



Emerging Markets Strategy

Market and Performance Overview

Emerging markets were up 8.9% during the month, in part driven by continued momentum around AI. South Korea rose 28.1%, driven by strength in its semiconductor companies while tech also propelled Taiwan to a 11.1% gain. Brazil rose 16.8%, boosted by positive investor flows, with Saudi Arabia (+10.5%) also outperforming in January. India was a laggard, declining 5.1% due to its lack of exposure to the AI trade and investor outflows while China (+4.7%) also trailed broader EM performance.

Within the benchmark MSCI Emerging Markets Index, companies in the information technology (IT, +16.8%), materials (+13%) and industrials (+10.9%) sectors turned in the best performance in January, boosted by AI gains and continued strength in precious metals. Consumer staples (+1.1%), communication services (+2.7%) and health care (+3.5%) companies were laggards for the month.

The ClearBridge Emerging Markets Strategy outperformed its benchmark in January, supported by positive stock selection in South Korea and Taiwan that offset weakness in India and Brazil. From a sector standpoint, stock selection and an overweight to IT was the primary driver of relative performance. Conversely, stock selection in the financials, energy and consumer discretionary sectors detracted from results.

Individual holdings that performed well during the month included SK Hynix, Samsung Electronics, Delta Electronics, Sieyuan Electric and Alibaba.

South Korea memory chip makers SK Hynix and Samsung beat quarterly expectations and have seen upgrades to their forward earnings estimates. We are encouraged that the rally in these names has been largely earnings driven and with continued strong pricing trends for memory, we still view their valuations as reasonable.

AI enthusiasm and ongoing tech capex continued to boost Delta Electronics, the Taiwan supplier of power and cooling for AI data centers. Meanwhile, Sieyuan Electric, the Chinese provider of power transmission equipment, was supported by increasing overseas orders. Many countries need to upgrade their power grids due to increasing AI power demand and older networks being out of date.

Alibaba saw a relief rally as the Chinese conglomerate reported good progress on its AI app integration while also getting a boost from the announcement of a potential IPO for its chip-making business.

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Detractors in the period included were HDFC Bank, Trip.com, China Merchants Bank, Reliance Industries and ICICI Bank.

HDFC and ICICI suffered from an ongoing rotation away from India. Both banks reported solid results during the month, however, with HDFC in particular demonstrating solid margin trends. With earnings intact for both companies, we view the recent weakness as primarily flow driven. Indian conglomerate Reliance Industries was hurt by weakness in its retail business and commodity price headwinds in its oil division as reported in its latest results, which offset continued strength in its telecom division.

Trip.com, the Chinese online travel agency is facing some regulatory scrutiny over its strong market positioning and there are fears over the threat of AI disruption. China Merchants Bank, meanwhile, was impacted by an investor rotation from Chinese banks to insurance companies, but we do not have any fundamental concerns about the company.

Portfolio Positioning

We added one position during the period. Gold Fields is a South Africa-based gold producer that offers exposure to gold prices, helping manage the Strategy's exposure to precious metals, which has become a meaningful part of the MSCI Emerging Market Index. The stock looks attractively valued at present based on mark-to-market profitability, which should enable very high returns on capital.

Outlook

Following a protracted period of relative underperformance versus developed markets, we believe the EM market recovery is at an early stage. Valuations are appealing, global macroeconomic drivers are supportive and local structural and company-level opportunities all point toward significant upside potential for the asset class.

International asset flows are also critical in driving prices for EM markets. The opportunity offered by lower valuations, combined with stronger economic growth and improving investor sentiment, creates a virtuous cycle attracting increased foreign capital flows. This, in turn, further enhances potential investment performance. We are still at an early stage in this process and anticipate increased foreign investments into EM equities over the coming years. We are bullish on three major themes in 2026: China, technology and India.

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