Revitalising Singapore's bond market: the next step for sustainable growth

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Background

With the Equity Market Development Programme (EQDP) having successfully rejuvenated interest and trading volumes in Singapore's stock market, it is timely for the government to consider initiatives to boost the 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, growing corporates. However, much like the equity market before the 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 both domestic and foreign investors.

Changing Landscape for Investors

Historically, local asset owners such as insurers and pension funds could rely on investing in offshore debt—most notably the USD 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, while the 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%[1].

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

Risks in the Absence of a Robust SGD Bond Market

The lack of liquidity and issuance in the SGD fixed income market has forced local 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 in an attempt to achieve higher returns after 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 U.S. 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 — a trend that is likely to continue. 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 conducive for local asset managers and asset owners, and the negative impact will ultimately be felt by beneficiaries and end investors such as fellow Singaporeans.

[1] Source: Bloomberg, 25 February 2026.

Implications for Local Companies and the Broader Economy

If the current state of the debt capital markets is allowed to persist, there is a risk of perpetuating a vicious cycle of capital outflows to foreign-denominated fixed income markets. This not only undermines the local market but also shortchanges local companies that could benefit from a more vibrant debt capital market, tapping into Singapore’s deep deposit base and insurance/pension assets under management.

With low funding costs, local companies should be issuing SGD corporate bonds to finance ventures in areas such as artificial intelligence, low carbon transition, and expansion into new economic sectors. Global firms are estimated to commit at least US$600-700 billion in AI-related capital expenditure in 2026[2], while local firms spent an estimated average of only around S$19 million in 2025[3] 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 capitalization due to the EQDP or as more local SMEs are listed via IPOs, disciplined debt financing would enable efficient capital allocation of Singapore’s significant liquidity pool.

Learning from Global Peers and Seizing the Opportunity

In recent months, the AUD, JPY, and offshore renminbi (CNH) fixed income markets have seen a substantial rise in interest from global investors seeking to diversify away from USD fixed income markets. Singapore should seize this window of opportunity as well.

As a 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 AUD 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 local fixed income markets and becoming increasingly irrelevant with the status quo.

Policy Recommendations for Market Development

On the supply side, authorities should engage financial institutions to work actively with both domestic and foreign companies to increase issuance of SGD-denominated debt across different maturities. Issuers should also be encouraged—and even incentivized—to be rated by external credit assessment institutions to increase transparency and demand for their bonds. This would ultimately benefit firms through lower borrowing costs.

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

By various metrics—performance, trading volumes, and IPO activity—Singapore’s equity market has outperformed many international markets since the announcement of the EQDP, after having lagged for many years. This achievement demonstrates that, with a clear goal and a well-thought-out plan, Singapore can exceed expectations.

Conclusion: Building on Momentum

Singapore should not rest on its laurels. Now could be the time to build on the momentum of the EQDP by establishing a Bond Market Review Group to consider a Bond Market Development Programme. By doing so, Singapore 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.

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[2] Source: CNBC, 6 February 2026, Tech AI spending approaches $700 billion in 2026, cash taking big hit.
[3] Source: Business Times, 11 December 2025, Singapore’s AI investment surge – Are businesses ready for what’s next?

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