

Deltec Emerging Market Equities Strategy 2026 First Quarter Review and Outlook

The MSCI Emerging Markets Index ended Q1 2026 essentially flat marking a resilient but volatile quarter. This compared favorably to developed markets, with S&P 500 down -4.3% and the MSCI World Index down -3.6%. Our strategy outperformed, generating modestly positive returns as a result of our overweight position in Latin America, a region that was much less impacted by higher oil prices, and our exposure to the AI supply chain in Asia, particularly in computer memory. Our underweights in China and India also contributed to our relative strength as energy prices and supply concerns weighed on these large oil importing countries.

It was a tale of two different markets over the quarter, with emerging markets having a strong first two months of 2026 posting solid double-digit returns fueled by AI-driven momentum in technology supply chains (notably Taiwan and South Korea), strong performance of commodity linked countries (Brazil and Peru), a weaker USD, and global rotation out of expensive U.S. mega-cap tech. March, however, saw a dramatic reversal, with the index declining sharply amid escalation of the Middle East conflict that led to the closure of the Strait of Hormuz, and surging oil prices. Crude oil futures rallied 51% in March alone and +76.6% for the year-to-date. Asian markets were particularly weak with 80% of the crude passing through the Strait headed East.

Regional Review

Latin American Markets +14.6% were the clear winners during the quarter led by Colombia +21.1%, Brazil +19.1% and Peru + 20.8%. All enjoyed the benefits of strong commodity prices, low exposure to imported oil and the prospects for a change towards market friendly governments with presidential elections in each country this year. Mexico +7.7 % performed well on the back of better-than-expected growth as its economy expanded +0.8% quarter-on-quarter in Q4 2025, the fastest pace in five quarters, reversing a -0.3% contraction in Q3. A surprising rate cut by Mexico's central bank (Banxico) of 25 basis points to 6.75% in late March also supported market sentiment. Off-index Argentina +8.6% had a strong quarter led by a sharp March rebound in its oil sector. Argentina has become an oil exporter due to the extraordinary success of the fracking activity in its massive Vaca Muerta shale formation.

MSCI Asia -1.5% suffered the sharpest declines in March in response to the Iranian conflict as the region is the most exposed to higher oil prices as it is a large importer of middle eastern crude that passes through the Strait of Hormuz. Korea +16.5% outperformed, driven by ongoing strength in the technology sector particularly memory-related stocks despite a steep sell-off in March, as investors worried about the impact of higher oil prices on South Korea's energy dependent economy. Similarly, strong gains were also made by Taiwan +9.1% for the quarter, supported by ongoing strength in AI, despite a correction in March due to the market's energy price sensitivity, especially in energy intensive semiconductor and technology stocks.

China -8.9% underperformed as the domestic economy remained in the doldrums despite some impressive progress in AI and high-tech manufacturing, particularly in EVs and battery storage. The March pullback was less severe in China than in other Asian countries as it is better positioned to absorb spillover from the Middle Eastern conflict given its large oil reserves and diversified energy mix. India -18.1% was one of the largest underperformers as concerns over potentially negative impacts of AI coding agents on its important technology outsourcing industry were compounded by its reliance on oil imports.

ASEAN -1.8% markets were mixed with Thailand +15.4% posting solid gains. Optimism was fueled by a surge in exports and expectations that the pro-business Bhumjaithai Party's election victory could end years of political instability. Indonesian stocks fell after MSCI signaled an interim freeze on adding Indonesian companies to indexes because of concerns about limited corporate transparency and opaque ownership structures.

The MSCI EMEA region was unchanged as Eastern European markets +1% ended the period with small gains after March's decline as energy costs on the continent soared, particularly for natural gas sourced from the gulf. The oil rich Middle Eastern countries had mixed performance as Saudi Arabia +9.23% fared well experiencing limited damage from Iranian retaliatory strikes while Iran's closer neighbors - The UAE -7.1%; Kuwait -5.3%; and Qatar -3.4% were not as fortunate as some facilities were hit. The UAE property market was hard hit as it has historically been considered a safe haven in a tumultuous region.

Strategy Review

As mentioned earlier, our positive performance differential during this quarter was largely due to our overweight position in Latin America as well as select technology companies exposed to AI, especially computer memory. The following were the largest contributors and detractors to the strategy's performance in the first quarter:

Contributors

- Hyundai Engineering & Construction (Korea) surged +91.5% in the first quarter of 2026, driven by major contract wins, strong earnings, and optimism around overseas nuclear power plant opportunities.
- Vista Energy (Argentina) rallied +55.1% on the back of the surge in crude prices after the closure of the Straits of Hormuz.
- Samsung Electronics (Korea) gained +37.3% in the first quarter of 2026, driven by exceptional memory chip profitability and record earnings.
- Contemporary Amperex Technology Co Ltd (China) rose +20.5% in the first quarter of 2026, driven by strong 2025 earnings results and optimism around energy storage growth. The company is a key beneficiary of China's recently released 15th five-year plan stressing security in energy supply chains and industrial dominance.
- NAC Kazatomprom JSC (Kazakhstan) surged 39.8% in the first quarter of 2026, driven by strong uranium market dynamics and improved sales performance.

Detractors

- HDFC Bank (India) declined -31.9% in the first quarter of 2026, driven by governance concerns following the chairman's abrupt resignation, despite solid underlying financial performance.
- Xiaomi Corporation (China) declined -19.8% in the first quarter of 2026, pressured by rising memory costs, smartphone margin compression, and weaker-than-expected quarterly results.
- Reliance Industries (India) declined -17.0% in the first quarter of 2026, despite solid operational performance across its key business segment as concerns over the company's ability to pass through higher crude prices in their refining business impacted the shares.
- Grab Holdings (Singapore) declined -26.7% in the first quarter of 2026, despite solid operational momentum and positive long-term guidance. Investors fretted over the company's decision to forgo near term margins to support long term growth.

Outlook

Despite the pullback, EM equities demonstrated significant resilience, outperforming global equity markets during the period. While we have yet to have a final resolution to the Middle East crisis, indications that both sides are seeking a near term resolution have buoyed market sentiment substantially. As we write this letter, markets have more than recouped their March losses with the strong fundamental backdrop for emerging equity markets reasserting itself. Emerging markets are expected to deliver the strongest earnings growth of any major region in 2026, with the consensus forecasting around 17% EPS growth, supported by anticipated Fed rate cuts and a global economic soft landing. Valuations remain attractive with a forward P/E around 11.5x as of March 31, and investor positioning remains underweight in the asset class. This provides a potent cocktail for continued out-performance for Emerging market equities.

With warmest regards,



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Unless otherwise stated, all returns quoted in US dollar