2027 Investment Outlook – Asia Fixed Income: Investment Grade

November 2026



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Key takeaways

- Asia investment grade spreads have widened, erasing earlier year-to-date gains, as a renewed Fed tightening cycle, higher energy prices and heavy AI-related issuance weighed on risk assets.
- Performance has diverged across markets, with China investment grade credit and Korean, Singaporean and Malaysian financials proving resilient while Indonesia and China technology credits came under pressure.
- For 1H 2027, we expect returns to be driven mainly by carry rather than spread tightening, favoring high-quality, intermediate-duration credits and security selection over beta.

Asia investment grade navigates a challenging macro regime as carry replaces spread compression

Since our Q4 outlook, Asia investment grade (IG) credit has faced a significantly more difficult backdrop. The combination of a renewed Federal Reserve tightening cycle, rising energy prices because of geopolitical risks in the Middle East, heavy global AI-related debt issuance, and concerns over AI build-out capex and tech earnings has driven a broad repricing of risk assets.

JACI (JPMorgan Asia Credit Index) Asia ex-Japan USD investment grade spreads were resilient until late September, where it was approximately at year-to-date tight of +80bps[1]. The index level has since widened +31bps to +111bp at the time of writing[2], erasing earlier year-to-date gains. Year-to-date total returns have turned modestly negative, although Asia IG continues to outperform US IG credit[3] owing to its shorter duration profile and stronger local sponsorship.

The most important development during the period was the Federal Reserve's return to policy tightening. Following stronger-than-expected inflation and labor market data, the Fed resumed rate hikes and reinforced a "higher-for-longer" message. US Treasury yields moved sharply higher, with the 10-year Treasury rising above 5% and long-end yields reaching levels not seen in 20 years.[4]

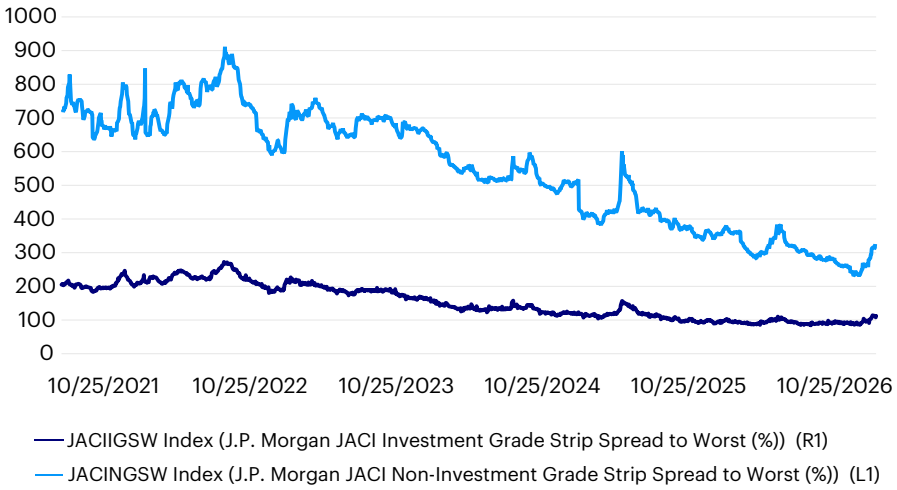
1. Data as of September 23, 2026.
2. Data as of October 22, 2026.
3. Bloomberg, data as of October 2026.
4. Bloomberg, data as of October 2026.

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Figure 1 - JACI Asia Investment Grade (IG) versus High Yield (HY) (Oct 2021 – Oct 2026)



Source: Bloomberg, data as of October 31, 2026. **Past performance is not indicative of future performance.** An investment cannot be made directly into an Index.

Divergence emerges across sectors and countries

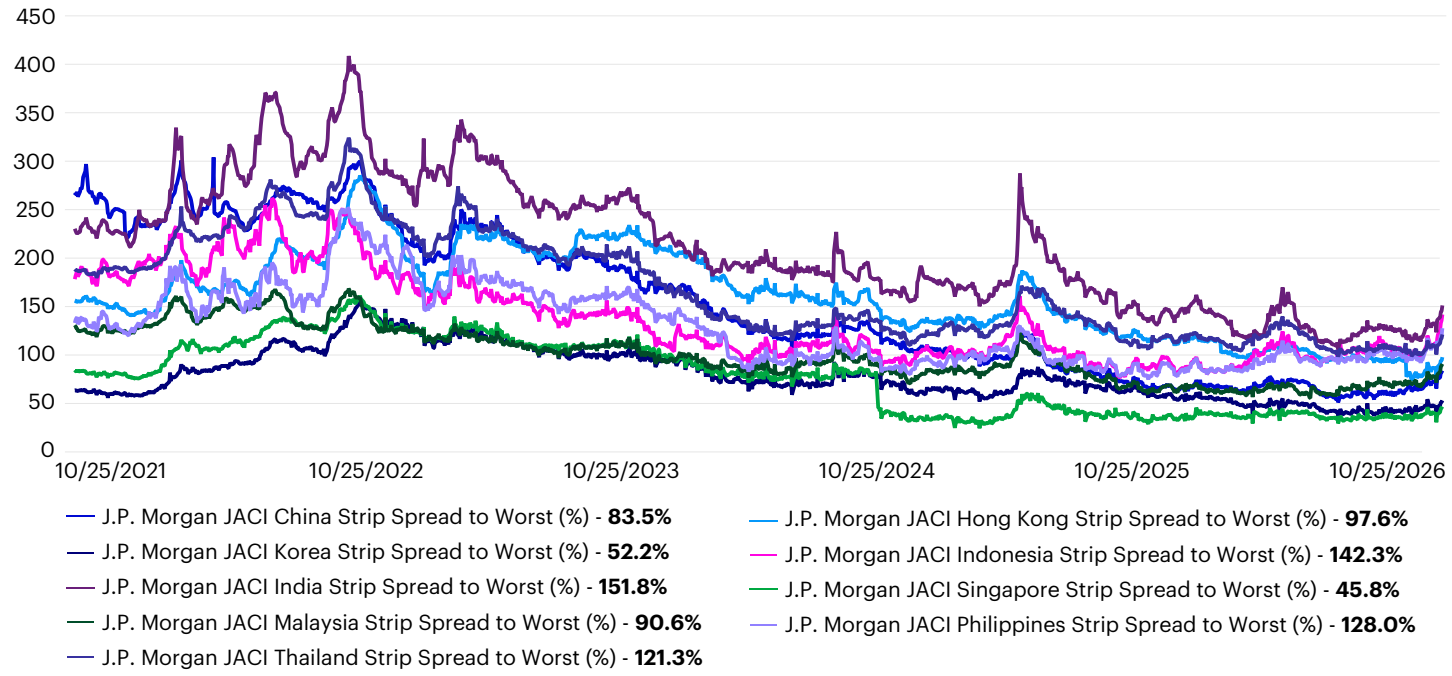
Performance has become increasingly differentiated. China investment grade credit demonstrated relative resilience, supported by accommodative monetary policy, negative net supply, and strong domestic demand. The People's Bank of China's decision to transition toward an overnight reverse repo framework reinforced expectations for a structurally easier policy environment, helping anchor local rates and supporting Chinese credit markets.

However, China's technology sector faced mounting pressure from a surge in AI-related capital expenditure. Large-scale debt issuance by major technology issuers triggered spread widening across the sector and highlighted growing concerns regarding future supply. While fundamentals remain sound, China technology credits now appear vulnerable to further repricing given the future capex and funding plans and rich valuations relative to global peers.

Indonesia represented the quarter's weakest market. The unexpected resignation of the Bank Indonesia governor, combined with concerns surrounding institutional independence and potential MSCI downgrades, triggered capital outflows and significant pressure on local assets. Indonesian credit transitioned from a macro carry opportunity to an institutional credibility story, reducing investor appetite across both local and external markets, in our view.

By contrast, Korea, Singapore, and Malaysia benefited from stronger external balances, AI-driven export growth, and relatively stable policy frameworks. Financial institutions in these markets continued to attract demand from both regional and global investors seeking high-quality carry.

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



Source: Bloomberg, data as of October 22, 2026. **Past performance is not indicative of future performance.** An investment cannot be made directly into an Index.

Geopolitical and energy shocks increase macro uncertainty
Renewed Middle East tensions emerged as a key market driver. Escalating regional conflict contributed to sustained oil prices above USD 100 per barrel leading to stagflationary risks.[5] Higher energy prices represent a particular challenge for Asia's major energy-importing economies, including India, Indonesia, Thailand, and the Philippines.

For credit markets, the implications are twofold. First, elevated energy costs are likely to compress corporate margins and reduce interest coverage ratios over time. Second, inflationary pressures may delay monetary easing across several Asian economies, keeping funding costs elevated and limiting support for risk assets.

Although Asia corporate fundamentals remain broadly healthy, investors have become increasingly focused on the lagged effects of higher borrowing costs. The deterioration in credit metrics has so far been manageable, but pressure is expected to build into 2027 as refinancing occurs at materially higher interest rates. Sector-level analysis has started to flag weakening interest coverage, working-capital stress and delayed refinancing-cost pass-through — particularly in industrials, consumer discretionary, communications and materials.

Technicals remain supportive despite valuation challenges
One of the most important supports for Asia IG remains its favorable technical backdrop. Through 2026, gross issuance has remained below maturities[6], resulting in continued net redemption across the region. This negative net supply dynamic, combined with substantial reinvestment demand from banks, insurers, and private wealth, has helped cushion spread widening during periods of volatility.

The market has increasingly bifurcated between high-quality short- and intermediate-duration credits, which remain well supported, and longer-dated or lower-liquidity sectors, which continue to struggle, reflecting the market's preference for duration defensiveness.

5. Oil Is Gushing Out of the Gulf. Why Are Prices Still Above $100 a Barrel?, Wall Street Journal, October 2026.
6. Bloomberg, data as of October 2026.

Nevertheless, valuations have become more difficult to justify. While spreads have widened from their September tights, they remain relatively compressed especially the high quality, front – intermediate credits. Investors are no longer being compensated primarily through spread compression; instead, carry has become the dominant source of expected returns.

Outlook for 1H 2027: Carry remains king
Looking ahead to 2027, our outlook remains constructive but selective.

We expect Asia investment grade credit to continue generating positive excess returns, although performance is likely to be driven primarily by carry rather than significant spread tightening. We believe the combination of elevated all-in yields, supportive technicals, and generally healthy corporate balance sheets should provide a solid foundation for returns.

The spread widening episode does not fundamentally alter 2027 Asian credit strategy — it validates the existing framework of shorter duration, carry optimization, and selectivity over beta. We believe the key strategic shift is to treat volatility as an entry mechanism to buy-the-dips in quality IG rather than a signal to reduce risk broadly. Recent broad spread widening in selective high beta BBB in particular presents significant alpha opportunities.

However, there are several risks worth monitoring closely. The most significant is the possibility that US rates remain higher for longer than currently anticipated. Additional Fed tightening or persistently elevated Treasury yields would continue to pressure long-duration assets globally. US mid-terms, US Treasury buyback program and ongoing fiscal concerns may also contribute to further volatility in long-end rates. We therefore continue to favor intermediate-duration exposure, particularly in the three- to five-year segment, where carry remains attractive and duration risk is more manageable.

Regionally, we maintain our highest conviction in Asian bank Tier-2, insurance, high beta Korea corporates, HK/China IG, and selected Australian IG issuers. These sectors benefit from stronger balance sheets, more resilient domestic demand, and attractive valuation. Conversely, we remain cautious on Indonesia and other energy-importing economies that remain vulnerable to higher oil prices, US dollar strength, and policy uncertainty. We also continue to underweight longer-dated technology and telecommunications issuers where AI-related capital expenditure and debt issuance may create further supply pressure.

Overall, Asia investment grade credit enters 2027 from a position of relative strength. While tighter financial conditions, geopolitical uncertainty, and elevated rates argue against aggressive risk-taking, attractive carry, resilient fundamentals, and supportive technicals can continue to underpin performance. In an environment where spread compression is likely to be limited, disciplined security selection, active duration management, and a focus on high-quality carry remain the key drivers of risk-adjusted returns.

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