

Don't Stop Believin' in EM Equities

Emerging-market equities may offer compelling opportunities in 2026 as earnings strengthen, valuations remain attractive, and structural growth drivers gain momentum.

Key Points

- Supported by a solid global economic backdrop and a weaker US dollar, emerging-market (EM) equities may be positioned for improved earnings and offer relatively attractive valuations.
- Several countries stand to benefit from powerful structural forces such as a potential commodities supercycle, the buildout of AI-related infrastructure, and newly forged trade agreements.
- At the same time, signs of softening US exceptionalism could create opportunities for EMs to gain traction.
- In this environment, EM equities may be especially well-suited to active management.

Insight from sub-adviser Wellington Management



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Following their stellar performance in 2025, I think EM equities may have more room to run. In fact, several factors have lined up to make them my highest-conviction view across asset classes this year.

Much of the recent optimism has centered on two things: 1) the healthy global backdrop of good growth, contained inflation, fiscal stimulus, and Federal Reserve (Fed) easing; and 2) the potential for more weakening of the US dollar (USD), which could strengthen EM currencies and add return in USD terms. I agree with both points, but I also think there are some less obvious reasons to favor EM equities in 2026:

1. Earnings – For the first time since 2021, earnings revisions are in positive territory for the four largest regions in the MSCI Emerging Markets Index:¹ China, India, South Korea, and Taiwan. Earnings are, in my view, the most important gauge of equity performance (**FIGURE 1**).

FIGURE 1

Superior Earnings Expected to Drive Superior Returns in EM Equities

EMs vs. Developed Markets: Price and Earnings Per Share² Relative Performance (Year-Over-Year)



Chart Data: Weekly data from 12/28/01-1/30/26. **Past performance does not guarantee future results.** Indices are unmanaged and not available for direct investment. Based on the MSCI Emerging Markets Index and the MSCI World Index. Earnings per share (EPS) relative performance is based on the one-year change in 12-month forward EPS. Please see page 3 for index definitions. For illustrative purposes only. Data Source: FactSet.

2. Valuations – Based on average 12-month forward price-to-earnings ratios³ over one- and 10-year periods, EM equities are cheaper than the US, Europe, and Japan. Europe and Japan have recently moved to rich levels, joining the US.⁴

3. Commodity exporters – Strong demand and high prices for industrial metals such as copper, nickel, and lithium, as well as precious metals, are benefiting many EM commodity exporters in Latin America and Africa and improving their fiscal health. At Wellington, we believe the AI-infrastructure buildout may be driving a commodities supercycle.

4. Asia and AI exposure – Asian EM equities may be among the biggest beneficiaries of AI capital-expenditure, given their strong position in the AI supply chain for memory and semiconductors, as well as attractive valuations relative to US peers. For example, Taiwan is dominant in computer chips, with strong demand expected through 2030. South Korea is also a huge player in memory and chips.

5. Corporate governance – Some EM governments are making progress driving policies aimed at improving corporate governance and shareholder returns. South Korea stands out in this respect.

6. New free-trade agreements – Amid the fracturing of global economic ties, countries are seeking new trading relationships to secure supply chains and reduce dependence on the US. Among those making headlines are deals between Europe and the Mercosur countries of South America; Europe and India; and Canada and China.

7. India – India's economy is expected to grow by more than 10% this year on a nominal basis, driven by normalizing inflation, pro-consumption policies instituted last year (e.g., cuts in income taxes, goods and services taxes, and interest rates), and reduced regulation.⁵ Fiscal consolidation has cut the budget deficit by more than half, and the cheaper currency has helped exports. President Donald Trump's recent reduction in tariffs is an additional plus. Finally, earnings are expected to recover after a weak patch.

8. Latin America – Strong currencies have helped bring down inflation in Latin America, giving central banks scope to cut rates and ease financial conditions. Politics are also moving rightward in many countries, a market-friendly development.

9. China – China continues to deal with the repercussions of its real-estate slump, but some positive government measures could help bring supply and demand into better balance. The anti-involution campaign⁶ is addressing manufacturing overcapacity, and policymakers appear committed to adding fiscal stimulus and helping households. In addition, China's technology sector is driving innovation and may be a source of diversification when it comes to AI exposure.

10. US exceptionalism is intact but waning – The US still retains its reputation for exceptionalism in many areas—economic growth, technology, regulatory flexibility, and innovation. However, cracks have begun to emerge in areas such as institutional integrity, central-bank independence, and fiscal sustainability. These shifts could narrow the gap between the US and other countries, ultimately benefiting EMs.

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Investment Implications

- **Consider adding (or adding to) EM equities** – I expect equity-market opportunities to continue broadening both within and outside US equities. Within US equities, this rotation is supported by improved earnings outside of mega-cap tech stocks. However, I think investors should consider looking outside of US equities, and especially at EM equities, given higher earnings potential, relatively attractive valuations, and the other factors discussed above.
- **Opportunities in EMs** – I believe EMs are well-suited to active management due to the expansive set of companies, EM indices' lack of concentration in just a few companies (unlike the US), and relative inefficiency of the markets (e.g., less analyst coverage than developed markets).
- **Explore a diversified approach** – Of course, EMs involve more risk than developed markets, so sizing this allocation appropriately and seeking a diversified approach is important.⁷ With a wide and diverse universe of companies and industries across EM countries, I believe a bottom-up approach that isn't dependent on country bets may be the best way to deliver consistent alpha.⁸

**To learn more about opportunities in EM equities,
please talk to your financial professional.**

¹ MSCI Emerging Markets Index is a free float-adjusted market capitalization-weighted index that is designed to measure equity market performance in the global emerging markets. MSCI index performance is shown net of dividend withholding tax.

² Earnings per share measures how much profit a company makes per share of common stock.

³ The price-to-earnings ratio measures a company's share price relative to its earnings-per-share and helps assess the relative value of a company's stock.

⁴ As of 1/30/26. Sources: DataStream, MSCI, IBES.

⁵ Source: Bloomberg Q4 2026 consensus estimate.

⁶ China's anti-involution campaign seeks to reduce wasteful, zero-sum competition among companies by discouraging excessive price cutting and overexpansion, and instead promoting efficiency, innovation, and sustainable growth.

⁷ Diversification does not ensure a profit or protect against a loss in a declining market.

⁸ The measure of the performance of a portfolio after adjusting for risk. Alpha is the excess return of a portfolio over its benchmark.

MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets.

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