Emerging Markets Equity Newsletter

Executive summary

Emerging market equities entered 2026 with renewed momentum after a strong 2025. The recovery was driven by a weaker U.S. dollar, better earnings revisions, healthier corporate balance sheets, and increasingly important structural demand from AI infrastructure. Q1 2026 was more volatile, but the underlying opportunity broadened as investors recognized the role of EM companies in semiconductors, memory, advanced manufacturing, copper, power, logistics, and supply-chain diversification.

The next phase of EM performance should be less about owning the index and more about owning high-quality companies exposed to durable growth themes. We continue to prioritize high returns on equity, strong balance sheets, pricing power, and reasonable valuations.

33.6%

MSCI EM Index return in 2025, USD terms

5.0%

China 2025 GDP growth, meeting its official target

~$1.2T

China 2025 trade surplus, supported by diversified export markets

From broad recovery to sharper dispersion

The 2025 rally was more than a valuation rebound. Lower inflation in several EM economies, earlier monetary easing cycles, and improving external balances helped reduce perceived vulnerability. Leadership remained selective: Taiwan and South Korea benefited from AI-related hardware and memory demand, China recovered from depressed valuations, and selected Latin American markets benefited from commodities, currency stability, and improving real rates.

Q1 2026 reminded investors that EM rallies are rarely linear. Country, sector, and security dispersion increased. Crowded growth and platform companies faced pressure, while businesses tied to AI infrastructure and capital discipline continued to show resilient earnings. We also note that some Asian semiconductor and AI-related equities have experienced a recent pullback after a strong run, which reinforces the importance of valuation discipline rather than weakening the long-term structural case. Geopolitics, energy prices, and tariff uncertainty also reinforced our view that active selection matters more than passive index exposure.

Regional views

KOREA: SK HYNIX, MEMORY CYCLE, AND MARKET REFORM

Korea continues to demonstrate exceptional performance, a trend that has remained stable since last year. The memory market is experiencing an unprecedented upcycle. Combined with the fact that no major player is meaningfully increasing capacity, this has created significant upward pressure on pricing.

SK Hynix remains one of the clearest beneficiaries of this cycle. The company is strongly positioned in high-bandwidth memory, a critical component for AI accelerators and data-center workloads. Demand for AI infrastructure continues to support a favourable supply-demand environment, and SK Hynix has continued to deliver outstanding operating performance, strong cash-flow generation, and attractive fundamentals. SK Hynix and Samsung Electronics, where we hold overweight positions, both reported the best quarters in their history in Q1 2026, following record results already achieved in Q4 2025 and for the full year 2025.

We remain positive on both companies in the near term, with a stronger emphasis on SK Hynix given its direct exposure to the AI memory cycle. At the same time, we continue to monitor the cycle closely given the inherent cyclicality of the sector. We also recognize that rising inflationary risks linked to the war in the Middle East are negative for the technology sector overall. At this stage, we do not expect signs of a cycle reversal before 2027, and the cycle could potentially remain supportive into 2028. If the memory market remains as strong as currently expected through 2026 and 2027, SK Hynix and Samsung Electronics remain highly attractive from both a valuation and fundamental perspective.

The Korean market as a whole has also benefited from new pro-market initiatives from the new administration, including fiscal stimulus of roughly 1.5% of GDP and discussions around reforms aimed at addressing long-standing measures that have contributed to Korea's structural valuation discount relative to other emerging markets.

MMI perspective

The next phase of EM performance should be less about owning the index and more about owning high-quality companies exposed to durable growth themes. We continue to prioritize high ROE, strong balance sheets, pricing power, and reasonable valuations.

CHINA: RESILIENT EXPORTS, ATTRACTIVE SELECTIVE OPPORTUNITIES

China achieved its 2025 GDP growth target of approximately 5% despite a renewed U.S.-China trade war under the second Trump administration. A key reason was the export diversification that began during Trump 1.0. Chinese manufacturers had already shifted more aggressively toward ASEAN, Latin America, Europe, and other non-U.S. markets. This diversification helped exports and manufacturing remain resilient even as consumption and real estate stayed weak, pursuing its two-speed economy dynamic of recent years.

This resilience is important. China is no longer as dependent on a single export destination as it was in previous cycles. Its companies have spent years broadening supply chains, customer bases, and end markets. As a result, the renewed tariff pressure has not prevented China from meeting its headline growth objective. Exports and manufacturing remain the stronger side of the economy, while consumption and property continue to lag.

We do not expect a major consumption stimulus while exports remain strong enough to support headline growth. However, over the long term, Beijing will likely need to stimulate domestic demand and entrepreneurship, as it did successfully when consumption was the main driver of Chinese growth from 2010 to 2020. Valuations in selected consumer sectors have corrected meaningfully and are increasingly attractive for medium- and long-term investors.

Several portfolio companies continue to generate strong free cash flow and exceptional returns on equity. Anta Sports, for example, recently announced the acquisition of a 29% stake in PUMA, a transaction that could strengthen its position as a leading global sportswear group. While China remains a complex market, we believe selective opportunities are becoming more attractive, especially among cash-generative companies with strong competitive positions and valuations that already reflect significant pessimism.

China lens

Resilient exports and diversified end markets supported the 2025 GDP target despite renewed trade pressure. Selective consumer valuations are more attractive after a meaningful reset.

AI Infrastructure: A Structural Tailwind for Emerging Markets

Why the AI buildout expands the EM opportunity set

AI demand is becoming a physical infrastructure cycle

The surge in generative AI is translating into a massive capital-expenditure cycle. Training and inference require advanced chips, high-bandwidth memory, advanced packaging, servers, storage, networking equipment, power management, cooling systems, and data-center capacity. This is not only a U.S. software or hyperscaler theme. A significant part of the physical supply chain is located in emerging markets.

Taiwan and South Korea are central to this transformation. Taiwan remains critical in leading-edge foundry, advanced packaging, server components, printed circuit boards, and AI hardware manufacturing. South Korea is a global leader in memory, including high-bandwidth memory, which is essential for AI accelerators and data-center workloads. The theme is also broadening to suppliers of testing equipment, substrates, copper and cable systems, industrial automation, thermal management, power components, and grid equipment.

For EM investors, this is an important change. Emerging markets are no longer only a proxy for commodities, currencies, or domestic consumption. Selected EM companies are now indispensable to the physical infrastructure of the global AI economy. The opportunity includes advanced chips and foundries, high-bandwidth memory, advanced packaging and testing, AI servers and components, power and cooling, copper, grid equipment, and Southeast Asian manufacturing and data centers.

India: strong long-term thesis, near-term discipline

We continue to monitor India closely. The market underperformed EM last year, and valuations remain elevated at roughly 20x P/E. Our long-term view remains very positive, but near-term caution is warranted given earnings adjustments and continued pressure in IT services, a key part of the economy that may be affected by AI advances.

We recognize that India could outperform if markets rotate away from AI-driven technology equities in Taiwan and Korea, although we view this as unlikely in the near term. We remain underweight in India.

Portfolio implications and outlook

For Mount Murray Investment, the AI infrastructure cycle reinforces the importance of quality and valuation discipline. Strong thematic demand does not justify buying every company exposed to AI. We seek businesses with durable competitive advantages, high returns on equity, strong balance sheets, pricing power, and credible earnings growth. The most attractive opportunities are likely to be companies that are indispensable to the AI supply chain, yet still trade at valuations that leave room for positive earnings surprises.

In our view, 2025 may have marked the start of a more favourable EM cycle. Q1 2026 showed that volatility will remain part of the journey, but the strategic case has improved. AI infrastructure adds a powerful structural growth driver, while China, Latin America, Korea, and India each require a distinct investment lens. We remain constructive, selective, and focused on disciplined stock selection.

Where AI benefits EM

1. Advanced chips and foundries
2. High-bandwidth memory
3. Advanced packaging and testing
4. AI servers and components
5. Power, cooling, copper, and grid equipment
6. Southeast Asian manufacturing and data centers

Positioning snapshot

Positive: Korea memory cycle and AI hardware, particularly SK Hynix.
Selective: China consumer and cash-generative leaders.
Overweight: Latin America, supported by commodities, improving policy direction, and potential real-rate normalization.
Underweight: India, due to elevated valuations and near-term earnings adjustments.

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