Issued: January 2025

Ashmore

Emerging markets equities in 2025

Through 2024, the macroeconomic backdrop for emerging markets has been on an improving trajectory, underpinned by robust economic growth, disinflationary pressure and monetary policy easing. This supported strong corporate earnings growth and high single digit stock market return. In 2025, the potential for US policy change, with related implications for global trade and US dollar liquidity, means there is a wider range of scenarios to consider.

The fundamental strength of emerging markets means the 'Trump effect' should not be exaggerated, although the potential for elevated market volatility means there is likely to be ample alpha generation opportunities.

US trade policy is likely to be impactful for the global economy and emerging markets, most notably for **China**. For context, the world's second-largest economy has already been operating for seven years under increasing US protectionism and import tariffs, during which its global market share of exports has continued to increase. An abrupt, aggressive and broad-based hike of US tariffs looks less likely, not least given the impact on US domestic inflation and Trump's voter base. Recent policy stimulus in China has been directionally positive and notably increasing in magnitude, which should provide more support to domestic consumption. Further actions are likely and subject to expanded US trade policy.

Meanwhile, China continues to build technological expertise and market leadership in strategically important industries, such as advanced manufacturing, automation and renewables. This creates attractive investment opportunities and, coupled with high domestic savings, falling deposit rates and low foreign participation in the stock market, there is significant potential for an equity rebound.

Mexico is also in the spotlight, given its role as the largest trading partner of the US, although their mutual reliance means domestic policy will likely have a more lasting impact on the operating environment and market performance. Here, we look for evidence of the pro-business and orthodox campaign promises made by President Claudia Sheinbaum, while remaining mindful of the risk of deterioration in institutions and fiscal slippage under her Morena Party.

Taiwan and **South Korea** also have large trade deficits with the US, although this is concentrated in advanced technology where they dominate the global supply chain and have notably high barriers to entry. An anticipated pro-business and light regulatory backdrop in the US could be positive for US hyperscalers, and in turn **North Asia**.

The year ahead is also likely to see artificial intelligence (AI) increasingly adopted to the benefit of specialist companies across emerging markets. Ultimately, emerging markets remain the primary beneficiary of a re-ordering of global supply chains given their underlying comparative and competitive advantages.

In the event US policy leads to a strong dollar, this would weigh on those economies with the more notable external imbalances. Here, though, EM fundamentals are in good shape as proven by several years of 'stress test'. Most economies have current account surpluses or small deficits that are well-funded by foreign direct investment. **Türkiye**, one of the most fragile of 2013's 'Fragile Five', recently posted its fifth consecutive month of current account surplus, for example.

The market has been quick to price a stronger US dollar as a byproduct of potential US policy. This one-sided view should be tempered by the dollar's already extreme valuation and investor preexisting positioning. Investor concentration risk in the US continues to build and the longer this anomaly continues the more painful its eventual reversal will be. The Bank of America recently highlighted that global fund managers have record-low allocations to cash and record-high allocations to US stocks. Diversification has rarely been so important.

The primary driver of share price performance over the medium term is earnings. Emerging markets, as well as smaller emerging markets/frontier markets, offer investment opportunities in companies operating in fast-growing transformative economies, often in fragmented industries.

In our view, this backdrop provides the potential for high compounded returns on a medium-term basis. For example, countries and regions that are operating in a conducive environment for earnings growth include **Indonesia** (greater down-streaming of nickel production triggering trickle-down effects), **India** (domestic manufacturing build-out), GCC (economic diversification underpinned by well-funded USD pegs), **Brazil** (potential reindustrialisation) and **South Africa** (more orthodox policy), among many more.

There are also several positive 'liquidity' shocks on the horizon with the potential for outsized country market moves. For example, MSCI index 'promotions' (or announcements of progress towards) for **Vietnam**, **Iceland** and **Romania**, and country-specific catalysts for **Qatar** (significant liquified natural gas manufacturing expansion at the same time as capital market development) and **Kuwait** (return to economic growth impetus and reform momentum).

Continued overleaf

Ashmore

Conclusion

The risk-reward is in emerging markets' favour.

The MSCI Emerging Markets index trades at undemanding levels (around 11.5x forward price-to earnings) and at the largest historical discount to the US stock market in recent history. Hypothetically, a modest rerating towards long-run valuation multiples when combined with consensus earnings growth of around 10% and dividends of around 3%, could equate to percentage returns in the high teens. Policy stance and geopolitics offer the potential for significant positive surprise.

Overall, 2025 is likely to see episodes of market volatility, continued earnings growth in emerging markets, as well as heightened market inefficiency. This will require selectivity and dispassion to exploit, yet the compounded effect of systematically doing so can be significant.

Head office

Ashmore Investment Management Limited, 61 Aldwych, London, WC2B 4AE T: +44 (0)20 3077 6000

Local offices

Bogota
T: +57 1 316 2070

Dubai
T: +971 440 195 86

Dublin
T: +353 1588 1300

Jakarta
T: +6221 2953 9000

Mumbai
T: +9122 6269 0000

New York
T: +1 212 661 0061

Riyadh
T: +966 11 483 9100

Singapore
T: +65 6580 8288

Tokyo
T: +81 03 6860 3777

Lima
T: +511 391 0396

Fund prices
www.ashmoregroup.com
Bloomberg
FT.com
Reuters
S&P
Lipper

No part of this article may be reproduced in any form, or referred to in any other publication, without the written permission of Ashmore Investment Management Limited © 2025.

Important information: This document is issued by Ashmore Investment Management Limited ('Ashmore') which is authorised and regulated by the UK Financial Conduct Authority and which is also, registered under the U.S. Investment Advisors Act. The information and any opinions contained in this document have been compiled in good faith, but no representation or warranty, express or implied, is made as to their accuracy, completeness or correctness. Save to the extent (if any) that exclusion of liability is prohibited by any applicable law or regulation, Ashmore and its respective officers, employees, representatives and agents expressly advise that they shall not be liable in any respect whatsoever for any loss or damage, whether direct, indirect, consequential or otherwise however arising (whether in negligence or otherwise) out of or in connection with the contents of or any omissions from this document. This document does not constitute an offer to sell, purchase, subscribe for or otherwise invest in units or shares of any Fund referred to in this document. The value of any investment in any such Fund may fall as well as rise and investors may not get back the amount originally invested. Past performance is not a reliable indicator of future results. All prospective investors must obtain a copy of the final Scheme Particulars or (if applicable) other offering document relating to the relevant Fund prior to making any decision to invest in any such Fund. This document does not constitute and may not be relied upon as constituting any form of investment advice and prospective investors are advised to ensure that they obtain appropriate independent professional advice before making any investment in any such Fund. Funds are distributed in the United States by Ashmore Investment Management (US) Corporation, a registered broker-dealer and member of FINRA and SIPC.