Market Commentary

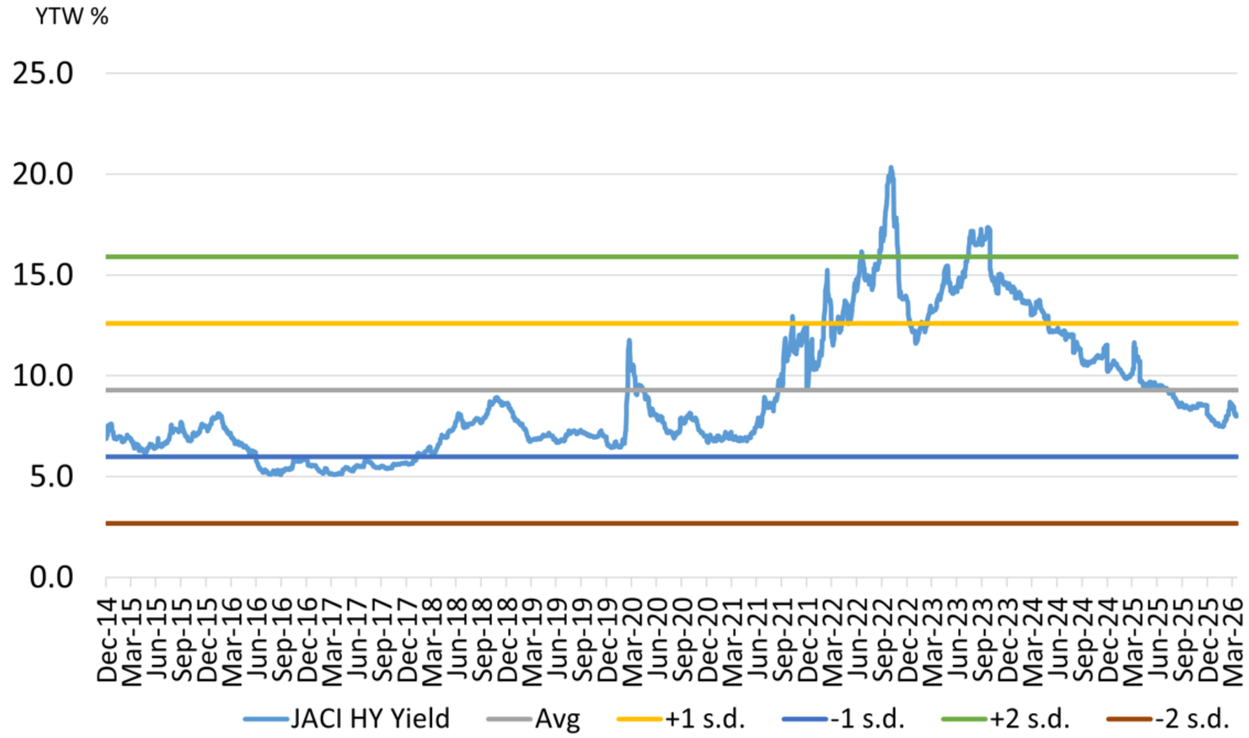
US rates bear-flattened through March following the outbreak of the US-Iran conflict in late February, as surging energy prices and renewed inflation concerns drove a sharp repricing of global monetary policy expectations. The 10-year UST yield peaked at 4.43% during the month, while the US 2s–10s spread narrowed to 52.4bps by end of March. Escalating Middle East tensions disrupted global energy flows, pushing Brent above $118/bbl and prompting an upward revision to forward commodity assumptions. US activity data remained broadly resilient, with ISMs in expansionary territory and labor conditions tight, though consumer indicators softened. The Fed held rates at 3.5–3.75%, while the dot plot continued to signal one rate cut each in 2026 and 2027, alongside an upward revision to the 2026 economic outlook. Meanwhile, inflation concerns have revived the “higher for longer” narrative. Despite the continued risk that a closure of the Strait of Hormuz poses to oil prices, ongoing ceasefire talks since mid-April have provided a boost to market sentiment.

Overall, the Federal Reserve does not appear under pressure to cut rates in the near term. The US labor market remains resilient, with no clear signs of material weakness. Moreover, even if geopolitical tensions ease and ceasefire arrangements materialize, input-cost stickiness remains elevated. Hence, we do not expect oil prices to fall sharply even in a ceasefire scenario. Historical experience suggests that a 10% increase in oil prices typically adds around 0.35 percentage points to headline CPI over a three-month horizon. Over the coming months, expectations are likely to oscillate within a “limited or one-cut” range, reflecting ongoing uncertainty over whether inflation pressures are transitory and the lingering risk of stagflation.

Figure 1: Asia IG bonds on a YTW basis

Source: JACI IG Index, JACI HY Index

Figure 2: Asia HY bonds on a YTW basis



Source: JACI IG Index, JACI HY Index

Portfolio Commentary

Asia credit markets weakened further in March amid heightened geopolitical tensions, energy-driven volatility in global rates and a deterioration in risk sentiment. Asia Investment Grade (IG) and High Yield (HY) bond spreads widened by 12bps and 80bps respectively, with high-beta and long-duration names underperforming. As ceasefire negotiations resumed, spreads already recovered with Asian IG spreads only widened by 8bps, while Asia HY spreads tightened by 23bps, YTD. Overall, the Fund returned -0.51% in Q1 2026, and recovered to +1.8% YTD. Within the HY space, frontier sovereigns underperformed sharply, led by Sri Lanka and Pakistan, while Mongolia financials and mining names also lagged. That said, those segments have already retraced roughly 70-80% of the March move. Overall, we remain cautious and defensive in this space, continuing to favor issuers with resilient balance sheets and proven market access while avoiding those names with lower market liquidity.

Quarterly performance drivers

Key credit contributors to performance over the Quarter included:

- **Vedanta (India-based commodity player):** As one of the higher-beta names in the Asian HY space, Vedanta bonds tend to be more sensitive to market momentum. The bond reacted positively given higher oil prices, and an overall constructive commodity outlook. Fundamentally, the company successfully completed a bond refinancing at a lower cost and has benefited from the positive outlook for commodities, which account for approximately 70% of its revenue. Significant growth in production volumes across key segments - oil and gas, zinc, and aluminium - has supported earnings momentum. The company has reduced its leverage and received multiple credit rating during the past 1 year.

- **Rakuten (Japan-based listed e-commerce company):** Rakuten's bonds performed well, supported by a successful JPY bond issuance to both retail and institutional investors. We view Rakuten's access to the onshore retail bond market as credit-positive, as it helps diversify its funding channels. We continue to observe a recovery in its non-financial units, driven by a narrowing deficit in its mobile business, thanks to growing subscriber numbers and reduced capex, complemented by stable profitability in its financial segment. We believe Rakuten's long-term growth will benefit from the continued low penetration of e-commerce in Japan.

- **Macau Gaming:** The sector outperformed by being a relatively low beta, despite its tight bond valuations. Fundamental of the sector remains solid. Gross Gaming Revenue (GGR) in Macau continued to grow steadily, supported by rising demand, new capacity, and a robust calendar of concert events. Most operators have generated healthy free cash flow, which should facilitate further deleveraging. Some have also taken advantage of lower yields to refinance their debt and extend their maturity profiles.

Key credit detractors to performance over the Quarter included:

- **Binghatti (Dubai-based property developer):** The bond underperformed given the middle east tension. Dubai high yield real estate bonds have been among the key underperformers since the start of the war, with the clearest pressure seen at the long end of the curve, which sold off by as much as ~8-10pt versus pre-escalation levels (to ~90-92pt at the lows). While there has been some rebound since then, bonds are still trading on average ~7-8pt below pre-escalation levels. We turned cautious as Dubai's safe-haven status is now being put to the test.

- **GLPCHI**, the core China business platform of the GLP Group, operates a capital-light model focused on fund management and operational services. Its growth is underpinned by the Group's demonstrated capital strength, including major asset monetization (such as the USD 3.7bn GCP portfolio sale to Ares) and strategic equity injections, including USD 1.5bn from ADIA and RMB 2.5bn from the Zhejiang government. We view this access to group-level resources and successful capital recycling as credit-positive, providing a substantial liquidity buffer. At GLP China level, the bonds have come under renewed pressure after reports that regulators informally guided Chinese insurers to limit transactions with one of GLP's units, a claim GLP has disputed. We believe the underlying fundamental picture of GLP China didn't change much, but we will monitor whether the IPO plan of the company will be impacted by this negative headline.

Further information

1300 010 311

invest@antipodes.com

Australia Head Office
Antipodes Partners Limited
Level 25, Australia Square Tower
264 George St
Sydney NSW 2000
Australia

UK Office
Antipodes Partners (UK) Limited
Suite 823, 125 Old Broad Street London
EC2N 1AR United Kingdom

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