AI tailwinds driving growth in Asia’s tech sector

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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.

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

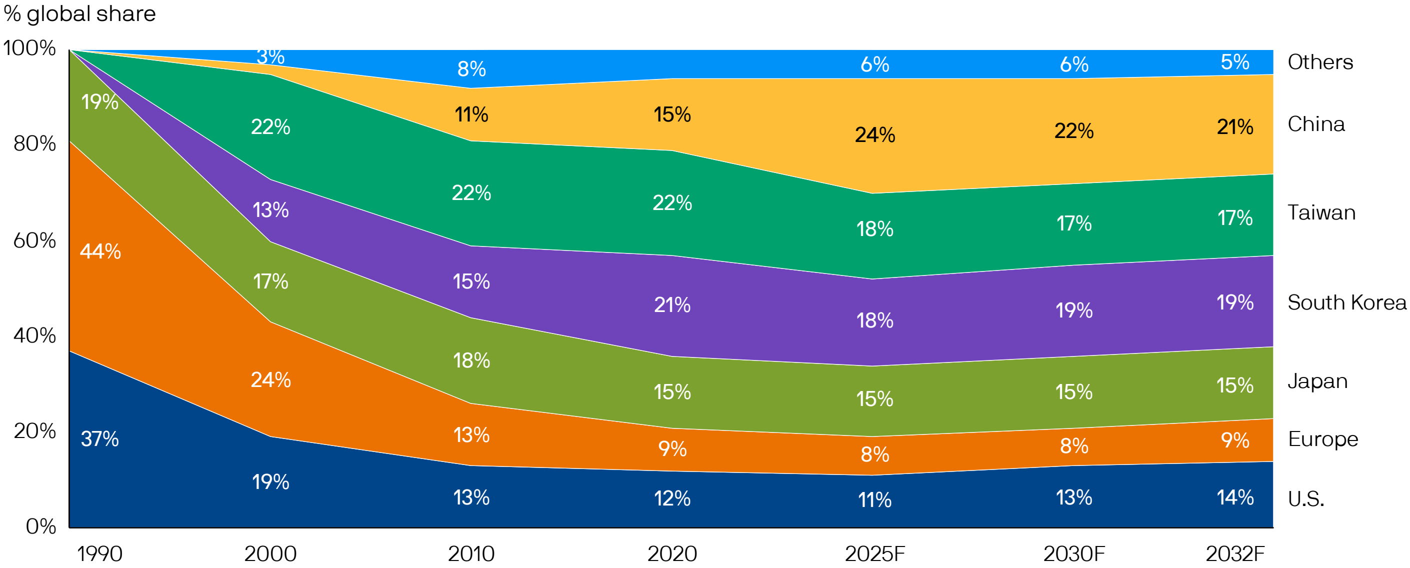
Comprising more than 30%[1] of the MSCI Asia Pacific ex Japan Index, Asia's broad technology universe of cutting-edge manufacturers and internet companies represents one of the largest investment opportunity sets in the region. Within this rich array, the crown jewel remains the foundational technology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

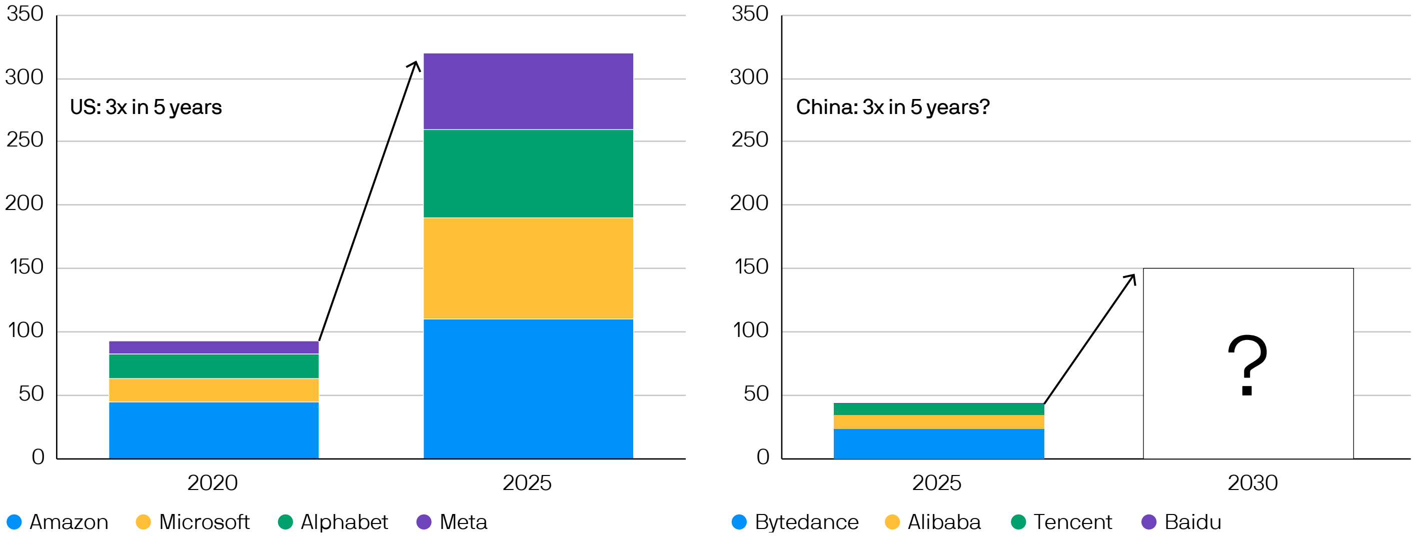
One of the landmark events of 2025 was the emergence of AI start-up DeepSeek in February. Its low-cost, innovative AI inference software techniques caused a shockwave throughout the global technology sector. The so-called "DeepSeek moment" has become the catalyst for a surge in domestic Chinese AI investment, 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.

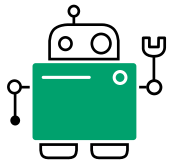
This collaborative approach appears to be a key factor in explaining why AI is already emerging as a revenue and margin driver for some Chinese mid-cap internet companies. Standout areas include music entertainment apps, online brokerage and traditional social media. For example, messaging apps leverage 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.

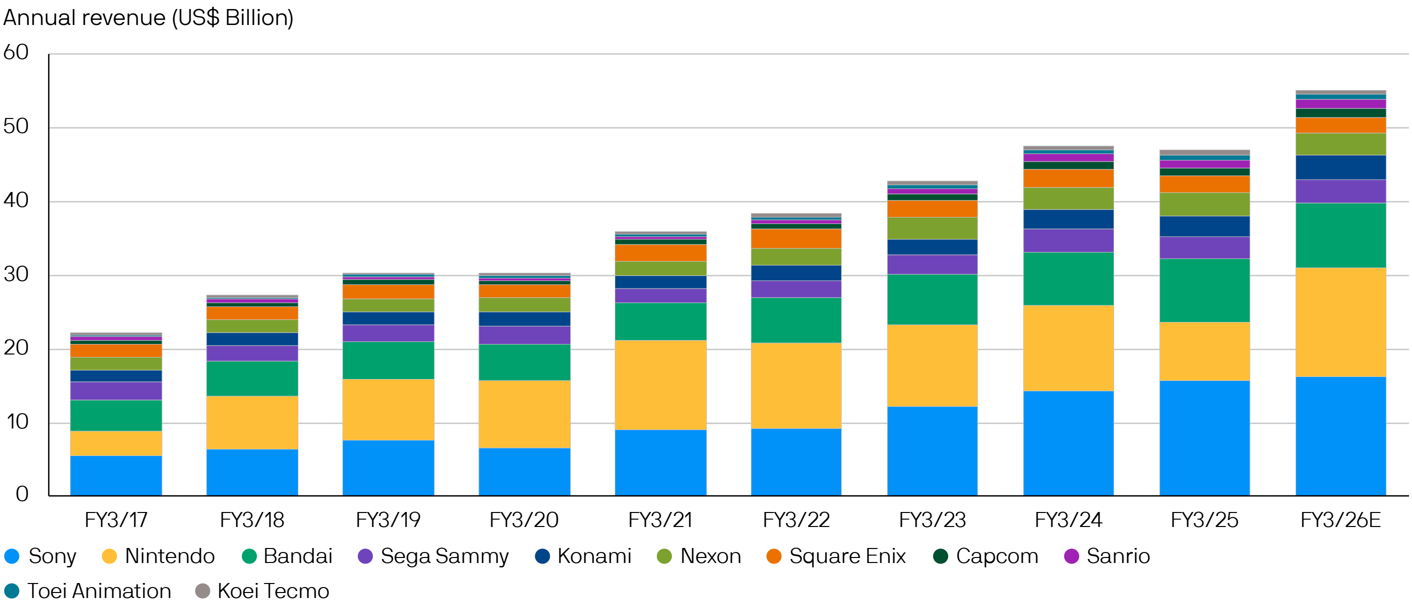
Within Asia's consumer software space, one standout area where AI is likely to be a dynamic tailwind, rather than a disruptive headwind, is the Japanese gaming sector.

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



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

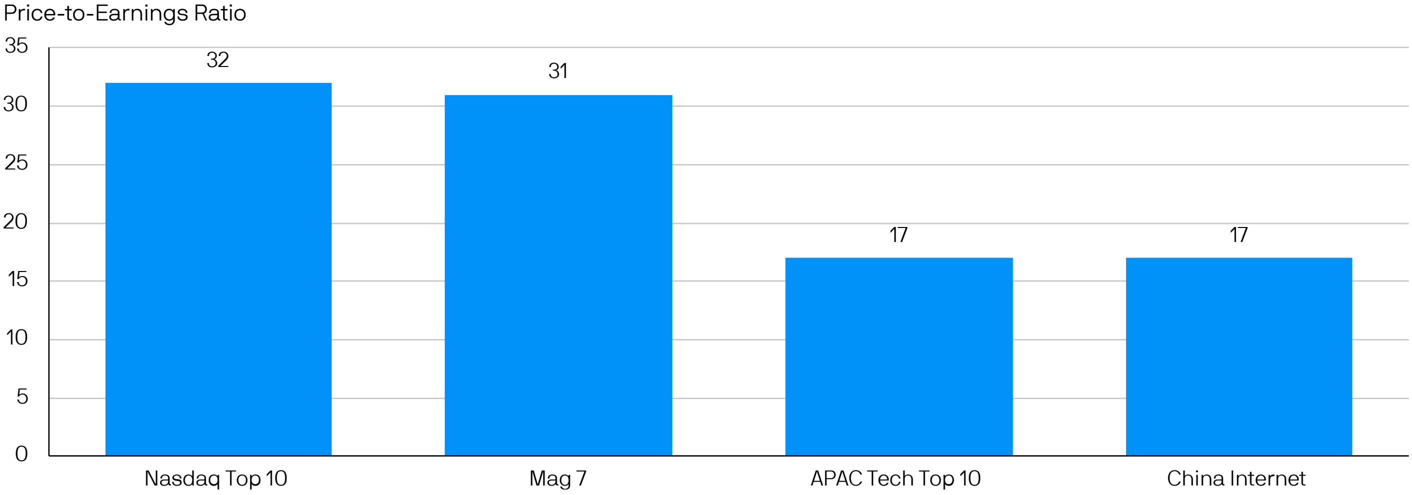
[2] Source: Newzoo Global Games Report, J.P. Morgan Asset Management. Data as of August 2025.

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



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.

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