CIO continue to rate China as Neutral given looming trade uncertainty and the lack of policy catalysts in the immediate future. (UBS)

Emerging markets: Uncertainty to continue weighing on near-term outlook

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With Trump 2.0 now in full swing, emerging market (EM) stocks have been grappling with higher uncertainty since 5 November. Uncertainty around trade, US domestic policy, and geopolitics, coupled with a stall in US disinflation progress in recent months and still lackluster macro fundamentals in China, have contributed to recent underperformance of emerging market stocks against their US peers.

The US rates and dollar have also risen in light of the repricing of the Federal Reserve's rate-cutting cycle. In the near term, because the lack of clarity on these areas will likely weigh on EM stocks' risk premium, we believe they will remain volatile and rangebound.

Nevertheless, we anticipate EM equities will deliver high-single-digit to low-teen returns by the end of 2025. This outlook is supported by a likely selective approach to tariffs from the Trump administration; China's policies aimed at improving local governments' financing conditions, stabilizing asset prices (including stocks and real estate), and boosting consumption; the Federal Reserve's ongoing rate-cutting cycle; and strong structural tailwinds from artificial intelligence benefiting key markets like Taiwan and the technology sector in mainland China.

In this context, we see selective opportunities within emerging markets in the coming months. Taiwan presents significant upside potential to capitalize on the current AI wave and is expected to benefit from positive margin expansions in 2025. India is poised to gain from attractive domestic structural growth drivers, alongside a recovery in government capital expenditures, with an anticipated upward shift in earnings trends in the coming months. Outside of Asia, we believe South

Africa, supported by positive domestic dynamics, should benefit from resilient US growth and additional easing measures from mainland China, amid favorable valuations.

We continue to rate China as Neutral given looming trade uncertainty and the lack of policy catalysts in the immediate future. We expect further countercyclical (particularly focused on boosting consumption through trade-in programs) and structural policy support in the coming months, with the National People's Congress in March serving as a key signpost, which should help stabilize growth further into 2025, barring a full-blown trade war 2.0. Recent developments around China's breakthrough in artificial intelligence (AI), specifically on the intelligence and application front, reportedly with substantially lower training and inferencing costs than that of other industry peers, bode well for further and more general adoption of AI in the country and should therefore boost competitiveness for China's technology industry.

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