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Our Thoughts On Potential Implications From Trump's Tariffs

Limited Direct Impacts Overall; Global Demand Growth Implications as Our Main Concern

Given the global profile of our coverage, we are sharing our thoughts on potential implications from Trump's "reciprocal tariffs". Overall, we note that although direct impacts might seem limited at first glance (especially as the 10% baseline tariff for Brazil might be seen as better-than-anticipated), the indirect implications of a potential global deceleration is what most concerns us. In that regard, we believe that (i) the eventual rearrangement of trade flows, (ii) distinct supply x demand dynamics at each industry and (iii) the power to pass-through inflation (i.e.: tariffs) throughout each company's and products' value chain are fundamental to better assess the risks for each company.

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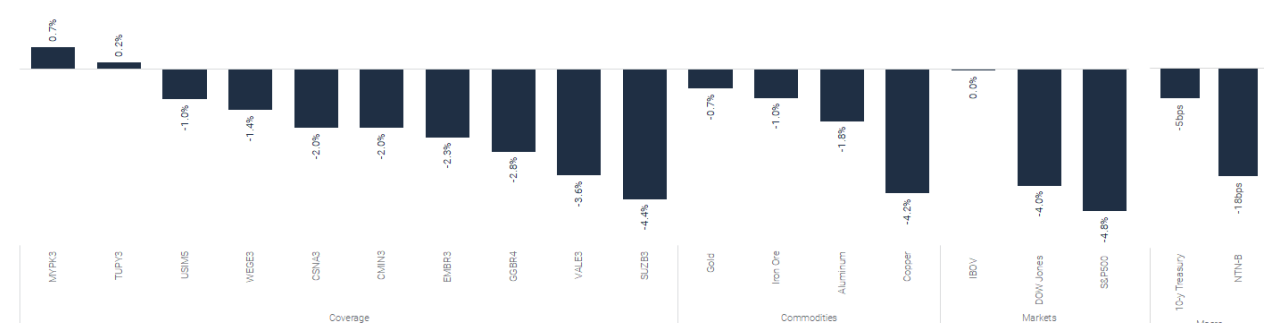
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The announcement of Trump's 'reciprocal tariffs' has driven instability to international trade worldwide, adding to the uncertain scenario for major economies, commodities and stock markets. Although Brazil's 10% baseline tariff may have been a positive surprise (*lighter relative to the rest of the world*), our [macro team](#) highlights that globally the impact may prove more significant than originally expected, seeing an increased risk of U.S. recession and an increased probability of stronger LatAm currencies ahead. Market-wise, our [strategy team](#) has a negative overall read-through, with (-) the 10% baseline tariff for all Brazil imports potentially affecting key exports to the U.S., although (+) potentially supporting a continued capital outflow from the U.S..

What caught our attention. (i) Although direct impacts for WEG seem limited, with the exemption of USMCA as a silver lining for its Mexican production footprint, our concern relies on the potential impacts of a global growth deceleration on its more cyclical portfolio (commodity-exposed), with T&D as "hedged", for now. (ii) On the other hand, though direct impacts for Embraer seem higher given its relevant U.S. top-line exposure, we see its quasi-monopolistic positioning on U.S. regional jets' market as a mitigating factor – potentially higher costs given its exec. jets footprint in the U.S. and travel flow deceleration remain as concerns, however. (iii) While pulp flows should not significantly change, Suzano's weaker relative stock performance appears to be more than pricing-in a potential outcome of a weaker BRL and/or higher a risk perception. (iv) Negative implications for Chinese indirect steel exports implying downside risks for iron ore prices (naturally negative for Vale/CMIN). (v) No incremental tariffs for steel/aluminum (already subject to a 25% tariff), with U.S. steelmakers' stocks significantly underperforming Gerdau (capital outflows from the U.S. possibly mitigating steel demand concerns in the U.S.). (vi) Gold as a safe-haven against inflationary pressures, with Aura as potentially benefitted if gold prices remain at higher levels for longer.

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WEG

WEG. Tariff-wise, we see the outlook as better than anticipated for WEG, with the maintenance of Mexico's tariff exemption due to the USMCA (*for some products including electrical equipment and machinery*) as a positive surprise. Moreover, tariffs on Brazilian goods of 10% was lower than expected.

Direct impacts. We see a limited, but existent impact due to the 10% tariff imposed on Brazilian goods, with ~8% of WEG's consolidated revenues composed of exports from Brazil to the U.S.. Including local production and imports, we estimate that the U.S. represents ~25% of WEG's top-line, with a still uncertain scenario for what the impacts may be across its supply chain (although partially mitigated by its verticalized business model).

Indirect impacts. Structurally, we see the potential global activity slowdown as the main risk for WEG, with lower industrial GDP figures implying lower demand for WEG's products, with heavy industries such as O&G, M&M composing a relevant share of WEG's client base (commodities showing a negative reaction). We believe the favorable supply/demand environment for T&D products should support a greater price pass-through capability, with positive prospects for WEG's capacity expansion in Mexico following the tariff exemption (at least for now).

Other highlights. While the domestic scenario in the U.S. remains uncertain, we see room for WEG to expand its local production by the ramp-up of capacity utilization in Marathon's facilities (which were running at around ~50%), decreasing dependence on other regions if it seems beneficial.

Figure 1: WEG Direct Tariff Impacts (R\$ million)

Tariffs Impact	2024
Consolidated Net Revenues	37,987
External Revenues	21,646
Exports from Brazil (Global)	8,357
As a % of Consolidated Revenues	22%
U.S. Revenues	9,497
As a % of Consolidated Revenues	25%
External GTD Revenues	7,646
U.S. GTD Revenues	5,047
As a % of External GTD Revenues	2/3
U.S. EEI Revenues	4,450
U.S. Revenues	9,497
(i) Local Production in the U.S.	3,134
As a % of U.S. Revenues	1/3
(ii) Production in Mexico	3,134
As a % of U.S. Revenues	1/3
Mexico Tariff @ USMCA	0%
(iii) Production in Brazil	3,134
As a % of U.S. Revenues	1/3
Brazil Tariff	10%
Tariff Impact	313
Impact as a % of Revenues	1%

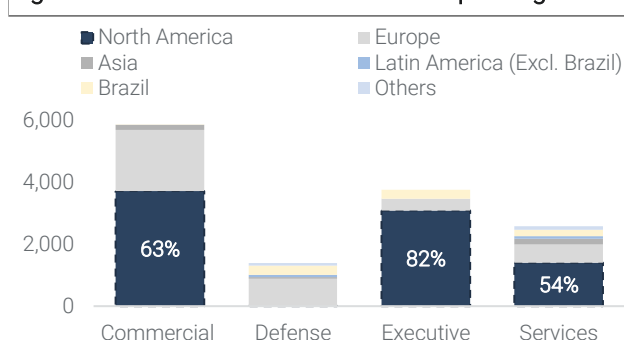
Embraer

Embraer. North America represents ~60% of Embraer's revenues, representing 63% of sales in Commercial Aviation (mainly composed of E1 aircraft produced in Brazil and exported to the U.S., which are comprehended in the 10% tariff), and 82% of Executive Aviation's sales (mainly on local footprint, as business jets are assembled in Embraer's facility in Florida).

Supply chain. Aerospace's complex supply chain raises concerns regarding potential impacts on U.S. production, including Embraer's executive division, aerospace parts manufacturers and competitors such as Airbus (which has an assembly in Alabama). The tariff cascade through supply chain should impact the costs of critical components (including electronics and engines), with aircraft prices potentially rising by over +10% , according to [Airways Magazine](#).

Commercial demand. On the one hand, we see Embraer's almost-monopolistic positioning as a regional jet supplier in the U.S. partially mitigating tariff risks, easing potential price pass-throughs. On the other hand, we see as uncertain the extent of the impact of an economic slowdown on [commercial aviation demand](#). Travel-related stocks fell sharply today amid concerns of lower consumer spending and fewer international flights in the upcoming years, including major airlines shares (UA -16%, AA -14%).

Figure 2: Embraer Revenue Breakdown per Region



Auto Parts

Finally, we see the confirmation of a 25% tariff import for imported vehicles as well as imported auto parts as **negative**, but partially expected, raising demand concerns for Global Auto Parts manufacturer’s products, including lochpe-Maxion and Tupy (as both companies partly rely on manufacturing sites in Mexico to supply U.S. demand, with Tupy also exporting from Brazil). We note (i) North America representing ~30% of lochpe’s revenues in 2024 (with its Mexican facilities as a relevant part of the supply), and (ii) North America representing ~41% of Tupy’s revenues in 2024, of which we understand most are composed of exports from Brazil and Mexico to the U.S. – in the last earnings call, Tupy confirmed that its contracts with clients have protective mechanisms which automatically pass-through cost increases to clients. Our concerns, however, rely especially on the demand-side of the equation following the potential price increases, as inflationary pressures on the automotive market in the U.S. could either have a negative impact on overall volumes or pressure the whole supply chain by distributing the incremental costs of the tariffs.

Pulp & Paper

We expect pulp exports from Brazil to the U.S. to be subject to 10% charges, with a total volume of ~2.8Mt of hardwood exported in 2024 to the U.S. (representing ~15% of total export volumes). However, we do not anticipate significant changes in volumes due to low hardwood production in the U.S., which relies on countries like Brazil to supply the hardwood natural requirements for its paper industry. Finally, with the exemption under USMCA, we do not expect significant changes to Canada’s softwood flow to the U.S. (with potential closures of higher-cost facilities speculated before the announcement).

Suzano. Although we see limited direct impacts for the company given its lower relative exposure to the U.S., we see most market concerns surrounding the implications of a potentially appreciated BRL and increased overall risk perception. That said, Suzano has not only underperformed what FX and pulp prices would have suggested but also seems to already price-in a more pessimistic scenario regarding BRL/risk-free.

Figure 3: Prices Comparison (Oct'24=100)

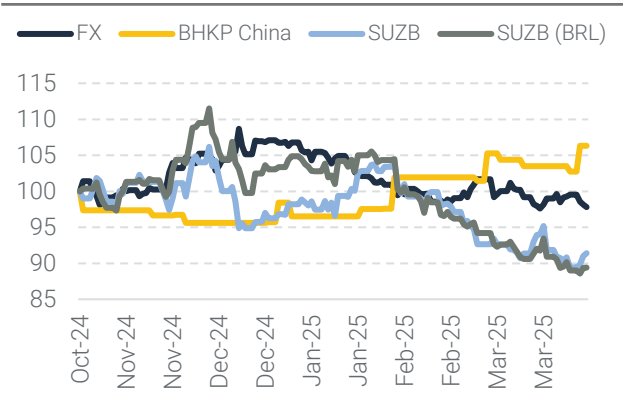
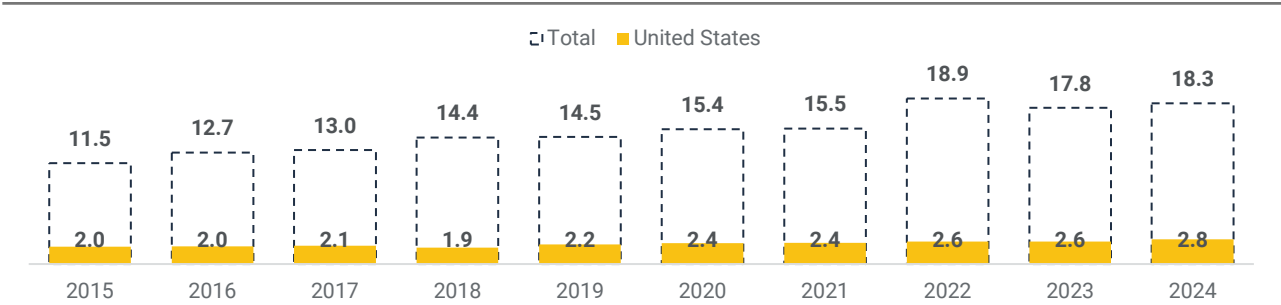


Figure 4: SUZB3 on FX and Brazil's Risk Free (%)

TP	Risk Free Brazil (%)							
FX (2025+)		5.5%	6.0%	6.5%	7.0%	7.5%	8.0%	8.5%
	4.50	30	29	29	28	27	26	25
	5.00	54	52	51	49	47	46	44
	5.50	75	72	69	67	65	63	61
	6.00	97	93	90	86	83	81	78
	6.50	115	111	107	103	99	96	93
	7.20	144	139	133	128	124	120	116

Figure 5: Brazil's Pulp Exports (million tons)



Metals & Mining

Steel & Aluminum

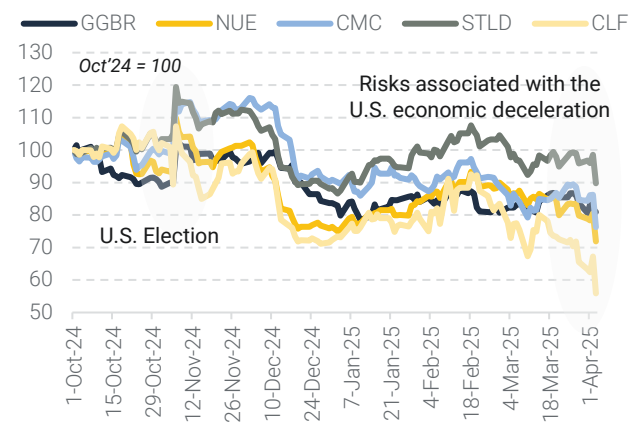
Steel & aluminum will be exempt from the newly imposed “reciprocal tariffs”, as they already currently face a 25% import tariff (announced earlier this year). Brazil is a significant exporter of semi-finished products to the U.S., with ArcelorMittal and Ternium being the most directly affected companies.

For **Gerdau**, given its exposure to the U.S. steel market (~50% of the company’s EBITDA comes from its North America division), we believe that the company could benefit from an improved domestic environment, particularly with the reduction of steel imports and rising prices. However, the risks associated with a potential deceleration of the U.S. economy could pose a threat to this scenario.

In that regard, when analyzing the U.S. steelmakers performance since Oct’24, we note that: (i) Gerdau and U.S. steelmakers rose by over 15% following Trump’s election in Nov’24; (ii) however, the risks of a potential U.S. economic deceleration and a rotation of capital flows out of the U.S. are having a more negative impact on U.S. peers’ shares performance in the near-term.

Additionally, we see limited direct impacts for **CSN**, **Usiminas**, and **CBA** (little top-line exposure to the U.S.), although the reduction of U.S. steel/aluminum imports could have a secondary effect of rising imports in other countries such as Brazil.

Figure 6: Gerdau’s Performance vs. U.S. Peers (%)



Iron Ore

Regarding iron ore, we believe that higher relative tariffs for China and Asian countries could elevate the risks associated with overall export trends in China. That said, we expect eventual impacts for direct (limited) and indirect (more importantly) steel exports from China, potentially implying marginally lower steel production (most of which comprised of BF’s). Therefore, we see **potentially negative implications for Vale and CMIN**.

Gold

Gold is often considered a hedge against inflation, as its limited supply helps it to maintain its purchasing power over time. Considering the natural inflationary implications of the “reciprocal tariffs” and the continued escalation of geopolitical uncertainties, we continue to expect gold prices to remain at higher levels.

Figure 7: Historical Gold Prices’ Performance (US\$/oz)

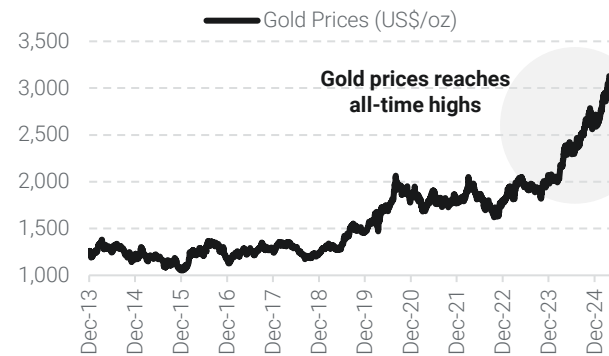
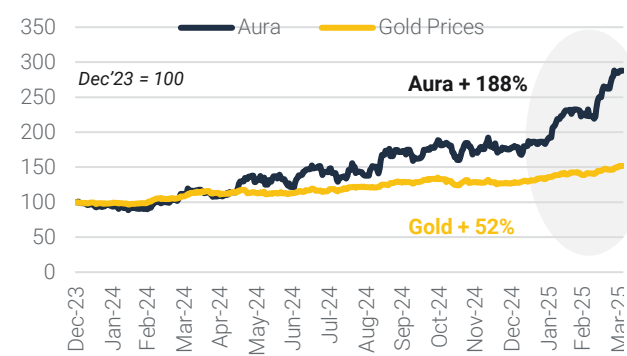


Figure 8: Aura vs. Gold Prices (Dec’23 = 100)



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