Q1 2026 MARKET REVIEW

EMERGING MARKETS

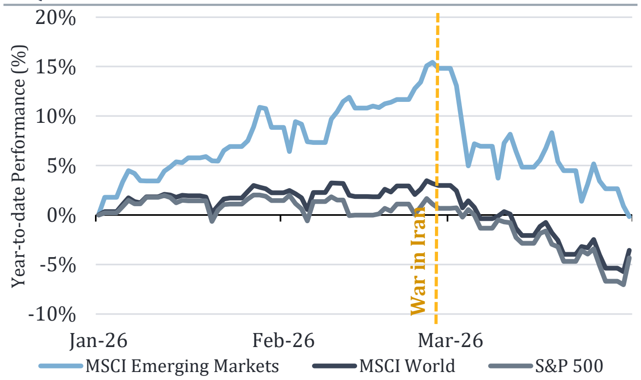
ABS GLOBAL INVESTMENTS

A QUARTER OF TWO HALVES

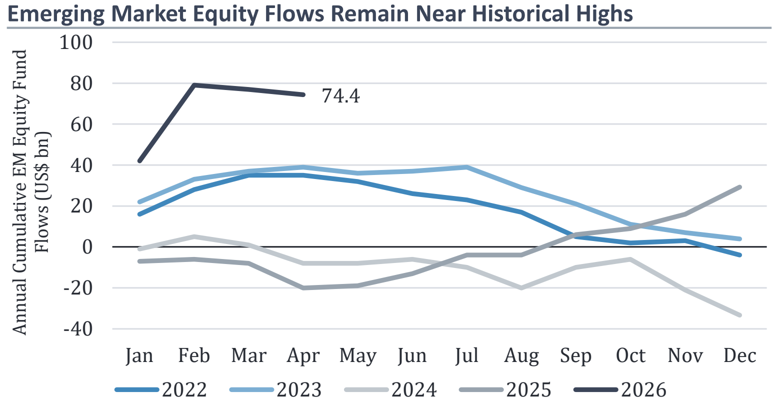
Emerging market equities once again demonstrated meaningful resilience in the first quarter of 2026, ending the period only marginally lower despite significant geopolitical turbulence stemming from escalating tensions in the Middle East. The MSCI Emerging Markets Index returned -0.2% for the quarter, a result that masks dramatic swings in sentiment along the way and stands in contrast to developed and US markets which respectively fell -3.6% and -4.3% over the same period. The quarter split sharply into two distinct phases, each in some ways almost a mirror image of the other.

A further testament to emerging markets resilience beyond performance is that investor conviction in the asset class has not wavered. Emerging market equity inflows in 2026 remain at historic highs, with flows entering the conflict well ahead of any prior annual records and showing little sign of meaningful reversal in the aftermath.

A Quarter of Two Halves: 2026 Performance



Emerging Market Equity Flows Remain Near Historical Highs

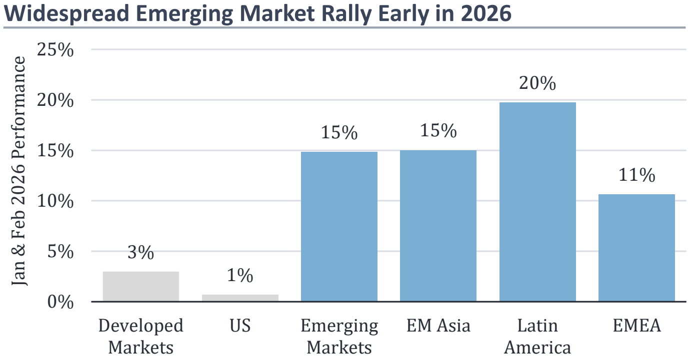


Performance data source: Bloomberg and MSCI as of March 31, 2025. EM equity fund flow data source: JPMorgan and EPFR Global as of April 8, 2026. Excludes onshore funds. Past returns are not a guarantee of future results. Graphs are presented for illustration purposes only and should not be relied on to make an investment decision.

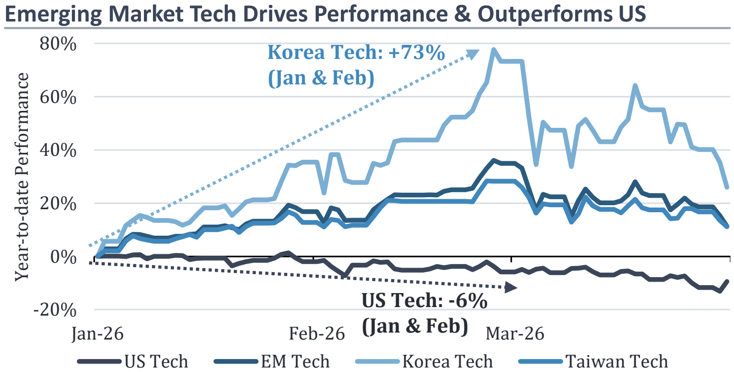
JANUARY–FEBRUARY: BROAD, FAST AND AI-FUELED

Emerging markets got off to an impressive start in 2026. By the end of February, US equities had barely turned positive and developed markets were up under 3%, while emerging markets had surged 15%. Gains were broad-based across regions — Latin America up 20%, Emerging Asia up 15%, and EMEA up 11% — confirming this was a widespread emerging market rally, not a single-country or single-sector story.

Widespread Emerging Market Rally Early in 2026



Emerging Market Tech Drives Performance & Outperforms US



Source: Bloomberg and MSCI as of dates described. Past returns are not a guarantee of future results. Graphs are presented for illustration purposes only and should not be relied on to make an investment decision.

Within that rally, Korea and Taiwan stood apart. Their respective gains of 56% and 25% in just two months, combined with their significant weight within the index, made them by far the largest contributors to emerging market performance over the period, driven overwhelmingly by technology and AI-related names. What made this particularly notable was the resilience of emerging market technology stocks at a time when developed market peers were facing growing investor skepticism around AI spending sustainability, business model profitability, and the risk of broader industry disruption. While US technology fell -6% through the end of February, emerging market technology stocks rose 35%, with Korean technology stocks up an exceptional 73%.

This divergence reflects two structural realities. First, the emerging market AI story is not about picking winners in an AI race; it is mainly centered around infrastructure and hardware. Within that space, demand for the semiconductors and components that underpin AI capacity continues to outpace supply, and strong semiconductor revenue data and positive earnings revisions confirmed that this dynamic shows no signs of abating. Additionally, while emerging market AI-related names carry premium valuations relative to the broader emerging market universe, they remain attractively priced compared to their global AI peers.

MARCH: THE MIDDLE EAST CONFLICT REVERSES THE RALLY

The quarter's narrative changed sharply as the conflict in the Middle East escalated following US and Israeli military strikes on Iran. The strikes on senior Iranian leadership triggered retaliatory attacks across the region, with the effective closure of the Strait of Hormuz — through which approximately 20% of global oil and gas flows pass — delivering a significant energy shock to global markets. The unknown scale and duration of the conflict compounded these pressures, upending energy markets and fueling anxiety about a potential resurgence in inflation across the globe.

Oil prices surged over 50% in March, and emerging market equities fell -13% during the same month, reversing their strong year-to-date gains as inflation expectations repriced sharply higher. Asian markets suffered the most acutely. Over 80% of Hormuz-transiting energy is destined for Asia, leaving major importers — China, India, Korea, and Indonesia — more exposed to higher costs, potential fuel shortages, and rising freight and insurance expenses. Korea, India, and Indonesia were among the largest detractors within the emerging markets universe for the month. Korea's decline was particularly outsized, as the energy shock compounded profit-taking by investors looking to lock in gains following the sharp rally of 2025 and early 2026. Eastern European markets tracked broader emerging markets lower, caught in the crosscurrents of rising energy costs and deteriorating global risk sentiment. Latin America offered relative resilience given its commodity exporter status, though markets still declined overall. Middle Eastern markets faced obvious pressure, though core economies with strong fiscal buffers and access to alternative export routes fared somewhat better.

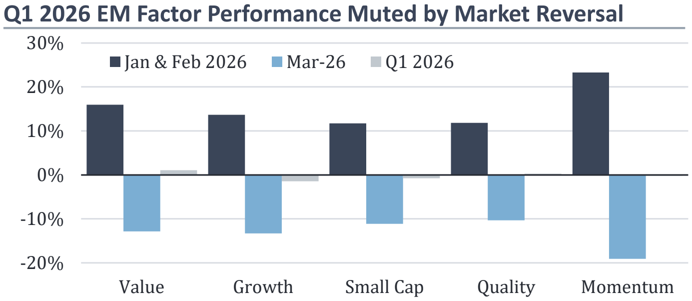
ROTATION DOMINATES, FACTORS PLAY A LIMITED ROLE

Looking across the quarter, factor dispersion was relatively contained given the sharp rotation between the two periods. Momentum told the most striking story — up 23% through January and February, then giving back 19% in March alone. Small caps lagged early in the quarter but proved comparatively resilient during the selloff.

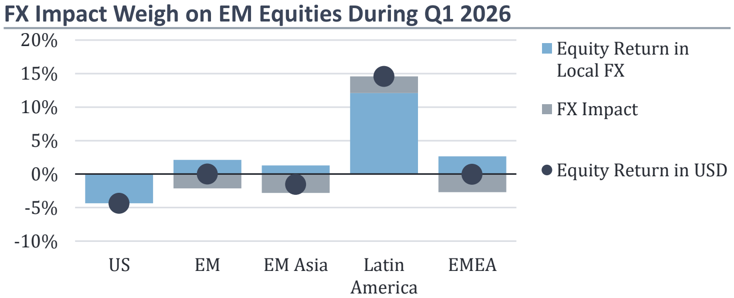
From a sector perspective, the quarter was defined by two key forces: technology stocks powering the early rally, and energy stocks benefiting as the conflict escalated. The greatest detractors over the period were communication services, consumer discretionary, and real estate — all sensitive to higher rates and deteriorating consumer confidence.

Currency moves added another layer to the quarter's narrative. In local currency terms, all emerging market regions ended the quarter in positive territory — yet in US dollar terms, those same regions finished negative. This divergence reflects the sharp reversal in emerging market currencies. Having broadly appreciated through 2025 and into early 2026 on the back of a weaker dollar, many of these currencies sold off abruptly as the conflict triggered a flight to safety.

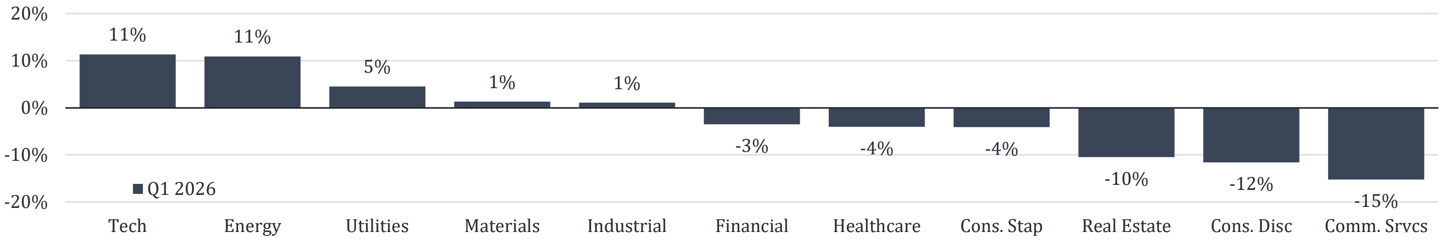
Q1 2026 EM Factor Performance Muted by Market Reversal



FX Impact Weigh on EM Equities During Q1 2026



Q1 2026 Performance by Sector: Technology and Energy Lead



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REGIONAL PERFORMANCE COMMENTARY

Asia: The Best and Worst of Emerging Markets

Asia was the region of greatest dispersion in the quarter, producing some of the strongest and weakest returns across emerging markets. Korea and Taiwan were standout winners, ending the quarter up 16% and 9% respectively on continued AI and semiconductor enthusiasm. Korea's ride was particularly striking — up as much as 56% through February before giving back almost half its gains in March as the energy shock hit. India fell -18%, weighed down by growth concerns, oil import reliance, and expensive valuations, while China declined 9% as AI advancements pressured internet stocks, though its diversified energy mix provided some insulation. Within Southeast Asia, Thailand rallied over 15% on pro-business election hopes and stronger exports, while Indonesia fell over -20% as the threat of an MSCI downgrade rattled markets.

Latin America: Structural Tailwinds Meet Commodity Luck

Latin America led emerging market returns for the quarter, with Colombia, Brazil, and Peru the top performing markets globally. The region's commodity exporter status provided a meaningful buffer against the energy shock, allowing markets to benefit on a relative basis from rising oil prices. In Brazil, the long-awaited easing cycle began cautiously, with the central bank cutting its benchmark rate less than had been previously expected amid concerns over renewed inflation. Chile lagged as softer copper prices, a weaker peso, and higher oil prices weighed on rate cut expectations.

EMEA: In the Eye of the Storm

Performance across EMEA was shaped by geography. Saudi Arabia was a notable outperformer, benefiting from rising oil prices and its ability to export via the Red Sea Yanbu facility, effectively bypassing Strait of Hormuz disruptions. Egypt, Kuwait, Qatar, and the UAE were not as fortunate, as their proximity to Iran and heightened uncertainty around the conflict weighed heavily on sentiment. South Africa lagged broader emerging market peers, with currency depreciation and inflation concerns offsetting any benefits from higher precious metals prices. Emerging markets Europe tracked broader emerging markets lower, with Greece and Turkey, the region's markets closest to the conflict, among the weakest performers.

DISCLOSURES