Baillie Gifford™

# Emerging Markets Q2 investment update

July 2025

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Investment manager Will Sutcliffe gives an update on the Emerging Markets Strategy for Q2 2025.

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**Your capital is at risk. Past performance is not a guide to future returns.**

**Will Sutcliffe**: We are living in a time of unusual uncertainty. And while I don't want to diminish the anxiety that provokes, it's worth remembering that at BG we've been running dedicated GEM mandates since 1994. We've seen enough crises and shocks and change to know that the future is uncertain. So populist strongmen, tanking bond markets and dollar flight: while these are all new phenomena for developed-market investors to grapple with, from our perspective as battle-hardened EM veterans we know that where there is uncertainty, there is usually mispricing and there is usually opportunity.

So, amid all the recent noise, what are things that really matter for long-term investors in emerging markets? I'd highlight two areas.

The first is what's going on with the dollar. The dollar has been in a structural bull market for most of the last 15 years, and yet already, in 2025, it's lost about 10 per cent of its value on a trade-weighted basis. Now we may not feel capable of taking a differentiated view on where it heads next but, as EM investors, I think we need to be open to the possibility that a sustained trend of this nature could absolutely turbocharge growth for large chunks of our universe.

And the second thing to highlight is what's going on in China. It has become pretty clear in recent months that China is in a better position to weather a trade war than many people thought, and that China is in a better position to out-innovate US tech restrictions than many people thought, and that the private sector in China now appears to be getting more support from the government than at any point since Jack Ma's defenestration back in 2020. So, in other words, China is back on the table for growth investors.

So, what have we been doing for your portfolios against this backdrop? The short answer is that we haven't made huge changes. Unsurprisingly there's been plenty of volatility in share prices, although for all of that volatility your portfolio performance has landed fairly close to the index level in recent quarters. But we don't feel the need for radical change at the portfolio level because frankly we retain a high degree of faith in the ability of the underlying stocks to flourish whatever the global economy throws at them.

Now that's not to say we haven't been busy. Nearly every single team member has been on an investment trip over the last few months, for example: so we've been to China, we've been to Korea, we've been to Southeast Asia, and it's given us a lot of food for thought.

In South Korea, for example, there is a new government. There is a renewed push for corporate reform. And there is a new fiduciary duty on independent directors to act in the interest of shareholders for the first time. So, there are a lot of interesting things going on in a market where neither we nor many of our emerging markets peers have a particularly large exposure. So, there's a few changes we're contemplating there.

And in China, meanwhile, it's not just the vibrancy and innovation of the private sector that remains striking, it's the relentless nature of competition. **BYD** for example is now offering fully autonomous EVs for less than US$10k. **Xiaomi**, which many of you will know as a handset company, began making cars last year, and they've already taken a 4 per cent market share. Things are moving fast in China, and the interesting question is how much of the global market is opening up for companies like this. America may not want high quality but affordable EVs or solar arrays or semiconductor equipment from China, but you can bet that consumers in Mexico or Brazil or Indonesia or the Middle East are going to snap them up.

So, all of this is potentially very positive. But a common question we get from clients is: if we are heading into an environment of lower global growth, what are the prospects for absolute returns from emerging markets? And it's a good question, because the inconvenient truth is that there is zero precedent for strong emerging markets returns when global growth has been weak.

So, the question we need to ask is how relevant those historic parallels really are, given the much greater scale of domestic markets in emerging markets now, and given the much greater scale of intra-emerging market trade now. Because I hear a lot of angst about risk that the end of US-led globalisation poses for emerging markets, but I still hear relatively little about the opportunities that arise from any associated rerouting of supply chains and capital flows.

And that's what keeps us upbeat. We understand that there is still plenty of caution on emerging markets after more than a decade of lousy returns, and we understand the scepticism attached to phrases like 'this time it's different'.

But let's not forget that sometimes things are different, and markets are very bad at pricing in paradigm shifts of this nature.

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## Emerging Markets

### Annual past performance to 30 June each year (%)

| | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| Emerging Markets All Cap Composite (gross) | 52.2 | -35.4 | 9.4 | 15.3 | 12.7 |
| Emerging Markets All Cap Composite (net) | 51.0 | -35.9 | 8.6 | 14.4 | 11.8 |
| Emerging Markets Leading Companies Composite (gross) | 51.3 | -33.8 | 9.8 | 12.2 | 12.3 |
| Emerging Markets Leading Companies Composite (net) | 50.1 | -34.4 | 8.9 | 11.3 | 11.4 |
| MSCI Emerging Markets index | 41.4 | -25.0 | 2.2 | 13.0 | 16.0 |

### Annualised returns to 30 June 2025 (%)

| | 1 year | 5 years | 10 years |
|---|---|---|---|
| Emerging Markets All Cap Composite (gross) | 12.7 | 6.9 | 7.3 |
| Emerging Markets All Cap Composite (net) | 11.8 | 6.1 | 6.5 |
| Emerging Markets Leading Companies Composite (gross) | 12.3 | 6.7 | 7.9 |
| Emerging Markets Leading Companies Composite (net) | 11.4 | 5.9 | 7.0 |
| MSCI Emerging Markets index | 16.0 | 7.3 | 5.2 |

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.

**Past performance is not a guide to future returns.**

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