

ARTIFICIAL intelligence (AI) continues to forge ahead as a defining pillar of the next digital age – and the smart money is watching closely.

While the near-term market may get rattled by sentiment swings, the long-term structural opportunity tied to AI infrastructure, adoption and monetisation is only gaining momentum across Asia.

Eastspring Investments Singapore sees this theme playing out vividly.

According to Terence YT Lim, portfolio manager, equities, at Eastspring, AI is emerging as a foundational technology for the future.

"This can be seen from the robust capital spending by US and China hyperscalers," he says.

Lim points out that in the most recent US earnings season in May, several of the largest hyperscale cloud providers raised their capital expenditure (capex) guidance.

"The CEO of the world's largest hyperscaler also commented that its AI capacity is being used up as fast as it is put in, calling out supply bottlenecks in motherboards and components," he notes.

Critical role

But even as investors remain excited by the potential of AI, not everything has gone up in a straight line.

"Short-term ebbs and flows in market sentiment are common with structural themes," Lim explains.

"More recently, the AI narrative was affected by recession fears arising from the US tariffs, rumours of capex cuts by US hyperscalers, and poor manufacturing yields of advanced server racks.

"In addition, the apparent lack of monetisation of popular chatbots, concerns over the commoditisation of large language models and falling graphics processing unit rental rates also contributed to significant volatility in AI-related stocks," he highlights.

Yet, for seasoned investors, these market dislocations can be a gift.

"Such market dislocations present opportunities for active investors to generate alpha," he says.

Lim says the Asian region is already playing a critical role.

"Given Asia's role as an enabler and innovator, there are multiple opportunities across the region's AI ecosystem," he states.

And the opportunities span the entire value chain.

"Strong capex growth by US hyperscalers should benefit Taiwanese and South Korean AI chip supply chain players, especially in the areas of foundry, high bandwidth memory (HBM), Ajinomoto Build-Up Film substrate, printed circuit boards, application specific ICs (integrated circuits) backend design, and server assembly," Lim says.

Rising capacity

With nearly 60% of the global population residing in Asia, the region is also emerging as a key end-user base for AI-powered services.

"As demand for AI-powered services rises in the region, the need for low-latency, high performance AI inferencing becomes critical," Lim explains.

"As such, the US and China hyperscalers are expanding their cloud presence in the region to be closer to the end users," he adds.

This is creating a surge of activity in the data centre space, especially among third-party providers.

"Given the significant capital requirements and local presence needed to secure land and power in the region, third-party data centre providers are well positioned to capitalise on the growing demand for AI inferencing through leasing arrangements with hyperscalers," says Lim.

"Governments and multinationals are also driving demand for regional data centre capacity. Co-locating with other services

saves costs and reduces latency," he points out.

In some markets, capacity is being ramped up aggressively.

"In South Korea and Malaysia, leading data centre providers are planning to more than double their existing capacity," notes Lim.

Meanwhile, Singapore's situation is more unique.

"In Singapore, there is a capacity constraint due to a government-imposed moratorium on new data centres.

"However, as enterprises prefer to keep their regional data in Singapore due to a stable legal and political environment, third-party data centre providers can enjoy premium rental rates that are four times higher than the industry average," Lim explains.

He is also seeing significant innovation coming from China's technology giants.

"Chinese hyperscalers are driving revenue growth by moving beyond low value graphic processing unit rental services and

■ AI is emerging as a foundational technology for the future

■ Asia's role as an AI enabler and innovator opens up diverse opportunities across the region

AI surge lifts Asia's tech enablers

enabling enterprise-level AI transformation by offering model as a service (MaaS)," he states.

These offerings support a wide range of business needs – from customer chatbots to fraud detection – deepening their integration with clients.

"By offering MaaS alongside traditional cloud services such as compute, databases and storage, Chinese hyperscalers are creating sticky ecosystems," he adds.

Beyond infrastructure, the use cases for AI are beginning to take root.

"We are seeing more AI use cases emerge in Asia. This will drive broader AI adoption, in turn fuelling demand for AI infrastructure and compute resources," Lim highlights.

For instance, he says: "A leading Taiwanese semiconductor chip manufacturer is leveraging a cutting-edge AI computational lithography platform to enhance its production of photomasks – critical tools used to imprint circuitry onto chips.

"The company notes that every 1% of productivity gain yields cost savings of NT\$1bil."

Another Taiwanese player is turning to edge AI for smarter manufacturing.

"A major electronics contract manufacturer in Taiwan is utilising an advanced edge AI platform in its smart manufacturing process, applying it to tasks such as robotic arm control and optical inspection to boost precision and automation on the factory floor," Lim states.

Fertile ground

In the consumer space, new frontiers are opening up.

"Some smartphone makers in China are rolling out their own AI-augmented operating systems with writing, editing and translation capabilities," Lim notes.

According to Lim, this could fundamentally shift the software landscape.

"In a future where agentic AI becomes central to the smartphone experience, system-level AI agents – bundled directly into the operating system – could manage cross-app workflows by default.

"This shift may challenge the traditional role of app stores, as these system agents begin to control user interactions and data flows, potentially unlocking new gatekeeper economics for device makers," he says.

"These dynamics across Asia – from the chip fabs in Taiwan and HBM in South Korea, to China's hyperscalers and the region's third-party data centres and enterprise adopters – are not just a secular growth story.

"They are fertile ground for disciplined value investing when trying to identify beneficiaries of the structural AI theme," he adds.

That means staying selective and valuation-aware.

As Lim puts it: "A margin of safety approach allows us to buy on scepticism and profit as fundamentals re-assert themselves.

"Focusing on companies with durable competitive advantages at attractive valuations enables us to capture AI's long-term growth upside while sidestepping frothy valuations.

"In markets that oscillate between euphoria and scepticism, a patient, value-centric process can help deliver consistent returns amid the noise," he says.

