

The Great Rotation: Capital Flows Reshaping Asian Markets in 2026

Where the Money Is Going — Equity, Fixed Income, FX, Private Capital, and the Bets We'd Make

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Abstract

The most significant reallocation of institutional capital in a generation is underway across Asia-Pacific. Over \$200 billion in portfolio and direct investment flows shifted course across the region in 2025, driven by three converging forces: the structural de-risking from China (whose MSCI EM weight collapsed from 40% to 26.6%), a generational BOJ tightening cycle that sent the Nikkei above 57,000, and an unprecedented US tariff regime that is physically rerouting supply chains and the capital that follows them. This rotation is not a temporary positioning trade — it is a multi-year structural repricing of Asian risk. The DXY's collapse to ~96.88 (its lowest since mid-2022) and the Fed's retreat to 3.50–3.75% have created a dollar liquidity tailwind amplifying flows into Asia at precisely the moment when the region's internal capital architecture is being rebuilt from the ground up. This paper maps the new flow regime across APAC equity, fixed income, FX, private capital, and wealth management, and identifies the trade ideas we believe offer the best risk-adjusted expression of this rotation through 2026.

1. The Equity Flow Map

APAC raised a record **\$334 billion** in equity capital markets in 2025, representing 34% of global ECM volumes — the highest post-COVID share. MSCI AC Asia returned **30.2% in USD terms**, its best year since 2017. But the aggregate masks a dramatic internal redistribution of capital that redefines the investment landscape for 2026 and beyond.

Market	2025 Return	Foreign Net Flow	Key Dynamic
Japan (TOPIX)	+26.5%	~\$90B+ inflow	Governance reform, BOJ normalization
Korea (KOSPI)	+76–79%	~\$9.2B net buy	AI semiconductor supercycle
India (Nifty)	+4.3%	–\$18.5B outflow	DII absorption, valuation reset
China (MSCI)	+36%	Mixed/volatile	DeepSeek rally, structural selling
ASEAN	Lagged	Net outflows	Liquidity preference for NEA

Japan absorbed the lion’s share. Foreign investors poured approximately ¥13.5 trillion (~\$90 billion+) into Japanese equities from Q2 2025 onward, propelling TOPIX past 3,000 and Nikkei 225 above ¥50,000 for the first time. The Nikkei finished 2025 up 26.5% and has since pushed above 57,000, driven by PM Takaichi’s landslide February 8 election victory. Yet global investors remain structurally underweight. J.P. Morgan Private Bank notes that foreign equity participation is very low with significant scope for higher allocations. Corporate governance reform — the TSE restructuring program and revised Stewardship Code — continues to function as a one-way ratchet on buybacks, cross-shareholding unwinds, and capital efficiency improvements. PE investment in Japan surged over 50% YoY in 2025.

Korea was the world’s best-performing major market, with KOSPI surging 76–79% to close at 4,214 and subsequently pushing toward 5,000 in early 2026. The semiconductor supercycle catalyzed by AI demand drove Samsung (+67.3%) and SK Hynix (+127%). Foreign investors reversed from net sellers of ~16 trillion won through May to net purchasers of ~\$9.2 billion since September — the largest inflow among surveyed EM markets. Foreign ownership of KOSPI reached 36.67%, the highest since March 2021.

India presented a paradox: record institutional selling alongside domestic resilience. FIIs net sold approximately \$18.5 billion in CY2025, the largest annual exit on record. But domestic institutional investors absorbed the selling, deploying \$71 billion in FY25. Indian mutual fund AUM swelled to ~\$850 billion. The implication is clear — India’s market has developed a domestic institutional backbone that fundamentally changes its vulnerability profile to foreign flow reversals.

China was the most contested story. MSCI China rallied 36% on DeepSeek-driven AI optimism and PBoC stimulus. SAFE data showed foreign investors posted a net increase of \$10.1 billion in onshore stocks in H1 2025, ending a two-year outflow trend. But the rally proved fragile: EPFR reported China Equity Funds posted another record outflow in the fourth week of January 2026. The pattern of sharp tactical rallies followed by renewed selling defines the new China flow regime.

ASEAN equity markets were largely bypassed. Thailand Equity Funds recorded their 90th consecutive weekly outflow. Vietnam was the only APAC ETF domicile to face net outflows in Q1 2025. Portfolio investors continue to treat smaller ASEAN markets as afterthoughts, preferring the

liquidity and scale of Northeast Asian markets. The irony is that ASEAN is receiving the bulk of FDI and supply chain investment while being shunned by portfolio allocators — this creates a disconnect that will eventually resolve in favor of higher equity valuations as manufacturing FDI translates into corporate earnings growth.

Our view: Long Japan equities (TOPIX), overweight governance reform beneficiaries. Global funds remain underweight despite the strongest foreign flow cycle since Abenomics. Target TOPIX 3,200+ by year-end 2026. Re-enter India on the pullback — Nifty 50 trailing P/E at 22.24 is near its 5-year average, and active EM funds' India exposure sits at the 0–1st percentile, an extreme underweight.

2. Bond Flows: India’s Moment, Japan’s Dilemma

The most consequential structural shift in Asian fixed income is **India’s index inclusion cascade**. India reached its maximum 10% weight in the JP Morgan GBI-EM index by March 2025, pulling approximately \$14.5 billion in foreign inflows during 2024 alone. The Bloomberg EM Local Currency Government Index added India in January 2025, and the FTSE Russell EM Government Bond Index followed in September 2025. Bloomberg’s deferral of India’s inclusion in the Global Aggregate Index was a temporary setback — estimated inflows of ~\$25 billion remain on the table for when inclusion proceeds, likely mid-2026.

India’s bond market reached approximately \$2.69 trillion by March 2025, up 10.2% YoY. Foreign ownership of FAR bonds rose from ~2% pre-announcement to ~5% by mid-2025. The 10-year G-sec yields around 6.50–6.75%, offering a massive carry advantage over Chinese govovies at ~1.8–1.9%. The RBI delivered 100–125 bps of cuts in 2025, bringing the repo rate to approximately 5.50% and creating a favorable duration backdrop.

China’s government bond market is experiencing quiet capital flight. Foreign institutional CGB holdings fell to \$282 billion in August 2025 — the lowest since January 2021 and the third consecutive monthly decline. This represents just 5.2% of outstanding CGBs. PBoC halted government bond purchases in January 2025 to manage yields, while outstanding government bonds surged 20.2% YoY, effectively forcing the domestic banking sector to absorb more supply.

JGB foreign holdings stabilized at approximately 12.3% of outstanding, down from the September 2022 peak of 14%. The critical dynamic is that foreigners have become the only major buyer class for long-duration JGBs as domestic life insurers pull back. The BOJ’s quantitative tightening — cutting purchases to ¥3 trillion/month by March 2026 — means the private sector must absorb significantly more supply. About half of Japan’s 10 largest life insurers disclosed plans to cut overseas debt holdings in H2 2025. Yet full-scale repatriation has not materialized: Japanese investors actually added ~¥13.59 trillion in foreign bonds in 2025, triple the 2024 pace. TMS Capital Research estimates meaningful sustained outflows may not begin until late 2026 or 2027.

This is the single most important flow risk globally. Japan’s \$1.1 trillion in US Treasury holdings and an estimated \$3+ trillion in total overseas fixed income positions represent a latent repatriation force that, when activated, would send shockwaves through global bond markets. The 30-year JGB yield already hit a record 3.2% in 2025. With each BOJ hike, the opportunity cost of holding foreign bonds increases, narrowing the carry advantage that justified overseas allocations in the first place.

Market	Foreign Ownership	10Y Yield	Flow Direction
India (FAR G-secs)	~5%	6.50–6.75%	Strong inflow (index inclusion)
China (CGBs)	5.2%	~1.8–1.9%	Outflow (3-month decline)
Japan (JGBs)	~12.3%	2.07%	Stable, repatriation risk building
Korea (KTBs)	~23%	~3.0–3.2%	Inflow (WGBI inclusion)

Market	Foreign Ownership	10Y Yield	Flow Direction
Singapore	N/A	~2.5–2.8%	Record \$44.6B issuance

Korea’s FTSE WGBI inclusion (November 2025) is expected to attract \$54–58 billion in foreign investment over the inclusion period. Foreign KTB ownership already reached 23% by April 2025. Asian credit spreads remained near historic tights through 2025 — the JACI returned +3.82% in H1, with China property’s weight in JACI HY collapsing from 35% (2021) to 8%, dramatically improving diversification.

Our view: Long Indian duration (10-year FAR G-secs). The triple index inclusion, 100+ bps of RBI cuts, and structural foreign underownership (~5% vs Korea’s 23%) create a multi-year inflow story. Target 10-year yield of 6.00% by year-end 2026. Position for Japanese repatriation risk as a tail hedge — buy JGB 30-year puts / short US Treasuries as a conditional trade.

3. FX: The Dollar's Decline and the Carry Trade's Unwind

The DXY's collapse from ~107 at the start of 2025 to ~**96.88** in February 2026 — a decline of roughly 9.2% — represents the worst dollar performance since 1973 in the first half of 2025. This structural weakening, driven by tariff chaos and twin deficit concerns, has provided a powerful tailwind for Asian currencies and risk assets.

Pair	Current	YoY Move	Key Driver
USD/JPY	~152.70	JPY strengthening	BOJ at 0.75%, carry trade unwind
USD/CNY	~6.90	CNY strengthening	Dollar weakness, PBoC managing pace
USD/INR	~90.50	INR weakening	RBI easing 100+ bps
USD/SGD	~1.2610	SGD strengthening	MAS S\$NEER appreciation path
USD/KRW	~1,440	Volatile	Semiconductor cycle, political risk

The yen carry trade is quietly unwinding. USD/JPY trades at ~152.70, having plunged from 159 to 152.50 in a single week following PM Takaichi's election victory. The BOJ stands at 0.75% (highest since 1995), with markets pricing the next hike for mid-2026 and a terminal rate of ~1.0–1.25%. The carry trade spread between Fed funds (3.50–3.75%) and BOJ has narrowed from 500+ bps to ~275 bps. Morgan Stanley estimates ~\$500 billion in outstanding yen carry positions, and CFTC data shows net short yen positions have declined ~40% since November 2025.

The PBoC shifted to a “**moderately loose**” stance in 2025, cutting the 7-day reverse repo to 1.4% and the LPR to 3.0%, with further easing expected in 2026. USD/CNY has strengthened to ~6.90, its strongest since May 2023, as the dollar weakened broadly. The PBoC is actively trying to temper appreciation, setting midpoint fixings 350 pips weaker than market estimates. MUFG forecasts 30 bps in policy rate cuts plus 50 bps in RRR cuts for 2026.

Best-performing Asian currencies in 2025 (NEER basis): Taiwan dollar, Japanese yen, Korean won, Singapore dollar. Worst performers: Vietnamese dong, Indian rupee, Indonesian rupiah. The divergence maps almost perfectly onto current account balances and central bank credibility — surplus economies with independent central banks outperformed, while deficit economies reliant on portfolio inflows lagged. This pattern should persist through 2026 as the dollar weakness theme continues.

The critical risk is a disorderly yen carry trade unwind. The August 2024 episode — when USD/JPY moved 12 yen in three weeks and triggered a global equity correction — demonstrated the systemic fragility. Morgan Stanley's estimate of ~\$500 billion in outstanding positions means even a partial unwind could generate significant cross-asset volatility.

Our view: Short USD/JPY toward 145 by Q4 2026. The structural case is overwhelming: BOJ normalization continuing, potential Japanese repatriation, dollar weakness, and nascent Trump administration desire for a weaker dollar. MUFG reports the Fed checked rates in USD/JPY on January 23, raising intervention concerns. A break below 150 would accelerate the carry trade unwind and could catalyze a broader rerating of Asian FX as an asset class.

4. APAC IPO Markets: Hong Kong's Comeback

APAC IPO proceeds reached **\$90.4 billion in 2025**, up 73% YoY, with Hong Kong reclaiming the #1 global ranking for the first time since 2019. Total APAC ECM hit \$334 billion, representing 34% of global volumes.

Hong Kong raised HKD 274.6 billion (~\$35.3 billion) from 106 new listings, anchored by CATL's \$5.3 billion IPO (the largest globally in 2025) and a record 17 A+H listings. The pipeline is extraordinary: 300+ active applications including 92 A+H listing applicants. This resurgence was driven entirely by Chinese corporates seeking dual listings for liquidity and international access.

Market	2025 IPOs	Proceeds	Pipeline / Outlook
Hong Kong	106 deals	~\$35.3B	300+ applications, A+H boom
India	367 deals	~\$22.9B	Jio, NSE, Flipkart in queue
China A-shares	~130 deals	~\$22B	STAR Market thaw, CSRC reform
Southeast Asia	102 deals	~\$5.6B	Malaysia leads, SG REITs
Korea	Growing	~\$3.3B	1,128:1 avg subscription ratio

India led the world in IPO deal count with a record 367 IPOs raising approximately \$22.9 billion — and its share of APAC ECM doubled to 20% from an average 9% in 2019–2023. Five deals exceeded \$1 billion, including Tata Capital (\$1.75 billion) and LG Electronics India (\$1.3 billion). The 2026 pipeline is even more impressive: Reliance Jio (potentially India's largest-ever IPO), NSE, Flipkart, and PhonePe are all in the queue.

China's A-share market partially recovered to ~130 IPOs, up 23% in proceeds from the 2024 nadir. But this remains dramatically below the 2021 peak of 500+ deals, reflecting the CSRC's continued emphasis on quality over quantity. The STAR Market's July 2025 reform permitting pre-profit listings signals a gradual thaw. Southeast Asia saw 102 IPOs raising ~\$5.6 billion (up 53%), with Malaysia leading on deal count. Japan's IPO market remained active, supported by the TSE's push for improved corporate governance and the government's startup development plan targeting 100,000 startups by 2027.

The center of gravity for Asian capital formation has decisively shifted from mainland China to Hong Kong and India. The 2026 mega-IPO pipeline includes Toss/Viva Republica (\$10 billion+ valuation, targeting \$2–3 billion US listing), Reliance Jio, HD Hyundai Robotics, and continued A+H listings in Hong Kong. J.P. Morgan projects APAC ECM volumes to remain elevated through 2026, driven by the backlog of Chinese tech companies seeking dual listings and India's expanding pipeline of unicorns and new-age companies reaching IPO-readiness.

5. The China+1 Capital Shift

Private capital and FDI flows tell the clearest story of structural rotation. **China's inbound FDI fell to \$104.7 billion in 2025 (utilized basis), down 9.5% YoY** — extending a multi-year decline from the 2021 peak. SAFE balance-of-payments data showed net FDI decreased by \$168 billion in 2024 — the largest capital outflow since records began in 1990. China's share of Asia-Pacific PE deal value fell to its lowest in a decade.

The capital is going somewhere. **ASEAN FDI reached \$226 billion in 2024** (up 8%), maintaining its position as the top FDI recipient among developing regions for four consecutive years. Manufacturing FDI grew approximately 150% to \$44 billion. ASEAN overtook China as the preferred OECD manufacturing FDI destination, with over \$55 billion pledged by OECD companies to ASEAN factories in 2022–2023 — more than double the \$21 billion announced for China.

Recipient	2024–25 FDI	YoY Change	Key Sectors
India	\$81B (FY25)	+14%	Manufacturing, electronics, digital
ASEAN (total)	\$226B	+8%	Manufacturing, EV, semiconductors
Vietnam	\$38.2B	Strong	Electronics, Apple supply chain
China (utilized)	\$104.7B	-9.5%	EV, batteries (but declining trend)

The Apple supply chain data is the most tangible proof point. **India produced ~23.9 million iPhones in H1 2025, up 53% YoY.** India overtook China as the top smartphone exporter to the US in Q2 2025, capturing 44% of US smartphone imports (up from 13% a year earlier) while China's share collapsed to 25% (from 61%). Samsung already has nearly half its global smartphone production in Vietnam.

Asia PE deal value reached **\$176 billion in 2024** (Bain), up 11% YoY — the first recovery after the funding winter. But APAC-focused PE fundraising (ex-RMB) collapsed to \$74 billion, the lowest in a decade. Belt and Road Initiative engagement surged to an all-time record \$213.5 billion in 2025, up 70%+ YoY, as Chinese enterprises responded to tariff-induced supply chain reconfigurations. Africa was the top BRI destination at \$61.2 billion, with Chinese private enterprises reclaiming a dominant role.

The critical nuance is that China+1 is evolving into China+1+risk. The 40% transshipment penalty specifically targets ASEAN countries viewed as Chinese goods conduits, complicating the simple rerouting model. Some Chinese firms have already scrapped Vietnam investment plans and redirected to Morocco and other markets with lower tariff exposure. This creates a paradox: the China+1 manufacturing beneficiaries must demonstrate genuine value-addition or risk transshipment penalties that eliminate their tariff advantage. Countries with stronger domestic demand stories — India and Indonesia — are better positioned than pure export platforms like Vietnam.

Our view: Long Vietnam (VN30 Index) and Indonesia (JCI) as China+1 beneficiaries. Vietnam remains the primary electronics supply chain recipient. Indonesia's JCI trades at just 14.4x 2026 forward P/E — one standard deviation below its historical average. Both are under-owned by foreign portfolio investors despite being primary FDI destinations.

6. Institutional Positioning Confirms the Rotation

China's MSCI EM weight dropped from ~40% (2020 peak) to 26.58% (January 2026), while India's rose from 9.2% to 13.34% over the same period. The gap narrowed from ~30 percentage points to ~13 — still wide, but directionally unambiguous.

Temasek's portfolio tells the story most clearly. China exposure fell to 18% (from 29% in 2020), a decade low, while India rose to 8% and Japan surpassed S\$5 billion. CIO Rohit Sipahimalani stated the fund needs to shift priorities given China's maturing economy, pledging to increase focus on India, Japan, and Southeast Asia. GIC shifted toward Americas (49%, up 5 pp) while reducing APAC allocation to 24% (down 2 pp).

ETF data crystallizes the rotation: **INDA AUM (\$9.43 billion) now exceeds MCHI AUM (~\$7.79 billion)** for the first time. MCHI's 3-year cumulative flows are deeply negative at -\$1.41 billion, while INDA's are positive at +\$2.79 billion. The proliferation of EM ex-China products reflects institutionalized demand for China-separated EM exposure.

The BofA Asia Fund Manager Survey (late 2025) ranked Japan #1, India #2, and Korea #3 among preferred markets. US pension funds are adding a political dimension — Texas, Florida, Indiana, Kansas, and Missouri have mandated or are considering divestment of Chinese assets. This creates a one-directional regulatory ratchet that removes marginal buyers of Chinese equities. The Korea NPS (\$997 billion) plans to raise equity allocation to 55% by 2030 from 40.4%.

GPIF maintained its equal 25/25/25/25 target allocation across domestic/foreign bonds/equities for the next five years, changing its foreign equity benchmark to MSCI ACWI ex-Japan. The significance: GPIF's \$1.7 trillion portfolio is now benchmarked to include more EM exposure. At the margin, this increases passive flows into India, Korea, and ASEAN from the world's largest pension fund.

The December 2025 Global FMS showed EM net 39% overweight with sentiment at 7.4/10 (highest since July 2021). But the positioning is highly differentiated: Japan and Korea are consensus overweights (creating crowding risk), while India is at extreme underweight levels (creating contrarian opportunity). China remains the most divisive — tactical rallies attract momentum capital, but structural allocators continue to exit. The gap between tactical and structural positioning in China is the widest since 2015.

7. Singapore vs. Hong Kong: The \$14.4 Trillion Contest

BCG's 2025 Global Wealth Report pegs global cross-border wealth at **\$14.4 trillion**, growing 8.7% annually, with Switzerland (\$2.7 trillion), Hong Kong (\$2.7 trillion), and Singapore (\$1.9 trillion) as the top three booking centers. Singapore's cross-border wealth grew at 11.9% — the fastest of any center globally.

Metric	Singapore	Hong Kong
Total AUM	S\$6.07T (\$4.7T)	HK\$35.1T (\$4.53T)
AUM growth (2024)	+12%	+13%
Family offices	~1,650–2,000+	~3,384
Cross-border AUM	\$1.9T	\$2.7T
Key advantage	Neutral, regulatory quality	Mainland China connectivity

Singapore's total AUM reached S\$6.07 trillion in 2024, up 12%, with net inflows of S\$290 billion (up 50% over 2023). The MAS counted approximately 1,650 single family offices as of August 2024, though industry estimates suggest the number surpassed 2,000. Regulatory tightening post the S\$3 billion Fujian money-laundering scandal has raised compliance bars but improved the city-state's reputation.

Hong Kong has responded aggressively. A Deloitte study counted 3,384 SFOs as of end-2025, up 25% over two years. Hong Kong's advantage is clear Mainland China connectivity through Stock Connect, Mutual Recognition of Funds, and Wealth Management Connect 2.0 — 57% of its private banking AUM originates from mainland clients. The top 10 private banks in Asia reached all-time high combined AUM exceeding \$2 trillion at end-2024. UBS surpassed \$1 trillion in invested APAC assets in September 2025.

The migration data tells a nuanced story. China is projected to lose 15,200 millionaires in 2025 (Henley and Partners), though Singapore's millionaire inflow is expected to halve to 1,600 (from 3,500 in 2024) due to tighter compliance. Some Chinese families are reportedly relocating from Singapore back to Hong Kong or Dubai. Hong Kong entered the global top 10 for net millionaire inflows for the first time, reversing the 2019–2022 outflow trend. The competitive dynamic between the two cities is creating a positive-sum outcome for Asia's wealth management industry overall — both are growing, just at different rates and attracting different client segments.

Our view: Long Singapore banks (DBS, OCBC, UOB) as structural wealth management beneficiaries. The STI at ~4,512 trades at 14.7x P/E, near its 5-year mean. Singapore banks capture wealth inflows through private banking AUM growth, VCC administration fees, and domestic credit expansion. DBS targets STI 5,000 by end-2026.

8. Tariffs as the New Capital Allocation Framework

The Trump administration's tariff architecture has become the single most important determinant of capital flow direction across Asia. US goods imports from China fell from **\$438.7 billion in 2024 to \$266.3 billion in 2025 — a 39% decline**. Computer and electronic imports from China plummeted to roughly 35% of 2024 monthly averages. The February 2, 2026 India tariff reduction from 50% to 18% (in exchange for India stopping Russian oil purchases and importing more US agricultural goods) positions India as the most tariff-advantaged large Asian economy after Singapore (10% baseline).

The beneficiaries have been surprising: Taiwan's trade surplus with the US ballooned 50%+ to \$111.8 billion (semiconductor carve-outs), and Vietnam's rose to \$145.7 billion despite a 20% tariff. The overall US effective tariff rate rose from ~2.5% in January 2025 to approximately 10.5–17.9% — the highest since 1901. Tariffs are creating a permanent valuation wedge between supply-chain-advantaged economies and penalized ones. Capital follows the tariff gradient as surely as water follows gravity.

Economy	Effective US Tariff	Trade Impact
China	34.7–47.5%	Imports down 39%, near-zero export profitability
India	18% (reduced Feb 2)	Most advantaged large economy
Vietnam	20% + transshipment risk	Surplus rose to \$145.7B despite tariffs
Japan	15%	Manageable, auto sector exposed
Korea	15%	Semiconductor carve-outs protect upside
Singapore	10%	Lowest in region, structural advantage
Indonesia	19%	Commodity exports less exposed

9. Valuations: Where the Rotation Has Room to Run

Index	Current Level	Trailing P/E	vs. 5-Year Avg
Nikkei 225	~57,000	17.9–18.5x	Above (avg ~15–16x)
Nifty 50	~25,500	22.2x	Near average (~23x)
CSI 300	~4,791	14.2x	Slightly above (~14x)
KOSPI	~5,000	17–23x	Well above (~12–14x)
Hang Seng	~25,836	12.2–12.9x	Below avg (~15.5x)
STI	~4,512	14.7x	Near average (~14.1x)
JCI	~8,420	14.4x (fwd)	Below (–1 std dev)

MSCI Asia ex-Japan trades at a forward P/E of 14.71x, versus MSCI World at 24.26x trailing. The price-to-book ratio of 2.31x versus MSCI World's 3.95x represents a historically wide discount. The Hang Seng at 12.2x and JCI at 14.4x stand out as the most compelling value opportunities, though each carries distinct political risk. LPL Financial projects EM earnings growth of 29% in 2026 versus 14% for the US — the widest EM premium in years. The MSCI EM index now carries a 30%+ technology weighting, challenging the outdated perception of EM as a commodities/old-economy play.

Japan and Korea look expensive on trailing metrics but are supported by powerful earnings momentum — KOSPI forward P/E of just 10.43x implies strong expected earnings growth from the semiconductor cycle. India at 22.2x is near the overvaluation threshold historically associated with ~22x, but well below its October 2024 peak of ~24x, and the valuation compression has brought it to levels where FII buying historically re-emerges. CSI 300 at 14.2x remains modest by global standards but faces the overhang of continuous foreign outflows and deflationary domestic conditions.

10. Portfolio Positioning Summary

Our conviction trade ideas, ranked by risk-adjusted expected return:

Highest conviction: Long Indian duration (FAR G-secs) — triple index inclusion, RBI easing cycle, structural underownership. Low volatility, high carry.

Core equity overweight: Japan (TOPIX) — governance reform, underweight positioning, BOJ normalization creating positive real rate environment for the first time in decades.

Tactical FX: Short USD/JPY targeting 145 — structural yen appreciation driven by BOJ hikes, carry trade unwind, and dollar weakness.

Value plays: Indonesia (JCI at -1 standard deviation), Hang Seng (below 5-year average P/E). Size smaller given political risk premia.

Structural growth: Singapore banks (DBS, OCBC) as wealth management proxies. STI at ~14.7x with 4–5% dividend yields and secular AUM growth.

Tail hedge: Long JGB duration as a conditional hedge against Japanese life insurer repatriation. 30-year JGB yield at 3.2% creates growing incentive.

Key catalysts to reassess: Chinese demand-side fiscal pivot at scale (upgrade China exposure). AI capex deceleration (downgrade Korea/Taiwan hardware). BOJ policy error causing yen overshoot above 145 (reduce JPY longs). India tariff reversal (reassess manufacturing FDI thesis). US pension fund divestment acceleration (further downgrade China). ASEAN transshipment enforcement (differentiate between genuine value-add manufacturers and pure rerouting plays).

The question for allocators is not whether the rotation continues, but which markets can absorb the capital most productively. Markets with deep liquidity (Japan, Korea), structural reform catalysts (Japan governance, India digitization), and tariff advantages (India, Singapore) will outperform those reliant on stimulus cycles (China) or pure export models (Vietnam, Thailand). The Great Rotation rewards selectivity over broad regional exposure.

11. Conclusion

Three insights emerge that go beyond conventional rotation narratives. First, India's domestic institutional investor complex has fundamentally changed the country's market structure — absorbing \$18.5 billion in foreign selling without a market crash means India now possesses an automatic stabilizer that China and Korea lack. Second, the Japanese repatriation risk remains the most under-priced macro risk globally — Japanese investors added ¥13.59 trillion in foreign bonds in 2025 (triple the 2024 pace), demonstrating the unwind hasn't started. But with 30-year JGBs yielding 3.2%, the economic incentive for repatriation grows with every BOJ hike. When it begins, the shock to global duration will dwarf the August 2024 carry trade wobble. Third, tariffs are creating a permanent valuation wedge between supply-chain-advantaged economies (India at 18%, Singapore at 10%) and penalized ones (China at 35–47.5%).

The rotation's pace will be uneven. China will generate periodic violent rallies (the 2025 +36% in MSCI China demonstrated this), and tactically underweight managers will be forced to chase. But the structural direction is set: the combination of geopolitical de-risking, tariff-driven supply chain reorganization, index inclusion mechanics, and sovereign wealth fund reallocation creates a

one-way current flowing from Greater China toward Japan, India, Korea, and select ASEAN markets.

The Great Rotation is not a 2025 story with a 2026 sequel. It is the opening act of a decade-long structural shift in how global capital prices Asian risk. Position accordingly.

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