

Special Report

Emerging Capital Markets Newsletter – 1Q26



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Macroeconomic Performance

Diverging Inflation and PMI Trends Indicate Uneven Recovery Across Emerging Markets

Diverging Inflation Trends Across Major Emerging Economies

Country	2025												2026		
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
India	4.3%	3.6%	3.3%	3.2%	2.8%	2.1%	1.6%	2.1%	1.4%	0.3%	0.7%	1.3%	2.7%	3.2%	3.4%
China	0.5%	-0.7%	-0.1%	-0.1%	-0.1%	0.1%	0.0%	-0.4%	-0.3%	0.2%	0.7%	0.8%	0.2%	1.3%	1.0%
Brazil	4.6%	5.1%	5.5%	5.5%	5.3%	5.4%	5.2%	5.1%	5.2%	4.7%	4.5%	4.3%	4.4%	3.8%	4.1%

- Inflation trends differed across India, China, and Brazil over the year. India saw a cyclical pattern in 2025, with inflation rising in December and staying high through March, mainly due to higher food prices
- China's inflation stayed low (below 1%) during most of 2025, but increased in February due to the Lunar New Year, which pushed up food prices.
- Brazil's inflation increased steadily during the year, eased from October, but rose again in March, largely driven by higher fuel costs.

Manufacturing PMI Trends: India Declines, China Struggles, Brazil Advances

Country	2025												2026		
	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
India	57.7	56.3	58.1	58.2	57.6	58.4	59.1	59.3	57.7	59.2	56.6	55.0	55.4	56.9	53.8
China	49.1	50.2	50.5	49.0	49.0	49.7	49.3	49.4	49.8	49.0	49.2	50.1	49.3	49.0	50.4
Brazil	50.7	53.0	51.8	50.3	49.4	48.3	48.2	47.7	46.5	48.2	48.8	47.6	47.0	47.3	49.0

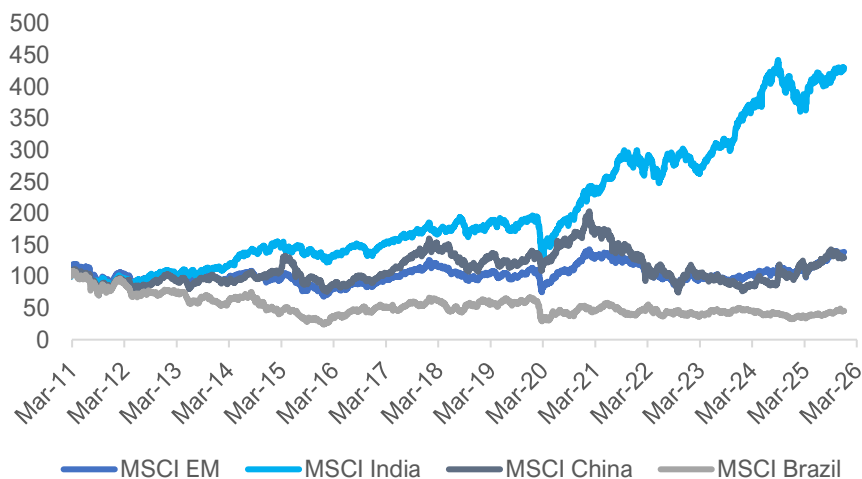
- Manufacturing trends varied across India, China, and Brazil. India's manufacturing growth slowed after September and weakened further in March due to lower orders and Middle East uncertainty, but PMI remained above 50, indicating continued expansion.
- China's PMI remained mostly stable within a narrow range, with a slight rise in March supported by higher government spending and stronger export demand, especially linked to AI.
- Brazil saw a sharp drop in PMI in December due to weak demand and fewer new orders, but it recovered in March as export orders started to stabilize.

Source: Trading Economics

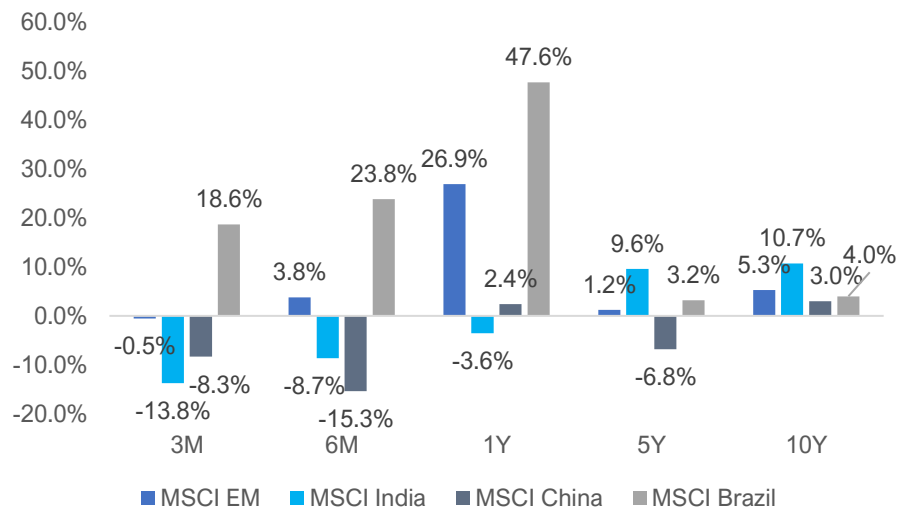
Equity Market Performance

China Rebounds on Tech Optimism While India Sustains Decade-Long Outperformance

EM Market Index Returns (indexed to Mar'2011)



EM Index Performance over Time



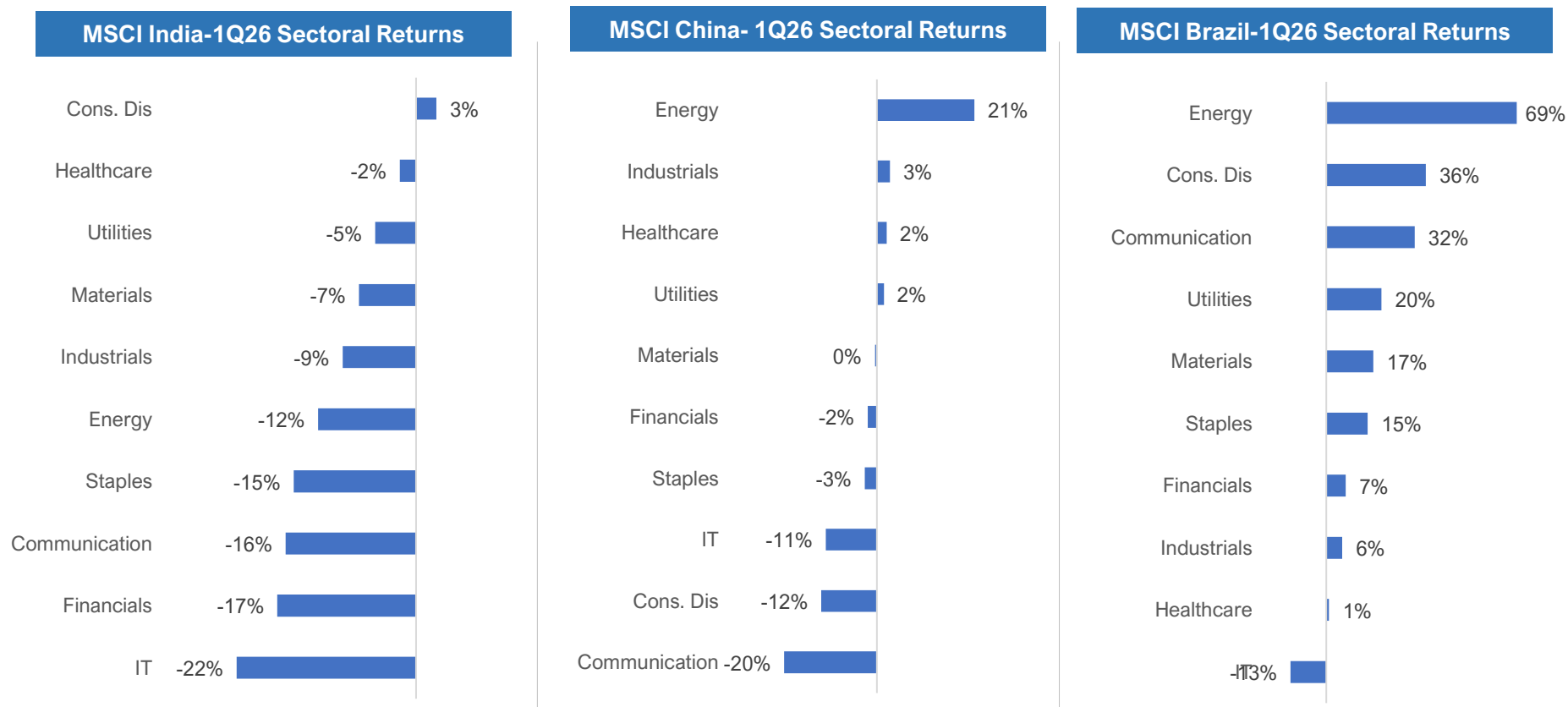
- EM equities were mixed in 1Q26, reflecting significant divergence. India's index declined 13.8%, primarily due to elevated valuations that triggered global capital rotation toward other economies, along with weak rural consumption and pressures in the banking sector.
- China's index declined due to subdued domestic demand and continued weakness in the property sector. However, valuations have become more attractive, and there is potential for capital inflows if stability improves and stronger policy support emerges in the near term.
- Brazil edged higher during the period, supported by strong commodity prices and valuation-driven inflows relative to other emerging markets. Early signs of fiscal improvement also helped sustain positive momentum.
- Over the past five years, India has outperformed its EM peers. While the MSCI Emerging Markets index and Brazil delivered only moderate single-digit gains, and China declined around 8%, India achieved a strong 9.6% CAGR. This reflects India's sustained positive performance, supported by robust structural earnings growth and steady domestic inflows into the market.

Source: Bloomberg, 5-year and 10-year returns are annualized; returns in local currency

Sector Performance

India declines, China shows mixed performance, and Brazil advances

- Equity market performance varied across India, China, and Brazil. India declined broadly, led by sharp falls in IT (-22%) and Financials (-17%), with IT affected by global demand uncertainty and margin pressure.
- China showed mixed sector performance due to regulatory changes in telecom and ongoing geopolitical uncertainty.
- Brazil saw gains across sectors, led by Energy (+69%) and Consumer Discretionary (+36%), supported by positive sentiment and attractive valuations.

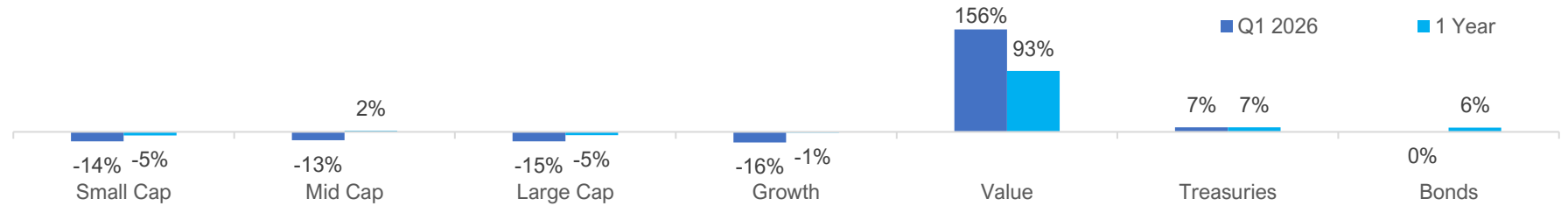


Source: Bloomberg

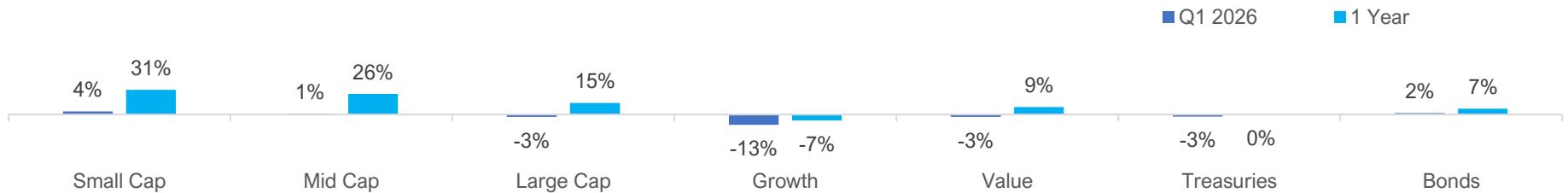
Asset Class Performance

India was broadly mixed with dispersion across styles, China showed a mixed performance across segments, and Brazil was largely positive across asset classes

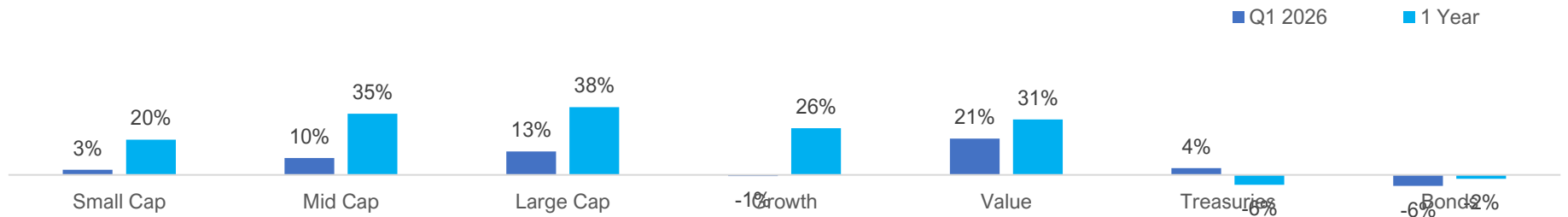
India



China



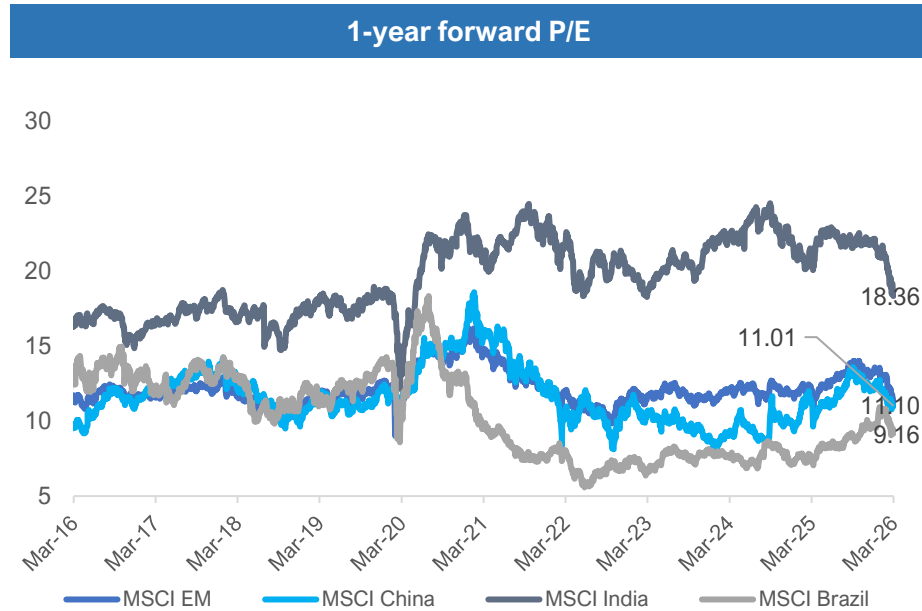
Brazil



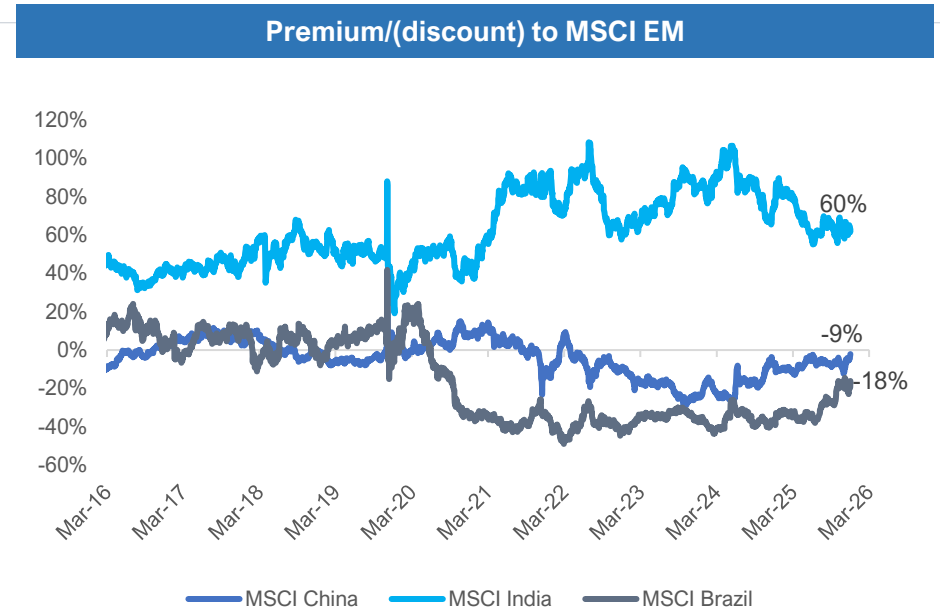
Source: Bloomberg

EM Valuations Comparison

India Stays Expensive, China and Brazil Offer Deep Value



- India's 18.3× P/E reflects solid earnings, confidence, and growth, yet hints at rising valuation risk.
- China remains in line with emerging markets at around 11x P/E, which may attract inflows as valuations appear more attractive.
- Brazil trades at discount (9.1× P/E) with limited rerating despite easing rates.
- At 11.1× P/E, MSCI EM shows relative undervaluation, although country volatility is significant.



- India trades at a premium of ~60% to MSCI EM, reflecting growth visibility, policy support, and consistent domestic investor flows.
- China continues to trade at ~9% discount to MSCI EM, driven by geopolitical risks and regulatory uncertainty.
- Brazil remains at ~18% discount, led by elevated interest rates and ongoing fiscal and currency uncertainty.

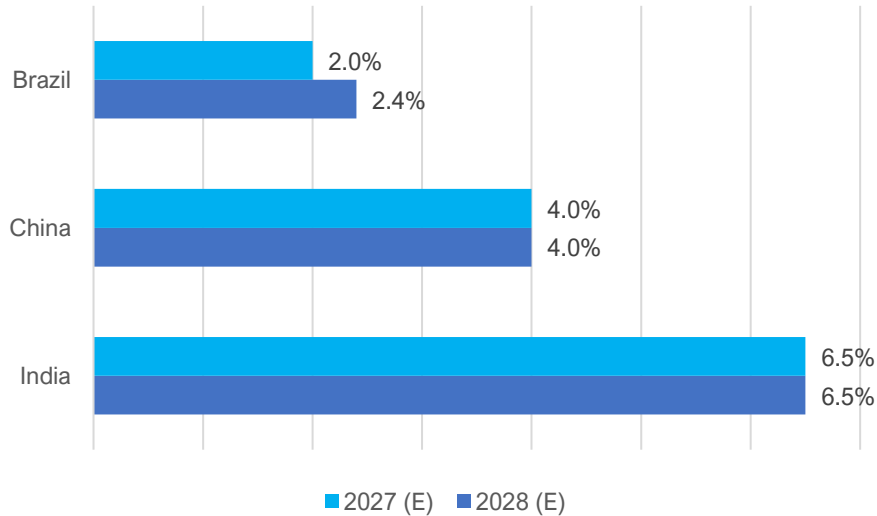
Source: Bloomberg

Economic Outlook

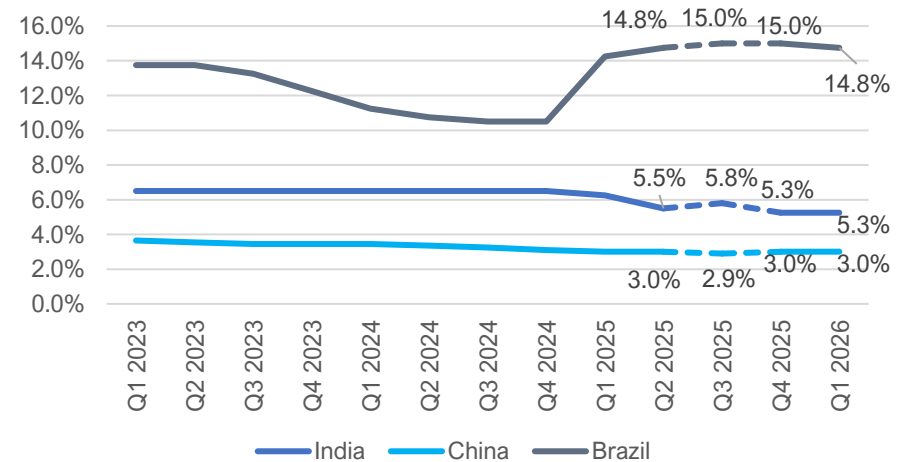
India's Momentum Accelerates, China Stabilizes, and Brazil Transitions Into Growth Phase

- India's GDP growth is expected to stay ~6.5% in 2027–2028, supported by strong domestic demand and government reforms, although risks from global conflicts (like Middle East tensions) may impact growth via higher oil prices and inflation.
- China's GDP growth is expected to moderate to 3.8–4.0% in 2027–2028 due to structural slowdown, weak property sector, and aging population, with additional downside risks from global conflicts affecting trade, supply chains, and external demand.
- Brazil's GDP growth is expected to improve to 2.0–2.4% in 2028, driven by easing interest rates, recovery in domestic consumption and investment, and stable commodity exports. However, global conflicts could still impact demand and price stability.
- In March 2026, **India** kept rates steady at 5.25% to balance inflation and growth, **China** held rates at ~3.0% to support a slowing economy, while **Brazil** began easing to ~14.75% to support recovery.

GDP Growth Forecast (IMF, 2027E – 2028E)



Interest Rate



Source: IMF, Trading Economics and Aranca Research



2500+

Global Clients

500+

Strong professional team across
multi-disciplinary domains

120+

Sectors and sub-sectors
researched by our analysis

80+

Countries where we have
delivered projects

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