



Macro View

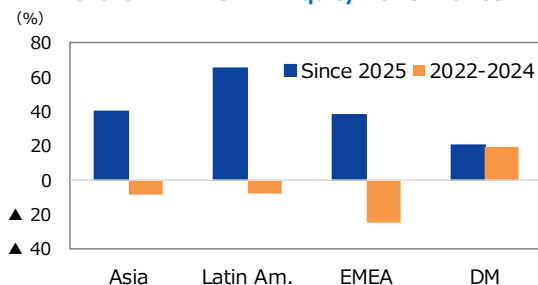
Revaluation of Emerging Market Assets: Strengthening Macro Fundamentals

- Since the second half of 2025, investor appetite for emerging market assets has increased in global financial markets, bringing renewed attention to the growth advantage of emerging economies.
- This is due to improvements in the external environment, such as a more stable global economy and room for interest rate cuts in the United States, as well as enhanced and more stable economic fundamentals in emerging market economies over the medium to long term.
- Emerging countries are also making progress in strengthening central bank independence, introducing inflation targets, and moving towards floating exchange rate systems, which may be achieving stable inflation and increasing market confidence.

Growing preference for emerging market assets

A notable recent development in global financial markets since the latter half of 2025 is the emergence of signs of a change in the performance of emerging market (EM) assets, which have lagged behind developed market (DM) assets. Looking at the performance of MSCI equity indices by region, emerging market equities have generally outperformed DM equities since 2025 (Chart 1). Fund flow data also confirm that, from the second half of 2025 to the present, broad-based inflows have continued into EM funds (Chart 2).

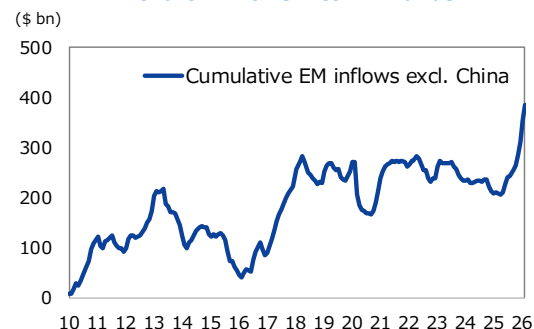
Chart 1. EM vs. DM Equity Performance



Note: Change since the start of 2025 is calculated from the average for Feb 2026.

Source: SMDAM, Bloomberg

Chart 2. Flows into EM Funds



Note: Data from 1w Jan 2010 to 2w Feb 2026.

Source: SMDAM, EPFR Global



Receding uncertainty in the global economy

The first factor underlying this trend is that the negative impact of “Trump tariffs” on world production and trade activity has proven to be limited. World industrial production volume indices (Chart 3) remained resilient through 2025 without any major collapses. Metal prices, a proxy for global demand, have also maintained positive growth, suggesting that the global economy will be able to achieve stable growth at around its potential growth rate of 3%. The decline in global economic uncertainty has supported the price of risk assets broadly, including those in emerging markets.

Trends in commodity markets have also contributed to improvements in the terms of trade in some emerging economies (Chart 4). Chart 5 shows the trade specialization index for primary commodities—defined as $(\text{exports} - \text{imports}) / (\text{exports} + \text{imports})$. Looking at emerging countries as a group, emerging economies tend to be net importers of fuel except for oil-producing countries, while many countries—especially in Latin America—are highly competitive exporters of agricultural products and mining products. Recent commodity market conditions have been characterized by decline in fuel prices alongside favorable non-fuel prices. This pattern in commodity prices has raised export prices while lowering import costs, thereby improving the terms of trade for major emerging economies and likely providing support for their economic growth.

Chart 3. World Industrial Production

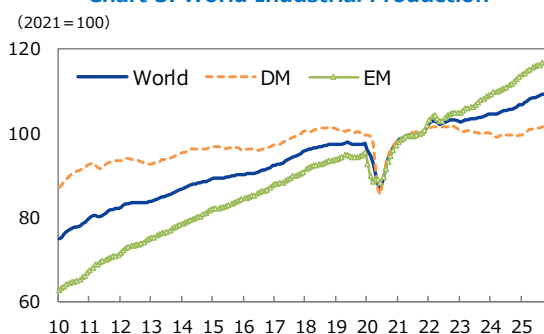


Chart 4. Commodity Prices: Fuel vs. Non-Fuel

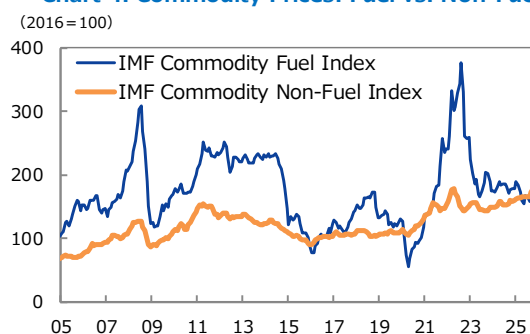
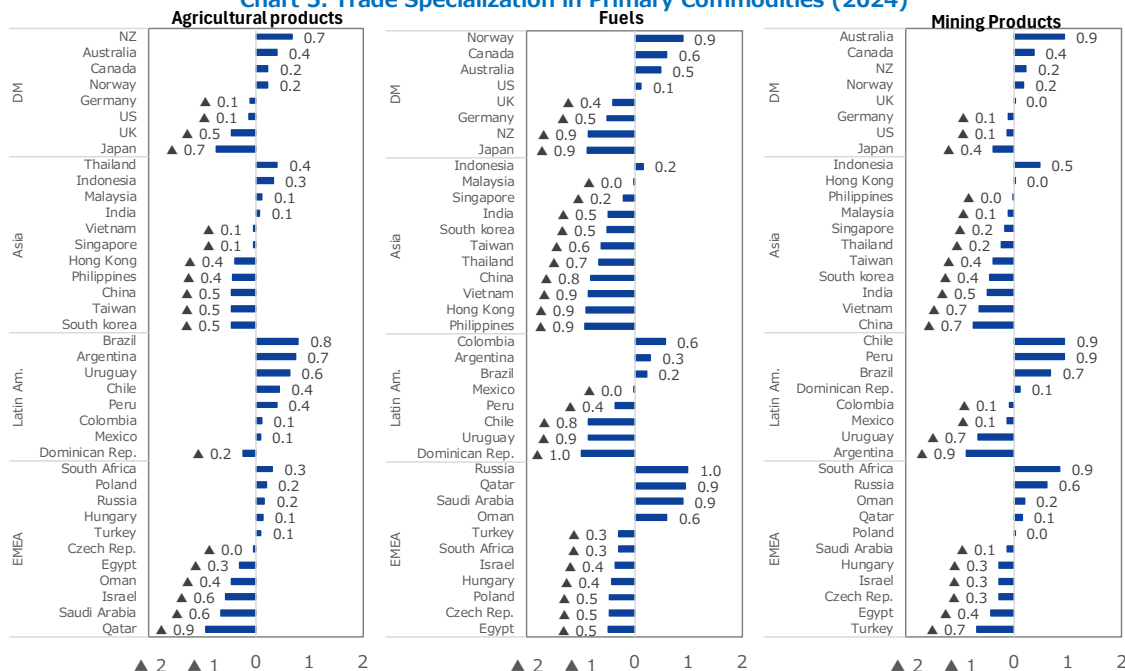


Chart 5. Trade Specialization in Primary Commodities (2024)



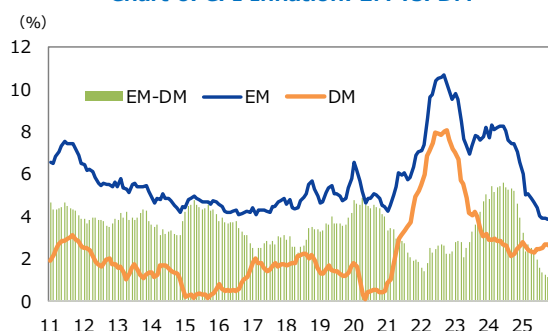
Source: SMDAM, WTO

Stabilization of inflation in emerging economies

A key specific factor in EM attracting attention this time is the improvement and increasing stability of macroeconomic fundamentals over the medium to long-term. Of particular interest is the change in inflation dynamics (Chart 6). Since August 2025, year-on-year change in the consumer price index (CPI) of emerging economies has begun to stabilize below 4%, narrowing the inflation gap with advanced economies to the 1% range. Looking at the year-on-year change in CPI for major emerging economies, we can see that inflation rates have continued to decline and stabilize within their respective inflation target ranges.

After a sharp rise in 2022, global inflation, including in emerging countries, has been a disinflationary trend from 2023 to 2025. During this period, monetary policy in emerging countries has been characterized as 1) they have begun raising interest rates ahead of developed countries to curb inflation, and 2) even as inflation has eased and monetary tightening has been unwound, real policy rates (policy rate minus year-on-year CPI) have remained in positive territory, meaning that policy easing has proceeded broadly in line with the pace of disinflation. These patterns suggest that even in the rate-cutting phase, EM central banks have maintained a cautious stance, mindful of upside risks to inflation (Chart 7).

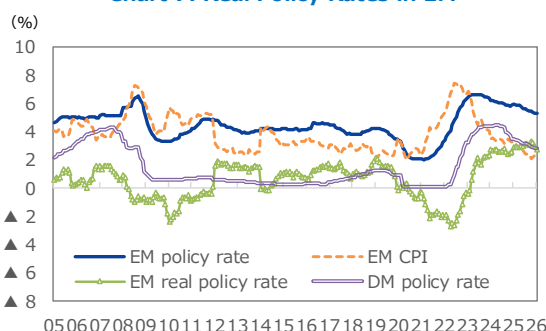
Chart 6. CPI Inflation: EM vs. DM



Note: Data from Jan 2011 to Nov 2025.

Source: SMDAM, IMF

Chart 7. Real Policy Rates in EM



Note1: Data from Jan 2005 to Jan 2026.

Note2: EM figures are calculated as nominal-GDP-weighted averages for India, Indonesia, Malaysia, Thailand, the Philippines, Hong Kong, South Korea, Taiwan, Brazil, Chile, Colombia, Mexico, Peru, the Dominican Republic, the Czech Republic, Hungary, Israel, Poland, South Africa and Turkey. DM figures are calculated as nominal-GDP-weighted averages for the United States, Canada, the euro area, the United Kingdom, Japan, Australia, New Zealand, Switzerland, Sweden and Norway.

Source: SMDAM, Bloomberg

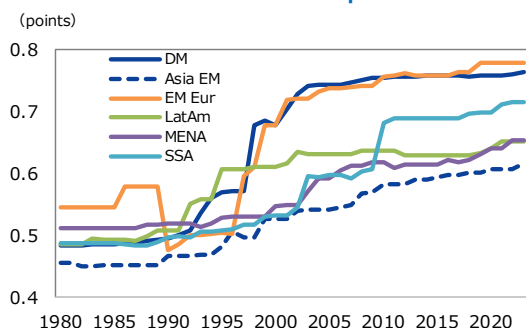
Strengthening central bank independence and the introduction of inflation targets in emerging countries

One key underlying factor appears to be that many emerging economies have strengthened central bank independence and introduced inflation-targeting regimes, enabling central banks to implement monetary policy (tightening) with the primary objective of stabilizing (curbing) inflation, independently from governments and other political pressures. Chart 8 shows the central bank independence index for 155 countries, calculated by Romelli (2024), averaged by the IMF's definitions of developed, emerging, and regional economies. The index quantifies independence across six dimensions— Governor and central bank board, Monetary policy and conflicts resolution, Objectives, Limitations on lending to the government, Financial independence, and Reporting and disclosure on a scale from 0 to 1.

In many developed economies, legal reforms to enhance central bank independence in the 1990s led to a sharp rise in the index; since then, the index has generally trended upward across most countries and regions. From the 2000s onward, while the index for developed countries remained stable at high levels, emerging countries have steadily improved their institutional frameworks in the wake of successive financial and economic crises, such as the Mexican currency crisis (1994), the Asian financial crisis (1997), the LTCM crisis (1998), the global financial crisis (2008), and the COVID-19 shock (2020), bringing their level of central bank independence closer to that of developed economies.

Although monetary policy framework reforms in emerging countries have progressed at a more gradual pace than in developed economies, the average index levels by region have now generally exceeded the mid-range level of 0.5 by a comfortable margin. This indicates that emerging countries have also significantly improved their systems for economic and financial stability. Additionally, in response to the financial crises of the 1990s, many major emerging economies shifted to more flexible or floating exchange rate regimes in the late 1990s (Chart 9). Greater exchange rate flexibility makes it easier to set policy interest rates in line with domestic economic and inflation conditions and has increased the flexibility of monetary policy, which can also be cited as a stabilizing factor for emerging economies.

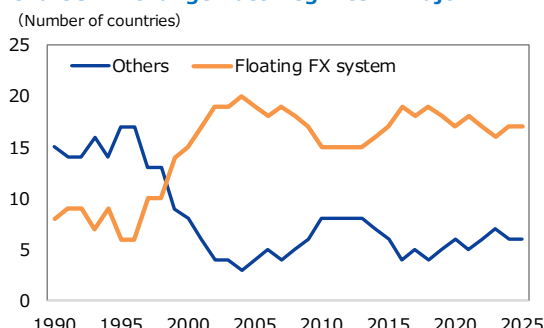
Chart 8. Central Bank Independence Index



Note: Data from 1980 to 2023.

Source: SMDAM, IMF, Romelli (2024)

Chart 9. Exchange Rate Regimes in Major EM



Note1: Data from 1990 to 2025.

Note2: The countries included are China, India, Indonesia, Malaysia, Thailand, the Philippines, Vietnam, Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay, the Dominican Republic, the Czech Republic, Hungary, Israel, Poland, Russia, South Africa, Turkey and Egypt.

Source: SMDAM, IMF

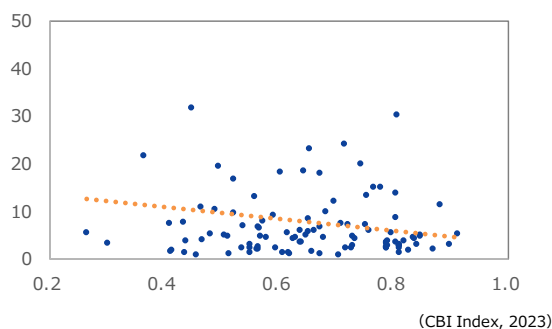
Inflation stabilization translates into market confidence

How, in practice, does central bank independence relate to the performance of emerging economies? Chart 10 plots emerging economies (as defined by the IMF) in a scatter diagram, with the central bank independence index (2023) on the horizontal axis and the 10-year average of year-on-year CPI inflation (2016–2025) on the vertical axis. The chart shows a negative correlation between independence and inflation, suggesting that the greater the degree of central bank independence, the more restrained inflation tends to be. Chart 11 plots major emerging economies with the 10-year average year-on-year change in the exchange rate against the U.S. dollar on the vertical axis and the 10-year average year-on-year CPI inflation on the horizontal axis.

This suggests that countries which have sustained disinflation through measures such as strengthening central bank independence and adopting inflation-targeting regimes have experienced currency appreciation, implying that these policies may have translated into stronger market confidence in these economies.

Chart 10. Central Bank Independence and CPI

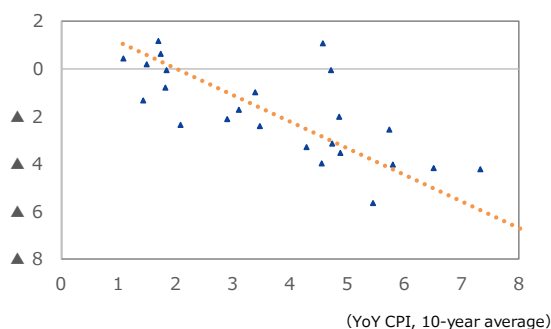
(YoY CPI, 10-year average)



Source: SMDAM, IMF, Romelli (2024)

Chart 11. CPI and Forex Performance in EM

(YoY change in FX rate vs. USD, 10-year average)



Note1: FX rates against the U.S. dollar are as of February 13, 2026.

Positive values indicate appreciation and negative values indicate depreciation.

Note2: The countries included are China, India, Indonesia, Malaysia, Thailand, the Philippines, Hong Kong, South Korea, Singapore, Taiwan, Vietnam, Brazil, Chile, Colombia, Mexico, Peru, Uruguay, the Dominican Republic, the Czech Republic, Hungary, Israel, Poland and South Africa.

Source: SMDAM, Bloomberg

Greater and more durable stability of emerging economies supports a firm global macro environment

Under conditions of stable inflation and cautious withdrawal of monetary tightening, emerging economies continue to grow robustly at more than 4%. By contrast, the growth of developed economies is expected to remain flat at just under 2%, and attention is once again turning to the growth advantage of emerging economies. This trend is supported not only by the reduced uncertainty surrounding the global economic outlook and improved external conditions, such as room for U.S. rate cuts and an easing of financial tightening as the strong U.S. dollar phase comes to an end, but also by increased market confidence in the fundamentals of emerging economies. Given that emerging economies now account for more than 40% of global GDP (in U.S. dollar terms), their enhanced stability is likely to help sustain a firm global macroeconomic environment. In this sense, developments in the fundamentals of emerging economies will remain an important stabilizing factor for international financial markets.



Whether these medium- to long-term improvements in fundamentals in emerging economies will translate into sustainably stable economic growth will likely depend on a broader set of variables, including each country's level of economic maturity and stage of development, its relationship with central bank independence, fiscal discipline and government debt, and political systems. This will require more detailed analysis going forward. That said, as this report has highlighted, in recent years many emerging economies have introduced inflation-targeting frameworks under more flexible exchange rate regimes. Such enhancements in monetary policy conduct likely play a significant role in improving market confidence in economic fundamentals, stabilizing exchange rates and inflation expectations, and enabling more flexible responses to domestic economic and inflation conditions, thereby contributing to more stable economic growth.

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