


Eastspring Investments – Asian High Yield Bond Fund

eastspring
investments

A Prudential plc company 

Market review

In August, there was a marked upturn in the global bond markets, with US 10-year Treasury yields decreasing by 13 basis points to 3.90%, driven by subdued inflation and a faltering labour market. The gap between the 10-year and 2-year US Treasury yields shifted neutral for the first time since July 2022, moving away from the negative twenty basis points seen at the end of July.

At the annual Jackson Hole economic symposium, Fed Chairman Jerome Powell suggested that the central bank might lower interest rates at its September meeting, citing a cooling labour market and a weaker July jobs report. He expressed increased confidence that inflation is moving towards the 2% target, indicating that a shift to a less restrictive monetary policy may be appropriate.

The JP Morgan Asia Credit Non-Investment Grade Bond Index gained 0.48% in August, delivering its fourth consecutive month of positive return. High yield corporates outperformed sovereigns and quasi-sovereign bonds. Index credit spreads declined to 624 bps, reaching the lowest level since 2021. Across country constituents, Philippines, Malaysia and Thailand were the best performers while Sri Lanka and Singapore lagged peers. Among corporates, infrastructure and TMT led peers while industrials and oil & gas lagged.

Performance

Month-to-date: Security selections in the real estate sector contributed to the Fund's outperformance. The Fund's overweights in India utility high yield corporates also contributed to active returns. Meanwhile, the underweights to the financial sector mitigated relative performance.

Year-to-date: The Fund's overweights in high yield sovereign bonds and consumer credits contributed to relative performance. Detractors include the underweights in financials, as well as metal & mining sectors.

Strategy and outlook

The US economy has seen slower inflation and weaker employment against the backdrop of higher interest rates. Rate hikes between March 2022 and July 2023 have tamed inflation and cooled the economy enough for the Federal Reserve to consider cutting interest rates now. The pace and magnitude of rate cuts is likely to depend on US labour market conditions. The Fed has room to ease policy and potentially engineer a soft landing.

With a slower growth macroeconomic outlook, a combination of favourable yields and idiosyncratic issuer performance dispersion may create opportunities in the high yield market. With credit spreads at such tight levels, we are mindful that sentiment could turn quickly at current valuations, and would continue to be opportunistic in our credit selections. We remain alert to potential market vulnerabilities in the present market environment, preferring issuers with strong balance sheets and good liquidity profiles.

Top 10 overweights by issuer

Issuer (%)	Ending weights		
	Fund	Benchmark	Relative
CENTRAL PLAZA DEVELOPMENT LTD	3.5	1.0	2.5
NWD (MTN) LTD	2.5	0.9	1.6
HUARONG FINANCE 2019 CO LTD	2.1	0.6	1.5
FAR EAST HORIZON LTD	1.4	-	1.4
SAN MIGUEL CORPORATION	1.6	0.4	1.3
GREENTOWN CHINA HOLDINGS LTD	1.6	0.3	1.2
PB INTERNATIONAL BV	1.2	-	1.2
INDIA CLEAN ENERGY HOLDINGS	1.4	0.3	1.1
ROWEN INTERNATIONAL CO LTD	1.1	-	1.1
JSW INFRASTRUCTURE LTD	1.4	0.3	1.1
Total	17.6	3.7	13.9

Top 10 underweights by issuer

Issuer (%)	Ending weights		
	Fund	Benchmark	Relative
INDUSTRIAL AND COMMERCIAL BANK OF CHINA LTD	-	4.3	-4.3
STANDARD CHARTERED PLC	1.9	4.2	-2.3
BANK OF COMMUNICATIONS CO LTD	-	2.0	-2.0
SAN MIGUEL GLOBAL POWER HOLDINGS CORP	-	1.8	-1.8
BANGKOK BANK PUBLIC CO LTD (HONG KONG BRANCH)	-	1.4	-1.4
SINGAPORE AIRLINES LTD	-	1.2	-1.2
LONGFOR GROUP HOLDINGS LTD	0.1	1.1	-1.0
CHINA CITIC BANK INTERNATIONAL LTD	-	0.9	-0.9
VANKE REAL ESTATE (HONG KONG) CO LTD	-	0.8	-0.8
DELHI INTERNATIONAL AIRPORT LTD	-	0.8	-0.8
Total	2.0	18.3	-16.3

Performance attribution (one month)

%	Weighted return		Effects					Total
	Fund	BM	Carry	Curve	Spread	Currency	Other	
Total	0.68	0.48	-0.04	-0.02	0.09	0.02	0.15	0.20

Statistics

Characteristics	Fund	Benchmark
Number of issues	189	261
Running yield (%)	5.7	5.7
Yield to maturity (%)	9.2	8.2
Yield to worst (%)	8.8	8.0
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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Paying Agent: NPB-New Private Bank Ltd, Limmatquai 1/am Bellevue, 8024 Zurich

United Kingdom - Facility Agent

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