Santander Asset Management

Marketing Communication

Santander Go Emerging Markets Equity

10 / 2026

Fund commentary

Market review:

Emerging market (EM) equities posted negative returns in October, ending markedly behind the MSCI World Index, in another month of heightened EM volatility. Weak performance from the larger AI-related markets of Korea and Taiwan led EM lower as concerns about AI monetisation continue to surface, while Lula's surprise election victory triggered a sharp sell-off in Brazil. Elsewhere, oil prices remained elevated as investors anticipate renewed US-Iran hostilities following the US midterms, while the US Federal Reserve (Fed) held rates unchanged during the month.

Korea was the worst performing market in the EM universe over the month, as technology and AI-related names sold off, reversing September's gains, along with notably poor performance in the industrials sector. Elevated global bond yields fuelled questions around AI financing sustainability, combined with AI monetisation worries which have contributed to rotation out of Korea's key technology sector. Indonesia also posted double digit negative return on a US dollar basis as MSCI proposed a double downgrade of Indonesia to standalone market status flagging insufficient progress to address market dysfunction concerns. Brazil was another notable underperformer in October, as the market saw a sharp sell off after President Luiz Inácio Lula da Silva secured re-election by defeating right wing challenger Flavio Bolsonaro in a surprise second round victory. The sell-off reflected concerns around spending discipline and long-term debt sustainability under Lula, with Brazil's fiscal deficit close to 9% of GDP, and debt-to-GDP ratio near 85%. The smaller EM countries of Peru, Chile, Turkey and Greece also underperformed in October, while foreign outflows amid subdued sentiment around AI contributed to Taiwan's underperformance.

China marginally outperformed the broader EM index, despite falling markedly in US dollar terms, led by weak performance in the cyclical sectors (IT, Materials and Industrials), as increased US and EU trade measures and weak real economic activity remain headwinds. Saudi Arabia, the UAE and South Africa also outperformed despite their respective markets falling, with South Africa experiencing large sector dispersion with precious metals dragging the market into negative territory. Kuwait, Poland, Thailand and Malaysia were all ahead of the index, posting negative returns in US dollar terms. India outperformed, being one of the only EM countries to post positive absolute returns (in USD). The market's inverse relationship to the AI trade continued to hold, benefiting Indian IT services stocks in the month, as strong Q2 earnings and supportive domestic buying also helped the market. Mexico was the best EM performer in the

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month, buoyed by stronger economic activity and supportive inflation readings, prompting the IMF to raise its 2026 growth forecast to 1.5%.

Drivers of performance:

The fund declined over the month. At the sector level, information technology, healthcare and consumer discretionary were the main detractors, while materials was the only sector to make a positive contribution to relative performance.

From a market perspective, Taiwan was the largest detractor. The fund's underweight position in India also weighed on relative returns, as the Indian market was broadly flat and proved relatively resilient during the period. China was a further detractor.

At the stock level, MediaTek, BizLink and Delta Electronics were the largest detractors, while Nan Ya Plastics, Fubon Financial and ICICI Bank were the key contributors.

Portfolio changes:

During the month, the fund modestly increased exposure to Korean memory names following the pullback in share prices, funded by reductions in Korean financials. We also added to Taiwanese financials, providing lower-beta exposure within Taiwan. Elsewhere, the fund took profits in Nan Ya Plastics and exited its position in Anker Innovations.

Market Outlook:

Middle East geopolitics remain fragile as the northern hemisphere winter approaches. There has been a recent recovery in the Strait of Hormuz oil flows but a durable resolution between the US and Iran still looks some way off – assuming one is reached at all. Subsequent oil market normalisation will take time and energy demand will be supported by inventory rebuild. Energy inflation should therefore persist well into 2027. On a longer horizon, crude oil supply should be lifted by the UAE's departure from OPEC and potential sanctions relief that enables Iran to increase its exports. Many EM countries entered the current geopolitical shock with high real rates, strong balance of payments positions and reduced reliance on foreign capital. The Middle East conflict and resultant oil shock plus recent Fed tightening has shifted the bias towards tightening across EM. A lasting ceasefire would reduce inflationary pressures and improve the outlook for EM rates; however, EM central bank policy is likely to be constrained by Fed action.

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We continue to believe that AI is a powerful structural theme with increasing evidence around use cases. As with every big cycle there will doubtless be significant value destruction at some point, but current momentum is very strong supported by several new product launches and AI-related capex demand should remain robust through 2027, driven by capex commitments by US hyperscalers. Following a shakeout in July, positioning in EM looks more secure and the cycle may continue to surprise positively, supporting earnings growth into 2028 off an already high base. However, visibility beyond 2027 is low, supply is responding, and hyperscaler capex plans are increasingly reliant on external funding, the availability of which is sensitive to US bond yields.

In China, the macroeconomic backdrop remains soft, but not weak enough to prompt meaningful policy action. Poor credit demand remains one of the clearest signs of domestic economic weakness amid an ongoing property market decline and depressed consumer confidence. However, so long as external sector strength is a sufficient offset, policy support is expected to remain incremental and reactive. A fragile truce with the US is in place but underlying tensions are breaking out more frequently, with restrictions and sanctions directed towards key strategic areas, including AI. The direction is for further US-China decoupling. Tensions with the EU are also increasing.

In the near term, a resilient US economy is supportive of the US dollar. However, given the recent trends in US treasury bond yields, the Fed could soon be confronted with the realities of fiscal dominance, making a meaningful tightening cycle difficult to sustain. We continue to believe the dollar will weaken over the medium-term, owing largely to ongoing US policy uncertainty and the economy's large twin deficits.

Aggregate headline EM valuations look reasonable. EM is trading below its long-term average earnings multiple supported by strong, albeit narrow, earnings growth that is focused in the AI hardware supply chain. Korea and Taiwan continue to enjoy positive earnings revisions but elsewhere in EM, revisions are essentially flat.

Near term, the key risk for EM remains the conflict in the Middle East and the extent to which events carry longer-term economic and market consequences. Other areas to monitor include the evolution of the AI supply-demand balance, US bond market behaviour, policy uncertainty associated with the Trump administration, US-China relations, the conflict in Ukraine and US geopolitical ambitions elsewhere.

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