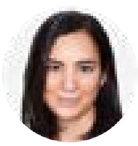
RBC Global Asset Management

Emerging markets outlook

NEW YEAR 2025



Laurence Bensafi
Managing Director & Portfolio Manager,
Deputy Head of Emerging Market Equities
RBC Global Asset Management (UK) Limited

Asset class overview

Emerging-market equities have performed well so far in 2024, adding 7.7% through November 30 but underperforming developed countries as the MSCI World Index jumped 21.9% over the same period. Taiwan, with a 29.4% gain, remains the standout emerging-market performer due to its large exposure to technology companies linked to artificial intelligence. Taiwan Semiconductor's weighting in the MSCI Emerging Markets Index has reached almost 10%, and the company entered the top 10 largest companies in the world by market capitalization. More recently, however, we have started to see investors move assets back into China, which has been the best performing country since the central government announced an economic-stimulus package at the end of September.

Outlook

We forecast a volatile period in the coming months as U.S. President-Elect Donald Trump prepares to take power in January 2025. The outlook for emerging markets over the next 12 months is somewhat positive for emerging-market equities for the following reasons:

- Emerging-market currencies have outperformed since the U.S. Federal Reserve started cutting interest rates, and many emerging-market countries have healthy fiscal and trade balances.
- The gap in economic growth favouring emerging markets over developed markets should widen - historically a strong support for emerging markets.
- Emerging-market equities are becoming more diversified, with the dominance of China receding. China's weight in the emerging-market index has dropped to 26% from its 42% peak in 2021. Important emerging markets such as India, Brazil and South Africa are largely immune from the tariff tensions.
- China, which remains the largest emerging market, offers significant potential for gains with a somewhat limited risk of big declines, as the government acts to stimulate growth and fix the property market.
- Emerging markets trade at a 50% discount to developed markets, in terms of price-to-book value, the largest ever discount.

Emerging markets – Recommended sector weights

Sector	MSCI Emerging Markets	Recommended weight
Energy	4.7%	-5.0%
Materials	6.1%	-1.8%
Industrials	6.7%	-1.3%
Consumer discretionary	13.4%	-2.0%
Consumer staples	4.9%	10.2%
Health care	3.4%	0.6%
Financials	23.8%	4.3%
Information technology	23.6%	-0.7%
Communication services	9.2%	-1.0%
Utilities	2.7%	-3.0%
Real estate	1.6%	-0.3%

-15.0% -10.0% -5.0% 0.0% 5.0% 10.0% 15.0%

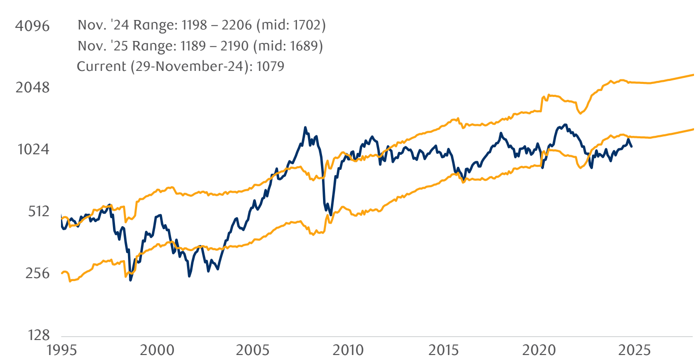
Underweight Overweight

Note: As of November 30, 2024. Source: RBC GAM

> "Emerging-market equities have performed well so far in 2024, adding 7.7% through November 30 but underperforming developed countries as the MSCI World Index jumped 21.9% over the same period."

MSCI Emerging Markets Index Equilibrium

Normalized earnings and valuations



Note: The fair value estimates are for illustrative purposes only. Corrections are always a possibility and valuations will not limit the risk of damage from systemic shocks. It is not possible to invest directly in an unmanaged index. Source: RBC GAM

Potential for tariffs

One short-term hurdle for emerging markets is Trump's threat of additional tariffs on Mexico and China. However, we believe that the U.S. fiscal situation, which is characterized by a large fiscal deficit and high debt, could block significant reforms, and we note that China and Mexico can, and have, negotiated trade agreements with Trump.

Moreover, China's exports have remained strong as they were diverted to other regions, and China is building solid trade ties with important countries such as India and Saudi Arabia.

China

China surprised investors in September when it unveiled a broad economic-stimulus package. The abruptness of the move was similar to the way the government handled the removal of COVID measures at the end of 2022. Common to both moves was the population's growing discontent regarding the property market and employment security. Corporations were also feeling the impact of the economic slowdown, especially those tied to domestic consumption. The only engine of significant growth for China this year has been exports, as weak domestic inflation has enabled it to offer goods more cheaply to countries that are dealing with higher inflation and wage gains. However, exports won't be enough to deliver 5% growth in the world's second-largest economy. We expect Chinese equity markets to remain attractive over the short term, as the government rolls out measures to fix the property market and restore consumer confidence. Even with the recent surge in Chinese stocks, Chinese companies remain attractive relative to other emerging markets based on returns on equity and price to book.

Over the longer term, there is a question mark about the ability and willingness of the Chinese government to generate sustainable economic growth without implementing reforms. A rapidly aging population is adding to the challenges the country faces as it seeks to advance from a middle-income country to the status of developed country.

India

India has been the emerging-market success story of recent years, and its stock market remains one of our favourite long-term investments after outperforming the emerging-market stock index by more than 20 percentage points over the past two years. However, Indian stocks have underperformed the broad emerging-market index over the past three months pressured by valuations near all-time highs, and economic indicators and earnings revisions suggest further weakness in the coming months.

South Africa

After years of underperformance, South African equities have rebounded following the unexpected emergence of a business-friendly political coalition from general elections held in May. For the first time ever since the end of apartheid in 1994, the ruling African National Congress failed to win a majority, and party leaders chose to align with the right-leaning Democratic Alliance rather than hard-left parties that in one case called for land expropriation. Since the ANC-DA alliance took power, business and consumer confidence have risen, and even with no significant increase in investment and consumption, 2025 earnings will exhibit a strong cyclical recovery amid an easing in blackouts caused by electricity shortages.

There are a number of challenges standing in the way of boosting South Africa's economic growth above the average 2% level of the past decade, but resolving just a few of those challenges would pay big dividends. Take Transnet, the mismanaged state-owned port and railway operator. Reforms at Transnet would go a long way to restoring exports to 2020 levels and add 1.5 percentage points to the country's GDP. Tourism, which has not recovered to pre-COVID levels, is another example. The government has taken steps that include simplifying the entry process for Indian and Chinese tourists, a move that could multiply 10-fold the number of visitors from the two countries. A return to the 2019 level of arrivals would improve the current-account balance by 0.5% and add almost one percentage point to GDP. We note that South African stocks remain attractive relative to historical averages and compared with the emerging-market index.

Disclosure

This document is provided by RBC Global Asset Management (RBC GAM) for informational purposes only and may not be reproduced, distributed or published without the written consent of RBC GAM or its affiliated entities listed herein. This document does not constitute an offer or a solicitation to buy or to sell any security, product or service in any jurisdiction; nor is it intended to provide investment, financial, legal, accounting, tax, or other advice and such information should not be relied or acted upon for providing such advice. This document is not available for distribution to investors in jurisdictions where such distribution would be prohibited.

RBC GAM is the asset management division of Royal Bank of Canada (RBC) which includes RBC Global Asset Management Inc. (RBC GAM Inc.), RBC Global Asset Management (U.S.) Inc. (RBC GAM-US), RBC Global Asset Management (UK) Limited (RBC GAM-UK), RBC Global Asset Management (Asia) Limited (RBC GAM-Asia) and RBC Indigo Asset Management Inc. (RBC Indigo), which are separate, but affiliated subsidiaries of RBC.

In Canada, this document is provided by RBC GAM Inc. (including PH&N Institutional) and/or RBC Indigo, each of which is regulated by each provincial and territorial securities commission with which it is registered. In the United States, this document is provided by RBC GAM-US , a federally registered investment adviser. In Europe this document is provided by RBC GAM-UK, which is authorised and regulated by the UK Financial Conduct Authority. In Asia, this document is provided by RBC GAM-Asia, which is registered with the Securities and Futures Commission (SFC) in Hong Kong.

Additional information about RBC GAM may be found at www.rbcgam.com.

This document has not been reviewed by, and is not registered with any securities or other regulatory authority, and may, where appropriate and permissible, be distributed by the above-listed entities in their respective jurisdictions.

Any investment and economic outlook information contained in this document has been compiled by RBC GAM from various sources. Information obtained from third parties is believed to be reliable, but no representation or warranty, express or implied, is made by RBC GAM, its affiliates or any other person as to its accuracy, completeness or correctness. RBC GAM and its affiliates assume no responsibility for any errors or omissions in such information.

Opinions contained herein reflect the judgment and thought leadership of RBC GAM and are subject to change at any time. Such opinions are for informational purposes only and are not intended to be investment or financial advice and should not be relied or acted upon for providing such advice. RBC GAM does not undertake any obligation or responsibility to update such opinions.

RBC GAM reserves the right at any time and without notice to change, amend or cease publication of this information.

Past performance is not indicative of future results. With all investments there is a risk of loss of all or a portion of the amount invested. Where return estimates are shown, these are provided for illustrative purposes only and should not be construed as a prediction of returns; actual returns may be higher or lower than those shown and may vary substantially, especially over shorter time periods. It is not possible to invest directly in an index.

Some of the statements contained in this document may be considered forward-looking statements which provide current expectations or forecasts of future results or events. Forward-looking statements are not guarantees of future performance or events and involve risks and uncertainties. Do not place undue reliance on these statements because actual results or events may differ materially from those described in such forward-looking statements as a result of various factors. Before making any investment decisions, we encourage you to consider all relevant factors carefully.

Publication date: December 15, 2025

(12/2024)