

Special Report

Emerging Capital Markets Newsletter – 1Q25



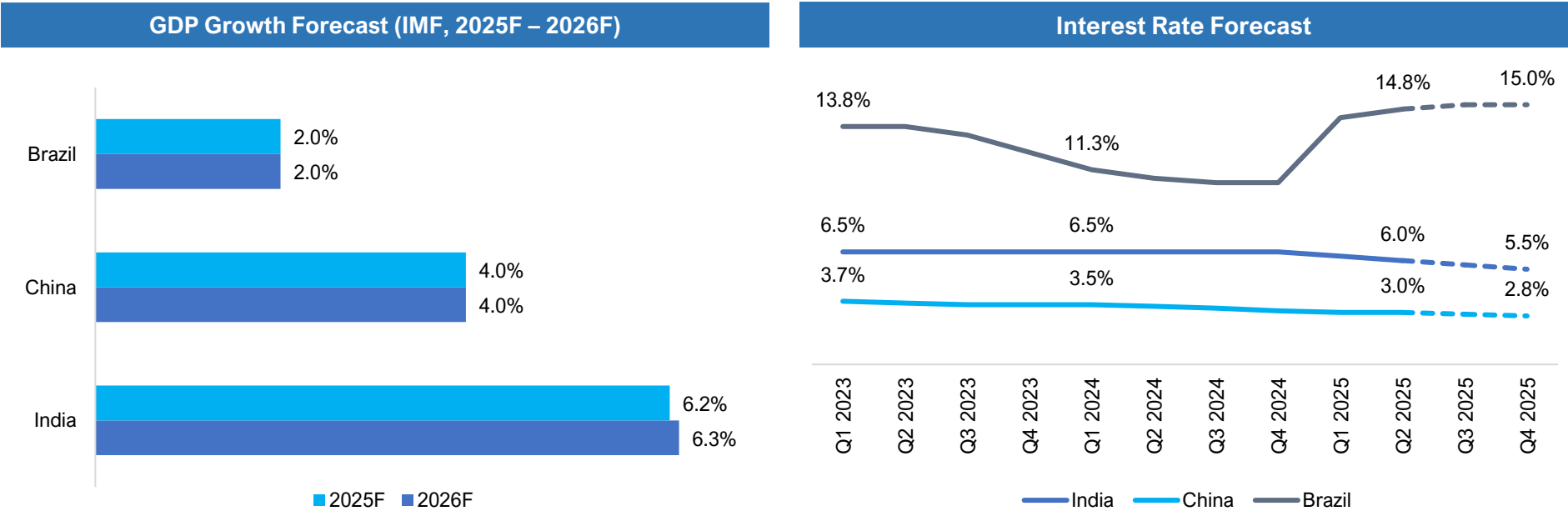
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GDP Growth Divergence Across Emerging Markets

India's Expansion Accelerates While China Stabilizes and Brazil Faces Structural Constraints

- India’s projected GDP growth by IMF of 6.2–6.3% in 2025-26 reflects strong domestic demand, a resilient services sector, and ongoing infrastructure investments. This positions India as a key destination for capital flows amid global economic uncertainty.
- With flat 4.0% growth IMF forecast, China’s economy is stabilizing but not accelerating, underscoring headwinds from a weak property sector, aging demographics, and subdued global demand—factors that are prompting further monetary easing.
- Despite the IMF’s modest 2.0% GDP growth projection, Brazil’s central bank is expected to continue monetary policy tightening, with pushing Selic rates to 15.0% by end-2025. This highlights the challenge of curbing inflation while supporting weak economic momentum.
- As India and China maintain or ease policy rates to support growth, Brazil’s hawkish stance introduces yield appeal but raises macro risk. Investors must navigate this divergence carefully in their emerging market allocations.



Source: Trading Economics and Aranca Research

Macroeconomic Performance

Contrasting Inflation and Employment Trends Signal Uneven Recovery Across Emerging Markets

Diverging Inflation Trends Across Major Emerging Economies																
Country	2024												2025			
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
India	5.1%	5.1%	4.9%	4.8%	4.3%	4.2%	3.6%	3.7%	4.8%	6.2%	5.5%	5.2%	4.3%	3.3%	3.3%	3.2%
China	0.9%	0.7%	0.6%	0.5%	0.4%	0.3%	0.5%	0.4%	0.3%	0.3%	0.2%	0.1%	0.5%	0.4%	0.3%	0.2%
Brazil	4.5%	4.5%	3.9%	3.7%	3.9%	4.2%	4.5%	4.2%	4.4%	4.8%	4.9%	4.8%	4.6%	5.1%	5.5%	5.5%

India, China, and Brazil showed distinct inflation trends from January 2024 to April 2025. India saw a cyclical pattern, with inflation easing mid-year before declining in 2025. China's inflation remained subdued throughout, staying below 1%. In contrast, Brazil experienced a steady rise in inflation, suggesting growing price pressures.

Manufacturing PMI Trends: India Surges Ahead, China Struggles, Brazil Balances																	
Country	2024												2025				
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
India	56.5	56.9	59.1	58.8	58.4	58.3	58.1	57.5	57.9	58.1	57.3	56.4	57.7	56.3	58.1	58.2	58.3
China	49.2	49.1	50.8	50.4	49.5	49.5	49.4	49.7	50.2	50.3	50.3	50.1	49.1	50.2	50.5	49.0	49.0
Brazil	52.8	54.1	53.6	55.9	52.1	52.5	54.0	50.4	53.2	52.9	52.3	50.4	50.7	53.0	51.8	50.3	NA

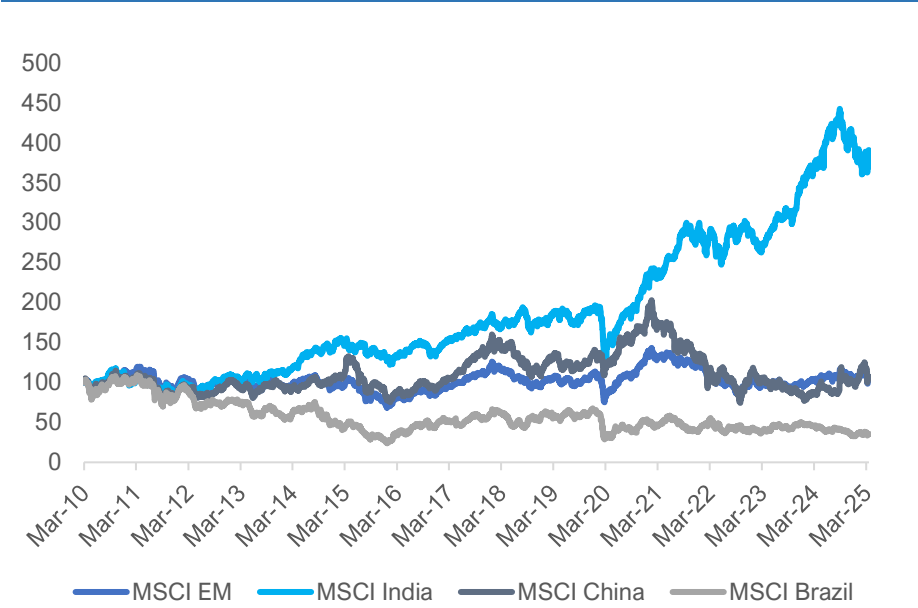
India's manufacturing sector led the way from Jan 2024 to May 2025, with consistently strong PMI readings well above 50, signaling robust and stable growth. In contrast, China's PMI mostly hovered below 50, reflecting persistent contraction risks, while Brazil showed moderate but uneven expansion amid external disruptions. The data highlights a clear divergence in manufacturing momentum among the three major emerging markets.

Source: Trading Economics

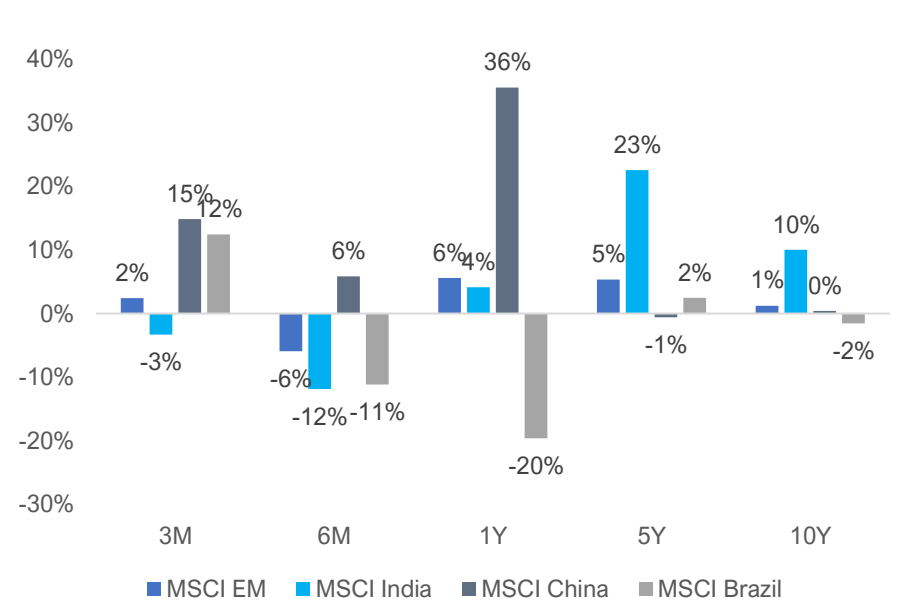
Equity Market Performance

China Rebounds on AI Optimism While India Sustains Decade-Long Outperformance

EM Market Index Returns (indexed to Mar'2010)



EM Index Performance over Time



EM equities delivered a mixed performance in Q1 2025, with divergence across regions. The MSCI China Index rose 15% during the quarter, buoyed by improved sentiment and AI-driven optimism, particularly around DeepSeek. India underperformed, as the MSCI India Index came under pressure amid persistent FII outflows and rising concerns over a potential growth slowdown. Brazil rebounded with a 12% gain, recovering from a soft end to 2024. The rally was supported by increasing commodity prices and signs of easing inflation. However, Brazil's long-term equity performance remains lackluster, with flat returns over the past 10 years, well behind regional peers.

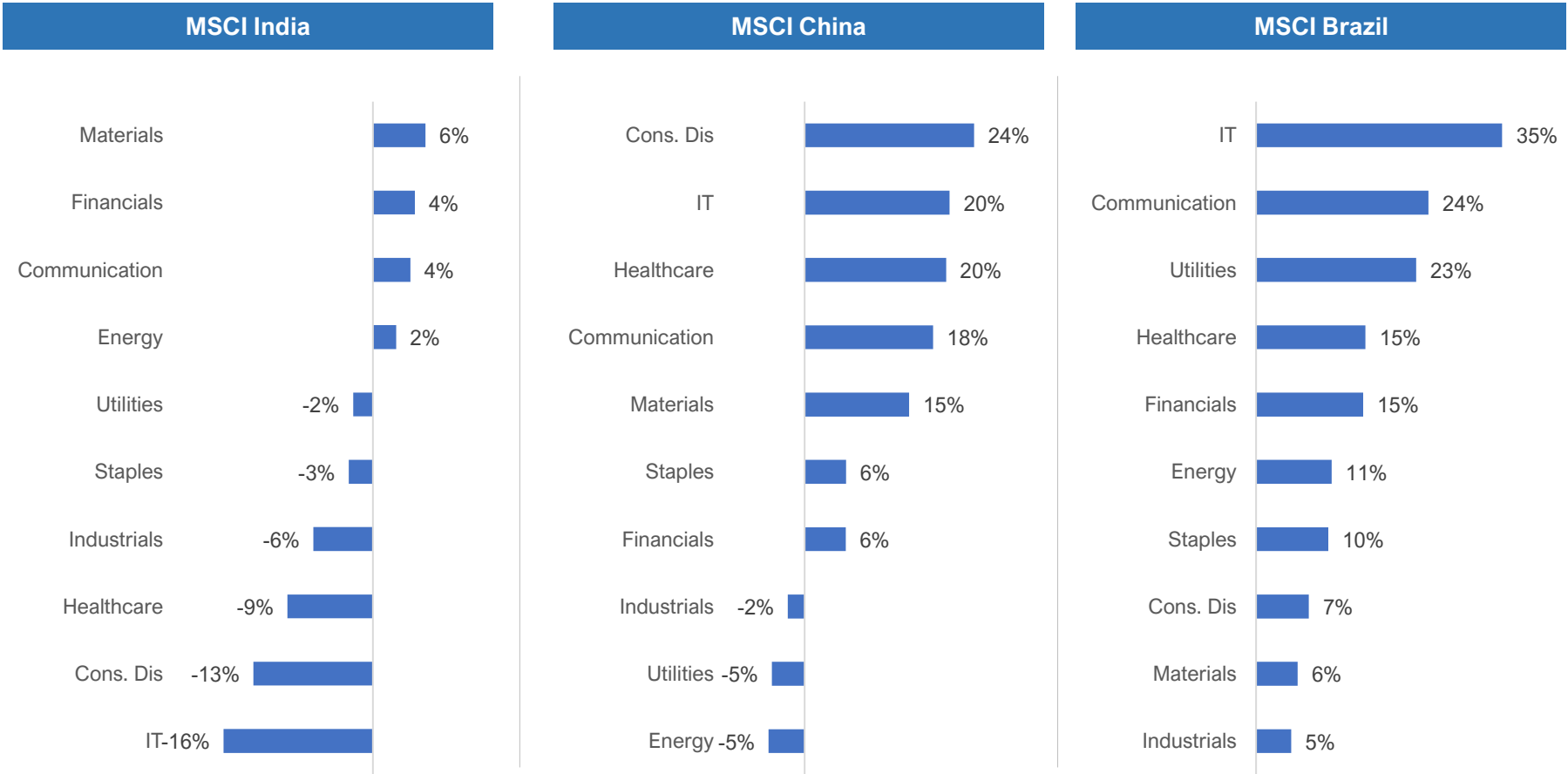
Over the past decade, India has outpaced its EM counterparts. The MSCI India Index has delivered an annualized return of 10%, compared with just 1% for the MSCI EM Index, and negligible returns for Brazil and China, highlighting the structural strength of India's equity market amid broader EM volatility.

Source: Bloomberg, 5-year and 10-year returns are annualized; returns in local currency

Sector Performance

India Slips, China Rises, Brazil Advances

India faces sectoral headwinds, particularly due to underperformance in the tech sector. China leads in Consumer Discretionary (+24%) and IT (+20%), reflecting a rebound in domestic demand and tech optimism. Brazil shows broad-based positive performance led by tech and defensive sectors.

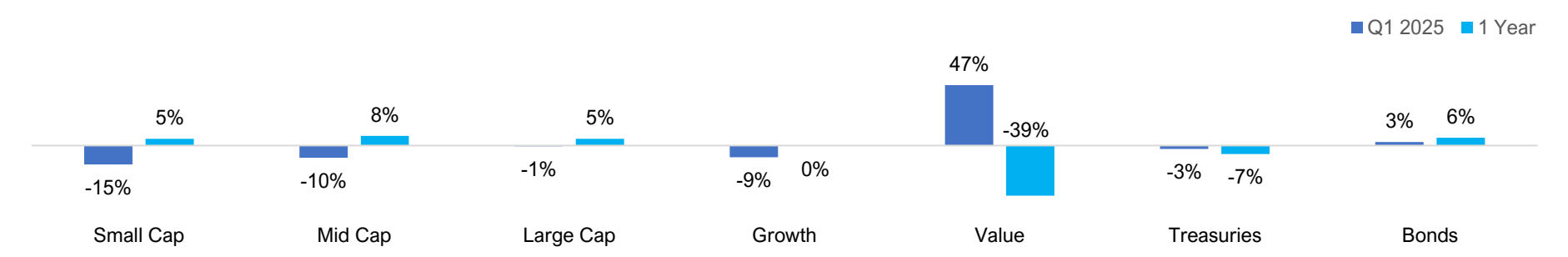


Source: Bloomberg

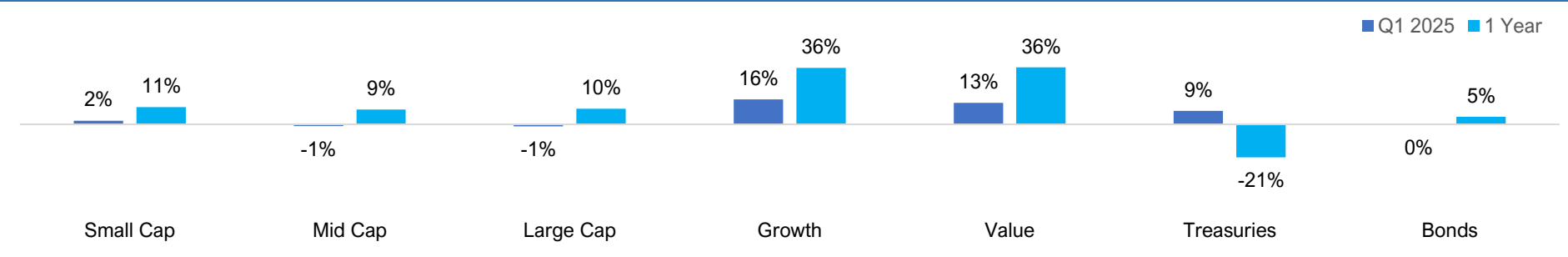
Divergent Returns Across Equity Styles and Fixed Income

India Showed Wide Asset Class Dispersion, China Delivered Broad-Based Equity Gains, and Brazil Saw Resilience in the Bond Market Despite Weakness in the Equity Market

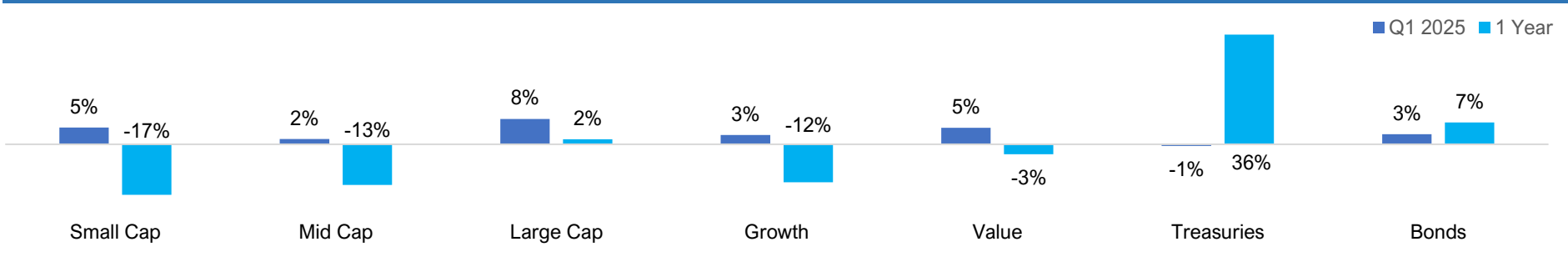
India – Asset Class Performance – 1Q25 and 1-Year



China – Asset Class Performance – 1Q25 and 1-Year



Brazil – Asset Class Performance – 1Q25 and 1-Year



Source: Bloomberg

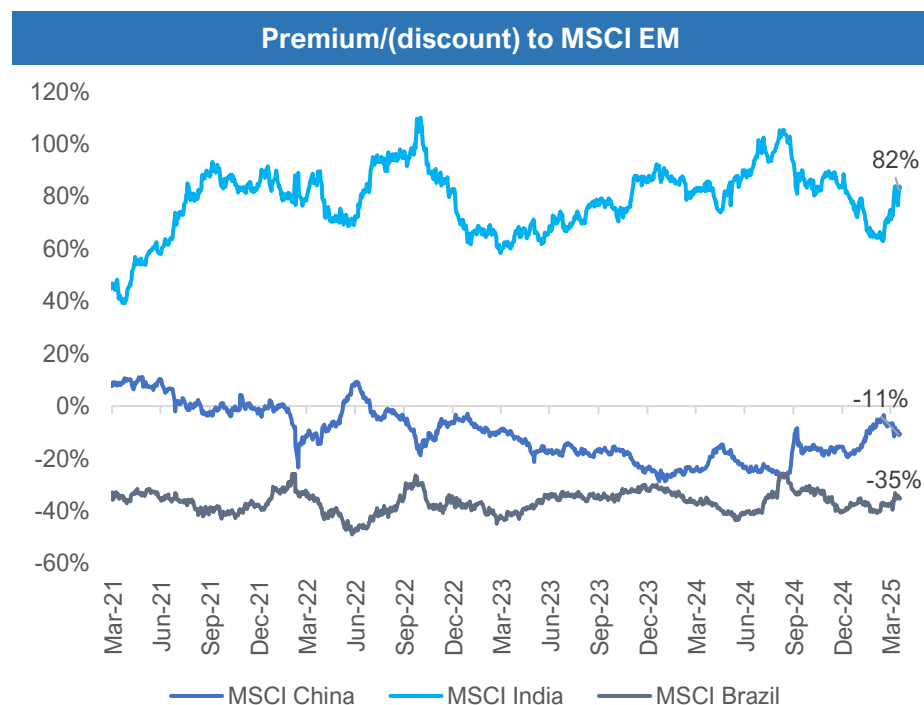
EM Valuation Comparison

EM Valuations Diverge: India Stays Expensive, China and Brazil Offer Deep Value



India trades at a consistent premium (21x P/E), supported by strong growth and investor confidence. China remains deeply discounted (11.2x P/E), reflecting macro and regulatory overhang. Brazil trades at the lowest (7.5x P/E), with limited rerating despite easing rates.

The MSCI EM Index trades at a moderate 12x P/E, indicating relative undervaluation compared to DM markets, but with country-level divergence remaining wide.



India trades at a premium of ~82% to MSCI EM, reflecting investor confidence in its structural growth story, despite recent moderation from peak levels.

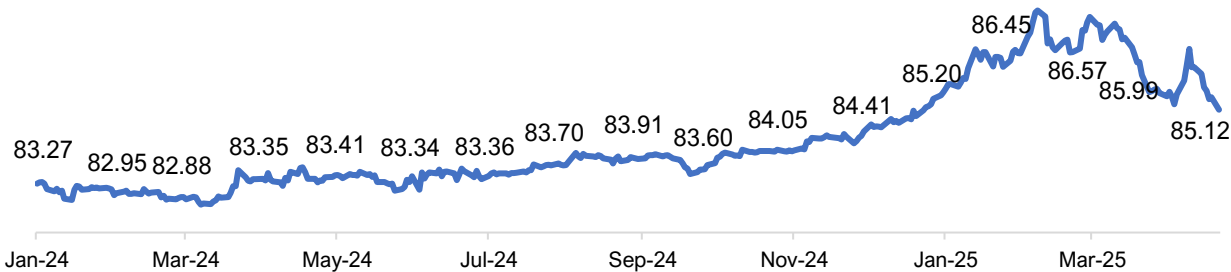
China continues to trade at a discount of ~11% vs. MSCI EM, highlighting persistent concerns overgrowth and policy overhang.

Brazil remains discounted by ~35% due to macro uncertainty and relatively low visibility on earnings growth.

US Tariff Impact on Currencies

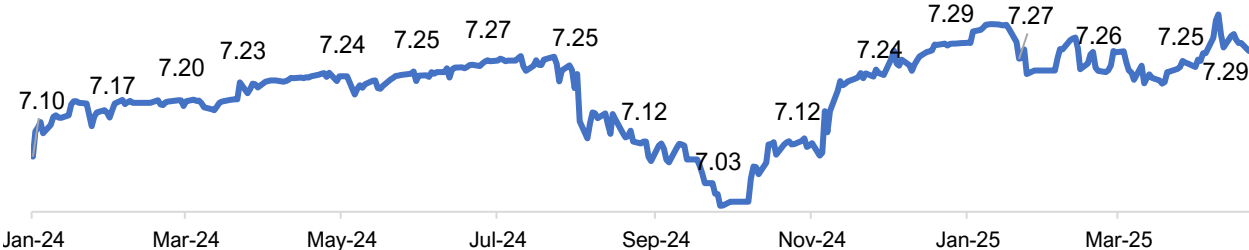
US Tariffs Triggered Currency Pressure Across Emerging Markets, with INR, CNY, and BRL Reacting to Trade Disruptions, Policy Shifts, and Domestic Vulnerabilities

India (INR/USD)



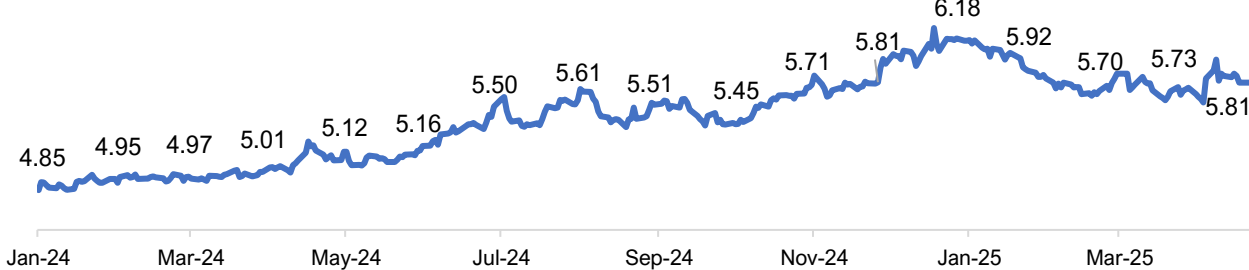
Higher US tariffs could weaken the INR by dampening export competitiveness, widening the trade deficit, and increasing risks of imported inflation. Investors may watch for RBI intervention, potential adjustments in monetary policy, and shifts in capital flows as key factors influencing the INR's near-term trajectory.

China (CNY/USD)



Higher US tariffs could pressure the CNY by weakening exports, increasing volatility in trade surplus, and raising capital outflow risks amid sluggish domestic demand. Markets will watch for PBOC liquidity support, FX intervention shifts, and fiscal stimulus to stabilize external and internal balances.

Brazil (BRL/USD)



The Brazilian real (BRL) weakened amid escalating US-China trade tensions, particularly following the imposition of 145% tariffs on Chinese goods - fueling global uncertainty and dampening emerging market sentiment. Domestically, fiscal concerns and elevated inflation expectations have intensified fears over rising debt and economic instability.

Source: Bloomberg



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