

COMMENTARY

March 5, 2026

Mind on the Market

Chart of the Week



Source: FactSet, MSCI. Data as of 2/27/2026 in USD.

China is the largest constituent within MSCI Emerging Markets, representing approximately 24% of the index. However, return correlations indicate that China’s performance has become meaningfully less aligned with that of other emerging market peers. We’ve long suggested that investors consider separating China from a broader EM allocation, as its unique economic drivers, policy framework and structural characteristics have led to differentiated outcomes.

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Weekly Highlights

IT Weight in MSCI EM Index

32%

Source: FactSet. Data as of 3/4/2026.

MSCI EM IT YoY Earnings
Growth Expectations for
2026

92%

Source: FactSet. Data as of 3/4/2026.

China's YTD Performance

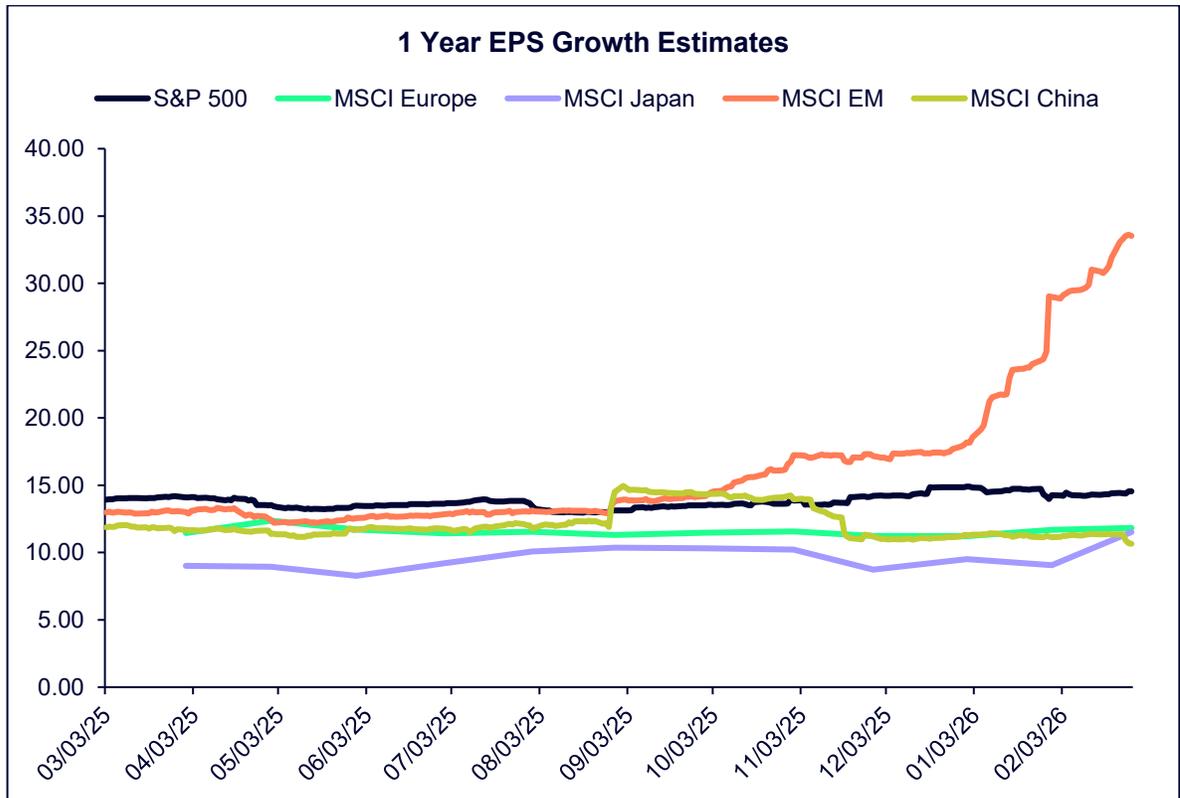
5.6%

Source: FactSet. Data as of 3/4/2026.
China's YTD performance in LC terms.

Emerging Markets: Earnings-Led Performance with a Technology Backbone

Emerging Markets (EM) outperformed developed markets in 2025, delivering a 32% return in local-currency terms, and performance has been supported by earnings. Reported fourth-quarter 2025 earnings growth currently stands at 19% YoY, with approximately 42% of companies having reported, and forward-looking expectations continue to strengthen. Analysts are increasingly forecasting additional earnings upside into 2026, creating a constructive backdrop for continued total returns.

Earnings upgrades have been led primarily by Korea, Taiwan, and South Africa, with information technology emerging as the dominant contributor. Estimated CY 2026 earnings growth for MSCI EM Information Technology has surged from just 10% in September to more than 92% today, underscoring the scale of the earnings revision cycle now underway.



Source: FactSet, S&P, MSCI. Data as of 2/27/2026.

This strength reflects a broader structural shift within emerging markets. EM is no longer primarily a commodity- or financials-driven allocation. Instead, it has become increasingly tied to global technology and artificial intelligence investment cycles. Information technology is the largest sector in MSCI EM, accounting for 32% of the index, broadly in line with the S&P 500’s 32% exposure. Excluding China, the technology footprint is even more pronounced, with IT representing approximately 39% of the MSCI EM ex China Index.

Beyond technology itself, macro conditions have also proven supportive of EM. Despite tariffs and geopolitical uncertainty, growth across emerging markets has remained intact. At the same time, a softening US dollar and expectations for Federal Reserve easing have supported both EM equity and credit markets.

Valuations remain compelling. The MSCI Emerging Markets Index continues to trade at a discount to developed market peers, with a forward P/E of approximately 13x versus 21x for the S&P 500.

China Versus the Rest of EM: Why the Recent Gap in Performance?

MSCI EM ex China has delivered a local-currency return of roughly 10% year to date. In contrast, China has struggled, posting a total return of -5% year to date as of March 4th. While estimates still point to approximately 12% earnings growth for CY 2026, equity performance in China still hinges on domestic policy clarity, property market stabilization and household balance-sheet repair.



Source: FactSet, MSCI. Data from 2/28/2025 to 2/27/2026 in local currency.

As featured in the Chart of the Week, China's performance has diverged from EM, and this dynamic is also evident over the past year. The divergence over this time period can largely be traced back to market dynamics in late September and October. Chinese equities rallied sharply into late September following Beijing's announcement of its largest stimulus package since the pandemic.

These measures initially fueled a pronounced surge in MSCI China. By early October, however, much of the rally had already front-loaded months of expected returns. As October progressed, economic data disappointed, policy expectations peaked and geopolitical risks reemerged. Chinese equities

underperformed as a result, while the rest of EM continued to benefit from a more supportive macro and earnings environment.

The performance contribution breakdown indicates that the primary detractors from MSCI China's performance since October have been communication services, consumer discretionary, and information technology. In China, we view the IT sector and AI investment as important pillars for sustaining equity market performance. However, questions persist around the durability of growth and the monetization of innovation. While China benefits from structural advantages in energy, it continues to lag in the development and manufacturing of leading-edge semiconductors. Moreover, many of the fastest-growing AI innovators remain either unlisted or underrepresented in major equity indices, limiting their impact on broader market performance.

Geopolitical Shock: Iran and Near-Term EM Risks

More recently, the war with Iran has introduced a new source of volatility. Since the initial escalation, MSCI Emerging Markets has declined by approximately 7% in local-currency terms as of March 4. Korea, Egypt and Thailand have been among the most adversely affected, reflecting their sensitivity to higher crude prices and disruptions to trade flows through the Strait of Hormuz. That said, market conditions are evolving rapidly, and performance dynamics may have shifted by the time of reading.

A prolonged conflict with Iran could be negative for emerging markets in the near term, primarily through higher energy prices, weaker currencies and tighter financial conditions. However, as laid out in our [Global Market Outlook](#) back in January, our longer-term view on emerging markets is positive. EM continues to offer a compelling earnings-driven opportunity set, led by technology-oriented economies, and should benefit from a weaker dollar once more clarity on the duration and extent of the war materializes, as well as increased capital flows into the asset class.

Source: State Street Investment Management, FactSet.

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* This figure is presented as of December 31, 2025 and includes ETF AUM of \$1,950.80 billion USD of which approximately \$173.02 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Investment Management are affiliated. Please note all AUM is unaudited.

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Equity securities may fluctuate in value in response to the activities of individual companies and general market and economic conditions.

Companies with large market capitalizations go in and out of favor based on market and economic conditions. Larger companies tend to be less volatile than companies with smaller market capitalizations. In exchange for this potentially lower risk, the value of the security may not rise as much as companies with smaller market capitalizations.

Investments in small-sized companies may involve greater risks than in those of larger, better known companies.

Commodities investing entail significant risk as commodity prices can be extremely volatile due to wide range of factors. A few such factors include overall market movements, real or perceived inflationary trends, commodity index volatility, international, economic and political changes, change in interest and currency exchange rates.

Asset Allocation is a method of diversification which positions assets among major investment categories. Asset Allocation may be used in an effort to manage risk and enhance returns. It does not, however, guarantee a profit or protect against loss.

Bonds generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates rise bond values and yields usually fall); issuer default risk; issuer credit risk; liquidity risk; and inflation risk. These effects are usually pronounced for longer-term securities.

Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

Increase in real interest rates can cause the price of inflation-protected debt securities to decrease. Interest payments on inflation-protected debt securities can be unpredictable.

There are risks associated with investing in Real Assets and the Real Assets sector, including real estate, precious metals and natural resources. Investments can be significantly affected by events relating to these industries.

Investing in foreign domiciled securities may involve risk of capital loss from unfavorable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations. Investments in emerging or developing markets may be more volatile and less liquid than investing in developed markets and may involve exposure to economic structures that are generally less diverse and mature and to political systems which have less stability than those of more developed countries.

Generally, among asset classes, stocks are more volatile than bonds or short-term instruments. Government bonds and corporate bonds generally have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns. U.S. Treasury Bills maintain a stable value if held to maturity, but returns are generally only slightly above the inflation rate.