



Economic Report

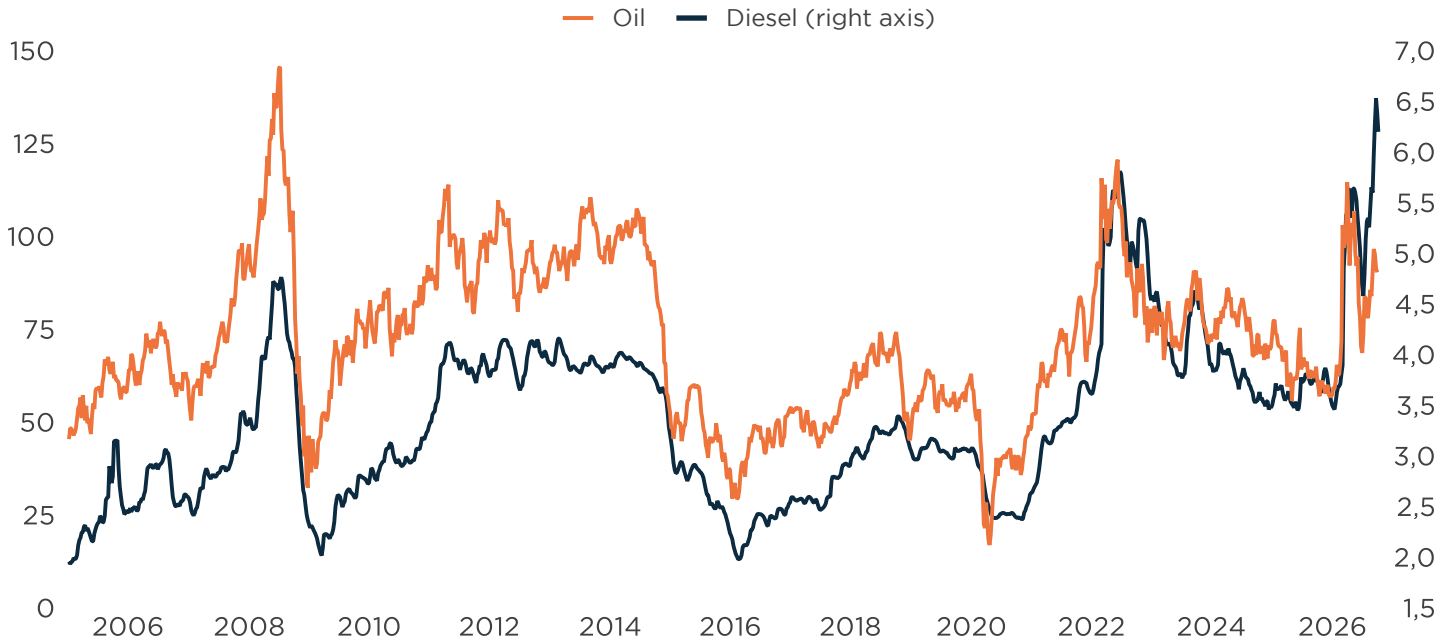
October
2026



Energy

Conflict keeps fuel prices elevated

U.S. Energy Prices



Energy prices remain under pressure in the United States, reflecting supply constraints associated with the conflicts in the Middle East. In September, retail diesel prices exceeded US\$6 per gallon, bringing year-to-date gains to nearly 90%, while oil prices resumed their upward trend amid renewed disruptions to infrastructure and transportation routes. As shown in the chart, diesel prices have risen even more sharply than crude oil prices since July, indicating that price pressures are not limited to the cost of a barrel of oil.

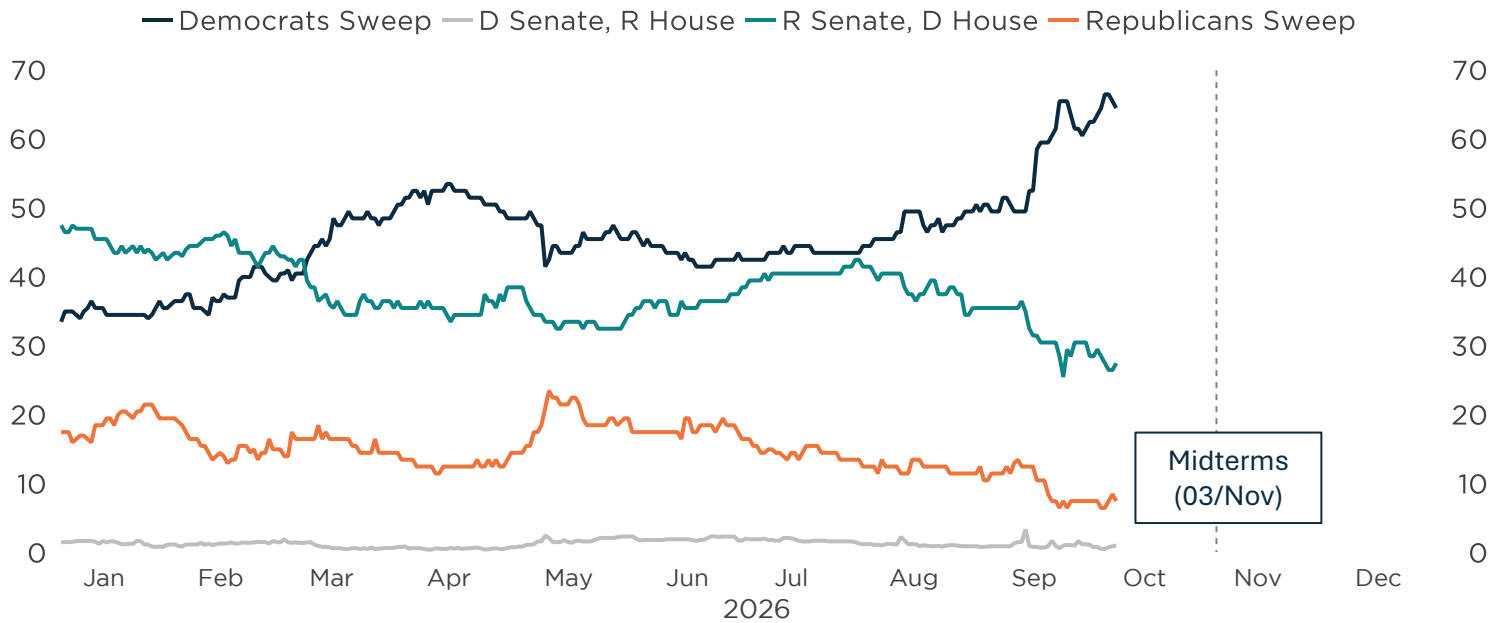
The main explanation for this divergence lies in tighter supply conditions in the global refined products market, amid reduced international availability and high refinery capacity utilization in the United States. Domestic inventories remain low, while diesel crack spreads, which represent the difference between the price of the fuel and the cost of the crude oil used to produce it, have widened significantly, increasing the divergence from crude oil prices. The Trump administration considered temporarily restricting U.S. diesel exports, but the proposal lost momentum following the G7 agreement (Germany, Canada, the United States, France, Italy, Japan, and the United Kingdom) to release strategic reserves of crude oil and refined products.

Politics

Markets increase bets on a Democratic sweep

U.S.: Midterm Elections

Implied Probabilities



Deteriorating perceptions of the cost of living and declining approval ratings for Donald Trump have been reflected in expectations for November's midterm elections. Recent polls indicate a Democratic lead, reinforcing the possibility of Republican losses in both chambers of Congress.

As shown in the chart, the implied probability of a Democratic sweep, a scenario in which Democrats gain control of both the House and Senate, has risen to nearly 70%, while the probability of Republicans retaining control of the Senate with Democrats taking the House has fallen to just under 30%. This shift has occurred despite Trump's promise to pay US\$5,000 to every adult citizen in the event of a Republican victory.

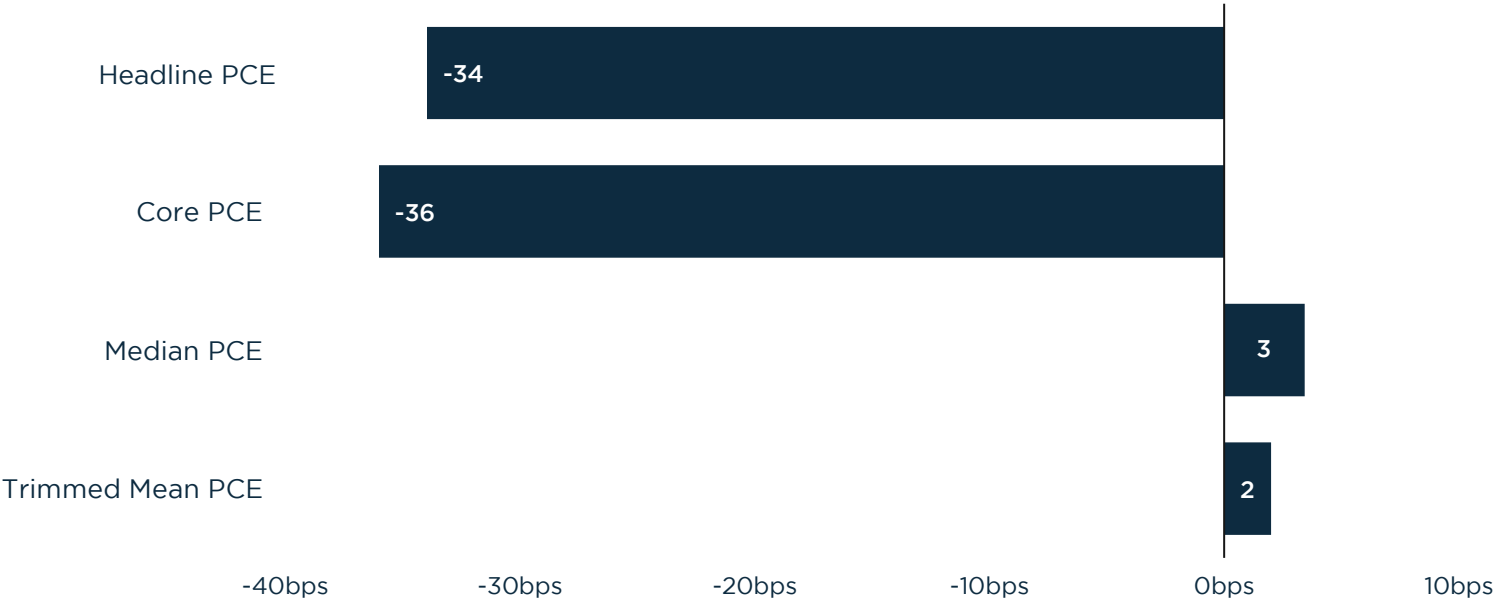
Despite this shift in expectations, the outlook still points to narrow majorities, which would limit the most significant risks to the presidency, such as veto overrides or a potential conviction in impeachment proceedings. As a result, losing the legislative majority is unlikely to significantly alter Trump's agenda.

Inflation

Core PCE revision supports a more gradual monetary policy cycle

Revisions to Underlying PCE Inflation Measures

Revisions to 12-month inflation rates through July



The annual update to the national accounts brought a significant downward revision to PCE inflation, reflecting methodological changes to components such as portfolio management services and software. Over the 12 months through July, headline PCE inflation was revised down by 34 basis points, while core PCE inflation was lowered by 36 basis points. However, as shown in the chart, alternative measures of underlying inflation, which seek to identify inflation trends by reducing the impact of temporary price fluctuations, were virtually unchanged. The Median PCE and Trimmed Mean PCE, indicators that some FOMC members have cited as more reliable measures of underlying inflation, were largely unaffected by the revision, as they reduce the influence of extreme price movements concentrated in a few components.

This result reinforces the view that the revised components had been contributing disproportionately to traditional inflation measures. Against this backdrop, the August reading, which showed an increase of just 0.2% in core PCE, brought 12-month inflation down to 3%, well below the level the Committee itself had expected by year-end. This development could allow the FOMC to wait somewhat longer before implementing another rate hike.

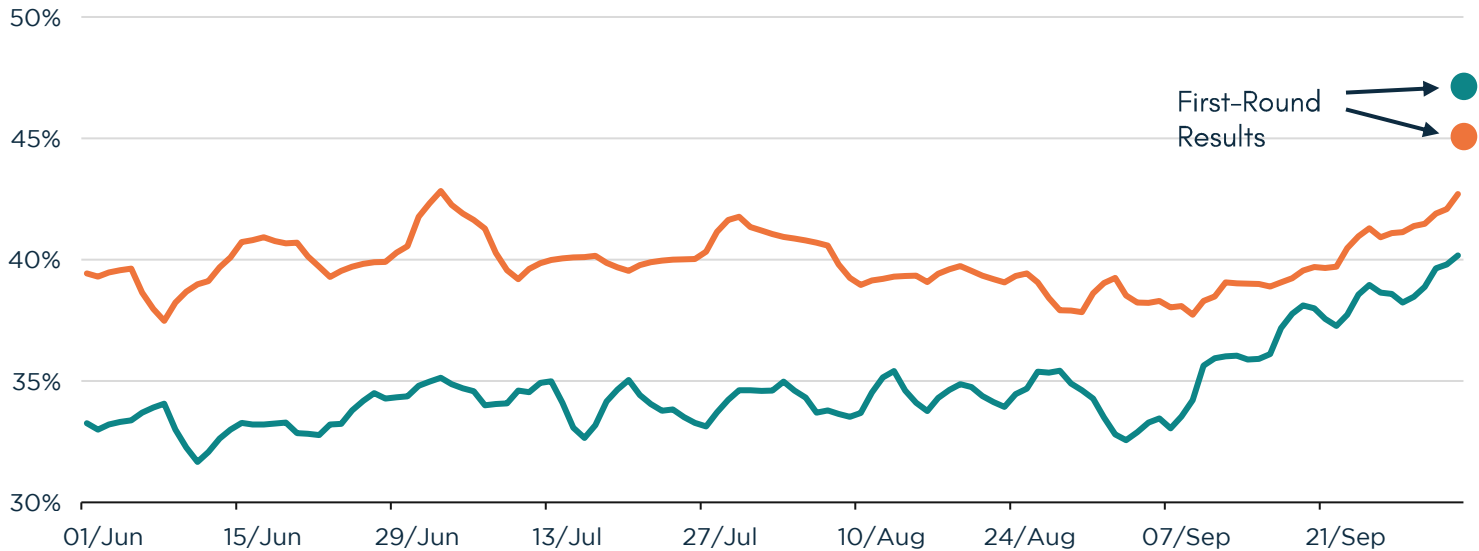
Politics

Flávio Bolsonaro leads in the first round, defying pre-election polls

First-Round Voting Intentions

Polling average

— Lula — Flávio B.



Polls: Futura, AtlasIntel, Datafolha, Gerp, Meio-Ideia, Nexus, PoderData, Quaest, Real Time Big Data

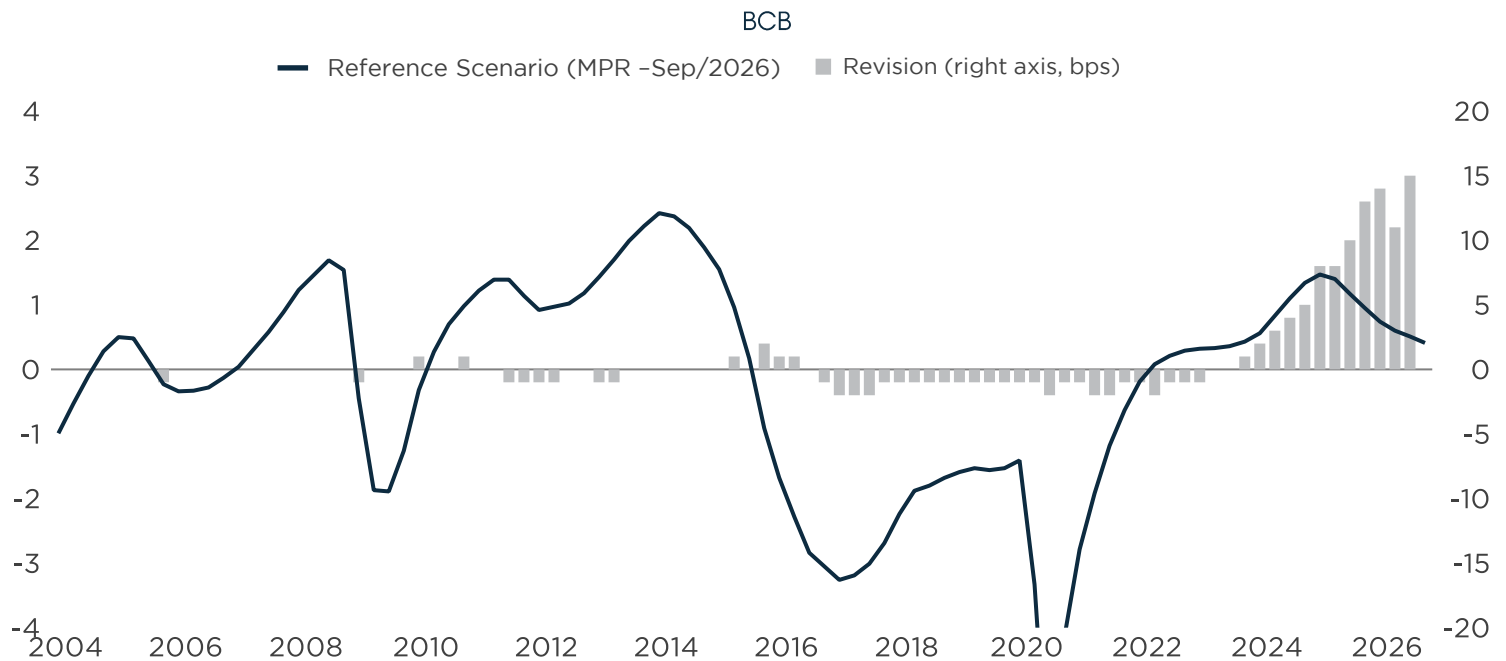
The first round of the elections revealed a more polarized presidential race than expected, with less than 8% of valid votes going to candidates from the so-called “third way,” approximately 4 percentage points below what voting intention polls had indicated. As shown in the chart, Flávio Bolsonaro (PL) benefited from this outcome, securing 47% of valid votes, compared with 45.2% for Lula (PT). The results defied pre-election polls, which had indicated a slight lead for Lula in the first round. Following the vote, the implied probability of victory for the PL candidate on betting platforms rose by nearly 20 percentage points, approaching 80%.

Parties traditionally associated with the political right also performed strongly in the gubernatorial and congressional elections. Of the 20 governors elected in the first round, half belong to right-wing parties. In the Senate, these parties won 30 of the 54 seats contested, including 19 secured by the PL alone. As a result, they now hold approximately 48 of the Senate’s 81 seats, 17 more than in the previous composition. In the Chamber of Deputies, right-wing parties hold approximately 260 of the 513 seats, including 121 held by the PL.

Monetary Policy

Central Bank revises output gap upward but maintains expectations of moderation

Output Gap Estimate



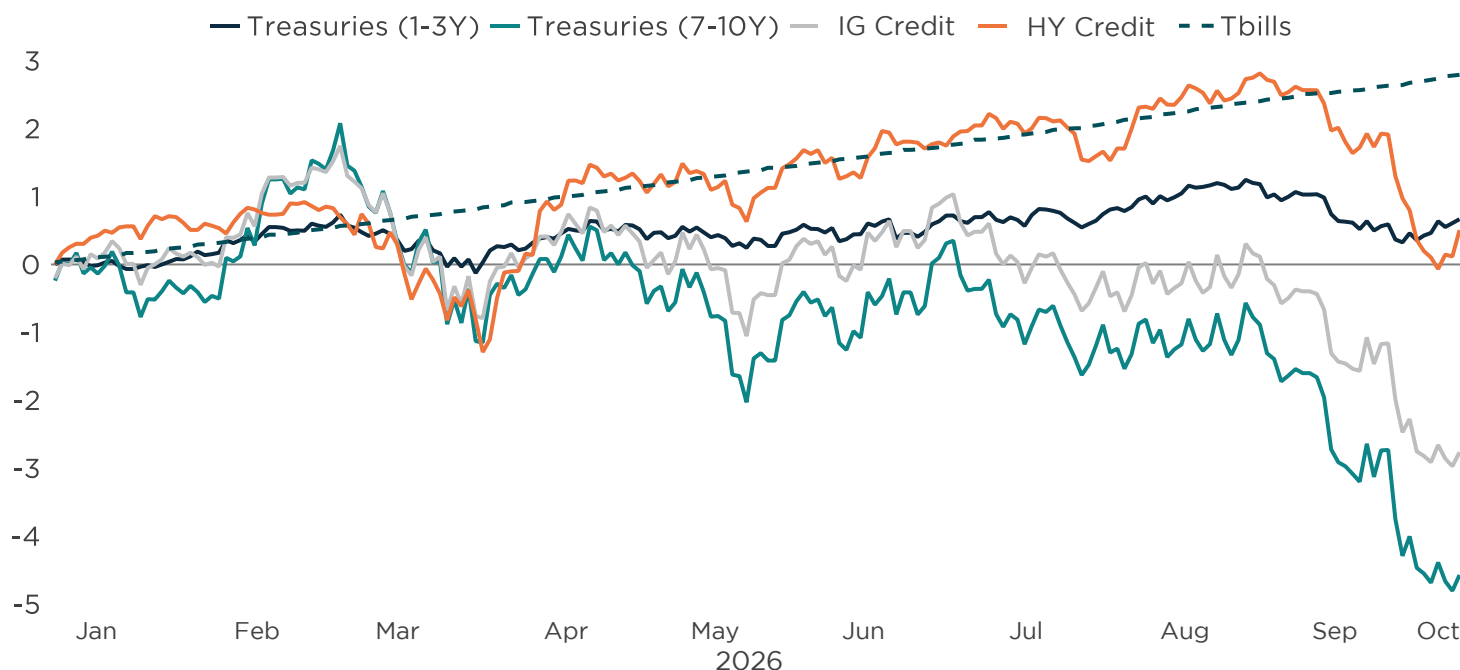
In its September Monetary Policy Report, the Central Bank highlighted the slowdown in economic activity in the second quarter, despite revising upward its estimates of the output gap in recent quarters. Even so, it maintained its outlook for a gradual slowdown in growth throughout 2026 and 2027. As shown in the chart, the revised output gap remains positive but continues to narrow. This dynamic is associated with the effects of restrictive monetary policy, which have become increasingly evident in the credit market amid elevated household indebtedness and debt service burdens.

Also in September, the Copom cut the Selic rate by another 25 basis points, to 13.75% per year. Notably, following the first round of the elections, the yield curve began to price in expectations of a significantly more aggressive rate-cutting cycle.

Fixed Income

A month of significant pressure on global fixed income markets

U.S. Fixed Income Performance



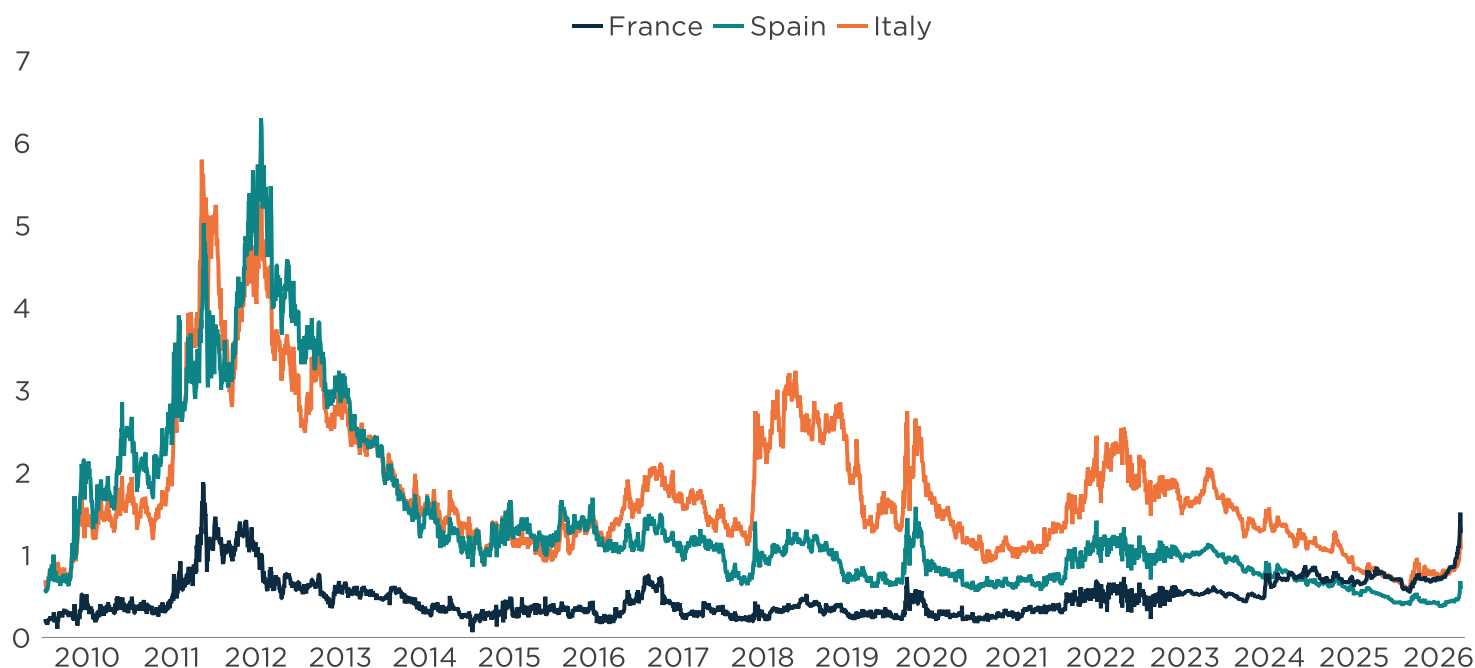
September was marked by a significant deterioration in the U.S. fixed income market. The combination of higher energy prices, signs of resilience in economic activity, inflation still above target, and the Fed's 25-basis-point rate hike led to a sharp increase in U.S. Treasury yields. As a result, 10-year Treasury yields rose to around 5.3%, a level not seen since mid-2007.

As shown in the chart, the move primarily affected U.S. fixed income, particularly longer-dated bonds. Treasuries with maturities of 7 to 10 years have posted year-to-date losses of nearly 5%, while T-bills continue to deliver positive returns, supported by elevated carry and lower sensitivity to fluctuations in long-term yields. Credit markets have also begun to feel the effects of this environment more clearly, particularly in the high-yield segment, where spreads widened by approximately 50 basis points in September.

Interest Rates

Fiscal risk concerns weigh on French fixed income

10-Year Government Bond Yield Spread vs. Germany



Perceptions of fiscal risk in France have deteriorated in recent weeks, amid rising interest rates across major economies and an already challenging outlook for the country's public finances. France faces a combination of elevated public debt, approaching 120% of GDP, and a persistent fiscal deficit of around 5% of GDP. As shown in the chart, the spread between French 10-year government bonds and German Bunds has widened to approximately 150 basis points, its highest level since the European debt crisis.

The pressure also reflects uncertainty surrounding the budget and the government's ability to implement fiscal adjustments ahead of the 2027 presidential election. French 10-year government bond yields have traded near 5%, their highest level in more than two decades, further increasing debt refinancing costs and putting additional pressure on the trajectory of French public debt.

Equities

AI investment theme helps support the stock market in a challenging month for domestic equities

Equity Index Performance YTD

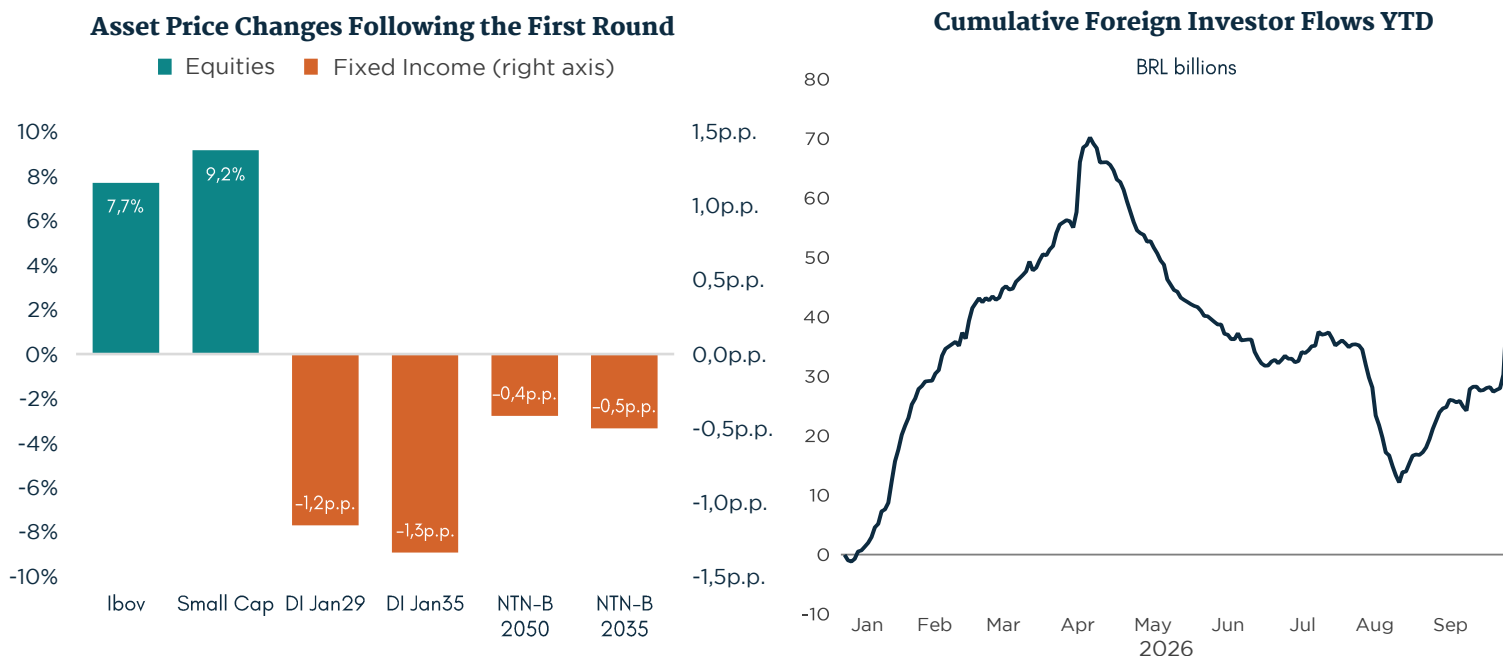
	Jan/26	Feb/26	Mar/26	Apr/26	May/26	Jun/26	Jul/26	Aug/26	Sep/26
S&P 500	1,4%	-0,9%	-5,1%	10,4%	5,1%	-1,1%	-0,1%	2,6%	-0,5%
S&P 500 (EW)	3,3%	3,4%	-6,2%	5,9%	2,5%	2,2%	0,9%	1,9%	-5,0%
Nasdaq-100	1,2%	-2,3%	-4,9%	15,6%	10,5%	-0,2%	-6,6%	4,2%	3,2%
MSCI EAFE	5,2%	4,5%	-10,7%	7,0%	2,6%	0,0%	1,9%	1,8%	-3,3%
Semicondutores	15,0%	1,8%	-6,5%	40,4%	23,3%	12,7%	-21,3%	1,4%	11,3%
Russell 2000	5,3%	0,7%	-5,2%	12,2%	4,3%	3,6%	-3,1%	0,9%	-5,4%
Magnificent 7	0,6%	-7,3%	-5,7%	14,9%	6,6%	-8,8%	2,1%	4,4%	4,2%

September was marked by negative performance in the U.S. equity market, despite continued strong returns in segments linked to artificial intelligence. As shown in the table above, the S&P 500 declined by 0.5% during the month, while the Nasdaq-100 and the semiconductor index (SOX) gained 3.2% and 11.3%, respectively, reinforcing the concentration of gains among companies exposed to the AI investment theme. In contrast, the equal-weighted S&P 500 fell by 5.0%, while the Russell 2000 declined by 5.4%, indicating significantly weaker performance among companies with less exposure to technology and greater sensitivity to the domestic economic cycle.

This divergence largely reflects the recent repricing of the yield curve, which affects different segments of the equity market in distinct ways. Higher interest rates tend to weigh on smaller-cap domestic companies due to increased financing costs and greater sensitivity to economic activity. Meanwhile, companies exposed to the AI investment theme continue to be supported by elevated expectations for earnings growth and investment.

Brazil

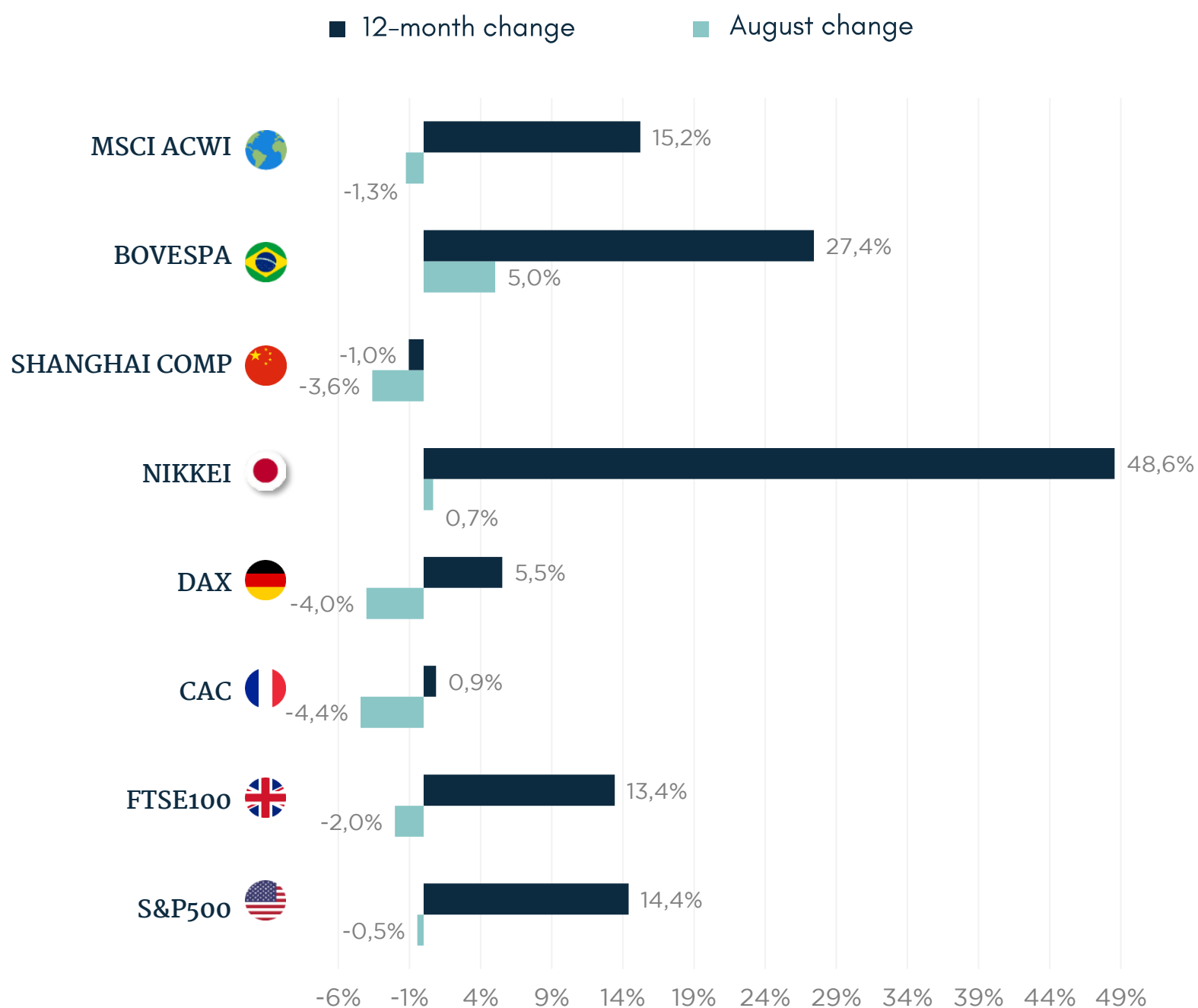
Strong market rebound following the first round, with foreign investors returning at the margin



Brazilian assets reacted strongly to the first round of the elections. In the first trading session following the vote, the Ibovespa gained 7.7%, while the small-cap index rose 9.2% and the U.S. dollar fell back below BRL 5.00. The move was also pronounced in fixed income markets. As shown in the chart on the left, nominal yields on DI futures contracts maturing in January 2029 and 2035 declined by 1.2 and 1.3 percentage points, respectively. At the same time, yields on inflation-linked government bonds (NTN-Bs) also fell significantly, by around 0.5 percentage points, depending on maturity.

Foreign investor inflows, which had already begun returning to the equity market in mid-August as Flávio Bolsonaro gained ground in the polls, accelerated following the election results. As shown in the chart on the right, cumulative net foreign inflows year-to-date returned to approximately BRL 40 billion, after declining to just over BRL 10 billion in August. On October 5 alone, the first Monday following the elections, net foreign inflows into the equity market reached BRL 10 billion, the largest daily inflow on record, even when adjusted for the size of the Ibovespa market.

Stock Markets



	September Change	Value on 30/09/2026	Change in 2026	12-month Change
COMMODITIES				
WTI CRUDE OIL	6.2%	91.11	58.7%	46.1%
GOLD	-6.3%	4,157.41	-3.7%	7.7%
CURRENCIES				
EURO	-2.5%	1.13	-3.5%	-3.4%
POUND STERLING	-2.1%	1.33	-1.6%	-1.3%
YEN	1.5%	157.41	-0.4%	-6.0%
BRAZILIAN REAL	0.2%	5.17	5.8%	2.8%
INDICES				
S&P500	-0.5%	7,651.54	11.8%	14.4%
FTSE100	-2.0%	10,606.00	6.8%	13.4%
CAC	-4.4%	7,964.51	-2.3%	0.9%
DAX	-4.0%	25,199.19	2.9%	5.5%
NIKKEI	0.7%	66,753.72	32.6%	48.6%
SHANGHAI COMP	-3.6%	3,842.20	-3.2%	-1.0%
BOVESPA	5.0%	186,340.46	15.6%	27.4%
MSCI ACWI	-1.3%	1,134.77	11.8%	15.2%

*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.

All opinions expressed in this report reflect our judgment as of this date and are subject to change at any time without prior notice.

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