Navigating Emerging Markets

The next growth cycle

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Has AI Overshadowed Emerging Markets' Biggest Long-Term Opportunity?

For much of the past two years, the story of emerging markets has become almost synonymous with the rise of artificial intelligence, driven by the extraordinary performance of semiconductor manufacturers and memory chip producers in Taiwan and South Korea.

These have seen exceptional returns, propelling a handful of companies to dominate emerging markets indices. For many investors across the world, AI has become the dominant investment narrative, and AI-related stocks quite rightly deserve a place in investment portfolios.

Yet beneath the headlines, another story continues to unfold. It is less dramatic, receives far less attention, but continues to prove to be an enduring source of long-term returns: the emerging markets consumer.

Speaking at Aubrey Capital Management and LarrainVial's *Navigating Emerging Markets: The Next Growth Cycle* event, Founder, Director and Chief Investment Officer **Andrew Dalrymple** argued that while AI has captured investors' imagination, the structural drivers underpinning consumer growth across emerging markets remain as compelling as ever.

"*We don't know what the price of copper or oil will be next year*," he said. "*But we do know there will be more Indians owning their own property, riding their own motorcycle or owning a car. That is pretty much guaranteed.*"

It is a philosophy that has shaped Aubrey's investment approach for over 20 years. As explained at the event, rather than attempting to predict commodity prices or geopolitical events, Dalrymple focuses on identifying businesses that benefit from rising prosperity, increasing urbanisation and improving living standards.

While emerging markets remain vulnerable to cyclical shocks, consumer behaviour tends to follow far more predictable patterns. As incomes rise, households spend more on housing, healthcare, financial services, travel, education and technology. These structural trends may take a back seat during periods of market volatility, but they rarely reverse.

That long-term outlook remains supported by powerful demographic tailwinds. Emerging markets account for around half of the world's population and are home to approximately one billion millennials and one billion members of Generation Z, many of whom are now entering their prime earning years. At the same time, rapid urbanisation continues to create higher-paying jobs as millions move from rural communities into cities.

Rising affluence is equally important. Oxford Economics estimates that hundreds of millions of additional households will enter the global middle class over the next decade, significantly expanding demand for goods and services. For investors, this creates opportunities across a far broader range of sectors than is often recognised, from financial services and healthcare to e-commerce, travel and education.

This stands in contrast to the current composition of emerging markets indices, which have become increasingly concentrated around AI-related technology companies. The extraordinary success of businesses such as TSMC, Samsung Electronics and SK Hynix has transformed index construction. Together, these three companies now account for more than a quarter of the MSCI Emerging Markets Index, reflecting both their operational success and investors' enthusiasm for AI infrastructure.

For Dalrymple, this concentration strengthens rather than weakens the case for active management.

Passive investors inevitably become more exposed to a small number of companies as their market capitalisations grow. Active managers, however, retain the flexibility to look beyond index weightings and identify opportunities where long-term fundamentals remain intact, but investor attention has shifted elsewhere.

Aubrey has participated in the technology rally where company valuations and fundamentals justified doing so. But technology is viewed as one component of a broader structural growth story rather than the story itself.

Instead, the firm continues to focus on businesses that make people’s lives better, more convenient and more comfortable, with companies benefiting from rising disposable incomes and changing lifestyles rather than short-term market narratives.

The AI revolution will undoubtedly continue to shape emerging markets for years to come. Yet as Dalrymple's presentation demonstrated, today's technology leaders represent only one chapter of a much larger investment story.

Demographics, urbanisation and rising prosperity continue to reshape developing economies across Asia, Latin America and beyond. While these structural forces may not generate the same headlines as AI, history suggests they are likely to prove every bit as powerful in creating long-term shareholder value.

For investors willing to look beyond today's dominant narrative, the emerging markets consumer remains one of the most compelling long-term growth opportunities in global markets.

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