

## Asian High Yield: Where Income Meets Resilience

In today's complex and often unpredictable global financial landscape, investors are increasingly seeking opportunities that offer attractive returns while minimizing exposure to excessive risk. One such opportunity lies in Asian High Yield (HY), which stands out as a compelling asset class amid ongoing geopolitical tensions, diverging macroeconomic conditions, and evolving monetary policies. This article outlines the key reasons why Asian HY credit deserves a closer look from investors.

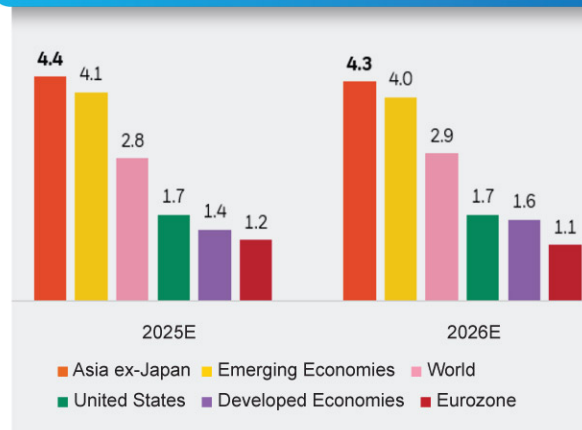
### Higher Carry with Lower Risk

Geopolitical uncertainty continues to dominate global headlines, particularly in relation to trade tensions and tariff dynamics. Although there is a growing belief among market participants that the worst of the tariff-related disruptions may be behind the world, the range of possible outcomes remains wide and new headlines could still trigger volatility. It is therefore important to prioritize higher carry & income whilst maintaining a relatively low risk profile. Asian HY credit fits this description well as it is firmly focused on credit fundamentals and are less exposed to rate volatility (with duration being short at only 2-3 years), allowing investors to benefit from higher yields without taking on excessive duration risk. Moreover, the credit quality within the Asian HY space is generally superior compared to other high-yield markets, offering a more favorable risk-reward profile.

### Supportive Macroeconomic Backdrop

The macroeconomic environment in Asia provides a strong foundation for the continued performance of Asian HY credit. Across regions, investors observe significant divergence in growth, inflation, and monetary policy, and emerging Asia particularly continues to stand out as a region offering attractive opportunities. As of the end of mid-September, economic growth forecasts for 2025 and 2026 remain strongest for Asia ex-Japan, with projections well above 4.3%. This compares favorably to other emerging markets, which are expected to grow at around 4%, and also significantly outpacing developed economies such as the United States (1.7%), the eurozone (1.1~1.2%), and other developed markets (1.4%~1.6%). Importantly, the impact of US tariffs on Asian credit is relatively limited, as many Asian issuers have minimal direct exposure to these tariffs. This insulation helps preserve the stability and attractiveness of Asian credit markets. Inflation trends further reinforce Asia's appeal. While inflation remains persistently high in the United States, it is trending downward across emerging Asia. This divergence is partly due to the inflationary nature of tariffs in the U.S which tend to raise consumer prices. Whereas in Asia, the effects are more disinflationary. Lower inflation in Asia not only supports consumer purchasing power but also provides central banks with greater flexibility in managing monetary policy.

Chat 1: GDP Growth (yoy%)



Source: Bloomberg and BlackRock, as of 15 September 2025.

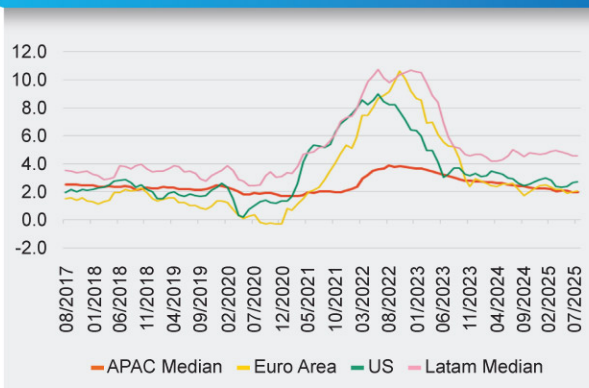
Emerging Asia therefore offers a unique combination of solid economic growth and low inflation—a mix that is increasingly rare in today's global economy. In contrast, the US faces lower growth and higher inflation, Europe is grappling with both low growth and low inflation, and other emerging markets are dealing with robust growth but more persistent inflationary pressures. Asia's favorable macroeconomic position allows its central banks to adopt more accommodative policies when needed. Investors have already seen this play out in recent months. For example, Bank Negara Malaysia (BNM) cut its policy rate by 25 basis points in July, marking its first rate cut in nearly five years. The move was described as pre-emptive, aimed at supporting steady growth amid moderate inflation. Similarly, Bank Indonesia (BI) also implemented a 25 basis point rate cut in mid-July, citing stable inflation and a more benign US dollar backdrop. These actions reflect the region's proactive and flexible approach to monetary policy, which can help sustain economic momentum and support credit markets. Another important factor contributing to Asia's macroeconomic stability is its fiscal discipline and its relatively conservative fiscal stance. Unlike the US and Europe, which have adopted more expansionary fiscal policies and now face growing concerns over rising debt burdens, Asian economies have remained broadly disciplined. This is partly due to the smaller fiscal space available post-pandemic and ongoing efforts toward medium-term fiscal consolidation. Lower debt levels and a greater reliance on domestic funding sources enhance the region's resilience and reduce vulnerability to external shocks.



# 市場觀望

## EYE ON THE MARKET

Chat 2 : Realized Headline CPI Inflation (yoy%)

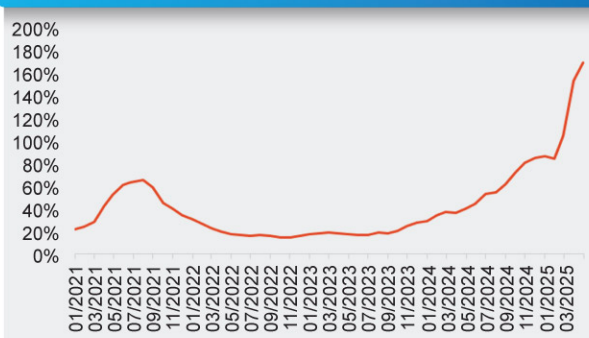


Source: Bloomberg and BlackRock, as of 31 July 2025.

### Supportive Technical & Fundamentals

Beyond macroeconomic considerations, several technical and fundamental factors are currently supporting Asian credit markets, particularly within the high-yield segment. One of the most notable technical factors is the net negative supply of Asian credit. In simple terms, this means that the demand for Asian credit exceeds the available supply, which tends to support bond prices. When supply is constrained and investor appetite remains strong, it creates a favorable environment for credit spreads and overall performance. Fundamentals within the Asian HY credit space have also been improving steadily. Since late 2023, investors have observed a positive ratings trajectory, with more credit upgrades than downgrades. This trend reflects improving issuer quality and greater financial discipline among companies. Additionally, default rates have been moderating. For example, default rates for Asia HY credit excluding China were 0.8% in 2024 and estimated to be even lower in 2025. This is significantly lower than default rates observed in other high-yield markets such as the US, Europe, and broader emerging markets. This enhances investor confidence and underscores the relative safety of Asian HY credit.

Chat 3: Asian HY upgrade / downgrade ratio



Source: Moody's, S&P, Fitch, and J.P. Morgan estimates, updated to end May 2025.

### Active management is key for strong long-term performance

While the overall outlook for Asian HY credit is positive, it is important to recognize that dispersion among Asian HY funds is high, meaning that performance can vary significantly depending on the investment approach and the quality of the management team. For instance, the difference in one-year performance between the top quartile and bottom quartile funds in Morningstar's Asian HY Bond category is close to 4%. This is a material gap and highlights the importance of selecting strategies that are backed by strong investment teams capable of conducting rigorous bottom-up credit analysis.

Strong investment teams also have the ability to capture opportunities beyond the traditional USD-denominated Asia ex-Japan credit universe. These additional opportunities can enhance portfolio diversification and improve risk-adjusted returns. One such opportunity lies in non-USD bonds issued by Asian issuers. These include bonds denominated in currencies such as Singapore dollars (SGD), euros (EUR), Hong Kong dollars (HKD), Indian rupees (INR), and Australian dollars (AUD). Investing in these bonds can offer relative value and yield pickup through foreign exchange hedging strategies. Convertible Bonds represent another compelling option, offering the potential for equity upside while limiting downside risk through the bond floor. Finally, expanding the investment universe to include broader Asia-Pacific (APAC) markets such as Japan and Australia can further enhance portfolio construction. These markets offer unique opportunities and can help investors tap into different economic cycles and credit dynamics, allowing investors to build more resilient portfolios to better navigate changing market conditions.

	Yield	Duration	Rating
Asian HY	7.38	2.90	BB-
US HY	7.09	2.96	B+

Source: BlackRock, 31 July 2025. Asian HY: iBoxx ChinaBond Asian HY USD Hedged Index; US HY: ICE BofA US HY Master II Index.

Disclaimer: The above information is provided by BlackRock Asset Management North Asia Limited (the "Third Party"). The information was updated as of September 19, 2025. This document contains general information for reference only. This document is not an offer, recommendation, advertisement or invitation to buy any security or participate in a collective investment scheme. Since the above information and data in this document are obtained from a Third Party, any such information and data may be incomplete or condensed, may differ from the market environment, and is subject to change without further notice. YF Life Insurance International Ltd. ("The Company") makes no representation or warranty and accepts no responsibility as to the completeness of the information and data provided herein. The Company does not warrant that the above information meets your investment needs, objectives and risk-tolerance level. Should you make your investment decision relying upon the information in this document, you do so at your own risk. Any person considering an investment should seek independent advice on the suitability or otherwise on the particular investment. Investment is subject to market and exchange-rate fluctuations and to the risks inherent in all investments. The price of investment units may go down as well as up. Past performance is not indicative of future performance and yields are not guaranteed. No part of this document may be reproduced in any manner without the prior written permission of YF Life Insurance International Ltd.



## The Case for Global Short Duration Bonds in Uncertain Times

Global financial markets continue to be shaped by sustained volatility and fluctuating trade tensions, bringing investors unprecedented uncertainty and a rapidly evolving landscape. In such challenging environment, the ability to proactively adapt investment strategies has become essential—enabling investors to effectively navigate fast-changing markets and capture new opportunities.

### Uncertainty Amid Volatility: What's Next for Investors?

Despite the potential for elevated inflation, financial markets are anticipating a more accommodative monetary policy response. Current market pricing reflects expectations for at least two Federal Reserve rate cuts in late 2025, with further easing priced in for 2026. This intricate backdrop, where economic uncertainty collide with anticipated monetary easing, raises a critical question for investors: what is a prudent course of action to navigate this challenging landscape?

The anticipated rate cuts will inevitably lead to a decline in cash investment yields, making this an opportune moment to strategically reallocate capital. It's believed that a shift into short duration bonds could be a compelling solution as they offer a timely strategy for preserving portfolio strength, capturing attractive yields, and navigating through ongoing market upheaval with resilience.

### Harvesting from Rate-Cutting Cycle: The Appealing Returns of Short Duration Bonds

Short duration bonds are particularly well positioned to outperform in the current economic environment. Looking at historical trends, an analysis of the last three rate-cutting cycles reveals that short duration indexes have consistently surpassed the performance of the broader Aggregate index. This historical performance is a key indicator, and it's anticipated this trend will continue in the upcoming period of monetary easing.

Furthermore, “all-in” yields across fixed income are high which, in investors' view, do not adequately compensate investors for the additional duration risk inherent in longer-dated instruments. This makes short duration bonds a compelling value proposition from a risk-return perspective. This is particularly evident when investors compare the current metrics of short duration assets against their full-maturity counterparts (Chart 1). The yield-to-worst (YTW) of the Global Aggregate 1–3-year USD hedged index stands at a high 2.9%. In contrast, the YTW of the full Global Aggregate USD hedged index is 3.5%. To gain that seemingly modest additional 56 basis points of yield, investors are required to take on an extra 4.6 years of duration. More specifically, the modified duration of the full index is 6.5 years, compared to the short duration index's mere 1.9 years. This substantial difference in duration highlights the question of whether the additional duration risk is truly worth the minimal gain in yield.

**Chart 1: Investors are not fully compensated for the duration of the Global Aggregate vs its short duration alternative**



Source: Bloomberg, HSBC Asset Management as of 30 June 2025. The views expressed above were held at the time of preparation and are subject to change without notice. Any forecast, projection or target where provided is indicative only and not guaranteed in any way. The level of yield is not guaranteed and may rise or fall in the future. For illustrative purposes only.

# 市場觀望

## EYE ON THE MARKET

The prospect of a steepening yield curve, where short-term yields fall more rapidly than long-term yields, further enhances the appeal of short duration bonds. This dynamic directly favors shorter-term returns and reinforces the strategic rationale for moving assets out of cash. By initially transitioning from cash to short duration bonds, investors can effectively lock in higher yields and mitigate the immediate impact of falling interest rates on their portfolio's income.

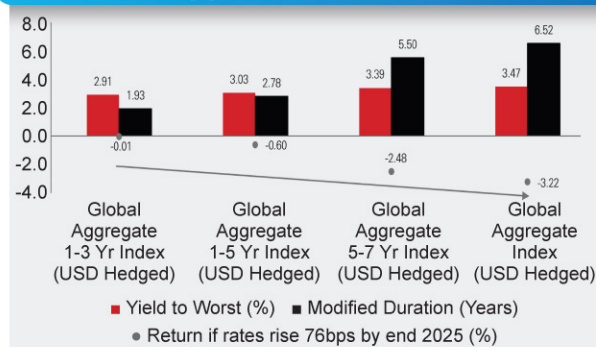
As the rate-cutting cycle progresses and market volatility potentially subsides, they can then consider gradually extending their duration using a strategic management approach to capture potential gains. This calculated and phased approach to fixed-income investing is a prudent and professional way to navigate the ever-changing interest rate environment.

### Mitigating Market Volatility: The Resilience of Short Duration Bonds

In an environment of heightened market volatility, short duration bonds have a clear track record of mitigating volatility. Since October 2001, the 360-day annualized volatility of the short duration index has been significantly lower than that of the Global Aggregate Index, averaging just 0.78% versus 2.78%<sup>1</sup>. This low volatility provides a crucial buffer against the frequent market oscillations that occur when economic data surprise to the upside and inflation remains elevated. Those oscillations may lead to renewed volatility, making assets less sensitive to rate changes—like short duration bonds—especially valuable.

The ability of short duration bonds to provide a buffer is quantifiable. As of June 30, 2025, rates would need to increase by 76 basis points by end 2025 for the Bloomberg Global Aggregate 1-3yr Index to incur a loss, demonstrating their robust resilience against rate spikes (Chart 2). This resilience is also underpinned by the "pull-to-par" effect, which helps to stabilize returns as the bonds approach maturity, providing a predictable return profile in an otherwise unpredictable market.

**Chart 2: How would short duration perform if rate volatility persists?**



Source: Bloomberg, HSBC Asset Management as of 30 June 2025. The views expressed above were held at the time of preparation and are subject to change without notice. Any forecast, projection or target where provided is indicative only and not guaranteed in any way. For illustrative purposes only.

### Driving Portfolio Momentum with High-quality Short Duration Corporate Bonds

In an environment of heightened market volatility, short duration bonds have a clear track record of mitigating volatility. Since October 2001, the 360-day annualized volatility of the short duration index has been significantly lower than that of the Global Aggregate Index, averaging just 0.78% versus 2.78%<sup>1</sup>. This low volatility provides a crucial buffer against the frequent market oscillations that occur when economic data surprise to the upside and inflation remains elevated. Those oscillations may lead to renewed volatility, making assets less sensitive to rate changes—like short duration bonds—especially valuable.

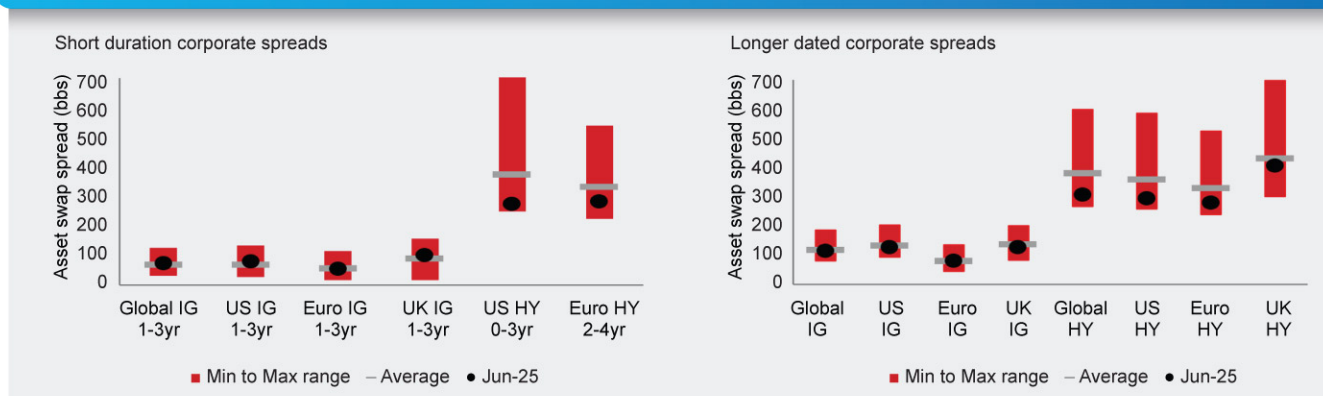
The ability of short duration bonds to provide a buffer is quantifiable. As of June 30, 2025, rates would need to increase by 76 basis points by end 2025 for the Bloomberg Global Aggregate 1-3yr Index to incur a loss, demonstrating their robust resilience against rate spikes (Chart 2). This resilience is also underpinned by the "pull-to-par" effect, which helps to stabilize returns as the bonds approach maturity, providing a predictable return profile in an otherwise unpredictable market.



# 市場觀望

## EYE ON THE MARKET

Chart 3: Short duration corporates currently offer relative value



Source: Bloomberg, HSBC Asset Management as of 30 June 2025. The views expressed above were held at the time of preparation and are subject to change without notice. Any forecast, projection or target where provided is indicative only and not guaranteed in any way. For illustrative purposes only.

Overall, given the high volatility and the less favourable risk-return profile of longer-duration bonds, a global short duration strategy could be a valuable core holding in a portfolio. During uncertain rate-cutting cycles, investing in short duration bonds offers the benefit of enhancing the resilience and potential returns of an investment portfolio. These bonds could continue to deliver potential risk-adjusted returns, providing strong yields with reduced interest rate risk. The multiple strengths of short duration bonds also enable them to be a strategic choice for investors effectively navigating market uncertainty.

Source:

1. Bloomberg, HSBC Asset Management, 30 June 2025. Past performance does not predict future returns. The views expressed above were held at the time of preparation and are subject to change without notice. Any forecast, projection or target where provided is indicative only and not guaranteed in any way.