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Asia equities still have much to offer going into 2025

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The threat of trade tariffs may make some investors nervous about their Asian equity exposure. We still view the region as attractive, albeit not uniformly so. With an entrenched exposure to the structural AI story and markets primarily reliant on domestic demand, Asia ex-Japan still has a lot to offer equity investors.

As we approach the turn of the year, a key issue that seems to have been left hanging over the outlook for risk assets is tariffs and the impact on the global economy. For sure, some of it has been priced in, with the S&P 500 having risen 5.9% since the US presidential election, while the MSCI Asia ex-Japan (MXASJ) has fallen 1.1%. One might also point to the post-election divergence between the more domestically-dependent MSCI India (+1.0%) and the export-dependent MSCI Taiwan (−4.3%) as indication that tariffs have been at least partially priced in.

But the sustained rise in the S&P, along with the equity market volatility index (VIX) hovering at low levels, suggests markets are pricing as if many of the worst outcomes of trade tensions won't be realized. With Asia—especially China—likely to feel a substantial part of the impact of tariffs, it would be understandable if investors are a little concerned about their exposure to Asian equities.

Even if there is a meaningful threat to risk appetite from trade tensions coming to the fore, we think that Asia ex-Japan has enough structural strength to warrant an attractive view on the MXASJ. The region is bolstered by healthy macroeconomic fundamentals like a robust growth outlook, and we expect the MSCI Asia ex-Japan Index to deliver low-double-digit earnings growth, and double-digit returns over the next year. Additionally, the region is likely to benefit from interest rate cuts by the Federal Reserve, along with exposure to the structural resilience of the AI story, and robust domestic demand in a few less-externally-oriented economies. The latter two factors though pertain to specific markets and investors should thus be aware of the variations within Asia ex-Japan.

Taiwan is heavily involved in the AI production chain. Taiwan's tech industry particularly benefits not just from volume growth and mix improvement, but also via pricing power. For Taiwan, we expect EPS growth of 16% in 2025 and 10% 2026 as capex by major IT players looks set to grow around 20% in 2025. Taiwan's P/E is above its historical average but is justified by its high ROE. Tariffs remain a risk, but the substitution risk of cutting-edge chips is low.

Domestically-driven India and Indonesia to power through tariff tumult. India's structural growth market has become tactically more interesting with the recent correction. India's profit growth looks to be bottoming, with some sectors dipping to less than 5%. We expect a reacceleration to around 17% overall in another 2-3 quarters. While India's valuation isn't cheap, we believe a growth acceleration will constitute more-than-adequate compensation. For Indonesia, domestic demand remains strong, and monetary policy easing is likely to continue, albeit more slowly than the Fed. The sweet spot is the banking sector which atypically benefits from falling global interest rates.

Stay neutral on China. China remains the prime tariff target of the incoming Trump administration in the US, and some caution is naturally warranted though China's policymakers are likely to deploy more muscular stimulus over the coming quarters to cushion the impact of tariffs. Within China though, in the near term, state-owned enterprises (SOEs) are likely to be more insulated from tariffs and are also likely to be key beneficiaries of any stimulus measures. We see value in internet stocks for the medium-to-long term, and see corrections as a buying opportunity due to their undemanding valuations and secular growth prospects.

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