

AI tailwinds driving growth in Asia's tech sector



Contents

1

There's no generative AI without Asian tech hardware

2

Is open-source the key to China's domestic AI innovation?

3

Japanese gaming IP: the AI tailwind to come

4

Does Asia Pacific tech deserve a 50% valuation discount?

5

What are the risks?

Technology has consistently driven and redefined human progress. While the US has been the focal point of recent AI advances, Asia remains a pivotal player in the global tech landscape. Home to a robust ecosystem of world leaders in semiconductors, electronics, hardware, software and cloud technology, Asia is quietly leading the AI revolution in a number of key areas. As this fast-changing AI narrative continues to unfold, we see a number of secular growth investment opportunities in the Asia region.

Authors



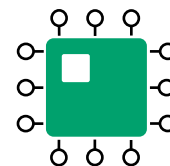
Oliver Cox
Portfolio Manager
Emerging Market &
Asia Pacific Equities



Francesco Chan
Investment Specialist,
Emerging Market & Asia
Pacific Equities

1. There's no generative AI without Asian tech hardware

Comprising more than 30%¹ of the MSCI Asia Pacific ex Japan Index, Asia's broad technology universe of cutting-edge manufacturers and internet companies represents one of the largest investment opportunity sets in the region. Within this rich array, the crown jewel remains the foundational technology of the global economy: leading-edge semiconductors.

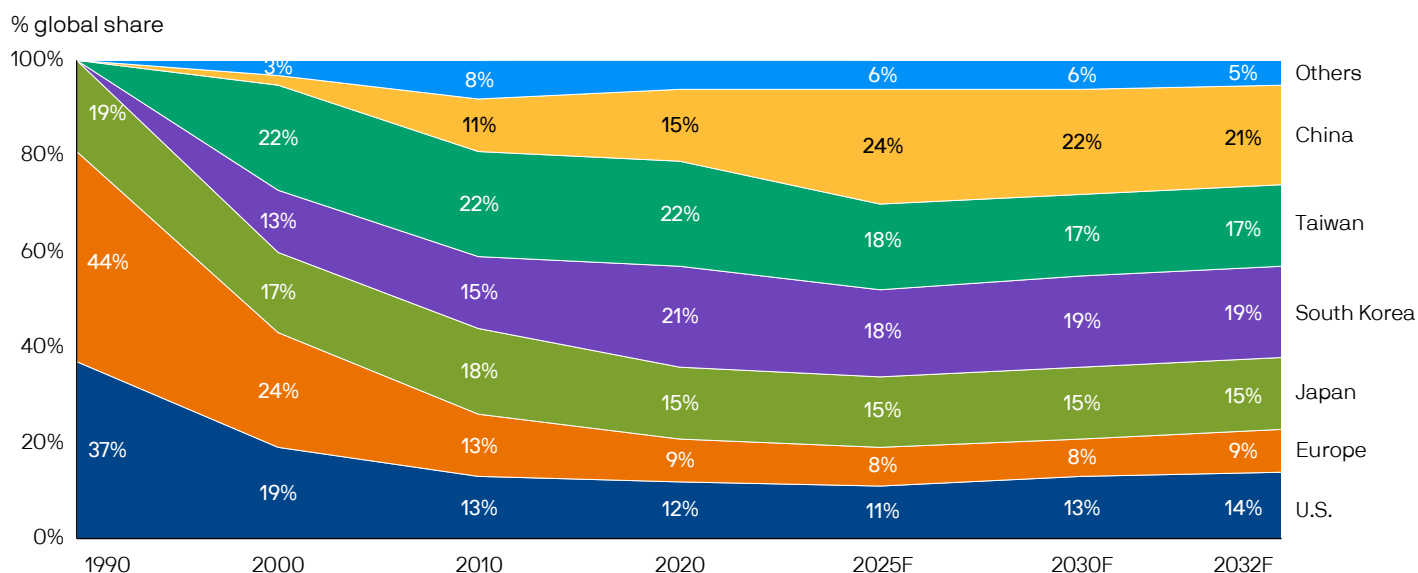


Just how dominant is Asia? There has been a dramatic, ongoing shift in semiconductor production over the last 30 years away from the US and Europe and towards Asia. Including Japan, the region now accounts for 72%, and rising, of global production. However, this share is now over 95% for leading-edge semiconductors, which are the key components for GPUs (graphics processing units) and AI servers.

Asia also commands near-monopoly market shares in critical AI components such as high-bandwidth memory semiconductors from Korea, advanced chemicals from Japan, production tools, and servers.

While large US tech companies – often referred to as hyperscalers – continue to steal the limelight with significant data center capital expenditure (capex) announcements, the hidden reality is that their AI ambitions remain entirely rooted in the Asian hardware supply chain. With technological leadership, high barriers to entry, and cost advantages, Asian companies are set for robust multi-year growth, making them a compelling choice for investors.

Exhibit 1: Semiconductor production by location

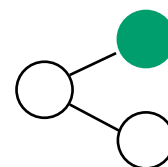


Source: J.P. Morgan Asset Management. VLSI Research Projection, SEMI May 2024 update, BCG analysis. All values shown in 8" equivalents; excludes capacity below 5 kwpm or less than 8". *Others includes Israel, Singapore and the rest of the world. Numbers may not add up to 100 due to rounding. Forecasts are based on current data and assumptions about future economic conditions. Actual results may differ materially due to changes in economic, market and other conditions. Data are as of July 31, 2025.

¹ The tech universe is defined as companies within MSCI Asia Pacific ex Japan Index information technology sector together with internet platform and gaming companies which may be categorised as communication services or consumer discretionary by MSCI. Data as of 31 August 2025.

2. Is open-source the key to China's domestic AI innovation?

One of the landmark events of 2025 was the emergence of AI start-up DeepSeek in February. Its low-cost, innovative AI inference software techniques caused a shockwave throughout the global technology sector. The so-called “DeepSeek moment” has become the catalyst for a surge in domestic Chinese AI investment, and we are now witnessing a broad universe of emerging software and AI capex beneficiaries.

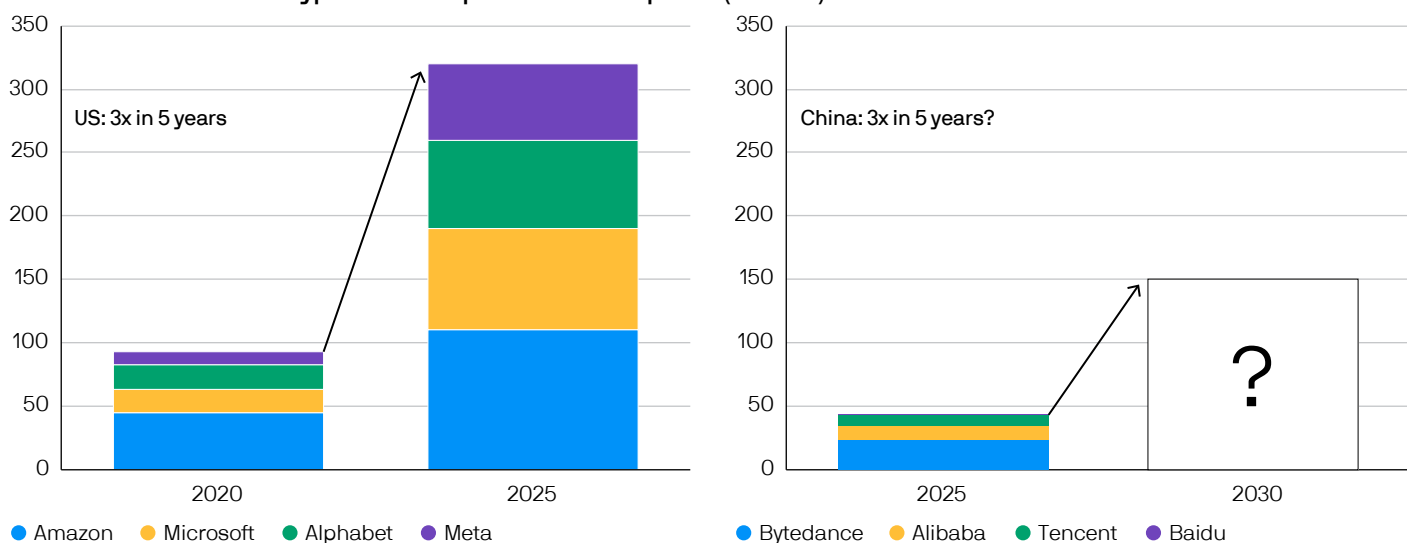


We believe domestic AI capex looks likely to rise and expect AI software adoption to accelerate in China. Over the past five years, we have witnessed capex for the big four US hyperscalers – Microsoft, Amazon, Alphabet, and Meta – rise threefold to more than \$300bn in 2025. By comparison, capex for China’s four largest hyperscalers – ByteDance, Alibaba, Tencent and Baidu – is forecast to be just below \$50bn in 2025, hence we see significant scope for growth as the Chinese AI ecosystem plays catch up.

The pace of innovation in our view is similar to what’s happening in the US. Compared to the more closed system, Silicon Valley-centric evolution of the US hyperscalers, China’s AI developers are pursuing a far more collaborative, open-source approach. This consists of multiple sources of innovation, which can benefit the overall ecosystem and potentially drive wide-ranging cost savings.

This collaborative approach appears to be a key factor in explaining why AI is already emerging as a revenue and margin driver for some Chinese mid-cap internet companies. Standout areas include music entertainment apps, online brokerage and traditional social media. For example, messaging apps leverage AI to enhance content recommendation, personalised advertising, and user engagement. Meanwhile, e-commerce platforms leverage AI for personalised shopping experiences, optimising search algorithms, and improving product recommendations for shoppers.

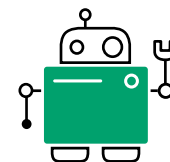
Exhibit 2: U.S. vs China hyperscaler capex trends compared (USD bn)



Source: Bank of America Securities. Data as at the end of August 2025.

3. Japanese gaming IP: the AI tailwind to come

The global software market is made up of a myriad of enterprise and consumer-focused companies. Within the enterprise space, an emerging theme is the extent to which large US incumbents face significant disruption risk from well-funded, AI-centric start-ups.



Within Asia's consumer software space, one standout area where AI is likely to be a dynamic tailwind, rather than a disruptive headwind, is the Japanese gaming sector.

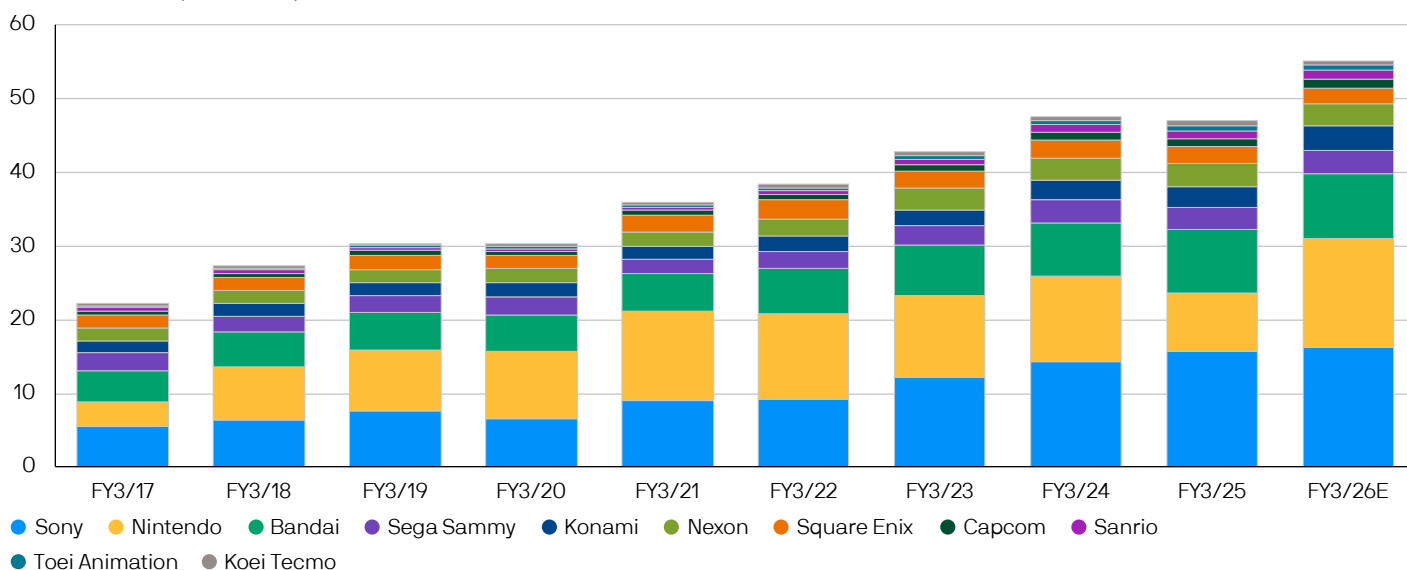
Asia has been the standout global leader in gaming for many years. Today, the region is home to 45% of global gaming revenue, 52% of the global gaming population, and 10 of the top 20 largest gaming companies, many of whom are based in Japan.²

The consistently high quality of Japanese gaming IP is the key driver of what is now more than a \$55bn revenue stream, posting 11% cumulative annual sales growth over the past decade. As gaming studios now look to incorporate advanced AI development tools, in-game agents and other new AI features, it looks likely that growth is set to pick up.

The advent of AI looks set to increase the barriers to entry around the incumbent gaming IP leaders, and we look forward to seeing increasingly immersive AI gaming experiences emerge from Japan in the years to come.

Exhibit 3: Japan Gaming & Entertainment IP: US\$55bn revenue stream growing at 11% CAGR

Annual revenue (US\$ Billion)



Notes: Sony "Game & Network Services" segment, ex-hardware sales, others = total sales, at USDJPY 145. Source: J.P.Morgan Asset Management, Company filings, data as of 31st August 2025

² Source: Newzoo Global Games Report, J.P. Morgan Asset Management. Data as of August 2025.

4. Does Asia Pacific tech deserve a 50% valuation discount?

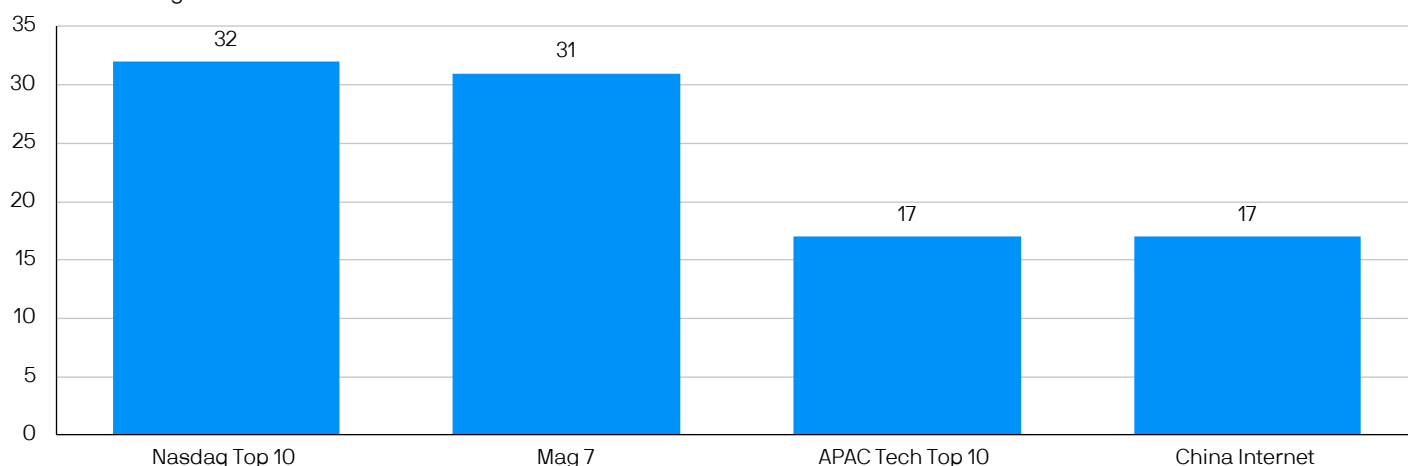
Although many of the technology trends we see in the US and Asia Pacific appear similar, the glaring difference between the two technology universes is on market valuation.

While the Magnificent 7 and the top 10 components of the Nasdaq universe trade on average price/earnings multiples above 30x, the comparable groups in Asia still trade on mid-teens multiples, presenting an approximately 50% discount. We believe that this extent of valuation discount is undeserved, given the scale of the secular growth opportunity ahead.



Exhibit 4: Asia-Pacific tech trading c.50% below US peers

Price-to-Earnings Ratio



Source: Bloomberg, Bank of America Securities. Data from August 2025. Average, normalised price/earnings ratios, based on J.P. Morgan Asset Management estimates. Nasdaq top 10: Nvidia, Microsoft, Apple, Amazon, Meta, Broadcom, Alphabet, Tesla, Netflix, Costco. Mag7: market-cap weighted PER for the Magnificent 7 Index. APAC tech top 10 is the top 10 largest tech companies by market cap within MSCI AC Asia Pacific Index. Tech companies are broadly defined as companies within information technology, internet, gaming and EV-related sectors. It includes TSMC, Tencent, Samsung, Alibaba, Sony, PDD, CATL, Xiaomi, Softbank, SK Hynix. China Internet: market-cap weighted PER of China's largest 16 internet companies.

5. What are the risks?

AI is set to be a strong tailwind driving growth in Asia for many years to come. We believe investors can benefit from this tailwind by increasing exposure to the Asia-Pacific region, which still trades at a significant discount to the US technology sector.



What about risks? The primary challenge investors face as this multi-year AI narrative unfolds is coping with the inevitable volatility along the road. For example, in July 2024 and February 2025, we have seen two corrections in excess of 20% for the MSCI Pacific Technology Index, as the market questions end demand and ROI for all of this capex. Hindsight in investing is, of course, 20:20 but both of those corrections presented excellent buying opportunities. We believe that investors should continue to try to take advantage of such volatility, to increase exposure in a contrarian fashion, as and when the opportunity arises.

Conclusion

Asia's technology sector stands at the forefront of the global AI revolution, underpinned by its dominance in semiconductor manufacturing, innovative software development, and world-class gaming IP. As AI adoption accelerates across the world, Asia's unique strengths and ongoing capex make it a compelling destination for investors.

Despite trading at a significant valuation discount compared to US peers, the scale and quality of Asia's tech ecosystem suggest that this gap is increasingly unjustified. Although periods of volatility and market corrections are inevitable, such fluctuations can offer attractive entry points for investors looking to participate in one of the most compelling parts of Asia's long-term growth story.

The views contained herein are not to be taken as advice or a recommendation to buy or sell any investment in any jurisdiction, nor is it a commitment from J.P. Morgan Asset Management or any of its subsidiaries to participate in any of the transactions mentioned herein. Any forecasts, figures, opinions or investment techniques and strategies set out are for information purposes only, based on certain assumptions and current market conditions and are subject to change without prior notice. All information presented herein is considered to be accurate at the time of production. This material does not contain sufficient information to support an investment decision and it should not be relied upon by you in evaluating the merits of investing in any securities or products. In addition, users should make an independent assessment of the legal, regulatory, tax, credit and accounting implications and determine, together with their own financial professional, if any investment mentioned herein is believed to be appropriate to their personal goals. Investors should ensure that they obtain all available relevant information before making any investment. Investment involves risks, the value of investments and the income from them may fluctuate in accordance with market conditions and taxation agreements and investors may not get back the full amount invested. Both past performance and yield are not a reliable indicator of current and future results.

J.P. Morgan Asset Management is the brand for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide.

To the extent permitted by applicable law, we may record telephone calls and monitor electronic communications to comply with our legal and regulatory obligations and internal policies. Personal data will be collected, stored and processed by J.P. Morgan Asset Management in accordance with our privacy policies at <https://am.jpmorgan.com/global/privacy>.

This communication is issued by the following entities: In the United States, by J.P. Morgan Investment Management Inc. or J.P. Morgan Alternative Asset Management, Inc., both regulated by the Securities and Exchange Commission; in Latin America, for intended recipients' use only, by local J.P. Morgan entities, as the case may be; in Canada, for institutional clients' use only, by JPMorgan Asset Management (Canada) Inc., which is a registered Portfolio Manager and Exempt Market Dealer in all Canadian provinces and territories except the Yukon, an Investment Fund Manager in British Columbia, Ontario, Quebec, and Newfoundland and Labrador, and a derivatives adviser in Ontario and Quebec. In the United Kingdom, by JPMorgan Asset Management (UK) Limited, which is authorized and regulated by the Financial Conduct Authority; in other European jurisdictions, by JPMorgan Asset Management (Europe) S.à r.l. In Asia Pacific ("APAC"), by the following issuing entities and in the respective jurisdictions in which they are primarily regulated: JPMorgan Asset Management (Asia Pacific) Limited, or JPMorgan Funds (Asia) Limited, or JPMorgan Asset Management Real Assets (Asia) Limited, each of which is regulated by the Securities and Futures Commission of Hong Kong; JPMorgan Asset Management (Singapore) Limited (Co. Reg. No. 197601586K), this advertisement or publication has not been reviewed by the Monetary Authority of Singapore; JPMorgan Asset Management (Taiwan) Limited; JPMorgan Asset Management (Japan) Limited, which is a member of the Investment Trusts Association, Japan, the Japan Investment Advisers Association, Type II Financial Instruments Firms Association and the Japan Securities Dealers Association and is regulated by the Financial Services Agency (registration number "Kanto Local Finance Bureau (Financial Instruments Firm) No. 330"); in Australia, to wholesale clients only as defined in section 761A and 761G of the Corporations Act 2001 (Commonwealth), by JPMorgan Asset Management (Australia) Limited (ABN 55143832080) (AFSL 376919). For all other markets in APAC, to intended recipients only.

For U.S. only: If you are a person with a disability and need additional support in viewing the material, please call us at 1-800-343-1113 for assistance.

Copyright 2025 JPMorgan Chase & Co. All rights reserved.

Image source: Shutterstock.

LV-JPM57037 | 09/25 | 3e73037a-8996-11f0-9da8-d1358b12f71a