

# Polar Capital Emerging Market Stars Fund

## Emerging markets: De-globalisation or diversification?

**Q: Vik Heerah, Head of Marketing: Jorry, you've been managing emerging market equities now for 25 years. We've seen a very volatile start to 2025. How does this period compare to prior periods that you've seen?**

**A: Jorry Nøddekær, Lead Fund Manager, Emerging Markets & Asia Team**

There's definitely been some significant changes and regime shifts over those two and a half decades. What is special about this current period is how important politics has become, and I think in many ways it's now more of a driving factor than a company's fundamentals. There is much more impact on risk premiums where that political component is involved, and also a nervousness; What will the likes of a tariff structure or a new political regime do to a certain set of companies? What do sudden sanctions do to certain types of companies? What will capital restrictions do? There's a lot of these questions that are impacting you as a fund manager. They put a bit more pressure on, make it harder to forecast, and focus you on risk management, diversification, and how you manage these issues. I think that's probably the biggest change.

Looking at the bigger picture, the key debate is probably 'is globalisation dead?' There's no question that when I started in 2000, we were in that extreme sweetspot where globalisation was really rolling out and China was entering the global economy. Emerging markets had a very, very strong boom during that period. We saw technology go more global, the smartphone movement and so on. It was a really big shift but now the view is that globalisation is dead, or at least under a lot of pressure.

Our view is that this is not the case. We still believe we are a very globalised world. I think technology is making the world smaller and ideas are still travelling extremely fast. However, politics is changing things and this is why we believe in a 'new multi-polar world' narrative. There is no longer that extreme concentration where trade and capital flows are only about China and the US. I think what we are seeing now is much more broadening out of the economy where you have new big economies like India, Vietnam, and Indonesia entering the global supply chain. Their economies are growing and their underlying domestic demand base is getting stronger. In North Asia we are seeing the likes of South Korea and Taiwan, but also there again, China, which is now driving leading edge technologies that are really impacting the rest of the world. So yes, the world is changing but I will say, as stock pickers, we view emerging markets as being probably as attractive as they have ever been, and we are extremely constructive on the asset class.

**Q: VH: From an investment opportunity and as a stock picker, how are valuations looking for EM equities versus the rest of the world?**

**Q: JN:** We are very excited about valuation levels now. There's no question we are a growth and quality manager. We have a profound bias and are definitely not hiding away from that. For a long period, up until post-Covid, there was a clear regime or style environment where growth did relatively well. Since that period we have seen an extreme outperformance of value, which has been very significant since late 2020 when we had the announcement of the Covid vaccine.

We are now nearing a point where we believe there are two overhangs – around tariffs and trade, and around the monetary cycle. We believe that with these overhangs removed, we can move back into a much more growth-oriented environment and we get an investment cycle back. When we then look at the valuation of quality companies, we are actually now getting quite excited. So, we are definitely very constructive, even from a bottom-up perspective.

**Q: VH: China has had a strong run. It remains a significant part of the EM benchmark. What are the opportunities there but equally, what are the risks involved with the region?**

**A: JN:** There's no question that China is a really, really tricky size. It's the second largest economy in the world and it has this mix of extremely innovative, and entrepreneurial-driven companies that are growing fast within China, but they are also increasing operations overseas and expanding globally. You could call that 'New China' and it gives us some very exciting dynamics. The enthusiasm is around technology, internet solutions, advanced industrials, and advanced manufacturing where they have some very, very capable companies which are very exciting.

On the flip side, there's still what I call 'Old China' and that is where you have your property, old industrial companies, the old energy complex, and so on. Here we think there is definitely an issue with overcapacity, balance sheets, and there is heavy political influence in these parts of the economy or in these industries. We are clearly quite nervous about these areas. We think that China will be a two-speed economy for the next decade and beyond, where you will have a lot of the old legacy problems and companies that have a tough time adjusting in that economy, and then you will have some of these new economy companies that are moving very, very fast and far ahead.

The way we try to manage that in our portfolio and the Emerging Market Stars Fund is by having an extreme focus on that 'New China' and we think we have some good, exciting companies. But we also have literally zero weighting on the 'Old China' side of the economy. That is really our mindset when it comes to China.

**Q: VH: China has been in the crosshairs of the Trump administration in terms of the trade war. What impact could that have to the export story for China?**

**A: JN:** I think we have seen for quite a number of years now that China's direct export to the US has been falling. I think we are now below 5% of Chinese exports to the US relative to their GDP, so it's a relatively small impact there. At the same time, China's exports to the rest of the world has been growing extremely fast, and they are now the preferred trading partner for something like 140 countries and I think around half of these are trading more than double the value of what the US is.

China has demonstrated they are the manufacturing powerhouse globally and with unmatched power there, I think that will continue for quite some time. In many ways China has managed to isolate themselves quite a lot in that respect. I think that's also what we have seen since the beginning of this year; China's equity market has been doing well, and I think this is a reflection of the fact it is relatively isolated from things going on in the States.

**Q: VH: Now, with all that we've covered so far, what's your outlook for equities?**

**A: JN:** We are extremely bullish on EM growth equities. There's been a long period of underperformance of growth companies in EM, and I think we are now seeing a very attractive valuation level there. On the ground, we are seeing a lot of companies that have executed extremely well on their strategy and positioned themselves effectively. We just need that bit of clarity on the tariffs, which I do think we will be getting relatively soon and that we will see a lot of trade deals. I generally believe that these deals will be quite favourable versus what is priced in, but there is a risk factor there.

I also believe that most EM economies will be able to have an easing cycle. Although it's not so much that we get the interest rates a little bit down, which is always helpful, but more that it will help a new credit and investment cycle. We have a lot of capital accumulated and a very high savings rate that needs to go to work, if we can get a new investment cycle coming in off the back of that with slightly easier conditions, we think that could be the inflection point.

Finally, I think a big component of growth in emerging markets will be technology in South Korea, Taiwan, and to some degree in China, which is still an important component. Again, they are seeing a mix between nervousness around DeepSeek, tariffs, and US politics which we believe has depressed a lot of valuations and been holding a bit of that growth back. We could see that growth returning, and think we have some quite interesting exposure to some key Chinese stocks. When we combine all these things, we are definitely very constructive.

**Jorry Nøddekær, Lead Fund Manager**

**Polar Capital Emerging Market Stars Fund**

**28 May 2025**

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