

# Barrow Hanley: It's a strong year for emerging markets – but you need to be picky

By Perpetual Asset Management

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## **Emerging markets are back in favour – but it pays to take a cautious approach to a diverse sector. BARROW HANLEY’S EM team explains**

- Country dispersion now defines EM
- China bottoming, ASEAN cheapest in EM
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Emerging-market investors need to be careful treating the asset class as a single trade, with country, commodity and policy cycles now moving in very different directions, says Barrow Hanley’s emerging markets team.

Emerging markets have come back into favour over the past year, with the asset class posting strong returns and outpacing developed markets even during the sharp downturn triggered by the Middle East conflict.

But the headline performance is masking diverging country fortunes that investors need to be careful to understand.

“The stellar returns we had last year clearly opened the eyes for many asset owners... just showing what role it can play in portfolios,” says Kathrine Husvaeg, Head of EMEA and UK at Barrow Hanley.

“But the dispersion in the universe is enormous right now.”

Barrow Hanley is a global leader in value investing, managing assets for clients for more than 40 years. Barrow Hanley funds – including the [Barrow Hanley Emerging Markets Fund](#) – are [distributed in Australia by Perpetual Group](#).

### **EM performance diverging**

Husvaeg says the performance of emerging market stocks in the three months to March highlights some stark differences within the sector.

“In terms of country returns, it was really a quarter of two very different environments,” she says.

“Export-heavy markets like Korea and Taiwan doing really well in January and February, benefiting from the continuous strong rise we saw in memory chip storage prices and strong earnings results.

“All those heavily energy-import-dependent countries in Asia came under pressure. India was the worst hit, but Korea’s returns took a big hit in March as well.

“Energy-producing countries such as Brazil and Colombia benefited from this.”

Portfolio manager Sherry Zhang says the different forces driving emerging markets are creating a wide set of attractive opportunities.

“The opportunities we see are still fairly diverse,” says Zhang.

### **China’s favourable outlook**

China led emerging markets in 2025 but gains have been muted so far in 2026 as investors wait for the next stage of AI earnings and news of any potential government economic stimulus.

“Net net, we are very favourable on the mid- to long-term outlook for China,” says Zhang.

A five-year real estate downturn is bottoming out, Beijing’s “anti-involution” push to stop destructive competition is starting to stabilise business conditions and reduce overcapacity, and policymakers seem to be winning a long battle against deflation.

“Everything, even though it is not great, is bottoming to the tune of slight improvement,” Zhang says.

“We do feel like China has seen the worst, and this year should be a positive for China and also for EM.”

### **ASEAN shares look cheap**

Portfolio manager David Feygenson says Indonesia, the Philippines and Thailand are the cheapest part of emerging markets.

He says the region’s markets have underperformed but valuations are starting to look attractive.

“We’ve got what we think are really good, cheap set of companies there that are well positioned for when the markets turn around,” he says, including Indonesia’s Bank Mandiri and Thai bank Kasikornbank.

### **Concerns around India outlook**

Feygenson says he is cautious on India because it looks expensive compared with other emerging markets.

“From the relative valuation, it’s still really not that cheap,” he says. The team is working on a number of Indian opportunities and watching the sell-off in IT services, but is not yet comfortable buying the country’s outsourcing leaders because the AI risk is too unsettled.

“With the rise of AI, it’s a little bit early to tell whether they are going to be somewhat of an AI victim,” Zhang says.

India is also very exposed to the oil price because it imports energy and subsidises what consumers pay.

“We do need to be careful,” Feygenson says.

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