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2026 Midyear Asia Equity Outlook: Resilience, Reform and the Broadening AI Cycle

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Executive summary

- AI opportunities are broadening beyond upstream semiconductor infrastructure. Asia remains at the center of the transformational artificial intelligence (AI) investment story, as it expands from a narrow focus on chips and data centers to a much larger ecosystem spanning memory, compute, power infrastructure, grid upgrades, industrial systems and advanced manufacturing.
- Asia's structural growth story remains intact. The outlook for the region's equity markets is supported by powerful structural drivers including AI, energy transition, infrastructure modernization and domestic reform. Taiwan and Korea remain key AI beneficiaries, while China, India and Japan offer attractive opportunities driven by resilience, reform and earnings growth.
- Quality and stock selection matter more than ever. Market leadership is becoming increasingly uneven across sectors and countries. Rather than broad exposure, investors should focus on high-quality businesses with strong balance sheets, durable competitive advantages and clear earnings visibility— with disciplined stock picking likely to be the key differentiator.

Asian equity markets remained resilient in the first half of 2026 despite ongoing concerns over global growth, elevated interest rates, commodity price volatility and renewed tensions in the Middle East. The rest of this year is likely to present a familiar challenge: navigating near-term geopolitical and macro uncertainty, while staying anchored to powerful, long-term structural growth drivers.

Key contributors to performance include Taiwan and South Korea, whose technology-led markets are benefiting from continued investor optimism around artificial intelligence (AI). At the same time, China is demonstrating greater resilience than many investors expected, and India remains supported by strong domestic fundamentals and an accelerating CapEx cycle.

Defensive markets such as Singapore continue to offer earnings visibility amid heightened volatility. Elsewhere in the Association of Southeast Asian Nations (ASEAN), we see selective opportunities in markets supported by strong domestic demand, infrastructure investment and supply-chain diversification. While the region may not offer a level of direct AI exposure comparable to Taiwan or Korea, it remains a valuable source of diversification and resilience.

Taken together, these trends support a constructive outlook for Asia ex Japan equities in the second half of 2026, though continued selectivity will be important as the market environment evolves.

Although geopolitical risks and commodity price volatility could create periods of turbulence in markets, we believe Asia remains well positioned to benefit from the structural growth themes of AI, digital infrastructure, energy transition, industrial modernization and domestic reform.

Riding AI's enduring wave

AI remains a key investment theme across Asia, but the narrative is shifting and the opportunity is evolving. What began as a semiconductor-focused play on AI compute demand has broadened into a much larger ecosystem, encompassing power generation, grid infrastructure, data center development, industrial equipment and advanced manufacturing. Asia stands at the center of this transformation, firmly embedded in the global AI supply chain.

The rapid growth in AI token consumption has already accelerated CapEx across the technology complex, creating demand-supply imbalances across hardware supply chains. As AI adoption scales, the opportunity set is becoming increasingly diverse.

A notable development is the emergence of agentic AI. Unlike earlier AI applications that relied heavily on compute-intensive inference workloads, agentic AI introduces more complex workflows involving autonomous agents, tool utilization and decision-making processes—activities that require greater processing power and substantially larger memory capacity.

This broader compute demand has important implications across the supply chain. Greater compute and memory requirements are expected to support demand for advanced substrates, packaging technologies and semiconductor materials, extending the growth runway for many Asian technology companies.

The result is an investment landscape that no longer depends solely on a handful of AI leaders. Instead, opportunities are emerging across a much wider swath of technology enablers.

That said, investors should expect continued volatility and divergence within the sector. Key drivers include the interest-rate sensitivity of high-growth technology valuations, uncertainty around the sustainability of AI-related CapEx and signs of stretched positioning in some stocks following a prolonged rally—all of which warrant close monitoring.

Powering Asia's AI build-out

Perhaps the most underappreciated consequence of AI adoption is its impact on energy demand.

As AI models become larger and more compute-intensive, data centers are consuming significantly more electricity, driving demand for power generation and related infrastructure. This is creating a powerful investment cycle that extends well beyond technology hardware.

Asia is entering a multi-trillion-dollar energy CapEx cycle over the coming years. The implications are far-reaching. Grid upgrades, transmission infrastructure, power equipment, battery storage and renewable energy development are becoming increasingly central to the AI value chain. Governments and utilities across the region are investing heavily to improve energy resilience and accommodate rising electricity demand.

This dynamic is creating attractive opportunities across power equipment manufacturers, electrical component suppliers and grid specialists, while also supporting industrial companies poised to benefit from infrastructure modernization and rising data center power demand.

If AI investment continues to accelerate through increasingly sophisticated models and larger-scale data centers, demand is likely to follow. Asian manufacturers are particularly well positioned to capture significant value given their competitive advantages in production, scale and cost efficiency.

Taiwan and Korea: The big AI beneficiaries

Among regional markets, Taiwan and South Korea appear best placed to capitalize on the structural AI opportunity.

Taiwan occupies a uniquely critical position at the center of global semiconductor supply chains. The market produces more than 60% of global semiconductors and more than 90% of leading-edge chips.[1] While the near-term outlook may be influenced by valuation considerations and cyclical factors, the long-term fundamentals remain compelling.

Structural demand for advanced computing, high-performance chips and AI-related technologies continues to support earnings growth across many industry leaders in Taiwan.

South Korea also remains well positioned, particularly within memory semiconductors. It accounts for approximately 60% of the global memory semiconductor market, including a 70% share of the global DRAM (dynamic random-access memory) market.[2] We maintain strong conviction in the earnings outlook for leading memory manufacturers, supported by favorable industry dynamics and growing AI-driven demand.

Importantly, South Korea's investment case is increasingly supported by domestic reforms. The government's Value-Up program, introduced in 2024,[3] established a framework aimed at improving corporate governance and shareholder returns. Subsequent policy measures and ongoing implementation efforts through 2025 and 2026

have sought to further strengthen shareholder rights, reduce the influence of controlling shareholders and encourage higher dividend distributions.

Although adoption remains gradual, the direction is clear: The ongoing reform agenda could help narrow the longstanding Korea discount over time, supporting both valuations and investor confidence.

China: Resilient and robust

China continues to offer a more balanced investment opportunity than headline narratives often suggest. Despite persistent concerns around the property markets, geopolitical tensions and the uneven recovery in domestic demand, China has demonstrated notable resilience during recent periods of global uncertainty. The country's relative insulation from energy supply disruptions compared with many regional peers provides additional stability.

Overall, economic growth has remained relatively resilient—at around 5% in 2025, in line with official targets[4]—with support from strong export performance and continued strength in higher-end manufacturing sectors.[5] That strength is increasingly visible in AI hardware, where a number of Chinese manufacturers are becoming more important participants in the global supply chain. At the same time, growth has continued to be uneven, with domestic demand, consumer spending and infrastructure activity in traditional industries still comparatively subdued.

We remain constructive on China given expectations for continued policy support and gradually improving investor sentiment. While challenges remain, valuations continue to offer an attractive starting point relative to many global markets.

Importantly, systemic risks within China's financial sector appear contained. Large state-owned banks are seeing signs of stabilization in net interest margins and asset quality, even as overall loan growth moderates. This provides an additional anchor of stability within the broader economy.

With policymakers continuing to prioritize economic stabilization and growth support, we believe opportunities remain in high-quality companies benefiting from structural domestic themes and technological self-sufficiency initiatives.

Given the divergence across sectors, stock selection is becoming increasingly important. Rather than relying on broad market exposure, investors may be better served by a bottom-up approach focused on areas with stronger earnings visibility and independent growth drivers. We continue to see opportunities in AI-related hardware, electricity and computing-power infrastructure and in large banks offering attractive and sustainable dividend yields.

Japan: Reform and valuation opportunities

We also remain constructive on Japanese equities for the second half of 2026. While geopolitical tensions in the Middle East and higher oil prices could create near-term volatility, we see parallels with previous energy-driven market disruptions, where earnings momentum resumed once commodity markets stabilized.

At the same time, market performance has become increasingly concentrated in a narrow group of AI-related stocks. Given elevated valuations in some of these names, we believe opportunities are emerging in high-quality

companies that have lagged the AI rally despite attractive fundamentals and more reasonable valuations. Domestic policy developments could provide an additional tailwind. Discussions around potential consumption tax relief on food and other measures aimed at supporting household spending may help improve sentiment toward domestically oriented sectors.

Meanwhile, ongoing market reforms continue to strengthen the long-term investment case for Japanese equities. The Tokyo Stock Exchange's corporate governance initiatives and the next phase of TOPIX reforms, which will place greater emphasis on free-float market capitalization and liquidity, should encourage improved capital efficiency and provide structural support for companies that meet the increasingly stringent inclusion criteria, particularly within the mid-cap segment.

India: Structural growth remains intact

India continues to present a compelling long-term investment opportunity.

The country's macro backdrop remains constructive despite recent pressure from higher commodity prices. Corporate earnings growth during the March 2026 quarter reinforced our view that underlying structural growth drivers are considerably stronger than temporary commodity-related headwinds.[6]

One of the clearest indicators of this strength is credit growth. Bank credit growth in India has improved to the mid-to-high teens, significantly outpacing nominal GDP growth and reflecting strong borrower appetite for capacity expansion amid rising demand and improving utilization levels.[7]

Equally important, asset quality across the banking system remains exceptionally strong. Nonperforming loans remain near historical lows, profitability continues to improve and book values are rising steadily.[8]
This combination of strong credit growth and healthy balance sheets creates a favorable environment for sustained economic expansion.

Much of the current investment activity is led by sectors benefiting from structural transformation, including renewable energy, battery storage, electric vehicle manufacturing, power infrastructure, real estate and industrial production.

India's energy transition is emerging as a key structural opportunity. Despite being a net energy importer, declining domestic electricity costs—driven by scalable and cost-efficient renewables, particularly solar—are reshaping the energy landscape. India is now the third-largest renewable energy market globally, with solar capacity exceeding 150GW as of March 2026.[9]

As power becomes increasingly affordable, this transition is expected to drive broad-based electrification, alongside sustained infrastructure investment across generation, transmission and storage.

Valuations remain elevated, driven by a reallocation of capital toward small and mid-cap stocks. While foreign institutional investor (FII) flows—typically skewed towards large caps—have softened, resilient domestic institutional investor (DII) inflows, particularly into small and mid-cap stocks, have supported broader markets, reinforcing stability. However, the earnings growth differential appears insufficient to justify the steep valuation gap, suggesting that prices may realign more closely with underlying earnings, as the impact of these flows recedes.

Navigating uncertain times

While recent diplomatic developments have raised hopes for a reopening of the pivotal Strait of Hormuz, the path forward remains uncertain, with many key issues unresolved. In the short term, investors remain focused on how the situation evolves and the implications for global energy markets.

For Asia, particularly energy importing economies, higher oil prices pose a headwind through slower growth and elevated inflation, potentially delaying monetary easing and weighing on consumer spending. However, the magnitude of the impact will depend heavily on both the duration of the conflict and the extent of any disruption to energy supplies.

That said, the region is starting from a position of relative strength. Corporate balance sheets remain healthy, many central banks retain policy flexibility and domestic demand across several key economies is still resilient. Unless the conflict escalates significantly, we believe the region can absorb a moderate energy shock without fundamentally altering the long-term investment outlook.

Moreover, periods of geopolitical uncertainty often create opportunities for long-term investors to accumulate high-quality businesses at more attractive valuations.

Quality remains paramount

While market narratives may shift rapidly, our investment philosophy is unchanged. We view geopolitical developments and macro shifts as sources of episodic volatility that can give rise to dislocations and mispriced opportunities. In such a market environment, we remain focused on high-quality businesses with durable competitive advantages, strong pricing power, solid balance sheets and visible earnings growth to effectively navigate uncertainty.

Opportunities remain abundant across Asia, with the region positioned at the center of several of the world's most important structural investment themes, including AI, energy transition, infrastructure modernization and domestic economic reform.

Although near-term volatility is likely to persist, we believe the long-term outlook for Asian equities remains compelling.

For investors willing to look beyond short-term uncertainty, Asia's combination of structural growth, improving corporate governance and attractive earnings opportunities provides a strong foundation for sustainable returns in the years ahead.

Endnotes
[1] Source: US International Trade Administration - Taiwan Semiconductors, "Semiconductors including chip design for AI," December 1, 2025.
[2] Source: Invest Korea - Semiconductor Industry Overview, 2023.
[3] Source: Invest Korea - Corporate Value-Up Program, 2024.
[4] Source: The World Bank, "China Economic Update—December 2025."
[5] Source: Reuters, "China rides AI wave as exports surge past forecast," June 8, 2026.
[6] Source: The Economic Times, "Analysts lift bets on India Inc after strong March quarter," June 8, 2026.
[7] Source: RBI Financial Stability Report, December 2025.
[8] Source: RBI Financial Stability Report, December 2025.
[9] Source: Ministry of New and Renewable Energy, April 2026.

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