PORTFOLIO ANALYSIS

Transition credit review: Asia YTD 2026

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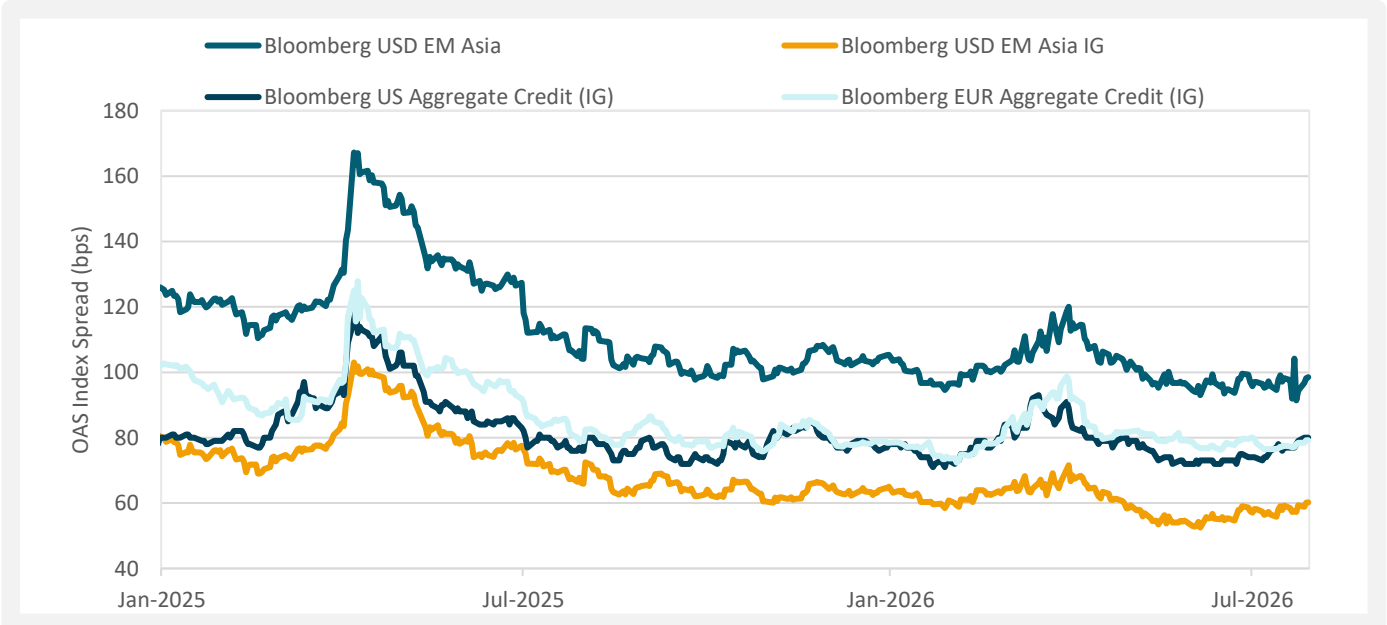
SUMMARY

- Asian USD credit tightens after significant volatility.
- Sovereign performance diverged according to energy-import exposure, external buffers and policy confidence.
- Commodity cash flows strengthened near-term credit quality and market access.
- AI supported select technology credits but increased capital and power demand.
- Asia's GSS market broadened across currencies.

Asian USD credit spreads have tightened year-to-date despite a sharp widening episode linked with geopolitical volatility and oil-supply concerns. The subsequent recovery masked substantial differences across sovereigns, sectors and issuers. This report forms part of AFII's Transition Credit Review series and provides an assessment of Asia's transition credit markets.[1] It examines the region's multi-currency GSS market development and USD bond market performance across Emerging Asia, Australia and Japan.[2]

Three transition related themes stood out. First, sovereign markets diverged during the oil shock, while energy-import vulnerability reinforced the strategic case for domestic renewable energy and grid investment. Second, supportive commodity conditions allowed fossil-linked issuers to retain market access despite longer-term risk of transition exposure. Third, AI strengthened technology sector performance while increasing forward-looking power demand.

Figure 1. Bloomberg EM Asia USD Credit Index OAS historical spread levels. Source: Bloomberg L.P., accessed 31 Jul 2026.



[1] "Transition credit review: shock and recovery, YTD 2026", AFII, 28 Jul 2026.
[2] "Transition credit review: Asia 2025", AFII, 15 Dec 2025.

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Asian credit recovered after significant interim volatility

As shown in Figure 1, Asian USD credit has tightened somewhat despite significant interim volatility. The Bloomberg Emerging Asia USD Credit Index (ticker BEUCOAS) tightened by approximately 3bps, from 103bps in January to 100bps at end-July, while the Bloomberg USD EM Asia Investment Grade Index (ticker BEUGOAS) tightened by 2bps, from 63bps to 61bps.

This eventual tightening was punctuated with bouts of volatility. Spreads widened from February and peaked in early April, when BEUCOAS reached approximately 120bps and BEUGOAS approximately 72bps, amid the escalation of conflict in the Middle East and associated oil-supply concerns. However, spreads then retraced substantially. Global investment-grade indices followed a similar but more muted pattern: both the Bloomberg US Aggregate Credit Index and the Bloomberg EUR Aggregate Credit Index were broadly unchanged.

Primary markets remained open through the volatility. Asia USD issuance reached USD245 billion at end-July, while GSS bonds accounted for 9% of total supply. This trend is broadly in line with recent half-year periods.

The recovery in spreads and continued issuance indicated resilient investor demand, but regional and sector averages concealed substantial issuer-level dispersion. The following sections examine Emerging Asia, Australia and Japan before drawing out the three principal transition-credit themes.

Emerging Asia YTD 2026 bond market performance[3]

In Emerging Asia USD, the aggregate move concealed sharp sector dispersion as shown in Table 1.

Table 1. EM Asia USD credit sector spread performance YTD 2026 (in basis points). Source: Bloomberg L.P., accessed 31 Jul 2026.

EM Asia	All			Non-Labelled			Green		
Sector	Count	OAS	change	Count	OAS	change	Count	OAS	change
Communications	61	77	-6	60	77	-6	1	49	-8
Consumer Discretionary	75	302	102	69	314	111	6	158	3
Consumer Staples	13	123	-1						
Energy	108	89	2	104	91	2	4	48	-7
Financials	303	83	-15	292	83	-15	11	69	-8
Government	220	63	2	199	65	2	21	47	1
Healthcare	2	132	-39	1	218	-32	1	46	-46
Industrials	159	89	-38	141	85	-38	18	114	-35
Materials	69	184	-17	62	194	-18	7	105	-4
Real Estate	81	1083	152	74	1182	171	7	66	-52
Technology	27	50	-9	23	46	-10	4	76	-5

[3] Emerging Asia performance is based on the Bloomberg EM Asia USD Credit Index. The Australia and Japan datasets comprise USD bonds from investment-grade, high-yield and non-rated issuers with the relevant country of risk, more than one year to maturity and issue sizes above USD150 million. Data are through 31 Jul 2026.

Overall, Emerging Asia combined highly issuer-specific secondary-market performance, including dispersion across individual credit curves, with continued financing activity across both conventional and labelled formats.

Communications tightened by 6bps. Within the sector, Tencent Holdings Limited's (ticker TENCNT) shorter-dated 2028 to 2031 bonds tightened by around 6 to 10bps, while its long-dated 2049 to 2061 bonds widened by around 26 to 31bps, leaving the curve substantially steeper.

Consumer Discretionary widened by 102bps, led by eHi Car Services Limited (ticker EHICAR), where refinancing risk remained a concern, and Zhongsheng Group Holdings Limited (ticker ZHOSHK), which weakened on softer earnings and cash-flow expectations.

Real Estate widened by 152bps. GLP Pte. Ltd. (ticker GLPSP) and GLP China Holdings Limited (ticker GLPCHI) sold off on renewed concerns over fundraising, capital recycling, and refinancing access in China. Zhongliang Holdings Group Company Limited (ticker ZHLGHD) and Sino-Ocean Group Holding Limited (ticker SINOCE) remained driven by restructuring and recovery expectations.

Technology tightened by 9bps, supported by stronger performance among semiconductor, memory chip, and hardware issuers. Notable movers included Taiwan Semiconductor Manufacturing Company Limited (ticker TAISEM), SK hynix Inc. (ticker HYUELE), Lenovo Group Limited (ticker LENOVO) and Xiaomi Corporation (ticker XIAOMI). Performance nevertheless varied along issuer curves. Late-July volatility across Asian semiconductor equities, led by Korean memory chip makers, underscored renewed investor concerns around AI infrastructure financing and competition from China.

Materials tightened by 17bps, led by Vedanta Resources Limited (ticker VEDLN) as refinancing and liquidity concerns eased, partly offset by weakness in West China Cement Limited (ticker WESCHI).

Energy widened by only 2bps, suggesting that issuer fundamentals and commodity exposure remained more important than broad transition risk repricing.

Primary market activity highlighted continued financing across transition relevant industries like battery and solar manufacturing capacity. SK Battery America, Inc. (ticker SKBTAM), LG Energy Solution, Ltd. (ticker LGENSO), SK On Co., Ltd. (ticker SKONKR) and Hanwha Q Cells Americas Holdings Corp. (ticker HWQCUS) all tapped the market during the first seven months of 2026. Labelled supply from Korea also expanded, including Korea's first USD climate transition bond from Korea East-West Power, followed by Korea Midland Power, as well as green bonds from Korea Electric Power Corporation (ticker KORELE) and the Export-Import Bank of Korea (ticker EIBKOR).[4] [5] [6] These transactions are particularly relevant as Korea seeks to lower the emissions intensity of its power mix while maintaining reliable electricity supply for industry, semiconductors, electrification, and data centre demand.

The Transport sector also issued transition-relevant instruments, with Evergreen Marine Corporation (ticker EVRGTT) issuing a USD300 million green bond to finance methanol dual-fuel container vessels.

[4] "Korea East-West Power: new Climate Transition Bond", AFII, 06 Jul 2026.
[5] "KOMIPW transition framework maps coal-to-hydrogen pathway", AFII, 21 Jul 2026.
[6] "South Korea deepens green bond push: KORELE and EIBKOR", AFII, 13 Jul 2026.

The transactions were not uniformly labelled, meaning that financing for transition-relevant industries extended across both GSS and conventional formats.

Australia YTD 2026 bond market performance

Australian USD credit tightened by 6bps to 81bps in the first seven months of 2026 as shown in Table 2. Energy, Materials, and Industrials led performance, tightening by 27bps, 11bps, and 11bps, respectively. Energy performance was driven primarily by commodity prices, cash generation, and balance-sheet fundamentals. Credit spreads of Santos Limited (ticker STOAU) and Woodside Energy Group Ltd (ticker WDSAU) tightened mainly on LNG exposure, commodity expectations, and overall financial strength. Supportive commodity conditions strengthened near-term cash-flow and refinancing expectations but did not indicate that longer-term transition exposure had declined. The implications of supportive commodity conditions for fossil-linked refinancing and market access are discussed in Theme 2.

Table 2. Australia USD bonds by sector bond spreads performance YTD 2026 (in basis points). Source: Bloomberg L.P., accessed 31 Jul 2026.

Sector	All Count	OAS	change
Australia	302	81	-6
Communications	8	47	-6
Energy	13	84	-27
Financials	168	47	-3
Government	4	6	-1
Healthcare	8	87	3
Industrials	8	95	-11
Materials	83	120	-11
Real Estate	5	104	6
Utilities	5	82	-3

Australia therefore provides a clear example of how near-term credit quality and longer-term transition exposure can move in different directions.

Japan YTD 2026 bond market performance

Japanese USD credit tightened by 1bps to 65bps in the first seven months of 2026. Real Estate and Technology led performance, each tightening by 11bps, although the relatively small number of securities in these sectors means that the aggregate moves should be interpreted cautiously.

Real Estate tightened by 11bps, led by Mitsui Fudosan Co., Ltd. (ticker MITSRE), whose bonds tightened by around 12bps to 14bps. Mitsubishi Estate Co., Ltd. (ticker MITEST) tightened by approximately 6bps. The moves were supported by resilient central Tokyo office fundamentals and the issuers' strong credit profiles.

Table 3. Japan USD bonds by sector bond spreads performance YTD 2026 (in basis points). Source: Bloomberg L.P., accessed 31 Jul 2026.

Sector	All Count	OAS	change
Japan	459	65	-1
Communications	38	181	-1
Consumer Discretionary	26	139	-6
Consumer Staples	22	62	-6
Financials	280	43	-1
Government	50	21	7
Healthcare	10	73	-1
Industrials	5	59	-6
Materials	8	57	-9
Real Estate	4	67	-11
Technology	7	72	-11
Utilities	9	85	-3

Technology issuers experienced divergent credit outcomes. Kioxia Holdings Corporation (ticker KIOXIA) substantially outperformed, with its 2030 and 2033 bonds tightening by around 38bps and 55bps, respectively, amid stronger demand expectations for memory

chips used in AI servers and data centres. Performance elsewhere in the Technology sector was more mixed, with selected MATSEL bonds showing modest tightening or widening, while Sony Group Corporation's (ticker SNE) bonds widened by around 9bps to 12bps.

Within Communications, the modest 1bp sector-level tightening masked substantial dispersion across issuers, maturities and capital structures. SoftBank Group Corp. (ticker SOFTBK) showed particularly wide variation. Several subordinated and long-dated securities tightened sharply, supported in part by their wider starting spreads and broader high-yield spread compression. However, a number of senior bonds maturing between 2031 and 2035 widened materially, meaning that the issuer's performance was not uniformly strong. The group nevertheless retained market access, issuing USD1.5 billion across three senior tranches in April.

Investment-grade NTT performance was comparatively subdued and mixed. Individual bonds ranged from around 6bps tighter to 15bps wider, with several recently issued securities widening modestly. NTT Finance issued USD6 billion of dollar bonds during the first half of the year, including a USD5.5 billion seven-tranche deal in June as part of a broader multi-currency offering comprising USD5.5 billion, EUR3.85 billion and GBP400 million.[7] The funding followed NTT's full acquisition of NTT DATA, amid the group's broader AI and data-centre strategy. Higher acquisition-related borrowing, substantial new supply, and tighter starting spreads likely limited performance relative to Kioxia.

Japan therefore illustrates the varied credit implications of the AI theme. Stronger demand supported selected Technology issuers and higher-spread Communications securities, while investment in AI and data-centre infrastructure increased funding requirements for issuers such as NTT.

Three transition-credit themes across regions in 2026

Across the regional datasets, transition risk was not reflected in a uniform sector or label premium. Instead, it operated through three conventional credit channels: **sovereign vulnerability to energy shocks and policy uncertainty**; **stronger cash flow and refinancing capacity among fossil-linked issuers**; and **rising power and emissions exposure associated with AI and data centre investment.**

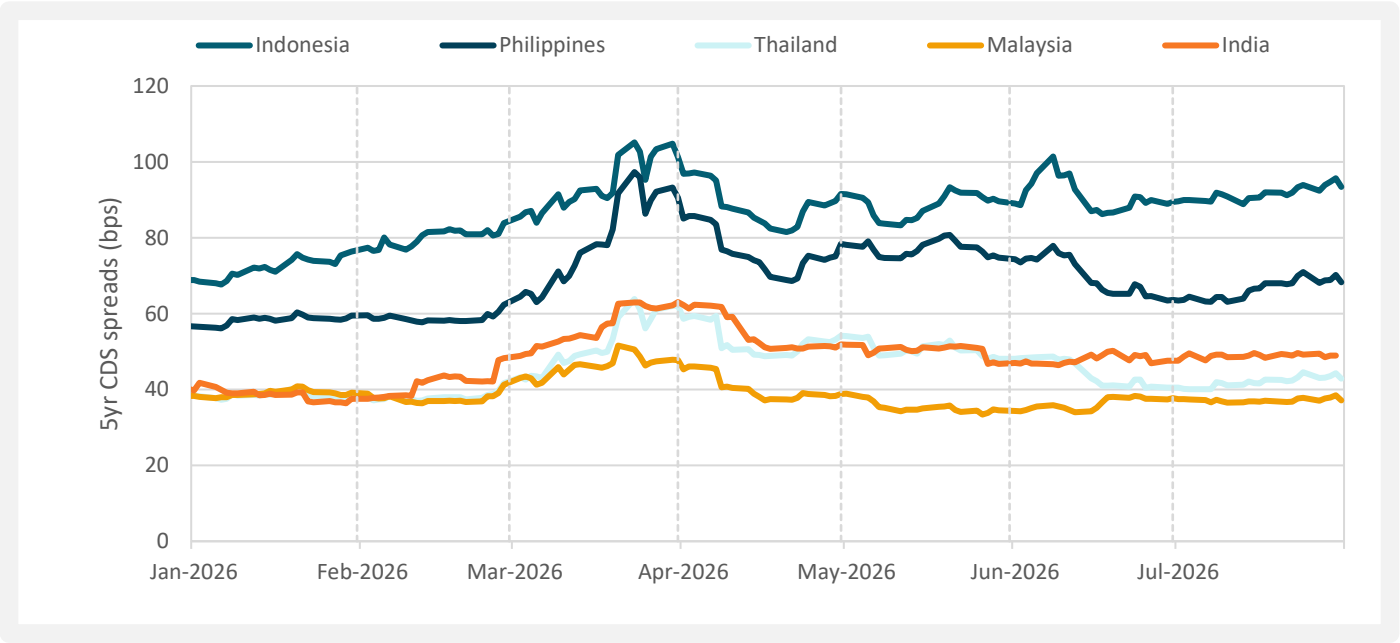
Theme 1: Energy-import vulnerability tested sovereign resilience and reinforced energy investment

During the energy price shock earlier this year, five-year CDS spreads widened across selected Asian sovereigns, before partly recovering by end-June. The Philippines recorded the largest initial widening among the markets shown in Figure 2, followed by Thailand and India, while Malaysia was more resilient due to its net energy-exporter position and stronger external and domestic funding buffers. Indonesia began to underperform from late April, alongside pressure on the currency, external buffers, and investor confidence in policy predictability. Investor concerns centred on governance standards and fiscal discipline amid President Prabowo Subianto's populist policy agenda.[8] These concerns contributed to pressure on the rupiah and local markets and were reflected in negative sovereign-rating outlook revisions by Moody's and Fitch.[9] [10]

[7] "Notice of Pricing of Senior Unsecured U.S. Dollar / Euro / Sterling Denominated Notes", NTT, 2 Jul 2026.
[8] "Pricing oil risk: Southeast Asia's sovereign markets", AFII, 14 Apr 2026.
[9] "Moody's cuts Indonesia outlook to negative on governance concerns", Reuters, 5 Feb 2026.
[10] "Fitch cuts Indonesia credit rating outlook to negative", Reuters, 4 Mar 2026.

Separate market-transparency concerns prompted a review of Indonesia's equity market accessibility by MSCI, triggering a stock market sell-off and foreign outflows.[11]

Figure 2. 5-year CDS spreads for Indonesia, the Philippines, Thailand, Malaysia, and India YTD 2026. Source: Bloomberg Finance L.P., accessed 31 Jul 2026.



Primary market access nevertheless remained available after the earlier widening. In June, the Philippines priced a USD2.5 billion triple-tranche transaction after initially targeting USD2.0 billion. The orderbook reached 4.4 times the initial offering size, with pricing tightening by 25bps to 32.5bps from initial guidance and the bonds were issued with minimal to negative new-issue premiums.[12] Danantara Investment Management, Indonesia's sovereign wealth fund and holding company for state-owned enterprises, also completed a USD1.5 billion debut transaction in June, attracting peak orders of approximately USD4.6 billion.

These transactions suggest that the widening affected relative pricing and investor differentiation rather than closing dollar market access to sovereign and sovereign-linked borrowers. They also show why timing matters: issuers were able to capitalise on improved execution windows after the most acute period of volatility.

The episode illustrates how energy shocks can transmit into sovereign credit through inflation, subsidy costs, fiscal balances, and monetary tightening expectations. These channels are particularly relevant for net energy importers, although near-term pricing also depends on fiscal capacity and institutional confidence.

Against this backdrop, the Philippines has accelerated renewable energy deployment to reduce dependence on imported fuels.[13] Solar panel imports and investments in large-scale solar capacity have increased, and the country continues to implement auction-based policies targeting a 35% renewable energy share by 2030. This does not explain near-term sovereign spread movements, but sustained deployment could improve resilience to external energy price shocks.

[11] "MSCI Announces the Results of the MSCI 2026 Market Classification Review", MSCI, 23 Jun 2026.
[12] "Republic of the Philippines Prices a 5.5-Year, 10-Year, and Tap of 2051", Philippines Treasury, 17 Jun 2026.
[13] "Philippines leads the world in rush to solar as power prices soar", Reuters, 28 Jun 2026.

For investors, policy credibility connects near-term sovereign pricing with longer-term energy resilience. It influences clean energy implementation, state-owned enterprise funding costs and fiscal flexibility, while also increasing confidence in sovereign fiscal management.

Theme 2: Commodity driven cash flows supported near-term credit strength and market access, but structural transition risks persist

The energy price shock produced outsized near-term returns for selected fossil-linked credits as investors focused on commodity cash flow, refinancing capacity, and balance-sheet strength. Australian energy tightened by 28bps, illustrating how stronger commodity conditions can improve near-term credit quality even where longer-term transition exposure remains substantial.

Primary market activity reinforced this point. Whitehaven Coal Limited (ticker WHCAU) issued USD900 million of senior secured notes in April to refinance acquisition debt and smaller facilities, alongside USD600 million of bank funding.[14] San Miguel Global Power Holdings Corp. (ticker SMCGL) accessed offshore and domestic markets three times in H1 2026. It completed a USD300 million 8.375% senior perpetual refinancing on 20 January, listed PHP30 billion of fixed-rate bonds on 17 April, and completed a USD430 million 8.875% senior perpetual exchange and new issue on 17 June. These transactions showed that coal-exposed issuers could retain market access where investors remained comfortable with near-term fundamentals and transaction structure. However, while San Miguel Global Power's restriction on using proceeds to finance new coal-fired generation was constructive at the transaction level, it did not amount to an entity-wide transition plan. AFII analysis shows that, although SMCGL's earnings remain supported, its credit profile continues to be shaped by a coal-heavy generation portfolio and liability pressure.[15]

Continued market access and strong near-term spread performance may not last and does not indicate that longer-term transition risks have diminished. Structural pressure on thermal-coal demand and plant utilisation, methane regulation, physical climate risk, rehabilitation liabilities, fossil-fuel subsidies, and asset-retirement costs remain relevant over longer horizons.[16]

Theme 3: AI supported selective credit performance but increased capital, power demand and transition exposure

AI-related demand supported semiconductor, memory chip and digital infrastructure issuers across Emerging Asia and Japan, despite sharp volatility in AI-linked equities during July. Capturing this growth has been associated with substantial investment in chip production, data centres, networks, and supporting infrastructure. Elevated capital expenditure levels have corresponded with weaker free cash-flow, higher leverage, increased refinancing needs, and execution risk ahead of new capacity generating earnings.

Primary issuance reflected these funding requirements. NAVER Corporation (ticker NHNCOR) issued a green bond linked to sustainable data centres and energy efficiency, while Tencent Holdings Limited (ticker TENCNT) returned to the market through a conventional dual-currency transaction. Separately, Tencent guided to higher capital expenditure in 2026 as it expands its AI and server infrastructure, although the bond proceeds were not specifically earmarked for these investments. NTT Finance completed a large multi-

[14] "Whitehaven: well-bought but still exposed", AFII, 9 Jun 2026.
[15] "San Miguel Global Power: Liability pressure and coal concentration beneath stable earnings", AFII, 9 Apr 2026.
[16] "Southeast Asia Energy Outlook 2026", IEA, 2026.

currency offering following NTT's acquisition of NTT DATA, part of the group's broader AI and data centre strategy, although the proceeds were not specifically earmarked for these activities.

The transition implications extend beyond issuer balance sheets. AI-related electricity demand is surging from both data centre operations and the energy-intensive manufacture of memory chips and advanced semiconductors. Its emissions impact will depend on grid carbon intensity, access to cleaner power, and the pace of investment in lower-carbon generation and networks.

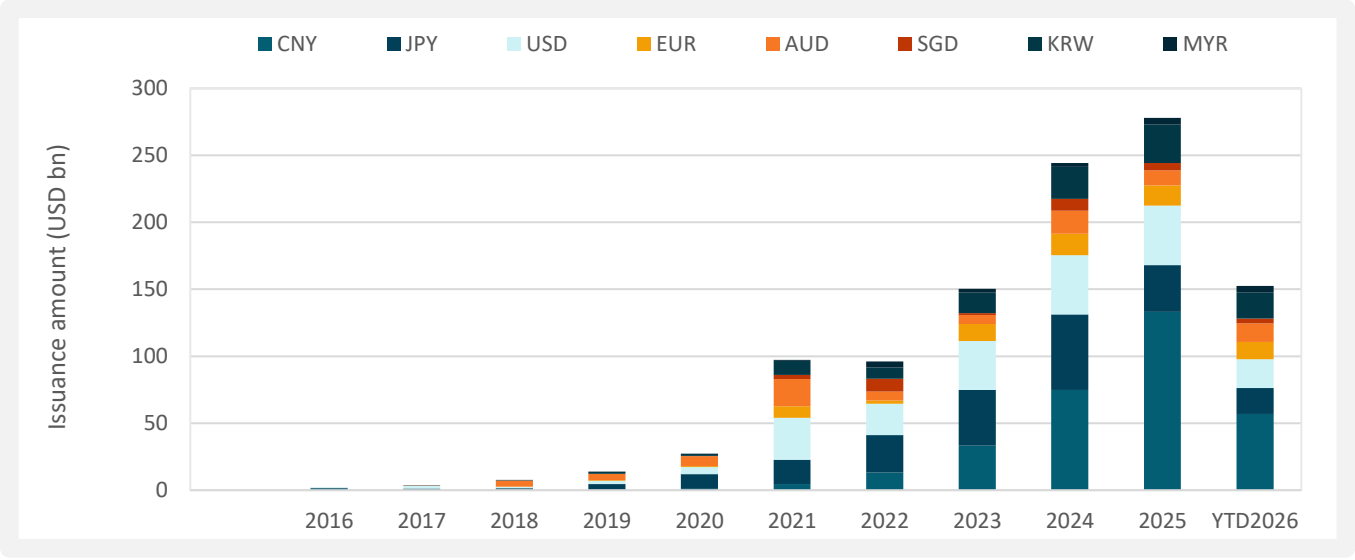
Power sector issuance illustrates the financing requirements that rising electricity demand may reinforce. Tohoku Electric Power Co., Inc. (ticker TOHOKU) returned to the USD market for the first time since 1997, while PT Perusahaan Listrik Negara (Persero) (ticker PLNIJ) issued USD1.5 billion across two tranches. PLN stated that the proceeds would support transmission, distribution and non-coal generation projects. The concentration of labelled issuance from Korean utilities in July further underscored the sector's growing funding requirements.

In the near term, higher AI-related electricity demand is being met within Asian power systems that remain materially reliant on thermal generation. At the same time, primary market activity revealed appetite for greater supply diversification through renewables, transmission and distribution networks, non-coal generation, and energy efficiency. Where cleaner generation and network infrastructure do not expand fast enough, rising demand could prolong reliance on thermal generation. Energy price volatility associated with the US-Iran conflict may further reinforce incentives to strengthen energy security and diversify power supply. Credit analysis therefore needs to capture both the balance-sheet effects of AI-related investment and the associated environmental and community exposures, including carbon emissions, water consumption and quality, noise, land use and pressure on local infrastructure.

Asia's YTD 2026 GSS primary market diversified across AUD, EUR, and KRW

Looking beyond USD, Asia's GSS market remained active in H1 2026, with first-half issuance reaching approximately 55% of full-year 2025 volume. Issuance also became more diversified by currency, as growth in AUD, EUR, and KRW reduced the dominance of CNY seen in earlier years, as shown in Figure 3.

Figure 3. Asia GSS issuance by currency. Source: Bloomberg Finance L.P., accessed 31 Jul 2026.



Government issuers accounted for the largest share of issuance at 36%, followed by Financials at 23% and Consumer Discretionary at 15%. The Consumer Discretionary category was heavily influenced by quasi-government and transport-related issuers, including metro and rail companies. MTR Corp (ticker MTRC) was one of the largest issuers, with USD7.3 billion equivalent of issuance across AUD, EUR, and HKD. Korea Housing Finance Corp (ticker KHFC) was another top issuer, with USD7.7 billion equivalent of KRW social bond issuance.

The broader currency mix indicates that Asia's labelled market is becoming more diversified, although issuance remained heavily shaped by government, agency, and quasi-sovereign borrowers. Headline GSS growth therefore does not necessarily translate into stronger corporate transition financing or real-economy decarbonisation. Investors still need to assess issuer type, use of proceeds, project additionality, and whether labelled debt supports transition-relevant capital allocation.

Singapore and Hong Kong illustrated different forms of sovereign-market development. Singapore returned with a SGD2.6 billion 20-year Green Singapore Government Securities (SGS), adding another maturity point to its sovereign green bond curve.[17] Hong Kong broadened its sustainable-financing programme across both currencies and instruments, issuing green bonds in EUR alongside infrastructure bonds in CNH, USD, and HKD.[18]

Conclusions

Asian credit did not price transition risk as a uniform sector or label premium in H1 2026. Instead, its effects were transmitted through conventional credit factors, including sensitivity to energy-price shocks, cash-flow and refinancing capacity, capital expenditure, and power system requirements.

Labelled issuance and sector-level performance provide useful context, but neither is sufficient to assess transition credit risk. The more relevant considerations are issuer fundamentals, financing purpose, and whether capital allocation reduces or extends exposure to future transition costs.

[17] "Singapore extends green bond curve", AFII, 7 May 2026.
[18] "Hong Kong: green and infrastructure bonds new issues", AFII, 7 May 2026.

Version log

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