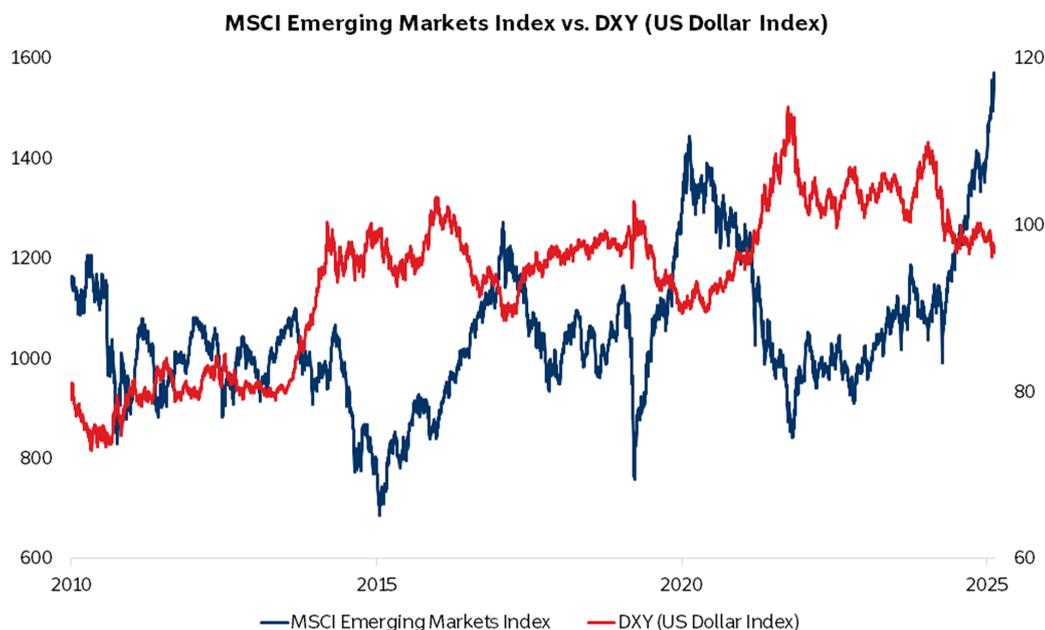


Dollar dips, EM flips

Jonathan Nicholls



Source: Momentum Global Investment Management, Bloomberg Finance L.P. Data to 18 February 2026.

What this chart shows

This chart portrays the inverse relationship between the MSCI Emerging Markets Index on the left axis, and the US Dollar Index on the right axis, showcasing how a weakening dollar tends to strengthen the appeal of emerging markets (EM) and vice versa. According to the Institute of International Finance, EM flows rose to \$98.8bn in January, the strongest January on record and the second highest month in the last two decades. In contrast, the dollar has suffered a four month decline amid rising levels of US federal debt, loosening monetary conditions, and a moderation in US growth prospects.

Why this is important

EM assets have likely benefited from a round of profit-taking, as the strong outperformance of US equity positions has stalled, prompting capital to be reallocated into the previously underappreciated EM space. Index composition also had a part to play, with heavyweights such as TSMC, Samsung Electronics and Tencent driving returns through their exposure to the AI theme.

A diminishing US dollar environment usually boosts EM because their dollar denominated debt becomes cheaper to repay and global financial conditions tend to ease, often supporting higher commodity export revenues. At the same time, when EM currencies strengthen against the dollar, foreign investors can benefit twice (once from the asset's return itself and then again from currency appreciation when converting gains back into hard currency), making EM assets more attractive. Under Trump's administration the dollar may well continue to grind lower through 2026, with downturns historically lasting more than just a few months. The dollar's share in total allocated international reserves has dropped to levels not seen since the mid-1990s, hinting at a longer-term trend away from dollar dominance and towards one of diversification, with central banks holding increased shares of other currencies (e.g. euro, yen) and gold (catalysing the recent rally).

The outlook for EM certainly remains attractive. Forecasts of deeper easing cycles leave emerging economies poised to benefit from large US Tech capital expenditures, in turn driving up their earnings growth estimates. Of course there are associated risks. With emerging markets often described as a leverage play on global growth, a large correction in the developed world (perhaps from stretched US valuations) or a significant reversal in the dollar would be unfavourable.

The EM investment landscape is broad, and active managers will be finding plenty of opportunities in the upcoming months across a range of countries and sectors to enhance returns above that of the indices.



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