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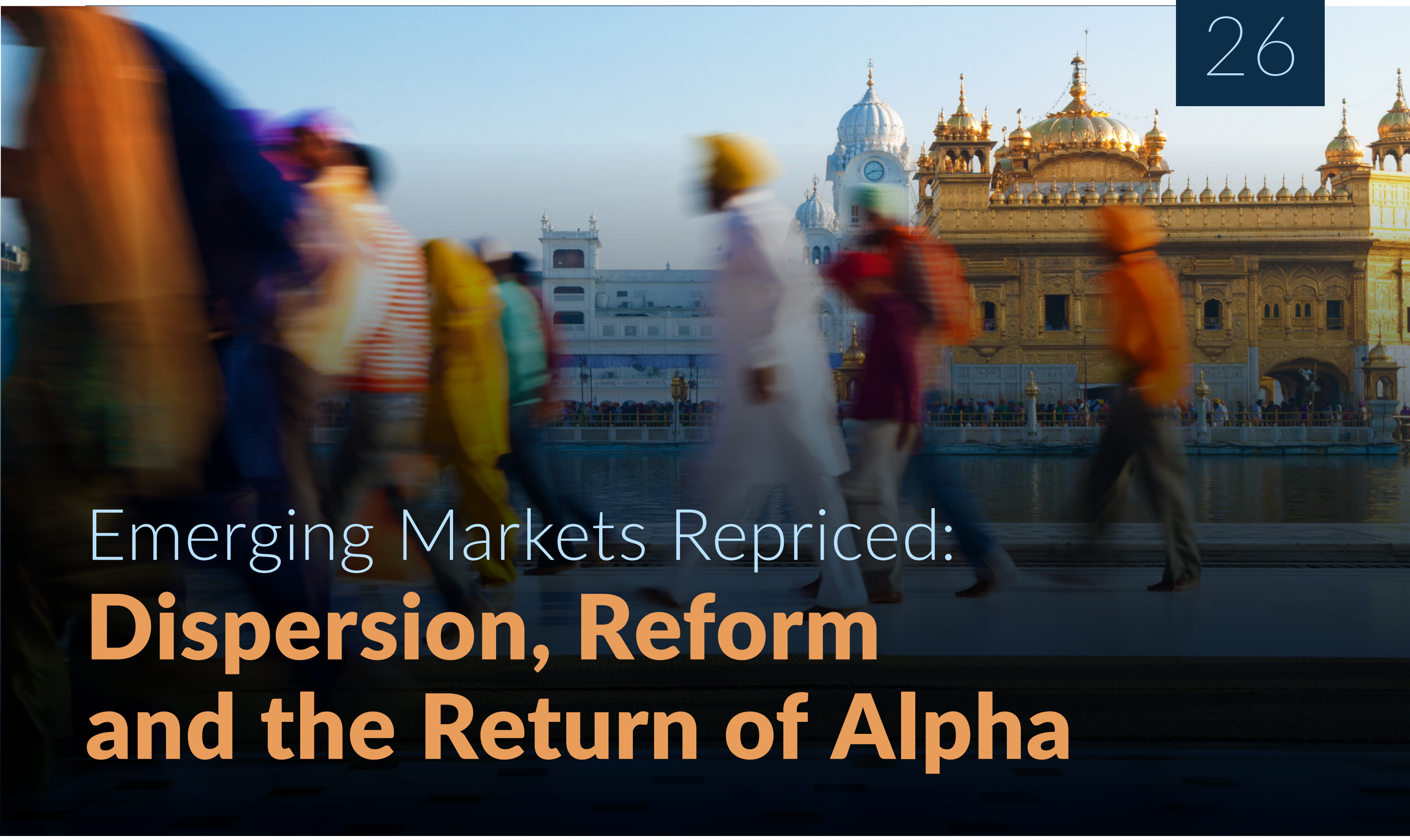

Emerging Markets Repriced: Dispersion, Reform and the Return of Alpha

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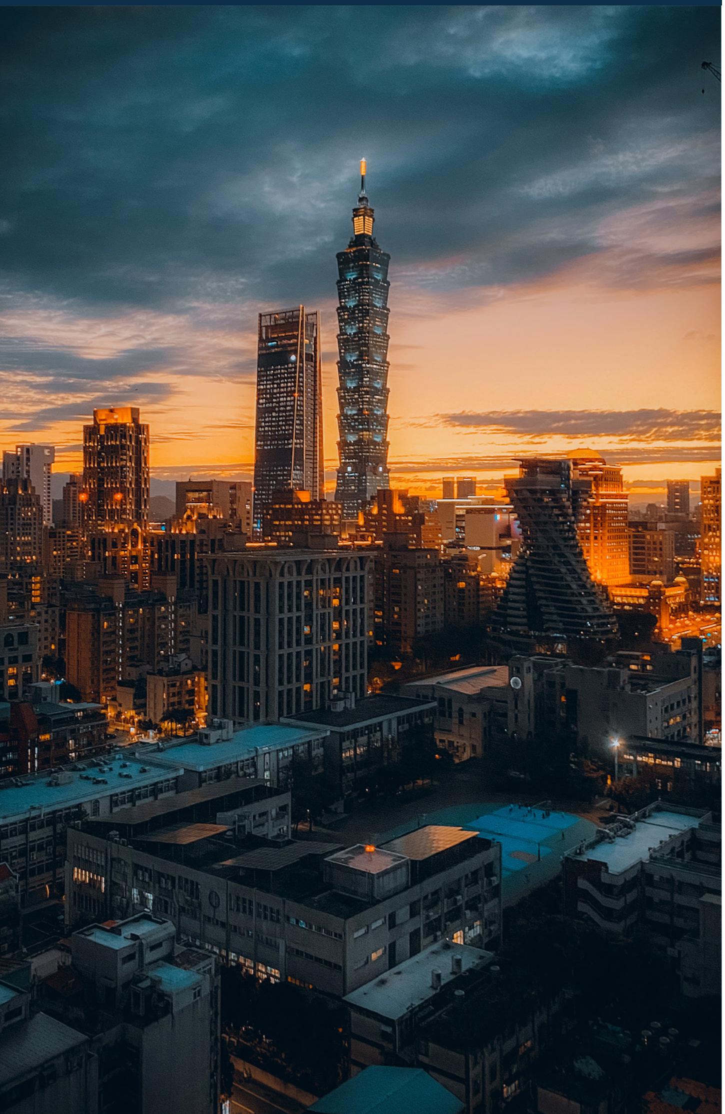
The experience of 2025 marked a decisive shift. Emerging markets no longer behaved as a single macro trade driven by global liquidity, commodity cycles or single-country dominance. Instead, they became a collection of distinct national and sectoral drivers, shaped by domestic policy, reform momentum, corporate balance-sheet quality and exposure to global capital-spending cycles.

This level of dispersion, while challenging for benchmark-driven investors, is precisely the environment in which active management thrives. These country-specific opportunities sit within a powerful global backdrop for emerging markets. Emerging and frontier economies now account for roughly 42 percent of global GDP and continue to grow materially faster than developed markets, where trend growth remains structurally subdued. Corporate earnings across emerging markets are expected to grow around one and a half times faster than in developed markets across large, mid and small-capitalisation companies, yet emerging market equities still trade at a valuation discount of around one-third to developed markets.

At the same time, sovereign balance sheets in emerging markets are, on average, materially healthier, with debt-to-GDP ratios more than a third lower than in developed economies, providing greater macro stability and reducing the risk of currency and capital-account stress. This combination of superior growth, stronger balance sheets and depressed valuations creates a compelling foundation for sustained emerging market equity re-rating as global capital gradually rotates back toward faster-growing and better-positioned economies.

Global Emerging Market Leaders Anchored in Structural Growth

Across Asia, leading companies in China, Taiwan and Korea continued to demonstrate why emerging markets remain essential to the global economy. Firms at the core of semiconductor manufacturing, battery technology, advanced materials and industrial automation benefited from accelerating global investment in artificial intelligence, electrification and energy transition. Their earnings and cash flows were driven far more by global supply-chain positioning and capacity constraints than by local economic conditions, reinforcing emerging markets' role as providers of critical industrial infrastructure to the world.



Smaller Markets Delivered Structural Re-Ratings

At the same time, a separate and equally powerful opportunity emerged in smaller emerging economies undergoing long-term institutional normalisation. Greece completed its transition back to financial credibility as banking systems repaired balance sheets, funding costs declined and capital returns resumed. Poland and parts of Central Europe continued to produce high-quality private-sector champions, benefiting from rising real incomes, deepening capital markets. Vietnam represents a particularly important case, as its steady progress toward FTSE Emerging Market status is reshaping the investor base. The anticipated upgrade is expected to trigger large passive and institutional inflows, encouraging greater transparency, governance discipline and capital-market depth, while creating a multi-year re-rating opportunity for well-run Vietnamese companies. These developments reflect structural capital-market integration rather than short-term cyclical rebounds.

Frontier Markets Are Entering an Early-Cycle Recovery Phase

Beyond the smaller emerging markets, a new set of frontier economies is beginning to re-emerge after a decade of macroeconomic instability. Argentina, Pakistan and Sri Lanka are all in the early stages of rebuilding policy credibility following currency resets, IMF-supported reform programs and external financing realignment. While political and execution risks remain, the direction of travel is shifting from crisis management toward stabilisation and reintegration into global capital markets. In these environments, banking systems, exporters and domestically focused service companies typically become the first beneficiaries as funding costs fall, liquidity returns and credit cycles restart. Valuations in these markets continue to reflect deep scepticism, but history shows that the transition from financial stress to policy credibility often brings powerful multi-year re-rating opportunities for disciplined investors positioned early in the recovery cycle.

Temporary Dislocations Created Opportunity in India and the Middle East

India experienced a valuation-led correction following several years of strong performance as liquidity tightened and regulation became more assertive. This reset has created attractive entry points in mid-cap financials and renewable-energy platforms that continue to benefit from the formalisation of credit, infrastructure investment and India's long-term decarbonisation agenda. Brazil also stands at a potential inflection point as one of the world's most restrictive real interest-rate regimes begins to ease and the political environment becomes more pragmatic. Historically, Brazilian equities have re-rated strongly during monetary easing cycles, particularly in banks, consumer franchises and infrastructure, and current valuations still reflect scepticism rather than a normalisation scenario. In the Middle East, softer oil prices and more cautious fiscal planning weighed on equity valuations despite largely unchanged corporate fundamentals. Structural reforms, including foreign ownership liberalisation, privatisation and capital-market deepening, continue to improve the investment landscape, setting the stage for renewed confidence as fiscal visibility improves.

Why 2026 Looks Even More Compelling

Looking ahead, the opportunity set across emerging and frontier markets is broadening. Global industrial and technology supply chains remain in the early stages of a multi-year investment cycle driven by artificial intelligence, electrification and energy infrastructure. India's domestic investment cycle is poised to re-accelerate from more reasonable valuation levels. Saudi Arabia's ongoing market reforms are steadily increasing institutional participation. Frontier markets are regaining macroeconomic credibility, opening the door to sustained capital inflows and valuation normalisation.

What unites these themes is dispersion. Unlike developed markets, which remain heavily concentrated in a narrow group of mega-cap technology companies, emerging and frontier markets offer a wide range of business models, policy regimes and valuation starting points. Differences in balance-sheet quality, governance standards and reform progress create a rich environment for active investors focused on fundamentals rather than index weights.

With valuations still reflecting scepticism rather than improving realities, the combination of reform momentum, global capital-spending cycles and widening dispersion makes emerging and frontier markets one of the most compelling areas for long-term capital deployment in 2026 and beyond.

For investors willing to move beyond headline narratives and benchmark concentration, the heterogeneity of emerging markets is no longer a risk. **It is the source of opportunity.**

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