

InvesTips



# Understanding APAC Allocations

June 2026



# Asia Pacific – A region like no other

Asia Pacific (APAC) now generates nearly 50% of global economic output, produces the semiconductors powering AI and, excluding Japan, carries lower sovereign debt than many markets that dominate institutional bond portfolios.

India, the region's fastest-growing large economy, has also opened its bond market to global investors at scale. Yet, despite these strengths, APAC remains structurally underweighted in portfolios, held back by financial habit, crisis-era associations and the perceived complexity of allocating across 13 markets at very different stages of development.

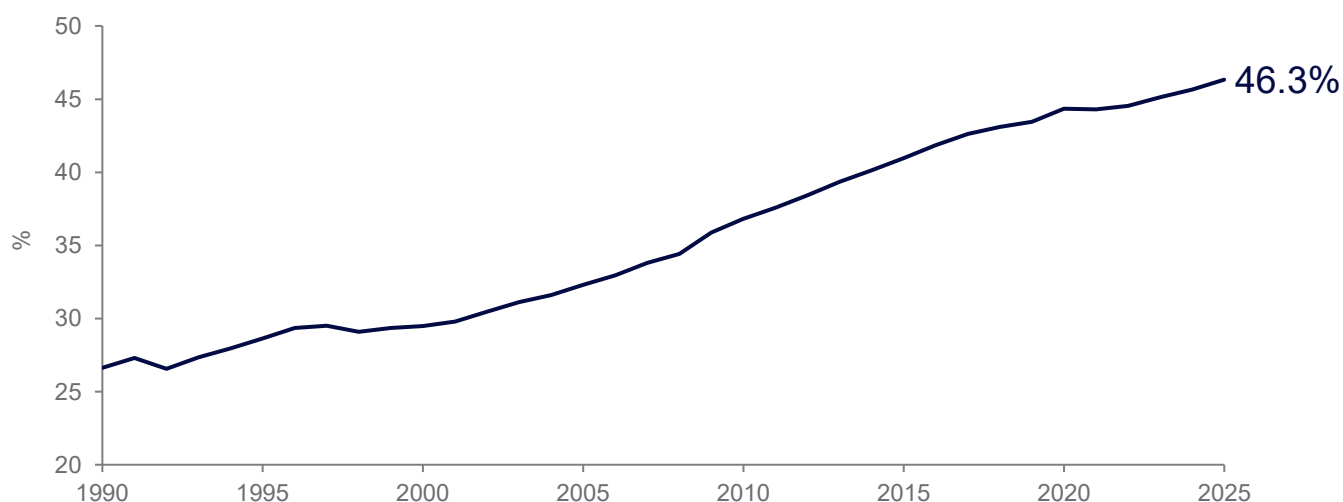
In recent decades, major APAC sovereigns have steadily built FX reserves, deepened domestic capital markets, shifted towards current account surpluses and reduced short-term external dollar borrowing. At the same time, Japan is seeing a genuine shareholder-return shift, while India's expanding middle class is redirecting growth towards domestic consumption.

The above-mentioned economic evolution is clearly reflected in the data. APAC's share of world GDP in purchasing power parity (PPP) terms has risen by roughly 20% since 1990. While China drove the first wave, India is now driving the next – supported by a growing workforce, early-stage urbanisation across Southeast Asia and a still-young corporate reform cycle in Japan. These structural tailwinds remain long running.

Fig. 1

APAC's share of world GDP has grown consistently by close to 20% since 1990

APAC share of world GDP (PPP)



Source: IMF, Standard Chartered

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# The equity landscape – Growth, discount and the AI supply chain

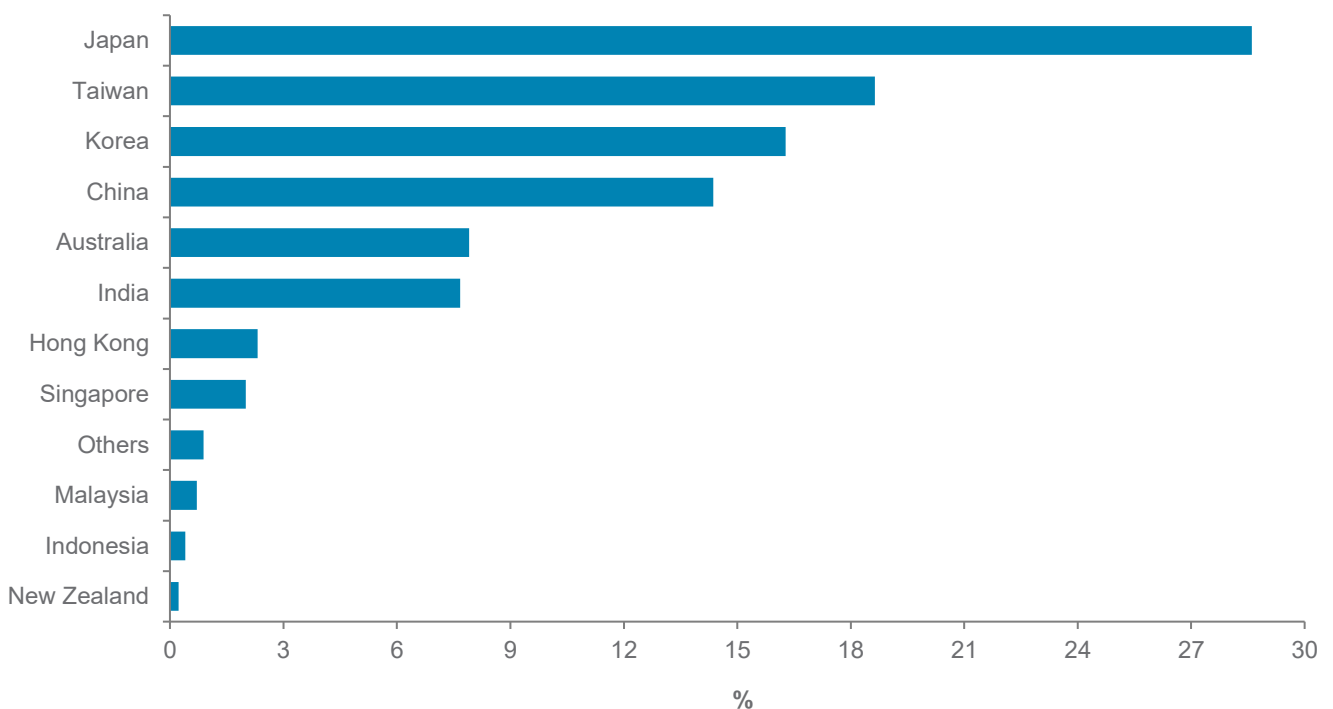
APAC equities are not a single bet on Asian growth. Rather, they represent a portfolio of distinct economic stories held together by geography, and those stories move in different directions simultaneously.

Japan is in the middle of its first genuine inflation and wage cycle in 35 years, with its corporate sector unwinding decades of deflation-era capital allocation habits – the Nikkei 225 breaking its 1989 peak in 2024 was a milestone that reflected fundamental change, not just sentiment. Meanwhile, China has undergone a very different repricing. Property-sector restructuring, the 2020-21 regulatory campaigns and sustained valuation compression have weighed heavily on equity returns, creating a disconnect between the world’s second-largest economy – which is still growing at 4-5% – and the performance of its listed market. Concurrently, Taiwan’s weight has grown materially on the back of its semiconductor manufacturing industry’s extraordinary rise as a foundational layer of the global technology supply chain, making regional allocations increasingly sensitive to the global AI capital expenditure (capex) cycle. South Korea’s equity market is equally in transition given its deliberate government-backed corporate value-up programme designed to close the valuation gap.

Fig. 2

Japan, Taiwan, Korea and China make up about 78% of the regional equity market

APAC equity market breakdown by country based on the MSCI All Country Asia Pacific Index as of May 2026

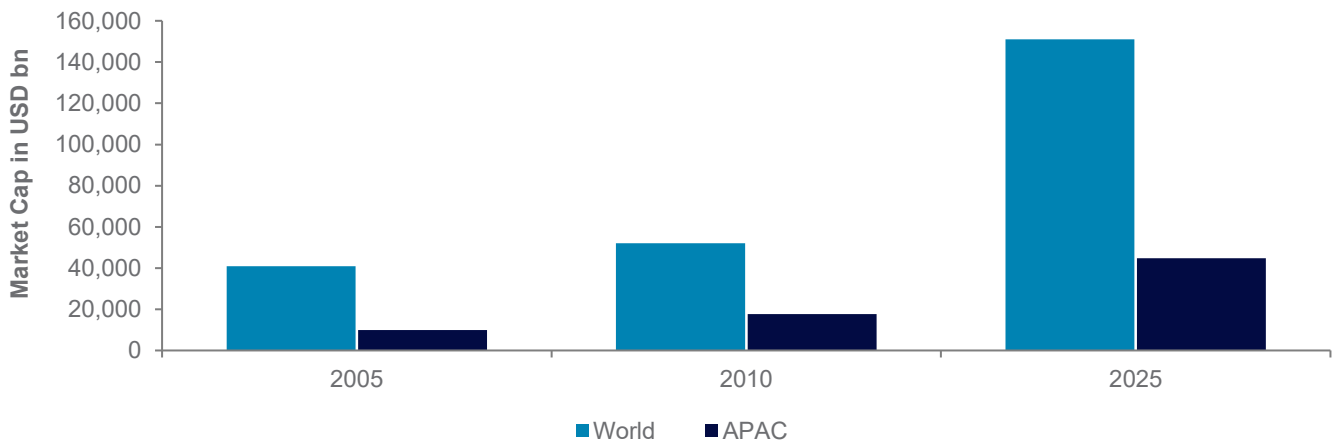


Source: FactSet, Standard Chartered

Fig. 3

APAC’s capital markets have grown close to 4.5x since 2005 and still trail the region’s share of GDP, suggesting room to close

APAC vs Rest of the World (ROW) Equity Market Capitalisation in USD bn



Source: Bloomberg, Standard Chartered

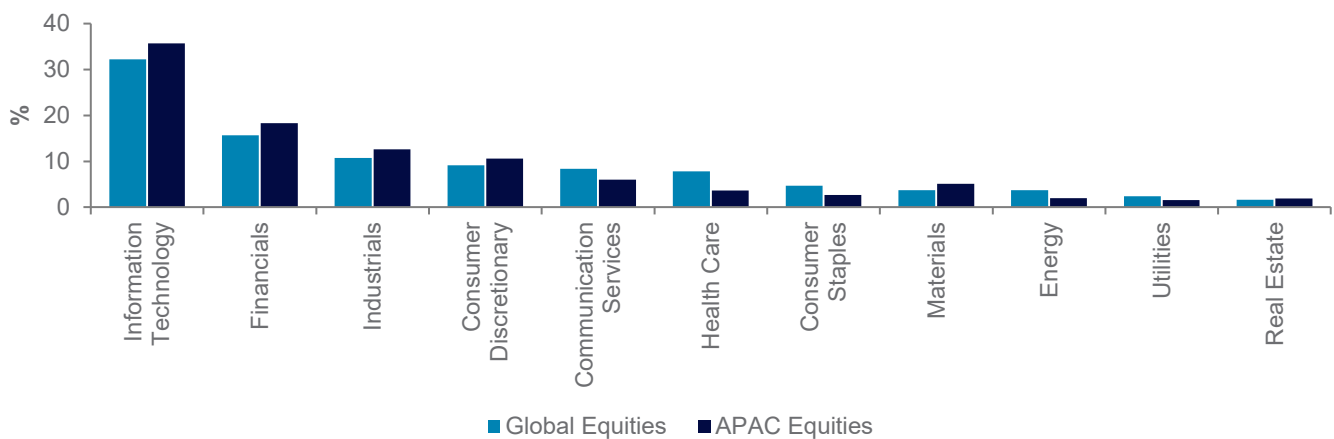
### What the sector mix reveals

The APAC sector mix reveals other key drivers for the region. Technology is the largest sector within APAC, but it differs meaningfully from US technology exposure. APAC tech is concentrated in hardware and semiconductors, with Taiwan and South Korea home to some of the world’s most important manufacturers. These companies are deeply embedded in global supply chains, making their earnings highly sensitive to memory pricing cycles and the capex plans of global hyperscalers. As AI infrastructure spending accelerates, this gives APAC equities direct leverage to the physical technology supply chain – an exposure that US tech allocations do not fully replicate. Financials represent the second-largest sector, reflecting the weight of Australian and Singaporean banks as well as Chinese state-owned lenders, whose earnings are closely tied to domestic credit cycles.

Fig. 4

Technology is the biggest equity market sector in APAC, followed by financials

Global and APAC equity market breakdown by sectors (%) based on MSCI ACWI and MSCI AC Asia Pacific Indices, respectively, as of May 2026



Source: FactSet, Standard Chartered



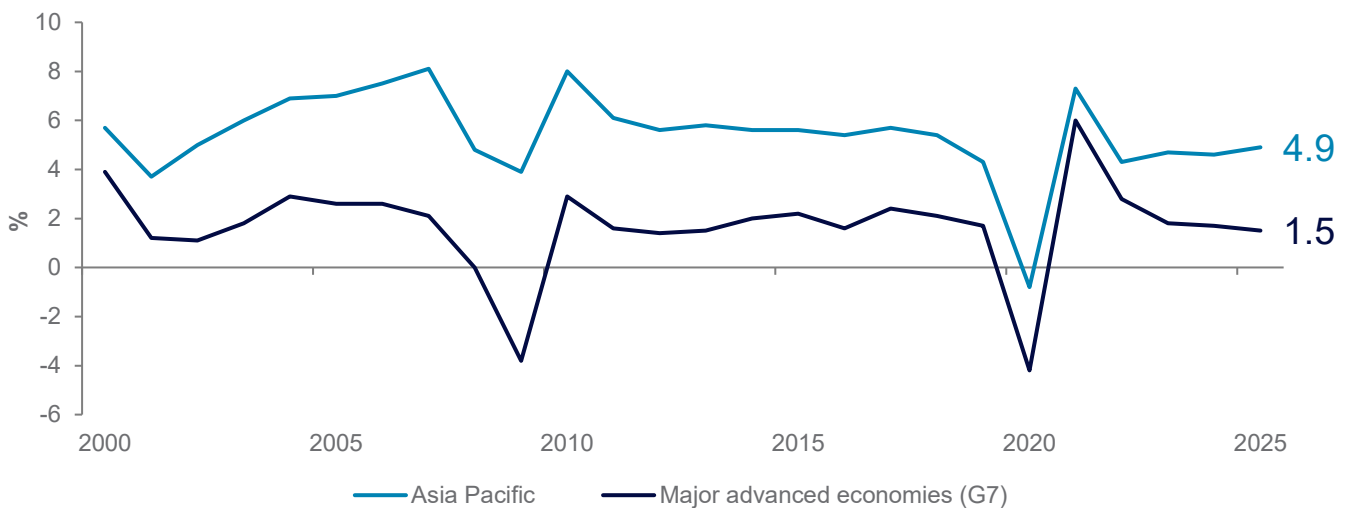
## The growth premium and the valuation discount

APAC economies have outgrown other advanced economies in terms of real GDP growth across most of the past 25 years – a differential that has broadly supported corporate earnings expansion. Although this gap has narrowed as China's growth rate has moderated from double digits, it has not closed. India has stepped into the role of primary growth driver, contributing an increasing share of the incremental differential between APAC and other advanced economies.

Fig. 5

APAC has outpaced G7 economies in terms of real GDP growth, with India now the primary contributor to the gap

APAC vs G7 in terms of real GDP growth



Source: IMF, Standard Chartered

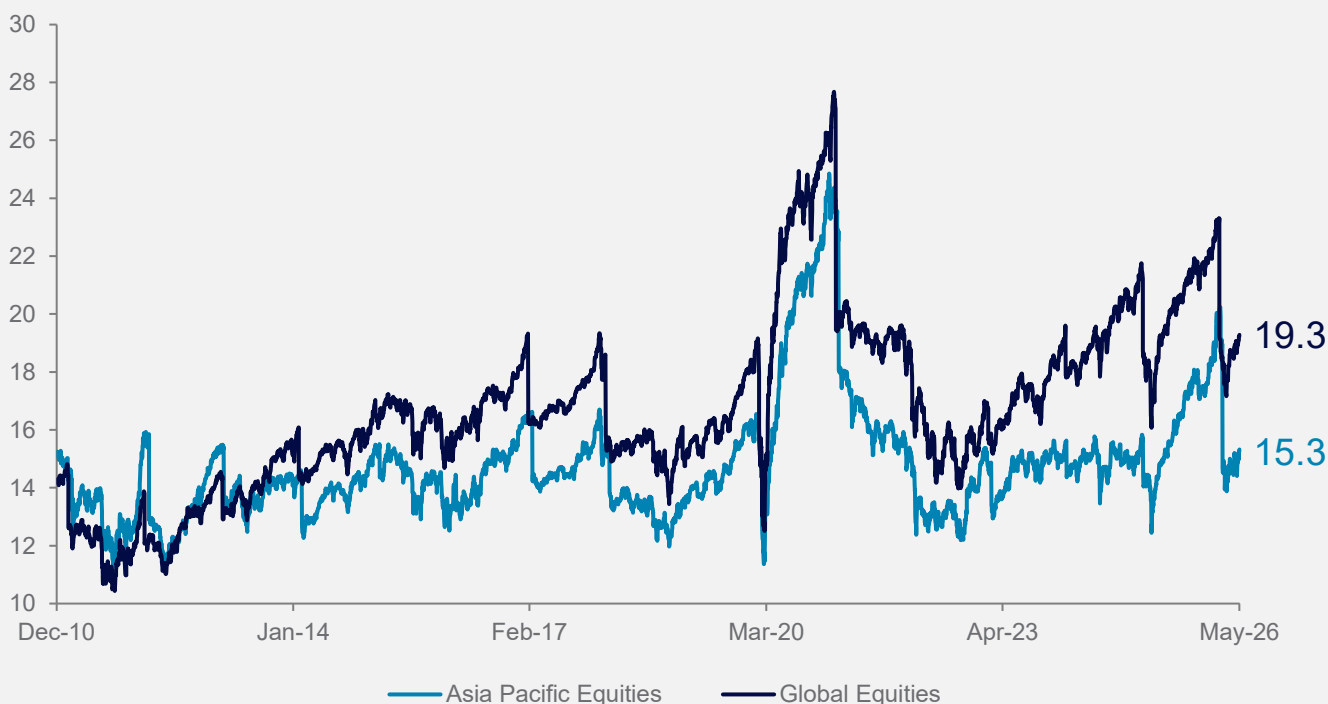
Against the growth backdrop, APAC equities have spent most of the past decade trading at a 20-30% discount to global developed market (DM) benchmarks on a forward price-to-earnings (P/E) basis.

Part of this discount is rational compensation, as governance differentials, geopolitical risk premia and the earnings quality discount applied to state-influenced entities are real factors. However, the other part of it reflects structural under-ownership. This is driven by the hangover of historical volatility perceptions, a home-country bias that keeps global allocators underweight a region generating nearly 50% of world output and benchmarking constraints that limit position-building. At a sustained 20-30% discount to equivalently growing companies in the US or Europe, APAC equities offer a margin of safety that has not been closed by the investors best positioned to exploit it.

Fig. 6

APAC equities have traded at a persistent discount relative to global equities since 2013

APAC vs global equities in terms of 12-month forward P/E



Source: Bloomberg, Standard Chartered

# The fixed-income landscape – Bonds that outlasted the crisis narrative

APAC fixed income is best understood not as a single asset class but as a family of distinct segments, each with its own risk drivers, investor base and role in a portfolio. The market is usually viewed through two lenses: currency denomination and credit quality. From a currency perspective, USD-denominated bonds remove foreign exchange risk for dollar-based investors but remain sensitive to US rate moves and global credit conditions. Conversely, local currency (LCY) bonds introduce FX exposure but provide access to regional rate cycles, domestic fiscal dynamics and, increasingly, real yields that compare favourably with DM alternatives. From a credit-quality perspective, the universe ranges from Investment-grade (IG) sovereigns and quasi-sovereigns to High Yield (HY) corporates. Japan and Australia, while geographically part of APAC, are generally treated as DM fixed income and covered through global aggregate indices rather than regional Asian bond vehicles.

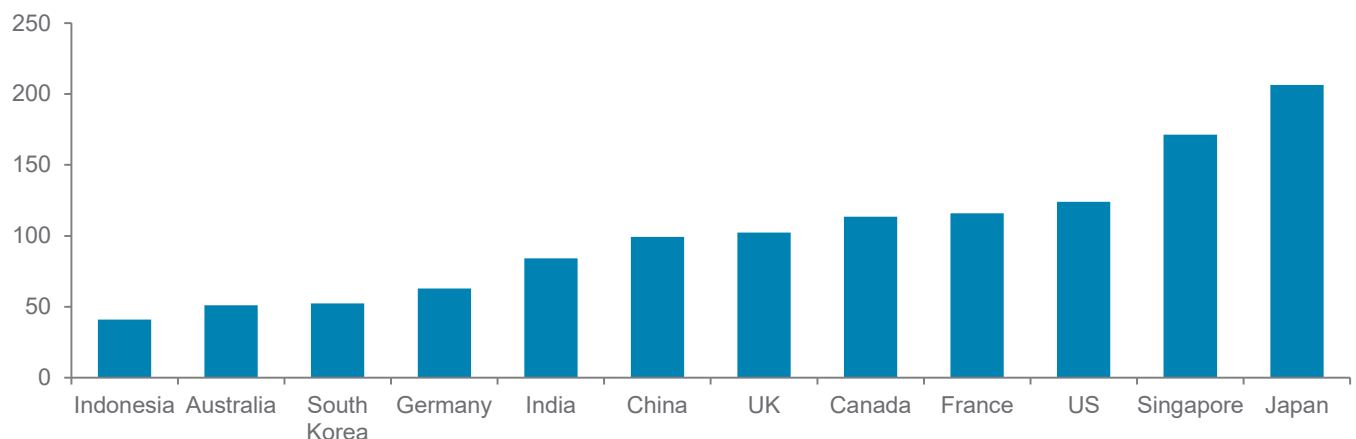
## APAC sovereign bonds: The fiscal case

Whether accessed in local currency or USD, the foundation of the APAC sovereign bond case is the region's fiscal position relative to the rest of the world. Most G7 governments now carry gross debt-to-GDP ratios above 100%, run persistent structural deficits and face rising interest expense as higher rates make refinancing more expensive. By contrast, the core APAC sovereign markets – Indonesia, South Korea, Australia, China and India – carry materially lower gross debt burdens, run smaller structural deficits, and most maintain persistent current account surpluses that reduce dependence on external financing. Two outliers require acknowledgement: Japan's gross debt-to-GDP of approximately 207% is offset by over 90% domestic ownership and net creditor status, and Singapore's high gross debt-to-GDP ratio overstates fiscal risk, given sovereign investment holdings substantially exceed total borrowings.

Fig. 7

Outside of Japan and Singapore, APAC sovereigns carry a structurally lower debt than the G7 average

Government debt-to-GDP for APAC and G7 in 2025



Source: IMF, Standard Chartered

## LCY bonds: Yield, real return and regional rate cycles

For investors willing to take on currency exposure, APAC LCY sovereign bonds offer two distinct features that USD-denominated alternatives cannot replicate: access to regional central bank rate cycles and, in the higher-yielding markets, real yields that compare favourably with DM alternatives.

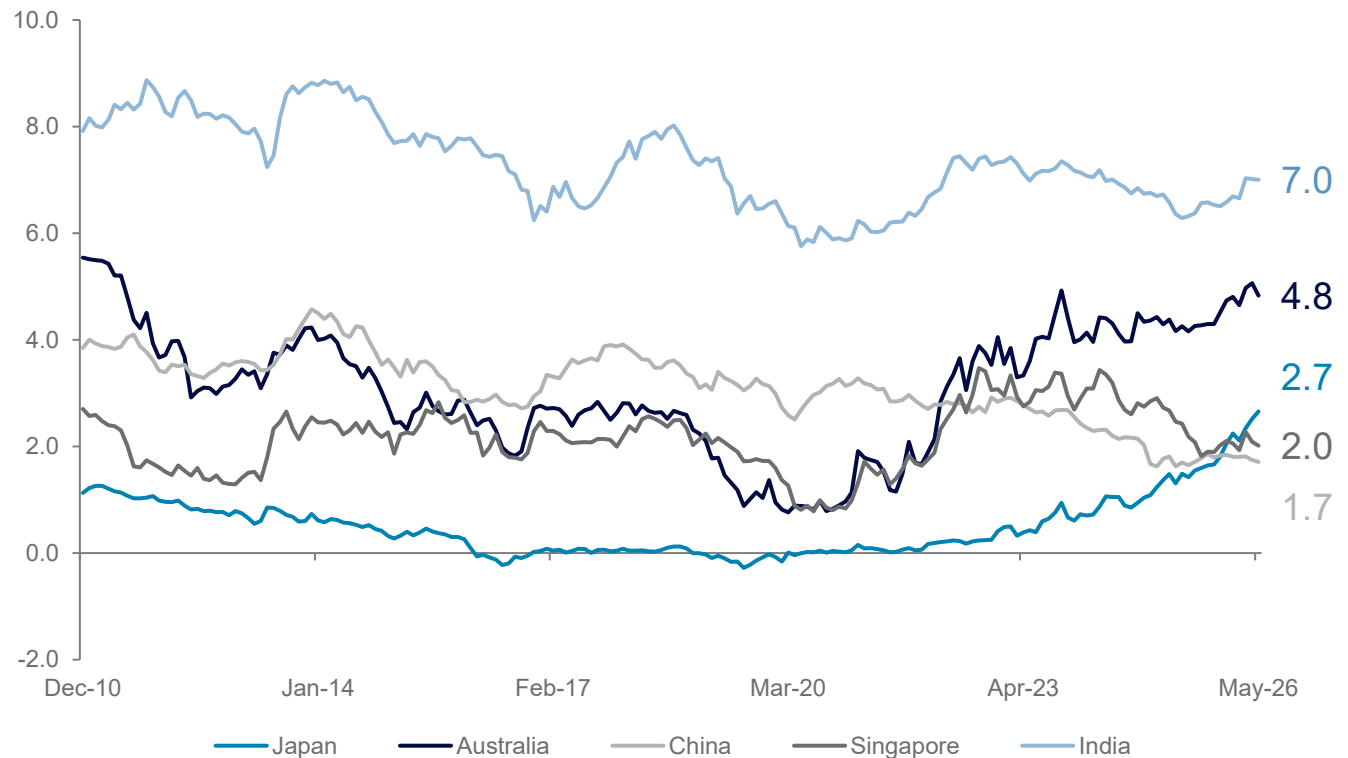
APAC did not experience the post-pandemic inflation surge that drove DM central banks into aggressive tightening cycles. That restraint has left central banks in India, Indonesia, South Korea and the Philippines with meaningful room to ease, making the rate cycle a potential tailwind for LCY bond prices. At the same time, nominal yields of 6-7% in India, against contained local inflation, produce real yields that currently exceed those available in US Treasuries – a reversal of the pattern that held through much of the last decade. Index inclusion compounds this: India entered the JPMorgan Government Bond Emerging Market Index in 2024, and South Korea officially joined the FTSE Russell World Government Bond Index in April 2026, creating passive inflow dynamics that are structurally distinct from discretionary flows.

The primary risk in LCY bonds is currency. For USD-based investors, FX movements can dominate total return in any given year, outweighing the interest income component entirely. When the US dollar strengthens broadly, LCY APAC bonds can deliver negative USD returns even when local price performance is positive. Managing or hedging this exposure – and understanding the cost of doing so in each market – is central to any allocation decision in this segment.

Fig. 8

The breadth of the yield spectrum creates genuine diversification and yield-targeting opportunity within a single regional allocation

10-year government bond yields of selected APAC markets (%)



Source: Bloomberg, Standard Chartered

## **APAC IG credit: USD bonds, shorter duration, broad issuer base**

For investors seeking APAC credit exposure without taking LCY risk, USD-denominated IG bonds are the primary vehicle. The market is anchored by three main issuer groups: financial institutions, quasi-sovereigns and state-linked corporates. A key structural feature is its shorter duration profile. APAC IG credit typically carries rate sensitivity of around four years, compared with roughly six years for US IG credit, reflecting where APAC issuers tend to access the yield curve.

Returns are driven by two forces that do not always move together. US Treasury yields set the rate floor – APAC USD bonds are priced over the equivalent-duration Treasury, so a falling rate environment is a direct price tailwind. APAC-specific credit conditions – regional growth, issuer fundamentals and broader Emerging Market (EM) risk appetite – determine the spread component above that floor. In risk-off episodes, spread widening can offset Treasury yield declines; in risk-on environments, spread compression amplifies returns.

## **APAC HY: Higher yield, concentrated risk**

APAC HY entered this decade as a market heavily concentrated in Chinese real estate developers. When the property sector deteriorated sharply from 2021, the episode exposed how quickly single-sector concentration can dominate a regional index and how difficult price discovery becomes when fundamental stress arrives suddenly. The market that has emerged is structurally different: Chinese property is a fraction of its former weight, and the composition has shifted towards other regions and sectors.

APAC HY currently yields about 8.1% – well above APAC IG and above US HY equivalents – reflecting the segment's higher risk, shorter duration and the residual uncertainty in pockets of the market that have not fully repriced. The short average duration means HY investors in this segment are less exposed to US rate moves and more exposed to pure credit dynamics than in APAC IG. Secondary market liquidity remains uneven, disclosure standards vary across jurisdictions and concentration in any single sector or market can dominate index-level returns rapidly.



# The portfolio perspective: Integrating APAC

The more relevant question for most international investors is not whether to replace a global allocation with a dedicated APAC one, but what happens to an existing global portfolio when APAC is systematically integrated into it. The Global 60/40 is a conventional starting point – comprising 60% global equities and 40% global bonds. In practice, a portfolio built this way is substantially concentrated in US equity earnings and the Fed’s monetary policy. Global equity benchmarks typically allocate over 60% to US-listed equities, meaning a ‘globally diversified’ equity sleeve is, in practice, a US-equity-dominant allocation with international tilts. The bond sleeve, similarly, is largely composed of DM sovereign and IG bonds. As recent episodes, such as in 2022, have demonstrated, these assets may not always provide the diversification investors expect when inflation and interest rate shocks simultaneously pressure both equity and bond markets. Measured on a diversification score – a metric that reflects the degree to which portfolio risk is spread across independent sources rather than concentrated in a few – a conventional Global 60/40 scores approximately 20.2%. This highlights that diversification at the asset class level does not necessarily translate into diversification at the underlying risk factor level.

The Global + APAC 60/40 is constructed by splitting the conventional 60/40 framework across APAC and global exposures. The equity sleeve is divided equally: 30% APAC equities and 30% global equities. The bond sleeve reflects a deliberate asymmetry – 30% APAC bonds and 10% global bonds – a heavier weighting towards APAC fixed income that reflects the fiscal quality differential discussed in the preceding section and the diversification benefit of bonds that are less sensitive to Fed policy. Two structural improvements follow directly. First, the dominance of US equities as the primary driver of portfolio risk is meaningfully reduced – the US equity weight, which in a global 60/40 can approach one-third or more of total portfolio exposure, is diluted and replaced by APAC earnings cycles, rate environments and currencies that move differently from the US core. Second, and measurably: the portfolio’s diversification score rises to 29.8%, a 47% improvement over the Global 60/40, reflecting the genuinely independent sources of risk and return that APAC exposures introduce. More of the portfolio’s risk is earning its keep across different market conditions, rather than riding a single concentrated bet on US equity markets.

Fig. 9

APAC bonds stand out on a risk-adjusted basis, with the two 60/40 portfolios sitting at near-identical volatility with modest return differential

Risk return profile of asset classes and 60/40 equity/bond portfolios between Jan 2016 and May 2026

	APAC Equities	APAC Bonds	Global Equities	Global Bonds	Global + APAC 60/40*	Global 60/40
Annualised Returns	9.9%	3.2%	12.5%	1.3%	7.9%	8.1%
Annualised volatility	15.7%	4.3%	14.7%	6.4%	10.1%	10.5%
Risk-adjusted returns	0.63	0.74	0.84	0.20	0.79	0.77
Diversification Score**	–	–	–	–	29.8%	20.2%

Source: Bloomberg, Standard Chartered

\* Global + APAC 60/40 Equity/Bond portfolio comprises 30% APAC equities, 30% global equities, 30% APAC bonds and 10% global bonds

\*\* Diversification score is based on the individual risk contribution of each asset class. A score of 0% means the portfolio is fully concentrated in a single asset class, while 100% means risk is equally allocated across all asset classes

The empirical record from January 2016 to May 2026 further validates this theory. The Global + APAC 60/40 portfolio delivered 7.9% per annum at a volatility of 10.1%, producing a risk-adjusted return of 0.79. The Global 60/40 returned 8.1% at a higher volatility of 10.5%, producing a risk-adjusted return of 0.77. The return differential is modest – at 20bps annually – but the quality of the return is superior. Thus, lower volatility without sacrificing wealth outcomes results in a more efficient portfolio construction.

Looking forward, the five-year capital market assumptions widen that gap further: the Global + APAC 60/40 is expected to deliver 6.5% at 10.7 volatility (risk-adjusted return of 0.60), compared to the Global 60/40's 6.1% at 11.9% volatility (risk-adjusted return of 0.51). Rather than a regional tilt, the addition of APAC exposures appears to create a more resilient portfolio structure. One that delivers higher expected returns while reducing the dependency on a narrow set of global risk drivers.

Fig. 10

Global + APAC 60/40 is expected to deliver higher returns with lower risk compared to Global 60/40

Expected risk and returns of Global 60/40 and Global + APAC 60/40 using 5-year capital market assumptions

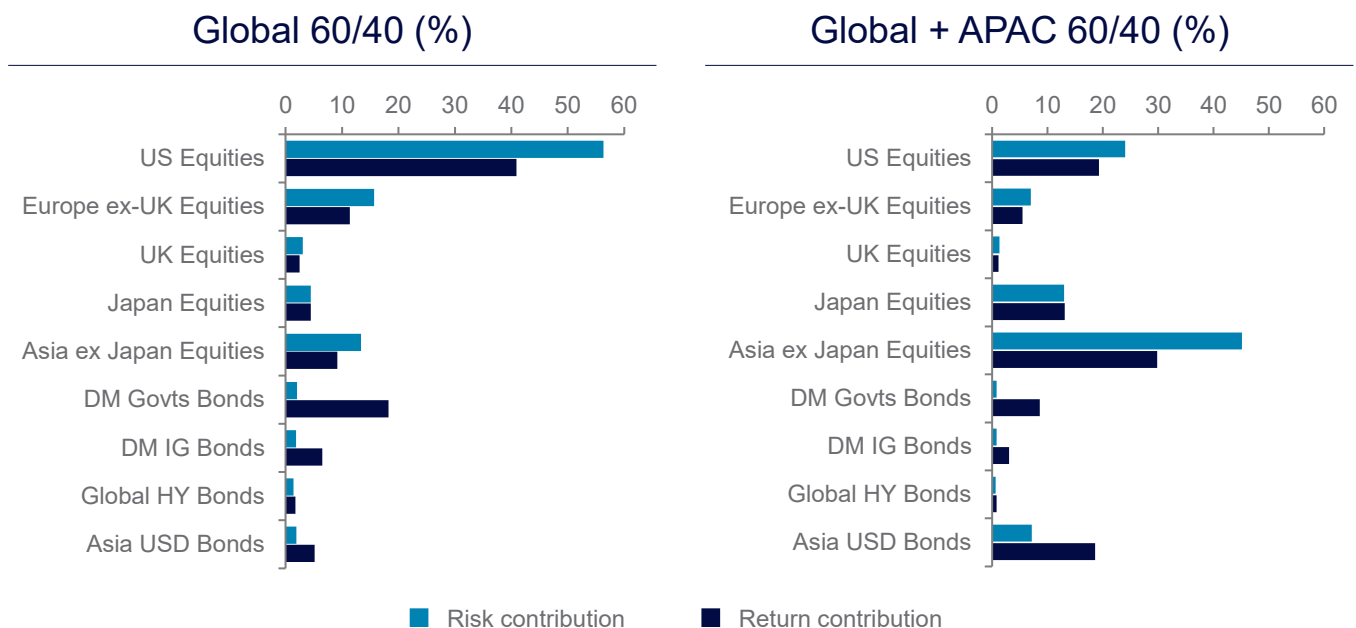
	Global 60/40	Global + APAC 60/40
Expected returns	6.1%	6.5%
Expected volatility	11.9%	10.7%
Risk-adjusted returns	0.51	0.60

Source: Standard Chartered

Fig. 11

Main risk and return drivers are more diversified within the Global + APAC 60/40 equity/bond portfolio

Risk and return contribution of asset classes



Source: Bloomberg, Standard Chartered

Note: For the purpose of this analysis, only the main asset class exposures have been considered, and some smaller exposures present in the representative indices such as Australia have been excluded



### Resilience under stress

Full-period return and volatility figures are useful, but portfolio resilience is also clearly demonstrated during drawdowns. Across the four largest equity market sell-offs since 2018, the Global + APAC 60/40 recorded an average peak-to-trough drawdown of 16.5%, compared with 17.2% for the Global 60/40. The difference is modest in absolute terms, but important in context: the Global + APAC 60/40 achieved comparable long-run returns with lower volatility and better downside protection. Its higher diversification score reflects a portfolio whose risk sources are more evenly spread, making it better able to withstand market stress. In that sense, APAC integration improves not only diversification on paper but also the efficiency and resilience of the overall portfolio.

Fig. 12

#### Global 60/40 with APAC integration demonstrated more resilience during market drawdowns

Maximum drawdown of the Global + APAC 60/40 and Global 60/40 portfolios across periods when global equities fell by more than 15%

	Global + APAC 60/40	Global 60/40
2018 US-China Trade War	-13.1%	-12.9%
Covid-19	-21.7%	-22.5%
2022 Rate Shock	-22.8%	-23.9%
2025 Trade tariffs	-8.3%	-9.3%
<b>Average</b>	<b>-16.5%</b>	<b>-17.2%</b>

Source: Bloomberg, Standard Chartered

# What are the key risks?

A credible case for APAC investing requires an equally credible account of its risks. The opportunity set is real; so are the risks – and in some cases, they are more complex, less predictable and less well-modelled than their equivalents in DMs.

## Currency risk

For USD-based investors, APAC equity and LCY bond returns reflect two distinct drivers: underlying asset performance and currency translation. The region spans 13 materially different currencies, each shaped by its own inflation profile, current account position and central bank framework. The Japanese yen's depreciation in early 2021 shows how sharply currency moves can affect USD-denominated returns, even when local equity markets perform adequately. Hedging costs also vary widely across the region and can be substantial for higher-yielding EM currencies.

## Geopolitical and regulatory risk

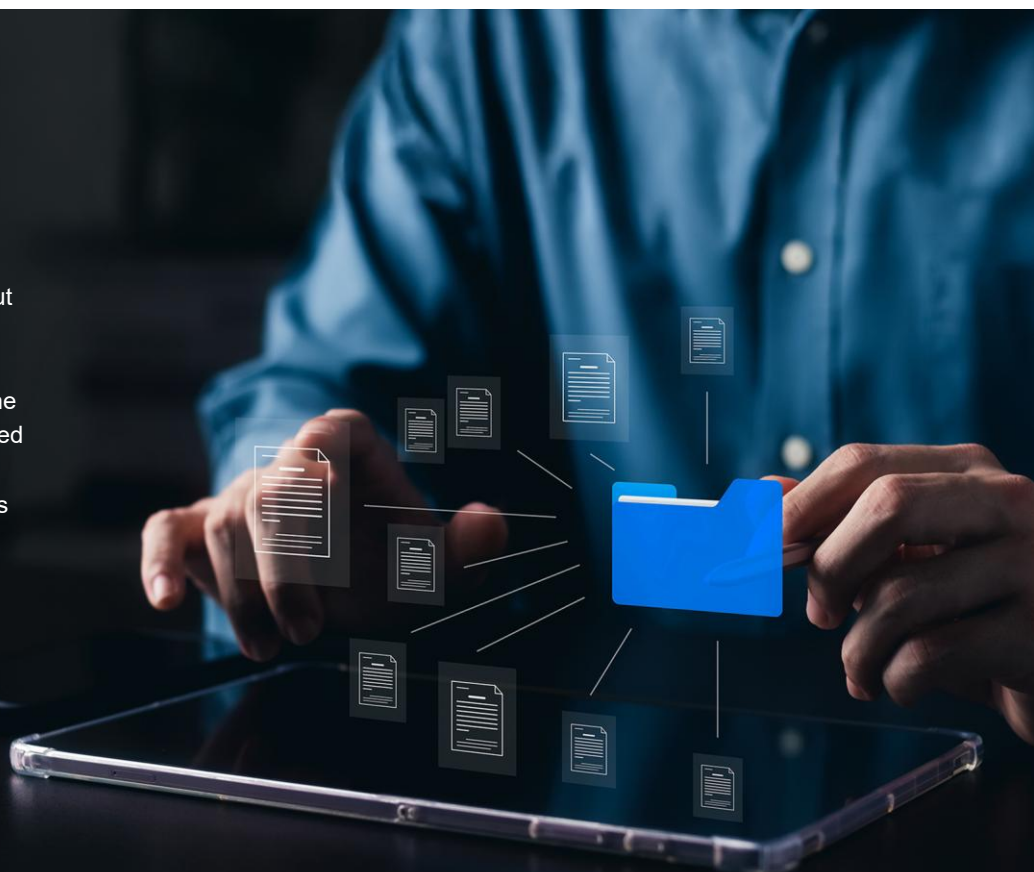
APAC includes several geopolitical flashpoints that could disrupt regional capital markets quickly and with little warning. Investors should distinguish these tail risks from more common regulatory and policy risks, which have historically driven episodic volatility. In some APAC markets, regulatory risk can materialise rapidly and with significant impact.

## Liquidity risk

Liquidity across APAC markets spans a wide range. At one end, Japan, Australia, Hong Kong and Singapore offer market depth broadly comparable to western DMs. At the other, some markets can see secondary trading dry up during periods of stress, as shown by the 2021-23 Chinese property downturn, when spreads widened sharply and volumes fell. Investors should assess liquidity at the security and market level rather than at the regional label, recognising that the range of liquidity conditions within APAC is as wide as the range of markets themselves.

## A region worth the rigour

APAC presents a compelling investment case. Its growth premium is important, but it is not the whole story. What sets the region apart today is its combination of economic scale, improving fiscal discipline relative to the G7, an often-underestimated fixed income market and diversification characteristics that complement portfolios dominated by western assets. Over decades, APAC has built the institutional foundations needed to support resilient long-term allocations.



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