

A NOTE FROM OUR FIXED INCOME DESK

eastspring
investments

A member of Prudential plc (UK) 

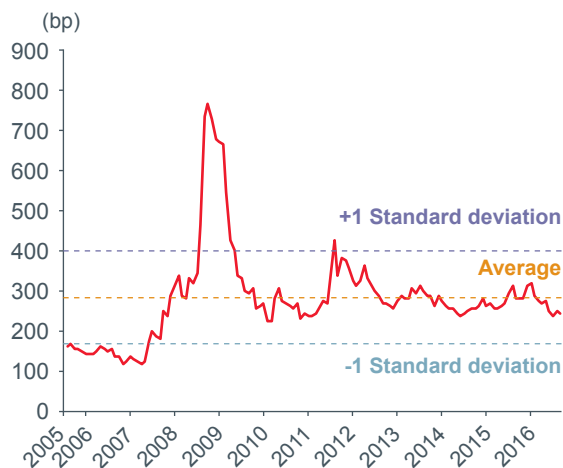
IS THERE STILL VALUE TO BE FOUND IN **ASIAN USD-DENOMINATED BONDS?**

November 2016

Valuations of Asian Bonds (represented by the JP Morgan Asian Credit Index) have become less attractive after the year-to-date tightening of spreads seen this year.

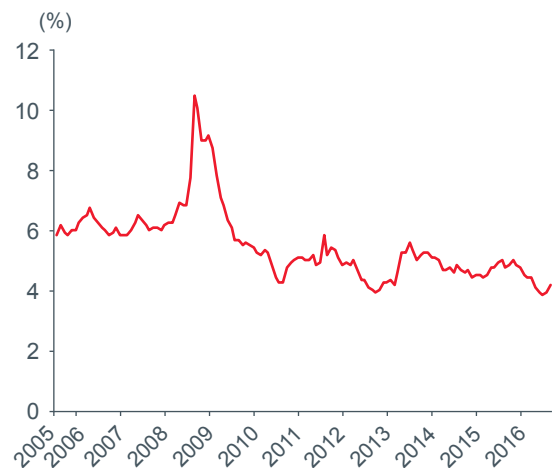
Asian credit spreads are trading at tight levels slightly below the long-term average while yield levels have hit all-time lows in part due to lower US Treasury yields.

Fig.1. Asian credit spreads since inception



Source: Bloomberg, Eastspring Investments, as at October 2016.

Fig.2. Asian bond yield since inception



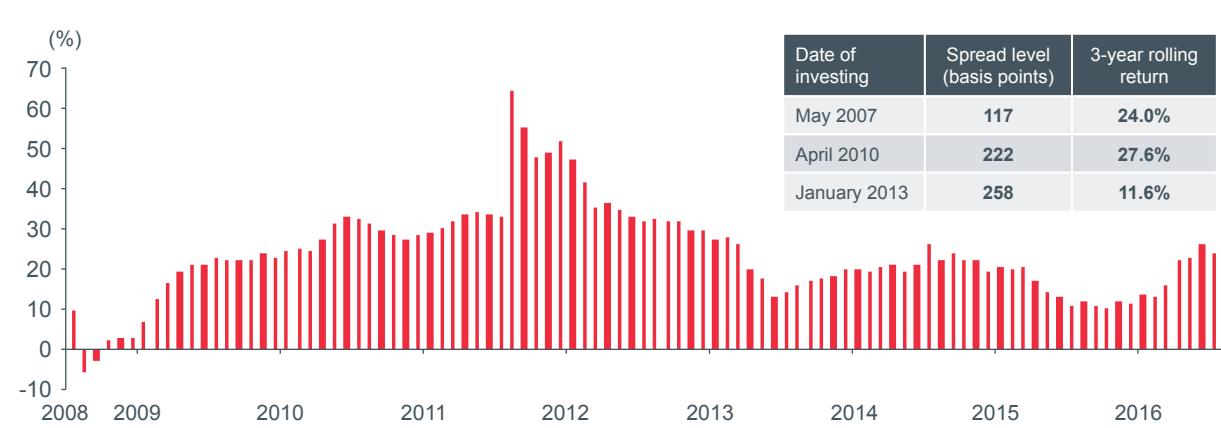
Source: Bloomberg, Eastspring Investments, as at October 2016.

While current spread levels are at the lower end of the range, they are still trading wider than the extreme tight levels seen before the Global Financial Crisis. We have also seen similar spread levels before in the Asian USD bond history and investors who stayed invested over a medium-term horizon have reaped positive returns.

Looking back since the inception of the representative index, investors who invested at the low spread levels seen in 2007, 2010 and 2013 (refer to chart below) have been able to reap more than 10% returns over a 3-year investment time horizon. In fact, 3-year rolling returns have been positive in 95 out of 97 periods since the inception of the JP Morgan Asian Credit Index.



Fig.3. 3-year rolling returns from Asian credit index



Source: Bloomberg, Eastspring Investments, as at September 2016.

While past performance may not be the best indicator for future performances, we believe that the current market environment still favors the medium-term investor. With interest rates likely to stay low for longer, all-in Asian bond yields remain decent relative to the developed markets and will continue to underpin investor demand. Increasing participation in the credit market by local investors, in particular Chinese onshore investors and banks, is also expected to help shore up demand for Asian bonds. This trend has been gaining strength over the past year and according to JP Morgan, local investors now account for 76% of new Asian bond issues (as at the end of August 2016).

Fundamentals in the region continue to be supportive and Asia remains one of the few bright spots.

On top of that, countries such as India and Indonesia are still seeing great progress in terms of economic reforms. It is likely that monetary policies of major economies will remain highly accommodative as global growth continues to be sluggish and inflationary pressures continue to be low. The chances for interest rates to surge substantially in the near term are thus limited and global liquidity is likely to remain abundant.

Yield-seeking behavior will continue to be prevalent in such an environment. However, such yield-seeking behavior may cause risk assets to be susceptible to sentiment-driven market volatility.

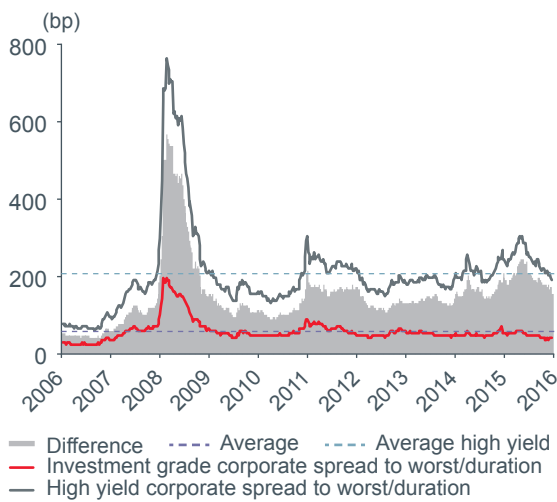
It is therefore critical to remain mindful of credit fundamentals while investing in the Asian bond market.



Pockets of alpha opportunities are still present across the Asian bond universe. Asian high yield risk premium over investment grade is still significant and continues to offer a yield pick-up.

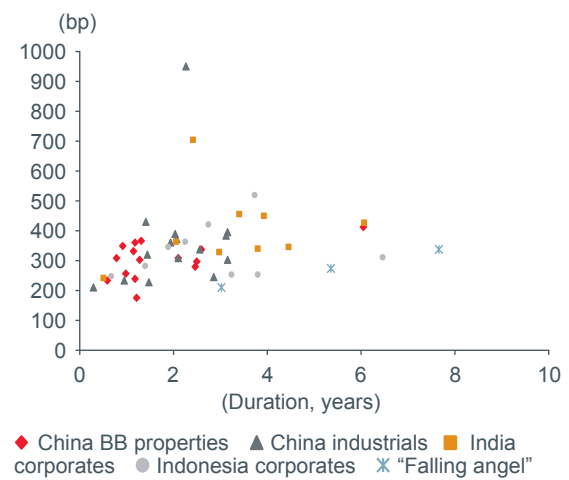
Although we are slightly more cautious in the high yield sector, we still see value in the shorter-end among Chinese property developers and Indian corporates.

Fig.4. Investment grade vs. high yield corporate duration-adjusted spreads



Source: Bloomberg Finance LP, Bank of America Merrill Lynch, as at October 2016. IG= investment grade, HY= high yield.

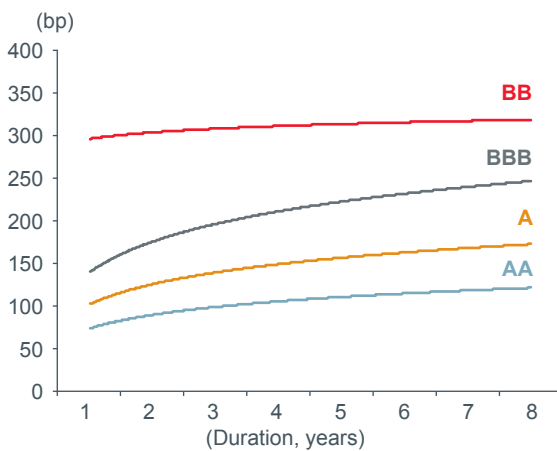
Fig.6. Asian USD 'BB' rated corporates (asset swap spread)



Source: Bloomberg Finance LP, Bank of America Merrill Lynch, as at 31 October 2016. "Falling" Angel – Dalian Wanda, Sino-Ocean, Yuexiu.

Across sectors, we still see value in longer-dated investment grade bonds.

Fig.5. Asian credit curve



Source: Bloomberg Finance LP, Bank of America Merrill Lynch, as at October 2016.



Disclaimer

This document is produced by Eastspring Investments (Singapore) Limited and issued in:

Singapore and Australia (for wholesale clients only) by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore, is exempt from the requirement to hold an Australian financial services licence and is licensed and regulated by the Monetary Authority of Singapore under Singapore laws which differ from Australian laws.

Hong Kong by Eastspring Investments (Hong Kong) Limited and has not been reviewed by the Securities and Futures Commission of Hong Kong.

United States of America (for institutional clients only) by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore and is registered with the U.S Securities and Exchange Commission as a registered investment adviser.

European Economic Area (for professional clients only) and Switzerland (for qualified investors only) by Eastspring Investments (Luxembourg) S.A., 26, Boulevard Royal, 2449 Luxembourg, Grand-Duchy of Luxembourg, registered with the Registre de Commerce et des Sociétés (Luxembourg), Register No B 173737.

United Kingdom (for professional clients only) by Eastspring Investments (Luxembourg) S.A. - UK Branch, 125 Old Broad Street, London EC2N 1AR.

Chile (for institutional clients only) by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore and is licensed and regulated by the Monetary Authority of Singapore under Singapore laws which differ from Chilean laws.

The afore-mentioned entities are hereinafter collectively referred to as **Eastspring Investments**.

This document is solely for information purposes and does not have any regard to the specific investment objective, financial situation and/or particular needs of any specific persons who may receive this document. This document is not intended as an offer, a solicitation of offer or a recommendation, to deal in shares of securities or any financial instruments. It may not be published, circulated, reproduced or distributed without the prior written consent of Eastspring Investments.

Investment involves risk. Past performance and the predictions, projections, or forecasts on the economy, securities markets or the economic trends of the markets are not necessarily indicative of the future or likely performance of Eastspring Investments or any of the funds managed by Eastspring Investments.

Information herein is believed to be reliable at time of publication. Where lawfully permitted, Eastspring Investments does not warrant its completeness or accuracy and is not responsible for error of facts or opinion nor shall be liable for damages arising out of any person's reliance upon this information. Any opinion or estimate contained in this document may subject to change without notice.

Eastspring Investments (excluding JV companies) companies are ultimately wholly-owned/indirect subsidiaries/associate of Prudential plc of the United Kingdom. Eastspring Investments companies (including JV's) and Prudential plc are not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America.



A member of Prudential plc (UK) 