

April 2026

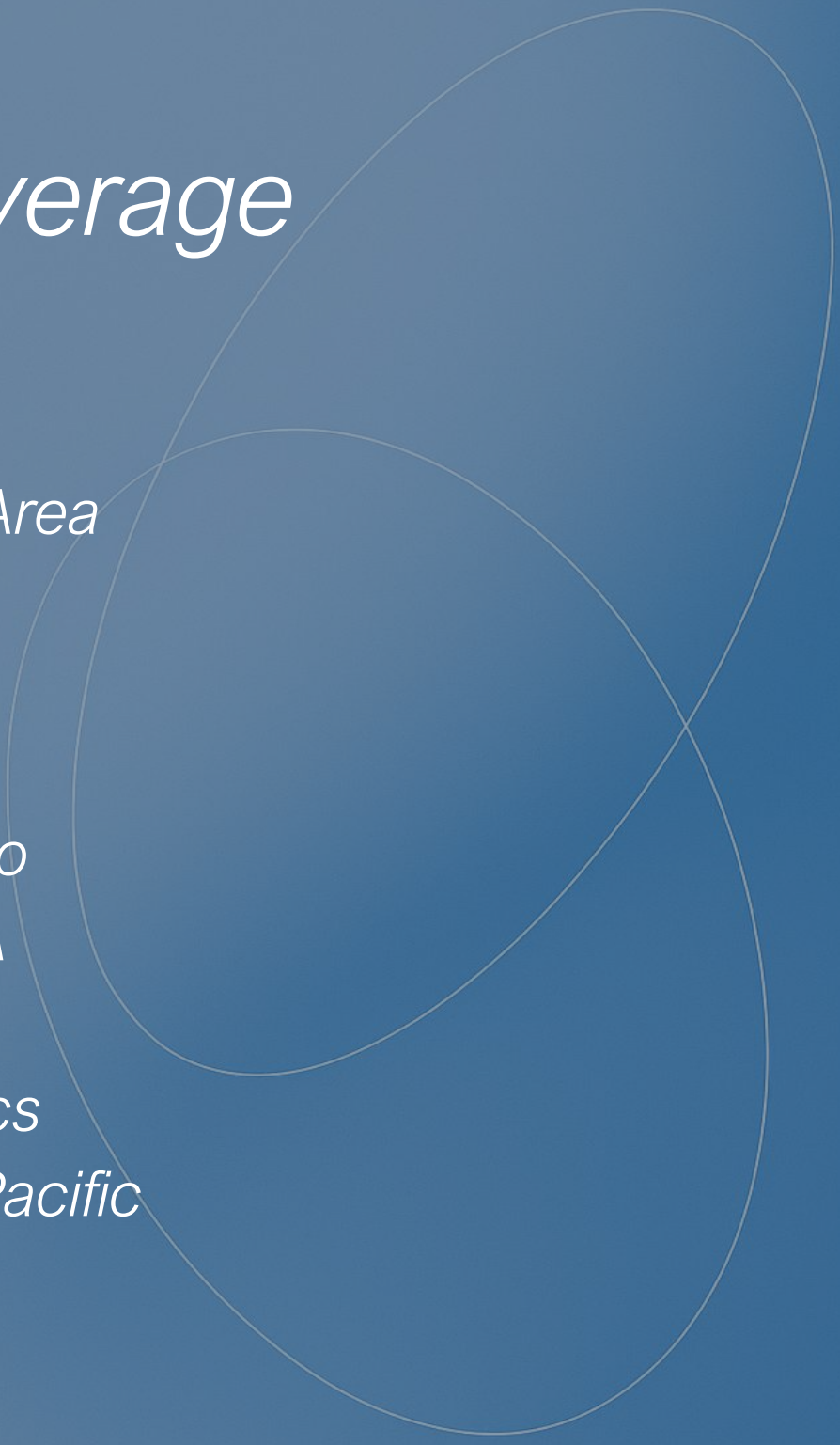
Monthly Newsletter

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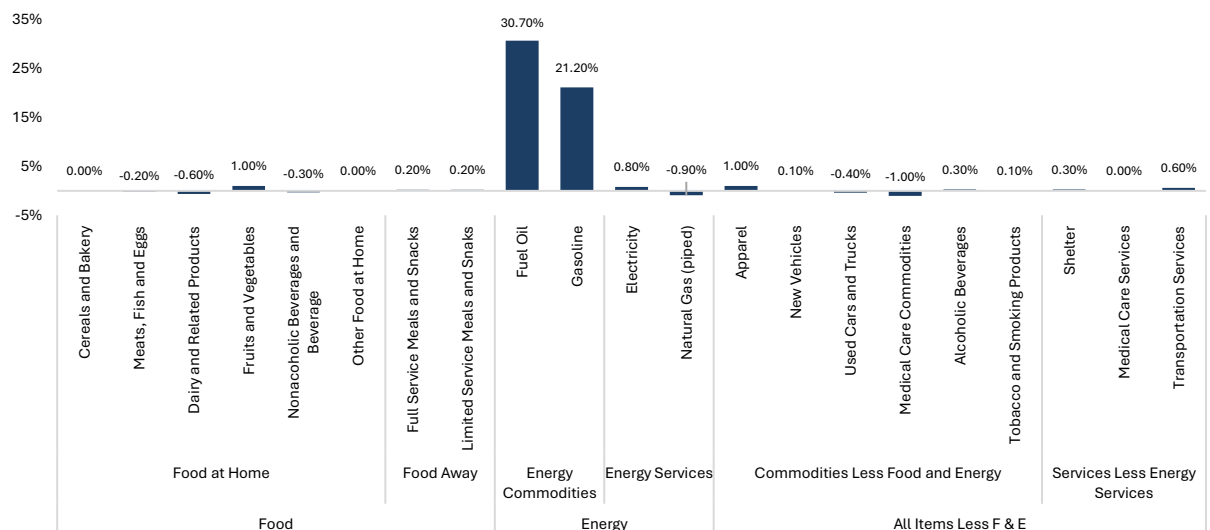
Consumer Price Index

Consumer Price Index (CPI) for February was in line with economists' expectations, showing a 0.3% MoM seasonally adjusted increase and 2.4% over the last twelve months. Looking at the 12-month percentage change, the main driver among the major categories was the 3.1% rise in Food, resulting from a 2.4% increase in Food at Home and a 3.9% gain in Food Away from Home. The Energy category rose 0.5%, driven by a combination of a 5.2% decline in Energy Commodities and a 6.3% increase in Energy Services. All Items Less Food and Energy increased 2.5%, led by a 1.0% gain in Commodities Less Food and Energy and a 2.9% rise in Services Less Food and Energy.

For March, the scenario changed drastically due to current oil disruptions in the Strait of Hormuz. The 12M percentage change reached 3.3%, while the MoM figure climbed 0.9% from February - a significant jump from the previous month. Looking again at the 12-month change, the main driver among major categories was Energy, which surged 12.5%, driven by energy commodities - especially fuel oils, which spiked to 44.2% - while energy services stood at 5%, though they are expected to rise sharply in the coming month as companies pass through price increases. The Food category increased 2.7%, with Food at Home slowing to 1.9% from the previous month and Food Away from Home remaining largely unchanged at 3.8%. All Items Less Food and Energy rose 2.6%, also down from February, led by a 3.0% gain in Services Less Food and Energy and a 1.2% increase in Commodities Less Food and Energy.

When looking at the monthly change from January to February, the scenario differs. The main driver of the 0.3% increase was Energy, at 0.6%, supported by a 1.1% rise in Energy Commodities and partially offset by a 0.2% increase in Energy Services. Food rose 0.4%, with Food Away from Home and Food at Home increasing by 0.3% and 0.4%, respectively. All Items Less Food and Energy showed the smallest rise among the major categories, at 0.2%, driven by a 0.1% increase in Commodities Less F & E and a 0.3% gain in Services Less Food and Energy.

Figure 1
CPI Index Mar-Apr – MoM (% change)



Source: US Bureau of Labor Statistics

The monthly change from February to March, however, tells a concerning story for US consumers. The main - and almost sole - driver of the 0.9% increase was Energy, at 10.9%, driven by a significant 21.3% surge in Energy Commodities due to the ongoing crisis in the Strait of Hormuz, and only slightly offset by Energy Services, which have not yet fully passed higher energy costs on to consumers but are expected to do so in the coming months. Food remained largely unchanged, as a 0.2% decline in Food at Home was offset by a 0.2% rise in Food Away from Home. All Items Less Food and Energy showed similar values to February, with a 0.1% increase in Commodities Less Food and Energy and a 0.2% gain in Services Less Food and Energy.

Producer Price Index

Producer Price Index (PPI), however, was far from the consensus expectations of a 0.3% increase in February, reaching a 0.7% change for the month, while core PPI rose by 0.5%. The Goods major category rose by 1.1%, led by both astonishing increases in Food and Energy, at 2.4% and 2.3%, respectively, while Goods Less Food and Energy lagged the steep increase, rising only 0.3%. Services rose by 0.5%, with balanced gains in its three subcomponents. The unexpected value suggests persistent inflation within the production pipeline, notably in vegetables and fruits, which will potentially weigh on March's CPI, as producers pass on price increases, combined with increasingly high fuel costs caused by the war in Iran.

Economic Activity

March Manufacturing PMI climbed to 52.4, up from 51.6 in February, in the opposite direction to market expectations of 51.3, signaling accelerating expansion in the sector. The result was driven by a pickup in production growth, while new orders saw their strongest rise since October 2025, supported by stabilizing export demand after eight months of decline. Firms also reported easing tariffs and stockpiling due to fears of a prolonged war in the Middle East. In line with the positive PMI outlook, business confidence reached a 13-month high, as a result of reduced tariff concerns and a stronger internal demand outlook. This is also in line with advanced retail data for February, which climbed 0.63% from the previous month.

Payroll data came in below expectations in February, generating mixed views on the economy's health. Nonfarm payroll employment edged down by 133,000 in February, while the unemployment rate changed little at 4.4%. Strike activity in health care, added to a continued downtrend in information and government employment, were the principal causes of the decline and highlighted the continuing importance of health care employment in total payroll. Health care employment decreased by 28,000, following a large increase in January of 77,000. Information

continued to trend down (-11,000), as did federal government employment (-10,000), contributing to the 330,000 jobs lost since October's shutdown (11% of the total workforce). Transportation and warehousing saw a small decline in the month (-11,000), after a prolonged downtrend since February 2025.

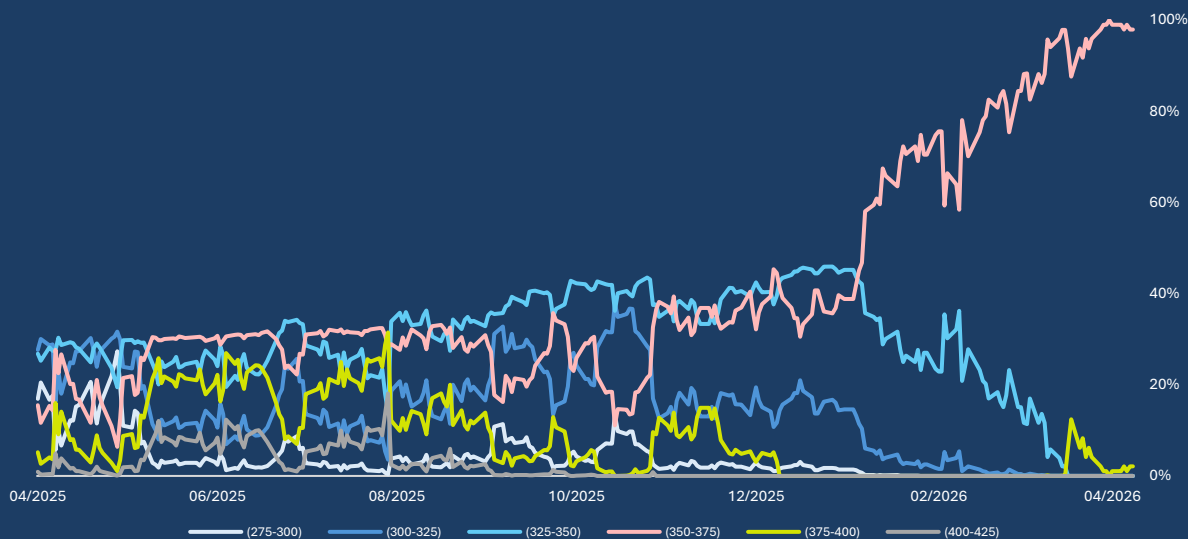
Despite fears of a prolonged employment downturn, March's payroll data showed a setback from the previous month, with the economy adding 178,000 jobs, while the unemployment rate remained broadly unchanged at 4.3%. The main gains occurred in health care, construction, and transportation and warehousing, while federal government employment continued to decline. Health care employment added 76,000 jobs, recovering from February as physicians' strikes ended. Construction employment grew by 26,000, while transportation and warehousing offset losses from the previous month, adding 21,000 jobs - though still down by 139,000 jobs since its peak in February 2025. Employment in social services continued its upward trend (+14,000), whereas federal government employment declined by a further 18,000. Additionally, financial activities edged down by 15,000 jobs, adding to the 77,000 jobs already lost since its peak in May 2025.

Interest Rates

Regarding interest rate decisions, after months of expected rate cuts by investors, the scenario has abruptly shifted toward maintaining the current rate or even potential hikes until the end of the year. The war in Iran has played a major role in this market shift due to fuel supply chain disruptions, which are already triggering inflation increases across many sectors of the economy.

For now, futures on Fed's Funds rate are pricing a 97.4% chance of no change (350-375 bps) and a 2.6% chance of a 25-bps hike in the target rate for the next FOMC, which will take place on April 29. Looking at the end of the year, the market still prices in potential rate cuts, but with more caution (23.7% probability), while maintaining the current level is the most probable outcome seen by market participants (74.2% probability).

Figure 2
Target Rate Probability History for FOMC on 29 Apr 2026



Source: Bloomberg

The War and Financial Markets

The War in the Middle East is presenting challenges for economies and markets worldwide. Supply chain disruptions in fuel supply and fertilizers pose a major threat to the US economy that, despite being a net fuel exporter, is heavily dependent on oil from the Gulf, as well as fertilizers. Additionally, inflation is already weighing on consumers' pockets with gas prices across all states already up more than 60% on average, which has brought President Trump's voter approval to below 40% for the first time.

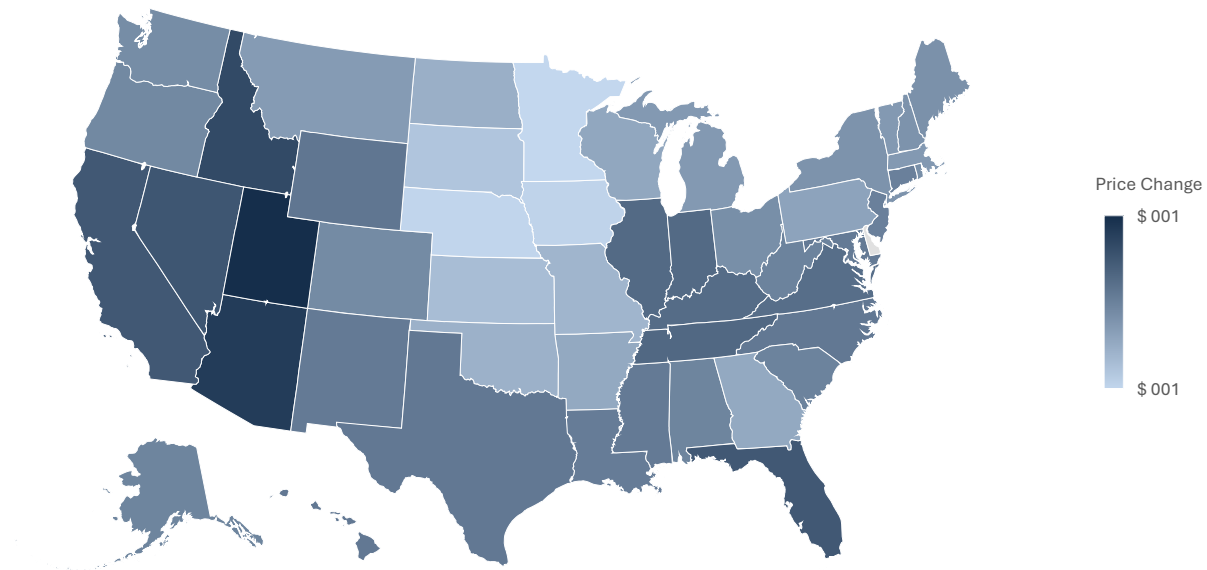
As the war extends for over a month, the efforts made by the White House to depose Mojtaba Khamenei, the current Supreme Leader of Iran, and to take control of the Strait of Hormuz have been in vain. Allies from Europe and Asia have mostly declined to support the US incursion with direct military action, even though the UK and others have helped by allowing US troops to use their bases locally. With all that and mid-term elections approaching, Trump has declared on the 1st of April that the military action should be finalized within the next 2 to 3 weeks, as Iran's military has been mostly neutralized, as well as its nuclear program – that would take at least 20 years to reconstruct, in his words.

A two-week ceasefire was implemented on April 8th in order to advance peace talks. Despite these efforts, both sides failed to reach an agreement regarding Iran's uranium enrichment objectives. Vice President JD Vance - who had remained largely silent during the conflict due to prior opposition to it - acted as the main US mediator in Islamabad, Pakistan, where peace negotiations were being held.

As a result, the US government announced a blockade on any vessel leaving or intending to travel to an Iranian port. This measure aims to restrict the international fuel market from financing Iran, as the US increases pressure on the Iranian government to ensure free passage through the Strait of Hormuz. Recent estimates have shown that Iran shall lose up to \$400 million a day from this action alone, without considering the impact of potential delivery rerouting. Currently, more than 15 US Navy ships are enforcing the restriction, preventing vessels linked to the regime from transiting the strait. Despite rising tensions, the two-week ceasefire remains in place.

Markets, because of all the political and economic uncertainty, have performed poorly in the last month. Fears of prolonged high interest rates, carried by persistent high inflation, added to increasing defaults and redemption requests in private credit led the NYSE Composite index to drop more than 5% this month, S&P 500 to fall approximately 4.5% and the NASDAQ Composite to lose close to 4%.

Figure 3
Change in Average Price per Gallon of Gas Over the First Month of the Conflict



Source: Bloomberg, Bing-Microsoft

Euro Area

Monetary Policy

On the 19th of March, the European Central Bank held its Governing Council meeting, deciding to keep the three key ECB interest rates unchanged. The deposit facility rate remains at 2.00%, the main refinancing operations rate at 2.15%, and the marginal lending facility at 2.40%. The decision landed as a pause in what had been a cutting cycle throughout 2025, caused by the Middle East War.

Coming into the March meeting, the most recent available data painted a relatively positive picture of the euro area economy. GDP grew by 0.2% in Q4 2025, with Spain leading at 0.8%, Germany and Italy each growing 0.3%, and France posting a modest 0.2%. The composite PMI improved to 51.9 in February 2026, with services leading the expansion and manufacturing sentiment turning positive for the first time since 2022. A rate cut in March had been expected, but the middle east situation changed ECB decision paths. The Governing Council stated that the conflict has made the outlook significantly more uncertain, increasing the likelihood of higher inflation and weaker economic growth. The ECB updated its staff projections accordingly. GDP growth for 2026 was revised down by 0.3 p.p. to 0.9%, reflecting the war's impact on commodity markets, real incomes and confidence. Inflation for 2026 was revised up to 2.6%, from 1.9% projected in December, entirely because of higher energy prices, caused by the conflict. The ECB described these projections as a baseline, and conducted scenario analysis suggesting that a prolonged disruption in the supply of oil and gas would result in inflation above and growth below even these already-revised figures.

The Governing Council was explicit about next decisions, as it will follow a data-dependent and meeting-by-meeting approach, and is not pre-committing to a particular rate path. In practice, this means the door remains open in both directions. If the war proves short-lived and energy prices retreat, cuts could resume. If the energy shock deepens and second-round effects happen through wages and broader prices, the ECB may need to hold for longer than markets had anticipated.

Price Developments

Inflation in the euro area had been behaving well heading into March. The headline rate stood at 1.9% in February, up from 1.7% in January, with core inflation (excluding energy, food, alcohol and tobacco) at 2.4%. Services inflation, the stickiest component, came in at 3.4%. Energy prices were still negative at minus 3.1% year-on-year in February, acting as a drag on headline inflation and keeping it broadly in line with the ECB's 2% target.

Coming into March, according to Eurostat's flash estimate, euro area headline inflation jumped to 2.5% in March, its highest level since January 2025. This was caused by energy prices, which swung from minus 3.1% in February to plus 4.9% in March, a turnaround that captured the first full month of energy price pressures from the Middle East conflict. Core inflation remained mostly stable, confirming that the acceleration was energy-driven rather than other underlying pressures, at least for the moment.

On wages, compensation per employee grew at 3.7% in the fourth quarter of 2025, down from 4.0% in the third quarter. The ECB's own wage tracker and forward survey indicators suggest labour costs will ease further through 2026, which should support the return of inflation to target over the medium term.

The risk the ECB is watching is whether the energy shock will have effects on wages and other price-setting behaviors, as it did during the 2022 energy crisis. That is what kept inflation elevated for years, and it is what they are determined to prevent from repeating.

Middle East War and the ECB

The war in the ME sits at the center of the ECB's March decision. Unlike most geopolitical events that central banks acknowledge as background risk, this one altered the staff projections, the rate decision, and forward steps at once.

The euro area is heavily exposed to energy price shocks. The region relies heavily on energy importation and its weight on the inflation basket means that any continuous increase in oil and gas prices reflects quickly on consumer prices. The ECB's scenario analysis showed that under a prolonged disruption to oil and gas supply, inflation would come in above the baseline and growth below it, with the magnitude depending on how persistent the shock proves and how strongly second-round effects materialize.

Financial markets reacted rapidly, showing tight overall financial conditions since the February meeting, with stock markets falling and short-term market interest rates rising. The ECB flagged that a spike in financial market uncertainty translates into higher funding costs for banks and firms, adding another channel through which the conflict weighs on growth. President Christine Lagarde was explicit about the ECB's commitment ahead of the meeting, "I can assure you that we will do everything necessary to keep inflation under control and to ensure that Europeans do not experience inflationary increases like those we saw in 2022 and 2023." she said.

The path forward depends almost entirely on how this conflict evolves. The ECB next meeting will indicate if this pause holds or whether the energy shock will force complicated decisions on inflation and growth.

Japan

Monetary Policy Release

On the 19th of March, the Bank of Japan held the Monetary Policy meeting setting the guidelines for money market operations. The BOJ closed March with rates on hold at 0.75%, passed by an 8-1 majority vote and landed with minimal market surprise.

This meeting also revealed a central bank facing growing internal pressure and navigating an increasingly complicated external environment. The only dissent came from board member Takata Hajime, who voted to raise rates immediately to 1.0%, arguing that the 2% price stability target had already been met and that risks to inflation were skewed to the upside rather than the downside. Two other board members registered formal objections to specific language in the inflation outlook, with Tamura Naoki contending that underlying inflation was already consistent with the 2% target from the start of the fiscal year (2026). Now, with the internal debates growing, the question that stands is no longer whether to hike rates further, but when to do so.

Inflation

The board's assessment of the economy was relatively constructive. Japan's economy has been recovering moderately, corporate profits remain at high levels, business fixed investments is on an increasing trend, and private consumption has been resilient against the background of an improvement in the employment and income situation, although it has been affected by price rises.

Headline CPI (consumer price index) fell to 1.3% year-on-year in February, while core CPI (consumer price index – all items less fresh food) came in at 1.6%, its lowest reading since March 2022 and below the central bank's 2% target. This slowdown was largely driven by government subsidies on energy and gas prices, trying to cushion the blow from rising prices, and easing the pressure on living costs.

What the headline numbers conceal is what the producer price data reveals. Japan's PPI re-accelerated to 2.6% in March, up from 2.1% in February, topping market expectations of 2.4%. The divergence between falling consumer prices and rising producer costs is the central tension the BOJ is navigating.

The Middle East Dimension

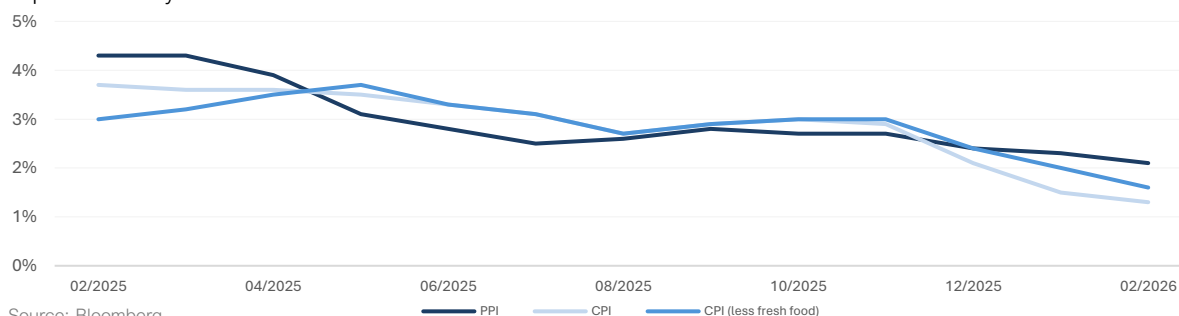
What made the March statement unusual was not the rate decision itself, but what framed it. Although, numbers still point to Japan's moderate growth, with overseas economies returning to a growth path, the Bank of Japan explicitly flagged escalating Middle East tensions, global financial market volatility and crude oil rises. Japan imports most of its crude oil from the Middle East, mainly transported through Hormuz, making any disruption to that corridor a direct economic threat and exposing Japan's energy vulnerability.

Following failed peace talks, US President Donald Trump announced a naval blockade of the Strait of Hormuz, citing Iran's apparent laying of mines. Tokyo responded carefully, with Chief Cabinet Secretary Minoru Kihara stating that "the most important thing is to actually achieve a de-escalation of the situation, including ensuring the safety of navigation through the Strait of Hormuz." Trump further complicated Japan's position by singling the country out directly, noting that Japan sources 93% of its oil through the strait while the US stations 55,000 military personnel on Japanese soil. Prime Minister Takaichi had already conveyed to Trump during their summit that there are things Japan can and cannot do within the scope of its domestic laws.

For the BoJ, rising energy costs increase inflation and strengthen the case for higher interest rates, but at the same time squeeze corporate profits and weight on growth. There is no clean path, and the April 27-28 meeting will be the first moment the board must give a formal answer to all of it.

Figure 4

Japan's Monthly YoY CPI vs. Core CPI vs. PPI



Source: Bloomberg

China

Policy Framework at the NPC: Growth Quality Over Speed

The Fourth Session of the 14th NPC defined China's macroeconomic priorities for 2026 with a deliberately measured tone. The official GDP target was set at a 4.5–5.0% range, a shift away from the prior point target of "around 5%" described as prioritizing growth quality over headline speed. The lower bound serves as an employment floor, anchoring the fiscal response function, while the upper bound signals that Beijing retains a pro-growth orientation if conditions allow. Fiscal stimulus came in slightly softer than expected: bond quotas and trade-in subsidies fell below consensus, though new targeted funds for consumption support and strategic investment partially offset the shortfall.

Monetary policy guidance retained the "moderately accommodative" stance, now including price stabilization as an objective alongside growth, a signal that policymakers are aware of the persistent deflationary pressure in the economy. With projections on headline CPI at just ~0.4% for 2026 (up from 0.0% in 2025), there is considerable room for reserve requirement ratio and interest rate cuts if demand weakens further.

Beyond the headline deficit-to-GDP ratio of approximately 4%, the fiscal picture is more expansionary than it first appears. The government plans to issue RMB 1.3 trillion in ultra-long special treasury bonds, RMB 300 billion in bank recapitalization bonds, and deploy a new RMB 100 billion domestic demand fund, all on top of a local government special bond quota held at RMB 4.4 trillion. In aggregate, the fiscal stance remains supportive even if the optics suggest restraint.

March Equity Selloff

MSCI China fell 7.7% in March, a significant drop, but one that compared favorably to the MSCI Asia ex-Japan benchmark, which lost 13.7%. J.P. Morgan attributed China's relative resilience to its diversified energy mix and strategic reserves, which limited the domestic cost impact of the oil price spike that followed US and Israeli military action against Iran. The weakness in Tech is worth noting: it reflected broad-based risk asset selling rather than any deterioration in China's underlying technology export trajectory, which was actually strengthening concurrently.

Foreign inflows via Southbound channels fell to USD 7.8 billion in March, down from a six-month average of USD 12.5 billion, a clear deceleration, though far more contained than the record outflows recorded from Taiwan (USD 29 billion), Korea (USD 24 billion), and India (USD 12 billion) over the same period. J.P. Morgan noted that China's positive early-2026 activity data and NPC-driven earnings revisions acted as a partial cushion against the broader regional selloff.

Manufacturing PMI readings for March confirmed that the Middle East shock was beginning to affect cost structures. China's input price sub-index moved higher alongside a slight deceleration in the headline PMI, and supplier delivery times

extended, early signs of supply chain friction. The severity remained well below what ASEAN economies experienced, where faster fuel price pass-through and thinner LNG storage buffers made the shock more acute.

Outlook: A Constructive Baseline

Entering Q2, China's macro position is comparatively favorable. The strong Q1 export performance represents a meaningful upside risk to UBS's full-year export growth forecast of 2.5–3.0%, and reduces the near-term pressure on policymakers to launch additional large-scale stimulus while the energy shock impact continues to be assessed.

That said, the risk profile is not symmetric. A prolonged Hormuz disruption would raise energy costs and constrain trade logistics. US-China trade friction shows no signs of structural resolution. Domestically, near-zero inflation limits the government's fiscal room and keeps the real debt burden elevated in property-related sectors. On the positive side, Beijing's strategic pivot toward the "intelligent economy", backed by patient government capital, new infrastructure buildout, and an accelerating low-carbon transition, signals that the Five-Year Plan framework is being implemented with operational seriousness.

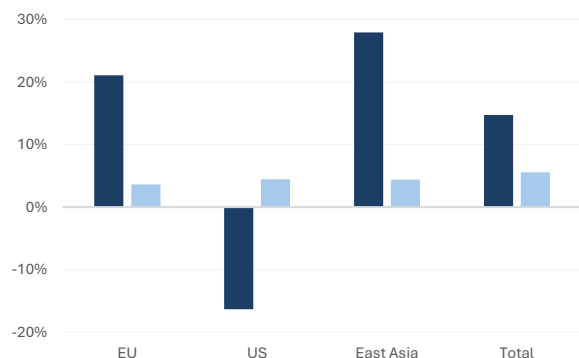
Q1 2026 Trade

The first quarter trade data, released in April, was the period's standout macroeconomic development. Export growth reached 15% year-on-year for Q1 as a whole: the strongest quarterly performance since 2022. March itself moderated sharply to 2.5% year-on-year, well below the 21.8% recorded in January–February combined, but UBS's seasonal adjustment points to this as largely a Spring Festival timing effect rather than a genuine deterioration. On a seasonally adjusted basis, the three-month rolling momentum held around 6%, suggesting the underlying export trend remains solid.

The breakdown by destination is the most important analytical element. Shipments to North Asian economies were the clear outperformer, driven by AI-related demand, with electronic circuit exports hitting an all-time high of 85% year-on-year growth and broader IT products accelerating above 40%. This pattern strongly suggests that China is capturing a growing share of the global AI hardware supply chain, a structural development that goes beyond the cyclical export cycle. Exports to the US, by contrast, remained a drag on the quarter, with bilateral trade tensions continuing to weigh on shipments. EU, ASEAN, and BRI destinations recorded monthly sequential declines in March but still posted positive Q1 net expansion.

Figure 5

Q1 2026 vs. Q1 2025 Exports (YoY Change)



Source: Bloomberg

Import growth jumped to 27.8% year-on-year in March (from 19.8% in January–February), compressing the monthly trade balance to USD 51 billion against a prior two-month average of USD 107 billion. UBS attributes this largely to seasonal mechanics around the Spring Festival, and notes that the Q1 aggregate trade balance remained near historical highs despite the March dip.

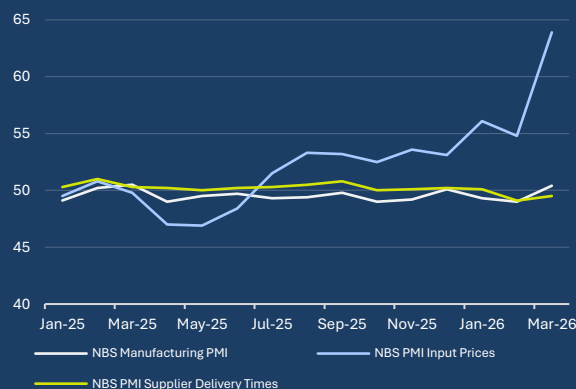
Within imports, two developments stand out. IT component imports hit a historical high, consistent with the export acceleration in electronic circuits and reflecting China's central role in AI hardware supply chains. Natural gas import volumes, however, fell more than seasonally expected, reflecting disruptions to LNG sourcing linked to Strait of Hormuz tensions. Iron ore and copper remained at elevated levels despite a mild March moderation.

The gas import volume decline sits within a broader structural context that limits China's exposure to Strait of Hormuz disruptions. Unlike most major energy importers, China's primary energy consumption remains heavily anchored to domestic coal, which accounts for the largest share of its energy mix and is largely insulated from seaborne supply chain disruptions. Oil and LNG collectively represent a meaningfully smaller share of China's total energy balance than in comparable economies such as Japan, Korea, or the major ASEAN importers. That said, China is a substantial net importer of both crude oil and LNG in absolute terms, and a significant portion of its crude imports transits the Strait of Hormuz, primarily from Saudi Arabia, Iraq, and the UAE. The closure or restriction of the Strait therefore raises import costs through two concurrent mechanisms: a direct spot price effect as global crude supply tightens, and an indirect freight and insurance cost effect as shipping routes are disrupted or lengthened through alternative passages. China's large strategic petroleum reserves, estimated to provide meaningful weeks of import cover, act as a buffer against short-term supply interruptions, reducing the urgency of spot market purchasing and dampening the domestic price impact relative to economies without equivalent reserve capacity.

The LNG channel, however, proved more immediately sensitive, as the March data confirms. China's LNG import volumes fell more than seasonal patterns would suggest, consistent with disruptions to Qatari supply flows (Qatar being one of China's primary LNG sources and a country whose export terminals route shipments through the Strait). Unlike crude oil, LNG cannot easily be redirected to alternative supply sources in the short term given the specificity of liquefaction and regasification infrastructure and the rigidity of long-term supply contracts. This created a genuine near-term supply constraint that manifested in the gas import volume data, even if the coal-heavy nature of China's power generation mix meant that the economy could partially absorb the LNG shortfall through fuel switching at the margin. The net effect was a modest but visible tightening in energy input costs for the industrial sector, reflected in the March PMI input price sub-index, that is expected to weigh on manufacturing margins in the near term.

Figure 6

China Manufacturing PMI Triptych



Source: Bloomberg

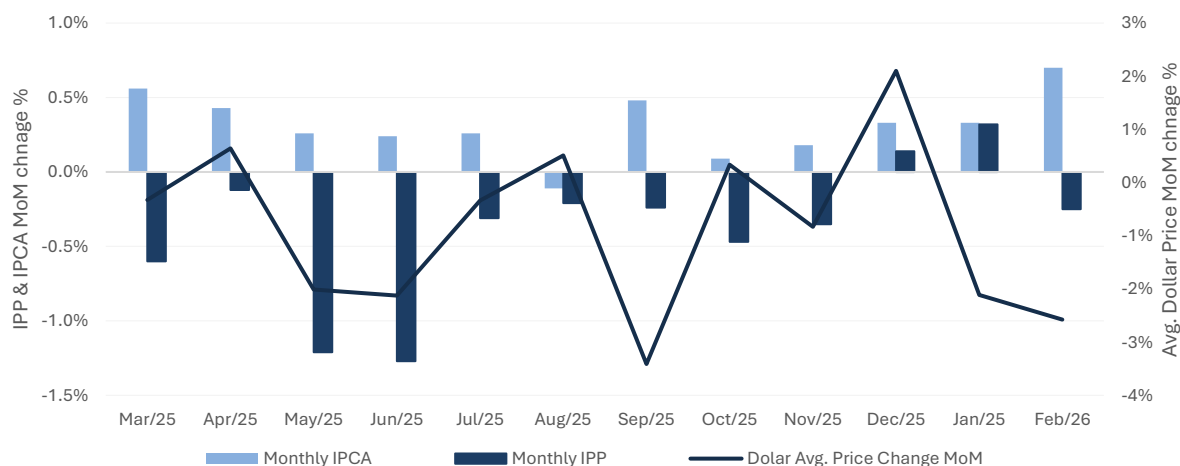
Brazil

Internal Macro Overview

The Focus Bulletin published on April 10th showed the effects of the war in Iran spreading to Brazil. GDP growth expectations for 2026 increased slightly from 1.82% to 1.85%, although still low. Dollar prices have also declined, as the difference in real interest rates between Brazil and the rest of the world has become more significant. Dollar depreciation has helped offset part of the inflationary impact stemming from the war in Iran, but not entirely, as expectations for 2026 IPCA (Consumer Price Index) have risen by 102 bps, from 3.85% a month ago to 4.87%. The increase has also affected 2027 expectations, pushing projected IPCA to 3.80%, up from 3.74% a month ago.

Figure 7

IPP MoM, IPCA and Dollar Price



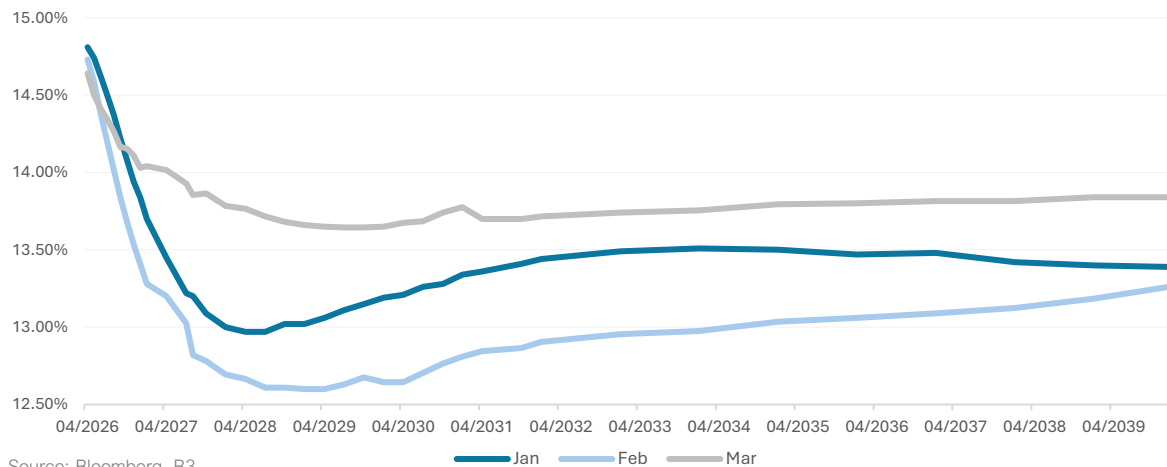
Sources: IBGE, ANBIMA, ACINH

Looking more closely at inflation, IPCA data for February showed a 0.70% increase in prices, picking up from previous months of low inflation. IPP (Producer Price Index) declined a further 0.25% from the previous month, driven by decreases of 0.61% in the extraction industry and 0.23% in the manufacturing industry - both heavily influenced by the dollar price - resulting in a cumulative deflation of 4.35% over the past 12 months. IGPM followed a similar path in February, falling 0.73%, but partially rebounded by 0.52% due to fuel price increases.

COPOM agreed at its March 18th meeting to lower the target interest rate by 25 bps to 14.75%, from 15.00%. However, due to elevated inflation expectations, fewer rate cuts are anticipated this year. In January and February, market participants expected the SELIC rate to fall to 11.75-12.00%, down from the current 14.75%. This outlook changed rapidly in March, with DI futures now pricing year-end 2026 at 12.50%.

Figure 8

DI Futures: January, February and March



War Effects

In a potentially harmful decision for Brazil's farming industry, China has restricted fertilizer exports. The country is Brazil's third-largest supplier and exported just over \$93 million in 2025. Although the restriction mainly affects the second-half harvest, it comes with China seeking to protect domestic demand following a 40% increase in urea and other fertilizer prices-driven by supply chain disruptions in the Middle East.

Global crop prices have not kept pace with rising fertilizer and fuel costs caused by the war. This has squeezed farmers' margins and created challenges for a sector already recovering from five years of poor harvest cycles and tariff impacts. These developments pose significant risks for Brazil, a net exporter of multiple crops with margins tied to the recent dollar depreciation. The sector represents close to 30% of the country's GDP and, despite global headwinds, still grew 11.7% in 2025. Corn, soybeans, and livestock were the main drivers of this expansion.

The war has also impacted fuel prices, as mentioned earlier. Gasoline and diesel account for approximately 6.5% of the IPCA and have weighed on consumers' purchasing power. To counter rising prices, the government has temporarily suspended federal taxes and subsidized diesel producers and importers. To offset revenue losses, a 12% tax has been imposed on fuel exports, which is expected to cover the costs. Overall, the measure is projected

to reduce prices by R\$0.64 for the final consumer, with potential for further reductions as state governments face pressure to lower ICMS on fuel and related products.

Currency and Equity Markets

Since the beginning of the month, the IBOV has declined by 0.56%, with a peak drawdown of 6.91% on March 20th. The geopolitical environment has significantly contributed to this decline, increasing concerns about prolonged high interest rates in an already highly leveraged market. Much of the 33.95% increase recorded in 2025 was driven by international capital inflows, as investors sought diversification away from the dollar into emerging markets. While this influx supported equity prices, it also made the country more vulnerable to sudden outflows during risk-off events such as the ongoing war.

Strong capital market inflows, combined with attractive real interest rates, have made the Brazilian real one of the best-performing currencies against the dollar and the euro. Since the beginning of the year, the real has appreciated by 6.98% against the dollar and 8.96% against the euro. While this has helped contain inflation in the short term, it may not be sustainable in the medium term, as central banks worldwide are expected to maintain or even raise interest rates due to renewed inflation concerns.

Mexico

Monetary Policy Release

Mexico's monetary policy is now in a more sensitive period, where it must find a balance between slowing economic activity and ongoing inflation. In March 2026, Banco de México resumed its easing cycle by reducing the benchmark interest rate by 25 basis points to 6.75%, after pausing earlier in the year. This decision revealed a notable degree of internal division, passing by a narrow margin and underscoring the lack of consensus within the governing board regarding the appropriate policy path. This reflects a broader reassessment of risks. Some policymakers think that the slowdown in domestic demand and the current economic conditions are enough reason to slowly start changing interest rates. From this perspective, maintaining excessively restrictive monetary conditions could unnecessarily hinder growth at a time when external conditions remain uncertain. Conversely, dissenting members have expressed concern that prematurely easing policy while inflation remains above the target could undermine the central bank's credibility and potentially destabilize inflation expectations.

Inflation

Inflation dynamics continue to complicate the policy outlook. Headline inflation has shown renewed signs of acceleration, primarily due to rising food prices and energy costs. While some of this increase is due to external shocks, these pressures have nonetheless slowed the pace of convergence toward the central bank's target range. Concurrently, core inflation has exhibited a more modest trajectory, indicating that underlying price pressures might be reaching a state of equilibrium, albeit at a gradual pace. The difference between the big changes in headlines and the more moderate core measures is a key part of the policy debate. This makes people wonder if recent inflation is just temporary or if it will last and lead to more problems.

Macro Assessment

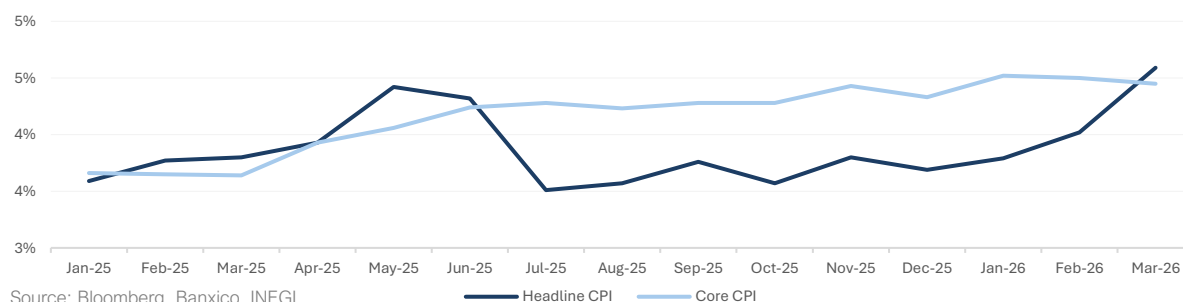
Although weak growth supports further rate cuts, persistent inflation and external risks constrain the pace. The central bank is likely to maintain a balanced policy as it finds the right balance between supporting economic activity and maintaining price stability.

External Environment and Policy Outlook

External factors continue to constrain Mexico's monetary policy. Strong links to the United States limit policy divergence, and higher energy prices continue to pose upside risks to inflation. As a result, a cautious, data-dependent approach has been signaled by the Banco de México, with gradual easing and potential pauses.

Figure 9

Mexico's Headline and Core YoY CPI



MENA

March 2026 was the month the MENA macro picture broke. Iran's decision to close the Strait of Hormuz on 4th March triggered the largest disruption to global energy supply since the 1970s oil embargo. Brent crude surged roughly 55% over March. GCC non-oil PMIs softened. Egypt's Suez Canal revenues collapsed again.

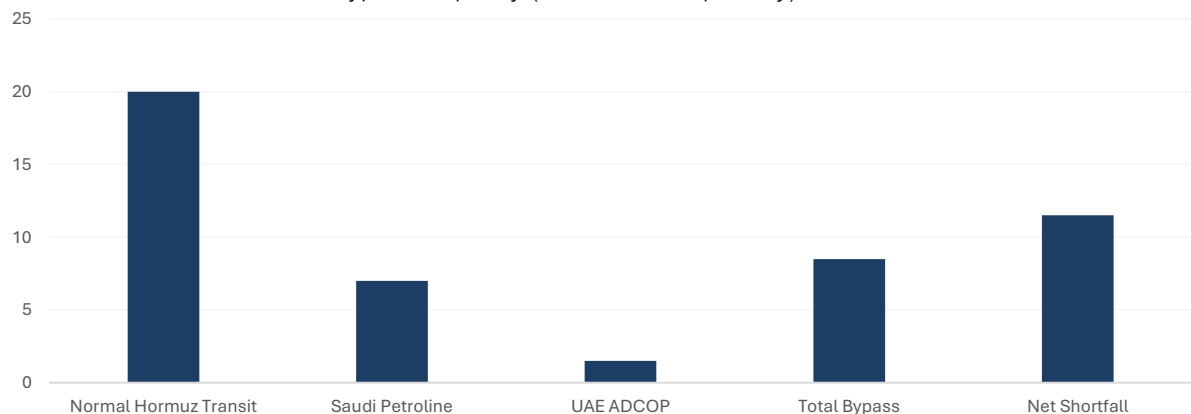
Hormuz Locked Down: The Largest Oil Disruption in a Generation

The Strait of Hormuz handles roughly 20 million barrels per day of crude transit (about 20% of global seaborne oil trade). On 4th March, Iran declared the strait closed to commercial traffic. Brent blew through USD 100 on 8th March, peaked near USD 119/bbl on 19th March as strikes damaged QatarEnergy LNG facilities, and closed the month around USD 114/bbl. QatarEnergy halted production, removing roughly 17% of its LNG export capacity.

Saudi Arabia activated the East-West Petroline within hours, reaching its full 7 million bpd capacity by late March. The UAE's ADCOP pipeline provided an additional bypass. Combined, the two systems offset a meaningful share of the 20 million bpd normally transiting Hormuz but nowhere near all of it. OPEC+ agreed to a modest 206,000 bpd increase for April, reflecting caution rather than a serious attempt to offset the shortfall.

Figure 10

Strait of Hormuz: Transit vs. Bypass Capacity (million barrels per day)



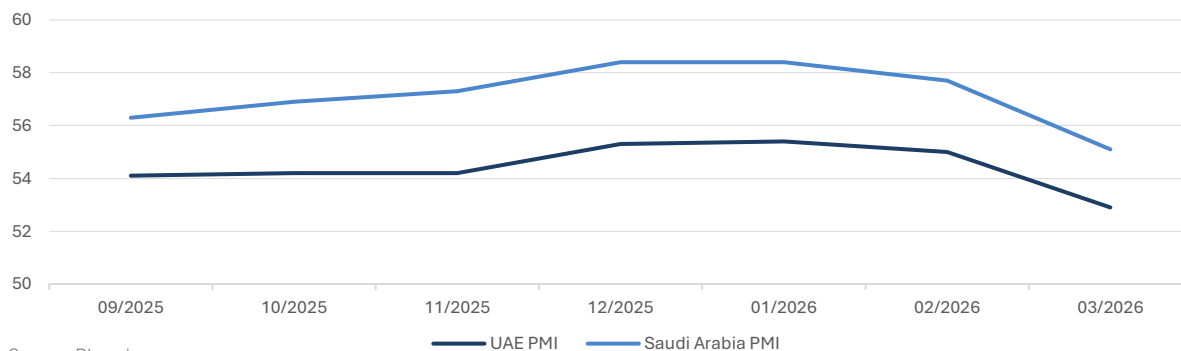
Source: ENR, Bloomberg, OPEC+

GCC Non-Oil Momentum Stalls

The UAE's S&P Global PMI fell to 52.9 from 55.0 in February, which represents the joint-lowest reading since June 2021. JPMorgan warned that a prolonged Hormuz closure could cut an additional 0.5pp from Bahrain and 0.4pp from the UAE's non-oil outlook. Non-energy activity is still projected to grow around 4.1% in 2026, per ICAEW, but the war has injected a risk premium into every GCC asset that didn't exist two months ago.

Figure 11

GCC Non-Oil PMI: Post-Hormuz Deceleration



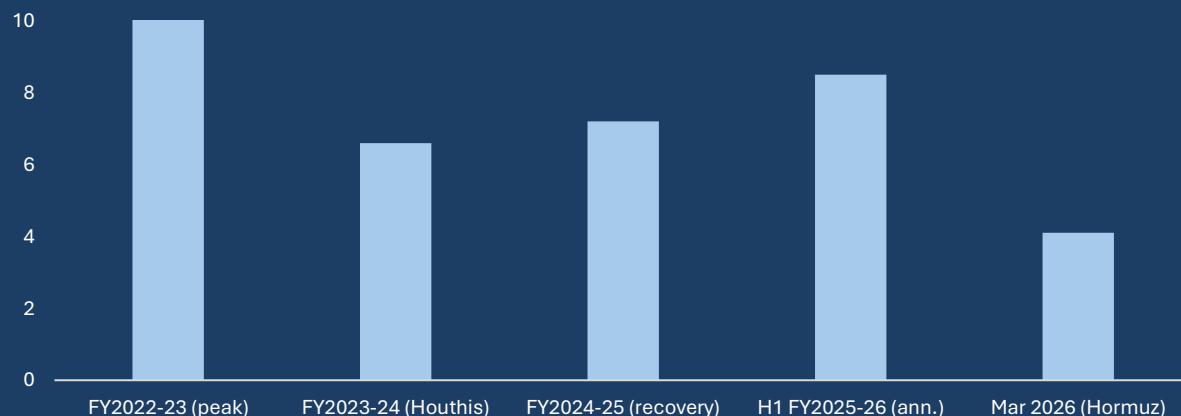
Source: Bloomberg

Egypt Under Dual Pressure: Suez Collapse Meets IMF Delay

Egypt entered March with 4.4% GDP growth, and a recovering Suez Canal. The Hormuz crisis delivered a double blow. First, Houthis threatened to resume Red Sea attacks in solidarity with Iran, and Suez revenues dropped 52% as shipping reverted to Cape routing. Second, the IMF's sixth tranche (an estimated USD 820 million) was delayed on reform concerns. The Egyptian pound traded at 51.8 EGP/USD, and inflation ticked up to 13.4% from 11.9%.

Figure 12

Egypt Suez Canal Revenue (USD Billion): Double Disruption



Source: IMF, Egyptian Agencies

What to Watch: The Tradeable Fallout

Gold fell over 10% in March as margin calls. Energy remains the direct expression of the crisis: Brent and TTF are the frontline instruments, and tanker ETFs like BWET continue to benefit from rerouting. Across the GCC, the war-driven PMI softening suggests the non-oil diversification is likely to encounter short-term challenges, even if the 2026 structural growth story remains intact.

Nordics

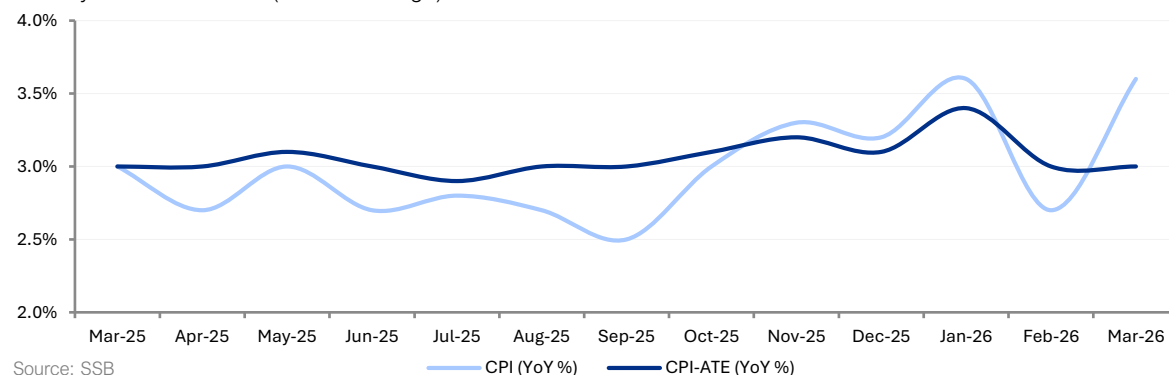
Norway

Monetary Policy - A Hawkish Pivot

Norway's most significant macro event this March was undoubtedly the Norges Bank policy meeting on the 25th, an event that delivered a far more assertive shift in direction than many anticipated. While the Committee voted unanimously to keep the policy rate steady at 4.0%, matching the consensus of every analyst surveyed, the real story was found in the fine print of the accompanying statement. Moving away from its December forecast, which had optimistically penciled in a couple of rate cuts by the end of the year, the Bank instead signaled a notable change in course. It scrapped any mention of near-term reductions and warned that it may actually need to raise the policy rate during one of its upcoming meetings.

Governor Ida Wolden Bache drove this point home during her press conference, reminding the public that the central bank's core duty is maintaining price stability, as high and volatile inflation creates a very real burden for households and the broader economy. This hawkish stance was backed by a revised forecast that now sees the policy rate climbing to between 4.25% and 4.50% by the end of 2026. Perhaps most striking was the revelation that inflation is now only expected to return to its 2% target by 2029. This notably long horizon highlights the sheer scale of the disinflation challenge ahead and suggests that the bank is prepared to stay the course for as long as it takes to stabilize the economy.

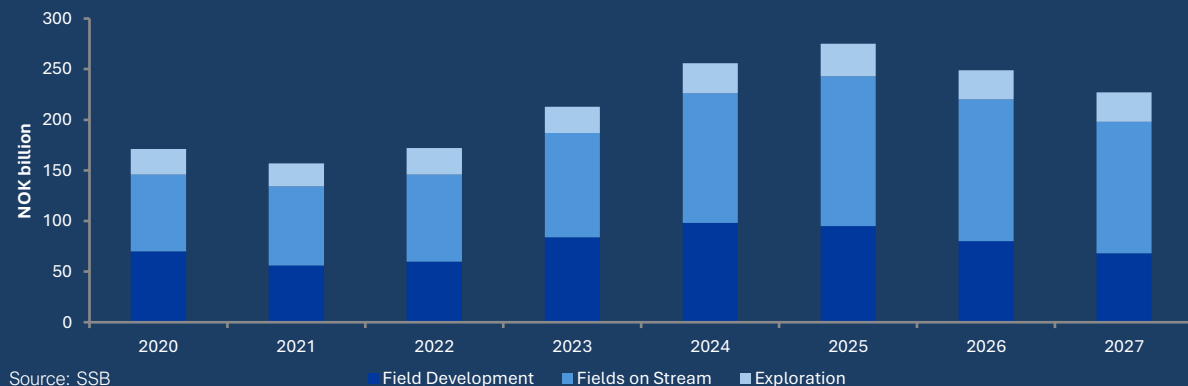
Figure 13
Norway CPI vs. CPI-ATE (% YoY Change)



Oil & Gas - High Investment, Middle East Tailwinds

Norway's petroleum sector entered March 2026 at a complex crossroads, serving as both a primary beneficiary and a critical anchor during a period of global energy upheaval. The escalation of conflict in the Middle East in late February sent shockwaves through the markets, causing oil and gas prices to spike almost immediately; Brent crude surged over 13% as soon as trading opened following the strikes on Iran. This volatility placed Norway in a unique position. As Europe's leading energy supplier, responsible for roughly 40% of the UK's natural gas and significant exports to Germany, France, and the Netherlands, the country saw a massive influx of windfall revenues. Yet, this financial gain came with the heavy responsibility of addressing whether it could help fill the gap if supply through the Strait of Hormuz were to be compromised.

Figure 14
Norway O&G Investment



Sweden

Monetary Policy - Waiting Out the Storm

Sweden's Riksbank held its policy rate at 1.75% on March 19, marking its fourth consecutive pause and aligning perfectly with market expectations. The Executive Board signaled that this steady hand is likely to stay the course well into 2027, a decision driven largely by an increasingly volatile geopolitical environment. Governor Erik Thedéen highlighted the "dramatic" impact of the Middle East conflict, noting that a stronger US dollar has weakened the Swedish krona and added fresh inflationary pressure through more expensive imports.

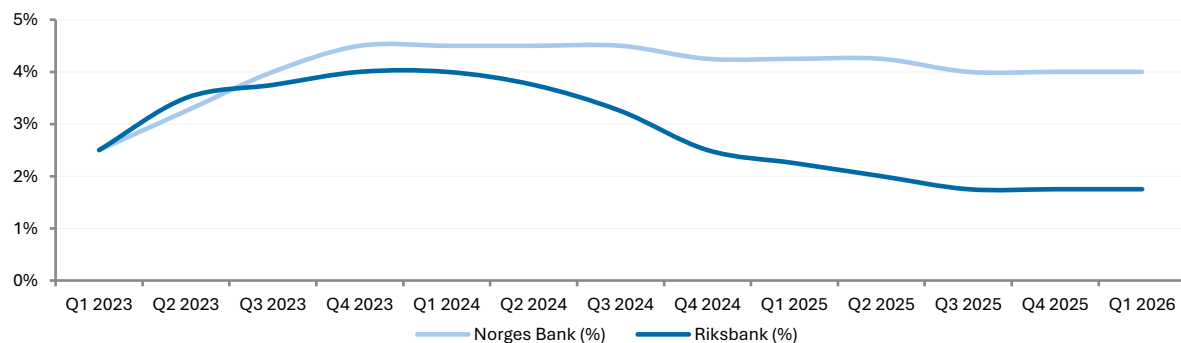
Despite these global pressures, Sweden's situation remains distinct from Norway's, as its underlying inflation is already sitting below the 2% target. This puts the Riksbank in a flexible position compared to its neighbors. For now, the Bank is playing a waiting game, remaining ready to cut rates if domestic demand falters or tighten them further should energy-driven inflation prove to be more than a temporary shock.

Growth & Fiscal Outlook - Recovery on Track

Sweden's economic recovery is picking up steam, even as the global landscape remains volatile. Major forecasters like the European Commission, OECD, and Sweden's own NIER are projecting real GDP growth between 2.6% and 2.9% for 2026, positioning Sweden as one of the EU's top performers. This growth is being fueled primarily by a comeback in private consumption. With real wages rising, inflation cooling, and the benefits of the Riksbank's 2025 rate cuts finally hitting home, household purchasing power is on a clear upward trajectory.

On the fiscal front, the government is leaning into this momentum. The 2026 Spring Budget outline reinforces an expansionary strategy, with a fiscal package worth nearly 2% of GDP, one of the largest non-pandemic stimulus efforts in a decade. Key highlights include income tax relief, a significant cut to food VAT, and a heavy focus on defense and logistics infrastructure. Fortunately, Sweden has the "dry powder" to support this spending; its gross debt remains among the lowest in the EU at around 35% of GDP, giving the government plenty of room to maneuver.

Figure 15
Policy Rates: Norges Bank vs. Riksbank



Asia-Pacific

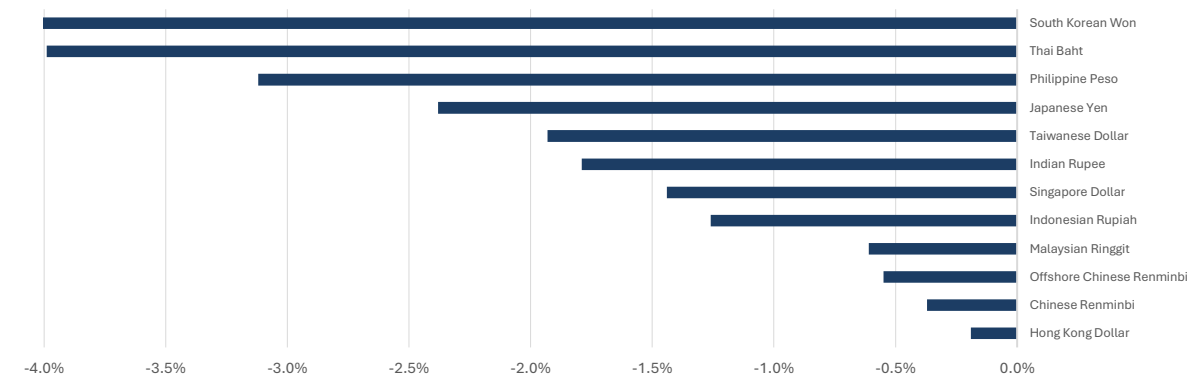
Asia Macro Note: Outlook Amid Iran War

The Iran war has pushed energy prices higher and reopened a split between oil importers and oil exporters. The result is visible in trade balances, inflation pressure and foreign exchange performance across the region.

The US dollar has regained its safe-haven bid as rate differentials still favour the dollar, and capital has been leaving parts of the Asian equity and bond ecosystem. That has weighed on regional currencies, though not in the same way everywhere. Malaysia has held up because higher crude prices help its external balance. Singapore and Hong Kong have been steadier because investors still treat them as relative shelters inside the region. South Korea, Thailand, the Philippines and Indonesia have felt more difficulties because they import energy and face greater inflation risk when their currencies weaken.

Figure 16

Currencies Spot Return (%) Delta – 27 Feb to 18 Mar

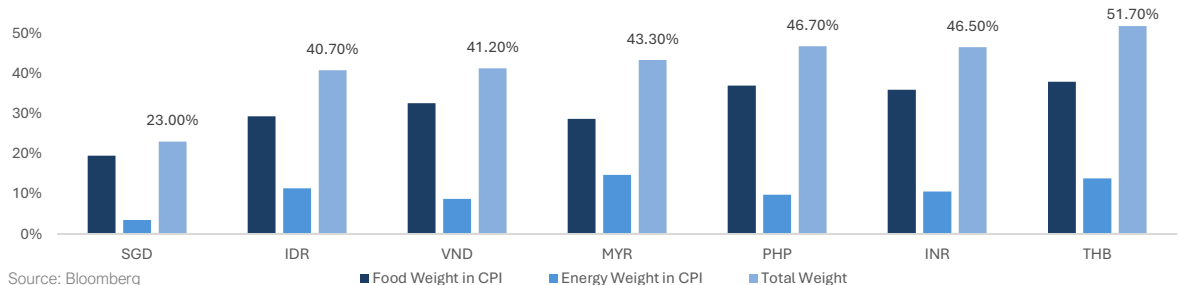


Source: Bloomberg

This creates a difficult setting for central banks. A rise in oil prices is a supply shock, so tighter policy does little to fix the cause. Yet policymakers cannot ignore weaker currencies and the chance that inflation expectations will grow their CPI through spikes in food and energy prices.

Figure 17

Food and Energy Weight on CPI per Country



Source: Bloomberg

South Korea: strong exports, weak won

South Korea is the most complicated case. Its export side is growing, but the currency remains under pressure and market volatility has increased, in part, to its exposure to a strong semiconductor cycle. March export data was very strong. Working-day-adjusted shipments rose 41.9% year on year, while unadjusted exports increased 48.3% after a revised 28.7% gain in February. The trade surplus reached USD 25.74 billion. The main driver was its semiconductor exports, with monthly shipments hitting a record USD 32.8 billion, up 151.4% from a year earlier. That tells us external demand remains firm even with higher oil and a more unstable geopolitical setting.

The problem is that the won fell to around 1,500 against the dollar in overnight trading, its weakest level since 2009. One part of that reflects global risk aversion, and the other part comes from Korea's own position as a large net oil importer. The country also faces ongoing capital outflow pressure tied to Korean investment commitments in the US semiconductor supply chain. The local equity market has also been unsettled. The KOSPI saw sharp intraday losses when the conflict escalated at the end of February. At the same time, the Bank of Korea is going through a leadership transition in April 2026. Making investors wonder whether the new governor leans more toward protecting growth or defending the currency and inflation expectations.

Figure 18

South Korea Exports (Monthly % change YoY)



Source: Bloomberg

Malaysia: oil for thought

Malaysia looks easier to read. The ringgit has been the best-performing Asian currency in 2026, gaining 1.2% against the dollar through late March. That is a direct result of the country's position as a net oil exporter. When crude rises, export revenues improve and the external balance becomes more supportive for the currency.

That does not remove every risk. Food inflation could become more politically sensitive, and the ringgit still behaves like a higher-beta regional currency. Even so, the starting point is better than it is for large oil importers. For instance, Bank Negara Malaysia looks stable, if it supports lower food prices.

Malaysia possibly acting bullish looks like a practical hedge within an Asian allocation. High energy prices and a firm dollar should leave the country in a stronger position than Korea, Thailand and the Philippines. For investors, that makes Malaysia a useful way to keep exposure to Asia without taking the full hit from the region's weaker currencies.

Africa

Middle East Conflicts Concerns

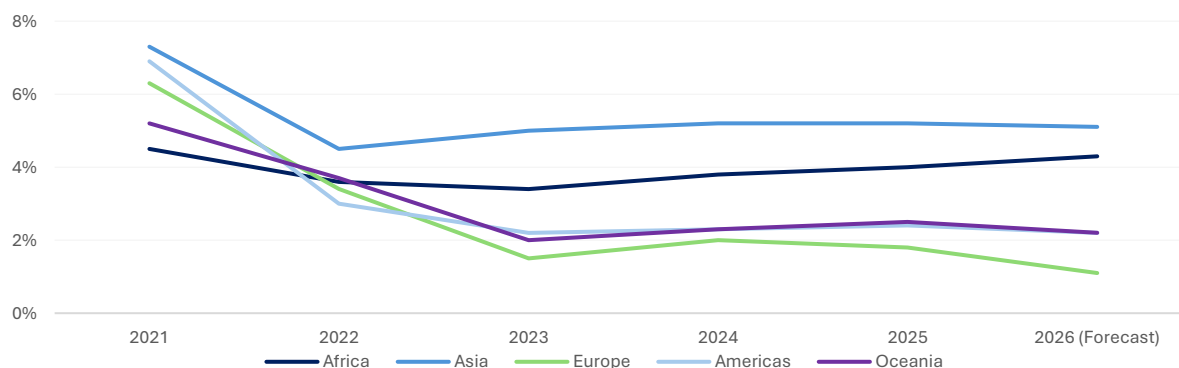
The Mother Continent moved through April amid imported inflationary shocks originating from the conflict in the Middle East, which caused energy and fertilizer prices to increase monthly by 41.6% and 46%, respectively. The Middle East accounts for 15.8% of Africa's imports and 10.9% of its exports, which explains why the shock spread so quickly into African inflation and external balances. This dynamic was further reinforced by a strengthening dollar, with the U.S. Dollar Index rising by 2.14% between early March and April 7, driven by safe-haven flows, thereby increasing import costs across the continent.

There are also countries that benefit from this crisis. One example is Nigeria, the largest producer on the continent, accounting for over 22% of oil output, alongside other major producers such as Angola, Libya, and Algeria. Elevated oil prices boosted export revenues and fiscal receipts, in contrast to oil-importing economies where external balances deteriorated.

These shocks arrived on top of heavy debt servicing, consuming more than 31% of government revenues according to an AfDB report, and a decrease in foreign aid (42% lower than in the first half of 2025). Estimates suggest that growth could fall by 0.2 percentage points if the war does not last longer than three months, with the continent still expected to grow at 4.3% in 2026 despite these challenges, making it the fastest-growing region after Asia (with predicted growth of 5.1%).

Figure 19

Average Annual GDP % Growth per Continent



Source: Bloomberg, IMF

At the same time, external demand conditions remained mixed. China, a key trading partner for the continent, showed resilience with GDP growth of around 5% in the first quarter, but export momentum weakened in March as higher energy and transport costs reduced global demand. This moderation poses risks to African export growth and investment flows, given the continent's strong trade and financing links with China. Total trade between China and Africa corresponds to 348.05 billion USD, being Africa in a deficit of 102.01 billion.

Price Pressures and CBs Reactions

Even though above-average output is expected in April, the aforementioned price pressures put some populations at risk of famine, especially in regions devastated by droughts and conflict, such as the Horn of Africa and Sudan. The timing of fertilizer price increases is particularly critical, coinciding with key planting seasons across parts of the continent.

Instead of central banks reacting to strong domestic demand, they had to decide whether to look through a supply shock or pause easing to avoid a second-round inflation rebound. IMF Managing Director Kristalina Georgieva explicitly warned central banks against overreacting to temporary energy inflation while also stressing that expectations must remain anchored.

Most African economies followed this approach, pausing their easing cycles to assess the impact of rising oil prices and prevent another wave of inflation. Ghana was one of the outliers, cutting its rates to 14%, as inflation recorded its 15th consecutive monthly slowdown in February.

Structural reform priorities and medium-term growth

Fiscal credibility and politics were central macro drivers.

South Africa, for instance, withdrew its R20 billion tax increase in order to support a weak growth outlook (1.6% in 2026), while still committing to a reduction in the fiscal deficit, targeted at 3.1% by 2028/2029 from the current 4.5% of GDP.

In Senegal, macro conditions deteriorated more visibly. The government projected 2026 growth slowing to 2.5% from 6.7% in 2025, following the \$13 billion hidden-debt scandal that blocked IMF financing. Reuters also reported spending cuts, delayed payments, and rising social frustration, showing how quickly debt problems can evolve into both a fiscal and political issue.

In Ethiopia, debt restructuring remained a key macro variable. On 3 April 2026, the finance ministry announced it had reached a debt-treatment agreement with China under the G20 Common Framework, an important step for external stabilization even as broader restructuring tensions with bondholders continued.

March to early April 2026 marked a shift in Africa's macro narrative, from disinflation and gradual easing to disinflation interrupted by an imported supply shock. Oil importers became more exposed, rate-cut cycles slowed or paused, and fiscal vulnerabilities became more pronounced in countries already under debt pressure. At the same time, uncertainty persists, driven by underlying volatility in US external policy and global financial conditions. However, the continuation of the April 8 ceasefire introduces a degree of cautious optimism, with the potential to ease external pressures.

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