2023 Investment Outlook – Asia Fixed Income: High Yield

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Certain high yield corporates (ex-China property) are expected to remain resilient

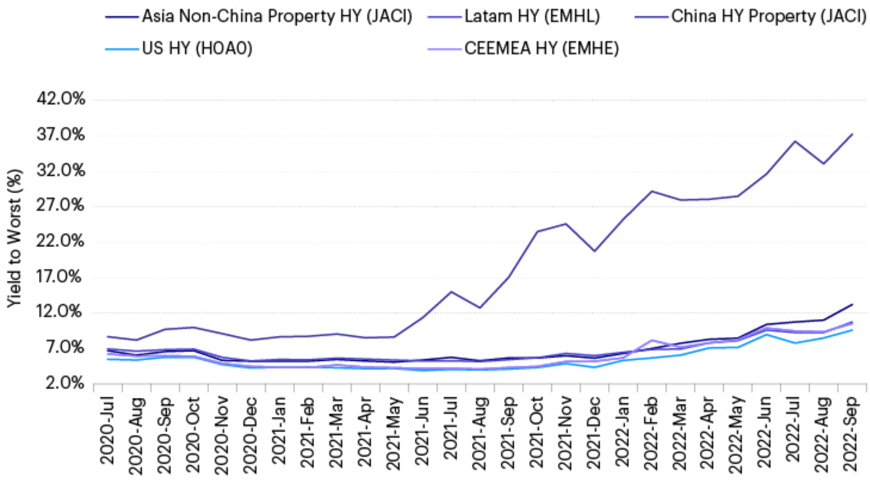
Asia high yield (HY) credit has delivered its worst performance year-to-date among all the sub asset classes within global fixed income. China high yield, the biggest performance contributor, has had a negative return of 37.1% over the past 9 months thereby dragging down Asia HY year-to-date performance down to -23.7% as of end-September.[1] Sustained tighter credit conditions for China property developers and consequently, defaults in their offshore USD bonds, amid the global hawkish backdrop, are the main reasons for this weak performance.

Coming into 2023, notwithstanding the hawkish central bank decisions that may bring unfavorable technicals and cause Asia HY to reprice further, we expect Asia HY corporates (excluding China property) to show certain resilience amid the turbulence. This is mainly backed by fundamentals: major corporates do not have excessive debt in the hard currency space. On top of this, the maturity wall in the next 12 months is relatively manageable. We expect that commodity exporting issuers will maintain a continuously improving credit profile. While China property developers could face additional challenges as they combat the current liquidity crunch, we do not expect China's government policies to add any material tailwinds in the short term. Defaults may reappear, especially among private property developers and may result in another round of price deterioration in 2023.

Asia HY (excluding China property) has shown more attractive valuations relative to US and emerging market dollar denominated HY markets. Some short-dated quality Asia HY bonds have started to provide better risk-adjusted rewards. Against the backdrop of this volatile economic environment, we anticipate that market headlines may pick up in 2023 for Asia HY corporates as well. Credit selection remains key.

[1] Source: J.P. Morgan JACI China High Yield Total Return and J.P. Morgan JACI Non-Investment Grade Total Return Index, as of September 30th 2022

Figure 1 - Global major HY markets: Yield to worst (Jul 2020 – Sep 2022)



Note: Asia Non-China Property HY & China HY Property: J.P. Morgan Asia Credit Index; US HY: ICE BofA US High Yield Index; Latam HY: ICE BofA High Yield Latin America Emerging Markets Corporate Plus; CEEMEA HY: ICE BofA High Yield EMEA Emerging Markets Corporate Plus Index. Data frequency: monthly. Past performance does not guarantee future results. An investment cannot be made in an index.

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