

ASIA FIX



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

iShares Fixed Income Product Strategy

March 2025

February Market Highlights

Global Rates

A month without an FOMC meeting was driven by a mix of growth uncertainty and geopolitical concerns, as February saw a US rates rally where rates dipped across the board. The 2Y yield ended at 3.99% while the 10Y ended at 4.21%, after hovering near 4.5% for much of this year. Globally, the BOE continued its easing cycle as expected, cutting rates by another 25bps to 4.50%, while the ECB is expected to deliver its second rate cut of 2025 heading into March. In Asia, 10Y JGB yields finished the month at 1.37%, rising 13bps from the end of January.

Credit

In the US, credit spreads widened in February, as concerns over the impact of tariffs and downside risks to US growth increased amidst elevated trade tensions. IG credit spreads rose by 8bps to 87bps while HY spreads rose by 19bps to 280bps, ending an extended period of spread tightening. In Asia, IG spreads ended the month 2bps higher at 104bps, though HY spreads narrowed by 15bps to 519bps.

Performance and yield level of key asset classes as of 2025/2/28

	Index	Total Return			Yield level			Spread level (bps) (credit only)		
		YTD	QTD	MTD	Feb-end	ΔMTD	ΔYTD	Feb-end	ΔMTD	ΔYTD
Aggregate	Global Aggregate	2.01%	2.01%	1.43%	3.54%	-0.12%	-0.14%			
	US Aggregate	2.74%	2.74%	2.20%	4.58%	-0.28%	-0.33%			
	Japan FI, N-BPI	-1.40%	-1.40%	-0.67%	1.32%	0.10%	0.22%			
Treasury & Agency	US Treasury	2.68%	2.68%	2.16%	4.14%	-0.28%	-0.31%			
	Agency MBS	3.07%	3.07%	2.55%	4.85%	-0.34%	-0.42%			
	China(CGB+PB)	-0.47%	-0.47%	-0.71%	1.73%	0.17%	0.21%			
Credit (IG & HY)	US IG Corporates	2.60%	2.60%	2.04%	5.08%	-0.22%	-0.25%	87	8	7
	US HY Corporates	2.05%	2.05%	0.67%	7.15%	-0.05%	-0.34%	280	19	-7
	Asia IG, JACI IG	2.13%	2.13%	1.60%	5.07%	-0.23%	-0.24%	104	2	1
	Asia HY, JACI HY	2.61%	2.61%	2.53%	10.02%	-0.54%	-0.26%	519	-15	-1
Emerging Markets	EM HC, EMBI GD	3.03%	3.03%	1.57%	7.56%	-0.18%	-0.30%	328	12	3
	EM LC, GBI-EM	2.72%	2.72%	0.66%	6.33%	0.00%	-0.06%	-	-	-

Source: Bloomberg, as of 28 February 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 2025/2/28

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.

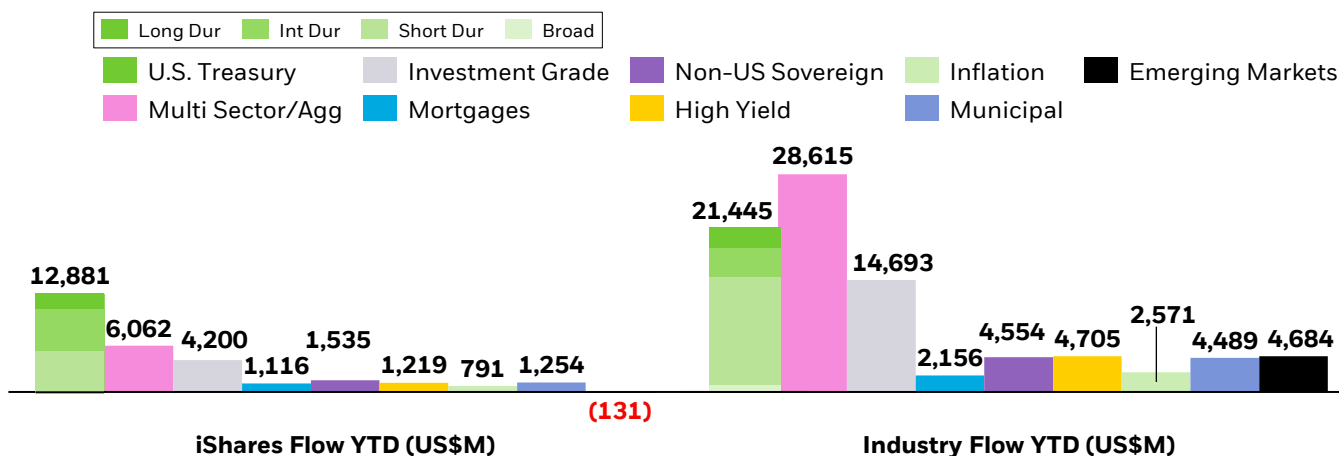
Currency to Hedge (Forward tenors: 3-month and 12-month, annualized)

Local Currency	3M		12M	
	USD	EUR	USD	EUR
JPY	-4.13%	-2.18%	-3.63%	-1.68%
KRW	-1.89%	+0.08%	-1.84%	+0.14%
AUD	-0.26%	+1.71%	-0.21%	+1.81%
CNY	-4.79%	-2.84%	-2.10%	-0.12%
SGD	-1.74%	+0.22%	-1.65%	+0.34%

Source: Bloomberg, as of 28 February 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 February iShares Status Flow

- iShares fixed income ETFs carried on the positive momentum from January, gathering +\$16B in February.** All sectors experienced net inflows, led by U.S. Treasury +\$5.4B, broad market +\$4.0B, and investment grade +\$2.5B.
- US Treasury remains the largest contributor to iShares' fund flows +\$5.4B, with investors demonstrating a stronger preference for the short-end of the yield curve +\$4.6B.** In February, short duration UST accounted for 85% of iShares UST total flows. More specifically, within the short-term bucket, the 0–3-month term was particularly favored, attracting +\$3.6B.
- Investors continue to allocate to fixed income via broad market ETFs, with inflows totaling +\$4.0B.** Both traditional indexing products and innovative active strategies saw positive flows. Flexible income stood out among active strategies, with the fund surpassing **\$8B** in AUM within two years of launch. The EUR alternative is now available in UCITS.
- Credit ETFs enjoyed a positive month +\$4.1B, especially with High Yield back in the green +\$1.6B after 2 months of consistent outflows.** Investors continue to access USD IG with fixed maturity iBonds ETFs +\$1B. The inflows were consistent across term maturities for IG iBonds. Additionally, floating rate also gained traction in the IG sector.



Top/Bottom iShares Fixed Income ETF Sector Flows

Top 5 Exposures	MTD Flow (\$M)	% of AUM
U.S. Treasury – Short Dur	4,559	4%
Multi Sector - Broad	3,393	2%
High Yield - Broad	1,321	2%
Investment Grade - Fixed Dur	997	4%
U.S. Treasury – Intr Dur	773	1%
Top 5 Exposures Total	11,043	

Top 5 Exposures	YTD Flow (\$M)	% of AUM
U.S. Treasury – Short Dur	7,215	6%
Multi Sector - Broad	5,542	3%
U.S. Treasury – Long Dur	2,697	4%
U.S. Treasury – Intr Dur	2,157	3%
Investment Grade - Fixed Dur	2,144	8%
Top 5 Exposures Total	19,755	

Bottom 5 Exposures	MTD Flow (\$M)	% of AUM
U.S. Treasury – Long Dur	(313)	0%
Non-US Sovereign - Short Dur	(100)	-1%
Investment Grade - Long Dur	(18)	-1%
Covered Bond - Intr Dur	(6)	-1%
Emerging Markets - Short Dur	0	0%
Bottom 5 Exposures Total	(437)	

Bottom 5 Exposures	YTD Flow (\$M)	% of AUM
U.S. Treasury – Short Dur	(260)	-1%
Multi Sector - Broad	(131)	0%
U.S. Treasury – Long Dur	(39)	0%
U.S. Treasury – Intr Dur	(11)	0%
Investment Grade - Fixed Dur	(1)	0%
Bottom 5 Exposures Total	(443)	

Source: BlackRock, as of February 28, 2025. Reference to \$ refers to USD.

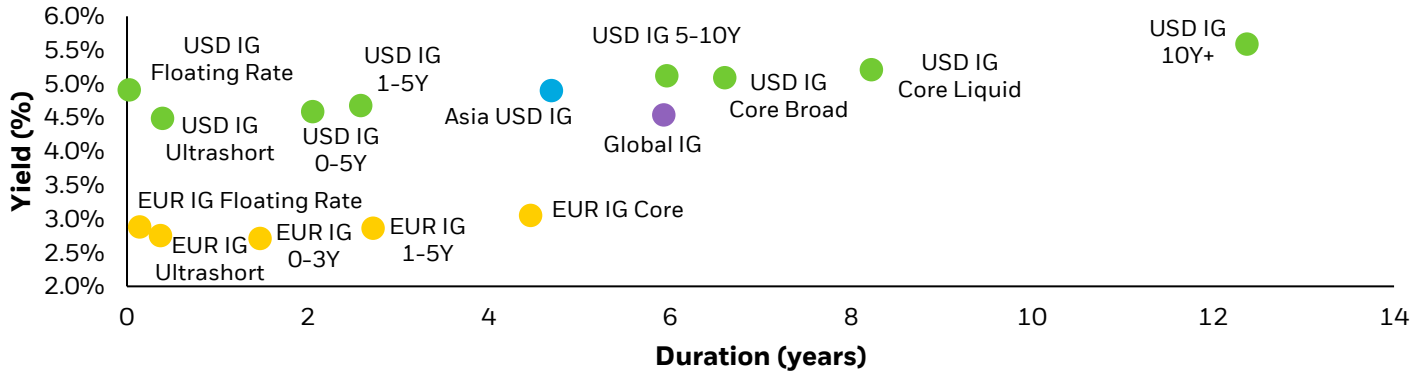
iShares and industry ETF flows encompass globally listed products. 'Broad' categories reference blended maturity products.

Quality the Way You Want It

Amidst the market noise and volatility in fixed income, investment grade bond ETFs have quietly gone about their business, seeing inflows every month last year and emerging as 2024's third highest fixed income flow gatherer. With the momentum carrying into 2025, reflecting a preference for quality as the broad reallocation to fixed income continues, this month, we showcase the extensive range of investment grade bond ETFs available.

The global investment grade ETF toolkit

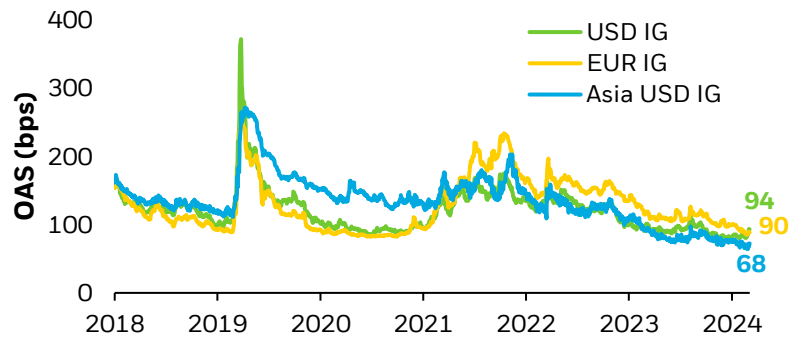
Investment grade ETFs are increasingly becoming the tool of choice for investors allocating to the sector, now comprising over 35% of the total AUM of investment grade funds from just over 15% a decade ago. Today, staying in high quality does not mean that investors cannot go granular within the sector. In investment grade alone, investors are able to use ETFs to slice and dice their allocation by geographical preferences, or express duration views across the curve through maturity bucketed exposures.



Room for relative value trades

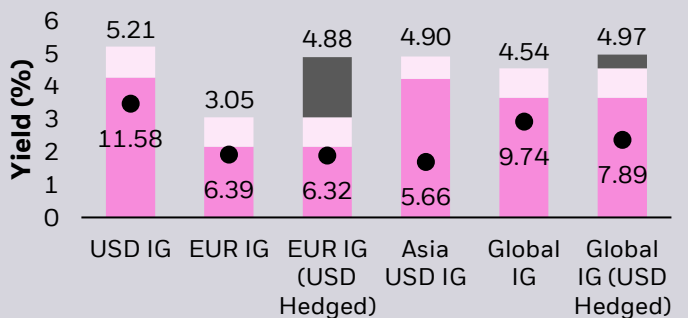
While overall spreads are still near lows not seen in years after a 2024 for credit markets marked by spread compression, all-in yields remain attractive compared to the last decade. Historically, Asia and EUR IG spreads have traded inside of USD IG spreads, before diverging from 2022 onwards where Asia IG trended tighter and EUR IG widened. With each geographical market having a distinct profile, investors can find opportunities to balance duration and spread exposure through different markets.

Source: BlackRock, Bloomberg, Morningstar, as of 28 February 2025. Reference to BFU5TRUU, IBXXUSU1, IBXXSIG1, CVAO, IBOXIG, COAO, C6AO, C9AO, LGCPTRUU, JPEIJAIG, LECPTREU, I33454EU, IBXXUSE1, BSCWTREU, LEC4TREU Index. For illustrative purposes only. List of indices is not exhaustive and not fully representative of the investment grade ETF universe.



	USD IG	EUR IG	Asia USD IG
Top 5 Sectors (%)	Financials 30	Financials 41	Financials 37
	Healthcare 15	Industrials 9	Energy 8
	Comm Services 11	Utilities 8	Industrials 7
	Info Tech 9	Consumer Disc 8	Utilities 7
	Energy 9	Consumer Staples 7	Consumer Disc 5

Hedging for gains?



For a USD-based investor, currency hedging can protect against FX risk and **minimize volatility in returns** driven by currency fluctuations. At the same time, the negative interest rate differential between the US and most other global markets (including EUR) means that hedging back to the USD currently still offers **positive carry through a yield pick-up**. Investors today can use USD-hedged ETF share classes to achieve a significantly **higher yield to volatility ratio** in their exposures.

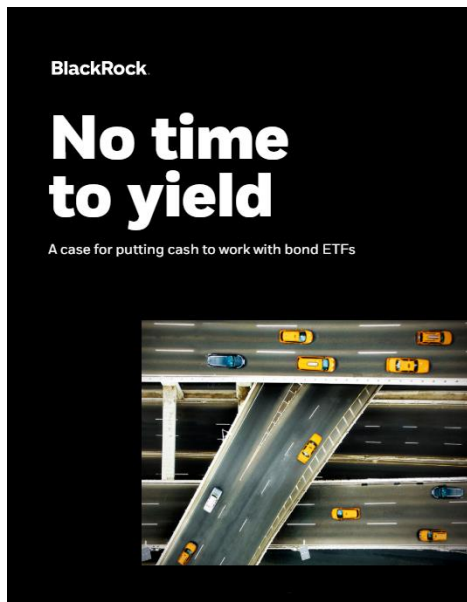
Source: BlackRock, Bloomberg, as of 28 February 2025. Reference to IBOXIG, LECPTREU, LECPTRUH, JPEIJAIG, LGCPTRUU, LGCPTRUH Index. For illustrative purposes only. List of indices is not exhaustive and not fully representative of the US investment grade ETF universe.

Yield / 3Y Vol	0.45	0.48	0.77	0.87	0.47	0.63
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To find out more about Investment Grade 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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