



# Economic Report

May  
2026

# Inflation

Higher energy prices are the new inflationary driver

## U.S. inflation measured by PCE

— Actual — Projected (pre-conflict) — Projected (current)



\*Median Bloomberg projections

U.S. inflation remains above the Federal Reserve's target. In the latest reading, core PCE, the Fed's main inflation metric, rose 3.2% over the past 12 months. A meaningful portion of this deviation from target reflects the effects of the rates announced by the Trump administration since last year, estimated by the Federal Reserve itself at around 0.8 percentage points. Even so, the expectation is that this impact will continue to dissipate gradually over the coming quarters.

With the conflict in the Middle East, however, energy prices have emerged as a new source of inflationary pressure. The chart above shows the trajectory of actual PCE and market projections under two scenarios: before the conflict and under the current environment. Until the end of February, the consensus pointed to a continuation of the disinflation process throughout 2026, with headline PCE converging to approximately 2.5% in the final quarter of the year. Following the escalation of the conflict and the resulting increase in energy prices, these projections were revised upward and now indicate PCE around 3.2% by the end of 2026. Even so, the shock is still viewed as temporary, as current projections converge back toward the pre-conflict scenario by mid-2027.

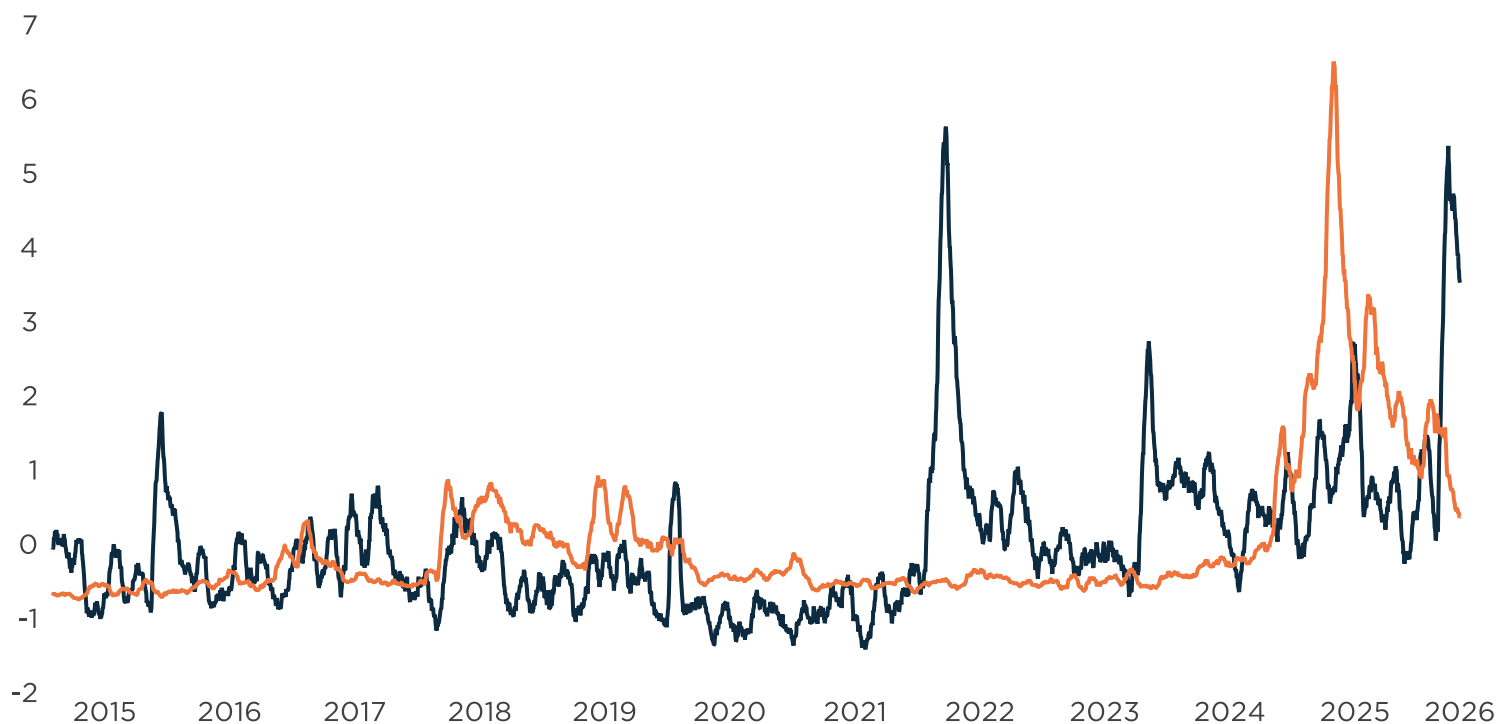
# Geopolitics

Geopolitical risks intensify once again

## Risk and uncertainty indicators

30 day moving average | Normalized (Z-score)

— Geopolitical Risks — Trade Policy Uncertainty



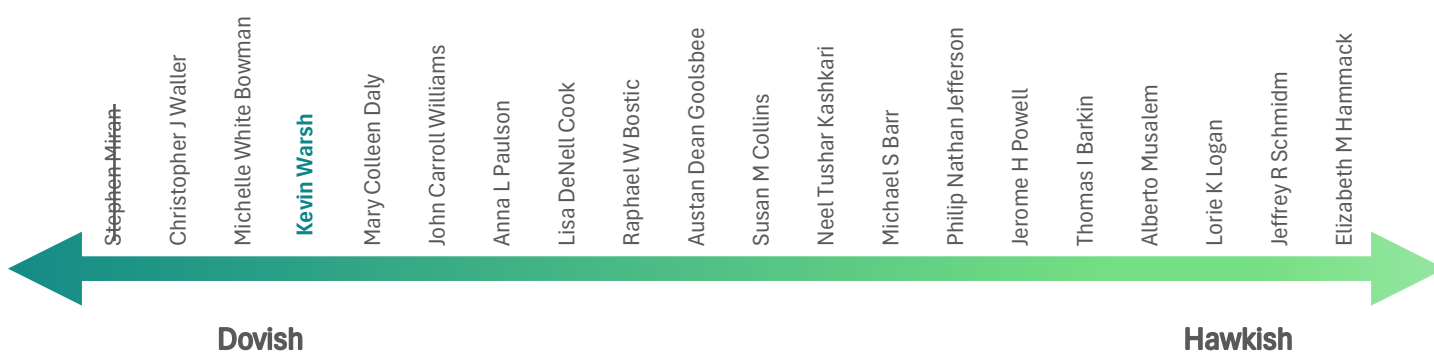
Recent years have been marked by a significant increase in the perception of global risk. However, the main sources of concern have shifted over time. Shortly after Donald Trump took office, market attention was concentrated on the imposition of new rates on U.S. imports, particularly following Liberation Day. More recently, however, focus has shifted toward the geopolitical environment, especially after the escalation of tensions between the United States and Iran.

The chart above presents two global risk indices constructed from newspaper-based news analysis, calculated as 30 day moving averages and normalized to facilitate visual comparison. The orange line represents the level of uncertainty related to global trade policy, while the blue line measures the level of geopolitical risk.

The trade uncertainty index reached its peak between April and May 2025, a period when concerns regarding the impact of rates on global trade were most intense. The geopolitical risk index, in turn, recorded its most recent peak between March and April 2026, reflecting the continuation of the conflict between the United States and Iran for longer than initially expected by markets.

## Monetary policy

Powell will step down as FOMC Chair but remain on the Board.



The May meeting was the last under Jerome Powell's leadership at the FOMC. With the end of his term on May 15, Kevin Warsh will assume the chairmanship of the committee. Powell, however, reiterated that he will remain a member of the FOMC after stepping down as Chair, something that has not occurred since 1948, although he signaled an intention to maintain a more discreet role in deference to Warsh's leadership.

The chart above presents the expected composition of the FOMC for the June meeting, organizing members according to their perceived monetary policy bias, ranging from the most dovish, that is, more tolerant of inflation, to the most hawkish, a profile associated with a greater inclination to keep interest rates elevated.

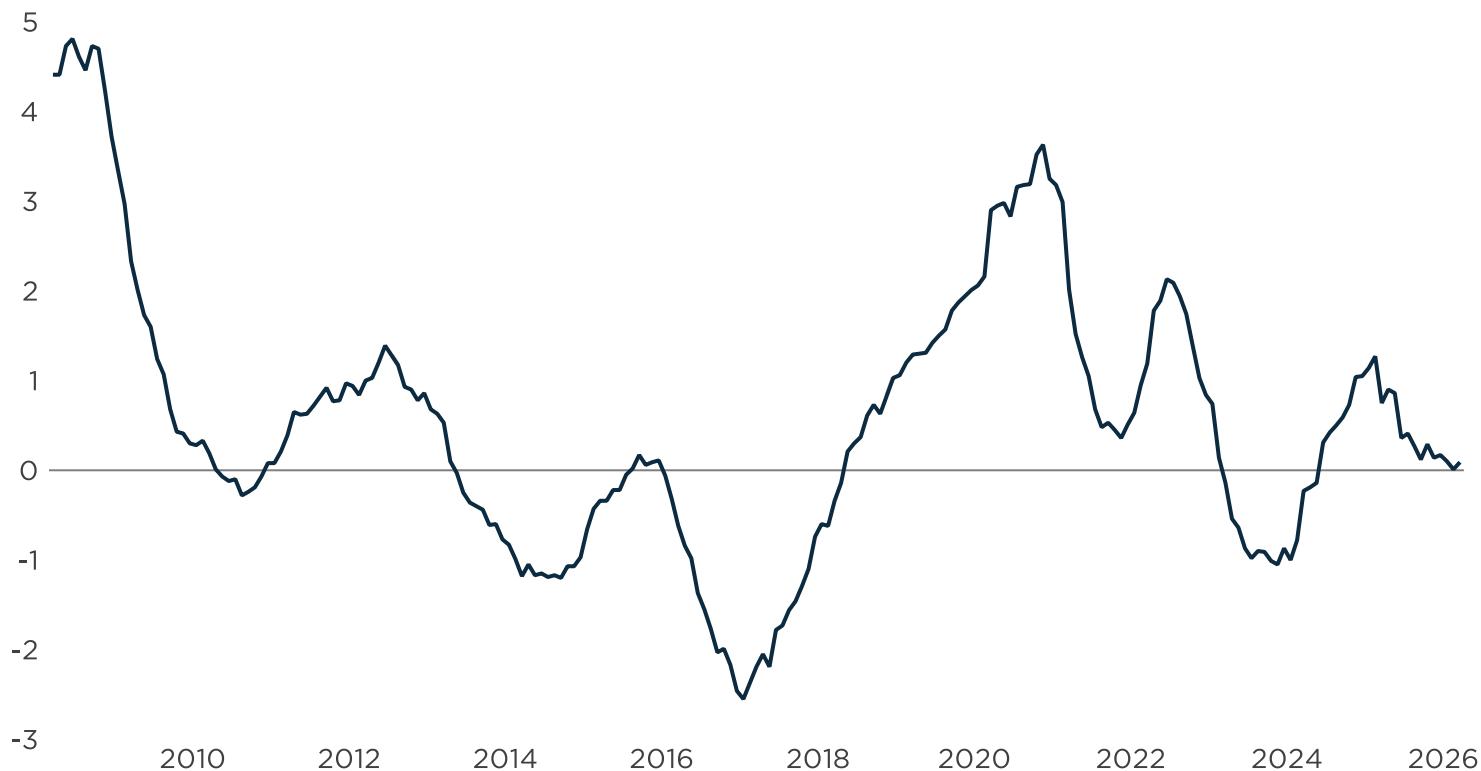
Expectations are that Warsh's arrival will be accompanied by the departure of Stephen Miran, appointed by Donald Trump at the end of last year to temporarily fill the seat vacated by Adriana Kugler, whose term ended in January

## Monetary Policy

Copom notes additional lagged effects from monetary tightening

### Total outstanding free credit

Percentage of GDP | 12-month change



At its latest meeting, Copom reduced the Selic rate by 25 bps, bringing it to 14.5% per year, in line with market expectations. The statement introduced adjustments toward an even more cautious stance, mainly due to the further de-anchoring of inflation expectations associated with the energy price shock. In the minutes, the Committee acknowledged that “the effects of restrictive monetary policy (...) are still being felt in early 2026 through the deceleration of credit balances.” Even so, the text reinforced the monetary authority’s commitment to combating the secondary effects of the external shock.

The chart above presents a credit impulse metric based on the 12-month change in total free credit balances as a percentage of GDP. The behavior of the series suggests a meaningful moderation since last year, consistent with the lagged effects of monetary tightening on economic activity and credit conditions.

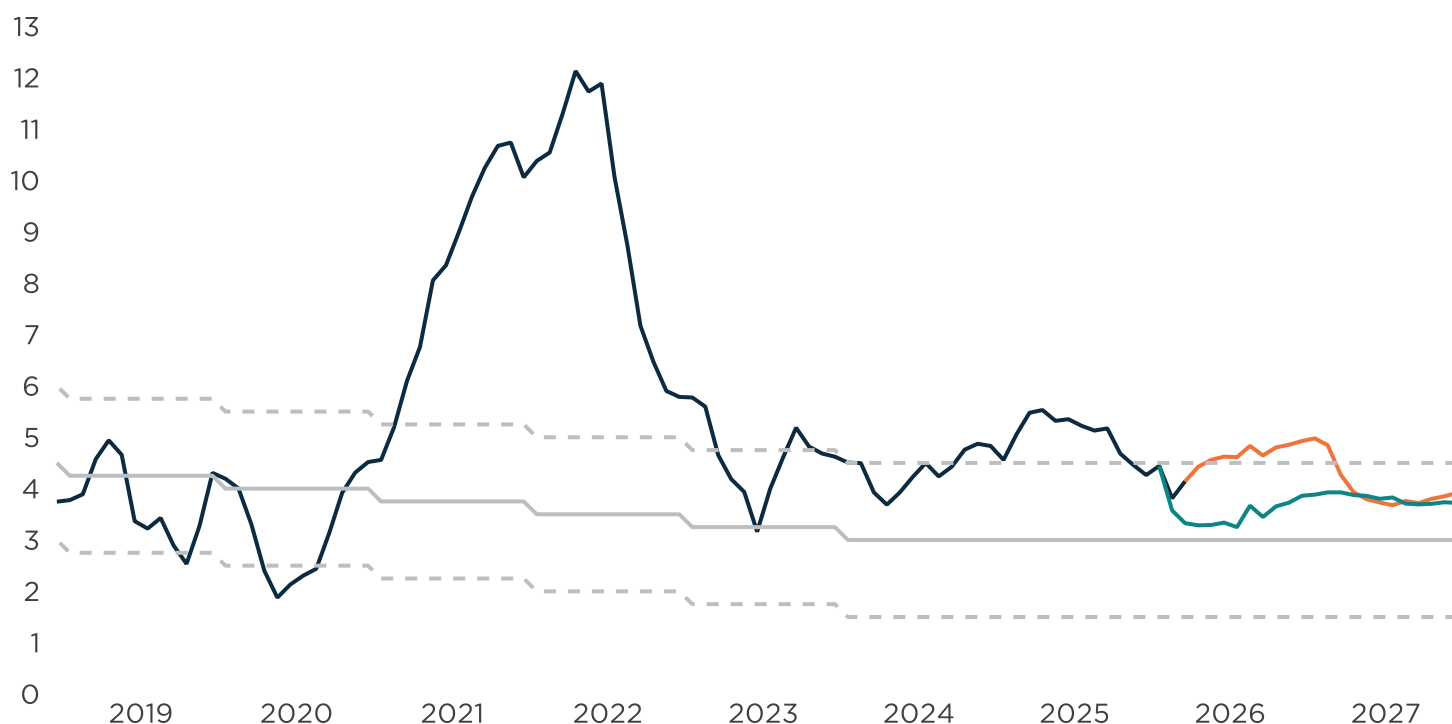
# Inflation

Further de-anchoring of inflation expectations in the short term

## Actual and projected IPCA

12 month accumulated, Focus Survey

— Actual — Current Projection — Pre-war projection — Inflation target



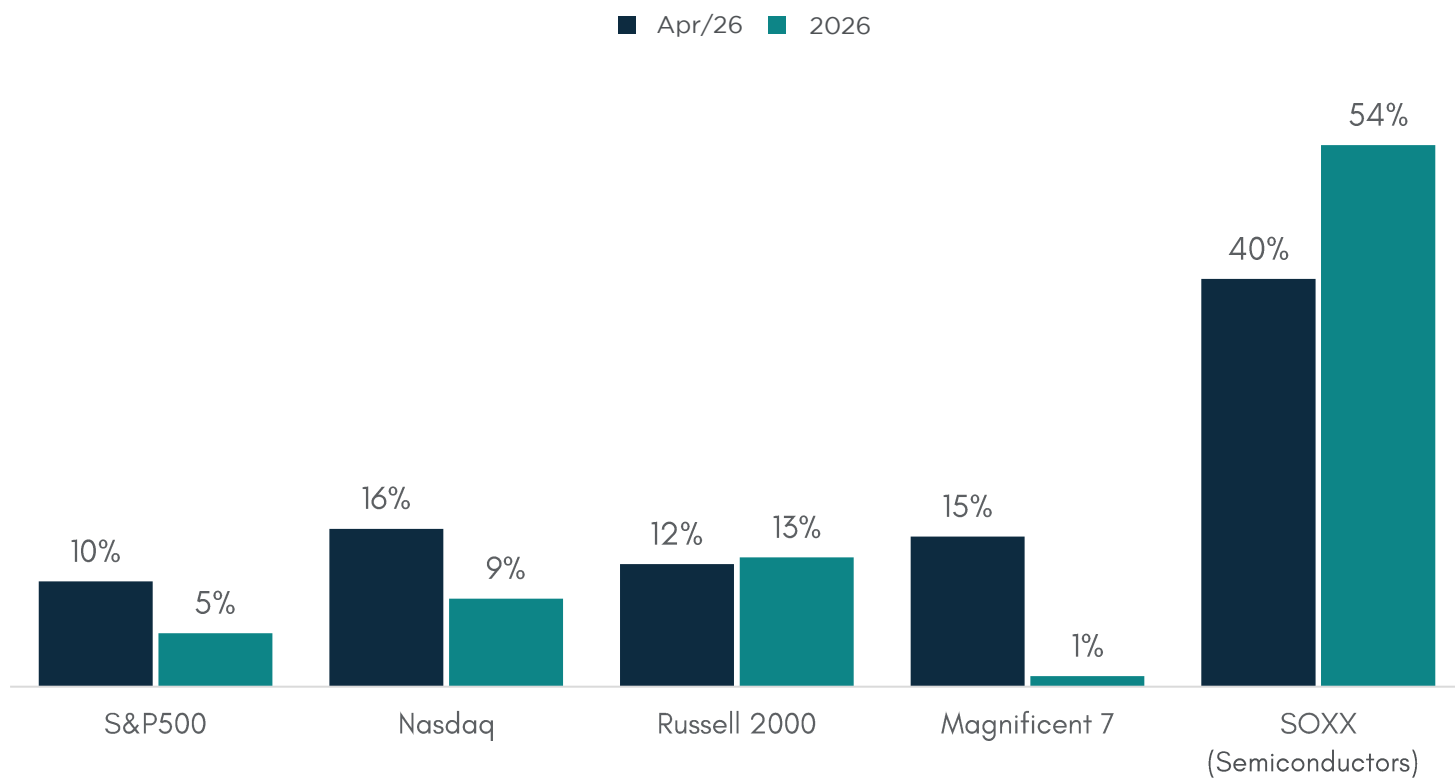
In the March reading, 12-month accumulated IPCA accelerated from 3.8% to 5.1%, while the April preview (IPCA-15) came in at 4.4%, already close to the upper limit of the inflation target tolerance band. Until the beginning of the conflict in the Middle East, the median expectations from the Focus Survey pointed to a more benign inflation outlook, consistent with the inflation target tolerance range over the coming years, although still above the midpoint. However, these expectations have risen sharply in recent weeks.

The chart above presents the historical series of 12-month accumulated IPCA, together with the midpoint and limits of the inflation target, as well as Focus Survey projections for IPCA as of February 26 (light blue line) and in the latest reading (orange line). Under the previous scenario, IPCA was expected to end 2026 near 3.9% and 2027 around 3.7%. In the latest reading, expectations increased to 4.9% and 3.9%, respectively.

## Stocks

The United States and AI infrastructure stood out in April

### Performance of equity indices



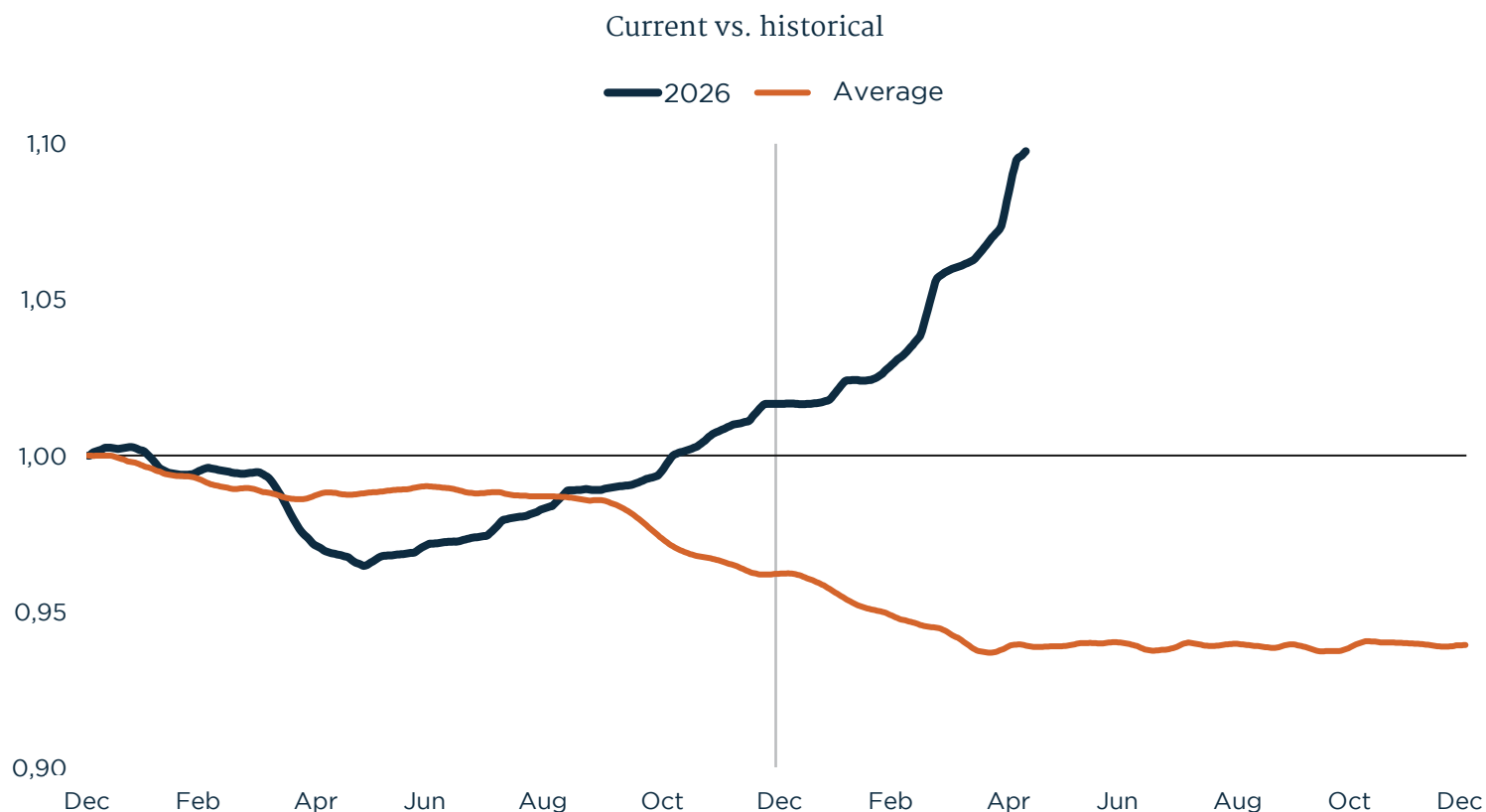
April was marked by strong performance in U.S. equity indices, with strength in segments linked to the artificial intelligence (AI) investment thesis. As shown in the chart above, the SOXX index, a benchmark for the semiconductor sector, advanced 40% during the month, recording the second-best monthly performance in its history. The move reflects growing demand for AI-related infrastructure and equipment.

Other major U.S. indices also posted significant gains in April. The S&P 500 rose 10% during the month, bringing year-to-date gains to 5%. Meanwhile, the Nasdaq and the Magnificent 7, which have greater concentration in technology companies, advanced 16% and 15% in the month, respectively, although their performances in 2026 remain quite distinct, with year-to-date gains of 9% and 1%.

## Stocks

Unlike the usual pattern, earnings expectations have been revised upward

### Revision of earnings expectations for the S&P 500



The strong performance of the U.S. equity market during the month has been supported by upward revisions to 2026 earnings expectations. The chart above compares the trajectory of expected 2026 EPS (earnings per share) revisions for the S&P 500, represented by the blue line, with the historical pattern observed since 2008, represented by the orange line.

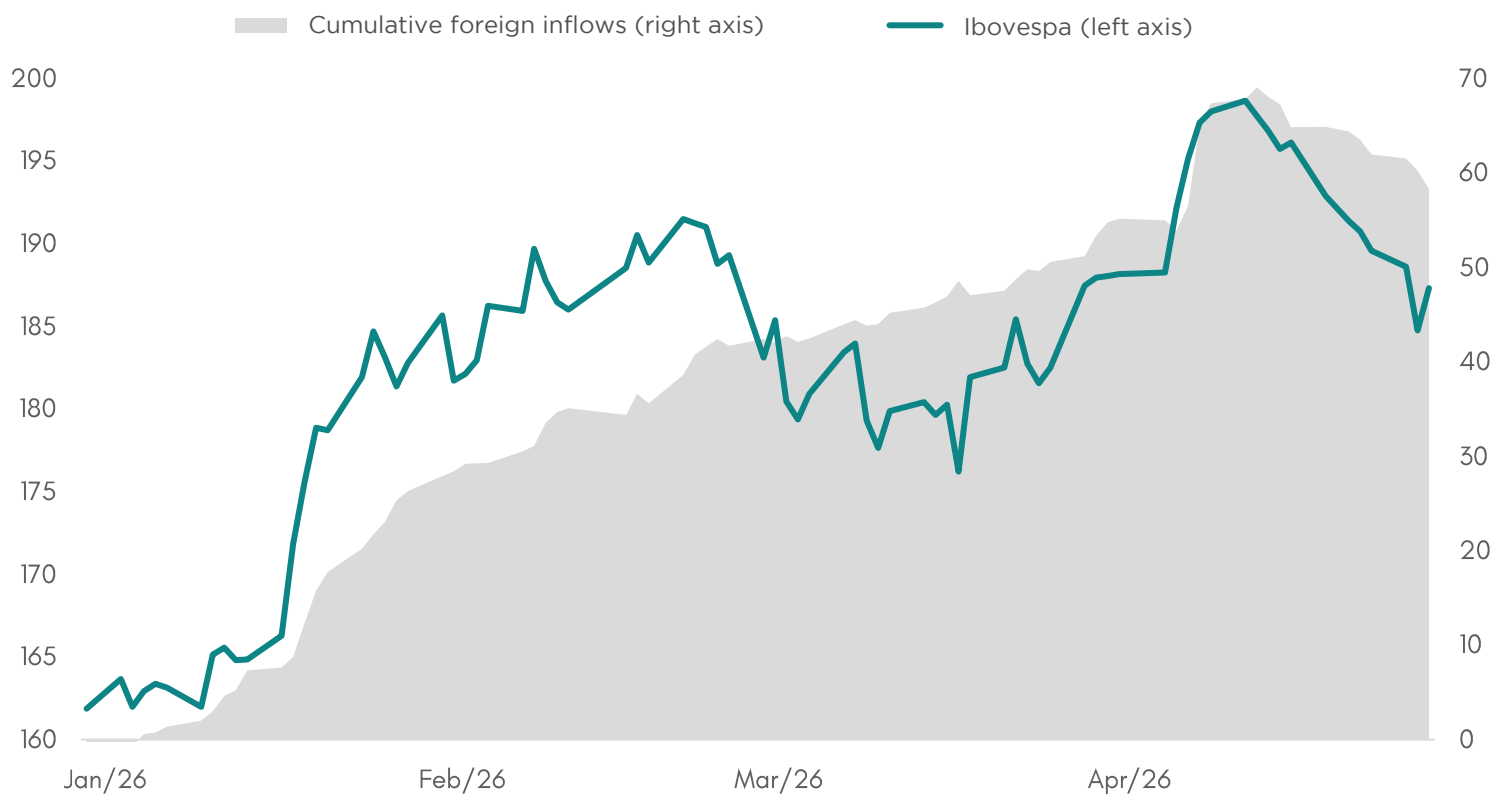
Historically, earnings projections tend to be revised downward as the forecast horizon approaches. In 2026, however, this dynamic reversed, highlighting the unusual nature of the recent move.

Markets currently project earnings growth of more than 20% for the S&P 500 relative to last year, which would represent the strongest expansion since 2021. This dynamic may fully explain the index's appreciation year-to-date, since the price-to-earnings (P/E) multiple has declined since the beginning of the year.

# Equities

Foreign inflows moderated in April

### Foreign inflows vs. Ibovespa

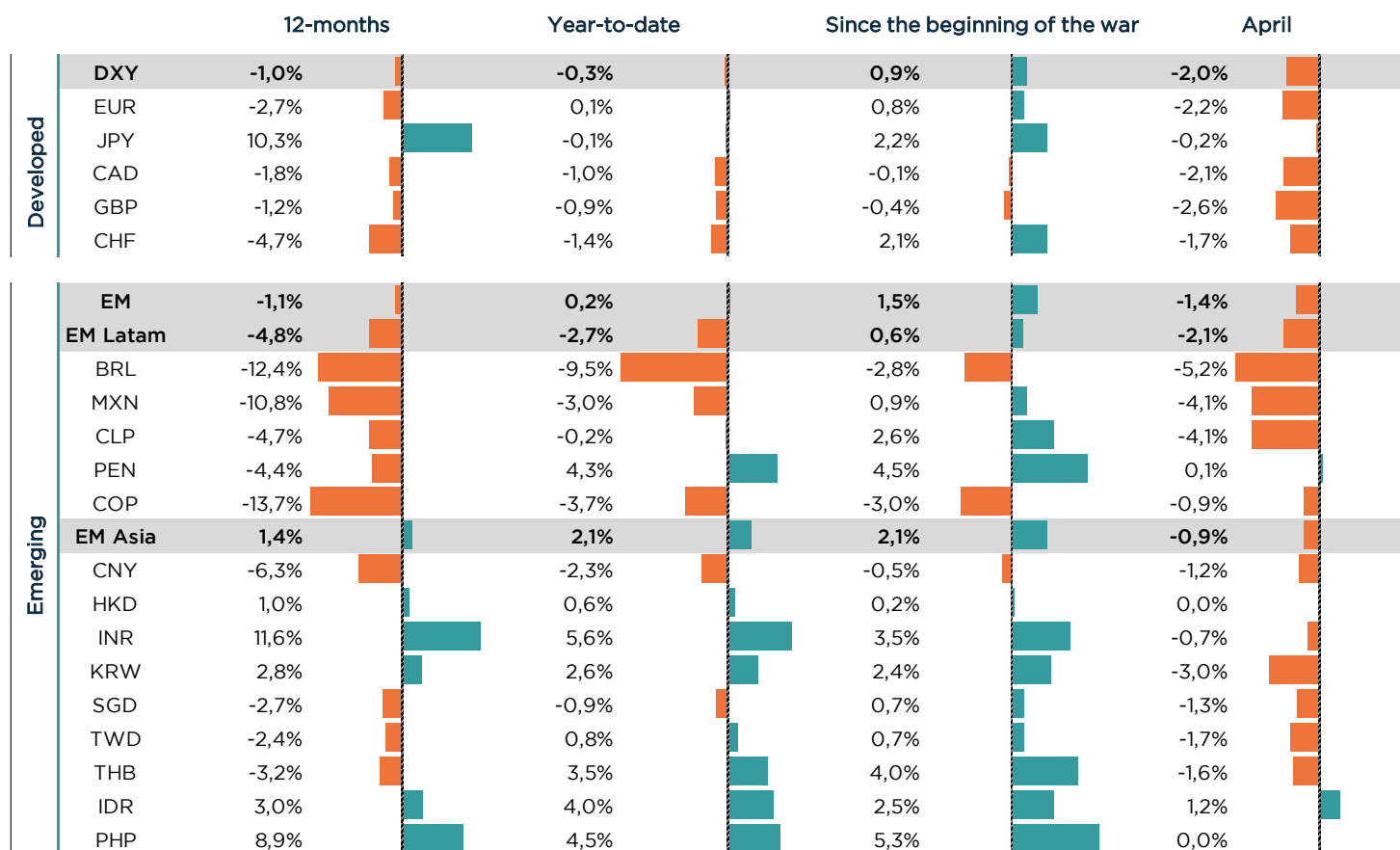


The year has been marked by strong foreign inflows into Brazilian equities. In the first three months alone, cumulative net inflows exceeded BRL 55 billion, a dynamic that helps explain the strong performance of the Ibovespa even amid elevated global uncertainty. However, flow dynamics shifted in the second half of April, reducing cumulative net inflows for the month to around BRL 3.6 billion, after approximately BRL 15 billion had been recorded in the first half of the month alone.

The chart above shows cumulative foreign inflows since the beginning of the year, represented by the gray area on the right axis, together with the level of the Ibovespa, represented by the green line on the left axis. The correlation between the two series is visible throughout the period, from the strong inflow momentum at the beginning of the year to the reversal observed in recent weeks. Even so, the cumulative balance in 2026 remains above BRL 54 billion.

# Exchange Rate

The appreciation of the Brazilian real stood out among its peers



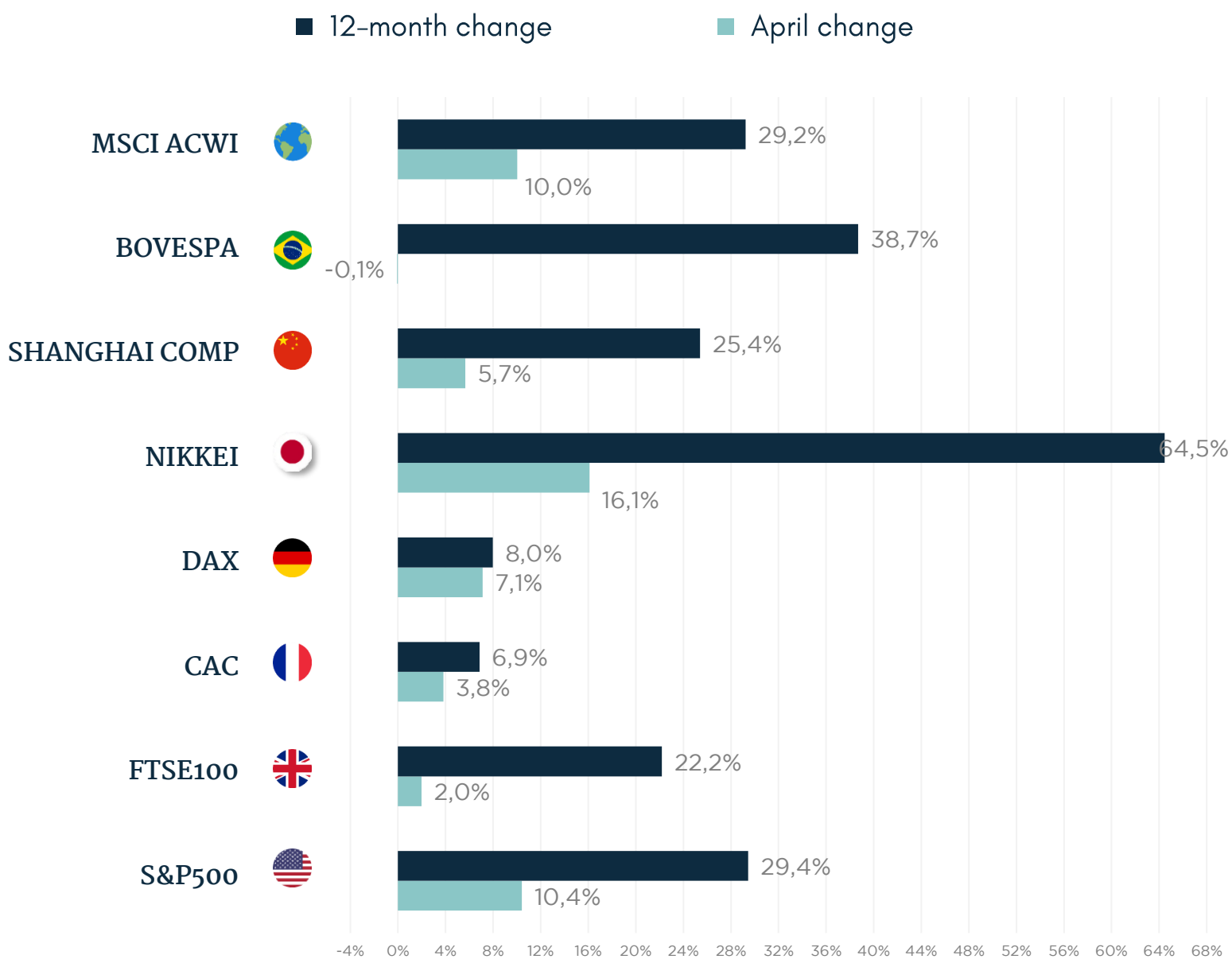
Legend: USD appreciation / local currency depreciation  
Local currency appreciation / USD depreciation

\* Data updated through Apr 30, 2026

In April, the Brazilian real appreciated 5.2% against the U.S. Dollar, bringing year-to-date gains to 9.5%, a performance that stands out among major global currencies. As shown in the table above, the month was marked by a broad-based depreciation of the Dollar, with both developed and emerging market currencies appreciating against the U.S. currency. In this context, the BRL posted one of the strongest performances, outperforming most other currencies.

On the other hand, when considering the period since the beginning of the conflict between the United States and Iran, the move still favors the Dollar, which resumed broad appreciation against both developed and emerging market currencies. Among emerging markets, the advance of the U.S. currency was more pronounced against Asian currencies, with gains close to 2% over the period. Among Latin American currencies, appreciation was more moderate, around 0.6%, except for the Brazilian real and the Colombian peso, both supported by their status as net oil exporters.

## Stock Markets



	April change	Value as of Apr 30, 2026	Change in 2026	12-month change
<b>COMMODITIES</b>				
OIL WTI	0,6%	101,94	77,5%	75,1%
GOLD	-1,1%	4.617,85	6,9%	40,4%
<b>CURRENCIES (VS. USD)</b>				
EURO	1,5%	1,17	-0,1%	3,6%
LIBRA	2,9%	1,36	1,0%	2,1%
YEN	1,4%	156,59	0,1%	-8,6%
REAL	4,5%	4,96	10,5%	14,5%
<b>INDICES</b>				
S&P500	10,4%	7.209,01	5,3%	29,4%
FTSE100	2,0%	10.378,82	4,5%	22,2%
CAC	3,8%	8.114,84	-0,4%	6,9%
DAX	7,1%	24.292,38	-0,8%	8,0%
NIKKEI	16,1%	59.284,92	17,8%	64,5%
SHANGHAI COMP	5,7%	4.112,16	3,6%	25,4%
BOVESPA	-0,1%	187.317,64	16,3%	38,7%
MSCI ACWI	10,0%	1.077,10	6,2%	29,2%

\*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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