

# ASIA FIX



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

## iShares Fixed Income Product Strategy

April 2025

### March Market Highlights

#### Global Rates

March saw the Fed unanimously voting to keep rates unchanged for the second time in a row. Markets saw the meeting outcome as more dovish, with rates drifting lower. The curve steepened, with the 2Y yield ending at 3.88% and the 10Y at 4.21%. Notably, Fed Chair Powell downplayed the potentially inflationary impact of tariffs as “transitory”. Outside of the US, the BOE held rates at 4.50%, a decision that was fully priced in. In Japan, the BOJ held rates steady at 0.5%, while noting uncertainties surrounding the growth and inflation outlook. 10Y JGB yields finished the month at 1.49%.

#### Credit

In the US, credit spreads widened in March, continuing to move out of historically low territories as concerns over the impact of tariffs and downside risks to US growth increased continued to grow ahead of “Liberation Day” on 2<sup>nd</sup> April. IG credit spreads rose by 7bps to 94bps while HY spreads rose more substantially by 67bps to 347bps. In Asia, a similar story of spreads widening saw IG spreads moving 18bps higher to 122bps, while HY spreads increased by 15bps to 535bps.

### Performance and yield level of key asset classes as of 2025/3/31

	Index	Total Return			Yield level			Spread level (bps) (credit only)		
		YTD	QTD	MTD	Mar-end	ΔMTD	ΔYTD	Mar-end	ΔMTD	ΔYTD
Aggregate	Global Aggregate	2.64%	2.64%	0.62%	3.62%	0.08%	-0.06%			
	US Aggregate	2.78%	2.78%	0.04%	4.60%	0.02%	-0.31%			
	Japan FI, N-BPI	-2.36%	-2.36%	-0.98%	1.43%	0.11%	0.33%			
Treasury & Agency	US Treasury	2.92%	2.92%	0.23%	4.11%	-0.03%	-0.34%			
	Agency MBS	3.06%	3.06%	-0.02%	4.92%	0.07%	-0.35%			
	China(CGB+PB)	-0.74%	-0.74%	-0.27%	1.78%	0.05%	0.26%			
Credit (IG & HY)	US IG Corporates	2.31%	2.31%	-0.29%	5.15%	0.07%	-0.18%	94	7	14
	US HY Corporates	1.00%	1.00%	-1.02%	7.73%	0.58%	0.24%	347	67	60
	Asia IG, JACI IG	2.18%	2.18%	0.04%	5.14%	0.07%	-0.17%	122	18	19
	Asia HY, JACI HY	2.99%	2.99%	0.37%	10.07%	0.05%	-0.21%	535	15	14
Emerging Markets	EM HC, EMBI GD	2.24%	2.24%	-0.76%	7.77%	0.21%	-0.09%	349	21	24
	EM LC, GBI-EM	4.31%	4.31%	1.55%	6.30%	-0.03%	-0.09%	-	-	-

Source: Bloomberg, as of 31 March 2025. 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 2025/3/31

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)

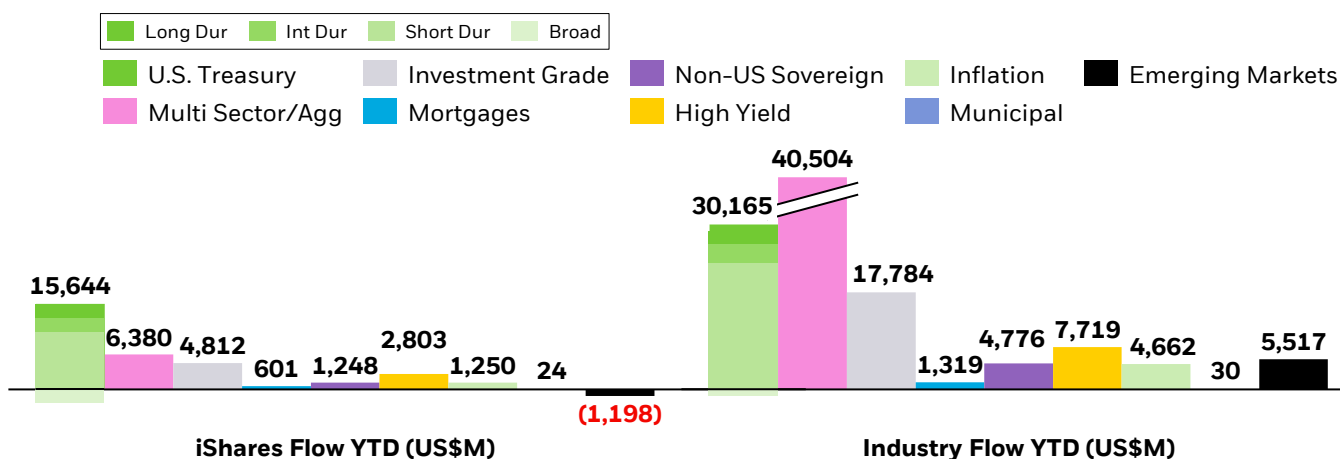
Local Currency	3M		12M	
	USD	EUR	USD	EUR
JPY	-4.03%	-2.00%	-3.53%	-1.63%
KRW	-1.97%	+0.08%	-1.81%	+0.13%
AUD	-0.30%	+1.75%	-0.24%	+1.73%
CNY	-4.68%	-2.65%	-2.37%	-0.44%
SGD	-1.88%	+0.18%	-1.76%	+0.20%

Source: Bloomberg, as of 31 March 2025. 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.



## 2025 Q1/March iShares Status Flow

- Flow momentum slowed for iShares fixed income ETFs in March +\$3.7B, bringing Q1 total flows to +\$29B.** Top inflow sectors included U.S. Treasury +\$2.8B, High Yield +\$1.6B and Investment Grade +\$965M. Outflows were driven by hard currency EM debt -\$1B.
- U.S. Treasury was the largest asset gatherer across sectors +\$2.8B,** with a heavy skew to short term bonds. The 0-3M bucket alone added +\$3.9B, while broad market shed -\$2.9B. Long-duration saw near-flat net flows -\$51M, with investors buying into 10-20Y while net selling the 20+Y trading vehicle.
- Investment Grade follows UST as the next best performing sector in terms of flows, adding +\$6B in Q1,** followed by aggregate exposures +\$3.9B and High Yield +\$2.8B. Floating rate bond ETFs topped IG sector inflows for the quarter, while broad market HY remained sticky, adding +\$1.9B in Q1, followed by HY systematic strategy +\$448M.
- Fixed maturity iBonds ETFs gained assets across Investment Grade and UST,** bringing total flows in Q1 to +\$4.1B. The UCITS range grew from \$3B in assets one year ago to now \$8B.
- Active strategies saw inflows extend into March, adding +\$1.1B, driven by broad market and money market exposures.** Assets managed by iShares fixed income active ETFs more than doubled to \$24B in 2 years' time. Our flagship flexible income strategy gathered +\$407M in March, reaching \$8.6B in AUM by month-end.



## Top/Bottom iShares Fixed Income ETF Sector Flows

Top 5 Exposures	MTD Flow (\$M)	% of AUM
U.S. Treasury – Short Dur	4,549	4%
High Yield – Broad	1,532	2%
Investment Grade – Short Dur	787	2%
U.S. Treasury – Intr Dur	778	1%
Investment Grade – Fixed Dur	393	1%
<b>Top 5 Exposures Total</b>	<b>8,039</b>	

Top 5 Exposures	YTD Flow (\$M)	% of AUM
U.S. Treasury – Short Dur	11,764	10%
Multi Sector – Broad	5,660	3%
U.S. Treasury – Intr Dur	2,936	4%
U.S. Treasury – Long Dur	2,646	4%
Investment Grade – Fixed Dur	2,537	9%
<b>Top 5 Exposures Total</b>	<b>25,543</b>	

Bottom 5 Exposures	MTD Flow (\$M)	% of AUM
U.S. Treasury – Broad	(2,877)	-8%
Emerging Markets – Broad	(1,067)	-3%
Non-US Sovereign – Broad	(665)	-2%
Municipal – Broad	(588)	-1%
Investment Grade – Broad	(525)	0%
<b>Bottom 5 Exposures Total</b>	<b>(5,721)</b>	

Bottom 5 Exposures	YTD Flow (\$M)	% of AUM
U.S. Treasury – Broad	(2,853)	-8%
Emerging Markets – Broad	(1,198)	-3%
Multi Sector – ESG	(27)	-1%
Investment Grade – Long Term	(13)	0%
Investment Grade – ESG	(0)	0%
<b>Bottom 5 Exposures Total</b>	<b>(4,091)</b>	

Source: BlackRock, as of March 31, 2025. Reference to \$ refers to USD.

iShares and industry ETF flows encompass globally listed products. 'Broad' categories reference blended maturity products.

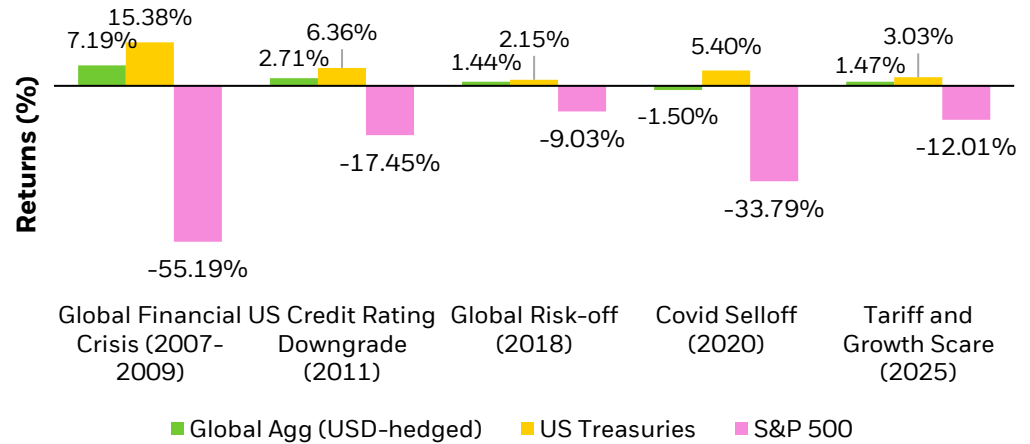
# The Bonds of Liberation

Trump's slew of "Liberation Day" tariffs delivered a shock to markets, introducing yet another bout of volatility in a year that has been marked by a volatile start just three months in. Amidst heightened growth and inflation concerns, we explain what this means for the opportunity in fixed income, and the bond ETFs that can deliver the precision for investors to position themselves for the impact of tariffs.

## Bonds as ballast

Amidst the broad selloff in equities in response to the tariff announcements, stock-bond correlation has moved back into negative territory, with duration assets seeing a rally. Fixed income has historically been an effective portfolio ballast especially during risk-off periods, increasing the appeal of core fixed income allocation for equity diversification again (Figure 1).

**Figure 1: Bonds have historically performed well as a flight-to-safety exposure during risk-off periods**



Source: Bloomberg, as of 3 April 2025. Reference to LGCPTRUH, IDCOTC, SPX Index. Global Financial Crisis measured 10 October 2007 – 9 March 2009, US Credit Rating Downgrade measured 25 July 2011 – 3 October 2011, Global Risk-off measured 30 November 2018 – 31 December 2018, Covid Selloff measured 19 February 2020 – 23 March 2020, Tariff and Growth Score measured 19 February 2025 – 3 April 2025.

## What happens from here?

While the market consensus is that tariffs will drive inflation higher and growth lower, uncertainty over the path of tariffs going forward means that investors have one key question to consider - how will inflation-growth dynamics play out?

### Scenario 1: Recession fears overshadow inflation

Where growth concerns take the front seat and rates are expected to fall while credit spreads widen, investors increase portfolio ballast **with rates** while **extending duration within portfolios**.

With granular maturity buckets available in the US Treasury ETF toolkit, investors can access duration through the 3-7 year **belly of the curve**.

Alternatively, a **barbell approach** could offer a more attractive yield/duration profile while reducing portfolio risk. Short-end US Treasuries offer stability and income, while the long-end serves as a capital efficient option to add duration to portfolios with maximum price appreciation potential.

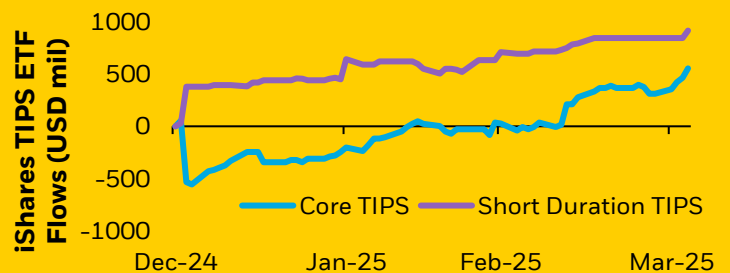
	Belly Exposure	Barbell Approach
<b>Exposure</b>	3-7Y UST	75% 0-3M UST 25% 20Y+ UST
<b>Yield</b>	3.96%	4.24%
<b>Duration</b>	4.32Y	4.10Y
<b>Risk</b>	467bps	371bps

Source: Left chart - BlackRock, as of 31 March 2025. Risk represents ex-ante risk analysis, based on 72 monthly observations with 36-month half life. Right chart - Bloomberg, as of 3 April 2025. Flow data based on iShares TIPS ETF flows.

### Scenario 2: Inflation spikes triggering rates reversal

If inflation rears its ugly head, the Fed will likely lack the room to cut rates, meaning rates could remain steady or even continue to rise. **TIPS, specifically short duration TIPS**, offer a balance in managing inflation risk and interest rate risk.

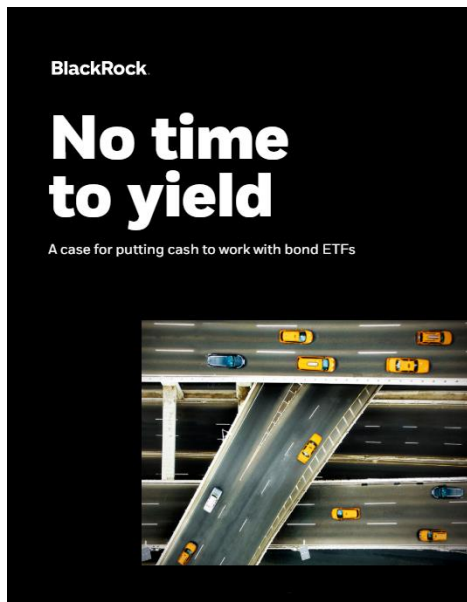
At a yield level of over 3.6% today which comprises majority breakeven inflation (2.5%) and the rest real yield (1.1%), investors can benefit from an **inflation hedge** should inflation rise, while maintaining a nominal duration sensitivity of only just over 2 years. Short duration TIPS have seen stronger inflows in a year which has seen flows broadly returning to TIPS ETFs.



**To find out more about Bond ETFs in the face of tariffs, 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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