The Investment Institute
by UniCredit

Coffee Break

Coffee Break is our daily publication, offering topical insights as an intellectual ingot to start the day.

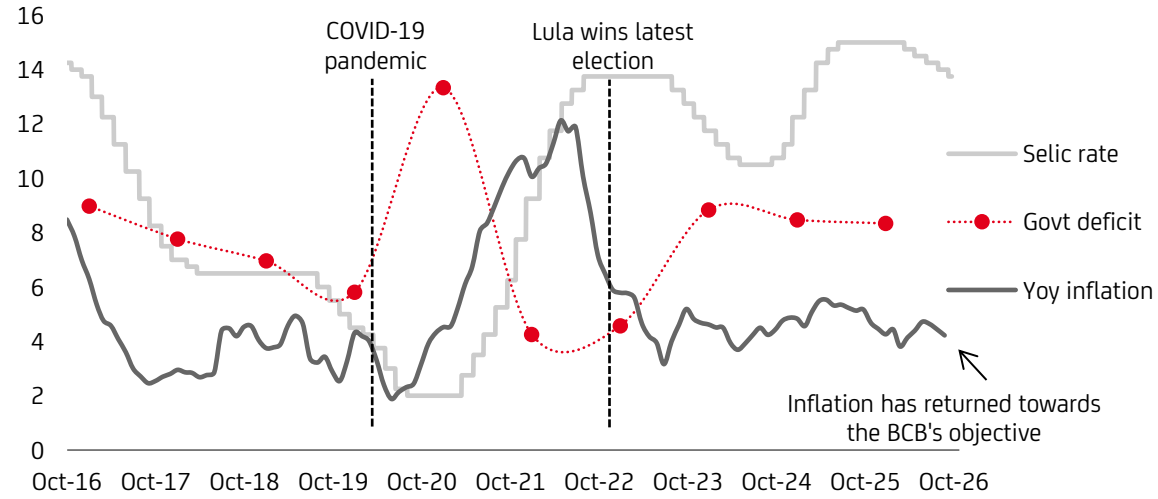
Brazil elections kick off a busy political autumn

1 October 2026

The narrow gap between Lula and Bolsonaro and the geopolitical and geoeconomic implications of the upcoming presidential and general elections make this event one of the most important this autumn.

BRAZIL AMID HIGH INFLATION AND WEAKENING FISCAL METRICS

INFLATION (%), MONETARY RATE (%) AND GOVERNMENT DEFICIT (% OF GDP)



Source: Bloomberg, The Investment Institute by UniCredit

THE CONTEXT

On Sunday, voters in Brazil will head to polls for the first round of the presidential elections, with the second round taking place on 25 October. Brazilians will also vote to elect state governors and members of the National Congress. The two favourites are undoubtedly the incumbent president Luiz Inácio Lula da Silva of the Workers' Party and Flávio Bolsonaro, leader of the Liberal Party and son of the 38th president Jair Bolsonaro (2018-2022). Polls indicate that Lula's lead against Bolsonaro has been shrinking over the last few months, and most polls place the two candidates within the margin of error in a potential second round between them. Interestingly, according to Polymarket, Lula has more chances of winning the first round, while Bolsonaro is more likely to win the second round and be elected president. This, i.e. coming in second in the first round and winning the second round, has never happened under the current electoral system. Given the narrow margin between the two candidates, competition is set to remain fierce ahead of the likely second round.



THE DATA

Whoever wins the upcoming elections will face significant challenges. In the past few years, Brazil has underperformed other Latin American countries, weighed down by external factors, such as the falling demand for some exported goods, and domestic institutional instability. Fiscal measures aimed at fostering demand have had little impact in terms of growth, rather leading to high inflation and weaker fiscal metrics. Loose fiscal policy (the deficit has been above 8% in the past few years) and the government's involvement in the country's largest companies have reduced foreign investor appetite for Brazilian government bonds and stocks.

On a positive note, yoy inflation has mostly been below 4.5% over the last few months, within the tolerance range of the central bank (1.5-4.5%). This has allowed the Central Bank of Brazil to lower its key rate by more than 100bp so far this year. Despite the recent moves, monetary rates remain much higher than in other Latin American countries, resulting in more elevated financing costs for the government and for corporations.



OUR VIEW

The upcoming elections in Brazil will represent an important moment for a country that has lagged behind peers despite being rich in natural resources, some of them crucial in today's economy. But the electoral round will also determine the role of the country on the geopolitical chessboard. A Bolsonaro victory would likely align Brazil with Washington, which, under the new Monroe Doctrine, views the Western Hemisphere as a key area of influence. On the other hand, a Lula re-election would likely maintain the country's multilateralism and reaffirm close relations with China, which could weaken the relationship with the US (see our Long View – Brazil elections amid US-China rivalry in the Western Hemisphere for more details on the potential market impact of the upcoming elections).

Hence, the elections in Brazil should be viewed from a broader perspective, considering the ongoing US-China rivalry and the global competition for natural resources. This autumn is set to be an intense period in terms of political events, as the elections in Brazil precede elections in Israel (27 October) and the US (midterms, 3 November). Politics is therefore set to be back in the driver's seat during the next few months.

TODAY'S DATA RELEASES

Time (CET)	Country	Data	Period	UniCredit	Consensus	Previous
09:45	IT	Manufacturing PMI (index)	Sep	49.3	-	49.6
16:00	US	ISM Manufacturing Index	Sep	-	55.0	54.6

Source: Bloomberg, The Investment Institute by UniCredit

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