

# Emerging Europe

Within the global emerging market universe, it can be easy to overlook Europe in favour of the more-scrutinised markets of Asia and Latin America. However, Emerging Europe offers a compelling bright spot at a challenging time for markets generally. Trading at very attractive valuations and supported by strong localised economies, the region could offer the portfolio diversification many investors are looking for.

## Why we like it:

- The economic outlook for Emerging Europe is generally positive, with inflation falling sharply since 2022/23,<sup>1</sup> allowing for lower interest rates, which should boost consumer spending and reduce credit risk across the banking sector.
- Thanks to a high concentration of locally dominant business models and strong localised regional trading, Emerging Europe has low correlation to the US, developed Europe and global emerging markets (see figure 1), helping to diversify investment risk.
- Emerging Europe equity markets appear highly undervalued compared to other developed and emerging markets (see figure 2), despite superior growth prospects and increasing liquidity.
- De-escalation in Ukraine would raise the prospect of a “peace dividend”, which could help compress risk premia and boost inward investment.
- As well as steady flows of EU funding, Germany’s €500 billion infrastructure initiative<sup>2</sup> should benefit the region – from demand for materials to the need for a diversely-skilled workforce. As deglobalisation continues, the region is also well-positioned to benefit from nearshoring trends.
- Structural progress is evident, MSCI have confirmed Greece will be promoted to ‘developed market’ status in 2027, with Poland also potentially heading in the same direction over the medium term.

## Key investment themes:

**FINANCIALS:** Banks and the growth of online services for retail customers remain a focus of growth across Emerging Europe, with the ongoing normalisation of Greece’s banking sector and easing of inflation, among other factors, helping to build investor confidence in the sector.

**CONSUMER BRANDS:** Emerging Europe is home to a number of innovative consumer brands that dominate their home market, often favoured over global/ US names, thereby providing insulation from international events. These include Turkey’s leading discount retailer BIM Biresik, and Allegro, the e-retailer operating in Poland and beyond.

<sup>1</sup> Source: IMF World Economic Outlook April 2026. <sup>2</sup> Source: www.bundesfinanzministerium.de.

Figure 1: Consistently lower correlation to other markets

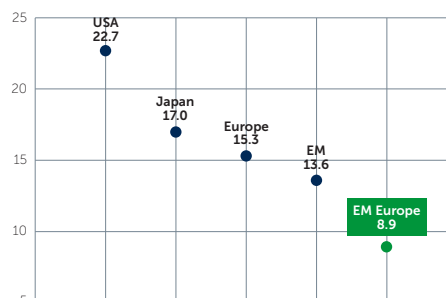
MSCI indices over 10 years

	EM Europe	USA	Europe	Global
EM Europe	1.00	0.48	0.61	0.56
USA	0.48	1.00	0.82	0.69
Europe	0.61	0.82	1.00	0.75
Global EMs	0.56	0.69	0.75	1.00

Source: Barings, Refinitiv, January 2026.

Figure 2: Share prices attractively valued vs other markets

Shown as share price to prospective earnings ratios



Source: Goldman Sachs, January 2025

**Companies to watch:**

**ALLEGRO – POLAND**

Shopping platform Allegro dominates Polish e-commerce. Its rapid delivery, competitive pricing and strong customer experience have deeply embedded it in Polish retail behaviour. A push to expand internationally, supported by further investment in fulfilment infrastructure, reinforces its long-term earnings potential.

**ALPHA BANK – GREECE**

Alpha Bank is the third-largest bank in Greece by assets. Strong profitability and growth prospects across the sector are increasing investor confidence, supported by strong capital levels, resilient business models, and a favourable macroeconomic backdrop. A move by Italy’s UniCredit to increase its stake in Alpha to almost 30% has provided further support.

**In short:**

Improving economic fundamentals have the potential to drive strong growth in Emerging Europe where many high-quality companies continue to be undervalued relative to their developed market peers. The strength of homegrown brands, the trend for nearshoring and major economic investment by major neighbours such as Germany will benefit the region and help to insulate it from turmoil elsewhere in the world.

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