Macro Outlook

February 2026

Macro Outlook

- In the US, the FOMC decided to hold rates in the January meeting, after three consecutive 25bps cuts. Powell justified the hold by noting that downside risks to the labor market seem to have stabilized and that economic activity has improved materially, even though inflation remains somewhat elevated. In this context, risks to both sides of the mandate now seem more balanced, leaving the Fed well-positioned to wait and assess the incoming data. Additionally, Trump nominated Kevin Warsh, former Fed Governor, as Powell's successor as Fed chair. Among the candidates, he was considered to have the best fit between high market credibility and a good relationship with the administration, leading to positive market reaction to the choice. Regarding the economic developments, the December CPI came in better than expected, both in core goods and core services, although methodological changes related to the shutdown could have also posed some downward effects on the data. In any case, inflation remains above target and continues to reflect impacts of higher import tariffs. Economic activity continued to surprise expectations, with November retail sales and Q3 GDP showing a strong composition. In the labor market, the December Payroll report showed mixed results, with job creation somewhat below expectations due to private sector weakness, while the unemployment rate ticked down by more than consensus. Despite the diverging signals, other labor market data suggested no material deterioration took place since the previous month. For 2026, the economy should remain resilient, due to factors such as stronger fiscal boost and the lagged effects of interest-rate cuts. But uncertainty remains elevated, keeping the FOMC in a cautious approach.

- Regarding China, recent data showed mixed signals for the economy. The Q4 GDP grew modestly above expectations, mostly driven by stronger-than expected exports, leading full-year growth to reach the government's 5% target. Regarding monthly activity indicators, retail sales and fixed asset investment came in below expectations, while industrial production accelerated above consensus. Trade data also showed an unexpected acceleration, as re-routing and the global demand remain resilient. Regarding inflation, the December data showed continuation on the recent trend of improvement, suggesting that government's recent policies aiming to address excess capacity have been showing results, even as deflation remains a key issue in the Chinese economy. For 2026, China's technology advantage and the expected coordinated support from the government suggest robust high-tech exports ahead. Despite China's favorable outlook in trade and the technology sector, domestic consumption should remain a key issue for the dynamics of its long-term economic growth. Thus, new stimulus programs may prove important, especially if they strengthen consumer confidence.

- In Brazil, industrial production declined 1.2% MoM in December, slightly below market expectations (-1.1%). In November, services edged down 0.1% MoM (vs. 0.7% expected), while retail sales surprised on the upside, rising 1.0% MoM (vs. 0.4% expected). Despite this mixed performance, the broader set of indicators continues to point to a gradual economic slowdown. In line with this backdrop, the IBC-BR expanded 0.68% MoM, above market consensus (0.4% MoM). Labor market conditions remained tight at year-end, as unemployment stayed at historically low levels despite weaker job creation in the formal sector (CAGED).

- Concerning monetary policy, in the January meeting, the Monetary Policy Committee kept the Selic rate unchanged at 15% per year, in line with market expectations. The Committee signaled, however, that it expects to begin the easing cycle in its next meeting in March. Inflation projections six trimesters ahead remained at 3.2% for the third quarter of 2027 in a scenario where rates reach 12.25% in 2026 and 10,5% in 2027, despite the modest improvements in inflation expectations in FOCUS. With projections around the target at the current Selic path in FOCUS, this implies an easing cycle of around 275 bps this year. Overall, the statement provided guidance that the easing cycle is set to begging in March but did not specify the pace and the total budget for rate cuts. The committee notes that the flexibilization should still render rates restrictive in order to bring inflation back to the target.

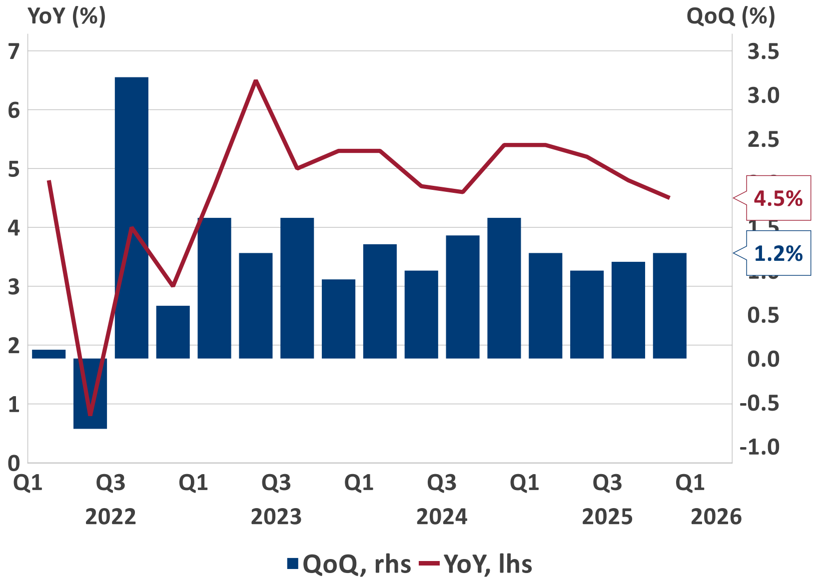
- January IPCA-15 increased by 0.20% MoM, slightly below market expectations. The 12-month accumulated inflation accelerated from 4.41% in December to 4.50% in January. The main upward deviation came from personal hygiene, communication and gasoline. On the other hand, food at home, especially dairy products, and own vehicle surprised to the downside. Core services advanced 0.53% MoM, close to forecasts, and the 3M SAAR decreased from 5.52% to 5.13%. The average of core inflation increased by 0.42% MoM, with its 3M SAAR at 3.58%. Overall, In the January IPCA-15, service components continue to display some pressure in the context of a tight labor market, but the gradual easing in tradables prices, along with relatively stable core measures, point to a favorable outlook in the coming months .

- The consolidated public sector posted a primary surplus of BRL 6.3 billion in December, above market consensus (surplus of BRL 4.0 billion) and lower than the BRL 15.7 billion surplus billion recorded in the same month of 2024. Regarding the breakdown, the central government and state-owned enterprises (SOE) registered a surplus of BRL 21.6 billion and BRL 4.5 billion, respectively, while regional governments presented a deficit of BRL 19.8 billion. General Government Gross Debt (GGGD) fell compared to November to 78.7% of GDP, reflecting a combination of lower net issuance (-0.7 p.p.) and stronger nominal GDP growth (-0.5 p.p.), partly offset by higher nominal interest costs (+0.8 p.p.). Public sector deficit widened in 2025, driven by the central government; and while the headline fiscal picture looks slightly steadier at the margin, the debt trajectory remains the key concern, as DBGG has risen 2.4pp since end-2024 amid strong primary spending and high nominal interest costs.

China: Economic Activity

- **Economic activity showed mixed signals again in December:**
- **GDP Q4/25 went from 4.8 to 4.5% YoY, modestly above the expectations** (4.4%). It was mostly driven by stronger-than expected exports, reflecting re-routing and strong global demand, while private consumption and investment remain subdued. Given this print, full-year growth reached the government's 5% target.
- **Retail sales slowed** more than **expected**, from **1.3% to 0.9% YoY** (exp. 1.2%). In the composition, home appliances and autos pushed the data downwards, as trade-in subsidies seem to be gradually fading - although base effects also weighed on the data;
- **Industrial production accelerated above consensus,** from 4.8% to 5.2% YoY (exp. 5.0%). The strength came mostly from high-tech manufacturing and electronic materials, and recent data keep suggesting resilience on global demand.
- **Fixed asset investment weakened further,** from -2.6% to -3.8% YTD YoY (exp. 0.1%), below expectations. Most components contracted, still led by real-estate, suggesting anti-involution policies (aimed to address overcapacity and deflation) are also impacting investments.
- **Housing indicators generally saw another decline** in the 12MMA metric, as the housing sector continues to adjust. Credit data also reflected a subdued demand, as household loans remained relatively weak despite government bonds remaining as the major driver to credit growth.

China: Real GDP Growth (Quarterly)



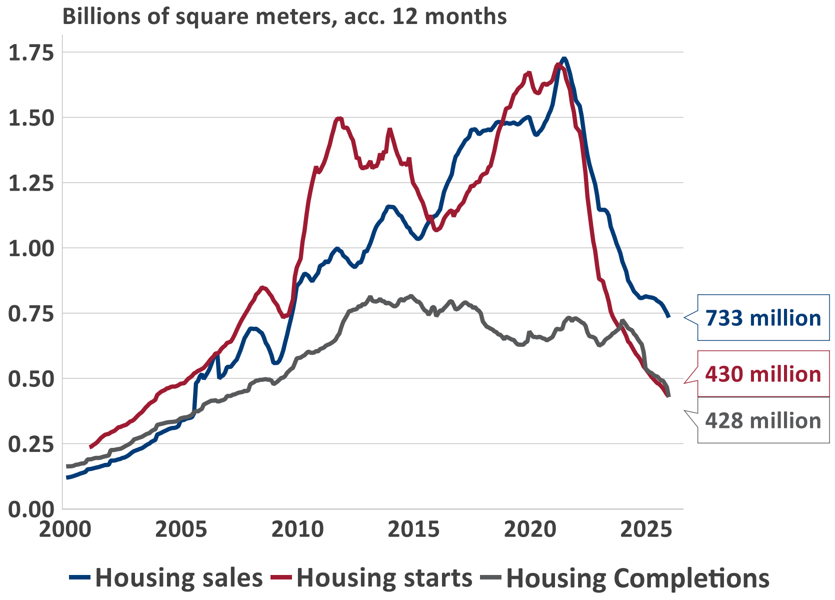
Source: BOCOM BBM, Macrobond, NBS

China: Activity (% YoY)

	12/2025	11/2025	12/2024
Industrial Production	**5.2**	**4.8**	**6.2**
Mining	5.4	6.3	2.4
Manufacturing	5.7	4.6	7.4
Utilities	0.8	4.3	1.1
Fixed Asset Investment (YTD)	**-3.8**	**-2.6**	**3.2**
Manufacturing	0.6	1.9	9.2
Real Estate	-17.2	-15.9	-10.6
Infrastructure	-2.2	-1.1	4.4
Retail Sales	**0.9**	**1.3**	**3.7**
Catering Services	2.2	3.2	2.7
Consumer Goods	0.7	1.0	3.9
Clothing	0.6	3.5	-0.3
Automobiles	-5.0	-8.3	0.5
Furniture	-2.2	-3.8	8.8
Cellphones	20.9	20.6	14.0
Home Appliances	-18.7	-19.4	39.3
Construction	-11.8	-17.0	0.8

Source: BOCOM BBM, Macrobond

China: Housing Indicators



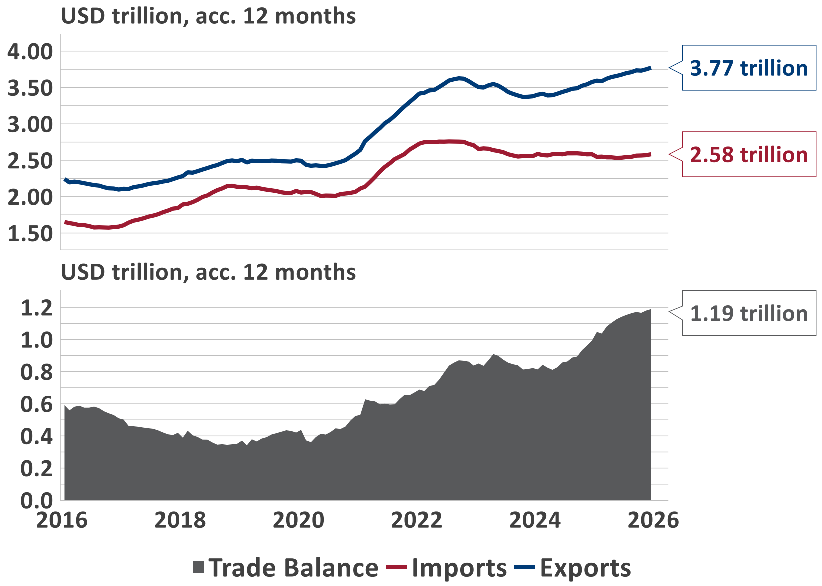
Source: BOCOM BBM, Macrobond, NBS

China: Economic Scenario

BANK OF COMMUNICATIONS BBM

- **China's trade growth rebounded in December**, suggesting a recovery in trade momentum:
  - **Exports accelerated** from 5.9% to 6.6% YoY, above consensus of 3.0%. By country, exports to most countries grew, except the US and Japan.
  - **Imports also ticked up above consensus,** from 1.9% to 5.7% YoY (exp. 0.9%). In the composition, the main origins were EU and Latin America.
  - Despite the trade war with the US, **export growth remained robust in 2025**, leading to a record surplus of USD1.2trn in the year.
- Regarding Inflation, the **headline CPI ticked up, from 0.7% to 0.8% YoY**, slightly below market expectations of 0.9%:
  - The **improvement was mostly related to food prices**, while the **core remained stable**. There was a relevant increase in consumer goods, while services slowed modestly.
  - Recent increases suggest government anti-involution and trade-in policies have been **slowly easing deflationary challenges**, but it remains a key issue in the Chinese economy.

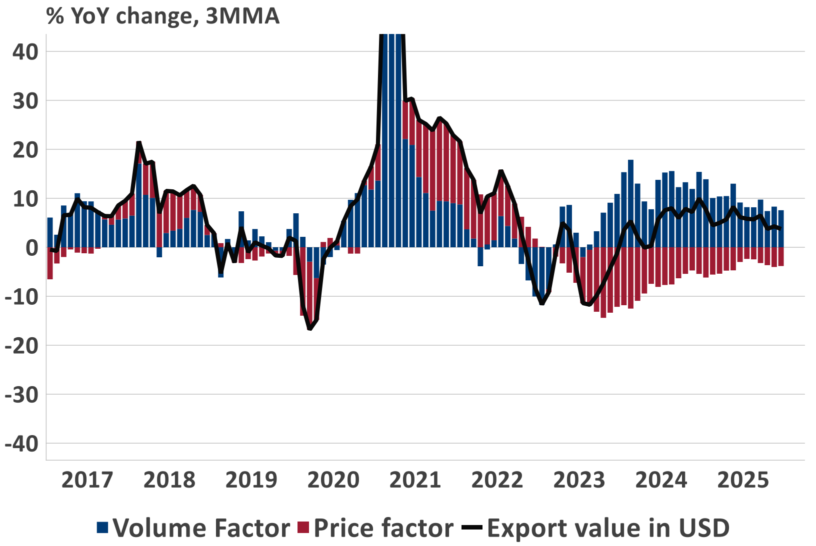
China: Trade Balance



Source: BOCOM BBM, Macrobond, GAC

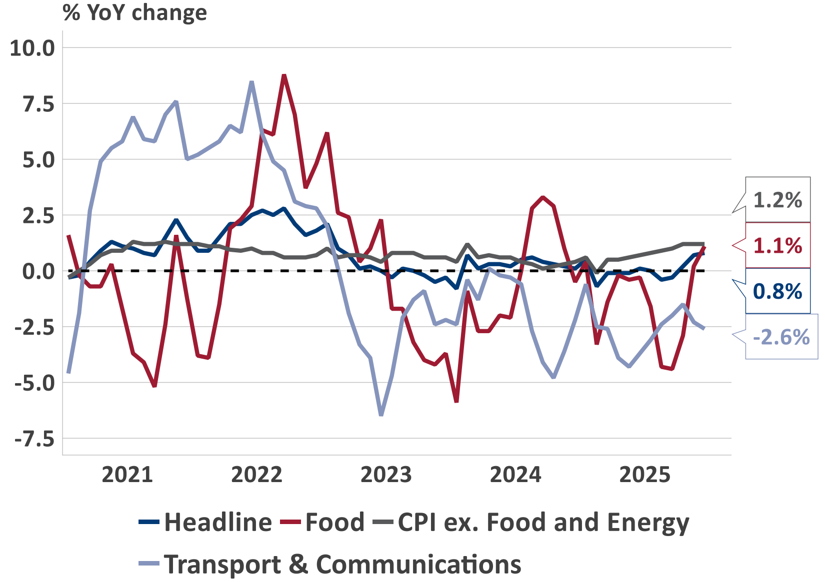
China: Exports (Price x Volume)

Last observation at 12/2025



Source: BOCOM BBM, Macrobond, GAC

China: CPI

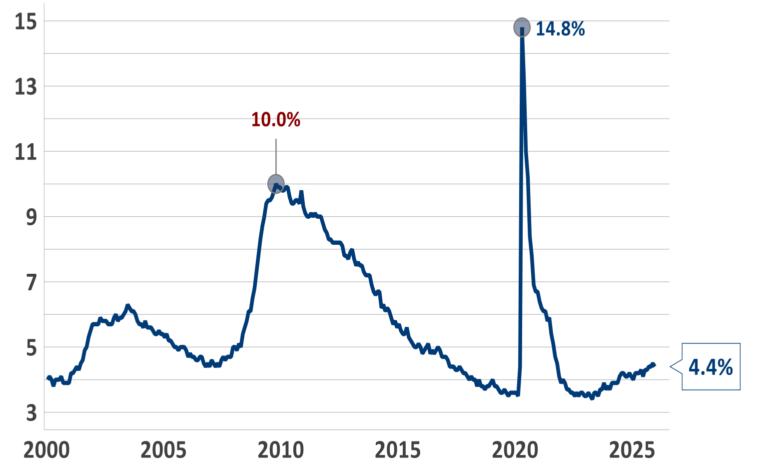


Source: BOCOM BBM, Macrobond, NBS

USA: Labor Market

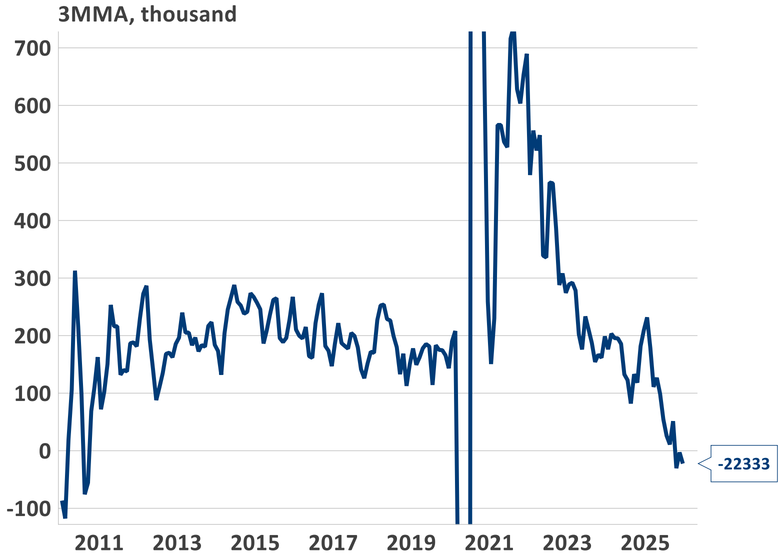
- **December Payroll brought mixed signals:**
  - **Job creation increased 50k in December, below expectations of 70k.** In the composition, private growth weakened from 50k to 37k, while government jobs increased from 6k to 13k.
    - This took December’s 3MMA to -22k, although highly distorted downwards by October data (related to the government's federal jobs reduction program, as expected).
  - **The unemployment rate ticked down**, from **4.56%** to **4.38%**, surprising the consensus of 4.5%.
  - Despite the diverging signals, December release suggests no additional deterioration took place since the previous month, similar to other labor market measures.
- Given that, the **jobs-workers gap decreased to -0.6M,** indicating that the economy is back at having more available workers than jobs, a sign of easing in the labor market.
- **Average hourly earnings were 0.3% MoM in December**, consistent with its recent trend and taking the YoY average to 3.8%:
  - The recent pace of the data shows resilience, in line with other Wage Growth Measures.

US: Unemployment Rate SA (%)



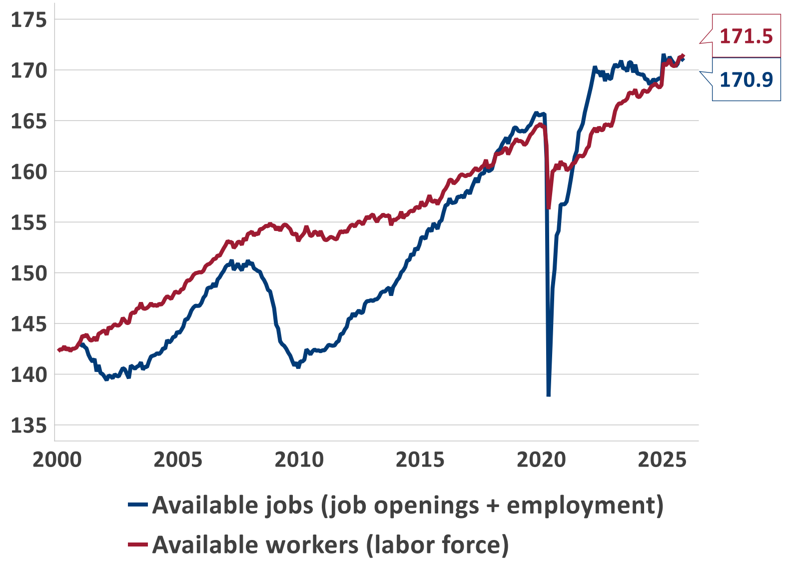
Source: BOCOM BBM, Macrobond, BLS

US: Nonfarm Payroll Employment Change



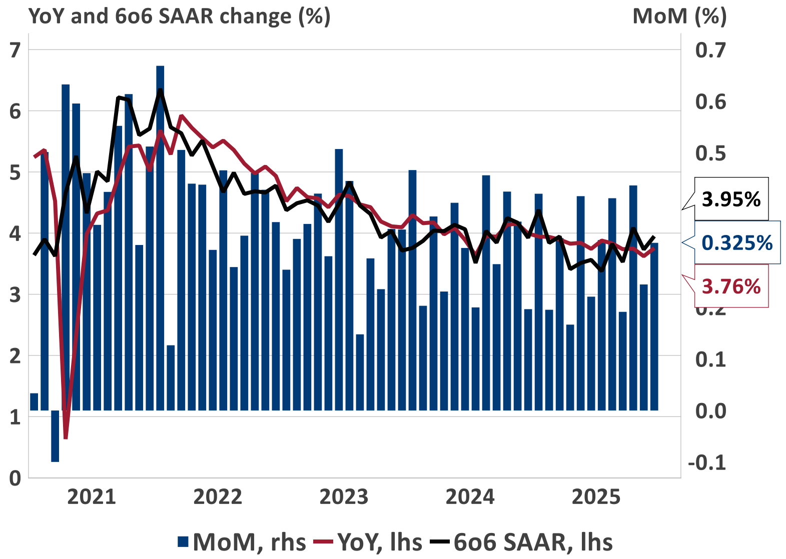
Source: BOCOM BBM, Macrobond, BLS

US: Jobs-workers gap (millions)



Source: BOCOM BBM, Macrobond, BLS

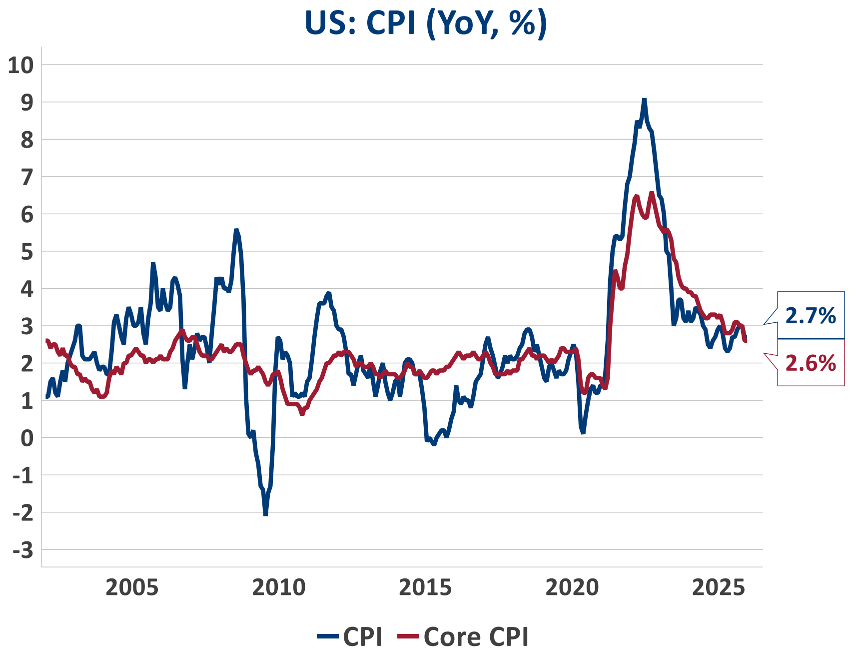
US: Average Hourly Earnings Growth (%)



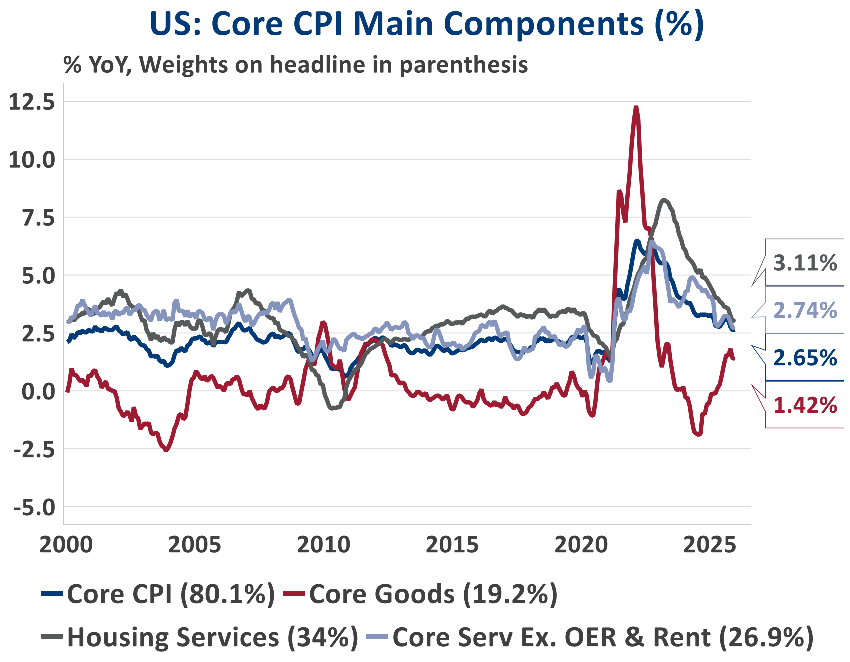
Source: BOCOM BBM, Macrobond, BLS

USA: Inflation

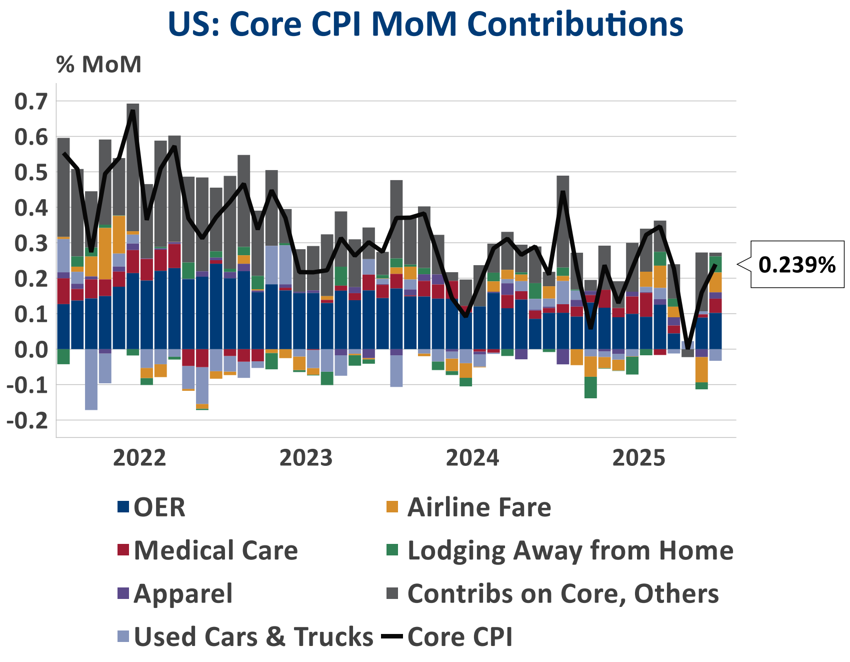
- The December **headline CPI accelerated to 0.31% MoM** (below expectations of 0.38%). The YoY remained at 2.7%, in line with market consensus:
  - In the composition, energy prices were weaker than expected (from 1.72% to 0.3% MoM), while food prices ticked up more than expected (from 0.03% to 0.71%).
- **Core CPI** increased from **0.12%** to **0.24% MoM, below consensus of 0.36%.** The YoY also remained stable, at 2.6%, surprising the consensus of 2.8%:
  - Core Goods increased from -0.21% to 0.0%, below the 0.36% expected.
  - Core Services were also slower than expected, from 0.19% to 0.29% against consensus of 0.34% - as the Core Services Ex Housing (Supercore) slowed while housing inflation ticked up.
- Overall, the December CPI was better than expected, with broad-based softening against the expectations of a payback from previous print. Nonetheless, there are chances that methodological changes related to the shutdown could also have posed some downward effect on this release, similarly to the prior month.
  - **Looking ahead, inflation is expected to remain above the Fed's target in 2026, with tariff-related increases and the boost in consumption as main drivers. But recent releases pose a more optimistic tone for the start of the year.**



Source: BOCOM BBM, Macrobond, BLS



Source: BOCOM BBM, Macrobond, BLS

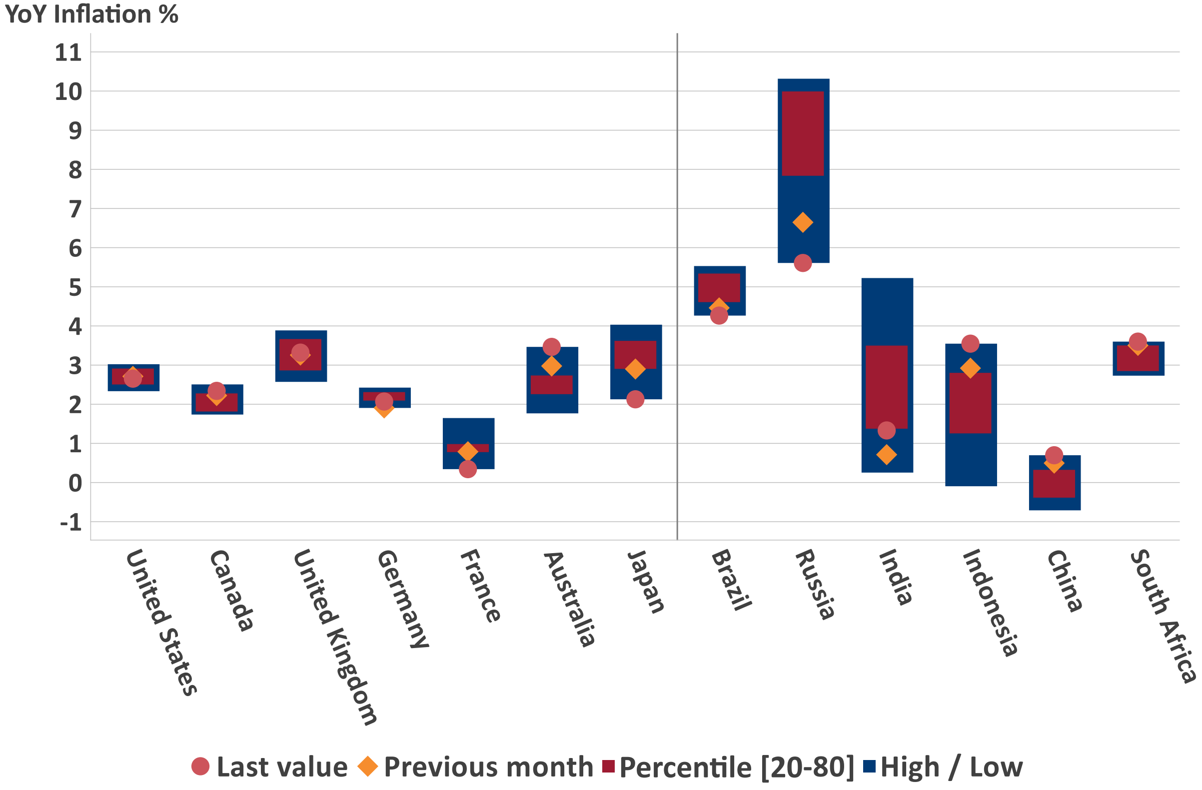


Source: BOCOM BBM, Macrobond, BLS

Global: Inflation & Activity

- Several developed markets have experienced progress in inflation numbers in 2025. However, it seems to have stalled in some (like the US) and is heterogeneous among emerging markets;
- The significant tightening in monetary policy in recent years resulted in a slowdown of economic activity across several countries, although global growth remained somewhat resilient in 2025, with a shift away from expected tariff-related contractions also an important support for last year’s resilience.
- For 2026, fiscal easing is expected to boost growth in many major markets, such as Japan and the US.

Inflation range during the past 12 months



Source: BOCOM BBM, Macrobond

G20: GDP Growth Tracker (QoQ, %)

Countries marked in red indicates a technical recession:
2 consecutive quarters of negative sequential growth

	Q4 2025	Q3 2025	Q2 2025	Q1 2025	Q4 2024	Q3 2024	Q2 2024	Q1 2024
Argentina		0,3	-0,1	1,1	2,0	3,6	-0,8	-1,6
Australia		0,4	0,7	0,4	0,5	0,3	0,2	0,3
Brazil		0,1	0,3	1,5	-0,1	0,9	1,7	0,8
Canada		0,6	-0,5	0,5	0,7	0,8	0,8	0,7
China	1,2	1,1	1,0	1,2	1,6	1,4	1,0	1,3
Euro Area	0,3	0,3	0,1	0,6	0,4	0,4	0,2	0,3
France	0,2	0,5	0,3	0,1	0,0	0,4	0,2	0,1
Germany	0,3	0,0	-0,2	0,4	0,2	0,0	-0,3	-0,1
India		1,6	-6,7	8,6	5,2	1,2	-7,1	7,6
Indonesia		1,4	4,0	-1,0	0,5	1,5	3,8	-0,8
Italy	0,3	0,2	0,0	0,3	0,1	0,1	0,3	0,1
Japan		-0,6	0,5	0,4	0,3	0,7	0,2	-0,5
Mexico	0,8	-0,3	0,4	0,2	-0,6	0,9	-0,1	0,2
Russia		0,1	0,3	-0,7	1,0	0,6	0,5	1,8
Saudi Arabia	3,9	1,9	-0,6	-0,4	3,9	1,6	-1,4	1,1
South Africa		0,5	0,9	0,1	0,4	-0,3	0,3	0,1
South Korea	-0,3	1,3	0,7	-0,2	0,1	0,1	-0,2	1,2
Turkey		11,8	7,6	-15,6	2,1	13,1	5,1	-15,0
United Kingdom		0,1	0,2	0,7	0,3	0,2	0,6	0,8
United States		1,1	0,9	-0,2	0,5	0,8	0,9	0,2

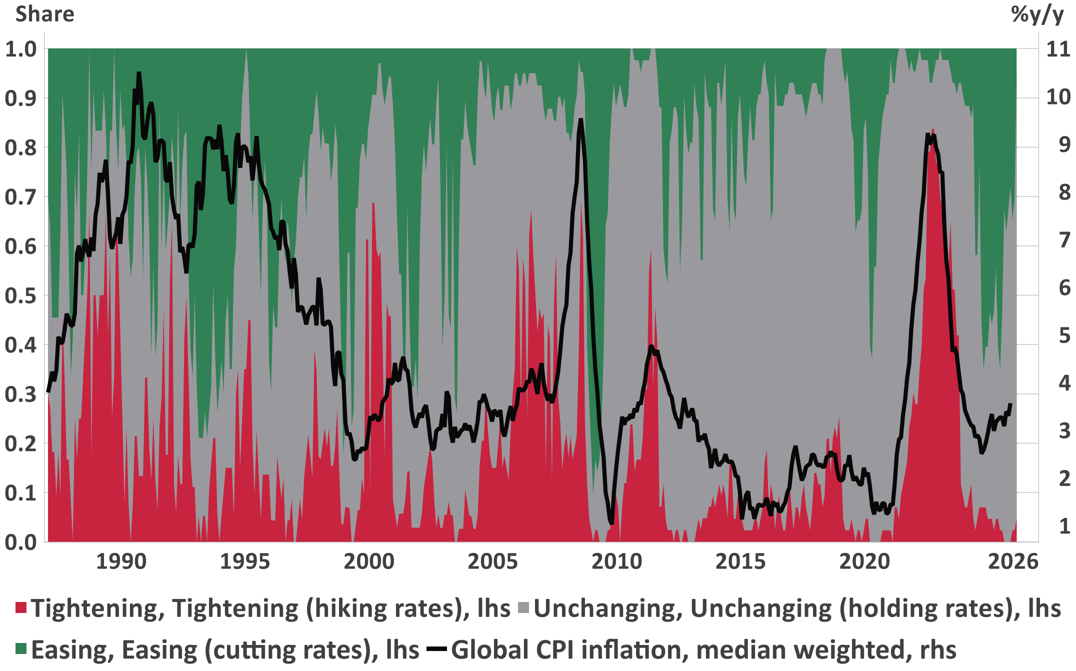
Sources: BOCOM BBM, Macrobond, National Sources

Global: Monetary Policy

- Several emerging markets eased their monetary policy in 2025, with some still at this part of the cycle - such as Mexico, Poland and Turkey;
- Most developed markets' central banks took a little longer but also cut rates in 2025. There are exceptions, such as Japan, which raised interest rates last year and remains with a hiking bias;
- Despite the partial trade de-escalation, the uncertainty regarding potential effects of US tariffs in each country's domestic context should continue to drive institutions towards a more careful, data-dependent approach in 2026. But overall, the budget for further cuts seems more limited than in 2025.

Global monetary breadth

Share of economies (GDP top 50) with higher/unchanged/lower policy rates; monthly/mtd avg, 3-Feb-26



Source: BOCOM BBM, Macrobond, World Bank

Central bank tracker: G20 & OECD Countries

	CPI Y/Y %	Core CPI Y/Y %	Key rate	Last decision		Last Move	Months since last hike	Months since last cut
Argentina	31,5	33,1	29,00	-3,00	Cut	1/2025	28	12
Australia	3,7	3,9	3,85	0,25	Hike	2/2026	0	6
Brazil	4,3	4,7	15,00	0,25	Hike	6/2025	8	21
Canada	2,3	2,8	2,25	-0,25	Cut	10/2025	31	3
Chile	3,4	2,8	4,50	-0,25	Cut	12/2025	40	2
China	0,7	1,2	3,00	-0,10	Cut	5/2025	144	9
Colombia	5,1	5,3	10,25	1,00	Hike	2/2026	0	9
Costa Rica	-1,2	0,1	3,25	-0,25	Cut	12/2025	39	2
Czech Republic	2,1	0,1	3,50	-0,25	Cut	5/2025	43	9
Denmark	1,9	2,3	1,75	-0,25	Cut	6/2025	29	8
Euro Area	2,0	2,3	2,15	-0,25	Cut	6/2025	29	8
Hungary	3,3	3,8	6,50	-0,25	Cut	9/2024	40	16
India	1,3	4,6	5,25	-0,25	Cut	12/2025	36	2
Indonesia	3,5	2,5	4,75	-0,25	Cut	9/2025	21	5
Israel	2,7	2,6	4,00	-0,25	Cut	1/2026	32	1
Japan	2,1	3,0	0,75	0,25	Hike	12/2025	1	120
Mexico	3,7	4,3	7,00	-0,25	Cut	12/2025	34	2
New Zealand	3,1	2,5	2,25	-0,25	Cut	11/2025	32	2
Norway	3,2	3,2	4,00	-0,25	Cut	9/2025	26	5
Poland	2,4	2,7	4,00	-0,25	Cut	12/2025	41	2
Russia	5,6	5,4	16,00	-0,50	Cut	12/2025	15	1
Saudi Arabia	2,1		4,25	-0,25	Cut	12/2025	30	2
South Africa	3,6	3,3	6,75	-0,25	Cut	11/2025	32	2
South Korea	2,0	2,0	2,50	-0,25	Cut	5/2025	37	8
Sweden	0,3	2,1	1,75	-0,25	Cut	10/2025	28	4
Switzerland	0,1	0,5	0,00	-0,25	Cut	6/2025	31	8
Turkey	30,7	29,8	37,00	-1,00	Cut	1/2026	10	0
United Kingdom	3,3	3,2	3,75	-0,25	Cut	12/2025	30	2
United States	2,7	2,6	3,75	-0,25	Cut	12/2025	30	2

Source: BOCOM BBM, Macrobond

Brazil: Forecasts

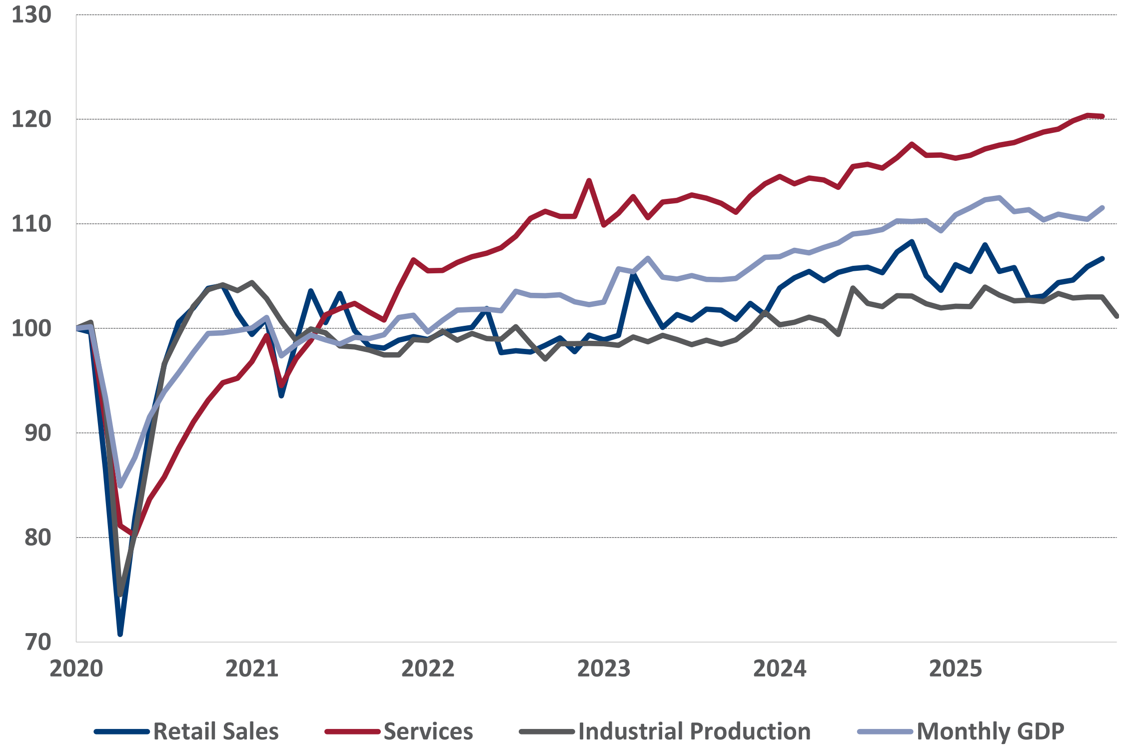
ECONOMIC FORECASTS	2020	2021	2022	2023	2024	2025F	2026F	2027F
GDP Growth (%)	-3.3%	4.8%	3.0%	2.9%	3.4%	2.3%	1.8%	1.8%
Inflation (%)	4.5%	10.1%	5.8%	4.6%	4.8%	4.3%	3.8%	3.5%
Unemployment Rate (eoy ,%)	14.2%	11.1%	7.9%	7.4%	6.2%	5.1%	5.5%	6.2%
Policy Rate (eoy, %)	2.0%	9.3%	13.8%	11.75%	12.3%	15.0%	12.5%	10.50%
External Accounts								
Trade Balance (US$ bn)	36	42	52	92	66	60	70	71
Current Account Balance (US$ bn)	-25	-40	-42	-28	-66	-69	-60	-57
Current Account Balance (% of GDP)	-1.7%	-2.4%	-2.2%	-1.3%	-3.0%	-3.0%	-2.5%	-2.2%
Fiscal Policy								
Central Government Primary Balance (% of GDP)	-9.8%	-0.4%	0.5%	-2.1%	-0.4%	-0.5%	-0.4%	-0.7%
Government Gross Debt (% of GDP)	86.9%	77.3%	71.7%	74.4%	76.1%	78.7%	82.2%	86.3%

Source: BOCOM BBM, IBGE

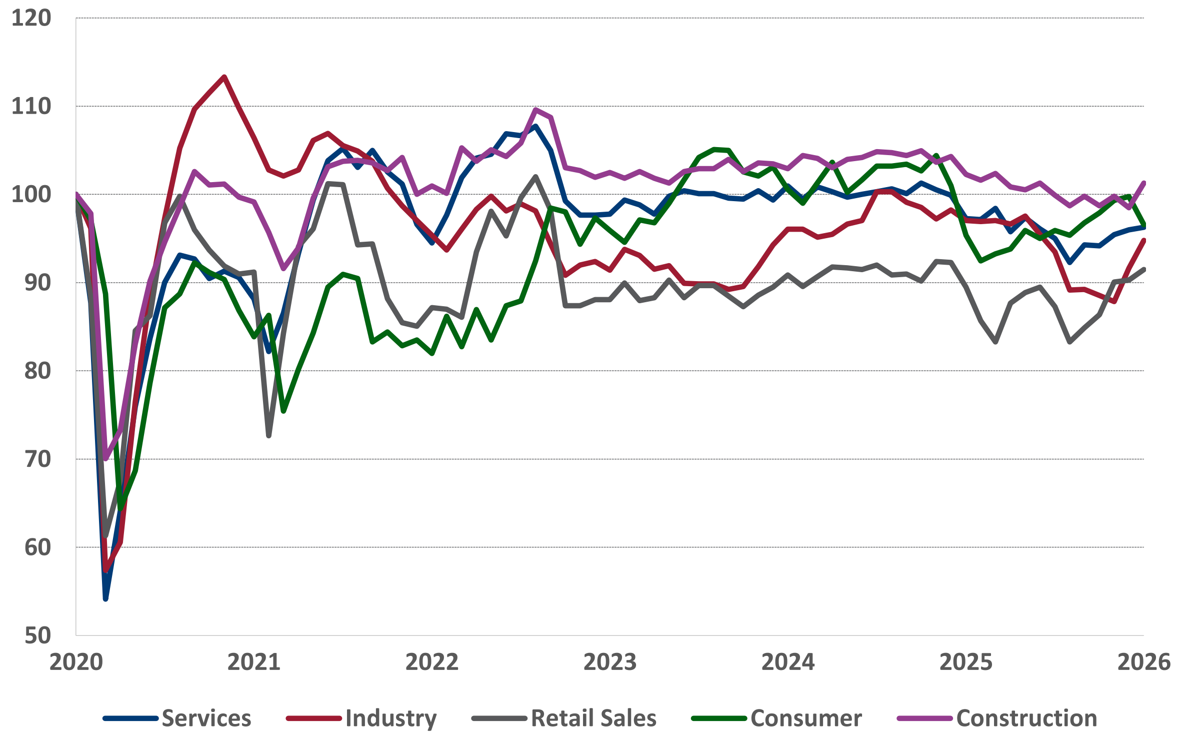
Brazil: Activity

- In December, industrial production declined 1.2% MoM, slightly below market expectations (-1.1%). Additionally, in November, services edged down 0.1% MoM (vs. 0.7% expected), while retail sales surprised on the upside, rising 1.0% MoM (vs. 0.4% expected). Despite this mixed performance, the broader set of indicators continues to point to a gradual economic slowdown. In line with this backdrop, the IBC-BR expanded 0.68% MoM, above market consensus (0.4% MoM).
- Looking ahead, the confidence surveys for the services, retail sales, construction and industry sector grew in January, while consumer sentiment contracted.

Brazil - Economic Activity Indicators (Jan/20=100)



Brazil - Economic Confidence Index (Jan/20 = 100)

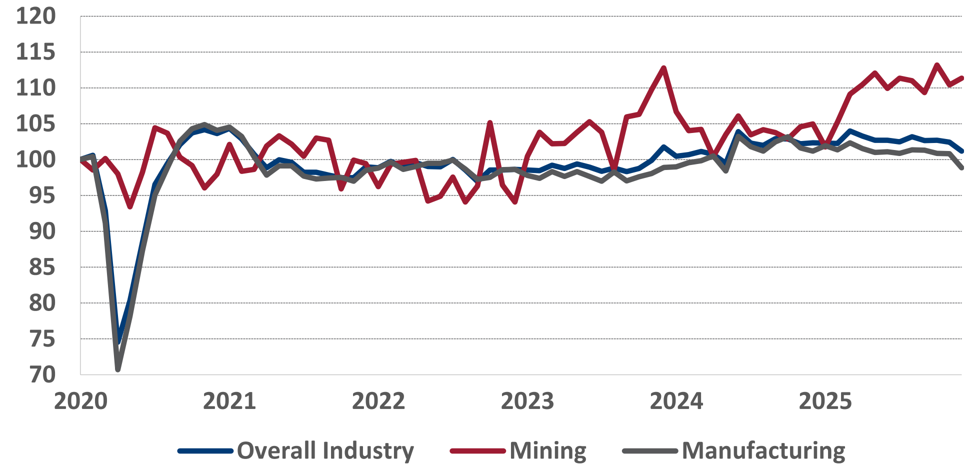


Source: BOCOM BBM, IBGE, FGV

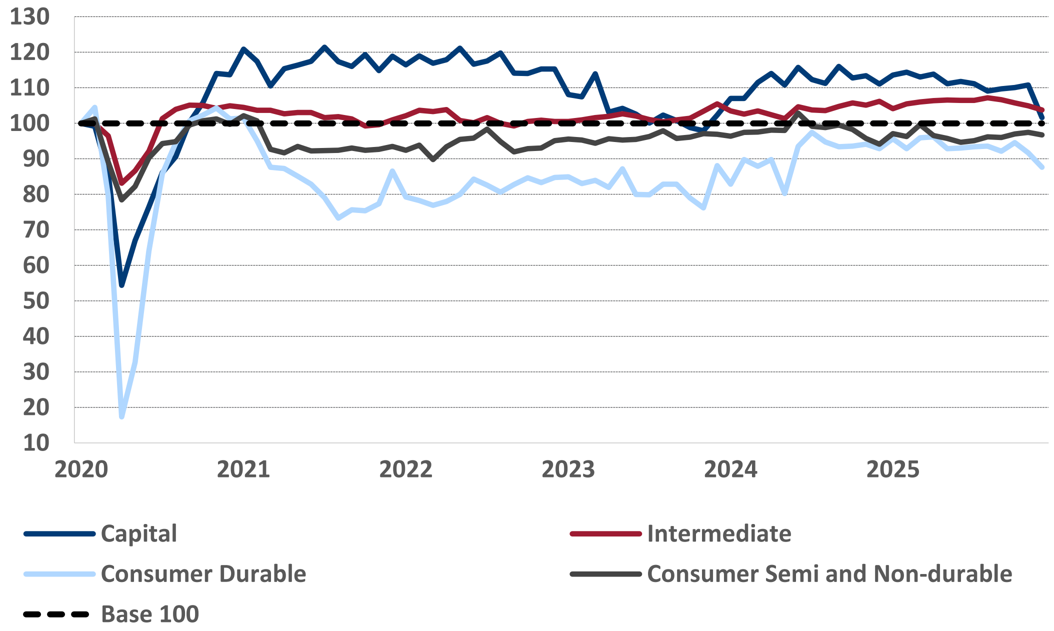
Brazil: Industrial Production

- Industrial output fell by 1.2% from November to December, slightly below market expectations (-1.1%). The manufacturing industry decreased by 1.9% MoM (-1.0% YoY), while the extractive industry increased by 0.9% MoM (7.0% YoY).
- All four economic categories and 17 of the 25 industrial segments decreased in the monthly comparison.
- Widespread contraction in December. Capital goods production was the main drag, plunging 8.3% MoM (-2.3% QoQ) and extending the decline to a third consecutive quarter, pointing to weakness in short-term gross fixed capital formation. Similarly, durable consumer goods fell 4.4% MoM and also posted a third straight quarterly contraction (-1.9% QoQ), near-term growth is likely to remain constrained by tighter credit and elevated inventories.
- Intermediate goods declined 1.1% MoM (-1.8% QoQ), extending losses to a fourth consecutive month. Representing around 60% of the overall index, the category remained a key drag, mainly due to further weakness in oil derivatives (-2.3% QoQ) and chemical products (-2.7% QoQ). On the other hand, semi and non-durable consumer goods fell 0.7% MoM (+1.4% QoQ), reflecting gains in food products and apparel.

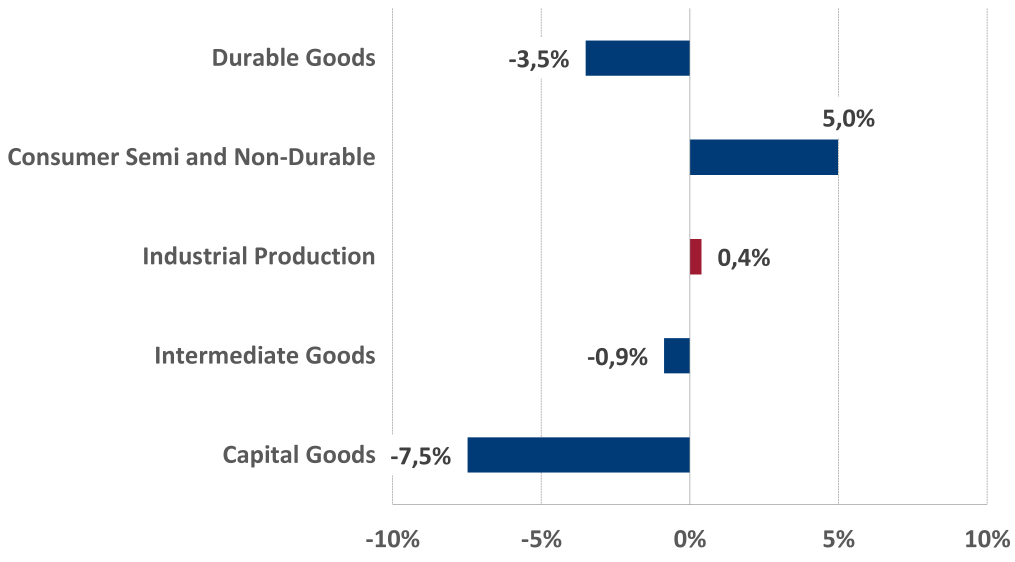
Industrial Production Index SA (Jan/20=100)



Industrial Production Index SA (Jan/20=100)



Industrial Production by Category - 12/2025 (YoY)

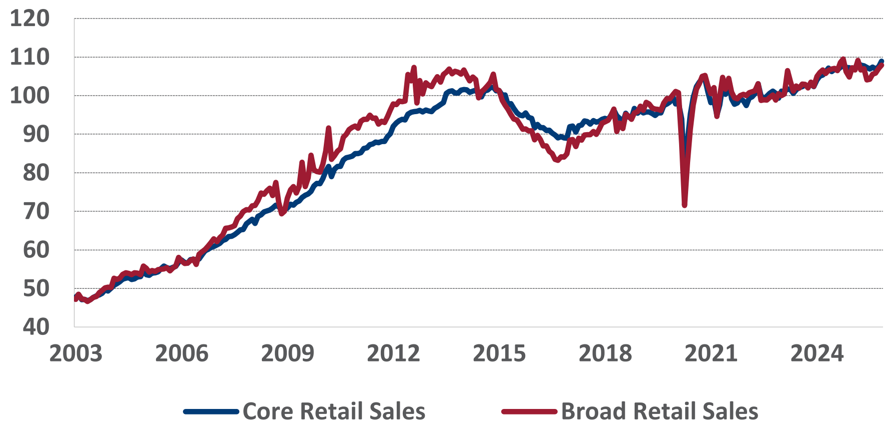


Source: IBGE, BOCOM BBM

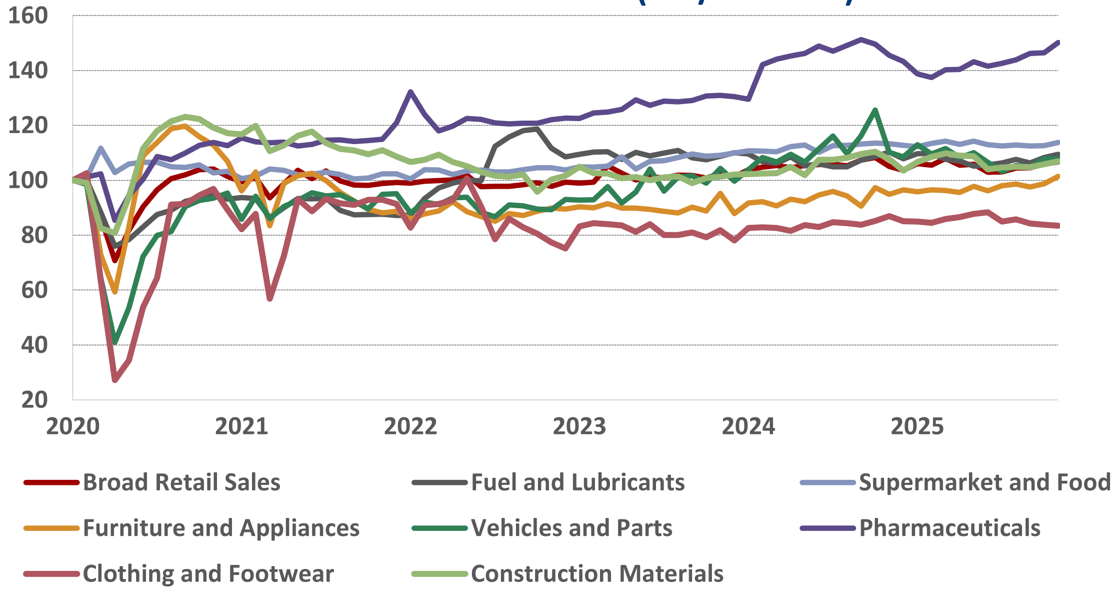
Brazil: Retail Sales

- Broad retail sales rose 0.7% MoM in November, beating expectations (0.1% MoM).
- In turn, core retail sales rose by 1.0% MoM, also above estimates (0.3% MoM).
- In the breakdown, 8 out of 10 retail activities increased in the monthly comparison, with the highlights being the positive performance of office supplies (+4.1% MoM), pharmaceutical (+2.2% MoM), furniture and appliances (+2.2% MoM) and other articles of personal and domestic use (+2.0% MoM).
- On the negative side, clothing and footwear (-0.8% MoM) and vehicles and parts (-0.2% MoM) performed poorly.
- In all, domestic activity continues to cool gradually. The Brazilian economy lost momentum in 2H25, consistent with the still tight monetary policy stance.

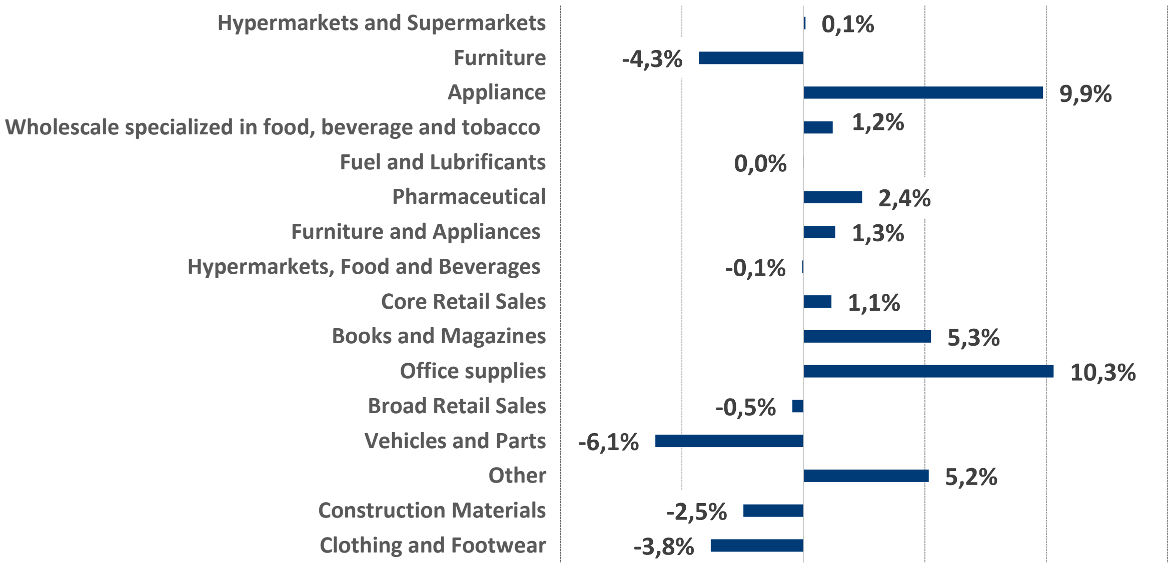
Broad Retail Sales SA x Core Retail Sales SA



Retail Sales - Index SA (Jan/20 = 100)



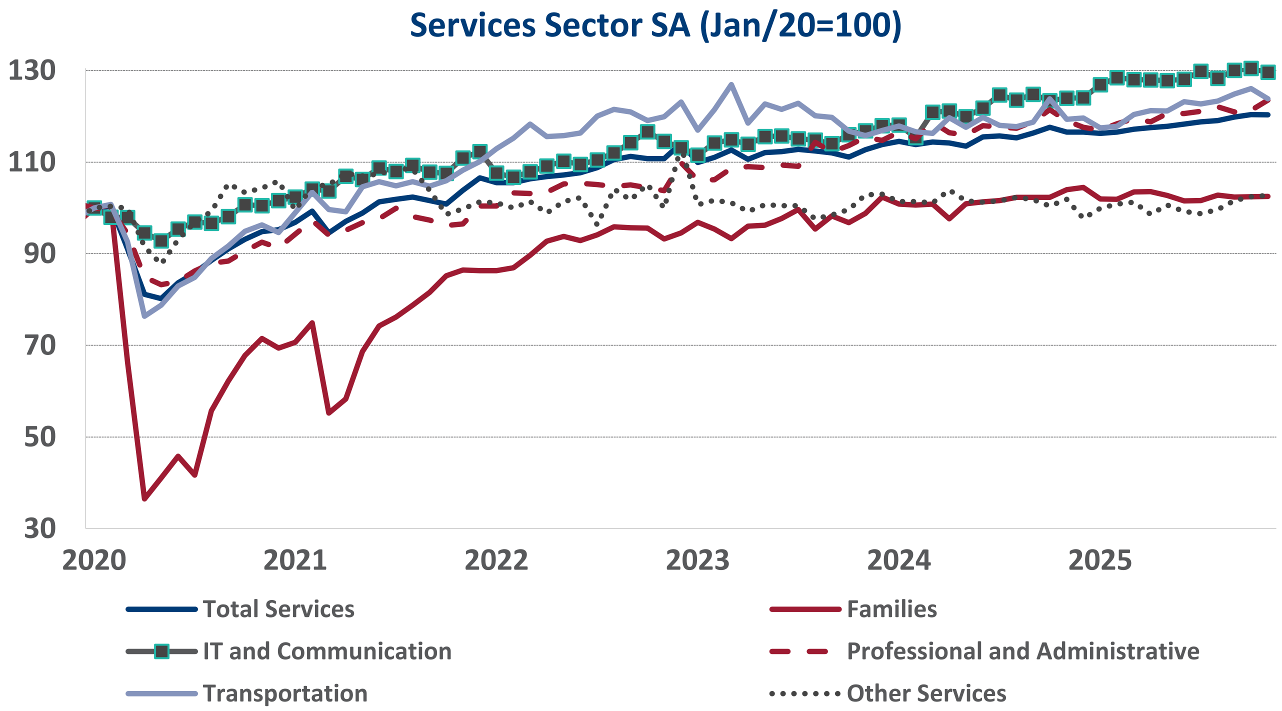
Retail Sales - YoY (11/2025)

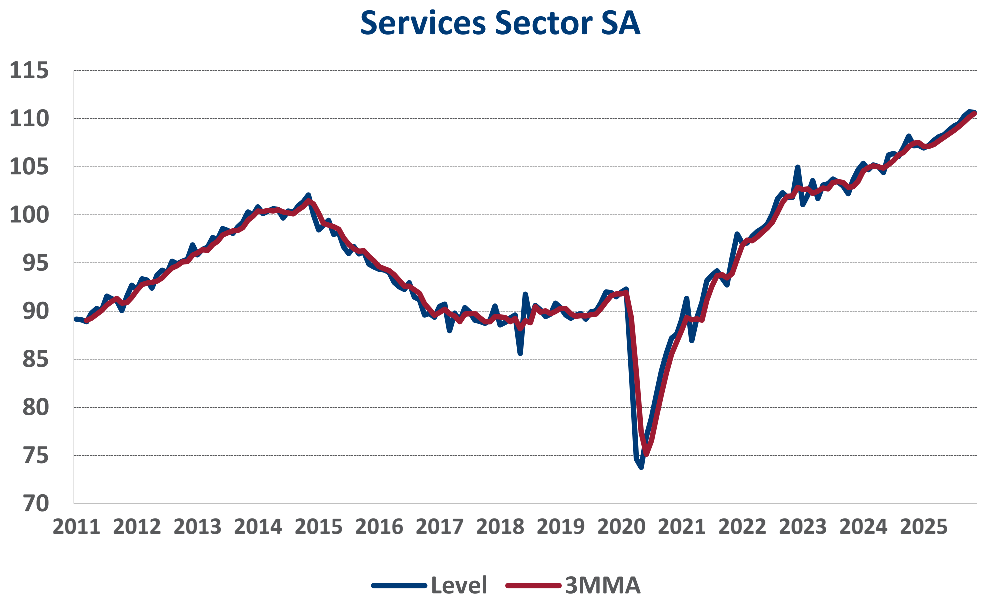


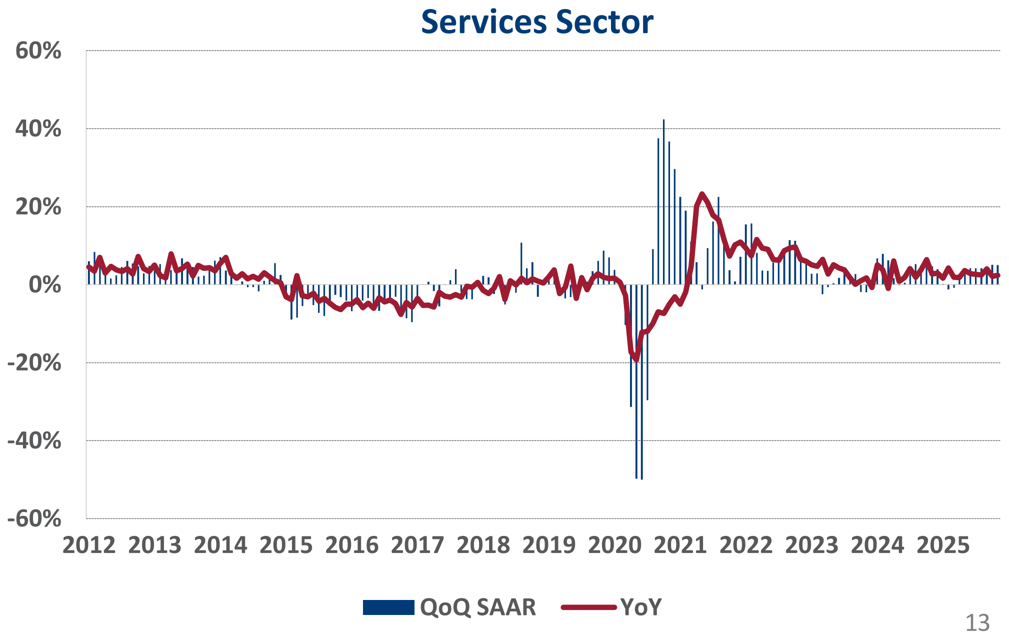
Source: IBGE, BOCOM BBM

Brazil: Services

- Services print edged down 0.1% MoM in November, slightly below market expectations, interrupting a long sequence of nine consecutive gains. In addition, the indicator rose by 1.2% QoQ in the moving quarter (2.5% YoY).
- Two of the five major service categories advanced relative to the previous month. The highlight was professional, administrative and complementary services (1.3% MoM), mostly due to the strength of technical-professional services (nearly 3% MoM). Moreover, other services increased (0.5% MoM) for the fifth consecutive month,.
- Meanwhile, transportation and storage services declined 1.4% MoM, after three consecutive monthly gains, with all components losing momentum in November. The category of information and communication services also fell, by 0.7% MoM. In addition, services rendered to families in the monthly comparison (0.0% MoM).
- Overall, the service sector remains resilient, albeit at a slower pace, and will continue to be a key driver of domestic economy.



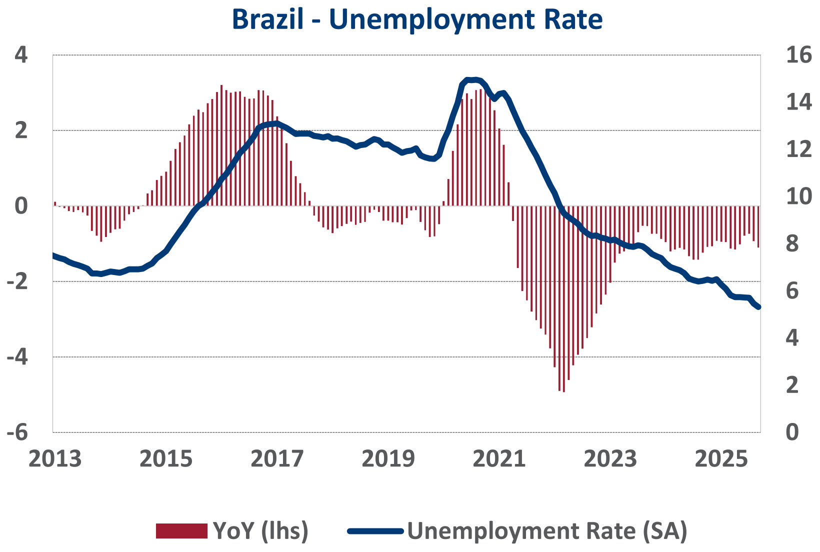


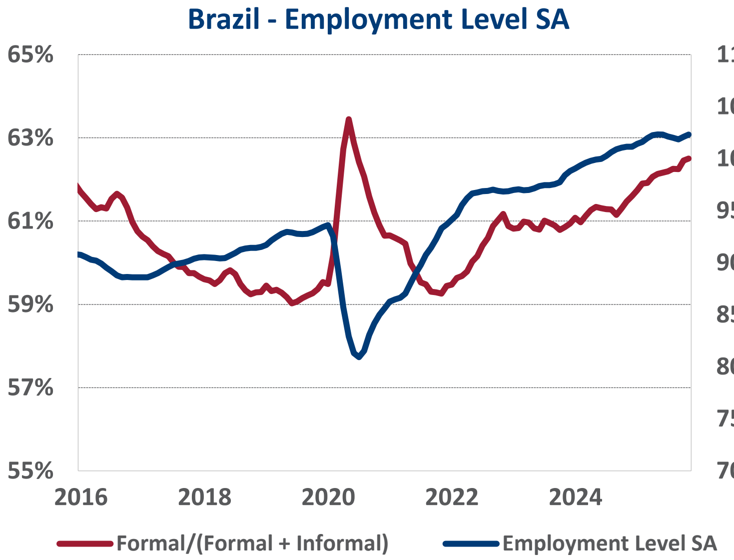


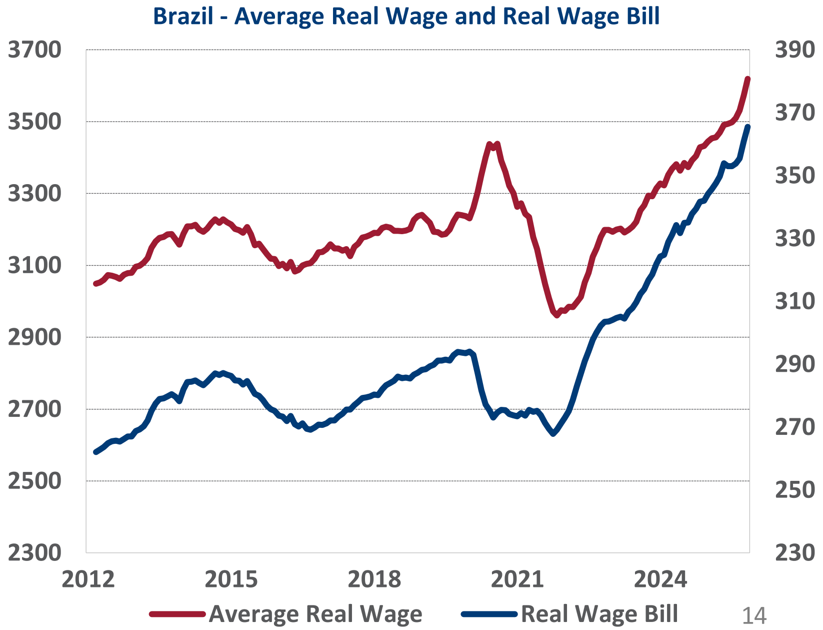
Source: IBGE, BOCOM BBM

Brazil: PNAD

- The unemployment rate dropped to 5.1% in the moving quarter up to December, in line with consensus.
- Seasonally adjusted, the indicator ticked up to 5.3% from 5.1%. However, it remains near historical lows.
- Total employment increased by 0.1% MoM, standing at 102.4 million, additionally labor force fell by 0.2% MoM too 108.1 million, reflecting a scenario of still tight labor market.
- The labor force participation rate dropped from 62.0% to 61.9%, the lowest level since November 2023 and still below pre-pandemic levels of 63.5%.
- The average real wage increased 0.9% MoM, continuing an upward trajectory.
- Consequently, real aggregated labor income rose by 0.9% MoM, remaining at historically high levels.



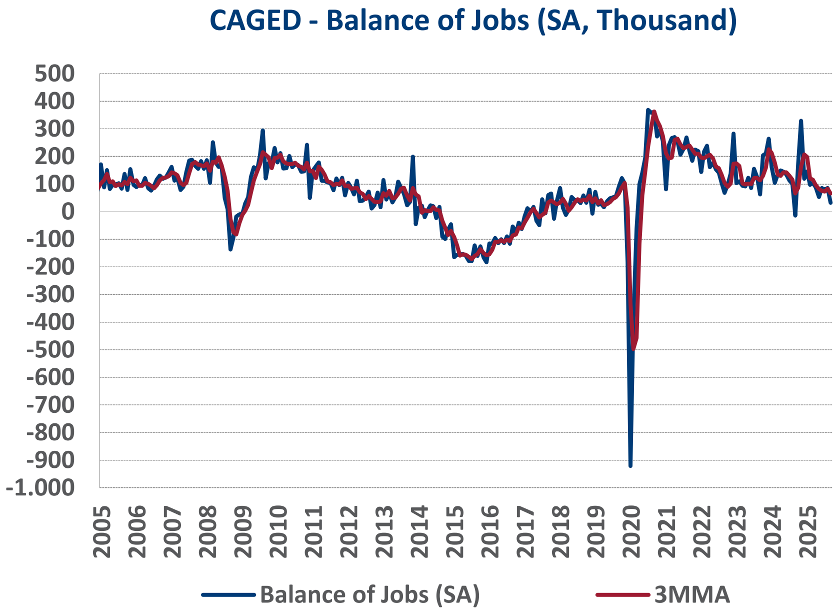


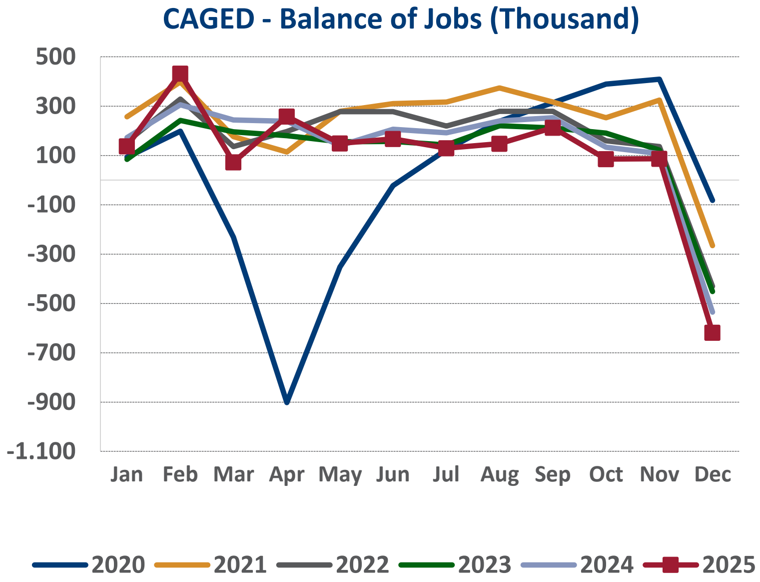


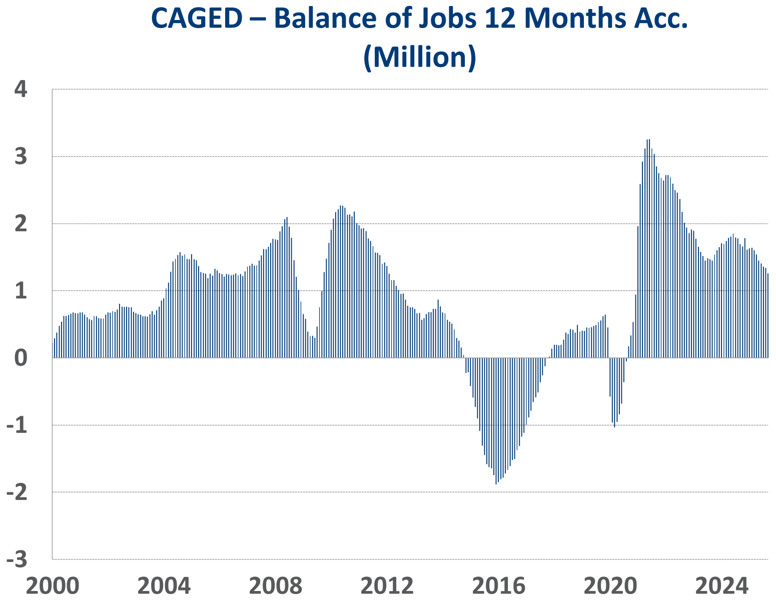
Source: IBGE, BOCOM BBM, MTE

Brazil: Formal Labor Market

- CAGED registered a net destruction of 618.2k formal jobs in December, below market expectations (-472.5k).
- There was a net addition of 1.260 million occupation in 2025, down from almost 1.690 million in 2024.
- Formal job creation shows some signs of weakness, but the labor market conditions remains tight overall.





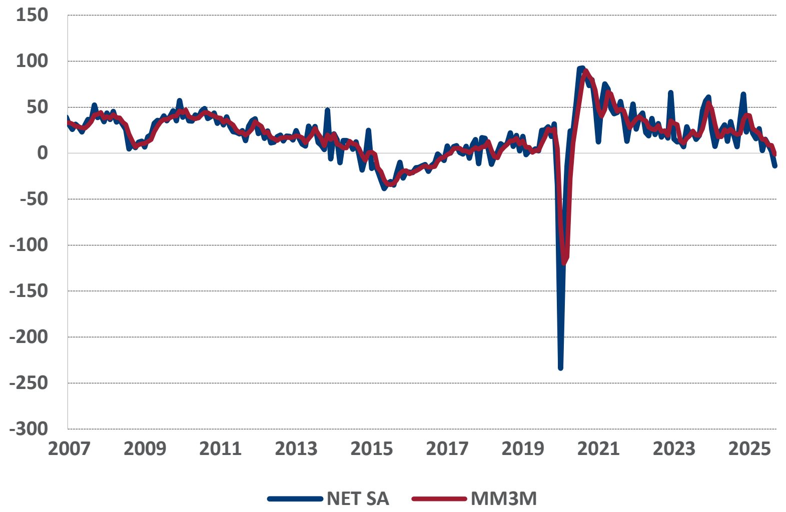


Source: BOCOM BBM, MTE

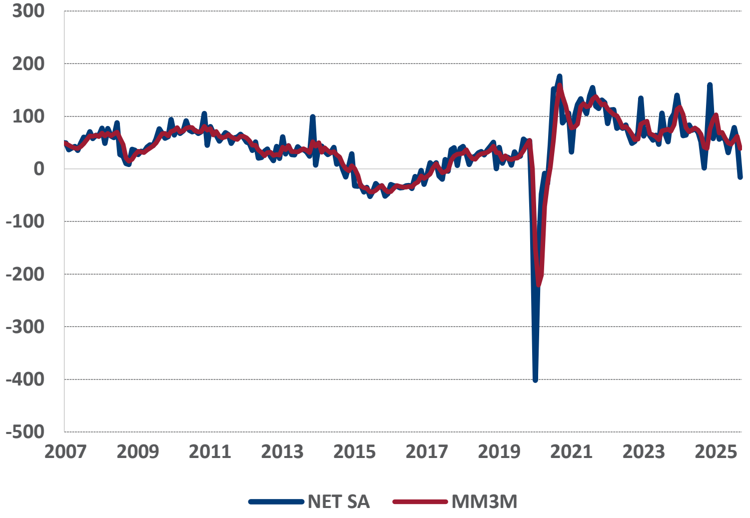
Brazil: Formal Labor Market

- Formal job destruction was larger than expected, suggesting a loss of momentum after stronger November readings.
- The tertiary sector remains resilient, despite signs of moderation. The services sector posted a net destruction of 16k jobs in December, a sharp slowdown to the 54k net addition recorded in November.
- The retail sector contracted (from 2k to –14k), industry improved modestly (from –4k to 2k), and construction weakened sharply (from 7k to –16k).

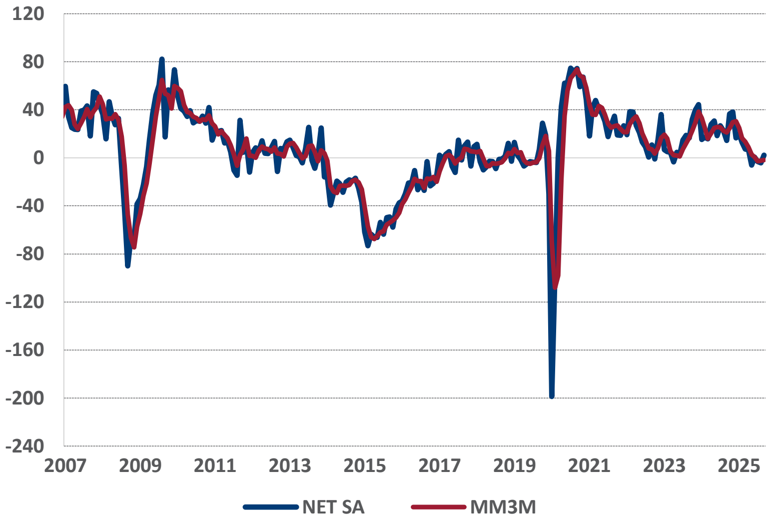
Brazil - Retail Net Payroll Job Creation (SA)



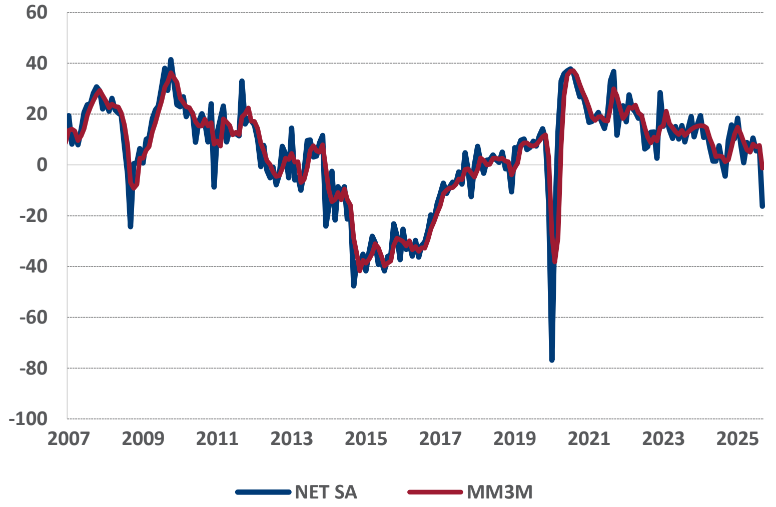
Brazil - Services Net Payroll Job Creation (SA)



Brazil - Industry Net Payroll Job Creation (SA)



Brazil - Construction Net Payroll Job Creation (SA)



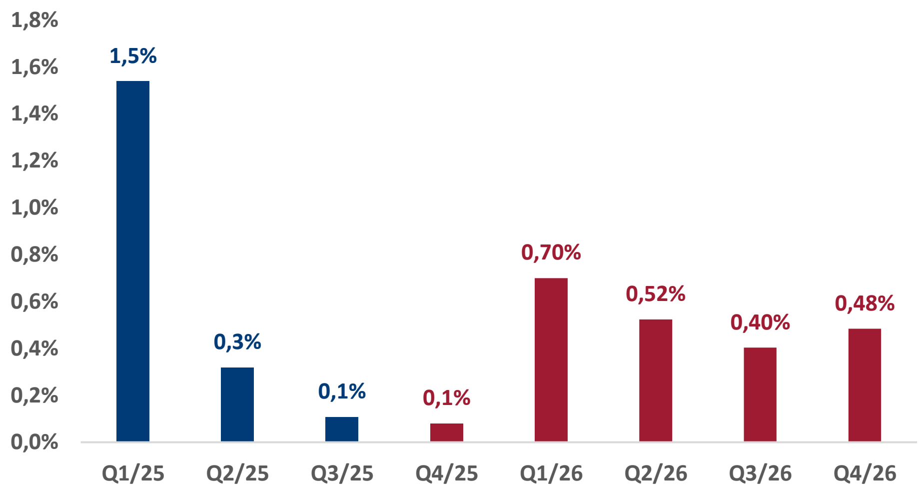
Source: BOCOM BBM, MTE

Brazil: GDP Forecast

- Our projection for the GDP growth in 2025 was maintained at 2.3%.
- The strong slowdown in economic activity throughout the year and the important contributions of less cyclical sectors to growth in 2025 (agriculture, mining industry and their spillover effects on other activities, such as transport) stand out.
- For 2026, we project 1.8%, that already incorporates the new fiscal and credit stimulus policies already approved.

Forecasts					
	2025.IV QoQ	2025.IV YoY	2025	2026	2027
GDP	**0.1%**	**1.7%**	**2.3%**	**1.8%**	**1.8%**
Agriculture	**-2.2%**	**7.0%**	**11.0%**	**1.0%**	**5.0%**
Industry	**0.2%**	**1.8%**	**1.8%**	**0.7%**	**1.3%**
Mining	1.5%	12.6%	8.7%	5.8%	2.5%
Manufacturing	0.0%	-1.3%	0.0%	-0.3%	0.7%
Electricity	0.6%	-0.9%	-0.9%	1.7%	2.8%
Construction	0.9%	3.0%	2.1%	-1.7%	1.0%
Services	**0.3%**	**1.5%**	**1.7%**	**2.3%**	**1.7%**
Retail	0.1%	1.8%	1.5%	1.3%	1.1%
Transports	0.9%	3.0%	2.4%	0.1%	1.1%
Information and Comunication	1.1%	5.8%	6.1%	4.7%	3.7%
Financial Services	-0.1%	0.4%	1.9%	1.8%	1.0%
Rents	0.4%	1.9%	2.0%	2.5%	3.0%
Other Services	0.3%	0.8%	1.7%	3.6%	1.9%
Public Administration	0.2%	1.0%	0.5%	1.6%	1.4%

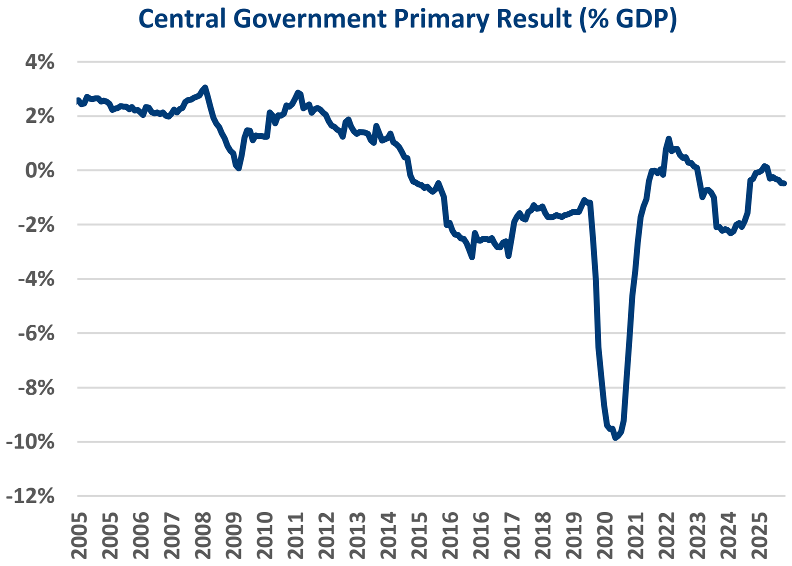
GDP QoQ 2025 and 2026

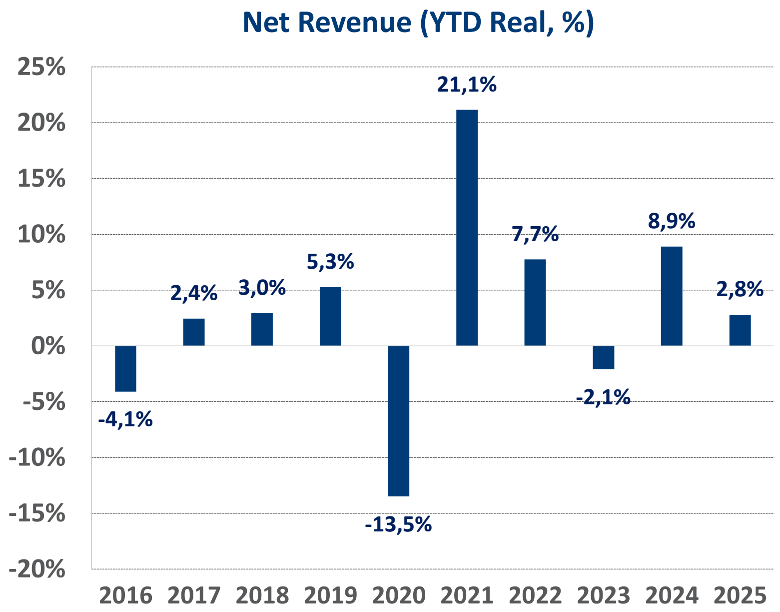


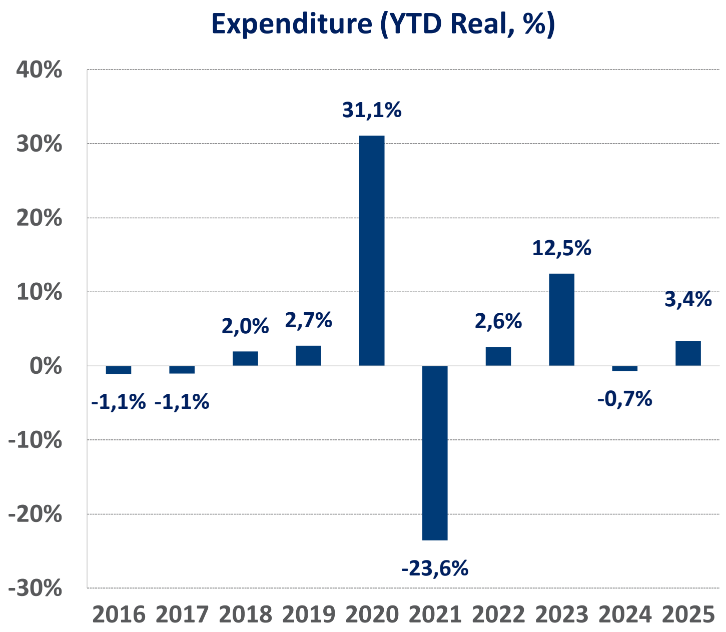
Source: BOCOM BBM, IBGE

Brazil: Central Government Primary Result

- The central government's primary balance posted a surplus of BRL 22.1 billion in December, significantly above market consensus (BRL 14.4 billion), while remaining below the surplus recorded in the same month last year (BRL 24.1 billion).
- Net revenues grew by 1.6% YoY in real terms. Revenue administered by the RFB increased 8.5% in the wake of increases in income tax (7.4%), mostly related to withholding income tax on labor earnings and capital gains, IOF (27.2%) on the back of the tax hike implemented a few months ago, and PIS/COFINS (9.5%) due to strong growth in services in November. Social security contributions increased 5.9%, showing the still solid labor market. In contrast, revenue not administered by the RFB (non-tax revenue) decreased by 20.0% due to a drop of 81.0% in concessions and of 57.0% in dividends and shareholdings, there were fewer dividends from BNDES and Petrobras this year when compared to 2024.
- Total spending rose 3.1% YoY in December. The change was driven by security benefits, which rose 6.4% in the wake of a growth in the number of beneficiaries. Additional contributors to the expenditure growth include discretionary expenditure (14.3%) and Personnel (9.2%).
- Year-to-date, total expenditure increased by 3.4%, mainly due to social security benefits (4.1%), personnel (4.3%), and discretionary expenditure (6.1%).
- Overall, despite meeting the 2025 fiscal target, persistent dependence on revenue measures and rising spending pressures keep the fiscal outlook uncertain heading into an election-driven year.







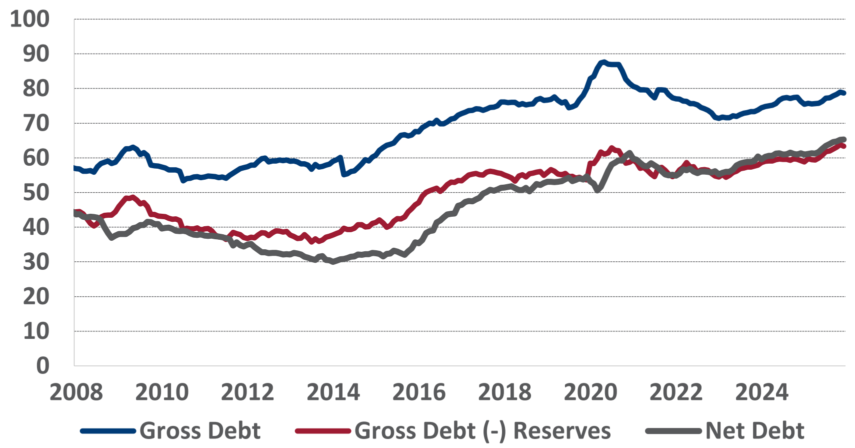
Source: BOCOM BBM, RTN

Brazil: Consolidated Public Sector Budget

BANK OF COMMUNICATIONS BBM

- The consolidated public sector posted a primary surplus of BRL 6.3 billion in December, above market consensus (surplus of BRL 4.0 billion) and lower than the BRL 15.7 billion surplus billion recorded in the same month of 2024.
- Regarding the breakdown, the central government and state-owned enterprises (SOE) registered a surplus of BRL 21.6 billion and BRL 4.5 billion, respectively, while regional governments presented a deficit of BRL 19.8 billion.
- General Government Gross Debt (GGGD) fell to 78.7% of GDP, reflecting a combination of lower net issuance (-0.7 p.p.) and stronger nominal GDP growth (-0.5 p.p.), partly offset by higher nominal interest costs (+0.8 p.p.).
- Public sector deficit widened in 2025, driven by the central government; and while the headline fiscal picture looks slightly steadier at the margin, the debt trajectory remains the key concern, as GGGD has risen 2.4pp since end-2024 (to 76.3% of GDP) amid strong primary spending and high nominal interest costs.

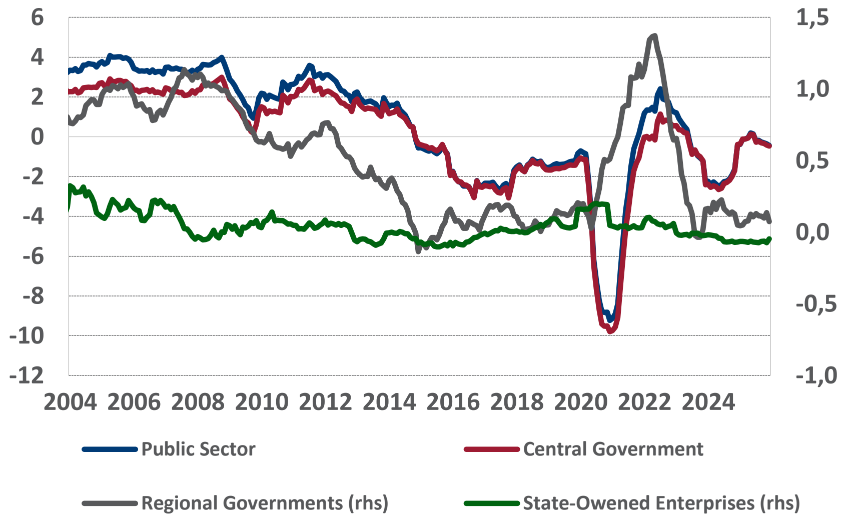
Public Sector Debt (% GDP)



Primary Budget Balance (% GDP 12M)

Central Government (% GDP 12M)

Public Sector Primary Result (% GDP)

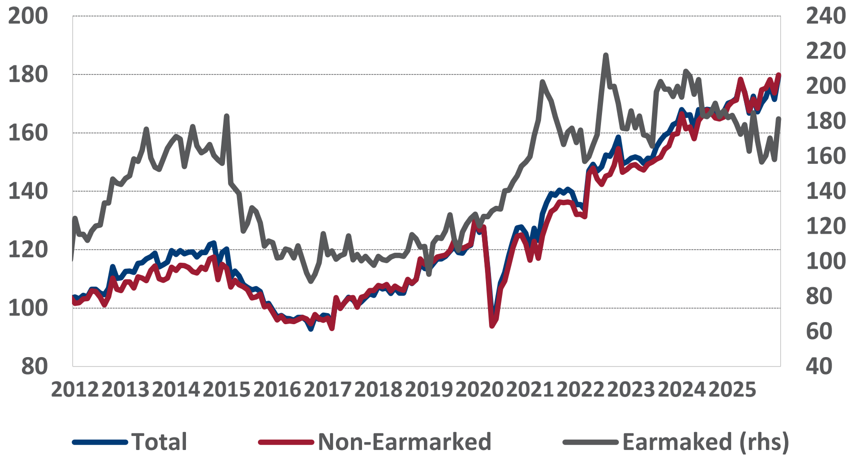


Source: BOCOM BBM, BCB

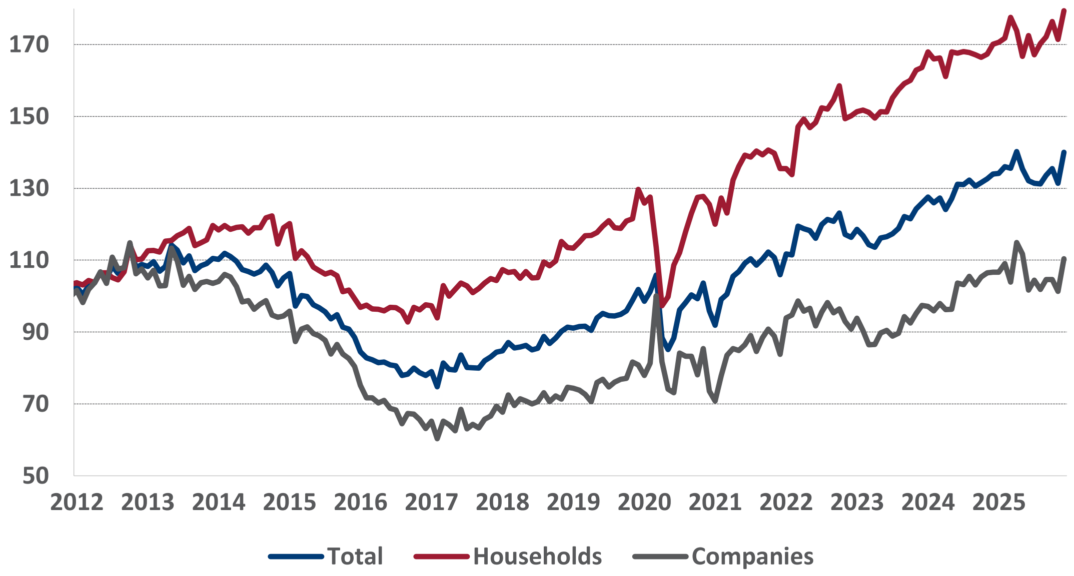
Brazil: Credit Statistics

- In December, total credit concessions increased by 6.5% MoM in real terms, after decreasing by 3.0% in the last month.
- Non-earmarked credit concessions increased 4.7% MoM in real terms to households and rose by 8.9% for companies in the monthly comparison.
- In all, after November's mixed read, December's credit data pointed to a clearer pickup in volumes, with resilience led by corporates and a solid expansion in new loans. Still, households' delinquency and indebtedness kept rising and income commitment stayed near record highs, so even with a more supportive credit impulse, high rates and debt-service burdens remain key risks on the radar for 2026.

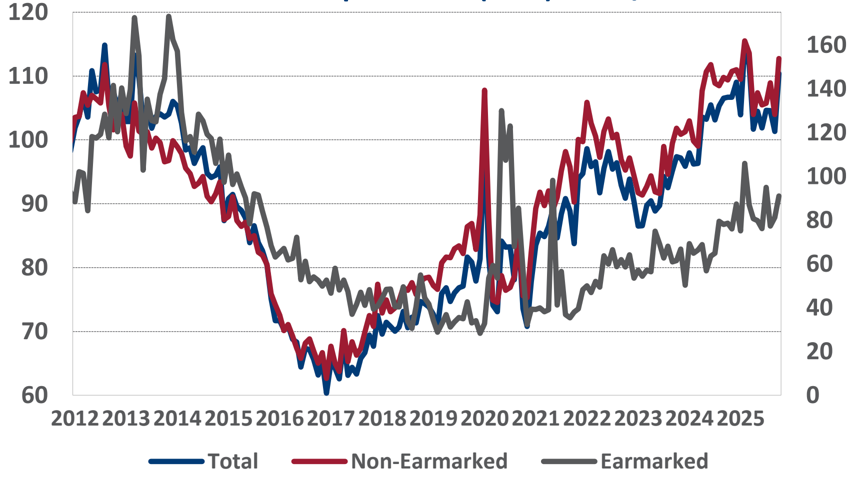
Concessions - Households SA (Real) - Mar/11 = 100



New Credit Operations SA (Real) - mar/11 = 100



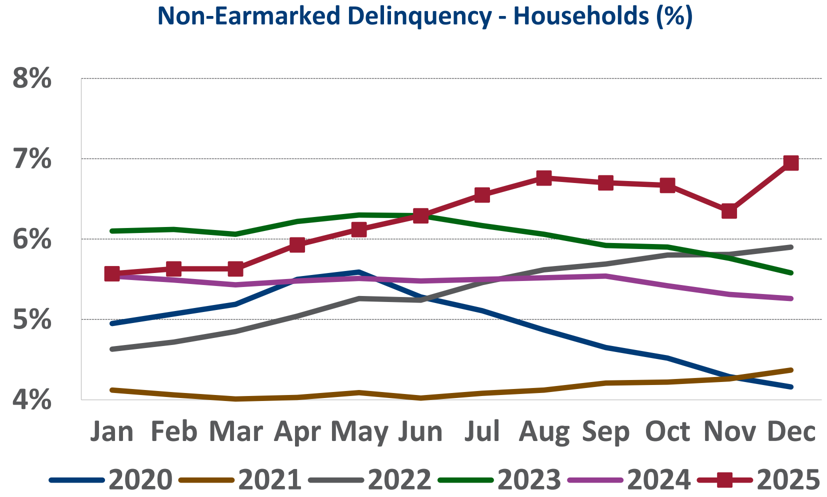
Concessions - Companies SA (Real) - mar/11 = 100

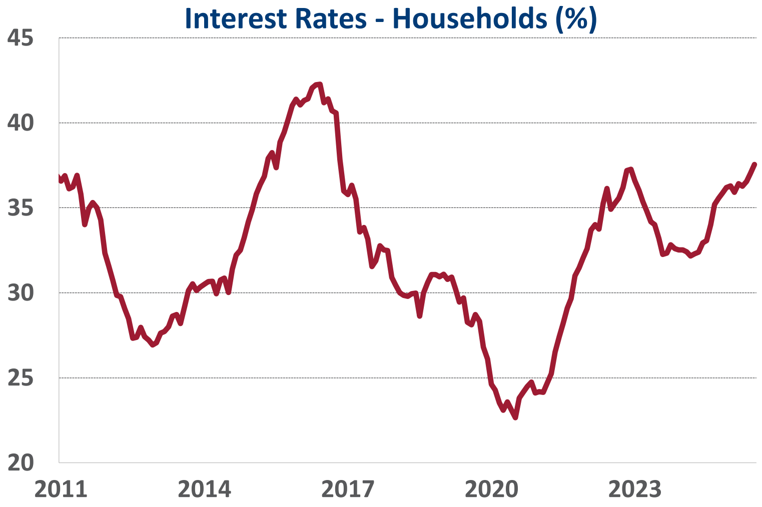


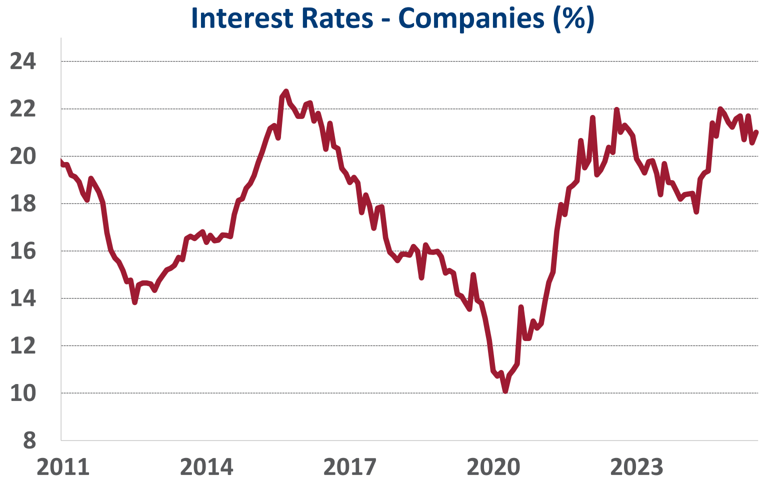
Source: BOCOM BBM, BCB

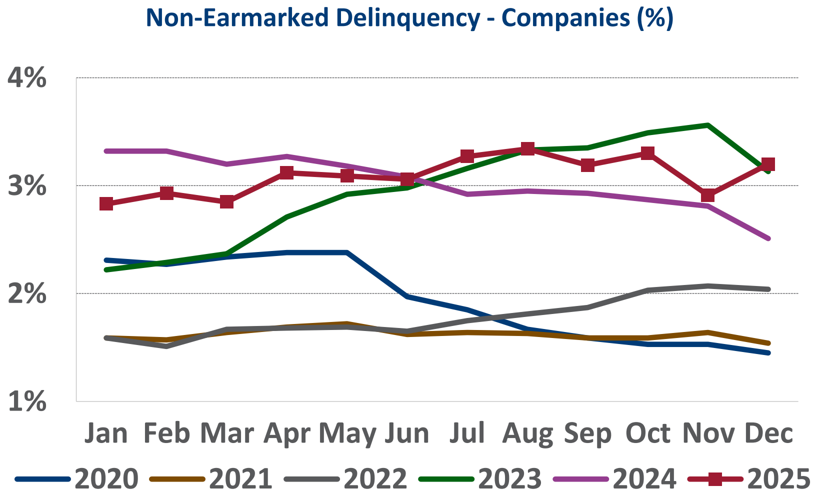
Brazil: Credit Statistics

- Lending rates increased marginally, remaining at high levels for households, reaching 37.6% in December from 37.0% in November, while for companies, rates rose to 21.0% from 20.6%.
- Meanwhile, delinquency on non-earmarked loans for households increased to 6.95% from 6.35% in November, additionally for companies, it increased to 3.2% from 2.9%.





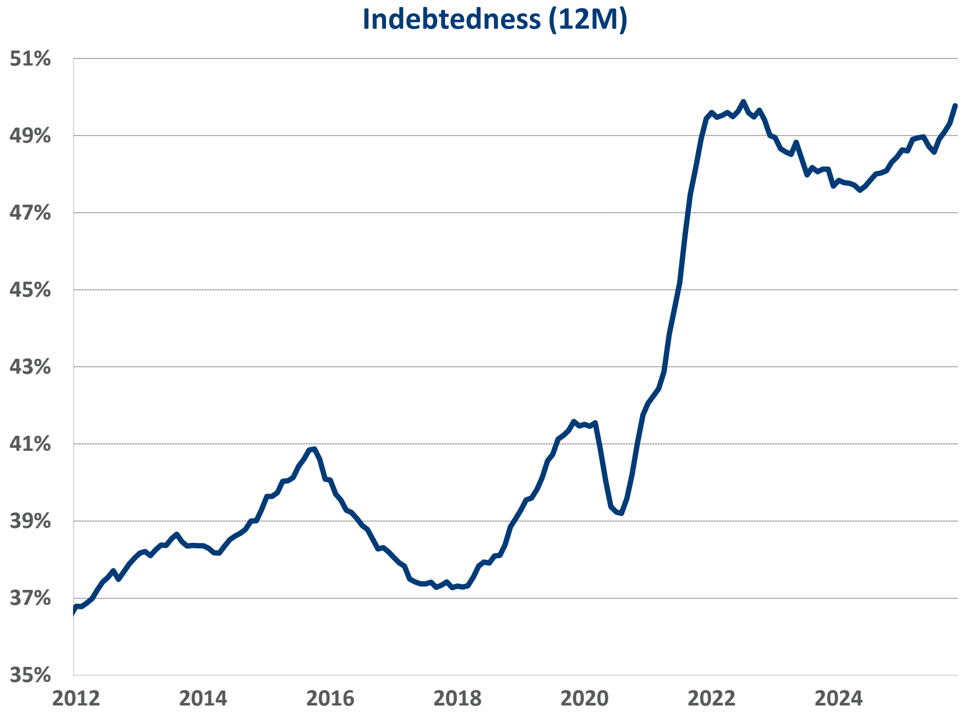


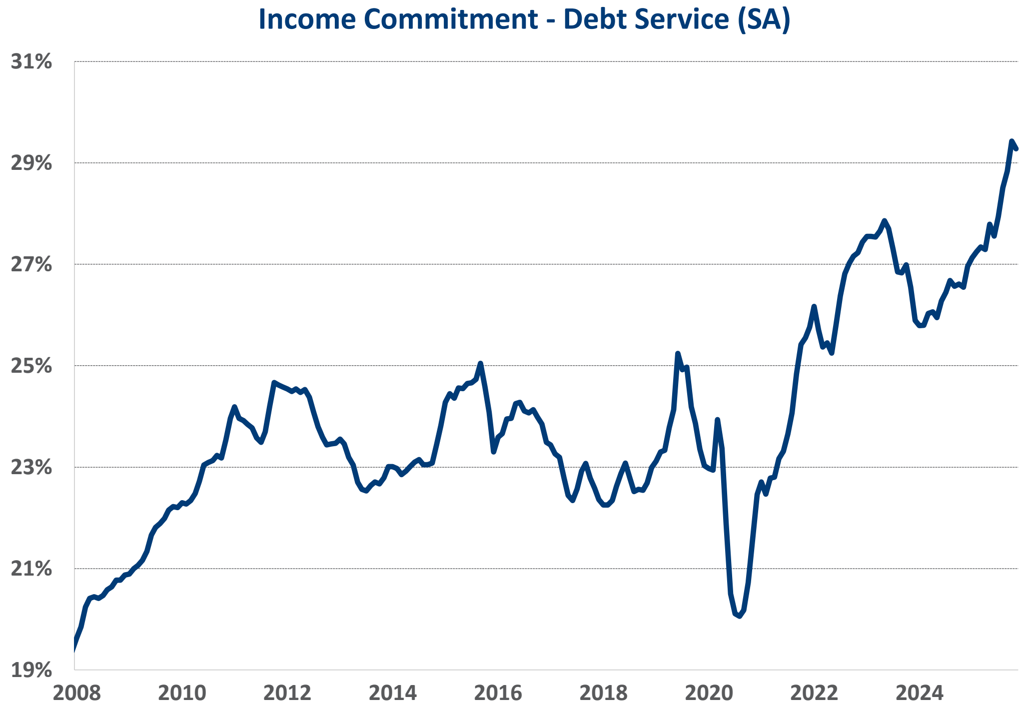


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- The household indebtedness remains high, increasing to 49.8 % in November.
- Meanwhile, income commitment decreased to a seasonally adjusted level of 29.3% in November, from 29.4% in October.
- Credit conditions remain tight, while household indebtedness continues to rise and income commitment remains at elevated, near-record levels.

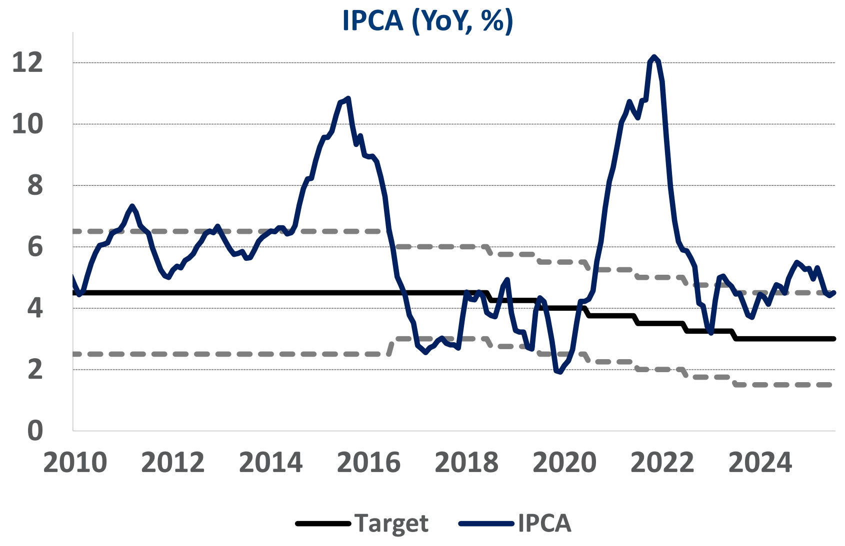


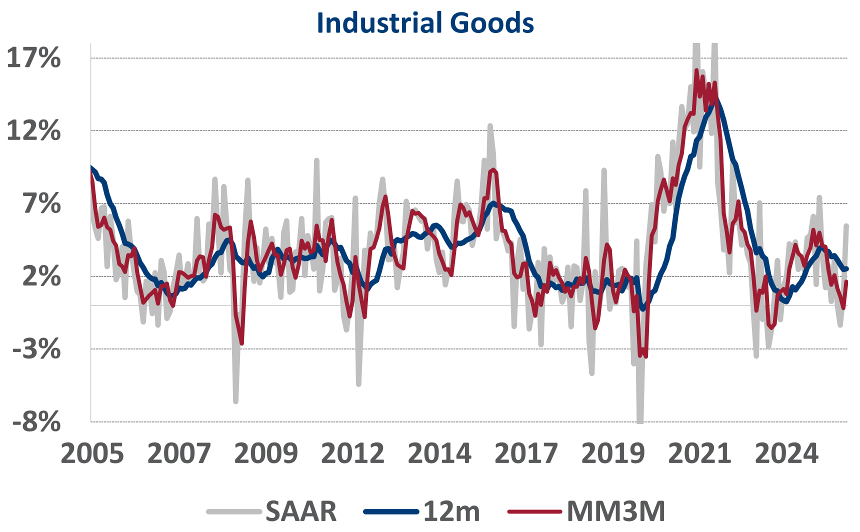


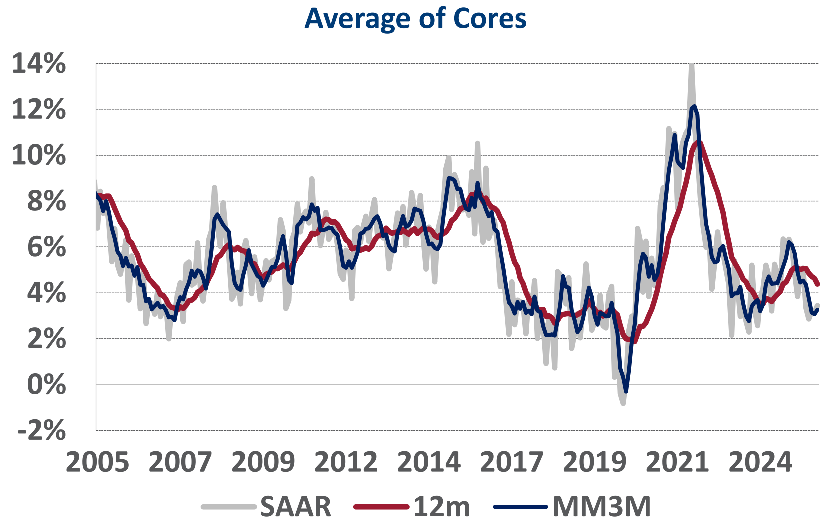
Source: BOCOM BBM, BCB

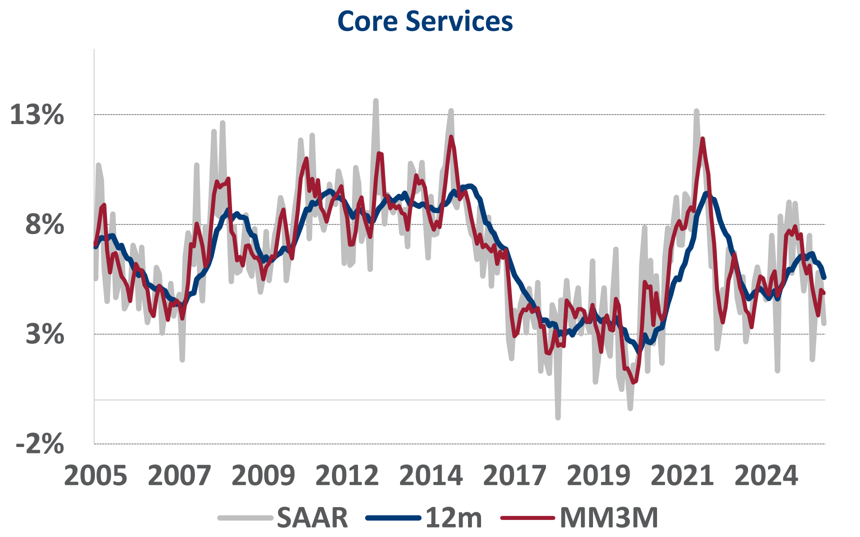
Brazil: Inflation 2025

- January IPCA-15 increased by 0.20% MoM, slightly below market expectations. The 12-month accumulated inflation accelerated from 4.41% in December to 4.50% in January.
- The main upward deviation came from Personal Hygiene, Communication and gasoline. On the other hand, food at home, especially dairy products, and own Vehicle surprised to the downside.
- Core services advanced 0.53% MoM, close to forecasts, and the 3M SAAR decreased from 5.52% to 5.13%.
- The average of core inflation increased by 0.42% MoM, with its 3M SAAR at 3.58%.





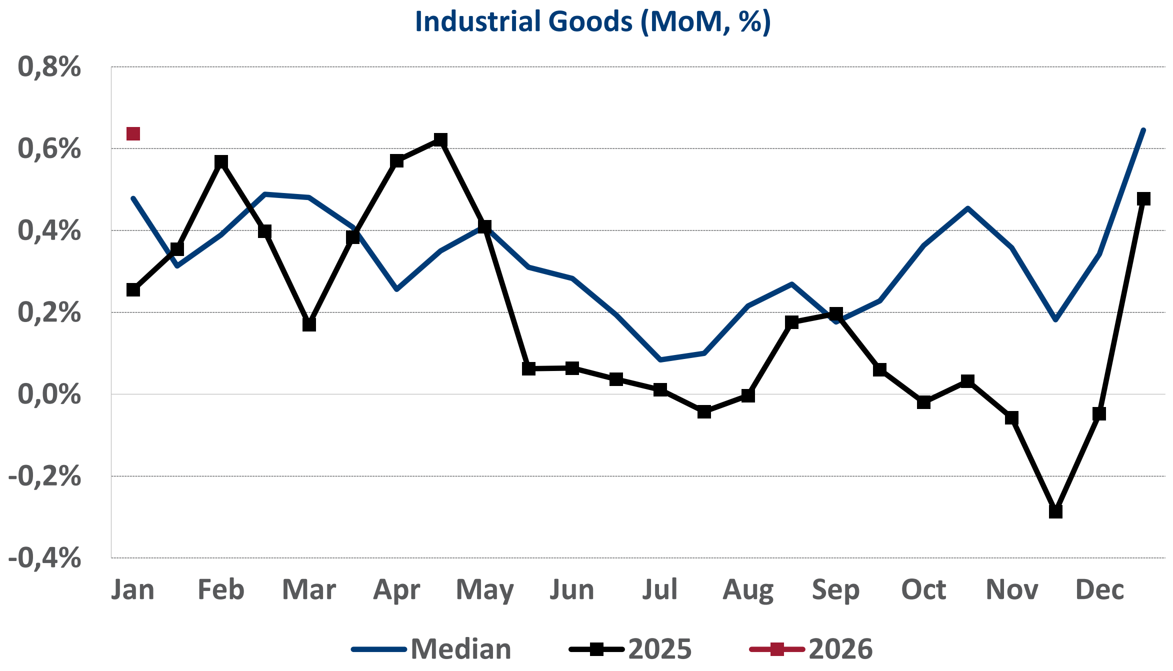


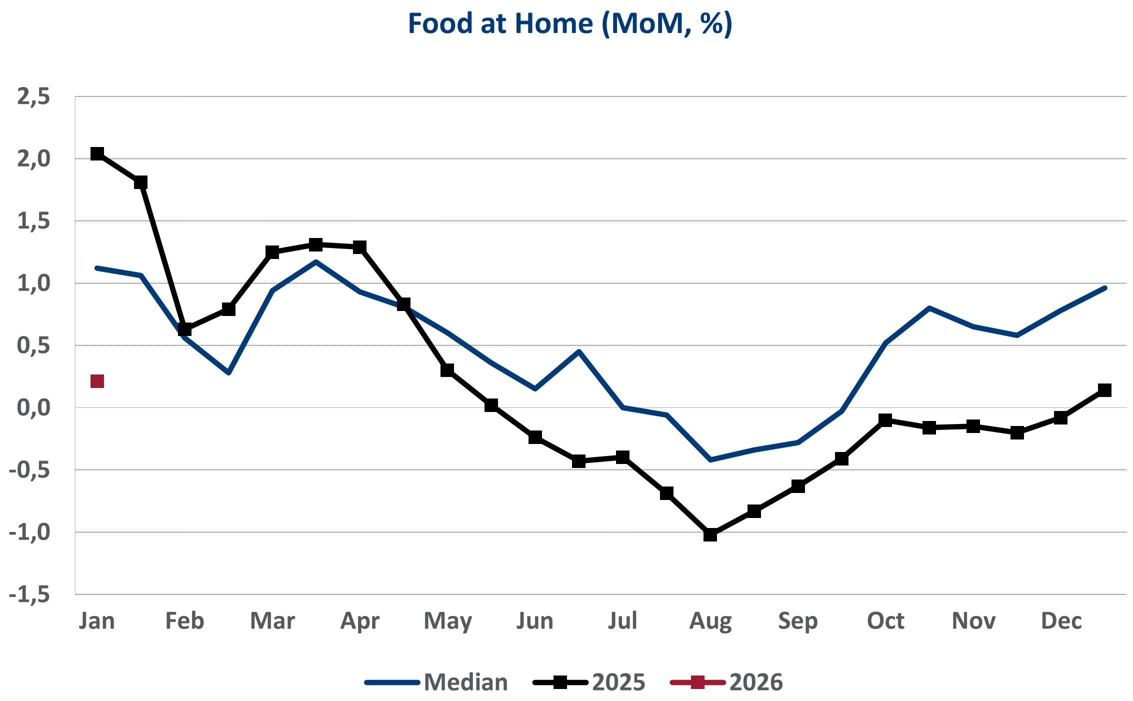


Source: BOCOM BBM, IBGE

Brazil: Inflation 2025

- Industrial goods prices rose 0.64% MoM, better than expected, while the 3M SAAR accelerated from 0.9% to 2.0% in January.
- Foodstuff prices increased by 0.21% MoM, below expectations. The surprise was spread among products.
- Overall, while tradables remain benign, services may experience additional pressure tied to income and credit conditions, with the balance of risks broadly stable over the coming months.





Source: BOCOM BBM, IBGE

Brazil: Inflation Outlook

- After the January inflation preview we reduced our 2026 forecast from 4% to 3.8% (result driven by food at home and 'car licensing and registration' inflation)

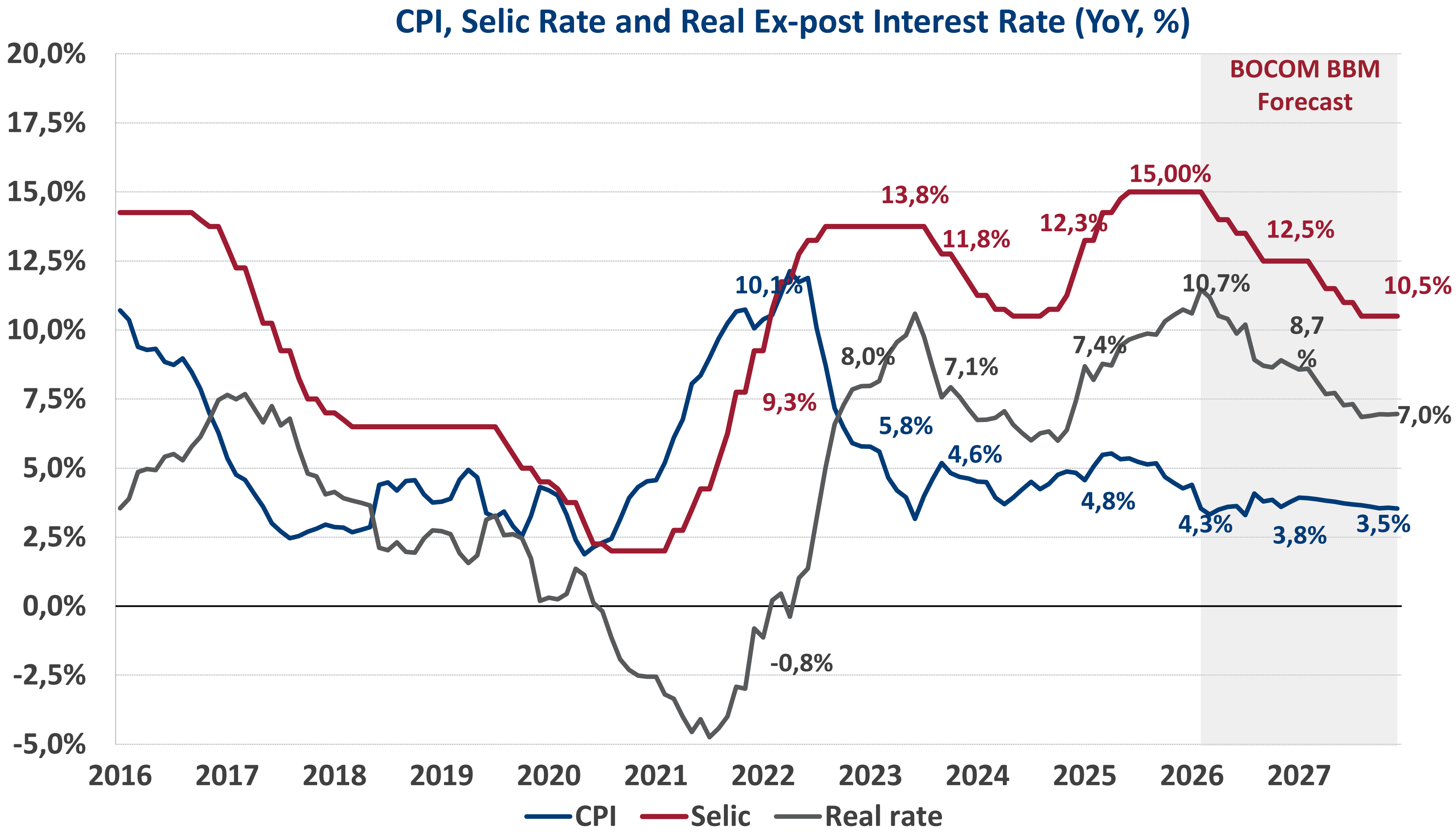
IPCA (%, annual)

	Weight	2020	2021	2022	2023	2024	2025	2026
Regulated	**26.6**	**2.6**	**16.9**	**-3.8**	**9.1**	**4.7**	**5.3**	**3.5**
Industrial goods	**23.6**	**3.2**	**11.9**	**9.5**	**1.1**	**2.9**	**2.4**	**2.2**
Durable goods	10.3	4.5	12.9	6.1	-0.4	1.5	0.5	0.8
Semi-durable goods	5.9	-0.1	10.2	15.7	2.7	2.1	3.5	2.3
Non-durable goods	7.3	4.0	11.9	9.5	1.7	5.4	3.9	3.8
Food at home	**15.7**	**18.2**	**8.2**	**13.2**	**-0.5**	**8.2**	**1.4**	**3.7**
Services	**34.1**	**1.7**	**4.8**	**7.6**	**6.2**	**4.6**	**5.8**	**5.0**
Food away from home	5.6	4.8	7.2	7.5	5.3	6.3	7.0	5.3
Related to minimum wage	5.2	1.5	3.3	6.3	5.2	5.0	6.5	6.0
Sensitive to economic activity	8.2	0.2	5.1	6.3	9.5	0.9	5.4	4.3
Inertial	15.0	1.6	4.2	8.8	5.1	6.0	5.2	4.8
IPCA		**4.5**	**10.1**	**5.8**	**4.6**	**4.8**	**4.3**	**3.8**

Source: BOCOM BBM, IBGE

Brazil: Monetary Policy

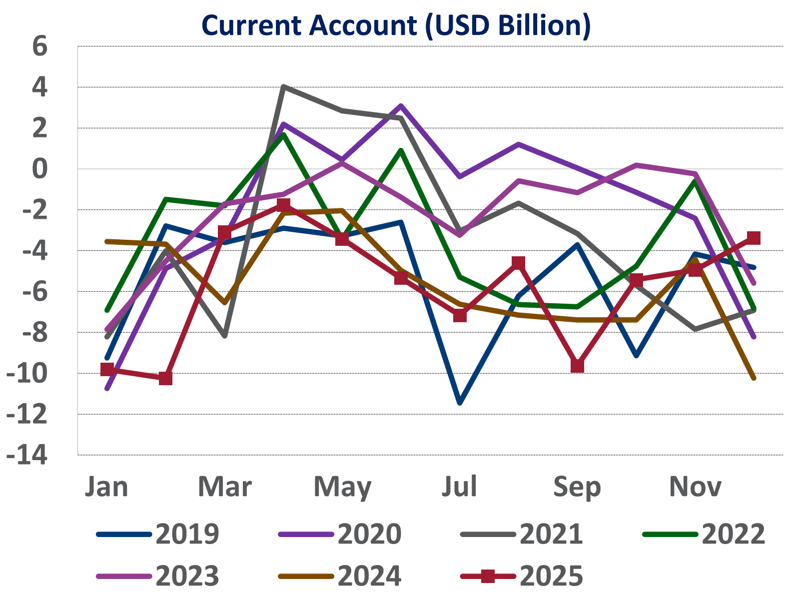
- In the January meeting, the Monetary Policy Committee kept the Selic rate unchanged at 15% per year, in line with market expectations. The Committee signaled, however, that it expects to begin the easing cycle in its next meeting in March. Inflation projections six trimesters ahead remained at 3.2% for the third quarter of 2027 in a scenario where rates reach 12.25% in 2026 and 10,5% in 2027, despite the modest improvements in inflation expectations in FOCUS. With projections around the target at the current Selic path in FOCUS, this implies an easing cycle of around 275 bps this year. Overall, the statement provided guidance that the easing cycle is set to begging in March but did not specify the pace and the total budget for rate cuts. The committee notes that the flexibilization should still render rates restrictive in order to bring inflation back to the target.

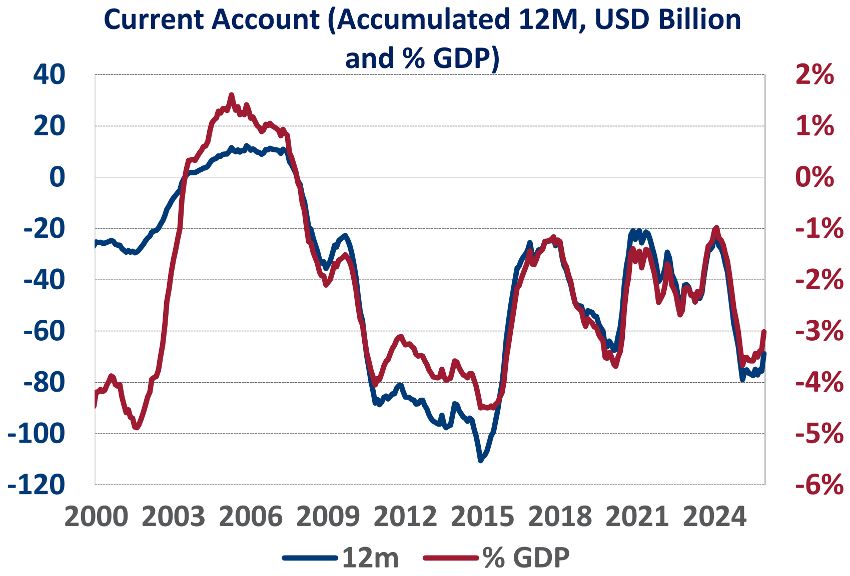


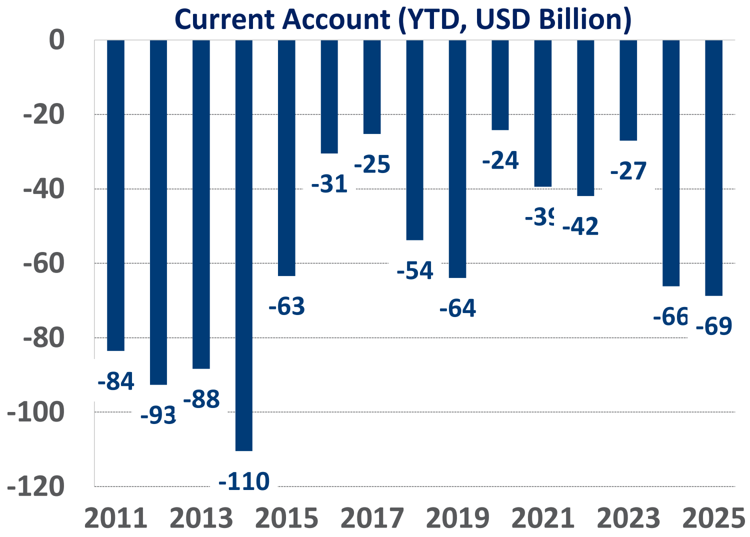
Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

- The Brazilian current account recorded a deficit of USD 3.4 billion in December 2025, above the estimate (USD -4.7 billion).
- On a 12-month basis, the deficit decreased slightly to USD 68.8 billion (3.02% of GDP) from USD 75.7 billion (3.37% of GDP) in November.
- In 2025, strong import growth was the main driver of the current account deficit, while robust exports helped contain a wider imbalance. Overall, December recorded the smallest current account deficit since 2015. Foreign direct investment (FDI) also came in weaker than expected in December, mainly due to a large reinvested profits outflow.





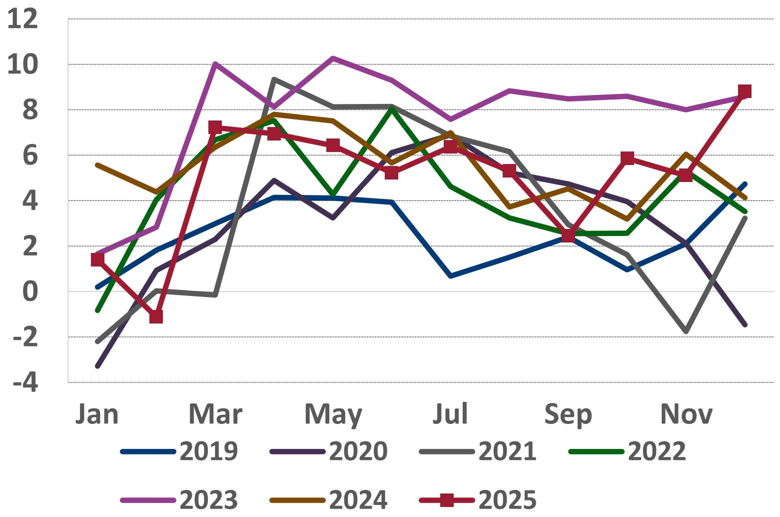


Source: BOCOM BBM, BCB

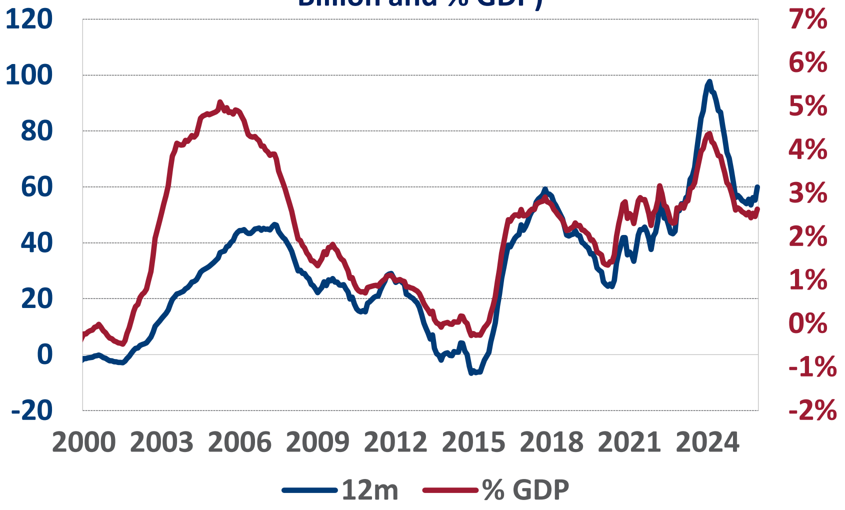
Brazil: Balance of Payments

- The merchandise trade balance posted a surplus of USD 8.8 billion, above the USD 4.1 billion surplus recorded in December 2024.
- Exports reached USD 31.2 billion (24,3% YoY), while imports totaled USD 22.4 billion (6.7% YoY). Exports volumes have remained solid in recent months, posting monthly volume gains. Meanwhile, imports and net services expenses are easing at the margin, in line with softer domestic demand. Even so, import volumes are still elevated despite slowing over the year, keeping the trade surplus under pressure.
- On a 12-month basis, the trade surplus increased to USD 60 billion, from USD 55.2 billion in November.

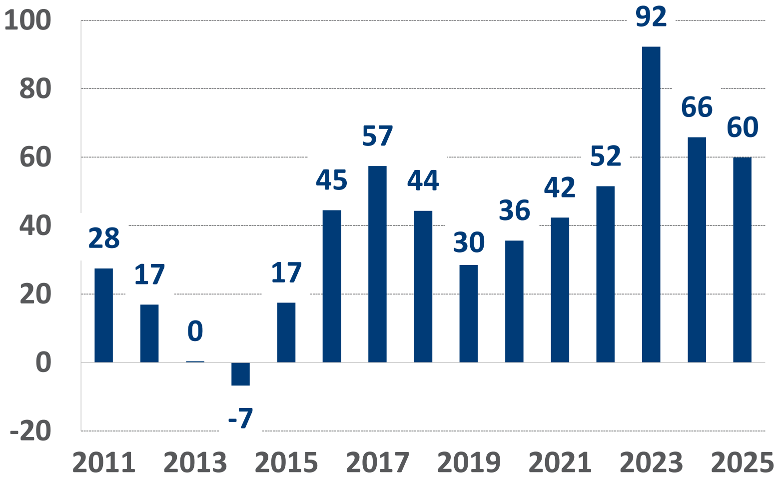
Balance on Goods (USD Billion)



Balance on Goods (Accumulated 12M, USD Billion and % GDP)



Balance on Goods (YTD, USD Billion)

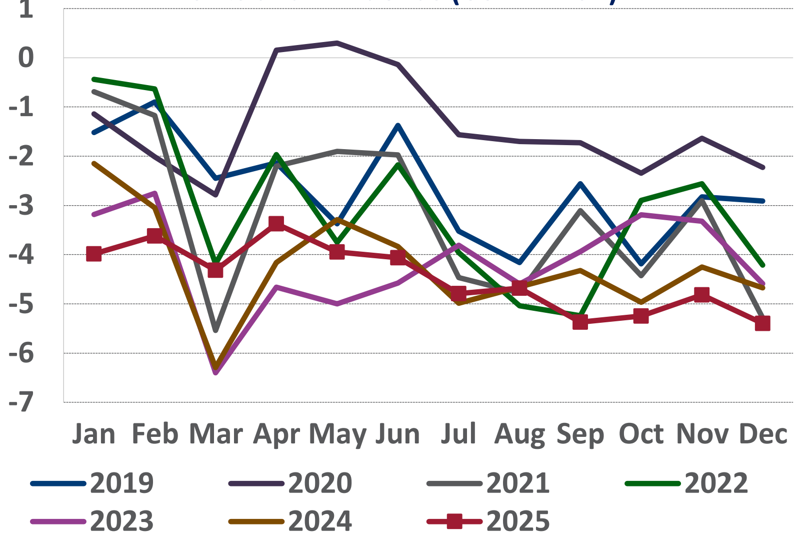


Source: BOCOM BBM, BCB

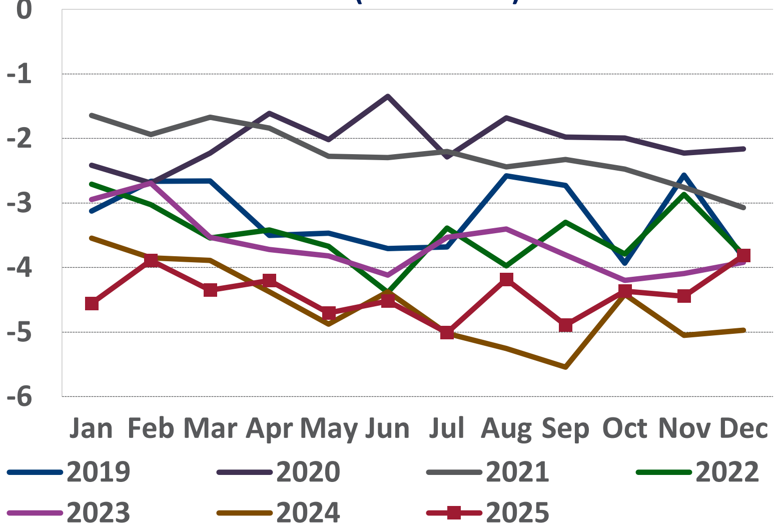
Brazil: Balance of Payments

- The Services account posted a deficit of USD 3.81 billion in December, above the USD 4.97 billion deficit recorded in the same period last year. On a 12-month basis, the Services deficit reached USD 52.9 billion.
- In addition, the ‘Intellectual Property’ and ‘Telecommunication’ accounts, whose dynamics are less sensitive to the economic cycle, recorded a USD 1.1 billion and USD 0.4 billion deficit, respectively.
- On the other hand, the ‘Personal, Cultural, and Recreational Services’ Account recorded a USD 38.8 million surplus in December 2025, easing from a USD 36.1 million Surplus in November 2025.

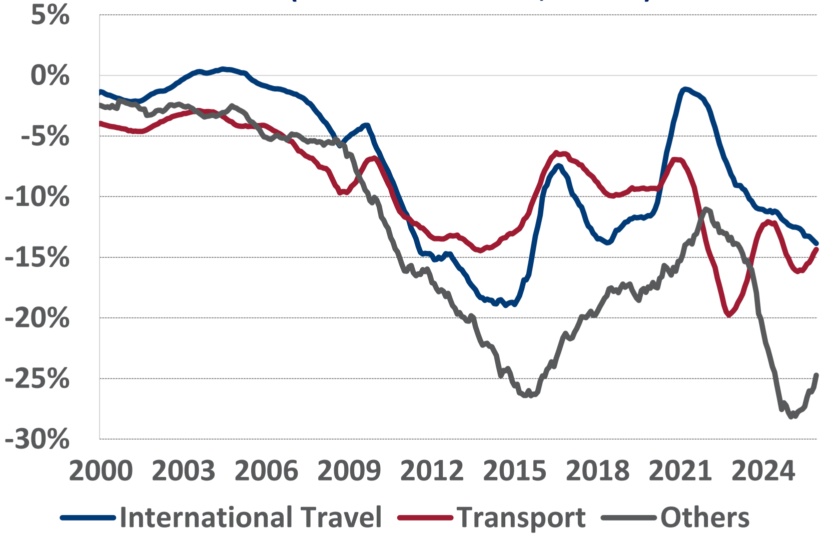
Profits and Dividends (USD Billion)



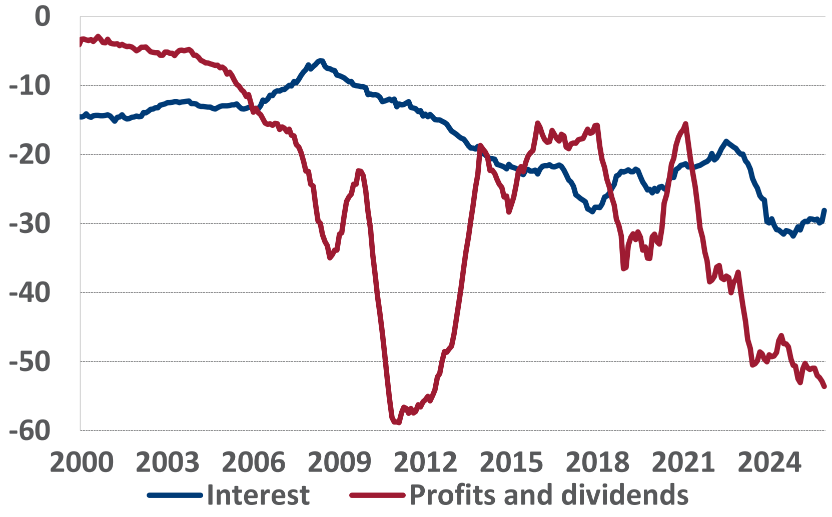
Services (USD Billion)



Services (Accumulated 12M, % GDP)



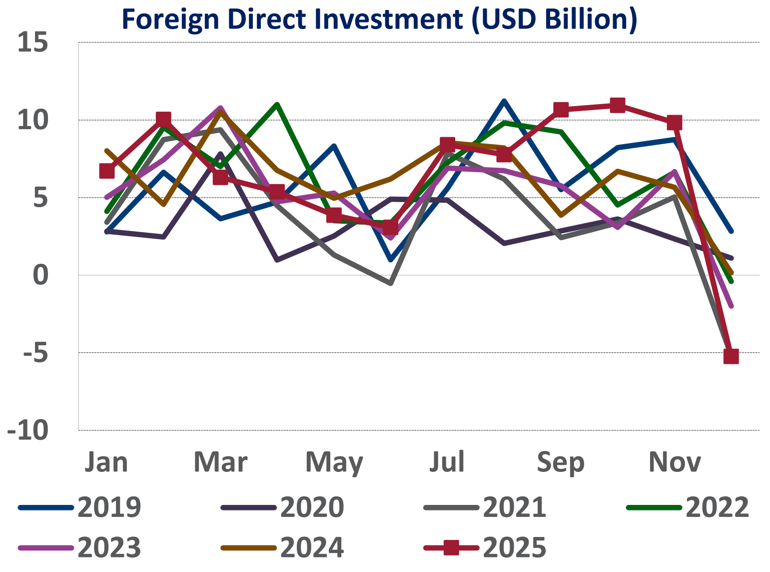
Primary Income (Accumulated 12M, USD Billion)

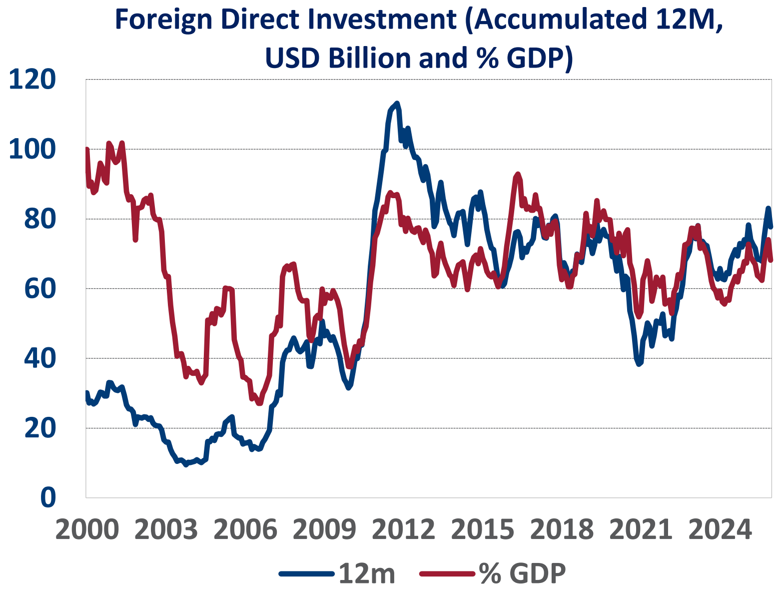


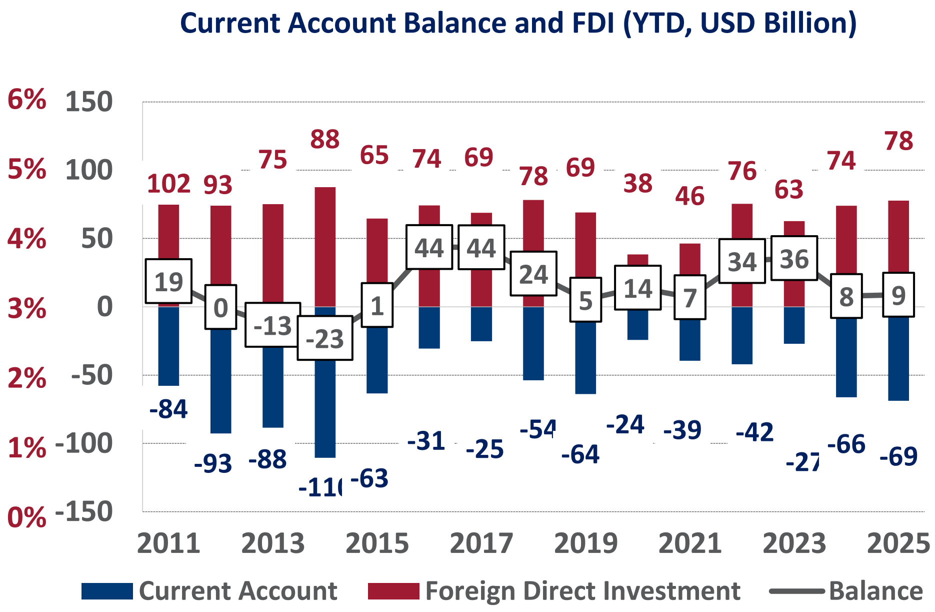
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- Foreign Direct Investment (FDI) registered a net outflow of USD 5.2 billion in December, below market consensus, which pointed to an inflow of USD 0.9 billion.
- On a 12-month basis, FDI inflows reached USD 77.7 billion (3.41% of GDP), from USD 83.1 billion in November. This represents the highest annual level since 2018.



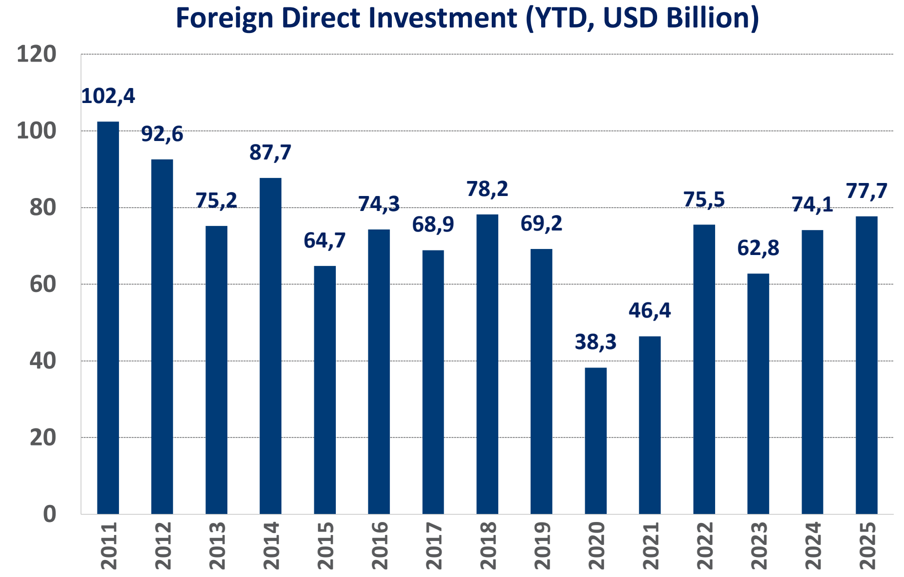


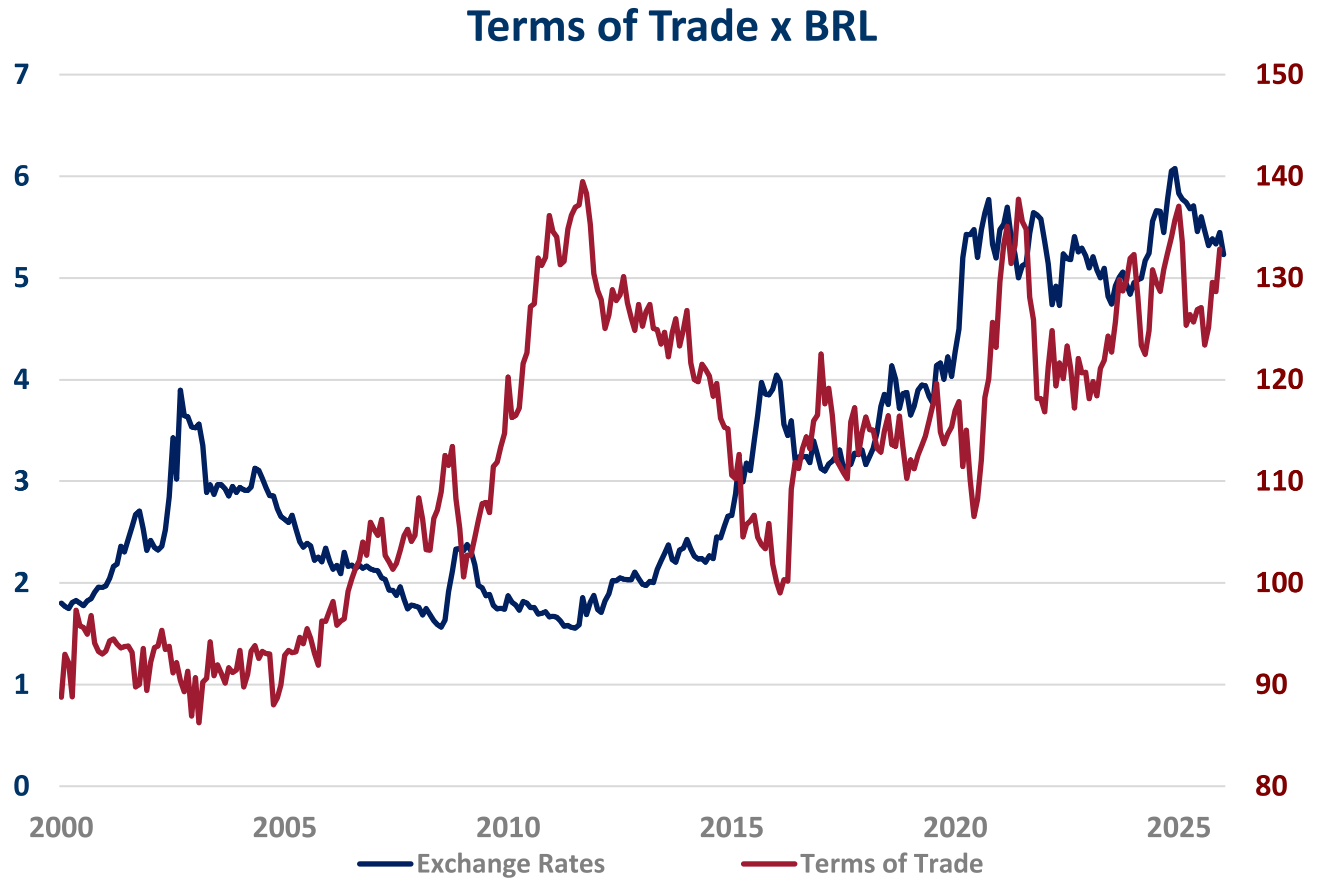


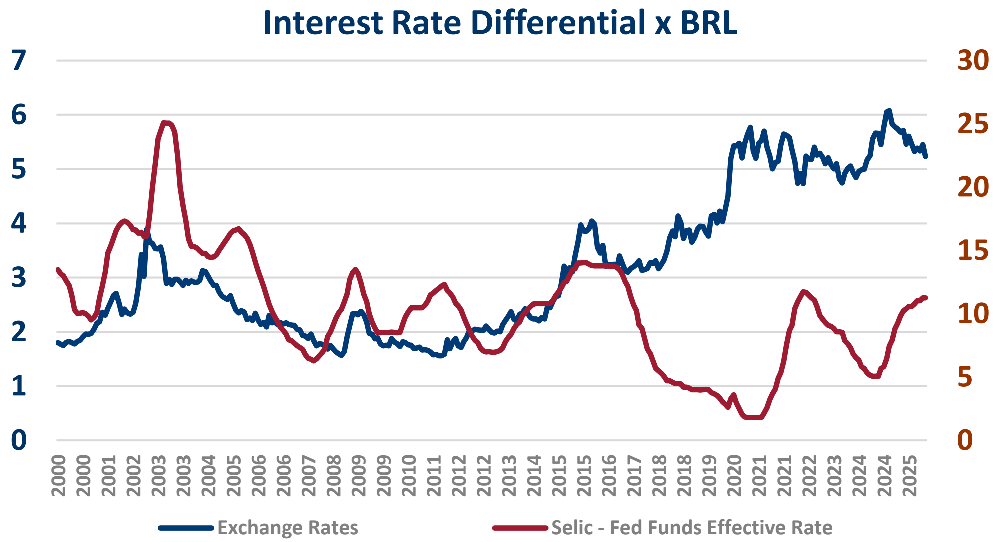
Source: BOCOM BBM, BCB

Brazil: External Sector

- In January, the Brazilian real appreciated from 5.45 to around 5.23 per US dollar. In net terms, the Brazilian currency's recent performance reflects a combination of improved global risk sentiment and weaker dollar. Internationally, softer U.S. labor signals and a less adverse geopolitical environment supported a broad rotation into emerging-market currencies, as investors rebalanced portfolios in a marginally weaker-dollar environment. Domestically, rising friction between the executive and legislative kept political uncertainty elevated, preventing any sustained improvement in local sentiment. Against this backdrop, the BRL appreciated, but the move remains overwhelmingly driven by external dynamics rather than any structural strengthening of domestic fundamentals.





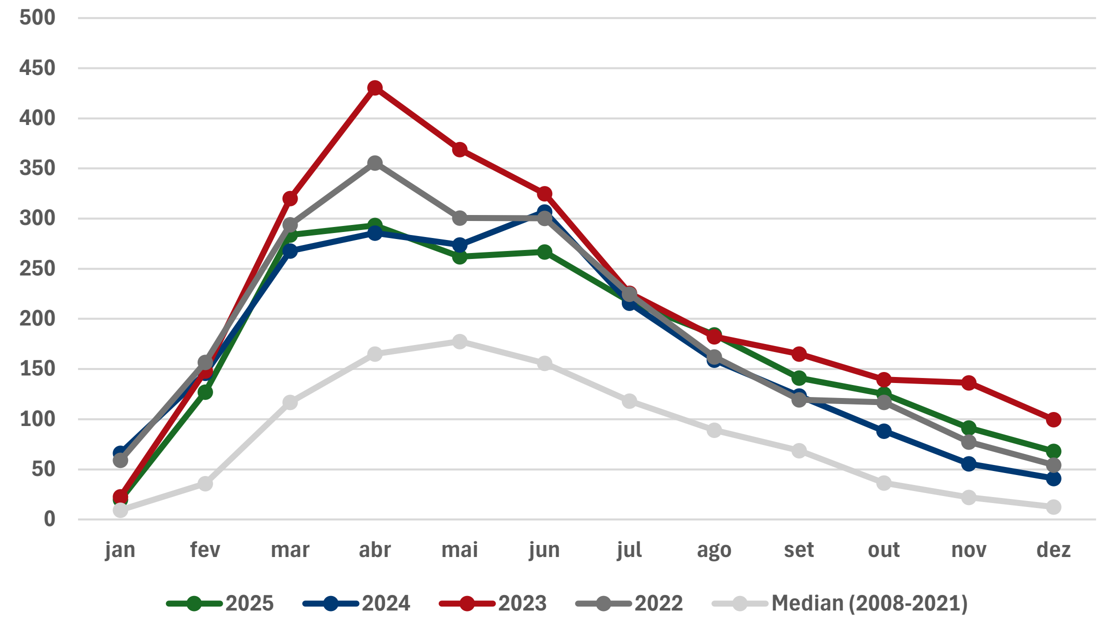


Source: BOCOM BBM, Bloomberg, BCB

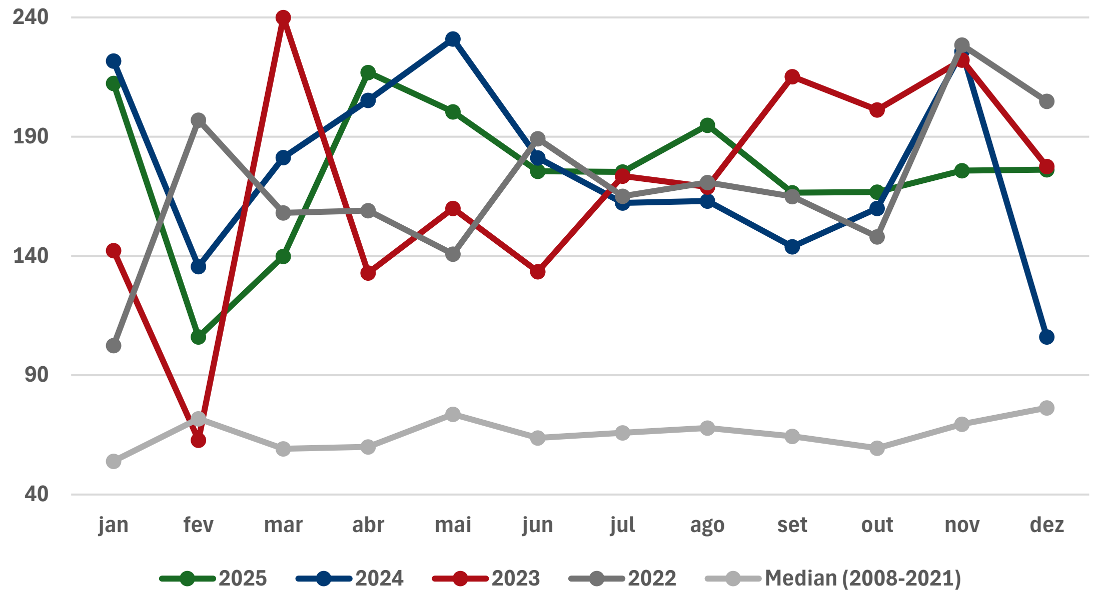
Brazil: External Sector

- In December 2025, exports totaled US$31.037 billion and imports US$21.404 billion, resulting in a positive balance of US$9.63 billion.
- Exports increased 24.7% YoY, mainly due to the performance of agriculture (43.5% YoY), with emphasis on the increase of exports of soybeans (73.9%), coffee (52.9%), corn (46.0%) and livestock (70.5%).
- Meanwhile, imports increased 5.7% YoY, mainly due to products from the manufacturing industry, such as petroleum-based fuel oils (excluding crude) (+42.9%), other medicines, including veterinary (+47.7%), and chemical fertilizers (excluding raw fertilizers) (+25.4%)

Brazil BoP: Soy Exports
USD Million Daily Average



Brazil BoP: Crude Oil Exports
USD Million Daily Average



Source: Secex, BOCOM BBM

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