

GLOBAL EMERGING MARKETS

2025 Outlook



DECEMBER 2024

For institutional, professional and wholesale investors only

What lies ahead for Emerging Markets



Taking stock of 2024



2024 was a year of positive equity momentum globally. While US markets dominated, Emerging Markets (EM) offered meaningful returns which outperformed most developed international markets.

Investors remain focused on policy proposals from the US, rising bond yields, and the Chinese economy. But we continue to see long-term opportunities in the emerging markets asset class.

China remains a debate point due to performance in recent years, but 2024 has seen the market begin to reflect fundamentals again.

MSCI China has returned +18% YTD¹

We are excited about what 2025 will bring where consensus earnings growth estimates in EM are best-in-class and yet global allocations to EM remain at 10-year lows².

EM Earnings vs Developed Markets³



¹Source: FactSet as at 26 November 2024.

²Source: EFPR Global, JPMorgan, EM Money Trail, 11 October 2024.

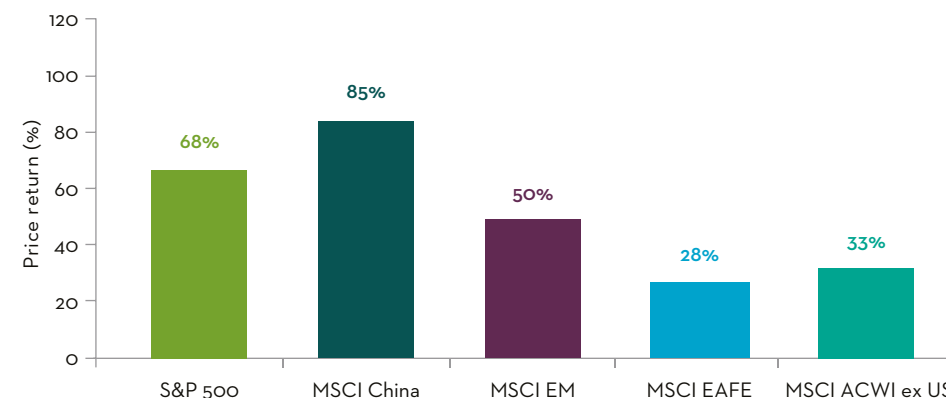
³Source: FactSet as at 4 October 2024. Earnings per Share (EPS) Growth measured using the Compound Annual Growth Rate (CAGR) from 1 January 2024 to 31 December 2026.

⁴Source: Franklin Templeton and Morningstar as at 2 October 2024 in USD. Market returns for different presidential terms are over the following period: Donald Trump 1 January 2017 – 31 December 2020.

Optimism interrupted by near-term volatility

Performance one week following the US election is strikingly similar to 2016, when international equities lagged and US equities rallied. In 2016, investors expected import tariffs, US tax cuts, and other policies to favour domestic-oriented companies. Yet in his first term, many trends reversed: bond yields fell, the US dollar weakened, domestic large caps outperformed. Importantly, EM and China outperformed the US.

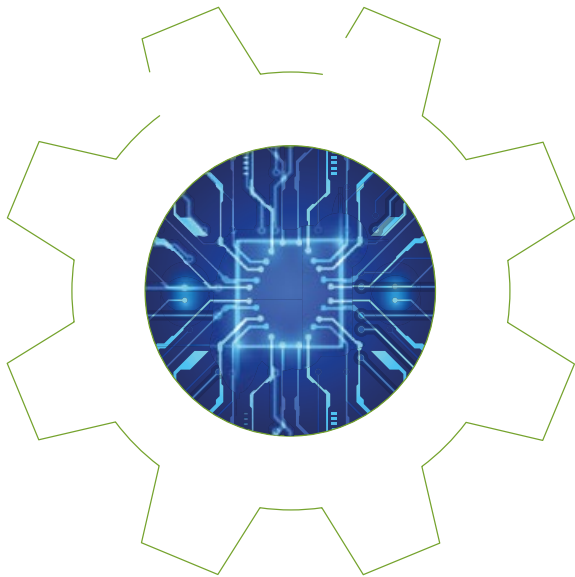
Performance under the 2016-2020 Trump administration⁴



1 We are excited for 2025 and beyond



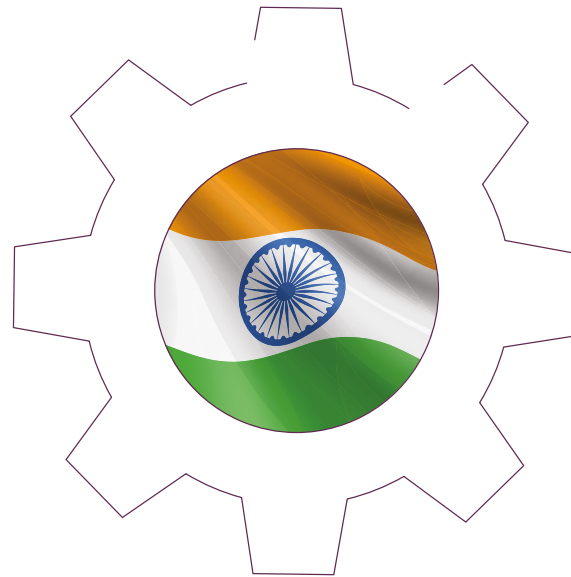
Strong economic growth, improving inflationary environment and easing interest rates should be supportive of EM equities in 2025. We think markets will refocus on company fundamentals and that the key building blocks for growth are those operating in the following areas.



Information Technology

EM companies are at the heart of Artificial Intelligence (AI) innovation

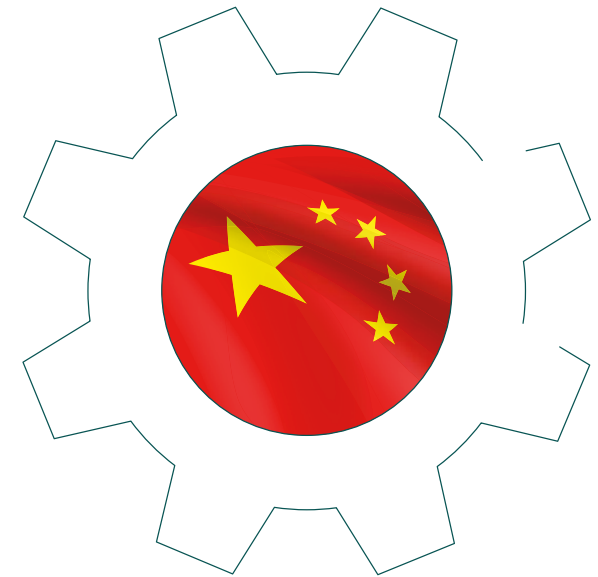
23%



India

Return to fundamentals

20%



China

Policy support and valuation opportunities

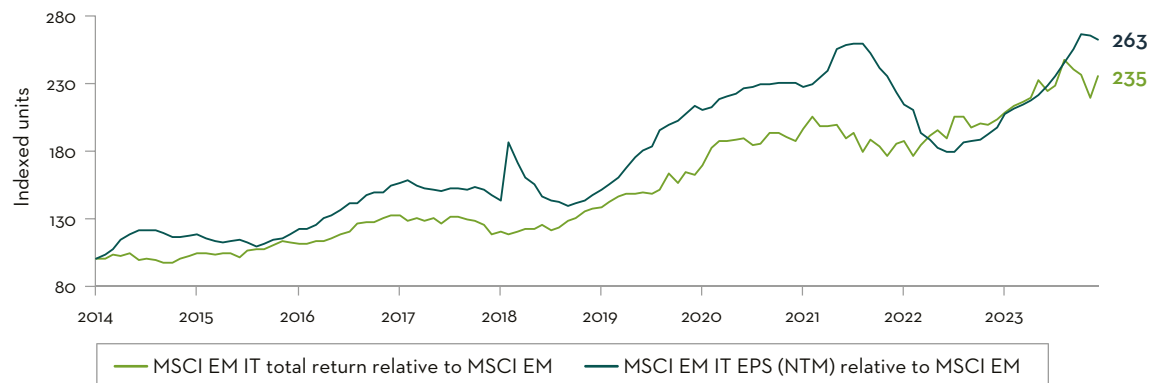
27%

Source: FactSet, as of 27 November 2024. Weight of sector/country within MSCI Emerging Markets shown.

2 EM integral to AI innovation

IT stocks positioned to maintain market leadership in EM
 EM tech has world-leading Intellectual Property (IP) and continues to harness long-term structural growth opportunities.

EM IT offers strong fundamentals⁵



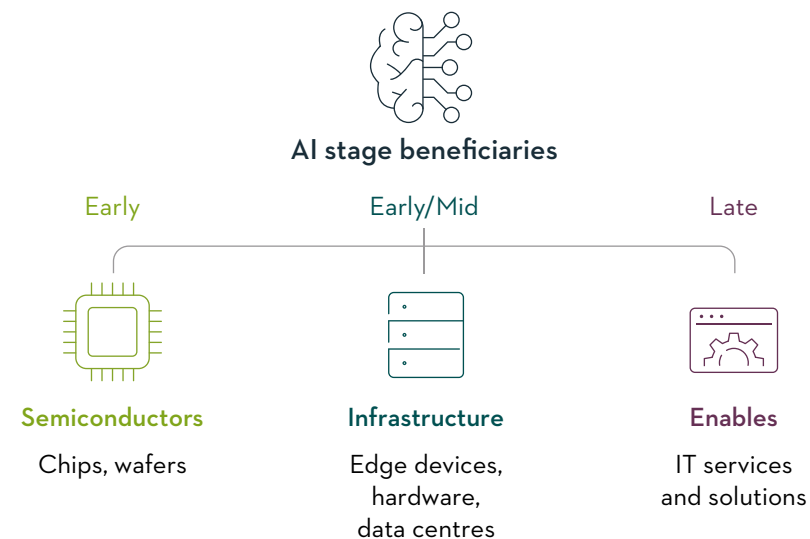
Despite the continued delivery, positive outlook and competitive moats, it remains at a significant discount to US technology.⁶

MSCI Index	P/E (NTM)	3-year EPS Growth (%)
EM Technology	15x	37%
US Technology	28x	19%

⁵Source: FactSet. Earnings per Share (EPS) using Next Twelve Months (NTM) Earnings. Past 10 years: 28 November 2014 to 31 October 2024.
⁶Source: FactSet as of 27 November 2024. Price-to-Earnings (P/E) using NTM Earnings and the EPS Growth measured using the Compound Annual Growth Rate (CAGR) from 1 January 2024 to 31 December 2026 for the MSCI Emerging Market Technology Index and MSCI USA Technology Index.

EM has depth and breadth of exposure to the AI value chain

The life cycle of AI adaption creates opportunities over varying time horizons: early, mid and later stages of AI development. Geographic diversification remains crucial across EM to capture the range of opportunity.



3 A return to fundamentals in India

We think India has the potential to drive returns in EM over the next decade as structural growth opportunities come to fruition and companies rise to the challenges presented to them. Our positive views on the country, and the high quality and high growth companies we find there, is reflected in our portfolio overweight to India.

Foreign investment due to catch up with domestic

Domestic investor flows are strongly positive while foreign flows are flat. This short-term trend has a distorting market impact, supporting industrials, infrastructure and power companies, especially mid-caps.



Foreign flows

+US\$0.1bn



Domestic flows

+US\$54bn

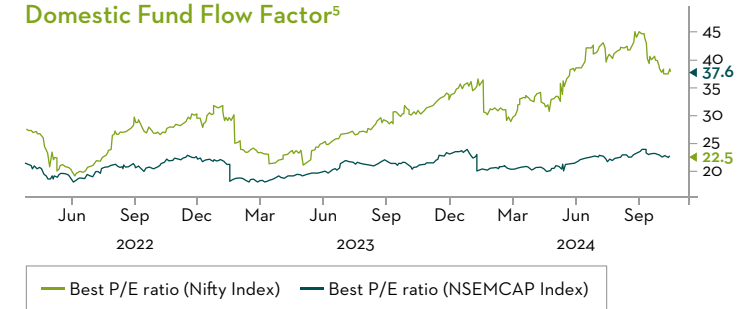


Quality large caps offer a valuation opportunity

While mid-cap equities have been supported by domestic investment, this has pushed them to an outsized premium valuation compared to large caps and we believe that the market is due a correction in 2025.

We expect this retail phenomenon to be short-lived; high quality companies with sustainable growth are well placed to outperform in the long term.

Nifty P/E vs Nifty Midcap P/E since the start of the Domestic Fund Flow Factor⁵



Source: Bloomberg as at 8 November 2024.

The market is due a correction and this creates opportunity as foreign flows close the gap.

Source: CLSA Research, India Strategy: Flowmeter, October 2024. Year-to-date flows from 1 January 2024 to 31 October 2024.

Recent equity performance in India has been driven by domestic retail investors, pushing mid-cap names higher. Long-term compounding companies have not seen the same price appreciation despite delivering operationally. We think the market is due an adjustment in 2025 and that company fundamentals will be recognised in share prices.

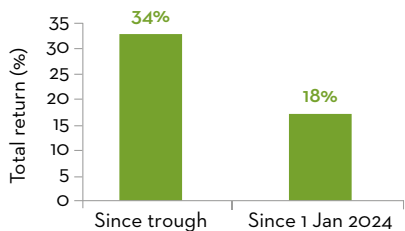
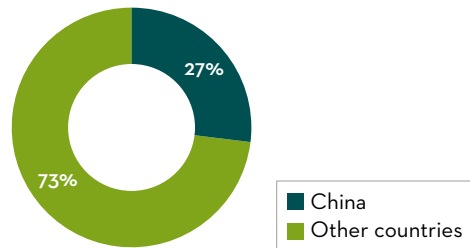
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Policy should continue to support Chinese equities in 2025

In 2024, Chinese equity market performance began to recover as market participants started to recognise company fundamentals once again. While the past few years have seen equities driven largely by sentiment, Chinese companies have been delivering operationally with strong earnings growth. Despite the rally in 2024, we believe there is a long runway for further growth and we look forward to seeing this materialise in 2025.

China will be a key determinant of EM asset class performance in 2025

China remains a dominant part of the EM asset class, representing more than a quarter of the MSCI index.⁷



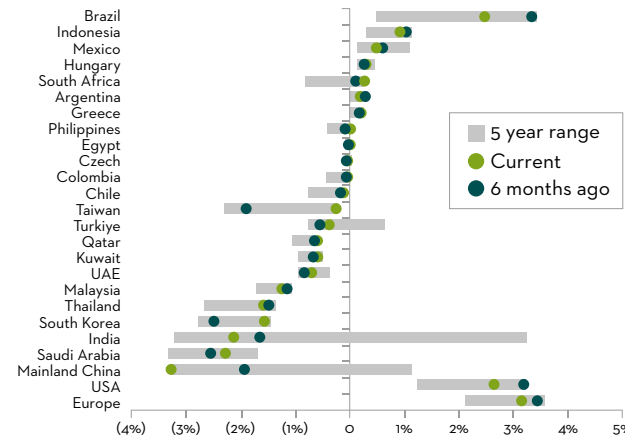
China's recovery has already begun in 2024⁸, driven by:

- Market recognising company fundamentals and their operational delivery
- Positive sentiment around the coordinated stimulus announced in Q3 2024

Despite these positive signs, Chinese equities remain undervalued relative to EM and developed markets.

discount to own 5-year history⁹ **12%**
 greater discount to 5-year average EM discount⁹ **>2x**

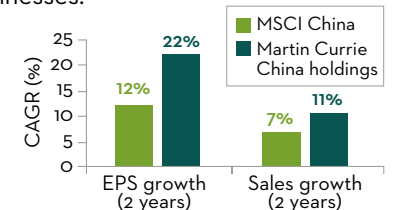
Country active weight exposure for EM funds¹⁰



And investors remain significantly underweight China in their EM asset allocation. This has created an attractive opportunity as market participants close the gap and reward company delivery in 2025.

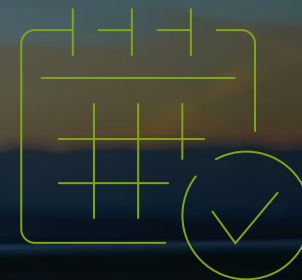
While there are headline risks to the Chinese economy relating to proposed tariffs from the US under its new administration, this risk equates to just 0.5% of listed Chinese company earnings.¹¹ The Chinese market is dominated by the digital economy (40% of MSCI China)¹² and other largely domestic-focused businesses.

China is expected to deliver strong earnings and sales growth¹³; we have focused on Chinese names with a more domestic orientation, and we continue to track the potential US revenue exposure for our holdings.



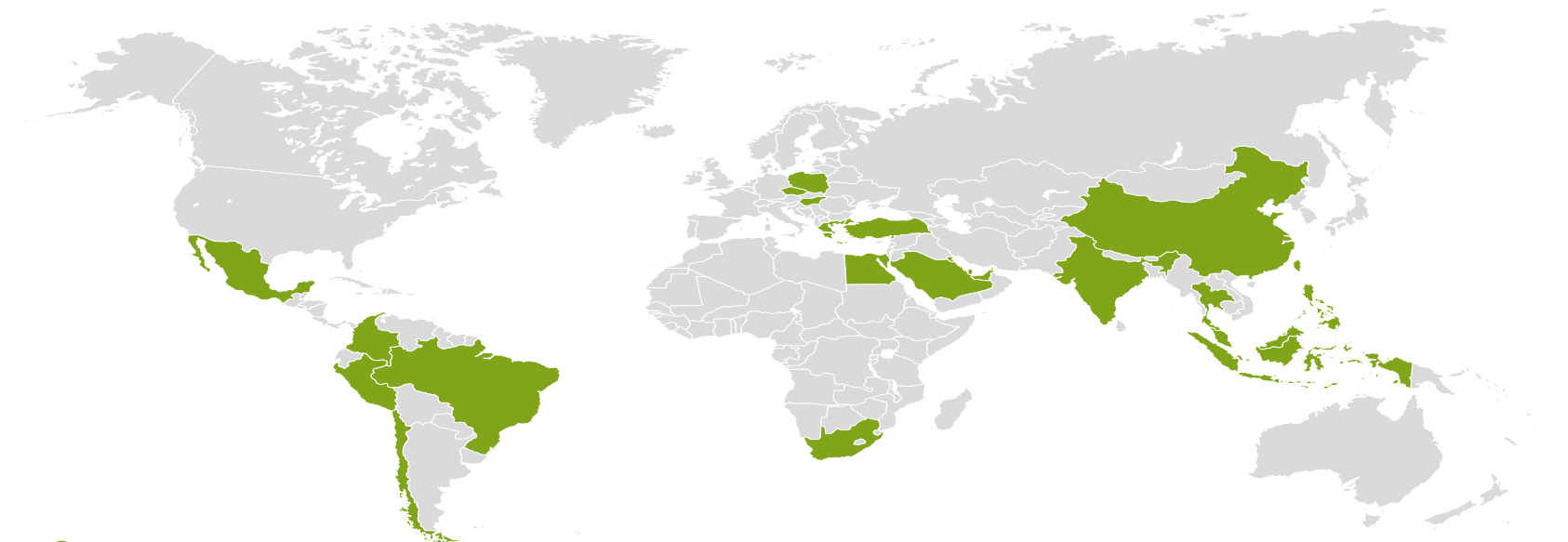
⁷Source: FactSet, as at 27 November 2024. ⁸Source: FactSet, as at 27 November 2024. Trough date 22 January 2024. ⁹Source: FactSet, as at 27 November 2024. Valuation measured using Next Twelve Months (NTM) Price-to-Earnings from 1 November 2019 to 31 October 2024 for MSCI China and MSCI Emerging Markets. ¹⁰Source: HSBC, GEMs stock positioning: Mainland China rally is still the pain trade, 15 October 2024, page 5. ¹¹Source: UBS Research, Global Economics & Market Outlook 2025-2026, page 50 © 2024 UBS. All rights reserved. Reproduced with permission. May not be forwarded or otherwise distributed. ¹²Source: Bloomberg, 29 April 2024. ¹³Source: FactSet, as at 25 November 2024. Earnings per Share (EPS) and Sales Growth measured using the Compound Annual Growth Rate (CAGR) from 1 January 2024 to 31 December 2025.

5 Long-term investment outlook for EM is positive

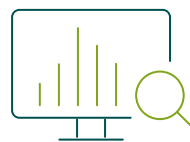


Despite significant variation in individual performance, share prices have responded logically to considerable changes in investment conditions, both nationally and sectorally. Consequently, our portfolio positioning has largely remained stable.

We firmly believe that the long-term investment outlook for emerging markets remains robust, and maintain strong confidence in our portfolio holdings.



The market persistently undervalues high-quality, sustainable growth companies



We are excited by the powerful synergy of technology adoption, urbanisation, and services sector growth prevalent in EM



In the current market, strong sustainability characteristics are vital to obtaining long-term value creation

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