Conflict in Iran and falling tariffs

Emerging Markets Insights

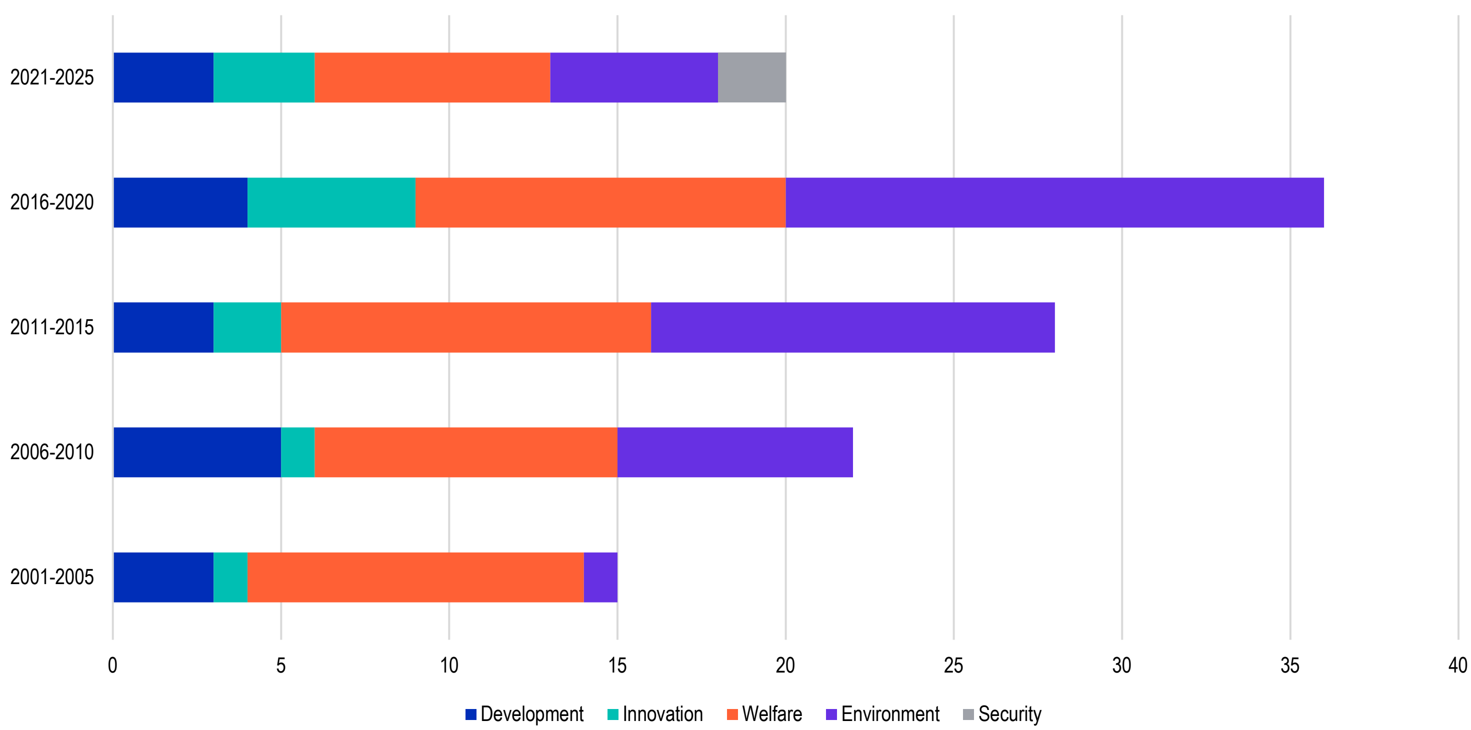
Three things we are thinking about today:

1. **Conflict in Iran:** Operation Epic Fury and President Trump's goal of regime change in Iran raises the risk of a sustained military campaign as opposed to a time limited, contained exchange. For markets, the escalation and disruption of energy and logistics infrastructure is resulting in a higher equity risk premium. The closure of the Straits of Hormuz is a concern and increases the risks to inflation, if closure is sustained. With selected emerging markets (EM) at all-time highs, a pull-back is likely inevitable, but a correction beyond 10% is dependent on how events unfold.

2. **US tariffs:** China is the biggest beneficiary of the US Supreme Court's decision to block President Trump's use of the International Emergency Economic Powers Act to impose tariffs. The ruling invalidates the 10% fentanyl and 10% reciprocal tariffs imposed on China. Although Trump responded by imposing Section 122 tariffs, the US effective tariff rate declined to an estimated 14% from 16%[1] and China's effective tariff declined to 19% from 29%.[2]

3. **China National People's Congress (NPC):** The annual NPC will commence on March 5. The primary focus for investors will likely be on tone from China's top leadership. Specifically, whether policy doubles down on technology competition with the United States or emphasizes economic rebalancing and anti-involution. Attention will also focus on the 2026 GDP growth forecast, which may be cut to 4.5%-5% and the allocation of more than US$4 trillion in annual local and central government spending.

Exhibit 1: Security Emerged as Policy Focus Area in China's 2021-2025 Plan



Source: Asia Society, National Development and Reform Commission.

Outlook

We see renewed interest—and optimism—in EM equities year-to-date, as shown by capital inflows and improving sentiment. In comparison to developed markets, EMs look relatively attractive and offer exposure to both domestic and external growth opportunities.

Several macroeconomic factors are contributing to this constructive outlook. Expectations for further US interest rate cuts and a potentially weaker US dollar are especially supportive, as EM assets historically benefit from easier global financial conditions and dollar softness. Earnings dynamics are also improving in parts of EMs. Domestic fundamentals have strengthened in recent years, providing economies with room to ease policy to support consumption.

Structural themes underpin the above, adding another dimension to the optimism we carry. Technology-heavy markets in Asia are benefiting from the global AI and semiconductor investment cycle, which has strengthened export demand and corporate profitability. Chinese industrial companies are benefitting from robust export demand to markets outside the United States, providing an offset to softer domestic dynamics.

Market review

EM equities rose in February 2026. Trade headlines re-entered the picture, with the US Supreme Court overturning tariffs imposed by Trump. For the month, the MSCI EM Index returned 5.51% while the MSCI World Index delivered a more moderate return of 0.76%.

Equities in the emerging Asia region advanced overall. Asia's technology stocks saw chip-related names in South Korea and Taiwan jump, but major technology platforms in China were pressured. Indian equities gained, but performance was curtailed by software services firms, which declined amid concerns that AI could disrupt their business models. Equities in the emerging Europe, Middle East and Africa region achieved moderate gains. Equities in the emerging Latin America (LatAm) region also advanced, but performance was uneven across countries.

Endnotes

1. Source: Editorial: Capitalize Budget..
2. Source: BCA Research.

Index Definitions

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1. The **MSCI All Country World Index** is a free float-adjusted, market capitalization-weighted index designed to measure the equity market performance of global developed and emerging markets.
2. The **MSCI Brazil Index** is designed to measure the performance of the large- and mid-cap segments of the Brazilian market.
3. The **MSCI China Index** captures large- and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g., ADRs).
4. The **MSCI EM Asia ex Japan Index** captures large- and mid-cap representation across two of three developed markets (DM) countries (excluding Japan) and eight emerging markets (EM) countries.
5. The **MSCI EM Latin America Index** captures large- and mid-cap representation across five emerging markets (EM) countries in Latin America.
6. The **MSCI EM EMEA Index** captures large- and mid-cap representation across 11 emerging markets (EM) countries in Europe, the Middle East and Africa (EMEA).
7. The **MSCI EM Index** is a free float-adjusted, market capitalization-weighted index designed to measure the equity market performance of global emerging markets.
8. The **MSCI India Index** is designed to measure the performance of the large- and mid-cap segments of the Indian market.
9. The **MSCI Mexico Index** is designed to measure the performance of the large- and mid-cap segments of the Mexican market.
10. The **MSCI South Korea Index** is designed to measure the performance of the large- and mid-cap segments of the South Korean market.
11. The **MSCI Turkey Index** is designed to measure the performance of the large- and mid-cap segments of the Turkish market.
12. The **MSCI World Index** captures large- and mid-cap representation across 23 developed market countries.

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