Market Commentary

The first quarter of 2025 (the Quarter) was marked by heightened volatility driven by surprise US tariff announcements, mixed economic data, and evolving central bank policies. The Federal Reserve maintained a dovish stance in its March meeting, keeping interest rates unchanged at 4.25-4.50% despite a shift toward a more stagflationary outlook, with softer growth and higher inflation projected. US economic data remained mixed but generally trended slower. Retail sales increased by 0.2% month-over-month in February, falling short of the 0.6% estimate, and consumer confidence missed expectations. However, strong housing starts and a better-than-expected US PMI provided some optimism. Meanwhile, the US labour market remained robust in March, with total nonfarm payroll employment rising by 228,000 jobs, beating estimates. In China, the National People's Congress set a 5% GDP growth target for 2025 and unveiled incremental fiscal support in response to rising external risks.

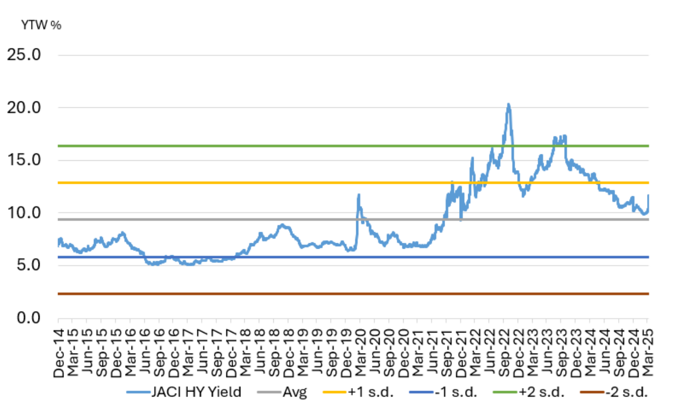
On April 2, President Trump officially announced a sharp increase in tariffs on more than 180 countries, with a 10% baseline increase. The reciprocal tariff would roughly imply a weighted average tariff rate of 18% against USD 3.3 trillion of US imports and add another 1-1.5% to US inflation. Rising concerns about a US recession, a slowdown in global growth, and potential retaliation measures are expected to affect market sentiment in the coming months.

Asia, with its higher export exposure to the US, will be affected by relatively higher reciprocal tariffs, potentially dragging economic growth in the region by 0.6-1%. In the meantime, stimulus from China or any potential US "insurance" rate cuts, or even more pushbacks from the US inner circle, may provide a short reprieve in market sentiment. The futures market now expects 3-4 rate cuts in 2025, up from the 1-2 cuts anticipated at the start of the year. Overall, we envisage that Asian central banks have some ability to pursue monetary easing measures to support the economy and engage in fiscal expansion to stimulate growth. The technical picture for Asia credits is also supported by negative net issuance and a more diversified asset class in terms of regions and sectors. Lower US Treasury yields benefit Asia credits and help offset the negative impact of spread widening.

Over the Quarter, credit spreads for Asia high yield (HY) were slightly wider. Similarly, for Asia investment grade (IG), a mild widening in credit spreads was more than offset by a fall in US Treasury yields.

Figure 1: Asia IG bonds on a YTW basis

Figure 2: Asia HY bonds on a YTW basis



Source: JACI IG Index, JACI HY Index

Portfolio Commentary

In the first Quarter of 2025, the Fund's performance remained largely stable despite tariff-related noise. This stability was cushioned by a well-diversified portfolio across sectors and regions. We believe the Asian credits in our portfolio are less directly exposed to tariff-related risks, and we have been avoiding countries and issuers with high export exposure. Earlier in the Quarter, we trimmed some risks in our portfolio and raised cash for better opportunities. Our focus has been on liquidity management.

We expect market volatility to remain high in the coming months, which should present some investment opportunities. Our strategy will prioritize issuers with good credit quality, strong market positions, and a demonstrated ability to navigate economic cycles, particularly in the front end.

Quarterly performance drivers

Key credit contributors to performance over the Quarter included:

- **Fosun, a China-based investment holding company**: The company has demonstrated improving funding access, particularly through bank refinancing. The continued monetization of non-core asset sales should support its credit quality. Fosun has shown a good ability to refinance short-tenor bank loans onshore despite volatile market conditions over the past few years.

- **China Oil & Gas,** a China-based piped city gas provider: The company reported in-line FY24 results. Its credit profile is supported by stable domestic city gas distribution and positive long-term growth prospects for the industry, including coal-to-gas initiatives. Overall, its credit metrics are healthy, backed by a steady EBITDA margin, disciplined capital expenditure, and healthy free operating cash flow.

- **PCPD, a property investment company**: The company is a property investment arm under Richard Li, and through PCCW (the listed incumbent telecom provider in HK), Li's complex owns 69% in PCPD. Most of the company's projects are in Asia, and none in China. The bond includes a Change of Control put option if Li or his affiliates cease to hold at least 40% of PCPD or cease to be the largest single shareholder, providing some protection to bondholders. We believe Li has a strong willingness and ability to support PCPD's bond refinancing, and the bond itself accounts for approximately 6% of the total debt under Li's complex.

Key credit detractors to performance over the Quarter included:

- **Mongolia Mining (coking coal producer):** The bond underperformed due to falling coking coal prices and uncertainty regarding the UHG mining license issue. The government has established a working group to study the license issue. Our base case assumption is that the government may eventually settle the case by increasing royalty rates for the company. Although this will likely reduce the company's profitability, it has built up a liquidity buffer and warchest, which should limit the credit impact. Additionally, the company has successfully refinanced its dollar bond at a lower cost, significantly reducing short-term liquidity risk.

- **New World Development** bonds underperformed, due to ongoing concerns about its bank loan refinancing ability. According to recent news, the company is finalizing the loan refinancing and expects it to be completed by the end of June. Most of the company's investment properties will be pledged to banks as collateral, increasing subordination risks for bondholders. However, we believe a successful outcome of the bank loan refinancing will reduce the company's near-term default risk. Current bond valuations have already priced in the scenario of a debt exchange. We believe that the recovery in property sales and the monetization of assets will help bridge the liquidity gap and reduce further downside risks.

- **SJM Holding (Macau gaming operator):** The company exhibited decent FY24 results, which were in line with other Macau gaming operators. However, Macau gaming bonds appeared tight on valuations and hence underperformed other China or Hong Kong HY bonds.

Portfolio changes

New issues	We participated in and added bonds in the new issue space, including those from a HY Mongolian coking coal company and an IG rated Indonesian power company. Both bonds received strong interest from investors during the bookbuild process.
Sri Lanka sovereign	We added Sri Lanka sovereign bonds, given their high weight in the benchmark index and the successful completion of a debt exchange. The government has a strong mandate and has indicated its commitment to driving economic recovery while engaging closely with the IMF.
Indonesia corporates	We trimmed some Indonesian HY corporates, including a property developer and a vertically integrated feed and chicken producer. Despite no major issues with their underlying fundamentals, both bonds appeared expensive in valuations relative to their HY peers in China and Hong Kong. We also trimmed to manage our single-name risk exposure.

Further information

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