

Weekly Market Commentary

Five Reasons the Run in Emerging Markets Could Continue

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Client Summary

Positive Factors

- **Weaker U.S. Dollar May Support International Investing:** A declining dollar makes overseas investments more attractive and can boost returns for U.S. investors. Further softness is possible given expected Federal Reserve rate cuts.
- **Stronger Earnings Growth Expected in Emerging Markets:** EM company profits are projected to grow faster than those of U.S. and European companies in 2026 — helped by improvements in efficiency, corporate governance, and innovation.
- **Benefiting from the Global AI Boom:** Many key components of artificial intelligence hardware — like advanced chips — come from countries such as Taiwan, giving EM strong exposure to AI-driven growth. China and South Korea are also leading players in AI and the AI supply chain.
- **Technical Trends Are Improving:** The EM index recently moved above important resistance levels, and many EM stocks are in long-term uptrends, signaling strengthening market momentum.

Concerning Factors

- **Inflation Could Delay Expected Rate Cuts:** If inflation remains stubborn, the Federal Reserve may slow its pace of rate cuts, which could strengthen the dollar and weigh on EM performance.
- **Sensitivity to Global Volatility:** In periods of economic uncertainty, investors often flock to “safe haven” assets like the dollar, which could temporarily pressure EM returns
- **High Earnings Expectations Leave Little Room for Error:** EM earnings forecasts are strong, but if companies miss targets, markets could react negatively.
- **Geopolitical Risks Remain Elevated:** Global tensions — including sanctions and trade disruptions — could create headwinds for EM growth and currency stability.

LPL Research's Perspective

- **EM's Strength Looks Sustainable, Not Temporary:** Research believes the recent gains in EM are supported by genuine improvements — not short-term market noise.
- **Valuations Remain Attractive Relative to the U.S.:** EM stocks still trade at a meaningful discount compared to U.S. equities, offering room for long-term outperformance if trends persist.
- **AI and Technology Investment Are Major Long-Term Drivers:** EM stands to benefit significantly from the expansion of global AI infrastructure, especially in semiconductor-producing countries.
- **Research Maintains a Positive Bias Toward EM:** While staying neutral overall on equities, Research recommends maintaining EM allocations at target levels and considering additions during market pullbacks.

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Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

The Standard & Poor's 500 Index (S&P500) is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The PE ratio (price-to-earnings ratio) is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. It is a financial ratio used for valuation: a higher PE ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with lower PE ratio.

Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability. Earnings per share is generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio.

Precious metal investing involves greater fluctuation and potential for losses.

The fast price swings in commodities will result in significant volatility in an investor's holdings. Commodities include increased risks, such as political, economic, and currency instability, and may not be suitable for all investors.

All index data from FactSet.

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