

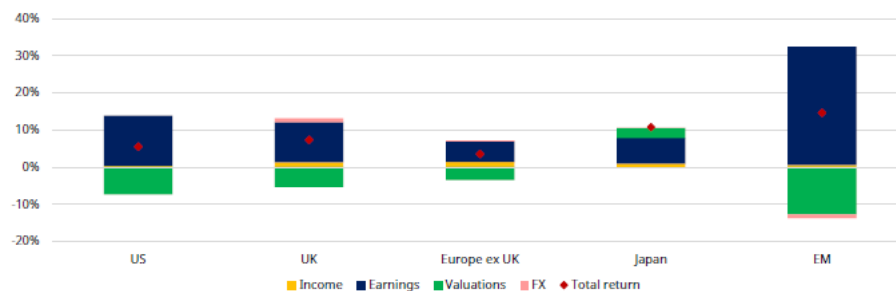
Equity earnings are on the up, with emerging markets leading the way

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Strong earnings growth has been the story behind equity returns over the past decade, and continues to underpin global markets today. Although markets are up, valuations in several regions have become cheaper as earnings growth has accelerated.

Strong fundamentals are powering equities: markets are up but valuations are cheaper, thanks to earnings

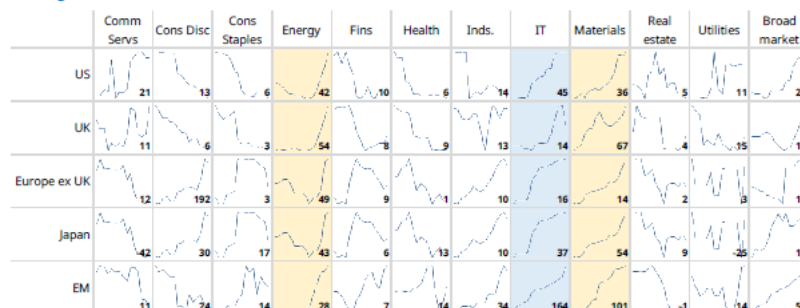
Decomposition of drivers of 2026 YTD returns to 30 April, USD terms



The outlook for earnings growth remains broadly positive across all major regions, with emerging markets forecast to lead in 2026. The information technology (IT) sector is expected to deliver particularly strong earnings this year, alongside energy and materials companies. However, the outlook begins to diverge in 2027, with rapid IT earnings growth expected to continue while energy earnings are forecast to weaken.

IT sector earnings are forecast to soar this year, as are energy and materials companies

Consensus: 2026 sector EPS growth %, sparklines show how this has evolved since start of 2026, numbers show latest growth forecast



Despite the broader picture of elevated market valuations, emerging markets, the UK and Europe continue to trade on relatively undemanding valuations relative to next 12 months' earnings. Smaller companies also remain on depressed valuations relative to larger peers.

Taiwan surpasses China in MSCI Emerging Markets Index weighting

The growing dominance of technology-related earnings is also reshaping emerging markets indices. Taiwan recently overtook China as the biggest market in the MSCI Emerging Markets Index, while Korea's weighting has also continued to rise.

Taiwan has just overtaken China as biggest market in MSCI Emerging Markets index. Korea on the rise too

Weight in MSCI Emerging Markets index



Highly concentrated indices, index weight of largest stocks



TSMC = Taiwan Semiconductor Manufacturing Company. Source: LSEG Datastream, MSCI and Schroders. Data as at 30 April 2026. Please see relevant disclaimers on page 53

These are highly concentrated markets, with TSMC accounting for 57% of MSCI Taiwan, while Samsung and SK Hynix make up 54% of MSCI Korea. All three companies are closely correlated with the AI trade, highlighting the extent to which investors' emerging markets exposure is increasingly tied to a relatively small number of technology stocks.

Value equities as a hedge against AI concentration risk

This concentration raises a broader portfolio construction question. For investors heavily exposed to AI-driven growth, diversification within equities is becoming more important. One potential counterbalance is value investing. Historically, value equities have exhibited lower correlation to technology-heavy segments and have tended to be more resilient during periods when these stocks come under pressure.

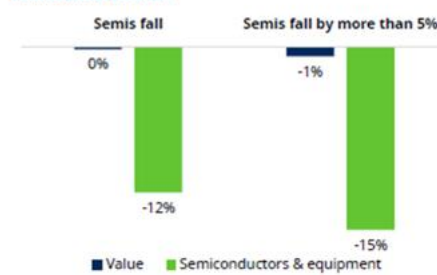
Consider value equities as a hedge against AI-risk, without sacrificing equity exposure

Low correlation and significantly better outcomes in down-markets for AI-stocks

Rolling 24-month correlations: S&P 500 pure value vs S&P 500 semiconductors & equipment index



Median quarterly return in quarters where semiconductors fall



Past performance is not a guide to future performance and may not be repeated. Value is S&P 500 pure value total return index, semis are S&P 500 semiconductors and equipment total return index. Semiconductors used as a proxy for AI-stocks. Data covers 30 June 1996 (inception of S&P 500 semiconductors & equipment index) to 31 December 2025. Right hand chart isolates those quarters where semis fell in value; non-overlapping periods are used. Source: LSEG Datastream, S&P and Schroders. Please see relevant disclaimers on page 53

However, a passive approach to value investing is unlikely to shield investors from AI concentration risk. Most indices still retain meaningful allocations to large technology names, including the "Magnificent Seven". This overlap can dilute the diversification benefits investors might expect from a value allocation. Investors seeking a genuine hedge to AI-driven concentration risk may therefore need to look beyond standard passive approaches and consider more selective implementations of value strategies.