STATE STREET GLOBAL ADVISORS

Press Release

Survey Finds that APAC Investors Plan to Increase Allocations to Asian Fixed Income

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- PAIF primarily invests in local currency government and quasi-government bonds in eight Asian markets, comprising of China, Hong Kong, Indonesia, Korea, Malaysia, Philippines, Singapore and Thailand.
- Investment involves risks, including risks of exposure to bonds in both developed and emerging Asia markets. Investors may lose part or all of their investments.
- PAIF is not "actively managed" and will not try to "beat" the market it tracks.
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HONG KONG September 24, 2024 – State Street Global Advisors, the asset management business of State Street Corporation (NYSE: STT), today released the findings of an ABF Pan Asia Bond Index Fund (PAIF) sponsored survey which included responses from 600 asset managers, asset owners, family offices, private banks and commercial banks in the Asia Pacific (APAC) region that was commission earlier this year. The survey reveals a general optimism among APAC investors regarding Asia's economic prospects, with many looking to increase their exposure to Asia Pacific bonds.

The surveyed investors plan to allocate nearly 46% of their assets to fixed income over the next 12 months, up from 37% a year ago. The majority of their fixed income assets are invested in Asia ex-Japan. The survey finds that APAC investors plan to allocate 28% of their fixed income investments to Asia ex-Japan in the next 12 months, an increase from 26% a year ago. The next most important destination for fixed income allocations is Japan, which remains steady at about 16% across all the time frames. Only 14% and 13% of their assets are invested in North American and European fixed income, respectively.

"The recent cycle of interest rate hikes has revitalized the role of bonds in generating income, a function that had diminished during a decade of historically low yields prior to the US Federal Reserve's rate increase in March 2022," said Marie Tsang, fixed income ETF strategist for Asia Pacific at State Street Global Advisors. "Apart from home bias, Asia's robust economic backdrop is boosting APAC investor sentiment. The growing allocation to

Asia ex-Japan fixed income among APAC investors underscore a growing confidence in the region's fixed income markets as a source of stable returns."

When asked about which fixed income region they expect to perform best in 2024, 36% of survey participants said Asia ex-Japan, followed by 15% for Japan, and 14% for North America. Only 9% expressed optimism about Europe's bond market being a top performer.

"With inflation gradually coming under control, there is a widespread expectation of global interest rate cuts, which bodes well for the continued outperformance of many Asian bond markets. Investors are feeling more optimistic about the region compared to more mature markets," explained Kheng Siang Ng, Asia Pacific head of fixed income and head of Singapore at State Street Global Advisors.

Asian Fixed Income Markets are Becoming More Friendly to Investors

"Another reason for the increasing confidence in Asian fixed income is the markets are becoming increasingly investor-friendly, with many countries liberalizing their capital markets and expanding their bond investor base through regulatory reforms and enhanced financial infrastructure," added Ng .

For example, onshore Chinese bond market is opening up significantly with the support of Hong Kong as an international financial gateway. Initiatives like Bond Connect and Swap Connect have facilitated mutual market access and improved hedging efficiency for international investors. These efforts have heightened global interest in onshore Chinese bonds, particularly with their inclusion in global bond indices.

Investors are Seeking Income and Diversification

The survey indicates that 41% of APAC investors are investing in bonds to generate income, compared with 31% who are seeking diversification and 30% who are motivated by sustainability-related goals.

"Asia's bond markets present a compelling alternative to other fixed income markets," commented Ng. "A lot of investors are now looking to diversify away from their traditional bond exposure, recognizing that the various markets in Asia behave differently. The Asia fixed income landscape offers diverse economies, along with stability, attractive yields, and a growing diversity of domestic investor bases in terms of types and sizes."

The survey finds that APAC investors have a strong preference for short to medium-term maturities. 64% prefer bond maturities up to 10 years, and the 6–10 years range is the most popular, at 46%. Just 7% prefer to hold maturities over a period of 15 years.

When it comes to the quality of bonds, APAC investors are increasingly leaning toward the higher end of the credit spectrum. A year ago, 66% of institutional investors said that the lowest-rated bonds they were willing to hold were all rated A and above. This has now risen to 71%, and is 74% for investing intentions in 12 months' time.

"Local institutions tend to favor sovereign and quasi-sovereign bonds for their higher credit ratings and relative stability. APAC investors — particularly life insurers, banks and pension funds — have an ongoing appetite for investment-grade bonds, and they represent a key source of capital flows into these assets," added Tsang.

Recession and Inflation are the Key Concerns

Asia Pacific-based investors view the region favorably for fixed income investments, but there are concerns about recession (37%) and inflation (37%), followed by geopolitics and currency depreciation (35% each). Despite these concerns, the positives outweigh the negatives, driven by the growth in local bond markets.

"Borrowers, from corporates to sovereigns, are shifting funding from US dollars to domestic markets, showing investor confidence. Additionally, aging wealthy societies like Japan, South Korea, and Hong Kong prefer the safety of fixed income investments over equities, further supporting the region's bond markets," explained Ng.

Asian markets have become key contributors to global economic growth, and the ABF Pan Asia Bond Index Fund (PAIF) (2821 HK) provides a way to add valuable diversification benefits to investors' portfolios, offering exposure to a wide choice of local currency government and quasi-government bonds in eight Asian markets at a low cost.

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About the Survey
The survey titled "Unlocking Opportunities in Asia Fixed Income" was commissioned by the ABF Pan Asia Bond Index Fund (PAIF). The quantitative online survey was carried out by FT Longitude between February 8, 2024 and February 28, 2024. The sample comprised 600 executives and senior business leaders at asset managers, asset owners, family offices, private banks and commercial banks based in Asia-Pacific.

About ABF Pan Asia Bond Index Fund (PAIF)
ABF Pan Asia Bond Index Fund (PAIF) is a component of Asian Bond Fund 2 (ABF2), the second phase of the EMEAP (Executives' Meeting of East-Asia and Pacific Central Banks) Group's initiative to further develop the bond markets in Asia. The EMEAP Group comprises 11 central banks and monetary authorities in East Asia and Pacific region, namely Australia, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, and Thailand. The Singapore-domiciled Fund is listed on the Hong Kong Stock Exchange and The Tokyo Stock Exchange as an exchange traded fund (ETF). The Fund seeks to provide investment returns that corresponds closely to the total return of the Markit iBoxx ABF Pan-Asia Index, before fees and expenses.

About State Street Global Advisors
For four decades, State Street Global Advisors has served the world's governments, institutions, and financial advisors. With a rigorous, risk-aware approach built on research, analysis, and market-tested experience, we build from a breadth of index and active strategies to create cost-effective solutions. As pioneers in index and ETF investing, we are always inventing new ways to invest. As a result, we have become the world's fourth-largest asset manager* with US $4.42 trillion† under our care.

*Pensions & Investments Research Center, as of 12/31/23.
†This figure is presented as of June 30, 2024 and includes ETF AUM of $1,393.92 billion USD of which approximately $69.35 billion USD is in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

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