PORTFOLIO COMPASS

Emerging Markets

September 2025

Executive summary

2025 could be a defining year for emerging markets. After years of investors chasing US exceptionalism, this sentiment appears to have tempered due to heightened policy uncertainty and rising government debt, translating to USD weakness.

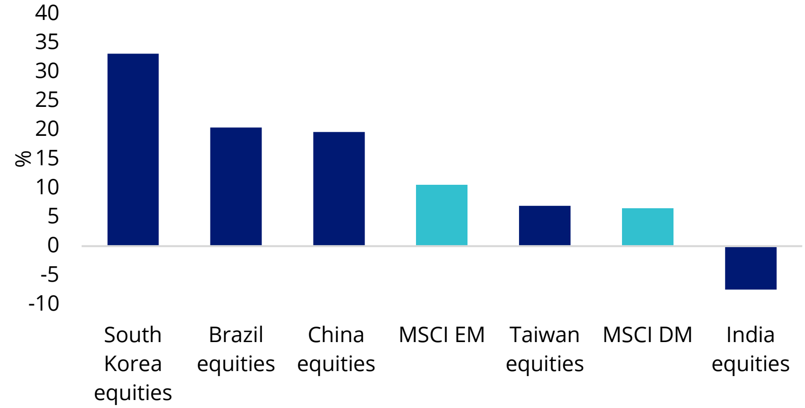
This shift has supported the outperformance of emerging market debt and equities relative to developed markets year-to-date. Technology stocks in China and South Korea have led equity gains, while a weaker US dollar has supported commodity-heavy Brazilian equities and tightened credit spreads, boosting bond returns.

Looking ahead, several tailwinds including durable growth premiums, de-dollarisation, sector leadership in semiconductors and tech hardware, and compelling valuations across many EM asset classes could continue to support this momentum. India and Taiwan remain key structural winners, while Brazil and China present attractive entry points amid policy easing and stabilising sentiment. EM tech is particularly well-positioned to capture global AI-linked demand without the valuation excesses of US peers.

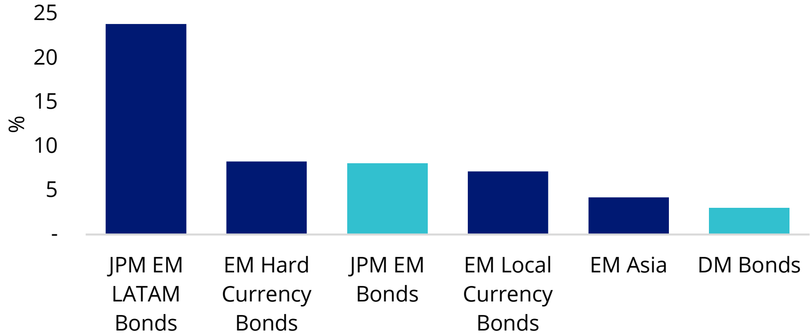
EM bonds offer strong forward-looking return potential as easing cycles progress and real yields remain positive. We believe an active, unconstrained approach is well suited to capture opportunities across both local and hard currency segments.

Tariff risks and geopolitical tensions remain key global wildcards. However, EMs enter this phase with stronger fundamentals and greater policy credibility than in previous cycles.

Year to date emerging market equities performance



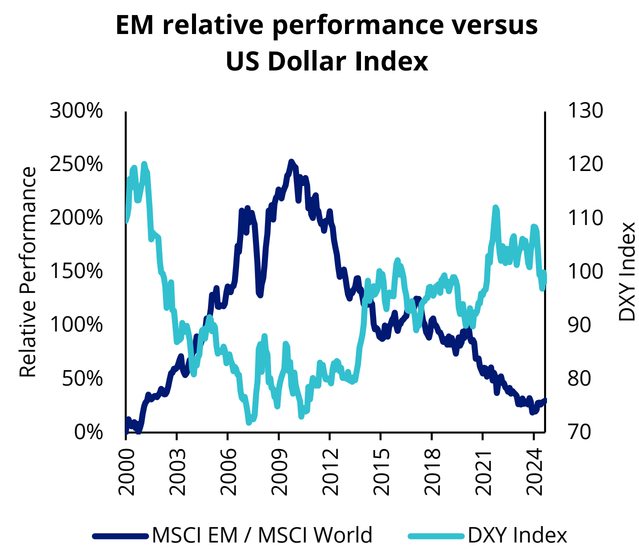
Year to date emerging market bonds performance

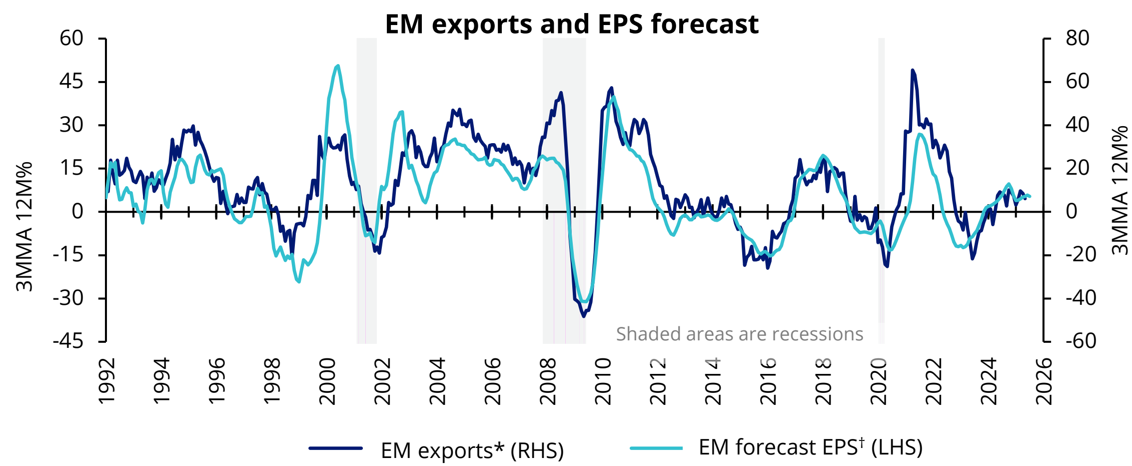


Source: China equities is the MSCI China Net Total Return Index. India equities is the MSCI India Net Total Return Index. South Korea equities is the MSCI Korea Net Total Return Index. Taiwan equities is the MSCI Taiwan Net Total Return Index. Brazil equities is the MSCI Brazil Net Total Return Index. MSCI EM is the MSCI Emerging Markets Net Total Return Index. MSCI DM is the MSCI World Net Total Return Index. DM bonds is the Bloomberg Global Aggregate Total Return Index Hedged USD. Latin America bonds is the J.P. Morgan Emerging Markets Bond Index Latin America Total Return Index Hedged USD. EM Asia is the J.P. Morgan Emerging Markets Bond Index Asia Total Return Index Hedged USD. Hard currency EM (AUD hedged) is the J.P. Morgan Emerging Markets Bond Index Global Diversified Hedged AUD. Local currency EM (unhedged) is the J.P. Morgan GBI-EM Global Diversified Composite Index. 50% EM hard currency / 50% EM local currency is 50% J.P. Morgan Emerging Markets Bond Index Global Diversified Hedged AUD and 50% J.P. Morgan GBI-EM Global Diversified Composite Index unhedged AUD. Performance is in AUD. Data as at 31 August 2025. You cannot invest directly in an index. Past performance is not a reliable indicator of future performance.

De-dollarisation serves as a structural tailwind for EM equities

- US dollar share in total allocated international reserves has fallen to lowest levels since the mid 1990s, reinforcing a broader shift away from the dollar dominance.
- In 2025, this trend has accelerated, contributing to a decline of over 10% in the US dollar from its peak. Catalysts include US economic policy instability and rising government debt.
- A lower USD dollar typically boosts EM exports, which could see earnings per share growth rebound in coming quarters. Historically, this is typically when EM equities have outperformed DM equities.

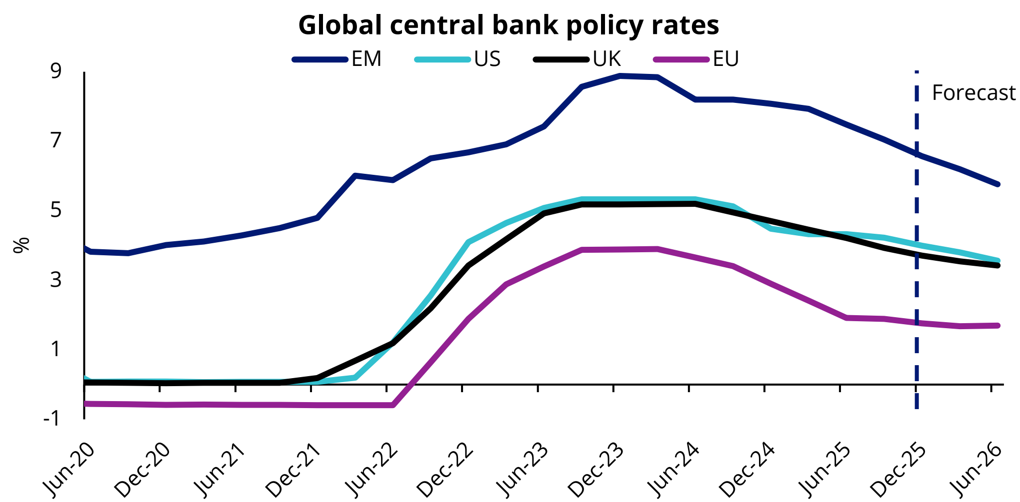


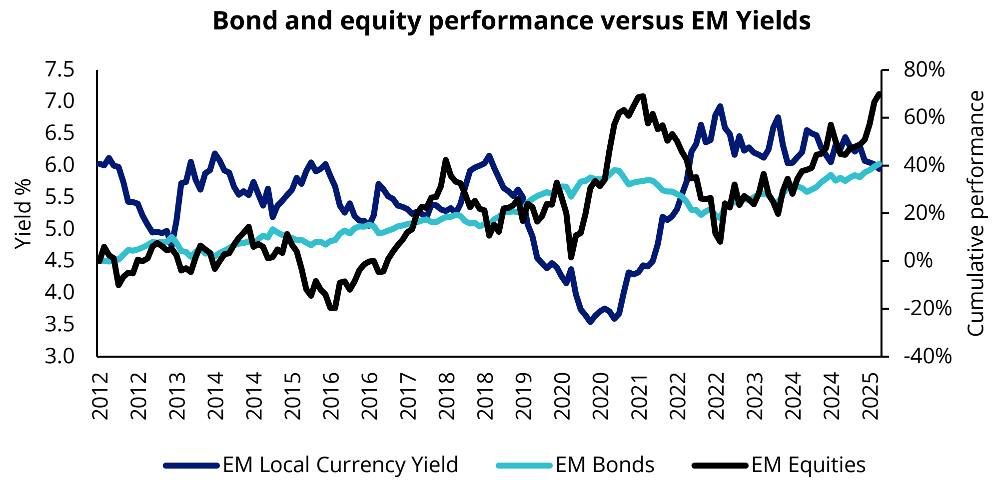


Source: VanEck Australia, Bloomberg. CPB, IBES/DataStream, MSCI, NBER. Data as at 31 August 2025. MSCI EM is MSCI Emerging Markets Net Total Return Index. * US$ export value. † Forecast US$ EPS for MSCI EM, 3MMA 12M%.

Deeper EM easing cycle positive for equities and bonds

- EM central banks began raising rates in mid-2020, whereas DM peers held rates near zero to soften the pandemic shock.
- As policy tightening was front-loaded, major EM economies have already absorbed the worst of the inflation spike, allowing a pivot earlier to support domestic growth, independent of the DM policies.
- Forecasts show EM policy rates staying materially above DM levels, keeping real rates positive, a cushion for local currencies and a magnet for capital inflows.
- However, a deeper EM easing cycle forecast could also local currency government bond yields lower, potentially boosting equity and bond returns.



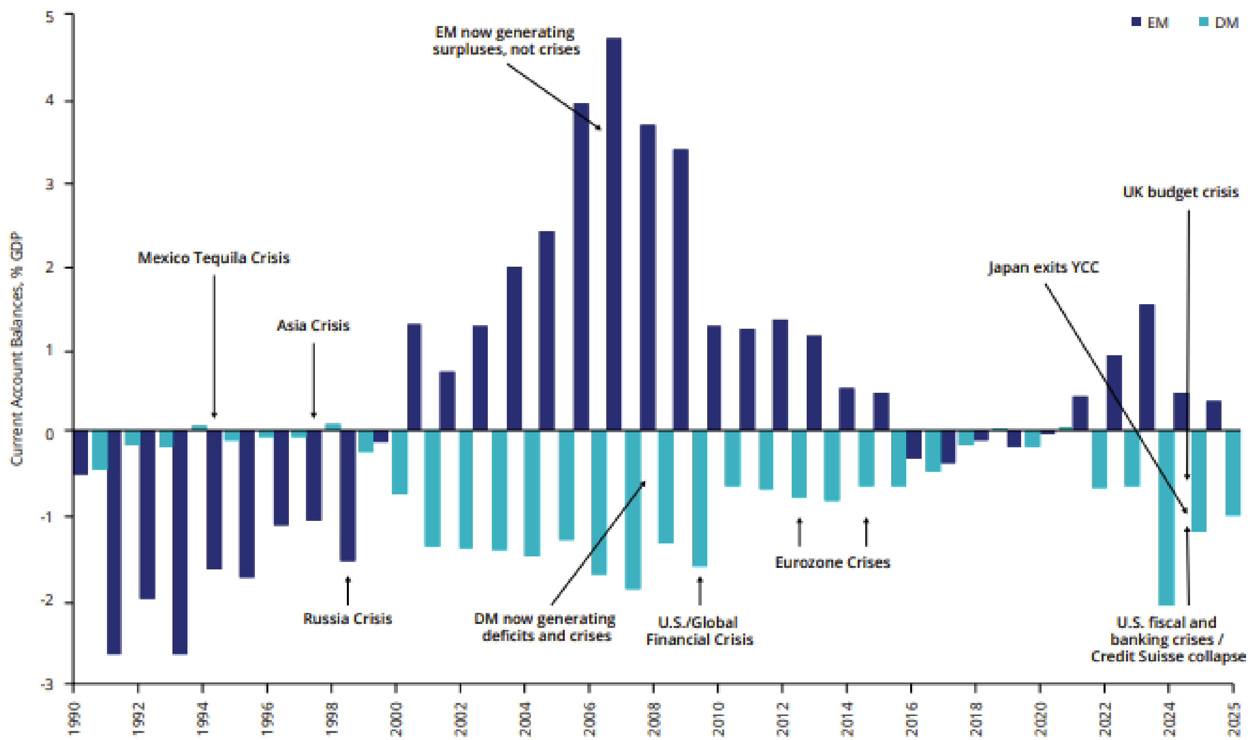


Source: VanEck Australia, Bloomberg. EM refers to Bloomberg Economics' policy rate estimate for Emerging Markets. US is the Effective Federal Funds Rate. UK is the SONIA Benchmark Interest Rate. EU is the ESTR Volume-Weighted Trimmed Mean Rate. The US forecast is based on futures market pricing, while forecasts for other regions are based on OIS market pricing. EM local currency is EM Local Currency Liquid Government Index. EM bonds is Emerging Markets Local Currency Core Government Bond Index. EM equities is MSCI Emerging Markets Index. Data as at 31 August 2025. Past performance is not indicative of future performance.

Surpluses supported nearly 30 years of EM exceptionalism

- Fiscal policy discipline in EM has strengthened, with monetary independence improving since the post-1990s crisis era.
- This has translated into EM nations running current-account surpluses, while DMs have accumulated persistent deficits over the past 30 years. This has contributed to many recent financial crises that have stemmed from developed markets.
- EM's net-exporter status reflects strong global demand for its products, which supports domestic industries and employment, encouraging foreign investment and economic stability.

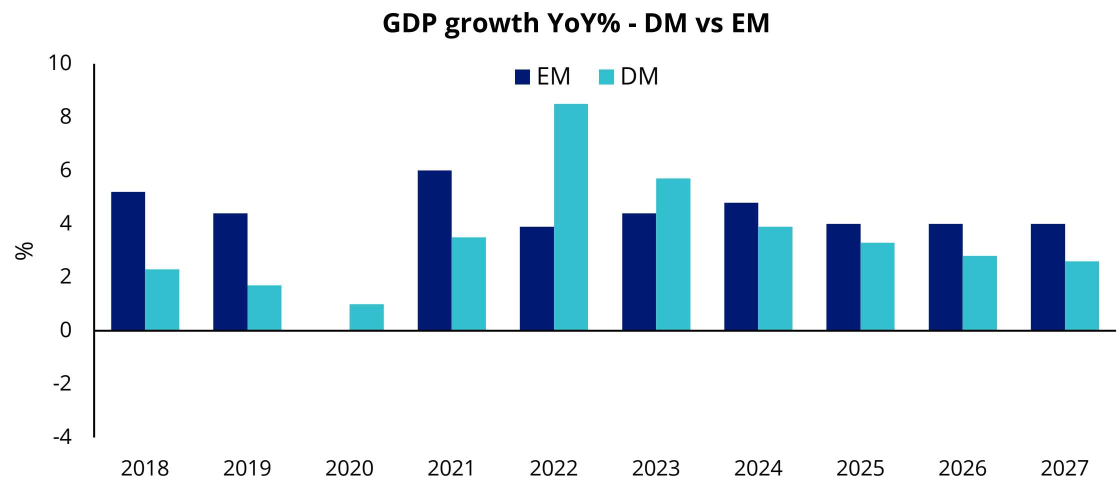
Current account balances, % of GDP – DM versus EM

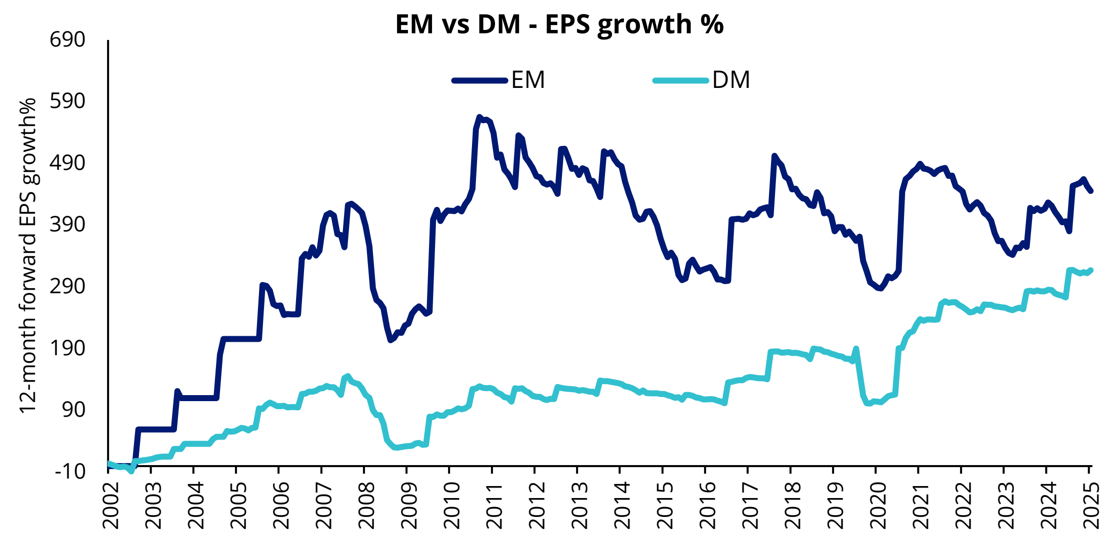


Source: Bloomberg LP, as at July 2025

Growth premium remains the key attraction for EM

- Despite global volatility, EM economies continue to grow at nearly double the pace of DM, underscoring their role as the world's key engine of expansion.
- With this growth premium forecast to persist through 2027, EM remains a structurally compelling allocation for investors seeking long-term capital appreciation.
- Over the past decade, EM earnings growth has trailed DM, contributing to relative underperformance. However, 12-month forward consensus forecasts now favour EM, suggesting potential for continued short-term outperformance if these expectations materialise.





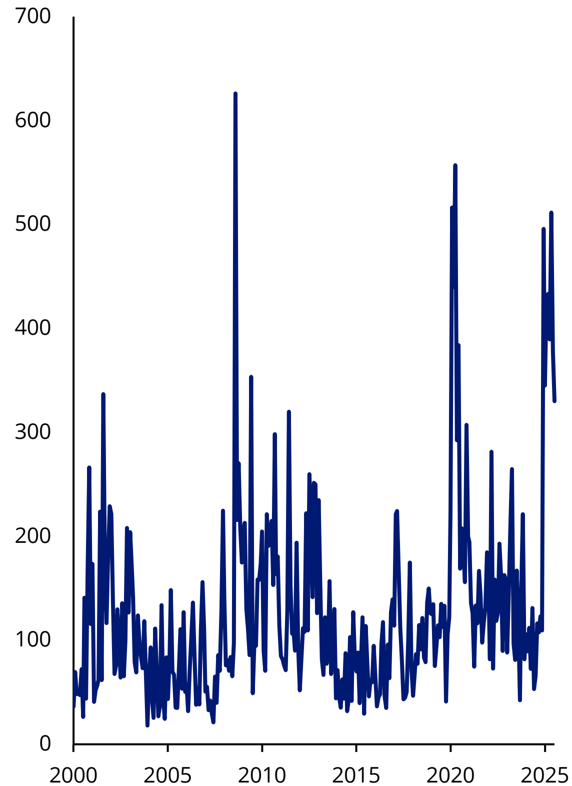
Source: VanEck Australia, Bloomberg. Average sell-side forecasts. Data as at 31 August 2025.

Exogenous risks

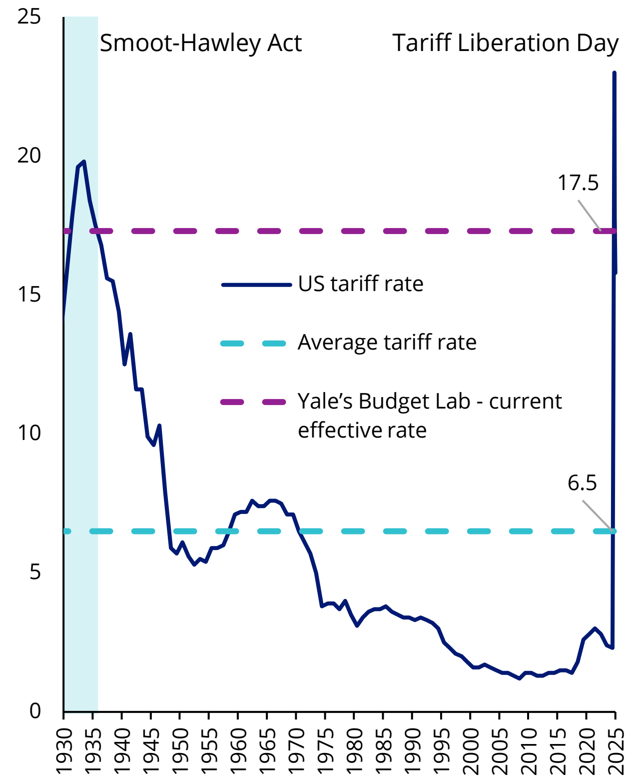
US tariff policy is the ultimate wildcard to watch

- US tariff policy is a key external shock for EMs, driving global uncertainty and reshaping trade flows, particularly for export-oriented economies.
- Unlike past episodes, the breadth and unpredictability of current tariffs raise the risk of supply chain disruption and inflation spillovers across EM.
- Many EMs are vulnerable to second-order effects of US–China tensions, including currency volatility, commodity price swings, and shifts in investor sentiment.
- For EM policymakers, this adds complexity to post-COVID recoveries, increasing the stakes for fiscal discipline and monetary credibility.

Global Economic Policy Uncertainty Index



US tariffs on the rest of the world



Source: Bloomberg; LHS chart data to 31 August 2025; RHS chart data to 4 September 2025.

Market views

Regions

- EM valuations remain attractive relative to DM, with wide dispersion offering selective opportunities.
- India and Taiwan remain key structural winners and appear best placed to lead emerging market equities in the short term, benefiting from several growth drivers and resilient earnings.

Sectors

- EM tech, with strong momentum and less-stretched valuations, offers further upside for global investors seeking diversified exposure to global AI transition.

Key markets

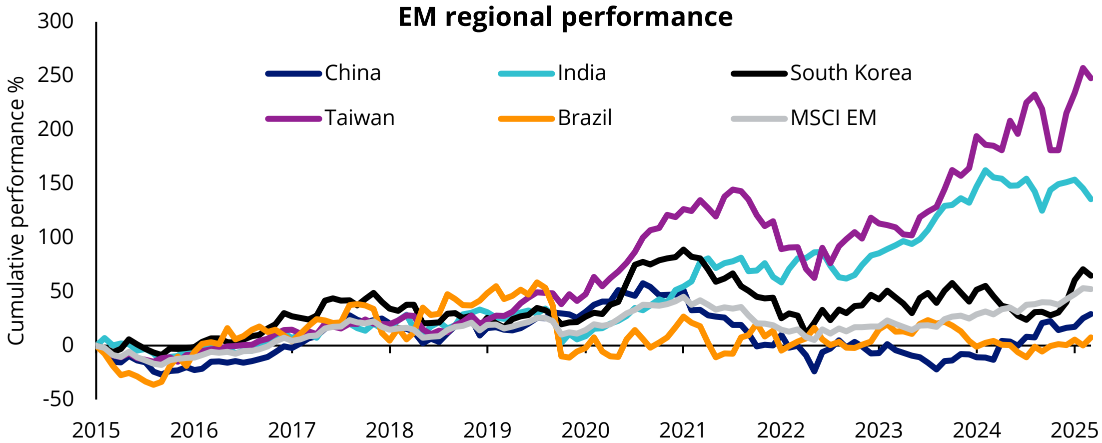
- India's strong GDP and earnings growth, coupled with easing policy and renewed foreign inflows, reinforces its appeal as a key EM outperformer.
- China's equity market offers attractive valuations and selective sector upside, with sentiment stabilising as growth targets are met and US-China relations improve.
- South Korea, benefiting from optimism in Asia tech and defence, could also see further upside.
- Brazil stands out as a deep value play with cyclical upside, offering attractive valuations and potential tailwinds from a weaker US dollar.

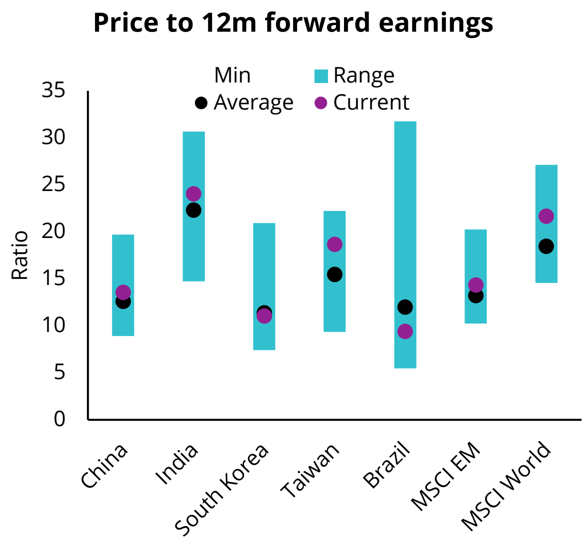
Fixed Income

- EM bonds are benefiting from early policy tightening and positive real yields, with easing cycles now supporting returns as global rate divergence widens.
- LATAM region appears poised for yield compression.
- An unconstrained and active approach is best-suited for gaining EM bond exposure in a portfolio seeking high income and diversification.

EM equities - regions

Fundamentals of key markets remain robust





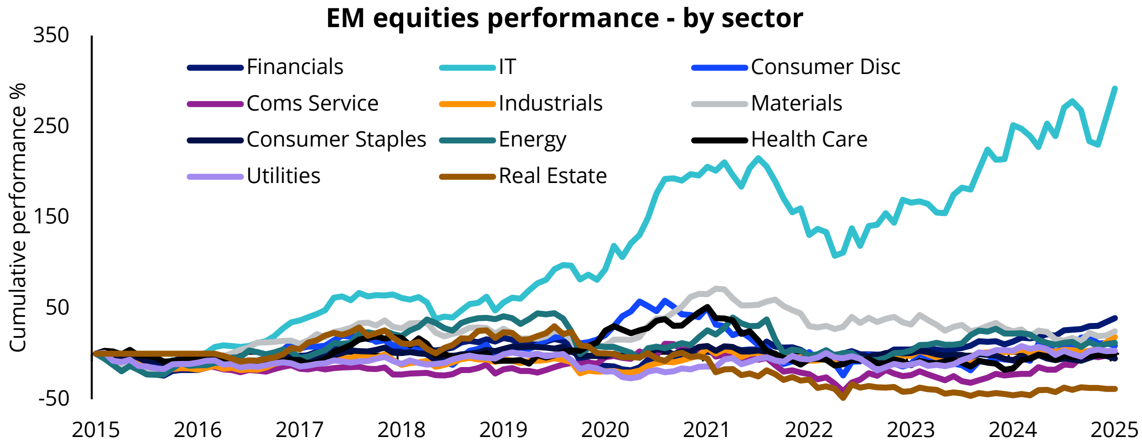
Key observations:

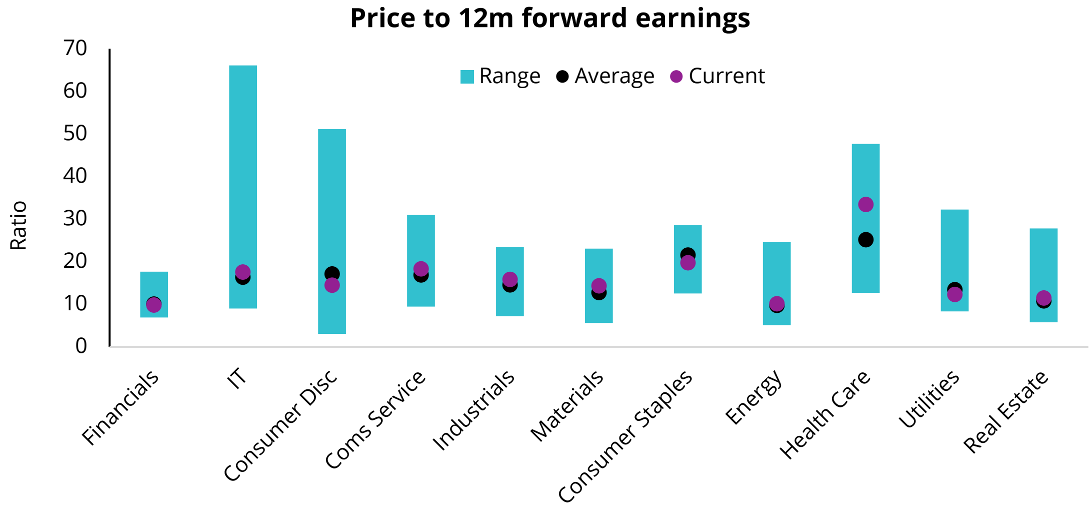
- India and Taiwan have led EM equity performance over the past decade, supported by structural tailwinds; India from domestic reform and consumption, and Taiwan from global semiconductor demand. We expect these structural tailwinds to endure despite tariff and geopolitical uncertainty.
- Valuation dispersion within EM is wide, with Brazil and China trading at discounts to long-term averages, while India commands a premium on strong fundamentals.
- EPS growth expectations over the next 12 months are strongest in South Korea, followed by India and Brazil. If realised, this could position these markets as key performance leaders in 2025–26, supported by sectoral strengths in technology, consumption and commodities.

Source: VanEck. Bloomberg. MSCI country indices. Performance in AUD. Data as at 31 August 2025. EM is the MSCI EM Index. DM is MSCI World Index.

EM equities - sectors

Information technology still offers compelling value despite recent strength





Key observations:

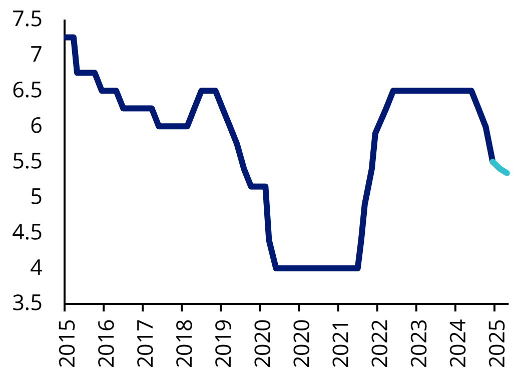
- EM IT has been the top-performing sector over the past decade, significantly outperforming other sectors, driven by the rise of semiconductor and hardware giants.
- Despite this strong performance, EM tech companies' valuations remain within historical ranges, unlike stretched multiples seen in their US peers, offering an attractive entry point.
- For investors seeking diversified tech exposure beyond the US, EM tech presents a compelling alternative with structural drivers, earnings momentum, and favourable long-term positioning in the global supply chain.

Source: VanEck. Bloomberg. MSCI sector indices. Performance in AUD. Data as at 31 August 2025.

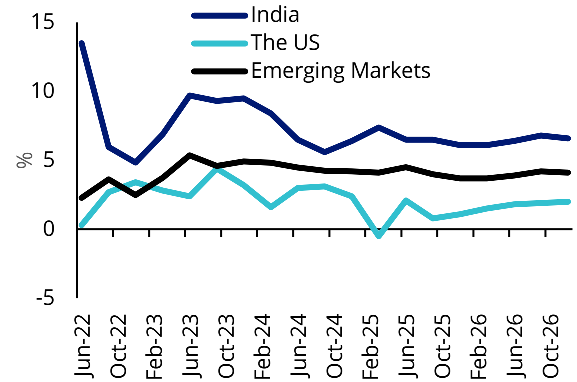
India

Strong growth wins over investors as India navigates tariff-driven risk

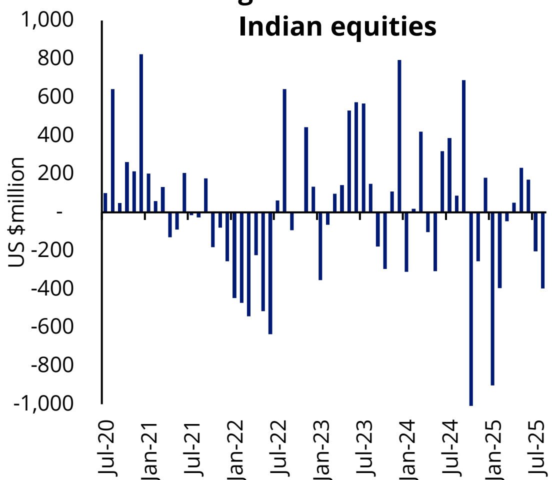
Bank of India policy rate



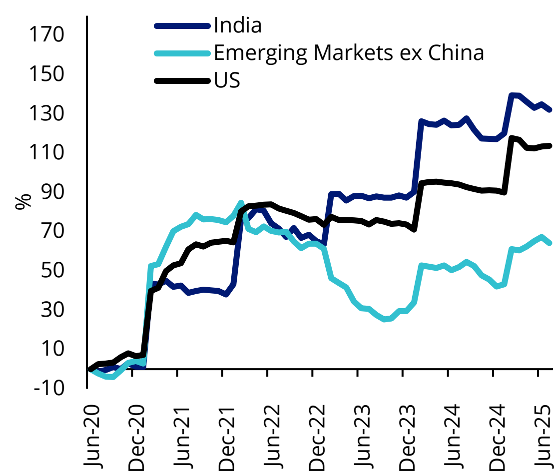
GDP YoY%



Net foreign investment flow into Indian equities



12-month forward EPS growth %



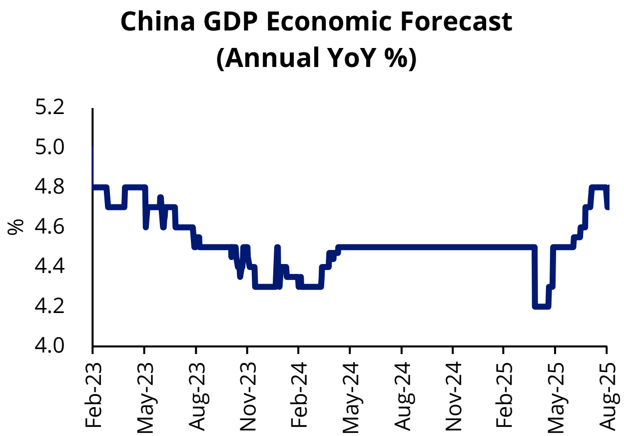
Key observations:

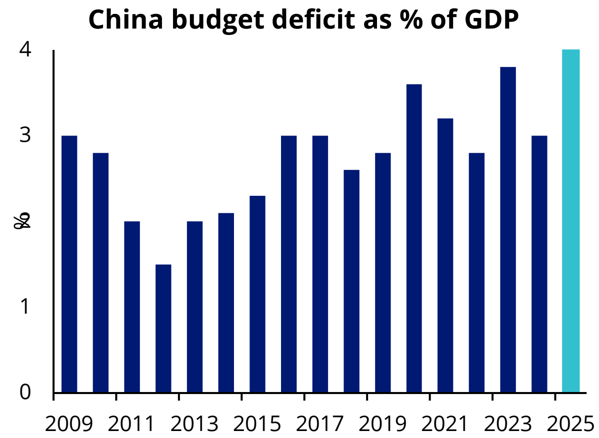
- India continues to deliver stellar GDP growth, outpacing both the US and broader emerging market (EM) peers, even amid rising global tariff uncertainty. The ongoing trend of monetary easing could further support an improved growth outlook.
- Corporate earnings growth remains robust, with 12-month forward EPS forecasts for India trending well above EM and US averages. We believe India's strong growth prospects in both the public and private sectors will continue to be a key attraction for global investors.
- Despite tariff uncertainty, progress in trade negotiations is expected to help restore foreign investor confidence, as reflected in renewed positive flows into Indian equities during the second quarter.

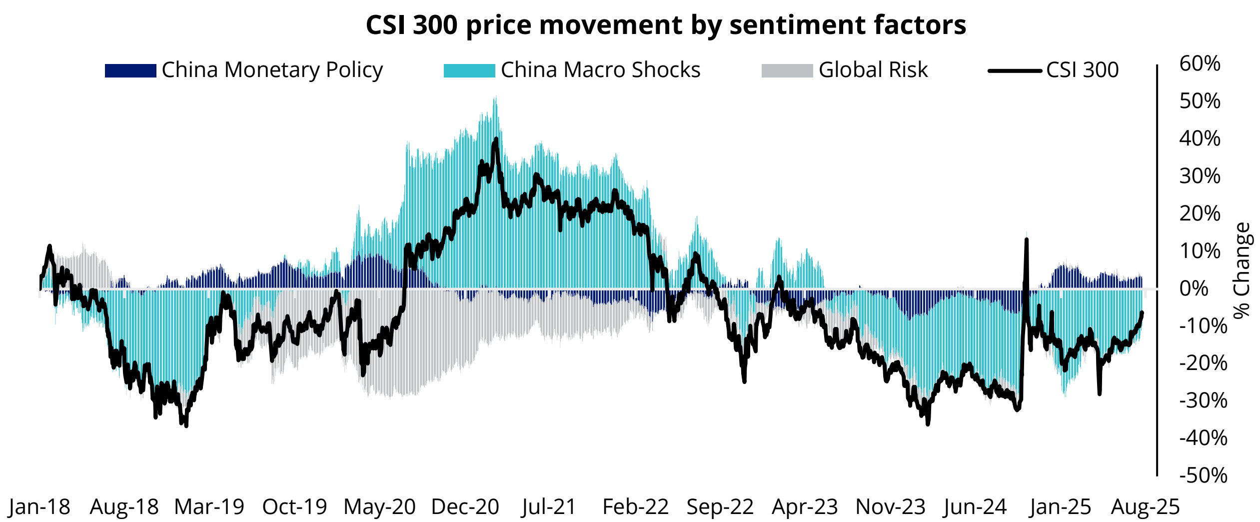
Source: VanEck. Bloomberg. MSCI country indices. Performance in AUD. Data as at 31 August 2025. GDP YoY% change data was sourced from Bloomberg. Net foreign investment flow is India Foreign Institutional Investors Net Investments in India Equity Market Index. 12-month forward EPS growth (%) data was sourced from Bloomberg. India is MSCI India Index. Emerging Markets ex China is MSCI Emerging Markets ex China Index. US is S&P 500 Index,

China

2H25 may be a business-as-usual case







Key observations:

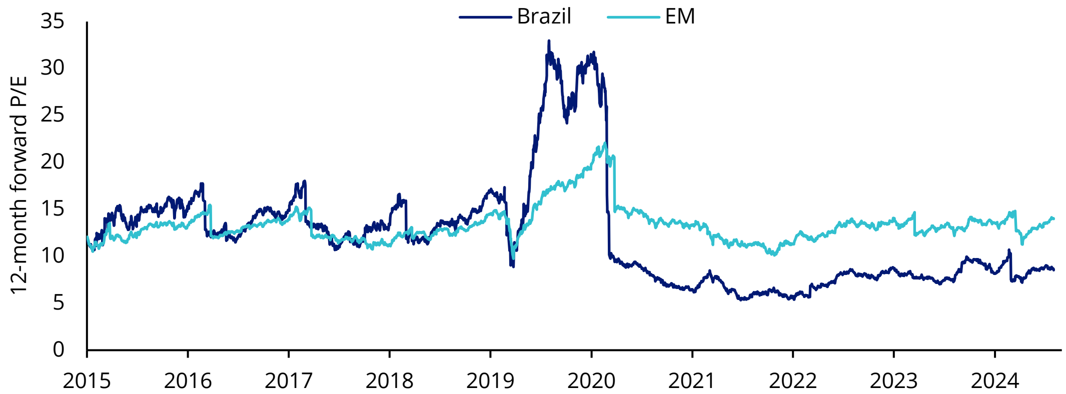
- With real GDP growth on track to achieve the target of "around 5%" in the first half of 2025, policymakers are unlikely to introduce significant near-term stimulus. However, the budget deficit has risen to a new high, suggesting fiscal space is being used to maintain growth momentum.
- Positive sentiment from improving US–China relations has lifted equities, but sustaining this momentum will require broader economic improvement, particularly in housing price stabilisation, consumer spending, and business confidence.
- We favour technology on the back of the warming relationship between China and the US. Chinese healthcare companies, particularly in pharma, also offer upside as cross-border licensing deals with international partners accelerate, supported in part by fiscal spending priorities.

Source: VanEck. Bloomberg Economics. Data as at 31 August 2025.

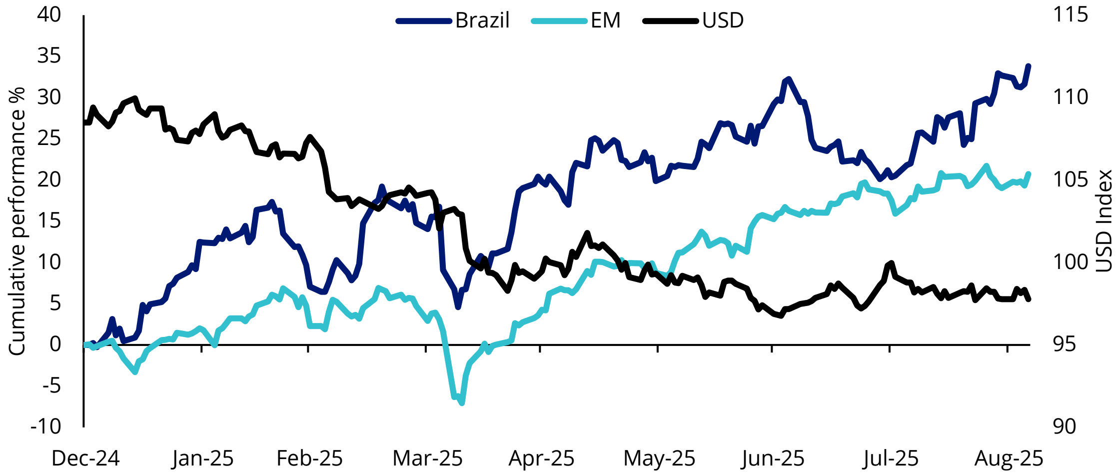
Brazil

A deep value opportunity and beneficiary of a weakening USD

Brazil equities price to 12 month forward earnings



Brazil equities relative performance to EM versus DXY



Key observations

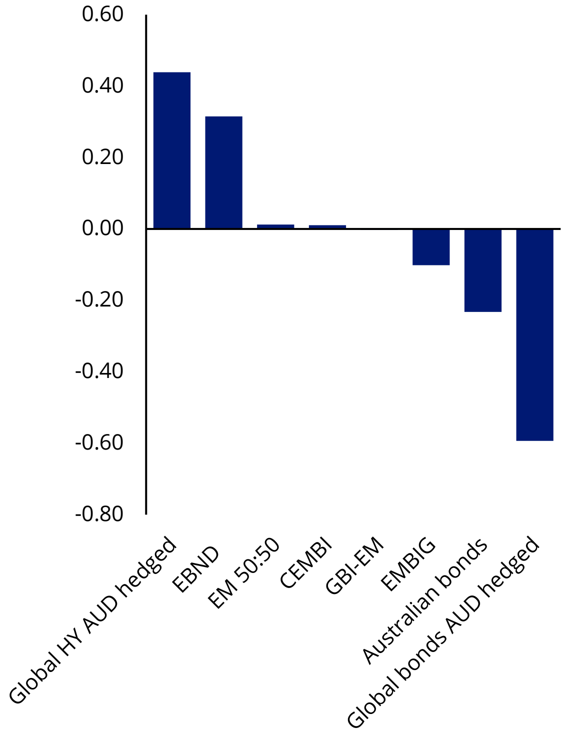
- We believe the risk-reward skew in Brazil is increasingly attractive.
- Brazil's economy is holding up well with 2025 GDP forecast to grow at by 2.3%. Credit and fiscal expansion have softened the expected slowdown, and private consumption remains strong due to a tight labour market. Disinflation is gradual, but Brazil is benefiting from being a domestic focused economy that is relatively shielded from global trade volatility.
- Brazil offers a deep value opportunity, with the price-to-12-month forward earnings ratio below its historical average and the broader EM.
- Additionally, USD weakness could act as a performance tailwind, as Brazil typically outperforms other emerging markets in such environments due to its cyclical exposure to financials and commodities.

Source: Bloomberg. Date as at 31 August 2025. Performance in AUD.

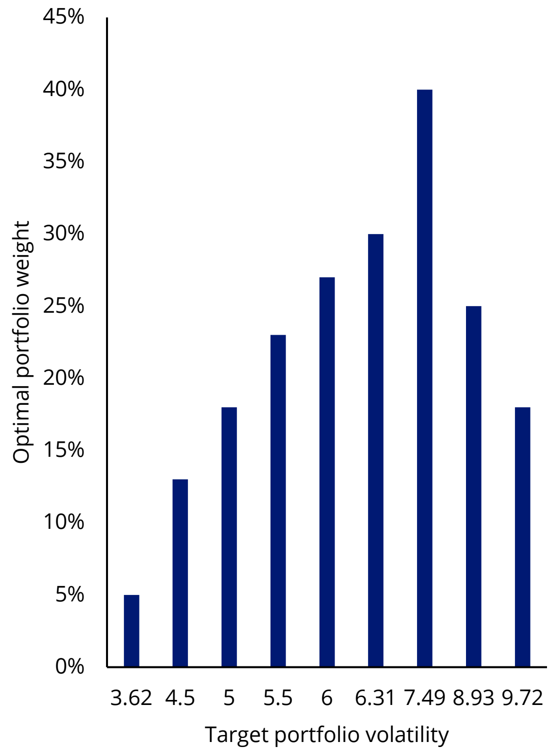
EM bonds

Important allocation in a diversified fixed income portfolio

Average Sharpe Ratio (2020 - Aug 2025)



Efficient Frontier: Optimal EM portfolio weight by target volatility



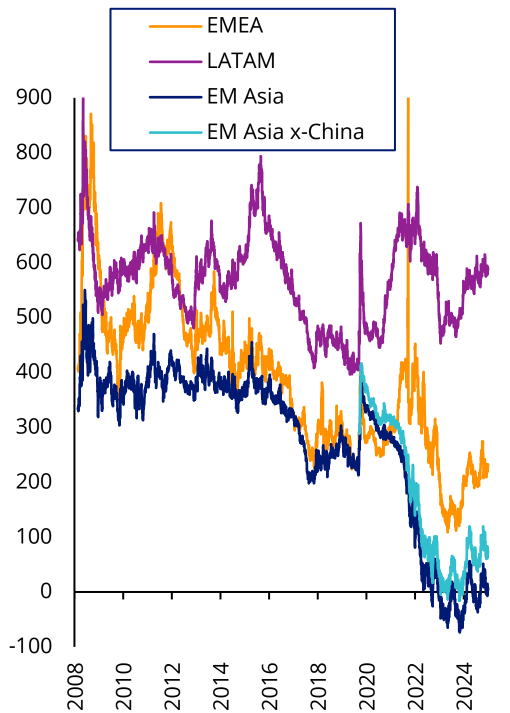
- We believe emerging market bonds are a vital component of a global bond portfolio, and that a flexible, active approach is the most effective way to navigate the complexities of the EM bond market.
- VanEck Emerging Income Opportunities Active ETF (EBND) delivered a higher 5-year Sharpe ratio compared to EM and DM benchmark indices.
- EM bonds offer a rare combination of elevated income and diversification, helping investors mitigate volatility in traditional bond portfolios, particularly during periods of US dollar weakness or policy divergence.

Source: VanEck, Bloomberg to 31 August 2025. Global HY AUD hedged Index is Bloomberg Global High-Yield Index (hedged AUD) Index. CEMBI AUD hedged (US dollar-denominated bonds issued by emerging market corporate entities) is the J.P. Morgan CEMBI Broad Diversified Core Index Hedged AUD. GBI-EM AUD unhedged (local currency bonds issued by emerging markets governments) is J.P. Morgan Government Bond-Emerging Market Index Global Diversified, 50/50 Index is 50% J.P. Morgan Emerging Market Bond Index Global Diversified Hedged AUD and 50% J.P. Morgan Government Bond-Emerging Market Index Global Diversified, Australian bonds is Bloomberg AusBond Composite 0+Y Index, Global bonds AUD hedged is Bloomberg Global Aggregate Hedged to AUD Index, EMBIG AUD hedged (hard currency denominated bonds issued by emerging market governments) is J.P. Morgan Emerging Market Bond Index Global Diversified Hedged AUD. EBND inception date is 11 February 2020. Performance is calculated net of management fees, calculated daily but does not include brokerage costs or buy/sell spreads of investing in EBND. Past performance is not a reliable indicator of future performance. Bloomberg AusBond Composite 0+Y Index and the Bloomberg Global Aggregate Hedged to AUD Index are shown for comparison purposes only and have been selected as they are the widely recognised benchmarks used to measure the performance of developed markets bonds that make up most Australian bond portfolios.

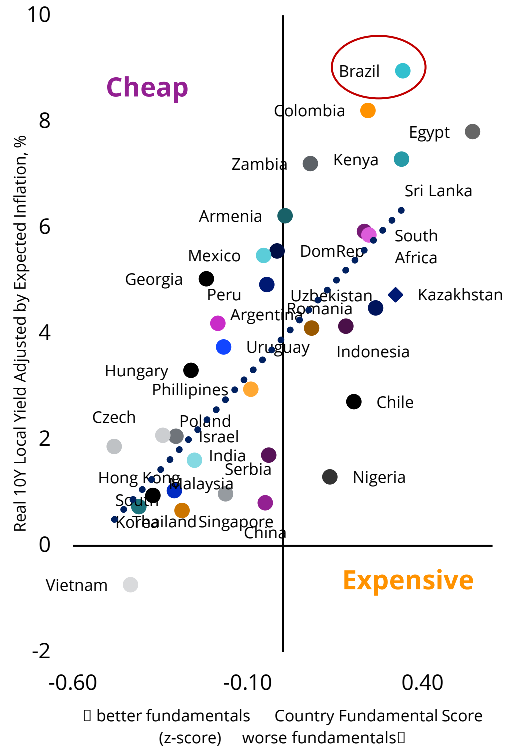
EM bonds

LATAM region appears poised for yield compression

Local less US treasury yield differential



Real 10-year local currency valuations versus fundamentals

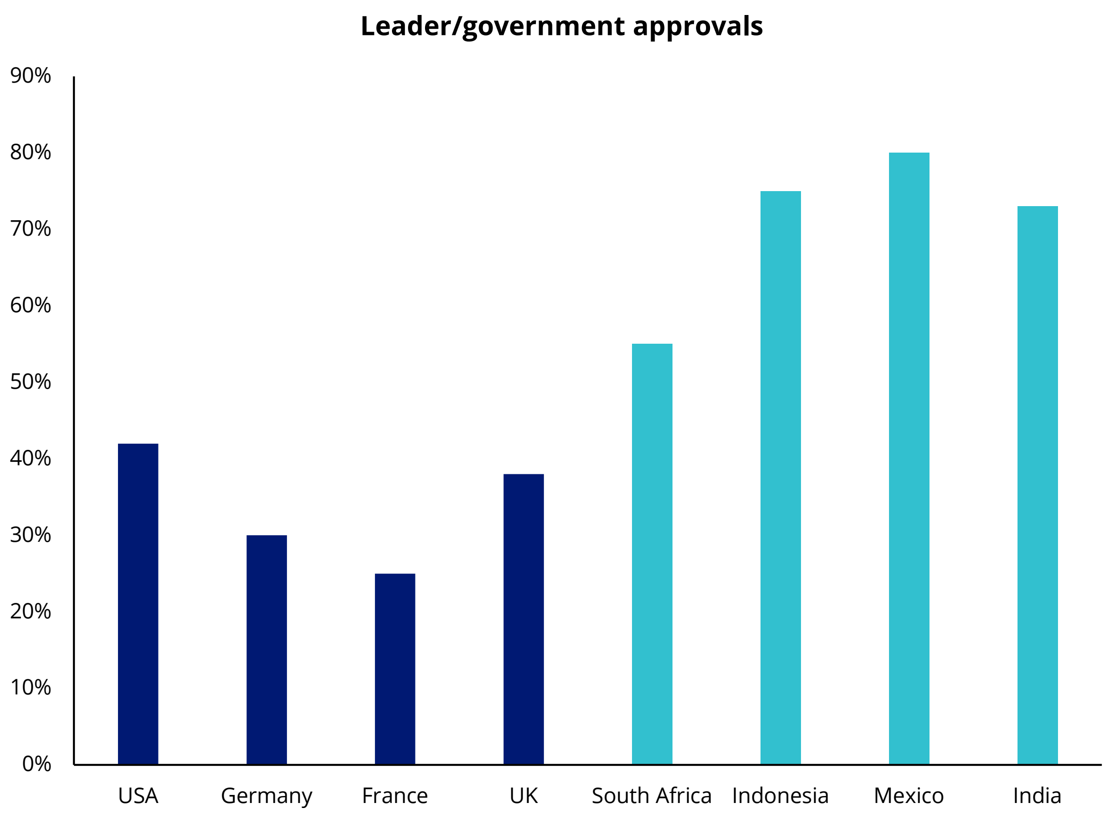


- EM Asia and EMEA yields have been in secular decline relative to US Treasury yields as a result of bad and good policy across DM and EM respectively.
- LATAM, however, hasn't seen the same degree of yield compression. We believe the region is poised to play catch-up, as many LATAM countries offer a compelling yield premium relative to other EM peers with similar fundamental scores.

Source: VanEck, Bloomberg to 30 June 2025. EMEA is J.P. Morgan GBI-EM Global Diversified Europe Index, LATAM is J.P. Morgan GBI-EM Global Diversified Latin America Index, EM Asia is J.P. Morgan GBI-EM Global Diversified Asia, EM Asia ex-China is J.P. Morgan GBI-EM Global Diversified Asia ex China Index.

EM bonds

Geopolitics is a tailwind for EM



- EM political stability is strengthening bond market credibility. High approval ratings reflect policy cohesion and reform momentum in key EMs like India, Indonesia and Mexico.
- Geopolitics is a tailwind, not a headwind, for EM. As developed markets sanction and isolate, EM alliances (e.g. BRICS+) are globalising trade and de-dollarising reserves.
- EM bonds are gaining institutional trust. Central banks are gradually replacing US Treasuries with local EM currency assets and gold.

Source: Bloomberg, December 2024.

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