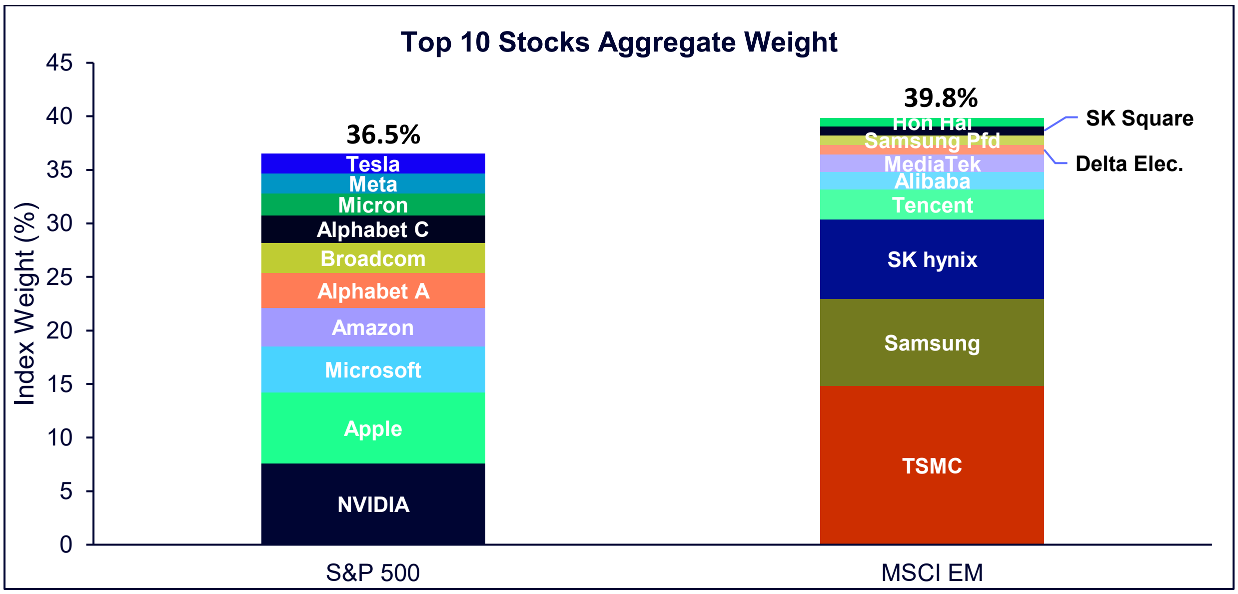
STATE STREET INVESTMENT MANAGEMENT

COMMENTARY
July 9, 2026

Mind on the Market

Chart of the Week



Source: State Street Investment Management, FactSet, as of 30 June 2026. Displaying the weight of the top 10 securities by weight in the MSCI EM Index and S&P 500 Index.

It has not been since 2017 that Emerging markets (EM) gained such attention as macro conditions improve, earnings strengthen, and Asian technology outperforms. At the halfway mark of 2026 (June-end), the MSCI EM Index has gained more than 20% year-to-date in USD terms, extending last year's strong performance despite higher oil prices and periodic bouts of risk aversion among global investors.

Leadership has become increasingly concentrated. A relatively small group of AI-linked technology and semiconductor companies has accounted for a disproportionate share of returns, raising an important consideration for investors. As broad EM allocations come back into focus, investors are taking on more concentration risk. The key question is no longer whether EM offers opportunity, but instead how do you navigate the concentration that comes with the allocation?

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Weekly Highlights

1 Year Performance of EM vs DM	1 Year Return Contribution from the Current Top 10 EM Names vs Total Index Return	2026 EPS Growth for the EM Index, Current vs 1 Year Ago
43.4% vs 22.0%	33.1% vs 43.4%	39.3% vs 14.2%
Source: FactSet, referencing total returns in USD of MSCI EM and MSCI World as of June 30, 2026.	Source: FactSet, total returns data in USD referencing MSCI EM Index as of June 30, 2026.	Source: FactSet, data in USD referencing MSCI EM Index as of June 30, 2026.

The case for further upside in EM equities

From a longer-term perspective, EM relative performance has historically tracked the interaction between two macro forces: the EM-DM growth differential and the direction of the US dollar[1]. The strongest periods of EM relative performance have tended to occur when a widening growth advantage coincided with a weakening dollar: the weakest periods, when both moved unfavorably together (figure 2).

Figure 2: Macro environment and EM relative performance

1996-2025		Macro Environement		Annualized Return		Excess Annualized Return
Date Start	Date End	Dollar Cycle	GDP Differential Cycle	EM	DM	EM - DM
1996/01	1998/12	Strengthening	Narrowing	-11.2%	18.3%	-29.5%
1999/01	2002/02	Strengthening	Widening	5.5%	-4.1%	9.6%
2002/03	2009/12	Weakening	Widening	18.1%	5.0%	13.1%
2010/01	2011/07	Weakening	Narrowing	12.2%	10.2%	2.0%
2011/08	2021/12	Strengthening	Narrowing	3.6%	11.8%	-8.3%
2022/01	2025/01	Strengthening	Widening	-0.9%	7.9%	-8.7%
2025/02	2025/12	Weakening	Widening	35.3%	19.2%	16.2%

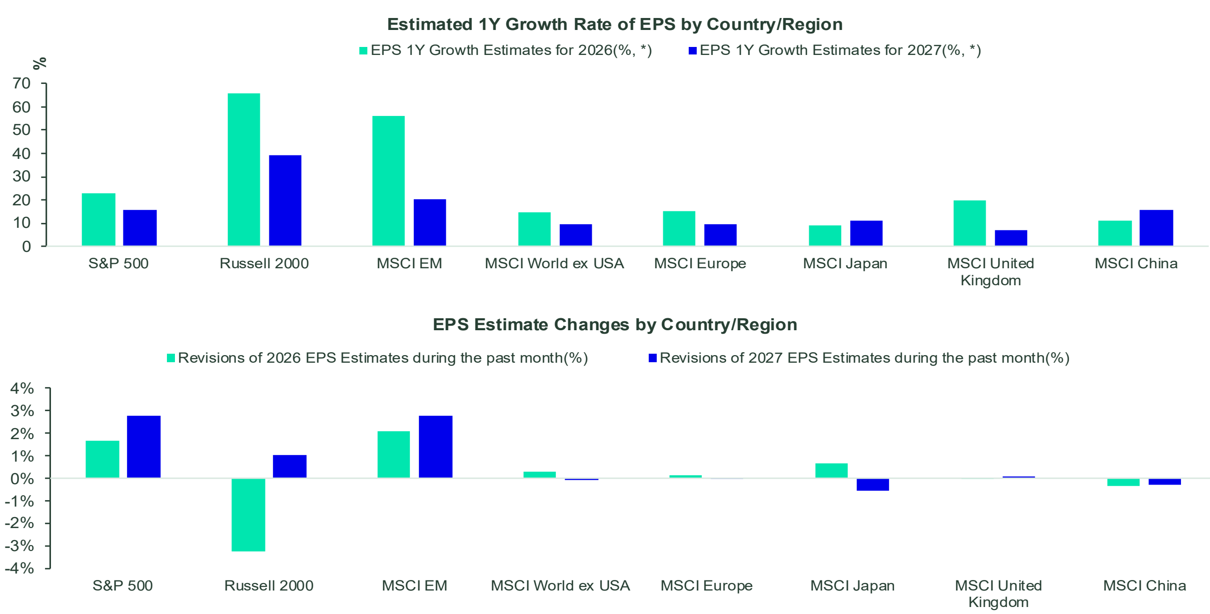
[1] Aligning emerging market equity allocations with growth and dollar cycles

Source: FactSet, State Street Investment Management, as of end-December 2025. Figures are annualized for periods longer than one year. Returns are annualized. Excess annualized returns show the emerging market relative performance over developed market. Combined growth and dollar phases are based on the interaction between growth differentials and dollar cycle, identified using realized macro trends to illustrate historical alignment with EM relative performance across cycles.

The framework is a useful lens to examine where we sit today. Growth differentials versus developed markets have been widening, and the dollar has shown signs of weakness. While neither explains every period on its own (as valuations, geopolitics, and country-specific developments all matter too) but when both have aligned constructively, EM has historically outperformed with the widest margin.

Layered on top of that structural backdrop is a supportive near-term picture. Earnings have improved and upward revisions have outpaced developed-market peers (figure 3), driven by Asian technology names but broadening into other sectors of the market too, creating a near-term tailwind that reinforces the macro set-up as described above.

Figure 3: EM earnings growth and revisions lead global peers



Source: State Street Investment Management, FactSet, as of 29 May 2026. *FX charges are not taken into account for earnings growth rate estimates.

For most investors, the relevant question isn't whether to allocate to EM, but how to express that allocation given how the asset class, and its benchmark, has evolved.

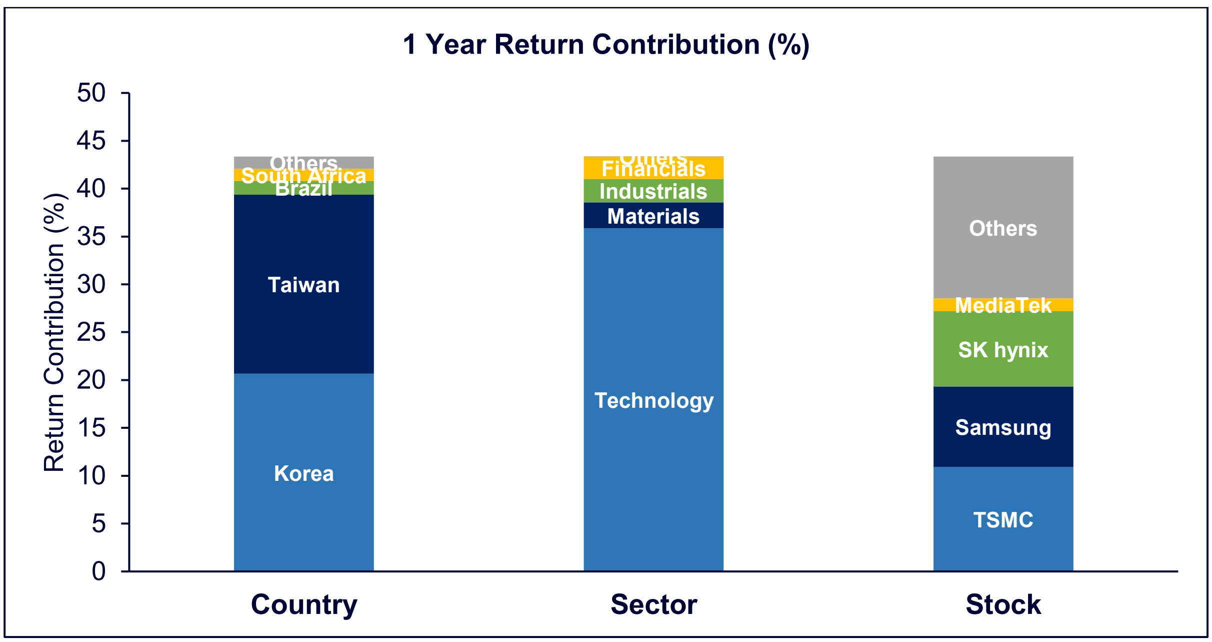
The benchmark has become a narrower expression of that story

While the concentration of the S&P 500 has been widely discussed, the MSCI EM Index has, in some respects, become even more top-heavy in 2026. By June-end, the AI-driven rally has pushed the top-10 concentration in MSCI EM to roughly 40%, above the S&P 500's ~36% and meaningfully above anything seen in the last two decades.

The shift in the composition has been just as material. A decade ago, the single largest constituent was only about 3% to 4% of the index, and the top ten names together made up less than 25%. Today, TSMC alone accounts for about 15%, with Samsung and SK Hynix contributing more than 8% and 7% respectively (as of 30 June 2026). Together, these three companies make up more than a quarter of the entire EM Index. The sector-level shift is just as telling. As of June 30, 2016, Financials led the index at ~26%, with Information Technology a close second at ~22%. Today, that relationship has reversed decisively: Technology has grown to roughly 44% of the index, while Financials have fallen to about 19%.

Performance leadership has narrowed. Korea and Taiwan together accounted for more than 90% of the EM index returns over the last 12 months; the Technology sector contributed more than 80% of index performance; and TSMC, Samsung, and SK Hynix alone drove over 60% of the performance (figure 4).

Figure 4: Narrow Performance Leadership – 1 Year Return Contribution



Source: State Street Investment Management, FactSet, as of 30 June 2026. One-year return , shown in USD, reflect both constituent weights and performance. Returns are gross of fee and exclude transaction costs. Past performance is not a reliable indicator of future results.

This concentration is not necessarily negative. TSMC, Samsung, and SK Hynix are among the most important companies globally, and their index weights largely reflect the central role of AI, data infrastructure, and advanced chip production in the current cycle.

However, this concentration in Asian technology names sits inside one global AI and semiconductor value chain that already drives much of US large-cap technology. TSMC makes the chips, Samsung and SK Hynix make the memory, and most of the demand behind both comes from the same US technology companies that already sit at the top of developed-market benchmarks. The geography is different, but the underlying demand drivers increasingly aren't – the semiconductor and AI value chain.

Recent market developments provide a useful reminder that concentrated leadership can amplify both upside and downside risks. Despite reporting record Q2 earnings, Samsung's shares declined sharply in early July (-16.9% MTD as of July 8th) as investors questioned the sustainability of AI-related spending and memory pricing. The subsequent market weakness illustrates how benchmark performance can become increasingly dependent on a single dominant theme when returns are driven by a small group of companies exposed to the same underlying growth engine.

Investment Implications

Owning emerging markets no longer automatically implies broad diversification across countries, sectors, or economic drivers. As index returns and risks become increasingly concentrated in companies linked to the global AI and semiconductor ecosystem, EM exposure today is more closely tied to a common set of technology drivers shared across global equity markets, potentially reducing some of the diversification benefits it has historically provided.

If the benchmark is becoming a narrower representation of the opportunity set, should investors be thinking differently about how they access the asset class?

While indexing remains an efficient, low-cost, and scalable way to gain EM exposure, the benchmark's changing composition makes implementation as important as the allocation itself. Investors concerned about concentration risk may wish to deploy a portion of their risk budget beyond the "standard" benchmark to uncover underrepresented sources of return not yet fully reflected in benchmark weights.

This is particularly relevant because the broad opportunity set within emerging markets extends well beyond the technology sector. While benchmark performance YTD has been dominated by a small group of semiconductor and AI-related companies, a large portion of the EM universe—including financials, consumer-oriented businesses, industrials and materials, and domestically focused companies—has participated far less in the rally. Many of these segments remain meaningfully below prior peaks despite generally constructive earnings outlooks and improving cyclical conditions. Should the macroeconomic backdrop continue to improve, there is scope for market leadership to broaden beyond the current set of winners.

For investors seeking a purer expression of the emerging market growth story, EM small caps may also warrant consideration. Unlike many large-cap EM companies that are closely tied to global supply chains and external demand, small-cap companies tend to derive a greater share of their revenues and earnings from local economies. Historically, their earnings growth has exhibited a stronger relationship with EM GDP growth, making them a more direct expression of the underlying emerging-market growth story.

Bottom Line

Emerging markets appear to be entering a favorable phase of the cycle, supported by stronger earnings and improving macro conditions. Yet, benchmark exposure is increasingly concentrated in a small group of companies linked to the global AI ecosystem. If the next leg of returns extends beyond today's dominant leaders, some of the compelling opportunities may lie outside the areas that have driven performance so far. Investors should therefore focus not only on whether to own emerging markets, but on whether their chosen implementation within the broad EM toolkit truly reflects the opportunity set they intend to capture.

Source: State Street Investment Management, FactSet, MSCI, S&P. Data as of 6/30/2026 unless otherwise stated. Total returns in USD unless otherwise stated. The performance data quoted represents past performance. Past performance does not guarantee future results. Investing involves risk, including the risk of loss of principal.

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