

Special Report

# Emerging Capital Markets Newsletter – 4Q25

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# Macroeconomic Performance

## Diverging Inflation and PMI Trends Indicate an Uneven Recovery Across Emerging Markets

### Diverging Inflation Trends Across Major Emerging Economies

Country	2025											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
India	4.3%	3.6%	3.3%	3.2%	2.8%	2.1%	1.6%	2.1%	1.4%	0.3%	0.7%	1.3%
China	0.5%	-0.7%	-0.1%	-0.1%	-0.1%	0.1%	0.0%	-0.4%	-0.3%	0.2%	0.7%	0.8%
Brazil	4.6%	5.1%	5.5%	5.5%	5.3%	5.4%	5.2%	5.1%	5.2%	4.7%	4.5%	4.3%

Over the year, India, China, and Brazil exhibited distinct inflation trends. India showed a cyclical pattern, with inflation easing mid-2024, declining through 2025, and spiking in December due to food price increases. China's inflation remained subdued throughout, staying below 1%. Brazil saw a steady rise in inflation, followed by a decline from October through December, driven by soft price pressures across key components.

### Manufacturing PMI Trends: India Declines, China Struggles, Brazil Balances

Country	2025											
	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec
India	57.7	56.3	58.1	58.2	57.6	58.4	59.1	59.3	57.7	59.2	56.6	55.0
China	49.1	50.2	50.5	49.0	49.0	49.7	49.3	49.4	49.8	49.0	49.2	50.1
Brazil	50.7	53.0	51.8	50.3	49.4	48.3	48.2	47.7	46.5	48.2	48.8	47.6

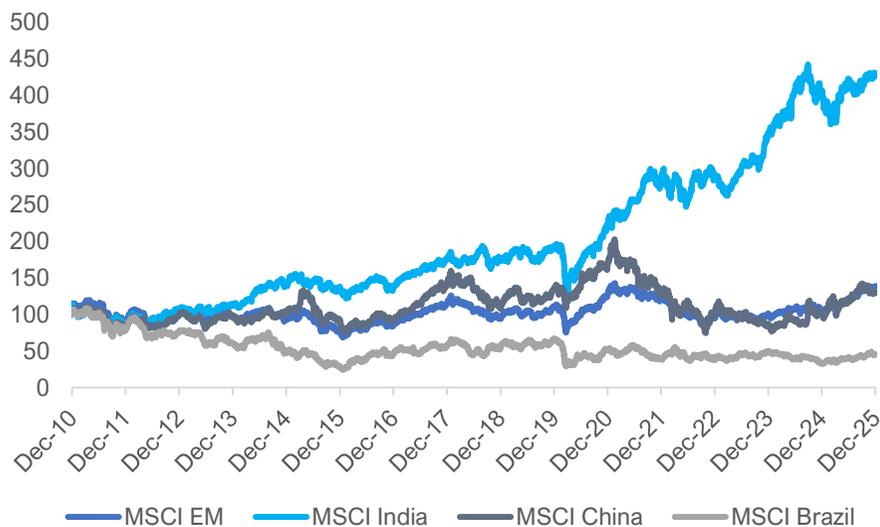
India's manufacturing sector led growth, though it eased from September levels due to softer new orders and challenging market conditions. However, PMI readings remained above 50, signaling continued and stable expansion. China's PMI mostly stayed below 50, crossing the mark in December as new orders picked up amid price competition and global uncertainty. Brazil experienced a moderate but sudden decline in December, driven by weak new business and soft demand. Overall, the data highlights a clear divergence in manufacturing momentum among the three major emerging markets.

Source: Trading Economics

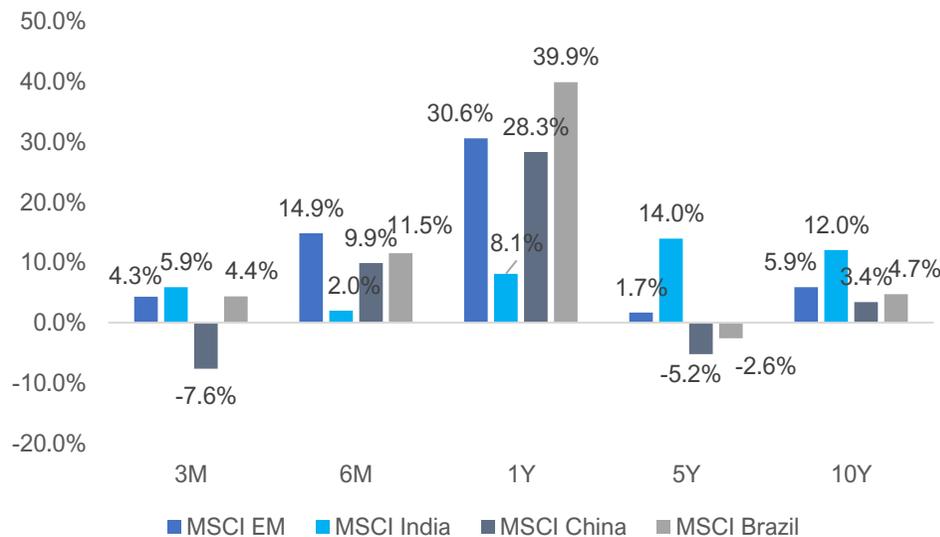
# Equity Market Performance

## China Rebounds on Tech Optimism While India Sustains Decade-Long Outperformance

EM Market Index Returns (indexed to Dec'2010)



EM Index Performance over Time



- EM equities were mixed in 4Q 25, reflecting significant divergence. India's index rose ~6%, supported by strong domestic growth, policy measures, earnings resilience, and benefits from the China+1 supply-chain shift.
- China's index declined due to weak macro indicators, geopolitical tensions, and ongoing tariff and trade policy risks.
- Brazil continued to show optimism, driven by attractive valuations, commodity strength, supportive macro conditions, and improving investor sentiment ahead of potential policy easing.
- Over the past decade, India has outperformed its EM counterparts. While the EM index, along with China and Brazil, delivered moderate single-digit growth, India achieved an impressive 12% CAGR. This highlights the fundamental strength of Indian equities, supported by multiple structural factors that enable India to outperform even during normal growth phases.

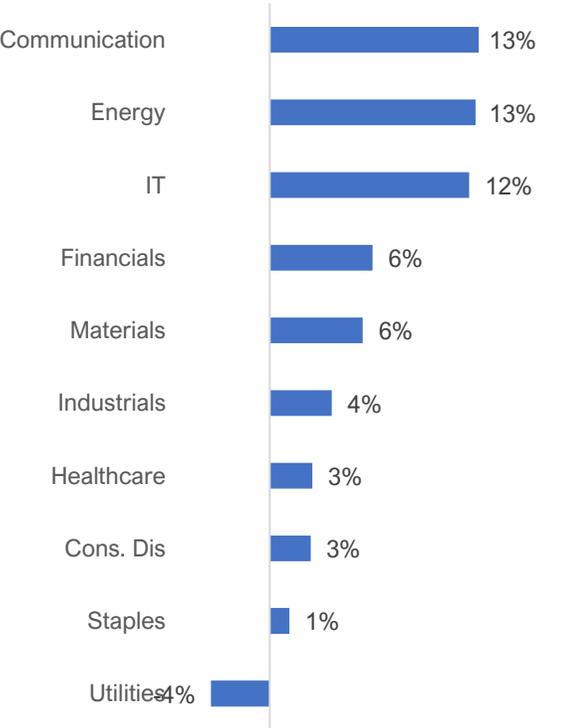
Source: Bloomberg, 5-year and 10-year returns are annualized; returns in local currency

# Sector Performance

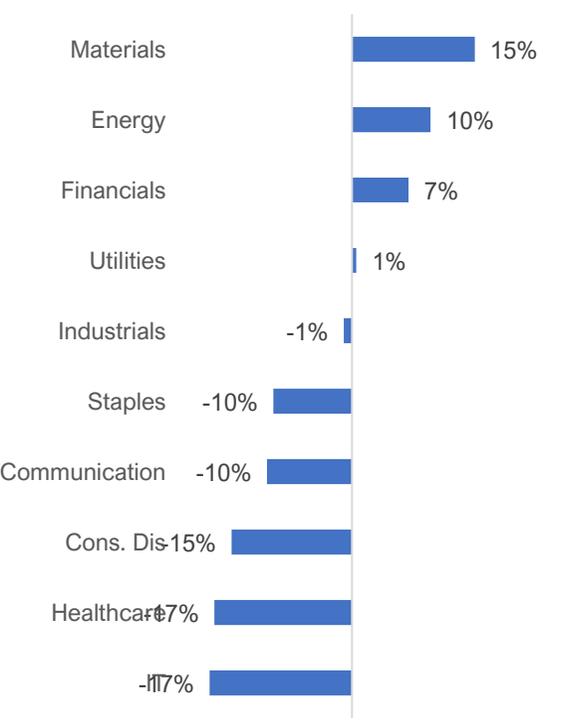
India leads; China and Brazil See Mixed Performance.

India advanced on broad-based sectoral recovery, led by Communication and Energy (up 13%), driven by the China+1 supply-chain shift and supportive easing policies. China showed mixed sectoral performance amid geopolitical tensions, regulatory overhangs, and soft domestic demand. Brazil posted broad gains, supported by economic easing and strong cyclical momentum.

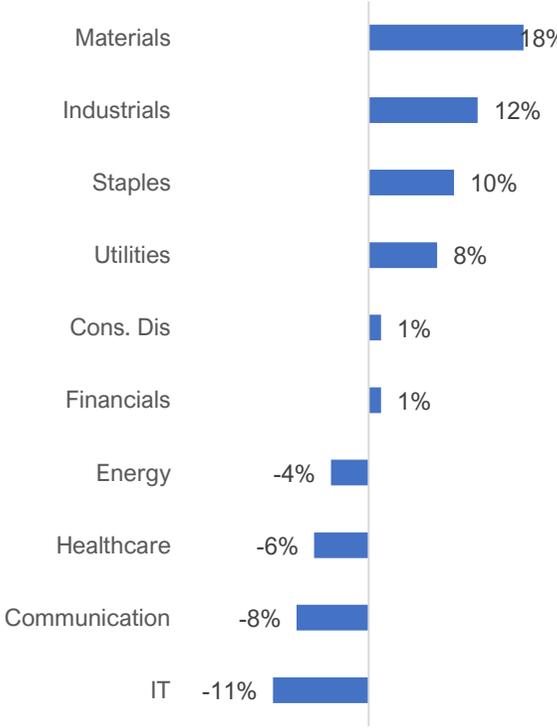
**MSCI India-4Q25 Sectoral Returns**



**MSCI China- 4Q25 Sectoral Returns**



**MSCI Brazil-4Q25 Sectoral Returns**

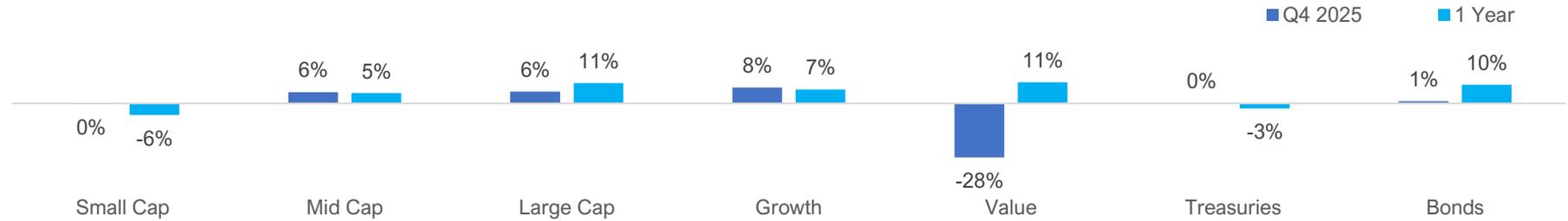


Source: Bloomberg

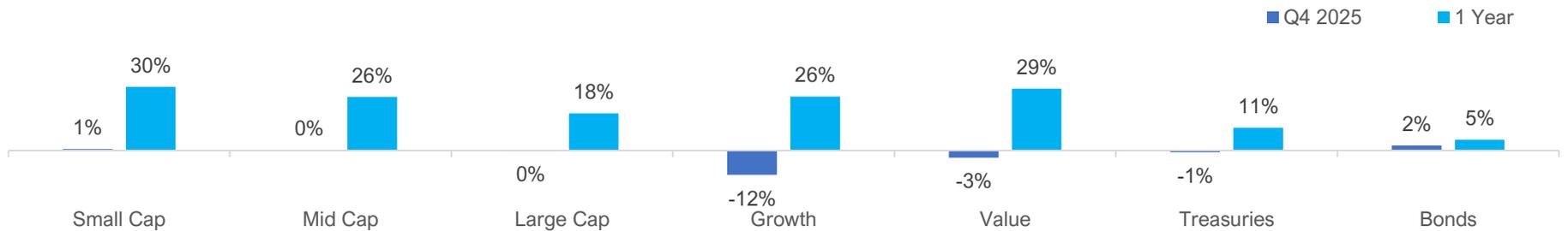
# Asset Class Performance

India was widely dispersed, China mixed, and Brazil broadly positive across asset classes.

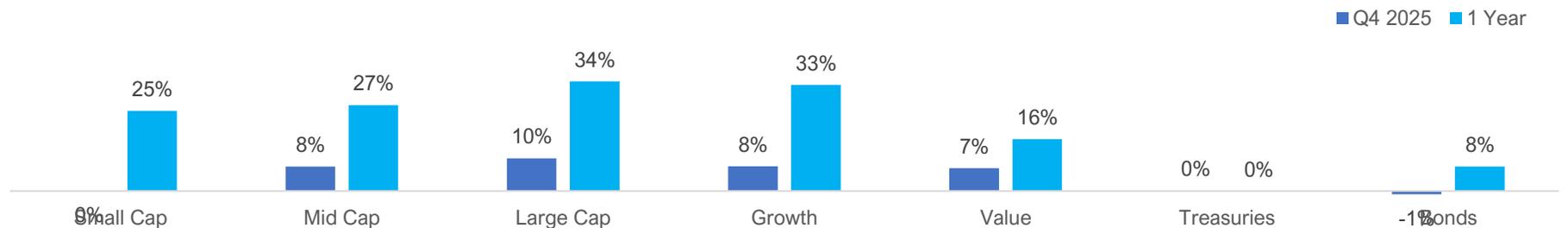
## India



## China



## Brazil

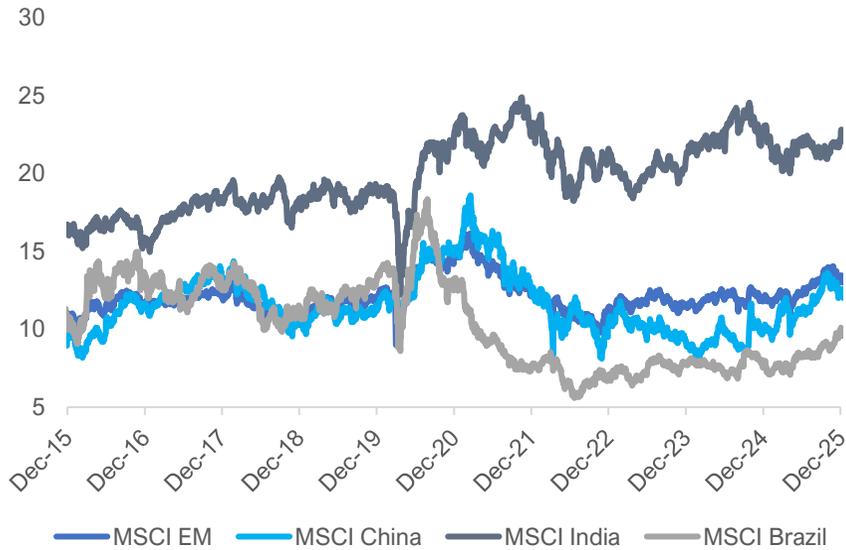


Source: Bloomberg

# EM Valuations Comparison

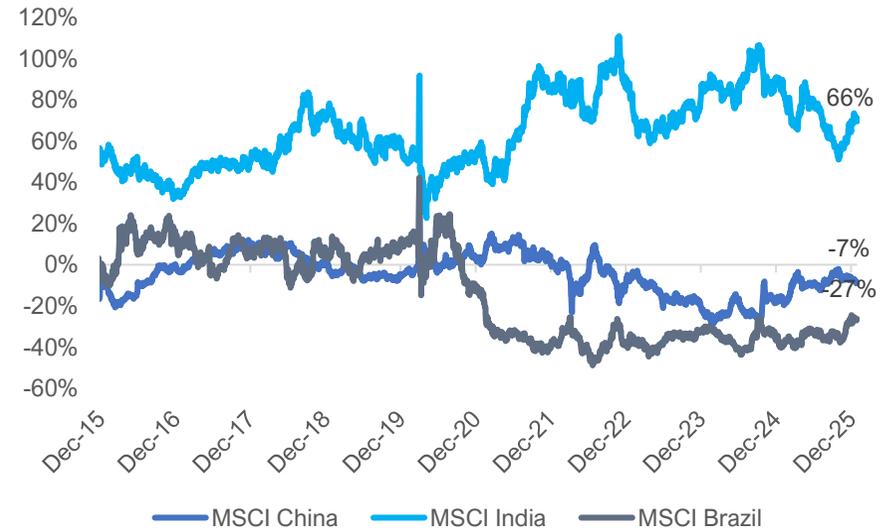
India Stays Expensive, China neutralizes and Brazil Offer Deep Value

1-year forward P/E



- India's 23× P/E reflects solid earnings, confidence, and growth, yet hints at rising valuation risk.
- China remains discounted (12× P/E) due to macro and regulatory overhang.
- Brazil trades the lowest (10× P/E) with limited rerating despite easing rates.
- At 13.2× P/E, MSCI EM shows relative undervaluation, though country volatility is significant..

Premium/(discount) to MSCI EM

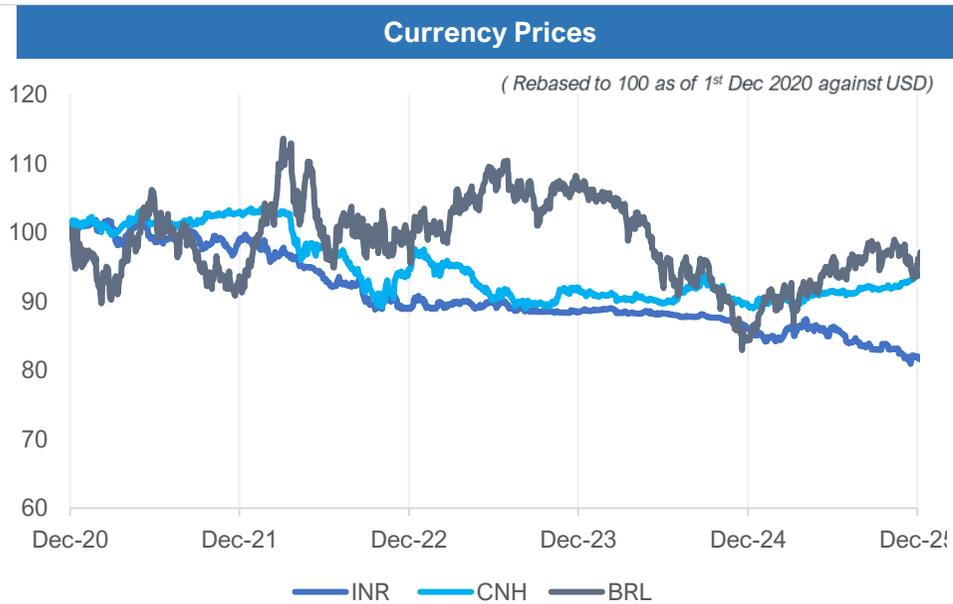


- India trades at a premium of ~66% to MSCI EM, reflecting investor confidence in its structural growth story, despite recent moderation from peak levels.
- China continues to trade at a discount of ~7% vs. MSCI EM, highlighting persistent concerns overgrowth and policy overhang.
- Brazil remains discounted by ~27% due to macro uncertainty and relatively low visibility on earnings growth.

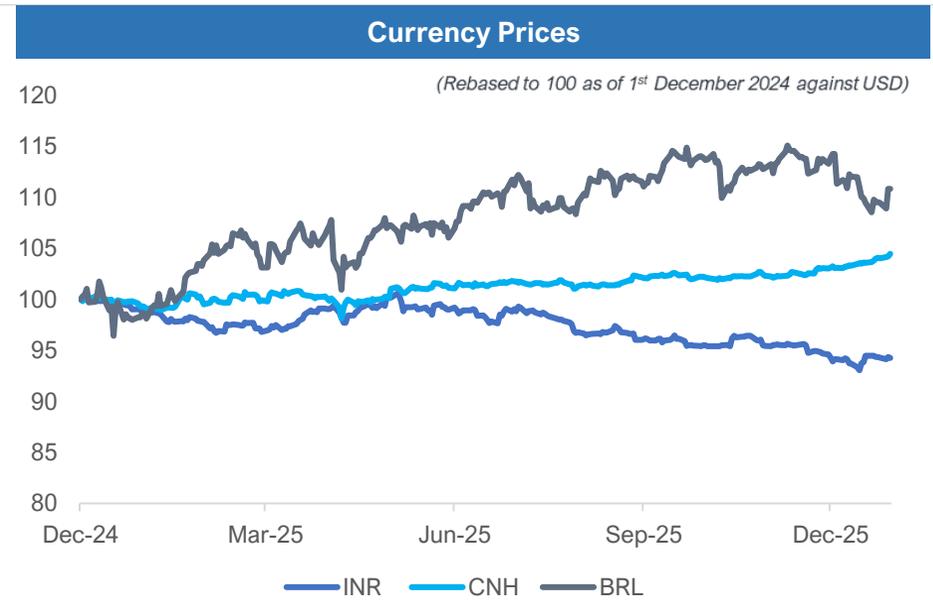
Source: Bloomberg

# Currency Comparison

India depreciates, China stabilizes , and Brazil remains volatile.



- From 2020–2025, currency moves in India, China, and Brazil were driven by dollar cycles, domestic conditions, and policy responses.
- The Rupee weakened during COVID and 2022 tightening, then stabilized on growth, RBI support, and inflows.
- The Yuan rose in 2020 but later weakened amid slow growth, property strains, and geopolitics, though policy action capped losses.
- Brazil’s Real was volatile—falling in 2020, rebounding on the commodity boom and high rates in 2021–22, then fluctuating on fiscal and policy concerns.



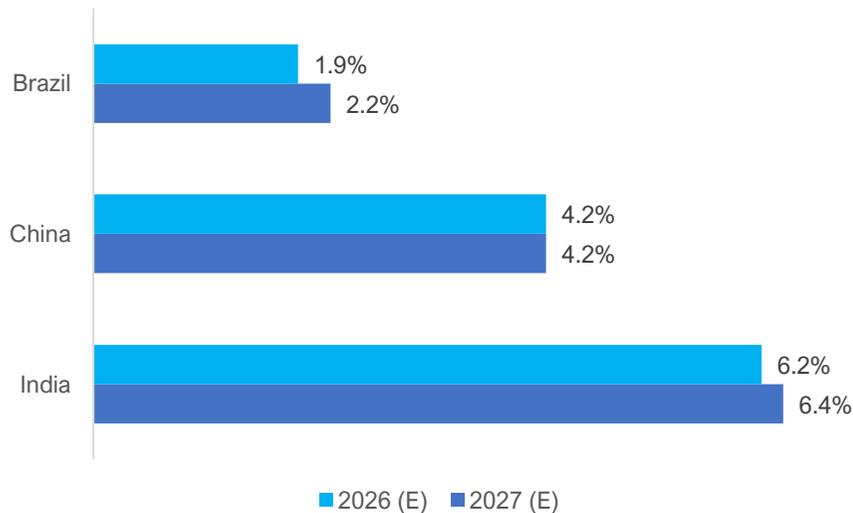
- Currencies across India, China, and Brazil reflected shifting US policy, capital flows, and local macro conditions.
- The Rupee depreciated amid strong dollar pressure, high imports, FPI outflows, and global uncertainty, despite solid domestic growth.
- The Yuan stayed stable, aided by exports, policy support, and inflows, though weak domestic demand and property stress capped gains.
- Brazil’s Real remained volatile, driven by fiscal, rate, and global risk shifts, with commodity prices adding swings.

# Economic Outlook

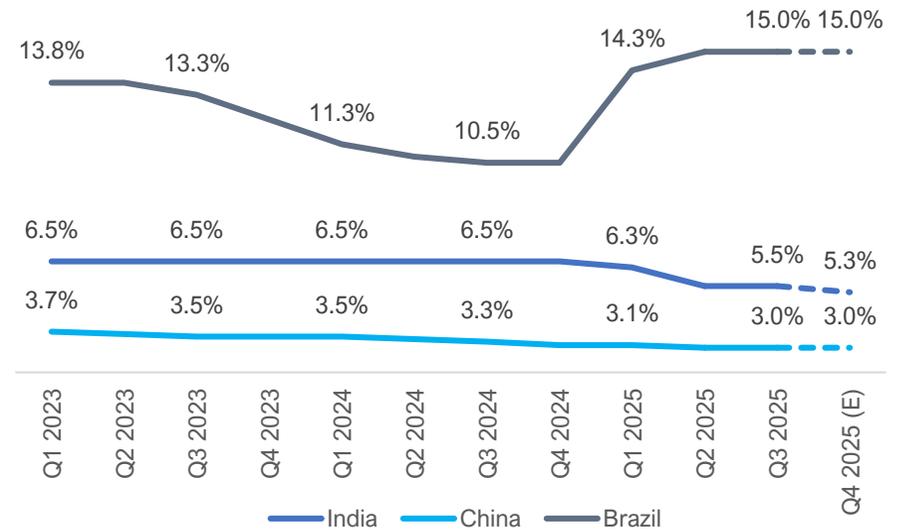
## India's Momentum Accelerates, China Stabilizes, and Brazil Transitions Into a Growth Phase

- India's projected GDP growth of 6.2–6.4% for 2026 and 2027 reflects strong domestic demand, expanding urban discretionary spending, and robust investment activity driven by government infrastructure spending and PLI schemes aimed at boosting production.
- China's flat 4.2% growth outlook for 2026 and 2027 reflects persistent structural headwinds, including a prolonged property-sector slowdown, weak household confidence, an ageing population, soft external demand, and geopolitical pressure.
- Brazil's modest 1.9% and 2.2% growth forecast for 2026–2027 reflects slight domestic demand recovery and improving labor markets. Interest rate hikes have stopped, but rates remain high due to inflation risks.
- 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 within their emerging market allocations.

GDP Growth Forecast (IMF, 2026E – 2027E)



Interest Rate



Source: IMF, Trading Economics and Aranca Research



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