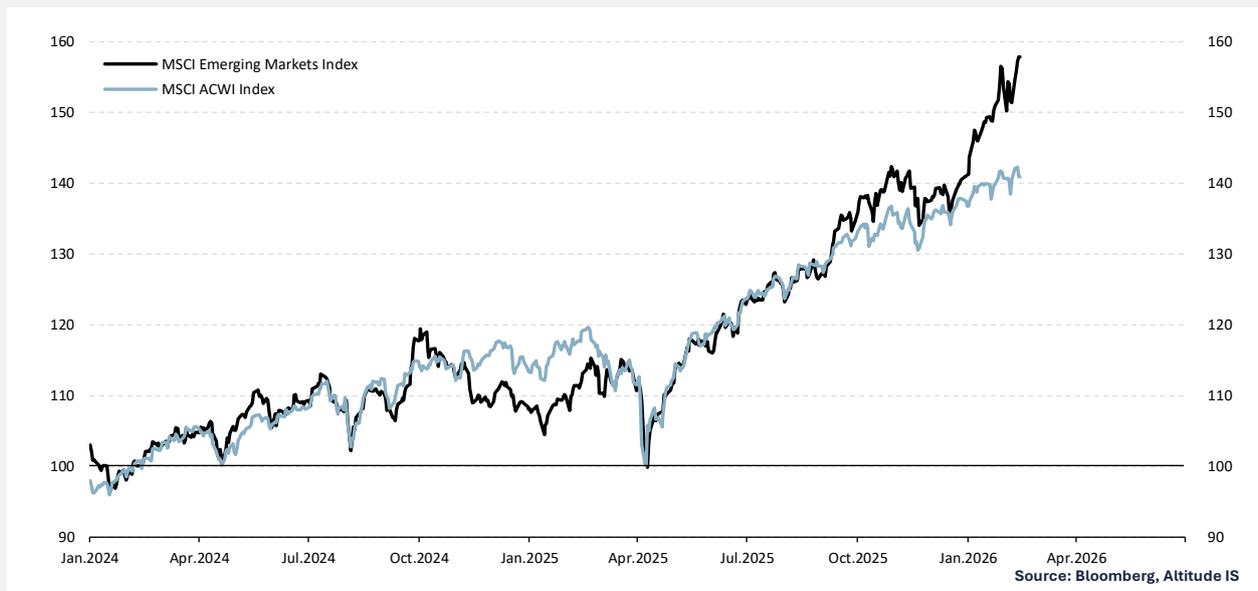


The flexiweekly that reaches new heights - published on 16 February 2026

"HOW MUCH WEIGHT SHOULD BE GIVEN TO EMERGING MARKETS?"

- The paradox of emerging markets is that investors favour them
- ... but they only allocate a tiny fraction of their equity allocation to them
- The spectacular stock market catch-up of emerging markets is only just beginning
- As usual, it will be supported by capital flows and the weak dollar

CHART OF THE WEEK: "The outperformance of emerging markets is becoming obvious"

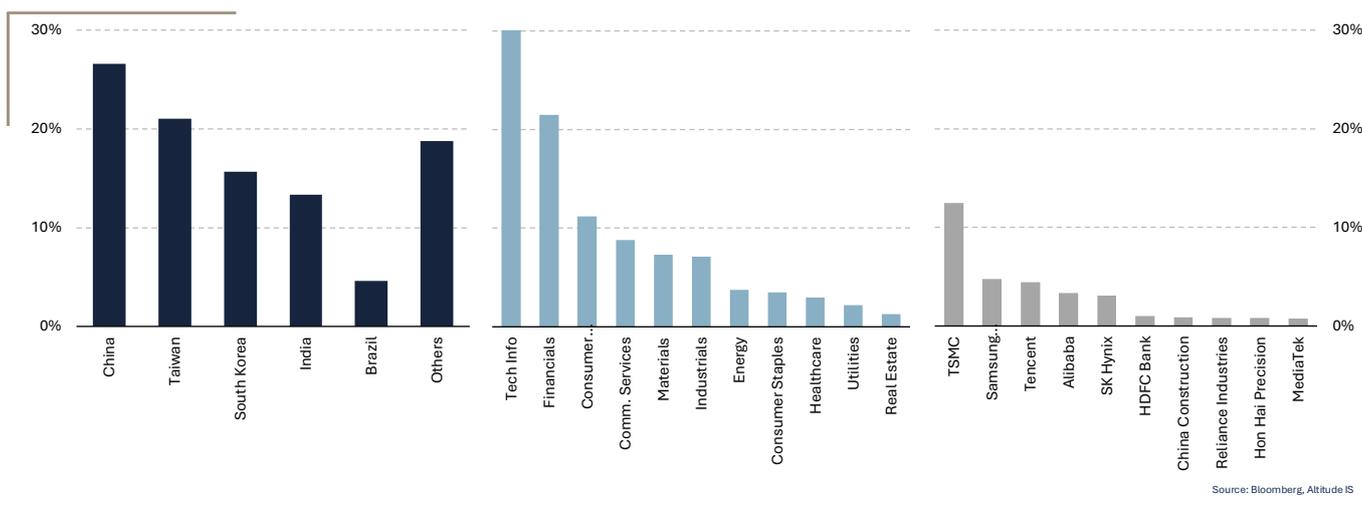


FINANCIAL MARKETS ANALYSIS

Emerging markets have had their best start to the year in over a decade. The MSCI index jumped 10% in 45 days, a record since 2012, after already gaining 30% in 2025 (see Chart of the Week). As a result of this remarkable performance, emerging markets have become one of the most crowded trades among professional investors. Paradoxically, not all of them have seen a positive contribution to their overall portfolio performance. There are two reasons for this. Firstly, not all emerging countries have been equally successful. India, for example, has delivered very disappointing returns over the past 14 months. Secondly, the actual allocation to emerging markets represented only a small portion of the portfolio.



Fig. 2 – Breakdown of the MSCI Emerging Markets Index by country, sector and company



A breakdown of the MSCI Emerging Markets Index shows that it is dominated by Asia-Pacific economies such as China and India, along with Taiwan and South Korea (see Fig. 2). This explains the high weighting of the technology sector. As proof, the best-known semiconductor foundry, TSMC, accounts for one-eighth of the index. Next come the countries of Latin America, led by Brazil and, significantly further behind, Mexico. These include companies such as the mining company Vale and the banking group Itau. For all these reasons, the flagship emerging markets index should not be viewed as a monolithic block. Investors who were exposed only to India, either for simplicity or for rational reasons, did not receive the returns they should expect. **This time around, the drivers of performance were elsewhere, among the Southeast Asian dragons and Latin American countries** (see Fig. 3).

Fig. 3 – Returns in emerging markets

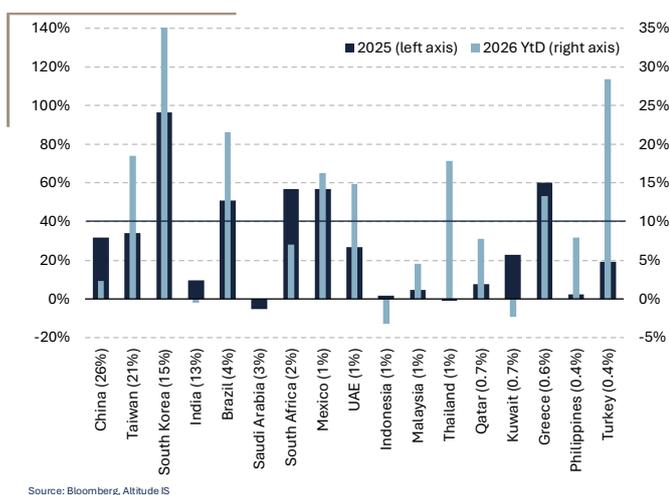
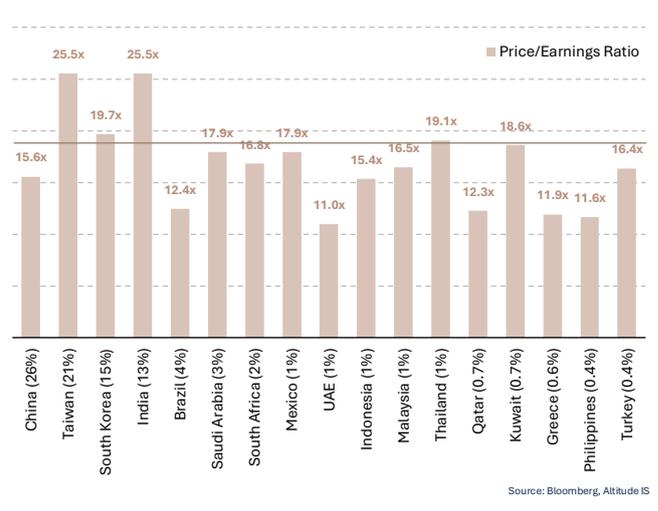


Fig. 4 – Valuation in emerging markets



The average allocation of institutional investors to emerging markets is around 4%, or 7% of their equity holdings. This figure remains very low compared to the weighting of these markets in the global benchmark index. The MSCI All Country World Index gives this universe an 11% weighting. The discrepancy is even more striking when considering the real economic power of these nations. For the record, emerging countries now account for more than 40% of global gross domestic product. The behavioural



bias of investors, who instinctively favour their domestic market, partly explains this situation. The concentration of investments in the US market, where technology companies have significantly outperformed the rest of the market since 2009, explains the rest. The result is chronic under-exposure of investors to companies in emerging countries. This lack of interest has made these stocks cheap. Their average valuation is significantly lower than that of developed countries, at 18.8x compared with 24.7 times earnings (see Fig. 4).

The outperformance of emerging markets really took off in September 2025 (see Chart of the Week). It was precisely at this time that investors began anxiously to scrutinise the Federal Reserve's decisions. The US central bank opted to ease its monetary policy, lowering its key interest rates and then increasing the size of its balance sheet a few months later. The break was also supported by China, when the People's Bank stepped in to support the domestic economy, particularly the real estate sector. This move helped restore investor confidence in households' ability to consume more. Finally, the emerging markets index benefited from growing demand for artificial intelligence. The massive need for physical hardware and no longer just IT concepts, benefited Taiwan and South Korea, which dominate global manufacturing of high-tech chips. These three promising trends show no sign of abating, let alone reversing.

Fig. 5 – Returns in emerging markets indices by region

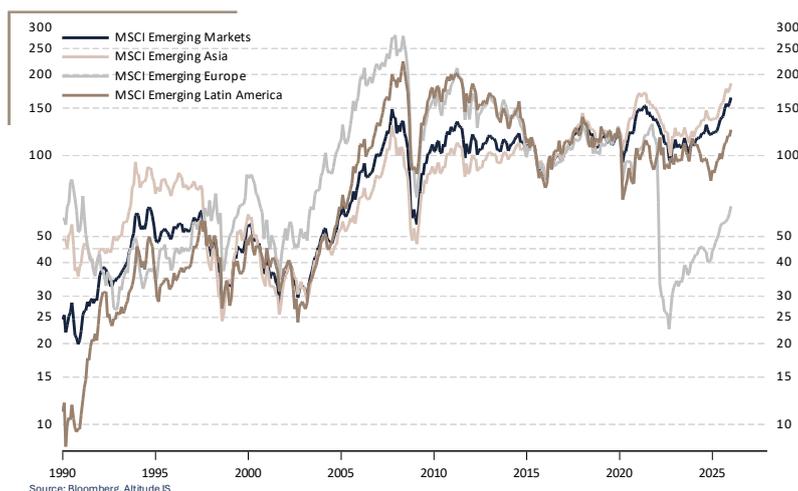
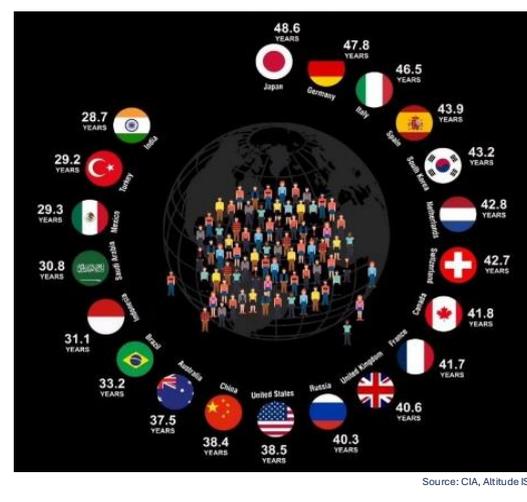


Fig. 6 – Average age of the population



In Latin America, the driving factors are of a different order. Mexico has become the rising star of this new economic cycle. Its stock market growth is approaching 60% annually over a rolling 12-month period. The country is attracting record inflows thanks to industrial nearshoring. This industrial strategy aims to relocate part of production to countries that are geographically close and in similar time zones. For American companies, Mexico is naturally one of the best candidates, particularly for those seeking to secure their logistics chains previously based in Asia. This dynamic is so powerful that Mexico has once again become the United States' largest trading partner. **Brazil is following an equally impressive trajectory**, but the factors supporting its stock market are different. Its annual performance exceeds 50%. Initially, the country benefited from attractive interest rates. These high yields, intended to curb inflation, attracted capital from around the world. Now, investors have rediscovered Brazil's agricultural and mining power. Exports of iron, soybeans and corn are generating massive revenues, fuelling a record trade surplus. Thanks to this buoyant momentum, the two Latin American giants could well see their geographical sub-index catch up with the emerging markets pack (see Fig. 5).



Among emerging countries, **India presents a more nuanced picture**. Its economic growth remains among the strongest in the world, but its listed companies had reached excessive valuation levels. Investors are reluctant to pay such high prices for new positions. The disappointing stock market performance of Indian indices, at 13% over one year, has helped to erase some of the excess. Once the correction process is complete, there is no doubt that the Indian market will benefit from its large and young workforce (see Fig. 6), but it may still be a little too early.

Fig. 7 – Relative performance of EM vs. the dollar

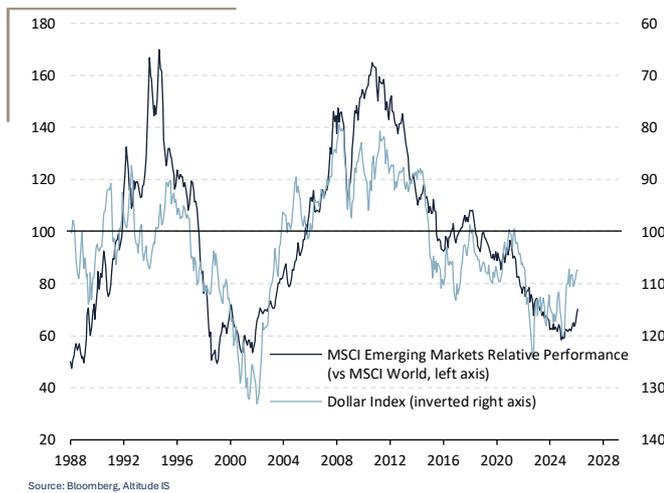
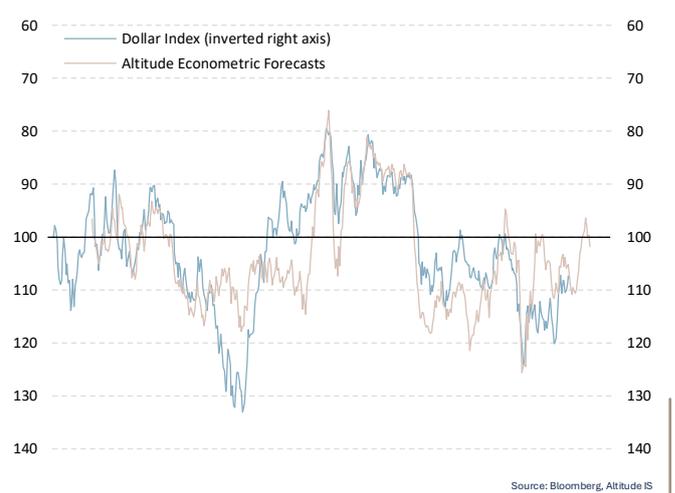


Fig. 8 – Dollar index & Forecasts



Last, but not least, emerging markets will benefit from the recent and future weakness of the dollar.

We have often analysed the correlation between these two indices. Recently, the Managing Director of the International Monetary Fund (IMF) referred to this. Kristalina Georgieva pointed out that the weakness of the greenback allows emerging countries to reduce the interest burden on their foreign currency-denominated debt. This relief will free up resources for domestic investment. So far, the outperformance of emerging markets has not been as visible as the weakness of the dollar (see Fig. 7), and our econometric models anticipate a further depreciation of the US currency (see Fig. 8). From this perspective, it seems that the best is yet to come for the emerging markets index.

Fig. 9 – Performance of emerging markets and global markets





Contrary to popular belief that emerging markets underperform global equities, historical data proves the opposite. Over a very long period, their relative performance fluctuates around 100 (see Fig. 7), albeit with long phases favouring one or the other. This phenomenon recently reached an extreme, as between 2019 and 2025, the emerging markets index moved sideways, while the global index rose by 70% (see Fig. 9). Not only did the global index make up for the ground lost between 2005 and 2014, but it ended up taking a clear lead.

Since 2025, this gap has been narrowing, and the MSCI Emerging Markets Index would need to outperform the MSCI World Index by an additional 50% to close it completely. This is anything but impossible over the next few years.

Conclusion:

Unlike in the past decade, the question is no longer when China, Taiwan, Korea, India, Brazil or Mexico will outperform the major global indices, but at what pace? As of today, investors who allocate less than 11% of their equity portfolio to emerging markets run the risk of lagging behind their competitors who follow a benchmark.



RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2026 Year-to-Date (%)	2025 (%)	2024 (%)
Equities							
World (MSCI)	1 042.8	52.30	0.0%	0.8%	2.9%	22.9%	18.0%
USA (S&P 500)	6 836	43.58	-1.3%	-1.7%	0.0%	17.9%	25.0%
USA (Dow Jones)	49 501	52.55	-1.2%	0.7%	3.1%	14.9%	15.0%
USA (Nasdaq)	22 547	37.64	-2.1%	-4.9%	-3.0%	21.2%	29.6%
Euro Area (DJ EuroStoxx)	633.3	53.94	-0.2%	0.1%	3.6%	25.2%	10.2%
UK (FTSE 100)	10 446	65.51	0.7%	3.1%	5.2%	25.7%	9.6%
Switzerland (SMI)	13 601	66.29	0.7%	1.8%	2.5%	18.0%	7.5%
Japan (Nikkei)	56 806	67.00	5.0%	6.3%	13.1%	28.6%	21.3%
Emerging (MSCI)	1 555	62.68	3.2%	5.7%	10.8%	34.3%	8.0%
Brazil (IBOVESPA)	186 464	67.07	1.9%	15.1%	15.7%	34.0%	-10.4%
Mexico (IPC)	71 479	65.25	0.9%	7.8%	11.2%	35.1%	-11.0%
India (SENSEX)	82 813	44.47	-1.1%	-1.0%	-2.9%	10.5%	9.6%
China (CSI)	4 660	45.89	0.4%	-1.9%	0.9%	21.0%	18.2%
Com. Services (MSCI World)	159.9	33.88	-2.4%	-4.5%	-2.5%	33.0%	31.9%
Cons. Discretionary (MSCI World)	442.9	31.64	-0.8%	-6.3%	-3.2%	9.8%	20.7%
Cons. Staples (MSCI World)	326.0	84.45	1.7%	10.1%	12.6%	9.3%	4.7%
Energy (MSCI World)	309.4	71.81	2.1%	13.8%	17.3%	14.8%	2.9%
Financials (MSCI World)	225.2	42.39	-2.4%	-0.6%	-0.3%	29.5%	25.1%
Health Care (MSCI World)	407.1	60.54	0.8%	1.4%	3.2%	15.3%	1.5%
Industrials (MSCI World)	524.0	73.90	1.8%	6.1%	12.3%	26.1%	12.8%
Info. Tech. (MSCI World)	955.1	45.08	-0.2%	-2.8%	-1.1%	26.6%	31.9%
Materials (MSCI World)	454.6	62.98	3.7%	7.7%	15.0%	32.5%	-7.6%
Real Estate (MSCI World)	1 076	79.32	3.8%	7.1%	9.2%	3.6%	-0.4%
Utilities (MSCI World)	212.7	82.54	5.1%	9.2%	10.2%	24.7%	13.0%
Bonds (Bloomberg)							
World (Aggregate)	3.43%	70.82	1.0%	1.9%	1.7%	8.2%	-1.7%
USA (Sovereign)	3.81%	71.24	0.9%	1.1%	1.1%	6.3%	0.6%
Euro Area (Sovereign)	2.82%	72.89	0.7%	1.0%	1.3%	0.6%	1.9%
Germany (Sovereign)	2.50%	69.57	0.6%	0.7%	1.0%	-1.6%	0.6%
UK (Sovereign)	4.39%	68.40	0.9%	0.3%	1.1%	6.1%	-3.0%
Switzerland (Sovereign)	0.43%	61.70	0.2%	0.3%	0.9%	0.3%	5.4%
Japan (Sovereign)	1.95%	49.59	0.1%	-0.2%	-0.6%	-4.6%	-2.1%
Emerging (Sovereign)	5.78%	80.62	0.7%	1.5%	1.5%	13.1%	7.0%
USA (IG Corp.)	4.74%	70.16	0.7%	1.2%	1.2%	7.8%	2.1%
Euro Area (IG Corp.)	3.11%	78.10	0.2%	0.7%	1.1%	3.0%	4.7%
Emerging (IG Corp.)	5.98%	68.60	0.3%	0.8%	0.9%	8.1%	7.0%
USA (HY Corp.)	6.62%	62.43	0.0%	0.2%	0.7%	8.6%	8.2%
Euro Area (HY Corp.)	5.44%	54.76	-0.2%	0.1%	0.7%	5.2%	8.2%
Emerging (HY Corp.)	7.17%	86.15	0.5%	1.6%	1.9%	13.9%	14.9%
World (Convertibles)	573.4	58.47	1.0%	2.0%	6.4%	22.4%	9.4%
USA (Convertibles)	743.1	56.51	0.6%	1.3%	6.2%	16.9%	10.1%
Euro Area (Convertibles)	301.8	78.35	1.0%	1.5%	3.9%	24.8%	14.7%
Switzerland (Convertibles)	298.9	77.24	1.2%	5.8%	5.6%	17.5%	-10.5%
Japan (Convertibles)	285.5	79.83	3.5%	7.2%	10.7%	13.8%	6.4%
Hedge Funds (Bloomberg)							
Hedge Funds Industry	1 862	91.35	n.a.	2.9%	2.9%	12.4%	11.1%
Macro	1 534	84.74	n.a.	4.1%	4.4%	9.4%	7.4%
Equity Long Only	2 539	82.72	n.a.	2.5%	2.5%	12.1%	12.0%
Equity Long/Short	2 029	91.21	n.a.	3.0%	3.0%	17.6%	14.0%
Event Driven	1 952	89.73	n.a.	1.7%	1.7%	11.2%	8.7%
Fundamental Equity Mkt Neutral	1 926	97.44	n.a.	2.8%	2.8%	13.5%	12.4%
Quantitative Equity Mkt Neutral	1 792	79.61	n.a.	-0.8%	-0.8%	8.6%	9.8%
Credit	1 741	98.89	n.a.	1.2%	1.2%	7.8%	8.5%
Credit Long/Short	1 735	100.00	n.a.	0.3%	6.6%	6.6%	10.0%
Commodity	2 099	92.15	n.a.	5.6%	5.6%	11.1%	14.7%
Commodity Trading Advisors	1 495	71.52	n.a.	4.9%	4.9%	6.2%	7.9%
Volatility							
VIX	20.60	60.10	16.0%	28.9%	37.8%	-13.8%	39.4%
VSTOXX	19.74	55.50	2.6%	20.0%	34.1%	-13.5%	25.3%
Commodities							
Commodities (CRB)	543.0	n.a.	0.3%	1.0%	0.6%	0.6%	5.1%
Gold (Troy Ounce)	4 998	n.a.	-1.2%	8.7%	15.7%	64.6%	27.2%
Silver (Troy Ounce)	76.78	n.a.	-7.9%	-14.8%	7.1%	148.0%	21.5%
Oil (WTI, Barrel)	62.89	n.a.	-1.0%	2.8%	9.5%	-19.9%	0.1%
Oil (Brent, Barrel)	70.12	n.a.	-1.3%	2.5%	12.3%	-15.7%	-4.6%
Currencies (vs USD)							
USD (Dollar Index)	96.93	40.48	0.1%	-2.5%	-1.4%	-9.4%	7.1%
EUR	1.1868	55.61	-0.4%	2.3%	1.0%	13.4%	-6.2%
JPY	153.13	61.39	1.8%	3.8%	2.3%	0.3%	-10.3%
GBP	1.3646	54.21	-0.3%	2.0%	1.3%	7.7%	-1.7%
AUD	0.7093	65.33	0.0%	6.1%	6.3%	7.8%	-9.2%
CAD	1.3610	56.85	-0.4%	2.5%	0.8%	4.8%	-7.9%
CHF	0.7682	60.25	-0.3%	4.5%	3.2%	14.5%	-7.3%
CNY	6.9049	79.83	0.4%	1.1%	1.2%	4.5%	-2.7%
MXN	17.153	63.58	0.2%	2.8%	5.0%	15.7%	-18.5%
EM (Emerging Index)	1 871.4	61.03	0.6%	1.2%	1.0%	7.2%	-0.7%
XBT	68 366	n.a.	0.9%	-28.4%	-22.0%	-6.5%	120.5%

Source: Bloomberg, Altitude Investment Solutions

Total Return by asset class (Negative \ Positive Performance)



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