THE SHORT AND LONG

Weekly Bulletin

Asia's AI Divide: Fundamentals Over Headlines

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AUTHORS

Kate Moore
Chief Investment Officer

CONTRIBUTORS

JP Coviello
Head of Portfolio Strategy

Conrad DeQuadros
Head of Economics

Olaolu Aganga
Head of Portfolio Construction & Analytics

Jeff Puckette
Macro Portfolio Strategist

TAKEAWAYS

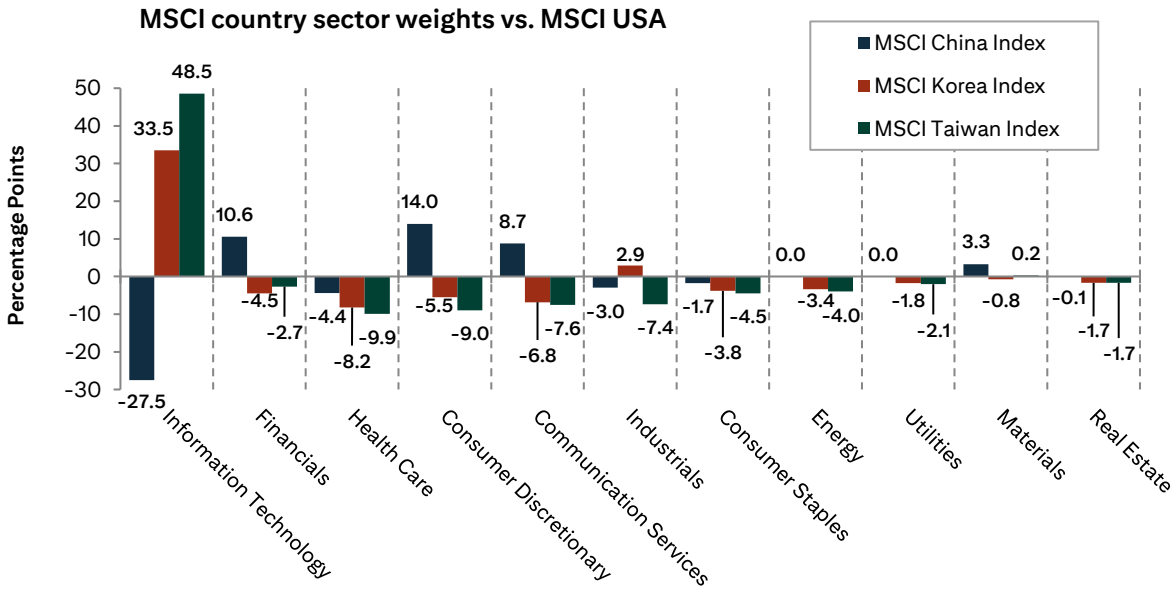
Last week's selloff was a continuation of the valuation reset, not a break in fundamentals. The S&P 500's forward Price-to-Earnings ratio (P/E) has fallen from above 22x to about 18.5x as earnings grew to the elevated expectations. Double-digit but slowing earnings growth in 2027 is still a strong backdrop for stocks.

AI supply chain exposure has split Emerging Markets (EM) Asia markets. South Korean stocks are up 45% and Taiwan 41% year-to-date, while China is down 18%, as investors rewarded specialized AI-suppliers in EM Asia ex-China.

EM Asia looks attractively valued, but earnings momentum appears to have peaked for now. We are holding our existing exposure rather than adding to it and favoring a targeted approach over a broad EM allocation until a clear catalyst emerges.

THIS WEEK IN CHARTS

FIGURE 1: AI supply chain exposure has driven strong returns for Taiwan and South Korea



Source: MSCI as of October 30, 2026. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees, or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

LOOKING CLOSER

Year-to-date returns of the MSCI indices for Korea and Taiwan have been driven by exposure to the AI supply chain. Within EM Asia, equity indices for these markets have high exposure to the information technology sector relative to the U.S. index. The MSCI index for China has relatively higher exposure to financials and consumer stocks, which have weighed on its YTD performance.

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VOLATILITY RESETS VALUATION, NOT THE FUNDAMENTAL STORY

Last week tested investors' nerves. Inflation came in hotter than consensus forecasts, several U.S. Federal Reserve (Fed) speakers sounded hawkish, and yields repriced sharply. A series of shocks added to the stress.

Nvidia, one of the largest weights in U.S. large-cap indices, fell about 13% for the week after the abrupt resignation of its chief executive, extending a pullback that began at its mid-October highs. A prolonged global outage disrupted widely used cloud and productivity software. On Friday, the Federal Aviation Administration (FAA) halted all U.S. departures for nearly five hours after a network equipment failure. None of these events changed the economic outlook, but together they rattled a market already reassessing what it is willing to pay for AI growth.

In our view, the pullback reflects a continued reset in valuations, not a breakdown in fundamentals. Bears pointed to doubts about how long AI capital spending can last, rising competition, and margin pressure. Meanwhile, earnings expectations across the AI ecosystem remain robust. We believe the question for investors now is whether these names are compellingly priced or not for a reason, which calls for careful, selective analysis.

The broader market tells a similar story. The S&P 500 has pulled back about 9% from its October highs, and its forward P/E has compressed from above 22x one year ago to about 18.5x now. Earnings are growing faster than prices, so the market is growing into its multiples. Investors are still paying for growth, just at the slower rate of expected growth. We see this as healthy at this stage of the cycle, and we would worry more if rising multiples, not earnings, were driving returns.

The selloff also hit some of the market's most widely held positions. Many investors hold AI leaders directly or through index funds. We believe it is a good time for investors to understand concentration risk, possibly consider rebalancing, and look at potential opportunities outside the most crowded areas.

Bottom line: Hotter inflation and a cluster of non-macro shocks drove last week's selloff, but we believe it continued a valuation reset rather than a break in fundamentals. In our view, volatility may create opportunities, and we remain anchored to earnings rather than headlines.

ASIA'S WINNERS RIDE THE AI SUPPLY CHAIN

Asia's equity markets[1] have diverged sharply this year. Returns have been volatile, but South Korea has returned +45% and Taiwan +41% year to date, far ahead of Japan (+13%) and the U.S. (+9%). China has fallen -18%.

Market composition explains much of the divergence. Technology carries more weight in Taiwan and South Korea than in the U.S. China's market has 28 percentage points less technology than the U.S., with more financials and consumer names, and its weak macro environment makes that composition a further performance challenge. Direct exposure to the AI supply chain has been a key performance driver across the region (Figure 1).

Earnings have split along similar lines. Analyst upgrades outnumber downgrades in Taiwan and remain ahead in South Korea, while revisions in India are roughly balanced and China's have lagged. That momentum appears to have peaked for now. The pace of upgrades has rolled over, and one-month revisions are weaker than three-month revisions across these markets.

We care more about fundamentals than multiples. Valuation alone is a weak guide over holding periods of less than five years, and a low multiple can stay low. On valuation alone, EM Asia looks compelling: EM multiples are about 30% below their five-year average, and China and South Korea, which together make up nearly 40% of the MSCI EM index, trade near the bottom of their 20-year ranges. With a mixed macro backdrop, we do not currently see low valuations as reason enough to add.

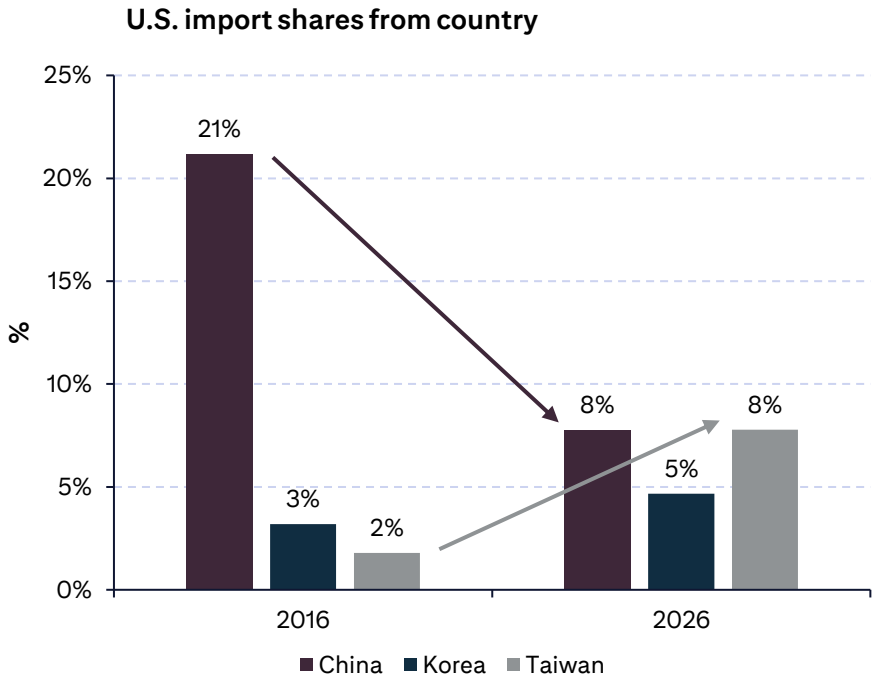
Bottom line: Exposure to the AI supply chain and strong earnings have driven South Korea and Taiwan sharply higher while China has lagged, but earnings momentum appears to have peaked for now. Because fundamentals matter more to us than multiples, we believe the AI build-out will keep supporting growth in EM Asia outside China as trade relationships realign.

[1] According to MSCI's current methodology, the EM Asia Index covers large- and mid-cap equities from China, India, Indonesia, South Korea, Malaysia, Philippines, Taiwan, and Thailand.

GLOBAL TRADE IS REALIGNING, NOT RETREATING

Trade flows continue to evolve. Some have called for the end of globalization, but we believe we are witnessing more of a realignment rather than retreat. China's share of U.S. imports has fallen from 21% in 2016 to about 8% today, a decline accelerated by tariffs, trade re-routing, and rising technology competition between the two nations. Over the same period, Taiwan's share has risen from 2% to 8% (a nearly 400% increase over the last decade) as U.S. demand for semiconductors and computing equipment has soared (Figure 2).

FIGURE 2: Trade is diversifying as supply chains are rewired



Source: Haver Analytics as of November 13, 2026.

China remains central to global trade. Its trade balance with the rest of the world continues to grow, and its relationship with the U.S. remains stable but is evolving as companies diversify supply chains. Even where products are not restricted, some companies now hesitate to build Chinese components into what they sell.

Growth data reflects these shifts, but AI is only part of the story. Over the past three months, 2026 real GDP forecasts have risen 2 percentage points for Taiwan, 0.7 for India, and 0.5 for South Korea, while China's has barely moved. China has invested heavily in AI and continues to innovate. Even so, debt deleveraging continues to weigh on domestic demand.

China presents a paradox. It is strategically positioned as a supplier to the AI ecosystem, with abundant domestic energy and strength across raw materials, capital, talent, and models. Yet, investor conviction remains low, and we believe an "investable China" requires a broader macro inflection. Recent equity fund flows into China have begun to pick up, and we are watching closely for that turn.

Bottom line: Global trade is realigning rather than retreating, as U.S. supply chains shift toward Taiwan, South Korea, and other partners. In our view, domestic demand and macro fundamentals, not AI investment alone, will determine which economies may benefit most.

	WHAT HAPPENED	WHAT'S AHEAD
ECONOMIC DATA	**U.S.** October Consumer Price Index (CPI) came in hotter than expected on both headline and core. October Producer Price Index (PPI) was 6.5% Y/Y, compared to a 6.3% reading in September. Good and pipeline prices remain well above Fed target levels. National Federation of Independent Business (NFIB): Net 33% of small businesses are raising prices and a net 37% plan to, the highest since 2022.	**U.S.** Housing starts and pending home sales for October University of Michigan consumer sentiment for November
	Global China October PPI rose 5.7% Y/Y vs. 5.3% expected; CPI also rose. Japan October PPI rose 7.1% Y/Y vs. 6.5% expected, led by tech export prices. UK September GDP grew 0.2%. Taiwan October exports rose 59% Y/Y and imports by 75%, as AI-related trade stays strong.	**Global** UK CPI for October Japan CPI for October Eurozone flash PMIs for November
POLICY	**U.S.** Markets now price ~27bp of hikes at the December Federal Open Market Committee (FOMC) meeting and nearly 60bp by March 2027. Iran: Hopes for a detente faded in a prolonged status quo. The White House signaled it will sustain and intensify the blockade. Tehran is digging in and said it will not allow enriched uranium to leave the country.	**U.S.** FOMC minutes (11/18) Jensen Huang to appear before U.S. House panels on December 1
	Global China extended its suspension of extra tariffs and rare-earth export controls by two months, while warning against new U.S. chip export restrictions.	**Global** APEC summit (11/18-19) in Shenzhen, China, ECB President Lagarde and BoE Governor Bailey are scheduled to speak. We will be attuned to discussion around potential future rate hikes
MARKETS	**U.S.** NVIDIA's CEO departed; long-time CFO was named interim CEO, signaling continuity in strategy and the published product roadmap.	**U.S.** Nearly 11% of S&P 500 market cap set to report earnings this week.
	Global Hedge fund de-risking was the largest in a decade: Asia long/short gross fell 3pp in a week to 124%, near April 2025 lows.	**Global** Oil: Whether Brent can break below $90 as the Iran status quo holds; the cost of shipping a barrel out of the Gulf remains elevated on Hormuz risk.

Source: Bloomberg as of November 17, 2026. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

RELATED READING

November 10, 2026 | Positioning Resets as Inflation Risks Linger

In last week's Bulletin, we looked at why hedge funds, systematic strategies, and retail investors triggered liquidations in many of the market's most crowded positions through reductions. Meanwhile, we believe inflation risks remain underestimated by markets, and the Fed missed an opportunity to hike interest rates at its last meeting.

October 29, 2026 | The Short and Long Podcast

In episode five of Citi Wealth's The Short and Long, Chief Investment Officer Kate Moore takes a comprehensive look at the rapidly shifting global energy landscape. Her guests, Patrick Pouyanné, Chairman and CEO of TotalEnergies, and Alastair Syme, Head of Global Energy Research at Citi Research provide an assessment of rising global power demand, the structural costs of the energy transition, and the geopolitical forces redefining market risk. Watch now on YouTube, Apple, or Spotify and subscribe for future episodes.

October 7, 2026 | The Short and Long: Q4 Macro Investment View

Citi Wealth's quarterly report is designed to offer global, data-driven guidance to help investors navigate increasingly complex markets with confidence and clarity. The latest report delivers a breakdown of inflation, AI investment cycle, role of gold, natural resources, and portfolio resilience, and lessons from our key investment calls throughout 2026.

September 24, 2026 | Global Investment Council

The Citi Wealth Global Investment Council met September 24, 2026, and increased allocations to U.S. equities, Japanese equities, and the cybersecurity theme, funded by a reduction in the overweight to U.S. securitized fixed income. The Council also reviewed and endorsed the portfolio's drift, remaining comfortable with the market-driven increase in equity exposure relative to fixed income.

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High quality (very strong)	Aa	AA	AA
Upper medium grade (Strong)	A	A	A
Medium grade	Baa	BBB	BBB
Not Investment Grade			
Lower medium grade (somewhat speculative)	Ba	BB	BB
Low grade (speculative)	B	B	B
Poor quality (may default)	Caa	CCC	CCC
Most speculative	Ca	CC	CC
No interest being paid or bankruptcy petition filed	C	D	C
In default	C	D	D

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Weekly Bulletin