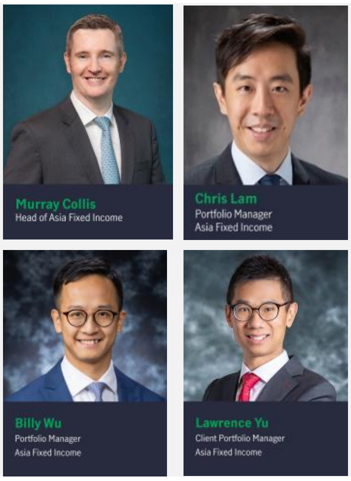
Manulife Investment Management

Investment Note

16 Sep 2026



Asia High Yield (HY) bonds, known for providing an attractive source of income, present a very different opportunity set today compared to the pre-pandemic era. As discussed in our investment note from nearly a year ago, the asset class is no longer dominated by Chinese Mainland property developers. Instead, it has become more diversified, with investment opportunities spanning multiple areas, such as financial institutions, gaming operators, infrastructure providers, and selected frontier markets.

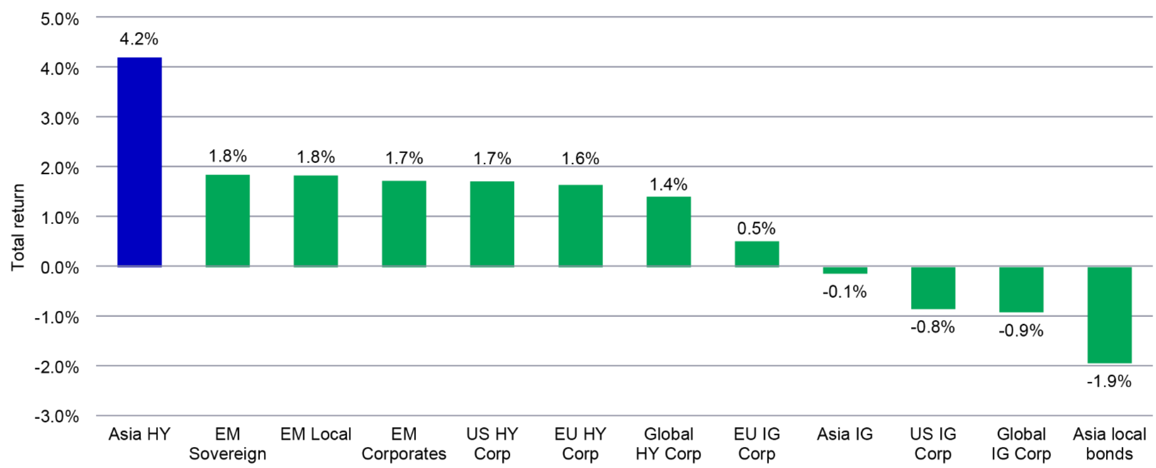
Asia High Yield has reached new highs; what's next?

This breadth, as emphasised in our prior note, helped propel the Asia HY index to fresh all-time highs in January 2026 and has supported its continued outperformance against global fixed income peers year-to-date, even amid broader market and economic uncertainty.

We believe that the asset class is now better positioned than it has been in recent years – Asia HY has successfully transitioned from a recovery to a more sustainable growth story. To be clear, investors are not wagering on a V-shaped recovery of the Chinese Mainland real estate cohort to support Asia HY's outperformance; rather, they are gaining exposure to attractive yields from a diversified set of issuers that we believe may offer compelling opportunities, based on our assessment of their fundamentals and credit profiles, across some of the world's fastest-growing economies.

In this note, we take a deep dive into three key areas that we believe could influence the outlook for Asia high yield in the coming months further. Interestingly, many of these issuers share a common theme: they have successfully adjusted through recent periods of volatility or turmoil and have emerged with leaner balance sheets and improved financial discipline. This presents an attractive entry point for credit investors.

Asia HY has led major fixed income asset classes year-to-date



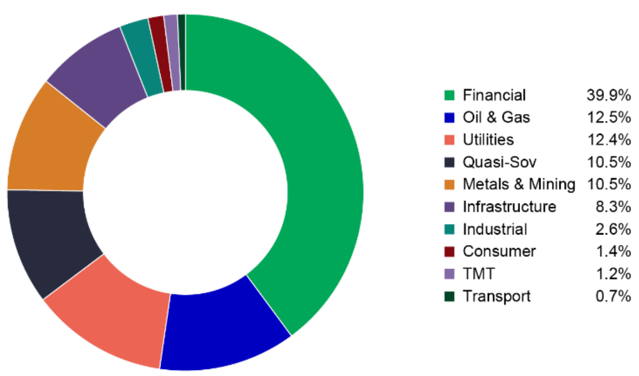
Source: Manulife Investment Management, Bloomberg, as of 31 July 2026. Asia HY (Asia high yield bonds) = JACINGTR; EM Sovereign (Emerging Markets sovereign bonds)= JPEIDIVR; EM Local (Emerging Markets local bond)= JGENVUUG; EM Corporates (Emerging Markets corporate bonds) = JBCDCOMP; US HY Corp (US high yield corporate bonds) = LF98TRUU; EU HY Corp (European Union high yield corporate bonds) = LP01TREU; Global HY Corp (Global high yield corporate bonds)= LG50TRUU; EU IG Corp (European Union investment-grade corporate bonds) = LP05TREU; Asia IG (Asia investment-grade bonds) = JACIICTR; US IG Corp (US investment-grade corporate bonds) = LUACTRUU; Global IG Corp (Global investment-grade corporate bonds) = LGCPTRUU; Asia local bonds = IBXXALBI. Past performance is not indicative of future results.

For Asia HY, the question is no longer whether performance can recover from the previously challenging episodes that are well behind us – the market has rallied by 57.8% (+13.2% p.a.) from its November 2022 lows to the end of July 2026, with yields back to more normalised levels. Instead, investors may want to reassess whether they have sufficient exposure to this asset class, which contains various promising opportunities on a forward-looking basis.

Inflection #1: India's structural growth stories have taken the driver's seat

Since late 2025, India has grown into the largest market within the Asian HY universe, and this momentum is expected to persist in the near term given that India remains one of the fastest-growing major economies globally. Supportive domestic fiscal policies and continued investment in areas such as manufacturing, infrastructure, renewable energy and transportation have resulted in an increasing number of issuers seeking to raise capital to fund expansion plans in recent years, which is supportive of the growth in certain segments, such as non-bank financial corporates (NBFCs), and the overall bond market.

Sector breakdown of India HY issuers within JACI Non-IG



Source: Manulife Investment Management, JP Morgan, as of 30 June 2026.

The India HY opportunity set also provides valuable diversification for investors' portfolios, especially for those with concentrated exposures towards the new economy. India HY issuers are not speculative start-ups with negative free cash flow or rich valuations based on a multiple of future revenue. Most issuers are cashflow-generating businesses operating in areas that benefit from longer-term structural trends, such as airports, roads, renewable power, transmission networks, telecommunications, ports, and logistics.

This environment favours India HY bonds, given:

- Strong economic growth supports revenue generation and loan performance
- Infrastructure assets generally generate predictable cash flows
- Long-term development plans help improve visibility on corporate fundamentals
- Increasing domestic consumption and need for credit drives growth for NBFCs

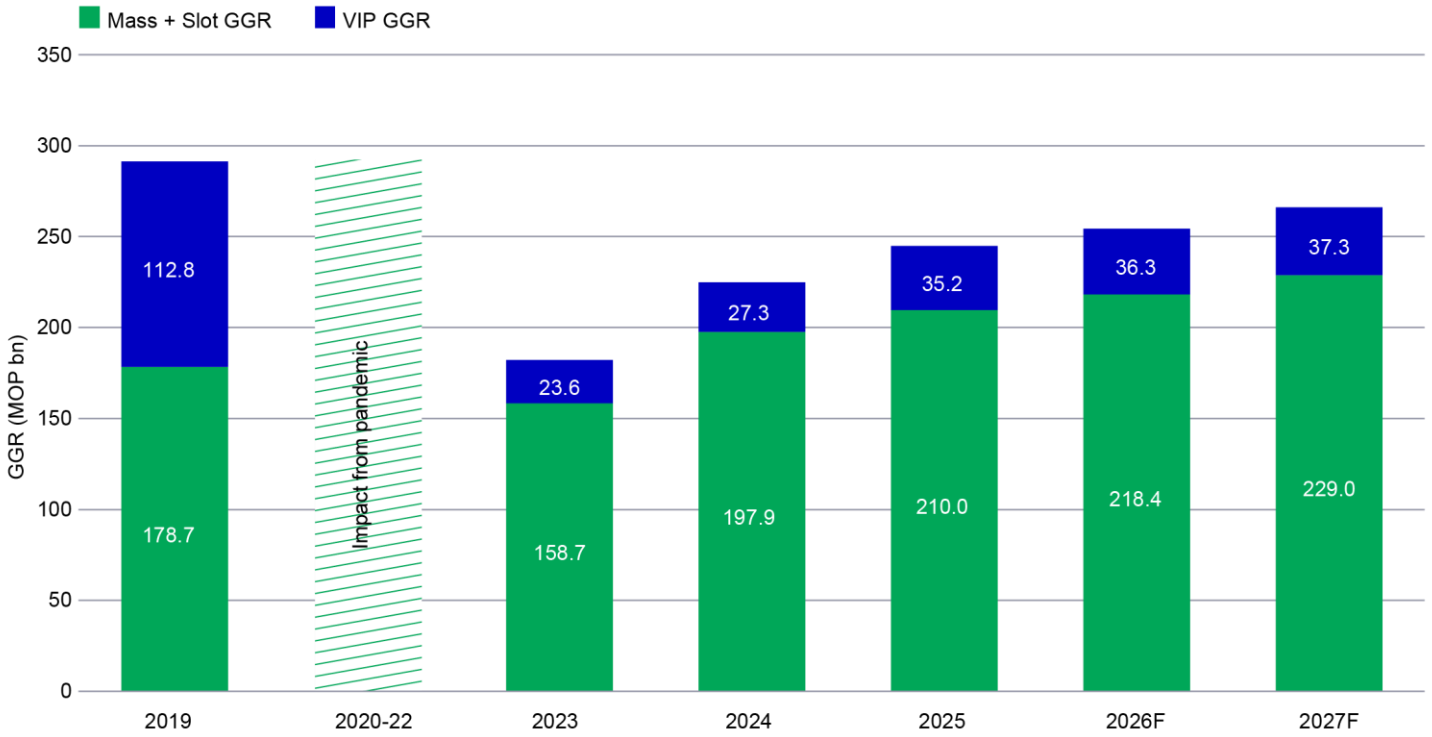
It is noteworthy that although the broader India domestic economy is vulnerable to higher energy prices from persistent geopolitical tensions in the Middle East due to the pass-through effect on oil and fertiliser costs, this has less of a direct impact on many India HY issuers, as they derive value more from domestic economic expansion rather than from global trade cycles.

Inflection #2: "Macau gaming 2.0" driven by more sustainable mass and slot segments

Macau's gaming industry has undergone a significant structural shift – for the better – in recent years, which has helped improve the quality of earnings of its operators. The VIP segment, which depended on junket operators and fewer high-net-worth individuals, once accounted for nearly half of the industry's gross gaming revenues (GGR). However, it has declined substantially following the pandemic due to changes in consumer behaviour and tighter regulatory oversight around the junket industry. As a result, growth has shifted towards the mass-market and slot segments, paving the way towards a more sustainable trajectory for the industry going forward.

In Macau Gaming 2.0, profitability is driven by a larger set of customers from the mass segment (compared to the relatively small number of high-stakes players from the VIP segment), with broader sources of additional revenue such as entertainment offerings, dining, and tourism experiences. This shift in revenue composition supports cash generation and helps anchor fundamentals from a bond investor's point of view.

Macau's recovery is now driven mainly by mass market gaming



Source: Manulife Investment Management, JP Morgan, as of 30 June 2026. GGR = Gross Gaming Revenue.

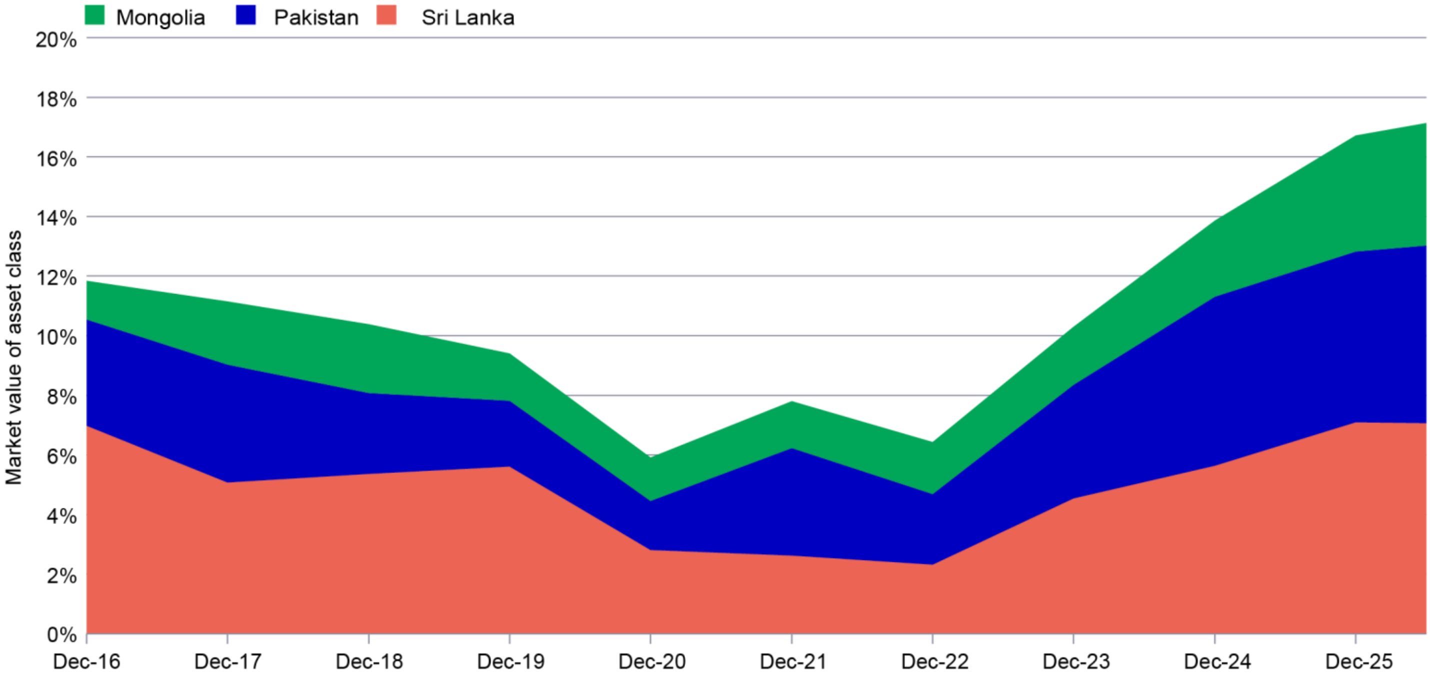
Generally, Macau gaming operators now possess stronger credit fundamentals due to more diversified revenue sources and are better positioned to withstand economic cycles and regulatory changes. The increasing share of mass-market and slot gaming supports higher margins and improves balance sheet strength through cash generation.

The importance of this development extends beyond Macau gaming itself. It illustrates a broader theme shaping the Asia HY market following recent years' developments: many of today's leading issuers have either adapted to or emerged from recent challenging periods, ending up with leaner balance sheets and improved financial discipline. This environment puts the Asia HY asset class in an attractive position for investment in the coming years.

Inflection #3: The successful turnaround of the frontier markets

Frontier markets have become an increasingly important part of the Asia HY investment universe, with aggregate representation rising to the mid-teens (as a percentage of market value), compared to only mid-single digits during the pandemic. This growth reflects both improving credit fundamentals in these economies and increased investor confidence in these markets' recovery trajectories.

Frontier markets have grown into a meaningful part of the Asia HY market



Source: Manulife Investment Management, JP Morgan, as of 30 June 2026.

Unlike other Asia HY regions, frontier market HY exposures are comprised predominantly of sovereigns and entities closely linked to governments (quasi-sovereigns). The credit profiles of these bonds are influenced not only by domestic factors and economic conditions but also by access to support from multinational institutions such as the International Monetary Fund (IMF) and from other foreign countries. This additional layer of external support provides an important source of policy guidance, funding and liquidity during periods of economic stress, helping to distinguish frontier HY credits from other Asia HY corporate credits.

Some frontier economies have demonstrated the benefits of this support in recent years. Notably, Sri Lanka and Pakistan have faced significant financial challenges during and after the pandemic, leading many investors to fear prolonged periods of economic distress. However, the implementation of economic reforms, coupled with funding support from external sources, helped stabilise their economies, rebuild external reserves and gradually restore market confidence. For example, Sri Lanka received additional funding support from India, and Pakistan received additional funding support from the Chinese Mainland, Saudi Arabia, and the UAE due to their well-established international relationships.

While these countries may not currently possess investment-grade (IG) credit characteristics and remain subject to political, economic and market risk, their recent recovery episodes highlight an important distinction between sovereign and corporate issuers. Sovereigns often have access to policy tools, fiscal adjustments and international funding channels that are not available to companies, enhancing their ability to navigate periods of stress and allowing them to provide differentiated sources of return, making them valuable diversification opportunities for investors' portfolios.

Conclusion: The forward-looking investment case remains compelling for Asia HY

The post-pandemic period marked the beginning of a new era for Asia HY. Today's market is more diversified and arguably higher quality than it was before the pandemic. More importantly for investors, Asia HY is no longer a recovery story; rather, the asset class has already reached a turning point after successful adaptations and transformations in recent years and now stands on a more balanced foundation for future growth.

The current Asia HY investment universe – as it stands – provides investors with various diversification opportunities, even within the asset class, as highlighted earlier in this note:

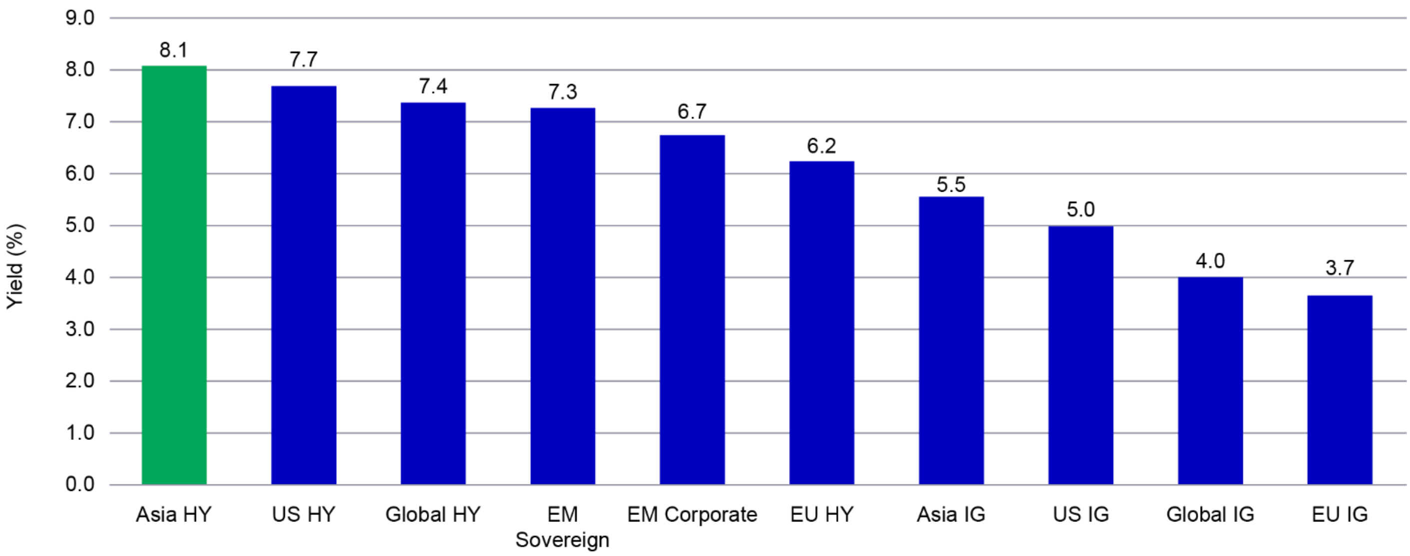
- Stable cash flow and policy support from well-established India HY corporates helps diversify from concentrated exposures to the new economy
- The consumer-driven recovery in Macau has a low correlation to global geopolitical headwinds and volatile energy prices
- The sovereign nature of frontier markets is supported by additional channels of external funding which are unavailable to corporates.

The key to successfully investing in the Asia HY market is not about buying the index. As with any other HY asset class, the focus should be on choosing the right bonds (security selection). The asset class spans more than a dozen regions, multiple regulatory systems, and hundreds of issuers across different industries. Opportunities often emerge from the mispricing and misunderstandings of individual securities, as well as the performance gap (dispersion) among issuers. This favours active portfolio managers who can identify credits in the process of turning around through in-depth credit research, before the market widely recognises them.

The Asia HY index may be hovering near all-time highs with more normalised yields, but we believe there is further upside potential, especially given the attractive yield that the asset class currently offers relative to global fixed income peers. The strong performance from the past few years has been the "recovery phase," where the market has undergone a series of changes to adjust to a new norm, as emphasised in this investment note.

It is not over yet. In our view, the Asia HY market may be evolving beyond a recovery-driven environment, with opportunities increasingly emerging from issuers that have strengthened their balance sheets, improved financial discipline and adapted to a changing economic backdrop.

Asia HY offers more attractive yields than most other major fixed income asset classes



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Quick recap on Asia High Yield

Asia High Yield bonds are debt issued by companies or governments in Asia that generally offer a higher income than investment-grade bonds. The asset class is currently rated BB-/B+ on average, similarly to US and Europe High Yield peers.

Naturally, investors are compensated for taking on additional credit risk through higher yields. However, Asia high yield currently offers both higher yield-to-maturity of approximately 8.1%, compared with 7.4% for the global high-yield market and 7.7% for the US high-yield market, while at the same time possessing lower expected default rates for 2026 of approximately 1.80% for Asia high yield, versus 2.50-3.00% in the US and 3.75-4.25% in Europe[1].

While higher yields can enhance income potential, investors also need to be mindful of credit risk, as issuers may fail to meet their debt obligations. Hence, active management backed by a robust credit research process is important for generating outperformance because issuer quality varies widely within the universe.

[1] Source: JP Morgan estimates (for Asia High Yield), Fitch Ratings (for US High Yield and European High Yield), data as of end of July 2026.

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