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Ninety One

Investing for a world of change

Emerging market equities: broadening the reach of SA portfolios

Key takeaways

- Four tailwinds are lining up for emerging market (EM) equities: the dollar is turning, earnings are growing, equity supply is easing and valuations are at lows versus the US.
- EM equities are not 'more of the same' for South African investors. The asset class offers sectors and themes that the JSE lacks, and exposure to diverse economies.
- EM equity indices reflect yesterday's winners. An active, style-agnostic portfolio is forward-looking and may be better able to manage concentration risk and volatility.



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Imagine you have before you an atlas. Now imagine sticking gold stars on countries where all of the following apply: fiscal restraint, orthodox monetary policy, improving institutional credibility. The US and many other major developed economies will be unadorned. Across developing nations, a small firmament twinkles.

Such a map, unrecognisable to earlier generations of investors, would show the world we now inhabit. Over the past five or so years, massively indebted developed markets (DMs) have grown increasingly to resemble emerging markets, and vice versa. This process – dubbed the 'EM-ification of DMs' by our colleague Peter Kent – is not finished.[1] As a Financial Times commentator put it recently, the heavyweight advanced economies do not have the political machinery to solve the problem of too much debt.[2]

And yet. While emerging market equities have outperformed over the last year and a half,[3] the juggernaut S&P 500 Index has powered on. Over a longer horizon – ten years, say – US equities have been difficult to beat. Does it make sense to revisit equity allocations?

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Changing conditions

We think the conditions that have shaped the relative performance of emerging and developed market shares for years are changing. Four stand out:

1 **The US dollar**

A strong dollar has historically been a headwind for EM equities, and there are signs the cycle is turning. Dollar cycles are long, with the current cycle lasting the best part of two decades, and it is now well advanced. Importantly, the dollar does not need to fall: it only needs to stop rising for this headwind to ease.

2 **Earnings**

Having bottomed in 2023, EM corporate profits have experienced positive momentum, and recent outperformance has been driven by earnings growth rather than investors paying more for the same shares.

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1. Ninety One, April 2025, Blurred lines - the EM'ification of DM. Available to financial advisors and institutional investors only.
2. Financial Times, Unhedged, 8 September 2026.
3. MSCI, September 2026; MSCI EM vs. MSCI ACWI from March 2025 to September 2026.

3 Equity supply

For a decade, the US market benefited from a shrinking pool of shares as buybacks outpaced issuance (we estimate to the tune of +0.7% a year).[4] With the tech giants now needing to fund AI investment, that tide is turning. Meanwhile, the reverse is happening in emerging markets, as the drag from heavy, primarily Chinese, issuance in the 2010s is fading.

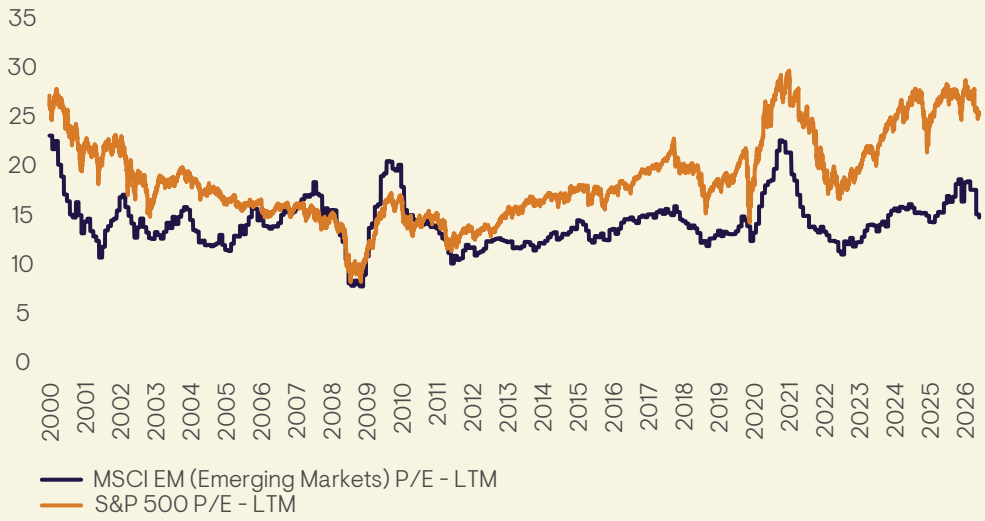
4 Valuation

Even after the recent rally, EM equities remain at a multi-decade low relative to US equities. Cheap alone is never enough, as shares can stay cheap for years. But with the dollar, earnings and equity supply all moving in the right direction, catalysts for the asset class are now present. The valuation gap is partly explained by how expensive US stocks have become, but we think EM equity prices are not reflecting stronger balance sheets and improved capital discipline, particularly in China.

Relative value compared to US market at multi-decade lows

Valuation spreads are currently in the top ~8% of historical observations

S&P 500 P/E vs MSCI EM P/E



Source: FactSet, 30 September 2026. For illustrative purposes only.

4. Ninety One, July 2026, AI and the return of US equity supply. Available to financial advisors and institutional investors only.

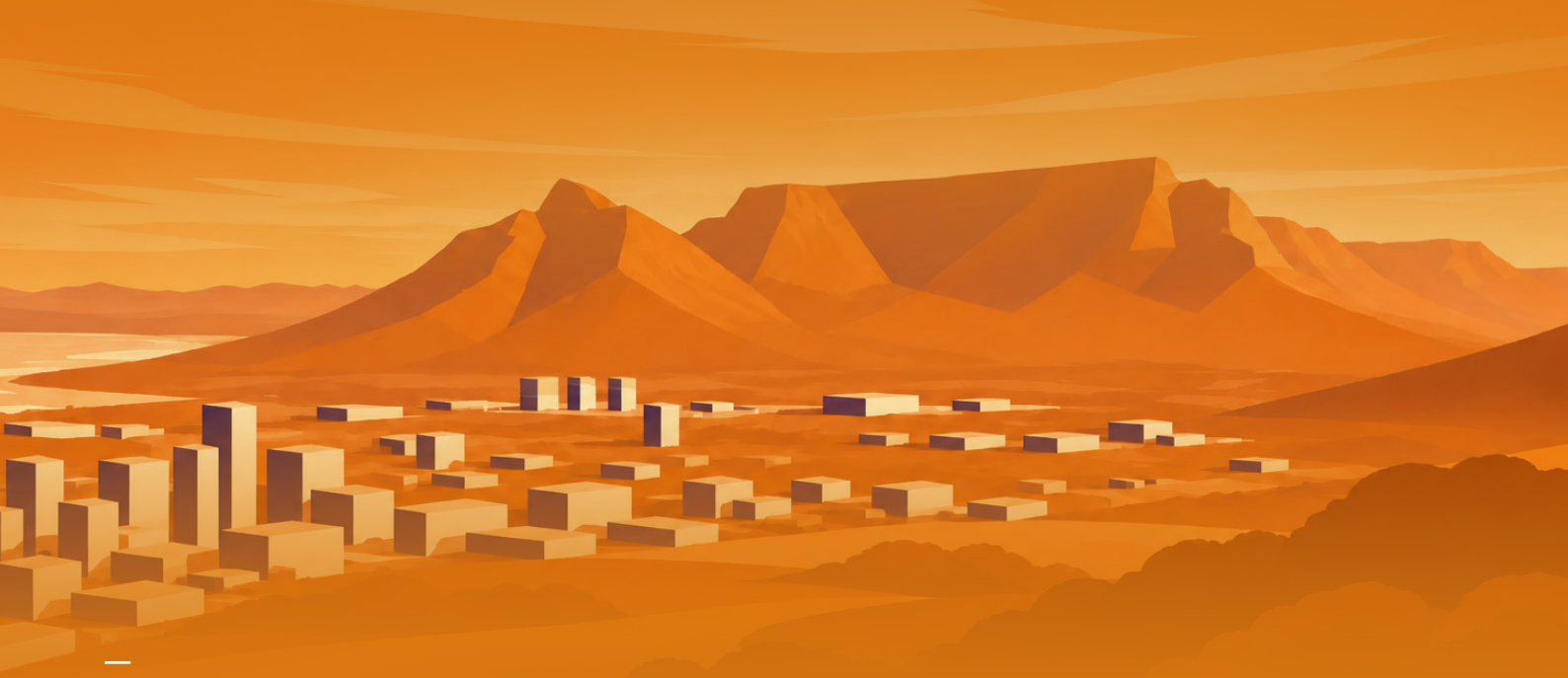
View from South Africa

South African investors often raise an obvious objection: we already live in an emerging market, so why double up?

The old assumption that EM means more resources and banks is out of date: technology is now the largest sector in the MSCI Emerging Markets Index, at more than a third by weight.[5] However, the local market remains heavily focused on banks and resources,[6] tied to domestic factors and the commodity cycle, and by definition exposed to single-country risk.

A dedicated EM equity allocation offers access to a diverse array of industries, businesses and economies, as well as structural growth themes inaccessible via the FTSE/JSE All Share Index, from accelerating clean-tech adoption across EMs and semiconductor manufacturing in South Korea and Taiwan, to fast-growing digital platforms and expanding middle classes in Asia and Latin America.

Emerging economies also run on different cycles, and returns between them can diverge widely, which is an argument for spreading exposure rather than relying on one economy and one set of return drivers. Our own analysis of ten years of monthly returns points the same way. The excess returns of an actively managed EM equity portfolio have been only weakly correlated with those of South African equities. It is a different stream of alpha, not more of the same.[7]

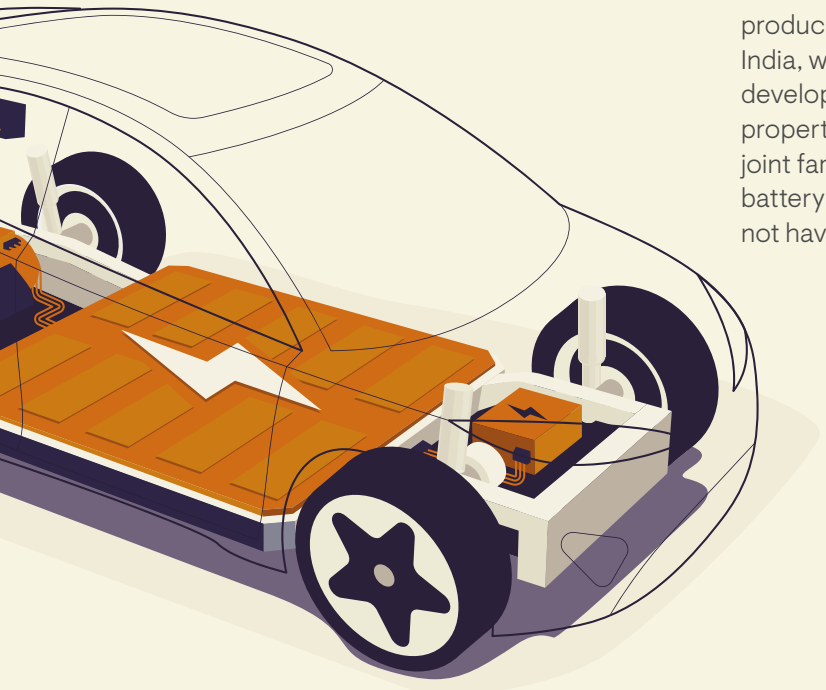


5. MSCI Emerging Markets Index (USD) factsheet, August 2026.
6. FTSE/JSE All Share Index factsheet, August 2026 (Basic Resources 33%; Banks 20%).
7. Past performance does not predict future returns; losses may be made. The returns in our analysis are hypothetical, were not attained by any client, or portfolio managed by Ninety One, and are for illustrative purposes only. Source: eVestment, June 2025. Returns are in ZAR, gross returns. For further information on Model return results, please see the Important information section.

Get active

How, then, to allocate to EM equities? One could buy an index. But we think passive investors risk missing out on the breadth of the asset class. The MSCI Emerging Markets Index is dominated by technology companies from Taiwan and South Korea.[8] Some of these are fantastic businesses – and much higher quality than the state-controlled oil, mining, telecom and bank companies that featured prominently in the benchmark 15 years ago – but we believe the concentration is potentially a source of risk. An index is also a rear-view mirror. A passive investor owns whatever has already won, which may not be the winners of tomorrow: two decades ago, Latin America made up around a fifth of the benchmark, and today it is under a tenth.

An active portfolio can better manage concentration risks and gain meaningful exposure to other EM trends. Our aim is for risk to come from the companies we choose, not from country, sector or style bets. We typically hold 70 to 90 stocks, with limits on how far any stock, sector or country can stray from the benchmark, so that no single call dominates.[9] We also look beyond the index where it makes sense. A Hong Kong-listed insurer earning its living in China and Asia is EM exposure, whatever the index classification says. A Hong Kong property developer is not.



In practice, that means very different businesses. In Mexico, we currently own one of the world's leading copper producers, and there is no AI future without copper. In India, where the opportunity is driven more by domestic development than technology, we hold a leading Mumbai property developer that is benefiting from the shift from joint families to nuclear households. In China, we own an EV battery maker that supplies dozens of carmakers, so we do not have to guess which brand wins.

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What we do not own is just as telling. We hold no Chinese property, because we do not think investors are paid for the risks, and only one of the twenty-odd Chinese banks available in our investment universe.[10]

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8. MSCI, August 2026. MSCI Emerging Markets Index (USD) factsheet (Taiwan 27%; South Korea 21%).
9. For more information on investment processes, please see the Important information section.
10. The holdings referred to are included for illustrative purposes only and may change. They should not be read as a recommendation to buy or sell any security.

All-weather investing

Investors should know that EM equities remain volatile. In fact, equity style shifts (the market's tendency to switch from favouring, say, growth stocks to preferring value stocks) have become more abrupt, and an investor who bets on one style may experience a feast-or-famine pattern of returns.

The Ninety One Emerging Markets Equity Fund that we manage, now in its 16th year, is balanced across styles, seeking to dampen style-rotation risk. Our aim is to offer a portfolio that is well-suited as a long-term core EM equity allocation in a diversified portfolio – providing broad-based exposure across styles, sectors and EM regions, with the flexibility to adapt as the opportunity set evolves.

We emphasise 'core' because in the past, investors have often treated EM equities as a cyclical or thematic satellite investment. In the new world order, starkly depicted in our imaginary map, such approaches limit the potential of this asset class to contribute to portfolios over the longer term. With an all-weather, style-agnostic investment process, we can focus on selecting individual companies that we expect to outperform – which, after all, are the real stars of the EM equity universe.

Ninety One Emerging Markets Equity Feeder Fund

We are delighted to offer a recently launched rand-denominated feeder fund of our Ninety One Emerging Markets Equity Fund, a core equity fund seeking to generate alpha across emerging market cycles.

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A feeder fund is a portfolio that invests in a single portfolio of a CIS, which levies its own charges, and which could result in a higher fee structure for the feeder fund.

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Hypothetical performance results shown in the Viewpoint on the preceding pages are back-tested and do not represent the performance of any account, fund or strategy managed by Ninety One but were achieved by means of the retroactive application of its 4Factor, certain aspects of which may have been designed with the benefit of hindsight. The hypothetical back-tested performance does not represent the results of actual trading using client assets nor decision-making during the period and does not and is not intended to indicate the past performance or future performance of any account or investment strategy. If actual accounts had been managed throughout the period, ongoing research might have resulted in changes to the strategy which might have altered returns. The actual performance of any account or investment strategy managed by Ninety One will differ, perhaps materially, from the hypothetical back-tested performance results for each factor shown herein for several reasons, including without limitation the following: Manager discretion – Ninety One may (and will) from time to time consider subjective factors in addition to those noted herein in managing any account. It may rebalance an account more frequently or less frequently than annually and at times other than presented herein. It may adjust the 4Factor process in response to market conditions or otherwise.

Cash – the hypothetical back-tested performance results assume full investment, whereas an account managed by Ninety One may have a positive cash position upon rebalance. Had the hypothetical back-tested performance results included a positive cash position, the results would have been different and generally would have been lower. The hypothetical back-tested performance results for each factor do not reflect any transaction costs of buying and selling securities, investment management fees (including without limitation management fees and performance fees), custody and other costs, or taxes – all of which would be incurred by an investor in any account managed by Ninety One. If such costs and fees were reflected, the hypothetical back-tested performance results would be lower. Dividend Reinvestment – The hypothetical back-tested performance does not reflect the reinvestment of dividends and distributions there from, interest, capital gains and withholding taxes. Accounts managed by Ninety One are subject to additions and redemptions of assets under management, which may positively or negatively affect performance depending generally upon the timing of such events in relation to the market's direction.

Investment process

Any description or information regarding investment process is provided for illustrative purposes only, may not be fully indicative of any present or future investments and may be changed at the discretion of the manager without notice. References to specific investments, strategies or investment vehicles are for illustrative purposes only and should not be relied upon as a recommendation to purchase or sell such investments or to engage in any particular Strategy. Portfolio data is expected to change and there is no assurance that the actual portfolio will remain as described herein. There is no assurance that the investments presented will be available in the future at the levels presented, with the same characteristics or be available at all. Past performance is no guarantee of future results and has no bearing upon the ability of Manager to construct the illustrative portfolio and implement its investment strategy or investment objective.

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