TIC Asset Management

Emerging Markets in 2026: The End of a Bloc

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For decades, investing in emerging markets meant buying exposure to a set of economies with accelerated growth, attractive valuations, and elevated political risk. The MSCI Emerging Markets Index, the reference benchmark covering 24 countries and roughly 85% of stock market capitalisation in each, consolidated that view. The index delivered a return of 52.75% over the past year in dollar terms, with years surpassing 40% and others falling 30%, a figure that illustrates both the current appetite for these markets and the volatility that defines them. [1] China, India, Taiwan, Brazil: all grouped within the same index, treated with the same logic.

In 2026, this reading has become not merely simplistic, but potentially misleading. Behind an impressive headline figure lies a far more fragmented reality. To understand it, it is worth examining two criteria that, this year, separate the emerging markets in a decisive way: each economy's position in the global value chain, and the engine powering its growth.

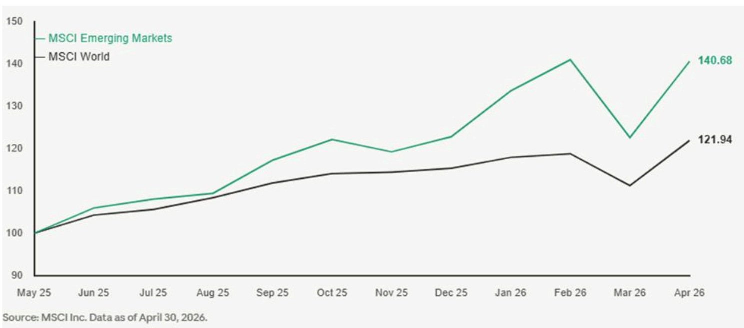

Figure 1 - Cumulative Index Performance, Net Returns (USD)

Position in the Global Value Chain

The first criterion is about structural power. There are countries whose role in the global economy makes them virtually irreplaceable, and others whose competitive advantage is more fragile and contingent.

Taiwan is perhaps the clearest example of the first group. TSMC is the sole global producer of advanced semiconductors at scale, accounting on its own for roughly 12% of the MSCI EM. [2] Without Taiwan, the global artificial intelligence infrastructure simply does not function, which inverts the usual dependency relationship: it is not Taiwan that needs the world, it is the world that needs Taiwan. South Korea shares this same logic. Samsung and SK Hynix together control around 80% of the High Bandwidth Memory market, the central component of artificial intelligence computing clusters, giving them an equally difficult position to circumvent. [3] That said, the recent growth of both economies rests almost entirely on the artificial intelligence boom, a risk that passive investors implicitly take on.

Indonesia represents a different case, but one equally compelling. The country holds strategic nickel reserves, essential for electric vehicle batteries, and rather than exporting the raw material, it required manufacturers to build industrial infrastructure locally. [4] Companies such as CATL and LG Energy Solution had no alternative: either they invested in Indonesia, or they lost access to one of the world's largest reserves.

The result is a country that has positioned itself as a central player in the global energy transition, not by accident, but through deliberate policy choice. The thesis holds, but the Indonesian market is today threatened by a governance problem: MSCI has warned it may downgrade the country to "frontier market" status due to lack of transparency, which could trigger outflows of more than $13 billion, [5] with a final MSCI decision scheduled for June 2026. [6]

At the opposite extreme sits Mexico. The country benefits from the nearshoring trend, with companies relocating production from China closer to the United States, but this advantage is contingent and dependent on the continuation of trade relations with Washington. The difference relative to Taiwan or Indonesia is not one of degree, but of nature: one is a position of structural power, the other is a position that can be renegotiated.

Growth Engine

The second criterion separates economies that grow from the inside out from those that depend on external factors to sustain their momentum. This distinction proves quite revealing when thinking about resilience.

India is arguably the most paradigmatic case of endogenous growth. With GDP growing at 6.4% in 2026, what distinguishes this performance is not so much the figure itself, but its source: a young population, rapid urbanisation, an expanding middle class, and long-term infrastructure reforms. [7] In January 2026, India and the European Union concluded the largest free trade agreement ever signed by either side, creating a free trade zone of two billion people [8], a clear signal of strategic repositioning at a time when global trade alliances are being reconfigured. Short-term reality tells a different story, however: the Sensex is down -10.8% YTD, pressured by crude above $100 and persistent foreign capital outflows. [9]

India is the world's third largest oil importer, and the Middle East crisis has exposed a vulnerability that domestic fundamentals alone cannot absorb. The structural thesis remains valid, but in the short term it is a high-risk asset.

South Korea and Taiwan, despite their privileged position under the first criterion, display a notable vulnerability here. Both economies are heavily exposed to the global technology and artificial intelligence cycle, and both import around 95% of their energy, largely from the Middle East. [10] The Strait of Hormuz crisis made this fragility concrete, squeezing production costs for two of the most relevant players in the entire index.

Brazil is perhaps the most interesting case under this criterion, precisely because it combines elements from both sides. The economy benefits from a favourable commodity cycle, with oil, soybeans, and iron ore trading at elevated prices, and exhibits a low correlation with the S&P 500 and the dollar, giving it genuine value as a portfolio diversifier in an environment of growing geopolitical uncertainty. At the same time, domestic growth has real foundations: a vast internal market, a sizeable middle class, and natural resources that fuel both exports and local industry. What constrains Brazil is not a lack of fundamentals, but the persistence of fiscal weaknesses and a political uncertainty that markets monitor closely. It is an economy that has the conditions to surprise, but has yet to decide when.

China: The Hardest Economy to Read

No analysis of emerging markets in 2026 is complete without addressing China, which accounts for more than 25% of the MSCI EM. Any passive exposure to the index is, by definition, an implicit bet on its performance.

What makes China particularly difficult to read is the coexistence of two opposing realities within the same economy. On one hand, the country has emerged as the only serious global competitor to the United States in the race for artificial intelligence.

DeepSeek launched in 2025 a model with capabilities comparable to the best American models, allegedly at a fraction of the usual cost, and in April 2026 unveiled a new version trained on domestic chips, further reducing dependence on Western hardware. According to the Stanford AI Index 2026, Chinese companies have effectively closed the performance gap with their rivals. [11] China is not merely a technology follower: it is a frontier producer.

On the other hand, and this is where the narrative grows complicated, the domestic economy is mired in a deflationary spiral of historic proportions. The property market is in its fifth consecutive year of decline, with around 80 million units unsold or vacant, and an estimated 85% of gains accumulated since 2021 have evaporated. [12] The consequence is a cycle that is difficult to break: households saving rather than spending, companies cutting prices and wages to survive, demand contracting further. With the Party Congress in 2027, it is unlikely that Beijing will prioritise deep structural reforms in the near term. [13]

Investing in China in 2026 therefore requires a clear distinction between technological China, with a robust and genuinely global growth thesis, and the domestic economy, which remains structurally fragile. Treating the two as one is, in all likelihood, the most common mistake made by those looking at this market.

What the Index Does Not Say

In a context where the dollar is losing part of its role as a global anchor and capital flows are seeking alternatives, emerging markets gain relevance.

But the right question is no longer whether to invest in these markets. It is to recognise that each emerging country tells a different story, and that reading those stories rigorously is, today, the true starting point.

That reading requires two practical filters: understanding whether the market is genuinely accessible, whether there is freedom of capital, regulatory stability, and the ability to repatriate profits, and assessing liquidity, because in a shallow market a large position may be impossible to exit without the price collapsing.

The MSCI Emerging Markets aggregates 24 countries into a single figure, treating Taiwan and Brazil as variations on the same theme. It is not wrong to do so, it is incomplete. And it is precisely in that incompleteness that the most interesting opportunities of 2026 reside: not in the index, but in what it cannot see.

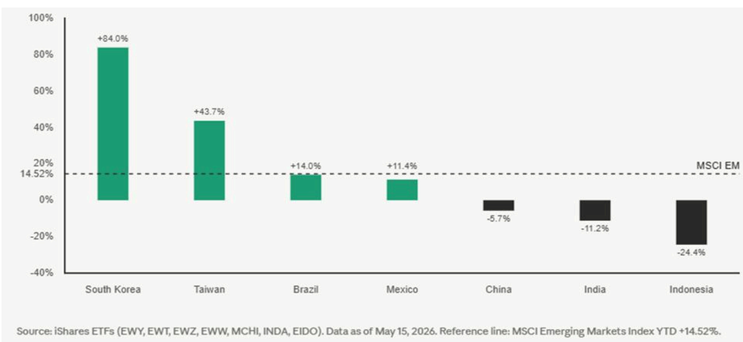

Figure 2-YTD Return by Country, MSCI EM Constituents (USD)

Sources

[1] https://www.msci.com/our-solutions/indexes/emerging-markets **[2]** https://ir.tsmc.com **[3]** https://www.trendforce.com **[4]** https://www.spglobal.com/commodityinsights **[5]** https://fortune.com/2026/03/27/indonesia-markets-msci-danantara-hormuz-iran-war/ **[6]** https://jakartaglobe.id/business/msci-keeps-indonesia-stocks-on-hold-as-reform-review-continues **[7]** https://www.imf.org/en/Publications/WEO **[8]** https://ec.europa.eu/commission/presscorner/detail/en/ip_26_184 **[9]** https://tradingeconomics.com/india/stock-market **[10]** https://www.iea.org/data-and-statistics **[11]** https://aiindex.stanford.edu **[12]** https://www.atlanticcouncil.org/blogs/econographics/chinas-property-slump-deepens-and-threatens-more-than-the-housing-sector/ **[13]** https://www.eurasiagroup.net/live-post/risk-7-chinas-deflation-trap