

Flows to EM: The end of the beginning (Abridged)

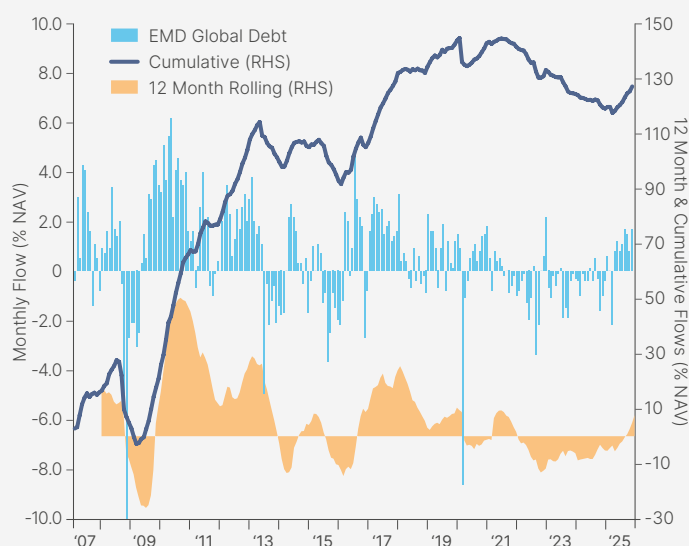
As emerging market (EM) outperformance extends, investors are frequently asking us about flows to EM assets. Morningstar data confirms net inflows have become a reality only since H2 2025. That is despite EM debt outperforming developed market (DM) debt for the best part of four years, and EM equities outperforming US markets for the last 18 months. In our view, rotation flows have barely started. We are not at the beginning of the end – but at the end of the beginning of a rotation back into EM assets.

Flows: Picking up fast, but smaller than you think

In 2025, EM received a combined USD 67.3bn of inflows (USD 31.6bn debt, USD 35.7bn equity). To put this in perspective, during the post-Global Financial Crisis (GFC) EM bull market (2009–13), inflows ran at USD 111bn per year – almost double – when the tradeable universe was far smaller. Looking at flows as a percentage of net asset value (% of NAV) gives a much better perspective than nominally.

Flows to EM debt were negative from 2022 to 2024, and the large monthly outflow following last April's "Liberation Day" means 12-month cumulative inflows turned positive only last September (Fig 1), and remain tiny as a % of NAV, suggesting significant room to run.

Fig 1: **EM Debt flows as % AUM**
Monthly, 12m rolling, and cumulative



Source: Ashmore, Morningstar. Data as at December 2025.

Asset price impact

Flows to EM assets, both debt and equity, have historically had a much higher correlation with returns than flows to developed market (DM) assets. Since 2006, the correlation between monthly inflows and returns for global EM equity funds has been 0.56 – consistently higher than for DM equities. What caught our eye is the recent divergence: the DM flow/return correlation is turning sharply lower, as EM turns higher.

Recent inflows to US markets have not coincided with better performance, while accelerating flows into EM stocks are promoting further momentum in returns. Since 2010, three out of four of these inflection points have presented a good opportunity to increase allocation to EM vs DM.

Fig 2: **EM Debt flows as % AUM**
Monthly, 12m rolling, and cumulative

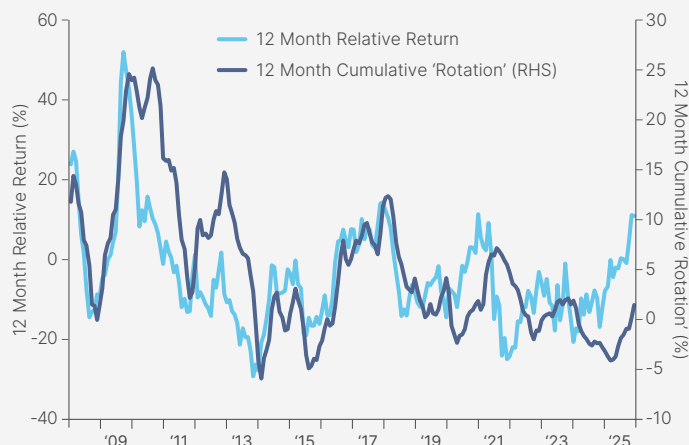


Source: Ashmore, Morningstar. Data as at December 2025.

What flows tell us about the big picture

EM outperformance vs. DM (Fig 3, light blue line) is clearly leading the rotation flows from DM to EM (dark blue line). The chart suggests rotation only started in November 2025, signalling we are still very early in the cycle. Given the correlation between flows and performance, this becomes a self-reinforcing phenomenon – investors buy into rising markets, and vice versa.

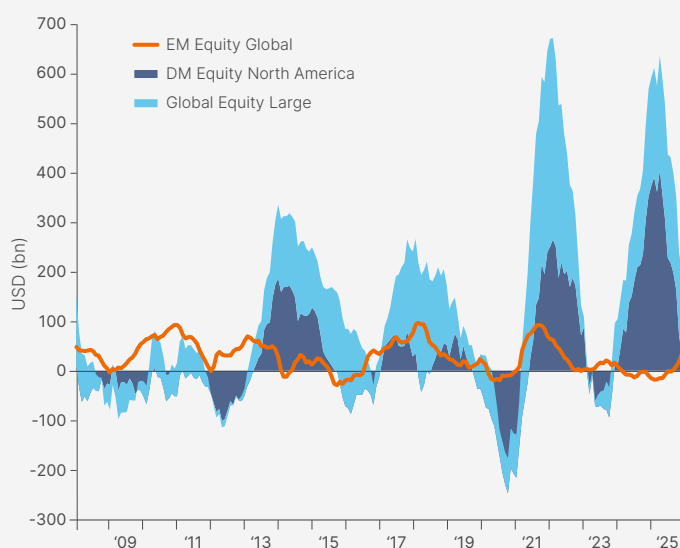
Fig 3: **12-month relative return and 12-month relative flows EM vs. DM**



Source: Ashmore, Morningstar. Data as at December 2025.

Fig 4 puts this in a longer historical context. Post-2008, inflows to global EM dominated while very little flowed to the US. Post-pandemic, it was the opposite – most flows went to the US and sectoral funds. Now, the pattern is shifting again, with the early signs of a broad rotation back into EM.

Fig 4: **Flows to global equities: DM and Large Cap vs. EM**
All Morningstar categories since 2007



Source: Ashmore, Morningstar. Data as at December 2025.

Global macro risks

So far in 2026, our 'goldilocks' macro thesis remains intact: global GDP buoyed by AI capex and inflation declining with a weak labour market, which should lead to the US Federal Reserve (Fed) cutting rates more than markets are pricing. Lower US rates vs. stable rates in Europe and higher rates in Japan keeps the USD for sale, and EM outperforming. What can spoil the party?

• Geopolitics

The US–Iran confrontation we flagged last month has materialised. Oil prices have spiked and are likely to remain higher and more volatile in the coming months. This evolving situation which may well delay global disinflation via higher energy prices. Still, we do not expect this to derail our macro thesis for 2026, given the Trump administration's priority on low energy prices and that the global oil market entered 2026 in surplus.

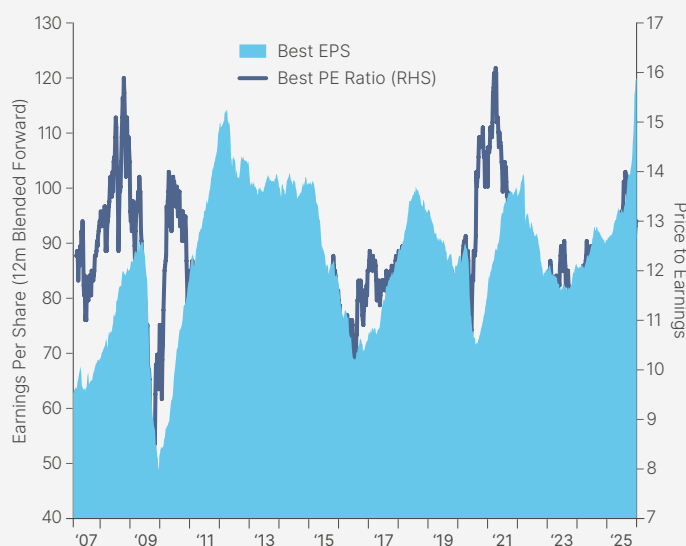
• The return of US exceptionalism

Trump announcing direct fiscal transfers ahead of mid-terms in October in a bid to boost his popularity is a risk. This would put upward pressure on inflation. Most likely, the Fed would stop cutting, and the Dollar would strengthen. We think this is unlikely: Trump won in 2024 on lowering the cost-of-living; his economic team is enforcing fiscal discipline.

Risk mitigants: EM resilience and earnings momentum

We have been consistently highlighting the dramatic improvement in EM fundamentals over the last five years: lower debt levels (particularly ex-China), and inflation broadly in line with central bank targets, means EM central banks do not have to tighten monetary policy (to protect currencies) during volatility spikes. Furthermore, EM aggregate earnings per share have just printed a new record high for the first time in 15 years (Fig 5), driven by the semiconductor super-cycle and accelerating earnings across China, India, Malaysia, Latin America, and South Africa.

Fig 5: **MSCI EM: Price to earnings and EPS**
12-month blended forward



Source: Ashmore, Bloomberg. Data as at 23 February 2026.

Conclusion

A rotation back into EM assets is underway – yet most investors remain underweight. While near-term oil market disruption is a setback, the direction of the macro environment is unlikely to reverse this year. The AI trade has migrated toward EM supply chains, earnings per share is at a 15-year high, high real rates leave ample room to cut, meaning the USD remains for sale. We believe we are only at the end of the beginning of an extended period of EM outperformance – history shows that the flows will follow.

Read the full version of this paper on our website

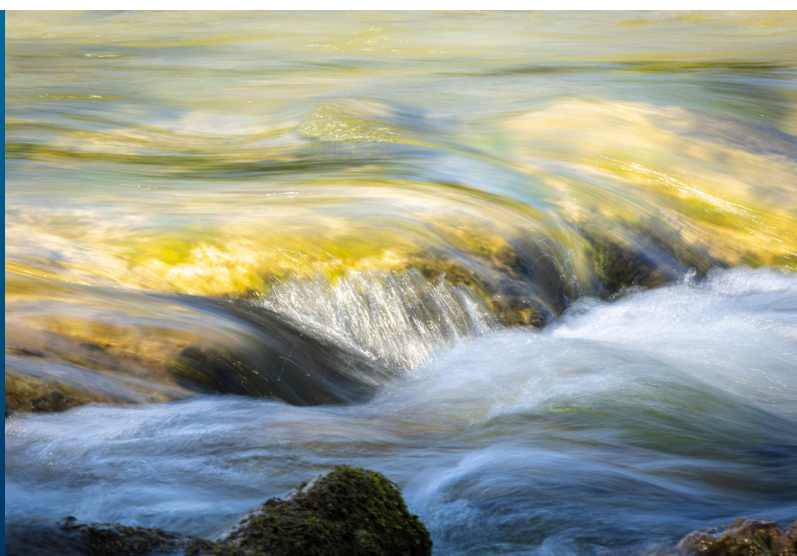
Emerging View

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