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2025 Q4 EMERGING MARKETS OUTLOOK

Key Messages

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1. Resilient economic performance amid global turmoil

Economic activity in EM remained stronger than expected throughout 2025.

- **GDP growth stabilized at 4.7% y/y** for the 10 Key EM thanks to dynamic private consumption, improving business sentiment, and solid export performance.
- EM exports outpaced those of advanced economies, supported by **trade diversion toward intra-Asia supply chains** and frontloading ahead of US tariff hikes.
- Capital inflows increased, FX reserves strengthened, and financial markets benefitted from USD depreciation and a return of investor interest.

Monetary easing resumed gradually as inflation stabilized: food and energy prices softened, while core inflation remained contained. Real interest rates remain historically high, offering room for further easing.

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2. Exogenous global pressures intensifying

The macroeconomic environment for EM is worsening due to multiple global shocks:

- The re-elected Trump administration launched a **10% baseline "reciprocal tariff"**, ending the recent era of low global tariffs. Effective tariff exposure is now above 10% for most EM exporters to the US.
- **Geopolitical tensions** are reaching new peaks: US–China rivalry, Middle East instability, expanded sanctions on Iran and Russia, and persistent conflict in Ukraine.
- Domestic political fragility has surged in many EM, notably driven by youth-led protests and governance concerns.
- **Global oil markets have shifted into oversupply**. With OPEC+ unwinding cuts and non-OPEC production rising sharply, Brent prices are expected to fall toward **USD 60/bbl**, posing fiscal and external pressures on oil exporters while benefiting Asian importers.

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3. A turning point for EM growth in 2026

A deceleration in EM is now expected as both internal and external drivers lose momentum.

- GDP growth will soften from **4.5% in early 2025** to **around 3.5% in late 2026**, the lowest in four years.
- Consumption will moderate with slower income growth; investment will remain subdued under neutral or still-restrictive monetary conditions.
- External conditions will deteriorate due to weaker global demand, ongoing tariff uncertainty, and geopolitical conflict.

Fast-growing economies (China, India, Indonesia) will slow more markedly, while several low performers in 2025 (Mexico, South Korea, Poland, South Africa) should experience modest rebounds.

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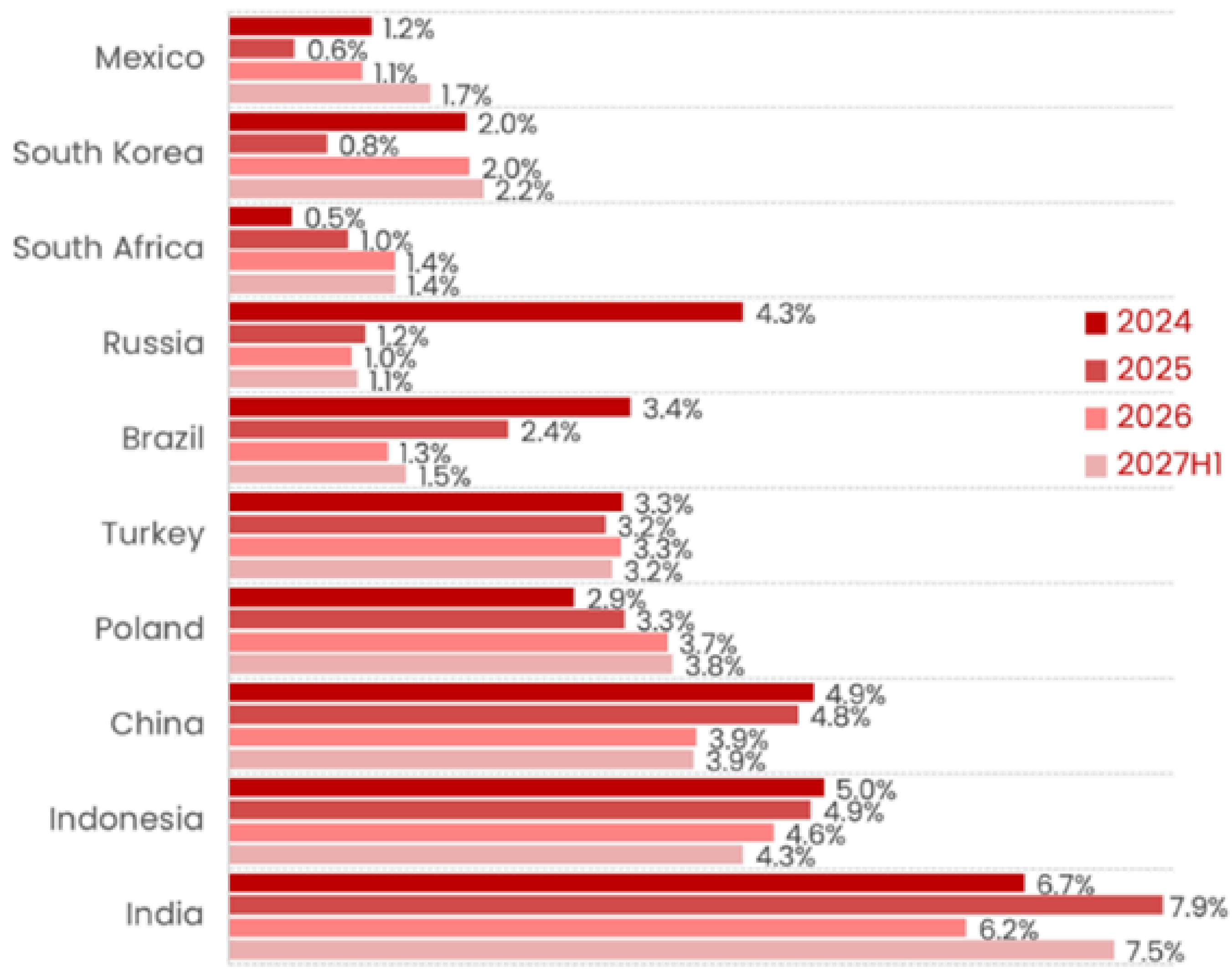
GDP Growth Projections in 10 Key EM

% y/y



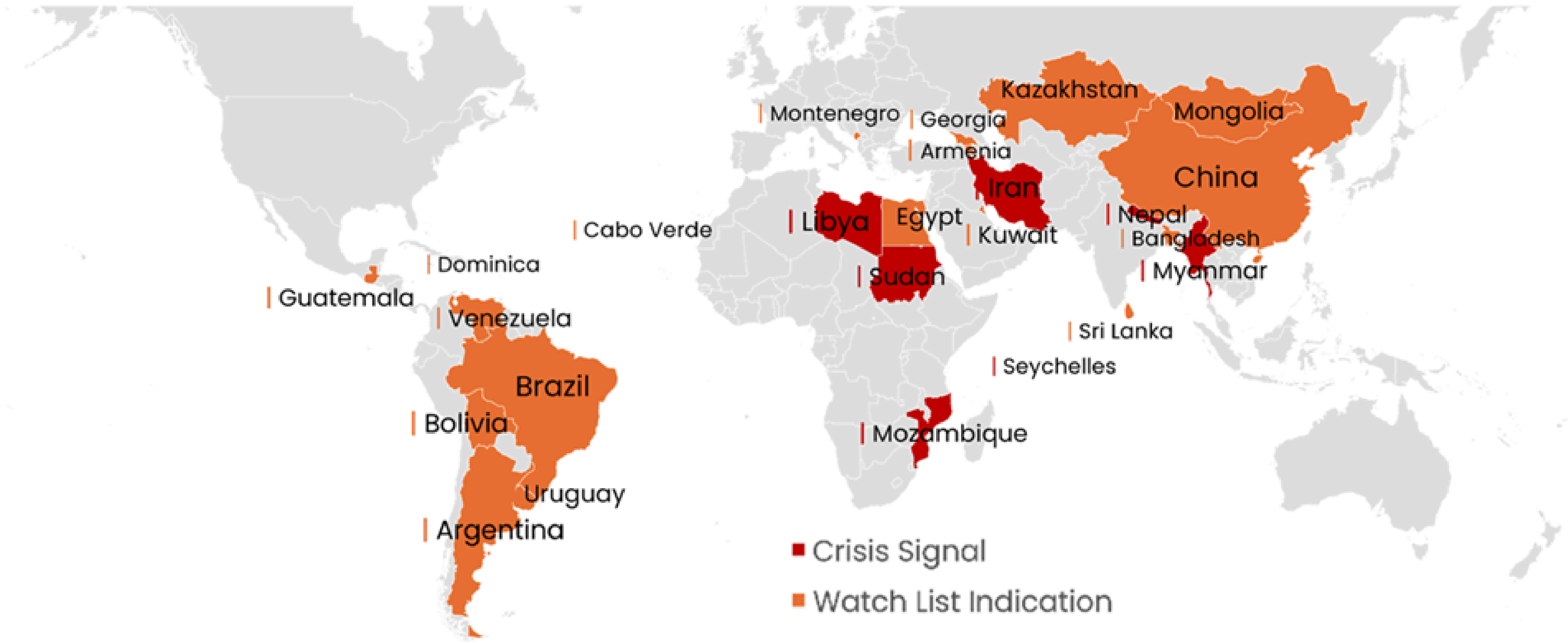
Source: TAC ECONOMICS Datalab

4. Risk environment improving, but divergences widen

Overall country risk for EM has **improved significantly** since mid-2023:

- Country Risk Premiums (CRP) have dropped by **165 bps**, returning to historical averages.
- Economic & Financial Risk ratings also improved, though unevenly across countries.
- However, **25 EM now show early warning signals**, including a new Watch List Indication for China related to structural imbalances (until 2028Q2).
- Other **vulnerabilities** persist in **FX exposure** (Brazil, Mexico, India, Poland, Turkey) and in political-institutional settings.

RiskMonitor: Early Warning Signals



Source: TAC ECONOMICS Datalab

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5. Strategic implications for 2026–2027

The convergence of slower growth, ongoing monetary easing, and a still-improving risk profile sets the stage for **medium-term resilience**.

In this context:

- **Safe Assets**: Poland, South Korea, Czech Republic, Thailand
- **Rising Stars** (high growth, low risk): India, Indonesia, Philippines, Vietnam, Rwanda
- **Targeted Investment Opportunities**: Brazil, China, Mexico, South Africa, Turkey
- **Strategic Retrenchment**: Iran, Libya, Myanmar, Russia, Venezuela

Monitor key Macro figures, risk measures and forecasts on TAC ECONOMICS Datalab https://app.taceconomics.com/

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