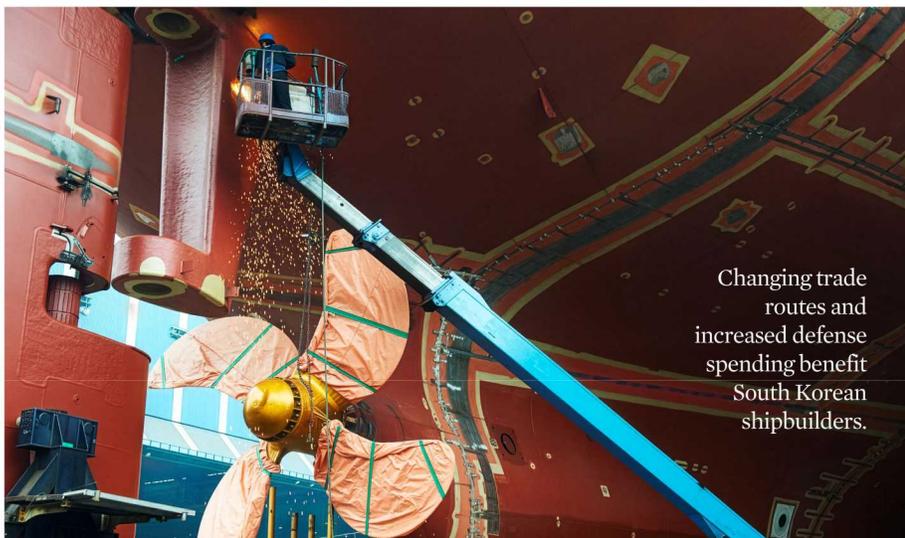


## THE CASE FOR EMERGING MARKETS

Economic growth, earnings acceleration and bargain prices favor EM stocks.

By Anne Kates Smith



Changing trade routes and increased defense spending benefit South Korean shipbuilders.

While all eyes have been on the run-away U.S. bull market, emerging-markets stocks have delivered impressive results. The MSCI Emerging Markets stock index returned 29.7% in 2025 through November, far ahead of the S&P 500's 17.8% gain. Emerging-markets fans say the rally is just the beginning of a long-term trend, supported by an evolving world order focused on deglobalization that will accelerate earnings growth and favorable currency swings in emerging markets over a period of several years. "The U.S. market and the U.S. dollar have been kings for 15 years," says Arjun Jayaraman, a portfolio manager and head of quantitative research at Causeway Capital Management. "We're finally starting to see cracks in that."

A weaker dollar is a plus for international stocks, with overseas returns translating into more greenbacks back home. Extended pressure on the dollar could lead to a repatriation of global capital out of the U.S. and into emerging markets, says Michael Kass, portfolio manager of **Baron Emerging Markets (symbol BEXFX)**. That process tends to play out over long cycles. "We're near an inflection point in the dollar and long-term capital flows," he says, adding that a major bear market in the dollar isn't necessary for emerging markets to prosper.

**"If the dollar is flat, that's going to be good."**

### STRONG FUNDAMENTALS.

The International Monetary Fund's most recent economic outlook forecasts average growth for emerging countries of a bit over 4% in 2026 relative to 2025, compared with just 1.5% for developed economies. Analysts expect double-digit earnings growth for companies in the MSCI EM index, with forecasts of 17.5% in 2026, up from a projected 11.4% in 2025, according to Wall Street economist and strategist Ed Yardeni, of Yardeni Research. Yet stocks in the index remain attractively priced, trading at an average price-earnings ratio of just over 14 based on estimated earnings for the 12 months ahead. The U.S. market trades at 23 times earnings.

Of course, investing in emerging markets carries increased risks, says Yardeni, including domestic political instability, trade tensions, geopolitical perils and pockets of debt stress. "We see an opportunity to invest broadly across EMs," he says, "but be mindful of the risks and regional disparities." The risks are real, but the IMF report also noted that although global financial shocks have historically had an outsize impact on emerging markets, "recent experience marks a departure from this pattern, with many emerging markets displaying remarkable resilience," in part due to more credible and effective monetary and fiscal policies.

A good way to play emerging markets stocks is with a fund such as the Baron offering above, a member of the Kiplinger 25, the list of our favorite no-load, actively managed funds. Portfolio manager Kass sees several promising themes. A deglobalization scenario that redraws trade routes and beefs up domestic spending on defense is benefiting South Korean shipbuilding and defense firms. Taiwan boasts global franchises in artificial intelligence, as well as companies that produce supporting hardware and services throughout the AI ecosystem; China is neck-and-neck with the U.S. in terms of robotics. “Everything Tesla is doing, companies in China are doing something similar,” Kass says. The fund returned 28.6% in 2025 through November.

## EMERGING MARKETS HAVE DISPLAYED REMARKABLE RESILIENCE, ACCORDING TO THE INTERNATIONAL MONETARY FUND, IN PART DUE TO IMPROVEMENTS IN MONETARY AND FISCAL POLICIES.

**Causeway Emerging Markets (CEMVX)**, up 31.0% over the period, is another good choice. The fund’s biggest bet relative to the emerging-markets benchmark is South Korea, where the government is following Japan’s lead in putting pressure on firms to improve corporate governance and increase dividend payouts. The fund’s portfolio underweights India at the moment, as earnings have been lackluster and the market has lagged. But comanager Jayaraman is positive on the long-term outlook, given the likelihood of India’s strong economic growth for the rest of the decade “without the gimmicks of artificially low interest rates, or a concentration in AI.”

With a broad global benchmark recently counting emerging markets as 11% to 12% of assets, allocating 15% of total stock holdings to EM stocks “is not betting the farm,” Jayaraman says. And as increasingly speculative tech giants account for so much of the U.S. benchmark, it makes sense to broaden your portfolio. “Today, EM is not the high-risk asset class,” he says.

We should note that emerging markets bonds have also done well, with the Bloomberg Emerging Markets Aggregate Bond index returning 11.6% over the first 11 months of 2025, compared with 7.5% for the Bloomberg U.S. Aggregate Bond index. “Emerging markets did a good job staving off inflation and, from a fiscal standpoint, have gotten their house in order. Developed markets are the ones driving up deficits,” says portfolio manager Brian Kennedy at Loomis Sayles.

Our favorite EM fixed-income fund is **Vanguard Emerging Markets Bond (VEMBX)**, up 13.6% over the period. ■

### IMPORTANT INFORMATION

**Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectuses contain this and other information about the ETFs. You may obtain them from the Funds’ distributor, Baron Capital, Inc., by calling 1-800-99-BARON or visiting [BaronCapitalGroup.com](http://BaronCapitalGroup.com). Please read them carefully before investing.**

**Baron Emerging Markets Fund’s** annualized returns for the Institutional Shares as of December 31, 2025: 1-year, 30.14%; 5-year, 1.16%; 10-year, 6.86%. As of April 30, 2025, the annual expense ratio of the Fund’s Institutional Shares was 1.11%.

**MSCI Emerging Markets Index’s** annualized returns as of December 31, 2025: 1-year, 33.57%; 5-year, 4.20%; 10-year, 8.42%.

**MSCI Emerging Markets IMI Growth Index’s** annualized returns as of December 31, 2025: 1-year, 32.03%; 5-year, 2.36%; 10-year, 8.53%.

*The performance data quoted represents past performance. Past performance is no guarantee of future results. Current performance may be lower or higher than the performance data quoted. Investment returns and principal value will fluctuate and shares, when sold, may be worth more or less than their original cost. The Adviser may waive or reimburse certain Fund expenses pursuant to a contract expiring on August 29, 2036,*

*unless renewed for another 11-year term and the Fund’s transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit [BaronCapitalGroup.com](http://BaronCapitalGroup.com) or call 1-800-99-BARON.*

The Fund’s historical performance was impacted by gains from IPOs and there is no guarantee that these results can be repeated or that the Fund’s level of participation in IPOs will be the same in the future.

**Risks:** In addition to the general stock market risk that securities may fluctuate in value, investments in developing countries may have increased risks due to a greater possibility of: settlement delays; currency and capital controls; interest rate sensitivity; corruption and crime; exchange rate volatility; and inflation or deflation. The Fund invests in companies of all sizes, including small and medium-sized companies whose securities may be thinly traded and more difficult to sell during market downturns.

**The Bloomberg US Agg Bond Index** tracks the broad U.S. investment-grade bond market (Treasuries, corporates, MBS, ABS), while the **Bloomberg Emerging Markets USD Aggregate Bond Index** focuses specifically on USD-denominated debt from emerging market sovereign, quasi-sovereign, and corporate issuers, acting as a “hard currency” benchmark for EM debt. The key difference is geographic scope and issuer type, with the US Agg covering the domestic investment-grade market and the EM Agg covering debt from developing nations, both in U.S. dollars.

The **MSCI Emerging Markets Index Net (USD)** is designed to measure equity market performance of large and mid-cap securities across 24 Emerging Markets countries. The **MSCI Emerging Markets IMI Growth Index Net (USD)** is designed to measure equity market performance of large, mid and small-cap securities exhibiting overall growth characteristics across 24 Emerging Markets countries. MSCI is the source and owner of the trademarks, service marks and copyrights related to the MSCI Indexes. The indexes and the Fund include reinvestment of dividends, net of foreign withholding taxes, which positively impact the performance results. The indexes are unmanaged. Index performance is not Fund performance. Investors cannot invest directly in an index.

The discussion of market trends is not intended as advice or recommendation to any person regarding the advisability of investing in any particular security. The views expressed in this video reflect those of the respective speaker. Some of our comments are based on management expectations and are considered “forward-looking statements.” Actual future results, however, may prove to be different from our expectations.

BAMCO, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission (SEC). Baron Capital, Inc. is a broker-dealer registered with the SEC and member of the Financial Industry Regulatory Authority, Inc. (FINRA).