



# Precision insights: Emerging markets

Updated March 2026

## Going local: EM through a country lens

We outline our latest views on emerging market (EM) single countries, updated regularly to reflect the latest macro and political developments in this complex and dynamic asset class.

### Latest changes:

- Increased geopolitical risk in the Middle East has started to be priced into EM markets. We take stock of the initial impact on our investment views.
- We remain broadly constructive on EM equities, supported by continued improvement in earnings. We like AI-driven Asia tech exposures and look to complement these with allocations to domestically focused economies such as India, China onshore and South Africa.
- We also see merit in bottom-up sub-themes that offer diversified sources of return.

Click on the regions below to explore our precision emerging market views in detail.



Region	Market	Equity View	Debt View	Global ETP flows		Outlook
				2024	2025	
LatAm equity	<u>Brazil</u>			-\$3.2B	\$3.0B	We hold a mixed outlook on Brazilian equities, which have outperformed fundamentals, in our view. We see opportunities in high-carry Brazilian local bonds as BCB easing begins.
	<u>Mexico</u>			-\$0.8B	\$0.1B	We're constructive on Mexican equities, which screen as over-penalised for tariff risks, despite improving domestic fundamentals, supportive policy and valuation upside relative to regional peers.
APAC Equity	<u>China</u>			\$155.1B	\$39.3B	We're constructive on Chinese equities, with improving A- and H-share technicals, moderating earnings downgrades and policy-led supply discipline supporting selective upside beyond tech.
	<u>Korea</u>			\$2.4B	\$2.6B	We hold a balanced view on South Korean stocks, as improved tariff clarity and structural AI tailwinds are increasingly offset by stretched valuations, narrow semiconductor-led leadership and uneven macro momentum.
	<u>India</u>			\$10.5B	\$2.2B	We remain constructive on Indian equities, supported by renewed earnings momentum and durable structural growth drivers, with local bonds also well positioned as disinflation and fiscal consolidation support the long end.
GCC equity	<u>UAE</u>			\$0.0B	\$0.1B	We still hold a balanced view on GCC stocks, but see room for increased political risk premium to be priced in. We prefer the UAE for its more diversified growth, resilient financials and reasonable valuations. We see Saudi Arabia as a more oil-sensitive market with structural reform tailwinds, but it could be more constrained in the near term by energy dynamics.
	<u>Saudi Arabia</u>			\$0.0B	\$0.4B	
Africa	<u>South Africa</u>			\$0.3B	\$0.3B	We're modestly constructive on South African equities, supported by mining-led earnings momentum and easing inflation enabling SARB rate cuts.
Debt	<u>EMD</u>			\$11.0B	\$103.7B	We remain constructive on EM debt, favouring local currency exposure as easing cycles, high real rates and a softer dollar support carry-driven returns.

Source: BlackRock and Markit, as of 31 December 2025. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product.** Figures are in US dollars, unless stated otherwise. There is no guarantee that any forecasts made will come to pass.

Five-year total returns (%)	2020	2021	2022	2023	2024	2025
MSCI Emerging Markets	18.31	-2.54	-20.09	9.83	7.50	33.57
MSCI Brazil	-19.02	-17.40	14.15	32.69	-29.77	49.72
MSCI Mexico	-1.85	22.53	-2.02	40.92	-27.13	56.14
MSCI China	43.20	3.20	-25.90	-13.47	11.70	26.48
MSCI India	33.98	-1.56	-26.44	23.90	-13.69	2.62
MSCI Korea 25-50	44.64	-8.39	-29.36	23.16	-23.40	95.64
MSCI Saudi Arabia 20/35	0.71	37.70	-5.09	10.67	0.60	-5.13
MSCI UAE	-0.93	50.18	-6.18	0.57	19.62	26.72
MSCI South Africa	-3.96	3.58	-3.88	1.50	6.72	77.63
J.P. Morgan GBI-EM Global	2.67	-9.74	-10.57	12.60	-2.77	19.31
J.P. Morgan EMBI Global Core Index	5.77	-2.05	-18.37	10.81	6.23	13.90

**The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index. Figures are net total returns, in US dollars. Source: BlackRock and Bloomberg, as of 31 December 2025.

To view our full range of EM equity and fixed income products, please visit [BlackRock.com](https://www.blackrock.com).

# LATIN AMERICA



## BRAZIL: DISCONNECTED RECOVERY

**We hold a mixed view on Brazilian equities. Performance defied fundamentals in 2025, in our view – yet we note that the region is less exposed to recent geopolitical events versus LatAm peers and our Fundamental Equity platform sees a multitude of bottom-up opportunities in Brazil.**

BCB inflation expectations have inched lower, from 5.00% for 2025 and 4.00% for 2026.<sup>1</sup> At the same time, the expected Selic rate sits at elevated levels – 15.00% for Jan-2026, keeping financial conditions tight for equities, but offering attractive carry in rates.<sup>2</sup> Q3 data showed firmer domestic demand, with activity supported by net exports. However, fiscal deterioration remains the central macro challenge: the primary balance is expected to stay in deficit throughout 2025-28 and the nominal deficit is projected at 8.40%, 8.68%, 7.80% and 7.00% for the four years, respectively – far from the government’s stated targets.<sup>3</sup>

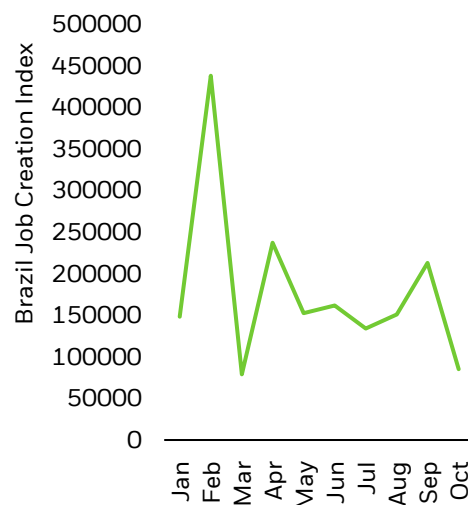
Political risk premia has also increased, with 2026 election headlines triggering volatility in the currency and front-end yields. Equity markets, however, have decoupled from these underlying fundamentals, motivating our mixed stance.<sup>4</sup> The strong 2025 performance reflects the market’s willingness to price a gradual macro normalisation that hasn’t yet materialised. Valuation models now suggest that the Ibovespa is trading somewhat above fair value, with forward P/E ratios suggesting more meaningful declines in interest rates – and more robust growth – than our central forecasts. Earnings expectations remain resilient but not grand and the gap between equity optimism and macro reality necessitates caution, in our view.

### **Past performance is not a reliable indicator of current or future results.**

Brazil sits at a delicate midpoint: macro conditions are no longer deteriorating but not improving enough to carry markets higher without stronger policy anchors. After a year in which equities defied gravitational pull, 2026 will show more EM country and sector bifurcation with fundamentals reasserting themselves, we think.

We see potential for Brazilian local government bonds to outperform in 2026, should the central bank begin to ease policy, supported by a period of currency strength and an inflation trajectory that’s set to run materially lower. Historically, positioning as easing cycles get underway has tended to be rewarded in Brazil, with realised rate-cutting cycles often proving deeper than markets initially price. Our fixed income teams also note that momentum signals continue to favour high-carry EM, with BRL, MXN and ZAR retaining strong medium-term momentum. While election-related uncertainty and policy noise have prompted more cautious sizing, this is viewed as a timing consideration, with political risks becoming more prominent closer to October.

**Chart 1: Brazil’s job creation slumps as tight monetary policy feeds through**  
Brazil Job Creation Index, 2025



Source: Bloomberg, as of 27 November 2025.

There is no guarantee that any forecasts made will come to pass.

**1, 2, 4** Source: Bloomberg, as of 16 Jan 2026. **3** Source: Goldman Sachs, as of 8 December 2025.

# LATIN AMERICA



## MEXICO: OVERPUNISHED?

**Mexico remains our preferred equity market exposure within LatAm as improving domestic fundamentals and supportive market dynamics outweigh a trade narrative that, in our view, has punished the country's stocks more harshly than warranted. Though, we flag that recent geopolitical events warrant a higher risk premium for Mexico and Colombia, in our view.**

The macro environment is slowly realigning in Mexico's favour: inflation is expected to moderate from 3.6% in 2025 to about 3.4% in 2026, US growth looks set to strengthen, and Banco de Mexico (Banxico) may be able to ease further, allowing financial conditions to become less restrictive without jeopardising currency stability.<sup>5</sup> Existing and potential tariffs have weighed heavily on sentiment, restraining investment and dragging down performance in sectors deeply embedded in North American supply chains. Yet the economic drag has been counteracted by resilience in electronics and nearshoring-aligned industries. In our assessment, markets have over-discounted tariff risk relative to its likely macro outcome, creating an opportunity for relative outperformance as clarity improves.

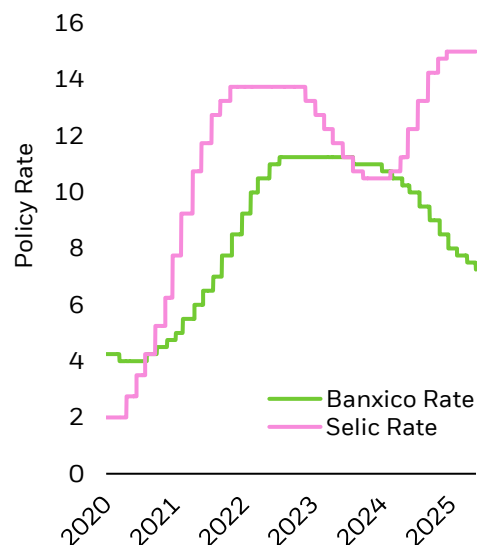
Since 2000, Mexican and US equities have delivered similar total returns but with distinct cycles, and a rolling 1-year correlation typically in the ~0.2-0.6 range, highlighting that Mexico's equity beta to the US has been materially lower and more episodic than many market participants assume.<sup>6</sup> Equity fundamentals themselves remain positive. A weaker US dollar since spring 2025 has boosted dollar-based returns for global investors, domestic fiscal drag is set to soften in 2026 and the policy shift under the US administration is generally more market-cooperative, especially in energy and infrastructure.<sup>7</sup> Banxico's credible framework, an attractive real-rate differential and the peso's structural carry advantage continue to anchor inflows. With improving inflation, easing rates and stability in FX, equity valuations retain room to expand modestly – especially relative to Latin American peers that face more binding macro constraints.

### Past performance is not a reliable indicator of current or future results.

Taken together, Mexican assets appear over-penalised for tariff fears while benefiting from improving domestic fundamentals and a more favourable global backdrop. This combination supports our relative preference for Mexico within Latin America, with 2026 offering a cleaner test for EM markets.

**Chart 2: Mexico and Brazil policy differential continues to widen**

Central bank policy rates, 2020-2025



Source: Bloomberg, as of 8 December 2025.

There is no guarantee that any forecasts made will come to pass.

**5, 7** Source: Bloomberg, as of 8 December 2025. **6** Source: CME Group, as of 4 September 2025

# ASIA PACIFIC



## CHINA: A MEASURED REBOUND

**We turn more constructive on Chinese equities, given gradual structural repair and improving market mechanics in the absence of overt intervention, seeing opportunities beyond just tech. The durability of this shift will depend on policy consistency and follow-through.**

The upswing in A-shares and H-shares in Q4 2025 is notable, largely because it unfolded without visible ‘national team’ activity. This has allowed investors to focus on underlying factors rather than on short-term policy support. Recent signals to rein in overcapacity – long a source of margin erosion and deflationary pressure – have lifted confidence around prospective profitability, while discussions of targeted mortgage-interest subsidies indicate a willingness to address household balance sheet pressures, which have plagued the region since 2022 post-Evergrande, without resorting to broad-brush stimulus.<sup>8</sup> The early contours of the 15<sup>th</sup> Five-Year Plan point to ongoing priorities of high-quality growth, economic security, technological self-reliance and investment in human capital. Given that China has historically met nearly 90% of its numerical Five-Year Plan targets, these policy markers carry weight, in our view.<sup>9</sup>

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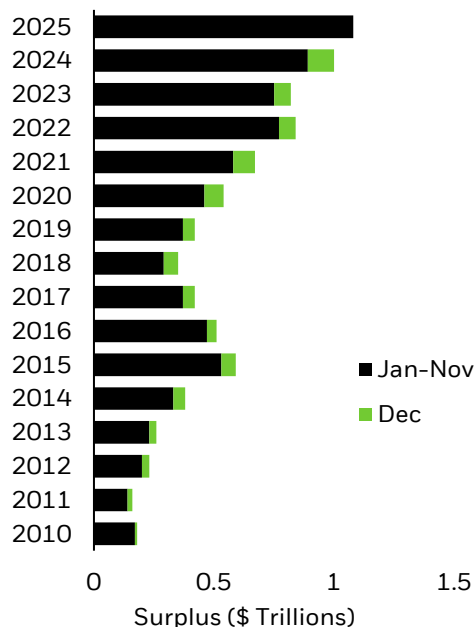
Fundamentals are showing tentative signs of stabilisation. While earnings revisions remain negative, the rate of deterioration has moderated, helped by strength in AI-linked sectors and industries benefiting from ‘anti-involution’ measures aimed at rationalising competition and restoring pricing power.<sup>10</sup> The global AI race adds an important structural dimension to China’s outlook, encompassing intensifying competition around chips, rare-earth access, energy supply and talent. China’s differentiated approach to AI – prioritising efficient, lower-cost models and long-term talent development – continues to attract capital, with \$16.4B flowing into China tech ETPs in 2025, including \$7.8B from international investors.<sup>11</sup> But opportunities extend beyond China tech (23.2x P/E) as broader valuations remain undemanding, at roughly 16.0x forward earnings, leaving scope for selective re-rating should earnings momentum firm up.<sup>12</sup> Moreover, supply-side reforms, if pursued steadily, could help ease persistent margin pressures and blunt the impact of global trade frictions, particularly in sectors burdened by excess capacity.

Technical conditions have also become more constructive, even amid pockets of volatility. The CSI 300 Index has broken above the highs of the September 2024 stimulus-driven rally and the Shanghai Composite has crossed 3,800 for the first time since 2015. Despite softer sentiment in the most recent readings, capital flows remain resilient, with Southbound channels recording \$2B of net inflows in late November.<sup>13</sup>

Overall, while China’s equity rebound remains in an early and fragile phase, the combination of structural adjustment and steady capital flow dynamics despite earnings weakness provides a foundation that – if policy discipline is sustained – could evolve into a more durable recovery profile, we believe.

**Chart 3: China’s exports rapidly expanded in the first 11 months of 2025**

China’s goods trade surplus, 2010–2025



Source: BlackRock Bloomberg, as of 8 December 2025.

There is no guarantee that any forecasts made will come to pass.

**8, 13** Source: Morgan Stanley, as of 27 November 2025. **9** Source: Goldman Sachs, as of 18 November 2025. **10** Goldman Sachs, as of 2 December 2025. **11** Source: Blackrock and Markit, as of 31 December 2025. **12** Source: Bloomberg, as of 16 January 2026.

# ASIA PACIFIC



## SOUTH KOREA: A MIXED OUTLOOK

**Our view on the South Korean equity market remains mixed, with balancing factors swapping places: valuations no longer appear cheap and this offsets improvements in tariff risks and domestic political pressures, in our view.**

South Korea's equity market rally has been narrow and has left the region valuation-rich at 20.9x P/E, compared with August lows at 8.2x.<sup>14</sup> Structural drivers such as AI leadership and governance reform continue to support long-term interest. However, the durability of the recent rally (+79% in 2025) remains uncertain without broader sector participation or another round of AI and semiconductors partnerships.<sup>15</sup>

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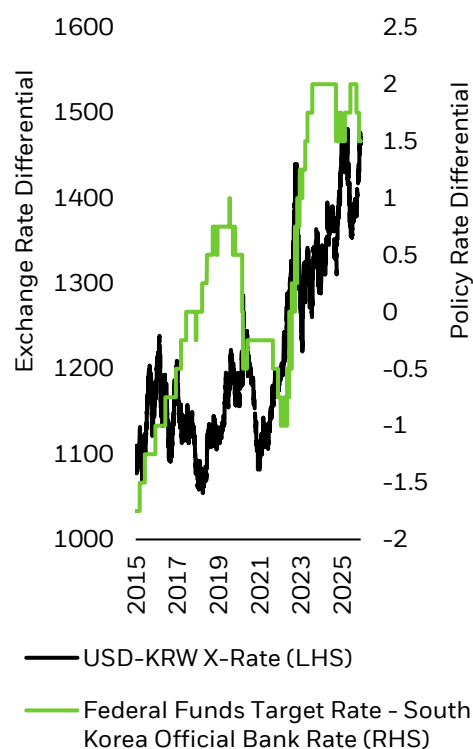
Macro conditions remain mixed. The Bank of Korea has kept policy steady, with only a minority of committee members advocating for further cuts, and growth forecasts for 2025-26 have been revised modestly higher. At the same time, industrial production has softened sharply – dragged lower by a contraction in tech output – highlighting the fragility behind headline market gains.<sup>16</sup> Recent progress on tariff negotiations with the US has helped reduce uncertainty for key export sectors and strengthen bilateral investment ties, while also supporting the won at the margin. Still, Korea's economy remains characterised by a persistent output gap, gradual consumption recovery and uneven momentum across industries, reinforcing a cautiously balanced macro view.<sup>17</sup>

Equity fundamentals tell a similarly two-sided story. Korea remains a core beneficiary of global AI infrastructure spending, with strong foreign and institutional appetite for semiconductor-linked exposures. Corporate governance reforms – particularly improvements in shareholder-return frameworks – add structural appeal. Yet the market's recent advances have been heavily concentrated in a handful of AI-related names, leaving the broader earnings picture weaker and more volatile. Valuations now screen as stretched relative to history, increasing the risk of consolidation should global sentiment soften or domestic activity fail to reaccelerate.

Overall, South Korea offers long-term structural appeal, but the near-term risk-reward picture looks more balanced, given narrow market leadership, slowing macro data and stretched valuations.

**Chart 4: Narrower rate gap with the US has boosted the KRW**

Central bank policy rates, 2015-2025



Source: Bloomberg, as of 28 November 2025.

There is no guarantee that any forecasts made will come to pass.

**14, 15** Source: BlackRock and Bloomberg, as of 31 December 2025. **16, 17** Source: Goldman Sachs, as of 28 November 2025.

# ASIA PACIFIC



## INDIA: STILL STRUCTURALLY SOUND

**We remain structurally positive on India. Although valuations have risen as a result of the equity market's recent run up, they remain below the 2024 and 2022 peaks.**

The Reserve Bank of India (RBI) looks set to restart rate cuts, with record-low inflation – on track to undershoot the central bank's 2%–6% target band for a second quarter and likely a third – supporting a dovish stance.<sup>18</sup> Growth has also surprised to the upside: GDP growth hit 8.2% in Q3 2025, beating the RBI's 7.0% forecast.<sup>19</sup> A rate cut would help counter rupee pressure from a wider trade deficit by attracting foreign equity flows, in our view. The rupee has faced challenges since July reflecting the RBI's pivot toward rebuilding reserves. In November, the government implemented labour reforms aimed at promoting ease of doing business by simplifying compliance, streamlining enforcement and modernising laws.<sup>20</sup> This underscores a shift toward market-friendly reforms, similar to those adopted by East-Asian peers. On the fiscal front, the government's planned consolidation over the next two years is more moderate than in recent years, suggesting that fiscal drag has likely peaked. This, along with personal income tax cuts and the recent goods and services tax (GST) rate cuts, should boost mass-consumption recovery.<sup>21</sup>

India's equity indices have surged to new highs, but valuations (25.2x P/E) have moderated from the peaks in 2024 (27.6x) and 2022 (30.0x). Sectors such as consumer and tech have seen higher multiple compression, highlighting opportunities. The year-long EPS downgrade cycle has lasted longer than a typical median cycle (10 months) but has stabilised in recent months.<sup>22</sup> We expect EPS upgrades to come through in early 2026 as improving GDP, supportive monetary policy and deregulation lift corporate revenues.

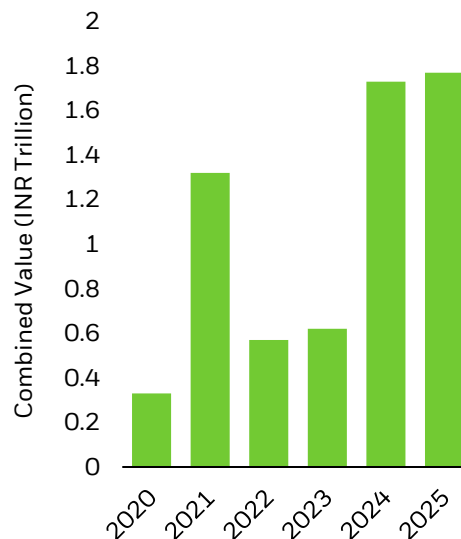
### Past performance is not a reliable indicator of current or future results.

More structurally, the long-term drivers of India's economic growth and profitability remain in place, including increasing digitalisation, population growth and resilient domestic investor participation. Investors continued to pour money into equities through monthly investment plans, with contributions rising to a record high of 294.6B rupees in September, helping cushion the impact of a wider \$2.7B selloff by foreign investors amid global trade concerns.<sup>23</sup>

India's disinflation progress in 2025 and ongoing fiscal consolidation have improved the backdrop for local rates, supporting outperformance in government bonds. We continue to favour the very long end of the Indian government bond (IGB) curve, where strong structural domestic demand from banks and long-term investors should anchor yields and support further curve flattening.

**Chart 5: Indian IPO proceeds hit a record in 2025**

Combined value of IPO deals, 2020-2025



Source: BlackRock and Bloomberg, as of 7 December 2025.

There is no guarantee that any forecasts made will come to pass.

**18, 19, 20** Source: Bloomberg, as of 4 December 2025. **21** Source: Goldman Sachs, as of 7 November 2025 **22** Source Bloomberg, 19<sup>th</sup> January 2026. **23** Reuters, as of 10 October 2025.



## THE GULF COOPERATION COUNCIL (GCC)

The geopolitical escalation in the Middle East leads us to expect a higher geopolitical risk premium to be priced into Saudi and UAE markets, and the potential for near-term volatility. Higher energy prices are likely to play out in the Saudi equity market, given its high beta to oil, even with the structural change to the market we highlight below. Two things stand out when considering our GCC views within an EM equity allocation. The first is the historic sensitivity of GCC equity markets to oil prices, given oil's role in driving growth of the underlying economies. The second is an acknowledgement that this dynamic is undergoing a structural change: financials are now the largest sector tilt within both the Emirati and Saudi equity markets, for example.<sup>24</sup> The shifts towards economic diversification taking place across both Saudi Arabia and the UAE offer potential for structural growth, in our view. President Trump's recent trip to Gulf countries and strategic partnerships such as the \$600B commitment from Saudi Arabia, including spending on AI infrastructure,<sup>25</sup> signifies strong diplomatic positioning and puts the region at the centre of mega forces driving global economies. While we remain mixed on GCC equities in the near term, we see pockets of opportunity. GCC markets, in general, have the lowest correlation among constituents to MSCI EM, and represent a commodity exporter play. Saudi Arabia, for example, has over five times the oil exports-to-GDP ratio of any other EM country.<sup>26</sup>

### UAE: PROPERTY PREMIUM

**We maintain our relative preference for UAE equities within the GCC, acknowledging the market's outperformance and moderating our positivity on real estate, which accounts for 22% of the index.<sup>27</sup>**

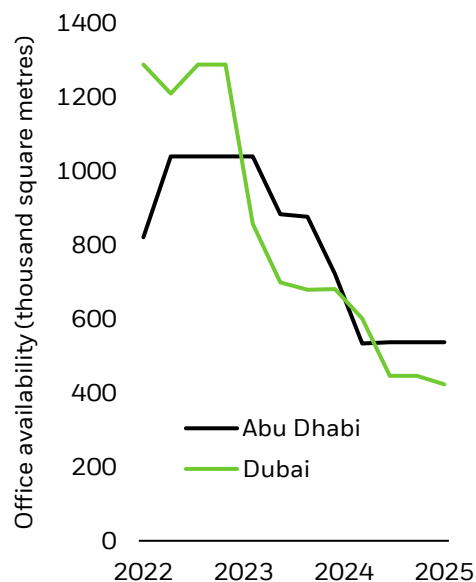
**Past performance is not a reliable indicator of current or future results.**

UAE equities delivered a strong 27% total return in 2025, outperforming GCC peers. This performance was driven mainly by exuberance in real estate and strength in banks, which together account for 34% of the index.<sup>28</sup> However, while fundamental strength in both sectors remains, Bloomberg Intelligence scenario analysis points to a 30k-40k unit annual surplus by 2027, signalling price-adjustment risk even as rental yields stay attractive enough to draw investors.<sup>29</sup> Progress in geopolitics does pose demand risks, potentially affecting the structural pick up in demand that has cushioned high end property prices since 2022. Tight office supply has also pushed commercial rents to levels that reduce competitiveness, though the planned addition of 3k new offices by 2030 is expected to alleviate these pressures.<sup>30</sup>

Valuations, in our assessment, now sit at broadly appropriate levels, with the market trading a little above 10x forward earnings.<sup>31</sup> The lower breakeven oil price for the UAE versus the broader GCC is also a bonus. While it's the GCC's second-largest energy exporter, its increasingly diversified economic base helps mitigate sensitivity. Structural macro fundamentals further reinforce resilience: a sizeable working-age cohort, strong labour-force participation, and a low youth-unemployment rate all support medium-term momentum.<sup>32</sup> Concurrent budget and external surpluses underscore this strength. Moreover, as part of a growing group of multi-aligned economies, alongside peers such as India, the UAE appears well placed to navigate an international landscape marked by increasing geopolitical fragmentation.

**Chart 6: UAE office availability has fallen markedly in recent years**

Office availability, 2022-2025



Source: Bloomberg, as of 19 November 2025.

There is no guarantee that any forecasts made will come to pass.

**24, 27, 28, 29, 30, 31** Source: Bloomberg, as of 31 December 2025. Based on MSCI Indices. **25** Source: Reuters, as of 13 May 2025. **26** Source: WTO, as of December 2023. **32** Source: World Bank Open Data, as of 28 November 2025.



## SAUDI ARABIA: STILL MOVING IN HAND WITH ENERGY

Saudi Arabian equities underperformed in 2025, reflecting oil price sensitivity and lacklustre international interest.<sup>33</sup> Even so, Saudi Arabia remains an intriguing investment prospect.

Past performance is not a reliable indicator of current or future results.

Saudi banks make up the largest portion (37%) of the index and offer attractive risk-reward, in our view, supported by historical discounts in P/B and P/E and projected loan growth of +10.5% in 2026 – although this would mark a slowdown from 2025. While the market has diversified, performance is still perceived to hinge on oil sentiment, on top of an already material 12% oil and gas index exposure.<sup>34</sup>

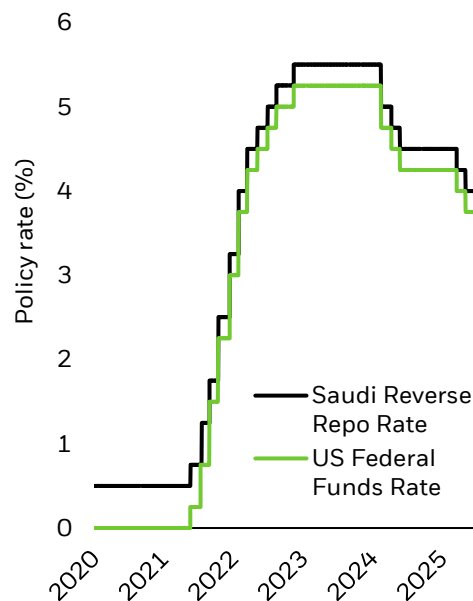
We expect oil prices to remain challenged, with OPEC+ oversupply remaining the dominant theme. This will likely weigh on Saudi Arabia's budget deficit and may impact near-term returns. However, this is partly offset by supportive policy, as the monetary impulse from US Federal Reserve (Fed) rate cuts flows through to Saudi Arabia, given its currency peg.

We continue to see structural tailwinds for Saudi Arabian equities as the country moves towards a more diversified economy, supported by a notable rise in female labour force participation that's delivering a meaningful supply-side boost. The Ministry of Finance projects that the Saudi economy will sustain positive growth rates in the medium term, with real GDP picking up from +4.4% YoY in FY25 to +4.6% YoY in FY26, supported by growth in non-oil activities. These forecasts exceed the IMF's 4.0% forecast for both years.<sup>35</sup>

Saudi Arabia's Capital Market Authority (CMA) has now announced the opening of the capital market to all categories of foreign investors, enabling them to invest directly as of 1 February, 2026.<sup>36</sup> This is a positive development for Saudi stocks, following the CMA Board's approval of the regulatory framework. However, from a valuation standpoint, elevated multiples continue to prevent us from adopting an overweight stance, despite forward P/E ratios having moderated. The index still has a lower tilt to value versus the UAE by 0.3 standard deviations and a 1.1 standard-deviation lower dividend exposure.<sup>37</sup> We see room for further compression versus UAE equities, which could open the door to a more tactical allocation.

Chart 7: Saudi Arabia benefits from the ongoing Fed cutting cycle

Central bank policy rates, 2020-2025



Source: Bloomberg, as of 8 December 2025.

There is no guarantee that any forecasts made will come to pass.

**33 Source: Bloomberg, 19<sup>th</sup> January 2026 35, 36, 37** Source: Bloomberg, as of 8 December 2025. **34** Source: Goldman Sachs, as of 4 December 2025.

# Africa



## SOUTH AFRICA: INCREASINGLY BRIGHT

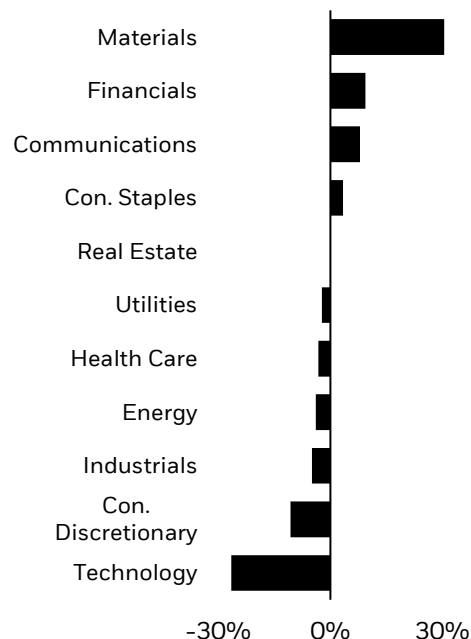
**We turn marginally positive on South African equities, as we see 2025 drivers carrying through to 2026, namely mining sector momentum and South Africa Reserve Bank (SARB) rate cuts. However, we keep a close eye on the potential impact of higher energy prices on inflation, given its prominence in the CPI basket, following the escalation in the Middle East.**

GDP growth moderated from 0.9% QoQ in Q2 to 0.5% QoQ in Q3, in line with consensus forecast and the SARB's projections. However, the composition was favourable in Q3, with the first meaningful fixed-investment growth since 2023 (+1.6% QoQ). South Africa's unemployment rate fell to 32.1% from 33.5% in Q3, as 294k jobs were added – 176k of them in construction – lifting total employment to 16.9m and marking the first improvement in a year. At the same time, South Africa's October inflation came in at 3.6% versus 3.4% prior and a 3.7% forecast, with core inflation easing to 3.1% and monthly prices rising 0.1%, allowing for a dovish pivot from the SARB. One-month implied volatility on the dollar-rand pair has fallen to its lowest level since 2014, even as money markets increase bets on a cut following inflation's drop to 3.3% from 3.5%.<sup>38</sup>

In terms of equity fundamentals, we foresee continued outperformance, driven by South Africa's export-heavy materials sector – the biggest weighting in the MSCI South Africa Index. Gold prices have soared 60% YTD alongside other precious and industrial metals, as DM fiscal concerns trigger broad debasement and EM central banks remain price-insensitive as they diversify reserves away from the US dollar. South Africa's banking sector should also be well supported, in our view. After three years of valuation compression, the sector now looks more attractive, with profitability projected to rise and returns on equity expected to exceed 20% by 2027. Earnings growth in the low teens is supported by firm net interest income trends, improving non-interest revenue, better operating leverage and continued relief in credit-loss ratios, leaving our 2025-27 net-income forecasts 2%-7% above consensus.<sup>39</sup>

While the region's underweight to technology poses a structural drag, tactically we see this as an opportunity for diversification at a time when global tech stocks have driven the bulk of volatility in risk assets.

**Chart 8: South African equities tilt towards materials and away from tech**  
MSCI South Africa and MSCI EM Index sector weights



Source: Bloomberg, as of 8 December 2025.

There is no guarantee that any forecasts made will come to pass.

**38** Source for paragraph: Blackrock and Bloomberg, as of 31 December 2025. **39** Source for paragraph: Goldman Sachs, as of 5 December 2025.

# EM DEBT

## EMD EMD: STRENGTH TO STRENGTH

**EM rates enter 2026 on the back of an exceptional 2025, supported by a weaker US dollar, softer oil prices, easing policy rates and a broadly constructive risk backdrop. While 2025 performance sets the bar high for this year, many of the fundamental macroeconomic and market forces appear set to endure, providing a credible foundation for continued optimism – albeit with richer valuations likely giving rise to greater dispersion in the year ahead. We maintain a preference for local currency exposure, where FX is increasingly a source of return rather than volatility, particularly as the US dollar softens – in contrast to developed markets, where FX tends to be a headwind rather than a driver of performance.**

**Past performance is not a reliable indicator of current or future results.**

Monetary policy differentiation will become a more important driver of returns, we think. Although EM easing cycles have come some way since the start of 2025 – decoupling from the Fed – real policy rates remain high relative to history, providing room for further cuts if growth softens. Easing cycle laggards like Brazil and Hungary, where central banks have held rates high, may become relative front-end outperformers as policy easing begins.<sup>40</sup> But softer inflation alongside improving growth profiles has led to hawkish pressures for others including Korea and Colombia, which could give rise to front-end dispersion after a strong year for the EM debt complex in aggregate.

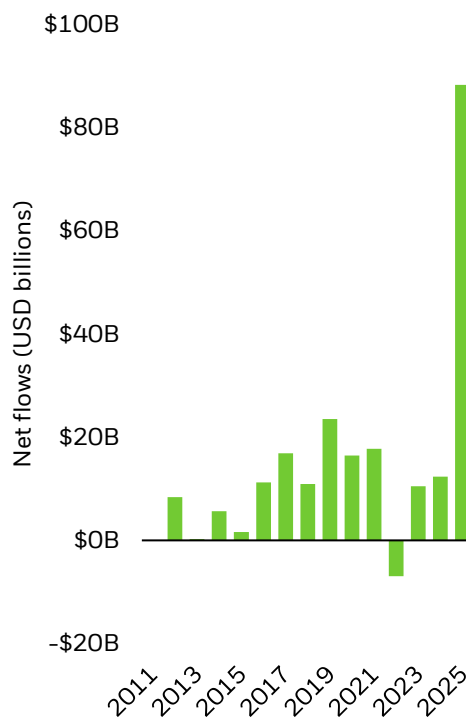
Further out the curve, fiscal differentiation will play an increasingly significant role, in our view. While some markets – such as Colombia, Poland and Romania – face mounting fiscal pressures, others – such as South Africa, India and Chile – have delivered meaningful consolidation, enabling EM long-end sovereigns to continue their outperformance. The strong rally in South Africa’s ultra-long bonds illustrates how improved fiscal trajectories can drive significant relative performance. More broadly, EM yield curves remain unusually steep, pointing to opportunities in markets like Mexico and Chile, where solid fundamentals and contained fiscal risks mean term premium looks increasingly attractive. With the absence of term premia in DM rates, we look to select EM duration for income. Bloomberg estimates that EM carry will deliver more than 600bps of passive income next year, implying a total return of 4-7%.<sup>41</sup>

**The scenarios presented are an estimate of future performance based on evidence from the past on how the value of this investment varies, and/or current market conditions and are not an exact indicator. What you will get will vary depending on how the market performs and how long you keep the investment/product.**

EM bond ETPs had record inflows of \$104.8B in 2025, more than four times the previous record, driven by APAC-listed inflows, with EMEA and US-listed EMD ETPs also registering their highest inflow months since 2021.<sup>42</sup> Our Fundamental Fixed Income platform is constructive across all segments of EMD (credit, rates and FX), seeing 2026 as a year of continued fundamental repair, with greater opportunity for alpha amid rising geopolitical risk, electoral cycles and widening fiscal and monetary divergence across EM sovereigns and corporates.

**Chart 9: Investors showed strong conviction towards EMD in 2025**

Global flows into emerging market debt ETPs, 2011-2025



Source: BlackRock and Markit, as of 12 December 2025.

There is no guarantee that any forecasts made will come to pass.

**40, 41** Source: BlackRock and Bloomberg, as of 12 December 2025. **42** Source: BlackRock and Markit, as of 31 December 2025.

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