


Eastspring Investments – Asian High Yield Bond Fund

eastspring
investments

A Prudential plc company 

Market review

Asian high yield bonds finished the month with gains in February. The JP Morgan Asia Credit Non-Investment Grade Bond Index rallied as credit spreads narrowed over the month.

Latest minutes from the Federal Open Market Committee showed that Fed members were highly attentive to inflation risks and focused on lowering inflation to its long-term 2 percent target. Non-farm payrolls rose more than expected with robust job gains seen in the retail trade and healthcare industries. Consumer prices exceeded expectations after rising 3.2% year-on-year, backed by higher food prices. Yields on 2-year, 5-year and 10-year US Treasury notes climbed by 41bps, 41bps and 34bps to 4.62%, 4.24% and 4.25% respectively.

China's manufacturing PMI stayed below 50 at 49.1 in February as most factories were closed during the Lunar New Year holidays. The 5-year loan prime rate, which commercial banks use to price mortgages, was reduced by a record 25 bps to 3.95%. In Hong Kong, the government announced a largely accommodative FY2024-2025 budget as they lifted demand-side residential property measures and relaxed mortgage rules.

Sovereign high yield bonds witnessed a strong rally led by Sri Lanka and Pakistan notes. Sentiment improved as the Sri Lankan president said that a debt restructuring framework could be implemented within the first half of 2024. The country has made progress in debt restructuring since its bailout agreement with the International Monetary Fund (IMF) last year. In Pakistan, despite an unexpected election result, major political parties reached an agreement to form a coalition government. Within the corporate sector, high yield real estate and oil & gas bonds were up by 4.5% and 2.9% respectively.

Performance

Month-to-date: Among credit positionings, the underweights in Hong real estate, as well as Hong Kong financial credits detracted, given the sectors' rally over the month. However, the Fund's overweight in Indonesia was a positive contributor. Good credit selection within the Indonesian consumer and Indonesian real estate sectors helped to narrow the underperformance.

Year-to-date: A key positive contributor was the Fund's overweight and security selection within the Indonesian and Macau consumer sectors. Additionally, the overweight in Indian utilities also added to the outperformance. However, the gain in active returns was lowered somewhat by negative contribution from our overweight in Indonesian and Hong Kong real estate positions.

Strategy and outlook

Most central banks are likely to be at the end of their respective rate-hiking cycles, with the US Federal Reserve keeping its key rate steady for the recent consecutive meetings. Global growth is likely to slow over the following months because of the lagged impact of aggressive monetary tightening while inflation appears to be moving in the right direction. Yet risk assets have moved higher, leading to an expanding disconnect between the state of the economy and market prices. While the probability for a soft landing has increased, market participants seem to be pricing in a more optimistic scenario. With the US presidential election coming up later this year, commercial real estate stresses, tensions between China and the US, an ongoing conflict in the Middle East and Ukraine, investors can still expect a bumpy path ahead.

With a slower growth macroeconomic outlook, a combination of favourable yields and idiosyncratic issuer performance dispersion may help to create opportunities in the high yield market. Lower Treasury yields and a greater risk appetite should help lift the 2024 outlook as highly geared issuers with near-term maturities would find the capital markets more receptive to riskier issues. Yet if the 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. We remain alert to potential market vulnerabilities and continue to be selective in the present heightened interest rate regime, paying attention to the strength of balance sheets and mindful that sentiment can shift quickly.

Top 10 overweights by issuer

Issuer (%)	Ending weights		
	Fund	Benchmark	Relative
CENTRAL PLAZA DEVELOPMENT LTD	3.1	0.7	2.4
UNITED STATES TREASURY	1.5	-	1.5
HUARONG FINANCE 2019 CO LTD	2.5	1.1	1.3
MEDCO LAUREL TREE PTE LTD	1.3	-	1.3
GMR HYDERABAD INTERNATIONAL AIRPORT LTD	1.5	0.2	1.3
MEITUAN	1.2	-	1.2
HSBC HOLDINGS PLC	1.2	-	1.2
SAN MIGUEL CORPORATION	1.5	0.4	1.2
MELCO RESORTS FINANCE LTD	4.1	2.9	1.2
GREENTOWN CHINA HOLDINGS LTD	1.4	0.3	1.1
Total	19.2	5.6	13.6

Top 10 underweights by issuer

Issuer (%)	Ending weights		
	Fund	Benchmark	Relative
INDUSTRIAL AND COMMERCIAL BANK OF CHINA LTD	-	4.4	-4.4
SMC GLOBAL POWER HOLDINGS CORP	-	2.3	-2.3
BANK OF COMMUNICATIONS CO LTD	-	2.0	-2.0
BANGKOK BANK PUBLIC CO LTD (HONG KONG BRANCH)	-	1.4	-1.4
NWD FINANCE (BVI) LTD	0.8	2.0	-1.2
CHINA CITIC BANK INTERNATIONAL LTD	-	0.9	-0.9
FORTUNE STAR BVI LTD	0.2	1.1	-0.9
BANK NEGARA INDONESIA PERSERO TBK PT	-	0.8	-0.8
SINGAPORE AIRLINES LTD	-	0.8	-0.8
VIETNAM (SOCIALIST REPUBLIC OF)	-	0.7	-0.7
Total	1.1	16.4	-15.3

Performance attribution (one month)

%	Weighted return		Effects					Total
	Fund	BM	Carry	Curve	Spread	Currency	Other	
Total	2.07	2.21	0.03	0.07	-0.19	0.00	-0.05	-0.14

Statistics

Characteristics	Fund	Benchmark
Number of issues	179	273
Running yield (%)	5.6	6.2
Yield to maturity (%)	10.0	9.3
Yield to worst (%)	9.8	9.4
Average modified duration	2.5	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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United Kingdom - Facility Agent

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