Newsletter - Emerging Capital Markets 2Q26

August 2026

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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	Apr	May	Jun
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%	3.5%	3.9%	4.4%
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%	1.2%	1.2%	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%	4.4%	4.7%	4.6%

- India inflation remained broadly stable in Q2 2026, with a late-quarter uptick driven by food prices.
- China's inflation remained subdued in Q2 2026, reflecting weak domestic demand despite a modest pickup in consumer prices.
- Brazil’s Inflation remained elevated but continued to cool in Q2 2026, reflecting a gradual normalization in consumer prices.

Manufacturing PMI Trends: India Moderates, China Contracts, Brazil Expands

Country	2025												2026					
	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
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	54.7	55.0	54.2
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	50.3	50.0	50.3
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	52.6	49.1	50.8

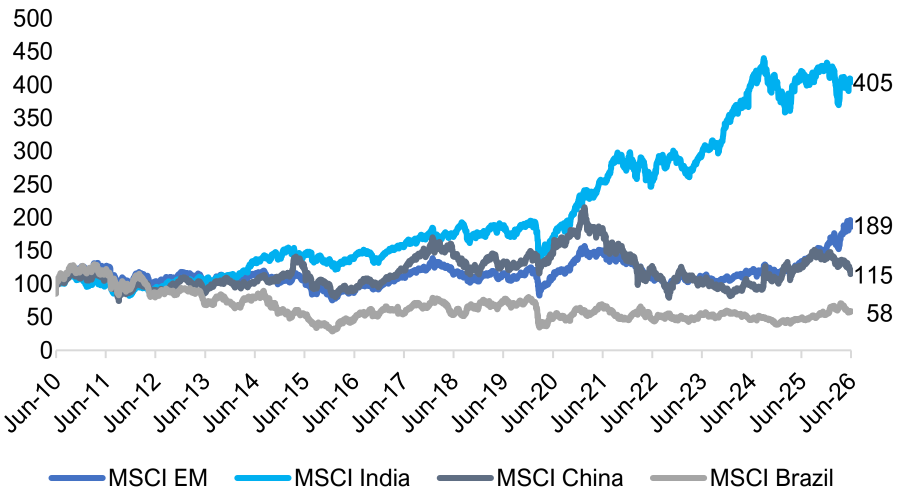
- India’s manufacturing remained expansionary, though momentum eased as new orders and exports softened.
- China's manufacturing PMI remained in contraction for most of Q2 2026, reflecting weak domestic demand and softer export activity.
- Brazil’s manufacturing stayed expansionary, supported by resilient domestic demand and improving business confidence.

Source: *Aranca Research, Trading Economics, Reuters*

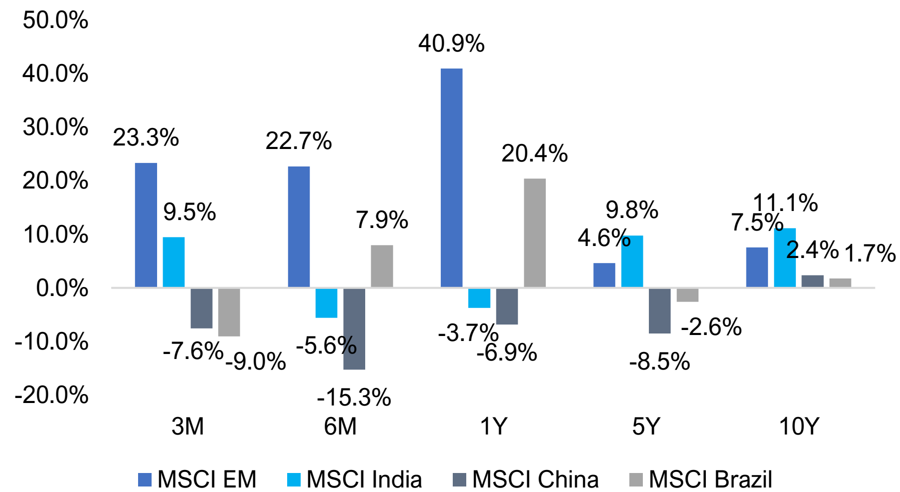
Equity Market Performance

India Sustains Momentum Amid China's Slowdown and Brazil's Fiscal Strain

EM Market Index Returns (indexed to June'2011)



EM Index Performance over Time



- EM equities diverged in Q2 with India outperforming on improving macros, resilient earnings, strong domestic liquidity, and renewed FII inflows.
- China weakened as soft domestic demand, property stress, deflation, and slower exports pressured sentiment.
- Brazil declined amid fiscal and political uncertainty, high interest rates, and softer commodity prices.
- Over the past five years, India has been a standout EM performer, delivering a 9.8% CAGR on sustained earnings growth, economic resilience, and deep domestic liquidity.

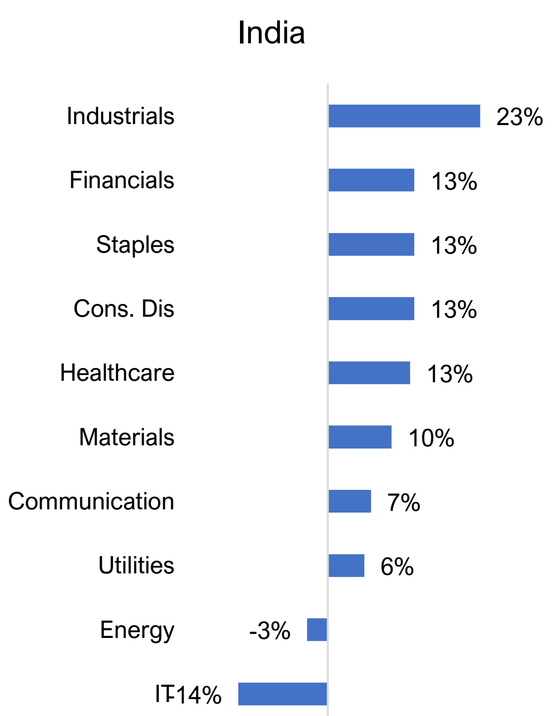
Source: *Aranca Research, Bloomberg, 5-year and 10-year returns are annualized; returns in local currency*

Sector Performance

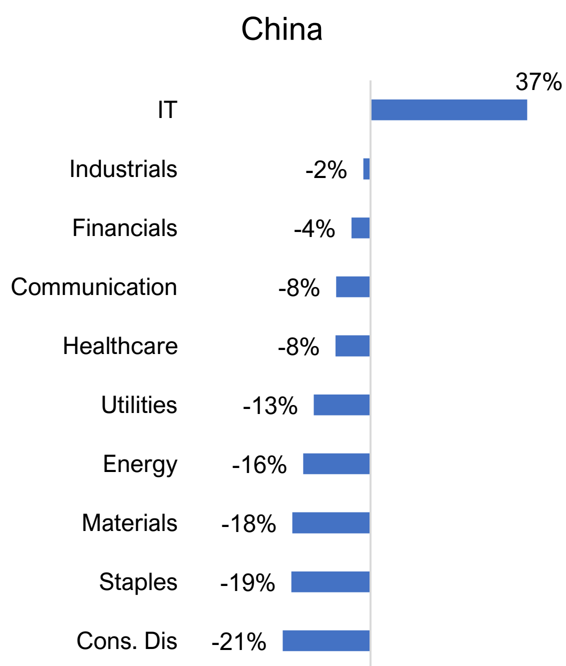
India Advances, China and Brazil Declines

- India advanced in Q2, led by Industrials (+23%) and stronger domestic growth expectations, offsetting IT weakness on softer global demand.
- China declined on weak demand, property stress, and deflation, outweighing IT gains from strong tech earnings and AI optimism.
- Brazil fell amid broad-based sector weakness, driven by high rates, fiscal concerns, and softer sentiment; IT lagged on rate sensitivity and weaker global tech sentiment.

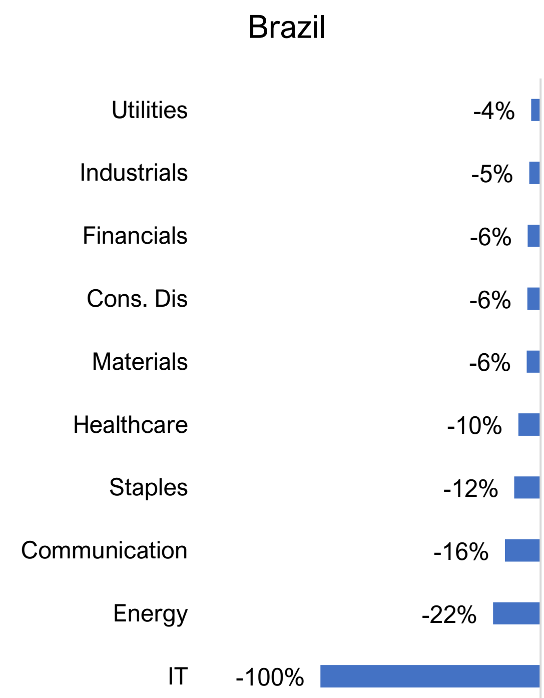
MSCI India-2Q26 Sectoral Returns



MSCI China- 2Q26 Sectoral Returns



MSCI Brazil-2Q26 Sectoral Returns

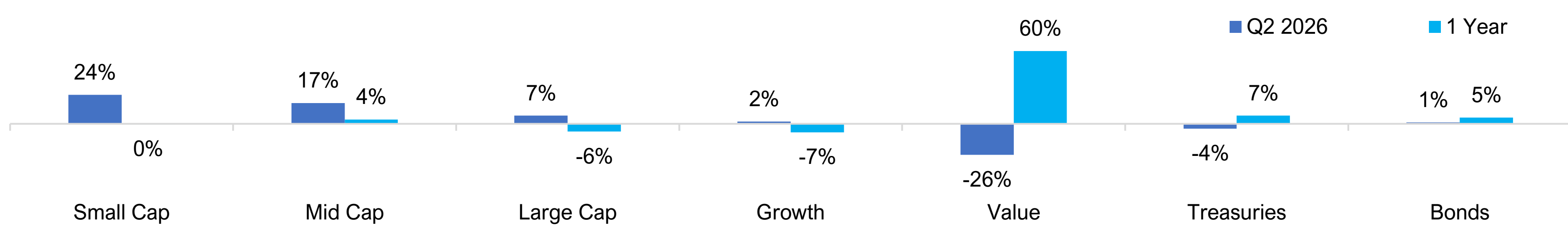


Source: *Aranca Research, Bloomberg*

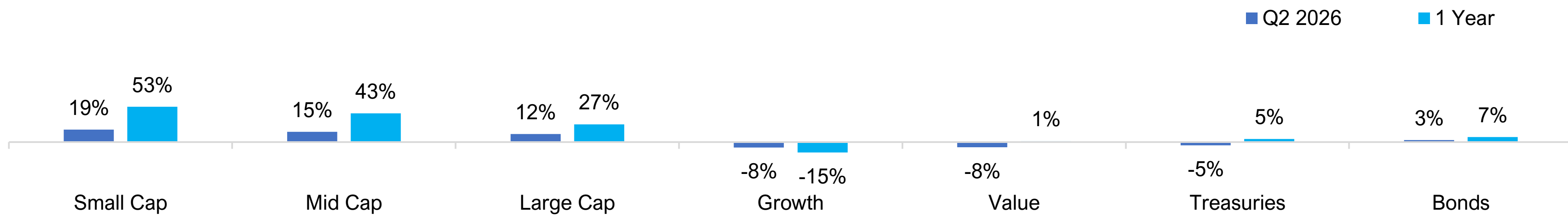
Asset Class Performance

India Favored Growth, China Led Equities, Brazil Lagged Broadly

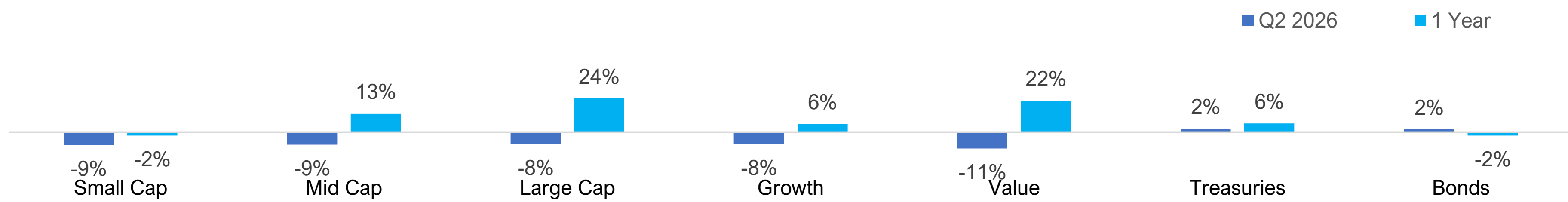
India



China



Brazil

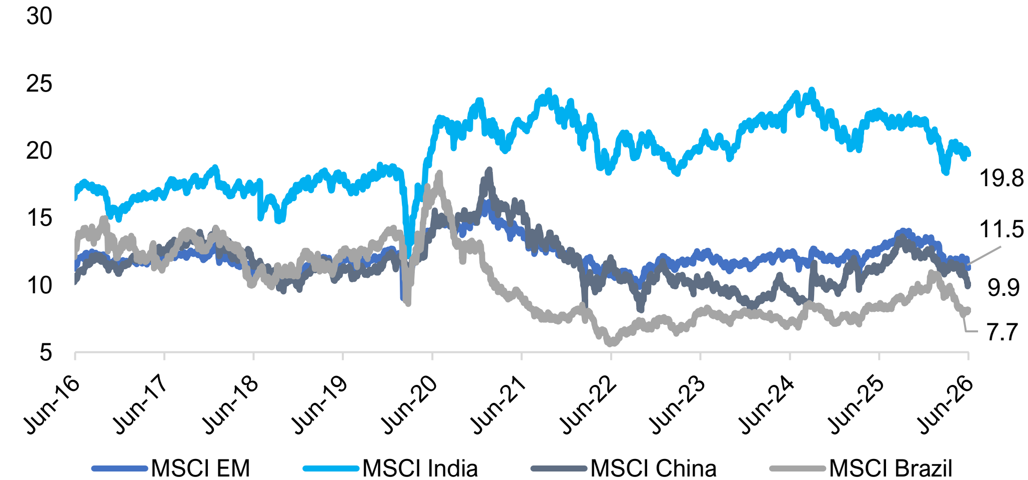


Source: *Aranca Research, Bloomberg*

EM Valuations Comparison

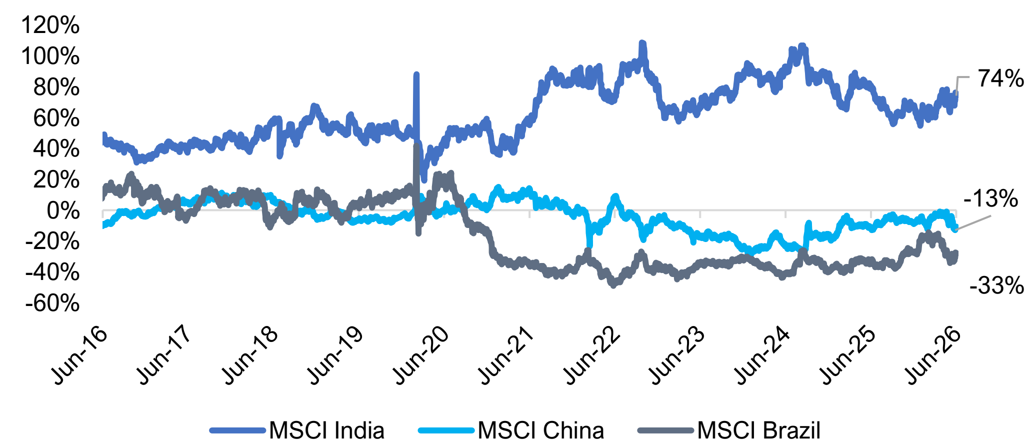
India Stays Expensive, China and Brazil Offer Deep Value

1-year forward P/E



- **India | 19.8x P/E**: Premium valuation reflects superior growth and investor confidence but leaves limited room for disappointment.
- **China | 9.9x P/E:** Discounted valuations reflect weak growth and sentiment, with policy support offering re-rating potential.
- **Brazil | 7.7x P/E:** Deep discount reflects high rates and fiscal risk, with upside dependent on macro stabilization.
- **MSCI EM | 11.5x P/E:** Valuations remain constrained by uneven growth, geopolitical risk, and global rate sensitivity.

Premium/(discount) to MSCI EM



- **India | ~74% Premium to MSCI EM:** Premium reflects superior earnings quality, favorable demographics, and sustained domestic investment.
- **China | ~13% Discount to MSCI EM:** Discount reflects persistent growth headwinds and subdued investor sentiment.
- **Brazil | ~33% Discount to MSCI EM:** Deep discount reflects high real rates, fiscal risk, macro uncertainty, and volatile capital flows.

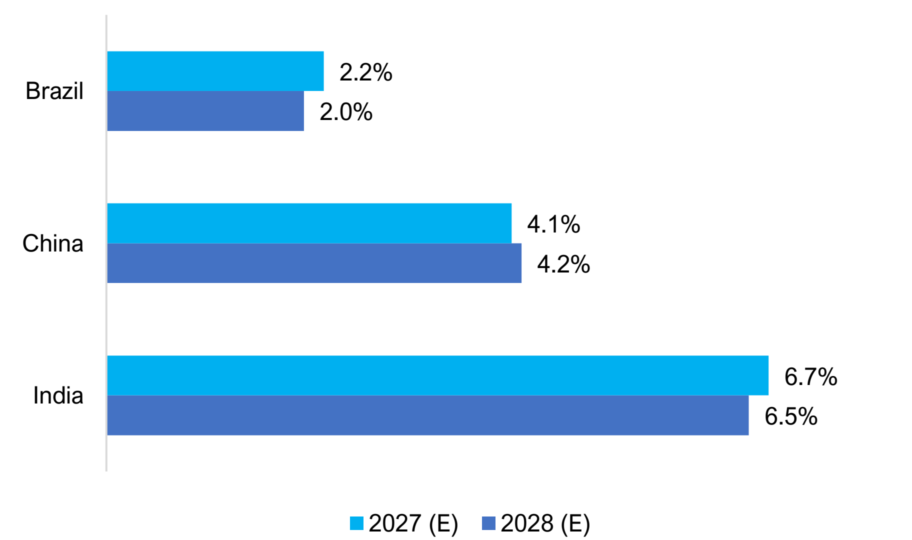
Source: *Aranca Research, Bloomberg*

Economic Outlook

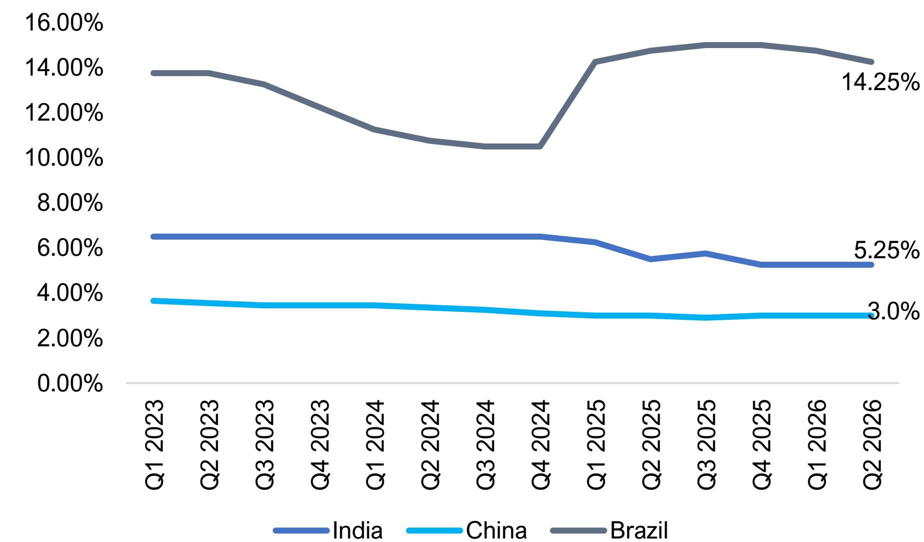
India Leads the Growth Outlook, China Stabilizes Through Policy Support, and Brazil Posts Steady Growth

- **India:** Growth is expected at ~6.7%–6.5% in 2027–28, supported by investment and consumption, with some moderation as demand normalizes.
- **China:** Growth is projected at ~4.1%–4.2%, constrained by weak domestic demand and structural headwinds, partly offset by policy support.
- **Brazil:** Growth is expected at ~2.2%–2.0%, supported by easing rates and domestic demand, but capped by fiscal constraints and softer investment.
- **Rates:** In June 2026, India held at 5.25%, China at ~3.0%, while Brazil cut the Selic to ~14.25% as inflation pressures eased.

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



Interest Rate



Source: *Aranca Research, IMF,Trading Economics and Aranca Research*

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