

Executive Summary

Recent Trends in Emerging East Asian Financial Markets

Financial markets in emerging East Asia remained resilient between 3 November 2025 and 6 February 2026 amid global market turbulence, supported by sound economic fundamentals and accommodative monetary stances.¹ Episodes of volatility weighed on regional financial markets—particularly in November 2025 over valuation concerns related to artificial intelligence (AI) and in January 2026 over geopolitical and trade tensions. However, better-than-expected economic growth performance in the fourth quarter (Q4) of 2025 and improved sentiment in AI-related sectors bolstered regional financial markets.

During the review period, regional equity markets gained 4.2% (market-weighted average), with net portfolio inflows recorded in most equity markets. As global uncertainties heightened, the United States (US) dollar weakened 2.0% relative to regional currencies (gross-domestic-product-weighted average). Meanwhile, risk premiums, as measured by credit default swap spreads, posted mixed performances over market-specific factors. Local currency (LCY) 10-year government bond yields rose in the region, tracking yields in advanced markets and responding to domestic developments.

Financial markets are expected to remain resilient amid a broadly balanced risk outlook. On the upside, macroeconomic conditions in the region remain stable and accommodative monetary policies provide a buffer against unfavorable shocks. Continued AI investments and advances could sustain corporate earnings, facilitate productivity improvements, and attract additional portfolio and direct investments. Some downside risks remain, including (i) possible prolonged weakness in the People's Republic of China's (PRC) property market; (ii) abrupt changes in investor sentiment, particularly toward AI; (iii) uncertainty in the pace and direction of US monetary policy; and (iv) unexpected trade and geopolitical developments.

Snapshot of Local Currency Bond Markets in Emerging East Asia

The emerging East Asian LCY bond market expanded 2.1% quarter-on-quarter (q-o-q) in Q4 2025 to reach USD30.6 trillion at the end of December. The bond market's expansion slowed from 3.2% q-o-q in the third quarter (Q3) of 2025, largely due to a decline in issuance, which contracted 11.1% q-o-q in Q4 2025 to USD2.9 trillion on reduced issuance for both government and corporate bonds. The PRC remained the main driver of the region's LCY bond market expansion, accounting for 81.7% of the regional bond stock at the end of December. Association of Southeast Asian Nations (ASEAN) member economies' aggregate bond stock reached USD2.7 trillion, comprising 8.8% of the regional total—but their aggregate issuance in Q4 2025 (USD659.8 billion) contributed 22.8% to the region's total quarterly issuance.

Government bonds outstanding rose 2.0% q-o-q to USD19.9 trillion at the end of Q4 2025, slowing from an expansion of 3.7% q-o-q in Q3 2025. Most regional governments front-loaded their annual issuance in earlier quarters and reduced issuance in Q4 2025. Government bond issuance fell 22.0% q-o-q to USD1.1 trillion in Q4 2025. Corporate bonds outstanding reached USD10.0 trillion, posting a slower expansion of 2.3% q-o-q versus 2.5% q-o-q in Q3 2025 due to reduced issuance in the PRC over economic uncertainty and a large volume of maturities in the Republic of Korea and most ASEAN economies. Emerging East Asia's aggregate corporate bond issuance fell 3.3% q-o-q in Q4 2025 to USD1.1 trillion.

The size-weighted average tenor of Treasury bonds outstanding in emerging East Asia was 9.1 years at the end of December, with Treasury bonds in ASEAN markets having a longer average tenor of 9.4 years. The region's size-weighted average maturity of Treasury bond issuances in Q4 2025 declined to 8.1 years from 11.4 years in Q3 2025 due to increased issuance of short-term

¹ Emerging East Asia is defined to include member states of the Association of Southeast Asian Nations plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.

bonds. Banks remained the largest investor group in the region's LCY Treasury bond market, holding 35.7% of the aggregate stock at the end of 2025, followed by insurance companies and pension funds (29.2%), foreign investors (10.7%), and all other investors (24.4%).

Snapshot of ASEAN+3 Sustainable Bond Markets

ASEAN+3's sustainable bonds outstanding reached USD1.0 trillion at the end of 2025, accounting for 18.5% of the global total.² The market was buoyed by record-high issuance of USD275.9 billion during the year amid accommodative monetary stances in the region. ASEAN+3 led all global regions in sustainable bond issuance in 2025, representing 29.8% of the global total and exceeding the 29.3% share of the European Union 20 (EU-20). ASEAN markets' sustainable bonds outstanding (USD121.4 billion) and issuance (USD32.8 billion) each accounted for 11.9% of the respective ASEAN+3 total in 2025, exceeding their corresponding shares of 5.9%

and 3.7% in the general bond market. LCY financing accounted for 73.4% of outstanding bonds and 78.4% of issuance in the ASEAN+3 sustainable bond market, compared with LCY financing's corresponding shares of 90.9% and 87.7% in the EU-20.

The private sector is the major financier in ASEAN+3 sustainable bond markets, accounting for 68.7% of outstanding bonds and 70.2% of issuance in 2025. ASEAN markets had lower average shares of corporate financing (46.6% of outstanding bonds and 47.6% of issuance), due to their relatively smaller LCY corporate bond markets. Short-term financing is prevalent in ASEAN+3's sustainable bond markets due to a relatively high share of private sector financing—with 73.2% of outstanding bonds and 80.2% of issued bonds in 2025 carrying tenors of 5 years or less. In the EU-20, the corresponding shares were 45.1% and 31.4%, respectively. The size-weighted average tenors in ASEAN+3 in 2025 were 4.5 years for bonds outstanding and 5.1 years for issuance, compared to the EU-20's 8.0 years and 8.4 years, respectively.

² ASEAN+3 comprises the member states of the Association of Southeast Asian Nations (ASEAN) plus the People's Republic of China; Hong Kong, China; Japan; and the Republic of Korea.