Mid-Year Reckoning

An H2 2026 APAC Scorecard: What Surprised, What Held, and How We Are Repositioned

Darmine Capital · Macro Research Division · Singapore

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Abstract

In February we published the Asia 2026 Divergence Trade, arguing that the region's headline growth number concealed a widening spread between economies compounding structurally and economies merely stabilizing. Six months on, we grade ourselves. The central thesis, that central bank divergence and demographic destiny would matter more than the aggregate 4.4% print, held cleanly. The specifics were messier. Japanese normalization ran faster and Japanese equities higher than we modeled; China's deflation proved stickier and more corrosive; Korea's recovery arrived on schedule but leaned almost entirely on one memory cycle. Singapore beat, India compounded, ASEAN diverged internally. This scorecard revisits each of the eight economies, marks our forecasts to market, and refreshes positioning into the second half. Our conclusion is deliberately split: humility about point prediction, conviction about the framework that generated it. We keep India overweight, Singapore overweight, China underweight, and we trim Japan from selective enthusiasm to disciplined market weight after a powerful run.

1. The Scorecard Method: Grading a Framework, Not a Forecast

A research house that never marks itself to market is running a marketing operation, not a research operation. The February note staked out eight specific calls across an APAC growth landscape we described as superficially convergent and structurally divergent. The purpose of this mid-year reckoning is to separate two questions that lazy reviews conflate. First: was the framework right? That is, did central bank divergence, demographic structure, and the fading of the export impulse turn out to be the axes along which returns actually dispersed? Second: were the point forecasts right? That is, did we get the growth prints, the policy rates, and the index targets numerically close?

We answer the first with a confident yes and the second with a candid mixed. Asia-Pacific is tracking roughly 4.4% growth for 2026, still comfortably above the global average, and the region is still generating close to 60% of world GDP growth even as WTO merchandise trade volume growth collapses toward 0.5%, down from above 2% across 2024 and 2025. That macro backdrop, a region growing on domestic demand and capex while global trade stalls, is precisely the world we described. What we underweighted was the velocity of two moves inside it: how fast the Bank of Japan would normalize, and how deeply China's deflation would entrench.

> **Our view:** The framework earns an A and the point forecasts earn a B minus. That gap is the entire lesson of this paper. Investors who traded our numbers did fine; investors who traded our framework did better, because the framework kept them positioned through the moments our numbers were wrong.

2. The Eight-Economy Scorecard

The table below marks each February call against where the data and our revised view now sit. Grades reflect directional accuracy and, where relevant, the magnitude of the miss. We grade ourselves harder on surprises we should have seen than on genuine tail events.

Economy	Feb 2026 stance	Feb growth call	H1 outcome / revision	Grade
India	Overweight	~6.5%	~6.5%, held; S&P at BBB, domestic demand resilient	A
Singapore	Overweight	2.0 to 4.0%	Tracking upper half; Q4 2025 base very strong	A
China	Underweight	~4.4 to 4.5%	~4.4%, but deflation deeper and stickier than modeled	A minus
Japan	Market weight (selective)	Rate to 0.75-1.0%	Normalization and TOPIX ran ahead of us	B
Korea	Underweight / tactical	~1.8% rebound	~1.8%, but narrowly memory-chip driven	B plus
Indonesia	Overweight / accumulate	~5.0%	~5.0%, downstreaming and FDI on track	A minus
Vietnam	Market weight, monitor	~6.0 to 6.5%	In range; transshipment enforcement now live	B plus
Thailand	Underweight	1.8 to 2.5%	Laggard confirmed; election overhang	A

Grades are Darmine's internal marks on the February 2026 Divergence Trade calls. Growth figures are 2026 full-year estimates consistent with IMF Regional Economic Outlook and World Bank East Asia and Pacific Update ranges.

> **Our view:** Six of eight calls graded A minus or better. The two B-range grades, Japan and Korea, share a common failure mode: we were right on direction and wrong on how concentrated the driver would be. We keep the eight-economy structure intact into H2.

3. India and Singapore: The Convictions That Held

3.1 India: structural long, no revision needed

India remains our highest-conviction structural long, and it required the least revision of any position. Growth is tracking near 6.5%, still the fastest of the major economies, and still driven by domestic demand rather than an export cycle we cannot control. The S&P upgrade to BBB from BBB minus, which we flagged as a probable rerating catalyst, has done its work on the cost of capital and on foreign allocation psychology. A median age of 28, an India-EU trade framework that diversifies away from a 36% effective US tariff, and a capex and formalization cycle that compounds independent of the global trade slump: none of that changed in six months, which is the entire point of a structural call. Structural theses are supposed to be boring to review.

3.2 Singapore: quality defense that beat its base

Singapore is the position we came closest to underrating. The 2025 base was extraordinary, 5.0% full-year growth with a Q4 that printed +6.9% year on year and manufacturing up 18.8% in the quarter and 8.7% for the year. The risk we flagged was that such a base made 2026 comparisons brutal. Instead the MTI upgrade to a 2.0 to 4.0% forecast is tracking in its upper half, MAS has held to gradual S NEER appreciation, and core inflation has stayed inside the 1.0 to 2.0% comfort band. The construction and infrastructure pipeline, Changi Terminal 5, Tuas Port, the North-South Corridor, continues to underwrite a domestic-demand floor that is largely insulated from the trade cycle.

> **Our view:** India and Singapore are the two positions we reaffirm without qualification. India is the compounder; Singapore is the quality defensive that lets us hold regional risk without owning regional fragility. Both stay overweight.

4. China: The Deflation Trap Was Deeper Than We Modeled

Our China call graded A minus, and the deduction is instructive: we were right to be underweight, and right on the roughly 4.4% growth print, but we underestimated how corrosive persistent deflation would be to nominal outcomes, corporate margins, and household psychology. The headline number is being manufactured by an export machine that is itself fading, against a 47.5% US effective tariff and a 1.2 trillion USD 2025 trade surplus that is now a geopolitical liability rather than a source of strength. Beneath it, the property overhang continues to suppress the household balance sheet, and the PBoC's moderately loose stance is easing into a demand vacuum rather than a credit-hungry economy.

The mistake worth naming is that we treated deflation as a cyclical soft patch to be reflated rather than as a self-reinforcing trap. When prices fall, real debt burdens rise, discretionary consumption is deferred in expectation of cheaper future prices, and monetary easing loses traction because real rates stay high even as nominal rates fall. That is the mechanism that turns a bad quarter into a bad regime, and it is why we treat Chinese domestic demand as a value trap rather than a contrarian opportunity, notwithstanding valuations that will keep tempting the reflation trade.

> **Our view:** We stay underweight China domestic demand. The single data series that would force a revision is not GDP, it is the GDP deflator turning durably positive alongside a stabilization in property transaction volumes. Until then, cheap stays cheap for a reason.

5. Japan and Korea: Right Direction, Wrong Concentration

5.1 Japan: normalization ran ahead of us

Japan is our most honest miss, and the miss was one of magnitude and speed rather than direction. We said the BOJ was normalizing; it normalized faster. The policy rate has moved toward the 0.75 to 1.0% zone by mid-year, the 10-year JGB yield has pushed above 2.3%, its highest since 1998, and the Shunto wage round delivered near 5.5%, cementing the wage-price cycle the BOJ needs to justify tightening. Prime Minister Sanae Takaichi's expansionary fiscal stance has kept nominal demand firm even as policy tightens, an unusual and powerful combination. TOPIX has run toward our 3,350 to 3,400 target faster than our timeline implied, and FY2026 inflation near 1.6% keeps the normalization narrative intact.

The lesson is about position sizing, not thesis. Our selective-financials tilt captured the direction; what we did not do was size the move to the velocity of the repricing. A domestic yield curve steepening from a generational low is a once-in-a-cycle tailwind for Japanese banks and insurers, and we should have leaned into it harder before the crowd arrived. Having missed the entry, we now refuse to chase it.

5.2 Korea: the recovery arrived, but on one leg

Korea graded B plus. We called the 2026 rebound to roughly 1.8% after the 1.1% collapse of 2025 through the political and constitutional crisis, and the rebound arrived. What we underweighted was how narrowly it would rest on the memory-chip cycle. Korea and Taiwan together sit at the center of the AI capex build, roughly 30% of global AI capex by J.P. Morgan's estimate, which is driving 12 to 13% EPS growth for Asia ex-Japan. That is a genuine tailwind, but a recovery balanced on a single cyclical commodity is a high-beta recovery, not a durable one.

> **Our view:** We trim Japan from selective enthusiasm to disciplined market weight: the thesis is intact but the easy money is made, and we will not add into a crowded, extended move. Korea stays underweight and tactical: we rent the memory cycle, we do not own the country, and we watch the AI capex order book as the single most important tell.

6. ASEAN: The Bloc That Refuses to Move Together

The central ASEAN lesson of H1 is that the bloc is not a trade. The internal spread across Southeast Asia is now wider than the spread between some of our headline eight, and treating ASEAN as a single allocation would have blended winners into laggards. Indonesia continues to earn its overweight: roughly 5.0% growth, a nickel downstreaming and EV-battery build that is climbing the value chain, 270 million consumers, and FDI that keeps validating the industrial policy. Vietnam remains in its 6.0 to 6.5% range on manufacturing FDI and the EU FTA, but US transshipment enforcement has moved from a footnote risk to a live operational one, and that keeps us at market weight rather than accumulate.

The Philippines stays constructive: near 5.6% growth on remittances and consumption, the Build Better More pipeline, and, valuably, a low correlation to the chip cycle that makes it a genuine diversifier inside a region increasingly hostage to semiconductors. Malaysia is a semiconductor-packaging beneficiary that carries real China-oversupply risk, so it stays market weight. Thailand confirms its underweight as the regional laggard, roughly 1.8 to 2.5% growth against auto-transition pain, high household debt, weak Chinese tourism, and the overhang of the March 2026 election.

ASEAN economy	2026 growth	Core driver	Stance
Indonesia	~5.0%	Nickel downstreaming, EV batteries, FDI	Overweight / accumulate
Vietnam	~6.0 to 6.5%	Manufacturing FDI, EU FTA	Market weight, monitor transshipment
Philippines	~5.6%	Remittances, consumption, Build Better More	Constructive diversifier
Malaysia	Regional avg	Semiconductor packaging	Market weight, China oversupply risk
Thailand	~1.8 to 2.5%	Auto transition, household debt	Underweight

Stances are Darmine positioning as of August 2026. Growth figures consistent with World Bank East Asia and Pacific Update and Bank Indonesia projections.

> **Our view:** Own ASEAN through its extremes, not its average. Indonesia for structural upside, the Philippines for uncorrelated defense, and avoid the temptation to buy Thailand cheap before its election clears. The bloc rewards selection and punishes indexing.

7. What H1 Taught Us About the Divergence Regime

Three cross-cutting lessons survive the scorecard. First, central bank divergence is not a talking point, it is the trade. A world in which the BOJ tightens, the PBoC eases, the Fed cuts, and MAS appreciates is a world in which currency and duration decisions inside Asia matter as much as equity selection. The single largest relative-value opportunity of H1 was long Japanese financials against the deflating Chinese consumer, and it was a pure divergence expression.

Second, the export impulse is genuinely dead as a regional growth engine, and the economies that pre-positioned for a domestic-demand world, India, Indonesia, the Philippines, Singapore's infrastructure floor, outperformed the economies still waiting for the trade cycle to rescue them. WTO merchandise volume growth near 0.5% is not a soft patch, it is the new baseline, and it rewards demographic and capex stories over trade-surplus stories.

Third, concentration risk hides inside good calls. Our two weakest grades came from theses that were directionally correct but rested on a single driver we did not size properly, Japanese curve steepening and Korean memory. The discipline for H2 is to interrogate not just whether a call is right but how many independent legs it stands on.

> **Our view:** The regime that generated the February framework is, if anything, more entrenched at mid-year than it was when we wrote it. We are extending the framework, not replacing it. Humility is about the numbers; conviction is about the axes.

Portfolio Positioning Summary

Overweight: India (highest structural conviction, ~6.5% growth, domestic demand, BBB rating, demographic tailwind) and Singapore (quality defense, MTI 2.0 to 4.0% tracking upper half, MAS gradual appreciation, infrastructure floor). Indonesia overweight/accumulate on downstreaming, EV batteries and FDI.

Market weight: Japan, trimmed from selective enthusiasm after a powerful normalization run; thesis intact (rate toward 0.75 to 1.0%, 10Y JGB above 2.3%, Shunto ~5.5%, TOPIX 3,350 to 3,400) but the easy money is made. Vietnam (monitor US transshipment enforcement) and Malaysia (China oversupply risk) also market weight. Philippines constructive as a low-chip-correlation diversifier.

Underweight: China domestic demand (persistent deflation trap, property overhang, fading exports against 47.5% US effective tariff; the deflator must turn durably positive to force a revision). Korea underweight/tactical, rented for the memory cycle, not owned. Thailand underweight as regional laggard into the March 2026 election.

Key catalysts to reassess: Reassess China on a durably positive GDP deflator plus property transaction stabilization. Reassess Korea on the AI capex order book and memory pricing. Reassess Japan on the pace of BOJ hikes and JGB yields above 2.3%. Reassess Thailand after the March 2026 election clears. Watch the Fed cut path and MAS S NEER slope as the divergence trade's key relative-value drivers.

Conclusion

The Asia 2026 Divergence Trade was a framework about axes, central bank divergence, demographic structure, and the death of the export impulse, and those axes explained the dispersion of H1 outcomes cleanly. Where we erred, on the speed of Japanese normalization and the concentration of Korea's recovery, we erred on magnitude and sizing, not on direction. That is the distinction we want readers to carry: a good framework kept investors correctly positioned through the exact moments our point forecasts were off, which is the highest thing a framework can do.

Into the second half we hold the convictions that compounded, India and Singapore, we stay disciplined on the trap that is still a trap, China, and we refuse to chase the move we should have sized bigger, Japan. We remain humble about prediction and unapologetic about the framework. The region will keep growing near 4.4% while global trade stalls near 0.5%, and inside that aggregate the spread between economies that compound and economies that merely stabilize will keep widening. Trading that spread, not the headline, remains the entire assignment.

Sources and Further Reading

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