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ASIA CHART OF THE WEEK

Diversify with Asian Local Currency Bonds

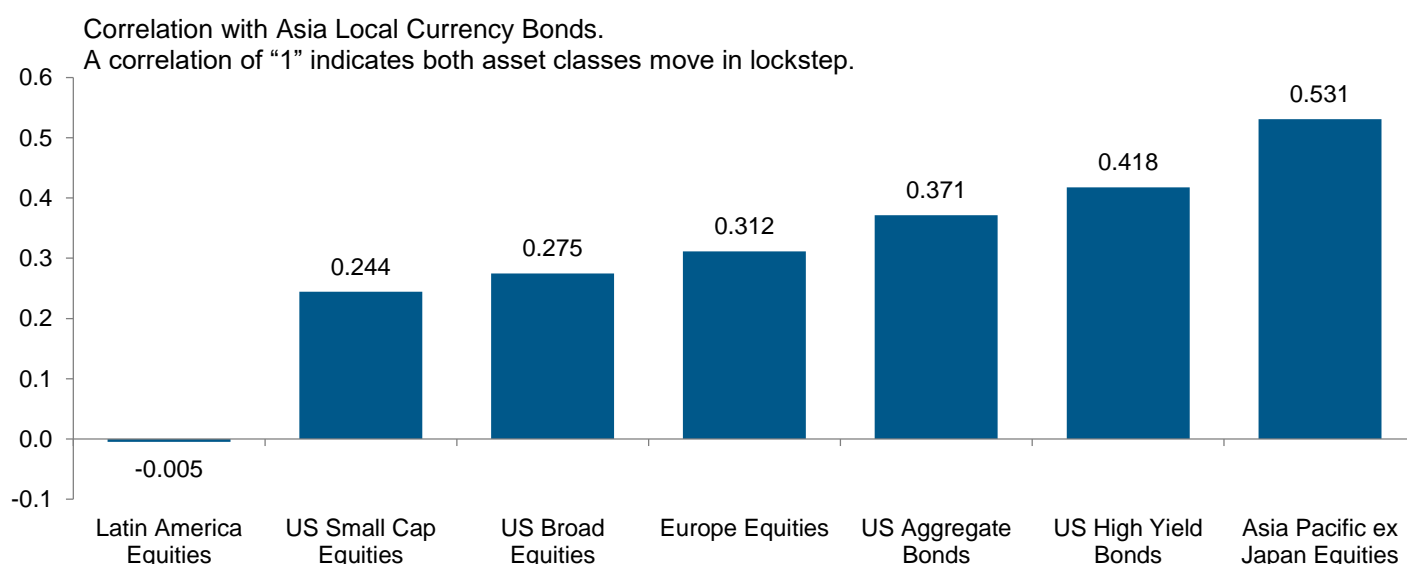
Diversify with Asian Local Currency Bonds

- Putting together a portfolio that does not always move in the same direction may not always ensure absolute positive returns but it can dampen risks in trying times.
- Asian local currency bonds (ALB) is an asset class that is worth considering for global investors as its correlation with major asset indices across different regions, remains markedly low.
- Over the last five years when global markets experienced highs and lows, Asian local currency bonds, as represented by the Markit iBoxx Asian Local Bond Index, proved to be a good diversifier of risk. Against major stock markets in the US, Europe and Asia Pacific ex Japan, Asian local currency bonds measured a correlation of 0.275, 0.312 and 0.531 respectively. ALBs were also slightly negatively correlated with Latin America equities.
- From a bonds perspective, ALBs clocked a 0.371 against the US Aggregate bonds (predominately US Investment Grade Bonds) and 0.418 when compared to US High Yield Bonds.
- The stoic nature of Asian local currency bonds can be partially attributed to comparatively higher yield, institutional ownership, sound fundamentals and longer tenures.

The bottom line

- Risks can appear in many forms including economic, industry, firm or even stemming from the asset class. Investors can never entirely reduce uncertainty to zero and even when they hold cash, inflation can erode its value. So the key is to find investments that lend a good degree of lower correlation to diversify risks and returns to gradually achieve your investment goals.

Lower correlation with major asset classes makes Asian local currency bonds a good diversifier



Note: Latin America Equities refer to the MSCI Latin America Index. US Small Cap Equities refer to the Russell 2000 Index. US Broad Equities refer to the S&P 500 Index, Europe Equities refer to the STOXX 600 Index, Asia Pacific ex Japan Equities refer to the MSCI Asia Pacific ex Japan Index, US Aggregate Bonds refer to the Bloomberg Barclays US Aggregate Bond Index. US High Yield Bonds refer to the ICE BofAML US High Yield Master II.

Source: Legg Mason, Bloomberg, as of 27 September 2018. Data in USD, as at 21 September 2018. Weekly correlation of index price over a rolling 30 day period. **Past performance is no guarantee of future results.** Please note that an investor cannot invest directly in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges.

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Source: Legg Mason, Bloomberg, as of 27 September 2018. Data in USD, as at 21 September 2018.

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