Monthly Newsletter

February

LIS
LISBON INVESTMENT SOCIETY

Coverage

U.S.
Euro Area
Japan
China
U.K.
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Brazil
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MENA

U.S.

Consumer Price Index

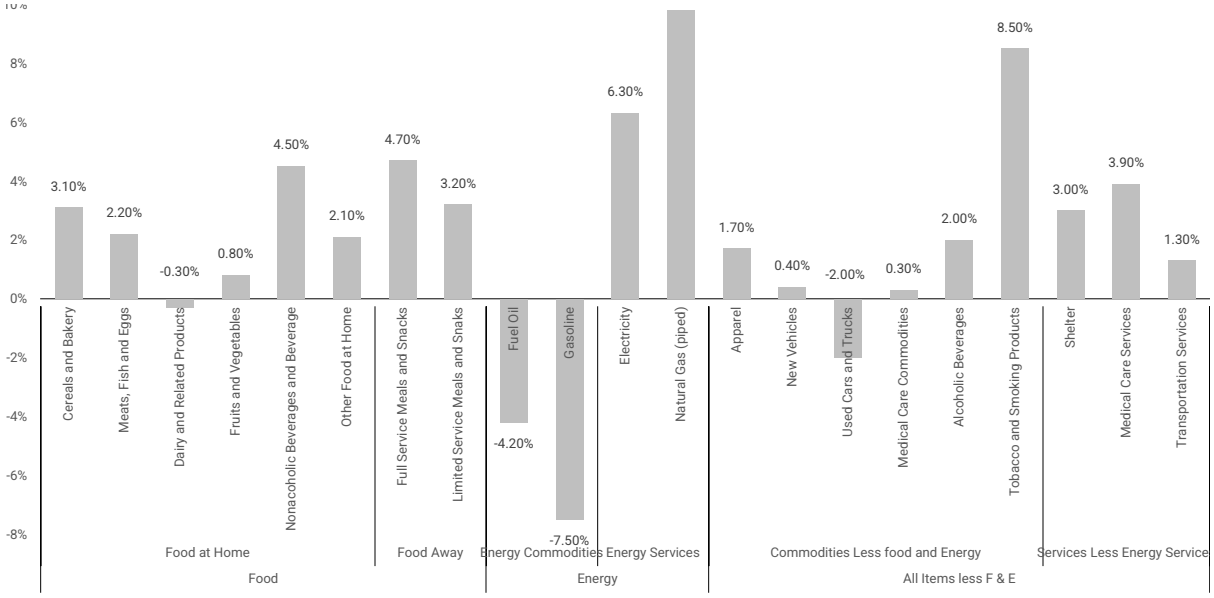
The Consumer Price Index for January rose 0.2% MoM, in line with market expectations. This figure represents a 2.4% increase over the past 12 months, down from 2.7% in December. Most of the increase came from food prices, where the category Food Away from Home increased 0.1% MoM. Food at Home increased 0.2% and showed a more even distribution of price changes, with the only outliers being Nonalcoholic Beverages, which declined 0.6%, and Dairy and Related Products, which increased 1.2%.

For energy, results across subcategories partially offset each other. The Energy category decreased 1.5% MoM, despite significant dispersion among components. Energy commodities declined 3.3%, with Fuel Oil falling 5.7% and Gasoline decreasing 3.2%. Meanwhile, Energy Services increased 0.2% MoM and 7.2% YoY, with Electricity Services declining 0.1% and Piped Natural Gas rising 1.0%.

Services less Energy Services increased 0.4% MoM, accelerating from previous months. Transportation Services was the subcategory with the largest increase, at 1.4% MoM. Commodities less Food and Energy were flat in January, although there was a sharp decline in Used Cars and Trucks prices of 1.8%.

Figure 1

CPI Index – TTM (% change)



Source: US Bureau of Labor Statistics

Producer Price Index

The Producer Price Index accelerated in January, increasing 0.6% from the previous month. Both Final Demand Goods and Final Demand Services rose 0.6% MoM. Within Final Demand Goods, Energy was the main driver, increasing 1.6%, while Foods rose 0.8%, and Final Demand Goods less Foods and Energy increased only 0.2%. Overall, prices in this category appear to be gradually accelerating in recent months, still influenced by tariff-related price adjustments and the recent depreciation of the dollar. Final Demand Services also show signs of a similar trend: Trade increased 1.1%, the highest level in the past eight months; Transportation and Warehousing rose 0.6%, the strongest since July; and Other Services increased 0.5%.

Economic Activity

Manufacturing PMI fell to 51.2 points in February, from 52.4 in the previous month, marking seven consecutive months of expansion but the weakest improvement since last July. Additionally, payroll data remains positive. Total nonfarm employment rose by 130,000 in January, while the unemployment rate changed little, remaining at 4.3%. Most job gains occurred in Health Care (82,000), Social Assistance (42,000), and Construction (33,000), while government employment continued to decline (-34,000), as some employees who accepted deferred resignation offers came off federal payrolls.

Advance data for Q4 GDP show a 1.4% YoY increase in the economy, signalling a sharp deceleration from the 4.4% recorded in Q3 and 3.9% in Q2. Although a slowdown was expected, the result came below the market consensus of 2.5% YoY. Consumer spending increased less than anticipated, while the shutdown significantly weighed on government spending for the quarter.

Real average hourly earnings increased 0.3% from December to January, seasonally adjusted. This result reflects a 0.4% increase in average hourly wages, while CPI rose 0.2% in January. Real average weekly earnings also improved by 0.5% for the month, as the average workweek increased by 0.3%. On a yearly basis, real average hourly earnings increased 1.2% over the LTM, which, combined with a 0.6% increase in weekly earnings, resulted in a 1.9% increase in real average weekly earnings. These figures support the thesis of a resilient economy, despite inflation concerns.

Retail sales stalled in December, as households scaled back spending on big-ticket items. The result is consistent with Q4 GDP data but fell short of expectations of a 0.4% increase. October figures were also revised downward, suggesting consumer fatigue following persistent price increases related to tariffs. This weaker scenario, combined with an increase in business inventories, prompted economists to downgrade GDP growth estimates for early 2026.

Monetary Policy

Regarding monetary policy, CME futures are pricing a 92.6% probability of no change in interest rates and only a 7.4% probability of a 25-bps rate cut at the next Fed meeting on March 18. However, the outlook for the following decisions remains unclear. With mixed economic data and elevated risks both domestically and externally, the dispersion in market expectations reflects heightened uncertainty among participants.

Wall Street is also assessing how the new Federal Reserve chairman, Kevin Warsh, will lead the institution. Mr. Warsh, set to begin his mandate on May 15, is a former Fed governor and has consistently criticized Jerome Powell, calling for interest rate cuts. His nomination was initially viewed as a relief for market participants, as President Trump had previously signaled a preference for a less independent chairman before ultimately selecting Mr. Warsh. Nevertheless, uncertainty remains regarding the degree of independence between the Fed and the White House under the new leadership. The nomination now moves to the Senate, where it requires a simple majority but is already facing resistance from both Republican and Democratic lawmakers, partly linked to the ongoing investigation involving Jerome Powell over alleged misuse of public funds.

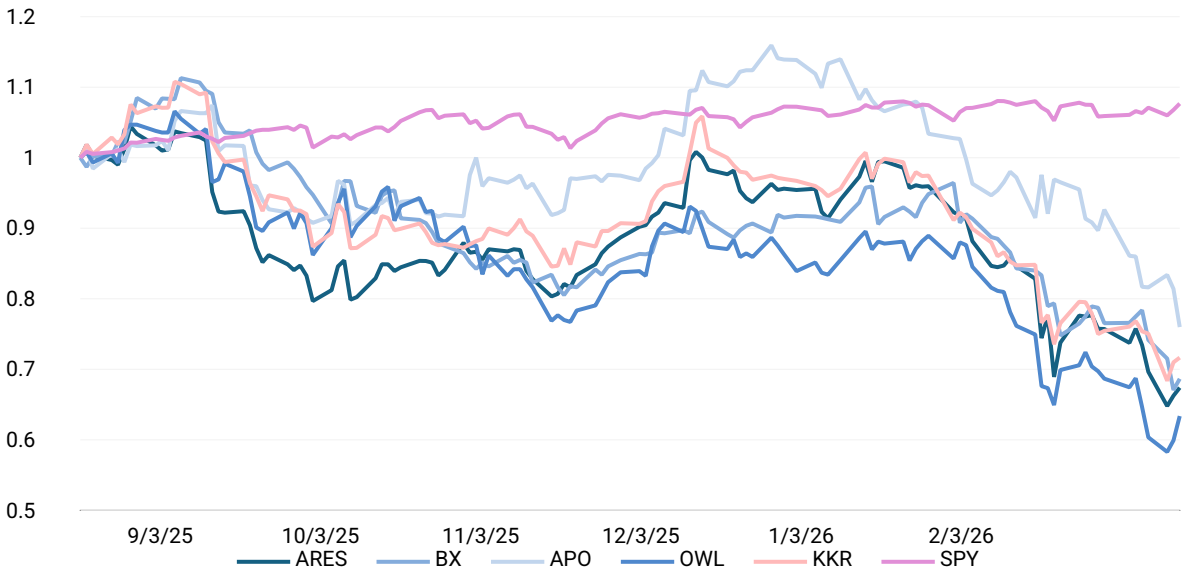
Geopolitics

On the international front, U.S. and Israeli forces killed Supreme Leader Ali Khamenei in strikes carried out on the 28th in Tehran. In response, Iran launched missiles targeting various U.S. and Israeli bases across the Middle East, including locations in the UAE, Bahrain, Kuwait, Saudi Arabia, Jordan, Qatar, Iraq and Israel. The full consequences of these actions remain uncertain but are likely to result in higher oil prices and potential disruptions in the Strait of Hormuz.

Financial Markets and the AI environment

Finally, markets have once again shown uncertainty regarding AI-related assets. Despite strong results from NVIDIA on the 25th, the figures failed to impress investors. Increased scrutiny over AI-related capital expenditures and a recent report identifying potential AI underperformers by Citrini Research have pressured technology stocks. Additionally, Blue Owl, a major private credit firm in the center of the AI boom, reportedly liquidated over $1.4 billion after retail investors withdrew parts of their positions, driving private credit-related stocks down more than 30% in a single week and Blue Owl to change their redemption rules by closing quarterly redemption windows to periodic ones.

Figure 2
Private-credit Managers Stock Performance



Source: Bloomberg

Euro Area

Inflation and ECB Projections

Inflation remained the central macro variable in February, but the composition of price pressures mattered more than the headline alone: January euro area inflation printed at 1,7%, February was reported at 1,9%, and core inflation had already fallen to its lowest level since late 2021, which is exactly the kind of pattern one would expect when goods disinflation arrives first and services inflation fades later as wage pressure cools only gradually. ECB materials and bank research pointed in the same direction on the mechanics: energy base effects were likely to create some short-term noise, but non-energy inflation was still easing, producer prices were weak, goods inflation had become very subdued, and underlying measures were increasingly consistent with inflation stabilizing around the 2% objective over the medium term. In theoretical terms, that makes sense, because once the initial energy and supply-shock impulse fades, inflation persistence depends much more on domestic services, wage bargaining, and firms' pricing power; by February, the euro area looked far closer to a "last mile" disinflation problem than to a broad-based inflation resurgence.

Monetary Policy

Against that backdrop, the ECB's February stance was appropriately cautious: it kept its key rate at 2.0%, repeated that decisions would remain data-dependent and meeting-by-meeting and signaled no urgency either to resume cuts or to tighten again, which is what a central bank should do when inflation is close to target but not yet unquestionably settled in every component. This is also why the February decision should be read as a "hold in neutral" rather than a hawkish pause, because staff projections still showed headline inflation edging below 2% in 2026, longer-term expectations stayed anchored around target, and several market and sell-side views increasingly converged on the idea that rates could remain unchanged through much of the year unless a clear growth shock or inflation surprise emerged. The practical constraint for the ECB is that the balance of risks has become more two-sided than the level of inflation alone suggests: stronger fiscal support, supply bottlenecks, or energy shocks could slow disinflation, while euro strength, weaker trade, or softer external demand could push inflation lower, so the bar for large policy moves is high in either direction.

Growth Dynamics

Growth was still unimpressive, but February data and forecasts supported the view that the euro area was in a slow recovery rather than stuck in contraction: fourth-quarter GDP growth came in at 0.3%, ECB staff continued to see 2026 growth around 1.2%, Banks kept the same 1.2% call for the year and also pointed a firmer start to 2026, with Q1 growth around 0.4% quarter-on-quarter. The quality of the recovery also looked healthier than the headline alone might suggest, because it was being supported by rising real wages, stable employment, easier financing conditions than in 2024, rebounding retail and industrial momentum, and early signs that German fiscal support could spill over into broader regional demand. Household demand is especially important here: improving spending intentions, unemployment returning to a historic low of 6.2% in December, and the likelihood that stable policy rates would help lending conditions and credit demand, all of which is consistent with a consumption-led rather than export-led improvement in 2026.

Monetary Policy

Foreign exchange was not the main story in February, but it was an important amplifier of the macro backdrop: Research explicitly noted that euro appreciation was raising questions about the ECB path after January's 1,7% inflation print, and ECB accounts said the stronger euro was exerting only a modest dampening effect on the inflation outlook, which is a sensible reminder that exchange-rate pass-through in the euro area is real but not dominant when domestic services inflation is the stickier piece. In practice, a firmer euro helps the ECB by reducing imported inflation, especially through energy and tradable goods, but it can also mildly restrain external competitiveness, so the net macro effect is disinflationary in the short run while the growth cost depends on whether domestic demand is strong enough to compensate for softer net exports. The bigger issue for the months ahead is that the euro area's baseline has improved just as the external environment has become more politically fragile: trade uncertainty, geopolitical energy risks, and looser fiscal settings in parts of Europe could all shift the inflation-growth mix, yet as of February the most coherent baseline remained one of near-target inflation, ECB patience, moderate domestic-demand-led growth, and a euro that acts more as a stabilizer than as a source of stress.

Japan

Elections

On February 8, Prime Minister Sanae Takaichi led the Liberal Democratic Party (LDP) to a historic victory in national elections. Takaichi achieved a stunning result, securing 316 out of the 465 seats of the lower house. With her new coalition partner, the conservative Japan Innovation Party, the prime minister now controls two thirds of the parliament where she can fast-track now her legislative agenda. This election was announced following the collapse of the long-standing alliance between the LDP and Komeito. The current prime minister used this election to solidify a new, more conservative cooperation framework with the conservative Japan Innovation Party.

With a supermajority secured, Takaichi is poised to implement her economic vision, dubbed "Sanaenomics", pivoting towards aggressive fiscal expansion. A central pillar of Takaichi's agenda is a proposed two-year suspension of the consumption tax on food to alleviate cost-of-living pressures. Furthermore, she aims to pass a record ¥122.3 trillion budget for FY2026 by March 31, channelling massive investments into 17 strategic sectors, including artificial intelligence, semiconductors, quantum computing, and defense. Other key pillars of this economic reset are multi-year fiscal outlays directed at semiconductor manufacturing, artificial intelligence data centers, and the reopening of nuclear power plants and accelerating the target to spend 2% of GDP on national defense, integrating military procurement closely with domestic industrial growth.

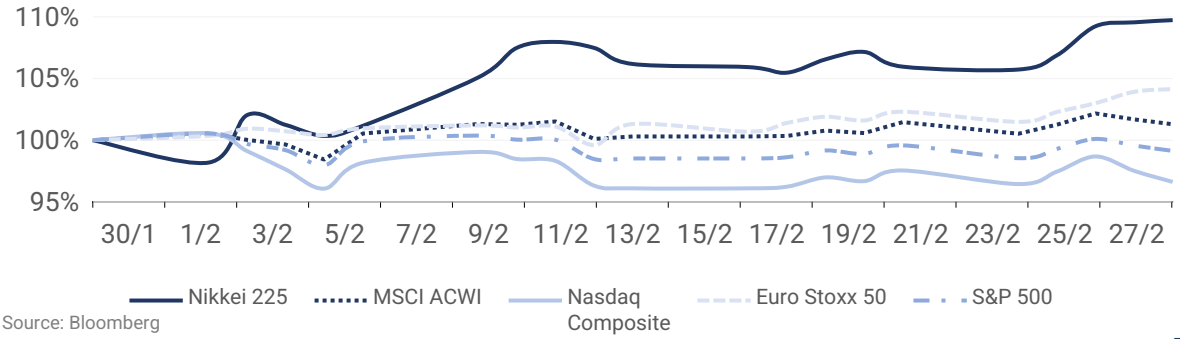
Japanese Markets

Financial markets have reacted to the election with a mixture of intense equity optimism and severe fixed-income anxiety, originating the “Takaichi” trade, which consists in buying Japanese equities, selling government bonds and shorting the Yen.

The promise of political stability, corporate governance reforms, and massive fiscal stimulus sent the Nikkei 225 surging past the 59,000-point threshold. By mid-February, the index had generated a staggering year-to-date total return of nearly 26%, vastly outperforming global benchmarks like the MSCI All Country World Index. The rally has been heavily concentrated in defense contractors, heavy machinery, and semiconductor firms.

Figure 3

Nikkei 225 Performance against Benchmarks in February



Source: Bloomberg

Investors are pricing in heavy domestic investment, particularly in the defense and semiconductor sectors. On the geopolitical front, this supermajority strengthens Tokyo's hand. Takaichi is preparing for a crucial summit with US President Donald Trump in March.

While equities soared, the bond market signalled deep unease regarding how Japan will finance this 122.3 trillion yens budget. Japan has the highest debt burden in the G7 and the prospect of unfunded tax cuts triggered a sharp sell-off in Japanese Government Bonds.

However, domestic Japanese optimism has suddenly collided with a severe external crisis. The recent escalation of tensions in the Middle East has resulted in a potential blockade of the Strait of Hormuz, one of the planet's most critical energy arteries. Japan finds itself in a position of extreme vulnerability: the country imports over 90% of its crude oil from the Middle East with more than 60% transported through the Strait of Hormuz. Besides this, Japan also relies on the Middle East for liquefied natural gas. Although the Japanese government and private sector hold one of the world's largest strategic petroleum reserves (enough for about 254 days) the country is not immune to price shocks. The Yen's current weakness exacerbates the cost of importing dollar-denominated energy. If sustained, this blockade will import massive supply-side inflation into Japan, destroying corporate margins, crushing consumer purchasing power, and potentially forcing the BoJ into a recession-inducing rate hike.

The structural weakness of the Japanese Yen continues to be a central macroeconomic theme. Despite the BoJ slowly normalizing policy (currently holding the policy rate at 0.75%, with markets pricing in a hike to 1.00% by April), the Yen remains under pressure, trading dangerously close to the 155-160 USD/JPY range.

Crucially, the dynamics of the Yen have shifted. Historically, the exchange rate was driven almost entirely by interest rate differentials between the US and Japan. Today, the Yen's weakness is increasingly driven by fiscal risk. However, the BoJ now faces a nightmare scenario: if it raises rates to defend the Yen and combat imported energy inflation, it risks choking off economic growth at a time when industry is already suffering from high costs. On the other hand, intense currency volatility and the risk of abrupt rate hikes make the carry trade highly dangerous. If institutional investors panic and begin a massive unwinding of their carry trade positions, we could witness a severe liquidity shock not just in Japan, but across global financial markets.

Figure 4

USD/JPY Spot Historical Quotes



Source: Bloomberg

China

Growth and Activity

China closed 2025 with full-year real GDP growth of 5,0%, exactly meeting the government's target and lifting nominal GDP to 140,2 trillion renminbi from 134,9 trillion in 2024. The quarterly profile, however, showed a gradual deceleration under external uncertainty, with year-on-year growth easing from 5,4% in the first quarter to 5,2% in the second, 4,8% in the third, and 4,5% in the fourth. Quarter-on-quarter growth edged up to 1,2% in the fourth quarter from 1,1% in the third, indicating some stabilisation into year-end but not a strong re-acceleration.

The divergence between industrial production and domestic demand is central to understanding the February 2026 macro picture. Industrial output expanded by 5,2% year-on-year in December, driven in particular by high-tech manufacturing, and industrial profits grew by 5,3% year-on-year in the same month, delivering a modest 0.6 percent increase in profits for 2025 as a whole after several weak years. By contrast, retail sales growth slowed sharply to just 0,9% year-on-year in December, and fixed asset investment contracted by 3,8% over the full year, highlighting subdued household and private-sector capex appetite and the drag from an ongoing property consolidation.

High-frequency survey data available by early March indicate that these tensions persisted into February. According to private-sector compilation using official National Bureau of Statistics data, China's composite PMI stood at 49,5 in February 2026, with manufacturing at 49 and non-manufacturing also at 49,5, all below the 50 line separating expansion from contraction. This configuration suggests that, while the industrial sector and services have benefited from policy support and the earlier export rebound, underlying demand conditions remained soft at the start of 2026, consistent with the weakness observed in late-2025 retail and investment data.

Labour Market and the GWR

The labour market has been an important relative bright spot and a key reason why Beijing feels comfortable pursuing a medium growth target range rather than a hard high single-digit goal. The surveyed urban unemployment rate declined to 5,1% in December 2025, slightly better than market expectations of 5,2% and within the authorities' comfort band around 5,5%. The 2026 GWR keeps a target of creating more than 12 million new urban jobs and keeping the surveyed urban jobless rate around 5,5%, essentially reaffirming the current labour-market configuration as acceptable.

Improving labour conditions provide a necessary, though not sufficient, foundation for the government's ambition to shift toward a more consumption-led growth model. However, the weak late-2025 retail sales growth underscores that stable employment alone has not yet translated into strong consumer spending, likely due to precautionary savings, property-market related wealth effects, and subdued confidence. This gap between employment metrics and actual spending behaviour is an important constraint on the speed of any cyclical upturn as of February 2026.

Figure 5

Key Targets and Policy Orientations for 2026

Key Economic Targets and Policy Orienation for 2026			
	2026 Target	2025 Actual	2025 Target
GDP Growth	4.5%-5.0%	5%	~5%
Fiscal Deficit (% of GDP)	4%	4%	4%
Special local government bond quota	RMB 4.4 tril.	RMB 4.6 tril.	RMB 4.4 tril.
New urban jobs creation	> 12 mil.	12,67 mil.	> 12 mil.
Surveyed urban unempl. rate	~5,5%	5,2%	~5,5%
Fiscal policy stance	Maintain a proactive policy	-	Apply a proactive policy
Monetary policy stance	Maintain an accomodative policy	-	Apply an accomodative policy
Money supply and credit growth	Keep consistent with expected growth and inflation	M2 growth: 8,5% Social financing growth: 8,3%	Keep consistent with expected growth and inflation

Sources: The State Council of China, HSBC, Standard Chartered

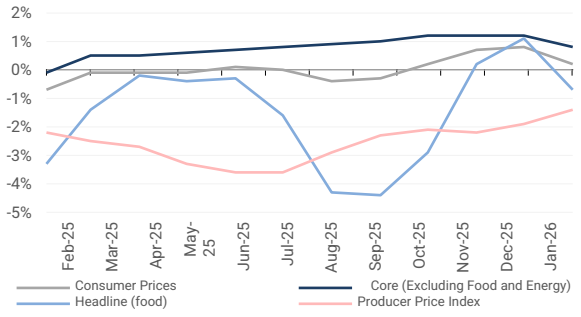
Inflation Dynamics

Inflation target remained around 2%, although it should be interpreted as a ceiling rather than a target, reflecting the governments concern on escaping the deflation territory.

Seasonal factors such as the Chinese New Year, moved from January to February, helped CPI, while PPI deflationary pressures also cooled down, remaining in a mild deflation pattern, but with an improving trajectory. Headline and core CPI rose by 0,2% and 0,8% YoY in January, coming from a 0,8% and 1,2% increase in December, respectively. At the same time, PPI YoY decline narrowed further, from -1,9% in December to -1,4% in January. Additionaly, a surge in international precious metal prices in January translated into notable gains in PPI for the non-ferrous metal mining and processing sectors. These patterns suggest that both consumer and producer prices are gradually re-anchoring after an extensive period of deflationary pressure.

Figure 6

CPI and PPI (YoY Change)



Sources: Bloomberg, BEA

Monetary Policy Stance

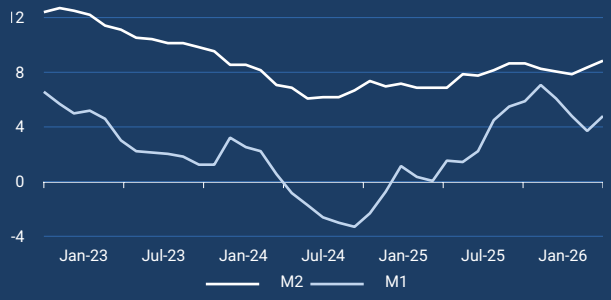
The GWR report guidance for the monetary policy stated that it would remain accommodative to further support a stable economic growth and help shift to a consuming-led growth.

Highlights included the flexible deployment of some instruments, citing eventual reduction in the RRR and interest rates to maintain adequate liquidity. Moreover, new structural monetary policy instruments are expected to be developed further to solve specific bottlenecks – a measure already approached by the PBoC earlier this year whilst introducing targeted rate cuts and expanding quota for a diverse range of relending facilities. Those measures reflect the goal of calibrating structural policy tools rather than just change broad-based monetary stimulus.

Money and credit aggregates shows a supportive yet cautious in February. In 2025, total social financing (China's broad credit measure) increased by RMB 35,6 trillion, lifting the outstanding stock to RMB 442,1 trillion, equivalent to an 8,3% rise YoY, with a growing contribution from government bond issuance (accounting for ~21,% of new credit). M2 expanded by 8,5% YoY in 2025, accelerating to 9,0% YoY in January signaling an accommodative monetary backdrop, while M1 grew by just 3,8%; together, these suggests a continued preference for time deposits over transaction balances and thus a reluctance to deploy liquidity into spending or investment.

Figure 7

M1 and M2 Money Supply (YoY change)



Sources: Bloomberg, BEA

Fiscal Policy and Public Investment

On the fiscal side, China is entering 2026 with a clearly proactive stance that aims to front-load support for growth in the first quarter. Late in December 2025, the National Development and Reform Commission announced an early batch of major projects and a central budget investment plan for 2026, allocating about RMB 295 billion to accelerate public-investment implementation. In mid-January 2026, the Ministry of Finance followed with a package of measures to spur private investment and consumption, including a RMB 500 billion special guarantee programme for corporate lending and an extension of interest subsidies for personal consumption loans and services businesses to the end of 2026, thereby directly lowering financing costs for targeted borrowers.

The 2026 GWR reinforces this direction by setting a fiscal deficit target of 4% of GDP, unchanged from 2025 but in the context of a higher nominal GDP level, and by planning to increase the nominal government deficit by RMB 230 billion to 5,89 trillion. The government will issue RMB 4,4 trillion in special local-government bonds, mainly to fund major investment projects, swap hidden local debts, and clear overdue government payables, and will maintain the issuance quota for ultra-long special treasury bonds at RMB 1,3 trillion to finance national strategies, security-related capacity, and large-scale equipment renewal and consumer goods trade-in subsidies

A distinctive feature of the 2026 fiscal framework is the emphasis on coordinated fiscal–financial arrangements to support domestic demand. The authorities will create a new RMB 100 billion fiscal-financial coordination fund designed to expand domestic demand via loan interest subsidies, financing guarantees, and risk-sharing, thereby amplifying the effect of bank lending to households and service-sector firms. At the same time, central budget investment will be raised to RMB 755 billion, and policy-backed financial instruments will be scaled up to RMB 800 billion from 500 billion, underscoring the role of public balance sheets in cushioning weaker private-sector investment early in the year.

FX and External

External trade and the BoP remain key stabilising forces for China’s macroeconomy as of February 2026. In 2025, total imports and exports of goods grew by 3.8%, with exports up 6.1% and imports up just 0,5%, generating a substantial goods trade surplus of RMB 8,5 trillion. This external surplus helped sustain sizeable foreign-exchange reserves of around USD 3,4 trillion, providing an important buffer against external shocks and supporting confidence in the renminbi.

Within exports, so-called "New Three" high-tech and green sectors, electric vehicles, lithium-ion batteries, and solar cells, grew by 28% in 2025 to reach RMB 1,28 trillion, underscoring the structural upgrading of China’s export mix and its competitive strength in these industries. These segments not only underpin overall export growth but also help diversify markets and reduce vulnerability to single-sector shocks, which is relevant at a time of heightened global trade tensions and technology-related restrictions.

From an FX perspective, the combination of a large trade surplus, ample reserves, and only moderately loose monetary policy argues for a broadly stable renminbi in effective-exchange-rate terms, even if bilateral moves against the United States dollar remain sensitive to interest-rate differentials and market sentiment. The authorities’ preference for targeted, structural easing, rather than aggressive benchmark-rate cuts, also suggests a desire to avoid putting undue depreciation pressure on the currency while still supporting domestic activity. This backdrop implies that, as of February 2026, FX is more a transmission channel for broader macro forces than a primary source of instability.

Structural reform priorities and medium-term growth

Beyond near-term cyclical management, the February macro setting is increasingly shaped by the structural agenda articulated in the 2026 GWR and the outline of the 15th Five-Year Plan (2026–2030). The GWR adopts a pragmatic GDP growth target range of 4,5%–5.0% for 2026 and explicitly pivots emphasis from "sustained economic recovery and growth" to "higher-quality growth while achieving an appropriate increase in economic output," signalling that structural transformation and risk control are gaining primacy over raw growth rates.

Policy priorities for 2026 are led by building a robust domestic market and fostering new growth drivers, followed by accelerating technological self-reliance, deepening key reforms, expanding high-standard opening-up, advancing rural revitalisation and new urbanisation, improving people’s wellbeing, pursuing a comprehensive green transition, and enhancing security and risk-mitigation mechanisms. Concrete initiatives include RMB 200 billion in funding for equipment renewal, support for digitalisation and AI adoption in small and medium-sized enterprises, identification of future strategic industries such as quantum technology, embodied AI, brain–computer interfaces, future energy, and 6G, and the use of a National Venture Capital Guide Fund to catalyse startup growth.

The medium-term goal is to double 2020 per-capita GDP by 2035 and reach the income level of a "moderately developed" economy, with technology innovation positioned as the primary growth engine. To this end, national R&D spending is targeted to grow by at least 7% annually, and the value-added of core digital industries is expected to reach 12,5% of GDP by 2030, up from 10,5% in 2024, underscoring the ambition to shift toward a development model driven by advanced manufacturing and high-tech industrial chains.

Property and Local-Government Risk Management

Risks in the property sector and local-government finances remain central macro vulnerabilities as of February 2026. The GWR reiterates the commitment to stabilising the real-estate market, advocating city-specific policies to control the flow of new development projects, reduce excess housing inventory, and improve the overall quality of housing stock, rather than reverting to broad national easing. The authorities are also considering reforms to the housing provident-fund system as a potential tool to unlock latent housing demand and support the sector in a more targeted fashion.

On the fiscal-risk side, Beijing continues its campaign against hidden local-government debt, explicitly prohibiting the accumulation of new off-balance-sheet liabilities and seeking to refine debt-monitoring and evaluation indicators to enable unified central management of government debt. The heavy reliance on local-government special bonds to finance investment projects and swap existing hidden debts highlights both the importance of these instruments for macro stabilisation and the need to strengthen local tax bases to make sub-national finances more sustainable over time

U.K.

Bank of England Rate Decision

On 4th of February the MPC voted 5-4 to hold interest rates at 3.,5%, where 4 members wanted to cut immediately to 3,5%, diverging on their opinions from the other 5 members.

Even with a decrease in their 2-year inflation forecast from 2.1% to 1.8% - below target, the BoE decided to hold their decision for the upcoming meeting on 19th of March, where a cut is increasingly priced in.

With this decrease in inflation numbers and being below their target rate, the BoE is assisting on a slower and weaker economy sustaining high rates, it signals the next move is almost certainly a cut, the question here is the timing.

GDP and Growth

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Labour Market

Unemployment rate from December 2025 came out with some warning data, 5.2% in 3 months to December – highest since late 2020. It's up 330,000 YoY, reaching a youth unemployment (16y-24y) of 16% - highest since 2015. The government's fiscal decisions (NI hike) intended to fund public services are directly suppressing private sector hiring. This is a political vulnerability for Starmer heading into spring.

U.S. Tariffs and Trade

This month was marked by the US Supreme Court decision on illegal US tariffs on foreign countries, Supreme Court ruled IEEPA does not authorise the POTUS to impose tariffs, immediately Trump pivoted to Section 122 of the Trade Act of 1974 – signed a 10% global tariff, valid 150 days. Then raised the baseline to 15% - effectively canceling the UK's preferential bilateral deal negotiated earlier.

Key tension: The UK had banked on its bilateral deal as a shield against US protectionism. That shield cracked in February. The UK is now in a similar position to the EU, exposed to a volatile US trade policy with limited leverage

Analyst Take and Conclusions

February was a difficult month to interpret optimistically. Growth remains near-stalled, unemployment is rising at its fastest pace since the pandemic, and the industrial base continues to contract in ways that are increasingly difficult to reverse. Compounding this, the US bilateral trade arrangement, one of the few external supports underpinning UK export confidence, showed significant signs of deterioration. Taken together, these are not coincidental weaknesses; they reflect an economy under sustained and reinforcing pressure.

The Bank of England's 5–4 vote to hold rates was perhaps the most telling moment of the month. A committee this divided is not one that is comfortable with the current stance, it is one that is running out of reasons to maintain it. With the two-year inflation forecast now sitting below the 2% target, the argument for holding at 3,75% is losing its foundations. Prolonged restrictive monetary policy, in the context of stalling growth and declining domestic industrial capacity, risks accelerating the very contraction it should be helping to contain.

India

Macro Outlook

Macro narrative in early February changed from a trade-related concern to a policy-anchored expectation. The US-India trade deal helped remove a significant “cloud” of negative sentiment that paired over markets, resulting on the effective tariffs on Indian goods dropping from 50% to 18%. At the same time, India expects to gradually reduce tariffs on US goods and leverage trade agreements while spotting USD 500 billions of imports over the next five years. The reaction to this deal was strong and showed the relevance of this “cloud”: the Nifty 50 rose 5% and the INR-USD increased about 1,4% (its strongest move in 7 years), with significant foreign flows return. This contrasted with the reaction to the EU-India trade agreement, showing the predominance of the US trade relations on short-term confidence. Later, the US Supreme Court’s decision on declaring the “reciprocal” IEEPA tariffs illegal and Trump’s new provisory tariffs announcement had a similar, yet smaller effect on foreign flows, as effective rate went down to around 10%-15%.

Monetary Policies

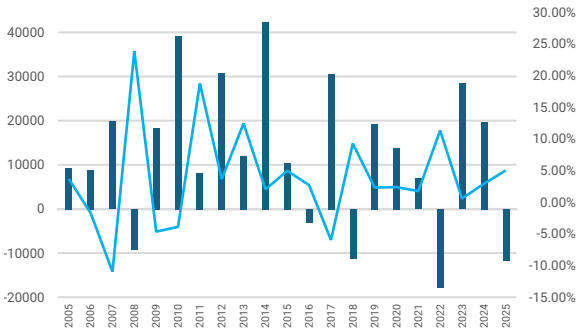
RBI’s decisions on maintaining the repo rate at 5,25% and ~INR 14 trillion of liquidity injection via OMOs and FX swaps are supportive of growth to 2026, likely triggering a decisive upward shift in growth expectations through a consumption-led recovery, as this monetary stimulus + anticipated rate cuts ahead are likely to support domestic demand resurge. Consumer inflation kept its downward trend to 4,6% (BEst) almost reaching the tolerance band target of 4% in 2025 and is forecasted to increase in this next year to a still acceptable range of around 4%-4,2% (according to the RBI) mainly due to volatility on energy and food prices. Further, a shift in the base year and in the composition of the CPI basket, lowering the weights of food and increasing core CPI, are likely to support a lower inflationary sequence

2026 Union Budget

The Union Budget reaffirmed a gradual consolidation path, while keeping its foot firmly on the public investment accelerator. The government CapEx was raised to INR 12,2 trillion (~USD 132,25 billion), focusing on infra, logistics, electronics, semiconductors, containers and energy security, including nuclear and rare earths, reinforcing a public investment-led growth strategy. This public cash injection has boosted Real GDP projections to 6.8%-7.2% and nominal growth at 10%. All these estimates are sustained by further tax buoyancy and INR 3,16 trillion (~USD 34,26 billion) of dividends from the RBI and public financial institutions. Additionally, the focus on maintaining short-and-medium term fiscal commitments remained: retaining a fiscal deficit ratio target of 4,4% for FY2026 and pivoting to a debt-targeting regime to lower Debt/GDP from 56,1% to 55,6%.

Figure 8

Net Foreign Flows in CM vs. INR-USD spot change YoY



Source: HSBC and Bloomberg

Brazil

Brazil is increasingly getting the attention global attention, showing some resilience to the overall risks that are perpetuated internationally. The median market expectancy posted by Focus Survey was revised slightly upwards for predictions of GDP growth in 2026, from 1.80% to 1.82%, driven by a strong consumption outlook, stable trade balance, and an election year set to increase government spending.

The value had been stable at 1.80% for 10 weeks, which signals a modest increase in overall confidence in the economy. At the same time, the Brazilian Central Bank (BCB) increased its prediction for GDP growth in 2026, from 2% to 2.3%. Despite the good outlook, it is a setback from the previous four years, in which Brazil's economy grew by 4.8% (2021), 3.0% (2022), 3.2% (2023), 3.4% (2024), and preliminary data show 2.2% growth in 2025.

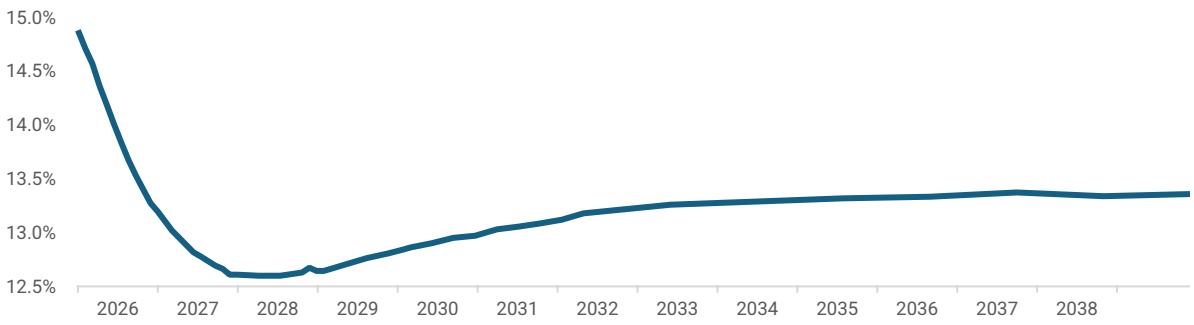
Inflation and Currency Dynamics Create Room for Rate Cuts

Market expectancy for February's Consumer Price Index (IPCA) has been dropping in the last month, from 0.54% change MoM four weeks ago to the current 0.45%, and 3.95% YoY. For January, the index climbed 0.33%, closing at 4.44% YoY, within the tolerance level of the BCB (3% ± 1.5pp). The drivers of this deceleration are a combination of different key components: easier prices of agricultural products, interest rates above 10% for the past four years, oil price decreases, Real appreciation and Dollar depreciation, and anchored expectations for inflation. Meanwhile, the IGPM, which includes a strong wholesale price component, is consistently showing deflation levels, closing the year with -1.05% YoY and -0.01% in December.

The figures are positive signs for the overall economy and the government, since this means there will be space for interest rate cuts from the BCB before the middle of the year. In fact, market participants are already pricing a 50bps cut in interest rates in the next BCB meeting, which is happening on March 18th, and another 50bps cut in the following one, on April 29th, potentially ending the first six months of 2026 below the 14% threshold. DI futures curve also confirms these, and prices further cuts over the year.

Figure 9

DI Rate Futures



Sources: B3 and Bloomberg

Banking Scandal Crisis Amplifies

Even with all this positive data, the Brazilian banking industry appears to be entering a cleanup. Since January, already three big financial institutions have had their assets liquidated extrajudicially, with analysts estimating around R$ 90 billion in total financial losses, including Banco Master liquidation in November 2025 – with the Credit Guarantee Fund (FGC) having covered R$ 41 billion for investors. The value is a combination of estimated, although not confirmed by any entity, R$ 81 billion from Banco Master, R$ 6.3 billion from Will Bank and R$ 6.7 billion from Banco Pleno. There is no data available for Reag Trust, since it is not a bank and will not be covered by the FGC.

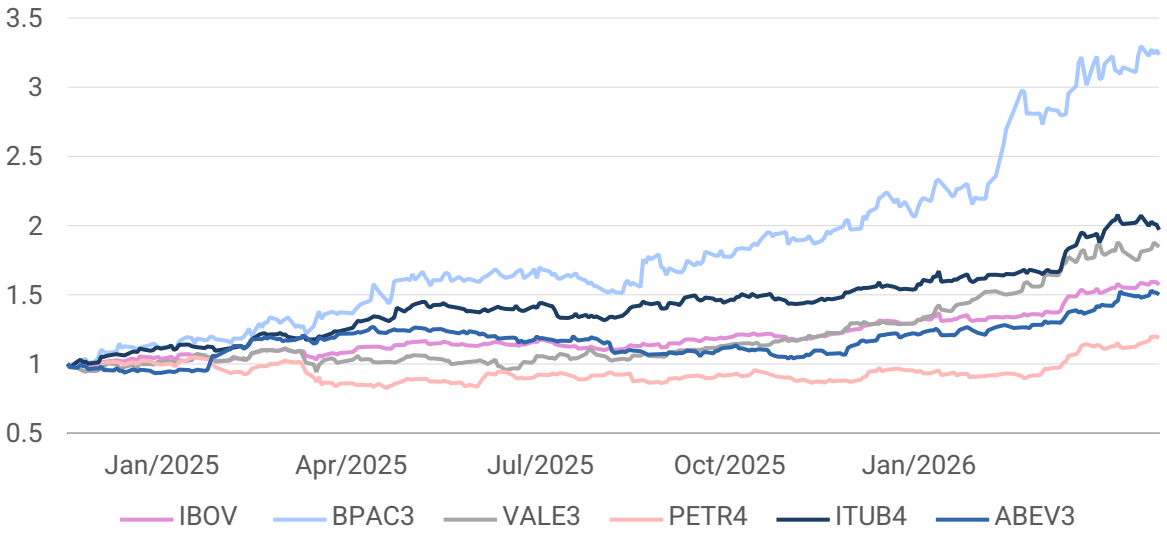
Going deeper into the crisis, Operation Compliance Zero, that began with the liquidation of Master, appears to be just beginning, as important names in the Government and Supreme Court are mentioned in the apprehended documents. Among them, minister Dias Toffoli had his name mentioned in some documents from the investigation but was not investigated. For now, the Federal Police (PF) is focusing its efforts on executives and businesspeople, although there is speculation about political ties around the case.

Indirectly impacted by that, the general election for president, the Senate, and the House of Deputies will take place in October. There are high expectations from the right-wingers for a presidential candidate, as Jair Bolsonaro remains ineligible. Recent Quaest polls from February show the left-wing remains strong, with current president Luís Inácio Lula da Silva between 35% and 43% in voting intentions. Second-turn scenarios also show Lula winning all possible adversaries, winning with a 12% advantage over Tarcísio de Freitas, the strongest possible candidate from the right. However, Lula's approval is not homogeneous, as 56% of the population believe he should not run for a fourth term. Meanwhile, 76% of the opposition believe Bolsonaro should back another candidate, as it is unprovable that he will become eligible for presidency in time for the elections.

To close, the influx of capital to Brazil and other emerging economies remains strong. The IBOV index, that tracks the 90 biggest companies listed in Brazil's B3 stock exchange, is at the highest level ever seen, closing February at 188.787 points – up 51.27% in the last twelve months. Additionally, companies' reports are strong, and point to further capital inflows into the economy, both into capital and public debt markets

Figure 10

IBOV and main players performances since January 2025



Source: Bloomberg

Mexico

General Economic Offset – Trade Balance, FX and Growth

Mexico's February outlook can be described with generally positive thoughts, even though there are worrisome signals. The Land of the Sun's domestic product expanded by 0.9% from the previous quarter in the final three months of 2025, rebounding from the 0.3% contraction in the earlier period and revised upward from the preliminary estimate of 0.8% growth. This was the sharpest expansion since Q3 2024, denoting the recent volatility in Mexico's economic growth cycle.

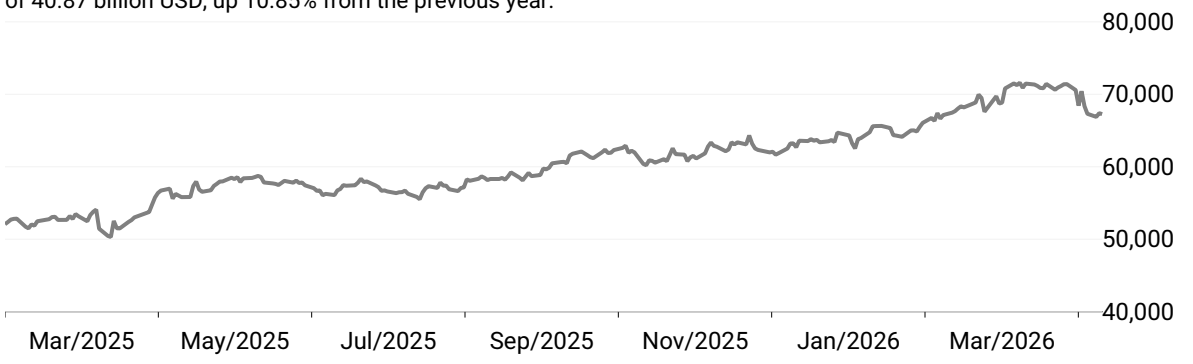
"Regarding the last month, on manufacturing, exports have begun to lose momentum (…) public and private investment remains low (…) the labor market has deteriorated" and uncertainty over domestic and foreign economic policy dominates the outlook for GDP growth", stated an Argus media article on March 3. The excerpt can be backed up by statistics, as record-high January trade deficit (6.48 billion USD) is expected to narrow but remain in place. Moreover, the S&P Global Mexico Manufacturing PMI registered 47.2, marking the sixth consecutive manufacturing contraction besides getting closer to non-contraction threshold. Meanwhile, the non-manufacturing PMI increased from 49.4 in January to 50.0 in February, reaching the threshold of expansion after several months in contractionary territory.

It is relevant to point out that the Mexican economy is highly integrated with that of the United States. 80% of Mexican exports are to America, and the Latin country is presently its main trading partner (15.6%). Thus, softening demand from the United States translates into weaker export performance for Mexico, which appears to have occurred in February.

Both previous paragraphs hint us and are also hinted by a quite relevant topic - exchange rates. Ignoring the beginning of March, when the dollar value spiked to December 2025 levels, there was a dollar devaluation trend in motion since the beginning of April 2025, which accentuated at the beginning of 2026. Between these periods, the dollar depreciated by approximately 17.5% against the peso. This reduces the cost of imports for Mexico, partially easing pressures associated with the current trade deficit. Besides this, a weaker dollar combined with a sizeable interest rate differential (ranging from 3.25% to 5.5% in favor of Mexico) has been attracting capital inflows into the country, as investors engage in carry trade strategies, borrowing in lower-yielding dollar assets to invest in higher-yielding peso-denominated instruments. S&P/BMV IPC had a 30.3% 1-year return, and a record high Foreign Direct Investment of 40.87 billion USD, up 10.85% from the previous year.

Figure 11

S&P/BMV IPC Index - TTM



Source: Bloomberg

Inflation Bounces Back

Non-core consumer prices rose 3,8% while core inflation reached 4,5% in January, following a 3,7% rise in the prior month and remaining within the central bank's 2,0%–4,0% tolerance range. However, the buffer to the 4-p.p. limit is softening as inflation hit 3,92% in the first half of February, above expected by economists. These renewed pressures could diminish the chances of an interest rate cut by the Mexican central bank in March after policymakers unanimously decided to hold their key rate at 7% on February 5, the first pause since mid-2024. Among the main reasons are higher excise duties on leisure-related products, and up to 50% tariffs in force from the start of the year buoyed inflation in January and leaked towards February. Moreover, public policies such as 13% minimum wage increases and a 323 billion USD infrastructure program are expected to keep pressing price indexes.

Mexican labor market remains very tight, with a 2,4%-2.7% unemployment rate February prediction. In Europe, this would mean almost full employment capacity. Here, however, a structural economic handicap is bespoken – the Shadow Economy. This consists of both informal economic activity and illegal economic operations. Addressing this issue remains politically and institutionally complex, particularly given recent developments involving major organized crime leadership such as "El Mencho".

Shadow Economy

Statistics related to this economic sector are not very abundant, especially in the last 5 years. From 2015 onwards, data is more focused on the informal economy. Although, the broader trend suggests that the shadow economy has expanded over the past decade, with emphasis on the illegal side. In 2025, it stood approximately at 28%, with approximately 55% of the population in the informal sector. Between 2015 and 2025, extortion rates increased 60%. This should take into consideration 97% of extorsion cases are never reported. There have been recent decreases in numbers, but crime still remains impossible to contain. From an economic perspective, this creates a plethora of negative impacts. Some of them are fiscal revenue shortfalls, a "two-speed" economy and institutional weakness.

Overall, Mexico's macroeconomic environment currently reflects strong financial inflows and resilient labor markets, offset by structural weaknesses and slowing external demand. Regarding a future outlook, in its quarterly economic report Thursday, the central bank said it expects gross domestic product to expand 1.6% in 2026, up from its previous estimate of 1.1%. The bank left its GDP forecast at 2.0% for 2027. The cornerstones of future results will be USMCA trade developments, American future economic performance, and inflation fluctuations.

MENA

February opened with the region on a broadly constructive macro trajectory. GCC non-oil growth continued its structural acceleration, with purchasing managers' indices across Saudi Arabia, the UAE, and Dubai holding at or above 55 - well within expansion territory. GCC inflation remained near 2%, giving central banks scope to follow the US Federal Reserve easing cycle. Egypt, despite persistent fiscal pressures, was tracking 4,4% GDP growth. Heading into February, Sub-Saharan Africa was in a hopeful place macro-wise. The IMF projected that the continent would grow 4,3% in 2026 - positioning it as the fastest-growing region globally. African central banks, including those of Nigeria, Kenya and Egypt, reduced policy rates in February (please, see Figure 12).

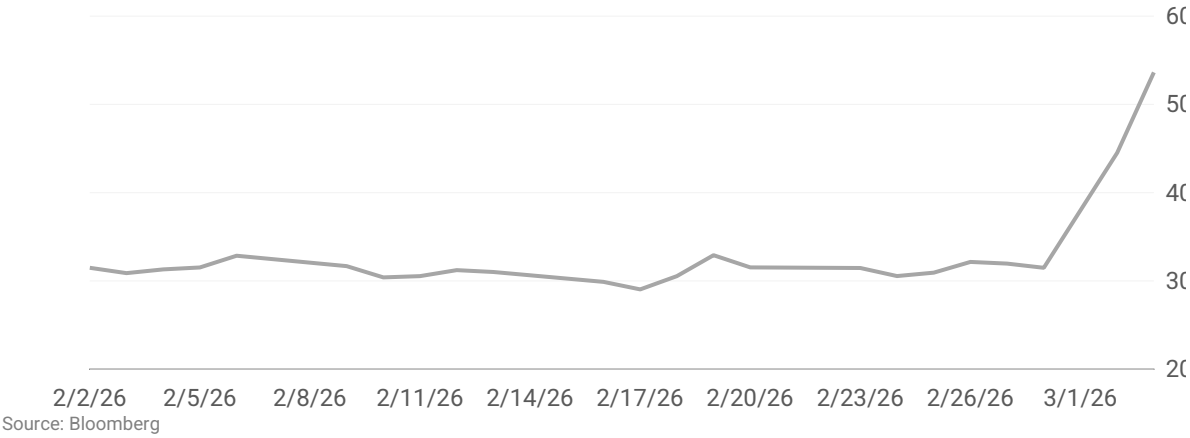
North Africa at a Crossroads, Egypt Bounces Back

An IMF paper released in February framed North Africa as "standing at a pivotal crossroads between Europe's industrial demand and Africa's demographic dynamism", arguing the region has a good opportunity to deepen economic linkages as geopolitical shifts reconfigure global supply chain. The IMF noted, however, that average North African import tariffs of 7% remain higher than those in many ASEAN, GCC, EU, and sub-Saharan African economies, and that trade between North and sub-Saharan Africa remains negligible as Africa's trade remains heavily Europe focused, with 63 percent of exports destined for Europe and only 4% to sub-Saharan Africa.

The biggest story of the month in North Africa was Egypt's. On February 26, Egypt unlocked about USD2,3 billion in loans after clearing reviews of an IMF program that was expanded in 2024. The IMF confirmed that a broad-based economic recovery lifted real GDP growth to 4,4% in both 2024 and 2025.

Figure 12

EU Gas Delivery Front Month Contract Price



Source: Bloomberg

Hormuz in Crisis: Oil Spikes and Growth Forecasts Fall After Iran Strikes

On the evening of 28th February, the region's constructive momentum was disrupted. The United States and Israel launched Operation Epic Fury on Iran. Supreme Leader Ayatollah Khamenei was killed alongside senior IRGC commanders. Iran retaliated with missile and drone strikes on US bases in Qatar, Kuwait, the UAE, and Bahrain - considerably broader than its posture during the June 2025 nuclear-site strikes. The market reaction was immediate. Brent, which closed at USD72.5/bbl on Friday 27th February, surged up to 13% at Sunday's open before settling near USD78-79/bbl by Monday 2nd March morning. Vessel-tracking data showed a 70% decline in Hormuz traffic as major shipping firms including Maersk and Hapag-Lloyd suspended transits and war-risk insurance was effectively withdrawn.

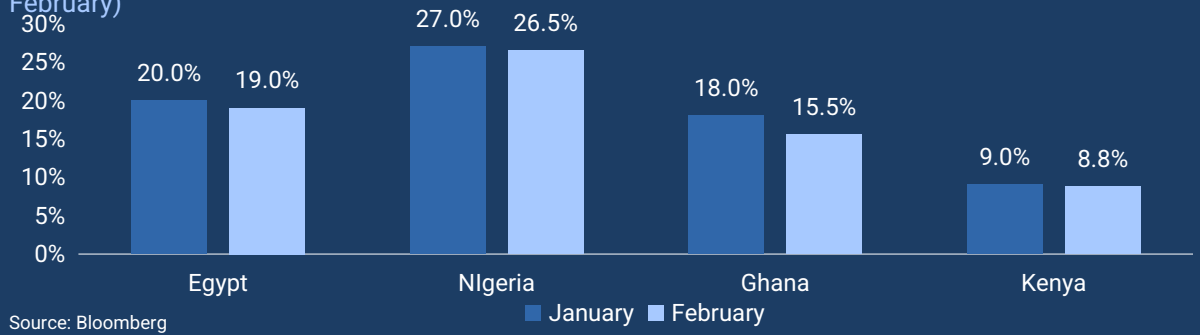
OPEC+ announced an above-consensus +220,000 bpd increase to mute upside pressure, but analysts at Barclays and UBS flagged scenarios of USD100-USD120/bbl if the disruption persists. QatarEnergy halted LNG production following attacks on its facilities, lifting European gas futures by approximately 70%, putting the TTF index at approximately €54 on the front month delivery contract by the time this piece was written (COB 3rd March 2026). JPMorgan trimmed its outlook for non-oil growth for economies across the Gulf region this year following the widening Iran conflict. The Wall Street bank cut non-oil growth by 0.3 percentage points across the bloc, with Bahrain and the United Arab Emirates seeing the biggest reduction, at 0.5 percentage points and 0.4 percentage points, respectively.

Rerouted Tankers, Rising Costs

Bloomberg reported that the oil price shock risks derailing the rate cut cycle that nine African economies had only just begun. Cape of Good Hope rerouting tankers avoiding Hormuz adds freight costs and weeks of transit time, compounding pressure on landlocked economies dependent on Red Sea ports. The Suez Canal corridor faces additional risk if Houthi activity resumes in support of Tehran, threatening up to 30% of global container flows - a critical artery for African trade with Europe and Asia. In the upcoming weeks, amid escalating Iran conflict tensions and potential Strait of Hormuz disruptions, investors monitoring Brent crude and LNG prices, alongside gold, stand to benefit from tanker ETFs like BWET, which tracks elevated freight rates from rerouting making volatility itself the tradeable asset.

Figure 13

Interest Rate Cuts in Africa (January and February)



Source: Bloomberg

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