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

February 2025

January Market Highlights

Global Rates	January's FOMC meeting saw the fed funds rate unchanged, with Fed Chair Powell characterizing policy as "meaningfully restrictive", while the new administration's impact on inflation will remain a focus this year. The committee remains cautious and in wait-and-see mode. Outside of the US, Japan raised its short-term policy rate from 0.25% to 0.50%. ECB also conducted an expected rate cut of 35bps, while 4 more cuts are anticipated for the rest of 2025 to reach the target key rate of 2%.
Credit	In the US, IG credit spreads were marginally changed, while HY credit spreads continued to grind tighter amid a more favorable environment for risk assets. Despite the volatilities and uncertainties in the market, investor demand remain steady given attractive yields. Asia USD credit overall continues to be supported by strong technical factors albeit tight IG spreads at 102bps, while HY spreads rose by 13bps to 534bps post China property-induced volatility.

Performance and yield level of key asset classes as of 2025/1/31

		Total Return			Yield level			Spread level (bps) (credit only)		
	Index	**YTD**	**QTD**	**MTD**	**Jan-end**	**ΔMTD**	**ΔYTD**	**Jan-end**	**ΔMTD**	**ΔYTD**
Aggregate	Global Aggregate	0.57%	0.57%	0.57%	3.66%	-0.02%	-0.02%			
	US Aggregate	0.53%	0.53%	0.53%	4.86%	-0.05%	-0.05%			
	Japan FI, N-BPI	-0.74%	-0.74%	-0.74%	1.22%	0.12%	0.12%			
Treasury & Agency	US Treasury	0.52%	0.52%	0.52%	4.42%	-0.03%	-0.03%			
	Agency MBS	0.51%	0.51%	0.51%	5.19%	-0.08%	-0.08%			
	China(CGB+PB)	0.24%	0.24%	0.24%	1.56%	0.04%	0.04%			
Credit (IG & HY)	US IG Corporates	0.55%	0.55%	0.55%	5.30%	-0.03%	-0.03%	79	-1	-1
	US HY Corporates	1.37%	1.37%	1.37%	7.20%	-0.29%	-0.29%	261	-26	-26
	Asia IG, JACI IG	0.52%	0.52%	0.52%	5.30%	-0.01%	-0.01%	102	-1	-1
	Asia HY, JACI HY	0.08%	0.08%	0.08%	10.56%	0.28%	0.28%	534	13	13
Emerging Markets	EM HC, EMBI GD	1.44%	1.44%	1.44%	7.74%	-0.12%	-0.12%	316	-9	-9
	EM LC, GBI-EM	2.05%	2.05%	2.05%	6.33%	-0.06%	-0.06%	-	-	-

Source: Bloomberg, as of 31 January 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 2025/1/31

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	-4.16%	-2.34%	-3.78%	-1.82%
KRW	-1.64%	+0.20%	-1.87%	+0.13%
AUD	-0.20%	+1.60%	-0.29%	+1.75%
CNY	-3.43%	-1.66%	-1.86%	+0.15%
SGD	-1.46%	+0.33%	-1.49%	+0.52%

Source: Bloomberg, as of 31 January 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.

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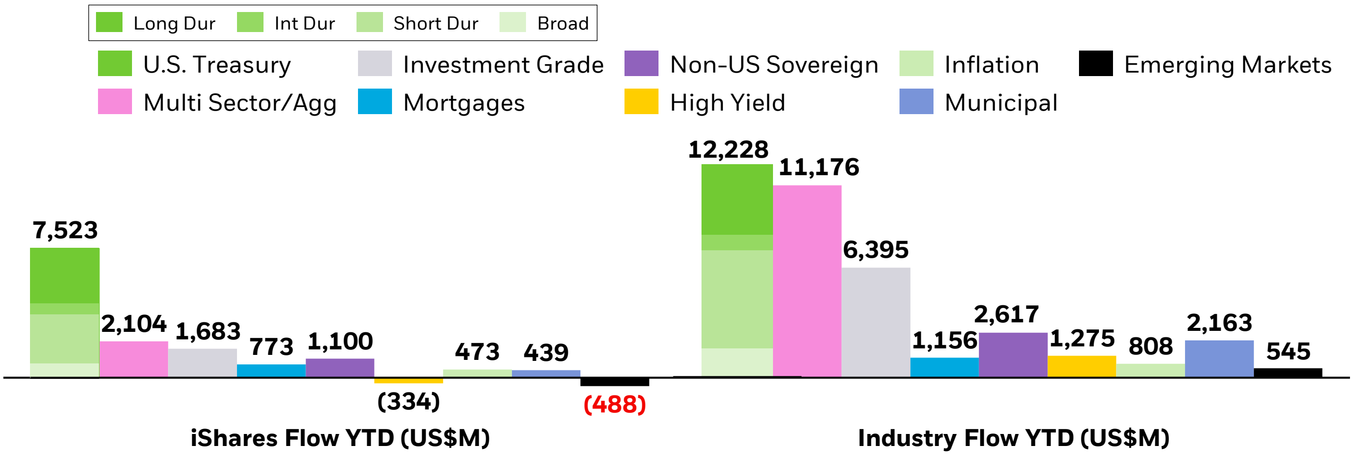
2025 January iShares Status Flow

1. **iShares global fixed income ETFs had a strong start to 2025, attracting over $14B in inflows in January, with a focus on quality.** U.S. Treasury +$7.5B, broad market +$2.1B, and Investment Grade +$1.7B led inflows, while High Yield -$0.3B and EM -$0.5B shed assets.
2. **Net flows into U.S. Treasury returned to positive territory +$7.5B.** Inflows are registered across all maturity buckets. Short-term UST continued to attract investments +$2.7B, with significant flows into 0-3M duration +$2.2B. The long-term bucket saw elevation in flows due to impact from financial vehicles +$3B.
3. **Broad market ETFs gathered healthy inflows, adding +$2.1B.** Active strategies continued to attract interest, accounting for ~30% of iShares broad market flows in January. Our flexible income ETF has seen strong demand since its debut, reaching $7.5B in AUM in just under 2 years post-launch. Honing into global government bonds, our newly listed ETF also gathered +$512M, with demand from APAC official institutions.
4. **iBonds fixed maturity ETFs gathered $1.8B for the month**, ending January at just under $40B in AUM across the global suite. IG exposures accounted for $26B.
5. **In the credit realm, iShares range added +$1.3B.** IG was up +$1.7B, while EUR HY corporates shed -$430M. Investors overall preferred shorter duration IG as they remain cautious of interest rate risk. Further, hard currency EM debt saw outflows of -$419M.



Top/Bottom iShares Fixed Income ETF Sector Flows

Top 5 Exposures	MTD Flow ($M)	% of AUM
U.S. Treasury – Long Dur	3,010	4%
U.S. Treasury – Short Dur	2,656	3%
Multi Sector - Broad	2,149	1%
Investment Grade - Fixed Dur	1,147	4%
Non-US Sovereign - Broad	858	3%
Top 5 Exposures Total	**9,820**	

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Bottom 5 Exposures	MTD Flow ($M)	% of AUM
High Yield - Broad	(667)	-1%
Emerging Markets - Broad	(488)	-1%
Inflation - Broad	(294)	-1%
Investment Grade - Broad	(112)	0%
Multi Sector - Short Dur	(88)	-1%
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Source: BlackRock, as of January 31, 2025. Reference to $ refers to USD.
iShares and industry ETF flows encompass globally listed products. 'Broad' categories reference blended maturity products.

Snakes and (Bond) Ladders

Fixed income markets in January could be likened to the game of snakes and ladders – while returns were broadly positive, this was not without much volatility – The Year of the Snake has so far seen strong economic data to start the year, yet Trump's proposed policy mix of tax cuts, tariffs, and an immigration crackdown fueled expectations for higher US inflation and sparked worries for the growth picture ahead, leading the yield curve to flatten to a multi-week low.

While this can be challenging for fixed income investors who are looking for stable quality income with minimal interest rate moves – this is easily solved through a diversified bond ladder strategy.

A risk-controlled approach to building bond ladders

Bond ladders can be built in many ways to meet a specific investment objective. A bond ladder allows an investor to maximize income at different points on the curve whilst managing interest rate risk nimbly. If the investor expects rates to rise, proceeds from near-term maturities in the bond ladder can be reinvested into longer-term maturities to lock in higher yields.

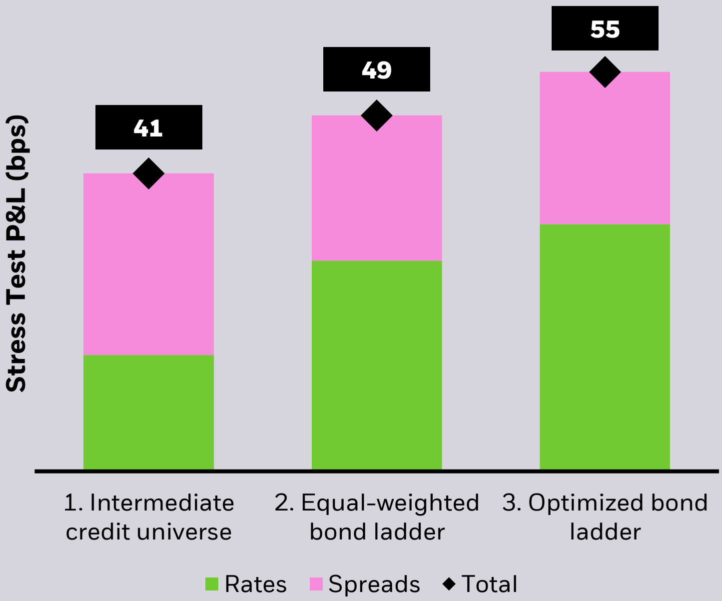
A better solution is an optimized bond ladder across maturities – made even better with **iBonds**. This offers investors the opportunity to capture the upside potential from expected (or unexpected) yield curve or spread changes. For example, if a scenario plays out where the yield curve flattens further, positioning towards the intermediate and longer end of the curve while maintaining the same portfolio risk can lead to enhanced performance (Chart 1). In any case, even if the market does not move in favour of the trade, the investor can simply hold the rungs of ladder to maturity to protect against the downside.

Similar headline risk profiles across portfolios...

Maturity	1. Intermediate credit universe	2. Equal-weighted iBonds ladder	3. Optimized iBonds ladder
2025	-	10%	20%
2026	12.1%	10%	5%
2027	13.4%	10%	5%
2028	14.7%	10%	5%
2029	13%	10%	16.1%
2030	11.8%	10%	5%
2031	8.6%	10%	5%
2032	6.6%	10%	18.9%
2033	8.1%	10%	20%
2034	7.7%	10%	-
Above	4.1%	-	-
Yield	**4.99%**	**5.00%**	**5.02%**
Duration	**3.97**	**4.11**	**4.01**
Risk (bps)	**340**	**350**	**350**

...but with different upside potential

Chart 1 – Stress Testing: Curve flattening on stagflation fears



Source: BlackRock, Aladdin, as of 31 January 2025. There is no guarantee that stress testing will eliminate the risk of investing in this fund or strategy nor that the Profit & Loss movements depicted in the stress testing will replicate in the future. For illustrative purposes only.

Build better bond ladders with iBonds ETFs today

Predictable income with controlled risk

The ability to lock in yields with iBonds provide stable income for investors irrespective of changing interest rate environments.

Scalability

iBonds are denominated in low NAVs, which makes it extremely easy to build scalable bond ladders relative to individual bonds, which can be operationally complex and resource-intensive to manage.

Diversification

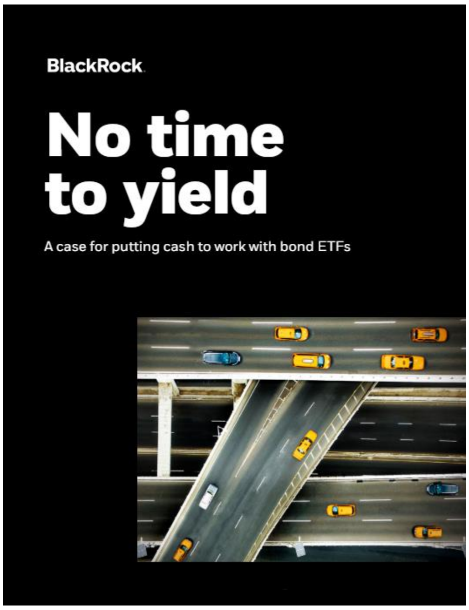
The iBonds' asset pool is diversified through transparent, rules-based index methodology, which minimizes idiosyncratic risk in the portfolio and increases predictability in returns.

Note: Diversification may not fully protect you from market risk.

To find out more about iBonds 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.

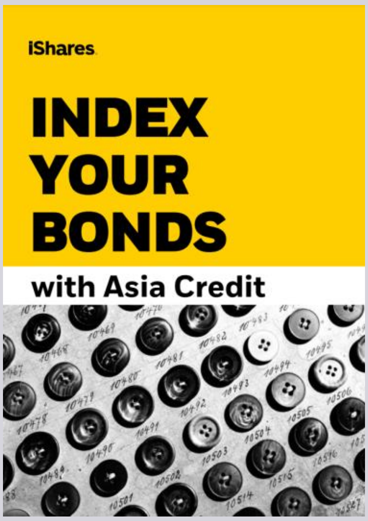
2 **Investors are choosing bond ETFs in record numbers, but they have room to do more**
Many investors are still significantly underweight to fixed income, with a 22% average allocation, based on total global industry AUM, far below the "60/40" portfolio allocation often referenced in balanced portfolio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