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Revitalising Singapore's bond market

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THE Equity Market Development Programme (EQDP) has rejuvenated interest and trading volumes in Singapore's stock market. It is timely for the government to consider initiatives to boost the Singapore dollar (SGD) fixed income market.

A vibrant bond market is essential to match the liabilities of insurance and pension funds, as well as to finance the growth of local companies. Both the equity and debt capital markets play crucial roles in the capital structure of healthy corporates.

However, much like the equity market prior to EQDP, the SGD fixed income market has remained in a state of relatively low liquidity and insufficient supply issuance, leading to a lack of interest from domestic and foreign investors.

Singapore should not rest on its laurels after launching the EQDP. Now is the time to build on the momentum of the EQDP by establishing a bond market review group to consider a similar bond market development programme. PHOTO: BT FILE

Changing landscape

Historically, local asset owners such as insurers and pension funds could rely on investing in offshore debt – most notably the US dollar fixed income market – to provide a steady source of yield and returns.

However, recent years have seen a significant shift. The cost of hedging a weakening US dollar (USD), while SGD remains resilient with strong economic fundamentals, has become punitive. The current cost of hedging USD back to SGD has climbed significantly over the past year, now ranging between 2 and 3 per cent.

This has reduced the investment universe for SGD-based investors, with some USD-denominated bonds yielding lower than SGD-denominated bonds after foreign currency hedging.

Risks in absence of robust SGD bond market

The lack of liquidity and issuance in the SGD fixed income market has forced asset managers and asset owners to take on other forms of risk in their portfolios. These include:

■ Credit risk: SGD-based investors are adding less creditworthy and lower-rated USD corporate bonds to their portfolios to achieve higher returns after foreign exchange (FX) hedging.

■ Liquidity risk: Investors have increased their exposure to illiquid private credit, which often does not offer adequate liquidity risk premiums compared to similarly rated publicly traded bonds. This can lead to asymmetrical risk-reward scenarios when a credit event occurs.

■ Foreign exchange and duration risk: Institutions and asset managers may take on more foreign exchange risk by reducing hedge ratios or synthetically increasing duration risk through the use of US Treasury futures, which can increase both leverage and portfolio volatility.

With Singapore's ageing demographic, the liabilities of the insurance industry and pension funds have been increasing over the past decade. The asset-liability duration gaps of many asset owners remain wide, and could increase further if the SGD fixed income market remains underdeveloped.

Ultimately, this situation is not tenable, and the negative impact will ultimately be borne by beneficiaries who are Singaporeans.

Implications for local companies and the economy

If the current state of our debt capital market persists, there is a risk of perpetuating a vicious cycle of capital outflows to offshore fixed income markets.

This would shortchange our local companies that could have benefitted from a vibrant debt capital market, tapping into Singapore's deep deposit base and insurance/pension funds.

With low funding costs, local companies should be issuing SGD corporate bonds to finance ventures in areas such as artificial intelligence (AI), low carbon transition, and expansion into new economic sectors.

Global firms are estimated to commit at least US$600 billion to US$700 billion in AI-related capital expenditure in 2026, while local firms spent an estimated average of only around S$19 million in 2025 on AI initiatives.

Without sufficient ramp-up, Singapore risks falling behind in the AI race. Conversely, as mid-cap and small-cap local companies grow in market capitalisation due to the EQDP or as more local SMEs are listed via initial public offerings, disciplined debt financing would enable efficient capital allocation of Singapore's significant liquidity pool.

Learning from global peers

In recent months, the Australian dollar, yen and offshore renminbi fixed income markets have seen a substantial rise in interest from global investors seeking to diversify away from the USD fixed income market.

Singapore should seize this window of opportunity as well.

As an AAA-rated sovereign with low corporate credit default rates, Singapore is well-positioned to attract more foreign inflows to its fixed income market if the right steps are taken, with appropriate but not overly stringent guardrails.

The development of the Australian dollar fixed income market is a positive example to emulate. Over the years, it has steadily grown in scale and liquidity, creating a virtuous cycle that attracts further offshore inflows.

The SGD bond market risks being crowded out by other fixed income markets and becoming increasingly irrelevant with the status quo.

Recommendations for market development

On the supply side, authorities should engage financial institutions to work actively with domestic and foreign companies to increase issuance of SGD-denominated debt across different maturities.

Issuers should be encouraged and incentivised to be rated by external credit assessment institutions to increase transparency and demand for their bonds. This would benefit the companies through lower borrowing costs.

On the demand side, increased credit ratings transparency can attract more foreign real money investors, such as sovereign wealth funds, which may have previously been reluctant to invest in non-rated SGD bonds.

Singapore should not rest on its laurels after launching the EQDP. Now is the time to build on the momentum of the EQDP by establishing a bond market review group to consider a similar bond market development programme.

By doing so, the country can ensure that its bond market matches the dynamism and resilience of its equity market, supporting sustainable growth for companies, investors and the broader economy.

The writer is managing director, co-head of SGD fixed income solutions, Fullerton Fund Management. This does not constitute an offer or an invitation. It is not a contract to transact in any security or for Fullerton Fund Management Company or its affiliates to arrange any transaction.