FRANKLIN TEMPLETON | ClearBridge

Emerging Markets Strategy

Market Overview

Emerging markets suffered wide losses in October as negative AI sentiment in the U.S. flowed through to key suppliers in Asian markets while surprise election results in Brazil weighed on Latin America's largest market. The MSCI Emerging Markets Index declined 8.0%, with some of the worst selling seen in AI indexed South Korea (-15.6%) and Taiwan (-8.4%), while Brazil (-12.0%) fell on the surprise re-election of incumbent president Lula, who had trailed conservative opponent Flavio Bolsonaro in the first round. China (-7.0%) also remained weak due to lower earnings growth expectations as well as selling pressure from offshore trusts meeting tax deadlines. The bright spot for the month was India (+1.2%), which benefited from both a lack of AI exposure and a resilient economy that has weathered the headwinds of the Iran conflict better than expected.

From a sector standpoint, energy (+0.9%) was the best performer, lifted by a 15% rise in crude oil prices as Iran stepped up its attacks on tankers in the Strait of Hormuz. Consumer staples (+0.8%) benefited from a flight to safety as well as a general rotation back into previously underperforming areas of EM. Industrials (-12.4%) and information technology (IT, -12.3%) were the worst performers as investor debate on AI capex and funding in the U.S. had a knock-on effect on key AI infrastructure component suppliers in Taiwan and South Korea.

Performance Overview

The ClearBridge Emerging Markets Strategy underperformed its benchmark in October, hurt by weakness in IT and industrials as well as stock selection in Taiwan, South Korea and China.

Contributors for the month came from areas of the market mostly insulated from negative AI momentum. In financials, the Strategy saw good performance from Capitec, a South African banking and insurance provider that benefited from the rotation into cyclicals and defensives; China Merchants Bank, which remained a recipient of demand for yield among its primarily domestic investment base; and India's ICICI Bank, which reported a good set of results that spoke to its stable execution and consistent performance.

Apollo Hospitals was buoyed by rotations into both India and the defensive health care sector, while Brazilian exploration and production company PRIO rose in tandem with surging oil prices.

Individual detractors were impacted by the AI selloff and implications of the Brazil election results. Taiwan data center power and thermal

management manufacturer Delta Electronics was hit by both negative AI momentum as well as results that missed expectations due to data center delays and the uneven nature of its product deliveries. A similar order trend also hurt electrical equipment supplier HD Hyundai Electric.

South Korea memory leaders Samsung and SK Hynix traded off with the broader AI infrastructure complex and were also pressured by newly public Chinese memory company CXMT. While CXMT has ambitious plans to build out much-needed capacity, we view it as a commodity DRAM company and less of a threat to Samsung and Hynix as it lacks the technology to develop in-demand high bandwidth memory (HBM).

In Brazil, Localiza fell due to the sensitivity of its car rental and fleet leasing business model to interest rates, which are expected to remain high following the re-election of Lula. The left wing leader is seen by market watchers as less likely to enact any fiscal reform than Bolsonaro.

Portfolio Positioning

During October, we exited a position in China's Ping An Insurance in the financials sector. The operating momentum of the mass market insurer has slowed as the value of new business, a key part of our investment thesis, continues to be under pressure with a turnaround taking longer than expected.

Outlook

At a high level, our AI-related portfolio holdings have endured the latest bout of negative sentiment with fundamentals intact, and we believe that continued delivery of strong operational results and positive earnings revisions can help allay any short-term fears in the market. We have mostly maintained our IT and industrials positions while making minor adjustments on the margin. While we acknowledge that these stocks continue to endure high levels of volatility, we think our benchmark-relative weights in these stocks are reasonable given the high conviction we have in their fundamentals.

We remain positive on the outlook for the IT hardware industry as we continue to see a supportive combination of growing global demand and constrained supply. The need for memory and compute from global hyperscalers and leading LLMs like Anthropic support our confidence that the AI infrastructure buildout remains well in place. In fact, indications are for the supply-demand situation to tighten further heading into 2027, which should support our AI-related IT and industrial holdings.

We continue to see long-term positive drivers for the portfolio from several areas, in particular India and China. In India, October's resilience speaks to the market's high-quality, domestic-focused companies where we see long-term opportunities that many investors still overlook. In China, a stabilization in macro conditions combined with market valuations that are still relatively cheap on a global basis should lead to share price improvement. China continues to produce world-leading innovation across multiple industries beyond tech, including industrials and consumer sectors. We continue to assess

opportunities in these areas both domestically and in how they impact competitors across EM.

Portfolio Highlights

The ClearBridge Emerging Markets Strategy underperformed its MSCI Emerging Markets Index benchmark in October. On an absolute basis, the Strategy saw losses across seven of the nine sectors in which it was invested (out of 11 sectors total). The contributors to performance were the health care and energy sectors, while the IT sector was the main detractor.

Relative to the benchmark, overall stock selection and sector allocation detracted from performance. In particular, stock selection in the IT, industrials and communication services sectors and an overweight to IT weighed on results. On the positive side, stock selection in the health care sector contributed to performance.

On an individual stock basis, the primary relative detractors were Delta Electronics, Samsung Electronics, SK Hynix, Localiza and HD Hyundai Electric. The largest relative contributors included Capitec, China Merchants Bank, ICICI Bank, Apollo Hospitals and PRIO.

Past performance is no guarantee of future results. Copyright © 2026 ClearBridge Investments. ClearBridge Investment Management Limited ("CIML") is authorised and regulated by the Financial Conduct Authority and is registered as an Investment Advisor with the Securities and Exchange Commission. CIML is operationally integrated under the ClearBridge Investments" global brand, alongside ClearBridge Investments, LLC ("CBI"), and other ClearBridge entities indirectly, wholly owned by Franklin Resources, Inc.

All opinions and data included in this commentary are as of the publication date and are subject to change. The opinions and views expressed herein are of the portfolio management team named above and may differ from other managers, or the firm as a whole, and are not intended to be a forecast of future events, a guarantee of future results or investment advice. This information should not be used as the sole basis to make any investment decision. The statistics have been obtained from sources believed to be reliable, but the accuracy and completeness of this information cannot be guaranteed.

Neither ClearBridge Investments, LLC, nor CIML , nor its information providers are responsible for any damages or losses arising from any use of this information. Performance source: Internal. Benchmark source: Morgan Stanley Capital International. Neither ClearBridge Investments, LLC nor its information providers are responsible for any damages or losses arising from any use of this information. Performance is preliminary and subject to change. Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI's express written consent. Further distribution is prohibited.

About the Authors



Paul Desoisa, CFA
Managing Director, Portfolio Manager
- 12 years of investment industry experience
- Joined firm in 2013
- B.Sc. in mathematics and statistics from the University of York



Colin Dishington, CFA
Managing Director, Portfolio Manager
- 15 years of investment industry experience
- Joined firm in 2018
- M.A. in economics from the University of Glasgow



Andrew Mathewson, CFA
Managing Director, Portfolio Manager
- 23 years of investment industry experience
- Joined firm in 2005
- B.Sc. in economics from the University of St Andrews



Divya Mathur, ASIP
Managing Director, Portfolio Manager
- 30 years of investment industry experience
- Joined firm in 2010
- B.Sc. in computer science and accounting from the University of Manchester
- M.Sc. in investment analysis from the University of Stirling



Robbie McNab, CFA
Managing Director, Portfolio Manager
- 19 years of investment industry experience
- Joined firm in 2018
- M.A in economics from the University of Glasgow



Alastair Reynolds, ASIP
Managing Director, Portfolio Manager
- 35 years of investment industry experience
- Joined firm in 2010



Aimee Truesdale, CFA
Managing Director, Portfolio Manager
- 13 years of investment industry experience
- Joined firm in 2021
- B.Sc. in physics from the University of Edinburgh