

Eastspring Investments – Asian High Yield Bond Fund

eastspring
investments

A Prudential plc company 

Market review

Asian high yield bonds started the year on a positive note as the JP Morgan Asia Credit Non-Investment Grade Index (JACI) registered a gain of 2.67% on the back of higher spread returns.

The Federal Open Market Committee maintained the target federal funds rate in a range of 5.25% to 5.50%. Consumer prices in the US exceeded estimates after rising 3.1% from a year ago in January. US unemployment rate maintained at 3.7% while the Bureau of Economic Analysis reported that fourth quarter GDP grew at an annual pace of 3.3%. US Treasury yields saw little movement as yields on 2-year, 5-year and 10-year notes remained nearly unchanged at 4.21%, 3.84% and 3.91% respectively.

China's GDP growth of 5.2% fell short of market expectations as a weak property market and low business confidence weighed on economic activity. In January, manufacturing PMI stayed in contractionary territory at 49.2. Consumer prices also declined by 0.8% YoY in January according to the National Bureau of Statistics. Meanwhile, the People's Bank of China reduced the reserve requirement ratio by 50 bps to improve lending and support the economy.

Index gains were led by high yield sovereign bonds, followed by quasi-sovereign and corporate issues. Pakistan and Sri Lanka sovereign notes ended the month firmer. Markets were buoyed on higher FX reserves, while the State Bank of Pakistan held key rates for the fifth consecutive policy meeting despite the recent rise in inflation. Prices of Sri Lankan bonds rallied on expectations that the country would reach a deal with commercial creditors, which is a pre-condition for IMF lending. During the month, credit rating agencies downgraded China's large four asset management companies, reflecting their financial underperformance and reduced government support expectations. Metal & mining as well as real estate corporates were the top performing corporate credits, with gains seen across all high yield sectors. Within the quasi-sovereign space, China quasi-sovereigns lagged behind peers.

Performance

The Fund's outperformance in January was mostly attributed to the overweight in Indonesian real estate and Indian utility corporate credits. On the other hand, the underweights in the Indian metals & mining and Philippine utility sectors detracted from relative performance.

Strategy and outlook

Economic forecasters have raised their estimates for global growth, buoyed by a more benign inflationary environment and rate cut optimism. Hopes of a soft landing have been supported by better-than-expected economic data, declining inflation and the strong performance of risk assets since October 2023. The International Monetary Fund (IMF) lifted its 2024 global growth projection to 3.1% in January 2024 from 2.9% in October 2023, citing better than expected output in the US. In addition, headline inflation is projected to decline, on account of restrictive monetary policy and lower commodity prices. That said, given the ongoing conflict in Ukraine, coupled with the geopolitical events in the Middle East and with the upcoming US presidential race coming up, the year is unlikely to be plain sailing as the economic and geopolitical landscape could potentially change.

Asian corporates are entering into a growth slowdown phase with a manageable cash and debt profile, providing some cushion against potential softening in earnings. Issuers are expected to manage their balance sheets conservatively and maintain financial discipline given the high interest rate environment. Our high yield credit selection approach is consistent with our belief that investment opportunities can be captured by identifying cyclical trends as well as value opportunities caused by short-term mispricing of securities relative to fundamentals. In mid cycles, swings in investor sentiment also offer significant investment opportunities in the short to medium term where market prices overshoot or undershoot from the longer-term trend.

Top 10 overweights by issuer

Issuer (%)	Ending weights		
	Fund	Benchmark	Relative
CENTRAL PLAZA DEVELOPMENT LTD	3.1	0.7	2.4
HUARONG FINANCE 2019 CO LTD	2.6	1.1	1.5
GMR HYDERABAD INTERNATIONAL AIRPORT LTD	1.5	0.2	1.3
MEDCO LAUREL TREE PTE LTD	1.3	-	1.3
HSBC HOLDINGS PLC	1.2	-	1.2
MELCO RESORTS FINANCE LTD	4.1	2.9	1.2
SAN MIGUEL CORPORATION	1.5	0.4	1.2
GREENTOWN CHINA HOLDINGS LTD	1.4	0.3	1.1
INDIA CLEAN ENERGY HOLDINGS	1.3	0.3	1.0
UNITED STATES TREASURY	1.0	-	1.0
Total	19.0	5.9	13.2

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	-	2.2	-2.2
BANK OF COMMUNICATIONS CO LTD	-	2.1	-2.1
BANGKOK BANK PUBLIC CO LTD (HONG KONG BRANCH)	-	1.4	-1.4
NWD FINANCE (BVI) LTD	0.8	2.0	-1.1
CHINA CITIC BANK INTERNATIONAL LTD	-	0.9	-0.9
FORTUNE STAR BVI LTD	0.3	1.1	-0.8
SINGAPORE AIRLINES LTD	-	0.8	-0.8
BANK NEGARA INDONESIA PERSERO TBK PT	-	0.8	-0.8
VIETNAM (SOCIALIST REPUBLIC OF)	-	0.8	-0.8
Total	1.1	16.3	-15.2

Performance attribution (one month)

%	Weighted return		Effects					Total
	Fund	BM	Carry	Curve	Spread	Currency	Other	
Total	3.32	2.67	0.04	-0.02	0.59	-0.01	0.06	0.66

Statistics

Characteristics	Fund	Benchmark
Number of issues	178	276
Running yield (%)	5.9	6.3
Yield to maturity (%)	10.3	9.6
Yield to worst (%)	10.1	9.8
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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