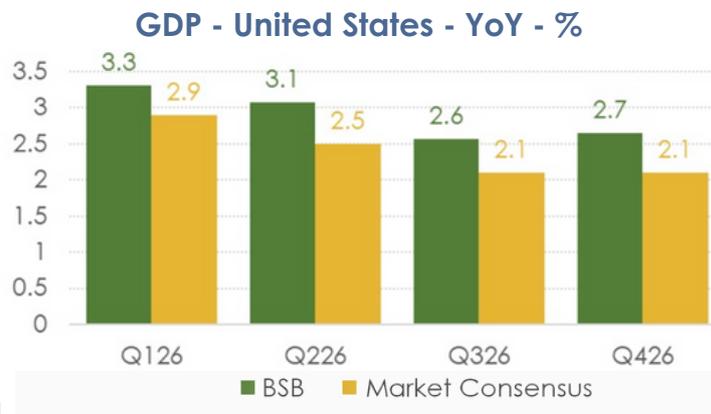


Monthly Scenario: Breaking Down Our Forecasts

International Scenario - United States

Economic Activity

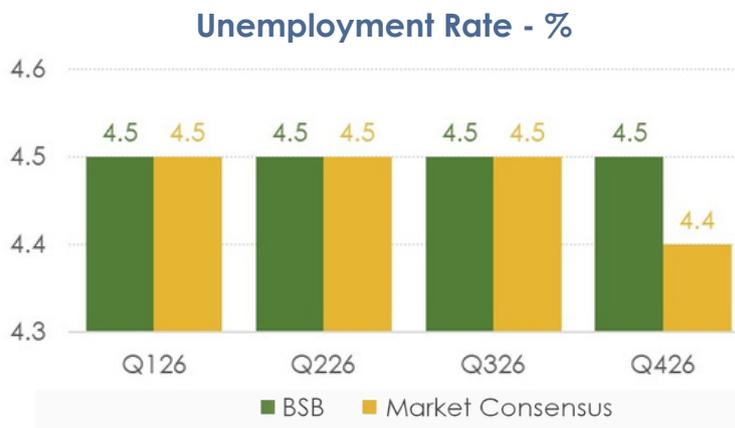
We revised our forecast from 2.0% to 2.7%, driven by the stronger performance of economic activity in the second half of 2025, which raises the statistical carryover into 2026. This upward revision is also supported by the continuation of the wealth effect from higher asset prices on consumption by high-income households, the investment flow into data centres and artificial intelligence, and fiscal stimulus—most notably larger personal income tax refunds between late January and mid-April.



Source: BEA and Buysidebrazil.

Labor Market

In the labour market, our forecast assumes the unemployment rate fluctuating around 4.4%–4.5% throughout the year, still influenced by immigration policy dynamics—low labour supply alongside still-hesitant labour demand from employers—amid higher AI-related investment. We expect a slight improvement over the year, but ending still around 4.5%, while market projections show a flatter path over the year. It is worth noting that the US economy has been creating jobs at a pace of roughly 22k in recent months, below the estimated “breakeven” payroll of around 50k, i.e., the pace that stabilises the unemployment rate. This implies the economy needs to continue growing above potential for the unemployment rate not to rise, which is consistent with our stronger-activity scenario.



Source: BLS and Buysidebrazil.

Inflation

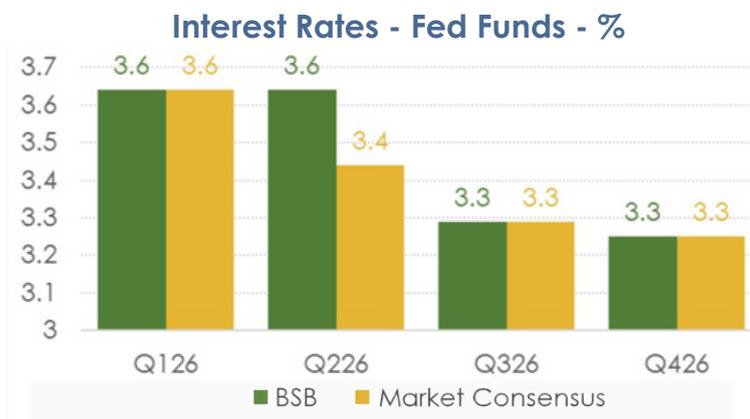
This combination of resilient activity and a still-tight labour market is reflected in inflation dynamics. In our assessment, inflation ends 2025 at a higher level than implied by consensus, leaving room for additional pressures at the start of 2026, with potentially stronger cost pass-through—consistent with anecdotal evidence from large retail chains—and with services repricing. Over the year, we project that the effect of tariffs gains traction and reaches its peak around mid-year. Relative to consensus, the divergence mainly reflects (i) our stronger activity scenario, (ii) our view that the market underestimates the persistence of tariff-related pass-through, and (iii) our diagnosis of how the Federal Reserve has, in practice, been weighing its dual mandate of inflation and unemployment.



Source: BLS, Bloomberg and Buysidebrazil.

Monetary Policy

Regarding Fed Funds, it is worth recalling that the US central bank operates under a dual mandate, and that policymakers' discomfort can be approximated by a loss function combining (with weights) deviations of inflation from target and unemployment from its natural rate. In our scenario, the terminal rate in 2026 is essentially the same as in the consensus. The difference is less about "how much" and more about "when" the cycle begins. We believe the current leadership places relatively greater weight on risks of labour-market deterioration, accepting living with inflation above target for longer in order to reduce the probability of a more pronounced rise in unemployment. Once Warsh takes office, we expect the start of cuts in early Q3. Even with inflation still elevated, the new chair would have the role of coordinating and building consensus among officials to resume easing. In other words, we converge to the same end level, but with a later start.



Source: FED, Bloomberg and Buysidebrazil.

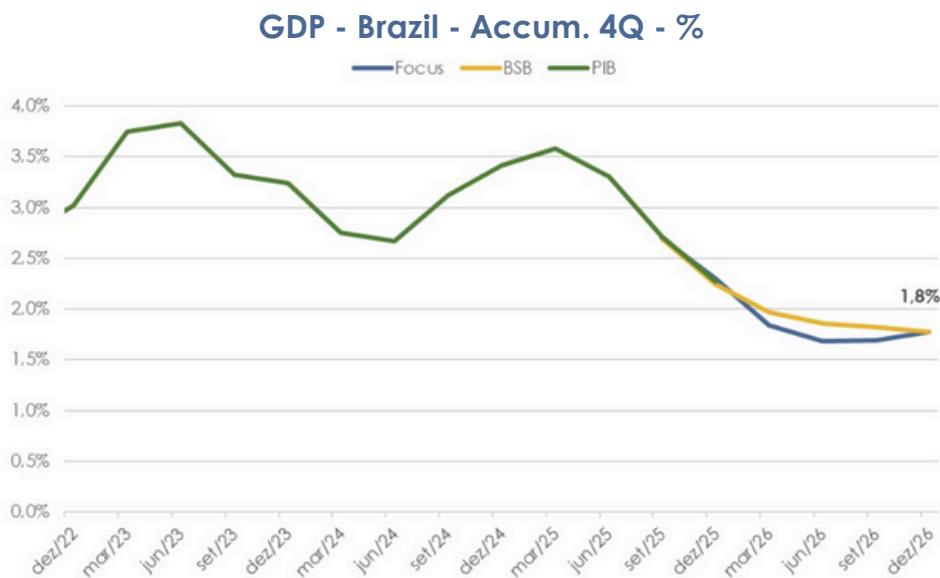
Domestic Scenario

Economic Activity

For GDP, our 2026 forecast matches the market median in the BCB Focus survey (market expectations survey), at 1.8%, albeit with relevant differences in trajectory and starting point. It is worth highlighting that both forecasts are above the estimate published by the Central Bank in the December Monetary Policy Report (RPM), which pointed to 1.6% growth in 2026. This difference relative to the BCB is mainly explained by our more optimistic assessment for agriculture, while the compositional difference relative to Focus stems from our view of a smaller statistical carryover from 2025.

Relative to the market, our main difference is our assessment of more moderate activity growth at the end of 2025. We project 2.2% growth in the year, versus 2.3% in Focus, reflecting weaker industrial performance and moderation in services. This lower starting point implies that, in 2026, we expect a more gradual slowdown in activity than what is embedded in market projections, assuming greater resilience in services and agriculture at the start of the year.

On agribusiness, IBGE's Systematic Survey of Agricultural Production (LSPA) indicates a grain harvest slightly lower in 2026 than in 2025, although still with a record soybean crop. This supports agricultural growth above what the market projects in the first half, albeit below what was observed in 2025. In addition, the initial effects of the personal income tax reform should boost services in the first half, with a gradual loss of momentum over the second half. This set of factors reinforces our view of a milder slowdown, more evenly distributed across the year.

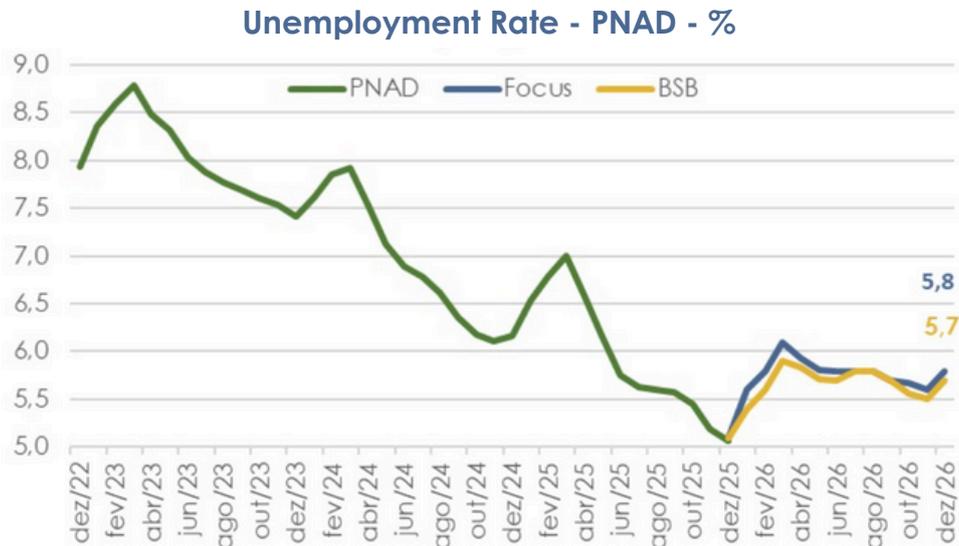


Source: IBGE, BCB and Buysidebrazil.

Labor Market

Consistent with activity moderation, both our assessment and the market's indicate that the labour market should continue in a gradual cooling process in 2026, after reaching a historically low level at the end of 2025. The Focus median projection for the unemployment rate measured by PNAD points to 5.8%, while we work with a slightly lower estimate, at 5.7%.

This difference reflects a few factors. Our forecast assumes a more pronounced easing in the labour market early in the year, reflecting the lagged response to activity, which already shows clearer signs of slowing. Focus, in turn, appears to project a more linear adjustment, not fully capturing seasonality and the lagged effects of restrictive monetary policy on labour demand. Over the second half, however, we expect a mild recomposition, supported by seasonal effects, stimulus associated with the electoral period, and resilience in services. This set of factors supports an unemployment rate marginally below what the market projects in 2026 and, on average, below the level observed in 2025.



Source: IBGE, BCB and Buysidebrazil.

Fiscal Policy

On the fiscal front, the table below presents our estimates for the Central Government primary result and compares them with the line items in the 2026 Annual Budget Law (LOA). Relative to the government, we project BRL 30bn less in revenue, mainly explained by a BRL 26.8bn difference in our estimate for the new revenue measures presented by the government. The largest divergences—measured as the difference between our projection and the government’s for each item—come from trade defence measures (BRL 7bn), a review of tax expenditures via PLP 182 and PLP 128 (BRL 10bn), and tighter control of tax offsets/credits (BRL 8bn). In addition, we assume lower GDP growth than the one used in the LOA, which also reduces projected revenue.

On the expenditure side, we estimate BRL 22bn more than the government, with emphasis on “other mandatory spending”, especially BPC/LOAS (the non-contributory benefit under Brazil’s Social Assistance Law) and extraordinary credits, which account for BRL 19bn of this difference. In the case of BPC/LOAS, forecast errors have accumulated in recent years, reflecting the growth in the number of beneficiaries associated with an expansion in court-driven awards.

With this backdrop, we project a primary deficit of 0.55% of GDP, already incorporating a BRL 10bn discount for likely budget under-execution, a recurring phenomenon that has helped the government meet the target. Under this configuration, after considering legal abatements, the effort required to reach the centre of the 2026 target would be around BRL 50bn, which seems unlikely to us. As the government is authorised to pursue the floor of the target, this effort falls to something close to BRL 15bn, which we consider feasible and more likely to materialise via extraordinary revenues.

Table I: Primary Balance of Central Government

| Line Item | 2026 | | BSB 2026 | | BSB - | |
|---|-------------|--------------|-------------|--------------|------------|--------------|
| | BRL | % | BRL | % | BRL | % |
| Total Primary Revenue | 3198 | 23,1 | 3168 | 23,9 | -30 | 0,7 |
| Transfers to States and Municipalities | 607 | 4,4 | 615 | 4,6 | 8 | 0,2 |
| Net Primary Revenue | 2591 | 18,7 | 2553 | 19,2 | -38 | 0,5 |
| Total Primary Expenditure | 2614 | 18,9 | 2636 | 19,9 | 22 | 1,0 |
| Social Security Benefits | 1122 | 8,1 | 1133 | 8,5 | 10 | 0,4 |
| Payroll and Social Charges | 457 | 3,3 | 439 | 3,3 | -18 | 0,0 |
| Other Mandatory Expenditures | 421 | 3,0 | 444 | 3,3 | 23 | 0,3 |
| Discretionary Expenditures | 614 | 4,4 | 620 | 4,7 | 7 | 0,2 |
| CENTRAL GOVERNMENT PRIMARY BALANCE (I) | -23 | -0,17 | -83 | -0,63 | -60 | -0,46 |
| Under-execution (II) | 0 | 0,00 | 10 | 0,08 | 10 | 0,08 |
| ADJUSTED PRIMARY BALANCE (III = I + II) | -23 | -0,17 | -73 | -0,55 | -50 | -0,38 |
| Legal Discounts (IV) | 58 | 0,42 | 58 | 0,44 | 0 | 0,02 |
| PRIMARY BALANCE AFTER DISCOUNTS (V = III + IV) | 35 | 0,25 | -15 | -0,12 | -50 | -0,36 |
| Target Center (VI) | 34 | 0,25 | 34 | 0,25 | 0 | 0,00 |
| FISCAL EFFORT (VII = VI - V) | 0 | 0,00 | 50 | 0,37 | 50 | 0,38 |

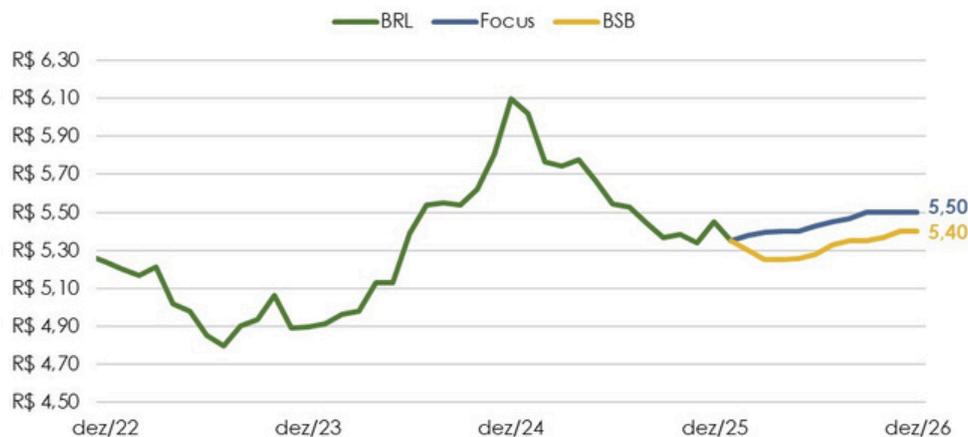
Source: MPO and Buysidebrazil.

Exchange Rate

From the external scenario to asset prices, the revision to our Fed Funds scenario reduces the risk of shocks along the US yield curve and, consequently, of stronger defensive moves in the dollar. Even so, our weaker-dollar view is less linked to the interest-rate cycle and more to the geopolitical backdrop. The rise in global tensions, greater caution about concentrating positions in US assets, and the gradual advance of portfolio diversification have been reducing the dollar's strength as an automatic safe-haven asset, making the currency react less to short-term noise.

In this context, we project the exchange rate at BRL 5.40/US\$ at end-2026, below the market consensus (BRL 5.50). The 10-cent difference essentially reflects our view that the market still embeds an elevated risk premium for the real, anchored in fiscal and political uncertainties that, so far, have not materialised to the feared magnitude. Gradual improvement in country risk, a still-favourable commodity backdrop, and an attractive interest-rate differential should support more constructive flows into Brazil, which should keep the exchange rate below BRL 5.30 in the first half. In Q4, electoral uncertainty may generate some depreciation, but we believe this move should be more contained than what is currently priced.

Exchange Rate - End of Period - BRL

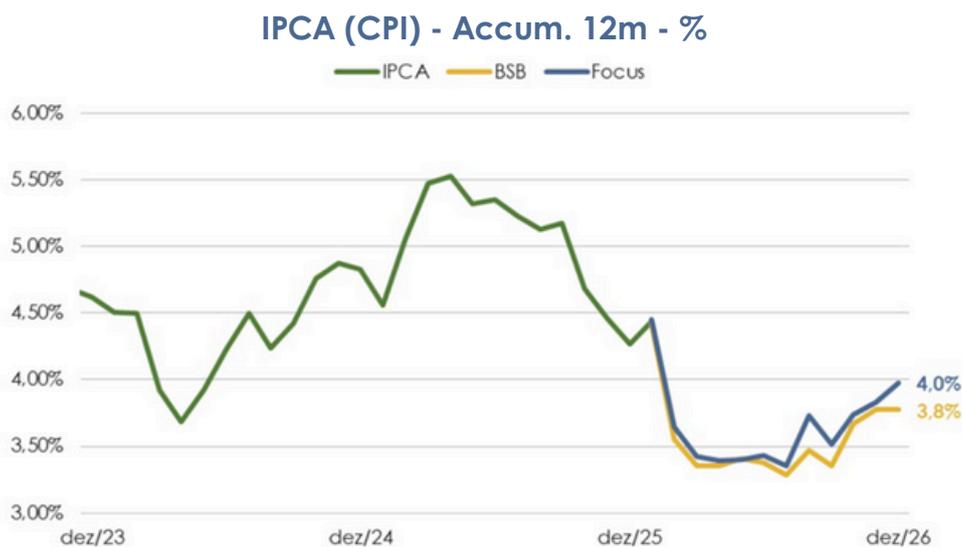


Source: BCB and Buysidebrazil.

Inflation

This more constructive FX scenario contributes directly to our IPCA forecast of 3.8% in 2026, below the market consensus (4.0%), consistent with our view of a more favourable external and FX backdrop than what is currently embedded in expectations. The revision incorporates both the direct effect of the recent decline in gasoline prices and a more benign FX pass-through over the horizon, especially to industrial goods and at-home food, in an environment where the real is under less pressure. We believe the market still assigns excessive weight to isolated upside risks—such as volatility in food prices—without fully capturing the lagged effects of FX appreciation and the gradual slowdown in activity. Put differently, the 10bp difference versus consensus reflects less a disagreement about services dynamics and more our assessment that benign FX pass-through and administered-price declines will have a larger impact than currently priced.

For services, we acknowledge disinflation is likely to be slower, given a still-heated labour market and persistent wage pressures. Even so, we assess that the gradual moderation in activity, combined with lower inflation inertia and a more stable exchange rate, should contribute to a progressive slowdown in this segment over the year. In addition, supply-chain normalisation, lower pressure on industrial goods, and a more benign dynamic for administered prices reinforce a set of vectors pointing inflation lower. Thus, although short-term uncertainties remain, the balance of risks remains tilted to the downside.



Source: IBGE, BCB and Buysidebrazil.

Monetary Policy

In light of the elements discussed above, we project the Selic at 12.00% at end-2026, below the market median (12.25%). This forecast is consistent with our scenario of a more benign inflation path, less-pressured FX, and moderating activity—factors that reduce the upside asymmetry for monetary policy. In this environment, there is room for a stronger easing cycle than what is currently priced.

In this context, we view it as plausible that the cutting cycle begins as early as March, with an initial 50bp move—a pace we consider consistent with the Central Bank’s “caution and serenity” strategy. We recognise that the process of appointing new directors may generate short-term noise and some volatility in expectations, posing a risk to the scenario. Even so, we believe monetary policy conduct should remain anchored in the data and in preserving institutional credibility, limiting the impact of these uncertainties on the interest-rate path. Unlike the market, which still embeds a more conservative stance, we believe that, as the benign scenario for inflation, FX, and activity is confirmed, the monetary authority will have greater comfort in taking Selic to a lower terminal level.



Source: BCB and Buysidebrazil.

Macroeconomic projections

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|-------|-------|-------|-------|-------|-------|------------|--------------|
| Brazil GDP (%) | 1,2 | -3,3 | 4,8 | 3,0 | 2,9 | 3,4 | 2,2 | 1,8 |
| Unemployment Rate (average, %) | 12,0 | 13,8 | 13,2 | 9,3 | 8,0 | 6,6 | 5,6 | 6,4 |
| IPCA (Consumer Price Index) (%) | 4,3 | 4,5 | 10,1 | 5,8 | 4,6 | 4,8 | 4,3 | 3,8 |
| Selic Rate (end of period, %) | 4,50 | 2,00 | 9,25 | 13,75 | 11,75 | 12,25 | 15,00 | 12,00 |
| Exchange Rate (end of period, R\$/US\$) | 4,03 | 5,20 | 5,58 | 5,22 | 4,84 | 6,19 | 5,50 | 5,40 |
| Current Account Transactions (US\$ billion) | -68,0 | -28,2 | -46,4 | -53,6 | -28,6 | -66,2 | -68,8 | -74,9 |
| Current Account Transactions (% of GDP) | -3,6 | -1,7 | -2,9 | -2,8 | -1,4 | -3,0 | -3,0 | -3,3 |
| Trade Balance - BCB (US\$ billion) | 26,5 | 32,4 | 36,4 | 44,2 | 80,5 | 66,2 | 60,0 | 53,6 |
| Foreign Direct Investment (US\$ billion) | 69,2 | 37,8 | 46,4 | 87,2 | 62,0 | 71,1 | 77,7 | 75,0 |
| Foreign Direct Investment (% of GDP) | 3,7 | 2,6 | 2,8 | 4,5 | 2,8 | 3,2 | 3,4 | 3,3 |
| Primary Result of the Central Government (% of GDP) | -1,3 | -9,8 | -0,4 | 0,5 | -2,3 | -0,4 | -0,4 | -0,6 |
| Gross Public Debt (% of GDP) | 74,4 | 86,9 | 77,3 | 71,7 | 74,3 | 76,1 | 78,7 | 83,7 |
| United States - GDP (%) | 2,5 | -2,2 | 6,1 | 2,5 | 2,9 | 2,8 | 1,7 | 2,0 |
| United States - PCE (%) | 1,4 | 1,1 | 4,1 | 6,6 | 3,8 | 2,5 | 3,5 | 2,8 |
| United States - Fed Funds Rate (end of period, %) | 1,8 | 0,3 | 0,3 | 4,0 | 5,5 | 4,5 | 3,75 | 3,25 |

Our team

Andrea Bastos Damico
Chief Economist and CEO
andrea@buysidebrazil.com

Rafaela de Sousa
Economist
rafaela@buysidebrazil.com

Marcelo Alonso
Economist
marcelo@buysidebrazil.com

Mirella Hirakawa
Research Coordinator and
Partner
mirella@buysidebrazil.com

Rita Milani
Economist
rita@buysidebrazil.com

Henrique Miareli
Economist
henrique@buysidebrazil.com

