

ASIA FIX



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

iShares Fixed Income Product Strategy

January 2026

December Market Highlights

Global Rates

As widely anticipated, the Fed delivered its third consecutive 25bps rate cut to 3.50-3.75% to close 2025 amid persistent downside risks to employment. However, mixed economic data releases and a split 9-3 vote signaled rising uncertainty and internal division, with the dot plot now projecting just one cut each in 2026 and 2027. In Europe, the BOE enacted a similar 25bps cut by a narrow 5-4 vote, while the ECB held rates at 2%. Notably, 10Y German bunds and French OATs reached highs unseen since 2011 as investors repriced expectations. Meanwhile, Japan's policy divergence continued, with the BOJ hiking rates by 25bps to address ongoing inflationary pressures.

Credit

Despite the rates volatility in December, the usual year end lull in primary alongside a broadly supportive risk backdrop remained supportive for credit spreads. With issuance subdued and sentiment largely holding up into year-end, spread performance was constructive across regions. In the US, both IG and HY spreads tightened modestly by 2-3bps, while in Asia, spread compression was more pronounced, with IG ending the month 10bps tighter and HY tightening sharply by 45bps.

Performance and yield level of key asset classes as of 2025/12/31

	Index	Total Return			Yield level			Spread level (bps) (credit only)		
		YTD	QTD	MTD	Dec-end	ΔMTD	ΔYTD	Dec-end	ΔMTD	ΔYTD
Aggregate	Global Aggregate	8.17%	0.24%	0.26%	3.52%	0.08%	-0.16%			
	US Aggregate	7.30%	1.10%	-0.15%	4.32%	0.05%	-0.59%			
	Japan FI, N-BPI	-6.04%	-2.21%	-1.25%	1.94%	0.21%	0.84%			
Treasury & Agency	US Treasury	6.32%	0.90%	-0.33%	3.89%	0.06%	-0.56%			
	Agency MBS	8.58%	1.71%	0.21%	4.63%	0.02%	-0.64%			
	China(CGB+PB)	0.35%	0.42%	-0.13%	1.72%	0.02%	0.20%			
Credit (IG & HY)	US IG Corporates	7.77%	0.84%	-0.20%	4.81%	0.05%	-0.52%	78	-2	-2
	US HY Corporates	8.62%	1.31%	0.57%	6.53%	-0.04%	-0.96%	266	-3	-21
	Asia IG, JACI IG	7.83%	1.22%	0.21%	4.77%	0.02%	-0.54%	102	-10	-1
	Asia HY, JACI HY	10.79%	1.59%	0.90%	8.07%	-0.54%	-2.21%	412	-45	-109
Emerging Markets	EM HC, EMBI GD	14.30%	3.29%	0.72%	6.80%	-0.03%	-1.06%	253	-16	-72
	EM LC, GBI-EM	19.26%	3.34%	1.49%	5.87%	-0.03%	-0.52%	-	-	-

Source: Bloomberg, as of 31 December 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 2025/12/31

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.

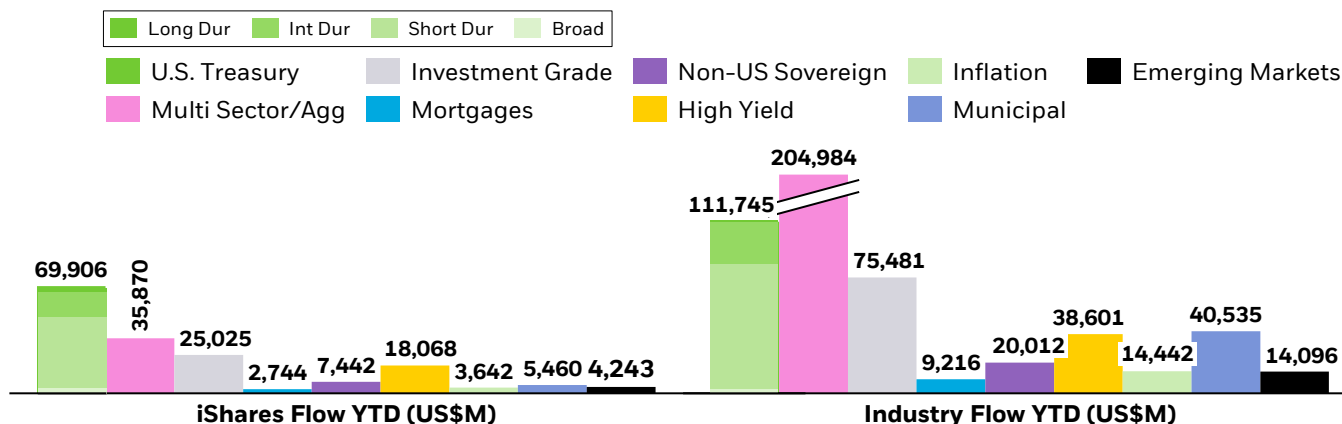
Currency to Hedge (Forward tenors: 3-month and 12-month, annualized)

Local Currency	3M		12M	
	USD	EUR	USD	EUR
JPY	-3.11%	-1.46%	-2.73%	-1.30%
KRW	-1.45%	+0.25%	-1.29%	+0.17%
AUD	-0.00%	+1.72%	+0.49%	+1.97%
CNY	-1.45%	+0.25%	-1.79%	-0.35%
SGD	-2.37%	-0.69%	-2.09%	-0.65%

Source: Bloomberg, as of 31 December 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 Q4 / December iShares Status Flow

- iShares fixed income ETFs ended the year with a healthy +\$12B inflow in December, capping off the strongest quarter of the year (+\$53B).** Full-year inflows reached +\$177B, up +55% vs. 2024 and smashing 2022's record of +\$123B, with every broad fixed income sector seeing net inflows in 2025. December flows were led by Multisector (+\$4.9B) and U.S. Treasuries (+\$4.2B), with HY (+\$1.7B) and EM (+\$1.2B) also contributing meaningfully.
- U.S. Treasuries remained a key flow driver, with demand heavily concentrated at the front end.** The 0–3M bucket attracted a robust +\$5.8B, led by the flagship ultrashort ETF, while intermediate tenors saw modest inflows and long-duration exposures recorded slight outflows.
- EM flows remained resilient, albeit still skewed toward hard currency (+\$654M) as the rebound in flows continued.** Local currency exposures also gathered inflows (+\$196M), while EM corporates added +\$141M, marking their strongest month of the year.
- Credit inflows remained positive but continued to moderate (+\$438M), though HY rebounded sharply following prior-month outflows, led by +\$1.3B into the flagship USD HY exposure.** Elsewhere in the Multi Sector space, the core U.S. aggregate exposure drew +\$1.5B, alongside +\$519M into international aggregate exposures.
- Active and outcome-oriented strategies closed the year on a strong note, posting their strongest month of 2025 with +\$4.4B in inflows,** driven by iBonds target maturity ETFs (+\$3B) and the flexible income strategy (+\$750M).



Top/Bottom iShares Fixed Income ETF Sector Flows

Top 5 Exposures	MTD Flow (\$M)	% of AUM
U.S. Treasury – Short Dur	4,664	3%
Multi Sector – Broad	4,429	2%
High Yield – Broad	1,660	2%
Emerging Markets – Broad	1,190	3%
Investment Grade – Short Term	1,110	2%
Top 5 Exposures Total	13,052	

Top 5 Exposures	YTD Flow (\$M)	% of AUM
U.S. Treasury – Short Dur	46,397	30%
Multi Sector – Broad	31,829	14%
U.S. Treasury – Inter Dur	16,035	19%
High Yield – Broad	15,264	18%
Investment Grade – Fixed Mat	8,539	24%
Top 5 Exposures Total	118,064	

Bottom 5 Exposures	MTD Flow (\$M)	% of AUM
Mortgages – Broad	(2,480)	-2%
High Yield – Broad	(822)	-9%
Non U.S. Sovereign – Short Dur	(697)	-2%
Inflation – Short Dur	(695)	-1%
Investment Grade – Short Dur	(561)	-2%
Bottom 5 Exposures Total	(5254)	

Bottom 5 Exposures	YTD Flow (\$M)	% of AUM
Multi Sector – ESG	(155)	-8%
Inflation – Broad	(84)	0%
Covered – Intermediate	(30)	-6%
Emerging Markets – Short Term	(28)	-
Loans – Broad	3	5%
Bottom 5 Exposures Total	(294)	

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

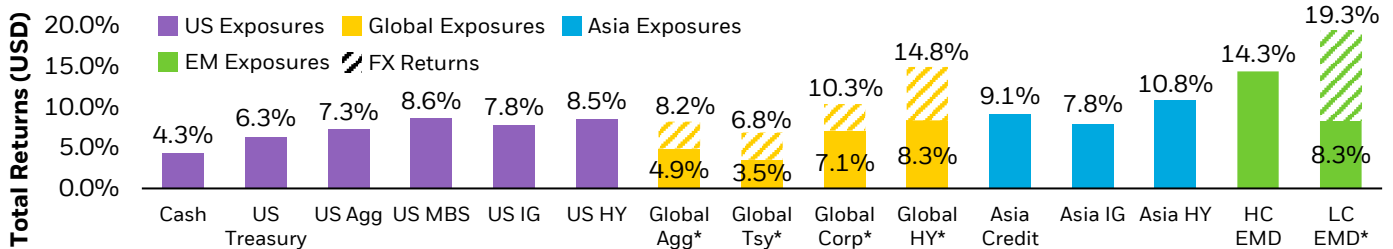
iShares and industry ETF flows encompass globally listed products. 'Broad' categories reference blended maturity products EM flows in the top tight chart are ex-China.

A Year Worth Bonding With

The last quarter of 2025 saw the Fed resuming its rate cutting cycle with a total of three cuts, following a pause across the first three quarters. With the Fed signaling continued cuts into 2026, we look at what this meant for bond markets last year, and how bond ETFs continue to shine in this environment.

Another strong year for fixed income

Fixed income closed out another strong year, with virtually every major fixed income sector ending the year in the green. Notably, despite cash returns falling as policy easing continues, different parts of the bond market have managed to offer investors what they look for in fixed income - income in a period where cash rates have begun to fall, and ballast along specific points on the curve where investors can position duration risk. Below, we look at fixed income performance in 2025 and note three observations:



Source: BlackRock, Bloomberg, as of 31 December 2025. Reference to LD12TRUU, IDCOTC, LBUSTRUU, LUMSTRUU, COAO, HUCO, LEGATRUH, H03432US, LGCPTRUH, IBXXGH28, JPEIJACC, JACIGTR, JACINGTR, JPGCCOMP, JGENVUUG Index. * Returns are USD-hedged, with FX returns are included in shaded bar. The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results. Indices are unmanaged and one cannot invest directly in an index.

- The year for going global:** a USD downtrend in light of tariff uncertainty and following Liberation Day saw the **DxY index losing more than 9%** last year as local currency exposures gained against the USD, a move that reflected the benefits of adding international exposures for portfolio diversification.
- Emerging Markets Debt stands out:** EMD was the top-performing sector in fixed income with **Local Currency EMD gaining 19.3%** in returns (USD-unhedged) and **Hard Currency EMD at 14.3%**. Backed by strong fundamentals and currency tailwinds, EMD offers a source of attractive income and yield.
- The belly outperforms:** **7-10Y US Treasuries** logged the best performance across the curve, returning **8.2%**. As the tariff-driven inflation spike failed to materialize and Fed cuts amidst labour market concerns supported bond returns, this underscored the benefits of precise duration allocation in this easing cycle.

Records after records for Bond ETFs

Industry bond ETF flows of USD 669B in 2025 means that bond ETFs globally have seen inflows breaking new records for three consecutive years (Figure 1), reflecting a pickup in the structural adoption of bond ETFs, even as mutual fund flows fluctuate. At the same time, 2026 begins with a **decidedly different yield environment** from last year (Figure 2), with the US Treasury curve having steepened significantly.

As the rate environment remains volatile entering into 2026, bond ETFs continue to offer investors the **flexibility and precision to nimbly adjust portfolios** and navigate a complex backdrop. Today, ETFs offer access to almost every pocket of the bond market, offering solutions to the key questions of where to position in duration and how to find differentiated sources of income.

Figure 1: Bond ETF flows have steadily increased against mutual fund fluctuations

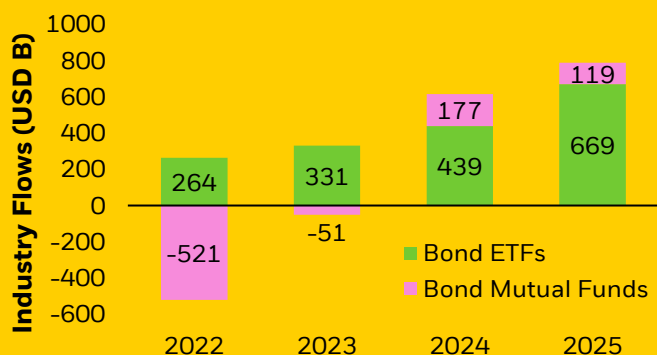
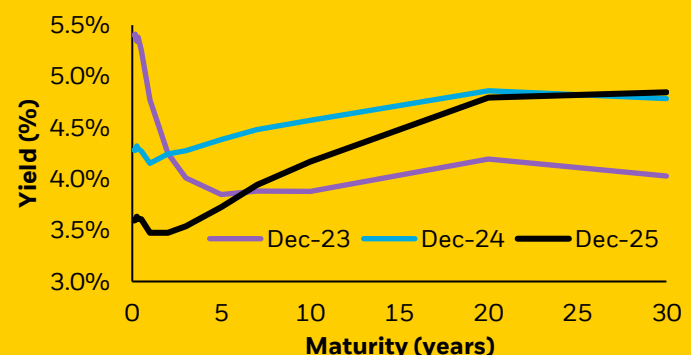


Figure 2: A changing yield picture each year sees a steeper curve today than a year ago



Source: BlackRock, EPFR, Bloomberg, as of 31 December 2025. Left chart reference to EPFR global bond fund flows; Right chart reference to US Treasury Actives Curve.

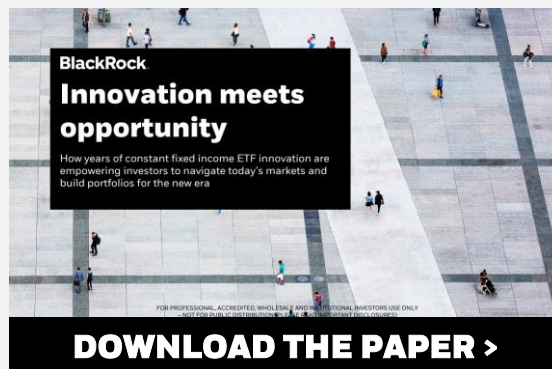
To find out more about Bond ETFs for 2026, contact your iShares representative.

Innovation Meets Opportunity

How years of constant fixed income ETF innovation are empowering investors to navigate today's markets and build portfolios for the new era

Last year, our whitepaper “**No Time to Yield**” discussed why investors may want to consider getting cash off the sidelines and employing bond ETFs in the new market regime.

In our latest paper “**Innovation Meets Opportunity**”, we highlight how accelerating bond ETF innovation has equipped investors with a robust ETF toolkit that simply did not exist the last time yields were at these levels, and how investors can use bond ETFs to navigate both today's and tomorrow's market environments.



Did you know?

1

Client demand for fixed income ETFs is driving significant asset growth with record flows in 2024 and on track to reach \$6 trillion in assets under management (AUM) by 2030, if not sooner. Globally, bond ETFs experienced the highest organic asset growth (20%) of any other asset class or investment vehicle last year. And so far in 2025, client adoption continues to accelerate, with assets up 22% on an annualized basis.

2

The flywheel of bond ETF innovation is powering this growth, helping more investors to access exposures and outcomes that were previously difficult to access. Last year a record 420 bond ETFs were launched, enabling investors to tailor their fixed income investments in ways previously unthinkable.

3

The ever-increasing toolkit allows investors to take advantage of a generational opportunity in fixed income. Yields are higher than they have been in 20 years. Globally, some 80% of fixed income assets now yield over 4% and we believe they'll remain elevated for the foreseeable future.

4

iShares has been spearheading innovation in bond ETFs for over two decades. Our diverse and evolving product set supports clients globally to navigate across market environments, with more modern, precise ways to reach nearly every part of the fixed income market. As the experts in portfolio construction with a strong heritage in risk management, we understand the tools and exposures that investors require to thrive in a changing world.

Source: BlackRock, "Innovation meets opportunity", as of April 2025. There is no guarantee that any forecasts made will come to pass. All \$ in USD unless otherwise stated.

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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