

May 2026



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Key takeaways

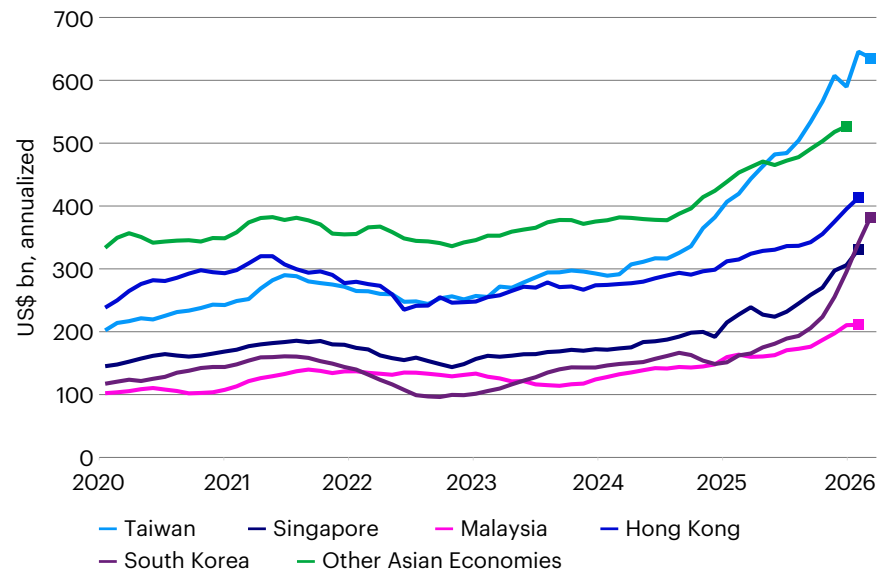
- We remain constructive on Asia equities in 2H 2026, led by North Asia.
- We expect AI and semiconductors to remain the main growth drivers across the region.
- Higher energy prices and Middle East tensions are the key risks to watch.

Asia equity markets have delivered mixed but broadly positive performance year-to-date. North Asia led gains, with Taiwan and Korea benefiting from continued strength in semiconductors, AI-related supply chains, and a recovery in memory chips alongside improving export momentum. China rebounded on policy support and strength in technology and innovation-driven sectors. Meanwhile, India and ASEAN (Association of Southeast Asian Nations) markets have been more uneven amid currency volatility and external uncertainties. We are constructive on Asia equities in the second half of the year supported by resilient growth dynamics and a gradually improving risk backdrop.

AI-driven cycle to remain the core growth engine

The AI-driven semiconductor cycle is expected to remain a key structural growth driver into the second half of 2026, with North Asia, particularly Taiwan and South Korea, emerging as primary beneficiaries, given its dominant position in the global semiconductor value chain. Looking ahead, ongoing investment in data centres and accelerating enterprise AI adoption are likely to remain key drivers of growth, with global semiconductor revenues projected to reach US\$975 billion in 2026.¹

Figure 1 - Asia ex-mainland China tech exports to world (3-month annualized)



Source: Goldman Sachs Research, data as of April 2026.

1. Deloitte, February 2026

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A key source of continued momentum is expected to come from ongoing capital expenditure by large cloud providers, projected to approach US\$750 billion in 2026², as they expand AI capacity at scale. This is likely to further reinforce demand across both logic and memory segments, with advanced memory used in AI systems expected to remain the most supply-constrained area. As a result, strong and sustained demand may continue to support elevated pricing levels and improving earnings visibility across the semiconductor value chain into 2027.

Beyond North Asia, China is also expected to increasingly benefit from the AI driven growth cycle, supported by strong policy backing, rising investment from domestic technology firms, and a large user base that enables rapid adoption. AI-related spending is driving demand for cloud, data centres and supporting infrastructure. Importantly, China's AI ecosystem is characterized by significantly lower development and operating costs, combined with high efficiency, resulting in a compelling cost-performance advantage relative to global peers. As adoption broadens, gains are likely to extend beyond hardware into areas such as industrial automation and consumer platforms, positioning China as an increasingly important and diversified contributor to Asia's AI growth story.

ASEAN markets are increasingly positioned to benefit from the AI hardware cycle through supply chain participation. Singapore is expected to capture value at the higher end of the ecosystem, supported by its strength in advanced manufacturing and R&D, while maintaining resilient electronics exports amid strong AI-related demand. Malaysia, meanwhile, continues to play a critical role in semiconductor assembly, testing and packaging, accounting for a meaningful share of global capacity and attracting investment to expand advanced packaging capabilities linked to AI applications.

Energy risks to monitor

Looking ahead, geopolitical developments in the Middle East are expected to remain a key macro risk through the impact on energy markets. Potential supply disruptions, particularly through the Strait of Hormuz, a critical artery for global oil flows, have pushed energy prices higher, with prices likely to remain elevated amid ongoing uncertainty. As most Asian economies are net energy importers, higher energy costs are expected to feed into increased input costs, trade deficits, and currency volatility, particularly in smaller ASEAN economies such as the Philippines and Thailand. Larger economies, including China and India, are likely to remain relatively better positioned given more diversified energy sources and stronger policy support. Overall, we believe Asia may continue to face complex policy environment, as higher energy-driven inflation may limit central banks' ability to cut interest rates and, in some cases, could delay or reverse easing measures.

Consumption outlook supported by income and wealth effects

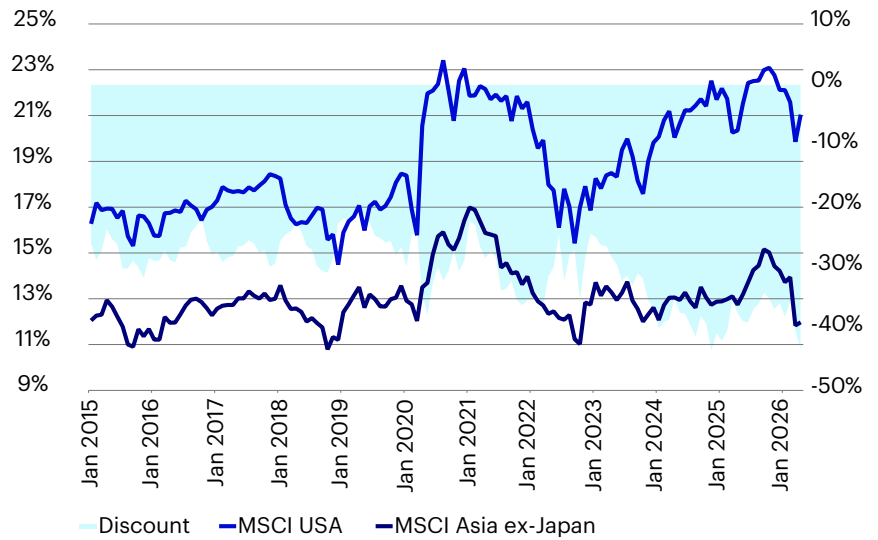
Following the equity market rally in first 2025 and first half of the year, a growing wealth effect is expected to support consumer sentiment across Asia. Amid the backdrop of stronger-than-expected GDP growth, such as Taiwan and Korea, where first-quarter data exceeded market expectations, we are seeing households show a greater willingness to spend. The AI cyclical strength is feeding through to the real economy via improved labour market conditions and rising wage growth. Together, we think rising asset prices and income expectations should create a positive feedback loop, underpinning consumption and helping broaden the recovery beyond export driven sectors.

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Valuation and liquidity are supportive

From a market perspective, valuations of Asian equities have been relatively attractive despite recent rallies, supported by resilient earnings growth. Valuations have traded at a discount compared to the US market. Despite the recent rally in Korea, valuations have been compelling as robust earnings growth—particularly in technology and AI-linked sectors—continues to underpin fundamentals. In India, valuations have become more reasonable recently and company earnings are supportive.

Figure 2 - Forward P/E of MSCI Asia ex-Japan versus US



Source: FactSet, data as of January 2026. **Past performance does not predict future returns.**

Liquidity conditions remain positive in the region. Taiwan and Korea continue to attract solid foreign inflows alongside strong domestic participation, supported by AI driven investment demand and improving corporate fundamentals. India similarly benefits from resilient domestic liquidity, which has helped absorb periods of foreign outflows. This combination of strong domestic flows and active capital markets tends to underpin market depth and sustain liquidity across Asia.

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Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

When investing in less developed countries, you should be prepared to accept significantly large fluctuations in value.

Investment in certain securities listed in China can involve significant regulatory constraints that may affect liquidity and/or investment performance.

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2026 Midyear Investment Outlook - Asia equities

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