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

May 2024

April Market Highlights

Global Rates	In the US, a series of data prints indicating higher inflation and lower growth saw 2Y and 10Y yields rising to five-month highs, as expectations that rate cuts will not be seen before September were reinforced. April culminated in the FOMC meeting at month-end which saw rates held steady, with the Fed notably suggesting that the next move is unlikely to be a hike. Meanwhile in Asia, the BOJ decided to leave policy unchanged, with Governor Ueda adding that Yen depreciation to date has not had a major impact on underlying inflation. 10Y JGB yields ended the month at 0.87%.
Credit	In the US, IG credit spreads continued to fall, tightening 3bps to 87bps at the end of the month. Meanwhile, US HY credit spread widened 2bps to finish at 301bps, but remained tight despite a pickup in distress. In the region, Asia IG credit spreads continued to trend downwards by 9bps, while Asia HY saw credit spreads increasing by 6bps.

Performance and yield level of key asset classes as of 2024/04/30

		Total Return			Yield level		Spread level (bps) (credit only)	
	Index	**YTD**	**QTD**	**MTD**	**Apr-end**	**ΔMTD**	**Apr-end**	**ΔMTD**
Aggregate	Global Aggregate	-4.55%	-2.52%	-2.52%	4.06%	0.32%		
	US Aggregate	-3.28%	-2.53%	-2.53%	5.31%	0.46%		
	Japan FI, N-BPI	-1.64%	-1.13%	-1.13%	0.83%	0.11%		
Treasury & Agency	US Treasury	-3.26%	-2.33%	-2.33%	4.88%	0.45%		
	Agency MBS	-4.04%	-3.03%	-3.03%	5.57%	0.53%		
	China(CGB+PB)	2.42%	0.33%	0.33%	2.22%	-0.03%		
Credit (IG & HY)	US IG Corporates	-2.93%	-2.54%	-2.54%	5.73%	0.43%	87	-3
	US HY Corporates	0.52%	-0.94%	-0.94%	8.11%	0.45%	301	2
	Asia IG, JACI IG	-0.70%	-1.26%	-1.26%	5.64%	0.37%	120	-9
	Asia HY, JACI HY	6.16%	-0.62%	-0.62%	13.51%	0.50%	735	6
Emerging Markets	EM HC, EMBI GD	-0.08%	-2.08%	-2.08%	8.52%	0.78%	373	31
	EM LC, GBI-EM	-4.21%	-2.14%	-2.14%	6.63%	0.36%	-	-

Source: Bloomberg, as of 30 April 2024. 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 2024/04/30

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	-5.52%	-3.93%	-5.20%	-3.46%
KRW	-2.01%	-0.38%	-2.12%	-0.32%
AUD	-1.06%	+0.57%	-0.79%	+1.03%
CNY	-6.79%	-5.21%	-2.68%	-0.90%
SGD	-1.75%	-0.12%	-1.77%	+0.04%

Source: Bloomberg, as of 30 April 2024. 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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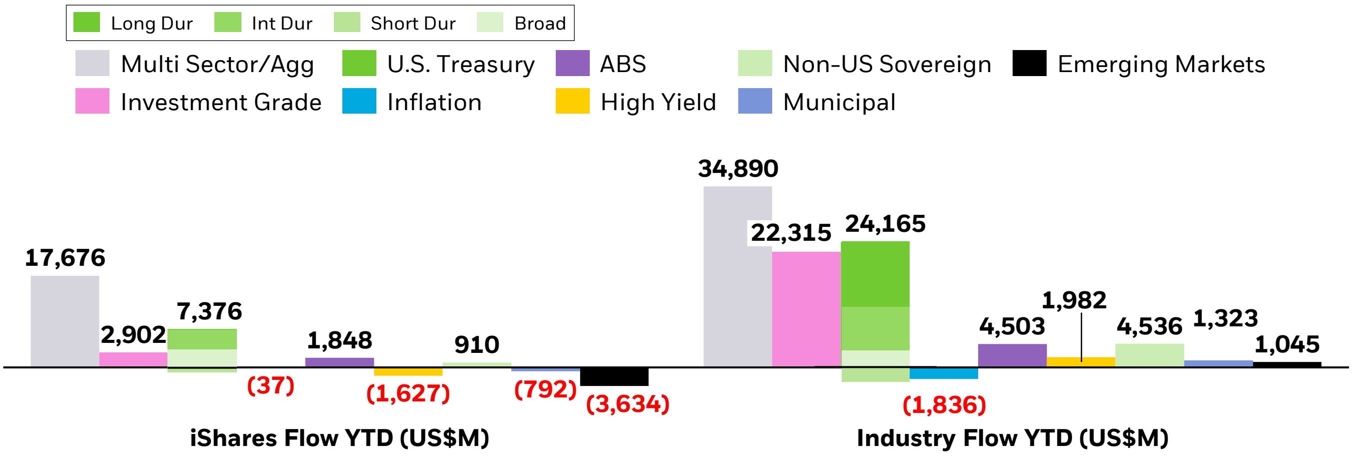
2024 April iShares Status Flow

1. **In April, global iShares Fixed Income extended inflows from March +$5.5B.** Broad market exposures have had sizable monthly inflows since the start of 2024 – April's addition of another **+$17.7B** brings YTD flows to 60% of total sector flows in 2023, and US Aggregate remained the top exposure held by global investors.
2. **Amid shifting rate expectations on timing of Fed's first cut, U.S. Treasury ETFs had their highest flow month of the year +$2.6B.** UST yields rose across the curve; investors favored short **+$1.8B** to intermediate **+$1.2B** term for asset allocation. Rate-sensitive sectors such as MBS also saw a spike in flows, with **iShares MBS ETFs reaching a 17-month high in April +$1.4B.**
3. **iBonds fixed maturity ETFs remain heavily utilized** by investors to lock in higher yields with the majority of flows into IG and UST, totaling **+$5.7B** YTD.
4. **Credit sectors shed assets -$4.3B,** driven by trading vehicles in IG and HY. **The bright spot was AAA CLO** – a combination of high-quality floating rate exposure and income, which provided investors with stability throughout the recent risk-off market environment. The exposure added over **+$100M** for the month, close to 70% of YTD flows.



Top/Bottom iShares Fixed Income ETF Sector Flows

Top 5 Exposures	MTD Flow ($M)	% of AUM
Multi Sector - Broad	4,406	3%
U.S. Treasury - Short Dur	1,778	2%
ABS - Broad	1,424	4%
U.S. Treasury - Int Dur	1,210	2%
Investment Grade - Fixed	715	4%
Top 5 Exposures Total	**9,532**	

Top 5 Exposures	YTD Flow ($M)	% of AUM
Multi Sector - Broad	17,676	10%
Investment Grade - Fixed	3,694	20%
U.S. Treasury - Int Dur	3,461	6%
U.S. Treasury - Broad	3,322	13%
ABS - Broad	1,848	6%
Top 5 Exposures Total	**30,001**	

Bottom 5 Exposures	MTD Flow ($M)	% of AUM
Investment Grade - Broad	(3,537)	-4%
High Yield - Broad	(2,511)	-5%
U.S. Treasury - Long Dur	(663)	-1%
Inflation - Broad	(425)	-2%
Investment Grade - ESG	(134)	-2%
Bottom 5 Exposures Total	**(7,270)**	

Bottom 5 Exposures	YTD Flow ($M)	% of AUM
Emerging Market - Broad	(3,634)	-10%
Investment Grade - Broad	(2,860)	-3%
High Yield - Broad	(2,736)	-5%
Multi Sector - Short Dur	(767)	-7%
U.S. Treasury - Short Dur	(760)	-1%
Bottom 5 Exposures Total	**(10,758)**	

Source: BlackRock, as of Apr 30 2024. Reference to $ refers to USD.
iShares and industry ETF flows encompass globally listed products. 'Broad' categories reference blended maturity products.

Bond ETFs for every scenario

In our latest whitepaper "**No Time to Yield**", we underscore that rather than waiting for a clear direction on rate cuts, investors should put cash to work with bond ETFs. This month, we explore different exposures that investors can turn to depending on their view of the markets and which portfolio outcome they seek, using three scenarios.

Scenario 1 — Central banks engineer a soft landing

What does this mean?

A 'goldilocks' scenario where inflation falls and central banks start to gradually cut rates and re-steepen/ normalize the yield curve to become upward-sloping again.

What exposures can investors use?

Investors can consider balancing the belly of the curve with high-quality, longer-duration bonds and higher income asset classes. **Intermediate duration exposures** may offer a good trade-off between current yield and potential upside valuation gains as rates fall. For investors seeking higher income, **high yield credit and other risk assets** could become much more attractive with lower refinancing risk and positive economic growth helping to contain default risk.

Scenario 2 — Central banks cut rates given fears of recession

What does this mean?

A hard landing or recessionary scenario where both growth and inflation may recede rapidly, which may lead to a sudden decrease in policy rates.

What exposures can investors use?

While short-term rates are high, cash will not provide the same ballast as bonds. Such a scenario could harm risk assets and has historically triggered a flight to quality in which the long maturity instruments typically benefit from falling yields. Investors can consider "barbelling" their current cash allocation with **long duration instruments** to help cushion risk assets and provide equity diversification. Investors may consider holding **high quality assets** like government bonds and higher quality credit exposures.

Scenario 3 — Central banks hike again

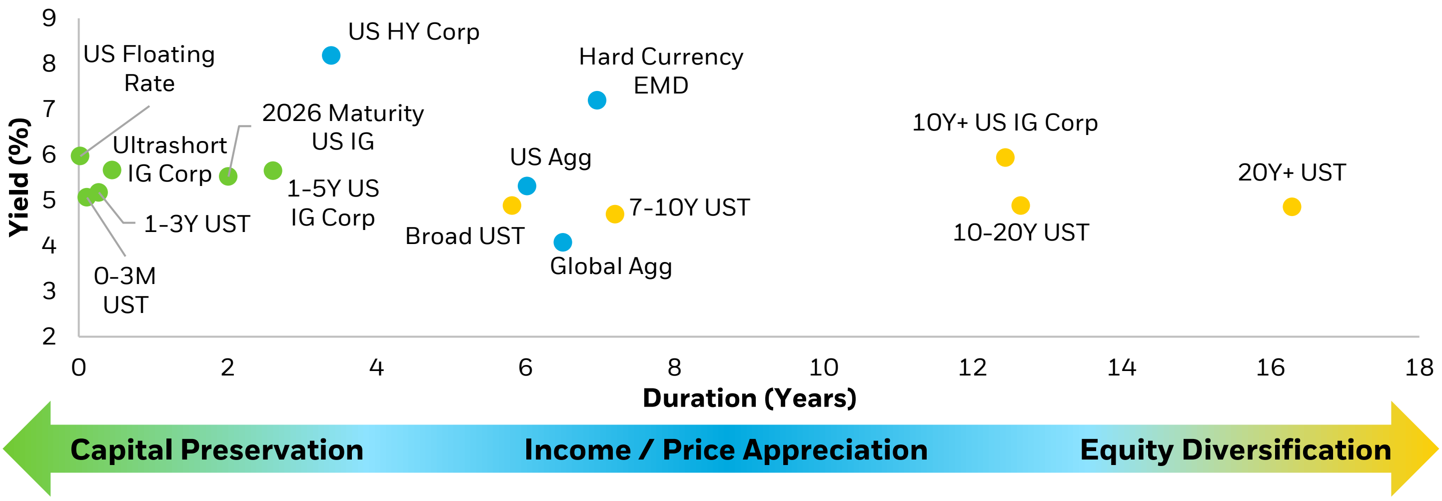
What does this mean?

Inflation persists and central banks maintain or even enhance restrictive monetary policy, even at the cost of deteriorating economic growth.

What exposures can investors use?

Investors may want to continue owning shorter maturity instruments, which may help insulate from further policy rate increase and stickier inflation. With current inverted yield curves, **shorter-duration maturities** could offer attractive yields versus cash and could support those seeking capital preservation. Investors may also consider holding **high quality assets** like US Treasuries and higher quality credit exposures.

Figure 1: Selected fixed income exposures for potential scenarios



Conclusion

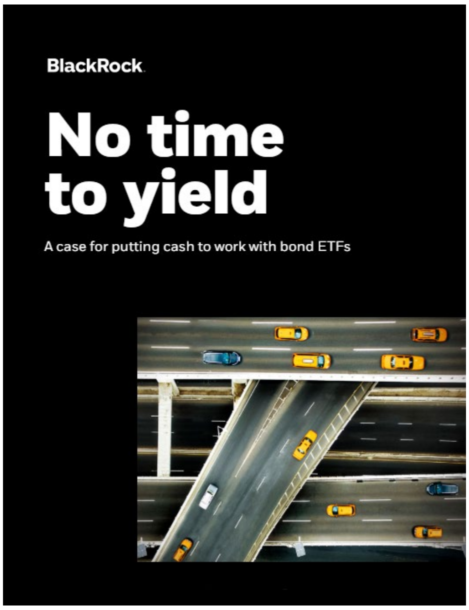
Bond ETFs are on a path to US$ 6T in assets by 2030. Regardless of which scenario unfolds, bond ETFs are a low-cost tool offering the efficiency and precision needed for investors to transition from cash and navigate the new market regime effectively.

Source: BlackRock, Bloomberg, as of 30 April 2024. Reference to LEGATRUU, LBUSTRUU, HUC0, JPEICORE, IDCOTC, IDCOT7, IDCOT10, IDCOT20, C9A0, IBXXUSU1, BFU5TRUU, GATX, GATS, CVA0, I37621US Index. Reference to "No Time to Yield". There is no guarantee that any forecasts made will come to pass.

To find out more about how you can use bond ETFs, contact your iShares representative.

No Time to Yield

A case for putting cash to work with bond ETFs



Last year, our whitepaper **"The Great Yield Reset"** discussed the generational opportunity for investors to rethink their portfolios with a greater focus on fixed income.

In our latest paper **"No Time to Yield"**, we highlight our updated expectation that global bond ETFs will reach US$6 trillion in AUM by 2030. We discuss the opportunity within bonds and why investors may want to consider moving now to capture decades-high yields, get cash off the sidelines, and employ efficient, precise tools such as bond ETFs in this new market regime.

As investors take a more dynamic approach to asset allocation, we believe bond ETFs are among the most powerful tools within the investor tool kit to navigate this market environment.

The timing of potential interest rate cuts may be uneven worldwide, but the message is clear: Don't wait.

Source: BlackRock, "No Time to Yield", as of April 2024.
There is no guarantee that any forecasts made will come to pass.

Key themes we discuss in this piece:

1

Time to put cash to work and capture higher rates
Yields are higher today than they have been in years. If inflation indicators continue to fall, the time of elevated cash rates may be drawing to a close.

2

Investors are choosing bond ETFs in record numbers, but they have room to do more
Many investors are still significantly underweight to fixed income, with a 22% average allocation, based on total global industry AUM, far below the "60/40" portfolio allocation often referenced in balanced portfolio discussions.

3

Now is the time to move
Even with ongoing volatility in economic data and bond markets, we believe it's time for investors to move because, historically, the market has tended to price in rate actions before they occur.

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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