

Perspective from
Franklin Templeton ETFs

From “if” to “where:” Which emerging markets are rebounding

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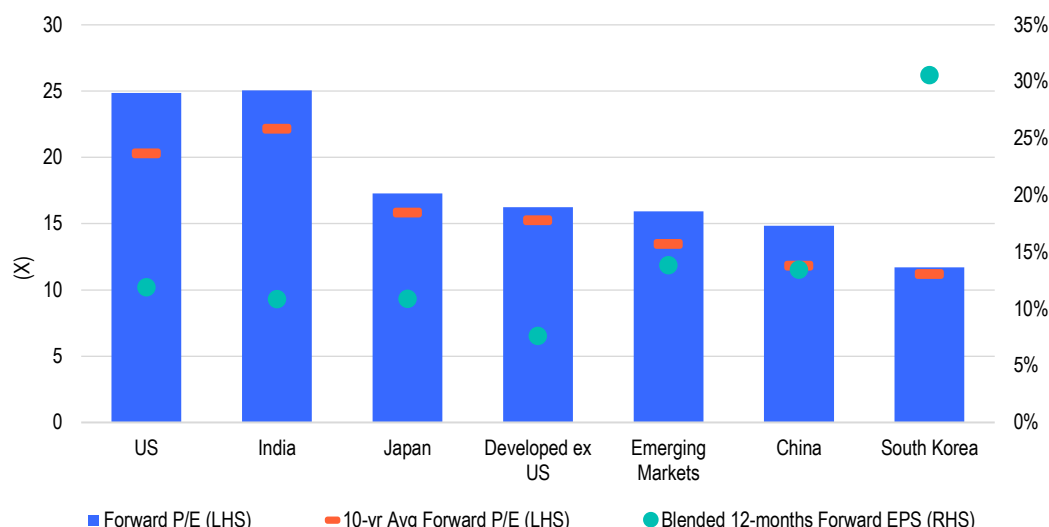
Emerging market (EM) equities have made a notable comeback in 2025, hitting new record highs and shaking off years of relative weakness. Emerging markets have delivered over 28% in USD terms so far this year, double the S&P 500 Index's 14% return.¹ Several factors are driving this momentum: a weakening US dollar, policy changes, robust growth in contrast to developed markets, and shifting global capital flows.

This optimism is reflected in flows as well, with global net inflows into EM exchange-traded funds (ETFs) reaching US\$38.9 billion so far this year.² For investors, EM exposure is now a given, but focus is shifting to which countries to tilt toward, and why. Leading contributors to the EM resurgence include South Korea and China, which have risen year-to-date by approximately 61% and 37%, respectively.³

China: resilient amid policy shifts

China's market rebound—its best in four years—has pushed equities toward decade-highs, underpinned by targeted stimulus and a broad resurgence in consumer and business sentiment. In our opinion, the shift points to renewed growth potential in the world's second-largest economy. From a valuation perspective, China's equity market stands out as attractive to us—it trades at a discount to developed markets based on forward price-to-earnings (P/E) ratios, while maintaining positive earnings growth expectations. For investors, this combination offers growth at a reasonable price, especially relative to the higher multiples in the United States and other developed markets.⁴

Exhibit 1: S&P and FTSE Indexes: Forward P/E, 10-Year Average Forward P/E and Earnings Per Share (EPS)
As of September 12, 2025



Sources: Bloomberg, S&P Indexes, FTSE Indexes. US represented by S&P 500 Index, India by FTSE India Index, Japan by FTSE Japan Index, Developed ex US by FTSE Developed ex US Index, Emerging Markets by FTSE EM Index, China by FTSE China Index and South Korea by FTSE Korea Index. The FTSE country indexes are market-capitalization weighted indexes representing the performance of large- and mid-cap companies, within their respective countries, that are constituents of the FTSE All-World Index. The FTSE Developed ex US Index comprises large-cap (85%) and mid-cap (15%) stocks providing coverage of developed markets (24 countries) excluding the United States. The FTSE EM Index provides investors with a comprehensive means of measuring the performance of the most liquid large- and mid-cap companies in the EMs. **Past performance is not an indicator or a guarantee of future performance.** Indexes are unmanaged and one cannot invest directly in an index. Important data provider notices and terms available at www.franklintempletondatasources.com.

In our analysis, China's structural strengths continue to position it for long-term growth. As the second-largest market for venture capital activity after the United States, China remains a powerhouse for innovation, particularly in technology and consumer-facing industries. Although US-China relations have become strained in recent years, there have been recent signs of improvement, particularly with the steps toward resolution of issues like the TikTok debate. New developments suggest that both the United States and China are making efforts to reduce friction, a positive sign for China's economy and its stock market. We believe the improved diplomatic environment, alongside China's ongoing investments in technology and infrastructure, bode well for its long-term prospects.

Exhibit 2: Unicorn and Venture Capital (VC) by Country

Countries	Number of Unicorns	Countries	YTD 2025 VC Capital Investment (USD, billion)
China	340	China	7.0
India	64	France	2.1
United Kingdom	50	UK	1.9
Germany	26	India	1.7
France	25	Canada	1.0
Israel	24	Germany	1.0
Canada	22	Israel	0.6
Singapore	18		
Brazil	13		

Note: The companies listed here have valuations exceeding US\$1 billion, with completed deals, across all VC stages, and are backed by VC.

A bipartisan US House delegation also recently made a rare trip to China—the first in six years—as Washington and Beijing aim to smooth trade frictions and encourage more military-to-military communication.

The Korean wave

South Korea has been among this year's strongest EM performers. While semiconductor exports remain Korea's central growth driver, the country is also emerging as a formidable defense exporter. Historically dependent on the United States and other allies for advanced weapon systems, Seoul has, over the past decade, rapidly expanded its own research and development, manufacturing and defense supply chains. Today it exports full systems—from tanks and artillery to aircraft and missiles—rather than just components. Defense exports have surged from roughly US\$3 billion in the early 2010s to a record US\$17.3 billion in 2022, placing South Korea among the world's top 10 arms exporters.⁵

South Korea's thriving shipbuilding industry, the world's largest after only China, may potentially help Washington if Seoul commits investment that could align with the US goal of bringing manufacturing capacity back to US soil. The "Made in America" push has strong political momentum, but rebuilding advanced industrial capacity—especially in sectors like shipbuilding and semiconductors—will take years, if not decades. The United States simply lacks the skilled labor and spare industrial scale today to meet its ambitions. That makes a reliable partner like South Korea indispensable. Last year, the United States accounted for only 0.04% of global shipbuilding output.⁶

Additionally, South Korea's stock market has been buoyed by the rebound in its technology sector, notably semiconductors, as demand for memory chips recovers globally. The country's leadership in semiconductor manufacturing and AI-related investment are key drivers of this momentum. Far from being dominated by a single industry, the South Korean market's top three sectors—telecommunications, technology and industrials—are evenly distributed, each with an approximate weighting of 20%. Financials and consumer discretionary companies also make up a meaningful portion.⁷ Moreover, South Korea's efforts to address longstanding governance concerns—often referred to as the "Korea discount"—have contributed to a renewed investor outlook. Reforms that focus on boosting shareholder returns and increasing transparency have improved sentiment, helping the country overcome some of its previous market challenges.

At the same time, Korea's cultural and consumer-driven exports are becoming a powerful second engine of growth. In the first half of 2025, South Korea's cosmetics exports reached a record US\$5.51 billion, up nearly 15% year-on-year, allowing the country to overtake the United States at times as the world's second-largest cosmetics exporter, trailing only France.⁸ This global reach of "K-beauty," combined with the worldwide appeal of K-pop, Korean dramas and broader K-culture, continues to lift Korea's brand equity across consumer, fashion and lifestyle sectors.

Adding further momentum is the spectacular rise of medical tourism. Despite a domestic doctor shortage, the number of foreign patients seeking treatment in South Korea reached another record high, nearly doubling to about 1.2 million in 2024 from 606,000 in 2023.⁹ This surge means medical tourists now account for more than 7% of all inbound tourism, up from 5.5% the year prior.¹⁰ Dermatology procedures dominate the sector, drawing more than 705,000 patients (~57%), followed by plastic surgery (11%).¹¹ The economic impact goes well beyond hospital receipts—extending to hotels, retail and broader consumption—underscoring the industry's role as both a medical and tourism growth driver. With government policy actively supporting the sector through dedicated visas, subsidies and international promotion, South Korea has formally been positioning itself as Asia's premier medical tourism hub.

Taken together—the strength in semiconductors, the global pull of cultural and consumer exports, and the rapid expansion of medical tourism—South Korea offers investors a multi-faceted growth story. For those seeking exposure to sectors at the intersection of global industry, culture and health care, Korea remains a compelling choice, in our opinion.

Single-country ETFs in EMs

With EMs once again at the forefront of global growth, investors are increasingly turning to single-country ETFs to capture more targeted opportunities. In our analysis, China, South Korea and others offer exposures that broader regional funds may miss.

By tilting into markets like China's tech-driven growth or South Korea's leadership in semiconductors and cultural exports, we believe investors can access the sectors and economies with the highest potential, while managing broader EM risks.

As EMs regain leadership, the focus is shifting from whether to invest to where to invest—making thoughtful country selection and diversification critical for tapping the next generation of global innovators.

Endnotes

1. Source: Bloomberg, as of September 23, 2025. EMs represented by the MSCI EM Index. The MSCI EM Index captures large- and mid-cap representation across 24 EM countries. With 1,189 constituents, the index covers approximately 85% of the free-float-adjusted market capitalization in each country. **Past performance is not an indicator or a guarantee of future performance.** Indexes are unmanaged and one cannot invest directly in an index. Important data provider notices and terms available at www.franklintempletondatasources.com.
2. Bloomberg as of September 17, 2025.
3. Source: Bloomberg, as of September 23, 2025. The MSCI Korea Index is designed to measure the performance of the large- and mid-cap segments of the South Korean market. With 81 constituents, the index covers about 85% of the Korean equity universe. The MSCI China Index captures large- and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). The index covers about 85% of this China equity universe. Currently, the index includes Large Cap A and Mid Cap A shares represented at 20% of their free-float-adjusted market capitalization. **Past performance is not an indicator or a guarantee of future performance.** Indexes are unmanaged and one cannot invest directly in an index. Important data provider notices and terms available at www.franklintempletondatasources.com.
4. Sources: Bloomberg, S&P Indexes, MSCI Indexes as of September 12, 2025. US market represented by S&P 500 Index, developed markets by MSCI EAFE Index and China market by MSCI China Index. The MSCI EAFE Index is an equity index which captures large- and mid-cap representation across 21 developed market countries around the world, excluding the United States and Canada. With 693 constituents, the index covers approximately 85% of the free-float-adjusted market capitalization in each country. The MSCI China Index captures large- and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). The index covers about 85% of this China equity universe. Currently, the index includes Large Cap A and Mid Cap A shares represented at 20% of their free-float-adjusted market capitalization. **Past performance is not an indicator or a guarantee of future performance.** Indexes are unmanaged and one cannot invest directly in an index. Important data provider notices and terms available at www.franklintempletondatasources.com.
5. Sources: U.S. International Trade Administration, Korea Institute for Industrial Economics & Trade (KIET) and SIPRI (Stockholm International Peace Research Institute).
6. "Ships built by country of building, annual (analytical)." UN Trade & Development. Last updated June 10, 2025.
7. Source: FTSE Russell, as of August 29, 2025. The FTSE South Korea RIC Capped Index represents the performance of South Korean large- and mid-capitalization stocks. Securities are weighted based on their free-float-adjusted market capitalization and reviewed semi-annually. **Past performance is not an indicator or a guarantee of future performance.** Indexes are unmanaged and one cannot invest directly in an index. Important data provider notices and terms available at www.franklintempletondatasources.com.
8. Source: "Korean cosmetics exports hit record high in first half of 2025 amid K-beauty craze." Korean JoongAng Daily. July 3, 2025.
9. Source: Ministry of Health and Welfare, April 2, 2025.
10. Source: "Korea's Inbound and Outbound Tourism Performance in 2024." Yanolja research brief, volume 5. February 2025.
11. Source: South Korea Ministry of Health and Welfare, April 2, 2025.

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