

Not for Retail distribution: this document is intended exclusively for Professional, Institutional, Qualified or Wholesale Investors / Clients, as defined by applicable local laws and regulation. Circulation must be restricted accordingly.

Asian Credit Strategies

Election's over, virus is not

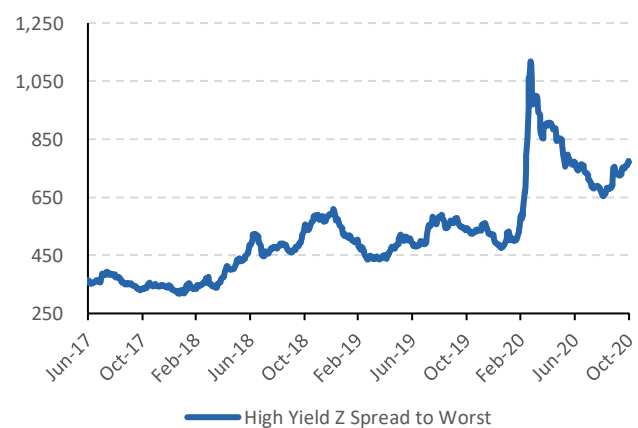
- Benign election outcome, limited policy impact now expected but a positive change in tone
- Positive risk sentiment and risk to the upside for UST suggests adding HY credit, remaining short/UW duration, and incrementally adding unhedged local currency exposure
- Recent virus surge and post-election loose ends in the Georgia US Senate race pose risks to macro portfolio positioning

Jim Veneau and Christy Lee
Portfolio Managers, Asian Credit

What's happening?

Ahead of the US election, the J.P. Morgan Asia Credit Index (JACI) ended the month in negative territory (-0.1% of Total Return) for the second successive month. As of 31st October, the index was represented by 600 issuers, with a market capitalization amounting to US\$ 1.16 trillion. Credit spread tightened 9bps on average, the positive spread contribution was more than offset by rising interest rates, which drove the overall performance slightly negative. The contribution by credit rating was mixed: HY-rated names edged lower by 49bps over wider spread (+38bps), while IG chalked up a modest 2bps total return as spread tightened 11bps. The single-B segment was a significant drag and somewhat distorted the overall HY performance. The risk remained mainly concentrated in some specific HY names (VedIn, Tsingh, Everre), as well as the HY sovereign sector, hit over distressed Sri Lanka (-19.65%). Macro indicators continue to trend positive in Asia, helped by the efficient virus containment in the region, while the number of daily cases is paradoxically reaching record high numbers globally. Technicals have shifted less supportive, with a stronger supply and waning demand from onshore investors. Credit metrics overall remained intact in the region; the downward rating ratio seems to have bottomed in 2Q and is now reverting upward.

Asian Credit Market* Valuation



*Refers to the J.P. Morgan Asian Credit Index
Source: J.P. Morgan, as of 31/10/2020

Monthly Returns:

J.P. Morgan Asia Credit Index (JACI) -0.10%					
Investment Grade +0.02%			High Yield -0.49%		
Corporates	Sovereign	Quasi-Sov	Corporates	Sovereign	Quasi-Sov
-0,01%	+0,03%	+0,06%	+0.20%	-10.39%	+0.63%

Portfolio positioning and performance:

Key Strategies		Performance
Country /Sector:	Recovery in China Property and continued UW (albeit slight) in frontier sovereigns (notably Sri Lanka) drove the performance. Continued repositioning in portfolios in favour of diversification but starting to anticipate improved recovery sentiment, so some gaming exposure was added toward month-end; no performance impact yet	+
DTS:	Slight increase in credit risk/carry and spread duration, short bias retained in rate duration exposure.	+
Bottom-up:	Exposure to Tsingh, VEDLN, and PBRXIJ dragged on performance. Profitable trades were closed in SDHMK and IDASAL, though most positive performance already reflected in previous months. Active in primary market, though no particular single-issue impact	-

Outlook

After a tremendous build-up in expectations the overall market reaction to the election outcome was generally benign, that there will be limited policy impacts but a positive change in tone or rhetoric. Initial global equity strength and USD weakness had been carrying over positively into Asian credit spreads and FX, which was further bolstered by positive vaccine headlines. In an Asian credit context, generally positive risk sentiment and a tendency for risk to the upside for UST suggests adding HY credit (which had been recently weak and offers some RV), remaining short/UW duration, and incrementally adding unhedged local currency exposure (rates and/or credit). While this may be the post-election base case, it is not high conviction and comes with some caveats. While all eyes were on the election, the virus has been rampaging and threatens to derail what economic recoveries may already be underway. It's almost certain that this surge will have a negative impact on global economic growth. It's just unclear how big and how protracted. Markets are only now refocusing on this development and that could cause some unwinding of recent gains and increasing volatility. Not necessarily a negative risk, but one that would cause a fair amount of repositioning, is the runoff for Georgia US Senate positions. This could swing the Senate Democratic and would put all the stimulus and legislative scenarios back on the table. This is not a low probability outcome, either, so even the runoff to the event will likely cause market volatility as polls fluctuate around likely outcomes. So, any base case positioning should allow flexibility to react nimbly to changing market circumstances, especially with respect to UST yields and local FX markets.

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.

Not for Retail distribution: This document is intended exclusively for Professional, Institutional, Qualified or Wholesale Clients / Investors only, as defined by applicable local laws and regulation. Circulation must be restricted accordingly.

Past performance is not a guide to current or future performance, and any performance or return data displayed does not take into account commissions and costs.

This document is for informational purposes only and does not constitute investment research or financial analysis relating to transactions in financial instruments as per MIF Directive (2014/65/EU), nor does it constitute on the part of AXA Investment Managers or its affiliated companies an offer to buy or sell any investments, products or services, and should not be considered as solicitation or investment, legal or tax advice, a recommendation for an investment strategy or a personalized recommendation to buy or sell securities.

Due to its simplification, this document is partial and opinions, estimates and forecasts herein are subjective and subject to change without notice. There is no guarantee forecasts made will come to pass. Data, figures, declarations, analysis, predictions and other information in this document is provided based on our state of knowledge at the time of creation of this document. Whilst every care is taken, no representation or warranty (including liability towards third parties), express or implied, is made as to the accuracy, reliability or completeness of the information contained herein. Reliance upon information in this material is at the sole discretion of the recipient. This material does not contain sufficient information to support an investment decision.

Issued by AXA INVESTMENT MANAGERS PARIS, a company incorporated under the laws of France, having its registered office located at Tour Majunga, 6 place de la Pyramide, 92800 Puteaux, registered with the Nanterre Trade and Companies Register under number 353 534 506, and a Portfolio Management Company, holder of AMF approval no. GP 92-08, issued on 7 April 1992. In other jurisdictions, this document is issued by AXA Investment Managers SA's affiliates in those countries.

In Hong Kong, this document is issued by AXA Investment Managers Asia Limited (SFC License No. AAP809), which is authorized and regulated by Securities and Futures Commission. This document is to be used only by persons defined as "professional investor" under Part 1 of Schedule 1 to the Securities and Futures Ordinance (SFO) and other regulations, rules, guidelines or circulars which reference "professional investor" as defined under Part 1 of Schedule 1 to the SFO. This document must not be relied upon by retail investors. Circulation must be restricted accordingly.

In Singapore, this document is issued by AXA Investment Managers Asia (Singapore) Ltd. (Registration No. 199001714W) and is intended for the use of Institutional Investors only as defined in Section 4A of the Securities and Futures Act (Cap. 289) and must not be relied upon by retail investors. Circulation must be restricted accordingly.

In Taiwan, this document is issued by AXA Investment Managers Asia Limited (SFC License No. AAP809), which is authorized and regulated by Securities and Futures Commission. This document and the information contained herein are intended for the use of professional or institutional investors and should not be relied upon by retail investors. They have been prepared and issued for private informational and educational purposes only at the sole request of the specified recipients, and not intended for general circulation. They are strictly confidential, and must not be reproduced, circulated, distributed, redistributed or otherwise used, in whole or in part, in any way without the prior written consent of AXA IM Asia. They are not intended for distribution to any persons or in any jurisdictions for which it is prohibited.

If any fund is highlighted in this communication (the "Fund"), its offering document or prospectus contains important information on selling restrictions and risk factors, you should read them carefully before entering into any transaction. It is your responsibility to be aware of and to observe all applicable laws and regulations of any relevant jurisdiction. AXA IM Asia does not intend to offer any Fund in any country where such offering is prohibited.

The offer, distribution, sale or re-sale of fund units/shares in Taiwan requires approval from and/or registration with Taiwanese regulatory authorities. To the extent that any units/shares of the Funds are not so licensed or registered, such units/shares are made available in Taiwan on a private placement basis only to banks, bills houses, trust enterprises, financial holding companies and other qualified entities or institutions (collectively, "Qualified Institutions") and other entities and individuals meeting specific criteria ("Other Qualified Investors") pursuant to the private placement provisions of the Rules Governing Offshore Funds. No other offer or sale of such units/shares in Taiwan is permitted. Taiwanese purchasers of such units/shares may not sell or otherwise dispose of their holdings except by redemption, transfer to a Qualified Institution or Other Qualified Investor, transfer by operation of law or other means approved by the Taiwan Financial Supervisory Commission.

For Malaysian investors: As the recognition by the Malaysian Securities Commission pursuant to Section 212 of the Malaysian Capital Markets and Services Act 2007 has not been / will not be obtained nor will this document be lodged or registered with the Malaysian Securities Commission, the shares referred to hereunder (if any) are not being and will not be deemed to be issued, made available, offered for subscription or purchase in Malaysia and neither this document nor any other document or other material in connection therewith should be distributed, caused to be distributed or circulated in Malaysia.

For Thailand investors: Nothing in this document shall constitute in any manner whatsoever a proposal to make available, offer for subscription or purchase or to issue an invitation to purchase or subscribe for any securities in Thailand or a proposal to implement any of the foregoing in Thailand nor has this document

been approved by or registered with the Securities and Exchange Commission of Thailand (“SEC”). No person receiving a copy of this document may treat the same as constituting an invitation or offer to him in Thailand and such person shall not distribute or make available this document in Thailand. The issuer of this document shall not be liable in any manner whatsoever in the event this document is distributed or made available to any person in Thailand receiving a copy of this document. Since no application for approval has been or will be made to the SEC for the offering of the securities, or for the registration of this document, the securities shall not be offered for subscription or purchased or made available, whether directly or indirectly, in Thailand. It is the sole responsibility of recipients wishing to take any action upon this document to satisfy themselves as to the full observance of the laws of Thailand, to comply with all relevant government and regulatory approvals, and to comply with all applicable laws, including but not limited to exchange control laws.

© 2020 AXA Investment Managers. All rights reserved.