

State Street Global Advisors Study Reveals Attractive Yields and Index Inclusion Will Fuel Global Institutional Demand for Asian bonds

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HONG KONG & SINGAPORE, 28 May 2019— State Street Global Advisors, the asset management arm of State Street Corporation (NYSE: STT), announced today the findings of its latest study partnered with Greenwich Associates¹. The research surveyed more than 180 institutional investors and gatekeepers at private banks to determine their asset allocation to Asian fixed income.

The results reveal that Asian fixed income markets could experience meaningful inflows in the next 12 months from institutional investors and private banking clients around the world looking to take advantage of a maturing Asian marketplace and the higher yields offered by Asian bonds .

More than half of the participants in the study invest in Asian bonds, and almost all of them (95%) plan to increase (41%) or maintain (54%) their allocations in the next 12 months. Meanwhile, a quarter of current non-users plan to initiate investment in Asian fixed income in the next 12 months.

“Around three-quarters of surveyed investors said yield is the key reason for increasing exposure to Asian fixed income next year,” said Kheng-Siang Ng, Asia-Pacific head of Fixed Income at State Street Global Advisors. “For investors around the world, Asian fixed income represents a rare source of yield. Global interest rates have been lingering at or near historic lows for the better part of a decade. Opportunities to pick up yield from investments in Asian bonds have become even more attractive since the US Federal Reserve’s decision to put off additional interest-rate hikes this year.”

Chinese Government Bonds have the Most Appeal for Investors

In addition, among the top reasons given by study participants for increasing their exposure to Asian fixed income are inclusion of Asian fixed income in global indices (41%), growing market size/expanded product choices (37%) and improved market liquidity (24%).

Also driving demand for Asian fixed income is the growing appetite for Chinese assets. Two-thirds of study respondents picked China as the most attractive source of investment from a list of major government bond markets in Asia ex-Japan.

“The inclusion of onshore Chinese bonds into global bond indices in April marked a key moment in the integration of China’s US\$13 trillion bond market into the global fixed-income market—and into the portfolios of investors around the world,” added Ng. “We believe the Chinese bond market will continue to grow as investors see the benefits of portfolio diversification and the relatively higher bond yield Chinese bonds offer.”

Growth in Asian Bond ETFs

Across the research sample, Asian assets make up 18% of overall fixed-income portfolios, including 5% in government bonds and 13% in corporate bonds. Average allocations range from 51% of total fixed-income assets among Asian private banking clients² to 26%

among institutional investors in Asia ex-Japan², to 7% in Europe, 5% in the United States, 3% in Japan², and 2% in Australia².

Currently, actively managed direct investments are the most popular vehicle for Asian fixed-income exposure. However, growing numbers of institutional investors and private banks are using or considering exchange-traded funds (ETFs), which currently rank the fourth most popular vehicle (and rank first among passive vehicles) for Asian fixed income. Many research participants see ETFs as having the potential to enhance liquidity, diversification and lower costs.

“Based on current usage and the relatively large number of investors considering the use of the funds, ETFs may soon approach active mutual funds in terms of popularity as a vehicle for Asian fixed-income investments,” said Parijat Banerjee, Principal at Greenwich Associates, which conducted the study.

¹ *State Street Global Advisors commissioned Greenwich Associates to conduct a global study of 151 institutional investors and 36 intermediary distributors from Asia Pacific, Europe and the United States between October 2018 and March 2019.*

² *Excluding domestic assets*

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** AUM reflects approximately US\$32.7 billion (as of March 31, 2019), with respect to which State Street Global Advisors Funds Distributors, LLC (SSGA FD) serves as marketing agent; SSGA FD and State Street Global Advisors are affiliated.*

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Bonds generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates raise, bond prices usually fall); issuer default risk; issuer credit risk; liquidity risk; and inflation risk. These effects are usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

International government bonds and corporate bonds generally have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns.

These investments may have difficulty in liquidating an investment position without taking a significant discount from current market value, which can be a significant problem with certain lightly traded securities.

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