中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

How does a Fed rate cut benefit Asian bond market?

Video highlights:

- Following the Fed's 25-basis-point rate cut in December 2025, Asian bonds have become more attractive relative to bonds in the US and other developed markets. Government bond yields in countries like Indonesia, India, and the Philippines remain appealing, often exceeding 5%. Meanwhile, the Asian bond market has expanded dramatically—growing fivefold over the past two decades—with increasing diversification across sectors creating compelling opportunities for investors.

- In addition, credit ratings in developed markets have faced downgrades in recent years due to high debt levels and political uncertainties. By contrast, many Asian countries have benefited from robust fiscal positions and lower policy risks, leading to consistent upward adjustments in their bond ratings. These factors provide stronger support for bond prices in the region.

- Historical data from the past 20 years reveals that Asian equities experienced a maximum drawdown of around 61% and annualized volatility of 20%. In comparison, Asian credit bonds showed significantly lower risk: approximately 20% maximum drawdown and 6.5% annualized volatility—both about one-third the levels of equities. Over the same period, Asian bonds delivered an annualized return of roughly 5.1%, surpassing the 4.3% return of US investment-grade corporate bonds.

- On the other hand, the performance of the USD and Asian bonds has shown a negative correlation over the past five years. With US interest rates likely to decline further over the next 12 months, a continued weakening of the US dollar would provide additional support for Asian bonds. However, expectations for Fed rate cuts have recently moderated. Should the USD rebound or trade sideways, it could introduce some risks. Therefore, maintaining diversification across regions and adopting a flexible approach to duration remain essential when investing in bonds.

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