



EM EQUITY PERFORMANCE, EARNINGS, VALUATIONS, AND FLOWS

Benchmark EM equity indices have outperformed US stocks in 2026, but the underlying country performance is more mixed. EM equities (EM MSCI index) have gained 27.3% YTD and outperformed US stocks (+10.2%), but the average domestic index (local currency) has gained only 3.3% (Fig 1). This divergence largely reflects the composition of the index, where other regional markets that the IMF does not classify as emerging markets (e.g Korea and Taiwan Province of China) now account for nearly 50% of the index. For example, TSMC itself makes up about 15% of the benchmark. At the country level, **EM equity market performance YTD ranges from -31% in Indonesia to +26% in Thailand, with a median of 5.7%.**

- Earnings growth has mostly driven EM returns, while higher valuation multiples have played a role in Hungary and Thailand as well. FX gains also have boosted total returns for global investors in Brazil, Mexico, Hungary, and Colombia (Fig 2).
- In May, the EM MSCI gained 9.5%, but the average EM equity index was little changed, with Indonesia declining nearly 12% and Brazil down 7.2%. Poland (+6.6%) and Thailand (+5%) outperformed.
- The AI cycle is driving outperformance in some global markets (e.g Korea), though EMs have limited direct equity exposure. Estimates vary, as Goldman Sachs EM AI basket accounts for only 7-11% of local market capitalization in South Africa, Brazil, and Poland for example. Other plausible channels, such as industrials, IT, and/or materials are heavily weighted in some markets (e.g THA, MEX, PHL, IND), but financials generally dominate elsewhere. However, any sectoral correlation with performance appears inconclusive this year, with macro or idiosyncratic factors likely playing a bigger role.

Earnings and Valuations: Consensus expects 2026 average EM earnings growth of about 17% (Fig 8).

- Valuations:** PE ratios continue to trade at a large discount to the US, with a median PE of 12 vs 21 for the S&P500. India represents something of an outlier at just over 18. Valuation trends were mixed, with forward P/E ratios declining in several major markets (BRA, IDN, IND, ZAF) YTD, but gaining elsewhere (THA) (Fig 5). Equity risk premia (ERP) show large differentiation across EMs, and the median ERP does not appear especially compressed vs history (Fig 6).
- Earnings:** Earnings expectations for 2026 have risen about 5% on average since the beginning of the year, led by Latin America. In contrast, expectations for Asia and EMEA have been more stable (Fig 7). For 2026, analysts expect strong earnings growth in South Africa (46%), Brazil (35%), and Indonesia (28%), while expectations for the Philippines (2%), India (3%), and Chile (4%) remain relatively muted.

Portfolio and Equity Fund Flows: Portfolio flows to EMs have remained weak despite some stabilization post-conflict.

- Equities have seen renewed portfolio outflows over the last 2-3 weeks, notably out of Brazil and most Asian markets (Fig 9). Our sample of EMs has seen net outflows for three consecutive months, with Brazil seeing its largest monthly outflows in May since 2020 (Fig 10). On a YTD basis, inflows have correlated with performance. Thailand (+\$0.9 bn) and Brazil (+\$7.6 bn) have received net foreign inflows and have outperformed, while Indonesia (-\$3.4 bn) and India (-\$27.7 bn) both have seen substantial outflows and have lagged the broader EM universe.
- EM Equity Funds have seen net outflows YTD (3.9% of AUM), though domestic domiciled Chinese funds account for the bulk of outflows, while broader Global EM Funds have seen net inflows (5.1% of AUM), according to EPFR (Fig 11).

Figure 1. EM Equity Performance (Jan 1, 2026 = 100)

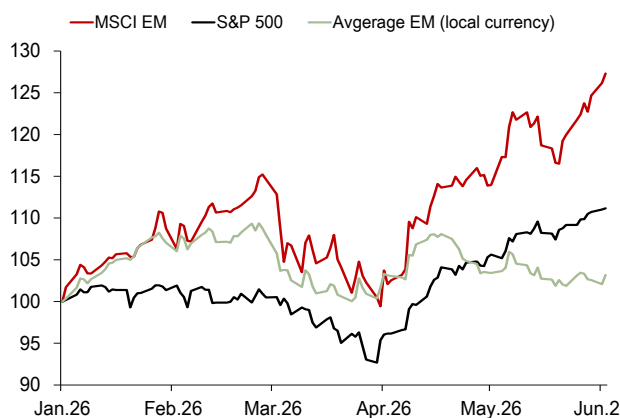
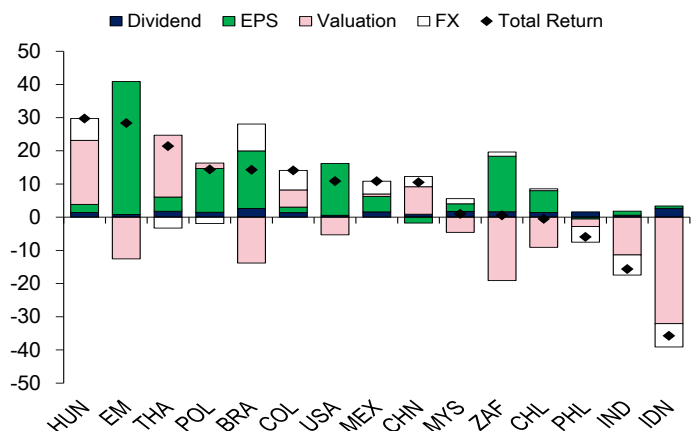


Figure 2. EM Equity Total Return Decomposition (% , YTD)



Note: Average EM performance includes 13 markets. The IMF does not classify Korea or Taiwan POC as EMs, or Taiwan POC as a member country. Any chart referencing "EM" does not include Korea (or Taiwan POC) unless the external index includes it, such as "EM MSCI". Sectoral weights can differ materially between country MSCI indices (e.g. MSCI Brazil) and local indices (e.g IBOV), with MSCI tending to weight financials higher. Figure 2 is based in the iShares MSCI EM ETF. Sources. Bloomberg, national sources, MSCI, IMF Staff estimates.1

Figure 3. EM Equity Benchmark Country Weights (percent share)

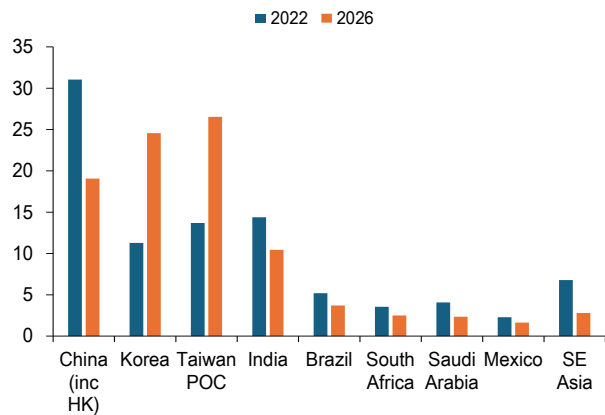


Figure 4. Equity Sector Exposure, by MSCI Indices (percent share)

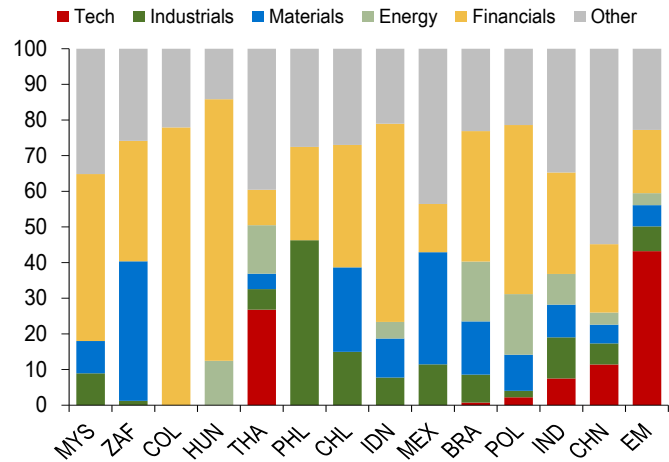


Figure 5. Price to Earnings Ratios and Change YTD

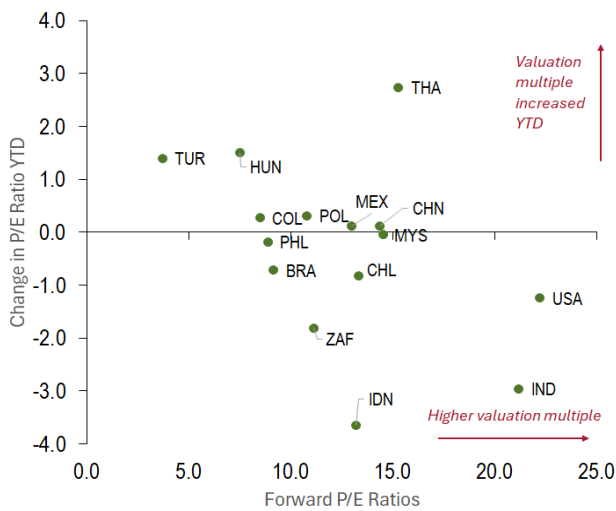


Figure 6. Equity Risk Premium (percent)

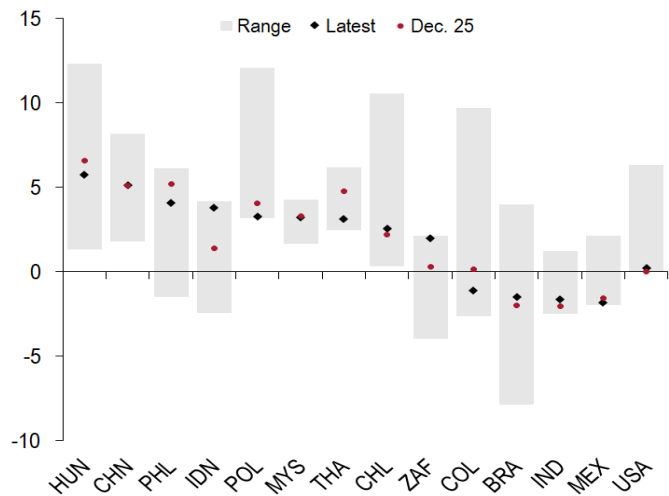


Figure 7. Expected Year-end 2026 Earnings (indexed to October 2025=100)

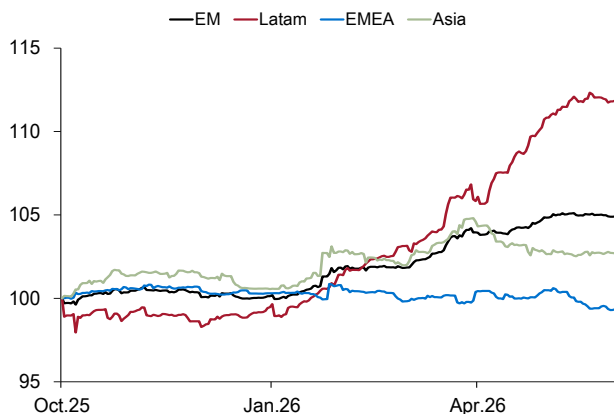


Figure 8. Expected Year-end 2026 Earnings Growth by Country (percent)

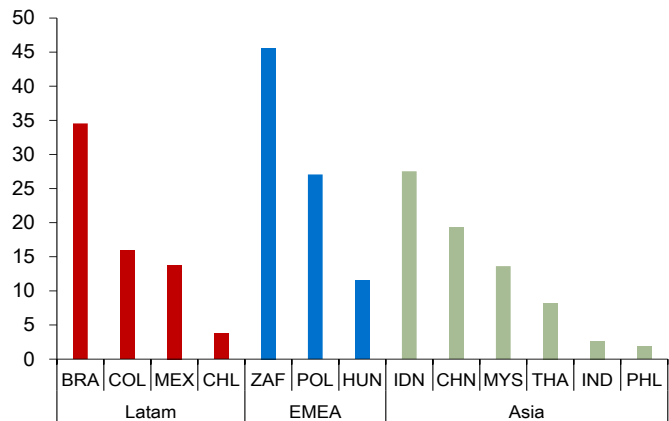


Figure 9. Weekly EM Portfolio Equity Flows (US billions)

	3/6/26	3/13/26	3/20/26	3/27/26	4/3/26	4/10/26	4/17/26	4/24/26	5/1/26	5/8/26	5/15/26	5/22/26	5/29/26	6/5/26
IDN	0.1	-0.1	0.0	-1.3	-0.2	-0.2	-0.2	-0.2	-0.4	0.7	-0.2	0.0	-0.7	-0.2
IND	-2.4	-3.9	-3.3	-2.6	-3.1	-1.9	0.6	-1.2	-1.7	-0.8	-1.0	-1.1	-2.0	-1.8
THA	-0.4	-0.6	-0.1	0.1	0.0	0.2	-0.2	-0.2	0.0	-0.1	0.3	-0.1	0.0	0.3
PHL	0.0	-0.1	0.0	0.0	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	-0.1	0.0
VNM	-0.2	0.0	-0.3	-0.1	0.0	-0.1	-0.2	-0.2	-0.1	-0.2	-0.1	-0.2	-0.2	-0.3
LKA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BRA	0.2	0.5	0.4	0.7	0.9	2.4	-0.5	-0.6	-1.1	-0.6	-1.3	-0.7	-0.4	-0.2
TUR	-0.8	-0.3	-0.3	0.1	-0.2	0.4	0.6	0.3	-0.5	0.2	-0.3	-0.3	-0.2	0.0
MYS	0.1	-0.2	-0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0	-0.1	-0.2	-0.6	-0.1
UAE	-0.1	-0.5	-0.3	-0.3	-0.1	-0.2	0.0	0.0	-0.1	-0.1	-0.1	-0.1	0.0	0.0
EM Total	-3.5	-5.2	-3.9	-3.2	-2.8	0.7	0.0	-2.1	-3.9	-0.8	-2.8	-2.8	-4.2	-2.3

Figure 10. Monthly EM Portfolio Equity Flows, ex China (US billions)

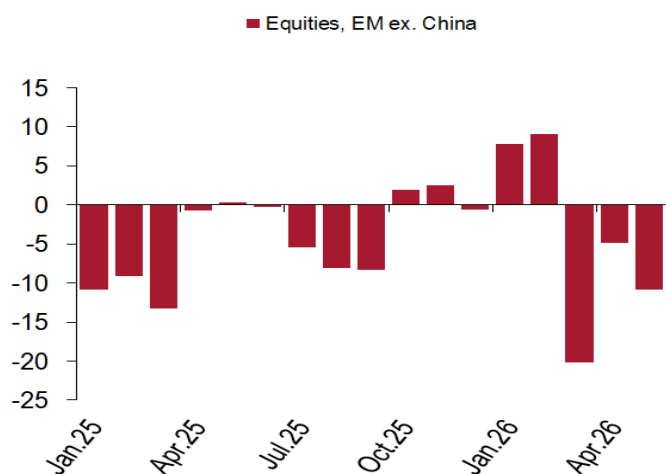
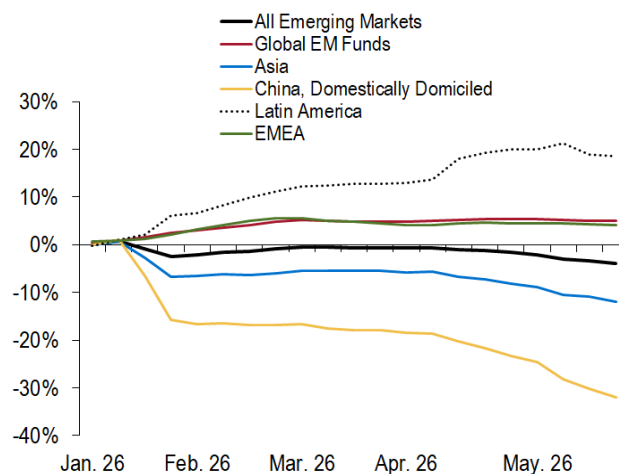


Figure 11. EM Equity Fund Flows (cumulative, weekly flows as share of assets at beginning of year, percent)



Note: Figure 10 includes a broader sample for monthly data than Figure 9. Figure 11 is based on EPFR data. All EM includes several markets that the IMF doesn't not classify as emerging markets. Aggregate figures include both domestically and foreign domiciled funds, while domestically domiciled funds for China include only those funds based in China.