The Active Edge: Capturing mispriced quality in global emerging markets

Ian Simmons, Senior Portfolio Manager and CJ Morrell, Managing Director, Head of Japan, recently explored why emerging markets are entering a new period of structural opportunity. With more than 30 years of combined emerging markets experience, the pair set out the macro landscape, the evolution of the opportunity set and their thoughts on the implications for investors.

Unlocking Emerging Market Opportunities: Key Insights

The macro landscape: Valuations, dollar dynamics and an under-owned asset class

CJ's assessment of the macro backdrop was decidedly constructive. **Three factors stood out:**

Cheap valuations
Relative to the US, emerging market (EM) equities are trading at discounts last seen in the early 2000s.[1] That period preceded a decade of substantial EM outperformance. Today's starting point is similarly compelling. Valuations are cheap despite reduced dollar dependency, favourable balance sheets and the introduction of traditional financial orthodoxy in many countries.

A shifting US dollar cycle

Historically, a weaker dollar has been a major tailwind for EM performance. While there has been some softening in the dollar this year, CJ argued that markets have not yet seen anything close to the multi-year decline that supported returns between 2002 and 2010. Crucially, unlike in previous cycles, the current US administration is openly comfortable with a weaker dollar as part of its trade strategy.

Asset allocators are underweight

EM remains structurally under-owned. Global mutual fund allocations are still well below long-term averages. This creates a powerful set-up: cheap valuations, supportive currency dynamics and low starting positioning.

Why passive approaches miss the mark in EM

Both spoke candidly about the limitations of passive investing in emerging markets. ETFs have absorbed the majority of inflows into the asset class over the last decade, yet the index construction has consistently steered investors into problem areas at the wrong time.

Examples cited included:

- Heavy resource exposure just before the 2012 commodity slump
- Large index weightings in Russia ahead of geopolitical upheaval
- Concentrated exposure to Chinese internet stocks before Beijing's regulatory crackdown

The dispersion between winners and losers in EM is vast. Avoiding the wrong countries, sectors, or governance structures can materially reduce risk and improve long-term outcomes.

Earnings momentum and the rise of profitable growth

Earnings growth forecasts for EM now exceed those for the US and the rest of the world. This is not driven by a single region or sector but by a broad mix of global and domestic dynamics.

Key contributors include:

- Technology exporters benefiting from semiconductor and AI demand
- Domestic reform stories such as Greece and Brazil
- Better governance around dividends and buybacks
- Growth in asset-light sectors including consumer and fintech

Return on equity is rising across many EM markets, underpinned by better and more widespread examples of capital discipline and minority-shareholder alignment. This is creating mispriced quality: companies historically overlooked because they operated in low-growth industries, but now re-rated as technological or regulatory change, unlocks new opportunities.

Governance reform in action: South Korea

The government's Value-Up programme aims to emulate Japan's successful corporate governance reforms by pushing companies to address low valuations, streamline conglomerate structures and improve capital returns.

Ian highlighted KB Financial[2] as a holding that embodies the opportunity: strong balance sheet, excess capital and management committed to raising dividends and accelerating share buybacks. This combination of cheap valuations, catalysts for change and quality management is exactly what they look for.

Risk considerations: geopolitics and the dollar are key

While constructive, the team remain pragmatic about risks:

- Geopolitical tensions, particularly involving China and the US, can unsettle markets.
- Tariffs, although often revised down shortly after initial announcements, can create volatility.
- A resurgence in dollar strength remains a clear risk to watch.

One of the major structural shifts has been the move from dollar-denominated borrowing to local currency funding supported by deep domestic savings. With EM central banks now holding a large share of global FX reserves, the classic sudden-stop dynamic is far less prevalent than in the 1990s, even if cyclical dollar moves still matter.

Concerns around the rapid growth of private credit are far more pronounced in developed markets than in EM. While the US has seen around USD 1 trillion raised into private credit in the past year alone[3], EM lending remains largely bank-led and tightly regulated. Aside from isolated growth in markets such as India, the scale and opacity seen in the US simply isn't present in EM, meaning the systemic risks are materially lower.

Power, electricity and AI's real supply chain are themes to watch

Ian highlighted a key forward-looking opportunity theme: the global upgrade of electricity infrastructure.

Ian described EM as a 'picks and shovels' play on AI. Rather than owning the highly valued US hyperscalers, the Fiera portfolio accesses the ecosystem via component manufacturers, data-centre infrastructure and power-grid equipment largely based in Taiwan, South Korea, China and India. In many cases, these companies are trading on valuation multiples roughly 30 per cent below their US counterparts, with some still priced on the same ratings they commanded a decade ago.

Frontier Markets: same journey, different stage

Differences in frontier markets are often definitional rather than fundamental. These economies are earlier in their capital-market development, with sector mixes resembling EM markets of 20 to 25 years ago. The strongest opportunities arise where economies are broadening, IPO activity is increasing and reform is actively translating into corporate earnings.

The value of quality in EM

One of the most consistent findings over the last quarter-century is that quality companies outperform within EM. Strong balance sheets, high market share, pricing power and consistent cash generation help absorb volatility on the downside and compound returns on the upside.

A cycle turning, with reform and earnings at the core

The discussion closed with a clear message: the characteristics that supported EM's strong performance between 2000 and 2010 are reappearing. This underpins a dynamic opportunity set where active, benchmark-agnostic investing could add meaningful value. As Ian noted, emerging markets can outperform and today's backdrop suggests the conditions for that are falling into place once again.

Endnotes

1. RBC, September 2025
2. Source: Fiera Capital. The reader should not assume that investment decisions identified and discussed were or will be profitable. Specific investment references provided herein are for illustrative purposes only and are not necessarily representative of investments that will be made in the future. This is not a recommendation to buy or sell any security.
3. Private Debt Investor, February 2025

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Version STRENG004