


# Eastspring Investments – Asian High Yield Bond Fund



A Prudential plc company 

## Market review

In July, global bond markets experienced a notable increase, with US 10-year Treasury yields falling as manufacturing activity slowed and consumer confidence weakened. The yield curve steepened, as the difference between the 10-year and 2-year US Treasury yields narrowed to around negative 20 basis points (bps) a decrease from the negative 38 bps seen in June, marking the smallest gap since January 2024.

The Federal Reserve opted to maintain policy rates at a 23-year high of 5.25%-5.50% in July, marking the eighth consecutive time rates have been held steady. The Fed adjusted its outlook, suggesting potential rate cuts in September and citing progress towards lower inflation. Chairman Jerome Powell highlighted that a "soft landing" appeared achievable, as current data does not suggest an economy that is either weakening or overheating. With inflation falling for the third consecutive month and a minor increase in the unemployment rate to 4.3%, there is growing optimism for a rate reduction in the second half of the year.

The US 10-year Treasury yield dropped to its lowest point since March. Two-year US Treasury yields decreased by 50 basis points, finishing at 4.26%, while ten-year US Treasuries saw a fall of 37 basis points, closing the month at 4.03%. In general, Treasury yields fell across the curve, and the US dollar weakened against major developed-market currencies.

The JP Morgan Asia Credit Non-Investment Grade Bond Index delivered its third straight month of gains. Treasury returns exceeded spread returns. Index credit spreads declined and continued to trade around their lowest level since 2021. In addition, high yield corporates outperformed sovereign and quasi-sovereign bonds over the month. Across countries, Singapore, Hong Kong and India topped performance while Philippines and Macau lagged. Across sectors, real estate, metals & mining and sovereign bonds were the best performers.

## Performance

Month-to-date: In July, the underweights to metals & mining and Hong Kong real estate detracted from relative performance. Other detractors include the underweights in Thai financials. Elsewhere, the overweights in India utility high yield corporates contributed to active returns. Further, the overweights to the consumer sector contributed positively.

Year-to-date: The Fund's relative returns were weighed down by spread effects, which were partially offset by positive carry effects. The underweights in the financial sector, such as Hong Kong and Thai financial high yield corporates detracted from relative performance. On the other hand, the overweights in Pakistan sovereigns and consumer credits contributed to returns.

## Strategy and outlook

Recent market volatility has not derailed expectations of a soft-landing scenario given that the Federal Reserve has significant room to cut rates and cushion a deeper recession. However, if the Fed appears to be late in its action, a deeper slowdown may emerge, despite healthy consumer and corporate balance sheets.

In the present macroeconomic and credit environment, where the trajectory for growth remains uneven, the portfolio will focus primarily on security selection, participating in new issues which are attractively priced, as well as switching out of credits which are expensive. The Fund will continue to invest in sectors which we are comfortable with, while looking for opportunities among credits which may have cheapened as a result of market noises. Meanwhile, within High Yield we continue to prefer sovereign high yield to corporate this cycle. Key to our thinking is that the discounted prices in many instances mean that there is potentially more upside in this market, especially if the refinance wave continues to come earlier than markets are expecting.

## Top 10 overweights by issuer

Issuer (%)	Ending weights		
	Fund	Benchmark	Relative
CENTRAL PLAZA DEVELOPMENT LTD	3.4	1.0	2.4
HUARONG FINANCE 2019 CO LTD	2.1	0.5	1.5
SAN MIGUEL CORPORATION	1.6	0.4	1.3
GREENTOWN CHINA HOLDINGS LTD	1.5	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
MEDCO LAUREL TREE PTE LTD	1.1	-	1.1
JSW INFRASTRUCTURE LTD	1.3	0.3	1.1
ZHENJIANG CULTURAL TOURISM INDUSTRY GROUP CO LTD	1.0	-	1.0
<b>Total</b>	<b>15.7</b>	<b>2.8</b>	<b>13.0</b>

## 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
SAN MIGUEL GLOBAL POWER HOLDINGS CORP	-	1.8	-1.8
STANDARD CHARTERED PLC	2.4	4.1	-1.8
BANGKOK BANK PUBLIC CO LTD (HONG KONG BRANCH)	-	1.3	-1.3
SINGAPORE AIRLINES LTD	-	1.1	-1.1
LONGFOR GROUP HOLDINGS LTD	0.1	1.1	-1.0
VANKE REAL ESTATE (HONG KONG) CO LTD	-	0.8	-0.8
CHINA CITIC BANK INTERNATIONAL LTD	-	0.8	-0.8
DELHI INTERNATIONAL AIRPORT LTD	-	0.7	-0.7
<b>Total</b>	<b>2.5</b>	<b>18.2</b>	<b>-15.7</b>

## Performance attribution (one month)

%	Weighted return		Effects					Total
	Fund	BM	Carry	Curve	Spread	Currency	Other	
<b>Total</b>	1.30	1.47	-0.02	0.01	-0.25	0.00	0.08	-0.17

## Statistics

Characteristics	Fund	Benchmark
Number of issues	194	263
Running yield (%)	5.6	5.9
Yield to maturity (%)	9.1	8.3
Yield to worst (%)	8.8	8.2
Average modified duration	2.6	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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