Less state, more signals: an ex-state-owned enterprise (SOE) approach to emerging markets

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Key Takeaways

- A renewed emerging markets–developed markets growth premium, cooling inflation, and a weaker dollar are setting the stage for emerging markets equity outperformance over the long term.
- Emerging markets market leadership is shifting toward globally competitive, non-state-owned firms, with India, China and Latin America showing broad-based earnings strength.
- The WisdomTree EM ex-State-Owned Enterprises UCITS ETF (XSOE) is up 29.45% YTD, benefiting from its tilt toward growth-oriented sectors and companies with stronger shareholder alignment.

Emerging markets (EM) equities have come back into focus in 2025 for reasons that go beyond the familiar 'weak dollar – buy EM' narrative. Three factors are driving this. First, the growth gap between EM and advanced economies has widened again. Second, the policy environment has improved, shifting from punitive to merely uncertain, with real signs of easing in US–China trade tensions. Third, leadership within EM has shifted towards private, globally competitive companies rather than state-directed firms. This shift matters for investors: the difference between state-owned enterprises (SOEs) and non-SOEs is now more important than it was a decade ago.

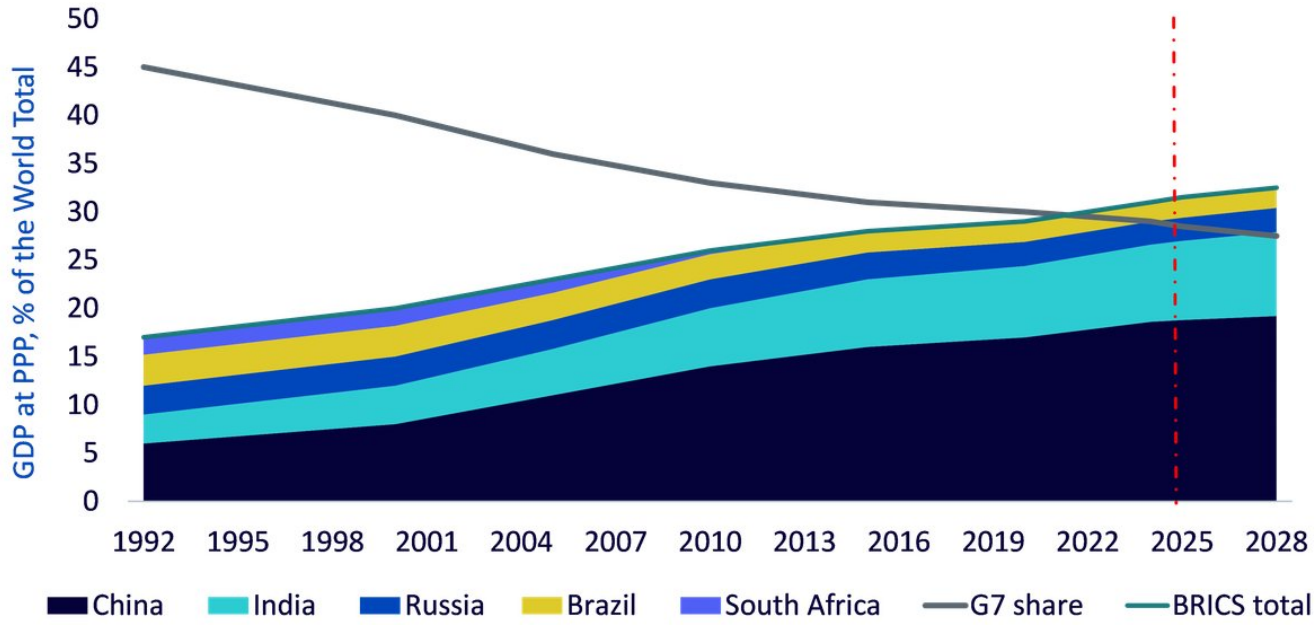
EM – DM growth spread matters

On growth, the International Monetary Fund's (IMF) October 2025 projections have EM and developing economies growing around 4.2% in 2025 versus roughly 1.6% for advanced economies and a similar gap into 2026. The spread is not the residue of temporary stimulus or base effects. It reflects sturdier demand in large EMs as inflation cools alongside late-cycle constraints in the US and Europe that cap upside in developed world growth. Historically, periods with a clear EM-DM growth premium and a non-rising dollar have tended to coincide with EM equity outperformance over the following 12-24 months.

Framed with the IMF's Purchasing Power Parity (PPP) data, the Brazil, Russia, India, China and South Africa (BRICS) bloc accounts for roughly a third of the world's gross domestic product (GDP), while the G7 has slipped below that mark. Over the past three decades, the G7's share has slid from 45% to around 20%, while BRICS has climbed from below 20% to around 31%. The implication for allocators is that the

centre of gravity is still shifting toward EM, providing reason strategic EM allocations remain defensive even after a good run.

Figure 1: BRICS economies now produce more of the world's output than the G7 (in PPP terms)



Source: International Monetary Fund, Economist, WisdomTree as of 30 June 2025. **Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.**

Policy risk: from escalation to managed rivalry

Tariff risk hasn't disappeared, but markets have travelled from 'worst-case' to 'base-case'. The year began with tariff salvos and China's tighter controls on rare earths, then shifted toward negotiations. By late October, US officials outlined a framework with Beijing to avert a blanket 100% tariff and defer new restrictions on rare-earth exports. The key takeaway is that escalation was dialled back, and tariff exclusions were extended, reducing tail risks for global supply chains and EM exporters. That softening stance is supportive for Chinese corporates, whose competitive moats still rely on advanced materials and components, in which China retains a dominant processing capacity.

Earnings: where the upgrades really are

China's latest reporting season was notably broad-based rather than a tech-only story. With 84% of the sector's market cap reported so far, financials and materials posted a double beat, both in terms of the number of companies and the weighted surprise1. At the aggregate index level, reported earnings beat consensus when measured by weighted surprise (+6.3%)1. Across the MSCI China A Onshore index, materials saw upward revisions to 2025 consensus EPS estimates, while energy and semiconductors saw moderate downward revisions.

India's earnings tone has been steady and the mix is constructive. India's large caps (Nifty Index) are hovering near record territory2, as easing inflation and improved policy visibility support risk appetite. With about 70% of the Nifty's free float market cap reported for Q2 FY 2026, earnings are tracking about 7% year on year, led by select financials, metals and industrials3. Top line growth trends around festive demand, coming on the back of purchase deferment of five weeks post Goods & Service Tax (GST) rate cuts, provided a supportive backdrop. Company commentary suggests stable bank asset quality, improved IT demand and firm order books in the industrials sector.

Latin America's equity market strength has been anchored in improving macroeconomic visibility and a handful of sector tilts. In Brazil, the Ibovespa's climb to record highs has ridden disinflation, firmer real wages and a stronger Brazilian real with financials, energy and infrastructure at the front of the tape. Mexico's rally to repeated records has paired a firm Mexican peso and an easier Federal Reserve (Fed) path with resilient Q3 earnings led by commodities, financials and industrials.

Chile's advance has been driven by domestic demand sectors like retail, finance and real estate as inflation settles within the target. Meanwhile, Peru continues to benefit from mining-led cash flow strength alongside steady gains in finance and consumer names.

Why the ex-state-owned enterprise (SOE) tilt is fit for this cycle

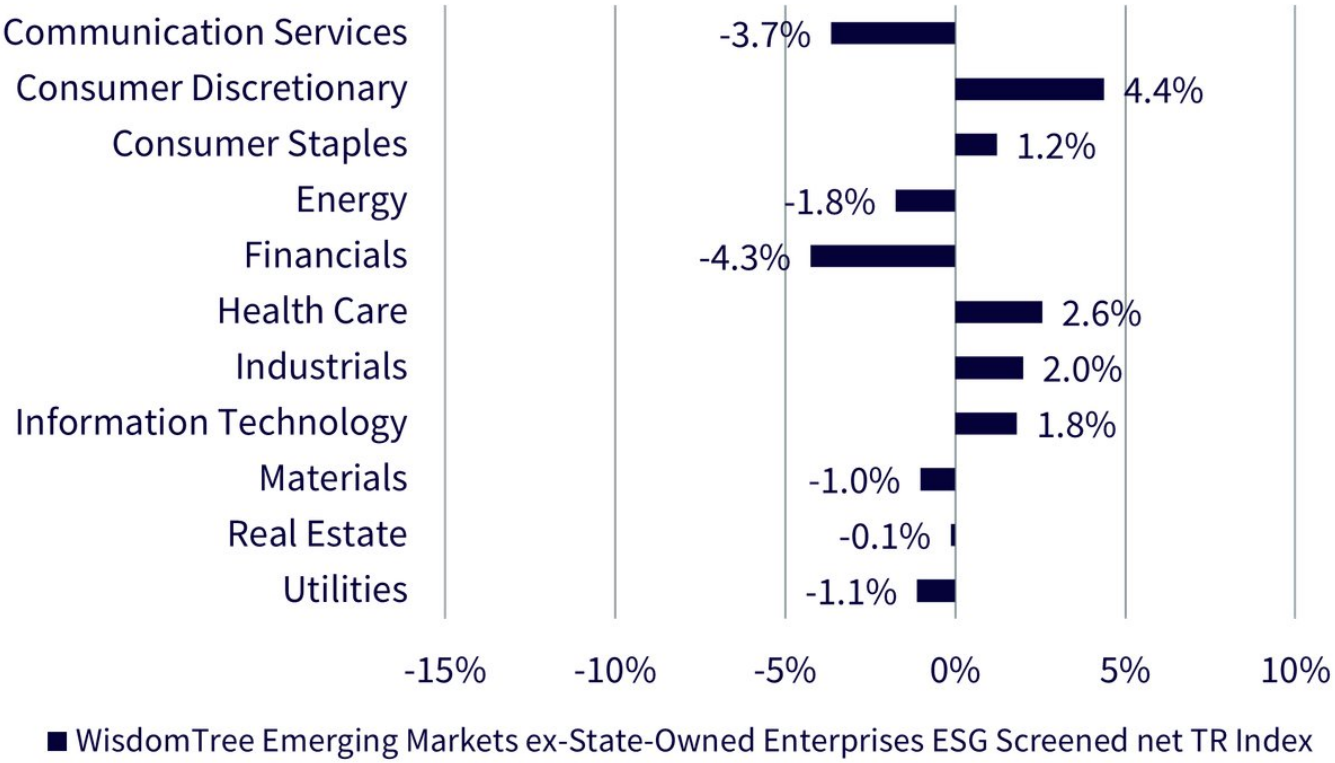
One of the significant differences between developed and emerging market stocks lies in their ownership structure. WisdomTree's Emerging Market ex-State Owned Enterprises (SOE) UCITS ETF (Ticker: XSOE) provides exposure to the broad EM universe, investing in companies in which the local government owns less than 20% of shares, making it the only fund of its kind.

We believe exposure to non-SOEs is a more efficient way for investors to approach EM equity markets, as it mitigates the risks inherent in investing in companies that lack complete control over their own operations. The result is a structural tilt towards firms whose incentives are aligned with minority shareholders and whose returns depend on price and product not policy mandates.

From an allocation perspective, that implies a higher exposure to information technology, consumer platforms, financials and industrial niches across China, Taiwan, India and Korea and a lighter exposure to energy, materials, real estate and utilities.

Removing SOEs, which tend to be concentrated in 'old economy' sectors like financials, energy and materials, real estate and utilities, results in XSOE having modest structural tilts towards 'new economy' sectors like information technology, consumer discretionary, health care and industrials.

Figure 2: GICS sector tilts- WisdomTree EM ex-SOE UCITS ETF vs MSCI Emerging Markets Index



Source: WisdomTree, Bloomberg, FactSet as of 30 September 2025. **Historical performance is not an indication of future results and any investments may go down in value.**

Year-to-date, the WisdomTree EM ex-SOE UCITS ETF (Ticker: XSOE) has risen 29.45%, outperforming the EM competitive landscape in October 2025, as highlighted below.

Figure 3: Historical Performance vs EM Competitive landscape

Name and currency		Oct	YTD	1Y			3Y			5Y			SCH		
		Return	Return	Return	Std.dev	SR	Ann. return	Std. dev	SR	Ann. return	Std. dev	SR	Ann. return	Std. dev	SR
WisdomTree	USD	4.28%	29.45%	23.60%	14.69%	1.31	19.00%	14.40%	0.98	4.49%	16.15%	0.09	5.64%	16.11%	0.23
Vanguard	USD	1.86%	25.89%	22.64%	14.62%	1.25	20.01%	13.60%	1.12	7.60%	14.98%	0.30	5.03%	15.49%	0.20
Fidelity	USD	2.79%	28.20%	26.46%	13.54%	1.63	21.70%	13.28%	1.27	9.38%	14.49%	0.44	5.66%	15.20%	0.25
UBS	USD	4.16%	32.67%	27.68%	15.11%	1.55	20.86%	14.46%	1.11	7.26%	15.57%	0.27	4.86%	15.78%	0.19
HSBC	USD	1.69%	28.75%	25.91%	15.93%	1.35	21.24%	14.76%	1.11	8.41%	15.64%	0.34	5.92%	15.68%	0.26

Source: WisdomTree, Bloomberg, FactSet as of 18 August 2014 to 31 October 2025. Please note – WisdomTree is represented by WisdomTree Emerging Markets ex-State-Owned Enterprises ESG Screened Index TR. Vanguard is represented by the FTSE Emerging Net Tax Index TR. Fidelity is represented by the Fidelity Emerging Markets Quality Income Index NTR. UBS is represented by the MSCI Emerging Net Total Return USD Index. HSBC is represented by the FTSE Emerging ESG Low Carbon Select Net Tax Index. Calculations are based on returns in USD and include backtested/backcast data. Standard deviation estimates based on daily returns. **You cannot invest directly in an index. Historical performance is not an indication of future results and any investments may go down in value.**

From a valuation perspective, the WisdomTree EM ex-SOE UCITS ETF offers a higher long-term growth rate alongside a higher trailing 3-year sales and earnings growth rate compared to the MSCI Emerging Markets Index. The WisdomTree EM ex-SOE UCITS ETF offers a more diversified exposure with 78.8% in large caps, 19.5% in midcaps and 1.8% in small caps.

Figure 4: State owned screening offers higher growth and better quality

Source: FactSet, WisdomTree as of 30 September 2025. Historical performance is not an indication of future results and any investments may go down in value.

Conclusion

Emerging markets equities are benefiting from a solid growth advantage over developed markets, with fewer trade and policy headwinds than investors expected earlier in the year. Earnings strength is also becoming broader, no longer driven by just one country or sector. The long term shift in global economic weight towards the BRICS economies, shown in PPP data, highlights that this is more than a cyclical story. It is a structural realignment that focuses on gaining exposure to parts of emerging markets that can turn macroeconomic strength into shareholder returns. By excluding state-owned enterprises and focusing on private, globally competitive companies, the WisdomTree EM ex-SOE UCITS ETF targets exactly that segment. For investors looking for more persistent earnings, better governance and clearer sector tilts, the WisdomTree EM ex-SOE UCITS ETF offers a practical way to capture a higher quality emerging markets allocation.

1 MSCI China Earnings, 3Q 25 Interim Review as of 7 November 2025
2 Bloomberg – Nifty Index at 25879 points as of 13 November 2025
3 FactSet, WisdomTree as of 4 November 2025

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