2027 Investment Outlook – Asia Fixed Income: High Yield

November 2026

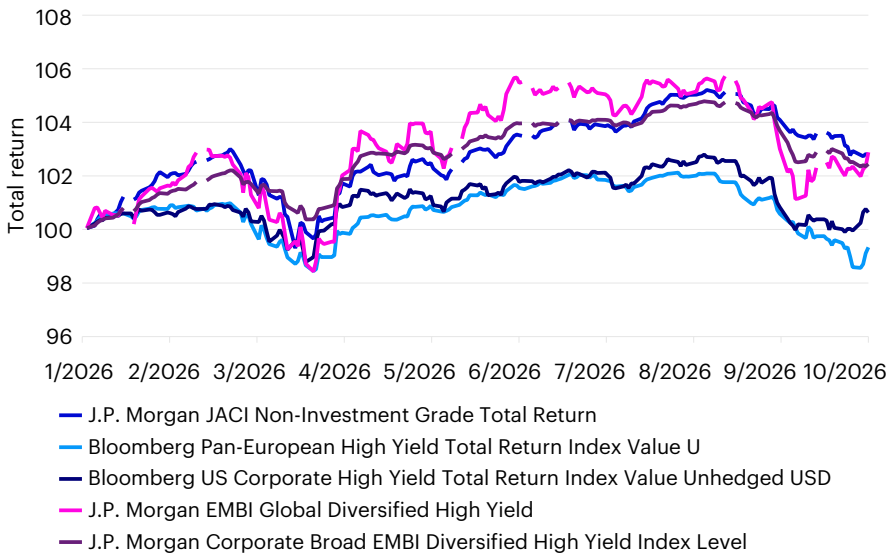


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Key takeaways

- We enter 2027 constructive on Asia high yield (HY), as the recent repricing has created a more attractive entry point for investors.
- Fundamentals remain supportive and stable with limited exposure to AI-related sectors, but benefiting indirectly from the value chain.
- Valuations are now relatively attractive after the recent repricing with both income and potential excess returns set to drive returns. We see BB credits as relatively attractive from a risk-adjusted basis.

Figure 1 – Asia HY total return versus other HY asset classes in 2026



Source: Invesco, Bloomberg L.P., data as of 29 October, 2026

In 2026, Asia HY continued to deliver robust returns year-to-date after the March sell-off with the JP Morgan Asia Credit Index (JACI) Asia HY up by 2.7% as of 29 Oct 2026.[1] It has outperformed other HY markets due to a number of factors such as income (contributing to 490 basis points of return), the short duration nature of the asset class, and a relatively benign credit backdrop.

1. Bloomberg L.P

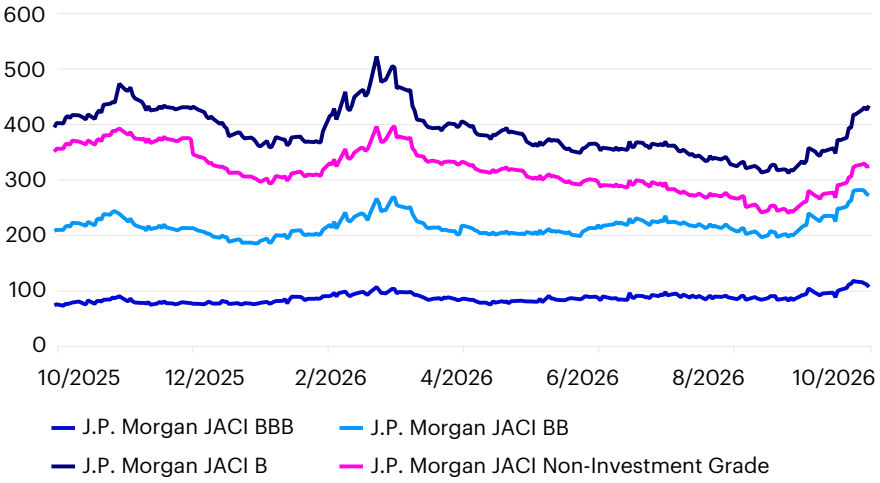
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We saw the repricing of spreads from the tights of end-September, with spreads of over 400 basis points in single B and around 275 for BB rating category. This has created a more attractive starting point for investors, particularly within higher quality high yield. In our midyear outlook, we advocated for taking a more selective stance given the tighter spread environment and focusing on front end carry instead. With the high level of risk free rates, adding credit spread may enhance total return potential at the current entry point.

Figure 2 – Asia HY spread movement over one year



Source: Invesco, Bloomberg L.P., data as of 29 October, 2026

We see potential in BB credits from a risk adjusted basis

We think that investing in credit is not just credit selection but also analysing risk-return closely, as shown in Figure 3. BB and B rating categories have both delivered superior risk-adjusted returns as compared to BBB, particularly in an environment of higher rates volatility where credit spreads can help to dampen overall volatility. We would view BB credit as a relatively attractive area within Asia credit markets, particularly after the recent spread widening. The BB pick up over BBB is now around 40 basis points higher than the last two-year average as seen in Figure 4, which could offer room for spread compression.

For single B rated bonds, it is important to be selective and vigilant about the ongoing refinancing visibility and credit direction. We would highlight our preference for Asia emerging market (EM) frontier sovereigns over corporates within the single B space, where we continue to see upwards ratings actions. In our view, current market conditions suggest that except for Chinese HY real estate issuers, HY default rates are likely to stay low for the asset class into H1 2027 as many issuers have already proactively refinanced 2027 maturities. This is evidenced by less than 3%[2] of the JACI HY index trading below the 60 cash price as of 29 October 2026.

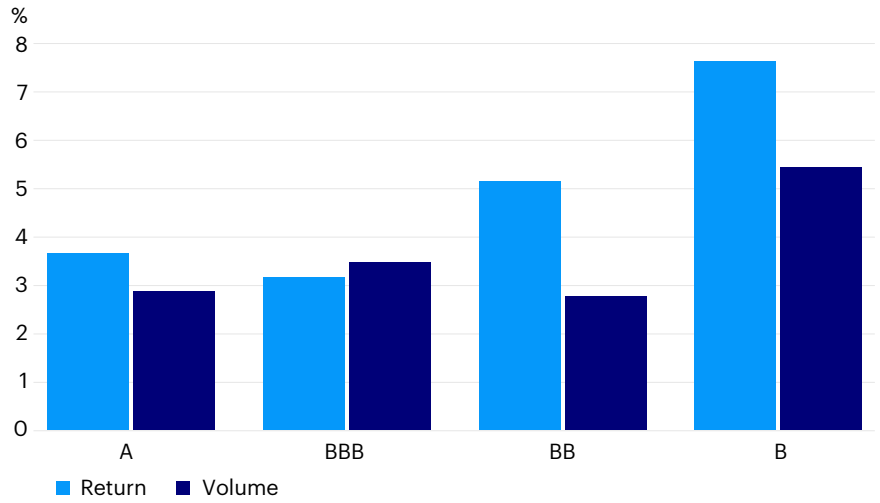
Fundamentally, we continue to like Macau gaming, Indian renewables, Indian non-bank financial companies (NBFC) and AT1 paper within the market for which we expect to see a stable to improving credit trajectory and have seen proactive early refinancing activities. We also continue to like corporate hybrids in the Asia HY space which are issued by investment grade (IG) corporates to shore up their rating position, this allows us to pick up extra credit risk premium by going down the capital structure of IG quality borrowers.

2. JPM Morgan, Aladdin

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Figure 3 – Total return versus volatility over last 2 years



Source: Invesco, Bloomberg L.P., data as of 29 October, 2026

Figure 4 – BB Pick up over BBB



Source: Invesco, Bloomberg L.P., data as of 29 October, 2026

Impact of AI on Asia HY asset class

We see a direct impact of AI investments in the Asia Pacific region which we expect will benefit borrowers in the Asia HY asset class. The further build-up of the energy grid, including the use of renewables will be critical for the data center and compute capacity build-up. We believe Asia HY borrowers in the commodities sector will also be direct beneficiaries. At this point, we do not expect to see significant AI-related issuance in the Asia HY asset class, as borrowers can tap bank financing, equity markets or bespoke securitized structures to finance the data center build-up. In addition, the companies that are building up the data centers in Asia can be non-Asian borrowers may tap the DM (developed markets) bond markets for bond financing.

El Nino remains a topical event that is likely to persist into early Spring 2027, though we believe that the pass-through will remain contained.

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Attractive valuations and resilient fundamentals into 2027

We believe the recent repricing has reset the opportunity in Asia high yield and created a more attractive entry point for investors heading into 2027. With supportive credit fundamentals, favorable income and the potential for spread compression, investors no longer need to reach aggressively for risk to generate attractive return potential. We see BB-rated credits as a favorable segment, offering an appealing combination of carry, resilience and upside from current valuations. Against this backdrop, we believe Asia HY may warrant consideration as part of a diversified fixed income allocation: delivering attractive income today, with the potential for capital appreciation as valuations normalize.

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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.

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All data as of November 2026, unless otherwise stated. All data is USD, unless otherwise stated.

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