Asia FIX

iShares by BlackRock

September 2026

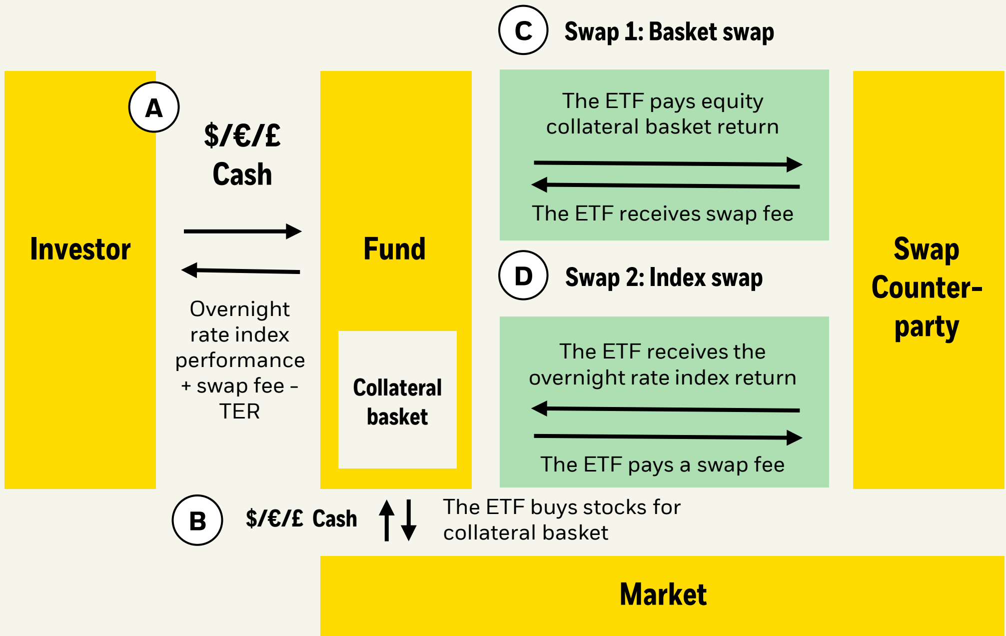
Bond ETF themes, flows, and market update

Making Cash Work Overnight

Last month, we explored the cash continuum suite as an effective way for investors to put cash to work. While investors have continued to pour into cash and short duration ETFs this year, **overnight rate swap ETFs** have broadened the toolkit and emerged as an innovative option to seek incremental returns over cash, with the ETF category AUM more than doubling in the last two years to nearly **US$50B in assets today.**

A swap-based exposure within an ETF wrapper, these ETFs provide access to overnight rates via a synthetic swap structure, while capturing an **equity financing premium** generated by holding a collateral basket of stocks, which can help to **enhance yields** over the prevailing overnight rate.

How do overnight rate swap ETFs work?



Source: BlackRock, as of 31 August 2026. For illustrative purposes only.

Swap based ETFs

- **A** Investors use cash to buy shares in the ETF
- **B** The ETF buys a collateral basket of stocks and retains ownership
- **C** The ETF enters a swap on the basket of stocks and returns the performance of the stocks to enhance the yield.

  Ownership of the stocks is retained as security in case of a credit event.
- **D** The ETF enters a second swap to seek to replicate the performance of the overnight rate index **(SOFR / ESTR +8.5bps / SONIA)**

NET RESULT: Investor receives Overnight rate index performance + swap fee - TER

Spanning USD, EUR, and GBP exposures today, overnight rate swap ETFs help to optimize cash allocations while retaining the liquidity, transparency and efficiency of the ETF wrapper. An accessible alternative to bilateral swaps, these ETFs offer **ease of operational implementation and reduced infrastructure requirements** compared to managing derivative positions directly – allowing a broad range of institutional investors and wealth managers to make cash work harder while retaining the **flexibility of daily ETF tradability.**

	Bank Deposits	Bilateral Swaps	Money Market ETFs	Short Duration Bond ETFs	Overnight Rate Swap ETFs
Return optimized	✗	✓	✗	✗	✓
Actively managed	-	-	✓	✗ / ✓	✗
Diversification	✗	-	✓	✓	✓
Operational simplicity	✓	✗	✓	✓	✓
Flexible trading	-	-	✓	✓	✓
Daily transparency	-	-	✓	✓	✓

Source: BlackRock, as of 31 August 2026. For illustrative purposes only. Diversified and asset allocation may not fully protect you from market risk.

To find out more about Overnight Rate Swap ETFs, contact your iShares representative.

iShares flow update

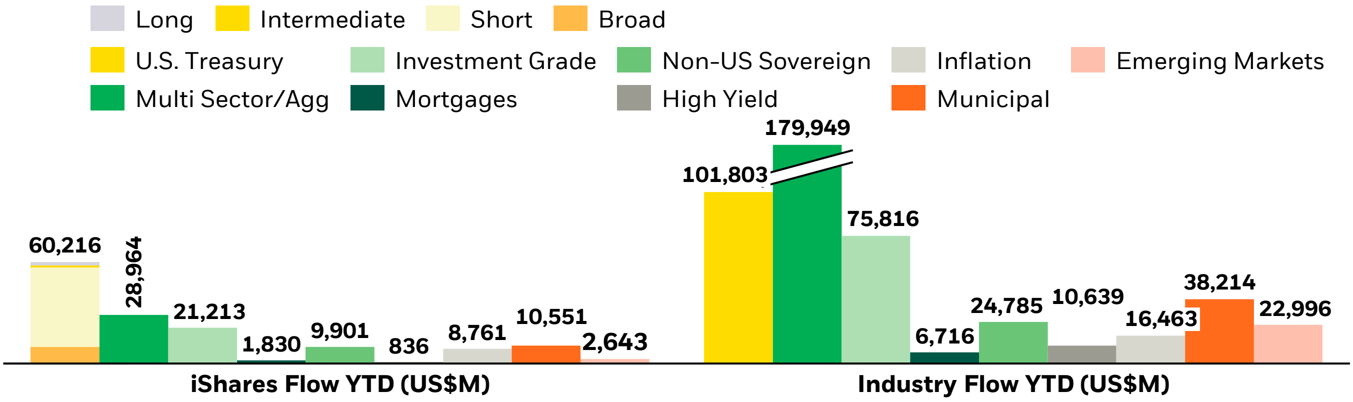
01 **iShares fixed income ETFs maintained healthy momentum in August, gathering +$19.5B and taking YTD inflows to over +$150B.** U.S. Treasuries remained the dominant flow driver (+$8.0B), followed by Multisector (+$4.8B), while demand for IG Credit also strengthened (+$2.7B).

02 **Cash and short duration allocation remained the key theme, with U.S Treasury demand again heavily skewed toward the ultra short end.** The flagship 0–3M exposure gathered +$6.1B, though the long end also saw positive flows with the 20Y+ trading vehicle attracting +$5.6B. In contrast, intermediate-duration exposures saw sizeable outflows (-$5B), led by the 7–10Y bucket.

03 **Within Credit, investors continued to favor IG over HY.** IG gathered +$2.7B, led by USD strategies (+$1.8B), with the broad USD exposure adding +$512M. EUR IG also returned to inflows (+$347M), led by the flagship EUR IG exposure, while HY saw -$1.2B of outflows, largely driven by the HY trading vehicle shedding -$1.3B.

04 **Emerging Markets flows remained resilient despite renewed geopolitical uncertainty, with demand concentrated in hard currency exposures.** EMD ETFs gathered +$744M, led by hard currency (+$470M), while local currency also remained positive (+$111M). Precision exposures continued to attract interest, with Brazil and China each adding +$46M.

05 **Outcome-oriented and active strategies continued to gain traction.** Active ETFs gathered +$1.6B, led by broad-market USD and Global strategies, while fixed maturity iBonds continued to add +$929M, driven by IG (+$479M) and government strategies (+$256M).



Top/bottom iShares bond ETF sector flows

Top 5 Exposures	MTD Flow ($M)	% of AUM
U.S. Treasury - Short Dur	8,358	4%
U.S. Treasury - Long Dur	6,231	10%
Multi Sector - Broad	4,186	2%
Investment Grade - Broad	985	1%
Investment Grade - Short Dur	944	2%
Top 5 Exposures Total	**20,703**	

Bottom 5 Exposures	MTD Flow ($M)	% of AUM
U.S. Treasury - Inter Dur	(5,032)	-6%
U.S. Treasury - Broad	(1,814)	-4%
High Yield - Broad	(1,359)	-2%
Multi Sector - Long Dur	(16)	-2%
Multi Sector - ESG	(11)	-1%
Bottom 5 Exposures Total	**(8,232)**	

Top 5 Exposures	YTD ($M)	% of AUM
U.S. Treasury - Short Dur	45,662	23%
Multi Sector - Broad	24,399	10%
U.S. Treasury - Broad	9,495	19%
Sovereign - Broad	8,980	22%
Municipal - Broad	6,518	12%
Top 5 Exposures Total	**95,054**	

Bottom 5 Exposures	YTD ($M)	% of AUM
Covered Bond - Broad	(262)	-14%
Multi Sector - ESG	(35)	-2%
Multi Sector - Inter Dur	(23)	-1%
High Yield - ESG	(22)	-4%
Developed Markets MMF - Short	0	0%
Bottom 5 Exposures Total	**(342)**	

Source: BlackRock, as of August 31 2026. 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. Sovereign is ex UST

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Bond market update

Market recap

Rates

Global bond yields grinded higher in August amid growing scrutiny of structural fiscal deficits and elevated debt issuance levels. In the US, the Treasury announced larger buybacks of longer-dated securities after 30Y Treasury yields briefly topped 5.3%, their highest level since the GFC. In addition, Warsh's hawkish Jackson Hole remarks further culminated in a bear flattening of the curve, with the probability of a rate hike in September edging up to ~60%. European sovereign yields also moved higher as investors weighed fiscal sustainability concerns, while in Asia, 10Y JGB yields continued to rise, nearing 3.0% for the first time in three decades alongside BOJ policy normalization.

Credit

Credit remained well supported through August, with the seasonal summer slowdown in supply creating a favourable technical backdrop. Elevated all-in yields continued to support demand, while a healthy earnings season helped reinforce the constructive tone despite lingering Middle East concerns. In the US, IG spreads were unchanged over the month, while HY tightened by 18bps. Asia credit also performed well, with IG and HY spreads tightening by 3bps and 6bps, respectively, as supportive technicals continued to underpin the market.

Asset class in review

		Total Return			Yield level			Spread level (bps) (credit only)		
	Index	**YTD**	**QTD**	**MTD**	**Aug-end**	**ΔMTD**	**ΔYTD**	**Aug-end**	**ΔMTD**	**ΔYTD**
Aggregate	Global Aggregate	-0.30%	-0.08%	0.45%	4.06%	0.06%	0.54%			
	US Aggregate	-0.31%	-0.92%	0.39%	5.01%	0.03%	0.69%			
	Japan FI, N-BPI	-4.17%	-1.40%	-0.81%	2.62%	0.16%	0.68%			
Treasury & Agency	US Treasury	-0.53%	-0.81%	0.31%	4.61%	0.04%	0.72%			
	Agency MBS	0.07%	-0.91%	0.52%	5.29%	-0.01%	0.66%			
	China(CGB+PB)	2.50%	0.57%	0.25%	1.51%	-0.01%	-0.21%			
Credit (IG & HY)	US IG Corporates	-0.40%	-1.25%	0.43%	5.49%	0.03%	0.68%	78	0	0
	US HY Corporates	2.69%	0.72%	0.97%	7.27%	-0.14%	0.74%	261	-18	-5
	Asia IG, JACI IG	0.20%	-0.62%	0.33%	5.41%	0.02%	0.64%	94	-3	-8
	Asia HY, JACI HY	5.30%	1.24%	1.08%	7.54%	-0.09%	-0.53%	337	-6	-75
Emerging Markets	EM HC, EMBI GD	2.75%	-0.54%	0.89%	7.19%	-0.07%	0.39%	235	-10	-19
	EM LC, GBI-EM	2.74%	1.20%	0.90%	6.33%	0.07%	0.46%	-	-	-

Source: Bloomberg, as of 31 August 2026. 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 hedge cost monitor

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 tenor - 3M)							
Investor Currency	**CCY**	**USD**	**EUR**	**JPY**	**KRW**	**AUD**	**CNY**	**SGD**
	USD	0.00%	1.41%	2.84%	0.53%	-0.62%	2.54%	2.48%
	EUR	-1.41%	0.00%	1.43%	-0.88%	-2.03%	1.14%	1.07%
	JPY	-2.84%	-1.43%	0.00%	-2.31%	-3.46%	-0.29%	-0.36%
	KRW	-0.53%	0.88%	2.31%	0.00%	-1.15%	2.02%	1.95%
	AUD	0.62%	2.03%	3.46%	1.15%	0.00%	3.17%	3.10%
	CNY	-2.54%	-1.14%	0.29%	-2.02%	-3.17%	0.00%	-0.06%
	SGD	-2.48%	-1.07%	0.36%	-1.95%	-3.10%	0.06%	0.00%

Source: Bloomberg, as of 31 August 2026. 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.

A durable foundation

How bond ETFs are powering a portfolio evolution and fixed income revolution

Last year, our whitepaper **"Innovation Meets Opportunity"** discussed how accelerating bond ETF innovation has equipped investors with a robust ETF toolkit to navigate both today's and tomorrow's market environments.

In our latest paper **"A Durable Foundation",** we highlight how bond ETFs have emerged as the central implementation mechanism for powering a bond market revolution — translating the modernization of fixed income markets into scalable, transparent and efficient portfolio tools.

In the modern allocation framework, fixed income ETFs are not simply a component of the portfolio — they serve as the foundation to supporting the evolution to come in portfolios and the assets within them.

DOWNLOAD THE PAPER >

Key takeaways

1

Today's yield environment offers investors a generational opportunity just as the portfolio demands on fixed income broaden.

With yields meaningfully higher across global fixed income markets, bonds are positioned to potentially deliver attractive income and total return. At the same time, portfolios increasingly rely on fixed income to help manage volatility and liquidity and support disciplined rebalancing, making this moment uniquely important for strategic allocation decisions.

2

Bond ETFs are no longer just beta building blocks.

They have become the essential infrastructure of modern portfolio construction, providing structural benefits that extends beyond what single securities can provide. As the bond market has become more digitized and indexable, ETFs have evolved into scalable, transparent and liquid tools that unify indexed, active, systematic and outcome-oriented strategies within a single ecosystem.

3

As portfolios expand into private markets, digital assets, and thematic exposures, fixed income allocations become even more important for today's portfolios.

This portfolio evolution introduces different liquidity and volatility characteristics, placing greater structural demands on the core of the portfolio. Fixed income is no longer just a diversifier; it is a liquidity engine, an income anchor and a stabilizing force that helps allow innovation elsewhere in the portfolio to function without compromising resilience.

Source: BlackRock, "A durable foundation", as of April 2026. There is no guarantee that any forecasts made will come to pass. All $ in USD unless otherwise stated.

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