

Script - Asian High Yield Bonds

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Benefits and risks of Asian high yield bonds

Asian high yield bonds offer yields higher than many other fixed income assets, which is their biggest competitive edge. Currently, Asian high yield bonds are offering a yield in excess of 8%¹, which is attractive in the current prolonged low global interest rate environment. Asian high yield bonds of certain sectors are even offering double-digit yields. For those who prefer high-yield investments, Asian high-yield bonds are seen to be reasonably attractive.

Investors should be aware that the major risk of investing in Asian high yield bonds is default risk, which refers to events where the issuer fails to pay coupons or repay the debt principal amount on maturity. The default forecast for Asian high yield bonds is expected to remain low at around 3.3% for 2015², which is the lowest forecast amongst the various global emerging market regions. The ample global liquidity environment means that corporates' access to funding remains good. All these factors help to keep default rates in the region low.

In general, increases in US interest rates tend to have an impact on the high yield bond prices and overall potential returns for investors. Although a US rate hike is expected, we believe the Fed is on a monetary policy normalization path. This means the increase in US Treasury yields is expected to be relatively modest and the impact on bond prices should be manageable. Also, Asian high yield bonds have lower sensitivity to US interest rate changes compared to investment grade bonds, due to their generally lower duration. Asian high yield bonds have ample spread buffer to absorb some of the potential losses if US Treasury yields rise. Active managers can also mitigate this interest rate risk through US Treasury futures hedges.

1. Source: JP Morgan, as at 30 September 2015.

2. Source: JP Morgan forecast, as at 31 July 2015. Default rates are par weighted and based on HY debt stock at prior year-end. Default bonds are inclusive of distressed exchanges.

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