

Investment
Institute

Emerging markets: built to rise

Cross Asset Investment Strategy

MAY 2026 • Document for professional investors only

Table of contents

EM debt: reading the shock and finding opportunities

[3](#)

EM equities have room to run on earnings, tech and fiscal support

[6](#)



“EM debt remains highly sensitive to global risk appetite and the dollar cycle, yet stronger growth than developed markets can still attract inflows and cushion shocks. As USD-denominated borrowing has declined, outcomes are increasingly driven by domestic fundamentals — policy credibility, inflation dynamics, and local market depth.”

Monica Defend

Head of Amundi Investment Institute

“Despite Middle East tensions and higher oil prices, EM equities remain resilient, supported by strong earnings, a powerful tech cycle and solid policy buffers, though inflation risks and valuations continue to shape uneven near-term paths.”



Vincent Mortier

Group Chief Investment Officer

FIXED INCOME

EM debt: reading the shock and finding opportunities

AUTHORS

Alessia Berardi
 Head of Global
 Macroeconomics,
 Amundi Investment
 Institute

with the contribution of

Pol Carulla
 Investment Insights &
 Client Divisions
 Specialist,
 Amundi Investment
 Institute

Emerging markets debt performance is ultimately driven by a combination of global and domestic forces. Global and domestic conditions set the backdrop against which capital flows, borrowing costs, and currency dynamics are determined, while domestic policy credibility and market structure decide whether countries can absorb external shocks or amplify them.

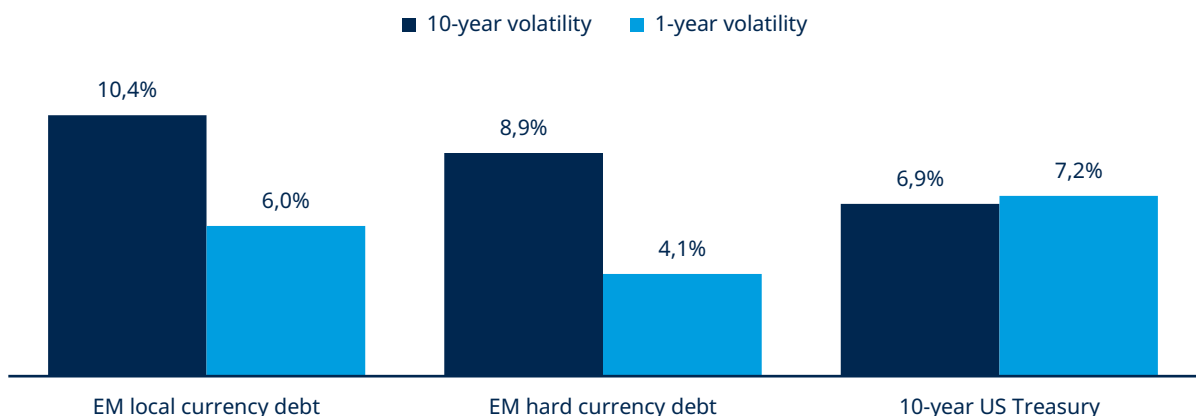
Global financial conditions are often the first pressure point for EM debt.

Global financial conditions are shaped primarily by major central banks and key market variables such as core yields. When the Federal Reserve or other key central banks adopt or maintain restrictive policies, global liquidity tightens, financing costs rise, and risk appetite weakens. However, a tightening in financial conditions is not always the result of central bank action. A major macro-financial shock can also tighten global financial conditions. In such an environment, EM debt generally comes under pressure, with local yields rising and/or spreads widening. The impact is typically more acute in countries with large short-term external financing needs.

Domestic conditions determine whether a negative impact is temporary or more persistent.

At present, the conflict in the Middle East has raised the risk of a stagflationary shock for the global economy. Despite the initial negative market reaction to the Iran conflict, EM bond spreads have demonstrated considerable resilience and have now returned to pre-war levels. However, the greatest impact is likely to fall on net energy and commodity importers, whose external and fiscal positions may deteriorate while inflation rises. Over time, investors will need to monitor how domestic authorities respond and whether monetary and fiscal policy remain credible. In recent years, through crises such as Covid and the commodity shock caused by the war in Ukraine, EM countries have shown that they are no longer defined by the stereotype of irresponsible policymakers. Many responded promptly and decisively to inflationary pressures, while also showing relative fiscal responsibility, particularly when compared with policymakers in advanced economies. The EM policy premium has clearly increased. This improvement in policy behaviour has become a structural anchor for EM debt resilience.

Comparing EM and US bond volatility



Source: Amundi Investment Institute, Bloomberg. Data as of 9 April 2026.

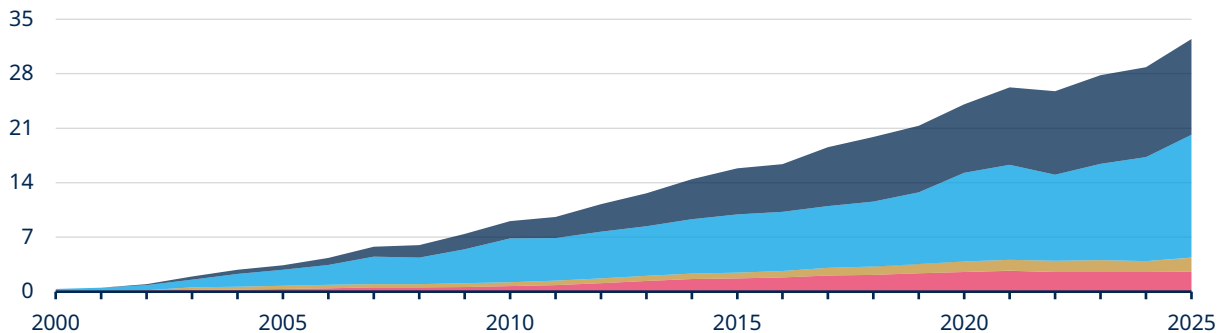
The US dollar remains a critical variable.

A stronger dollar often tightens financial conditions for EM borrowers, particularly those with dollar-denominated debt or limited foreign exchange reserves. Weakening EM currencies can feed a vicious spiral, adding inflationary pressure to the picture. These pressures can lead to larger outflows and make refinancing more difficult. The current systemic risk has reinforced the dollar’s safe-haven status. While the world remains structurally net short dollars, over the years, dollar-denominated debt has declined across EM, and debt management offices have increasingly tapped domestic markets, supporting a gradual shift towards de-dollarisation.

Total outstanding EM debt

USD, trillion

EM external corporates EM external sovereigns EM local market sovereigns EM local market corporates



Source: Amundi Investment Institute, based on J.P. Morgan, Bloomberg, BIS, Central Bank Websites. Latest available annual data as of 2025.

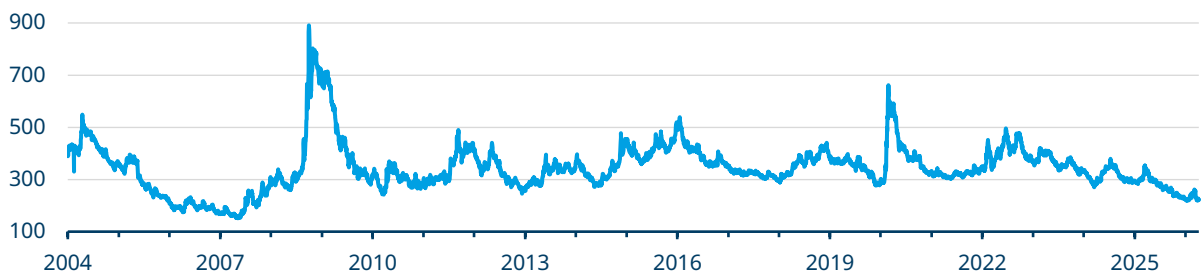
EM debt benefits from growth and liquidity.

Stronger EM GDP growth should support a better relative return profile for EM debt, with healthier fiscal dynamics and greater room for debt servicing. In addition, stronger growth relative to advanced economies can attract capital and support debt resilience, even when global conditions are less favourable.

Ample liquidity and positive risk sentiment can also support EM debt. EM debt is highly sensitive to global risk appetite. In periods of abundant liquidity and optimistic sentiment, investors search for yield and move into higher-beta assets, including EM sovereign and corporate debt. Over time, better policymaking and political reform have helped EM spreads tighten significantly.

EM bond spreads remain contained despite the current conflict in Iran

bps



Source: Amundi Investment Institute, Bloomberg. The index refers to JP Morgan EMBI Global Spread. Data as of 4 May 2026.

Institutional creditors and bondholders have also become more successful in distress resolution and bond restructuring, while default rates remain well below the historical average seen since the late 1990s. The expansion of private debt has also helped sustain liquidity, although this resilience has yet to be fully tested in systemic bear markets.

Given the importance of global factors, markets can sell off sharply during periods of systemic stress regardless of country-specific fundamentals. This is why EM debt often trades as much on global positioning as on domestic fundamentals.

Domestic policy drives performance.

Domestic policy soundness determines whether a country can benefit from favourable global conditions or remain vulnerable when the cycle turns. Fiscal orthodoxy is central. Countries that maintain credible budgets, avoid persistent primary deficits, and demonstrate a willingness to adjust spending when needed usually enjoy lower risk premia.

A broad and efficient tax base is equally important. Countries that rely on narrow or volatile revenue sources, as is often the case for commodity exporters, tend to face more unstable public finances unless they diversify their revenue base. A wider tax base improves resilience, reduces dependence on commodity cycles or one-off revenues, and gives governments more room to respond to shocks without undermining confidence. A credible fiscal rule can further reinforce discipline. Well-designed rules help anchor expectations, limit pro-cyclical spending, and signal commitment to debt sustainability. However, such rules must be backed by political will and institutional strength; otherwise, they risk becoming symbolic rather than binding.

Monetary policy credibility also plays a major role. Where central banks are independent, transparent, and focused on price stability, especially once they have adopted a credible inflation-targeting framework, investors are more willing to hold local debt and local currency instruments. Weak monetary policy frameworks, fiscal dominance, or repeated policy surprises tend to fuel inflation risk and raise borrowing costs across the curve. EM central banks are already changing their monetary policy stance amid fears of inflation de-anchoring.

The depth of the domestic financial market is another important source of resilience. Countries with a broad local investor base, developed bond markets, and active pension or insurance sectors are less dependent on volatile external funding. Deeper markets improve liquidity, support longer maturities, and reduce rollover risk. Shallow markets, by contrast, leave governments and corporates more exposed to sudden shifts in external sentiment.

The best EM stories combine growth and credibility.

For EM debt investors, the key lesson is that external conditions and domestic policy quality interact. Favourable global liquidity can lift even weak credits for a time, but durable outperformance usually depends on sound institutions, fiscal discipline, credible monetary policy, and a sufficiently deep domestic investor base. In practice, the best EM debt stories are those where a decent growth premium is matched by strong policy credibility.

Key takeaways on EM fixed income from the desk

- **EM debt has remained resilient despite recent volatility.** Constructive fundamental views remain intact, with the recent sell-off driven more by higher US yields, a stronger dollar and broader risk-off sentiment than by EM-specific weakness. EM credit has held up well, especially investment grade, while local currency debt has been more sensitive.
- **Local currency debt and higher-yielding FX remain areas of opportunity.** The repricing of monetary policy appears excessive in some countries, creating value in local currency bonds. Selective EM currencies, particularly in higher-yielding countries, also look appealing.
- **EM credit remains supported, but selectivity is important.** Sovereign and corporate credit continue to benefit from supportive technicals. Valuations are less compelling in investment grade, while selective high-yield stories are attractive.
- **LatAm appears better placed to withstand the current shock.** The region benefits from its geographical position and exposure to oil, gas, metals and agricultural commodities, which makes it less reliant on global supply chains. We see opportunities across hard currency and local currency debt: Argentina, Mexico, Brazil and Colombia are among the most interesting, with important elections in Colombia and Brazil that could create further upside.
- **Regional opportunities remain selective outside LatAm.** Africa is interesting from a valuation point of view but is more vulnerable to macro headwinds. Currently, we favour Egypt, Ivory Coast, Benin, as well as Angola and Nigeria as oil-related stories. South African local currency debt is also attractive. In Europe, we see value in Turkey, Hungary, and Romania, while Asia looks less attractive at current valuations.

SERGEI STRIGO, Head of Emerging Markets Fixed Income, Amundi

EQUITIES

EM equities have room to run on earnings, tech and fiscal support

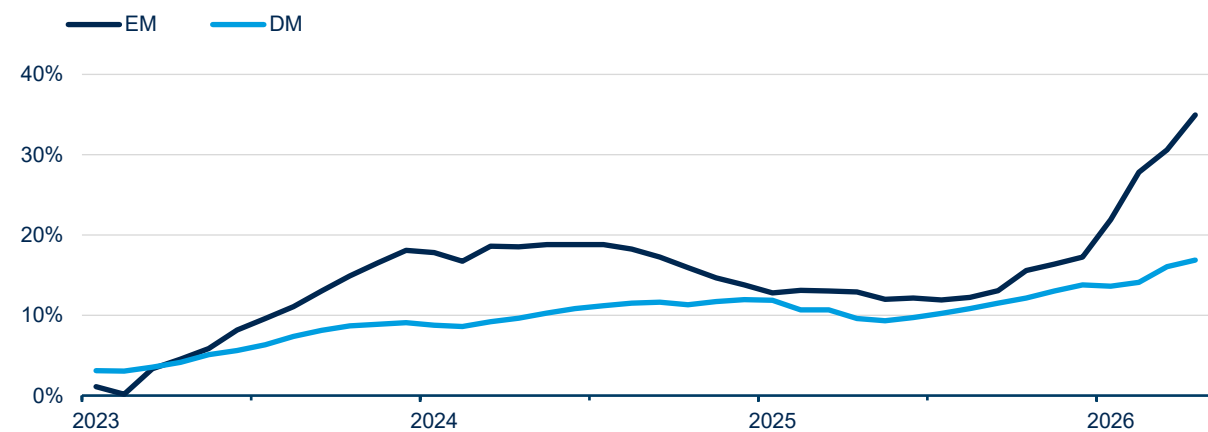
EM equities have climbed to new highs despite the ongoing conflict in the Middle East. The main vulnerability lies in energy: further disruption to the Strait of Hormuz, a key oil and gas transit route, would lift energy prices and worsen inflation. A sustained shock would also complicate fiscal policy, especially in countries with limited buffers. Yet, despite uncertainty over how long energy flows could be affected, EM equities have remained resilient, supported by regional dispersion, the tech rally and earnings growth, which is expected to accelerate well above that of developed markets.

EM equities: strong earnings growth, a robust tech cycle and better positioned for stress.

Earnings growth is a key driver of this EM resilience, but divergences persist as EM countries are being affected unevenly. Latin America is relatively insulated given its distance from the conflict and status as a net energy exporter, while Asian energy importers are more exposed. Higher oil, gas, fertiliser and freight costs can slow disinflation, with a tougher inflation/interest-rate trade-off for importers. Fiscal space and the ability to implement subsidies also vary across the region. For example, the fiscal space is greater in Korea, Taiwan and China than in India, Indonesia, the Philippines and Thailand. Overall, EM resilience is confirmed also by the smaller capital outflows, contained borrowing costs and stronger policy frameworks recently highlighted by the IMF.

Earnings expectations are accelerating, resulting in the MSCI EM Index EPS expectations rising to 31%. We believe this expectation is too optimistic, albeit we expect that EPS growth will remain strong, particularly as the tech cycle remains a key support. Asian tech companies are delivering strong results, with EPS expectations having stabilised at 66% (April 2026). Even so, EM equities trade at a significant valuation discount (MSCI EM Index is at discount of about 39% on a forward PE and about 42% on price-to-book).

Expectations of accelerating earnings growth within EM equities



Source: Amundi Investment Institute, Bloomberg, data to 30 April 2026. The earnings expectations are 12-month forward IBES forecasts.

AUTHORS

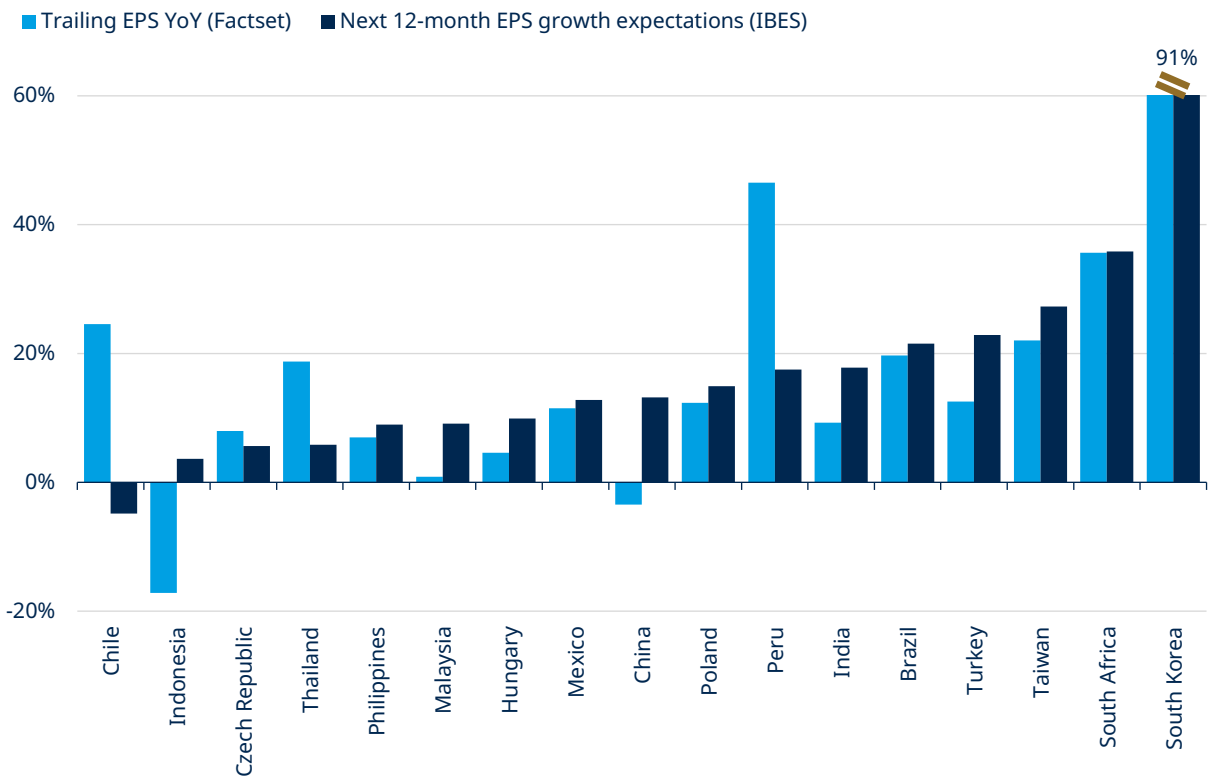
Debora Delbo'
Senior EM Macro Strategist, Amundi Investment Institute

Patryk Drozdziak
Senior EM Macro Strategist, Amundi Investment Institute

Paula Niall
Investment Insights & Client Divisions Specialist, Amundi Investment Institute

In this current environment, we remain constructive on EM, including EM Asia and EMEA. In particular, we prefer Korea and Taiwan, which benefit from the tech and semiconductor cycle as well as robust earnings momentum. Although oil sensitivity has tempered expectations in India, we remain positive on this region as the earnings cycle is healthy. Elsewhere, we are neutral on China and retain a positive view on Latin America, particularly Brazil.

Earnings growth is picking up but varies by country



Source: Amundi Investment Institute, FactSet (IBES), date as of 7 April 2026.

POSITIVE South Korea – energy importer but supported by tech exposure and fiscal strength.

South Korea remains one of EM’s strongest earnings stories. Earnings momentum remains supportive with consensus 2026 EPS growth expectations at 91%. Our internal estimate is more cautious but momentum remains positive. Revisions are among the strongest in EM Asia, profitability is improving and the tech cycle remains supportive. In Korea and Taiwan, hardware stocks have risen on strong AI-driven memory demand. Higher memory prices would usually trigger more supply, but there is no sign of that yet. This supports **EM semiconductor earnings and provides AI exposure at more attractive valuations than in the US**. After the initial sell-off, the market recovered quickly, and **we continue to view South Korea as one of the most attractive EM equity markets**.

South Korea is exposed to the conflict, through energy-intensive sectors, exporter margins and weaker global demand, but we expect overall a modest economic hit. Valuations remain reasonable, especially given earnings strength, and Korea still trades at a discount to both EM and developed markets. Medium-term upside is also supported by governance reform, including the Value-Up programme.

91%

South Korea’s 2026 EPS growth expectations

POSITIVE Taiwan – tech and earnings revision support with a modest CPI pickup expected.

Valuations have improved recently, while consensus 2026 EPS growth expectations have risen to around 27%. ROE is close to 17%, supported by semiconductor and AI-related component demand. Revisions are the best in EM Asia, though we remain cautious over a six-month horizon, as medium-term valuations are not cheap.

Taiwan is exposed to Middle East energy, especially LNG, but the near-term risk is more inflationary than related to a supply shortage. LNG reserves are limited, though supply has been secured through June, and critical tech-sector power loads will be backed by coal generation. With fuel-price pass-through capped, we expect only a modest CPI pickup, allowing the central bank to stay on hold. The main risk is a longer disruption, which would pressure energy costs and petrochemical output.

Overall, earnings are less directly affected by the crisis, but remain vulnerable to weaker global growth. Taiwan tech has held up well, and we still see upside supported by AI capex and non-AI export frontloading, though concentration remains a concern.

27%

Taiwan's 2026
EPS growth
expectations

NEUTRAL (but POSITIVE longer-term) India – earnings expectations are decent and valuations are not excessive.

India has underperformed due to its sensitivity to energy imports and direct corporate exposure to the Middle East. Valuations are now more reasonable and earnings expectations are solid, with consensus EPS growth forecast close to 18% in April 2026, not far from our internal expectations. Revisions are improving. Nominal GDP growth should pick up as loan growth rises and credit costs trough, although private corporate capex remains a headwind.

India is one of EM Asia's most oil-sensitive economies and one of the highest oil-beta markets globally, through inflation, fiscal pressure, fuel subsidy risk, and INR depreciation. We estimate EPS sensitivity at roughly -3% to -5% for every 10% increase in oil prices. Energy imports amount to 2.7% of GDP, with around 40% of oil and LNG and almost all LPG sourced from the Middle East. The government can use price caps and targeted support, but this shifts the burden to the fiscal accounts and the current account. With only about 25 days of strategic reserves, the key risk is to activity and external financing rather than inflation.

Overall, we retain a long-term positive outlook for India, while acknowledging that in the short-term, exposure to higher oil prices and fiscal pressures may act as a dampener on economic growth and the equity market outlook.

18%

India's 2026 EPS
growth
expectations

NEUTRAL China – limited growth impact but meaningful inflation impulse, prefer H-shares.

China is a diversified economy with large coal and oil reserves and a growing share of renewables. So far, exposure to the Strait of Hormuz is manageable thanks to electrification and diversified imports, especially from Russia and Central Asia, although oil still matters: net oil and gas imports amount to about 1.8% of GDP, around 50% of imported oil passes through the Strait of Hormuz, and oil accounts for nearly 30% of final energy consumption. Fuel-price pass-through is capped at 50%, with the rest absorbed by state-owned companies. This should limit the growth impact, but inflation pressure through PPI and energy-intensive sectors remains meaningful.

We prefer H-shares, where the policy backdrop is more supportive. While the earnings outlook for this market is less supportive than in other markets, valuations suggest greater upside potential for H-shares.

13%

China's 2026 EPS
growth
expectations

Latin America: oil support and solid macro backdrop.

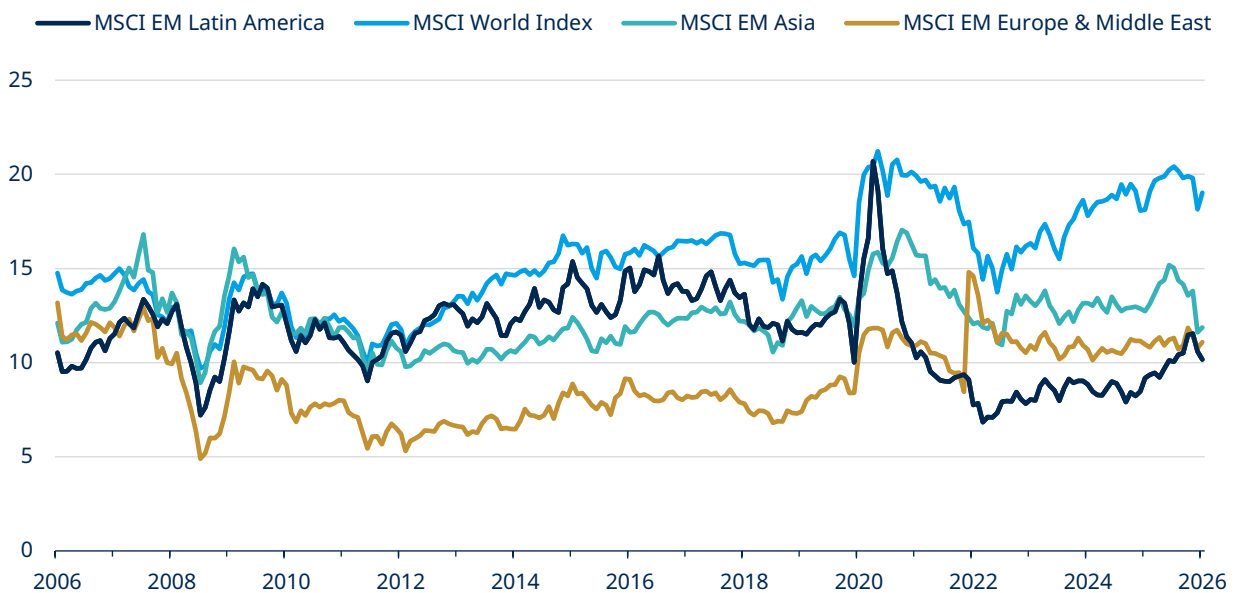
Latin America stands out favourably in the current global environment, supported by net energy exposure, metals production, stronger macro fundamentals, prudent monetary policy, and its distance from the conflict region. While the impact of the war is uneven, the overall macro and earnings backdrop supports a positive tilt.

The main distinction is between net oil exporters and importers, with the region being a net energy exporter on average. Brazil, Argentina, Colombia, Ecuador, and Venezuela should benefit from higher oil prices, while Chile and Peru are more exposed to higher costs. A sharp rise in commodity prices could hurt importers and complicate inflation and easing cycles. This could not only slow disinflation but also lead to outright inflationary pressures, with spillovers to transport and food. The IMF suggests the main risk is inflationary pressure rather than stagflation. Central banks remain cautious and are ready to act if needed to protect credibility and inflation expectations.

The region also benefits from exposure to natural resources, including rare earths, precious metals, and metals linked to the energy transition and AI investment. Relative to other regions, Latin America’s AI exposure remains limited, making it a useful source of equity diversification.

Performance has been strong, reflecting investor rotation away from expensive US assets. The region remains at a discount to EM, though it is not especially cheap versus its own history. **Selectivity remains key.**

Latin America trades at a discount (forward P/E valuations)



Source: Amundi Investment Institute, FactSet, date as of 30 April 2026.

POSITIVE Brazil – strong earnings growth supporting valuations.

We have a favourable tilt towards Brazil, driven by improving IBES EPS growth expectations, which rose from 12% in March to 21% in April, and we expect positive earnings revisions due to high commodity prices.

We believe the easing cycle is better described as a “calibration cycle”. Brazil’s policy rate remains very high by historical standards, as the central bank stays focused on potential inflationary pressures. This caution may limit support for the market. So far, the economy has avoided recession: last year’s second-half soft patch did not turn into a recession, and the economy accelerated at the beginning of the year. However, if the commodity shock lasts too long, it could weigh on the domestic economy through higher inflation and tighter financial conditions.

The fiscal position remains the main structural weakness: high debt and it is still rising, and the IMF remains skeptical about consolidation. The October 2026 election is also a key risk factor, with markets likely to pay closer attention as the vote nears. A tight race is expected. The political outcome could matter for fiscal consolidation, investor confidence and potential market repricing. Valuations are not extremely cheap, but they are supported by stronger earnings growth than some peers.

AII* Contributors

Alessia Berardi

Head of Global Macroeconomics, AII*

Debora Delbo'

Senior EM Macro Strategist, AII*

Patryk Drozdzik

Senior EM Macro Strategist, AII*

Paula Niall

Investment Insights & Client Divisions Specialist, AII*

Pol Carulla

Investment Insights & Client Divisions Specialist, AII*

Chief Editors

Monica Defend

Head of Amundi Investment Institute

Vincent Mortier

Group CIO

Editors

Claudia Bertino

Head of Amundi Investment Insights and Publishing, AII*

Laura Fiorot

Head of Investment Insights & Client Division, AII*

Deputy Editor

Cy Crosby Tremmel

Investment Insights, AII*

Deputy Design Editor

Alice Girondeau

Junior Digital Publishing Specialist, AII*

* Amundi Investment Institute

IMPORTANT INFORMATION

This document is solely for informational purposes.

This document does not constitute an offer to sell, a solicitation of an offer to buy, or a recommendation of any security or any other product or service. Any securities, products, or services referenced may not be registered for sale with the relevant authority in your jurisdiction and may not be regulated or supervised by any governmental or similar authority in your jurisdiction.

Any information contained in this document may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices.

Furthermore, nothing in this document is intended to provide tax, legal, or investment advice.

Unless otherwise stated, all information contained in this document is from Amundi Asset Management SAS and is as of 13 May 2026. Diversification does not guarantee a profit or protect against a loss. This document is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The views expressed regarding market and economic trends are those of the author and not necessarily Amundi Asset Management SAS and are subject to change at any time based on market and other conditions, and there can be no assurance that countries, markets or sectors will perform as expected. These views should not be relied upon as investment advice, a security recommendation, or as an indication of trading for any Amundi product. Investment involves risks, including market, political, liquidity and currency risks.

Furthermore, in no event shall any person involved in the production of this document have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages.

Date of first use: 13 May 2026.

Document ID: 5486604

Document issued by Amundi Asset Management, "société par actions simplifiée"- SAS with a capital of €1,143,615,555 - Portfolio manager regulated by the AMF under number GP04000036 - Head office: 90-93 boulevard Pasteur - 75015 Paris - France - 437 574 452 RCS Paris - www.amundi.com

Photo credit: Qi Yang @Getty Images Plus

Amundi Investment Institute

In an increasingly complex and changing world, investors need to better understand their environment and the evolution of investment practices in order to define their asset allocation and help construct their portfolios.

This environment spans across economic, financial, geopolitical, societal and environmental dimensions. To help meet this need, Amundi has created the Amundi Investment Institute. This independent research platform brings together Amundi's research, market strategy, investment themes and asset allocation advisory activities under one umbrella: the Amundi Investment Institute. Its aim is to produce and disseminate research and Thought Leadership publications which anticipate and innovate for the benefit of investment teams and clients alike.

Get the latest updates on:



- Geopolitics
- Economy and Markets
- Portfolio Strategy
- ESG Insights
- Capital Market Assumptions
- Cross Asset Research
- Real and Alternative Assets

Visit us on



[Visit the Research Center](#)

Amundi
Investment Solutions

Trust must be earned