Friend or Foe – could this be the defining question for EM sovereigns in 2026?

Graham Stock[1]
GAM UK

Timothy Ash
GAM UK

Zhenbo Hou
GAM UK

Christian Libralato
GAM UK

> **"This event highlights the potential for high levels of differentiation within the diverse EM universe, as well as exposing one of the key risks to the outlook this year which is further geopolitical fragmentation."**

[1] All employees of RBC Global Asset Management (UK) Limited

Key takeaways

- As we enter 2026, it is clear that geopolitical fault lines should increasingly be considered through the prism of alignment or non-alignment with President Trump's administration.

- The start of the year saw the US launch a "large-scale strike" on Venezuela and capture President Nicolás Maduro and his wife, Cilia Flores. Strategically, the US is seeking to reshape global energy dynamics and curb China's influence. Additional motivations may include gaining some control over Venezuela's rare earth resources and managing the country's migration crisis.

- This event highlights the potential for high levels of differentiation within the diverse EM universe, as well as exposing one of the key risks to the outlook this year, which is further geopolitical fragmentation. This could embolden key players in each region to assert more influence increasing the risk of military or economic sanctions escalation.

Markets are still growing accustomed to heightened uncertainty across a range of issues as the US adopts a more muscular, unilateral, and transactional approach to trade, international conflicts and its own alliances. As always in active management, we see identifying the winners and losers from these shifting patterns as an attractive source of alpha for our portfolios. Here we explore developments last year to pick out trends that might persist in the future and examine where the likely flashpoints could arise in 2026.

Existing hotspots will likely remain on the radar

We expect the war in Ukraine to drag on. Peace in the Middle East will still be a work-in-progress. China will covet Taiwan. Cross-border tensions could erupt elsewhere, giving President Trump further opportunities to push the US along the line from global policeman to global peacemaker, swelling the Nobel committee's postbag in the process. We also see scope for new episodes of unrest. These could be triggered by election cycles, prompting the US to take sides as it did in Argentina around the mid-terms there. In Latin America alone, elections will be held in Peru, Colombia, and Brazil this year with voters showing increased signs of polarisation. National elections in Hungary and state elections in India offer similar potential for high-stakes showdowns.

Even without the set-piece excuse of an election, pressures such as inequality, rising food prices, or frustration with ineffective or corrupt governments can boil over into social unrest (Charts 1 and 2). The Arab Spring seems a long time ago now, but similar popular protest movements broke out over the following decade in Brazil, Chile, and Colombia, amongst others. Late in 2025, the youth took to the streets in Morocco and Peru to voice anger at misplaced government priorities and rising crime respectively, as well as other grievances. Outside the current EM universe, administrations were toppled by such movements in Nepal and Madagascar. We will need to be alive to the risks of further such episodes and consider how outside forces might intervene for better or worse.

Chart 1: Correlation between crime and age of population
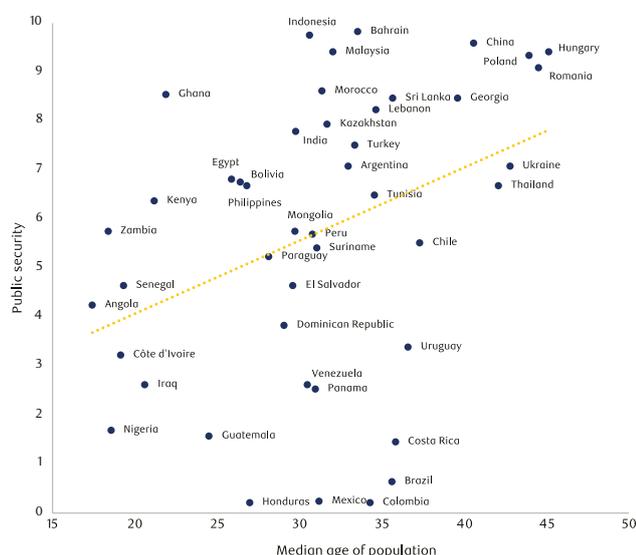
Source: Verisk Maplecroft Crime Index (assessing the prevalence of homicides, property crime and theft) as of Q4 2025, 10 is low crime, 0 is high crime; UN Department of Economic and Social Affairs (UNDESA), 2025 estimates.

Latin America – it was wise to align with the US

In aggregate, Latin America emerged relatively unscathed from the Liberation Day tariff announcements. The baseline 10% was applied almost uniformly. Mexico merits particular attention because its economy is most closely integrated with the US and because the US-Mexico-Canada Agreement (USMCA) trade agreement is such a key consideration. For other countries, though, it quickly became apparent that alignment with US priorities was a wise strategy. **Colombia** learnt this the hard way as early as January, when President Petro's late-night complaint about the treatment of his deported compatriots immediately prompted the imposition of a 25% tariff on all the country's exports to the US. A flurry of diplomatic activity and contrition secured a roll-back but Petro's approval ratings dropped even lower. Later in 2025, his renewed defiance of Uncle Sam resulted in the cancellation of his US visa, and several of his cabinet ministers either suffered the same fate or had to forswear travel to the US in solidarity. This year, we expect relations between Colombia and the US to improve when a new more centrist or centre-right government is elected around the middle of the year.

> ## "In aggregate, Latin America emerged relatively unscathed from the Liberation Day tariff announcements."

The **Brazilian** government was careful not to antagonise the Trump administration, despite considerable ideological disagreements, but was punished regardless with 50% tariffs when its independent judicial system followed through with the prosecution of former president Jair Bolsonaro for his coup plot after he lost the 2022 election to Luiz Inácio Lula da Silva (Lula). Bolsonaro was convicted anyway, and suffered further in the court of public opinion as his son's lobbying in Washington was blamed for the imposition of the punitive tariffs. Both sides are likely to move on from that particular episode in 2026, but residual tensions may persist over the regulation of social media.

Chart 2: Uncertainty indices have spiked in 2025
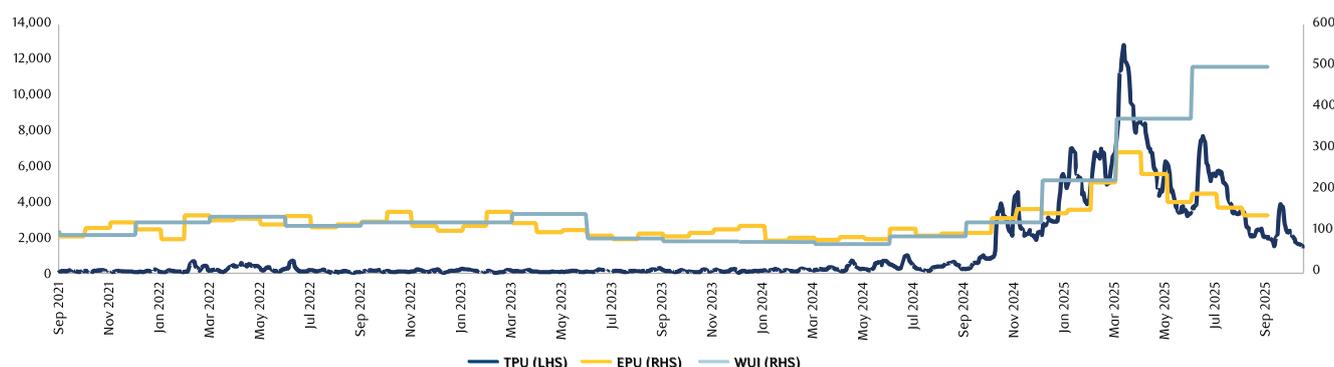
Source: Bloomberg, as at 16 October 2025.
TPU = Bloomberg Global Trade Policy Uncertainty Index; EPU = Global Economic Policy Uncertainty Index, GDP-weighted; WUI = World Uncertainty Index, GDP-weighted.

Brazil's election only falls in October, and at this stage it looks like a close race between Lula, standing for a fourth term, and a candidate endorsed by Bolsonaro who remains influential on the right of the political spectrum. Polls currently suggest that a family member would lose in a run-off against Lula, but a well-known professional politician such as Sao Paulo governor Tarcísio Freitas might win.

In contrast, alignment with the Trump administration played very well for Javier Milei in 2025. He was a regular participant at CPAC conferences, waved his trademark chainsaw to symbolise cutting government waste, announced **Argentina's** withdrawal from global climate talks, and vocally supported Israel. The reward came after disappointing local election results in the Province of Buenos Aires prompted fears for the sustainability of Milei's project of fiscal adjustment and the US Treasury provided 'whatever it takes' assurances of support, which bought time through to the national mid-terms in late October.

The US made it clear that assistance was conditional on improved governability, meaning a more durable alliance between Milei's libertarian party and more centrist forces, and assessing the viability of this arrangement will be a task for 2026 and into the next general elections in late 2027.

A further incentive for US support for Argentina was to chip away at China's influence, and we expect this to remain a theme for the whole region in 2026. The US is clearly sensitive to China's presence in infrastructure, such as the ports at each end of the Panama Canal and Peru's big new port at Chancay, but a couple of decades of aggressive investment means that there are plenty of other potential flashpoints, including in energy and mining (Chart 3).

"Strategically, the US is seeking to reshape global energy dynamics and curb China's influence."

The contrast between the experiences of Brazil and Argentina is reflected also in the fortunes of Venezuela and El Salvador. In **Venezuela**, the year started off dramatically with the capture of President Maduro and his wife. This action, justified by the Trump administration as aligning with the Monroe Doctrine and "America First" principles, aims to reassert US dominance in Latin America and control Venezuela's oil flows, particularly those to China, which account for 80% of Venezuela's crude exports. Interim leader Delcy Rodríguez, a Maduro ally from a leftist family, faces pressure from the US to sever ties with Iran, Hezbollah, and Cuba, as well as to end drug trafficking, under threat of sustained sanctions. Strategically, the US is seeking to reshape global energy dynamics and curb China's influence. Additional motivations may include gaining some control over Venezuela's rare earth resources and managing its migration crisis.

Chart 3: Chinese FDI in Latin America

Legend:
- Energy
- Manufacturing
- Mining
- Real Estate
- ICT
- Infrastructure
- Agroindustry
- Finance

Source: ICLAC, as at November 2025.

In **El Salvador**, meanwhile, Bukele's pacification of the country remains very popular but there are limits to how much the US can assist with thorny economic challenges such as the reform of the pension system required under the terms of the IMF programme. It remains to be seen whether diplomatic alignment will be sufficient if policy settings start to slip.

Mexico is a special case. On the face of it, the relationship with the US is set up for conflict. A lot has happened since the Mexican-American War ended in 1848 but current potential flashpoints range from politically sensitive issues such as drug-trafficking and illegal migration to publicity stunts such as trying to rename the Gulf of Mexico as the Gulf of America. In practice, the integration of the two economies is critical for Mexico's outlook and for the profitability of many US companies. Preserving the benefits of USMCA therefore lies at the heart of the pragmatism displayed by Mexican President Claudia Sheinbaum and her administration. A review of USMCA is due to conclude by mid-2026 but it is already clear that the agreement has been weakened by the Trump administration's preference for bilateral trade talks and resistance to supra-national frameworks. We expect Mexico to continue to try to please the White House by erecting higher barriers to imports and investment from China, and by cooperating as much as possible to combat drug-trafficking and illegal border crossings (which have dropped off sharply). Uncertainty over the future trading relationship will nevertheless remain high, undermining investment into sectors that should benefit from access to the US market.

CEEMEA

In Europe it is complicated.

If truth be told, there is little love lost for President Trump's policies and the MAGA movement from the European mainstream. Despite warm word of appreciation at the White House and grand state visits there is little doubt that Trump's second term has ushered in a foreboding in Europe that his agenda is not only to disengage militarily from Europe, but to drive his own interests and priorities, including a focus on China (not Russia) as the prime global threat. Interests, not values, drive the Trump agenda, anathema to a European project which prides itself on supposed common values that it has tried to export via enlargement and trade policy. But Europe is now realising, perhaps too late, that not only its values but its interests might diverge from Trump and MAGA.

> **"Interests, not values, drive the Trump agenda, anathema to a European project which prides itself on supposed common values that it has tried to export via enlargement and trade policy."**

However, even within Europe, there are competing political forces. Reform in the UK, the AfD in Germany, National Rally in France, Orban in Hungary, Fico in Slovakia, Nawrocki in Poland, and even Babis in the Czech Republic align more closely with Trump and MAGA. We have seen the rump European mainstream try and deploy (and withhold) resources to try and hold the line in defence of European social liberalism. In **Romania** and **Moldova**, this would suggest favourable treatment (and ample funding) from the European Commission towards new governments facing difficult reform challenges – much-needed fiscal consolidation in the case of Romania. Albania, Bulgaria, and the Tusk government in Poland get similarly favourable treatment from the EC.

In **Hungary**, EUR23 billion in EU structural fund flows have been stalled in response to Orban testing the limits of the EU's remit, and the future of these funds could impact likely hard contested elections looming in Hungary in April 2026. An Orban defeat would be a market positive as it would see the gushing of those stalled EU structural funds. We will also be watching potential early elections in **Serbia**, which could pit the MAGA-like Vučić against a Europhile candidate. Nearby, the MAGA-like former president of the Republic of Srpska in **Bosnia** and **Herzegovina** might pitch for independence, which could well strain regional unity.

Whereas the Gulf states, Egypt, Turkey, and Pakistan struggled to meet the high bar set by the Biden administration on values, they have quickly learned that they can play the interests card well with the Trump administration. Erdogan in Turkey has offered Trump solutions in Nagorno-Karabakh (along with a Nobel peace prize nomination), Syria and Gaza. Trump has responded by seemingly giving Erdogan a pass on his domestic political travails with the opposition Republican People's Party, and the prospect of deals on Halkbank, and F16 and F35 fighter jets, with Erdogan throwing in a big Boeing deal for good measure.

Qatar and **Saudi Arabia** helped with the Gaza deal and appear to have been rewarded with new security arrangements with the US – both also doffed the cap to Trump with multi trillion-dollar investment pledges to the US. Irrespective, Gulf states are expected to continue their opening up and reform agendas, opening to global capital. Additionally, Trump's new-found effort to freeze Russia out of international oil markets could be an opportunity for Saudi Arabia to take market share, as Qatar has done in LNG.

Pakistan played a blinder, cosying up to Trump and stealing a march on India by nominating him for a Nobel prize for securing a ceasefire in the recent stand-off between the two countries, agreeing crypto deals with Trump camp followers and, as a result, securing a tariff advantage over India and easy access into the White House, with promises now of minerals deals and financing to come. This will likely further sustain the Pakistan turnaround story which has been a theme for the past year, as the country plays China off against the US, benefitting from investment from both.

Countries such as **South Africa** that have struggled to kiss the ring – largely for domestic political reasons – have been penalised. South Africa's black empowerment programme has enemies in the White House and MAGA circle but cannot easily make concessions for domestic political reasons rooted in social justice and race relations. It was penalised hence with a 33% tariff. This should ensure the ruling ANC-DA government of national unity stays together and sustains its reform agenda, keeping South African assets well supported, albeit with little room for error on the domestic policy and reform front.

And **Russia**, friend or foe, to the Trump administration? If tariffs, or sanctions, were the measures of where a country sits on Trump's threat perception, then Putin appears well placed to secure the red-carpet treatment again. And Trump has not been able to conceal his ultimate goal of boosting business across the Bering Straits – perhaps playing to the wishes of the China hawks in his administration who are calling for a 'Reverse Nixon', a US-Russia alliance against their main enemy. Trump openly declares Putin as his friend, and Ukraine appears to be an irritating impediment on the road to US normalisation with Russia. Perhaps the move in late 2025 to sanction Rosneft and Lukoil could change the dynamics, but equally Trump might just flip back to appeasing Putin, to the detriment of Ukraine and Europe.

Ukraine, like Europe, is in two minds on Trump. They have seen less carrot with US funding pulled and more stick in the form of Zelensky's dressing down in the Oval Office and pressure to accept Putin's terms for peace. Zelensky has resisted the pressure from Trump, understanding that the deal on the table would spell the end of Ukrainian sovereignty and likely his own political career. Ukraine's strategy, like Europe's, is to play Trump for time, trying to reach a point where it is less reliant on US arms supplies and can walk away, thereby hoping to keep the US as neither friend nor foe. The nightmare for Ukraine would be that the US actually allies with Putin and forces Europe to pull its support, leaving the country to collapse into Putin's hands. This would likely open the way for huge US-Russia business ventures, dealing a critical blow to European security and possibly prompt the final push for Europe and China to deepen cooperation.
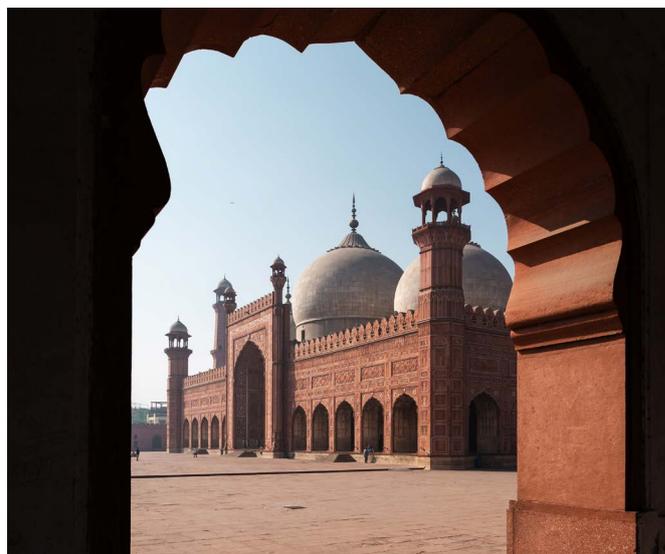
So, friend or foe? Not so easy. Traditional alliances are at risk, and new strategic relations up for grabs. There are risks and opportunities for many countries, and many are still playing a waiting game or playing the big global powers – the US, China, Europe and Russia – off against each other.

Asia

Few Asian countries wish to make an outright bet on Washington or Beijing, as many fear the consequences if the geopolitical rivalry gets out of control. So far, most of their diplomatic rhetoric remains calculated and conciliatory to both China and the US, hedging their bets in the hope of retaining their own strategic autonomy.

"So, friend or foe? Not so easy. Traditional alliances are at risk, and new strategic relations up for grabs."

India views itself as a major power that is too significant to be aligned either with US or China. It seeks to play them off each other to maximise its own strategic leverage. For example, when the border dispute with China intensified, India joined the Quadrilateral Security Dialogue (Quad) along with Australia, US, and Japan. When Trump imposed 50% tariffs on India for importing Russian crude, Modi swiftly made an appearance at the Shanghai Cooperation Organisation summit, a China and Russia-led regional security organisation, to pose solidarity with Putin and Xi. Importantly, it is worth remembering that the former Soviet Union, and later the Russian Federation, has proven to be India's most reliable strategic partner since independence – a point sometimes ignored in popular geopolitical analyses. Looking ahead, Modi's BJP will face important state elections in Tamil Nadu, Pondicherry, Kerala, Assam, and West Bengal in 2026. Having encountered a minor setback in the 2024 national election, these state election results will shed light on Modi's popularity in his project of 'Making India Great Again' and, in turn, the strength of his position in forging global geopolitical alliances.

Indonesia is the world's fourth most populous country and the most populous Muslim majority country. While being an electoral democracy that has traditionally cooperated with US on security matters including joint coast guard training, we see the country diversifying away from Washington to Beijing, as supply chains become more aligned. Moreover, Indonesia's decision in October 2025 to purchase at least 42 Chengdu J-10 fighter jets made Jakarta only the second foreign military to operate the J-10 after Pakistan, who reportedly used them to down India's French Rafale jets during the two countries' short conflict in May. 2026 is an important year for Prabowo's government as his flagship investment vehicle Danatara enters its first year of operation, and investors will watch its results closely for indications of strategic priorities and potential commercial alliances in the coming years. Outside of this, we will also be monitoring the fiscal dynamics closely, to ensure the deficit remains within the 3% target.

Smaller ASEAN (Association of Southeast Asia Nations) economies tend to adopt a much more tenuous position vis-a-vis the US-China rivalry. For example, **Malaysian** Prime Minister Anwar Ibrahim was recently praised by Trump for playing a constructive role to end the conflict between Cambodia and Thailand but at the same time, Anwar attended the 3rd September military parade by China and voiced strong opposition to Israel's invasion of Gaza.

Vietnam's Communist Party leadership was among the first set of nations to offer Trump a zero tariff for US exports as well as to construct a 60-storey Trump Tower and a Trump golf resort in Ho Chi Minh City shortly after Liberation Day in April 2025. With a favourable trade deal with US in its pocket, General Secretary To Lam will likely seek to consolidate his role as the party leader at the 15th National Congress of the Communist Party in 2026. This would imply moving ahead with strong growth orientated policies, including addressing regulatory hurdles to attract FDI, promoting new infrastructure initiatives, and streamlining the public sector.

It's not quite clear that being a US ally necessarily helps in Trump's world. For example, the **Philippines** received a 19% reciprocal tariff rate despite having hosted a US military base since 1947 and even **Taiwan** was targeted for a 20% reciprocal tariff – while **Japan** and **South Korea** were both to receive 15%. Interestingly, the tariffs for Japan and South Korea came with the condition of an 'investment deal', intended to draw investment into the US, which appears to have driven both countries to hedge the Trump risk with closer cooperation with China. During our research trip to China, we were informed that there has been a large influx of Japanese expats into Shanghai in 2025, while South Korea elected a more China-friendly President in June 2025, paving the way for rapprochement.

"**Perhaps the most important events in 2026 will be a series of bilateral meetings between the two heads of state from China and US, with Trump visiting Beijing in the spring and Xi to Washington later in the year.**"

Indeed, the Cold War mindset, applying a 'democracies' versus 'non-democracies' framework is becoming increasingly dated for understanding the alliances in this rapidly evolving region. This predates Trump but is accelerating under his administration. Perhaps the most important events in 2026 will be a series of bilateral meetings between the two heads of state from China and US, with Trump visiting Beijing in the spring and Xi to Washington later in the year. These meetings should, in theory, anchor the bilateral relations and offer a higher level of predictability on the direction of political and economic dynamics across the region.

Sub-Saharan Africa

The Trump administration hasn't tended to prioritise Sub-Saharan Africa, as the region is neither a major trading partner nor a geopolitical competitor. Cuts to aid in some ways evidence the less-than-positive focus on the region and contrast sharply with the support offered to nations such as Argentina. However, with the US seeking to source rare earths and compete with China, we have seen evidence of US intervention in the region where these policy priorities have some crossovers. Trump invited **DRC** and **Rwanda** to sign a deal to halt the conflict in the eastern DRC that involved Rwandan-backed troops.

While there is uncertainty over the long-term success of the deal, it appears the Trump administration is seeking to calm the region and gain access to the DRC's endowment of rare earth minerals. This may have other positive spin offs via investment into the region, but that is not guaranteed, and we have seen many examples of resource rich nations exporting commodities but failing to raise living standards for the population, due to weak governance and poor policy choices.
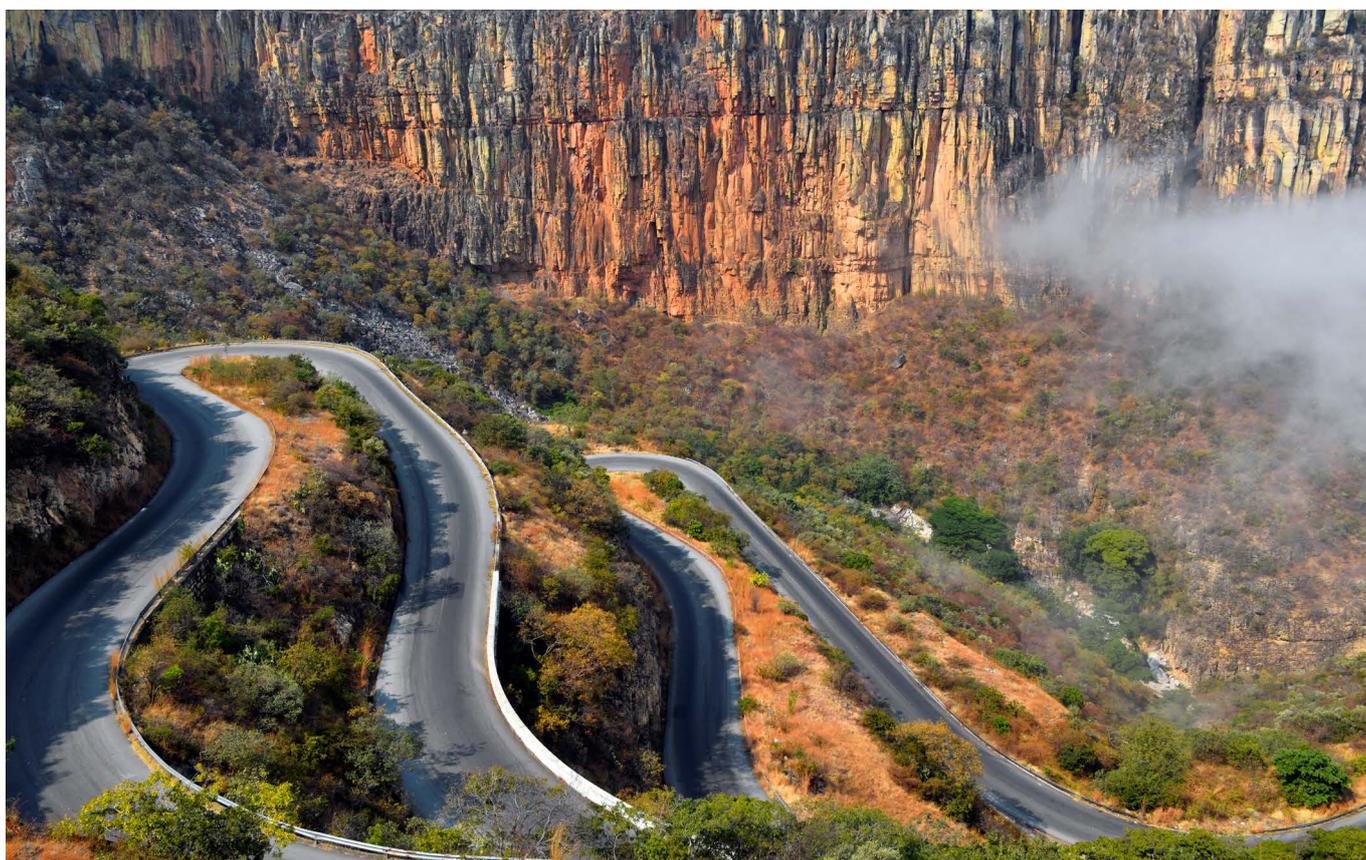
This interest in the region's minerals may also benefit nations such as **Angola**, where the Lobito Corridor project seeks to transport coveted commodities from the DRC and Zambia to the Atlantic via a rehabilitated train line, a direct competitor to China which has been dominant in securing minerals from the region for decades. It is notable that both Angola and Zambia export much of their resources to China and have a large share of their debt owed to the Chinese, highlighting that the US has some way to go in growing its presence in the region.

One market tangible of this may be the entry to bond markets of the DRC. Hoping to capitalise on prospects for improving security and its mineral wealth, it may look to borrow to invest in much-needed infrastructure to aid growth and living standards.

It will be interesting to see investors' appetite for a nation with a history of conflict and governance challenges. Rwanda, signatory to the peace deal, is also agreeing to take a small number of migrants from the US and may find itself on the right side of the administration.

Discerning the motivation of recent tweets by President Trump about Christian persecution in **Nigeria** by Islamist terrorists, and the threat to use military action to combat it, is not straightforward. While there is a security problem and ongoing violence between both faiths, the interest of the US has been attributed to several possible factors including the desire to have Nigeria accept deportees, counter a growing Russian presence in the mineral rich region, or a more straightforward play to the Christian voter base.

We have been accustomed to many of the SSA issuers accessing IMF and World Bank concessional lending to navigate macro-economic challenges. These adjustment programmes do not always resolve the underlying challenges, and statements from US Treasury Secretary Bessent outline a desire to change the approach of the fund's lending programmes. He cites upcoming policy reviews that focus on strengthening programme conditionality to avoid repeat borrowing from nations and preferring a structure of frontloaded reforms and backloaded financing – a nod, perhaps, to a higher hurdle to access fund resources. Green project funding such as the IMF's Resilience and Sustainability Trust is also uncertain, and while this represents a marginal amount of funding in the context of overall requirements, it points to a potential diminishing of sources of external financing. While there is evidence of shifting US policy affecting the region, other, well-established factors are likely to be the key idiosyncratic drivers in SSA over the coming year. Commodity prices, fiscal trajectory and IMF program progress will likely be the more dominant themes.

RBC **Global Asset Management**