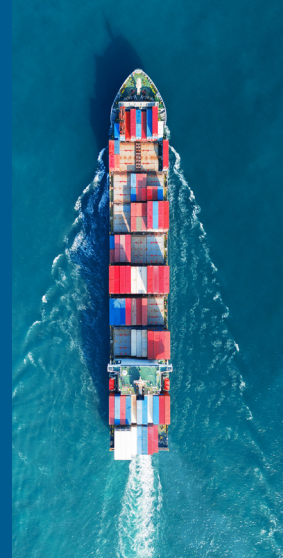


Terms of Trade: The Quiet Tailwind Behind Emerging Market's Comeback



TALES FROM THE EMERGING WORLD | EMERGING MARKETS EQUITY TEAM | June 2026

Emerging market (EM) equities have staged a strong recovery over the last 18 months after several years of underperformance relative to developed markets (DM). Since November 2024, when EM equities declined to multi-year lows relative to the U.S., EM total returns have risen an impressive 63%, compared to 25% for the S&P 500. Much of this recovery has been credited to the Artificial Intelligence (AI)-led rally in Korea and Taiwan, particularly through companies like Samsung, SK Hynix and Taiwan Semiconductor. Yet, what has received less attention is the equity performance of several smaller markets, including South Africa, Brazil, Chile, Peru and Colombia, all of which have outperformed the broader MSCI EM index since the start of 2025. The common thread is an improvement in terms of trade. Strong commodity prices are helping to strengthen external balances, support currencies and improve the earnings outlook for domestically oriented sectors.

Terms of trade measures the ratio of export prices to import prices. When export prices rise relative to imports, that improves a country's national income and external purchasing power. This matters more for EM than for DM because trade plays a larger role with respect to EM macro. Exports account for roughly 30% of GDP in EM, compared with just 7% for the U.S. Despite concerns over higher U.S. tariffs over the last year, EM exports' growth has remained resilient. The 24 countries representing the MSCI EM Index recently contributed a record 40% share of world exports. EM current account surplus is now at pre-Global Financial Crisis highs. These trade numbers reflect not just higher volumes but show the improved pricing power for EM exporters.

South Africa is benefiting from higher gold and platinum group metals (PGM) prices, up 80% over the last two years. Moreover, the country now enjoys the highest terms of trade in its history.

AUTHORS



PAUL PSAILA
*Co-Head of Emerging
Markets Equity*

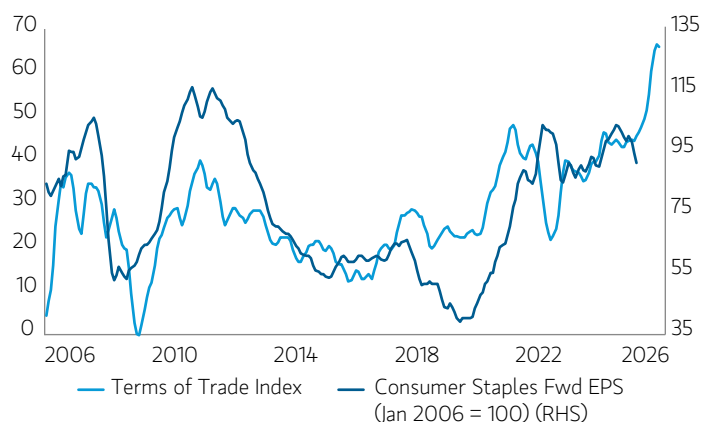


UDAY THARAR
*Vice President,
Emerging
Markets Equity*

DISPLAY 1

Chile's Terms of Trade Compared to Consumer Staples

Chile is benefiting from higher copper prices



Source: MSIM, Bloomberg, Haver. As of 5/1/2026. Positive shifts in Chile's terms of trade have tended to show up in earnings revisions of consumer staples with a 9 month lag.

Chile and Peru have also gained from improved terms of trade, helped by higher copper prices (Display 1). Brazil, with a more diversified commodity export base, is benefitting from higher prices of soybeans, crude and iron ore.

While the earnings benefits associated with commodities are clear, we find the impact is not limited to only commodity-related sectors and companies. Better terms of trade can ripple through currencies, rates, domestic demand and earnings revisions. Improving terms of trade can have a much larger influence on macro elements and lead to earnings growth in uncorrelated sectors. The immediate effect is felt through currency appreciation: improving terms of trade improves external balances, reduces imported inflation pressures, leads to higher FX liquidity and gives EM central banks greater flexibility in cutting rates.

Lower policy rates can then support credit growth, consumer spending and sectors that are sensitive to interest rate gyrations, such as financials, industrials, real estate and utilities. Before the war with Iran complicated the inflation outlook, EM central banks were in a strong rate-cutting cycle with 92% of the 24 MSCI EM central banks having cut rates as their most recent policy move.

Earnings Per Share (EPS) Revision Signal

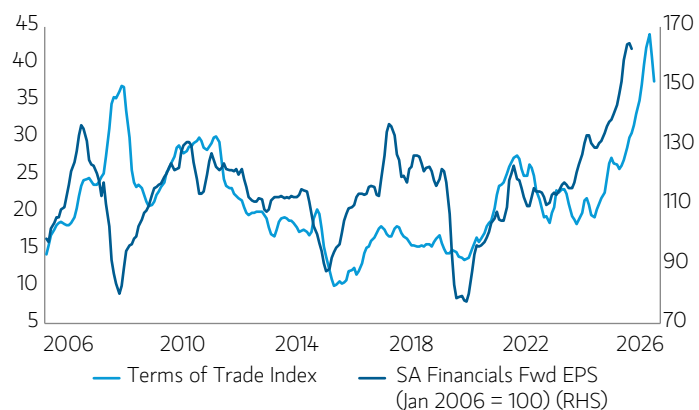
Our proprietary research mapped terms of trade with earnings of various sectors and macro variables, where we found terms of trade improvements have historically led EPS revisions in domestic sectors by 6-12 months. The relationship appears particularly strong in markets where exports are concentrated in globally priced commodities or semiconductors, and where currency moves have a meaningful pass-through to inflation, rates and domestic activity.

In South Africa, domestic earnings, particularly financials and consumer staples, have shown a strong relationship with terms of trade (Display 2). In Korea, terms of trade is not only a lead indicator for tech earnings, but also for retail sales, government revenue growth and earnings of consumer staples. In Chile, we see a high correlation of terms of trade with the peso and EPS of domestic sectors like financials and consumer staples. In smaller markets like Peru and Colombia terms of trade has been a useful leading indicator for earnings across the broader index reinforcing the thesis that the relationship is meaningful.

DISPLAY 2

South Africa's Terms of Trade Compared to Financials

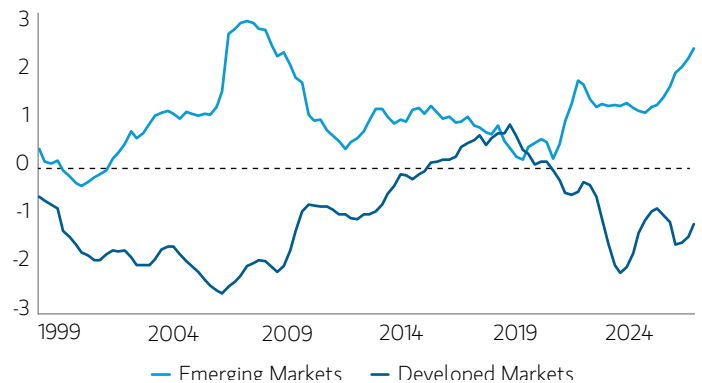
Favorable terms of trade are helping South Africa



Source: MSIM, Bloomberg, Haver. As of 5/1/2026. Improving terms of trade have historically been an early signal for financial-sector earnings revisions, typically with a six month lag.

EM is a heterogeneous asset class with various macro factors, policy initiatives and earnings driving country returns. But the importance of trade and currency should not be underestimated. The current improvements in terms of trade is supporting EM exporters through better pricing power and not simply higher volumes. More importantly, the benefits appear to be spreading beyond export sectors and into currencies, rates and domestic demand. The terms of trade cycle, with its positive impact on different sectors, provides another pillar of support for EM equities.

DISPLAY 3
EMs Are In a Position of Strength
Current account balance as a percentage of GDP



Source: MSIM, Haver. As of 12/31/2025.

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