MONTHLY VIEW

International Investment Strategy

Fed resumes rate cuts as labor market weakens

bradesco investments

OCTOBER

2025

Index

International Markets

Global financial markets were largely positive in September as Fed rate cuts and Artificial Intelligence euphoria pushed equity markets higher and fixed income yields lower.

The rapid adoption of artificial intelligence and the multi-billion dollar investments into AI infrastructure are changing the US and global economy. Large US technology companies have announced capital expenditures of at least $400 billion for this year and even more in coming years as they race to build AI datacenters. The investments are so large that they account for most of the GDP growth in the US so far this year. The good news is that these investments will continue for the coming years, driving further GDP growth and reducing risks of the economy falling into a recession.

However, AI adoption may already be allowing companies, especially technology companies, to reduce headcount as they increase productivity. This, combined with the uncertainties from the tariff wars is leading to the current weakness in the jobs market. New college graduates seem to be the worst off as the unemployment rate for 20-24 year olds in the US has jumped to 9.2%, the highest since 2016 apart from the pandemic period.

Despite the US Fed re-starting rate cuts, longer-term Treasury yields may not decline and could instead rise. There are still lingering inflation concerns, concerns of the out of control US debt and deficits, and concerns that the US Fed independence may be at risk. And compared to the Fed, the Bank of England, European Central Bank, and Bank of Japan have already finished their rate cutting cycles or are even raising rates.

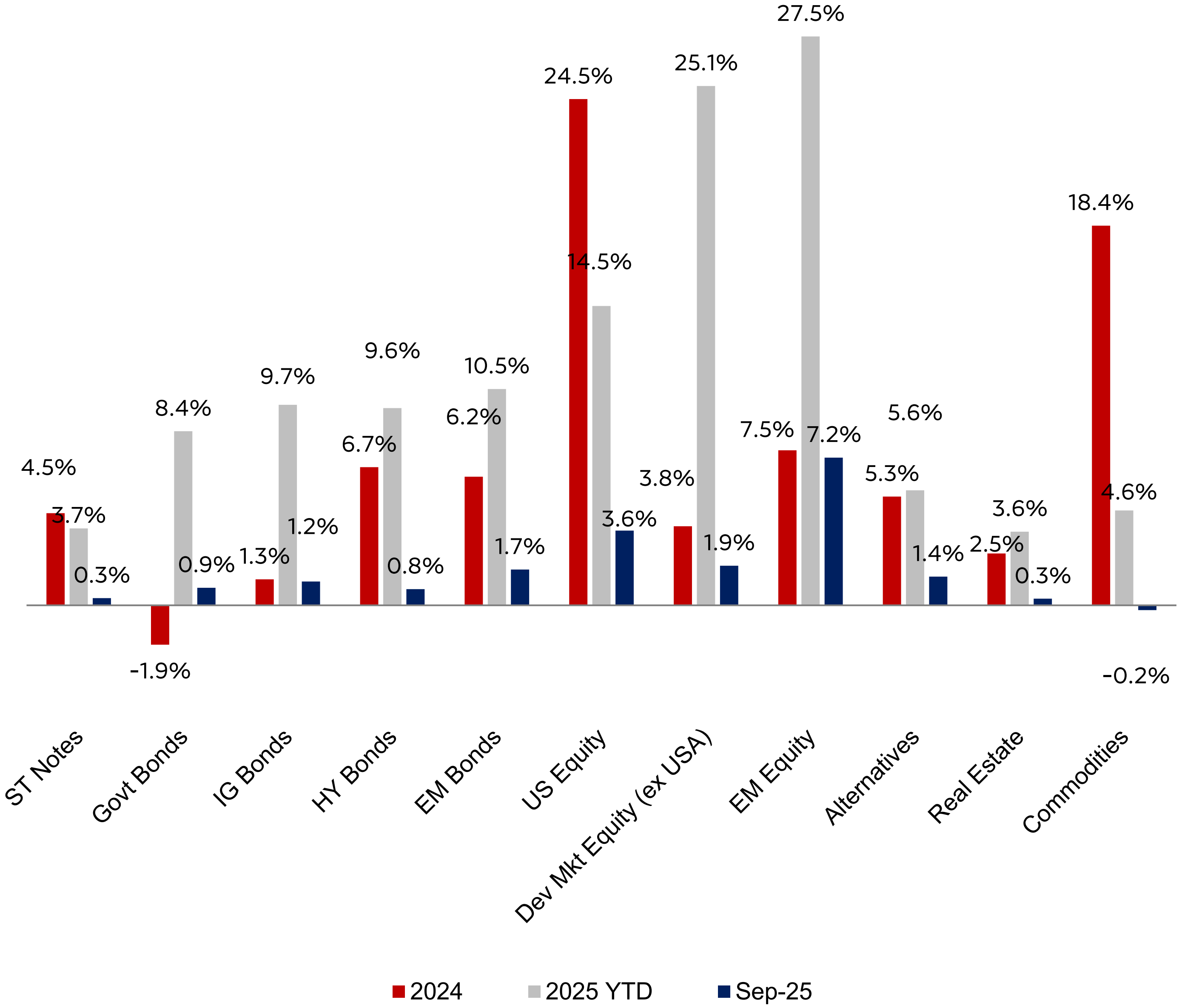
Longer-term yields at or above current levels reduces the possibility of a rebound in the housing sector as mortgage rates will stay high. This then remains a drag on the overall economy as construction activity remains weak, despite the AI datacenter builds. So far this year, construction employment is down 1 thousand and manufacturing employment is down 62 thousand.

Valuations remain expensive with equity valuations, especially in the US near all-time highs. In fixed income, spreads are at or near multi-decade lows due to expectations of continued economic expansion. Further market gains depend on a fine balance between a weak jobs market and continuing GDP growth, which would allow the Fed to continue cutting rates while the economy continues to expand. We believe this is possible for now but financial markets could see increased volatility as the economic outlook remains uncertain and geo-political risks remain high.

Source: Bradesco – October 2025

Asset Class Performance

Global markets mostly positive in September on Fed rate cuts and AI optimism.

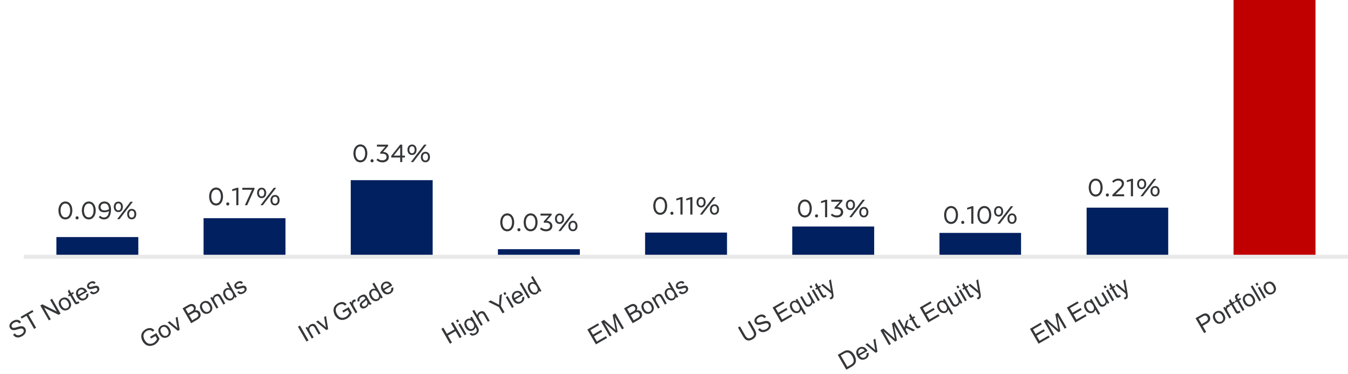


Cash/Short Term – BofAML 0-3 Year US Treasury Index / Gov. bonds – BofA Global Government Ex Japan /Investment Grade- BofAML Global Large Cap Corp / High Yield Global - BofAML Developed Markets High Yield Index / Emerging Market Bonds - J.P. Morgan EMBI Global Core / US Equities - S&P 500 Net Total Return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

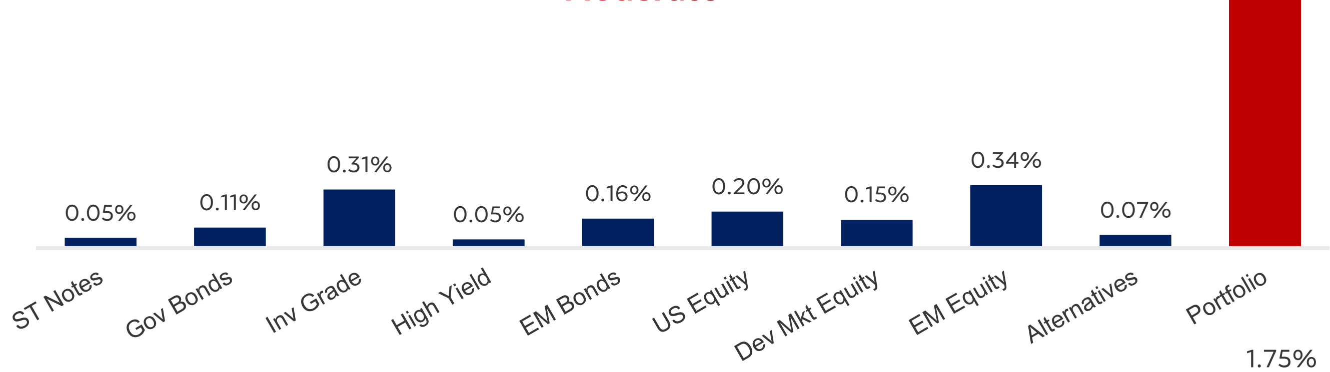
Source: Bloomberg/Bradesco – 1 October 2025

Model Portfolio Contribution to Returns – September 2025

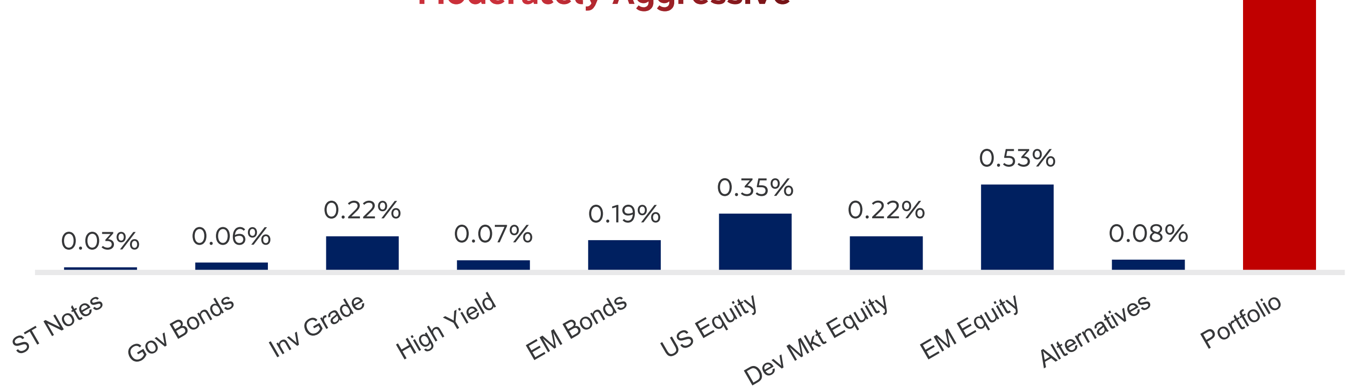
Conservative



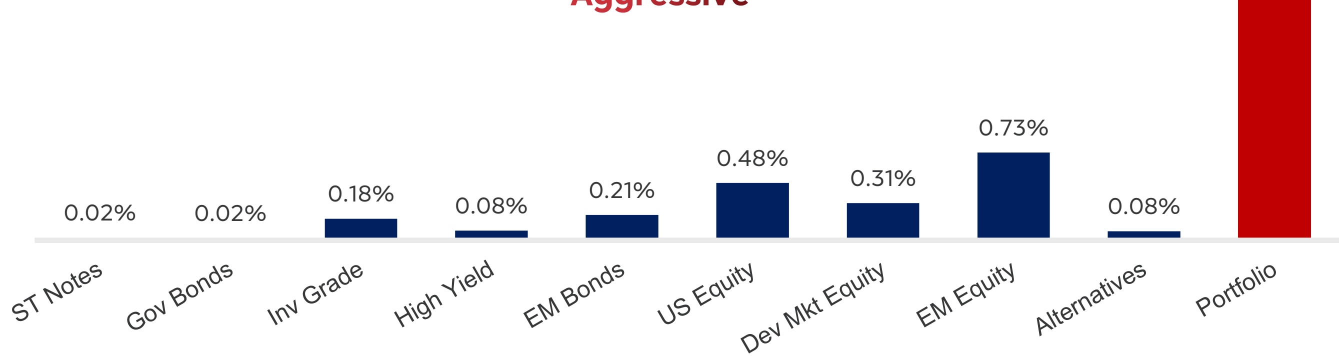
Moderate



Moderately Aggressive



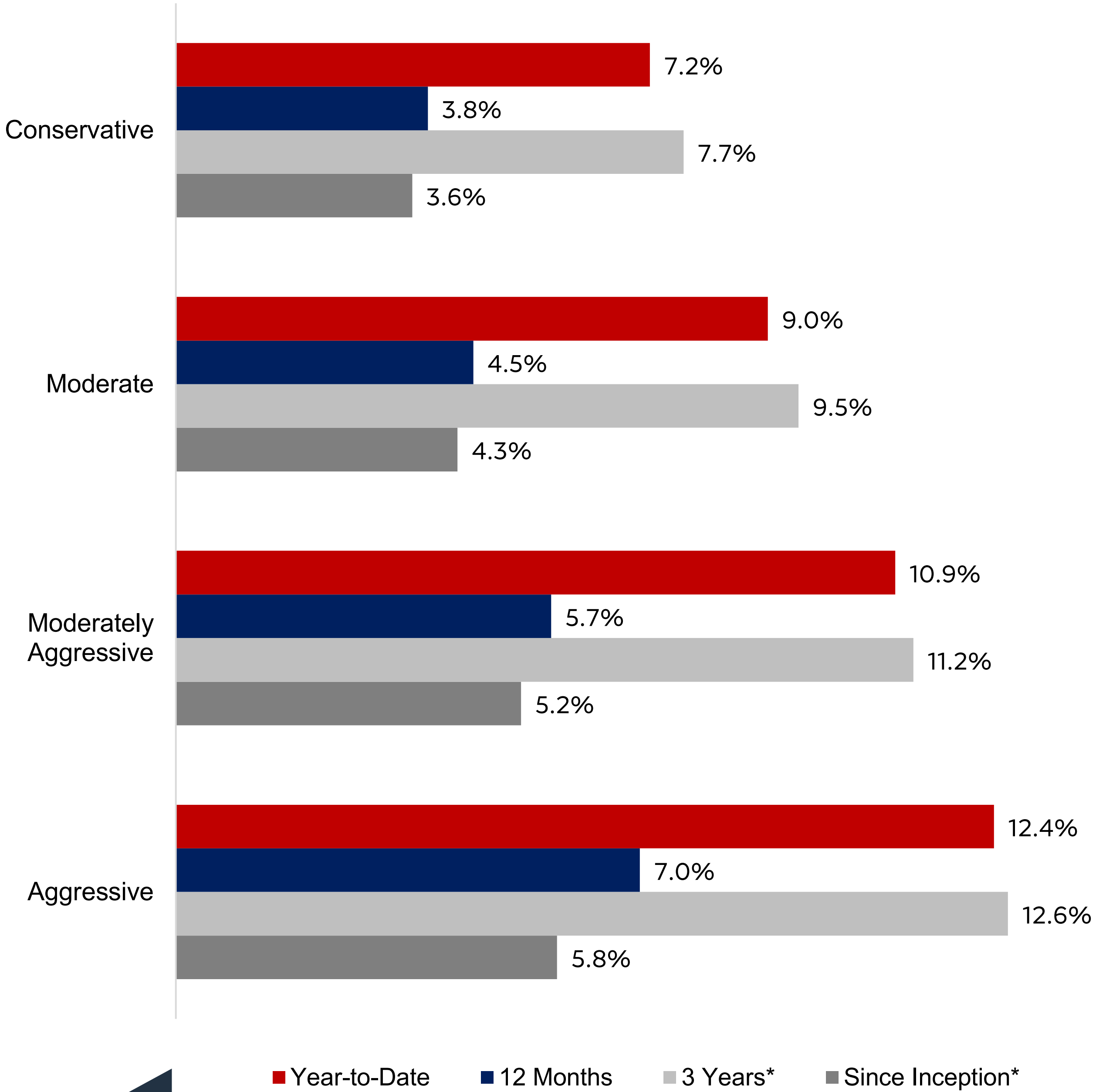
Aggressive



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 October 2025

Model Portfolio Performance



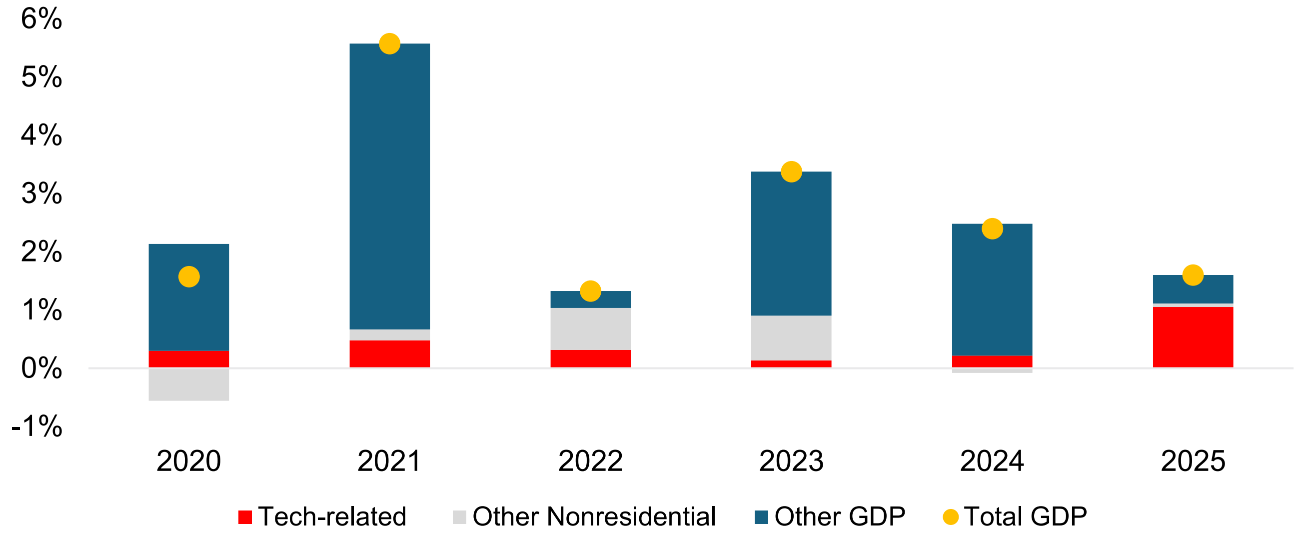
*Since Inception: Jan/16. 3 years and since inception - annualised returns.

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

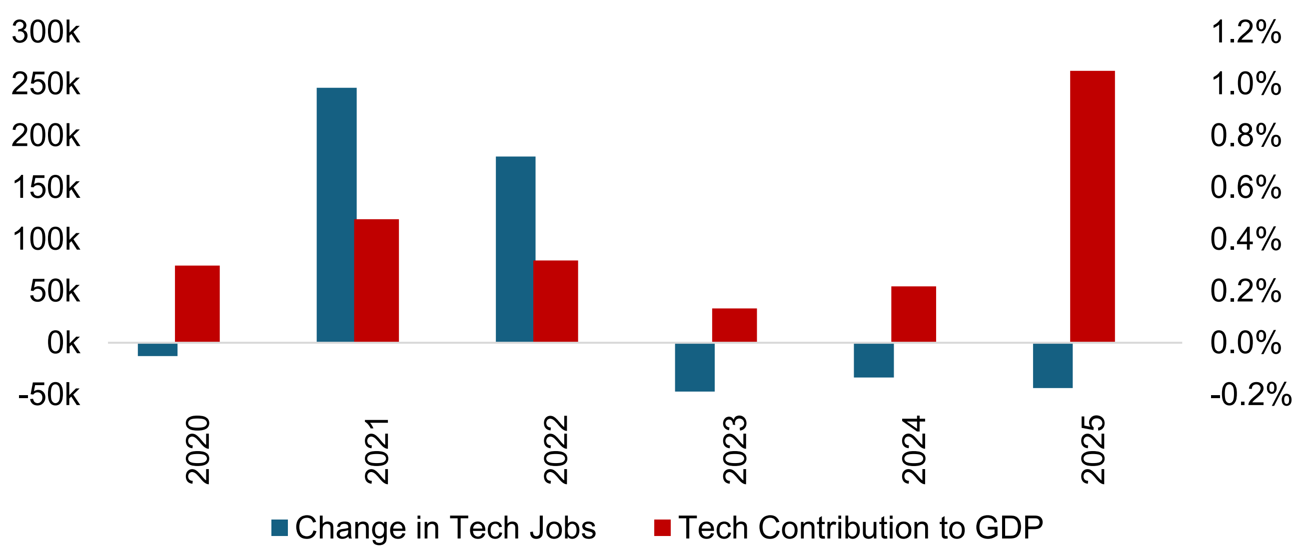
Source: Bloomberg/Bradesco – 1 October 2025

Technology and AI investments good for the economy but bad for jobs

Technology investments the majority of GDP growth in the first half



AI has helped GDP growth, but jobs have declined in related sectors

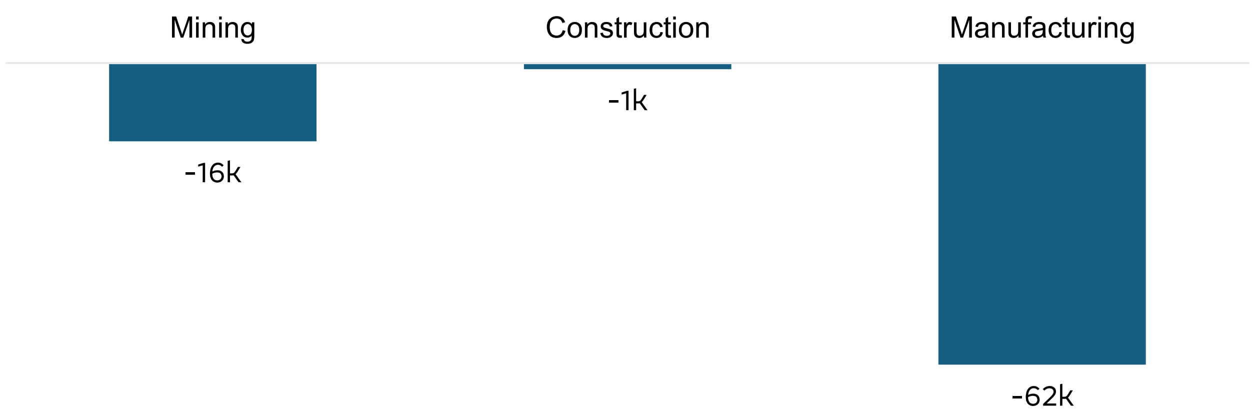


- For the first half of 2025, tech-related (software and information processing equipment) investments have contributed more to GDP growth than any other category. 66% of overall GDP growth and nearly 100% of nonresidential investments are from these categories.
- While positive for GDP growth, it is actually having a negative impact on job creation. Jobs in tech-related sectors have been falling over the past three years but accelerated in 2025. Jobs in those sectors have fallen 7.3% YTD.
- If Tech sectors are able to grow without increasing headcount due to AI efficiencies, this could be a warning sign of further labor market weakness to come as AI usage increases.

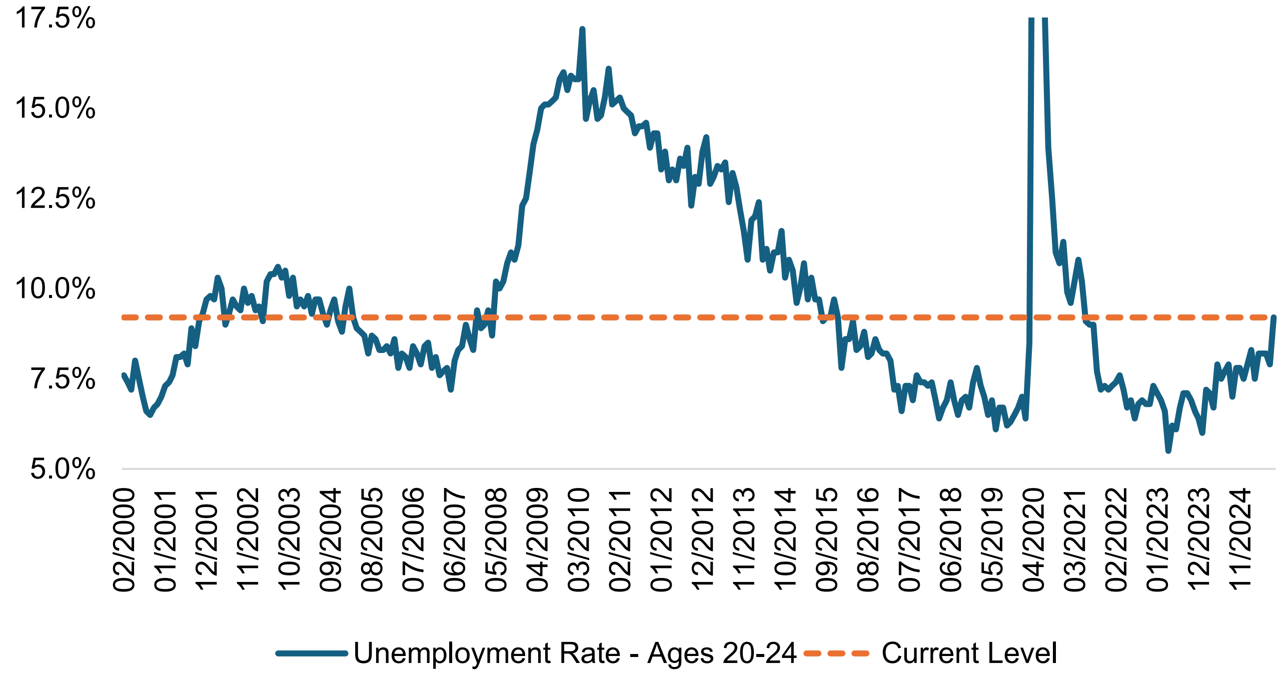
Source: Bloomberg/Bradesco/BEA/BlackRock – 3 October 2025

Manufacturing jobs collapsing and new college graduates having a difficult time

Jobs have weakened rather than gained in manufacturing



AI and tariff uncertainties hurting recent graduates

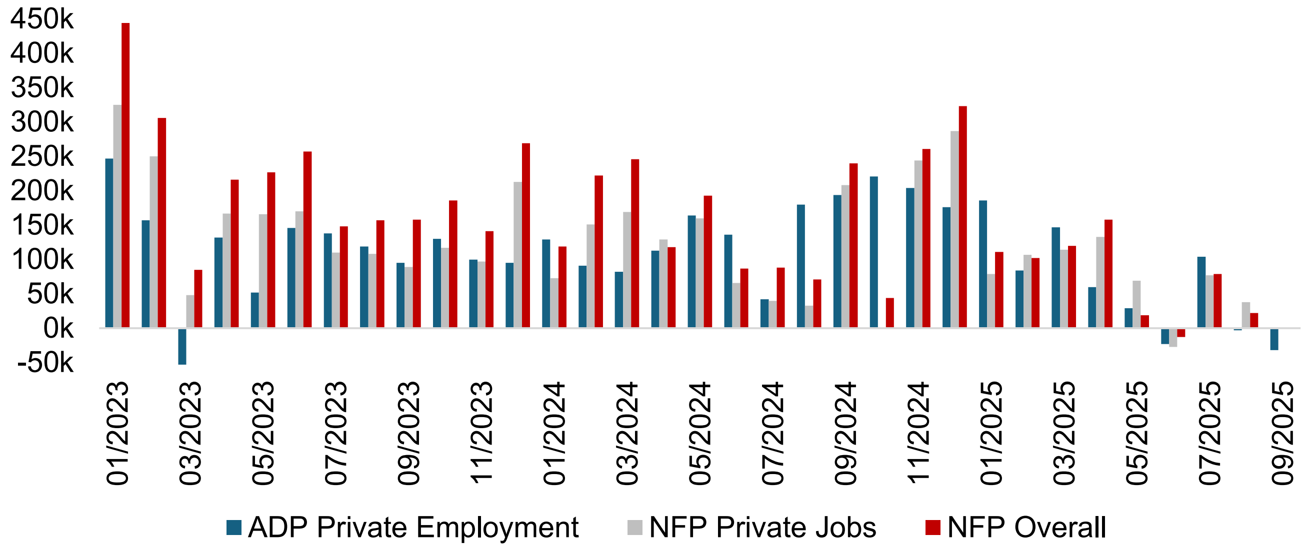


- Despite the government's goal of bringing manufacturing jobs back to the USA, the manufacturing sector has lost 62,000 jobs this year. Other sectors that were also supposed to benefit have struggled. Mining and Logging jobs have fallen 16,000 while Construction hasn't added any jobs this year.
- Artificial Intelligence may already be affecting the jobs market as technology companies have reduced headcount by 44k this year while growing revenues by 13%.
- Entry-level jobs, in particular, could be at risk of being replaced by AI. This and tariff uncertainties have led to the unemployment rate for those between the ages of 20-24 (recent university graduates) rising to 9.2%, the highest level since 2016, excluding the pandemic.

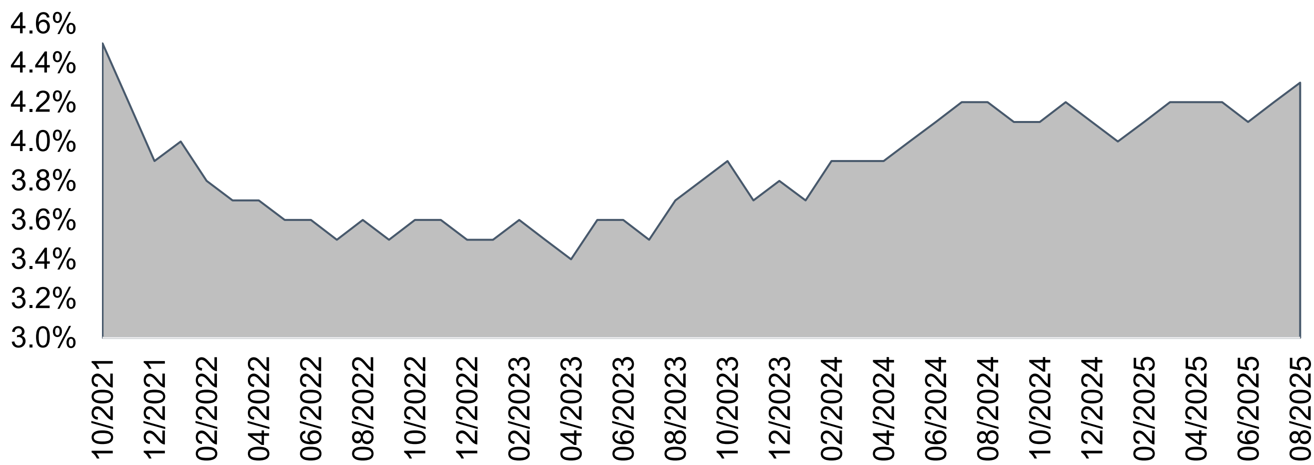
Source: Bloomberg/Bradesco/BLS – 3 October 2025

Official data delayed, but labor market likely continues to weaken

September labor market data delayed, ADP data indicates weakness



Unemployment rate likely to continue rising

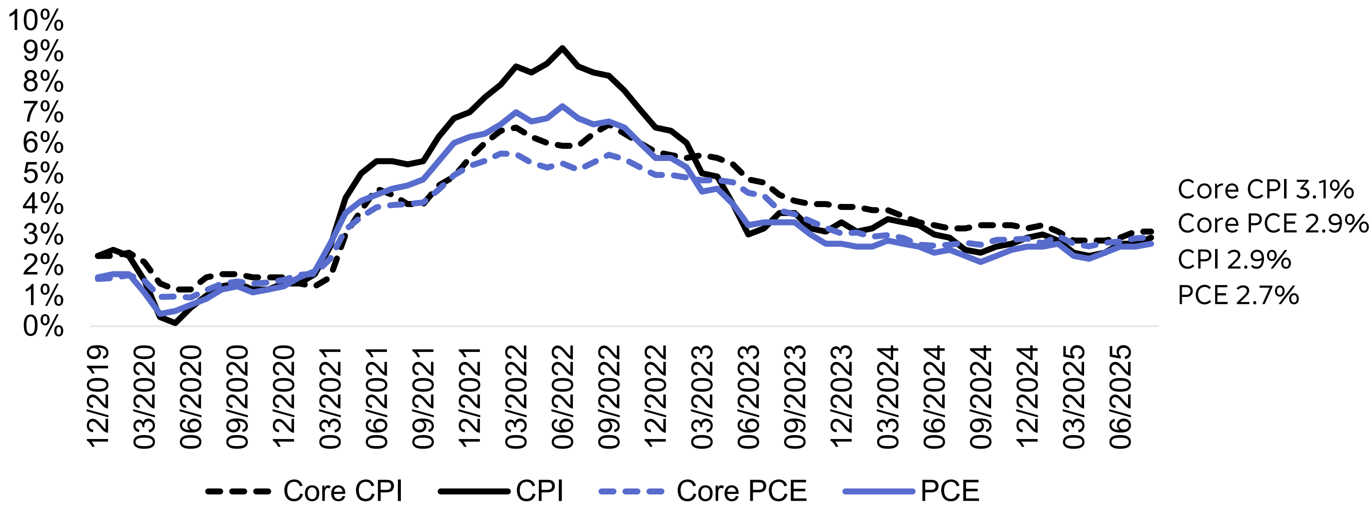


- The US government shutdown has delayed the release of official government data, including the important labor market report for September.
- The labor market has been noticeably weakening after revisions to the initial Non-Farm Payroll data showed just 19k jobs created in May, -13k in June, 79k in July and 22k jobs in August. The ADP private payrolls data released for September showed -32k jobs in September and a revision to -3k in August which indicates a very weak September NFP figure is possible once the data is eventually released.
- Weak jobs creation would not be surprising given businesses are reluctant to hire due to tariff uncertainty and as AI may already be allowing companies to reduce headcount. A further rise in the unemployment rate in the coming months is likely and this will allow the Fed to continue cutting rates. com os cortes de juros.

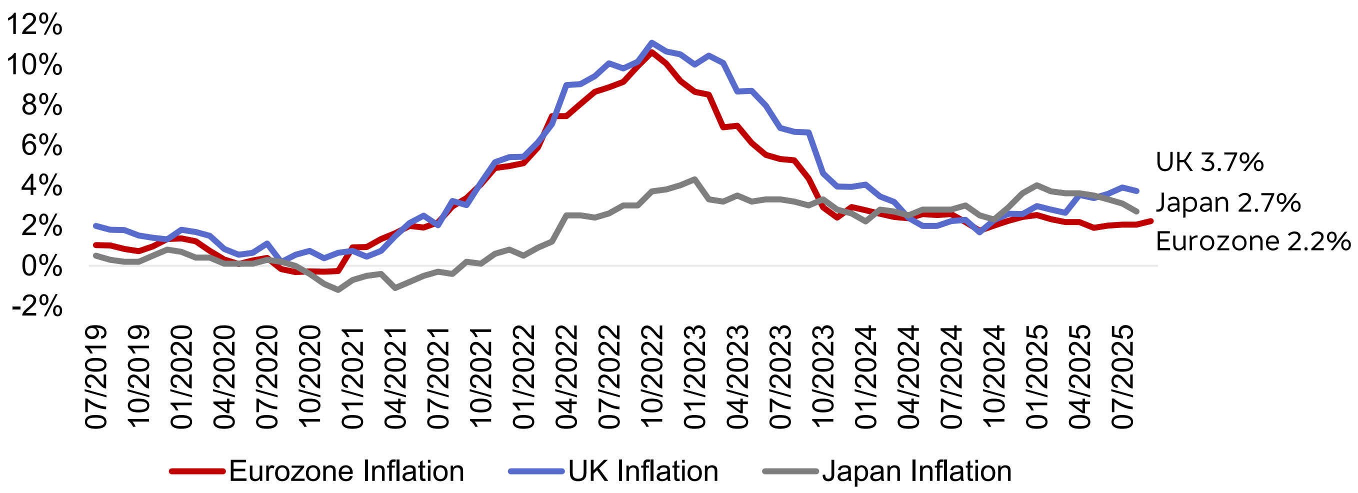
Source: Bloomberg/Bradesco/ADP/BLS – 3 October 2025

Inflation still rising as tariff costs filter through to consumers

US inflation to rise above 3% as tariffs raise prices



Eurozone stable near 2%, Japan finally seeing sustained inflation

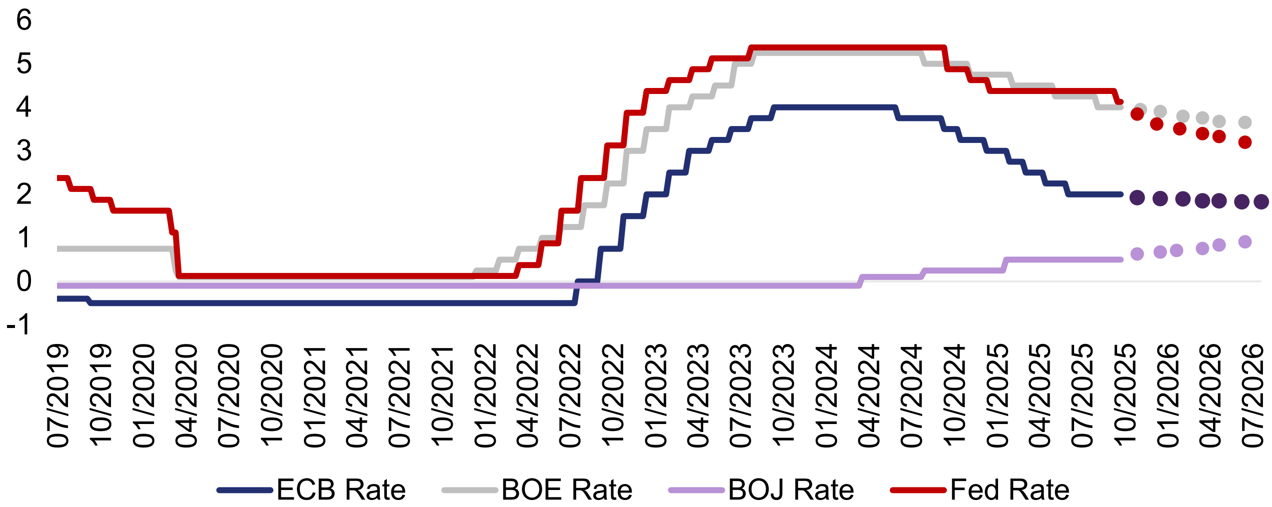


- Although the impact of tariffs on consumer prices has been slower than expected, we believe inflation will rise well above 3% in the coming months and going into 2026. Normally this would prevent the Fed from reducing rates but a weak jobs market will force the Fed to continue cutting even while inflation rises and the economy continues growing.
- The Eurozone has seen inflation stabilize around 2% allowing the ECB to hold rates at the current 2% level. In the UK, inflation is close to 4% and the Bank of England is struggling to bring it down so rate cuts by the BOE are unlikely for now.
- In Japan, decades of deflation have finally turned to positive inflation over the past few years allowing the BoJ to raise rates. We believe a further rate increase at its end of October meeting is likely.

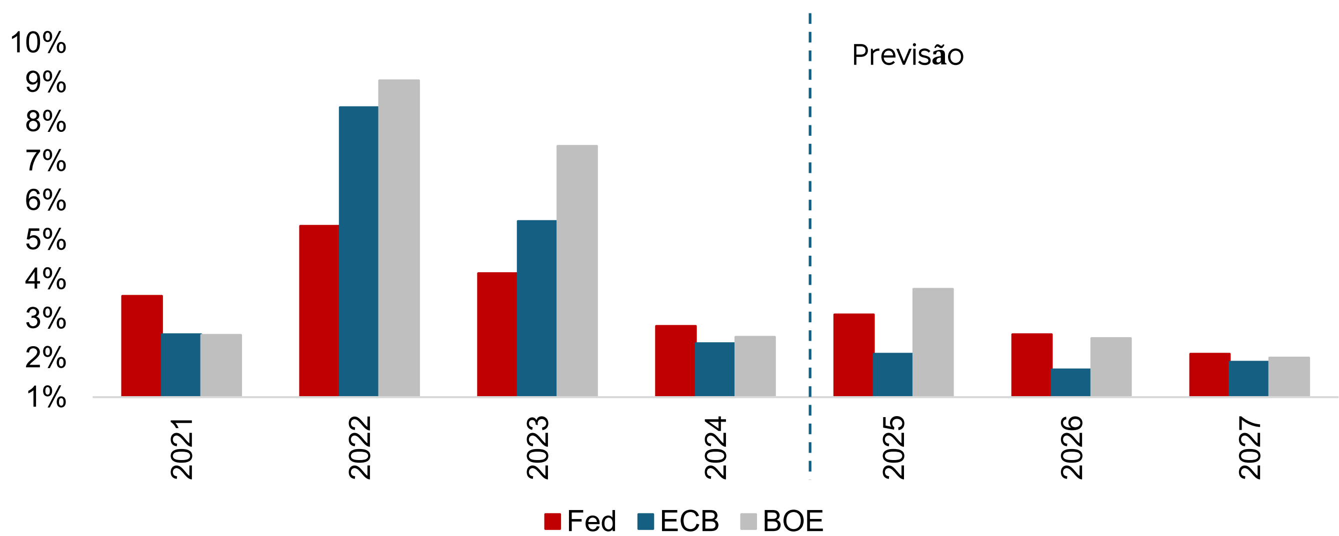
Source: Bloomberg/Bradesco/BLS/Eurostat/UK Office of National Statistics/Japan Ministry of Internal Affairs and Communications – 3 October 2025

The Fed is cutting while the ECB and BOE hold, and BOJ expected to raise rates

ECB and BOE are near the end of rate cuts, Fed can cut rates further



ECB achieved its inflation goal though Fed and BOE struggle to tame it

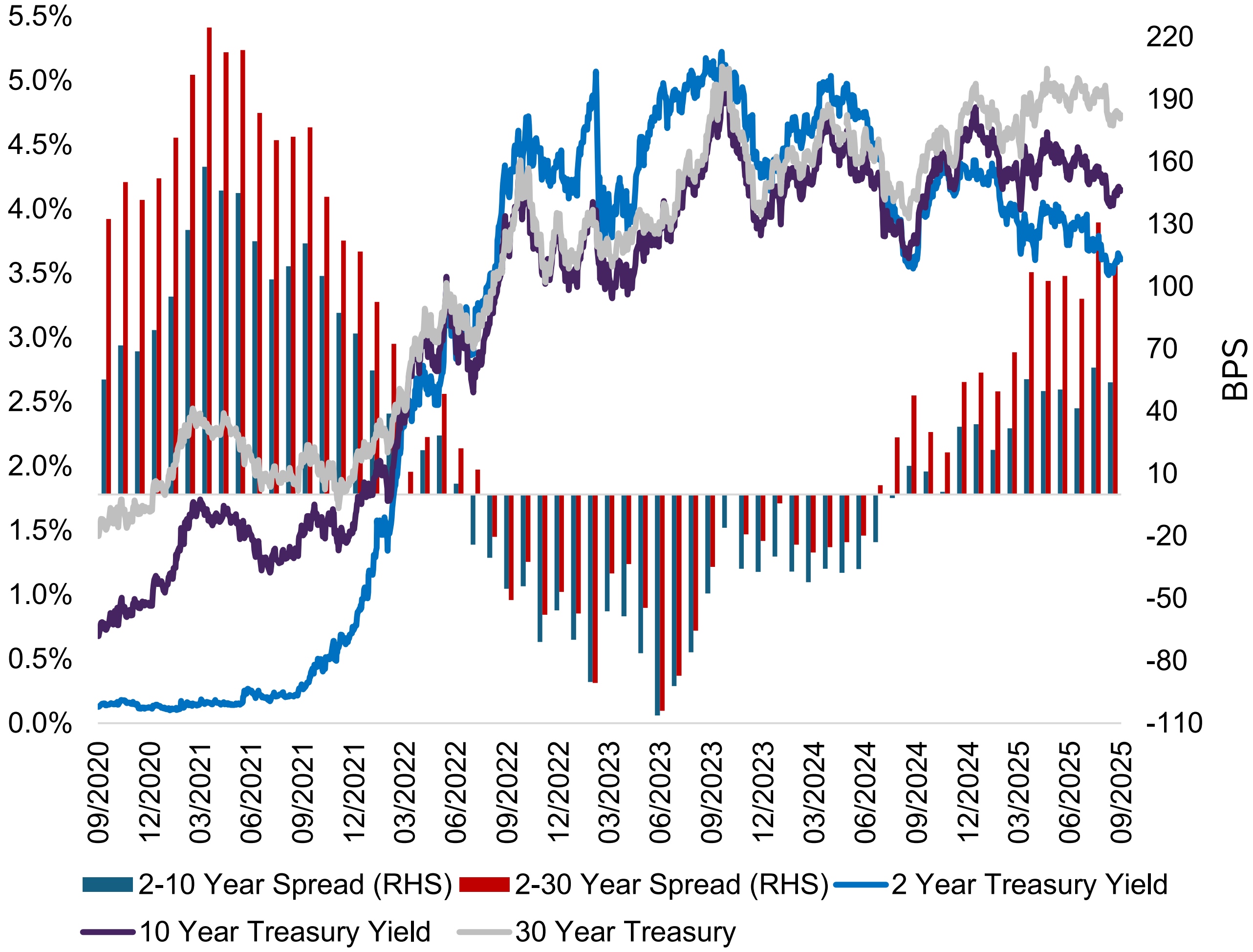


- The Fed cut rates by 0.25% to reach a range of 4.00% to 4.25% at its latest meeting in September. The Fed had held rates steady this year due to inflation concerns but was forced to re-start rate cuts as the labor market has weakened. The Fed still has a positive outlook for GDP growth, expecting growth of 1.6% in 2025, 1.8% in 2026 and 1.9% in 2027. Despite this, further rate cuts are likely over the next few meetings as the jobs market weakens.
- The ECB is comfortable with current rate levels as inflation has reached 2%. The BOE has struggled to bring inflation down, likely leaving its rates high for a while. The BOJ is the only major central bank raising rates at the moment after decades of low inflation kept rates negative, though political fragility has kept the bank from raising rates even more.
- Narrowing rate differentials between the US and Europe/Japan could contribute to further Dollar weakness.

Source: Bloomberg/Bradesco/Fed/BOE/BOJ/ECB – 3 October 2025

Treasury Yield Curve has been steepening, yields rise even after Fed cut

US 2, 10, 30 Year Treasury Yields and 2-10 and 2-30 yield spreads

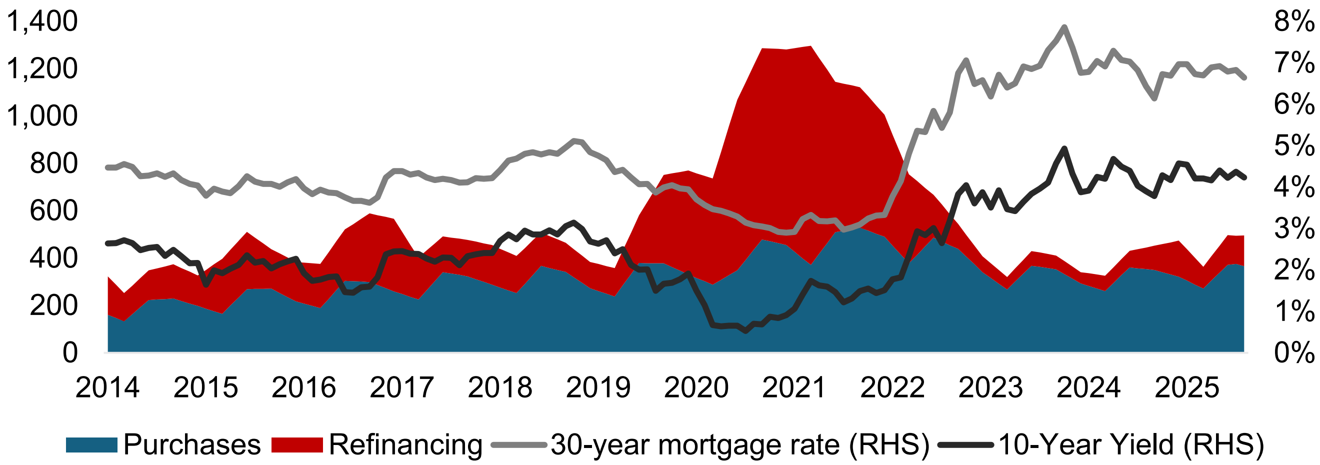


- The Treasury yield curve has shown significant steepening over the past 2 years from a highly negative inversion to a strong steepening.
- This has come from both the 2 year yield falling and the 10 and 30 year yields rising. The 2-10 spread reached a low of nearly -110bp in 2023 and is up near 54 bps now. The 2-30 spread reached a low of nearly -120 bps in 2023 and is over 112 bps now.
- Further steepening is possible as a weak jobs market could force the Fed to cut rates while inflation concerns, an unsustainable debt and deficit outlook, and concerns about the independence of the Fed combine to drive the longer yields higher. We expect the 10-year yield to reach the 4.2%-4.5% range and the 30-year yield to reach the 4.8%-5% range once the government shutdown is over.

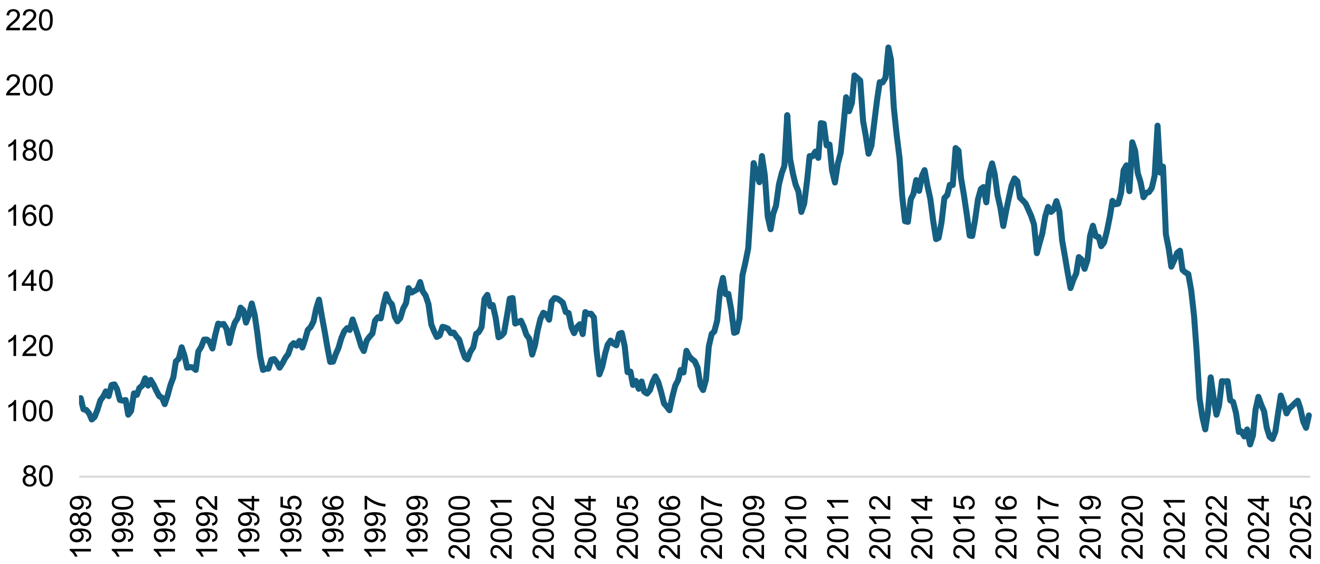
Source: Bloomberg/Bradesco – 3 October 2025

Housing affordability near all-time lows as mortgage rates remain high

Mortgage rates likely to stay high, reducing market turnover



High prices and high mortgage rates bring affordability near all time lows

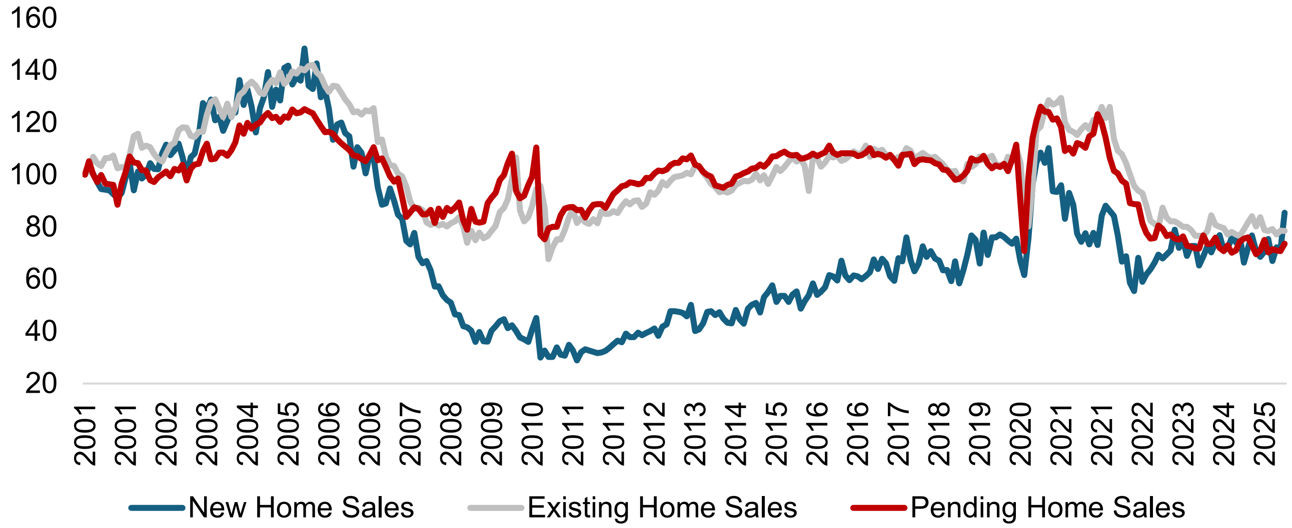


- With longer-term yields (the 10-year yield) likely to stay high, this means mortgage rates will also stay high, near the current 6-7% level. Homeowners who refinanced at the 2-3% range after the pandemic do not want to move as they would face much higher mortgage rates and payment schedules.
- New homebuyers face difficulties as home prices are still expensive and high mortgage rates mean affordability is at historic lows.
- Low affordability is likely to continue, limiting transactions and construction activity in the sector.

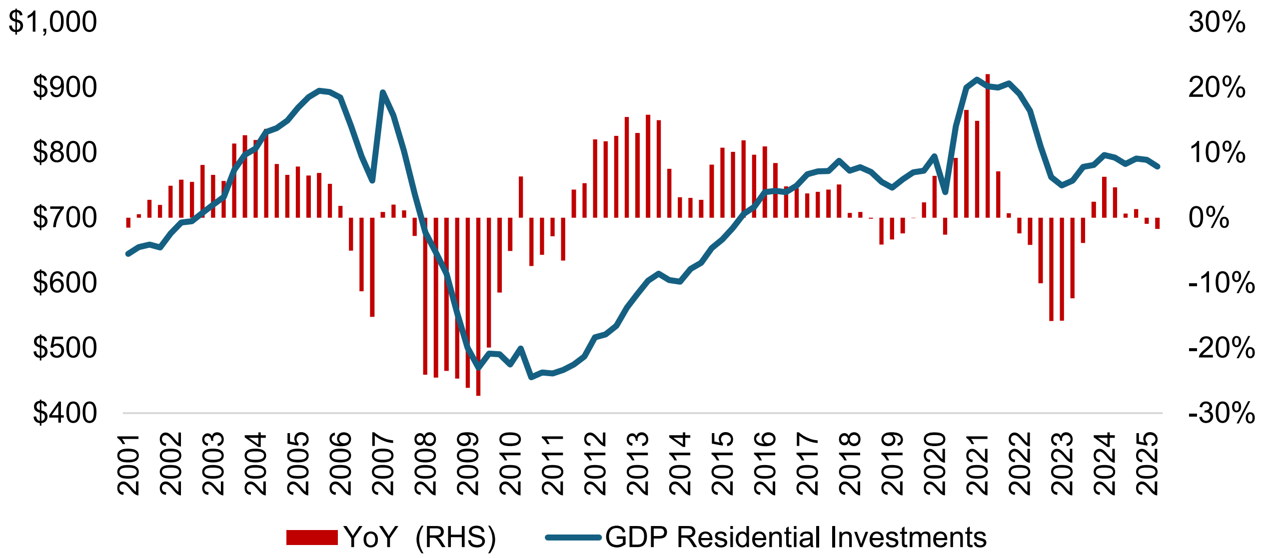
Source: Bloomberg/Bradesco/Fannie Mae/US Census Bureau/NAR – 3 October 2025

Weak home sales and construction activity likely to continue

Existing and Pending Home sales have fallen to decade lows



Residential building activity has weakened as the market stagnates

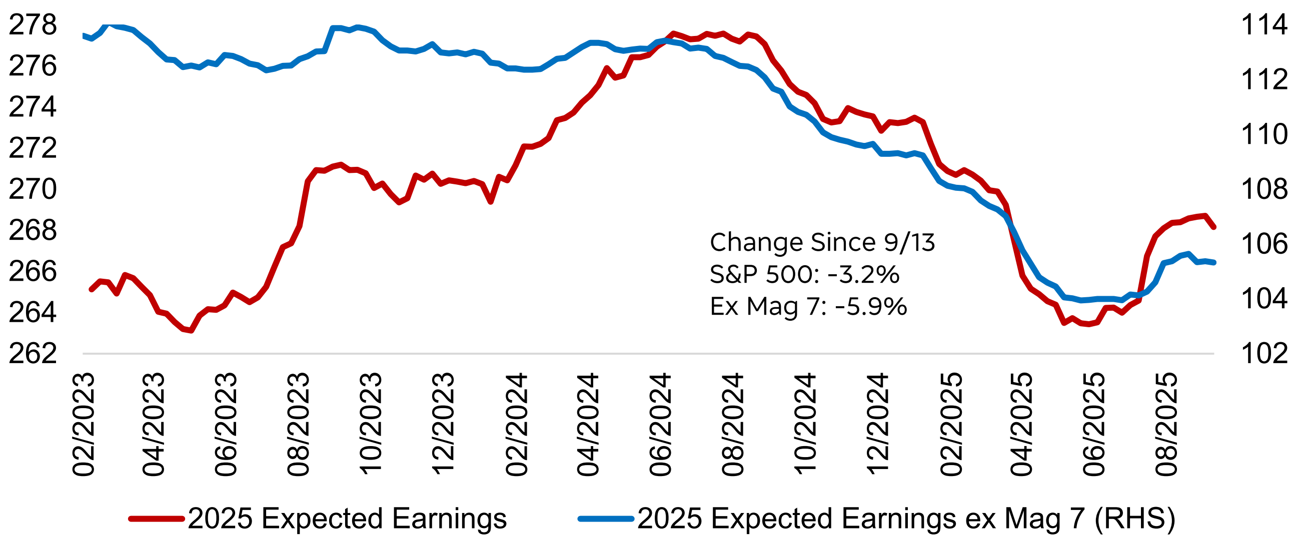


- High mortgage rates and low affordability have led to weaker existing home sales, although new home sales have increased recently as homebuilders may be offering extra incentives to move inventory.
- Overall residential construction activity has weakened after peaking in 2021. Further weakness is likely as a deteriorating employment market could lead to an even weaker housing market and construction activity.

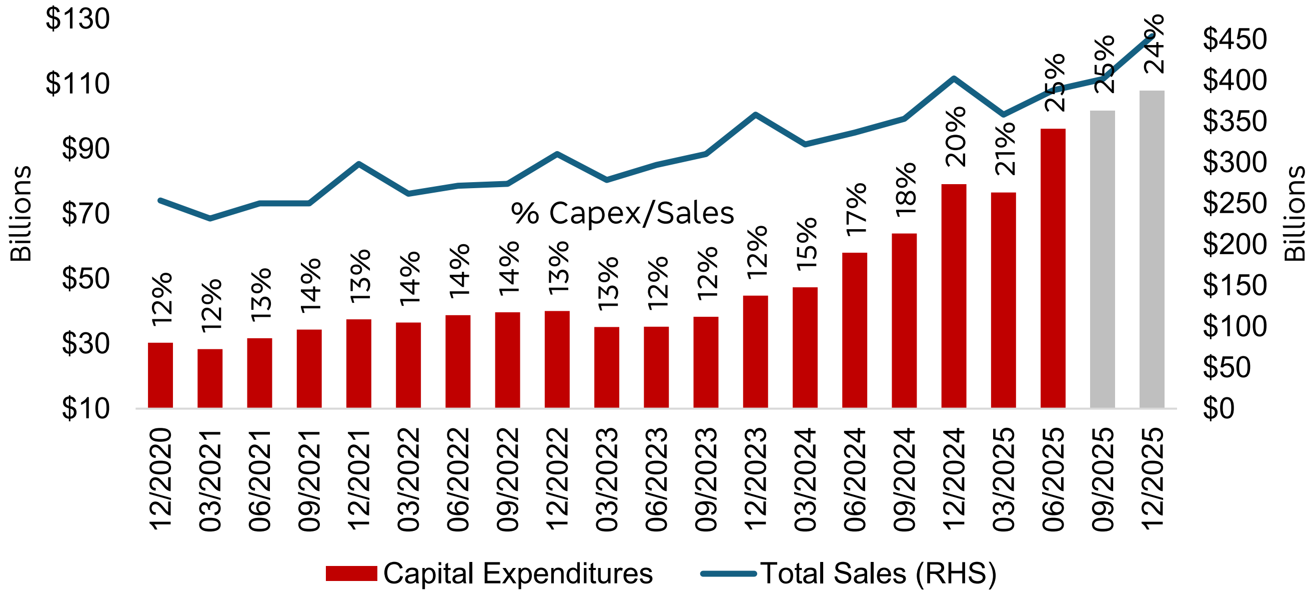
Source: Bloomberg/Bradesco/US Census Bureau/NAR – 3 October 2025

Earning estimates for 2025 rising after a much better-than-expected Q2

EPS estimates were falling after the election, but now recovering



Hyperscaler CapEx reached $96 billion as demand for AI grows

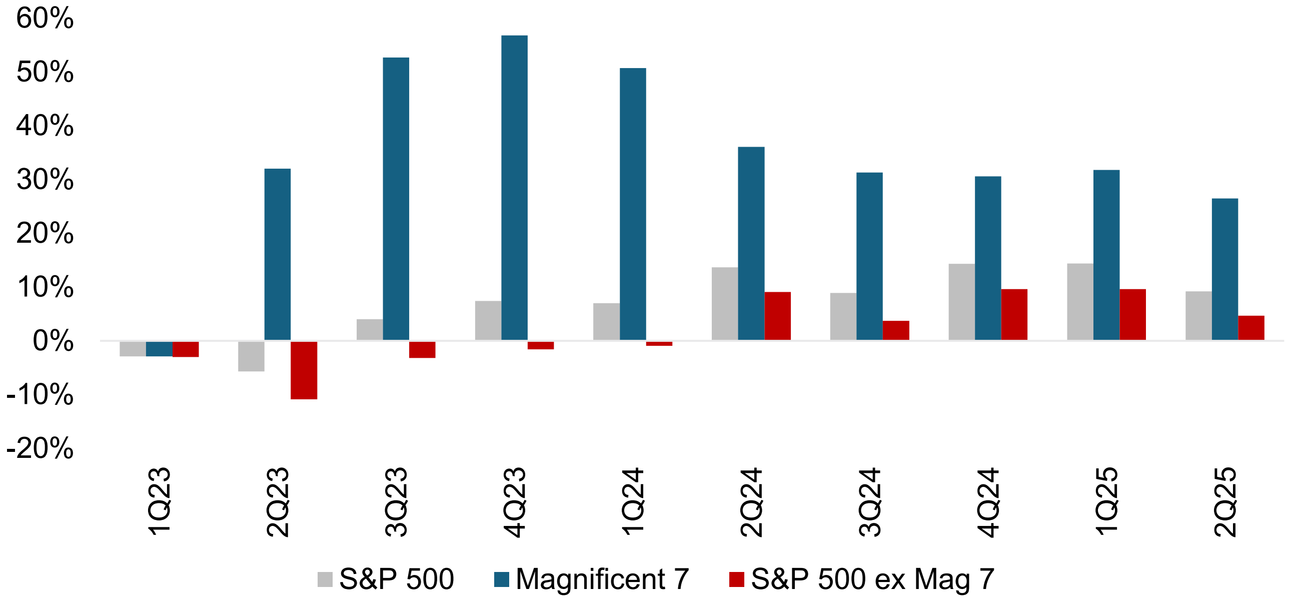


- Earnings estimates had been falling since the election on tariff fears but after bottoming with the Q2 earnings, they have been rising due to strong earnings from big tech and the Mag-7. Tech companies are benefitting from the AI rollout and increasing efficiencies as they reduce headcount and expand margins.
- Capital expenditures by Amazon, Meta, Google, Microsoft and Oracle reached a high in the 2nd quarter of $96 billion (27% of Sales) with more expected to come.
- In the medium-term, extremely high Capex/Sales ratios are not sustainable. Can tech companies make adequate returns on these investments?

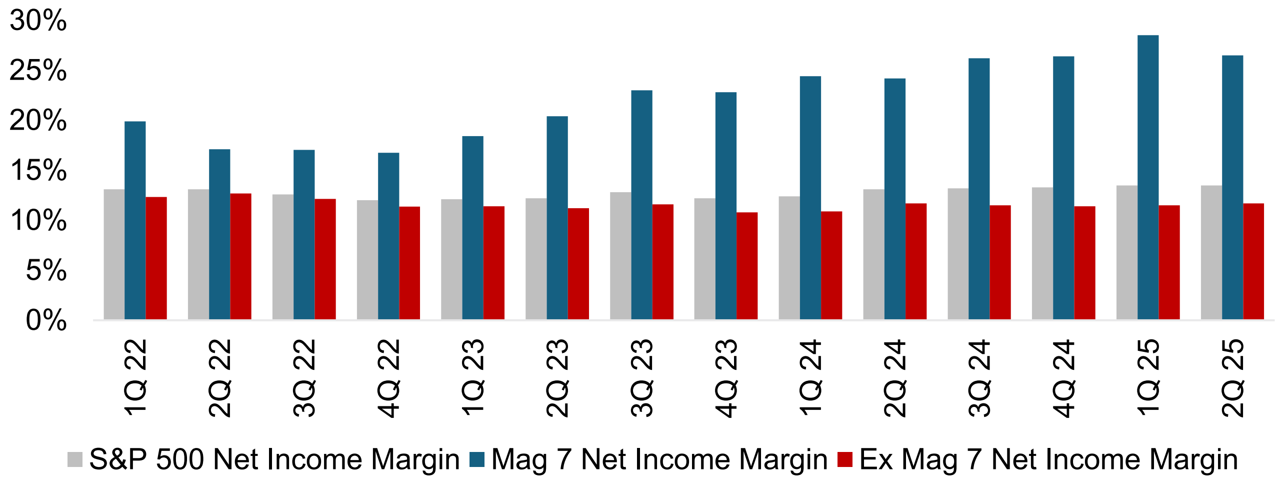
Source: Bloomberg/Bradesco/Company Filings – 3 October 2025

Mag 7 deliver strong earnings growth but can this continue?

The 493 struggle to grow earnings while Mag 7 delivers



Mag 7 margins near historic highs, but AI depreciation still to come



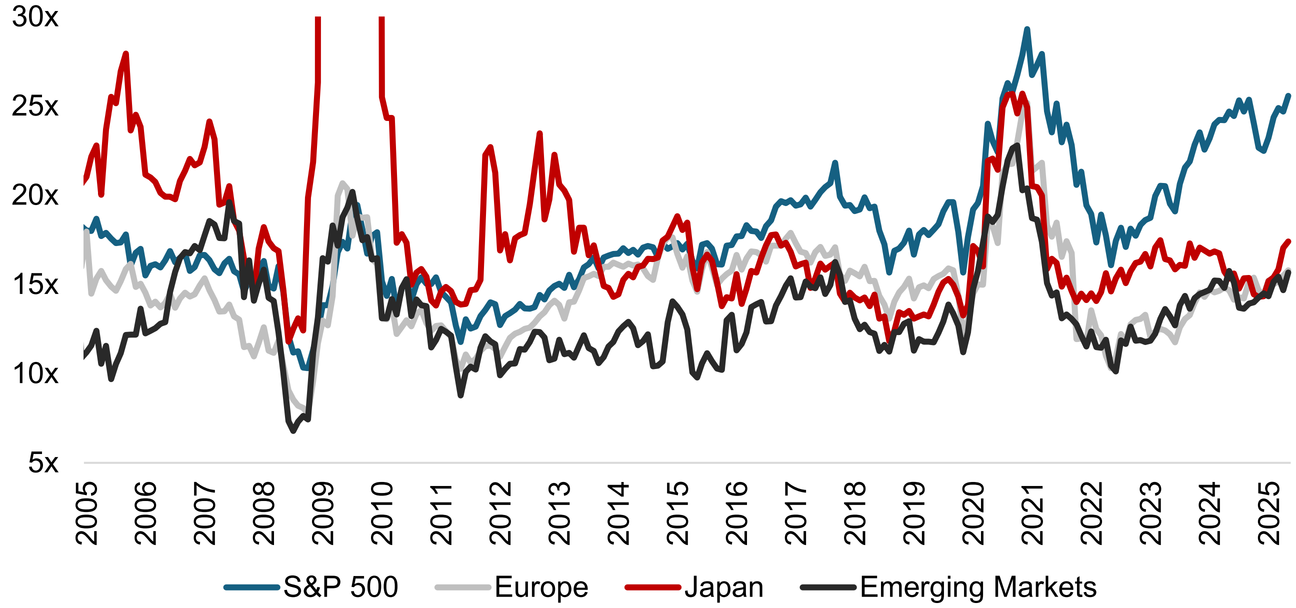
- The Mag 7 delivered 26.5% YoY earnings growth in Q2, slightly lower than recent periods but still delivering almost all the growth for the S&P. The rest of 493 delivered just 4.7% YoY growth, bringing the total for the S&P 500 to 9.2%.
- Chipmakers are benefitting from the large increase in revenues as datacenter spend increases. And the companies spending on the datacenters (Amazon, Google, Microsoft, etc) are not yet recording the costs as the depreciation for the capital expenditures has yet to hit their income statements. Overall margins have expanded as revenues are recognized but costs are yet to come.
- Can AI revenues compensate for the hundreds of billions of dollars in depreciation which will impact the income statements in the coming years? A recent study by Bain estimates a possible $800 billion shortfall in AI revenues by 2030.

* MAG 7 | 7 biggest technology companies

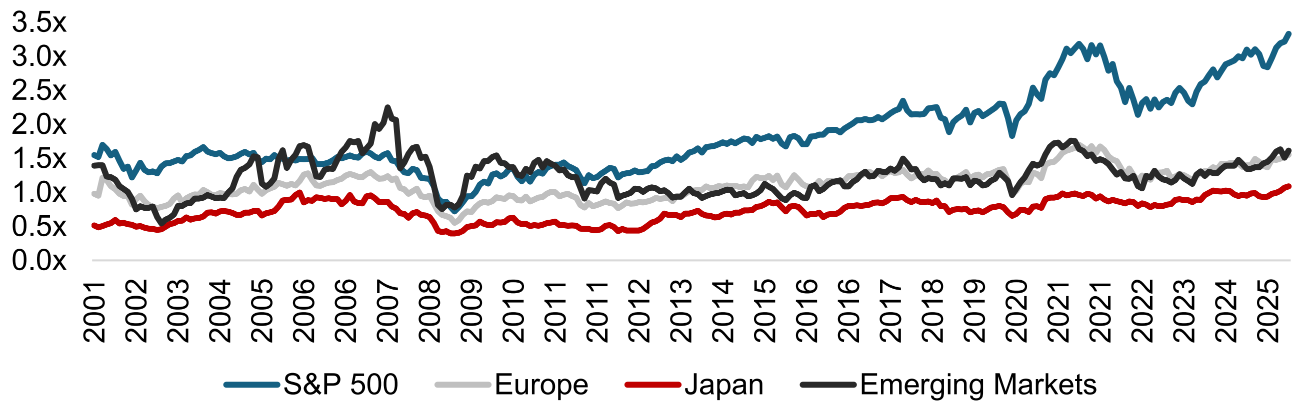
Source: Bloomberg/Bradesco – 3 October 2025

US equity valuations looks expensive, other markets still reasonable

Price/Earnings ratios: US near Internet bubble levels



Price/Sales: US at all-time highs

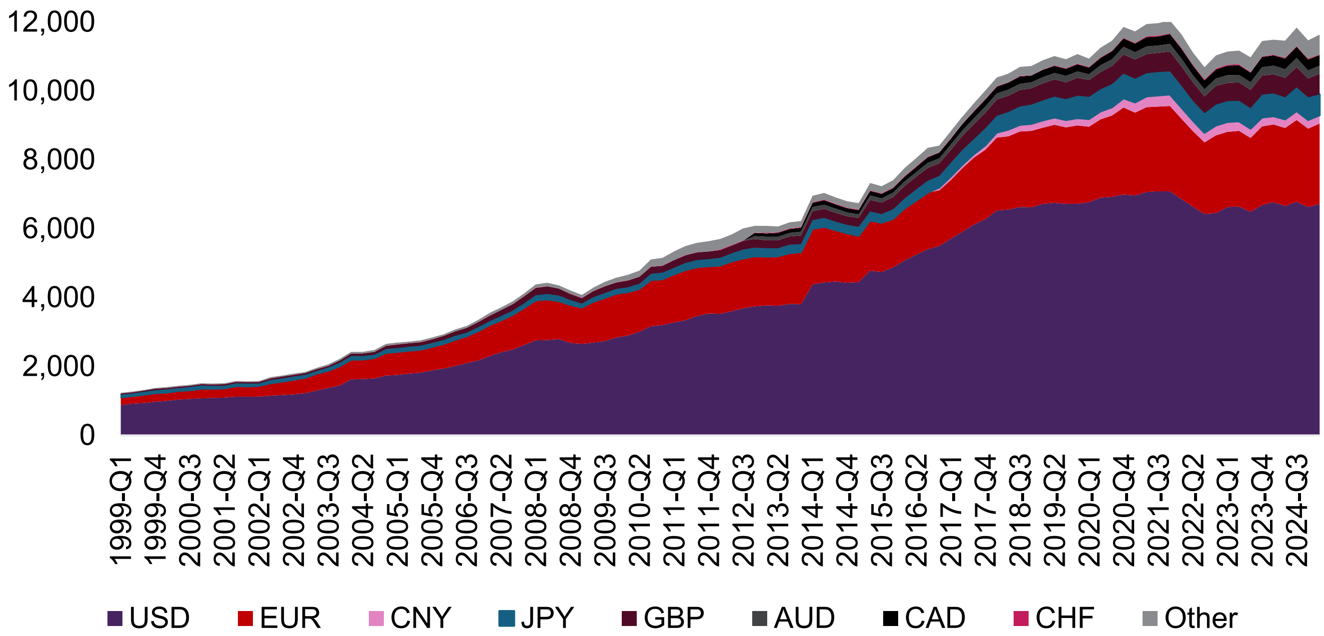


- 2025 could see a third year of double-digit percentage gains in the US equity markets. While earnings have increased 19% since the end of 2022, the S&P 500 has increased 75% as valuations have increased to near record highs. The Price/Earnings ratio of 25.7x is near Internet Bubble peaks and the Price/Sales ratio of 3.33x is at all-time highs.
- Other equity markets have gained strongly but valuations, while expensive, do not look extreme. Europe at 15.8x P/E is still well within its historic range and near its average of 14.7x over the past 20 years.
- Japan is at 17.4x P/E, compared to its average of 17.4x (ex GFC). And the MSCI Emerging Markets index is at 15.7x P/E compared to its average of 13.5x.

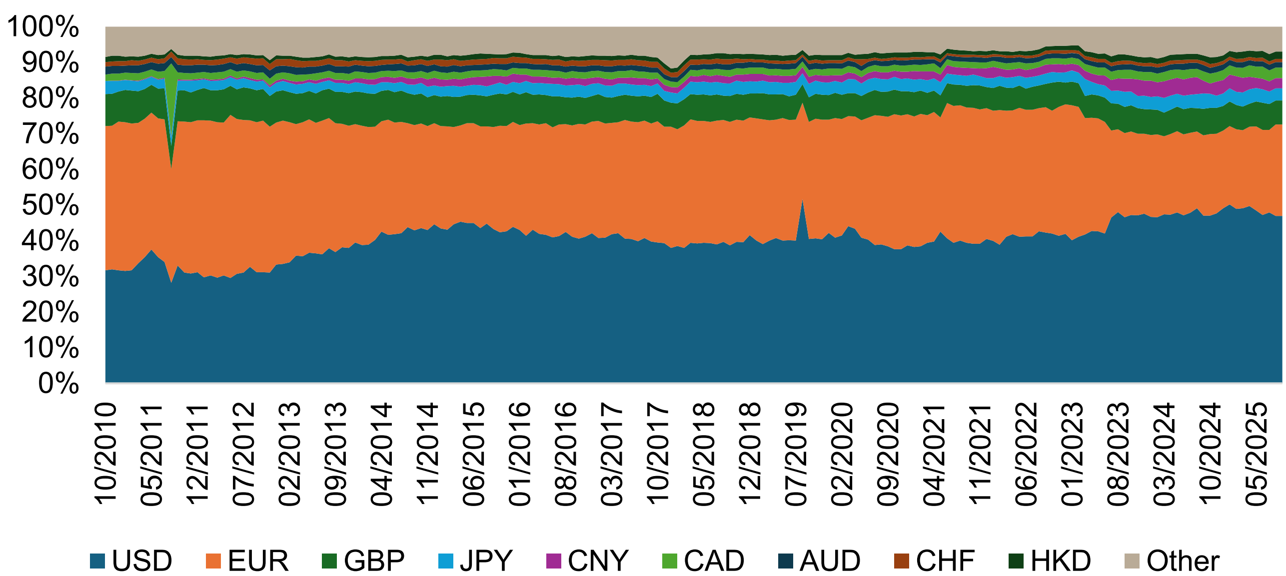
Source: Bloomberg/Bradesco – 3 October 2025

Dollar remains the reserve currency for the world

Dollar still the largest central bank reserve currency



Dollar growing importance for SWIFT payments



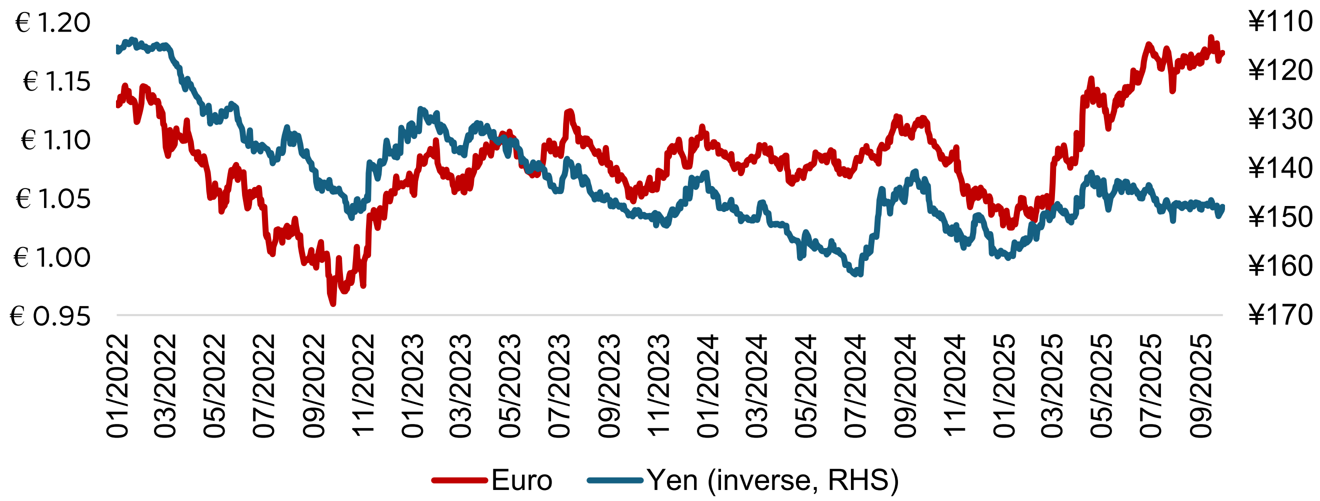
- The US Dollar has long been the unquestioned global reserve currency and we expect this to continue as no other currency offers the size, liquidity and trading volumes backed by a strong economy and deep financial markets.
- The US Dollar remains the largest central bank reserve holding at 57%, although this has declined from 65% over the past 20 years. During this time, the Euro has declined from 25% to 20%, the Yen as gained 1% to reach 5% and the British Pound has gained 1.5% to reach 5%. The Chinese Yuan has increased to 2%.
- The US Dollar has increased its usage in SWIFT payments to 47% from 32% in 2010. During this time the Euro fell from 40% to 26% and the Chinese Yuan increased to 3%.

Source: Bloomberg/Bradesco/IMF/SWIFT – 3 October 2025

US Dollar could weaken further as International investors increase diversification

Dollar index has fallen from near historic highs but could weaken further

More gains for the Euro and Yen possible

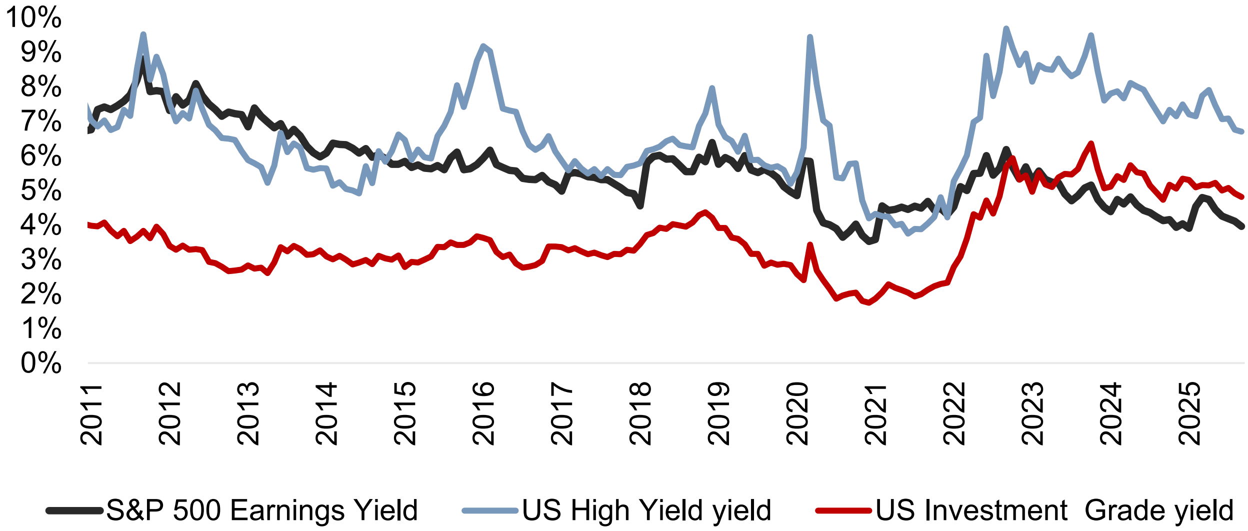


- The US Dollar was near historic highs early in 2025 but has fallen 10% this year. International investors have been overweight US Dollar assets but the start of the tariff and trade wars and unpredictable moves by the US government has convinced investors to increase diversification by allocating to other currencies.
- We do not believe the US Dollar will lose its reserve currency status. But increasing international diversification could lead to further Dollar weakness.
- The Euro has gained 13% this year and is near 1.17 and the Japanese Yen gained 6% this year and is around 147. We believe the Euro reaching the 1.20-1.25 range and the Yen reaching 130 is possible over the coming year as the Fed continues to cut rates and the ECB holds and the BoJ raises rates.

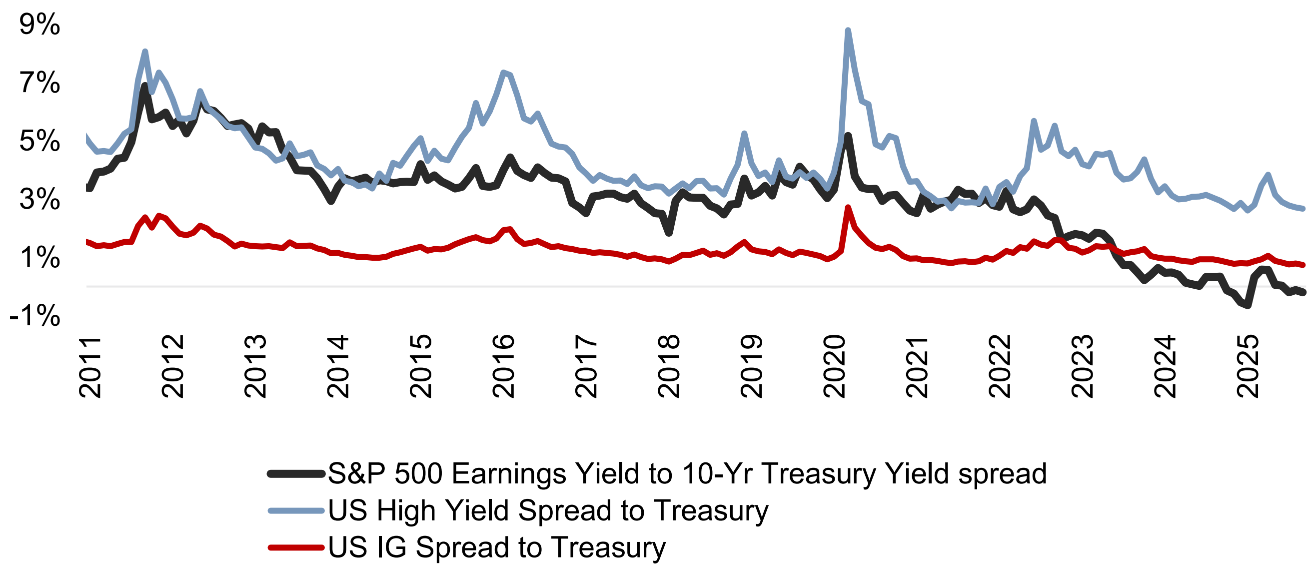
Source: Bloomberg/Bradesco – 1 October 2025

Yields and Spreads declined in September on Fed cut and shutdown concerns

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)



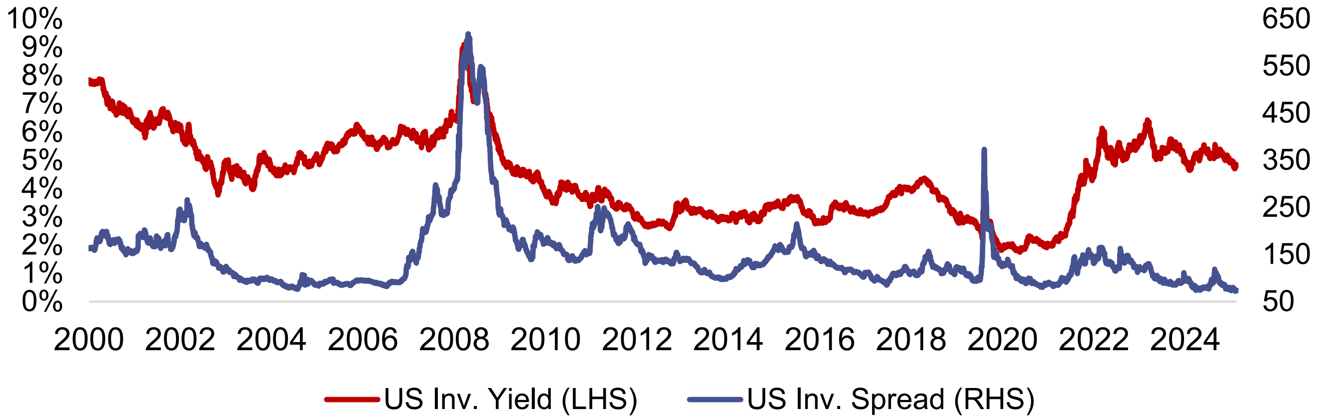
- Treasury yields fell in September due to the re-start of Fed rate cuts and due to concerns of a US government shutdown.
- Spreads on Investment Grade and High Yield bonds declined in September, reaching at or near multi-decade lows.
- The S&P 500 reached record highs which brought its Equity earnings yield (inverse of the Price/Equity ratio) to 3.9%, near multi-year lows. The S&P 500 Equity Risk Premium (difference between earnings yield and 10-year Treasury yield) is at -0.2%, near its lowest levels over the past decade.

Source: Bloomberg/Bradesco – 1 October 2025

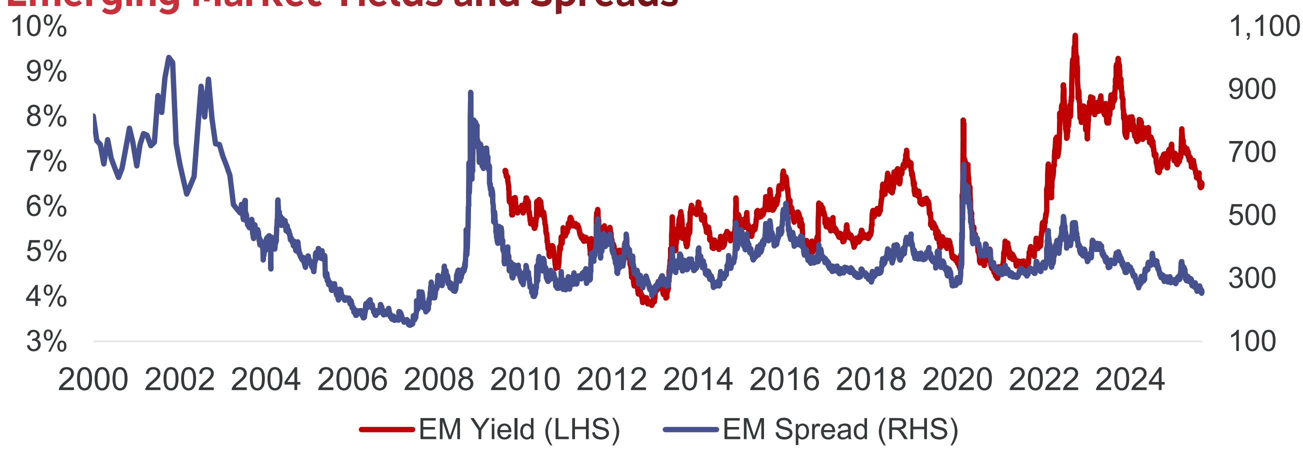
Fixed Income Yields and Spreads

	Yield	Spread (bps)	Spread Avg/Range	Duration
US Investment Grade	4.81%	73	146 (72-618)	7.0
US High Yield	6.70%	262	434 (252-1099)	3.1
Global High Yield	6.77%	299	534 (220-1803)	3.8
Emerging Markets	6.50%	258	351 (151-1001)	6.8

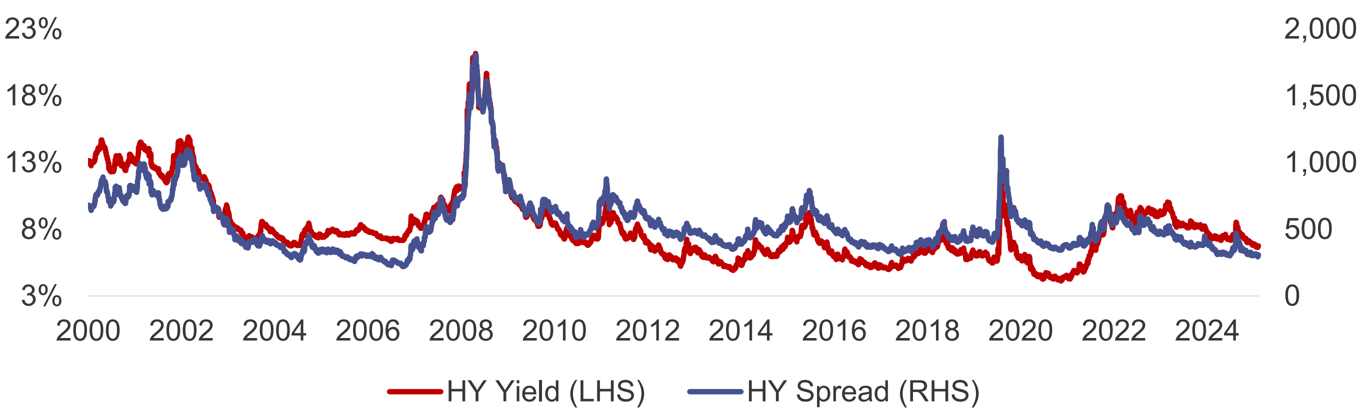
US Investment Grade Yields and Spreads



Emerging Market Yields and Spreads



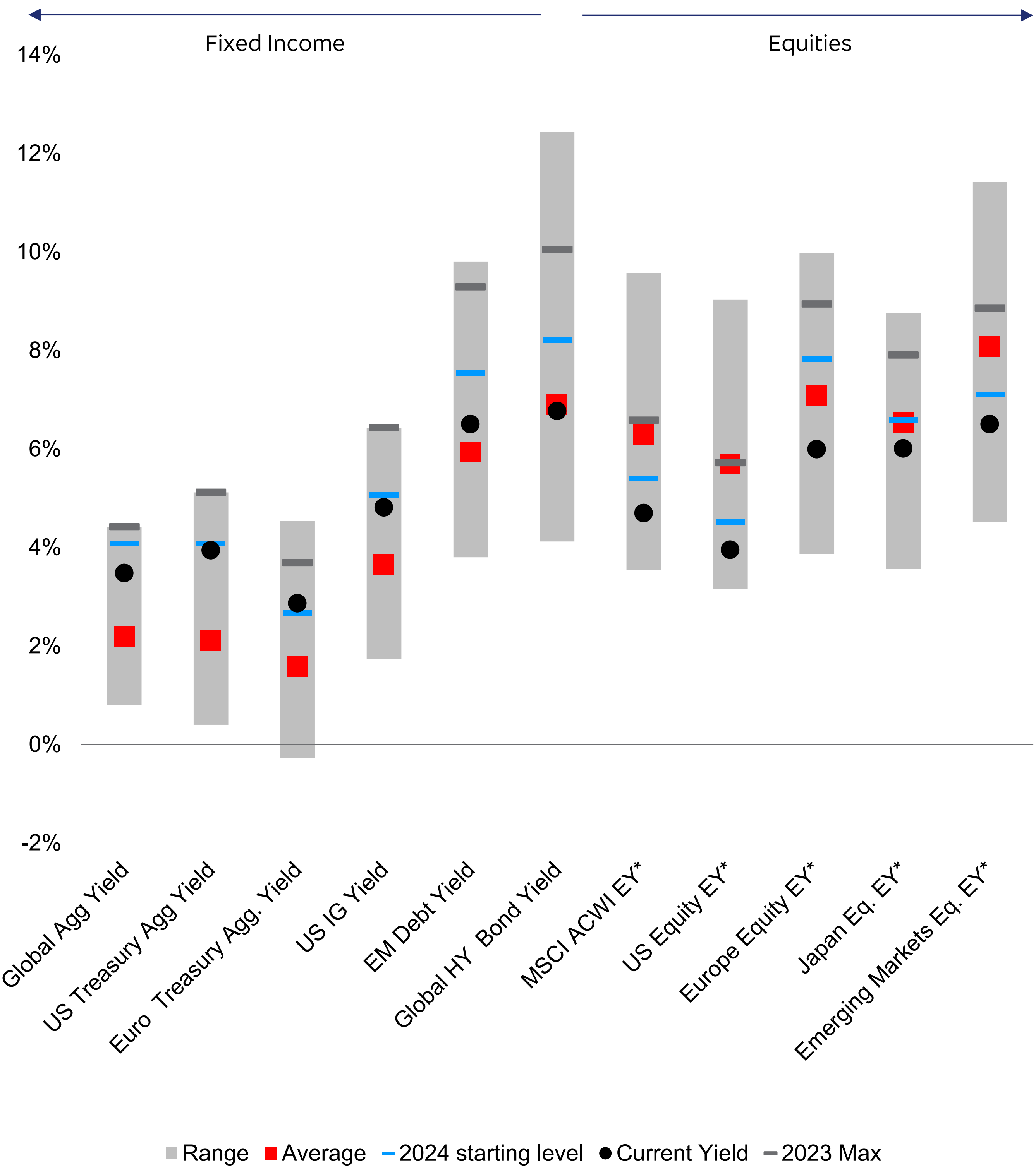
Developed Market High Yield Bond Yields and Spreads



Source: Bloomberg/Bradesco – 1 October 2025

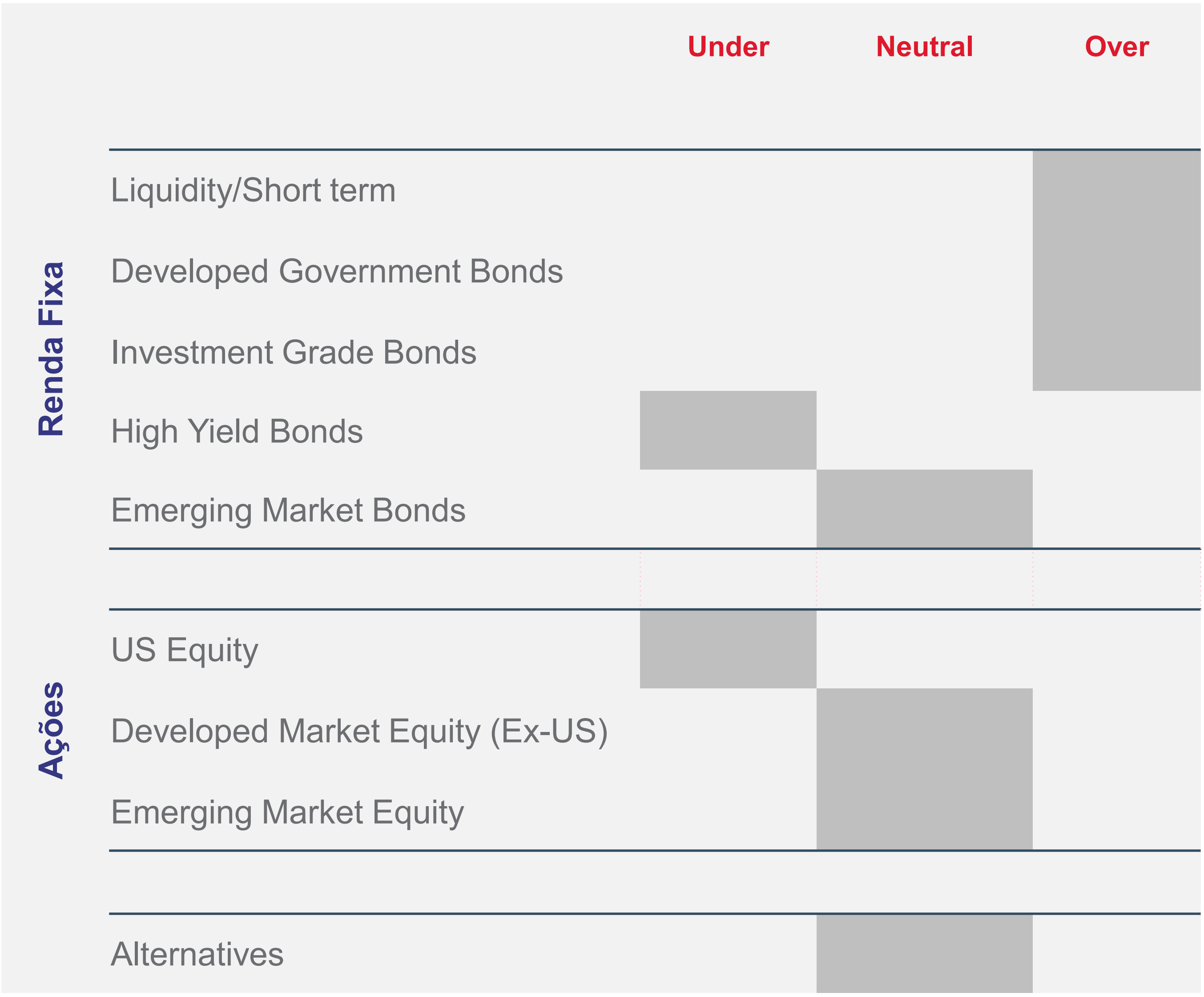
US equities reach record highs but look expensive

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



Source: Bloomberg/Bradesco – October 2025

Tactical Allocation Positioning



Tactical Allocations positioning

- Large-scale AI spend is driving economic growth, but a weak labor market will force the Fed to continue cutting rates. Equity markets continue to gain in such an environment, but continued gains rely on a fine balancing act of continued growth with some (but not a lot) of labor market weakness.
- We are Underweight US Equities and High Yield bonds as we believe valuations are not reflecting the risks of slowing growth and increased tariff costs on corporate results.
- We have shorter-Duration positioning in Government and Investment Grade bonds. We believe the combination of higher inflation risks, a deteriorating US fiscal outlook with large debt and deficit increases, and the possible reduction of US assets held by foreign investors mean rising Treasury yields especially in longer-Durations.

Source: Bloomberg/Bradesco – October 2025

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%	**87%**	70%	**72%**	55%	**57%**	45%	**47%**
Liquidity/Short Term	24%	**25%**	15%	**16%**	8%	**9%**	5%	**6%**
Developed Government Bonds	24%	**26%**	16%	**17%**	9%	**10%**	3%	**4%**
Investment Grade Bonds	24%	**25%**	21%	**23%**	14%	**16%**	11%	**13%**
High Yield Bonds	7%	**5%**	9%	**7%**	13%	**11%**	14%	**12%**
Emerging Market Bonds	6%	**6%**	9%	**9%**	11%	**11%**	12%	**12%**
EQUITIES	15%	**13%**	22%	**20%**	34%	**32%**	45%	**43%**
US Equity	8%	**6%**	11%	**9%**	17%	**15%**	22%	**20%**
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 – October 2025

October Economic Calendar

		1 • ADP Employment • Trade Balance • S&P Global and ISM Manufacturing PMIs • Construction Spending	2 • Jobless Claims • Continuing Claims • Factory Orders • Durable Goods Orders	3 • **NFP** • S&P Global and ISM Services PMIs
6	7 • Trade Balance • Consumer Credit • NY Fed 1yr. Inflation	8	9 • Jobless Claims • Continuing Claims	10 • UoM Consumer Sentiment (P)
13 • **Columbus Day (Markets Open)**	14 • NFIB Small Business Optimism	15 • **CPI** • Empire Manufacturing	16 • Jobless Claims • Continuing Claims • **PPI** • **Retail Sales** • New York Fed Services Activity • Philadelphia Fed Business Outlook	17 • **EZ CPI** • Housing Starts • Building Starts • Import Prices • Industrial Production
20 • Leading Index	21 • Philadelphia Fed Non-Manf. Activity	22	23 • Jobless Claims • Continuing Claims • Kansas City Fed Manf. Activity • Chicago Fed National Activity Index • Existing Home Sales	24 • S&P Global Manufacturing and Services PMIs • UoM Consumer Sentiment (F) • Kansas City Fed Services Activity • New Home Sales • Building Permits (F)
27 • Durable Goods Orders • Dallas Fed Manufacturing Activity	28 • Conference Board Consumer Confidence • Richmond Fed Index • Dallas Fed Services Activity	29 • **Fed Meeting** • Retail Inventories • Advance Goods Trade Balance	30 • JC • Continuing Claims • **Q3 GDP (A)** • **EZ Q3 GDP (A)** • **ECB Meeting** • **BOJ Meeting**	31 • **PCE** • **EZ CPI**

(A) – Advance / (P) – Preliminary / (F) – Final / (S) – Second Revision / (T) – Third Revision / JP – Japan / EZ – Eurozone / UK – United Kingdom / BOJ – Bank of Japan / ECB – European Central Bank / BOE – Bank of England

Source: Bloomberg/Bradesco – October 2025

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