

# Eastspring Investments – Asian High Yield Bond Fund

eastspring  
investments

A Prudential plc company 

## Market review

In June, global bond markets saw a modest rise as US 10-year Treasury yields dipped, signalling a potential for Fed rate cuts later in the year amid softening inflation. Political uncertainty spurred a "flight to quality," widening credit spreads as investors favoured the safety of US Treasuries, boosting sovereign bonds over riskier assets. Against this backdrop, the JP Morgan Asia Credit-Non-Investment Grade Index rose by 1.32%.

At the June meeting, the Federal Reserve unanimously voted to keep policy rates steady at 5.25%-5.50%, marking the seventh hold in a row. The Fed revised its forecast, scaling back expected rate cuts from three to one for the year, in response to persistent inflation affecting US businesses and consumers into early 2024. Fed Chair Jerome Powell emphasized the prevailing economic uncertainty, underscoring the necessity of sustained positive inflation data prior to considering rate cuts. A dip in inflation and a rise in the unemployment rate to 4%, alongside a decrease in equipment spending, indicated signs of slowing.

US Treasuries experienced a decline as investors awaited further developments to gauge the economic and monetary policy outlook. The Federal Reserve's stance also shifted, with expectations now leaning towards a single rate cut rather than multiple reductions as previously anticipated. Over the month, the yield on two-year USTs decreased by 12 basis points to 4.75%, while the yield on ten-year USTs dropped by 10 basis points to 4.40%.

Asian high yield bonds posted positive returns in June. High yield corporates outperformed sovereign and quasi-sovereign bonds over the month. Across countries, Singapore, Hong Kong and India topped performance while Korea and Sri Lanka lagged. Across sectors, real estate, metals & mining and utilities topped performance.

## Performance

Month-to-date: In June, the overweight to Indonesia real estate was a key positive contributor to the fund's relative performance. In addition, the overweight to the Indian utilities and Macau consumer sectors added to relative performance during the month. Among detractors, the underweight to the Philippine utilities and Hong Kong financials contributed negatively to relative returns.

Year-to-date: For the first half of the year, the Fund outperformed the benchmark. The overweight to consumer corporates as well as Pakistan sovereign bonds contributed to relative performance. Detractors include the Fund's underweights in Philippine utilities and Hong Kong financials.

## Strategy and outlook

As we move into the second half of the year, elevated geopolitical tensions, softer inflation and lower interest rates are on the cards. The US is displaying signs of slower economic activity after witnessing strong growth in 2023. US consumers appear to have depleted their excess savings during the pandemic while unemployment has been steadily rising. In China, the economic recovery appears to be underway but progress has been hampered by weak domestic consumption, lingering concerns in the property sector and a weak labour market.

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.

## Top 10 overweights by issuer

Issuer (%)	Ending weights		
	Fund	Benchmark	Relative
CENTRAL PLAZA DEVELOPMENT LTD	3.5	1.0	2.5
HUARONG FINANCE 2019 CO LTD	2.6	0.8	1.9
SAN MIGUEL CORPORATION	1.7	0.4	1.3
PB INTERNATIONAL BV	1.2	-	1.2
GREENTOWN CHINA HOLDINGS LTD	1.5	0.3	1.2
INDIA CLEAN ENERGY HOLDINGS	1.4	0.3	1.1
ROWEN INTERNATIONAL CO LTD	1.1	-	1.1
ICICI BANK UK PLC	1.1	-	1.1
JSW INFRASTRUCTURE LTD	1.4	0.3	1.1
ZHENJIANG CULTURAL TOURISM INDUSTRY GROUP CO LTD	1.0	-	1.0
<b>Total</b>	<b>16.5</b>	<b>3.0</b>	<b>13.5</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
BANGKOK BANK PUBLIC CO LTD (HONG KONG BRANCH)	-	1.3	-1.3
STANDARD CHARTERED PLC	2.8	4.1	-1.3
SINGAPORE AIRLINES LTD	-	1.1	-1.1
NWD FINANCE (BVI) LTD	1.0	2.2	-1.1
LONGFOR GROUP HOLDINGS LTD	0.1	1.1	-1.0
VANKE REAL ESTATE (HONG KONG) CO LTD	-	0.9	-0.9
CHINA CITIC BANK INTERNATIONAL LTD	-	0.9	-0.9
<b>Total</b>	<b>4.0</b>	<b>19.7</b>	<b>-15.7</b>

## Performance attribution (one month)

%	Weighted return		Effects					Total
	Fund	BM	Carry	Curve	Spread	Currency	Other	
<b>Total</b>	1.42	1.32	0.04	0.00	0.46	0.00	-0.38	0.11

## Statistics

Characteristics	Fund	Benchmark
Number of issues	194	263
Running yield (%)	5.6	6.1
Yield to maturity (%)	9.7	8.8
Yield to worst (%)	9.4	8.7
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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Eastspring Investments (Luxembourg) SA, 26 Boulevard Royal, L-2449, Luxembourg

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**Paying Agent:** NPB-New Private Bank Ltd, Limmatquai 1/am Bellevue, 8024 Zurich

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Eastspring Investments (Luxembourg) S.A. - UK Branch, 1 Angel Court, London EC2R 7AG

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**Eastspring Investments (Singapore) Limited (UEN. 199407631H)**

7 Straits View  
#09-01 Marina One East Tower  
Singapore 018936  
Tel: +65 6349 9711

**Eastspring Investments (Luxembourg) S.A.**

26 Boulevard Royal  
L-2449 Luxembourg  
Grand Duchy of Luxembourg  
Tel: +352 22 99 99 5763

**Eastspring Investments (Hong Kong) Limited**

13/F, One International Finance Centre  
1 Harbour View Street  
Central, Hong Kong  
Tel: (852) 2868 5330

**UK Branch**

1 Angel Court  
London  
EC2R 7AG  
Email: [info.europe@eastspring.com](mailto:info.europe@eastspring.com)

[eastspring.com](http://eastspring.com)