03 Nov 2025
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Article type: Publication
Financial Standard
Readership: 13000
AVE: $7423.14

www.financialstandard.com.au
3 November 2025 | Volume 23 Number 21

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The Asian market's outperformance is just beginning

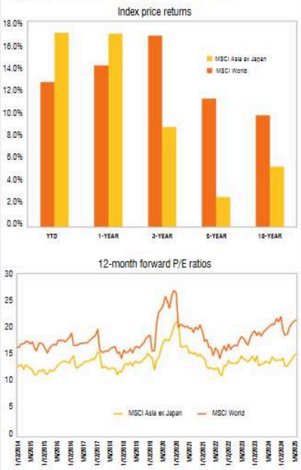
Asian stock markets have performed strongly this year and outperformed global markets with increased inflows and positive economic policies across Asia drawing investors. We believe the rally is just getting started and the opportunities extend beyond China into other Asian economies.

China's stock market is rallying, led by technology giants like Alibaba, and Asian markets more broadly have surged, as the chart below illustrates. In September the MSCI Asia ex Japan Index sat at a four-year high, up 25% year to date, with potential for further gains supported by robust corporate earnings revisions.

There are several reasons why we believe the outlook for Asian markets is positive. The weakening US dollar, positive structural shifts in China, and supportive monetary and fiscal policies across economies are all likely to support company earnings and valuations.

Turning to the depreciation of the US dollar, this will improve liquidity in Asia which will help boost corporate earnings and drive asset reflation. As the US central bank cuts interest rates, US investments will appear less attractive to investors, likely prompting a search for in higher returns in Asian markets. That inflow of capital will likely fuel returns on Asian investments.

Figure 1. Market backdrop: Beginning of a recovery, large valuation discount persists vs. world



Source: Man Group, MSCI

Asian central banks are also likely to ease monetary conditions. Interest rates have been held high in Asian nations to maintain high real interest rates relative to the US dollar and we expect to see this unwind. Falling credit costs will also help to buoy corporate profitability in Asia.

In terms of China, its stock market is booming. Alibaba, for example, has jumped 32.6% over the month to October 7. The company recently announced a big jump in AI capital spending of around US$53 billion over the next three years to advance its cloud computing and AI infrastructure. The investment exceeds Alibaba's total AI and cloud spending over the past decade, underscoring the company's focus on AI-driven growth and the company's role as an emerging global cloud provider. That has drawn investors to the Chinese share market and boosted confidence.

Chinese households are also likely to shift from savings to stock market investments. Chinese households are prolific savers, and we could see this capital transfer toward greater consumption and stock market investment over time. Domestic household savings have grown at double digit rates in recent years - exceeding growth during the Covid pandemic. With consumer confidence still low, the Chinese government has introduced pro-consumption policies aimed at increasing household spending, including free childcare and expanding migrant services. We expect more policies to follow.

While US households invest around 25% of household wealth in equities, that figure is around just 2% in China, as the chart below shows. We expect that the improvement in share markets will likely trigger a movement of household savings into the share market to which Chinese households are underexposed.

We also expect a positive feedback loop to emerge. Stronger equity markets will boost household income and confidence, driving greater consumption. That in turn will lead to improved corporate earnings for consumer-focused companies and encourage further household investment in the stock market, attracted by its relatively strong returns.

Importantly too, global equity investors remain underweight Chinese shares, suggesting significant room for catch-up if conviction builds in China's stock market, its burgeoning technology sector and broader economy.

However, when thinking about investing in Asia, it's important to look beyond China. For example, we are seeing the AI supply chain boost Taiwan's economy significantly, led by Taiwan Semiconductor Manufacturing Company (TSMC). The company is a leader in AI computing and the manufacture of advanced computer chips, benefiting from the boom in AI use and investment. TSMC is a global leader in manufacturing advanced computer chips, necessary for AI processing, producing almost all the world's most sophisticated AI accelerators, such as Nvidia's graphics processing units (GPUs).

In India, we are more optimistic as positive monetary and fiscal policies favour equity returns. The outlook for India's stock market is attractive given long-term fundamentals including its relatively strong economic growth, an emerging middle class, and growing consumption. Earnings revisions are turning more positive, supported by recent fiscal and monetary stimulus from the Indian government.

Overall, we see greater opportunities across Asia, a region which has outperformed year to date, and we expect will continue to outperform. FS

The quote

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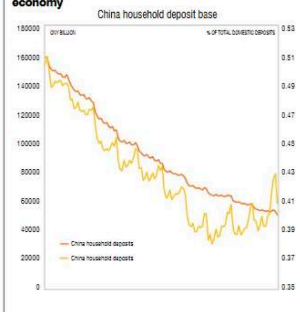
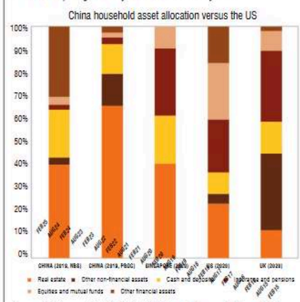
Figure 2. China's pivot towards a consumption-led economy



Source: Haver, Morgan Stanley Research as of 27 May 2025



Source: Citi Research, WIND, CEIC, PBoC, Federal Reserve Bank as of 26 June 2025. PBoC refers to data collected in the PBoC urban household survey. The survey is designed to collect detailed data on Chinese urban households' financial behaviours, assets, liabilities, income, and consumption patterns.