

# 2026 Asia Equity Outlook: Global Shifts Create Constructive Sentiment

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- Asian equities look set to benefit from improvements in investor sentiment and the macro backdrop amid easing tariff tensions, expected interest rate cuts in the US in 2026, and strengthening economic resilience.
- Structural drivers such as artificial intelligence (AI), energy transition, and healthcare innovation favor growth-oriented assets in Asia. While AI infrastructure spending, electric vehicles (EVs), robotics, and semiconductor demand are set to boost Asia's supply chains, defensive leaders in the consumer, utilities, and telecom sectors offer catchup potential.
- China is seeing rebounding sentiment driven by innovation in healthcare, semiconductors, and AI, with Singapore standing out for its digital transformation, wealth inflows, and improving monetary conditions. In both India and Japan, pro-growth policies and market reforms underpin a constructive 2026 outlook.
- Despite some macro uncertainty, a focus on strong fundamentals, scalable business models, and exposure to secular growth drivers can help investors identify companies able to weather cyclical pressures and unlock long-term value.

Investor sentiment seemed to improve the more the second half of 2025 played out. From a de-escalation in tariff risk as the US and China stepped back from aggressive policies, to expectations of continued rate cuts from the US Federal Reserve over the next 12 months, to signs of economic resilience in key regional markets, Asia equities have continued to build momentum.

This renewed optimism bodes well for the region in 2026. The prospect of improving macro conditions, coupled with long-term structural growth drivers such as artificial intelligence (AI), energy transition, and healthcare innovation, has led to investors to repriced assets in favor of growth-oriented markets in Asia.

The latest research from the International Monetary Fund (IMF) lends support to the general trajectory. It spotlights the Asia and Pacific region as the fastest-growing in the world, projected to contribute about 60% of global growth in 2025.

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The IMF forecasts regional growth to hold steady at 4.5% relative to 2024, and to decrease to 4.1% in 2026<sup>1</sup>—a smaller deceleration than predicted in April 2025, supported by exports, the technology cycle, and policy easing, amid globally accommodative financial conditions.

## **China: Innovation fuels investor sentiment**

Market sentiment and investor confidence in China have improved. This is evident in the return of investors and the comeback of the main stock markets in China (Shanghai Composite Index) and Hong Kong (Hang Seng Index), which have risen around 15% and 30%, respectively, year-to-date as of late-November 2025.

Positive developments across key sectors supported the upside trend. For example, there is continued interest in healthcare innovation due to major drug licensing deals, regulatory efforts to stabilize domestic competition, and new infrastructure initiatives.

Meanwhile, Beijing's ambition to triple domestic semiconductor production by 2026, along with market enthusiasm around new large language models to be launched continuously by different internet giants and new startups in China, have fueled excitement in the technology space.

Broader hopes stemming from easing trade tensions and domestic economic reforms have also contributed to a more constructive outlook for China's innovation-driven growth strategy.

As a result of the one-year trade truce between China and the US, we believe investors will refocus on the economy and company fundamentals. The current domestic economic reforms should help, too, given the goal of boosting domestic demand and achieving high-quality growth by emphasizing high-tech manufacturing, self-reliance, and a move up the value chain.

Further, 2026 marks the first year of the 15th five-year plan, which outlined China's strategic focus on high-quality and innovation-driven growth focusing on industrial upgrades and technology. China will remain an important part of the global supply chain, even in the high-end segment.

Nevertheless, some caution is warranted. We saw some deceleration across different parts of the economy in the second half of 2025 – including declining property sales, a slowdown in fixed asset investments, and a softening in both retail sales and export data. We expect more fiscal stimulus from the central government to unfold in a gradual manner.

Amid challenges to the broader economy, we still believe the best way to invest in China is through a bottom-up approach that prioritizes companies with structural growth drivers and strong earnings visibility.

Building on the secular drivers we see in certain industries, some interesting investment opportunities are emerging. For example, we anticipate an inflection point in the battery industry due to a surge in global demand of energy storage systems, along with continuous capex into AI infrastructure, steady and structural growth in travel demand in China, and a recovery of mid- to high-end consumption. Ultimately, domestic companies with global competitiveness will be attractive for longer-term investments.

## **AI and EVs: Future-proofing Asia's competitive edge**

Regional opportunities also reflect global trends in AI, electrification, and robotics.

With recent earnings updates from US tech giants showing plans for higher spending on AI infrastructure, Asian supply chains stand to gain across memory, power components, and advanced manufacturing.

Similarly, the rapid evolution of electric vehicles (EVs) and humanoid robotics is creating fresh demand for Asia-based semiconductors, automation equipment, and precision components – areas where Taiwan, South Korea, and China hold strong competitive advantages.

<sup>1</sup> Source: IMF E-Library, "Outlook for Asia and the Pacific," 23 October 2025. <https://www.elibrary.imf.org/display/book/9798229025881/CH001.xml?>

Beyond the high-growth themes, investors are also selectively rotating into laggards that offer defensive characteristics due to their domestic leadership, particularly in the consumer, telecom, and utilities sectors.

Many of these companies have solid balance sheets, consistent cash flow generation, and attractive valuations, suggesting potential for a catchup trade. The recent underperformance of mature, stable businesses relative to AI-linked names may present opportunities to accumulate quality holdings at reasonable prices.

## **ASEAN: Singapore leads in resilience**

Within ASEAN markets, Singapore continues to stand out as a resilient and forward-looking market. The city-state's "Singapore 4.0" transformation – centered on innovation, digitalization, and knowledge industries – has positioned it as a regional hub for affluence and capital flows.

Easing global monetary conditions, healthy domestic consumption, and continued inflows into wealth management are supporting corporate earnings, while lower interest rates and robust employment underpin property and infrastructure-related sectors.

The Monetary Authority of Singapore's Equity Market Development Programme adds further support to market depth and valuation re-rating potential.

## **India: Reforms, resilience, and a long runway for growth**

India's equity outlook remains robust, anchored in policy stability, structural reforms, and strong domestic demand. And with improving fiscal discipline, expanding corporate earnings, and deepening local capital markets, India remains one of Asia's most compelling long-term equity stories.

While trade headwinds persist, with two-thirds of India's goods exports to the US remaining under tariffs, the subject sectors represent a small share of listed equities. Key industries such as technology services, pharmaceuticals, and energy are unaffected, and many observers expect a trade deal soon. Should tariffs ease, India's modest export drag could quickly reverse, adding momentum to an already resilient economy.

Domestically, macro conditions are supportive. The Reserve Bank of India has maintained stable policy rates while easing credit regulations, enabling banks to expand lending from a position of strong balance sheets and profitability. Benign inflation, helped by lower energy prices and recent cuts in goods and services tax rates, is boosting consumption, ensuring household demand remains a reliable growth engine.

We continue to focus on a critical metric determining confidence in the economy and thus consumers' willingness to spend and businesses' readiness to invest: bank credit to the private sector. After growth in this measure dropped from over 11% in 2024 to 9% in May 2025, it has since risen to 11.5%.<sup>2</sup> This revival in credit growth, along with benign oil prices and low inflation, bodes well for businesses' enthusiasm for investing to expand capacity to meet incremental demand increases arising from tax cuts and onshoring of manufacturing.

Longer-term structural shifts are reshaping India's investment landscape. The country is accelerating capital allocations for renewable energy, reducing dependence on imported fossil fuels, and strengthening its external balance sheet. With solar power and energy storage technologies becoming increasingly cost-competitive, India is positioning itself at the forefront of the global energy transition.

From an allocation perspective, banks stand out as key beneficiaries of this growth cycle, supported by improved asset quality, higher profitability, and technological transformation. Meanwhile, green energy, infrastructure, and consumption-oriented sectors offer multi-year growth potential.

India's demographic advantage adds another powerful tailwind. As the world's most populous nation, each \$1,000 increase in per-capita income could unlock roughly \$1.5 trillion in new demand – highlighting the depth of its domestic market.

<sup>2</sup> Source: Reserve bank of India as of October 2025.

## Japan: Positive on pro-growth policies

Our outlook on Japan equities is constructive for 2026, anticipating continued economic expansion despite US tariff pressures, with support from fiscal stimulus measures introduced by the newly inaugurated administration of Prime Minister Sanae Takaichi.

The political agenda includes abolishing the provisional gasoline tax, raising defense spending, and investing in AI and advanced technologies. These developments should further boost growth and corporate earnings in 2026.

In addition, the Tokyo Stock Exchange's planned reduction of Topix constituents – from roughly 1,700 today to around 1,200 by the end of 2028 – is driving companies to improve capital efficiency and shareholder engagement.

Japan faces renewed tension with China after comments on Taiwan's security in November 2025. China reinstated its seafood import ban and issued travel advisories, causing flight cancellations. Based on current developments, the economic impact is likely to be limited. Seafood exports to China are negligible, and spending by Chinese tourists represents only about 0.2% of Japan's GDP. In our view, the measures announced so far are largely symbolic; however, geopolitical risks persist and warrant close monitoring.

## Sticking to what we know works

Despite optimism about Asian equities in 2026, some challenges cannot be overlooked. These include uncertain global demand and trade dynamics, plus a volatile macro environment – in turn creating headwinds to medium-term potential growth.

In response, our approach is to take a bottom-up investment approach, focusing on companies with strong fundamentals, scalable business models, and exposure to secular growth drivers.

We believe such companies are best positioned not only to weather cyclical pressures, but also to unlock long-term value that may be underappreciated in the current climate.

*For more insights into the trends moving markets in the coming year, see our [2026 Investment Outlook](#).*

## Disclosure

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