MONTHLY VIEW

International Investment Strategy

Trump 2.0 will shape macro and market developments in 2025

bradesco investments

JANUARY

2025

INVESTMENT PRODUCTS ARE NOT FDIC INS

Index

INVESTMENT PRODUCTS ARE NOT FDIC INSURED • NOT A BANK DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NO BANK GUARANTEE • MAY LOSE VALUE

International Markets

Global financial markets delivered mixed results in 2024 as US Equities led with the strongest performance and Government Bonds disappointed with losses for the year. US Equities benefitted from the continuing euphoria around artificial intelligence as the so called Magnificent-7 (7 large US technology stocks) gained 48% and were responsible for 54% of the 23.3% price gain in the S&P 500 in 2024. Gains in other markets were more limited due to slowing economic growth in China, continuing geo-political risks, and the prospects of increased trade frictions with the US when President Trump enters office.

In fixed income, the benchmark 10-year US Treasury yield ended 2024 at 4.57%, nearly 0.70% above its start of year level. Yields were expected to decline as the major central banks started their rate cutting cycles. However, stubbornly high inflation and the risks of inflationary policies by the new Trump administration pushed longer-term yields higher and led to losses in Government bonds. Higher yields led to losses of 1.9% in Government bonds for the year but other fixed income asset classes were able to gain due to declining spreads.

In December, the US Fed held its last meeting of 2024 and in its new economic outlook indicated that there would only be 0.50% in rate cuts in 2025 versus 1.0% previously. This was generally in-line with market and our own expectations but it led to a further rise in fixed income yields and losses for fixed income for the month. Global equities also fell in December due to increased risk aversion and also due to profit taking in the US after a strong rally in the prior month due to the Trump election win.

What to expect for the financial markets in 2025
Looking to 2025, America First policies by the Trump administration will benefit the US economy to the detriment of other countries. As a result, US equity markets should continue to outperform other markets due to US economic strength and the geo-political and trade risks for other geographies. US Equity valuations are very expensive but continued gains are possible as long as economic growth continues.

In fixed income, yields may stay at higher levels for longer which means better ongoing income but less potential for price appreciation. The expectations for Fed rate cuts over the coming year seem reasonable which means shorter-term yields should stay in current ranges. However, we believe longer-term yields can continue rising due to concerns on inflation as well as concerns on rapidly rising US federal debt levels.

Asset Allocation adjustments for 2025

- We are increasing our weightings in Short-term notes as higher rates for longer means steady returns near 4% are possible.
- We are also increasing our High Yield bond weightings due to strong absolute yield levels (near 7%). Spreads are low, meaning these bonds are expensive, but continued economic growth should support the return outlook.
- We are reducing Government, Investment Grade, and Emerging Market bond weightings as longer-durations mean lower return potential and higher risks if inflation rises.
- Within equities, we are shifting from Developed and Emerging Market equities to US equities. Even though valuations in the US are extremely expensive and valuations in other markets look relatively better, the economic growth outlook favors the US.

Source: Bradesco – January 2025

INVESTMENT PRODUCTS ARE NOT FDIC INSURED • NOT A BANK DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NO BANK GUARANTEE • MAY LOSE VALUE

Five Themes for 2025

Entering 2025, we believe there could be significant changes to the global economy and financial markets worldwide. The focus is on the election of President Trump and the Republican sweep of Congress which could mean heightened trade tensions but possibly also stronger economic growth in the US. We highlight five investment themes we believe investors should keep in mind in the coming year:

Post-election economic policies … America First

President Trump and the Republican Congress will push "America First" policies, prioritizing the US economy, often at the expense of others. While additional tariffs and reduced immigration are likely, we hope the most extreme levels won't be reached. Our base case is for some tariffs, especially against China, but with more transactional trade deals.

Are Artificial Intelligence and Crypto changing the world?

Generative AI has attracted billions in investments from companies, governments, and investors. The question is whether AI can boost productivity and lead to higher economic growth and lower inflation. Bitcoin's recovery from $15,600 to nearly $100,000 in two years has transformed investor perceptions. Trump's election plans to make the US the "Crypto capital of the planet" and establish a national Bitcoin reserve could further legitimize it while other countries might follow suit, further boosting crypto prices.

China faces challenges beyond tariffs

China's immediate focus is on the US Presidential election's impact on tariffs, but a weak housing market and population declines are major domestic challenges that could drag the economic growth lower. Officials will do whatever it takes to avoid an economic collapse and have already implemented policies to prop up the economy, though further stimulus is expected.

High geo-political risks and economic fragmentation continue

Protectionist trade policies, economic competition, and military conflicts will fragment global trade into multi-polar blocs and could lead to less efficient economies, lower growth, and higher global inflation. However, the impact will vary, with some countries benefiting and others losing, meaning that geographic and sector-level investments will be more important.

In search of terminal rates

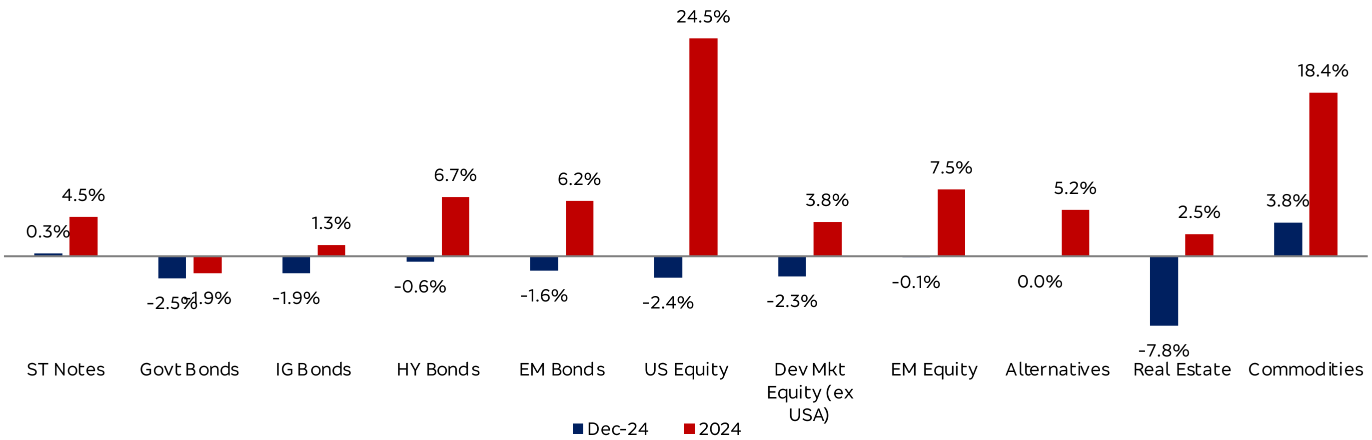
Central bank rates remain volatile due to high inflation and uncertain economic growth. The Trump administration's policies will shape rate paths in the coming months. The Fed (and other central banks) will respond accordingly, lowering rates if possible and raising rates if necessary.

Source: Bradesco – January 2025

INVESTMENT PRODUCTS ARE NOT FDIC INSURED • NOT A BANK DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NO BANK GUARANTEE • MAY LOSE VALUE

Asset Class Performance

US equity markets the strongest while Government bonds fell in 2024

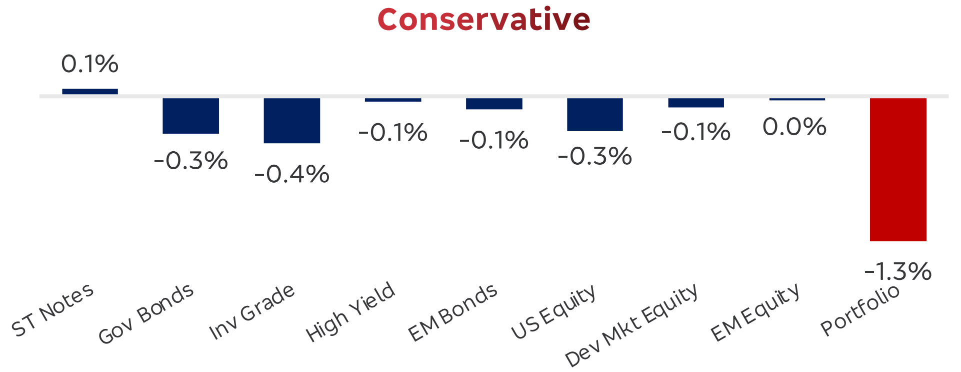


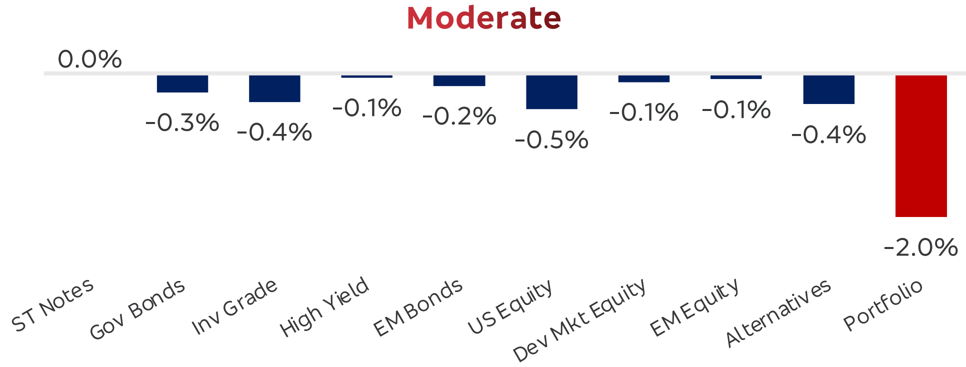
Cash/Short Term – BofAML 0-3 Year US Treasury Index / Gov. bonds – BofA Global Government Ex Japan /Investment Grade- BofAML Global Large Cap Corp / High Yield Global - BofAML Developed Markets High Yield Index / Emerging Market Bonds - J.P. Morgan EMBI Global Core / US Equities - S&P 500 Net Total Return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

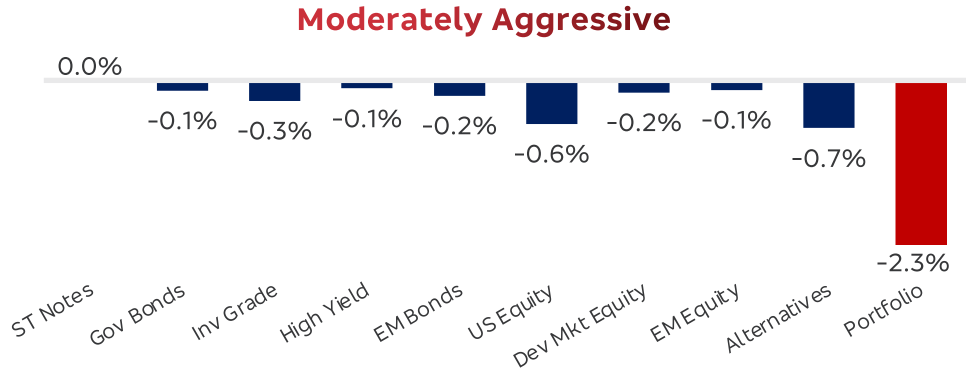
Source: Bloomberg/Bradesco – 1 January 2025

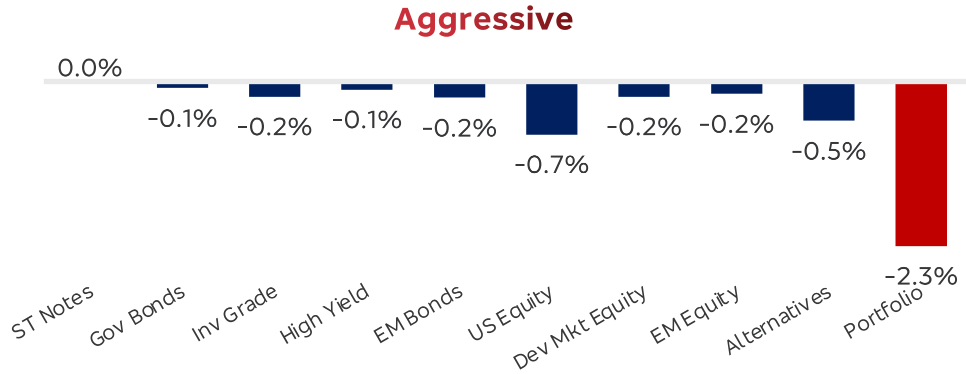
INVESTMENT PRODUCTS ARE NOT FDIC INSURED • NOT A BANK DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NO BANK GUARANTEE • MAY LOSE VALUE

Model Portfolio Contribution to Returns – December 2024







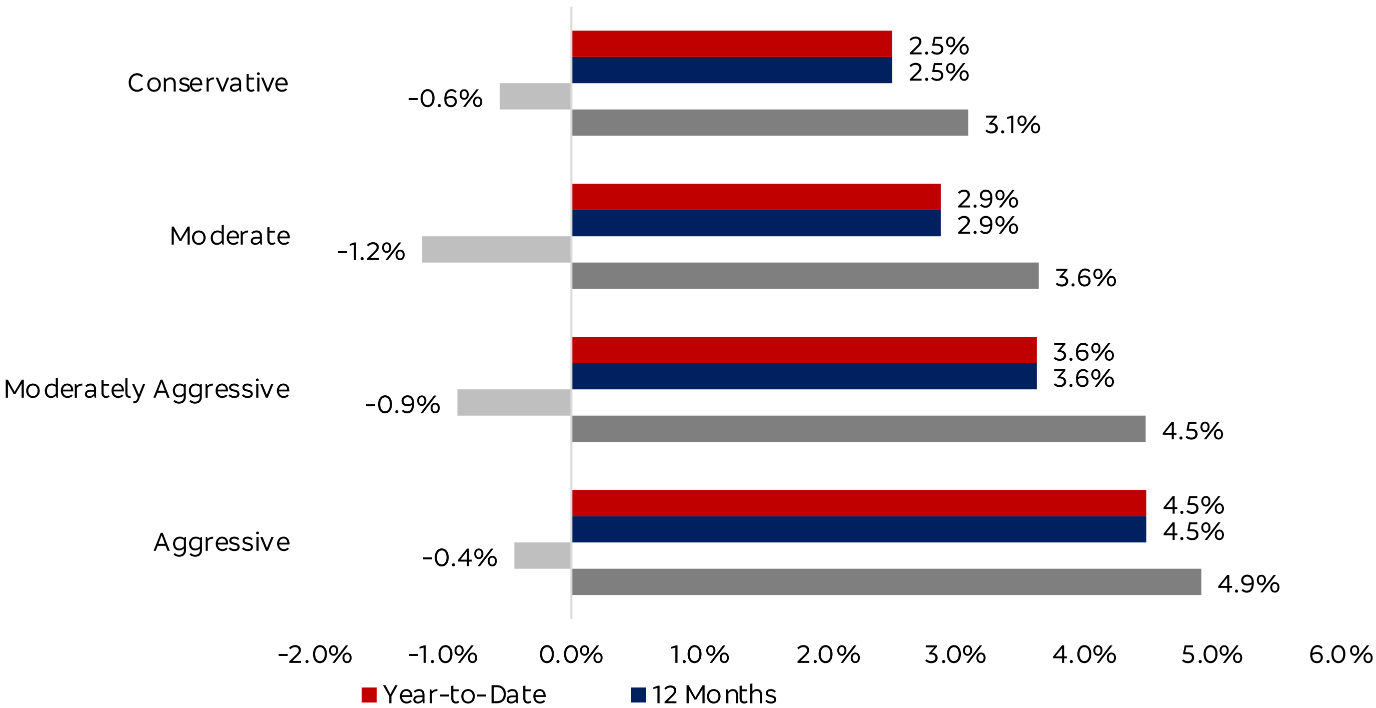


Past performance is not a reliable indicator of future results. Performance was calculated in USD. The return may increase or decrease as a result of currency fluctuations. Returns of the Model Portfolios are based on the allocations approved in the Bank's Strategy Commission and represent the weighted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

Source: Bloomberg/Bradesco – 1 January 2025

INVESTMENT PRODUCTS ARE NOT FDIC INSURED • NOT A BANK DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NO BANK GUARANTEE • MAY LOSE VALUE

Model Portfolio Performance



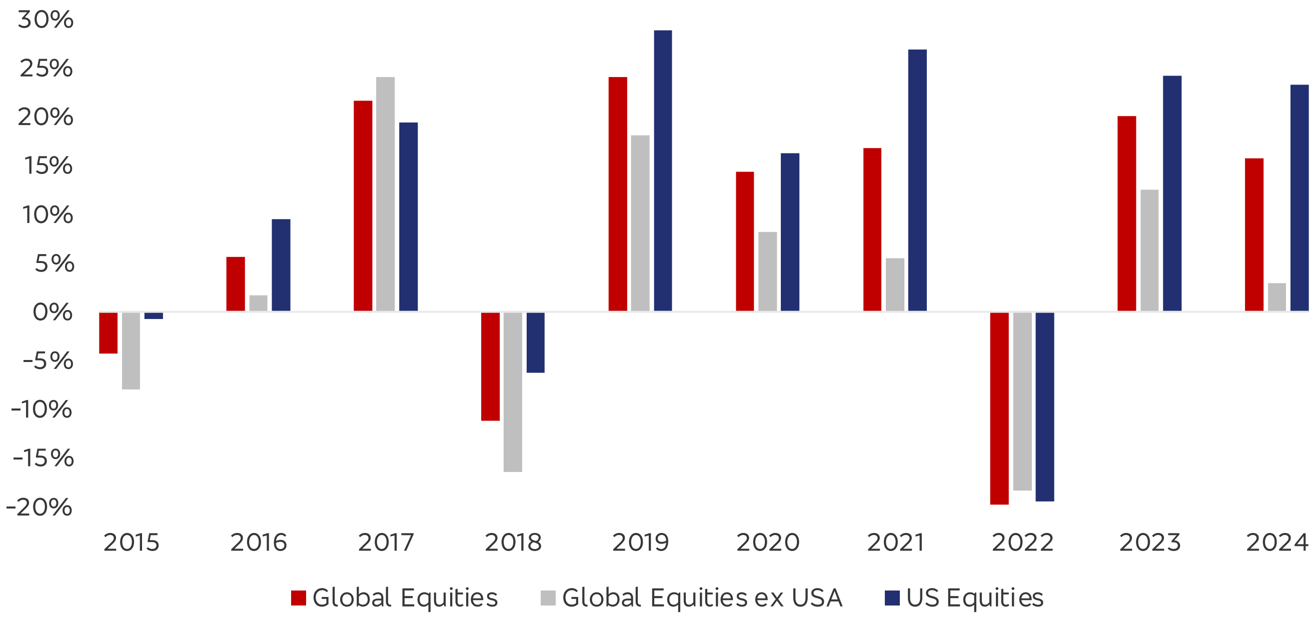
Past performance is not a reliable indicator of future results. Performance was calculated in USD. The return may increase or decrease as a result of currency fluctuations. Returns of the Model Portfolios are based on the allocations approved in the Bank's Strategy Commission and represent the weighted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

Source: Bloomberg/Bradesco – 1 January 2025

INVESTMENT PRODUCTS ARE NOT FDIC INSURED • NOT A BANK DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NO BANK GUARANTEE • MAY LOSE VALUE

US equities led global equities higher (again)

US equities up 23.3% in 2024 as the Magnificent 7 continue to drive markets higher



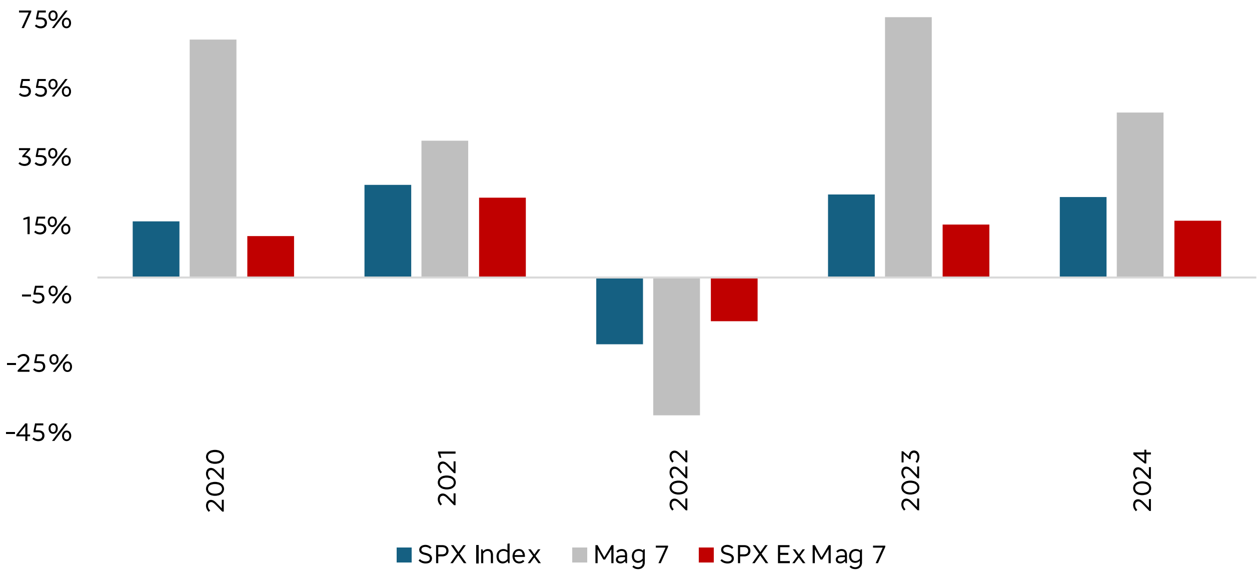
- US equities gained more than 20% in 2024, for the second year in a row, as US economic strength and the euphoria around artificial intelligence drove market gains.
- Global equities gained 16% in 2024, but US equities were responsible for 82% of this. Global equities ex. US gained just 2.9% in 2024.
- Continued US economic outperformance and the impact of tariffs on US imports could lead to further outperformance in US equities versus other markets in 2025.

Source: Bloomberg/Bradesco – 3 January 2025

INVESTMENT PRODUCTS ARE NOT FDIC INSURED • NOT A BANK DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NO BANK GUARANTEE • MAY LOSE VALUE

US equity outperformance continues but is heavily reliant on the Magnificent 7

Magnificent 7 contribution to S&P performance remains above 50%
(Magnificent 7 includes Apple, Alphabet, Meta, Nvidia, Tesla, Microsoft, Amazon)



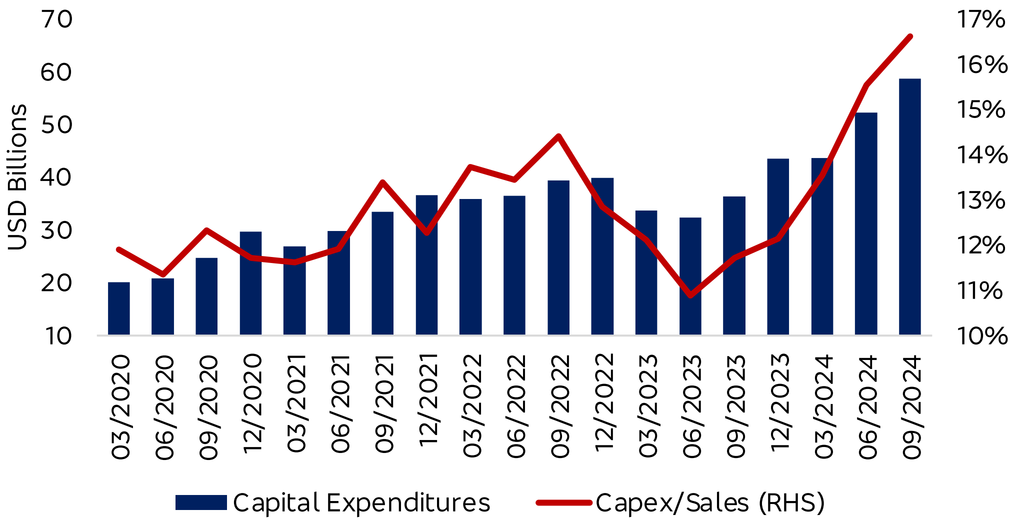
- The S&P 500 was up 23.3% in 2024 (24.5% on a total return basis), by far the best of the major global equity indices. 57% of the gains were due to the so called "Magnificent 7" stocks, which now make up a third of the S&P 500.
- Ex. the Mag 7, the rest of the US market was up 13.9% and Global equities up 12.3% in 2024.
- US equities have reached an extremely expensive 24.3x forward earnings with much of this due to the Mag 7 stocks which are at 36.1x forward earning. Ex-Mag 7, US equities are at 21.6x forward earnings and on an equal-weighted basis, the S&P 500 is at 18.4x forward earnings.

Source: Bloomberg/Bradesco – 3 January 2025

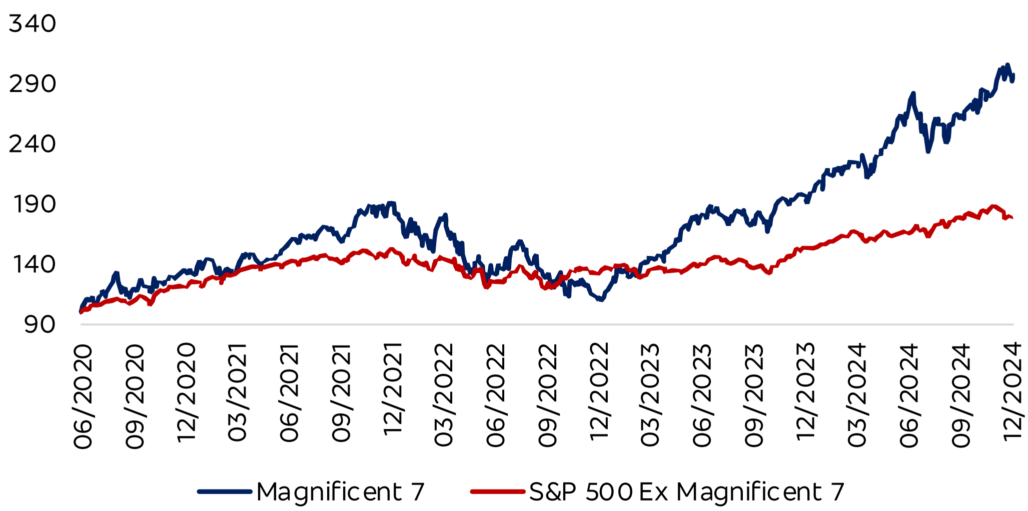
INVESTMENT PRODUCTS ARE NOT FDIC INSURED • NOT A BANK DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NO BANK GUARANTEE • MAY LOSE VALUE

US equity outperformance continues but is heavily reliant on the Magnificent 7

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



The Mag-7 tech companies rising strongly on AI euphoria



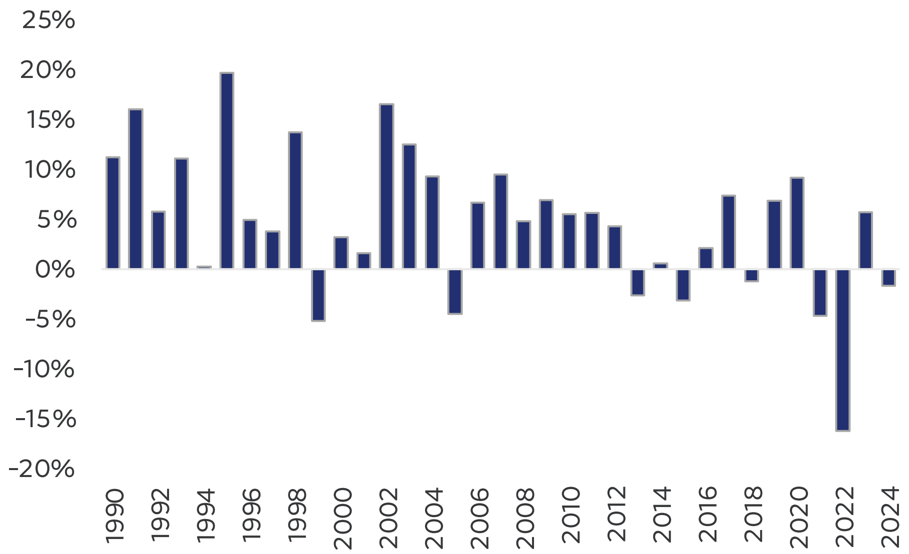
- Meta Platforms, Alphabet, Microsoft and Amazon collectively spent $380 billion in capital expenditures over the past two years and close to $60 billion in the third quarter of 2024, with most of that earmarked for spending in developing their AI capabilities, from buying AI optimized chips to building out datacenters.
- Nvidia has been one of the largest beneficiaries of this spending. Since the launch of ChatGPT on November 30th, 2022, the stock has rallied 717%, since it was revealed that their chips were used to train the models behind the first iteration. Since that day, the Magnificent 7 stocks (Meta, Alphabet, Microsoft, Amazon, Tesla, Nvidia, Apple) have rallied 130%.
- A key question is whether the tech companies will be able to make adequate returns on the large capex investments in the coming years. So far, this has not been the case.

Source: Bloomberg/Bradesco/Company Filings – 1 January 2025

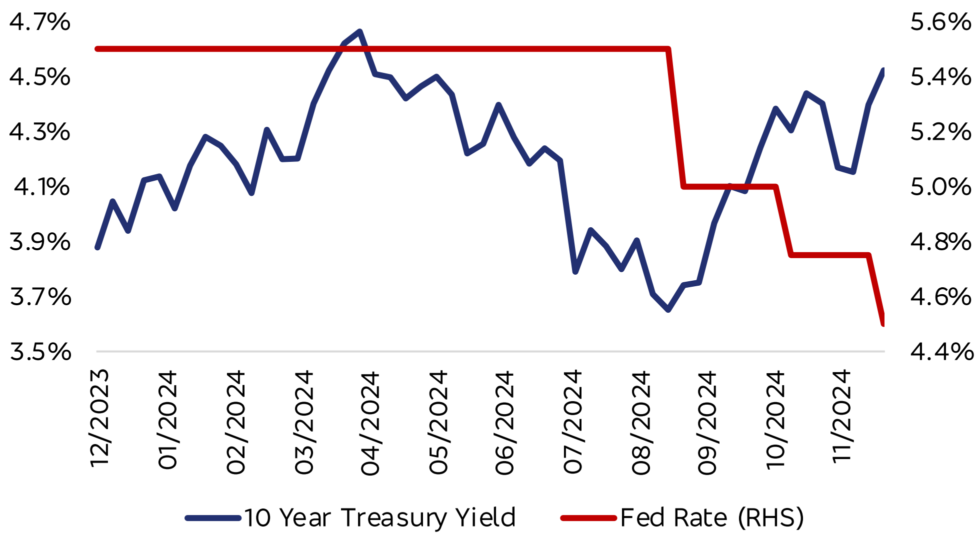
INVESTMENT PRODUCTS ARE NOT FDIC INSURED • NOT A BANK DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NO BANK GUARANTEE • MAY LOSE VALUE

Fixed income weak again in 2024 as yields increased despite central banks cutting rates

Global fixed income fallen in 3 of the past 4 years



Treasury yields rose despite the Fed cutting rates in 2024



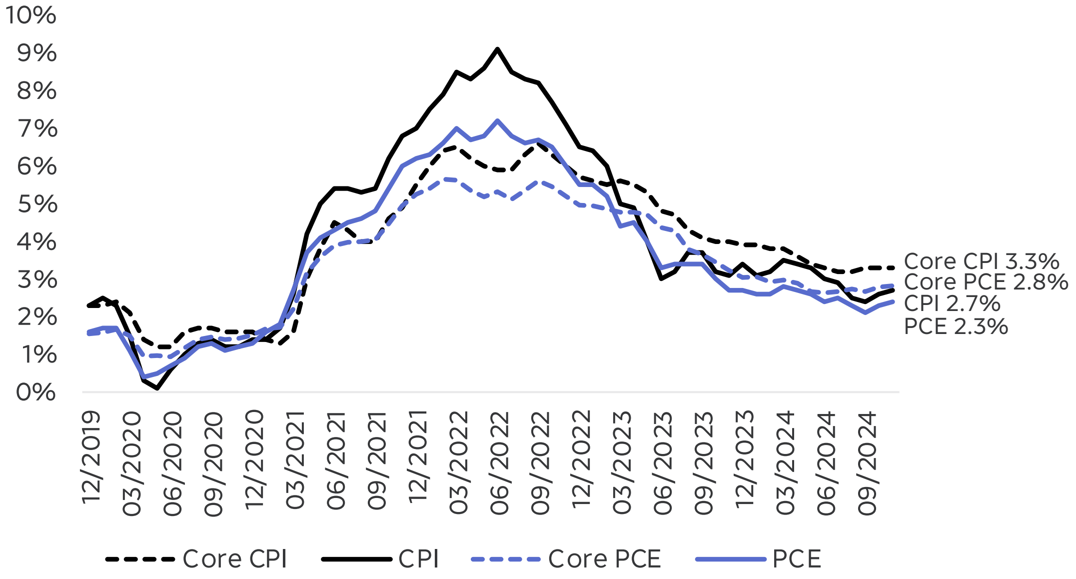
- Global fixed income was expected to show gains in 2024 as the major central banks started their rate cutting cycles. The US Fed, European Central Bank, Bank of England and others central banks did start cutting rates in 2024 as expected, but yields ended up rising during the year rather than falling.
- 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 – 3 January 2025

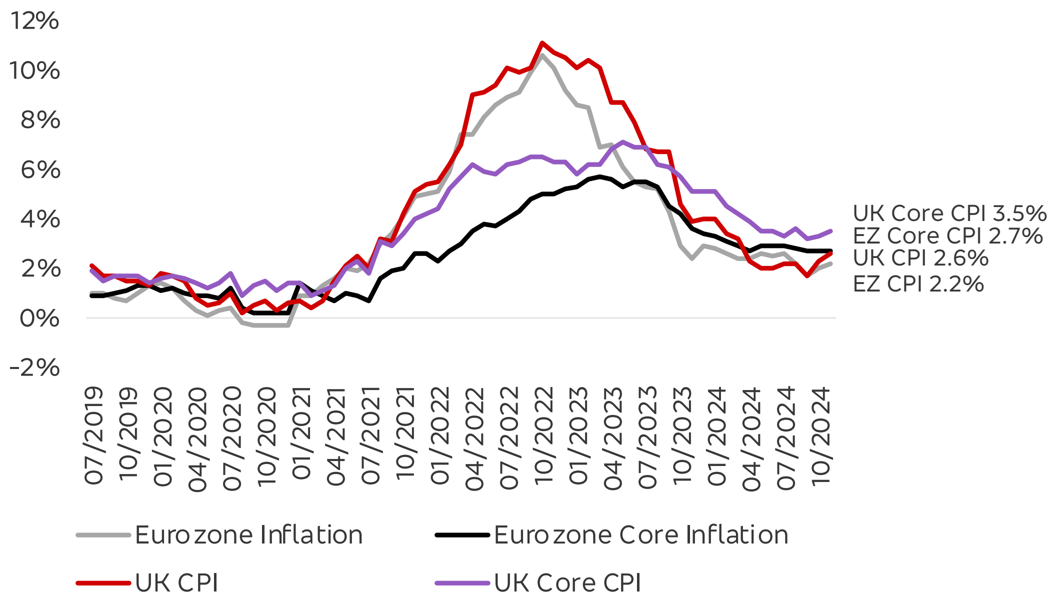
INVESTMENT PRODUCTS ARE NOT FDIC INSURED • NOT A BANK DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NO BANK GUARANTEE • MAY LOSE VALUE

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

US inflation stabilizing around 3%



UK and Eurozone core inflation also stabilizing above target



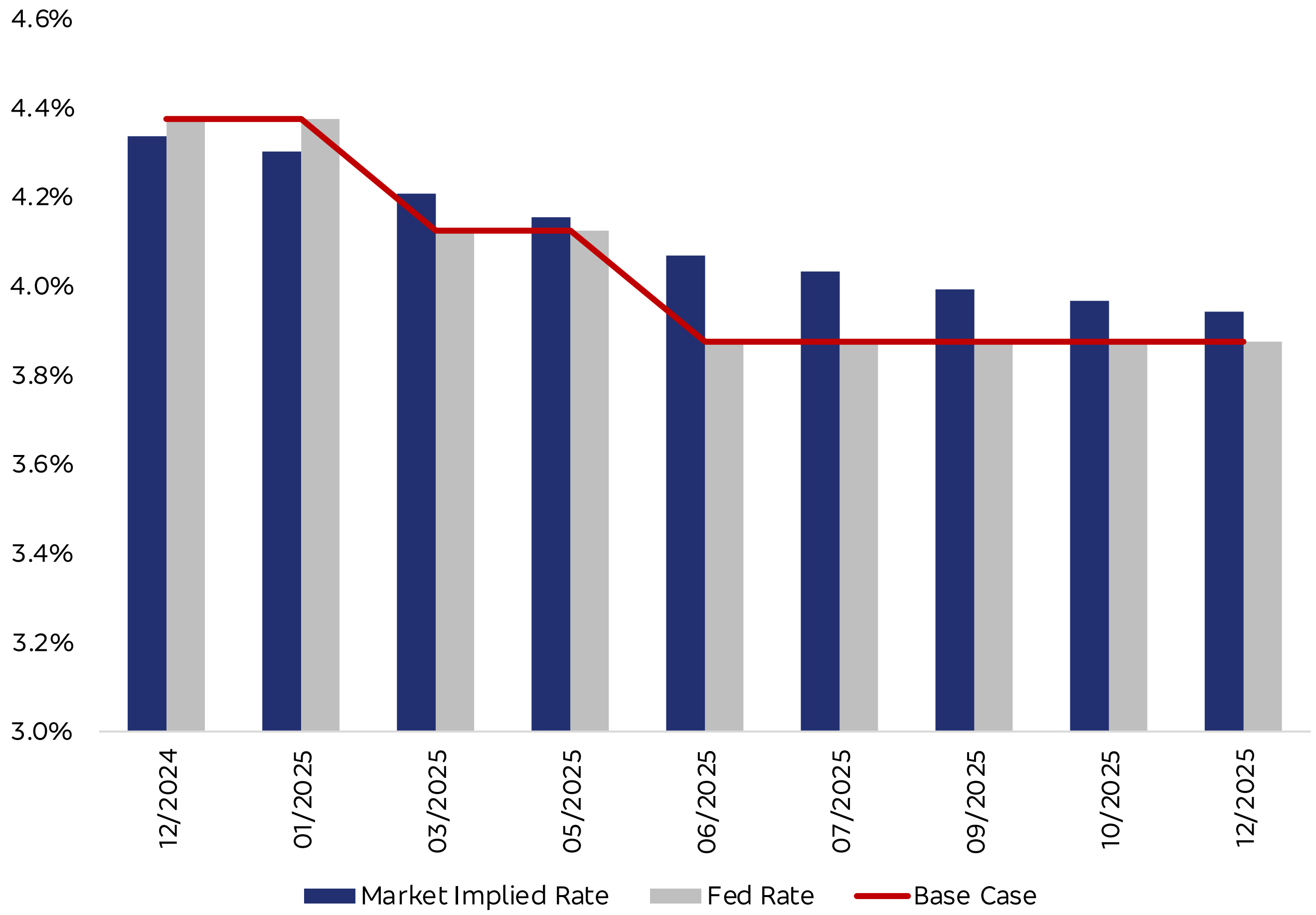
- US CPI rose to 2.7% in November and Core CPI held steady at 3.3%. Core PCE held at 2.8%. Core inflation seems to be stabilizing around the 3% level, still higher than the 2% target.
- We believe continued economic strength and stubbornly high inflation means the Fed will pause in its rate cutting cycle 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 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/BLS/Eurostat/UK Office for National Statistics – 1 January 2025

INVESTMENT PRODUCTS ARE NOT FDIC INSURED • NOT A BANK DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NO BANK GUARANTEE • MAY LOSE VALUE

The Fed will need to pause in its rate cutting cycle in 2025

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.
- The Fed has become more concerned about stubbornly high inflation and also seems to be concerned that policies by the Trump administration could push inflation even higher.
- The Fed's new outlook has come closer to market expectations and our own estimates.
- Our Base Case outlook is 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.

Source: Bloomberg/Bradesco – 1 January 2025

INVESTMENT PRODUCTS ARE NOT FDIC INSURED • NOT A BANK DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NO BANK GUARANTEE • MAY LOSE VALUE

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.

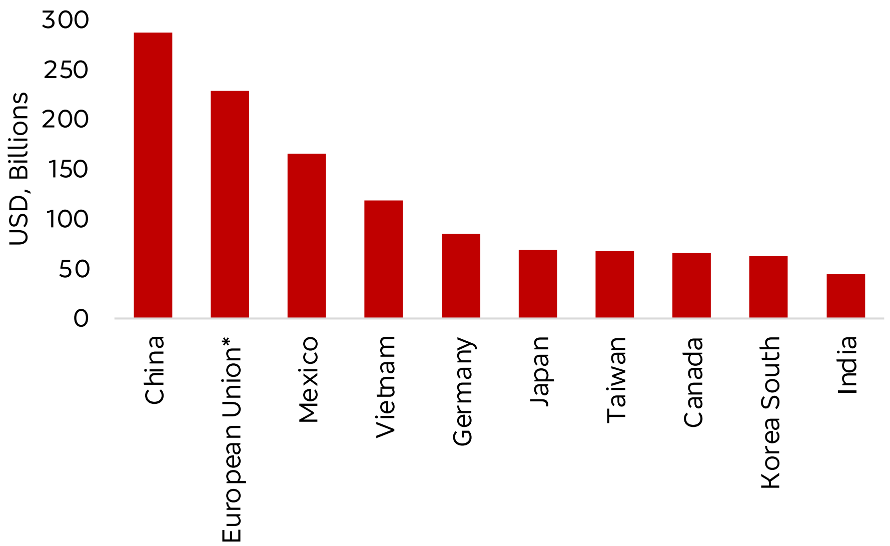
Market/Macro Implications	
GDP	While tax cuts could bolster GDP, tariffs could drag it down by increasing costs and reducing imports. In the extreme, tariffs could lead to global trade wars and global recession. Mass deportations would have a negative impact on productivity.
Inflation	Tariffs, tax cuts 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 2025

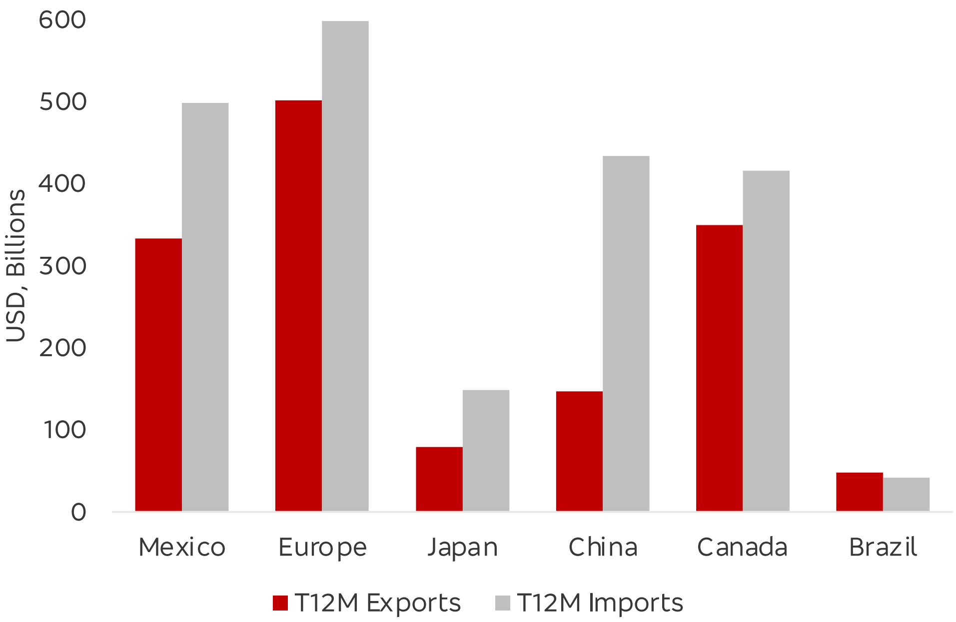
INVESTMENT PRODUCTS ARE NOT FDIC INSURED • NOT A BANK DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NO BANK GUARANTEE • MAY LOSE VALUE

Countries with large trade surpluses with the US to face tariff pressures

Countries/regions with the largest trade surpluses against the US



US imports and exports with key trade partners



- 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.

Source: Bloomberg/Bradesco/U.S. Census Bureau – 1 January 2025

INVESTMENT PRODUCTS ARE NOT FDIC INSURED • NOT A BANK DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NO BANK GUARANTEE • MAY LOSE VALUE

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

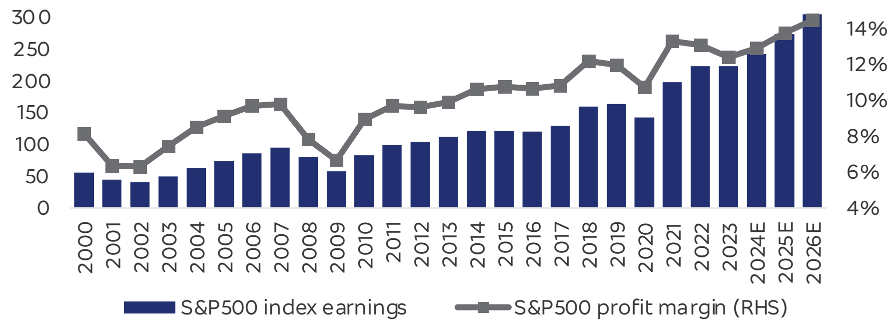
Sector	Effect	Explanation
Financials	▲	Looser regulation on bank capital requirements should benefit banks. Higher yields could lead to losses in fixed income positions but increase the margin between deposits and loans. Less antitrust regulations should increase M&A activity.
Industrials	▲▼	The extension 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 January 2025

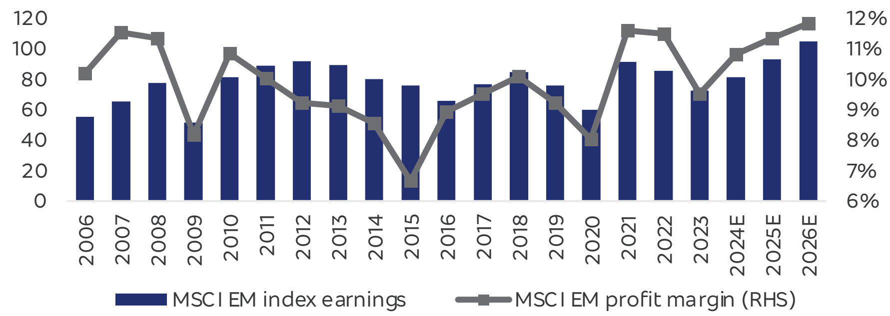
INVESTMENT PRODUCTS ARE NOT FDIC INSURED • NOT A BANK DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NO BANK GUARANTEE • MAY LOSE VALUE

Equity earnings and margin outlook: Can margins keep expanding?

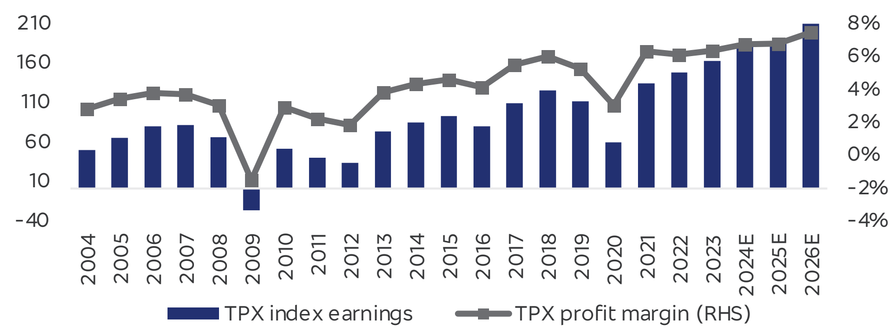
S&P 500 margins expected to continue rising on strong economy



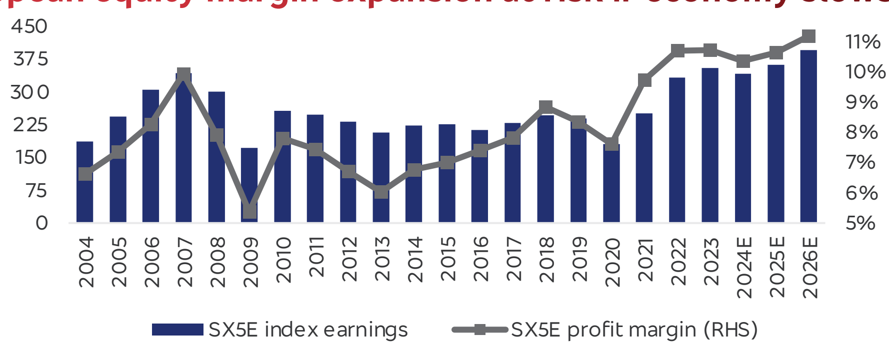
Emerging Market margins rebounding from 2023 retreat



Japanese equity margins benefitting from the end of deflation



European equity margin expansion at risk if economy slows



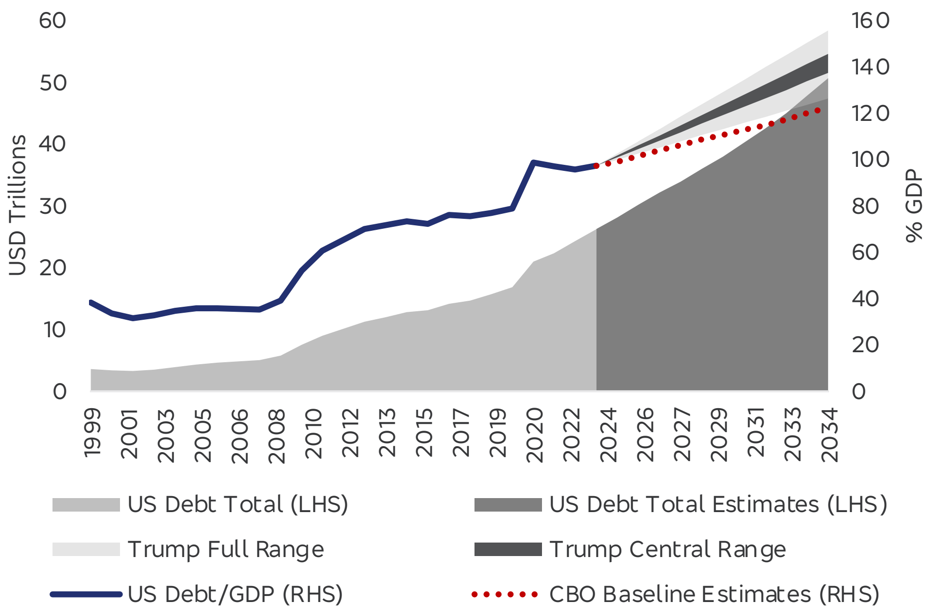
- Consensus estimates by equity analysts are assuming rising profit margins and increasing earnings over the coming years for most markets globally. This is despite slowing GDP growth and the threat of tariffs and trade restrictions which could limit revenue growth and margin expansion opportunities.
- With valuations in general, looking expensive, any downgrade of margin or earnings expectations could impact equity prices.

Source: Bloomberg/Bradesco – 1 January 2025

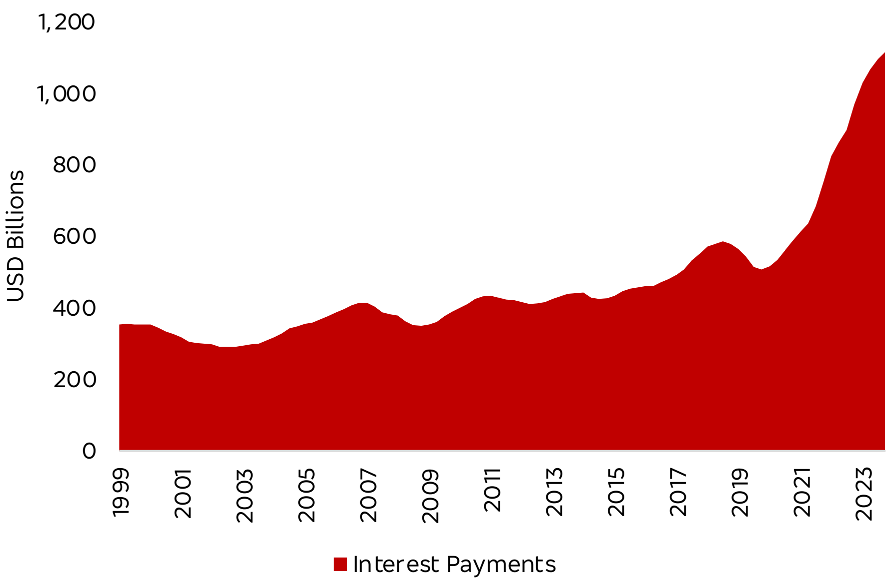
INVESTMENT PRODUCTS ARE NOT FDIC INSURED • NOT A BANK DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NO BANK GUARANTEE • MAY LOSE VALUE

US deficits to deteriorate significantly further

Tax cuts and interest expenses to push up deficit



Interest costs alone rising to $1 trillion and higher



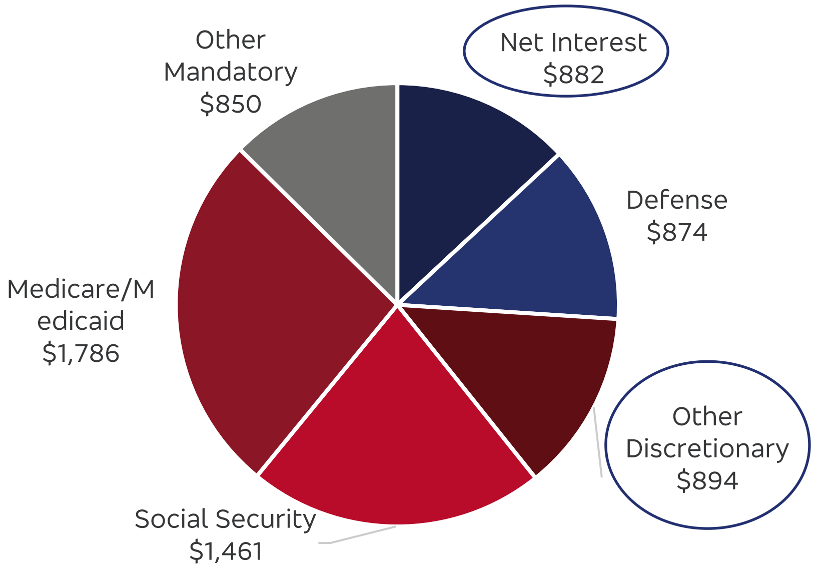
- The US Debt (debt held by the public) to GDP is nearly 100% in 2024 and this could quickly rise to 116%-134% by 2030. This is far worse than estimates by the Congressional Budget Office as Trump and the Republican Congress are likely to extend the 2017 tax cuts and could even implement further tax 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/U.S. Census Bureau – 1 January 2025

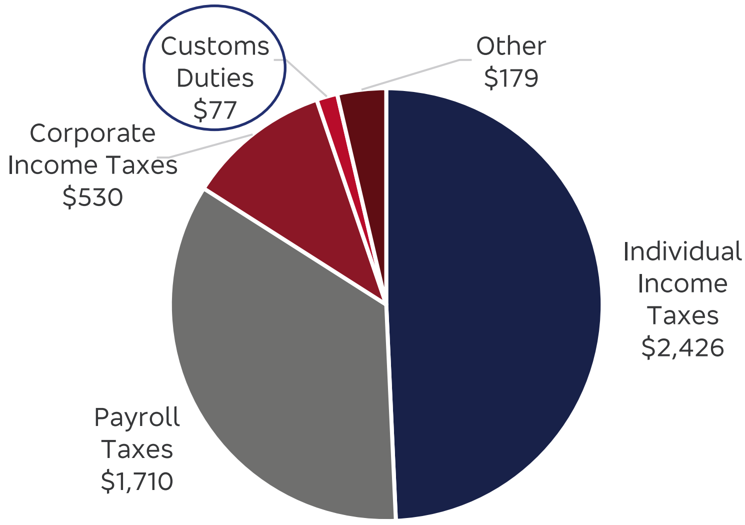
INVESTMENT PRODUCTS ARE NOT FDIC INSURED • NOT A BANK DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NO BANK GUARANTEE • MAY LOSE VALUE

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

US Government Expenditures (2024 $6.7 trillion)



US Government revenues (2024 $4.9 trillion)



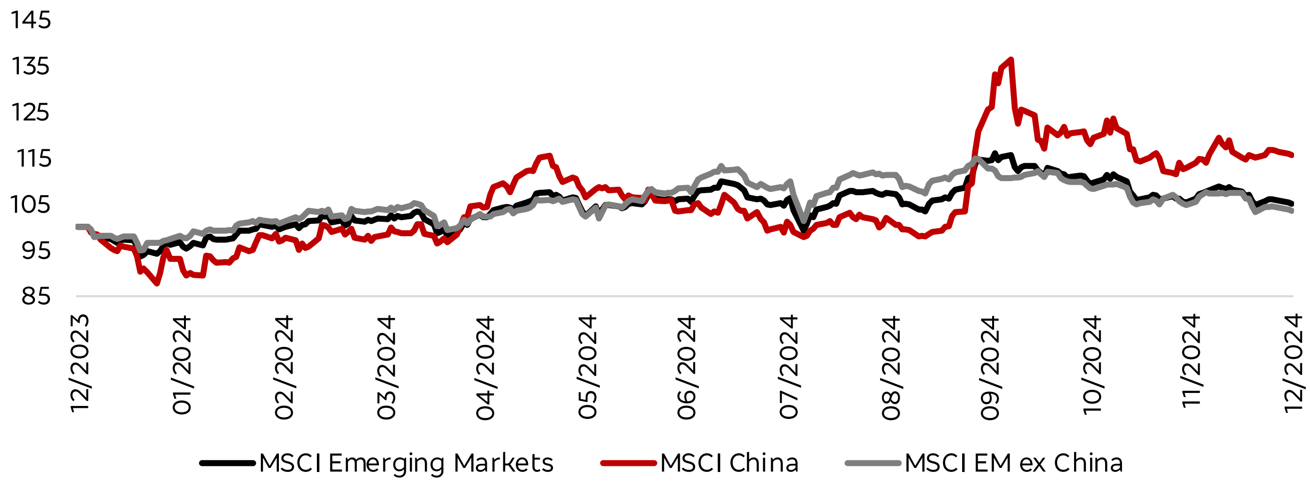
- The US budget deficit in 2024 was $1.8 trillion as the $6.7 trillion in spending was far higher than the $4.9 trillion in revenues.
- Balancing the budget by just reducing spending is not feasible as most of the budget is so called mandatory spending or interest expenses or spending on the military. 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 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 January 2025

INVESTMENT PRODUCTS ARE NOT FDIC INSURED • NOT A BANK DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NO BANK GUARANTEE • MAY LOSE VALUE

China ready to stimulate to counter Trump tariffs, but details not yet clear

MSCI China gained 15.7% in 2024 as investors wait for further details on stimulus



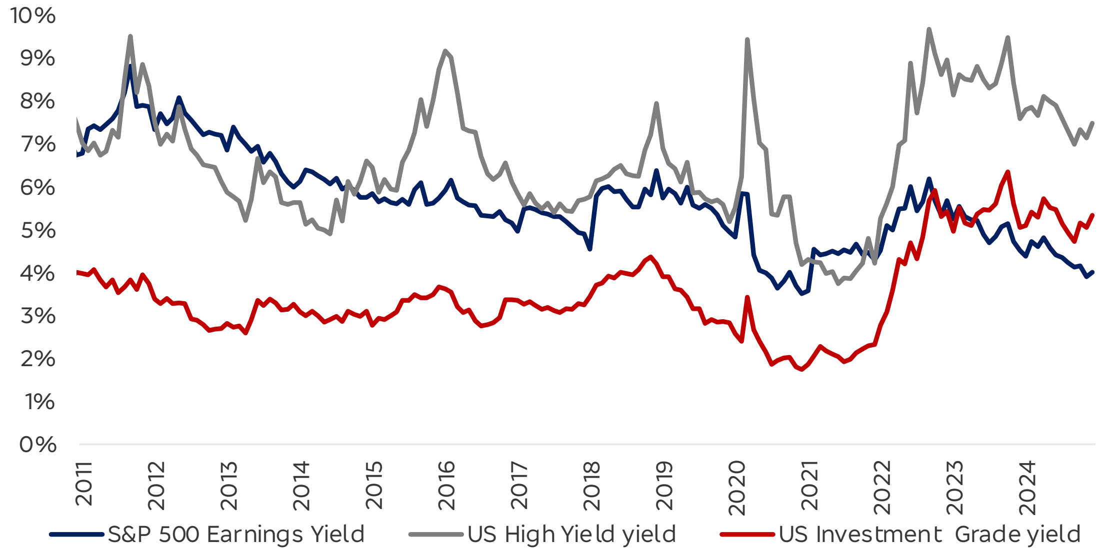
- The Chinese government announced coordinated fiscal and monetary stimulus to help the property and equity markets at the end of September 2024 which drove the MSCI China index up 39% from the lows in September to the highs in early October. Since then however, it has fallen 15% to the end of 2024 as 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 has since given up all those gains. The MSCI Emerging Markets index is up 5% 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. China faces the added risks of high tariff rates from the Trump administration.

Source: Bloomberg/Bradesco – 1 January 2025

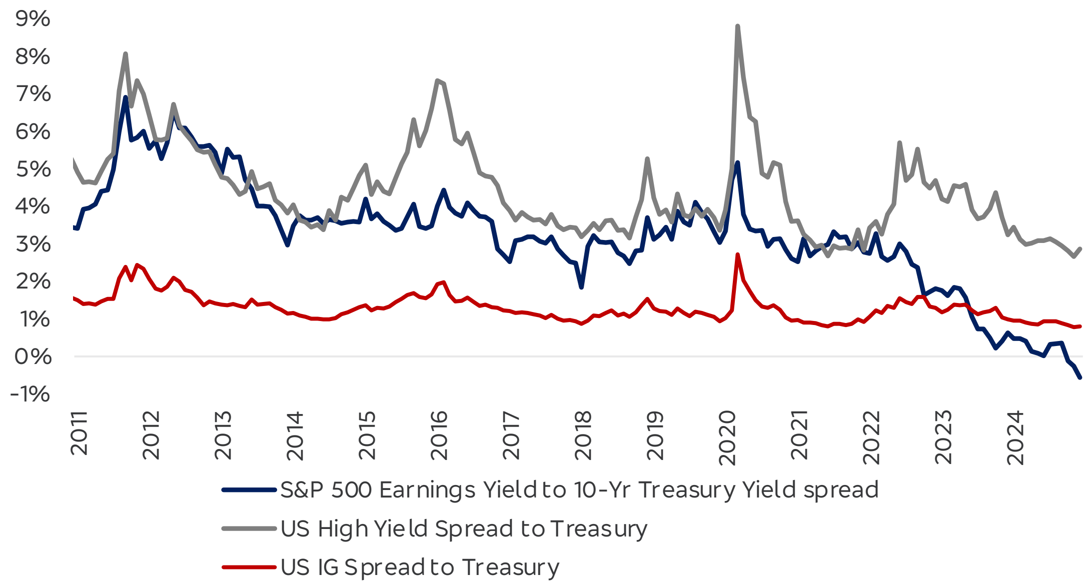
INVESTMENT PRODUCTS ARE NOT FDIC INSURED • NOT A BANK DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NO BANK GUARANTEE • MAY LOSE VALUE

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 0.32%. Equities look very expensive compared to the fixed income spreads.

Source: Bloomberg/Bradesco – 1 January 2025

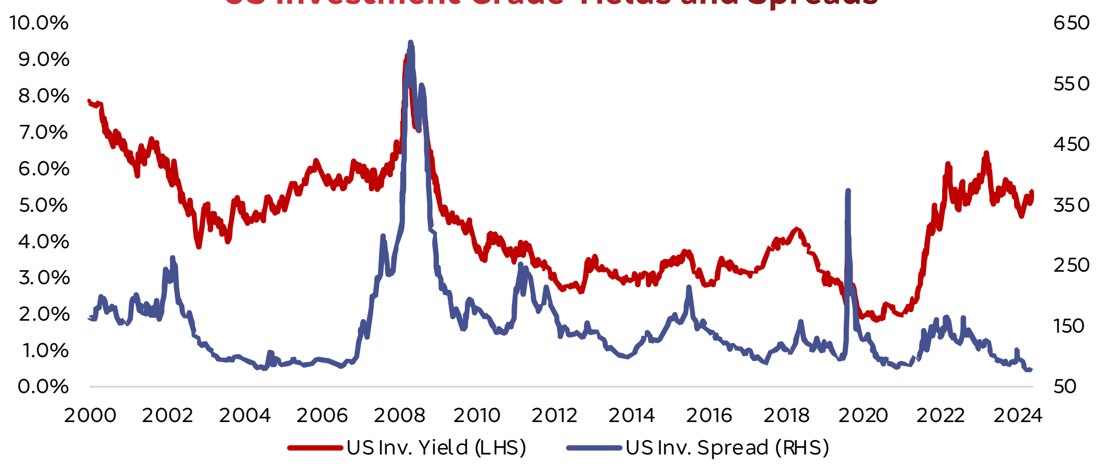
INVESTMENT PRODUCTS ARE NOT FDIC INSURED • NOT A BANK DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NO BANK GUARANTEE • MAY LOSE VALUE

Fixed Income Yields and Spreads

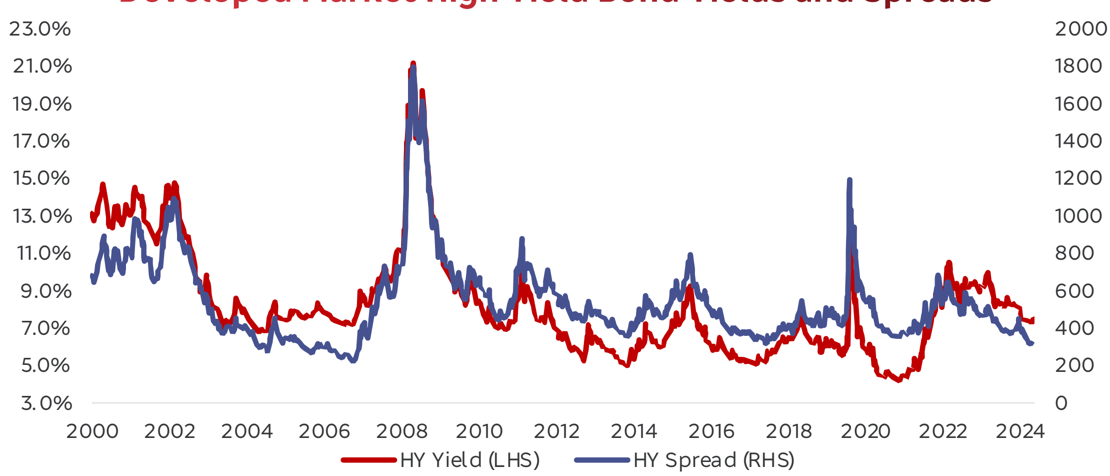
	Yield	Spread (bps)	Spread Avg/Range	Duration
US Investment Grade	5.33%	80	148 (74-618)	7.0
US High Yield	7.44%	282	441 (252-1099)	3.5
Global High Yield	7.46%	326	540 (220-1803)	4.0
Emerging Markets	7.20%	298	353 (151-1001)	6.9

Emerging Market Yields and Spreads

US Investment Grade Yields and Spreads



Developed Market High Yield Bond Yields and Spreads

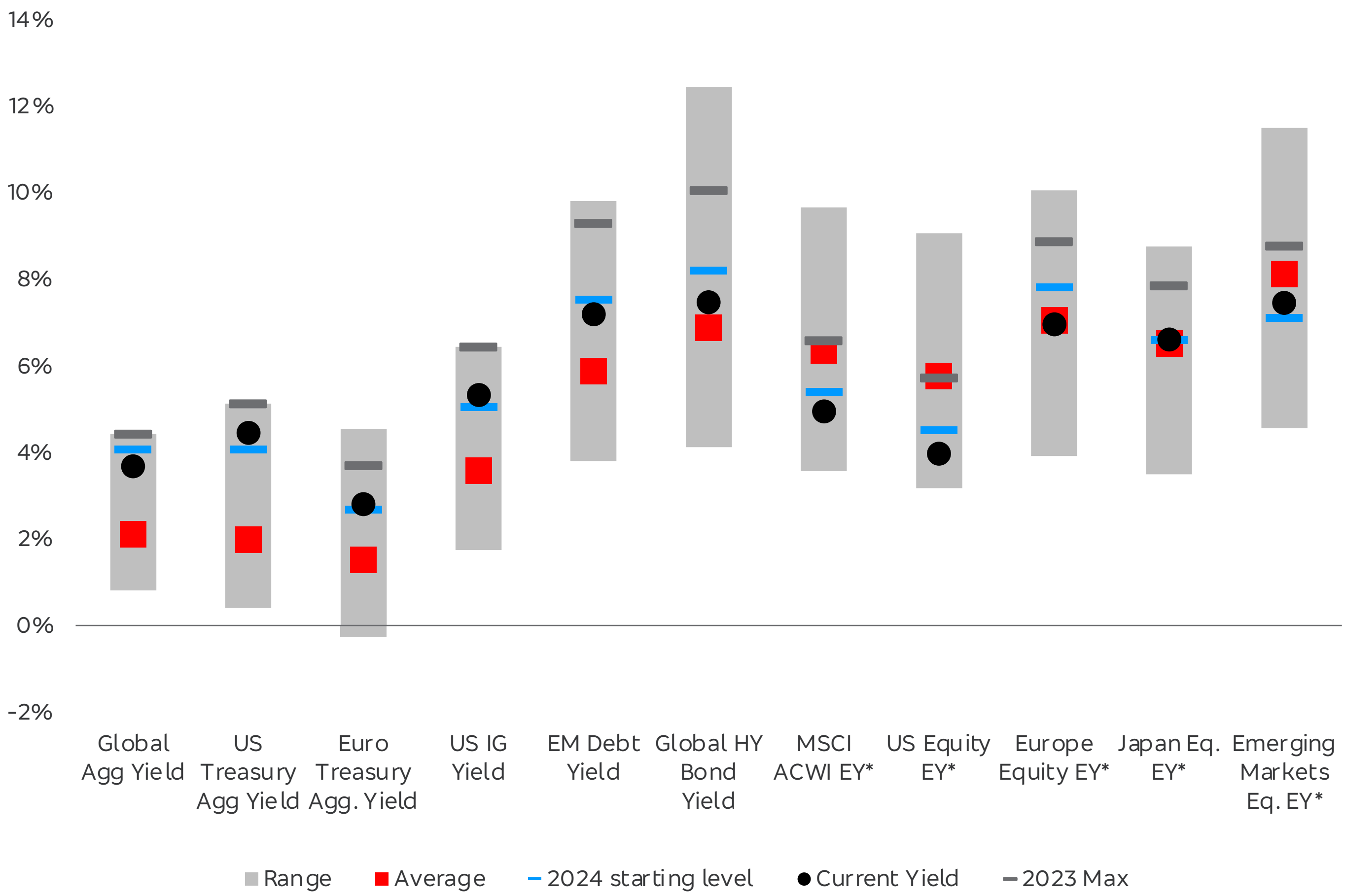


Source: Bloomberg/Bradesco – 1 January 2025

INVESTMENT PRODUCTS ARE NOT FDIC INSURED • NOT A BANK DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NO BANK GUARANTEE • MAY LOSE VALUE

Fixed Income yields continue lower, US equities still look expensive

2010-present: Fixed Income Yields and Equity Earnings Yield (inverse of Price / Equity ratio)



Source: Bloomberg/Bradesco – 1 January 2025

INVESTMENT PRODUCTS ARE NOT FDIC INSURED • NOT A BANK DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NO BANK GUARANTEE • MAY LOSE VALUE

Adjusting Tactical Allocations

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

Tactical Allocations positioning

- In our latest update to our Strategic and Tactical Asset Allocations, we are making adjustments due to expectations of higher yield levels and due to continued US economic outperformance along with global risks of increased tariffs on US imports.
- On a Tactical basis, we are increasing Short-term notes and High Yield bonds and reducing Government bonds, Investment Grade bonds and Emerging Market bonds.
- We are also shifting our equity weightings away from Developed Market and Emerging Markets to US Equities.
- 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.
- Our new Tactical allocations match our new Strategic allocations so we are Tactically neutral after all of the beginning of year adjustments.

Source: Bloomberg/Bradesco – 1 January 2025

INVESTMENT PRODUCTS ARE NOT FDIC INSURED • NOT A BANK DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NO BANK GUARANTEE • MAY LOSE VALUE

A robust Asset Allocation process is important in an ever changing world

Annual performance by asset class varies greatly year to year given evolving macro and valuation dynamics

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
11.3%	78.5%	23.9%	8.0%	18.6%	31.5%	27.1%	1.2%	14.2%	37.3%	1.8%	30.7%	18.3%	38.5%	22.0%	25.7%	24.5%
5.3%	62.1%	18.9%	7.9%	18.6%	22.8%	13.0%	0.8%	11.4%	25.0%	1.7%	22.0%	17.8%	35.0%	-2.3%	18.2%	18.4%
-9.5%	31.8%	14.4%	5.3%	18.2%	9.1%	9.8%	0.7%	11.2%	21.1%	-3.6%	21.3%	11.1%	28.2%	-4.4%	14.3%	7.5%
-11.7%	28.8%	13.7%	4.0%	17.3%	6.7%	7.6%	0.6%	11.2%	10.5%	-3.7%	18.4%	10.3%	11.3%	-12.7%	10.8%	6.7%
-23.2%	25.5%	12.2%	3.2%	15.2%	0.9%	2.9%	0.4%	10.2%	10.3%	-4.9%	16.1%	8.5%	3.7%	-14.5%	10.6%	6.2%
-27.6%	21.9%	9.0%	1.5%	13.4%	0.3%	0.5%	-0.8%	4.1%	9.3%	-5.2%	13.6%	7.4%	3.1%	-16.7%	9.8%	5.2%
-37.4%	19.6%	7.7%	1.2%	12.1%	-1.2%	0.3%	-3.6%	3.2%	6.0%	-6.7%	11.5%	6.6%	-0.4%	-18.1%	9.6%	4.5%
-42.5%	13.5%	5.2%	-1.2%	5.5%	-1.2%	-0.6%	-3.8%	2.8%	5.8%	-9.8%	9.4%	5.8%	-2.1%	-18.4%	6.5%	3.8%
-43.4%	13.4%	4.9%	-8.9%	3.5%	-1.7%	-2.2%	-5.4%	2.5%	1.5%	-12.4%	8.3%	2.5%	-2.5%	-18.5%	4.5%	2.5%
-46.5%	0.84%	4.1%	-12.1%	0.4%	-2.6%	-4.9%	-14.9%	1.0%	0.5%	-13.8%	6.6%	-9.3%	-3.1%	-20.1%	3.1%	1.3%
-53.3%	0.70%	1.8%	-18.4%	0.1%	-6.4%	-33.1%	-32.9%	0.8%	0.2%	-14.6%	3.2%	-13.4%	-5.7%	-28.7%	0%	-1.9%

Cash/Short Term	Government Bonds	Global Investment Grade Bonds	Global High Yield Bonds	Emerging Market Bonds	
US Equities	Dev Markets (Ex-US) Equities	Emerging market Equities	Alternatives	Commodities	Real Estate

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 January 2025

INVESTMENT PRODUCTS ARE NOT FDIC INSURED • NOT A BANK DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NO BANK GUARANTEE • MAY LOSE VALUE

Model Portfolio: Strategic and Tactical Asset Allocation Adjustments for 2025

After our annual update and review of our Asset Allocations, we present our new Strategic and Tactical Asset Allocations for 2025

	I		II		III		IV	
	CONSERVATIVE		MODERATE		MODERATELY AGGRESSIVE		AGGRESSIVE	
	2024 TAA	**2025 SAA/TAA**	2024 TAA	**2025 SAA/TAA**	2024 TAA	**2025 SAA/TAA**	2024 TAA	**2025 SAA/TAA**
FIXED INCOME	85%	**85%**	68%	**70%**	53%	**55%**	44%	**45%**
Liquidity/Short Term	18%	↗ **24%**	6%	↗ **15%**	3%	↗ **8%**	2%	↗ **5%**
Developed Government Bonds	30%	↘ **24%**	23%	↘ **16%**	12%	↘ **9%**	7%	↘ **3%**
Investment Grade Bonds	25%	↘ **24%**	23%	↘ **21%**	16%	↘ **14%**	12%	↘ **11%**
High Yield Bonds	5%	↗ **7%**	6%	↗ **9%**	10%	↗ **13%**	10%	↗ **14%**
Emerging Market Bonds	7%	↘ **6%**	10%	↘ **9%**	12%	↘ **11%**	13%	↘ **12%**
EQUITIES	15%	**15%**	24%	**22%**	35%	**34%**	46%	**45%**
US Equity	5%	↗ **8%**	8%	↗ **11%**	11%	↗ **17%**	15%	↗ **22%**
Developed Market Equity (Ex-US)	7%	↘ **4%**	10%	↘ **6%**	14%	↘ **9%**	18%	↘ **12%**
Emerging Market Equity	3%	**3%**	6%	↘ **5%**	10%	↘ **8%**	13%	↘ **11%**
ALTERNATIVES			8%	**8%**	12%	↘ **11%**	10%	**10%**

1. Increasing Short-term Notes. Higher rates mean safe returns near 4%.

   Reducing Gov, Investment Grade and Emerging Market bonds. Good return potential but long duration and current flat yield curve increase risks.

   Increase High Yield (still good absolute yields, no imminent recession, shorter duration). Low spreads a risk.

2. Shifting away from Developed and Emerging Market equities to US equities (America First!).

3. Reduce Real Estate and increase Alternatives.

Source: Bloomberg/Bradesco – 1 January 2025

INVESTMENT PRODUCTS ARE NOT FDIC INSURED • NOT A BANK DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NO BANK GUARANTEE • MAY LOSE VALUE

Model Portfolio: Strategic and Tactical Asset Allocations

	I		II		III		IV	
	CONSERVATIVE		MODERATE		MODERATELY AGGRESSIVE		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 – 1 January 2025

INVESTMENT PRODUCTS ARE NOT FDIC INSURED • NOT A BANK DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NO BANK GUARANTEE • MAY LOSE VALUE

January Economic Calendar

30	31	1 • New Year's Day (Markets Closed)	2 • Jobless Claims • Continuing Claims • S&P Global Manufacturing PMI (DEC F) • Construction Spending	3 • ISM Manufacturing PMI
6 • S&P Services and Composite PMI (DEC F) • Factory Orders • Durable Goods Orders	7 • Trade Balance • JOLTS Job Openings • ISM Services PMI • **EZ CPI (DEC P)** • **EZ Unemployment Rate**	8 • MBA Mortgage Applications • ADP Employment • FOMC Minutes • Consumer Credit • **EZ PPI**	9 • Jobless Claims • Continuing Claims • EZ Retail Sales	10 • **Nonfarm Payrolls** • **Unemployment Rate** • University of Michigan Consumer Sentiment
13 • NY Fed 1-Yr Inflation Expectations • Federal Budget Balance	14 • **PPI** • NFIB Small Business Optimism	15 • **CPI** • **UK CPI**	16 • Jobless Claims • Continuing Claims • **Retail Sales** • Import/Export Prices	17 • Industrial Production • **EZ CPI (DEC F)**
20	21	22 • Leading Index	23 • Jobless Claims • Continuing Claims	24 • S&P Manufacturing, Services and Composite PMI • University of Michigan Consumer Sentiment • **BOJ Meeting** • **JP National CPI**
27	28 • Durable Goods Orders (DEC P) • Conference Board Consumer Confidence	29 • Wholesale Inventories • **Fed Meeting**	30 • Q4 GDP • Jobless Claims • Continuing Claims • **EZ Q4 GDP** • **ECB Meeting** • **JP Tokyo CPI**	31 • **PCE**

Source: Bloomberg/Bradesco – January 2025

INVESTMENT PRODUCTS ARE NOT FDIC INSURED • NOT A BANK DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NO BANK GUARANTEE • MAY LOSE VALUE

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.