The Coming Consumer Boom in Emerging Markets

2025 was a good year for Emerging Markets ("EM"), but it was not a good year for the broad EM consumer sectors in which Aubrey GEM typically invests. The key sectors we focus on languished at the bottom of the stack. Consumer Staples and Real Estate were the worst, with merely single-digit gains, followed by Health Care. The Consumer Discretionary sector managed double-digit gains, but only about half those of the index. Only Communication Services, where the likes of Tencent lurk, kept pace with the index. Needless to say, top of the pile were Materials and IT.

But what ails the EM consumer, and will that change in 2026? We believe that it boils down to the inflationary cycle and the impact on real incomes, which look decidedly more interesting in 2026. Much has been written about the 2025 commodity boom in precious and industrial metals. What is less discussed is the significant price declines in both the energy complex and softs. But what matters more to the vast majority of consumers in emerging markets: gold and copper, or fuel and food? Clearly the latter.

Overall, EM inflation is now below Developed Market inflation on average, and yet growth is notably higher. High growth and low inflation sound a bit like Goldilocks, who we remember resided in the US for many years.

Rural wages in India are growing at 7% today, helped by a series of good harvests and the ever-generous state governments, yet rural inflation is below 2%. Real wage growth of 5% is probably the highest it has ever been for any length of time and bodes very well for the likes of Mahindra & Mahindra, the world's largest maker of tractors (at least by number!).

From Brazil to Thailand, and even China, real interest rates are far too high and, in most places, are about to come down. EM central banks remain cautious, mindful of both the US Fed and currency stability. But as the reality of disinflation sets in, this is changing, and cuts are coming, sooner or later. Among urban consumers, mortgages are often the highest cost, so lower rates provide a direct boost.

Brazil is perhaps the extreme example where the benchmark Selic rate stands at 15%, with government bond rates about 14%, while its CPI stands at 4.3%. Mortgage rates are lower, at about 10.5%, but that is still a real rate of over 6%. Consumer-focused businesses have found this environment very tough in recent years. However, this looks set to change, as indicated by the central bank at its January meeting.

What of AI and the impact on jobs, and isn't youth unemployment in double figures? Clearly it is too early to answer the first, but our bet is that productivity improvements should offset the negatives and there will be new avenues of employment. Has anyone come across any forward deployed engineers or data annotators? Semiconductor engineers and pharma scientists in China today have never had it so good, and corporate financiers in Shanghai are in demand as the technology IPO boom unfolds.

More importantly, the roughly 95% who are employed (assuming 5% unemployment, or 85%/15% for the embattled youth segment) should benefit from disinflation through steadier income growth and a lower cost of living. The much-discussed property downturn has weighed on households for the past five years, and spending behaviour remains selective and far from exuberant. There are, however, tentative signs that confidence is beginning to stabilise, at least once you look beyond the Covid-induced reset.

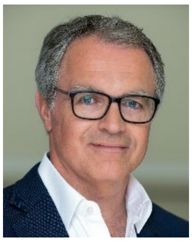
According to CLSA, household savings have risen from Rmb 525tn in 2019 to Rmb 666tn today, while property as a share of household assets has fallen from 45% to 35%. The overhang from property is diminishing, while latent spending power keeps rising as real wages increase. The government is certainly trying to encourage consumption through subsidies, preferential lending and by investing in "human capital and (social) safety nets".

The feature of rising real incomes and lower rates is common across emerging market countries, to a lesser or greater degree. The markets may still all be about AI today, particularly the massive infrastructure build-out. The 'picks and shovels', if you like, which include semiconductors, IT hardware and metal commodities. But when that phase peaks, which it will, there will be renewed focus on the real beneficiaries, which will be the adopters and users of AI, and ultimately, the consumers.

We believe the coming consumer boom will materially broaden the investment opportunities.

Biography

Rob Brewis | Investment Manager



Rob is a Director of Aubrey, and Investment Manager of the Global Emerging Markets Strategy. He joined the firm in 2014.

An engineering graduate from Cambridge University, Rob began his career in 1988 at Thornton Management in London. Then he spent ten years in Hong Kong as an Asian fund manager with Credit Lyonnais International Asset Management. This company was later bought by Nicholas Applegate and then Colonial First State, where Rob ran the North Asian investment team as well as managing the Asian Special Situations Fund and a number of single country funds investing in India, Pakistan, Indonesia and Thailand.

He then went on to co-found emerging markets investment boutique BDT Invest LLP in London in 2000. Whilst at BDT, Rob co-managed a number of emerging market portfolios as well as the BDT Asian and Oriental Focus Funds.

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