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Lula's Fourth Term:
Markets, Growth and Geopolitics

By

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Executive Summary

Election Results and Political Landscape

- Lula secured a historic fourth presidential term on October 25, winning 51.79% of the runoff vote against Flávio Bolsonaro's 48.21%, reversing his first-round defeat.
- Lula gained more than 10 million additional votes between rounds, supported by grassroots and digital mobilisation, including André Janones's WhatsApp campaign, "Lula's Army."
- Despite Lula's victory, the strengthened right-wing opposition in Congress could constrain his administration's ability to advance fiscal reforms, taxation and public spending initiatives.

Financial Market Reaction

- Brazilian financial markets suffered a sharp selloff following Lula's unexpected victory, with the real falling more than 11% intraday and the Bovespa declining 13.9% on October 26.
- Sovereign bonds also weakened amid fiscal concerns, while the real and equities partially recovered the following day.
- Finance Minister Dario Durigan attributed the turmoil primarily to the unwinding of positions anticipating a Bolsonaro victory, although investors remain concerned about fiscal adjustment and Lula's next economic team.

Economic Performance and Structural Challenges

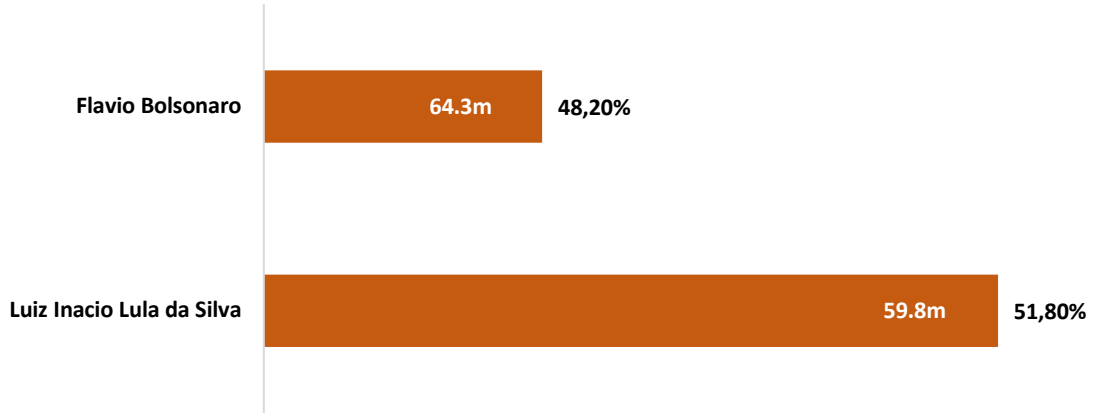
- Brazil's economy expanded by a cumulative 9.2% between 2023 and 2025, outperforming its South American peers, alongside rising real wages, historically low unemployment and declining poverty.
- Labour market weaknesses persist, with around 90% of newly created jobs paying between one and two minimum wages, expanding app-based employment and increasing graduate underemployment.
- Despite declining inflation and improving employment, high borrowing costs and household debt burdens contributed to a slowdown in household consumption growth from 5.1% in 2024 to 1.3% in 2025.
- Lula responded to household financial pressures with debt-relief programmes, restrictions on online betting, expanded social benefits and fuel subsidies, while proposing a shorter working week.

Foreign Economic Relations and Industrial Development

- Lula seeks to strengthen Mercosur, deepen South-South cooperation and expand engagement with China through BRICS while maintaining strategic autonomy amid US-China tensions.
- China accounted for approximately 30% of Brazil's agricultural exports in 2024, compared with 7% for the US, while trade tensions reinforced Brazil's position as a major soybean supplier.
- Lula's Nova Indústria Brasil programme aims to attract investment into infrastructure, renewable energy and advanced manufacturing, although generating domestic value addition, technology transfer and higher-skilled employment remains a central challenge. Relations with Washington have also become strained over tariffs, sanctions and security policy.
- Lula seeks to strengthen Mercosur, deepen South-South cooperation and expand engagement with China through BRICS while maintaining strategic autonomy amid US-China tensions.

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Key Picture: 2026 Presidential Elections (Percentage and Votes)



Election Results and Political Landscape

As Latin America's largest economy, Brazil accounts for approximately 31% of the region's GDP and plays a central role in regional economic and political integration. It is a founding member of Mercosur, the Community of Latin American and Caribbean States (CELAC), and the Organization of American States (OAS). Its political and economic trajectory therefore has significant implications for regional stability, international trade and investment.

On October 25, President Luiz Inácio Lula da Silva secured a historic fourth term after narrowly defeating right-wing Senator Flávio Bolsonaro in the presidential runoff. Lula received 51.79% of valid votes (64.3 million), compared with Bolsonaro's 48.21% (59.8 million), becoming the first presidential candidate in Brazil's modern democratic history to overturn a first-round defeat.

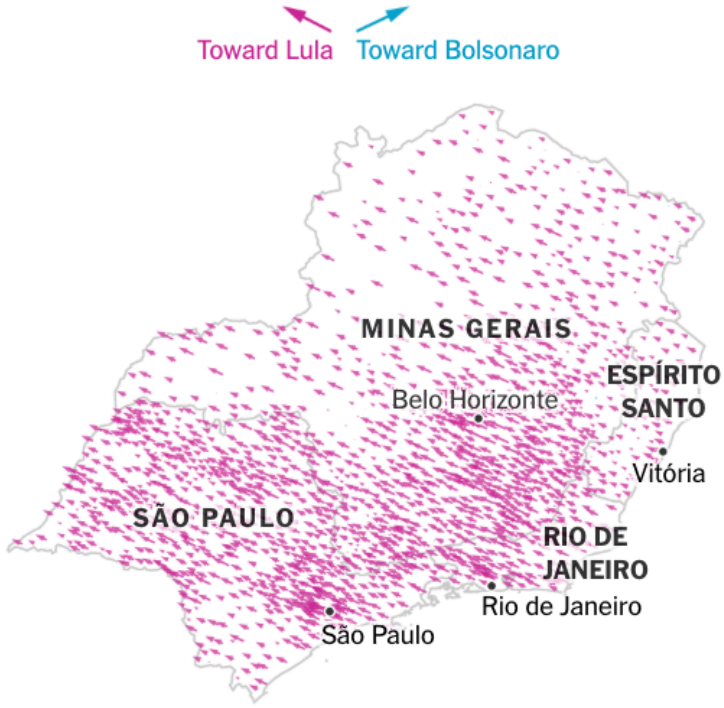
The result marked a significant reversal from the first round on October 4, when Bolsonaro led with 47.03% against Lula's 45.16%. Over the following three weeks, Lula gained more than 10 million additional votes, expanding his support across major urban centres and his traditional strongholds in the northeast. His comeback was accompanied by intensified grassroots and digital mobilisation, notably through Congressman André Janones's WhatsApp channel, "Lula's Army", which grew from around 60,000 followers after the first round to nearly 11 million by the runoff. The campaign also adopted more informal messaging that emphasised Lula's working-class background and sought to engage previously inactive voters. Although the precise electoral impact of these efforts remains difficult to establish, analysts credited them with helping restore the campaign's momentum. Nevertheless, Bolsonaro maintained his lead in the economically important states of São Paulo and Rio de Janeiro, underscoring Brazil's persistent political and geographical divisions.

Despite his victory, Lula faces a challenging political environment. The congressional elections strengthened the right-wing opposition, with Bolsonaro's Liberal Party (PL) emerging as the largest party in the Chamber of Deputies, securing 121 of 513 seats, compared with 88 for the federation led by Lula's Workers' Party (PT). Conservative parties also expanded their influence in the Senate, potentially constraining the administration's ability to advance its economic agenda, particularly fiscal reforms, taxation and public spending.

Lula's re-election comes amid contrasting economic developments. While Brazil has recorded relatively strong growth, historically low unemployment and significant improvements in poverty reduction, high borrowing costs, household indebtedness and persistent weaknesses in job quality continue to weigh on living standards. His fourth term will therefore be shaped by the challenge of reconciling social spending and industrial development ambitions with fiscal constraints, a conservative Congress and an increasingly complex geopolitical environment.

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Figure 1: Shift in Margin in Brazil's Most Populous Region



Source: NY Times

Financial Market Reaction

Brazilian financial markets suffered their sharpest selloff in years following President Luiz Inácio Lula da Silva's unexpected re-election, which upended investor expectations of a right-wing victory. On October 26, the Brazilian real plunged more than 11% against the US dollar in early trading, marking one of its steepest intraday declines on record, while the benchmark Bovespa index closed 13.9% lower, its largest daily percentage loss since March 2020. The selloff extended to sovereign debt, with longer-dated bonds particularly affected. Brazil's dollar-denominated bond maturing in 2054 fell 2.2 cents, pushing its yield to 7.45%, amid renewed concerns over the country's fiscal outlook.

Figure 2: Brazilian Real vs US Dollar



Source: Reuters

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Markets staged a partial recovery the following day, with the real appreciating nearly 2% to around BRL 5.31 per dollar and the Bovespa gaining 1%, while interest rate futures declined. The currency's depreciation also spilled over into commodity markets, contributing to a 5.6% decline in raw sugar prices, given Brazil's position as a major global exporter.

Figure 3: Ibovespa Stock Index



Source: Reuters

Finance Minister Dario Durigan attributed the market turmoil primarily to the unwinding of positions built around expectations of a victory by Flávio Bolsonaro, rather than a deterioration in Brazil's economic fundamentals. Bolsonaro's first-round lead had fuelled a rally in Brazilian assets, which was abruptly reversed following Lula's runoff victory. Beyond the immediate repricing, investors have turned their attention to the government's ability to deliver credible fiscal adjustment while maintaining social spending and public investment, with the composition of Lula's next economic team also emerging as a key consideration.

Economic Performance and Structural Challenges

Brazil recorded significant economic and social improvements during the first three years of Lula's third term, following a prolonged period of weak growth and pandemic-related disruption. Real GDP expanded by 3.2% in 2023, 3.4% in 2024 and 2.3% in 2025, representing cumulative growth of 9.2%, compared with an average of 5.6% among its South American peers. The recovery was accompanied by rising employment and real wages, historically low unemployment and declining poverty and food insecurity.

Nevertheless, these improvements have not translated into equally strong gains in household financial security, partly reflecting persistent weaknesses in job quality. Around 90% of newly created jobs pay between one and two minimum wages, while the share of jobs paying more than twice the minimum wage declined from 34.8% in 2019 to 30.3% in 2025. Meanwhile, app-based employment has expanded by more than a third since 2022. Despite a near doubling of university-educated workers between 2012 and 2024, the proportion employed below their qualification levels increased from approximately 25% to 40%, highlighting the economy's limited capacity to generate higher-skilled, better-paid employment.

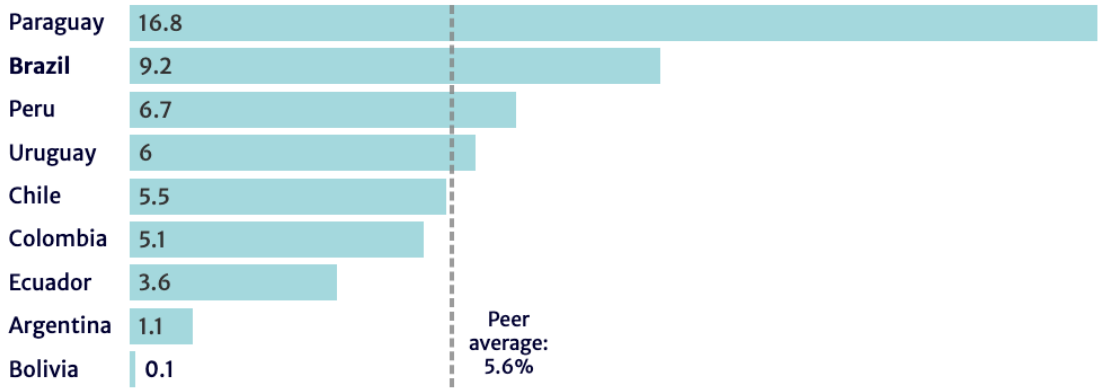
These structural weaknesses have been compounded by high borrowing costs and rising household indebtedness. Although inflation declined from 12.1% to 4.6%, household consumption growth slowed sharply from 5.1% in 2024 to 1.3% in 2025, despite rising employment and real incomes. Elevated interest rates have also increased the government's debt-servicing burden, adding to fiscal pressures.

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These economic pressures shaped the electoral debate. High borrowing costs, household financial strains and the expansion of online gambling contributed to public dissatisfaction. In response, Lula expanded debt-relief programmes, introduced restrictions on online betting and increased social benefits and fuel subsidies, alongside proposals to shorten the working week from six to five days.

Beyond addressing immediate financial pressures, Lula faces the longer-term challenge of creating higher-productivity employment and strengthening Brazil's domestic productive capabilities.

Figure 4: Cumulative Real GDP Growth, 2023-2025 (Percent change in real GDP over the 3-year period)



Source: CEPR

Foreign Economic Relations and Industrial Development

Addressing these structural challenges is also central to Lula's economic and foreign policy agenda, which combines state-led industrial diversification with a strategy of maintaining relations with multiple global powers. His administration seeks to strengthen Mercosur, deepen South-South cooperation and expand engagement with China through BRICS, while preserving Brazil's strategic autonomy amid growing US-China tensions.

China plays a central role in Brazil's economy, particularly in agriculture. Over the past two decades, it has overtaken the United States as Brazil's largest agricultural export market, accounting for approximately 30% of agricultural exports in 2024, compared with 7% for the US. Brazil has also emerged as the United States' principal competitor in global soybean exports, benefiting from lower production costs and the diversion of Chinese demand following US-China trade tensions and retaliatory tariffs on American agricultural products. This dependence on Chinese demand gives Brazilian agricultural producers a strong commercial incentive to maintain stable relations with Beijing, potentially complicating closer alignment with Washington.

Beyond agricultural trade, Brazil has emerged as a major destination for Chinese investment. In 2025, it attracted USD 6.1 billion in Chinese investment, a 45% annual increase, reportedly becoming the largest destination for Chinese outbound investment worldwide. Investment has been concentrated in energy infrastructure and increasingly in electric vehicle manufacturing, with BYD and Great Wall Motors establishing local production facilities, State Grid investing in electricity transmission and Huawei maintaining a presence in digital infrastructure. Lula seeks to leverage these investments through his flagship Nova Indústria Brasil programme, which promotes industrial diversification, renewable energy and advanced manufacturing.

Brazil's critical minerals sector has also become an increasingly important area of competition between China and the United States. In September 2026, Lula signed a new critical minerals law providing incentives for domestic processing and strengthening government oversight of foreign investment in strategic mineral assets. Given Brazil's substantial rare earth reserves and leading position in niobium production, the framework seeks to attract foreign capital while promoting domestic value addition and technological development.

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Brazil's deepening economic ties with China have also complicated its relations with Washington. The Trump administration imposed tariffs on Brazilian goods, sanctioned a Supreme Court justice involved in Jair Bolsonaro's prosecution and publicly supported Flávio Bolsonaro's presidential candidacy. Tensions intensified following Washington's designation of Brazil's two largest criminal organisations as Foreign Terrorist Organizations, raising concerns about the implications for bilateral security cooperation and national sovereignty. While Lula emphasises diversified international partnerships, Bolsonaro advocated closer diplomatic and security alignment with Washington. Ultimately, Brazil faces the challenge of balancing relations with both powers while ensuring that foreign investment generates domestic productive capabilities, technology transfer and higher-skilled employment.

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