Baillie Gifford™

Emerging Markets
Q1 investment update

April 2025

Investment manager Alex Summers and investment specialist Ben Buckler give an update on the Emerging Markets Leading Companies and Emerging Markets All Cap strategies covering Q1 2025.

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Ben Buckler (BB): Welcome everybody to the first Emerging Markets quarterly update of 2025. I'm Ben Buckler, a specialist in the Emerging Markets client team, and I'm joined today by Alex Summers. Alex has been responsible for our Korea and Taiwan research in recent years, and therefore he's a great person to deal with how we're thinking about some of the big topics this quarter.

Alex, welcome. Before we dive into performance, the portfolio and the outlook, let's take a second to recap on markets, because I think few people would have started this quarter thinking Emerging Markets could have outperformed the US by such a degree. So, I've just got to ask, what is actually going on in markets?

Alex Summer (AS): Thanks, Ben. The big difference between the United States and much of the rest of the world mainly comes down to investor expectations. The US has taken a hit given the risk of a global trade war and what that might mean for economic growth, but much of this risk was already priced into Emerging Markets, which have been dealing with trade tariffs for a number of years. And you have to remember, Emerging Markets began the year with the most compelling valuations we've seen in over 20 years, which seemed to reflect a lot of the risks, but not a lot of the opportunity that we see.

A major surprise over the past six months has been a continuous effort by China to stimulate the economy and encourage private companies to invest once again. The launch of DeepSeek was another surprise and appears to have renewed investor interest in Chinese innovation. Few people would have thought that it would have been a Chinese company leading the world in AI innovation, but these developments we think will have a significant impact on a range of companies' earnings

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for years to come. And we're pretty excited about the broader potential. So, the main move in portfolios during the quarter has been really to add to our China exposure.

BB: And against the background of lots of noise in markets, how has performance held up in the emerging market strategies?

AS: Yeah, I'm happy to see the performance has picked up a bit and we're a touch ahead of the index over the quarter. That's clearly not how we measure ourselves, though, given our investment horizon is five to 10 years, and we'd rather focus on those long-term structural opportunities for companies rather than the short-term market moves. But it's good to see a positive contribution from companies that include MercadoLibre, a Brazilian ecommerce and fintech platform, SEA, an ASEAN ecommerce and gaming platform, and even the Chinese consumer brand like Luckin Coffee alongside the Chinese platforms that are relatively large positions in the portfolio.

In contrast, given how well China has done over the quarter, not owning some of those Chinese companies, which have performed exceptionally well, has been a drag on performance, as has Taiwan, where the broader concerns around AI this year come on the back of a very strong 2024. And that's been a bit of a drag.

BB: I'm going to stay on the China track, I think that's really going to be what dominates conversation for the first quarter in Emerging Markets. And at the end of last year, we were talking about the coordinated policy stimulus that was coming through, but it seems like sentiment towards growth in the economy has just continued into this year.

AS: China has been a frustrating market for many years. It's home to some of EM's most dominant and innovative companies, but these strengths have really been masked by macro and policy headwinds over the last few years. The tide seems to be turning and some of those policy headwinds might be turning to tailwinds. And more importantly, we think symbolic gestures like Xi Jinping's meeting with all the tech entrepreneurs recently marks an important inflection point. And it shows the government's commitment to growth and importantly to private companies. I also think the DeepSeek announcement has been really helpful for reigniting some of those animal spirits in China. And that's something that has been missing for a while.

BB: As you've mentioned DeepSeek, maybe we'll stay there. I know that you and Alice in the team are just back from a two-week trip to Taiwan, right in the thick of things. So, the AI theme has clearly been in the headlines a lot this quarter. And I just thought I'd check whether you have any immediate impressions from that trip that help us understand what's going on there.

AS: One of the biggest takeaways from our trip to Taiwan was how I'd underappreciated the true impact of DeepSeek. I'd simply assumed it had reawakened global investors to the strengths of Chinese innovation and perhaps had implications for how much investment AI actually required. But it goes well beyond that. And I think the fact that it is free and customisable is key. Anyone can integrate this into their own applications, which is going to enable a wave of new innovations, which I think we'll see over the next year.

And we're already seeing some of the portfolio companies like Ping An and Baidu, Haier and Tencent have also adopted DeepSeek's technology to help them bring down their own costs and drive growth. And we're just in the very early days here. We're increasingly of the view that the true value of AI will be realised by those who can apply it well, within their businesses. And that opportunity goes far beyond China or Asia.

One company which is an expert in building great user experiences is the Latin American IT services company, Globant, a new holding this quarter. They've helped the likes of Formula One and Disney+ integrate AI into their own products. Helping customers develop usable AI applications is going to be a very valuable skill in the coming years, and it should provide Globant with a huge opportunity. It's really exciting, but it does require thinking about the world. It could be quite different in the future than it is today.

BB: I might tempt you now away from something, one of these areas of excitement, to an area that's clearly more challenging and one I know we'll get a lot of questions about, and that's the impact of tariffs. Clearly, Liberation Day is going to add to that. It's hot off the press, but do we have any comments on the implications for Emerging Markets?

AS: Quantifying the impact of tariffs is very difficult and it certainly makes for uncomfortable headlines and it's going to take some time to see the true impact. The companies within the portfolio are going to have to work their way through this. Unlike developed economies though, we shouldn't forget that Emerging Markets have been navigating the threat of tariffs since 2018 and thinking about how best to adapt.

If we take the example of TSMC, 10 years ago it would have been unimaginable that they'd be building capacity in the United States, given the availability of labour, cost of production, and the absence of a manufacturing ecosystem. But today, they're generating the same yields at their foundry in Arizona as they are in Taiwan.

Another example would be China's response to US tariffs in 2018. China grew its export to other EM countries, particularly Vietnam and other ASEAN countries. And that cross-EM trade has actually resulted in a lot of interesting investment ideas coming from those markets.

Roddy and Ben have just returned from a trip to Vietnam, very enthused about the development going on there. Trump's tariffs are going to take a little while to digest, but we think this is a really exciting market and we're actively looking for new ideas. And we might have the opportunity to buy them a little bit cheaper now.

The situation in Mexico could be more challenging. They're very reliant on the US for exports, but it feels like a lot of the pain was taken last year with the peso being hit quite hard. Our largest position is FEMSA, which runs the dominant convenience store chain in the market. It has a number of idiosyncratic growth drivers that offset some of the macro challenges.

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BB: Thanks, Alex. I think it's helpful to pick out FEMSA, partly just to reiterate our focus on stock specifics and on long-term outcomes. And if we look at portfolio positioning, Brazil is the biggest country overweight, and India is the biggest country underweight. Has there been any change in the thinking on either market?

AS: Yes, perhaps I'll start with India. We've been underweight India for a few years, which has been painful. We can find a lot of interesting companies in India, but we found the valuations of many of these businesses really difficult, especially in the context of what we can own elsewhere in EM. That underweight has helped recently as India began to underperform, and we've been revisiting some of the team's favourite ideas, but still feel the valuations are a little too high. An exception has been the banks, which remain a core holding of ours. These are a much cheaper multiples, and we believe there's still a long-term structural story, which is really exciting.

In Brazil, our positioning is really just a reflection of some good stock-specific ideas with compelling growth stories. Most notably, we'd highlight MercadoLibre, which is a company the team's held since 2010. This has proven to be an incredibly innovative and adaptive company, which has been able to grow its business fast enough to more than offset the currency fluctuations, while deepening its competitive advantages. It was also our best performing holding in the portfolios this quarter.

BB: It sounds like there's a lot going on and it sounds like there's a lot to be excited about.

AS: Absolutely. In the first quarter alone, the team visited Taiwan, Thailand, Vietnam, India, Hong Kong, South Africa, the UAE. These trips have really strengthened our conviction in many of our existing holdings and have uncovered a lot of new ideas. Emerging Markets have been cheaper than Developed Markets for some time, but it feels like we may have finally reached an inflection point. The Emerging Market economies have a number of competitive advantages, and the companies they're producing are far more innovative and with a lot more growth potential than many currently appreciate.

If that fundamental growth and resilience begins to be recognised a little bit by markets, we could see significant flows into Emerging Markets. And ultimately, whether we're talking about AI or the energy transition, the reconstruction of global supply chains, where domestic demand is actually growing, Emerging Markets have a critical role to play in all of that. And our goal is to build a portfolio that really captures those opportunities.

BB: Thanks, Alex. I think that's a nice point to conclude on. I know we jumped around a number of countries and themes today, but the key takeaways are really the inflection point in China, the levels of innovation that we're seeing in Emerging Markets, but I think it's fair to nod to the challenges and the opportunities of tariffs and geopolitics more broadly. What I also think is perhaps most important is just that focus on the long-term trends and the companies that are set to benefit.

We thank everybody for watching and we'll see you next quarter.

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Emerging Markets (including Emerging Markets All Cap and Emerging Markets Leading Companies strategies)

Annual past performance to 31 March each year (net%)

	2021	2022	2023	2024	2025
Emerging Markets All Cap Composite	77.3	-20.5	-10.7	10.6	5.9
Emerging Markets Leading Companies Composite	77.2	-20.5	-8.6	6.9	6.2
MSCI Emerging Markets Index	58.9	-11.1	-10.3	8.6	8.6

Annualised returns to 31 March 2025 (net%)

	1 year	5 years	10 years
Emerging Markets All Cap Composite	5.9	8.1	5.2
Emerging Markets Leading Companies Composite	6.2	7.9	5.7
MSCI Emerging Markets Index	8.6	8.4	4.1

Source: Revolution, MSCI. US dollars. Returns have been calculated by reducing the gross return by the highest annual management fee for the composite. 1 year figures are not annualised.

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