



ABF Pan Asia Bond Index Fund

The Outlook of Asian Fixed Income in 2017

Video Transcript

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Kheng Siang Ng
Asia Pacific Head of Fixed Income
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Q: How has the performance of Asian bonds been?

A: Asian bonds had a very strong performance at the beginning of this year, due to the fact that Asian bonds have been sold off in the past few years. But since then, investors have increased allocation to Asian bonds, and that has driven the performance of Asian bonds to a very good level at least for the first nine months of this year. Since then, the Fed rate hike has kind of caused some retracement in the local bond market and therefore has led to a slightly lower performance at the end of this year so far.

But we think that in the medium to long term, Asian bonds will still be doing well. The key drivers for the resurgence of Asian bonds are principally due to the search for yields in the current low interest rate environment, whereby investors are seeking additional incremental returns from different parts of the investment universe, whereby they can get a better diversification benefit from the assets that they own, as well as due to the fact that the Asian economies are still doing fairly resiliently, and therefore, has also garnered stronger interests and confidence among investors.

Q: Where do you see the inflows come from mainly?

A: The inflows for Asian bonds we have seen so far mainly coming from investors within Asia. Of course we have seen also inflows from other parts of the world, but principally are driven by Asian investors, who are more familiar with the landscape within Asia. They feel that Asian bonds should form part of their core asset allocation.

Q: What is your outlook on Asian bonds in 2017?

A: The outlook for Asian bonds in 2017 I think will be a bit mixed at the beginning of the year because of the volatility that increased very recently due to the Fed rate hike. We think that this volatile period will slowly recede over time and therefore investors will start to be more confident again in coming to Asian bonds. Bear in mind that Asian bonds had a very strong year so far in the first nine months and profit taking. The profit taking does not signal an end to the Asian bonds. We think that is a natural progression for some consolidation. So we think that over time, Asian bonds will still be doing fairly well in the next year.

Q: What are the key risks?

A: I think for next year, the key risk will be coming from the currency volatility. As you know, the US dollar continues to strengthen based on the expectation of Fed rate hike so the currency volatility would be key.

Secondly, that would be look at the volatility within the bond market, what are the policy actions coming from the central banks, so as the government, in reaction to the changing demand and supply within the economies, plus also the capital flows that will impact the real economy.

Q: How should investors choose between hard and local currency Asian bonds?

A: I think for investors looking at Asian bonds, naturally it can divide into two universes, one is the hard currency and the other is the local currency. For investors who are looking mainly to avoid any currency risk for now and purely want to focus on the Asian fundamentals, they should then look into the hard currency space within Asia. For investors looking more medium to long term, whereby they are trying to harness the returns and the improvement within the Asian economies, they should then look for opportunities investing in local currencies,

whereby they can enjoy the full benefits of the bond market returns, plus also the Asian FX returns.

Q: Will Asian fixed income become an increasingly important asset class to global investors?

A: We think that the trend for increasing allocation to Asian bonds will be a continuing trend. Of course we might see some profit taking and investors making asset allocation from time to time, so you might see a bit of adjustments here and then. But in totality, we think that, in the broader scheme of things, Asian bonds will still form a major part of the core decision for asset allocation because Asian economies continue to grow and the Asian debt capital markets continue to expand, and the inclusion of more Asian bond markets into the global bond universe will naturally propel more investments into this part of the world.

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