

Macroeconomic Research

Themes for 2025 | Global Scenario

GLOBAL: Themes for 2025

- 1. How much of Trump's agenda on tariffs, fiscal policy and immigration will be implemented?**
- 2. Will the US outperformance continue?**
- 3. Is US inflation reaccelerating?**
- 4. Can the Fed still cut rates? Does it need to hike?**
- 5. Europe: Can monetary and fiscal policies offset structural weaknesses and prevent the euro from falling below parity?**
- 6. China: reactive or proactive stimuli? What is needed to avoid a sharper slowdown?**
- 7. Emerging markets: Generalized fragility or localized resilience?**
- 8. Will the dollar strengthen further?**
- 9. Geopolitical: Key events.**

1. How much of Trump's agenda on tariffs, fiscal policy and immigration will be implemented?

We expect partial tariff increases, higher public deficits, and restrictions on illegal immigration.

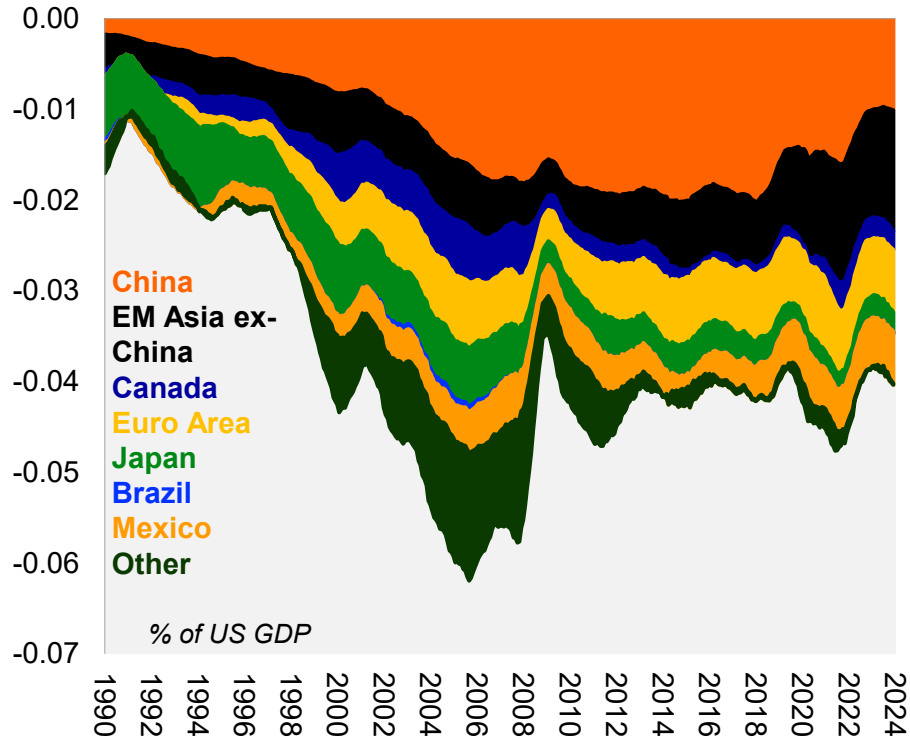
Trump's Agenda 2.0

	Promise	Expectation	Impact Incorporated	Implementation	Timing
Tariffs	<u>Aggressive</u> 10% general; 60% increase on China	China: 20pp to 34pp average tariff Europe: 2pp to 22.5pp automobiles Mexico: 100% on Chinese cars No general increase	US: Core CPI +0.5/1.0 ; Mixed GDP Europa: GDP -0.5; China: GDP -1.0;	(i) Executive order, question on whether investigation is required (Sections 301, 302, 232, 201) (ii) IEEPA (extraordinary threat to the US) (iii) Congress	Priority. 1H25
Fiscal	Deficit expansion, with uncertainty over mitigating factors (tariffs and efficiency gains) increases deficit by ~1.5% of GDP and debt by 39 pp in 10 years. Renewal of TCJA, tax cuts (corporate tax, social security, overtime income, tips), increased spending (defense and others) financed by efficiency gains (Doge/Musk), reduced IRA, tariffs, and growth	Increase in deficit by ~1.0% of GDP and debt by 30 pp in 10 years	10Y treasury under pressure at 4.5/5.0%	Congress through simple majority ("reconciliation"), as long as it does not increase the deficit within 10 years.	Major discussion in 2H25, but debt ceiling reached in January, budget sent in February
Immigration	<u>Restriction on illegals and mass deportations</u>	Flows of new immigrants goes to zero, some deportations	Neutral payroll from 150/200 to zero or negative	Executive order + sublegal	Continuous discussion

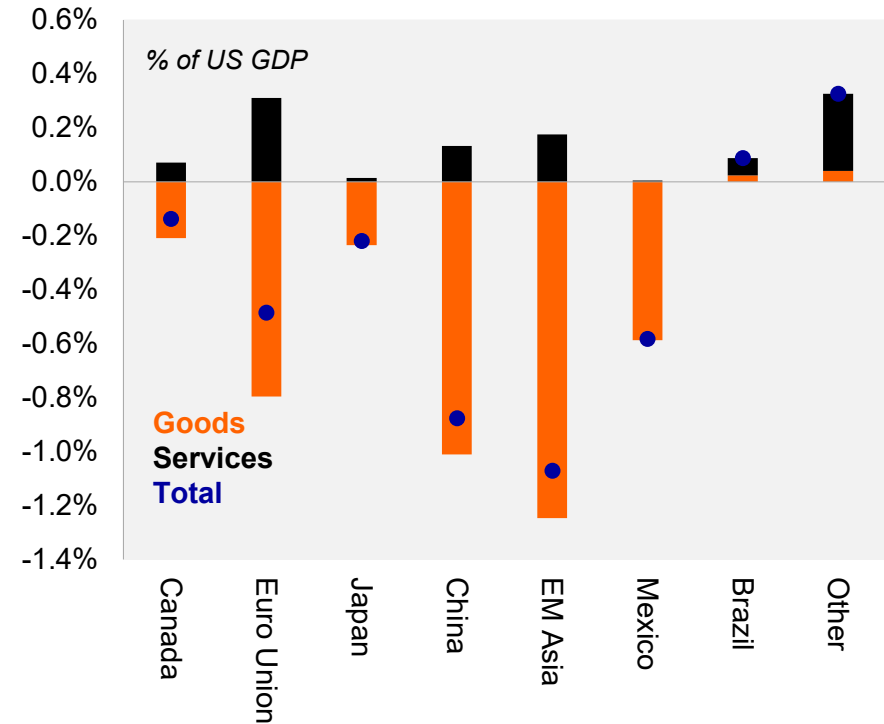
1. Tariffs: 3% of GDP in deficit (4% in goods)

Concentrated on Canada, Europe, Mexico and Asia

US goods trade deficit at 4% of GDP



US trade deficits concentrated on Canada, Europe, Mexico and Asia

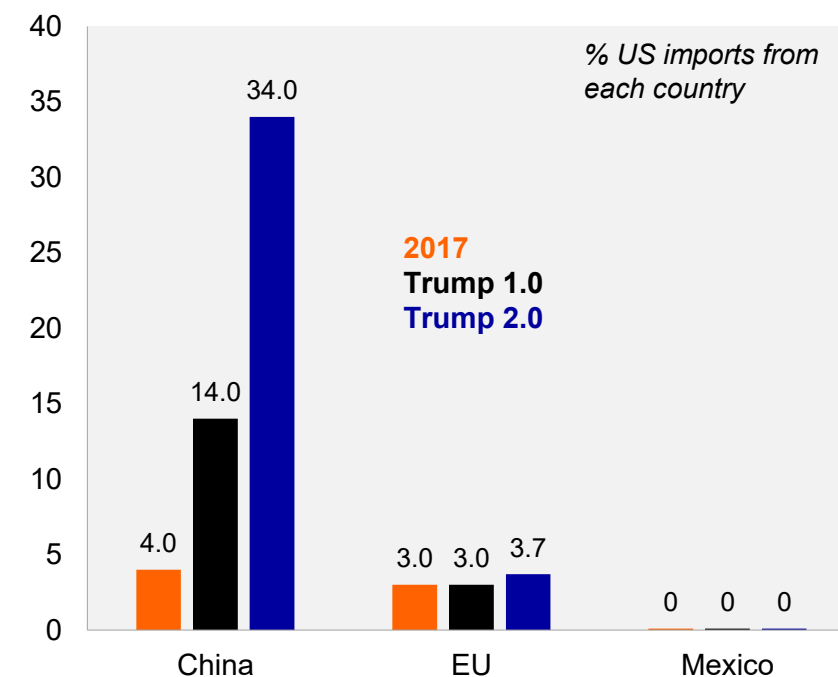


1. Tariffs: we expect increases more targeted on China

We expect effective tariffs to rise from 14% to 34% in China and from 3% to 4% in Europe.

Country	US imports	Sectors/Products	Current Tariff	Trump 2.0	
				New tariff	US Legal Authority
China	US\$34b list	agro, auto	25%	85%	Executive (investigation?)
	US\$16b list	iron, steel, machinery	25%	85%	Executive (investigation?)
	US\$200b list	chemicals, metal, food	25%	60%	Executive (investigation?)
	US\$110b list	clothing, homeware, footwear, food, metals	7.5%	17.5%	Executive (investigation?)
	Residual	mostly consumer	0%	5%	Executive (investigation?)
EU	US\$80b	auto	2.5%	22.5%	Executive (investigation?)
Mexico	very small	auto by Chinese automakers	0-2.5%	100%	Executive (investigation?)
Mexico	US\$475b	all imports	4.75%	25%	Executive (investigation?)
Global	US\$3100b	all imports	2.7%	10%	IEEPA or Executive Investigation or Legislative/Congress action

US effective tariffs: we expect a 20 p.p. increase in China

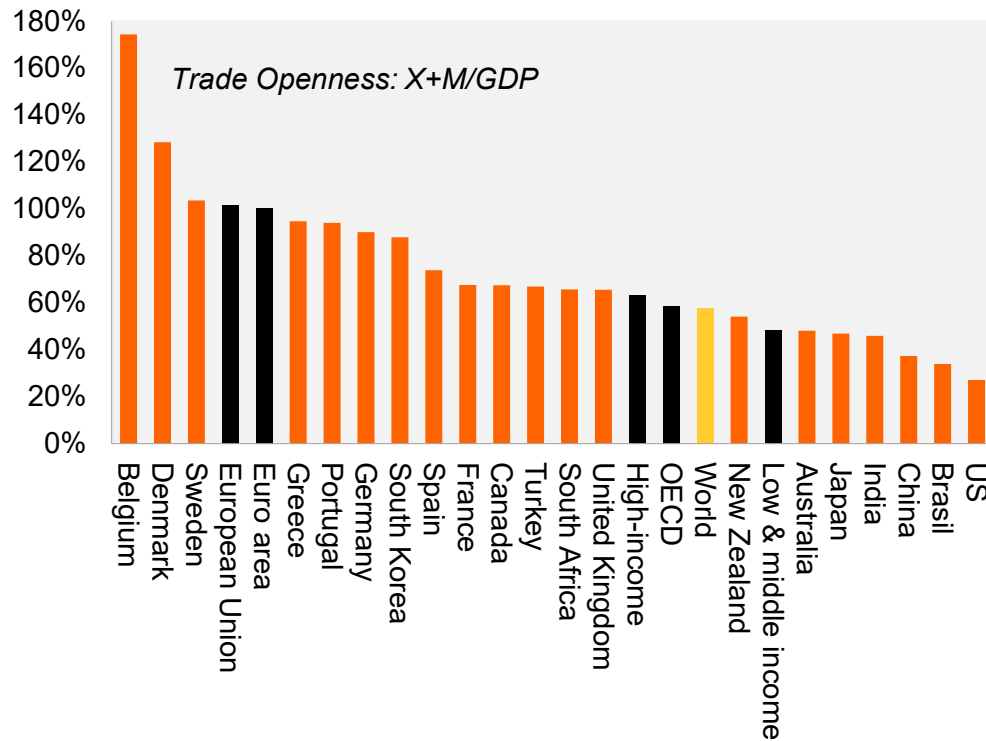


1. Tariffs: the impact on U.S. growth is expected to be modest

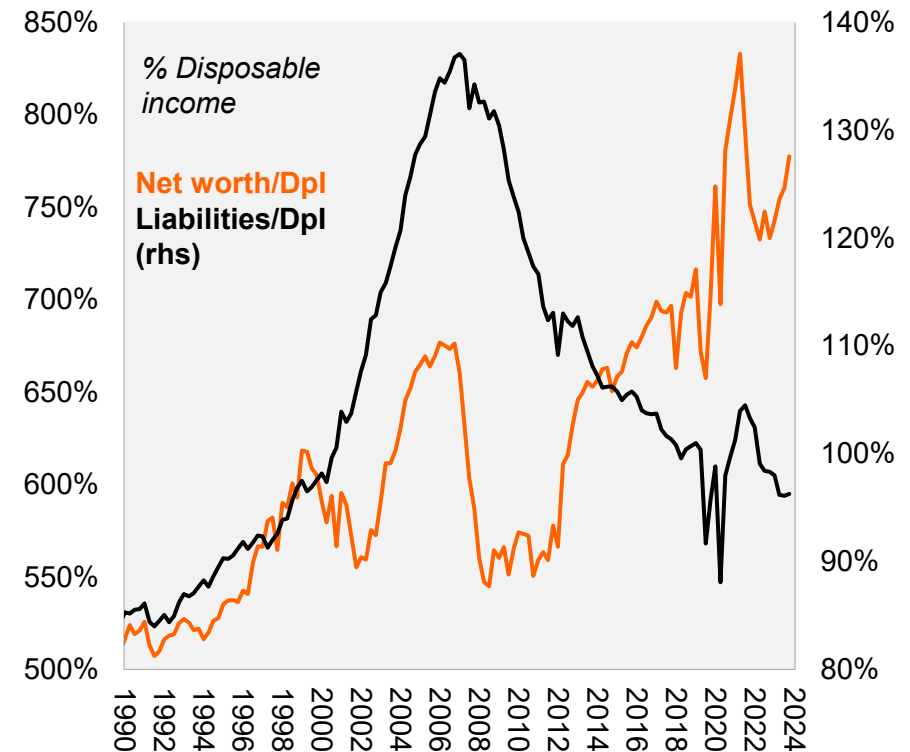
The economy is relatively closed, and fundamentals remain positive.

- The risk lies on the inflationary impact (70 bps on core inflation measures) in an economy with robust growth.

US is a relatively closed economy



Households net worth and liabilities are benign

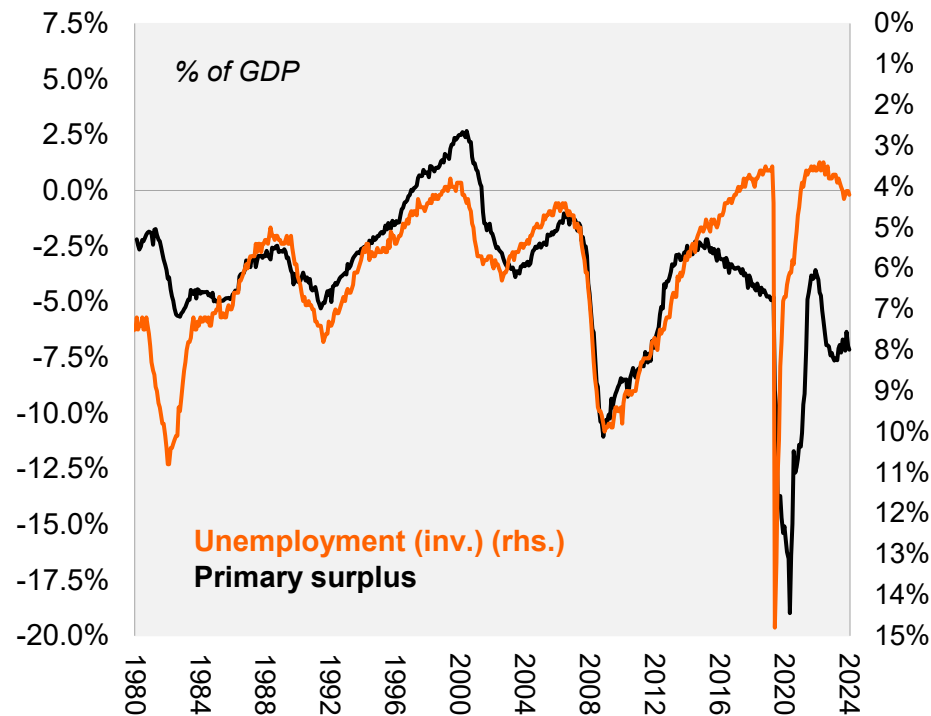


1. Fiscal: no prospects of improvement; Trump proposals will pressure the fiscal outlook

Nominal deficit may remain above 7.5% of GDP.

- Revenue from tariffs, at best, prevents additional deterioration.

Deficit detached from unemployment



Source: Haver and Itaú

Table 1: Estimated fiscal impact of Trump fiscal proposals

Fiscal Policy Agendas		Fiscal Measures	Impact on Deficit in 10y (USD bi)	Impact in 2034 (% GDP)
	Spending	Decrease IRA support	-650	-0.2%
		Increase Defense Spending	400	0.1%
		Other spending increases and cuts	250	0.1%
		Total	0	0.0%
GOP	Tax	Extend TCJA-related tax cuts	4500/6000	+1.3%/+1.7%
		Decrease Corporate Tax (to 15%, from 21%)	200/1000	0.2%
		End taxation of Social Security Benefits	1300	0.4%
		Exempt Overtime Income from taxes (payroll)	1000/3000	0.6%
		Exclude tips from tax	300	0.1%
		Tariffs	-2000/-5000	-0.6%/-1.4%
	Total	5000/7000	+1.6%/+1.8%	
Net	Total Net Republicans	5000/7000	+1.4%/+1.7%	

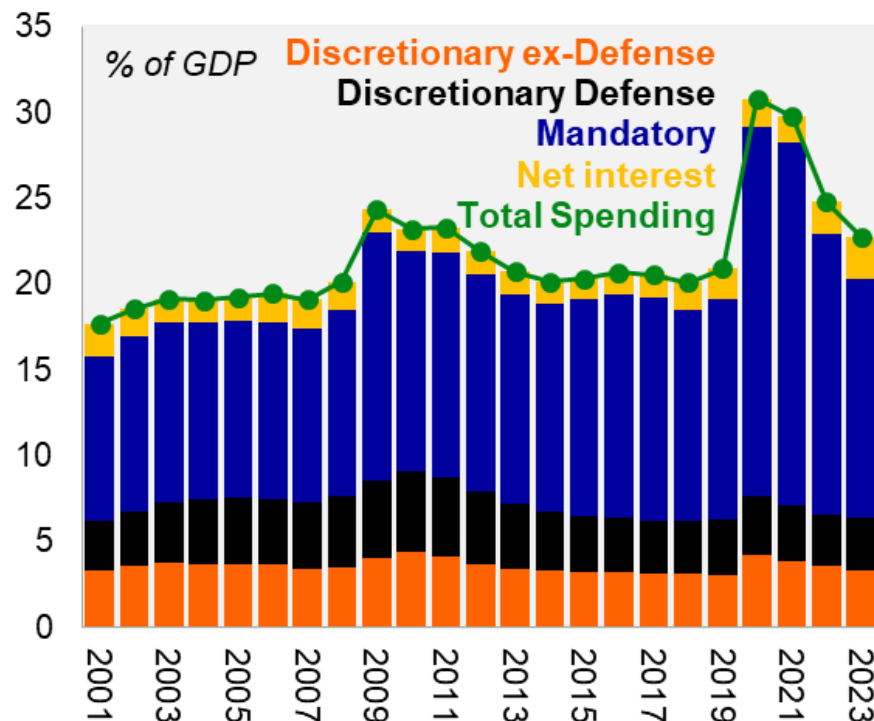
Source: CBO, CRFB, White House and Itaú

1. Fiscal: efficiency gains are possible but on a more modest scale

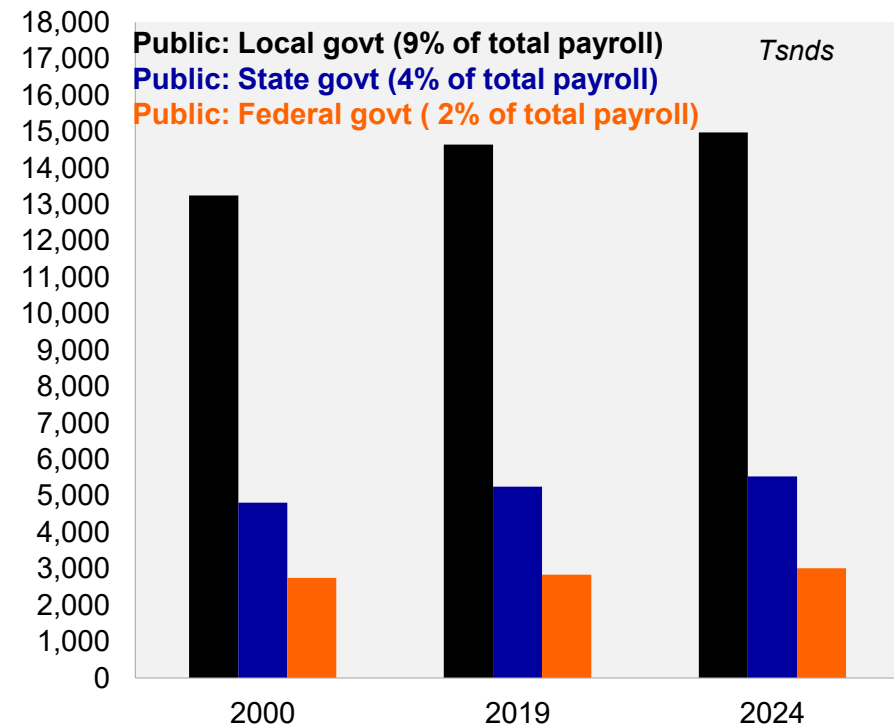
Saving of \$1-2 trillion USD in one year (~3.5-7% of GDP) is unlikely.

- Discretionary spending, excluding defense, stands at 3.3% of GDP and are slightly above pre-pandemic levels.
- Despite most public employees not being part of the federal administration, there is some room for reduction (personnel expenses account for 2% of GDP at the federal level).

Govt Spending: small room to cut



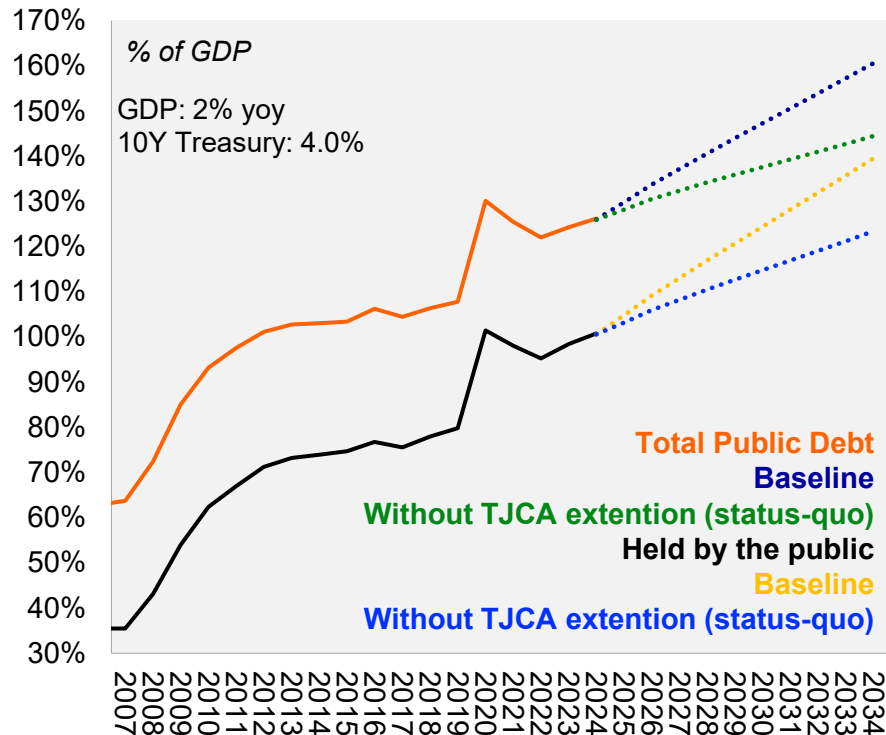
Federal public payroll is small share of total, little room for savings



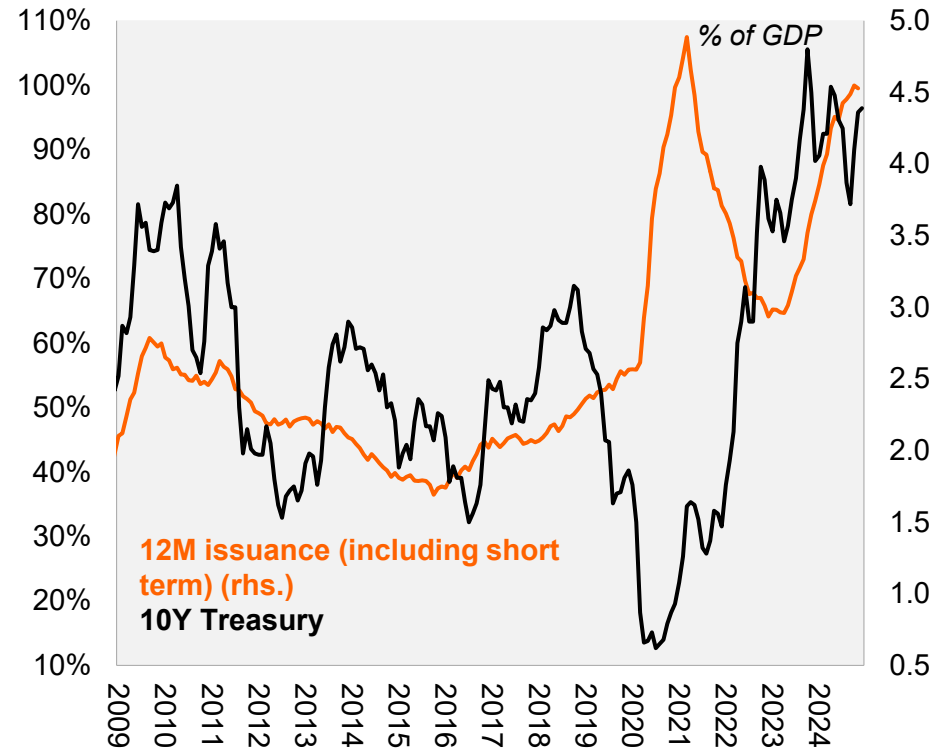
1. Fiscal: we expect public debt to continue rising

The 10-year Treasury yield may remain in high levels (projected at 4.50).

No stabilization of US public debt in sight



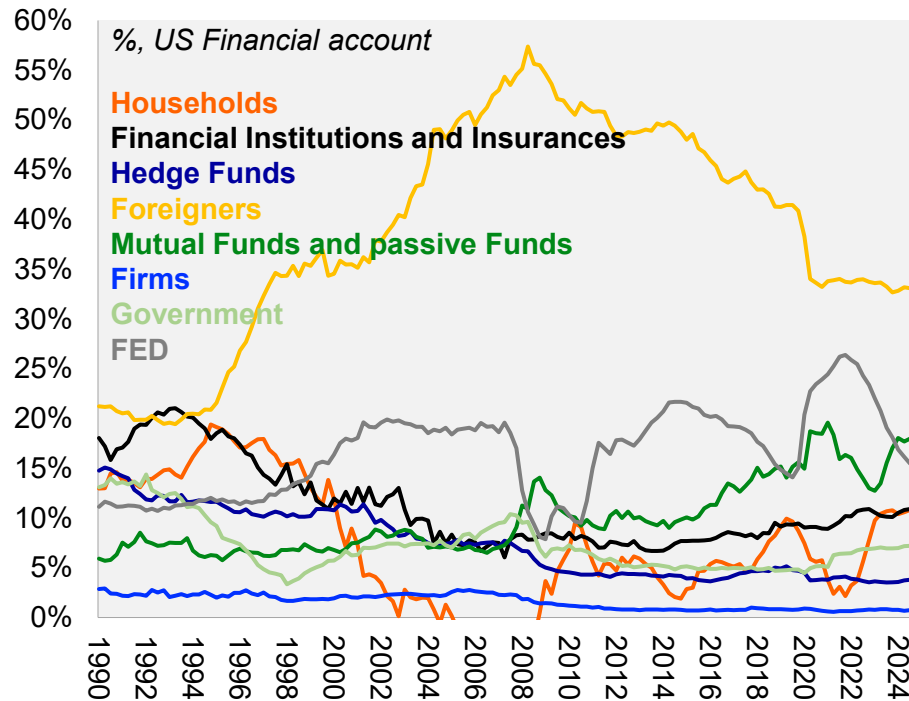
10Y Treasury to remain at high levels



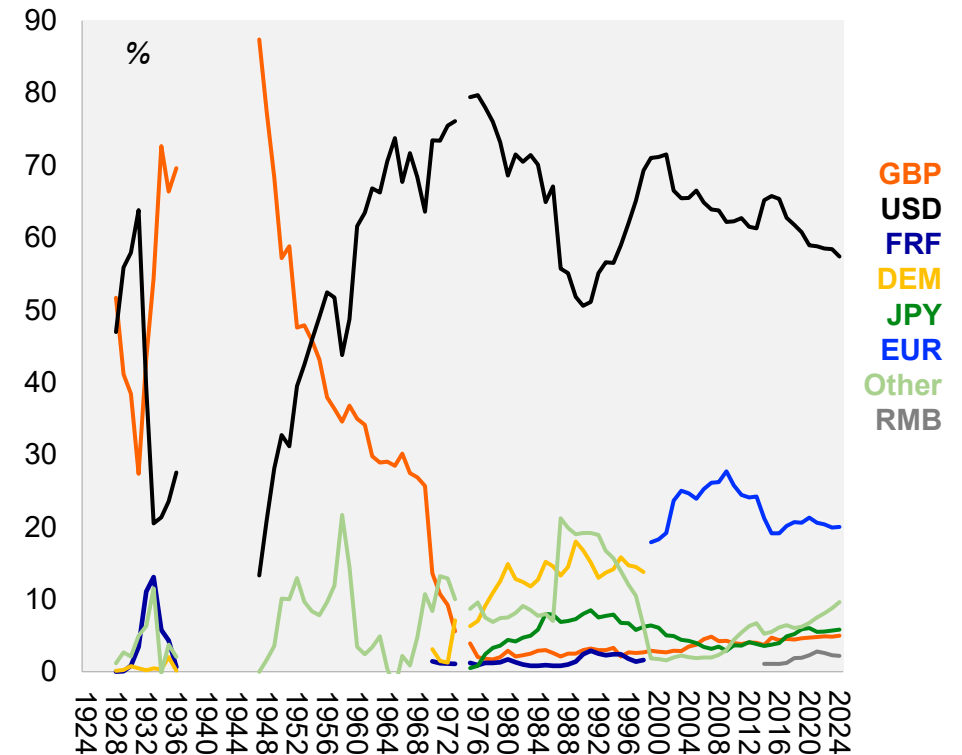
1. Fiscal: USD is likely to remain the global reserve currency

Despite challenging fiscal and geopolitical conditions, a significant outflow of USD is unlikely.

Foreigners remain the main holders of US Treasury securities



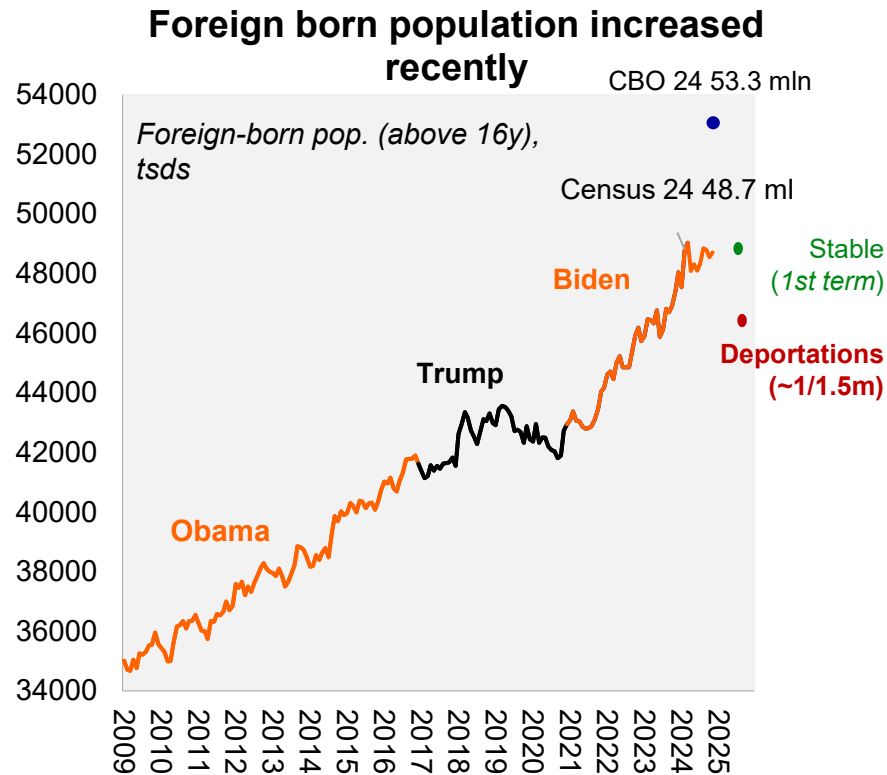
FX reserves are mostly USD denominated



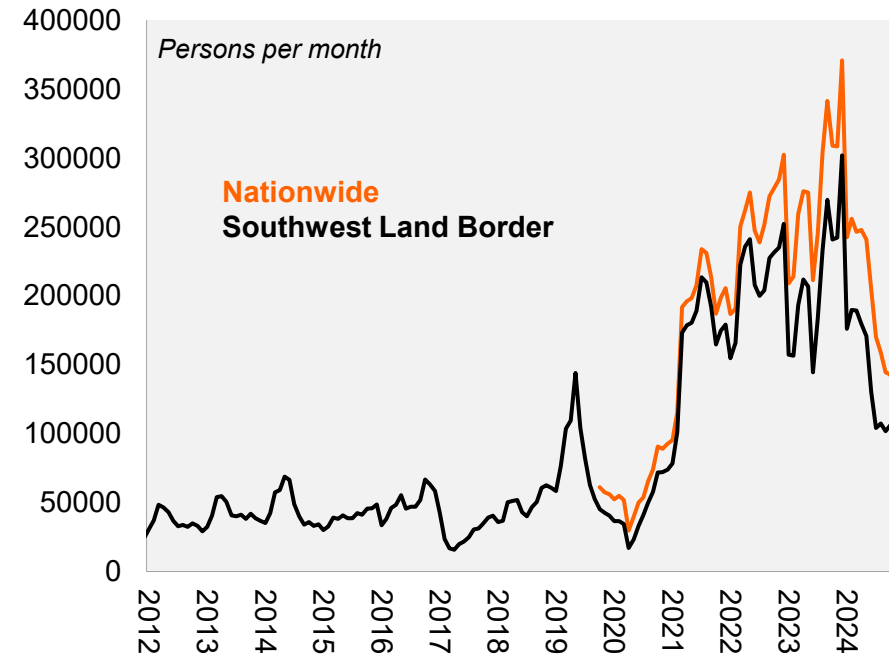
1. Immigration: foreign-born population is at the all-time high...

... But it will likely stabilize or fall

- Illegal population represents around 30% of total foreign-born population (17M out of 50M), according to CBO estimates;



Border Apprehensions, Inadmissibles, and Expulsions

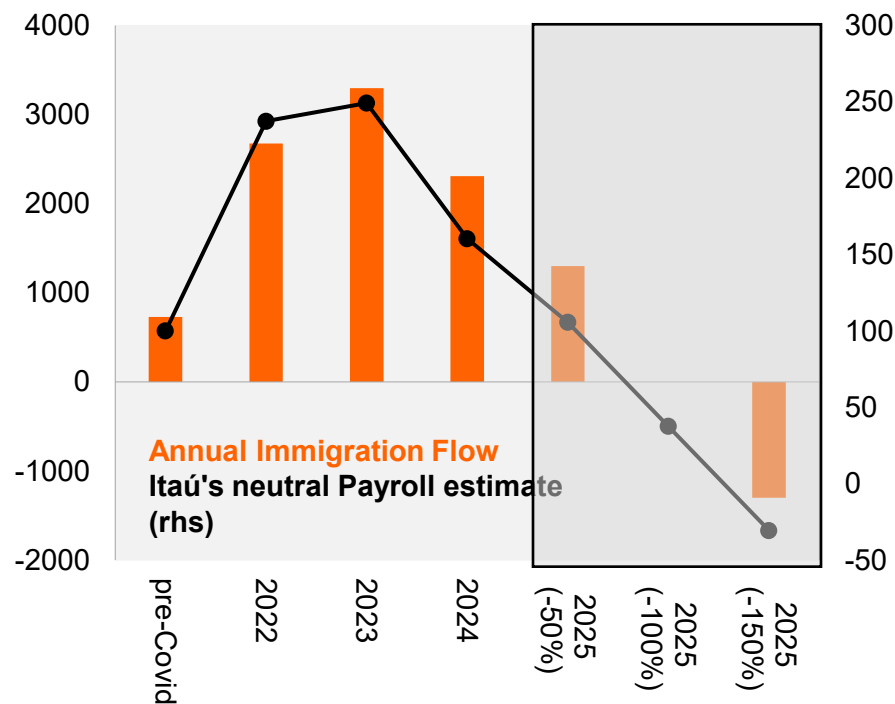


1. Immigration: neutral payroll could decline with restrictions

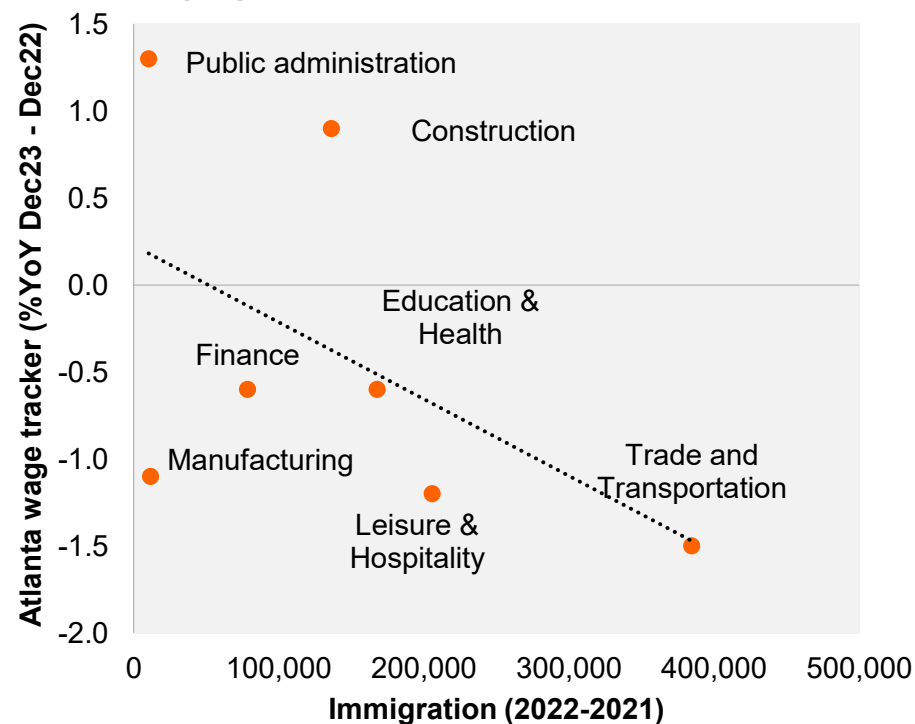
A reduced labor supply with a strong economic growth increases inflationary risk.

- Evidence is that increased immigration has contributed to slowing wage growth and inflation.

A drop in immigration will mean a lower neutral payroll



Sectors with higher immigration showed lower wage growth

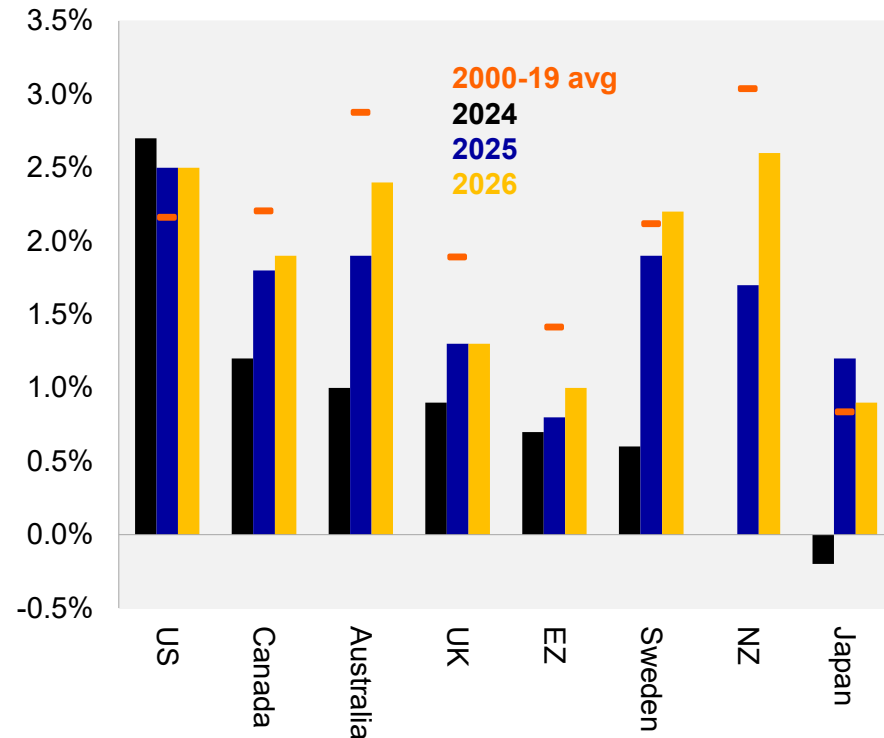


2. US outperformance will continue

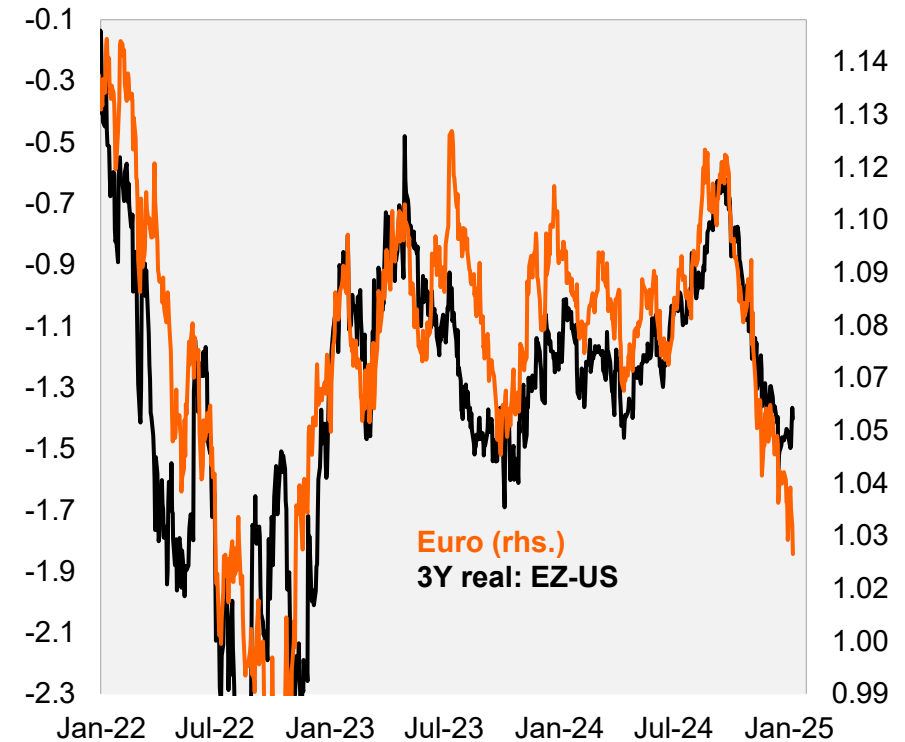
Which will continue to pressure the USD

- We expect US to grow 2.5% and Europe to grow 0.8% in 2025.
- We expect the EUR/USD at 1.00 in 2025 (from 1.03 in the previous scenario).

US growing above 2000-19 average



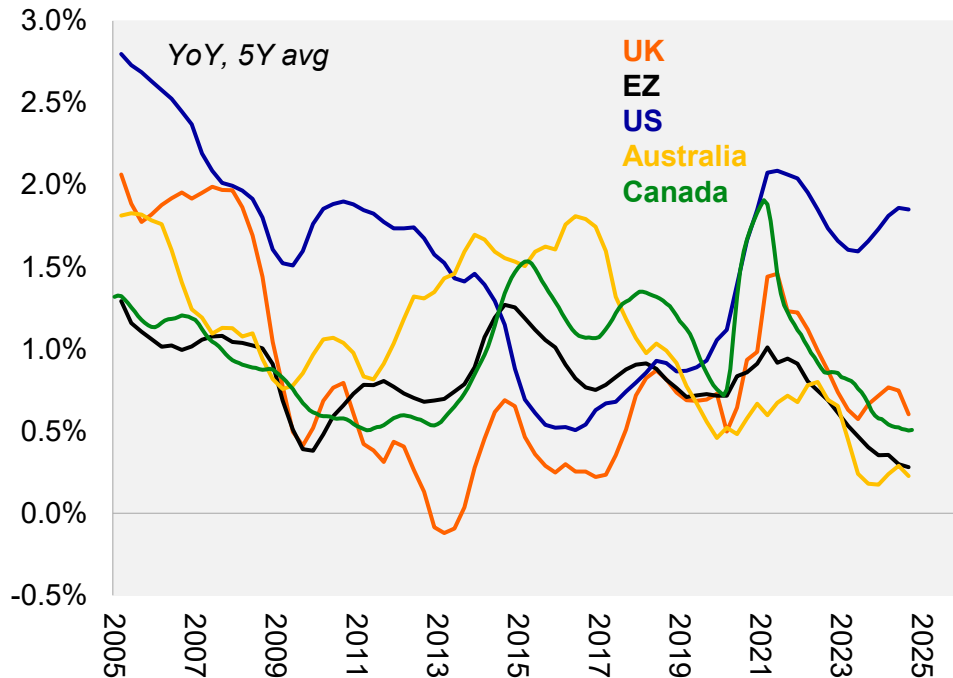
EURUSD vs Rates Diff.



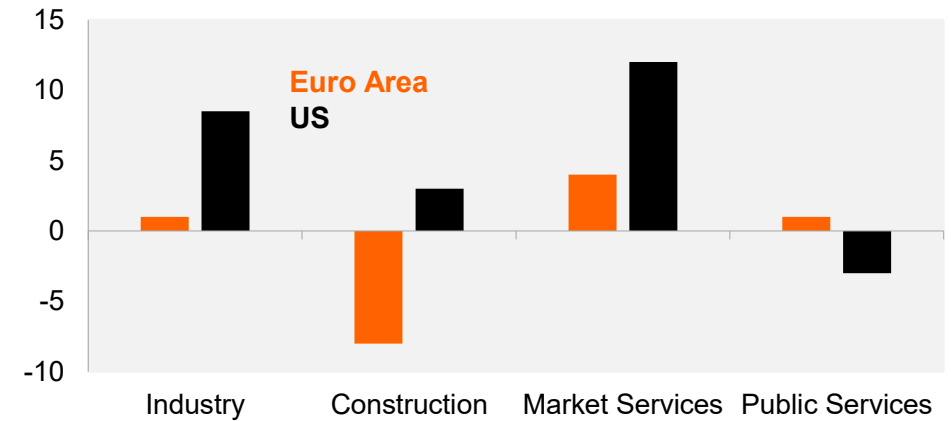
2. Above-average productivity growth is one of the drivers of US outperformance

- Changing GDP breakdown and incorporation of new technologies (US more prepared for AI adoption).
- Labor market more flexible in the US.
- Convergence to pre-pandemic trend.

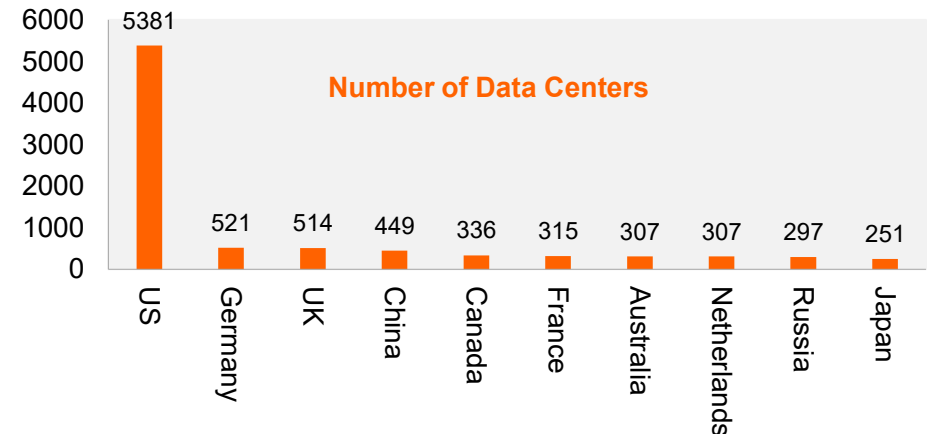
Labor Productivity: GDP / Hours Worked



Hourly labor productivity growth by main sectors



US has a much higher number of Data Centers



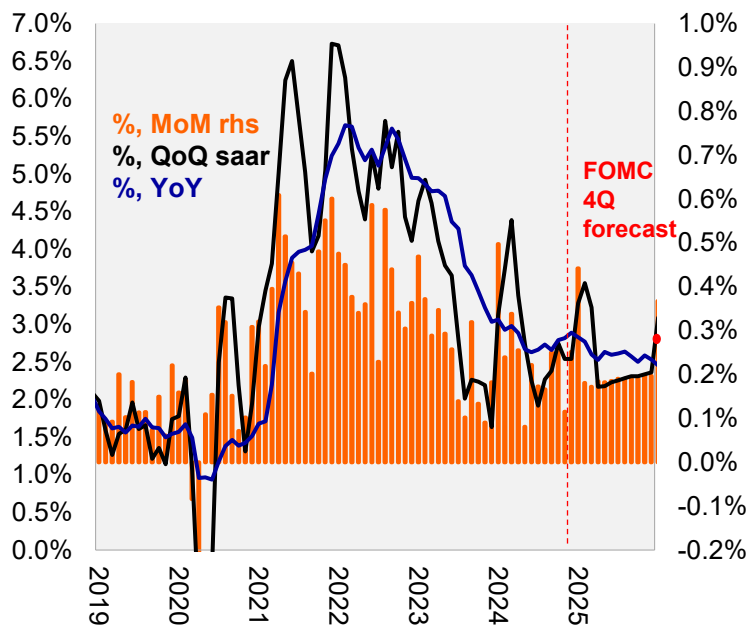
3. Will US inflation reaccelerate?

We expect 2.5% Core PCE in 2025-2026.

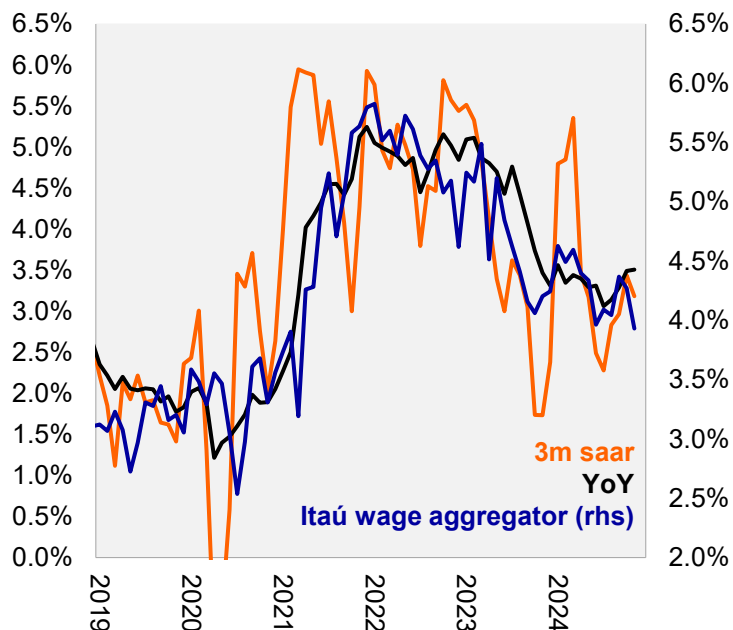
Persistence is likely to continue, with no additional sources of disinflation.

- Services inflation may remain stable without pressure from accelerating wages;
- Housing inflation should remain contained.
- The main risk lie in goods inflation amid tariff wars and strong economy

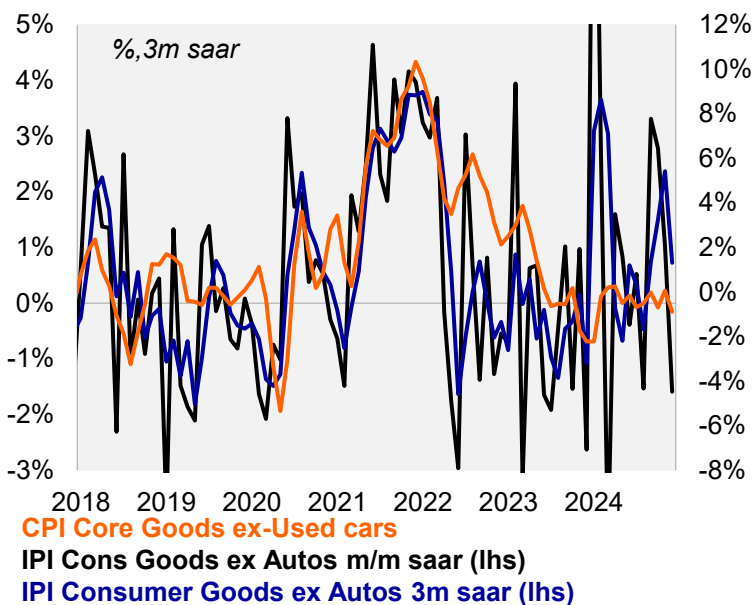
Core PCE Forecast 2.5% in 2025



Supercore PCE and Wages



IPI: Consumer Goods excluding Autos



4. Is the Fed still able to cut rates? Will hikes be needed?

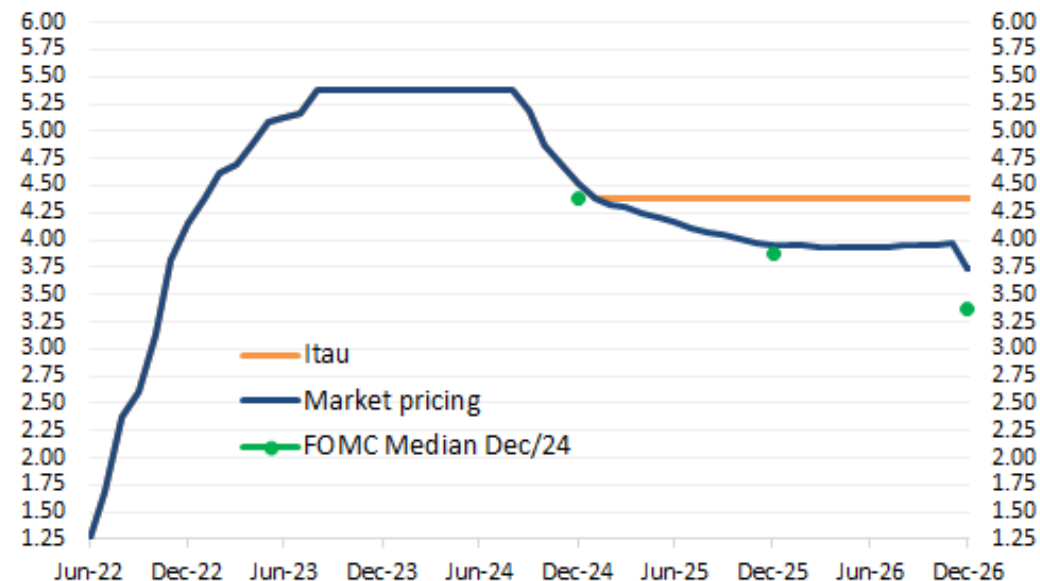
We expect the Fed to maintain the FFR stable in 2025 and 2026 at 4.50% (compared to one cut in the previous scenario to 4.25%)

Average of Taylor Rules* (assump. R-star = 1.75%; Nairu 4.2%)

Core PCE	Unemployment						
	3.8	3.9	4.0	4.1	4.2	4.3	4.4
1.50	3.3	3.2	3.2	3.1	3.0	2.9	2.8
1.75	3.6	3.5	3.5	3.4	3.3	3.2	3.0
2.00	3.9	3.8	3.7	3.7	3.6	3.5	3.3
2.25	4.2	4.1	4.0	4.0	3.9	3.7	3.6
2.50	4.4	4.4	4.3	4.2	4.2	4.0	3.9
2.75	4.7	4.6	4.6	4.5	4.4	4.3	4.2
3.00	5.0	4.9	4.9	4.8	4.7	4.6	4.5

*Avg of Taylor (1993), Inertial (1993), Balanced-approach (shortfalls) and First-difference rules

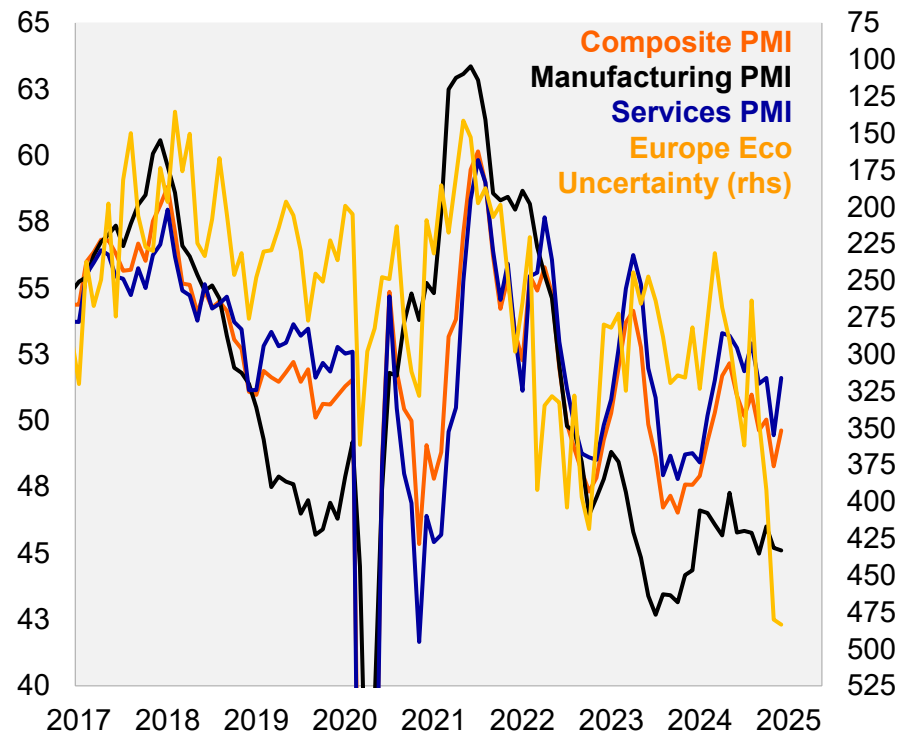
FFR pricing and forecast



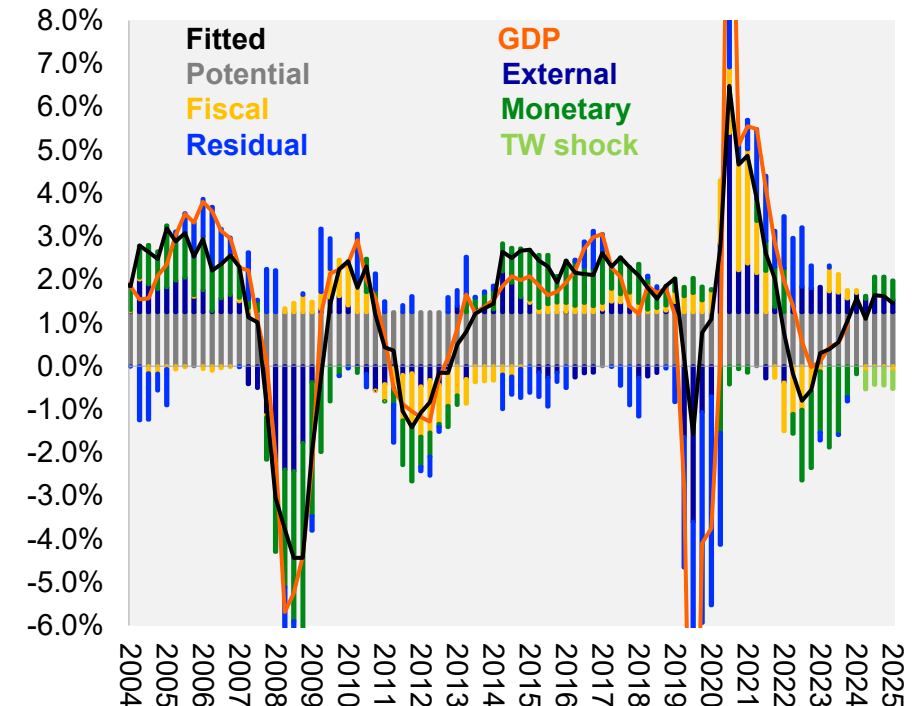
5. Europe: monetary and fiscal policies will solve the stagnation?

Tariff war could be a new shock, offsetting the monetary impulse.

Europe: tariffs could be a new shock



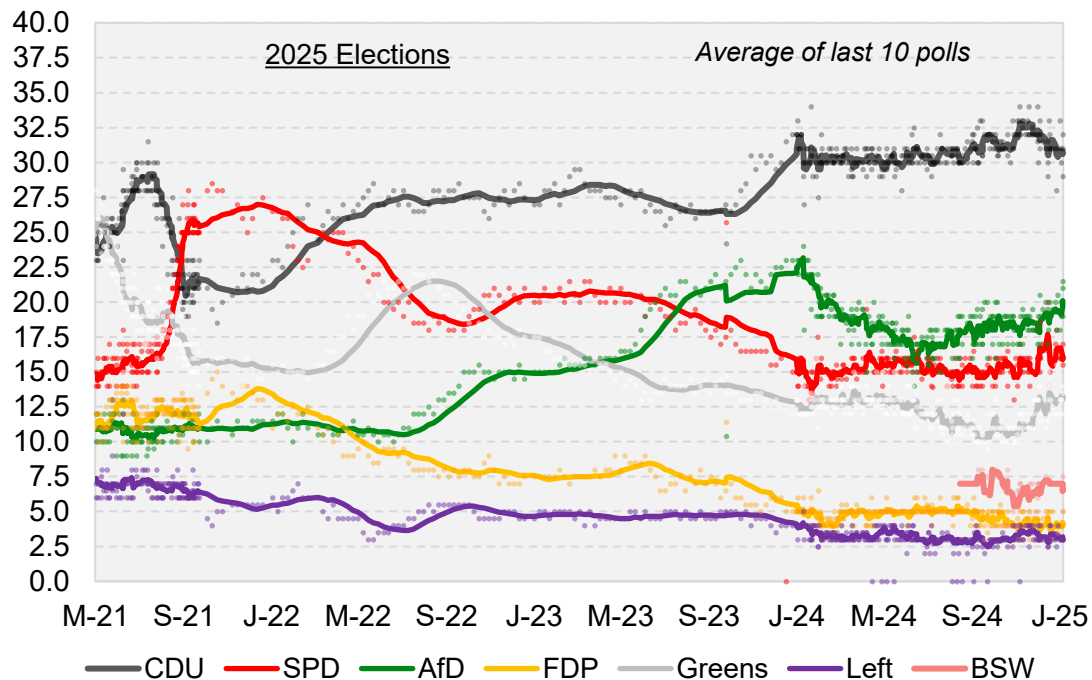
GDP: positive monetary impulse, but tariff war is a new shock



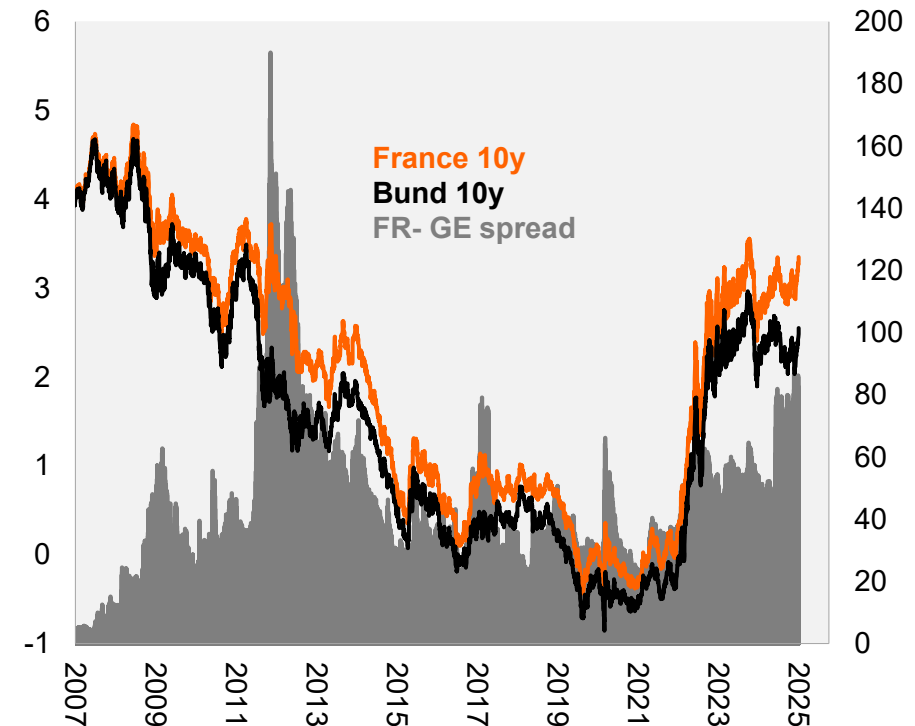
5. Europe: fiscal expansion limited in Germany after elections, while France stays with a divided government

- **Germany:** elections (Feb 23), favorite is CDU party; discussion is of more fiscal stimulus by adjusting the constitutional debt-break, but there is skepticism about magnitude.
- **France:** (1) government is weaker since June elections and 2025 budget was not approved yet; (2) New Parliament elections can be called in June (1 year after the last one). New presidential elections only in 2027.

German 2025 Federal Elections: Voting intentions



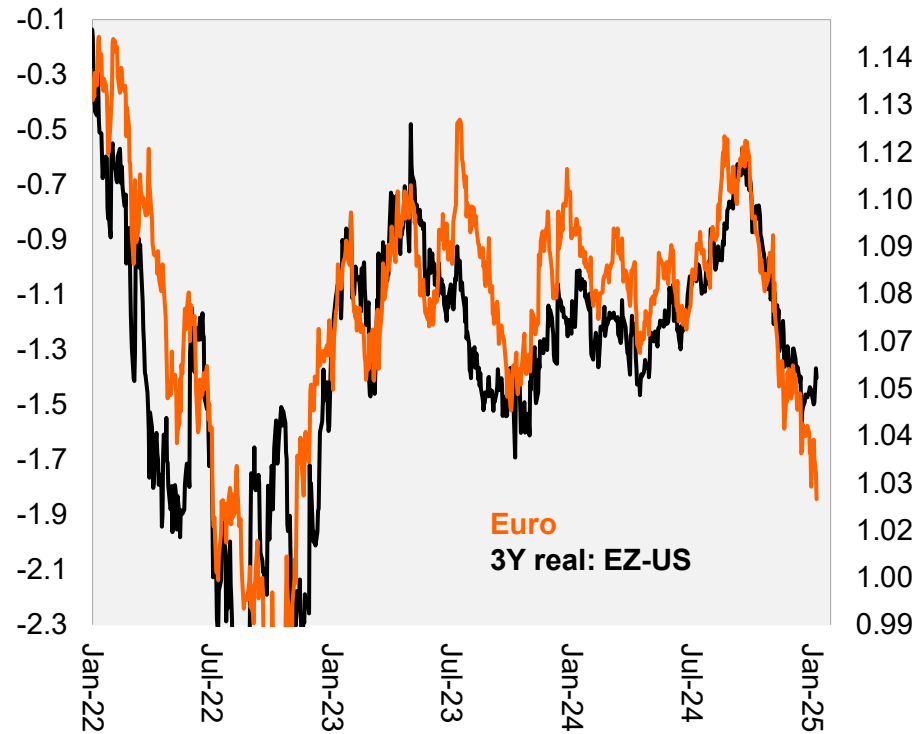
France - Germany 10y yields



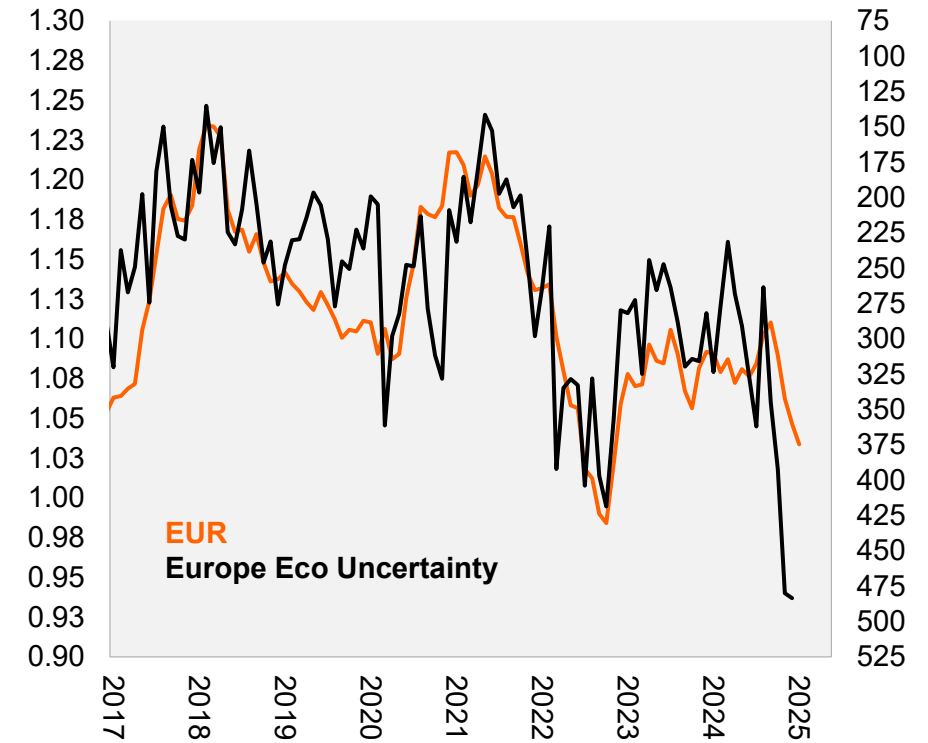
5. Europe: we expect the EURUSD at parity

Broader tariff war is a risk as it may lead to economic activity deterioration and weaker FX

EUR vs Rates Diff.



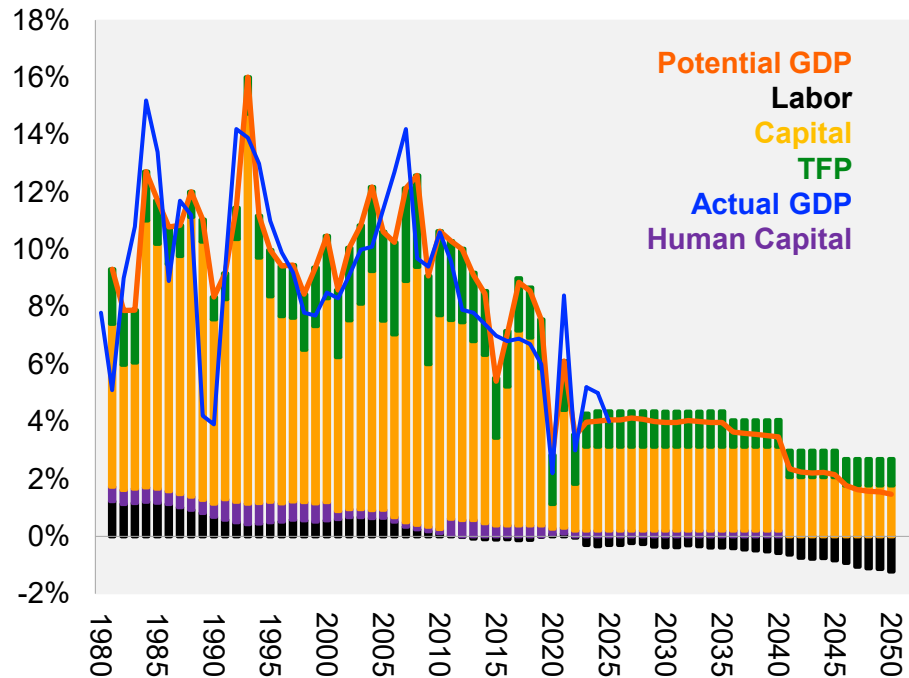
EUR vs Eco Uncertainty



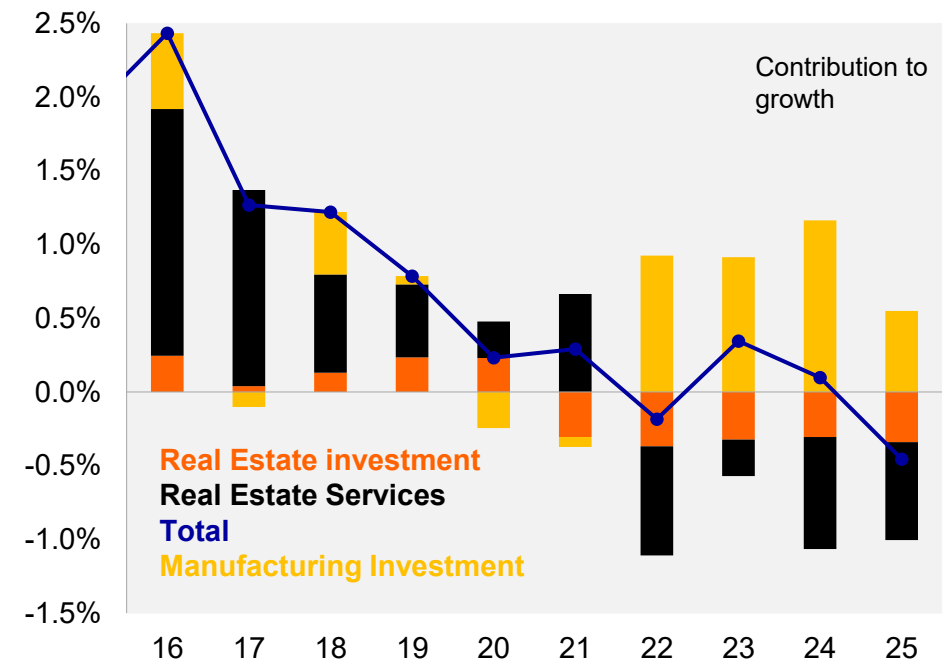
6. China: reactive or proactive stimulus? What is needed to prevent a sharper deceleration?

Structural challenges persist; lack of new sources of growth

Potential GDP trending lower



Growth model driven by manufacturing and exports is unlikely to be sustained amid the trade war

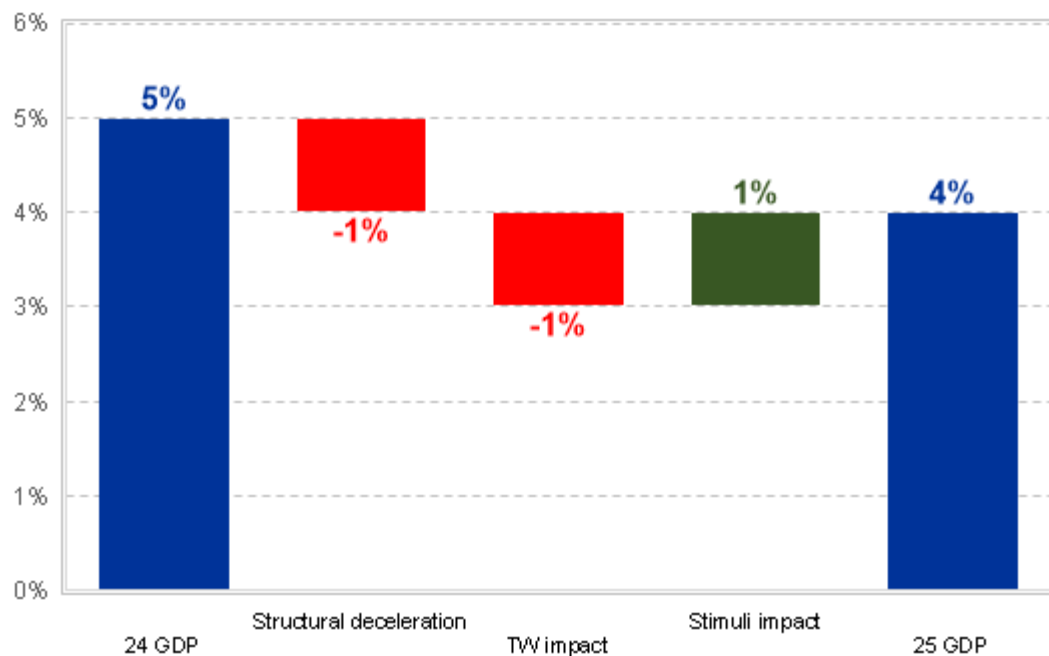


6. China: we expect 4% GDP growth in 2025 (compared to 5% in 2024)

Stimulus measures are likely to remain reactive, focusing more on fiscal policies (infrastructure and subsidies for consumer goods) with limited support for the real estate sector.

- Further details on the size of the stimulus may be announced at the March policy congress.

GDP: more stimulus are needed to offset shocks (structural and tariffs)



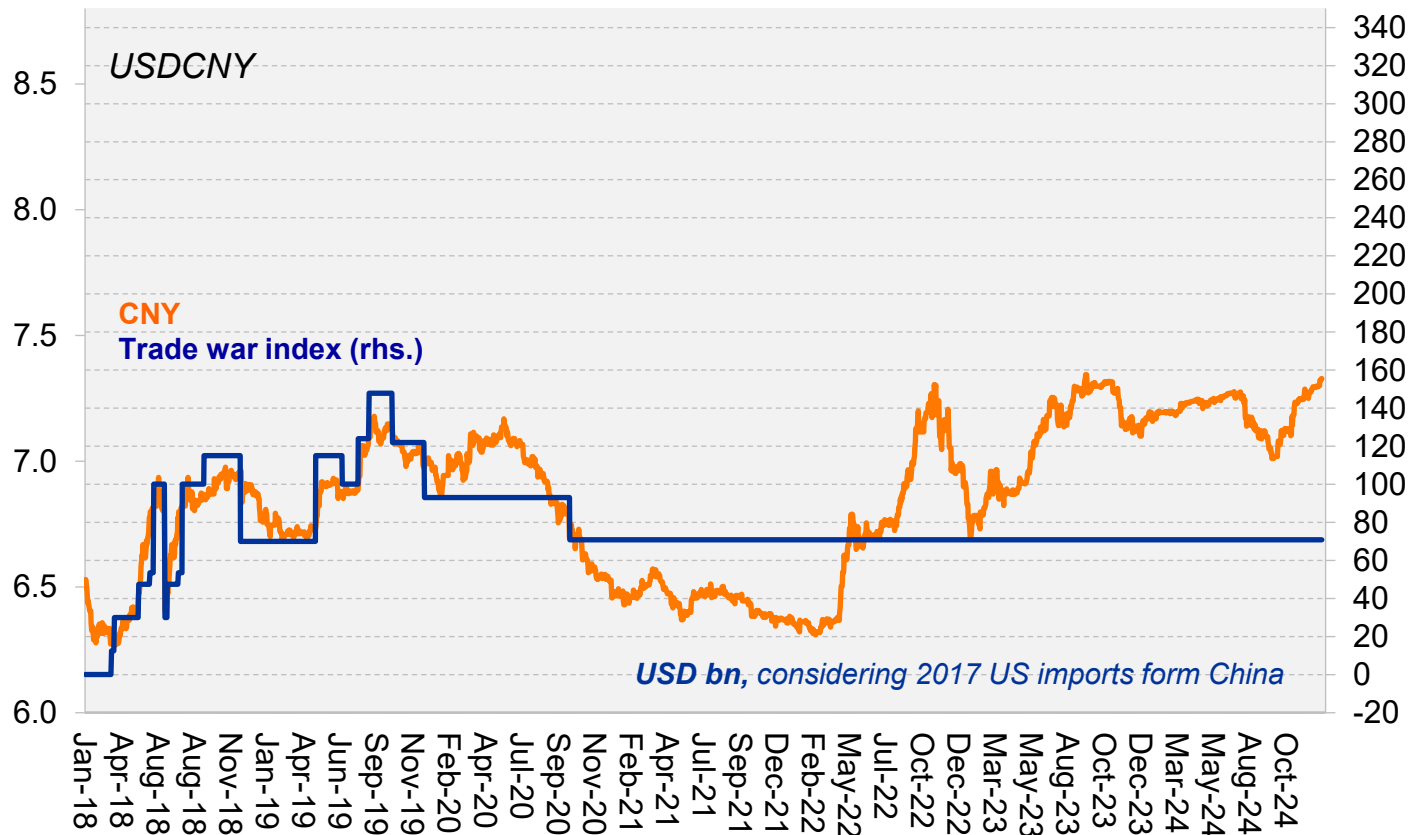
Monetary & fiscal measures		25 GDP impact
Considered in our baseline scenario		
Monetary	-100bps RRR; -30bps 7d OMO	0.2
Fiscal	0.8% GDP	0.9
	0.6% GDP for investment	
	0.2% GDP for consumption	0.1
Total impact		1.2
Needed to reach 5% GDP, not considering full TW scenario		
Monetary	-100bps RRR; -30bps 7d OMO	0.2
Fiscal	1.6% GDP	1.5
	1.0% GDP for investment	
	0.6% GDP for consumption	0.4
Total impact		2.1

*Fiscal multiplier: investment 1.5; consumption: 0.7.

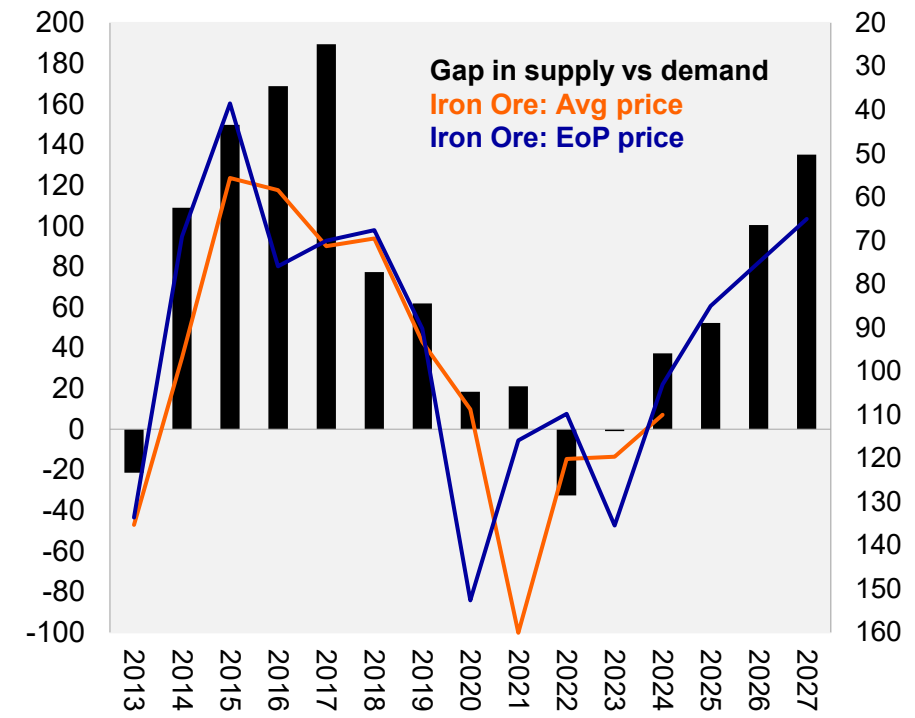
6. China: CNY will likely continue to depreciate; lower iron ore prices

- **CNY:** we expect it at 7.50 (from 7.40 previously), but there are upside risks;
- **Iron ore:** we expect prices at USD 85/ton (vs current prices at around USD 100/ton)

In 2018-19, each USD 1 bn in tariffs led to a 0.09% depreciation of the CNY.
 With our scenario of USD 211 bn in tariffs, risk is of an even more depreciated currency (USDCNY>8), if the PBoC does not act



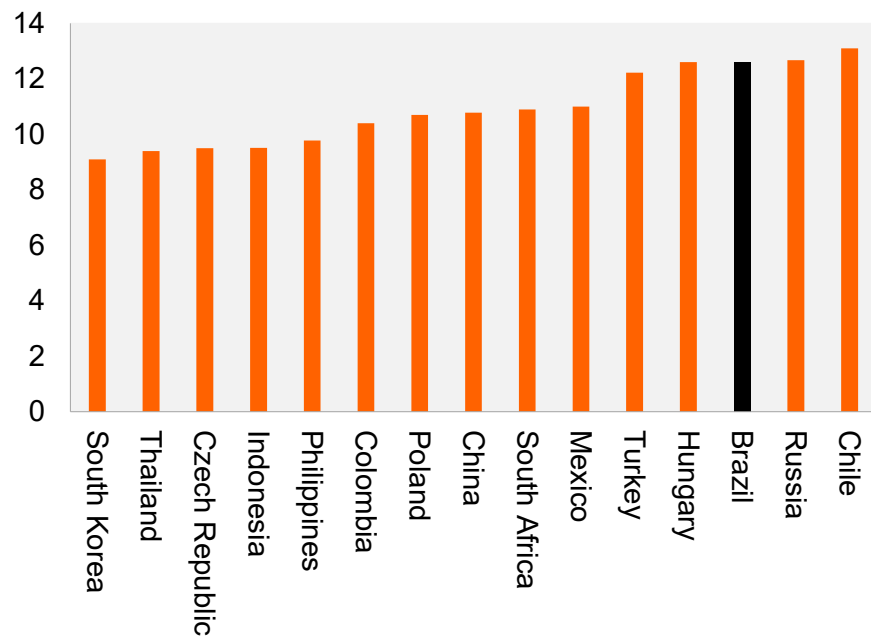
Iron Ore: larger surplus in 2025 (driven by both supply and demand).



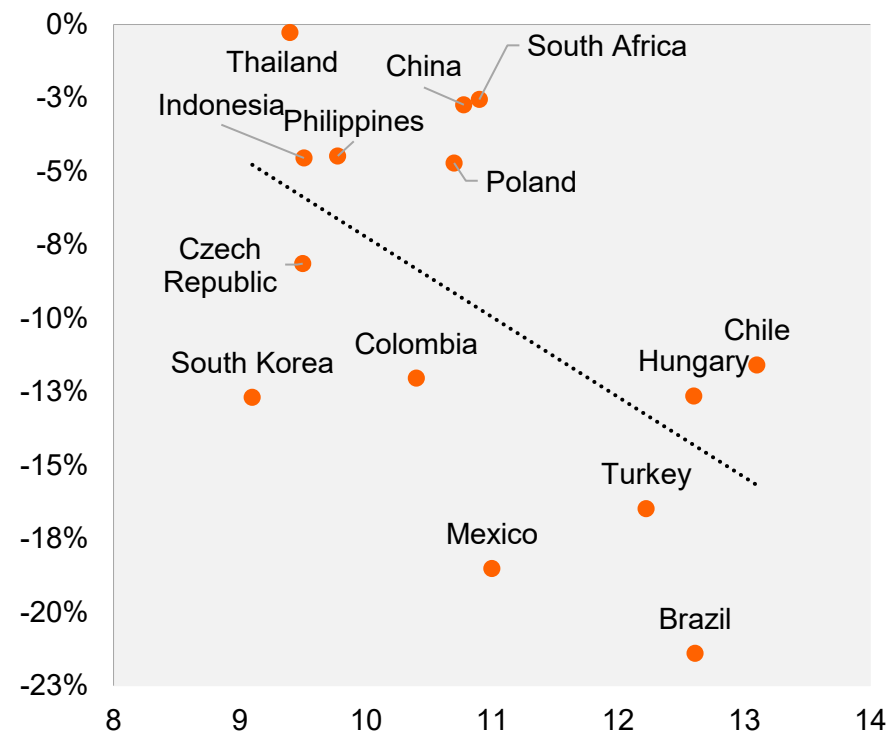
7. EMs: broad vulnerability or localized resilience?

Brazil and LatAm countries are among the most vulnerable in macroeconomic terms.

Vulnerability Index - (Avg ranking of macro indicators for FX, External Accounts, Activity, Inflation, Fiscal, and Financial Risks)



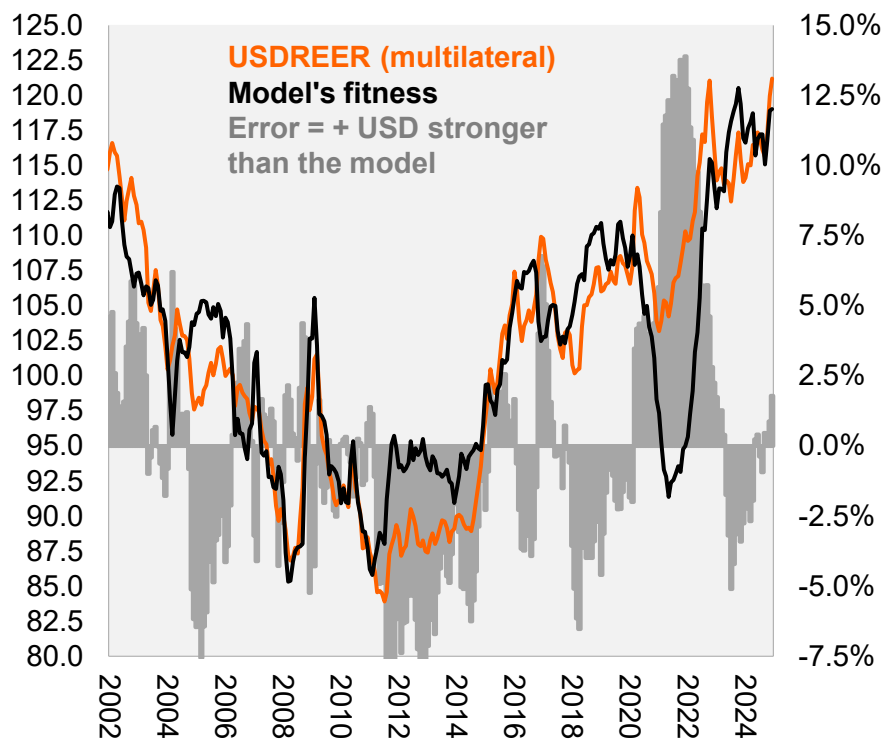
Vulnerability Index and FX in 2024



8. Even stronger USD?

Currency will likely strengthen around 1% in multilateral terms with no further Fed cuts

USD REER (multilateral) model



Multilateral dollar vs actual								
USD TW = f(US2y-GE2y; US2y-JP2y; log(ICIx); log(Gold/Copper))								
US2y		-0.75	-0.50	-0.25	0.00	0.25		
Additional Fed's cuts		3	2	1	0	-1		
Total size of the cycle		175	150	125	100	75		
Additional ECB's cuts	Total Size of the cycle	100	0	-2.9%	-1.7%	-0.5%	0.7%	1.9%
	150	2	-2.5%	-1.3%	-0.1%	1.1%	2.3%	
	200	4	-2.2%	-1.0%	0.2%	1.5%	2.7%	
	250	6	-1.8%	-0.6%	0.6%	1.8%	3.1%	

*Gold stable at the current level; 3% drop in metal and agricultural commodities

9. Geopolitics: events

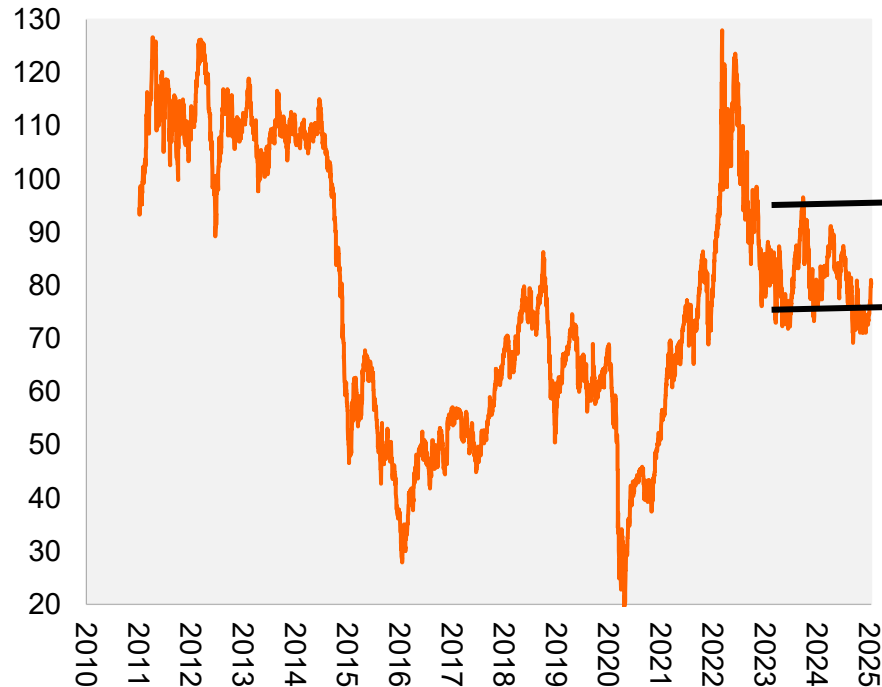
Month	Date	Location	Event description
Jan	16-Jan	USA	Scott Bessent confirmation hearing
	20-Jan	USA	Trump inauguration
Feb	-	USA	Trump delivers State of the Union address
	3-Feb	USA	Trump submits first budget
	3-Feb	Brazil	Elections for House and Senate Presidency
	9-Feb	Ecuador	General Elections (1st round; 2nd round on 13-Apr)
	24-Feb	Ukraine	Anniversary of Ukraine War (Ceasefire Negotiations?)
	28-Feb	Germany	New Bundestag Elections
Mar	Early march	China	National Congress (NPC) + Fiscal Announcement
Apr	15-Apr	Brazil	Government submits 2026 Budget Guidelines Law
	21-26/Apr	Global	IMF Spring Meetings in DC
	End of month	China	Politburo
May	12-May	Philippines	General Elections
	17-May	Australia	Parliamentary Elections
	18-May	Poland	National Elections
Jun	1-Jun	Mexico	Extraordinary Judiciary Elections
	Sem data	France	Possible month for new parliamentary elections

Month	Date	Location	Event description
Jul	Sem data	Japan	House of Councillors (Upper House) Elections
	Fim do mês	China	Politburo
Aug	17-Aug	Bolivia	General Elections (1st round; 2nd round on 19-Oct)
	31-Aug	Brazil	Government submits 2026 Budget
	Sem data	Global/US	Jackson Hole Symposium
Sep	8-Sep	Norway	Parliamentary Elections
	Sem data	Italy	Local Elections
Oct	20-Oct	Canada	Parliamentary Elections
	13-18/Oct	Global	IMF Annual Meetings in DC
	Sem data	Czech Republic	Parliamentary Elections
Nov	16-Nov	Chile	General Elections (1st round; 2nd round on 14-Dec)
	26-Nov	Argentine	Legislative Elections (half of the House and one-third of the Senate)

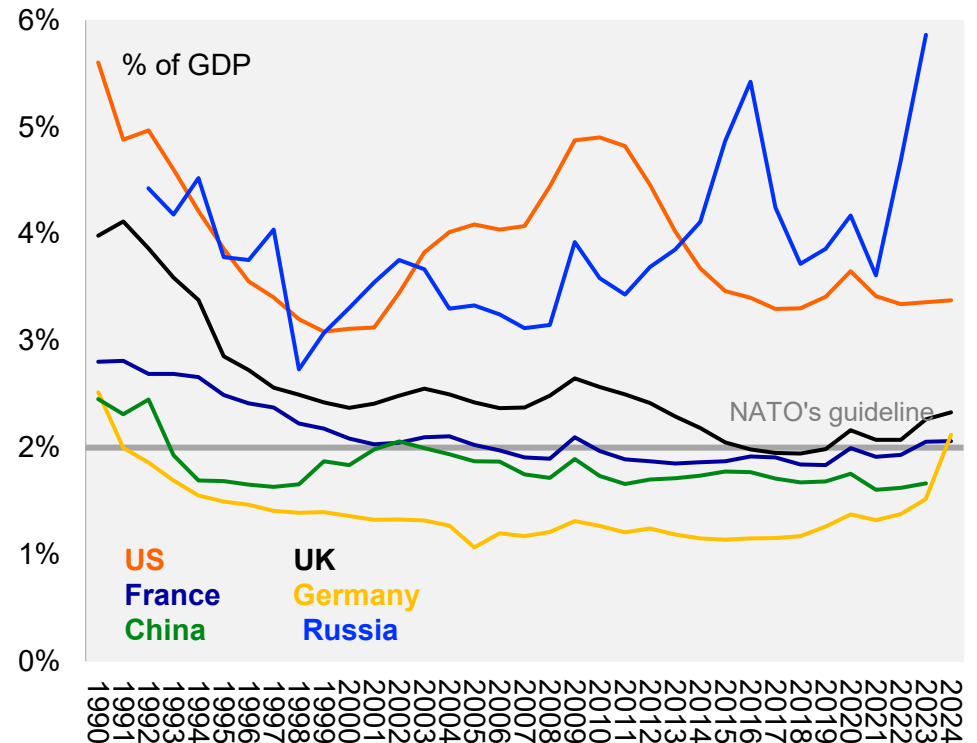
Month	Date	Location	Event description
No date		USA	Immigration: Deportations and reduced entrants
		USA	Tariffs: Implementation by executive order/national emergency/Congress
		USA	Fiscal: TCJA extension
		Europe	Ukraine-Russia Ceasefire Negotiations
		Middle East	Israel offensive in Gaza and Lebanon / Iranian Nuclear Program
		Oil	US production and Iranian exports
		Taiwan	Tensions with China
		Korea	Resignation, Impeachment, New Elections

9. Geopolitics: watch for (1) oil: sanctions on Iran, but OPEC with spare capacity and impact of tariffs are downside risks; (2) increased military spending

Brent: we expect USD 70/bbl in 2025 and 2026



Defense spending could rise ahead



Global | Forecasts

	2019	2020	2021	2022	2023	2024F		2025F		2026P	
						Current	Previous	Current	Previous	Current	Previous
GDP Growth											
World GDP growth - %	2.8	-2.8	6.3	3.5	3.2	3.2	3.2	3.2	3.2	3.2	3.2
USA - %	2.6	-2.2	6.1	2.5	2.9	2.8	2.8	2.5	2.5	2.5	2.5
Euro Area - %	1.6	-6.2	6.3	3.6	0.4	0.8	0.8	0.8	0.8	1.0	1.0
China - %	6.0	2.3	8.4	3.0	5.2	5.0	-	4.0	4.0	4.0	4.0
Interest rates and currencies											
Fed Funds - %, eop	1.63	0.13	0.13	4.4	5.4	4.4	-	4.4	4.1	4.4	4.1
U.S. 10 Year Treasury - %, eop	2.00	0.93	1.47	3.88	3.88	4.58	-	4.50	4.25	4.50	4.25
USD/EUR - eop	1.12	1.22	1.13	1.07	1.10	1.04	-	1.00	1.03	1.00	1.03
CNY/USD - eop	7.0	6.5	6.4	6.9	7.1	7.3	-	7.5	7.4	7.5	7.4
DXY Index* - eop	96.4	89.9	95.7	103.5	101.3	108.5	-	110.4	107.0	109.9	106.4

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 Scenarios

World

	2023	2024		2025		2026	
		Current	Previous	Current	Previous	Current	Previous
GDP (%)	3.2	3.2	3.2	3.2	3.2	3.2	3.2

Brazil

	2023	2024		2025		2026	
		Current	Previous	Current	Previous	Current	Previous
GDP (%)	3.2	3.6	3.6	2.2	2.2	1.5	2.0
BRL / USD (eop)	4.86	6.18	-	5.90	5.70	5.90	5.70
Monetary Policy Rate (eop,%)	11.75	12.25	-	15.75	15.00	13.75	13.00
IPCA (%)	4.6	4.8	-	5.8	5.0	4.5	4.3

Argentina

	2023	2024		2025		2026	
		Current	Previous	Current	Previous	Current	Previous
GDP (%)	-1.6	-2.6	-3.0	4.5	4.2	3.0	3.0
ARS / USD (eop)	809	1033	-	1220	1235	1400	1445
Reference rate (eop,%)	100.0	32.0	-	25.0	25.0	20.0	20.0
CPI (%)	211.4	117.8	-	25.0	30.0	18.0	20.0

Colombia

	2023	2024		2025		2026	
		Current	Previous	Current	Previous	Current	Previous
GDP (%)	0.6	2.0	2.0	2.2	2.4	2.6	3.0
COP / USD (eop)	3855	4400	-	4400	4500	4200	4200
Monetary Policy Rate (eop,%)	13.00	9.50	-	8.00	6.75	6.50	6.00
CPI (%)	9.3	5.2	-	4.2	3.7	3.3	3.0

Source: Itau

Latin America and Caribbean

	2023	2024		2025		2026	
	Previous	Current	Previous	Current	Previous	Current	Previous
GDP (%)	2.1	2.3	2.3	2.5	2.5	2.2	2.5

Mexico

	2023	2024		2025		2026	
		Current	Previous	Current	Previous	Current	Previous
GDP (%)	3.2	1.7	1.7	1.5	1.5	1.7	1.7
MXN / USD (eop)	16.97	20.8	-	21.0	21.0	21.3	21.3
Monetary Policy Rate (eop,%)	11.25	10.00	-	8.50	8.50	8.00	8.00
CPI (%)	4.7	4.2	-	3.9	3.9	3.6	3.6

Chile

	2023	2024		2025		2026	
		Current	Previous	Current	Previous	Current	Previous
GDP (%)	0.2	2.2	2.2	1.9	1.9	2.0	2.0
CLP / USD (eop)	879	996	-	955	955	930	930
Monetary Policy Rate (eop,%)	8.25	5.00	-	5.00	4.50	4.50	4.50
CPI (%)	3.9	4.5	-	4.0	3.7	3.0	3.0

Peru

	2023	2024		2025		2026	
		Current	Previous	Current	Previous	Current	Previous
GDP (%)	-0.6	2.9	2.9	2.8	2.8	3.0	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	-	4.50	4.50	4.50	4.50
CPI (%)	3.2	2.0	-	2.0	2.5	2.0	2.5

Commodities

	2019	2020	2021	2022	2023	2024	2025F		2026F	
							Current	Previous	Current	Previous
Brent Oil (USD/bbl)	64	50	75	82	77	72	70	70	70	70
Iron Ore (USD/tonne)	90	153	116	110	135	103	85	85	75	75
Copper (USD/tonne)	7788	7788	9525	8402	8489	9030	9500	9500	9500	9500
Corn (Usd/bu)	383	437	592	656	480	444	420	420	400	400
Soy (Usd/bu)	912	1207	1290	1474	1311	984	950	950	900	900
Wheat (Usd/bu)	540	604	790	757	669	663	580	580	600	600
Sugar (Usd/lb)	13	15	19	20	22	20	18	20	19	19
Coffee (Usd/lb)	130	123	235	166	188	321	320	300	210	210

Source: BBG, Itaú

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