

TalkingPoints

How Asian Corporate Bond Markets Differ From the U.S. Corporate Market



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As investors continue to search for yield and diversification within their fixed income portfolios, we study and compare the corporate bond markets in Australia, China and the U.S. Our indices can provide investors with transparency and insight into these three corporate bond markets, each with its own set of distinct characteristics.

Size

- Tracked by the S&P U.S. Issued Investment Grade Corporate Bond Index and the S&P U.S. Issued High Yield Corporate Bond Index, the U.S. corporate bond market (USD 4.8 trillion) is approximately four times larger than the Chinese corporate market.
- The offshore Chinese corporate bond market, denoted by the S&P/DB ORBIT Credit Index, is small (USD 24.2 billion) relative to the onshore corporate market (USD 1.2 trillion), represented by the S&P China Corporate Bond Index.
- Australia's corporate market (USD 65.2 billion), as tracked by the S&P/ASX Corporate Bond Index, represents less than 2% of the U.S. investment grade corporate bond universe.

Duration and Yield

Both onshore and offshore Chinese corporates demonstrate shorter durations and higher yields when compared with U.S. corporates. See Exhibit 1 for a side-by-side comparison.

- The S&P U.S. Issued Investment Grade Corporate Bond Index has the longest modified duration and lowest yield-to-maturity when compared with Chinese and Australian corporates. These traits reflect the underlying bonds' quality and the differences in the risk-free rates.
- The S&P China Corporate Bond Index measures the performance of onshore corporate bonds and is composed of locally rated investment-grade, high-yield and unrated bonds. The result is comparable yield yet shorter duration than the S&P U.S. Issued High Yield Corporate Bond Index.
- Given its short duration and mostly investment-grade rated bond composition, the S&P/DB ORBIT Credit Index provides a compelling yield of 4.46%.
- The S&P/ASX Corporate Bond Index also offers an attractive yield-to-maturity of 3.98%, considering the constituents are all investment grade rated. Its modified duration is relatively short at 3.21.

All data on this page is as of May 19, 2014.

Exhibit 1: Comparison of Corporate Bond Indices

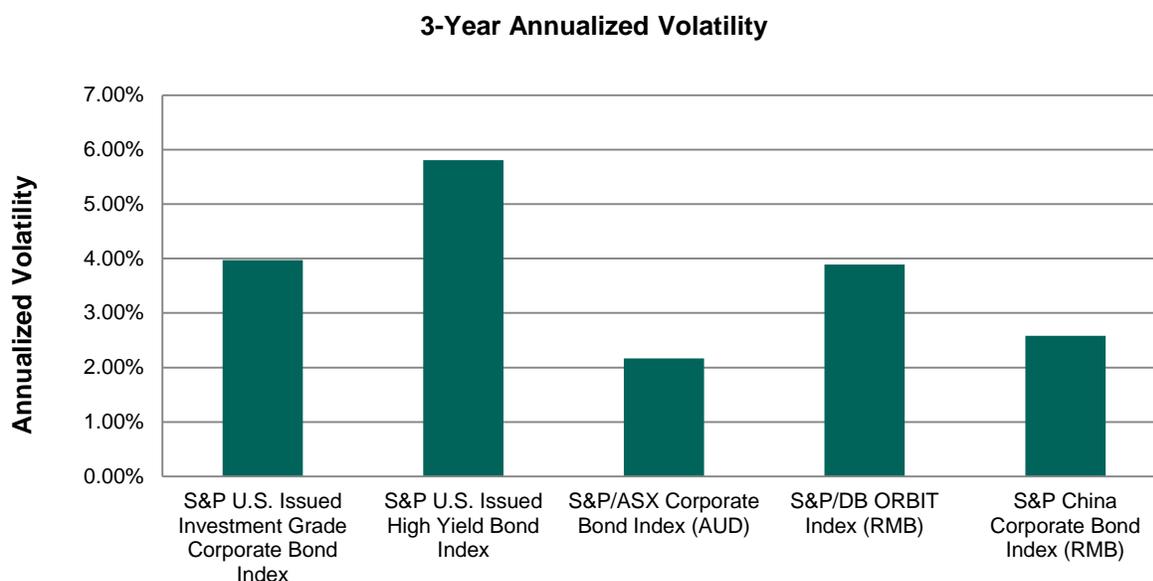
	S&P/ASX Corporate Bond Index	S&P/DB ORBIT Credit Index	S&P China Corporate Bond Index	S&P U.S. Issued Investment Grade Corporate Bond Index	S&P U.S. Issued High Yield Corporate Bond Index
Bloomberg Ticker	SPBDACPT	SPBDORCT	SPBCNCPT	SPUSCIG	SPUSCHY
Currency	AUD	RMB	RMB	USD	USD
Market Value Outstanding (USD Billions)	65.2	24.2	1,217.0	3,740.4	1,180.9
Weighted Avg. Price	104.75	99.81	98.12	109.22	105.10
Yield-to-Maturity	3.98%	4.46%	5.58%	2.76%	5.67%
Modified Duration	3.21	2.23	3.47	6.64	4.84
Quality	IG	Mostly IG	NA	IG	HY

Source: S&P Dow Jones Indices. Data as of May 19, 2014. Charts are provided for illustrative purposes. Past performance is not a guarantee of future results. IG: Investment grade. NA: Not applicable. HY: High yield.

Index Volatility

- Not surprisingly, the S&P U.S. Issued High Yield Corporate Bond Index is the most volatile index among all other indices. Its three-year annualized volatility is 5.80%.
- The S&P/ASX Corporate Bond Index’s three-year annualized volatility (2.17%) is the lowest among these three corporate bond markets. Exhibit 2 demonstrates the three-year annualized volatilities of the five indices.

Exhibit 2: Three-Year Annualized Volatility

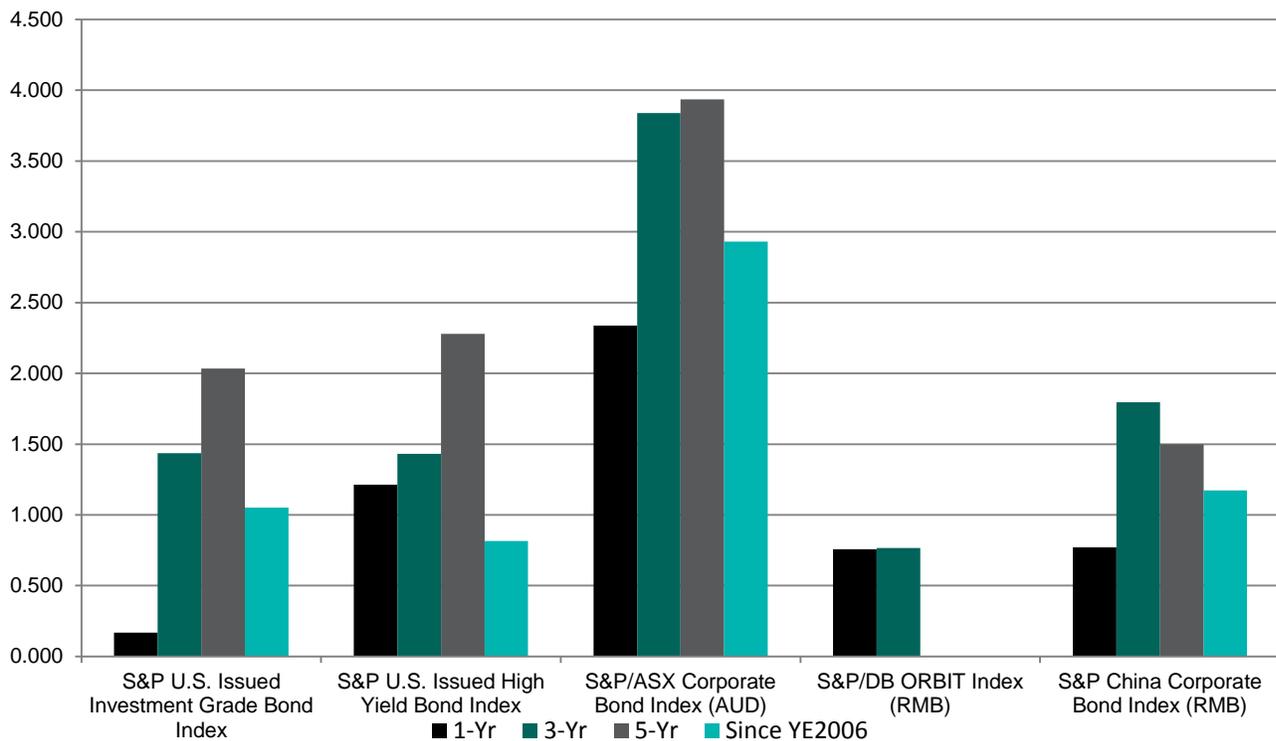


Source: S&P Dow Jones Indices. Data as of April 30, 2014. Charts are provided for illustrative purposes. This chart may reflect hypothetical historical data. Please see the Performance Disclosures at the end of this document for information regarding the inherent limitations associated with backtested data. Past performance is not a guarantee of future results.

Index Performance

- Looking at the risk-adjusted returns in Exhibit 3, the S&P/ASX Corporate Bond Index clearly outperformed the other markets over both the short-term and long-term horizons.
- Another trend demonstrated below: risk-adjusted returns have been consistently reduced across the markets in recent years.
- The S&P/DB ORBIT Index and S&P China Corporate Bond Index provided stable returns over the year; the fixed income assets denominated in Renminbi (RMB) continued to attract interests from global investors, particularly for the access to the currency play.
- Over a one-year horizon, the S&P U.S. Issued Investment Grade Corporate Bond Index underperformed the other four indices, posting a risk-adjusted return of only 0.17. The S&P/ASX Corporate Bond Index’s risk-adjusted return of 2.33 made it the top performer among the group.

Exhibit 3: Risk-Adjusted Returns



Source: S&P Dow Jones Indices. Data as of April 30, 2014. Charts are provided for illustrative purposes. This chart may reflect hypothetical historical data. Please see the Performance Disclosures at the end of this document for information regarding the inherent limitations associated with backtested data. Past performance is not a guarantee of future results.

In conclusion, both Australian and Chinese corporate bonds have historically offered better yields with shorter durations and lower volatility than U.S. corporate bonds. Since Dec. 31, 2006, the S&P/ASX Corporate Bond Index has been the top performer on a risk-adjusted basis among the three markets discussed.

PERFORMANCE DISCLOSURES

The S&P U.S. Investment Grade Corporate Bond Index and the S&P U.S. High Yield Corporate Bond Index were launched on April 9, 2013, at market close. All information presented prior to the Launch Date is back-tested. Back-tested performance is not actual performance, but is hypothetical. The back-test calculations are based on the same methodology that was in effect on the Launch Date. Complete index methodology details are available at www.spdji.com.

The S&P/ASX Corporate Bond Index was launched on Oct. 13, 2011, at market close. All information presented prior to the Launch Date is back-tested. Back-tested performance is not actual performance, but is hypothetical. The back-test calculations are based on the same methodology that was in effect on the Launch Date. Complete index methodology details are available at www.spdji.com.

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The S&P/DB ORBIT Index was launched on July 1, 2011, at market close. All information presented prior to the Launch Date is back-tested. Back-tested performance is not actual performance, but is hypothetical. The back-test calculations are based on the same methodology that was in effect on the Launch Date. Complete index methodology details are available at www.spdji.com.

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Past performance of the Index is not an indication of future results. Prospective application of the methodology used to construct the Index may not result in performance commensurate with the back-test returns shown. The back-test period does not necessarily correspond to the entire available history of the Index. Please refer to the methodology paper for the Index, available at www.spdji.com for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations.

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