

# Economic Outlook

August 2025

The word "Global" is centered in a white, sans-serif font. It is surrounded by several thin, orange, hand-drawn style lines that form an irregular, rounded rectangular frame around the text. The background is solid black.

Global

## Fed under pressure with activity slowing down and high inflation

- **Tariffs at higher levels, even with agreements.** We see signs of economic slowdown and increased inflationary impact in the US. We have revised up our growth projections for Europe and China.
- **U.S.:** Economic slowdown and rising inflation put the Fed's dual mandate under pressure. We still expect the start of the easing cycle in December, although the risk of a cut in September has increased.
- **Europe:** We raised our 2025 growth forecast to 1.1% (from 0.8%), with domestic demand improving due to lower interest rates. For 2026, we maintain our GDP projection at 1.2%, supported by Germany's fiscal stimulus.
- **China:** We revised our 2025 GDP growth forecast to 4.7% (from 4.5%) due to resilient exports, which reduces the need for additional stimulus for now. For 2026, we maintain the growth forecast at 4.0%.
- **Latin America:** Minor and mixed changes to forecasts this month.



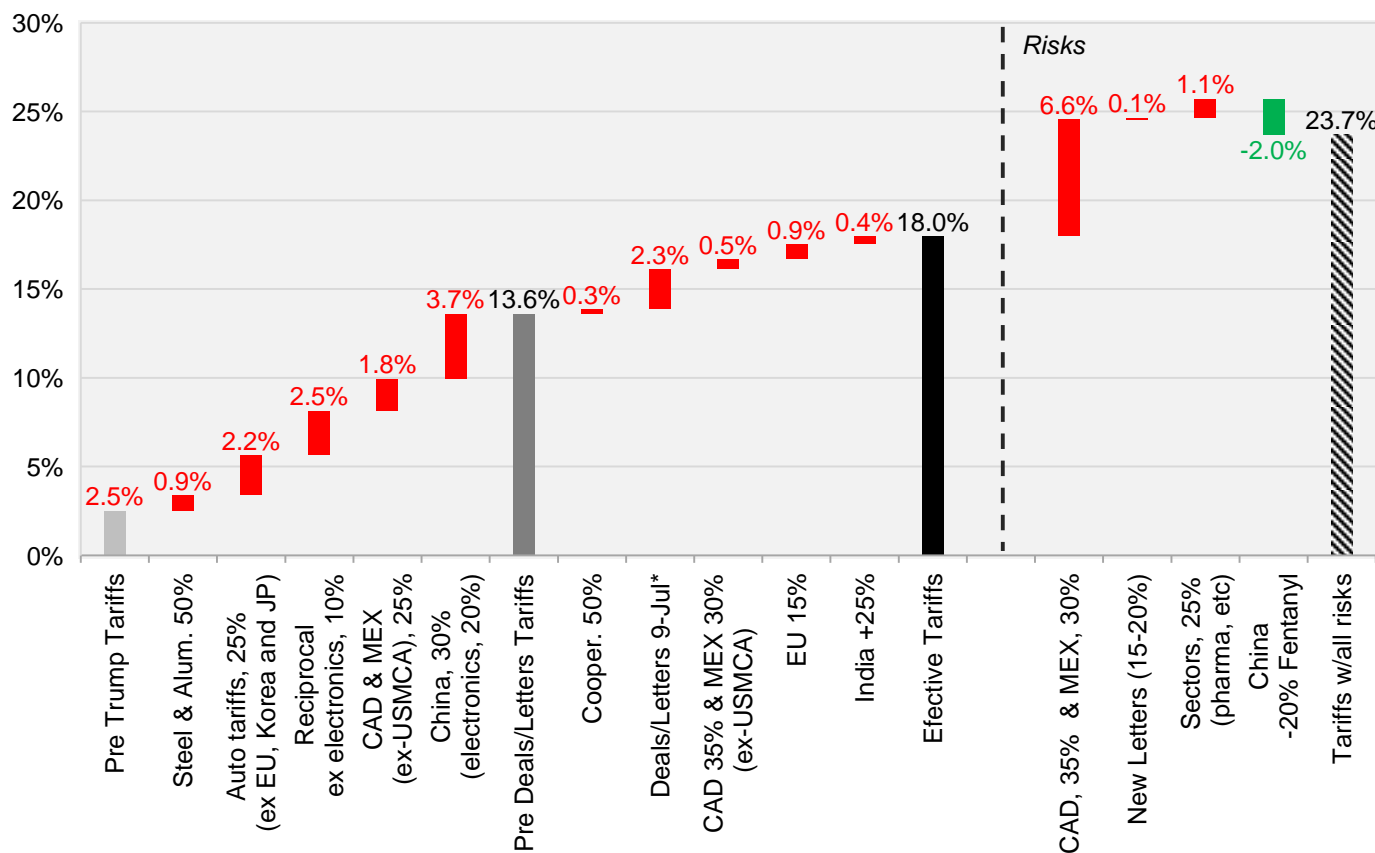
## Highlights

# Global Our forecasts:

	2019	2020	2021	2022	2023	2024	2025	2026
World	2.8	-2.8	6.3	3.5	3.2	3.2	3.0	2.8
U.S.	2.6	-2.2	6.1	2.5	2.9	2.8	1.7	1.5
Euro Zone	1.6	-6.2	6.3	3.6	0.7	0.9	1.1	1.2
China	6.0	2.0	7.7	3.0	5.4	5.0	4.7	4.0
Fed Funds	1.50-1.75	0.00-0.25	0.00-0.25	4.25-4.50	5.25-5.50	4.25-4.50	4.00-4.25	3.50-3.75
10Y U.S. Treasury	2.0	0.9	1.5	3.9	3.9	4.6	4.50	4.25

# Higher tariff levels even with agreements

Effective U.S. tariff rates

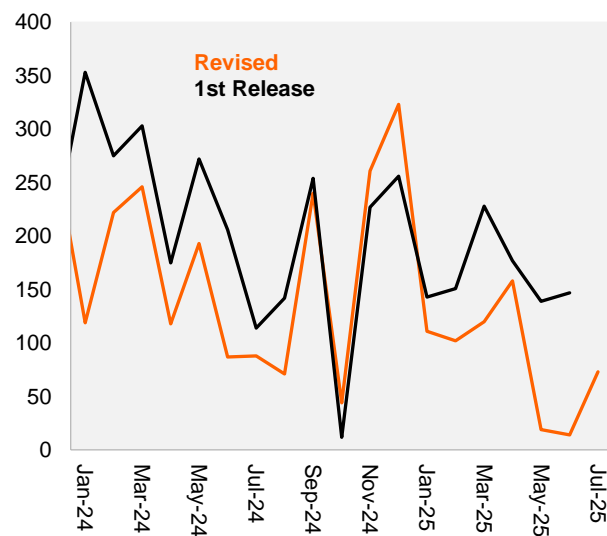


The Trump administration concluded trade deals with Japan and the European Union and announced new reciprocal tariff levels for other countries, which came into effect on August 7. The deals with Japan and Europe implement a 15% tariff for both, with promises of investments in the U.S. and increased imports of American products, such as energy in the case of the EU. While details are still pending, the agreements reduce the risk of escalation and larger impacts on global activity and were seen as a relative success. For China, Trump announced a 90-day extension of the truce settled in May, maintaining the extra 30% tariffs (20 for fentanyl and 10% reciprocal). For other countries, the administration set a minimum 15% level for reciprocal tariffs, reaching up to 50% in particular cases, such as for Brazil and India (for the latter, the new tariffs come into effect on August 27).

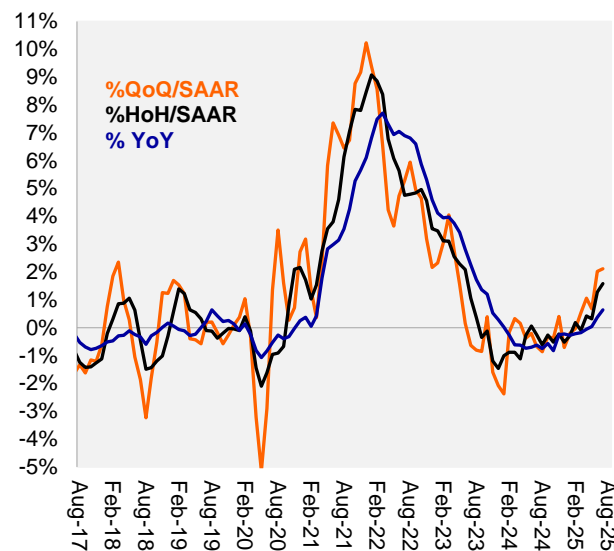
The announcements consolidate a significantly higher tariff level than at the beginning of the year. Looking ahead, there are still open issues, such as sectoral tariffs on pharmaceutical items and semiconductors, in addition to negotiations with Mexico and Canada. However, we believe that the focus and uncertainty around tariffs should diminish in the short term.

# U.S.: We see signs of economic slowdown and increased inflationary impact

Payroll 1st release and revision



CPI Core Goods ex-Used cars



In the US, economic growth showed signs of deceleration through July. Although GDP growth in the second quarter accelerated to 3.0% annualized quarter-over-quarter (up from -0.5% in the previous quarter), this was driven by volatility in trade balance readings due to the front-loading of imports amid anticipation of tariffs, while domestic demand decelerated from 2.0% to 1.2%. The labor market also showed signs of slowing, with the pace of net hiring over the last three months averaging 35k in July (down from 64k in June), and significantly negative revisions indicating a slower pace than previously observed. The unemployment rate, meanwhile, remains at 4.2%, likely because labor supply is also more constrained due to lower immigration.

Nevertheless, inflation has shown the first signs of the tariff impact and is likely to remain elevated in the near future. In June, core inflation measures remained contained, with Core CPI at 0.23% and Core PCE at 0.26% month-over-month. However, details revealed initial effects from tariffs on goods prices, excluding autos, which experienced a significant acceleration (see chart). We expect core measures to rise to around 0.40% in the coming months due to accumulated tariff effects on prices. This will drive year-over-year measures towards 3.8% (Core CPI) and 3.6% (Core PCE) by year-end.

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# U.S.: Fed's dual mandate under pressure

## Average of Taylor Rules\*

(assump.  $R$ -star = 1.0%; Nairu 4.2%)

Core PCE	Unemployment						
	4.0	4.3	4.5	4.8	5.0	5.3	5.5
2.00	3.5	3.2	2.9	2.6	2.2	1.9	1.5
2.50	4.0	3.8	3.5	3.1	2.8	2.4	2.1
3.00	4.6	4.4	4.0	3.7	3.3	3.0	2.7
3.50	5.1	4.9	4.6	4.2	3.9	3.6	3.2
4.00	5.7	5.5	5.1	4.8	4.5	4.1	3.8
4.50	6.3	6.0	5.7	5.4	5.0	4.7	4.3
5.00	6.8	6.6	6.3	5.9	5.6	5.2	4.9
5.50	7.4	7.2	6.8	6.5	6.1	5.8	5.5

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

Source: Fed and Itaú BBA

With the employment and price stability mandates in tension, there is a risk that the first rate cut could be brought forward to September. Based on comments from members of the FOMC and the implicit reaction function in their respective projections, we believe that, given the tension in the mandates, the Fed should wait to start the cutting cycle. This is suggested by the Taylor Rule estimates used in the semiannual monetary policy report.

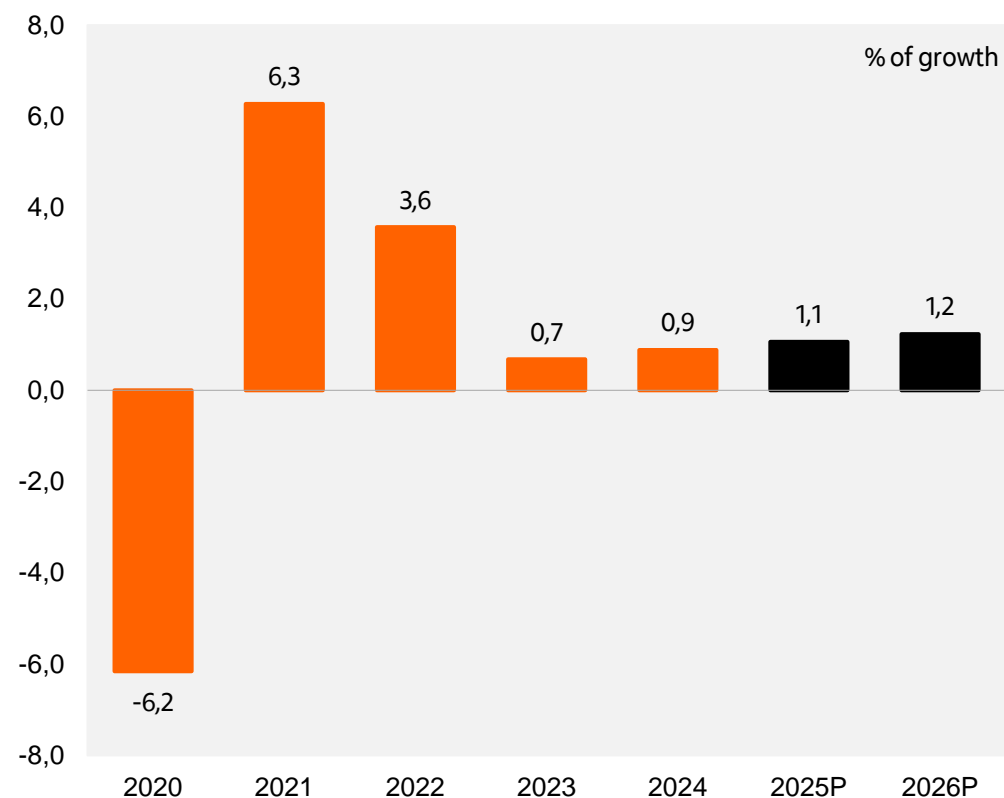
Therefore, we continue to expect a first cut only in December, followed by a reduced cycle of two more cuts next year. However, the committee's more dovish bias during previous periods of employment slowdown indicates a significant risk of a sooner cut, especially if unemployment increases further in the next readings.

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## Europe: We revised the 2025 growth forecast to 1.1% (up from 0.8%) due to resilient domestic demand

Euro Zone: GDP growth



For Europe, we revised the 2025 growth forecast to 1.1% (up from 0.8%) due to resilient domestic demand. We maintain our GDP growth forecast at 1.2% for 2026. The trade agreement between the European Union and the United States, which imposed 15% tariffs on all exports, is set to negatively impact activity by 1.1 pp over the second half of 2025 and into 2026. However, the German fiscal package should partly offset this shock next year.

With inflation around 2.0% and resilient activity, there is no need for further rate cuts by the European Central Bank, and the policy rate is likely to remain at 2.0%, as committee members reinforced at the July monetary policy meeting. In our view, it would take a significant slowdown in activity, particularly in the labor market, for further rate cuts to occur.

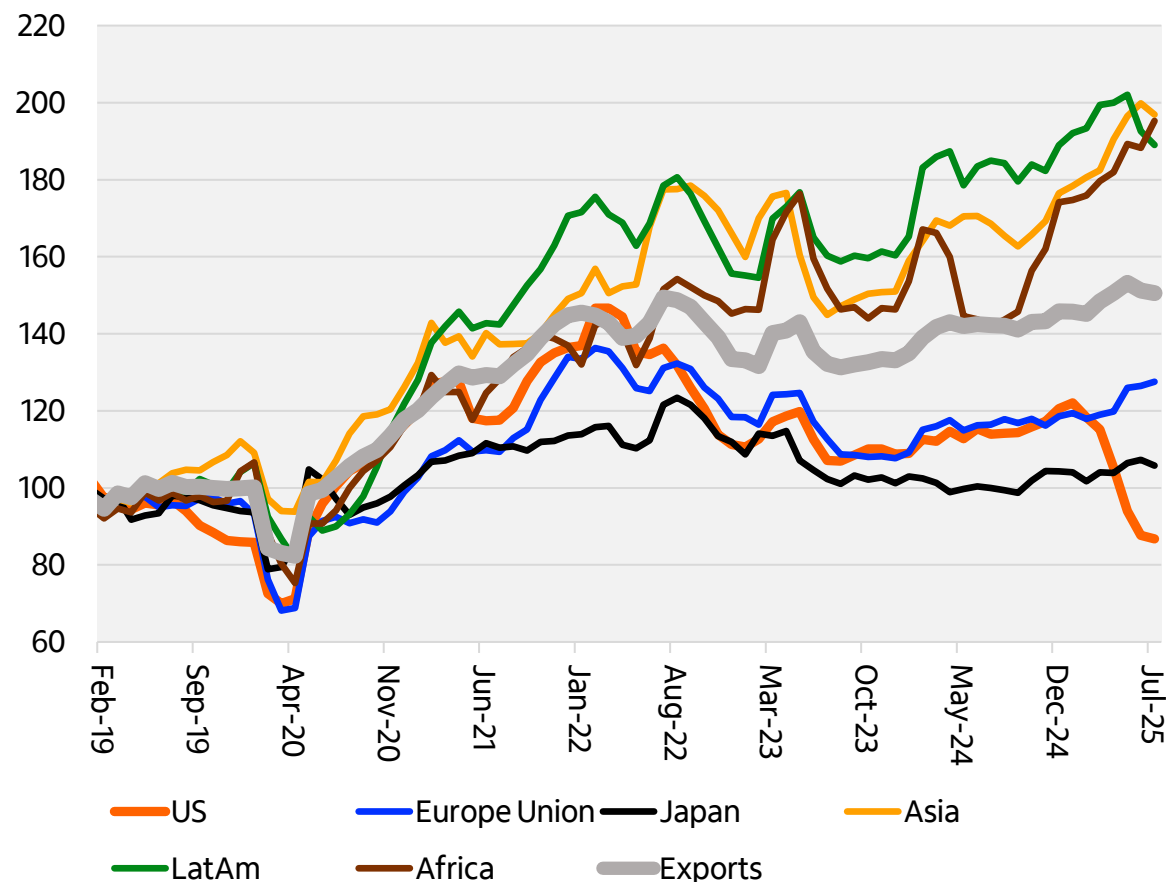
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## China: activity remains resilient due to expanding exports (excluding the US) and the rapid implementation of the fiscal package

China: Export Destinations



For China, we have revised our GDP growth forecast to 4.7% (up from 4.5%) for 2025, while maintaining the 4.0% projection for 2026. Economic activity in the first half of the year was supported by two key factors: first, the swift implementation of the fiscal stimulus announced for the year, which has been aiding infrastructure investment; and second, exports, which continue at a positive pace with Chinese products being redirected to Asian countries. As a result, there is currently no need for an additional round of stimulus.

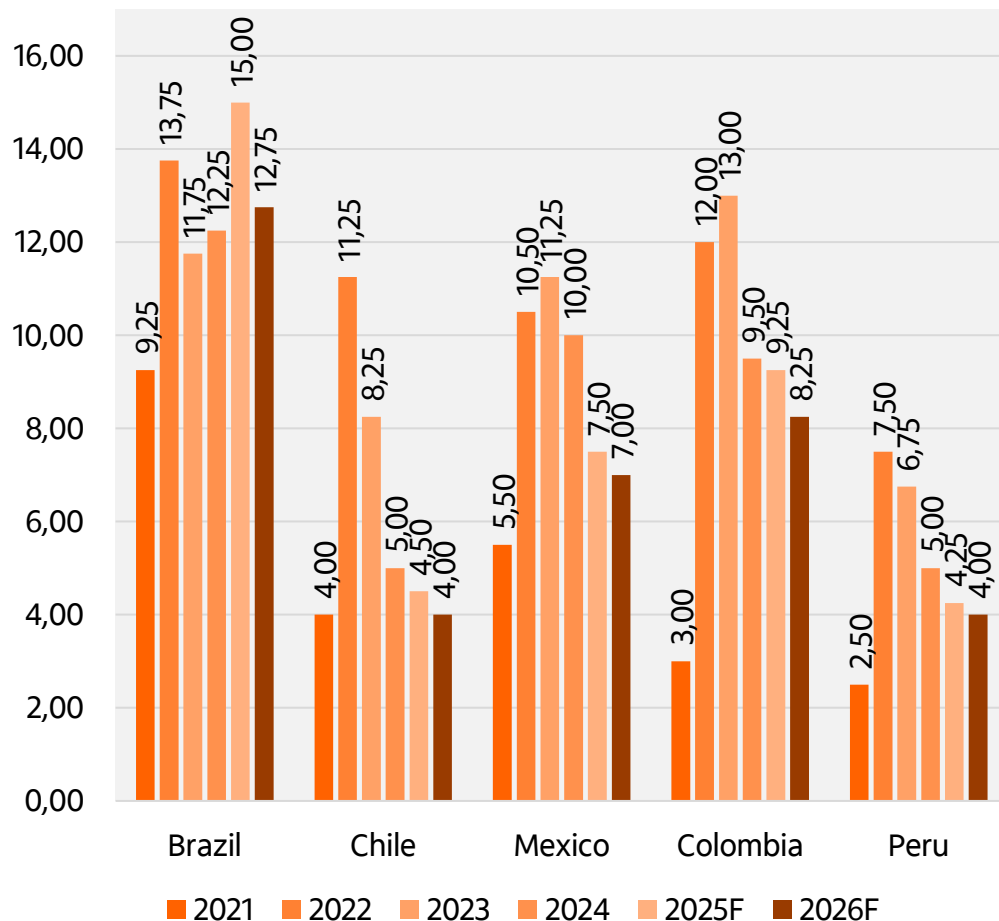
The July Politburo meeting reinforced this view, indicating that neither real estate sector measures nor monetary easing are expected in the near term. However, we anticipate a slowdown in activity during the second half of the year, with a more evident impact from tariffs, which should lead to a new round of stimulus between the third and fourth quarters to ensure the 5% growth target for this year.

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## Latin America: Minor and mixed changes to forecasts this month.

Latam's Monetary Policy



**Growth projections adjusted. Mexico shows resilience, with an increase in GDP projections for 2025 and 2026.** Colombia also had a positive revision, driven by retail and agriculture. Chile and Peru maintain projections, with favorable terms of trade. Argentina had a slight negative revision but continues with strong growth due to economic stabilization.

**Inflation projections with few adjustments.** In Mexico, inflation remains high and above target, with the disinflationary trend interrupted by factors such as exchange rate pass-through, service inflation, and expectations anchored at 4%. Projections remain at 4.1% for 2025 and 3.7% for 2026. In Chile, after an upward surprise in July, the 2025 projection was adjusted from 3.8% to 3.9%, with a target of 3% expected in the first half of 2026. In Colombia, inflation is expected to rise in the second half of the year, with the projection maintained at 5.1% for 2025 and adjusted to 4.0% in 2026, due to risks such as an increase in the minimum wage. In Peru, inflation is below the 2% target, with a forecast of 2.2% at the end of the year and a risk balance tilted to the downside.

**Monetary policy projections have been adjusted, maintaining the expectation of less contraction in several economies in the region.**

In Mexico, another 25 basis points cut by Banxico is expected in September, with the possibility of additional cuts being brought forward if the Fed eases in September. In Chile, after a 25 basis points cut in July, only one more cut is expected this year, with continuity in 2026. In Colombia, BanRep is expected to keep the rate at 9.25% until the end of the year, resuming cuts in 2026 to 8.25%, due to persistent inflation and strong domestic demand.

# LatAm: compared scenario

## World

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	3.2	3.0	2.9	2.8	2.8

## Brazil

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	3.4	2.2	2.2	1.5	1.5
BRL / USD (eop)	6.18	5.50	5.65	5.50	5.65
Monetary Policy Rate (eop,%)	12.25	15.00	15.00	12.75	12.75
IPCA (%)	4.8	5.1	5.2	4.4	4.4

## Argentina

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	-1.7	5.0	5.2	3.5	4.0
ARS / USD (eop)	1033	1400	1400	1630	1630
Reference rate (eop,%)	32.0	35.0	29.0	25.0	20.0
CPI (%)	117.8	28.5	28.5	20.0	20.0

## Colombia

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	1.7	2.9	2.5	2.6	2.5
COP / USD (eop)	4409	4100	4100	4100	4100
Monetary Policy Rate (eop,%)	9.50	9.25	8.75	8.25	7.75
CPI (%)	5.2	5.1	5.1	4.0	3.6

## Paraguay

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	4.2	4.3	4.3	3.5	3.5
PYG / USD (eop)	7913	7750	8000	7900	8125
Monetary Policy Rate (eop,%)	6.00	6.00	6.00	5.50	5.50
CPI (%)	3.8	4.0	4.0	3.5	3.5

Source: Itau

## Latin America and Caribbean

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	2.4	2.6	2.4	2.2	2.2

## Mexico

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	1.4	0.6	0.2	1.2	1.0
MXN / USD (eop)	20.8	19.0	19.0	19.5	19.5
Monetary Policy Rate (eop,%)	10.00	7.50	7.50	7.00	7.00
CPI (%)	4.2	4.1	4.1	3.7	3.7

## Chile

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	2.6	2.6	2.6	2.0	2.0
CLP / USD (eop)	996.5	930.0	930.0	900.0	900.0
Monetary Policy Rate (eop,%)	5.00	4.50	4.25	4.00	4.00
CPI (%)	4.5	3.9	3.8	3.0	3.0

## Peru

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	3.3	2.9	2.9	2.7	2.7
PEN / USD (eop)	3.80	3.60	3.60	3.60	3.60
Monetary Policy Rate (eop,%)	5.00	4.25	4.25	4.00	4.00
CPI (%)	2.0	2.2	2.2	2.0	2.0

## Uruguay

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	3.1	2.3	2.3	2.0	2.5
UYU / USD (eop)	44.1	41.7	41.7	42.5	42.5
Monetary Policy Rate (eop,%)	8.75	8.00	8.50	7.50	8.00
CPI (%)	5.5	4.8	4.5	4.5	4.5

# Commodities forecasts:

	2020	2021	2022	2023	2024	2025F		2026F	
						Current	Previous	Current	Previous
Brent Oil (USD/bbl)	50	75	82	77	73	65	65	65	65
Iron Ore (USD/tonne)	153	116	110	135	103	95	95	85	85
Copper (USD/tonne)	7788	9525	8402	8489	9030	9400	9400	9650	9650
Corn (Usd/bu)	437	592	656	480	444	415	415	415	415
Soy (Usd/bu)	1207	1290	1474	1311	984	1000	1000	1000	1000
Wheat (Usd/bu)	604	790	749	619	548	600	600	630	630
Sugar (Usd/lb)	15	19	20	22	20	17	18	17	18
Coffee (Usd/lb)	123	235	166	188	321	280	250	260	260

Source: BBG, Itaú

An abstract graphic consisting of several overlapping, hand-drawn orange lines that form a large, irregular, rounded shape, resembling a stylized oval or a series of concentric loops. The lines are thin and have a slightly textured appearance.

# Brazil

## Minor revisions in a still uncertain environment

- The official announcement of tariffs imposed by the United States on imports from Brazil brought some relief due to exemptions for certain products, reducing the estimated effective tariff to 30% from 40%. This relief comes on top of a weaker global dollar and high domestic interest rates, favoring the BRL. As a result, we have revised our exchange rate forecasts to R\$/US\$ 5.50 for 2025 and 2026, down from R\$/US\$ 5.65. However, fiscal uncertainties and the deterioration of external accounts limit more positive scenarios for the currency. We've adjusted our current account deficit estimates to 3.0% and 3.1% of GDP for 2025 and 2026, respectively, up from 2.6% and 2.4%, reflecting the impact of tariffs, a slower deceleration of imports, and the Central Bank's revision of the income account.
- Economic activity is slowing down due to a contractionary monetary impulse and a smaller fiscal impulse compared to recent years. We have maintained our GDP growth forecast at 2.2% for 2025, with a slight downside bias. For 2026, we maintain an upside bias in our forecast of 1.5%. Regarding the labor market, our estimates for the unemployment rate remain at 6.4% for 2025 and 6.9% for 2026.
- We revised our 2025 IPCA inflation forecast from 5.2% to 5.1% due to the more appreciated exchange rate, which should impact food prices this year. For 2026, we maintained the forecast at 4.4%.
- We maintained our primary balance projections at -0.6% for 2025 and -0.9% for 2026. Compliance with the primary target in 2025 became a more concrete possibility after the IOF increase, but the challenge remains significant for the following year. The 2026 budget, to be sent by month-end, will likely require an adjustment of 0.5% of GDP to ensure compliance with the official target's lower limit of 0.25%.
- The Copom ended the Selic rate hiking cycle at 15% pa, signaling a prolonged hold amid external uncertainties and mixed signals from the domestic economy. We project rate cuts only in the first quarter of 2026, but risks remain tilted towards an even later cut, barring significant disinflationary shocks.



## Highlights

## Brazil Forecasts:

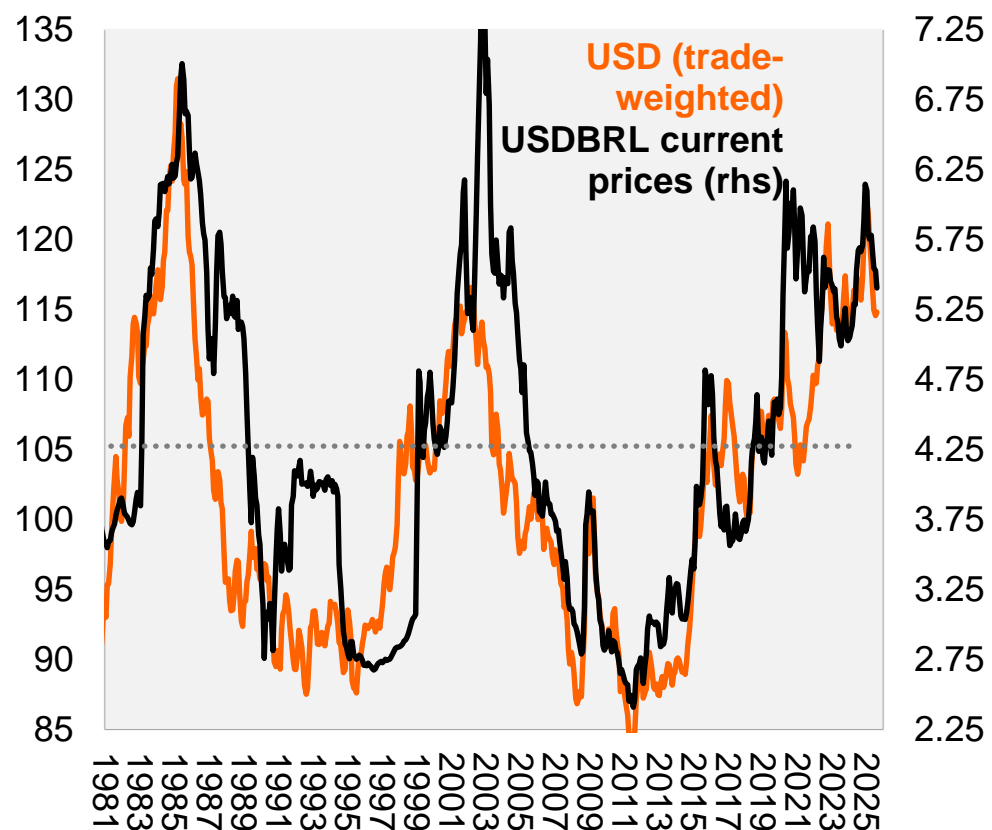
	2020	2021	2022	2023	2024	2025	2026
<b>Economic activity</b>							
GDP (%)	-3.3	4.8	3.0	3.2	3.4	2.2	1.5
Unemployment rate (%) – Dec.	14.7	11.6	8.4	7.9	6.6	6.4	6.9
<b>Inflation</b>							
IPCA (%)	4.5	10.1	5.8	4.6	4.8	5.1	4.4
IGP-M (%)	23.1	17.8	5.5	-3.2	6.5	1.8	3.7
<b>Monetary Policy</b>							
Selic rate (% eop)	2.00	9.25	13.75	11.75	12.25	15.00	12.75
Selic rate (% avg)	2.81	4.81	12.63	13.25	10.92	14.56	13.46
<b>Public accounts</b>							
Primary result (% GDP)	-9.2	0.7	1.2	-2.3	-0.4	-0.6	-0.9
Gross debt (% GDP)	86.9	77.3	71.7	73.8	76.5	79.5	84.7
Growth of public spending (% real, pa*)	29.2	-24.7	6.0	7.6	3.2	3.7	2.1
<b>External sector</b>							
BRL/USD (eop)	5.19	5.57	5.28	4.86	6.18	5.50	5.50
BRL/EUR (eop)	6.34	6.30	5.65	5.36	6.40	6.60	6.60
Current Account (% GDP)	-1.7	-2.4	-2.2	-1.3	-2.8	-3.0	-3.1
Trade balance (USD bi.)	50	61	62	99	75	65	58

(\*) We do not consider the 2023 payment of extraordinary court-ordered debts (precatórios). Including it, spending grew by 12.5% in 2023 and fell by 0.9% in 2024.



# Stronger BRL driven by external backdrop, interest rate differential and some tariff relief

The weak dollar environment favors the BRL



After weeks of uncertainty surrounding the trade tariffs imposed by the United States on Brazil, the announcement on July 30th brought some relief. The extensive list of exemptions released by the U.S. government – including sectors such as orange juice, aviation, and a significant portion of iron and steel exports – has reduced the expected impact. In practice, the effective tariff rate is likely to be around 30%, lower than the initially announced 40%, which lessens the pressure on trade flows with the U.S.

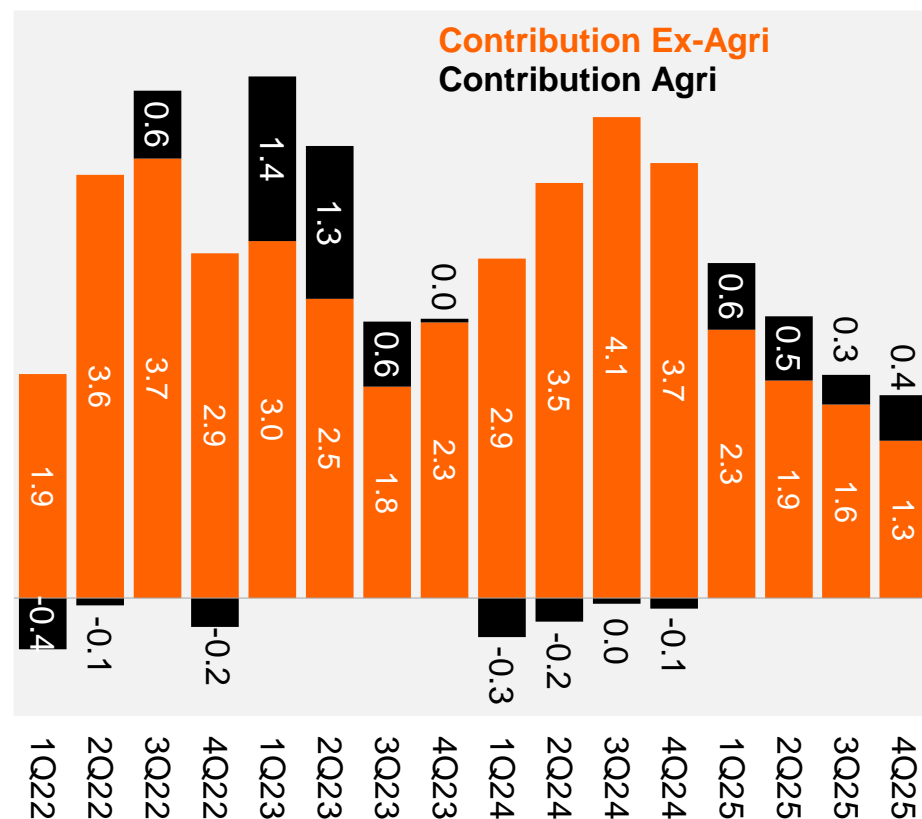
We have revised our exchange rate forecast to R\$/US\$ 5.50 for 2025 and 2026, down from R\$/US\$ 5.65 previously. With the imposition of tariffs on Brazilian exports to the US, the dollar inflow via trade is likely to decrease, but the impact should be smaller than initially anticipated. This, combined with a weaker global dollar driven by a reduction in American exceptionalism, and high interest-rate differentials, should continue to favor the BRL. However, fiscal uncertainties and the deterioration of external accounts limit more optimistic scenarios for the currency.

We revised our projections for the current account deficit to 3.0% of GDP in 2025 and 3.1% in 2026, up from 2.6% and 2.4%, respectively. The main change came from the trade balance, with projections lowered to US\$ 65 billion in 2025 and US\$ 58 billion in 2026, down from US\$ 71 billion and US\$ 74 billion, respectively. This adjustment incorporates both the impact of tariffs on exports and a slower deceleration of imports amid resilient domestic activity. We also revised the income deficit after the Central Bank incorporated new data on Brazilian capital abroad, which reduced estimates of receipts from reinvested earnings. The marginal improvement in some service lines and the anticipation of exports were not enough to offset this deterioration.



# Economic activity decelerating, with a slight downside bias for 2025

Economic activity decelerating in 2025 (yoy)



Monthly sector surveys and our daily activity indicator (IDAT-Activity) point to a slowdown in activity in the second quarter of the year. This trend seems to have continued in July, with weak IDAT readings particularly in services and credit-sensitive goods. Nevertheless, we expect some recovery in activity in the coming months, which should avoid negative GDP prints. The release of court-ordered debt payments, scheduled for the first half of August, and the acceleration in the granting of new private payroll-deductible loans should stimulate consumption in the second half of the year, partially compensating the weaker performance seen more recently.

We maintained our GDP growth forecast at 2.2% for 2025. The negative impact of tariffs is offset by an upward revision that we made for Agricultural GDP growth, which increased to 8.3% from 7.0%. We continue to assign a slight downside bias to the forecast due to risks associated with the credit market, particularly the impact of the IOF tax and the deceleration of payroll-deducted loans to INSS retirees.

For 2026, we have maintained our growth forecast at 1.5%, with an upside bias. We continue to monitor the possibility of adopting countercyclical fiscal policies, which could be implemented to mitigate the economic slowdown next year.

Finally, we maintain our unemployment rate forecasts at 6.4% for 2025 and 6.9% for 2026. Short-term data indicate that the labor market remains tight. However, considering the lagged impact of economic activity, we expect some moderation in employment over the second half of this year.

# Inflation: small downward revision for 2025

We have once again reduced our forecast for 2025 IPCA consumer inflation, from 5.2% to 5.1%. The main contribution to this revision came from the food group, influenced by a stronger BRL, which is likely to impact food costs this year.

For 2025, we assess that the risks to inflation remain skewed to the downside. A further appreciation of the currency could have additional effects on both food and fuel prices. In addition, a slower reversal of the livestock cycle also represents a downside risk to inflation for the year. On the other hand, lower rainfall increases the likelihood of triggering the yellow tariff flag toward the end of the year, which could raise electricity costs.

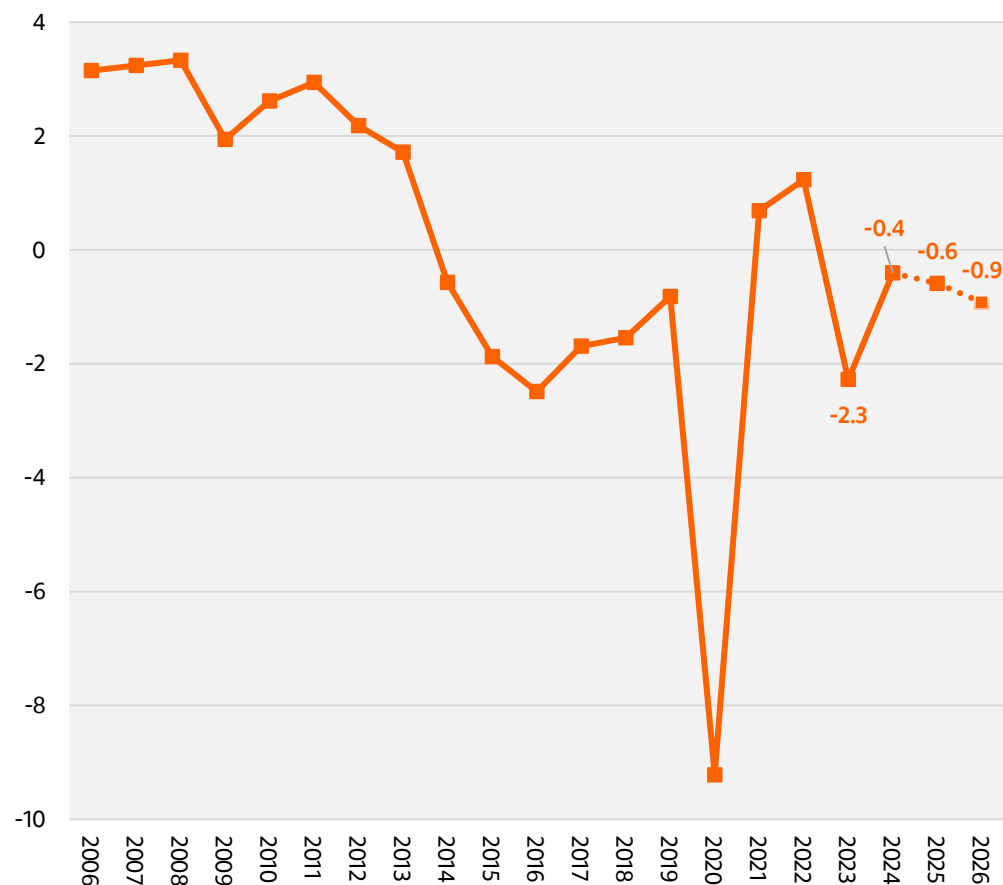
For 2026, we maintain our inflation forecast at 4.4%. The currency appreciation this year is expected to be passed through with a lag to industrial goods prices, contributing to some deceleration in inflation for this group next year. Nevertheless, this deceleration is not sufficient to prompt a revision of our forecast, especially considering that the balance of risks remains skewed to the upside, with labor market tightness being the main upside risk for the 2026 CPI.

Weight		2023	2024	2025	2026
100.0	IPCA	4.6	4.8	5.1	4.4
74.1	Market-Set prices	3.1	4.9	5.2	4.6
15.1	Food at home	-0.5	8.2	5.7	5.3
23.4	Industrial	1.1	2.9	3.2	2.3
35.5	Services	6.2	4.8	6.4	5.8
25.9	Regulated prices	9.1	4.7	4.6	3.7
4.1	Electricity	9.5	-0.4	5.8	4.1
5.0	Gasoline	12.1	9.7	2.8	1.4

Source: IBGE, Itaú

## Fiscal: closer to meeting the target in 2025, a significant challenge for 2026

Primary Result  
(% of GDP)

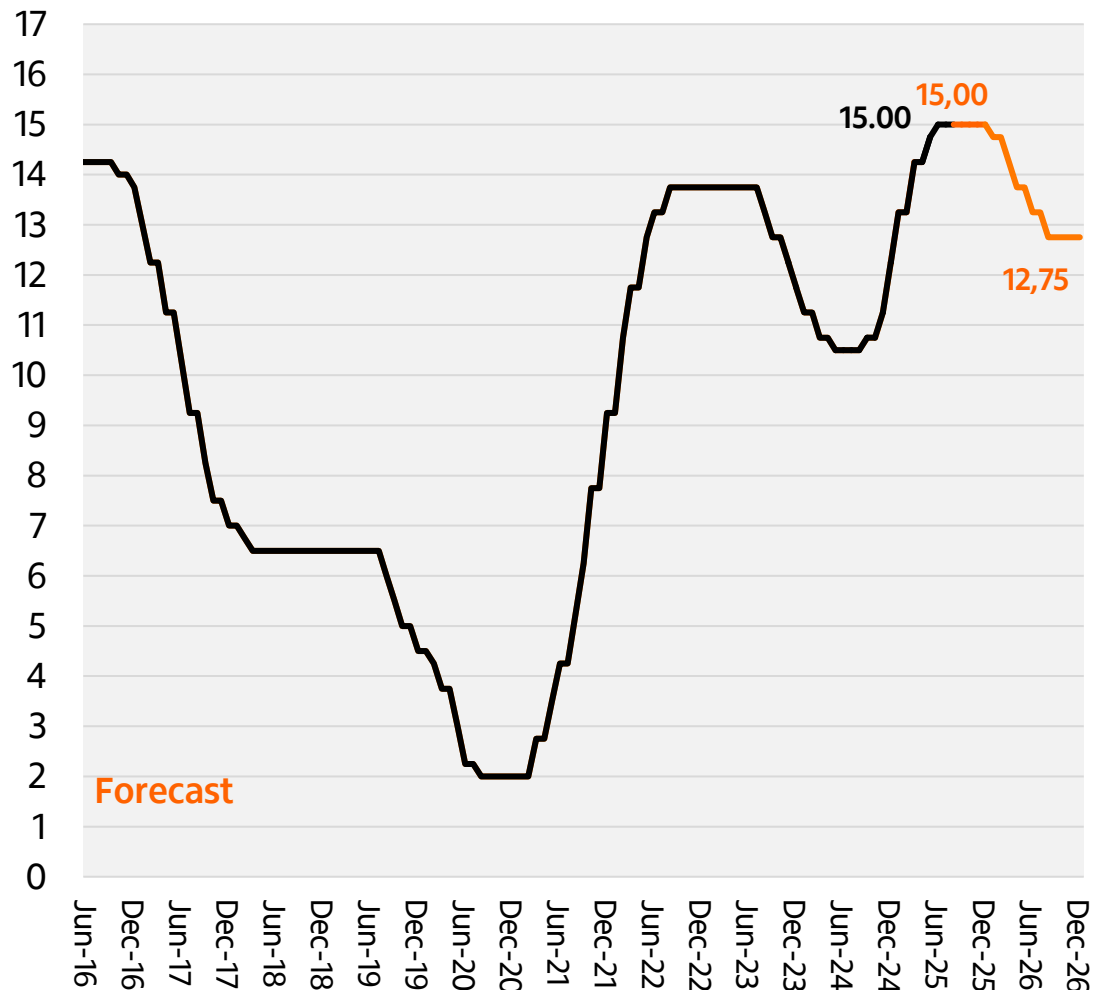


We maintain our primary balance forecast at **-0.6% of GDP in 2025** and **-0.9% in 2026**. For 2025, we anticipate the government will be close to meeting the limit of **-0.6% of GDP** target (considering discounts and the lower bound of the official 0% target) due to an agenda of revenue increases, including extraordinary revenues such as those related to oil, and the resolution of the dispute at the STF with the increase in the IOF. For 2026, the additional revenue linked to the increase in the tax burden is set to be offset by a decline in recurring revenue due to a more appreciated exchange rate.

We do not expect a change in the 2026 target in the budget submission at the end of August. Despite the significant challenge (around 0.5 percentage points of GDP) to meet the lower limit of the target of **-0.4% of GDP** (considering discounts and the lower band of the 0.25% target), we believe the executive will include revenue measures as means to avoid worsening the fiscal perception. For example, the approximately R\$ 20 billion from MP 1,303, which increases taxes on bets, incentivized securities, IoC, and CSLL, and limits tax offsets. Going forward, the main risk is the implementation of initiatives that alter, circumvent, or explicitly or implicitly disfigure fiscal rules, leading to higher rates of spending growth and/or greater revenue waivers. We assess that structural measures addressing the rigidity and high growth of mandatory expenditure would bring greater credibility to the fiscal adjustment needed for public debt sustainability and are necessary to reduce debt levels.

## Monetary Policy: cautious approach

Selic rate (%)



In its most recent decision, the Copom concluded the hiking cycle at 15% pa, maintaining the indication that the Selic rate will remain at the current level for an extended period. The committee emphasized the need for caution in a context of increased external uncertainty, noting that the imposition of trade tariffs on Brazil has significant sectoral impacts, though the overall effects remain uncertain. Domestically, there are also factors of uncertainty, with particular attention on the mixed signals from economic and sectoral indicators, such as the divergence between the credit market, which shows a clearer deceleration, and the labor market, which still demonstrates dynamism.

However, the authorities have stated more than once that the economic activity slowdown is unfolding as expected. Additionally, the Copom mentioned for the first time the recent decline in measures of implied inflation, despite noting that longer-term inflation expectations in the Focus survey have not changed significantly.

Overall, it seems that the committee is gaining confidence in the economic slowdown, which aligns with its expectations, and therefore sees no need to adjust its view on the interest rate. We continue to project that Copom will keep the Selic rate unchanged at 15% until the end of the year, initiating a modest monetary easing cycle in the first quarter of 2026, bringing the Selic rate to 12.75%.

We understand that risks still lean towards an even later rate cut than our current view. However, we acknowledge that a significant currency appreciation or a sharper economic slowdown – possibly due to a smaller impact from the new private payroll-deductible loan program, for example – could bring the rate cut forward to this year.

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