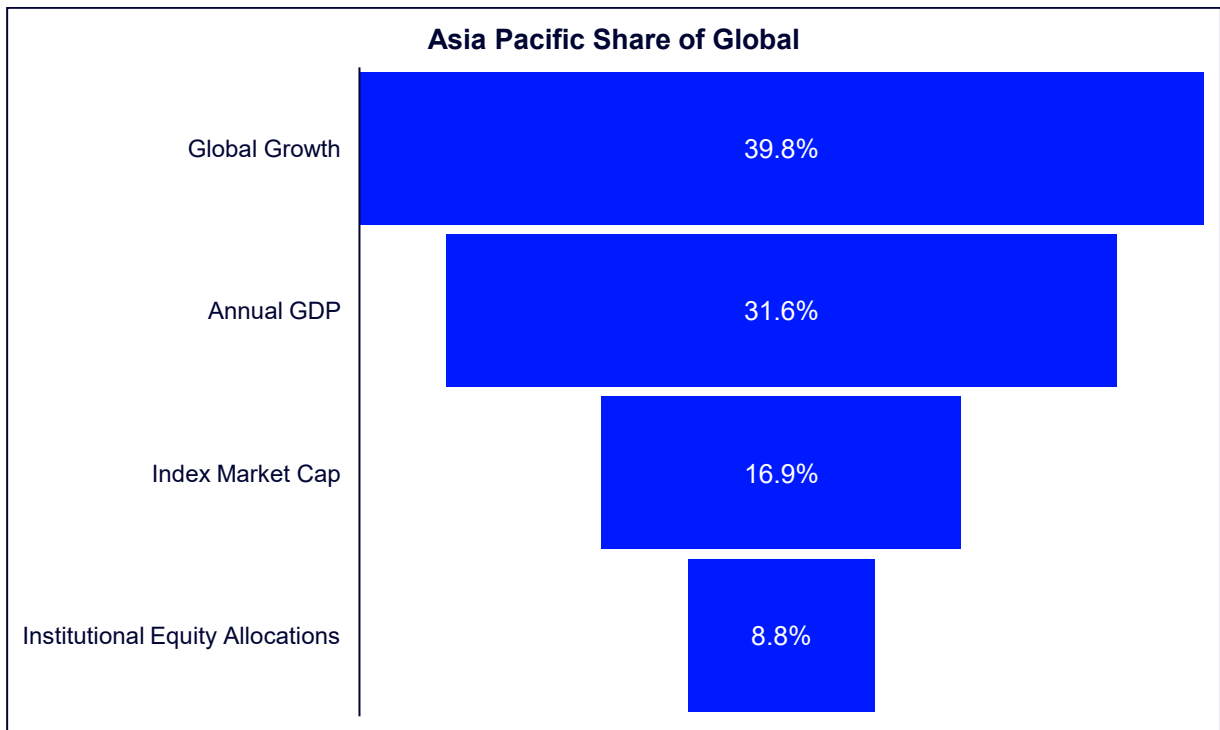


COMMENTARY

June 4, 2026

Mind on the Market

Chart of the Week



Source: IMF WEO April 2026, MSCI, Bloomberg, OECD Asia Capital Markets Report 2025. Displaying APAC GDP weight, market cap weight, and portfolio weight.

As investors increasingly look beyond the US for diversification, it is striking that many portfolios remain underweight Asia Pacific (APAC) equities. The chart illustrates the large gap between APAC’s share of global GDP and the average weight in institutional portfolios, despite the growth and development of APAC financial markets. This gap has remained steady over the last decade – so the underallocation is not a historical artifact, it is a structural blind spot that has grown while the region’s economic significance has increased.

Contact

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Weekly Highlights

APAC LTM Return

46%

Source: FactSet. Return in USD as of 6/2/2026 for MSCI AC Asia Pacific Index.

APAC Forward P/E Multiple

14.3x

Source: FactSet. Data as of 6/2/2026 for MSCI AC Asia Pacific Index.

Top Country Weight in MSCI AC Asia Pacific Index

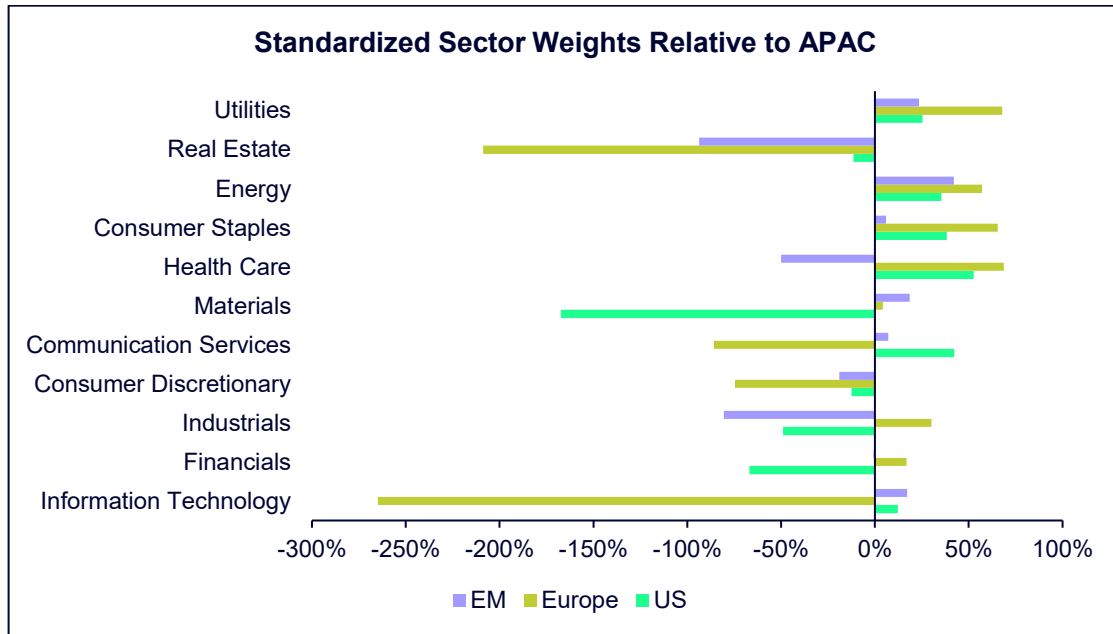
Japan, 29%

Source: MSCI. Data as of 6/2/2026.

Underweight and Overdue: Focus on APAC

The MSCI All Country Asia Pacific Index covers 13 developed and emerging markets in the region. The top six exposures with approximate weights are Japan (29%), Taiwan (19%), China (14%), Korea (17%), Australia (8%), and India (7%). This index avoids the sometimes arbitrary developed or emerging market categorization and allows the focus to be on the complementary dynamics at play in this region that is an engine of global growth. It is a more targeted exposure than the more popular MSCI EAFE Index and has a more coherent investment thesis than the MSCI Emerging Markets Index (EM). For global equity investors with increasingly US-heavy portfolios, the APAC region offers a compelling mix of diversification benefits while continuing to participate in the mega-trends driving equity returns.

Chart 2 – Sector Comparison with US, Europe, and EM



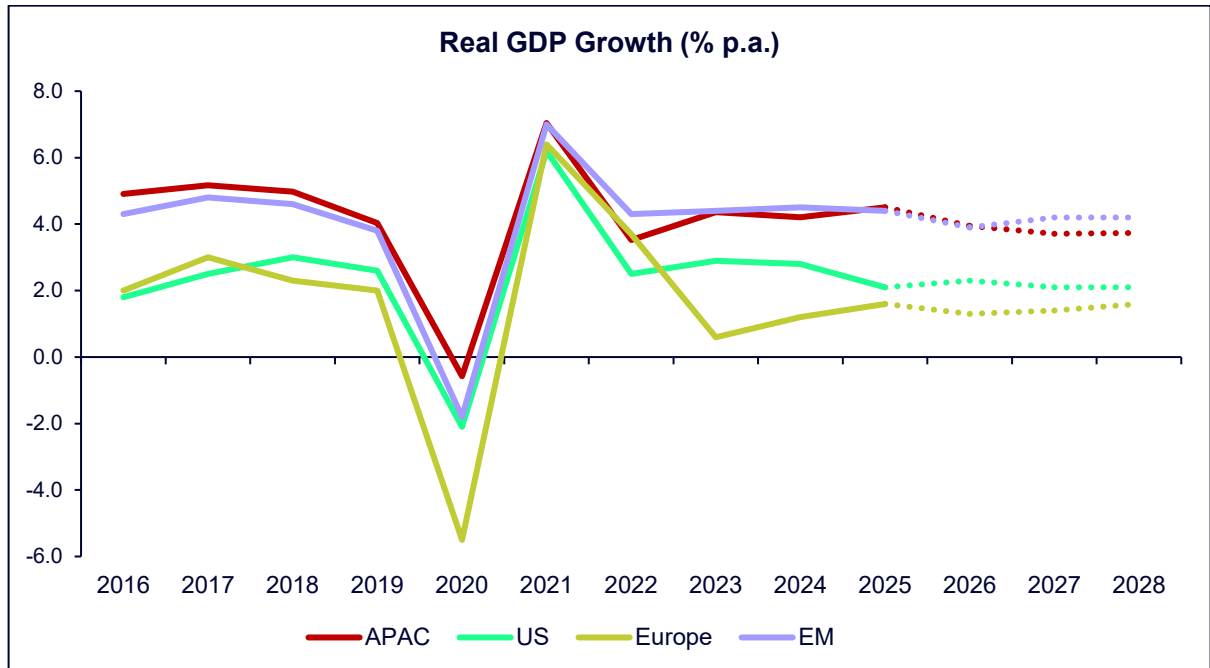
Source: MSCI, as of April 30, 2026.

Relative to the US, APAC has slightly less tech sector dominance (36% vs 38%) but provides exposure to different economic drivers through significantly higher weights to industrials, financials and materials sectors. This differentiated mix has not served APAC well compared to the US over the last 10 years as the US has returned 15.7% p.a. versus 10.9% p.a. for APAC (FactSet, returns data in USD from June 3, 2016 – June 2, 2026). This performance differential has remained steady in the last five years as the Magnificent 7-led tech names have driven global equity performance.

Historically, the MSCI AC APAC index has traded at a meaningful discount to the US with current forward P/E multiples at 14.3x and 21.7x respectively. This gap is forecasted to narrow as the APAC region captures much of the value in the AI infrastructure build-out given the concentration of semiconductor manufacturing and cutting-edge AI application in the region.

This is not to say that APAC’s prospects are superior to the US. Rather, it is that for the marginal dollar in portfolios that are seeking to reduce their increased US concentration, APAC offers more diversification benefits than other regions.

Chart 3 – Regional GDP Forecasts (US, Eurozone, Japan, India, China, ASEAN aggregate)



Source: IMF WEO April 2026. Forecasts after 2025.

Europe has often served as the default developed market diversifier. However, in recent years the region’s economic stagnation has been further exacerbated by the extreme underweight of the technology sector in the MSCI Europe index. In contrast, APAC has structural growth tailwinds and a more balanced sector mix. These advantages include:

- Demographics – working age population increasing especially India and Southeast Asia;
- Innovation and manufacturing supply chain realignment benefiting the region (semiconductors, EVs, AI infrastructure);
- Exposure to the world's fastest-growing consumer class driven by Asia's expanding middle class;
- Less geopolitical exposure to the Russia-Ukraine conflict and energy dependency.

Many investors may already have EM allocations to diversify away from developed markets. EM allocations have become the default to get access to the world’s fastest growing markets that were too small to warrant individual allocations. However, broad EM exposure can at times introduce exposure to idiosyncratic risks often linked to political instability, commodity cycles and currency crises in regions such as Latin America and EMEA EM countries.

An AC APAC allocation still captures the most compelling EM growth stories – India, China and Southeast Asia – while reducing governance related risk. This allocation also adds Japan and Australia which are both high quality and liquid developed market anchors that help dampen the volatility profile of this index relative to a pure EM exposure.

What is the outlook for the main countries in the APAC index?

Japan – Stronger wages and inflation have ushered in a move away from Japan’s deflationary past. This revival seems durable, underpinned by political stability and a reform agenda. Semiconductor-led investment headlines a robust investable growth story.

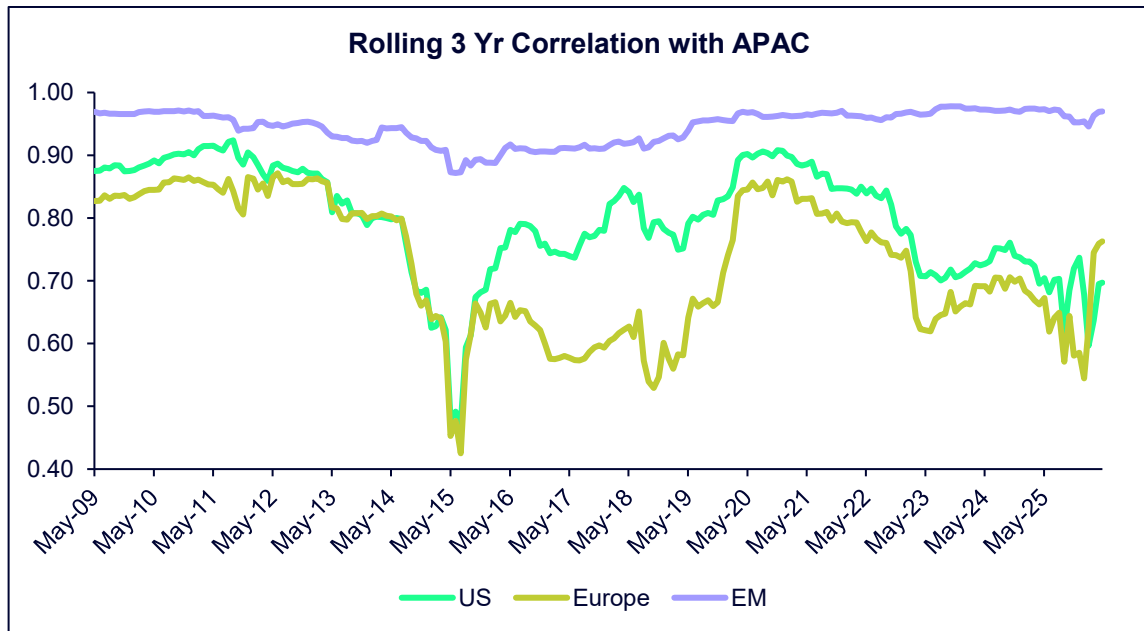
Taiwan and Korea – These countries dominate semiconductor and IT hardware supply chains. Their strategic importance in the AI investment boom underpins a positive medium-term outlook backed by pricing power and earnings growth.

China – Despite weak domestic demand and a property stress overhang, the outlook is cautiously constructive given policy support for AI investment and deployment. Attractive valuations help balance some structural challenges favoring selective exposures.

Australia – The materials sector (25% of index) has been a strong performer YTD due to inflation and supply concerns from the Iran war. Long-term support comes from AI infrastructure, grid upgrades, and reindustrialization.

India – Short-term pressures are mainly from energy supply concerns from closure of the Strait of Hormuz. The outlook is constructive in the medium-term given its demographic profile and financialization of savings.

Chart 4 – Rolling Correlation with US Equities (and others)



Source: Bloomberg, May 31, 2006, to April 30, 2026.

US equities have led global markets over 5- and 10-year horizons but more recently that leadership has been challenged. The APAC market has been buoyant with stronger returns over the last 12 months and YTD (46% vs 29% and 24% vs 11% respectively)¹ as investors have built up overweight positions in the AI-driven markets of Taiwan and Korea. The rest of the APAC region sports relatively attractive valuations, with promising domestic reform agendas and credible paths to improved performance (especially Japan and India).

An allocation to the AC APAC index has some diversification benefits for investors concentrated in US or European equities. This single exposure to the full Asia Pacific opportunity set avoids having to make the decision of how to split developed versus emerging Asia and reduces the rebalancing complexity of holding separate Japan, Australia and EM Asia sleeves. Additionally, with a medium-term bearish outlook on the USD, an unhedged Asia Pacific exposure would benefit portfolios in a USD depreciation scenario.

¹ Source: FactSet, in USD as of 6/2/2026.

While the case for an APAC allocation is compelling, there are some risks to remain cognizant of. The Iran war and ongoing blockade of the Strait of Hormuz have highlighted the region's dependence on imported energy, particularly from the Middle East. A prolonged energy supply shock could impact growth materially and dampen equity performance.

Another long-term geopolitical risk is the China-Taiwan-US relationship which remains contentious, as highlighted in the recent US-China leaders' summit. In addition, there are risks coming from Chinese government policy and liquidity variations in the constituent markets. These risks are well known and have been factored in by investors and should not be seen as reasons to avoid the region completely. The gap between how significant APAC is to the global economy and its weight in many portfolios is no longer an oversight – it is a choice, and could be an increasingly costly one.

Source: MSCI, FactSet, Bloomberg, IMF WEO. All mentions to APAC and the US refer to the MSCI AC Asia Pacific Index and MSCI USA Index respectively. Data as of 6/2/2026 unless otherwise stated. All returns data are provided in USD. The performance data quoted represents past performance. Past performance does not guarantee future results. Investing involves risk, including the risk of loss of principal.

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* This figure is presented as of March 31, 2026 and includes ETF AUM of \$1,940.32 billion USD of which approximately \$184.18 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Investment Management are affiliated. Please note all AUM is unaudited.

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