

AMUNDI FUNDS ASIA BOND INCOME RESPONSIBLE

Monthly
Portfolio
Update

28/02/2026

Market Review

Geopolitical and trade dynamics in February were mixed: some trade frictions eased while regulatory and geopolitical risks amplified, sustaining some market volatility.

In the Asian region, the trade deal announcement between the US and India stood as a major development, restoring India's competitiveness versus Asian peers. Reciprocal tariffs were adjusted from 25% to 18%, while a 25% penalty tied to Russian oil purchases was removed with US officials saying India agreed to stop buying Russian crude and to boost purchases of US goods. Later in the month, the US Supreme Court struck down Trump's IEEPA based global tariffs, nullifying the "Liberation Day" levies and related measures and raising potential refund exposure (~\$170-175bn), potentially halving the US average effective tariff and creating near term policy uncertainty as the White House explores narrower, more complex alternatives. A positive Trump-Xi call signaled continued trade dialogue and reaffirmed a planned face to face in April amid Beijing's warnings over Taiwan. Tensions with Iran had already kept oil supply risks elevated as US forces repositioned in the Middle East, and the month closed with a major late February escalation: on February 28th, the US and Israel launched a large scale joint operation against Iran, who subsequently retaliated with missile strikes on Israel and US facilities across the Gulf; Iranian Supreme Leader Ayatollah Ali Khamenei was killed and a temporary leadership council is expected to run the country.

Central banks in the region took a data dependent approach in February: targeted easing in the Philippines and Thailand, and cautious holds in Indonesia and South Korea as policymakers balanced softer activity, currency pressures and contained inflation. The Bangko Sentral ng Pilipinas cut its policy rate by 25 basis points (bps) to 4.25% – bringing total easing since August 2024 to 225 bps – driven by weaker growth in the second semester 2025 while inflation remained within target, and expects gradual demand recovery in the second half of the year. Bank Indonesia kept rates at 4.75% for a fifth month, prioritising the transmission of earlier cuts and rupiah stability as the currency trades near record lows. The Bank of Thailand (BoT) unexpectedly cut its policy rate by 25 bps to 1.00%, citing a persistent output gap, external and domestic risks (US trade-policy uncertainty, delays in budget disbursement, and stressed SMEs), as well as mounting downside pressure on headline inflation. Additionally, BoT raised its 2026 GDP forecast from 1.5% to roughly 2.0%, while expecting CPI to return to the 1-3% target range in the second semester of 2027. The Bank of Korea left its policy rate unchanged at 2.50% for a sixth consecutive meeting, adopting a dovish stance that weighs firmer growth against financial stability risks; the Monetary Policy Committee signaled a strong bias toward an extended hold. At the same time, the central bank nudged its 2026 GDP forecast up to 2.0%.

Regional macroeconomic data painted a broadly constructive picture for Asia's manufacturing sector. PMI readings were robust across the region, with several economies posting multi month highs. India's manufacturing sector recorded broad based gains, while Hong Kong's PMI surged to a three year high, reflecting ongoing recovery in the financial and property sectors. By contrast, Thailand and China stood out with PMIs below the 50 threshold, indicating contraction largely tied to weaker domestic demand. The ASEAN bloc continued to show export resilience, registering a rebound in domestic demand. Other positive development included a calmer channels on South China Sea management between China and The Philippines, while China inked a framework trade pact with South Africa for early duty free access.

Asian credit markets continued to deliver positive returns in February adding +1.10% over the month based on the JPM Asia Credit Index, driven by investment grade sovereign issuers (+1.38%), while Asia local currency markets returned +2.06% in USD term, based on the JPM JADE index.

Fund performance and portfolio activity

The portfolio entered the year with positive monthly returns of +0.98% (I2 share class in USD), above its cash benchmark but underperforming the Asia credit market with the bulk of the returns coming from both our corporate bond and local currency bond allocation while our currency exposure was more mixed.

The Asian \$ credit market returned strongly in February with a positive contribution across countries, sectors, issuers type or credit rating segment. In that environment, our investment Grade Corporate bonds allocation contributed the most to the fund returns, while our high yield allocation contributed positively too, but to a lesser extent. Exposure to financials including banks, insurance companies and real estate developers was the primary performance contributor, while within our industrial allocation, our exposure to the technology sector was one of the key performance drivers despite the mixed developments in the AI space (earnings season publication, software sector purge and unprecedented capital expenditure with massive new bond issuances from hyperscalers). The positive contribution from other industrial sectors was more limited with the exception of our consumer and media sectorial allocation which was supported by steady Chinese's Consumer spending growth during China's Lunar New Year. Lastly our utility bond allocation focusing on the Indian and Indonesian markets, delivered strong returns. From a country perspective, the portfolio benefited the most from our Chinese corporate bonds exposure partially due to the strong returns of property bond allocation as market sentiment kept improving, as well as improving consumption data during Spring Festival holiday. Our Korean, Hong Kong and Indian Corporate bond allocation supported the portfolio returns too. Moving to our local currency bond allocation, we benefited from our Sovereign exposure to short dated Korean Bond and in the Philippines which saw yield dropping in the belly of the curve, where we are positioned, in sympathy with other markets. Our supranational bond exposure was another performance driver while our Indonesian bond allocation had a more muted impact as fiscal deterioration risk remains and the Central bank has limited room for further easing. Our active currency exposure had a more neutral impact as the strength of the Philippines Peso, Australia Dollar, Indian Rupee against the US Dollar was beneficial but was partially offset by the negative contribution of our net short exposure to other Asian currencies (Renminbi, Taiwanese Dollar and Thai Baht) which usually appreciated against the US Dollar in February partially due to the development around US tariffs.

We performed some adjustments within the portfolio in the Sovereign bonds space across some markets. We halved our short dated bonds exposure in Korea and India as we believe we are approaching the end of the easing cycle in those two markets, limiting further yield drop in that segment, while in Indonesia we moved our allocation toward longer dated local currency bonds following the recent steepening of the curve. Lastly we trimmed our Mongolian bond allocation in the hard currency space. We also participated to new corporate bond issuances even though the primary market activity slowed down in February around Chinese New year and added exposure in China (Real Estate) and Thailand (Telecommunication), while inversely we reduced our exposure through the secondary market across countries (Hong Kong, China, Korea, Singapore) in both high yield and investment grade segments. Last but not least following the presidential election in Thailand, we trimmed our short THB exposure.

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The portfolio yield dropped below 6% in USD, mostly due to the lower yield move government bonds experienced over the month, as well as the reduction of the portfolio duration profile (4.0y), following some profits taking in our Asian Local currency space. Meanwhile the portfolio credit rating remains stable at BBB- we rebalanced some of high yield bond exposure toward higher rated bonds. From a sector perspective we kept a balanced and diversified allocation between financials and industrials but we usually strengthened our financial allocation, mostly via the banking sectors. Our Asian currency exposure was also strengthened on the back of an increased AUD exposure and our THB short position reduction. Although the portfolio ESG rating dropped in February, it remains above its investment universe, while our GSS bond allocation remained unchanged over the month. The portfolio kept outperforming against its investment universe across the 4 KPIs by some margins with the carbon intensity which kept dropping.

Outlook

We maintain a constructive view on the Asian Credit Outlook but the current market environment requires disciplined selectivity in a highly headline driven environment and even though the asset class has shown some resilience in a more risk off environment. From a valuation standpoint, we continue to favor front end High Yield for pickup with limited duration exposure as we expect the High Yield segment to continue outperforming its Investment Grade peers which remains expensive and a less attractive value play at the moment. Given the current uncertain environment, volatility is expected to remain high and thus, we expect that low beta names should continue to outperform. Idiosyncratic, bottom up opportunities should remain the driver of returns rather than broad spread compression; parts of Hong Kong and China Real Estate are offering tactical entry points as the market stabilizes and issuers return — these plays show low correlation with the broader regional cycle but demand critical credit selection. Australia remains an attractive diversifier from very tight Asia Investment Grade credit spreads: Reserve Bank of Australia hiked interest rates and additional hikes are being priced in resulting in higher all-in yields; coupled with relatively strong credit fundamentals and potential FX tailwinds from monetary policy divergence with the US. Conversely, we will turn more selective in our allocation to the insurance sector given growing concerns around private debt exposures. From a global macro perspective, the near-term outlook for Asian Credit is dominated once again by elevated global uncertainty as disruptions around the Strait of Hormuz warrant vigilance, even though most Asian economies hold strategic reserves that should limit an immediate inflation shock. US interest rates and the Federal Reserve guidance remain a primary determinant of regional spreads and cross border flows. Disappointing U.S. February labor market data, together with rising energy costs driven by geopolitical tensions, has heightened concerns about a possible economic slowdown while reintroducing upside inflation risks. That mix complicates the Fed's policy outlook, clouds the timing of any further easing and raises the risk of renewed market volatility. Similarly, China's growth trajectory and the scale of its targeted policy support will be key determinants of credit conditions across the region. At the same time, persistent tariff uncertainty is weighing on global trade prospects: Overall, we believe that the level of risk-taking should not be decreased as more targeted opportunities could arise in the near term. However, in this volatile environment, we remain vigilant on geopolitical risks, Fed guidance, and China growth.

Our outlook for Asian Local Currency bonds and currencies is constructive but increasingly shaped by geopolitical developments in the Middle East, which elevate downside risk in the region especially for oil importing economies and reinforce the need for careful selective duration and currency exposure. The escalation leads to a likely direct negative impact for currencies vulnerable to oil shocks — notably net importers South Korea, Thailand, India, Philippines and Taiwan — while net exporters such as Malaysia should be less exposed, creating potential wider dispersion across Asian FX in the coming weeks. In India, the budget's fiscal consolidation path and the US tariff rollback were reassuring; market direction in the near term hinges on oil and inflation dynamics, gold and import flows, and RBI (Reserve Bank of India) commentary on liquidity; in this context, escalating tensions in the Middle East could put further downward pressure on the currency. Inversely the Singapore dollar looks on track to strengthen further with limited near term downside risk, although imported inflation could constrain its upside. In Indonesia, governance related volatility appears largely priced in, leaving scope for a potential tactical relief rally in local government bonds — especially the 10 year segment — and in the Rupiah. The Korean won remains weak and directionless for now, underscoring the importance of active monitoring; an intervention from authorities could help the currency. Overall, we remain risk on to capture select opportunities in this environment, but favor a disciplined approach with strict country and duration selection given the elevated event risk and likely FX dispersion. Downside risks are predominant and especially dependent of deteriorating risk sentiment, rising USD as well as oil prices.

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