

# Emerging Markets: Back in the Spotlight

Emerging markets have, for a long time, offered investors exposure to fast-evolving economies, expanding middle classes, and vast resources. While they often carry higher volatility and risk relative to developed markets, they can also provide long-term return potential and portfolio diversification benefits.

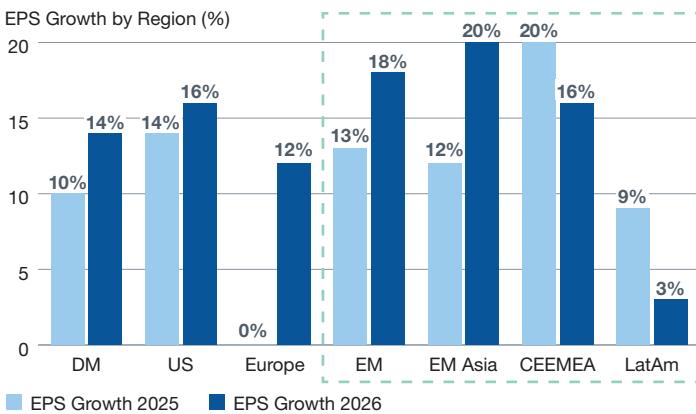
We believe the current environment—which, in our view, is the most supportive of emerging markets in more than 15 years—offers a strong foundation for meaningful growth. We have seen several structural and cyclical factors that suggest the asset class could deliver standout returns going forward compared to recent years, potentially offering attractive valuations alongside robust return on equity, free cash flow, and dividend yields.

Here's a closer look at the key reasons to be optimistic about the future of the asset class:

**1. High earnings growth is expected in emerging markets over the next couple of years:** EPS expectations for the MSCI Emerging Markets Index are currently higher for 2026 than for developed market equities,<sup>1</sup> underpinned by a combination of accelerated economic expansion in these regions, nascent monetary easing, and favorable currency dynamics (Exhibit 1).

Exhibit 1

## Earnings Growth: Opportunities Amid Expectations



**2. Economic and earnings growth expectations are more broad-based for emerging markets than for the United States:** Estimates indicate higher expected growth spanning multiple countries and sectors. The drivers of this asset class are diverse and not tied to a single story but rather several uncorrelated themes such as demographics, technology and innovation, and deglobalization. In contrast, in the United States, more than 70% of the S&P 500 Index earnings growth from 2022 to 2025 (estimated) has come from the broadly defined tech sector.<sup>2</sup>

**3. The US Federal Reserve's easing cycle has historically had broad influence:** Lower US interest rates have the potential to allow central banks in emerging markets to cut rates and accelerate growth without weakening their local currencies.

**4. A weaker US dollar has historically supported assets across the globe:** A weaker US dollar has tended to support emerging markets equities by boosting capital flows, earnings growth and price returns, and macroeconomic stability—particularly benefiting unhedged US-based investors with the potential to lift total returns.

**5. A reputation that precedes them—net investment inflows have gained steam for emerging markets:** Emerging markets have seen more than a \$26 billion influx across the asset class in October 2025 alone (equities at \$12.9 billion, debt at \$14.0 billion), according to the Institute of International Finance,<sup>3</sup> providing exposure to the leading businesses of today as well as new economy sectors such as digital commerce and media.

**6. Accessing the artificial intelligence (AI) growth story may become more affordable via emerging markets:** We believe it is less expensive to tap into AI thematic investing outside of the United States—we believe DeepSeek indicated a shift in global AI leadership; the MSCI Emerging Markets Information Technology Index trades at 17x forward earnings while the S&P 500 Information Technology Index trades at more than 30x.<sup>4</sup>

**7. Growth in emerging markets may result as capital is reallocated across the asset class:** We expect a shift of capital across emerging markets over the next decade, driven, in part, by changes in global supply chains. As companies diversify away from heavy reliance on China for manufacturing, nations like Vietnam have benefited from shifts across the electronics and textile sectors. Indonesia and Malaysia have also benefited from supply chain diversification,

particularly in commodities, battery materials, and electronics assembly. Mexico continues to benefit from nearshoring trends, while we believe India is positioning itself as an alternative manufacturing hub across electronics, pharmaceuticals, and automotive components.

**8. In our view, governments appear to be in good financial shape across developing nations:** We believe investors may see stronger sovereign balance sheets in emerging markets versus many developed economies. Emerging markets often have lower debt, stronger reserves, and more conservative fiscal policies than many developed nations have, making them more resilient and attractive to investors.

**9. Emerging markets have managed their money carefully:** More orthodox monetary policies across emerging markets countries have contributed to currency stability. The Central Bank of Brazil, for example, has been a thoughtful steward, navigating the global pandemic by hiking rates early in 2021 (from 2% to 13.75%), easing as inflation fell, and staying steady in the face of political pressures. Going forward, we believe monetary policy across emerging markets is likely to be more introspective, more focused on domestic growth and inflation drivers versus policy shifts from the US Federal Reserve.

**10. The value proposition is strong:** A valuation gap between developed and emerging markets equities has increased significantly, with the MSCI Emerging Markets Index trading at more than a 30% discount to the MSCI World Index.<sup>5</sup> And relative to the United States, we believe the near-40% discount for the MSCI Emerging Markets Index versus the S&P 500 Index presents an attractive opportunity for investors (Exhibit 2).

Exhibit 2

#### EM Valuation Discounts: Wide Relative to Long-Term Averages

P/E (NTM)

25



As of 31 December 2025. Source: FactSet

## Important Information

- 1 MSCI World Index. Source: Bloomberg, J.P. Morgan; As of 2 January 2026
- 2 Source: Lazard, MSCI, S&P; As of 28 November 2025
- 3 Source: Institute of International Finance; **IIF Capital Flows Tracker: November 2025;** As of 11 November 2025
- 4 Source: MSCI, S&P; As of 31 October 2025
- 5 Source: Bloomberg, J.P. Morgan; As of 31 December 2025

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**The performance quoted represents past performance. Past performance is not a reliable indicator of future results.**

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No risk management technique or process can guarantee return or eliminate risk in any market environment.

The S&P 500 Index is a market capitalization-weighted index of 500 companies in leading industries of the US economy.

The MSCI Emerging Markets Index is a free-float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The MSCI Emerging Markets Index consists of emerging markets country indices, including: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates.

The MSCI EAFE Index (Europe, Australasia, Far East) is a free-float-adjusted market capitalization index that is designed to measure developed market equity performance, consisting of developed market country indices excluding the United States and Canada.

The MSCI World Index is a free-float-adjusted market capitalization index that is designed to measure global developed market equity performance comprised of developed market country indices.

The MSCI USA Index is designed to measure the performance of the large and mid-cap segments of the US market.

The index is unmanaged and has no fees. One cannot invest directly in an index.

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