Macro Microscope

Emerging Markets Shine Despite Tariffs

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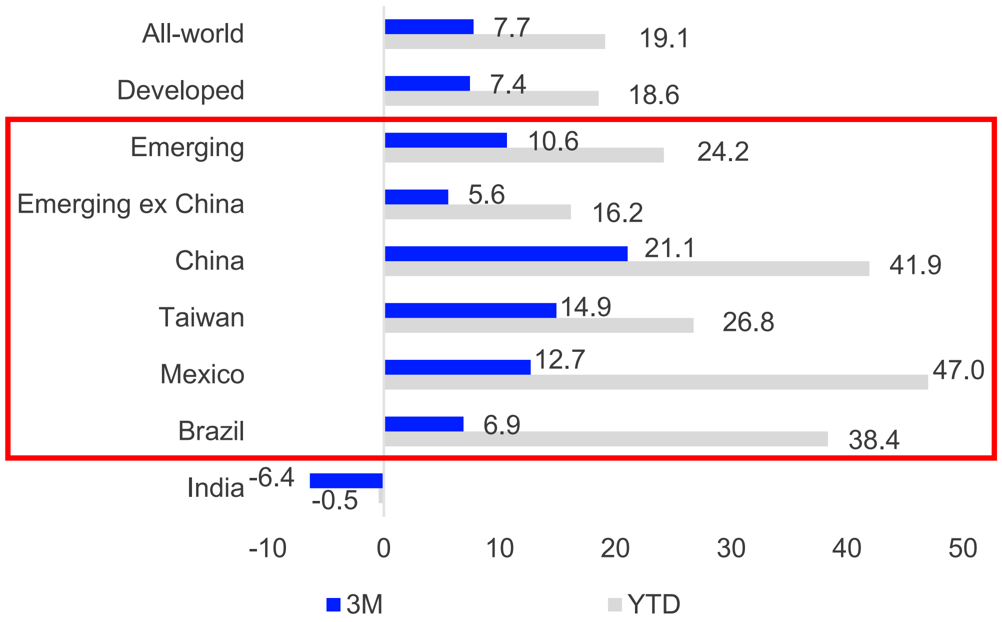
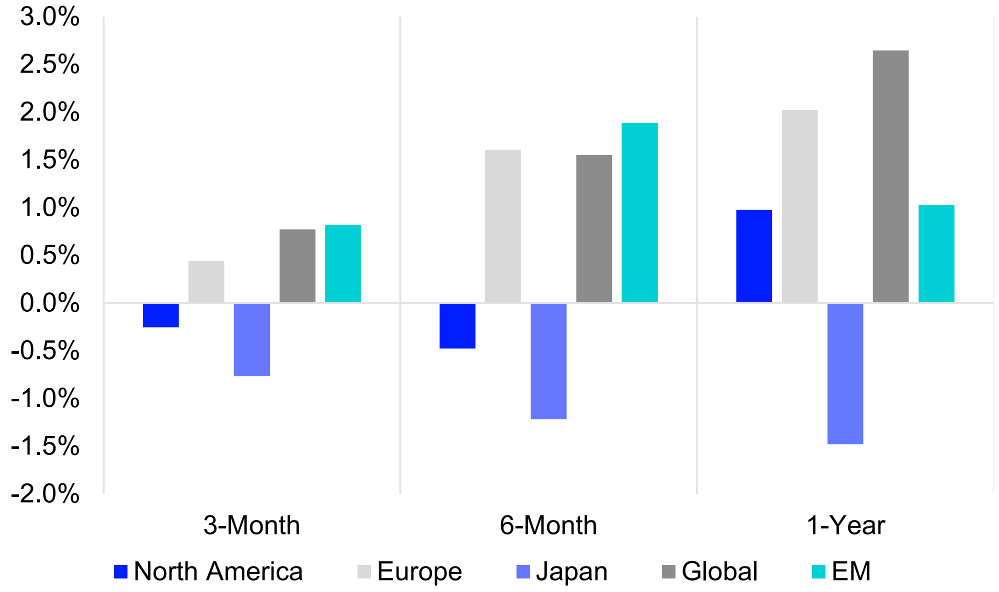
Emerging market equities outperform DM peers YTD, alongside inflows momentum

- **EM equities (24.2%) outperformed DMs (18.6%) YTD**, helped by **Technology rallies** in EMs and **currency appreciations**. Top performers were Mexico (47%) and China (~41.9%), followed by Brazil (38.4%) and Taiwan (26.8%).
- The EM equities' outperformance **momentum continued over the recent 3M**.
- **EM-focused equity funds saw some momentum** over 3M and 6M, with their fund flows as percentage of total assets outpacing other regions. This trend echoes the US dollar weakness or any outflows from the US; often a tailwind for EM equities.

EM vs DM equity total returns (USD, %)



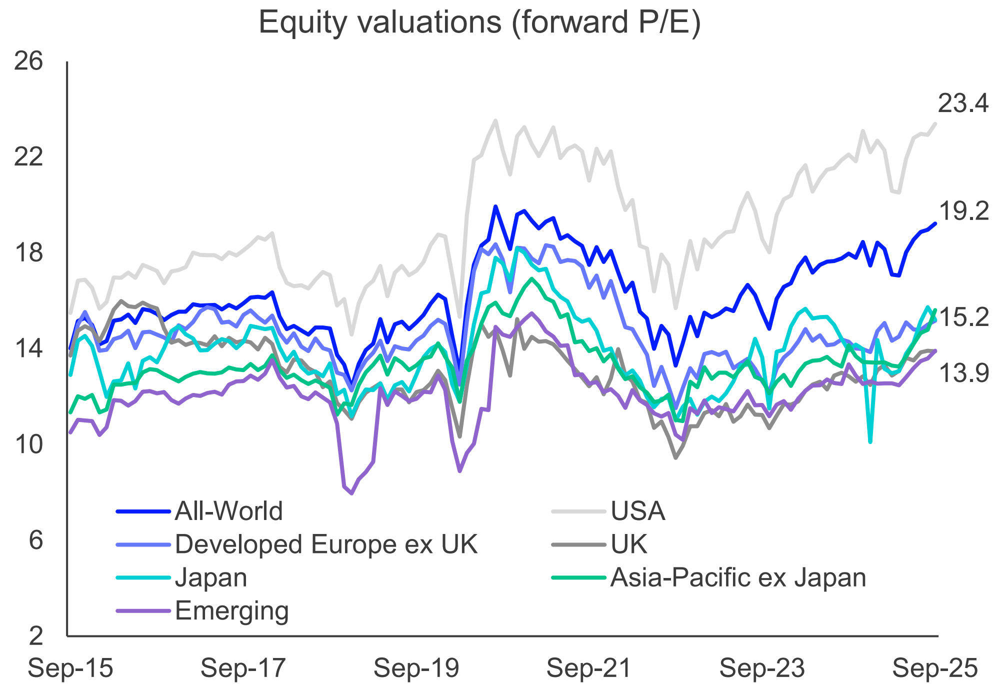
Cumulative Global Equity Fund Flow by Geographic Focus (% of total net assets)

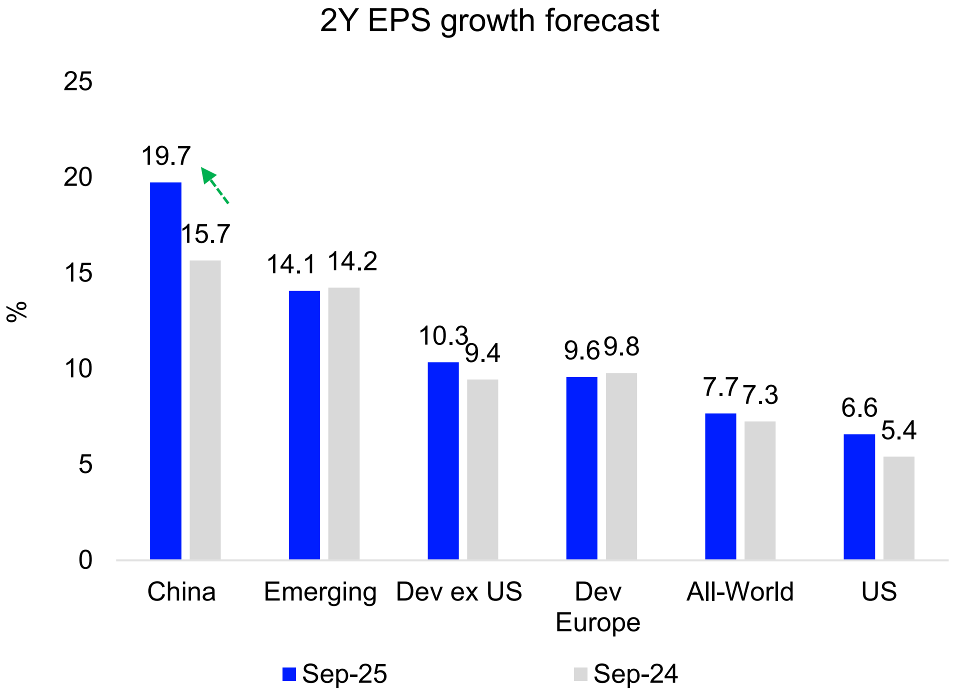


Source: FTSE Russell and LSEG. All data as of September 30, 2025. Returns are in USD terms. Past performance is no guarantee of future results. For professional investors only.

EM equities' lower P/E ratios and higher EPS growth forecast imply opportunities

- **EM equities' valuations have consistently remained lower than DM equities**, and their valuation gap with All-World has become wider, despite recent EM equity outperformance vs DM.
- 2-year earnings growth forecast remains higher for EM equities than other major markets. The **forecast for Chinese equities' earnings growth**, in particular, was **remarkably upgraded in 2025 vs 2024**.
- Both indicate **re-rating opportunities in EM equities**.





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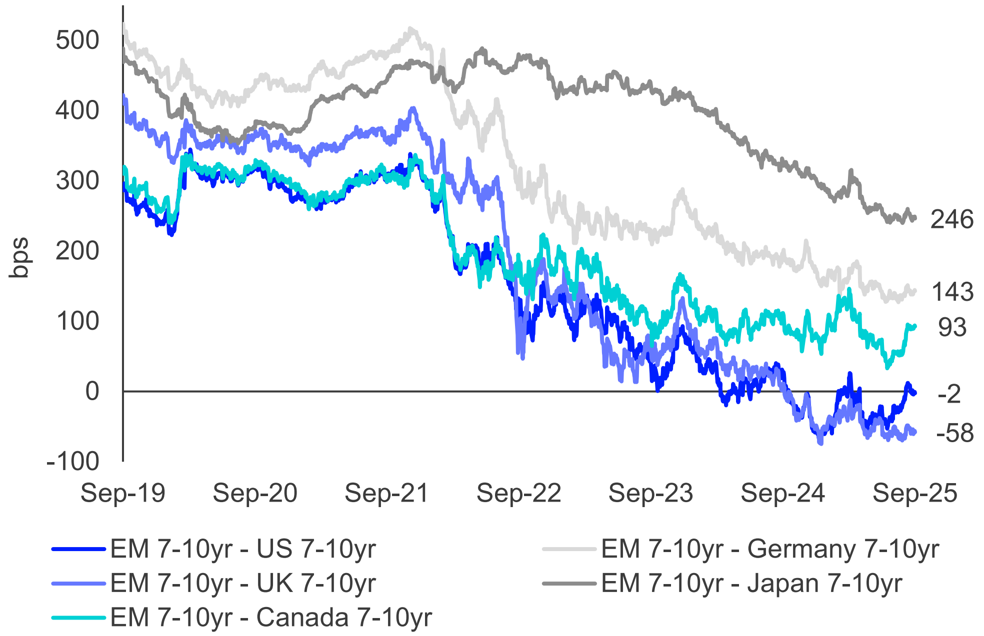
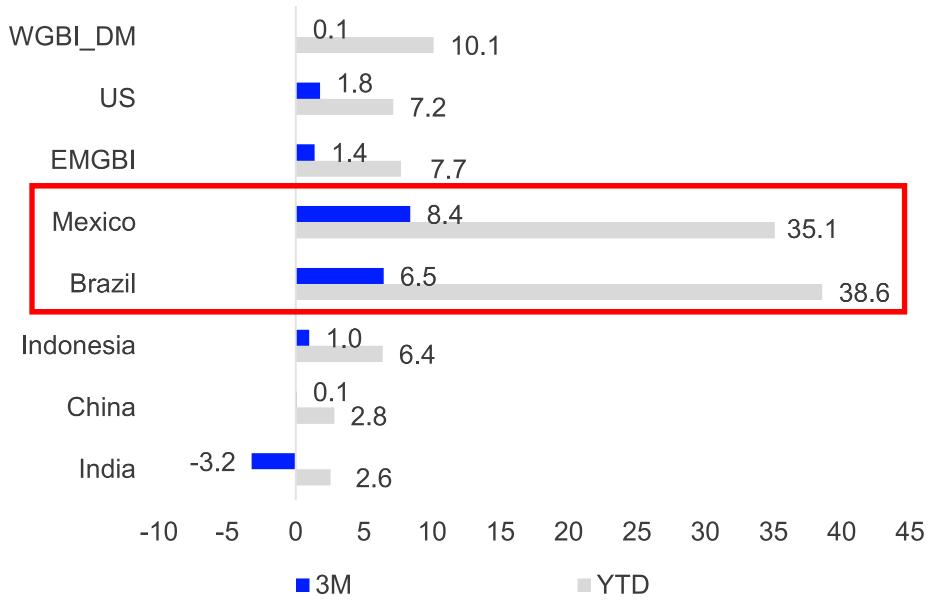
EM sovereign spreads vs G7 near cycle lows, with LATAM bonds far outperforming

- **EM 7-10-year local currency sovereign bond spreads vs G7 have stabilized near multi-year lows**, despite some modest upticks versus the US and Canada after September rate cuts by the US Fed and Bank of Canada.
- Heavily-weighted by Chinese bonds (returns of 2.8% YTD) resulted in the underperformance of EM (7.7%) vs DM (10.1%).
- But **Brazilian and Mexican 7-10-year government bonds strongly outperformed YTD**, delivering returns of 35~39%.

EM 7-10-year sovereign spreads versus G7



EM vs DM government bond 7-10 yr total returns (USD, %)



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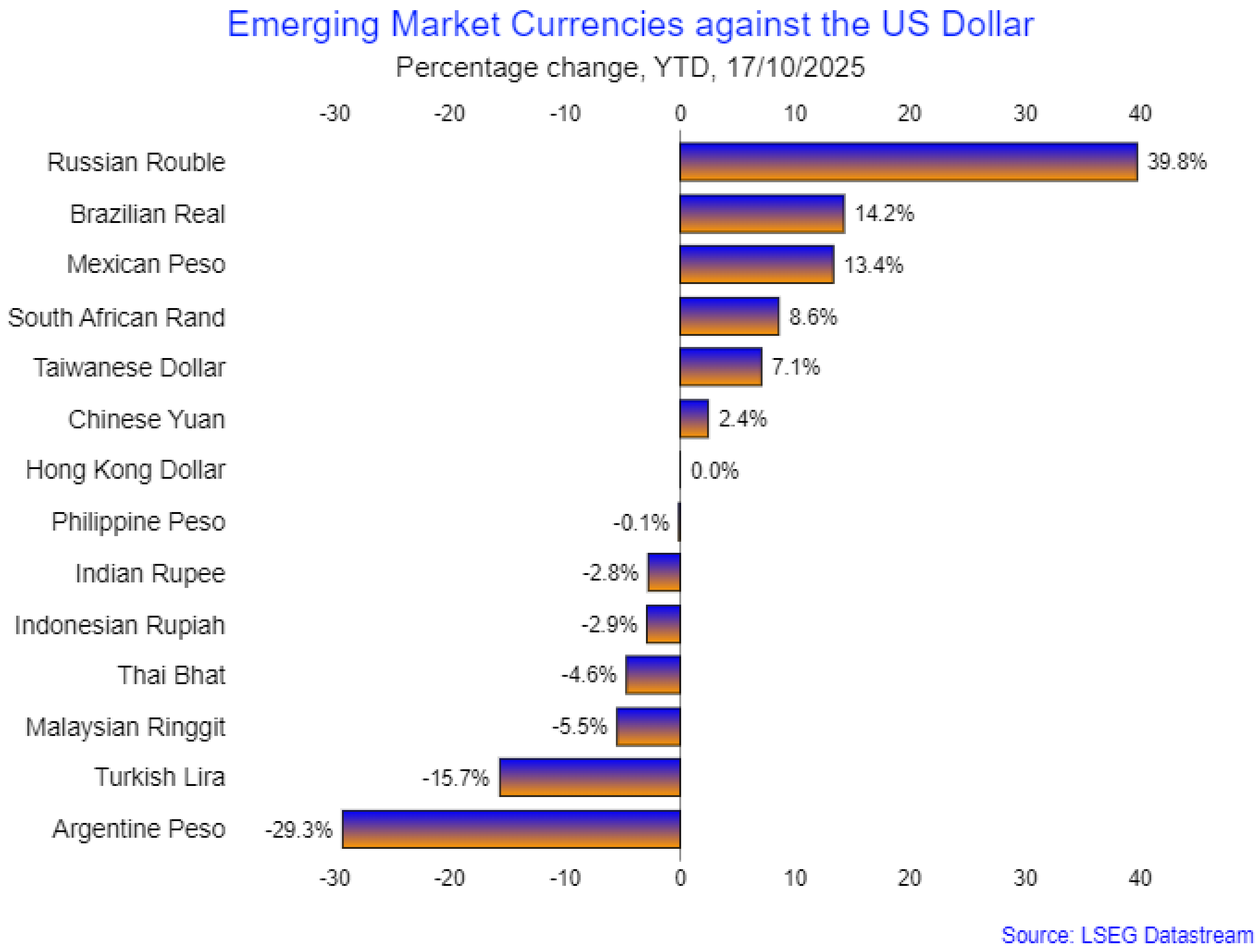
A Mixed Picture in Emerging Market Currencies

- **General strength in emerging market currencies** versus the US Dollar.



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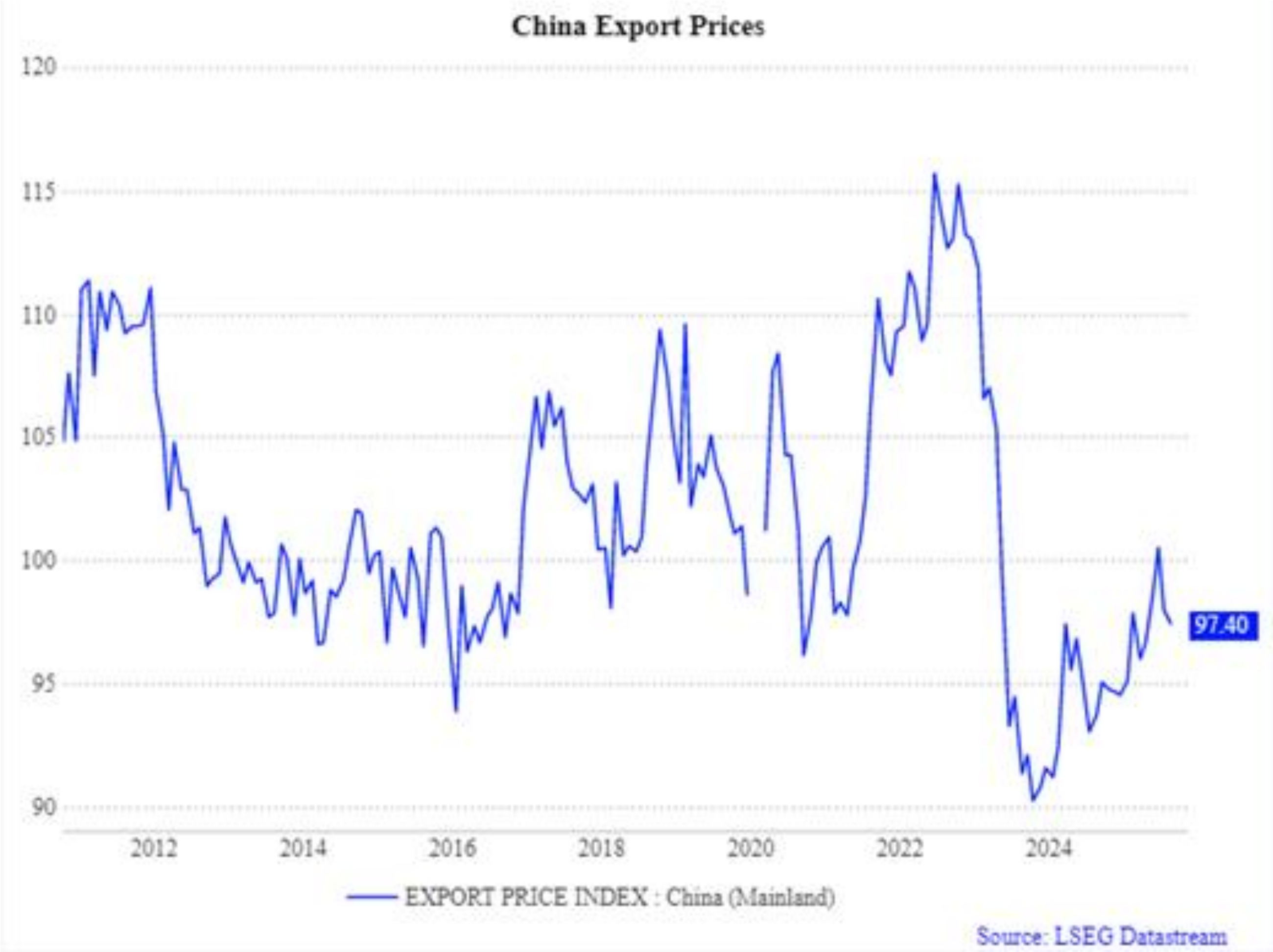
China’s Improving Total Exports

- **Chinese exports have recovered** since their low since October-2023.



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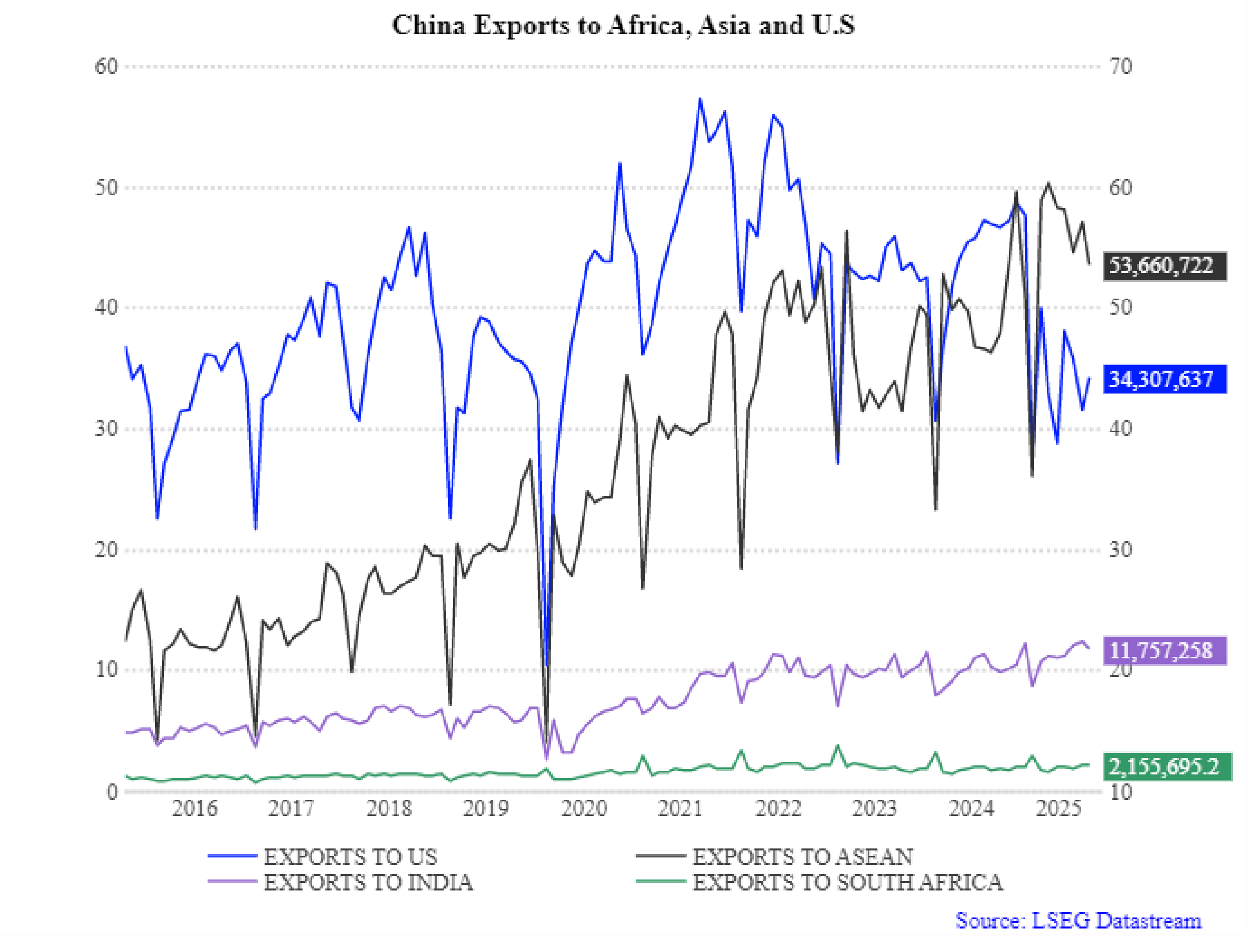
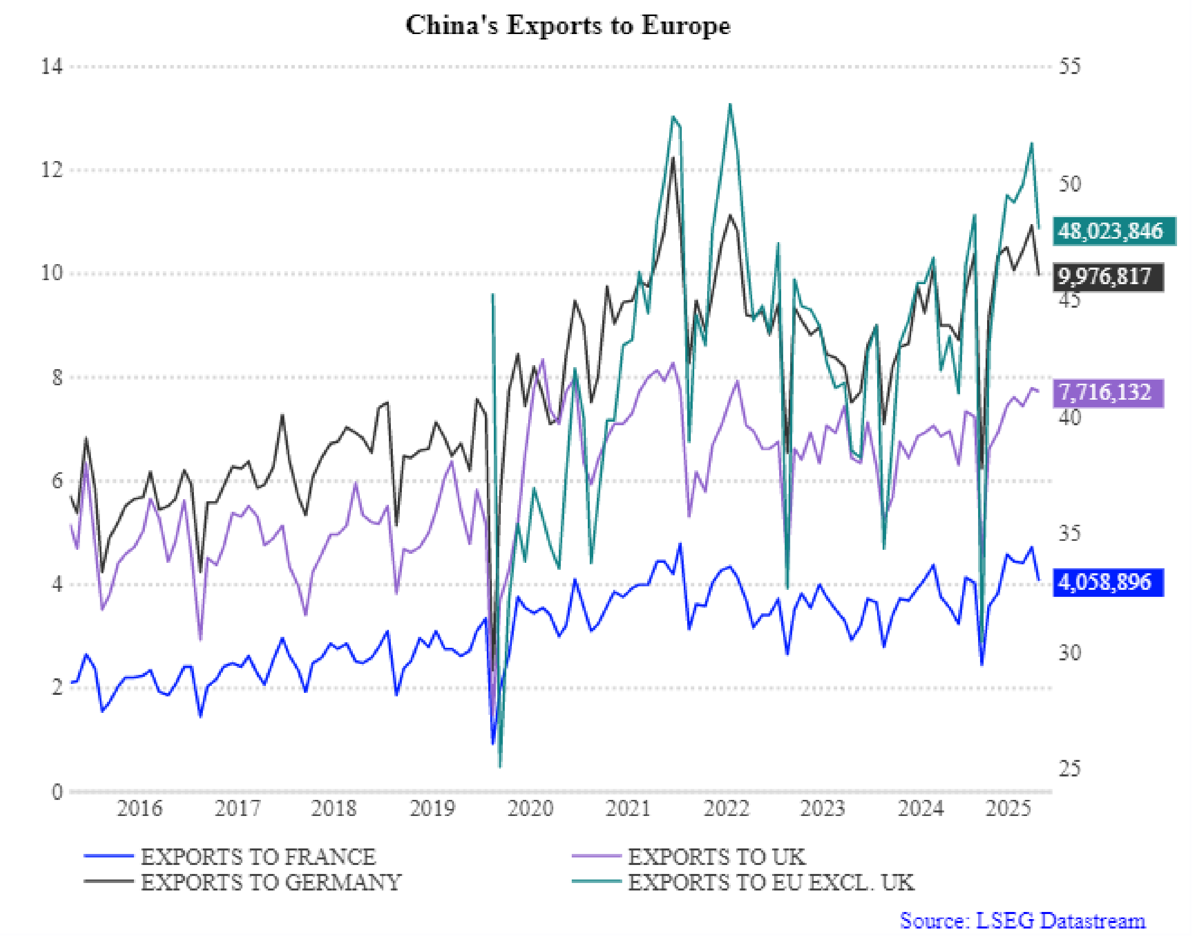
China’s Improving Exports by Region

- **Non-US bound Chinese exports have increased** while exports to the US continue to decrease.





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