

Emerging markets' strength is coming from within

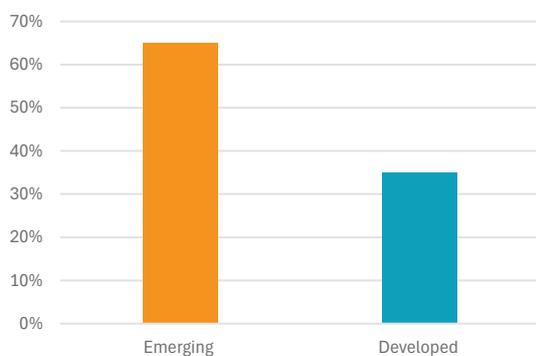
- Economic strength and innovation leadership now characterize EM
- Growing EM wealth increases domestic investment flows
- This is a positive tailwind for EM and helps reduce volatility

The architecture of the global economy is changing with emerging markets (EM) becoming central to global growth, innovation and wealth creation. This means global investors should consider building or adding to core exposure to EM equities.

Through Robeco's more than 30 years of investing in EM, one constant has been the inexorable economic advance across the EM landscape. Nevertheless, EM equities continue to be discussed through the language of the past: as high-beta amplifiers of global cycles, commodity-driven beneficiaries of China's growth, or diversifiers in a developed-market (DM)-centric portfolio. Reality suggests that framing is no longer appropriate.

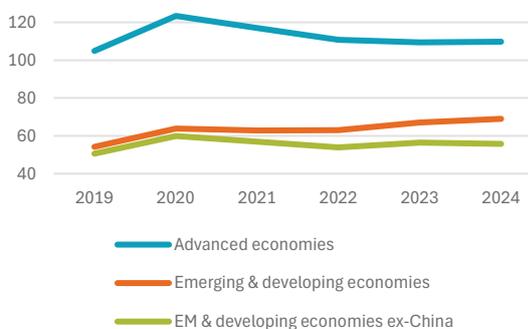
In 2025 EM and developing economies accounted for a 60% share of global GDP on a purchasing-power-parity (PPP) basis, versus 40% for developed nations, according to a recent analysis of IMF data.¹ EM economies are expected to continue growing at a faster rate in going forward (see Figure 1). Moreover, with the notable exception of China, EM economies carry lower debt burdens, both public and private, giving policymakers more flexibility. This is a strong basis for EM countries to attract an increasing share of global investment flows.

Figure 1: Percentage of incremental GDP growth 2024-2035E



Source: S&P Global Look Forward Research Series 2024

Figure 2: Percentage of public debt to GDP



Source: IMF Global Debt Monitor – September 2025

¹ Center of gravity of world economy shifting towards the EMDEs – EY – November 2025

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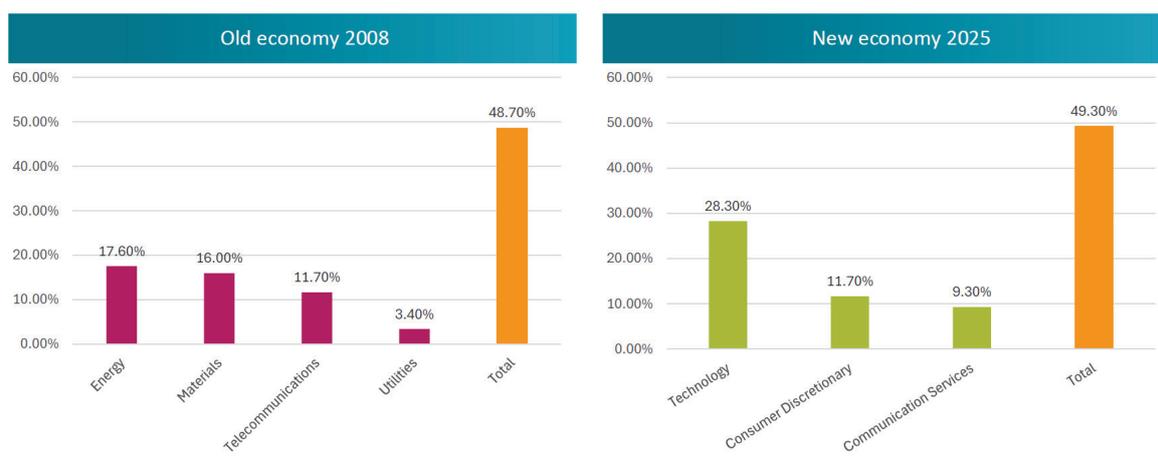
Figure 2 separates China from its EM peers as the nation’s level of public debt and its current trajectory of accumulation more closely resembles the G7 than its EM peers. Other large EM economies like Brazil and India also have relatively elevated debt compared to EM peers at 87% and 81% of GDP, respectively, in 2024 according to IMF data. The more important factor though is how sustainable the debt/GDP ratio is given economic growth projections and structural factors like demographics. From this perspective, EM in general is on a healthier path where relatively high economic growth is likely. EM economies also have the strong potential to expand the tax base, compared to developed economies, where the tax burden is already high and the working population is shrinking.

EM economies are also open to trade, with cases in point including the EU’s recent trade deals with Mercosur² and India,³ and China’s recent framework agreement with Canada.⁴ China itself is now relatively less exposed to the US economy than it used to be: less than 15% of exports headed to the US in 2024, while more than 56% of exports went to other EM countries.⁵ Of the MSCI EM universe only Korea, Taiwan and Mexico remain very sensitive to the US economy, with intra-EM trade growing fast.

Innovation leadership

Economic development in EM has been a process unfolding over decades. Looking beyond the dry macroeconomic data, the change in the key sectors that drive EM economies tells a more visceral story. In 2008 the biggest MSCI EM index weights were in primary extractive industries like mining and energy (Figure 3).

Figure 3: MSCI EM index weights 2008 vs 2025



Source: MSCI, December 2025

By 2025 the index had transformed with technology the largest sector at 28% of market capitalization. While EM investment still gives you significant exposure to materials (7%) and energy (4%) the economic balance now reflects leadership in the most innovative sectors. EM is particularly strong in the ‘innovation trinity’: AI hardware, the energy transition, and digital infrastructure. These are key global industries where competition from DM is absent, faltering or developing more slowly (see Figure 4). There are structural reasons why EM has taken the lead in these important economic realms with supportive government policies in Taiwan, Korea and China combined with large pools of skilled labor resulting in a clustering effect. In both technology hardware and renewable energy, accumulated know-how, coherent supply chains from materials to end-product, vendor networks and scale economies look likely for these countries to remain the default location for these complex industrial eco-systems, and support a dense universe of leading companies to invest in.

² EU Inks South America Trade Deal After 25 Years of Negotiations – 17 January 2026

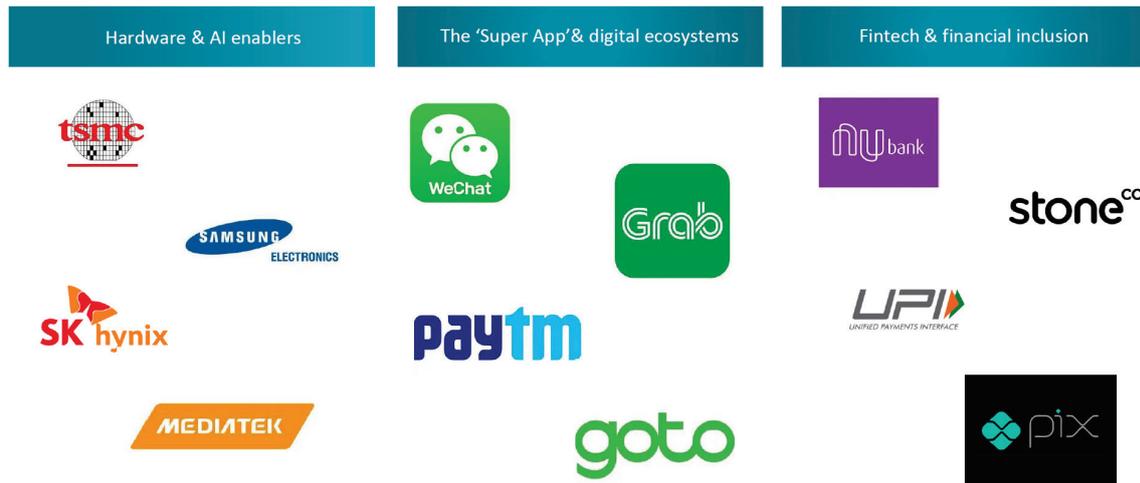
³ EU, India reach agreement on trade deal – Politico – 26 January 2026

⁴ Canada’s deal with China signals it is serious about shift from US – BBC – 16 January 2026

⁵ IMF DOTS, China Customs CES collated by Robeco - October 2025

In Digital Infrastructure the picture is more complex with the US hyperscalers owning embedded global platforms with billions of users. Nevertheless, in terms of providing a unified ‘super-app’ experience combining communications, entertainment, ecommerce, payments and other services, EM platforms are in leadership positions in markets like China, Indonesia and Brazil. This is because the penetration of old economy services like physical retail banking and credit card payments was much lower in EM, so there is a leapfrogging effect where faster digital adoption sees whole generations of technology being bypassed.⁶

Figure 4: EM companies defining the next frontier



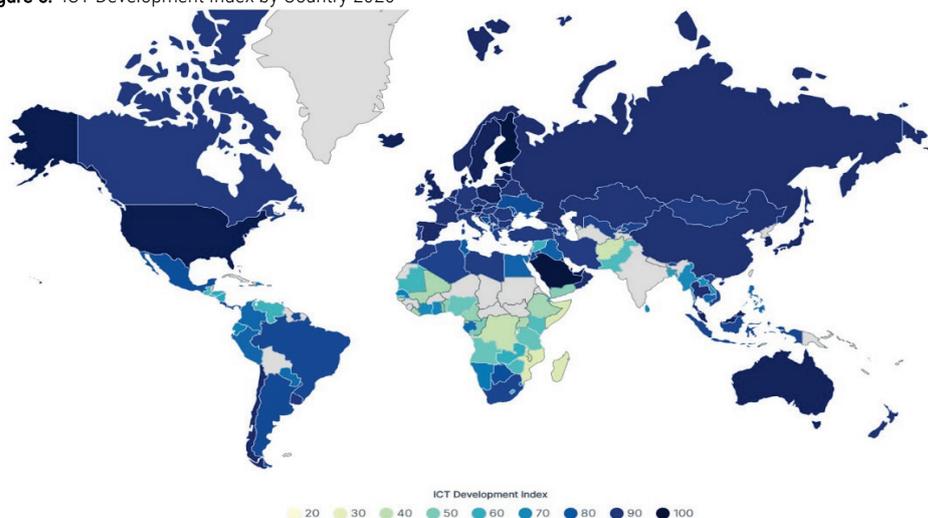
*The companies shown on this page are for illustrative purposes only. No inference can be made on the future development of the companies. These are not buy, sell or hold recommendations.

Source: Robeco, January 2026

Tech has been a great equalizer

Once major reason EM is successfully innovating in technology and digital infrastructure is because wireless technology has rapidly closed any digital divide between EM and DM (Figure 5). In 2026, only sub-Saharan Africa and outliers like Afghanistan fail to reach pervasive levels of internet connectivity.

Figure 5: ICT Development Index by Country 2026



Source: International Telecommunication Union (ITU), February 2026. The index is a composite indicator that summarizes a country's level of information and communication technology (ICT) access, use, and related skills into a single score. The International Telecommunication Union (ITU), a UN agency. India is not included the 2026 data due to a dispute over the data it supplied to the agency.

⁶ The tech leapfrog effect is producing EM fintech winners – Robeco - May 2024

Wealth creation driving domestic capital flows

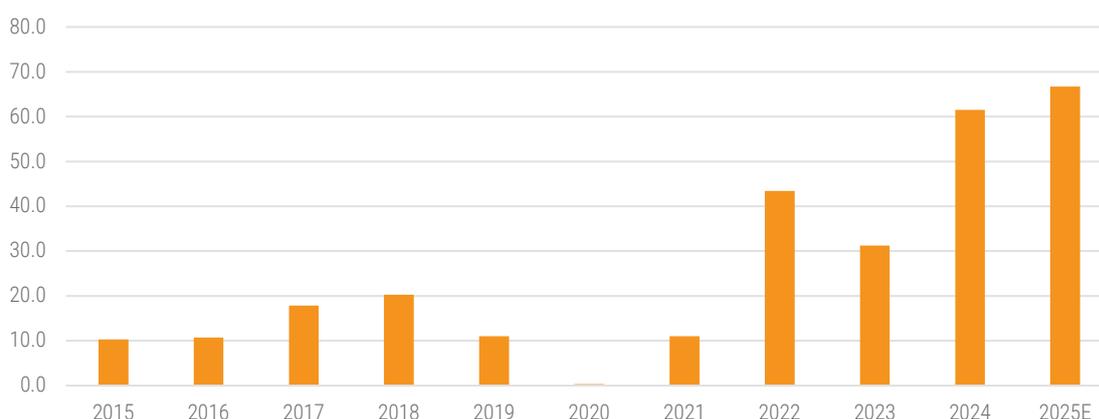
The increasing economic and technological advances of EM are naturally delivering rising living standards with some MSCI EM countries like Taiwan and South Korea now comfortably reaching developed country status. Consumption per capita in EM on average is still much lower than developed countries but, based on proxy measures like car ownership, is rising fast. More broadly, EM (including developing markets not included in the MSCI EM index) are adding over 100 million consumers (people who spend at least USD 12 per day in purchasing power parity terms) per year.⁷ Just as significant, the middle class EM population (those with incomes between USD 20,000 and USD 70,000) is projected to increase from 354 million households in 2024 to 687 million households by 2034.⁸

The impact of growing domestic consumption and wealth in EM are already visible in growth data, but we believe the next decade will see the related multiplier effects intensify, becoming another structural tailwind for EM assets. The foundation stones for this have already been laid with EM financial systems increasingly becoming sophisticated and institutionally stable. Local savings pools – pensions, sovereign wealth funds, and insurers – are increasingly the dominant source of capital in major EM equity markets.

“The next decade will see multiplier effects intensify

India has been a standout example of an emerging economy where increasing domestic flows into equities have had a positive impact.⁹ As with other EM countries India already had a culture of saving, mainly due to the absence of social safety nets beyond an individual’s immediate family, but the majority of these flows had traditionally gone into bank deposits and hard assets like property and gold. However, after regulatory changes since 2015 and government encouragement, regular inflows into equities are now coming from state entities like India’s Employees Provident Fund Organization (EPFO) and the National Pension System (NPS), as well as Systematic Investment Plans (SIPs) used by retail investors. Figure 6 shows how these more predictable flows have augmented investments from private entities via standard brokerage accounts.

Figure 6: Net domestic flows into Indian Equities (USD billion)



Source: BSE, Robeco – January 2026

The MSCI India index returned 4.3% in USD terms in 2025, sharply underperforming EM peers. However, the flows from domestic investors were a crucial stabilizing factor and kept equity returns in the green, given foreign institutional investors were significant net sellers in 2025 on valuation concerns.

Beyond India, factors like regulatory reforms unlocking growing pools of capital are also in play, as summarized below.

⁷ How the world consumer class will grow from 4 billion to 5 billion people by 2031 – Brookings – July 2023

⁸ The future of the middle class in emerging markets – Oxford Economics – October 2024

⁹ Domestic flows underpin India’s equity valuations – Robeco – May 2024

Table 1: A sample of EM countries taking active steps to boost domestic equity investment

Market	Total market capitalization	Current status	Regulatory reforms
India	USD 5.00 trillion	SIP-driven mutual funds, EPFO/NPS flows and retail participation now provide a strong local bid that can offset FII swings.	Gradual EPFO/NPS equity inclusion, mutual-fund SIP infrastructure, tax incentives for long-term equity investment and market-development reforms including Unified Payments Interface (UPI).
China	USD 16.31 trillion	Large retail and growing pension/insurance allocations increasingly anchor A-share liquidity and sentiment.	Encouragement of long-term institutional investors, higher equity caps for insurers and pensions, and measures to channel state/pension capital into A-shares.
Brazil	USD 1.00 trillion	Local pension and mutual funds are major holders of domestic equities, reinforcing a stable home bias alongside retail.	Broader access to banking through Digital banks like Nubank have brought more of the population into the formal financial system and combined with growing wealth, retail investors are increasingly influential.
Poland	USD 0.72 trillion	A booming economy has seen growing wealth but domestic inflows have been constrained by capital gains taxes and a cautious investment culture	Proposed special savings accounts with a tax-free allowance to encourage broader stock market participation. ¹⁰
Saudi Arabia	USD 2.55 trillion	A rapidly growing local retail base and domestic institutions provide a substantial home bid for Tadawul-listed stocks as the economy diversifies.	Progressive capital-market liberalization and removal of the Qualified Foreign Investor regime ¹¹ with plans to open Tadawul to all foreign investors, paired with ongoing domestic savings and pension development.
South Africa	USD 1.48 trillion	Large domestic retirement funds and insurers dominate ownership of JSE-listed companies, giving local savings a central role in equity demand.	Regulation 28 of the Pension Funds Act requires a majority of retirement assets to be invested in South African assets (local floor of 55%), anchoring a structural home bias in institutional portfolios.
Türkiye	USD 0.48 trillion	High inflation has pushed households toward equities as a partial hedge, and domestic investors now account for more than 50% of trading and equity assets on Borsa Istanbul. ¹²	Capital-market reforms improving access and trading infrastructure, together with macro policy shifts (real positive rates) that support lira-denominated savings have encouraged retail participation in domestic equities.
South Korea	USD 3.43 trillion	Large public and corporate pension funds, insurers and retail investors are major owners of KOSPI/KOSDAQ, while domestic retail investors are reportedly beginning to rotate from US stocks back in Korea. ¹³	Gradual increases in the National Pension Service (NPS) domestic equity target and new rules encouraging pension funds to allocate more to KOSDAQ. Korea's Value Up corporate governance reform program is also encouraging more domestic participation.

Source: Robeco, 31 January 2026. All market capitalization data via CEIC. *31 December data.

Although dwarfed by the US stock market, which had an estimated market capitalization of more than USD 70 trillion at the end of January 2026, leading emerging markets EM bourses are now comparable in depth and scale to the other major developed markets like France, the UK and Japan, with market capitalization of USD 3.8 trillion, USD 4.2 trillion, and USD 8.1 trillion respectively at the end of January according to CEIC.

“Leading EM bourses are now comparable in depth to major DM bourses

To complement the growing wealth diffusion and regulatory support driving domestic flows in EM, technology leapfrogging is another key element. For example in Brazil, Nubank launched in 2014 and is now the largest retail bank in Brazil with over 110 million customers in January 2026. It acquired online broker Easyinvest in 2020, and since 2024 has integrated its services fully into its banking app. This means tens of millions of Brazilians now have instant access to investment products, where a decade ago many did not even have easy access to basic banking services. This is being mirrored in other EM countries with super apps acting as new financial hubs for retail consumers like Gcash and Maya in the Philippines, and Gojek in Indonesia.

¹⁰ Poland Seeks to Revive 'Equity Culture' With Tax-Break Proposal – Bloomberg – 14 August 2025

¹¹ Up to \$10bn of inflows could be unlocked by Saudi stock market reforms, experts say – Arab News – 9 January 2026

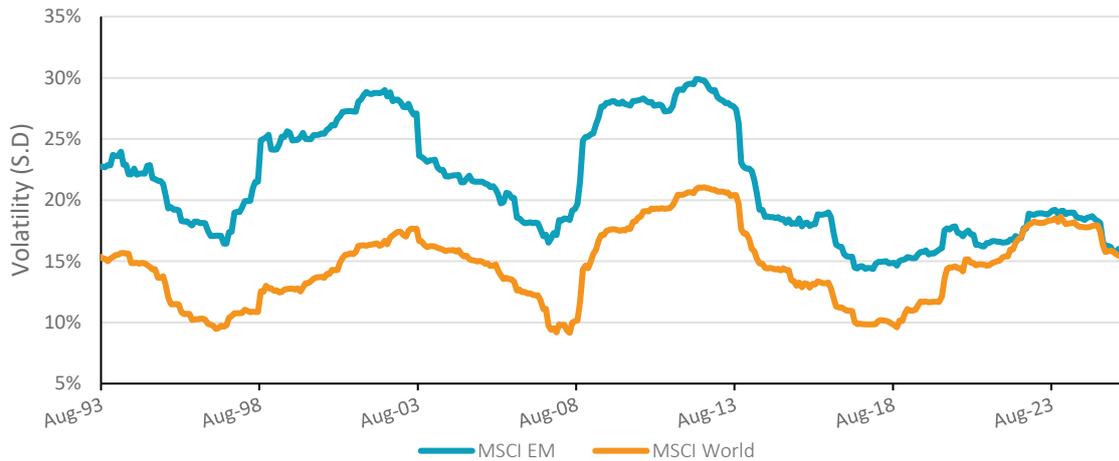
¹² Turkish capital market sees surge in deposit holdings in 2024 – Türkiye Today – 2 February 2025

¹³ A \$77 Billion Cash Pile Is Ready to Drive Korean Stocks Higher – Bloomberg - 13 February 2026

EM sailing into calmer waters

One very clear development when comparing EM and DM is that volatility has converged in the past decade. We have in the past explained this convergence by noting that, in the 21st century, financial crises have originated in the US and Europe with the GFC, the euro debt crises and more recently the collapses of Credit Suisse and Silicon Valley Bank, all DM in origin. We increasingly believe the growing wealth of EM, combined with improved political and institutional stability, have also had a visible effect.

Figure 7: Volatility has converged since 2022

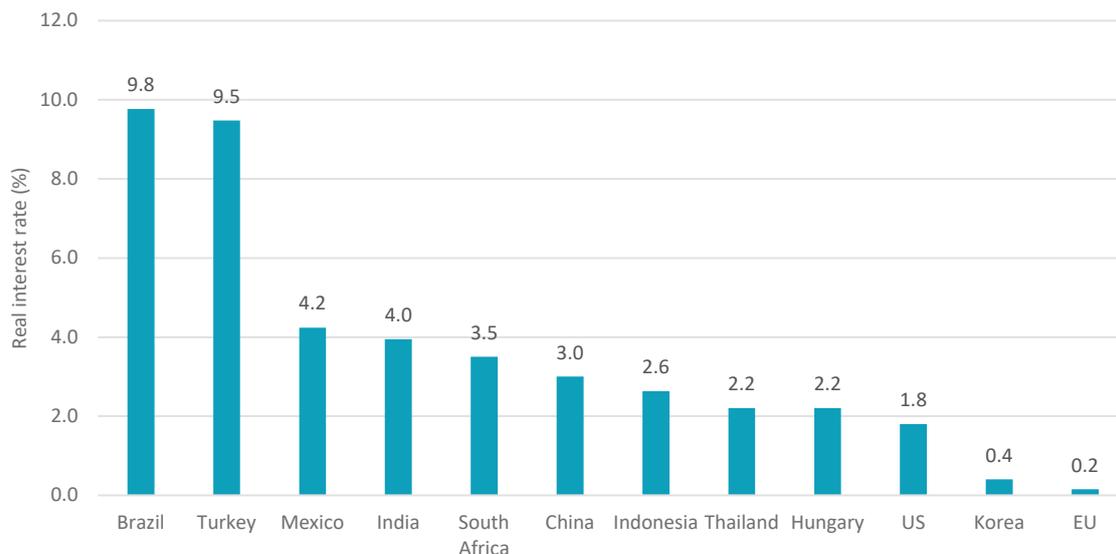


Past performance is no guarantee of future results. The value of your investments may fluctuate.

Source: Robeco, MSCI. The chart shows the 5Y rolling standard deviation in MSCI Emerging Market Index and the MSCI World Index as of 31 December 2025. All figures in USD, net total return.

This internalization of capital means EM markets are becoming more stable, less dependent on foreign flows, and less prone to past boom-bust cycles, which could be contributing to the volatility convergence. Policy credibility has also improved. EM central banks responded earlier and more decisively to post-pandemic inflation than many advanced economies, establishing high real rates without political pushback, supporting currency stability.

Figure 8: Real rates remain high in many EM countries



Source: Trading Economics. Real policy rates calculated using latest CPI and interest rate data (December 2025). Estimates reflect subjective judgements and assumptions. There can be no assurance that developments will transpire as forecasted and that the estimates are accurate.

Institutional strength – once a meaningful weakness in EM – is now a relative advantage, while the lower public and private debt burden borne by EM economies (see Figure 2) enables this more flexible and responsive approach to monetary policy. Moreover, positive real interest rates protect domestic savers, reduce the likelihood of asset bubbles developing, and potentially enable a more efficient allocation of capital.

Conclusion

Having been invested in EM equities since 1994, the Robeco EM team has seen multiple cycles of relative outperformance and underperformance. However, right now we regard EM fundamentals as stronger than they have ever been. That said, we don't invest in EM as if it is a single, monolithic bloc – rising and falling together.

We're witnessing a dramatic multipolar shift: In this new era, understanding the differences between EMs is essential to finding the next big opportunities. EMs are now a mosaic of distinct economies, each with unique growth engines, innovation stories, and policy paths. Success now requires highly differentiated tactics tailored to specific market and company allocations, and that's the essence of our active approach to EM equities investment.

The cycle that we think kicked off in late 2024 may not be as spectacular as the China-driven growth explosion in the early 2000s (see Figure 11), but it could be more enduring. In our view this argues for building or reinforcing core active EM equity exposure as a structural position in global portfolios.

Figure 9: A new cycle has begun



Past performance is no guarantee of future results. The value of your investments may fluctuate.

Source: MSCI. All figures in EUR. Data end of December 2025. The ratio in the chart above divides the MSCI Emerging Markets Price Index by the MSCI World Price Index in USD. When the ratio rises, emerging markets outperform developed markets - and when it falls, developed markets outperform emerging markets. If the currency in which the past performance is displayed differs from the currency of the country in which you reside, then you should be aware that due to exchange rate fluctuations the performance shown may increase or decrease if converted into your local currency. Performance since inception is as of the first full month. Periods shorter than one year are not annualized. Returns gross of fees, based on gross asset value. Values and returns indicated here are before cost; the performance data does not take account of the commissions and costs incurred on the issue and redemption of units. These have a negative effect on the returns shown.

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