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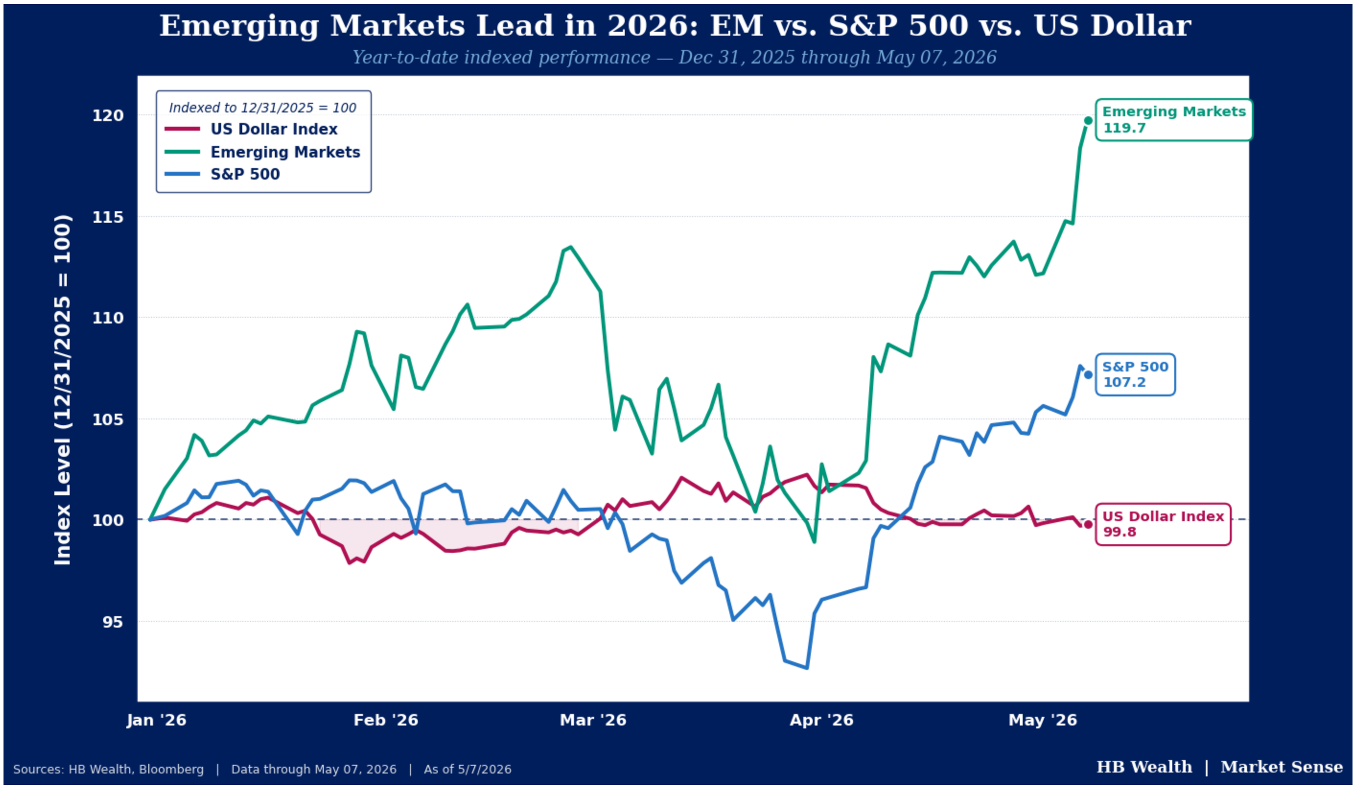
Market Sense – Emerging Markets are Outperforming and Getting Cheaper at the Same Time

May 8, 2026

Emerging Market equities are on pace for a second consecutive year of outperforming U.S. stocks, the first back-to-back annual outperformance since 2010. So far this year, the group has outperformed U.S. large caps by more than 2X, up nearly 20% versus the S&P 500's gain of 7%.

Notably, emerging market equities have risen without valuation expansion – the group has only gotten cheaper this year, and forward P/E is just 12X thanks to consensus estimates for very strong EPS growth over the next year. This compares to the S&P 500's 21X and offers considerable cushion for any downward adjustments to expectations that may occur if war in the Middle East becomes a bigger issue for earnings growth. The group has also not gotten any support from the dollar, which has gone nowhere for six months.

Of the dozen largest emerging markets, half are outperforming the U.S. while half are underperforming. Korea and Taiwan are in the lead given tech concentration, while Brazil, Thailand, Columbia and Peru are all also outperforming U.S. stocks. Heavyweights China and India have lagged the U.S. Sector cross currents are similar to those facing domestic stocks – for the year tech (up 64.8%) and industrials (up 29.1%) are leading with AI-heavyweights Taiwan Semiconductor, Samsung Electronics and SK Hynix among the largest contributors to EM returns.



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