Why Asian bonds stay steady when global markets tremble

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Asian USD bonds have consistently shown lower volatility than global peers, a resilience supported by sovereign anchors, domestic investor bases, shorter duration profiles and growing intra-regional linkages.

Asian USD bonds have often defied expectations by showing lower volatility than global investment grade peers, even during periods of turbulence.

This resilience reflects a combination of structural anchors, supportive technicals and the growing integration of Asia's economies. Together, these factors have created a market profile that is defensive yet still offers yield pickup — a rare combination in fixed income, according to industry experts who spoke with *AsianInvestor.*

Rong Ren Goh,
Eastspring Investments

“Much of the stability stems from the investor base,” said Rong Ren Goh, portfolio manager for fixed income at Eastspring Investments.

“Asian USD bonds are anchored by regional insurers, pension funds and other buy-and-hold institutions with durable holding power. Limited fast-money participation and low retail involvement reduce vulnerability to forced selling.”

STABLE BASE

A defining feature of Asian credit markets is the dominance of sovereign and government-linked entities.

Marvin Kwong,
M&G Investments

Around 60% of Asian USD bond issuers fall into this category, according to Marvin Kwong, portfolio manager for Asian fixed income at M&G Investments.

“These entities typically benefit from some form of government support, which helps mitigate bond volatility during periods of heightened risk aversion,” Kwong said. “The stability of sovereign ratings across Asia has also helped anchor the credit ratings of government-linked issuers.”

This sovereign anchor is reinforced by relatively healthy fiscal positions. Growth in China and India is expected to remain well above developed markets, while many governments have avoided excessive reliance on external debt.

Carol Lye,
Brandywine Global

This has preserved resilience, according to Carol Lye, portfolio manager at Brandywine Global.

“Many Asian sovereigns have been cutting interest rates, and they have also not been re-leveraging on external debt,” she said. “With still resilient growth and low external debt, this has resulted in the stability of Asian USD bonds. This is likely to persist in a global risk-off environment.”

Gordon Ip,
Value Partners

Gordon Ip, chief investment officer for fixed income at Value Partners, pointed to Asia’s industrial base as another underpinning.

“Asia possesses several advantages in industrial production, such as cost-effective labour and well-established infrastructure, that are difficult to replicate globally,” he said. “These fundamentals continue to support GDP growth and, by extension, bond market stability.”

High-quality anchors also exist in the region itself, according to Murray Collis, head of fixed income Asia (ex-Japan) at Manulife Investment Management.

Murray Collis,
Manulife IM

"AAA-rated Singapore bonds, for example, can play a defensive role during times of market stress," Collis said.

TECHNICAL SUPPORT

Market dynamics have also played a role in cushioning volatility.

The Asian USD bond market is experiencing its fourth consecutive year of net negative supply, according to M&G's Kwong. This means that reinvestment demand from maturing bonds and coupon payments is chasing a shrinking pool of assets.

"This has been supportive of the Asian USD bond market performance," Kwong said. "Investor capital from maturing bonds and coupon payments is competing for fewer opportunities, which naturally dampens volatility."

Clifford Lau,
William Blair

Clifford Lau, portfolio manager at William Blair, views the persistent "Asian bid" as an additional stabiliser.

"Even when foreign investors trim allocations, bonds are often absorbed by buy-and-hold Asian investors," Lau said.

Manulife IM's Collis noted that shorter duration is another structural feature supporting lower volatility.

"Compared to US or global IG, Asian credit generally carries less duration risk while still offering some spread premium. That makes it less sensitive to US rate moves," he said.

REGIONAL STRENGTH

Beyond issuers and technicals, Asia's growing economic integration has reinforced bond market resilience, according to Cary Yeung, co-head of emerging market corporate and head of Greater China debt at Pictet Asset Management, who said that intra-regional trade now outweighs exports to the US.

"APAC is now its own largest trading partner, with 60% of Asia's exports intra-regional compared to about 15% to the US," Yeung said.

Cary Yeung,
Pictet AM

This interconnectedness extends to financial flows.

"Large domestic savings pools in markets like Taiwan and South Korea provide long-term support for assets," Yeung said. "Local investors are also diversifying away from equities and real estate into offshore Asian fixed income, which lends stability as they typically have a more long-term focus."

The "China plus one" supply chain strategy is also boosting investment into countries across the region and diversifying growth drivers, according to Ip at Value Partners.

"Despite ongoing geopolitical risks, Asian bonds are seen as relatively insulated from US protectionism thanks to domestic demand and diversified trade relationships," IP said.

These structural shifts are also being recognised by credit benchmarks. Yeung noted that indices such as the JPM Asian Credit Index have begun including high-rated, low-volatility markets like Japan and Australia, further reducing volatility in the asset class.

RESILIENT OUTLOOK

The consensus among the managers is that Asian USD bonds' defensive profile is likely to endure. With sovereign anchors, a sticky investor base, net negative supply, shorter duration and stronger intra-regional trade, the market is positioned to remain resilient against global turbulence.

“Asian dollar bonds benefit from broad sector and regional exposure, with most issuers not directly affected by tariff risks,” Ip said. “The Asia premium has narrowed, but fundamentals remain strong.”

Collis added that Asian credit has also proved its resilience in practice.

“Asian IG credit has outperformed US IG in recent sell-offs, including during COVID in March 2020 and the Fed's rate hikes in 2022,” he said.