Emerging Markets:
Uncovering Key Alpha Drivers Amid Shifting Global Dynamics

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Introduction

Emerging Markets (EM) enter 2026 on the heels of an exceptional 2025 — a year defined by strong total returns and resilient fundamentals despite global volatility. The EMBI Global Diversified returned 14.3%, the GBI-EM Global Diversified returned 19.3%, and the CEMBI Broad Diversified returned 8.7%. Within the EMBI, remarkable returns were seen in Venezuela, Lebanon and Ecuador. Across EMBI regions, frontier markets in Africa led the charge, delivering outsized gains of 21% as structural reforms, fiscal consolidation and IMF engagement restored investor confidence. Latin America followed (17.4%), buoyed by Mexico's nearshoring momentum and Brazil's growth resilience, while Asia remained steady (9.9%) with India and Indonesia benefiting from stable macro frameworks and accommodative policy stances.[1]

MetLife Investment Management

This backdrop of robust performance sets a high bar for 2026, leaving some investors cautious about whether meaningful opportunities remain to generate alpha. Despite compressed global spreads, we believe that EM continues to offer relative value and idiosyncratic opportunities for investors prepared to navigate uncertainty with precision. In our view, four dominant forces: geopolitical realignments, distressed credit situations, a wave of critical elections and monetary and FX normalization, will provide the next set of opportunities for EM.

2026 EM Alpha Drivers: Key Catalysts

Expected Outcome	Return Skew: ↓	Return Skew: ↔	Return Skew: ↑
+	Zambia Election Mexico USMCA	Venezuela Regime Shift** Peru Election	Colombia Election** Argentina Reforms**
↔		Lebanon Restructuring**	Ukraine Ceasefire** Hungary Election* Brazil Election*
−		Senegal in Distress**	

*Represents Medium Potential Market Impact events
**Represents High Potential Market Impact events
No asterisk represents Low Potential Market Impact events
Source: MetLife Investment Management as of January 2026

Geopolitical Realignment

Latin America: Strategic Realignment and Investment Tailwinds

Latin America is emerging as a strategic policy priority for the U.S., marking a major pivot after decades of neglect. This significant geopolitical realignment, led by President Trump, put the region in a favorable position for strategic investment, supported by structural advantages that enable sustained growth. This shift aligns with supply chain resilience and resource security, creating a favorable backdrop for foreign direct investment (FDI). Strengthening U.S. alliances, illustrated by the credit line for Argentina ahead of its mid-term elections, security cooperation with Ecuador and strong ties with El Salvador, bolster stability and investor confidence. In Honduras' election, Trump's support for a single candidate underscores Washington's influence, while Brazil remains an outlier, with strained relations after Bolsonaro's imprisonment. Mexico remains the anchor for nearshoring under USMCA, attracting manufacturing flows, while Venezuela's potential regime change and debt restructuring could unlock value. Chile and Peru are critical for copper and lithium amid the energy transition, and Panama's logistics infrastructure reinforces connectivity.

USMCA: Nearshoring Momentum

The United States-Mexico-Canada Agreement (USMCA) remains central to North American trade integration, driving nearshoring and supply chain resilience. The 2026 Sunset Clause review, scheduled for July 1, will determine whether the agreement is extended for 16 years or subjected to annual reviews until 2036 if consensus fails.[2] This could be noisy, as the U.S. will seek to extract additional cooperation from Mexico on key issues like immigration, counternarcotics and trade-related issues like rules of origin. We believe continuity is the base case, and Mexico will continue to benefit from its integration with the U.S., attracting manufacturing investment and strengthening its edge over other markets. Close monitoring of negotiations and political signals will be critical, as failure to reach consensus could trigger recurring uncertainty, including higher and more permanent tariffs.

Venezuela: Regime Change and Restructuring

Venezuela enters 2026 amid a dramatic political shift following Maduro's removal and Delcy Rodríguez's interim presidency, signaling renewed U.S. engagement but leaving democratic reforms uncertain. Washington's multiple transition conditions tie sanctions relief to verifiable progress, meaning comprehensive debt restructuring likely awaits elected leadership. Near-term stability hinges on Rodríguez's ability to hold Chavismo together and navigate U.S. demands, while internal power struggles and external reactions add complexity. Venezuelan bonds have rallied sharply (30%),[3] reflecting optimism but underscoring the risks around governance, negotiations and timelines.

Ukraine: Ceasefire Uncertainty Keeps Risk Premium Elevated

Ukraine's outlook remains shaped by fragile ceasefire negotiations, which in turn rely upon territorial concessions and credible U.S. security guarantees. Ukraine has signaled openness to negotiate, yet critical issues remain unresolved, and talks with Russia and Washington have repeatedly stalled. Markets are repricing Ukrainian bonds to reflect a higher probability of ceasefire. Meanwhile, reconstruction financing offers long-term support, reducing the risk of a repeated sovereign default.

Distressed Debt Opportunities

Argentina: Reform at a Crossroads

Argentina's reform trajectory has gained momentum following mid-term elections, with the Milei administration signaling pragmatism through cabinet reshuffles and renewed congressional outreach. The government's commitment to fiscal consolidation is evident in the 2026 budget targeting a surplus with continued public-sector downsizing, while monetary authorities advance plans to stabilize inflation. Other key catalysts include external financing progress, rebuilding of reserves and further elimination of capital controls. Execution risk persists, but successful delivery could unlock meaningful upside in sovereign spreads and local rates.

Senegal & Gabon: Distress Signals

Senegal and Gabon are navigating fiscal challenges amid constrained market access and tighter liquidity conditions. With both countries at risk of default, engagement with multilateral institutions, particularly the IMF, is critical to secure financing and provide a framework to make necessary adjustments that ensure policy credibility. Near-term priorities include improving cash management, strengthening revenue administration and clarifying medium-term debt strategies to restore investor confidence.

Lebanon: Reform Momentum and Complex Recovery Dynamics

There is renewed optimism around Lebanon's debt restructuring process following a breakthrough in political deadlock, with the election of a new president, formation of a cabinet and appointment of a new central bank governor. Recent legislative progress, including banking resolution laws, set the stage for an IMF-supported program and eventual sovereign restructuring. At current bond prices, there is meaningful upside potential in recovery values, with some reliance on key variables such as the sovereign's share of banking recapitalization costs, nominal GDP starting levels and the scale of international reconstruction grants. Political challenges, including resistance from vested interests and delays in disarming Hezbollah, add complexity and could extend timelines.

Elections

Colombia & Brazil: At a Fiscal Crossroads

Colombia and Brazil both face pivotal elections, but Colombia's fiscal challenges are significantly more acute. Colombia is on a steeply deteriorating fiscal path, requiring urgent adjustment and structural reforms to restore credibility and stimulate private sector growth. Brazil, while grappling with rising spending pressures and political resistance to deeper reforms, retains comparatively stronger buffers and market confidence. A shift toward reform-minded leadership in either country would boost investor sentiment, signaling commitment to consolidation and growth-friendly policies. Conversely, failure to act decisively would leave Colombia at greater risk of additional downgrades, sharply higher financing costs, and constrained market access, while Brazil would face similar pressures but with more room to maneuver. With real rates expected to remain elevated, clear signals on fiscal strategy will be critical for market confidence across both economies.

Hungary: Policy Balancing Amid Pre-Election Dynamics

Hungary's upcoming election will be a key catalyst for market sentiment, overshadowing near-term fiscal and monetary signals. While maintaining economic stability and a prudent fiscal policy remains important (deficit targets of 5% for both 2025 and 2026), investors are primarily focused on whether the next government, led by either the incumbent Fidesz candidate or a fragmented opposition, can deliver credible fiscal consolidation and maintain policy continuity. The election outcome will shape Hungary's stance in EU negotiations, influence foreign investment flows and determine the trajectory of structural reforms.

Peru: Political Transition

Peru is in political transition after Congress impeached President Boluarte, with José Jeri serving as caretaker president until the April 2026 elections. Market reaction has been contained, and pre-election protests appear unlikely. The electoral agenda is set to be dominated by public security; center-right outcomes are plausible, though visibility is low amid 40+ registered parties and potentially 20 presidential contenders. Macro fundamentals remain resilient supported by favorable terms of trade, yet mid-term fiscal risks persist, and pension withdrawals could pressure local rates. Electoral developments and near-term budget signals will be critical for clarity on spreads and FX stability.

Monetary and FX Normalization

FX volatility will remain a key source of opportunities in 2026, driven by divergent monetary policies, commodity price swings and political uncertainty. Local currency debt offers attractive real yields in markets with credible inflation-targeting regimes. High real rates, especially in Latin America, create opportunities in duration and carry in an environment where the immediate direction of the U.S. dollar versus the G10 is more uncertain. Some of our preferred regional exposures are Brazil and Mexico, even with the Brazilian election overhang. Colombia screens attractive, but election volatility will keep premiums elevated and could present a very interesting entry point as the year progresses. Elsewhere, frontier local markets should continue to deliver alpha despite an extremely impressive year in 2025. Countries like Egypt and Turkey are interesting, although investor position needs to be monitored, and areas like Zambia and Uzbekistan remain two of our favorites. Frontier liquidity is always a concern, and appropriate position sizing based on fundamental conviction is critical. Asia offers relative stability, though selective opportunities exist in countries balancing low relative carry with currency stability, such as Indonesia, Malaysia, Thailand and India.

Conclusion

Emerging Markets enter 2026 with strong momentum but heightened complexity. While last year's performance sets a high bar, opportunities remain for investors who can navigate geopolitical shifts, distressed credit situations and election-driven policy changes with precision. The U.S. strategic realignment toward Latin America offers compelling tailwinds for that region, while select distressed credits and pivotal elections create avenues for differentiated alpha. Against compressed spreads and global uncertainty, active positioning and risk management will be critical to unlocking value in this evolving landscape.

Endnotes

[1] Source: Information in this paragraph sourced from JP Morgan

[2] JP Morgan

[3] Bloomberg LP

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