

# Emerging Markets Outlook

A reflection of recent resilience,  
growth, and momentum for  
the first half of 2026

LAZARD  
ASSET MANAGEMENT

# Executive Summary

As 2026 begins to take shape, we believe emerging markets (EM) continue to be supported by a combination of firmer fundamentals, improving stability, and valuations that remain comparatively favorable by historical standards. The outlook for the asset class appears more constructive, reflecting both cyclical improvements and longer-term structural shifts taking shape across EM.

Here's what we expect to see:

- EM equities are expected to outpace most developed markets (DM), driven largely by semiconductor-related demand and technology-oriented sectors.
- EM debt may benefit from strong fundamentals along with high real yields, improving credit trends, and supportive technicals—which would make local currency bonds particularly attractive.
- Despite uncertain US trade policy and geopolitical tensions, in our view, EM economies overall appear ready to navigate the coming months with moderate, broad-based stability.

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## Global Macroeconomic Context: EM Stability amid Crosscurrents

Emerging markets entered 2026 on comparatively solid macroeconomic footing, despite an unsettled global environment. Events that shaped the world in 2025—US trade policies, shifts in immigration flows, geopolitical tensions, and an uneven global industrial recovery—remain important in 2026. Yet EM economies overall weathered these forces with stronger results than expected: the MSCI Emerging Markets Index delivered a total return of 33.6% in 2025, outpacing both the S&P 500 Index (17.9%) and the MSCI World Index (21.6%).

Global investors spent much of 2025 adjusting to new supply chain frictions introduced by US trade and immigration policy changes. While higher tariffs increased input costs for some EM exporters, global demand for technology hardware, semiconductors, and energy-related goods allowed several EM regions to outperform expectations.

Markets were also supported by optimism surrounding artificial intelligence (AI). Late 2025 saw continued momentum from data center construction, demand for advanced processors, and the broader build-out of AI infrastructure globally. This dynamic was especially beneficial for North Asian markets with high exposure to semiconductor manufacturing, memory, and AI-related hardware.

In 2026, we believe the global macroeconomic picture is likely to show gradual normalization. Developed markets are likely to continue to grow below long-run trend. Some policy influences—notably elevated US tariffs—may temporarily keep US inflation firmer in early 2026, but most EM countries remain on a disinflation path. Fiscal stances across DM remain expansionary, while EMs generally maintain more conservative and flexible positions.

Against this backdrop, EM economies tended to adapt, helped by structural reforms, early monetary tightening, and diversified export bases.

## Steady EM Growth despite Regional Differences

Aggregate EM economic growth for 2026 is expected to remain near 4%, reflecting both the resilience of large EM economies and strong export performance from select markets benefiting from global technology demand.<sup>1</sup>

Below this relatively stable headline, cross-country divergence remains significant. In our opinion, growth is likely to slow modestly in some of the largest EMs—particularly China, India, and Brazil—while others are likely to rebound after a difficult 2025.

Our key country and regional observations include:<sup>2</sup>

- **China** GDP is forecast to grow just under 5%, slightly slower than in 2025, as housing continues to drag on domestic demand while exports remain the principal engine of activity.
- **India** GDP is likely to moderate from above 7% in 2025 to roughly 6.4% in 2026, still among the highest growth rates globally.
- **ASEAN economies**—especially Vietnam, Malaysia, Indonesia, and the Philippines—have benefited from supply chain diversification and domestic demand resilience, which we think is likely to continue. Vietnam and Malaysia are particularly exposed to global electronics cycles. Indonesia and the Philippines rely more on consumption and public investment.
- **Brazil** is expected to slow to less than 2% as financial conditions and domestic demand normalize in an election year.
- **Mexico** has the potential to rebound from near stagnation in 2025 to roughly 1.5% growth in 2026, supported by US supply chain shifts and stabilizing domestic activity in a year where the US-Mexico-Canada Agreement is renegotiated.
- **South Africa** shows signs of improvement due to stabilizing energy availability, easing bond yields, and early progress on structural reforms. The trade backdrop is supported by relatively strong precious metals markets.

In our opinion, one of the most notable trends across emerging markets in 2025 was the steady easing of inflation.

- **Central and Eastern Europe** are positioned to benefit from rising defense spending and supportive European Union fiscal policy. Countries such as Poland and Greece should continue to see benefits from structural funding flows and domestic demand recovery.
- **Select MENA** markets continue to emphasize capital market reform and improved governance practices. We see strong fiscal positions and investment in technology and infrastructure reinforce medium-term stability.

The resilience of the aggregate EM growth outlook reflects stronger external accounts, diversified export structures, and robust macro policy frameworks.

## Disinflation May Continue, Creating Policy Flexibility

In our opinion, one of the most notable trends across emerging markets in 2025 was the steady easing of inflation. By late 2025, EM ex-China inflation had slowed from 8.2% year over year (y-o-y) in early 2024 to around 6.1%. China's inflation remained near zero, reflecting persistent domestic demand softness and ongoing goods disinflation.

We think several forces, in particular, contributed to the inflation slowdown:

- Moderation in energy and, in many regions, food prices;
- The fading of pandemic-related supply chain disruptions;
- Output gaps in several large EM economies;
- Currency appreciation against the US dollar.

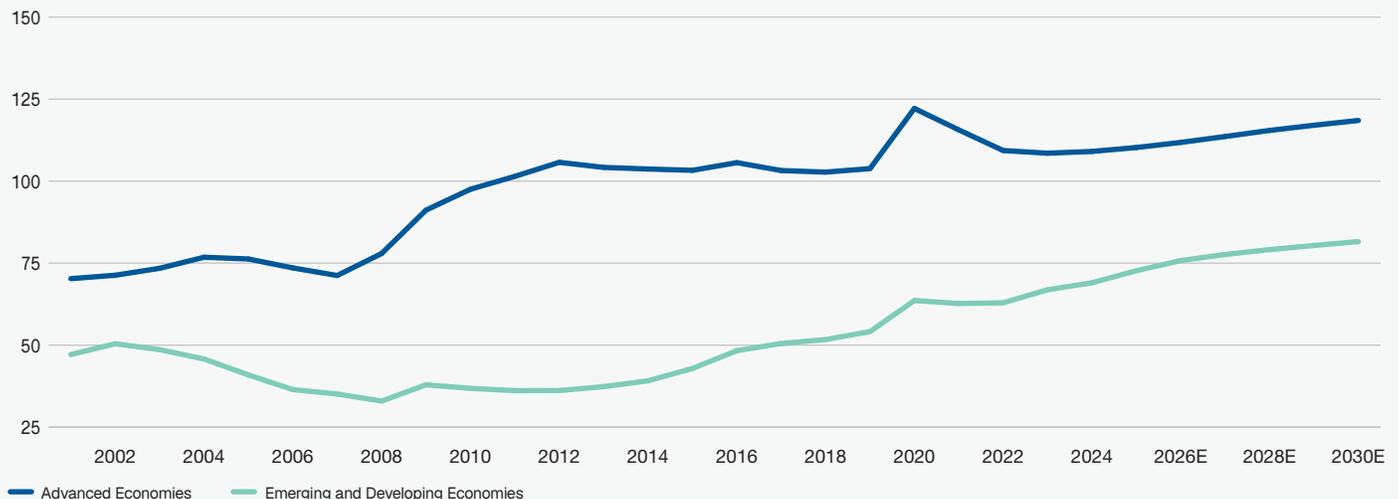
In 2026, inflation is expected to continue trending down,<sup>3</sup> albeit more unevenly across regions. Many emerging markets retained space for selective monetary easing after tightening aggressively in 2021–2022. This stands in contrast to developed markets, where policy rates remain constrained by debt dynamics and the need to defend inflation-fighting credibility.

Importantly, fiscal flexibility is higher across EM relative to DM. Public-debt ratios in EM countries remain below those of developed markets (Exhibit 1) and, in many cases, have stabilized or declined. This gives policymakers room to support growth, if needed. While not all EMs share this strength—some still face financing challenges—the overall fiscal position across EM is stronger than in most DM peers.

Exhibit 1.

### Lower Public-Debt Ratios Are a Boon to Growth

General Government Gross Debt (% of GDP)



As of 15 October 2025. Source: Haver Analytics, International Monetary Fund.

Note: Gross debt comprises the stock (at year-end) of all government gross liabilities (both to residents and nonresidents). To avoid double counting, the data are based on a consolidated account (eliminating liabilities and assets between components of the government, such as budgetary units and social security funds). General government should reflect a consolidated account of central government plus state, provincial, or local governments. Debt data are not always comparable across countries.

## China: The Pivot toward Stability, Technology, and Exports

China remains central to our EM outlook: Because of its scale and economic mix, the country continues to shift in ways that influence global trade, Asian supply chains, and commodity demand trends.

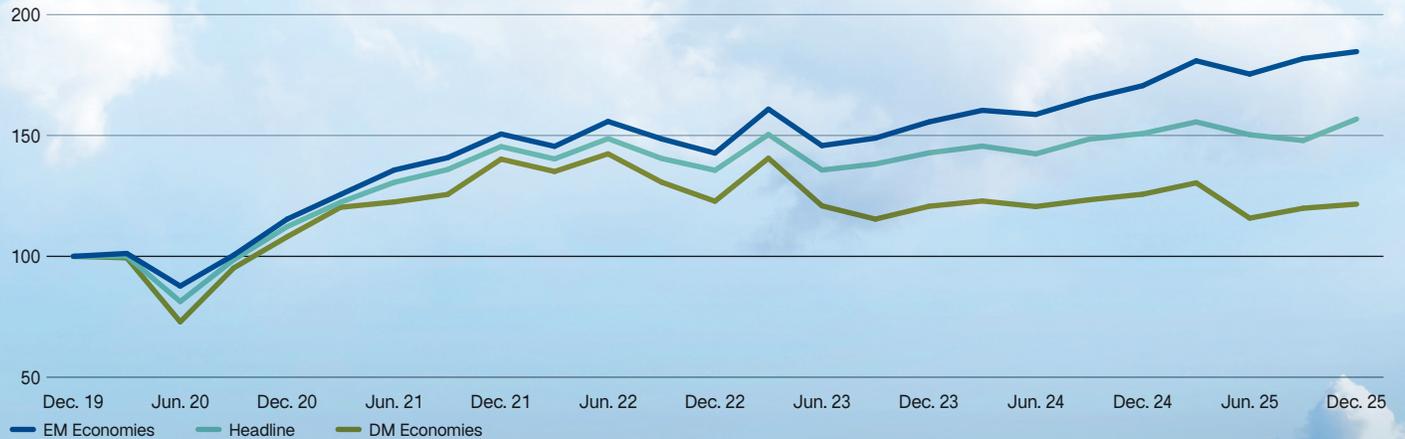
The country's new five-year plan places renewed emphasis on strategic sectors, self-reliance in advanced technologies, and reducing vulnerabilities associated with reliance on foreign suppliers. Fiscal and regulatory support is directed at high-tech manufacturing, renewable energy, and advanced electronics. We think this strategic pivot has the potential to fortify China's role in global value chains and help navigate geopolitical headwinds (Exhibit 2).

Exhibit 2.

### Strategic Growth: China's Place in the Global Value Chain

China: Exports to EM Economies vs. DM Economies

Index (2019 = 100)



As of 31 December 2025. Source: CEIC, Goldman Sachs Research, Haver Analytics. Nominal level of Chinese exports by destination (seasonally adjusted).

One of the most important structural forces shaping the 2026 EM outlook is, in our opinion, the global expansion of AI and AI-related capital expenditure.

The property market remains China's largest domestic drag. The multiyear downturn in housing weighs on consumption and investment. While housing sales and developer financing have shown tentative signs of stabilization, the sector is likely to stay a headwind for domestic demand in 2026. Policymakers have implemented targeted measures, but large-scale stimulus remains unlikely based on past comments over prioritizing financial stability and long-term sustainability.

The biggest positive surprise continues to be exports, in our opinion. China's goods exports grew strongly in 2024 and 2025 despite higher US tariffs. Real export growth is on track for around 8% in 2025 and drivers include economies of scale, cost competitiveness, expanding electric vehicle and battery exports, and rising global demand for technology hardware.

In 2026, China is expected to maintain solid—but slower—growth, with exports and advanced manufacturing remaining key pillars.

## AI Infrastructure and the Semiconductor Cycle: A Defining Time for EM?

One of the most important structural forces shaping the 2026 EM outlook is, in our opinion, the global expansion of AI and AI-related capital expenditure. This includes data center construction, high-performance computing, advanced semiconductor manufacturing, memory, networking equipment, and supporting supply chain ecosystems.

Arguably, we believe no EM region has benefited more from this transformation than North Asia. Here is a closer look at some of the country dynamics:

- **Taiwan** remains at the epicenter of advanced-node semiconductor manufacturing. TSMC's dominant position in leading-edge chip production attracts global AI and data center demand. Taiwan's exports expanded more than 50% y-o-y as of late 2025, setting the stage for stronger-than-expected GDP growth approaching 7%.
- **South Korea** benefits from rising demand for high-bandwidth memory, a crucial component in AI servers. As global AI workloads expand, memory intensity increases. This trend supports South Korea's leading memory manufacturers and is likely to contribute to strong earnings momentum. We see policy reforms aimed at improving corporate governance and increasing shareholder returns as additional structural tailwinds.
- **Malaysia and Vietnam** continue to integrate into the regional semiconductor and electronics supply chain. While neither economy has the scale of Taiwan or South Korea, both have become important nodes in testing, packaging, and midstream electronics manufacturing. We believe their roles are poised to expand as multinational firms diversify production locations.
- **China's** AI ecosystem continues to deepen, with substantial investment in both domestic hardware and local foundation models. Memory independence has become a strategic priority, with government-backed investment supporting long-term scaling. Domestic demand for AI-related semiconductors is strong, although constraints related to export controls continue to shape product availability. The US government recently approved a constrained set of NVIDIA AI chips for sale into China, reviving limited commercial access while keeping performance restrictions intact.

These AI-driven growth opportunities have contributed to rising index concentration within EM equity benchmarks. The top ten companies now constitute about one-third of the MSCI Emerging Markets Index weight, with TSMC alone accounting for more than 12%. This concentration reflects both the scale of these companies and the structural forces driving global technology demand.

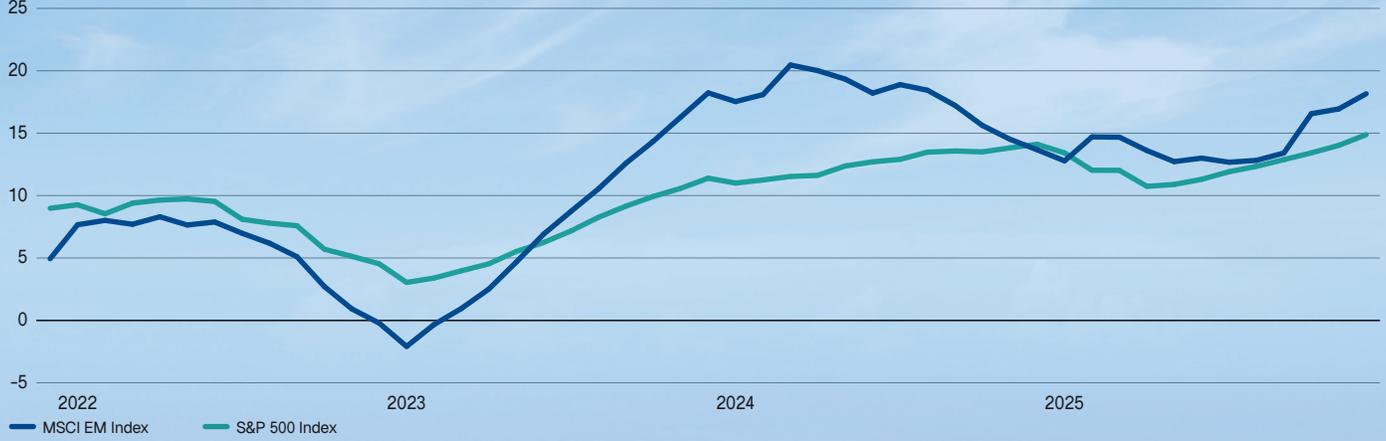
## Earnings Outlook: EM's Growth Premium Could Persist

Earnings expectations remain a bright spot for emerging markets. Consensus forecasts anticipate about 17% earnings growth for EM equities in 2026, an improvement from 2025's estimated 12%–14%. These forecasts remain above those for most major DM regions (Exhibit 3).

Exhibit 3.

### EM Earnings Expectations Outpace DM

EPS Growth NTM (%)



As of 31 December 2025. Source: Lazard, MSCI, S&P.

The composition of earnings growth illustrates several important themes:

- North Asia—particularly South Korea and Taiwan—is in position to contribute to a large share of growth due to semiconductor and AI-related demand.
- China’s technology and industrial sectors show solid earnings resilience, even as domestic demand remains subdued.
- India and parts of Latin America are likely to benefit from improving domestic demand, financial sector earnings, and structural reforms.
- Commodity-linked earnings in South Africa and some Middle Eastern markets can potentially benefit from supportive terms of trade.

Revision trends have remained broadly positive through 2025, underlining the durability of the earnings cycle.

## Emerging Markets Debt (EMD): Structural Tailwinds Support Local Bonds

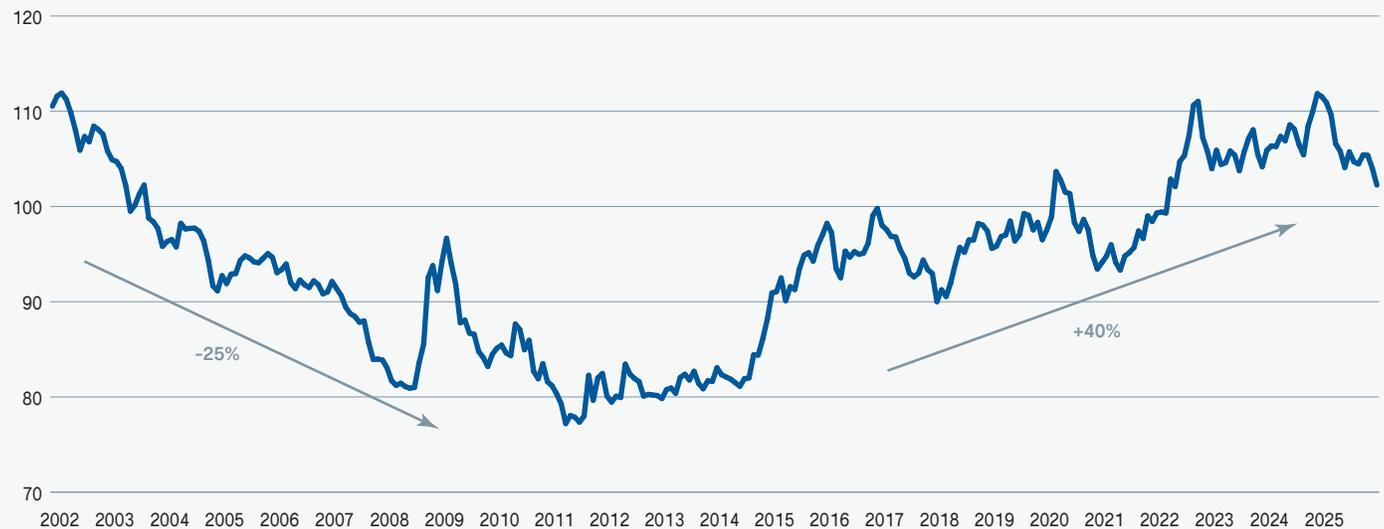
We see potential opportunities across the EMD capital structure, with local debt particularly attractive in the current environment. Emerging markets real yields remain near their long-term highs, the US dollar real effective exchange rate remains elevated notwithstanding the pullback last year, and EM currency appreciation lagged developed markets in 2025 (Exhibit 4).

From a technical standpoint, although flows have recently begun to return to EMD, investor positioning remains light following significant outflows from the asset class from 2022 to 2024. Credible monetary and fiscal policies remain in place and attractive reform stories in frontier countries such as Egypt, Turkey, Kazakhstan, and Nigeria can potentially offer attractive opportunities, in our view. Importantly, EM fundamentals have also been on an improving trend with current accounts near balance and foreign reserves near historic highs.

Exhibit 4.

### USD REER Trades in Long Cycles: Expect the Lower USD Trend to Continue

CTTWBRUS Index



As of 31 December 2025. Source: Bloomberg, Citi.

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## Notes

1. International Monetary Fund, World Bank, 19 January 2026.
2. International Monetary Fund, World Bank, 19 January 2026.
3. International Monetary Fund, 15 October 2025.

Published on 17 February 2026.

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An investment in bonds carries risk. If interest rates rise, bond prices usually decline. The longer a bond's maturity, the greater the impact a change in interest rates can have on its price. If you do not hold a bond until maturity, you may experience a gain or loss when you sell. Bonds also carry the risk of default, which is the risk that the issuer is unable to make further income and principal payments.

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The S&P 500 Index is a market capitalization-weighted index of 500 companies in leading industries of the US economy.

The MSCI China Index is constructed based on the integrated China equity universe included in the MSCI Emerging Markets Index, providing a standardized

definition of the China equity opportunity set. The index aims to represent the performance of large- and mid-cap segments with H shares, B shares, red chips, P chips and foreign listings (e.g., ADRs) of Chinese stocks.

The MSCI Emerging Markets Index is a free-float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The MSCI Emerging Markets Index consists of emerging markets country indices including: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates.

The indices are unmanaged and have no fees. One cannot invest directly in an index.

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