



Aktia Market Outlook 2026

Another Promising Year Ahead for EMD

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- In our view, the key ingredients that amplified Emerging Markets (EM) returns last year are still in place. Last year was a reminder that EM has been able to build resilience against global uncertainty, thanks to recent years' improvements in policy-making especially related to monetary policy implementation and credibility.
- We see that local currency bonds, both EM and frontier, offer attractive opportunities on the back of strong carry, diversification benefits, and reasonable valuations.
- Hard currency valuations are somewhat challenging but relative value still exists: while index-level valuations look rich and spreads may widen slightly, improving fundamentals, high absolute yields, and clean positioning still offer selective opportunities.

EM Resilience

2025 was a strong year for Emerging Market Debt (EMD). Both hard currency and local currency bonds performed well, as external conditions and EM-specific factors were favourable. In our view, the key ingredients that benefited EM last year are still in place. The outlook for 2026 looks solid on the back of more favourable global financial conditions and improving liquidity. Furthermore, EM fundamentals remain constructive. EM growth is expected to outpace that of Developed Markets (by 2.4%-points in 2026 and 2027 according to the IMF) and inflation pressures look to be under control. In addition, tail risks regarding adversarial US trade policies facing EM seem to be lower compared to 2025. Several EM countries have struck trade deals with the US and the Trump administration's focus has seemingly shifted to other areas. Downside trade risks still remain, however, but these risks can be viewed more as country-specific risks rather than risks that would impact EM sentiment more broadly.

Solid macro fundamentals and resilient activity data remain a pull factor for capital inflows to EM. A potential push factor, however, is the appeal of diversification amid increasingly volatile and unpredictable US policy making, alongside elevated valuations in US tech equities and rising concerns about Fed independence — all of which heighten uncertainty around US inflation and Treasury markets. Having said that, last year was a reminder that EM has been able to build resilience against global uncertainty, thanks to recent years' improvements in policymaking. The diversification argument is especially valid for EM local currency bonds, and particularly, frontier Markets, which structurally have a low correlation with global risk sentiment. Furthermore, we consider valuations to be more attractive in the local currency space compared to hard currency, where the bar for adverse market moves is lower due to tight spreads.

As always, the list of things that could go wrong is long. From a top-down perspective, the main risks to EM fixed income stem from a potential global slowdown, shifts in Fed policy expectations, and a renewed phase of US exceptionalism that could increase UST rates and support the US dollar. Despite the current truce in the US–China trade war, the

possibility of renewed tensions cannot be ruled out, posing a potential headwind for risk sentiment. Geopolitical risks are certainly on the agenda, especially after the US military operation in Venezuela that led to the abduction of President Maduro. In addition, tensions in the Middle East are not likely to ease. While several EM and frontier Markets have relatively low direct exposure to the Middle East, potential volatility in oil prices does have more straightforward implications for virtually every country.

Within EMD, 2026 will see several events in key economies, such as elections in LatAm and Hungary, and the United States–Mexico–Canada Agreement (USMCA) review. However, we do not expect these individual events to generate broad-based spillovers to the rest of EM, since they are mostly idiosyncratic risks.

EM Local Currency Markets

The current macro backdrop and positive sentiment continue to favour EM local currency markets. Historically, an EM growth differential of over two percentage points relative to DM countries has indicated a high probability of positive returns in the asset class, although superior returns may require faster global growth. Valuations are still attractive, despite strong performance (chart 1).

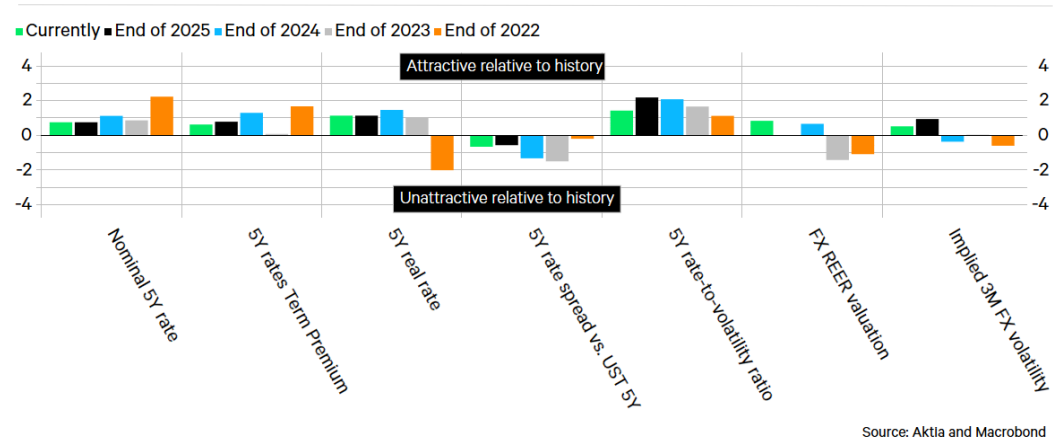
At the benchmark level, nominal EM local currency bond yields have declined closer to historically neutral levels, but real rates remain elevated. Nonetheless, it is important to highlight that large country-to-country differences exist, and to fully utilise the opportunity set, an active approach is needed.

In our return expectations, carry is the main driver of total return. For our strategy, which has a YTM close to 9% (GBI-EM Global Diversified at around 6%), we expect to pocket a 9% fixed-income return over the next 12 months. We do not expect the duration component to provide significant return contributions, given that EM inflation has bottomed in several economies and the central bank easing cycle has mostly come to its end. In addition, the tight spread against USTs is likely to limit yield compression. Lower US long-term bond yields would pull EM local currency bond yields lower, but given how narrow the gap has become, we expect a lower beta. In our view, the market still offers attractive carry and protection against occasional volatility spikes. The overall positioning is also something that adds resilience to the market: as foreign ownership in EM local currency bonds still remains below pre-pandemic levels, the risk of disruptive capital outflows is manageable. In our view, EM FX valuation is neutral to slightly rich after strong performance in 2025, but given the benign inflation outlook, we do not see valuations as stretched. The inflation differential between EM and DM remains at its lowest level in history, keeping depreciation pressures subdued. In addition, EM FX volatility has also been notably low, in our view due to credible EM central banks and broadly healthy macro fundamentals. Finally, the combination of low oil prices and high metal prices has provided a positive terms-of-trade shock to several EM countries. Low volatility, combined with attractive real and nominal rates at the short end of the curve, supports EM carry profiles and is also constructive for EM FX performance.

Over the long term, the GBI-EM FX return against the USD has been around -4% p.a., whereas in our forecast we have pencilled -1% over the next 12 months. Low volatility, attractive carry (both nominal and real) in the short-end of the curve coupled with very low inflation difference against the U.S. are supportive factors. However, while global growth has been stable, it is still relatively soft, which is potentially a drag — especially after last

year's massive EMFX rally. Obviously, renewed USD weakness would admittedly make our FX forecast too pessimistic, but a weaker dollar is not our base case.

Chart 1. EM valuations against the 10-year mean (z-score).



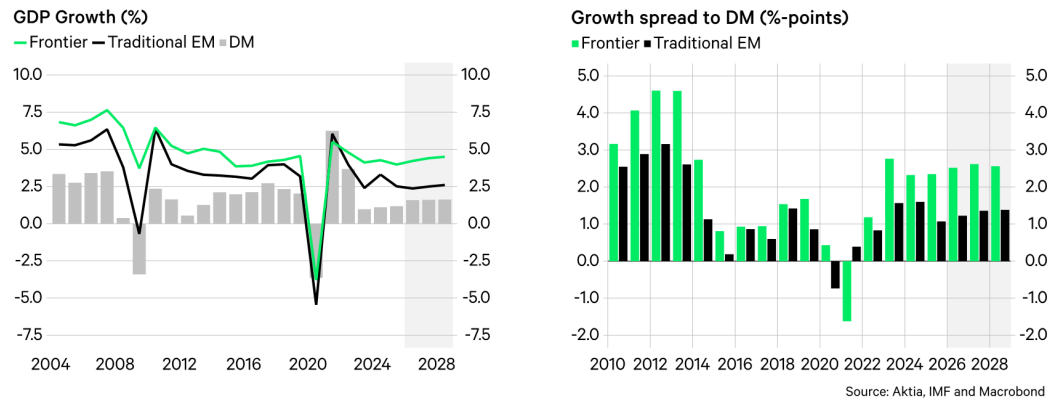
Frontier Local Currency Markets

Carry remains the primary driver of returns in frontier local currency debt, reflecting the asset class's high yield levels. Frontier local markets are still largely driven by domestic factors, and remain relatively insulated from external shocks amid heightened geopolitical and geoeconomic uncertainty. A favourable global environment in 2026, characterised by a benign US dollar and lower global interest rates, should further support capital inflows into frontier local currency markets as investors continue to look for sources of yield. Investor interest, which picked up last year, is likely to be sustained as wide interest rate differentials versus developed markets, along with easier global monetary conditions, underpin demand for higher-yielding risk assets. Unlike many other asset classes, frontier local currency debt does not appear expensive compared to its own history when looking at both currency valuations and yield levels, while fundamentals remain healthy. Foreign investor positioning in the local debt markets is still generally low in frontier markets, which provides protection against risk sentiment changes. On a related note, 2026 may also prove pivotal for frontier local currency government bond markets, as we expect JPMorgan to publish an index for the market. This may bring in inflows, but we expect that process to be gradual.

Frontier currencies strengthened on average against the US dollar in 2025, driven by broad US dollar weakness and frontier-specific tailwinds, including higher prices for key export commodities (notably precious and industrial metals), attractive real yields supported by credible central bank policies, a narrowing inflation differential versus developed markets, and broader structural reform efforts. Many of these factors should continue into 2026, increasing the potential for a stable frontier FX component in the coming year as well. This is also highlighted by our internal FX valuation tools, which are signalling on average low currency pressures in frontier FX. At the same time, the frontier local currency market should be relatively well shielded from AI-related capex disappointments. While a large shock to equity markets will not leave frontier Markets completely unscathed, previous large equity shocks have resulted in only a 5–6% negative impact on the strategy and direct links to AI-related capex are largely limited to a small number of copper exporters in the portfolio.

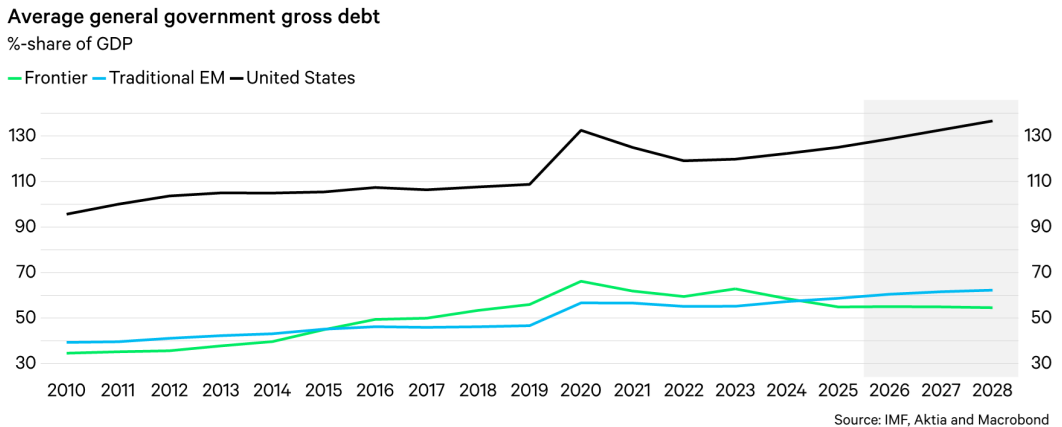
Macroeconomic fundamentals in frontier economies have improved in the post-pandemic period, as evidenced by a rising number of sovereign credit rating upgrades during the past few years. According to IMF projections, frontier economies are projected to grow on average about 2.8 percentage points faster than developed economies in 2026. Expectations of lower global energy prices should continue to support the current accounts of oil-importing frontier economies, such as Kenya, Pakistan, and Bangladesh in the portfolio.

Chart 2. Frontier GDP growth to outpace DM and EM (shaded area denotes the IMF's forecast)



Public debt ratios in several frontier economies are stabilising (chart 3), supported by robust real GDP growth prospects, although this trend remains uneven across countries. A relatively weaker US dollar has supported improvements in external debt ratios, particularly in highly indebted frontier economies. In addition, tighter sovereign credit spreads have facilitated broader market access also for frontier issuers as well.

Chart 3. Frontier public debt ratios are stabilising (shaded area denotes the IMF's forecast).



Inflationary pressures across frontier economies have moderated and, on average, are expected to continue easing toward their longer-term averages in 2026. As a result, the inflation differential between frontier and developed economies is projected to narrow further, primarily reflecting faster disinflation in frontier economies following earlier price shocks. Frontier central banks still have room to ease monetary policy, especially if the Federal Reserve continues easing, as inflation is projected to stabilise or moderate further. Real interest rates remain elevated in many countries, but declining inflation should allow for gradual policy rate cuts, particularly among several African central banks. We believe this could result in yields coming down by around 50 bps.

In summary, we expect frontier local currency fixed income markets to continue offering attractive return opportunities in 2026. Yield levels are still high and exchange rate volatility is expected to remain contained.

EM Hard Currency

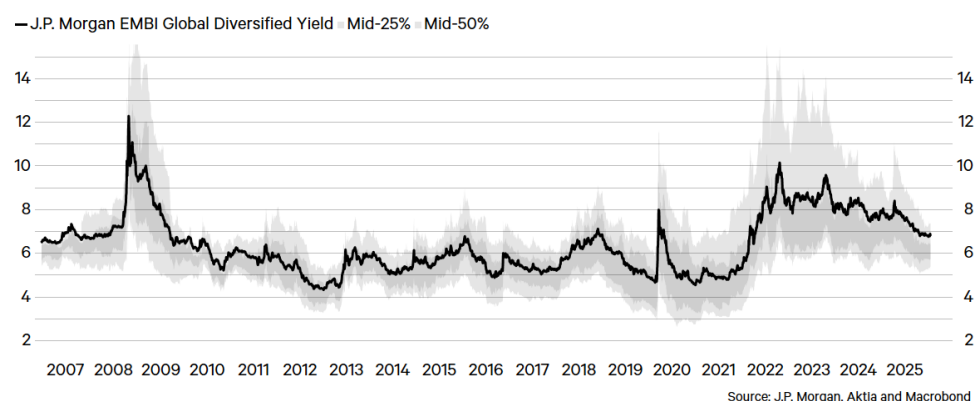
Emerging Market (EM) hard-currency sovereign debt enters 2026 with robust fundamentals, supported by improving credit quality, resilient global growth, a contained US dollar, and a constructive technical backdrop. Overall, EM fundamentals present a more attractive investment thesis for 2026 than those of developed markets.

The external sovereign debt market has been very volatile from a returns perspective over the past five years. After the severe sell-off in 2022, the market has been in a strong recovery mode, both in terms of total returns and country fundamentals. At the same time, fiscal positions are supported by better availability of financing sources (markets, multilaterals, etc.).

In recent years, strong performance — especially in lower credit-rated countries such as Argentina, Venezuela, Lebanon, Bolivia, and Ecuador — has dominated market returns. However, we believe there is still value in High Yield spreads compared to Investment Grade spreads.

Improving fundamentals across sovereign issuers and room for further spread compression create attractive opportunities for selective, research-driven investors. At the index level, valuations are rich compared to recent history, but there is still value to be found at a single-name level. From a historical perspective, Hard Currency sovereigns still offer attractive yield levels (currently 6.8% vs the 10-year average of 6.5%). This should attract flows and provide support for the asset class in our view. At the same time, years of under-allocation have left the asset class cleanly positioned, making it appealing to global investors seeking income and diversification.

Chart 4. EM hard currency benchmark yield.



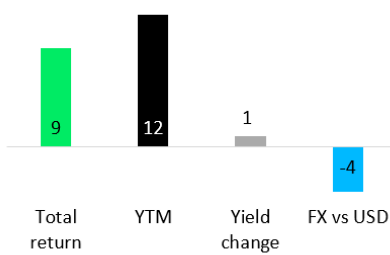
Summary of the return expectations

As the chart below shows, we see the best opportunities in local currency space, as valuations in hard currency bonds have become increasingly challenging. In hard currency, we expect spreads to correct higher from current levels.

Chart 5. 12-month return expectations for Aktia's EMD strategies.

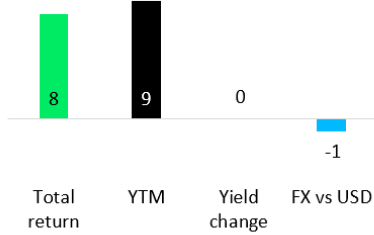
Aktia EM Local Currency Frontier Strategy

- Fund's YTM -12%
- Rates to decrease marginally, duration -2.5
- FX still a bit overvalued



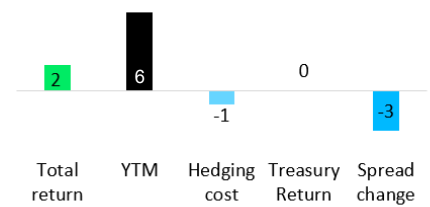
Aktia EM Local Currency Strategy

- Fund's YTM -9%
- Rates unchanged
- Modest FX weakening



Aktia Emerging Market Bond+

- Fund's YTM -6%
- Hedging cost for 60% USD exposure -1.0%
- UST unchanged, duration 6.0
- Current spreads do not reflect fundamentals



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