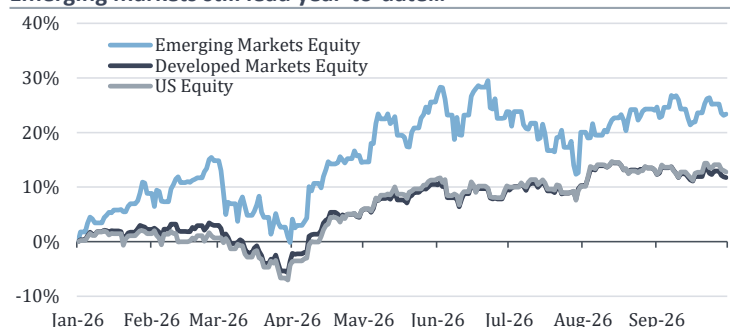


CALM ON THE SURFACE, TURBULENCE BENEATH

Emerging market equities ended the third quarter of 2026 roughly where they began it, but the flat headline return conceals a far more turbulent quarter than it suggests. The MSCI Emerging Markets Index returned -0.4% for the quarter, against +1.9% for developed markets and +2.3% for US equities, leaving the index up +23.4% year-to-date. The quarter also brought an end to a run of six consecutive quarters in which emerging markets outperformed developed markets, the longest such streak since the seven-quarter run of 2004–2006.

Monthly returns told a story of reversal rather than stability: emerging markets fell -3.1% in July, rebounded +3.4% in August, and slipped -0.6% in September. Three forces shaped the quarter, broadly in sequence: a sharp stress test of the artificial intelligence trade in July, the return of the oil shock as the conflict in the Middle East reignited, and a hawkish turn by the US Federal Reserve that culminated in its first rate hike in more than three years. Volatility reflected the strain as 60-day volatility in emerging market equities climbed above its April peak in August to its highest level since 2020, before easing into quarter-end. Beneath a near-unchanged index, leadership rotated decisively, away from the momentum and growth names that powered the first half of the year and toward value, income, and many other markets left behind in the second quarter.

Emerging markets still lead year-to-date...



...but ended a six-quarter streak of outperformance



Source: Bloomberg and MSCI as of September 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.

ARTIFICIAL INTELLIGENCE: THE TRADE GETS STRESS-TESTED

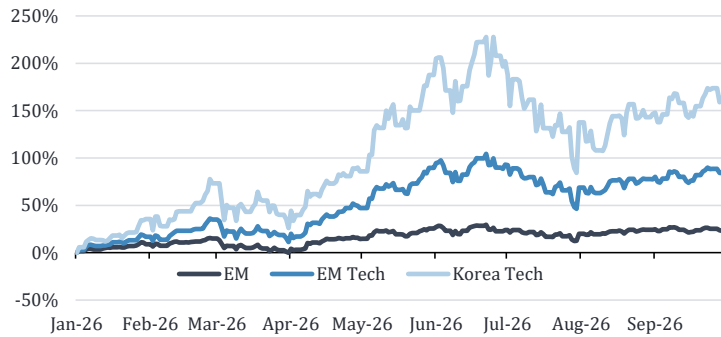
For most of the past year, artificial intelligence has been a key theme driving emerging markets equities higher. But in July, it was main source of volatility. Emerging market technology stocks fell -12.6% in the month, and Korea, the market most exposed to the memory-chip cycle, fell -17.1% in US dollar terms, with Samsung Electronics and SK Hynix each down more than -20%. Several concerns converged: signs of China's progress in domestic memory chip production, which revived fears of future capacity competition; growing scrutiny of the debt being used to fund AI infrastructure; and, above all, overcrowded positioning. In Korea, sixteen single-stock leveraged ETFs on Samsung and SK Hynix, launched in late May near the market's peak, had to sell into every decline to restore their leverage, creating a self-reinforcing loop even as semiconductor exports and earnings estimates continued to rise. After the second quarter in which the momentum factor gained nearly +65%, the unwind was abrupt. The sell-off was not indiscriminate. It fell hardest on memory stocks, where concerns about future supply and crowded positioning were most acute, while leading-edge logic held up comparatively well. Taiwan, anchored by TSMC, finished the quarter up +4.8%, while Korea declined -9.6%.

A second, more unusual test arrived in mid-September. On September 14, technology stocks sold off globally after several leading AI developers publicly endorsed slowing the development of the most advanced AI models, raising the question of whether investment in computing capacity might grow more slowly than expected. Emerging markets felt it mainly through Korean memory names. It was a notable moment, in which the perceived existential risks of AI itself, rather than its economics, briefly moved markets. Yet investors treated the episode as a shock to sentiment rather than a change in the demand outlook for the hardware emerging markets supply, and it proved short-lived: the Korean market still finished September up +3.0%.

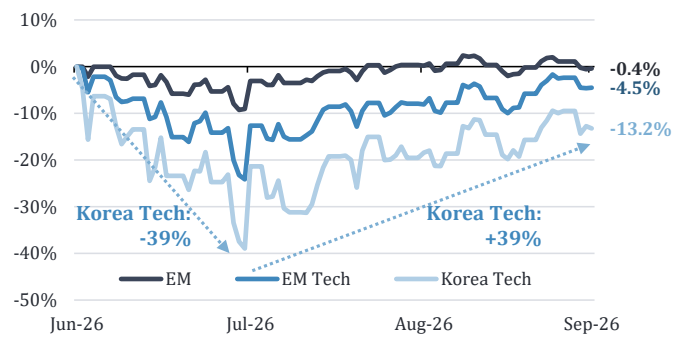


Indeed, emerging market technology stocks regained much of their footing throughout August and September, finishing the quarter down just -4.5% after falling as much as -24% at the low, and remain up +84% year-to-date. July reset valuations and cleared out much of the excess positioning, but it did not change the underlying story: demand for AI hardware continues to outpace supply.

After leading performance for in 2026



...EM technology, especially in Korea, struggles in Q3 2026



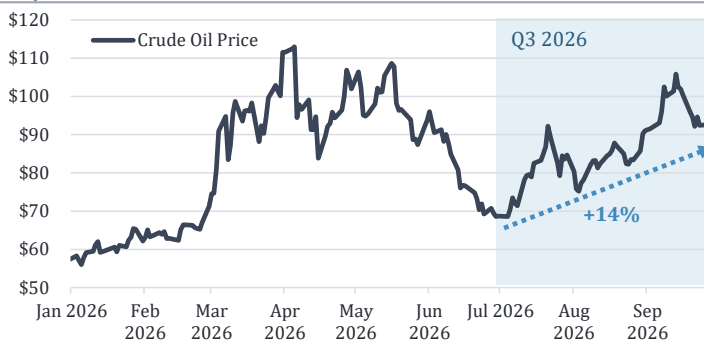
Source: Bloomberg and MSCI as of September 30, 2026. The indices above reflect the following indices: MSCI Emerging Markets Index (USD) (ticker: NDUEEGF), MSCI Emerging Markets Technology Index (USD) (ticker: GDUFIT), MSCI Korea Technology Index (USD) (ticker: M2KROIT). Past returns are not a guarantee of future results. Graphs are presented for illustration purposes only and should not be relied on to make an investment decision.

GEOPOLITICS: THE OIL SHOCK RETURNS

If AI dominated the first half of the quarter, geopolitics and rates dominated the second. Last quarter we described a fragile peace, with oil retreating below \$70 as a ceasefire framework took shape. That peace did not hold. Brent climbed back above \$100 by late July, traded between roughly \$87 and \$97 through August, and spiked again in early September as renewed attacks on shipping and energy infrastructure reversed earlier gains. In the final days of the quarter, the United States rejected an Iranian proposal to reopen the Strait of Hormuz, and Brent oil finished September up roughly +14% for the month.

The renewed shock reordered the market leadership along familiar lines. Energy was among the best-performing sectors, returning +10.8% for the third quarter, and commodity exporters such as Brazil and Colombia rallied, while energy importers came under pressure: India fell -5.6%, and the Philippines and Thailand each declined around -5%. Unlike in the first quarter, when the outbreak of the conflict drove a broad sell-off, investors this time drew sharper distinctions, rewarding oil exporters and penalizing importers rather than retreating from emerging markets as a whole. Analysts have nonetheless raised their oil forecasts as hopes for a quick normalization of shipping through the Strait have faded.

Oil price shocks return in Q3 2026



US dollar weakness as US yields rise



Source: Bloomberg as of September 30, 2026. The indices above reflect the following indices: Crude Oil (ticker: CL1 COMB Comdty), US dollar (ticker: DXY). 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 FED TURNS HAWKISH

Higher oil price fed into the inflation outlook, and the Federal Reserve responded. The rate hike that some officials had floated last quarter became reality. After three members dissented in favor of a hike in July, the Federal Open Market Committee voted unanimously on September 16 to raise rates by a quarter point to 3.75%–4.0%, its first increase since July 2023, and signaled a possible further hike before year-end.



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The effects were felt mostly in September. The dollar, which had weakened through July and August, rose 2.0% as Treasury yields climbed, and most emerging market currencies fell, led by those most sensitive to global rates: the Mexican peso (-5.3%), Chilean peso (-4.0%), and Polish zloty (-2.9%). The Korean won was the notable exception, rising +14.5% over the quarter on domestic factors.

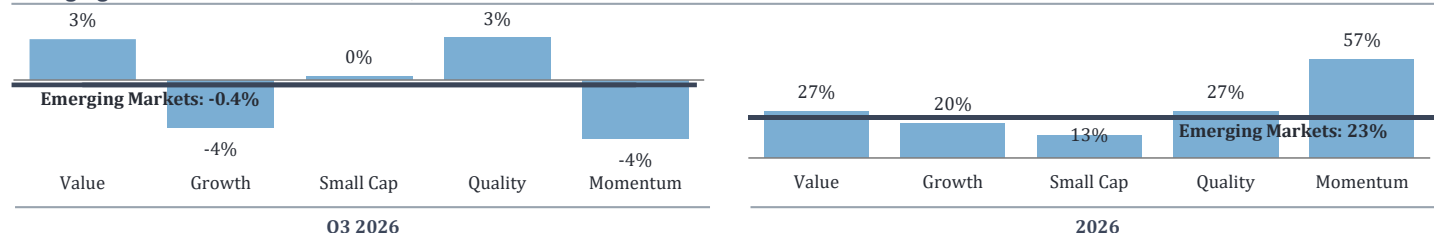
Equities followed the same fault line. Higher-yielding and oil-importing markets fell sharply in September, led by Egypt (-11.3%), Turkey (-8.9%), South Africa (-8.9%), and India (-6.9%), while Taiwan and Korea, cushioned by the AI recovery, rose. The effects of rates and oil are hard to separate, as both weighed on the same markets.

A ROTATION BENEATH THE SURFACE

Taken together, these forces produced a quarter that was close to a mirror image of the second quarter. Where the prior quarter rewarded momentum, growth, and the AI complex, the third rewarded value and the sectors that had been left behind. The momentum factor, which gained +64.8% in the second quarter, fell -15.2% in July alone before recovering to finish the quarter down -4.4%. Value returned +3.1% over the three-month period, while quality (+3.2%) also outperformed.

The sectoral picture told a similar story. Healthcare led (+13.6%), followed by energy (+10.8%), materials (+6.5%), and financials (+6.5%), while industrials (-6.2%), technology (-4.5%), and communication services (-2.3%) lagged. Breadth remained narrow, with the equal-weighted index returning -2.2% against -0.4% for the cap-weighted benchmark, but far less so than earlier in the year. Small caps were roughly flat (+0.2%) for the quarter, with most gains in Korea and India offsetting other larger Asian markets, Latam and EMEA.

Emerging Markets Factor Reversal in Q3 2026



Source: Bloomberg and MSCI as of September 30, 2026. 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: Leadership Rotates

Asia declined -1.1% as money moved away from the region's crowded winners and toward what had been overlooked. Korea bore the brunt, suffering its worst month since the global financial crisis in July and finishing the quarter down -9.6%, with the damage concentrated in the crowded growth and momentum names that had led the rally. Taiwan proved more resilient (+4.8%), with TSMC holding steady through July while Korea's memory makers sold off, and China was the main beneficiary of the rotation, rallying +9.0% in July as investors sought less crowded markets and finishing the quarter up +3.7%. India (-5.6%) was the market most exposed to the quarter's macro headwinds, as higher oil, rising US yields, and a weaker rupee weighed on stocks. Elsewhere, Indonesia rebounded +2.8% but remains down nearly -40% year-to-date ahead of an MSCI classification review in November.

Latin America: Oil and Politics Lead

Latin America rose +3.9%, with the quarter's macro forces pulling the region in opposite directions. Brazil led, rising +8.2% and reversing its second-quarter decline as energy stocks gained +31.5% on higher oil. Its stocks also swung with poll headlines as October's presidential election approached. Colombia (+17.2%) and Peru (+5.6%) extended their post-election rallies as both new governments signaled early that their market-friendly agendas would translate into policy. Markets more sensitive to US rates and the dollar came under pressure instead, as Mexico (-5.0%) and Chile (-5.3%) fell sharply in September alongside their currencies, leaving Latin America ex-Brazil down -2.3% for the quarter.

EMEA: Europe Leads Again

The EM Europe & Middle East markets rose +2.9%, as domestic strength in Central Europe outweighed the conflict's toll on the Gulf and on the region's energy importers. Poland (+17.2%) and Greece (+15.4%) led, with Poland's benchmark reaching record highs as foreign investors were drawn by improving earnings and a robust economy. In the Gulf, higher energy prices offered



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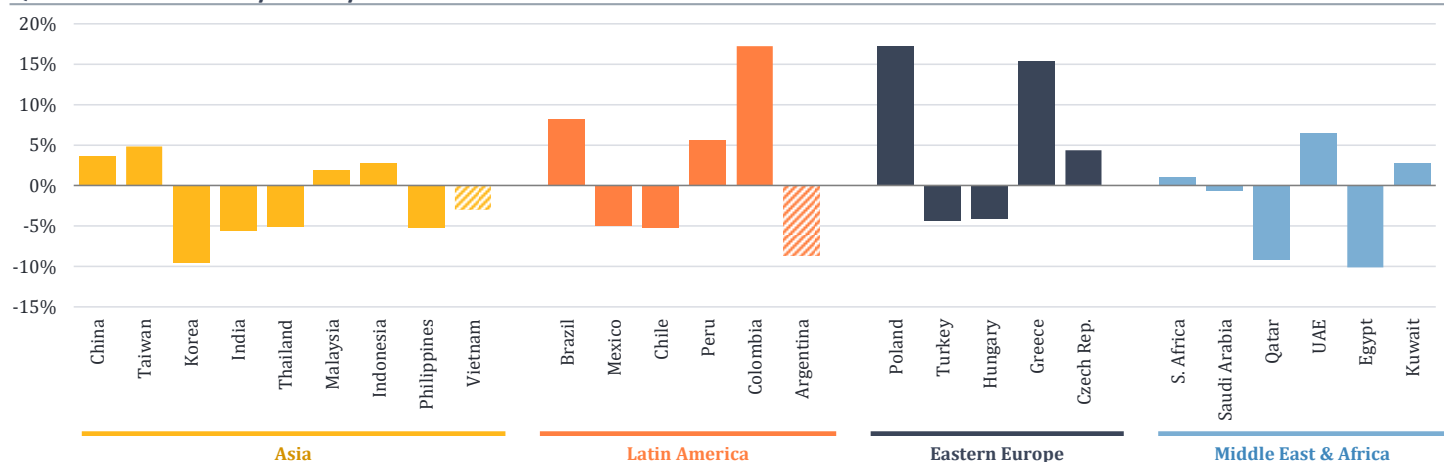
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little support where exports depend on the Strait of Hormuz: Qatar fell -9.2% as its LNG shipments remained suspended, while Saudi Arabia slipped -0.6% and the UAE proved more resilient (+6.5%). Energy importers struggled as their currencies weakened, with Egypt down -10.1% and Turkey down -4.4%. South Africa rose a modest -1.1%, as a sharp August rally in precious metals miners partly reversed in September.

Q3 2026 Performance by Country



Source: Bloomberg and MSCI as of September 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.

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