

TRANSCRIPT: EPISODE 387

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[INTRODUCTION]

James Yardley (JY): Hello and welcome to the Investing on the go podcast. Today we're gonna be talking about Asia and global emerging markets, and I'm joined by Patrick Garvin, the client portfolio manager for the Invesco Asian and Invesco Global Emerging Markets fund. Patrick, thank you so much for joining us today.

Patrick Garvin (PG): Thank you, thanks for having me.

Staci West: *Please note the following interview took place days before the US attack on Iran at the end of February 2026. Views may have changed.*

[INTERVIEW]

JY: Now Patrick, I mean, Asia and emerging markets had a pretty good run in 2025. Can the strong returns continue this year as well?

PG: Yeah, no, it's great to be talking about the asset class with such a positive perspective. I think that if we look, go back to what was the components that were driving the return last year, obviously we saw quite a significant re-rating for Asian in emerging markets. But there was also quite a significant contribution from earnings growth as well specifically given the AI driven up cycle in technology.

So look going forward into 2026, I think it's gonna be more about that delivery of earnings going forward. And we've already seen quite significant upward revisions to consensus expectations for earnings per share growth specifically given strength of growth in technology. But you know, the scope for that to broaden out as well into other sectors. But it certainly feels like moving into 2026, I think an active approach is certainly going to be oriented.

TRANSCRIPT: EPISODE 387

But look, I mean also this period of outperformance for in EM. I think also we need to think about it on a relative basis as well, because the asset class has underperformed relative developed markets for, you know, 10 to 15 years now. I mean, there's been discreet periods about performance but there are signs that we may be reaching a bit more of an inflection point. We're in an environment where liquidity is likely to remain easy. By which I mean, you know, central banks have been easing monetary policy, so they've been cutting interest rates. The dollar has also been weak and that's been a help. We have China getting closer to the bottom of its cycle after a period of slower growth. And the authorities there are being much more constructive in the need to support the consumer and stabilise market support the property market in particular.

JY: Well let's go into those in a little bit more detail then. So, I mean, as you say, one of the things I guess which has changed in recent years is this weaker dollar now. I mean, for many years we've had a stronger dollar and obviously with the geopolitical situation and with the things which Trump has been doing, he seems to be happier for a weaker dollar. So I mean, do you expect the dollar will continue to weaken and be this big tailwind for Asia and emerging markets? Which it typically is, or can Asia and emerging markets perform regardless of what the dollar does?

PG: I think the first thing to say is we're not currency experts, but a softer dollar has historically been the tailwind for EM assets because, you know, it supports growth. It lowers real rates. So it makes it, you know, eases financial conditions. And we've seen funding costs for emerging market companies come down over the last couple of years. It's also supportive for commodity prices and you know there is quite a high correlation between commodity prices and emerging market earnings per share. And it also attracts capital inflows from investors looking to seek higher returns outside of the US. But you know, the last year was a weak year for the dollar, probably the weakest that we've seen since since 1973 when the US left the gold standard. But when you look at it, look at the valuation metrics for the US dollar, it still appears pretty overvalued on most measures, whether that be by real effective exchange rates or on purchasing power parity.

But this narrative around US exceptionalism has continues to be challenged given the, you know, policy uncertainty coming out of the current administration. And that's only increasing the argument for investors to seek greater diversification. And while we get some mixed messaging from the US, it does feel like they continue to prefer to have a weaker dollar. And so if the dollar stays weaker, EM assets should continue to benefit.

JY: And one of the big concerns which Asian investors have had is this Chinese property weakness, which has been persisting for a while. I mean, you mentioned there that we might be getting to the bottom of that, is that fair to say? I mean, where are we in this big cycle? Is China improving now? Is consumer confidence coming back?

PG: I think we're closer to the end, to the downturn in the property cycle than the beginning. I think the first thing to say is, you know, the downturn is being partly engineered going back over 10 years. You know, the authorities were clearly concerned about the buildup of financial risk within the system, particularly over leveraged private sector property developers, which saw them, you know, try to constrain the access to credit that these developers had with the three red lines that they were announced in 2020/21. And that was a policy that they adhered to during the pandemic, which, you know, with hindsight, we can probably look back at and say perhaps was a policy misstep considering how that, you know, weighed on consumer sentiment.

But what we've seen in the last 12-24 months is there's been a change in direction of policy from the authorities that the leadership is now have acknowledged the problem and have pledged to deal with it. And

TRANSCRIPT: EPISODE 387

that's clearly resorted some confidence to the real estate sector. But what we've seen over the last 12 months is that prices has again, rolled off, I think, you know, from their peak residential property prices in China are down 25% more so in some of the smaller cities. And, you know, we look at new home sales last year, you know, they were down 10% roughly year on year, on a square meter basis. And that's less than half the value in terms of transactions that there was at the peak. So it is a key risk that the authorities are, you know, keen to address. But I think it's still not a priority for Xi, who appears still to be prepared to let the market do its job in terms of reset a reset to prices.

There's clearly a need to stabilise the situation, but I think he's prefers to just let the market clear naturally without major government intervention. Now what does this mean for the consumer? Obviously, you know, household, the value of property accounts for, you know, roughly 70% of assets for urban households. But this big draw down that we've seen in the property market hasn't created the financial crisis that we saw in the United States, for example, in the GFC. And that's because the property market in China is slightly different because there's much higher cash down payment requirement for new houses. There's also strict mortgage due diligence processes and also what we've seen over the last or since the pandemic is a steady buildup in savings.

So China naturally has a high savings rate. We've seen that increase even more, I think \$10 trillion increase in half in savings deposits for Chinese households since 2020. So we feel that it's not a crisis of household balance sheets that an organic consumer recovery can come. But you know, it's likely to be a gradual process. And we're not trying to set up our portfolios to benefit from it, but there's clearly opportunity in Chinese consumer stocks at the moment, given how deeply discounted valuations still are.

JY: And what are your thoughts on the geopolitics at the moment? I mean, do investors need to worry about China and Taiwan or further trade wars?

PG: Yeah, geopolitics is always very tricky to navigate, and I think the current environment is as tricky as it's been for a while. And I think, you know, going back to what Mark Carney was saying and Davos recently about, you know, this rupture in the world order and it's, you know, and when we look at the equity risk premiums, when we look at valuations, I think it's the hardest thing to try and price well. And I think often markets often react quite wildly to when geopolitics are in the headlines before settling back to undisturbed levels.

When we look at the China Taiwan risk, I think there's a recency bias here with happened in Russia with investors having seen them assets marked as zero. And I think we saw that being reflected in the valuation of Chinese equities, you know, three, four years ago when China was, you know, the consensus view was it was uninvestible and that to us, you know, suggests that the geopolitics was being mispriced.

Now the risk of China/Taiwan complication, so to speak, happening there, I think has gone up slightly since the Russia invasion of Ukraine. But it's still a very low probability event. We're not dismissive of the risk but we think it's still a very small tail-end risk and that that relationship, the current relationship between China and Taiwan, I know Xi, president Xi obviously has this long-term aim of reunification, but the status quo is acceptable as long as there's no agitation for Taiwan independence by outside powers.

More broadly speaking, looking at the China/US relationship, it appears that, you know, both Trump and President Xi are willing to put a floor under the relationship. They want that strategic stability. And, you know, while they're looking to reduce dependence on each other you know, they need the trade flows to continue to work. And there's obviously this potential for a program bargain given the summit

TRANSCRIPT: EPISODE 387

between the two powers in April. But what we've seen more recently on trade just generally for the backdrop is unhelpful given the uncertainty.

JY: And what is your preferred market across at the moment across global emerging markets?

PG: Yeah, we tend not to think about things that way with country positioning, being more a reflection of the opportunities that we're able to identify from the bottom up. But when we look at markets, say on like a price to book measure you know, we've seen quite significant re-ratings for a number of key markets within the universe. But there are still valuation, there's still markets that are trading on pretty attractive valuations relative to their history.

I'm thinking those in the ASEAN region, you know, that stand to benefit from de-risking supply chains where the scope for cons for a consumer recovery markets like Indonesia and Thailand. I know Indonesia at the moment certainly feels very contrarian given concerns about market standards that have been raised by the MSCI. But you know, when we look at Indonesia from a top down perspective we feel that the fundamentals are stronger than valuations suggest and that the is scope for recovery there.

I think obviously we've talked about China specifically, you know, China has certainly participated in the rally in broader Asia and emerging markets, I think. But that's from deeply discounted levels and not all areas have been lifted by the rising tide. So it's been very AI robotics, tech driven. There's still, you know, significant opportunity we feel in Chinese consumer stocks. And I suppose for our global emerging markets fund, Brazil would be the biggest overweight a market that obviously benefits from rising commodity prices where the scope for monetary policy to be eased with rates, given in inflation having been brought under control. It's an election year. So there's scope for some volatility around that, but also potential for a more market friendly administration to come in. And it's a market you know, a deep and liquid market where we can build a portfolio of highly differentiated ideas that don't all have the same drivers. So yeah, there's a few there to consider.

JY: And you're not a fan of India yet, despite the fact, you know, it was one of the few markets which did quite poorly last year, and now they have signed some trade deals with the US and EU. What are your thoughts on that at the moment?

PG: Look, an underweight position in India does not necessarily reflect a negative view on the country or the economy from a top down perspective. I think we have no truck with the view that India is one of the best macro stories over a medium term and an EM perspective. It's gone through a period of normalisation after stronger growth. But macro indicators is, you know, suggest fundamentals are pretty strong. The trade deals are interesting. I think, you know, it's not a very trade dependent economy, but the trade deals should help stabilise the currency, which was very weak last year.

But it's a question of valuation. It valuations were already elevated, stretched in some cases and trading at a big premium to where it, you know, they have done historically. So there's been an element of catch up by other markets within the universe, but also earnings momentum has been a bit more subdued and expectations are still set too high. And from, in our opinion you know, it's a high bar for corporates to beat which they need to do to support their high already high valuations. And then finally also it's a market which has seen record volume of issuance a lot of IPOs in recent years, and that also makes it harder for the market to perform well.

TRANSCRIPT: EPISODE 387

JY: Has Asia become a proxy for AI with some of its big companies like TSMC, SK Hynik, Samsung's, and the Chinese tech companies all making up a very big part of the index now? I mean, is there a danger for investors that they're doubling up on their US tech exposure with their Asian exposure as well?

PG: Yeah, you look, you are always tech has always tech and internet has always been well represented in Asian indices. And so yeah, you are getting sensitivity to the AI theme there, but I think it's slightly nuanced. I think while the US certainly has very innovative software and design software design companies Asia has, you know, long cemented its position as a leader in advanced manufacturing. So it's a tech hardware that you're getting exposure to at the moment in Asia, you know, and the, whether that be in foundry or memory...

JY: And I guess it's the hardware which is seems to be winning at the moment's, not the software. So you're in the right place.

PG: Well, yeah, there is a clear bottleneck in supply for things like memory chips and passive components that are going into these GPU units being ordered by Nvidia. And then, you know, what's driving that demand is obviously the, you know, the big hyperscalers in the US that's the likes of cloud services companies like Alphabet, like, or Google or Microsoft, Amazon, Meta. And you look at the backlog of their orders for their cloud computing services at the moment, it's one over one and a half trillion dollars that they are not yet able to fulfil. And they're not trying to build it, you know, build it and people will come, the customers are already demanding this product which means that, you know, certainly in the near term, we can feel quite comfortable about the delivery of earnings, but those big, big Asian tech companies are also now trading at slightly higher multiples. But they have, they've significant experience of managing these cycles. And they've tended to, you know, have strong competitive moats.

But we still need to be mindful that they are vulnerable to over exuberance of their customers. So there is potential for a demand disappointment at some point. So we need to be mindful about that. And quite disciplined in our approach to valuations. So given the strength that we've seen in these stocks, we've been naturally chipping away at the profits that we've made from them.

JY: Very good. I mean, as you said, you are bottom up stock pickers, so what are some of the most exciting ideas you have in the portfolios at the moment?

PG: Well, I mean, obviously the ones that have done well are those that have benefited from, you know, strong demand and constrained supply be that in memory or in commodities like copper. But they're obviously feeling a little bit more mature. You know, we tend to take a be contrarian at the point of purchase when we're looking for new ideas. So we look at what underperformed last year. I think quality is a factor, was something that was clearly out of favour. I think the definite how you define quality is open to debate, but, you know you know, it's certainly, you know, there's been some more interesting ideas in consumer staples in healthcare IT services and leisure. The real opportunity is where we have conviction that, you know, know investor sentiment has really become disconnected from fundamentals.

So, for example, if we are looking at Chinese consumer companies, you have a company like China Resources Beer, which is one of the China's leading brewers, is now trading on a price to earnings multiple of around 13 times, which is the same as China Shenhua [Energy], which is China's largest coal miner. So this is one of China's most resilient consumer names, strong fundamentals. There've been a big rating to valuations that you close to multi-year lows. Yes, there's, you know, concerns about demand for beer and, you know, young people drinking less. But, you know, China Resources Beer has also been, you know,

TRANSCRIPT: EPISODE 387

growing its higher end beer volumes with its joint venture with Heineken in particular being very successful, that's spread much higher margin product. And you know, even on the mid-tier products, we're seeing decent growth coming through there. So that reinforces our conviction in the structural story further out. And you've got strong management in place and a strong commitment to delivering capital to shareholders in terms of dividends and buybacks that we also like. It's not the only one.

I think, you know, there's another one for example, H World, [International] which is a hotel management group you know, a market leader where there's consolidation in the industry. But again, you know, it's trading on a pretty attractive valuation level. And you know, they have a clear shareholder return plan that we like as well. So yeah, Chinese consumer certainly offering up some interesting opportunities at the moment.

JY: Very interesting. Well, thank you very much Patrick for giving us an insight into the way you think. And thank you for joining us today.

PG: No, thanks for having me.

bJY: And if you'd like to learn more about the Invesco Asian or the Invesco Global Emerging Markets fund, please do visit fundcalibre.com and thank you so much for listening. And of course, if you haven't already, please do subscribe to the podcast to get all the episodes in the future. Thank you so much.