SAVVY INVESTOR

Emerging markets, reconsidered

Updating the investment map

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Contents

Emerging markets reimagined

Anton Balint
Senior Content Strategist
Savvy Investor

Emerging markets are where investors find volatility, shaky governance, political crises, and unstable returns. Or so the story goes. It was a reputation earned in recent years: from 2010 to 2025, U.S. stocks compounded at roughly 14% a year, turning $100 into more than $700, while the same amount invested in emerging market equities grew to less than $200.

Results like these convinced a generation of investors that emerging markets were structurally disadvantaged. But this happened during an unusual period defined by U.S. dominance, a strong dollar, and the rise of U.S. megacaps.

Emerging markets have since evolved. Policy frameworks, corporate governance, currency dynamics, and relative volatility look very different today than in the past.

Risks are still there, but many are already reflected in the pricing. In fact, some of the concerns that hang over emerging markets, like debt and instability, increasingly describe developed regions, such as the U.S., instead. Yet, emerging markets still account for just over 10% of global equity portfolios, despite generating some 60% of global economic output.

In its latest featured paper, Orbis Investments describes the gap as one between the outdated map of emerging markets that investors carry and the novel terrain that has been developing in front of them.

This report sets out the case in five themes and through a conversation with Stefan Sommerville on why and how investors should update their picture of emerging market equities.

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About Orbis Investments

Orbis Invest Differently

Founded in 1989, Orbis Investments is a privately held global equity manager with $62 billion in assets under management (as of May 31, 2026). The firm specializes in bottom-up, fundamental stock selection and actively managed, high-conviction, concentrated portfolios. For over three decades, Orbis Investments has institutionalized a disciplined investment process designed to deliver meaningful outperformance across market cycles, regions, and generations of stockpickers.

As a firm, Orbis Investments has gone to great lengths to align its interests with those of its clients, including through its unique refundable performance fee structure.

Learn more at www.orbis.com

Stefan Sommerville, CFA
Senior Investment Specialist, Orbis Investments

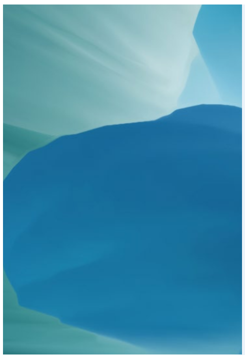
Stefan Sommerville joined Orbis in 2017 and is a Senior Investment Specialist. He leads investment communications for the Japan Equity and Emerging Market Equity strategies. Stefan holds a BSc (Hons) in Economics from the University of Nottingham and is a Chartered Financial Analyst (CFA) charterholder.

Featured Paper from Orbis Investments

The new terrain

Because of outdated perceptions, emerging market equities are still priced as a risk to avoid. The reality looks different: valuations are at a historically wide discount, and the gap between strong and weak markets offers room for alpha. Governance and policymaking have become more credible, and many currencies now sit below fair value. The five themes below show where these shifts are creating long-term opportunities for investors.

MISPRICED PESSIMISM



"Emerging markets are currently priced at levels that reflect deep pessimism. After more than a decade of underperformance relative to developed markets, in particular the U.S., capital has steadily flowed out of emerging market equities. This prolonged neglect has driven valuations to levels that, in aggregate, imply very low expectations for future returns. For some companies, those low expectations will prove justified. For many, they will not."

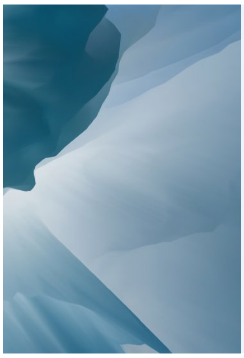
Emerging market equities trade at low valuations relative to history and to the U.S.

Emerging market equities trade at low valuations relative to history and to the U.S.

Source: Minack Advisors, MSCI, National Bureau for Economic Research. CAPE ratio is based on trailing operational earnings. US$ price indices, with index and cyclically-adjusted earnings deflated by US Consumer Price Index. Data shown for the period available. EM = Emerging Markets.

On a cyclically adjusted basis, U.S. equities trade at 38 times earnings against around 16 for emerging market stocks, almost as wide as the discount has ever been. Starting valuations have substantially shaped long-term returns, particularly for the U.S. Historically, the average U.S. buyer at today's valuations did about as well as the unluckiest emerging market buyer did. This doesn't mean that emerging markets are destined to outperform, but most of the downside is already priced in.

INSTITUTIONAL REFORMS

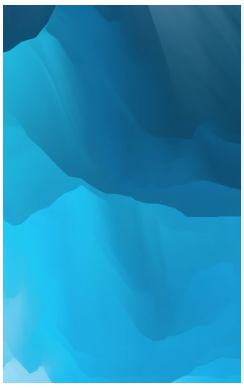


"Macroeconomic policymaking in many emerging economies today bears little resemblance to that of earlier cycles. Central banks have become more independent, more credible, and more transparent, with inflation-focused regimes now firmly established across much of the universe. The result has been lower inflation volatility, fewer balance-of- payments crises, and a diminished tendency for temporary shocks to morph into systemic events."

The risks investors have associated with emerging markets, like fiscal indiscipline, unstable monetary policy, and balance-of-payments issues, increasingly apply more to the developed world. Many emerging economies, carrying the scars of the Asian financial crisis, now run more disciplined fiscal policy than indebted developed world governments. A telling moment came in 2021, when central banks in Brazil, Mexico, and South Africa were quicker to raise interest rates than the Federal Reserve, supporting their currencies through the tightening.

Markets can be slow to reward reforms, which are more incremental than sudden crises. In the case of South Korea, capital market reforms are paying off. For example, banking giant KB Financial has scaled back overseas acquisitions and returned capital, seeing its share price more than double since the start of 2024.

CURRENCY PLAY



"Valuations across a broad range of emerging market currencies now sit well below long-term measures of fair value. Importantly, this undervaluation has emerged alongside markedly stronger fundamentals. Many emerging economies have improved external balances, adopted more credible monetary frameworks, and reduced reliance on foreign-currency borrowing.
In contrast to previous cycles, currency weakness has not been accompanied by widening current account deficits or eroding policy credibility."

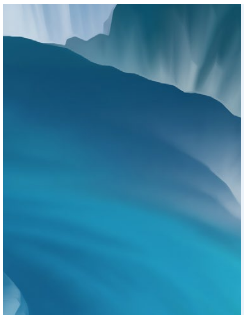
For years, export-led economies held their currencies down and recycled the proceeds into U.S. assets. This dynamic, which supported the U.S. dollar and suppressed emerging market currencies, is now weakening. The greenback's share of global reserves has fallen from over 70% in 1999 to under 60% today. Meanwhile, the U.S. dollar looks riskier and more expensive after decades of inflows, growing U.S. leverage, and high dependence on foreign savings. The result is a set of emerging market currencies that are undervalued and backed by an improving backdrop.

Emerging market currency valuations in long-term context

Valuation of EM currencies vs. U.S. dollar compared to historical levels, as at February 2026 *(based on an internal purchasing power parity model, since 1996)*

Source: LSEG Datastream, Macrobond, Orbis. Indicated valuations are the deviation from the estimated average real level of the currency over the previous 25 years, estimated by fitting exchange rates to relative consumer prices. Equally-weighted basket of Brazil, China, Indonesia, India, Korea, Malaysia, Mexico, Taiwan, and South Africa. Data is monthly and for the period 15 Jan 1996, the common inception data for all currencies, to 15 Feb 2026. EM = Emerging Markets.

FINDING DIVERSIFICATION



"In a world where global portfolios are increasingly shaped by a small number of dominant markets and narratives, emerging markets offer something increasingly scarce: genuine diversification. Not by replicating developed market exposures at a discount, but by expanding the range of return drivers embedded within a portfolio. As we wander further into the varied emerging market terrain, we see that the attractions for active investors are even better."

Emerging Market Equities as a diversifier

Correlation between monthly U.S. dollar returns, from Jan 1988

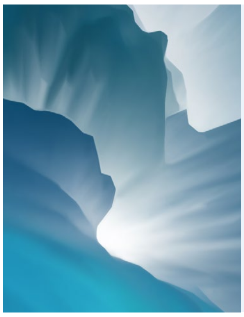
	S&P 500	MSCI World	MSCI ACWI	MSCI EAFE	MSCI Europe	MSCI Emerging Markets
S&P 500	1.00					
MSCI World	0.92	1.00				
MSCI ACWI	0.91	1.00	1.00			
MSCI EAFE	0.75	0.94	0.95	1.00		
MSCI Europe	0.79	0.91	0.91	0.93	1.00	
MSCI Emerging Markets	**0.66**	**0.72**	**0.77**	**0.71**	**0.69**	**1.00**

Source: LSEG Datastream, Orbis. ACWI is All Country World Index. EAFE is Europe, Australasia, and Far East.

Many investors who believe they are diversified are really making a single bet on a few U.S. technology firms. Global equity benchmarks now put almost two-thirds of their weight in the U.S. market, and the ten largest companies account for about a quarter of passive exposure. However, emerging market equities have a correlation with the S&P 500 of just 0.66. Brazilian commodities, Mexican manufacturing, Gulf sovereign investment: such opportunities are driven by forces that have little to do with U.S. technology companies.

The old objection is that this diversification comes at the cost of higher volatility, but that is no longer the case. The relative volatility of emerging market equities has fallen so much that in recent years they have been no more volatile than developed markets.

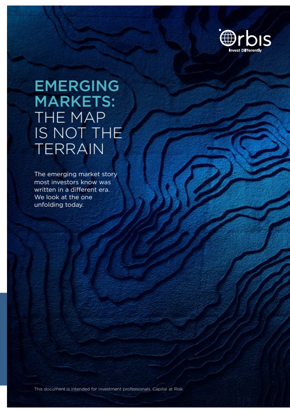
DISPERSION AS ALPHA



"Selectivity is both a risk management tool and a source of potential alpha. It allows investors to hunt in markets where reform momentum, governance improvement, and capital discipline are converging, while avoiding areas where growth remains disconnected from shareholder returns. It also enables portfolios to exploit the inefficiencies created by outdated perceptions, rather than inheriting the inefficiencies embedded in broad benchmarks."

Earnings growth and shareholder returns are distinct, and an index cannot tease them apart. Listed companies in China, for example, grew net profits by roughly 15% a year over the two decades through 2025, but earnings per share grew by only 5%. Concentration compounds the issue: China and Taiwan make up nearly half the MSCI Emerging Markets Index, with TSMC alone accounting for close to 15%. Holding emerging markets passively is not neutral; it means missing a chance to separate winners from laggards.

View the full paper



An outdated consensus

Many investors operate with a model of emerging market equities that was formed during a long stretch of underperformance over the past decade and a half. Stefan Sommerville, Senior Investment Specialist at Orbis Investments, argues that this model is now obsolete.

In this conversation, he sets out what has changed, including more credible central banks, stronger governance, undervalued currencies, and wider valuation discounts. At the same time, investors would not be well served by simply shifting toward the asset class passively. The point is that emerging market equities should no longer be treated as a monolith: differences between countries, and between companies, are big enough to reward investors who are willing to be selective.

Interviewer
Anton Balint
Senior Content Strategist
Savvy Investor

Stefan Sommerville, CFA
Senior Investment Specialist
Orbis Investments

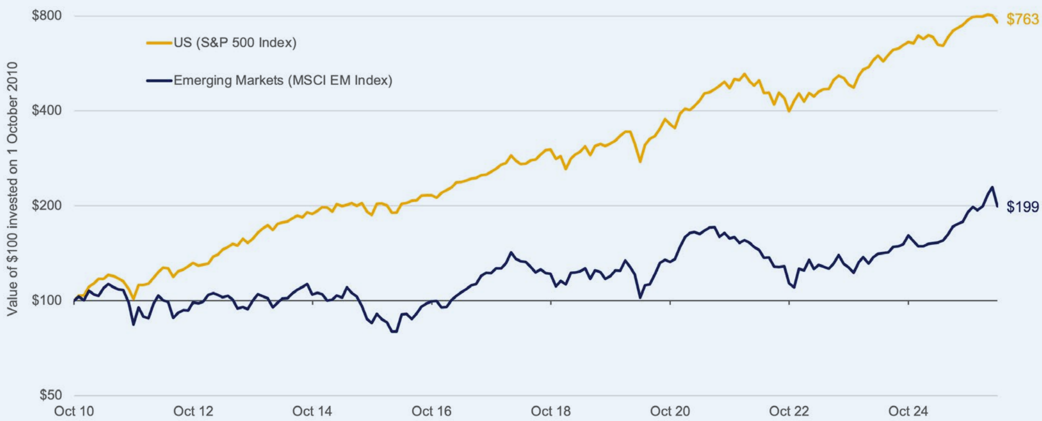
Anton Balint: How has investor sentiment on emerging markets changed over the past 15 or 20 years?

Stefan Sommerville: Investor sentiment toward emerging markets has traced a fairly dispiriting arc over the past two decades, moving from genuine excitement to prolonged neglect. The early 2000s saw real enthusiasm, particularly around the BRIC economies (Brazil, Russia, India, and China), as investors became captivated by the growth potential of large, fast-developing markets. Valuations surged during this period of what might be called "BRIC euphoria," and emerging markets briefly commanded serious attention in global portfolio construction.

That optimism gave way to a prolonged period of disappointment and, eventually, indifference. Emerging markets became associated with perpetual crises, unreliable governance, currency instability, and unfulfilled promises.

Emerging markets have lagged U.S. equities over the past 15 years

Total return of U.S. and emerging market equities *(from 2010, US$)*



Source: LSEG Datastream, Orbis. Total return is gross of withholding tax.

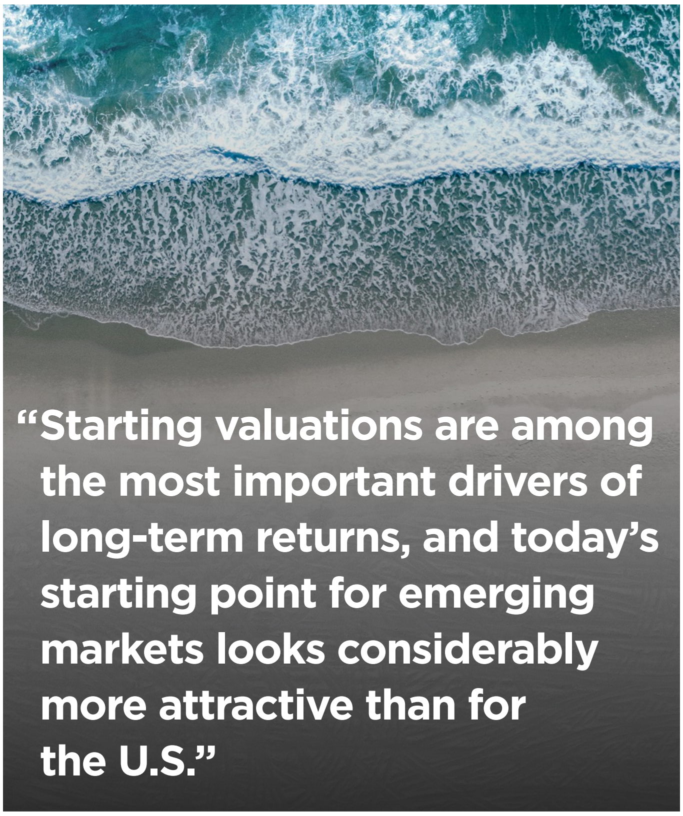
Meanwhile, U.S. equity markets delivered extraordinary returns with relatively little volatility. The S&P 500 compounded at 14% per year between 2010 and 2025, turning $100 into $720, against a mere $186 for the same investment in the MSCI Emerging Markets Index.

Each year that the gap widened, the narrative became more self-reinforcing. Capital flowed out, portfolio allocations to emerging markets fell to a little over 10%, far below their 60% share of global GDP, and the prevailing view hardened into something close to structural dismissal. The problem is that this perception has become anchored to a specific era, one defined by U.S. dominance and emerging market stagnation, and it no longer reflects the terrain as it actually exists today.

Why do you think that this perception needs to be updated? What are some of the key data points that investors need to account for in order to change their perceptions about emerging markets?

The perception was largely formed during a period when emerging markets genuinely did face significant structural challenges. However, many of the risks that defined the earlier era, including weak central banks, currency fragility, poor fiscal discipline, and inadequate minority shareholder protections, have materially improved across much of the emerging markets universe. Many emerging economies have spent the intervening decades building fiscal discipline, strengthening central bank credibility, and reducing reliance on foreign-currency borrowing, prudence that now stands in stark contrast to much of the developed world.

Several data points are particularly hard to ignore. On a cyclically adjusted price-to-earnings basis, emerging market stocks trade at roughly a 60% discount to the U.S., a gap nearly as wide as anything seen in the past four decades, comparable only to the late 1990s when many Asian economies were in crisis. Starting valuations are among the most important drivers of long-term returns, and today's starting point for emerging markets looks considerably more attractive than for the U.S.


"Starting valuations are among the most important drivers of long-term returns, and today's starting point for emerging markets looks considerably more attractive than for the U.S."

Emerging markets are typically seen as a risky proposition. To what extent is this perception still justified today?

Perhaps partly, but less so than the prevailing consensus suggests. Political instability, state intervention, and currency volatility remain issues in certain markets, and it would be naive to be dismissive of these. In some countries, weak governance and opaque ownership structures continue to suppress valuations and create genuine risks for minority shareholders. These risks deserve real consideration.

That said, these issues are largely visible and, in many cases, already reflected in depressed prices, which is rather different from being blindsided by unknown risks embedded in already expensive assets. More broadly, the characterization of emerging markets as inherently more volatile than developed markets has become empirically questionable. The relative volatility of emerging market equities versus developed market equities has fallen steadily over the past decade and is now broadly comparable. Investors anchored to the experience of the past 15 years risk mistaking a cyclical and sentiment-driven story for a structural one.

Some emerging markets have undergone positive reforms, strengthening their policy frameworks and institutions. Can you elaborate on what these reforms are and how are they improving the risk profile of these countries?

Some of the most consequential changes have been in macroeconomic policymaking. Central banks across a broad swath of emerging markets have become genuinely more independent, more credible, and more transparent. Inflation-targeting frameworks are now firmly established in many countries, and the result has been meaningfully lower inflation volatility, fewer balance-of-payments crises, and a reduced tendency for temporary shocks to spiral into systemic events. Countries scarred by the 1997 Asian financial crisis in particular have adopted a level of fiscal conservatism that now stands in stark contrast to most developed markets, many of which are struggling with mounting debt levels.

At the corporate and market-structure level, South Korea is perhaps the clearest current example. A state-backed "Value-Up" program, subsequent amendments to the Commercial Act establishing fiduciary duties to shareholders, and the administration's commitment to capital market reform have collectively begun to narrow the longstanding "Korea Discount."

In terms of capital flows, over the last fifteen years, investors' portfolios have become increasingly concentrated in U.S. stocks. Why has this development happened?

The straightforward answer is that the U.S. stock market has delivered extraordinary returns, and capital has followed that performance. The rise of passive investing has amplified this effect considerably. The issue today is that indices designed to represent global diversification now allocate roughly 65% to the U.S., the highest proportion on record, and passive flows mechanically reinforce whatever is already large.

While the U.S. has its fair share of excellent businesses, much of the return that we have seen in the U.S. has been driven by expanding valuation multiples and rising profit margins, both of which face natural limits. At current valuations, U.S. equities are priced at levels that have historically preceded reliably poor long-term returns.

Not all emerging markets look equally attractive. How do you think about the valuation dispersion across countries, and where are you finding opportunities versus being more cautious?

Treating emerging markets as a single, homogeneous block has always been an oversimplification, but the dispersion of valuations across countries, and within them, is unusually wide today. Some markets remain deeply out of favor and genuinely cheap; others have attracted sufficient enthusiasm to push valuations to levels that leave little room for error. Getting this distinction right matters enormously, both as a source of potential return and as a risk management tool.

India is the obvious cautionary example. Its economic trajectory and demographic tailwinds are genuinely compelling, but at a 100% premium to other emerging markets, broadly on a par with the U.S., those attractions look fully priced. It is perhaps not coincidental that Indian equities have underperformed those in China, Korea, and Brazil over the past year.

Korea and parts of China, by contrast, remain attractively valued: businesses with solid fundamentals, improving capital discipline, and ongoing reform momentum are still trading at discounts due to governance concerns and lingering negative sentiment. That combination of good businesses, poor reputation, and reasonable price is where the most interesting opportunities tend to be found. The broader point is that passive exposure to emerging markets captures some excellent businesses at compelling prices, but also a great deal of deserving laggards. In a universe as diverse and uneven as this one, selectivity is both a risk management tool and a genuine source of alpha.

We discussed policy reforms above. What are some additional tailwinds from which emerging market equities benefit and that investors are not yet pricing in?

One of the most underappreciated tailwinds is arguably currency. Emerging market currencies sit well below long-term fair value on purchasing power parity measures, near multidecade lows relative to the U.S. dollar. Historically, this kind of undervaluation has added materially to equity returns as currencies revert toward fair value, benefiting dollar-based investors.

Crucially, this undervaluation has emerged alongside genuinely stronger fundamentals: improved external balances, more credible monetary frameworks, and reduced reliance on foreign-currency borrowing. The currency weakness of recent years does not reflect the structural fragility of previous cycles, as flexible exchange rate regimes now act as shock absorbers rather than crisis triggers.

Meanwhile, the risks embedded in the U.S. dollar itself are becoming more apparent. Decades of capital inflows, rising U.S. leverage, and growing dependence on foreign savings have left the U.S. dollar expensive by most measures and increasingly sensitive to shifts in confidence. Any meaningful reversal in dollar strength would represent a direct tailwind for emerging market assets, precisely the sort of diversifying return driver that is currently underweighted in most global portfolios.

From a portfolio construction and diversification perspective, how should investors think about emerging market equities?

The diversification argument for emerging markets is straightforward and often undervalued. Since the inception of the MSCI Emerging Markets Index in 1988, emerging market equities have exhibited a correlation of just 0.66 with U.S. equities, well below the correlations between other major developed market indices. In a world where global portfolios are increasingly dominated by a handful of U.S. technology companies, diversification is worth considerably more than it used to be. The relative volatility objection has also weakened: the ratio of emerging market to developed market volatility has fallen steadily and is now broadly comparable.

It is worth noting, though, that passive emerging market exposure comes with its own concentration risks. Just three semiconductor chip manufacturers (TSMC, Samsung, and SK Hynix) in aggregate account for more than 25% of the MSCI index,

Volatility in EMs has been coming down and converging with DMs

Rolling 3-year annualized volatility

Source: LSEG Datastream, Orbis. Total return is gross of withholding tax.

meaning passive investors are taking on considerably more thematic risk than the label "emerging markets" might suggest.

A passive approach is therefore not the diversified emerging market exposure it might appear. Active, selective exposure is arguably the more genuine way to capture the diversification benefit while avoiding the governance risks and index inefficiencies embedded in broad benchmarks.

In markets like China, strong corporate profit growth has not always flowed through to shareholders. Why does earnings growth sometimes fail to translate into per-share returns, and what does that mean for investors?

The flow-through of value creation from economic growth to earnings growth to per-share value is not necessarily a given, and in several emerging markets it has been remarkably leaky. Dilution through share issuance, poor capital allocation, state intervention, and related-party transactions can all erode per-share value even as headline profits grow. China illustrates the problem most starkly. Listed Chinese companies grew net profits at approximately 15% per year over the twenty years to end-2025, yet earnings per share grew by only around 5% per year. The majority of profit growth simply did not accrue to shareholders.

Parts of the Chinese equity market have at times been affected by state ownership, self-serving shareholders, related-party transactions, and misaligned capital allocation. Rules to protect minority shareholders have historically been weak, and the market has at various points been further buffeted by regulatory crackdowns on technology companies, U.S.-China tensions, the property market boom and bust, and protracted Covid-19 lockdowns, all of which have weighed heavily on share prices.

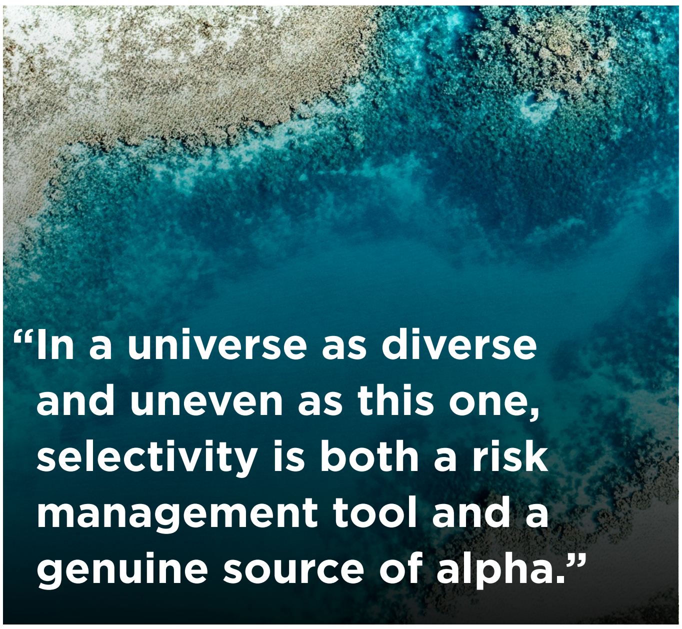
None of this means China should be avoided wholesale, but it does mean that selectivity is essential, arguably more so than in any other emerging markets. The opportunity lies in identifying that small number of high-quality businesses run by genuinely aligned management teams, trading at less than their intrinsic value.

NetEase is a good example: a well-governed, cash-generative business that has weathered periods of extreme negative sentiment. Those sentiment swings can be painful, but for investors with high conviction in the quality of the underlying business and its management, they often present opportunities to add to positions rather than reasons to retreat. That combination of discipline and patience is, ultimately, what the emerging market asset class demands of investors across the board.

What advice would you give to investors who want to explore the opportunity set of emerging market equities but don't know where to start or how to go about it?

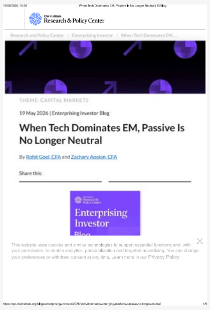
Start by acknowledging that the perception that many investors have of emerging markets is out of date. The mental model shaped by 15 years of underperformance, currency headwinds, and governance failures reflects a set of conditions that have, in meaningful ways, changed. Approaching the asset class with that stale framework will cause investors to either avoid it entirely, missing the opportunity, or to engage with it passively, which brings its own problems.

Beyond that, selectivity is everything, and the work is genuinely difficult. In our view, the most attractive opportunities lie in well-governed businesses with durable competitive advantages, run by owner-managers with skin in the game, trading at a meaningful discount to intrinsic value.



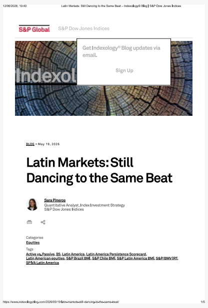
Savvy Investor Top Papers

Our top pick of emerging markets papers



When Tech Dominates EM, Passive Is No Longer Neutral
CFA Institute Research & Policy Center

The MSCI EM Index has become unusually concentrated in a small group of North Asian semiconductor and hardware companies tied to the global AI investment cycle. As a result, passive EM exposure today is less neutral than it appears.



Latin Markets: Still Dancing to the Same Beat
S&P Dow Jones Indices

Ultimately, 2025 was a record-breaking year for Latin American equities in an absolute sense. Yet, from a relative perspective, the underlying mechanics of skew and concentration proved difficult for most active managers to navigate.

South Korea in Focus
Ashmore

Over the last decade, South Korea has run a large current account surplus, yet has watched its currency weaken to a 13-year low. The primary reason is simple: large capital outflows have overpowered the trade balance.

Emerging Markets: Built to Rise
Amundi

Despite the uncertainty surrounding the conflict in the Middle East, the case for emerging market equities and fixed income looks strong.

Note: This paper is geo-targeted.

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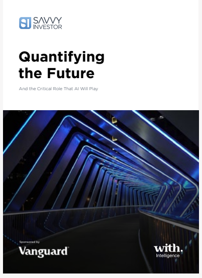

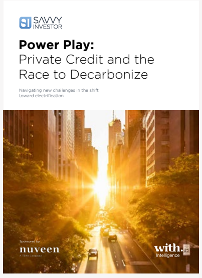

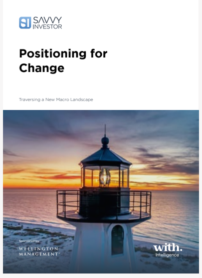

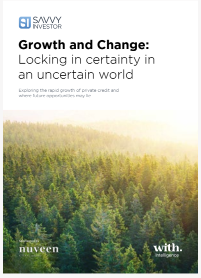

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