



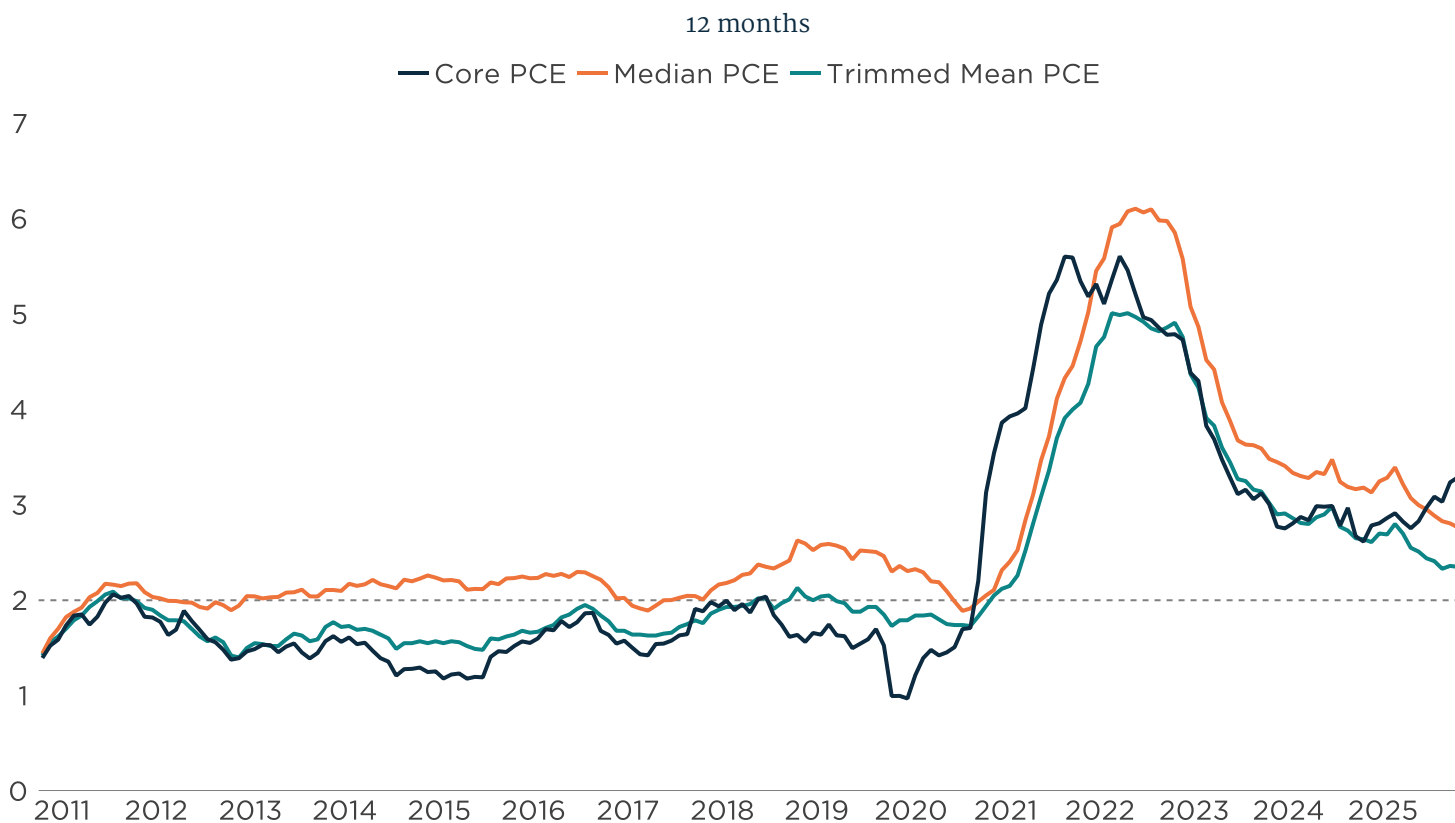
# Economic Report

June  
2026

# Inflation

Inflation may lead to a resumption of the Interest Rates hiking cycle

## Inflation persistence measures



Global inflation has continued to accelerate since the intensification of the conflicts in the Middle East. Core PCE, the Federal Reserve's primary inflation measure, has risen 3.3% over the past 12 months, a level significantly above the central bank's target. Headline inflation, which also incorporates the direct effects of higher energy prices, has reached 3.8%.

On the other hand, alternative measures such as Median PCE and Trimmed Mean PCE, shown in the chart above and recently cited by Fed officials, have demonstrated greater resilience to this shock. These indicators seek to capture the more persistent trend in inflation by reducing the influence of extreme movements concentrated in a limited number of components. Even after accounting for these alternative measures, underlying inflation remains elevated relative to the Fed's target.

From this perspective, the current environment appears more supportive of keeping interest rates at their current levels for a prolonged period than of a resumption of the interest rate hiking cycle.

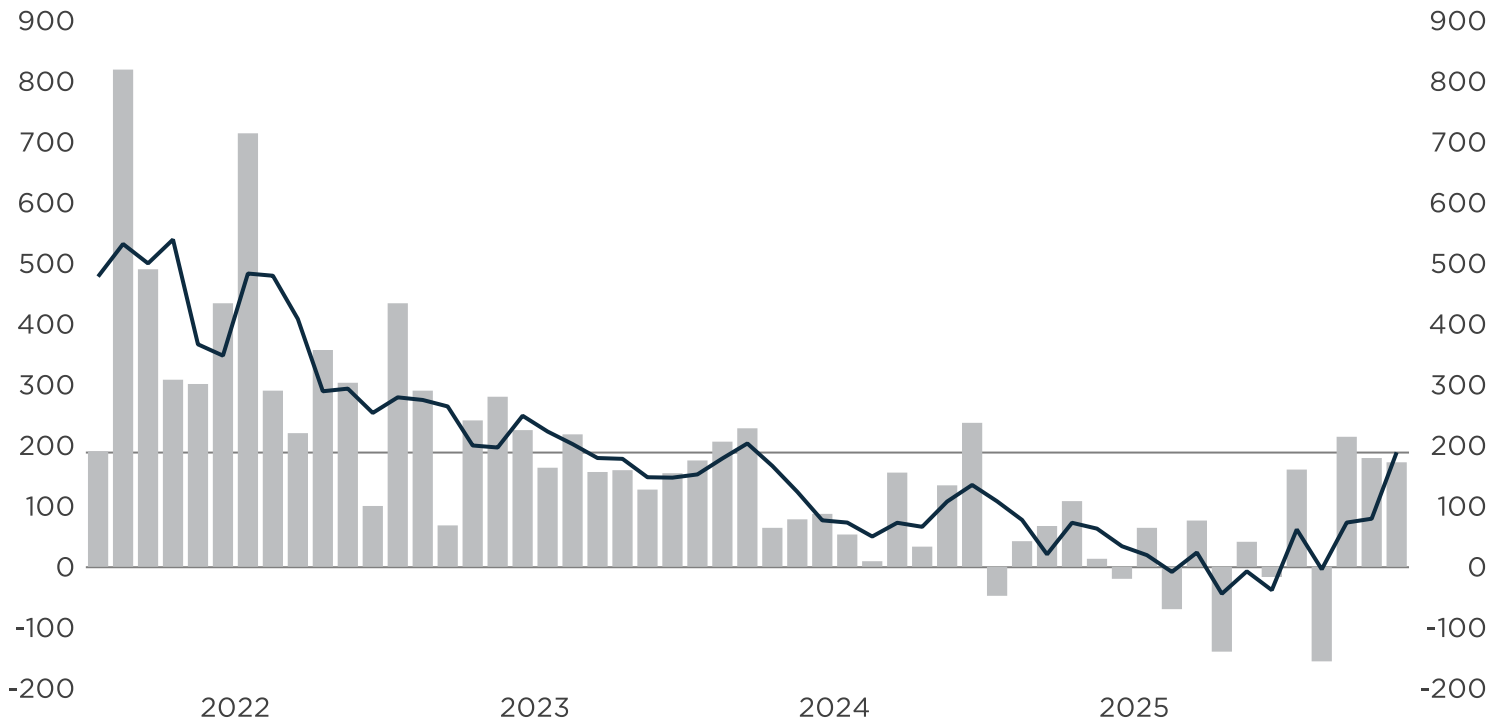
# Labor Market

Job creation reaccelerates

## Payroll: Net job creation

Thousands | Seasonally adjusted

■ Monthly creation — 3MMA



The latest Payroll report surprised to the upside, revealing a labor market that remains stronger than expected. Net job creation reached 172,000 positions in May, well above the consensus forecast of 88,000. In addition, data for the previous two months were revised significantly higher.

As a result, the three-month moving average increased from 79,000 to 188,000 jobs, a level well above estimates of labor market equilibrium and the highest since the first quarter of 2024. The chart illustrates this dynamic: the gray bars show monthly job creation, while the blue line represents the moving average.

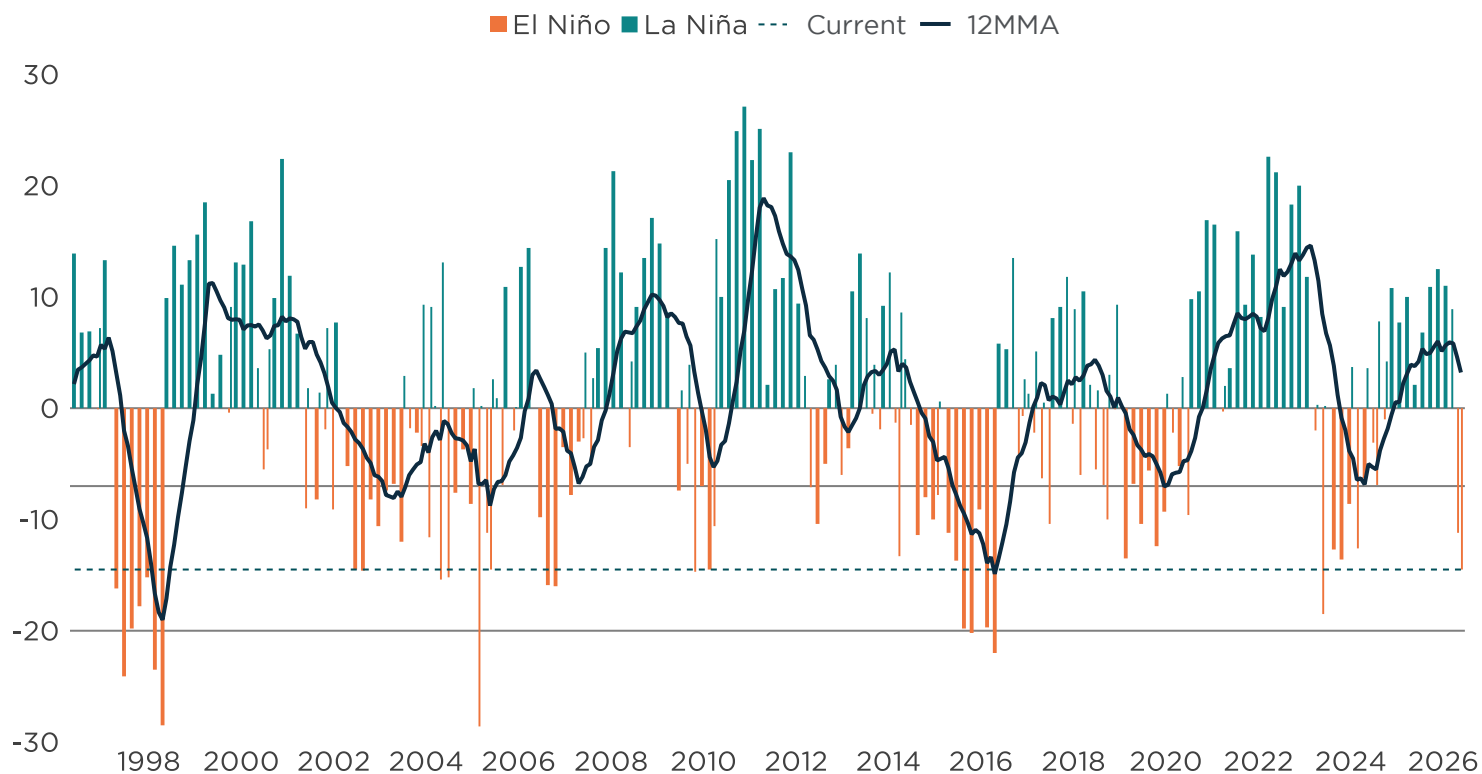
Against a backdrop of accelerating inflation, the positive surprise in employment data strengthens the case for keeping interest rates elevated for an even longer period, reinforcing the ongoing repricing in fixed income markets.

# Inflation

El Niño may generate additional inflationary pressure

## Southern Oscillation Index (SOI)

Difference in surface air pressure between Tahiti (Pacific Ocean) and Australia (Indian Ocean)



El Niño is a climate phenomenon characterized by the abnormal warming of waters in the equatorial Pacific Ocean, which alters rainfall and temperature patterns across various regions of the world. The Southern Oscillation Index (SOI), shown in the chart above, measures atmospheric pressure differences between the Pacific and Indian Oceans. Persistently negative readings are associated with El Niño conditions. In recent months, the index has declined sharply, significantly increasing the probability of the phenomenon occurring in the second half of 2026.

The effects of El Niño vary considerably across regions. While some areas, such as Southeast Asia, India, and Australia, may face severe droughts, others, including South America and the Gulf of Mexico region, tend to experience above-average rainfall. The risk is also relevant for Brazil. Among the potential consequences of the phenomenon are disruptions to agricultural production and lower hydroelectric reservoir levels, factors that could put additional pressure on energy costs.

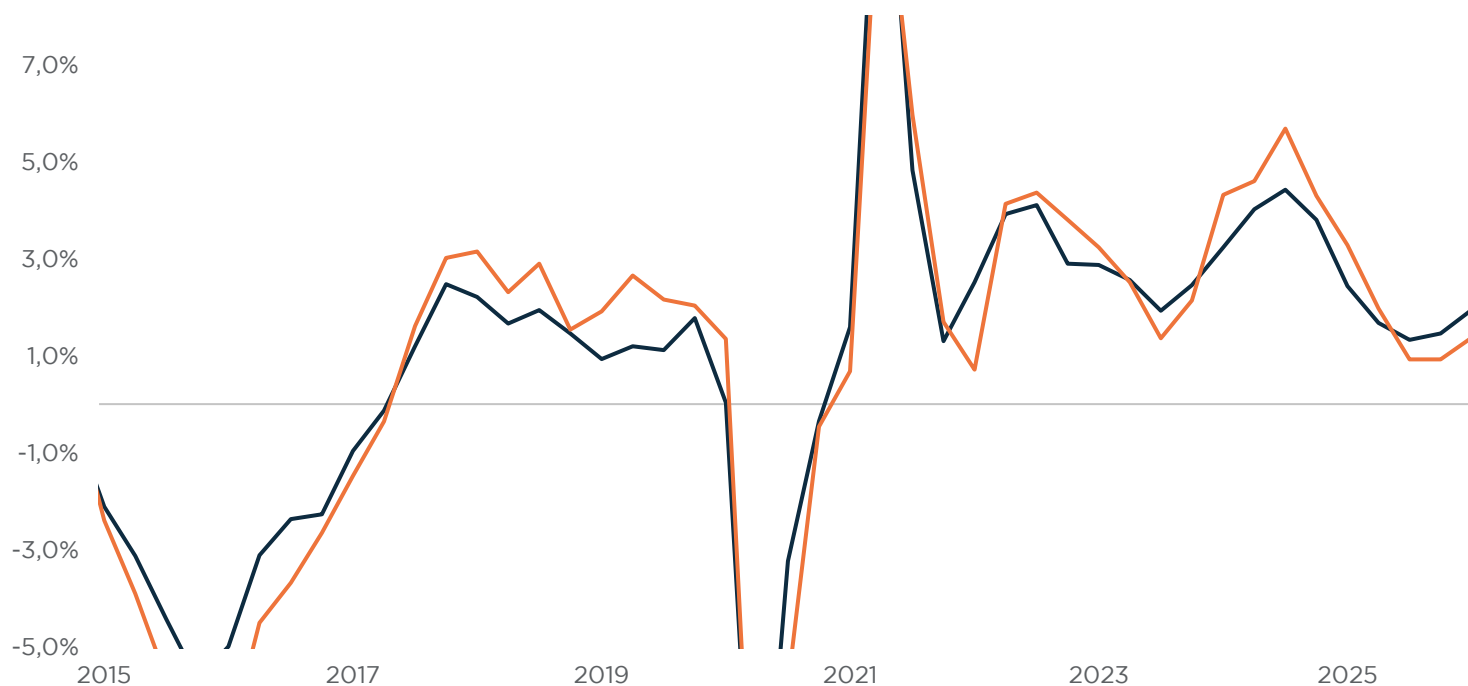
## Activity

GDP surprises with stronger growth in the first quarter

### Underlying GDP measures

Year-over-year (YoY)

— GDP ex-agriculture — Domestic absorption



GDP grew 1.1% in the first quarter relative to the previous quarter and 1.8% compared with the same period a year earlier, a result that came in slightly above market consensus.

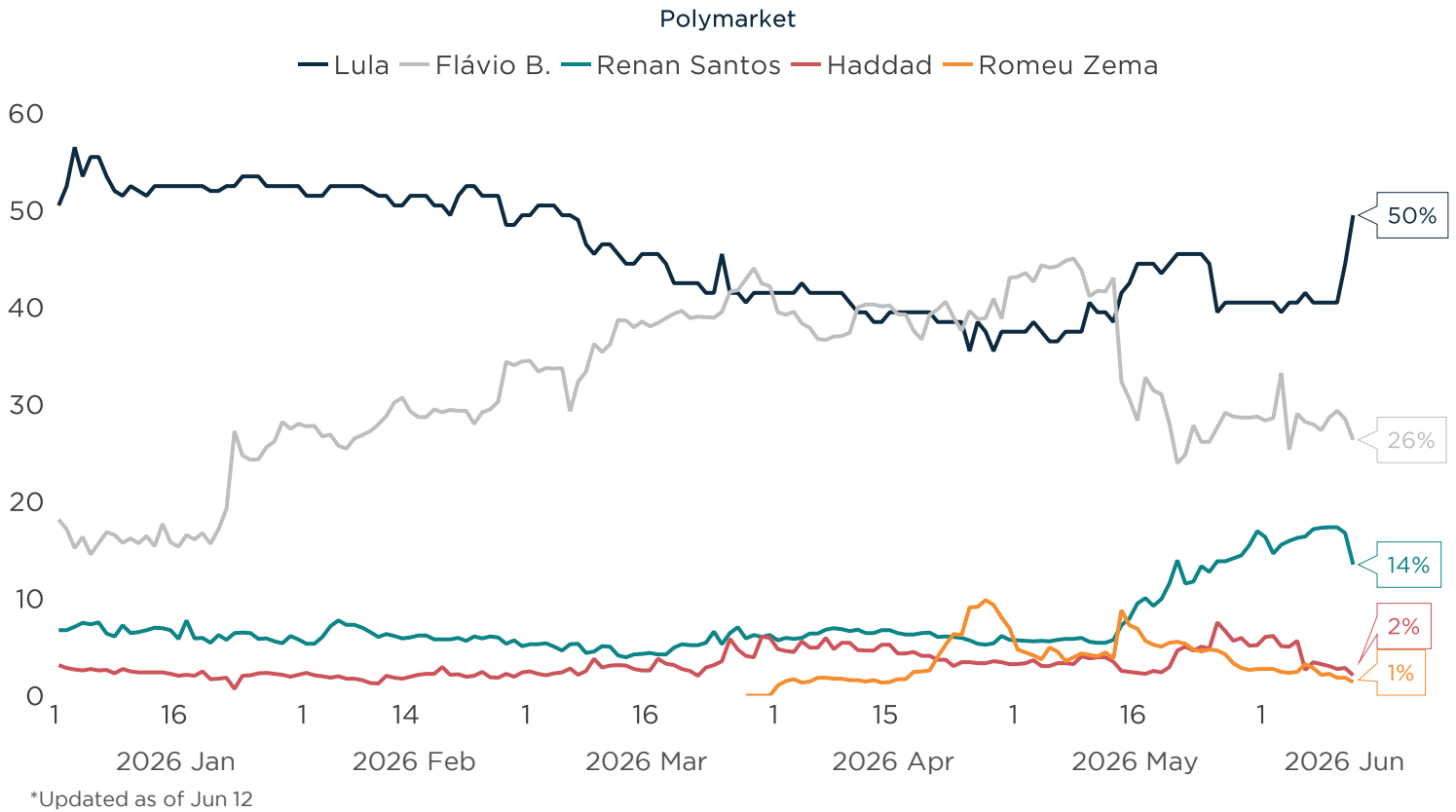
The reacceleration in activity was also evident in indicators that are more representative of the economic cycle, such as GDP excluding the agricultural sector and domestic absorption, which excludes net exports and inventory changes. Both measures are presented in the chart above.

After moderating throughout last year, these indicators now appear to be signaling some improvement at the margin. Higher frequency economic data also suggest that growth may prove more resilient than previously anticipated in the second quarter. In addition, fiscal and credit stimulus measures already in place may help sustain a resilient level of activity through year-end. Confirmation of this scenario would likely reinforce expectations that interest rates will remain at elevated levels for a more prolonged period.

## Politics

Presidential reelection returns as the base case on betting markets

### Presidential election implied probabilities



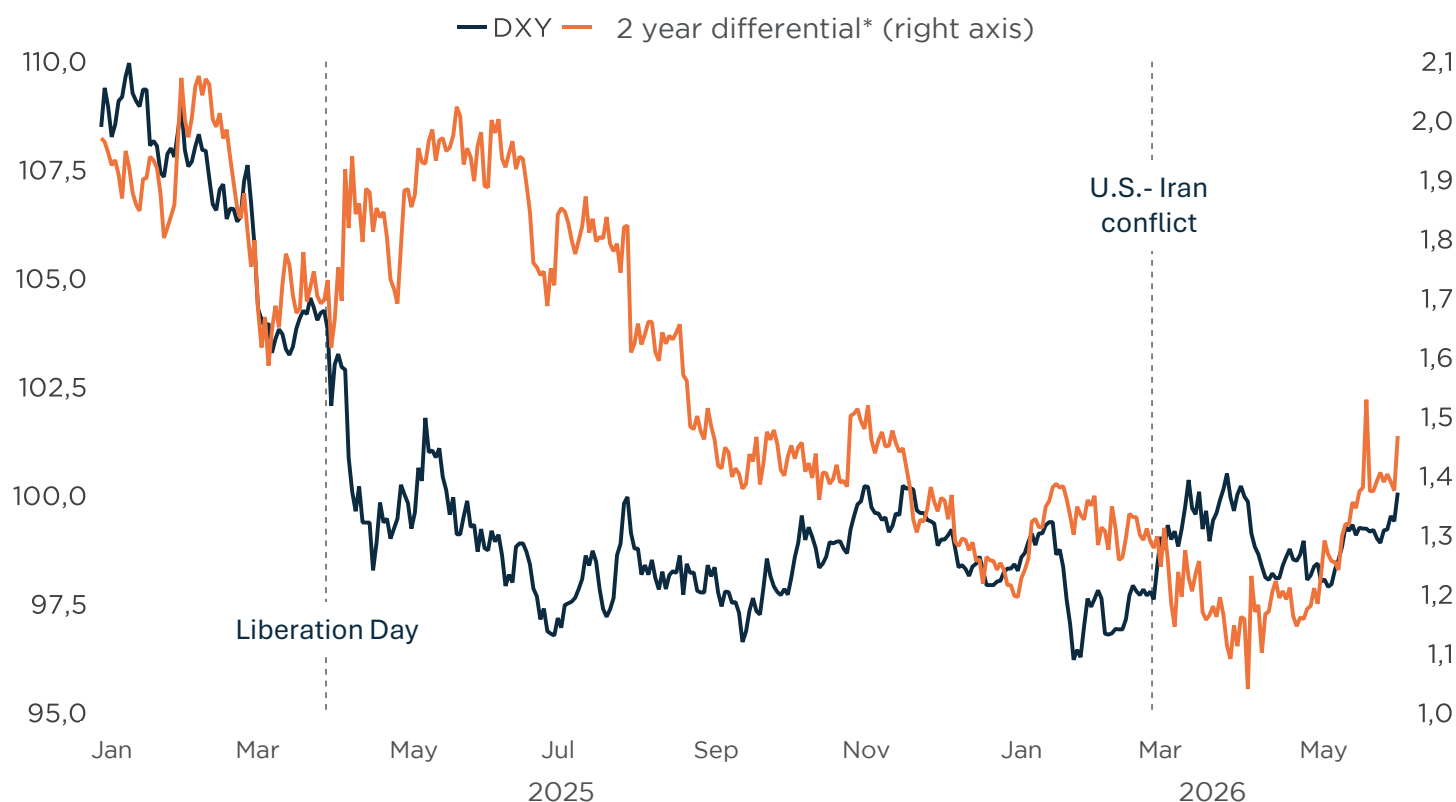
Following the leak of a conversation involving the leading opposition figure in May, President Lula widened his lead once again in the implied probabilities for the presidential election. Although incumbent candidates often gain momentum in the months leading up to an election, Lula's relative improvement compared to Flávio Bolsonaro appears to be more closely related to the leak than to this historical pattern, which is typically associated with government measures that contribute to higher approval ratings.

The chart presents implied probabilities of victory in the presidential election based on odds from the Polymarket betting platform. Since mid-May, there has been a significant decline in the probability assigned to Flávio Bolsonaro, while Renan Santos has absorbed part of that share. In this context, the main beneficiary appears to be the incumbent president, who has expanded his lead over the other candidates. Even so, the electoral landscape remains highly open.

## Exchange Rate

The DXY resumed its appreciation amid a steepening of the interest rate curve

### DXY and weighted interest rate differential



\*Weighted based on the DXY composition

The DXY, an index that tracks the performance of the U.S. Dollar against a basket of developed market currencies, resumed its appreciation in May, rising 0.9% during the month and bringing year-to-date gains to 1.7%. The move followed a further widening in the two-year interest rate differential, weighted according to the index composition, as shown in the chart above. This suggests that the repricing of the U.S. interest rate curve once again provided marginal support to the Dollar.

Shortly after the escalation of conflicts in the Middle East began, the DXY had also appreciated, reflecting, in part, the effects of higher oil prices on terms of trade. That move, however, lost momentum in April. More recently, the currency regained traction, this time alongside a renewed widening of interest rate differentials, consistent with the steepening of the U.S. interest rate curve.

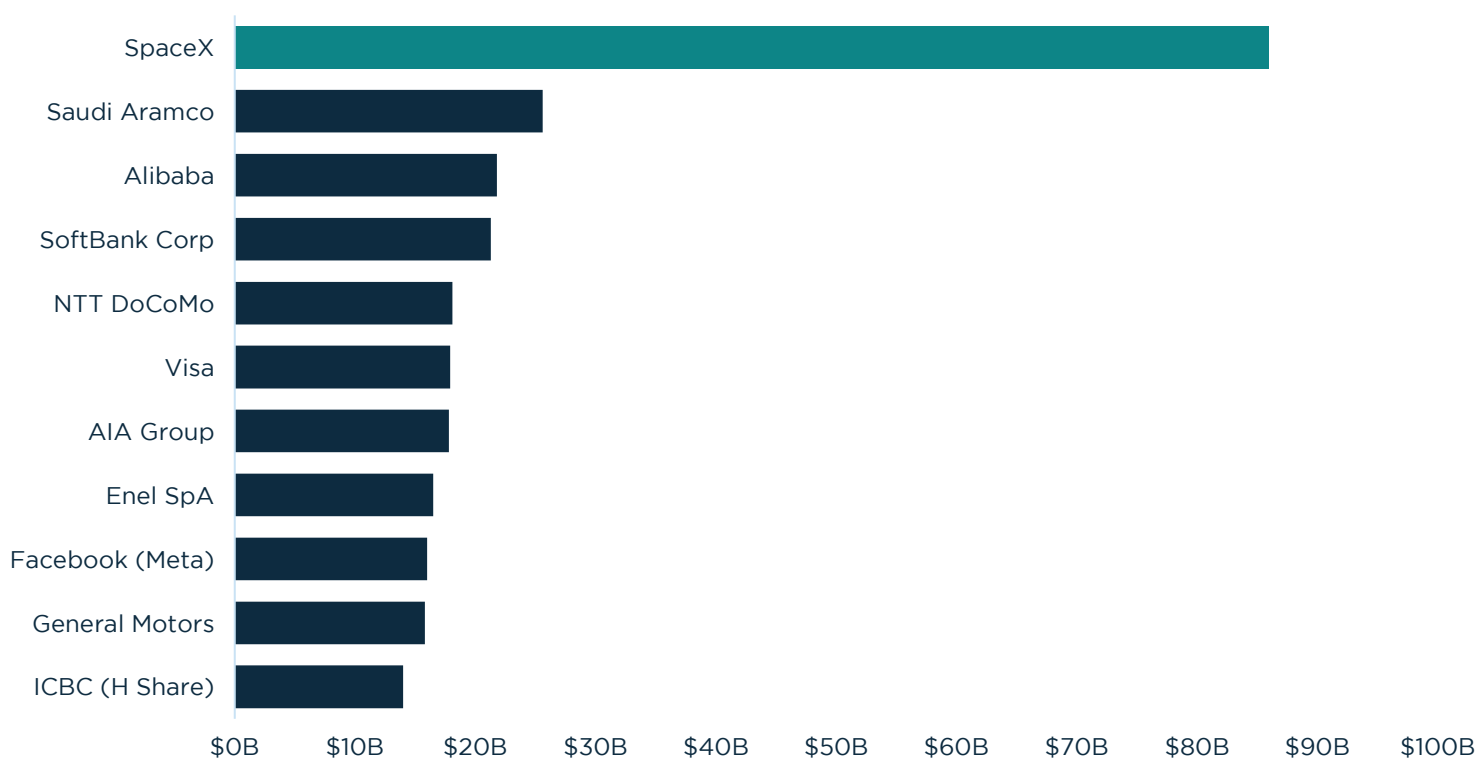
Historically, interest rate differentials have been among the main drivers of DXY performance. Even so, the relationship between the two series has appeared unstable in recent episodes. On Liberation Day last year, the DXY declined despite a widening in the differential. During the conflict between the United States and Iran, meanwhile, the Dollar appreciated even as interest rate differentials narrowed.

## Stocks

Global markets await IPOs from major technology companies.

### Largest IPOs in history

USD billions



Equity markets continue to deliver positive performance, but discussions around potentially stretched valuations and even the risk of a bubble associated with artificial intelligence development and adoption themes have become increasingly common, despite strong corporate earnings growth.

In this context, investor attention has shifted toward the initial public offerings of major technology companies. The main highlight is the SpaceX IPO, which was priced at USD 75 billion, making it the largest IPO in history. For comparison, this volume is roughly three times larger than the previous record held by Saudi Aramco, which raised USD 25 billion. Offerings from other prominent companies are also expected, including OpenAI, developer of ChatGPT, and Anthropic, the company behind Claude.

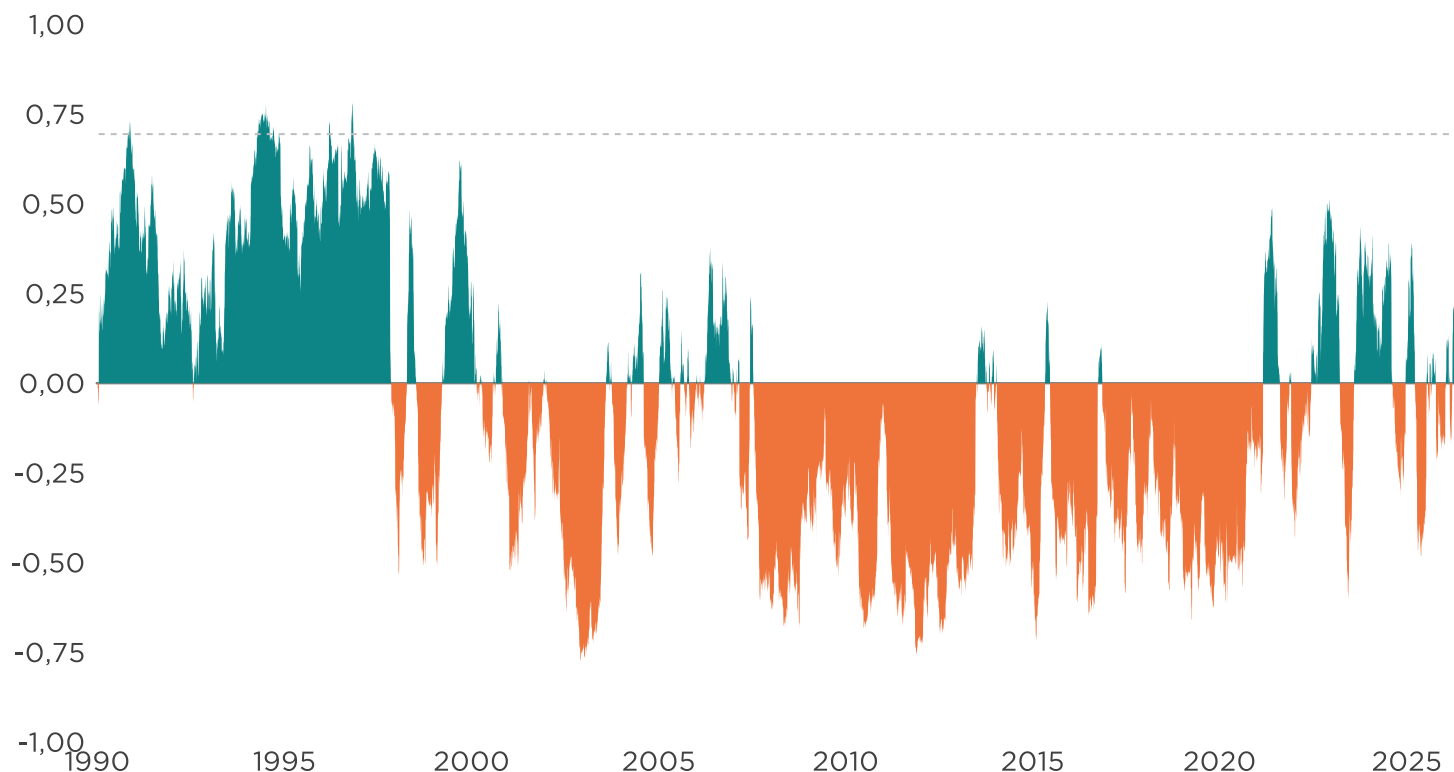
Despite strong demand and investor optimism, IPOs of this scale have also raised concerns, particularly regarding the absorption of market liquidity. Analysts have speculated that the sale of assets in secondary markets to fund participation in these offerings could generate downward pressure on asset prices and lead to market corrections.

## Portfolio

Stock–bond correlation surged amid the rise in interest rates

### S&P 500–10-year Treasury correlation

Three-month rolling window



At the beginning of the year, expectations were that the correlation between the S&P 500 and the 10-year Treasury would return to negative territory. The combination of fading tariff effects and a more moderate labor market could create room for fixed income to once again serve as a natural hedge for equities.

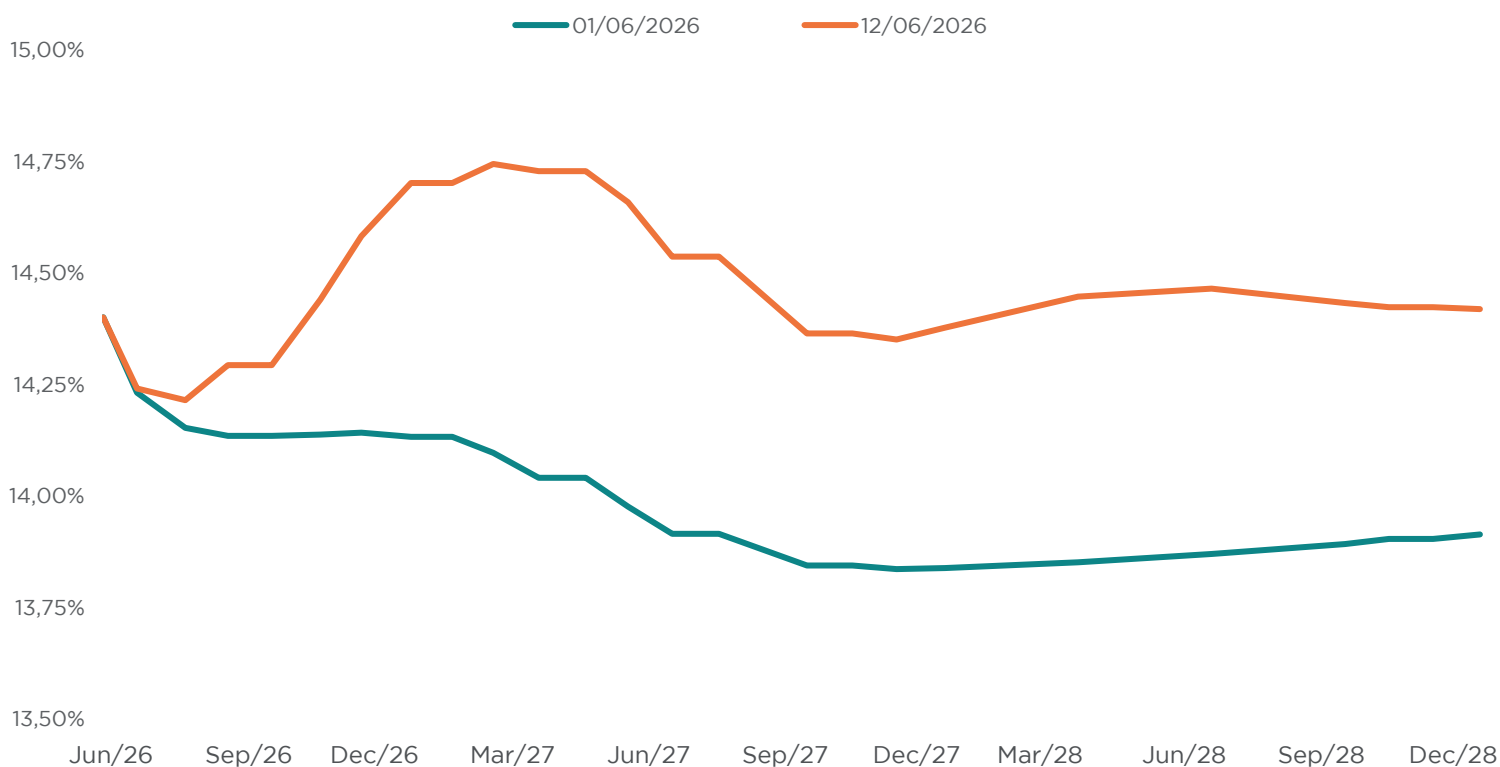
The conflict between the United States and Iran, however, altered this outlook. Higher oil prices reignited inflation concerns, triggered a rise in interest rates, and pushed the correlation sharply into positive territory. As shown in the chart, using rolling three-month windows, the indicator reached levels comparable to those observed in the 1990s.

The persistence of this positive correlation continues to pose challenges for asset allocation. When equities and fixed income move in the same direction, the diversification benefits between the two asset classes are significantly reduced. This environment supports maintaining shorter duration in fixed income portfolios, limiting sensitivity to further increases in interest rates while the inflation outlook remains uncertain.

# Juros

Markets are already pricing in the end of Copom’s “calibration cycle”

**Implied future Selic rate from the yield curve**

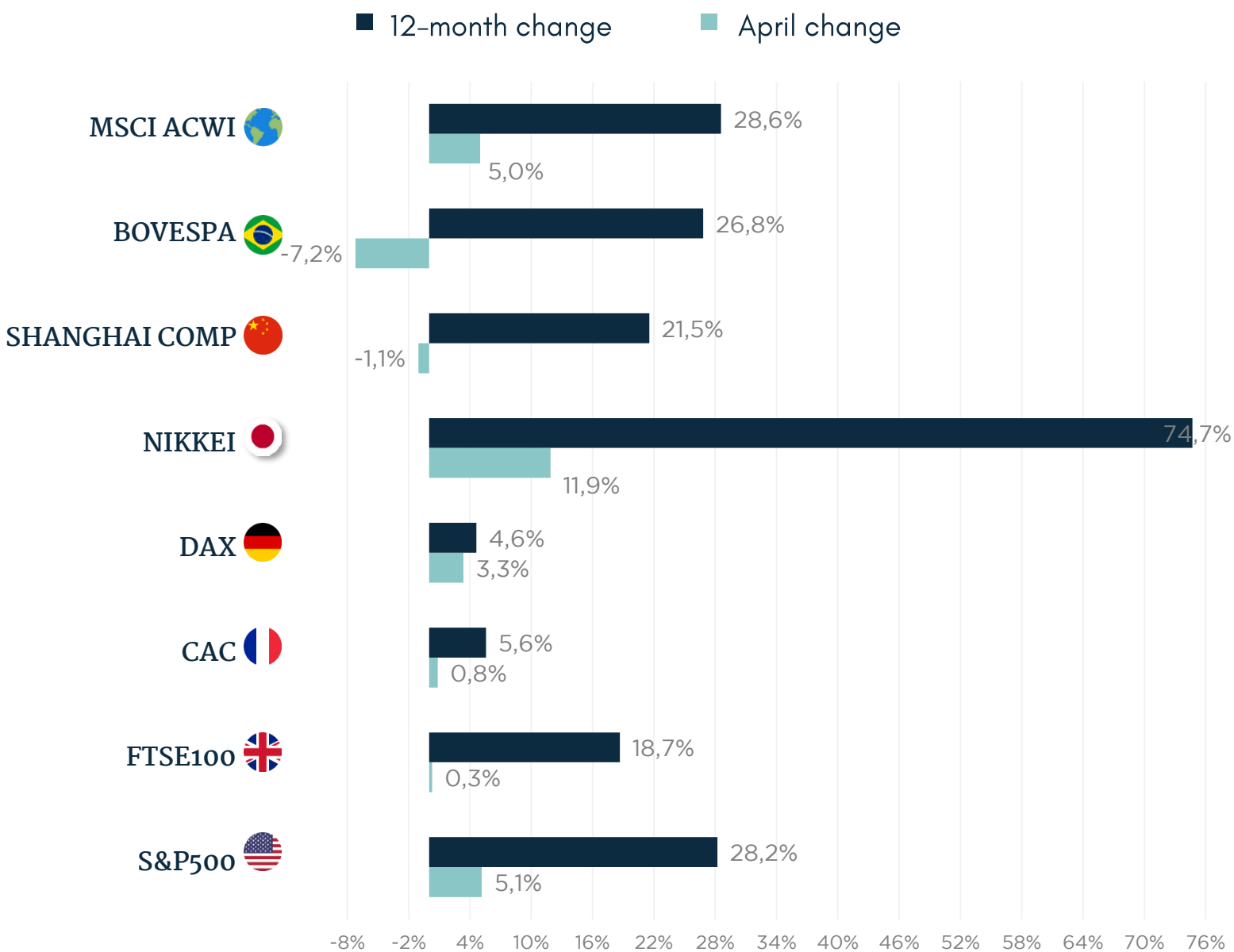


The interest rate market remains highly volatile, including in Brazil. Implied expectations for the future path of the Selic rate, which throughout May already pointed to a more limited easing cycle than projected at the beginning of the year, have now begun to assign a meaningful probability to Copom resuming rate hikes after delivering only two cuts since the start of the monetary easing cycle.

The chart illustrates this shift clearly. The blue line shows Selic pricing as of June 1, when markets were still anticipating additional rate cuts. The orange line, representing pricing as of June 12, highlights the rapid reversal in expectations over the course of little more than a week, with markets beginning to incorporate a premium associated with potential rate hikes further ahead.

Historical evidence reinforces the unusual nature of this scenario. In Brazil, easing cycles have typically been more pronounced than what market expectations implied at the time of the first rate cut. If the currently priced scenario materializes, this would mark the second consecutive episode of a premature interruption of the monetary easing cycle.

## Stock Markets



	May Change	Value as of 31/05/2026	Previous Month	Previous Year	Previous 12 Months	Change in 2026	12-month Change
<b>COMMODITIES</b>							
WTI Crude Oil	-10.8%	93.76	105.07	57.42	60.79	63.3%	54.2%
Gold	-1.7%	4,540.26	4,617.85	4,319.37	3,289.25	5.1%	38.0%
<b>CURRENCIES (VS. USD)</b>							
Euro	-0.6%	1.17	1.17	1.17	1.13	-0.7%	2.7%
Pound Sterling	-1.1%	1.35	1.36	1.35	1.35	-0.1%	0.0%
Yen	-1.7%	159.27	156.59	156.71	144.02	-1.6%	-9.6%
Brazilian Real	-1.6%	5.04	4.96	5.47	5.72	8.7%	13.6%
<b>INDICES</b>							
S&P 500	5.1%	7,580.06	7,209.01	6,845.50	5,911.69	10.7%	28.2%
FTSE 100	0.3%	10,409.28	10,378.82	9,931.38	8,772.38	4.8%	18.7%
CAC 40	0.8%	8,183.34	8,114.84	8,149.50	7,751.89	0.4%	5.6%
DAX	3.3%	25,104.70	24,292.38	24,490.41	23,997.48	2.5%	4.6%
Nikkei	11.9%	66,329.50	59,284.92	50,339.48	37,965.10	31.8%	74.7%
Shanghai Composite	-1.1%	4,068.57	4,112.16	3,968.84	3,347.49	2.5%	21.5%
Bovespa	-7.2%	173,787.49	187,317.64	161,125.37	137,026.62	7.9%	26.8%
MSCI ACWI	5.0%	1,130.75	1,077.10	1,014.62	879.50	11.4%	28.6%

\*Figures and results presented in local currency



# Disclaimer

Our analyses and views are based on continuous and comprehensive monitoring of a wide range of sources, including global studies and reports produced by various market participants.

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