

# Monthly Investment Insights

DECEMBER 2025

## TOPIC 1:

## 2025 - Year in review

In light of heightened macroeconomic uncertainty in 2025, maintaining a diversified portfolio has proven to be beneficial for investors.



### What you can do

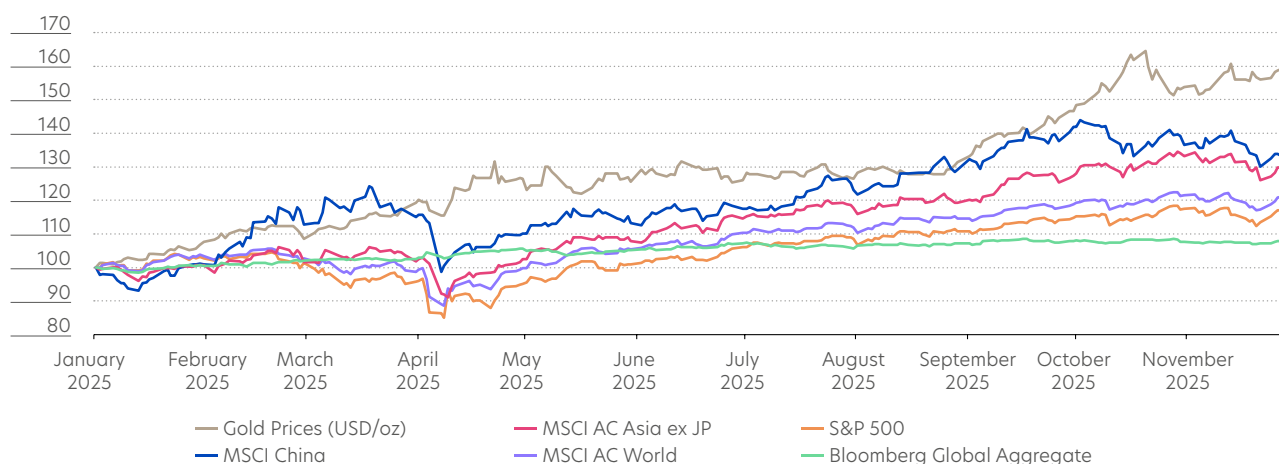
Stay invested while prioritising diversification and avoid concentration risks to better manage volatility and uncertainty.

- The year 2025 was defined by major macroeconomic and policy developments, including an escalation and subsequent de-escalation of tariff and trade tensions, shifts in the United States (US) Federal Reserve's (Fed) monetary policy, and the recent reassessment of aggressive capital spending by major US artificial intelligence (AI) related companies.
- While the S&P 500 encountered brief pullbacks along the way due to investor caution amid stretched valuations, US stocks are on track to deliver a strong annual performance. This is due to robust corporate earnings growth, rapid AI adoption, strong investment inflows, and resilient consumer demand. These factors, combined with the expectation of more Fed rate cuts and continued corporate share buybacks should help underpin US stocks into year-end.
- Meanwhile, diversification beyond US stocks proved highly rewarding in 2025. Year-to-date, the S&P 500 delivered 17%, while gold and Chinese stocks posted outsized gains of 59% and 33% in US dollar terms, respectively (Figure 1). Gold benefitted from risk-off sentiment amid tariff uncertainty, slower economic growth, rate cut expectations and a weaker US dollar, which led to strong demand from central banks and retail investors. Chinese stocks were supported by optimism over structural reforms aimed at reducing overcapacity, improving industrial profitability, and easing deflationary pressures.
- Looking ahead, investors should stay invested. Nonetheless, valuation concerns highlight the importance of diversification and avoiding concentration risks to better manage volatility and uncertainty. We remain positive on quality dividend stocks, technology, developed market financials, Asia ex-Japan, China and Gold.

Figure 1:

### Strong returns seen across asset classes in 2025

Total return (%)



Source: Factset, J.P. Morgan Asset Management



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## TOPIC 2:

# Ride the AI trend but broaden the focus

While valuations for some leading AI-companies are supported by strong earnings growth, investors should consider rebalancing and diversifying their portfolios to reduce concentration risk.



### What you can do

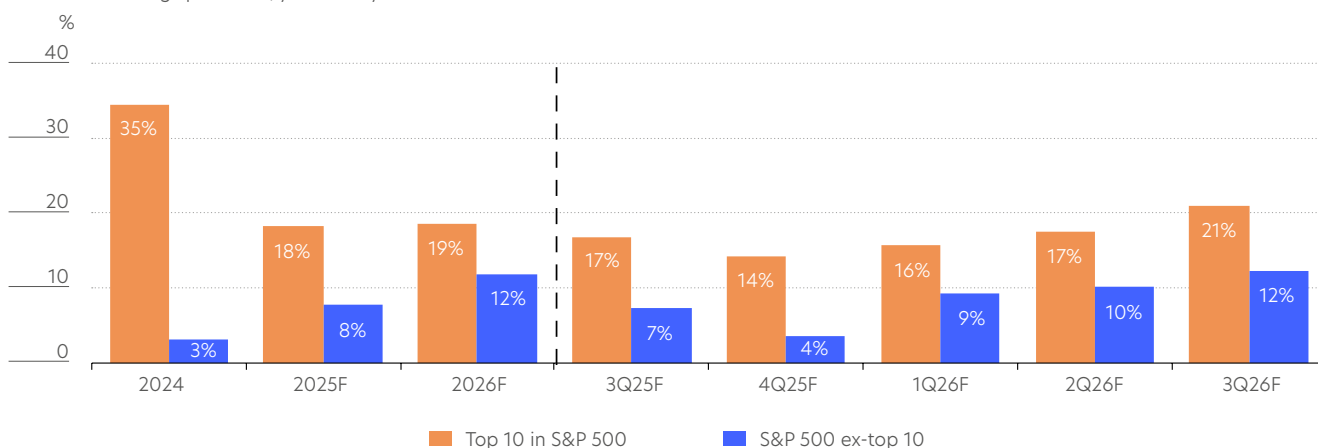
Ride the AI trend but manage concentration risk. Focus on quality and seek opportunities that come with the broadening of earnings growth beyond mega-cap stocks.

- The technology sector remains the primary driver of earnings growth in the US stock market and is on track to deliver solid performance this year. Earnings momentum has improved into the second half of 2025, with many technology companies delivering results that exceeded market expectations. Recent guidance from leading AI companies indicates a continuation of strong demand, especially in cloud computing, reinforcing expectations that the AI-driven expansion will extend into 2026.
- While valuations of mega-cap tech companies appear stretched, these companies generally maintain stronger balance sheets and greater earnings potential than the broader market. There are valid concerns regarding elevated capital spending, and the circular nature of AI investments where one company invests in another business to drive new sales. Nonetheless, this also highlights the urgency to expand computing capacity to meet rising demand.
- As investors become more sensitive to capital spending plans and monetisation strategies, it remains possible to participate in the AI trend while reducing concentration risk in mega-cap stocks. Quality remains important, yet opportunities are also emerging from an expected broadening of earnings growth beyond the S&P 500 mega-caps in the coming quarters (Figure 2).
- While the technology sector anchors the AI ecosystem, infrastructure-enabling sectors such as utilities and industrials play a critical role in supporting data centre expansion. Over time, as AI adoption accelerates, productivity gains could improve profit margins across a broader range of sectors.

Figure 2:

## Earnings growth is expected to broaden beyond the S&P 500 mega-caps in the coming quarters

Pro-forma earnings per share, year-over-year



Source: Factset, J.P. Morgan Asset Management



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## TOPIC 3:

# Don't ignore Asia's role in the AI cycle

With a weaker US dollar, relatively attractive valuations, hardware manufacturing prowess and ongoing corporate governance reforms, Asia presents a compelling opportunity for investors seeking portfolio diversification.



### What you can do

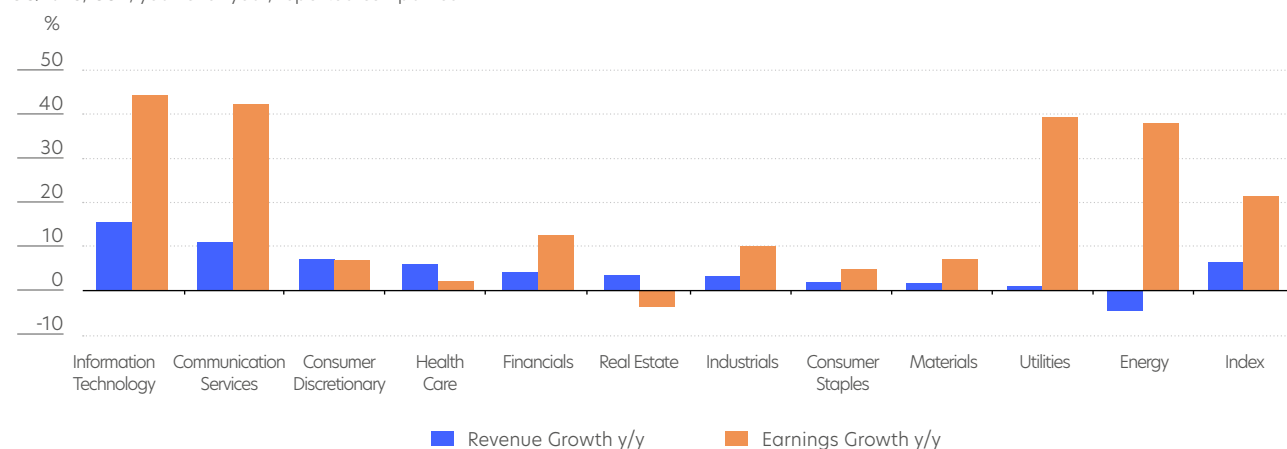
Consider diversifying into Asia, as solid AI demand, supportive reforms, and reasonable valuations present opportunities to capture long-term growth.

- For investors looking to diversify beyond the US, Asia offers a favourable backdrop, including a weaker US dollar that is likely to attract capital inflows into the region. While the US remains central to the AI super-cycle, Asia's leadership in technology manufacturing, from semiconductors and high-bandwidth memory chips to manufacturing equipment, warrants a portfolio allocation to Asian technology stocks, particularly those along the AI hardware supply chain.
- During the third quarter earnings season, Asia's technology sector recorded earnings growth of 44.4% (Figure 3), underscoring resilient AI demand. Rising computational demands are expected to boost overall market demand for memory chips, particularly high-bandwidth memory chips, which are essential for enhancing AI model training and inference performance.
- In response, several technology manufacturers have announced substantial capital spending plans to expand hardware supply.
- Although tariffs and trade frictions may continue to create uncertainty, a combination of corporate governance reforms across key Asian markets, sustained AI demand, and supportive domestic developments could drive earnings growth in the year ahead.
- With valuations at the index level remaining reasonably relative to the long-term average, active selection is crucial. Identifying long-term technology leaders positioned to benefit from AI innovation, along with companies aligned to structural growth trends in Asian stock markets, will be key to enhancing investor returns.

Figure 3:

### Solid third quarter earnings growth in Asia amid resilient AI demand

MSCI AC Asia Pacific Index  
3Q2025, USD, year-over-year, reported companies



Source: Factset, MSCI, J.P. Morgan Asset Management calculations.



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