

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

September 2024

August Market Highlights

Global Rates

After a volatile start to the month following a surprise BOJ hike and fears of a US recession after weaker than expected jobs data, markets recovered towards the second half of August. In the US, the central bank gave a clear signal that it would cut rates in September, with Fed Chair Powell highlighting at Jackson Hole that “the time has come for policy to adjust”. Bonds rallied over the month, with 2Y and 10Y yields ending lower at 3.92% and 3.90% respectively. In Europe, the Bank of England started its easing cycle, cutting the bank rate by 25bps to 5%. In Asia, the 10Y JGB yields finished at 0.89%.

Credit

Credit spreads widened amidst increased market volatility, before normalizing after the volatility shock. In the US, both IG and HY credit spreads retraced early August’s dramatic surge. IG spreads ended the month flat at 93bps, while HY spreads tightened 9bps to 305bps as riskier assets saw a strong recovery. A similar story in the region, as Asia IG credit spreads finished 3bps lower at 131bps, while Asia HY credit spreads continued to tighten, ending the month at 625bps.

Performance and yield level of key asset classes as of 2024/08/31

	Index	Total Return			Yield level		Spread level (bps) (credit only)	
		YTD	QTD	MTD	Aug-end	ΔMTD	Aug-end	ΔMTD
Aggregate	Global Aggregate	1.86%	5.19%	2.37%	3.48%	-0.14%		
	US Aggregate	3.07%	3.81%	1.44%	4.42%	-0.22%		
	Japan FI, N-BPI	-1.92%	1.07%	1.17%	0.90%	-0.12%		
Treasury & Agency	US Treasury	2.60%	3.50%	1.28%	3.96%	-0.23%		
	Agency MBS	3.27%	4.29%	1.61%	4.67%	-0.21%		
	China(CGB+PB)	4.75%	0.85%	0.07%	1.96%	0.03%		
Credit (IG & HY)	US IG Corporates	3.49%	3.99%	1.57%	4.94%	-0.20%	93	0
	US HY Corporates	6.28%	3.61%	1.63%	7.30%	-0.29%	305	-9
	Asia IG, JACI IG	4.78%	3.14%	1.82%	4.89%	-0.28%	131	-3
	Asia HY, JACI HY	12.68%	1.96%	0.48%	11.14%	-0.72%	625	-32
Emerging Markets	EM HC, EMBI GD	6.67%	4.23%	2.32%	7.88%	-0.30%	388	-12
	EM LC, GBI-EM	1.50%	5.41%	3.07%	6.26%	-0.11%	-	-

Source: Bloomberg, as of 31 August 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 2024/08/31

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.

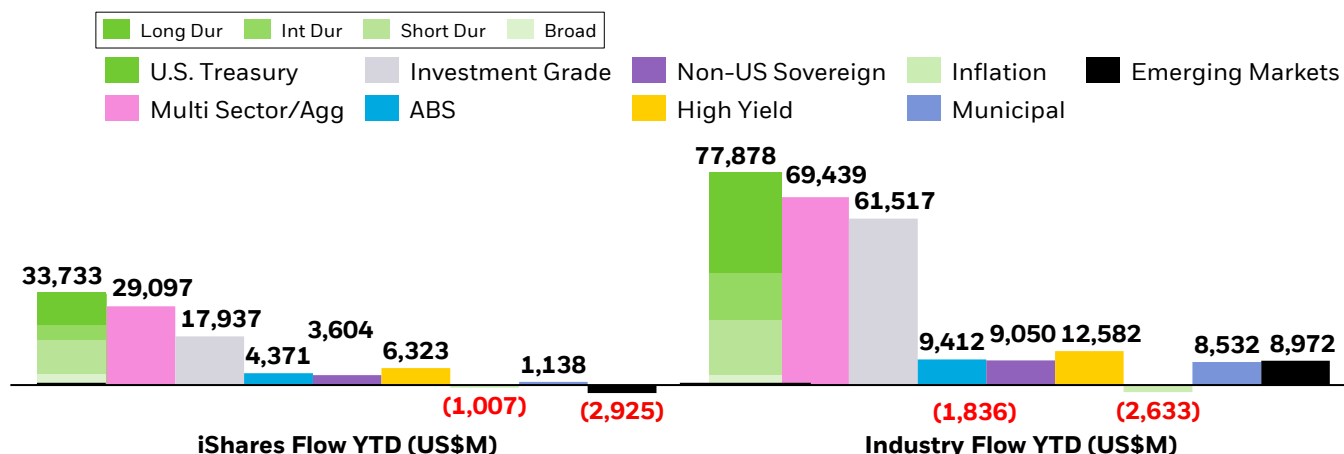
Currency to Hedge (Forward tenors: 3-month and 12-month, annualized)

Local Currency	3M		12M	
	USD	EUR	USD	EUR
JPY	-5.03%	-3.43%	-4.14%	-2.78%
KRW	-2.21%	-0.61%	-1.68%	-0.29%
AUD	-0.70%	+0.92%	-0.13%	+1.28%
CNY	-4.02%	-2.42%	-2.61%	-1.23%
SGD	-1.94%	-0.34%	-1.64%	-0.24%

Source: Bloomberg, as of 31 August 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.

2024 August iShares Status Flow

- iShares global fixed income ETFs crested the \$1 trillion mark at the start of August, representing about 40% of the \$2.5T global bond ETF market.** Bond ETF flows maintained positive momentum from July, gathering new assets of **+\$16B**. U.S. Treasury **+\$7.4B**, multi-sector **+\$4.1B**, and credit **+\$2.4B** exposures were the largest flow drivers for the month.
- U.S. Treasury ETFs have been on a positive monthly flow streak since January.** Separating out the influence of trading vehicles on flows, investors have been consistently adding on the short end of the curve **+\$2.1B** with also sizable allocation into intermediate term maturities **+\$1.1B**.
- Since April, Emerging Markets hard currency debt ETFs have been attracting inflows ahead of an anticipated Fed easing cycle.** The past five months saw investors increasing allocation to a total of **+\$2.6B**.
- Across Active strategies, Rick Rieder's Flexible Income added +\$427M,** bringing year-to-date flows to **+\$3.5B**, as investors seek income and access to sectors beyond core, such as US High Yield corporate, securitized products, and global debt.
- iShares iBonds fixed maturity ETFs continued to grow, adding +\$1B in August.** Notably, Investment Grade corporate iBonds **+\$828M** were the largest contributor to flows.



Top/Bottom iShares Fixed Income ETF Sector Flows

Top 5 Exposures	MTD Flow (\$M)	% of AUM
Multi-Sector - Broad	4,099	2%
U.S. Treasury - Long Dur	2,975	4%
U.S. Treasury - Short Dur	2,134	2%
U.S. Treasury - Int Dur	1,056	2%
Municipal - Broad	1,036	2%
Top 5 Exposures Total	11,301	

Top 5 Exposures	YTD Flow (\$M)	% of AUM
Multi-Sector - Broad	29,097	15%
U.S. Treasury - Short Dur	11,500	12%
U.S. Treasury - Long Dur	11,332	14%
Investment Grade - Broad	8,026	7%
Investment Grade - Fixed	7,676	33%
Top 5 Exposures Total	67,631	

Bottom 5 Exposures	MTD Flow (\$M)	% of AUM
Inflation - Broad	(752)	-3%
Emerging Markets - Broad	(449)	-1%
High Yield - Short Dur	(215)	-3%
Multi-Sector - Int Dur	(36)	-1%
Non-U.S. Sovereign - Long Dur	(32)	-1%
Bottom 5 Exposures Total	(1,484)	

Bottom 5 Exposures	YTD Flow (\$M)	% of AUM
Emerging Markets - Broad	(2,839)	-7%
CDS - Broad	(1,760)	-13%
Multi Sector - Short Dur	(721)	-6%
Inflation - Short Dur	(579)	-6%
Inflation - Broad	(524)	-2%
Top 5 Exposures Total	(6,423)	

Source: BlackRock, as of August 31 2024. Reference to \$ refers to USD.

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

Back to School: A Brief History of Rates

The Global Treasury Index has been a key building block of the Global Agg since the creation of the Global Aggregate Index in 1999, with the exposure currently representing over 50% of the Global Agg. This month, we break down all you need to know about the exposure, and the range of ETFs investors can access it with today.

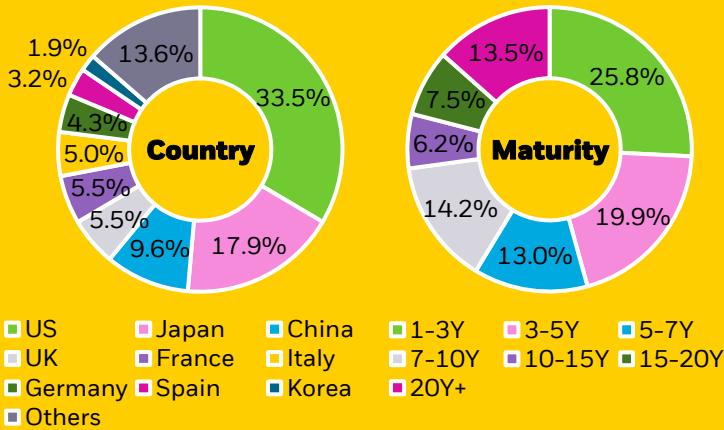
At a glance...

- 01

\$36T market cap, representing a **60%** growth in the last 10 years.
- 02

1,908 bonds from **46** countries, with **8** new EM markets added to the index since 2014.
- 03

7.2Y duration and 3.0% (**4.6%** USD-hedged) yield, relative to 1.1% on average in the decade of low yielding environment



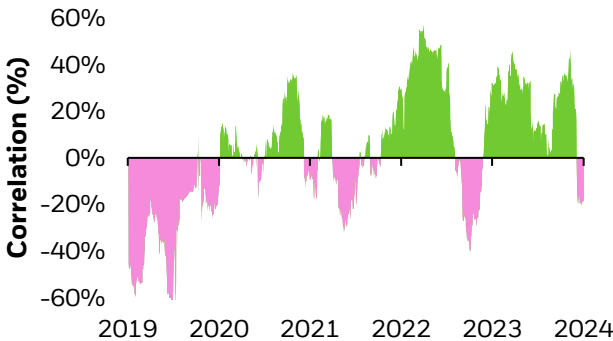
Source: BlackRock, Bloomberg, as of 31 August 2024. Reference to LGTRTRUU Index.

Back to basics, bonds as equity diversifiers

Bonds have traditionally played the role of an equity diversifier due to their negative correlation to stocks. While the correlation has turned more positive in recent years, amidst 2024's broad reallocation to fixed income, this sought-after feature returned in August, as **bonds, notably rates exposures, provided portfolio ballast as stocks sold off**.

Specifically, **government bond ETFs have spearheaded the momentum back into fixed income** with ~\$90B inflows YTD (30% of industry-wide bond ETF flows). Investors today have more options than ever, from one-ticker solutions for global government bond exposures, to more granular expressions.

Figure 1: S&P 500 vs Global Treasury correlation

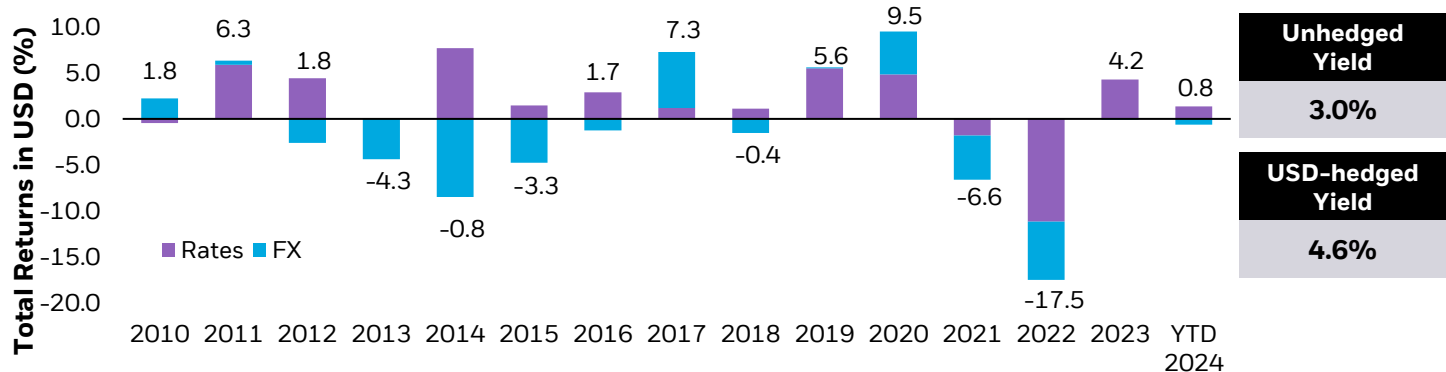


Source: Bloomberg, as of 31 August 2024. Reference to SPX, LGTRTRUU Index, based on 60-day rolling correlation. All \$ figures in USD.

Govt Bond ETF Toolkit	Global	US Treasury	Euro Govies	Emerging Markets	Asia Local Currency	Single Country
	BBG Global Treasury Index	ICE U.S. Treasury Core Bond Index	BBG Euro Treasury Bond Index	JPM GBI-EM Global Diversified 10% Cap 1% Floor Index	BBG EM Asia Local Currency Govt Country Capped Index	BBG Japan Treasury Index BBG China Treasury + Policy Bank Total Return Index

How much has currency movements affected returns?

Historical performance of the Global Treasury Index has shown that currency movements can introduce volatility in returns. For a USD-based investor, a **USD-hedged ETF share class** can help to protect against FX risk and currency fluctuations. At the same time, the higher rates environment in the US relative to most of the other markets in the index means that hedging foreign currency exposures back to USD currently offers a yield pick-up.

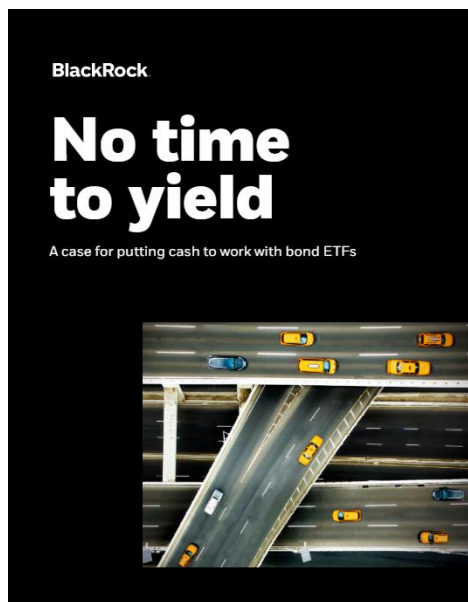


Source: Bloomberg, as of 31 August 2024. Reference to LGTRTRUU Index. The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.

To find out more about our suite of government 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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