Invesco

Equity Market Insights

Think emerging markets is just Asia? Think again



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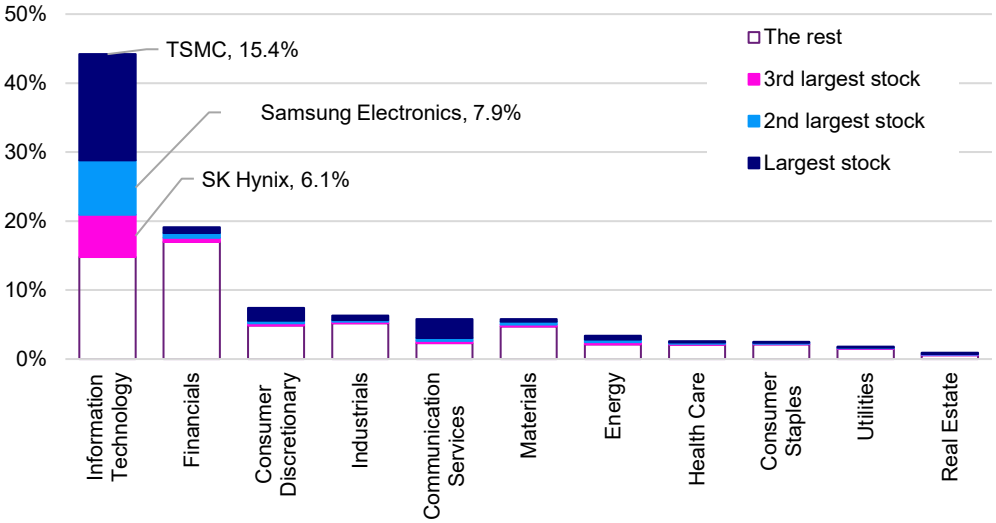
Emerging market (EM) equities have delivered strong returns in 2025 and 2026 but with considerable volatility and variance across countries, sectors, and stocks. That follows a period since 2009 of significant underperformance by EM that has left many markets looking attractively valued compared to their developed peers. In my analysis, improving earnings and a weaker USD mean emerging markets are a significant developing opportunity for investors today.

But I think one should be careful about how EM is added to a portfolio today. Many lament the concentration risk that has been built up in US equities, but the concentration risk in emerging markets is arguably even greater. The tech sector carries a bigger weight in MSCI EM than it does in MSCI US—and three Asian stocks comprise nearly 30% of the total index.

At the index level, emerging markets are not as diversified as you might think
Composition of the MSCI Emerging Markets Index by sector and largest stocks



Source: Invesco Strategy & Insights, Bloomberg L.P., as of 27 October 2026.

> “ investors might be better placed taking a more active approach in emerging markets affording them the ability to reduce concentration risk

In my mind, therefore, investors might be better placed taking a more active approach in emerging markets affording them the ability to reduce concentration risk and get exposure to other markets that may offer greater exposure to commodities or other cyclical sectors. Latin America might be an example.

I am coming at this from a top-down perspective, so I asked William Lam, CIO and Co-Head of the Asia & EM Equity Team, how he is managing concentration risk and heightened volatility and dispersion today.



William Lam
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Presented by

Invesco Strategy & Insights

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We look to separate what is currently driving the index versus the full opportunity set.



Q: Is investing in emerging markets today now mainly an AI hardware trade?

I can understand why it looks that way. Some of the biggest companies in emerging markets today are Asian technology companies, and they're there for a reason. These are world-leading businesses manufacturing some of the most sophisticated products in the world. As their profits and market values have grown, so has their importance in the index.

But I don't think that means emerging markets has become an AI asset class.

One of the interesting things about emerging markets is that leadership changes. At different points investors have viewed EM through the lens of China, commodities, and India. Today, much of the focus is on AI.

For us, the important thing is not to confuse what is currently driving the index with the full opportunity set.

We absolutely want exposure to businesses benefiting from AI. The more interesting questions are: how much do we want to own? What are we being asked to pay? And what expectations are already reflected in the share price?

There is another dimension to concentration that I think investors need to consider. You might own US technology companies, Asian semiconductor manufacturers and data-centre infrastructure and feel reasonably diversified. But ultimately those investments may depend on many of the same things: continued AI capital expenditure, demand for computing capacity and semiconductor demand.

Different holdings don't necessarily mean different sources of return.

That matters because concentration is not confined to the US. It is also evident within Asian and emerging-market technology, while seemingly diversified portfolios can remain heavily influenced by the same underlying AI-related driver.

> “ Different holdings don't necessarily mean different sources of return; diversified AI-related portfolios can depend on the same driver.



Q: Attention still seems concentrated on AI and Asia. Are you finding opportunities elsewhere?

This is where I think the diversity of emerging markets can sometimes get overlooked.

We're talking about very different economies at very different stages of their economic and market cycles. North Asia has technology leadership, but elsewhere you have banks, commodity producers, energy companies, consumer businesses and companies whose fortunes are much more closely tied to their domestic economies.

Those businesses aren't necessarily driven by the same things as AI.

So, we're not looking outside Asia because we think Asia will perform badly. That's an important distinction.

We're looking because we don't want the portfolio to depend on one version of the future.

If we can find a good business, at an attractive valuation, whose prospective returns are driven by something quite different from the dominant theme in the index, that can be valuable to a portfolio.

Latin America is one area where we're finding some of those opportunities today.



Q: But Brazil has been volatile following the election. Has that changed your view?

We're still overweight Brazil, although we've been actively managing the position.

We're not making a portfolio-level bet on a single political outcome. Our investments are diversified across areas including banks, energy, mining, and consumer-related companies.

A lot of the previous outperformance has now been unwound and in several cases share prices have fallen below where they were before the Bolsonaro rally. Valuations have become attractive again. We'd also been trimming some positions into strength before the recent volatility.

When markets move sharply, the discipline is to go back to the individual company and ask two quite simple questions: has the investment case changed, or has the price changed?

If the investment case has deteriorated, we need to respond to that. But if it is principally the price that has changed, volatility can create opportunity.

> “ When markets move sharply, ask whether the investment case or just the price has changed.

Q: Markets can move quickly from optimism to fear. How does your process stop emotion becoming an investment decision?

I think that's one of the most important reasons for having a disciplined investment process.

Markets inevitably create emotion.

When something keeps going up, there's a temptation to convince yourself you need to own more of it. That's FOMO—fear of missing out. And when something falls sharply, the natural reaction can be the opposite: you want to get away from it.

A process gives you something objective to come back to.

What did we originally think the business was worth? What's changed? What does the market appear to be assuming now? And has the prospective return become better or worse?

That doesn't mean being automatically contrarian. Sometimes the market is telling you something important and you need to change your view.

But equally, you don't want fear or greed making that decision for you.

We're not trying to predict every inflection point. We're trying to make sure the potential return compensates us for the risks we're taking, size positions accordingly and construct a portfolio that can succeed in more than one environment.

And inevitably there will be times when that means giving up some momentum. We're comfortable with that.

We'd rather forego the last part of a strongly performing theme than allow the portfolio to become dependent on it continuing indefinitely.

> A disciplined process gives us something objective to return to, so fear or greed doesn't make investment decisions for us, even if it means giving up some momentum.

Q: When does a successful investment theme become a portfolio risk?

There isn't a precise point. Usually, it happens gradually.

A theme does well. Earnings rise, share prices rise and confidence increases. Naturally, those companies become a larger part of the index. None of that means they aren't very good businesses.

The question for us is what happens to the risk-reward as that process continues.

A great company isn't necessarily a great investment at every price.

You can believe very strongly in the long-term development of AI and still conclude that a share price already discounts a lot of that success.

That's an important distinction. The discussion around AI can sometimes become quite binary: either you believe in it or you don't. We don't think that's particularly helpful from an investment perspective.

AI could prove transformational and today's leading businesses could continue to grow strongly. But ultimately an investor's return also depends on the expectations embedded in the price they pay.

We shouldn't confuse structural growth with an absence of cyclicality. Semiconductors are a good example. Strong demand encourages investment and additional supply.

A structural growth industry can still contain very cyclical companies.

That's one reason we spend so much time thinking about expectations rather than simply extrapolating what's happening today.

> A great company isn't necessarily a great investment at every price: even if AI proves transformational, an investor's return depends on the expectations already embedded in the price paid.

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested. Past performance is not a guide to future returns.

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All data as at 16 November 2026 unless otherwise stated. All data is USD, unless otherwise stated.

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