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Selective opportunities in Asia's US$3.7 tril AI boom

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Ray Farris, chief economist at Prudential PLC (UK) and Eastspring Investments (Singapore) Ltd, sees further upside in Asian equities as US hyperscalers pour money into artificial intelligence (AI) infrastructure. He says, however, that investors should favour selected markets and companies over broad regional indices as gains will be highly concentrated.

Farris estimates that the AI capital-expenditure boom could generate more than US$3.7 trillion in revenue for Asia through 2030.

Asia will be the main beneficiary of the ongoing AI mega trend as competing AI developers continue to buy the chips, cables and power infrastructure needed to build the data centres that train and operate their models. That demand is already driving a boom in Asian exports and is expected to help the region outperform global markets.

Farris says, however, that the investment opportunity differs sharply from one market to another because countries have varying exposure to AI hardware and its supply chains.

"Our region is not homogeneous. You can't invest in, say, Indonesia to play the same themes that you invest in Korea for," he says, speaking at the Federation of Investment Managers Malaysia Annual Convention (FIMMAC) 2026 in Petaling Jaya on Aug 13.

South Korea and Taiwan are benefiting most because of their exposure to AI hardware while Malaysia and Singapore are also gaining. Hong Kong is benefiting as a transshipment centre.

By contrast, Indonesia, the Philippines and India have less direct exposure because they lack the same concentration of AI and IT hardware suppliers.

South Korea has the strongest earnings outlook in Asia, followed by Taiwan, but growth in both markets is concentrated in only a few companies. As at July 31, Samsung Electronics Co Ltd and SK Hynix Inc together accounted for 62.8% of the MSCI Korea Index. On the other hand, Taiwan Semiconductor Manufacturng Co Ltd (TSMC) alone represented 58.1% of the MSCI Taiwan Index.

This means investors buying Asia as a whole — or even individual country indices — must account for differences in each market's exposure to the AI boom and the concentration of earnings growth within a few companies.

"There's loads of bifurcation taking place; lots of differentiation and outperformance could come from well-researched, selective, active management," says Farris.

The durability of that opportunity depends, however, on US hyperscalers continuing to invest as they are the main source of demand for much of the AI hardware supplied by Asia. Any significant reduction in their spending would weaken demand for the region's exports.

Nevertheless, Farris believes the cycle has much further to run. He says cash-rich US hyperscalers have the profits and access to financing needed to continue spending through at least 2027 and likely into 2028.

Over the past month alone, US hyperscalers raised their projected spending for 2027 by US$300 billion, pushing likely expenditure to more than US$1 trillion.

FIMM

Prudential's Farris (with FIMM chairman and FIMMAC moderator Mohd Ridzal Mohd Sheriff) says the investment opportunity differs sharply from one market to another because countries have varying exposure to AI hardware and its supply chains

"In the second quarter of this year, the S&P 500 is probably going to print 30% earnings growth on top of about 12% earnings growth in the first quarter and double-digit earnings growth in the previous six quarters," Farris says.

"This capex bubble, if you want to call it a bubble, is being fuelled by profitable companies spending profits."

Farris acknowledges that not every AI developer making those investments would ultimately succeed. The US alone has at least five major developers of large language models, alongside competitors in China and elsewhere while thousands of models are available through platforms such as Hugging Face.

Some developers are therefore likely to lose substantial amounts of money. Farris says, however, that the eventual shakeout will not weaken near-term investment opportunities for Asia because competing developers will continue to build infrastructure before the winners emerge.

"Asia is the main beneficiary of that spending because we don't care which model ultimately wins. All we care about is that they all buy chips and cables and power infrastructure to build data centres," he says.

"If we look through 2027 and really into 2028, these companies have the money, the profitability and they have financing to buy this hardware."

CHINA'S ECONOMY STAYS WEAK BUT IT COMPANIES ARE GROWING

China's property slump and weak consumption have dragged down its broad equity market but selected IT companies continue to record strong earnings growth, creating opportunities for active investors, says Farris.

China's exports are booming and the country has a strong AI investment story. Its domestic economy remains weak, however, with the continuing contraction in the property market at the heart of the problem.

> **"The industry should not respond to the wider range of investment choices simply by launching and promoting more products."**
> *> Yap, Eastspring Investments*

Farris says retail sales were effectively contracting and household consumption was extremely weak. As property prices continue to fall, households are attempting to rebuild their wealth by saving rather than spending.

"Households are net repaying debt. Think about that. There are very few countries in the world where households are net repaying debt. They're clearly not spending," Farris says.

The weakness was compounded by contractionary fiscal policy in the first half of the year. Farris expects this to reverse in the second half although the increase would come from spending being pushed into the latter part of the year rather than fresh stimulus.

These conditions have weighed on Chinese equities. Farris' presentation showed H-shares — those in mainland Chinese companies listed in Hong Kong — are underperforming US equities, while their 12-month forward earnings are declining relative to US earnings.

Mainland-listed A-shares are performing better than H-shares, though, and China's IT sector is recording strong earnings growth even as much of the wider market struggles.

Over the month ended July 29, earnings estimates for China's IT sector rose while estimates for most other sectors fell. "There's very strong earnings growth in China's IT sector. It's in selected areas. And that's where active management and strong research come in," says Farris.

In Japan, an improving export outlook is driving a cyclical capital-expenditure expansion, which is lifting incomes and strengthening the outlook for consumption. Together with corporate reforms, the expansion has pushed Japanese return on equity to record highs.

Farris says value stocks in Japan had outperformed and remained only loosely correlated with US equities. "The fact is that Japan offers strong returns and, crucially, diversification," he adds.

In a separate panel at FIMMAC 2026 titled "The Future of Unit Trust Industry in Malaysia: Reinvention, Resilience & Relevance", industry players say Malaysia's unit trust industry must adapt to slowing growth, digital competition and changing investor expectations.

The industry continues to expand with total net asset value rising from about RM580 billion at end-2025 to RM631 billion in May 2026. However, its compound annual growth rate, which was about 10% in earlier periods, has been slowing, and attracting younger investors has become more difficult.

FIMM is preparing a roadmap for the Securities Commission Malaysia on how the industry should evolve over the next 20 years.

Meanwhile, Public Mutual chief investment officer Chung Yee Wah expects digital platforms and consultant-led distribution to coexist rather than replace each other. Self-directed platforms will continue to grow but consultants will remain important in helping investors address different financial needs at each stage of life.

Chung also expects unit trust offerings to expand beyond conventional funds to include exchange-traded funds, private credit, other debt instruments, cryptocurrencies and alternative assets.

Offering these investments through professionally managed structures could give retail investors diversified access to asset classes previously available mainly to corporations and high-net-worth individuals.

Eastspring Investments Malaysia CEO Yap Siok Hoon says the industry should not respond to the wider range of investment choices simply by launching and promoting more products.

She says fund managers should instead build solutions around investors' desired outcomes, including regular income, capital protection and stable long-term returns. E