

# Asia credit

## Resilience, opportunity, and allocation

**April 2026**

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**HSBC** Asset Management



Asia credit remains resilient with solid investment grade fundamentals and improving high yield conditions, even as returns moderate in line with global credit markets. Amid heightened uncertainty, Asia credit's compelling opportunities, diversification benefits and risk return profile support a strategic allocation in global portfolios.

Source: HSBC Asset Management, as of April 2026.

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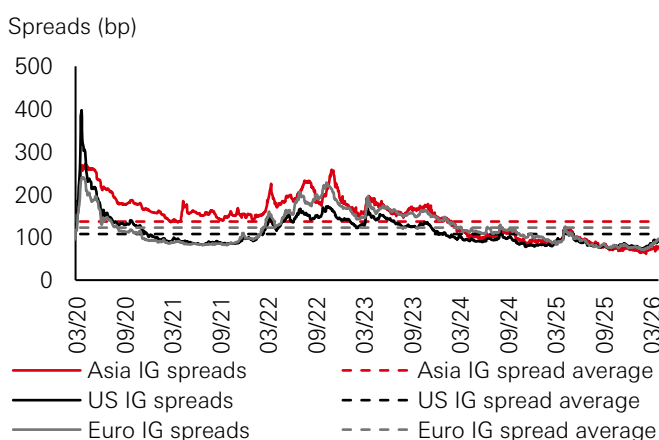
# Asia USD credit: resilience amid uncertainty

The Asia credit market has demonstrated resilience in recent years despite ongoing global uncertainties: the JPMorgan Asia Credit Index (JACI) posted a 1-year and 3-year return of 5.41% and 19.95% as of 31 March 2026, respectively.<sup>1</sup> Spreads in both Asia investment grade (IG) and high yield (HY) markets have tightened over the past five years, with HY making a strong comeback following the property downturn in mainland China, particularly in the last two years (Figures 1 & 2).

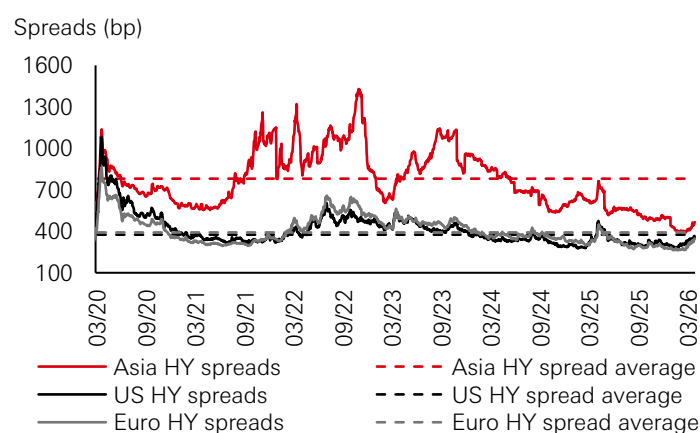
The total return potential in 2026, however, is expected to be more subdued, in line with our global credit views (Figure 3). Asia IG spreads may experience some decompression due to minimal credit premium, but even with moderate widening, spreads are likely to remain tight compared with history (Figure 4). Asia HY offers moderately attractive carry, but valuations across most sectors are also tight historically.

Nevertheless, the Asia credit market is expected to remain resilient in the current market environment. Credit fundamentals remain strong, while technical factors across the region continue to provide a supportive backdrop for the market.

**Figure 1: IG credit spreads**

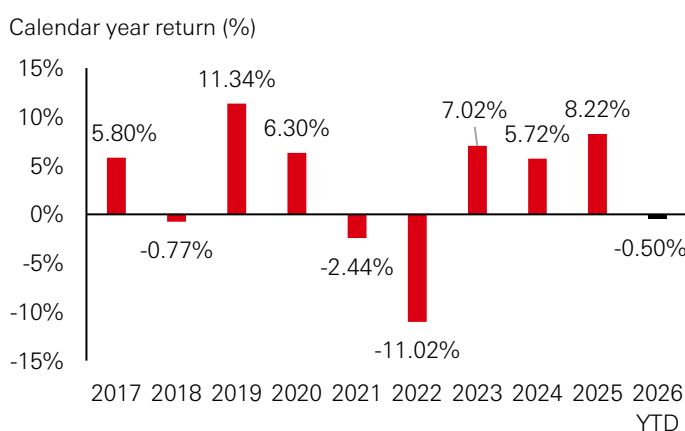


**Figure 2: HY credit spreads**



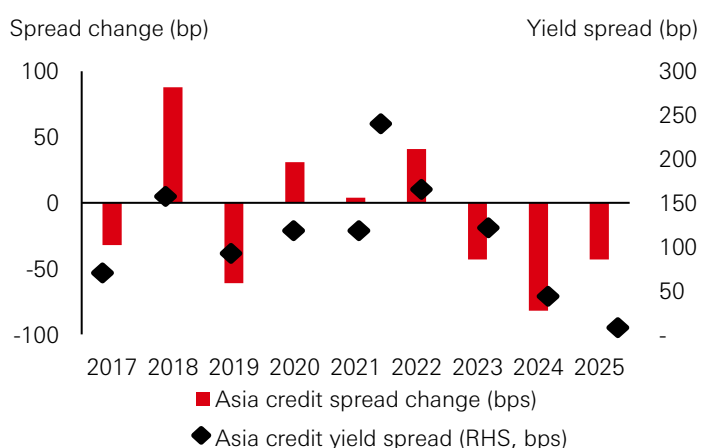
Note: spread average shown is the 5-year average. Indices used: US IG – ICE BofA US Corporate Index; US HY Corp – ICE BofA US High Yield Index; Asia IG Corp – J.P. Morgan JACI IG Corporate Strip Spread to Worst; Asia HY Corp – J.P. Morgan JACI Non-IG Corporate Strip Spread to Worst; Euro IG – ICE BofA Euro Corporate Index; Euro HY – ICE BofA Euro High Yield Index. Source: Bloomberg; BAML, HSBC Asset Management as of 31 March 2026.

**Figure 3: Asia credit returns likely to moderate**



Using JACI Index. Source: JP Morgan, HSBC Asset Management, as of 31 March 2026

**Figure 4: Asia credit spread change vs yield spread**



Using JACI Index. Source: JP Morgan, HSBC Asset Management, as of 31 December 2025

Note 1: Source is Bloomberg, using JP Morgan JACI Composite Total Return Index, as of 31 March 2026. Source: HSBC Asset Management, as of April 2026.

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## Strong fundamentals, diversified universe

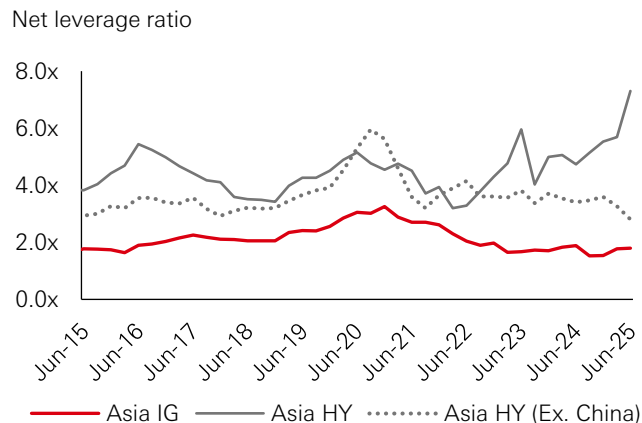
Credit fundamentals remain robust in Asia, as reflected in improving leverage and credit metrics and declining default rates.

Among **investment grade** issuers, net leverage has remained relatively stable, and interest coverage has strengthened (Figures 5 & 6). Credit metrics in Asia IG have broadly evolved as expected, showing stable to gradual improvements from an already strong base. We anticipate moderate fallen angel risks (the risk of an investment grade bond being downgraded to non-investment grade) in 2026, with rising stars (high yield bonds upgraded to investment grade status) primarily concentrated among Indian issuers.

Stress in the Asia **high yield** market remains largely concentrated in mainland China's property sector and other idiosyncratic credits. Elevated leverage at the index level is driven primarily by a handful of higher beta names, including in mainland China property, that still carry highly leveraged balance sheets. (Figure 5). Outside of mainland China, underlying credit fundamentals are improving, with default rates on a steady downtrend (Figure 7). Notably, the majority of 2025 defaults have involved previously restructured issuers, while successful refinancing and liability management have helped mitigate broader repayment risk.

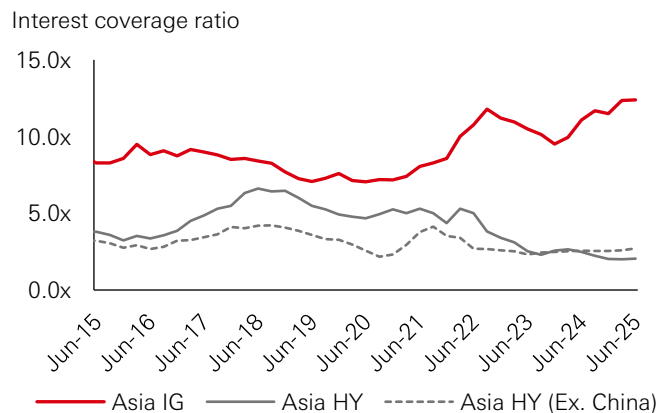
Overall, the JACI Index has maintained broadly stable credit quality of around A-/BBB+, with 84% in investment grade and 16% in non-investment grade.<sup>2</sup> Its composition has also become less concentrated, with **greater diversification** across geographies and sectors (Figure 8). Most notably, the high yield segment has diversified away from mainland China property towards a more balanced sector and geographic mix. Since the property downturn, there has been a sharp decline in mainland China non-investment grade active issuers from 136 in 2020 to 22 in 2026.<sup>3</sup> This contraction has meant that the mainland China high yield universe is now concentrated in state-linked bank AT1s, asset management company (AMC) bonds, and outside of financials, a small group of higher-beta names, including mainland China property. Overall, the greater weighting towards non-mainland Chinese sectors, which tend to be less correlated to each other, could help reduce overall market volatility.

**Figure 5: Net leverage: HY ex-China improving, IG relatively stable**



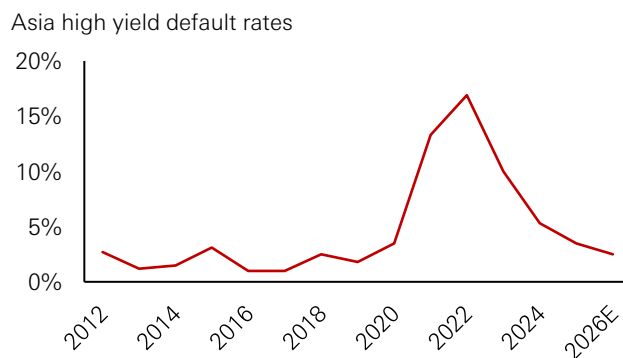
Source: BAML, HSBC Asset Management, as of 30 June 2025

**Figure 6: Interest cover: HY stabilised in 1H25 while IG improved**



Source: BAML, HSBC Asset Management, as of 31 June 2025

**Figure 7: Asia HY default rates trend lower**



Source: BAML, HSBC Asset Management, as of 31 December 2025

Note 2: Source is JP Morgan, as of 13 April 2026

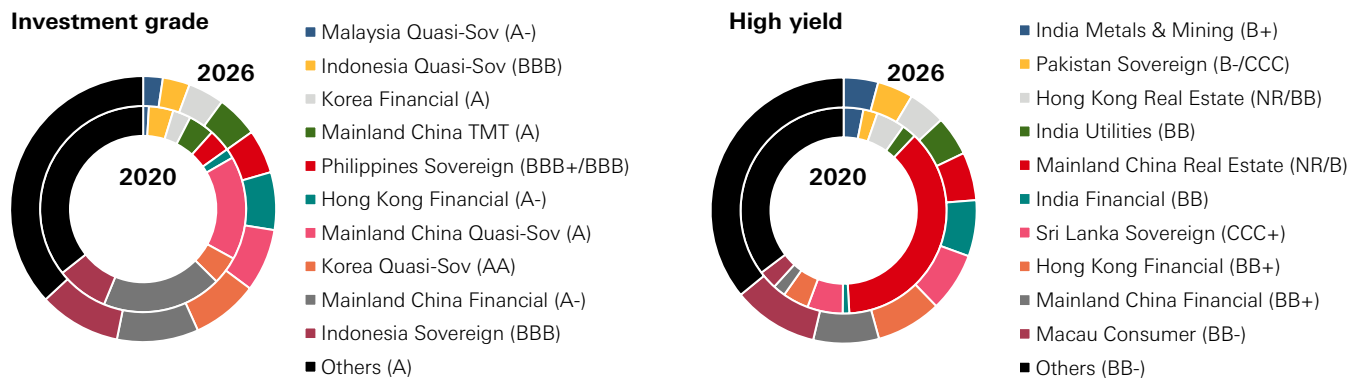
Note 3: Source is JP Morgan, 2020 figure is as of 29 January 2020, while 2026 figure is as of 27 February 2026

Source: HSBC Asset Management, as of April 2026.

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**Figure 8: Asia IG and HY top 10 sector comparison: 2020 (inner rings) vs 2026 (outer rings)**



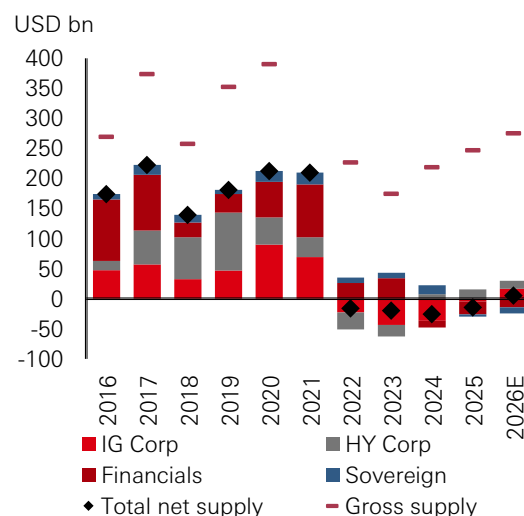
Source: JP Morgan Asia Credit Index, inner rings data are as of 19 January 2020, outer rings data are as of 27 February 2026

## 2026 technical outlook: rising supply trends

Following years of decline, we anticipate a modest increase in gross supply for 2026. In 2025, gross supply rose 13% year-on-year to USD 247bn in Asia Pacific (including Japan and Australia), and we expect this upward trend to continue (Figure 9). Net supply is expected to reach USD 5.1bn in 2026, equivalent to 0.4% of the JACI Asia Pacific Index. This increase should be balanced by strong demand, supported by ongoing wealth creation and healthy liquidity in the region.

Market supply trends will differ across segments. Mainland China's supply will likely moderate and Japan's share should continue to rise. Hong Kong quasi-sovereigns and select sectors, such as technology and renewables, are expected to maintain robust supply due to capex needs. Hong Kong, South Korea, and Thailand are likely to see continued funding requirements in the USD market, given the cost differential between onshore and offshore hedged funding. Generally, we expect the shift in supply towards non-USD credit markets, such as CNH, HKD, AUD, SGD, and EUR, to continue.

**Figure 9: Asia-Pacific net supply on uptrend**



Source: Bloomberg; BAML, HSBC Asset Management, as of 31 December 2025

## Credit investing strategies

In our Asia credit strategies, we are adopting a carry return approach amid an environment of compressed spreads but still attractive all-in yields. Meanwhile, we see select cohorts, such as high yield and unrated credits, as offering potential alpha opportunities. We also maintain diversification across a broader range of fixed income assets, including local currency bonds, emerging market dollar bonds, and convertible bonds, which can be expected to enhance returns. Against this backdrop, strategic country and sector allocation will be key to driving credit performance. We highlight several key investment themes:

### AI and technology

We expected AI-related opportunities to be a major investment theme. Select mainland Chinese technology, media, and telecommunications (TMT) names are likely to benefit from wider AI adoption, with higher visibility in direct AI-driven monetisation. Momentum remains strong in Asian hardware tech, such as leading regional foundry and memory chip players, which stand to benefit from data center AI demand and a memory super upcycle. Fundamentals in these segments remain stable, with manageable capex well within financial limits.

Asian technology USD credit now accounts for nearly 10% of the Asia USD investment grade universe, underscoring the rapid growth of tech- and AI-linked exposure.

Source: HSBC Asset Management, as of April 2026.

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## Credit investing strategies (cont'd)

### Opportunities in financials

Asian banks are positioned for a modest fundamental recovery in 2026, driven by improving profitability, stable liquidity, and strengthening capital positions in key markets. We expect to move down the capital structure in search for yield and compelling opportunities and to stay overweight in select Tier 2 and AT1 instruments in Korea, Thailand, Singapore, and Australia.

Elsewhere, select Tier 2 instruments in Asia's life insurance sector, particularly in Hong Kong, Japan, and Taiwan, offer attractive relative value, despite the sector's dynamic regulatory environment.

Successful M&A activity is driving improved ratings and growth for Indian private NBFCs, with notable names edging into investment grade due to enhanced capital, better funding access, and strong underwriting. The sector is seeing favourable regulatory changes, easing asset quality pressures, and a shift in the borrowing mix. Despite these longer-term positive trends, Indian private NBFCs remain structurally more sensitive to market conditions. They are predominantly wholesale-funded, inherently pro-cyclical, and – given certain sector concentrations – may face spillover risks when global risk appetite shifts and financial conditions tighten.

### Survival bias and technical support in Asia high yield (ex-China property)

Favourable technicals in the USD market is supported by limited supply coming due in 2026, strength underpinned by survival bias as well as robust local funding access across Asia – which makes USD high yield bond issuances less attractive as issuers increasingly shift to cheaper local markets. For instance, in Southeast Asia, corporate credit conditions are benefitting from policy tailwinds and a pick-up in rupiah-denominated corporate bond supply in Indonesia, alongside resilient remittance inflows and constructive local market dynamics in the Philippines. Mainland China high yield "survivors" (mostly in non-property sectors) have also preserved access to domestic refinancing channels. Against this backdrop, we see alpha opportunities that are more idiosyncratic, particularly in mainland Chinese industrials, Indian renewables, and select cyclical sectors that are well-positioned to capitalise on ongoing secular growth trends.

## Potential risks

As of this writing and based on our assessment, the initial fundamental impact of a sustained energy price shock on key Asian countries and sectors is expected to be heterogeneous. At the macroeconomic level, sensitivity varies across the region – net oil importers (such as Thailand, the Philippines, and India) feel the pressure given their reliance on energy supply through the Middle East. We believe stress is expected to manifest primarily in local currency and rates markets.

In assessing the implications for Asia USD credit, the market has limited direct credit exposure to the Middle East. A broad sector review further indicates that the potential impact for most sectors – whether through direct Middle East exposure, oil and gas dependency, or supply-chain disruptions – ranges from negligible to moderate (Figure 10).

For Asia credit sectors with greater exposure to energy-price volatility, state ownership and parental support often anchor credit quality and ratings. Even so, within the USD bond universe, the most immediate and identifiable transmission channel of an energy shock is the power utilities sector, where exposure to imported fuel prices and the degree and timing of cost pass-through vary significantly.

**Figure 10: Impact assessment of energy price shock on relevant Asia credit sectors**

Sectors	Weight in JACI Index	Direct (exposure to Middle East)	Indirect (Oil and gas dependency / disruption in supply chain)
Automobiles	1%	Nil	Moderate
Banks	18%	Nil	Moderate
Basic materials	3%	Nil	Nil
Chemicals	1%	Nil	Moderate
Hospitality, leisure & airlines	3%	Moderate	Moderate
Infrastructure	1%	Moderate	Moderate
Oil and gas	3%	Nil	Moderate
Real estate	4%	Nil	Nil
Technology	7%	Nil	Moderate
Utilities	4%	Nil	High

Source: HSBC Asset Management, as of 20 March 2026

Source: HSBC Asset Management, as of April 2026.

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## Potential risks (cont'd)

These include Korean utilities, given their high sensitivity to volatility in imported fuel prices. In mainland China, gas utilities face higher input costs, but the impact is cushioned by domestic pricing mechanisms and procurement structures. Power generation companies confront higher thermal coal prices, partially offset by a growing renewable mix.

India, Indonesia, and Australia utilities are relatively insulated, as their power generation relies predominantly on domestically sourced coal and natural gas, mitigating direct supply risk. In Japan, power generators may face higher costs due to elevated liquefied natural gas (LNG) and thermal coal prices, compounded by a lag in passing these costs through to end-users. However, the magnitude of the impact will vary by issuer, depending on its generation mix.

Other geopolitical risks continue to linger. Tariff-related uncertainties persist. While Asia credit has demonstrated resilience during periods of external shock, it is crucial to recognise that prolonged uncertainty could have a more pronounced and lasting effect on this asset class.

Meanwhile, the outlook for Asia credit returns is closely linked to US interest rates. However, the US economic landscape remains cloudy. Factors such as job growth, technological disruption from AI, changing productivity trends, and inflation add further complexity, increasing uncertainty for Asia credit returns.

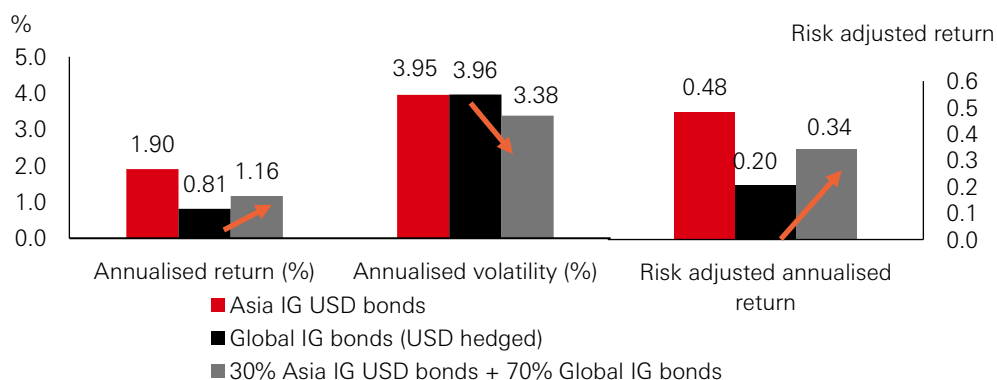
Asia credit spreads also remain sensitive to global risk sentiment. Spreads are currently at multi-year lows, which means there is limited room for error. Any negative shifts in global credit sentiment – whether triggered by developments in the US private credit space, increased AI-infrastructure financing, or concerns about AI-driven industry disruption – may ultimately filter through and exert pressure on Asia credit markets.

## Why Asia credit merits a strategic allocation

Asia credit has historically shown resilience during externally driven spread widening episodes, including the COVID-19 pandemic, the 2022 Russia-Ukraine escalation, and “Liberation Day” in 2025. We expect this resilience to continue amid ongoing geopolitical tensions and interest rate uncertainty.

Allocating to Asia IG USD bonds within a broader global IG portfolio can help increase returns and lower overall volatility (Figure 11). Over the last 5-year period, Asia IG credit has meaningfully outperformed global IG bonds, with a 30% allocation adding 35bp in annualised returns. Asia IG credit’s resilience, quality and strong fundamentals support its role in global bond allocations, offering potential diversification benefits, improved portfolio efficiency, and enhanced risk-adjusted returns.

**Figure 11: Adding 30% Asia dollar credit to global bond portfolios (5-year period as of 31 March 2026)**



Indices used: Asia IG bonds - JACI Investment Grade Total Return Index, Global IG bonds - Bloomberg Global Aggregate Total Return Index USD hedged. 30% Asia IG USD bonds + 70% Global IG bonds is based on the assumption of no transaction costs and portfolio rebalancing. Past performance does not predict future returns. Hypothetical analysis is for illustrative purpose only and should not be relied on as indication for future result.

Source: HSBC Asset Management, for the past 5 years as of 31 March 2026.

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