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Global Economic Weekly

Anna Karenina Principle of Monetary Policy

31 July 2026

Economics
Global

Global Letter: Anna Karenina Principle of Monetary Policy

Chair Warsh's press conference came across as dovish and added uncertainty. The market immediately priced it with a bear steepening, higher inflation breakevens, and higher risk premia. Steeper curve, lower equities, and a weaker dollar is the closest to the price action associated with typical credibility shocks faced by EM central banks. The Fed is facing a growing credibility problem. Absent a run of dovish data, hiking in September will become imperative for the Fed to regain the narrative.

United States: July jobs – Summer doldrums? Not yet

We expect payrolls to rise by a below-consensus (but still firm) 80k in July (private: 95k). Benign claims data and steady labor market indicators point to continued job growth, though we see some downside risks from summer distortions, softer ADP data, and a potential reversal in local gov't hiring.

Euro Area: France – it's hard to be upbeat

We joined cross asset forces on France. Caution dominates, amid public finance struggles and 2027 election risks. Macro risks seem tilted to the downside. There is scope for a more timely 2027 budget, but deficit correction is unlikely.

UK: BoE review – hold, no rush to act

The BoE kept rates on hold. There was no notable hawkish shift, with most members showing no rush to act. The door is kept open to a hike but no strong signal of an imminent one. We expect unchanged Bank Rate this year, but risks are titled to a hike later in the year. Having said that, we think bar for a hike in September is high.

Japan: Pipeline inflation pressures are broadening

Cost pressures from higher crude import prices are already feeding through to domestic producer prices, raising the risk of stronger inflation ahead. Cost pass-through has reached downstream stages of the supply chain much faster than in past energy shocks, pointing to increasingly broad-based pipeline inflation pressures..

Emerging EMEA: Ghana – stability restored

The 2026 fiscal framework remains unchanged and fiscally conservative, targeting an overall fiscal deficit of 4.0% of GDP and a primary surplus of 1.5% of GDP. The deficit reflects the overall balance, including discrepancies, which links to financing needs. Nominal revenue and expenditure projections were unchanged, signalling the authorities' commitment to the existing fiscal consolidation path.

Latin America: Mexico – AI hardware exports

Mexico's export engine is shifting from autos to AI hardware, as autos face higher US tariffs. US AI capex and tariff gaps are boosting hardware exports enough to turn manufacturing trade into surplus. Growth spillovers remain limited.

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Claudio Irigoyen
Global Economist
BofAS
+1 646 855 1734
claudio.irigoyen@bofa.com

Antonio Gabriel
Global Economist
BofAS
+1 646 743 5373
antonio.gabriel@bofa.com

Global Economics Team
BofAS

See Team Page for List of Analysts

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Global Letter

Claudio Irigoyen
Global Economist
BofAS
claudio.irigoyen@bofa.com

Antonio Gabriel
Global Economist
BofAS
antonio.gabriel@bofa.com

Anna Karenina Principle of Monetary Policy

Markets prefer bad news to uncertainty. And Chair Warsh's press conference on the back of a 9-3 decision to hold the policy rate unchanged came across as dovish, didn't bring any good or bad news, it just added uncertainty. The market immediately priced it with a bear steepening, higher inflation breakevens, and higher risk premia.

Steeper curve, lower equities, and a weaker dollar is the closest to the price action associated with typical credibility shocks faced by EM central banks. The Fed is facing a growing credibility problem as the market will continue to test its resolve to deliver price stability. Absent a run of dovish data in the intermeeting period, it is imperative for the Fed to pass the September test by hiking rates and delivering an internally consistent narrative. Our US team keeps their call for three hikes this year (see July FOMC review: Doved and confused). Family fights are ok if you get something useful out of that.

Tolstoy and Jared Diamond meets Warsh

Leo Tolstoy's famous opening of Anna Karenina *goes "Happy families are all alike; every unhappy family is unhappy in its own way"*. Tolstoy suggests that harmony follows common principles, while conflict can take many forms.

In his book, *Guns, Germs and Steel*, Jared Diamond builds on Tolstoy's insight to develop what he dubbed the Anna Karenina Principle. In his formulation, success requires satisfying many necessary conditions simultaneously; failure can result from any one of many deficiencies. He applies it to animal domestication: all domesticated animals share a set of required characteristics. An animal fails to be domesticated if it lacks any of those characteristics. This principle has been applied in several fields, from biology to medicine, management, finance, and economics.

Applied to monetary policy, the principle states that successful monetary policy requires many conditions to be right simultaneously: credible central banks, anchored inflation expectations, sound fiscal policy, financial stability, etc. Failure to deliver price stability can arise from any of those conditions not being met.

By revealed preference, Chair Warsh applies Tolstoy's insight with a different spin, but not necessarily contradicting Diamond's principle. Healthy institutions should have vigorous internal debate as a happy family is not one that never argues, but one that can disagree productively. According to Warsh, robust disagreement can improve monetary policy. However, it depends on how disagreement is communicated to the market.

The Art of Monetary Policy

Monetary policy is an art more than a science and communication is what fundamentally makes it an art. Here is where Diamond and Warsh interpretation of Tolstoy meets. If communication fails, it creates uncertainty, which needs to be absorbed by the market. And when that occurs, the risk of de-anchoring expectations increases exponentially, even if the rest of the ingredients for sound monetary policy are present.

Central bank press conferences are not presidential debates. They give the Chairman the opportunity to explain to the market how the central bank's reaction function works. And understanding the reaction function of a central bank is the ultimate goal for markets to perform their function of efficiently aggregating information. Not understanding the reaction function of a central bank adds unnecessary volatility not only to asset prices but more importantly to inflation expectations. And make no mistake, this is not the same as providing forward guidance. It is understanding the thought process of the central bank board.

In search of the lost anchor

Chairman Warsh didn't provide a clear justification of why the FOMC decided to remain on hold, while indicating that the market has tightened financial conditions by itself over the last few weeks, which gives the Fed some room of maneuver. The market already did the Fed's job, so there is no need to tighten. When you add to that opening the door for looking at other inflation indicators besides PCE and using other tools beyond interest rates hikes to fight inflation, the market reaction is hardly a surprise.

But the reference to the market tightening financial conditions deserves further scrutiny. Using a soccer analogy, Chairman Warsh stated that now the market is more focused on the ball rather than the referee. But for inflation to be stable the system needs a nominal anchor. That is why, as Diamond pointed out, there are a set of necessary conditions that need to be satisfied for monetary policy to deliver price stability.

If the Fed sets monetary policy based on a certain reaction function, it is the Fed that provides the nominal anchor, assuming the rest of the necessary conditions are satisfied (a big if, given the recent performance of fiscal policy). If the market sets interest rates rather than the Fed, that can easily create some indeterminacy in the system, which in practice can quickly develop in de-anchoring inflation expectations.

Maradona and Mervyn King join the party

In his 2005 Mais Lecture, Mervyn King introduced the "Maradona Theory of Interest Rates". King argued that the second goal of Maradona to England in 1986 was possible because defenders reacted to what they expected Maradona to do. Because they expected Maradona to move to the left/right, they created an opening for Maradona to move forward almost in a straight line. The feints never came and Maradona scored.

Applied to central banking, markets move interest rates in anticipation of what the central bank is going to do, allowing the central bank to achieve its objective with small changes in monetary policy. Expectations move markets and markets do part of the central bank's job.

A first glance at Warsh's remarks hints this is what he had in mind, though there is a subtle but important distinction. In King's framework, the central bank sets expectations, and the market reacts and tightens financial conditions. In Warsh's framework, markets have a more independent role: long term real rates rise and credit conditions tighten, so that the Fed does not have to tighten as much. Causality is reversed.

The distinction is important because in that case it is crucial to understand why financial conditions tightened. If the driver is stronger investment and consumption (i.e. stronger growth), looser fiscal policy, higher risk premia, or higher inflation expectations, then higher long-term yields are not necessarily contractionary in the same way as Fed-induced monetary tightening. In other words, these are drivers of higher r*, not of more restrictive monetary policy.

A good example is the "tightening" that the market engineered as a response to the press conference. The steepening of the curve, the selloff in long-term real rates, and wider inflation breakevens is a symptom of the market assigning higher probability to a regime change. The selloff in the long end reflects the market's doubts on the long-run nominal anchor.

The Fed has plenty of room to regain control of the narrative. September becomes key.

US

Shruti Mishra
BofAS

July jobs: Summer doldrums? Not yet

- We expect payrolls to rise a still-firm 80k in July (private: 95k). Claims and other labor indicators remain consistent with continued job growth, despite some downside risks from summer distortions, softer ADP data and local gov't hiring.
- We expect the unemployment rate to round up to 4.3% on stronger labor force participation, though robust household employment could keep it at 4.2%.
- A report in line with our forecast would signal a healthy labor market and support our call for three hikes in '26. Market reaction would likely center on Fed credibility, with curve flattening signaling confidence & steepening signaling concern.

Complete report: US Economic Weekly: July jobs: a litmus test for Fed credibility 31 July 2026

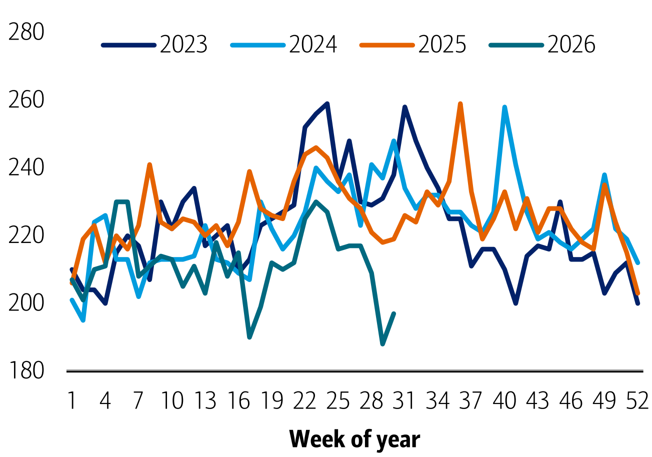
A healthy labor market

We expect payrolls to rise by a below-consensus (but still firm) 80k in July (private: 95k), up from 57k in June. Benign claims data and steady labor market indicators point to continued job growth, though we see some downside risks from summer hiring distortions, softer recent ADP readings, and a potential reversal in local gov't hiring. We expect the u-rate to round up to 4.3% as participation rebounds, though strong household employment could keep it at 4.2%. A report in line with our forecast would reinforce the view that downside risks to the labor market have largely faded, supporting our call for three hikes this year.

Sector job growth: Rebound in leisure & hospitality

Private sector payrolls are expected to improve to 95k in July from 49k in June. Even excluding the payroll survey week's unusually low initial claims reading, both initial and continuing claims remain consistent with a labor market that is on steady footing. While claims may not fully capture softness in white-collar employment, the persistently benign readings suggest broader labor market conditions remain healthy (Exhibit 1).

Exhibit 1: Initial claims remain in benign territory in July
Initial jobless claims (SA, thous.)



Source: BLS, Haver Analytics

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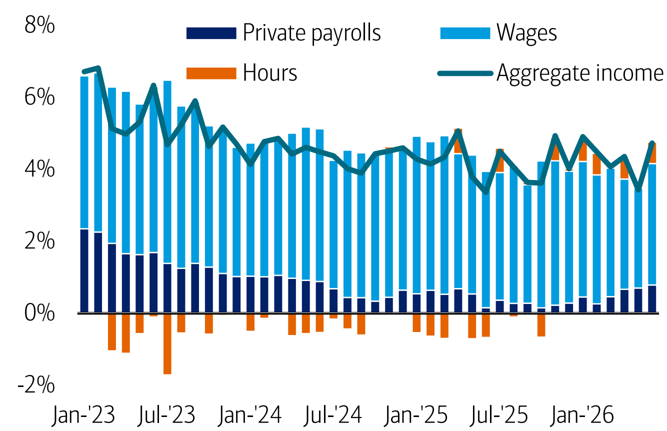
Exhibit 2: Income growth remains supportive of consumption but doesn't look inflationary
Decomposition of growth in the index of aggregate weekly payrolls into its components (% 6m annualized)



Source: Bureau of Labor Statistics, Haver Analytics

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Looking into the details, education & health services should again lead job gains. AI adoption has been slower in the sector, while demographic trends continue to support labor demand. That said, job growth should be somewhat broader in July. Leisure & hospitality could post a modest rebound after June's 61k decline, which was likely driven by seasonal distortions. Note that regional data showed little evidence of a meaningful World Cup-related boost in this sector in June, so we aren't too concerned about potential payback.

Professional & business services has now added jobs for six straight months after contracting in ten of twelve months during 2025. Some of the improvement reflects gains in temporary help jobs. However, hiring in more technical industries has also strengthened. This is broadly consistent with our view that last year's weakness in white-collar employment reflected normalization after pandemic-era overhiring, rather than AI-related displacement alone.

Trade and transportation employment could also increase. The sharp rise in goods imports during 2Q could support labor demand across logistics and transportation industries.

On the goods side, construction should post a fourth consecutive monthly gain. Hiring continues to benefit from data-center-related investment, particularly in civil engineering construction and nonresidential specialty trade contractors. Manufacturing employment could also improve modestly, with both survey indicators and hard activity data pointing to steady momentum this year.

Downside risks: Softer ADP, summer weakness & gov't payback

However, there are several downside risks to our payroll forecast. First, recent summers have seen weaker-than-expected hiring of new graduates, resulting in softer payroll prints. Some of that dynamic could persist over the coming months.

Second, ADP job growth has moderated in recent weeks. We suspect this largely reflects payback from unusually strong gains earlier in the year that may have been boosted by residual seasonality or temporary hiring. Some of that softness could get reflected in the NFP data as well. Third, local government employment could see a larger reversal that what we are penciling in after May's outsized increase, creating an additional drag on headline payroll growth.

Breakeven: Likely slightly higher than 20k/month

Labor supply constraints tied to tighter immigration policy remain an important part of the labor market story. Immigration enforcement appears to have softened somewhat at the margin this year. In addition, some immigrants who lost humanitarian protections last year are likely regaining work authorization through asylum-based channels. Even so, recent policy developments suggest immigration will continue to restrain labor supply, albeit to a slightly lesser degree than initially projected.

As a result, the labor market's breakeven pace of job growth may be somewhat higher than our current estimate of 20k per month. But any increase in breakeven would be modest. Therefore, even if payroll growth undershoots our forecast due to the factors discussed above, it should still continue to average comfortably above the breakeven pace.

HH data: U-rate to rise to 4.3%

The unemployment rate will likely be the key focus of the report. We expect it to round up to 4.3%, after declining to 4.2% in June.

Labor force participation fell three tenths to 61.5% in June, driven largely by an unusually sharp decline among 25-34 year olds. We estimate that drop was nearly five standard deviations below normal and expect part of it to reverse in July. As participation rebounds to 61.7%, the unemployment rate should edge higher.

That said, there is a meaningful risk that the unemployment rate instead remains at 4.2%, if household employment rebounds sharply after June's roughly 500k decline.

Stable wages: Supportive of consumption, not inflationary

We think average weekly hours will be unchanged at 34.3. Average hourly earnings should also remain at 0.3% m/m (3.5% y/y). Wage growth remains stable on a six-month annualized basis (Exhibit 2). Income growth should continue to be supportive of consumption without being inflationary.

Fed: Steady labor market would keep hikes on the table

If our forecast is correct, July would mark the fifth consecutive monthly increase in nonfarm payrolls. Despite a slower pace in the last few months, private payroll growth would still be averaging a solid 89k per month in 2026.

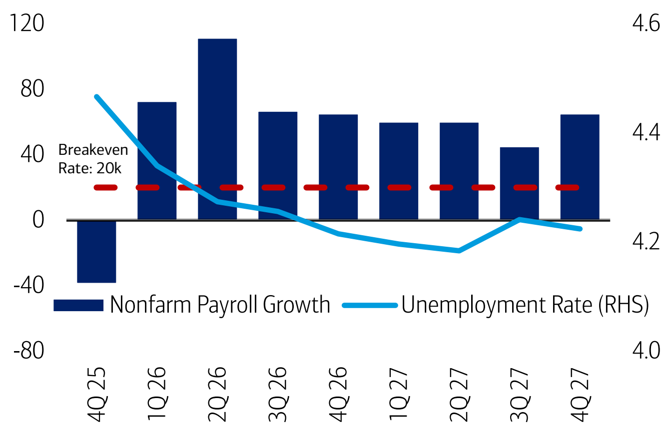
The labor market appears to have stabilized. Job growth remains above breakeven (Exhibit 3), and the unemployment rate has been essentially flat over the last year (Exhibit 4). The downside risks to the labor market that motivated last year's rate cuts have dissipated. Combined with persistently sticky inflation, we think that strengthens the case for reversing those cuts.

Admittedly, Warsh was much more dovish than we were expecting in his July press conference. Ironically, we think the resulting increase in long-end inflation expectations lowers the bar for a September hike.

A solid jobs report like the one we are expecting would put the spotlight on Fed credibility. Especially if the u-rate beats our forecast and comes in at 4.2%. We recommend watching the yield curve in this event: flattening would indicate that markets still believe the Fed will do what is needed to meet its mandate, while steepening would point to further erosion of credibility.

Exhibit 3: We expect payrolls to remain above breakeven in our forecast horizon and the u-rate to come down to 4.2% by end 2026

Nonfarm payroll (thous, m/m change) and unemployment rate (RHS, %) with BofA forecasts starting from 2Q26



Source: BLS, BofA Global Research, Haver Analytics

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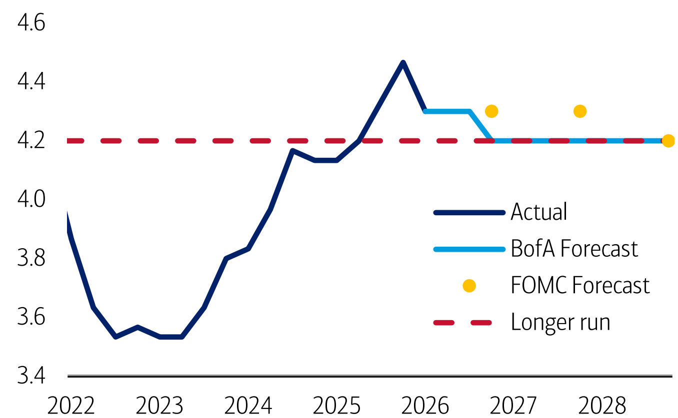
Exhibit 4: The u-rate troughed three years ago but has been little changed on net in recent quarters

Unemployment rate (SA, %)



Source: BLS, Haver Analytics, BofA Global Research, FOMC Projections. Note: FOMC forecast is from the June Summary of Economic Projections (SEP) for year-end 2026, 2027 and 2028. Longer run is the longer run estimate in the June SEP.

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Euro area

Evelyn Herrmann
BofASE (France)

Ruben Segura-Cayuela
BofA Europe (Madrid)

France: it's hard to be upbeat

- We joined cross asset forces on France. Caution dominates, amid public finance struggles and 2027 election risks.
- Macro risks seem tilted to the downside. There is scope for a more timely 2027 budget, but deficit correction is unlikely.
- Post-summer, focus on 2027 can enhance fragility, though credit and banks seem to have become more used to uncertainty now.

Complete report: Euro Area Viewpoint: France: it's hard to be upbeat 30 July 2026

When the base case feels like the best case

It's hard to be upbeat on France into the end of this year and 2027: the economy looks more fragile than we expected at this stage. Our base case of growth at 0.6% this year is now subject to small upside risks from 2Q26 growth, but details pointed to fragile domestic demand. Our 1.1%/1.0% growth forecasts for 2027/28 still holds, but downside risks dominate.

Inflation at 2.0%/1.4%/1.5% is lower than the Euro area aggregate, reflecting weak domestic demand. Short-term risks to that may be to the upside, especially from spot-indexed retail gas prices. Home-made inflation, wage growth in particular looks weak. Monetary policy was too tight for France into 2026, and is turning even tighter now.

Public finances don't look great, to put it mildly. True, the 2026 deficit could turn out a little smaller than the 5.3% we pencilled in. But our 5.5% forecast for 2027 is subject to upside risks. We think the budget approval process might be smoother this year than it was over the last couple of years (although that bar is fairly low), targeting a broadly unchanged deficit at 5%. That would already require some 60bp of corrective measures, though. Slippage and potentially a post-27 election budget create substantial room for upside. Either way, a meaningful deficit correction is a tail risk at the moment, putting France's debt ratio on a firm upward trend.

Public finances are the obvious French weak spot, and politics is a big source of uncertainty into 2027. It will dominate market dynamics for some time, we think. But it is worth keeping in mind that Germany's debt trajectory looks similar to France's, albeit from a lower starting point. France still looks better than Germany and Italy on other fundamentals, like demographics, the energy mix, and the industry mix in particular. Political fragmentation is a broad-based phenomenon. And when we dare to think about the 2027 election risks, we think a non-EU friendly outcome still has meaningful implications for pan-Euro area fragmentation risks.

Downside to growth, upside to inflation short term

French GDP growth is subject to downside risks. Earlier this year, we flagged that while growth had been fairly resilient over the past few years, weak underlying inflation dynamics probably better reflected the effect of various global and idiosyncratic shocks. Monetary policy, in this context, was already too tight, and is currently turning even tighter (Euro Area Viewpoint: France: disinflation deluxe 19 February 2026).

Since then, French data has been more mixed, with pockets of weakness in consumer spending and the labour market, in particular. Our base case of 0.6% growth this year is now subject to small upside risks because 2Q26 growth at 0.2% was better than we thought. But on 1H26 average, the French economy still shows only very marginal growth. Our expectation of a shallow 1.1% recovery in 2027, still holds for now. But the renewed increase in natural gas prices, which should feed through to consumer prices in September, has us a little worried that the French consumer, in particular, is rolling over more seriously.

Public finances: will everyone catch up with Italy, eventually?

Our rates strategists were already worried about French sovereign yields over the summer, amid short-term supply dynamics. From a macro perspective, it is hard to see lasting relief for France over the next year or so, given public finance dynamics and the election calendar.

The 2026 deficit target of 5.0% is coming under pressure. The better-than-thought 2025 starting point (5.1%, 30bp lower than initially planned) created some buffer that was quickly absorbed: the budget was planned with growth at 1%, vs 0.7% in the current government forecast. Using standard fiscal multipliers, that creates c EUR 5bn of slippage. Higher inflation also leads to higher debt servicing costs via inflation-linked bonds: pre-Iran war, consensus expectations stood at c 1.3% for France this year, vs 2% now. With 10% of French debt inflation-linked, this raises debt servicing costs by EUR 2-3bn quasi instantly. The rise in nominal sovereign yields and select discretionary measures, although small in scale, come on top.

The government has corrected for potential slippage of EUR 6bn already, but at least EUR 3bn of additional savings may need to be found to keep the deficit at 5% as planned. We still view deficit slippage this year as likely and stick to our 5.3% forecast.

2027 budget: complicated public finance and parliamentary arithmetic

Two big questions hang over the 2027 budget: 1) Can we expect any deficit correction? 2) Can a budget actually be agreed at all?

Long story short, we think the planned budget correction will be limited, targeting an unchanged 5% deficit in 2027. That will require corrective action, but we think it's possible a budget deal can be struck eventually (parties may focus on promising change after the election, instead). There will be noise, especially because we cannot rule out an attempt to bypass parliament via the use of article 49.3. But we view the likelihood of a pre-election government change due to a successful no-confidence vote over the budget as relatively limited compared to the last two years.

But while we are cautiously optimistic that a budget can perhaps be passed before year-end, we would assume the 2027 deficit ends up higher than planned. We currently forecast a widening deficit to 5.5% in 2027, with risks tilted to the upside. This forecast is built on a "status quo" assumption of broad economic policy choices. The election outcome and the likely rewriting of the 2027 budget thereafter create obvious, though currently unquantifiable, risks.

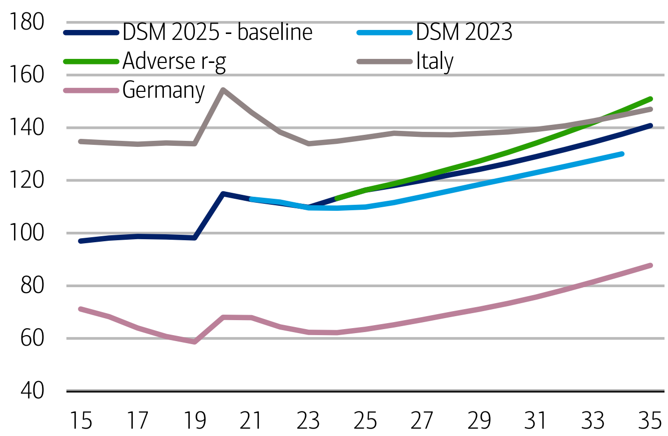
A 5% deficit plan for 2027 would require corrective action due to the following changes currently in the pipeline (non-exhaustive list):

- Cyclical improvement and reduced inflation-related debt servicing costs could reduce the deficit by c 0.2-0.3% of GDP next year.
- The 2026 inflation shock is likely to worsen the primary deficit balance by 0.1-0.2% of GDP. True, better nominal GDP will help, but CPI-indexed social security components (pensions, health care…) will dominate. Energy price-induced inflation is less helpful than "homemade" inflation here.
- The snowball effect is gathering momentum: average interest rates on debt were close to 2% in 2026, but 10y sovereign yields are now closer to 4%. The average maturity of outstanding debt was c 8.5 years in 2025. Debt servicing costs could rise by c 0.1-0.2% of GDP per year from here.
- Defence/military spending is planned to increase by EUR 6.4bn (0.2% of GDP).

- Non-renewal of the temporary corporate tax surcharge could add another c 0.3% of GDP to the deficit.

Put differently, measures worth at least 0.6% of GDP may need to be found for an unchanged deficit plan. The spending plan proposal an expenditure growth cap at 0.4% for all budgets except social security and defence. That could reduce the expenditure share in GDP by c 0.4% via nominal growth.. If half of that is implemented, paired with an (at least partial) extension of the (no longer so temporary) corporate tax surcharge, a broadly unchanged deficit target could be feasible, at least at this stage.

Exhibit 5: French debt dynamics – same slope as Germany, levels approaching Italy
European Commission Debt Sustainability Monitor, debt in % of GDP



Source: BofA Global Research, European Commission Debt Sustainability Monitor 2025 and 2023
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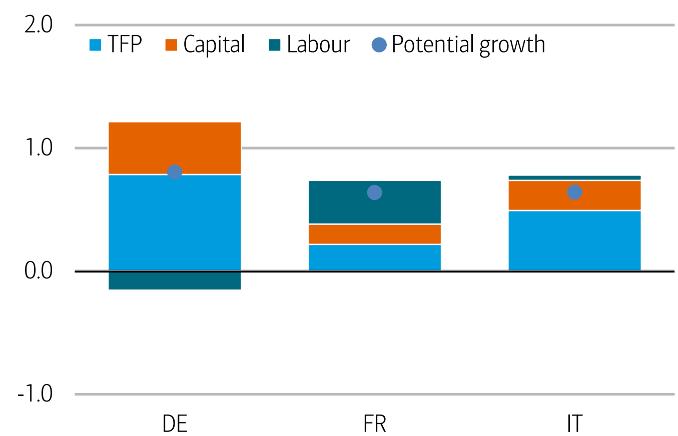
Exhibit 6: 2027-35 potential growth: TFP assumptions look daring, but more predictable factors (capital and labour) look better in France
European Commission Ageing Report potential growth and components, TFP = Total Factor Productivity



Source: BofA Global Research, European Commission
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Debt trajectory: same direction as Italy, at a similar pace to Germany

Let's be clear: a 5% deficit plan for 2027 could be ok news for markets for now. But it would still imply a swift increase in the debt ratio – we expect it could reach just below 124% by 2028, up 8ppt from 2025.

Comparisons with Italy come easily, but they're not necessarily the best or only ones. We have checked the European Commission's Debt Sustainability Monitor (DSM). The deterioration in French debt dynamics compared to two years ago is obvious. The 2023 fiscal slippage was sizeable, and remains largely unexplained. It created a level shift in deficit, and consequently debt trajectories (light blue vs dark blue lines in Exhibit 5).

We would still emphasise that Italy's debt ratio is not the only comparison to have in mind. In fact, German and French debt dynamics look very similar from here. Of course, the starting points differ, but the slope is quasi the same. But demographics – the more reliable components of potential growth, basically –, the energy mix, the industry mix, lesser auto sector and China exposure are still elements that look better in France, even if that probably will not dominate market dynamics for quite some time.

2027 budget planning will happen as election campaigns start

From an economics perspective, we struggle to see any imminent relief from market pressure and the attention on France. Potential budget approval tensions could coincide with a pickup in 2027 presidential election noise. At the current juncture, the election seems to be on everyone's radar. But that just supported a generally cautious stance, rather being a key feature in investment decisions, in our recent conversations with clients, That makes sense to us, at this stage. But our equity colleagues, in particular, tell us that investor attention is slowly growing. A quick summary of what we know:

- The first round of the presidential election will be held on 18 April. Unless a candidate reaches an absolute majority, the second round will follow on 2 May.

- The field of declared and potential candidates is wide. The closest we can get to identifying a deadline for candidates to declare whether they are running is arguably the period of the mandatory collection of at least 500 signatures from elected officials. The collection period is not yet set, but typically lasts for four weeks, finishing no later than the 6th Friday before the election (ie 12 March).

- The next French President could dissolve parliament and call for snap elections. In such a scenario, the first round of parliamentary elections would have to follow within 2-4 weeks. If a fragmented or even hostile parliament emerges, it could significantly dilute the next president's capacity to implement their policy agenda.

To our mind, the French election carries a very strong EU component, even without a 2017-like Frexit element. Remember that France has typically been a source of ideas and political push towards integration. Consequently, we continue to see the French election as a potential driver of persistently higher European fragmentation risk premia, from an economics perspective.

UK

Sonali Punhani
MLI (UK)

Ruben Segura-Cayuela
BofA Europe (Madrid)

BoE review- hold, no rush to act

- The BoE kept rates on hold, given limited signs of second round effects. The recent escalation didn't cause a hawkish shift, with most members showing no rush to act.
- The BoE kept the door open to a hike if signs of material second round effects emerge, the risks of which are higher the more prolonged the conflict is.
- We continue to expect unchanged Bank Rate this year, but risks are titled to a hike later in the year, given recent escalation. Having said that, we think bar for a hike in September is high as there was no strong signal for an imminent hike.

Hold given limited evidence of second round effects

The Bank of England (BoE) kept the Bank Rate on hold at 3.75% as expected. While uncertainty on energy prices has risen, so far there is little evidence yet of second round effects, given the soft labour market/growth backdrop. The BoE judged that there continued to be clear signs of underlying disinflation in recent data, while the Bank Rate being restrictive and tightening in financial conditions was providing insurance against upside inflation risks, giving the BoE time to assess the situation. The message was balanced- the MPC kept the door open to a hike should signs of strong second round effects were to materialize, but there wasn't a strong signal for an imminent hike either.

No hawkish shift and the MPC is showing no rush to act

The recent escalation didn't cause a hawkish shift in the majority of the Committee, with most members showing no rush to act. While the voting pattern of 6-3 (Mann joined Pill and Greene to vote for a hike) was more hawkish than we expected (7-2), we wouldn't take that as a strong signal of the rest of the Committee's thinking.

In the press conference, Bailey was fairly explicit and said that nothing suggests that the BoE is edging towards a rate hike. He noted that domestic conditions are benign even if external price pressures persist i.e. inherited inflation persistence may be weaker than assumed, while risks to global prices are to the upside (from energy but also from AI demand and El Nino). So far there is little evidence of second round effects but that could change. He also said that the upward slope in market curve reflects risk premia. His interpretation of the market curve is that the central view of markets is that rates will stay on hold, but the market is putting some weight to the upside distribution of risks to rates and inflation if the energy shock worsens, which is in line with their view.

Even Lombardelli, one of the hawkish members, doesn't look like she is in a rush to hike. She said that her decision to hold wasn't a close call and while second round effects could be significant, restrictive policy provides sensible risk management.

Breeden noted that disinflation appeared "firmly on track". Ramsden said a hike may be warranted if upside inflation risks materialize while if risks were to subside, he would consider resuming cuts.

But the door was kept the door open to a hike

The MPC kept the door open to a hike if signs of material second effects emerge, the risk of which it judged to be greater the longer higher energy prices persist, even if soft economy/labour market can contain those effects. Risks to inflation outlook are titled to the upside relative to the baseline and the absence of second round effects so far is not a guide to the future. The Committee is split on how likely future second round effects are, but the overall view was that there should be caution in deriving too much signal from the initial limited signs of second round effects. The MPC saw potential need for tightening policy if signs of material second round effects emerge, the risks of which are higher the longer the conflict persists.

The MPR contained a box looking at what evidence would be used to judge signs of second round effects. As expected, CPI outturns, Agents, DMP survey and household inflation expectations were the key things to focus on as well as any early evidence on how 2027 pay settlements could play out.

Projections show a more benign inflation path relative to April, but look dated
The MPC noted that while risks to energy are to the upside, the range has narrowed relative to extreme levels in April.

The three scenarios show a more benign inflation path relative to April. In the baseline scenario (conditioned on energy prices in the 15 working days to 20 July), inflation peaks at 3.2% in Q4 (below the peak in Scen A/B in April), stays above target until Q4 2027 and falls to 1.9% in the medium term- an implicit pushback to market pricing in the baseline scenario. In this baseline scenario, the staff's illustrative model-based projections point to a looser overall policy stance than implied by the market curve. But energy price assumptions in baseline scenario look stale, given recent movements.

In the milder scenario where there is a durable end to the war (with energy prices as of 1 July), inflation peaks at 3% in Q4 before dropping back below 2% in Q4 2027 and falling to 1.7% in the medium term. The path whereby the conflict is credibly resolved would point to a materially looser policy than implied by the market curve, according to the staff's illustrative model-based projections.

In the adverse scenario, where the energy shock is much more persistent even if the peak is less than before, inflation peaks at 4.5% in Q2 2027 with medium term at 2.4%. In this scenario the conflict repeatedly re-escalates with no clear resolution and is likely to force rate hikes. In this scenario, staff's illustrative model-based projections suggest a tighter policy stance than implied by the market curve.

We expect unchanged rates this year, but risks are tilted to a hike
Based on our expectation of lower energy prices in H2 and given soft growth/ labour market, BoE's high bar for action, limited second round effects so far and restrictive rates, we expect the BoE on hold through the year.

But it is a close call, given the recent reescalation. Risks are tilted to a hike later this year if the energy shock worsens and is prolonged and evidence on signs of strong second round effects emerges. It is unclear however that we could get that by the September meeting. We think that the bar for a hike in September is high, as there was no strong signal for an imminent hike in today's meeting. We also think that the cut to our terminal of 3.5%, which we expect in November 2027, won't be easy.

QT review showed a slightly larger impact
In its review of the QT process, the BOE noted that it thought the impact of QT on 10-year yields had been in the range of 20-30 bps, 5 bps higher than its estimate last year, potentially reflecting additional QT undertaken. We don't derive a strong signal from this, but a scenario of unchanged active sales would imply a QT pace slowdown to £50bn.

Japan

Izumi Devalier
BofAS Japan

Takayasu Kudo
BofAS Japan

Growth downside has eased, but inflation pressure is building

About five months have passed since Middle East tensions deteriorated sharply in late February. The resulting global energy shortages raised downside risks to Japan's production and growth through supply-chain disruptions, as well as upside risks to inflation through higher crude oil prices.

See full report: Japan Viewpoint: Pipeline inflation pressures are broadening 30 July 2026

Downside risks to production and growth have eased materially as Japan has made progress in sourcing crude oil and petroleum products from outside the Middle East, including from the US. By contrast, cost pressures from higher crude import prices and yen depreciation are already feeding through to domestic producer prices, raising the risk of stronger CPI inflation from autumn (see Japan Viewpoint: Oil shock: Pipeline pressures set to lift CPI from autumn 08 June 2026).

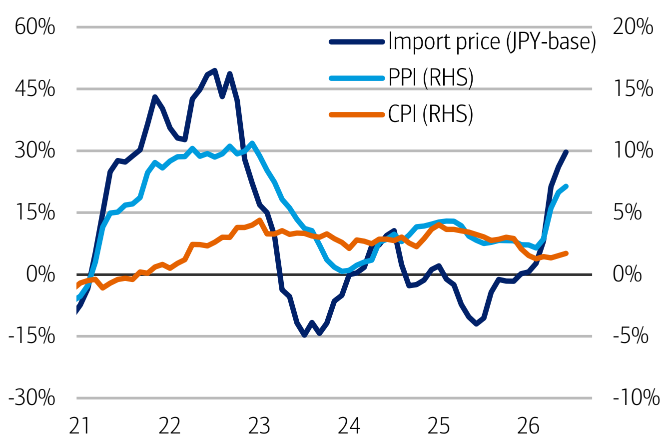
Faster pass-through in business-to-business transactions

PPI inflation accelerated to 7.1% YoY in June, led by nonferrous metals, petroleum and coal products, and chemicals. The pass-through from higher crude oil prices to petroleum-related products has extended beyond upstream and midstream stages to petrochemical intermediates and processed products further downstream.

During the 2021-22 energy price shock, it took around six months for intermediate goods prices to rise and more than 10 months for processed goods prices to follow. This time, both have risen sharply within only around three months of the crude oil price spike, pointing to much faster pass-through in business-to-business transactions.

The broad-based and sustained rise in corporate inflation expectations may help explain the faster pass-through (see Japan Viewpoint: Rising inflation expectations support earlier BoJ hikes 22 July 2026).

Exhibit 7: Import prices and PPI have rebounded; CPI to follow
Import prices, PPI and CPI (YoY%)



Source: BofA Global Research, MIAC, BoJ

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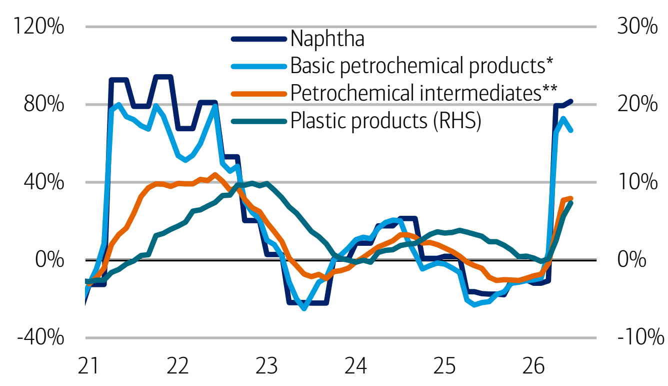
Exhibit 8: Pass-through in petrochemical product prices is already spreading from intermediate goods to processed products
Petrochemical product prices (YoY%)



Source: BofA Global Research, BoJ *Basic petrochemical products are the weighted average prices of ethylene, propylene, benzene and xylene. **Petrochemical intermediates are the weighted average prices of styrene monomer, VCM, ethylene oxide, propylene oxide, polyethylene, polystyrene, polypropylene and PVC.

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Logistics costs are adding to pipeline pressures

In services, prices for temporary staffing and civil engineering and architectural services have continued to rise amid labor shortages. Higher fuel costs are now also pushing up logistics costs, adding to inflation pressures across a broad range of goods and services.

Cost pass-through to lift core CPI back to 3%

Faster pass-through in petroleum-related products, together with persistently high services prices, including logistics costs, should feed through to consumer prices and drive a reacceleration in CPI inflation from autumn.

We expect BoJ-style core CPI inflation to rise from 1.7% YoY in June to around 3% by early 2027 (see Mid-year review: Resilient growth, volatile inflation, uncertain policy path 01 July 2026).

Published CPI inflation should then fall sharply from April 2027 following the consumption tax cut on food (see Japan Viewpoint: 10 questions on a cut to the food consumption tax rate 23 June 2026).

Food price hikes to intensify from late summer

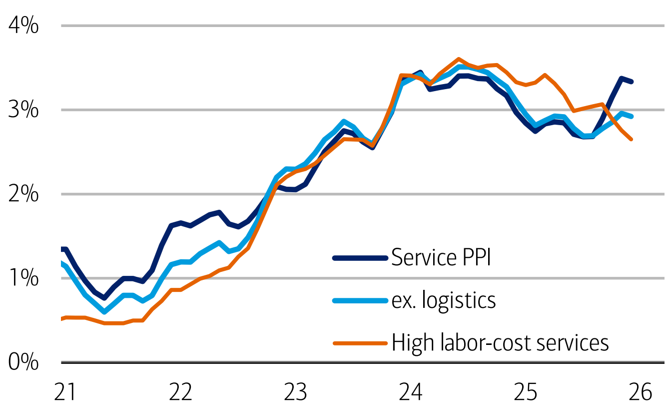
We expect cost pass-through to broaden from autumn, but food and beverage producers, which operate on relatively thin margins, are moving earlier. The latest Teikoku Databank survey shows that the number of items scheduled for price increases in August and September has risen well above last year's level.

The survey identifies higher raw material and logistics costs, as well as rising packaging and materials costs, including naphtha-based trays and containers, as the main drivers.

Over the past year, limited new food price hikes and negative base effects have contributed materially to the slowdown in CPI inflation (see June CPI: Pipeline inflation pressures building beneath a calm surface 26 June 2026). However, a new wave of price hikes should see CPI food inflation bottom this summer and then reaccelerate.

Expectations that the planned consumption tax cut on food next April will support demand, together with the sharp rise in domestic fertilizer prices expected in November, should provide further support to food inflation.

Exhibit 9: Services producer prices continue to rise by more than 3%, supported by labor shortages and higher logistics costs
Service PPI trend (YoY%, 3mma)



Source: BofA Global research, BoJ

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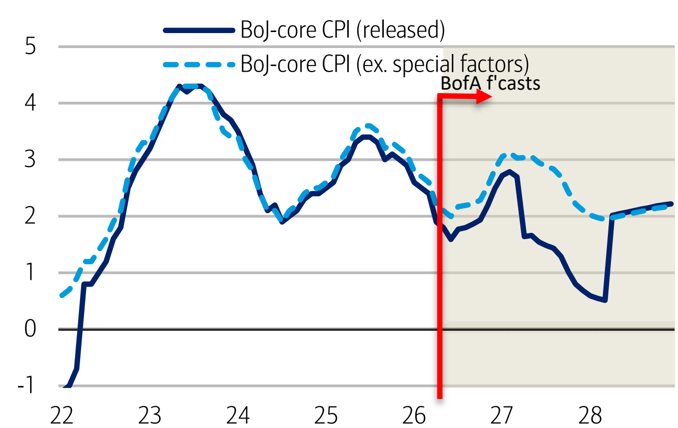
Exhibit 10: Core inflation to reaccelerate to ~3% yoy before dropping on the food tax cut
BoJ-style core CPI actuals and forecast (YoY%)



Source: BofA Global Research, MIAC *BoJ-style core CPI excludes fresh food and energy. Figures from June 2026 onward are BofA forecasts. Special factors include (1) consumption tax rate changes; (2) free education, including free school lunches; (3) the 2021 reduction in mobile phone charges; (4) travel subsidy programs; and (5) energy subsidies.

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Emerging EMEA

Tatonga Rusike
MLI (UK)
tatonga.rusike@bofa.com

Loic Porte
MLI (UK)
loic.porte@bofa.com

Ghana: stability restored, but tests lie ahead

Complete report: Ghana Viewpoint: Stability restored, but tests lie ahead 27 July 2026

2026 fiscal targets maintained

The 2026 fiscal framework remains unchanged and fiscally conservative, targeting an overall fiscal deficit of 4.0% of GDP and a primary surplus of 1.5% of GDP. The deficit reflects the overall balance, including discrepancies, which links to financing needs. Nominal revenue and expenditure projections were unchanged, signalling the authorities' commitment to the existing fiscal consolidation path.

Exhibit 11: Fiscal Framework table

Ghana is on course to outperform primary balance target of 1.5%

Fiscal framework	Original Budget 2026	Revised Budget 2026	1H26 execution
Overall budget deficit, nominal	-64.19	-64.19	-12.17
Overall budget deficit, % of GDP	-4.0%	-4.0%	-0.8%
Primary balance, nominal	23.35	23.35	14.68
Primary balance, % of GDP	1.5%	1.5%	0.9%
Nominal GDP	1,597.46	1,597.46	1,597.46

Source: Ministry of Finance

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Fiscal targets outperformed in H1

Overall, Ghana appears on track to outperform its fiscal targets in 2026, provided expenditure discipline is maintained. Ghana's H1 2026 fiscal performance is running well ahead of programme targets.

The overall deficit reached 0.8% of GDP, compared with a programmed deficit of 2.9%, while the primary balance posted a 0.9% of GDP surplus versus a targeted deficit of 0.2%. The outperformance was driven mainly by expenditure restraint, which more than offset a modest revenue shortfall.

Revenue collection came in 1.1% below target, at around GHS124.8bn versus a programmed GHS126.1bn, reflecting weaker personal income tax, oil tax and VAT receipts. However, stronger oil prices could support revenue performance over the rest of the year, while mining-related revenue weakness from the Growth and Sustainability Levy has been offset by the new 5-12% sliding royalty scale.

Spending was about 20% below programme, with the biggest undershoots in capital expenditure and interest payments. Capital spending reached GHS21.5bn vs a target of GHS28.4bn, largely due to weak execution of foreign-financed projects amid delays in grants and development-partner financing. Lower domestic interest costs also helped, reflecting falling Treasury-bill yields, improved financing conditions and policy-rate cuts.

Domestic borrowing remains the main financing source

Exhibit 12: Funding mix shifts marginally towards domestic sources..
2026 Financing framework (GHS bn)

Government Financing framework (GHS bn)	Original 2026 budget	Revised 2026	1H 26
Overall financing requirement	64.2	64.2	12.17
Net foreign financing	-6.6	-9.6	-3.11
External Borrowing	18.3	15.3	1.32
External Amortisation	-24.8	-24.8	-4.43
Implied domestic financing	70.8	73.8	15.3

Source: Ghana Ministry of Finance

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Exhibit 13: ... with domestic financing sources kept in line with budget
Domestic Financing Breakdown (GHSbn)

Domestic financing item	Original Budget 2026	Revised Budget 2026	1H26 execution
Domestic financing, net	**71.97**	**74.97**	**16.83**
Commercial banks	38.27	38.27	32.61
Non-banks	33.71	36.71	19.4
Bank of Ghana	0	0	-35.18
Ghana Petroleum Funds	-0.99	-0.99	-1.6
Sinking Fund	-0.23	-0.23	0.05

Source: Ghana Ministry of Finance

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The government continues to rely primarily on domestic borrowing and concessional external financing to meet its funding needs. There are no plans to return to the Eurobond market before 2028, reflecting a deliberate strategy to reduce reliance on external commercial financing, following the debt restructuring, and to limit foreign-exchange vulnerabilities.

The revised 2026 financing framework places a larger burden on domestic funding. Net foreign financing deteriorated from -GHS6.6bn in the original budget to -GHS9.6bn, largely reflecting lower external borrowing, while external debt amortisation remained unchanged.

The Debt Management Office (DMO) is about halfway through its 2026 issuance programme, although more cautiously than envisaged. Borrowing has been concentrated in shorter-dated instruments, with only a gradual return to longer-tenor bonds.

While the government re-entered the domestic bond market in March with a new seven-year bond due in 2033, issuance plans remain dependent on investor demand rather than pre-announced volumes. The domestic bond market has effectively reopened, although non-resident participation remains limited.

Net external financing still in negative territory

By H1 2026, Ghana had raised only GHS1.3bn in external borrowing against GHS4.4bn in external amortisation payments. Total external borrowing for 2026 was revised down to GHS15.3bn from GHS18.3bn, mainly reflecting lower project loan disbursements amid weak execution of foreign-financed capital expenditure. However, the authorities remain committed to securing around US$700mn in multilateral financing, including approximately US$370mn from the IMF and US$320mn from the World Bank.

With external debt amortisation projected at GHS24.8bn, compared with external borrowing of just GHS18.3bn, net external financing remains negative, increasing the need for domestic financing. As a result, domestic borrowing must finance both the fiscal deficit and the external financing gap.

The planned -GHS35.2bn Bank of Ghana financing item likely reflects a reduction in government liabilities to the central bank rather than direct monetary financing of the deficit. For example, bonds issued to recapitalise the Bank of Ghana could be reflected as central-bank claims on the government and subsequently reduced over time.

Latin America

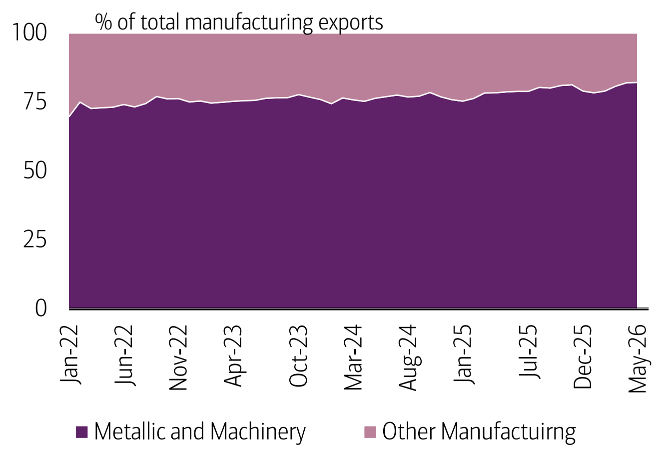
Carlos Capistran
BofAS

USMCA – AI hardware offsets autos, but growth spillovers remain limited

Complete report: ***Emerging Insight: Mexico - AI hardware exports offset weak auto, but growth spillovers are limited 27 July 2026***

Mexico's manufacturing exports are undergoing an important shift (Exhibit 14, Exhibit 15). Auto and auto-related exports have been broadly flat in recent quarters, while exports of data-processing hardware — including computers, servers, storage units and related components — have increased sharply, with dollar growth rates above 150% YoY since the end of 2025. In our view, this reflects both stronger US demand linked to the AI investment boom and a relative tariff advantage for Mexico in electronics and data-processing hardware. This shift has helped keep total manufacturing exports growing and has moved the manufacturing trade balance into surplus, supporting external accounts and the peso. However, the macro growth impulse remains limited because other export sectors, particularly autos, are underperforming, and because Mexico's domestic value added in hardware exports appears low.

Exhibit 14: Most manufacturing exports are metallic & machinery
Percentage of total manufacturing exports



Source: BofA Global Research, Haver, Banxico

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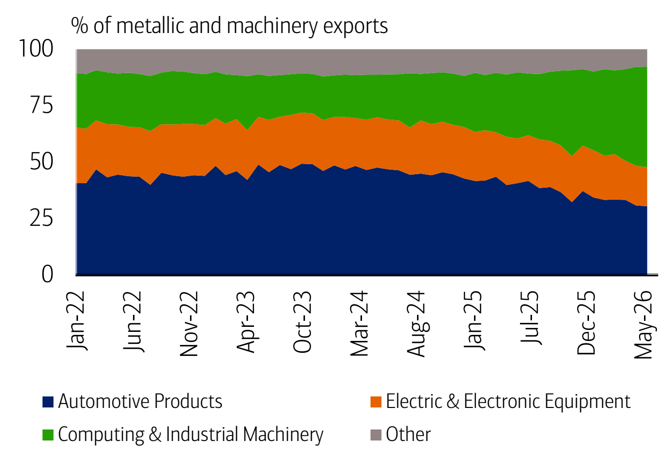
Exhibit 15: The composition of Mexico's exports is changing
Percentage of total metallic and machinery exports (%) (2022-2026)



Source: BofA Global Research, Haver, Banxico

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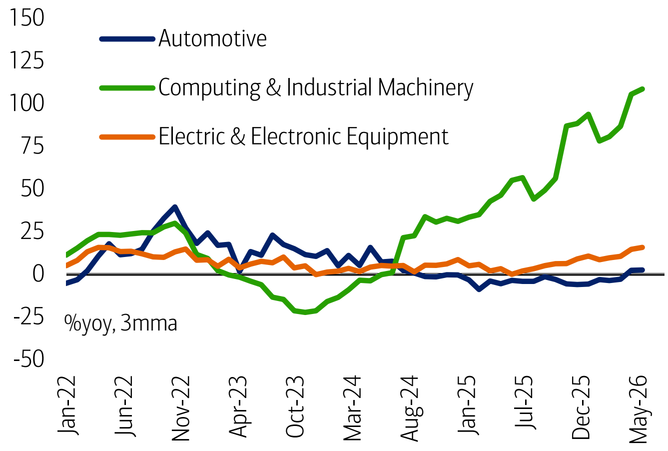
A meaningful shift in Mexico's export mix

There has been an important change in the composition of Mexican exports. Auto and auto-related exports — including motor vehicles, auto parts and related components — have been, at best, flat over the last few quarters. By contrast, exports of data-processing hardware — including computers, servers, storage units and related equipment — have increased significantly (Chart of the day). Since the end of 2025, these exports have been growing at rates above 150% YoY in dollar terms (Exhibit 16).

This shift has become large enough to matter for Mexico's overall manufacturing export performance. Data-processing hardware is now helping offset weakness in autos and other manufacturing categories (Exhibit 17).

Exhibit 16: Computing & Industrial Machinery exports are booming
Exports (% yoy, 3mma) (2022-2026)



Source: BofA Global Research, Haver, Banxico

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Exhibit 17: Manufacturing exports are booming despite weak auto exports
Total manufacturing exports ($US, bn, 3mma) (2022 - 2026)

Source: BofA Global Research, Haver, Banxico

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AI demand and tariffs are reshaping trade incentives

The change in the composition of Mexican exports likely reflects two main forces.

Stronger demand from the US

The first is stronger demand from the US, driven by the boom in AI-related investment. US hyperscalers' capex has become an important tailwind for AI suppliers, including Taiwan, Mexico and Korea. We discuss this boom in the report: AI Matters #1: The Tip of the AI-ceberg? Mexico appears to be benefiting from this demand through higher exports of computers, servers, storage units and related components.

Change in relative US tariffs

A second force at play is the changes in US tariffs, which have hurt Mexico's auto sector while benefiting its data-processing hardware sector. Before the first Trump administration, both autos and data-processing hardware entered the US at a 0% tariff under USMCA. During the first Trump administration, the US imposed tariffs on Chinese products, which gave Mexican exports a relative advantage.

But in March 2025, the US imposed a 25% tariff on autos and auto parts from Mexico, with only a discount for US content in autos and auto parts that comply with USMCA. This put Mexico's auto sector at a disadvantage, as countries that compete with Mexico in the US auto market, such as Korea, Japan and Europe, reached deals that left US tariffs on autos and auto parts at 15%.

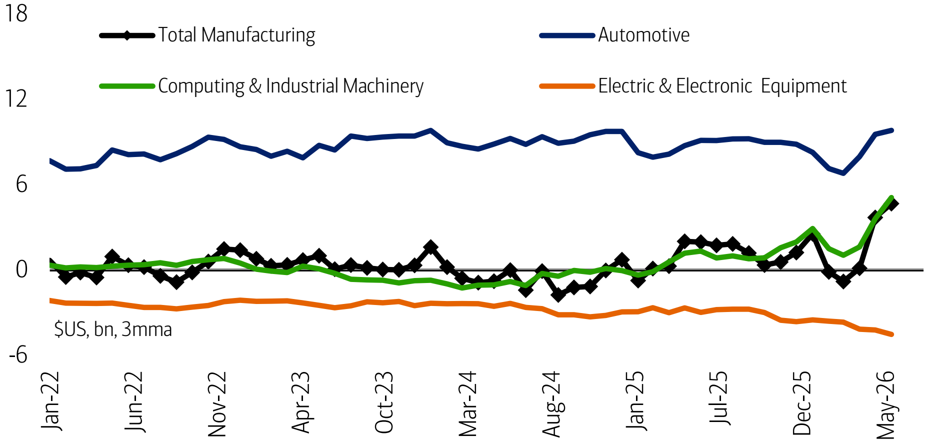
The situation is different for electronics, computers and data-processing hardware. These products continue to enter the US at a 0% tariff under USMCA, while countries that compete with Mexico in these same products face positive US tariffs. This gives Mexico a relative advantage in data-processing hardware exports. Mexico's advantage is clearest versus China: data-processing hardware exports from Mexico can enter the US at 0% under USMCA, while comparable China-origin products can face Section 301 tariffs of 7.5% or 25%, depending on the exact HTS line.

A stronger manufacturing balance, but not a stronger economy

The change in export composition has allowed Mexico to maintain growth in total manufacturing exports, despite weakness in autos. It has also moved the manufacturing trade balance into surplus after many years in which it was broadly balanced (Exhibit 18).

This surplus matters for the macroeconomic outlook. It helps Mexico to maintain a small deficit in its external accounts (0.5% of GDP in 2025). It also helps keep the peso relatively strong, in our view.

Exhibit 18: The boom in Computing & Industrial Machinery has turned the manufacturing trade balance into a surplus
Trade Balance ($US, bn, 3mma)



Source: BofA Global Research, Haver, Banxico

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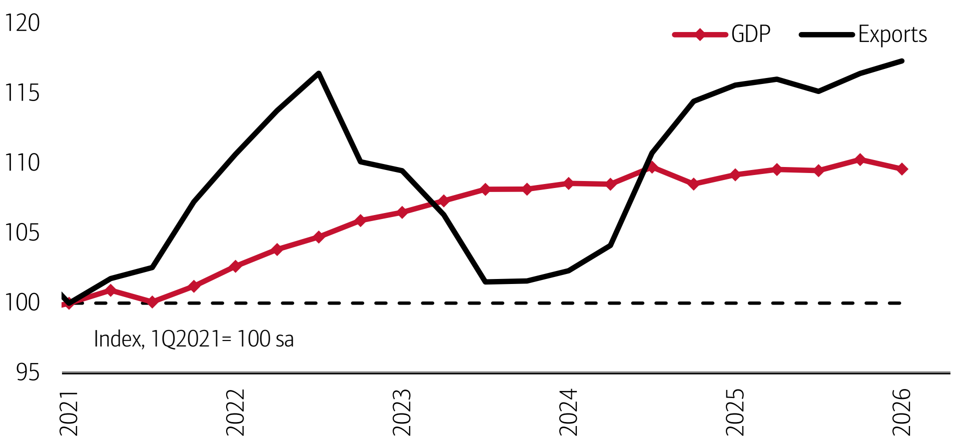
We expect the strong US demand for electronics and data-processing hardware to continue, driven by AI investment. We also expect Mexico's tariff advantage in data-processing hardware to continue, as USMCA remains in force despite not being extended on July 1. As a result, we expect Mexico to continue running a manufacturing trade surplus.

The key question is why Mexico's economy remains weak despite the boom in data-processing hardware exports (Exhibit 19). The answer, in our view, is twofold. First, other exports — especially autos — are underperforming. Second, Mexico's value added in data-processing hardware exports appears to be low. Imports of the same components have also increased significantly (Exhibit 20, Exhibit 21).

Exhibit 19: Exports have grown nearly twice as fast as GDP over the past five years
GDP (Index sa, 1Q2021=100) (2021 - 2026)



Source: BofA Global Research, Haver, INEGI

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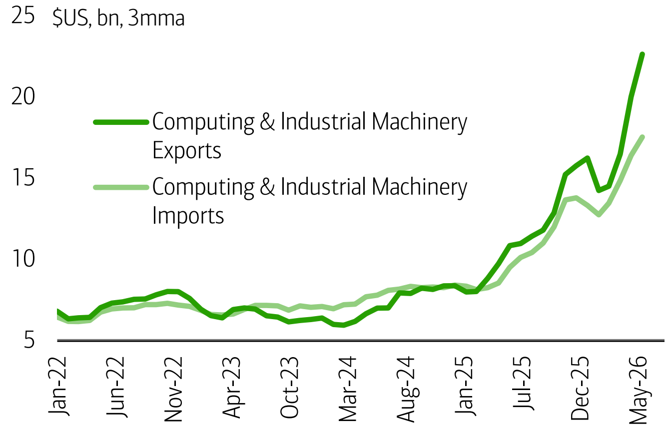
Exhibit 20: Imports of Computing & Industrial Machinery have increased
Machinery trade ($US, bn, 3mma) (2022 - 2026)



Source: BofA Global Research, Haver, Banxico

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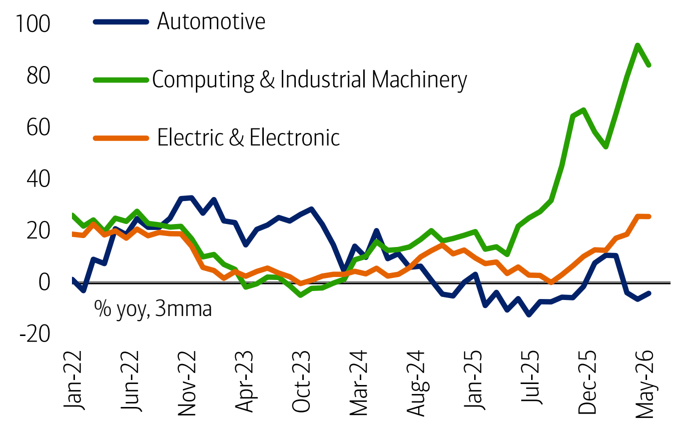
Exhibit 21: Electric & Electronic imports have also risen significantly
Imports (% yoy, 3mma)



Source: BofA Global Research, Haver, Banxico

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The AI hardware boom is helping Mexico's external accounts and likely supporting the peso, but it is not enough to generate a strong domestic growth cycle. The export mix is improving, but the growth multiplier remains limited. Faster growth would require a meaningful improvement in productivity, which remains one of Mexico's key structural weaknesses (see report). AI could help, but our analysis suggests Mexico is better positioned to benefit from the US AI capex boom in the short term than from AI-driven productivity gains in the medium term. In our rankings, Mexico scores relatively low in its ability to turn AI adoption into productivity growth (see AI Matters #4: AI's next contenders – country dashboards).

Key forecasts

Exhibit 22: Economic forecasts

GDP growth, inflation and policy rate forecasts for the major economies

	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27	2025	2026F	2027F	2028F
Global and Regional Aggregates, %											
United States											
Real GDP growth [1]	1.6	2.5	2.4	2.2	2.2	2.1	2.0	2.1	2.1	2.2	1.9
CPI inflation	3.8	3.2	2.9	2.1	1.8	1.8	2.2	2.7	3.2	2.0	2.3
Policy Rate (EoP)	3.63	3.88	4.38	4.38	4.38	4.38	4.38	3.63	4.38	4.38	4.38
Euro area											
Real GDP growth [1]	0.6	1.4	1.5	1.3	1.2	1.1	1.1	1.5	0.5	1.3	1.1
CPI inflation	3.0	2.8	2.6	2.2	1.4	1.5	1.5	2.1	2.6	1.7	1.8
Policy Rate (EoP)	2.25	2.50	2.50	2.25	2.00	2.00	2.00	2.00	2.50	2.00	1.50
China											
Real GDP growth [2]	4.6	4.5	4.4	4.3	4.4	4.6	4.5	5.0	4.5	4.5	4.3
CPI inflation [3]	1.3	1.3	0.8	0.9	0.4	0.6	0.7	0.0	1.0	0.6	1.2
Policy Rate (EoP)	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
Japan											
Real GDP growth [1]	0.7	0.4	0.6	0.5	1.4	0.6	0.8	1.1	0.6	0.7	0.7
CPI inflation	1.5	1.8	2.2	3.1	1.2	0.8	0.1	3.2	1.7	1.3	1.4
Policy Rate (EoP)	1.00	1.00	1.25	1.50	1.50	1.50	1.75	0.75	1.25	1.75	1.75
Global Aggregate [4]											
Real GDP growth								3.5	3.2	3.5	3.3
CPI inflation								2.5	3.0	2.4	2.5
Policy Rate (EoP)								3.74	3.98	3.80	3.64
Emerging Markets Aggregate [4]											
Real GDP growth								4.8	4.4	4.6	4.4
Real GDP growth (ex-China)								4.6	4.4	4.7	4.5
CPI inflation								2.6	2.8	1.9	2.0
Policy Rate (EoP)								4.42	4.44	4.23	4.06

Notes: 1. Quarterly values are % q/q annualized | 2. Quarterly values are % y/y. | 3. Quarterly values are period averages. | 4. Due to reporting limitations, Global and EM aggregate are annual only.

Source: BofA Global Research

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Exhibit 23: Markets forecasts

Forecasts for FX, interest rates, commodities and equities

	spot	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27	4Q28
Exchange Rates (EoP)								
EUR/USD	1.15	1.12	1.15	1.16	1.18	1.19	1.20	1.22
USD/JPY	160	156.00	152.00	150.00	148.00	146.00	145.00	145.00
USD/CNY	6.75	6.80	6.70	6.70	6.70	6.60	6.60	6.60
GBP/USD	1.35	1.32	1.37	1.38	1.40	1.43	1.45	1.47
Interest rates (% EoP)								
US 10yr	4.67	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Germany 10-year	3.16	2.90	2.90	2.75	2.70	2.70	2.60	2.50
Japan 10yr	2.82	2.65	2.85	3.00	2.95	2.90	3.00	2.80
Commodities [1]								
Oil - WTI ($/bbl)	84.0	75.0	69.0	68.0	63.0	65.0	66.0	NA
Oil - Brent ($/bbl)	89.0	79.0	73.0	72.0	67.0	69.0	70.0	NA
Gold ($/oz)	4100	3900	4250	4750	5000	5000	4500	4000
Equities (EoP)								
S&P 500	7438						7100	
Stoxx 600	650		530				565	

Source: BofA Global Research

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Detailed forecasts

Global economic forecasts

Exhibit 24: Global Economic Forecasts

Global GDP growth expected at 3.2% in 2026, 3.5% in 2027 and 3.3% in 2028

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2025	2026F	2027F	2028F	2025	2026F	2027F	2028F	Current	2026F	2027F	2028F
Global and regional aggregates												
Global	3.5	3.2	3.5	3.3	2.5	3.0	2.4	2.4	3.78	3.98	3.80	3.64
Global ex US	3.8	3.4	3.7	3.6	2.4	3.0	2.4	2.5	3.82	3.90	3.69	3.50
Global ex China	3.1	2.8	3.1	3.0	3.2	3.6	2.9	2.8	4.49	4.75	4.53	4.33
Developed Markets	1.7	1.3	1.6	1.5	2.6	2.8	1.8	2.0	2.83	3.26	3.12	2.95
Emerging Markets	4.8	4.4	4.6	4.4	2.4	3.2	2.7	2.7	4.41	4.44	4.23	4.06
Emerging Markets ex China	4.6	4.4	4.7	4.5	4.0	4.6	4.1	3.7	6.26	6.30	5.96	5.69
Europe, Middle East and Africa (EMEA)	2.2	1.3	2.3	2.0	4.6	4.0	3.0	2.8	4.66	4.77	4.10	3.63
European Union	1.6	0.7	1.5	1.3	2.5	2.7	1.9	1.9	2.57	2.79	2.34	1.85
Emerging EMEA	3.5	2.6	4.0	3.2	9.7	7.2	5.6	4.8	8.51	8.38	7.26	6.70
Emerging Asia	5.5	5.2	5.2	5.1	0.9	2.3	2.0	2.3	2.77	2.88	2.94	2.94
ASEAN	5.0	4.8	4.6	5.0	1.6	3.5	2.8	2.6	3.95	4.10	3.92	3.45
Latin America	2.3	2.3	2.2	2.1	3.7	4.8	4.1	3.5	8.41	8.30	7.87	7.35
G6												
US	2.1	2.1	2.2	1.9	2.7	3.2	2.0	2.3	3.625	4.375	4.375	4.375
Euro area	1.5	0.5	1.3	1.1	2.1	2.6	1.7	1.8	2.25	2.50	2.00	1.50
Japan	1.1	0.6	0.7	0.7	3.2	1.7	1.3	1.4	1.00	1.25	1.75	1.75
UK	1.4	1.1	1.3	1.5	3.4	3.1	2.3	2.1	3.75	3.75	3.50	3.50
Canada	1.9	0.6	1.5	2.1	2.1	2.7	2.2	2.0	2.25	2.25	2.25	2.75
Australia	2.0	1.8	1.7	2.0	2.9	4.0	2.3	2.5	4.35	4.35	3.85	3.60
Euro area												
Germany	0.3	0.8	1.2	0.9	2.3	2.8	2.0	2.0	2.25	2.50	2.00	1.50
France	0.9	0.6	1.1	1.0	0.9	2.0	1.4	1.5	2.25	2.50	2.00	1.50
Italy	0.7	0.6	0.7	0.8	1.6	2.5	1.5	1.6	2.25	2.50	2.00	1.50
Spain	2.8	2.3	1.7	1.5	2.7	2.8	2.0	2.1	2.25	2.50	2.00	1.50
Netherlands	1.8	1.0	1.2	1.3	3.0	2.6	1.8	1.9	2.25	2.50	2.00	1.50
Belgium	1.0	0.7	1.2	1.0	3.0	3.1	1.5	1.7	2.25	2.50	2.00	1.50
Austria	1.0	0.9	1.4	1.5	3.6	3.0	2.1	2.2	2.25	2.50	2.00	1.50
Greece	2.2	1.7	1.8	1.7	2.9	3.9	2.5	2.2	2.25	2.50	2.00	1.50
Portugal	1.9	1.7	1.8	1.8	2.2	2.8	1.8	1.8	2.25	2.50	2.00	1.50
Ireland	12.4	-12.9	3.7	2.3	2.1	3.2	1.8	1.9	2.25	2.50	2.00	1.50
Finland	0.8	1.2	1.2	1.3	1.8	2.5	1.4	1.8	2.25	2.50	2.00	1.50
Other developed economies												
New Zealand	0.2	1.5	2.1	2.5	2.8	3.4	2.3	2.0	2.50	2.75	2.75	3.00
Switzerland	1.4	1.0	1.4	1.6	0.2	0.5	0.7	0.7	0.0	0.00	0.00	0.00
Norway	1.7	0.8	0.7	1.2	3.0	3.2	2.6	2.4	4.25	4.25	3.75	0.00
Sweden	1.7	1.9	2.2	2.0	2.6	1.0	1.7	2.6	1.75	2.00	2.00	2.00
Emerging Asia												
China	5.0	4.5	4.5	4.3	0.0	1.0	0.6	1.2	1.40	1.40	1.40	1.40
India	7.5	7.0	7.5	7.5	2.1	4.2	4.8	4.5	5.25	5.50	5.75	6.00
Indonesia	5.1	5.3	5.4	5.8	1.9	3.3	2.9	2.8	5.75	6.00	5.50	4.50
Korea	1.0	3.1	2.2	2.0	2.1	2.6	2.1	2.0	2.75	3.00	3.25	3.25
Taiwan	8.8	12.0	7.0	5.0	1.7	2.0	1.7	1.8	2.00	2.25	2.38	2.38
Thailand	2.4	2.1	2.2	2.0	-0.1	2.4	0.1	0.7	1.00	1.00	1.00	1.00
Malaysia	5.2	4.6	4.5	4.5	1.4	2.0	2.2	2.0	2.75	2.75	2.75	2.75
Philippines	4.4	2.5	3.5	4.5	1.7	6.7	4.9	3.5	4.75	5.00	5.00	4.25
Singapore	5.0	4.5	2.3	2.7	0.9	2.0	2.2	1.7				
Hong Kong	3.5	3.5	3.0	2.6	1.4	2.1	2.0	2.0	4.00	4.00	3.50	3.50
Vietnam	8.0	8.0	7.0	7.2	3.3	4.8	4.5	4.0	4.50	4.50	4.50	4.50

Source: BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 25: Global Economic Forecasts (continued)

Global GDP growth expected at 3.2% in 2026, 3.5% in 2027 and 3.3% in 2028

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2025	2026F	2027F	2028F	2025	2026F	2027F	2028F	Current	2026F	2027F	2028F
Latin America												
Brazil	2.3	2.3	1.3	1.0	4.3	5.5	4.7	3.5	14.25	14.00	13.00	12.00
Mexico	0.7	1.4	1.6	1.3	3.7	4.0	4.0	4.2	6.50	6.50	6.50	6.50
Argentina	4.4	2.5	3.5	3.5	31.5	30.1	18.1	12.0				
Colombia	2.6	2.5	2.9	3.1	5.1	6.5	4.6	3.6	12.00	12.00	11.00	9.25
Chile	2.5	1.2	3.0	3.0	3.4	4.0	3.2	3.0	4.50	4.50	5.00	5.00
Peru	3.4	3.5	4.4	4.5	1.5	4.3	2.6	2.0	4.25	4.25	4.25	4.25
Ecuador	3.7	3.2	2.7	3.0	1.9	2.4	2.3	2.0		0.00	0.00	0.00
Uruguay	1.8	2.0	2.0	2.5	3.7	4.3	4.5	4.6	5.75	6.00	7.00	7.00
Costa Rica	4.6	3.7	4.0	3.8	-1.2	2.5	3.5	3.0	3.00	3.00	3.00	3.00
Dominican Republic	2.1	3.5	3.9	3.5	5.0	6.0	4.8	4.0	5.25	5.25	5.25	5.25
Panama	4.4	4.2	5.0	4.5	0.4	2.8	2.3	2.0				
El Salvador	3.9	3.2	3.2	3.2	0.9	2.5	1.8	1.5				
Guatemala	4.3	3.9	3.7	3.8	1.7	2.9	2.7	2.8	3.50	3.50	3.50	3.50
EEMEA												
Türkiye	3.7	2.8	4.2	3.3	34.9	31.2	27.1	30.0	37.00	36.00	31.00	34.00
Nigeria	4.0	4.1	4.3	4.0	23.0	16.0	12.0	10.0	26.50	26.50	22.00	19.00
Egypt	4.4	4.4	4.5	4.5	20.4	13.2	10.0	8.0	19.50	19.00	16.00	14.00
Poland	3.7	3.2	2.8	2.5	3.6	2.7	2.5	2.5	3.75	3.75	3.75	3.25
South Africa	1.1	1.3	1.5	1.7	3.2	4.1	4.0	4.0	7.00	7.25	6.25	6.00
Romania	0.6	0.0	2.5	2.5	7.3	8.0	4.3	3.5	6.50	6.50	5.75	5.25
Czech Republic	2.6	2.0	2.4	2.0	2.5	2.0	2.4	2.0	3.75	4.00	4.00	3.50
Israel	2.9	3.6	4.5	4.0	3.0	2.0	1.9	2.0	3.50	3.75	3.25	3.25
Hungary	0.4	1.9	3.0	2.5	4.4	2.0	2.5	2.5	5.75	5.25	4.50	3.50
Saudi Arabia	4.5	0.6	6.1	2.9	2.0	2.4	2.0	2.0	4.25	3.50	3.50	5.00

Source: BofA Global Research

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Exhibit 26: Real GDP growth, qoq annualized %

Global GDP growth expected at 3.2% in 2026, 3.5% in 2027 and 3.3% in 2028

	2Q 26	3Q 26	4Q 26	1Q 27	2Q 27	3Q 27	4Q 27	2025	2026	2027	2028
Developed Markets											
US	1.6	2.5	2.4	2.2	2.2	2.1	2.0	2.1	2.1	2.2	1.9
Euro area	0.6	1.4	1.5	1.3	1.2	1.1	1.1	1.5	0.5	1.3	1.1
Japan	0.7	0.4	0.6	0.5	1.4	0.6	0.8	1.1	0.6	0.7	0.7
UK	0.6	0.6	1.0	1.6	1.8	1.4	1.4	1.4	1.1	1.3	1.5
Canada	1.8	1.6	1.2	1.5	1.5	1.5	1.5	1.9	0.6	1.5	2.1
Australia	0.8	1.2	2.0	1.6	1.6	2.0	2.0	2.0	1.8	1.7	2.0
G6 Aggregate	1.1	1.7	1.8	1.6	1.7	1.5	1.5	1.7	1.3	1.6	1.5
Emerging Markets											
China	3.8	3.9	4.5	4.9	4.5	4.4	4.3	5.0	4.5	4.5	4.3
India	-1.2	15.9	7.7	8.1	0.8	13.6	6.8	7.5	7.0	7.5	7.5
Indonesia	4.3	4.1	6.2	5.3	6.6	3.2	7.0	5.1	5.3	5.4	5.8
South Korea	2.5	0.2	0.6	3.4	2.7	2.8	2.5	1.0	3.1	2.2	2.0
Thailand	-3.1	1.2	7.1	3.3	1.0	-4.9	8.9	2.4	2.1	2.2	2.0
Singapore	2.0	-1.6	-1.6	5.7	3.2	3.2	3.2	5.0	4.5	2.3	2.7
Hong Kong	-16.3	11.4	15.2	0.8	1.5	-2.1	-2.1	3.5	3.5	3.0	2.6
Brazil	2.5	0.8	1.7	0.9	1.7	1.8	-0.1	2.3	2.3	1.3	1.0
Mexico	6.1	2.6	0.1	1.6	1.7	1.1	0.9	0.7	1.4	1.6	1.3
Colombia	2.4	3.6	3.6	2.4	2.4	2.8	2.8	2.6	2.5	2.9	3.1
Chile	4.2	3.6	3.6	2.4	2.4	2.4	2.4	2.5	1.2	3.0	3.0
Peru	2.4	4.9	4.9	4.1	4.5	4.5	4.5	3.4	3.5	4.4	4.5
Türkiye	2.4	4.2	4.5	4.5	4.1	4.1	4.1	3.7	2.8	4.2	3.3
South Africa	1.2	1.2	1.4	1.9	1.7	2.0	1.8	1.1	1.3	1.5	1.7

Source: BofA Global Research

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Monetary policy forecasts

Exhibit 27: Monetary policy forecasts
End of period

Central Banks	Current	Jul-26	Aug-26	Sep-26	Oct-26	Nov-26	Dec-26	Jan-27	Feb-27	Mar-27	Apr-27	May-27	Jun-27
Developed Markets													
Fed (upper bound)	3.75	3.75	3.75	4.00	4.25	4.25	4.50	4.50	4.50	4.50	4.50	4.50	4.50
ECB (deposit rate)	2.25	2.25	2.25	2.50	2.50	2.50	2.50	2.50	2.50	2.25	2.25	2.25	2.00
BoJ	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.50	1.50	1.50	1.50
BoE	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
BoC	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
Riksbank	1.75	1.75	1.75	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
SNB	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Norges Bank	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.00	4.00	4.00	3.75
RBA	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
RBNZ	2.50	2.50	2.50	2.50	2.50	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
Emerging Asia													
China 7d reverse repo*	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
India	5.25	5.25	5.25	5.25	5.25	5.25	5.50	5.50	5.75	5.75	5.75	5.75	5.75
South Korea	2.75	2.75	2.75	2.75	3.00	3.00	3.00	3.25	3.25	3.25	3.25	3.25	3.25
Taiwan	2.00	2.00	2.00	2.125	2.125	2.125	2.25	2.25	2.25	2.375	2.375	2.375	2.375
Thailand	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Philippines	4.75	4.75	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Latin America													
Brazil	14.25	14.25	14.25	14.25	14.25	14.25	14.25	14.25	14.25	14.25	14.25	14.25	14.25
Chile	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.75	4.75	5.00
Colombia	12.00	12.00	12.00	12.00	12.00	12.00	12.00	11.75	11.75	11.75	11.50	11.50	11.50
Mexico	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Peru	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Emerging EMEA													
Czech Republic	3.75	3.75	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Hungary	5.75	5.75	5.50	5.50	5.50	5.50	5.25	5.00	5.00	4.75	4.50	4.50	4.50
Israel	3.50	3.50	3.50	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Poland	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Türkiye	37.00	37.00	37.00	37.00	36.00	36.00	36.00	36.00	36.00	35.00	34.00	34.00	33.00

Source: BofA Global Research

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FX, rates and commodity forecasts

Exhibit 28: Quarterly forecasts
End of period

	Spot	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Dec-28
FX forecasts								
G6								
EUR-USD	1.15	1.12	1.15	1.16	1.18	1.19	1.20	1.22
USD-JPY	160	156	152	150	148	146	145	145
EUR-JPY	185	175	175	174	175	174	174	177
GBP-USD	1.35	1.32	1.37	1.38	1.40	1.43	1.45	1.47
USD-CAD	1.40	1.44	1.43	1.42	1.40	1.38	1.38	1.36
AUD-USD	0.70	0.70	0.71	0.72	0.72	0.73	0.73	0.73
Asia								
USD-CNY	6.75	6.80	6.70	6.70	6.70	6.60	6.60	6.60
USD-INR	95.7	97.0	98.0	98.5	99.0	99.0	99.0	99.0
USD-IDR	18111	17900	18000	18100	18200	18200	18200	18200
USD-KRW	1428	1550	1560	1540	1520	1500	1500	1500
Latin America								
USD-BRL	5.06	5.00	5.00	5.00	5.00	5.00	5.00	5.00
USD-MXN	17.34	17.50	17.50	17.75	18.00	18.25	18.50	19.00
Emerging Europe								
EUR-PLN	4.31	4.33	4.28	4.25	4.22	4.18	4.15	4.10
USD-TRY	47.52	49.30	51.70	53.80	55.90	57.90	60.00	73.20
USD-ZAR	16.51	16.80	16.50	16.30	16.00	15.80	15.60	15.30
Rates forecasts								
2yr								
US 2-year	4.25	4.50	4.50	4.40	4.35	4.30	4.25	4.00
Germany 2-year	2.76	2.60	2.55	2.25	2.15	2.10	2.05	1.85
Japan 2-year	1.50	1.40	1.65	1.85	1.83	1.80	2.00	1.95
UK 2-year	4.33	4.15	4.05	3.95	3.85	3.75	3.60	3.60
Canada 2-year	2.85	2.75	2.75	2.85	2.90	2.95	3.00	3.00
10yr								
US 10-year	4.67	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Germany 10-year	3.16	2.90	2.90	2.75	2.70	2.70	2.60	2.50
Japan 10-year	2.82	2.65	2.85	3.00	2.95	2.90	3.00	2.80
UK 10-year	4.98	5.00	5.00	4.85	4.75	4.60	4.50	4.50
Canada 10-year	3.59	3.50	3.50	3.55	3.60	3.60	3.65	3.75
Commodities forecasts								
WTI Crude Oil - $/bbl	84.0	75.0	69.0	68.0	63.0	65.0	66.0	NA
Brent Crude Oil - $/bbl	89.0	79.0	73.0	72.0	67.0	69.0	70.0	NA
Gold $/oz	4100	3900	4250	4750	5000	5000	4500	4000

Note: Spot exchange rate as of day of publishing. The left of the currency pair is the denominator of the exchange rate. Currency forecasts are for end of period.
Source: BofA Global Research, Bloomberg.

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Research Analysts

Global Economics

Claudio Irigoyen
Global Economist
BofAS
claudio.irigoyen@bofa.com

Antonio Gabriel
Global Economist
BofAS
antonio.gabriel@bofa.com

North America Economics

Aditya Bhave
US Economist
BofAS
aditya.bhave@bofa.com

Stephen Juneau
US Economist
BofAS
stephen.juneau@bofa.com

Shruti Mishra
US Economist
BofAS
smishra44@bofa.com

Developed Europe Economics

Ruben Segura-Cayuela
Europe Economist
BofA Europe (Madrid)
ruben.segura-cayuela@bofa.com

Evelyn Herrmann
Europe Economist
BofASE (France)
evelyn.herrmann@bofa.com

Chiara Angeloni
Europe Economist
BofA Europe (Milan)
chiara.angeloni@bofa.com

Asia Economics

Helen Qiao
China & Asia Economist
Merrill Lynch (Hong Kong)
helen.qiao@bofa.com

Rahul Bajoria
India & ASEAN Economist
BofAS India
rahul.bajoria@bofa.com

Izumi Devalier
Japan Economist
BofAS Japan
izumi.devalier@bofa.com

Takayasu Kudo
Japan Economist
BofAS Japan
takayasu.kudo@bofa.com

Anna Zhou
China & Asia Economist
Merrill Lynch (Hong Kong)
anna.zhou@bofa.com

Benson Wu, CFA
China & Korea Economist
Merrill Lynch (Hong Kong)
benson.wu@bofa.com

Ting Him Ho, CFA
Asia Economist
Merrill Lynch (Hong Kong)
tinghim.ho@bofa.com

Yvonne He
China & Asia Economist
Merrill Lynch (Hong Kong)
yvonne.he@bofa.com

Nick Stenner, CFA
Australia & NZ Economist
Merrill Lynch (Australia)
nick.stenner@bofa.com

Johnny Liu, CFA
Australia & NZ Economist
Merrill Lynch (Australia)
johnny.liu2@bofa.com

Smriti Mehra
India Economist
BofAS India
smriti.mehra@bofa.com

Kai Wei Ang
ASEAN Economist
Merrill Lynch (Singapore)
kaiwei.ang@bofa.com

Jojo Gonzales ^^
Research Analyst
Philippine Equity Partners
jojo.gonzales@pep.com.ph

Pipat Luengnaruemitchai
Emerging Asia Economist
Kiatnakin Phatra Securities
pipat.luen@kkpfg.com

EEMEA Economics

Jean-Michel Saliba
EEMEA Econ Head/MENA Economist
MLI (UK)
jean-michel.saliba@bofa.com

Mai Doan
CEE Economist
MLI (UK)
mai.doan@bofa.com

Vladimir Osakovskiy >>
EM Sovereign FI/EQ strategist
Merrill Lynch (DIFC)
vladimir.osakovskiy@bofa.com

Hande Kucuk
Turkey & Israel Economist
MLI (UK)
hande.kucuk@bofa.com

Tatonga Rusike
Sub-Saharan Africa Economist
MLI (UK)
tatonga.rusike@bofa.com

Loic Porte
Sub-Saharan Africa Economist
MLI (UK)
loic.porte@bofa.com

Latin America Economics

Carlos Capistran
LatAm and Canada Economist
BofAS
carlos.capistran@bofa.com

David Beker >>
Bz Econ/FI & LatAm EQ Strategy
Merrill Lynch (Brazil)
david.beker@bofa.com

Pedro Diaz
Caribbean Economist
BofAS
pdiaz2@bofa.com

Gustavo Mendes
Brazil Economist
Merrill Lynch (Brazil)
gustavo.mendes@bofa.com

Alexander Muller
Andean(ex-Ven) Carib Economist
BofAS
alexander.muller@bofa.com

Natacha Perez
Brazil Economist
Merrill Lynch (Brazil)
natacha.perez@bofa.com

Sebastian Rondeau
Southern Cone & Venz Economist
BofAS
sebastian.rondeau@bofa.com

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