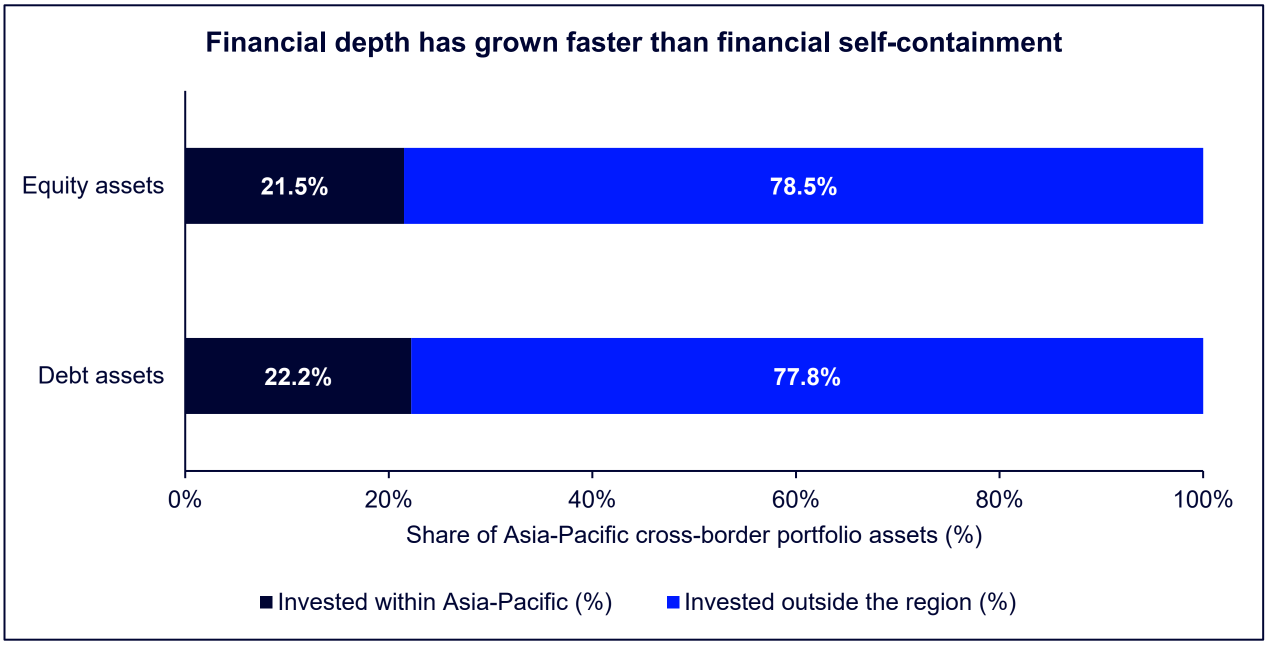
COMMENTARY
September 24, 2026

# Mind on the Market

## Chart of the Week




Source: IMF Coordinated Portfolio Investment Survey / Portfolio Investment Position, aggregated by the Asian Development Bank, Asian Economic Integration Report 2025 (Financial Integration chapter), State Street Investment Management. Data as of 2024. 'Within Asia-Pacific' refers to intraregional cross-border positions under the cited ADB aggregation.

Asia's financial markets have become much deeper, but not necessarily more self-contained. Despite the growth of domestic savings and institutional investor bases, roughly four-fifths of Asia-Pacific cross-border portfolio assets remain invested outside the region across debt and equity (IMF CPIS, aggregated by ADB, Asian Economic Integration Report 2025). That helps explain an increasingly important distinction: Asian institutions now fund most of the region's local-currency bond market, but foreign investors still dominate the marginal trade that clears it. If domestic capital sets the floor and global capital sets the price, what sets the return?

## Contact

**Ninghui Liu, Ph.D.**
Head of Investment Strategy & Research, APAC

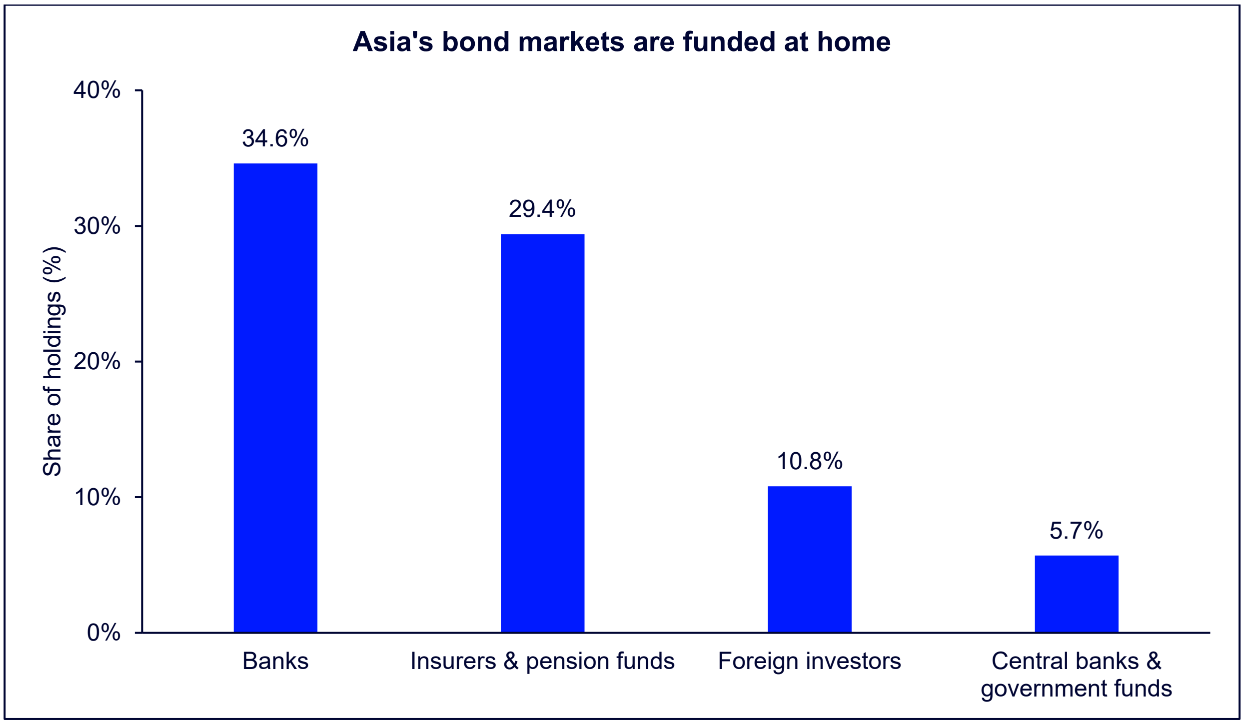
## Weekly Highlights

| Foreign ownership of Emerging East Asia local-currency bonds | Net domestic institutional inflows into Indian equities through 2025 | Asia-Pacific cross-border portfolio assets invested outside the region |
|---|---|---|
| 10.8% | $252bn | ~4 in 5 |
| Source: ADB AsianBondsOnline / Asia Bond Monitor. As of 3/31/26. | Source: NSE, Association of Mutual Funds in India (AMFI), State Street Investment Management. As of 12/31/2025. | Source: IMF CPIS, aggregated by ADB, Asian Economic Integration Report 2025. Data as of 12/31/2024. |

For three decades, the standard way to understand Asian markets was to watch foreign flows. Inflows lifted currencies and asset prices; reversals threatened both. That framework, forged in the Asian Financial Crisis, is now incomplete. Asia has built a genuine domestic investor base, and in fixed income that base does most of the funding. What it does not yet do is clear the market.

## Bonds: ownership has moved, pricing power has not

The clearest evidence sits in local-currency debt. Emerging East Asia had less than USD 1 trillion of local-currency bonds outstanding in 2000. By the first quarter of 2026, the market had reached USD 31.5 trillion, with 93.9% of issuance during the quarter denominated in local currency (ADB AsianBondsOnline / Asia Bond Monitor, as of 3/31/26). Banks hold roughly 34.6% of the regional market and insurers and pension funds a further 29.4%, while foreign investors hold about 10.8%. Governments and corporates increasingly borrow in the currency in which they collect taxes and earn revenue, and a resident institutional base provides a standing bid.




Source: Asian Development Bank, AsianBondsOnline and Asia Bond Monitor (Bond Market Developments, Q2 2025 edition), State Street Investment Management. Regional coverage follows ADB Emerging East Asia definitions. Shares as reported; residual categories not separately disclosed.

Here is the mechanism that is worth noting. Domestic institutions buy to match liabilities and tend to hold. Foreign investors buy and sell to express a view. Because the marginal trade clears the market, the smaller and more mobile pool determines where yields settle over any given month, even where it owns only a tenth of the stock. Ownership therefore tells you who absorbs a shock; turnover tells you who prices it. The two have separated, and every section below is an application of that distinction.

The consequence is shock absorption, not immunity: a price adjustment need not become a refinancing crisis, a distinction largely unavailable to Asian markets in 1997.

## Equities: a domestic bid changes the drawdown, not the driver

India is the most instructive case. Cumulative net domestic institutional inflows into Indian equities reached roughly USD 252 billion by 2025, against roughly USD 73 billion from foreign portfolio investors, and domestic institutional ownership now exceeds foreign institutional ownership for the first time since tracking began in 2009 (NSE, AMFI, State Street Investment Management, as of 2025). The engine is the financialization of household savings through systematic investment plans, which have compounded at about 24% annually since 2020 and now run above USD 3 billion a month[1] — equivalent to roughly 2.5% of free-float market capitalization a year[2].

That flow has repeatedly cushioned the market through foreign selling episodes. What it has not done is decouple Indian valuations from global discount rates. A reliable domestic bid changes the shape of drawdowns — shallower troughs and faster absorption — more than it changes their trigger. Korea and Taiwan sit at the opposite end: concentrated global semiconductor exposure means foreign positioning dominates price action irrespective of the depth of local savings.

## Regional integration: deeper, not closed

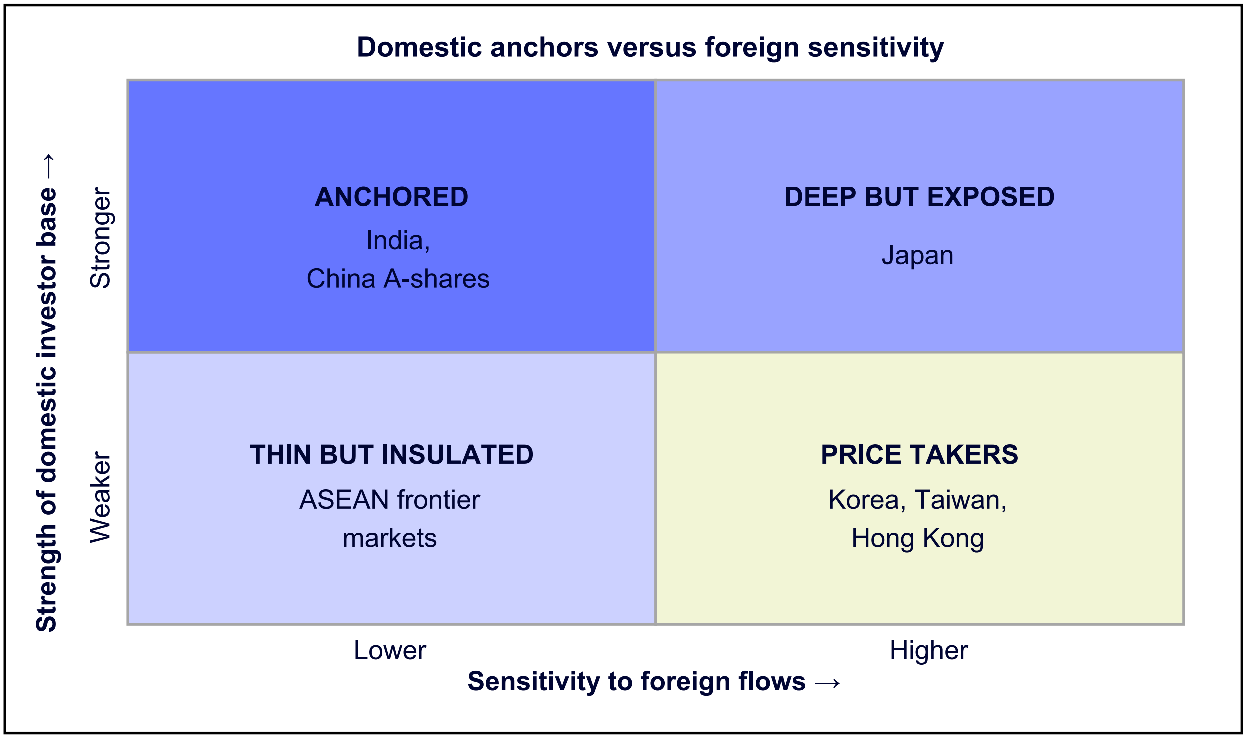
Depth has not produced a closed regional capital pool. As seen in the Chart of the Week, in 2024, only 21.5% of Asia-Pacific cross-border equity assets and 22.2% of debt assets were invested within the region; roughly four-fifths remained outside it. On the liability side, intraregional shares were 22% for equity and 31% for debt (IMF CPIS via ADB, as of 2024).

Large savings pools eventually need a wider opportunity set than any single domestic market can provide. Japan has demonstrated this for decades, and Korea and Taiwan now face the same pressure as pensions and insurers build overseas portfolios. Asia is becoming both more capable of financing itself and a larger supplier of capital to the rest of the world.

The dollar is the bridge between the two. More than 80% of ASEAN+3 trade invoicing remains dollar-denominated[3], and the dollar was on one side of 89.2% of global foreign-exchange transactions in April 2025[4]. The old sequence ran from foreign-currency funding withdrawal to refinancing pressure and balance-sheet stress. The new one runs from higher US rates to a stronger dollar, weaker Asian currencies, portfolio repricing and domestic absorption — painful for unhedged holders, but not disabling for the financing system.

Ownership depth and flow sensitivity together produce four distinct market types rather than one regional trade.

[1] Association of Mutual Funds in India (AMFI). Calculated using monthly SIP contributions as of March 31, 2026.
[2] NSE, AMFI, State Street Investment Management. As of 12/31/2025.
[3] AMRO, BIS.
[4] BIS Triennial Central Bank Survey.




Source: State Street Investment Management assessment, informed by ADB AsianBondsOnline investor-composition data, IMF CPIS cross-border position data, and NSE/AMFI domestic flow data. Positioning reflects State Street Investment Management assessment of domestic investor depth and historical sensitivity to foreign portfolio flows; not a quantitative ranking.

## What actually drives returns from here

Market structure explains volatility and absorption. It does not explain return. On that question, the honest reading of 2026 so far is that Asian equity performance has been an AI story far more than a domestic-flow story, and the two should not be confused.

The Q1 2026 dispersion makes the point. Korea returned 23.9% and Taiwan 11.0% in local-currency terms on AI hardware demand, while China fell 8.5% and Indonesia 19.2% (MSCI, FactSet via State Street Investment Management APAC Market Outlook, as of Q1 2026). That is not a regional beta; it is one global capital expenditure cycle expressing itself through the two markets most exposed to it. Asia produces around 72% of the world’s semiconductors and roughly 95% of the most advanced chips used in AI accelerators, and US hyperscalers are projected to spend USD 697 billion in 2026 and USD 873 billion in 2027[5]. Asia is being paid for someone else's capital cycle. Three questions follow.

1. **Does AI earnings leadership broaden, or narrow further?** The return contribution so far sits in the hardware layer. Broadening depends on AI reaching the earnings of Asian industrials, financials and consumer names rather than only chip and equipment revenues. Until it does, Asian equity returns remain a leveraged expression of global AI capital spending, with the drawdown risk that implies.
2. **Does the productivity dividend reach shareholders?** There are two ways to be exposed to AI, and they pay differently. Building it — selling chips, equipment and servers — is revenue growth, and it is the story above. Using it is a margin story: deploying AI inside existing operations through yield optimization, defect detection and predictive maintenance lowers unit costs without adding revenue. This second channel is how Asian industrials, autos and logistics names, rather than the chipmakers, could participate in the cycle. The capability appears to be there; Korea already runs above 1,000 robots per 10,000 manufacturing employees, roughly five times the global average, which suggests a corporate base willing to automate when the economics justify it (International Federation of Robotics). But two things must still go right. The gain must spread beyond sector leaders to the mid-tier suppliers that make up most of the regional index. And it must be retained rather than competed away, because in commoditized industries efficiency savings pass to customers as lower prices rather than to shareholders as margin. The evidence to watch is therefore reported margin expansion outside the technology hardware complex, not adoption announcements.
3. **Do demographics become a return driver rather than a discount?** The 65-and-over share of population is close to 29% in Japan, around 17% in Korea and about 15% in China, against roughly 7% in India (UN *World Population Prospects 2024 Report*). Ageing markets are deploying automation against labor scarcity, which is a margin story; younger markets face an absorption question instead. Demographics will increasingly separate the markets that convert AI into earnings from those that convert it into friction.

Valuation gives this some room: Asian technology continues to trade at a price-to-earnings discount to US peers, offering the same capital cycle at a lower entry multiple. That is a different proposition from arguing Asia has decoupled.

[5] JP Morgan, *AI Tailwinds Driving Growth in Asia's Tech Sector,* September 2025. Semiconductor production data as of July 31, 2025. US hyperscaler capital expenditure projections from State Street Investment Management, [Why Asia may be the biggest winner of the global AI boom].

## Portfolio implications

The same market structure implies different actions depending on where an investor sits. Global allocators are usually the marginal price-setter; Asian asset owners are usually the anchor.

| For global investors | For Asian asset owners |
|---|---|
| **Separate the duration view from the currency view.** Asian local-currency debt is two trades, not one. Local duration reflects domestic inflation, central-bank policy and the strength of the resident buyer base. The currency reflects the dollar cycle and global liquidity. A market can offer attractive local duration while its currency remains vulnerable. | **Diversify currency as deliberately as asset class.** A portfolio can look diversified by asset class while becoming more concentrated in US duration, US technology and dollar funding. Hedge ratio, hedge tenor and the liquidity needed to maintain the hedge belong in strategic asset allocation, not in implementation. |
| **Distinguish flow-driven repricing from funding deterioration.** When a global shock moves Asian currencies, yields and equity valuations together, ask whether funding capacity and cash-flow expectations have weakened by the same amount. Frequently they have not, and the domestic bid that absorbs foreign selling is what creates the entry point. | **Use deeper local markets for liability matching.** Regional local-currency depth offers more ways to match domestic liabilities and diversify duration without automatically importing dollar risk — particularly relevant for savings-rich markets such as Japan, Korea and Taiwan. |
| **Size the AI exposure deliberately.** An Asia allocation built on Korea and Taiwan is a position on global AI capital spending, not on regional diversification. Know which of the two you are buying, and check it against the technology exposure already held elsewhere. | **Watch the domestic earnings base, not only the domestic bid.** A resident investor base cushions drawdowns but does not generate returns. The markets that reward patient domestic capital will be those where productivity gains and demographic positioning show up in earnings. |

## Local fundamentals, global discount rates

Funding is increasingly domestic. Earnings are increasingly country specific. Discount rates remain global, and for now so does the dominant return driver. Gaps open between market price and domestic conditions precisely because these move at different speeds — and those gaps, rather than the ownership statistics themselves, are where the opportunity sits.

Asia may be becoming more valuable to global portfolios exactly because it is becoming less dependent on global capital — but not yet less dependent on the global cycle.

Source: Asian Development Bank (ADB), AsianBondsOnline and Asia Bond Monitor, Asian Development Bank, Asian Economic Integration Report 2025, International Monetary Fund (IMF) Coordinated Portfolio Investment Survey (CPIS), Bank for International Settlements (BIS) Triennial Central Bank Survey, National Stock Exchange of India (NSE) and Association of Mutual Funds in India (AMFI), MSCI, FactSet and Bloomberg via State Street Investment Management APAC Market Outlook, J.P. Morgan, *AI tailwinds driving growth in Asia's tech sector,* International Federation of Robotics, United Nations *World Population Prospects 2024* via Macrobond. Data as cited; 3/31/26 unless otherwise stated.

## About State Street Investment Management

At State Street Investment Management, we have been helping create better outcomes for institutions, financial intermediaries, and investors for nearly half a century. Starting with our early innovations in indexing and ETFs, our rigorous approach continues to be driven by market-tested expertise and a relentless commitment to those we serve. With over $6 trillion in assets managed*, clients in 60 countries, and a global network of strategic partners, we use our scale to deliver a comprehensive and cost-effective suite of investment solutions that help investors get wherever they want to go.

* This figure is presented as of June 30, 2026 and includes ETF AUM of $2,203.98 billion USD of which approximately $156.81 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.

## Important Risk Information

ssga.com

Marketing Communication

**State Street Global Advisors (SSGA) is now State Street Investment Management. Please go to statestreet.com/investment-management for more information.**

**Important Risk Information**



The trademarks and service marks referenced herein are the property of their respective owners. Third party data providers make no warranties or representations of any kind relating to the accuracy, completeness or timeliness of the data and have no liability for damages of any kind relating to the use of such data.

The information provided does not constitute investment advice as such term is defined under the Markets in Financial Instruments Directive (2014/65/EU) and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell any investment. It does not take into account any investor's or potential investor's particular investment objectives, strategies, tax status, risk appetite or investment horizon. If you require investment advice you should consult your tax and financial or other professional advisor.

The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the applicable regional regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

The performance data quoted represents past performance. Past performance does not guarantee future results. Investing involves risk, including the risk of loss of principal.

Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

Diversification does not ensure a profit or guarantee against loss. It is not possible to invest directly in an index. Index performance does not reflect charges and expenses associated with the fund or brokerage commissions associated with buying and selling a fund. Index performance is not meant to represent that of any particular fund.

The views expressed in this material are the views of Ninghui Liu through the period ended September 24, 2026 and are subject to change based on market and other conditions.

This document may contain certain statements deemed to be forward-looking statements. All statements, other than historical facts, contained within this document that address activities, events or developments that SSGA expects, believes or anticipates will or may occur in the future are forward-looking statements. These statements are based on certain assumptions and analyses made by SSGA in light of its experience and perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate in the circumstances, many of which are detailed herein. Such statements are subject to a number of assumptions, risks, uncertainties, many of which are beyond SSGA's control. Please note that any such statements are not guarantees of any future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.

All information is from SSGA unless otherwise noted and has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such.

Equity securities may fluctuate in value in response to the activities of individual companies and general market and economic conditions.

Companies with large market capitalizations go in and out of favor based on market and economic conditions. Larger companies tend to be less volatile than companies with smaller market capitalizations. In exchange for this potentially lower risk, the value of the security may not rise as much as companies with smaller market capitalizations.

Investments in small-sized companies may involve greater risks than in those of larger, better known companies.

Commodities investing entail significant risk as commodity prices can be extremely volatile due to wide range of factors. A few such factors include overall market movements, real or perceived inflationary trends, commodity index volatility, international, economic and political changes, change in interest and currency exchange rates.

Asset Allocation is a method of diversification which positions assets among major investment categories. Asset Allocation may be used in an effort to manage risk and enhance returns. It does not, however, guarantee a profit or protect against loss.

Bonds generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates rise bond values and yields usually fall); issuer default risk; issuer credit risk; liquidity risk; and inflation risk. These effects are usually pronounced for longer-term securities.

Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

Increase in real interest rates can cause the price of inflation-protected debt securities to decrease. Interest payments on inflation-protected debt securities can be unpredictable.

There are risks associated with investing in Real Assets and the Real Assets sector, including real estate, precious metals and natural resources. Investments can be significantly affected by events relating to these industries.

Investing in foreign domiciled securities may involve risk of capital loss from unfavorable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations. Investments in emerging or developing markets may be more volatile and less liquid than investing in developed markets and may involve exposure to economic structures that are generally less diverse and mature and to political systems which have less stability than those of more developed countries.

Generally, among asset classes, stocks are more volatile than bonds or short-term instruments. Government bonds and corporate bonds generally have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns. U.S. Treasury Bills maintain a stable value if held to maturity, but returns are generally only slightly above the inflation rate.


AdTrax: 5064514.169.1.GBL.RTL
Exp. Date: 9/30/2027.