

Emerging Markets Outlook 2026

2025 was the year when Emerging Markets (EM) stirred from their long slumber and began to deliver on the potential of their economic and industrial prowess. The MSCI EM Index has risen by almost 30%, which compares favourably with the 20% gain of the MSCI All Country World Index.

The question is whether this marks a one-year wonder or an inflection point in EM fortunes.

At the macro level, as U.S. interest rates decline and the U.S. dollar weakens, emerging market central banks can adopt a looser monetary policy without jeopardising their currencies, provided inflation is under control. Almost all emerging market countries are large importers of oil, and while the oil price remains subdued, the opportunity to adopt more accommodative monetary policy is considerable. This points to a significant investor shift towards emerging markets, primarily driven by opportunities at various stages of consumption for over half the world's population, ranging from eCommerce businesses offering quick delivery to busier households, through to service and product offerings that improve lifestyles.

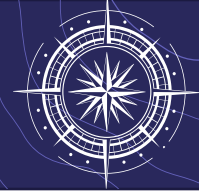
While the returns this year have been excellent, they have also been sector specific. The global enthusiasm for AI, alongside investment in computing and technology across the supply chain, has supported returns in Korea and Taiwan. Both countries are dominated by the technology sector, with IT index weights of 50% and 80%, respectively. Taiwan Semiconductor remains by far the largest company in the MSCI EM Index, returning over 35% this year, while Samsung Electronics and SK Hynix in Korea have delivered over 100% and 200% returns, respectively. All three companies were held by the portfolio and contributed handsomely.

In February, Chinese technology company DeepSeek revealed an alternative to U.S. AI dominance at a markedly lower cost. This encouraged a reassessment of China's technology industries and challenged the view that they lagged their international peers. President Xi's meeting with many of the Chinese technology titans in February, and especially Alibaba's Jack Ma, signalled government approval and support for the industry.

Our interest in technology remains company specific. Looking ahead to 2026, we expect the outlook to remain encouraging, but our focus is on companies monetising goods and services beneath the AI headlines. Tencent is the largest listed company in China, and its AI development has improved the advertising and targeting of consumer services across its one billion daily WeChat app customer base, supporting revenue and margin growth.

Conversely, the property sector in China remains moribund and has weighed heavily on consumer sentiment, reflected in modest retail sales growth. There is little evidence of a recovery in consumption at present, although travel within Asia and domestically is improving and supports selective investment opportunities amongst hotel groups and leading travel agents. Other areas of the portfolio's exposure to China will be weighted towards cash rich, asset light businesses, many in the eCommerce sector offering affordable or necessary products.

The Korean Corporate 'Value Up' programme gained momentum this year as the newly elected Democratic Party government reiterated the policy's ambitions. The aim is to encourage companies to improve corporate governance and increase shareholder returns.



Our discussions with management teams indicate a greater willingness to address suitable profit metrics, performance targets and the valuation discount. The complex structures of larger companies such as Samsung could be simplified, enabling clearer capital allocation and meriting higher valuations.

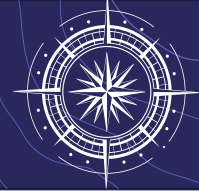
India has been a dilemma for investors this year. Inflation remains subdued, interest rates have fallen, and the economy continues to benefit from the Modi government's reforms. But these advantages have been overshadowed by the enthusiasm for technology and 'cheaper' markets elsewhere. India has traded at a premium for the past decade, supported by Modi's programmes of reform and justified by corporate returns and stellar economic growth. GDP expanded by over 8% in the second quarter, again beating expectations, and inflation is near historic lows.

There is scope for the Reserve Bank of India to cut interest rates, and the Goods and Services Tax (GST) reforms in September reduced the tax rate across a range of consumer goods categories. This will reduce costs to the consumer and support domestic business, particularly in the small and medium-sized segment. Bajaj Finance, India's largest consumer finance company, is expected to benefit from increased consumer demand, increasingly supported and assessed through AI adoption. Almost half of loan applications are now screened by the company's AI-developed models, and all of its marketing video campaigns are AI-generated.

India has been a very lucrative market for our portfolio since Prime Minister Modi was first elected in 2014. The scale of opportunity remains compelling, and the country is the most exciting long-term investment opportunity in our universe. The scope is wide ranging and reaches across healthcare, financial services, vehicle ownership and the rapid adoption of eCommerce.

Latin America continues to offer company specific opportunities which address the needs and aspirations of over 600 million people. There has been a definite shift in the politics of the region following the election of President Milei of Argentina in 2023. Chile has recently elected the centre-right candidate José Antonio Kast, and Brazil will hold elections next October. If the centre-right parties can select a credible candidate, the country may see a change of government, a more disciplined fiscal programme and a renewed focus on job creation. In addition, while the central bank has exercised strict control to keep inflation below 5%, interest rates remain elevated at 15% and clearly have scope to decline. Financial inclusion has grown significantly in recent years with the development of fintech businesses such as Nubank. Lower borrowing costs would support local business, and rising incomes would support spending across industries such as eCommerce and retail.

Emerging Markets can deliver again in 2026. Political leadership, economic growth and rising incomes should encourage both consumer spending and business investment. As for Consumer optimism? Next summer's expanded World Cup, with broad participation from emerging and frontier nations, will be a timely indication of the scale and dynamism of EM consumer markets!



Biography

John Ewart | Investment Manager



John is a Director of Aubrey, and Investment Manager of the Global Emerging Markets Strategy. He joined the firm in 2012.

John is a graduate of the University of Strathclyde, with a BA in Economics and, additionally, is a member of the CFA Institute.

John has over 30 years' investment industry experience across global equity markets. He joined Glasgow-based FS Assurance in 1988, and managed equity portfolios in the UK retail and pension fund market. He then moved to First State Investments in 2000 to manage retail and segregated European client portfolios. In 2004, he moved to Alliance Trust PLC and was a member of the Global Equity Team and subsequently responsible for the Global Emerging Markets portfolio.

Andrew Dalyrmple | Founder & Investment Manager



Andrew is Founder, Director and CIO at Aubrey, as well as being lead Investment Manager of the Global Emerging Markets and Global Equity strategies.

A graduate of Cambridge University, he began his career at Cazenove & Co then joined James Capel in 1987 and was transferred to James Capel (Far East) in Hong Kong in 1991. He continued in his role as an Asian specialist working with UBS Warburg from 1992-1998 in Hong Kong.

Andrew joined Stewart Ivory in 1998. In 1999 he established the First State Global Opportunities Fund, which remained his signature fund throughout his tenure at First State Investments. Since inception (August 1999) through June 2006 the fund rose 112.2% compared to a rise of 3.8% in the MSCI World Index. The Fund was top quartile over 1, 2, 3, 4, 5 years and since inception.



Further Reading

If you would like to read further articles, please select the following link - [Aubrey Research](#)

If you would like to receive more articles like this, [sign up to the Aubrey mailing list now](#).

Important Information

This is a marketing communication issued by Aubrey Capital Management Limited, which is authorised and regulated by the Financial Conduct Authority and registered as an Investment Adviser with the US Securities & Exchange Commission. You should be aware that the regulatory regime applicable in the UK may well be different in your home jurisdiction. Aubrey Capital Management has taken reasonable care to ensure the accuracy of this information at the time of publication but it is subject to change without notice and it does not in any way constitute investment advice or an offer or invitation to deal in securities. The Fund is not registered for sale in the United States and is not available to, or for the benefit of, U.S. persons as defined by U.S. securities laws.

Past performance is not a guide to future returns and may not be repeated. Aubrey Capital Management Limited accepts no liability or responsibility whatsoever for any consequential loss of any kind arising out of the use of this document or any part of its contents.

The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com).