

# **+ EM 3D Macroscope 2026 (Integrating Demographics, Economics & Finance)**

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**Growing fast, Optimistic on expected returns but cautious on fundamental risks and systemic vulnerabilities to geopolitical risks. Middle Income Trap & Demographic Dividend pose challenges.**

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My views are apolitical and based on four decades of macroeconomics and investments research experience. They provide an integrated 3D summary of six large EM countries as a proxy to broad emerging markets as follows. More details are in the text below.

An Integrated 3D Scorecard of EMG6 countries								
Country	Demographics		Economics			Investments		Aggregate Score (on 10)
	Old-Age Dependency	Fertility Rate	GDP growth	Inflation	Public Debt	Equities	Bonds	
Brazil	✓✓	✓	✓	✓	✓	✓	✓	6.75
China	✓	x	✓✓	✓✓✓	✓	✓	✓✓	7.25
India	✓✓✓	✓✓	✓✓✓	✓	✓✓	✓✓	✓	8.5
Mexico	✓✓✓	✓✓	✓✓	✓✓	✓✓	✓	✓✓	8.25
Russia	x	✓	-	-	✓✓✓	✓	✓	5
Turkey	✓✓	✓	✓	x	✓✓✓	✓	✓✓✓	5.75

Emerging Markets (EM) are important in their significant contribution to global growth as well as to global investments. The dominant share of global economic growth can be attributed to growth in emerging markets over the last four decades or so. EM markets have performed reasonably well in terms of 2025 GDP growth (4% p.a.), but they remain more susceptible and vulnerable to global aggregate macro uncertainty and geopolitical risks<sup>1</sup>. The most positive advantage of EM relative to the world's most advanced economies (DM) are their lower debt levels and the absence of legacy pensions promises. The economics research teams of both JP Morgan and Goldman Sachs in their 2026 Annual Outlooks forecast trend like growth in EM for the year ahead. But risks remain, including geopolitical but not exclusively so, which affect their economies, their markets and financial stability.

We provide an **integrative perspective** combining the demographics, economics, and finance aspects of the outlook for Emerging Markets. We *mainly analyse and focus on the EMG6, a group of large EM countries (Brazil, China, India, Mexico, Russia, and Turkey)* for more detailed insights on the prominent large economies. We also compare the EM and Emerging Markets and Developing Economies (EMDEs) relative to the world for comparative insights. We challenge popularly optimistic views of EM economies based on their younger aged populations. We highlight that the larger EM economies have many challenges associated with ageing. We stress that EM economies are in different stages of demographic transition which impacts their economic prospects and investment performance, differently than the DM economies. They also differ amongst themselves based on many demographic and economic features.

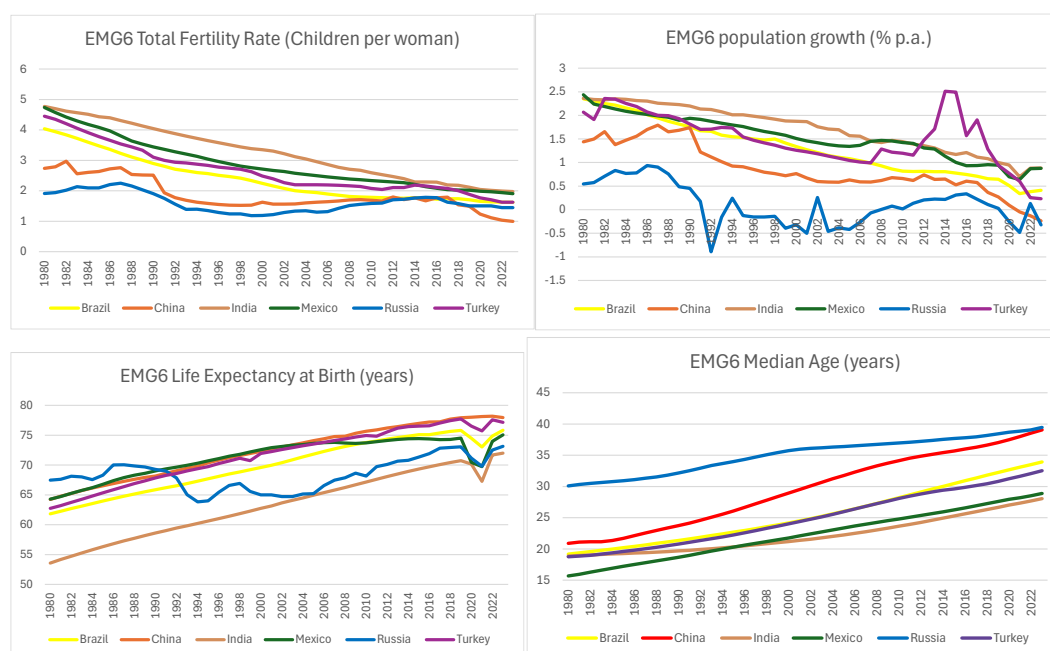
Aside from the demographic challenges - most EMs are “growing old before they grow rich,” most EMs also face the “Middle Income Trap” in terms of their GDP per capita. The

<sup>1</sup> LCP Blog and Paper (10 Feb 2026), “Why Geopolitics affects Investments. And How?”

“Demographic Dividend” popularly cited and applied to EM countries is no guarantee for them just because they are young. Reaping the demographic dividend requires holistic reforms on education, labour, health, retirement, technology to ensure that youth and women potential translates into GDP and GDP per capita growth.

## Demographics: not about age alone, demographic transition stages are different, and the “Demographic Dividend” is not guaranteed to EM economies based on their youth.

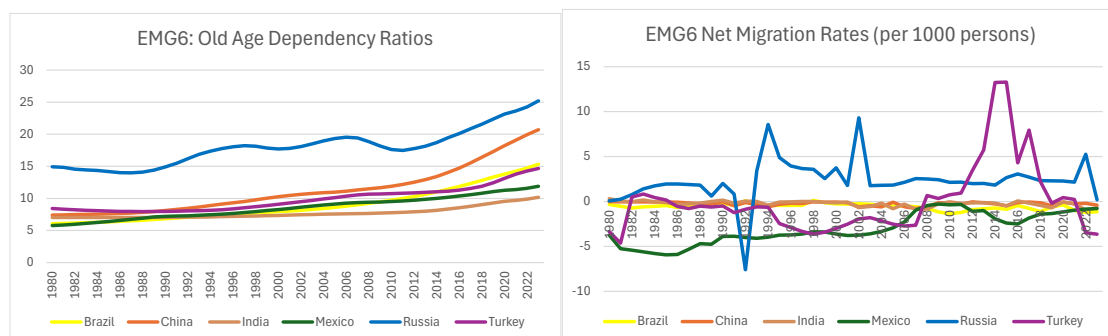
Emerging market economies are not as young as they are perceived to be, with demographic challenges facing most of them and particularly the largest of them. The charts below for the EMG6 (Brazil, China, India, Mexico, Russia, and Turkey) show their **rapidly decreasing** population growth rates and total fertility rates as well as their **increasing** median ages and life expectancies. Our demographic perspective focuses on “*consumer and worker characteristics*” of the population and is not restricted to age alone as a population feature.



Population growth is closely related to consumption growth as every person in the population is a “*consumer*” and a subset of the population comprises *workers*. Consumer preferences evolve over time and are influenced by *the* universe of available goods and services to choose from. Worker preferences and behaviour also change based on jobs available, wages, cost of living, and the costs of leisure.

Lower fertility rates and higher life expectancies translate into higher **old-age dependency ratios** (higher old-aged dependents per working age person). The trends are directionally similar across the EMG6 however the starting and final points are quite dissimilar. This is true especially for median age (years) and the old-age dependency ratio (old persons 65+ per 100 of working age 15-64 years). Conventional wisdom (largely based on ageing old richer countries) finds that old age dependency ratios are strongly correlated with public debt to GDP levels given the promises on old age pensions, health care, and long-term

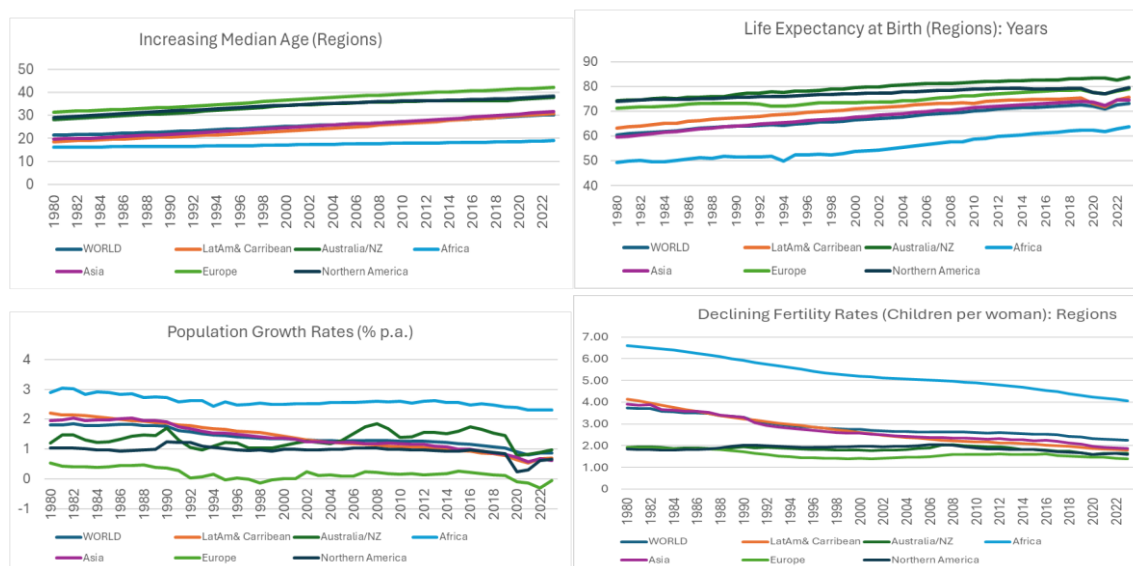
care. But as EM economies do not have such promises and the fact that they are younger, the relationship is expected to be weaker than that for DM economies.



In the context of labour force, migration remains a contentious issue in the world with geopolitical tensions and new protectionist alignments/blocs emerging. We display the net migration (immigration less emigration) history of the EMG6 which clearly shows the recent trend towards out-migration from them to the DMs.

In previous research, we have presented the demographic decomposition of growth which breaks down GDP growth into *three components*: working age population growth, labour productivity growth, and labour utilisation growth. Population growth, migration, and old-age dependency ratios have an indirect impact on GDP growth through the first two components of GDP growth (mentioned earlier in this para).

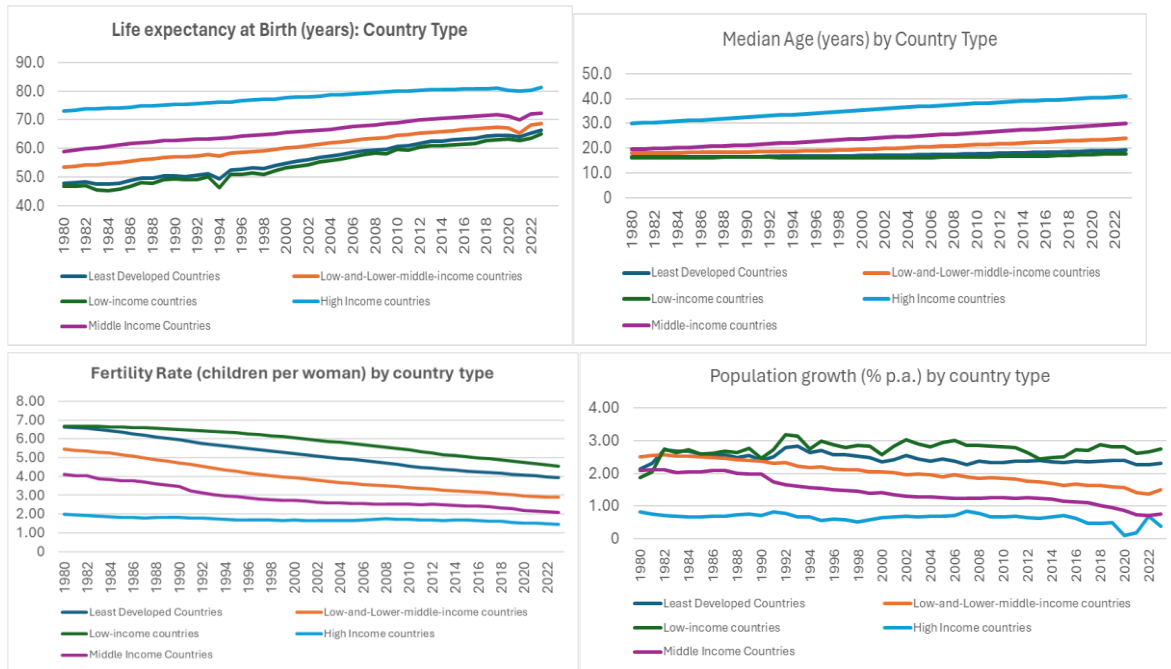
What about the regions and continents relative to the world for the same core demographic metrics? The charts below present the relative trends.



While directionally the patterns look similar, the levels across regions like Europe at the top vs Africa are significantly different. The charts above have been based on countries and continents which are geographically determined. The World Bank, IMF and the UN also classify country groups based on their level of economic development and income levels.

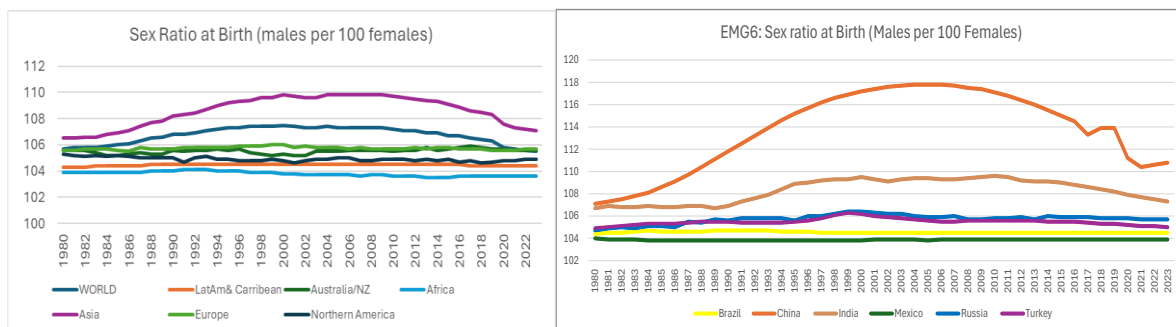
We present below the charts contrasting the world against countries categorised by income levels. The charts illustrate the differences between high-income countries vs. low-income

countries. Life expectancies and median ages are higher in the high-income countries whilst fertility rates and population growth rates are lower. These also imply that the old-age dependency ratios and the level of ageing is much higher in the high-income countries which are more developed than the EM countries. As we discuss later in the Economics section, this creates a fiscal burden pertaining to age-related expenditures on pensions, health, and long-term care.



We have been advocating gender equality as a palliative against the demographic ageing time bomb for more than 25 years<sup>2</sup> as well as a catalyst for higher growth and lower public debt. Whilst most countries have made progress on this front, many emerging markets still need to reach commonly acceptable norms of 10-15% gender difference in labour force participation rates. Even the DM countries have a lot of room for progress<sup>3</sup> on this issue.

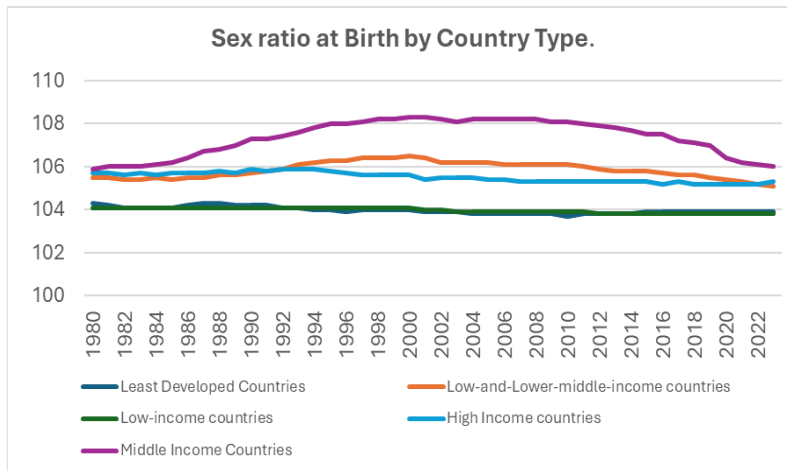
The charts below on the *sex ratio at birth* show that the gender ratio is skewed in favour of males from birth - this is globally true as the ratio exceeds 100 for all geographic regions and even the EMG6 countries. Gender inequality is also prevalent across countries when they are grouped based on income levels, with ratios still exceeding 100.



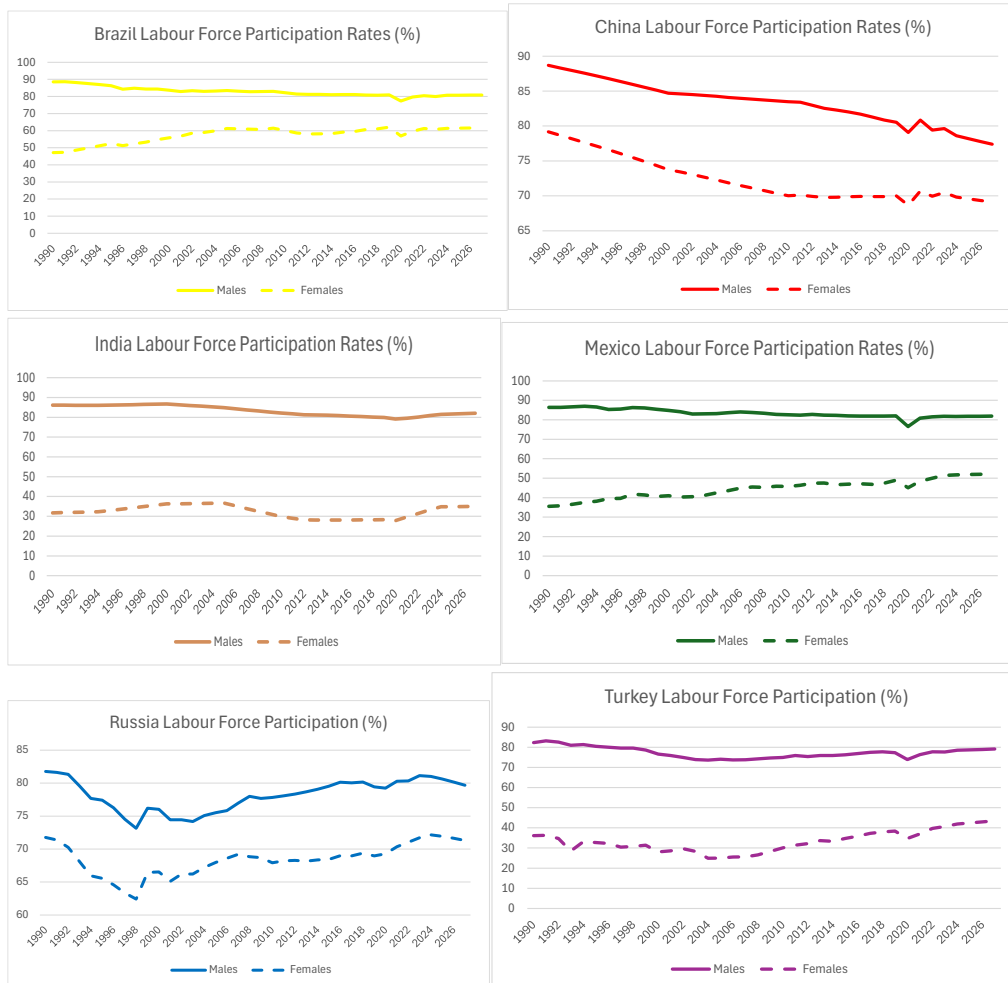
<sup>2</sup> The Demographic Manifesto (2000), Credit Suisse Demographics Research

<sup>3</sup> Gender Equality: Better for growth, debt, income equality & sustainability (2019, SSGA, Global Demographics & Retirement Research)

The trend looks similar when we classify and group countries by their income levels.

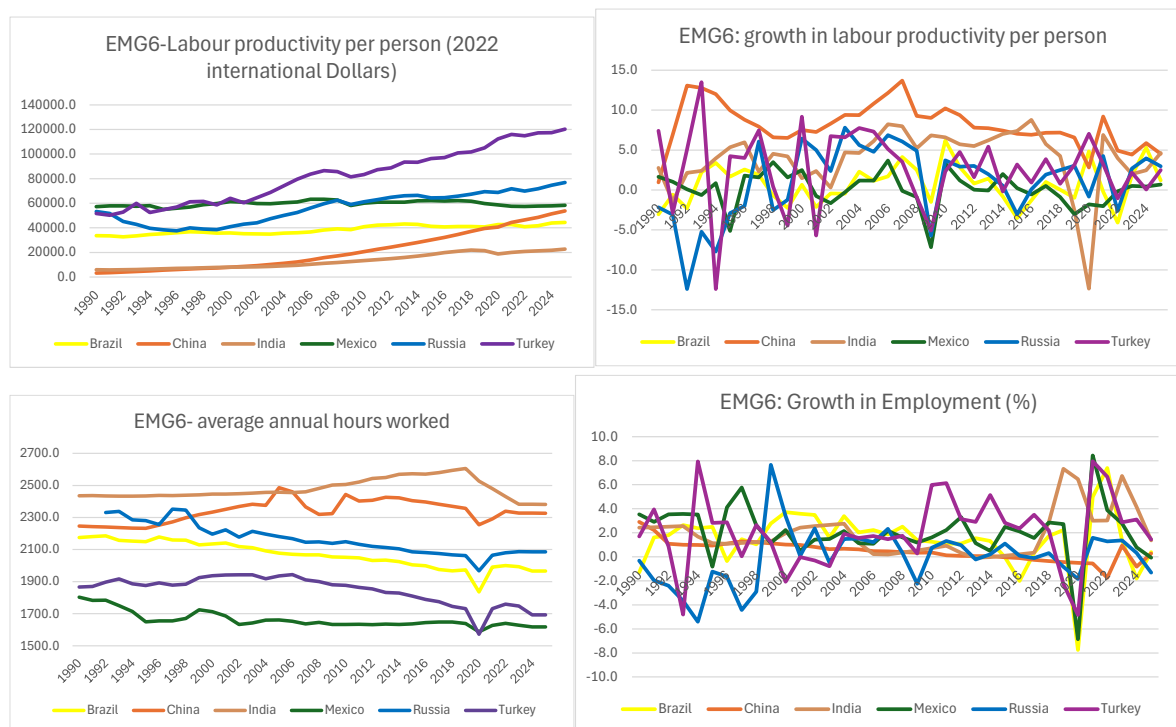


**Labour/Work Force:** Workers in the labour force contribute to GDP and ultimately GDP per capita. The labour force is drawn from the working age group of the total population, typically between 15-64 years or 20-69 years. Most adults are potentially both workers and consumers. In many of the emerging markets, labour force participation rates of males and females remain high as the economies are very labour intensive and agrarian in nature, with low average hourly wages. Despite the need for both males and females in a household to contribute to GDP, there exists a large labour participation gender gap, shown below.



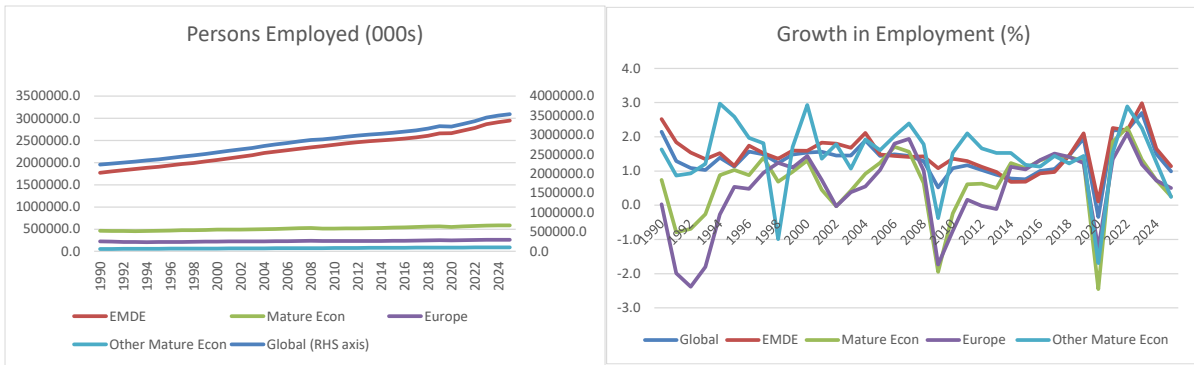
Gender labour participation gaps point to a potential gap away from the highest GDP levels that can be attained by any country. Increased female higher education and increased female labour force participation are two major contributors to GDP growth. Emerging markets should prioritise both of these in terms of policy to achieve higher growth levels. While the gaps are narrowing, gender gaps of 20% or more indicate more needs to be done urgently to close the gaps - it would benefit growth, debt, sustainability, and lead to lower inequality too.

In the charts below, we present the labour and employment trends for the EMG6-labour productivity levels, labour productivity growth, average annual hours worked, and growth in employment. We also show **employment growth** distinct from the potential labour force or working age population aged 15-64 years. Although these countries are amongst the largest and most prominent of the EM economies, there exist significant differences in the *level of average annual hours worked* with India at the highest and Mexico and Turkey at the lowest end. Similarly, for **labour productivity per person** measured in international constant dollars (2022 base), we note that Turkey leads with India at the lowest. The growth patterns indicate Chinese labour productivity growth is the highest with India and Mexico as laggards. In terms of employment growth, the bottom right chart illustrates great variability across the six countries.

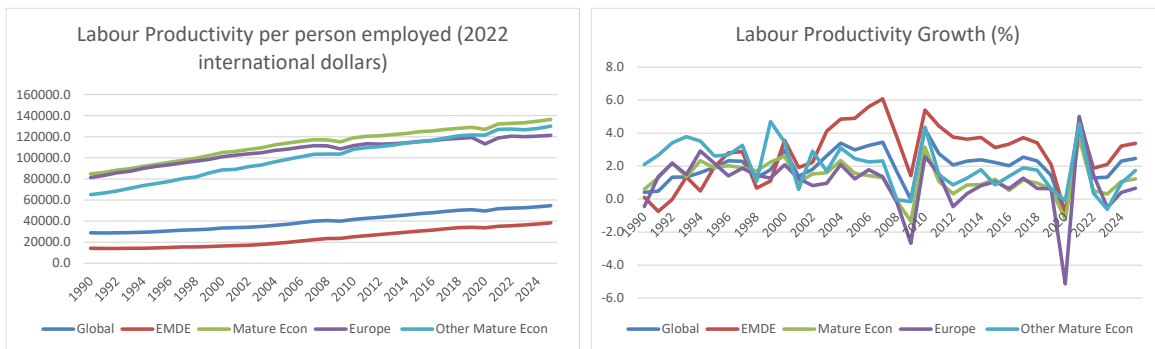


Source: Conference Board

What about the regional and aggregative differences? The charts below compare the *EMDEs relative to the world and more advanced countries* along similar metrics. The labour market size (persons employed) and growth in employment illustrates the variations across the regions. Akin to population size, EMDEs are much larger than the other country groups in terms of labour market size.

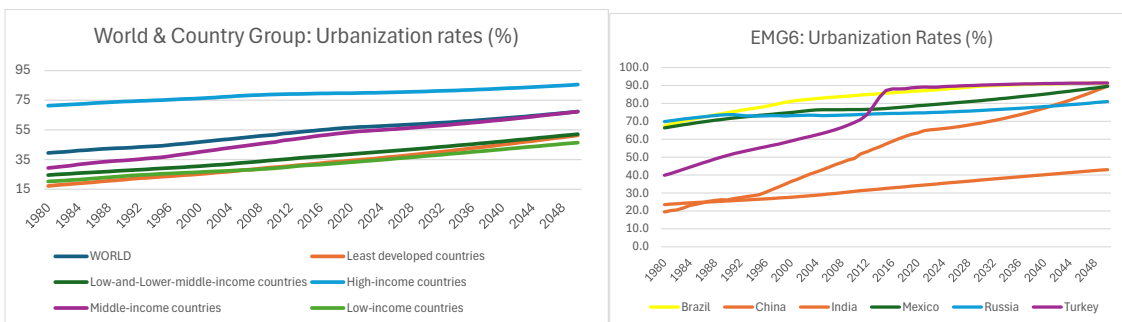


Additionally, employment growth varies a lot too across country groups with the COVID period showing declines that are similar across all of them. In terms of labour productivity, there are significant differences with levels for mature economies and Europe at multiples of the levels for EMDEs.



The chart on the right shows that the labour productivity growth of EMDEs is much higher than those of Europe and the mature economies, as the growth is measured from much lower levels.

Another increasing trend across the poorer and less developed countries is that of **urbanisation**. While increased urbanisation from low levels is good, accelerating urbanisation of cities is giving rise to megacities which creates issues relating to congestion, increased crimes, pollution (air, water), and unaffordable housing. We source the data from the UN Urbanisation database. As the Figure indicates, low income and low and lower middle-income countries have an urbanisation rate which is significantly lower than those of high-income countries. Forecasts from the UN on urbanisation rates are incorporated in both the urbanisation charts below.



We can see that all the six countries experienced higher urbanisation rates, with India being a laggard relative to the other five. Despite its much lower urbanisation rate, India has many

megacities (cities with population greater than ten million) in the global group of megacities. Megacities typically have the highest of population densities but that is further accentuated for megacities within the EM universe. The EMs have the lion's share of megacities in the world with most of their capital cities and financial centres expanding in population terms due to internal migration from rural and semi-urban areas.

The Table below presents the growth of the largest twenty-five global cities by rank for 1975, 2000 and 2025. It shows that the growth of megacities is mainly in the EM countries with Tokyo, New York City and Osaka being the only large megacities in the developed world.

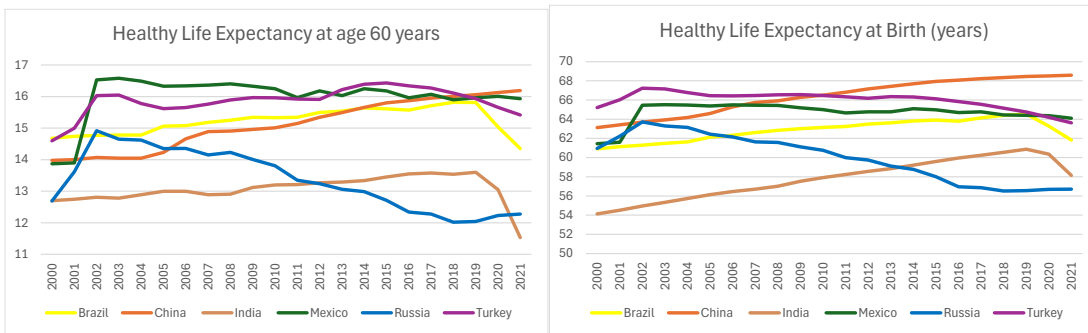
Year 1975 Largest by Population Ranked	Population Size (000s)	Year 2000 Largest by Population Ranked	Population Size (000s)	Year 2025 Largest by Population Ranked	Population Size (000s)
Tokyo	24,282	Tokyo	30,303	Jakarta	41,914
Osaka	14,448	Jakarta	25,592	Dhaka	36,585
New York City	12,076	Guangzhou	18,970	Tokyo	33,413
Jakarta	11,696	Seoul	18,963	New Delhi	30,222
Mexico City	11,119	Kolkata	18,355	Shanghai	29,559
São Paulo	10,536	New Delhi	17,969	Guangzhou	27,563
Kolkata	10,528	Manila	17,799	Cairo	25,566
Seoul	10,079	Mexico City	17,598	Manila	24,735
Buenos Aires	8,561	Dhaka	17,435	Kolkata	22,550
Moscow	8,521	São Paulo	16,702	Seoul	22,490
Mumbai	8,339	Mumbai	15,953	Karachi	21,423
Manila	8,329	Cairo	15,677	Mumbai	20,203
Los Angeles	7,718	Osaka	14,488	São Paulo	18,950
Cairo	7,441	Shanghai	14,035	Bangkok	18,180
Paris	7,424	New York City	13,044	Mexico City	17,734
London	7,370	Buenos Aires	11,712	Beijing	17,013
New Delhi	6,092	Los Angeles	11,196	Lahore	15,156
Rio de Janeiro	5,881	Moscow	11,195	Istanbul	15,015
Nagoya	5,366	Karachi	10,800	Moscow	14,525
Istanbul	5,305	Istanbul	10,634	Ho Chi Minh City	14,053
Beijing	5,155	Beijing	9,635	Buenos Aires	14,018
Dhaka	5,037	Rio de Janeiro	8,417	New York City	13,920
Karachi	4,627	Paris	8,385	Shenzhen	13,878
Shanghai	4,543	Bangkok	8,377	Bengaluru	13,187
Chennai	4,484	Shenzhen	8,181	Osaka	12,964
<b>18 of top 25 in EM countries</b>		<b>20 of top 25 in EM countries</b>		<b>22 of top 25 in EM countries</b>	

Growth of EM megacities has also led to greater inequalities and poor living standards. Therefore, sustainability and health remain critical issues of concern especially for the lower income deciles of the population in the EM countries.

While the common focus often is on life expectancy at birth, there is often a divergence at later ages - such as life expectancy at age 60 and life expectancy at age 80. We believe that the focus at older ages should be on healthy life expectancy as that correlates with better quality of life, lower health related expenditures, and lower government debt burdens. Health is paramount in terms of productivity while an individual is a worker and then later as a retiree;

healthy workers add to GDP growth and healthy retirees are less of a burden in terms of old-age expenditures by the government and the public debt of a nation.

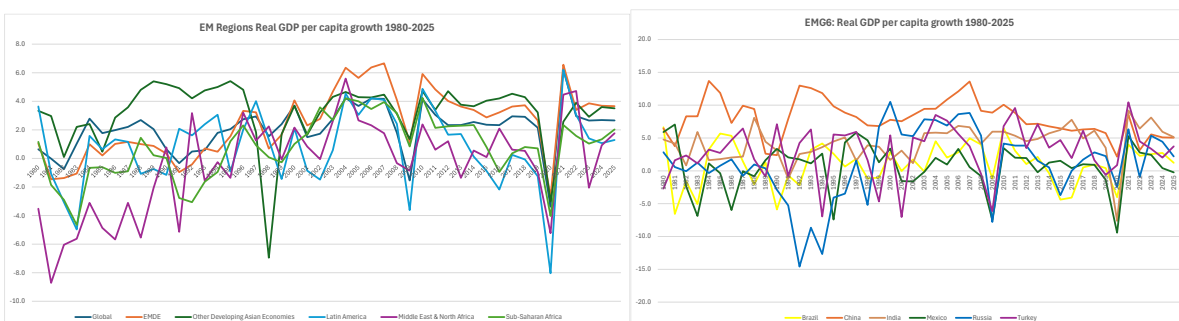
The World Health Organisation states that the data confirm the trend for longevity as lifespans were getting longer up to 2019. However, as per the WHO, “the COVID-19 pandemic erased nearly a decade’s progress made in improving healthy longevity”. The charts below depict the trends in healthy life expectancy at ages 60 years and 80 years. The charts show divergences in healthy life expectancy across the EMG6 countries.



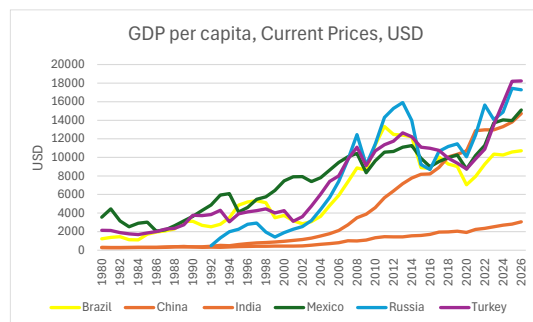
We note the downturn in healthy life expectancy over 2020 and 2021 akin to the drop in life expectancy that we presented earlier for the EMG6.

The **Demographic Dividend** alludes to the contribution of demographics towards increasing GDP per capita growth not just GDP growth; it is not something that applies positively to all EM countries, and particularly the EMG6. Some EM countries have missed the window of taking advantage of the demographic dividend. Demographics affects GDP growth and population growth too. Therefore, demographics affects living standards and their growth (GDP per capita growth).

The charts below show that real GDP per capita growth is different across the EMG6 as well as in components of the EMDE sub-regions - Latin America & Caribbean, Sub-Saharan Africa, Emerging and Developing Europe, Emerging and Developing Asia, and Middle East & Central Asia. These charts are expressed in terms of purchasing power parity adjusted international dollars with 2021 as base year, so as to facilitate comparisons across countries and also over time.



As shown in the chart below, GDP per capita (living standards) at current prices expressed in USD varies across the EMG6 with Turkey and Russia at the top and India at the bottom.



The uptrends in GDP per capita are evident in the charts above. However, the growth in GDP per capita charts display great volatility.

There is a pressing challenge faced by most EM countries in the form of the **Middle-Income Trap**, a term coined by current World Bank Chief Economist Indermit Gill and Homi Kharas<sup>4</sup> more than two decades ago. Those challenges persist today too. *They stated that the theories and policies which worked well for the transition from low income to middle income countries did not work well at all for the transition from middle-income to high-income countries.*

Assessing their theories ten years on in 2015, they acknowledge that based on developments in EM economies across Latin America, Asia, and Central Europe, they would give more attention to *demographic factors, entrepreneurship, and external institutional anchors*. This supports our integrative approach to EM economies in this paper.

In terms of overall ageing, the old-age dependency ratio is a summary indicator. China's (7.3%) increase and Russia's (6.49%) increase in this OADR ratio over 2024-23 makes them leaders on the EM ageing ladder amongst the large EM countries.

**Economics: slowing growth; lower debt (than DMs); scope for increased female and youth employment needed to tackle Middle Income Trap. Geopolitical effects on inflation, growth, trade render EMs to be worse affected than DMs.**

The IMF's World Economic Outlook (Oct 2025) projections mark a downward path for world growth from 3.3% p.a. (2024) to 3.25% p.a. (2025) and 3.1% p.a. (2026) with advanced economies growing at 1.5% p.a. (2026) and emerging market and developing economies (EMDEs) growing just above 4% p.a. (2026). IMF preface their report stating that "*The global economy is adjusting to a landscape reshaped by new policy measures. Some extremes of higher tariffs were tempered, thanks to subsequent deals and resets. **But the overall environment remains volatile...***" As events since Feb 28, 2026, have shown their warning was justified.

EM growth dominates world growth and has been the largest component of world GDP growth over the last four decades. National Income based accounting yields the following identity decomposing GDP growth into its underlying demographic components.

<sup>4</sup> I Gill and H Kharas (2015), "The Middle-Income Trap Turns Ten", World Bank Development Policy paper.

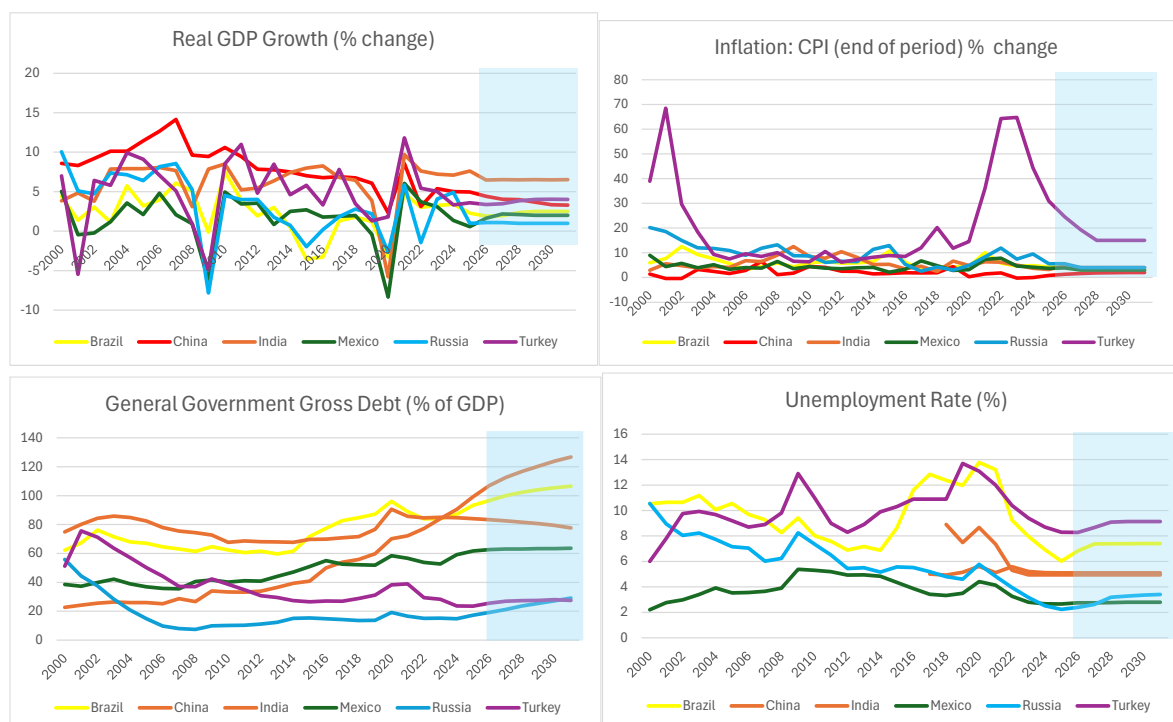
$$\begin{array}{|c|} \hline \text{Labour Productivity} \\ \hline \text{Growth (LPG)} \\ \hline \end{array}
 + 
 \begin{array}{|c|} \hline \text{Working Age Population} \\ \hline \text{Growth (WAG)} \\ \hline \end{array}
 + 
 \begin{array}{|c|} \hline \text{Labour Utilization Growth} \\ \hline \text{(LUG)} \\ \hline \end{array}
 = 
 \begin{array}{|c|} \hline \text{Real GDP} \\ \hline \text{Growth} \\ \hline \end{array}$$

The faster GDP growth of EM countries is largely due to increases in the labour productivity growth. This was discussed in the earlier section for both countries and regions.

The economic forecasts for EMG6 countries using the IMF’s World Economic Outlook latest April 2026 database are below. These include forecasts running through until 2031.

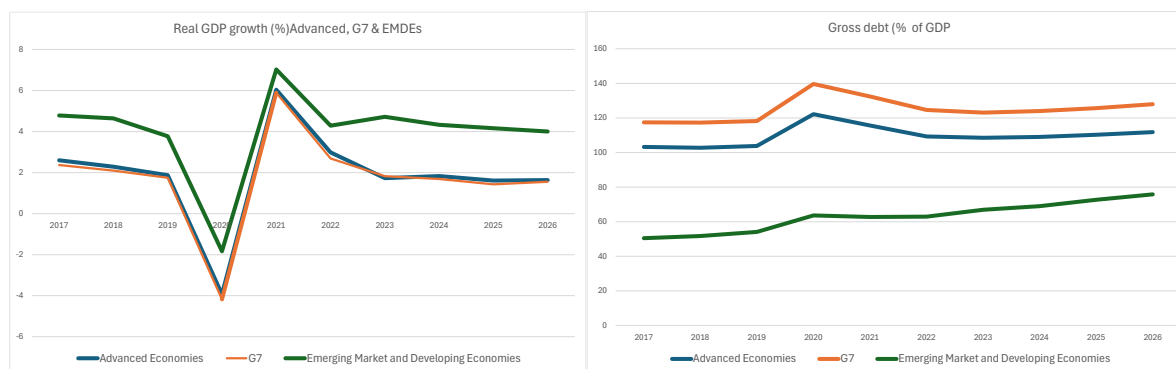
As the chart shows, the GDP growth levels vary as the subcomponents vary across the six countries. In terms of **inflation**, Turkey seems to be at a level and a range higher than the others. When it comes to **general government debt** in gross terms, all six countries experienced increasing debt levels with Turkey and Russia at levels much lower and close to 25%. Brazil, China, and India have debt levels like some of the rich advanced countries (higher than 80%) and in the case of China and Brazil the debt levels are upwards of 90% and projected to increase close to 100%. Earlier, we presented and discussed the *Old Age Dependency Ratios* (number of 65+ aged persons per 100 persons of working age 15-64 years), a *metric which reflects the ageing of economies*, but which is also correlated with public debt ratios, evident most in the older developed countries.

As the EMG6 countries age faster, they too face fiscal pressures from ageing. Although, the promises or entitlements related to older people are lower in the EM countries, they too face increased public expenditures related to older people in retirement. *Higher levels of debt to GDP tend to constrain economic growth*. They also lead to macroeconomic and financial stability concerns while exacerbating inequality. The **unemployment** rates (reported official statistics, noting an unorganised informal sector’s existence) show a normalisation post covid but at rates higher than those typically seen in developed countries.



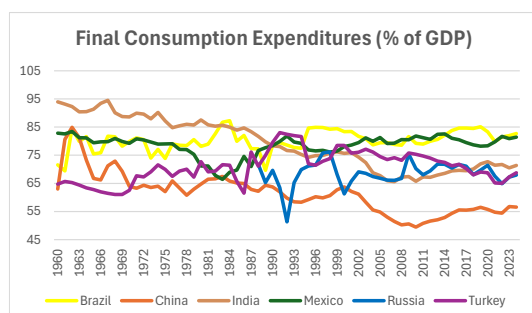
Our previous research showed that ageing reduces potential GDP due to fewer people of working age, more retirees, slower labour productivity growth, and fewer hours worked as individuals prioritize leisure unless facing poverty.

The key summary metrics that reflect the health of any economy are (i) GDP growth (ii) public debt (iii) inflation and (iv) unemployment that we presented above. As a rough summary of the IMF forecasts for EMG6 countries until 2030 we note (a) *lower controlled inflation in the 2-4% range* except Turkey which remains in the 15-20% range for structural and political reasons; average 5.45% skewed by Turkey's high inflation number (b) *increasing public debt for Brazil, China, India and Mexico* with concerns over Brazilian and Chinese debt levels near or over 100% of GDP; average for EMG6 of 67% (c) *slowing GDP growth over 2026-2030 across most of the EMG6* with only India forecast to grow at 6-6.5% vs. an average for the EMG6 of 3.23%. (d) average unemployment rate forecast over 2026-30 of 5.55% (Turkey and Brazil in the 7-8%+ range). We also display below the differences between EM and DM countries on both the growth and debt fronts. Note that EM growth rates are higher and debt levels are lower than the DM group of countries.

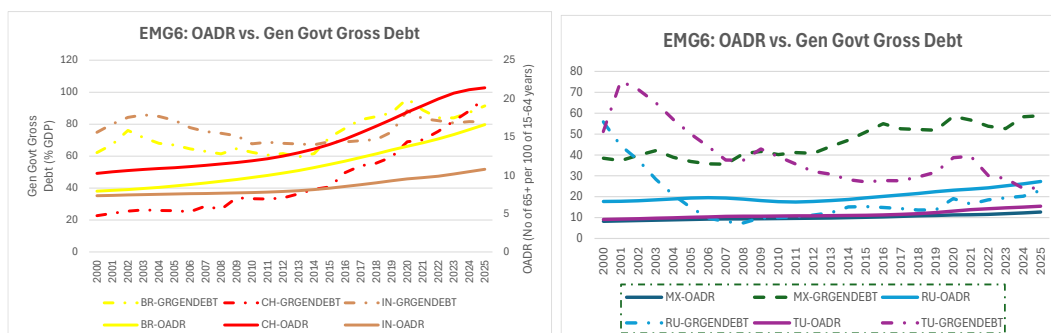


We provide an integrative analysis here as *demographic factors influence growth, debt, and unemployment*. This linkage becomes even stronger when we consider demographics as pertaining to consumer and worker characteristics. That is indeed my personal approach over more than two decades of research, following Peter Drucker's directive. There are two features of every population member that affects both GDP and GDP growth - (i) as a consumer of goods and services and (ii) as a worker making up goods and services over their life spans. Children and the old retired are mainly consumers, dependent on earnings of younger aged workers and their own savings alongside state finances.

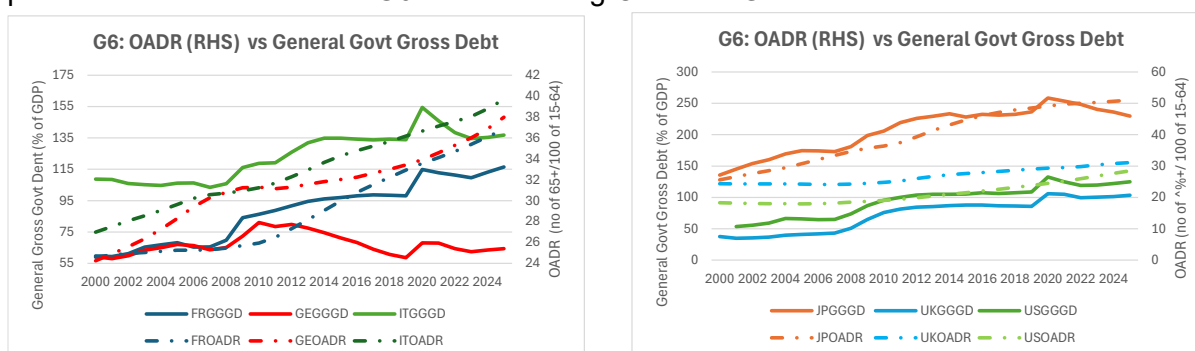
Aggregate Final Consumer expenditures account for the largest share of GDP computed by aggregating expenditures and in chart below we see the variations across the six countries. Also, China has the lowest ratio of aggregate private consumption expenditures to GDP.



We earlier discussed various aspects of workers focusing on hours worked, productivity, productivity growth, sex ratio, and gender gaps. We agree with the common view based on studies for older advanced countries, on old-age dependency ratio increases being strongly correlated towards their public debt ratios. This relationship also works very well in cross-sectional charts, with many countries at a point in time. The charts below plot the *old-age dependency ratios against general government gross debt* for the EMG6 countries.



This holds true in a weaker way across the EMG6 countries due to the absence of legacy social welfare promises, public pensions and old-age public health institutions. The G6 charts below provide a contrast to the EMG6 charts relating OADR to Government Debt.



Thus far, we have demonstrated the *effects of demographics on economic variables* such as GDP growth, GDP per capita growth, public debt, unemployment etc. In “*Demographics Unravelling*”<sup>5</sup> there are references to other economic variables affected by demographics such as short-term interest rates, current account, capital flows, and inflation with references to other relevant papers too. Our broader demographics perspective considers people beyond their ages alone. We view them as consumers and workers where characteristics like gender, race, urban status, education etc. also matter, besides age.

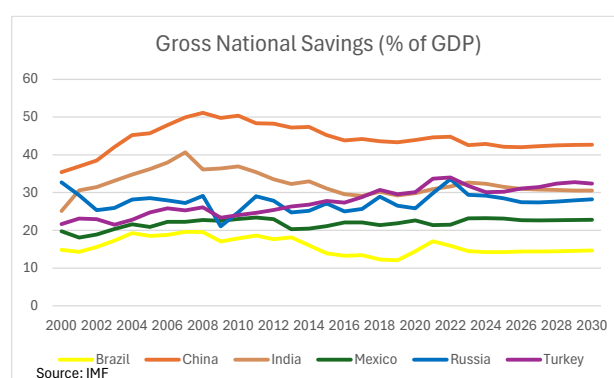
Consumer behaviour and their demands relative to supply affects inflation. Past research has shown that inflation is correlated with the highest periods of population growth. Higher population growth being associated with higher consumer expenditures, which we charted earlier. Supply side inflation is affected by labour supply relative to labour demand, with wage inflation being an important contributor. Skills shortages and immigration policies also contribute to inflation. In the case of Emerging Markets, the practice of inflation targeting by EM central banks following the Taylor rule and its variants has also had significant effect in reducing both the level and volatility of inflation rates, over the last three decades.

<sup>5</sup> Demographics Unravelling (2022, Wiley)

## Investments/Finance: Capital market development and resilient local markets are needed to engage local savers and investors.

In our integrated approach, we believe that the finance of emerging markets is related to the savings rates of that country and typically regulation of capital markets also has a role to play. The savings by the population of a country is the contra of what they do not consume out of their disposable income.

The savings typically get invested in banks, stock markets, or bond markets or in buying a home. Higher and regular savings by the population contributes to activity in the financial services sector and to a deeper resilient capital market. Local savings leads to local financial markets development. Emerging markets savings rates are typically higher than those of the advanced nations due to the precautionary savings motive.



In the *Financial History of Investment Returns*, pioneers E Dimson, P Marsh, and M Staunton in their 2025 UBS Investment Returns Yearbook<sup>6</sup> highlighted the following points for the EM universe of countries in their database in Chapters 1 & 2.

- (i) Of the 23 countries in their 1900 database, seven were EM countries: China, Finland, Japan, Portugal, Russia, South Africa, and Spain. But after 125 years, China, Russia and South Africa would be emerging. **Turkey is not covered in the database.**
- (ii) It is striking to note that there have been few shifts in the status of countries from EM markets to DM markets over the last 125 years.
- (iii) As of 2024 end, in the EM markets universe, China accounted for 27%, India 19%, Taiwan 18%, Korea 8%, Saudi Arabia 4%, Brazil 4%, South Africa 3% and others 13%.
- (iv) In terms of GDP weights, the EM countries accounted for 44% but in terms of global equity index weights, the EM countries accounted for 11%. This is **striking** and points to the relatively lower development of equity markets in EM countries.
- (v) EM matters as they account for 77% of land mass and 87% of world population. In the absence of exclusions, restrictions and free-float weightings, EM weightings would be greater than 14%.
- (vi) Why did EM markets have lower weights in world indices in 2024 than in 2019? Because EMs have underperformed DMs (especially the US) over 2019-24.
- (vii) The average real equity returns (geometric means) with start dates in their database for the EMG6 were recorded as: Brazil (6.1%, 1951), Mainland China (3.3%, 1991), India (6.9%, 1993), Mexico (8.2%, 1969), Russia (5.3%, 1995). For developed markets the average return

<sup>6</sup> Global Investment Returns Yearbook 2025-What 125 years of history tells us about the future (E. Dimson, P Marsh, and M Staunton)

was 5.3% and for EM it was 3.7%, The world ex US was 4.3% and the full world was 5.2% in real equity returns.

- (viii) The EM equity markets have had an average volatility (measured by standard deviation) of 44.2% nearly double that of DM equity markets of 23.4%. They show that the local currency returns ranged from 3.3% for China to 11.6% in Chile. Relative to the World index of the database, only Singapore, Russia, Korea, Mexico, Hong Kong, Taiwan, and Chile outperformed, with Chile outperforming the best by 4.5% p.a.
- (ix) Over 1900-2024, the annualized returns from EM equities were 6.7% p.a. vs. that of the DM equities index of 8.4% p.a. These compare the DMS EM index vs the DMS DM index.

*Bond & Bill Markets (Chapter 2 of UBS Investment Returns Yearbook 2025, Dimson-Marsh-Staunton) key observations*

- (i) Real Bond returns: With different start dates, the geometric means and start dates for our EMG6 countries were as follows: Brazil (8%, 1995), China (3.2%, 1993), India (0.4%, 1953), Mexico (5.8%, 1995), and Russia ( 2.8%, 1995).
- (ii) The data indicates that EM bond markets had better real returns than the DM countries but that masks two important features (a) bonds have done better over the shorter periods that EM bond market data has been available for (b) reliable bond return data over crises and default times were not available for Argentina, Brazil, Chile, Greece and Mexico so there were fewer data points which made them look good.
- (iii) Over 1900-2024, a period of 125 years, EM bonds in their sample yielded an average USD nominal return of 2.7% p.a. versus 4.4% p.a. for DM bonds. EM bonds have however outperformed DM bonds over the last 40 years, 30 Years, 20 years, and 10 years. But after adjusting for US inflation, EM bonds for an US investor would have lost money with an annualized real return of -0.3% versus 1.4% for DM bonds. This is not surprising given the EM crises of 1940s and high inflation rates in EM countries.

*Inflation (EMG6 excluding Turkey): Chapter 3 of UBS Investment Returns Yearbook*

- (i) Average inflation rates presented as geometric means with start dates: Brazil (61.4%, 1951), China (3.3%, 1993), India (6.8%, 1953), Mexico (18.2%, 1969), and Russia (15.6%, 1995).
- (ii) Inflation peaks during energy crises and wars as we also saw recently in 2021-22.

*Equity Risk Premia (EMG6 excluding Turkey) Chapter 5 of UBS Investment Returns Yearbook*

- (i) The average return in geometric means followed by start year of annual returns in the database: Brazil (-0.8%, 1995), China (0.1%, 1993), India (6.5%, 1953), Mexico (-1.5%, 1995) and Russia (2.4%, 1995).

**Diversification**

- (i) Increasing correlations over time has reduced the benefits of cross-country diversification.
- (ii) Average correlation between pairs of EMs is much lower than that between DMs, suggesting greater scope for diversification within EMs. They note that the average EM:DM correlation is lower than the DM:DM one.

Summary Annual Real Returns over last 20 years (2005-2024):

- (i) Brazil: Equities 4%, Bonds 2.1%, Bills 5%, Equity premium (bill): 2.3% p. (1975-24).
- (ii) China: Equities 4.4%, Bonds 4.4%, Bills 0.6%, Equity premium (bill): 3.8% p.a. (2005-24)
- (iii) India: Equities 8%, Bonds 1.1%, Bills -0.3%, Equity Premium (bill); 7.5% p.a. (1975-24)
- (iv) Mexico: Equities 4.6%, Bonds 3.6%, Bills 2.0%, Equity Premium (bill); 7.1% p.a. (1975-24)  
Russia: Equities 1.2%, Bonds -0.9%, Bills 1.1%, Equity Premium (bill); 0.1% p.a. (2005-24)
- (v) The market capitalization of the Stock market and Bond market of the EMG6 is based on Bloomberg data. The stock market capitalizations vary for the indices Bloomberg uses.

	<b>Brazil</b>	<b>China</b>	<b>India</b>	<b>Mexico</b>	<b>Russia</b>	<b>Turkey</b>
	WCAUBRAZ	WCAUCHIN	WCAUINDI	WCAUMEX	WCAURUS	WCAUTURK
	Mkt Cap (USD Bn)	Mkt Cap (USD Bn)	Mkt Cap (USD Bn)	Mkt Cap (USD Bn)	Mkt Cap (USD Bn)	Mkt Cap (USD Bn)
31/12/2016	710.65	6486.90	1564.17	166.34	591.94	309.40
31/12/2017	891.56	7724.01	2386.34	225.23	588.40	373.63
31/12/2018	853.46	5377.24	2076.14	143.65	547.13	329.86
31/12/2019	1094.83	7340.33	2147.31	182.16	758.78	349.90
31/12/2020	906.02	10902.47	2520.31	230.91	644.71	349.02
31/12/2021	769.42	12994.96	3463.25	159.28	780.98	398.83
31/12/2022	738.60	10138.33	3330.85	321.59	494.98	397.49
31/12/2023	912.26	9538.01	4202.43	331.57	603.94	497.14
31/12/2024	622.70	10024.74	5178.06	369.36	0.00	348.01
31/12/2025	793.31	13404.46	5287.28	391.58	0.00	480.65

Source: Bloomberg, 0 means N/A.

(vi) The next Table highlights the market value of government bonds outstanding at the end of the year in terms of millions USD, as per country components in the Bloomberg Aggregate Fixed Income Index.

<b>Bonds Outstanding by Country in the Bloomberg Agg-Unhedged TR Index (Turkey not reported)</b>					
<b>USD millions</b>	<b>Brazil</b>	<b>China</b>	<b>India</b>	<b>Mexico</b>	<b>Russia</b>
31/12/2015	29928.15	211280.53	41769.73	309531.04	39508.56
30/12/2016	28613.95	263737.11	41362.38	311489.06	59321.71
29/12/2017	34682.06	338334.92	44154.23	347205.17	84467.86
31/12/2018	27901.26	335864.33	39849.96	331813.93	143143.1
31/12/2019	30205.49	2172816.51	47264.16	394145.1	201137.82
31/12/2020	27463.93	4843845.59	47195.92	352877.72	209291.89
31/12/2021	30830.34	5584595.2	49522.36	325039.49	196471.65
30/12/2022	23647.81	5596279.15	40938.41	300117.49	0
29/12/2023	23773.09	6236153.82	37092.58	343305.67	0
31/12/2024	29184.91	6869309.95	37120.81	342264.65	0
31/12/2025	33431.9	7718756.98	34101.17	466087.98	0

The EMG6 countries have seen growth in their corporate debt markets too as corporates have grown and many larger conglomerates have expanded internationally.

The returns corresponding to the Equity Indices and Bond Indices reported above are as presented in the Table below. We note the differences across the countries which is due to country-specific differences in domestic debt issuance, buyers of the debt, liquidity, and market microstructure differences.

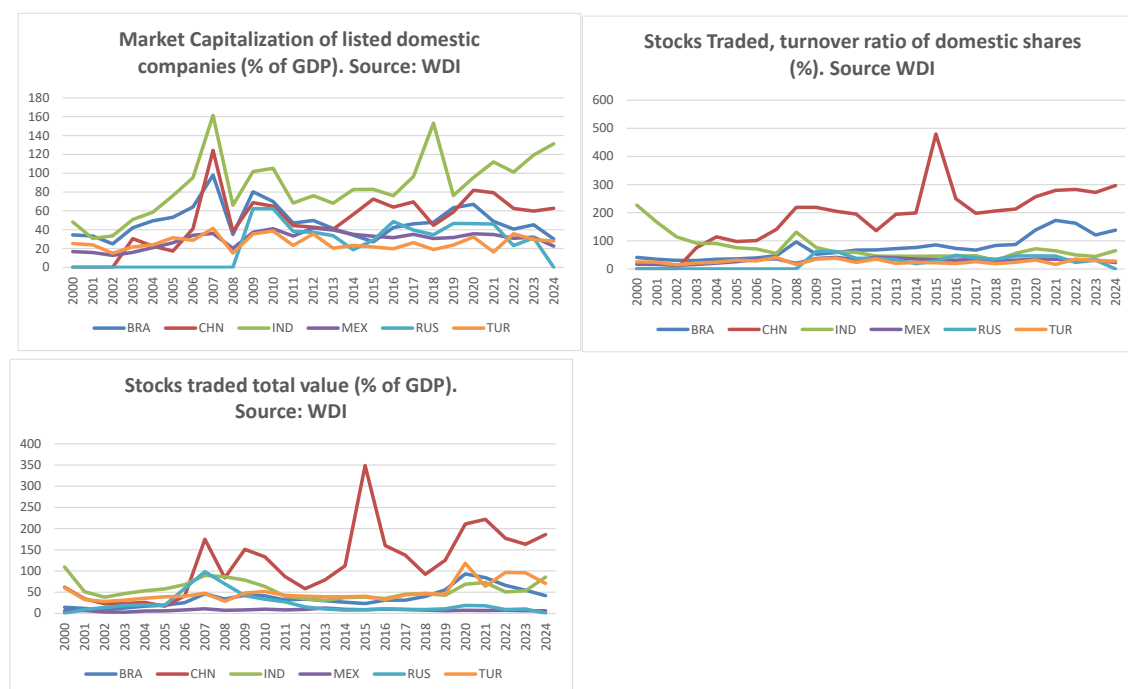
<b>Annual Equity Index Returns 2016-2025 based on Bloomberg Equity Indices</b>						
<b>Year end</b>	<b>Brazil</b>	<b>China</b>	<b>India</b>	<b>Mexico</b>	<b>Russia</b>	<b>Turkey</b>
31/12/2016	56.5%	-8.5%	3.2%	-13.5%	52.6%	-8.2%
31/12/2017	25.5%	19.1%	52.6%	20.8%	-0.6%	35.4%
31/12/2018	-4.3%	-30.4%	-13.0%	-11.7%	-7.0%	-36.2%
31/12/2019	28.3%	36.5%	3.4%	6.1%	38.7%	26.8%
31/12/2020	-17.2%	48.5%	17.4%	-0.3%	-15.0%	26.8%
31/12/2021	-15.1%	19.2%	37.4%	14.3%	21.1%	-31.0%
31/12/2022	-4.0%	-22.0%	-3.8%	-0.3%	-36.6%	101.9%
31/12/2023	23.5%	-5.9%	26.2%	25.1%	22.0%	3.1%
31/12/2024	-31.7%	5.1%	23.2%	-30.0%		11.4%
31/12/2025	27.4%	33.7%	2.1%	38.1%		6.0%
Source: Bloomberg						

A similar Table pertaining to Bond Returns that are part of the Bloomberg Aggregate Fixed Income Index by country is below and corresponds to the market value of bonds outstanding for the indices that we presented earlier. This again highlights the country specific features of the government bond markets.

Annual Bond Returns (%) of Country Indices (part of Bloomberg FI Aggregate Index)					
	Brazil	China	India	Mexico	Russia
30/12/16	30.89	4.31	3.75	-4.91	31.34
29/12/17	16.21	5.34	6.51	13.49	16.96
31/12/18	-0.50	0.02	-1.77	-3.05	-6.87
31/12/19	14.60	6.62	10.76	19.94	24.50
31/12/20	10.54	9.51	8.05	7.22	-1.05
31/12/21	-1.14	7.62	1.09	-4.54	-4.31
30/12/22	-11.73	-5.72	-10.38	-6.29	-98.67
29/12/23	5.70	2.90	8.78	19.55	0.00
31/12/24	4.38	5.13	4.02	-10.13	0.00
31/12/25	7.61	4.94	9.74	25.43	0.00

Source: Bloomberg

What is also interesting is how the *equity market capitalisation evolves* as a share of the GDP. The charts below show rising shares for India and China with recent declines in Russia, Turkey, and Mexico.

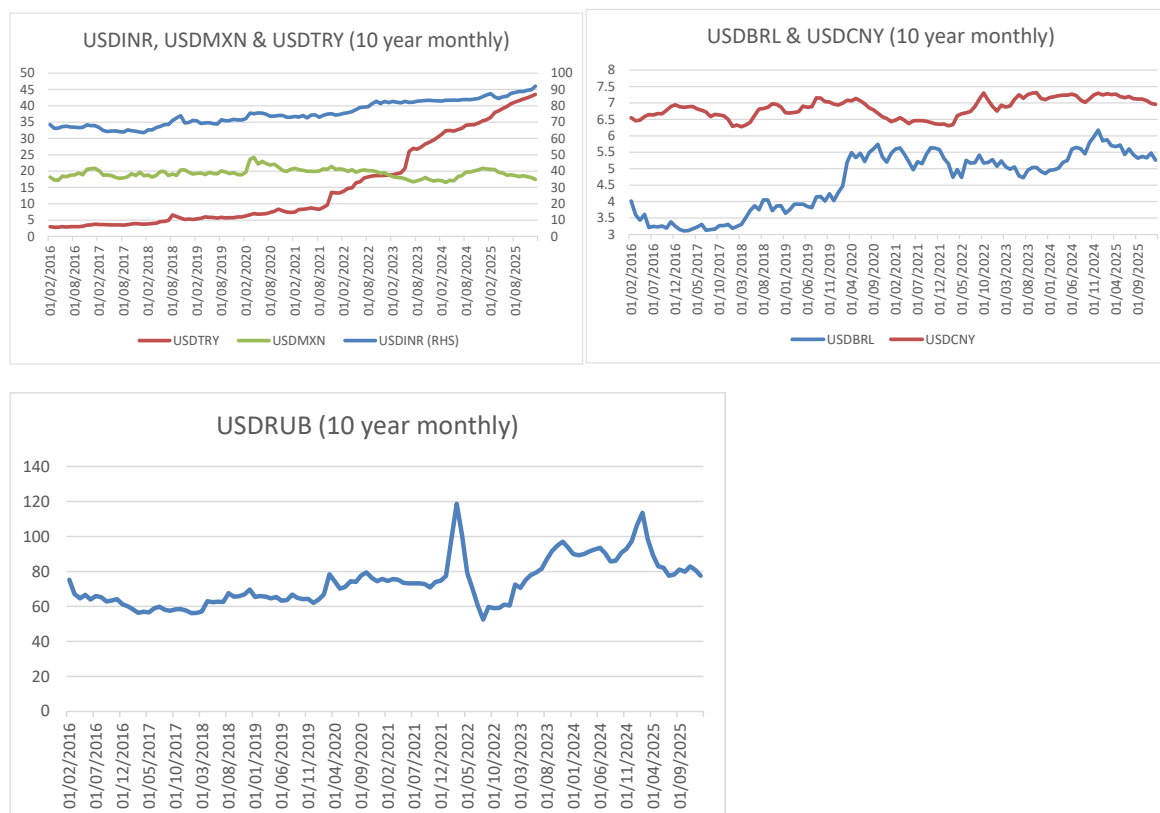


The above charts also illustrate how China has grown in terms of the value of stocks traded as a share of GDP as well as the turnover ratio of domestic shares, with India dominant in terms of market capitalisation of domestic companies relative to GDP. That is partly explained by the behaviour of domestic savers investing a lot in the growth companies of India. Another important consideration while investing in Emerging markets has to do with **currency values**.

In the past, many EM countries experienced severe currency and debt crises which were predictable based on a combination of macro early warning indicators. The charts below indicate the last 10-year currency trajectory with USD as the common denominator.

Currencies are particularly important in financial markets, trade, and portfolio valuations. They also reflect the economic strength or power of a country. The currency pairs we plot for the

EMG6 are: USDBRL (Brazil) USDCNY (China), USDINR (India), USDMXN (Mexico), USDRUB (Russia) and USDTRY (Turkey).



Source: Bloomberg, Marketdata

Lines depicting currency values sloping upwards indicate *currency depreciation* whereas downward sloping lines reflect *currency appreciation*. We observe that over the last 10 years the Brazilian Real has depreciated (blue line) whereas the Chinese Yuan has only mildly depreciated, the Indian Rupee has depreciated, the Mexican peso has remained steady, the Turkish Lira and Russian Ruble have depreciated. I have written past reports and papers on predicting currency crises showing that in addition to fundamental macro factors, crises can be caused by speculators and other traders' beliefs which turn out to be self-fulfilling.

In this paper, we have presented a 3-D scoping of EM economies by considering their Demographic, Economic and Finance/Investment positions. However, an aggregate perspective of any country has to ask the questions regarding Quality of Life, Human Capital, Governance, Corruption and Sustainability. All these other features help us assess the progress on dimensions other than only financial and economic metrics. Demographics (*which broadly includes people characteristics and their behaviour and how they organise themselves*) has bearing on the qualitative indicators that we present below. In the EM crises academic and policy research literature, analysis by experts has laid the blame on inefficiency, corruption, lack of transparency and that matters in generating growth, investment returns, and equity.

Beyond all the economics metrics and financial indicators, the qualitative indicators below show the variation across the EMG6 countries.

Quality of Life Indicators								
	Human Development Index (HDI) Score	HDI Rank	Gender Gap Index Score	Gender Gap Index Rank	Corruption Perception Index Score	Corruption Perception Index Rank	Sustainability Index Score	Sustainability Index Rank
<b>Brazil</b>	0.789	84	0.72	72	35	107	73.81	54
<b>China</b>	0.797	78	0.686	103	43	76	74.39	49
<b>India</b>	0.685	130	0.644	131	39	91	66.95	99
<b>Mexico</b>	0.789	81	0.776	23	27	141	70.8	72
<b>Russia</b>	0.832	64	N/a	N/a	22	157	74.13	51
<b>Turkey</b>	0.853	51	0.633	135	31	124	70.61	73

Sources: UN, WEF, SDG, Transparency International

These are akin to Happiness Indicators which we shall discuss elsewhere in future.

## Conclusions

Emerging Markets (EM) economies have been a major contributor of global growth since the 1980s but their recent slowdown over the last decade has dramatically slowed down global growth. They have contributed to growth in revenues of major global corporates due to changing consumer growth segments and globalisation increasing awareness. They are expected to perform strongly in 2026 as they did in 2025, according to many investors and journalists. But that was before the Iran war. Now the risks to EMs appear from four fronts: higher fuel prices, higher energy costs, higher food prices, and higher borrowing costs.

In this integrative macroscope, we take a 3D view incorporating demographics, economics, and finance/investments, asserting that this provides a *holistic and better picture of the prospects* of the EM economies. Even within the EMG6 universe we note significant differences across the economies for various indicators.

**Demographically**, EM economies are growing older thereby facing challenges of lower GDP growth, higher debt, and the prospect of higher inflation. The economies span a wide range and are in various stages of demographic transition. Structural changes are needed for the EM countries to escape the middle-income trap and “*grow rich before they grow old.*” Some of the larger EM economies are facing the twin challenge of lower fertility rates and higher life expectancies. Health remains a challenge as the countries grow older since health, pensions (social security) and long-term care expenditures are likely to grow and add to fiscal pressures like those being faced by older DM countries. The UN forecasts of Old Age Dependency Ratios are in line with what I would forecast as median with 20% above and below for a range. I strongly believe that gender

equality can generate a second demographic dividend by increasing female higher education and higher female labour force participation rates.

**Economically**, connected to above is the fact that most EM economies face future prospects of lower *working age population growth*, *lower labour productivity growth*, and *lower GDP growth* as well as lower GDP per capita growth. They already face high debt burdens which need to be monitored and controlled to avoid debt service strains. To capture the full demographic dividend and economic potential, EM economies urgently need to implement structural reforms to increase their human capital and empower both women through education and jobs as well as youth. Human capital remains the longer-term robust engine of growth for all economies and healthy human capital at a later age remains a goal of the advanced ageing economies.

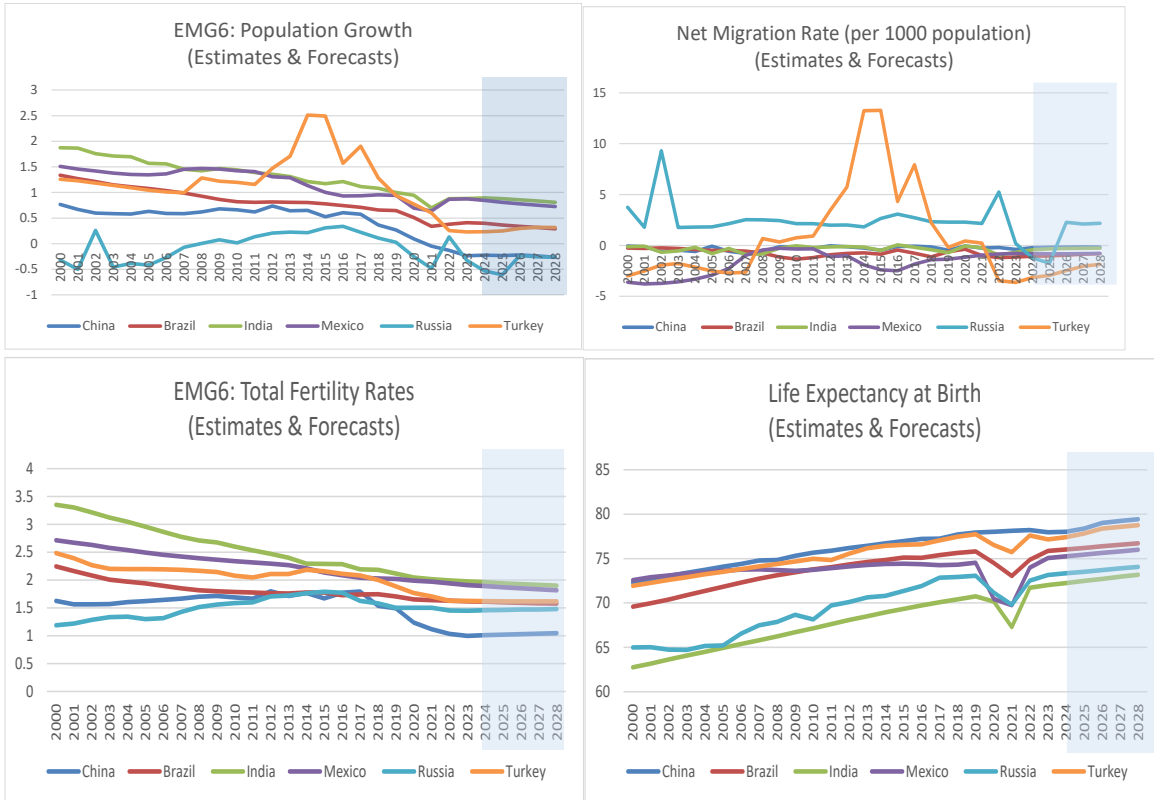
On **finance and investments**, the performance over the last ten years has not been as good but that can be explained by the fact that growth and P/E ratios are related. However, the positive aspect of EM economies including the EMG6 is that they are now much less reliant on external debt than in the 1980s and 1990s. The growth of local debt markets has imparted a certain resilience to the emerging markets against global market turbulence and volatile capital flows. However, the equity and bond market capitalisation has grown for all the major emerging economies.

**Overall**, I am *moderately bullish on growth prospects and equity returns* for the EM world in 2026 but remain *cautious on debt, unemployment, inflation, and gender equality*. **Governance in EM and Transparency** is also an issue which most EM economies need to address continuously. Institutional frameworks need to be revised and redesigned in many countries. EM economies need to watch out for impacts of *growing geopolitical risks* which have amplified impacts on growth, returns, and market stability over uncertain horizons. Unlike common perception, not all EMs are young, and they also are in different stages of demographic transition and economic development. Therefore, their economic transition and financial markets transition is also connected to their overall demographics.

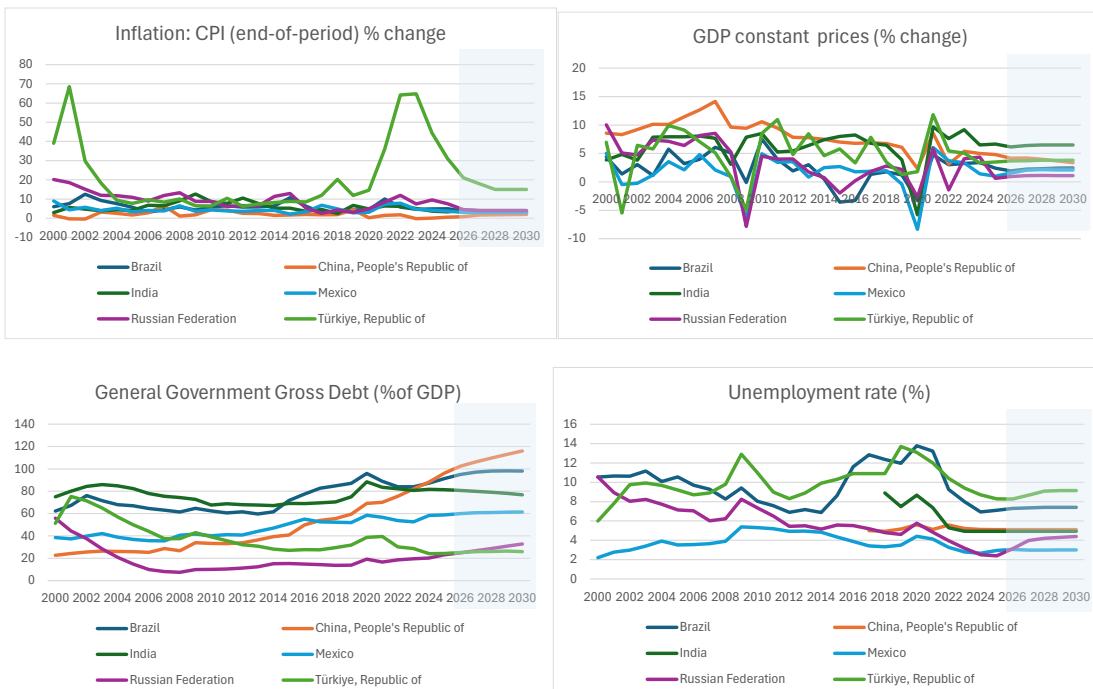
The Appendix lists our forecasts for demographics, economics, and investments for the EMG6.

# Appendix: Forecasts (Demographics, Economics & Investments)

## Demographics Forecasts (Source: UN Population Division)



## Economic Forecasts (source: IMF WEO Oct 2025, forecasts until 2030)



### **Investments/Finance:**

The year has started well in terms of EM sovereign issuance and for corporate markets too<sup>7</sup>. I agree with their conclusions for an overweight to EM local currency bonds and EM currencies in general. Growth uptrend modestly continues for EM. Also, in terms of equities, the overweight to EM equities versus DM<sup>8</sup> is a view I strongly support due to weakening of the USD. The big caveat is the unpriced external geopolitical risks which keep changing day by day.

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<sup>7</sup> JP Morgan EM Outlook and Strategy (09 Jan 2026): EM supported by macroeconomic continuity despite geopolitical surprises.

<sup>8</sup> JP Morgan Emerging Markets Equity Strategy (09 Feb 2026).