Global Matters Weekly

17 August 2026

Emerging Markets: Look Beyond the Index

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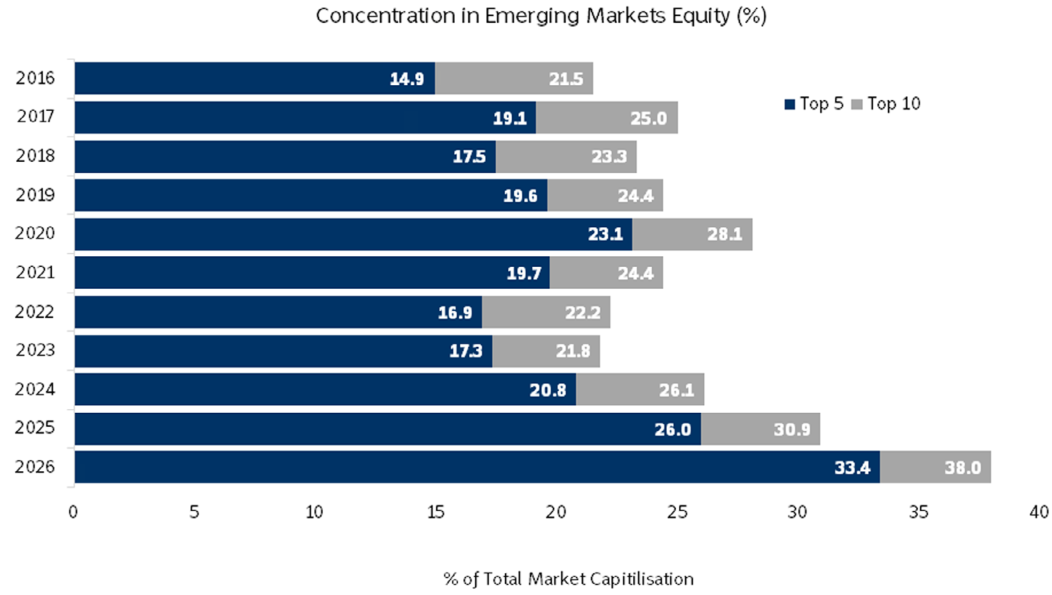

Source: Momentum Global Investment Management, Bloomberg Finance L.P. and iShares. Data to 12 August 2026.

What does the chart show?

Emerging market (EM) equities have performed strongly year-to-date, returning approximately 20% in US dollar terms through the end of July 2026. However, this performance has been highly concentrated, with South Korea and Taiwan accounting for a significant share of the gains. Large-cap AI and semiconductor companies have been the primary drivers, increasing concentration within the EM index.

The top 10 constituents of the EM index now represent close to 40% of the index, compared with around 21% a decade ago. This concentration is even more pronounced at the very top of the market, with the five largest stocks now accounting for approximately 33% of total EM market capitalisation.

Why this is important

The strong performance of companies such as Samsung Electronics, SK Hynix and TSMC has increased the concentration risk within passive EM exposure. Many of these companies share common exposure to the AI and semiconductor themes, meaning investors may have less diversification than the headline index suggests.

Alongside this increase in single stock risk and sector concentration, geographic exposure within the EM index is shifting, with a higher weight to South Korea and Taiwan and a lower weight to China. Investors should therefore consider the implications of greater exposure to the economic, regulatory and geopolitical risks associated with these markets.

Despite posting stellar profits, the technology cohort within EM has nonetheless got more expensive, with share price growth outstripping profit growth. Higher valuations raise questions about the sustainability of future returns and the potential impact on the broader EM index if these companies enter a period of weaker performance.

Against this backdrop, we believe an active approach may be better suited to navigating emerging markets. The asset class remains highly diverse, with significant differences in economic and political environments, corporate governance and sector composition. Active managers can look beyond the largest index constituents and seek exposure to companies and markets where valuations may be more attractive and where returns are less dependent on the continued strength of the AI and semiconductor cycle. An active approach may also provide a more balanced EM allocation, reducing reliance on a narrow group of countries, sectors and companies that increasingly dominate passive index exposure.

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