M.M.WARBURG & CO
BANK

Economic Situation and Strategy

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Emerging markets: active or passive?

Emerging markets (EM) will continue to grow almost three times as fast as industrialized countries in 2025. The IMF expects growth of 1.5 percent in industrialized countries in 2025 (2026: 1.6 percent). In emerging and developing countries, however, the pace is significantly higher: 4.1 percent in 2025 and 4.0 percent in 2026. In September, the Fed is expected to continue its interest rate cut cycle, having already begun three interest rate hikes in the fall of 2024. This has a twofold positive effect on emerging markets. As the US interest rate advantage declines, more funds flow into higher-yielding EM investments, while refinancing costs for dollar-denominated borrowers fall. Additional tailwind comes from the weaker US dollar. It lowers financing costs, supports commodity prices, and thus makes EM markets more attractive to international investors. While US trade policy remains a source of uncertainty, experience shows that Trump often blusters but ultimately seeks deals. This typically leads to increased market volatility, but not necessarily to weaker economic growth in emerging markets. These economies' resilience has proven robust in the past.

Within the emerging markets, the picture is mixed. Growth in China continues to slow. While the government reports growth of 5.4 and 5.2 percent for Q1 and Q2 2025, respectively, the IMF expects only 4.8 percent for the full year and even just 4.2 percent for 2026. Given the weakness of the real economy, the official figures should be viewed with a degree of skepticism. In addition to the aging population, the main constraints are structural problems: an overextended, highly indebted real estate sector, muted retail growth, below-expected industrial production, and deflationary tendencies that dampen demand and investment. India remains the dynamic counterpart, with stable annual GDP growth of 6.4–6.5 percent. The reform agenda in the agricultural, labor, and financial markets, as well as a young, growing population with a median age of under 30, are providing structural tailwind. Latin America is currently benefiting from the commodity sector in several respects: high or stable prices for agricultural goods and metals are supporting export earnings, corporate profits, and government revenues. The ongoing disinflation creates scope for interest rate cuts. Dependence on raw materials remains both an opportunity and a risk, as a slowdown in Chinese demand could have a dampening effect.

Investment approach: Broad-based ex-China

Emerging markets are an important tactical building block for us. They combine dynamic economic growth, young populations, and often attractive valuations. Many of these countries have proven in recent years that they remain resilient even in difficult times. Historically, the yield spreads between emerging markets and developed markets have fluctuated significantly, which is why adding them can only add value to the portfolio during certain periods. We are currently in such a phase: the weaker US dollar and further interest rate cuts by the Fed are acting like an economic stimulus package.

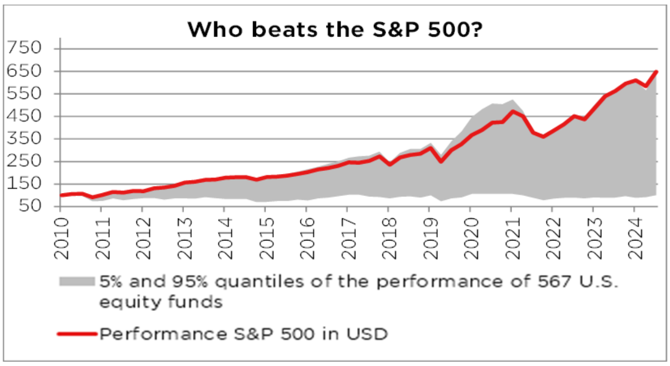
In our allocation, we focus on countries with democratic structures. In our view, China does not meet these requirements. While their economic strength is undisputed, the inadequate protection of property rights and the possibility of government intervention in companies make investments there unpredictable. Capital markets thrive on transparency, independent institutions, and predictability – precisely these are lacking in China. We consciously avoid this risk and instead focus on countries that are democratic, have a growing middle class, and pursue clear reform agendas.

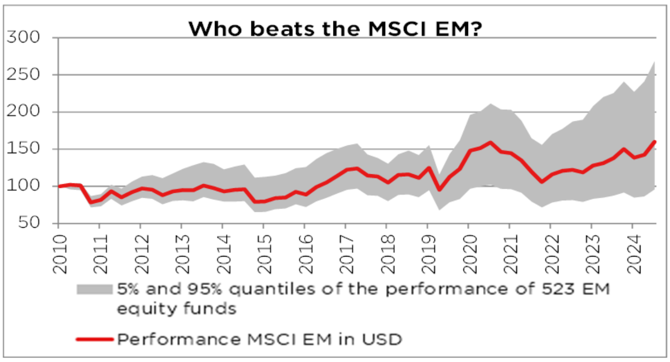
Analysis: Active beats passive

Especially in emerging markets, an index investment is not enough. The markets are often less efficient. Good opportunities are identified by those who are on the ground, speak the language, and understand the local conditions. Therefore, we rely on active funds in emerging and frontier markets. Active portfolio managers conduct the necessary research and deliberately deviate from the benchmark index by maintaining a high active share. But is this conviction also empirically verifiable? To investigate this question, we conducted a comprehensive analysis that quantifies the added value of active management – with clear results.

For the analysis, we considered all funds approved for distribution in Germany that still exist today, separated into two universes: broadly investing emerging market equity funds and broadly investing US equity funds. For each product, the oldest currency-open tranche was included in the calculation. Newly launched funds were allowed to be included until 2022; they were "used" from the date of their entry based on the index performance available at that time. The observation period begins on December 31, 2010, and extends for almost 15 years. For both universes, we mapped the performance distributions as a funnel by comparing the 5th and 95th percentiles of fund returns with the respective benchmarks – MSCI Emerging Markets and the S&P 500.

The result is clear: In the emerging markets, well over half of the active funds outperformed the MSCI EM Index over the entire period. In the US universe, however, even the 95th percentile of funds failed to outperform the S&P 500. The dispersion is broader, and the benchmark effectively marks the upper edge of the distribution. This once again impressively demonstrates the structural excess return opportunities in less efficient, heterogeneous markets. Information advantages, local research depth, and flexible portfolio management are more likely to translate into superior returns in emerging markets, whereas in mature, highly competitive markets like the US, the combination of high market efficiency, index concentration, and the cost advantage of passive products sets the bar very high for active managers.





Methodologically, it should be emphasized that the deliberately accepted "survivorship bias" tends to favor active results because only surviving funds are included. This is precisely why the US finding is remarkable. If even under survivorship conditions the 95th percentile does not beat the benchmark, this underscores the hurdle for active outperformance in the US market. For emerging markets, the bias increases the measured success rate, but does not change the qualitative finding of the significant regional difference.

For portfolio management, this means: In emerging markets, we deliberately focus on active managers with high active share, clear process discipline, and a local presence. Based on our analysis, we expect a significantly higher probability of outperforming the benchmark here. However, since equity markets, especially in the US, have achieved significantly higher returns in the past, we only use emerging markets and frontier market equity funds selectively, when macroeconomic conditions permit. Such a moment has just arrived again.

Dr. Rebekka Haller

Market data

Stock marktes	As of 22.08.2025 10:17	Change versus 15.08.2025 -1 week	21.07.2025 -1 month	21.05.2025 -3 months	21.08.2024 -1 year	31.12.2024 YTD
Dow Jones	44786	-0,4%	1,0%	7,0%	9,5%	5,3%
S&P 500	6391	-0,9%	1,4%	9,4%	13,7%	8,7%
Nasdaq	21100	-2,4%	0,6%	11,8%	17,8%	9,3%
DAX	24292	-0,3%	-0,1%	0,7%	31,7%	22,0%
MDAX	30723	-0,7%	-2,0%	0,9%	23,3%	20,1%
TecDAX	3761	-0,1%	-4,2%	-3,3%	12,6%	10,1%
EuroStoxx 50	5467	0,3%	2,3%	0,2%	11,9%	11,7%
Stoxx 50	4619	1,4%	3,0%	0,8%	3,3%	7,2%
SMI (Swiss Market Index)	12247	1,4%	2,6%	-1,1%	0,0%	5,6%
Nikkei 225	42633	-1,7%	7,1%	14,3%	12,3%	6,9%
Brasilien BOVESPA	134511	-1,3%	0,3%	-2,4%	-1,4%	11,8%
Indien BSE 30	81505	1,1%	-0,8%	-0,1%	0,7%	4,3%
China CSI 300	4378	4,2%	7,2%	11,8%	31,8%	11,3%
MSCI Welt	4132	-1,0%	1,5%	7,9%	13,8%	11,4%
MSCI Emerging Markets	1262	-0,8%	0,7%	7,4%	14,6%	17,3%
Bond markets						
Bund-Future	129,05	25	-140	-84	-574	-439
Bobl-Future	117,14	9	-76	-143	-89	-72
Schatz-Future	107,01	-2	-32	-22	69	2
3 Monats Euribor	2,03	1	6	-1	-151	-68
3M Euribor Future, Dec 2025	1,95	2	16	16	-20	6
3 Monats $ Libor	4,32	2	-9	-4	-94	-5
10 year US Treasuries	4,34	3	-4	-24	54	-23
10 year Bunds	2,75	2	18	11	61	39
10 year JGB	1,62	6	13	11	74	54
10 year Swiss Government	0,37	4	-5	-2	-2	9
US Treas 10Y Performance	621,16	0,0%	0,9%	3,2%	0,2%	5,0%
Bund 10Y Performance	557,58	0,2%	-0,9%	0,1%	-1,8%	-1,2%
REX Performance Index	457,68	0,0%	-0,4%	0,3%	1,4%	1,1%
IBOXX AA, €	3,15	0	12	3	2	12
IBOXX BBB, €	3,44	2	9	-11	-21	-2
Commodities						
MG Base Metal Index	424,97	-0,7%	-2,0%	1,8%	1,9%	4,8%
Crude oil Brent	67,71	2,9%	-2,2%	4,3%	-12,4%	-9,4%
Gold	3326,52	-0,5%	-2,1%	0,4%	32,8%	26,7%
Silver	32,54	0,0%	0,0%	0,0%	10,2%	9,6%
Aluminium	2584,53	-0,9%	-2,4%	4,8%	5,0%	2,3%
Copper	9643,49	-0,4%	-1,5%	1,0%	5,6%	11,5%
Iron ore	101,57	0,0%	3,8%	1,5%	3,2%	-2,0%
Freight rates Baltic Dry Index	1893	-7,4%	-6,1%	41,6%	7,6%	89,9%
Currencies						
EUR/ USD	1,1593	-0,8%	-0,6%	2,4%	4,3%	11,6%
EUR/ GBP	0,8645	0,1%	-0,3%	2,4%	1,5%	4,6%
EUR/ JPY	172,27	0,3%	0,1%	5,8%	6,2%	5,6%
EUR/ CHF	0,9387	-0,3%	0,7%	0,4%	-1,2%	-0,3%
USD/ CNY	7,1810	-0,1%	0,1%	-0,3%	0,6%	-1,7%
USD/ JPY	148,38	0,8%	0,7%	3,3%	2,1%	-5,6%
USD/ GBP	0,75	1,1%	0,6%	0,2%	-2,6%	-6,6%

Source: LSEG Datastream

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