2026 Investment Outlook – Asia Fixed Income: Investment Grade

November 2025

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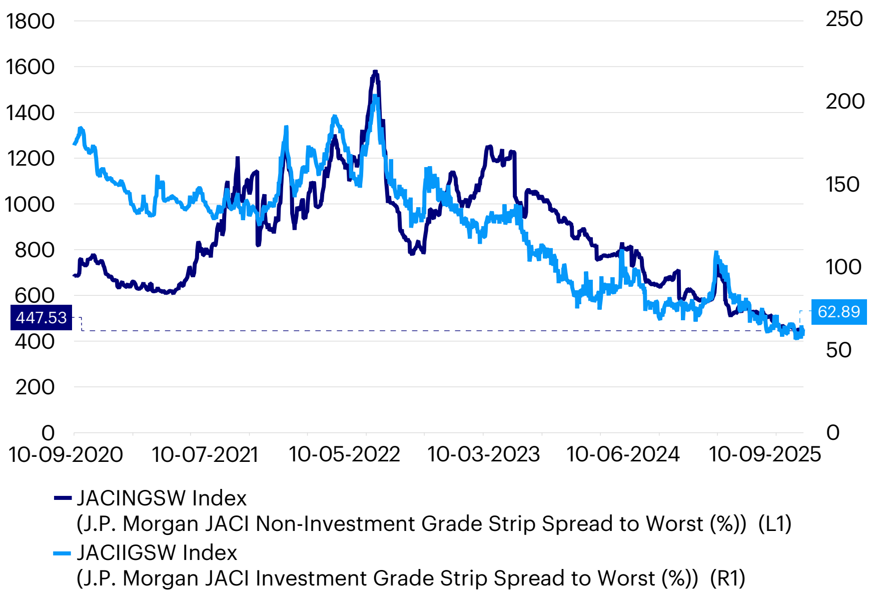
Resilient year-to-date return of Asian Investment Grade (IG) amid uncertainties
The Asian credit market has exhibited notable resilience in recent months, delivering positive returns despite ongoing global uncertainties, including signs of a US labor market slowdown, US government shutdown and renewed US-China trade tension. JPMorgan Asia Credit Index - Investment Grade posted 6.98% return year-to-date (as of November 7, 2025)[1] , highlighting the benefits of yield income in a range-bound environment.

Steady positive performance was driven by high yield carry and spread tightening, supported by stable macroeconomic fundamentals across Asian countries, supportive technicals, and limited new issuance. Spread compression continued, fueled by strong demands and easing trade tensions. Overall, improved US-China trade relations bolstered investor confidence, although valuation remain near historically tight levels.

Figure 1 – Performance comparison: JACI Investment Grade versus JACI High Yield (September 2020 – November 2025)



Source: Bloomberg, data as of November 19, 2025. Used with the permission of Bloomberg Finance L.P.

Positive meeting outcome eased trade tensions and bolstered sentiment
The trade meeting between Presidents Trump and Xi was more constructive than many had expected. Beyond reversing recent escalations, both countries agreed to suspend additional trade restrictions for one year. The US will postpone further reciprocal tariffs on China and roll back export restrictions on subsidiaries of blacklisted Chinese firms. Meanwhile, China will pause export controls on rare earths and resume purchase of US soybeans. Beyond China, trade-related uncertainties also eased across several other Asian countries. Overall, this positive outcome helped reduce market anxiety over policy uncertainty and reinforced investor confidence.

1. Source: Bloomberg, data as of November 7, 2025.

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US monetary policy outlook and implications for global financial conditions
The Fed cut rates by 25 basis points at its October meeting, but Chair Powell pushed back against market expectations for a December cut, noting it is far from a foregone conclusion. Powell also emphasized that uncertainty stemming from the lack of official data during the government shutdown and limited visibility would justify keeping rates on hold. The Fed's economic outlook has not changed significantly since the September Federal Open Market Committee (FOMC) meeting, and the central bank would find it difficult to cut rates aggressively in 2026 without clear signs of labor market deterioration.

The rates path continues to be a dominated factor driving Asia IG total returns in 2026. The US growth outlook will be a key topic of discussion. We will closely monitor whether labor market weakness and AI-driven equity valuation volatility influence risk appetite in the near term.

Idiosyncratic concerns re-emerged in US and EM
Idiosyncratic concerns emerged in October in both US and EM credit markets, negatively impacting sentiment in global credit markets. However, we see these incidents currently have limited direct impact on Asian credit. For idiosyncratic risks to meaningfully affect Asian credit, they would need to translate into broader macro implications. Still, these developments serve as a reminder that left-tail risks persist amid lingering macro uncertainties.

Asia credit outlook: Cautious optimism and country-specific dynamics
The outlook for Asia IG in Q1 2026 remains broadly positive, building on the resilience seen throughout 2025. This is supported by anticipated US rate cuts, robust regional economic growth, and favorable technical dynamics. Asian IG credits are expected to deliver stable returns with attractive carry potential.

Favorable fundamentals such as low default rates, strong balance sheets among high quality issuers, and room for policy easing across Asia will likely underpin performance, though external risks like US tariffs and rate volatility could introduce short-term fluctuations.

Central banks across Asia retain flexibility for further monetary easing, with one to two rate cuts expected in 2026. Declining inflation and subdued global growth support accommodative stances. However, foreign exchange sensitivity and reserve adequacy may constrain divergence from US monetary policy.

Against this backdrop, country- and sector-specific allocations will play a critical role in shaping credit performance across the region.

Figure 2: Asia credit spreads by country (November 2020 – November 2025)

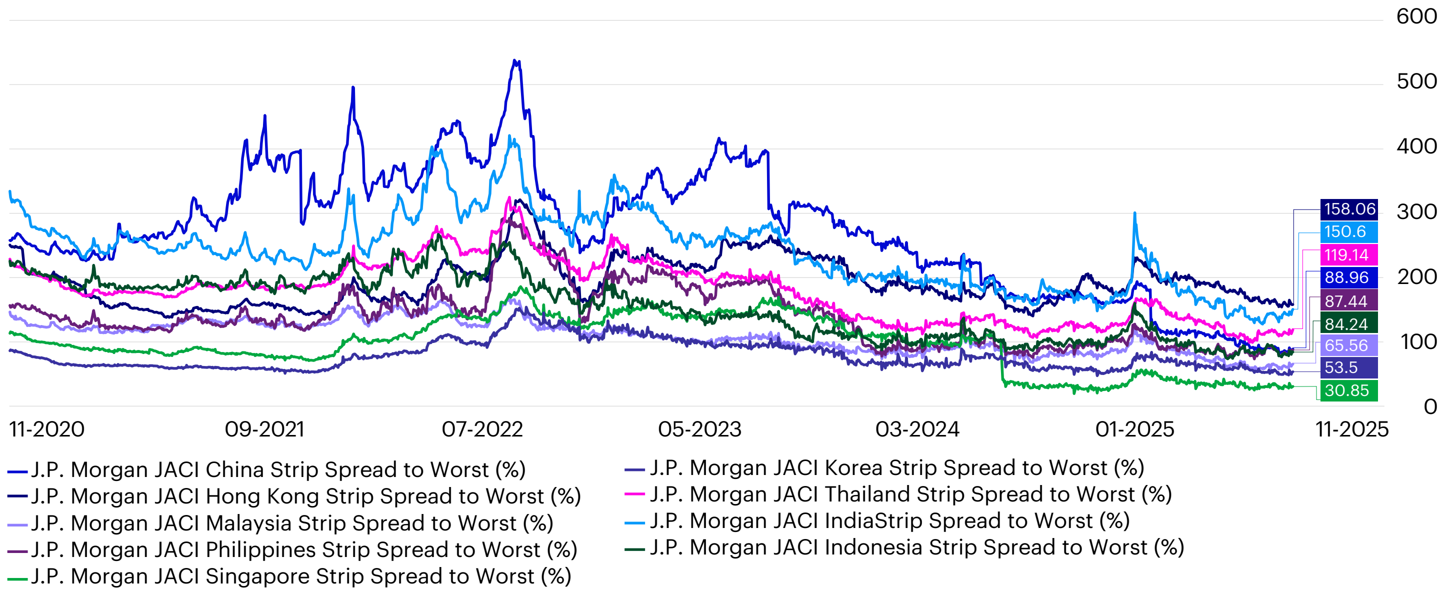

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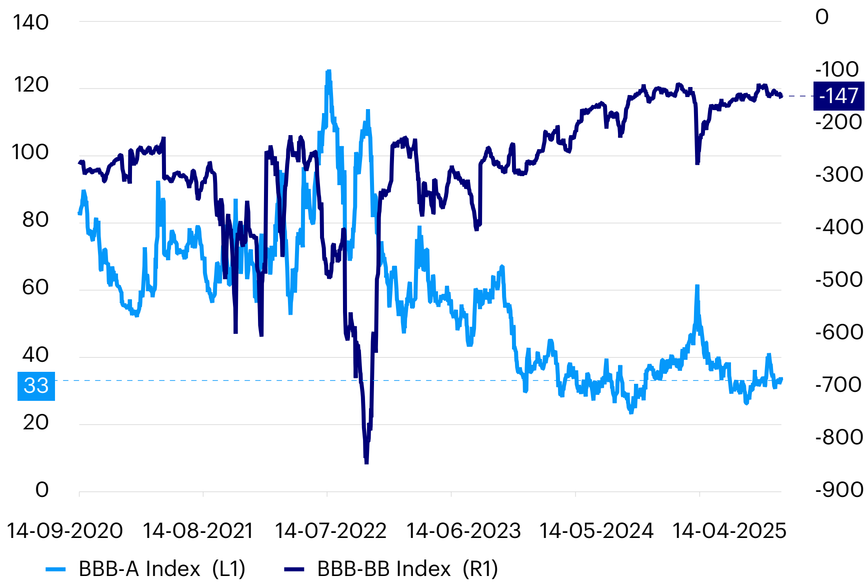
Chart 2: Spread differential between BBB-A & BBB-BB (September 2020 – November 2025)



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Current spread levels signal limited yield pickup for excessive credit risk
Current spread levels indicate a low yield pickup for taking excessive credit risk. The yield differential between BBB and A-rated credit is currently about 33 basis points, indicating BBBs are extremely expensive compared to A-rated bonds. The spread differential is close to 5-year tight and the current extremely narrow yield pickup is insufficient to compensate for higher risk-taking.

Asia BB-BBB spreads differential currently stands at approximately 133 basis points, placing it at the 10th percentile since January 2010. These expensive valuations suggest investors should maintain a preference for the more defensive positioning of Asia IG.

Supply-demand dynamics and central bank flexibility in Asia
Technicals remain supportive across Asia, consistent with previous quarters. We expect primary market activity in Asia IG to be largely driven by refinancing activities, with USD 168 billion[2] of Asia IG bonds maturing next year. New issuance volume in Asia IG is likely to remain subdued in 2026, primarily due to lower domestic funding costs diverting financing to the onshore markets. In addition, developments in other offshore markets such as CNH bonds are also providing alternative sources of capital for Chinese issuers, reducing the need for USD-denominated issuance. Supply-demand imbalances have provided support to the tight spread levels; however, further compression appears limited.

Macro and geopolitical factors to monitor in Q1 2026
As Asian credit markets continue to navigate a global landscape marked by potential disruptions, several macroeconomic and geopolitical risks warrant close monitoring, given their potential to materially influence portfolio performance in the coming quarter.

Key risks include:
- Concerns over US growth slowdown – lingering uncertainties around the labor market
- Volatility in US interest rates amid fiscal uncertainty
- Equity valuation and profitability of AI investments
- Regional geopolitical tensions (e.g., Middle East, Southeast Asia)
- Idiosyncratic events in US and EM – and potential spillover effects

2. Source: Bloomberg, data as of November 2025.

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Given rich valuations, portfolio strategy should maintain defensive positioning and focus on yield carry. Maintain diversifying allocations within IG for stability and selectively adding off-benchmark names for potential incremental returns. Stay cautious when investing in long-end corporate bonds as current flat credit curve does not provide sufficient term premium for taking additional credit risks.

While Asia credit remains resilient and potentially offers attractive yields and diversification benefits, navigating Q1 2026 requires prudent risk management, disciplined risk budgeting and active country/sector-specific positioning to mitigate external shocks and capitalize on selective opportunities.

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Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

When investing in less developed countries, you should be prepared to accept significantly large fluctuations in value.

Investment in certain securities listed in China can involve significant regulatory constraints that may affect liquidity and/or investment performance.

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