

Emerging market and Asia Pacific equities

At an inflection point



Contents

1

The inflationary boom persists, supported by a weaker US dollar

2

Emerging markets and Asia Pacific are the engine of the artificial intelligence build-out

3

The investment cycle is broader than just artificial intelligence

4

China's twin opportunity: self-sufficiency and shareholder returns

5

Risks to investing in emerging market and Asia Pacific equities

- The MSCI Emerging Markets Index and the MSCI All Country Asia Pacific Index returned nearly 25% in EUR/USD terms in the year to the end of August, roughly double the return of the S&P 500, and have now matched the S&P 500's annualised return over three years.
- This advance looks less like the liquidity- and stimulus-driven recoveries of the past decade and more like the early-2000s investment cycle, when capital spending and earnings growth reinforced one another over multiple years.
- A weakening, increasingly pro-cyclical US dollar and a persistent inflationary boom are supporting pricing power, capital investment and earnings growth.
- While North Asia remains at the centre of the global artificial intelligence (AI) build-out, investment and earnings growth are beginning to broaden across regions, supported by China's technology self-sufficiency and the broader industrial cycle across emerging markets and Asia Pacific.
- Leadership remains narrow, dispersion is unusually wide, and portfolio construction and active management matter more than at any point in the cycle.

Authors



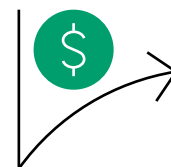
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1. The inflationary boom persists, supported by a weaker US dollar

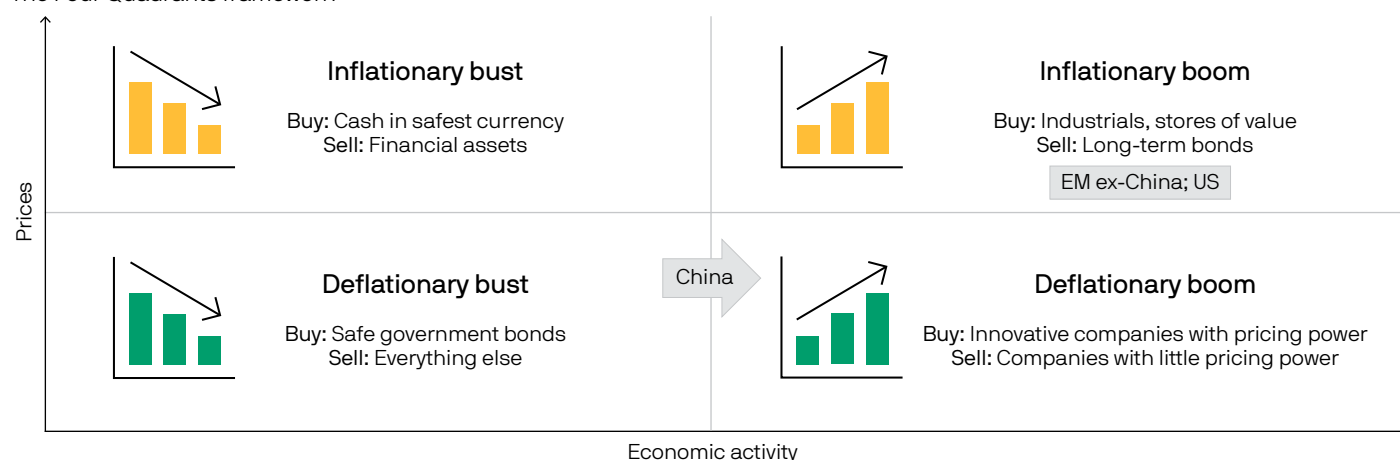
Across much of the emerging market (EM) and Asia Pacific equity universe, the prevailing backdrop remains consistent with an inflationary boom, with China clawing its way out of deflation. Historically, these periods have provided a favourable backdrop for EM equities, particularly when liquidity remains ample and nominal growth continues to expand. **The Four Quadrants framework remains a useful guide to today's opportunity set.** Persistent fiscal deficits, reshoring of supply chains, tighter labour policies and accommodative financial conditions continue to support nominal growth, while inflation has proven more durable than many anticipated. Historically, such an environment has favoured real assets, industrials, commodities, financials and gold, particularly when investors seek protection against persistent inflation and fiscal expansion.



Perhaps the most compelling support comes from the US dollar. **Since peaking in late 2022, the dollar has weakened in what could prove to be a broad structural downtrend.** More importantly, it increasingly appears to be behaving as a pro-cyclical rather than counter-cyclical currency, as large US fiscal and external deficits become increasingly reliant on foreign capital inflows. A softer dollar has historically been a powerful tailwind for EM equities, currencies and capital flows, and remains a critical cog in the wheel for the asset class today. Current-account-surplus currencies across North Asia, including the Korean won, Taiwan dollar and Singapore dollar, stand to be among the clearest beneficiaries of this shift. As a result, we continue to favour cheaper, cash-generative businesses and asset-backed sectors. **The extended AI cycle and the broader industrial and infrastructure capital expenditure (capex) cycle continue to support earnings momentum.** **As the current investment cycle matures, we see growing scope for earnings participation to broaden** beyond a narrow group of AI beneficiaries. In our view, this continues to provide a constructive backdrop for EM and Asia Pacific equities.

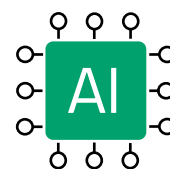
Exhibit 1: A positive environment for emerging market assets

The Four Quadrants framework



Source: Gavekal Research, J.P. Morgan Asset Management. Data as of July 2026.

2. Emerging markets and Asia Pacific are the engine of the artificial intelligence build-out

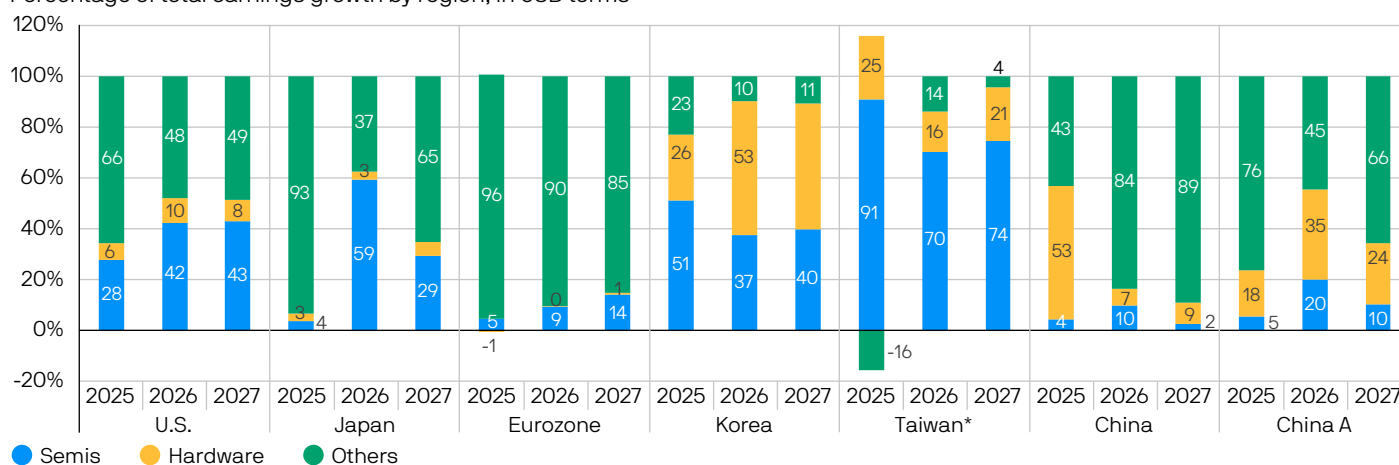


The AI investment cycle continues to exceed expectations and remains a powerful driver of capital spending and earnings growth. The global semiconductor market reached USD 702 billion in the first half of 2026, up 102% year on year,¹ while expected 2026 capex growth for the largest US hyperscalers has been revised from 34% to 78%.² **Asia controls approximately 72% of the global semiconductor supply chain**, with around 40% of global AI data-centre capex ultimately flowing into the region.³ As the investment required to build one gigawatt of AI capacity rises from roughly USD 40 billion to more than USD 70 billion,³ a significant share of hyperscaler spending accrues to East Asian companies supplying semiconductors, memory, advanced packaging, optical connectivity and compute infrastructure. This is increasingly visible in trade flows: **exports across China, Korea, Taiwan, Vietnam, Malaysia and Singapore have risen nearly 40% year on year**, with information technology (IT) and electronics exports growing more than 60%.⁴

The opportunity remains compelling, but leadership is unusually narrow. Taiwan Semiconductor Manufacturing Company (TSMC), Samsung Electronics and SK Hynix now represent a substantial share of both EM benchmarks and portfolios, while technology accounts for 42% of the MSCI Emerging Markets Index, 41% of MSCI Asia Pacific ex-Japan and 46% of MSCI Asia ex-Japan (as of the end of August 2026), representing an **unprecedented level of sector concentration**. The July 2026 correction showed how quickly crowded positioning can unwind. Importantly, concentration in benchmark weights does not necessarily translate into concentration of active risk, but it heightens the importance of portfolio construction and active management. Rather than signalling the end of the AI cycle, this concentration **reinforces the need for participation to extend beyond today's leaders into the wider supply chain and adjacent beneficiaries**. This broadening of the investment cycle is the focus of the next section.

Exhibit 2: Semiconductors and hardware share of earnings growth

Percentage of total earnings growth by region, in USD terms



Source: Standard & Poor's, MSCI, FactSet, J.P. Morgan Asset Management. Data for 2026 and 2027 reflect estimates. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated. Earnings growth refers to annual earnings growth for the S&P 500 for the U.S., MSCI Japan for Japan, MSCI EMU for the Eurozone/EU, MSCI Korea for Korea, MSCI Taiwan for Taiwan, MSCI China for China, and MSCI China A Onshore for China A. Data reflect most recently available as of 15/07/26.

¹ World Semiconductor Trade Statistics (WSTS).

² J.P. Morgan Asset Management, Goldman Sachs.

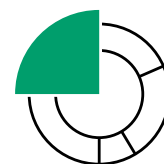
³ J.P. Morgan Asset Management estimates, company accounts; as of 20th August 2026.

⁴ Emerging Advisors group; as of September 2026.

The companies above are shown for illustrative purposes only. Their inclusion should not be interpreted as a recommendation to buy or sell.

3. The investment cycle is broader than just artificial intelligence

AI remains the most visible growth impulse, but its effects are spreading into power grids, industrial automation, energy security, defence, shipping and supply-chain resilience. Rising demand for data centres is exposing bottlenecks in power equipment, gas turbines and electrical infrastructure, creating opportunities across industrials, capital goods and financials. Evidence from the US illustrates the potential multiplier effect: **each 1% contribution to growth from AI-related investment is estimated to generate a further 1.5% of business investment growth** in the following quarter.¹ Market leadership remains narrow, but earnings participation is beginning to improve beyond the largest AI beneficiaries. Across our coverage universe, we expect **earnings growth of approximately 50% through the remainder of 2026, followed by a further 17% in 2027,**² supporting the case that the next phase of the cycle may be broader than the first.

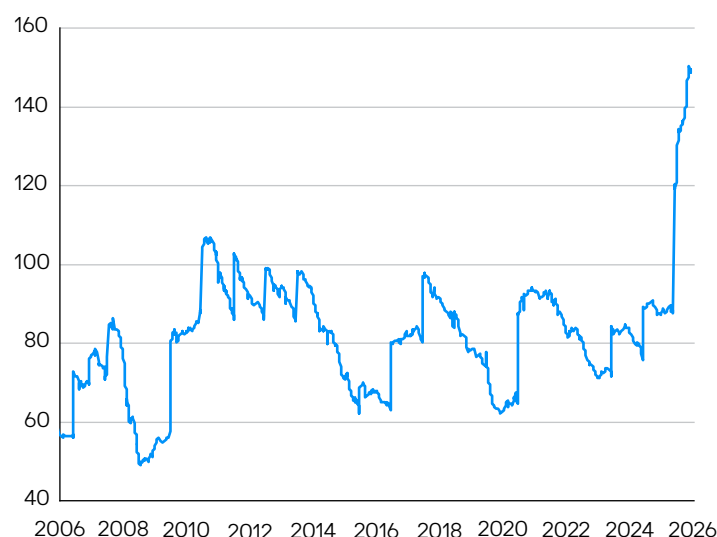


As highlighted in our recent Asia Income [white paper](#), long-term equity returns are driven not only by earnings growth but also by the cash flows returned to shareholders. North Asia's governance reforms are moving beyond compliance towards higher returns on equity, improved capital efficiency and clearer shareholder accountability. Goldman Sachs estimates that listed Chinese companies could return more than 4 trillion Chinese renminbi through dividends and buybacks in financial year 2026, while Asia Pacific ex-Japan is home to approximately **250 companies yielding above 4%, compared with 150 in MSCI Europe and approximately 50 in MSCI United States.**³ In a world where investors increasingly lose value through inflation, fiscal expansion and capital issuance, companies that return cash and allocate capital well offer a less-dilutive source of compounding. Returns from this cycle can therefore come from both earnings growth and distributions.

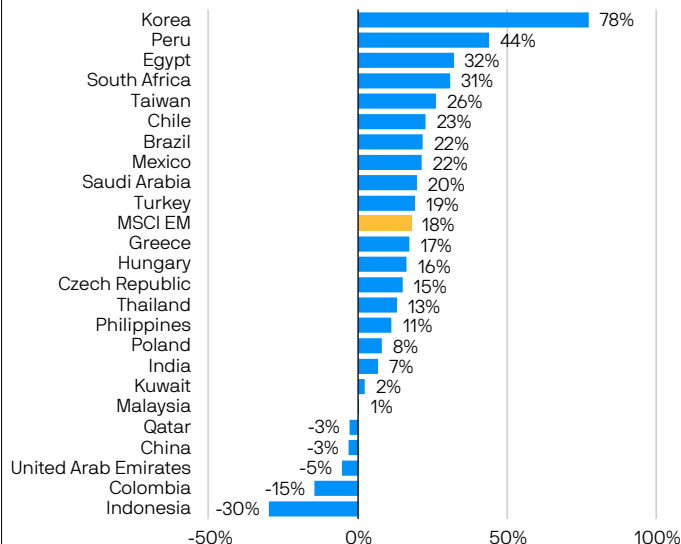
Exhibit 3: Earnings are what matter over the long term and what have been propelling emerging markets recently

Broad-based earnings growth driving returns in 2025 and year to date

EM Earnings outlook
MSCI EM Index's blended-forward 12m earnings estimates



Trailing EM EPS Growth by market
Last twelve months



Source: Bloomberg. Data as of 28th September 2026, USD EPS.

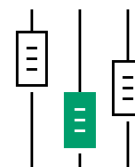
¹ As per UBS estimates, Sept 2026.

² J.P. Morgan Asset Management estimates; as of August 2026.

³ Factset, MSCI, J.P. Morgan Asset Management. Past performance is not indicative of current or future results. Guide to the Markets – Asia. Data reflect most recently available as of 30/06/26.

4. China's twin opportunity: self-sufficiency and shareholder returns

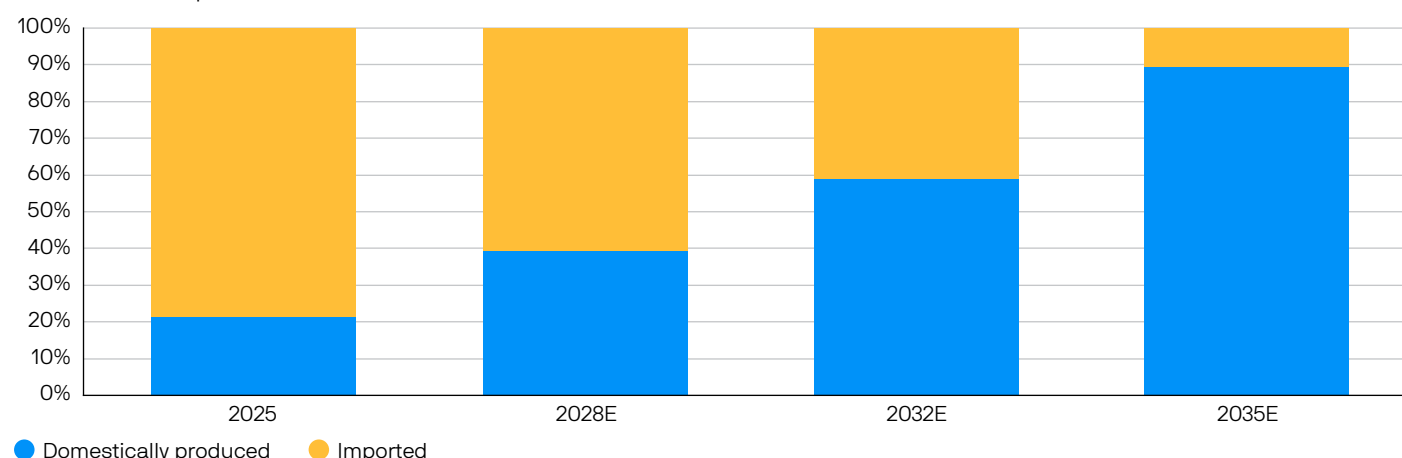
China remains a two-speed market. Domestic consumption and property are subdued, with weakness increasingly visible among lower-income consumers, while export-oriented industries and large parts of the technology ecosystem remain resilient. The old property-led growth model is being replaced by “New Quality Productive Forces”, with advanced manufacturing, innovation and technology becoming more important drivers of growth. This divergence provided genuine diversification during the July 2026 correction, when China¹ rose approximately 9% while the broader Asia Pacific information technology sector fell approximately 12%. China's resilience has not been limited to the AI trade. Companies offering attractive shareholder returns and stronger capital discipline have also performed well, with share buyback announcements rising from roughly 0.3% of market capitalisation in 2019 to more than 2% in 2025.² At the same time, **deeply out-of-favour domestic consumer businesses remain among the most contrarian opportunities in our universe**, although selectivity remains critical. Local AI adoption is also reinforcing demand for semiconductors, memory and digital infrastructure despite the softer domestic economy.



The clearest opportunity lies in hardware and industrial self-sufficiency. **China's dynamic random-access memory (DRAM) self-sufficiency is projected to rise from approximately 18% in 2024 to 40% by 2028 and 60% by 2032,² while up to 90% of China's chips could be domestically produced by 2035.³** The software opportunity is less immediate but potentially underappreciated. Alibaba and other cloud platforms have lagged as AI capital expenditure and operating costs weighed on margins, but their scale, distribution and established user ecosystems position them to benefit as enterprise adoption broadens and cloud becomes a larger profit pool.

Exhibit 4: We forecast that 90% of China's chips will be domestically produced by 2035

China's domestic production rate for all semiconductors



Source: J.P. Morgan Asset Management; data as of 30th January 2026. Forecasts/estimates may or may not come to pass.

¹ MSCI China 10/40 and MSCI AC Asia Pacific Tech July 2026 returns in USD.

² J.P. Morgan Asset Management estimates.

³ J.P. Morgan Asset Management; data as of 30th January 2026.

Opinions, estimates, forecasts, projections and statements of financial market trends are based on market conditions at the date of the publication, constitute our judgment and are subject to change without notice. There can be no guarantee they will be met.

Risks to investing in EM and Asia Pacific equities

Investing in EM and Asia Pacific equities involves material risks. We focus on three signposts that could challenge this investment cycle: energy, credit and policy rates. Alongside them, disciplined position sizing and diversification help manage concentration, geopolitical and trade risks.

Higher credit costs can end the investment cycle:

Investment booms typically end when credit costs rise materially and remain elevated, rather than because valuations are high. Headline spreads remain contained, but stress is building at the lower-quality end of credit markets. At the same time, policy rates are moving higher across several major economies, testing whether earnings and cash flows can absorb a sustained rise in funding costs.

Momentum crowding and concentration:

AI leadership has produced unprecedented sector and index concentration, making markets more vulnerable to reversals in crowded positioning. The key risk is a double hit to AI beneficiaries if earnings expectations weaken as the cost of capital rises. Concentration is a fragility signal, not a timing signal, reinforcing the need for disciplined position sizing, portfolio construction and active management.

An oil shock could turn boom into bust:

Energy is the key macro hinge for emerging markets and Asia. A sustained move in Brent above roughly USD 100 per barrel would intensify inflation, compress corporate margins and household purchasing power, and force central banks to keep rates higher. The impact would be greatest across Asian energy importers and consumer-facing sectors.

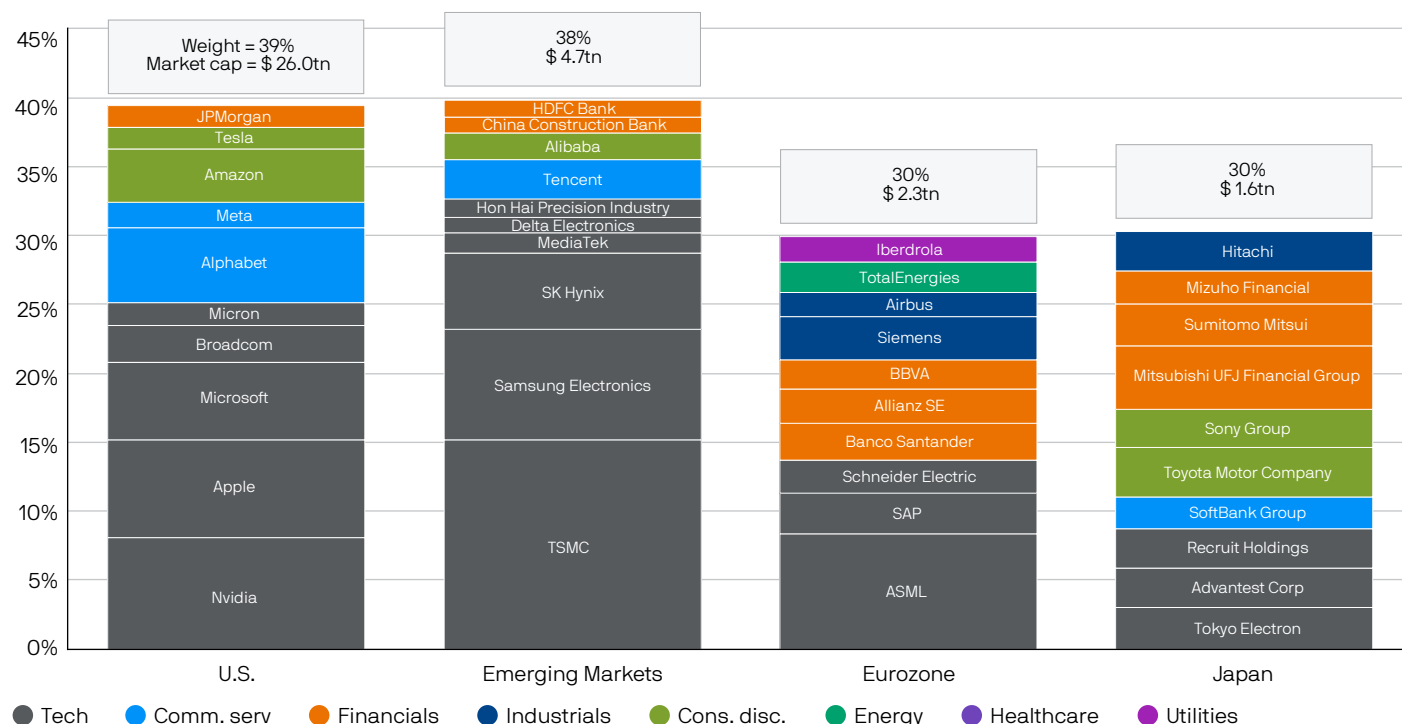
Geopolitical, policy and trade risks:

Geopolitical tensions, regulatory change, policy errors and trade disputes can disrupt markets and supply chains. Current risks include US-China tensions, the Russia-Ukraine and Middle East conflicts, tariff changes and capital controls. Importantly, most EM companies continue to derive 70–90% of revenues domestically, helping mitigate the effect of external trade disruptions.

Equity market concentration

Exhibit 5: Top 10 companies in regional indices

Index weight on the first day of the current month



Source: Bloomberg, MSCI, Standard & Poor's, J.P. Morgan Asset Management. All markets are represented by their respective MSCI index except for the U.S., which is the S&P 500. Eurozone is MSCI European Monetary Union Index. Past performance is no guarantee of future results. Guide to the Markets – U.S. Data are as of September 25, 2026.

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