


Eastspring Investments – Asian High Yield Bond Fund



A Prudential plc company 

Market review

In May, global bond markets experienced modest gains, with US Treasury yields falling after US payroll figures fell short of expectations and inflation showed a slight slowdown. Inflation rates aligned with market predictions, suggesting that consumer prices are increasing at a slower rate. Despite tighter credit conditions, such as elevated interest rates, risk assets outperformed sovereign bonds.

Against this backdrop, the Asian high yield (HY) bond market saw gains, with the JPMorgan Asia Credit-Non-Investment Grade Index (JACI Non-IG) climbing 2.75% over the month.

In the latter half of May, the US Treasury (UST) yield curve inverted, with two-year Treasury notes yielding 48 basis points more than their 10-year counterparts. This inversion reflected investor unease regarding the US economy's outlook as the Federal Reserve postponed rate cuts. Throughout the month, the yield on two-year USTs decreased by 16 basis points to 4.87%, while the yield on ten-year USTs dropped by 18 basis points to 4.50%.

Asian high yield bonds rallied in May after a pullback in the prior month. Credit spreads on the JACI Non-IG Index declined to 657 bps, reaching the lowest level since 2021. All major segments within the asset class ended the month positively. Sri Lanka, Maldives and Pakistan topped performance within the sovereign sector. Among corporate issuers, real estate, metals & mining and Diversified names registered the highest returns. On the other hand, financial and infrastructure corporate issuers lagged peers.

Performance

Month-to-date: Overall gains were overshadowed by the Fund's detractors, such as the underweights in Hong Kong financials and Indian metal miners. Security selections in consumer credits contributed positively. Relative returns were also boosted by the overweights in Sri Lanka and Pakistan sovereign bonds.

Year-to-date: The overweights in consumer corporates as well as Pakistan sovereign bonds contributed to relative performance. Detractors include the Fund's underweights in the Philippine utilities and Hong Kong financials.

Strategy and outlook

Economic growth stayed subdued in most economies with monetary policy settings remaining restrictive overall. Growth in the United States has eased in the first quarter but remained firm following very robust growth last year. Recent data showed that inflation continues to moderate but at a more gradual pace than previously expected.

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 and moving into new issues which have weakened. We also remain tactically positioned in select local currency bonds such as INR for better higher carry and its generally better fundamental outlook among peers in Asia.

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	2.6	0.7	1.8
GOLOMT BANK OF MONGOLIA	1.8	0.2	1.6
SAN MIGUEL CORPORATION	1.6	0.4	1.3
PB INTERNATIONAL BV	1.2	-	1.2
GREENTOWN CHINA HOLDINGS LTD	1.5	0.3	1.2
WYNN MACAU LTD	4.0	2.8	1.1
GMR HYDERABAD INTERNATIONAL AIRPORT LTD	1.3	0.2	1.1
INDIA CLEAN ENERGY HOLDINGS	1.3	0.3	1.1
ROWEN INTERNATIONAL CO LTD	1.1	-	1.1
Total	19.8	6.0	13.8

Top 10 underweights by issuer

Issuer (%)	Ending weights		
	Fund	Benchmark	Relative
INDUSTRIAL AND COMMERCIAL BANK OF CHINA LTD	-	4.2	-4.2
BANK OF COMMUNICATIONS CO LTD	-	2.0	-2.0
SMC GLOBAL POWER HOLDINGS CORP	-	1.7	-1.7
BANGKOK BANK PUBLIC CO LTD (HONG KONG BRANCH)	-	1.3	-1.3
STANDARD CHARTERED PLC	2.8	4.0	-1.3
SINGAPORE AIRLINES LTD	-	1.1	-1.1
NWD FINANCE (BVI) LTD	0.9	2.0	-1.1
FWD GROUP HOLDINGS LTD	0.2	1.2	-1.0
LONGFOR GROUP HOLDINGS LTD	0.1	1.0	-0.9
VANKE REAL ESTATE (HONG KONG) CO LTD	-	0.9	-0.9
Total	4.0	19.6	-15.6

Performance attribution (one month)

%	Weighted return		Effects					Total
	Fund	BM	Carry	Curve	Spread	Currency	Other	
Total	2.12	2.75	0.05	0.03	-0.86	0.01	0.14	-0.63

Statistics

Characteristics	Fund	Benchmark
Number of issues	187	269
Running yield (%)	5.6	6.1
Yield to maturity (%)	9.6	8.9
Yield to worst (%)	9.3	8.9
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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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

eastspring.com