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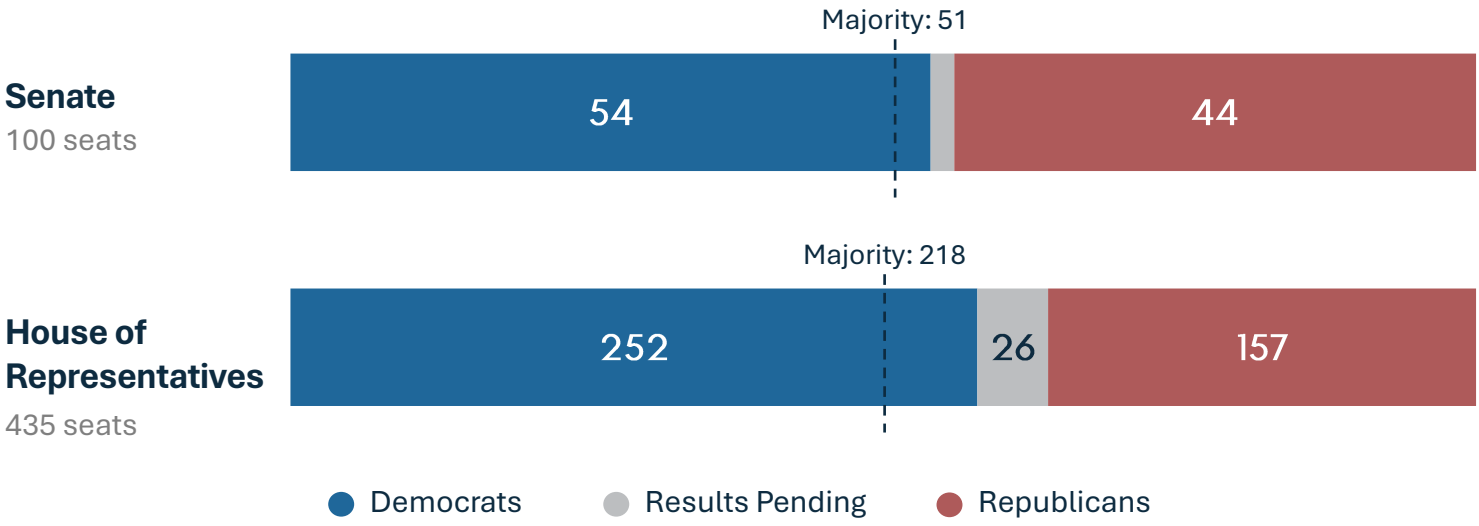
Economic Report

November
2026

Midterms

Affordability crisis favors a Democratic sweep

U.S. Congress 2026 Midterm Election Results, Number of Seats



Senate: Democrats include two independents who caucus with the party.

The midterm election results confirmed the "blue wave" anticipated by markets. Democrats regained control of both chambers of Congress, an outcome seen only five times in midterm elections since World War II. On the eve of the election, prediction markets had already assigned a probability of over 90% to Democrats taking control of the House and around 75% to a Democratic takeover of the Senate, amid the war in Iran and rising living costs.

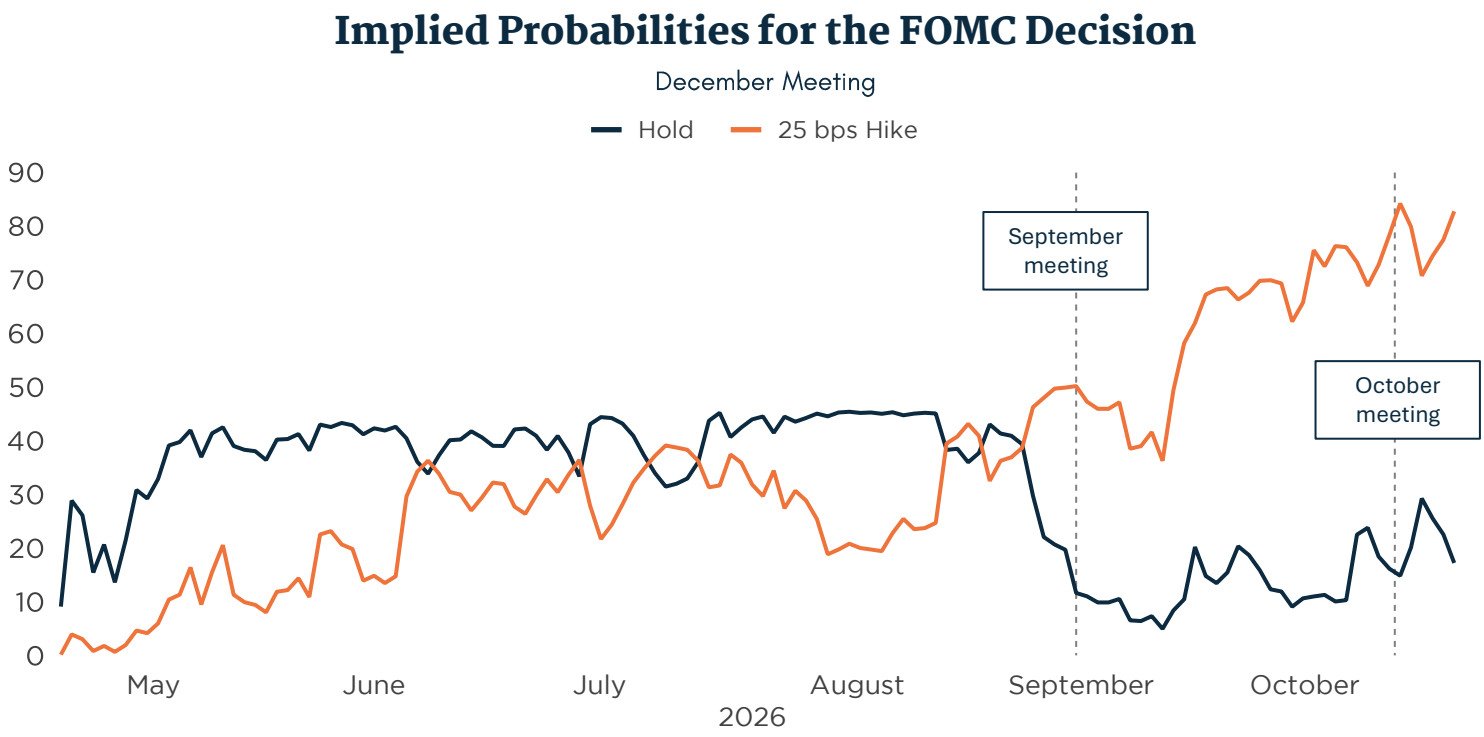
The chart shows the partial distribution of seats in each chamber, with the dashed line indicating the threshold for a simple majority. In the Senate, Democrats hold at least 54 seats, with results still pending in two states, after flipping seven Republican-held seats. In the House, Democrats have already secured a majority comfortably above the minimum threshold of 218 seats.

For Trump, the result brings forward a lame-duck scenario, which could prompt the president to accelerate legislative priorities requiring congressional approval before the new majority takes office. Despite the new composition of Congress, the Democratic majorities are still insufficient to override presidential vetoes or convict the president in potential impeachment proceedings.

Source: The Associated Press, Turim

Monetary Policy

Economic activity moderates as fewer policy meetings remain for interest rate decisions



As expected, the FOMC kept its policy rate unchanged at 3.75%–4.00% per year in October, marking its first pause following the 25-basis-point hike in September. The surprise came in the 10–2 vote: Beth Hammack once again voted for another rate hike, this time joined by Lisa Cook in her first dissent. The statement reinforced the data-dependent stance, making future policy decisions conditional on incoming economic data.

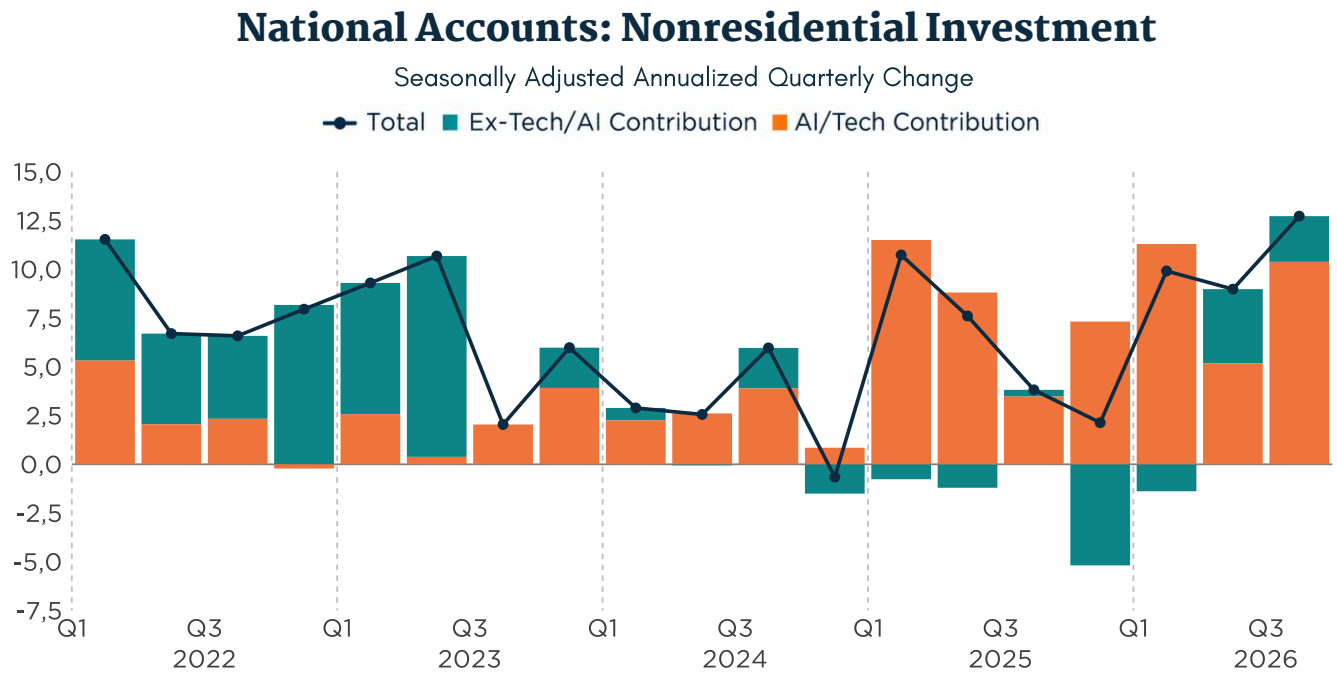
At the press conference, Warsh adopted a more dovish tone, stating that financial conditions appear to have become more restrictive and suggesting that he is already seeing the effects of the "new monetary medicine." He also announced that, starting in 2027, one of the eight annual FOMC meetings will be dedicated exclusively to strategy, with no interest rate decision, a format expected to be adopted at two meetings the following year.

Even so, as shown in the chart, markets continue to price in additional monetary tightening, with the implied probability of another rate hike in December exceeding 80%.

Source: CME Group, Turim

Activity

Private investment remains driven by AI capital expenditure



In the United States, GDP grew at an annualized rate of 3.4% in the third quarter, above the median forecast of 3.2%. Domestic absorption accelerated from 3.8% to 5.0%, but this increase was not fully reflected in GDP growth. Imports rose substantially, driven by demand for technology equipment, resulting in a negative contribution of 3.3 percentage points from net exports to growth.

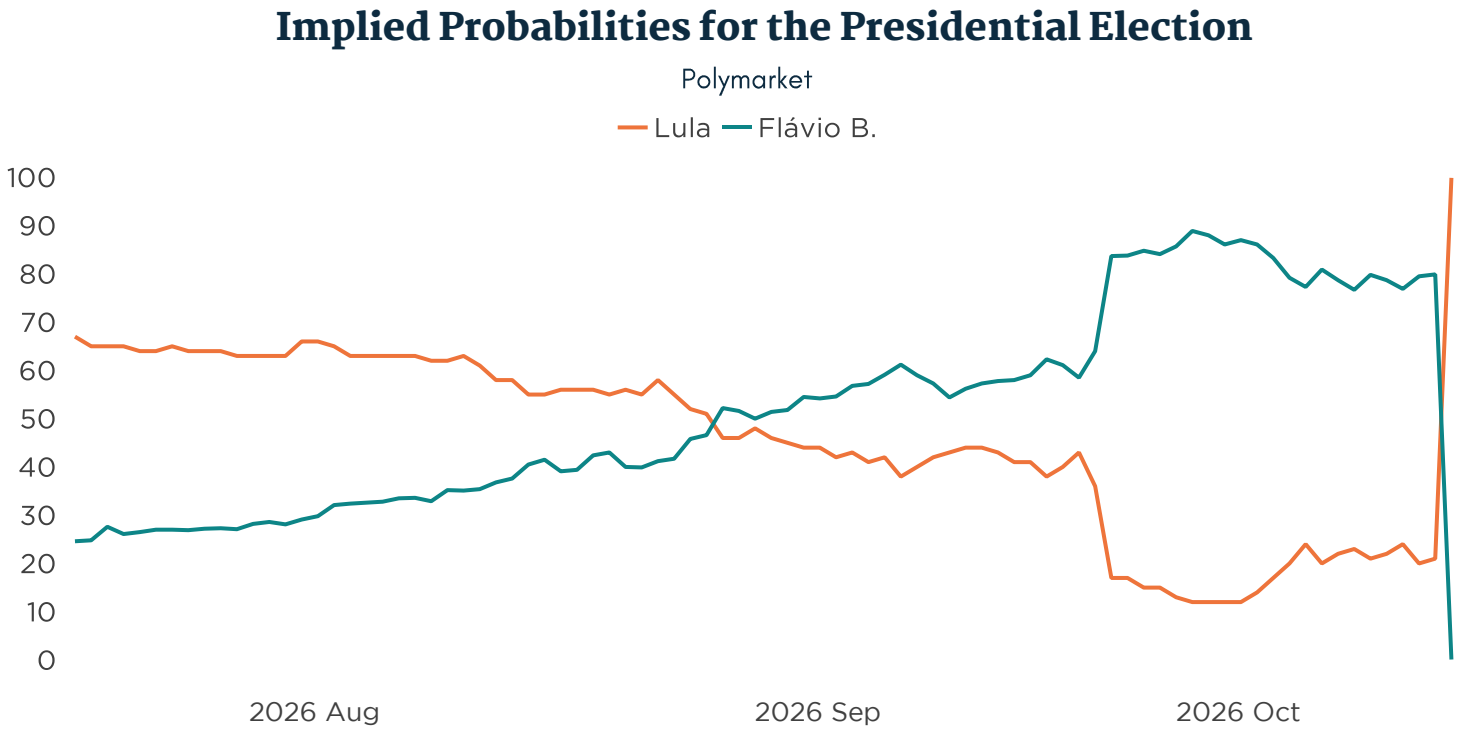
The main positive highlight was nonresidential private investment, which accelerated from 9% to 12.7%, the strongest increase outside the pandemic period since 2011. The expansion was led by information processing equipment, which grew by 37%, supported by the ongoing investment cycle in artificial intelligence.

The chart above illustrates the evolution of investment, separating technology- and AI-related segments from the rest. Since mid-2023, virtually all investment growth has come from AI-related segments, while the remainder has fluctuated around zero. This concentration in a single growth driver supports economic activity in the short term but also makes it more vulnerable to a potential reassessment of AI investment plans.

Source: Bureau of Economic Analysis, Turim

Elections

Lula gains support and overtakes Flávio Bolsonaro in the runoff



Lula won the runoff with 64.3 million votes (51.8% of valid votes), compared with 59.8 million for Flávio Bolsonaro (48.2%), becoming the first candidate since Brazil's return to democracy to overcome a first-round deficit. Polls had indicated a tighter race in the final stretch, but still showed Flávio in the lead.

The chart illustrates the magnitude of the surprise. Following the first round, the implied probability of a Flávio victory rose to nearly 80% in the days leading up to the runoff, before declining sharply as votes were counted.

Lula gained approximately 10.4 million votes between the two rounds, compared with 3.7 million for Flávio, increasing his vote total in every state, particularly in the South and Southeast. Of the 14 million additional votes, 9.3 million came from voters who had supported other candidates, 3 million from the decline in abstention, from 21.1% to 19.2%, and 1.8 million from the reduction in blank and invalid votes. Attention now turns to the economic policy agenda, including ministerial appointments and proposals for fiscal adjustment.

Source: Polymarket, Turim

Fiscal Policy

Lula faces major fiscal challenges in his fourth term

Primary Balance Required to Stabilize Gross Debt, % of GDP

Initial Gross Debt: 82.9% of GDP / Current Primary Balance: -0.5% of GDP (09/2026)

Real GDP Growth (% p.a.) ↓ \ Real Interest Rate on Debt (% p.a.) →	4,0%	4,5%	5,0%	5,5%	6,0%	6,5%	7,0%	7,5%
−0,5%	3,7%	4,2%	4,6%	5,0%	5,4%	5,8%	6,2%	6,7%
0,0%	3,3%	3,7%	4,1%	4,6%	5,0%	5,4%	5,8%	6,2%
0,5%	2,9%	3,3%	3,7%	4,1%	4,5%	4,9%	5,4%	5,8%
1,0%	2,5%	2,9%	3,3%	3,7%	4,1%	4,5%	4,9%	5,3%
1,5%	2,0%	2,5%	2,9%	3,3%	3,7%	4,1%	4,5%	4,9%
2,0%	1,6%	2,0%	2,4%	2,8%	3,3%	3,7%	4,1%	4,5%
2,5%	1,2%	1,6%	2,0%	2,4%	2,8%	3,2%	3,6%	4,0%
3,0%	0,8%	1,2%	1,6%	2,0%	2,4%	2,8%	3,2%	3,6%
3,5%	0,4%	0,8%	1,2%	1,6%	2,0%	2,4%	2,8%	3,2%
4,0%	0,0%	0,4%	0,8%	1,2%	1,6%	2,0%	2,4%	2,8%
4,5%	−0,4%	0,0%	0,4%	0,8%	1,2%	1,6%	2,0%	2,4%

Negative = primary deficit consistent with stable debt; positive = primary surplus required.

Lula's fourth term begins against a challenging fiscal backdrop. Gross general government debt reached 82.9% of GDP in September, its highest level since 2021, having risen by 4.3 percentage points in 2026 alone, driven by the differential between interest rates and economic growth. Without a change in trajectory, market consensus forecasts debt approaching 100% of GDP by the end of his term in 2030, while the Treasury projects a level slightly below 90%.

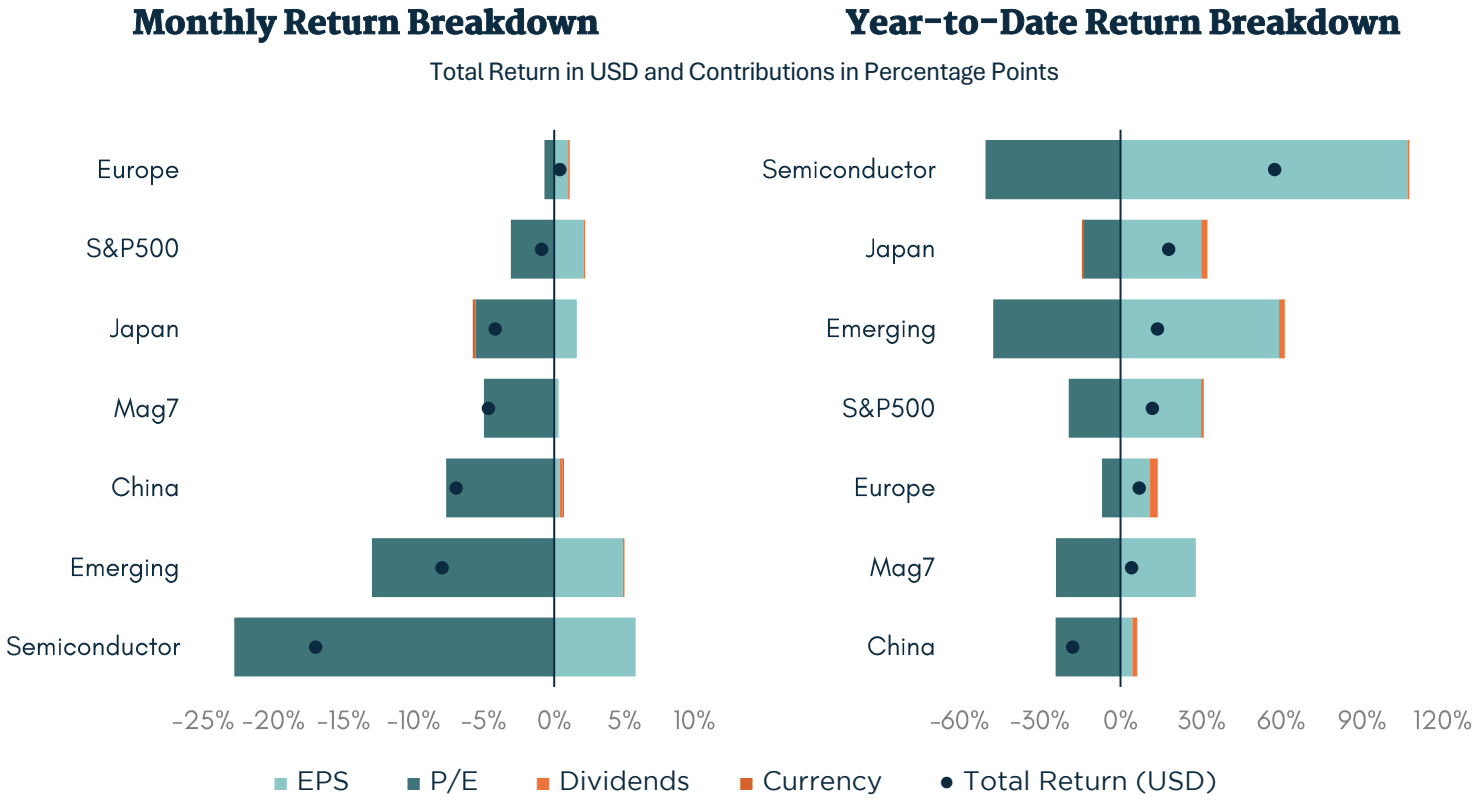
The challenge becomes greater as the debt burden increases: the larger the outstanding debt stock, the greater the fiscal effort required to stabilize it. The table above shows the primary balance needed to stabilize debt under different combinations of real GDP growth and real interest rates. Under the most likely scenarios, highlighted by the dashed outline, with growth between 1% and 2% and real interest rates between 5% and 7%, a primary surplus of 2.4% to 4.9% of GDP would be required, compared with the current deficit of 0.5%.

This highlights the need not only for a significant adjustment in the primary balance, but also for an improvement in fiscal credibility that would allow borrowing costs on government debt to decline.

Source: Turim

Equities

A month of corrections, particularly in the AI sector



October was a month of global correction for assets linked to artificial intelligence. The combination of higher interest rates, elevated oil prices, and concerns about returns on AI investments triggered a sharp decline in semiconductor stocks.

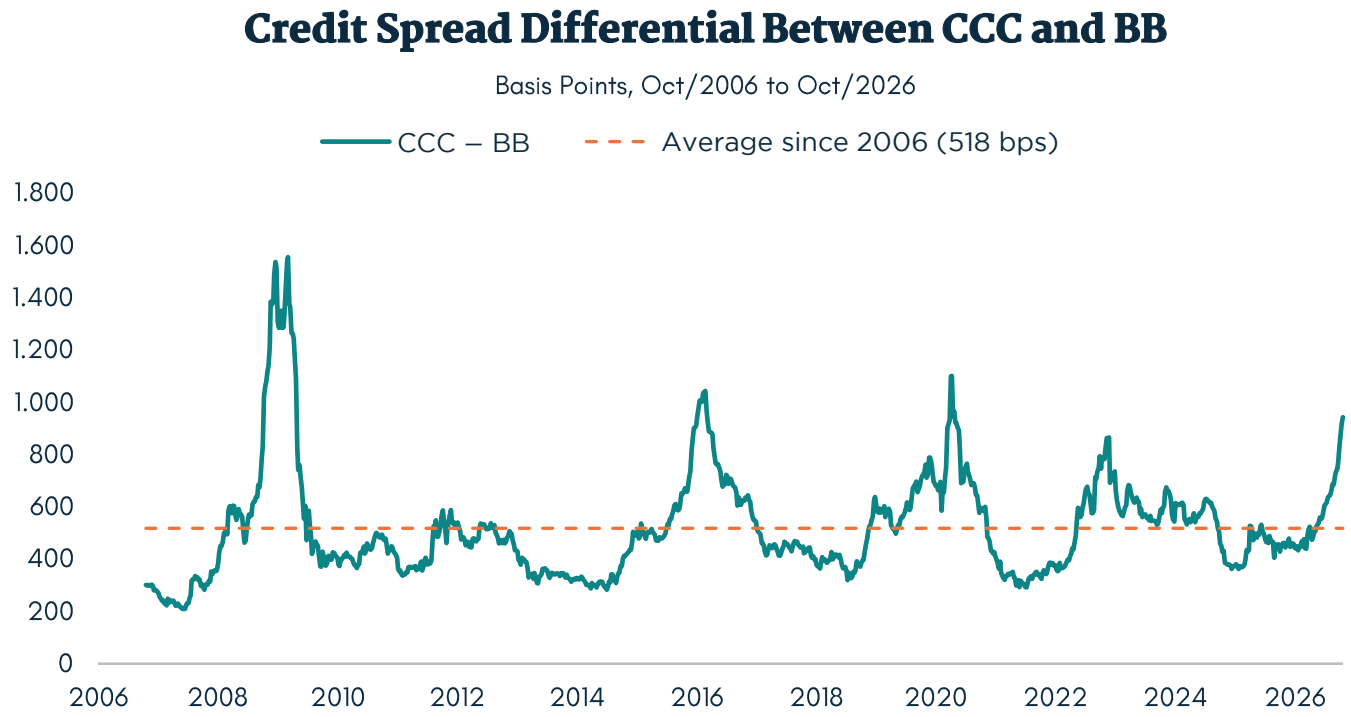
The charts break down each index's U.S. dollar return into earnings, valuation multiples, dividends, and currency effects. During the month, the semiconductor index fell 17%, with price-to-earnings multiple compression subtracting nearly 23 percentage points from returns, while earnings revisions contributed approximately 6 percentage points. The same pattern can be observed across emerging market equities, the Magnificent Seven (Mag7), and the S&P 500: declines were driven by multiple compression, while expected earnings continued to provide support.

Year-to-date, most indices continue to post substantial gains. Semiconductors lead with a 57% increase, although earnings growth accounts for over 100 percentage points of returns, offsetting approximately 50 percentage points of multiple compression.

Source: Bloomberg, Turim

Credit

Significant deterioration concentrated in CCC-rated bonds



One notable development over the past month was the widening of U.S. high-yield credit spreads, concentrated in CCC-rated bonds, the lowest credit-quality segment. Between the end of August and the end of October, spreads on these bonds widened by approximately 330 basis points, while those on BB-rated bonds, which now account for over half of the index, increased by just over 50 basis points.

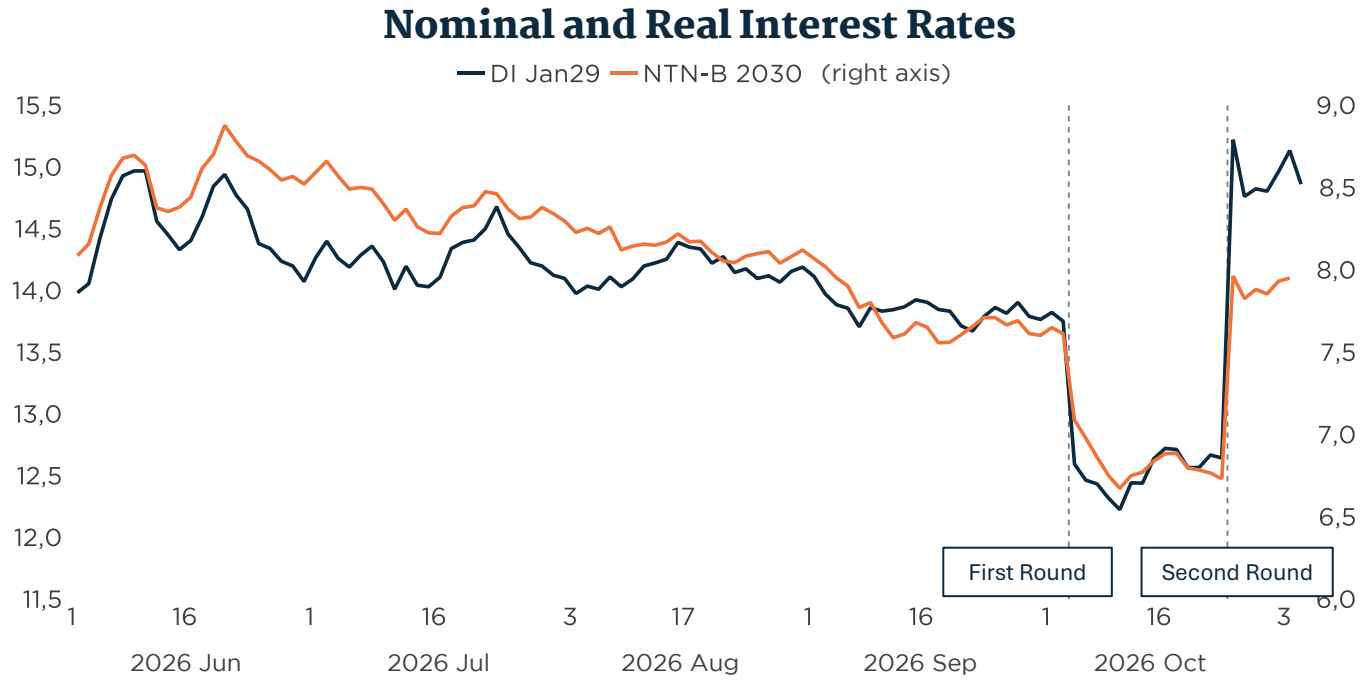
The chart above shows the spread differential between CCC- and BB-rated bonds, which rose to nearly 950 basis points, well above its historical average and the highest level since 2020. The ratio of CCC spreads to those of the overall high-yield market is at its highest level in three decades. However, a significant portion of the deterioration is concentrated among a small number of issuers, suggesting a more idiosyncratic rather than widespread move.

Asset managers attribute the deterioration to elevated leverage among certain issuers and investors in this segment, compounded by higher refinancing costs, with 10-year Treasury yields around 5%. So far, however, the widening has remained largely confined to CCC-rated bonds, with no significant spillover to the broader credit market.

Source: Bloomberg, Turim

Interest Rates

Sharp rise in yields in the first trading session following the election results



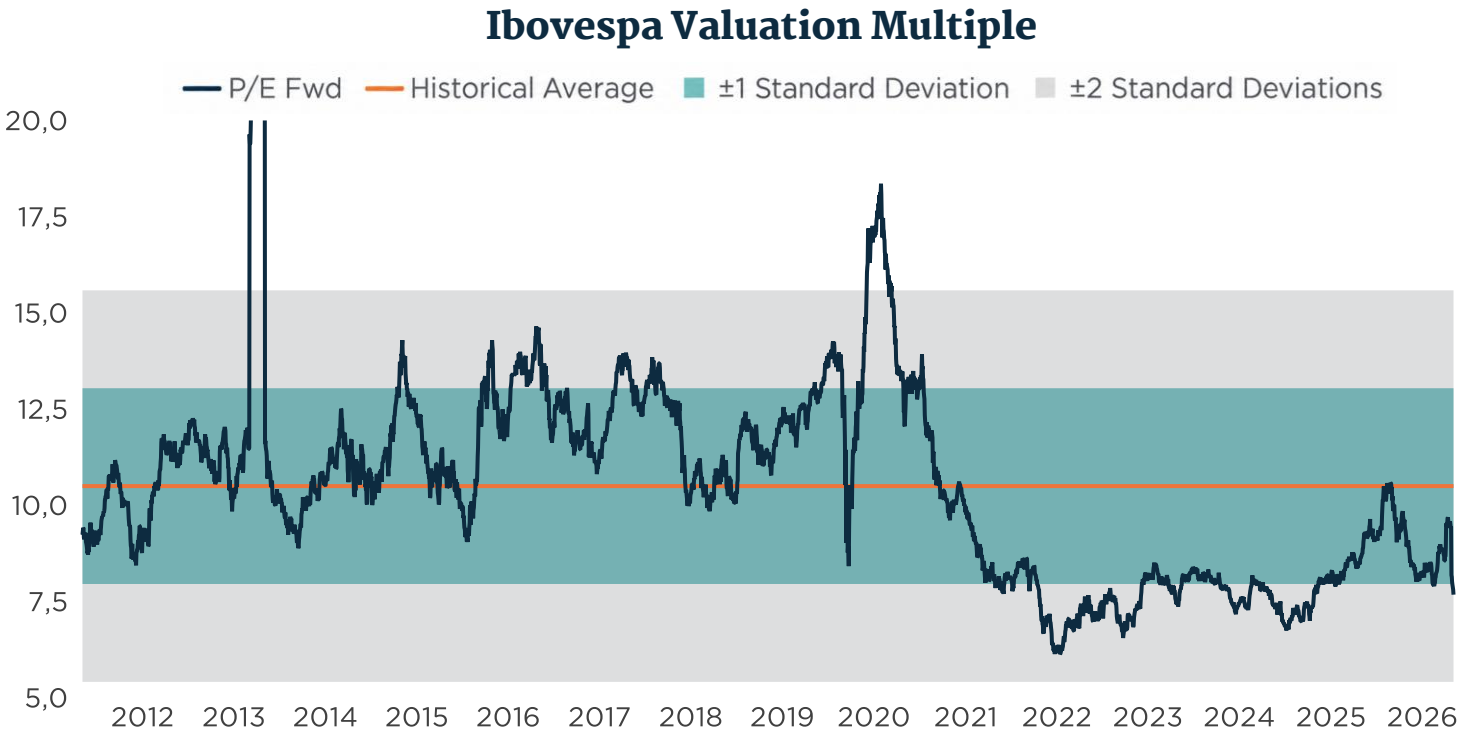
The first round of the elections triggered a sharp downward repricing of the yield curve. With Flávio leading and implied probabilities pointing to his victory, markets began assigning a higher probability to fiscal adjustment under the next administration. The January 2029 DI futures rate fell to around 12%, while the NTN-B 2030 real yield dropped below 7%.

The reversal in the runoff completely unwound this move, with the subsequent adjustment going even further. The chart above clearly illustrates the asymmetry: both yields declined significantly in early October, only to reverse their entire move in a single trading session on October 26, immediately following the runoff. The DI futures rate returned to nearly 15%, while real yields rose by over 100 basis points in some segments of the curve, including the NTN-B 2030, which climbed back to around 8%. The magnitude of these movements prompted B3 to trigger price fluctuation auctions across several contracts, while the Treasury repurchased approximately BRL 15 billion in government bonds.

Source: Bloomberg, Turim

Equities

Sharp negative reaction in the stock market as well



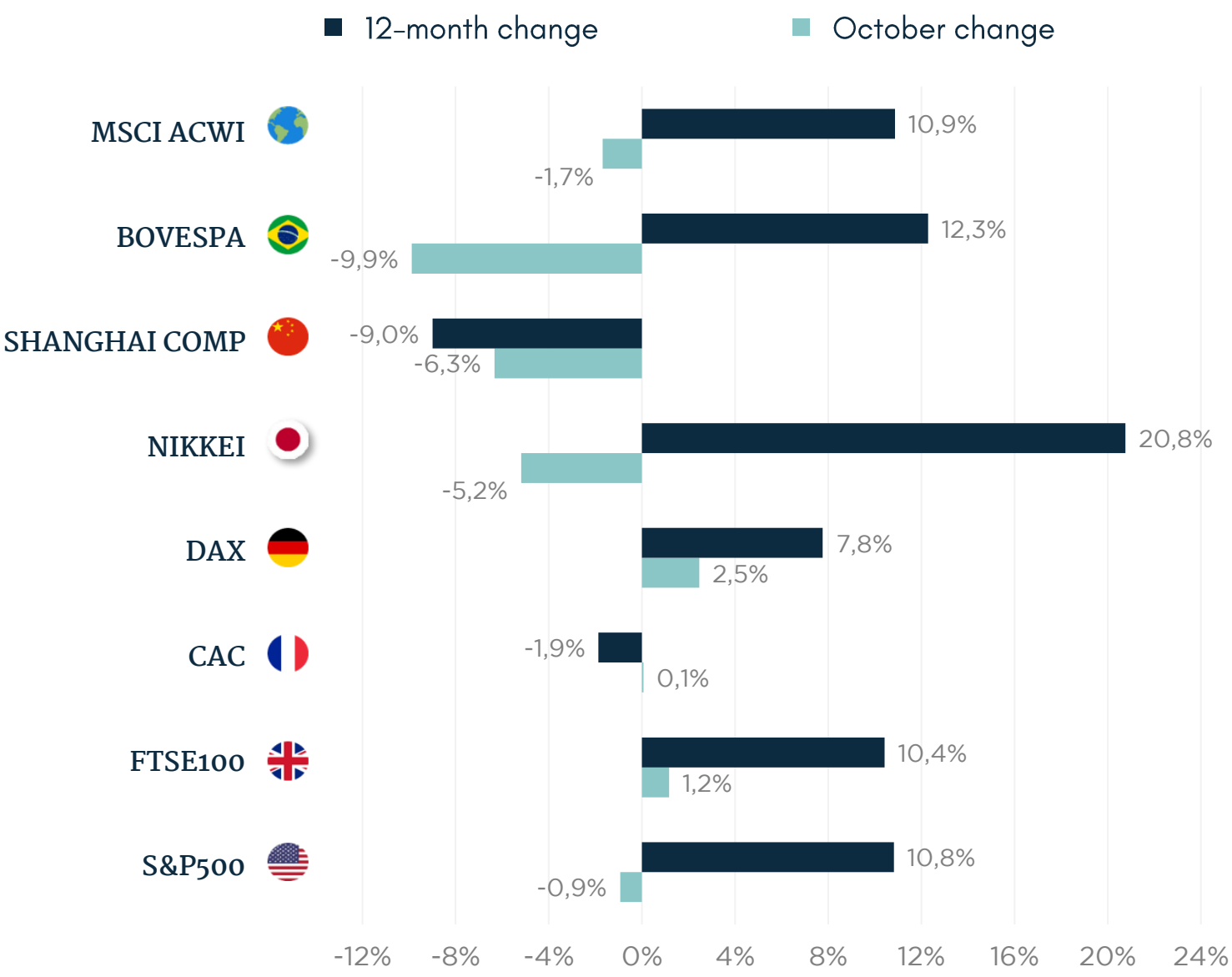
The repricing of fiscal risk was not limited to fixed income markets. On October 26, the Ibovespa fell 13.9%, its largest daily decline since March 2020, with a circuit breaker triggered shortly after the market opened. The small-cap index, which is more sensitive to domestic interest rates, plunged 26.9%, while the U.S. dollar rose by over 8% against the Brazilian real, reaching nearly BRL 5.40.

The exceptions were exporters such as Vale, Suzano, Embraer, and WEG, which benefited from the sharp depreciation of the real. The selloff erased the rally following the first round, when the Ibovespa had gained 7.7% in a single trading session.

Following the decline, Brazilian equities returned to significantly more discounted valuation levels, although they do not yet reflect extreme pessimism. The chart above shows the Ibovespa's forward price-to-earnings ratio, which fell to approximately 7.5 times, around one standard deviation below its historical average. Discounts are even more pronounced among domestically oriented stocks, with the small-cap index trading at approximately 1.5 standard deviations below its historical average.

Source: Bloomberg, Turim

Stock Markets



Source: Bloomberg

	October Change	Value on 31/10/2026	Change in 2026	12-month Change
COMMODITIES				
WTI CRUDE OIL	6.7%	96.46	68.0%	58.2%
GOLD	-6.8%	3,874.62	-10.3%	-3.2%
MOEDAS (EM RELAÇÃO AO US$)				
EURO	-1.5%	1.12	-5.0%	-3.3%
POUND STERLING	0.9%	1.34	-0.6%	1.8%
YEN	-0.1%	157.56	-0.5%	-2.3%
BRAZILIAN REAL	-4.8%	5.44	0.7%	-1.1%
ÍNDICES				
S&P500	-0.9%	7,580.07	10.7%	10.8%
FTSE100	1.2%	10,729.78	8.0%	10.4%
CAC	0.1%	7,969.42	-2.2%	-1.9%
DAX	2.5%	25,818.21	5.4%	7.8%
NIKKEI	-5.2%	63,290.11	25.7%	20.8%
SHANGHAI COMP	-6.3%	3,599.02	-9.3%	-9.0%
BOVESPA	-9.9%	167,921.80	4.2%	12.3%
MSCI ACWI	-1.7%	1,115.55	9.9%	10.9%

*Figures and results presented in local currency

Source: Bloomberg

Disclaimer

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