


Eastspring Investments – Asian High Yield Bond Fund

eastspring
investments

A Prudential plc company 

Market review

March was a positive month for Asian high yield bonds as the JP Morgan Asia Credit Non-Investment Grade Index gained 1.81%. Credit spreads continued to tighten while Treasury yields declined. US economic growth remained resilient with better than expected GDP data and expanding industrial activity.

As widely expected, the US Federal Reserve left the federal funds rate unchanged at a range of 5.25%-5.50% for the fifth consecutive meeting. Recent indicators suggest that the US economy was growing at a solid pace as GDP increased at an annualised rate of 3.4% in the fourth quarter of 2023, according to estimates from the Bureau of Economic Analysis. Meanwhile, manufacturing PMI from the Institute for Supply Management jumped 2.5 points to 50.3 in March. Over the month, yields on 5-year and 10-year US Treasury notes fell by 3 bps and 5 bps to 4.21% and 4.20% respectively.

China registered its sixth consecutive period of quarterly expansion in Q4 of 2023 although weakness in the property sector continued to weigh on the broader economic recovery. Consumer prices rose for the first time in six months as the CPI increased 0.7% year-on-year in February. The PBOC kept the one-year loan prime rate at 3.45% and the five-year loan prime rate at 3.95%.

The positive global growth backdrop was generally supportive of risk sentiment, leading to broad gains in the high yield sector. Pakistan sovereigns were the stand-out outperformer, as the IMF reached a staff-level agreement with authorities on the second review of Pakistan's stabilization program. Sri Lanka sovereign bonds also registered strong returns as the country made progress in talks with the IMF. Performance across credit sectors and industries was broadly positive, with industrials and real estate among the top performing corporate sectors. Among others, financials, metals & mining and utilities lagged peers.

Performance

Month-to-date: Among contributors, the overweights in Pakistan sovereign notes, as well as Indonesia consumer credit added to active returns. However, the underweights in Hong Kong financials and Philippine utilities weighed on relative performance.

Year-to-date: The Fund outperformed the benchmark, underpinned by the active gains recorded in January. A key positive contributor was the Fund's overweight and security selection within the Indonesian and Macau consumer sectors. Additionally, the overweight in Pakistan sovereign bonds also added to the outperformance. However, the outperformance was mitigated somewhat by allocations in Indonesian and Hong Kong real estate.

Strategy and outlook

Economic activity in 2024 has been stronger than expected. Labour markets in the US is displaying a healthy pace of hiring, household consumption is upbeat while the manufacturing sector seems to be bottoming out and at the point of reaccelerating. In addition, the speed at which inflation has moderated in recent months has been encouraging. Yet the global economy still faces moderate headwinds from geopolitical tensions, climate change and trade fragmentation. Going forward, policy makers will have to navigate the path towards less restrictive levels with progress likely to be data dependent.

We remain constructive on Asia's longer term growth prospects as the region has established an increasingly important position as the world's manufacturing and trade hub. Larger economies such as Indonesia and India will continue to drive regional growth backed by sturdy domestic demand and higher capital expenditure. In the near term, if a higher-for-longer theme returns, we may see more distressed issues and credit spreads could move wider in response. We are mindful of the risks going forward and continue to be opportunistic in our issuer preferences. Against such a backdrop, we look for income enhancement opportunities as well as bouts of volatility to take on tactical positions.

Top 10 overweights by issuer

Issuer (%)	Ending weights		
	Fund	Benchmark	Relative
CENTRAL PLAZA DEVELOPMENT LTD	3.4	0.7	2.7
HUARONG FINANCE 2019 CO LTD	2.6	0.8	1.9
HSBC HOLDINGS PLC	1.7	-	1.7
MEITUAN	1.3	-	1.3
SAN MIGUEL CORPORATION	1.7	0.4	1.3
GREENTOWN CHINA HOLDINGS LTD	1.5	0.3	1.2
WYNN MACAU LTD	4.0	2.9	1.2
GMR HYDERABAD INTERNATIONAL AIRPORT LTD	1.3	0.2	1.1
INDIA CLEAN ENERGY HOLDINGS	1.4	0.3	1.1
ZHENJIANG CULTURAL TOURISM INDUSTRY GROUP CO LTD	1.1	-	1.1
Total	20.1	5.5	14.6

Top 10 underweights by issuer

Issuer (%)	Ending weights		
	Fund	Benchmark	Relative
INDUSTRIAL AND COMMERCIAL BANK OF CHINA LTD	-	4.3	-4.3
BANK OF COMMUNICATIONS CO LTD	-	2.0	-2.0
SMC GLOBAL POWER HOLDINGS CORP	-	1.8	-1.8
BANGKOK BANK PUBLIC CO LTD (HONG KONG BRANCH)	-	1.3	-1.3
STANDARD CHARTERED PLC	2.8	4.1	-1.2
SINGAPORE AIRLINES LTD	-	1.1	-1.1
NWD FINANCE (BVI) LTD	0.9	1.9	-1.0
CHINA CITIC BANK INTERNATIONAL LTD	-	0.9	-0.9
LONGFOR GROUP HOLDINGS LTD	0.1	0.9	-0.8
JOLLIBEE WORLDWIDE PTE LTD	-	0.7	-0.7
Total	3.8	19.0	-15.3

Performance attribution (one month)

%	Weighted return		Effects					Total
	Fund	BM	Carry	Curve	Spread	Currency	Other	
Total	-0.84	-0.62	-0.01	-0.03	-0.12	-0.01	-0.05	-0.22

Statistics

Characteristics	Fund	Benchmark
Number of issues	186	273
Running yield (%)	5.6	6.3
Yield to maturity (%)	10.3	9.5
Yield to worst (%)	10.1	9.5
Average modified duration	2.7	2.5
Average credit rating*	BB-	BB-

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. Carry Effect: Reflects the impact of time passing on the bond price (Rolldown + Carry). Curve Effect: Reflects the impact of yield curve movements on the bond price. Spread Effect: Reflects the impact of the total movement of the interbank swap spread curve (for corporate bonds) and the impact due to the variation of the specific credit spread of the bonds. Currency Effect: Reflects the impact on the performance due to foreign currency assets. Other effect: Reflects the impact on the performance due to the non-modelled assets, as well as impact of pricing (pricing effects due to differences in pricing sources between the portfolio and benchmark) and trading effects.
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