

Asia small cap equities: Unleashing the strength of hidden gems

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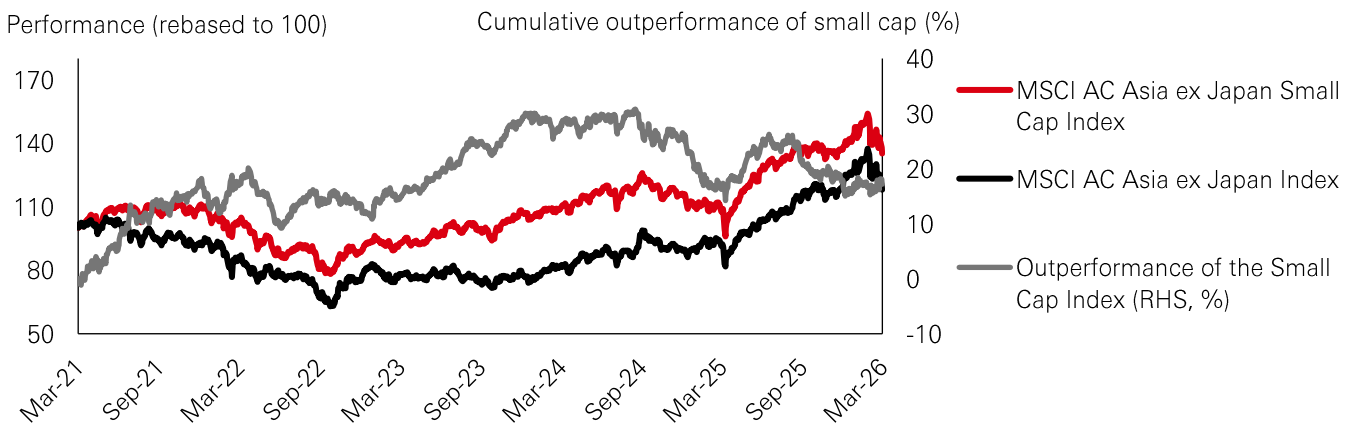
From Small to Large: Why early exposure matters

Over the past five years, Asia small caps have outperformed Asia large caps by an annualised return of 2.83% at the index level (Fig. 1). This outperformance has been led largely by smaller, high-growth companies in Taiwan, India and Korea. Notably, small caps also recorded lower volatility than large caps over the same period – countering the widely held view that smaller companies typically have higher market fluctuations (Fig. 1).

A core reason to consider small caps is that they are often in the most accelerated phase of a company’s growth—before the opportunity is fully recognised by the market and the stock transitions into large cap indices.

To demonstrate this effect, we analysed Asia-listed small cap companies that were later added to the Asia standard large cap index, comparing returns of over 150 companies in the 12 months before and 12 months after index inclusion. The study was conducted for the time period from May 2020 through February 2026. The results were clear: on average, these stocks delivered 245% return in the year prior to inclusion, versus 18% in the year following inclusion. The takeaway is that a meaningful share of value creation can occur ahead of index inclusion, reinforcing the case for selective, research-led exposure to small caps as a source of differentiated return potential.

Fig. 1: Asia small caps outshine large caps over the last five years



	5-year annualised volatility
MSCI AC Asia ex Japan Small Cap	15.61
MSCI AC Asia ex Japan	18.42

Source: MSCI, Bloomberg as of March 2026.

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Discovering unique alpha opportunities in Asia small caps

AI infrastructure, defence spending, robotics and energy transition are core investment themes within our Asia small cap strategy. While these themes are widely recognised, our differentiation lies in how we gain exposure. Rather than concentrating in crowded, headline beneficiaries – where valuations can quickly assume best-case outcomes – we focus on under-owned “picks-and-shovels” businesses positioned one or two steps back in the value chain. These companies can benefit from the same structural tailwinds, often with stronger valuation support and more diversified end-demand.

Case study 1: Power transmission capex: Value chain access at a discount

A clear example is our positioning in the power transmission capex upcycle (Fig. 2). Instead of paying premium multiples for transformer manufacturers that have become the market’s consensus trade, we hold an Indian copper wire producer that supplies original equipment manufacturers (OEM). As grid investment accelerates – supported by renewable integration, electrification and rising data-centre power demand – copper-intensive components are seeing direct pull-through demand. Crucially, this provides exposure to the same multi-year build-out at around a quarter of the valuation of the better-known transformer names, offering a more efficient route to participate in the cycle.

Case study 2: Satellite networks – Finding alpha in the enabling supply chain

Our Asia small cap investment strategy sees an opportunity in a Taiwan manufacturer specialising in high-quality radio-frequency waveguides and components essential for satellites and ground infrastructure. This innovative company supplies advanced products to leading satellite operators globally, including a major US-based low-earth-orbit (LEO) network provider. By focusing on this specialised Asian supplier rather than the satellite operators themselves, we gain strategic exposure to the rapidly growing LEO satellite industry at a more attractive valuation – around one-fifth of the multiple implied by the US based operator’s anticipated IPO.

With mega-constellation satellite networks transforming connectivity, this Taiwan company is well placed to capture the upside, with satellite launches projected to grow from 1,722 in 2022 to 13,000 by 2028 (Fig. 3). At the same time, the Taiwan company is set to gain from increasing satellite complexity, as operators seek to boost data throughput. This shift towards multi-band payloads is expected to drive demand for satellite components and increase prices significantly.

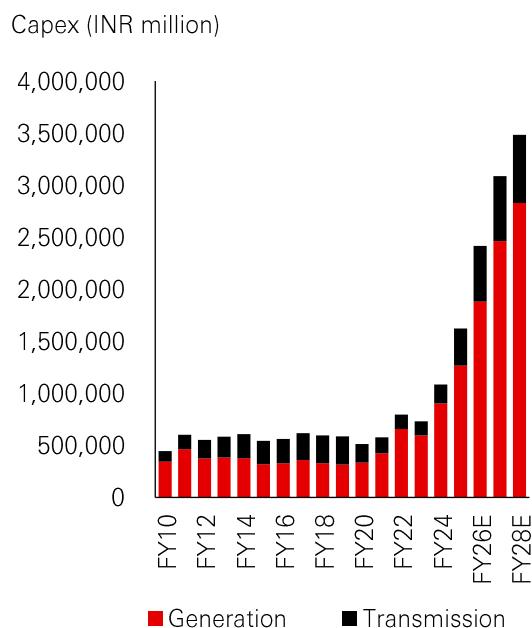
As global needs for defence, communications, surveillance, and secure connectivity grow, the demand for enabling technologies like waveguides is increasing. Investing in supporting technologies allows us to tap into growth opportunities while potentially avoiding risks like operational challenges, high capital requirements, and funding uncertainties that may come with satellite operators.

Source: HSBC Asset Management, as of April 2026.

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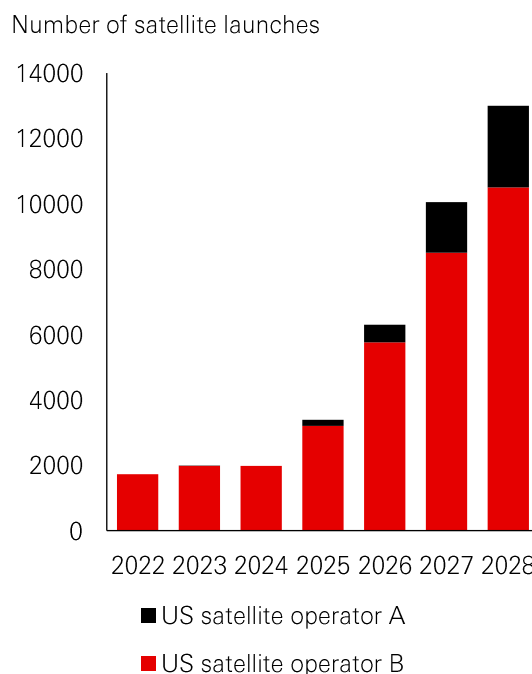
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Fig. 2: India companies’ rising spending in power generation and transmission



Source: Spark’s estimates, data as of April 2026.

Fig. 3: Asia small cap company provides supporting technologies for increasing satellite launches



Source: Goldman Sachs estimates, data as of April 2026.

Think bigger with India's small caps

The rapid growth of India's e-commerce landscape

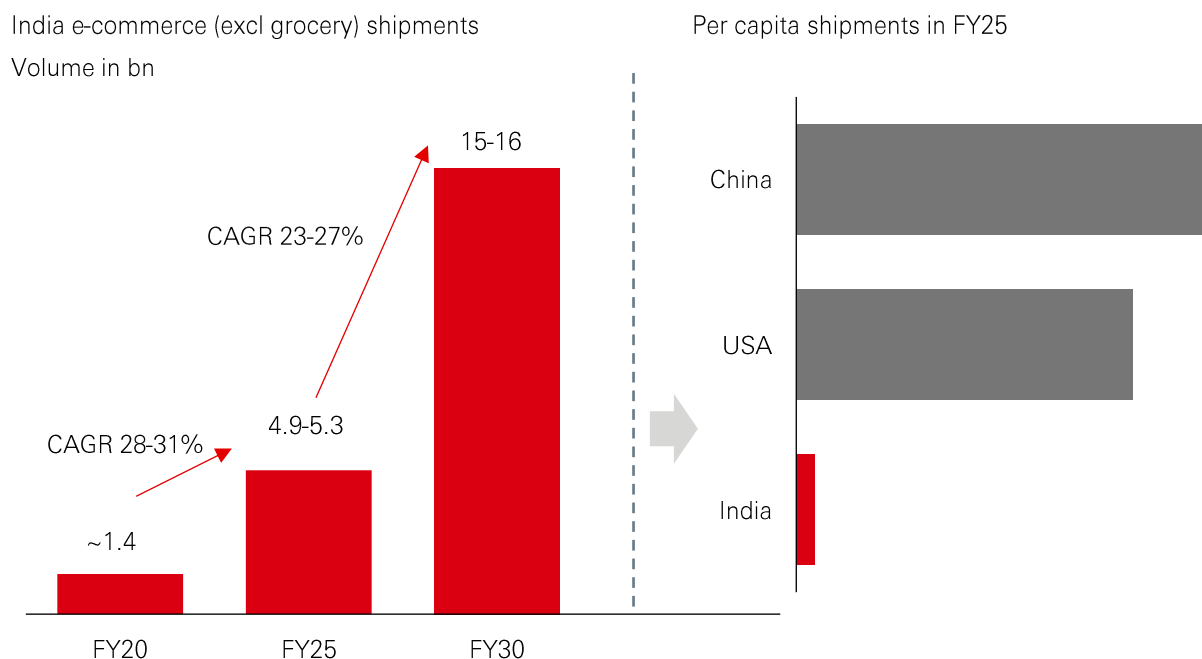
While India has underperformed some other emerging markets over the past year, we remain constructive on its medium- to long-term structural growth outlook. Key tailwinds include favourable demographics – which are supporting consumption upgrades – and infrastructure development – which is central to the country's growth agenda. As a meaningful market in the Asia small cap universe, India is seeing domestic companies scale up to meet the needs of a rapidly expanding economy.

Within our Asia small cap strategy, we view India as a rich source of under-researched opportunities with attractive long-term earnings potential. One area of interest is in the e-commerce and express-parcels market, where penetration in India remains structurally below that of other more mature regions, creating a long runway for organised third-party logistics providers as the industry consolidates. In FY2025, at 3-4 shipments per capita, India is still far behind its global counterparts, such as China and the US, where the level is 60-80 shipments per capita, implying significant headroom for growth (Fig. 4).

The quick commerce segment in India is projected to witness robust growth, with shipments expected to increase at a 23-27% compounded annual growth rate (CAGR) between FY2025 and FY2030, reaching 15-16 billion deliveries, according to a Redseer report (Fig. 4). The report also highlights that companies offering both foundational and surge delivery capabilities are likely to emerge as key differentiators in the hyperlocal space. We believe that companies with a scalable presence in e-commerce, combined with strong delivery infrastructure, can capitalize on this structural growth opportunity.

All in all, our holding in this segment is executing well in an increasingly supportive market structure, gaining share through strong operational delivery while maintaining lower capital intensity than many peers. Supported by healthy cash-flow conversion and sustained growth prospects, the e-commerce area is poised to benefit as outsourcing trends and scale advantages continue to strengthen across India's logistics ecosystem.

Fig. 4: India's e-commerce shipments volumes have substantial room to grow



Source: Redseer Report, Morgan Stanley, March 2026.

Note: E-commerce shipments includes the total volume of shipments including Delivered plus Return to Origin (RTO) (single parcel count for forward and return legs of RTO) plus Reverse Pick-Up shipments across eCommerce, D2C, Formalized social commerce, omnichannel by traditional brands.

Source: HSBC Asset Management, as of April 2026.

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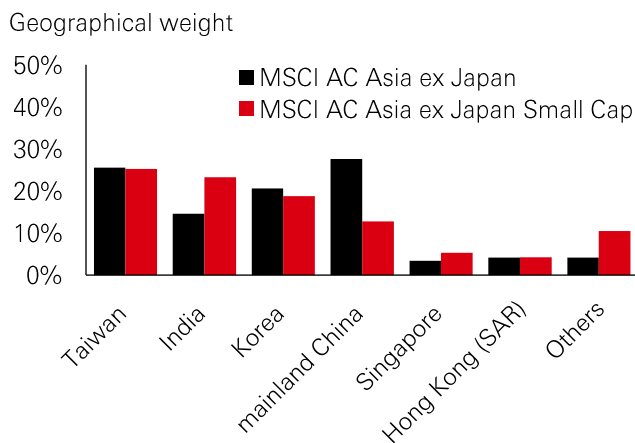
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Unlocking growth in Asia's small cap universe

From a geographic perspective, Taiwan constitutes the largest portion of the Asia ex Japan Small Cap index at 25%, followed closely by India and Korea, which account for 23% and 19% respectively. Collectively, these three markets represent 67% of the index, while Hong Kong and Mainland China contribute approximately 17%, with the remainder spread across ASEAN countries (Fig. 5). The geographic composition contrasts sharply with that of Asia large caps, where Hong Kong and Mainland China comprise one-third of the representative index.

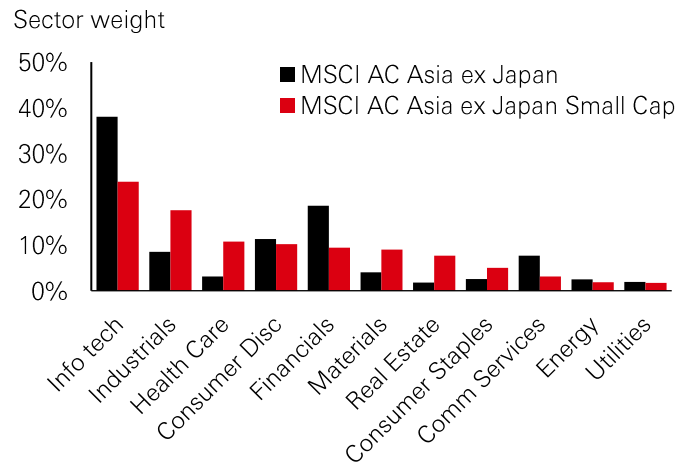
This broader geographic exposure can be seen at the sector level as well. New economy sectors such as information technology, industrials, healthcare, and consumer discretionary make up 62% of the Asia ex Japan Small Cap index, compared to the large-cap index, which is heavily weighted towards state-owned enterprises in traditional sectors such as financials. The wider country and sector exposure within Asia's small cap index helps to mitigate country- or sector-specific volatility, potentially providing investors with a more balanced and diversified range of investment opportunities (Fig. 6).

Fig. 5: In Asia's small cap index, Taiwan, India and Korea represent 60% of the index



Source: MSCI, data as of February 2026.

Fig. 6: The small cap index is more diversified with growth-focused companies often overlooked



Diversification and long-term alpha generation potential in HSBC Asia small caps

With investors increasingly diversifying beyond the US, Asia ex Japan small caps offers a differentiated way to access the region's next generation of potential winners. Given limited coverage and index representation, active, research-led stock selection is essential to identify high-quality businesses early. HSBC's Asia ex Japan small cap strategy aims to provide targeted exposure to structural growth themes at disciplined valuations, aligned with a Growth at a Reasonable Price (GARP) approach, for investors seeking long-term alpha and meaningful diversification.

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Source: HSBC Asset Management, as of April 2026.

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