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Emerging Markets: Why Waiting for Certainty Could Be Costly

September 23, 2026

Key Takeaways

- Geopolitical shocks have not stopped emerging market equities from delivering strong returns, challenging dated views that they should be avoided whenever global risks increase.
- Today's emerging markets look very different from the old risk playbook, with more diverse economies, global champions, stronger domestic growth drivers and a backdrop that looks increasingly supportive.
- For investors, the bigger risk may lie not in owning emerging markets in an uncertain world, but in waiting for certainty and an entry point that never comes.

War in Ukraine. Expanding conflict in the Middle East. Trade wars. Political uncertainty across multiple continents. By the old rulebook, emerging markets should have struggled in this environment: the first to sell off when headlines darkened, and the last to recover when risk appetite returned.

However, recent evidence has proved otherwise. Despite a near-constant stream of geopolitical turbulence over the past few years, many emerging market equities have delivered strong returns, including a rebound of over 30% for the MSCI Emerging Markets Index in 2025 alone and robust performance year-to-date in 2026 — even factoring in the July selloff. So why does the old "Emerging markets are too risky right now" instinct keep showing up, and is it still pointing at the right risks?

How Global Risks Shaped Views on Emerging Markets

This instinct is understandable and comes from real experience. For decades, emerging markets were tightly tied to oil and commodity prices, and when oil spiked or crashed emerging market currencies and stocks often moved in lockstep. On top of that, whenever global investors became nervous about a war, a Fed decision or a banking scare, money tended to flee emerging markets first and fastest. A crisis on the other side of the world could hit emerging market investments hard, even when the connection made little logical sense.

That pattern may have trained a generation of investors to treat geopolitical headlines as a warning light for emerging markets. For a long time, it was a reasonable signal to watch. However, that link is not as straightforward today.

Geopolitics May Matter Less Than It Used To

Today's geopolitical shocks are less likely to be purely emerging market events. Trade disputes, wars, energy shocks and supply-chain disruption now ripple through developed and emerging markets alike.

It is also worth separating the headline from the underlying weakness. Many past emerging market selloffs were made worse by unpredictable local politics, weak currencies, heavy external debt or fragile banking systems. Today, we find that the gap between emerging and developed markets and economies is smaller, with many developed markets facing political uncertainty and high debt levels while several emerging markets sport more prudent macro foundations. Additionally, while geopolitical shocks can still create short-term volatility, they do not necessarily turn

into deeper emerging market crises; with these markets no longer moving as one broad risk trade, a political shock that may be material for one country, sector or currency may have little direct relevance on another.

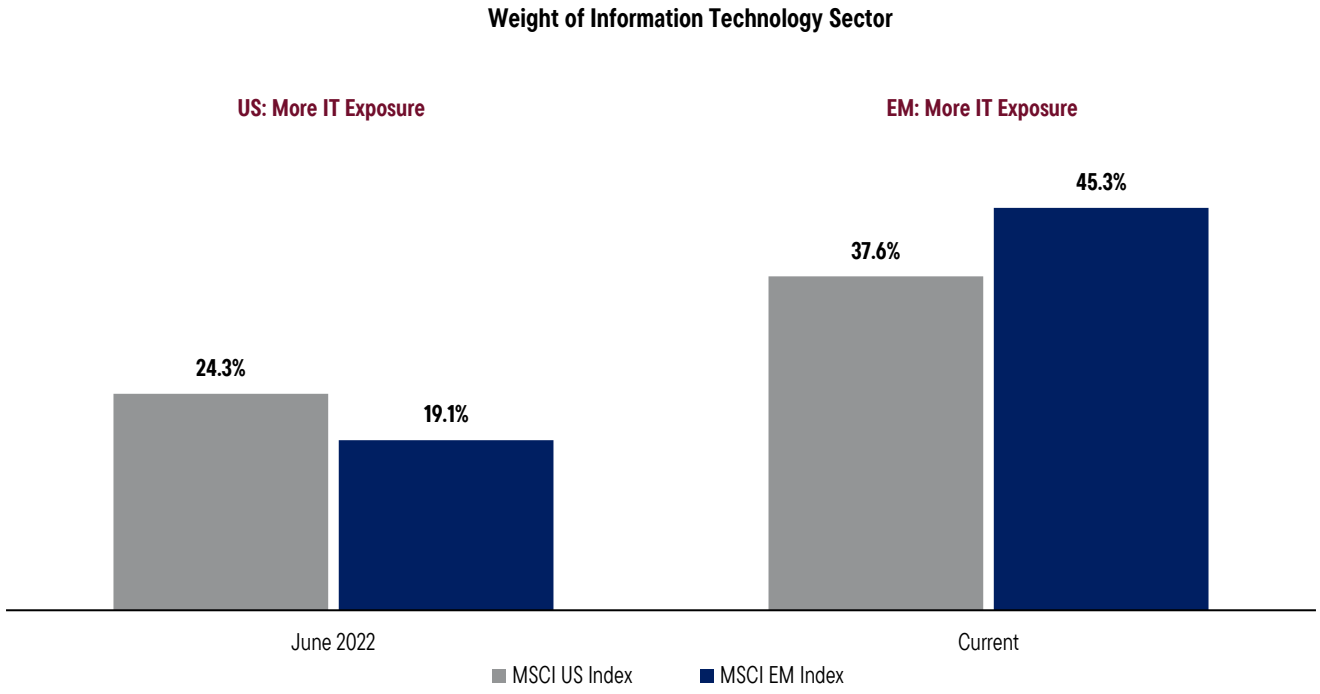
Emerging Markets Have Changed

Many emerging market economies are now more diversified, less dependent on commodity exports and supported by deeper domestic capital markets than they were a generation ago. This makes them less vulnerable to the old pattern of foreign investors pulling money at the first sign of trouble.

India's growth story, for example, is increasingly powered by domestic consumption and infrastructure investment, rather than global trade. Across the wider emerging market universe, the growth of services, manufacturing and domestically driven sectors has also made the asset class broader and more resilient.

At the same time, emerging markets are becoming home to more leading global companies. Taiwan and South Korea provide meaningful exposure to advanced manufacturing and semiconductors, linking parts of the emerging market universe to global AI and broader technology demand rather than old-style commodity cycles (Exhibit 1). This makes emerging markets harder to dismiss as one simple risk trade.

Exhibit 1: Emerging Markets and the AI Trade



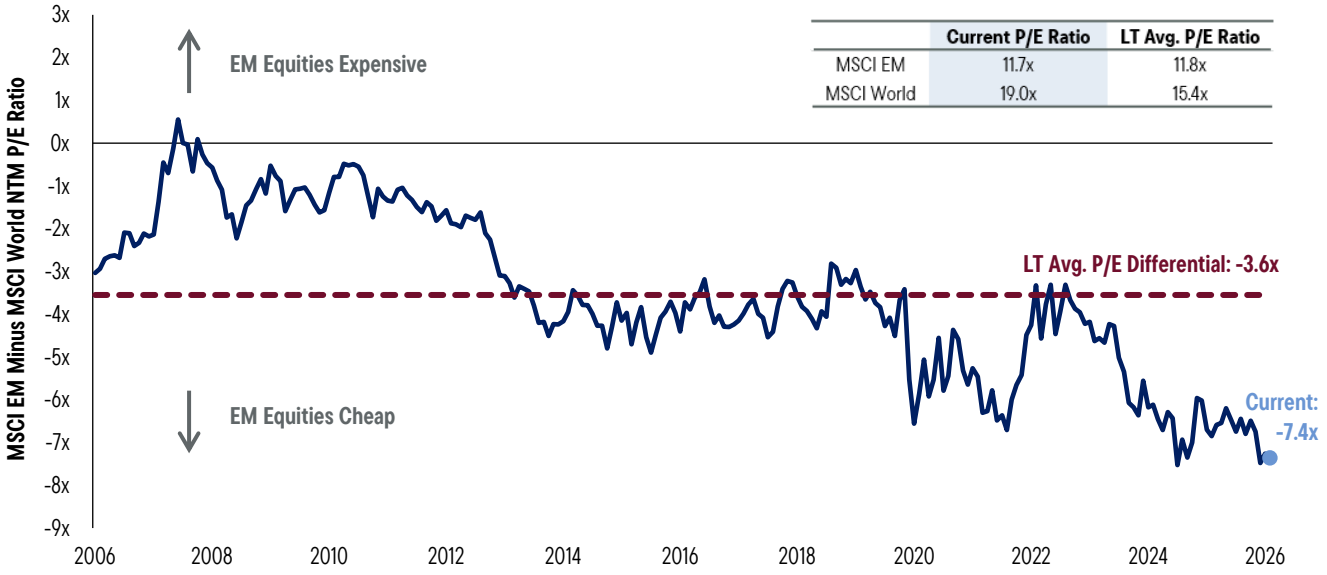
Data as of June 30, 2026. Sources: FactSet, MSCI.

The Starting Point Looks Attractive

Even setting aside the decreasing geopolitical risk, we believe the investment backdrop for emerging markets looks attractive on its own terms. Emerging market stocks are currently priced at notably lower multiples compared to their global and U.S. counterparts, trading at discounts of 45% and almost 50%, respectively,[1] leaving more room for upside if general sentiment improves (Exhibit 2). Furthermore, if the U.S. dollar continues to soften, the backdrop could become more accommodative to emerging market asset flows, further supporting prices.

[1] Discounts calculated from NTM P/E for MSCI EM was 9.9x, MSCI World 18.0x, S&P 500 19.3x, FactSet, 18 September 2026.

Exhibit 2: Emerging Markets Valuations Historically Attractive



Data as of June 30, 2026. Sources: FactSet, MSCI.

Waiting For Certainty May Mean Missing Out

Geopolitical uncertainty is not a temporary condition to be waited out — it is the baseline. There has rarely been a multiyear period in modern market history free of war, trade disputes, election upheaval or diplomatic crisis somewhere in the world. Many emerging market countries are in a better position, both politically and economically, than they have been historically. Treating geopolitical calm as a precondition for emerging market investment does not remove risk; it may simply mean missing the opportunity. For investors, the bigger risk may not be owning emerging markets in an uncertain world but in waiting for a certainty and an entry point that never comes.

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