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What Are You Buying When You Buy Emerging Markets?

The box labeled “EM” is no longer the thing most investors think they own. Increasingly, it is a concentrated bet on semiconductors.

The traditional case for emerging markets in a portfolio is commonplace: faster GDP growth, a rising middle class, diversification away from expensive U.S. equities, and a persistent valuation discount that will someday close (hopefully). Every element of that case deserves scrutiny right now, because the asset class underneath the label has quietly become something quite different from what the pitch describes.

Start with what the index actually holds. Emerging markets sound expansive—two dozen countries, thousands of companies, most of the world’s population. PlIn practice, four countries—China, Taiwan, India, and South Korea—now represent 83% of the MSCI Emerging Markets IMI. And the composition has shifted dramatically in the last 5 years. China has fallen from a third of the index to 21%. Taiwan has nearly doubled its weight, from 15% to 27.5%. Korea has climbed from 14% to 22.6%.

Figure 1. MSCI Emerging Markets IMI country weights.

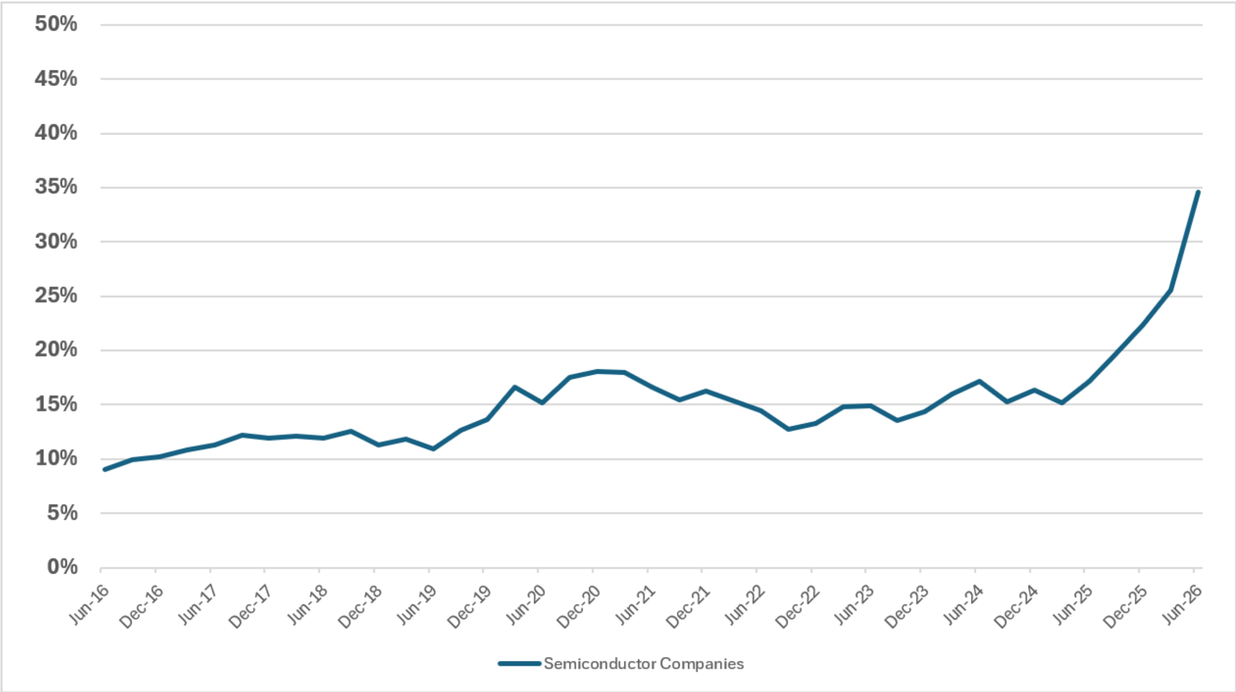
As of 6/30/2026	ACWI IMI	Emerging Markets IMI	Emerging Markets IMI ex-China
China IMI & Hong Kong IMI	2.6%	20.8%	N/A
Taiwan IMI	3.4%	27.5%	34.7%
South Korea IMI	2.8%	22.6%	28.5%
India IMI	1.5%	12.3%	15.5%
Total	**10.3%**	**83.2%**	**78.8%**

Source: FactSet, as of 6/30/2026.

Why have Taiwan and Korea grown so much?

One word: semiconductors. TSMC alone now represents 47% of Taiwan’s total equity market capitalization. Three chip companies—Samsung Electronics, SK Hynix, and DB HiTek—represent 64% of Korea’s. For investors who look at EM ex-China, the concentration gets worse. Those four semiconductor companies alone constitute more than 30% of the entire MSCI Emerging Markets IMI ex-China index, up dramatically since 2020. Investors who buy the index today may believe they are buying “the growth of the developing world,” but they are largely buying a leveraged play on AI hardware demand.

Figure 2. Semiconductor Company Percentage of EM IMI ex-China



Source: FactSet.

What about the valuation discount?

It exists, but it's less than you might think. Emerging markets ex-China trade at roughly 16.5x forward earnings against 17.6x for global equities. EM ex-China is now more expensive than international developed large-cap and small/mid-cap on both trailing and forward earnings, while yielding less.

Figure 3. Fundamental characteristics by MSCI segment

As of 6/30/26	ACWI World IMI	US Large Cap	World Ex-US Large Cap	World Ex-US SMID	Emerging Markets IMI	Emerging Markets IMI ex-China
Trailing PE	24.1	28.7	19.0	18.9	19.1	22.6
Forward PE	17.6	21.1	15.7	14.9	11.9	16.5
FCF Yield	4.0%	3.4%	4.5%	4.7%	5.8%	5.7%
Dividend Yield	2.0%	1.3%	2.9%	3.2%	2.5%	2.2%

Source: FactSet, as of 6/30/2026.

Are the returns there? The jury is still out

The historical record offers little consolation. Over the past decade, emerging markets have underperformed global equities—12.2% annualized versus 13.6%. The recent stretch of strong EM performance that has revived interest in the asset class is, again, largely the semiconductor rally wearing an emerging-markets hat.

Figure 4. EM vs. ACWI World Returns

	Annualized Gross Return				
As of 6/30/2026	2026 YTD	1-Year	3-Year	5-Year	10-Year
Emerging Markets IMI	58.2%	47.8%	24.9%	10.7%	12.2%
ACWI World IMI	27.8%	26.7%	20.1%	12.1%	13.6%
Delta	30.4%	21.1%	4.8%	-1.4%	-1.4%

Returns are gross of taxes, fees, and expenses; past performance is not a guarantee of future results. Source: FactSet.

Implementation compounds the problem. The passive ex-China vehicles available today inherit exactly the concentration you might hope to escape: roughly half their assets in Taiwan and Korea, and a quarter or more in the same three chipmakers, at expense ratios of 43 to 88 basis points and with meaningful tracking error.

If an emerging-markets allocation is to mean something other than a semiconductor bet, it almost certainly requires an active manager willing to deviate substantially from the benchmark—which raises the fee and tax hurdle the allocation must clear to justify its existence.

So, the question is not really “Should I own emerging markets?” It is: “Do I want a concentrated position in AI hardware manufacturers?” For some portfolios, the answer may be yes. But it should be a decision made with eyes open, not a box checked because the policy statement has always had a line labeled “Emerging Markets.

DISCLOSURES

This article is for general information purposes only and is not intended to provide specific investment advice or recommendations for any individual. Indexes discussed herein are unmanaged statistical composites and cannot be invested into directly. Index performance is gross of any fees, expenses, and sales charges. All performance shown is historical and there is no guarantee of future results.

Index Definitions

- ***MSCI ACWI:*** *captures large and mid cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. The index covers approximately 85% of the global investable equity opportunity set.*
- ***MSCI Emerging Markets:*** *captures large, mid and small cap representation across 24 emerging markets countries. The index covers approximately 99% of the free float-adjusted market capitalization in each country.*
- ***MSCI Emerging Markets ex-China:*** *tracks large and mip cap companies across 23 of the 24 emerging markets excluding China, covering about 85% of each country's free float-adjusted market capitalization.*
- ***MSCI U.S. Large Cap:*** *designed to measure the performance of the large cap segments of the US market. With 260 constituents, the index covers approximately 70% of the free float-adjusted market capitalization in the US.*
- ***MSCI US SMID Cap:*** *captures mid and small cap representations across the US equity market. With 2,052 constituents, the index covers approximately 28% of the free float-adjusted market capitalization in the US.*
- ***MSCI World:*** *captures large and mid cap representation across Developed Markets countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.*
- ***MSCI World Ex-US Large Cap:*** *tracks large cap securities across Developed Markets, excluding the US.*
- ***MSCI World Ex-US SMID:*** *tracks mid and small cap securities across Developed Markets, excluding the US.*