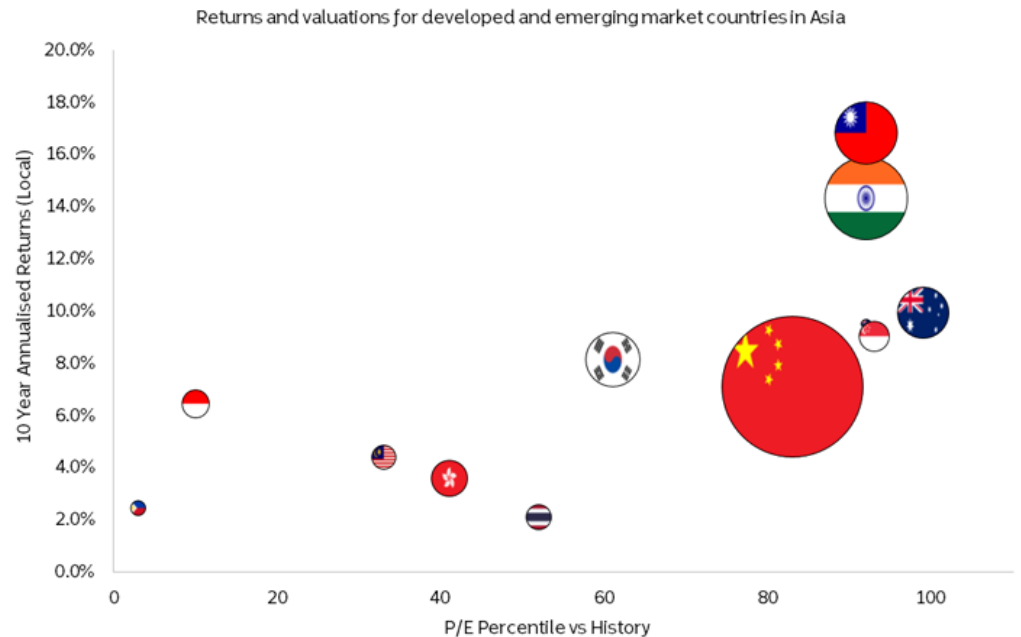


# Global Matters Weekly

15 Sep 2025

## Index Imbalance

Tom Delic



Source: Momentum Global Investment Management, Bloomberg Finance L.P. Data to 31 August 2025.

### What this chart shows

This chart breaks down returns and valuations for developed and emerging market countries in Asia. On the vertical axis is the 10 year annualised return of each market, with the horizontal axis showing the percentile ranking of the current price-to-earnings ratio (P/E) of each country's equity market, relative to its own 20 year history. For example, South Korea has delivered 8% annualised returns over a decade, and today's P/E ratio is in the 56th percentile relative to its historic valuation range.

The size of the bubble represents the market capitalisation of each market, which gives a reasonable approximation of a country's weight in widely followed regional indices.

### What this is important

Much ink has been spilled in recent months over the polarisation of the US equity market, with the Magnificent 7 now representing one third of the S&P 500 index. While Asian equity markets look attractive to the US on a relative basis, there are signs of exuberance in certain areas.

While there is no one concentrated cohort of Asian companies dominating the regional indices, there is an increasing bifurcation occurring between countries that look expensive and those that look cheap. Some of the largest parts of the Asian equity market, such as India and Taiwan, have produced exceptional returns for investors over a decade, and today's valuations reflect investors' view that this can continue. Sat somewhere in the middle are other large constituent countries such as China and South Korea, that have produced average returns over 10 years, but very good returns year-to-date as government support for the former, and corporate reform in the latter, have improved domestic interest in their native equity markets.

Those left behind are the smaller country weights, including one former Tiger economy, Hong Kong, and three Tiger Cubs, Indonesia, Malaysia and Philippines. Their relative size in indices can cause them to be largely ignored or forgotten about, thereby creating an opportunity for truly active fund managers where low expectations offer compelling valuations. For both passive investors tracking regional Asian indices, and active managers that are not prepared to deviate from country weights, portfolios are skewed to those at the far right of the chart, where valuations are offering no margin of safety today.



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