

2025 Q4 Investment Outlook – Asia Fixed Income: High Yield

September 2025

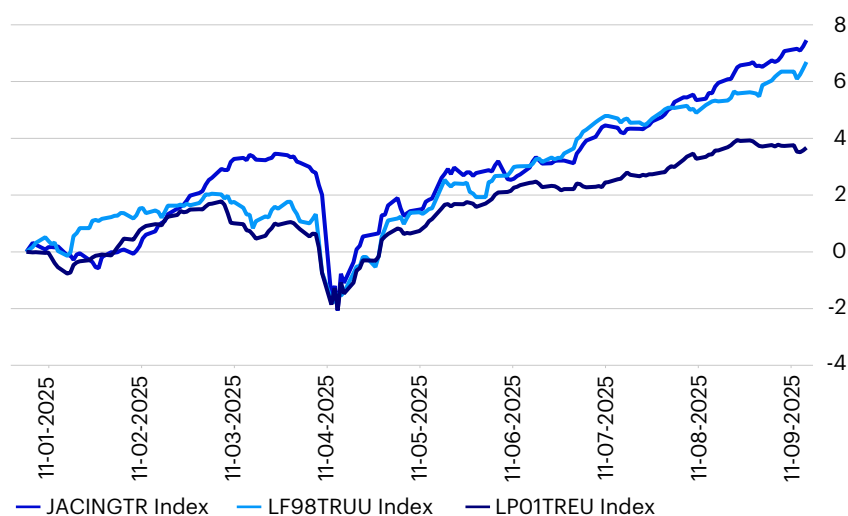


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Year-to-date, Asia High Yield (HY) has delivered a strong performance, outpacing both Pan-European and US HY markets. Income remains a key driver, contributing around half of total returns alongside spread tightening.

Within Asia HY, notable outperformers included Asian frontier sovereigns and BB-rated financials, supported by minimal direct tariff impact.¹ As a short-duration asset class, with averaging duration of around 2.6 years, Asia HY has demonstrated resilience amid a year marked by interest rate volatility.

Chart 1: Performance of Asia HY versus Pan-European HY and US HY



Source: Invesco, Bloomberg, data as of September 5, 2025. Used with the permission of Bloomberg Finance L.P.

As we head into Q4 2025, we highlight the following themes that we believe will be of interest to investors in the Asia HY asset class.

1. Source: Aladdin, Invesco as of 16 September 2025.

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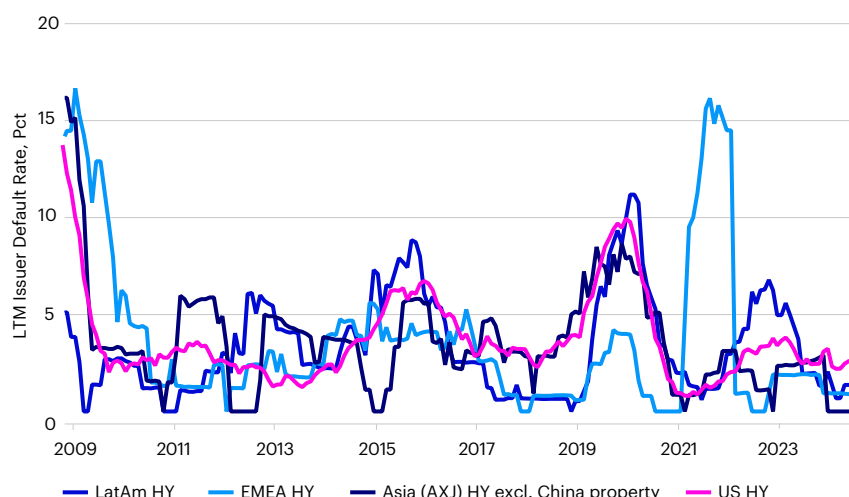
Default rate expected to remain low for Asia HY (excluding real estate)

As highlighted in our 2025 Midyear Investment Outlook, default rates for Asia HY (excluding real estate) have remained low. At JACI HY index level, default rates amounted to 4.3% year-to-date (as of end-August 2025), compared to 4.9% in 2024. Notably, there have been zero defaults outside of the real estate sector this year. From a default-rate perspective, Asia HY (ex real estate) has significantly outperformed other global HY markets, as shown in the chart below.

This underscores the potential advantages of Asia HY and the role active management plays in mitigating concentrated risks at the issuer and sector levels. While we remain positive on the outlook for Asia HY, we maintain a cautious stance on real estate bonds and believe selectivity is key.

We observe a trend where defaulted real estate companies have undergone multiple rounds of restructuring in an effort to achieve sustainable capital structures. In contrast, many Asia HY issuers outside real estate continue to take proactive measures, such as early refinancing of upcoming debt maturities or securing bank facilities, to strengthen their liquidity profiles. As such, we remain constructive that default rates outside of the real estate sector will stay low for the remainder of 2025.

Chart 2: Historical HY corporate default rates by region



Source: BAML, Invesco, data as of July 31, 2025

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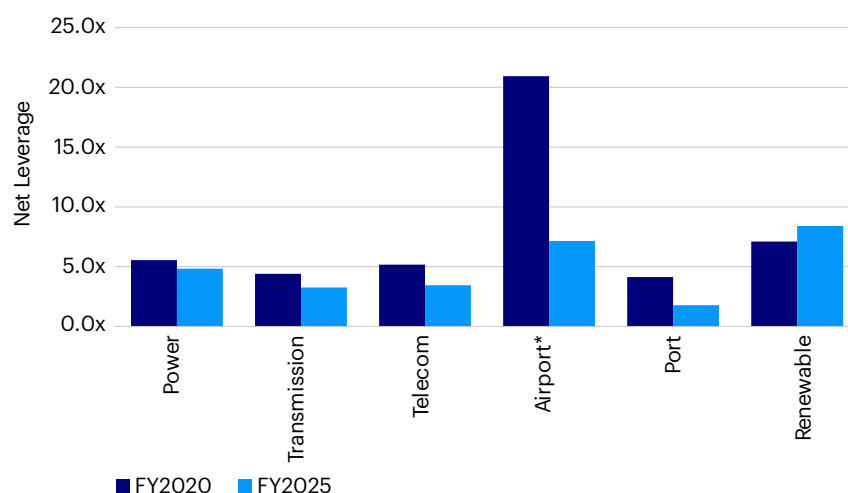
Remain vigilant about diverging fundamentals within the Asia High Yield universe

Within Indian HY, we currently favor the **infrastructure sector** over the renewables. Chart 3 below illustrates the evolution of various infrastructure subsectors, all of which have improved their credit metrics since 2020, with the notable exception of the renewable sector.

In our previous outlooks, we highlighted our preference for the Indian HY renewable sector and that call worked out well. However, we now observe ambitious capex growth plans in renewables that outpace earnings growth, which could weigh on credit metrics in the short to medium term.

Key credit mitigants include continued execution success and the presence of long-term power purchase agreements (PPAs) for the sector. We favor airports and ports, which have demonstrated continued deleveraging trends that translate into upward rating pressure.

Chart 3: Indian infrastructure and renewable credit metrics over last 5 years



Source: S&P, Invesco, data as of August 31, 2025.

*Note: Airport data reflects FY2021 and FY2025 data due to sector reorganization.

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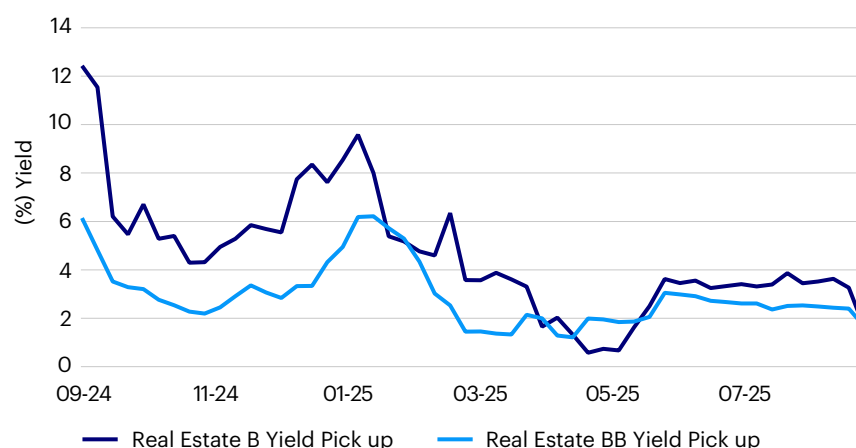
HY real estate bonds offer limited yield advantage over non-real estate HY

We believe active security selection and sector allocation remain critical within the Asia HY. While income opportunities are abundant, a disciplined approach that aligns fundamentals with valuations is essential.

For example, among surviving real estate HY bonds, the yield pick-up has narrowed significantly - from over 6% at the start of the year to just below 2%. This compression reflects **survivorship bias**, as defaulted names have exited the BB and B rating buckets, combined with spread tightening among surviving issuers actively deleveraging and improving cash flows.

As such, we see **better opportunities in non-real estate sectors**, where investors could possibly avoid sector idiosyncratic financing risks associated with surviving real estate borrowers.

Chart 4: Yield differentials between real estate and non-real estate bonds in BB and B rating buckets



Source: Invesco, Aladdin, JP Morgan, as of September 5, 2025

In this context, we believe an Asia bond strategy with the flexibility to allocate across sectors and issuers - guided by fundamentals and valuations - would be well positioned to capture credit risk premiums in Asia's credit markets, deliver resilient income, and mitigate the risk of negative credit surprises.

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