# ABS 2026 Emerging Markets Outlook

Local Views

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ABS GLOBAL INVESTMENTS

## SUMMARY

Despite heightened uncertainty driven by geopolitical tensions and renewed U.S. tariff turbulence, 2025 was the strongest year for emerging market equities in nearly a decade. Looking ahead to 2026, we expect this momentum to continue. A supportive global backdrop—characterized by easing inflation, increasing scope for central banks to cut rates, and broadly stable global growth—should allow local themes to play a prominent role in driving returns. Many of the structural domestic trends that supported markets in 2025 remain firmly intact and should help insulate emerging market equities from geopolitical noise. Opportunities across emerging markets remain highly diverse, with returns driven by a collection of idiosyncratic, country-level themes rather than a single dominant narrative. Finally, despite the strong 2025 performance, valuations remain attractive, offering compelling opportunities for active investors.

In this environment, local insight will be critical to navigating risks and capturing emerging opportunities. Deep, on-the-ground experience leaves local specialists well positioned to identify evolving themes, capitalize on opportunities, and manage downside risk. To better understand the forces shaping the year ahead, we asked our local partners to share their perspectives on the key opportunities and risks within their regions of expertise.

## KEY HIGHLIGHTS

### ASIA:

- In 2026, China's equity market should benefit from currency appreciation and continuing anti-involution policies, though the ongoing AI rivalry with the United States is likely to remain a source of volatility.
- After a strong performance in 2025, Taiwanese and Korean AI stocks enter the year well positioned, though the risk of an eventual correction in the AI trade persists.
- In India, macroeconomic and new economy narratives continue to be constructive. Southeast Asia offers an attractive entry point, with historically low valuations and an improving consumer outlook.

### EUROPE, MIDDLE EAST & AFRICA:

- Banks in the Middle East remain central to funding regional transformation, while Saudi Arabia's fiscal position warrants monitoring in a lower oil price environment.
- Consumer sectors in Eastern Europe are benefitting from multiple macro tailwinds, representing an underappreciated opportunity. In Turkey, the question is still whether political intervention will continue to get in the way of economic normalization.
- Beyond materials strength, low long-term funding rates in South Africa create a supportive backdrop for infrastructure investment.

### LATIN AMERICA:

- In Brazil, all-time low equity valuations present a compelling entry point, with the anticipated monetary easing cycle expected to begin in early 2026 providing a potential catalyst.
- Mexico's strategic importance to the United States may be further cemented in the USMCA renegotiations this year, potentially catalyzing a multi-year investment cycle.

## PERSPECTIVES FROM CHINA

### Opportunities

We see the Renminbi (RMB) appreciation and the resulting re-rating of Chinese assets as the most important opportunity of 2026. China's trade surplus reached US$1.076 trillion between January and November 2025--the first country to achieve this milestone. This surplus, supported by diversified trade partners and a rising share of high-tech exports, underscores the global competitiveness of Chinese manufacturing and the success of overseas expansion strategies. With U.S. dollar depreciation expectations strengthening, RMB appreciation is likely to be further enhanced. Although exchange rates are influenced by multiple factors, RMB appreciation expectations are consolidating. This not only provides a positive boost to domestic capital markets but also increases the appeal of RMB denominated assets listed overseas. We believe RMB appreciation will drive a broad re-rating of Chinese assets, creating a powerful catalyst for foreign investors to increase allocations to high quality Chinese opportunities.

Another notable opportunity lies in a shift in domestic competitive dynamics. While Chinese manufacturing retains a clear global advantage, many industries have long been burdened by excessive internal competition—often referred to as *involution*—where capacity and effort expand without commensurate gains in productivity or profitability. Combined with weak demand over the past two years, this dynamic has driven China's Producer Price Index (PPI) into persistent decline, leaving cyclical midstream industries with spreads, margins, and profitability near historic lows—effectively a deflationary backdrop. Policymakers are fully aware of the dangers of involution and have repeatedly emphasized the need to reverse this trend. We expect that in 2026, multiple sub-sectors will gradually reach industry consensus, break free from the downward spiral of involution, and achieve a reversal in both earnings and equity valuations. This will not only reflect domestic industrial restructuring but also demonstrate how Chinese enterprises, guided by policy support and strengthened industry discipline, can generate new growth momentum within the global competitive landscape.

### Risks

The global Artificial Intelligence (AI) boom has driven both major players and emerging startups in China and the U.S. to intensify investment, fueling a fierce arms race in computing power and sustaining elevated industry sentiment. Yet, three consecutive years of massive capital expenditure by global internet giants have not translated into meaningful cash flow, with most tangible results concentrated in chatbot applications. Moreover, in Q4 2025, the free cash flow of leading internet companies turned negative. This underscores that while AI's long-term trajectory is indisputable, short-term progress will not be achieved overnight. Whether the sector can deliver growth in line with equity valuations over the next 1–2 years remains uncertain. Given the intensity of the U.S.–China competition, the pace of U.S. corporate investment, technological breakthroughs, and capital market performance will exert significant influence on China's AI industry strategy and investor sentiment.

## PERSPECTIVES FROM TAIWAN

### Opportunities

Currently, we see opportunities across a number of AI components including memory, networking, substrates and Printed Circuit Boards (PCBs). AI-driven demand for memory continues to significantly exceed supply while production capacity remains constrained. The memory market entered a shortage phase in Q4 2025, with product pricing rising rapidly and expected to continue increasing through 2026, supporting meaningful upward earnings revisions as AI workloads become increasingly memory intensive. NVIDIA recently introduced a context memory storage platform. In networking, next-generation AI architectures are shifting toward designs with higher compute density, requiring faster data transmission and driving higher content value across high-speed interconnects and related infrastructure. In substrates and PCBs, next-generation AI architectures are driving significant increases in layer counts and overall content value per system.

### Risks

A potential slowdown in AI capex would likely lead to a broad drawdown across AI-related equities, with pure-play infrastructure names facing the greatest downside. Given AI's significant index weight in both the U.S.

and Taiwan, such a slowdown would likely trigger a broader market correction as growth and earnings expectations would reset. Over the longer term, AI capex intensity will likely depend on the profitability of AI applications and the pace of enterprise adoption. At the moment, leading LLM platforms remain unprofitable and enterprise penetration continues to take time. While our channel checks indicate that Q1 2026 earnings momentum remains robust, a key short-term risk lies in the potential gap between elevated investor expectations and actual earnings delivery.

## PERSPECTIVES FROM SOUTH KOREA

### Opportunities

2025 marked the first year of real improvements in corporate governance for Korea, and surrounding expectations drove a rise in the stock market. The current administration demonstrated its commitment to these reforms through follow-up legislation, including amendments to the Commercial Act. Even so, a full re-rating of KOSPI has not yet occurred, and the reasons for this are as follows:

1. Insufficient accumulation of court precedents allow companies to remain conservative on improving corporate governance.
2. In recent lawsuits, courts have not reflected the intent of the amended Commercial Act, maintaining their existing, conservative stance.
3. Domestic institutional investors continue to passively deploy capital into governance-related funds, partially limiting the implementation of full-scale shareholder activism.

Even so, foreign funds with successful experiences in Japan last year are now increasing investments into Korean governance-focused funds, with domestic institutions expected to join within the next three years. As a result, valuation increases driven by corporate governance improvements are expected to become a long-term trend. In addition, while low-effort methods for enhancing shareholder value have been the main approach thus far, we expect companies to move toward improving capital allocation efficiency more substantively through shareholder proposals. Accordingly, stock price increases are expected to occur more selectively in the future.

### Risks

Another major reason for the sharp rise for the Korean stock market in 2025 was the memory semiconductor industry's significant benefit from increased AI investment, leading to strong gains in Samsung Electronics, SK Hynix, and related value-chain stocks. While we continue to find pockets of attractive company valuations, we are now also seeing many AI-related stocks overly demanding valuations. Moreover, as all industries experience a chasm during their growth process and given that the AI investment cycle has already lasted three years, stock price volatility is expected to increase depending on the pace of commercialization by AI service companies. Even in long-term growth industries, the transition from an early supply cycle to a demand cycle can create a chasm, leading to sharp declines in related stocks. While we have no doubt about the long-term growth potential of the AI industry, we expect the current euphoric stock price movements to further increase market volatility. Therefore, investors should take selective positions, focusing on stocks with attractive relative valuations and limited downside risk.

## PERSPECTIVES FROM INDIA

### Opportunities

Over the last year, notwithstanding the tariff war and a brief armed conflict, India has seen accelerating growth, with the Reserve Bank of India (RBI) recently revising up its fiscal year 2026 real GDP growth forecast to +7.3%. An earnings upgrade cycle has now taken hold, and the market is expecting 16% earnings per share (EPS) growth for 2026. Domestic institutional investors that were net buyers of US$90 billion in equities over 2025 are continuing to grow AUM with households moving savings into equity mutual funds. Inflation is near all-time lows, and the RBI has been adding liquidity and cutting rates. The reduction in direct and indirect taxes implemented over 2025 is positive for both consumption and savings. All of these provide a stable backdrop that underpins valuations and market earnings while also providing stable conditions for alpha.

Within equity markets, we see attractive opportunities linked with the rapid digitalization of India. Over the last 10-15 years developments in technology have served to step-up India's growth trajectory through improved connectivity, access to knowledge, better delivery of education, improved healthcare facilities, effective and efficient direct benefit transfers, increased productivity, and a dramatic increase in consumer options. The enabling impact of digitization and technological innovation can be felt across the breadth of sectors, and especially in new-economy businesses across Fintech, Q-commerce, E-commerce, Electric Mobility, Online Education, Energy Transition and Power Solutions. Fast growing companies in these sectors provide India specific solutions to their largely Indian customer base. These trends and thematics have a long runway ahead.

### Risks

While the rapid evolution in technologies and the acceleration of AI have created new opportunities, they are also disrupting legacy businesses. Prime examples of this are Indian information technology (IT) services companies, where GenAI is now automating core tasks, eroding low-cost labor advantages and creating a challenging growth environment. A second-order effect of this slowdown in IT services that we are monitoring is a softening in white collar job creation, with an increasing risk of outright job losses. This dynamic could, in turn, weigh on consumption-oriented sectors such as discretionary spending and real estate. Up to this point, the lack of job growth in IT services has been more than compensated by job growth at Global Capability Centers (GCCs), often at comparatively higher salary levels.

## PERSPECTIVES FROM SOUTHEAST ASIA

### Opportunities

One of the key opportunities we see in Southeast Asia (ASEAN) for 2026 lies in consumer discretionary, particularly smaller-cap names that are now trading at historically depressed—and in some cases unprecedented—valuation multiples. The region's two largest markets, Indonesia and the Philippines, have entered the consumer spending "sweet spot," with GDP per capita reaching roughly US$4,000–5,000, a level that has historically supported a step-change in discretionary consumption. As spending and investment recover, this impulse should broaden across the economy. Yet despite this constructive long-term backdrop, even leading consumer discretionary operators are trading at or near all-time low valuations, presenting a rare opportunity to gain exposure at highly attractive entry points.

### Risks

The principal regional risk for 2026 is the persistence of fractious politics and policy missteps that weighed on GDP growth in 2025. Most notably, ongoing political instability in Thailand has undermined confidence and contributed to heightened tensions along the border with Cambodia, although a general election in Q1 2026 may help restore political legitimacy and policy direction. By contrast, the political backdrop in Indonesia appears more stable, but policy execution has been uneven. A prolonged fiscal pause in the first half of 2025 was a key drag on growth and investor sentiment throughout the year. Meanwhile, in the Philippines, corruption scandals escalated into protests, dampening foreign direct investments, even as inflows expanded elsewhere in the region, albeit at a slower pace than anticipated.

Against this backdrop of political and policy uncertainty, foreign institutional investors continued to reduce exposure, with net outflows totaling approximately US$15 billion in 2025—double the outflows recorded in 2024 and the largest since 2020. Notably, the region has experienced only one year of meaningful inflows over the past nine years. The key risk for 2026 would be a continuation of this pattern, extending the outflow cycle and pushing already compressed valuations to even lower levels.

## PERSPECTIVES FROM THE MIDDLE EAST

### Opportunities

The Middle East is undergoing a multi-year shift to diversify economies away from oil, creating meaningful investment opportunities. This transformation—especially in Saudi Arabia—will require sustained funding via local banks as well as sovereign and corporate debt markets. Banks remain central to this transition, but 2026 will demand greater selectivity.

While rate cuts may compress net interest margins, tighter liquidity is boosting pricing power, fee income, and collateral discipline. Saudi bank valuations are becoming more attractive, though loan growth is constrained by stretched liquidity (loan growth above 10% in 2025 and loan-to-deposit ratios above 105%) and weaker consumer borrowing, with mortgage growth at its lowest since 2017. The UAE offers a structurally supportive backdrop driven by diversification and inflows, though valuations are less forgiving. In Qatar and Kuwait, banks provide attractive dividends but returns remain sensitive to oil prices and fiscal dynamics.

Another compelling opportunity lies in utilities, a sector that stands to benefit in a rate-cutting environment given defensive cash flows and increasingly competitive dividend yields. Across the Gulf Cooperation Council (GCC), power demand is structurally rising, supported by population growth, economic diversification initiatives, and the acceleration of data-center construction. Beyond regulated utilities, the broader ecosystem that monetizes rising power intensity—such as grid investment, water infrastructure, and energy services—also presents compelling long-term opportunities.

### Risks

Regional risks are dominated by two factors: geopolitical developments and domestic financial and liquidity conditions. On the geopolitical front, tensions involving Iran, Israel, and the United States remain a latent source of risk. At the same time, although institutional cooperation within the Gulf Cooperation Council remains intact, divergences between Saudi Arabia and the United Arab Emirates became more visible in 2025. Differences in regional priorities, capital competition, and policy sequencing may increasingly be reflected in market pricing, particularly through OPEC+ cohesion and cross-border capital flow dynamics.

While geopolitical risks tend to ebb and flow, domestic financing conditions have played a more decisive role in shaping market performance. In Saudi Arabia, for example, markets have historically shown resilience to episodic headlines but are less tolerant of sustained domestic liquidity withdrawal or a sharp decline in oil prices. The central question is not whether Vision 2030 continues, but how it is sequenced and financed in a lower-oil-price environment—an issue with direct implications for banks, construction, real estate, and consumer confidence. Entering 2026, Saudi Arabia faces a more explicit fiscal reality: the government intends to maintain elevated spending levels while running a material fiscal deficit. The approved 2026 borrowing plan implies significant financing needs to fund the deficit and service rising interest costs. While this does not signal a crisis, it does point to tighter liquidity conditions and heightened sensitivity to oil price downside from already uncomfortable levels.

## PERSPECTIVES FROM TURKEY

### Opportunities

Turkey's 2026 trajectory hinges on a single question: Will political priorities once again override economic stabilization, or will macro discipline be maintained? In 2026, there is a clear opportunity if the current disinflation trend is preserved. Inflation declined to around 31% by the end of 2025, and a further move toward the mid-20s in 2026 would allow for a continuation of gradual and cautious rate cuts. If executed without premature easing, this would mark Turkey's first credible normalization cycle in years. Lower policy rates combined with declining inflation would support a sustained reduction in Turkey's risk premium. A falling credit default swap (CDS) would lower external funding costs, improve balance sheet conditions, and support capital inflows beyond short-term carry trades. Under this scenario, Turkish equities—particularly banks, industrials, and export-oriented sectors—offer meaningful re-rating potential after years of valuation compression driven by macro volatility. If politics dominates, the current opportunity window will close rapidly. If disinflation continues and policy credibility is preserved, 2026 could mark a transition from crisis management to asset repricing.

### Risks

The main downside risk for 2026 stems from President Erdoğan's intention to remain in power and the constitutional and electoral pathways this implies. Currently, his political alliance is well below the threshold required to pass a constitutional amendment directly or call a referendum. This makes third-party backing or an early election combined with a referendum likely routes. From a market perspective, both scenarios introduce significant uncertainty. Turkey's recent history is instructive: Since the transition to the presidential system in 2018, episodes of intensified political intervention have consistently coincided with higher inflation, elevated risk premia, currency stress, and weaker equity performance. For investors, the key concern is predictability. Any perception that monetary discipline or fiscal consolidation could be subordinated to electoral objectives would quickly reprice Turkish risk.

## PERSPECTIVES FROM EASTERN EUROPE

### Opportunities

The setup for consumer-focused companies in Emerging Europe appears increasingly constructive as the region moves deeper into a real income recovery. Continued disinflation and easing monetary policy across much of the region will ease debt-service burdens and improve consumer confidence. Meanwhile tight labor markets and still-solid nominal wage growth translate into positive real wage growth.

These dynamics are likely to have a positive impact on staples, discretionary, and services companies of the region. A weaker U.S. dollar would provide an additional tailwind to gross margins of consumer companies where key imports and commodity-linked inputs are USD-priced, lowering production costs in local currency and improving profitability. In addition, the introduction of an EU-wide minimum customs charge on low-value parcels from July 1st, 2026 could act as another positive trigger for local retailers at the expense of Asian competition. From a valuation perspective, the most compelling opportunities to express this theme are currently found in Poland, Turkey, and Greece.

### Risks

A key risk for Emerging Europe in 2026 is a deterioration in investor sentiment driven by fiscal slippage, particularly as higher defence spending and elevated public expenditure pressure government budgets. Bigger deficits typically mean more debt issuance, higher local yields, and a steeper yield curve, which in turn elevate equity discount rates.

Some countries in emerging Europe already face budget tightening requirements by the EU. In practice, deficit correction efforts have often involved the introduction of windfall taxes, frequently targeting listed companies perceived to have "deep pockets," such as banks, energy, telecommunications, and utilities. These measures directly compress earnings per share and indirectly increase the equity risk premium. Election cycles can further exacerbate this dynamic, with pre-election spending widening fiscal gaps and post-election consolidation measures driving volatility and valuation de-rating. Countries most exposed to these risks include Poland, Romania, and Hungary.

## PERSPECTIVES FROM SOUTH AFRICA

### Opportunities

Two key opportunities stand out in South Africa for the year ahead: The scope for an infrastructure-led growth impulse enabled by lower funding costs, and a supportive environment for Platinum Group Metals (PGMs). Regarding the first, long term funding rates in South Africa are the lowest in a decade. This creates the opportunity for cheaper funding of much needed long-term infrastructure investment into rail, ports, and energy. In the recent past, the hurdle rate for these investments was very high, making it hard to get the private sector to participate. This investment could drive higher growth, which in turn could improve fiscal balances and funding rates even further, creating a positive growth spiral. Certain industrials could benefit from an uplift in construction activity while others stand to gain from the reopening and improved utilization of key transport corridors. Banks should also be supported by higher lending volumes linked to infrastructure-related project financing.

With regards to the metals opportunity, we believe the platinum and rhodium markets are exceptionally tight and expect both to outperform other precious metals. South Africa's tax base is also far more levered to PGMs than to gold, which should provide a meaningful fiscal tailwind for the country in 2026.

### Risks

South Africa holds its local government elections towards the end of the year, and there is a risk that the partners in the government of national unity (GNU) struggle to keep together as they fight each other for control of various municipalities. There may also be new coalitions within local governments, making it harder for the GNU to keep the coalition together at the national level. A breakup of the GNU would be viewed very unfavorably by the market.

Another risk we are monitoring is related to currency. A stronger rand is likely to pressure earnings for local bulk commodity producers; therefore, global diversified miners, particularly those with copper exposure, are better positioned than domestically focused iron ore and coal producers.

## PERSPECTIVES FROM BRAZIL

### Opportunities

The Brazilian market currently presents a rare tactical opportunity characterized by a unique decoupling of fundamentals and sentiment: While benchmark interest rates remain at 19-year highs, listed companies continue to deliver robust operational results. This disconnect, driven by a massive domestic rotation into fixed income, has pushed equity positioning among institutional and retail investors to historic lows, leaving average valuation multiples at steeper discounts akin to the 2008 financial crisis or the pandemic. We believe the convergence of light positioning, depressed valuations, and resilient earnings, catalyzed by the impending monetary easing cycle projected for Q1, creates a highly compelling entry point for Brazilian equities.

A key event to watch in 2026 is the upcoming presidential elections. President Lula's third term has been marked by limited concern for fiscal discipline, and a potential regime shift toward a government more mindful of spending and capable of implementing reforms would be transformational for the country. This in turn would also allow for lower (or at least less elevated) real interest rates, which would be extremely positive for real assets such as equities.

### Risks

The key risk for Brazil in 2026 is any scenario that prevents the start of the interest-rate cutting cycle expected for this year. Brazil has one of the highest interest rates globally, currently at 15%, and we already see reasons supporting the beginning of a cutting cycle across several macroeconomic and microeconomic indicators. The market is currently pricing 275 bps of rate cuts over a one-year period starting in March. Any factor that disrupts this dynamic such as unfavorable external conditions, election-driven populism, an overheating economy resulting from last year's government stimulus, or any other factor not currently on our radar would be negative for the market. It is worth noting that, since the adoption of the inflation-targeting regime in early 2000s, the average realized cutting cycle has been 300 bps larger than initially priced—which we view as an upside risk.

## PERSPECTIVES FROM MEXICO

### Opportunities

Mexico's most compelling opportunity lies in its growing strategic importance to the United States as the latter seeks to diversify supply chains away from Asia and other regions with elevated geopolitical risk. Mexico offers a unique combination of geographic proximity, manufacturing scale, labor competitiveness, and treaty-backed market access that is difficult to replicate elsewhere. Deeper bilateral alignment—through stronger enforcement and the potential expansion of USMCA; new sector-specific agreements; and enhanced cooperation on energy, security, and infrastructure—could catalyze a multi-year investment cycle. If leveraged effectively, this dynamic positions Mexico as the cornerstone of U.S. supply-chain resilience, supporting higher long-term growth, sustained capital inflows, and a structurally lower cost of capital.

### Risks

A key risk for Mexico in 2026 is a potential shift toward leftist radicalization and state intervention, combined with rising fiscal pressures from social spending and support for state-owned enterprises. Erosion of the rule of law through weakened judicial independence and inconsistent contract enforcement remains a critical concern as it threatens the legal certainty required for long-term capital. While markets have already priced in a significant portion of these risks, this environment—marked by regulatory instability and institutional fragility—could elevate risk premia, pressure the Mexican peso, and jeopardize Mexico's vital trade and investment relationship with the United States.

## CONCLUSION

As investor interest in emerging markets continues to broaden, local themes and opportunities are likely to play an increasingly important role in shaping returns. In this environment, translating local complexity into investable insight will be a key differentiator. Long-standing experience should position local specialists well to identify and capitalize on these evolving opportunities and mitigate subsequent risks.