Eastspring Investments – Asian Local Bond Fund

eastspring investments
A Prudential plc company

Market review

Global fixed-income markets came under renewed pressure in June as major central banks maintained a cautious, higher-for-longer policy stance amid persistent inflation concerns.

The Fed retained its benchmark policy rate at 3.50-3.75% at the June Federal Open Market Committee (FOMC) meeting, marking the fourth consecutive hold. Policymakers maintained a cautious, data-dependent stance as inflation remained elevated and energy prices stayed high due to the tensions in the Middle East. Kevin Warsh's first meeting as Fed chair emphasised the committee's commitment to restore price stability, with the policy statement highlighting solid economic activity, strong productivity growth and a resilient labour market.

The US two-year Treasury yield rose 13 bps to 4.17% at end-June, reflecting markets' repricing of near-term Fed policy amid sticky inflation and hawkish communications. In contrast, the 10-year Treasury yield edged down 3 bps to 4.47%, as long-term rates remained anchored by fiscal supply dynamics and ongoing growth concerns.

Middle East tensions and elevated energy prices disrupted Asia's export-driven economies in June, intensifying regional inflation pressures. Growth outlooks were revised lower across East and South Asia amid energy shocks and global uncertainties, with stagflation risks flagged if Middle East conflicts persist. Manufacturing performance was mixed, Japan showed resilience while South Korea and ASEAN softened. China's factory activity improved modestly, driven by AI-related exports. Taiwan remained strong on semiconductor demand, while India's momentum slowed.

Bangko Sentral ng Pilipinas raised rates 25 bps to 4.75% in June, citing inflation risks from oil, fertiliser and peso weakness, and signalled further tightening if needed. Bank of Indonesia (BI) raised its benchmark rate by 50 bps to 5.75%, the highest since April 2025, following hikes at unscheduled and scheduled meetings. BI also lifted facility rates by 50 bps, while keeping the reserve requirement ratio unchanged at 9.00%.

The Markit iBoxx Asian Local Bond Index declined 0.54% in USD terms in June. Indonesia and South Korea recorded the steepest declines, whereas the Philippines and Thailand posted the strongest gains.

Currency performance was mixed across the region, with most Asian currencies remaining under pressure, particularly the Korean won, Malaysian Ringgit and Thai Baht. The Indian rupee and the Philippine peso, however strengthened slightly in June.

Performance

In June, the Fund's duration positioning and spread exposure were key drivers of active returns. Carry income also made a meaningful contribution to overall returns. Underweight duration and currency positions in South Korea, together with exposure to USD-denominated debt, contributed positively during the month. An overweight position in the Singapore dollar and an underweight position in the Thai baht also added value. However, these gains were partially offset by an underweight position in the Hong Kong dollar, Indian Rupee and Indonesian Rupiah.

Strategy and outlook

Asian local bonds remained volatile and generally underperformed in June, as a hawkish repricing of the US Federal Reserve outlook and broad Asian currency weakness offset positive duration returns in selected markets. The Middle East conflict and oil-supply shock initially weighed on regional sentiment, particularly among energy-importing economies. However, the interim US–Iran peace agreement in mid-June and subsequent decline in oil prices towards pre-conflict levels provided some relief to inflation expectations, regional currencies and local rates. Performance remained differentiated: Chinese and Indian government bonds were relatively well supported by domestic liquidity and market-specific inflows, while Indonesia and the Philippines faced greater pressure from currency weakness, inflation concerns and external-balance risks.

Monetary-policy divergence across the benchmark markets widened further during the month. The BSP and BI raised policy rates by 25 basis points to address inflation and currency-stability concerns. In contrast, the RBI kept its repo rate unchanged with a neutral stance, while introducing measures to attract foreign capital and support Indian government bonds and the rupee. Meanwhile, the PBoC maintained accommodative liquidity conditions amidst weak growth and a volatile geopolitical landscape. Despite lower oil prices, regional central banks are likely to remain generally cautious given lingering inflation, currency and geopolitical risks. Additionally, idiosyncratic risks such as fiscal risks and political stability risks remain for certain markets.

Meanwhile, the Federal Reserve's hawkish shift led markets to price out the remaining rate cuts for 2026 and assign some probability to renewed tightening. While the US dollar faces medium-term structural headwinds, it is likely to remain strong in the near term, supported by US economic exceptionalism and carry support from higher Treasury yields and a hawkish Fed. That being said, we expect increased divergence in the performance of Asian local markets due to factors like structural flows and policy divergence. Hence, while we remain overall neutral on Asian currencies and duration, we prefer to express it via relative-value positions..

Top 10 overweights by issuer

Issuer (%)	Ending weights		
	Fund	Benchmark	Relative
KEPPEL LTD	4.0	0.0	4.0
NIPPON LIFE INSURANCE CO	3.7	-	3.7
CORPORACION ANDINA DE FOMENTO	3.2	0.0	3.2
SINGAPORE TECHNOLOGIES TELEMEDIA PTE LTD	2.5	-	2.5
BANGKOK BANK PUBLIC CO LTD (HONG KONG BRANCH)	2.4	-	2.4
VICINITY CENTRES RE LTD	2.1	0.0	2.0
CREDIT AGRICOLE SA	1.8	0.0	1.8
MAPLETREE TREASURY SERVICES LTD	1.7	0.0	1.7
HSBC HOLDINGS PLC	1.6	-	1.6
FUKOKU MUTUAL LIFE INSURANCE CO	1.6	-	1.6
Total	**24.5**	**0.1**	**24.4**

Top 10 underweights by issuer

Issuer (%)	Ending weights		
	Fund	Benchmark	Relative
KOREA (REPUBLIC OF)	6.6	15.2	-8.6
SINGAPORE (REPUBLIC OF)	2.4	10.3	-7.9
INDIA (REPUBLIC OF)	9.7	16.2	-6.4
THAILAND KINGDOM OF (GOVERNMENT)	6.8	12.0	-5.1
HOUSING & DEVELOPMENT BOARD	-	2.0	-2.0
HONG KONG SPECIAL ADMINISTRATIVE REGION OF THE PEOPLES REPUBLIC	-	0.9	-0.9
BANK OF KOREA	-	0.9	-0.9
INDONESIA (REPUBLIC OF)	11.1	11.9	-0.8
LAND TRANSPORT AUTHORITY	-	0.6	-0.6
MALAYSIA (GOVERNMENT)	12.8	13.3	-0.5
Total	**49.4**	**83.2**	**-33.8**

Performance attribution (one month)

%	Weighted return		Effects					
	Fund	BM	Carry	Curve	Spread	Currency	Other	Total
Total	-0.53	-0.84	0.12	0.11	0.13	0.11	-0.16	0.31

Statistics

Characteristics	Fund	Benchmark
Number of issues	192	1,346
Running yield (%)	5.3	4.5
Yield to maturity (%)	5.2	4.4
Yield to worst (%)	5.0	4.4
Average modified duration	7.3	7.2
Average credit rating*	A-	A

Additional notes

1. Government issuers may include quasi-sovereign issues.
2. Performance numbers are computed based on gross of all fees.
3. *Rating based on issue credit ratings assigned by external rating agencies (S&P, Moody's and Fitch). For the Eastspring Investments Unit Trusts - Fixed Income Plan Series 2, the highest rating is used in the event of split ratings.
4. #Best rating of external credit rating agencies.
5. Running yield refers to current yield which is calculated by dividing the annual coupon payment by the bond's market price
6. Portfolio and index weights based on average daily weights over the relevant period; Carry Effect: Reflects the impact of time passing on the bond price (income + pull to par). Curve Effect: Reflects the impact of yield curve movements on the bond price. Spread Effect: Reflects the impact of the movement of the bond spread measured against the reference risk-free yield curve. Currency Effect: Reflects the impact on the performance due to foreign currency assets and derivatives. Other effect: Reflects the impact on the performance due to the non-modelled assets, as well as impact of pricing residuals (pricing effects due to differences in pricing sources between the portfolio and benchmark), trading effects.
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Paying Agent: NPB-New Private Bank Ltd, Limmatquai 1/am Bellevue, 8024 Zurich

United Kingdom - Facility Agent

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