Macro scenario - Global

April 14, 2025

Global recession in sight?

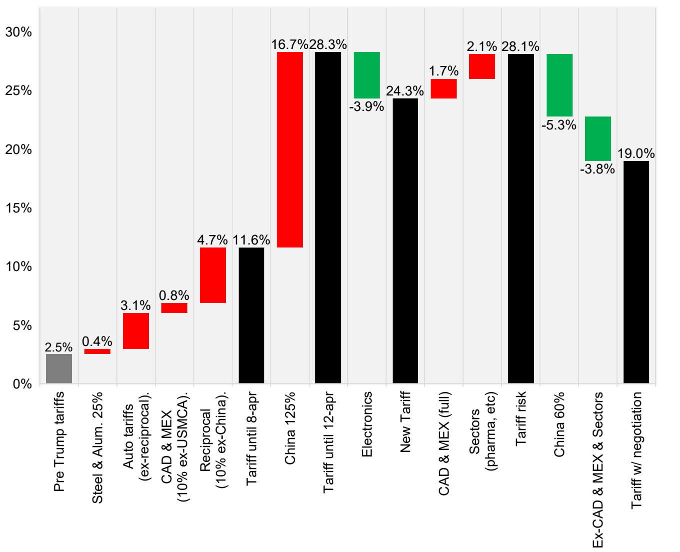
- **Tariff increases (and uncertainties) are a negative shock to the global scenario.**
- **U.S.:** We expect weaker growth (1.2% in 2025 and 1.0% in 2026, from 2.0% previously) and higher inflation (+150-200bps) leading to limited Fed cuts (two 25 bps cuts in 2025 and another two of the same magnitude in 2026 to 3.25-3.5%), with risks of higher and persistent inflation leading to fewer rate cuts.
- **Europe**: Fiscal and monetary stimulus can offset tariff shocks. We maintain our growth projections at 0.8% for 2025 and 1.5% for 2026. We expect the euro to appreciate (1.10 vs. 1.08 previously) amid heightened concerns about the U.S. economy.
- **China**: We revised our GDP growth projection from 4.5% to 4.2% given the significant tariff increase, even assuming some negotiation with the U.S. The government's stance remains reactive, and stimulus should only be announced after a clear slowdown in activity.
- **Latin America:** Facing rising external headwinds.

Increased tariffs (and uncertainties) are a negative shock to the global scenario

The U.S. government announced an increase in (so-called) reciprocal trade tariffs but later partially withdrew it following negative impacts on asset prices and escalating retaliatory measures—particularly with China.

As of the publication of this report, we have calculated that the effective tariff increase in force is approximately 22 percentage points, bringing the effective tariff level to 24%. Of this increase, the contribution from tariffs on China is approximately 104% (equivalent to 13 percentage points), already considering differentiation for the technology sector, effectively rendering direct trade between the two countries unfeasible. Additionally, there are 25% tariffs (contributing 4 percentage points) in force for the steel, aluminum, and automobile sectors, as well as to goods from Canada and Mexico that are not covered under the USMCA agreement. There is also a horizontal increase of 10% (contributing 5 percentage points) across the other countries.

Tariffs: Impacts on U.S. effective import tariffs



Source: Itaú

The significant increase in tariffs represents a negative supply shock, with a strong stagflationary impact on the American economy, raising concerns about a global recession. Developments in the likelihood of U.S. (trade) agreements with the rest of the world—particularly with China—will play a decisive role in alleviating or worsening the risk of a significant crisis and recession.

In our scenario, we assume that negotiations will prevent reciprocal tariffs from rising beyond the current 10% level, and that the U.S. and China will reach an agreement that reduces the U.S. effective tariff to around 20%. While this would represent an improvement over the current situation, it remains significantly higher than the approximately 11% assumed in our previous scenario, leading to downward revisions to global GDP projections. **We expect global GDP to grow by 2.7% in 2025 and 2.6% in 2026, compared with 3.2% and 3.1% in the previous scenario and 3.2% in 2024.**

In the U.S., we now expect growth of 1.2% in 2025 and 1.0% in 2026, compared to 2.0% in the previous scenario for both years. Current data still indicate resilient economic activity and employment before the tariff shock. However, the supply shock resulting from the tariffs is likely to have a significant impact. With household income growing by about 4.5% to 5.0% year-over-year in nominal terms, and tariffs pushing inflation up by 150 to 200 basis points in core PCE terms (versus 2.5% previously)—this shock implies a notable reduction in real income, which will sharply affect consumption. We expect domestic demand to grow between 0% and 0.5% in the coming quarters, normalizing to around 1.0% growth in 2026. In turn, investment also tends to be negatively affected by rising costs pressuring margins, with uncertainty postponing investments. As a result, we revise GDP growth to 1.2% in 2025 and 1.0% in 2026, incorporating the contributions from 2024 carryover, government spending, and an inventory offset.

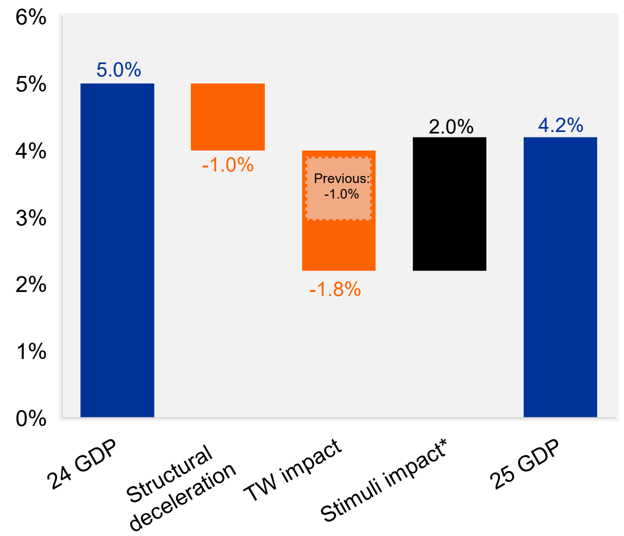
One risk to our scenario is that elevated uncertainty may persist, further weighing on U.S. growth—and, by extension, the global economic outlook. Additionally, potential non-tariff developments in the trade war must be monitored, such as possible sanctions on Chinese assets held in the U.S. or deliberate sale of U.S. assets by foreign investors in anticipation of more radical measures.

For the Fed, we expect two 25-basis-point cuts in 2025, followed by another two cuts of the same magnitude in 2026, bringing interest rates down to 3.25–3.5%. The Fed will likely aim to balance a scenario of slowing growth and rising unemployment with a significant inflationary shock. The projected rate cuts will depend on the Fed's assessment of the degree of transitory inflation. Therefore, it will be crucial to monitor the risk of rising inflation expectations and increases in the more inertial components of current inflation.

In China, even with an agreement that reduces the effective tariff from the current 104% to around 60%, the country's exports to the U.S. remain virtually unviable. Since the first trade war, there has been evidence of trade triangulation as a method for Chinese products to bypass increased tariffs and restrictions imposed by the U.S. This time, we believe that some triangulation is possible but that it will be of lesser intensity, given that eventual trade agreements may involve restrictions on products with Chinese participation. With this, we have revised our estimate of the negative impact of the trade shock from 1.0 p.p. to 1.8 p.p. of GDP.

We have revised China´s growth projection for 2025 down to 4.2% (from 4.5%) while maintaining it at 4.0% for 2026. Given the better-than-expected first-quarter data—suggesting an annualized growth rate above 5%—and the already-announced stimulus measures, which could support activity by up to 2.0 p.p. of GDP, any additional measures will likely remain reactive. A new round of announcements is expected only from July onward. These stimulus measures are expected to remain more focused on infrastructure investment—which has a high multiplier effect and greater government oversight—rather than on household consumption or expanding the country's social safety net.

China: prohibitive tariffs bring 2025 GDP closer to 4%



*Stimuli already announced for 2025

Source: BBG

Furthermore, we see signs that Chinese authorities are avoiding a sharper depreciation of the currency. First, given that the current level of export tariffs is significantly higher than during Trump's first term, exports have already become unviable – eliminating the rationale for using exchange rate depreciation to offset the impact. Second, with tariffs now extending to other Asian countries, trade triangulation becomes harder, further reducing the incentive to devalue the yuan. Finally, Chinese leaders are concerned with the internationalization of the currency and in avoiding China being perceived as a source of global instability. In this context, we have revised our projection for a more appreciated RMB, now forecasting 7.40 to the U.S. dollar (compared to 7.50 in the previous scenario).

In Europe, we continue to forecast growth of 0.8% in 2025 and 1.5% in 2026. Our scenario assumes a 10% increase in the effective U.S. tariff on the region, with a negative impact of 0.7 percentage points on GDP. This impact is expected to be offset – particularly in 2026 – by fiscal stimulus measures in Germany.

In the case of the ECB, with inflation continuing to decline and external uncertainty increasing, we see conditions for further interest rate cuts and now expect a terminal rate of 1.75%. Fiscal and monetary stimulus, combined with heightened global risk aversion, contribute to a stronger euro – now projected at 1.10 in 2025, compared to 1.08 previously. We note that the a risk-averse environment – which could intensify if the prospects for trade agreements with the U.S. deteriorate – can lead to appreciation in developed market currencies while exerting downward pressure on emerging market currencies.

Finally, lower global growth is also putting downward pressure on oil prices. We have revised our projection for a barrel of oil from $70 to $65 by the end of 2025 and 2026, reflecting the impact of weaker global demand. We estimate that each 1% reduction in global GDP results in a 9.5% decline in oil prices.

Latin America: Facing rising external headwinds

Shifts in US trade policy: Is the region really better off? We believe the market's initial reaction to the April 2 tariff announcements was that the region emerged relatively unscathed, with Mexico being exempt and most economies only receiving the 10% base tariff. This contrasts with other regions, such as Asia, that bore the brunt. However, in our view, the tariffs were a negative surprise for Andean countries that have a free-trade agreement with the US, and several even have a goods trade deficit with the US. Overall, tariffs are likely to negatively impact global economic activity and be inflationary in the US, while the uncertainty on China's reaction, as the main trading partner of most of the region, poses significant challenges to the outlook. Although the ninety-day pause on reciprocal tariffs and outright tariff escalation with China offers short-term relief, it is likely to keep trade policy uncertainty elevated, along with pronounced and frequent swings in global risk aversion.

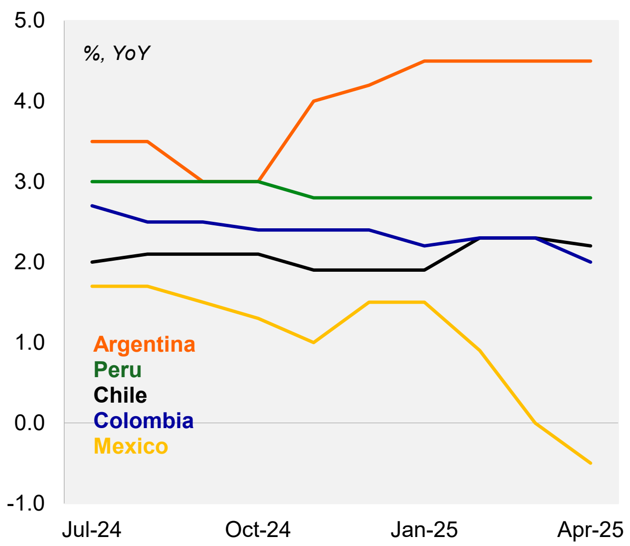
A recession in Mexico is now our base case. We have revised our 2025 GDP forecast downward for the third consecutive month, now predicting a full recession with a 0.5% contraction in GDP this year, compared to zero growth in our previous scenario. We anticipate a 0.5% QoQ GDP contraction in 1Q25, following a 0.6% decline in 4Q24, indicating a technical recession. Sequentially, we expect the second half of the year to gradually improve as the economy overcomes the delays associated with a new administration and global policy uncertainty dissipates. For 2026, we expect a modest recovery with GDP rising by 0.5%, down from 1.4% in our previous scenario. The context remains characterized by unusually high uncertainty, with negative repercussions from the trade policy changes in 2025.

Slashing GDP growth forecasts in the Andeans. Until the April 2 announcements, we were inclined to revise our 2025 GDP growth forecasts upward in the Andean region, driven by better-than-anticipated data and the performance of leading indicators. However, sequential downward revisions to the U.S. growth outlook, lower commodity prices, and the effects of elevated policy uncertainty led us to slightly revise our 2025 and 2026 GDP growth forecasts downward in Chile, Peru, and Colombia. The prospect of lower copper prices poses risks of interrupting the mining-led investment recovery in Chile and Peru.

Weaker activity and the Fed pave the way for more easing. As described earlier in our report, our global scenario now considers two 25-bp cuts by the Fed this year and another two next year. Combined with well-behaved inflation prints, this paves the way for several central banks in the region to extend their easing cycles further. In Mexico's case, in addition to the aforementioned factors, downside risks to activity have materialized (a technical recession is expected in 1Q25), and the outlook remains challenging. We still expect Banxico to maintain the 50 bp easing pace in May, following the forward guidance. Provided that the USDMXN remains stable and activity weak, we anticipate another 50bp cut in June, then slowing to 25-bps through September to reach a terminal rate of 7.5% (previously 8.5%). In both Chile and Peru, our forecast now considers two additional 25bp cuts this year to 4.5% and 4.25% respectively, edging closer to neutral nominal levels. Narrow interest rate differentials with the US and swings in expectations on copper prices are likely to keep CLP and PEN volatility above historical standards.

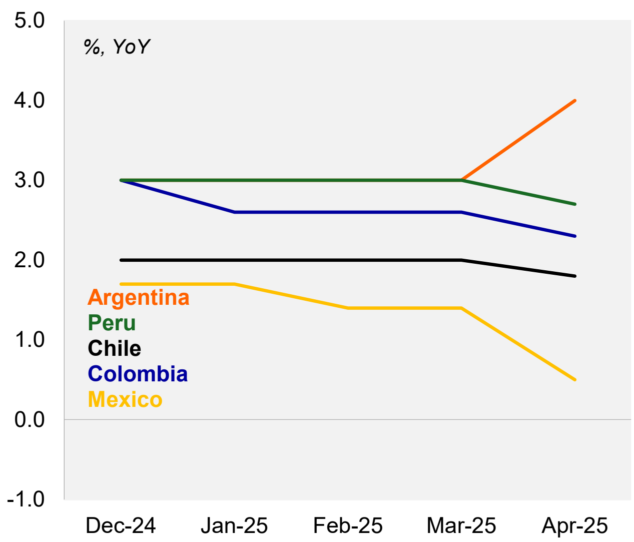
Argentina floats the currency within a wide exchange rate band. Argentina's central bank surprised by announcing important changes to its exchange rate framework that have the objective of further reducing inflation, and boost investment, employment, and activity over time. The exchange rate, which was devaluing at a steady 1% monthly pace, now floats within a wide exchange rate band between $1.000 and $1.400. The band's limits will widen at a 1% MoM pace. The BCRA's announcements take place in the context of a new USD20 billion program with the IMF, support from the World Bank Group, the IDB, and the renewal of a swap line with China. We maintained our 2025 GDP growth forecast at 4.5%, with upside risks despite rising global uncertainties, supported by a high carryover. Separately, we adjusted nominal forecasts for the economy, considering the new exchange rate framework. Importantly, surveys suggest government confidence remains high despite the cryptocurrency scandal, with all eyes on the October midterm elections.

2025 LatAm GDP Growth Forecasts



Source: Itaú

2026 LatAm GDP Growth Forecasts



Source: BBG

Global | Forecasts and Data

	2020	2021	2022	2023	2024	2025F		2026P	
						Current	Previous	Current	Previous
GDP Growth									
World GDP growth - %	-2.8	6.3	3.5	3.2	**3.2**	**2.7**	3.2	**2.6**	3.1
USA - %	-2.2	6.1	2.5	2.9	2.8	**1.2**	2.0	**1.0**	2.0
Euro Area - %	-6.2	6.3	3.6	0.4	0.8	**0.8**	0.8	**1.5**	1.5
China - %	2.3	8.4	3.0	5.2	5.0	**4.2**	4.5	**4.0**	4.0
Interest rates and currencies									
Fed Funds - %, eop	0.13	0.13	4.1	5.4	4.5	**3.9**	4.4	**3.4**	4.4
U.S. 10 Year Treasury - %, eop	0.93	1.47	3.88	3.88	4.58	**4.00**	4.50	**4.00**	4.50
USD/EUR - eop	1.22	1.13	1.07	1.10	1.04	**1.10**	1.08	**1.10**	1.08
CNY/USD - eop	6.5	6.4	6.9	7.1	7.3	**7.4**	7.5	**7.4**	7.5
DXY Index* - eop	89.9	95.7	103.5	101.3	108.5	**101.9**	104.6	**101.6**	103.9

Source: IMF, Bloomberg and Itaú

* The DXY is a leading benchmark for the international value of the U.S. dollar, measuring its performance against a basket of currencies that includes the euro, yen, pound, Canadian dollar, Swiss franc and Swedish krona.

Compared scenario

World

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	3.2	3.2	**2.7**	3.2	**2.6**	3.1

Latin America and Caribbean

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	2.3	2.3	**1.9**	2.1	**1.9**	2.2

Brazil

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	3.2	3.4	**2.2**	2.2	**1.5**	1.5
BRL / USD (eop)	4.86	6.18	**5.75**	5.75	**5.75**	5.75
Monetary Policy Rate (eop,%)	11.75	12.25	**15.25**	15.25	**13.25**	13.25
IPCA (%)	4.6	4.8	**5.5**	5.7	**4.4**	4.5

Mexico

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	3.3	1.5	**-0.5**	0.0	**0.5**	1.4
MXN / USD (eop)	17.0	20.8	**21.0**	21.0	**21.3**	21.3
Monetary Policy Rate (eop,%)	11.25	10.00	**7.50**	8.50	**7.00**	8.00
CPI (%)	4.7	4.2	**3.9**	3.9	**3.6**	3.6

Argentina

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	-1.6	-1.7	**4.5**	4.5	**4.0**	3.0
ARS / USD (eop)	809	1033	**1375**	1175	**1600**	1324
Reference rate (eop,%)	100.0	32.0	**35.0**	25.0	**20.0**	20.0
CPI (%)	211.4	117.8	**37.5**	25.0	**20.0**	18.0

Chile

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	0.5	2.6	**2.2**	2.3	**1.8**	2.0
CLP / USD (eop)	879	996	**970**	955	**940**	930
Monetary Policy Rate (eop,%)	8.25	5.00	**4.50**	5.00	**4.00**	4.50
CPI (%)	3.9	4.5	**4.0**	4.1	**2.9**	3.0

Colombia

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	0.7	1.7	**2.0**	2.3	**2.3**	2.6
COP / USD (eop)	3822	4409	**4400**	4300	**4200**	4100
Monetary Policy Rate (eop,%)	13.00	9.50	**8.25**	8.00	**7.50**	6.50
CPI (%)	9.3	5.2	**4.5**	4.5	**3.3**	3.3

Peru

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	-0.4	3.3	**2.8**	2.8	**2.7**	3.0
PEN / USD (eop)	3.70	3.80	**3.80**	3.80	**3.80**	3.80
Monetary Policy Rate (eop,%)	6.75	5.00	**4.25**	4.75	**4.00**	4.75
CPI (%)	3.2	2.0	**2.3**	2.3	**2.0**	2.2

Source: Itau

Commodities

	2020	2021	2022	2023	2024	2025F		2026F	
						Current	Previous	Current	Previous
Brent Oil (USD/bbl)	50	75	82	77	73	**65**	70	**65**	70
Iron Ore (USD/tonne)	153	116	110	135	103	**90**	90	**80**	80
Copper (USD/tonne)	7788	9525	8402	8489	9030	**9050**	9500	**9350**	9500
Corn (Usd/bu)	437	592	656	480	444	**450**	450	**410**	410
Soy (Usd/bu)	1207	1290	1474	1311	984	**980**	980	**950**	950
Wheat (Usd/bu)	604	790	749	619	548	**650**	680	**630**	650
Sugar (Usd/lb)	15	19	20	22	20	**18**	18	**18**	18
Coffee (Usd/lb)	123	235	166	188	321	**360**	360	**280**	280

Source: BBG, Itaú

Macro Research – Itaú
Mario Mesquita – Chief Economist

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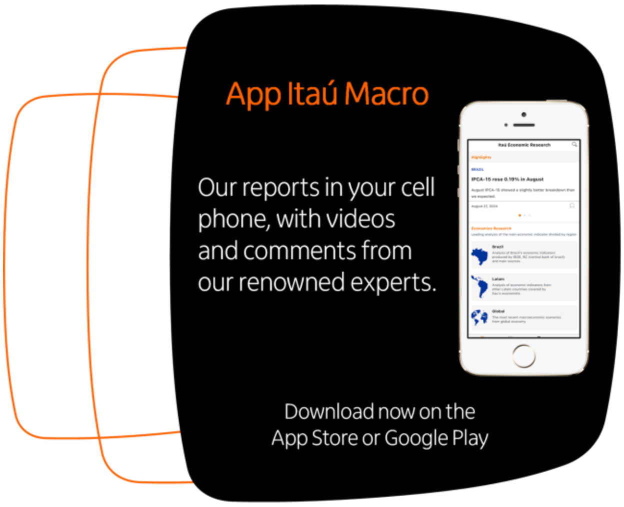

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