

Macro scenario - Global



August 15, 2025

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.

Higher tariff levels even with agreements

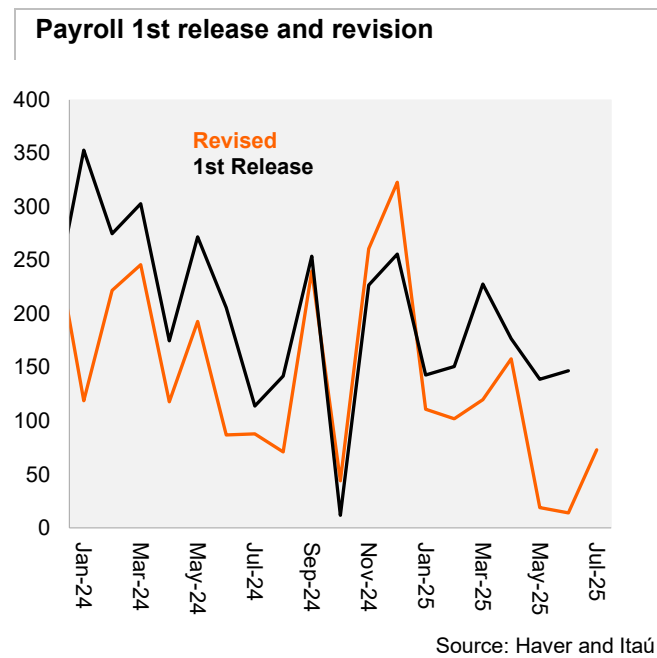
The Trump administration concluded trade deals with Japan and the European Union and announced new reciprocal tariff levels for other countries, which came into effect on August 7. The deals with Japan and Europe implement a 15% tariff for both, with promises of investments in the U.S. and increased 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 (see chart). 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 (see the charts below).

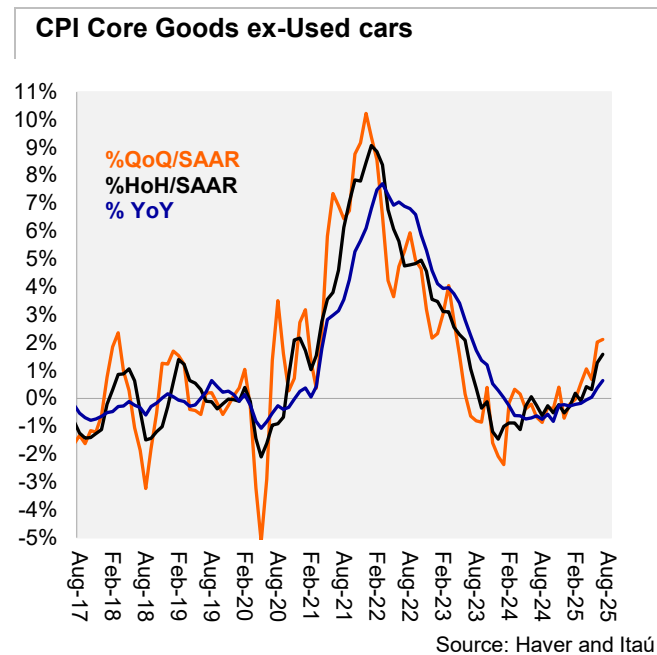
Signs of deceleration in the US, with upward revisions in Europe and China

Despite some strengthening throughout June, we do not see changes in the fundamentals for the dollar, which should continue to weaken globally. A more erratic economic policy in the United States and resilient economic activity in the rest of the world (we revised up growth for China and Europe – see below) are factors that reduce the perception of American exceptionalism. As such, we maintain our euro projection at 1.20 for the end of 2025 and 2026.

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.



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 (see table). 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.

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

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 region's economy grew by 0.1% in the second quarter, a deceleration from the 0.6% pace at the start of the year, with payback in exports but resilient domestic demand. 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.

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.

LatAm: Minor and mixed changes to forecasts this month

Mixed changes to growth forecasts. In Mexico, activity data continues to show resilience. Following a better-than-expected performance in 2Q25, we raised our 2025 GDP forecast again, to 0.6%, up from a modest 0.2%, and to 1.2% for 2026, up from 1.0% previously. We anticipate some support for Mexico's growth from international sources, primarily in manufacturing exports, which still benefit from some tariff frontloading effects, and growth in the tourism sector. Our upward revisions to the 2025 growth forecast take place after the economy narrowly avoided a technical recession earlier in the year, and growth dynamics appear to defy the historical pattern of a recession during the first year of a new administration, even in the context of a significant narrowing of the fiscal deficit. We also revised GDP growth up in Colombia to 2.9% for 2025 and 2.6% for 2026 (from a previous estimate of 2.5% for both years). This adjustment reflects a faster-than-anticipated recovery in the commerce sector, supported by strong private consumption. Additionally, the agricultural sector has maintained solid momentum, bolstered by favorable coffee prices. In Chile and Peru, we maintained our GDP growth forecasts for 2025 and edging towards the respective potentials in 2026. In both economies, terms of trade remain strong, and the external backdrop is expected to moderate as the global economy gradually slows. In Chile's case, persistent labor market slack and weakness in commercial credit pose downside risks over time. Finally, following a string of weaker than expected activity prints in recent months in Argentina,

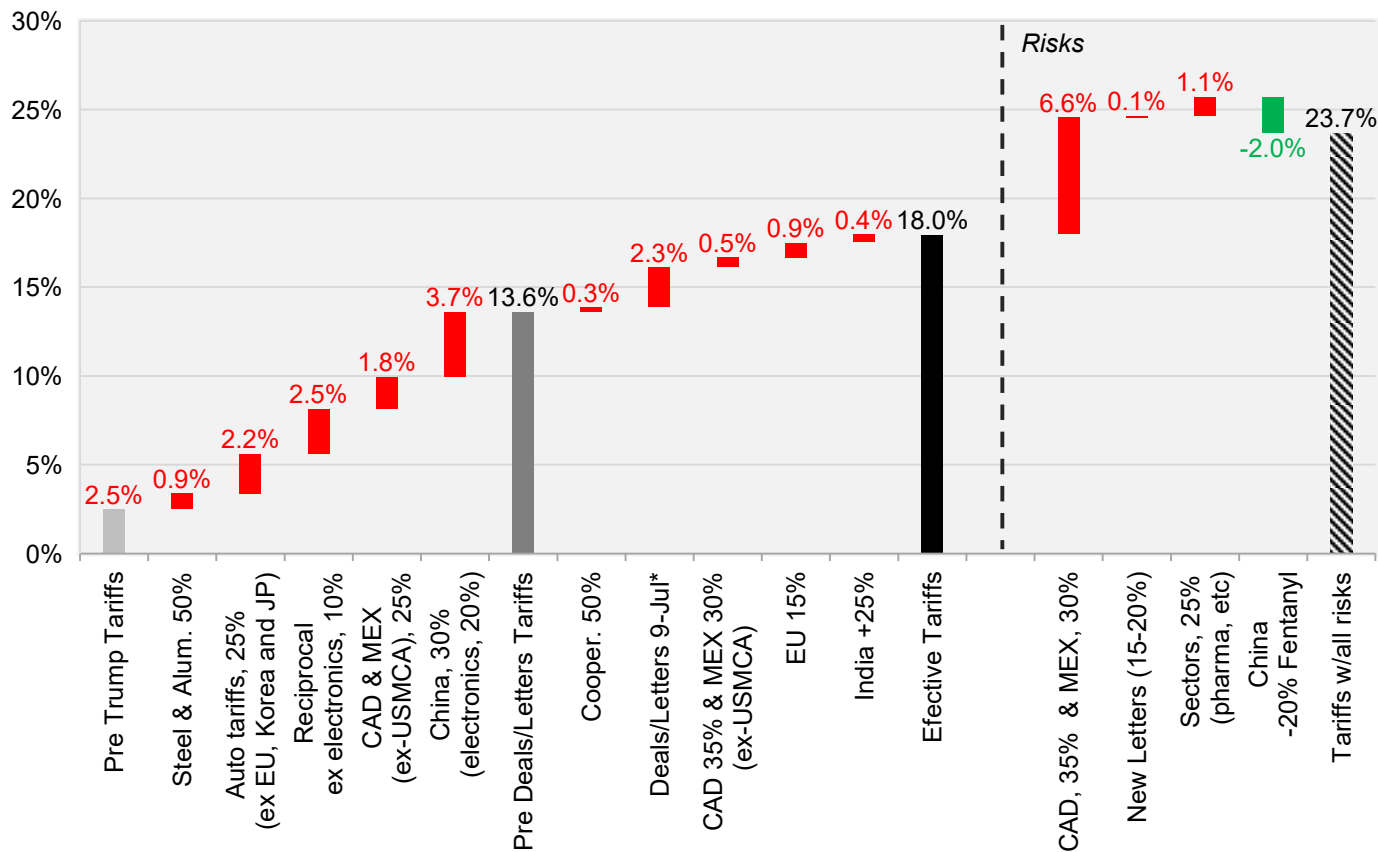
we adjusted our 2025 GDP growth forecast down slightly to 5.0%, from 5.2% in our previous scenario. We also revised our forecast for 2026 to 3.5%, from 4.0%, mostly due to a lower expected carry from 2025. Growth in Argentina is still exceptional, reflecting progress on the stabilization and gradual liberalization of the economy over the last year.

Little changes to our inflation calls. In Mexico, the inflation scenario remains far from comfortable, particularly for core inflation. In our view, the disinflationary trend has halted, and inflation is now fluctuating well above target, driven by several fundamental factors. These include the USDMXN pass-through (lagged from last year's depreciation), normalization of goods inflation from previously low levels, persistent service inflation, a slowdown in economic activity amid a somewhat resilient job market, and inflation expectations anchored around 4%, the ceiling of Banxico's 3% (+/-1%) inflation target. We maintained our year-end 2025 inflation call at 4.1% and at 3.7% by the end of 2026. Following the upside inflation surprise in July in Chile, we revised our 2025 yearend call from 3.8% to 3.9% and see inflation reaching the 3% target during the first half of 2026. We expect inflation to remain elevated in the second half of the year in Colombia, driven by a low statistical base compared to H2 2024, along with risks from higher gas prices. We maintained our year-end inflation forecast at 5.1% but revised our 2026 estimate upward to 4.0% (from 3.6%), incorporating risks from another significant increase in the minimum wage next year, amid strong domestic consumption and a resilient labor market. Peru's case stands out from the rest of the region in the sense that inflation is below the 2% target and within the BCRP's tolerance range, and the inflationary outlook remains well anchored. Headline inflation is expected to rise moderately in the coming months, partly due to base effects, and reach 2.2% by year-end. Still, the balance of risks going forward is tilted to the downside.

Tweaking our monetary policy calls. We still expect monetary policy to become less contractionary in several economies in the region. In Mexico we believe Banxico will opt for another 25-bp cut in September, and beyond that, all options are on the table. Our global scenario considers only one 25-bp cut by the Fed in December, which we believe aligns with our 7.5% cycle endpoint. If the FOMC restarts easing in September, Banxico may advance some of the cuts we were expecting only in 2026, ending the year at 7.0%, with two additional 25-bp cuts at the beginning of the next year, also consistent with our current FOMC scenario.

In Chile, after the unanimous 25bp cut in July to 4.75% and risks associated to the upside inflation surprise in July, we now pencil in only one more cut this year to 4.50%, and continuing to 4% in the first half of 2026; tactical considerations are likely to weigh more in upcoming decisions. In Colombia, following BanRep's July decision to hold rates steady, reflecting concerns over stubborn inflation expectations and strong domestic demand, we now see BanRep staying put through year-end at 9.25% (from 8.75%) and resuming next year to 8.25% by end-2026 (from 7.75%).

Effective U.S. tariff rates



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	3.0	2.9	2.8	2.8
USA - %	-2.2	6.1	2.5	2.9	2.8	1.7	1.7	1.5	1.5
Euro Area - %	-6.2	6.3	3.6	0.7	0.9	1.1	0.8	1.2	1.2
China - %	2.0	7.7	3.0	5.4	5.0	4.7	4.5	4.0	4.0
Inflation									
U.S. Core CPI - %, eop	1.6	5.5	5.7	3.9	3.2	3.8	3.8	3.0	3.0
Interest rates and currencies									
Fed Funds - %, eop	0.13	0.13	4.15	5.38	4.52	4.13	4.13	3.63	3.63
U.S. 10 Year Treasury - %, eop	0.93	1.47	3.88	3.88	4.58	4.50	4.50	4.25	4.25
USD/EUR - eop	1.22	1.13	1.07	1.10	1.04	1.20	1.20	1.20	1.20
CNY/USD - eop	6.54	6.37	6.92	7.13	7.30	7.15	7.15	7.15	7.15
DXY Index* - eop	89.9	95.7	103.5	101.3	108.5	95.8	95.8	95.4	95.4

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 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: Itaú

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

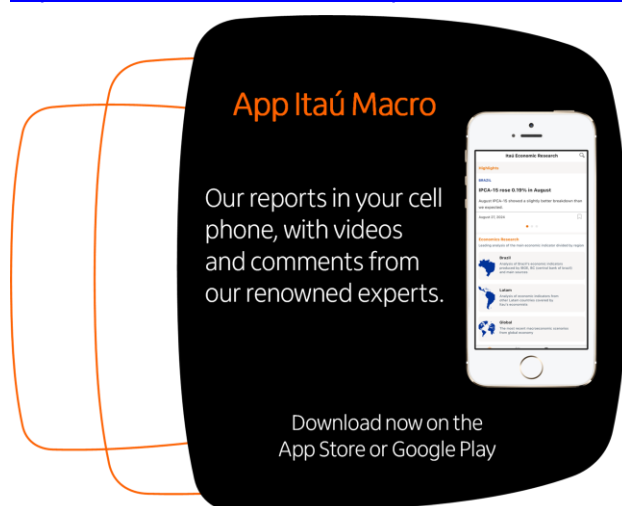
	2020	2021	2022	2023	2024	2025F		2026F	
						Current	Previous	Current	Previous
Brent Oil (USD/bbl)	50	75	82	77	73	65	65	65	65
Iron Ore (USD/tonne)	153	116	110	135	103	95	95	85	85
Copper (USD/tonne)	7788	9525	8402	8489	9030	9400	9400	9650	9650
Corn (Usd/bu)	437	592	656	480	444	415	415	415	415
Soy (Usd/bu)	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

Macro Research – Itaú

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