

March 2025



Chris Lau
Senior Portfolio Manager,
Invesco Fixed Income

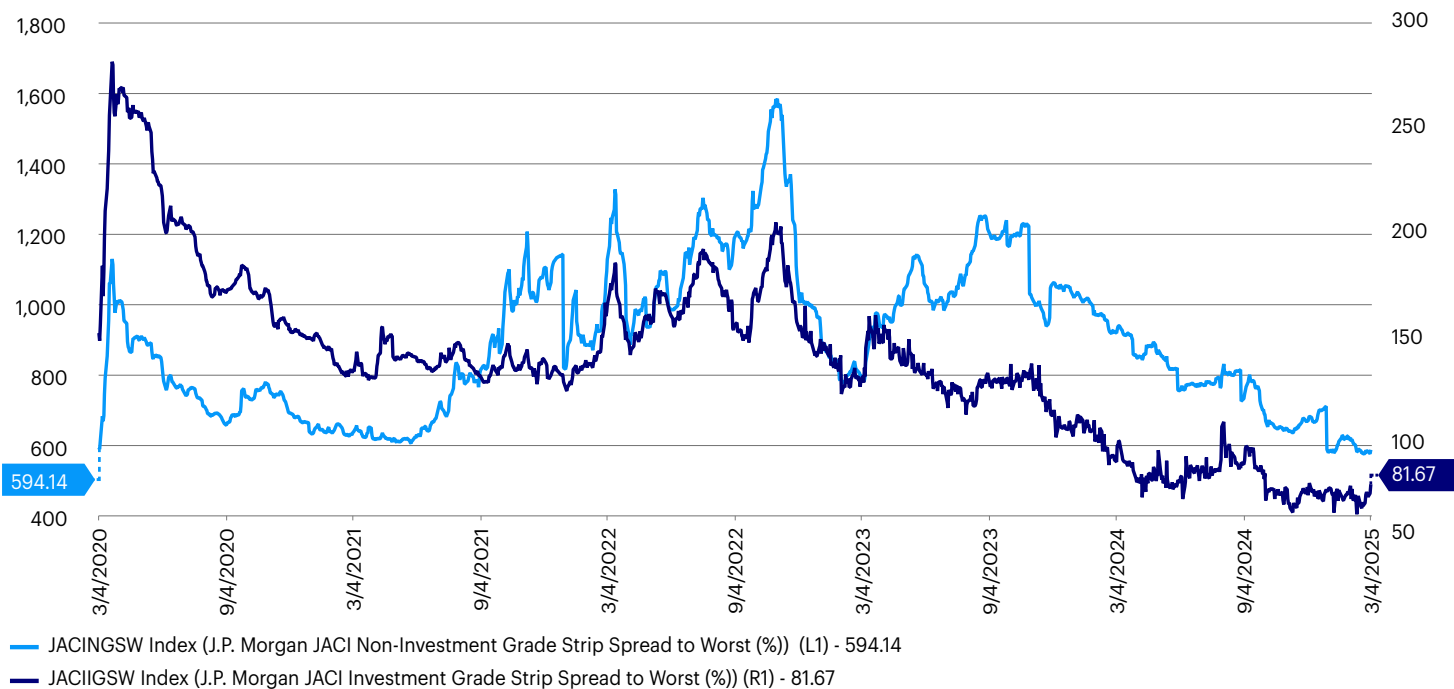
Asia investment grade (IG) outlook for Q2 2025

The Asian investment grade (IG) credit market has navigated a complex landscape in the recent months, shaped by the new US administration, regional economic dynamics, and geopolitical factors. Trump's incoming policies and tariffs announcements were initially perceived as less fierce than anticipated, which helped overall risk sentiment. US data has been resilient in recent months and has reset a slower easing path for the Fed. Despite elevated rate volatility and policy uncertainties, Asia IG recorded a decent return year-to-date supported by strong buying interests from investors searching for yield.

Resilient US macro data over recent months has prompted a market reassessment toward a more gradual easing trajectory for the Fed. However, emerging data highlights potential vulnerabilities in US consumer spending and the labor market. Deteriorating consumer spending, business sentiment and the recent government layoffs are bringing about fresh concerns about weakening US growth. The market is pricing in the possibility that the Fed may need to step up the pace of rate cuts to prevent further weakening in the labor market. However, given still solid inflation prints, and uncertainty about incoming tariffs, we expect it will be difficult for the Fed to cut rates aggressively.

Asia IG spreads remained largely consolidated at the tighter end of their historical range in Q1 despite volatile rates movement. JP Morgan Asia Credit Index (JACI) IG spreads have widened +6bps to 76 basis points (as of Feb 28, 2025) from +70bps (as of Nov 8, 2024). Spread performance, however, exhibited notable divergence across individual countries. Technicals have been extremely strong despite tight valuations and escalated rates volatility. With stable fundamentals and low default rates, Asia credits remain attractive from all-in yield perspective.

Figure 1: JACI Investment Grade versus JACI High Yield (Feb 2020 – Feb 2025)



Source: Bloomberg, data as of Feb 28, 2025.

This document is for Professional Clients only in Dubai, Jersey, Guernsey, the Isle of Man, Continental Europe (as defined in the important information at the end) and the UK; for Institutional Investors only in the United States; for Professional/Qualified/Sophisticated Investors in Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates; for Qualified Clients/Sophisticated Investors in Israel; for Sophisticated or Professional Investors in Australia; in New Zealand for wholesale investors (as defined in the Financial Markets Conduct Act); for Professional Investors in Hong Kong; for Qualified Institutional Investors in Japan; in Taiwan for Qualified Institutions/Sophisticated Investors; in Singapore for Institutional/Accredited Investors; for Qualified Institutional Investors and/or certain specific institutional investors in Thailand; for certain specific sovereign wealth funds and/or Qualified Domestic Institutional Investors approved by local regulators only in the People's Republic of China; for certain specific institutional investors in Malaysia upon request; for certain specific institutional investors in Brunei; for Qualified Professional Investors in Korea; for certain specific institutional investors in Indonesia; for qualified buyers in Philippines for informational purposes only; in Canada, this document is restricted to i) accredited investors and ii) permitted clients as defined under National Instrument 45-106 and 31-103 respectively. It is not intended for and should not be distributed to or relied upon by the public or retail investors. Please do not redistribute this document.

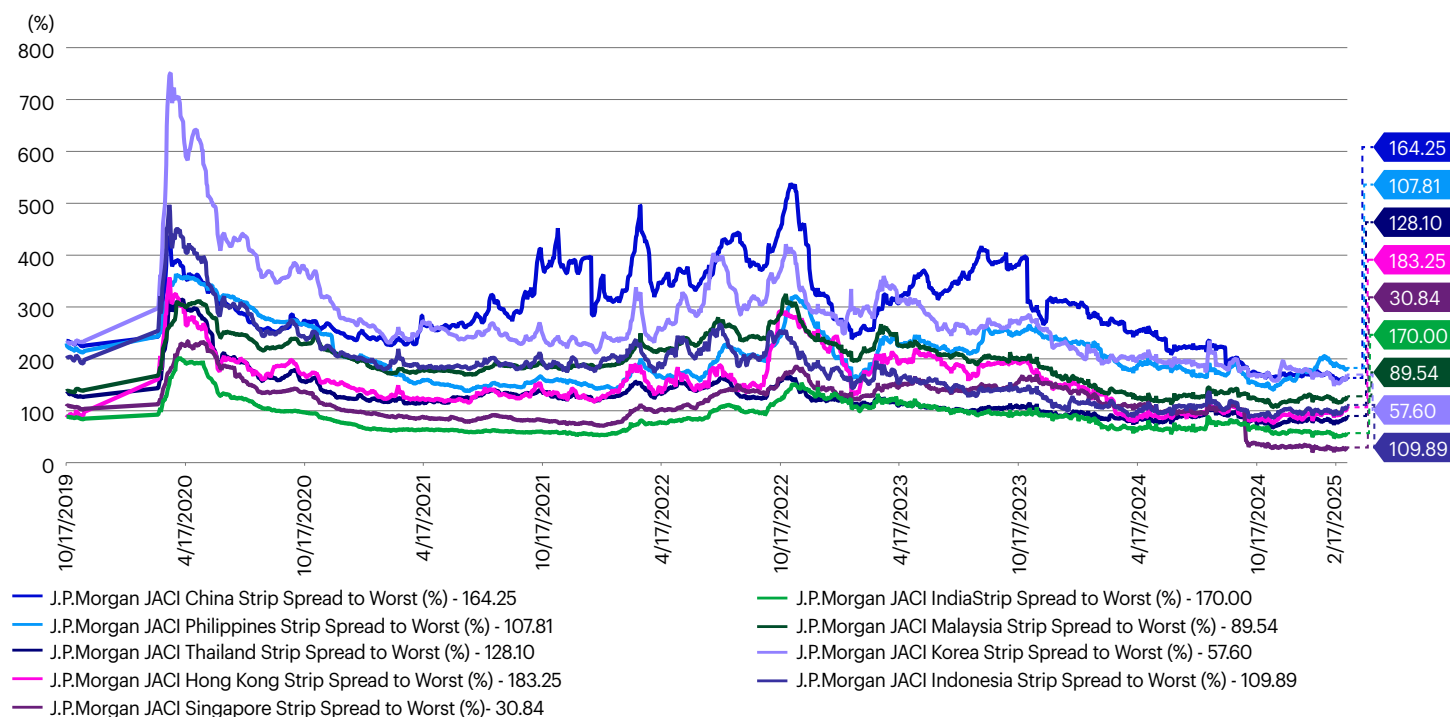
March 2025

Emerging market (EM) Asia economic growth continues to increase at a healthy pace, supported by accommodative central bank policies and benign inflation. The outlook for 2025 remains positive, with expectations of resilient credit fundamentals and moderate global growth. Despite potential tariffs from the US, Asian corporate and bank credit fundamentals are expected to stay resilient. Revenue growth may see some moderation, but profit margins are likely to hold steady due to lower input costs. In addition, the leverage ratio for Asia IG corporates remains comparatively low. Conservative balance sheet management continues to provide buffer against potential economic headwinds and reinforces the creditworthiness of Asian IG issuers.

Technical provided substantial support in Q1, driven by sustained inflows into Asia from yield-seeking investors. Demand for Asia IG credit has been buoyed by local investors, attracted by the compressed yield differentials between USD-denominated debt and local bond markets, particularly from China onshore. On the supply side, the primary market has been subdued year-to-date. The scarcity of new issuance – driven by issuers’ preference for local currency funding or the loan market has further worsened the supply-demand imbalance. We expect negative net supply to remain throughout 2025, supporting bond prices and keeping spreads relatively tight.

Subordinated debt from Asian banks and insurance companies continues to offer value, except for Hong Kong banks, whose credit fundamentals are likely to be undermined by a weakening property sector. We have started to see value in the steep credit curve as risk premiums are building up especially in the back end. Despite the trade tariffs threats, we are turning more constructive in China IG as we expect the economy to stabilize and companies to benefit from the government’s easing policy and fiscal stimulus. In addition, we believe China IG credit should continue to enjoy strong technicals driven by strong onshore buying interests.

Figure 2 : Asia credit spreads by country over the past five years (Feb 2020 – Feb 2025)



Source: Bloomberg, data as of Feb 28, 2025.

In conclusion, we expect US rate volatility to remain elevated and believe a more measured pace of Fed rate cuts should sustain attractive all-in yields for Asian IG credit. US policy will continue to set the tone for all asset classes in 2025. However, Asian investment grade should remain resilient given the accommodative central bank policies and resilient credit fundamentals of these economies. We think the Asian market is well-positioned when faced with challenges such as elevated US treasury yield volatility and potential tariff threats. We believe Asia IG credit will continue to deliver robust returns in 2025, mainly from yield carry. Despite the rich valuations, strong technicals in Asian credits should keep spreads tight. While we do not see scope for material spread compression in Asia IG from current levels and we believe the high all-in yields should continue to be supportive for the remainder of 2025.

Asia Fixed Income Investment Outlook – Q2 2025

March 2025



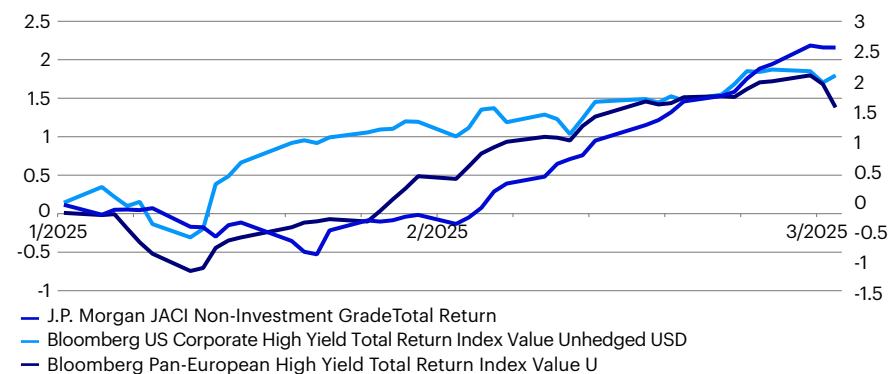
Norbert Ling
Portfolio Manager,
Sustainable and Impact Investing,
Invesco Fixed Income

Asia high yield (HY) outlook for Q2 2025

In 2025 year-to-date, Asia high yield (HY) markets have continued to outperform relative to US and European HY markets. This stability in performance reflects the higher income opportunities within Asia and a benign credit backdrop as we haven't seen any defaults or restructuring events thus far this year. The top three contributing sectors are real estate, sovereigns, and financials, and income from these sectors contributed to around one-third of total return.

On this front, we have witnessed the return to bond markets of China HY real estate issuers that have issued bonds with an 8% coupon, indicating that financing conditions and windows are starting to open up for real estate survivors.¹

Figure 3 : Asia HY Performance versus US and European HY in 2024



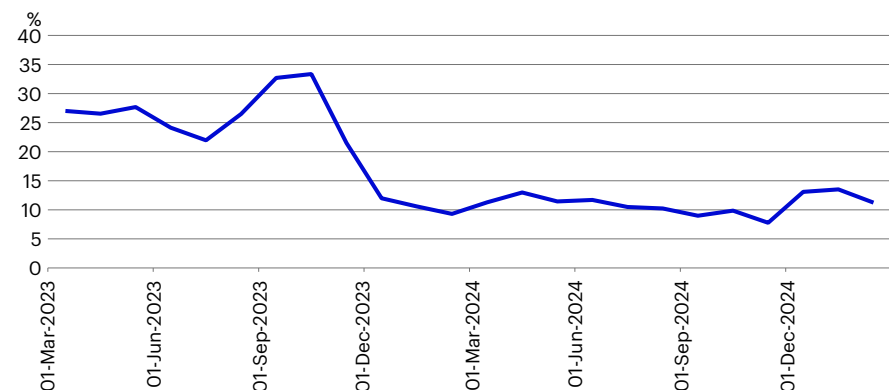
Source: Bloomberg, data as of 5 March 2025.

Heading into Q2, we highlight the following topics that could be of interest to investors looking at this asset class. The abundance of income opportunities and focus on 8 to 10% yield assets, selective overweight in improving fundamental sectors within Asia HY, and focus on income per unit of volatility with a bias towards high coupon.

Asia high yield sectors continued to perform well

Within Asia high yield asset class, we prefer bonds that yield between 8 to 10% as these provide good total return opportunities without the volatility found in equities. Single name selection in this space is a core part of active management. Despite spread tightening over the last two years, there has been a steady pool of assets making up over 10% of the benchmark in Asia HY that consistently trade between 8 to 10% in terms of yield. Examples of bond issuers in this category include restructured sovereign bonds, commodities firms, and financials. This is where credit research and security selection are critical to the portfolio construction process in order for Asia bond funds to generate alpha versus the JPMorgan Asia Credit index.

Figure 4: Proportion of bonds within Asia HY index with 8 to 10% yield (Mar 2023 – Dec 2024)



Source: JP Morgan, Aladdin, data as of 4 March 2024.

1. Source: Reuters, data as of February 2025, <https://www.reuters.com/markets/asia/developer-green-town-issue-350-mln-additional-bonds-refinance-debt-2025-02-18/>

March 2025

Asia high yield sectors continued to perform well

The core sectors within Asia high yield that range from financials, commodities, infrastructure, renewables, and gaming, continue to perform positively from a credit perspective.

Taking Macau gaming as an example, February’s casino gaming revenue in Macau was up by 7.8% year-on-year in February and up by 8.2% month-on-month.² This is a conducive backdrop for HY credit investors as free cashflow generation on the back of profit recovery can help to drive deleveraging for Macau gaming bond issuers and provide potential rating upside.

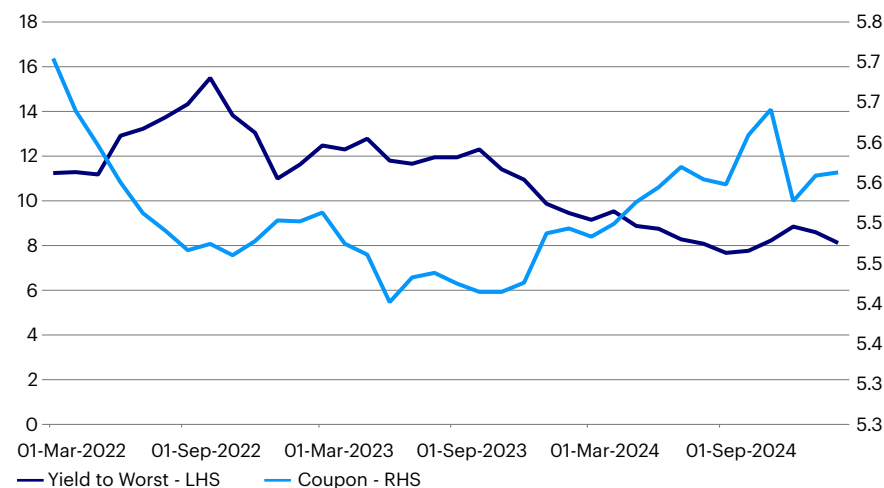
Similarly, we continue to find evidence for strong capital ratios in Asian banks and see broadly stable asset quality trends. We believe that going down the capital structure in well capitalized and profitable Asian banks is the appropriate strategy to harvest risk premia and income.

Focus on volatility-adjusted income is part of portfolio construction, coupons matter

We believe in building a well-diversified portfolio that encompasses various sectors and regions with income per unit of risk as a key metric. This also means focusing on higher coupon bonds that continue to deliver a steady stream of cashflows to investors, not just focusing on yield metrics such as yield to worst or yield to maturity.

Within the Asia high yield space, we continue to see a healthy average coupon level of over 5.5% at index level even as the yield of the index has come down. This plays a role to cushion the portfolio during periods of economic and trade policy uncertainty. Lastly, during an environment of rates volatility, we see a strong case for shorter-dated high yield paper that allows investors to lock in high levels of yields among HY issuers that have strong market financing assets. For reference, the Asia HY index average duration is only at 2.6 years, which reduces its correlation with the daily movement of US treasuries.³

Figure 5 : Average coupon in Asia high yield continues to stay at healthy levels



Source: JP Morgan, Aladdin, data as of 4 March 2024.

2. February casino GGR up 6.8pct y-o-y: Macau govt, March 2025, <https://www.ggrasia.com/february-casino-ggr-up-6-8pct-y-o-y-macau-govt>
3. Source: Bloomberg, data as of 3rd March, 2025.

March 2025

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

When investing in less developed countries, you should be prepared to accept significantly large fluctuations in value.

Investment in certain securities listed in China can involve significant regulatory constraints that may affect liquidity and/or investment performance.

Important information

This document is for Professional Clients only in Dubai, Jersey, Guernsey, the Isle of Man, Continental Europe (as defined below) and the UK; for Institutional Investors only in the United States; for Professional/Qualified/Sophisticated Investors in Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates; for Qualified Clients/Sophisticated Investors in Israel; for Sophisticated or Professional Investors in Australia; in New Zealand for wholesale investors (as defined in the Financial Markets Conduct Act); for Professional Investors in Hong Kong; for Qualified Institutional Investors in Japan; in Taiwan for Qualified Institutions/Sophisticated Investors; in Singapore for Institutional/Accredited Investors; for Qualified Institutional Investors and/or certain specific institutional investors in Thailand; for certain specific sovereign wealth funds and/or Qualified Domestic Institutional Investors approved by local regulators only in the People's Republic of China; for certain specific institutional investors in Malaysia upon request; for certain specific institutional investors in Brunei; for Qualified Professional Investors in Korea; for certain specific institutional investors in Indonesia; for qualified buyers in Philippines for informational purposes only; in Canada, this document is restricted to i) accredited investors and ii) permitted clients as defined under National Instrument 45-106 and 31-103 respectively. It is not intended for and should not be distributed to or relied upon by the public or retail investors. Please do not redistribute this document.

Forward-looking statements are not a guarantee of future results. They involve risks, uncertainties, and assumptions. There can be no assurance that actual results will not differ materially from expectations.

This is marketing material and not financial advice. It is not intended as a recommendation to buy or sell any particular asset class, security, or strategy. Regulatory requirements that require impartiality of investment/investment strategy recommendations are therefore not applicable nor are any prohibitions to trade before publication.

By accepting this document, you consent to communicate with us in English, unless you inform us otherwise. Data as at March, 2025, unless otherwise stated.

For the distribution of this document, Continental Europe is defined as Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Ireland, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, and Switzerland.

All articles in this publication are written, unless otherwise stated, by Invesco professionals. Views and opinions are based on current market conditions and are subject to change. This publication does not form part of any prospectus. This publication contains general information only and does not take into account individual objectives, taxation position or financial needs. Nor does this constitute a recommendation of the suitability of any investment strategy for a particular investor.

This publication is not an invitation to subscribe for shares in a fund nor is it to be construed as an offer to buy or sell any financial instruments. As with all investments, there are associated inherent risks. This publication is by way of information only. This document has been prepared only for those persons to whom Invesco has provided it. It should not be relied upon by anyone else and you may only reproduce, circulate and use this document (or any part of it) with the consent of Invesco. Asset management services are provided by Invesco in accordance with appropriate local legislation and regulations.

This publication is issued:

- in **Hong Kong** by Invesco Hong Kong Limited 景順投資管理有限公司, 45/F, Jardine House, 1 Connaught Place, Central, Hong Kong. This document has not been reviewed by the Securities and Futures Commission.
- in **Singapore** by Invesco Asset Management Singapore Ltd, 9 Raffles Place, #18-01 Republic Plaza, Singapore 048619.
- in **Taiwan** by Invesco Taiwan Limited, 22F, No.1, Songzhi Road, Taipei 11047, Taiwan (0800-045-066). **Invesco Taiwan Limited is operated and managed independently.**
- in **Japan** by Invesco Asset Management (Japan) Limited, Roppongi Hills Mori Tower 14F, 6-10-1 Roppongi, Minato-ku, Tokyo 106-6114; Registration Number: The Director- General of Kanto Local Finance Bureau (Kin-sho) 306; Member of the Investment Trusts Association, Japan and the Japan Investment Advisers Association.
- in **Australia** by Invesco Australia Limited (ABN 48 001 693 232), Level 26, 333 Collins Street, Melbourne, Victoria, 3000, Australia which holds an Australian Financial Services Licence number 239916.

Asia Fixed Income Investment Outlook – Q2 2025

March 2025

This document has been prepared only for those persons to whom Invesco has provided it. It should not be relied upon by anyone else. Information contained in this document may not have been prepared or tailored for an Australian audience and does not constitute an offer of a financial product in Australia. You may only reproduce, circulate and use this document (or any part of it) with the consent of Invesco.

The information in this document has been prepared without taking into account any investor's investment objectives, financial situation or particular needs. Before acting on the information the investor should consider its appropriateness having regard to their investment objectives, financial situation and needs.

You should note that this information:

- may contain references to dollar amounts which are not Australian dollars;
 - may contain financial information which is not prepared in accordance with Australian law or practices;
 - may not address risks associated with investment in foreign currency denominated investments; and
 - does not address Australian tax issues.
- in **New Zealand** by Invesco Australia Limited (ABN 48 001 693 232), Level 26, 333 Collins Street, Melbourne, Victoria, 3000, Australia which holds an Australian Financial Services Licence number 239916.

This document is issued only to wholesale investors (as defined in the Financial Markets Conduct Act) in New Zealand to whom disclosure is not required under Part 3 of the Financial Markets Conduct Act. This document has been prepared only for those persons to whom it has been provided by Invesco.

It should not be relied upon by anyone else and must not be distributed to members of the public in New Zealand. Information contained in this document may not have been prepared or tailored for a New Zealand audience. You may only reproduce, circulate and use this document (or any part of it) with the consent of Invesco. This document does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for, an opinion or guidance on interests to members of the public in New Zealand. Applications or any requests for information from persons who are members of the public in New Zealand will not be accepted.

- in the **United States** by Invesco Advisers, Inc., 1331 Spring Street NW, Suite 2500, Atlanta, GA 30309, USA.
- in **Canada** by Invesco Canada Ltd. 120 Bloor Street East, Suite 700, Toronto, Ontario M4W 1B7.
- in **Austria and Germany** by Invesco Asset Management Deutschland GmbH, An der Welle 5, 60322 Frankfurt am Main, Germany.
- in **Belgium, Denmark, Finland, France, Greece, Italy, Ireland, Luxembourg, Netherlands, Norway, Portugal, Spain and Sweden** by Invesco Management S.A., President Building, 37A Avenue JF Kennedy, L-1855 Luxembourg, regulated by the Commission de Surveillance du Secteur Financier, Luxembourg.
- in **Dubai, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia** and the **United Arab Emirates** by Invesco Asset Management Limited, Index Tower Level 6 - Unit 616, P.O. Box 506599, Al Mustaqbal Street, DIFC, Dubai, United Arab Emirates. Regulated by the Dubai Financial Services Authority.
- in the **Isle of Man, Jersey, Guernsey** and the **UK** by Invesco Asset Management Limited, Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire, RG9 1HH, United Kingdom. Authorised and regulated by the Financial Conduct Authority.
- in **Switzerland** by Invesco Asset Management (Schweiz) AG, Talacker 34, 8001 Zurich, Switzerland.
- in **Israel** by Invesco Asset Management Limited, Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire RG9 1HH, UK. Authorised and regulated by the Financial Conduct Authority. This document may not be reproduced or used for any other purpose, nor be furnished to any other person other than those to whom copies have been sent. Nothing in this document should be considered investment advice or investment marketing as defined in the Regulation of Investment Advice, Investment Marketing and Portfolio Management Law, 1995 ("the Investment Advice Law"). Investors are encouraged to seek competent investment advice from a locally licensed investment advisor prior to making any investment. Neither Invesco Ltd. nor its subsidiaries are licensed under the Investment Advice Law, nor does it carry the insurance as required of a licensee thereunder.