

JANUARY 2026

Emerging Markets Roundtable

Policy shifts, trade tensions and opportunities



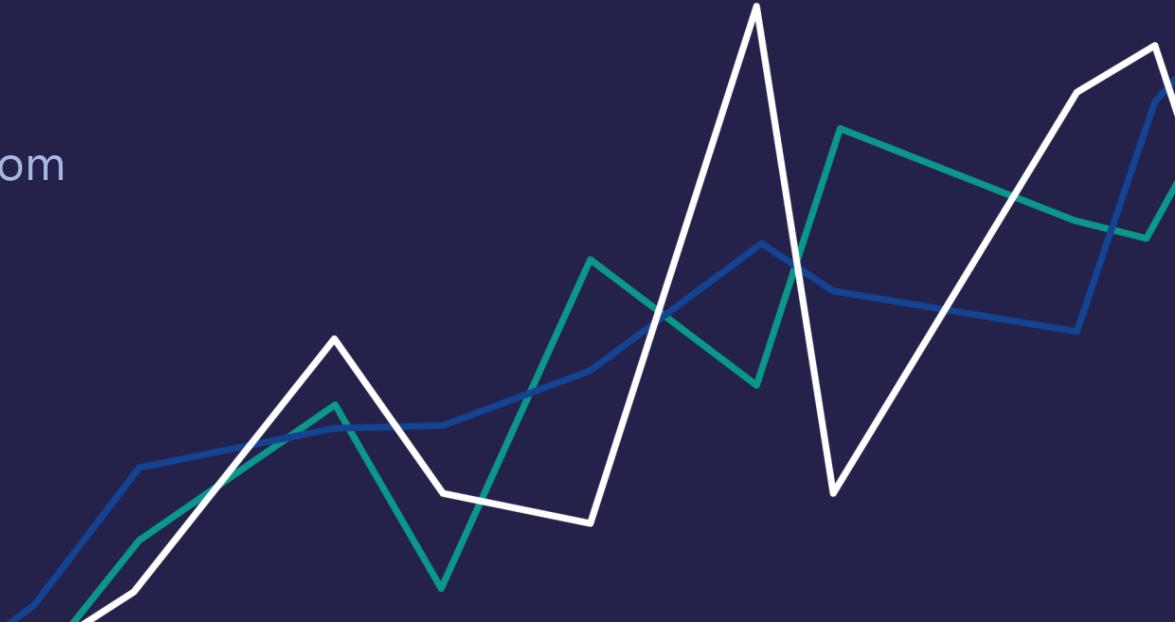
Agenda

- Will policymakers transform the outlook for China?
- Will EM export resilience last?
- Can EM financial market outperformance continue?

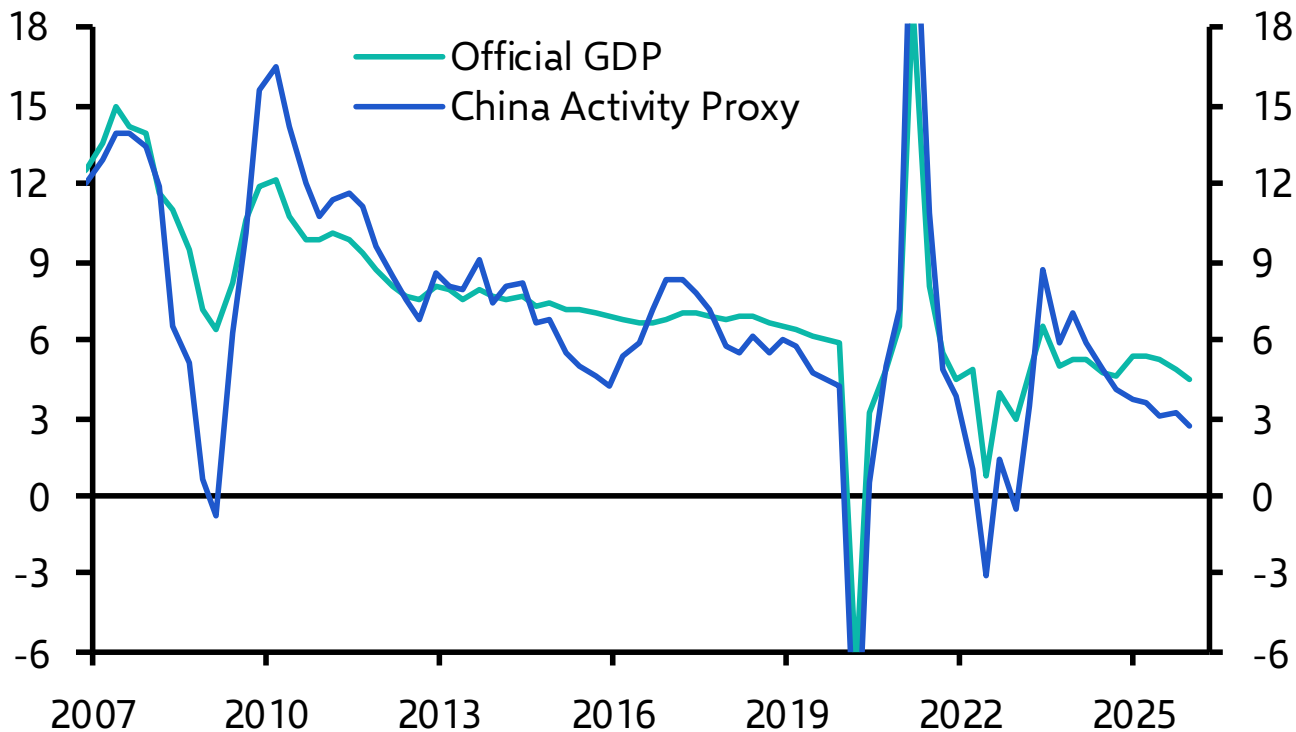
Will policymakers transform the outlook for China?

Leah Fahy, China Economist

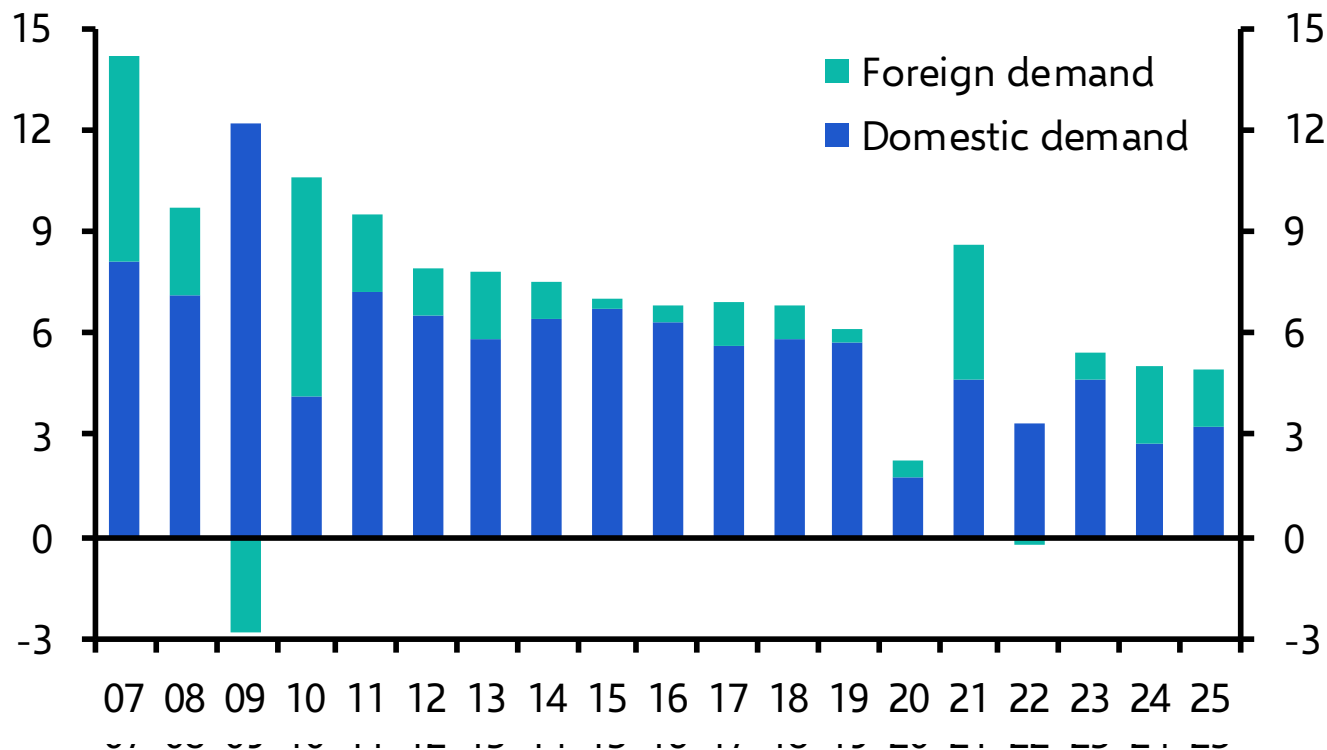
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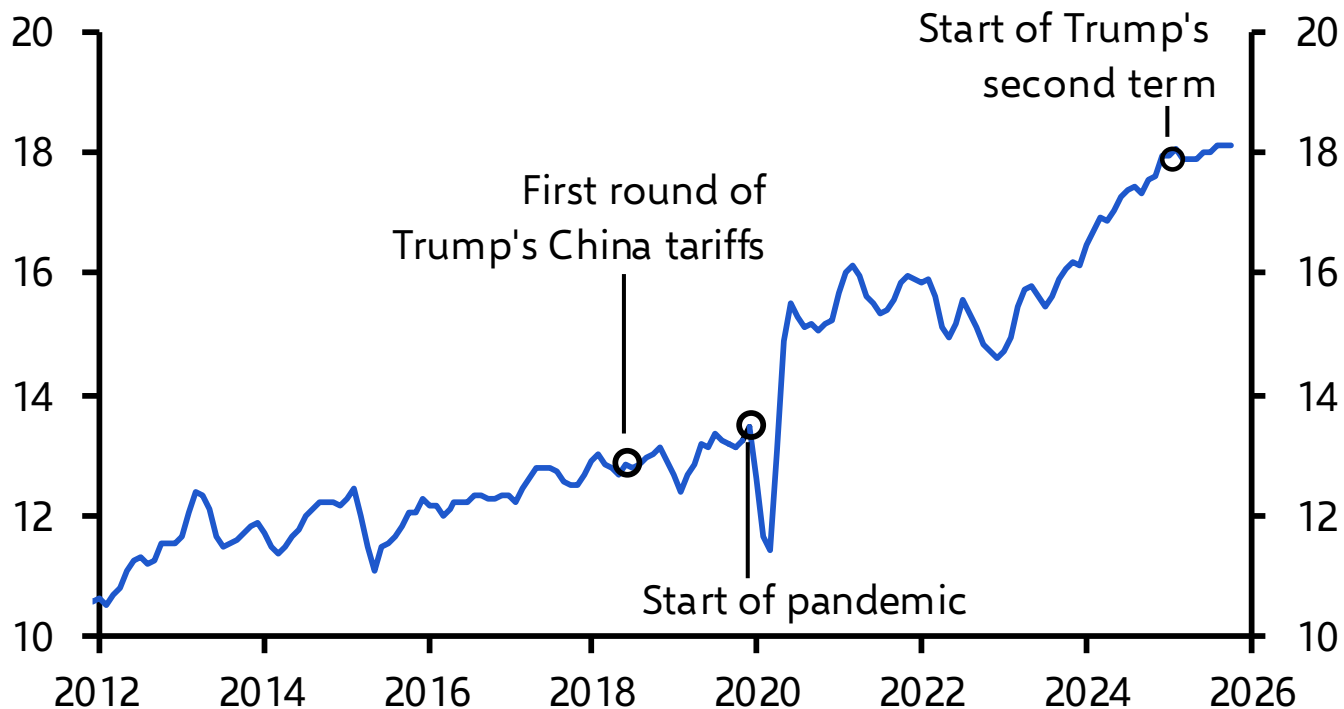
CE China Activity Proxy (CAP) & Official GDP (real, % y/y)



China GDP Growth by Source of Demand (real, % y/y)



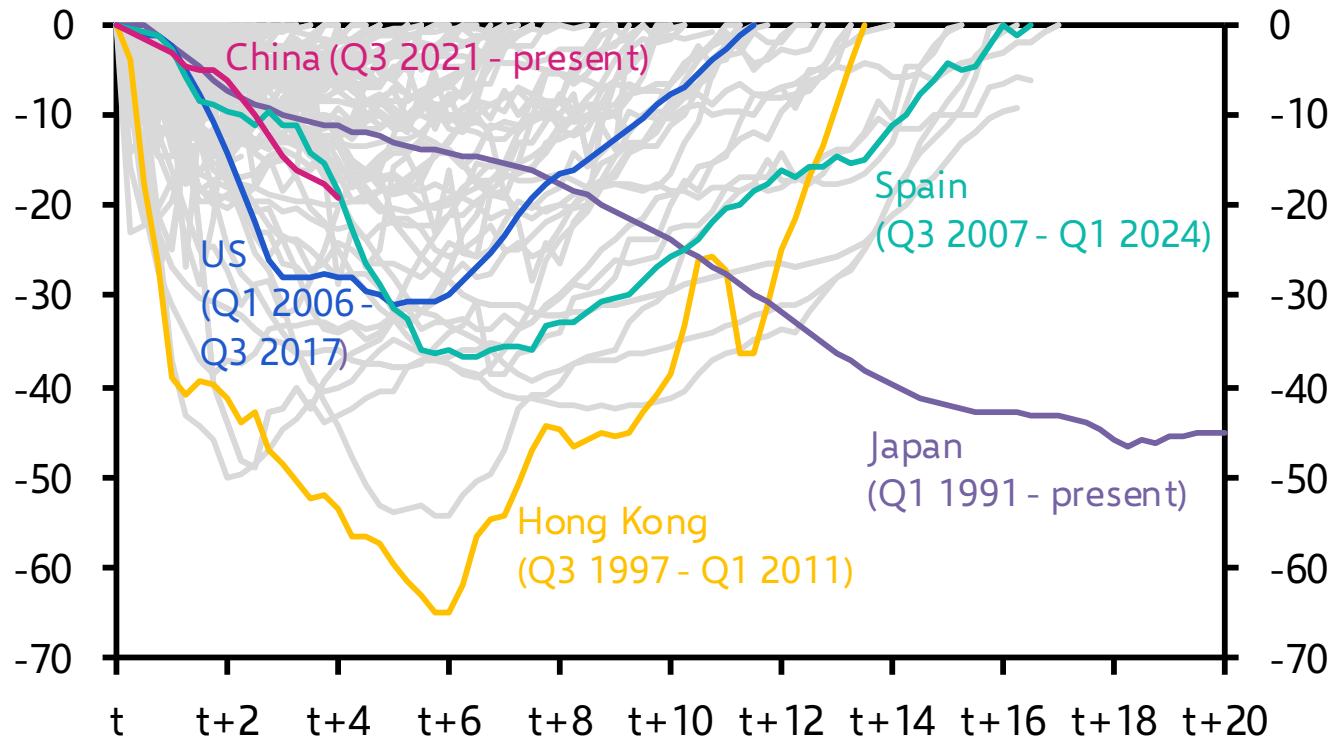
China Share of Global Exports (% , 3m average)



China's Five-Year Plan Proposals

- Floated a goal of increasing the consumption share of GDP.
- Pledged to allocate a higher share of fiscal spending to social welfare.
- But FYP won't drive rapid change – rebalancing will be gradual.
- Particularly because rebalancing is in tension with other key aims of the leadership, including economic growth and security.

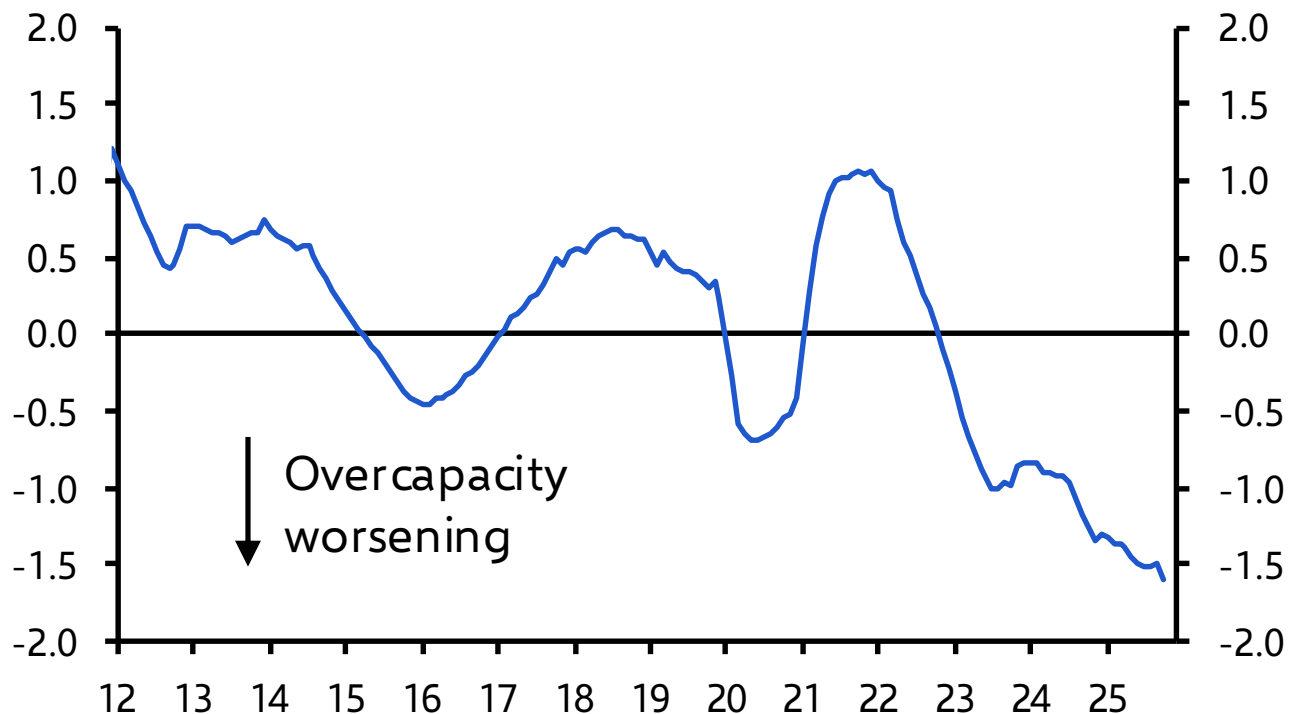
Global House Price Drawdowns (% nominal)



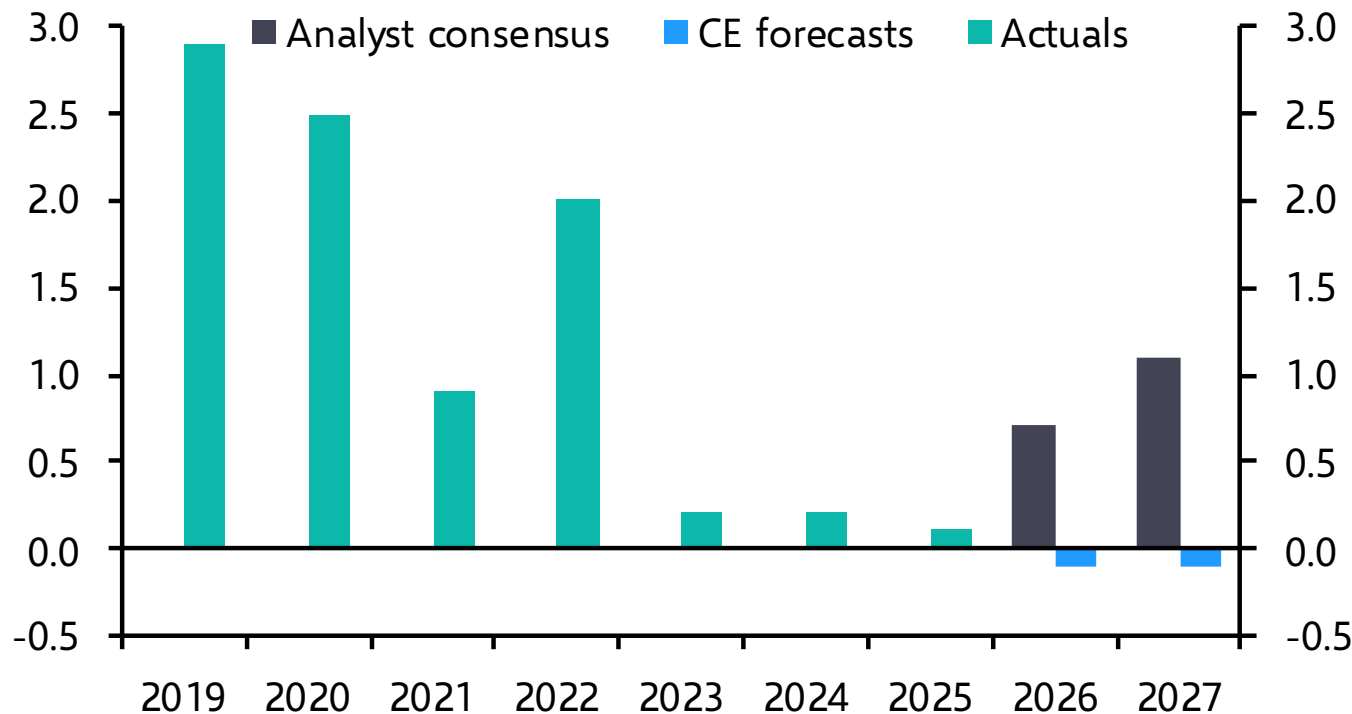
Note: t+2 indicates 2 years since prices started falling

Sources: CEIC, BIS, Capital Economics

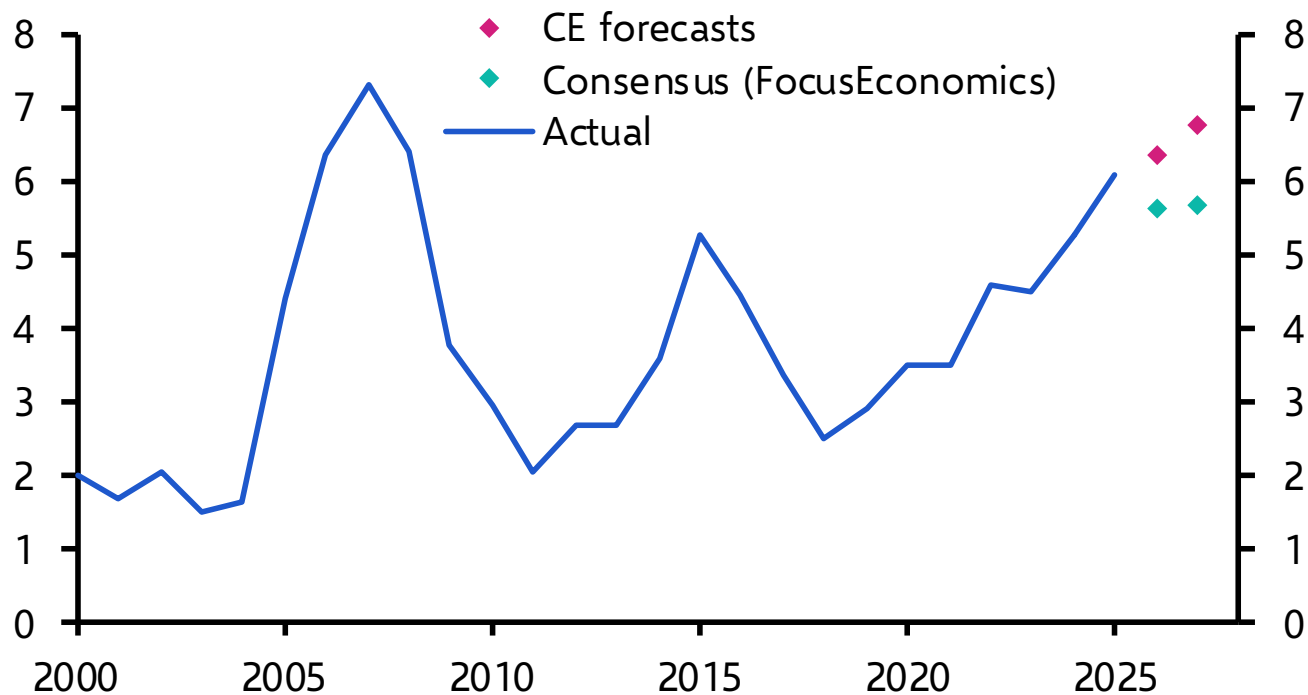
CE China Overcapacity Index (z-score, 12m ave.)



China Inflation (%)



China Goods Trade Balance (% of GDP)

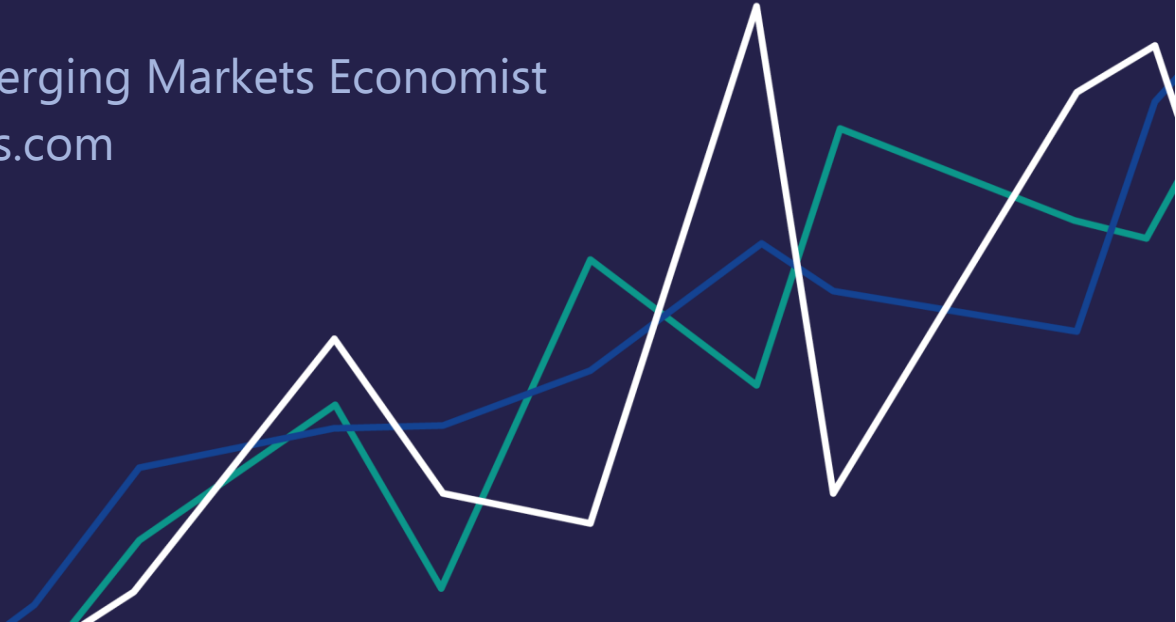


Conclusions

- China's growth to remain weak ~2% by 2030.
- Slow rebalancing means overcapacity and deflation will persist.
- And China's trade surplus will widen further.

Will EM export resilience last?

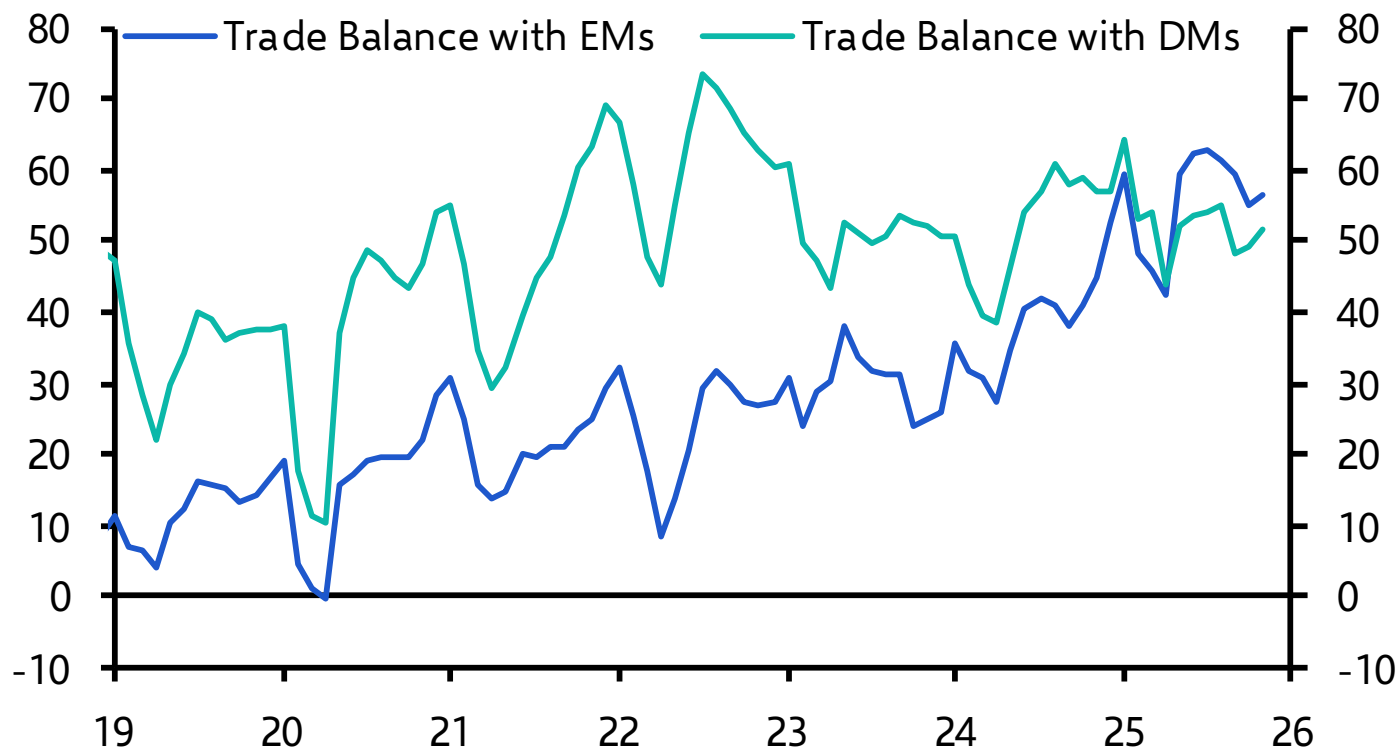
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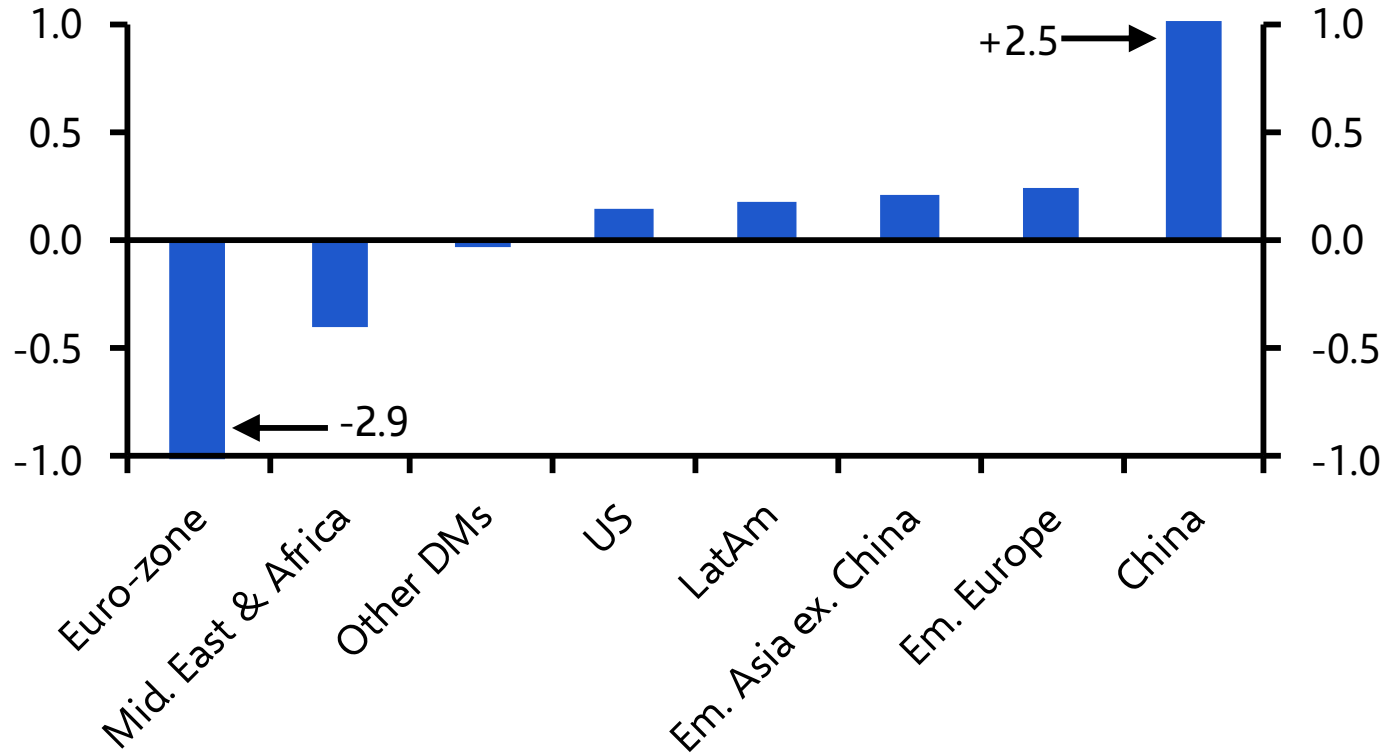
Agenda

- The risks and opportunities from China's export surge?
- What to expect from the review of USMCA.
- Will the AI-related boom in trade continue?

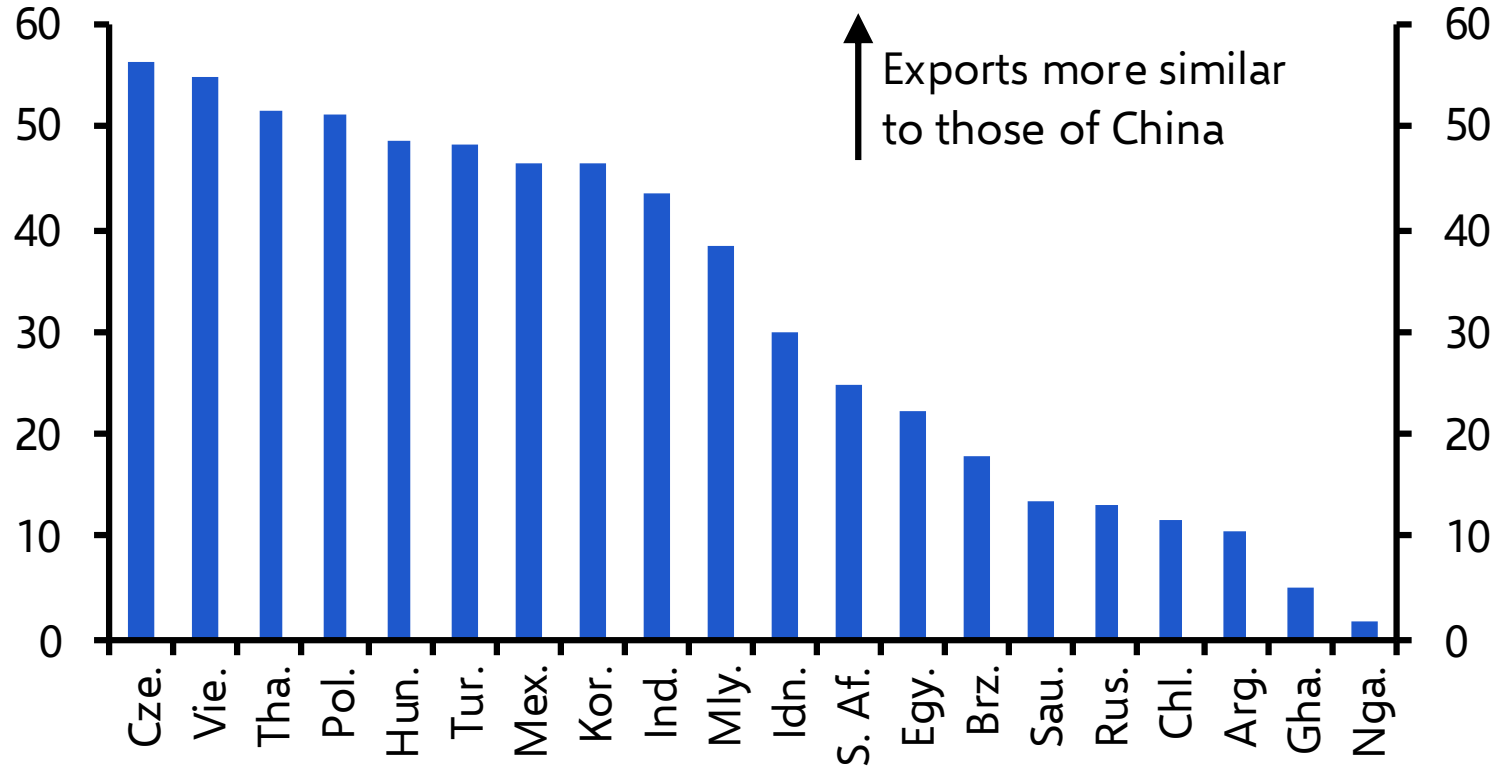
China Goods Trade Balance (3m Avg., \$bn)



Change in Global Export Market Share Since 2022 (Volumes, %)



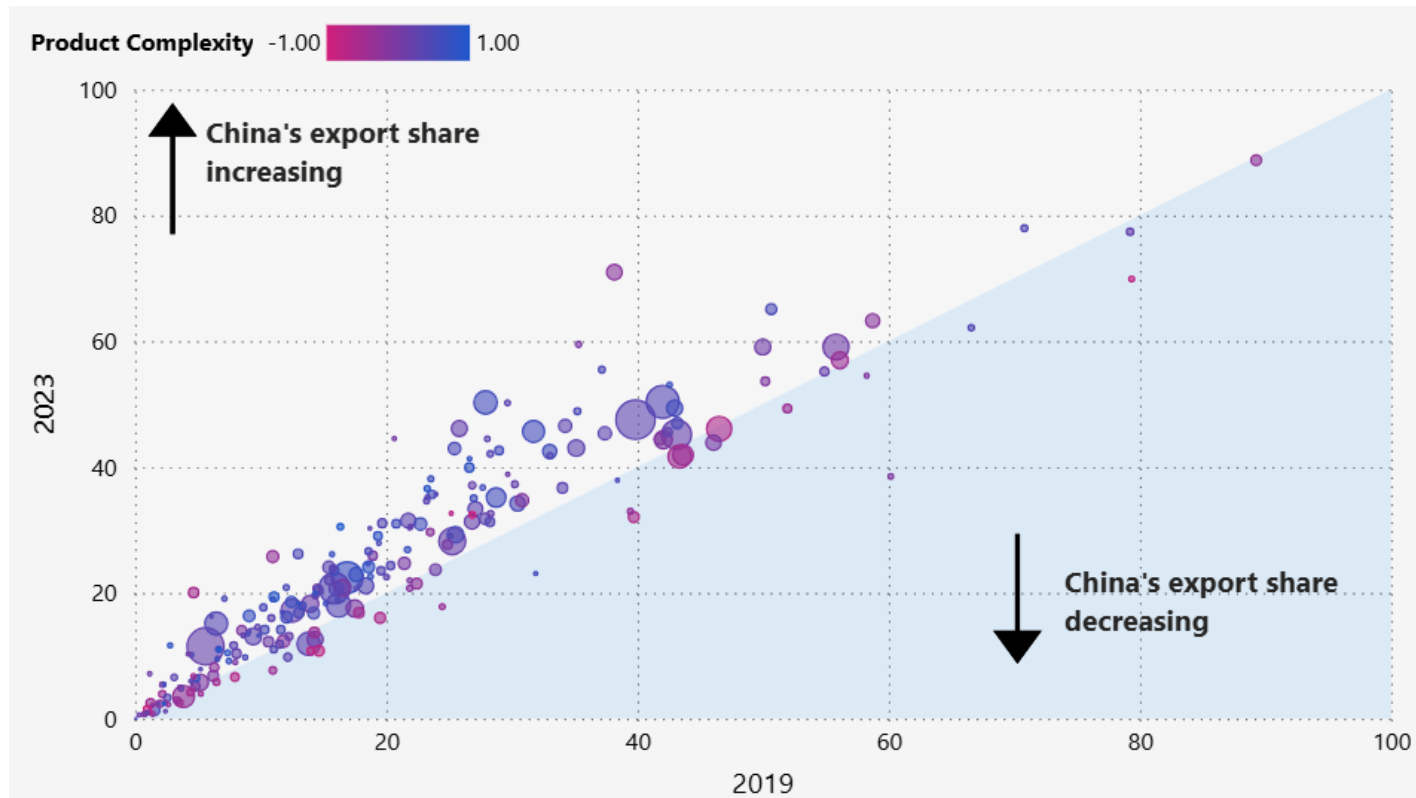
Export Similarity Index



Risks and Opportunities from China's Export Surge

- If the US and Europe impose further trade restrictions on China, other EMs will have the opportunity to grab more market share.
- Chinese firms will probably look to move production closer to key markets to skirt around trade barriers.
- Western firms will increasingly seek to locate production in geopolitically lower risk countries than China.

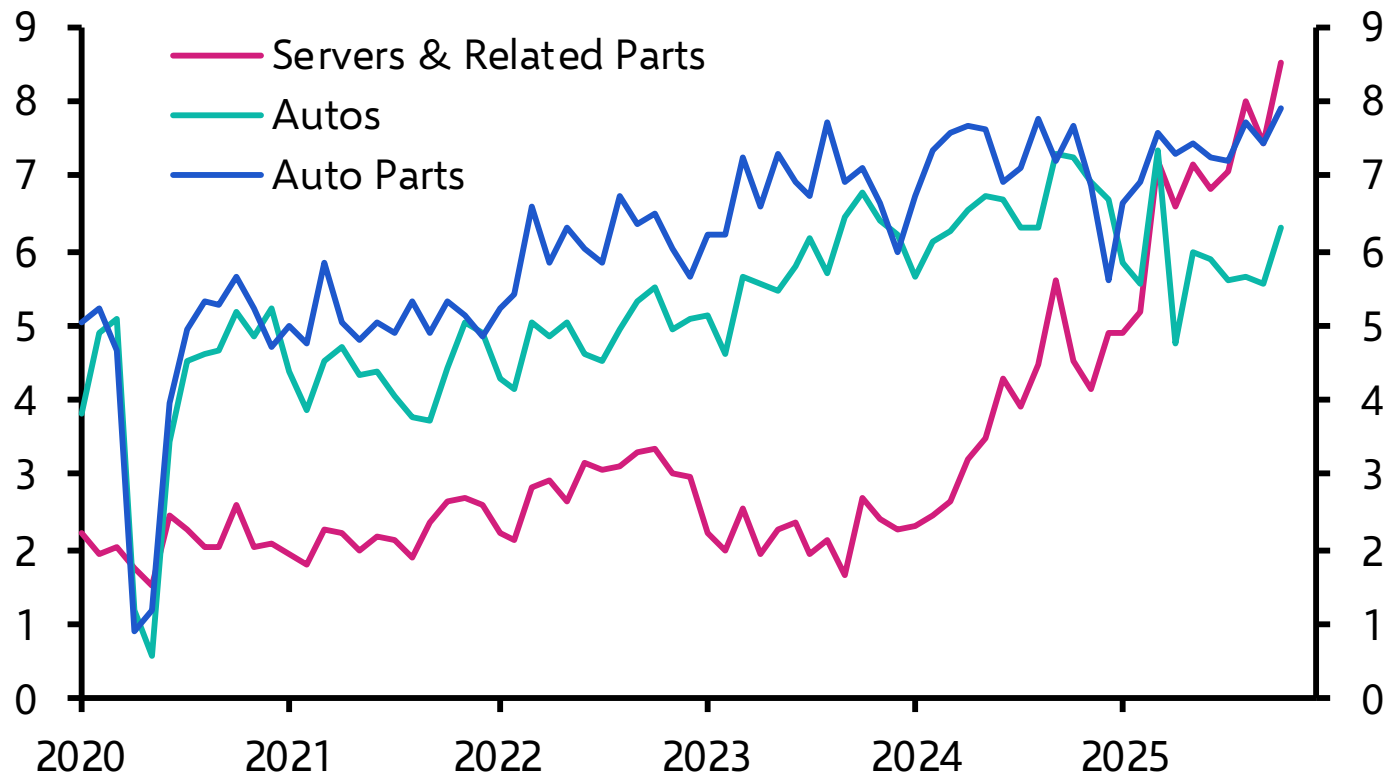
China Global Export Market Share by Good (% , Values, 2023 vs. 2019)



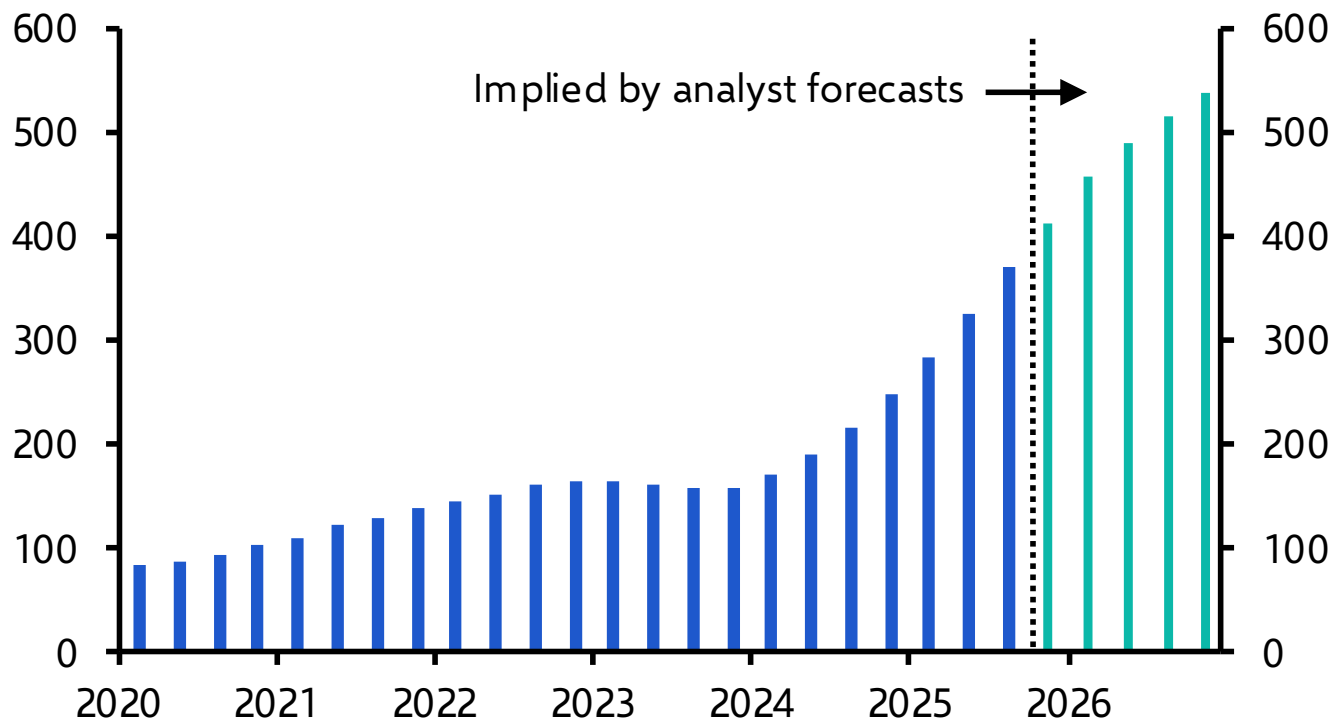
What to expect from the USMCA Review

- Initial consultations underway with review due to in July.
- If US were to withdraw, the blow to Mexico's economy could be in the region of ~1% of GDP. Peso would fall sharply.
- But there are legal hurdles and "Trump Always Chickens Out".
- Curbing Chinese influence – the "Donroe Doctrine" – will be a key driver.
- Key to watch is treatment of AI-related products.

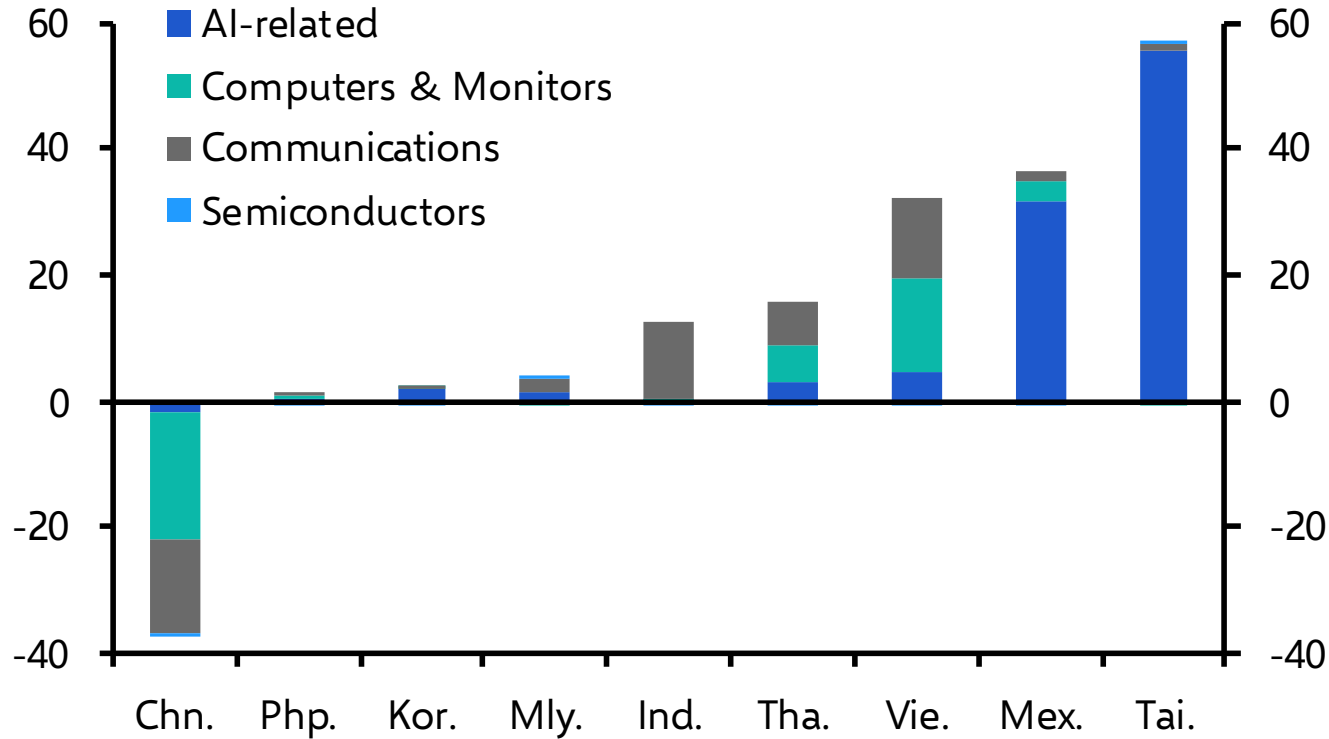
Selected US Imports from Mexico (\$bn, Latest = October)



CapEx Of Five Hyperscalers in S&P 500 (4Q Sum, \$bn)



Change in US Imports of Selected Electronics Products (\$bn, Jan-Oct 2024 to Jan-Oct 2025)

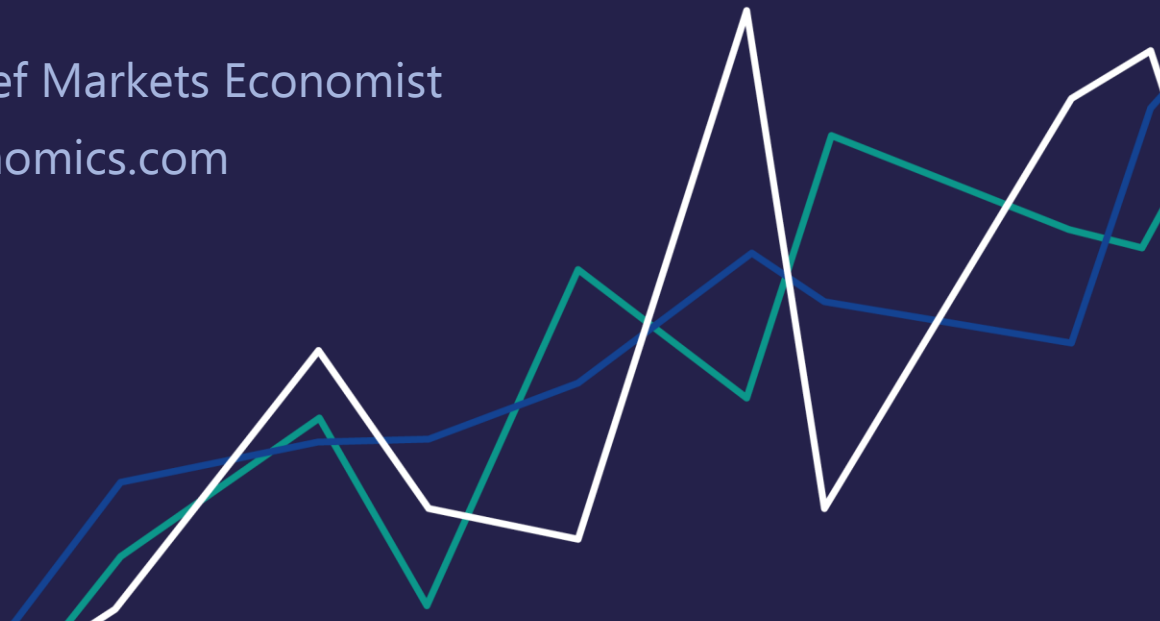


Conclusions

- The risks and opportunities from China's export surge. EMs could gain more market share in exports to DMs. Main winners likely to be in East & South East Asia.
- What to expect from the review of USMCA. US withdrawal would deal a severe blow to Mexico. Even if avoided, changes are likely and will be focused on curbing Chinese influence.
- Will the AI-related boom in trade continue? Yes. Taiwan, but also other parts of Asia and Mexico to be the key beneficiaries.

Can EM financial market outperformance continue?

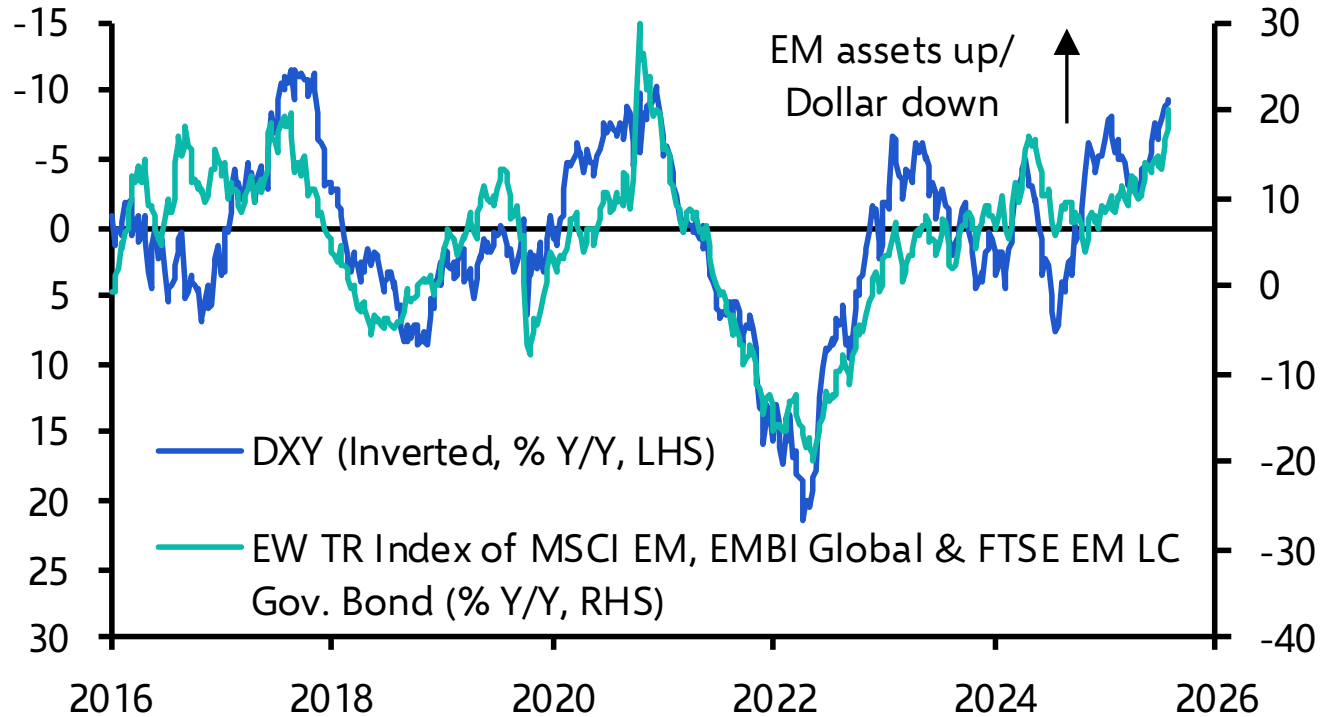
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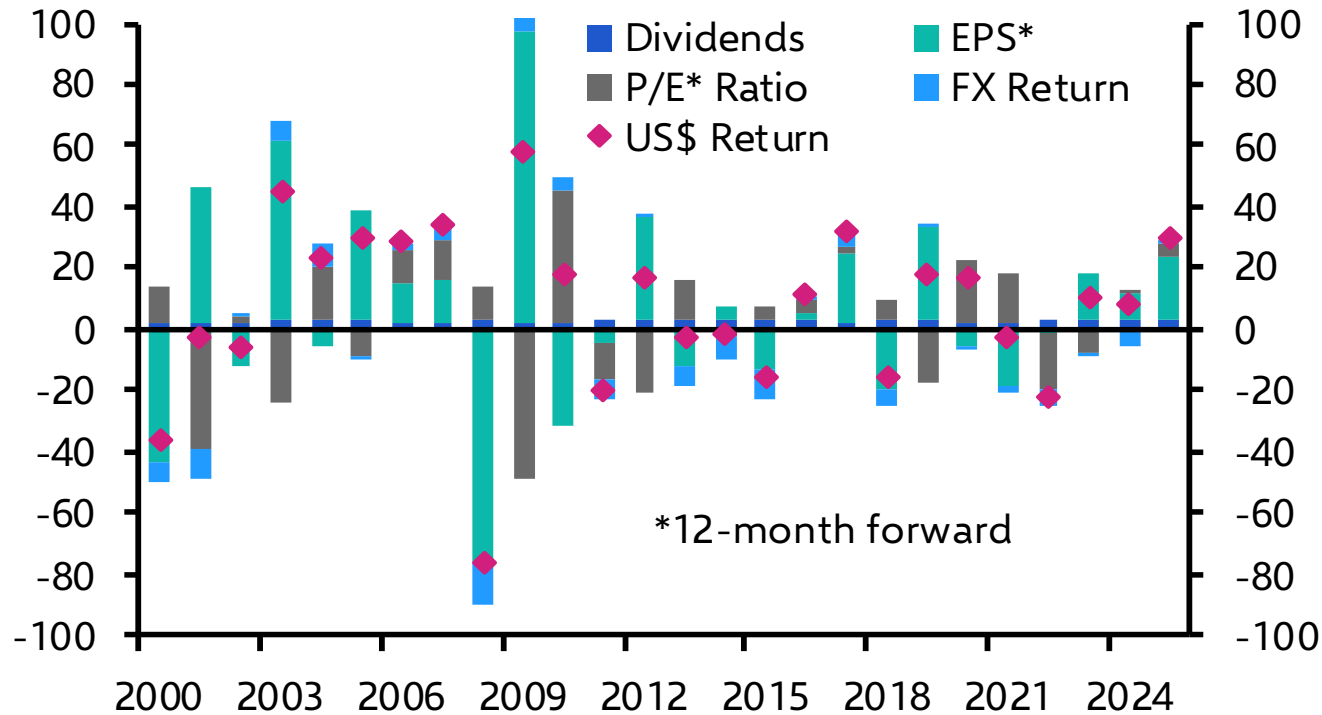
Key Messages

- 2025 a surprising win for EM assets, but we expect USD rebound & falling commodity prices to make 2026 a more mixed picture.
- We expect Asia to outperform thanks to the ongoing AI boom boosting earnings; solid government balance sheets; and undervalued currencies.
- Risk premia are generally low, so little margin for error. Elections in Colombia, Brazil, Hungary, and SA (local) present key risks & opportunities.

Equal Weighted Return Index of EM Bonds & Equities vs DXY

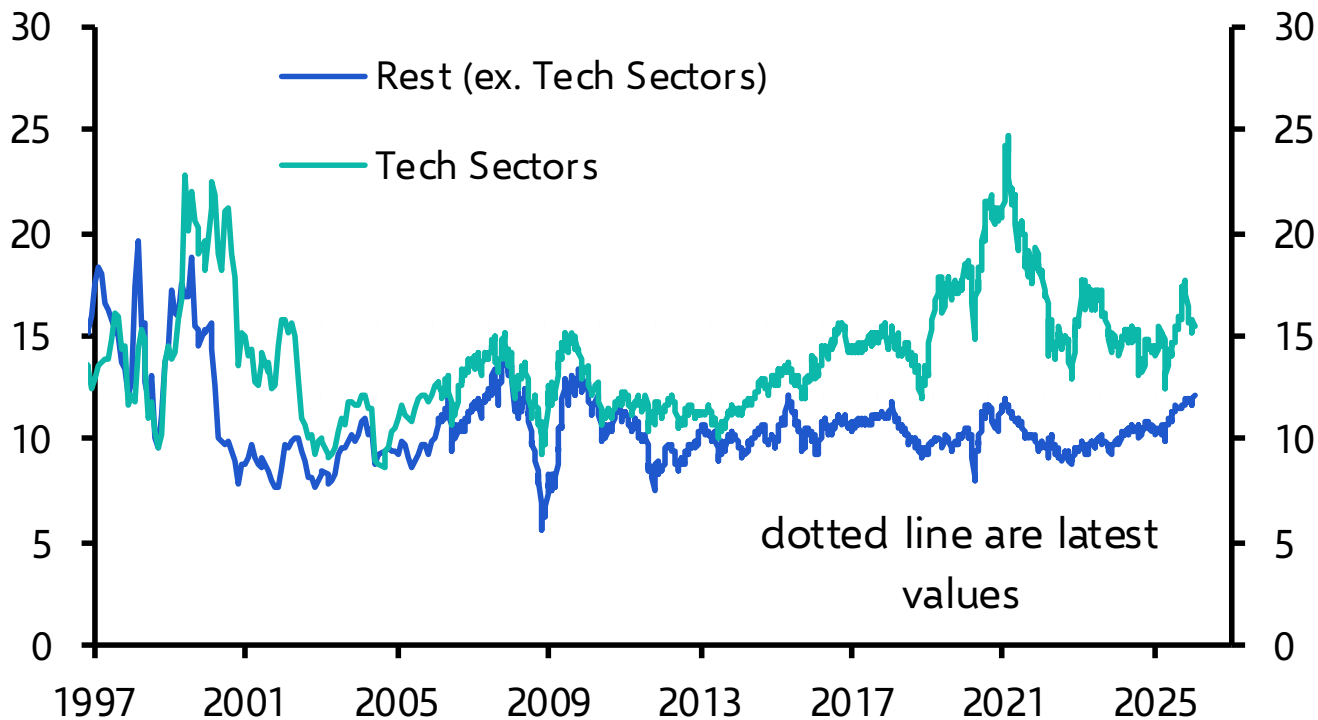


MSCI EM Annual Return Composition (USD, log changes¹)



¹ Based on continuously compounded log contributions

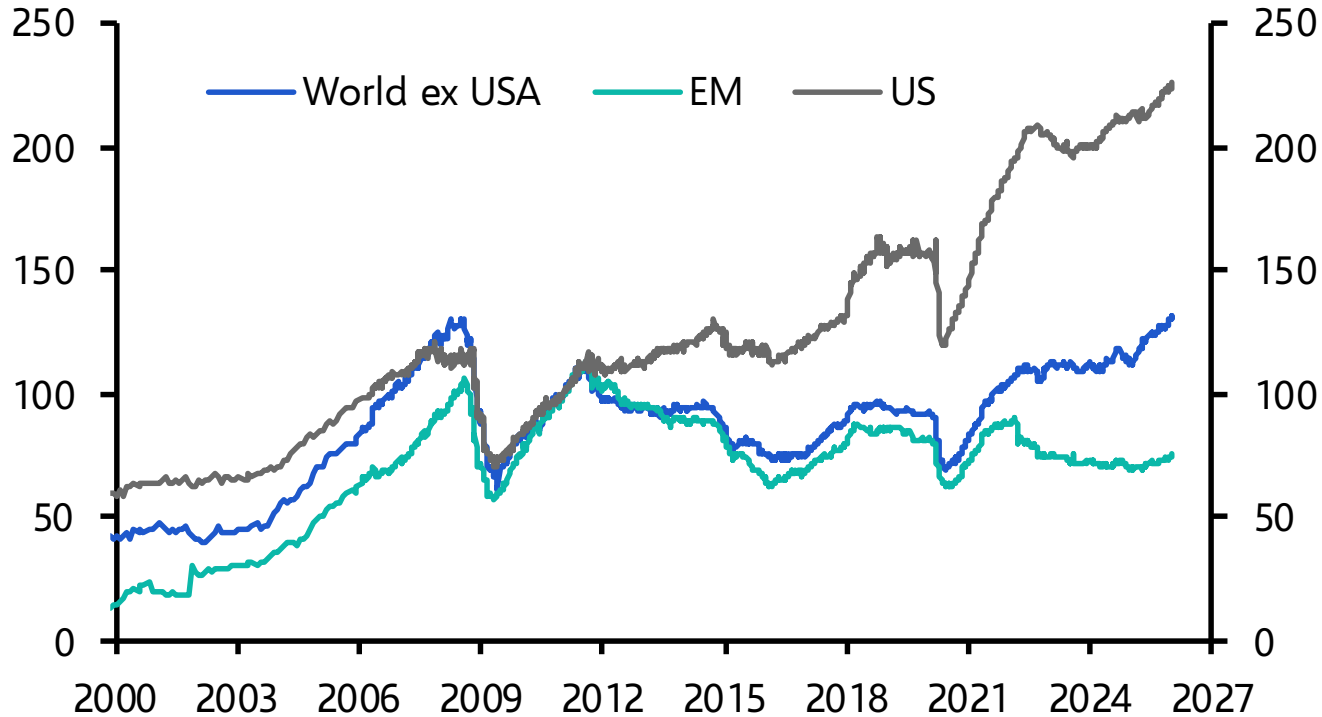
MSCI EM Index FTM PE Ratio



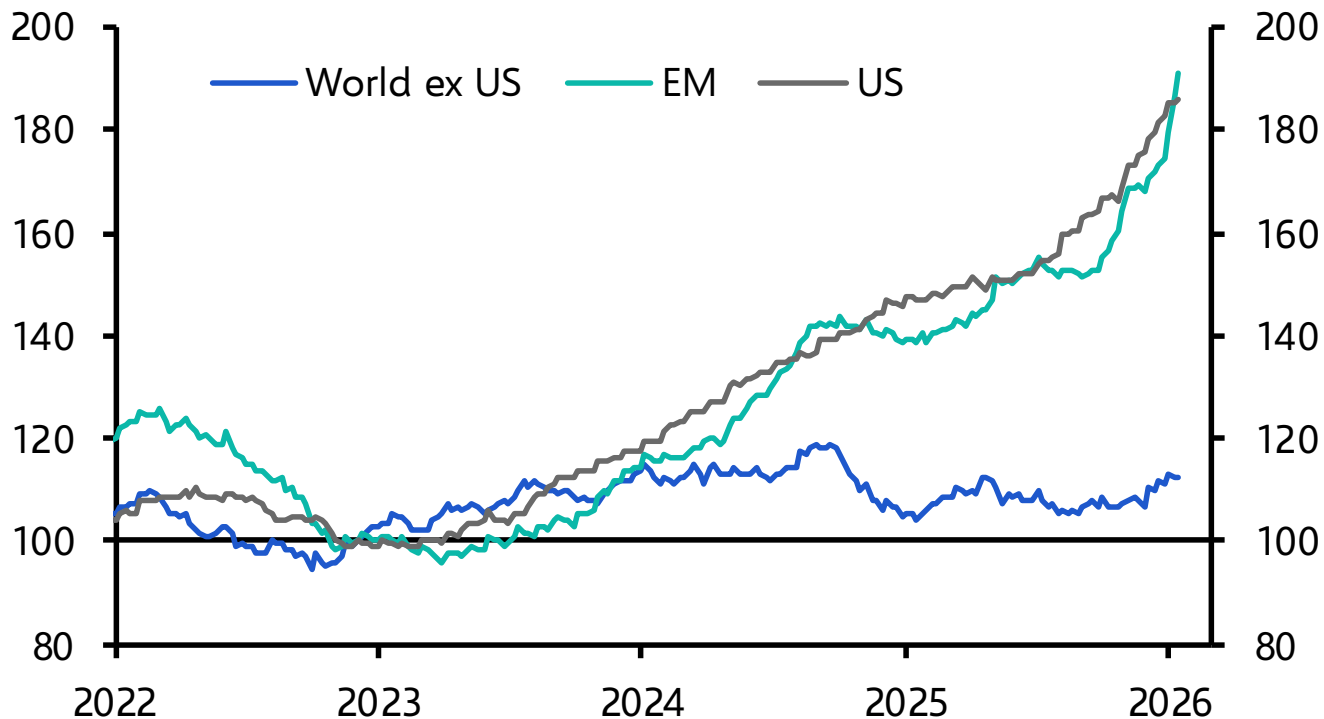
Dollar rebound still on the cards

- US policy uncertainty – especially the Treasury's intervention threat – is a major headwind for the dollar in the near term.
- But renewed US exceptionalism, in large part driven by the AI boom, still argues for renewed dollar strength.
- Our base case is that the Fed will stick to its current monetary policy approach, and that the macro factors will, eventually, win out over the politics.

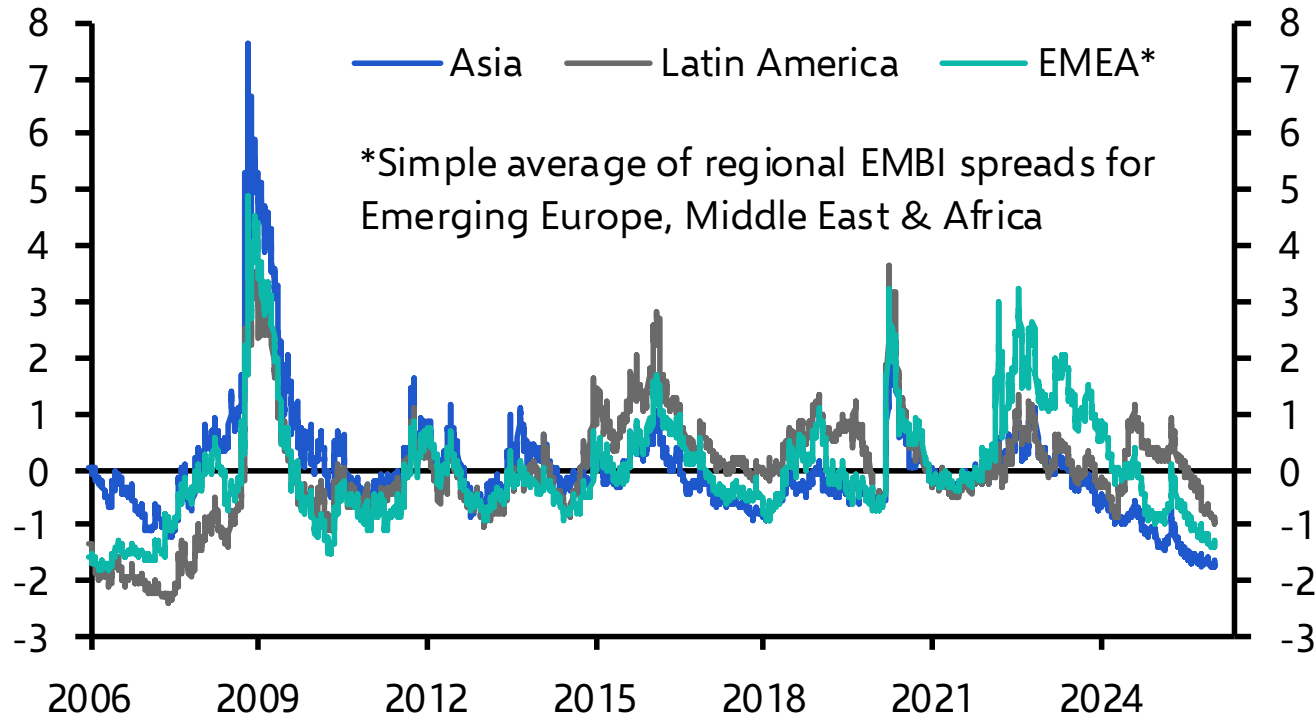
MSCI Index Non-Tech FTM EPS (LC, Start of Jan. 2011 = 100)



MSCI Index Tech Sector FTM EPS (LC, Start of Dec 2022 = 100)



JPM Stripped EMBI Spreads (Z-Score since 2006)



Concluding thoughts

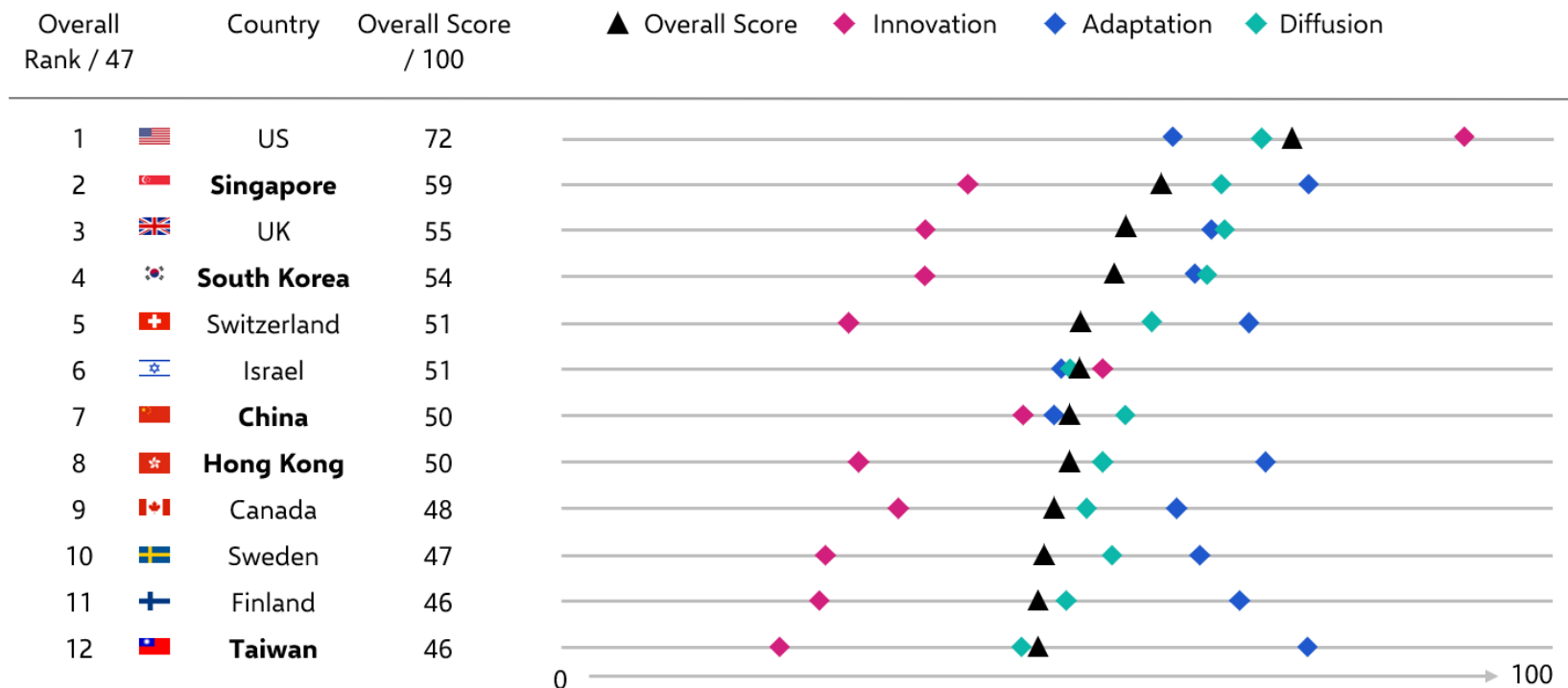
- China: rebalancing will be slow. Growth will remain weak, deflation will persist & the trade surplus will grow.
- EM manufacturers should benefit from replacing China and AI investment. But China's surplus could become a growing threat.
- Generally positive outlook for EM financial markets in 2026, but there's likely to be more variation than in 2025.

Emerging Markets Roundtable

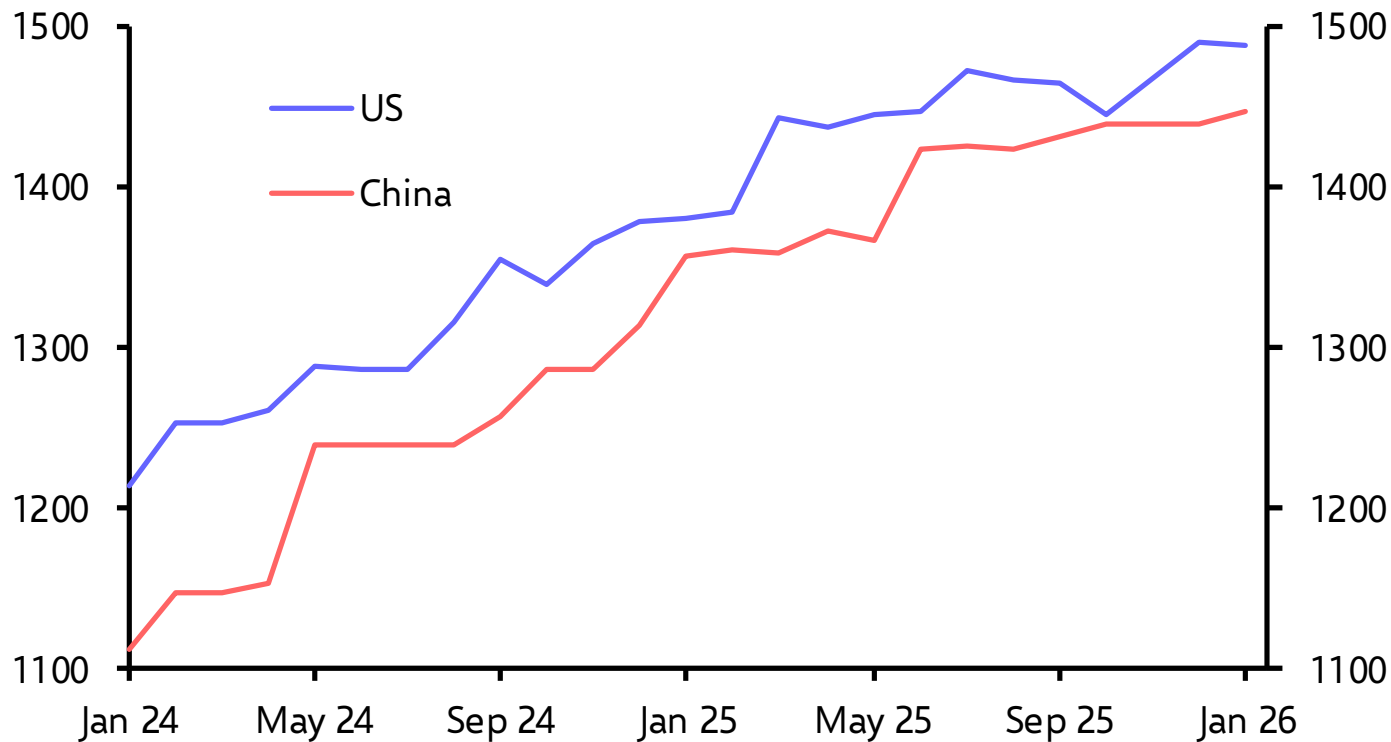
Appendix: Additional Charts



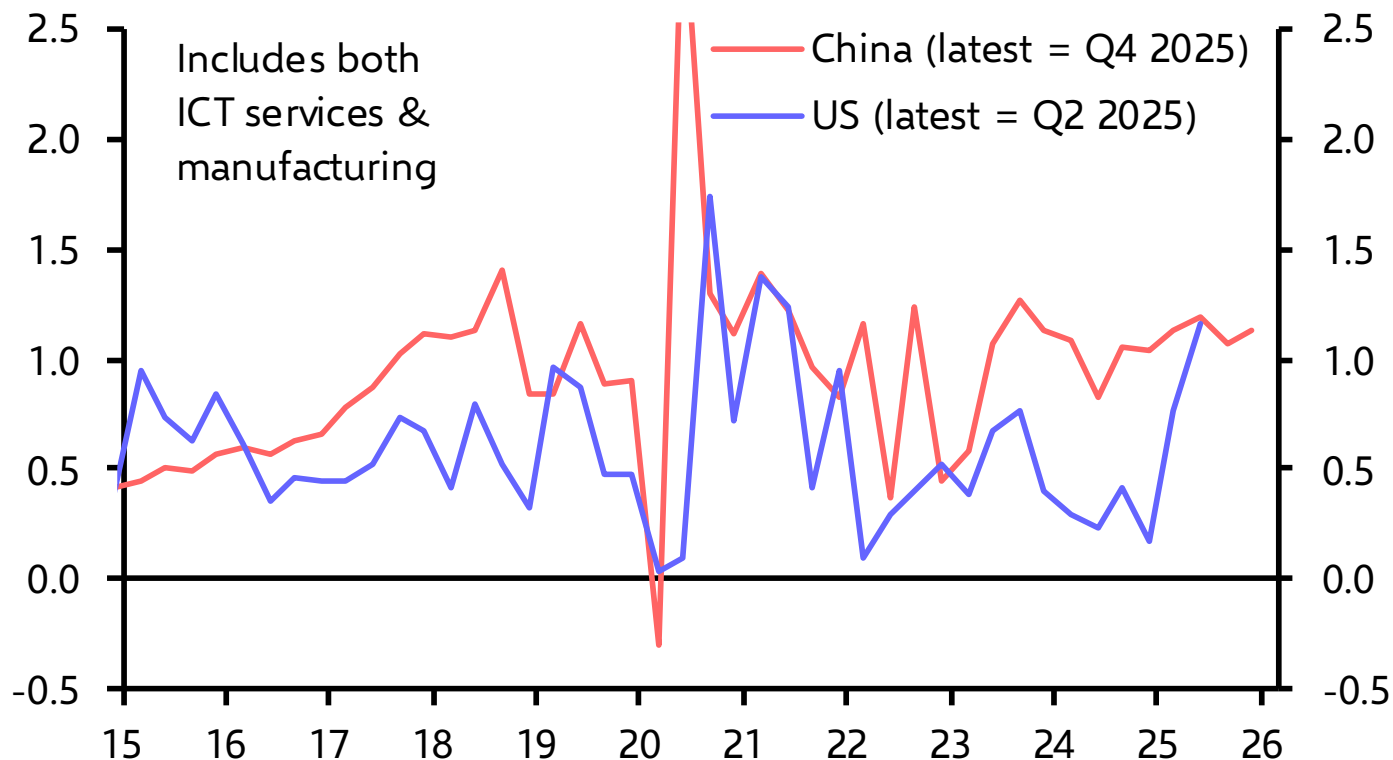
Capital Economics AI Economic Impact Index



Performance of Top Large Language Models*

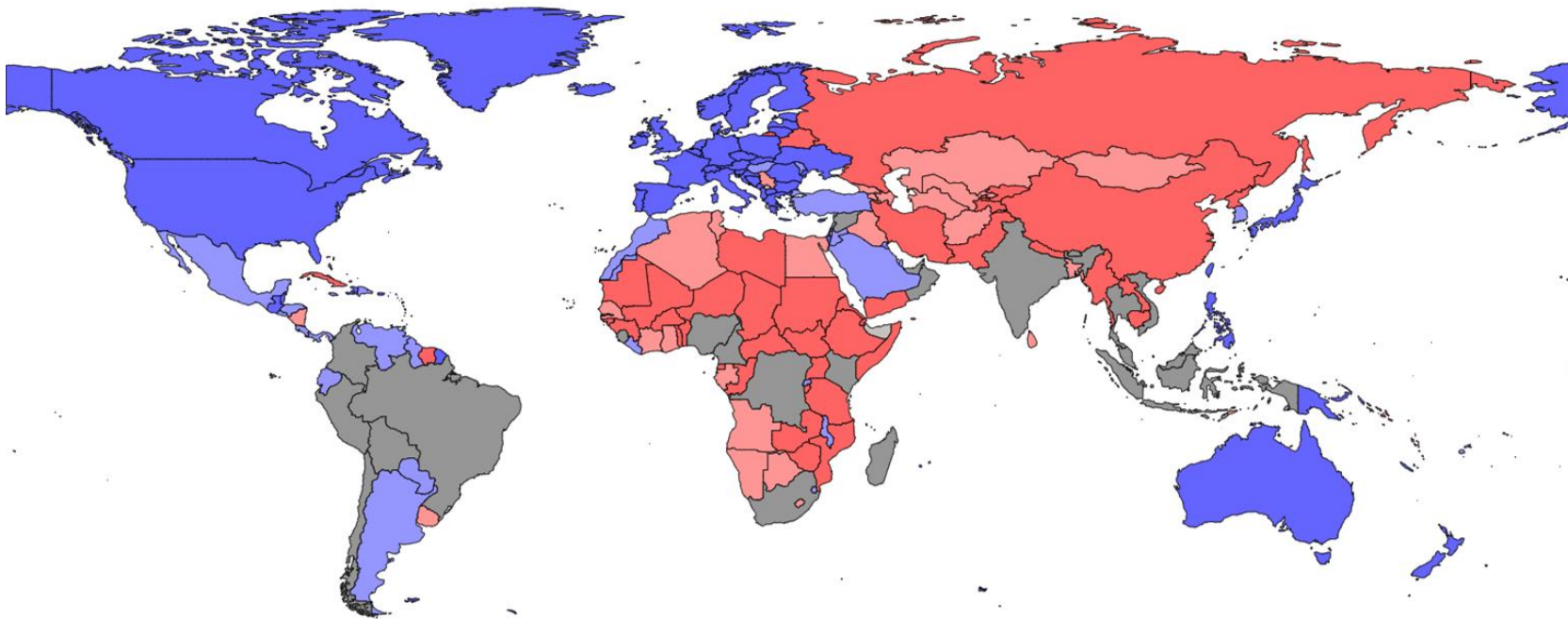


ICT Contributions to Real GDP Growth (annualised % pt)

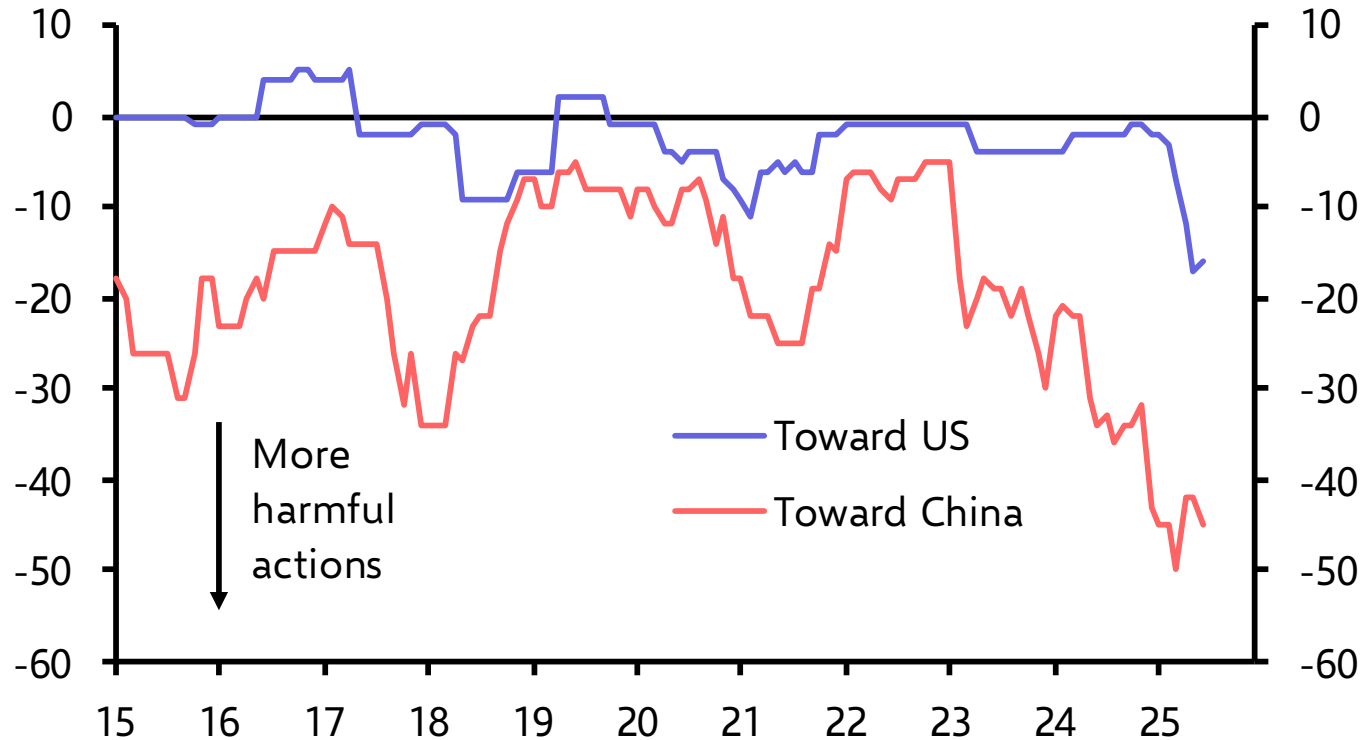


Capital Economics Classification of Global Alignment in 2026

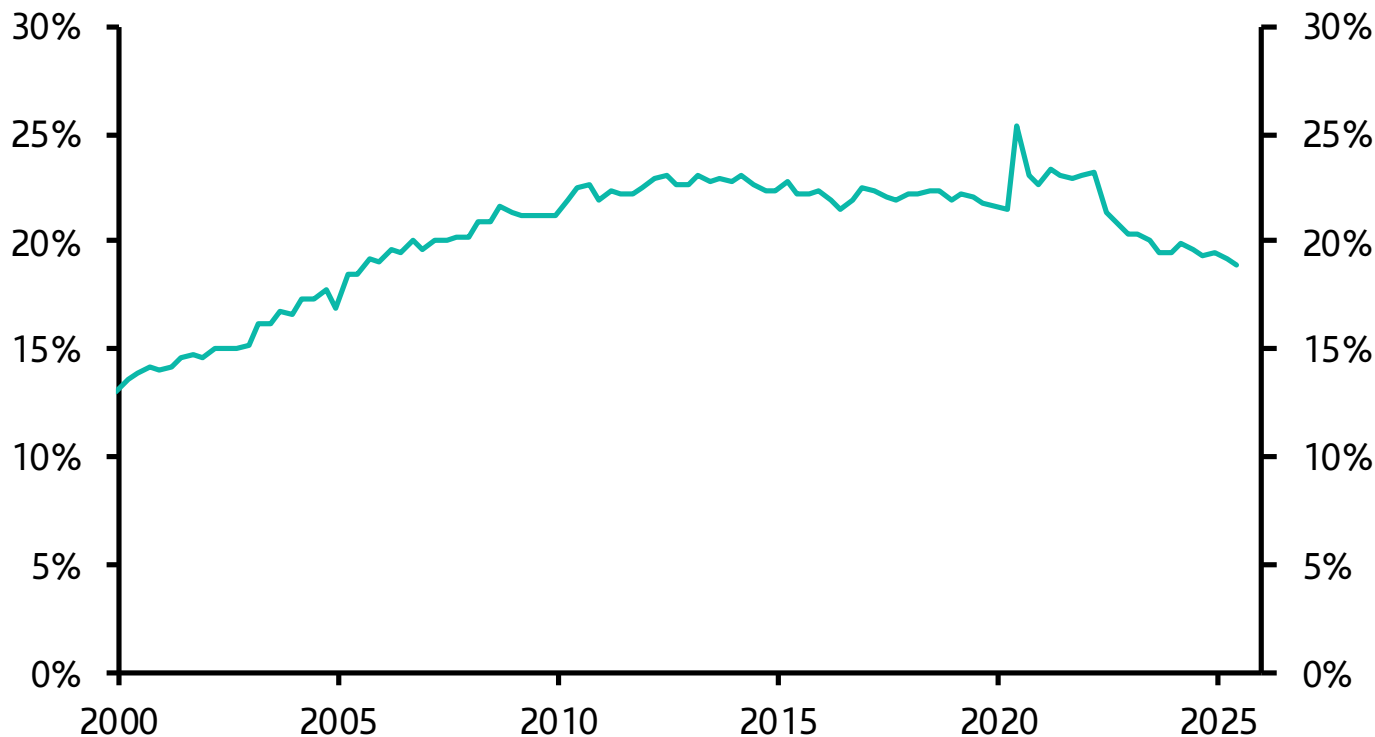
● US & allies ● Leans US ● Unaligned ● Leans China ● China & allies



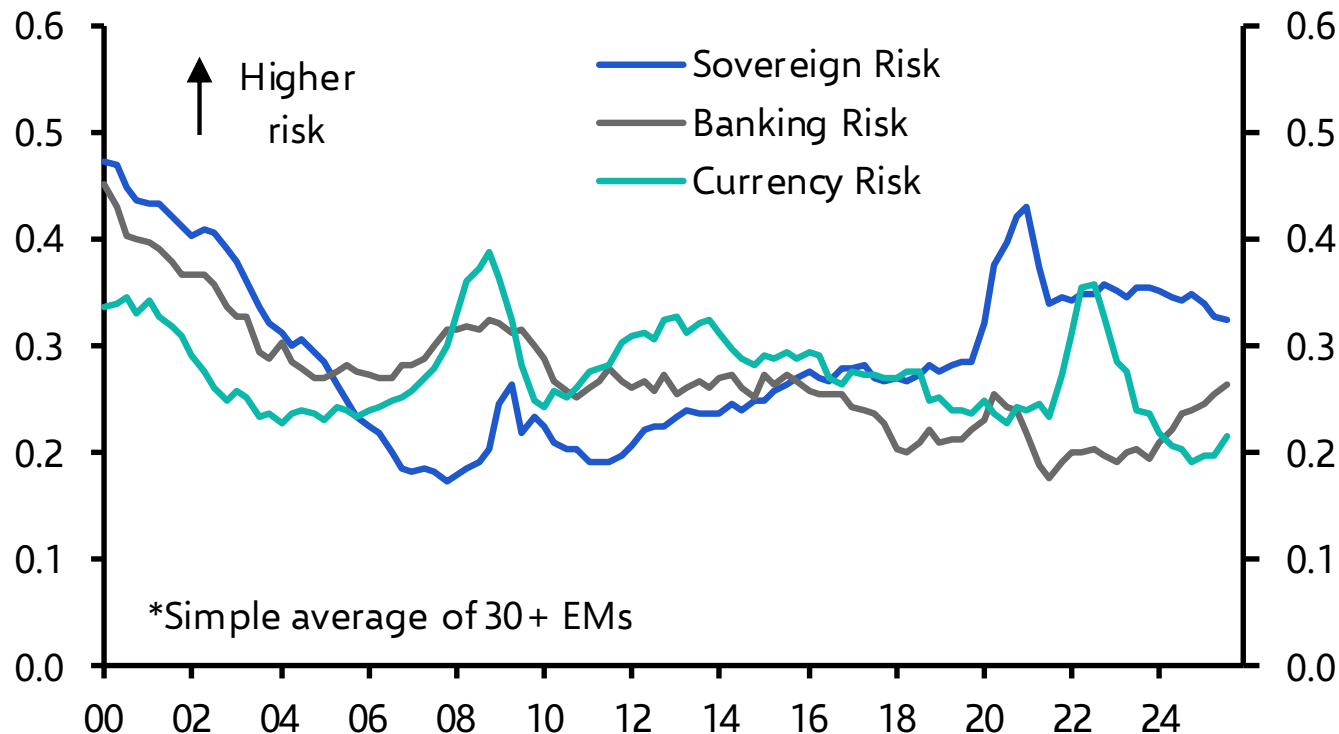
New Trade Actions by US Allies (#, liberalising minus harmful, 12m ave.)



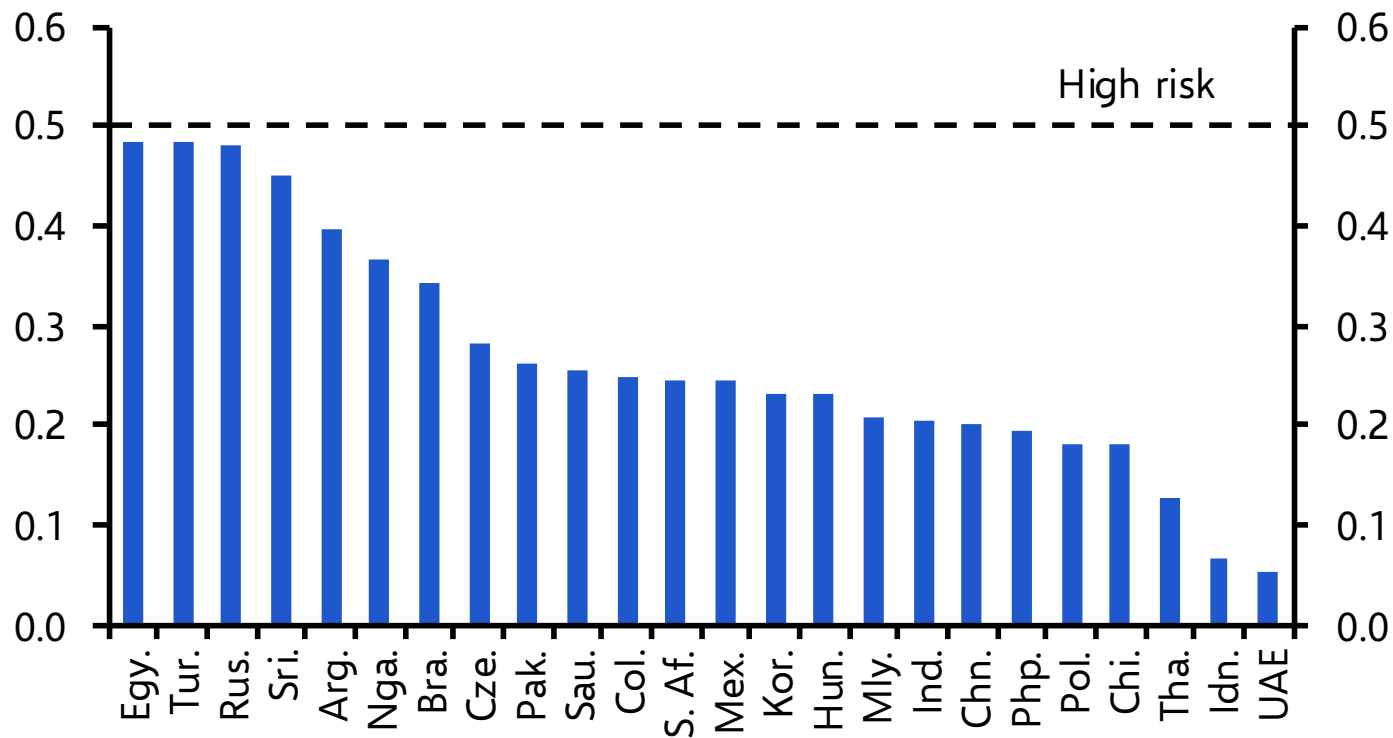
Share of Global Goods Trade between US & China Blocs



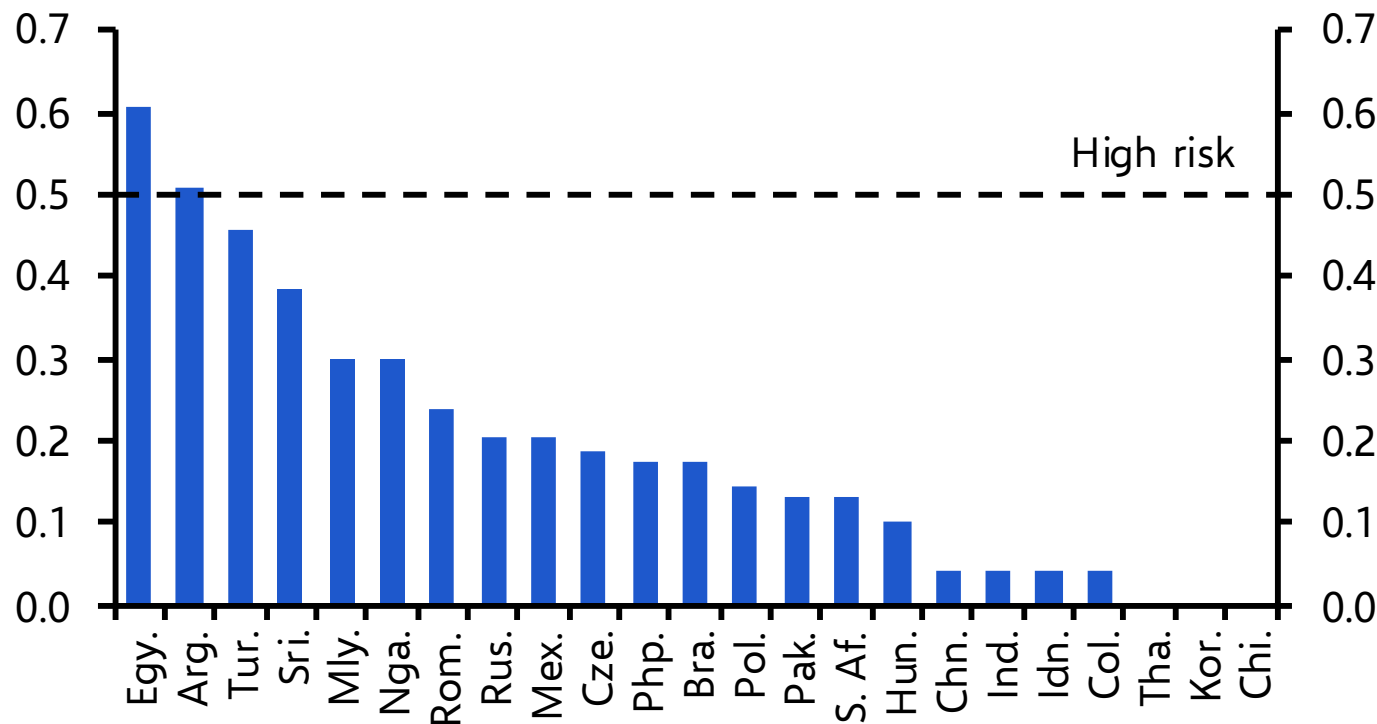
CE Aggregate EM Financial Risk Indicators



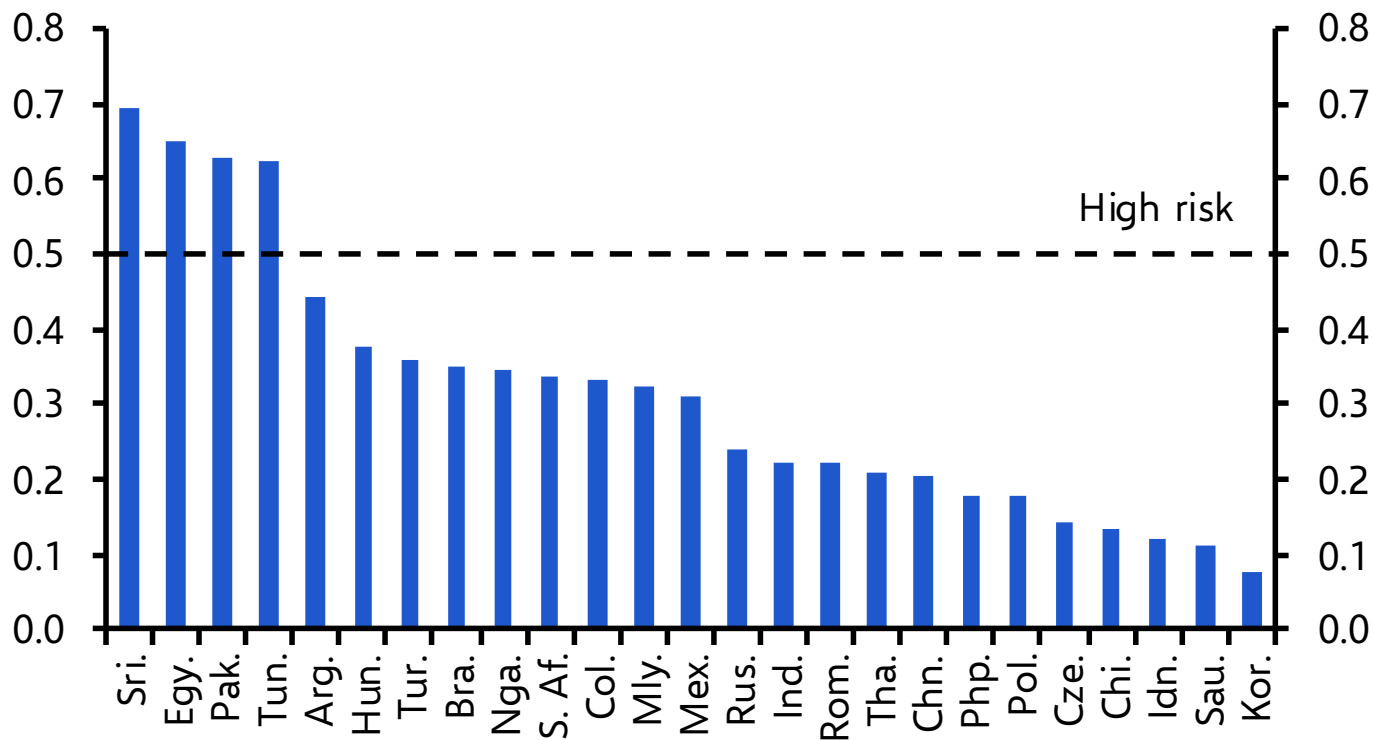
CE EM Banking Crisis Risk Indicator (Latest)



CE EM Currency Crisis Risk Indicator (Latest)



CE EM Sovereign Default Risk Indicator (Latest)



Selected Upcoming EM Elections

- Early 2026: **Thailand** (legislative)
- 12th April 2026: **Peru**
- 12th April 2026: **Hungary**
- 31st May 2026: **Colombia**
- 4th October 2026: **Brazil**
- 28th November 2026: **Taiwan** (county and city)
- November: **South Africa** (municipal)

GDP (% y/y)

Geography	2024	2025	2026	2027
China (Official)	5.0	4.9	4.8	4.5
China (CAP)	4.4	3.2	3.0	2.7
India	6.7	7.5	6.5	6.5
South Korea	2.0	1.0	2.0	1.8
Brazil	3.4	2.3	1.5	1.5
Mexico	1.4	0.3	1.0	1.5
Colombia	1.6	2.8	2.3	2.3
Russia	4.3	0.9	0.5	1.0
Turkey	3.3	4.0	3.3	3.0
Poland	3.0	3.4	3.5	3.3
South Africa	0.5	1.5	2.3	2.0
EM	4.1	3.9	3.6	3.5

Consumer Prices (% y/y)

Geography	2024	2025	2026	2027
China	0.3	0.0	-0.1	-0.1
India	4.9	2.2	3.2	4.7
South Korea	2.3	1.8	1.5	1.9
Brazil	4.4	5.0	4.0	3.9
Mexico	4.7	3.8	3.3	3.8
Colombia	6.6	5.3	5.5	5.3
Russia	8.5	8.7	6.5	4.8
Turkey	58.5	25.0	25.8	19.5
Poland	3.6	3.7	2.8	3.3
South Africa	4.4	3.2	3.3	3.5
EM	4.3	3.0	2.7	2.8

Policy Interest Rate (%)

Geography	Latest	End-2026	End-2027
China	1.40	1.10	1.00
India	5.25	5.00	5.50
South Korea	2.50	2.00	1.75
Brazil	15.00	11.75	10.50
Mexico	7.00	6.25	6.25
Colombia	9.25	10.50	8.50
Russia	16.00	13.00	10.00
Turkey	37.00	27.00	20.00
Poland	4.00	3.50	3.50
South Africa	6.75	5.75	5.75

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