Market update: July

July was marked by a partial reversal of some of the key moves seen in the previous month. Renewed tensions between the United States and Iran once again restricted oil flows through the Strait of Hormuz, triggering a sharp rebound in energy prices and reviving concerns about global inflation. At the same time, long-term yields rose again across major economies, in an environment where central banks still have limited room to signal a clearer easing of monetary policy.

In markets, in addition to the rise in oil prices, the main highlight was the correction in stocks tied to the artificial intelligence and semiconductor cycle, following several months of strong gains. The move was particularly pronounced in Asian markets and among U.S. technology companies, while more traditional sectors and value stocks posted better relative performance. Despite the more volatile external backdrop, the U.S. dollar weakened during the month, while higher commodity prices ultimately benefited some emerging-market currencies and equities, including Brazil.

International

In the **U.S.**, data continued to point to a resilient economy, as reflected in corporate earnings growth (Figure 1). Consumption remained firm and the labor market, despite signs of moderation in job creation, remains healthy. The composition of activity data also showed continued investment related to artificial intelligence, reinforcing the perception that domestic demand is still expanding at a solid pace. On inflation, the latest releases were somewhat more benign, but the more persistent components remain above levels considered comfortable by the Federal Reserve, while the rebound in oil prices has added renewed uncertainty to the outlook.

Against this backdrop, the *Fed* meeting took on greater importance. The central bank left rates unchanged, but three members advocated another hike. Kevin Warsh's communication, meanwhile, was viewed by the market as unclear, particularly regarding the conditions that would be needed to justify the next monetary policy moves. The combination of a still-strong economy, inflation above target and reduced predictability around *Fed* policy drove a more pronounced rise in long-term yields. This move also contributed to the rotation in U.S. equities, weighing primarily on growth and technology companies, while sectors less sensitive to interest rates posted better relative performance, reversing the trend of recent months.

In **Europe**, economic activity proved more resilient than in previous months, with second-quarter indicators and activity surveys surprising to the upside. Inflation, however, remains above the level desired by the European Central Bank, particularly in the more persistent components, keeping alive the debate over the need to keep rates higher for longer. Following the rate increase in June, the ECB left its policy rate unchanged in July and reiterated that its next steps will depend on incoming data.

Despite the rise in global yields, European equities posted relatively better performance during the month. Lower exposure to the technology segments that corrected in the United States and Asia, combined with strong performance from sectors such as banks, supported the region's indices. The backdrop, however, remains characterized by moderate growth and still-sticky inflation, limiting a more meaningful improvement in the economic outlook.

In **Asia**, July marked an important shift relative to previous months. South Korean and Japanese equities, which had benefited strongly from the artificial intelligence and semiconductor cycle, underwent sizable corrections amid questions around valuations, capacity additions and increased competition in the sector.

In **China**, indicators once again pointed to a divided economy: exports, industrial production and technology continue to support activity, while consumption, real estate and private-sector confidence remain weaker. The government signaled greater use of stimulus measures already planned, but announced no new large-scale programs, reinforcing expectations that support for the economy will remain gradual. In **Japan**, the sharp depreciation of the yen led to intervention in the foreign-exchange market, while the Bank of Japan maintained a more hawkish tone, indicating that the rate-hiking cycle should continue given still-elevated inflation and wage growth.

Domestic

In **Brazil**, July brought a more favorable combination of current data. Inflation releases surprised to the downside, with improvement in both food and goods as well as more services-related components. At the same time, activity indicators began to show clearer signs of slowing, particularly in retail and services. This combination increased expectations that the Selic easing cycle would continue, even as the labor market remains tight and longer-term inflation expectations still warrant attention.

The external backdrop supported local assets. Higher prices for commodities relevant to Brazil's export basket, combined with more favorable foreign inflows, contributed to the appreciation of the real. Brazilian equities also posted positive performance, led mainly by commodity-related and financial companies, in contrast to the weakness of technology stocks in international markets.

Despite the near-term improvement, structural risks remain. The fiscal trajectory continues to be an important source of risk premium in the local yield curve, while the approaching elections are likely to increase asset sensitivity to opinion polls and economic-policy signals. As a result, the combination of more benign current inflation and slowing activity provides some room for domestic assets to improve, but the outlook still calls for caution given fiscal and electoral risks and the possibility of a higher global interest-rate environment.

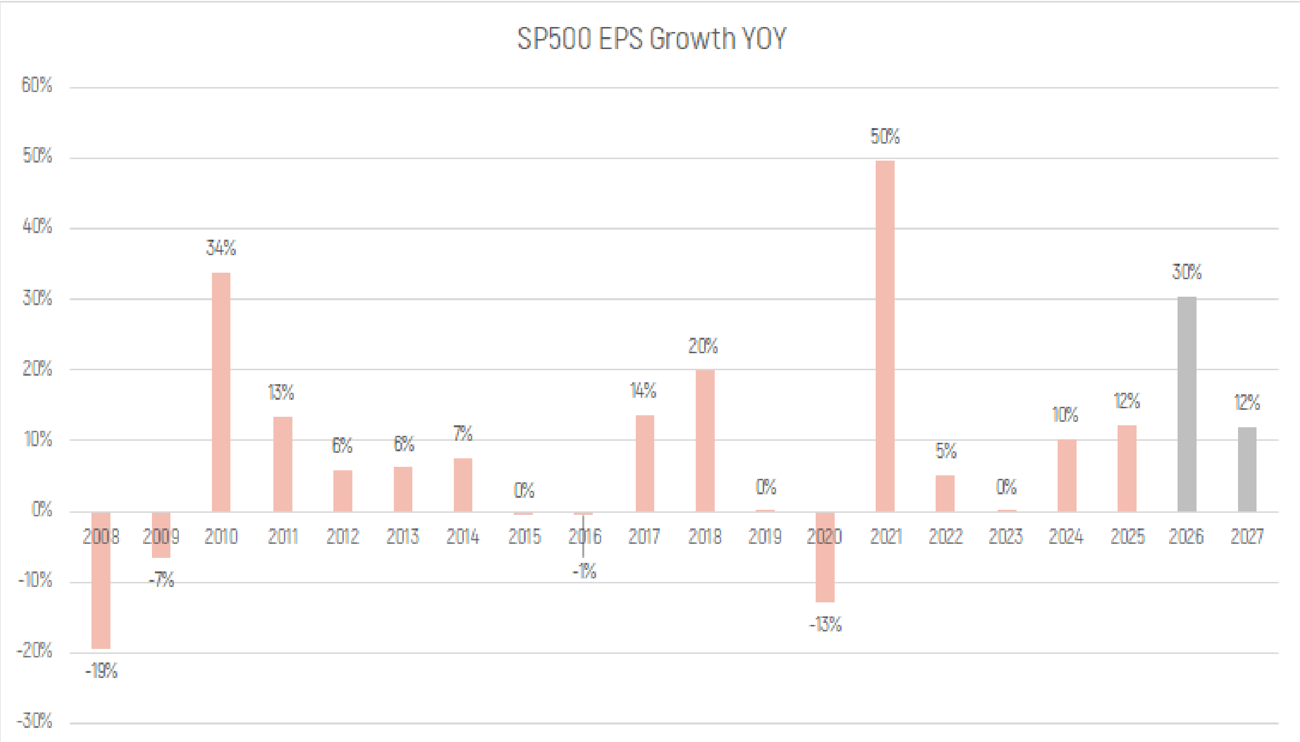
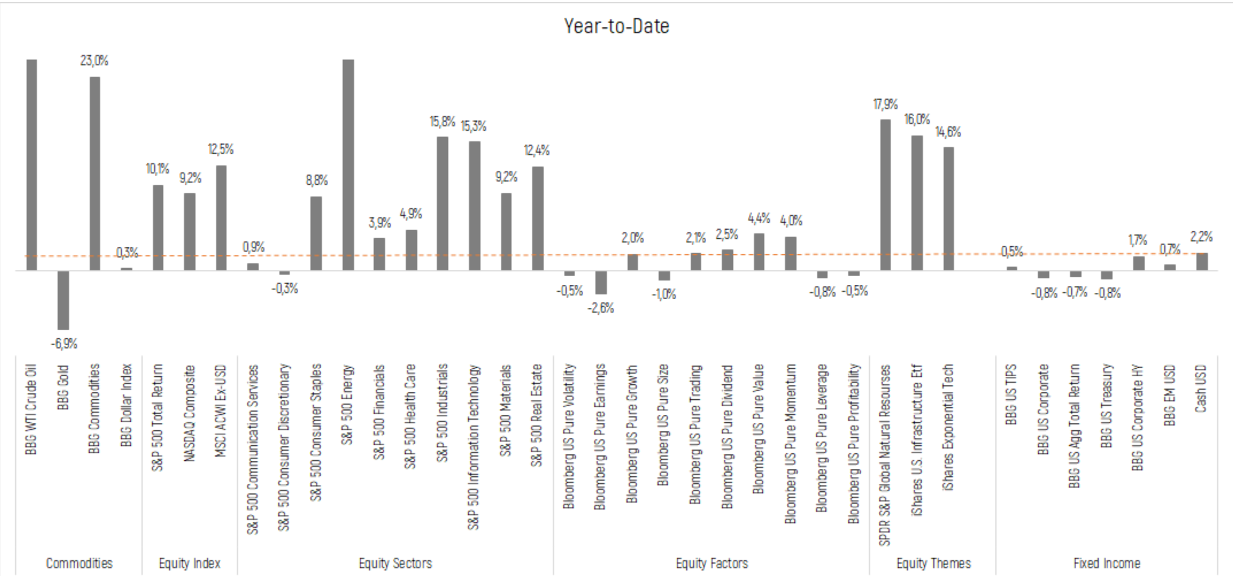


Figure 1) Annual earnings growth of S&P 500 Index companies. Source: BBG/Tera

Global Assets	1m	3m	6m	12m	24m	36m
Commodities						
BBG WTI Crude Oil	22,61%	-9,86%	56,00%	55,70%	61,54%	74,87%
BBG Gold	0,55%	-12,40%	-14,40%	21,74%	63,34%	100,01%
BBG Commodities	7,54%	-5,14%	11,43%	35,53%	48,70%	41,01%
BBG Dollar Index	-1,26%	1,24%	1,56%	-1,21%	-3,74%	-0,92%
Equity Index						
S&P 500 Total Return	-0,06%	4,19%	8,56%	19,56%	39,09%	69,90%
NASDAQ Composite	-3,20%	1,93%	8,15%	20,13%	44,17%	76,87%
MSCI ACWI Ex-USD	0,22%	4,13%	6,15%	25,73%	40,74%	50,46%
Equity Sectors						
S&P 500 Communication Services	0,49%	-8,26%	-4,50%	18,09%	53,59%	97,98%
S&P 500 Consumer Discretionary	0,80%	-1,57%	-1,98%	6,81%	26,76%	41,09%
S&P 500 Consumer Staples	1,94%	-1,25%	1,19%	7,59%	12,78%	18,46%
S&P 500 Energy	12,54%	0,26%	16,09%	36,84%	28,10%	36,42%
S&P 500 Financials	6,04%	9,22%	6,64%	8,76%	30,15%	61,16%
S&P 500 Health Care	2,24%	11,36%	5,05%	24,71%	8,66%	21,25%
S&P 500 Industrials	-3,06%	2,90%	8,62%	18,26%	40,56%	62,82%
S&P 500 Information Technology	-3,45%	8,19%	17,29%	25,54%	54,24%	106,94%
S&P 500 Materials	-1,70%	-2,67%	0,51%	13,36%	8,05%	16,26%
S&P 500 Real Estate	2,46%	1,49%	9,37%	10,27%	10,94%	19,67%
Equity Factors						
Bloomberg US Pure Volatility	-2,30%	-2,51%	-1,16%	0,78%	5,59%	3,81%
Bloomberg US Pure Growth	-1,64%	-0,06%	1,78%	-1,14%	3,09%	2,43%
Bloomberg US Pure Size	0,00%	-0,66%	-0,27%	0,68%	6,65%	9,09%
Bloomberg US Pure Dividend	0,69%	0,34%	0,41%	1,76%	-0,20%	-0,07%
Bloomberg US Pure Value	3,30%	1,27%	3,58%	6,18%	4,67%	8,46%
Bloomberg US Pure Momentum	-4,72%	-2,06%	1,92%	7,35%	16,39%	24,36%
Equity Themes						
SPDR S&P Global Natural Resourses	7,53%	-2,06%	7,47%	36,45%	36,60%	38,10%
iShares U.S. Infrastructure Etf	-3,92%	-2,96%	8,92%	21,84%	36,13%	58,71%
iShares Exponential Tech	-3,70%	4,46%	10,42%	30,31%	46,15%	48,76%
Global X AI	-10,24%	5,39%	13,32%	32,25%	68,64%	99,57%
iShares Semiconductor ETF	-21,20%	9,47%	45,95%	111,33%	117,12%	188,66%
Fixed Income						
BBG US TIPS	-0,68%	-0,94%	0,15%	2,59%	6,81%	11,52%
BBG US Corporate	-1,67%	-0,75%	-1,01%	2,53%	7,13%	14,37%
BBG US Agg Total Return	-1,30%	-0,76%	-0,80%	2,71%	6,18%	11,60%
BBG US Treasury	-1,11%	-0,72%	-0,75%	1,97%	4,67%	8,99%
BBG US Corporate HY	-0,25%	0,51%	1,19%	5,17%	14,29%	26,93%
BBG EM USD	-1,30%	-0,04%	0,33%	5,65%	14,54%	24,46%
Cash USD	0,31%	0,93%	1,85%	3,94%	8,86%	14,92%



Brazil	1m	3m	6m	12m	24m	36m
Floating Rate						
Brazil CETIP DI Rate Accumulat	1,22%	3,45%	6,90%	14,71%	29,09%	43,95%
Anbima IMA-S	1,23%	3,48%	7,00%	14,90%	29,62%	44,79%
Anbima Debentures Index IDA DI	1,43%	4,55%	7,17%	14,93%	30,95%	51,55%
Credit Spread	0,22%	1,07%	0,25%	0,19%	1,44%	5,28%
Fixed Rate						
Anbima IRF-M 1	1,26%	3,50%	6,68%	14,56%	28,56%	42,46%
Anbima IRF-M	0,85%	2,24%	3,92%	12,75%	24,03%	34,41%
Anbima IRF-M 1+	0,70%	1,75%	2,85%	12,17%	21,88%	30,87%
Inflation-Linked						
Anbima IMA-B 5	1,24%	2,44%	6,52%	13,18%	22,55%	32,55%
Anbima IMA-B	0,97%	0,23%	4,05%	10,19%	14,91%	19,94%
Anbima IMA-B5+	0,75%	-1,50%	2,12%	7,82%	9,61%	10,73%
Anbima Debentures Index ID	1,03%	1,14%	-0,46%	7,99%	16,76%	27,66%
Credit Spread (vs. avg. B5 and B)	-0,07%	-0,19%	-5,45%	-3,31%	-1,66%	1,12%
*IPCA Inflation**	0,16%	1,42%	3,36%	4,64%	10,24%	14,90%
Real Estate						
Bovespa Real Est In Fund	-0,32%	-2,83%	-1,10%	11,12%	13,48%	19,43%
Hedge Funds						
Anbima Hedge Funds Index	-0,19%	0,95%	0,82%	10,66%	23,60%	30,22%
Equities						
BRAZIL IBOVESPA INDEX	3,47%	-4,97%	-1,86%	33,76%	39,44%	45,97%
BOVESPA Dividend Index	3,00%	-3,14%	-0,33%	29,82%	41,71%	57,38%
BM&FBOVESPA Small Cap	-0,77%	-7,53%	-14,03%	4,54%	7,37%	-6,96%
BRAZIL Financial Index	4,77%	-2,29%	-4,95%	31,37%	50,63%	52,58%
BOVESPA Utilities Index	-2,14%	-9,73%	2,31%	45,28%	65,26%	79,59%
BM&FBOVESPA REAL ESTATE	-8,05%	-9,80%	-14,97%	20,38%	42,53%	30,27%
BM&FBOVESPA Consumption	-2,78%	-7,06%	-14,14%	5,60%	4,10%	-11,85%
BOVESPA INDUSTRIAL INDEX	2,07%	3,36%	-6,45%	15,09%	21,05%	35,64%
BOVESPA Basic Mat Index	9,37%	1,34%	-4,86%	24,46%	15,22%	10,57%
BRAZIL ELECTRIC ENRGY IX	-0,52%	-8,35%	0,91%	31,83%	42,87%	41,19%
FX						
USD-BRL Carry Return	-2,48%	0,04%	-7,95%	-17,50%	-23,92%	-12,98%