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Asian high-yield bonds have not recovered to pre-Covid levels

◆ The Bloomberg Barclays Asian High-Yield index was still trading at a yield premium of 660 basis points, compared to an average of 510 in 2019.

◆ In January 2018, the index had touched an all-time low premium of 277 basis points.

◆ Meanwhile, the Bloomberg US High-Yield index is now paying a yield premium of 327 basis points over US Treasuries, below the 388 basis points average for 2019 and not much higher than the all-time low of 303.

◆ The FAB AAC is overweight in equities, IG and EM bonds, and gold, and is underweight alternatives.

The Federal Reserve's asset purchase program has been very effective at restoring normality in financial markets in the US. The central bank's experiment of buying exchange-traded funds of sub-investment grade corporate bonds since last year, in particular, has checked yield premiums paid by junk-rated borrowers.

This has worked marvels in the US and the yield premium on the Bloomberg Barclays US Corporate High-Yield index has fallen to 327 basis points. This is less than the average 388 basis points premium on this index in 2019, and just shy of the all-time low of 303 basis points.

Not all corners of the bond market have fully benefited yet, though. Asian high-yield bonds are still a long way from trading at the premium they offered before the pandemic. Sub-investment-grade bonds in the MENA region also still have room to catch-up.



The Bloomberg Barclays Asian High-Yield index was trading at a yield premium of 660 basis points over US Treasuries. This compares to an average of 510 in 2019 and an all-time low of 277 basis points. For the index to reach a yield premium closer to its 2019 average, it would have to rally another 15%.

Asian high-yield bonds have been dogged by the weight of China within the index. The country, along with Hong Kong, comprises more than 63% of the Bloomberg Barclays Asian High-Yield index. While global investors have been seeking higher returns, they have been shying away from China due to rising defaults and geopolitical considerations.

The rising defaults, however, are not as bad as they seem. By December, 143 borrowers for which S&P Global Ratings had a credit score had missed payments on their debts, compared to 28 defaults for all of the developing nations, including China, according to the rating agency.

The yield premium paid by Asian high-yield bonds still has not recovered fully

Bonds from the Gulf Cooperation Council area are also yet to fully recover. The Bloomberg Barclays index for the region was offering a yield premium of 162 basis points over US Treasuries today, much higher than the 138 basis points offered exactly a year ago. The recent rise in oil prices could help reduce this difference.

The fact that the Federal Reserve is buying ETFs that focus on US high-yield bonds helps explain why those securities have outperformed. However, as the Fed, along with the Bank of Japan and the European Central Bank, continue to compress yields, investors will start looking further away from home. And as they search for yield, they are likely to realize that it still available in the eastern part of the world.

Investment Strategy Update

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