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Emerging markets outlook

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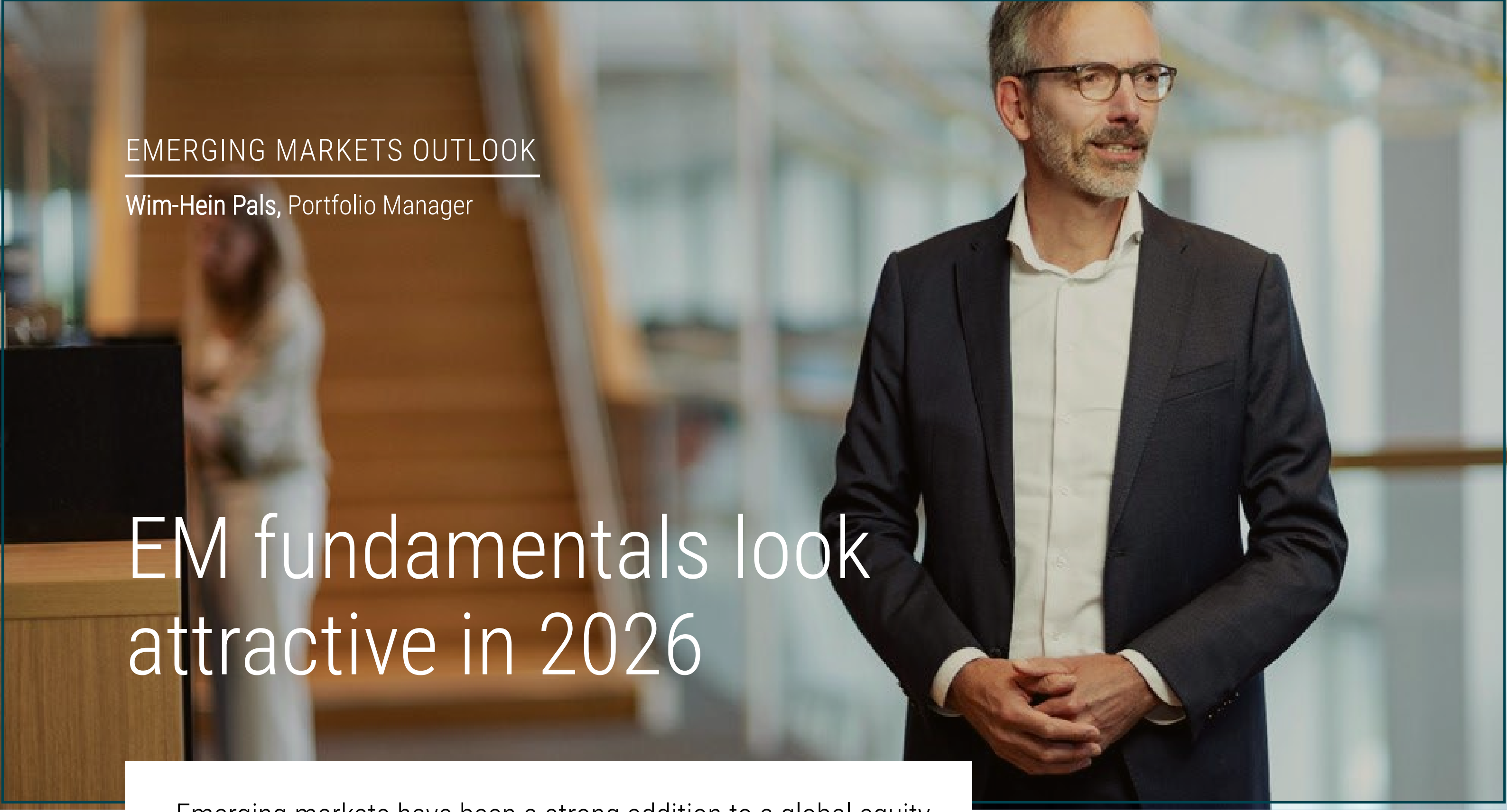


EMERGING MARKETS OUTLOOK

Wim-Hein Pals, Portfolio Manager

EM fundamentals look attractive in 2026

Emerging markets have been a strong addition to a global equity portfolio in 2025 and there are good reasons why 2026 could see repeat outperformance of developed peers.

Outperforming DM in 2025

The MSCI Emerging Market IMI index has risen more than 26.7% in 2025 at the time of writing,[1] similar to 2024. The significant difference is that emerging markets have, this time, outperformed developed peers. Bitcoin also had a much better return than emerging markets in 2024. But bitcoin investors are facing a loss of 6.4%[2].

There are many reasons for the 2025 outperformance in emerging markets. First, there is the time-honored valuation gap, both in absolute and relative terms. In particular, the attractive valuation parameters compared to rich industrialized countries have at last been noticed by international investors. Second, earnings rose faster in the emerging world than in mature markets.

Earnings boost

2024 was the first year in which corporate profits of emerging companies rose faster on average than in developed markets, at 21% versus 9%. The trend continued in 2025, with earnings growth in emerging markets reaching 12% versus 9% in developed markets, according to IBES consensus expectations. Thirdly, there was a reallocation of investments from expensive US equities to the cheaper markets globally, with the weak US dollar offering a helping hand. Fourth, emerging equity markets have been underrepresented in global portfolios. And finally, the macroeconomic environment in the emerging world was more constructive than in the mature world: Robust economic growth combined with healthy balance of payments and budgets, compares favorably to immense twin budget and balance of payments deficits in the US.

Korea leads

The major breakout story in EM this year was Korea, propelled by the twin engines of AI-related memory demand and governance reforms. The presidential election in June reinforced the conviction in the continuation of corporate reforms and drove a strong 80% year-to-date rally in MSCI Korea (in EUR), which we think still has legs.

China's tech-led equity revival

China's DeepSeek moment earlier in the year marked an inflection point for its AI and semiconductor ecosystem. The rapid adoption of locally developed, cost-efficient models signaled China's ability to compete in advanced AI even as export controls tightened on high-end chips. It also reinforced expectations of accelerated domestic substitution and state-backed strategic investment in AI infrastructure. Policy remained supportive, albeit calibrated, and indicated a turn towards supporting consumption as well as supply-side reforms in industries running at significant overcapacity (anti-involution).

[1] MSCI EM IMI index performance in USD year to 16 December 2025 was 26.7%. MSCI World IMI index performance in USD year to 16 December 2025 was 20.00%

[2] Bitcoin performance in USD, year to 17 December

“There remains a structural underestimation of potential

India: Overvalued

India was a notable underperformer, owing to lower beta as well as negative flows from foreign institutional investors, although the macroeconomic fall-out from the hefty tariffs from the US has so far been muted. Taiwan, along with other Asian exporters, was buoyed by surging tech exports, even as concerns on the AI theme reaching bubble territory surfaced.

EM: A constructive outlook in 2026

EM equities are poised for robust performance in 2026, in our view, supported by easing monetary conditions, higher earnings growth, attractive valuations, further improvement in corporate governance and healthier fiscal balance sheets. The valuation is still attractive with a discount to developed markets that has narrowed slightly, but is still a generous 30%. That is an untenable anomaly, but it is not just a valuation story. We think the trade war is now pretty much priced-in to EM assets and the consensus for 2026 expects earnings growth to pick up across the board: 17% earnings growth for emerging, 13% for developed. It will therefore be the third consecutive year that the earnings environment in emerging countries appears better than in the rich countries.

Fiscal prudence

In the meantime, many emerging countries have shown strong commitment to fiscal discipline since past crises, often guided by fiscal rules. The aggregate fiscal deficit for EMs is forecast to be around 4.2% of GDP in 2026, which should help stabilize their debt dynamic. On average, DMs had a public debt-to-GDP ratio of more than 110% (2025), whereas EM ratios stand below 80%, based on IMF data (see Figure 1).

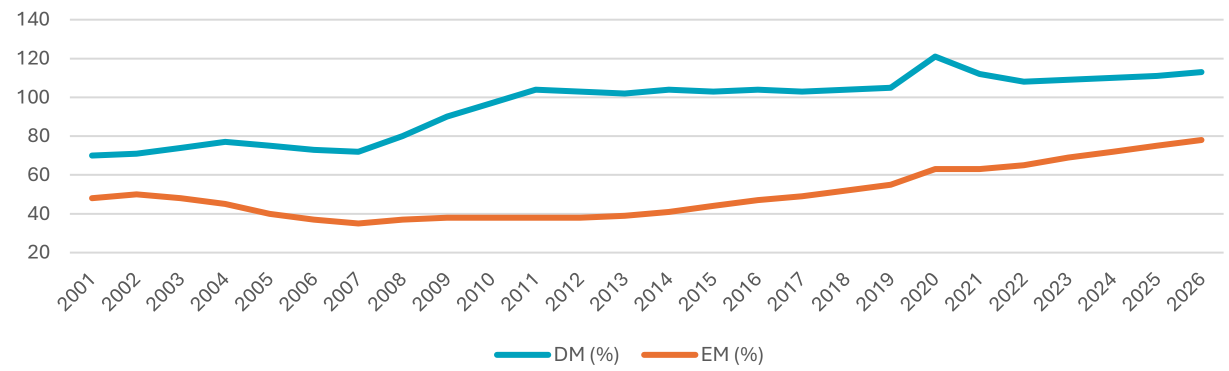
Our focus countries

In our EM equities strategy, we remain overweight in Korea (governance reforms, strong memory demand) as well as Indonesia and Vietnam (both blessed with high growth and attractive valuations). On China and India we remain cautious, the latter due to still too-high valuation metrics. In China’s case, the latest earnings numbers show a slow earnings recovery, with EPS growth being powered by buybacks and margins. In the rest of EM, we like South Africa (boost from terms of trade, the gold and platinum group metals rally, lower bond yields, and early reform success), the UAE (long-term growth compounding), Greece, and Poland (boost from EU investment). In Latin America we prefer Mexico and Chile over the others.

The bottom line: Investors remain under-allocated to EM

From a slightly longer-term perspective, the emerging world accounts for 40% of nominal economic growth and is responsible for about 70% of real growth in the world. Yet emerging market equities still make up only 11% of global investment indices. In our view, this reflects a structural underestimation of potential which will change over time and support EM assets in the long term.

Figure1: Public debt as a percentage of GDP, DM versus EM



Source: Robeco, JP Morgan Equity, IMF data

INTERVIEW

Jie Lu, Head of investments China

“I have always been data driven

Jie Lu is Head of Investments China and lead portfolio manager for Robeco’s Chinese equities strategies. Here he talks about his learning curve as an investor and China’s prospects as we enter 2026.

What originally got you into investing?

My path is not traditional. I have a background in science and studied biochemistry at university in Shanghai and then completed a Master’s in computer science in the US before my first job as a software engineer for Motorola. I think that the scientific background gave me something important – a bias for quantitative analysis. I like problem solving and deconstructing complex systems, so I have always been data-driven, which has helped me as an investor. At Motorola I got into a leadership program that basically rotated through functions like operations, marketing, and even HR. That was another important grounding in understanding how business really works and gives me a different perspective from many peers.

At the same time I was studying an MBA part-time and eventually landed a job in the Motorola strategy team. We had internal venture capital to deploy, so I was working on acquisitions, which was basically my start in investment. In that role, I was evaluating a wide range of internet, consumer, and tech startups for potential strategic fit to Motorola. Although I was based in Chicago, my work required spending time in Beijing, where I realized these startups represented something bigger: a fundamental shift in the Chinese economy toward consumption and digital innovation. It became clear that the next decade’s growth story was there. That insight drove me to return to China. I moved to Hong Kong and that’s where I switched to investment banking, first with Norges Bank and then Morgan Stanley, before joining Robeco in 2015. I love investing because it's analytical, and demands accountability and intellectual honesty. The market eventually tells you if you’re right or wrong and you have to be true to yourself.

What makes a good stock?

My framework is simple: a durable moat, strong execution, shareholder-aligned governance, and a fair price. First, the competitive advantage that’s in the business model, so that could be a strong brand, a network effect, a technology advantage, or a structural cost advantage – basically a moat. That protects you across the economic cycle. Then I look at the execution capability. Can the management team consistently deliver and implement the strategy? And the third one is sound corporate governance because even if you have a good business, if transparency is absent or the interests are not aligned with shareholders, then this doesn't make a good stock. I believe if you find a business like this and pay a fair price then eventually the stock will take care of itself. That renders broader market volatility as noise and a potential opportunity.

What’s your biggest lesson learned over the years?

Resilience. You can’t predict the future or rely on consensus. Volatility is inevitable whether it’s bubbles or trade wars or natural disasters. That is why resilience is critical: it provides the internal discipline and conviction needed to invest through these periods of stress and through the economic cycle.

Chinese equities have recovered in 2025, but is the macroeconomic backdrop strong enough to sustain equity strength in 2026?

2025 is interesting if you just look back. You have the DeepSeek moment and you have the gradual stabilization of the US-China

Jie Lu, Portfolio Manager

“Consumption is a stated policy priority

trade war – and those two factors have been the drivers. On the other hand, I would say property has continued to weaken, so there are countervailing forces. China's growth engine is now from digital services, advanced manufacturing, and AI. I don't think property represents a systemic risk, and at the same time, looking externally, exports are still strong and there seems to be reasonable stability in trade relations with the US. China has proved it really holds some bargaining chips and Trump wants to focus on domestic affordability.

Furthermore, we are also likely to have liquidity support because monetary policy will stay accommodative, and I think the upcoming Fed rate cut opens up more policy room for China. Structurally, domestic equity flows are poised to rise, insurers are getting a lot of inflow due to low yields, and they will allocate to the equity market, while retail investors are moving some savings away from property and into the stock market. However, earnings is something that really needs to be watched because last year's rally relied on some multiple expansion and so for 2026 we need some earnings resilience. The challenge is the deflationary environment, and I think there will be divergence between sectors but, overall, we remain constructive.

How does China's emphasis on self-reliance square with its dependence on exports?

To prioritize domestic self-reliance without undermining the export engine, the policy being pursued is dual circulation. This involves keeping exports robust by industrial upgrading into high-value goods, and reinvesting the earnings into technological self-sufficiency, including AI, and the whole related value chain.

Do you expect more direct policies to support domestic consumption and what kind of policies might they be?

Consumption is now the stated policy priority, but the approach would be incremental. With the growth target likely set around 5%, that outcome appears achievable with some fiscal support, though not with dramatic measures – unless the property downturn deteriorates materially or export growth weakens sharply. We expect early-year support to focus on improving implementation of existing trade-in and equipment-upgrade programs, then gradually broaden toward service consumption, through measures tied to travel, education, and family support aimed at lifting the birth rate. Stabilizing the property sector remains essential as well, given the negative wealth effect weighing on consumer sentiment. Structurally, to support higher consumption they need to build a better social safety net in the long run as it's the perceived absence of economic security that's behind the very high savings rate.

Which trends and opportunities are most prominently reflected in our Chinese equities and A-shares strategies?

We are committed to our barbell strategy. On one side, structural growth, on the other, value and high dividends. For structural growth a key theme is high-end manufacturing – from 'made in China' to 'made by China' with leading manufacturers increasingly establishing a global footprint. We also favor technology and innovation, driven by AI development and the push for self-reliance. On the other side of the barbell, we target value through high yield names capable of sustaining dividends in a deflationary environment, as well as beneficiaries of anti-involution policies, particularly in upstream industries where demand is firm, like aluminum for example.

Some experts say China is 'winning the AI race'. Is that the perception in China too, and what are the best Chinese equity opportunities in the AI space?

The US and China can both 'win' in AI – but in different ways. The US will likely continue pushing the technological frontier, while China is building a near full-stack, parallel ecosystem spanning rare earths, energy and compute infrastructure, hardware components, models, and real-economy applications. Despite constraints at the leading edge of semiconductors, China is offsetting them through scale, low costs, and engineering execution: leveraging abundant renewables, strengthening critical connectivity inputs (optical modules and high-end PCBs) that also supply global value chains, and optimizing models to run efficiently on less-advanced Graphics Processing Units (GPUs). The result is an 'efficiency playbook' that drives inference costs down, speeds diffusion across platforms and industry, and enables an agentic future where low-cost systems can iterate at scale. Combined with a fast-follower 'One-to-N' commercialization playbook and deep engineering talent, this trajectory looks durable.

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