

Global Economic Weekly

The return of the bond vigilantes

Global Letter: The return of the bond vigilantes

Bond vigilantes are back this week. A combination of hot inflation data in the US, coupled with a lack of clarity around a deal with Iran, keep fueling inflation concerns, while the data keep painting a resilient US economy. In this context, the market is becoming more concerned about the Fed's potential inability to deliver rate cuts. But that can't be all there is to it. An inflation-driven selloff should have led to a flatter curve or higher breakevens. Instead, we have a steeper curve and a move driven by real rates. In our view, unsustainable fiscal dynamics are compounding with a reflation story.

US: Better than expected labor market

Given the recent upside surprises in the labor data, we are upgrading our labor market forecasts modestly. Our payroll averages for '26 and '27 are now 66k (prev. 45k) and 69k (prev. 43k). Our new payroll trajectory accounts for the impact of the World Cup and summer weakness in hiring. We expect the u-rate to stay around 4.3% in '26 and 4.2% in '27. However, our broader message is unchanged. This is a stable labor market that has bottomed out, not one that is overheating.

Euro area: Milder gas outlook, milder economic hit

We now expect inflation at 2.9% in 2026 (-40bp) and 1.9% in 2027 (-20bp), and growth at 0.7% and 1.2%, respectively (+20bp p.a.). Unchanged ECB call: hikes in Jun/Jul-26, quarterly cuts from Jun-27 (25bp each). Markets are pricing too much, we think.

UK: Forecast update – Data and milder gas delays hike call

We lower inflation to 3.3% (-20bps) and 2.4% (-10bps) in 2026/27. We raise growth to 1.0% in 2026 (+40bp) and keep it unchanged at 1.1% in 2027. We now expect the BoE to hike in July and September (vs June and July before), with risks of one hike as before.

Asia: Philippines – CA deficit to widen sharply

The mix of higher oil prices and slower economic growth may lead to a wider-than-expected current account gap. Early 2026 data suggest accelerating import growth and slowing remittances. The Philippines dollar reserves also slipped 8% from recent highs, which implies a thinning cushion for the peso, which is trading new lows.

Emerging EMEA: Frontiers – managing flows

LKR adjustment likely sufficient for current oil costs. Support to come from 100bp CBSL hike and pending CA improvements. Inflation spike to offset bulk of LKR weakness to keep 2026 USD GDP close to "higher upside" of 2025 vs priced "intermediate".

Latin America: Argentina trip notes

Locals are generally constructive on the economic & political outlook amid an export boom and normalization of interest rates. Some questions remain about the political outlook amid a soft activity patch and an uneven growth pattern.

22 May 2026

Economics
Global

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Global Letter

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The return of the bond vigilantes

Bond vigilantes are back this week. Long-end rates reached their highest level since the GFC, with likely a mix of factors contributing to the move, but no clear trigger for such a spike. A combination of hot inflation data in the US, coupled with a lack of clarity around a deal with Iran, keep fueling inflation concerns, while the data keep painting a resilient US economy both for consumer spending and the labor market.

In this context, the market is becoming more concerned about the Fed's potential inability to deliver rate cuts. But that can't be all there is to it. An inflation-driven selloff should have led to a flatter curve or higher breakevens. Instead, we have a steeper curve and a move driven by real rates. In our view, unsustainable fiscal dynamics are compounding with a reflation story, turning a short-term problem into a long-end selloff.

US data is pushing towards a reflation narrative

In recent weeks, the data flow in the US has not been cooperating with hopes for rate cuts. The energy shock is still in the air, and has led to a large repricing of global monetary policy since February. However, the latest string of disappointment is coming from the domestic economy. The labor market has firmed, payrolls have recovered, and unemployment remains low. At the same time, consumer spending remains resilient, and inflation (especially PCE) has drifted higher.

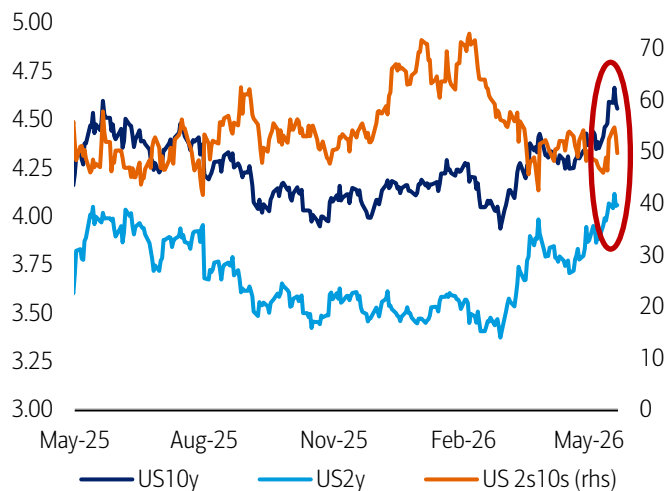
Rates sold off with the reflation narrative

The combination of data releases and continued uncertainty about the timing and extent of a potential deal to bring the Iran war to an end and reopen the Strait of Hormuz have preceded the large selloff in the long end this week. But the question is why rates sold off as they did.

Higher inflation amid resilient growth should have led the market to price tighter monetary policy and a flatter curve, in our view. Instead, the curve has steepened with the selloff, meaning the back end of the curve has sold off the most (Exhibit 1).

Exhibit 1: US rates sold off and the curve steepened

US 2y and 10y rates (%) and US 2y10y slope (bp, rhs)

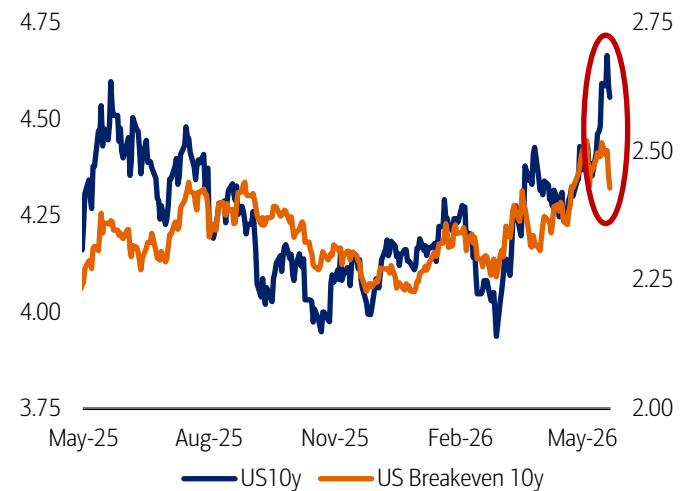


Source: BofA Global Research, Bloomberg

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Exhibit 2: A selloff driven by real rates points to fiscal dynamics

US 10y rates (%) and US 10y breakevens (% , rhs)



Source: BofA Global Research, Bloomberg

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Fiscal policy is the elephant in the room

A natural question is whether a potential inability of the Fed to hike amid political pressure could lead to higher inflation expectations. But that is not the case, as the selloff in the back end has been driven by real rates, not breakevens (Exhibit 2). The market still believes in the Fed fulfilling its mandates.

In our view, this means that the ever-worsening fiscal dynamics in the US are a key driver of the selloff. Term premium in real rates is reflective of higher fiscal risks. In an environment where Fed could potentially be on the table and become a driver of even larger fiscal deficits amid rising debt servicing costs, the long end of the curve becomes more sensitive to what should be primarily a move in short-end rates.

Things can take longer to happen but happen faster than expected

We have long argued that the US economy didn't need rate cuts (even when we thought they would still be delivered) and have also argued that a tightening in financial and liquidity conditions was the Achilles heel of asset prices. The war and deflation risks are triggering that tightening amid the pervasive fiscal dynamics we have long highlighted.

The question is not so much whether the Fed should hike, but rather if it will be able to do so amid political pressure shall the fundamentals really ask for it. As we argued, the Fed preserves its credibility, but if an inability to cut became apparent, the selloff would acquire a different shape, we think.



US

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Labor: upgrading the path, not the regime

- Given the recent upside surprises in the labor data, we are upgrading our labor market forecasts modestly.
- Our payroll averages for '26 and '27 are now 66k (prev. 45k) and 69k (prev. 43k). Our new payroll trajectory accounts for the impact of the World Cup and summer weakness in hiring. We expect the u-rate to stay around 4.3% in '26 and 4.2% in '27.
- However, our broader message is unchanged. This is a stable labor market that has bottomed out. But it is not overheating.

Complete report: [US Economic Weekly: Labor: upgrading the path, not the regime](#)
[22 May 2026](#)

Better than expected, but not overheating

The last few jobs reports have clearly surprised to the upside, prompting us to upgrade our forecasts. That said, we still see a labor market that has likely bottomed rather than one that is turning red hot. Conditions look solid and stable, but not tight enough to generate renewed inflation pressures.

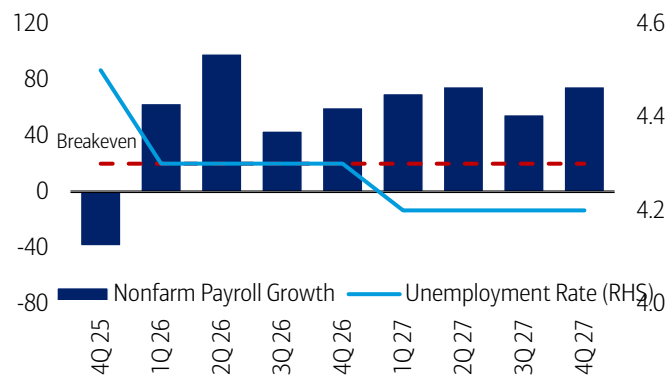
Mar & Apr jobs: solid reports with signs of broadening

The April jobs report had several encouraging elements. Payroll growth exceeded our above-consensus forecast. There were only modest downward revisions, reinforcing the view that March was not a one-off. This marked the first back-to-back increase in payroll in a year, with private payroll growth averaging a solid 86k year-to-date, the strongest four-month pace since December 2024.

Surprisingly, job growth broadened beyond education and health into trade and transportation, leisure & hospitality, and construction, even if some of the strength may reflect weather-related effects. Most importantly, the unemployment rate held steady at 4.3%. While the unrounded rate ticked up (4.34% vs. 4.26% in March), there are no signs of a material increase in labor slack (see: [US Watch: April jobs: we give it a B+](#)).

Exhibit 3: We have upgraded our labor market forecasts modestly for '26 and '27 with the u-rate at 4.3% this year and 4.2% in 2027

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

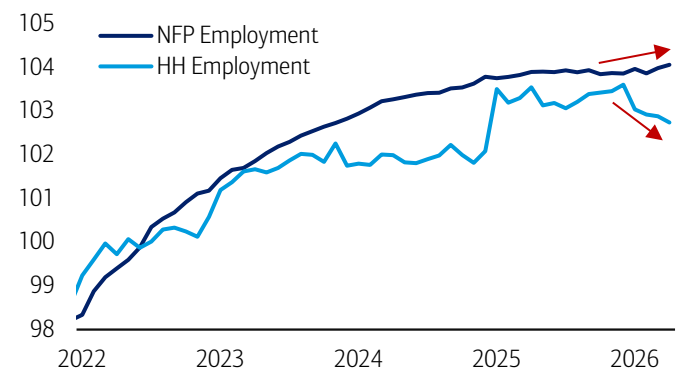


Source: BLS, BofA Global Research, Haver Analytics

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Exhibit 4: HH employment fell for the 4th straight month vs firm NFP. We prefer the NFP signal but this divergence is worth watching

Employment levels (indexed to Average 2022 monthly employment level, SA)



Source: BLS, Haver Analytics

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Household survey: weakness worth watching

However, the Household survey was weak in April. Household employment declined by 226k, marking the fourth consecutive drop and creating a divergence from the Establishment survey's NFP (Nonfarm Payroll) print. This divergence is not uncommon, and we typically place more weight on the Establishment survey signal, given the survey's lower standard error (~120k vs ~500k). But the Household survey signal is still worth monitoring (Exhibit 4).

Also, broader slack measures showed some weakness: U6 rose to 8.2% (highest since 2021), part-time workers for economic reasons saw an increase and unemployment duration rose as well. Labor force participation edged down to 61.8%, driven by the 55+ cohort, while prime-age participation held steady, an important offset.

Overall, we see the labor market as solid, but not necessarily heating up.

Wages: steady, not inflationary

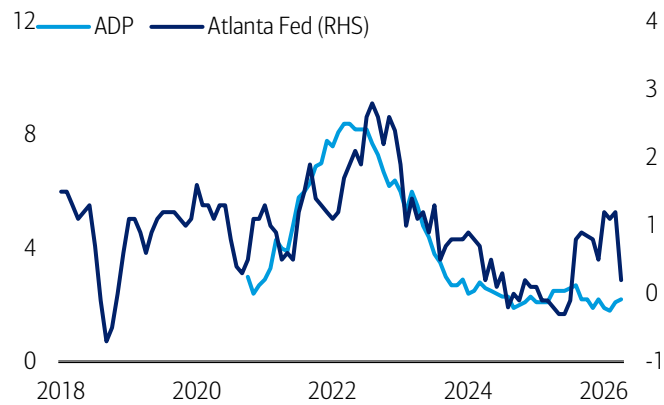
When judging whether the labor market is becoming hot and potentially inflationary, wage dynamics are key. One metric we track closely is the wage premium for job switchers. Measures of this premium, including from our Bank of America Institute, do not suggest the labor market has tightened to start the year.

Atlanta Fed data show some modest firming after the premium effectively disappeared between mid-2024 and mid-2025. However, this recent pickup looks more like normalization than the start of a renewed acceleration (Exhibit 5). Additionally, ADP data show a stable premium, similar to what our own internal data suggest.

Higher-income wage growth continues to outpace lower-income cohorts, because of low labor market turnover, weaker junior hiring and larger bonuses due to a booming stock market. This has supported K-shaped consumption. But aggregate wage growth has remained broadly steady.

Exhibit 5: Measures of the premium workers get for switching jobs do not suggest that wages are a material source of inflationary pressure

Wage premium for switching jobs: difference between wage growth for job switchers and stayers (% y/y)

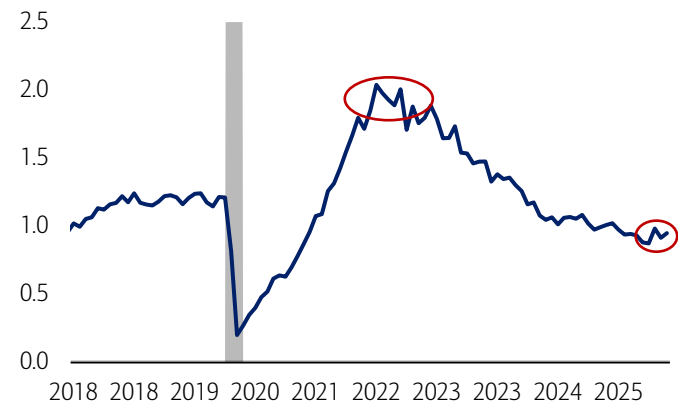


Source: ADP, Atlanta Fed, Haver Analytics

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Exhibit 6: The labor market is much cooler than it was in 2022

Vacancy-to-unemployment (V/U) ratio



Source: BLS, Haver Analytics

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V/U ratio: still subdued

Another key signal of labor slack is the vacancy-to-unemployed (V/U) ratio. Following the latest JOLTS data, the ratio has held around 0.9 for the past eight months. Stability here is reassuring, but the level remains well below the peaks seen in 2022, when vacancies were roughly twice the number of unemployed workers. In other words, the labor market is not showing signs of weakening, but it is also not signaling excess demand consistent with a red-hot, inflationary environment (Exhibit 6).



Special factors

When thinking about the labor market outlook for 2026 and 2027, it is important to take into account a few factors: the upcoming World Cup, summer weakness in jobs, the supply shock from tighter immigration policies and its impact on breakeven job growth, and risks of QCEW-driven payroll revisions.

i) World Cup effect: temporary, modest boost

The 2026 FIFA World Cup (June-July) is likely to provide a temporary lift to payrolls, particularly in leisure & hospitality, trade & transportation, construction and professional & business services. Some headline estimates suggest ~185k jobs could be added. However, several factors will likely limit the measured immediate impact on payrolls: i) a significant portion of demand will likely be met via overtime (which does not increase payrolls), rather than temporary hiring, ii) independent contractor usage (e.g., security, logistics) is not captured in the Establishment survey, and iii) regular visitors are expected to avoid host cities (tourism substitution), and this would offset some of the boost from the World Cup.

Looking at Copa America 2024, roughly one-quarter the scale of the World Cup in terms of attendance, we saw no discernible impact on national payrolls. Hence, we pencil in only a modest temporary bump, which is expected to play out as follows: i) June: about a 40k bump in payrolls, primarily via temporary leisure & hospitality hiring, ii) July: no impact from the World Cup on payroll growth, and iii) August: payback for the temporary hiring in June, and normalization of payroll levels back toward trend.

ii) Seasonality: structural summer weakness

Recent years have shown a consistent pattern of summer softening in payroll growth. This likely reflects weaker hiring of new graduates, driven by early adoption of AI in sectors such as professional & business services, tariff-related uncertainty, and normalization after post-pandemic over-hiring. These structural factors have reduced typical summer hiring, amplifying seasonal weakness. Hence we pencil in a similar impact in our payroll path in the summers of 2026 and 2027.

iii) Breakeven jobs: still at 20k given labor supply shock

Some have argued that breakeven job growth may have moved higher given recent payroll strength and a stable unemployment rate. While this is a reasonable argument, in our view, our model-based estimate of about 20k, anchored in immigration policy dynamics, remains appropriate. There is limited evidence to justify a revision. Stronger payroll prints without a decline in unemployment can occur episodically and do not necessarily signal a structural shift. We still think that the supply shock from tighter immigration policies implemented since last year is an important narrative driver in the labor market this year (see: [US Economic Viewpoint: Supply, supply, supply: Lower breakeven & full employment](#)).

iv) QCEW-related revision risk: skewed to the downside

While we don't think breakeven job growth has gone up, it is possible that current payroll numbers might get revised down. Recent QCEW data suggest that payroll levels may ultimately be revised lower in the next benchmark revision, similar to recent years. This implies that in some of the last few months; strength in reported payrolls could be overstated.

Forecast change: modest upgrade

Taking into account the above factors, we are modestly raising our payroll forecasts in 2026 and 2027: from 45k and 43k to 66k and 69k, respectively. With breakeven employment growth still around 20k, we also lower our unemployment rate forecasts for end-2026 and end-2027 by a tenth each, to 4.3% and 4.2%, respectively.



Fed: labor solid enough to stay put, not hot enough to hike

The April FOMC minutes are broadly consistent with our labor market outlook.

Participants noted that labor market conditions are expected to remain broadly stable, with risks to employment still tilted to the downside. Admittedly, this meeting took place before the April jobs report. But in our view, the bottom line is that the FOMC is not yet ready to give the labor market an “all clear,” despite the recent improvement in the data.

In turn, rate hikes are probably still a ways away. For the Fed to hike under Warsh, we think core PCE inflation would have to take another leg up (to around 3.5% or higher), and the u-rate would have to fall to 4.0% or lower. The Fed might hike sooner if wages were to accelerate or long-term inflation expectations were to unanchor, but there is no sign of that for now.

The true test lies ahead

Finally, while both the labor market and consumer spending have held up in the last couple of months since the start of the Iran war, the real test lies ahead. Tax refund-related tailwinds have supported consumption in recent months, even in the face of higher gas prices, particularly for higher-income households.

Our base case remains that consumption growth will stay near trend. However, the longer real income pressures persist, the greater the risk that households, even at the high end, cut discretionary spending. Given that roughly five-sixths of employment is in services, a pullback in spending could weigh on labor demand with a lag.

Additionally, if oil price uncertainty replaces tariff uncertainty as the dominant concern for businesses, hiring may remain concentrated in acyclical sectors such as education and healthcare. This would limit broader job gains even if the consumer remains resilient due to K-shaped dynamics, similar to 2025.



Euro area

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Forecast update: milder gas outlook, milder economic hit

Complete report: [Europe Economic Weekly: Less bad, not good 22 May 2026](#)

- We incorporate new (lower) Dutch natural gas price forecasts from our commodities team into our Euro area forecast.
- We expect inflation at 2.9% in 2026 (-40bp) and 1.9% in 2027 (-20bp), and growth at 0.7% and 1.2%, respectively (+20bp p.a.).
- Unchanged ECB call: hikes in Jun/Jul-26, quarterly cuts from Jun-27 (25bp each). Markets are pricing too much, we think.

Revised EU TTF price outlook matters for the Euro area

We adjust our Euro area macro forecasts to incorporate our commodities strategists new, lower natural gas price forecasts (TTF) in our scenario. Reduced LNG supplies from Qatar have not led to the initially expected major rally in European natural gas prices into 2Q26, thanks mainly to mild temperatures, strong nuclear and renewable power generation and fast growing North American LNG supplies. Our commodities strategists lowered their TTF targets to €55/MWh for 2026 and €35/MWh for 2027, from €75/MWh and €50/MWh respectively (Global Energy Weekly: EU gas and carbon break up).

Lower inflation peak, around c.3.3% in 3Q26

With these milder gas profile, our inflation forecasts move to 2.9% (-40bp) in 2026 and 1.9% (-20bp) in 2027, with core inflation at 2.2% and 2.1% (-10bp per year). The new gas price profiles lower headline inflation via gas and electricity prices, but also core inflation via indirect effects. Second round effects via wage growth are more limited too, but we had assumed those to be quite small even under the previous energy price assumptions. In this new base case, Euro area HICP peaks at c.3.3% in late 3Q26 (vs c.4% in 4Q26 before) and falls below 2% again in the 2Q27. Core inflation follows a very gentle downward trend in 2027, reaching 2% at the end of that year. A small hit on economic growth means that the drop below 2% (for core) gets delayed into 2028.

Smaller hit on economic activity

Our Euro area growth forecasts move to 0.7% this year (+10bp) and 1.2% next (+20bp). The lower gas profile reduces the real economic shock of the ongoing crisis by around a third. But the impact of higher oil prices and uncertainty remains. Lower inflation and an earlier inflation peak result in a smaller GDP level loss and a slightly earlier recovery. We expect peak growth in 1H27 before moderation closer to 0.3% qoq again by end-27.

ECB: we still expect June/July hikes, cuts <2% in 2027

We keep our ECB call unchanged for now, but the risk balance shifts somewhat: we expect two hikes in June/July 2026 (25bp each) to a deposit rate at 2.5%. Risks of a delay of the second hike to September are rising. We still view risks of no hikes at all as larger than risks of more than 50bp of hikes in total.

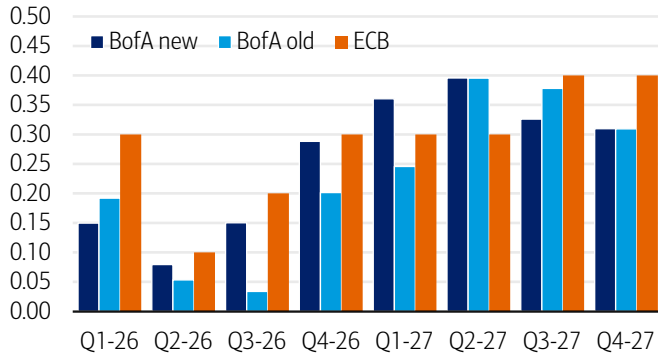
Indeed, a sequence of signs suggesting non-linear adjustments in activity as potentially suggested by French PMIs this week could open the door to a June hold. We are not there, yet. And there is only a very narrow window and a limited number of data points until the June meeting. But a hold in June, while far from our base case, has some decent probability, still.



We also stick to our base case of quarterly cuts starting June '27, to 1.75% at the end of next year. The central bank could start reversing the 2026 hikes a little bit earlier than that, although they will probably want to see firm evidence of inflation (including core) being past peak with no tangible second round effects on 2027 wage growth. That said, like in 2025/26, we could see a pause at 2% deposit rate, again, until a persistent undershoot pushes them into cuts below 2% in 2028, eventually.

Exhibit 7: Lower gas profile reduces growth shock

We upgrade 2026 average growth to 0.7 (+10bp) and 2027 to 1.2% (+20bp)

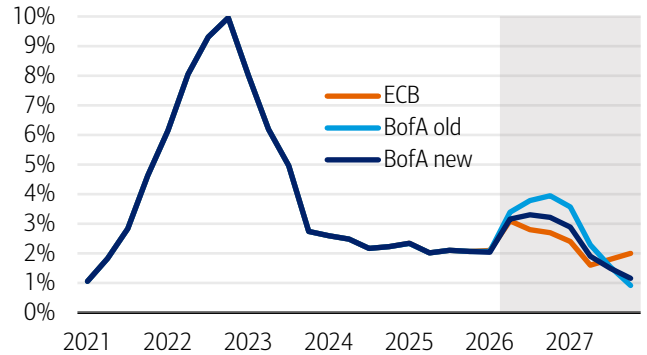


Source: BofA Global Research, ECB, Eurostat

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Exhibit 8: Lower HICP inflation, peak around c.3.3% in 2026

We now see HICP at 2.9% this year (-40bp) and 1.9% in 2027 (-20bp)



Source: BofA Global Research, ECB, Eurostat

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Countries: nothing particularly new to see here

We also updated the forecasts for individual Euro area member states(Exhibit 9).

Exhibit 9: Spain outperforms, Italy underperforms, Germany most fragile, France is average

Euro area country forecast for GDP and inflation (%)

	GDP			HICP		
	2025	2026F	2027F	2025	2026F	2027F
Euro area	1.5	0.7	1.2	2.1	2.9	1.9
Austria	0.7	0.6	1.3	3.6	3.5	2.4
Belgium	1.0	0.6	1.1	3.0	3.8	2.0
Finland	0.2	0.7	1.2	1.8	2.7	1.4
France	0.9	0.7	1.1	0.9	2.2	1.5
Germany	0.3	0.6	1.1	2.3	3.2	2.2
Greece	2.2	1.8	1.8	2.9	4.1	2.9
Ireland	12.4	-3.3	3.6	2.1	3.8	1.9
Italy	0.7	0.4	0.7	1.6	2.9	1.7
Netherlands	1.8	0.7	1.1	3.0	2.7	2.2
Portugal	1.9	1.6	1.6	2.2	2.7	1.8
Spain	2.8	2.1	1.5	2.7	3.0	2.1

Source: BofA Global Research

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Long story short, inflation effects from lower gas prices are bigger in France, Italy and Germany, given consumers are more exposed to gas prices (either via the energy mix or via price regulation) than in Spain. That also reflects in changes to growth forecasts. We upgrade Spain relatively less than the rest, although the economy remains the growth outperformer at a tangible margin.

We continue to get questions which country is most vulnerable to the shock or what to expect from fiscal. Our answer remains unchanged: Natural gas price spikes could hurt France fast via the quasi immediate pass through to the consumer. Italy may still be more fragile to the effect of natural gas prices to electricity, and the consumer, than the rest. But Germany has the weakest starting point, a particular fragility in the energy space and a rather sour fiscal policy debate. Risks of roll-over remain highest here. Meanwhile, we continue to expect small and targeted fiscal support, only, in the range of 0.2-0.3% of GDP, at most, for the full year. Measures larger than, if needed, are likely to come with measures on the revenue side. Meanwhile, the impact of cyclical weakness on deficits will thereby still exceed the impact of discretionary policy easing.



UK

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Data and milder gas delays hike call

- We adjust our UK macro forecasts to incorporate our commodities strategists new, lower natural gas price forecasts.
- We lower inflation to 3.3% (-20bps) and 2.4% (-10bps) in 2026/27. Inflation is now likely to peak at 3.7% in Q4 2026 (vs 4.1% before). We raise growth forecasts to 1.0% in 2026 (+40bp) and keep it unchanged at 1.1% in 2027.
- We now expect the BoE to hike in July and September (vs June and July before) to 4.25%, with risks of one hike as before.

We incorporate lower gas prices in our outlook

We adjust our UK macro forecasts to incorporate our commodities strategists new, lower natural gas price forecasts in our scenario. Our commodities strategists lowered their TTF targets to €55/MWh for 2026 and €35/MWh for 2027, from €75/MWh and €50/MWh respectively, thanks to mild temperatures, strong nuclear and renewable power generation and fast growing North American LNG supplies. For the UK, we now incorporate UK natural gas prices averaging 130pence/therm in 2026 and 110 pence/therm in 2027 (vs. 170/130 before respectively).

Lower inflation profile with peak at 3.7%

We lower inflation to 3.3% (-20bps) and 2.4% (-10bps) in 2026/27 due to the softer gas profile, along with weaker than expected April inflation. At the same time, we incorporate the planned cancellation of the 5p rise in fuel duty from September until year end (which lowers inflation in Q4 2026 marginally by 6bps). Core inflation moves to 2.8% (-10bps) in 2026 and remains at 2.2% in 2027. Inflation is now likely to peak at 3.7% in Q4 2026 (vs 4.1% before) and falls slightly below target in H2 2027. Lower gas forecast lowers headline inflation from July onwards when the July price cap resets (we now expect the Ofgem price cap to rise by 13% in July). Indirect effects also lower core inflation slightly.

Higher growth

We raise growth forecasts to 1.0% in 2026 (+40bp) and keep it unchanged at 1.1% in 2027. This is driven by a lower gas shock and the stronger than expected Q1 GDP. But we think Q1 GDP outperformance is unlikely to last with inflation squeezing real incomes and weighing on consumption/investment. At the same time political uncertainty is likely to increase near-term policy uncertainty and lead to tighter financial conditions, which could weigh on growth. We expect quarterly growth to slow to 0.1-0.2% in rest of 2026 but don't expect a recession.

We delay the timing of BoE hikes to July and September

We delay the timing of hikes for the BoE. We now expect the BoE to hike in July and September 2026 (vs June and July before) to 4.25%, with risks of one hike as before. Softer gas profile than we were expecting, dovish inflation/labour market data and lack of explicit guidance on June from the BoE in recent weeks makes us delay the timing of hikes. Data was dovish with a 100K fall in April payrolls, rise in unemployment to 5.0% and softer PMIs/pay growth/ services/food inflation, though we would argue it was less dovish than it appears at face value. But nonetheless it should reduce the urgency for the BoE to act, especially with swing voters not showing a rush to hike. So far the MPC is taking comfort from tightening in financial conditions which they say can give them time to assess whether to hike or not.

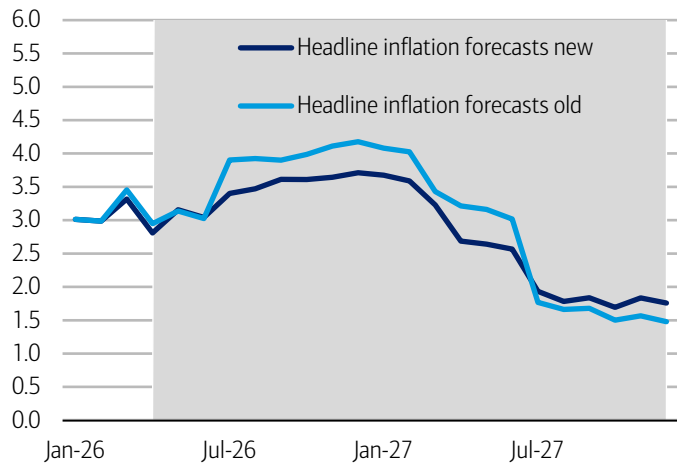


Why do we still expect modest hikes? We still think the BoE is likely to hike twice (with risks of one) in coming months to guard against second round effects. We expect energy prices to remain high through the year (with oil close to \$100) and we think this elevated shock can raise risks of second round effects, especially given above-target inflation in the past few years, consumer sensitivity to high inflation and already elevated inflation/wage expectations. Inflation is likely to pick up in coming months, and survey indicators point to elevated input/output prices, increasing risks of companies passing on costs to consumers. We would be cautious in overinterpreting the downside surprise in April services inflation/ big fall in April payrolls, given erratic components driving some of the fall. Payrolls tend to be revised often and in April revisions are normally large. Other survey indicators of labour market are showing some signs of stabilization. Moreover, the BoE is currently taking some comfort from the tightening in financial conditions weighing on inflation, but the BoE actually needs to credibly deliver on the hikes priced in to maintain those tight financial conditions.

There are a few risks to our call. June can't be fully ruled out, especially if the DMP shows another leg up in inflation expectations, labour market starts showing signs of stabilization/ improvement or energy prices move higher. But risks in our view are tilted to further delays, if the impact of the conflict takes longer to come through. Moreover, we think the risk of the BoE looking through the shock (if energy prices move lower or labour market worsens materially) is higher than risks of more than 50bps of hikes. We continue to expect quarterly cuts from Q2 2027 in April, July and November 2027 to 3.5% by end 2027.

Exhibit 10: Lower inflation profile with peak at 3.7%

Headline inflation forecasts (%y/y)



Source: ONS, BofA Global Research

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Exhibit 11: We lower inflation to 3.3% (-20bps) and 2.4% (-10bps) in 2026/27

UK inflation forecasts (%y/y)

	Headline CPI	Core	Core goods	Service	Food	Energy	RPI
	y/y%						
Jan-26	3.0	3.1	0.8	4.4	3.6	0.2	3.8
Feb-26	3.0	3.2	1.3	4.3	3.3	-1.0	3.6
Mar-26	3.3	3.1	0.8	4.5	3.7	4.9	4.1
Apr-26	2.8	2.5	1.1	3.2	3.0	7.1	3.0
May-26	3.2	2.8	1.1	3.8	2.9	8.2	3.6
Jun-26	3.0	2.7	1.1	3.5	3.2	8.3	3.6
Jul-26	3.4	2.6	1.1	3.4	3.5	14.8	4.0
Aug-26	3.5	2.7	1.2	3.5	3.9	14.2	4.5
Sep-26	3.6	2.8	1.3	3.7	4.0	14.1	4.6
Oct-26	3.6	2.8	1.3	3.6	4.5	13.0	4.5
Nov-26	3.6	2.7	1.3	3.5	5.1	12.3	4.6
Dec-26	3.7	3.0	1.4	3.9	4.9	11.4	4.6

Source: ONS, BofA Global Research

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Asia

Jojo Gonzales ^^
Philippine Equity Partners

Philippines: Current account deficit seen to widen sharply

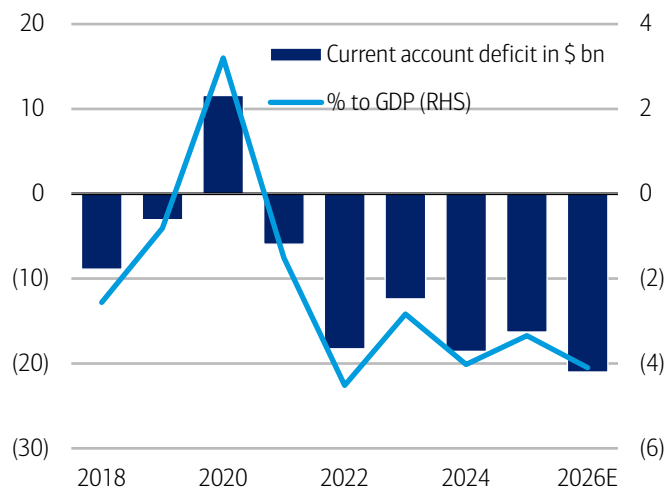
See complete report: [Asia Economic Weekly: Philippines: Current account deficit to widen sharply 22 May 2026](#)

Current account deficit seen to widen sharply

Before the war in the Middle East (ME) broke out at the end of February 2026, the Philippines was on track for moderate growth, receding inflation, and narrowing twin deficits. Fast forward to May 2026 and the combo of slower GDP (Gross Domestic Product) growth and higher inflation is apparent. What may be less obvious is a sharply wider current account (CA) deficit forthcoming. Pre-war, the Bangko Sentral ng Pilipinas anticipated an improvement in the CA deficit in 2026E to US\$13bn (or 3% of GDP), from US\$16bn in 2025. However, with oil seen to average US\$92.5/bbl in FY26E (from US\$65/bbl pre-war), we believe this would widen the trade deficit, and subsequently, the CA deficit. We forecast a CA deficit in 2026E of US\$21bn, or 4.1% of GDP.

Exhibit 12: On track to a record CA deficit in \$ terms

The CA deficit to GDP is also seen to reach 4.1% in 2026E which is worse since the recent peak in 2022 at 4.5%.



Source: CECL data, Philippine Equity Partners (PEP)

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Exhibit 13: Export growth slows down while imports accelerate in 1Q26

Exports and Imports grew 15% and 5% respectively in 2025. In 1Q26, export growth slowed to 13% while import growth accelerated to 9%, resulting in a trade deficit that is 3% wider YoY – this gap may worsen if high oil prices persist, or exports slow further

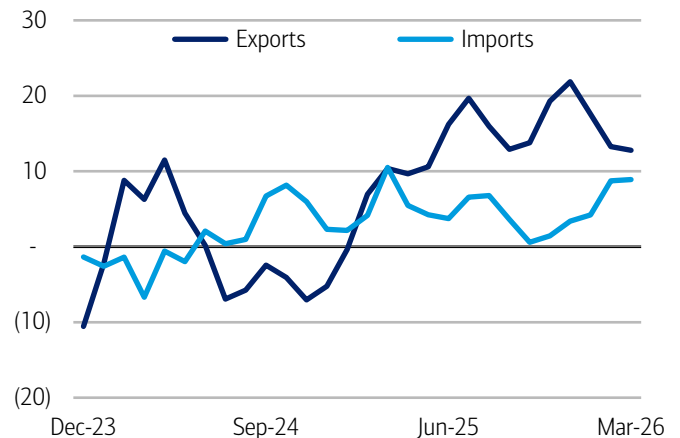
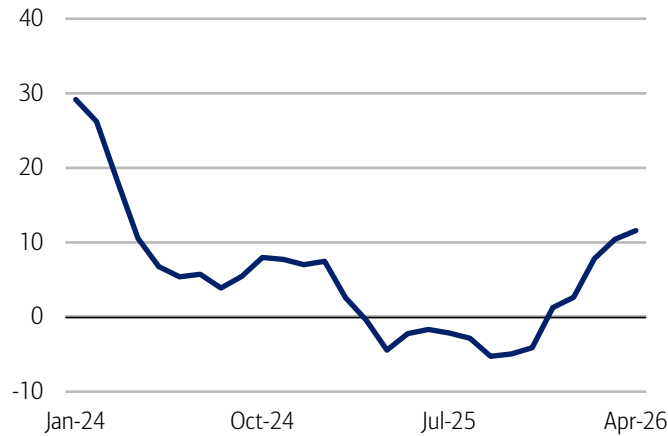


Exhibit 14: Tourist arrivals pick up in Jan-Apr-2026 – positive for the CA

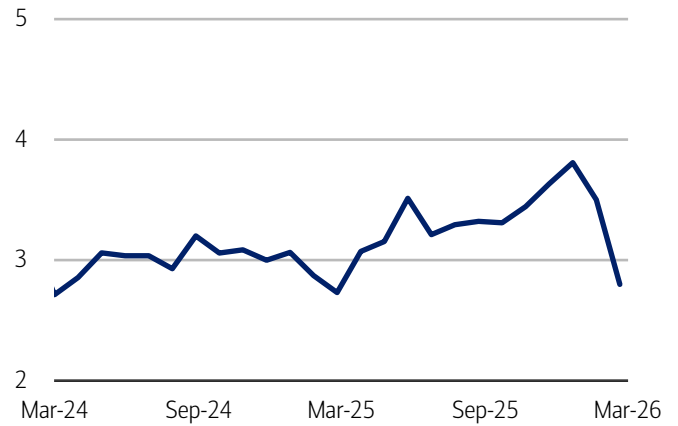
Tourist arrivals fell 1% in 2025 but is up 9% in the first four months of 2026, with arrivals from China growing 62% coinciding with the move of the Philippine government to give visa-free travel to visitors from China



Source: CEIC data, PEP estimates; data is charted in 3-month moving averages
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Exhibit 15: Remittances slowed in 1Q26 to 2.8% YoY

Remittances grew 3.3% in 2025 but slowed to 2.8% in 1Q26, possibly reflecting growth and job security concerns in Asia and Middle East based overseas Filipinos who comprised 59% of remittances in 2025



Source: CEIC data, PEP estimates; data is charted in 3-month moving averages
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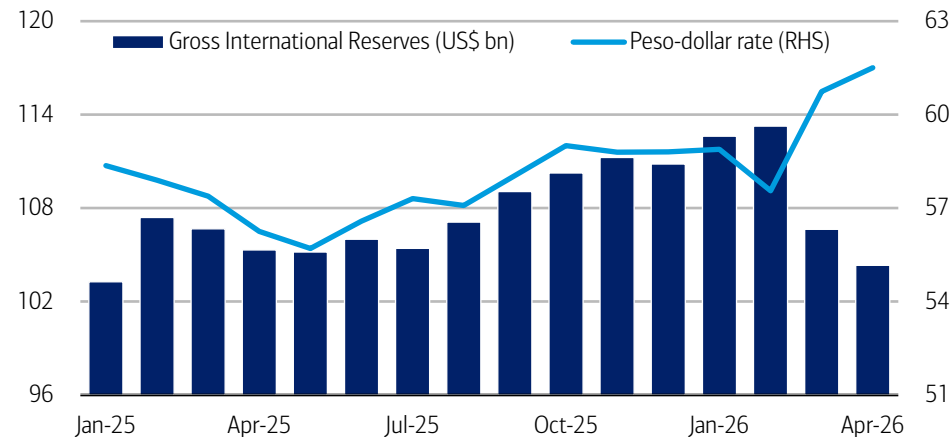
Unlike trade and remittances, tourist arrivals and receipts may have a positive influence on the CA in 2026. The growth in tourist arrivals has surprisingly picked up. In the first four months of 2026, tourist arrivals are up 9%, in contrast to a 1% decline in FY25. The CA uplift from tourist receipts may be modest as tourist receipts are placed at only around US\$9bn annually. Nonetheless, the pick-up in visitor arrivals may have a positive impact, especially coming from an unlikely source of growth: visitors from China grew 63% YoY in Jan-Apr-2026 and comprised 6.6% of total arrivals. If we were to include greater China – HK, Macau and Taiwan – Chinese arrivals grew 41% and comprised 12% of total.

Thinning cushion against a wider CA deficit

The peso-dollar rate is presently trading new all-time lows around P61.7/\$. The Philippines Gross International Reserves (GIR) fell 8% from recent peak to US\$104bn. While the level of reserves is adequate relative to import and debt service needs, it is unlikely sufficient to provide a cushion and prevent further peso weakness.

Exhibit 16: GIR fell 8% from its recent peak in Feb-2026

The gold, investments and foreign currency components of the GIR all declined in recent months



Source: CEIC data
BofA GLOBAL RESEARCH



Emerging EMEA

Vladimir Osakovskiy >>
Merrill Lynch (DIFC)

Frontiers – managing flows

Complete report: [Emerging Insight: Frontiers – managing flows 20 May 2026](#)

The YTD LKR weakness seems appropriate and sufficient response to the current fuel import bill. Any additional LKR pressure would likely require a further increase in energy costs. Meanwhile, existing current account pressures should start to fade with new temporary import restrictions as well as stabilizing tourist arrivals. The currency may also get additional support from CBSL rate hike(s) starting next week, whereas REER suggests the currency is far from overvalued. Accelerating inflation should at least partly offset LKR weakness and keep nominal USD GDP close to “higher upside” this year. UZS will likely receive renewed support from resumed gold exports as well as portfolio inflows due to continued sovereign/corporate issuance.

LKR: adjustment seems sufficient

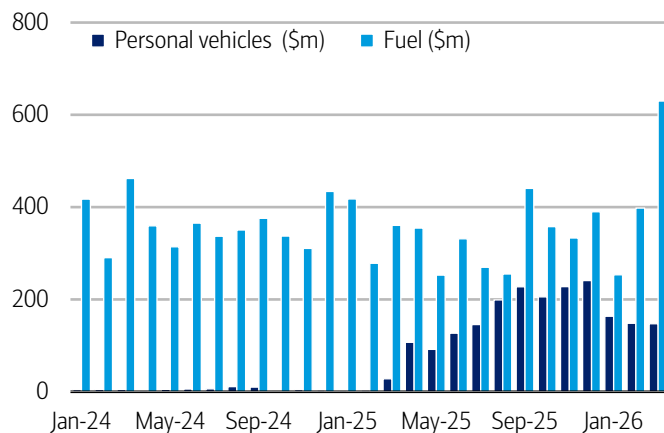
We think that the 8% YTD weakness of the LKR represents a fundamentally sufficient adjustment to the increased energy import bill. In March 2026, the country spent an extra \$300m on fuel imports (i.e. about a 16% increase in total monthly imports), which seems to be the key driver of the recent FX pressure. However, in the absence of further energy cost increases, the resulting current account pressures may start to decline from late May due to new import restrictions as well as stabilizing tourist arrivals.

Current account pressures to ease from May

The government has imposed a temporary additional 50% surcharge on all vehicle imports for 3M starting from May 16th. We think that this material, but short-term, tax hike will almost fully disrupt vehicle imports over the next three months. In turn, this may help to reduce the monthly import bill by about \$150m (average monthly spend over the past 12M). Meanwhile, the country also received over 75.4K in tourist arrivals between May 1-17, which suggests the decline has narrowed sharply from 20-22% yoy in March-April to less than 1% yoy in May. In fact, May could see the first rise in mom arrivals since the February 2026 peak – and despite a seasonal sector slowdown. Stabilizing arrivals should also help to reduce the reported decline in tourism revenues from 39% yoy in April.

Exhibit 17: Ban on car imports should help with higher energy bill

SL spent \$150-160m/month on cars, vs extra \$300m on fuel in March

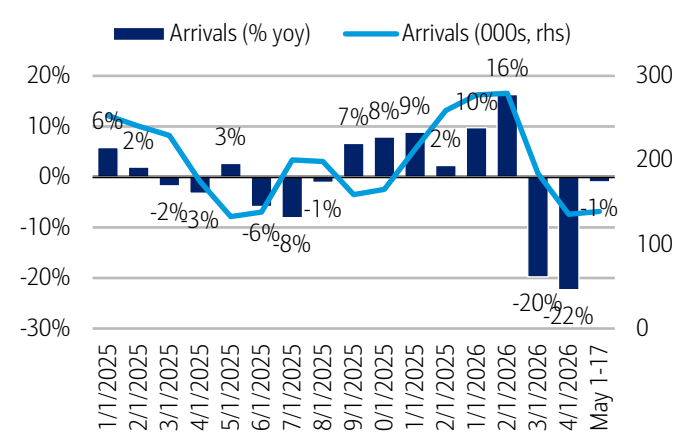


Source: CBSL

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Exhibit 18: Arrivals yoy decline sharply narrowed in May

May arrivals could post first mom increase since March



Source: Sri Lanka Tourism Development Authority

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CBSL to the rescue

Additional support for the LKR will likely come from the Central Bank. We note that, at least so far, the Bank has refrained from any outright FX interventions to support the currency. Thus, the reported decline in CBSL FX reserves appears to be mainly due to amortization of the PDI bond, rather than any material FX sales. However, sharp currency moves over the past several weeks already pushed the Governor to issue verbal and the likely monetary interventions to stabilize the market on May 17th. We think that sharply accelerating inflation will also steer the Central Bank towards material monetary tightening, likely by the next May 26th policy meeting. This may provide additional support to the LKR.

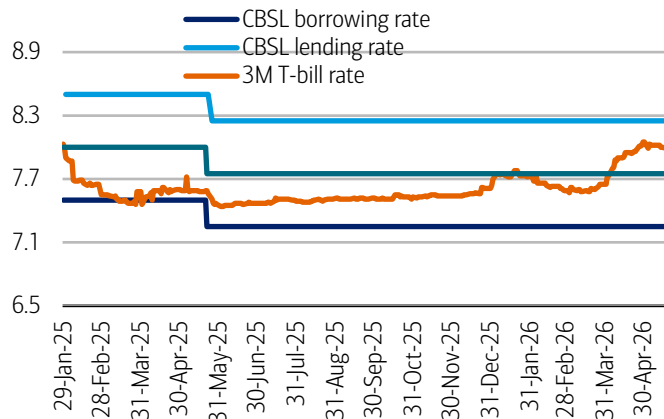
Up to 100bp rate hike due next week

As a baseline, we think that the Central Bank will likely hike its policy rate by some 100bp in May, which should be sufficient for the current inflationary and FX shock. Today’s money market rate is some 25bp above the key rate (Exhibit 19), suggesting that some monetary tightening may be achieved with a more modest 50-75bp hike (Exhibit 19). However, the Bank will likely need a more proactive policy rate move to address existing near-term inflationary risks. A sharper policy rate adjustment will also be required for any material stabilizing impact on the LKR.

The disinflationary years of 2024-2025 create a major base effect for 2026. Therefore, we expect that the reported 3% mom spike in April CPI will push annual inflation above 7% (upper bound of the 3-7% target range around the 5% target) from July onwards (Exhibit 20). We think that the key rate will need to remain in material real positive territory for any major macro and market impact. The hike may be quickly reversed if energy costs correct sharply in late 2026, though we expect them to remain elevated throughout the year despite a likely eventual geopolitical resolution. As a baseline, we expect the policy rate to stay at 8.75% until there is renewed disinflation in 2027.

Exhibit 19: Some policy tightening can be achieved with 50-75bp hike

3M money market rates are just 25-30bp above policy rate

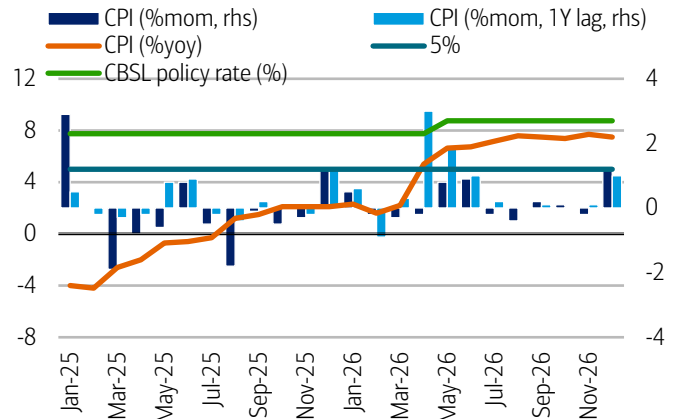


Source: Bloomberg

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Exhibit 20: We expect proactive 100bp hike for material impact

Inflation is likely to spike above 7% in 2H26



Source: SL Statistical agency, BofA Global Research estimates

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USD GDP: inflation vs LKR

Overall, we think that in the absence of any additional energy price shocks, Sri Lanka nominal USD GDP may remain largely stable in 2026 vs 2025, when it reached \$109bn. Thus, we expect average inflation to accelerate to 5.8% this year (Exhibit 20), which will accordingly help to increase nominal LKR GDP. This may be sufficient to offset at least the bulk of the yoy depreciation of the LKR and keep USD GDP largely stable. We also emphasize that 2025 nominal GDP has already been reported some \$2bn above the “higher upside” threshold in macro-linked bonds, whereas current valuations remain consistent with “intermediate” upside.



Latin America

Sebastian Rondeau
BofAS

Argentina trip notes: Sunny with some clouds

Complete report: Emerging Insight: Argentina trip notes – Sunny with some clouds
19 May 2026

Locals are generally constructive on the economic and political outlook amid an export boom and normalization of interest rates. Some questions remain about the political outlook amid a soft activity patch and an uneven growth pattern. Export boom supports the currency and a strong improvement in external accounts.

Positive sentiment but with some clouds

Locals are generally constructive on the economic and political outlook amid an export boom and normalization of interest rates. Some questions remain about the political outlook amid a soft activity patch and an uneven growth pattern.

Export boom supports the currency

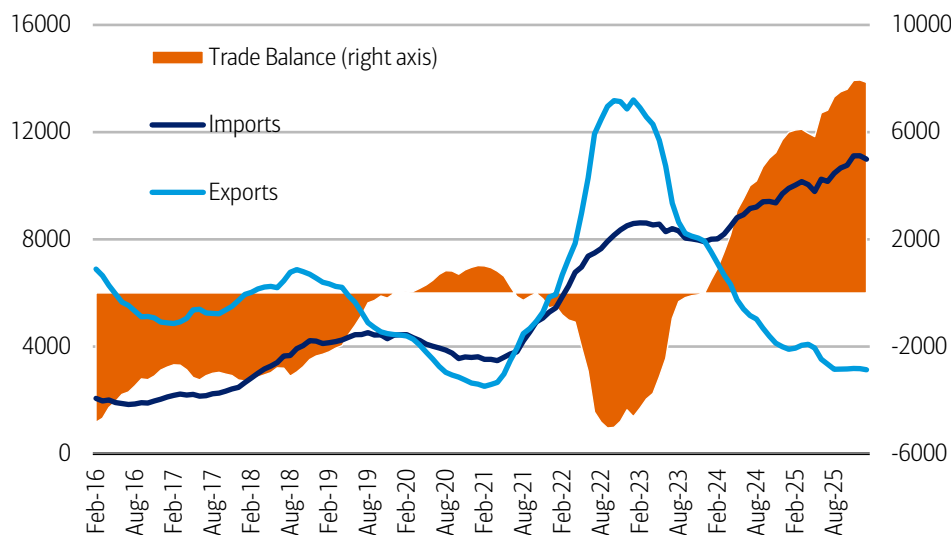
Economists we met highlighted the strong growth in exports amid the energy boom and higher commodity prices. The strong pipeline of expected mining investment and further energy growth should intensify the export boom over the next seven years.

Strong improvement in external accounts: surplus likely

Economists we met expect a balanced current account (or a small surplus), from a 1.3% of GDP deficit last year. This, together with positive capital inflows, supports the currency. The BCRA has already bought about \$8bn in international reserves year to date, and there are risks of overperforming versus the IMF target (+\$8bn net reserves this year) or further appreciation of the real exchange rate (which could become a hurdle for some sectors).

Exhibit 21: Trade balance of energy

Record surplus



Source: Indec.

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Activity to recover from soft patch

Economists we met mentioned that GDP growth slowed mostly due to the financial shock ahead of the elections, which affected lending and increased non-performing loans, especially among consumers. They expect a recovery in economic activity (2.5%



growth this year, potentially more next year), led by export sectors and a sharp decline observed in interest rates. Road concessions should also be supportive. Construction remains affected by excess housing inventory.

Soft patch and Milei's popularity

A political analyst we met mentioned that the slowdown in activity and the increase in inflation until March affected Milei's approval ratings. However, Milei's popularity remains moderately high, and expected disinflation together with a pickup in growth should support the government's re-election chances next year. He also mentioned that the government should pursue a governability agreement with governors. There is broad consensus that, whoever wins the 2027 elections, Argentina will be in a better position than four years ago given the stronger exports and rising fiscal awareness.

Energy boom continues. Mining investments loom.

The energy trade balance increased to \$9bn over the last twelve months. The boom continues, with oil production potentially increasing by more than 200kbpd per year in 2027-28 according to corporates we met, as pipeline investments remove bottlenecks. LNG projects by the end of 2027 should accelerate the improvement in the trade balance.

Mining investment should also pick up. Metal prices are boosting mining exports, amid a strong pipeline of investment projects (close to \$50bn presented to the RIGI regime, mostly in copper).

Financing and rating upgrades in the spotlight

While external financing needs remain substantial, locals we met do not see a financing issue in the base case given the strong external backdrop. However, economists we met would like to see some pre-financing to reduce the risk of currency tensions closer to the elections just in case the outcome becomes less certain.

Investors are also monitoring a potential additional rating upgrade, possibly from Moody's in June or from Standard & Poor's, following Fitch's upgrade to B- from CCC+.

Fiscal credibility remains high; disinflation to continue

Economists we met believe the commitment to a zero fiscal deficit remains firmly in place. Inflation peaked at 3.4% amid a sequence of relative price shocks (beef, energy tariffs, and fuels).

Fiscal discipline should support disinflation going forward, although the pace remains uncertain. Low money demand is seen as an opportunity for re-monetization amid the disinflation. The BCRA has been able to sterilize USD purchases at low rates, reflecting strong demand for remunerated peso assets so far.

Key forecasts

Exhibit 22: Economic forecasts

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

Economic forecasts

	4Q25	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27	2025	2026F	2027F
Global and Regional Aggregates, %												
United States												
Real GDP growth ¹	0.5	1.7	2.5	1.9	1.9	2.2	2.2	2.4	2.4	2.1	2.2	2.2
CPI inflation	2.7	2.7	4.3	4.2	3.9	3.1	1.6	1.8	1.9	2.7	3.8	2.3
Policy Rate (EoP)	3.63	3.63	3.63	3.63	3.63	3.63	3.63	3.13	3.13	3.63	3.63	3.13
Euro area												
Real GDP growth ¹	0.8	0.6	0.4	0.6	1.3	1.4	1.4	1.3	1.1	1.5	0.7	1.2
CPI inflation	2.1	2.0	3.2	3.3	3.2	2.9	1.9	1.5	1.2	2.1	2.9	1.9
Policy Rate (EoP)	2.00	2.00	2.25	2.50	2.50	2.50	2.25	2.00	1.75	2.00	2.50	1.75
China												
Real GDP growth ²	4.5	4.5	4.5	4.6	4.5	4.5	4.5	4.4	4.4	5.0	4.5	4.5
CPI inflation ³	0.6	0.9	1.2	1.2	0.9	1.0	0.6	0.7	0.7	0.0	1.0	0.8
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	1.40
Japan												
Real GDP growth ¹	0.8	2.1	0.4	0.4	0.8	0.7	0.4	0.8	0.8	1.1	0.6	0.6
CPI inflation	2.7	1.4	1.9	2.4	2.7	3.6	3.0	2.3	1.3	3.2	2.1	2.6
Policy Rate (EoP)	0.75	0.75	1.00	1.00	1.25	1.50	1.50	1.75	1.75	0.75	1.25	1.75
Global Aggregate ⁴												
Real GDP growth										3.5	3.1	3.4
CPI inflation										2.5	3.3	2.5
Policy Rate (EoP)										3.72	3.72	3.40
Emerging Markets Aggregate ⁴												
Real GDP growth										4.7	4.1	4.6
Real GDP growth (ex-China)										4.6	3.9	4.7
CPI inflation										2.4	3.3	2.7
Policy Rate (EoP)										4.40	4.20	3.96

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

Markets forecasts

	spot	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27
Exchange Rates (EoP)								
EUR/USD	1.16	1.14	1.17	1.20	1.20	1.22	1.23	1.24
USD/JPY	159	156	154	152	152	150	148	146
USD/CNY	6.80	6.90	6.80	6.70	6.70	6.70	6.70	6.60
GBP/USD	1.34	1.34	1.39	1.43	1.43	1.45	1.46	1.49
Interest rates (% EoP)								
US 10yr	4.57	4.35	4.30	4.25	4.25	4.25	4.25	4.25
Germany 10-year	3.10	3.05	3.00	2.95	2.85	2.75		2.70
Japan 10yr	2.77	2.70	2.73	2.90	3.00	3.03	3.10	3.05
Commodities ¹								
Oil - WTI (\$/bbl)	97.7	94	88	88	84	77	70	62
Oil - Brent (\$/bbl)	102.6	103	95	94	89	82	75	67
Gold (\$/oz)	4544	4500	5250	5750	5200	5000	5000	4500
Equities (EoP)								
S&P 500	7446			7100				
Stoxx 600	621	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 3.1% in 2026 and 3.4% in 2027

	GDP growth, %			CPI inflation*, %			Short term interest rates**, %			
	2025	2026F	2027F	2025	2026F	2027F	Current	2025	2026F	2027F
Global and regional aggregates										
Global	3.5	3.1	3.4	2.5	3.3	2.5	3.71	3.72	3.72	3.40
Global ex US	3.8	3.2	3.7	2.4	3.2	2.5	3.73	3.75	3.74	3.46
Global ex China	3.1	2.6	3.1	3.2	4.0	3.0	4.39	4.41	4.41	4.00
Developed Markets	1.4	0.9	1.2	2.6	3.2	2.1	4.69	4.65	5.14	4.36
Emerging Markets	4.7	4.1	4.6	2.4	3.3	2.7	4.36	4.40	4.20	3.96
Emerging Markets ex China	4.6	3.9	4.7	4.0	4.8	4.0	6.15	6.21	5.90	5.51
Europe, Middle East and Africa (EMEA)	2.2	1.5	2.3	4.6	4.2	3.1	4.47	4.56	4.47	3.57
European Union	1.7	1.1	1.5	2.5	3.1	2.0	2.31	2.33	2.71	2.06
Emerging EMEA	3.4	2.8	4.1	9.7	7.0	5.6	8.18	8.42	7.36	6.05
Emerging Asia	5.5	4.8	5.1	0.9	2.4	2.1	2.73	2.70	2.81	2.85
ASEAN	5.1	4.2	4.6	1.6	3.5	2.7	3.72	3.56	3.80	3.59
Latin America	2.4	2.1	2.5	3.7	5.0	3.9	8.44	8.59	7.98	7.61
G6										
US	2.1	2.2	2.2	2.7	3.8	2.3	3.63	3.63	3.625	3.125
Euro area	1.5	0.7	1.2	2.1	2.9	1.9	2.00	2.00	2.50	1.75
Japan	1.1	0.6	0.6	3.2	2.1	2.6	0.75	0.75	1.25	1.75
UK	1.4	1.0	1.1	3.4	3.3	2.4	3.75	3.75	4.25	3.50
Canada	1.7	1.2	1.7	2.1	2.4	1.9	2.25	2.25	2.25	2.25
Australia	2.0	2.0	1.7	2.9	4.2	2.6	4.35	3.60	4.35	3.85
Euro area										
Germany	0.3	0.6	1.1	2.3	3.2	2.2	2.00	2.00	2.50	1.75
France	0.9	0.7	1.1	0.9	2.2	1.5	2.00	2.00	2.50	1.75
Italy	0.7	0.4	0.7	1.6	2.9	1.7	2.00	2.00	2.50	1.75
Spain	2.8	2.1	1.5	2.7	3.0	2.1	2.00	2.00	2.50	1.75
Netherlands	1.8	0.7	1.1	3.0	2.7	2.2	2.00	2.00	2.50	1.75
Belgium	1.0	0.6	1.1	3.0	3.8	2.0	2.00	2.00	2.50	1.75
Austria	0.7	0.6	1.3	3.6	3.5	2.4	2.00	2.00	2.50	1.75
Greece	2.2	1.8	1.8	2.9	4.1	2.9	2.00	2.00	2.50	1.75
Portugal	1.9	1.6	1.6	2.2	2.7	1.8	2.00	2.00	2.50	1.75
Ireland	12.4	-3.3	3.6	2.1	3.8	1.9	2.00	2.00	2.50	1.75
Finland	0.2	0.7	1.2	1.8	2.7	1.4	2.00	2.00	2.50	1.75
Other developed economies										
New Zealand	0.2	1.5	2.8	2.8	3.5	2.6	2.25	2.25	2.25	2.75
Switzerland	1.3	0.8	1.4	0.2	0.8	0.7	0.00	0.00	0.00	0.00
Norway	1.8	1.2	1.0	3.0	3.6	2.4	4.25	4.00	4.25	3.75
Sweden	1.8	2.0	1.9	2.6	1.8	1.4	1.75	1.75	2.00	2.00
Emerging Asia										
China	5.0	4.5	4.5	0.0	1.0	0.8	1.40	1.40	1.40	1.40
India	7.5	6.2	7.5	2.1	4.7	4.6	5.25	5.25	5.50	5.75
Indonesia	5.1	5.2	5.4	1.9	2.9	2.8	5.25	4.75	5.25	4.75
Korea	1.0	1.9	2.1	2.1	2.9	2.0	2.50	2.50	2.50	2.50
Taiwan	8.7	7.2	4.0	1.7	2.0	1.7	2.00	2.00	2.25	2.375
Thailand	2.4	1.3	2.1	-0.1	3.0	-0.1	1.00	1.25	1.00	0.75
Malaysia	5.2	4.2	4.5	1.4	1.8	2.2	2.75	2.75	2.75	2.75
Philippines	4.4	2.0	3.0	1.7	7.3	5.3	4.50	4.50	5.00	5.00
Singapore	5.0	2.5	2.5	0.9	2.1	1.9				
Hong Kong	3.5	2.3	2.5	1.4	2.1	2.0	4.00	4.00	3.50	3.50
Vietnam	8.0	7.0	7.0	3.3	4.5	4.0	4.50	4.50	4.50	4.50

Note: *CPI forecasts are annual averages, except LatAm (end-of-period). **End of period

Source: BofA Global Research

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Exhibit 25: Global Economic Forecasts (continued)

Global GDP growth expected at 3.1% in 2026 and 3.4% in 2027

	GDP growth, %			CPI inflation*, %			Short term interest rates**, %			
	2025	2026F	2027F	2025	2026F	2027F	Current	2025	2026F	2027F
Latin America										
Brazil	2.3	2.3	2.0	4.3	5.5	4.0	14.50	15.00	13.25	12.50
Mexico	0.8	0.8	1.5	3.7	4.6	4.0	6.50	7.00	6.50	6.50
Argentina	4.4	2.5	4.0	31.5	31.9	15.5				
Colombia	2.6	2.5	2.9	5.1	6.5	4.6	11.25	9.25	11.25	10.25
Chile	2.5	1.6	2.9	3.4	4.3	3.2	4.50	4.50	4.50	5.00
Peru	3.4	3.5	4.4	1.5	4.4	2.6	4.25	4.25	4.25	4.25
Ecuador	3.7	3.2	2.7	1.9	2.4	2.3				
Uruguay	1.8	1.5	2.0	3.7	3.9	4.5	5.75	7.50	6.00	7.00
Costa Rica	4.6	3.7	3.9	-1.2	2.5	3.5	3.25	3.25	3.25	3.25
Dominican Republic	2.1	2.7	3.9	5.0	6.0	4.8	5.25	5.25	5.25	4.50
Panama	4.4	3.8	4.9	0.4	2.8	3.1				
El Salvador	3.9	3.1	3.2	0.9	2.4	1.8				
Guatemala	4.1	3.6	3.6	1.7	3.3	3.7	3.50	3.75	3.50	3.50
EEMEA										
Türkiye	3.7	2.8	4.9	34.9	31.2	26.6	37.00	38.00	37.00	30.00
Nigeria	3.9	4.2	4.0	23.0	14.0	12.0	26.50	27.00	21.00	16.00
Egypt	4.4	4.4	4.5	20.4	13.2	10.0	19.50	20.50	19.00	15.00
Poland	3.7	3.0	2.7	3.6	3.2	2.7	3.75	4.00	3.75	3.75
South Africa	1.1	1.3	1.6	3.2	4.0	3.7	6.75	6.75	7.25	6.25
Romania	0.6	0.4	2.7	7.3	8.3	3.8	6.50	6.50	6.50	5.50
Czech Republic	2.6	2.0	2.4	2.5	2.4	2.8	3.50	3.50	3.50	3.50
Israel	2.9	3.6	4.5	3.0	2.2	2.1	4.00	4.25	3.75	3.50
Hungary	0.4	1.2	2.5	4.4	2.5	3.0	6.25	6.50	5.50	4.50
Saudi Arabia	4.5	0.6	5.8	2.0	2.4	2.0	4.25	4.25	3.50	3.50
Ukraine	2.5	7.0	6.0	12.7	5.0	5.0	15.00	15.50	11.00	9.00

Note: *CPI forecasts are annual averages, except LatAm (end-of-period). **End of period.

Source: BofA Global Research

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Exhibit 26: Real GDP growth, qoq annualized %

Global GDP growth expected at 3.1% in 2026 and 3.4% in 2027

	4Q 25	1Q 26	2Q 26	3Q 26	4Q 26	1Q 27	2Q 27	3Q 27	4Q 27	2025	2026	2027
Developed Markets												
US	0.5	1.7	2.5	1.9	1.9	2.2	2.2	2.4	2.4	2.1	2.2	2.2
Euro area	0.8	0.6	0.4	0.6	1.3	1.4	1.4	1.3	1.1	1.5	0.7	1.2
Japan	0.8	2.1	0.4	0.4	0.8	0.7	0.4	0.8	0.8	1.1	0.6	0.6
UK	0.6	2.5	0.6	0.2	0.2	1.8	1.8	1.4	1.4	1.4	1.0	1.1
Canada	-0.6	1.2	2.0	1.9	1.8	1.7	1.7	1.6	1.6	1.7	1.2	1.7
Australia	3.2	2.0	0.8	1.4	2.0	1.6	1.6	2.0	2.0	2.0	2.0	1.7
G6 Aggregate	0.7	1.4	1.4	1.2	1.5	1.7	1.7	1.8	1.7	1.7	1.4	1.6
Emerging Markets												
China	4.9	4.5	4.2	4.8	4.6	4.3	4.5	4.4	4.5	5.0	4.5	4.5
India	7.1	2.2	-0.3	18.2	8.6	4.0	1.9	16.0	7.5	7.5	6.2	7.5
Indonesia	6.3	5.7	4.3	4.1	6.2	5.3	6.6	3.2	7.0	5.1	5.2	5.4
South Korea	-1.1	1.1	2.7	2.5	2.6	1.7	1.8	1.7	1.7	1.0	1.9	2.1
Thailand	6.9	-3.8	1.6	2.4	1.7	1.6	2.7	2.5	3.9	2.4	1.3	2.1
Singapore	5.2	-1.3	0.8	1.6	2.4	2.8	2.8	2.8	2.8	5.0	2.5	2.5
Hong Kong	4.1	2.2	4.6	-0.3	-1.8	5.8	4.2	2.1	2.1	3.5	2.3	2.5
Brazil	0.6	3.4	2.7	1.1	3.8	4.5	-2.6	4.1	2.1	2.3	2.3	2.0
Mexico	3.5	-3.2	2.5	1.6	1.4	1.6	1.7	1.0	1.0	0.8	0.8	1.5
Colombia	0.5	2.0	2.4	3.6	3.6	2.4	2.4	2.8	2.8	2.6	2.5	2.9
Chile	2.3	-0.5	4.2	3.6	3.6	2.4	2.4	2.4	2.4	2.5	1.6	2.9
Peru	1.5	3.6	2.4	4.9	4.9	4.1	4.5	4.5	4.5	3.4	3.5	4.4
Türkiye	4.9	3.4	1.3	4.5	1.1	7.9	5.2	4.5	3.1	3.7	2.8	4.9
South Africa	1.1	1.3	1.2	1.2	1.4	1.9	1.7	2.0	1.8	1.1	1.3	1.6

Source: BofA Global Research

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Monetary policy forecasts

Exhibit 27: Monthly forecasts

End of period

Central Banks	Current	May-26	Jun-26	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	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
ECB (deposit rate)	2.00	2.00	2.25	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.25
Boj	0.75	0.75	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	4.00	4.00	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.00	4.00	4.00
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	2.25	2.25
Riksbank	1.75	1.75	2.00	2.00	2.00	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	0.00	0.00
Norges Bank	4.25	4.00	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.00	4.25	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	4.35	4.35
RBNZ	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.50	2.50	2.50	2.50	2.50
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	1.40	1.40
India	5.25	5.25	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	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Taiwan	2.00	2.00	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	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Malaysia	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
Philippines	4.50	4.50	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	5.00	5.00	5.00	5.00	5.00
Latin America															
Brazil	14.50	14.50	14.25	14.25	14.00	13.75	13.75	13.50	13.25	13.00	13.00	12.75	12.50	12.50	12.50
Chile	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.75	4.75	4.75	5.00
Colombia	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.00	11.00	11.00	10.75
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	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	4.25	4.25
Emerging EMEA															
Czech Republic	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Hungary	6.25	6.25	6.00	5.75	5.75	5.75	5.75	5.75	5.50	5.5	5.5	5.25	5.25	5.25	5.00
Israel	4.00	4.00	4.00	4.00	4.00	4.00	4.00	3.75	3.75	3.75	3.75	3.50	3.50	3.50	3.50
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	3.75	3.75
Romania	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	6.50	6.50
South Africa	6.75	7.00	7.00	7.25	7.25	7.25	7.25	7.25	7.25	7.25	7.25	7.25	7.25	7.00	7.00
Türkiye	37.00	37.00	40.00	40.00	40.00	38.00	37.00	37.00	36.00	36.00	36.00	35.00	34.00	34.00	34.00

Note: *Major five banks.

Source: BofA Global Research, Bloomberg.

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FX, rates and commodity forecasts

Exhibit 28: Quarterly forecasts

End of period

	Spot	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
FX forecasts								
G6								
EUR-USD	1.16	1.14	1.17	1.20	1.22	1.23	1.24	1.25
USD-JPY	159	156	154	152	150	148	146	145
EUR-JPY	185	178	180	182	183	182	181	181
GBP-USD	1.34	1.34	1.39	1.43	1.45	1.46	1.49	1.51
USD-CAD	1.38	1.38	1.37	1.36	1.35	1.35	1.35	1.35
AUD-USD	0.71	0.73	0.74	0.74	0.74	0.74	0.73	0.73
Asia								
USD-CNY	6.80	6.90	6.80	6.70	6.70	6.70	6.60	6.60
USD-INR	96.2	96.0	97.0	98.0	98.5	99.0	99.0	99.0
USD-IDR	17654	17800	17900	18000	18100	18200	18200	18200
USD-KRW	1506	1490	1440	1395	1380	1365	1350	1335
Latin America								
USD-BRL	5.00	5.00	5.00	4.95	4.90	4.85	4.80	4.75
USD-MXN	17.31	17.50	17.50	17.50	17.75	18.00	18.25	18.50
Emerging Europe								
EUR-PLN	4.24	4.23	4.21	4.17	4.15	4.15	4.15	4.15
USD-TRY	45.74	46.90	49.30	51.70	53.60	55.60	57.60	59.60
USD-ZAR	16.46	16.60	16.50	16.00	15.40	15.70	16.00	16.00
Rates forecasts								
2yr								
US 2-year	4.08	4.00	3.95	3.90	3.80	3.70	3.60	3.50
Germany 2-year	2.69	2.80	2.70	2.45	2.30	2.15		1.90
Japan 2-year	1.44	1.45	1.50	1.75	1.95	2.00	2.15	2.10
UK 2-year	4.38	4.60	4.40	4.25	4.05	3.90	3.80	3.70
Canada 2-year	2.91	2.75	2.75	2.75	2.80	2.90	3.00	3.00
10yr								
US 10-year	4.57	4.35	4.30	4.25	4.25	4.25	4.25	4.25
Germany 10-year	3.10	3.05	3.00	2.95	2.85	2.75		2.70
Japan 10-year	2.77	2.70	2.73	2.90	3.00	3.03	3.10	3.05
UK 10-year	4.97	5.00	5.00	5.00	4.85	4.75	4.60	4.50
Canada 10-year	3.55	3.50	3.60	3.65	3.70	3.75	3.75	3.75
Commodities forecasts								
WTI Crude Oil - \$/bbl	97.7	94.0	88.0	88.0	84.0	77.0	70.0	62.0
Brent Crude Oil - \$/bbl	102.6	103.0	95.0	94.0	89.0	82.0	75.0	67.0
Gold \$/oz	4535	4500	5250	5750	5200	5000	5000	4500
Copper, \$/mt	13516	13000	13500	14000	15000	15000	16000	16000
Copper, c/t	613	590	612	635	680	680	726	726

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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