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## Under the Radar: Why Now is the Time for Emerging Markets

### Key Takeaways

- ▶ Emerging market equities remain attractively valued and provide significant diversification benefits to investment portfolios.
- ▶ The current dollar environment is advantageous for emerging market equities, both enhancing country-specific fundamentals and encouraging capital inflows to the asset class.
- ▶ Structural growth factors such as advancements in technology and demographic trends continue to support long-term growth prospects in emerging markets.

### Valuation

Emerging market equities have delivered strong results thus far in 2025, providing investors with year-to-date returns exceeding 30%. Despite this impressive performance, we believe the market recovery is still at an early stage, and that emerging markets (EM) continue to present significant upside, especially given their appealing valuations relative to developed markets. This valuation gap creates an opportunity for investors to tap into emerging market growth at favorable prices.

Exhibit 1: China — Valuation Opportunity Remains Compelling



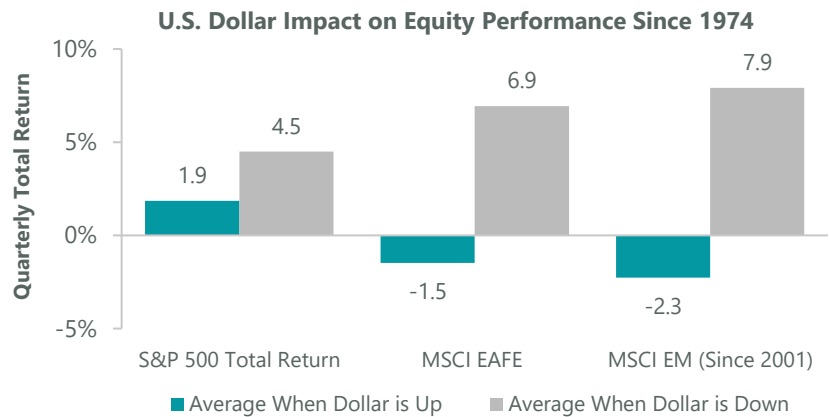
Source: FactSet. Data as of Oct. 6, 2025.

### Lower Dollar Environment

EM equities tend to benefit from a stable or depreciating U.S. dollar, making current conditions favorable for the asset class. This is a function of lower U.S.-denominated debt servicing costs, commodity exporter tailwinds and increased monetary policy flexibility facilitating

falling rates and supporting economic growth. Additionally, this environment comes hand in hand with improved investor sentiment, fostering a virtuous cycle as increased foreign capital flows into the regions further enhance potential investment performance.

Exhibit 2: Sluggish Dollar Bodes Well for Emerging Markets Equities



Data as of Sept. 30, 2025. MSCI EAFE and MSCI EM are net returns; MSCI EM data starts in 2001. Sources: FactSet, S&P, MSCI. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

### Long-Term Structural Drivers

Investing in emerging markets offers exposure to many countries offering economic growth rates faster than most developed nations. Additionally, EM provides exposure to long-term structural trends:

- **China Recovery:** The Chinese economy is in the early stages of a policy pivot from a focus on deleveraging toward one that targets growth. This creates company-level investment opportunities and encourages more global investor flows to return to China.
- **AI Demand:** The launch of China’s DeepSeek chatbot sent shockwaves around the world, highlighting Chinese advancement and shifting assumptions about the cost and scale needed for cutting-edge AI. In addition to China, several other EM countries are key developers of components critical for AI development, offering significant investment opportunities.
- **India Growth:** India offers great upside potential as it remains the fastest-growing major global economy, benefiting from a large and young population. Indian valuations have seen a correction back to long-term levels, reinforcing the importance of active management to gain exposure to company-level opportunities.

More broadly, EM equities provide exposure to companies benefiting from accelerated technological adoption, demographic shifts such as urbanization and the expansion of the middle class and financial inclusion. These businesses have world-class innovation capabilities across an array of sectors, all of which benefit from substantial investment in research and development and intellectual property

creation. We believe these fundamental trends establish a robust foundation for ongoing economic development and corporate earnings growth in emerging markets.

**Positioning and Diversification**

In addition to offering potential return upside, EM allocations offer diversification benefits that can reduce overall portfolio risk. EM stocks often have different economic cycles and sector exposures compared to developed markets, providing investors the potential for less correlated returns and better risk-adjusted performance.

Exhibit 3: Correlations Among Global Markets

	3 Years Ending 10/31/25			5 Years Ending 10/31/25			10 Years Ending 10/31/25				
	SPX	MXEA	MXEF	SPX	MXEA	MXEF	SPX	MXEA	MXEF		
SPX	1.00	0.68	0.58	SPX	1.00	0.81	0.62	SPX	1.00	0.84	0.68
MXEA	0.68	1.00	0.77	MXEA	0.81	1.00	0.75	MXEA	0.84	1.00	0.79
MXEF	0.58	0.77	1.00	MXEF	0.62	0.75	1.00	MXEF	0.68	0.79	1.00

Note: SPX represents the S&P 500 Index, MXEA the MSCI EAFE Index and MXEF the MSCI Emerging Markets Index. Source: FactSet. Data as of Oct. 6, 2025.

Such diversification can be particularly useful in periods when other asset classes struggle. For example, emerging markets have tended to outperform the U.S. market during periods of low U.S. returns. Specifically, in the rolling 10-year periods since 1971 when the S&P 500 Index has returned less than 6% annualized, the MSCI Emerging Markets Index has outperformed U.S. equities every time while delivering an annualized return of 12.1%.<sup>1</sup>

Performance source: Internal. Benchmark source: Morgan Stanley Capital International. Neither ClearBridge Investments, LLC nor its information providers are responsible for any damages or losses arising from any use of this information. Performance is preliminary and subject to change. Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI's express written consent. Further distribution is prohibited.

Performance source: Internal. Benchmark source: Standard & Poor's.

<sup>1</sup> Note: Data as of September 30, 2025. Sources: Morningstar, S&P, MSCI.

## ClearBridge Investments ClearBridgeInvestments.com.au

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- Investing in foreign markets introduces a risk where adverse movements in currency exchange rates could result in a decrease in the value of your investment.
- This strategy may hold a limited number of investments. If one of these investments falls in value this can have a greater impact on the strategy's value than if it held a larger number of investments.
- Smaller companies may be riskier and their shares may be less liquid than larger companies, meaning that their share price may be more volatile.
- Emerging markets or less developed countries may face more political, economic or structural challenges than developed countries. Accordingly, investment in emerging markets is generally characterised by higher levels of risk than investment in fully developed markets.
- The strategy may invest in derivatives index futures and FX forwards to obtain, increase or reduce exposure to underlying assets. The use of derivatives may result in greater fluctuations of returns due to the value of the derivative not moving in line with the underlying asset. Certain types of derivatives can be difficult to purchase or sell in certain market conditions.