

### **Emerging Market Income Outlook First Quarter 2026**

For the first quarter of 2026, the MSCI Emerging Markets Index was down 0.17% and the MSCI High Dividend Yield Index was up 0.06%. Both were essentially flat and were hit hard by the conflict in Iran to the point that they were down 13.06% and 9.20% just in the month of March.

The MSCI EM Index has a 63% exposure to China, Korea, and Taiwan combined. China was down 7.70%, Taiwan down 12.96%, and Korea down 25.45% for the month of March alone. (Despite March, Taiwan and Korea were positive for the quarter). Argentina and Brazil were up 14.10% and down 1.88%, respectively, for the month of March and up 8.64% and 19.10%, respectively, for the quarter. The benchmark exposure to Argentina is 0% and to Brazil 5.15%. India, in which the index has a 12.59% exposure, was down 18.13% for the quarter. Latin America, was up 14.58% for the quarter versus the down 0.17% of the index.

Most other global equity indices had poor Q1 performance. In the US, the Dow and the S&P 500 were down 3.19% and 4.35%, respectively, for the quarter. Euro Stoxx was down 3.48%. The German DAX was down 7.39%. Even the NASDAQ in the US, home of the magnificent seven, was down 6.96%. On the other side of the coin, the commodity index (CRY) was up 24.65% in Q1 led by WTI crude which was up 76.56%. Incidentally, both Brazil and Argentina are crude oil exporters. The dollar outperformed most currencies as it was up 1.56%, reflecting a traditional flight to safety during uncertain times.

Other top performing equity markets during Q1 were mostly concentrated in Latin America as Colombia was up 21.12%, Peru was up 20.79%, and Mexico was up 7.68%. Saudi Arabia, a large oil producer, was up 9.23%. Indonesia down 20.68% and India down 18.13% were the worst performers in the EM universe.

We woke up in early March to the news of US and Israeli bombing in Iran. Markets began a month-long decline and all things oil, fertilizer and helium that passed through the Strait of Hormuz shot up in price as users immediately feared shortages. Gasoline prices in the US went up a full 33% from slightly under \$3 per gallon to slightly over \$4 by early April. Airplane fuel doubled in price over the same period with the airline companies adding “temporary” fees on ticket and luggage prices. Stock prices would rally during the war on hopeful comments from both sides of the conflict only to get slammed as positions would reverse.

As this is being written in mid-April, markets have rebounded as both sides seem increasingly willing to talk. Oil has come back down from over \$100 per barrel to the \$85 to \$90 range. US equity indices have flirted with all time highs as investors are beginning to feel that the end may be near and that no further additional adverse events are (hopefully) on the horizon. Global investors rightly or wrongly are beginning to look beyond the war.

Assuming, as we do somewhat hopefully, that the stock markets are correct in their assessment of a potentially rapid conclusion to hostilities resulting in no further damage to petroleum supply chains, our optimism of more good performance from EM remains in place. Valuations in EM remain attractive. P/Es at 31 March were around 11.5 times 2026 earnings which are forecasted to increase by 17-21%, well above developed market levels. Price to book ratios in EM average 2.16 times, 42% lower than DM averages. EM GDP growth is estimated to be in the 4% range for 2026 while the similar number for the DM world is only 1.5%. We believe commodity producers (including oil) will have a strong 2026 particularly if the US dollar stays where it is or weakens somewhat. Wheat, corn, cotton, and soybean producers are all enjoying meaningful price hikes year to date – and that also should continue.

All in all, despite the conflict in Iran, 2026 should be a very decent year for EM in general. Growth is up, equities are historically cheap, global investors are underweight EM and 2026 should see the interest cycle bring rates down in many parts of the world. We continue to be optimistic as EM regains some respect on the global investment stage.

Thanks for your continued support.

Arthur E. Byrnes  
(212) 546-6286  
abyrnes@deltec-ny.com

*All returns quoted in US dollar*