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Three themes for investors in Asian credit in 2026

Financial sector subordinated debt, bonds that offer defensive carry, and issuers serving the global AI boom are among the investment themes favoured by our Asian credit team amid an overall positive outlook for the asset class in 2026.



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Asian credit delivered a solid year of performance in 2025 with 8.2% in total returns despite persistent macro and geopolitical headline noise – a result that underscores the market’s stable credit fundamentals and supportive technical backdrop. Asian investment-grade credit returned 7.8%, supported by lower US dollar rates and modest spread tightening, while Asian high yield continued to benefit from high carry and tighter credit spreads, returning 10.8%.

In early 2026, we find that valuations have tightened with fewer catalysts to drive further broad-based spread compression. The US policy backdrop is shifting, with rates less likely to provide tailwinds as the US Federal Reserve approaches late-cycle easing. Even so, we maintain a

Key takeaways

- Corporate fundamentals remain solid, and a constructive supply-demand backdrop should continue to anchor market stability for Asian credit.
- But with spreads tight, we are focused on seeking out defensive, quality income streams; credit selection is likely to be a critical driver of returns.
- Consider investing in issuers that benefit from the AI investment cycle, such as memory chip manufacturers and data centre logistics, as well as subordinated bonds from high-quality financials and corporates.

constructive outlook and believe Asian credit is on track to deliver positive returns for 2026, albeit at a moderate pace.

An overall positive backdrop for Asian credit in 2026

Underpinning the positive outlook are all-in yields of 5.1% (Exhibit 1). Investment-grade makes up the majority of Asian credit and has suffered relatively shallow draw-downs during previous stress episodes (Exhibit 2), underscoring the resilience of the market. Outside of China property, most corporates are deleveraging with stable liquidity profiles. Aside from one-off downgrades relating to Chinese sovereign rating action, Asia’s credit ratings trajectory has stayed positive.

This combination of improving balance sheets and a positive ratings trajectory has helped to limit defaults and “fallen angels”, a term that refers to formerly investment-grade issuers that have been downgraded to high yield status. Indeed, fallen-angel risk in Asian investment-grade has fallen to close to zero,¹⁾ with no material pickup anticipated through 2026. For Asian high-yield bonds, default rates have declined to 3.5%, with further normalisation to 2.5% expected over the next 12 months (Exhibit 3).

Exhibit 1

All-in yields for Asian credit remain attractive

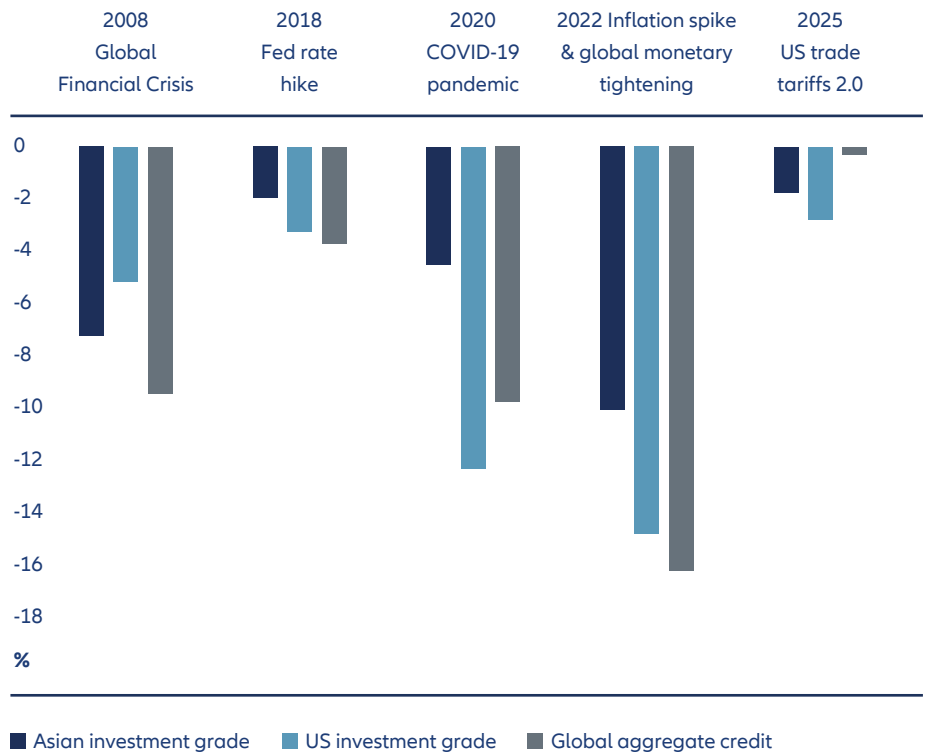
Asia credit: Yield to worst (in %)



Source: Bloomberg. See note on “yield to worst” on page 5.

Exhibit 2

Asian investment grade bonds have shown resilience during market crises



Source: Bloomberg

1) Source: J.P. Morgan, Moody's, Fitch

While lower rates and a weaker US dollar have narrowed the gap between USD and local currency funding costs, USD funding remains less attractive. The offshore USD market is thus unlikely to see sharp spikes in new issuance over the year, keeping net supply subdued. At the same time, demand remains anchored by the real money investor base in Asia, which also supports the potential for resilient returns.

In this developing environment, we see opportunities in three key investment themes.

THEME 1

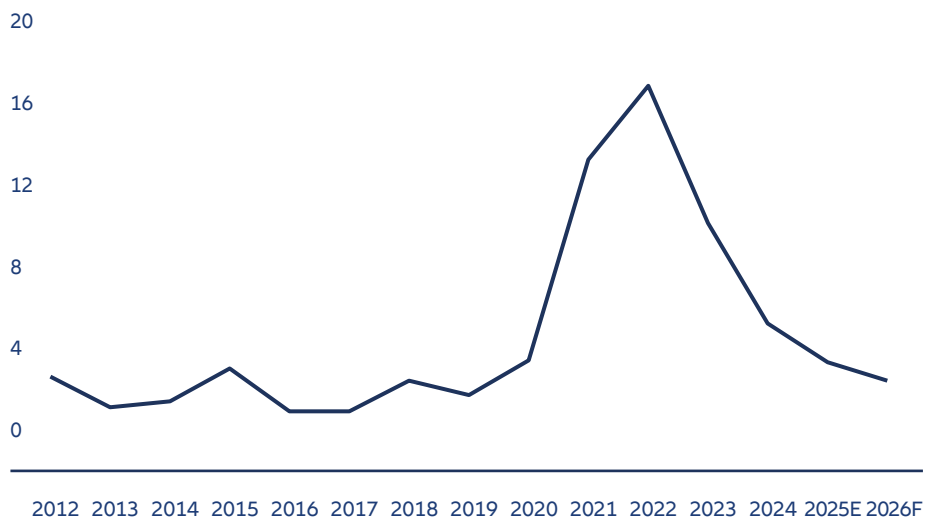
For high quality issuers, explore opportunities down the capital structure

In investment grade bonds, especially financials, we see value in moving down the capital structure, for instance, by shifting from senior to subordinated debt. This approach can boost carry – the income earned from holding the bond – while retaining exposure to high-quality issuers. Banks are a key sector where we see opportunities, notably in Australia, Hong Kong and selected parts of Southeast Asia. Issuers in this sector often boast resilient fundamentals, good rating buffers and capital headroom to manage any emerging asset quality pressure. Life insurers in Japan and Taiwan also tend to offer attractive carry in their subordinated papers, again backed by high solvency levels.

Exhibit 3

The default rate in Asian high yield is normalising

Asia high yield (HY): default rate (in %)



Source: JP Morgan

We also see opportunities in corporate hybrid bonds, which blend debt and equity characteristics. These may offer credit spreads of 1.5-2x the senior bond at a time when balance sheets are resilient. While these are longer-dated instruments, duration is limited due to resettable coupons.

THEME 2

Look for the beneficiaries of the AI investment cycle

While valuations of artificial intelligence (AI) stocks remain a source of debate in the equity market, the year ahead is likely to see many opportunities for Asian credit investors thanks to the substantial supply chain effects from the AI investment cycle.

In the semiconductor sector in Korea and Japan, for example, capacities to supply flash memory chips – used

in phones, laptops and data centres – are fully contracted for the coming year and spot pricing continues to rise.²⁾ We see opportunities in debt issued by memory manufacturers with strong market share, a competitive cost base and the potential to benefit from currency moves – these are the businesses that will capitalise on the boom in demand for memory, which could in turn drive credit rating upgrades.

We also like logistics infrastructure where we see a growing data centre footprint supported by increased institutional investor flows on the equity side. Businesses that own high-quality logistics infrastructure assets, including data centres, are well positioned to benefit from second-order demand linked to hyperscaler and cloud buildouts. If these issuers also boast good access to funding markets and the ability to manage

2) The shortage also extends to dynamic random-access memory (DRAM). Some in the industry have warned that shortages may extend until 2030, creating problems for a host of consumer electronics companies.

refinancing, we consider them compelling investment opportunities.

THEME 3

In high yield, favour defensive carry

We believe credit selection will be a critical performance driver in 2026. With that in mind, our focus in the high yield sector is less on recovery stories and more on names with resilient fundamentals or defensive cost structures that offer attractive carry. Broader infrastructure plays include transportation names backed by structural volume growth and renewable power generation where revenue and cash flow visibility are high. The presence of sovereign wealth and long-term pension funds across the capital structure in these sectors is an added source of credit stability, in our view, and helps support the longer-term investment thesis.

We also see opportunities in names in the resources space that have highly competitive cost structures and can weather a moderately bearish outlook. We tend to avoid sectors where valuations have run ahead of fundamentals, or names with aggressive capital structures, because we believe these higher-risk segments may not be appropriately priced.

Our investment approach in Asian credit

We expect investment outcomes in 2026 to be driven by defensive carry over beta capture. We believe relative outperformance will be driven by valuation discipline and bottom-up issuer selection, augmented by potential alpha opportunities that arise.

With this in mind, our core positioning is centred on seeking out defensive, quality income streams, while leaving ourselves the flexibility to add risk when idiosyncratic opportunities or market dislocations create attractive entry points.

In summary, we expect 2026 for Asia credit to be characterised by high-quality income opportunities supported by attractive absolute yields even as valuations become less compelling. Corporate fundamentals remain solid, and a constructive supply-demand backdrop should continue to anchor market stability. In this environment, we believe credit selection will be the critical performance driver.

THREE THEMES FOR INVESTORS IN ASIAN CREDIT IN 2026

“Yield to worst” represents the lowest potential yield that an investor could theoretically receive on the bond up to maturity if bought at the current price (excluding the default case of the issuer). The yield to worst is determined by making worst-case scenario assumptions, calculating the returns that would be received if worst-case scenario provisions, including prepayment, call or sinking fund, are used by the issuer (excluding the default case). It is assumed that the bonds are held until maturity and interest income is reinvested on the same conditions. The yield to worst is a portfolio characteristic; in particular, it does not reflect the actual fund income. The expenses charged to the fund are not taken into account. As a result, the yield to worst does not predict future returns of a bond fund.

Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors might not get back the full amount invested.

Past performance does not predict future returns. If the currency in which the past performance is displayed differs from the currency of the country in which the investor resides, then the investor should be aware that due to the exchange rate fluctuations the performance shown may be higher or lower if converted into the investor’s local currency.

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