



STRATEGY

Digital Innovation and Capital Rotation Are Reshaping Corporate Strategy

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As global capital shifts from the US to Asia and Europe, innovation breakthroughs like DeepSeek are accelerating strategic transformation, prompting firms to adopt digital tools, restructure operations, and realign with regional growth drivers to stay competitive.

Key Points

Financial Performance	Firms are reallocating capital to undervalued markets like China and India, where Southbound ownership is 11 to 12 percent and US export exposure is 2.2 percent of GDP, while navigating US capital outflows, rising debt, tariffs, weak Asian inflation, and finding resilience through Japan's wage growth, Macau's 12 percent GGR rise, policy support in India, and stable Asian bond yields.
Customer Growth	Customers are prioritizing cost efficiency and value as seen in China's tourism rebound, Macau's 12 percent GGR increase, and Japan's wage-driven spending, while firms delay adaptation due to policy risks and volatility, instead focusing on defensive sectors, local demand, and demographic trends like Extended Longevity, supported by reforms and data-led engagement.
Process Optimization	Firms are adopting digital tools to improve transparency and competitiveness amid IT demand in India, innovation like DeepSeek, and China's shareholder activity, while high costs, legacy systems, and slow automation hinder transformation, leading firms to rely on real-time data, treasury tech, and modeling to manage FX, allocate capital, and drive growth in tourism, retail, and digital finance.
Learning And Growth (L&G)	Firms are embedding long-term value, agility, and data-led decisions into culture, but face innovation barriers from investment delays, volatility, and misalignment, while reforms, agile structures, demographic shifts, and supportive policies in Japan, India, and Asia enable scalable transformation despite legacy and execution challenges.

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Digital Innovation and Capital Rotation Are Reshaping Corporate Strategy

	Foundational Assumptions	Key Challenges	Strategic Action
Financial Performance	<p>Competitive Advantage</p> <p>Firms are adjusting strategies as capital flows move from the US to Europe, Asia, and emerging markets. India’s low export exposure and China’s 11–12 percent Southbound ownership highlight rising competitiveness, while Japan’s wage growth and Macau’s 12 percent GGR boost reflect stronger regional demand and resilience.</p>	<p>Financial Pressures</p> <p>Organizations face financial strain from US capital outflows, rising borrowing costs due to a projected USD 4 trillion debt increase, and a 1.5 percent GDP-equivalent tariff hike. Declining trade output, innovation risks, and weak inflation in Asia add to revenue and pricing challenges.</p>	<p>Financial Solutions</p> <p>Firms are reallocating capital to undervalued markets, diversifying into non-USD assets, and investing in income-generating bonds and equities. Japan’s corporate reforms and India’s pro-growth policies support efficient capital use, while Asian bonds offer yield and currency stability.</p>
Customer Growth	<p>Evolving Consumer Behaviour</p> <p>Customers increasingly favor cost efficiency and long-term value, with rising interest in discretionary spending and digital services. China’s tourism and retail rebound, Macau’s 12 percent gaming revenue gain, and Japan’s wage-driven consumption all point to shifting engagement trends.</p>	<p>Consumer-Centric Barriers</p> <p>Policy uncertainty and tariff risks are delaying firm responses to consumer changes, while low US savings rates and volatile global conditions hinder demand forecasting. Inconsistent spending patterns and investor withdrawals add to engagement difficulties across markets.</p>	<p>Customer Engagement Strategies</p> <p>Organizations are focusing on defensive sectors, localized strategies, and demographic themes like Extended Longevity. Reforms in Japan and strong domestic demand in India support customer trust, while data-driven engagement enhances personalization and satisfaction.</p>
Process Optimization	<p>Tech-Driven Capabilities</p> <p>Firms are adopting digital tools to boost transparency and competitiveness, driven by strong IT service demand in India and innovation interest highlighted by DeepSeek. China’s shareholder strategies and cross-border flows further encourage tech-enhanced financial reporting.</p>	<p>Operational Inefficiencies</p> <p>Uncertainty and high financing costs are delaying digital transformation, while legacy systems, project delays, and uneven readiness for automation slow integration. Japan’s financial reforms also reveal the need for system upgrades to support digital governance.</p>	<p>Process Innovation</p> <p>Real-time data tools, digital treasury systems, and financial modeling help firms manage FX risk, allocate capital, and optimize returns. Cost control in China, digital finance in Japan, and tech-driven growth in tourism and retail show how firms are scaling effectively.</p>

Learning And Growth (L&G)

Organizational Culture	Capability & Culture Gaps	Capacity Building & Culture Shaping
<p>Firms are embedding long-term value creation, agility, and data-driven decision-making into their cultures. Reforms in Japan and cost-efficiency in China reflect broader shifts toward performance, collaboration, and digital transformation across sectors.</p>	<p>Investment delays, geopolitical volatility, and internal misalignment hinder innovation. Persistent project delays, cultural conservatism in Japan, and reliance on outdated planning models limit adaptability even amid structural reforms.</p>	<p>Agile structures, demographic alignment, and regulatory support are enabling firms to innovate and scale. Reforms in Japan, financial easing in India, and strong local growth across Asia and emerging markets are reinforcing internal transformation and capability building.</p>

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Global capital rotation and regional fundamentals reshape corporate strategy

Firms shift strategies as global capital flows toward Europe, Asia, and emerging markets

Firms are adjusting their competitive strategies in response to a shift in global capital flows, as investment moves away from the US and toward markets like Europe, Asia, and emerging economies.

Elevated valuations in US assets are encouraging diversification into regions with more attractive pricing, such as China and India.

China's equity market stands out for its low correlation with other global markets, while domestic investment in Chinese H-shares has risen significantly, with Southbound ownership reaching 11 to 12 percent of market capitalisation since 2021.

India's exports to the US represent just 2.2 percent of GDP, positioning it as a strong candidate for manufacturing investment amid trade tensions.

In Japan, nominal wage growth has reached its highest level in over 30 years, supporting domestic consumption and improving firms' focus on return on equity.

Macau's 12 percent increase in gross gaming revenue reflects improved sentiment among smaller enterprises.

Meanwhile, Asia and emerging markets are benefitting from clearer policymaking and strong local growth, giving firms in these regions a more stable competitive environment.

Tightening liquidity, rising debt, and tariffs strain corporate finances

Organizations are facing a range of financial pressures as capital outflows from the US continue and non-US investors reduce their exposure, leading to funding constraints for firms tied to US markets.

Elevated long-term interest rates, driven by a sustained term premium and a projected increase of approximately USD 4 trillion in US federal debt over the next decade, are increasing borrowing costs.

Companies are delaying investments and hiring due to uncertainty, which is slowing growth and weakening financial stability.

A significant rise in US tariffs, equivalent to 1.5 percent of GDP, is reducing consumer spending power and placing additional pressure on corporate revenues.

Export and industrial production are expected to decline, signaling demand weakness for firms dependent on trade.

Market volatility, such as that triggered by the AI breakthrough DeepSeek, highlights the risk faced by firms that do not keep pace with innovation.

In Asia, inflation remains below target in many countries, indicating soft demand and limiting pricing power for companies in those markets.

Companies strengthen resilience by reallocating capital to undervalued, stable markets

Organizations can strengthen financial resilience by reallocating capital from overvalued markets to regions with more attractive valuations and stronger fundamentals.

Diversifying into non-USD assets, including currencies such as the CHF and EUR, and high-quality emerging market debt, helps manage currency and geopolitical risks.

Investments in income-generating assets like high-quality bonds and dividend-paying equities can provide steady returns and reduce portfolio volatility.

Firms in India may benefit from the central bank's supportive stance, which encourages expansion through lower borrowing costs.

In Japan, corporate reforms that include higher dividends and share buybacks are enhancing capital efficiency and investor trust.

Exposure to Asian local currency bonds offers compelling real yields and macroeconomic stability, helping firms reduce inflation and currency-related risks.

Flexibility in portfolio management, including the use of tools to respond to volatility, enables companies to maintain performance and adapt to shifting market conditions.



Consumers shift toward value, experience, and digital services amid policy and economic instability

Consumers seek value, experiences, and localized engagement in a changing economy

Customer expectations and engagement patterns are shifting in response to evolving market conditions and demographic changes.

Companies are increasingly focusing on cost control and shareholder returns, reflecting rising demand for capital efficiency and long-term value creation.

Consumers are showing renewed interest in discretionary and experience-based spending, as seen in China's May Day holiday, where tourism traffic rose by 6.4 percent and restaurant and retail sales increased by 6.3 percent.

Macau's 12 percent increase in gross gaming revenue indicates growing engagement in entertainment and travel sectors, especially among small and medium enterprises.

In Japan, higher nominal wages are supporting domestic consumption and reinforcing the importance of local demand.

Consumer preference for digital services remains strong, particularly in India, where IT services continue to attract interest despite broader trade tensions.

Additionally, the market reaction to the DeepSeek AI breakthrough highlights that innovation and speed remain important to technology-aware consumers.

Policy instability and low savings complicate firms' responses to evolving demand

Organizations are encountering difficulties in responding to shifts in consumer behavior due to ongoing uncertainty in policy and economic conditions.

Many firms have delayed investment and hiring decisions, limiting their ability to adapt to changing consumer needs.

Political instability, unpredictable trade policies, and fiscal concerns are making it harder for businesses to accurately forecast demand.

The risk of sharp tariff increases could reduce consumption and employment in the United States, adding to the challenge of managing inventory and planning operations.

Although job creation remains strong, the US savings rate is low at 3.9 percent, which may signal fragile consumer sentiment and inconsistent spending.

In Europe, prolonged investor outflows from active funds indicate waning confidence and highlight engagement difficulties during uncertain periods.

Even in markets with internal reform momentum, high external volatility continues to disrupt firms' efforts to understand and respond to consumer trends.

Localization, demographic targeting, and data insights foster consumer loyalty

To address challenges in consumer behavior, organizations are emphasizing structural strength and long-term value to build trust and loyalty.

Focusing on high-quality firms in defensive sectors with limited exposure to tariffs helps maintain stable performance and meet customer expectations during periods of volatility.

Companies that align with local market fundamentals, such as German and Swiss mid-caps or firms operating in India's large domestic economy, can better tailor their offerings and reduce dependence on external demand.

In Japan, increased dividends and share buybacks as part of corporate reform efforts are contributing to stronger investor and customer confidence.

Firms targeting demographic trends, such as aging populations, can enhance satisfaction by providing customized products and services under themes like Extended Longevity.

The use of data and risk management tools is helping companies better understand shifting consumer preferences and personalize engagement.

Additionally, resilient domestic investor flows suggest that firms which align with local expectations are more likely to sustain market reach and customer loyalty.



Digital tools and strategic technologies reshape value creation and consumer engagement

Digital tools support transparency, agility, and personalized customer engagement

Consumer interactions are prompting firms to adopt technology that supports greater transparency, efficiency, and engagement.

In China, actions such as increased dividend payouts and share buybacks reflect growing use of digital tools to enhance shareholder value.

Demand for IT services in India, a sector not impacted by tariffs, is driving companies to expand digital capabilities and maintain international engagement.

The surge in Macau's gross gaming revenue by 12 percent highlights increased interaction with digital entertainment platforms, encouraging firms to digitize customer experiences.

Similarly, the rise in tourism traffic and revenue by 6.4 and 8 percent respectively indicates that companies in hospitality are using customer behavior data to improve personalized services.

Financial market reactions to AI developments, such as DeepSeek's breakthrough, show that innovation is a growing priority among consumers and investors.

Firms in finance and beyond are integrating technology in response to rising demand for digital services and resilient performance.

Additionally, cross-border investor flows totaling USD 78 billion are prompting firms to enhance digital reporting and communication to stay competitive in global capital markets.

High costs, legacy systems, and uncertainty slow technology adoption

Organizations face several operational challenges when adapting to technology-driven competition and collaboration.

Many companies are postponing investment and hiring, which slows digital adoption and creates uncertainty around prioritizing transformation initiatives.

Ongoing geopolitical volatility and unclear fiscal and trade policies complicate long-term planning and disrupt efforts to scale inter-firm technology integration.

Although project delays remain below pandemic-era levels, firms still encounter difficulties in executing capital expenditure plans involving new technology.

The rapid shift from active to passive investing adds pressure to automate internal operations, but not all firms can adjust at the same pace.

Elevated term premiums and rising financing costs make it less attractive to pursue large-scale digital infrastructure projects.

Even as companies use data and risk management tools, they face constraints in applying these insights effectively due to changing market conditions.

Japan's corporate reforms aimed at improving returns on equity also highlight the need to update traditional systems to support digital financial management.

Technology enables efficient capital use, FX risk control, and consumer scaling

Firms can enhance operational efficiency and create value by using technology to improve decision-making, manage risk, and align with market dynamics.

Active currency management and digital treasury tools help companies manage foreign exchange exposure more effectively, particularly in volatile environments.

By focusing on 3-to-7-year maturities, firms using financial modeling and tech-enabled risk systems can better allocate capital and manage liabilities.

Data analytics support active investment selection, allowing firms to identify opportunities with strong long-term fundamentals and improve capital deployment.

In China, companies are using cost control strategies backed by data to protect margins under trade pressure.

In Japan, technology is aiding the shift from cash retention to improved returns on equity through digital finance and monitoring tools.

Tourism and retail sectors reporting over 6 percent growth are using digital platforms to scale logistics, sales, and engagement, capturing increased consumer demand.



Internal culture, agility, and regional support drive organizational transformation

Companies embed agility, performance, and data into organizational culture

Organizations are structurally evolving their cultures to align with the demands of technology-driven markets and collaborative business models.

Many firms are accelerating efforts to deliver long-term shareholder returns and broaden their focus on innovation and value creation.

Within the financial sector, companies are adopting technology-led strategies that prioritize agility and data-centric collaboration.

In China, firms are emphasizing operational discipline through cost control and capital return measures, supported by analytics and digital finance tools.

Japanese companies are undergoing corporate reforms such as increasing dividends and unwinding cross-shareholdings to improve transparency and readiness for partnership.

Rising wages in Japan are also prompting a shift from capital retention toward performance-focused management.

Across markets, firms are integrating data tools and risk systems into their decision-making processes, cultivating a culture of resilience, adaptability, and fundamentals-based strategy.

Internal conservatism and outdated systems hinder strategic transformation

Several organizational, cultural, and skills-related barriers continue to hinder successful transformation and innovation.

Companies delaying investment and hiring decisions signal internal hesitation and a lack of alignment around change initiatives.

Volatility tied to geopolitical shifts and policy uncertainty is creating ambiguity that undermines confidence in innovation strategies and collaborative planning.

In Europe, the continued outflow from active funds highlights challenges in transitioning traditional asset managers toward more digitally oriented or client-responsive models.

Ongoing project delays, although improved from pandemic levels, still point to structural inefficiencies that slow technological integration.

Firms conducting extensive stress tests across various scenarios show a reliance on static planning methods, revealing discomfort with uncertainty.

In Japan, despite movement toward improved returns on equity, a longstanding conservative financial culture continues to present obstacles to proactive investment in innovation.

Even in cases where internal reforms are implemented, persistent external volatility indicates that deeper organizational agility is needed to adapt effectively.

Agile structures, policy support, and regional growth enhance innovation readiness

Organizations can foster innovation, adaptability, and growth by evolving their structures, talent strategies, and internal cultures in response to market conditions.

German and Swiss mid-sized firms, with their flatter hierarchies and limited exposure to global trade volatility, are positioned to implement agile, localized approaches to innovation and workforce development.

Companies focused on demographic trends such as aging populations are aligning internal capabilities with new demand patterns through targeted product strategies and skill development.

In regions like Europe and Asia, structural support through regulatory easing is enabling a shift toward digital collaboration and entrepreneurial activity.

In Japan, corporate reforms and rising wages are helping build a culture centered on performance and future readiness.

In India, financial system improvements such as increased liquidity are removing constraints on growth and supporting talent mobility.

Consistent investor support, both domestic and foreign, is reinforcing a culture of transparency and responsiveness.

Across Asia and emerging markets, stable policy environments and local growth drivers are contributing to long-term innovation capacity and internal organizational transformation.

