Asian bonds remain resilient

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ASIA GLOBAL

Asset managers optimistic on the outlook for Asian bond funds in the second half of 2025

In a year marked by volatile global interest rates, mounting trade headwinds, and diverging central bank policies, Asian-domiciled bond funds are quietly enjoying a renaissance. Fuelled by a steady wave of inflows and supported by relatively high yields, funds investing in Asian fixed income markets have generated solid returns in 2025 — and are poised to continue delivering as the year progresses.

Across the board, performance has ranged from 1.8% to nearly 3% year-to-date as of end-May, outperforming many global fixed income peers. The drivers have been named as resilient fundamentals, a strong carry environment, and the increasing appeal of Asian duration amid a potential softening of US monetary policy.

Looking forward, most asset managers remain optimistic on the outlook for Asian bond funds in the second half of 2025.

Asia Asset Management (AAM) speaks to Gordon Ip, chief investment officer for fixed income at Value Partners, Clifford Lau, hard-and local-currency portfolio manager on William Blair's emerging markets debt team, and Andy Suen, co-head of Asia fixed income at Pinebridge Investments, on their views on the outlook for the Asian bond markets.

Top Asian-domiciled bond funds (Year-to-May 31, 2025 and full year 2024)

Fund Legal Name	Investment Type	Investment Style	Domicile	Inception Date	Fund Size EUR	Total Return YTD (May 2025)	Total Return 2024
Top Funds - Ranked by YTD Returns							
Global X Asia USD Investment Grade Bond ETF	Exchange-Traded Fund	Passive	Hong Kong	11-Oct-23	6,620,564	15.76	4.35
Global X ETF Series II - Global X Bloomberg MSCI Asia Ex Japan Green Bond ETF	Exchange-Traded Fund	Passive	Hong Kong	18-Aug-22	6,590,000	13.03	20.25
Schroder Asia Pacific Dynamic Credit Fund	Open-End Fund	Active	Singapore	2-Mar-20	86,660,834	7.63	
Schroder Asian Investment Grade Credit	Open-End Fund	Active	Singapore	8-Feb-07	428,620,157	7.61	(0.76)
Nikko AM Shenton Short Term Bond Fund (S$)	Open-End Fund	Active	Singapore	29-Sep-00	514,791,694	7.59	0.88
iFAST-Eastspring Lion Bond Fund	Open-End Fund	Active	Singapore	11-Aug-97	16,691,127	7.15	0.05
Manulife Asia Pacific Investment Grade Bond	Open-End Fund	Active	Singapore	21-Jan-14	403,932,976	7.10	(0.45)
Manulife Asia Pacific Bond Fund	Open-End Fund	Active	Taiwan	9-Dec-09	58,751,392	6.59	(2.84)
First Sentier Asian Quality Bond Fund	Open-End Fund	Active	Singapore	1-Nov-16	3,978,614	6.20	(2.88)
Nikko AM Shenton Income Fund	Open-End Fund	Active	Singapore	31-Jan-89	83,946,344	5.46	1.92
PineBridge Emerging Market Asia-Pacific Strategic Bond	Open-End Fund	Active	Taiwan	11-Mar-14	50,813,018	4.47	1.36
Fuh Hwa Emerging Market Asia 3-10 Years USD Bond Index Fund	Open-End Fund	Passive	Taiwan	26-Feb-20	46,590,331	3.26	2.91
CNCB Capital Asian Investment Grade Bond Fund	Open-End Fund	Active	Hong Kong	26-Jun-24		3.04	
ChinaAMC Select Asia Bond Fund	Open-End Fund	Active	Hong Kong	18-Apr-17	85,181,515	2.89	8.91
JPMorgan Asian Total Return Bond Fund	Open-End Fund	Active	Hong Kong	18-Jan-05	2,638,600,671	2.88	4.14
Pictet Asian Bond Income	Open-End Fund	Active	Hong Kong	15-Jan-21	40,334,668	2.77	6.39
ChinaAMC Asia USD Investment Grade Bond ETF	Exchange-Traded Fund	Passive	Hong Kong	7-Nov-14	12,338,397	2.70	3.47
Franklin Select APAC Quality Income Fund	Open-End Fund	Active	Hong Kong	13-Aug-21	64,708,851	2.70	3.54
Asia Pacific Ex Japan Bond Fund	Open-End Fund	Active	Hong Kong	16-Aug-23	219,277,968	2.67	4.49
Schroder Short Duration Bond	Open-End Fund	Active	Singapore	26-Oct-21	66,871,932	2.55	6.58
Top Funds - Ranked by 2024 Returns							
Global X ETF Series II - Global X Bloomberg MSCI Asia Ex Japan Green Bond ETF	Exchange-Traded Fund	Passive	Hong Kong	18-Aug-22	6,590,000	13.03	20.25
Nomura Asia Pacific Bond Fund	Open-End Fund	Active	Taiwan	26-Jun-17	8,309,177	0.21	11.70
ChinaAMC Select Asia Bond Fund	Open-End Fund	Active	Hong Kong	18-Apr-17	85,181,515	2.89	8.91
BEA Union Investment Asian Strategic Bond Fund	Open-End Fund	Active	Hong Kong	24-Feb-17	146,580,000	1.43	7.63
BOCHK All Weather Asian Bond Fund	Open-End Fund	Active	Hong Kong	30-Aug-16	183,029,439	2.22	6.82
Schroder Short Duration Bond	Open-End Fund	Active	Singapore	26-Oct-21	66,871,932	2.55	6.58
Value Partners Fund Series - Value Partners Asian Total Return Bond Fund	Open-End Fund	Active	Hong Kong	6-Apr-18	31,901,515	1.88	6.49
Pictet Asian Bond Income	Open-End Fund	Active	Hong Kong	15-Jan-21	40,334,668	2.77	6.39
AB (HK) Asia Income Opportunities Portfolio	Open-End Fund	Active	Hong Kong	28-Dec-21	27,652	1.92	6.36
HSBC Collective Investment Trust - HSBC Asia High Income Bond Fund	Open-End Fund	Active	Hong Kong	24-Feb-17	849,875,990	2.41	6.33
China Life Franklin Global Fund - Short Term Bond Fund	Open-End Fund	Active	Hong Kong	28-Dec-20	100,880,279	2.32	6.31
iShares J.P. Morgan USD Asia Credit Bond Index ETF	Exchange-Traded Fund	Passive	Singapore	27-May-11	50,882,307	2.51	6.13
BOCHK All Weather Short Term Bond Fund	Open-End Fund	Active	Hong Kong	13-Sep-18	525,963,706	1.97	6.08
Haitong Asian Total Return Bond Fund	Open-End Fund	Active	Hong Kong	20-May-16	14,350,000	2.16	6.03
UBS (HK) Fund Series Asia Income Bond (USD)	Open-End Fund	Active	Hong Kong	17-Mar-21	89,110,856	2.08	5.78
BOCHK All Weather Belt and Road Bond Fund	Open-End Fund	Active	Hong Kong	14-Mar-19	8,216,426	1.51	5.32
Maybank Asian Income Fund	Open-End Fund	Active	Singapore	24-Nov-14	83,551,915	0.64	5.30
United Asian Bond Fund	Open-End Fund	Active	Singapore	5-Apr-00	34,062,508	2.39	5.27
BEA Union Investment Asia Pacific Investment Grade Bond Fund	Open-End Fund	Active	Hong Kong	20-Jun-14	113,252,567	1.93	5.00
PineBridge Asian Bond Fund	Open-End Fund	Active	Hong Kong	10-Feb-12	242,661,245	2.46	4.92

Source: Morningstar Direct

***AAM*: How did the Asian bond market perform in 2024?**

Gordon Ip: In 2024, the Asian USD bond market delivered strong returns for investors, supported by spread compression and a more accommodative monetary policy stance in the US. The Fed's unexpected rate cut in September significantly boosted sentiment for risk assets, particularly in an environment of negative net bond issuance. Asian high-yield (HY) bonds outperformed investment-grade (IG) counterparts, as dislocated credits normalised and investors continued to chase yield. Among the top performers were frontier sovereigns, Chinese consumer and industrial credits, and Indian commodity companies - many of which benefitted from successful debt refinancing and deleveraging efforts.

Clifford Lau: The JPMorgan Asian Credit Index indicates that the Asian high yield sovereign sector performed the best in 2024, which we consider to be mostly due to the strong price performance of high yielding countries such as Sri Lanka and Pakistan, where improving macro-economic and political conditions in both countries and conclusion of a debt restructuring in Sri Lanka were the main credit drivers. Asian high yield corporates also performed well on attractive carry returns and generally good liquidity conditions allowing companies to refinance through either public or private credit markets.

Andy Suen: The Asia USD bond market, measured by J.P. Morgan Asia Credit Index (JACI), returned 5.7% in 2024. Asia high yield bonds returned +15.2% and Investment grade bonds returned +4.2%. Both segments outperformed their developed market counterparts, driven by robust corporate fundamentals, attractive yields, and favourable technicals amid negative net supply.

Investment grade performance was supported by steady carry and credit spread tightening, reflecting stable corporate health and a resilient regional economy. Notably, Greater China outperformed within the IG space, benefitting from sound credit profiles and reduced offshore issuance due to more accessible onshore funding.

High yield performance was driven by spread compression, particularly among lower-rated and previously distressed credits rebounding from depressed levels. Frontier sovereigns, especially Pakistan and Sri Lanka, were top performers due to economic reforms and signs of economic stabilisation. Overall default rates declined further, a trend expected to persist into 2025.

***AAM*: How has the Asian bond market performed for investors in 2025 so far?**

Ip: In 2025, the market has experienced some volatility, largely due to concerns over US reciprocal tariffs. A rapid repricing of recession risks and a weaker global growth outlook during April led to wider credit spreads in Asian US dollar bonds. However, spreads have since tightened, driven by easing trade tensions - particularly following the 90-day pause in reciprocal US-China tariffs - and the limited direct exposure of Asian issuers to tariff-related shocks. Despite the initial widening, a decline in US Treasury yields helped offset losses. Resilient sectors such as Macau gaming and Indian BB rated names recovered most of their losses and emerged as top performers.

Lau: The Asian bond market has performed well so far in 2025 too, with high yield sovereigns/quasi-sovereign again taking the lead in delivering best performance so far for the year, followed by high yield corporates. In our opinion, the reasons supporting these sectors generating positive returns are the same as in 2024, although the magnitude of the return upsides so far are much lower than previous years, as it is hard to emulate the strong returns in 2024 which benefitted from the low base effect.

Suen: As of 31 May 2025, the Asia credit market has delivered solid year-to-date performance, with the J.P. Morgan Asia Credit Index (JACI) rising 2.6%. High yield bonds modestly outperformed investment grade, returning 3.2% versus 2.5% over the same period. Lower rated segments outperformed the higher rated part of the market. This resilience is attributed to stable economic and corporate fundamentals. While US tariff policies induced some market volatilities, the impact on Asian credit has been limited, as most issuers in the region have minimal direct export exposure to the US.

***AAM*: What are the opportunities and challenges fixed income investors are likely to face during the rest of the year? What types of bonds are likely to generate good returns?**

Ip: The US-China tariff deal has reduced downside risks to growth, supporting near-term risk sentiment. Asian credits remain relatively insulated from direct tariff impacts and are expected to remain resilient for the rest of the year. However, we believe market attention will shift in the second half of 2025 toward concerns over US fiscal sustainability and potential imbalances in US Treasury supply and demand. The possible passage of the

“Big Beautiful Bill Act” and the scheduled end of the tariff pause in mid-August could reintroduce fiscal and growth risks. Although US inflation remains under control, trade-induced effects could influence the pace of future rate cuts.

Asian investment grade bonds, which generally trade at tight spread levels - some even inside US investment grade - are expected to benefit from lower US Treasury yields. Our base case anticipates one to two rate cuts in the second half of 2025, assuming inflation remains soft. The all-in yield remains attractive for Asian investment grade bonds, and we believe they will continue to be well supported.

For Asian high yield credits, returns are expected to be driven primarily by carry, as much of the yield compression occurred in 2024. In a no-recession scenario, spreads are likely to remain range-bound due to their tight levels. Valuations in this space are supported by limited new issuance, lower default rates, and improved sector diversification. Sentiment in Hong Kong corporate high yield bonds is expected to benefit from a declining Hong Kong Interbank Offered Rate trend and the potential resolution of refinancing challenges for a major Hong Kong property developer. This could present some alpha opportunities. Overall, these factors should help lift overall sentiment in the high yield segment.

Lau: We believe that the market has been quite used to but could still be easily disrupted by the whipsawing headlines pertaining to war situations in Europe and the Middle East and how US tariffs could end-up impacting growth and inflation. High price volatility could create trading opportunities, but our long-term strategic view is that Asia and broader emerging markets will perform well against the backdrop of a weak dollar and central banks continuing to lower borrowing costs. We expect hard currency debts from high beta countries and local currencies debts to deliver decent returns for the remainder of the year.

Suen: We expect the Asian US dollar bond market to remain resilient for the remainder of 2025, despite global volatility and US trade policy uncertainty. Strong fundamentals and supportive technicals continue to underpin the region’s credit markets. While growth may soften due to external pressures, most Asian economies are well-positioned to deploy fiscal and monetary tools to cushion the impact. These dynamics, combined with a growing investor appetite to diversify away from US-centric exposures, could further strengthen demand for Asian credits. Investors who used to allocate more tactically to Asia bonds could be increasingly looking at the asset class as a strategic diversifier in the overall portfolio.

Within the investment grade space, we see opportunities in the financial sector, particularly among banks and insurance companies, which continue to exhibit solid fundamentals and spread pick up against other sectors. In the high yield segment, we favour select issuers in the consumer and utilities sectors in Greater China, India and Indonesia, where high quality companies maintain strong access to domestic funding markets. We also expect sectors tied to domestic demand to benefit if governments bump up stimulus to counterbalance export-related headwinds.