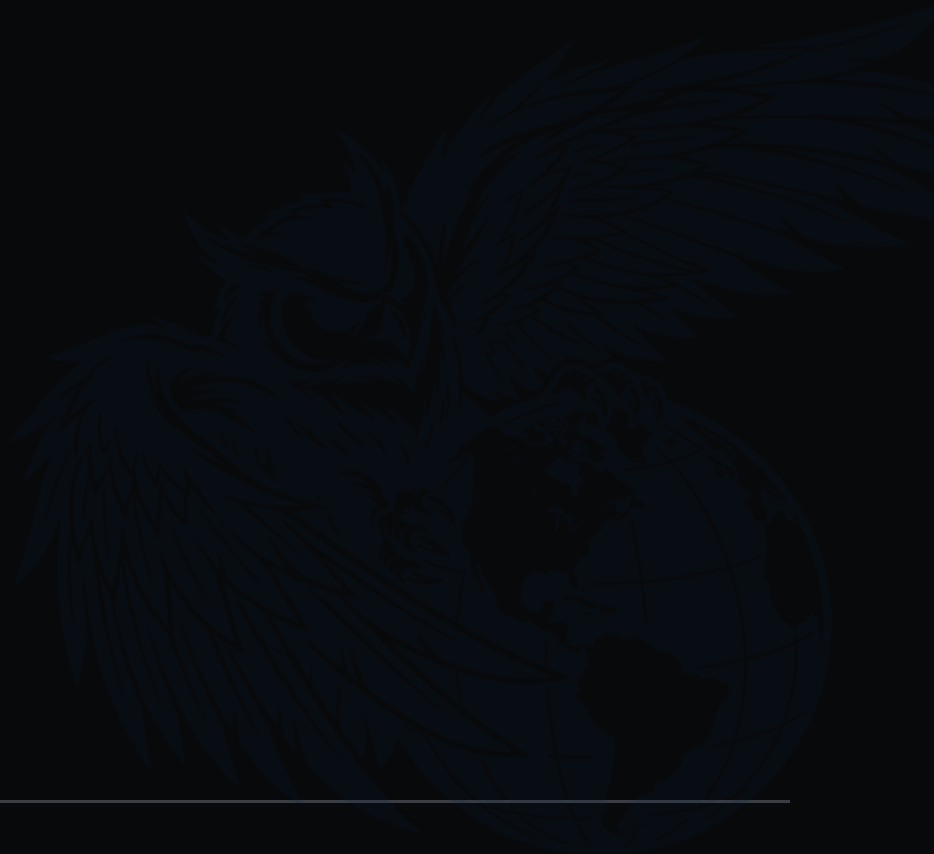

PUBLISHED MARKET RESEARCH

Brazil's Runoff: Bolsonaro, Lula and the Real

Markets have priced a Bolsonaro win; a Lula comeback is the tail
that moves the real

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Brazil's Runoff: Bolsonaro, Lula and the Real

Markets have priced a Bolsonaro win; a Lula comeback is the tail that moves the real

Flavio Bolsonaro goes into Brazil's runoff as the favourite, and the real has already moved as if he has won. The risk worth hedging is not his victory but a Lula comeback, which would unwind the post-first-round rally, while either winner inherits a fiscal position that limits how long any rally can last.

Flavio Bolsonaro is the likely winner of the runoff against Lula, and the market has already priced that outcome. He led the first round, the vote left over from eliminated candidates leans right, and the first runoff polls after the vote put him ahead. The real posted its biggest one-day gain in four years after the first round, so most of the upside from a Bolsonaro win is already in the price. The asymmetric risk is a Lula victory, which would reverse much of that move. Whoever wins inherits rising debt and heavy interest costs, so a lasting rally needs an early, credible fiscal signal.

HEADLINE INDICATORS

47 to 45

FIRST-ROUND RESULT, FLAVIO BOLSONARO OVER LULA, PERCENT OF THE VOTE

49 to 45

FIRST DATAFOLHA RUNOFF SIMULATION AFTER THE FIRST ROUND, PERCENT

4.1 percent

ONE-DAY GAIN IN THE REAL AGAINST THE DOLLAR ON 5 OCTOBER 2026

121 of 513

LOWER-HOUSE SEATS PROJECTED FOR THE LIBERAL PARTY

82.9 percent

GENERAL GOVERNMENT GROSS DEBT TO GDP, AUGUST 2026

DOCUMENT CONTROL

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CENTRAL JUDGMENT

The runoff is now Flavio Bolsonaro's to lose, and Brazilian assets trade as if he will not lose it. That makes the election an asymmetric event for anyone exposed to the real: a Bolsonaro win confirms a price already paid, while a Lula comeback would take most of the post-first-round rally back. Beyond the vote, the durability of any rally rests on fiscal policy, where rising debt and interest costs leave either winner little room, and on how a Bolsonaro government aligned with a right-leaning Congress handles its relations with the Supreme Court.

KEY JUDGMENTS

KJ-1	Flavio Bolsonaro is the likely winner of the runoff against Lula. He led the first round, the residual vote leans right, and both post-first-round polls read put him ahead.	MODERATE
KJ-2	The real has already priced a Bolsonaro win, so the asymmetric risk around the runoff is a Lula victory, which would reverse most of the post-first-round rally. The currency's jump after the first round matched what forecasters had set out in advance for a Bolsonaro lead.	MODERATE
KJ-3	A Bolsonaro presidency would govern with a friendly Congress and better odds of fiscal reform, but also with a likely clash between the Senate and the Supreme Court. The Liberal Party becomes the largest bloc in both chambers, and a right-leaning Senate has signalled interest in moving against justices.	MODERATE
KJ-4	The rally will hold into next year only if the winner sets out a credible path to a primary surplus early in the term. Debt and interest costs are rising, and neither candidate has published a costed plan in the sources read.	LOW
KJ-5	A contested result is unlikely but remains the main political tail risk of the runoff. The race is close and the last presidential transition ended in a coup plot for which Jair Bolsonaro is now serving a prison sentence.	LOW

KEY STATISTICS

47 percent Flavio Bolsonaro's share of the first-round vote, 2026-10-04 ¹	45 percent Lula's share of the first-round vote, 2026-10-04 ¹	49 percent Flavio Bolsonaro in the first Datafolha runoff simulation after the first round, 2026-10-08 ³	45 percent Lula in the same Datafolha runoff simulation, 2026-10-08 ³
4.1 percent One-day gain of the real against the US dollar, 2026-10-05 ²	7.7 percent One-day rise in the Bovespa index to a record close, 2026-10-05 ²	5.2222 reais Reais per US dollar, Federal Reserve noon buying rate, last reading before the vote, 2026-10-02 ⁸	28 seats Liberal Party seats in the incoming Senate of 81 members, 2026-10-05 ²
21 percent Share of the electorate that did not vote in the first round, 2026-10-04 ⁴	82.9 percent General government gross debt as a share of GDP, 2026-08-31 ⁶		

Scope and method

METHOD

This text reads wire reporting and public analysis of Brazil's first round and of the first runoff polls after it, the Federal Reserve's published exchange-rate series for the real, and central bank fiscal figures as reported in the press, all read on the date of writing. Each fact is cited to its source and graded by the firm's Source List; sources off that list are marked unverified and carry no high-confidence judgment. Probabilities in the Outlook are the author's own judgment, not a model output. No client-attributable material is used.

SECTION 01 • ASSESSMENT

The first round and the arithmetic of the runoff

Flavio Bolsonaro won about 47 percent of the vote in the first round on 4 October 2026 and Lula about 45 percent, so neither crossed the majority needed and the two meet again on 25 October.¹

Polls before the vote had Lula ahead by about three percentage points, and the other candidates together took close to 8 percent, a field Oliver Stuenkel of the Getulio Vargas Foundation describes as largely centre-right, in reporting dated 5 October 2026.⁴

About 21 percent of the electorate did not vote, the highest abstention since 1998, and Lula won fewer votes than in 2022 in 25 of the 27 states, according to an analysis dated 5 October 2026.⁵

Jair Bolsonaro, who lost the 2022 election to Lula by 1.8 percentage points, is serving a 27-year sentence for plotting a coup after that defeat, as reported on 5 October 2026.⁴

UNKNOWN: how the voters of the eliminated candidates and those who abstained will split in the runoff; no published survey read breaks them out.

ASSESSMENT • MODERATE CONFIDENCE

Flavio Bolsonaro enters the runoff as the favourite, because Lula must both win most of a small, right-leaning residual vote and bring back voters who stayed home. The first-round lead, the make-up of the residual vote and the abstention pattern, reported by independent outlets, all point the same way.

SECTION 02 • ASSESSMENT

The polls after the first round

Datafolha's first runoff simulation after the first round, from 2,520 in-person interviews on 6 and 7 October, shows Flavio Bolsonaro at 49 percent and Lula at 45 percent, with a margin of error of 2 percentage points, which Reuters calls a technical tie, published 8 October 2026.³

PoderData's survey of 3,000 voters, in the field from 5 to 7 October, shows Flavio Bolsonaro at 53 percent of valid votes and Lula at 47 percent, after a tie in its previous wave, published 8 October 2026.⁷

UNKNOWN: the AtlasIntel and Quaest runoff numbers, which had not been published when this text was written.

ASSESSMENT • MODERATE CONFIDENCE

Two pollsters with different methods now put Flavio Bolsonaro ahead, which moves the race from a coin toss to a lean towards him, though his Datafolha lead sits inside the margin of error. The direction agrees across two independent surveys, while one of them is read only through a source off the Source List and the first-round miss shows the polls can err.

SECTION 03 • ASSESSMENT

Congress and the governability gap

The Liberal Party grew from 15 to 28 seats in the 81-seat Senate, the strongest result for a party since the constitution of the late 1980s, and is projected to hold 121 of 513 lower-house seats, up from 98, as reported on 5 October 2026.²

The Workers' Party won 70 seats in the Chamber of Deputies, and Vinicius de Carvalho of King's College London says a re-elected Lula would still need to meet some of the right's demands given the Congress, in reporting dated 5 October 2026.⁴

Analysis dated 5 October 2026 counts 49 senators likely to favour impeaching Supreme Court justices from February 2027, five short of the two-thirds threshold.⁵

ASSESSMENT • MODERATE CONFIDENCE

Either winner governs with a Congress that leans right: a Bolsonaro win aligns the executive and the legislature and raises the odds of both fiscal reform and a confrontation with the Supreme Court, while a Lula win points to gridlock on reform. The seat counts are reported by two outlets and the alignment follows from them, while the reform payoff depends on choices not yet made.

SECTION 04 • ASSESSMENT

The real has priced a Bolsonaro win

The real gained 4.1 percent to around 5 reals per dollar on 5 October 2026, its biggest one-day gain in four years, and the Bovespa closed at a record 206,911.89 points after a 7.7 percent rise.²

The Federal Reserve's noon buying rate for the real stood at 5.2222 reals per dollar on 2 October 2026, the last observation before the vote in the series read.⁸

A Reuters poll published before the vote had forecast a strengthening of up to 4.6 percent, to 5 reals per dollar, if Bolsonaro won the first round, and the move matched that forecast, as reported on 5 October 2026.¹

Societe Generale expects the real at 5.10 per dollar by the end of 2026 and Morgan Stanley sees it moving towards 4.50 in the first quarter of 2027, while five-year credit default swaps on Brazilian debt fell 20 basis points, as reported on 5 October 2026.²

UNKNOWN: the level of the real between 6 and 8 October 2026; the Federal Reserve series read here ends on 2 October.

ASSESSMENT • MODERATE CONFIDENCE

The market already treats a Bolsonaro presidency as the base case, so a Bolsonaro win adds little further strength while a Lula win would undo most of the post-first-round rally. The size of the move matched the pre-vote forecast for a Bolsonaro lead, which says the outcome was priced as a scenario rather than met as a surprise.

SECTION 05 • ASSESSMENT

The fiscal constraint either winner inherits

General government gross debt reached 82.9 percent of GDP in August 2026, up from 82.6 percent in July, with a nominal deficit of 9.48 percent of GDP over the twelve months to August, per central bank figures released on 30 September 2026.⁶

Interest costs in August 2026 were 105.9 billion reals against a primary deficit of 10.0 billion reals, per the same central bank release of 30 September 2026.⁶

Pedro Galdi of AGF Investments told Reuters the market wants reform and lower public deficits, and Reuters reported that Lula is considering Vice President Geraldo Alckmin as finance minister if re-elected, on 5 October 2026.²

UNKNOWN: either candidate's costed fiscal plan; neither has published a detailed one in the sources read.

ASSESSMENT • LOW CONFIDENCE

The fiscal arithmetic leaves little room for either winner, so the post-election rally will last only if the winner sets out a credible primary surplus path early in the term. The debt and interest figures come from a single source off the Source List, and the policy response is not yet known.

SECTION 06 • DECISION

Decision

Decision	Owner	Trigger	Pre-authorized action
Hedge real exposure into the runoff	Treasury lead	A runoff poll from Datafolha, Quaest or AtlasIntel shows Lula ahead outside its margin of error	Extend hedge cover on real-denominated receivables through year-end
Re-price Brazil country risk	Risk committee	The electoral court declares the runoff winner	Move the Brazil exposure limit to the matching scenario setting
Read the fiscal signal	Strategy lead	The winner names a finance minister	Review the timing of Brazil investment within the quarter

SECTION 07 • OUTLOOK

Outlook

Baseline • Bolsonaro narrowly. Flavio Bolsonaro wins the runoff by a narrow margin, Lula concedes, the real holds most of its post-first-round gain, and attention turns to the choice of finance minister and whether the first budget tightens spending.

Deterioration. Lula overturns the first-round deficit by bringing back voters who stayed home, the real gives back its rally and local rates rise; or a narrow result of either colour is contested, putting pressure on the electoral institutions in a way that recalls the aftermath of the last election.

Stabilization. A clear winner, a quick concession and an early, credible fiscal announcement let the real firm further and give the central bank room to keep easing.

Claim C-1. Flavio Bolsonaro wins Brazil's presidential runoff of 25 October 2026. Probability 0.72. Resolves on 2026-11-06 from Reuters: YES if Reuters reports, by 6 November 2026, that the Superior Electoral Court has declared Flavio Bolsonaro the winner of the 25 October 2026 runoff; NO otherwise. Horizon 30 days. This is the author's judgment: he led the first round, the residual vote leans right and both post-first-round polls read put him ahead. It stays well short of certainty because the Datafolha lead is inside its margin and the polls missed the first round.

Claim C-2. Flavio Bolsonaro's share of the valid votes in Brazil's presidential runoff of 25 October 2026. Point and interval: lo 49.5, central 52.0, hi 54.5, unit percent, level 80. Resolves on 2026-11-06 from Reuters: the share of valid votes won by Flavio Bolsonaro in the runoff, in percent of valid votes, as reported by Reuters from the Superior Electoral Court's count with all polling stations counted, to one decimal place. Horizon 30 days. The central value sits between the Datafolha simulation restated as a share of valid votes and the PoderData figure. The width allows for a polling error as large as the first-round miss.

Claim C-3. The Brazilian real trades stronger than 5.10 reais per US dollar on 30 October 2026, the first full trading week after the runoff. Probability 0.65. Resolves on 2026-11-06 from Federal Reserve Economic Data: YES if the DEXBZUS series value for 2026-10-30 is below 5.10 reais per US dollar, as first published, whatever the method; if no value is published for that date, the last value published for a date on or before it counts. Horizon 30 days. The real already traded near 5 per dollar after the first round, so the claim holds in most Bolsonaro outcomes and fails in most Lula outcomes. The probability blends the author's runoff odds with the chance of a sell-off for reasons unrelated to the vote.

Indicators.

- Datafolha, Quaest and AtlasIntel runoff simulations before the vote
- Endorsements from the eliminated first-round candidates
- Abstention in the runoff against the first round
- The DEXBZUS series and the five-year credit default swap spread on Brazil
- Names floated for finance minister by each campaign
- Any challenge to the result filed with the Superior Electoral Court

SECTION 08 • SCORECARD

Scorecard

No earlier firm claim is resolved or advanced by this draft.

SECTION 09 • WHAT IS NOT KNOWN

Unknowns

- UNKNOWN: how the eliminated candidates' voters and the first-round abstainers will split in the runoff.
- UNKNOWN: the AtlasIntel and Quaest runoff numbers, not yet published at writing.
- UNKNOWN: the level of the real after 2 October 2026 in the Federal Reserve series.
- UNKNOWN: the outcome of the central bank's September rate decision, which no source on the Source List read here confirms.
- UNKNOWN: either candidate's costed fiscal plan.

SOURCE REGISTRY

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2. Reuters, Brazil's real jumps after Bolsonaro leads election first round, by Oliver Griffin, Marcela Ayres and Gabriel Araujo, 2026-10-05, read as republished on marketscreener.com on 2026-10-08.
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