

Special Report

Emerging Capital Markets Newsletter – 3Q25



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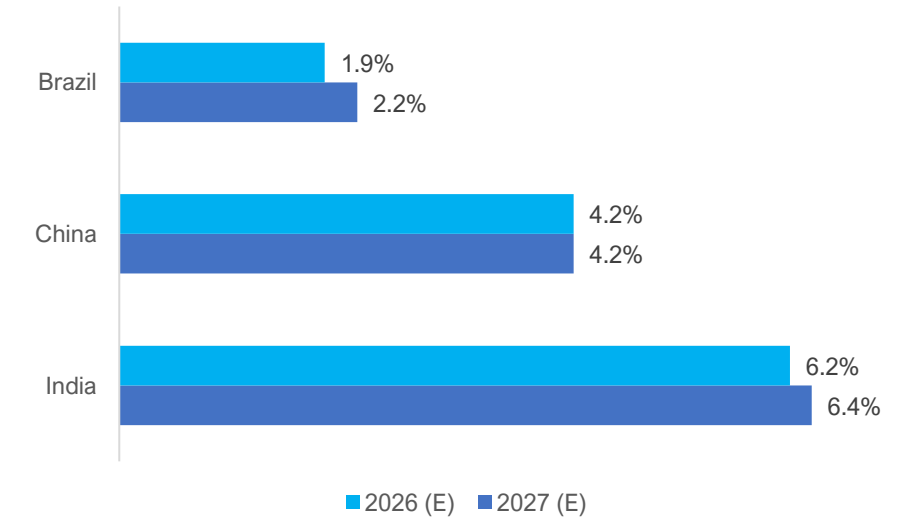
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Macroeconomic Performance (1/2)

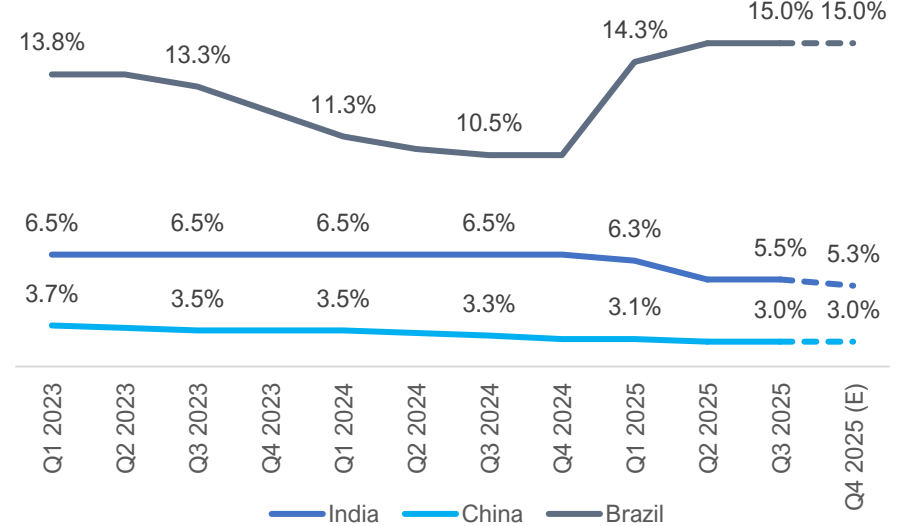
India’s Momentum Accelerates, China Stabilizes, and Brazil Transitions Into a Growth Phase

- 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 additional 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 pressures.
- Brazil’s modest 1.9% and 2.2% growth forecast for 2026–2027 reflects slight domestic demand recovery and improving labour 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 in their emerging market allocations.

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



Interest Rate



Source: IMF, Trading Economics and Aranca Research

Macroeconomic Performance (2/2)

Diverging Inflation and PMI Trends Indicate an 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	May	Jun	Jul	Aug	Sep
India	5.1%	5.1%	4.9%	4.8%	4.8%	5.1%	3.6%	3.7%	5.5%	6.2%	5.5%	5.2%	4.3%	3.6%	3.3%	3.2%	2.8%	2.1%	1.6%	2.1%	1.4%
China	-0.8%	0.7%	0.1%	0.3%	0.3%	0.2%	0.5%	0.6%	0.4%	0.3%	0.2%	0.1%	0.5%	-0.7%	-0.1%	-0.1%	-0.1%	0.1%	0.0%	-0.4%	-0.3%
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%	5.3%	5.4%	5.2%	5.1%	5.2%

India, China, and Brazil showed distinct inflation trends from January 2024 to Sep 2025. India saw a cyclical pattern, with inflation easing mid-year before declining in 2025 mainly due to a drop in food prices. China’s inflation remained subdued throughout, staying below 1%. In contrast, Brazil experienced a steady rise in inflation followed by a drop in October as inflation slowed across multiple sectors.

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	Jun	July	Aug	Sep
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	57.6	58.4	59.1	59.3	57.7
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	49.7	49.3	49.4	49.8
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	49.4	48.3	48.2	47.7	46.5

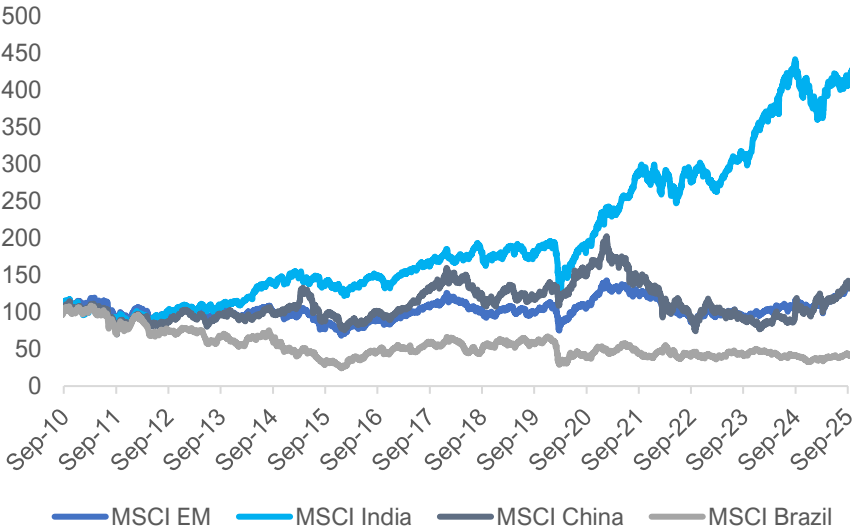
India’s manufacturing sector led the way from Jan 2024 to Aug 2025, slipping in Sep 2025 due to softer new-order inflows and challenging market conditions, though PMI readings remained well above 50, signaling robust and stable growth. In contrast, China’s PMI mostly hovered below 50 amid price competition and global uncertainty, while Brazil showed moderate but uneven expansion driven by weak domestic and external demand. The data highlights a clear divergence in manufacturing momentum among the three major emerging markets.

Source: Trading Economics

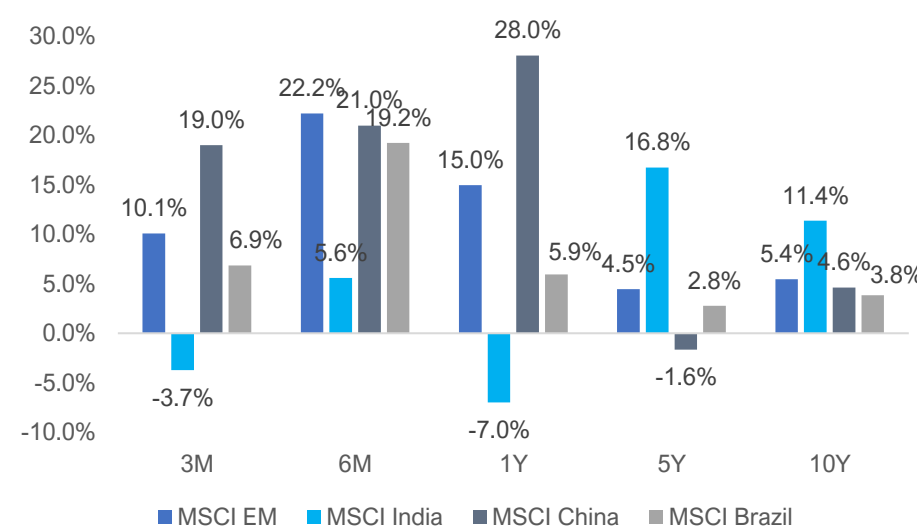
Equity Market Performance

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

EM Market Index Returns (indexed to Sep'2010)



EM Index Performance over Time



EM equities were mixed in 3Q25, showing significant divergence. China's index rose by around 19%, driven by strong performance in big tech, semiconductor companies, and AI-linked sectors. India's index declined due to continued FII selling pressure, moderate growth expectations, and softer domestic consumption, even with recent GST easing intended to support demand. Brazil continued to show optimism, supported by attractive valuations, expectations of monetary easing, solid economic growth, and moderate inflation

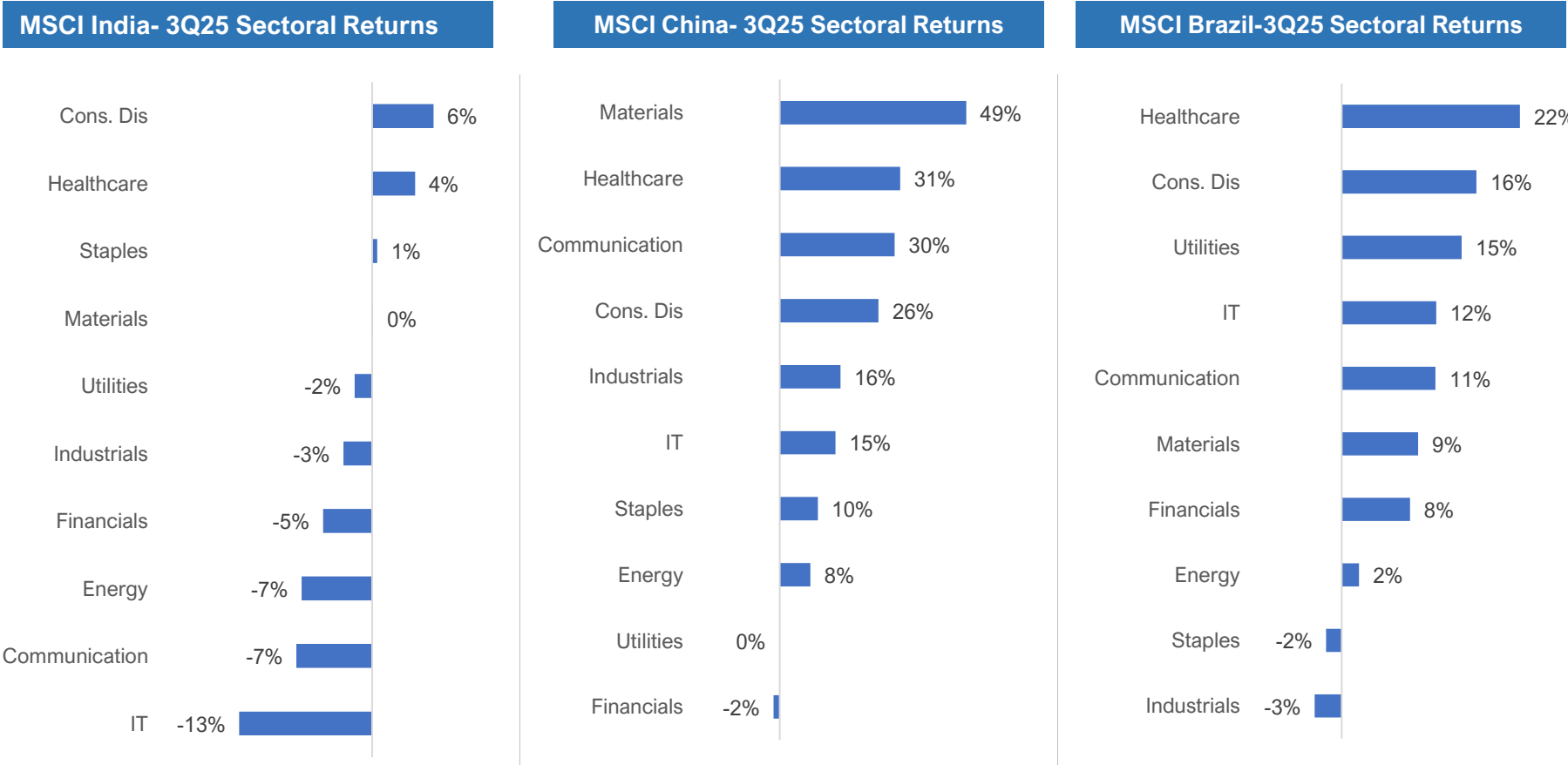
Over the past decade, India has outperformed its EM counterparts. While the EM index, along with China and Brazil, delivered moderate single-digit growth, India achieved an impressive 11.4% CAGR. This highlights the fundamental strength of Indian equities, supported by multiple structural factors that 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 Slips, China Rises, Brazil Advances

India slipped as IT underperformed, and despite some stability, current valuations still pose headwinds. China’s Materials sector (+49%), along with growing Healthcare and Communication, reflects improving domestic demand. Brazil was led by Healthcare, Utilities, and Consumer Discretionary, showing strong tailwinds in domestic spending capacity.



Asset Class Performance

India Showed Wide Asset Class Dispersion, China Delivered Broad-Based Equity Gains, and Brazil Showed Mixed Reactions Across Asset Classes.

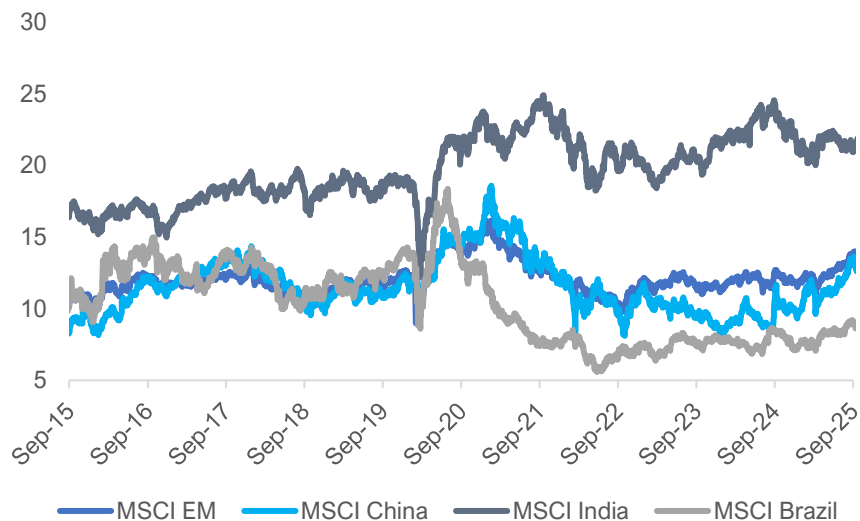


Source: Bloomberg

EM Valuations Comparison

India Stays Expensive, China and Brazil Offer Deep Value

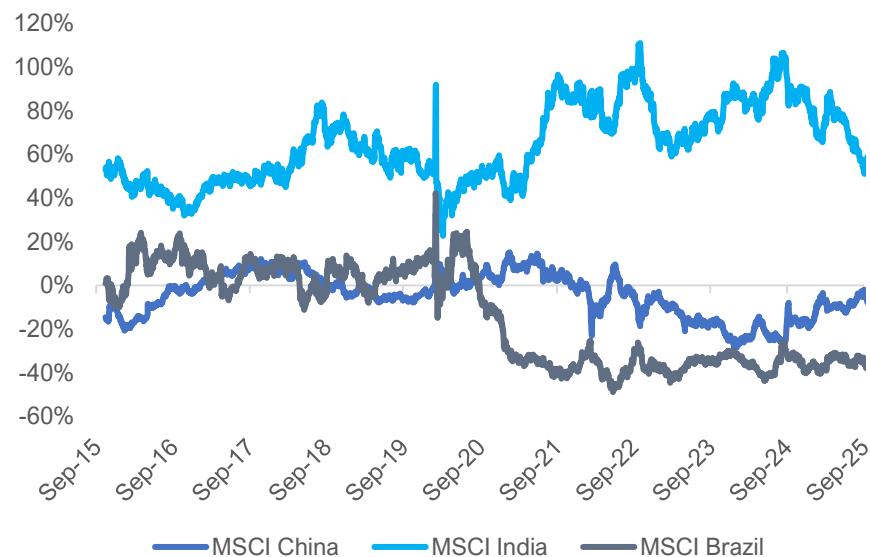
1-year forward P/E



India trades at a consistent premium (22× P/E), supported by strong investor confidence, corporate earnings, and stable GDP growth, though showing early signs of high valuation risk. China remains discounted (12.5× P/E) due to macro and regulatory overhang, while Brazil trades lowest (10× P/E) with limited rerating despite easing rates.

The MSCI EM Index trades at a moderate 13.4× P/E, with relative undervaluation versus DM markets, though significant country-level volatility persists.

Premium/(discount) to MSCI EM



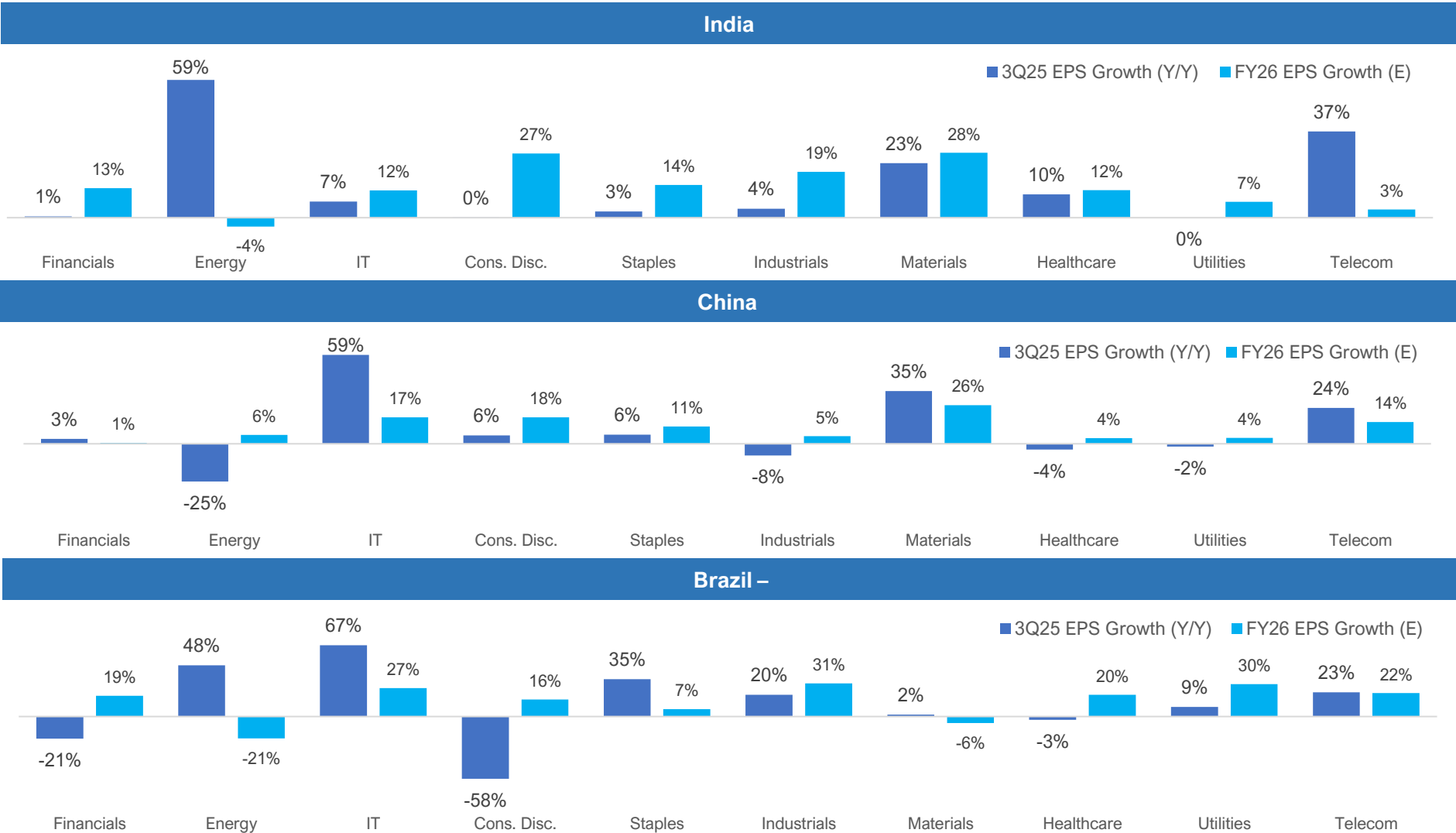
India trades at a premium of ~66% to MSCI EM, reflecting investor confidence in its structural growth story, despite recent moderation from peak levels.

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.

Sectoral Earning Performance

India Shows Broad-Based Earnings Optimism, China IT Outperforms, and Brazil Delivers Mixed Earning Performance across sectors.



Source: Bloomberg



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Global Clients

500+

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multi-disciplinary domains

120+

Sectors and sub-sectors
researched by our analysis

80+

Countries where we have
delivered projects

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