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Emerging market rotation creates opportunities beyond the AI trade

A sharp rotation away from technology stocks is creating fresh opportunities across emerging markets, with countries such as China, India and Brazil attracting attention as investors look beyond the AI trade for value, according to Eastspring Investments.

Global emerging market equity portfolio manager, Navin Hingorani, says India could benefit from a shift away from AI-related stocks, while Brazil is presenting potential value opportunities following a market correction after its recent election outcome.

Traditionally one of the more expensive major emerging markets, India has relatively little exposure to the AI trade, with opportunities emerging in sectors such as financials.

“India is almost the anti-AI place within emerging markets, so if you start seeing movement away from AI, then India is likely to be a beneficiary,” Hingorani says.

In Brazil some stocks fell by 30 to 40 per cent following the election, creating an attractive entry point for investors. However, Hingorani suggests that greater clarity around the government's policy direction is needed before making further commitments.

“Brazil remains a value market and remains cheap, but at the moment it's a little bit of a wait-and-see situation.”

Hingorani says emerging markets have experienced two distinct halves in 2026, with strong technology-led returns in the first half giving way to a correction and a rotation towards developed markets in the second.

He says some of the pullback was warranted, following elevated valuations and significant retail investor participation in technology-focused exchange-traded funds (ETFs).

“A large part of the performance in the first half was driven by retail participation and the rise of levered ETFs. Valuations did get a little bit too high in some areas, so the correction we've seen in the second half has been a pullback of some of the extreme optimism we saw earlier in the year,” Hingorani says.

“We do still think that going into the remainder of 2026 and into 2027, there are some strong opportunities within emerging markets.”

Hingorani says Asian technology companies continue to benefit from significant capital expenditure by US hyperscalers, but investors need to remain conscious of valuations and how much future growth is already priced into stocks.

“From an emerging markets perspective, results are still being fairly resilient in the technology space, largely because companies in Asia are beneficiaries of the capital expenditure being spent in the US. “However, you have to be cognisant of valuation and confident about what is being priced in for 2027 and 2028.”

Questions around how US technology companies will fund their capital expenditure plans, particularly amid deteriorating cash flows, could also influence earnings expectations over the coming years. Beyond technology, China is one market attracting attention, with widespread pessimism and depressed valuations creating potential opportunities, particularly across consumer businesses. Hingorani says high consumer savings rates and attractive valuations provide an opportunity for investors willing to look beyond the country's ongoing domestic demand challenges.

“There is a lot of pessimism in China at the moment, and that's fed through to valuations. As value investors, we're really looking at trying to back out what's in the price at the moment. We just see extreme pessimism,” he says.

He says improving corporate governance, including a greater focus on dividend payments and share buybacks, is another positive development that could support earnings per share growth. “China may take longer than 2027 to come through, but we still think there is a strong opportunity there.”

While geopolitical uncertainty, developments in the Middle East and the results of the US midterm elections remain important considerations, Hingorani says periods of market volatility can create opportunities for investors with the flexibility to move across countries, sectors and individual stocks. He believes the coming year will reward investors who can distinguish between companies facing genuine deterioration in their outlook and those whose share prices have fallen disproportionately to their underlying earnings potential.

“It's about being nimble going into 2027 and really looking at where the market has priced risk into a stock at a level that doesn't reflect the kind of earnings we think that stock can generate,” he says.

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