



Emerging Markets Strategy

Market and Performance Overview

Emerging markets were down 2.4% during November as a reversal of AI momentum negatively impacted major Asian markets. Korea was down 7.9% for the month, with its industrials sector off 12.5% and technology 9% lower, while Taiwan fell 5% and China 2.5%. Weakness was also felt in the Middle East where lower oil prices continued to pressure Saudi Arabia, which was down 8.1%, and the United Arab Emirates, down 6.6%. Brazil was the strongest performer in a positive month for South American markets, up 7.7% on expectations of future interest rate cuts in line with actions taken by the U.S. South Africa rose 4%, boosted by strong gains in gold and precious metals.

Within the benchmark MSCI Emerging Markets Index, AI-linked information technology (IT) and industrials sectors suffered losses as did consumer discretionary and communication services companies as growth stocks were pressured broadly. Materials and energy companies delivered gains, supported by continued increases in gold and strength among oil producers outside the Middle East.

The ClearBridge Emerging Markets Strategy underperformed its benchmark in November, hurt by negative stock selection primarily in Taiwan, South Africa and Indonesia that neutralized strong results in Brazil. From a sector standpoint, an overweight to IT, an underweight to materials and stock selection in health care detracted from performance, offsetting positive stock selection in the industrials and consumer discretionary sectors.

Individual holdings that performed well during the month included Localiza, China Merchants Bank, AIA Group, Sieyuan Electric and not owning Hon Hai.

Brazilian car rental business Localiza delivered strong results in November, as the company's business model tends to utilize debt financing, making projections of lower interest rates in Brazil a tailwind to performance. China Merchants Bank and insurer AIA Group benefited from the defensive nature of financials during the tech selloff, while AIA continued to ride the positive momentum of strong results released in October. China's Sieyuan Electric maintained positive sentiment regarding its international expansion opportunity in the Middle East, Latin America and parts of Europe, bucking the trend of AI weakness among its power equipment peers. Not owning Hon Hai Precision Industry, a leading Chinese contractor for Apple iPhones which sold off during the month, was also beneficial.

Detractors in the period included Samsung Electronics, SK Hynix, Hyundai Electric, MercadoLibre and Dr. Sulaiman.

Korean memory producers Samsung and SK Hynix and power equipment maker Hyundai Electric were all caught up in the global AI selloff as correlations are fairly high with their Western counterparts. South America-based e-commerce platform MercadoLibre declined on continued concerns about competition from Amazon and Sea Limited in its key market of Brazil. Dr Sulaiman, an operator of hospitals and related healthcare services in Saudi Arabia, was caught up in the general weakness in the Middle East during the month.

Portfolio Positioning

During the period, the Strategy added three new positions while exiting one.

Brazil was the main area of activity and included new positions in pharmacy operator Raia Drogasil and fintech company Nu Holdings. Raia Drogasil is a high-quality company looking to reaccelerate revenue after investing in the business. It features a high return on capital and is a primary beneficiary of GLP-1 demand in Brazil. Nu Holdings, which has become one of the major banking disruptors in South America through its offerings of digital banking, credit and prepaid cards, is driving long-term growth through expansion of products and markets. Meanwhile we exited our position in stock exchange B3 S.A. - Brasil, Bolsa, Balcão, which has been a beneficiary of increasing trading, as part of a broader portfolio repositioning within Brazil following good share price performance year-to-date and to redeploy assets in higher conviction ideas.

Additionally, we added a new position in PT Bank Central Asia, Indonesia's leading non-state-owned bank. It has the best deposit franchise in Indonesia, and we took advantage of a selloff in the region over the last year to purchase this high-quality business at an attractive valuation.

Outlook

Following over a decade of underperformance, the tides have now turned, and 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.

EM equities typically benefit from a stable or depreciating U.S. dollar because of lower U.S.-denominated debt servicing costs, commodity exporter tailwinds and increased monetary policy flexibility, which can facilitate lowering rates and supporting economic growth. All indications suggest this supportive dollar environment will remain in 2026. The Federal Reserve is forecast to continue cutting rates, suggesting the environment will become even more supportive of EM equities.

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. In turn, this further enhances potential investment performance. We're still at an early stage in this process and anticipate increased foreign investments into EM equities over the coming years. In the meantime, we are bullish on three major themes in the year ahead: China, technology and India.

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