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

March 2024

February Market Highlights

Global Rates

As Core PCE data released at month end showed that the Fed's' preferred gauge of inflation was in line with expectations, yields fell slightly. Yet, with inflation data remaining a threat albeit positive data in equities growth and earnings, yields ended the month higher, with the US 2Y at 4.62% and the 10Y at 4.25%. Rhetoric from the Fed maintained that they were in no rush to deliver rate cuts. Ahead of the BOJ meeting in March, Governor Ueda commented that it was too early to conclude that inflation was close to sustainably meeting the 2% target. Japan 10Y yields ended the month slightly lower at 0.70%.

Credit

Credit spreads in the US fell to lows not seen for more than two years in February. IG credit spreads dipped to the lowest since November 2021 during the month, but ended February unchanged at 96bps. Meanwhile, the US HY credit spread narrowed to its lowest since January 2022, and finished 32bps lower. In the region, Asia IG credit spreads declined by 16bps, alongside Asia HY which saw credit spreads continue to trend downwards by 44bps.

Performance and yield level of key asset classes as of 2024/02/29

		Total Return			Yield level		Spread level (bps) (credit only)	
	Index	YTD	QTD	MTD	Feb-end	ΔMTD	Feb-end	ΔMTD
Aggregate	Global Aggregate	-2.62%	-2.62%	-1.26%	3.80%	0.21%		
	US Aggregate	-1.68%	-1.68%	-1.41%	4.92%	0.33%		
	Japan FI, N-BPI	-0.40%	-0.40%	0.32%	0.70%	0.02%		
Treasury & Agency	US Treasury	-1.59%	-1.59%	-1.31%	4.46%	0.34%		
	Agency MBS	-2.08%	-2.08%	-1.63%	5.12%	0.32%		
	China(CGB+PB)	1.83%	1.83%	0.84%	2.28%	-0.10%		
Credit (IG & HY)	US IG Corporates	-1.67%	-1.67%	-1.50%	5.41%	0.30%	96	0
	US HY Corporates	0.29%	0.29%	0.29%	7.86%	0.06%	312	-32
	Asia IG, JACI IG	-0.37%	-0.37%	-0.25%	5.40%	0.15%	134	-16
	Asia HY, JACI HY	4.93%	4.93%	2.21%	13.70%	-0.15%	784	-44
Emerging Markets	EM HC, EMBI GD	-0.05%	-0.05%	0.98%	8.06%	-0.02%	369	-33
	EM LC, GBI-EM	-2.09%	-2.09%	-0.57%	6.19%	0.05%	-	-

Source: Bloomberg, as of 29 February 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 2024/02/29

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.

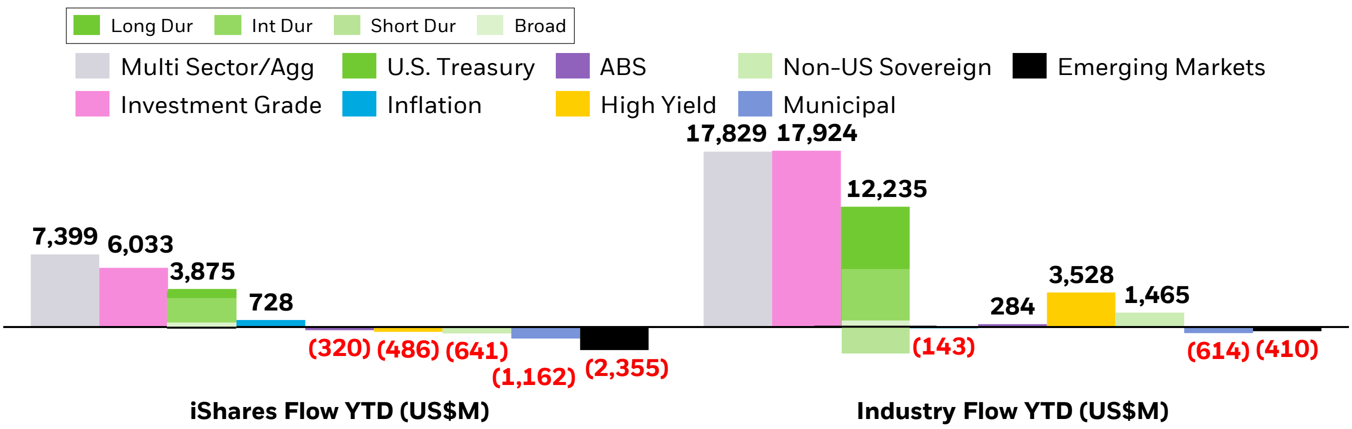
Currency to Hedge (Forward tenors: 3-month and 12-month, annualized)

Local Currency	3M		12M	
	USD	EUR	USD	EUR
JPY	-5.64%	-4.16%	-5.11%	-3.57%
KRW	-1.94%	-0.44%	-2.03%	-0.44%
AUD	-1.09%	+0.40%	-0.80%	+0.81%
CNY	-4.98%	-3.50%	-2.52%	-0.94%
SGD	-1.62%	-0.15%	-1.55%	+0.05%

Source: Bloomberg, as of 29 February 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 February iShares Status Flow

1. **Global iShares Fixed Income ETFs saw relatively flat net flows (-$236M) amid expectations for a Q2 rate cut.** While Multi-sector (+$3.6B) and US Treasury (+$2.5B) exposures pulled in strong inflows, investors continue to offload broad market Credit and EM trading vehicles, particularly out of High Yield (-$2.3B).
2. **After 3 months, flows into US Treasury ETFs have picked up again,** with even inflows across long, intermediate and short duration buckets. Some investors opted for target maturity UST ETFs (+$312M) – driven by 2025-2027 term maturities – and continue to utilize iBonds ETFs to lock in the current higher yields. On a relevant note, although IG financial instruments were broadly redeemed, flows into iBonds/target maturity IG ETFs saw creations of +$980M.
3. **While iShares saw outflows from broad market EM debt (-$1.5B) across both hard and local currency ETFs, India remains a bright spot** on the back of structural tailwinds including JPM index inclusion. Investors can now can easily access and invest into Indian Government Bonds via an iShares ETF to achieve yield enhancement or as building block in EM LC portfolios (see p.3).
4. **Active fixed income ETFs also continued to gain flow momentum.** This includes a Flexible Income ETF marking its largest trading day on record at $579M in February, with AUM jumping 72% to over $1B in assets. Investors use it to access “plus sectors”, allocating across HY, IG, CLOs, securitized, and EMD.



Top/Bottom iShares Fixed Income ETF Sector Flows

Top 5 Exposures	MTD Flow ($M)	% of AUM
Multi Sector - Broad	3,618	2%
Investment Grade - Fixed	980	5%
Investment Grade - ESG	712	10%
U.S. Treasury - Int Dur	697	1%
U.S. Treasury - Long Dur	664	1%
Top 5 Exposures Total	**6,672**	

Top 5 Exposures	YTD Flow ($M)	% of AUM
Multi Sector - Broad	8,197	5%
Investment Grade - Fixed	2,467	14%
Investment Grade - Broad	2,151	2%
U.S. Treasury - Int Dur	1,998	3%
U.S. Treasury - Fixed Dur	934	12%
Top 5 Exposures Total	**15,747**	

Bottom 5 Exposures	MTD Flow ($M)	% of AUM
Investment Grade - Broad	(3,060)	-3%
High Yield - Broad	(2,561)	-5%
Emerging Markets - Broad	(1,466)	-4%
Municipal - Broad	(619)	-2%
ABS - Short Dur	(496)	-2%
Bottom 5 Exposures Total	**(8,202)**	

Bottom 5 Exposures	YTD Flow ($M)	% of AUM
Emerging Markets - Broad	(2,361)	-6%
Municipal - Broad	(1,123)	-3%
High Yield - Broad	(1,005)	-2%
Multi Sector - Short Dur	(465)	-4%
Multi Sector - Int Dur	(356)	-11%
Bottom 5 Exposures Total	**(5,310)**	

Source: BlackRock, as of Feb 29 2024. Reference to $ refers to USD.
iShares and industry ETF flows encompass globally listed products. ‘Broad’ categories reference blended maturity products.

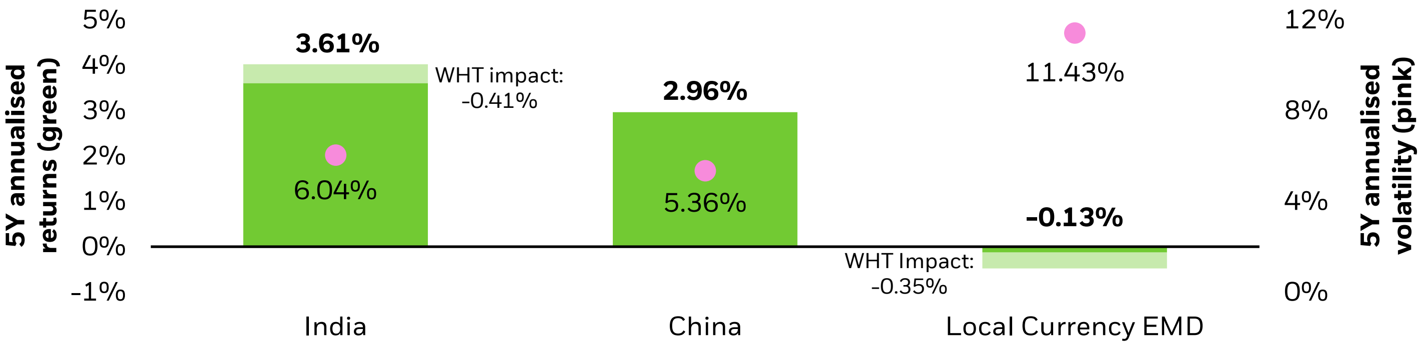
Going far with India FAR bonds

Attractive yields of more than 7% are currently on offer with India Government Bonds (IGBs). This month, we dive into how with ETFs, investors can now bypass the complex challenges of directly investing in IGBs and easily access the asset class which is becoming an increasingly important building block in global portfolios.

1. Compelling yields with attractive risk-adjusted returns

At **7.10% yield and a duration of 6.52 years**, IGBs offer a compelling yield pickup over its emerging markets peers alongside attractive risk-adjusted return potential.

Figure 1: IGBs have historically offered investors relatively greater risk-adjusted returns after tax



Source: BlackRock, Bloomberg, as of 29 February 2024. Reference to GBIEINFU, I37406US, I32561US, JGENVUUG, JGENKUAA Index. 5Y returns are on a net-of-withholding tax basis. The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.

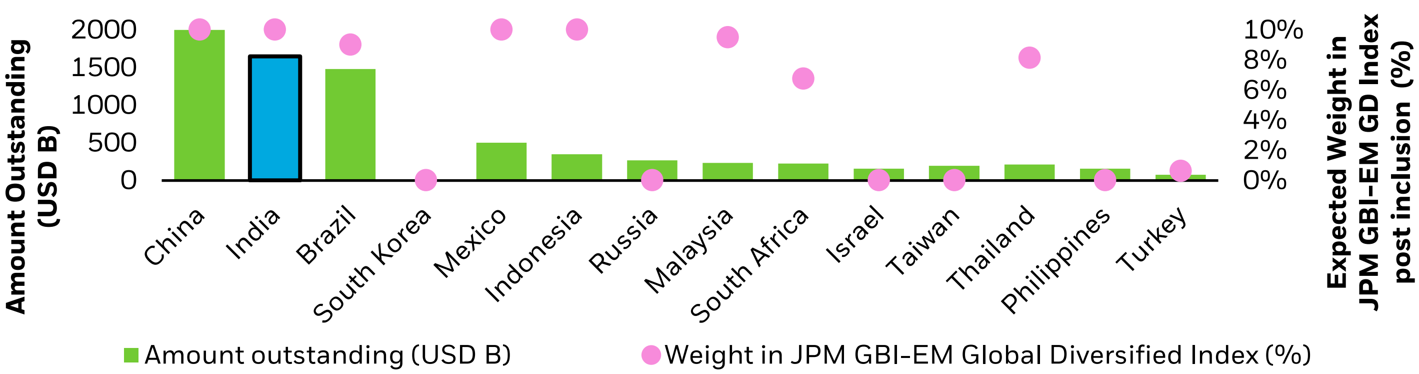
2. India FAR bonds as a portfolio diversifier

Despite exceeding USD 1T in size, access to the IGB market by foreign investors historically has been limited. Since 2020, the Fully Accessible Route (FAR) program has allowed foreign investments into IGBs without any restrictions. Today, while India FAR bonds represent 36% of the total IGB market, **foreign ownership in IGBs is still one of the lowest at ~2%.** Investors tapping into the India market through FAR bonds stand to reap **diversification benefits** from their low correlation with other major fixed income markets.

3. A hard-to-ignore building block today

Index inclusion is poised to establish IGBs as an increasingly important building block in global bond portfolios. The upcoming inclusion of FAR-eligible IGBs into the JP Morgan and potentially Bloomberg EM local currency index suites is expected to attract up to **USD 30 billion of foreign inflows**, which in Q4 2023 alone saw USD 4.2B of inflows alone after JP Morgan's announcement last September.

Figure 2: IGBs are expected to form 10% of the JPM GBI-EM GD Index



Source: Bank for International Settlements as of 31 December 2022, JP Morgan as of 31 August 2023, Clearing Corporation of India as of 31 December 2023. Amount outstanding is on domestic currency general government debt. Refers to India inclusion into the JP Morgan GBI-EM Indices and potential inclusion into the Bloomberg EM Local Currency Indices.

Why ETFs for IGB exposure?

Democratizing access to a complex market

Ease of Account Opening

Avoid the long lead time and complex process of registering as a Foreign Portfolio Investor

Operational Efficiency

The ETF has the appropriate operating model in place that can address challenges faced in bond/FX trading processes

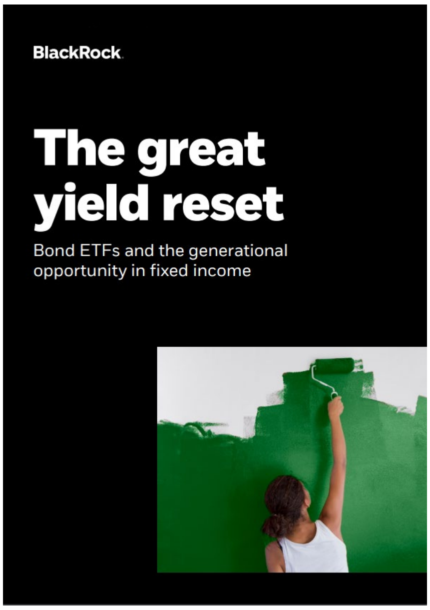
Tax Benefits

Depending on domicile, the ETF can enjoy capital gains tax exemption and concessionary withholding tax rates.

To find out more about India Government Bond 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.

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