

May 2026



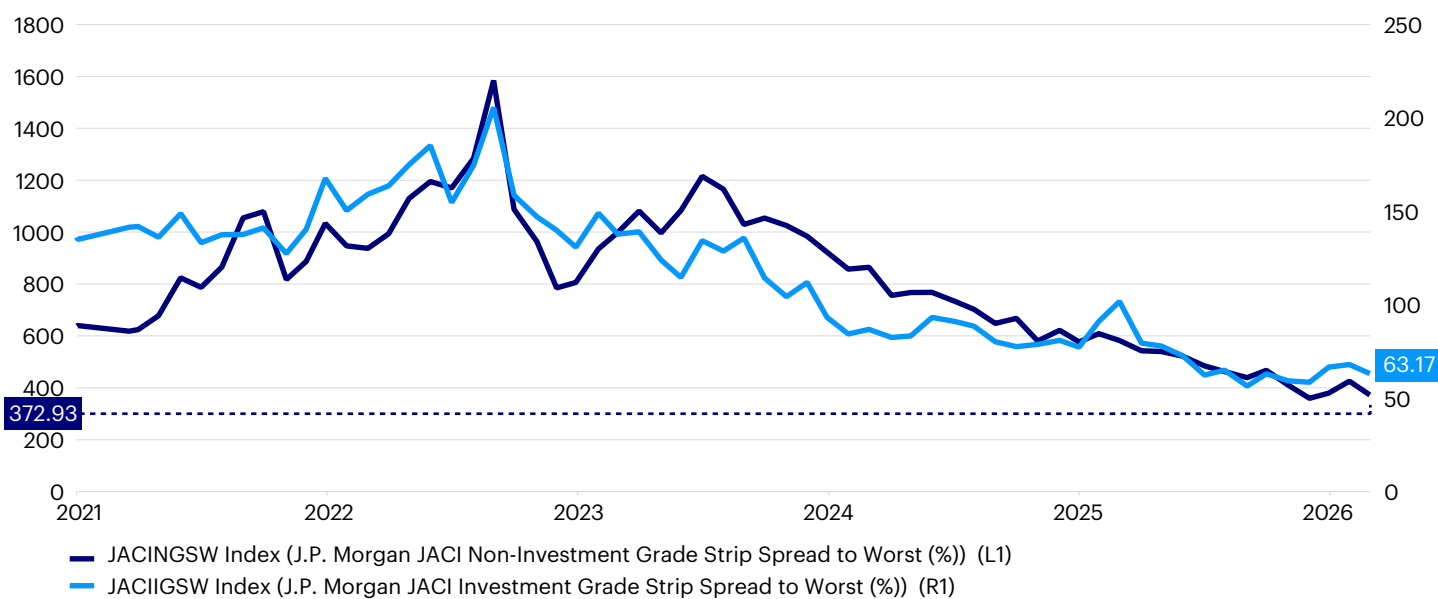
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Asian investment grade remains resilient, but tighter valuations and rate volatility call for greater selectivity

Asian investment grade (IG) credit delivered resilient performance between March and mid-May 2026 despite a more challenging macro backdrop. Geopolitical-driven energy shocks pushed the Brent oil price above \$100 and repriced the inflation breakeven. Credit spreads tightened significantly in April as ceasefire optimism reversed sentiment. Spreads stayed at near historic tights and returns were supported primarily by income carry, disciplined net supply, and continued institutional demand. The JPMorgan Asia Credit Index (JACI) Investment Grade posted +0.24% return year-to-date¹, with coupon income offsetting the negative effect of higher underlying rates.

Asian IG has continued to compare favorably with many global credit peers, supported by its shorter-duration profile, limited direct exposure to energy disruption, and strong sponsorship from regional institutional investors. More broadly across the region, valuations still look rich at the index level, but selective opportunities have emerged after bouts of spread widening in higher-beta sovereign and quasi-sovereign segments. From a portfolio construction perspective, the case for Asia IG rests not just on resilience, but on the ability to lock in attractive all-in yields without materially compromising quality.

Figure 1: Performance comparison: JACI Investment Grade versus JACI High Yield (May 2021 – May 2026)



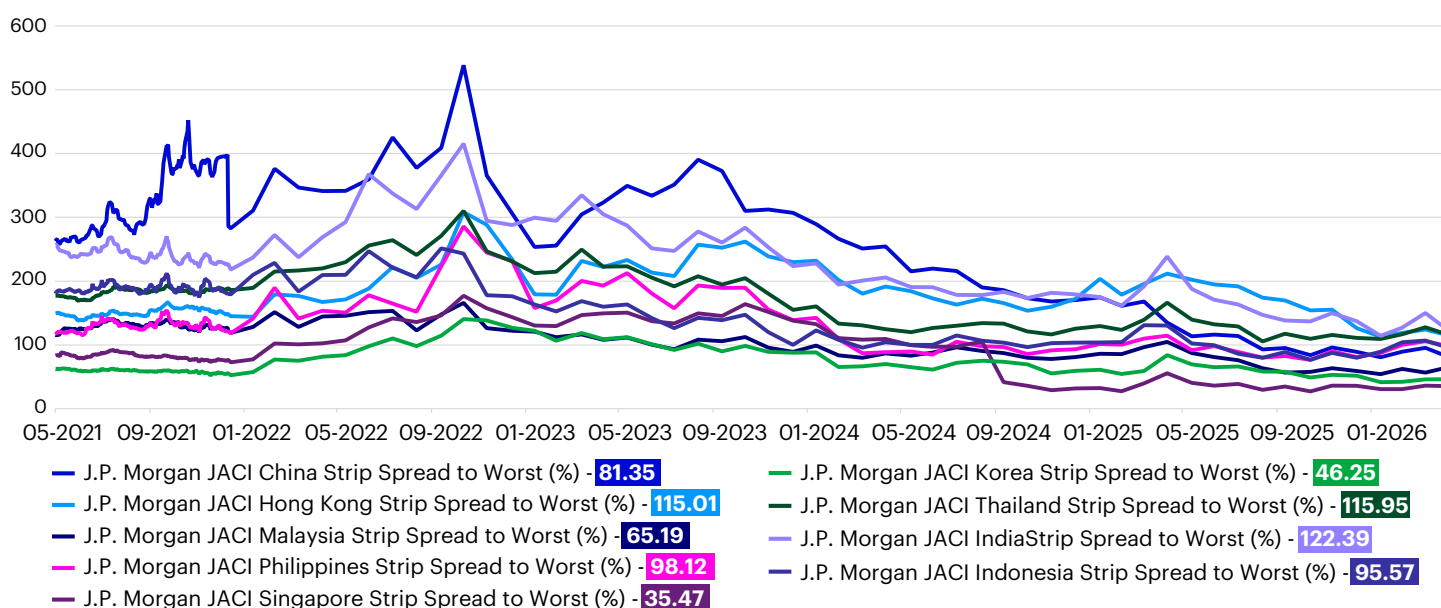
Source: Bloomberg, data as of May 14, 2026. **Past performance is not indicative of future performance.** An Investment cannot be made directly into an Index.

1. Source: Bloomberg, data as of May 14, 2026.

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Performance dispersion across countries has become more pronounced. Indonesia remains a key area of focus given fiscal sensitivity to higher fuel subsidy costs and the risk that the budget deficit could come under pressure if oil prices remain elevated. Thailand also warrants caution, particularly where concerns over the sovereign outlook continue to weigh on selected bank capital and subordinated instruments. In contrast, China investment grade remains technically well supported, while Hong Kong, Japan, Australia, and selected Indonesian quasi-sovereigns offer a more balanced combination of carry and credit stability. In this environment, country and sector allocation are likely to matter more than broad index direction, especially as tighter valuations leave less room for disappointment on policy, fiscal, or geopolitical developments.

Figure 2: Asia credit spreads by country (May 2021 – May 2026)



Source: Bloomberg, data as of May 14, 2026.

Implications of Middle East tensions for Asian credit markets

Persistent geopolitical tension in the Middle East has introduced an additional layer of uncertainty into the 2026 outlook by raising the risk of sustained volatility in oil and LNG prices. For Asia, the key transmission channel is through oil and LNG import costs, which can pressure current accounts, margins, inflation expectations, and fiscal balances. The most vulnerable economies are those with higher energy import dependence or weaker fiscal flexibility, including Thailand, Korea, India, and the Philippines, while Indonesia also faces market scrutiny because higher oil prices could complicate fiscal discipline through subsidy support.

That said, Asia enters this phase from a position of relatively benign inflation, and higher energy prices do not necessarily transmit one-for-one into end-demand inflation because of subsidies, price controls, and strategic reserve buffers in several markets. Parts of the region also continue to benefit from policy flexibility, technology upgrading, industrial investment, and AI-related capital expenditure. If the conflict remains contained, market effects may prove temporary. If it broadens and energy prices remain elevated for longer, spread widening would likely be more meaningful in higher-beta sovereign and cyclical credit segments, while renewed pressure on long-end government yields could weigh further on longer-duration credit.

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More broadly, geopolitical shocks tend to affect Asian credit primarily through sentiment, commodity prices, and the rates backdrop rather than through immediate balance-sheet deterioration for most high-quality issuers. For that reason, indiscriminate spread widening can create selective entry points. However, the current environment also reinforces the case for staying up in quality and focusing on issuers with resilient fundamentals, sound liquidity, and manageable duration exposure. In our view, short-lived geopolitical pullbacks are less important than the risk of prolonged energy disruption becoming embedded in inflation and growth expectations.

Asia credit outlook: constructive, but increasingly dependent on carry and security selection

Our outlook for Asian investment grade in the 2H 2026 remains cautiously constructive, although slightly more defensive than at the start of the year. The asset class continues to benefit from supportive carry, healthy demand technicals, and manageable refinancing conditions, but prospective returns are now more likely to be driven by income than by meaningful further spread tightening. With spreads already close to the tight end of their historical range, the margin for error has narrowed and bottom-up security selection has become increasingly important.

From a technical perspective, we expect Asia IG will continue to benefit from negative net supply and sustained demand from insurers and other long-term investors. Across Asia ex-China, we think gross issuance is likely to rise, but a healthy redemption profile and still-disciplined primary supply should keep market conditions broadly balanced. Starting yields remain an important anchor for forward returns, and the current yield environment continues to support exposure to high-quality Asian credit. We remain particularly constructive on short-duration credit, where the margin of safety is stronger and total returns should prove more resilient if rates volatility persists.

At the macro level, the key risks for the 2H are clear: renewed US Treasury volatility, a more persistent energy shock, delayed spillover from higher input costs into growth and corporate fundamentals, and a sharper correction in AI-related investment spending. These are not our base-case assumptions, but they represent meaningful tail risks and argue for a more selective stance. In our view, investors should prioritize resilience, carry efficiency, and diversification rather than pursue the final stage of spread compression.

Geographically, we favor a balanced allocation across Japan, Australia, Hong Kong, China, and selected Indonesian/India exposure, combining income generation with credit quality and diversification. From a sector perspective, we continue to prefer high-quality financials and selected quasi-sovereigns, while remaining more cautious where spreads do not adequately compensate for sovereign, fiscal, or energy-related risks. More broadly, the fixed income opportunity set has improved structurally relative to the low-rate era: investors can once again build portfolios around attractive income without moving materially down in credit quality. Overall, Asia IG remains a resilient and investable asset class, but the case for owning it now rests more on carry, short-duration resilience, and disciplined bottom-up security selection rather than on broad market beta.

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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.

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