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Notes from the road: Talking EM equities

POSTCARD

- While EM stock-market leadership has been narrow, earnings are growing, valuations are relatively low and there are encouraging signs that returns are broadening.
- There continue to be sufficient high-quality, underappreciated businesses to build an actively managed, diversified portfolio from either the EM or the EM ex-China universe.
- Equity-market style leadership within EM equities has widened and rotations have become more frequent: that makes a core approach particularly suited to the asset class.
- Many emerging markets are relatively untouched by AI mania and offer potential refuge from the elevated expectations in tech-heavy markets.

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Varun started his career as a consultant to blue-chip corporates in the financial services sector. He holds an MBA from INSEAD with a specialisation in Finance, and a Bachelor of Science in Management from the University of Warwick.

Emerging markets (EM) equities have continued to power ahead in 2026, shrugging off the conflict in the Middle East, volatile commodity prices and inflation concerns. Since the start of 2025, the asset class has delivered about double the return of developed market equities¹.

A trip to the US over the summer to speak with allocators highlighted strong interest in EM equities. But it also flagged important questions about investing in this dynamic and recently underexplored part of the stock market.

1 The concentration question

Q2 of 2026 saw 81% of EM equity index returns coming from just 10 stocks², primarily technology and semiconductor businesses. This is not unprecedented: the top 10 contributed 86% of EM returns in COVID-impacted 2020. But some investors have queried whether EM outperformance is part of an AI bubble, rather than an EM story per se.

1. Source: MSCI, Bloomberg; 18 months to 30 June 2026.

2. Source: MSCI, Ninety One. June 2026.

While the returns from EM equity markets have been narrow, their strong performance has been built on a solid foundation of earnings growth (see [our paper](#) on the EM equity opportunity). The consensus expects this growth to continue, leading all major regions at 23% over the next two years³. Put simply, EM share prices have gone up because EM companies are seeing revenues increase, not because the shares have become more expensive. In fact, EM equities continue to trade at a meaningful discount to the MSCI World Index⁴, and especially relative to US equities. The valuation gap now sits in the top quintile of observations over the last 30 years, a discount that has historically preceded strong EM outperformance over subsequent three- to five-year periods.

Second, while technology remains responsible for much of the earnings growth, the trend towards higher profitability appears to be spreading. Within the EM equity universe, the consensus expects a larger contribution to earnings growth from consumer discretionary, industrials and financials in the coming quarters and beyond. It is worth noting that today's concentration looks very different in kind from that of the past: in 2010, the index's top 10 constituents were dominated by state-owned oil, mining, telecom and bank businesses; today's top 10 are all privately-run businesses with solid average profitability. In other words, these are structurally better businesses than the EM equity asset class has ever contained. Given all this, in the EM equity portfolio I co-manage, we have been [leaning into the rally](#) while actively managing risks, for example by reducing our active weight in information technology over recent months⁵.

That has meant trimming the most richly-valued names into share-price strength and diversifying our technology exposure across the AI/semiconductor supply chain (please note the portfolio may change significantly in a short period of time).

3. Source: Bloomberg , Ninety One. June 2026

4. Source: Bloomberg, Ninety One, June 2026. For further information on indices, please see the Important information section.

5. All investments carry the risk of capital loss and past performance does not predict future returns. The portfolio may change significantly over a short space of time.

2 The China question

‘EM or EM ex-China?’ This is a common question among allocators in the US and elsewhere. The first thing to say is that the difference between an EM and an EM ex-China portfolio has narrowed significantly: China’s weight in the MSCI EM Index⁶ has fallen from around 40% in 2020 to 21% today⁷. And whether China is included or excluded, an EM portfolio can be diversified across a broad range of structural growth opportunities, macroeconomic conditions and interest-rate cycles.

From the perspective of a bottom-up stock-picker managing mandates across both opportunity sets, I can attest that there are sufficient high-quality, underappreciated businesses to build an actively managed, diversified portfolio from either universe. The EM ex-China opportunity set is large and liquid enough to manage conviction-driven portfolios without restraint.

Asia remains the dominant region in both EM and EM ex-China portfolios, with the three largest constituents (Taiwan, South Korea and India) accounting for about 75% of the MSCI EM ex-China index. This means substantial exposure to Asia’s manufacturing and technology powerhouses, including many of the ‘[Secret 7](#)’ and India’s domestic growth story in both an EM and an EM ex-China portfolio. Nevertheless, removing China increases exposure to Europe, the Middle East and Africa. By sector, EM ex-China up-weights information technology and financials, and down-weights communications services and consumer discretionary (including internet and e-commerce).

From a return perspective, between 2011 and 2025 MSCI’s EM and EM ex-China benchmarks traded pole position for calendar year returns (the current score is 8 to 6 in favour of the broader EM portfolio). The overall result for an investor who had held for the full period would have been similar.

In summary, I do not believe there are any penalties in terms of diversification, return potential or liquidity for choosing EM or EM ex-China. The choice instead allocates exposures across different opportunities in the EM equity universe. See [here](#) for more on this.

6. For further information on Indices, please see the Important Information section.

7. Source: MSCI, July 2026.

3 The portfolio question

During my time in the US, I had several conversations about what type of active management is suited to the EM equity asset class. With volatility and factor rotations an inherent part of EM equities, I believe that generating consistent alpha through the cycle requires an all-weather investment approach, with a focus on stock-specific risk as the dominant contributor to tracking error.

This has become more important as equity-market style leadership within EM equities has widened and rotations have become more frequent. By casting a wide net across styles, sectors and regions, a core, bottom-up investment process increases the breadth of opportunities.

4 The ‘what next?’ question

When thinking about the outlook for EM equities, the AI trade is clearly front of mind. The debate rages over whether this is a bubble or the birth of an era-defining new technology. For us, the question is more nuanced. The real-world impact of new technologies is immense over time, but stock market investors often see a period of reduced returns after the initial heightened sentiment has passed. Our concern is that, in the short-term, market euphoria has untethered market participants from more rational expectations of longer-term returns. But it is important to note that the bubble manifests in different ways in different regions.

Our priority is to effectively manage the risks as the market transitions over time from its current euphoria to more rational expectations. We are comforted in this by still-attractive valuations in EMs and a diverse market landscape, with many markets less exposed to recent AI mania and thus potentially providing a relative refuge from the elevated expectations in tech-dominated markets. Examples include India, the Middle East and South America. In short, EM equities’ combination of earnings-backed growth, relative valuation support and wide diversity gives active managers plenty of room to navigate the AI cycle.

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