

Market Update: October

International:

In October, attention was primarily focused on the United States. The strengthening of the Republican candidacy in the election race and the release of strong economic data had a significant impact on asset prices, leading to higher interest rates and a stronger dollar. In the first days of November, we already have confirmation of Donald Trump's victory, accompanied by solid results for Republicans in the House and Senate elections. Uncertainty about which campaign policies will be implemented has led volatility indices, especially for interest rates, to recent highs (Figure 1).

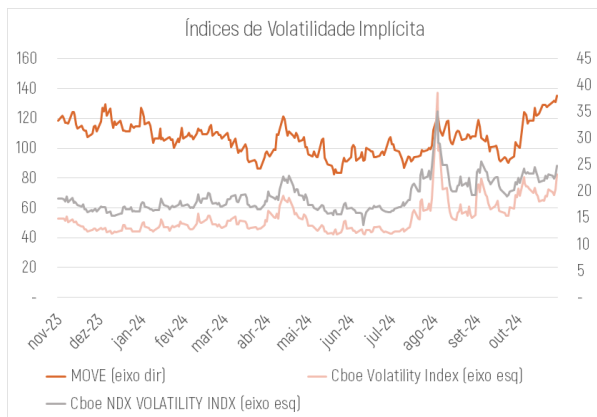


Figure 1: VIX, VNX, and MOVE, implied volatility indices for stocks and bonds. Source: Tera/BBG

In the U.S., third-quarter GDP grew at an annualized rate of 2.8%, driven by private consumption and public investments. Job creation was weak in September (12,000 net jobs), but the relevance of this data was reduced because of climatic shocks that are not expected to recur in the coming months. Business activity surveys indicate an accelerating economy, and inflation indices show slowing price increases, allowing the U.S. central bank to continue its monetary easing process in its November meeting. For longer horizons, doubts remain about the impact of fiscal policy to be implemented after the new government takes office. During the month, anticipating the tax cuts and tariff increases proposed by Donald Trump during the campaign, 10-year Treasury yields rose 50 basis points, ending the month at 4.28%, and the dollar appreciated significantly against other

currencies, gaining 3.2% in October as measured by the DXY. Long-term real rates resumed their rise after more than six months of declines (Figure 2). Most U.S. stock indices ended the month lower, with the notable exception of banks, which benefited from strong results and expectations of significant deregulation under a Republican administration.

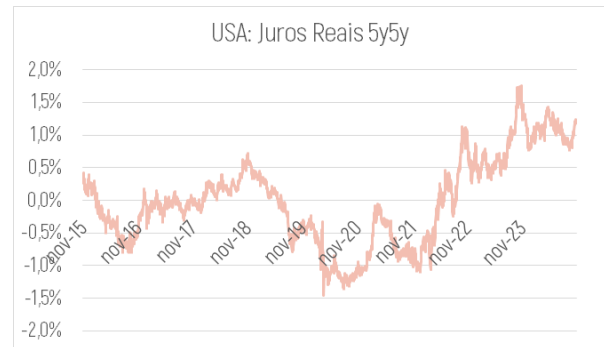


Figure 2: U.S. real interest rates (5-year, 5-year forward). Source: Tera/BBG

In Europe, the central bank cut interest rates by 25 basis points, to 3.25%. There are some signs of an ongoing economic recovery, supported by household consumption and government spending. However, the weakness of the manufacturing sector and the persistence of inflation at still high levels (4.3% per year) indicate fragility, especially amid uncertainty about U.S. policies on foreign trade and defense.

China continued the stimulus measures announced in September, with moderate signs of economic recovery. Third-quarter GDP grew by 4.6% year-over-year, slightly below the official target of 5%. Exports grew by 12.7% compared to October of the previous year, though part of this increase is attributed to the anticipation of shipments to avoid new import tariffs expected to be implemented by the U.S. and Europe. After the strong rise in stock indices in September, Chinese equities declined in October, in line with other emerging markets. Elsewhere in Asia, there was a significant depreciation of the Japanese yen, where the central bank kept interest rates at 0.25% per year. The nearly 6% drop prompted authorities to initiate a series of verbal interventions to contain the movement.

Domestic:

In Brazil, markets focused on the government's handling of fiscal accounts. The government has faced challenges in generating new revenues and, more importantly, in keeping spending growth within the limits imposed by the fiscal framework. Market agents are skeptical about the fiscal framework's ability to stabilize public debt, a sentiment reinforced by IMF projections released at its autumn meeting in Washington.

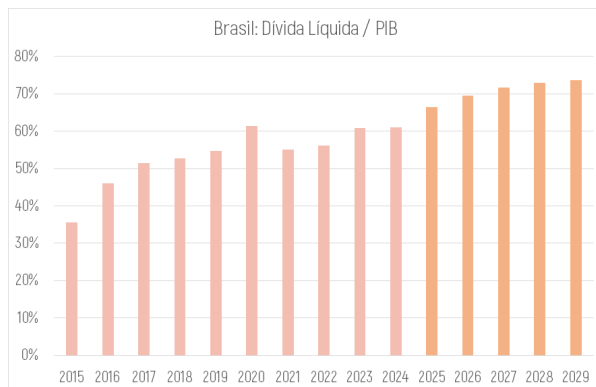
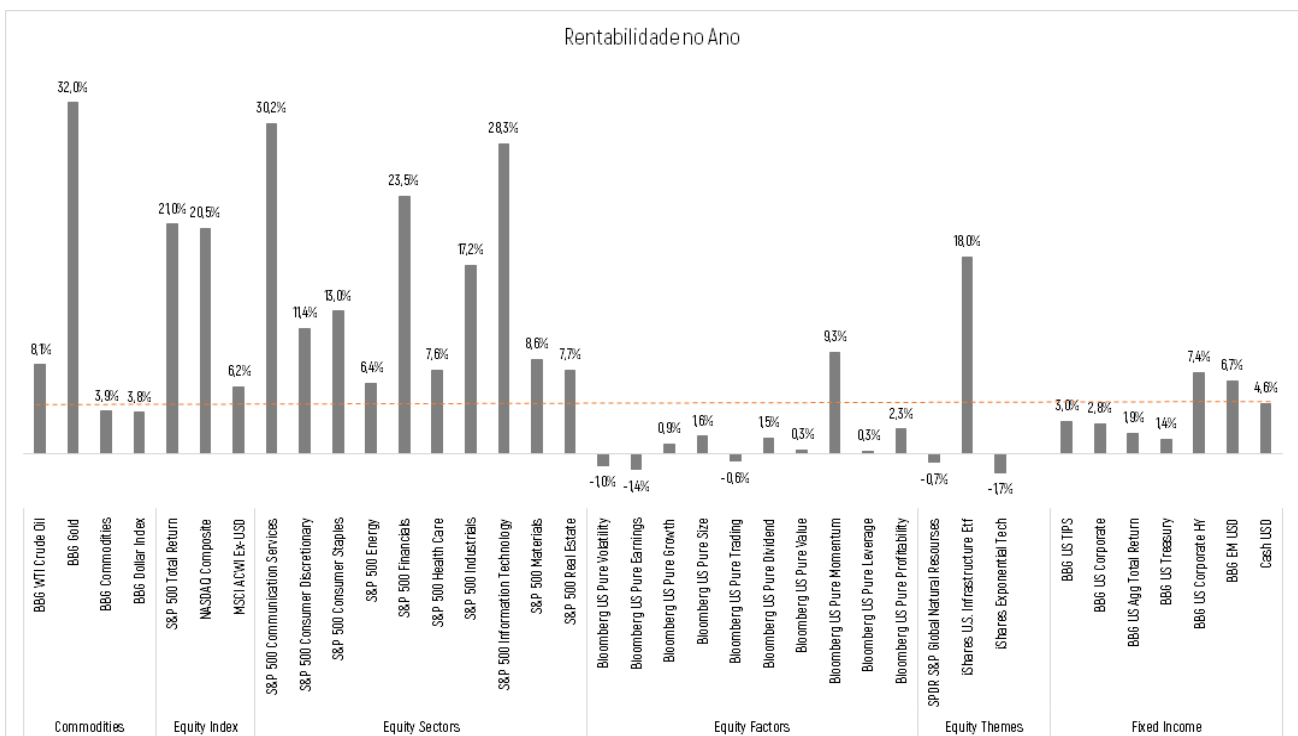


Figure 3: Projection of Brazilian public debt as a proportion of GDP through 2029. Source: IMF/Tera

With the government's hesitation in presenting a spending-cut plan, advocated by the finance and planning ministries, the Brazilian currency depreciated by 6.2% against the U.S. dollar, real interest rates (NTN-B's) exceeded 7%, and the projected terminal rate for the end of the Selic rate hike cycle is above 13.25%, which also impacted stock indices despite positive economic activity numbers. The prospect of a more uncertain external environment makes it even more crucial to anchor fiscal policy expectations, reducing Brazilian assets' vulnerability to crises, an issue that seems to have entered the government's agenda in the first days of November.

Ativos Globais	1m	3m	6m	12m	24m	36m	YTD
Commodities							
BBG WTI Crude Oil	2,99%	-6,45%	-8,15%	-3,27%	0,12%	22,08%	8,15%
BBG Gold	3,79%	12,55%	18,96%	36,96%	65,64%	51,41%	32,04%
BBG Commodities	-1,85%	2,97%	-1,00%	-1,18%	-4,11%	6,58%	3,89%
BBG Dollar Index	2,94%	0,40%	-0,56%	-1,37%	-5,65%	8,47%	3,79%
Equity Index							
S&P 500 Total Return	-0,91%	3,66%	14,08%	38,02%	52,02%	29,80%	20,97%
NASDAQ Composite	-0,52%	2,82%	15,57%	40,80%	64,68%	16,76%	20,54%
MSCI ACWI Ex-USD	-4,94%	-0,08%	4,24%	21,20%	32,21%	-3,16%	6,17%
Equity Sectors							
S&P 500 Communication Services	1,80%	7,72%	15,21%	47,07%	97,86%	16,40%	30,18%
S&P 500 Consumer Discretionary	-1,57%	4,20%	11,22%	30,92%	40,53%	-0,35%	11,43%
S&P 500 Consumer Staples	-2,94%	3,28%	6,98%	20,12%	13,79%	16,27%	13,04%
S&P 500 Energy	0,71%	-4,38%	-4,71%	4,48%	-1,24%	56,18%	6,44%
S&P 500 Financials	2,55%	6,32%	15,25%	43,84%	37,15%	15,59%	23,48%
S&P 500 Health Care	-4,73%	-1,79%	4,71%	17,94%	10,66%	9,76%	7,62%
S&P 500 Industrials	-1,39%	4,54%	10,02%	35,93%	41,79%	28,05%	17,24%
S&P 500 Information Technology	-1,00%	2,60%	20,68%	50,15%	94,52%	53,67%	28,33%
S&P 500 Materials	-3,55%	0,97%	5,01%	22,46%	25,75%	9,68%	8,62%
S&P 500 Real Estate	-3,41%	4,87%	19,46%	30,52%	17,65%	-9,35%	7,68%
Equity Factors							
Bloomberg US Pure Volatility	0,10%	0,16%	0,65%	2,05%	-0,57%	-7,03%	-1,05%
Bloomberg US Pure Growth	1,29%	1,55%	0,53%	1,64%	-0,28%	-4,47%	0,95%
Bloomberg US Pure Size	0,25%	0,79%	-0,37%	1,60%	6,50%	5,06%	1,62%
Bloomberg US Pure Dividend	0,06%	0,85%	0,67%	0,99%	-1,00%	0,89%	1,47%
Bloomberg US Pure Value	0,26%	-1,15%	-2,41%	-0,27%	3,71%	14,23%	0,34%
Bloomberg US Pure Momentum	1,43%	3,80%	3,14%	9,20%	4,63%	8,16%	9,26%
Equity Themes							
SPDR S&P Global Natural Resources	-4,09%	-2,52%	-2,41%	7,53%	8,89%	14,89%	-0,72%
iShares U.S. Infrastructure Etf	-0,15%	2,10%	12,10%	36,10%	36,70%	37,61%	18,01%
iShares Exponential Tech	-3,58%	-0,88%	5,50%	20,33%	25,97%	-8,13%	-1,69%
Fixed Income							
BBG US TIPS	-1,79%	0,46%	4,83%	8,61%	7,83%	-4,54%	2,97%
BBG US Corporate	-2,43%	0,86%	5,87%	13,63%	16,78%	-6,07%	2,77%
BBG US Agg Total Return	-2,48%	0,25%	5,31%	10,55%	10,94%	-6,46%	1,86%
BBG US Treasury	-2,38%	0,06%	4,78%	8,41%	7,74%	-7,44%	1,36%
BBG US Corporate HY	-0,54%	2,72%	6,86%	16,47%	23,73%	9,19%	7,42%
BBG EM USD	-1,37%	2,47%	6,83%	17,06%	25,15%	-1,49%	6,68%
Cash USD	0,42%	1,31%	2,70%	5,51%	10,75%	11,93%	4,59%



Ativos Brasileiros	1m	3m	6m	12m	24m	36m	YTD
Pos-Fixado							
Brazil CETIP DI Rate Accumulat	0,93%	2,65%	5,27%	10,98%	25,87%	40,33%	8,99%
Anbima IMA-S	0,98%	2,77%	5,44%	11,27%	26,36%	41,45%	9,26%
Anbima Debentures Index IDA DI	0,91%	3,09%	6,50%	14,11%	28,84%	46,27%	11,63%
<i>Prêmio de Crédito</i>	-0,02%	0,42%	1,17%	2,83%	2,36%	4,23%	2,42%
Pré-Fixado							
Anbima IRF-M 1	0,84%	2,45%	4,88%	10,15%	25,01%	39,40%	8,08%
Anbima IRF-M	0,21%	1,21%	2,94%	8,27%	22,29%	36,91%	4,12%
Anbima IRF-M 1+	-0,14%	0,56%	2,01%	7,39%	21,52%	36,19%	2,35%
Indexado Inflação							
Anbima IMA-B 5	0,74%	1,74%	4,16%	9,57%	19,66%	34,90%	6,08%
Anbima IMA-B	-0,65%	-0,80%	1,63%	5,62%	15,10%	28,22%	0,16%
Anbima IMA-B5+	-1,66%	-2,31%	0,15%	2,92%	11,54%	22,86%	-4,23%
Anbima Debentures Index IDA IP	-0,32%	0,78%	3,76%	10,94%	16,37%	28,74%	5,73%
<i>Prêmio de Crédito (s/ média B5 e B)</i>	-0,37%	0,31%	0,84%	3,11%	-0,86%	-2,15%	2,53%
<i>Inflação IPCA*</i>	0,44%	0,80%	1,86%	4,42%	9,84%	17,71%	3,88%
Imobiliario							
Bovespa Real Est In Fund	-3,06%	-4,75%	-5,23%	1,56%	7,13%	19,78%	-3,22%
Hedge Funds*							
Anbima Hedge Funds Index	0,29%	2,18%	4,79%	9,37%	12,32%	30,10%	3,92%
Renda Variável							
BRAZIL IBOVESPA INDEX	-1,60%	1,61%	3,01%	14,64%	11,79%	25,33%	-3,33%
BOVESPA Dividend Index	-1,72%	4,09%	7,11%	21,24%	28,86%	50,07%	2,45%
BM&FBOVESPA Small Cap	-1,37%	-1,46%	-3,76%	2,51%	-14,14%	-14,08%	-14,85%
<i>BRAZIL Financial Index</i>	-2,20%	4,43%	4,63%	18,57%	11,78%	33,90%	-5,14%
<i>BOVESPA Utilities Index</i>	-2,17%	1,61%	8,84%	20,44%	12,81%	41,96%	1,10%
<i>BM&FBOVESPA REAL ESTATE</i>	3,40%	6,22%	11,69%	15,57%	13,69%	41,44%	-7,41%
<i>BM&FBOVESPA Consumption</i>	-0,02%	1,22%	1,62%	9,43%	-22,91%	-34,44%	-11,24%
<i>BOVESPA INDUSTRIAL INDEX</i>	1,52%	7,09%	16,53%	36,58%	23,57%	7,81%	15,78%
<i>BOVESPA Basic Mat Index</i>	-0,79%	3,99%	0,87%	8,27%	9,40%	7,25%	-8,29%
<i>BRAZIL ELECTRIC.ENERGY IX</i>	-3,73%	-3,04%	1,38%	7,38%	3,35%	16,27%	-8,94%
FX							
USD-BRL Carry Return	5,74%	1,24%	9,10%	10,17%	-0,24%	-17,24%	15,09%

