

Emerging Markets: 6 Key Themes for 2025

Despite economic headwinds and uncertainty surrounding the new U.S. administration, we believe emerging markets (EMs) remain an efficient gateway to powerful secular themes, from technology-driven transformations to consumer growth stories across many regions.

1

The AI Boom: EMs at the Core of the Supply Chain

Artificial intelligence (AI) technology has become a central focus for global tech investment, and EMs are integral to the sector’s development.

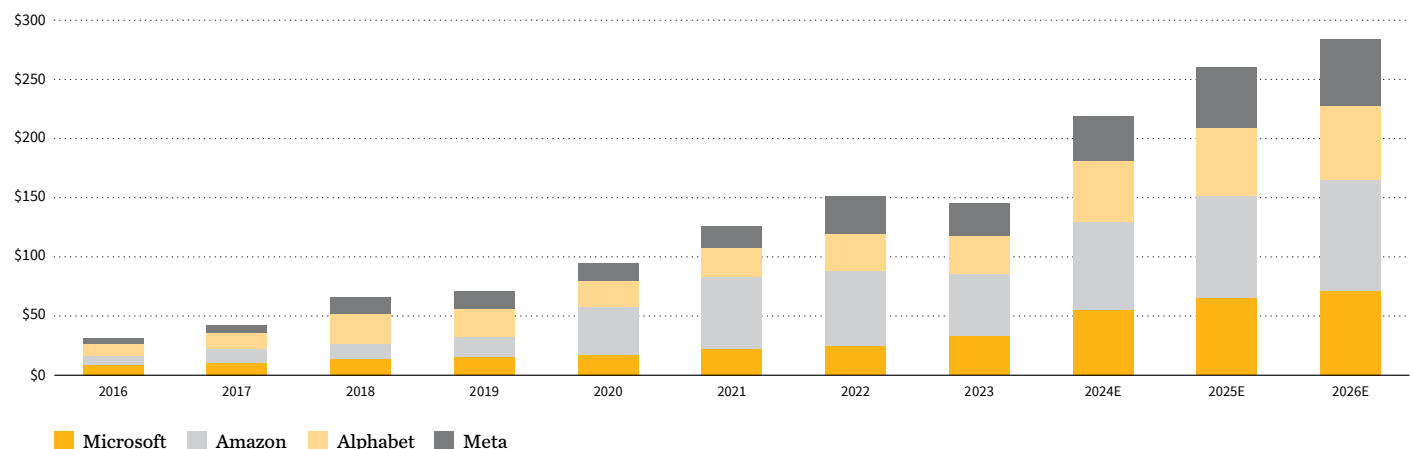
Markets such as Taiwan and South Korea, for example, are critical to the AI supply chain, as they house leading manufacturers and suppliers who produce the hardware essential for AI applications, from high-performance semiconductors to data centers to autonomous vehicles. Taiwan, in particular, is at the forefront as a “picks and shovels” supplier of advanced components used in semiconductors and data centers, further strengthening its role in the AI buildout.

In addition, the growth of AI places unprecedented demands on energy infrastructure. Data centers, which are essential for AI-driven computations, are highly energy-intensive and create a need for reliable power sources and sophisticated grid infrastructure.

EXHIBIT 1

Estimated Hyperscale Capex From 2016 to 2026 (in Billions)

Large hyperscale technology companies such as Microsoft, Amazon, Alphabet, and Meta have demonstrated consistent growth in spending, reflecting ongoing investments in data centers and AI capabilities.



Sources: BNP and William Blair, as of January 14, 2025.

2

India: A Growth Powerhouse, but at a Premium

India’s growth story is one of the most compelling among EMs, in our view, driven by favorable demographics, a burgeoning middle class, and strong economic policies.

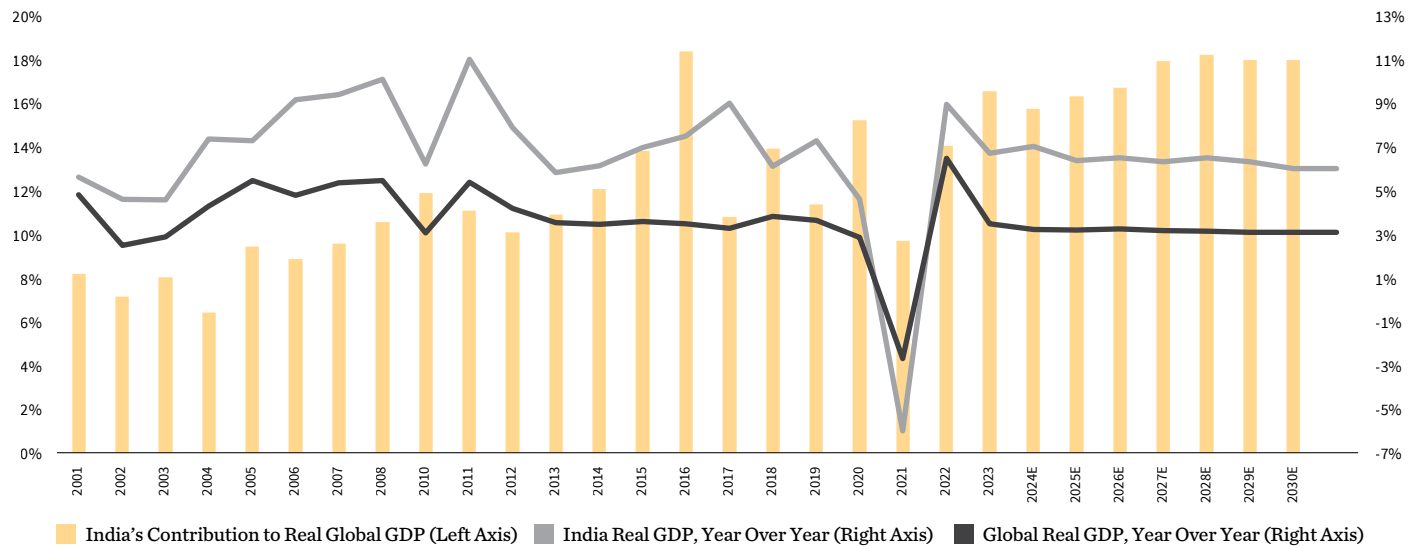
Now the fourth-largest equity market globally in terms of market capitalization, India has risen to become the second-largest market in the MSCI EM Investable Market Index (IMI) as of December 31, 2024, with its weight roughly doubling over the past five years to more than 20%. India’s share of global gross domestic product (GDP) growth now exceeds 15% and is expected to trend higher.

Overall, we believe India remains one of the most attractive long-term growth stories in EMs. But the current valuation premium should encourage investors to take a cautious, quality-focused approach in the current environment. As the country continues on its growth trajectory, it holds the potential to echo China’s rapid economic ascent during the early 1990s, albeit with a more balanced and sustainable growth model.

EXHIBIT 2

India’s Share of Global Growth

India’s contribution to global GDP is projected to rise significantly over the next decade.



Sources: IMF, Morgan Stanley Research, and William Blair, as of September 2024. E refers to estimated.

3

China: A Fragile Rebound Powered by Fiscal Intervention

Despite a heavily indebted local government sector and struggling property market, we believe China is a compelling investment opportunity.

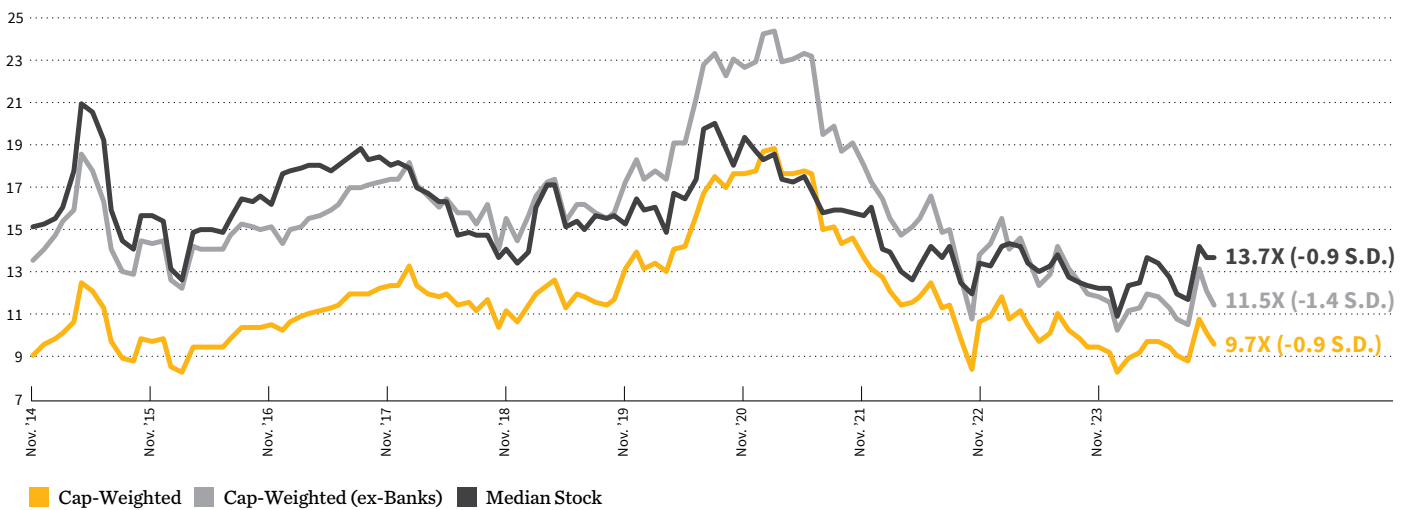
In November, Beijing introduced a substantial 10 trillion renminbi (\$1.4 trillion) fiscal package aimed at stabilizing the economy by bailing out local governments and restructuring their debts. While investor response to these measures has been mixed, recent efforts reflect a more forceful and coordinated approach, with both monetary and fiscal measures working in tandem.

In addition, President Xi Jinping appears committed to maintaining economic stability, and we anticipate the series of incremental positive measures will support China’s 5% GDP target for 2024 and the growth trajectory for 2025. With valuations still relatively low and company fundamentals improving in certain areas, stimulus efforts could fuel short-term boosts to the equity market as Beijing focuses on stabilizing key economic sectors.

EXHIBIT 3

MSCI China Index Forward P/E Ratio

Chinese equities’ forward price-to-earnings ratio has been steadily trending downward.



Sources: FactSet, MSCI, Goldman Sachs Global Investment Research, and William Blair, as of November 2024. Based on latest constituents; shows z-score over the last 10 years (monthly). S.D. refers to standard deviation.

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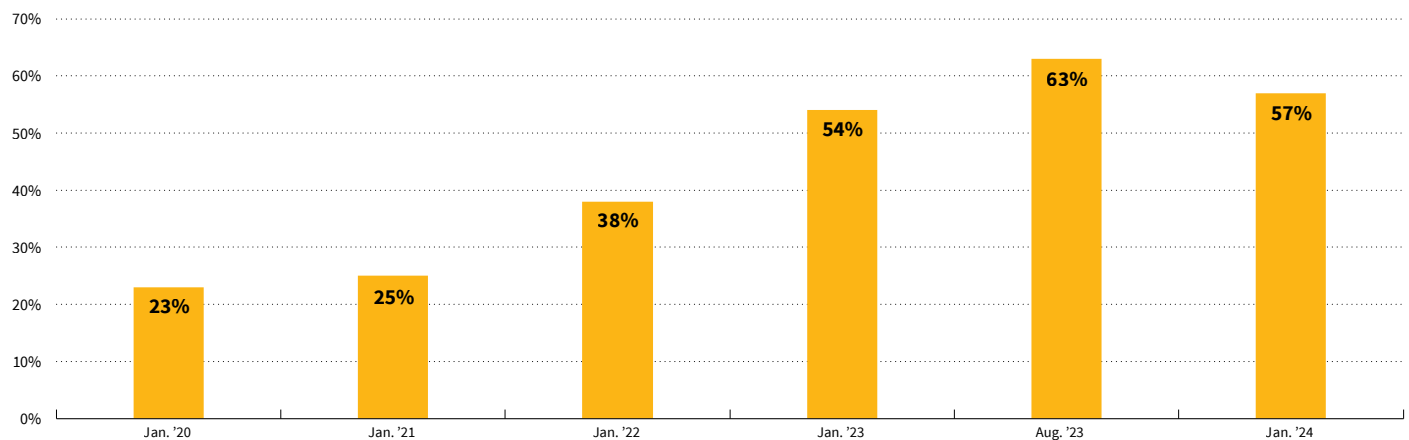
Saudi Arabia: Structural Reforms and Vision 2030

Saudi Arabia's ambitious Vision 2030 program has driven significant economic reforms, aiming to reduce the country's dependence on oil by fostering growth in sectors such as finance, tourism, and technology. The Saudi government's fiscal largesse has spurred investment across these industries, creating opportunities for companies that align with the country's diversification efforts. While the market has grown in size and influence within EM indices, it remains relatively under-owned, suggesting potential for increased foreign investment as reforms continue to unfold.

EXHIBIT 4

Global EM Funds That Own Saudi Stocks

Global EM fund ownership of Saudi stocks has been steadily increasing, though they remain relatively under-owned compared to other EMs.



Sources: MSCI, Goldman Sachs, and William Blair, as of September 2024.

5

South Africa: Signs of Political Improvement

In South Africa, we believe political developments have created a cautiously optimistic outlook for investors. The African National Congress (ANC), South Africa's ruling party since the end of Apartheid in 1994, recently lost its parliamentary majority for the first time, leading it to form a coalition with more conservative, probusiness parties. This shift has raised hopes for economic reforms and improved governance, as the coalition's influence may drive policies more favorable to business and investment. We think early signs of economic recovery, alongside lower inflation and potential rate cuts, make South Africa a more compelling opportunity than it was a year ago.

6

Mexico: Growth Potential Amid Political Uncertainty

Mexico has become a key player in the global reshoring trend, attracting companies seeking proximity to the United States to reduce supply chain vulnerabilities. The country's competitive labor costs and established manufacturing base position it as an appealing location for production hubs. But the recent election results, which granted the ruling Morena party a supermajority, have introduced uncertainty. Investors are concerned about the constitutional changes impacting the independence of the judiciary and other institutions, raising questions around Mexico's long-term stability. Given these political risks, a more cautious approach may be prudent.

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The **MSCI China Index** captures large- and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips, and foreign listings (such as ADRs). The **MSCI Emerging Markets (EM) Investable Market Index (IMI)** captures large-, mid- and small-cap representation across 27 EMs. Index performance is provided for illustrative purposes only. Indices are unmanaged and do not incur fees or expenses. A direct investment in an unmanaged index is not possible.

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