Looking beyond energy prices

Emerging Markets Insights

Three things we are watching

1. **US/Iran conflict.** As we enter the third month of the US/Iran conflict, escalation, de-escalation and negotiated settlement are all possible outcomes US President Trump is pursuing. West Texas Intermediate (WTI) oil prices and US gasoline prices in excess of US$100 per barrel and US$4 per gallon, respectively, are economic pain points and are likely to influence President Trump's decision-making. Energy prices also impact the near-term outlook for emerging market (EM) economies, but the outlook for the semiconductor sector, where fundamentals remain positive, also increasingly drives EMs.

2. **Trump-Xi summit.** President Trump and China's President, Xi Jinping, are expected to meet on May 14-15 in Beijing for their re-scheduled summit. The meeting represents an important date to monitor for a potential US/Iran agreement for a permanent cessation of hostilities. China's extensive strategic reserves of oil and other commodities contrasts with depleted reserves in the United States. This suggests China may have a greater ability to withstand elevated commodity prices than the United States. This may weaken President Trump's hand at the summit and the likelihood of a major agreement on trade.

3. **Land transport:** Investors are familiar with the refrain that 20% of global oil production and 30% of seaborne fertilizer flows through the Strait of Hormuz. What receives less attention is the diversion of Saudi Arabia oil supplies over land via its East-West pipeline to ports on the Red Sea and the movement of fertilizer via land from the United Arab Emirates to ports outside the Strait of Hormuz. While not completely offsetting the impact of the closure of the Strait of Hormuz, these diversions are one reason why the negative economic impact of the war is not as big as the headlines would suggest.

Outlook

The outlook for EM equities is balanced between structural tailwinds and persistent geopolitical risks, which we think results in a more selective and differentiated opportunity set rather than a likely broad-based rally.

Geopolitical risks remain elevated and are increasingly influential in shaping capital flows, commodity prices and investor sentiment. Geopolitics and domestic political cycles continue to influence capital flows, commodities and sentiment. Growth dynamics also vary significantly across regions and sectors.

On the positive side, structural growth themes are evident, with artificial intelligence (AI) being one of the key drivers. While there have been bouts of volatility in the AI trade, demand for AI continues to expand, driven by increased uptake, improvements in model performance and widening productivity gains. We believe that AI will continue to have a strong investment case across major EMs, benefitting companies across the supply chain including semiconductors, electronics manufacturing services, power supply and printed circuit board companies.

Domestically within EM economies, several countries have implemented policies or are in the midst of reforms, which could provide a boost to equity performance.

We have built considerable expertise in the EM equity asset class, which has guided our strategy in a complex environment. We continue to abide by our investment approach and seek opportunities across equity markets, focusing on companies that, in our assessment, have long-term earnings power.

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Market review

EM equities recovered and rose in April 2026. Equities staged a partial recovery from a sharp decline in March 2026 as the Middle East conflict reached a ceasefire. For the month, the MSCI EM Index returned 14.73%, while the MSCI World Index delivered a more moderate return of 9.64%.

Equity markets within emerging Asia were higher overall. AI-related drivers won out over energy price concerns in the larger equity markets of South Korea, Taiwan and China. Indian equities looked past elevated oil prices and rose, mirroring their regional peers. Equities in the emerging Europe, Middle East and Africa region achieved moderate gains. A ceasefire in the Middle East conflict, followed by a ceasefire extension, eased concerns and brought hopes for a de-escalation. Equities in the emerging Latin America region advanced, but performance was uneven across countries.

Index Definitions

Past performance is not an indicator or a guarantee of future performance. Indexes are unmanaged and one cannot invest directly in an index.

The **MSCI EM EMEA Index** captures large- and mid-cap representation across 11 EM countries in Europe, the Middle East and Africa (EMEA).

The **MSCI EM Index** is a free float-adjusted, market capitalization-weighted index designed to measure the equity market performance of global EMs.

The **MSCI World Index** captures large- and mid-cap representation across 23 DM countries.

Templeton Global Investments

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International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**. Investments in companies in a specific **country or region** may experience greater volatility than those that are more broadly diversified geographically.

The government's participation in the economy is still high and, therefore, investments in China will be subject to larger regulatory risk levels compared to many other countries. There are special risks associated with investments in **China, Hong Kong and Taiwan**, including less liquidity, expropriation, confiscatory taxation, international trade tensions, nationalization, and exchange control regulations and rapid inflation, all of which can negatively impact the fund. Investments in Taiwan could be adversely affected by its political and economic relationship with China.

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