Brazil Prices In Change

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Electronic voting machine, first round of the general election, Brazil

Brazil is the largest country exposure in the UEM portfolio, at 27.0% of NAV, which makes this month's general election a key event for the portfolio. In the first round, held on 4 October, Senator Flávio Bolsonaro of the right-wing Liberal Party (PL) received 47.0% of valid votes against 45.2% for President Luiz Inácio Lula da Silva of the left-wing Workers' Party (PT)[1]. The result was contrary to most polls, which had the incumbent ahead[2], and it is the first time Lula has finished behind in a first round since 1998[3].

Why the Vote Turned

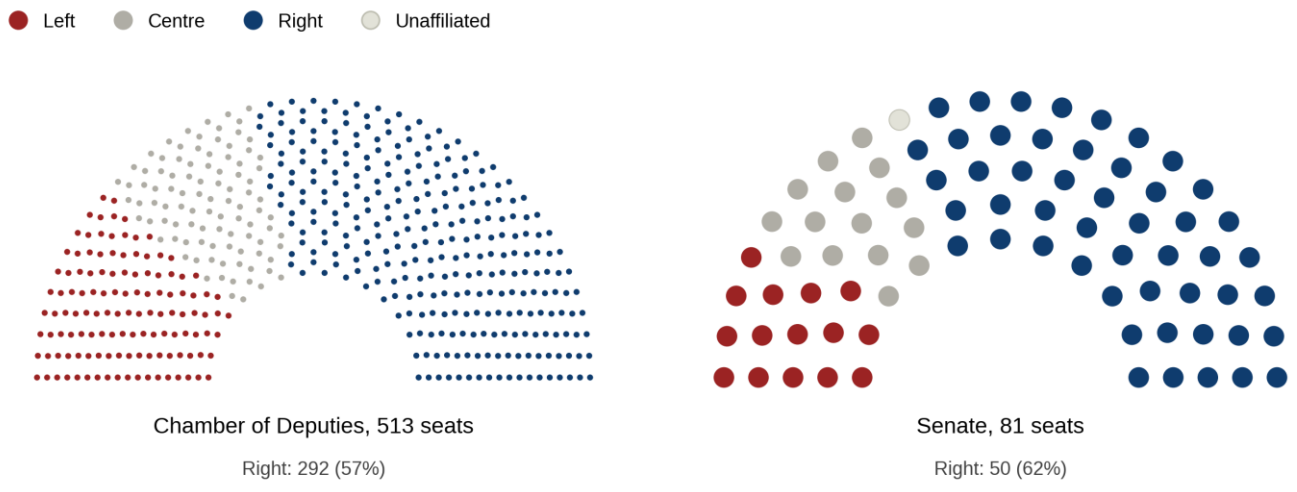
Lula, in office since 2023, is seeking a fourth non-consecutive term. Flávio, a senator for Rio de Janeiro, is the eldest son of former President Jair Bolsonaro, who was defeated by Lula in 2022 and is currently barred from running. The result fits a broader pattern. South America has shifted to the right in recent elections, from Argentina and Ecuador to Bolivia, Chile and, most recently, Colombia, while incumbents globally have struggled since the post-pandemic rise in inflation.

Domestically, three factors stood out. First, the economy: households remain under pressure from high living costs and debt after a long period with the Selic at or near 15%. Second, public security, consistently among voters' top concerns. Third, corruption and institutional concerns, with fraud at the National Pension Fund, investigations reaching people close to the President and the Banco Master case, which has implicated politicians across the spectrum and Supreme Court justices. Lula's high rejection rate also limited his ability to grow beyond his core base.

A Congress to Match

The shift extended to Congress. PL, Flávio's right-wing political party, won 19 Senate seats and will hold 28 of 81, the largest bloc at the start of a legislature since 1988, and elected 121 deputies, also the largest group in the Chamber[4]. Centre-right candidates won key governorships, including São Paulo and Minas Gerais. If elected, Flávio Bolsonaro would take office with an unusually strong legislative base for reforms.

Brazil's Congress from February 2027



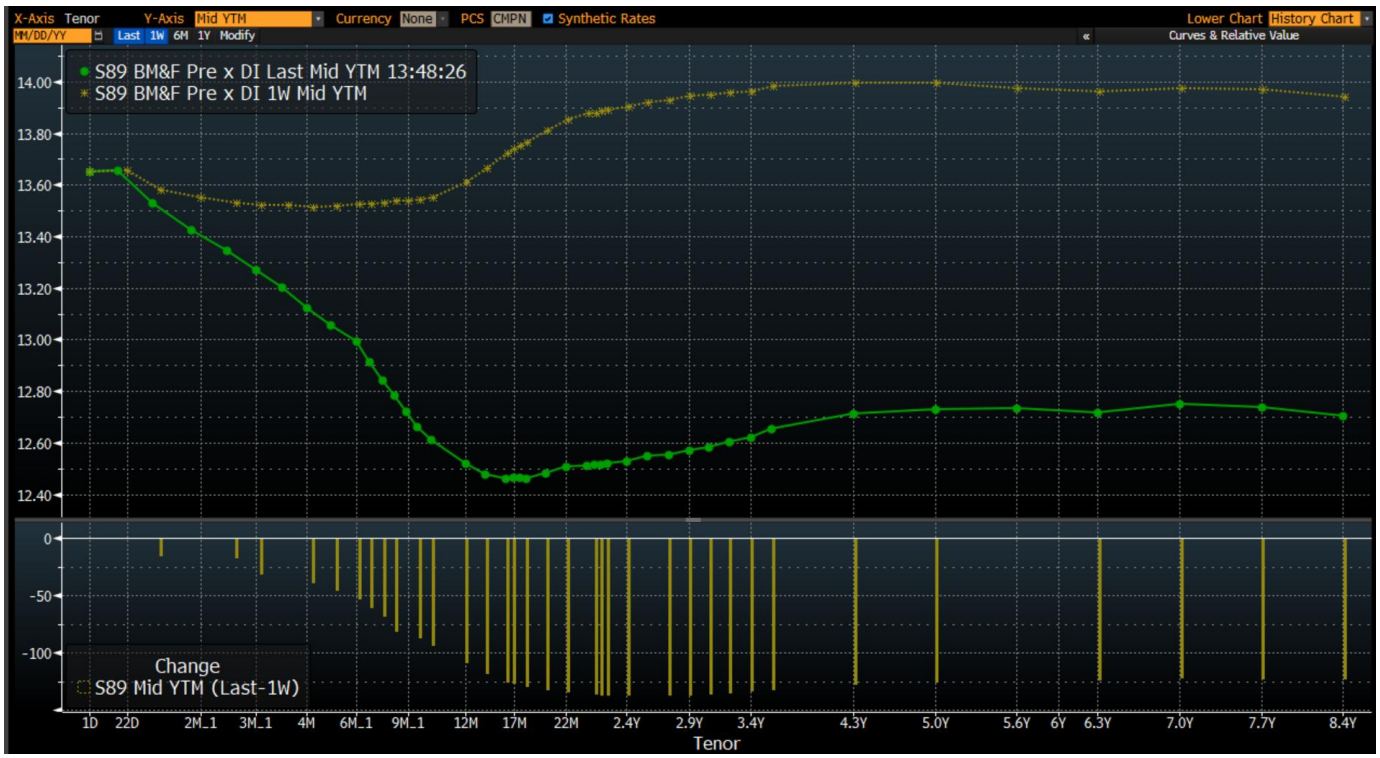
Source: TSE results as compiled by GCMais, Times Brasil and Congresso em Foco; Agência Senado

The Runoff and the Market Reaction

We currently see a high probability of a Flávio Bolsonaro victory in the 25 October runoff. No candidate in Brazil has won a presidential runoff after finishing behind in the first round[5]. The remaining 7.8% of valid votes went largely to centre-right and right-wing candidates, whose voters are more likely to back Flávio. Prediction markets have also been pricing his chances above 80%[6].

Markets reacted strongly. On the first trading day, the Ibovespa rose 7.7% and closed above 200,000 points for the first time, the BRL appreciated by more than 4%, and long-dated interest rate futures also fell significantly[7]. The momentum carried through the following days, supported by heavy foreign inflow. The move reflects greater confidence in the prospect of fiscal adjustment and a more reform-oriented government, and a lower risk premium on Brazilian assets. Lower long-term yields are particularly relevant for infrastructure and utilities, whose long-duration, capital-intensive assets make their valuations and financing costs closely linked to local rates.

Brazil Yield Curve 1-Week Change



Source: Bloomberg

What It Means for UEM

We view the first-round result positively. A year ago, in our October 2025 insight note, we identified lower interest rates and the prospect of a change in government as the key catalysts for Brazil's capital markets, and both are now coming more clearly into view.

UEM's Brazilian holdings are well placed to benefit. They are well-managed businesses with established regulatory frameworks, largely inflation-linked revenues and clear competitive advantages, and they have proven resilient across cycles. Many address the country's critical infrastructure bottlenecks, where the need remains substantial. The runoff has yet to be decided, and a new government would still need to deliver fiscal consolidation. Even so, we believe conditions are in place for a sustained re-rating of Brazilian assets, and we remain constructive on Brazil.

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Source Data: ICM Limited.

[1] TSE (Tribunal Superior Eleitoral)
[2] NBC News (2026) 'Brazil election headed to runoff, projection shows, as Flavio Bolsonaro lead narrows'
[3] Americas Society/Council of the Americas (2026) 'Brazil's Election: Four Points to Understand the First-Round Results'
[4] Agência Senado (2026) 'PL terá maior bancada em início de legislatura no Senado desde 1988'
[5] InfoMoney (2026) 'Brasil nunca viu uma virada no segundo turno da disputa presidencial'
[6] Polymarket 'Brazil Presidential Election'
[7] Reuters (2026) 'Brazil markets' Bolsonaro rally sends stock exchange to record high'

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