MACRO **PERSPECTIVE**

September 2026

bradesco asset management

GLOBAL SCENARIO Rate hike by the Fed amid global inflationary pressures

FED RATE HIKE

The global environment continues to be affected by inflationary pressures from various sources, particularly in energy and agricultural commodities. The renewed round of the US-Iran conflict has focused on attacks on vessels transiting the region and on pipelines, directly affecting the region's capacity to export crude oil and refined products. In addition, global supply has also been affected by damage to Russia's production, refining, and transportation infrastructure. As we have previously highlighted in this publication, beyond the elevated level of crude oil prices (which have once again surpassed the USD 100 per barrel threshold), particular attention should be paid to the price differential for refined products. At current prices, crude oil is up 75% year-to-date, while gasoline has risen 95% and diesel 135%.

EL NIÑO RISK

In agricultural commodities, the risk of the El Niño phenomenon has become a reality. Climate monitoring confirms an unusually strong warming of the reference Pacific region. Weather anomalies stemming from the phenomenon are already observable in several regions worldwide. Sugar is one example of an affected commodity, with prices up approximately 25% year-to-date amid concerns over the impact of El Niño on Asian production. In addition to the climate phenomenon, some disappointment with the US grain harvest and uncertainties surrounding Ukrainian exports have driven up prices for soybeans (25%), corn (15%), and wheat (a 40% increase year-to-date). Naturally, rising transportation costs stemming from fuel prices are also affecting the international agricultural market. In metal commodities, there are no significant recent pressures, though prices remain at elevated levels following the surge observed in 2025.

CONCERN REGARDING INFLATION

The result is that central banks' concerns regarding inflation remain in place. The European Central Bank implemented the previously signaled monetary policy adjustment, raising the policy rate from 2.00% prior to the oil shock to 2.50%. Although there is no *guidance* on forthcoming decisions, further hikes remain a possibility.

Regarding the Fed, the missing piece needed to clarify the US central bank's stance has been revealed. We argued last month that the absence of communication regarding the assessment of the inflation and activity backdrop represented an atypical situation. In his remarks at Jackson Hole, the Fed Chair filled this gap: activity remains firm, the labor market is tight, and inflation is broad-based and elevated—points that traditionally signal the US central bank's readiness to act.

OIL PRICE PRESSURE

The additional pressure from oil and its derivatives reinforces this stance. Recent data also tilted toward a rate-hiking cycle: robust job creation, an unemployment rate at historic lows, and the absence of clear disinflation toward the 2% target—a necessary condition to preclude a rate hike by the Fed. Accordingly, we now contemplate two rate hikes, which would take the benchmark rate from its current level of 3.6% to 4.1%. The risk asymmetry remains skewed to the upside.

BRAZIL OUTLOOK

Decelerating activity, with upside risks to current inflation

ACTIVITY SLOWDOWN AND ELEVATED INFLATION

Despite significant uncertainty surrounding key elements of the prospective macroeconomic scenario, we assess that we will likely contend for several quarters with a simultaneous backdrop of decelerating activity alongside still-elevated inflation. For the Central Bank, clearly communicating its strategy throughout this path will pose a challenge; however, we believe that the activity slowdown will be the fundamental ingredient sustaining the ongoing rate-cutting cycle even beyond the next meeting (September 16).

Regarding activity, we have long argued that three major vectors of influence should be considered: (1) the significantly tight stance of monetary policy; (2) the expansionary stance of fiscal and quasi-fiscal policy; (3) the credit cycle, which until recently was also expansionary. We must therefore account for opposing forces affecting economic activity, which precludes unreasonable conclusions such as "monetary policy is not having an effect" or "fiscal stimulus is not having an effect." The activity slowdown appears to be manifesting more effectively in the recent period. The primary hypothesis explaining this is that fiscal stimulus had a greater impact earlier in the year, given the concentration of expenditures and the reduction in the personal income tax. Additionally, the credit cycle has undergone an inflection since mid-year, although this has not been a homogeneous movement (mortgage credit remained particularly strong, jumping to a record level over the past two months).

MONETARY POLICY REMAINS RESTRICTIVE

Monetary policy also remained in a fairly restrictive position, even with the rate-cutting cycle initiated in March. The balance of forces has thus shifted toward monetary policy prevailing as fiscal stimulus loses intensity and the credit cycle reverses. Recent activity indicators reflect this deceleration trend. Industrial production showed a slight decline over the past two months (we should discount from the overall movement the drop in gasoline production, which was atypical during this period). The IBGE survey for the services sector also shows moderation in recent months.

In particular, we note the slight decline (-0.5%) in household-oriented services in June-July relative to the January-May average. The labor market remains tight, with the unemployment rate near historical lows and nominal income growth of approximately 8%. On the other hand, formal job creation, while still at elevated levels, exhibits a decelerating trajectory. Retail sales also show a slight decline at the margin. The inflection in credit conditions, particularly given the elevated level of household indebtedness, should keep consumer demand more stable even amid continued real income gains.

INFLATIONARY RISKS AHEAD

On the other hand, we identify upside risks to inflation over the coming months. On the food front, the El Niño risk has materialized, as noted above. For Brazil, the most immediate impacts should be felt in short-cycle food items (*in natura*). Within grains, the primary risk lies in the potential delay of second-crop corn planting in 2027, which could result in a significant decline in productivity. The renewed rise in oil and refined product prices will also pose a material challenge. Fuel subsidies and tax reductions are unsustainable as a medium-term policy and are therefore likely to be reversed in the coming months. There is also a lag between producer-set prices and international benchmarks. Absent relief in international diesel and gasoline quotations, pressure on domestic fuel inflation should emerge further ahead. Lastly, the implementation of the CBS (which will replace PIS/Cofins under the Tax Reform) should also result in a moderate increase in the tax burden. Details remain unknown, but the calculation methodology set out under the Reform points to some upward pressure on inflation early in the year.

IMPORTANCE OF THE EVOLUTION OF THE OUTPUT GAP

For monetary policy, the combination of decelerating activity and elevated current inflation always represents a challenge. Recent Copom communication, however, indicates that the emphasis is on the medium-term inflation projection. For this projection, the evolution of the output gap over time is more relevant than current inflation. Accordingly, we assess that the rate-cutting cycle will continue with 25bp steps. We have revised our year-end forecast from 13.75% to 13.25%, with sequential cuts across upcoming meetings. Fiscal and quasi-fiscal policy conduct in 2027 will, naturally, be highly relevant in determining the terminal rate of the current cycle. For now, our base case scenario stands at 11.75%.

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MACRO PROJECTIONS BRADESCO ASSET ECONOMICS

	2023	2024	2025	2026E	2027E
GDP (annual %)	3.0%	3.0%	2.0%	**1.9%**	**1.3%**
Inflation - IPCA/IBGE (% YoY)	5.0%	5.0%	4.0%	**5.1%**	**4.5%**
Inflation - IGP-M (% YoY)	-3.0%	7.0%	-1.0%	**5.0%**	**4.7%**
Selic (end of period)	12.00%	12.00%	15.00%	**13.25%**	**11.75%**
BRL/USD average	5.00	5.00	6.00	**5.13**	**5.08**
BRL/USD end of period	5.00	6.00	6.00	**5.05**	**5.10**
Current Account Balance (USD billion)	-27.0	-65.0	-67.0	**-59.8**	**-68.0**
Current Account Balance (% of GDP)	-1.0%	-3.0%	-3.0%	**-2.5%**	**-2.7%**
Primary Budget Balance (% of GDP)	-2.0%	0.0%	-1.0%	**-0.4%**	**-0.5%**
Net Public Debt (% of GDP)	60.0%	61.0%	65.0%	**69.4%**	**74.1%**
Gross Public Debt (% of GDP)	74.0%	76.0%	79.0%	**82.9%**	**86.8%**
Fed Funds (lower limit, end of period)	5.00%	4.00%	4.00%	**4.00%**	**4.00%**
Global GDP	3.3%	3.2%	3.3%	**2.8%**	**2.9%**

Sources: IBGE, BCB, MDIC, FMI and Bradesco Asset Management

COMMENTS ON THE PROJECTIONS

In the US, elevated inflation and recent signaling from the Fed chair point to a rate hike by the Fed in the second half of this year. In his remarks at the Jackson Hole Economic Symposium, Kevin Warsh noted that, in his assessment, inflation has shown no signs of cooling and that financial conditions remain accommodative rather than tight. Based on these remarks, we have revised our scenario from a hold to two rate hikes (September and December). It is worth highlighting the data dependency of this outlook and its interpretation by a notably divided committee. For 2027, we expect the policy rate to be maintained within the 4.00%-4.25% range.

The European Central Bank raised interest rates in September. Given the persistence of elevated energy prices, attention remains focused on the risks of pass-through to other prices. To date, second-round effects from the energy shock have not been observed. Nevertheless, the ECB's baseline scenario factors in elevated inflation over a prolonged period, which leads us to expect a further rate increase, bringing the policy rate to 2.75% by year-end. In addition, activity data have pointed to a broad-based recovery, returning to the pace observed prior to the conflict, prompting us to revise our GDP growth forecast upward to close to 1%.

China's 2026 GDP growth forecast was maintained at 4.7%, even as the supply-demand imbalance remains elevated. Data through July confirmed a significant slowdown in domestic consumption, while exports remained resilient, concentrated primarily in technology-related items and further supported by elevated prices.

Given the risks of not meeting this year's growth target - between 4.5% and 5.0% - we expect fiscal policy easing, with an increase in the disbursement of already approved resources.

In Brazil, we have revised our GDP growth projection to 1.9% this year and 1.3% in 2027. Second-quarter GDP reinforced the scenario of activity deceleration, with growth concentrated in sectors less responsive to monetary policy and a decline in household consumption. In this context, and already with initial data from H2 in hand, we now anticipate a smaller effect from credit stimulus measures this year, particularly in the vehicle and real estate sectors, which led us to lower our growth projection for the year. The slowdown is partially offset by a still-resilient labor market, with only incipient signs of moderation in formal job creation. For next year, the exhaustion of stimulus measures and the deceleration of credit amid high household indebtedness will more than offset the reduced degree of monetary policy contraction, and should lead to a GDP deceleration to 1.3%.

The inflation outlook continues to go through a more benign window in the short term, but with no changes to our forward-looking assessment. For this reason, we maintained our IPCA projections of 5.1% for 2026 and 4.5% for 2027. Recent readings continue to show more well-behaved current inflation, particularly the favorable dynamics of food prices and core measures, which have started running within the target range. Even so, we believe this scenario tends to be temporary. We continue to see upside risks concentrated in late 2026 and early 2027, mainly due to the expected reacceleration of food prices amid El Nino conditions and agricultural commodities already showing signs of greater pressure. In addition, seasonal factors should contribute to higher services inflation during this period. As a result, we expect both headline and core inflation to regain traction, peaking in the first quarter of 2027.

On the external front, we revised our FX projections, incorporating a higher probability of a broad fiscal adjustment in 2027. Given the increased probability of a broad fiscal adjustment in 2027, and the consequent reduction in domestic risk perception, we believe the Brazilian currency has room to continue appreciating. This more positive domestic scenario should more than offset the global strengthening of the US dollar amid the Fed's new rate hike cycle. In sum, we revised our year-end FX estimate from R$/US$ 5.10 to R$/US$ 5.05, and our 2027 estimate from R$/US$ 5.20 to R$/US$ 5.10.

With stronger growth, the government should deliver the primary result within the target range in 2026. Given the expectation of a contained deceleration in activity and higher net oil revenues, we lowered our central government primary deficit estimate from R$55 billion to R$49 billion. For target purposes, the government should end this year with a positive balance of R$15 billion, above the lower limit of the target, which is neutrality. In terms of debt, we project that the debt/GDP ratio will continue on an upward trajectory, reaching 82.9% of GDP. For 2027, however, the challenge of meeting the target remains, with an estimated primary surplus for target purposes of R$11 billion, approximately R$25 billion below the lower bound.

MARCELO CIRNE DE TOLEDO Chief Economist
marcelo.toledo@bradescoasset.com.br

DANIEL CASULA *daniel.casula@bradescoasset.com.br*

FABIANA D'ATRI *fabiana.datri@bradescoasset.com.br*

GIANCARLO RUGGIERO *giancarlo.ruggiero@bradescoasset.com.br*

HUGO RIBAS DA COSTA *hugo.costa@bradescoasset.com.br*

NICOLE TONGU *nicole.tongu@bradescoasset.com.br*

SARAH BRETONES *sarah.paula@bradescoasset.com.br*

THOMAS PIRES *thomas.pires@bradescoasset.com.br*

Tel: 11 3847-9171
economia@assetbradesco.com.br

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