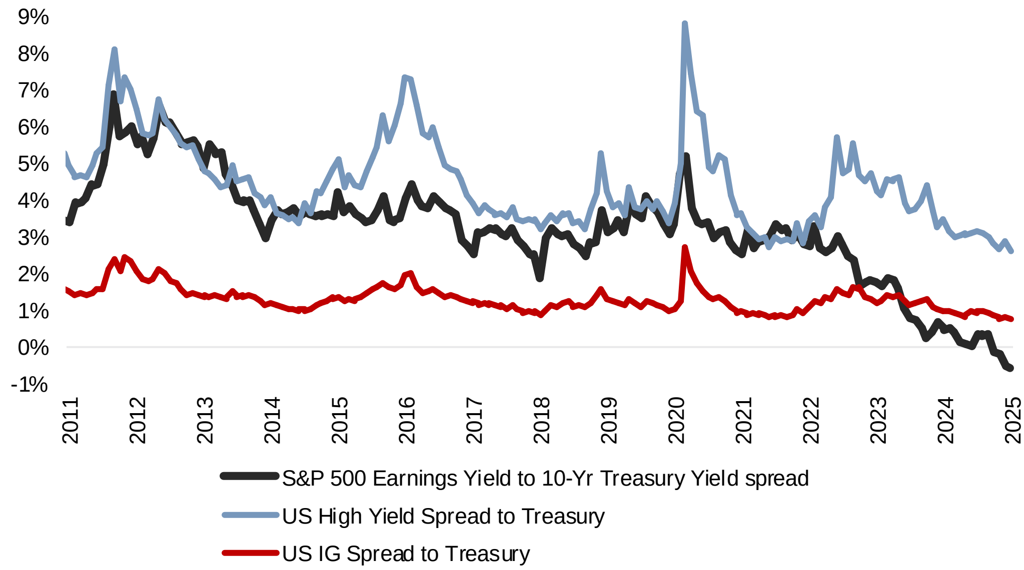
S&P 500 Earnings Yield versus High Yield and Investment Grade yields

(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)



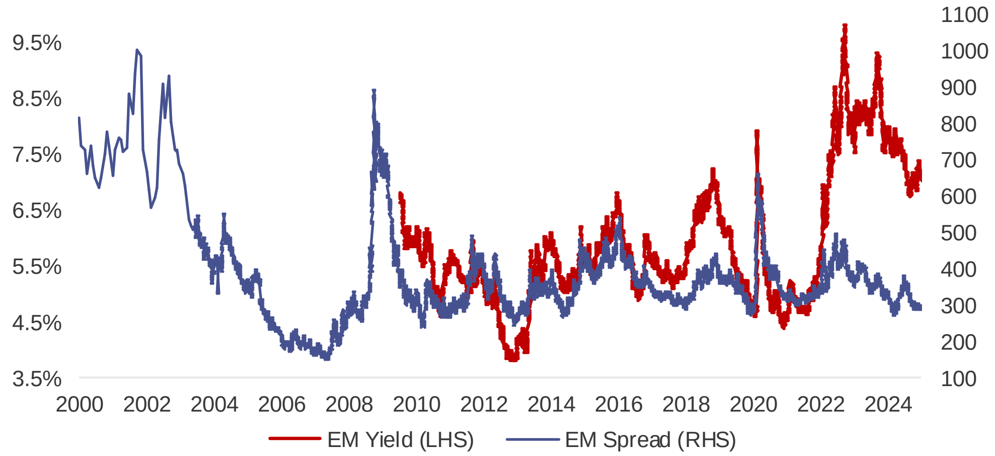
- While underlying Treasury yields increased in 2024, High Yield and Investment Grade yields fell due to rapidly declining spreads. The lower spreads reflect investor optimism that economic growth will continue in the US and that a recession is not a likely scenario in the coming year(s).
- While spreads are very low, overall yield levels are still elevated as High Yield yields are above 7% and Investment Grade yields are above 5%. Equity earnings yields (inverse of the Price/Equity ratio) have stayed low, below 4%, showing that the equity markets are expensive.
- The S&P 500 Equity Risk Premium (difference between earnings yield and 10-year Treasury yield) is now at lows of negative 0.6%. Equities look very expensive compared to the fixed income spreads.

Source: Bloomberg/Bradesco – 6 February 2025

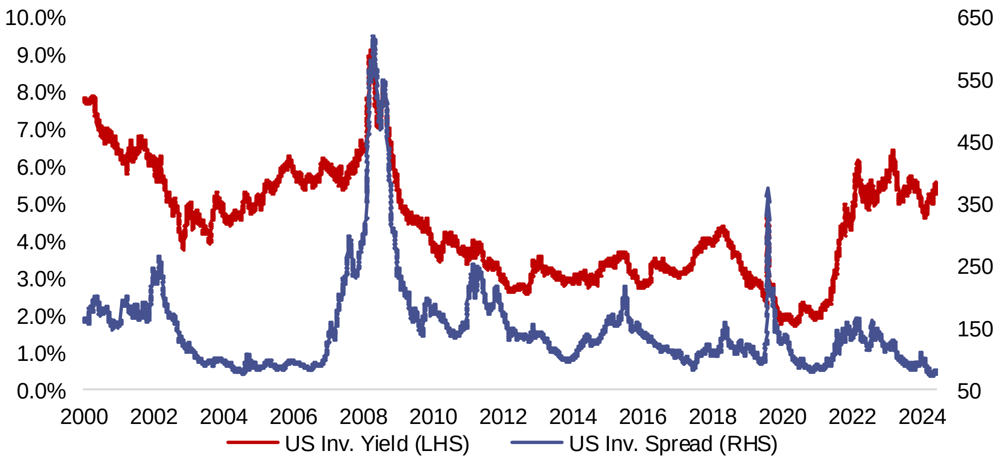
Fixed Income Yields and Spreads

	Yield	Spread (bps)	Spread Avg/Range	Duration
US Investment Grade	5.22%	81	148 (74-618)	7.1
US High Yield	7.17%	263	440 (252-1099)	3.3
Global High Yield	7.23%	310	539 (220-1803)	3.9
Emerging Markets	7.02%	290	353 (151-1001)	6.9

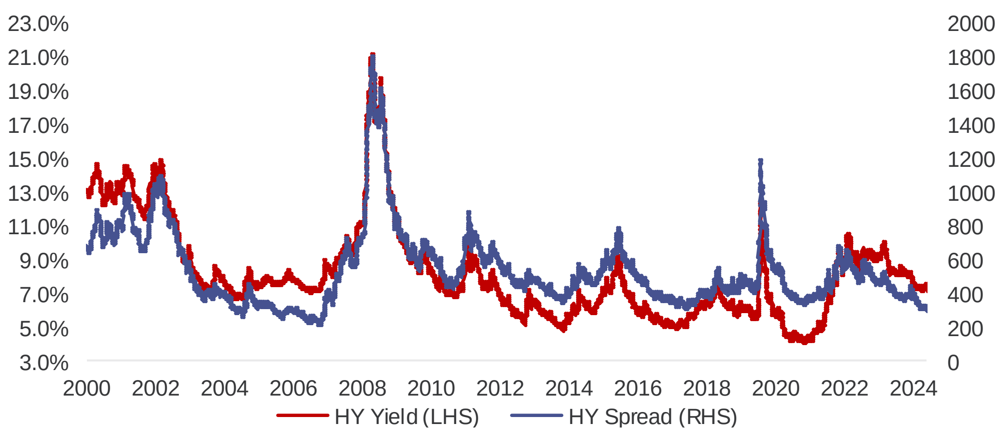
Emerging Market Yields and Spreads



US Investment Grade Yields and Spreads

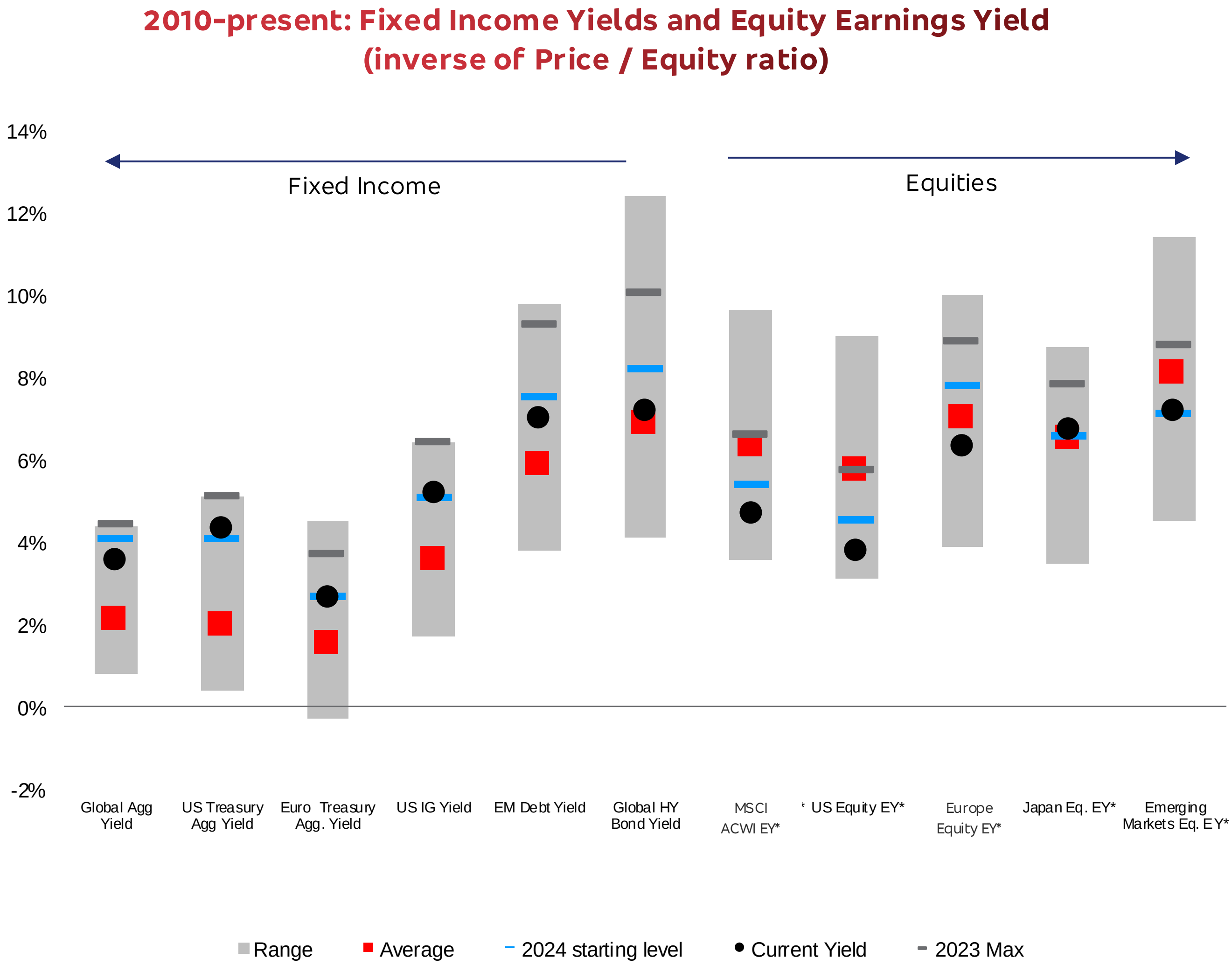


Developed Market High Yield Bond Yields and Spreads



Source: Bloomberg/Bradesco – 6 February 2025

Fixed Income yields continue lower, US equities still look expensive



Source: Bloomberg/Bradesco – February 2025

Tactical Allocation Positioning

		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			

Tactical Allocations positioning

- After adjusting our portfolios in January to reflect our updated Strategic and Tactical Asset Allocations, we are maintaining our Tactical Asset Allocations for this coming month.
- Within US Equities, we have a preference for Small-cap and Equal-weighted exposure as the overall indices look very expensive.
- We are maintaining a preference for reduced Durations in Government Bonds given risks that yields may increase in longer maturities. We also maintain an allocation in Mortgage-Backed Securities (MBS) within Government bonds.

Source: Bloomberg/Bradesco – February 2025

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	85%	85%	70%	70%	55%	55%	45%	45%
Liquidity/Short Term	24%	24%	15%	15%	8%	8%	5%	5%
Developed Government Bonds	24%	24%	16%	16%	9%	9%	3%	3%
Investment Grade Bonds	24%	24%	21%	21%	14%	14%	11%	11%
High Yield Bonds	7%	7%	9%	9%	13%	13%	14%	14%
Emerging Market Bonds	6%	6%	9%	9%	11%	11%	12%	12%
EQUITIES	15%	15%	22%	22%	34%	34%	45%	45%
US Equity	8%	8%	11%	11%	17%	17%	22%	22%
Developed Market Equity (Ex-US)	4%	4%	6%	6%	9%	9%	12%	12%
Emerging Market Equity	3%	3%	5%	5%	8%	8%	11%	11%
ALTERNATIVES			8%	8%	11%	11%	10%	10%

Source: Bloomberg/Bradesco – February 2025

February Economic Calendar

3 • S&P Global and ISM Manufacturing PMIs • **EZ CPI**	4 • JOLTS Job Openings • Durable Goods	5 • ADP Employment • Trade Balance • S&P Global and ISM Services PMIs • Eurozone PPI	6 • Jobless Claims • Continuing Claims • **BOE Meeting**	7 • **NFP Unemploymen t** • UoM Consumer Sentiment (P) • Consumer Credit
10 • NY Fed 1-Yr inflation expectations	11 • NFIB Small Business Optimism	12 • **CPI** • Budget Balance	13 • Jobless Claims • Continuing Claims • **PPI** • **UK Q4 GDP**	14 • **Retail Sales** • Industrial Production • **EZ Q4 GDP (P)**
17 • President's Day (US Markets Closed) • JP Q4 GDP	18	19 • FOMC Minutes • **UK CPI**	20 • Jobless Claims • Continuing Claims • **JP National CPI**	21 • S&P PMIs • UoM Consumer Sentiment (F)
24 • EZ CPI (F)	25 • Conference Board Consumer Confidence	26 • New Home Sales	27 • Jobless Claims • Continuing Claims • **Q4 GDP (S)**	28 • **PCE**

Source: Bloomberg/Bradesco – February 2025

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.