

Asian equities gain appeal as US government shutdown drags on

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As the US government shutdown enters its 20th day with mounting economic costs, Asian equity markets are attracting global investors with their valuation advantage, policy stability and diverse sector opportunities.



While uncertainty over the US government shutdown deepens, with Treasury Secretary Scott Bessent estimating costs up to \$15 billion weekly, asset managers told *AsianInvestor* that Asian markets offer compelling alternatives with clearer policy frameworks and more rational valuations.

This reallocation trend is being accelerated by IMF warnings about potential AI bubbles in US technology stocks and growing concerns about concentration risk in American equities.



Steve Alain Lawrence
Balfour Capital Group

"The IMF's warning of an AI bubble recalls the late-1990s dot-com cycle, when valuations decoupled from fundamentals and the Nasdaq eventually lost over 75%," Steve Alain Lawrence, CIO at Balfour Capital Group, told *AsianInvestor*.

"Today's narrow US market leadership – driven by Nvidia, Microsoft and Amazon – creates similar concentration risk," Lawrence said.

History shows that capital rotation follows excess, he added, noting that Asia's industrial and financial sectors led global performance for nearly a decade after the 2002 tech crash.

REBALANCING OPPORTUNITY

Market moves this year already indicate investors are reconsidering their regional allocations, according to Martin Connaghan, senior investment director of developed market equities at Aberdeen Investments.

"Regional or country specific markets in Asia, Europe and areas of Latin America have handily outperformed the US year to date," Connaghan told *AsianInvestor*.

This performance gap is prompting portfolio adjustments at major institutions, said Tai Hui, APAC Chief Market Strategist at JP Morgan Asset Management.

"The strong performance of the US equity market in the past few years meant most portfolios would need some rebalancing to bring the allocation back to the planned portion in order to achieve diversification benefits," Hui said.



*Martin Connaghan,
Aberdeen Investments*

Rather than a wholesale divestment from the US, Hui characterised the trend as "an enhancement of equity portfolios by adding strong companies with less demanding valuations."

SHUTDOWN IMPACT

Strategists are divided on how seriously investors should take the shutdown's potential to disrupt markets and monetary policy.

"A prolonged US shutdown could distort Fed communication by delaying key data releases and undermining fiscal credibility," Balfour Capital's Lawrence said. "This time, the US deficit is larger and monetary flexibility narrower, magnifying liquidity risk."

But Connaghan said historical precedent suggests limited long-term effects.

"Each week of a shutdown typically hits GDP to the tune of 0.15%, but then you see a typical rebound of a similar size once government reopens, assuming back pay," he added.

"Historic shutdowns, while good for headlines, have never really had a meaningful impact on investor sentiment or markets. There have been over 20 shutdowns or so in the last 50 years, market moves during those periods tend to shake out at flat."

Hui also downplayed direct economic consequences, noting the Federal Reserve is "likely to cut rates again in the October FOMC meeting, which can provide some support to the economy."

SECTORS POSITIONED FOR INFLOWS

Strategists identified multiple sectors across Asia that could benefit from any reallocation of capital away from US assets.

"In Asia we've seen Chinese, Korean and Taiwanese technology and AI related stocks benefit on the valuation gap between them and their US peers," Connaghan said.

Financials and consumer discretionary stocks are also performing well, he noted, as "a weaker dollar, regional monetary easing could improve liquidity, credit growth and domestic consumption across the region."

Lawrence said industrial automation, green energy and fintech infrastructure are sectors poised to gain if US policy paralysis undermines confidence.



*Tai Hui,
JPMAM*

"Institutions including HSBC and Nomura are already expanding coverage and positioning in these corridors of structural growth, signalling early movement by long-term allocators seeking diversification," Lawrence said.

Hui pointed to semiconductor manufacturers across the region as particularly attractive.

"We find attractive opportunities outside of the US to benefit from this structural shift, particularly among semiconductor and component manufacturers in Taiwan, South Korea and Japan," he said.

"China's ongoing technology advancement, as evidenced by the emergence of DeepSeek, also deserves investors' attention."

GOVERNANCE AND INCOME ADVANTAGES

Improved corporate governance across key Asian markets is further enhancing their appeal.

"Improvement in corporate governance has already benefited Japanese equities in the past few years. South Korea's 'Value Up' program could achieve the same with increasing management's focus on shareholders' return," Hui said.

More companies in China are engaging in share buybacks and raising dividend payout ratios, he added.

Asia also offers income advantages that could prove defensive in volatile market conditions, according to Connaghan.

"Asia offers higher yields relative to the US which could prove defensive within a weaker market environment, particularly within the areas of regional communication services companies," he said.

Hui added that "investors could tap into high dividend opportunities as APAC companies usually offer higher dividends due to structural factors. For example, corporate tax code encourages Australian companies to set higher dividend payout ratios."

TACTICAL OPPORTUNITIES

Opinion is divided on whether or not shutdown-related volatility presents a buying opportunity.

"Volatility should not be feared – it's often the mechanism that restores rational pricing," Lawrence said. "Historically, shutdown-induced drawdowns in 1995, 2013, and 2018 were short-lived and followed by strong rebounds."

"The disciplined investor treats these periods as opportunities to accumulate quality assets once liquidity and sentiment stabilise. The key is sequencing: preserve liquidity first, then deploy selectively," he added.

Tim Murray, capital market strategist in the multi-asset division at T. Rowe Price, advocated for a balanced approach given current uncertainty.

"Stocks are likely to perform well in the absence of any major negative surprises, so maintaining neutral weights makes sense," Murray told AsianInvestor.

"However, given the potential for a significant market drawdown, a substantial overweight in equities would be risky."



*Tim Murray,
T.Rowe Price*

Several strategists pointed to historical examples that could guide investment decisions.

"Past shutdowns in 1995-96 and 2018-19 caused short-term volatility but resolved once policy clarity returned," Lawrence said.

He recommended investors look to "Japan's fiscal management after its 2011-2013 disruptions" as a useful playbook: "stay liquid, stay diversified, and lean into policy stability."

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