Q4 2025 MARKET REVIEW

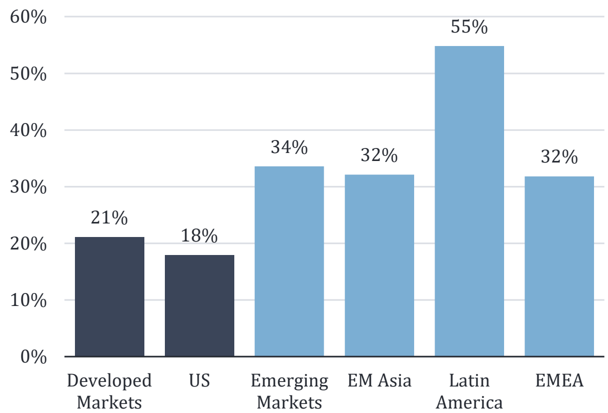
EMERGING MARKETS

EMERGING MARKETS DELIVER THEIR STRONGEST YEAR SINCE 2017

Emerging market equities had another strong quarter, rising +4.7% in the fourth quarter and bringing full-year gains for the MSCI Emerging Markets Index to +33.6%. This marked the strongest annual performance for the asset class since 2017 and the second-largest calendar-year gain since 2009. Performance was compelling not only in absolute terms, but also relative to developed markets. Emerging market equities outpaced developed markets by 12.5% and U.S. equities by 15.7%—the widest performance gap since 2009.

Diversification across regions helped emerging markets absorb volatility and sustain performance in 2025. All major emerging market regions—Asia, Latin America, and EMEA—outperformed both developed and U.S. markets over the full year, with leadership rotating across regions—from Emerging Europe early in the year to Korea, Latin America, China, and South Africa at different points. This rotation helped emerging market equities remain resilient during periods of macro uncertainty, including renewed U.S.–China trade tensions and concerns around an AI bubble. Overall, diversification across countries and idiosyncratic drivers reduced reliance on any single theme and supported more stable performance.

Emerging Markets Outperforms Developed Markets in 2025



Regional Diversity & Idiosyncratic Drivers Support 2025 Performance

	Q1 2025	Q2 2025	Q3 2025	Q4 2025	2025
China	15%	2%	21%	-7%	31%
Taiwan	-13%	26%	14%	10%	39%
Korea	5%	33%	13%	27%	100%
India	-3%	9%	-8%	5%	3%
SE Asia	-9%	5%	4%	6%	5%
Middle East	4%	1%	6%	-4%	6%
S. Africa	14%	14%	20%	14%	78%
EM Europe	17%	16%	5%	8%	55%
Latin America	13%	15%	10%	8%	55%
Emerging Markets	3%	12%	11%	5%	34%

Source: Bloomberg and MSCI as of December 31, 2025. Past returns are not a guarantee of future results. Graphs are presented for illustration purposes only and should not be relied on to make an investment decision.

AI RELATED CONCERNS TEMPORARILY WEIGH ON EMERGING MARKETS

After strong gains in September and October, the equity rally driven by AI and technology stocks paused abruptly in November, resulting in the only negative monthly return for the MSCI Emerging Markets Index in 2025. The pullback reflected valuation and positioning concerns in global AI-linked stocks, amplified by questions around the sustainability and timing of hyperscaler capital expenditure. These concerns spilled into AI-exposed emerging markets, particularly North Asia, where Korean equities declined -7.9% and Taiwanese equities fell -5.0% as pressure on large technology names mirrored weakness in U.S. markets and investors took profits following strong year-to-date performance. As in prior drawdowns, the sell-off was concentrated in large-cap stocks, with smaller-cap segments demonstrating relative resilience.

Importantly, concerns related to the AI industry proved short-lived. Continued strength in AI-driven demand, resilient earnings expectations, and clearer corporate guidance helped stabilize sentiment in late November, and by December both Taiwan and Korea had not only recovered November's losses but moved on to deliver further gains as investors re-engaged with the sector.

CHINA FOURTH-QUARTER PULLBACK DRIVEN BY MACRO SOFTNESS AND GEOPOLITICAL UNCERTAINTY

After being one of the strongest-performing markets in the third quarter, China became the weakest major emerging market in the fourth quarter, reversing part of the strong gains seen earlier in the year. Chinese equities declined -7.4% in the fourth quarter of 2025, driven by a combination of softer macroeconomic data, renewed property-sector concerns, and heightened geopolitical uncertainty. Domestically, softer industrial production, weak retail sales, and declining home prices reinforced deflationary pressures and highlighted fragile consumption. Externally, shifting China–US relations and evolving rhetoric on trade, and technology restrictions weighed on investor sentiment. Technology and AI-related stocks also detracted as investors took profits following a strong run earlier in the year, particularly in large-cap index heavy weight names.

LARGE CAPS EXTEND LEADERSHIP OVER SMALL CAPS IN EMERGING MARKETS

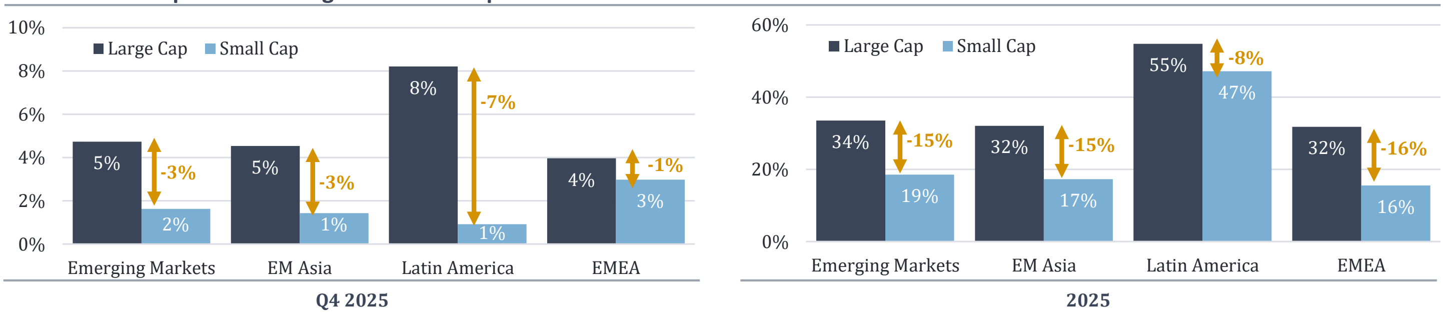
Emerging markets small-cap stocks underperformed large caps again in the fourth quarter, lagging by -3.1% and extending a challenging relative trend. For the full year, the MSCI Emerging Markets Small Cap Index trailed the headline index by -15%, marking the worst relative underperformance since 1999. This reflected a continued concentration of returns in a narrow group of large-cap stocks, a theme that persisted throughout much of 2024 and 2025. Indeed, during the fourth quarter alone the largest 5 stocks in the MSCI Emerging Markets Index contributed to 57% of returns while only representing 25% of the index's exposure. However, this dynamic was not confined to Northern Asia mega-cap technology stocks or the headline index but was evident across regions.

Regionally, the divergence was most pronounced in Latin America, where large-cap stocks outpaced small caps by 7.3%. In Brazil, small cap stocks ended the quarter in negative territory, down -3.3%, while large cap stocks gained +7.0%. Meanwhile Mexican large cap stocks outpaced their small cap counterparts by 5.5%, widening the market cap performance gap to almost 14% for 2025.

In Asia, relative performance was more mixed for the fourth quarter, with Korea standing out as AI-related themes drove index heavyweights sharply higher. More specifically, Korean small caps lagged large caps by -20.9% during the quarter, bringing cumulative underperformance to -39.8%. Despite this, Korean small-cap stocks still delivered strong absolute returns of +60.0% in 2025, outperforming many other markets across both large- and small-cap segments. Elsewhere in Asia, small-cap stocks in India, China, and Taiwan also underperformed during the quarter, though by a more modest margin.

In EMEA, small-cap stocks held up relatively better in the fourth quarter, underperforming the MSCI EMEA Index by just -1.0%. However, this masked a more pronounced full-year divergence, with EMEA small caps lagging large caps by over 16% in 2025. Much of this gap was driven by South Africa, where large-cap stocks surged +77.6% for the year compared with +35.5% for small caps, as metals and mining-related names led performance with triple-digit gains.

Performance Gap Between Large and Small Cap Stocks Continue to Widen



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REGIONAL PERFORMANCE COMMENTARY

Asia: Tech Leadership Offsets China Weakness

Performance across Asia was mixed during the fourth quarter. Despite intermittent volatility tied to AI-related sentiment, Korea—and to a lesser extent Taiwan—delivered the strongest gains, as technology stocks continued their sharp upward climb. India also advanced, supported by solid macroeconomic data, optimism around U.S. trade negotiations, and resilient corporate earnings. ASEAN markets edged higher as well, led by Malaysia. The notable laggard was China, which declined more than -7% during the quarter as macroeconomic concerns and geopolitical uncertainty weighed on investor sentiment.

Latin America: Broad-Based Gains Drive Regional Leadership

Latin American equity markets emerged as the top-performing region in the fourth quarter and for 2025. All markets ended the period in positive territory, with Andean markets delivering the strongest returns. In Brazil, performance was strong but volatile, as investor sentiment oscillated regarding expectations for the start of an easing cycle amid cooling inflation, political headlines ahead of the 2026 elections, and uncertainty around U.S. tariffs. Mexico also advanced, supported by declining inflation and policy rate cuts that brought interest rates to their lowest levels since May 2022. Meanwhile, Chile and Peru continued to rally on monetary easing, strong commodity demand, and a market-friendly outcome in Chile's presidential election.

EMEA: Divergent Performance Across Markets

Dispersion across EMEA markets persisted in the fourth quarter, resulting in a modest regional gain of +4.0%. Middle Eastern markets retreated, declining -4.1%, led by weakness in Saudi Arabia as lower oil prices and softer earnings weighed on sentiment. In contrast, Emerging Europe delivered steady gains, supported by rate cuts and resilient corporate earnings, with Hungary and Poland among the strongest performers. Meanwhile, South Africa extended its strong 2025 rally, as metals and mining stocks continued to advance and the macroeconomic and fiscal outlook improved modestly.

DISCLOSURES

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