

# First Sentier Asian Quality Bond Fund Monthly review

Monthly Review | May 2025

## Market review

It was a positive month for risk assets, despite ongoing macroeconomic uncertainties. The Federal Reserve kept interest rates unchanged, and the minutes from the Federal Open Market Committee (FOMC) indicated a cautious approach to future policy decisions. The impact of tariffs has yet to be reflected in economic data, and the markets shrugged off Moody's downgrade of the US sovereign rating from Aaa to Aa1.

The yield on the 10-year US Treasury ended the month at 4.4%, up by 24 basis points. The yield curve steepened, particularly at the long end, while the spread between 2-year and 10-year Treasuries remained relatively stable at 50 basis points, narrowing by 6 basis points.

As macroeconomic uncertainty diminished, credit spreads experienced a relief rally, returning to levels seen before April's sell-off. Investment Grade (IG) USD Asian bond spreads tightened by 15 basis points to 118 basis points. Despite higher US Treasury yields partially eroding total returns, total IG credit returns remained respectable at 0.11%.

It was a mixed bag of news for Investment Grade (IG) USD Asian bonds, but positive sentiments largely prevailed. Share prices of Chinese technology companies recovered Liberation Day losses as tariffs were delayed and China unveiled more supportive monetary easing measures. In credit fundamentals, a divergence in earnings emerged. Meituan and JD both achieved strong earnings in Q1 2025, despite rivalry concerns between the two companies' food delivery lines. Alibaba achieved decent growth and stable earning margins, but the performance of its cloud business lagged behind market expectations. Indian IG corporates generally achieved decent earnings growth in Q4 FY25 across digital, retail, ports, and energy distribution businesses. Adani Ports announced the issuance of INR 50bn in NCDs to the Life Insurance Corporation of India, extending the corporate's overall maturities by 1.4 years. The company mentioned that they would use the proceeds to repurchase dollar bonds. The Adani curve saw a 2-4 point increase in its bond prices over the month.

In Asia Investment Grade Sovereigns, Indonesia's Sovereign Wealth Fund, Danantara, continued to explore options to raise debt but faced disappointing news as Ray Dalio declined to join its board as an advisor.

Primary issuance volumes trended close to April levels, with an increase in issuances from quasi-sovereigns. PT Pertamina Hulu Energi, a subsidiary of Indonesia's PT Pertamina, priced its debut bond, a USD 1 billion 5-year tenure, which was well received by the primary market.

## Fund positioning

The Fund maintained an overweight in US rates in anticipation of a weakening macro backdrop, while maintaining a defensive stance in credit positioning. Small local currency allocations were maintained as diversifiers to a bearish dollar view.

## Performance review

On a net-of-fees basis, the First Sentier Asian Quality Bond Fund returned -0.50% in May, underperforming its benchmark by -0.61%.

An underweight positioning in credit spreads was positive for performance, but the portfolio's overweight in US rates detracted from returns. Local rates and currency exposure was flat for returns.

- The Fund invests primarily in debt securities of governments or quasi-government organization in Asia and/or issuers organised, headquartered or having their primary business operations in Asia.
- The Fund's investments may be concentrated in a single, small number of countries or specific region which may have higher volatility or greater loss of capital than more diversified portfolios.
- The Fund invests in emerging markets which may have increased risks than developed markets including liquidity risk, currency risk/control, political and economic uncertainties, high degree of volatility, settlement risk and custody risk.
- The Fund invests in sovereign debt securities which are exposed to political, social and economic risks. The Fund may also expose to RMB currency and conversion risk.
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- It is possible that a part or entire value of your investment could be lost. You should not base your investment decision solely on this document. Please read the offering document including risk factors for details.

	We thought that...	Therefore, we...	And the results...
<b>US rates</b>	Tariffs levied by the US would negatively impact growth, markets could be seized by risk-off sentiments.	Implemented an overweight in US interest rate positioning relative to its benchmark.	Negative for portfolio returns.
<b>Asian IG</b>	Fundamentals remain sound in Asian Investment Grade (IG) corporates, but sell-offs could be deep and sudden.	Maintained an underweight in credit positioning and focused on high quality names that are deemed more resilient should the market enter a risk-off mode.	Small positive. Security selection added to returns.

Source : Company data, First Sentier Investors, as of end of May 2025

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