The changing of the guard

Special Report

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Why the US is not the only show in town for growth-seeking investors...

Jesse Livermore, the legendary Wall Street speculator, once observed: "There is nothing new in Wall Street. There can't be because speculation is as old as the hills. Whatever happens in the stock market today has happened before and will happen again." Yet for much of the last decade, markets have begged to differ. Sustained by an almost evangelical belief in US exceptionalism, the Magnificent Seven have duly rewarded the faithful with some eye-catching gains.

But we've been here before. The early 1970s had the Nifty Fifty, the blue-chip darlings that soared to eye-watering valuations before a rather brutal correction. The 2000s were all about the BRIC nations, which rolled into the commodities supercycle of the following decade. If history teaches us anything, even the dominance of the tech giants will eventually face a day of reckoning.

The harder challenge is spotting the turning point. Which brings us to 2025, a year in which the S&P 500 returned a fairly muted 9%, while the MSCI Emerging Markets Index surged 24% despite tariff tantrums, geopolitical upheaval and a lingering hangover of scepticism.

Of course, a single year proves very little, but this reflects more than just a simple change in market leadership. After years of relentless flows into US equities, the latest Bank of America Fund Manager Survey puts emerging markets as the most overweight equity class, above even the US.

Some would argue this is long overdue. Global index funds may be a perennial favourite, but they're only as diversified as the underlying benchmark. In the FTSE All-World Index, over 60% of your money sits in the US, compared with just 10% in emerging markets, and 20% of that supposedly diversified global index tracker is resting on the fortunes of the Magnificent Seven alone.

This concentration stands in stark contrast to the growing relevance of emerging markets over the last decade. Shedding their stereotype of cheap labour and commodity dependence, emerging markets now offer investors access to world-class companies and an alternative growth engine at meaningfully cheaper valuations.

In short, revisiting emerging markets is less about timing a cycle and more about recognising a materially different opportunity set.

Emerging markets remain significantly under-owned relative to their global footprint. Home to over four billion people – more than half the world's population – and accounting for half of global GDP, they

The better half?

represent just 5-10% of typical portfolios. Indeed, Latin America alone generates 7% of global GDP but has a weighting of under 1% in the FTSE All-World Index.

This imbalance is expected to widen further. While the US has been a magnet for growth-seeking investors, emerging markets are forecast to deliver more than twice the GDP growth of the US over the next five years, with Indonesia and India forecast to grow by more than 5%.

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This divergence in growth is underpinned by long-term, structural drivers, including the demographic dividend of rising working-age populations and increasing life expectancy.

At the same time, rising educational standards are reshaping the talent pool. China and India produce seven times as many STEM graduates as the US, meeting soaring demand for advanced AI skills.

In turn, economic growth has powered corporate earnings. JPMorgan reports that earnings contributed just under half of total returns for emerging markets in 2025, compared to only 13% for the Eurozone, where gains were largely driven by multiple expansion. The earnings outlook appears similarly robust, with forecast earnings growth of 147% for the MSCI Korea Index and 28% for Taiwan in 2026, according to JPMorgan.

Despite this, emerging markets are trading at their widest discount to developed markets in more than two decades. The MSCI Emerging Markets Index is trading 45% and 22% below the USA and Europe, respectively, on a forward price-earnings basis (as at 30/06/2026), leaving meaningful headroom for a re-rating.

A different beast

Emerging markets have evolved well beyond the old playbook of commodities and low-cost manufacturing, moving decisively up the value chain to reshape industries from clean energy to digital infrastructure and artificial intelligence.

Asia, in particular, has emerged as a hub of innovation. Taiwan and Korea dominate advanced semiconductors (more of which later) while China leads in renewable energy and electric vehicles. Emerging markets now account for more than half of global patent grants, reflecting their ability to develop cutting-edge technologies, often leapfrogging legacy models along the way.

This transformation has been supported by the rise of vast, self-sustaining domestic economies. Despite its well-documented challenges, China remains the world's second-largest economy, with 85% of the MSCI China Index's revenues generated domestically. India is following a similar trajectory, powered by rapid growth in financial services and digital infrastructure.

Domestic forces are also transforming broader emerging markets. Fintech platforms in Latin America and Southeast Asia are improving financial inclusion, with healthcare providers scaling to meet the needs of a wealthier, more urban consumer base. China produced 60% of electric cars sold in 2025, with its domestic market alone accounting for six out of ten global sales, according to the International Energy Agency (IEA).

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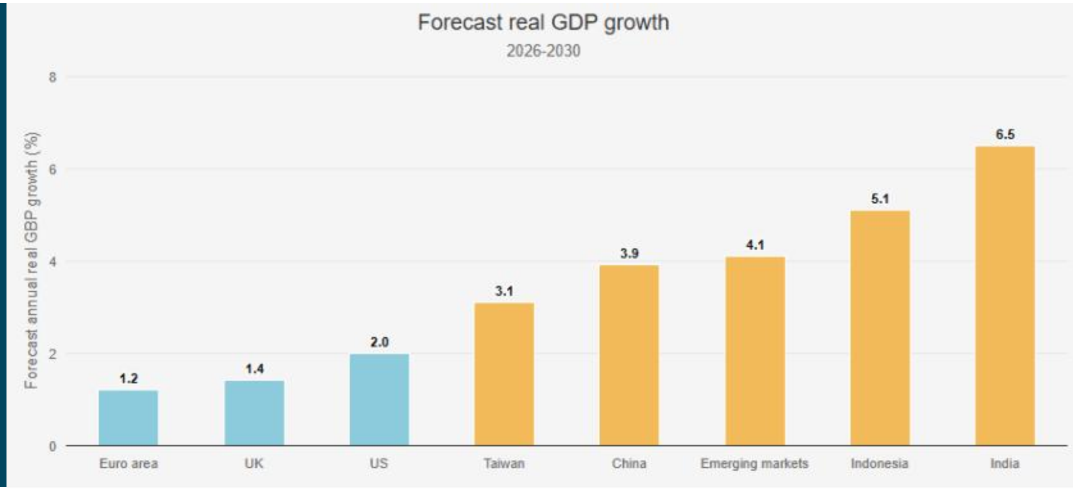
FIG 1:
'EMERGING MARKETS OFFER SUPERIOR GROWTH POTENTIAL'

Source: IMF (May 2026)



Trade dynamics have shifted in parallel. Emerging markets' share of global trade has risen from 25% in the early 2000s to 40% today, with 60% exporting more to each other than to advanced economies, according to the World Bank. Initiatives such as India's Act East and China's Belt and Road programmes have strengthened regional alliances, while China's conscious decoupling from the US has reduced its export dependence to around 10%.

These structural shifts are supported by a more resilient macro backdrop. Government debt remains relatively modest against the ballooning fiscal deficits of advanced economies, and current account balances have improved. Falling inflation has allowed some central banks to begin monetary easing, offering a tailwind for domestic consumption. With the US dollar finally starting to soften, emerging markets benefit from lower dollar-denominated debt burdens and more competitive dollar-priced exports, though oil-driven dollar strength could complicate the near-term picture.

In short, emerging markets are not the asset class of a decade ago, but a more innovative, interconnected and domestically driven proposition altogether.

Powering the AI revolution

The US may dominate the software layer of artificial intelligence, but emerging markets are building much of the hardware that powers it. As hyperscalers pour billions into data centres, economies such as Taiwan and Korea are becoming indispensable to the AI supply chain.

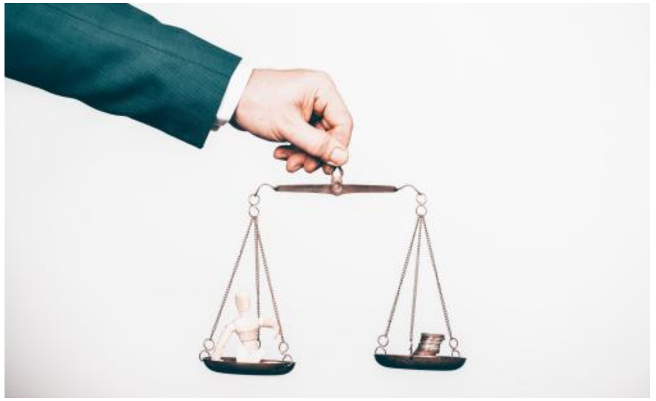
At the centre of this boom sits TSMC, which produces around 70% of the world's most advanced chips. But it's far from alone: Korea's SK Hynix has emerged as a global leader in high-bandwidth memory used to train large language models, with production in key categories reportedly sold out well into 2026. Meanwhile, Samsung, the second-largest global foundry, is scaling across both

memory and AI computing chips. Samsung and SK Hynix have recently crossed the trillion-dollar market capitalisation threshold, joining the elite club of the US tech giants they supply.

Behind them lies a wider ecosystem across the AI supply chain. Taiwan's Quanta Computer dominates AI server assembly, Korea's LG Energy Solution is expanding battery capacity for back-up power and Delta Electronics supplies critical power and cooling systems.

The opportunity is broadening geographically too, with Malaysia's semiconductor assembly and Vietnam's electronic manufacturers amongst those reaping the benefits. Indeed, an estimated 75% of the Magnificent Seven's suppliers are based outside the US.

Nor is this solely an Asian story. Data centres already consume more power than Japan, and the IEA expects demand to more than double by 2030. This will require a substantial upgrade to global grid infrastructure and drive sustained demand for industrial metals.



As a result, resource-rich regions such as Latin America are well positioned to benefit from this commodity supercycle. Chile mines almost a quarter of global copper supply, but copper is only one item on a long list of AI inputs, from the silicon in semiconductor chips to lithium, cobalt and nickel for energy storage and aluminium for servers and cooling systems.

With US technology valuations looking increasingly demanding, the picks-and-shovels trade across emerging markets offers a compelling entry point to the AI boom.

Marching to a different beat

Diversification may be the only free lunch in investing, but the menu has narrowed as global equity markets have become increasingly tied to the fortunes of US mega-caps. Even the trusty 60:40 portfolio hit the buffers in 2022 when equity and bond markets fell sharply in tandem.

Emerging markets remain one of the few places offering meaningful diversification. They may be labelled as a single asset class, but the reality is a fragmented and heterogeneous universe, with the average country-to-country correlation in the MSCI Emerging Markets Index standing at just 0.24.

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This is reflective of returns being driven by a range of idiosyncratic domestic factors rather than a single macro narrative: Chile's resource-driven economy has little in common with India's services sector, Korea's semiconductor industry or Brazil's domestic consumption story.

There are pockets of shared exposure. Taiwan and Korea are tied to the AI supply chain, but primarily through hardware rather than the software-led earnings of US mega-caps. Commodity demand may remain cyclical but is increasingly supported by the long-term structural demand from the energy transition and AI.

Put together, this results in a correlation of below 0.5 with the S&P 500, and only a moderate correlation with UK, European and global indices, with emerging markets less correlated to US equities than other developed markets.

This resilience has been tested in recent market shocks. Despite geopolitical turbulence, the MSCI Emerging Markets Index has returned 56% since Trump's inauguration, eclipsing the 33% and 37% returns from UK and European indices respectively and 22% for the S&P 500. And in the aftermath of so-called Liberation Day, emerging markets fell less sharply than developed markets and returned to breakeven shortly thereafter.

In summary, emerging markets continue to march to a different beat, offering structural diversification across sectors, currencies and economic cycles at a time when global markets have become increasingly concentrated.

Cream of the crop

The investment case for emerging markets may be compelling, but accessing the opportunity can be far from straightforward.

The universe spans state-led economies to liberal democracies and export powerhouses to domestic consumption stories. And that's before adding in currency swings, patchy liquidity and analyst coverage, different regulatory regimes and multiple languages. Passive exposure not only struggles to capture the full opportunity set but risks reinforcing concentration risk in the largest markets regardless of valuation.

These same challenges create a rich source of alpha for skilled active managers, with **JPMorgan Emerging Markets Growth & Income (JMGI)** demonstrating the value of experienced stewardship. Austin Forey has managed the trust for over 30 years, navigating multiple market cycles from the Asian crisis to the global financial crisis, with co-manager John Citron adding a further decade of emerging markets experience.

The managers draw on JPMorgan's extensive global research network of more than a hundred professionals across nine countries. The team conducts over 3,000 company meetings each year, building long-term relationships with management teams to identify the highest-quality opportunities.

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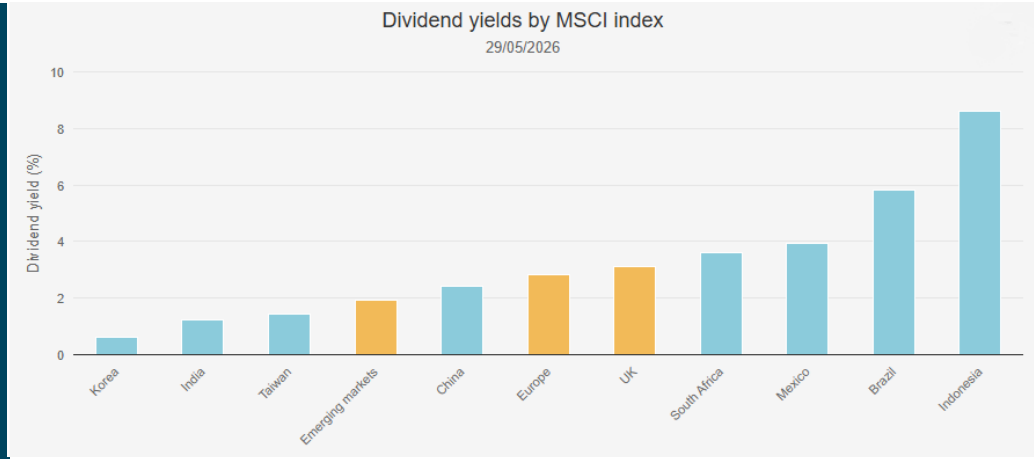
FIG 2: 'EMERGING MARKETS ARE LESS CORRELATED TO US EQUITIES

Source: FE Analytics (as at 18/06/2026)

FIG 3: 'EMERGING MARKETS ARE CHALLENGING TRAITIONAL INCOME MARKETS'



Source: MSCI factsheets (30/06/2026)

The trust's bottom-up, quality-focused strategy favours well-run, profitable businesses capable of compounding growth, with a long-standing tilt towards technology, industrial, consumer and financial names. Information technology accounts for just over 40% of the portfolio, anchored by a decade-plus holding in TSMC, alongside positions in SK Hynix, Samsung Electronics and Delta Electronics.

SK Hynix is a good illustration of the process. The managers maintained a long dialogue with the company due to its leadership in high-bandwidth memory but waited for clearer visibility on sustainable free cash flow before investing. Having initiated a position in early 2025, the trust has been rewarded with a one-year share price increase of over 750% (in local currency, as at 06/07/2026), reflecting soaring demand for AI-related memory.

These gains have contributed meaningfully to JMGI's high-conviction strategy in which the top-25 stocks account for around three-quarters of the portfolio, complemented by a tail of smaller positions. Alongside AI hardware suppliers, the trust holds asset-light digital platforms such as Tencent and Trip.com, which benefit from low marginal costs of user acquisition and strong cash conversion.

The managers maintain discipline around valuation and supply chain dynamics, taking selective profits on some technology holdings in 2025 while retaining core positions where the long-term compounding case remains intact.

Over the last decade, the trust has delivered a cumulative return of c. 217%, reflecting the benefits of patient, research-driven stock selection in a complex universe.

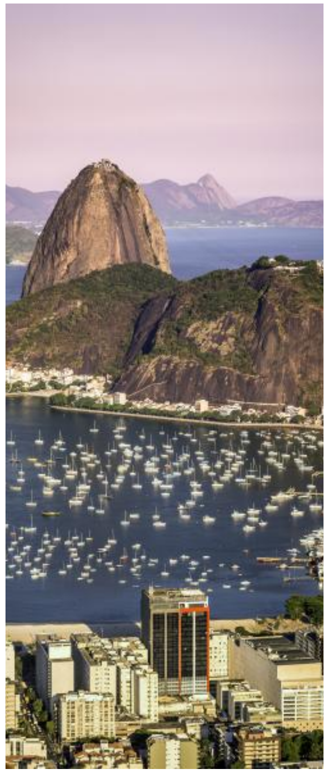
A dividend awakening

Emerging markets have not traditionally been the first port of call for income-seekers, but this is changing. Companies that once pursued a growth-at-any-cost mindset are increasingly adopting a more balanced approach to shareholder returns. For markets that have historically paid out a lower share of earnings than their UK and European counterparts, this leaves significant headroom for future income growth.

Government policy has been a major catalyst in this. Beijing has pushed firms towards more disciplined capital allocation and taken steps to curb destructive overcapacity in industries such as solar panels and electric vehicles. As a result, expenditure on dividends and share buybacks in China has more than doubled over the past decade. Korea is following suit, with its Value-Up programme taking inspiration from Japanese reforms to improve governance and strengthen minority shareholder rights.

As illustrated below, the MSCI Emerging Markets Index now offers a yield comparable to many developed markets, but the real opportunity lies below the averages. Higher-yielding markets such as Brazil and Indonesia sit alongside higher-growth, lower-yielding markets in Korea, India and Taiwan, giving active managers the opportunity to blend current income with future dividend growth.

This evolving landscape provides a fertile hunting ground for **JPMorgan Emerging Markets Dividend Income (JEMI)**, with manager Omar Negyal bringing almost three decades of experience in global equity income investing.



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The strategy is built around a bottom-up, quality-value approach, with most holdings expected to contribute to the income stream. A strong dividend stream is viewed as a useful litmus test for cashflow generation, balance sheet strength and governance, which have not been universal across emerging markets.

The closed-end structure is another advantage, allowing JEMI to invest across the full market-cap spectrum, including less-liquid opportunities that open-ended peers often can't access.

What sets JEMI apart is its deliberate spread of yields. Around 60% of the portfolio sits in companies yielding between 3% and 6%, including names such as Taiwan's Quanta Computer. A further 20% is held in lower-yielding, higher-growth names such as Tencent, MediaTek and TSMC, where earnings growth is expected to drive future dividend growth. The remainder is allocated to high-yielding positions such as Mexican bank Grupo Financiero Banorte, currently offering an 8% yield.

The result is a natural income drawn from across the portfolio, rather than relying on a small cohort of high-yielding stocks, alongside the potential for growth. This dual focus has yielded a cumulative total return of almost 200% over the last decade, together with a rising dividend.

The best of both worlds

Emerging markets are too large and diverse to be sufficiently captured by a single strategy. Together, JMGI and JEMI offer complementary stylistic exposure to this opportunity set, with JEMI focusing on core value and income and JMGI positioned around core growth and long-term compounding.

Both generate an income stream but from fundamentally different sources. JEMI generates a natural income from its portfolio of dividend-paying stocks, while JMGI pays a 4% NAV-based dividend from both capital and income. This frees the managers to focus on growth companies rather than dividend-payers, without sacrificing income in the process.

These differences are also visible in sector positioning. JEMI's largest overweight is financials, with holdings such as the National Bank of Greece and TISCO Financial. JMGI is exposed to financials, via names such as life insurer AIA in Hong Kong and Spanish bank BBVA, but with a tilt towards structural growth.

And it's a similar story in technology, JMGI's largest overweight, with key holdings in TSMC and SK Hynix to capitalise on AI-driven semiconductor growth, whereas JEMI is currently meaningfully underweight as valuations have become richer. Where both trusts own the same names, such as Samsung Electronics and TSMC, they own them for different reasons, with JMGI focusing on the growth runway and JEMI on valuation and yield.

The trusts also offer geographic diversification, with JEMI and JMGI respectively overweight and underweight China. JEMI has a long-standing structural underweight to India due to limited yield opportunities, paired with valuation concerns, while JMGI has historically held a more positive view, though it has trimmed exposure recently. Both funds are overweight Brazil, but through different lenses: JEMI for dividend culture and JMGI for the structural growth in digital financial platforms.

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The benefit of a complementary growth and value approach is reflected in returns. As shown in the chart below, both trusts have delivered positive returns in the majority of years. However, JEMI achieved higher returns in 2016 and 2025, while the same was true for JMGI in 2019 and 2020. As a result, a blended approach helps capture the upside when one style is in favour, while limiting the downside risk when leadership changes

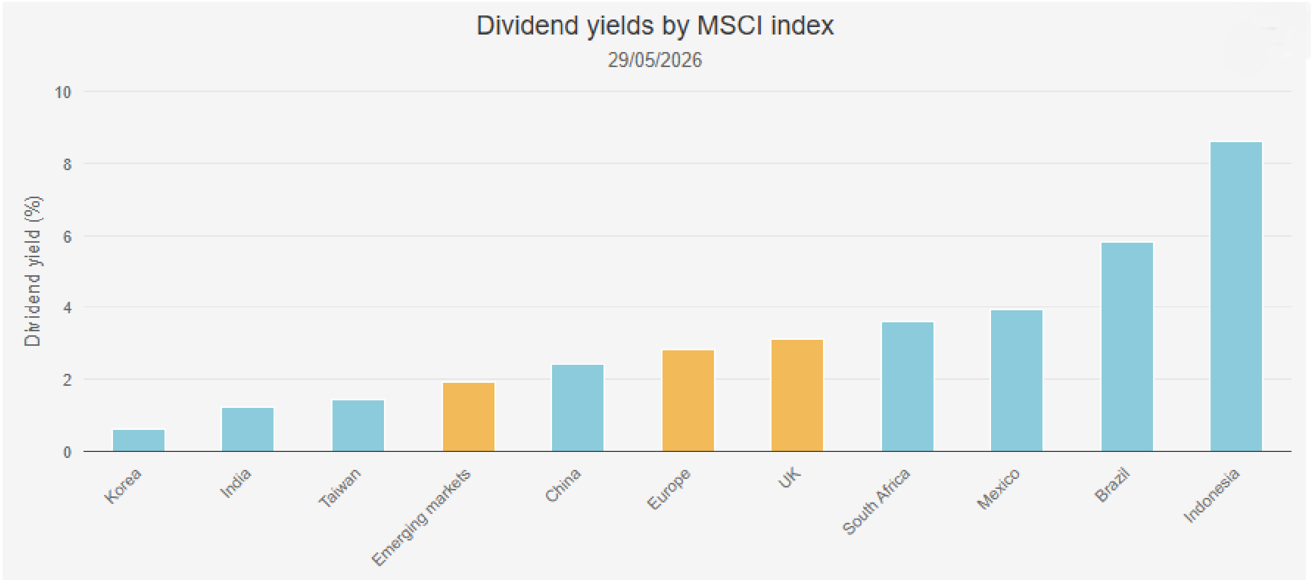
Final thoughts

In a market still dominated by a handful of US mega-caps, the risk is perhaps less a dramatic day of reckoning than failing to look beyond them. The turning point may not yet be led by equity performance, but the rebalancing of global influence is clearly visible.

Emerging markets offer genuine diversification alongside a compelling income and growth story. Together, JMGI and JEMI provide access to the full breadth of that opportunity without having to choose between income today and compounding tomorrow.

FIG 3: 'EMERGING MARKETS ARE CHALLENGING TRAITIONAL INCOME MARKETS'

Source: MSCI factsheets (30/06/2026)



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