

FUNDAMENTAL EQUITY QUARTERLY

Emerging markets outlook

Q2 2026

Geopolitics temporarily disturbing the EM picture

Though the war in Iran has momentarily slowed the surge in emerging markets equities, when the dust settles compelling earnings, valuations, and tech-focused growth mean EM should resume its robust rally.

The winds of war

The war between the US, Israel and Iran is a major geopolitical headwind to the strong equity rally in the emerging world. Since the start of the war, the gauge for emerging markets (MSCI EM) has corrected 10.7%, more than MSCI World which was down 8.3% through March.¹ Still, emerging equities are slightly up year-to-date, whereas MSCI World is down 6%. After the dust has settled, we expect emerging equities to resume their strong run and regain lost territory relative to developed markets.

Middle East exposure

Zooming in on the Middle East, we are underweight in the region; and substantially underweight in Kuwait, Qatar and Saudi Arabia. We have a small overweight in the United Arab Emirates (UAE) and continue to believe in the UAE's longer-term future as a powerful regional hub in the Middle East. Therefore, we have made no changes to our positioning there since the start of the conflict.

Energy weakness

Compared to other regions, emerging Asia seems to be the most vulnerable in times of exploding energy prices given the extreme dependence of many of its larger economies including China, India, South Korea and Taiwan on Middle Eastern oil and gas. We are significantly underweight in emerging Asia, with large underweight positions in India and Taiwan and smaller ones in China and Southeast Asia. We are also underweight in the Philippines which is the most sensitive to energy price spikes.

Malaysia is the only country in Asia that is a net exporter of energy. However, its disappointing structural earnings growth in combination with unattractive valuation metrics are the primary reasons for being underweight there.

We have been constructive on Latin American markets over the last few quarters and are now modestly overweight in Brazil, Chile, Mexico and Peru.

Powerful structural shifts

Focusing on the sectoral breakdown of the emerging asset class, it is striking how different it is relative to previous major crises. During the global financial crisis in 2008, cyclical sectors such as energy and materials were the largest sectors (see Figure 2). Currently, the sectors that dominate EM are information technology, consumer discretionary and communication services. These three sectors combined are responsible for around half the weight in MSCI EM.

We believe emerging markets are no longer a derivative of the global economic cycle; they are now a play on technological leapfrogging and the digitization of domestic consumption. The advanced hardware essential to the AI supply chain now comes almost exclusively from the emerging world (e.g., South Korea and Taiwan). This underlying trend is still valid and robust, despite the war.

¹ MSCI data in USD to close 27 March

“We have been buyers of Latin American markets

Post-war recovery

After the disruption from the Iran war, we believe EM equities are poised for strong performance in 2026, supported by lower local interest rates, higher earnings growth, attractive valuations, further improvement in corporate governance, and healthier fiscal balance sheets. We still foresee higher returns in EM than in DM in the current calendar year. The valuations are attractive to us, with a discount to developed markets that has receded slightly but is still a generous 30%. This is an untenable anomaly, in our view. But it is not just valuation. The trade war is now pretty much priced-in to EM assets and the consensus for 2026 expects earnings growth to pick up across the board: 21% earnings growth for emerging, 14% for mature. It will therefore be the third consecutive year that the earnings environment in emerging countries is better than in the rich countries.

While we maintain our positive EM thesis for now, we acknowledge that an extreme scenario of a prolonged conflict in the Middle East could jeopardize some of the drivers behind our bull case and bear factors could arise, including persistent

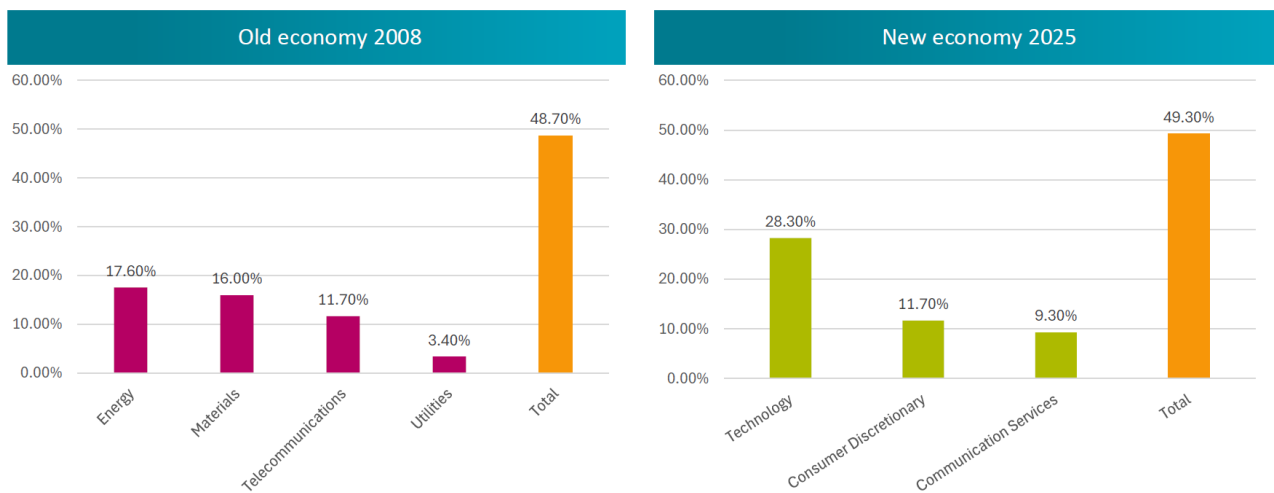
geopolitical tensions, a stronger US dollar, higher inflation and reviving recession concerns.

Ready for a rebound

We continue to be overweight South Korea, as it remains fundamentally attractive with strong earnings (revisions), low valuation parameters and structural reforms. We also remain overweight in Indonesia and Vietnam, since both countries are blessed with high growth and attractive valuations in our view. Furthermore, on both China and India we remain cautious. The latter's valuation metrics still appear too high. In China's case, the latest earnings numbers show a slow recovery, with EPS growth being powered by buybacks and margins.

In the rest of EM, we like South Africa, which received a boost from its terms of trade, and gold/platinum group metals rally, as well as Greece, and Poland, which received boosts from the EU. In Latin America we are overweight in Mexico, Chile and more recently Brazil, since the latter country is a beneficiary of higher oil prices.

Figure 2: MSCI EM index weights 2008 vs 2025



Source: MSCI, December 2025

INTERVIEW

Cornelis Vlooswijk, Portfolio Manager, Emerging Market Equities

“A good company doesn't always make a good stock”

Cornelis Vlooswijk is senior portfolio manager for Robeco's Global Emerging Markets Core strategy as well as the Afrika equity strategy. Here he reflects on his own investment journey and gives us his take on emerging market trends and opportunities in the months ahead.

What originally got you into investing?

I've been interested in markets since my early teens as I watched my father, a retail investor, check share prices every evening when he came home from work. I became intrigued at how quickly share prices could move for seemingly no reason. I liked numbers and accounting and the competitive aspect of investing. It's not a lottery – you're constantly challenged to gather information, assess it, and make calculated decisions that are better (or faster) than others.

While at university, I joined the student investment association and studied economics and finance. After graduating, I moved to London to work in M&A and corporate finance. It was an interesting experience, but it confirmed for me that I preferred the dynamics of stock-market investing. Markets move constantly and you have to stay sharp, informed, and decisive. I initially started with Robeco as part of a research joint venture with Rabobank, and in 2008 moved into the Emerging Markets team.

What makes a good stock?

A good stock for me is one that is underpriced. And a good company doesn't always make a good stock – valuation matters. That could translate into a strong company whose long-term earnings and cash-flow potential are undervalued by broader markets. That could also mean a mediocre company that investors have abandoned to the point where valuations are extremely low (and extremely attractive). Sometimes the most interesting opportunities are companies with problems that the market is treating too pessimistically. When the valuations sink,

the risk-reward can become irresistibly compelling. I manage Robeco's African equities strategy, where we often observe companies trading at significant discounts to other regions. While not flawless, they can deliver attractive returns based on an initially low starting valuation.

What's your biggest lesson learned over the years?

If something looks too good to be true, do more due diligence. While markets aren't perfectly efficient, they aren't stupid either. When a company seems fine, but its share price is falling, don't assume the market is wrong. There may be information circulating, perhaps locally, that isn't widely known; this is especially true in emerging markets. That doesn't necessarily mean insider trading, but it does mean proceed with caution. Conversely, don't get over-confident when something looks like an easy win.

Emerging markets started strong in 2026, but momentum has stalled amid the Iran conflict. How do you see prospects for EM equities as we enter Q2?

It's difficult to forecast equity markets overall because so much depends on how the Iran war will evolve. However, I do believe the outlook for emerging markets is significantly better than for developed ones. First, EM companies and economies are starting from such a low base, they can easily generate real growth, even in challenging environments. Similarly, valuations are also much lower, which makes EM companies relatively more attractive. The picture is a bit more nuanced for Africa.

“ Many investors assume EM is low-tech and behind; but innovation isn’t confined to developed markets.

Higher oil import costs and lower metal prices are negative for South Africa but share prices have corrected sharply since the conflict began. However, this has created compellingly low valuations and nice re-entry points. We are cautious on Egypt due to the war. It had strong momentum before the conflict but is now vulnerable due to its dependence on Gulf States for financing, which is reflected in very low valuations. In contrast, oil and gas exporters Nigeria, Algeria, Angola, Mozambique and a few other African nations are benefiting as energy prices rise. The war is not good for any region, but Africa is somewhat better insulated than Europe or parts of Asia.

Which trends and opportunities are you most excited about in emerging markets?

The biggest opportunities today are clearly in Africa. Given more than a decade of disappointing returns (2011-2024), except for South Africa, global investors largely abandoned it. After years of poor economic policies, countries such as Ghana and Nigeria have implemented reforms which are backed by commodity tailwinds – gold for Ghana and oil for Nigeria.

With an improving macro backdrop and low valuations, businesses operating in these economies are well-positioned for earnings growth. Demographic trends such as population growth and an expanding youth base create natural demand for products and services. Adoption of mobile telecom and mobile money payments are illustrative examples, with some companies combining strong technology with exposure to fast-growing markets such as Egypt, Tanzania, and the Democratic Republic of Congo (DRC). Mobile money is creating huge efficiency gains in areas where traditional banking infrastructure is limited.

What is the most misunderstood aspect of investing in EM equities?

Many DM investors still assume EM is low-tech and ‘behind’; but innovation isn’t confined to developed markets. Emerging markets can dominate major parts of the supply chains across industries. Take semiconductors; a Taiwan company produces the world’s most advanced processors, and two of the three global leaders in high-bandwidth memory are based in Korea.

What are your favorite EM countries right now?

After the recent correction, many Korean companies stand out given strong earnings potential that is still underappreciated, especially in tech-related sectors. Nigeria and Ghana are also strong picks, driven by meaningful economic reforms and commodity tailwinds.

If you could meet any historical figure who influenced the financial world, who would it be and what would you ask?

I would choose Benjamin Graham, the father of value investing. His work brought discipline and rationality to markets that were far more speculative in his time. More specifically, I would ask him at what valuation discount would he prefer emerging market equities over US equities?

He valued business quality and low valuations so it would be interesting to know how he would weigh those factors today, especially given how expensive US markets have become relative to EM.

TRIP NOTES

João Giesta, Equity analyst

South America's rare asado

João Giesta, an Equity Analyst for Robeco's EM Equities team, recently returned from South America, where fiscal restraint, structural reforms and a raw materials boom are converging to create a rare but positive outlook.

Charming cities, mild temperatures, sunny days, and delicious Argentinian *asados* were on a program that began at LarrainVial's Andean Investment Conference, in Santiago, and ended in Buenos Aires with visits to key institutions.

Less red tape, more discipline

Chile's Kast government aims to make the country safer, reignite economic growth, and slash red tape. The economic agenda is a critical priority to unlock growth and create jobs. A proposal to gradually lower the corporate tax from 27% to 23% is the most relevant legislation in the coming months. Another program pillar is simplifying the country's backlogged permitting system which should improve growth and investments across diverse sectors – from mall expansions to mining developments.

In Argentina, the government seems genuinely committed to maintaining a fiscal surplus, opening the economy, passing structural reforms, taming inflation, and restoring trust in the Argentine peso (ARS). As a native Brazilian, parallels between President Milei's plan and our successful 'Plano Real' reforms of the mid-1990s, are encouraging. However, Argentina is still a deeply bi-monetary economy, where the population saves in dollars and treats the peso with understandable skepticism; Milei cannot afford to lose credibility.

His government is also intent on passing the Glaciers Law, which should unlock major mining projects and draw billions in foreign direct investment (FDI). Finally, Argentina's central bank (BCRA) is ensuring the ARS stays within defined FX bands until it can accumulate enough reserves to absorb potential shocks. Understandably, the BCRA will not issue ARS to buy reserves. Apart from FDI, other forms of financing reserve purchases will come from the sale of state-owned assets.



Selectively optimistic across sectors

The region's copper miners believe the market will remain in structural deficit for years, supported by growing demand and limited new supply. In Chile, changing the permits system is seen as a means for expanding brownfield production. Chilean consumer names, on the other hand, are seeing a much more mixed reality: lower-income consumers are under pressure and promotions are intense in staples. Meanwhile, malls and some discretionary names continue to perform relatively better. Oil and gas (O&G) companies in Argentina will keep ramping up production in Vaca Muerta, while expanding the infrastructure needed to connect the basin to export markets. Overall sentiment is selective, but constructive. Peru was a preferred market for most, combining growth, mining exposure, and still-attractive valuations. Chile is seen as the least risky, though many investors argue good news is already priced in. Argentina remains the higher-risk, higher-upside story, but investors want to see more and meaningful FDI before turning constructive. They are more positive on Argentine's O&G names. Colombia was clearly the negative consensus, with a complex fiscal situation to be inherited by whoever wins the election.

Iran war – pain for Chile, cushion for Argentina

Chile is significantly exposed as it depends heavily on imported energy so a prolonged war could derail its positive prospects for 2026. Thanks to its booming O&G industry, which has made the country an energy net exporter since 2024, Argentina has a partial hedge: higher energy prices still press inflation but also support exports and external accounts. That asymmetry could matter more than investors think if the shock persists.

With improving policy direction, visible reforms, meaningful mining potential, and still-reasonable valuations (in select pockets), the current backdrop in Chile and Argentina can be described in the same way an *asado* can only be properly appreciated: rare.

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