Asian Credit Strategies

2020 ends quietly, optimism for 2021?

- Despite a surging Covid with more countries under lockdowns, the macro backdrop has turned positive on the back of encouraging vaccine developments.
- HY valuations look attractive though significant dispersion remains across the sectors, near term volatility should remain high; limited room for further spread compression on IG.
- Strong new issue pipeline in early '21 will create some tactical opportunities as will binary, funding driven distressed recoveries; actively take profit on overbought names, cut loss on losers.

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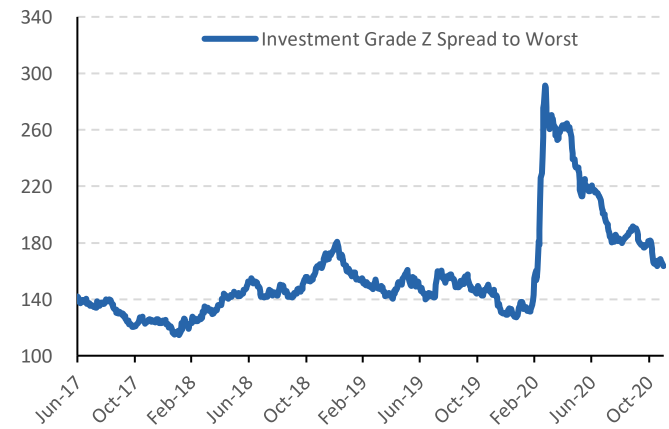
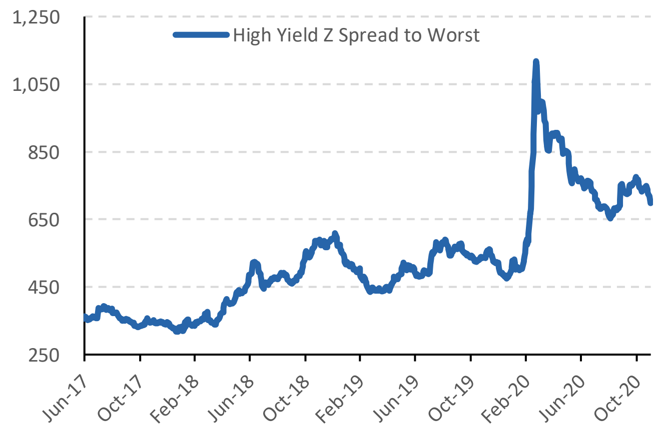
What's happening?

The J.P. Morgan Asia Credit Index (JACI) staged a sharp rebound in November, closing the month higher by 125 bps in total return terms. As of 30th November, the index was represented by 611 issuers, with a market capitalization amounting to US$ 1.20 trillion. The performance was driven by credit spreads (+1.25% spread return/-29 bps spread tightening), while the interest rate effect was neutral (+0.02% treasury return). Retracement in Sovereign High Yield (+7.09% total return), led by highly volatile Sri Lanka (+11.86%), resulted in HY names (+2.36%) outperforming their IG counterparts (+0.95%). Sector wise, performance was positive across the board: the top contributor was Oil & Gas HY (+6.74%), followed by Metals & Mining HY (+5.03%), while Industrial HY (the only negative sub-sector this month) bottomed the chart (-0.54%). The macro backdrop has turned positive on accelerating vaccine development and roll-out, raising hope that there is finally light at the end of the tunnel. Yet, the resurging Covid and subsequent lockdown measures remain a threat to the global economy. China continues to lead the recovery in Asia, and will probably end the year with a positive GDP for 2020.

Asian Credit Market* Valuation





*Refers to the J.P. Morgan Asian Credit Index
Source: J.P. Morgan, as of 30/11/2020

Monthly Returns:

J.P. Morgan Asia Credit Index (JACI) +1.27%					
Investment Grade +0.95%			High Yield +2.36%		
Corporates +0,78%	Sovereign +1,95%	Quasi-Sov +0,79%	Corporates +2.24%	Sovereign +7.09%	Quasi-Sov -0.18%

Portfolio positioning and performance:

Key Strategies		Performance
Country /Sector:	OW on China and Indonesia was beneficial while UW positioning on Frontier Sovereigns weighed on the relative performance. Some exposure was added to Macau gaming bonds and helped the performance.	=
DTS:	Maintained neutral DTS for AHY and reduced DTS for ASD	=
Bottom-up:	OW exposure to ZYAMCL, CHFOTN, and THSCPA dragged on performance, while UW positioning on EVERRE and SRILAN cost some relative performance.	-

Outlook

Going into 2021, we think the macro backdrop remains supportive for Asian credits. One of the key drivers for Asian credit spreads to tighten further from current levels is the continued search for yield by global investors, which is becoming more challenging. Negative yielding bonds have risen to $16.5trn globally, accounting for a quarter of the global fixed income market. Although we have a preference for Asian High Yield due to a spread pick-up of over 400bps compared to Asian Investment Grade, we note that the pandemic has exposed weaker credits and resulted in greater credit differentiation. Despite ample liquidity in the banking system and bond markets, investors and banks have taken a cautious approach and become even more selective. As seen in the recent defaults in China’s onshore market, the country’s SOEs were not spared. So, potential government support for zombie SOE companies in non-strategic sectors should not be taken for granted. While some caution clearly remains on the minds of local investors, an overall positive risk sentiment prevails. Coupled with risk to the upside for US Treasuries, we look to remain short/underweight duration, selectively add high yield credit, the recent weakness of which offers some relative value, and incrementally add unhedged local currency exposure (rates and/or credit).

No assurance can be given that the Asian Credit Strategy will be successful. Investors can lose some or all of their capital invested. The Asian Credit Strategy is subject to risks including Credit risk, Liquidity risk, Derivatives and leverage, Investments in specific countries or geographical zones, Sovereign debt, Emerging markets, High yield debt securities, Contingent convertible bonds.