

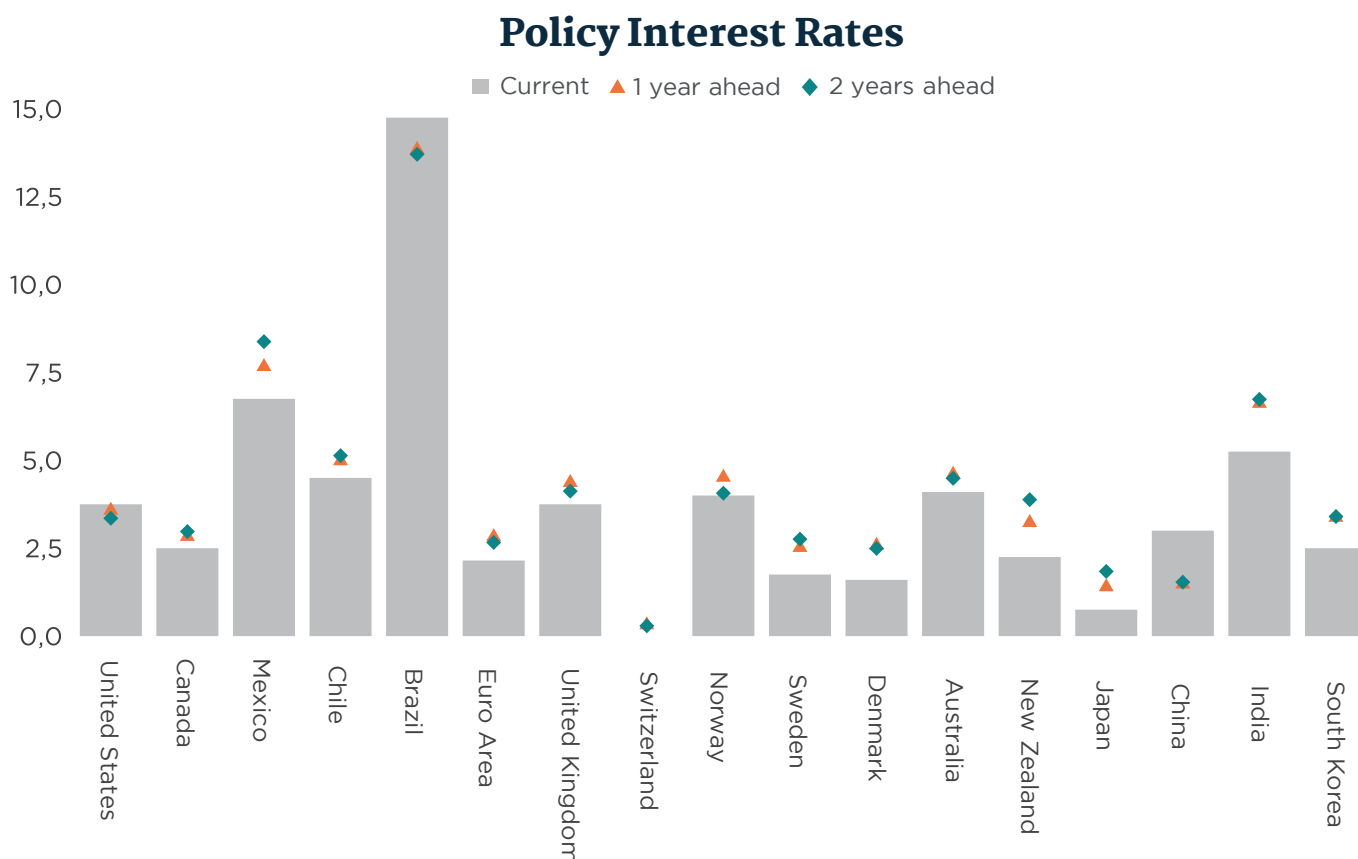


Economic Report

April
2026

Monetary Policy

The oil shock led to a sharp repricing of global Interest Rates cycles



One of the most relevant developments in March was the shift in expectations for global Interest Rates. Prior to the conflict between the United States and Iran, the prevailing scenario among major central banks pointed to a continued decline in rates over the coming years, reflecting a backdrop of moderating Inflation and greater room to support economic activity.

This picture changed significantly following the increase in oil prices. The rise in energy costs began to put upward pressure on Inflation expectations, prompting markets to reassess their outlook. Instead of further declines, the possibility of a pause in the easing cycle, and in some cases even a resumption of rate hikes, began to be considered.

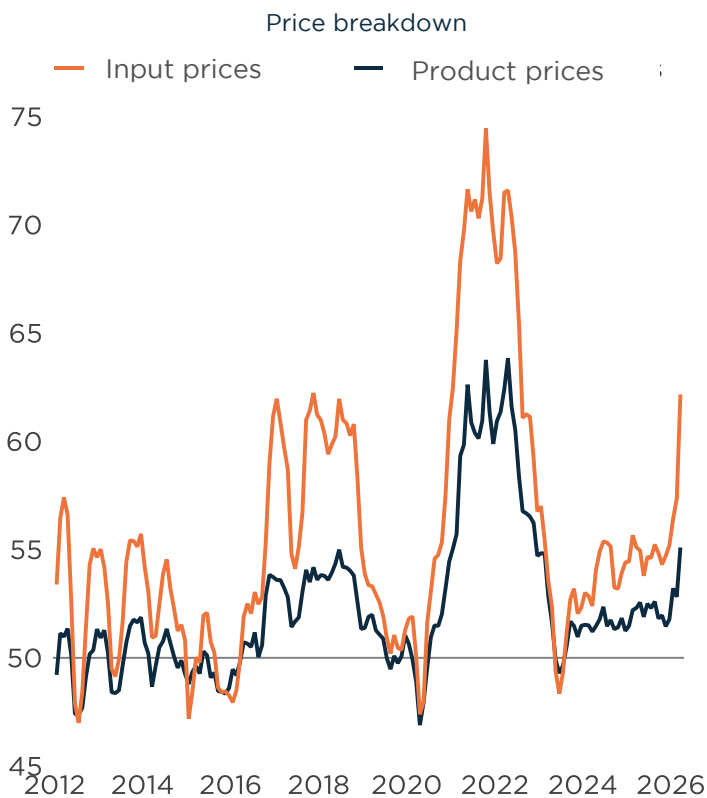
As shown in the chart, across virtually all countries analyzed, expected Interest Rates for the next one and two years (represented by the orange and blue lines) are already above current levels (shown by the gray bars). This pattern is observed in both developed and emerging economies, suggesting that the geopolitical shock, transmitted through energy prices, has had a global impact on expectations.

In practical terms, this makes the task of central banks more challenging, as it reduces the room for additional Interest Rates cuts over the relevant horizon.

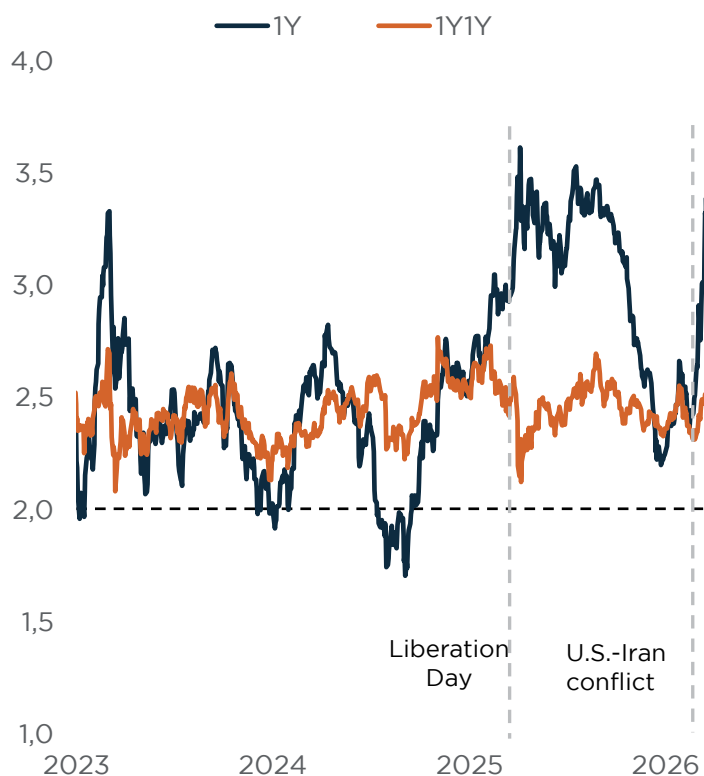
Inflation

Inflationary impact appears temporary

Global Manufacturing PMI



Inflation Swaps



Most countries have yet to release their main Inflation readings for March. Nevertheless, higher-frequency indicators, such as PMIs (manufacturing activity indices) and inflation swaps, are already beginning to signal the effects of the recent oil price shock.

The chart on the left presents price measures from the Global Manufacturing PMI: the orange line represents input costs, while the blue line reflects output prices charged by producers. In the latest reading (March), both increased significantly, suggesting a pass-through of higher oil prices along the production chain.

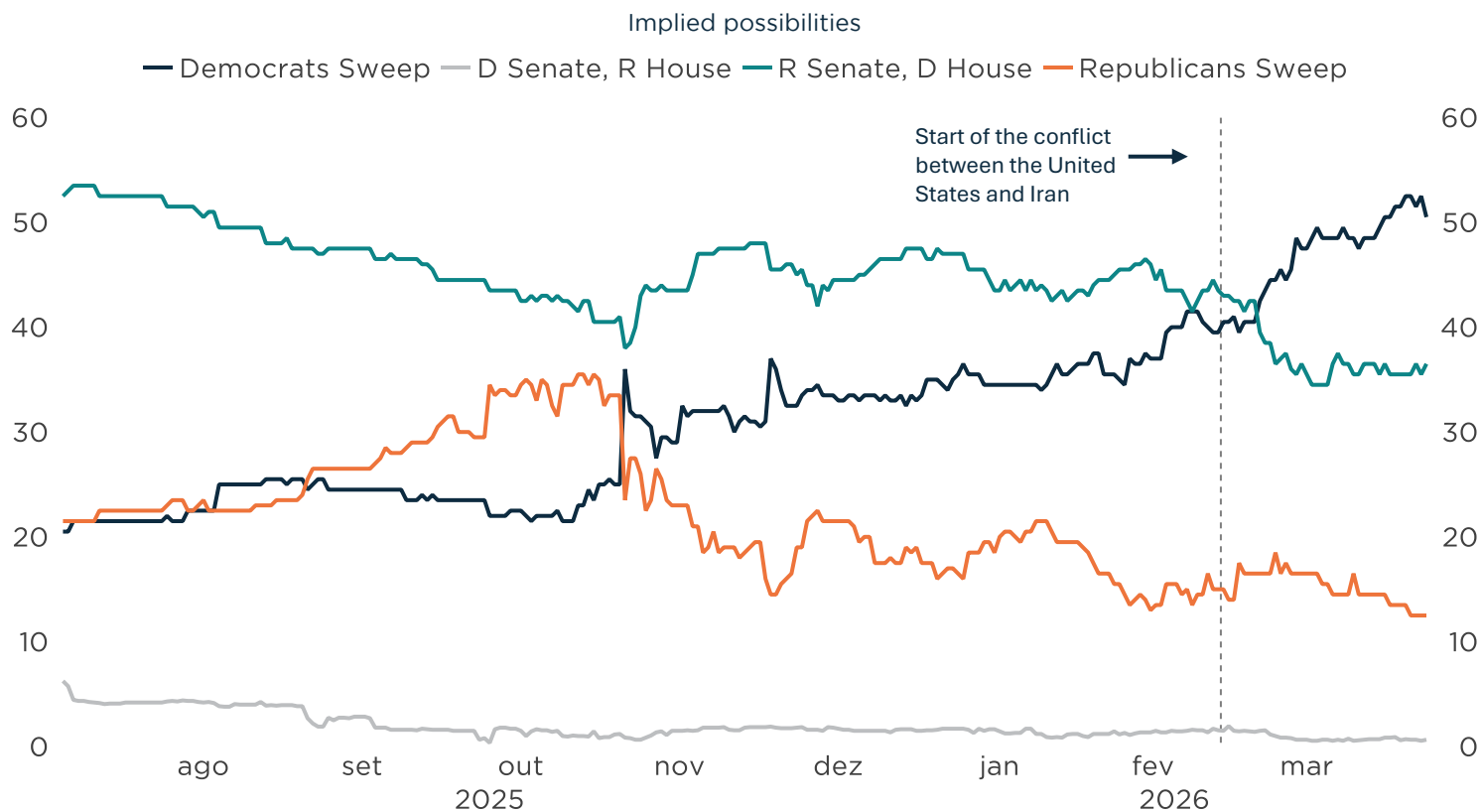
The chart on the right shows inflation swaps, market instruments that capture investors' Inflation expectations. The blue line represents expected Inflation over the next 12 months, while the orange line indicates expectations for the subsequent period. Short-term expectations have risen more markedly, while longer-term expectations have remained relatively stable.

This pattern is consistent with the view that the inflationary shock is likely to be temporary, with no meaningful impact on medium-term Inflation expectations.

Politics

The conflict in the Middle East helped consolidate a Democratic Sweep scenario

U.S.: Midterm elections



At the end of this year, the United States will hold midterm elections, which will determine the composition of Congress. Even prior to the conflict with Iran, there was already a clear expectation of weakening support for the Trump administration, with Republicans likely retaining only the Senate, a scenario markets viewed as the most probable.

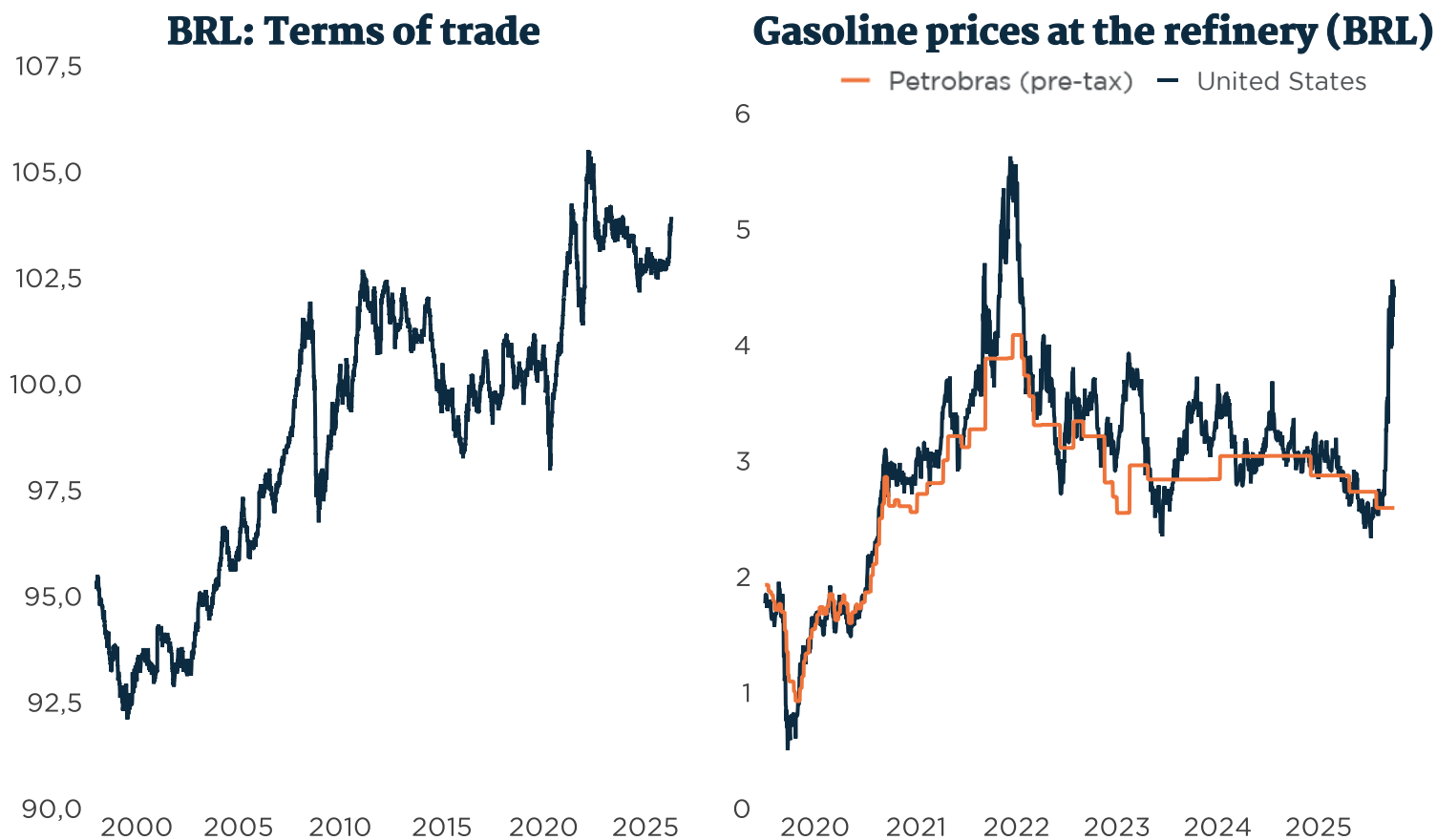
The chart shows the evolution of implied probabilities, that is, probabilities derived from market prices, for different Congressional configurations. Until February, the most likely outcome was a Republican Senate alongside a Democratic House, reflecting an already challenging environment for the administration.

With the onset of the conflict, indicated by the vertical dotted line, this dynamic intensified and the probability of a Democratic Sweep, in which the Democratic Party gains control of both the House and the Senate, increased.

Overall, this scenario implies a meaningful reduction in governing capacity in the final stretch of the term, with greater difficulty in advancing the legislative agenda and more limited political maneuvering room.

Trade balance

Higher oil prices may benefit Brazil, but also pose challenges



Brazil is part of a select group of countries that tend to benefit from higher oil prices. Although the country imports relevant volumes, its net balance (exports minus imports) remains positive, meaning that Brazil is a net oil exporter.

In this context, higher oil prices increase the value of exports and improve the terms of trade, an indicator that measures the relationship between export and import prices. The chart on the left illustrates this dynamic, with an upward trajectory in terms of trade over time. Even when accounting for indirect effects, such as pressure on industrial and transportation costs, net exporters tend to absorb these impacts more effectively.

The main challenge, however, is domestic. The chart on the right shows that gasoline prices at Petrobras refineries (orange line) are approximately 40% below the reference price in the United States. This gap places the government in a sensitive position: either pass the increase through to consumers, with a direct impact on inflation and the risk of truckers' strikes amid a sharp rise in diesel prices, or absorb the shock through subsidies or price controls, with meaningful fiscal costs.

In an election year, the likelihood of a more interventionist response to this trade-off adds a specific layer of risk to the Brazilian outlook.

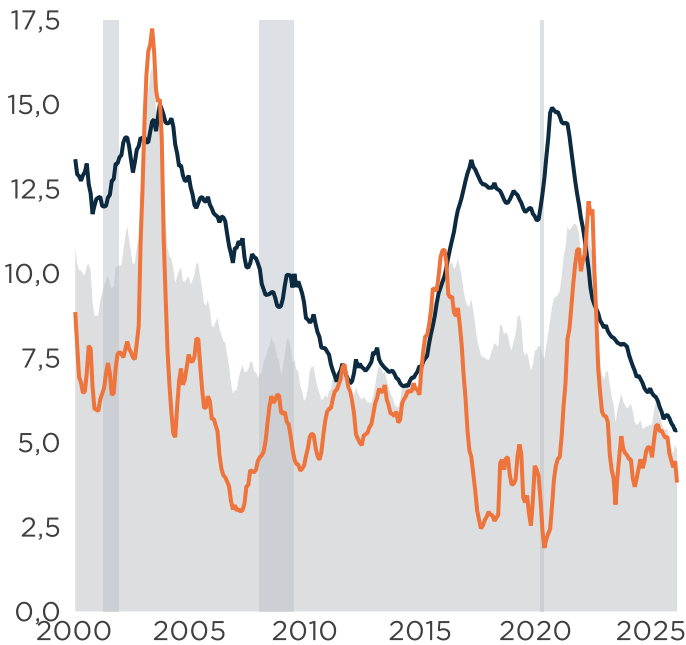
Politics

A “benign” economic backdrop has yet to be reflected in government approval ratings

Misery Index: unemployment + inflation

A simple metric for social well-being

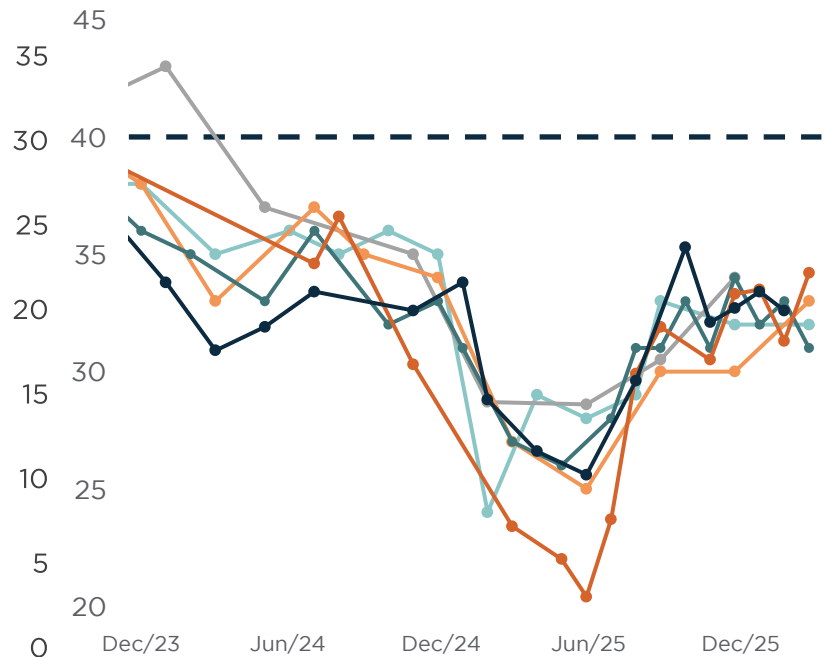
- Consumer Inflation
- Broad unemployment rate
- Misery Index (right)



Positive government approval

Good/Excellent

- Datafolha
- IBOPE
- Futura/Apex
- CNT
- Quaest
- Paraná



The chart on the left presents the Misery Index, an indicator created by economist Arthur Okun to measure the population’s economic well being. The index combines 12 month Inflation (orange line) with the broad unemployment rate (dark blue line). In general terms, the lower the index, the more favorable the environment tends to be for consumers. In Brazil, the Misery Index is close to historical lows, signaling a relatively benign economic backdrop.

The contrast appears in the chart on the right. Despite the improvement in economic indicators, the government’s positive approval rating (good/excellent) has remained stable between 30% and 35% in major surveys, below the roughly 40% typically associated with a competitive level for reelection.

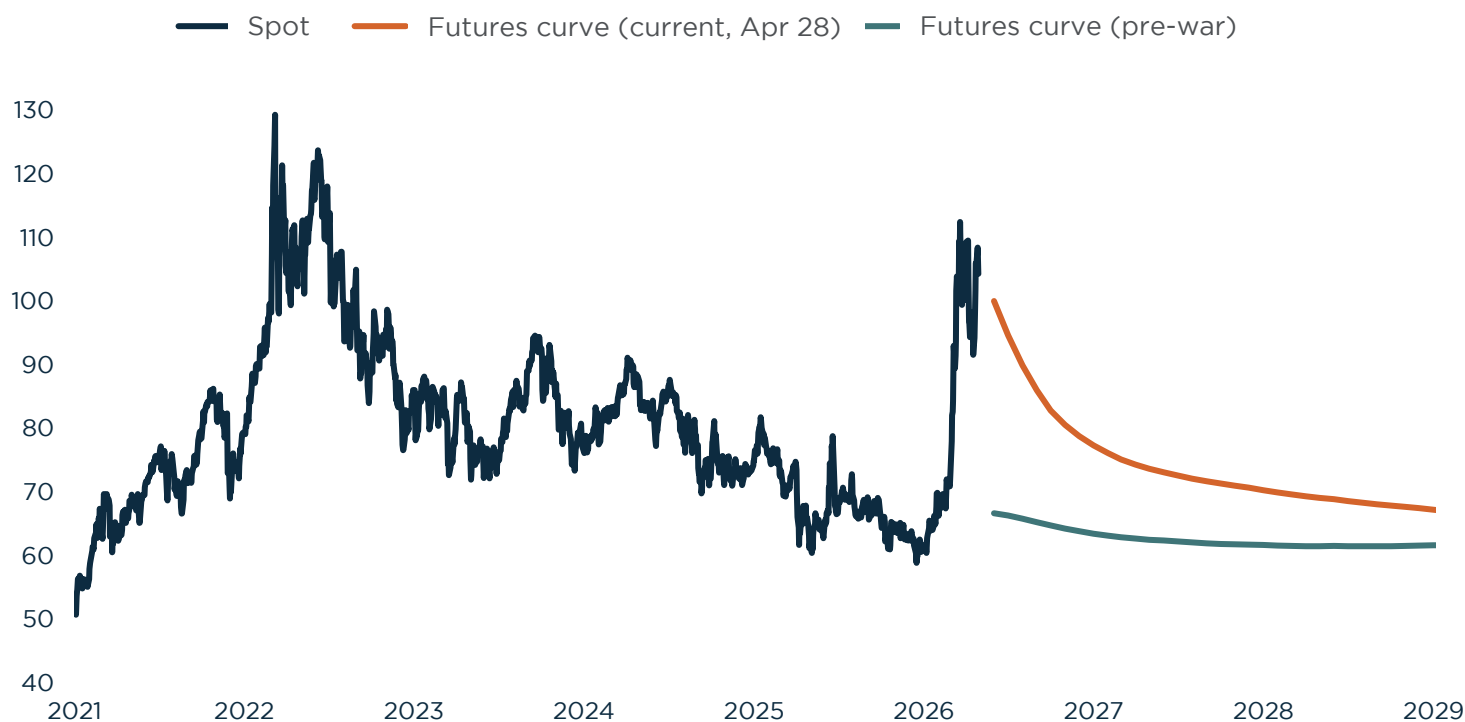
One possible explanation lies in how Inflation is perceived by the population. In general, perceptions of purchasing power are more closely linked to the price level, that is, how much prices have already increased, than to the pace of change. As such, even with moderating Inflation, the cumulative loss of purchasing power is still felt, limiting any improvement in approval ratings.

Commodities

Energy prices surged following the closure of the Strait of Hormuz

Brent price

USD per barrel



The conflict between the United States and Iran led to the closure of the Strait of Hormuz, through which roughly 20% of global oil flows transit daily. Although part of the production and inventories was redirected through pipelines, this volume was not sufficient to offset the supply shock.

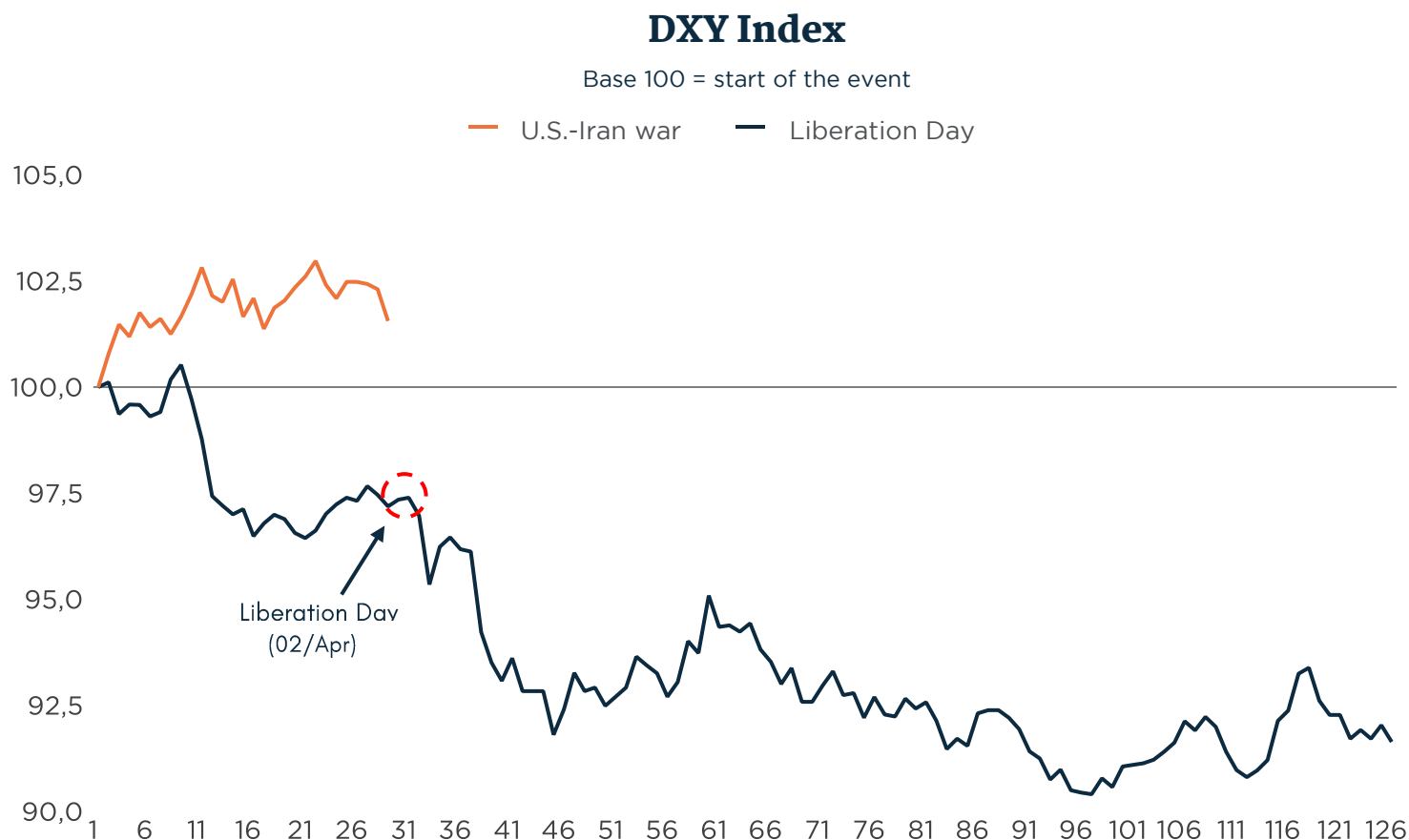
As a result, the spot price of Brent (blue line) rose from approximately USD 65 to around USD 100 per barrel, briefly testing levels close to USD 120.

Even so, the futures curve, which reflects market expectations for prices over the coming years, suggests that this move is perceived as temporary. As shown in the chart, despite the elevated levels in the short term, futures contracts already point to a gradual decline in prices toward levels observed prior to the conflict.

The slope of the curve, with higher prices in the present than in the future, a structure known as backwardation, reinforces the interpretation of a temporary imbalance between supply and demand, with no evidence of a structural shift in energy price levels.

Exchange Rate

The U.S. Dollar appreciated in March, in contrast to Liberation Day



One of the key questions for markets was how the U.S. Dollar would behave in the context of the conflict with Iran, particularly in light of the Liberation Day episode last year, when the currency surprised by depreciating sharply, contrary to what traditional models would suggest.

This time, the move has been different: since the onset of the conflict between the United States and Iran, the U.S. Dollar has shown consistent appreciation.

The chart illustrates the trajectory of the DXY index, which measures the performance of the Dollar against a basket of currencies from major U.S. trading partners, starting from the onset of each event. During the Liberation Day episode, the currency was already on a depreciation trend even before the official date (April 2, 2025), anticipating the tariff announcements, a move that intensified after their implementation.

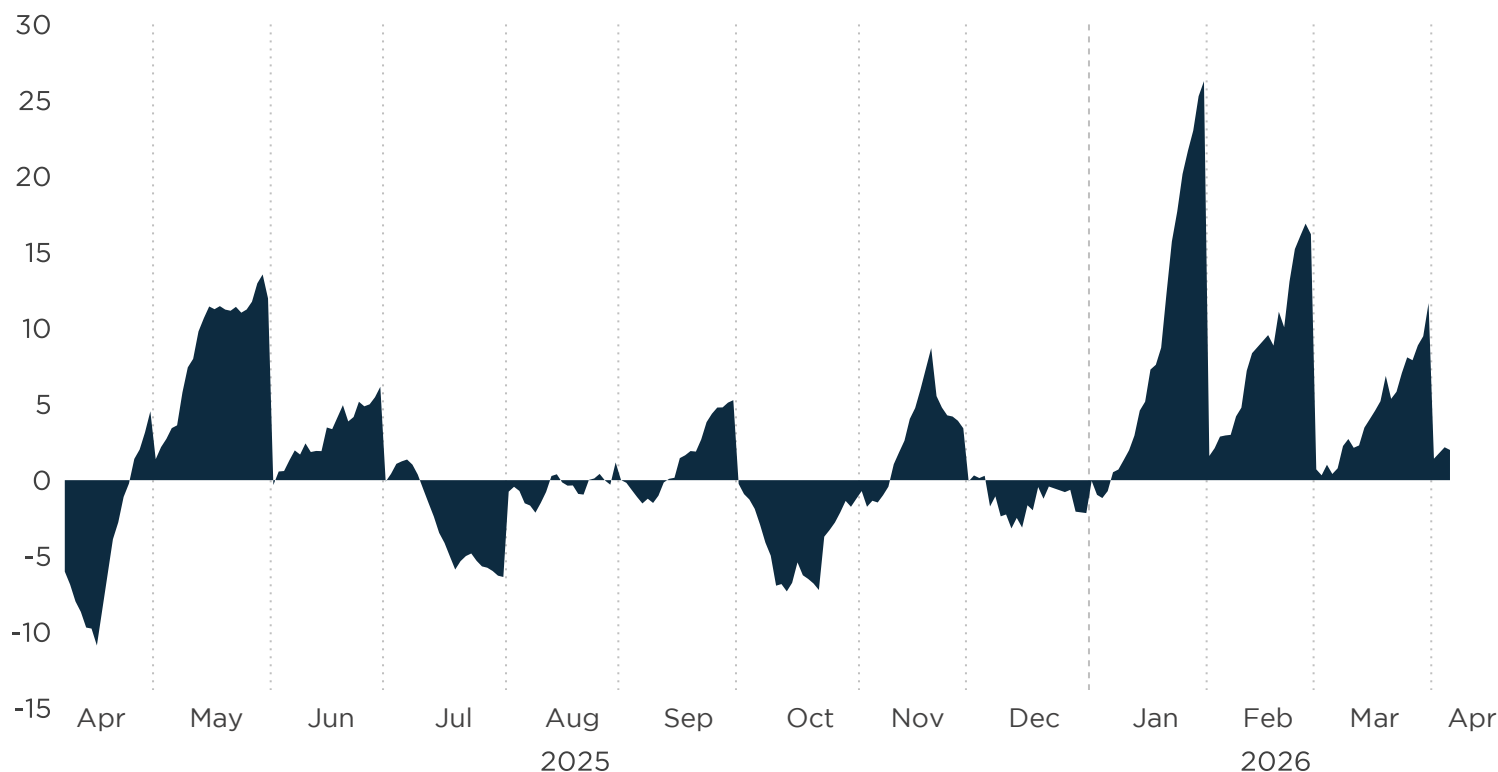
In the current context, although the observation window is still shorter, the signal is distinct: the DXY has appreciated since the beginning of hostilities, reflecting the typical flight to safety toward assets perceived as more secure during periods of heightened geopolitical uncertainty.

Equities

Foreign inflows remained resilient in March

Foreign inflows in Equities, cumulative by month

BRL Billions



Foreign capital flows into local Equities remained resilient in March. In the first three months of the year, cumulative net inflows exceeded BRL 55 billion, a significant volume concentrated primarily in large-cap stocks (companies with higher market capitalization).

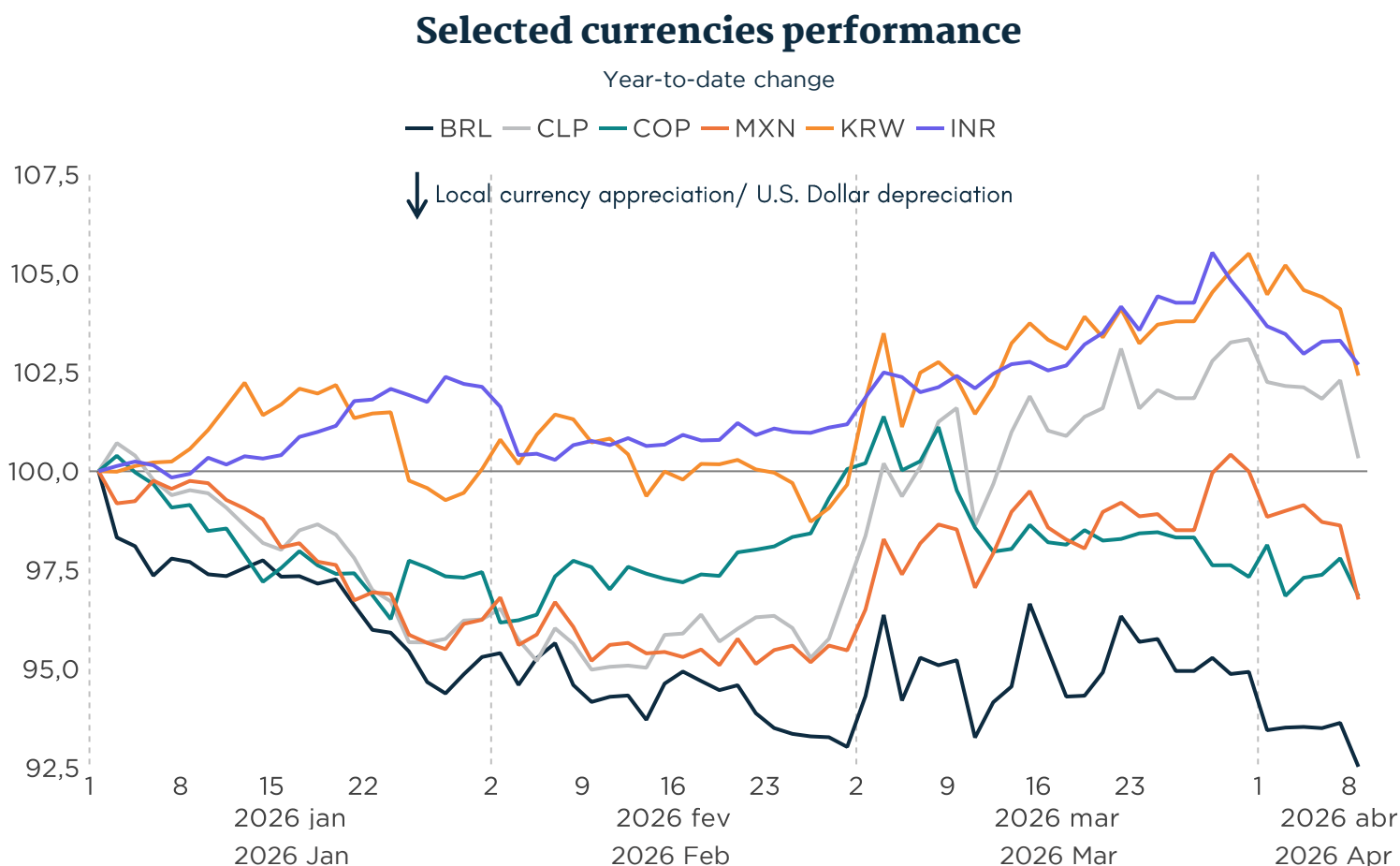
This dynamic helps explain the divergence in performance observed over the period: while the Ibovespa remained relatively stable in March, the small-cap index (companies with lower market capitalization) posted negative performance, pressured by lower inflows and increased risk aversion associated with the conflict between the United States and Iran.

The chart shows cumulative net foreign inflows into B3 throughout each month. A gradual deceleration in flows can be observed between January and March, reflected in smaller bars. Even so, volumes remain meaningful and support a constructive view of the local equity market.

This performance becomes even more notable when compared to other emerging markets, which recorded net outflows in March amid rising geopolitical uncertainty. In this context, Brazil stood out as an exception, signaling a more selective allocation by foreign investors, based on the country's relative attractiveness compared to its peers.

Exchange Rate

The appreciation of the Brazilian real also stood out among its peers



In March, the Brazilian real appreciated by 1.1% against the U.S. Dollar, bringing year-to-date gains to 5.4%, a performance that stands out among its peers. As shown in the chart, the BRL is the only currency in the group to exhibit consistent appreciation throughout 2026.

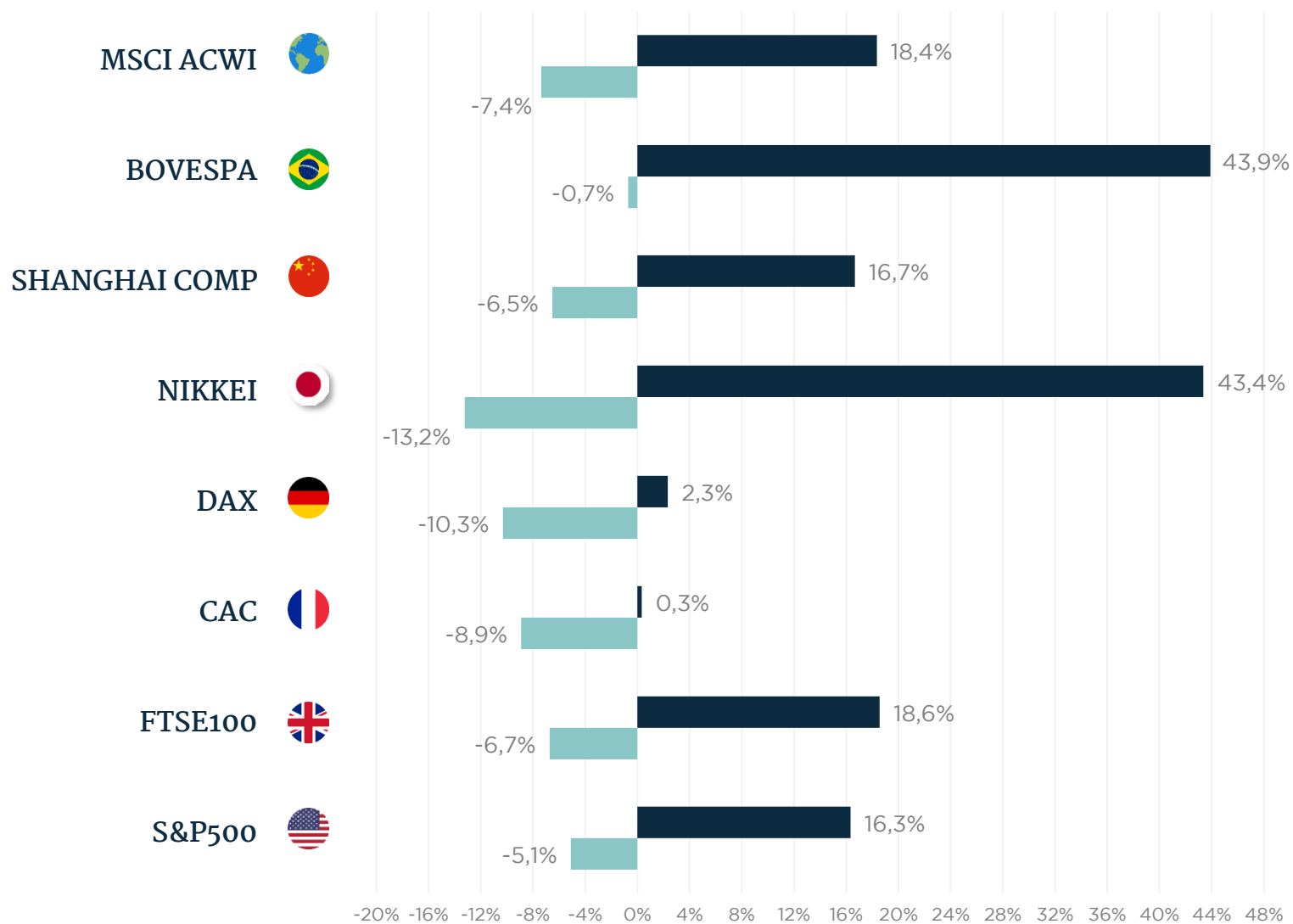
In contrast, currencies from Asian economies have recorded significant depreciation against the Dollar, reflecting their greater exposure to the oil price shock.

The real's performance can be explained by two main factors. On one hand, strong foreign inflows into local Equities, as discussed in the previous slide, have supported demand for the currency. On the other, as a net oil exporter, Brazil benefits from higher oil prices through an improvement in its terms of trade.

This contrast with energy-importing economies reinforces Brazil's relative advantage in an environment of heightened risk aversion and a global energy shock.

Stock Markets

■ 12-month change ■ March change



	March Change	Value on 31/03/2026	Change in 2026	12-month Change
COMMODITIES				
OIL WTI	66,4%	111,54	94,3%	56,0%
GOLD	-11,6%	4.668,06	8,1%	49,4%
CURRENCIES (VS. USD)				
EURO	-2,2%	1,16	-1,6%	6,8%
LIBRA	-1,9%	1,32	-1,8%	2,4%
YEN	-1,7%	158,72	-1,3%	-5,5%
REAL	-1,1%	5,18	5,7%	10,1%
INDICES				
S&P500	-5,1%	6.528,52	-4,6%	16,3%
FTSE100	-6,7%	10.176,45	2,5%	18,6%
CAC	-8,9%	7.816,94	-4,1%	0,3%
DAX	-10,3%	22.680,04	-7,4%	2,3%
NIKKEI	-13,2%	51.063,72	1,4%	43,4%
SHANGHAI COMP	-6,5%	3.891,86	-1,9%	16,7%
BOVESPA	-0,7%	187.461,84	16,3%	43,9%
MSCI ACWI	-7,4%	978,94	-3,5%	18,4%

*Figures and results presented in local currency



Disclaimer

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