Templeton Global Investments Emerging Markets Q&A

November 2025

We recently engaged with our emerging market portfolio managers to listen to their views on individual markets. Their investment views centered on the changing consumption patterns in China, continued domestic inflows to the Indian market, international investor under allocation to the Middle East and the emergence of market friendly policies in Latin America. Significant year-to-date gains in emerging markets imply investors have begun to recognize the investment opportunity. Nevertheless, as this follows a prolonged period of underperformance relative to developed markets, there remains potential for further market gains before valuations become a concern.

Portfolio managers

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Nicholas Chui - China

What opportunities does China offer as we enter the last quarter of the year?

China is at an interesting point in the cycle. Following a prolonged period of underperformance relative to developed markets, sentiment has turned positive as government policy has pivoted to be stimulative. However, we have yet to see economic growth recover. This has led to a disconnect in the market between sentiment and fundamentals, it is also one where we can add value - a stock pickers market.

In terms of market performance, China is above the 10-year mean price-to-earnings ratio, following a 40% rise in the MSCI China market year-to-date[1]. In our view, there is room for the market to grow, but the onus is now on earnings. As stock pickers, we look at it from a bottom-up perspective.

MSCI China price-to-earnings ratio

Source: MSCI, Bloomberg, as of September 30, 2025

We see several themes that didn't exist a year ago playing out. Anti-involution, which is supply-side reform, is one example. The goal of the government's "anti-involution" campaign is to promote industrial consolidation and sustainable growth via rigorous enforcement of regulations.

Artificial intelligence or AI is another big theme, in China the story is about import substitution, using its own data to develop AI models, data centers and innovative services. The build out in China is as big as that in the US. Autonomous driving is also an important theme, and we think China may lead the charge, just as it did in EVs.

What is "China for China"?

"China for China," is a focus on domestic consumption and supply chains, and its how we approach the market. We favor leaders in industries which are able to gain market share and operate in line with government goals. We see a lot of domestic opportunities despite sanctions and geopolitical uncertainties. State-owned banks and private enterprises are returning cash to shareholders and enacting share

1. Source: Bloomberg, September, 30, 2025.

buybacks as they do in developed markets. If this trend is maintained it can continue to drive stock prices.

People in China are consuming and their appetite for services is increasing. A lot of new retail and consumption trends have arisen across products and service categories. In our view, the broad retail numbers are not accurately capturing the change in consumption behaviors. But if we look at the bottom-up stock stories and the breadth of the companies that can capture this opportunity, it is a large number.

From a research perspective, we have been searching for opportunities amongst smaller cap companies, not because the large caps don't have opportunities, but because of attractive small cap opportunities in health care, AI and other industries.

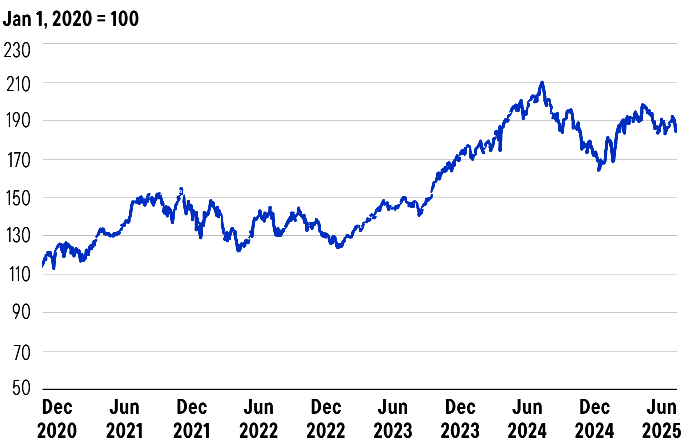
China A shares, the onshore market, has more than 4,000 companies with many niche verticals. For instance, with humanoid robots, you can buy a company that just manufactures ball screws or one that just does Light Detection and Ranging (LIDAR) for autonomous driving. We don't have to buy a large conglomerate. This means we can be very early in the cycle in an area like autonomous driving.

What are the risks?
The primary risks for the China market center on a stalling of the economic recovery. This could be brought about by weakness in job creation impacting domestic consumption. There are also risks that China's search for new export markets could be slowed by rising protectionism in these markets.

Janakiraman Rengaraju - India

Why is India seen as largely a domestic story?
Most of the factors that influence economic growth and in turn equity returns in India are domestic in nature. In the three years after COVID, India had a reasonable growth surge. Additionally, the market had good corporate earnings growth and attractive equity returns, however, since then there has been a loss of momentum.

MSCI India market performance



Source: MSCI, Bloomberg, as of September 30, 2025
Index rebased to 100 on January 1, 2020.

What was behind the recent loss of growth momentum?
It's partially because of regulatory measures that sought to slow hitherto rapid growth in household credit. The private personal credit market was heating up, so the regulator introduced restrictions to reduce the risks for households and banks. In the pre-election period the government also took its foot off the pedal, in our view, in terms of capex spending.

How has the government responded?
It has realized the need to increase capex spending. This year has seen some meaningful stimulus: fiscal in the form of a tax cut and monetary in the form of relaxation of those credit growth restrictions and rate cuts. All are going to benefit the overall population, especially the latest reform, which is a meaningful cut in consumption taxes, locally called GST. We anticipate the cut will spur consumption, especially discretionary demand. Consensus growth estimates now look better than they did in mid 2025.

How is India impacted by the tariff hikes?
The US imposed a 50% tariff on India. India is largely a domestic economy, with exports to the US valued roughly at $80 billion. Not all of them will be covered by these tariffs. If the tariffs are implemented as they are designed currently, the potential impact on growth is estimated to be between 30 to 40 basis points. We think the ongoing tax reforms and the expected growth in demand may more-than compensate for this. The resolution of the tariff issue is another potential trigger over the next three to six months.

What about valuations and earnings?
One of the perennial investor frustrations with the Indian market, especially if you compare it with markets like China, has been valuations. India's price-to-earnings ratio has traded at a premium to other emerging markets for a long time. And that premium has been sustained despite foreign portfolio outflows due to consistent and large domestic inflows.

For stock pickers like us, one of the frustrations is Indian market corrections are few and far between because of these consistent domestic inflows. Another aspect of the market is the supply of new equity has also been meaningful both in the form of IPOs and the sale of shares by company owners. To a certain extent this is absorbed by the large inflow from domestic households. Nevertheless, the supply of new equity does put a lid on potential equity returns.

Earnings growth this year is expected to be in the range of 8% to 12%. This number looks a bit weak, but is pulled down by a large banking sector that will have low earnings growth because of interest rate cuts. We think a much better way is to look at the current and next fiscal years together. If you do that, then earnings growth is in a range of 12 to 14%. The GST cuts will, in our view, provide momentum for aggregate demand and in turn earnings growth.

In the small-cap market, there has been a significant improvement in the availability of risk capital. This has led to the expansion of the small cap universe. This segment has a combination of higher growth rate and higher valuation.

What are the risks?
The absence of a recovery in earnings would increase investor focus on elevated valuations, posing a risk to the market. There is also a risk that the government's renewed focus on capex takes longer than expected to implement, removing an important catalyst for the market.

Bassel Khatoun - Middle East

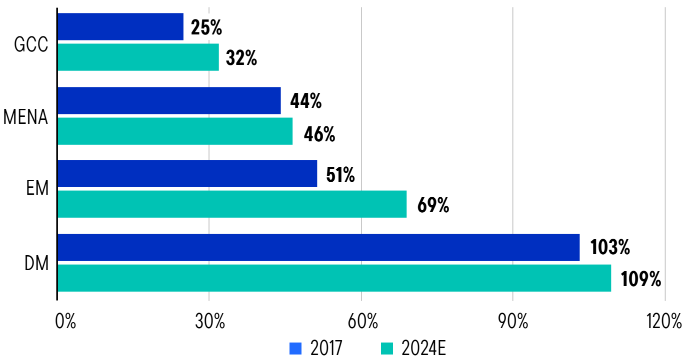
What is your overall view of the region?
We believe, over the longer term, the resiliency and growth trajectory of the region more than compensates for the higher geopolitical risk. We are focused as ever on companies with durable earnings power and cash flow visibility, trading at discounts to long-term value. We find particular opportunity in domestic-facing small and mid-caps, which we believe have been mispriced given their cash flow trajectories. Many are in Saudi Arabia and the United Arab Emirates (UAE).

How has it performed year-to-date?
The Middle East index has underperformed emerging markets by 18% year-to-date[2]. We think this, combined with strong underlying fundamentals, makes it an interesting moment to revisit the investment opportunity in the Middle East.

What are the unique aspects of the Middle East, and where are the new investment opportunities?
We see an interest rate normalization story in markets that were early and aggressive in terms of raising rates that now have the scope to cut more aggressively. This creates an equity market tailwind in those markets.

One of the unique aspects of the Middle East & North Africa region (MENA), particularly the oil rich Gulf states, is a combination of resiliency on the one hand, but also growth on the other. Plentiful sovereign assets and very low debt to GDP levels underpin stability in these markets. But on the other hand, there are governments that have unleashed very ambitious reform and diversification agendas, driving growth across numerous industries. We've seen consumption boosted by a growing female labor force and inflows of skilled expatriates.

Debt to GDP in Major Regions



Source: IMF World Economic Outlook Database April 2024, SWF Institute; World Bank.
MENA: Middle East & North Africa
Data as of July 21, 2025

On the investment side, we've seen government sustaining investment-led growth through fiscal expansion and investment despite lower oil prices. And then there is a big push toward diversification that's creating new industries and investment opportunities in areas like tourism, logistics, financial services and information technology.

The current fiscal stance of the Saudi government reflects a very deliberate policy choice to prioritize long-term economic transformation over short-term budget constraints. We're seeing that reflected in projected 20% earnings growth in the market in 2025 and 2026[3], led by financials and health care. The UAE offers a consumption-driven service economy supported by population growth, tourism and an acceleration of investment in the oil fields.

How are global portfolios allocated to the Middle East?
Global capital has become increasingly drawn toward these well-funded non-oil growth plans. But on balance, if you look at global emerging market portfolios, investors remain significantly underweight the MENA region. And we think that leaves some scope for a catch-up with fundamentals.

And valuations?
The key challenge that's often raised regarding MENA has been valuations, particularly relative to emerging market peers. Given the underperformance this year, we have seen a valuation opportunity open. Many markets are now trading at or below their historical averages.

A second concern is oil prices. We've seen volatility in oil prices and a mixed OPEC+ policy. Our view on this is that $68 per barrel oil is manageable, but not comfortable for the region. As a result, we have seen some scaling back in mega projects. Undeniably, we're in a stickier part of what is a long-term growth story.

What are the risks?
The growth story in MENA, particularly in the Gulf states, is a structural one. Hence short-term fluctuations in energy prices may weigh on sentiment, but are unlikely to undermine long-term confidence. Geopolitical risks are ever present, but following the recent Israeli peace deal, they appear to be receding.

Gustavo Stenzel - Latin America and Frederico Sampaio - Brazil

What factors are supportive of the region? What are the secular trends?
We are optimistic about potential leadership changes in Latin America and expect more pro-market policies. We had a leadership change in Mexico last year, with the new president proving very pragmatic in dealing with the new US trade demands without a direct confrontation. We expect the review of the US-Mexico-Canada Agreement (USMCA) of 2026 to be successful. Many additional countries in South America will witness elections in 2025/2026: Chile in November 2025, with Peru, Colombia and Brazil going to the polls next year.

2. Source: MSCI EM GCC Index, as of September 30, 2025.
3. Source: Bloomberg, consensus expectations, as of September 30, 2025.

A very emblematic example of progress in pro-market policies in the region is the universalization of water and sewage in Brazil. In a country with plenty of water, it was only possible to attract massive private investments in 2022 with a new legal framework requiring universalization of access in 10 years' time to the half of the population lacking a proper service. We are experiencing a transformation in my hometown, Rio de Janeiro, with the clean-up of the Guanabara Bay and beaches.

A key secular trend in Latin America is its status as the lowest-cost producer in a range of commodities from farming to copper. Even with low commodity prices, we see growth in volume across the board.

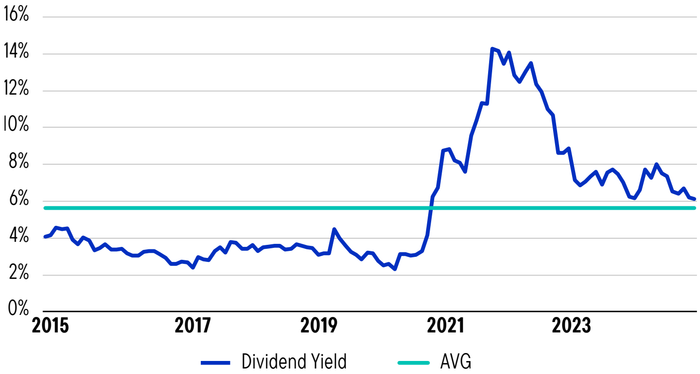
Another secular point for the region is demographics. With 660 million people and a median age of 32[4], the region has a young under-leveraged economy. Financial penetration is very low, even compared to other emerging markets. The young population is savvy, leap frogging technologies and driving demand for innovative financial products. This is creating a virtuous cycle of investment with an acceleration of reforms speeding the process.

We are also bullish on the infrastructure theme – physical infrastructure such as railways, airports and roads – because pent-up demand is high. Near shoring continues as a driver of investment in Mexico as it has positioned itself as a manufacturing hub for the US.

What is "investment asymmetry" in Brazil?
Brazil represents a significant investment asymmetry between valuations and growth. Price-to-earnings valuations are between one and two standard deviations below the average. This level of valuation may indicate to investors that Brazil is in another crisis, but the big macro variables are well-behaved. Inflation is close to the central banks range and GDP growth has been a resilient 2%.

What are current dividend yields and how close is Brazil to a monetary easing cycle?
You can find several stocks paying a dividend yield of more than 10%. We think high interest rates – a 15% overnight rate – are the reason behind this. The good news is that, in the short term, Brazil is close to the beginning of an easing cycle. When you compare high Brazilian real interest rates to peers, we believe there is a lot of room to cut rates, which may drive a recovery in equity markets.

Brazil dividend yield



Source: MSCI, Bloomberg, as of September 30, 2025

What is the probability of change in policies and what is the market discounting?
We believe valuations in Brazil are not pricing in the very real possibility of a change in government that will restart the reforms cycle that stalled in the last three years.

What are the risks?
Weaker commodity prices are a risk for the region, but would also result in an acceleration of interest rate cuts, which in the case of Brazil, have considerable scope to fall. Election uncertainty is also a risk, but one that investors in the region are used to dealing with.

Conclusion

Investor sentiment towards emerging markets is changing. New growth drivers are emerging and our on-the-ground research teams are matching these drivers with companies trading at a discount to their intrinsic worth. Opportunities abound amongst our preferred themes of digitization and the role of change agents in the technology sector including semiconductor companies powering the growth of artificial intelligence. We also see opportunities in consumption, particularly in new business models in consumer services, as well as banks focused on increasing access to financial products in Asia and Latin America. Risks do exist, but we view these as cyclical in nature and are set against the backdrop of reforms driving structural growth in emerging markets.

4. Source: UN World population prospects 2024 covering Latin America and the Caribbean.

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