



2025 MIDYEAR OUTLOOK

# Emerging Markets

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# Key Takeaway

## INTERNATIONAL ALLOCATIONS

### *How do you assess your exposure outside of the U.S.?*

Fed watching and currency speculation isn't a straightforward process, but history points to strong EM performance in periods of a weaker U.S. dollar and following the last cut of Fed easing cycles.





# International Allocations

AS WE REACH THE MIDPOINT OF 2025, our conviction in the themes laid out in the [Global X 2025 Emerging Markets Outlook](#) remains largely intact. A weaker U.S. dollar, the potential end of the Fed's rate-cutting cycle, and rising domestic uncertainty have combined to create compelling opportunities across Emerging Markets (EM). We continue to consider these opportunities from multiple angles and believe the following approaches represent the best EM opportunities for a variety of investment styles:

## INVESTMENT STYLES AND KEY EM OPPORTUNITIES

|                   |                                        |
|-------------------|----------------------------------------|
| <b>INCOME</b>     | Emerging Markets Investment Grade Debt |
| <b>GROWTH</b>     | India                                  |
| <b>VALUE</b>      | Greece and Colombia                    |
| <b>CONTRARIAN</b> | Brazil and China Consumer              |
| <b>MOMENTUM</b>   | Argentina                              |
| <b>THEMATIC</b>   | Emerging Market Consumption            |

# 10 in EM: Midyear Insights

## 01

### EM POSITIONING

#### *Overlooked, Under Owned, and Ripe for Potential Outperformance*

Investors following the Swenson asset allocation model have about a 5% allocation to Emerging Markets, leaving them over 500 basis points underweight the MSCI All Country World Index and meaningfully underweight the 24.5% figure representing EM as a percentage of global market capitalization.<sup>1,2</sup> **We think allocators are dangerously short a deeply discounted and fast-growing asset class.**

## 02

### LOOKING AT PAST CYCLES

#### *History Rhymes*

During the last EM upswing, the **MSCI EM Index delivered a 344.4% cumulative return between January 1, 2001 and December 31, 2010 versus a 15.07% return for the S&P 500 Index.**<sup>3</sup>

The most recent cycle has favored U.S. equities, but allocators are asking if this relative outperformance can last forever.



# 10 in EM: Midyear Insights

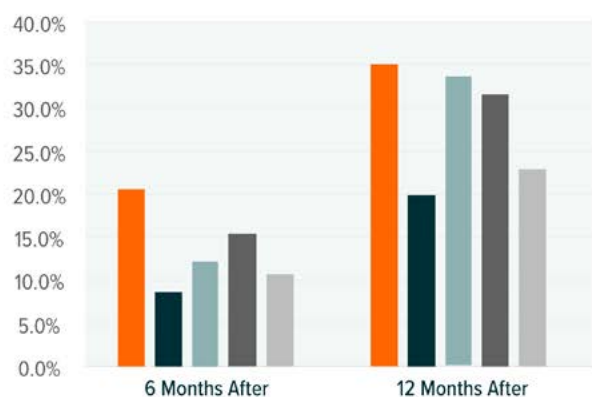
## 03 EM AND THE FED

### *Is This the Moment for EM Assets?*

Over the past quarter century, **Emerging Market equities have outperformed the S&P 500 Index by 11.86% and 15.38% (on average) during the following 6- and 12-month periods after the last cut of Fed rate easing cycles.**<sup>4</sup> Emerging Market U.S.-dollar denominated bonds have outperformed U.S. Investment Grade bonds by 4.6% and 8.8% over the same time period.<sup>5</sup>

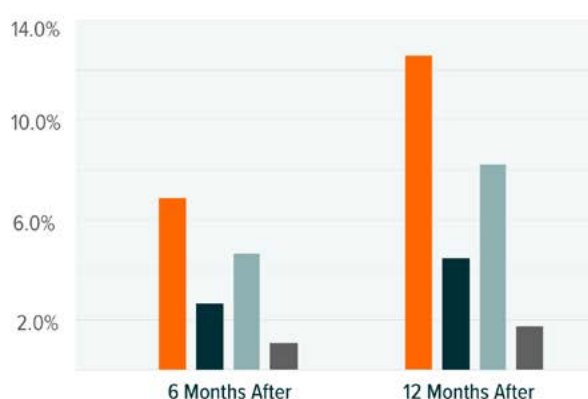
#### AVERAGE INDEX PERFORMANCE AFTER END OF FED RATE CUTTING CYCLES SINCE 2000

— MSCI EM — S&P 500 — Russell 2000 — Nasdaq 100  
— MSCI ACWI



#### AVERAGE BOND INDEX PERFORMANCE AFTER END OF FED RATE CUTTING CYCLES SINCE 2000

— JPMorgan Emerging Markets Bond Index — Bloomberg U.S. Investment Grade Total Return Index  
— Bloomberg U.S. Corporate Total Return Index — Bloomberg U.S. Treasury Total Return Index



Source: Global X ETFs with information derived from Bloomberg LP. Average returns based off five cutting cycles: 1/3/2001 to 12/11/2001; 11/6/2002 to 6/25/2003; 9/18/2007 to 12/16/2008; 8/1/2019 to 10/31/2019; and 3/3/2020 to 3/16/2020.

## 04 BRAZIL

### *Potential Political & Monetary Pivots*

Brazil may have just reached the peak of its rate hiking cycle, and we believe the Central Bank could begin cutting in Q4 of this year or Q1 of 2026. **When looking at Brazil's equity performance during the previous seven completed rate cutting cycles, we have seen the MSCI Brazil Index (Net) rallies average roughly 96.7% upside (cumulative), where the declines averaged only roughly 14.5% (cumulative).**<sup>6</sup> Couple this potential rate cutting cycle with a potential market-moving Presidential election lined up for 2026, and we think the risk/reward looks appealing.

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## 05



### ARGENTINA

#### *From Evita to EBITDA*

Despite recent momentum in Argentine equities, driven by significant political and economic reforms, the market cap/GDP ratio in Argentina still stands around 12% versus roughly 44.5% in Brazil and 196% in the United States.<sup>7,8,9</sup>

## 06



### GREECE

#### *EM Value With a DM Trajectory*

Greece boasts what may be the fastest GDP growth in Western Europe, Investment Grade Bond ratings, and a market-friendly government, but still trades below book value.<sup>10</sup> **We're also keeping an eye out for a potential upgrade to MSCI Developed Market status,** which we believe could bring significant flows.



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## 07 INDIA

### *The Best Structural Growth Story in EM*

The International Monetary Fund (IMF) predicts that India will surpass Japan as the world's fourth largest economy this year. We expect continued growth via two key tailwinds. On the structural side, India boasts the largest population in the world, the largest youth population in the world, and one of the most educated youth populations in the world – with a key focus on science, technology, engineering, and math. Additionally, these massive prospects for growth enjoy capable management and governance via a very market-friendly government. The second tailwind is more tactical. India is currently benefitting from low oil prices (the country imports roughly 80% of its energy needs), high gold prices (roughly 20% of average household savings is in physical gold), and a central bank cutting interest rates.<sup>11,12</sup> From a trade perspective, India just struck a meaningful agreement with the United Kingdom, and a U.S. deal could be completed this year. Put it all together and **India looks like a fine-tuned compounding machine.**



## 08 CHINA

### *Finding Alignment*

China consumption looks interesting. There is a clear alignment of interests with the Chinese Communist Party's goal to double the middle class by 2035. Additionally, the market looks inexpensive versus history, and there are various bottom-up stories spanning from Alibaba's growth in Artificial Intelligence to BYD gaining exposure to luxury vehicles.

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## 09



**GERMANY**

### *Emerging Out of Recession*

It's not an Emerging Market, but we're noticing exciting parallels in Germany. Keeping our EM hats on, political change amidst a recession can create some of the largest opportunities for strong equity performance. Germany is checking various boxes here, and the combination of political reform and macroeconomic recovery could equal an equity market opportunity. This rings especially true when flagging that **Germany's benchmark DAX Index trades at ½ the book value of the S&P 500 Index with double the dividend yield.<sup>13</sup>**

## 10



**CHOICE**

### *Not Your Parents EM Anymore. Investors Have Options.*

Investors are repeatedly expressing frustration with traditional EM indexes given their outsized exposure to Asia, China, and State-Owned Enterprises. We continue to discuss a range of options, including thematic, ex-China, active, passive, regional, and country-specific tools to gain exposure to the valuations and growth opportunities across Emerging Markets. In today's fragmented and evolving global landscape, how you invest in EM matters just as much as where.

# Appendix

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## EMERGING MARKETS: 10 IN EM

- 1 Optimized Portfolio. (2024, May 16). David Swenson Portfolio (Yale Model) Review and ETFs to Use.
- 2 Bloomberg LP. Data as January 22, 2025.
- 3 Bloomberg LP. Data from January 1, 2001 through December 31, 2010. Data accessed on April 1, 2024.
- 4 Bloomberg LP. Average returns based off five cutting cycles: 1/3/2001 to 12/11/2001; 11/6/2002 to 6/25/2003; 9/18/2007 to 12/16/2008; 8/1/2019 to 10/31/2019; and 3/3/2020 to 3/16/2020.
- 5 Ibid.
- 6 Bloomberg LP. Data from January 3, 2000 through December 31, 2024.
- 7 Global X ETFs analysis of data from Bloomberg LP and the International Monetary Fund. Data accessed on May 29, 2025.
- 8 Gurufocus. Global Market Cap Valuation. Data accessed on May 28, 2025.
- 9 Ibid.
- 10 Bloomberg LP. Data as of May 13, 2025.
- 11 The Indian Express. (2025, Jan 30). India's Oil Import Dependency Up at 88.1% in April-December as Demand Growth Pips Domestic Output.
- 12 CNBC. (2025, Apr 16). India Household Gold Is 22.8% Vs 2.3% Global Avg When It Comes To Household Savings: AR Wealth.
- 13 Bloomberg LP. Data as of May 31, 2025.

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