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Investors weather Asia's political storm with tactical opportunities

Heather Ng

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In response to Indonesia's unrest and political upheaval in Thailand and Japan, investors are applying a 'stability premium', trimming risky exposures for predictable markets like Singapore and defensive sectors such as healthcare and stable tech.



Civil unrest in Indonesia, leadership upheaval in Thailand and the resignation of Japan's Prime Minister Shigeru Ishiba have stirred volatility in regional equity markets.

Yet despite the political turbulence, investment strategists are cautiously optimistic, pointing to selective opportunities emerging amid this turmoil.

Angela Lan, senior strategist at State Street Investment Management, sees a chance for investors to reposition.

"Volatility has created opportunities for investors to take potential short-term gains or reposition their portfolio to better align with their specific expectations on

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Angela Lan
State Street IM

individual markets," she told *AsianInvestor*.

Lan highlighted Singapore as a standout, noting its predictable policy environment and structural growth story as key draws for investors seeking resilience.

"We have seen growing interests in relatively stable markets like Singapore in the past few years," she said.

Rather than pulling back from Asia, Lan observed a shift toward a more selective approach.

Investors are targeting quality companies with strong fundamentals and exposure to long-term trends, particularly in technology and innovation-driven sectors such as artificial intelligence.

Elliot Hentov, head of macro policy research at State Street, pointed to a growing "stability premium" in countries less affected by domestic political issues or trade tensions.

"Active investors will be more likely to trim overweight exposures in politically exposed countries," he said, adding that Singapore remains attractive for global portfolios, though perhaps less so for those focused on emerging markets.

Both Lan and Hentov emphasised that Asia's long-term growth narrative remains intact.

Structural reforms, demographic shifts, technological innovation and supply chain diversification continue to support the region's economic trajectory.

"These events do not fundamentally challenge the broader narrative of Southeast Asia and Asia as resilient growth engines, but they do highlight the region's complexity," Lan said.



Elliot Hentov
State Street IM

Hentov added, "Not all countries in Southeast Asia/Asia are alike."

INDONESIA

Indonesia has been particularly affected, with widespread civil unrest and nationwide protests driving investor caution. The MSCI Indonesia Index dropped nearly 8.9% in local currency terms from its mid-August peak.

"The market is reflecting the higher risk and increased uncertainty to the macro outlook and the currency," Lorraine Tan, regional director of equity research at Morningstar, told *AsianInvestor*.

She expects investor interest to return once political risks subside.

Steve Alain Lawrence, CIO at Balfour Capital, said that foreign capital is retreating from state-linked, policy-sensitive sectors such as energy, mining and infrastructure.

"Some non-core tech/consumer names are being trimmed," he said.

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Steve Alain Lawrence
Balfour Capital Group

"The market sees fewer new inflows into large state-owned enterprises given perceived fiscal risk."

THAI TENSIONS

Thailand's equity market also faced significant pressure earlier in the year, falling nearly 20% from January to June amid political uncertainty.

Foreign investors pulled out some THB80 billion (\$2.5 billion) year-to-date from Thai equities, Lawrence said.

Banking and energy stocks, including oil producers PTT and PTT Exploration & Production, suffered, while defensive sectors like healthcare—represented by Bangkok Chain Hospital and Bangkok Dusit Medical Services—gained favour.

Investor sentiment improved following the suspension and eventual removal of Prime Minister Paetongtarn Shinawatra, daughter of former leader Thaksin Shinawatra, on August 29.

The MSCI Thailand Index rebounded by double digits to a three-month high.

"Political shocks in Thailand are somewhat 'common' with investor reactions more muted. The market reacted positively, likely because the events did not lead to wide unrest," Lawrence said.

He also pointed to Thailand's success in negotiating a reduction in US reciprocal tariffs, easing trade tensions and aligning with regional peers.



Lorraine Tan
Morningstar

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JAPAN'S TOP JO

In contrast, Jap
resignation, the

in the country's stable political system and predictable economic policies.

"The market has reacted differently – as noted, the reaction in Japan has been somewhat more positive," said Morningstar's Tan.

She attributed this to the continuity of the ruling coalition's policies and a limited pool of successor candidates, which reassured investors.

Lawrence said that foreign investors in Japan are favouring large growth and tech-adjacent firms, particularly those with AI exposure, such as SoftBank, and exporters poised to benefit from a weaker yen and clearer tariff policies.

Traditional cyclical showed mixed performance, though banks saw some gains.

BROADER MARKET

Looking across the region, Hentov said economies like Indonesia and India, which rely more heavily on domestic demand, may be better insulated from global headwinds.

Export-driven nations such as Vietnam, however, remain vulnerable to external shocks.

Commodity price fluctuations further complicate the picture, benefitting some countries while hurting others depending on their trade profiles.

North Asian economies like South Korea and Taiwan, he added, are particularly exposed to global demand for semiconductors and electronics.

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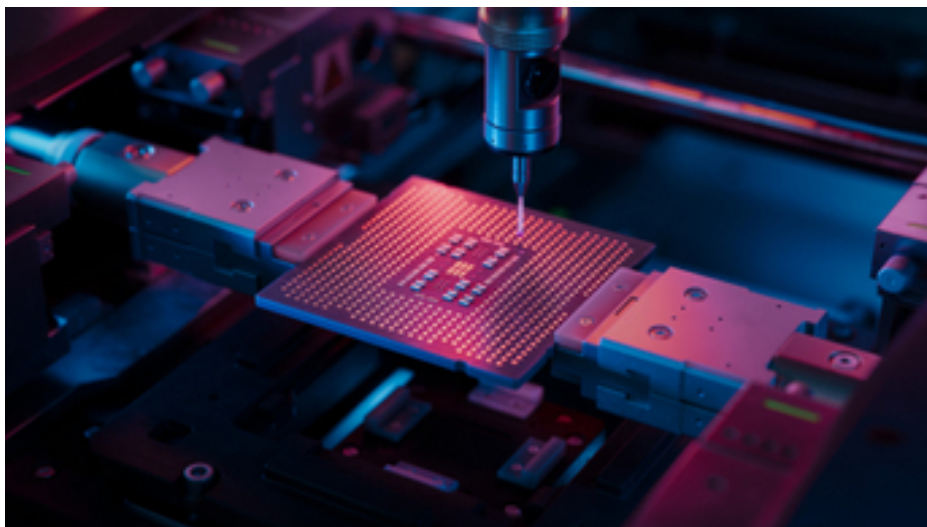
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