FOCUS ON EMERGING MARKETS
Where growth meets innovation

SEPTEMBER 2026

MARTIN FECHTNER, CFA
Portfolio Manager
ODDO BHF SE

JACQUELINE BLOMENDAHL, CFA
Portfolio Manager
ODDO BHF SE

THIERRY MISAMER, CEFA, CIIA
Portfolio Manager
ODDO BHF AM GmbH

Emerging markets are often associated with volatility, political uncertainty and currency risk. **Yet for long-term investors, they can also represent a source of growth, innovation and global diversification through exposure to economies whose growth prospects, in some cases, remain stronger than those of developed economies.** The asset class is no longer simply a niche allocation. Despite the recent downward revisions to growth forecasts, **emerging economies account for a significant share of global economic activity while continuing to contribute to its growth**. According to the IMF, global growth is expected to remain moderate in 2026, while emerging market economies are still projected to grow at a higher pace than advanced economies[1].

For investors, this growth premium matters. Emerging markets provide exposure to economies that are benefiting from rising household incomes, an expanding middle class, urbanisation, infrastructure investment and advanced technology. These structural forces can support domestic consumption and corporate earnings over the long term.

At the same time, emerging markets offer access to regions and sectors that are often not fully represented in traditional US- or Europe-focused portfolios.

A BROADER SOURCE OF PORTFOLIO DIVERSIFICATION

For investors, **emerging markets can play an important role as a diversifier** within a global equity allocation. Their economic cycles, currencies, sector exposure and domestic growth drivers often differ from those of developed markets. This can help reduce dependence on a narrow set of developed-market drivers, particularly at a time when many global portfolios remain heavily concentrated in US equities and large-cap technology stocks.

This diversification argument has become increasingly relevant. After years of US market dominance, many investors are looking for broader sources of return. Emerging markets may offer exposure to different earnings cycles and different long-term growth themes. Importantly, the asset class has also become more diverse internally: **While China remains important, the rise of technology and artificial intelligence (AI) has increased the significance of South Korea and Taiwan, with India also representing a substantial and well-established component, making the EM universe more attractive.**

FROM COMMODITIES TO TECHNOLOGY LEADERSHIP

A key change over the past decade is that emerging markets are no longer only about commodities, banks or low-cost manufacturing. Several countries now sit at the heart of global innovation.

Taiwan and South Korea are critical to the global semiconductor value chain, while China remains a major force in e-commerce, electric vehicles, batteries, AI and advanced manufacturing. This means that investors in emerging markets are not only investing in domestic consumption stories, but also in key enablers of global technological transformation.

The examples mentioned in the document are not investment recommendations.

[1] Sources: ODDO BHF AM, IMF | July 2026

The AI theme is especially relevant. While investor attention has often focused on large US technology companies, the infrastructure behind AI is global.

Semiconductor manufacturers, memory chip producers, hardware suppliers and advanced manufacturing companies across Asia are essential parts of the AI ecosystem. As AI-related capital expenditure broadens, selected emerging market companies may continue to benefit from this structural trend.

DEMOGRAPHICS, CONSUMPTION AND THE RISE OF THE MIDDLE CLASS

Beyond technology, **demographic trends continue to shape the long-term development of many emerging economies**. Across parts of Asia, Latin America and Africa, younger populations and expanding middle classes are supporting demand for financial services, housing, healthcare, education, consumer goods and infrastructure.

This trend is particularly relevant for companies with strong domestic brands, scalable platforms and access to underpenetrated markets. **In sectors such as e-commerce, digital banking, healthcare and consumer services, several emerging markets still exhibit significantly lower penetration rates than developed economies.** This creates room for long-term growth as income levels rise and consumer behaviour becomes increasingly digital.

WHY IS IT THE RIGHT TIME TO CONSIDER EMERGING MARKETS, ACCORDING TO US?

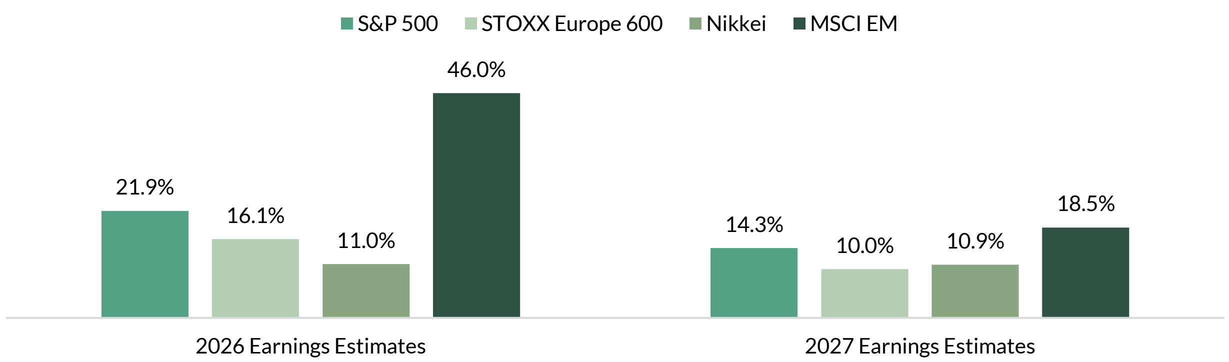
Exposure to structural growth themes: Emerging Markets offer exposure to some promising structural growth themes. China is leading innovation in electric vehicles and batteries, while other Asian companies such as TSMC, Samsung, and SK Hynix dominate advanced semiconductor manufacturing and are major beneficiaries of the global AI theme. Chinese technology and pharmaceutical firms are also gaining competitiveness through innovation and cost advantages.

Strong earnings growth prospects: According to current estimates, emerging markets are expected to offer the strongest corporate earnings growth among major regions. MSCI Emerging Markets is projected to deliver significantly higher earnings growth in 2026 and 2027 compared with the United States, Europe, and Japan, supporting the investment case for emerging market equities within a diversified portfolio.

Broader emerging market universe: The emerging market universe has become less dependent on China, with more than 75% of the MSCI Emerging Markets index now represented by countries outside China[2]. Markets such as India, Taiwan, South Korea, Brazil and Mexico provide diversified sources of growth and a broad range of investment opportunities.

Attractive valuation levels: In addition to stronger growth prospects, emerging markets currently trade at attractive valuations relative to developed markets, particularly the United States. The lower relative price-to-earnings ratios suggest that investors can access greater growth potential while benefiting from more favorable entry valuations.

ESTIMATES OF CORPORATE EARNINGS GROWTH, 2026 AND 2027 (YOY)[1]



The examples mentioned in the document are not investment recommendations.

Table sources: FactSet, ODDO BHF SE, ODDO BHF AM GmbH | Data as of 30/04/2026 | [1] Calculated by FactSet based on analyst estimates. Growth figures represent year-on-year changes. Past performance, simulations or forecasts are not a reliable indicator of future performance. Returns may fluctuate upward or downward as a result of currency movements. | [2] MSCI, MSCI Emerging Markets Index Factsheet, June 2026.

WHY SELECTIVITY MATTERS?

Emerging markets offer a broad range of investment opportunities, but they are far from homogeneous. Country risk, currency volatility, governance standards, geopolitical exposure and regulatory frameworks can vary widely. Therefore, **the key is not simply to "buy emerging markets", but to access this investment universe through a selective, diversified and quality-oriented approach.** Major emerging market indices can be structurally biased towards large companies with significant state influence, financial institutions or commodity-related businesses. While these companies may play an important role in their domestic economies, they are not necessarily the most innovative parts of the market or may not always prioritise shareholder returns. As a result, passive index exposure may underrepresent some long-term growth opportunities.

A robust investment process should focus on companies with strong balance sheets, durable competitive advantages, transparent governance and long-term growth drivers. ESG analysis can also help identify companies that are better positioned to manage environmental and social risks, particularly in markets where disclosure standards and regulatory frameworks may vary.

This is also why active management can be particularly relevant in emerging markets. **The dispersion between countries, sectors and companies is often wider than in developed markets,** creating opportunities for investors who can differentiate structural winners from value traps.

The examples mentioned in the document are not investment recommendations. Past performance is not a reliable indicator of future returns and is subject to fluctuation over time. Performance may rise or fall for investments with foreign currency exposure due to exchange rate fluctuations. Emerging markets may be subject to more political, economic or structural challenges than developed markets, which may result in a higher risk.

ODDO BHF Asset Management Lux
Portfolio management company approved by Commission de Surveillance du Secteur Financier (CSSF)
Commercial register : B29891
6, rue Gabriel Lippman – L-5365 Munsbach, Luxembourg – Phone: +352 45 76 76 1
am.oddo-bhf.com