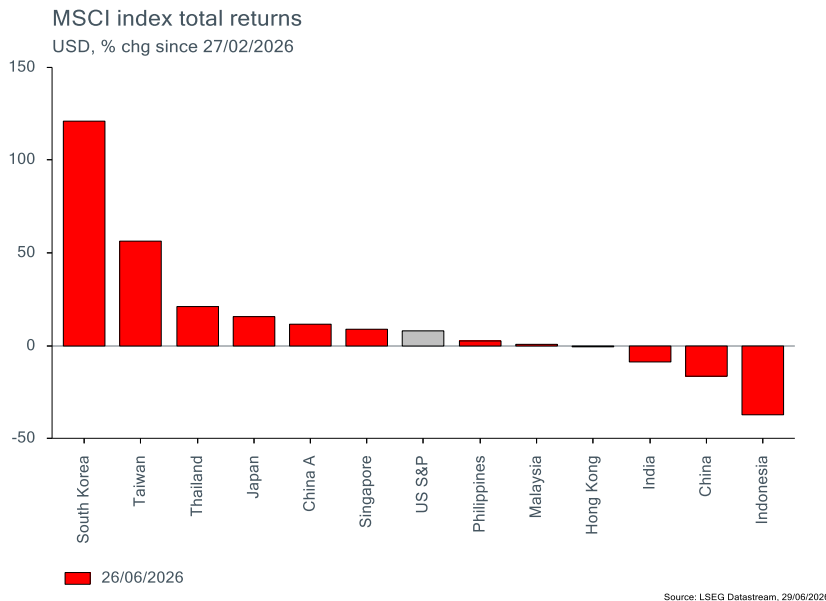


2026 Mid-year outlook



At mid-year, our outlook for Asian outperformance still looks solid

As we enter the second half of the year, we expect Asian outperformance to continue. The end of the Iran war clearly improves the outlook for Asia’s economies. However, although Asia as a region has outperformed US equities, returns have not been homogeneous. Investor differentiation across the region is still necessary.



One reason is that the energy shock contributed to a hawkish shift by the US Federal Reserve (Fed) that is strengthening the USD. This has combined with now higher upstream inflation pressure globally to force some Asian central banks to begin hiking policy rates. Indonesia and the Philippines stand out, but rate hikes are possible in Korea and India later this year.

Additionally, the Artificial Intelligence (AI) capex boom is creating bifurcated growth across economies and sectors. North Asia’s economies are the main beneficiaries relative to ASEAN and India. However, careful research reveals Information Technology (IT)-related

The Fed’s hawkish shift and higher upstream inflation pressure to force some Asian central banks to begin hiking rates.

The AI capex boom is creating bifurcated growth across economies and sectors.

opportunities in India, Singapore, and Thailand. In contrast, consumption growth is weak in almost all economies, even leading IT exporters.

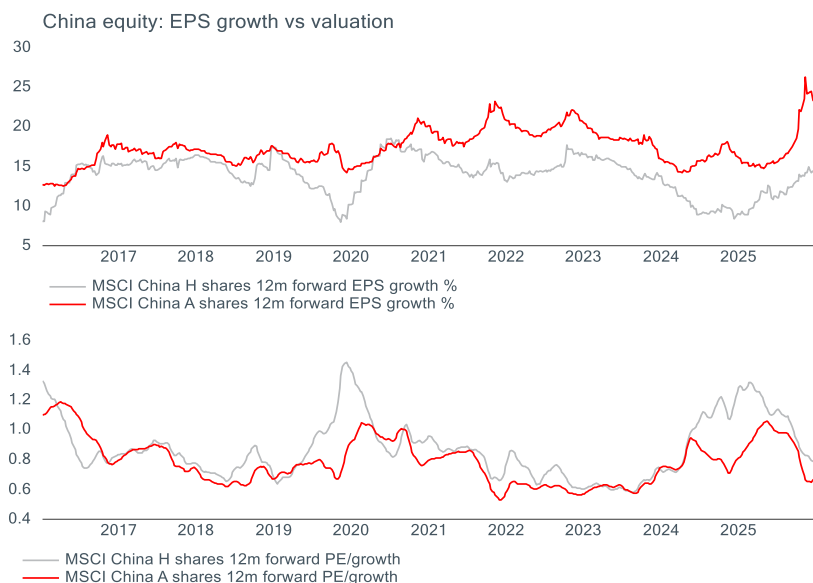
So what changes from here? Lower energy prices should begin repairing Asian trade balances later this year, helping to stabilise currencies. Southeast Asia and India stand to benefit most. A Fed that shifts away from hawkishness, although not our base case, would accelerate this. Reduced energy subsidies may allow redirection of fiscal spending to investment in Southeast Asia and India that broadens growth beyond IT.

Active management in Asia is a necessity – not a preference

In navigating this bifurcated, changing environment, we focus on selectively capturing structural winners while actively managing downside risks through diversification - ensuring that portfolios are not overly exposed to crowded technology and energy trades – to manage volatility and preserve the ability to compound returns over the long term.

- China:** China’s economy is a relative winner in the current market environment given its access to energy and commodity reserves and war-driven surge in global demand for electric vehicles and alternative energy. However, monetising the 4.8% GDP growth we expect requires going beyond the broad indexes and calls for careful security selection instead. Exports of China’s “New Three” products are strong – its three green-tech export categories which includes Electric vehicles, lithium-ion batteries and solar photovoltaic products. However, profitability in these sectors is challenged. Slowing consumption growth and intense sector competition is affecting H-share earnings. This leads us to find better opportunities in A-shares with a focus on China tech as well as beneficiaries from China’s strategic industrial investment. Where Chinese government underspending in H1 reverses in H2 is likely to be an emerging investment theme.

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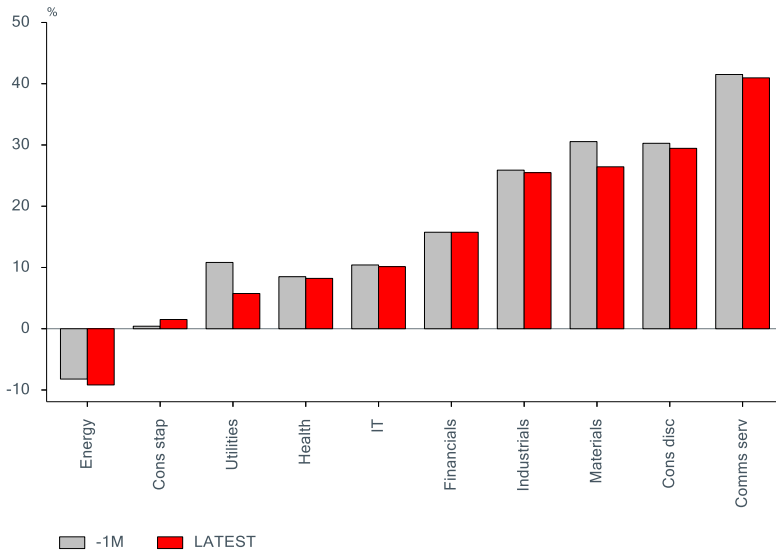


- India:** Despite being one of the worst-performing markets in the region at the index level, India offers high earnings growth in some sectors at now lower valuations, if one adopts an active security selection approach. India’s very low equity correlation with

US equities helps diversify portfolios against what is now very high US concentration in the tech sector. Importantly, much of India's poor performance has come from the impact of the energy price shock on India's currency and earnings expectations, both of which should now moderate or reverse. The recent drop in oil prices should improve India's trade balance and reduce future upstream cost pressure. Equally important for the Indian rupee, the Reserve Bank of India's (RBI) recent programme to stimulate inflows from non-resident Indians is likely to provide some support for the currency and forestall a sharper rate hike cycle. We expect the RBI's programme to raise at least USD35bn and don't rule out as much of USD50bn in inflows.

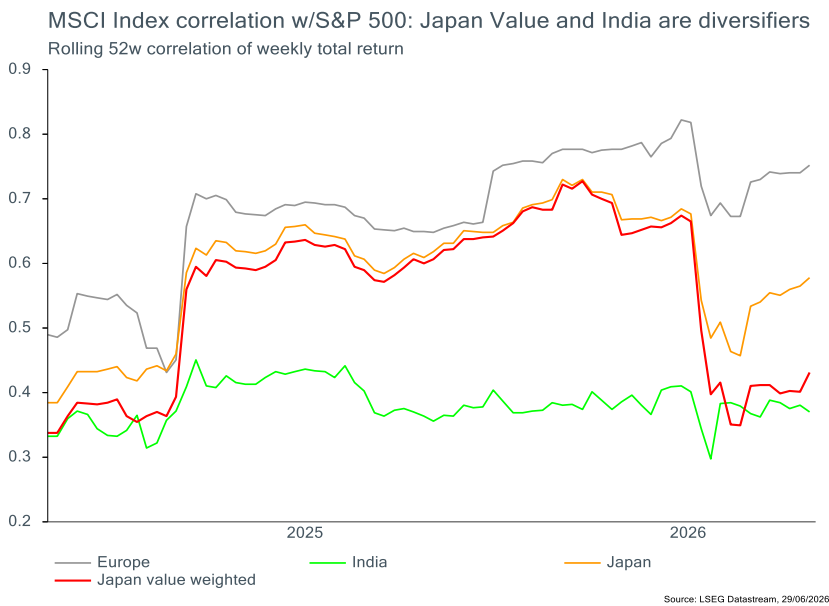
India's very low equity correlation with US equities helps diversify against what is now very high US concentration in the tech sector.

India - IBES 12mth forward earnings estimate growth



- Japan:** Japan is in the midst of a robust cyclical upswing combined with a profit boost from corporate reform. Its export outlook is strong, domestic capital expenditure is surprising to the upside, and the acceleration in real household income to 2% should support consumption growth. This mix is driving earnings upgrades across multiple sectors. We are positive on industrials and domestically oriented names which are more defensive. Select companies in healthcare, medical equipment, and consumer services also present more appealing entry points and greater alpha potential. Crucially, the low correlation of the MSCI Japan Value Index with US equities offers portfolio diversification and resilience

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- Fixed income:** We remain constructive on Asian credits. All-in yields remain attractive, and with global equity markets narrowly focused on a few themes, a bond allocation can enhance diversification in portfolios. We continue to focus on generating resilient carry for portfolios and look to extend duration as evidence emerges that the inflation and interest rate impact of the energy price shock has peaked. We prefer economies that have stronger balance of payments positions, including SGD and AUD.
- Asia tech:** AI is becoming a structural growth driver for Asia, anchored by data centre build-outs and leadership in tech hardware supply. While AI is widely perceived as a software and chips revolution led by US, Asia leads the enabling hardware revolution by supplying semiconductor chips, hardware and infrastructure. With the US' dominance in global technology benchmarks (>70%), investors risk overlooking attractive opportunities and emerging innovators which a dedicated Asia tech allocation can offer.
- Taiwan and Korea stand out as the region's key growth markets as we transition from the Agentic AI phase to the Physical AI phase. Demand for AI infrastructure continues to outpace supply after years of underinvestment in manufacturing capacity. In particular, electronics manufacturers and selected supply-chain companies are better positioned than the broader semiconductor sector, given stronger pricing power, rising average selling prices and more attractive earnings growth.

In conclusion, the AI infrastructure capex boom is real and durable. However, outperformance will require investors to look beyond the index and identify the companies that genuinely monetise it across the full physical supply chain, from power systems and high-speed interconnects to precision components and satellites.

With global equity markets narrowly focused on a few themes, a bond allocation can enhance diversification in portfolios.

With the US' dominance in global technology benchmarks (>70%), investors risk overlooking attractive opportunities and emerging innovators which a dedicated Asia tech allocation can offer.

Yet, Asia's heterogeneity means that the energy shock is creating as many dislocations as opportunities. Outperformance in this environment requires deep fundamental research and genuine security selection – passive exposure to broad indices may leave investors either overweight crowded technology positions or exposed to energy-import headwinds. Active, selective management in Asia has never been more essential, in our view.

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