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Emerging Markets: A Bigger Opportunity Than the Index Suggests

Emerging markets (EM) are often discussed as if they are one investment. They are not. They are a wide collection of countries, currencies, companies, political systems, consumer markets, and policy regimes that happen to share the same label. Calling them all 'emerging markets' is a little like calling every road outside your neighborhood 'the highway.' It may be directionally true, but it misses most of what matters.

What we're seeing

The AI story has gone global. The artificial intelligence buildout is no longer just a U.S. mega-cap technology story. Semiconductor supply chains, memory chips, power demand, and data-center infrastructure are pulling several international and emerging-market economies into the conversation. South Korea and Taiwan, in particular, have become shorthand for this new reality: global AI enthusiasm can show up not only in familiar U.S. names, but also in the countries and companies that help supply the hardware backbone.

Diversification is working again, but unevenly. After years in which U.S. markets seemed to win every comparison, international and emerging markets have had a better stretch. But the leadership has not been even. Asia, Latin America, commodity-linked countries, and technology-heavy markets have behaved very differently from one another. That dispersion is healthy in one sense: it reminds investors that emerging markets are not a single trade. It also means a broad index may hide more variation than it reveals.

The index is not the full map. A passive emerging-market index is not a neutral picture of the developing world. It is a rules-based basket that reflects index-provider decisions, liquidity rules, country classifications, sector weights, and the size of large public companies. That can be useful, but it can also create unintended bets. A seemingly broad allocation may still lean heavily toward a few countries, a few sectors, or a handful of very large companies.

Policy, governance, and energy still matter. Technology may be grabbing the headlines, but traditional emerging-market issues have not disappeared. Tariffs, geopolitics, commodity prices, rule of law, capital controls, state-owned enterprises, and currency volatility still influence outcomes. In some markets, governance reform can unlock value. In others, policy risk can overwhelm company-level fundamentals. The old EM questions have not gone away; they are now sitting next to newer questions about AI, power, and supply chains.

What our managers are seeing

Across the managers we follow, the common thread is selectivity. Some are finding opportunity in durable businesses that look different from the benchmark; others are using a wider lens, looking at both companies based in emerging markets and global businesses that earn a meaningful share of revenue from those economies. We also see attention to governance and institutional quality, long-duration innovation, and a more localized view of Asia. Put differently, our managers are not trying to own "EM" in the abstract. They are trying to identify the parts of the opportunity set where the combination of growth, price, governance, and risk looks most compelling.

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Outside research and manager commentary are pointing in the same general direction: emerging markets are getting more interesting, but not necessarily easier. The AI supply chain is creating new winners and new valuation questions. Commodity and energy sensitivity can help or hurt depending on the country and the moment. Governance and policy choices still matter. And the benchmark, while useful, is only one version of the opportunity set.

That is why we prefer to approach emerging markets through several distinct manager lenses rather than one broad, vanilla exposure. One lens may help us participate in high-quality companies that are temporarily out of favor. Another may capture developing-world growth through global companies with meaningful emerging-market revenue. Another may emphasize institutions, rule of law, and economic freedom. Still another may focus on innovation and the businesses adapting to technological change. A specialized Asia perspective can add local context in a region that increasingly sits at the center of both the opportunity and the risk.

Passive investing has real strengths: low cost, transparency, and broad access. We use indexes as important reference points. But in emerging markets, inexpensive does not always mean neutral. A passive index can include countries we may want to underweight, exclude businesses we may want to consider, or concentrate exposure in sectors where risks are changing quickly. This is one of those places where the cheapest map may not be the most useful map.

Piedmont's approach is built around a patient, long-term investment outlook, manager research and selection, and thoughtful strategic and tactical asset allocation. Emerging markets are a natural place for that philosophy. We are not trying to predict the next headline. We are trying to build exposure that can adapt as leadership shifts from country to country, sector to sector, and cycle to cycle. For a market this varied, one flavor is rarely enough.

The headline is simple: emerging markets are becoming more interesting, but the right question is not just "how much exposure?" It is "what kind of exposure, and why?" That is where active decision-making can matter.