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UBS Asset Management
October 2026

Resilience in emerging markets

Managing volatility through diversification

Pulse on EM, October 2026



Pulse on EM is UBS Asset Management's regular emerging-market insights series, featuring expert views on EM equities, debt and multi-asset opportunities, with on-the-ground perspectives from our global investment teams.

Highlights

– Emerging equity and fixed-income markets came under pressure in September but demonstrated further resilience.

– Ongoing geopolitical tensions and rising oil prices had a negative impact on equity investor sentiment around the world. The MSCI Emerging Markets Index returned -0.8% over the month, and posted a decline of 1.0% over the third quarter as a whole.

– The US Federal Reserve's decision to increase interest rates in response to above-target inflation drove the US dollar and US Treasury yields higher – but EM fixed-income assets continued to record solid performance.

Active Multi-Asset: APAC team

Asian and EM equities outperformed global equities in September, while the US dollar strengthened. Growth remained resilient, supported by a broadening manufacturing cycle and continued AI-related investment. However, persistent inflation and the prospect of further US monetary tightening kept pressure on bond yields. Higher oil prices added to inflation concerns and reduced the diversification benefit of duration, leaving energy-importing Asian economies particularly exposed.

– **Selective EM reallocation offers structural diversification opportunities**
  EM assets offer exposure to global growth, AI infrastructure, advanced manufacturing and domestic reforms, alongside attractive income and distinct policy cycles. We believe the opportunity is broader than benchmark weights suggest. North Asia is benefiting directly from the global technology and capex cycle, while reforms, domestic growth and income opportunities are creating different return drivers elsewhere. This dispersion gives active investors more ways to participate in global growth without relying on the same drivers that dominate global market indices.

– **China as a differentiated active-selection market, with AI and strategic investment stronger than domestic demand**
  China's macro recovery remains uneven, but the economic transition is creating investable opportunities across AI, advanced manufacturing, electrification and healthcare. The investment conclusion is neither broadly bullish nor bearish. It is to distinguish between sectors, companies and onshore and offshore exposures.

– **A multi-asset barbell that retains earnings-backed growth while adding financials, income and other diversifiers**
  Global resilience and the AI capital-expenditure cycle continue to support earnings, but inflation, yields and geopolitics are producing greater rotation and volatility. When stocks and bonds respond in the same way to specific macro events, duration alone is not a dependable shock absorber. Portfolio resilience must come from multiple sources.

Emerging market equities

EM equities declined 0.8% in USD terms in September, outperforming developed markets and broadly matching the performance of the US market. The asset class proved relatively resilient despite a more challenging backdrop marked by rising government bond yields, a stronger US dollar and higher oil prices, all of which weighed on global risk sentiment. Investors continued to balance concerns over higher-for-longer interest rates against still-supportive economic activity and robust corporate earnings.

Over the third quarter as a whole, EM equities declined 1.00% in USD terms following the exceptionally strong performance recorded in the previous quarter. Despite the challenging macroeconomic and geopolitical backdrop, resilient growth, solid corporate earnings and continued investment related to artificial intelligence helped to limit downside pressure.

The AI investment theme has remained an important source of support across North Asia in recent weeks. Continued strength in semiconductor demand and persistent supply constraints across key hardware components has underpinned performance in Taiwan and South Korea, reinforcing confidence in the durability of AI-related capital spending. As a result, Taiwan was the strongest-performing market within the EM universe in September, while Korea also delivered positive returns. In contrast, Indonesia was among the weakest-performing markets as investor sentiment remained subdued, while several central and eastern European markets also lagged.

Why are we positive on EM equities?

We believe the medium-term outlook for EM equities is relatively favourable, based on resilient earnings across most regions, ongoing AI-related investment and a broadening set of structural growth drivers. However, there are a number of potential headwinds, from uncertainty around global interest-rate expectations and US dollar strength to geopolitical turbulence.

– The AI investment cycle remains a central pillar of our positive outlook, particularly within North Asian technology markets. Companies across semiconductors, memory, advanced packaging and broader AI infrastructure could benefit from continued investment by global technology leaders and hyperscalers.

– China remains a key opportunity, in our view, supported by an increasingly differentiated opportunity set and attractive valuations in selected sectors. While softer domestic activity and property-related headwinds remain a challenge, we believe a K-shaped recovery is more likely, with technology, AI, advanced manufacturing and globally competitive industrial companies demonstrating greater resilience than traditional economy and consumption-related segments.

– India's long-term structural investment case also remains compelling to us. While growth is moderating from post-pandemic highs, policy support, infrastructure investment and a gradual recovery in private capex may continue to underpin economic activity.

Emerging market fixed income

Global markets have been dominated by a further rise in US yields, a stronger dollar and ongoing uncertainty around the Middle East conflict. Higher energy prices and robust US growth have revived inflation concerns and pushed investors to reprice the Fed path, with much of the Treasury curve moving above 5%.

As a result, risk assets have faced periodic bouts of volatility, while markets increasingly focused on the implications of elevated real rates, fiscal sustainability and upcoming political events, including the US midterms and Brazil's election. Despite these headwinds, global growth data has remained generally resilient and credit markets have largely viewed the current environment as rates shock rather than the start of a broader economic deterioration.

Against this backdrop, EM fixed income continues to show impressive resilience. In the past, a move of this magnitude in Treasury yields could have triggered an EM selloff, yet spreads have remained relatively contained. Local markets have largely held their ground, and investor demand for EM debt remains strong. Rather than a story of vulnerability, EM is increasingly becoming a story of resilience.

Over the course of September, EM sovereign debt, as measured by J.P. Morgan's EMBI Global Diversified, was down 3.34%. By credit spectrum, high yield was down 3.42% while investment grade ended the month down 3.24%. On a year-to-date basis, EM sovereign debt is down 0.67% with high grade down 3.42%, and underperforming high yield, which is up 1.97%.

EM corporate debt, as measured by CEMBI Diversified, was down 2.06% over the month. By credit spectrum, high yield was down 2.00% and investment grade was down 2.10%. On a year-to-date basis, EM corporate debt is up 0.12% with high-grade down 1.46%, underperforming high yield, which is up 2.30%

Performance to 30 September 2026

	Ticker	1-Month	YTD
Rates (Yield net change, bps)			
US 5-year	USGG5YR Index	+59bps	+136bps
US 10-year	USGG10YR Index	+53bps	+112bps
German 10-year	GDBR10 Index	+26bps	+73bps
UK 10-year	GUKG10 Index	+36bps	+95bps
Credit (Total return, %)			
USD investment grade	LUACTRUU Index	-2.72%	-3.11%
EUR investment grade	LECPTREU Index	-1.33%	-1.20%
US high yield	JUC0 Index	-2.52%	-0.00%
European high yield	HEC0 Index	-1.79%	0.06%
EMD Sovereigns (USD)	JPEIDIVR Index	-3.34%	-0.67%
EMD Corporates (USD)	JCMDCOMP Index	-2.06%	0.12%

Source: Bloomberg Finance LP
Past performance is not a guarantee for future results

Key developments in bond markets

In **Venezuela**, there has been growing tension between optimism around the country's recovery and uncertainty around the restructuring timeline following June's devastating earthquakes. Investor focus has shifted toward expanding oil-sector activity, new agreements, foreign interest in upstream assets and increased domestic production. At the same time, signals on debt restructuring have become increasingly mixed: while some US officials and market participants have suggested that restructuring discussions are effectively underway, reports from Caracas indicate the government is prioritizing oil deals and economic stabilization before formally launching a restructuring process. This leaves investors searching for clarity on the sequencing of restructuring, elections and economic normalization.

Colombia's fiscal outlook appeared to deteriorate as the 2027 budget passed committee at COP 635 trillion, a 21% year-on-year increase. The combination of a larger deficit, weaker growth and elevated rates keeps the near-term outlook for Colombian fixed income challenging. However, it is possible that the market will bottom out into the year end as the government signals its intention to tap multi-lateral funding sources, improve liability management and take further steps towards fiscal consolidation.

In **Turkey**, the suspension of redemptions at several investment funds triggered a sharp market selloff amid fears the turmoil could spread. The problems emerged after fund managers had built large, leveraged positions in less liquid shares, and new rules forced them to reduce those holdings while investors rushed to withdraw their money. Regulators responded by liquidating more than 100 funds, investigating alleged market manipulation and imposing trading bans while also detaining and imposing travel restrictions on several executives. The central bank also provided liquidity support.

In **Panama**, the Cobre Panamá copper mine returned to the spotlight after the Interministerial Commission on the mine submitted its recommendations to President Mulino. Ore extraction has been suspended since November 2023. The commission recommended evaluating a restart that would finance an orderly closure, with continued extraction funding a wind-down that could span decades. Continued extraction of mineral resources would boost fiscal revenues and GDP, while a prolonged suspension would preserve downside risks to Panama's investment-grade rating.

In **Lebanon**, investor focus has remained on the progress of reforms as recent banking sector legislation has advanced the restructuring agenda. The next steps are the Gap Law (expected in the first half of next year) and the Medium-Term Fiscal Framework. These are seen as sufficient (but not necessary) conditions for a new IMF staff-level agreement. While security and economic conditions remain challenging, the renewed reform momentum is a constructive signal for markets.

Credit rating updates

Bolivia received its second upgrade in six months when Moody's raised the country to Caa2 on September 30, citing reduced risk of a credit event following the March bond swap and the country's return to international debt markets. The rating carries a positive outlook. Moody's noted the March liability management operation "materially improves Bolivia's external payment profile through 2030". Two upgrades in six months represent a meaningfully positive trajectory for distressed credit.

EM debt outlook

Despite the sell-off in global fixed-income markets in September 2026, EM hard-currency debt has outperformed equivalent-rated US fixed income segments. EM fixed income remains attractively valued relative to some other fixed-income sectors. This has supported crossover demand and inflows that are expected to continue. Reserve positions are healthy and continue to attract capital despite global volatility. While higher US rates and oil prices remain risks, EM has absorbed the shock far better than many expected, reinforcing our view that the asset class is fundamentally stronger than in previous tightening cycles.

There are also several potential catalysts for further upside, including easing geopolitical tensions, ceasefire agreements and stabilization in China. In this environment, there is the potential for EM sovereign and corporate dollar-denominated debt to continue performing well. Local currency debt may also benefit over the long term, although periods of dollar strength could create short-term volatility.

China's growth has remained resilient despite trade tensions, and commodity prices have stayed elevated even during slower growth periods. Supply constraints and demand linked to decarbonization are likely to keep commodity prices supported, benefiting EM commodity exporters, which account for the majority of the EM hard currency index.

Technical factors also remain supportive. US policy uncertainty has driven increased allocations to EM, with inflows reaching a four-year high in 2025 and a further USD 34 billion year-to-date in 2026. At the same time, net issuance of EM external debt is expected to remain constrained, thereby potentially supporting bond prices. Investors remain underweight the asset class, but growing global interest and inflows reflect improving engagement with the opportunity set.

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