Macro Monthly

Economic insights and asset class views

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For global professional / qualified / institutional clients and investors

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Asia: Reform, innovation and room to run

- Our macro outlook – Fed cuts, no recession, and a softer dollar – is supportive for Asia and emerging markets (EM).
- However, a purely top-down view risks missing powerful themes unfolding on the ground.
- China's cost-efficient, application-driven AI strategy is already translating into earnings and offers a cheaper way to access the AI theme.
- Corporate reform momentum in Japan and Korea is driving stronger shareholder returns and improving capital efficiency.
- Asset Allocation: We remain overweight EM, Japanese and US equities, while remaining neutral duration, short USD and overweight precious metals.

When the Fed is cutting rates and there's no recession, history suggests investors should be long risk assets. That's our view, and that's how we are positioned. Under the same circumstances, the US dollar typically weakens, and emerging markets tend to outperform. Accordingly, we maintain overweights in EM equities and local currency debt.

But a simple top-down lens risks missing the powerful themes now shaping these markets – especially in Asia, which accounts for three-quarters of the MSCI Emerging Markets Index. Historically, one criticism of emerging markets and, to some extent, Japan has been an inability to translate economic growth into shareholder returns. That dynamic is changing, driven by China's cost-effective, highly monetizable approach to AI and the accelerating corporate reform momentum in Japan and Korea.

Even after strong year-to-date gains, we see these themes as far from fully priced into EM assets. Asia's fundamentals have turned a corner after years of underperformance, and as Exhibit 1 illustrates, the region likely still has significant room to run.

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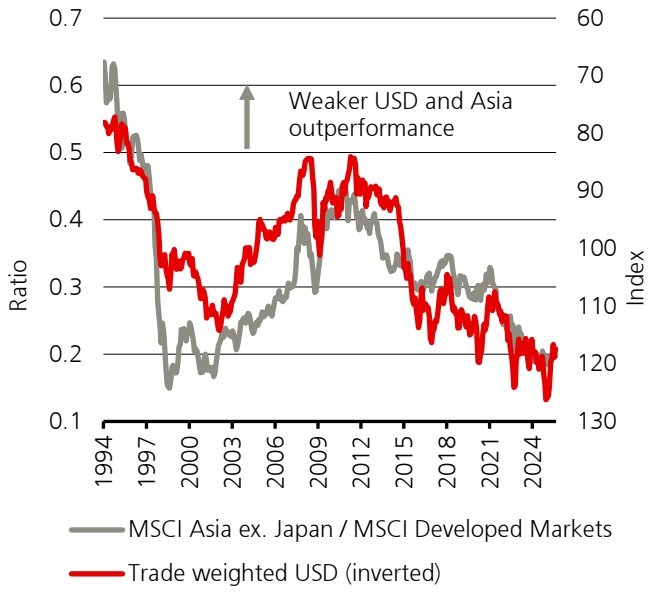
Exhibit 1: Asia has plenty of room to catch up to developed markets, especially as the dollar weakens



Source: Bloomberg, UBS Asset Management. Data as of September 2025

The chart shows the relative performance of Asia vs. developed markets, against the USD.

China: cost-efficient and commercial AI

China's AI strategy is focused on monetizing real-world applications, supported by policy incentives and a billion-plus mobile-first consumers. Domestic technology is now 'good enough' for most enterprise needs, and significant investment in local infrastructure is lowering costs and driving earnings. Policy support for semiconductor self-sufficiency and capital market reforms are encouraging households to invest in equities, especially as property markets remain under pressure. While the US still leads in frontier models, China is closing the gap where it matters – mainstream enterprise tasks – at a fraction of the cost. The result is that AI monetization is already translating into earnings, offering investors a cheaper, less crowded way to participate in the AI theme than through US tech giants.

Japan: structural shift, still underappreciated

Japan's Nikkei has finally surpassed its 1989 peak, reflecting a structural shift toward higher growth and strong earnings. Corporate reform and accommodative policy continue to support performance. Earnings momentum is strong, helped by global supply chain positioning and a trade agreement with the US that favors Japanese autos. Companies are improving capital efficiency, returning more cash to shareholders, and focusing on return on equity (ROE). Record share buybacks and rising dividends underscore this change, yet valuations remain reasonable compared to global peers. All of these factors have led us to an overweight stance on Japanese equities.

Korea: the value-up journey

Korea's 'value-up' reforms are gaining traction, intersecting with the global AI and semiconductor cycle. The framework provides guidelines and incentives for companies to publish multi-year plans that raise capital efficiency, improve disclosures and may enhance shareholder returns. Political unrest initially masked the story, but investor interest is rising as reforms progress. Narrowing of the discount through better payouts and transparency could add a second leg to returns as earnings recover alongside the capex cycle.

Taiwan and India: complementary strengths

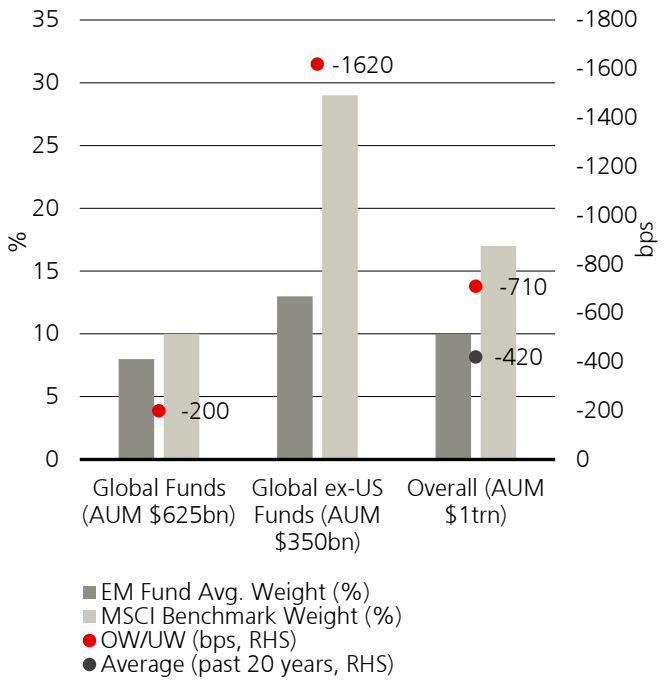
Taiwan remains central to the global AI and semiconductor cycle, with strong earnings momentum and renewed foreign flows following the removal of tariff uncertainty. While we are not overweight India now, its long-term growth potential and reform agenda remain attractive. India's inward-focused economic structure makes it less vulnerable to global trade shocks. Over time, India and other North Asian countries have shown diversifying return patterns, adding to their strategic appeal.

Room to run

Despite improving fundamentals, EM remains only about 11% of the global equity opportunity set, and Japan about 5%–6% of the MSCI All Country World Index (ACWI) – small slices compared with their economic heft and earnings momentum. We believe valuations are attractive: EM trades at roughly a 50% price-to-book discount to developed markets – the widest on record – suggesting ample room for re-rating if currency and growth conditions cooperate.

Positioning remains a tailwind. Global active equity funds are still about 710 basis points underweight EM vs. MSCI benchmarks, compared with a ~420 basis point underweight on average over the past two decades. According to Goldman Sachs, a simple reversion to that long-term average would imply roughly USD 42 billion of potential inflows (on ~USD 1 trillion of relevant AUM), offering room for the current trend to extend if fundamentals stay supportive. Given Asia is roughly three-quarters of MSCI EM, any normalization in allocations would disproportionately benefit the region's reform and AI-monetization leaders highlighted in this note.

Exhibit 2: Global mutual funds are underweight EM and have room to add



Source: EPFR, GS Research, UBS Asset Management. Data as of September 2025.

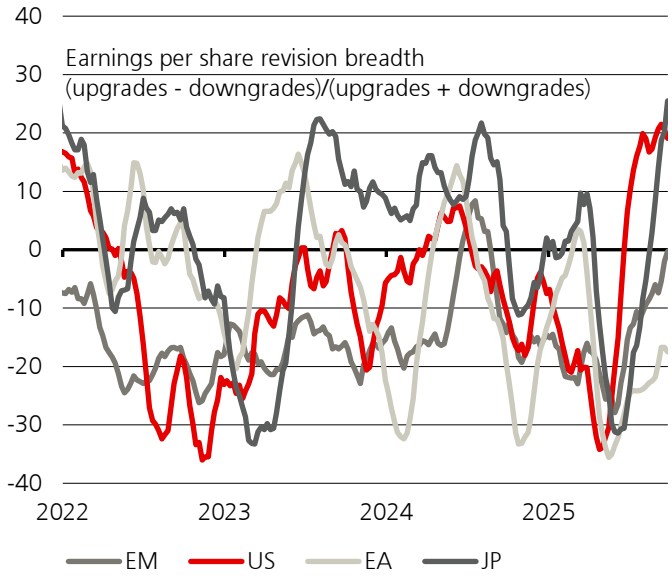
The chart shows the current underweight of funds to emerging markets vs. index weighting.

Asset Allocation

The soft landing playbook – Fed cuts, no recession, and a softer dollar – has historically favored international risk assets. Today's Asia story goes beyond beta: China's application first AI is driving earnings now, while reform with teeth in Japan and a credible value up journey in Korea are lifting returns on capital and shareholder payouts. With allocations still light and valuations undemanding, we think investors have an opportunity to close the gap. We're overweight EM equities and favor Japanese stocks in local currency terms, which provides a natural hedge if the US dollar strengthens.

We balance our Asia overweight with US equities, which remain more expensive, but we believe continue to offer the most stable and resilient earnings trajectory globally. In fixed income, we are neutral on duration, as we believe much of the expected Fed easing is already priced in and bonds appear close to fair value. We also maintain exposure to precious metals and miners, which we believe can perform well in an environment where inflation proves sticky even as policy rates move lower.

Exhibit 3: Earnings revision breadth has improved in EM and Japan



Source: Bloomberg, UBS Asset Management. Data as of September 2025.

The chart shows earning per share upgrades minus downgrades as a function of upgrades plus downgrades for EM, US, euro area, and Japan equities.

Asset class views

The chart below shows the views of our Asset Allocation team on overall asset class attractiveness as of 29 September 2025. The colored circles provide our overall signal for global equities, rates, and credit. The rest of the ratings pertain to the relative attractiveness of certain regions within the asset classes of equities, bonds, credit and currencies. Because the Asset Class Views table does not include all asset classes, the net overall signal may be somewhat negative or positive.

	Underweight			Overweight		
Global Equities				●		We are overweight equities. The Fed easing amid resilient economic and earnings growth is a good recipe. A key risk to the outlook is a faster deterioration in the labor market, but initial jobless claims and spending remain resilient while the Fed put is in play.
US				●		We remain overweight US equities. The Fed has restarted its cutting cycle, while growth is resilient – which is a supportive mix for equities. Furthermore, earnings growth remains strong among high-quality stocks.
Europe		●				We are underweight European equities. While earnings growth has improved, it remains weak relative to other regions. In addition, the EUR has further strengthened as the ECB paused its cutting cycle, challenging future earnings. We still like European banks.
Japan				●		We have upgraded our stance on Japanese equities, which we think will benefit from resilient global growth, higher domestic nominal GDP growth, and improving earnings. Japanese Autos may also be supported by lower US tariffs rates.
Emerging Markets				●		We are overweight EM equities as EM earnings are strong across most regions. The MSCI EM index is heavily weighted by North Asian tech giants which we expect to do well as the AI capex cycle pushes on. We are particularly constructive on Chinese equities.
Global Government Bonds			●			We are neutral duration. While a growth slowdown and more central bank easing is typically supportive of duration, we think near-term inflation risk remains significant, and increased bond supply will limit gains in duration. We believe short-tenor bonds still offer protection against risk assets should growth weaken more materially.
US Treasuries			●			We are neutral on US Treasuries as following the Fed's September rate cut, markets continue to price the Fed terminal rate near 3%, which we see as a reasonable base case. We also think the US 10-year is near fair-value, while the front end of the curve offers good protection against a weaker labor market. The curve may also steepen if long term inflation concerns rise on questions around Fed credibility.
Bunds		●				We are underweight Bunds as Germany's growth outlook has been improving, while increased fiscal spending is likely to arrive in Q4 and support growth into 2026. In addition, the ECB has signalled a prolonged pause to its easing cycle.
Gilts				●		We remain overweight Gilts as we think valuations are attractive, with fiscal premium already imbedded into the curve. While the BoE continues to deliver a very gradual easing cycle, we think downside risks to employment may increase the pace of rate cuts.
JGBs			●			We are neutral Japanese government bonds. Although the BoJ is likely to hike interest rates more, we expect they will be slow to act, while carry costs of shorting JGBs are elevated due to the low BoJ policy rate.
Swiss			●			We are neutral Swiss bonds. Valuations are expensive, and the market has already priced the SNB to cut rates into negative territory.
Global Credit			●			We are neutral on IG and HY credit as we see marginal room for compression against the risk of material widening in case the economic outlook deteriorates more than expected. Regionally, we see Asia HY as offering the best risk-reward.
Investment Grade Credit			●			With IG spreads now less than 80 bps over Treasuries, we see little room for further spread compression. That said, corporate fundamentals and all-in yields remain attractive outright.
High Yield Credit			●			US HY spreads have tightened back near historical lows. While we expect spreads to remain tight amid below 2% default rates and strong investor inflows, we do not see material room for further spread compression.
EMD Hard Currency			●			We are neutral on EMD in hard currency, but are overweight local currency EM debt as we expect EM FX to appreciate further against the USD. Regionally, we believe Asia HY provides the most attractive risk-adjusted carry across global credit segments.
FX						
USD		●				We are bearish on the USD as we think US rates have room to compress vs. the rest of the world with the Fed having restarted its cutting cycle. Ex-US investors will find it cheaper to hedge their US asset exposures, a medium-term theme.
EUR				●		EUR has continued to press higher amid an on-hold ECB and a Fed which has started cutting rates again. European data has also started to improve. We also like long EUR against GBP with UK rates likely to decline amid weakening employment data.
JPY			●			We are neutral as the slow pace of BoJ hikes has kept real rates very low and leading JPY to be a funder, despite its cheap valuation.

	Underweight			Overweight		
CHF						Despite expensive valuations, we do not see a catalyst for CHF weakness as the SNB is not intervening and has little room to cut rates.
EM FX						We like high carry EM currencies, and among them BRL is our top pick given its very high real carry and cheap valuation.
Commodities						We are constructive on precious metals and believe that they will continue to perform amid the decline in US real yields, which may occur if the Fed has more tolerance to high inflation next year. We like both gold and silver.

Source: UBS Asset Management Investment Solutions Macro Asset Allocation Strategy team as of 29 September 2025. Views are provided on the basis of a 3-12 month investment horizon, are not necessarily reflective of actual portfolio positioning and are subject to change.

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