

News Release

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Manulife Investment Management Identifies Innovation, Localisation, and Digital Transformation as Asia's Structural Growth Drivers in 2H 2025

Hong Kong – Manulife Investment Management today released its 2025 midyear market outlook, providing an in-depth perspective on macroeconomic and investment conditions across Asia and globally. As markets navigate policy uncertainty, uneven growth, and evolving trade patterns, Asia's structural opportunities in innovation, localization, and digital transformation continue to present compelling long-term opportunities for investors.

As global inflation pressures ease, macroeconomic conditions remain clouded by heightened policy uncertainty and disjointed growth trajectories. In the U.S., escalating trade friction and shifting fiscal priorities have weighed on industrial production, the labour market, and consumption, prompting the Federal Reserve to maintain a dovish bias and the market expecting interest rates to drop to 3.5% by mid-2026.

Luke Browne, Global Head of Multi-Asset Solutions, Senior Portfolio Manager, Head of Multi-Asset Solutions, Asia, said: "The macro environment in 2025 has evolved dramatically in just six months. What began as a synchronised easing story is now fragmenting as government decisions, particularly in the U.S., trigger ripple effects across global trade and capital markets. In our view, while the Fed's pivot remains intact, the pace and scale of rate cuts will depend on the durability of U.S. growth, job creation trends and the evolving trade environment."

Browne added: "Elsewhere in the world, Europe is showing signs of bottoming in manufacturing but continues to post subpar growth, with the European Central Bank nearing the end of its easing cycle. In contrast, Japan is entering a new investment cycle driven by wage-led inflation and structural reforms, despite signs of a cyclical slowdown in the second half. Emerging markets (EMs) are diverging—those with strong domestic fundamentals and limited U.S. trade exposure are proving resilient, while export-reliant economies remain vulnerable to tariff cycles and capital flow volatility. Furthermore, the debate around the U.S. debt ceiling, the impact on Treasury yields as well as evolving shifts into hard assets are adding to further opportunities"

Asia Fixed Income: Global and Asia-based investors showing greater interest in Asia fixed income

Murray Collis, Head of Asia ex-Japan Fixed Income, expresses that positive momentum in Asia fixed income has continued so far this year, with local Asian bonds outperforming on the back of a weaker U.S. dollar, while Asian credit has also remained resilient.

Collis said: “The U.S. Federal Reserve left Fed Funds unchanged at 4.5% in the first half of 2025. The Fed will continue to be data dependant for its future decisions and has not reacted impulsively to trade policies which remain under negotiation, preferring to monitor their impact on growth and inflation as this comes through. The market is expecting the Fed to resume cutting rates in the second half and this will be supportive for fixed income overall. In local Asia fixed income markets, we see room for selective Asian central banks, including Malaysia, Thailand, Indonesia and Philippines to cut rates further as they seek to buffer the impact from higher U.S. tariffs on domestic growth, which will help boost returns in Asian local bonds. While Asia USD credit should continue to appeal to investors based on their attractive yields and lower duration compared with peers.”

Collis continued: “Asia fixed income is poised to build on the positive momentum in the first half of 2025 to deliver attractive full-year returns for investors. With uncertainty around the U.S. fiscal position and an underperforming U.S. dollar so far this year, we see greater interest from global and Asia-based investors turning back to the region for investment and diversification opportunities.”

Asia Equities: Structural Strength Amid Policy Flux

Despite ongoing global volatility, **Charlie Dutton, Head of Emerging Market Equities, Co-Head, Senior Portfolio Manager, Emerging Markets Equity**, remains optimistic about Asia’s long-term prospects, citing strong structural drivers and high-conviction opportunities across the region. He sees robust thematic drivers across AI, consumption, and healthcare, alongside macro trends such as regional disinflation, dovish central banks, and diversified growth engines in China, India, and ASEAN.

Dutton said: “In Mainland China, the focus has shifted toward structural transformation. This includes accelerating AI localisation, increasing fiscal spending to 4% of GDP, and expanding trade ties with ASEAN. While headlines often highlight trade tensions, the real story lies in China’s push for tech self-sufficiency, healthcare innovation, and niche domestic consumption. As for Taiwan region, opportunities span from AI server supply chains, next-gen smartphone upgrades, to 800G network infrastructure. While export risk remains a concern, the market continues to attract global capital, especially in chip design and co-packaged optics.”

India stands out for its favourable demographics and effective policy execution. “Personal tax cuts are boosting consumption, and with limited trade exposure—U.S. goods exports account for just 2% of GDP—India is relatively insulated from tariff shocks,” **Dutton** explained.

He also highlighted ASEAN’s growing appeal: “Countries like Indonesia, Thailand, and Malaysia are benefiting from lower inflation, rate cuts, and supply chain realignment. With young populations, improving infrastructure, and reform momentum, ASEAN is attracting foreign investment and driving domestic demand. We see strong potential in companies aligned with rising consumption, digital inclusion, and regional integration.”

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