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ASIA FIX

iShares by BlackRock

A monthly brief on Fixed Income markets, sector performance, bond ETF flows and product trends

iShares Fixed Income Product Strategy

January 2024

December Market Highlights

Global Rates	December's FOMC meeting saw rates kept steady, with the last meeting of the year marking the third consecutive time where the Fed chose to hold off on monetary policy changes. The Fed indicated that while inflation remained elevated, it had eased over the year, and signaled that rates would be cut three times in 2024. Yields rallied strongly against the dovish tone, and the 2Y yield ended the month at 4.25% and the 10Y at 3.88%. Meanwhile, the ECB and BOE saw no changes to rates in December, while the BOJ kept its monetary policy unchanged. 10Y yields in Japan fell, ending the month at 0.61%.
Credit	November's strong performance continued in December, as the two-month rally in fixed income delivered positive returns across the board, especially within risk assets. Credit spreads in the US trend downwards to end the year, with the US IG credit spread narrowing by 5bps, while the US HY credit spread decreased by 47bps. In the region, Asia IG credit spreads edged downwards by 7bps, alongside HY credit spreads which also crept downwards by 13bps.

Performance and yield level of key asset classes as of 2023/12/29

		Total Return			Yield level		Spread level (bps) (credit only)	
	Index	**YTD**	**QTD**	**MTD**	**Dec-end**	**ΔMTD**	**Dec-end**	**ΔMTD**
Aggregate	Global Aggregate	5.72%	8.10%	4.16%	3.51%	-0.42%		
	US Aggregate	5.53%	6.82%	3.83%	4.53%	-0.52%		
	Japan FI, N-BPI	0.49%	0.89%	0.41%	0.62%	-0.02%		
Treasury & Agency	US Treasury	4.05%	5.66%	3.37%	4.08%	-0.47%		
	Agency MBS	5.05%	7.48%	4.31%	4.68%	-0.58%		
	China(CGB+PB)	4.71%	1.44%	1.04%	2.49%	-0.16%		
Credit (IG & HY)	US IG Corporates	8.52%	8.50%	4.34%	5.06%	-0.54%	99	-5
	US HY Corporates	13.45%	7.16%	3.73%	7.59%	-0.84%	323	-47
	Asia IG, JACI IG	7.42%	5.60%	2.69%	5.13%	-0.48%	148	-7
	Asia HY, JACI HY	4.76%	6.28%	2.01%	14.49%	-0.44%	892	-13
Emerging Markets	EM HC, EMBI GD	11.09%	9.17%	4.73%	7.84%	-0.68%	384	-21
	EM LC, GBI-EM	12.70%	8.07%	3.21%	6.19%	-0.28%	-	-

Source: Bloomberg, as of 29 December 2023. See notes at the bottom for indices used. Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy. Indices are unmanaged and one cannot invest directly in an index.

FX Hedging: FX Forward Premium or Cost as of 2023/12/29

FX Forward Premium or Cost is associated mainly with short-term interest rate differential between domestic and foreign currency (& currency basis). This impact can be positive or negative depending on the currency pair.

Currency to Hedge (Forward tenors: 3-month and 12-month, annualized)

Local Currency	3M		12M	
	USD	EUR	USD	EUR
JPY	-5.65%	-4.20%	-5.00%	-3.46%
KRW	-2.11%	-0.64%	-1.88%	-0.29%
AUD	-1.07%	+0.40%	-0.60%	+1.01%
CNY	-2.24%	-0.78%	-1.98%	-0.40%
SGD	-1.67%	-0.21%	-1.49%	+0.09%

Source: Bloomberg, as of 29 December 2023. Indices used: BBG Global Aggregate Index (USD, unhedged), BBG US Aggregate Index (USD), NOMURA BPI (JPY), BBG US Treasury Index (USD), BBG Agency MBS Index (USD), BBG China Treasury & Policy Bank Index (CNY), BBG US IG Corporate Index (USD), BBG US HY Corporate Index (USD), JP Morgan Asia Credit IG Index (USD), JP Morgan Asia Credit HY Index (USD), JP Morgan EMBI Global Diversified Index (USD), JP Morgan GBI-EM Index (USD, unhedged). Reference to the company name mentioned in this communications is merely for explaining the investment strategy, and should not be construed as investment advice or investment recommendation of those companies.

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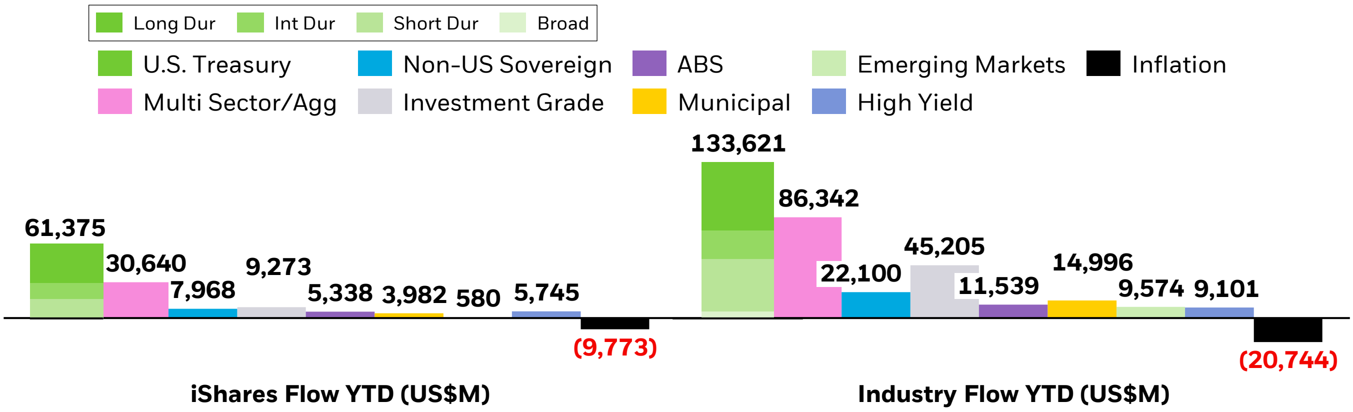
2023 December iShares Status Flow

1. **In light of the festive season, global iShares Fixed Income ETFs saw lighter flows, but continued to draw in +$5B in December.** Following the trend in November, Credit (**+$4.4B**) remained the highlight across sectors, with strong inflows into broad market High Yield (**+$3.2B**). Volumes relatively toned down compared to the prior month amid the dovish rhetoric, although Q4 saw highest quarterly flows industry-wide across bond ETFs in 2023.
2. **Flow trend reversal in US Treasuries further exhibits a general risk-on sentiment.** Investors net sold UST positions (**-$3.2B**) for the first time in 2023, with outflows primarily concentrated on the short end of the curve. YTD net flows nevertheless sum to **+$61B**, topping all sectors.
3. **UCITS target maturity product suite saw record-high inflows (+$571M) since launch in August.** Investors have continued to build on their portfolios using Investment Grade target maturity ETFs throughout H2, with December flows into the product suite contributing to **28%** of total assets. The AUM for the product suite surpassed the **$2B** mark by year-end.
4. **Emerging market debt (+1.2B) stayed on investors' radar and remained in favor.** Reversing the strong outflows in Q3, Q4 marks the best quarter for EM debt (**+$1.6B**) in 2023, with general preference for broad market hard currency over local currency ETFs.
5. **More broadly, industry-wide bond ETFs finished 2023 setting record inflows globally**, surpassing **$300B** for the first time while marking the fifth consecutive year adding over $200B.



Top/Bottom iShares Fixed Income ETF Sector Flows

Top 5 Exposures	MTD Flow ($M)	% of AUM
Multi Sector - Broad	4,806	3%
High Yield - Broad	2,929	5%
U.S. Treasury - Long Dur	2,085	3%
Emerging Markets - Broad	1,180	3%
Investment Grade - Broad	946	1%
Top 5 Exposures Total	**11,945**	

Top 5 Exposures	YTD Flow ($M)	% of AUM
U.S. Treasury - Long Dur	32,187	46%
Multi Sector - Broad	30,640	19%
U.S. Treasury - Short Dur	15,352	15%
U.S. Treasury - Int Dur	13,039	20%
Investment Grade - Broad	6,467	6%
Top 5 Exposures Total	**97,685**	

Bottom 5 Exposures	MTD Flow ($M)	% of AUM
U.S. Treasury - Short Dur	(3,403)	-3%
Inflation - Broad	(1,350)	-5%
U.S. Treasury - Broad	(1,105)	-5%
U.S. Treasury - Int Dur	(881)	-1%
Inflation - Short Dur	(571)	-6%
Bottom 5 Exposures Total	**(7,309)**	

Bottom 5 Exposures	YTD Flow ($M)	% of AUM
Investment Grade - Short Dur	(5,480)	-10%
Inflation - Short Dur	(5,291)	-56%
Inflation - Broad	(4,550)	-16%
Multi Sector - Short Dur	(2,874)	-24%
High Yield - Short Dur	(2,159)	-32%
Bottom 5 Exposures Total	**(20,353)**	

Source: BlackRock, as of Dec 31 2023. Reference to $ refers to USD.
iShares and industry ETF flows encompass globally listed products. 'Broad' categories reference blended maturity products.

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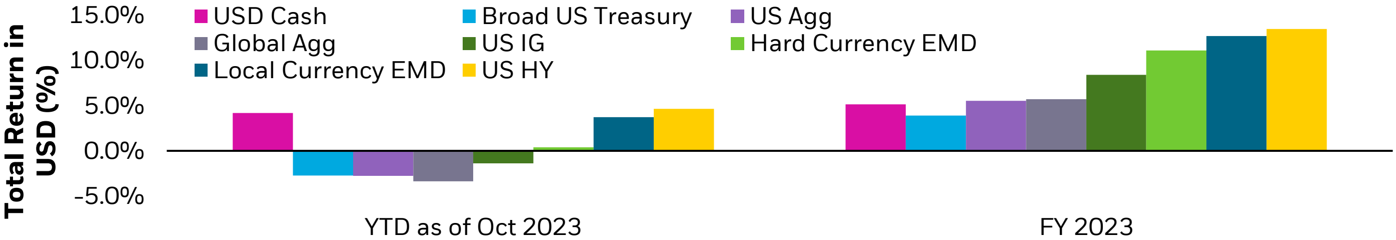
Could 2024 be the year for bonds?

As we enter the new year, fixed income takes centre stage yet again, and is poised to present new opportunities for investors with the tide appearing to have turned. This month, we look back on 2023 and look ahead to the opportunities in 2024.

Bonds come roaring back

Bonds finished the year with the strongest two-month rally in decades as yields continued their sharp drop in December, a surprising turn which saw the asset class end 2023 with positive returns following two consecutive years of losses. The 'everything rally' meant that despite USD cash having outperformed all major global fixed income exposures apart from US High Yield up till October, by the end of the year, most fixed income sectors saw comparable or higher returns than cash.

Figure 1: Fixed income and cash performance 2023

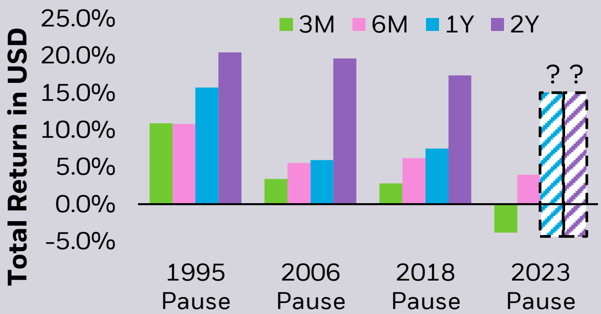


Source: BlackRock, as of 29 December 2023. Reference to LD12TRUU, IDCOTC, IDCOT1, LBUSTRUU, LEGATRUU, C0A0, JPEIDIVR, JPGCCOMP, HUC0 Index.

Not too late to join the party

With inflation normalising and rate hikes appearing to be at an end, this year, bonds might truly be back. Bond markets have priced in six rate cuts from the Fed for 2024, with the first cut expected in March. A decline in bond yields should translate into **return opportunities from price appreciation**, while current levels of yields offer compelling income even if rates remain elevated. In contrast, sticking with cash means losing out on a rally in prices during a regime of falling rates, making a switch to bonds a compelling choice.

Figure 2: How does the Bloomberg Global Agg Index returns look after a Fed pause?

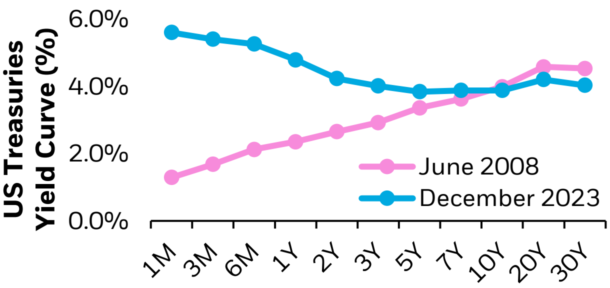


Source: BlackRock, Bloomberg, Federal Reserve, as of 29 December 2023. Reference to Bloomberg Global Aggregate Index. Returns indicated in USD. based on returns within respective calendar years. Returns indicated in USD. The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.

2024 will be a year to pick your spots in fixed income

Extending duration is the key question, though investors may not yet find that the risk-return justifies a move to the long-end of the curve imminently. For those who are anticipating normalisation of the yield curve, with an upward-sloping term structure and a positive term premium more consistent with levels before the Global Financial Crisis (GFC), they may consider two spots below to allocate to before taking significant exposure to the long-end (also featured in the **BlackRock 2024 Outlook Implementation Guide**):

Figure 3: Pre-GFC vs current yield curve



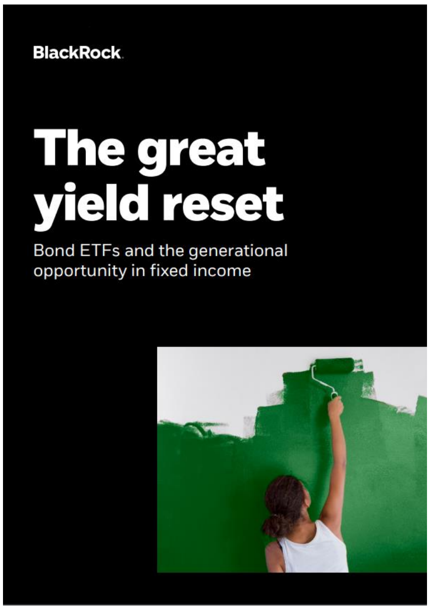
Target Maturity	**BBG MSCI December 2028 Maturity USD Corporate ESG Screened Index** The intermediate portion (3-7Y maturity) of the yield curve represents the 'sweet spot' that can be used to **lock in yields that are still at multi-decade highs**. With iBonds ETFs, investors can target specific points on the curve to secure attractive, high quality income.	**Hard Currency Emerging Markets Debt**	**J.P. Morgan EMBI Global Core Index** Hard currency emerging markets debt offers **more than 7% yield today**, against a relatively supportive backdrop of falling inflation where some central banks have already started cutting rates, and limited growth slowdown compared to that seen in developed markets

Source: BlackRock, Bloomberg, as of 29 December 2023. Reference to YCGT0025 Index (Figure 3) JPEICORE, I36659US Index (Target Maturity and Hard Currency EMD).

To find out more about fixed income exposures with ETFs, contact your iShares representative.

The Great Yield Reset

Bond ETFs and the generational opportunity in fixed income



In 2022, we published a paper on why we believe global fixed income ETFs will reach US$5 trillion in AUM by 2030. Since then, market events have put a spotlight on its continued importance.

In our latest whitepaper, **"The Great Yield Reset"**, we outline why we continue to be excited about the growth of bond ETFs. We see a generational opportunity for investors to rethink their portfolios, with a greater focus on fixed income. Driven by a desire for transparency, access, liquidity and efficiency, we believe ever greater numbers of institutional investors will turn to bond ETFs to retool and refocus portfolios as they navigate the rapidly changing dynamics of this bond market.

Source: BlackRock, "All Systems Go", as of May 2022. There is no guarantee that any forecasts made will come to pass.

Key themes we discuss in this piece:

1

A generational opportunity

The new regime of greater macro and market volatility is here to stay and demands a new investment playbook, with more frequent asset allocation changes.

2

Time for a portfolio rethink

We believe the average multi-asset portfolio is under-allocated to fixed income, and now is the time to increase fixed income allocations.

3

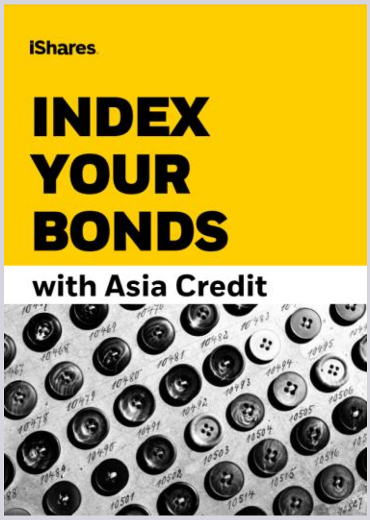
Getting active with index

Bond ETFs are made for these times, enabling investors to make rapid tactical asset allocation changes, improve operational efficiency, and enhance the liquidity of fixed income portfolios.

Index Your Bonds with Asia Credit

Asia bond markets definitely have a part to play in the next leg of growth in index and ETF adoption. As investors continue to move beyond the "active versus passive" debate, constant product innovation will offer increasingly precise sources of potential returns, and help lead more investors to embrace bond index building blocks alongside high conviction active strategies in pursuit of optimal portfolio outcomes.

In this Asia-focused **"Index Your Bonds"** paper, we spotlight iShares Asia Credit exposures, provide insights on how they are managed in practice, and discuss how innovations such as ESG integration will make indexing an integral part of investing in Asia fixed income.



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