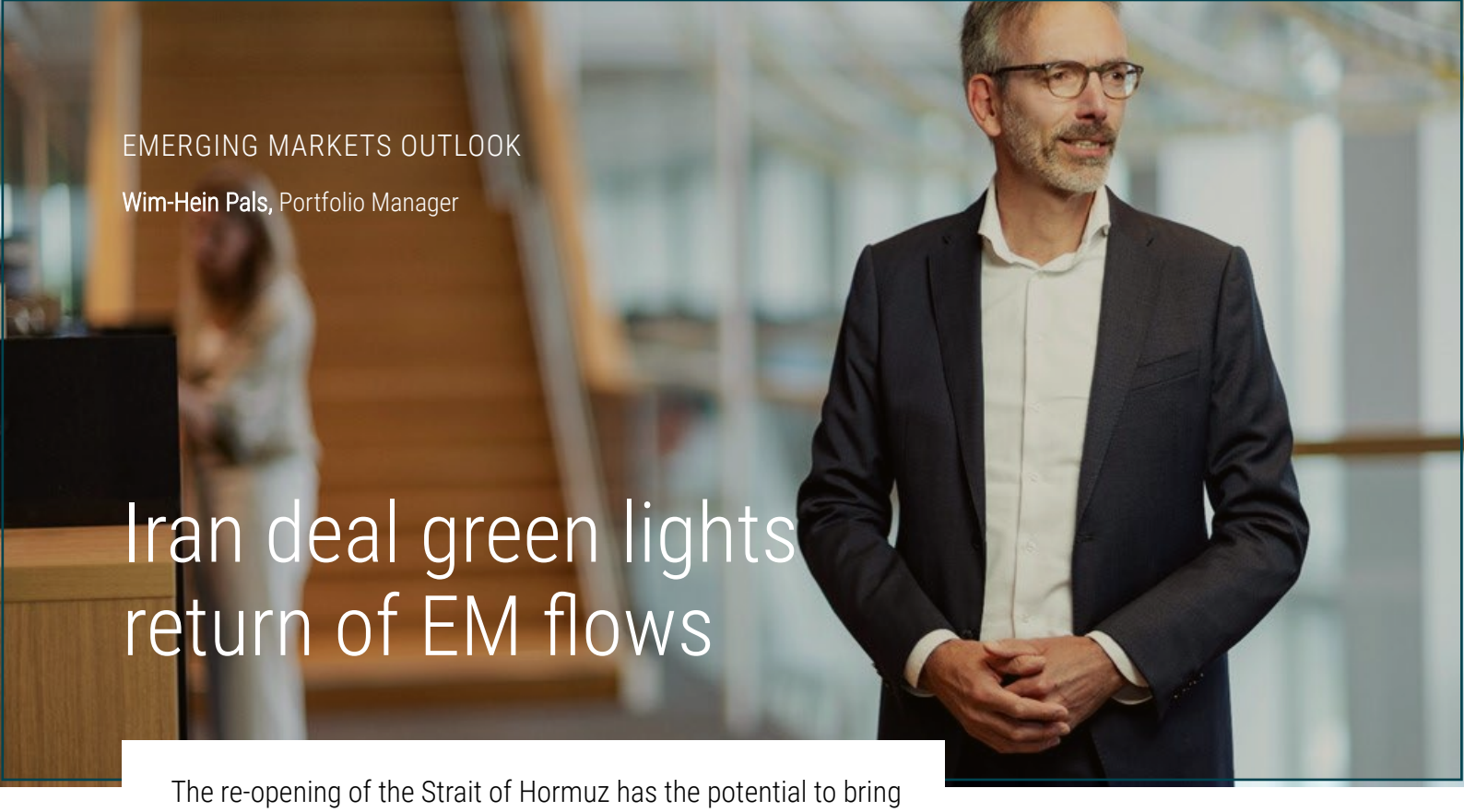
ROBECO
The Investment Engineers

FUNDAMENTAL EQUITY QUARTERLY

Emerging markets outlook

Q3 2026



EMERGING MARKETS OUTLOOK

Wim-Hein Pals, Portfolio Manager

Iran deal green lights return of EM flows

The re-opening of the Strait of Hormuz has the potential to bring back the EM trades that have been put aside since mid-April and paves the way for more balanced performance within EM.

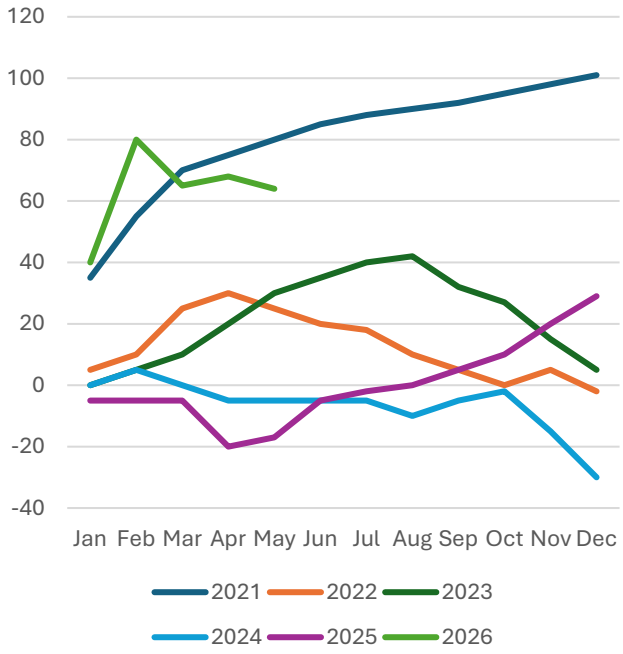
Tech still the focus

The strong rally in Korea and Taiwan on the back of AI exposure is unlikely to be derailed by a flip in the geopolitical set-up, in our view. While the opening of the Strait of Hormuz could renew demand for high-beta commodity plays, it is unlikely to significantly impact price action for EM ex-Tech. Performance of EM ex-Tech would need to be bolstered by lower yields in the US and a window of currency stability to allow for a resumption of EM flows. A noteworthy example here is that of Brazil, which continued to outperform post the conflict due to its energy export profile and being geographically remote from the Middle East. However, the market sold off with a full-fledged comeback of US tech giants, the trimming of the domestic easing cycle and increased uncertainty about the October election.

Oil decline helps but USD key

The declining energy prices could lower inflation (expectations), moderating pressure on central banks to tighten, which is a key tailwind for EM. A moderation in the US dollar, or a reversal to weakness versus key EM currencies, could re-ignite flows into EM. Fund flows reached a peak of USD 83 bln and lost 23% of that over the past few weeks as the dollar strengthened and mega IPOs drained global liquidity. Taking a conservative assumption of inflows resuming at just a quarter of the weekly pace seen in 2026 before the conflict, then 2026 is still on track to surpass the previous record inflows of USD 101 bln in 2021, as illustrated in Figure 1.

Figure 1: Fund flows (USD bln) into EM equities tracking better than in the last four years



Source: EPFR Global, June 2026.

"Trade is coming back onto the agenda

As Figure 2 shows, global equity AuM currently dedicated to EM stands at only about half of the share of EM in the MSCI ACWI index, and lower than levels seen over recent decades. That said, we are watchful of risks in isolated pockets, such as the leveraged products in Korea, momentum crowding in Taiwan, as well as China Tech into IPOs.

Views on South Korea, China and Taiwan

In our Fundamental Emerging Equities strategy, we continue to be overweight South Korea, seeing it as fundamentally attractive with strong earnings (revisions), low valuation parameters, and structural reforms. South Korea remains driven by a higher-for-longer memory upcycle, but we highlight that non-tech plays also appear attractive due to the wealth effect of the KOSPI rally and governance reform beneficiaries. Taiwan benefits from its pure-play exposure to the global AI buildout, although it is overpriced in a lot of instances. At these valuation levels, our fundamental EM strategy is underweight in Taiwan.

We are also underweight China given the headwinds of geopolitics and persistent overcapacity in a lot of sectors, ranging from property to EVs and solar panels to steel. We prefer thematic exposure in AI infrastructure, advanced manufacturing, energy security, and healthcare innovation. While a peace deal and lower oil could bring some much-needed relief to Southeast Asian equities, we remain cautious there too.

Latam in a sweet spot

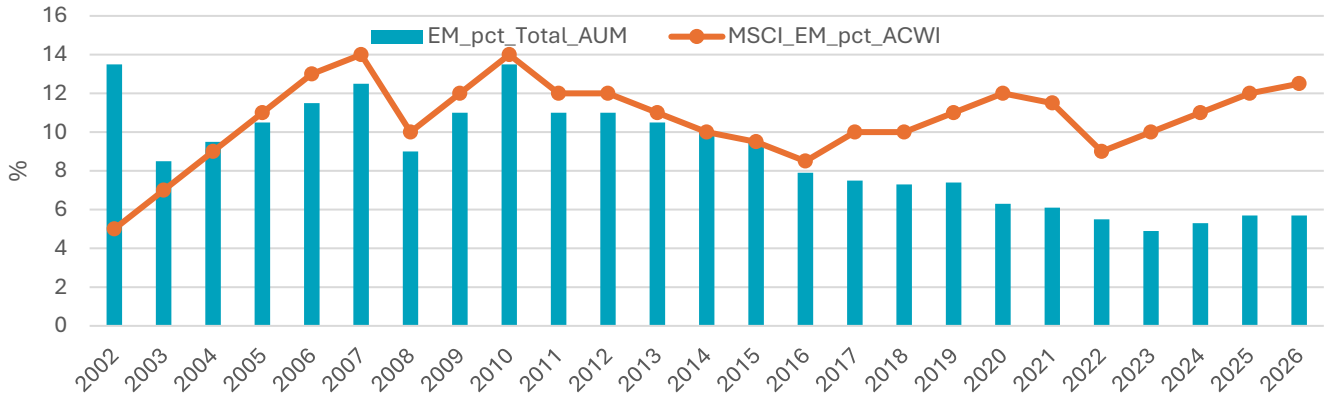
We are overweight all Latin markets except Colombia. In Latin America, we view Chile as a clear beneficiary of lower oil prices as it imports 100% of its oil needs. Not only that, but it also reaps the benefits from higher copper prices while valuations are attractive at this point. The story for Brazil is more idiosyncratic at this moment. Some easing is still likely, but a lot shallower than initially thought. While this might be priced in, the political story is taking center stage (the incumbent is ahead in the polls by about 6 - 7%) while valuations are attractive.

We also remain overweight in Indonesia and Vietnam since in both countries we see high growth and attractive valuations. Furthermore, on India we remain cautious, where valuation metrics are still too high in our view. In the rest of EM, we like South Africa, which received a boost from its terms of trade, and the gold/platinum group metals rally, as well as Greece, and Poland, which received boosts from the EU.

Trade policy and tech correction are near-term risks

Let us not forget the risks. Firstly, trade is coming back onto the agenda. The combination of new tariffs and court scrutiny points to another round of prolonged policy uncertainty and brings back the focus to supply chains. Brazil is one of the countries most impacted by tariffs of 25%, while Mexico and Canada will continue to negotiate the USMCA deal for the next year or longer. The second risk concerns the behavior of the technology sector. A correction in tech is possible as momentum is at the highest level in 40 years. While we are bullish on the sector and see weakness as an opportunity to add, a sudden deep market correction could bring considerable market disruption.

Figure 2: EM under-positioned relative to history and vs index weight in ACWI



Source: EPFR Global, MSCI, June 2026.

TRIP NOTES

Clément Chamboulive, Portfolio Manager

China's auto tech on the fast track

Portfolio manager Clément Chamboulive visited China at the end of the April to attend the Beijing Auto Show, where he found technology progress continues at breakneck speed.

The Beijing and, in alternating years, Shanghai auto shows are the world's largest automotive exhibitions, making them the ideal opportunity to visit the world's leading car market to 'kick the tires'. This is the place to discover the latest innovations in autonomy, semiconductors, battery and charging technology, and ride-hailing.

Autonomous driving features becoming standard

Autonomous driving features are now the table stakes for a new vehicle model to be taken seriously in China. The majority of vehicles at the Beijing Auto Show included autonomy at level 2+ and above, where the car can autonomously make turns, change lanes, navigate intersections, and re-route itself. Whether it was a vehicle from one of the many local brands spending an hour confidently weaving its way through complex street scenes, or a robotaxi doing the same, all the instances of autonomous driving which I experienced worked very well. These features are now part of daily life and seen as a need-to-have, especially for drivers who are less confident. Level 2+ systems are for personal use and as such there was always a safety driver, who once or twice took over not because the system was not able to handle a situation it encountered, but rather to do so quickly rather than wait for the system to figure it out. The robotaxis, however, roam the roads freely.

Autonomy not just for (the) people

We mostly think about autonomy for passenger vehicles, but some of the most interesting and potentially influential developments are occurring in the non-passenger space. In Suzhou I met with a developer of custom-made robovans. Whereas robotaxi fleets currently number in the hundreds or thousands, this company already has an operational fleet which numbers around 20,000, and is rapidly growing. Robovans are being enthusiastically adopted by logistics companies, usually to bring goods from a regional distribution center to a neighborhood shop. The last few meters remain challenging, but are not necessarily that relevant in a densely populated environment with designated collection points.

Local cars for local tastes

Innovation is not just contained to the brains of the car and the robot driver, but is also very present within new vehicle cabins. Large screens and even projectors are quite prevalent, and so are fridges. Fridges not only keep food and drinks cold, but some can also warm contents up to 50 degrees, for example baby milk.

China is the world's largest producer and buyer of cars, so its manufacturers are creating products which suit the needs of the market. As a consequence of the significant capacity created by local government policy, they are also exporting the fruits of this rapid innovation to the rest of the world.

Flash charging

On the EV charging side, the world's two largest battery makers have recently announced batteries which charge almost fully in a matter of minutes, essentially bringing charging time to parity with filling up a tank of petrol or diesel. The use of large batteries as energy storage systems at fast charging stations themselves is also growing. Crucially, this allows fast charging to be offered at places where the grid is unable to support a conventional charging point, because of grid capacity or economic constraints. The ESS battery can fill up continuously and then discharge rapidly when an EV plugs in. Tens of thousands of such stations are due to roll out in the near future, which will further consolidate EV dominance in China.

Emerging markets unlocking value in the energy transition

Energy storage is emerging as a critical enabler of the energy transition and a growing opportunity for emerging market companies.

Renewables, not friction-free

We see the global energy sector currently undergoing its most significant structural realignment since the Second Industrial Revolution, creating an entirely new energy transition value chain in the process. While renewable penetration continues to accelerate, its ability to supply enough energy to meet growing electricity demand is being hamstrung by technological issues as well as slow permitting and grid integration complications. Renewable variability (or intermittency) is probably the most well-known of renewables' drawbacks.

On the flip side, too much price volatility has also been problematic for the energy sector. Renewables' supply is usually high during the day when demand is lower, and low when demand is high (e.g., in the early evenings). Moreover, such supply imbalances also lead to extreme price volatility, which neither utilities nor consumers want. Renewable surpluses can also lead to system voltage overload, grid instability and the risk of a complete system shutdown. To avoid damaging surges, renewables must be shut down completely (curtailment), resulting in lost revenues, lower utilization rates of costly assets, and a weaker return on invested capital for grid operators.

Unstable grids and politics

Intermittency and instability issues are now converging with macro-economic issues. Tariffs, supply chain disruptions, and regional conflicts have impacted energy infrastructure – reducing access to energy resources, stoking inflation, and endangering economic growth for countries globally, particularly oil and gas-importing countries in emerging markets and the EU. To reduce energy dependence and increase resilience, governments are prioritizing renewable installations on domestic grids and championing the services of local providers (rather than cheaper Chinese imports). Immature political institutions and maturing grids that are unable to cope with increasing demand for grid additions also create bottlenecks. Much of the existing transmission and distribution infrastructure was built decades ago for centralized power generation which flowed from coal or gas plants to consumers. Connecting clean tech with old infrastructure is tricky and costly, leading to permitting delays in both emerging and developed markets alike. Emerging markets face additional financing burdens, and lack clear regulatory or institutional approval processes. Downstream electricity demand is rising and complicating matters further, driven by electrification trends and the expansion of AI data centers. Hyperscalers are particularly ravenous energy eaters, whose demand can't wait for grid upgrades or multi year permitting processes. As a result, many countries and companies (emerging and developed) are turning to stationary energy storage as a cheap, fast, and efficient alternative.

Battery storage – solving multiple challenges

Energy storage addresses several of the energy transition's most acute challenges. By absorbing excess renewable generation when supply exceeds demand and releasing it during periods of scarcity, storage directly reduces curtailment and smooths power price volatility, improving the economics of renewables and grid stability.

Storage also provides a stop-gap solution to permitting problems and build out constraints. Strategically deployed batteries can relieve grid congestion, provide local capacity and defer multi-year transmission upgrades that are delayed by complex permitting processes in both developed and emerging markets. In this way, storage acts as a flexible, fast-to-deploy complement to traditional grid infrastructure. At the same time, storage plays a critical role in addressing hyperscalers and AI-driven power demand. Data centers require large volumes of firm, uninterrupted electricity on short timelines that unstable grids increasingly cannot deliver. Co-located storage enables on-site generation, peak management and reliability under 'Bring Your Own Power (BYOP)' models, allowing digital infrastructure to grow despite grid constraints.

Important information – Capital at risk

This information refers only to general information about Robeco Holding B.V. and/or its related, affiliated and subsidiary companies ("Robeco"), Robeco's approach, strategies and capabilities. This is a marketing communication solely intended for professional investors, defined as investors qualifying as professional clients, who have requested to be treated as professional clients or who are authorized to receive such information under any applicable laws. Unless otherwise stated, the data and information reported is sourced from Robeco, is, to the best knowledge of Robeco, accurate at the time of publication and comes without any warranties of any kind. Any opinion expressed is solely Robeco's opinion, it is not a factual statement, and is subject to change, and in no way constitutes investment advice. This document is intended only to provide an overview of Robeco's approach and strategies. It is not a substitute for a prospectus or any other legal document concerning any specific financial instrument. The data, information, and opinions contained herein do not constitute and, under no circumstances, may be construed as an offer or an invitation or a recommendation to make investments or divestments or a solicitation to buy, sell, hold or subscribe for financial instruments or as financial, legal, tax, or investment research advice or as an invitation or to make any other use of it. All rights relating to the information in this document are and will remain the property of Robeco. This document may not be copied or used with the public. No part of this document may be reproduced or published in any form or by any means without Robeco's prior written permission. Robeco Institutional Asset Management B.V. has a license as manager of UCITS and AIFs of the Netherlands Authority for the Financial Markets in Amsterdam.

Parts of the marketing material may involve the use of AI-assisted tools to support the creation and review of marketing materials. These tools are designed to help ensure greater consistency and efficiency. All outcomes are reviewed by human evaluators.

US

This document may be distributed in the US by Robeco Institutional Asset Management US, Inc. ("Robeco US"), an investment adviser registered with the US Securities and Exchange Commission (SEC). Such registration should not be interpreted as an endorsement or approval of Robeco US by the SEC. Robeco B.V. is considered "participating affiliate" and some of their employees are "associated persons" of Robeco US as per relevant SEC no-action guidance. Employees identified as associated persons of Robeco US perform activities directly or indirectly related to the investment advisory services provided by Robeco US. In those situations, these individuals are deemed to be acting on behalf of Robeco US. SEC regulations are applicable only to clients, prospects and investors of Robeco US. Robeco US is wholly owned subsidiary of ORIX Corporation Europe N.V. ("ORIX"), a Dutch Investment Management Firm located in Rotterdam, the Netherlands. Robeco US is located at 90 Park Avenue, 21st Floor, New York, NY 10016.