

May 2026



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## Key takeaways

- Asia high yield has delivered solid returns in 2026, with income remaining the main return driver.
- The Asia high yield market is shrinking and becoming more concentrated, making selectivity more important.
- We prefer higher-quality BB names over lower-rated bonds as spreads leave less room for upside.

In 2026, Asian high yield (HY) continued to deliver robust returns year-to-date after the March sell-off with the JPMorgan Asia Credit Index (JACI) Asia HY up by 2.54% as of 13 May 2026.<sup>1</sup> Income remained a core driver of returns, accounting for around 2% of total return. The asset class experienced a very strong V-shaped recovery in the months of March and April, recovering from a 3% decline to the bottom in late March.

With spreads trending towards the tight end of the range, we see limited room for spread tightening and instead argue that returns are more likely to be driven by income.

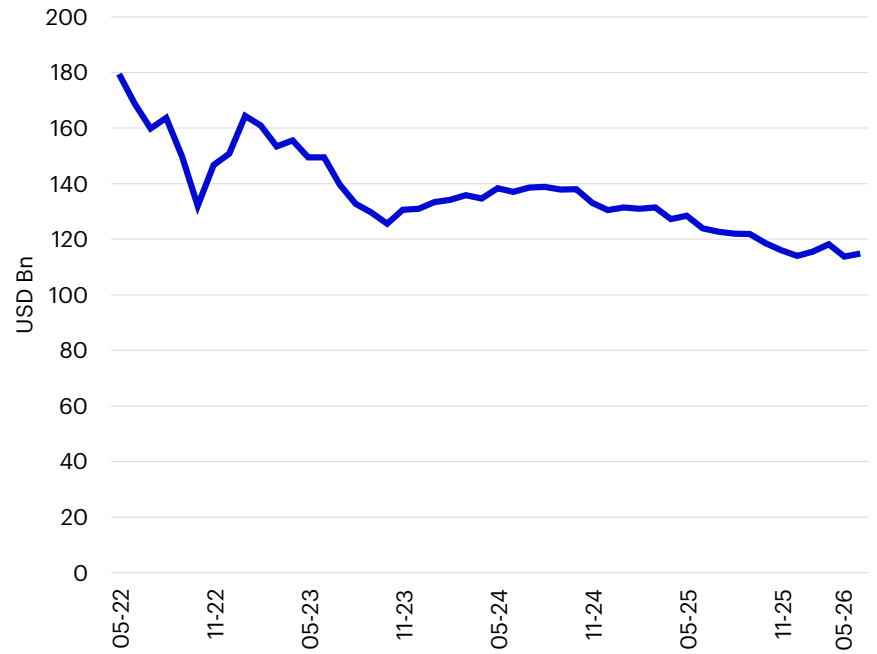
## The structurally evolving nature of the Asia HY market

Notably, even accounting for its vibrant primary market, the Asia HY market continues to decline in size from around \$180bn in mid-2022 to \$115bn as of 15 April 2026 (Figure 1). This has had an impact on the overall index and asset class constitution, resulting in an increase in the concentration of large bond issuers. The top 10 tickers within the index now account for 40% of the benchmark weight as of 30 April 2026, versus 24% on 29 April 2022. This higher concentration ratio reduces the diversification and can increase the risk of permanent capital losses when any large Asian HY issuers face credit headwinds. That said, we take comfort that the ratings composition of the Asia HY index has continued to remain stable over the last 2 years with around 70% of the index rated BB and B (Figure 2).

1. Source: Bloomberg.

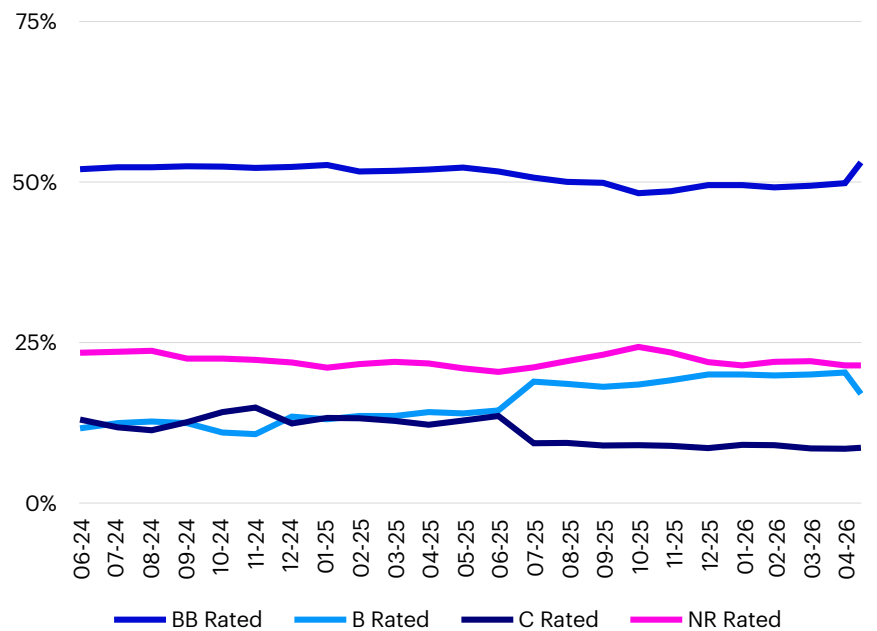
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**Figure 1: Asia HY market capitalisation continues to decline**



Source: Invesco, JP Morgan, Aladdin, data as of May 15, 2026

**Figure 2: Rating composition of JACI Asia HY Index**



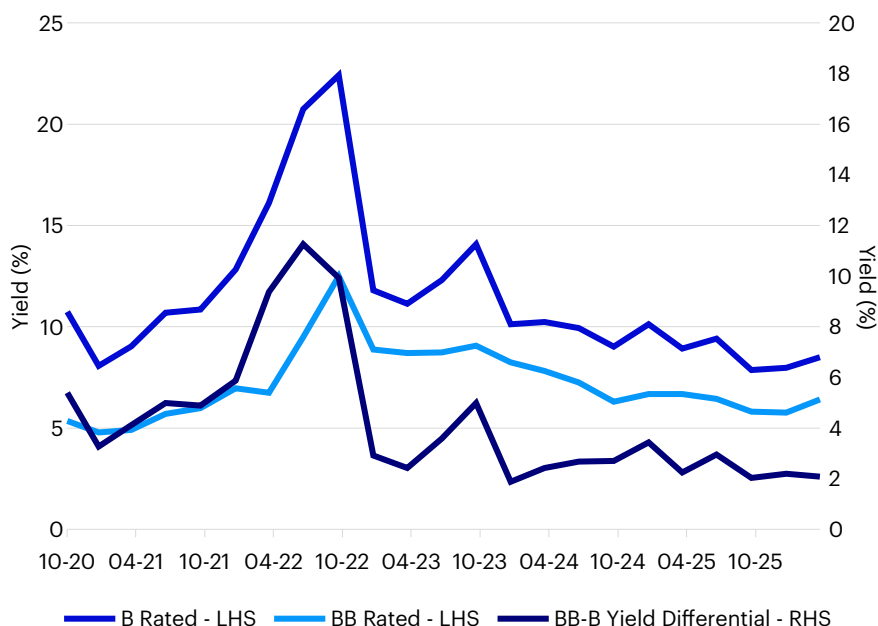
Source: Invesco, JP Morgan, Aladdin, data as of May 15, 2026

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### We prefer BB over B rating category within Asia HY

Within the JACI HY Index, we prefer BB rated bonds over B rated bonds, given the limited yield pick up to be invested in B rated bonds. In our Q2 outlook piece, we advocated to consider Asia HY (especially BB) on a rates hedged basis. With the sell-off in front end rates that is now pricing in rate hikes, we think that owning all-in yields in Asia HY may offer relative value, particularly in the short duration space. We see room for Asia HY issuers to undertake opportunistic tenders to refinance their upcoming maturities earlier. These leverage neutral transactions are the main reason why the index has not been growing in size again.

**Figure 3: BB and B Yields historically**



Source: Invesco, JP Morgan, Aladdin, data as of May 15, 2026

### Navigating geopolitical risks and security selection remains key going into H2

With the JACI Asia HY index moving back to tightness of 2017 levels (in credit spreads), we think it's important to be selective in the names and sectors we are considering. While the asset class continues to shrink in size, we believe that Asia HY may offer income diversification benefits for global fixed income portfolios with its distinctive fundamental characteristics and benign default backdrop, although risks remain.

We continue to see relative value in HY rated corporate hybrids from the investment grade (IG) rated issuers, namely gaming sector, renewable energy sector as well as subordinated financial names that have strong capital buffers. We prefer high-quality segments within Asia HY, such as BB over B and CCC paper, subject to market conditions. We think the AI narrative will continue to be key, though we see limited new issuance pressure within the Asian HY markets (outside of Japan) as those are likely to be financed via equity or bank financing channels at this point.

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# 2026 Midyear Investment Outlook – Asia Fixed Income: High Yield

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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.

Investment in certain securities listed in China can involve significant regulatory constraints that may affect liquidity and/or investment performance.

Forward-looking statements are based on current expectations and assumptions, and yet actual results may differ materially from those expressed or implied.

## Past performance does not predict future returns.

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