2026 Mid-year outlook: Asia Equities ex-Japan

15 July 2026

Asia equities ex-Japan continued the significant momentum from 2025 with strong performance throughout the first half of the year. Amid numerous catalysts, June Chua, Head of Asia Equities outlines in this Mid-Year Outlook why she is constructive on the asset class for the remainder of 2026. Positive drivers include: potential geopolitical resolution in the Middle East and lower energy costs, supportive earnings and valuations, and differentiated growth drivers across the region.

Summary:

- Asia equities have delivered strong year-to-date (YTD) returns amid various challenges. Earnings and valuations in Asian geographies remain supportive, with an overall positive outlook.
- We reiterate our constructive view of Greater China equity markets in 2026, supported by attractive valuations and resilient fund flows.
- Strong YTD performance in Korea and Taiwan have been a key driver for the upward trajectory of Asian equities. We currently maintain a high level of conviction in Korea's technology and broader industrial sectors, as well as in Taiwan's artificial intelligence (AI) supply chain. Additionally, incremental demand for domestic equities in both these markets is driven by local pensions.
- In India, we remain true to our 5D structural investment themes – Digitisation, Demographics, Deglobalization, Decarbonization, and Deficit Reduction – which capture the multidimensional nature of the country's economic transformation.
- Equities in most ASEAN markets have underperformed their North Asian peers YTD. Despite the challenging environment, we believe coordinated efforts by governments, central banks and corporates are underway to navigate these headwinds.

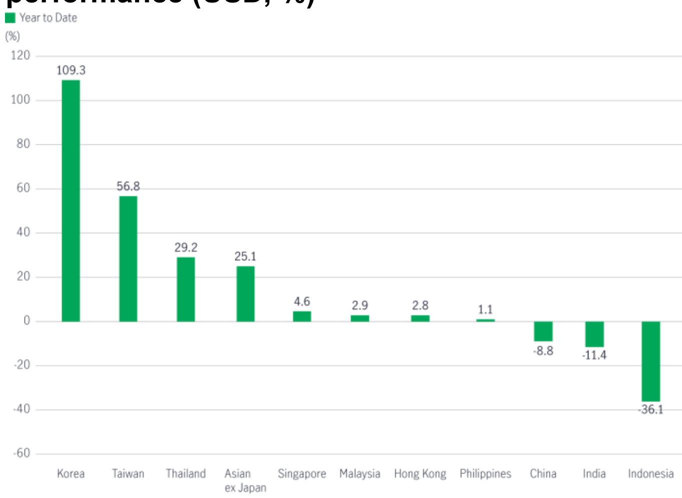
Asia Equities ex-Japan: Diverse growth drivers propel regional momentum

2026 First-Half Market Recap

Despite ongoing geopolitical conflict in the Middle East and higher oil prices, Asian equities have delivered strong YTD returns, rising significantly (Chart 1)[1].

Underlying this result was significant dispersion across the region. Continued AI optimism drove sizable outperformance in the Taiwan and Korea markets. In contrast, some ASEAN markets and India broadly underperformed due to the impact of higher energy costs, investor rotation, and a stronger US dollar.

Chart 1: 2026 YTD MSCI Asia indices performance (USD, %)[2]



[1] Bloomberg, as of 14 June 2026.

[2] Source: Bloomberg, Manulife Investment Management as of 14 June 2026.

Greater China

For China A-shares, we reiterate a positive view for the market in 2H 2026. Indeed, earnings growth has turned positive this year, after earnings weaknesses over the past three years.

We anticipate positive earnings trend to continue over the next 12 to 18 months on the back of economic recovery and steady industrial upcycle. We see many interesting opportunities in the China A-share market, ranging from AI component supply chain, semiconductor, industrial and power equipment, materials, etc.

Going into 2H 2026, we believe there are additional positive drivers for Taiwan’s tech sector. With new platform’s specifications undergoing comprehensive upgrades, the embedded value of components should rise in tandem.

We remain constructive on: (1) advanced node foundry and OSAT supply chain; (2) copper clad laminates (CCL) on the back of upgrade cycle; (3) co-packaged optics-related plays; and (4) power solution providers (e.g. with HVDC cabinet).

Korea and Taiwan

We maintain our constructive view on Korea and Taiwan given the underlying fundamental strength in these markets, where the corporate earnings picture continues to surprise to the upside. Companies are delivering product innovation, technological execution, and revenue beats that the macroeconomic noise tends to obscure.

The AI revolution is now entering its first wave of expansion across Asian markets. In Taiwan, winners already extend beyond TSMC to ecosystem players in testing equipment and high-layer copper-clad laminate for AI boards.

A similar ripple effect is happening in Korea. Beyond the high-bandwidth memory (HBM) cycle, growth is spreading to materials and equipment specialists. This influence now reaches power equipment for data centres, shipbuilding, and defence.

What distinguishes Taiwan and Korea is that the AI boom has translated into real gross domestic product (GDP) growth, not just multiple expansion. Taiwan's 2025 GDP grew 8.68% – a 15-year high – with TSMC's output alone contributing an estimated four percentage points. Korea's full-year growth was a more modest 1.0%, but semiconductors accounted for nearly half of the growth seen in the first quarter of 2026.

The primary difference lies in the sheer depth of the supply chain. A semiconductor giant like TSMC or Samsung does not operate in a vacuum; it is the anchor of a massive cluster.

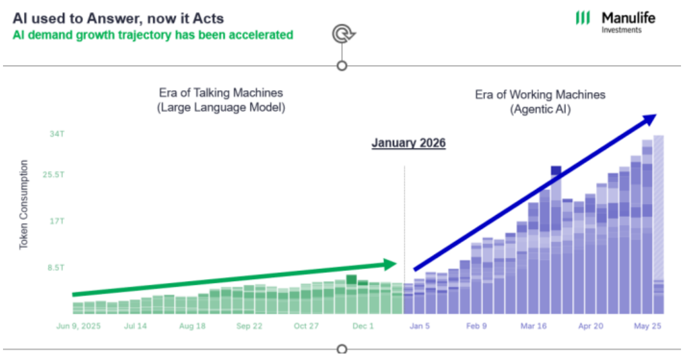
Beyond the hardware, there is the intellectual infrastructure. The design ecosystem creates a collaborative web of innovation. Once these clusters are established, they become "sticky." The cost and complexity of moving this ecosystem elsewhere provide a structural defence that a commodity-based economy doesn't have.

Furthermore, the innovation cycle in manufacturing is iterative rather than binary. In pharmaceuticals, a new competing drug or a patent cliff can decimate a company’s value almost instantly.

In mining, the economic benefit is often concentrated among a few stakeholders and is tied to finite resources. In semiconductors, the race from 14 nanometres (nm) to 2 nm or from HBM3 to HBM4 forces the entire supply chain to innovate in lockstep. Each new generation requires every layer of the ecosystem to deliver better products at more efficient costs, ensuring a constant flow of reinvestment and technological progress.

The proof is in the numbers: more tokens mean more chips, more connections, and more power (see Chart 2).

Chart 2: Top Models for AI[3]



In February 2026, agentic AI services moved into mainstream commercial deployment. An agentic system does not respond to a single prompt and stop. It receives a goal and autonomously breaks it into sub-tasks, selects the right tools at each step,

[3] Source: OpenRouter AI

handles errors and retries, and delivers a finished outcome. No human is needed at each step. The AI is no longer helping you work. It is working.

India

The lead-up to the agreement between the US and Iran to end the conflict has provided partial stabilisation in energy markets, helping to moderate some of the earlier tail risks.

Oil prices, while still elevated, have shown signs of easing from peak levels, and the path of disruption has proved more intermittent than initially feared. This does not eliminate uncertainty, but it does improve the near-term visibility relative to the earlier phase of the shock.

Domestic macroeconomic conditions through May remained broadly constructive. High-frequency indicators continue to reflect steady activity, with manufacturing and services maintaining expansionary momentum and investment activity supporting industrial demand. There are, however, early signs of divergence in composition. While domestic demand remains resilient – particularly in urban and services-led segments – external cost pressures are beginning to feed into input costs.

Policy has begun to reflect this more complex balance. At its latest meeting, the Reserve Bank of India maintained its policy rate and overall stance while recalibrating its projections to account for the extended external environment. Growth expectations were moderated, and inflation projections were revised higher, reflecting the evolving energy and cost backdrop.

Against this backdrop, we remain constructive on the 5D themes – Digitization, Demographics, Deglobalization, Decarbonization, and Deficit Reduction – with a continued emphasis on areas where domestic investment, electrification, formalisation, and premiumisation can support earnings resilience.

ASEAN

In our 2026 outlook note, we highlighted that investment sentiment across the ASEAN bloc has been weighed down by a weakening earnings growth outlook and that coordinated efforts by governments, central banks and corporates are underway to navigate these headwinds.

Some markets have also adopted robust policy measures to boost their equity markets. As we previously explained, one such effort is Singapore's Equity Market Development Programme (EQDP). The Monetary Authority of Singapore (MAS) introduced the EQDP in February 2025 to bring vibrancy to the equity market with a focus on small- and mid-cap (SMID) names.

MAS initially allocated S$5 billion to asset managers to catalyse greater participation in the equity market, with a further S$1.5 billion top-up announced in the 2026 Singapore Budget.

Most importantly, the programme serves as an important first step to augment the domestic fund management industry and increase critical institutional investor participation in the market. The programme is not a pure cash injection into the capital market, but rather the construction of a long-term ecosystem to drive investor interests toward fundamentally sound yet underappreciated investment opportunities.

With the adoption of EQDP, we wrote about attractive investment opportunities across five major themes: 1) Market reforms and a spotlight on small- and mid-Cap companies; 2) Singapore's structural growth drivers; 3) Value-enhancing corporate restructuring; and 4) Overcapitalised and deep value plays; and 5) Capturing alpha from the interest rate downcycle.

Conclusion

Despite numerous challenges, Asian equities have maintained their momentum in the first half of the year. We believe this will continue as geopolitical risks lessen and energy prices potentially fall.

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