

# Emerging Markets Q3 investment update

October 2025

---

Investment Manager Ben Durrant gives an update on the Emerging Markets Strategy for Q3 2025.

---

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

**Ben Durrant:** If I told you at the start of the year that in a world of escalating trade tensions and geopolitics, Emerging Markets would be the best place to hide, you'd probably have laughed me out of the room. And yet here we are. The MSCI Emerging Markets Index has been amongst the strongest global performers year to date.

Although we tend to think over longer time periods, I do think it's worth pausing for thought as to what's really going on here. Partly it's about perception catching up with reality. But this year actually reinforces a point we've been making for some time: many EMs have been quietly getting their houses in order. Fiscal and monetary policy has been conservative, and in many cases, political stability has been better than in some of the developed markets.

In the recent past we've spoken to you about the positive EM backdrop, supported by a weaker dollar, and investor sentiment shifting towards China. And while EM has clearly done well in the near term, it's worth remembering how under-owned this asset class still is. Around three quarters of global funds remain underweight EM. And non-US investors alone hold about 17 trillion dollars of US equities. If even 1 per cent of just that were reallocated to Emerging Markets, it would equate to roughly a quarter of the Brazilian equity market, or more than a third of Mexico's. So, the scale of potential capital flows is enormous.

And while all of these market elements feel important, as you know we focus much more on what's been happening at the company level. And the majority of recent company results from the portfolio have been very strong.

There are few more salient examples than the Asian technology companies that are powering this global AI boom. The semiconductor businesses like TSMC or SK Hynix are delivering around 35% revenue growth year-on-year. Samsung Electronics has turned around markedly from its weak 2024, helped by its tie up with Tesla in its foundry business and better evidence on its progress in that cutting-edge High Bandwidth Memory.

I should say though, that it isn't just today's results that excite us. Most of these businesses we hold are laying foundations for the future – developments that aren't yet be reflected in earnings, but

which position them for sustained growth in the years to come. The Chinese internet majors are a great example here; you can see their capital expenditure budgets rising sharply.

The global arms race in AI is shifting from training models to deploying them, which could require far more compute power, more datacentres, and more electricity. This has implications much beyond just semiconductors. We're reaching into utilities, into cooling technologies, and much more. In Asia in particular, we're seeing supply chains positioning to support this wave. So, we're thinking carefully about this in a portfolio context. We want to sure you have sufficient and appropriate exposure.

You won't be surprised to hear me say that AI has been a big focus, but it's far from the only story. We're also looking at financial inclusion, the energy transition, and the continuing rising domestic consumption in colossal markets. As EM investors we're frankly spoiled for choice with the broad opportunity set. It has been an active period for trading and competition for capital is genuinely fierce.

After a few of the team spent time in Korea, we've been looking at parts of the Hyundai Group that are benefitting from governance reforms and a more progressive approach to shareholders. In Brazil, we've been reconsidering those utilities - with the expectation that electricity demand will increase, helped by the fact that control of Eletrobras now sits in the private sector. In China, I was there earlier this year, and we're taking a fresh look at the ride hailing company called Didi, which is hugely underappreciated. In Vietnam, as well, a renewed focus on the private sector, and the potential for incredible economic there, has made us really excited about some of the domestic opportunities there.

These are clearly varied, but the common thread is that across regions we're finding underappreciated growth.

Of course, it's not all positive. China's consumer economy is still more subdued than it could be; India looks expensive in places and being underweight there has been helpful in the near term. As experienced EM investors we do know that geopolitics and commodity cycles will always present challenges.

But here's the crucial point: across the board, Emerging Markets companies are not just surviving these headwinds, they're thriving. They're delivering real growth, with operational momentum that we haven't seen in years. For instance, the fundamentals of our portfolios have strengthened markedly over the past five years: there has been a strong improvement in earnings growth forecasts, sales growth forecasts, plus margins are stronger and returns on equity have improved. These aren't just cosmetic improvements - they point to resilience, and a higher-quality portfolio of companies than in the past.

So if what we are seeing continues, then this year won't just be a positive blip, but the start of a broader reappraisal of what Emerging Markets can deliver.

## Emerging Markets

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

	2021	2022	2023	2024	2025
Emerging Markets All Cap Composite (gross)	18.8	-35.3	18.9	26.6	21.1
Emerging Markets All Cap Composite (net)	17.9	-35.8	18.0	25.6	20.1
Emerging Markets Leading Companies Composite (gross)	19.7	-34.7	16.8	25.5	15.2
Emerging Markets Leading Companies Composite (net)	18.7	-35.2	15.8	24.5	14.3
MSCI Emerging Markets index	18.6	-27.8	12.2	26.5	18.2

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

	1 year	5 years	10 years
Emerging Markets All Cap Composite (gross)	21.1	7.0	10.7
Emerging Markets All Cap Composite (net)	20.1	6.1	9.8
Emerging Markets Leading Companies Composite (gross)	15.2	5.7	10.8
Emerging Markets Leading Companies Composite (net)	14.3	4.9	9.9
MSCI Emerging Markets index	18.2	7.5	8.4

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.

Legal notice: MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indexes or any securities or financial products. This report is not approved, endorsed, reviewed or produced by MSCI. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

## Risk factors

This communication was produced and approved in October 2025 and has not been updated subsequently. It represents views held at the time and may not reflect current thinking.

The views expressed should not be considered as advice or a recommendation to buy, sell or hold a particular investment. They reflect opinion and should not be taken as statements of fact nor should any reliance be placed on them when making investment decisions.

This communication contains information on investments which does not constitute independent research. Accordingly, it is not subject to the protections afforded to independent research, but is classified as advertising under Art 68 of the Financial Services Act ('FinSA') and Baillie Gifford and its staff may have dealt in the investments concerned.

All information is sourced from Baillie Gifford & Co and is current unless otherwise stated.

The images used in this communication are for illustrative purposes only.

### **Important information**

Baillie Gifford & Co and Baillie Gifford & Co Limited are authorised and regulated by the Financial Conduct Authority (FCA). Baillie Gifford & Co Limited is an Authorised Corporate Director of OEICs.

Baillie Gifford Overseas Limited provides investment management and advisory services to non-UK Professional/Institutional clients only. Baillie Gifford Overseas Limited is wholly owned by Baillie Gifford & Co. Baillie Gifford & Co and Baillie Gifford Overseas Limited are authorised and regulated by the FCA in the UK.

Persons resident or domiciled outside the UK should consult with their professional advisers as to whether they require any governmental or other consents in order to enable them to invest, and with their tax advisers for advice relevant to their own particular circumstances.

### **Financial intermediaries**

This communication is suitable for use of financial intermediaries. Financial intermediaries are solely responsible for any further distribution and Baillie Gifford takes no responsibility for the reliance on this document by any other person who did not receive this document directly from Baillie Gifford.

### **Europe**

Baillie Gifford Investment Management (Europe) Ltd (BGE) is authorised by the Central Bank of Ireland as an AIFM under the AIFM Regulations and as a UCITS management company under the UCITS Regulation. BGE also has regulatory permissions to perform Individual Portfolio Management activities. BGE provides investment management and advisory services to European (excluding UK) segregated clients. BGE has been appointed as UCITS management company to the following UCITS umbrella company; Baillie Gifford Worldwide Funds plc. BGE is a wholly owned subsidiary of Baillie Gifford Overseas Limited, which is wholly owned by Baillie Gifford & Co. Baillie Gifford Overseas Limited and Baillie Gifford & Co are authorised and regulated in the UK by the Financial Conduct Authority.

### **South Korea**

Baillie Gifford Overseas Limited is licensed with the Financial Services Commission in South Korea as a cross border Discretionary Investment Manager and Non-discretionary Investment Adviser.

### **Japan**

Mitsubishi UFJ Baillie Gifford Asset Management Limited ('MUBGAM') is a joint venture company between Mitsubishi UFJ Trust & Banking Corporation and Baillie Gifford Overseas Limited. MUBGAM is authorised and regulated by the Financial Conduct Authority.

## Australia

Baillie Gifford Overseas Limited (ARBN 118 567 178) is registered as a foreign company under the Corporations Act 2001 (Cth) and holds Foreign Australian Financial Services Licence No 528911. This material is provided to you on the basis that you are a “wholesale client” within the meaning of section 761G of the Corporations Act 2001 (Cth) (“Corporations Act”). Please advise Baillie Gifford Overseas Limited immediately if you are not a wholesale client. In no circumstances may this material be made available to a “retail client” within the meaning of section 761G of the Corporations Act.

This material contains general information only. It does not take into account any person's objectives, financial situation or needs.

## South Africa

Baillie Gifford Overseas Limited is registered as a Foreign Financial Services Provider with the Financial Sector Conduct Authority in South Africa.

## North America

Baillie Gifford International LLC is wholly owned by Baillie Gifford Overseas Limited; it was formed in Delaware in 2005 and is registered with the SEC. It is the legal entity through which Baillie Gifford Overseas Limited provides client service and marketing functions in North America. Baillie Gifford Overseas Limited is registered with the SEC in the United States of America.

The Manager is not resident in Canada, its head office and principal place of business is in Edinburgh, Scotland. Baillie Gifford Overseas Limited is regulated in Canada as a portfolio manager and exempt market dealer with the Ontario Securities Commission ('OSC'). Its portfolio manager licence is currently passported into Alberta, Quebec, Saskatchewan, Manitoba and Newfoundland & Labrador whereas the exempt market dealer licence is passported across all Canadian provinces and territories. Baillie Gifford International LLC is regulated by the OSC as an exempt market and its licence is passported across all Canadian provinces and territories. Baillie Gifford Investment Management (Europe) Limited ('BGE') relies on the International Investment Fund Manager Exemption in the provinces of Ontario and Quebec.

## Israel

Baillie Gifford Overseas Limited is not licensed under Israel's Regulation of Investment Advising, Investment Marketing and Portfolio Management Law, 5755-1995 (the Advice Law) and does not carry insurance pursuant to the Advice Law. This material is only intended for those categories of Israeli residents who are qualified clients listed on the First Addendum to the Advice Law.