

P E R S P E C T I V E S

February 2025

Emerging Markets: Lands of Opportunity

Emerging markets over the past decade have been largely viewed through a lens of relative underperformance, overshadowed by economic uncertainty and geopolitical tension. This reflects persistent stereotypes that emerging markets are largely dependent on Federal Reserve policy, the US dollar, and global trade. This view, however, misses the transformation of emerging market fundamentals over the past decade as well as the diversity of the asset class. In fact, a closer, bottom-up perspective of emerging markets reveals a dynamic landscape of investment opportunities across a range of regions and sectors. Select emerging market companies are taking advantage of robust secular growth trends, such as the ongoing digitalization of products and services, as well as supporting the infrastructure build-out of artificial intelligence (AI). They offer exposure to local economic dynamism and expertise. For skilled active investors, in our view, emerging markets represents an extraordinary—and largely underappreciated—opportunity.

On the Digital Frontier

Many emerging market consumers today still lack access to adequate financial, commercial, and communication products and services. This is a vast need that startups, entrepreneurs, and companies have sought to meet, mostly through digital platforms. Fortunately for these enterprises, emerging markets consumers tend to be younger and more comfortable with digital-based options than their developed market counterparts. Pent-up demand is enormous, and companies that consistently solve for the needs of consumers on price, convenience, and access can dominate market share and compound growth.

Virtually all goods and services in emerging markets are available, or becoming available, online. This includes retail platforms that deliver goods from fresh food to clothing and appliances, to services that offer travel, insurance, real estate, job search, and health care. Digital platforms offer access to higher quality goods and services which, in our view, is as meaningful as a wage increase to emerging market consumers. In addition, the willingness of emerging market consumers to embrace digital platforms has enabled visionary companies to skip over costly investments in physical infrastructure (e.g., retail banks or storefronts) and disrupt established players.

Fintech and Ecommerce

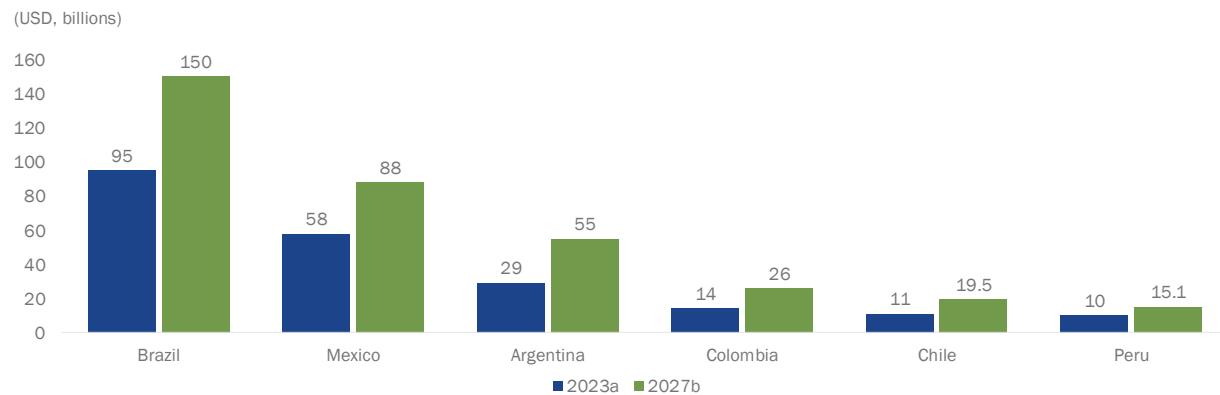
Strong examples of this disruption can be found in fintech and ecommerce. Even today, significant portions of emerging market populations remain underbanked or unbanked—with little or no access to a secure savings/checking account, much less a credit card. Historically, these potential customers have been ignored by traditional financial institutions, who have focused on the wealthier segments of the population. In Mexico, for example, only half of the 90 million eligible adult population has access to a bank.¹ This has created opportunities for digitally oriented companies to enter the markets and offer basic financial services.

The digitalization of finance has led to another opportunity—in ecommerce. Just a decade ago, many emerging market consumers had to pay for online purchases with cash (upon delivery of the item), which was neither

efficient nor secure. Consequently, ecommerce platforms have created and launched fintech offerings for their customers, which has opened up a whole new revenue stream and business adjacent to the original platform. This has helped boost the prospects for ecommerce over the next several years in Latin America (Exhibit 1) and Asia (Exhibit 2).

Exhibit 1: Meeting a Need: The Opportunity in Ecommerce in Latam

Ecommerce market size in Latin America, by country



As of March 2024

a Estimate

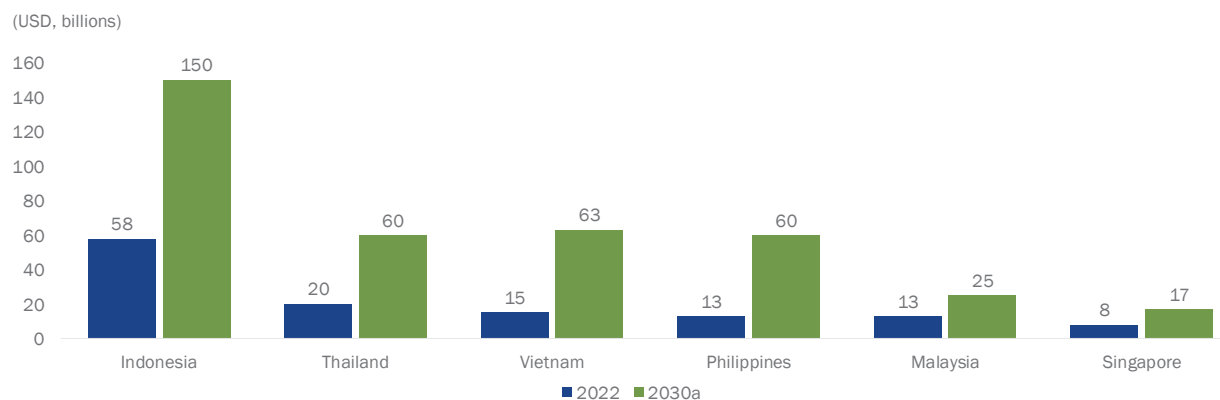
b Forecast

Forecasts may not be achieved and are not a guarantee or reliable indicator of future results. Although Jennison believes that the expectations reflected in such forward looking statements are based on reasonable assumptions, actual results may differ materially from those projected.

Source: Statista; Global Data; IMF; McKinsey & Company; World Bank; Worldpay

Exhibit 2: Ecommerce Spending Is Growing in Asia, with Significant Potential Going Forward

Ecommerce market volume Search Engine Advertising (SEA), by country



As of December 2024

a Forecast

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Sources: Statista; Bain & Co.; Google; Temasek Holdings

Companies that combine ecommerce and fintech platforms also have access to customer data—e.g., a consumer's purchasing habits and the status of their savings account. Thus, a company can determine each customer's capacity to afford new items, assess their worthiness for credit, and tailor products that serve their needs. That can help expand the buying power of the consumer on the ecommerce platform—a helpful synergy and a business model that can potentially offer strong returns to investors.

AI Is a Global Opportunity

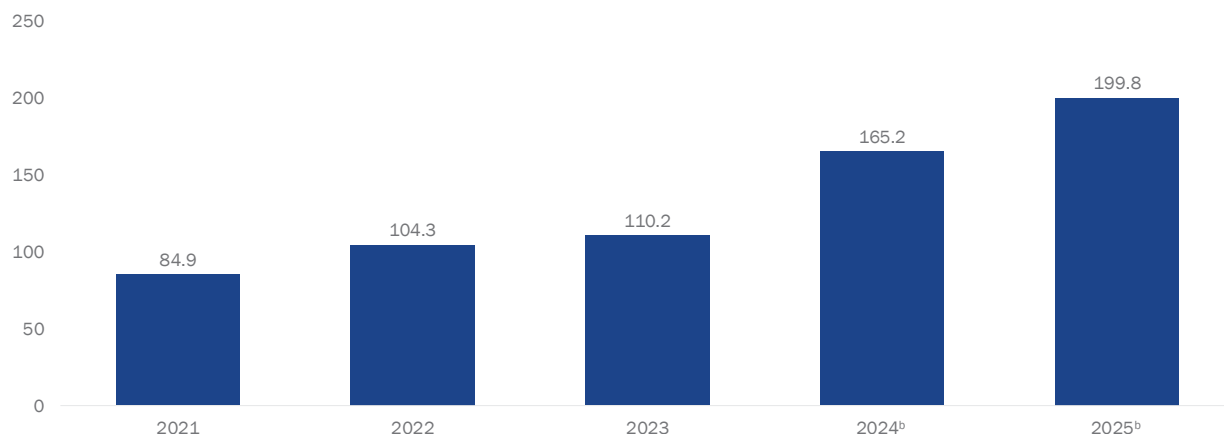
The cutting-edge of AI innovation has mostly occurred in the United States, but AI is a global opportunity. At the end of January, DeepSeek, a Chinese AI startup, claimed its R1 model can run on less powerful chips and is highly cost efficient compared to its competitors, including high-end models produced in the United States. The news was a dramatic example that AI innovation is not limited to US tech firms with massive resources and expertise, especially as the AI revolution moves from the capex phase to applications. China, like the United States, has long prioritized AI development, and we believe further breakthroughs are on the horizon and will yield many compelling investment opportunities.

In addition, the infrastructure needed to support AI is vast and will continue to require contributions from companies around the world. The value chain needed to support AI is enormous given the scale of the capex spend and the complexity involved (Exhibit 3). The manufacturing of semiconductors, for example, is largely located in Asia, especially Taiwan. Companies in the region are critical to the infrastructure build out from the foundries, chip components, racks/servers, to the testing and cooling systems. As the node sizes of semiconductors continue to decline, the complexity and the supply chain needed will expand. The AI supply chain again highlights that innovative business models can, and do, emerge in different parts of the world, and that they can lead to compelling investment opportunities.

Exhibit 3: Capex Spending for AI Is Surging

Tech Capital Expenditure^a

(USD, billions)



a Analysis includes Amazon Web Services, Microsoft, Google, Oracle, Meta, and Apple

b Estimated

Forecasts may not be achieved and are not a guarantee or reliable indicator of future results. Although Jennison believes that the expectations reflected in such forward looking statements are based on reasonable assumptions, actual results may differ materially from those projected.

Source: Bloomberg Intelligences

Tech and Electric Vehicles

Other exciting developments in tech are taking place in China and India. In this real-life laboratory with hundreds of millions of consumers, companies have pioneered social media and digital payment platforms that are often faster, more efficient, and more convenient than those in developed economies. We see many applications in a range of services—e.g., infrastructure, travel, job search, and real estate—that offer growth potential and have relatively low exposure to cross-border political and trade tensions.

One example is Chinese electric vehicle manufacturers. The fully connected EV is a digitalized platform that has often been described as a “smartphone on wheels.” With these capabilities, electric car makers can offer subscription services that extend the relationship between the consumer and the manufacturer—and the economics of the business—to the entire useful life of the car. This can include the subscriptions supporting self driving and other software services, insurance, and company-owned service centers and charging stations.

This represents an entirely new business model for car makers that could redefine the economics of the automobile industry. A company that sells smart, fully connected EVs is better positioned to generate cash over the life of each vehicle than a company that sells mostly more traditional cars.

Lands of Opportunity for Active Investing

Emerging markets have experienced a challenging decade, and many asset managers today avoid the asset class. We believe, however, this misses the dynamic change occurring in the region as well as the opportunities it generates.

Emerging market companies operate in an environment driven by competition and innovation, and it is no coincidence that some of the the most advanced applications for digital finance, ecommerce, and social media over the past decade have come from eastern Asia and even Latin America. In fact, while the United States is leading the development of AI models, emerging markets may generate AI’s first successful commercial applications. Companies that meet consumer needs and disrupt established players are in a position to compound growth over the medium and long term. In addition, bottom-up structural growth stories in emerging markets are largely insulated from volatility in the macroeconomy and geopolitical sentiment, because if a company is truly offering something unique with a new approach to the marketplace, demand tends to grow even through turbulent times. Skilled active investors with resources and experience can exploit these conditions on behalf of clients, offering them exposure to the secular themes and regions that they expect to drive long-term investment success.

Endnotes

¹ Elijah Megginson, “Mexico’s unbanked population ‘now big enough to count’ for fintech companies,” MarketWatch, June 6, 2024.

Disclosures

As of January 2025.

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