



**Yifei Ding**  
Senior Portfolio Manager  
Invesco Fixed Income



**Anthony Xiao**  
Associate Portfolio Manager  
Invesco Fixed Income

## Understanding duration risk: Why shorter is often safer

One of the key considerations in bond investing is **duration risk** — a measure of how sensitive a bond or a bond portfolio is to changes in interest rates. Short duration bonds, which exhibit lower sensitivity to interest rate fluctuations, tend to offer investors reduced volatility and more stable performance compared with long duration bonds, particularly in environments marked by significant interest rate swings. Historical performance data supports this view, showing that short duration bonds typically deliver more consistent returns with lower annualized volatility. This trend is illustrated in the table below, which compares the performance of the short duration Asia Dollar Corporate Index against its longer duration counterparts. For instance, the ICE BofA 1-3 Year Asian Dollar Corporate Index posted a 5-year cumulative return of 2.00% with an annualized volatility at 2.59%, whereas the corresponding 10+ Year Index decline 7.73% with significantly higher annualized volatility at 8.68%.

## Strategic Positioning of Short Duration Bonds in Rate Cut Cycles

Short duration bonds could be well-positioned to capture capital appreciation from rate cut cycles, as their yields are more closely aligned with short-term or risk-free rates. This alignment would enable them to capture capital appreciation more effectively when rates decline. Notably, over the past year, amid an ongoing rate cut cycle, the Asian short duration bond index has consistently outperformed its long duration counterpart, delivering higher absolute and risk-adjusted returns. In our view, this outperformance underscores the defensive characteristics of short duration bonds, particularly during periods of heightened market volatility.

Short duration bonds also tend to demonstrate greater resilience during periods of market stress — particularly when investor confidence in the long-term viability of credit issuers is challenged. A notable example occurred during the market dislocation following “Liberation Day,” when elevated tariffs imposed by US President Trump triggered widespread uncertainty. While long duration bonds experienced significant price declines, short duration bonds remained relatively stable, reinforcing their role as a more defensive allocation in uncertain environments.

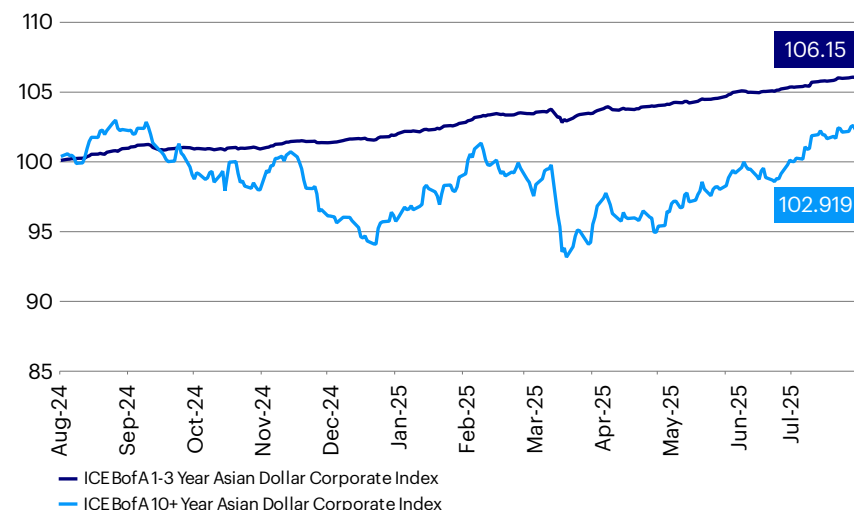
	Effective Duration	YTM	1 Year		3 Year		5 Year		10 Year	
			Return	Volatility	Return	Volatility	Return	Volatility	Return	Volatility
ICE BofA 1-3 Year Asian Dollar Corporate Index	1.71	4.83%	6.15%	1.15%	19.13%	1.99%	2.00%	2.59%	26.29%	2.10%
ICE BofA Asian Dollar Corporate Index	4.63	4.99%	6.05%	2.98%	19.85%	3.68%	2.80%	3.63%	35.56%	3.17%
ICE BofA 10+ Year Asian Dollar Corporate Index	12.73	5.49%	2.92%	8.40%	18.01%	9.18%	-7.73%	8.68%	52.95%	8.00%

Source: Bloomberg, data as of August 22, 2025. Volatility is annualized.

# Unlocking value in Asian short duration bonds: Yield with resilience

September 2025

**ICE BofA 1-3 Year and 10+ Year Asian Dollar Total Return Index**



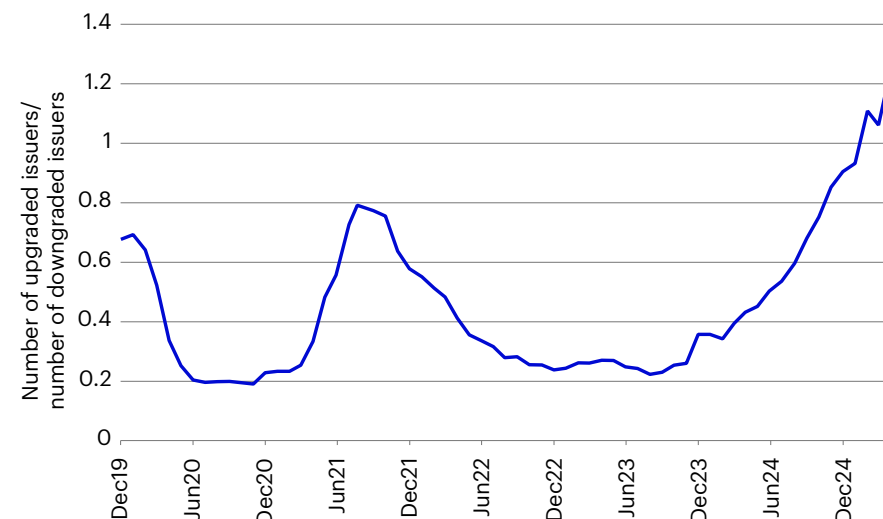
Source: Bloomberg, data as of August 22, 2025.

## Improving Credit Fundamentals Across Asian Markets

It is our view that the current macroeconomic environment in Asia presents a constructive backdrop for credit performance. Most Asian countries maintain relatively low inflation levels providing central banks with greater flexibility for monetary easing. Additionally, healthy sovereign debt levels across the region could also create room for fiscal stimulus, further supporting economic stability.

Major Asian sovereign and investment grade corporate issuers continue to demonstrate improving credit fundamentals. In the high yield segment, Asia — excluding China property developers — has exhibited a notably lower default rate compared to peers in the US and Latin America. Since 2022, the upgrade-to-downgrade ratio by major rating agencies has shown a positive trend, reflecting stronger balance sheets, disciplined fiscal management, and enhanced credit quality across the Asian credit universe. The following charts illustrate these trends.

**Rolling 12-month number of upgrade issuer/number of downgraded issuers, 2020-2025Q1**

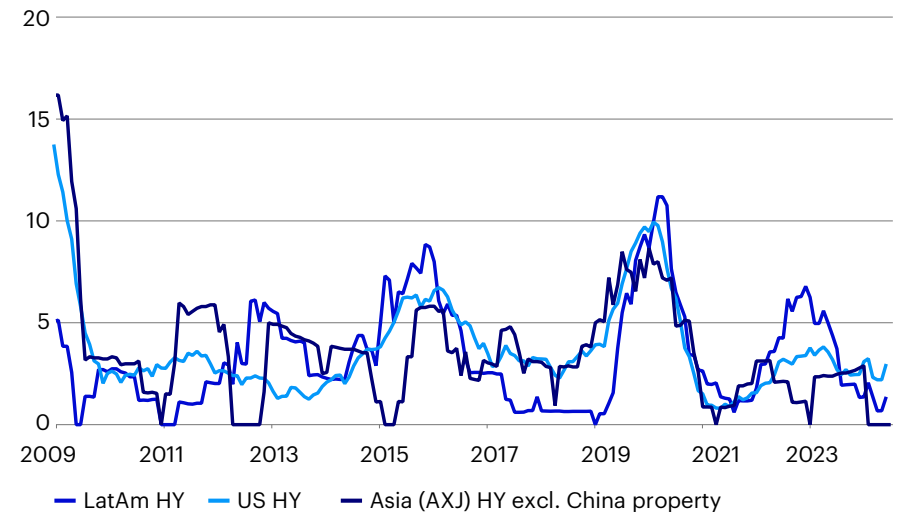


Source: Moody's, S&P and Fitch Ratings, data as of March 2025.

# Unlocking value in Asian short duration bonds: Yield with resilience

September 2025

## Historical HY corporate default rates by region



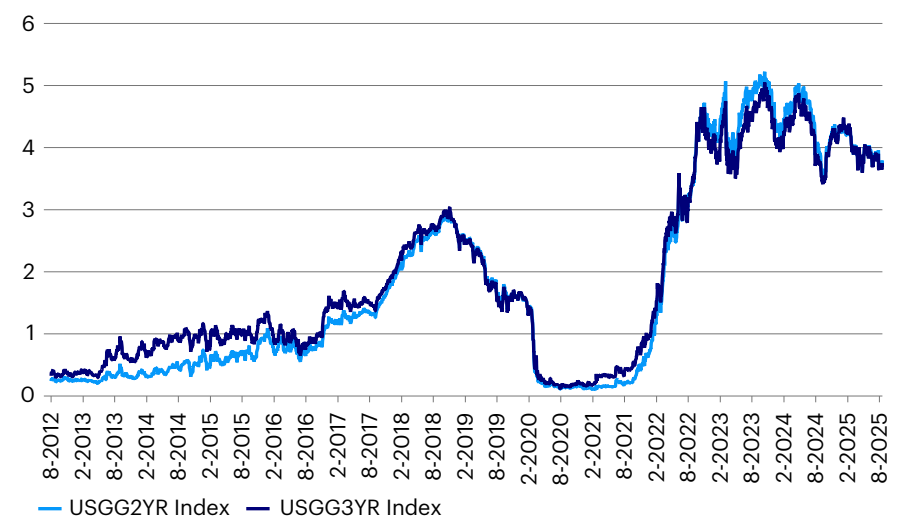
Source: BAML, data as of May 31, 2025.

## Technical Strength and Yield Advantage in Asian Short Duration Bonds

The Asian USD bond market has experienced subdued new issuance in recent months, resulting in lower supply risk for investors. Concurrently, demand from local investors for high-quality bonds remains strong. This combination of limited new supply and robust demand provides solid technical support for the broader Asian bond market.

In our view, Asian short duration bonds are currently in a favorable position, underpinned by improving fundamentals, strong technical, and attractive yield levels. Yields on 2-year and 3-year US Treasury bonds are hovering at high levels. The yield on the Asian short duration bond index continues to trade at elevated levels compared to its historical ranges, despite showing signs of a downward trend. This environment could potentially present a compelling entry point for investors to secure higher yields and potentially benefit from price appreciation, particularly as further rate cuts and monetary easing take effect.

## 2Y and 3Y US Treasury bond yields stay at attractive level



Source: Bloomberg, data as of August 22, 2025.

September 2025

## Enhancing Returns Through Curve Roll-Down Strategies

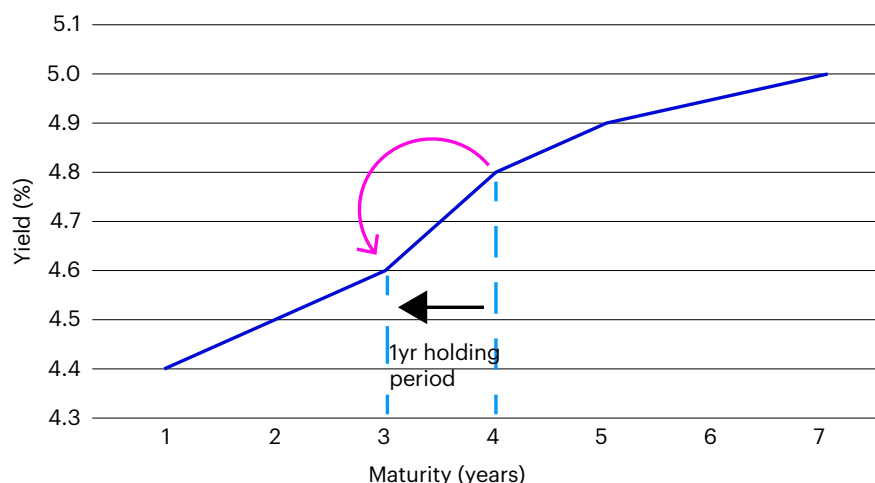
An additional advantage of considering short duration bonds lies in the potential for enhanced returns from **curve roll-down**. This strategy involves purchasing a bond with a longer maturity and selling it before maturity, benefiting from the price appreciation that occurs as the bond “rolls down” the upward-sloping yield curve toward a shorter maturity.

The approach capitalizes on the typical structure of a positively sloped yield curve, where longer-term bonds offer higher yields. As the bond’s maturity shortens over time, its yield tends to decline—assuming a stable curve—resulting in capital gains for the investor. Curve roll-down could potentially be a valuable tool for boosting total return, especially in environments where interest rates are expected to remain stable or decline.

How does this curve roll-down strategy work in practice? Consider purchasing a 4-year bond with a yield of 4.8% and holding it for one year. After one year, the bond effectively becomes a 3-year bond. If the 3-year bond from the same issuer is yielding 4.6%, and the yield curve remains stable, the bond’s price will adjust upward to reflect the lower yield, resulting in capital appreciation. Based on a 4-year duration, this 20-basis-point drop in yield translates to approximately 80 basis points of capital gain, bringing the **theoretical Holding Rate of Return (HROR)** for that total one-year return to around 5.6%—higher than the original yield at purchase.

This calculation illustrates the importance of analyzing issuer-specific yield curves and actively considering curve slope and roll-down opportunities. By purchasing a bond with a longer maturity and selling it as it rolls down the curve, investors could, in our opinion, capture capital appreciation in addition to yield carry—without taking on additional credit risk. Strategically positioning within the steepest part of the curve could allow portfolios to generate higher returns while maintaining the same credit quality. This approach reinforces the value of active management in short duration strategies, particularly in environments where rate movements and curve dynamics present tactical opportunities.

## Illustration for curve roll-down effect



Source: Invesco. This graphic is for illustrative purposes only and is not based on a specific security.

In summary, short duration bonds would be less exposed to uncertainties in long-end rates and long-term macro risk events, such as US fiscal and inflation outlook. Against the backdrop of elevated yield levels, healthy credit fundamental and strong technical support in Asia credit markets, we see the short duration Asia credit strategy—particularly one with active curve roll-down trades—could potentially offer investors a compelling opportunity to achieve robust and stable returns over the coming years.

# Unlocking value in Asian short duration bonds: Yield with resilience

September 2025

---

## 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.

---

## Important information

**This document is for Professional Clients only in Dubai, Jersey, Guernsey, the Isle of Man, Continental Europe (as defined below) and the UK; for Institutional Investors only in the United States; for Professional/Qualified/Sophisticated Investors in Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates; for AFPs and Qualified Investors in Chile; for Qualified Clients/Sophisticated Investors in Israel; for Sophisticated or Professional Investors in Australia; in New Zealand for wholesale investors (as defined in the Financial Markets Conduct Act); for Professional Investors in Hong Kong; for Qualified Institutional Investors in Japan; in Taiwan for Qualified Institutions/Sophisticated Investors; in Singapore for Institutional/Accredited Investors; for Qualified Institutional Investors and/or certain specific institutional investors in Thailand; for certain specific sovereign wealth funds and/or Qualified Domestic Institutional Investors approved by local regulators only in the People's Republic of China; for certain specific institutional investors in Malaysia upon request; for certain specific institutional investors in Brunei; for Qualified Professional Investors in Korea; for certain specific institutional investors in Indonesia; for qualified buyers in Philippines for informational purposes only; in Canada, this document is restricted to i) accredited investors and ii) permitted clients as defined under National Instrument 45-106 and 31-103 respectively. It is not intended for and should not be distributed to or relied upon by the public or retail investors. Please do not redistribute this document.**

Forward-looking statements are not a guarantee of future results. They involve risks, uncertainties, and assumptions. There can be no assurance that actual results will not differ materially from expectations.

This is marketing material and not financial advice. It is not intended as a recommendation to buy or sell any particular asset class, security, or strategy. Regulatory requirements that require impartiality of investment/investment strategy recommendations are therefore not applicable nor are any prohibitions to trade before publication.

By accepting this document, you consent to communicate with us in English, unless you inform us otherwise. Data as at September 2025, unless otherwise stated.

For the distribution of this document, Continental Europe is defined as Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Ireland, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, and Switzerland.

All articles in this publication are written, unless otherwise stated, by Invesco professionals. Views and opinions are based on current market conditions and are subject to change. This publication does not form part of any prospectus. This publication contains general information only and does not take into account individual objectives, taxation position or financial needs. Nor does this constitute a recommendation of the suitability of any investment strategy for a particular investor.

# Unlocking value in Asian short duration bonds: Yield with resilience

September 2025

This publication is not an invitation to subscribe for shares in a fund nor is it to be construed as an offer to buy or sell any financial instruments. As with all investments, there are associated inherent risks. This publication is by way of information only. This document has been prepared only for those persons to whom Invesco has provided it. It should not be relied upon by anyone else and you may only reproduce, circulate and use this document (or any part of it) with the consent of Invesco. Asset management services are provided by Invesco in accordance with appropriate local legislation and regulations.

This publication is issued:

- in **Hong Kong** by Invesco Hong Kong Limited 景順投資管理有限公司, 45/F, Jardine House, 1 Connaught Place, Central, Hong Kong.
- in **Singapore** by Invesco Asset Management Singapore Ltd, 9 Raffles Place, #18-01 Republic Plaza, Singapore 048619.
- in **Taiwan** by Invesco Taiwan Limited, 22F, No.1, Songzhi Road, Taipei 11047, Taiwan (0800-045-066). **Invesco Taiwan Limited is operated and managed independently.**
- in **Japan** by Invesco Asset Management (Japan) Limited, Roppongi Hills Mori Tower 14F, 6-10-1 Roppongi, Minato-ku, Tokyo 106-6114; Registration Number: The Director- General of Kanto Local Finance Bureau (Kin-sho) 306; Member of the Investment Trusts Association, Japan and the Japan Investment Advisers Association.
- in **Australia** by Invesco Australia Limited (ABN 48 001 693 232), Level 26, 333 Collins Street, Melbourne, Victoria, 3000, Australia which holds an Australian Financial Services Licence number 239916.

This document has been prepared only for those persons to whom Invesco has provided it. It should not be relied upon by anyone else. Information contained in this document may not have been prepared or tailored for an Australian audience and does not constitute an offer of a financial product in Australia. You may only reproduce, circulate and use this document (or any part of it) with the consent of Invesco.

The information in this document has been prepared without taking into account any investor's investment objectives, financial situation or particular needs. Before acting on the information the investor should consider its appropriateness having regard to their investment objectives, financial situation and needs.

You should note that this information:

- may contain references to dollar amounts which are not Australian dollars;
- may contain financial information which is not prepared in accordance with Australian law or practices;
- may not address risks associated with investment in foreign currency denominated investments; and
- does not address Australian tax issues.

- in **New Zealand** by Invesco Australia Limited (ABN 48 001 693 232), Level 26, 333 Collins Street, Melbourne, Victoria, 3000, Australia which holds an Australian Financial Services Licence number 239916.

This document is issued only to wholesale investors (as defined in the Financial Markets Conduct Act) in New Zealand to whom disclosure is not required under Part 3 of the Financial Markets Conduct Act. This document has been prepared only for those persons to whom it has been provided by Invesco.

It should not be relied upon by anyone else and must not be distributed to members of the public in New Zealand. Information contained in this document may not have been prepared or tailored for a New Zealand audience. You may only reproduce, circulate and use this document (or any part of it) with the consent of Invesco. This document does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for, an opinion or guidance on Interests to members of the public in New Zealand. Applications or any requests for information from persons who are members of the public in New Zealand will not be accepted.

# Unlocking value in Asian short duration bonds: Yield with resilience

September 2025

- in the **United States** by Invesco Advisers, Inc., 1331 Spring Street NW, Suite 2500, Atlanta, GA 30309, USA.
- in **Canada** by Invesco Canada Ltd., 16 York Street, Suite 1200, Toronto, Ontario M5J 0E6.
- in **Austria and Germany** by Invesco Management S.A., President Building, 37A Avenue JF Kennedy, L-1855 Luxembourg, regulated by the Commission de Surveillance du Secteur Financier, Luxembourg.
- in **Belgium, Denmark, Finland, France, Greece, Italy, Ireland, Luxembourg, Netherlands, Norway, Portugal, Spain and Sweden** by Invesco Management S.A., President Building, 37A Avenue JF Kennedy, L-1855 Luxembourg, regulated by the Commission de Surveillance du Secteur Financier, Luxembourg.
- in **Dubai, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia** and the **United Arab Emirates** by Invesco Asset Management Limited, Index Tower Level 6 - Unit 616, P.O. Box 506599, Al Mustaqbal Street, DIFC, Dubai, United Arab Emirates. Regulated by the Dubai Financial Services Authority.
- in the **Isle of Man, Jersey, Guernsey** and the **UK** by Invesco Asset Management Limited, Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire, RG9 1HH, United Kingdom. Authorised and regulated by the Financial Conduct Authority.
- in **Switzerland** by Invesco Asset Management (Schweiz) AG, Talacker 34, 8001 Zurich, Switzerland.
- in **Israel** by Invesco Asset Management Limited, Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire RG9 1HH, UK. Authorised and regulated by the Financial Conduct Authority. This document may not be reproduced or used for any other purpose, nor be furnished to any other person other than those to whom copies have been sent. Nothing in this document should be considered investment advice or investment marketing as defined in the Regulation of Investment Advice, Investment Marketing and Portfolio Management Law, 1995 ("the Investment Advice Law"). Investors are encouraged to seek competent investment advice from a locally licensed investment advisor prior to making any investment. Neither Invesco Ltd. nor its subsidiaries are licensed under the Investment Advice Law, nor does it carry the insurance as required of a licensee thereunder.