

The Next Leg of Growth in Emerging Markets

Executive Summary

- Growth opportunities in emerging markets (EM) have broadened as the asset class has evolved and more EM companies have broken through to become leading players globally.
- Healthcare operators, defense technology companies, and South Korean beauty consumer brands are three areas where we find compelling bottom-up, long-term growth opportunities.
- We see the next leg of growth in EM as a set of targeted opportunities driven by innovation, system expansion, and industrial scale with the potential to create the next generation of global leaders.



The opportunity set is broad and diverse, carved by innovation, demographics, and shifting patterns of global demand.

Emerging markets are dynamic and ever-changing. The investment universe is evolving as industries develop, companies scale, and new sources of growth bubble up from across the global economy. Once dominated by commodity-heavy sectors with limited growth and previously home to only a small share of high-quality, high-growth companies, EM economies have been transformed in recent years.

There is no single driver of growth across EM today. The opportunity set is broad and diverse, carved by innovation, demographics, and shifting patterns of global demand. However, within that wider context, certain areas stand out, where structural tailwinds are beginning to translate into visible and more durable earnings growth. We focus below on three pockets of long-term structural growth:

- **South Korean beauty products**—a new generation of consumer brands is scaling globally through digital-first models.
- **Healthcare**—structural underinvestment and demographic trends are contributing to a long runway of expansion and system transformation.
- **Defense**—industrial capacity and accelerating global demand are supporting the rise of new export-driven champions.

These three areas highlight a wider common theme: Growth in EM is increasingly being fueled by companies operating at inflection points, where investment cycles, innovation, and competitive positioning begin to translate into sustained earnings growth.

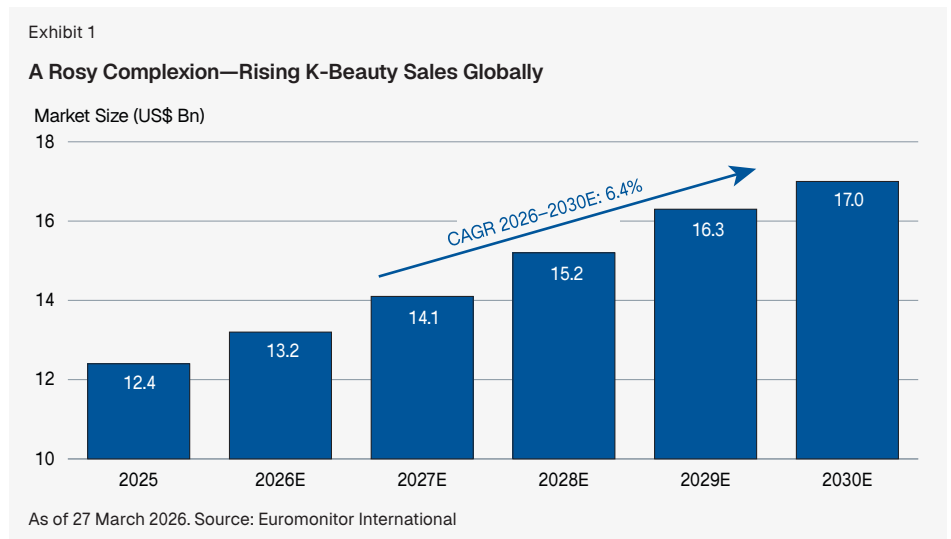
Korean Beauty: Digital-First Brands Winning Globally

The growth opportunity in South Korean beauty care (K-Beauty) is not simply a function of rising demand but a reflection of how the category itself is changing. The K-Beauty market is estimated to hit US\$17 billion in total sales by 2030, with a compound annual growth rate (CAGR) of 6.4% forecast over the next four years (Exhibit 1).¹ What stands out is not just the pace of growth but the underlying growth drivers.

Korean beauty brands have been able to scale globally by leveraging digital-first, online-based distribution models that bypass traditional retail channels. This model has several advantages. It allows for faster international expansion, more direct engagement with consumers, and real-time feedback loops that inform product development. It also creates structurally higher margins compared to legacy models that rely heavily on physical retail and intermediaries.

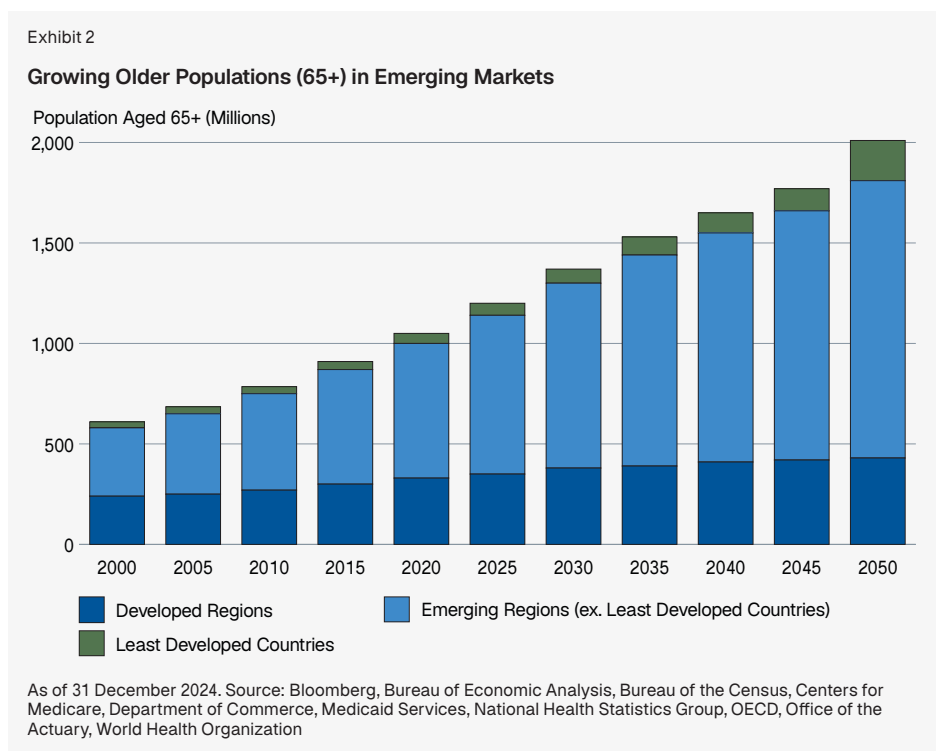
Companies such as Medicube highlight how this approach can disrupt established incumbents. By combining dermatology-backed products with digital marketing nous and direct-to-consumer distribution, these businesses can compete with global brands on quality and speed, rather than on price alone.

The result is a new class of EM consumer companies that are not just benefiting from domestic growth but are increasingly defining global categories.



Healthcare: Structural Expansion and System Transformation

We believe healthcare represents one of the most significant structural growth opportunities across EM, driven by a clear imbalance between demand and current levels of investment. Healthcare spending in EM economies remains at around 4% to 6% of GDP, compared with 17% in the US and 10% in the European Union.^{2,3} At the same time, EM countries account for a growing share of the world's population, with their aging trends expected to accelerate meaningfully (Exhibit 2).



Emerging markets can build healthcare systems without the same legacy constraints as developed markets

By 2050, the 65+ population is expected to be more than five times larger than younger cohorts in many emerging regions.⁴ This will create a sustained increase in demand for healthcare services at a time when infrastructure, access, and system capacity remain underdeveloped. This gap points to a multi-year, likely multi-decade, period of expansion across healthcare systems. Healthcare systems will need to invest in hospitals, diagnostics, services, and broader infrastructure to meet rising demand.

What makes this opportunity more compelling is how it is likely to be delivered. EM can build systems without the same legacy constraints as developed markets, creating an opportunity to integrate more efficient and scalable models from the outset. Digitization will play a vital role in this transition. As a deflationary force, technology can help reduce the cost of delivering care, improve access, and enhance system efficiency. This allows healthcare systems to expand without requiring the same level of spending intensity seen in developed markets.

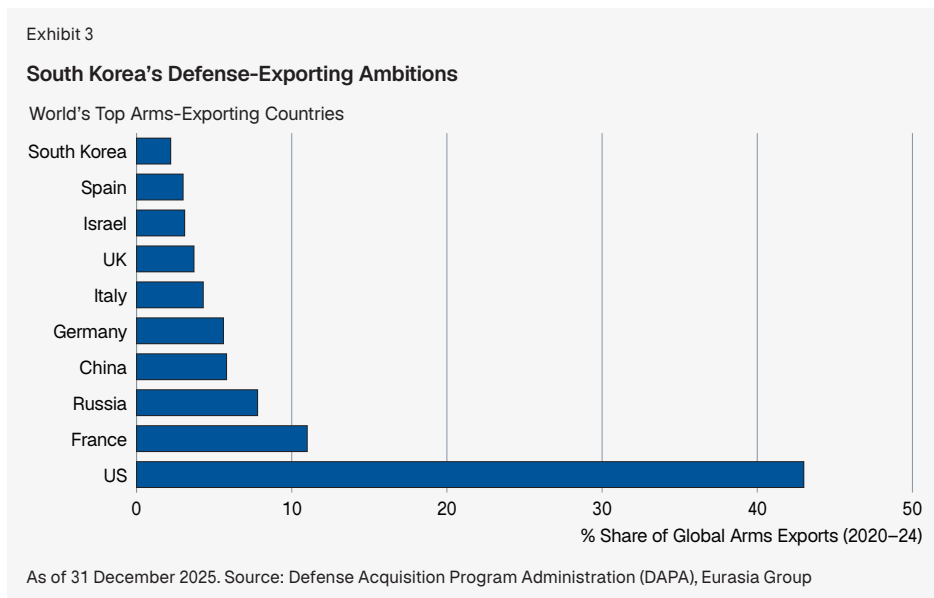
We are already seeing this play out through names such as Chinese biotechnology company XtalPi, which is leveraging AI and robotics to accelerate drug discovery and R&D processes. Its partnerships with global pharmaceutical firms, including Pfizer, also highlight a broader trend of increasing integration between EM and developed market healthcare ecosystems, where EM innovation is becoming an increasingly vital component of global supply chains. Taken together, this creates a dual-growth opportunity: expansion of system capacity alongside a shift toward more efficient, technology-enabled delivery models.

Defense: Industrial Capacity and Export-Driven Growth

A different, but equally important, structural opportunity is unfolding across the defense sector. Changing global demand and supply constraints are making space for new entrants. EM defense manufacturers are filling capacity gaps in NATO, the Middle East, the US, and Asia.

South Korea is at the center of this shift. Its defense exports jumped from US\$7.3 billion in 2021 to around US\$15 billion in 2025, with the country targeting a position as the world's fourth-largest arms exporter by 2030 (Exhibit 3).⁵

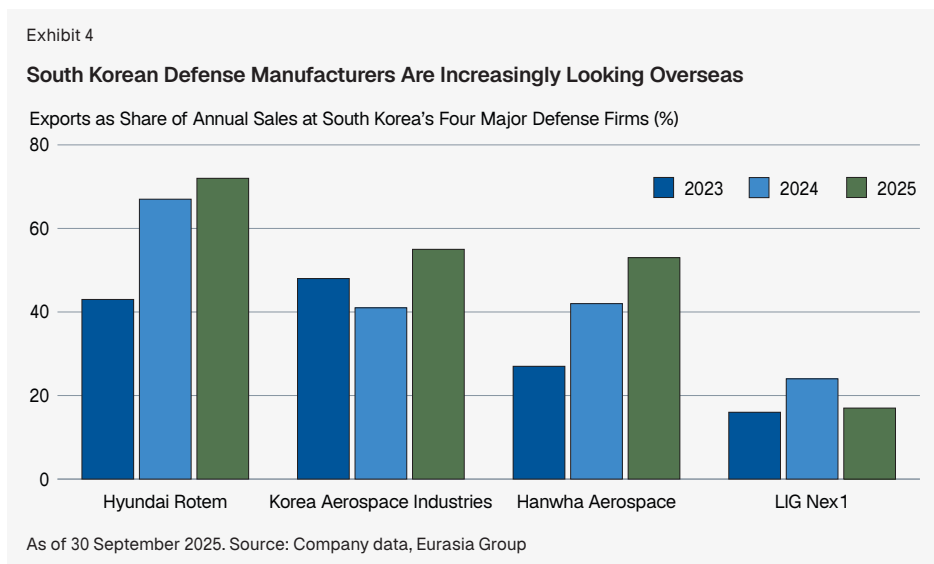
South Korea is targeting a position as the world's fourth-largest arms exporter by 2030



A combination of industrial capability and strategic positioning is driving this growth. South Korea has harnessed its strengths in manufacturing, semiconductors, and shipbuilding to produce advanced defense systems at competitive cost and with shorter delivery timelines.

Localized manufacturing and joint production agreements have also played a key role, enabling expansion into regions such as the Middle East, Southeast Asia, and Latin America. These partnerships align with domestic industrial priorities in those regions while allowing Korean firms to expand their global sales footprints (Exhibit 4).

This transition toward export-driven growth is significant. International contracts tend to be larger and more profitable than domestic orders, supporting margin expansion and more durable earnings growth.



Emerging markets are evolving from low-cost production hubs to strategically important providers of high-value, innovation-driven capabilities.

Beyond Korea, Beyond Defense

Beyond South Korea, EM-based defense companies, such as Turkey's ASELSAN (electronic warfare and sensors), now export widely across allied markets, combining production scale, cost efficiency, and battle-proven systems.

More broadly, the global defense landscape is undergoing a structural reset with implications that extend well beyond the sector itself and into the broader EM opportunity set. Governments are increasing spending and focusing on rebuilding capacity, with a clear emphasis on scalability, production speed, and cost efficiency. This shift is not only reshaping defense supply chains but also accelerating investment in adjacent industries such as advanced manufacturing, semiconductors, materials, and logistics, many of which are increasingly concentrated across EM.

Many EM economies are particularly well-positioned in this environment. Years of integration into global supply chains, combined with cost advantages and growing technological capabilities, have helped several EM companies move up the value chain. This is especially true for manufacturers with vertically integrated production models, which enable faster scaling, greater control over inputs, and improved margin resilience. These capabilities are becoming increasingly critical as governments prioritize supply chain security and domestic or allied production.

Importantly, this dynamic reinforces a broader theme across EM: the evolution from low-cost production hubs to strategically important providers of high-value, innovation-driven capabilities. While defense is a clear expression of this trend, the underlying drivers such as industrial upgrading, technological diffusion, and policy support are visible across a range of sectors. As a result, we believe the opportunity set extends beyond pure-play defense names and into a broader ecosystem of EM companies benefiting from this structural shift in global demand.

Capturing Growth at Inflection Points

Across EM healthcare, defense, and the South Korean beauty care sector, a consistent pattern emerges. Each represents an area where structural drivers are already in place, and where investment cycles are beginning to translate into more visible and sustained earnings growth.

Traditional benchmarks do not always fully reflect these opportunities, particularly in the earlier stages when capital is being deployed but growth has not yet been fully realized. Identifying these inflection points, where capex cycles turn into earnings, is critical.

We believe this is where actively managed EM growth strategies are best-positioned to add value. A focused, bottom-up approach allows investors to identify companies at these turning points, where structural tailwinds, improving fundamentals, and competitive positioning begin to align.

This is where we see the next leg of growth in EM. Not as a single theme, but as a set of targeted opportunities driven by innovation, system expansion, and industrial scale with the potential to create the next generation of global leaders.

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Important Information

Notes

1. Source: Euromonitor International. Data as of 27 March 2026.
2. Source: OECD. Data as of 13 November 2025.
3. Source: European Commission. Data as of 17 November 2025.
4. Source: OECD, Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, and Department of Commerce, Bureau of Economic Analysis, and Bureau of the Census, World Health Organization, Bloomberg.
5. Source: Defense Acquisition Program Administration (DAPA), Eurasia Group. Data as of 31 December 2025.

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