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 2024

January Market Highlights

Global Rates	The first FOMC meeting of the year marked the fourth consecutive time where the Fed kept rates unchanged. The decision was broadly expected, and Fed chair Powell commented that it is unlikely that rates will be cut at the next meeting in March. Yields reacted by falling across the curve, with the 2Y yield ending the month at 4.21% and the 10Y at 3.91%. Meanwhile, the ECB also kept rates on pause, citing the need to be further along the disinflation process. In Asia, China kept its MLF rate and benchmark lending rates unchanged despite slowing economic momentum, while the BOJ also retained its ultra-loose monetary policy, with 10Y yields ending the month at 0.73%
Credit	IG credit spreads in the US crept downwards to end the year, narrowing by 5bps, while the US HY credit spread increased by 21bps. In the region, Asia IG credit spreads edged upwards by 2bps, in contrast to Asia HY which saw credit spreads trending downwards by 64bps. Despite January seeing China property name Evergrande, which first defaulted in December 2021, being ordered to liquidate, Asia HY saw a rally alongside more financial support offered by Chinese regulators.

Performance and yield level of key asset classes as of 2024/01/31

		Total Return			Yield level		Spread level (bps) (credit only)	
	Index	**YTD**	**QTD**	**MTD**	**Jan-end**	**ΔMTD**	**Jan-end**	**ΔMTD**
Aggregate	Global Aggregate	-1.38%	-1.38%	-1.38%	3.59%	0.08%		
	US Aggregate	-0.27%	-0.27%	-0.27%	4.59%	0.06%		
	Japan FI, N-BPI	-0.72%	-0.72%	-0.72%	0.68%	0.06%		
Treasury & Agency	US Treasury	-0.28%	-0.28%	-0.28%	4.12%	0.04%		
	Agency MBS	-0.46%	-0.46%	-0.46%	4.80%	0.12%		
	China(CGB+PB)	0.98%	0.98%	0.98%	2.38%	-0.10%		
Credit (IG & HY)	US IG Corporates	-0.17%	-0.17%	-0.17%	5.11%	0.05%	96	-3
	US HY Corporates	0.00%	0.00%	0.00%	7.80%	0.21%	344	21
	Asia IG, JACI IG	-0.12%	-0.12%	-0.12%	5.25%	0.12%	150	2
	Asia HY, JACI HY	2.67%	2.67%	2.67%	13.85%	-0.64%	828	-64
Emerging Markets	EM HC, EMBI GD	-1.02%	-1.02%	-1.02%	8.08%	0.24%	402	18
	EM LC, GBI-EM	-1.52%	-1.52%	-1.52%	6.14%	-0.05%	-	-

Source: Bloomberg, as of 31 January 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 2024/01/31

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)

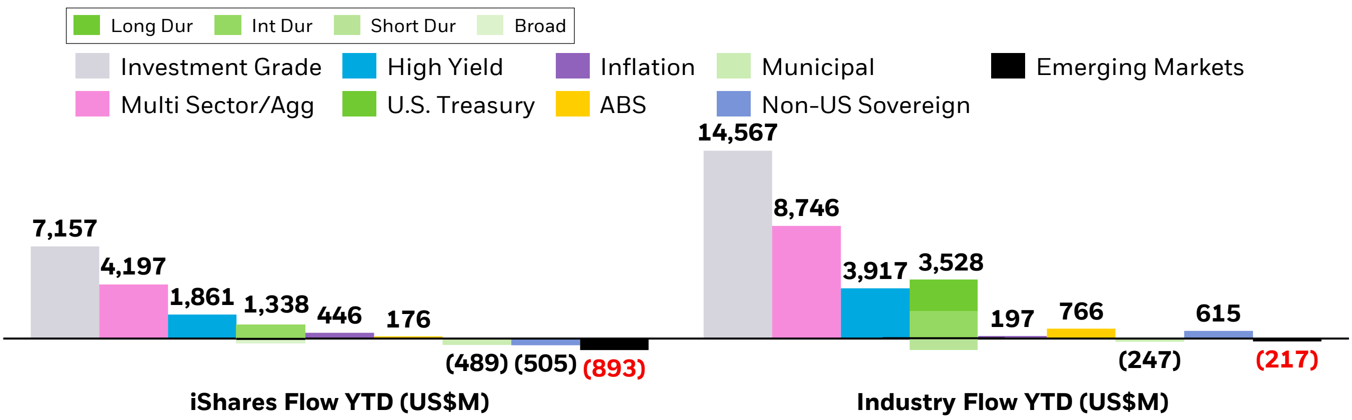
Local Currency	3M		12M	
	USD	EUR	USD	EUR
JPY	-5.59%	-4.08%	-4.93%	-3.40%
KRW	-1.99%	-0.46%	-1.90%	-0.32%
AUD	-1.13%	+0.40%	-0.65%	+0.96%
CNY	-4.69%	-3.11%	-2.41%	-0.83%
SGD	-1.59%	-0.10%	-1.41%	+0.16%

Source: Bloomberg, as of 31 January 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.

MKTGM0224A/S-3373669-1/6

2024 January iShares Status Flow

1. **Global iShares Fixed Income ETF flows (+$13.4B) saw an uptick at the start of 2024.** Inflows were predominantly driven by Credit exposures (+$9.0B) and Multi-Sector exposures (+$4.6B), yet we observed a shift of capital positioning from investors from High Yield towards Investment Grade. In terms of Multi-sector, US-focused broad market tickers drew in roughly 4B in flows.
2. **Investors' risk-on sentiment toned down and turned more neutral with investors gradually extending duration.** iShares US Treasury sector products saw net flows of (+$1.9B) in January. **Intermediate term (+$1.7B)** focused products were particularly in favor, especially the 3-7 year and 7-10 year part of the curve. In contrast, the **short end shed -$0.4B**.
3. **Target maturity products marked its best month ever, bringing in +2.3B inflows globally.** Specifically, the UCITS range has been steadily growing with January's inflows accounting for 18% of the total funds' AUM. Investing trend within target maturity products aligns with all fixed income products with heavy flows into IG and intermediate duration UST.
4. **Investors hit a pause on the brief Emerging Market Debt craze, as EM exposures broadly saw outflows (-$0.9B)** following their best quarter of 2023 in Q4 (+$1.6B). Investors started adding to local currency ETFs (+0.3B), while interest cooled in hard currency (-$1.2B).



Top/Bottom iShares Fixed Income ETF Sector Flows

Top 5 Exposures	MTD Flow ($M)	% of AUM
Investment Grade - Broad	5,211	5%
Multi Sector - Broad	4,579	3%
U.S. Treasury - Int Dur	1,761	3%
High Yield - Broad	1,598	3%
Investment Grade - Fixed	1,487	9%
Top 5 Exposures Total	**14,635**	

Top 5 Exposures	YTD Flow ($M)	% of AUM
Investment Grade - Broad	5,211	5%
Multi Sector - Broad	4,579	3%
U.S. Treasury - Int Dur	1,761	3%
High Yield - Broad	1,598	3%
Investment Grade - Fixed	1,487	9%
Top 5 Exposures Total	**14,635**	

Bottom 5 Exposures	MTD Flow ($M)	% of AUM
Emerging Markets - Broad	(895)	-2%
Municipal - Broad	(504)	-1%
U.S. Treasury - Short Dur	(445)	0%
Multi Sector - Int Dur	(257)	-7%
Non-US Sovereign - Long Dur	(225)	-10%
Bottom 5 Exposures Total	**(2,327)**	

Bottom 5 Exposures	YTD Flow ($M)	% of AUM
Emerging Markets - Broad	(895)	-2%
Municipal - Broad	(504)	-1%
U.S. Treasury - Short Dur	(445)	0%
Multi Sector - Int Dur	(257)	-7%
Non-US Sovereign - Long Dur	(225)	-10%
Bottom 5 Exposures Total	**(2,327)**	

Source: BlackRock, as of Jan 31 2024. Reference to $ refers to USD.
iShares and industry ETF flows encompass globally listed products. 'Broad' categories reference blended maturity products.

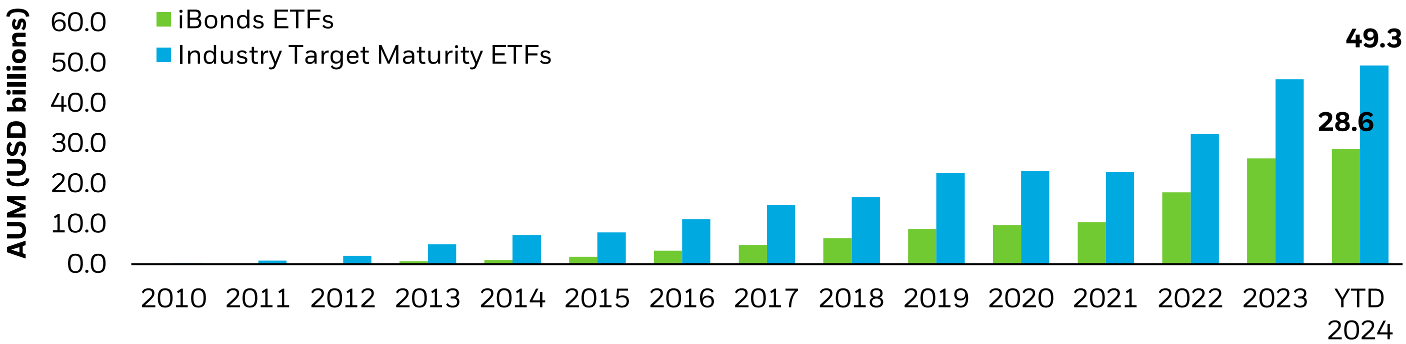
Jump on the bondwagon with iBonds…

…a flexible, target maturity toolkit of ETFs delivering diversified, cost-efficient exposures, with no lock-up period, and available in every annual vintage from 2024 out to 2033

With inflation normalising and rate hikes seemingly at an end, 2024 might be the year for bonds again. While we remain cautious against heightened volatility, markets have entered a period where **excess cash can potentially be a detractor** to portfolio returns. Cash rates, while still attractive today, could fall swiftly as central banks begin to cut rates, meaning investors sitting in cash risk missing out on return opportunities elsewhere.

Given strong bond market performance in 2023 and 2024 thus far, we see the potential for bonds to outperform while high cash allocations beginning to subside. With yields still near 15-year highs, fixed income is poised to offer attractive return potential to weather a wide range of macroeconomic outcomes. This calls for selectiveness in allocation as investors look to extend into duration, to which iBonds offer an innovative solution to achieve just that. iBonds are target maturity ETFs that **mature** like a bond, **trade** like a stock, and offer **diversification** as a fund, allowing investors to lock in today's yield levels today.

Figure 1: Alongside industry target maturity ETFs, iBonds ETFs have attracted strong flows over the years, especially amidst the rising rate environment



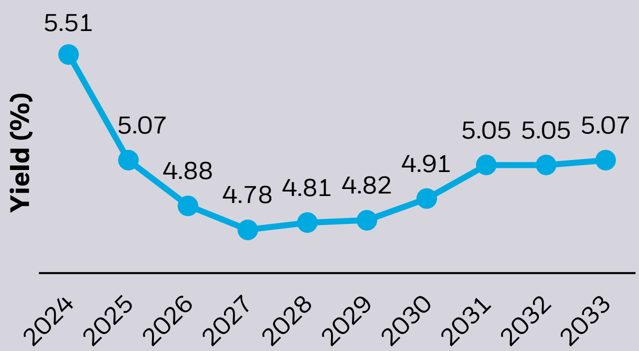
Source: BlackRock, as of 31 January 2024.

Locking in lofty high quality yields

iBonds ETFs span across various maturities and sectors, including **USD investment grade (IG) corporate.** Investors looking to step out of cash while sticking to high quality can use USD IG corporate iBonds to take on precise duration exposure through maturities from 2024 to 2033, securing attractive income still near historical highs over a multi-year period while avoiding going too far down the quality spectrum.

Read more about how iBonds ETFs work in our previous Asia FIX issue **here**.

Figure 2: USD IG Corporate iBonds yields



Source: BlackRock, Bloomberg, Federal Reserve, as of 31 January 2024. Reference to the Bloomberg December 20XX Maturity Corporate Indices. There is no guarantee that any forecasts made will come to pass.

iBonds ETFs can be used across various use cases

Pick points on the yield curve

Target precise duration buckets by accessing diversified exposure to bonds maturing in specific calendar years

Build scalable bond ladders

Create scalable bond ladders with just a few ETFs, instead of trading numerous individual bonds

Asset liability matching

Match future expected cash flows with fund maturity dates, thus providing cash when an expense comes due

Reinvest cash from bond portfolios

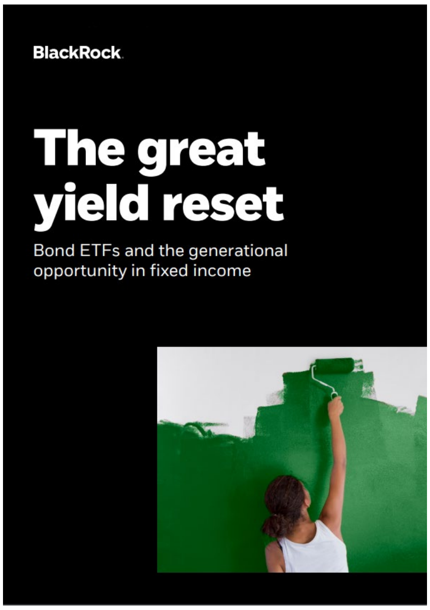
Reinvest coupon and principal into iBonds ETFs, reducing cash drag while giving instant exposure to bond markets

Source: BlackRock, as of 31 January 2024.

To find out more about iBonds ETFs, contact your iShares representative.

The Great Yield Reset

Bond ETFs and the generational opportunity in fixed income



In 2022, we published a paper on why we believe global fixed income ETFs will reach US$5 trillion in AUM by 2030*. Since then, market events have put a spotlight on its continued importance.

In our latest whitepaper, **"The Great Yield Reset"**, we outline why we continue to be excited about the growth of bond ETFs. We see a generational opportunity for investors to rethink their portfolios, with a greater focus on fixed income. Driven by a desire for transparency, access, liquidity and efficiency, we believe ever greater numbers of institutional investors will turn to bond ETFs to retool and refocus portfolios as they navigate the rapidly changing dynamics of this bond market.

Source: BlackRock, "All Systems Go", as of May 2022. There is no guarantee that any forecasts made will come to pass.

Key themes we discuss in this piece:

1

A generational opportunity
The new regime of greater macro and market volatility is here to stay and demands a new investment playbook, with more frequent asset allocation changes.

2

Time for a portfolio rethink
We believe the average multi-asset portfolio is under-allocated to fixed income, and now is the time to increase fixed income allocations.

3

Getting active with index
Bond ETFs are made for these times, enabling investors to make rapid tactical asset allocation changes, improve operational efficiency, and enhance the liquidity of fixed income portfolios.

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.

Important information

This material is prepared by BlackRock for informational or educational purposes only and is intended solely for Professional and Institutional investors. This material is provided to the recipient upon the understanding that information provided herein is strictly confidential and is intended solely for the exclusive use of its recipient and in no manner, whatsoever, constitutes an offer or solicitation to purchase or sell in any securities or iShares Funds, nor shall any securities or units be offered or sold to any person in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities laws of such jurisdiction.

There are risks associated with investing, including loss of principal. Past performance is not indicative of future performance and is no guide to future returns. The value of investments involving exposure to foreign currencies can be affected by exchange rate movements. Investment in emerging market countries may involve heightened risks such as increased volatility and lower trading volume, and may be subject to a greater risk of loss than investments in a developed country. The use of synthetic instruments such as derivatives may create exposure to market counterparty risk. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. This material contains general information only and is not intended to represent general or specific investment advice. The information does not take into account your financial circumstances. An assessment should be made as to whether the information is appropriate for you having regard to your objectives, financial situation and needs. You are reminded to refer to the relevant prospectus for specific risk considerations which are available from BlackRock or the iShares websites.

This material may contain “forward-looking” information that is not purely historical in nature. Such information may include, among other things, projections, forecasts, estimates of yields or returns. This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.

The opinions expressed are as of the day of distribution and may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and nonproprietary sources deemed by BlackRock to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. They do not necessarily reflect the views of any company in the BlackRock Group or any part thereof and no assurances are made as to their accuracy. No part of this material may be reproduced, stored in retrieval system or transmitted in any form or by any means, electronic, mechanical, recording or distributed without the prior written consent of BlackRock.

In Hong Kong, this material is issued by BlackRock Asset Management North Asia Limited and has not been reviewed by the Securities and Futures Commission of Hong Kong. This material is for distribution to "Professional Investors" (as defined in the Securities and Futures Ordinance (Cap.571 of the laws of Hong Kong) and any rules made under that ordinance.) and should not be relied upon by any other persons or redistributed to retail clients in Hong Kong.

In Singapore, this is issued by BlackRock (Singapore) Limited (Co. registration no. 200010143N) for use only with institutional/accredited investors as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore. This advertisement or publication has not been reviewed by the Monetary Authority of Singapore.

In South Korea, this information is issued by BlackRock Investment (Korea) Limited. This material is for distribution to the Qualified Professional Investors (as defined in the Financial Investment Services and Capital Market Act and its sub-regulations) and for information or educational purposes only, and does not constitute investment advice or an offer or solicitation to purchase or sells in any securities or any investment strategies.

In Taiwan, Independently operated by BlackRock Investment Management (Taiwan) Limited. Address: 28F., No. 100, Songren Rd., Xinyi Dist., Taipei City 110, Taiwan. Tel: (02)23261600.

Issued by BlackRock Investment Management (Australia) Limited ABN 13 006 165 975, AFSL 230 523 (BIMAL) for the exclusive use of the recipient, who warrants by receipt of this material that they are a wholesale client as defined under the Australian Corporations Act 2001 (Cth) and the New Zealand Financial Advisers Act 2008 respectively.

This material provides general information only and does not take into account your individual objectives, financial situation, needs or circumstances. Before making any investment decision, you should therefore assess whether the material is appropriate for you and obtain financial advice tailored to you having regard to your individual objectives, financial situation, needs and circumstances. Refer to BIMAL’s Financial Services Guide on its website for more information. This material is not a financial product recommendation or an offer or solicitation with respect to the purchase or sale of any financial product in any jurisdiction.

This material is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. BIMAL is a part of the global BlackRock Group which comprises of financial product issuers and investment managers around the world. BIMAL is the issuer of financial products and acts as an investment manager in Australia. BIMAL does not offer financial products to persons in New Zealand who are retail investors (as that term is defined in the Financial Markets Conduct Act 2013 (FMCA)). This material does not constitute or relate to such an offer. To the extent that this material does constitute or relate to such an offer of financial products, the offer is only made to, and capable of acceptance by, persons in New Zealand who are wholesale investors (as that term is defined in the FMCA).

BIMAL, its officers, employees and agents believe that the information in this material and the sources on which it is based (which may be sourced from third parties) are correct as at the date of publication. While every care has been taken in the preparation of this material, no warranty of accuracy or reliability is given and no responsibility for the information is accepted by BIMAL, its officers, employees or agents. Except where contrary to law, BIMAL excludes all liability for this information.

In China, This material may not be distributed to individuals resident in the People's Republic of China ("PRC", for such purposes, not applicable to Hong Kong, Macau and Taiwan) or entities registered in the PRC unless such parties have received all the required PRC government approvals to participate in any investment or receive any investment advisory or investment management services.

For Southeast Asia: This document is issued by BlackRock and is intended for the exclusive use of any recipient who warrants, by receipt of this material, that such recipient is an institutional investors or professional/sophisticated/qualified/accredited/expert investor as such term may apply under the relevant legislations in Southeast Asia (for such purposes, includes only Malaysia, the Philippines, Thailand, Brunei and Indonesia). BlackRock does not hold any regulatory licenses or registrations in Southeast Asia countries listed above, and is therefore not licensed to conduct any regulated business activity under the relevant laws and regulations as they apply to any entity intending to carry on business in Southeast Asia, nor does BlackRock purport to carry on, any regulated activity in any country in Southeast Asia. BlackRock funds, and/or services shall not be offered or sold to any person in any jurisdiction in which such an offer, solicitation, purchase, or sale would be deemed unlawful under the securities laws or any other relevant laws of such jurisdiction(s).

This material is provided to the recipient on a strictly confidential basis and is intended for informational or educational purposes only. Nothing in this document, directly or indirectly, represents to you that BlackRock will provide, or is providing BlackRock products or services to the recipient, or is making available, inviting, or offering for subscription or purchase, or invitation to subscribe for or purchase, or sale, of any BlackRock fund, or interests therein. This material neither constitutes an offer to enter into an investment agreement with the recipient of this document, nor is it an invitation to respond to it by making an offer to enter into an investment agreement.

The distribution of the information contained herein may be restricted by law and any person who accesses it is required to comply with any such restrictions. By reading this information you confirm that you are aware of the laws in your own jurisdiction regarding the provision and sale of funds and related financial services or products, and you warrant and represent that you will not pass on or utilize the information contained herein in a manner that could constitute a breach of such laws by BlackRock, its affiliates or any other person.

For Other Countries in APAC: This material is provided for your informational purposes only and must not be distributed to any other persons or redistributed. This material is issued for Institutional Investors only (or professional/sophisticated/qualified investors as such term may apply in local jurisdictions) and does not constitute investment advice or an offer or solicitation to purchase or sell in any securities, BlackRock funds or any investment strategy nor shall any securities be offered or sold to any person in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities laws of such jurisdiction.

The information provided here is not intended to constitute financial, tax, legal or accounting advice. You should consult your own advisers on such matters.

THIS MATERIAL IS HIGHLY CONFIDENTIAL AND IS NOT TO BE REPRODUCED OR DISTRIBUTED TO PERSONS OTHER THAN THE RECIPIENT.