EMERGING MARKETS

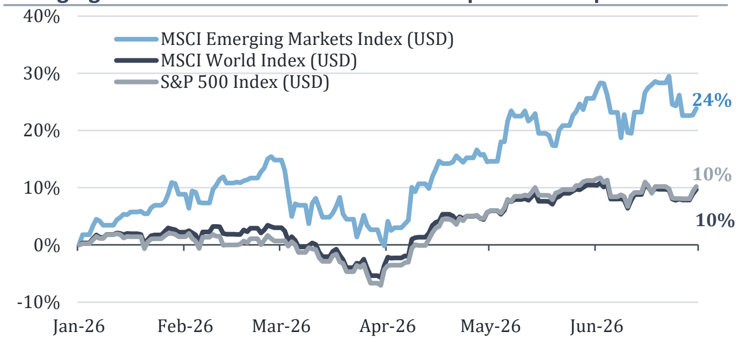
ABS GLOBAL INVESTMENTS

A STRONG BUT NARROW RECOVERY

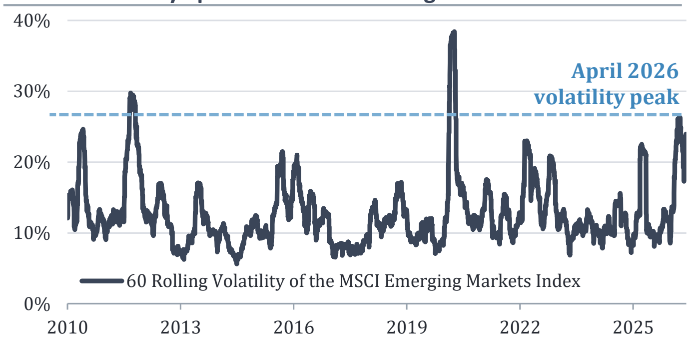
Emerging market equities staged a powerful recovery in the second quarter of 2026, reversing the late first-quarter sell-off and decisively outpacing developed and US markets. It was the best quarter for the asset class since 2009 and the sixth consecutive quarter of emerging markets outperforming developed markets. The MSCI Emerging Markets Index gained +24.1% for the quarter, against +13.8% for developed markets and +15.2% for US equities, lifting the index to +23.9% year-to-date.

The path there was anything but smooth. Emerging markets gained 14.7% in April and a further 9.7% in May before giving back 1.4% in June. During this period the 60-day realized volatility in emerging market equities climbed to its highest level since the 2020 pandemic, and before that, since 2011, as the market was pulled between two powerful and opposing forces. On one side stood the structural tailwind of artificial intelligence and the technology cycle; on the other, persistent geopolitical risk and its drag on the global economic outlook. That emerging markets not only absorbed this turbulence but ended the quarter sharply higher is a further testament to the asset class's resilience in the face of profound uncertainty.

Emerging Markets Continued to Climb & Outpace Developed Markets



Even as Volatility Spiked to Multi-Year Highs

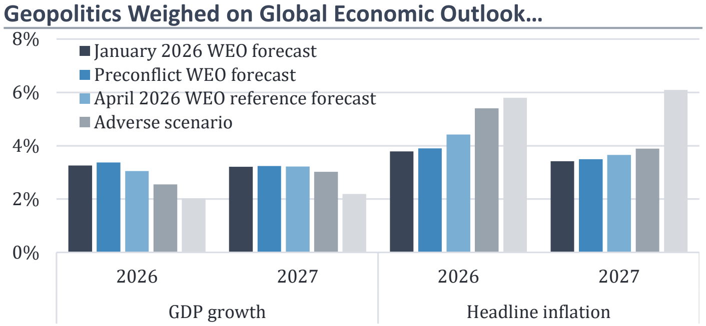


Source: Bloomberg and MSCI as of June 30, 2026. The indices above reflect the following indices: MSCI World Index (USD) (ticker: NDDUWI), S&P 500 Index (ticker: SPXT), MSCI Emerging Markets Index (USD) (ticker: NDUEEGF). Past returns are not a guarantee of future results. Graphs are presented for illustration purposes only and should not be relied on to make an investment decision.

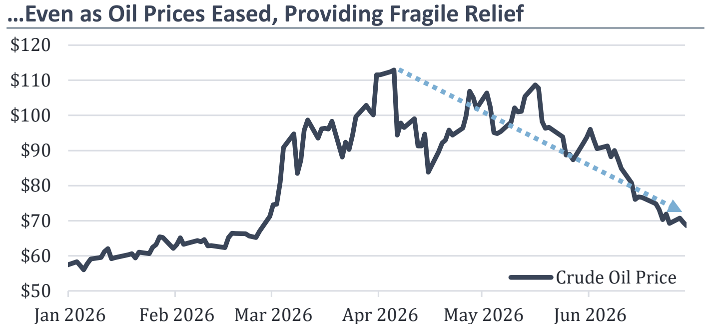
GEOPOLITICS: EASING, BUT NOT GONE

The dominant force early in the quarter was the easing of geopolitical tension. Emerging markets ended the first quarter under the weight of the Iran war, with Brent above $110 a barrel. As the second quarter progressed, a ceasefire framework gradually took shape. Oil retreated below $70, the acute inflation impulse from the first-quarter spike faded, and the global equity drawdown halted. Markets found enough relief to climb, or at least to stop falling.

Geopolitics Weighed on Global Economic Outlook…



…Even as Oil Prices Eased, Providing Fragile Relief



Economic Outlook data source: IMF staff estimates as of April 1, 2026 as stated in the World Economic Outlook Report: Global Economy in the Shadow of War. https://www.imf.org/en/publications/weo/issues/2026/04/14/world-economic-outlook-april-2026 See end notes for further details[1]. Oil price data source: Bloomberg and MSCI as of June 30, 2026. The indices above reflect the following indices: Crude Oil Prices (ticker: CL1 Comdty). 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.

But easing political tensions is not resolution. Throughout the quarter, headlines cycled through repeated rounds of escalation and de-escalation, a reminder that the conflict in the middle east, and, more importantly, the uncertainty over its ultimate depth and its inflationary consequences, remained very much alive. The result was a fragile stability: settled enough to support a rally, but too uncertain to sustain a broad one. With the length and depth of the tensions, and above all their impact on inflation, still unknown, risk appetite stayed confined to the themes and sectors least exposed to the global macro backdrop, while themes with any sensitivity to global growth and stability lagged. That caution hardened into quarter-end, as the US Federal Reserve turned more hawkish, with some officials raising the prospect of a rate hike, leaving the long-awaited easing cycles across emerging markets, Brazil's chief among them, likely to arrive later and shallower than hoped. Consumer-facing areas, typically the hardest hit by inflation uncertainty, failed to recover in the absence of a decisive end to the war.

ARTIFICIAL INTELLIGENCE: A FORCE UNTO ITSELF

Against that backdrop, the recovery gravitated mainly to the one structural story that geopolitics and inflation could not delay. While many of emerging markets' most compelling long-term narratives remain firmly intact, with reform agendas quietly making progress in the background, others, like Brazil's rate-cut-dependent re-rating, were pushed out by the macro uncertainty rather than diminished by it. Artificial intelligence was different. Within emerging markets it is, above all, an infrastructure story: demand for the semiconductors and hardware underpinning AI capacity continues to materially outpace supply and looks set to for the foreseeable future. Relatively insulated from inflation and the wider macro cycle, the theme advanced regardless.

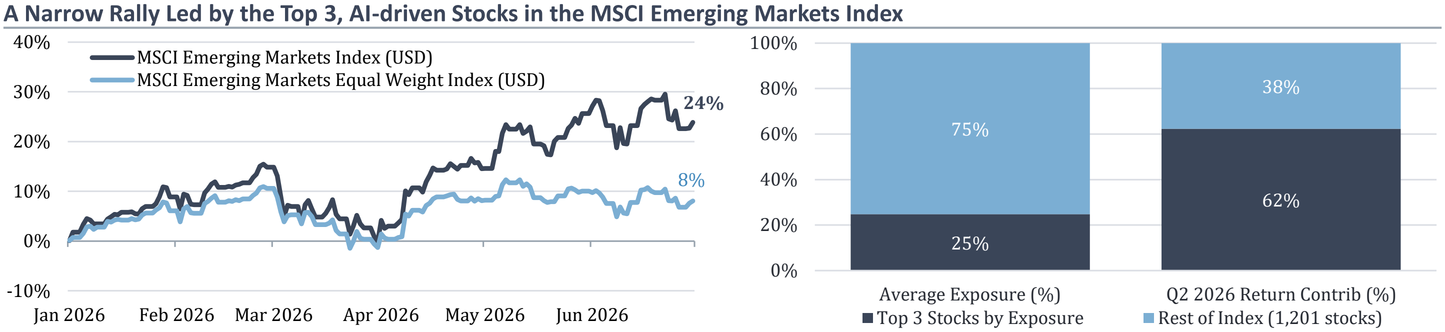
The scale of that demand was visible in the market's largest names. The semiconductor triumvirate of Taiwan Semiconductor Manufacturing, Samsung Electronics, and SK Hynix reached a combined valuation of roughly $4 trillion. SK Hynix and Samsung each crossed the $1 trillion mark, as demand for the high-bandwidth memory and advanced logic underpinning AI infrastructure continued to outpace supply and earnings revisions continued to climb.

A CONCENTRATED, NARROW RALLY

The combination of a selective, macro-wary market and a single dominant structural theme produced a strikingly narrow advance. Leadership was concentrated in a handful of North Asian technology markets: Korea surged 88% and Taiwan 49% on the quarter, driven by the AI names at the top of the index. The scale of that surge has reshaped the index itself: Taiwan and Korea are now each larger than China in the MSCI Emerging Markets Index, ending China's long-held position as the single largest country. Beyond Taiwan and Korea, the laggards were precisely the markets most hostage to the macro: China fell -6.6% on a domestic recovery that still looks weak despite resilient exports, Brazil fell 8.2% on an easing cycle now likely delayed, and Latin America as a whole declined -3.6%.

The same narrowness ran through the sector data. Everything tied to the AI theme advanced: technology returned +73.3% and drove the bulk of the index's gain, with industrials (+18.3%) and financials (+6.8%) also contributing. Everything sensitive to the global economic backdrop lagged: energy gave back its first-quarter gain (−9.6%) as oil fell, materials declined 5.3%, and consumer discretionary (−10.0%) was the single largest detractor.

A Narrow Rally Led by the Top 3, AI-driven Stocks in the MSCI Emerging Markets Index

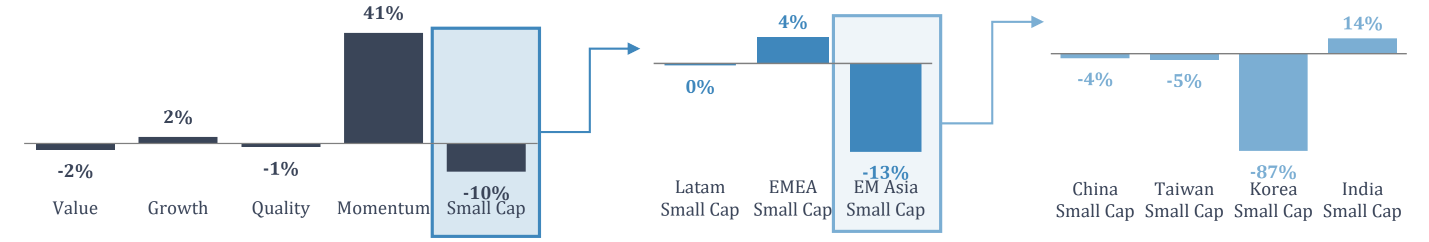


Source: Bloomberg and MSCI as of June 30, 2026. The indices above reflect the following indices: MSCI Emerging Markets Index (USD) (ticker: NDUEEGF), MSCI Emerging Markets Equal Weighted Index (USD) (ticker: M1EFEW). Top 3 stocks in the MSCI Emerging Markets Index by exposure include: TSMC (ticker: 2330 TT EQUITY), Samsung Electronics (ticker: 005930 KS EQUITY), SK Hynix (ticker: 000660 KS EQUITY). 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.

The persistence of the AI trade drove the momentum factor to an exceptional +64.8% gain in the quarter as AI remained the market's dominant driver of returns. Within Taiwan and Korea, the rally was even more concentrated, led by the largest names in the index. The equal-weighted index returned just +9.5%, capturing less than 40% of the cap-weighted return. Seen another way, the biggest winners were a small cluster of mega-cap AI names: TSMC, Samsung, and SK Hynix alone make up less than a quarter of the MSCI Emerging Markets Index by weight yet, by our attribution, accounted for more than 75% of its return for the quarter. Importantly, this was a story of what rose rather than what fell. Outside the AI complex, individual detractions were comparatively muted, with country and sector contributions modest rather than sharply negative.

That headline large-cap outperformance was, however, far from uniform across the asset class. Almost all of it was concentrated in Asia, and above all in Korea, where small caps lagged large caps by roughly 87% over the quarter as the AI mega-caps carried the entire market. Elsewhere the picture often inverted: in India, small caps outperformed by nearly 14%; in EMEA, they outpaced large caps by close to 4%; and in Latin America, small caps lagged only very modestly, by 30 basis points.

Large-Cap Outperformance Was an Asia Story, Not a Global One



Source: Bloomberg and MSCI as of June 30, 2026. All factor performance is relative to the MSCI Emerging Markets Index (USD). All small cap performance is relative to the relevant regional headline index. 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.

REGIONAL PERFORMANCE COMMENTARY

Asia: The Engine of the Recovery

Asia led emerging markets by a wide margin, returning +30.2% and again producing the universe's greatest dispersion. Korea (+88%) and Taiwan (+49%) powered the advance on the AI and memory-chip cycle. Beyond those two, India staged a notable recovery, gaining 10.1% after a difficult first quarter (−18.1%) and holding up during the June AI pullback, helped by its limited semiconductor-hardware exposure. China's -6.6% decline weighed on the headline, while at the tail Indonesia fell 26.2% amid persistent outflows, extending a punishing year.

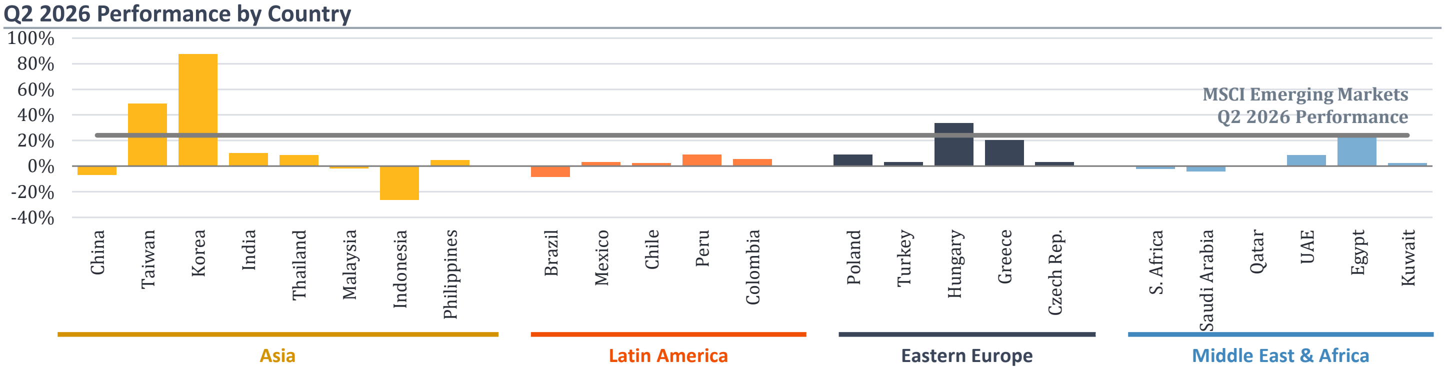
Latin America: The Commodity Buffer Becomes a Headwind

Latin America was the weakest major region, declining -3.6% and reversing its first-quarter leadership as oil and broader commodity prices retreated. Brazil (−8.2%) was the principal drag, but the picture beneath it was more constructive: Mexico (+3.0%), Peru (+9.1%), and Colombia (+5.6%) all advanced, leaving Latin America ex-Brazil modestly positive for the quarter.

EMEA: The Energy Trade Inverts

Across EMEA, the energy relationship of the first quarter inverted. Emerging Europe, a region of net energy importers, was the standout, with the MSCI EM Europe Index up 13.0% as falling oil and fading conflict risk lifted Hungary (+33.4%), Greece (+20.5%), and Poland (+9.0%). Gulf exporters, conversely, gave back some of their first-quarter gains as crude fell: Saudi Arabia declined 3.9% and the broader EM Europe & Middle East region returned a muted +2.4%, though the UAE (+8.7%) and Egypt (+25.1%) were notable exceptions. South Africa lagged (−1.9%) as currency and inflation concerns offset firmer precious-metals prices.

Q2 2026 Performance by Country



Source: Bloomberg and MSCI as of June 30, 2026. The indices above reflect the following MSCI country index for each listed country in USD. 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.

DISCLOSURES

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[1] Note: The three WEO forecasts are constructed bottom-up from individual country projections before and after the outbreak of the Middle East conflict. The two scenarios are model-based top-down estimates. The adverse scenario assumes that oil (gas) prices increase by 80 (160) percent starting in 2026:Q2, relative to the January 2026 WEO *Update*, with the increase mostly unwinding in 2027, one-year-ahead inflation expectations increase by 50 (90) basis points in advanced economies (emerging markets excluding China), and corporate premiums rise by 50 (100) basis points in advanced economies plus China (emerging markets excluding China), while sovereign spreads in emerging markets excluding China increase by 50 basis points, with the tightening in financial conditions fading in 2027. The severe scenario is calibrated to larger and more persistent shocks. First, oil (gas) prices are assumed to be 100 (200) percent higher than the January 2026 WEO *Update*, starting in 2026:Q2 and staying at that level in 2027, while food commodity prices increase by 5 (10) percent in 2026 (2027). Second, one-year-ahead inflation expectations increase by 100 (130) basis points in advanced economies (emerging markets excluding China) by 2027. Third, corporate risk premiums rise by 100 (200) basis points in advanced economies plus China (emerging markets excluding China) in 2026–27, while sovereign spreads increase by 100 basis points in emerging markets excluding China over the same period. WEO = *World Economic Outlook*.