BEA Union Investment

Seize Yield Opportunities with Strategic High-Yield Bond Allocation

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To diversify investment while aiming for higher income with a measured level of risk amid an evolving market environment, Asian high-yield dollar bonds may be the answer. Although classified as high yield, this asset class features comparatively robust credit quality, relatively low default rates in general, and compelling yields. Its investable universe spans various regions and industries, enhancing risk diversification. Among them, Indian renewables and infrastructure, along with China's industrial sector, are worth attention.

India's renewable energy supported by policy

India's high-yield dollar bonds currently offer yields roughly between 6-11%. The country macroeconomic fundamentals remain solid, with first-quarter GDP growth at 7.4% year on year, well above market expectations.

Riding on the nation's structural growth potential, the growing workforce is driving demand in housing, consumption and other sectors. The government continues to invest heavily in projects such as highways and airports, benefiting companies in industries including infrastructure and financial services.

Propelled by supportive policies, we particularly favour the domestic renewable energy industry. Companies in this space typically have an average of BB credit rating, reflecting strong credit fundamentals. Yields on these bonds hover at reasonably attractive levels of 6-8%. Despite recent trade tensions between the US and India, the renewable energy segment remains unscathed.

Highlights

- **Asian high-yield bonds offer attractive yields, with relatively low default rates**
- **India's renewable energy sector benefits from policy support and has not been affected by the reciprocal tariff imposed by the US**
- **Chinese industrial bond issuers demonstrate sound refinancing capabilities, with overall credit quality remaining stable**

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Due to its strategic importance, renewable energy also receives extensive government backing. This allows firms to access an array of financing channels. In addition to raising funds from capital markets, the Indian government has rolled out a spate of initiatives, encouraging domestic banks to extend loans to firms. Companies can also apply for loans from non-bank financial companies (NBFCs) to fund operations or equipment purchases. The ability to raise funds is crucial for bondholders, as it is a key indicator of its ability to service bond obligations. India's policy-driven push for renewable energy is bearing fruit. Bolstered by favourable policies, subsidies, and rising investment, India's solar power output more than doubled in 2024 from previous year, while wind power generation grew by 21% over the same period. Currently, non-fossil fuel sources account for about 50% of India's energy -- five years ahead of the 2030 target set by the Paris Agreement. With strong government support, the trend for India's renewable energy sector remains positive.

China's industrial bonds demonstrate sound refinancing capability

In an effort to support private sector development and encourage bank lending, the Central government has rolled out various policies that have, in turn, benefited issuers of industrial high-yield dollar bonds. These bonds span a wide range of sectors, including construction, materials, logistics, and conglomerates. When analysing industrial credits, we focus heavily on the issuer's ability to manage liabilities and refinance. In addition to generating operating cash flow, a company's ability to dispose of assets or secure bank financing during exigencies is a key indicator of sound credit quality and its capability to meet coupon payments.

Earlier this year, a global logistics and digital infrastructure developer sold its asset management businesses in countries including Japan, Europe, US and Brazil for $5.2 billion, allocating $1.5 billion of the proceeds towards debt repayment. In another case, an infant milk formula producer successfully refinanced its 2026 bond by issuing a new 2028 bond at a lower interest rate, supported by a good collateral package. Companies with such refinancing capabilities are on our radar.

Amid ongoing geopolitical tensions and fluctuating US policies, investors are increasingly looking beyond US markets to diversify risk. Asian high-yield bonds such as those from China and India offer robust quality and reasonably attractive yields. However, investors should conduct in-depth, bond-level analysis in order to seize these opportunities effectively.