

Asian fixed income in charts

Growth and resilience of the Asian bond market

June 2020

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Key takeaways

- ◆ The Asian fixed income market is now an important asset class for global investors. The market has undergone transformative developments over the years, particularly with China's steady efforts to open up its capital markets to global investors, resulting in the ongoing inclusion of Chinese onshore assets into key global indices. **The Asian fixed income market is sized at over USD 19 trillion, after having grown phenomenally just in the past 10 years¹**
- ◆ In some of the past market crises, **Asia dollar bonds had rebounded sharply following the drawdown.** Over the long-term, despite the dips along the way, the market has seen an annualized return of 6.9% in the past 20 years and has outperformed global bonds in the process²
- ◆ **Amidst the uncertainties in 2020, Asia bonds have fared relatively well thus far.** Asia dollar investment grade bonds saw a smaller drawdown compared to global investment grade bonds and US investment grade bonds. The Asia dollar high yield bond market is also expected to have a relatively lower default rate in 2020 versus other high yield markets. In local currency bonds, China and India have thus far outperformed emerging markets as a whole
- ◆ After the recent market volatility, **valuations for Asia dollar bonds have become more attractive.** On a relative basis, Asia dollar bonds continue to offer a yield premium versus bonds in the US and Europe
- ◆ **At HSBC Global Asset Management, we have been successfully investing in Asian fixed income markets throughout various market cycles for nearly 25 years.** Since we manage one of the oldest Asia credit funds in the market, we have navigated a number of crises. Our strength in navigating the Covid-19 crisis has been evidenced by our first quartile (top) peer ranking across various periods for most of our Asian fixed income funds

Note 1: Source is JP Morgan, AsianBondsOnline, Reserve Bank of India, as of March 2020

Note 2: Source is Bloomberg, Bank of America Merrill Lynch, as of 31 May 2020

Source: HSBC Global Asset Management, Bloomberg, JP Morgan, Bank of America Merrill Lynch as of 31 May 2020

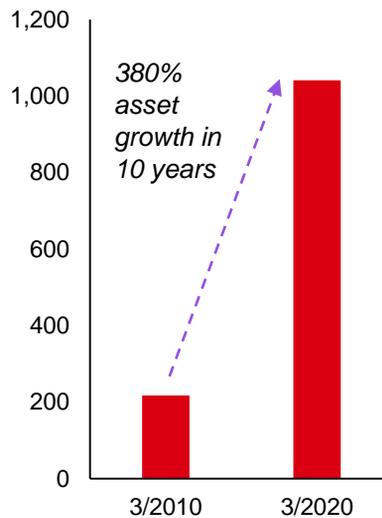
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Asian fixed income markets have come a long way in the past 10 years

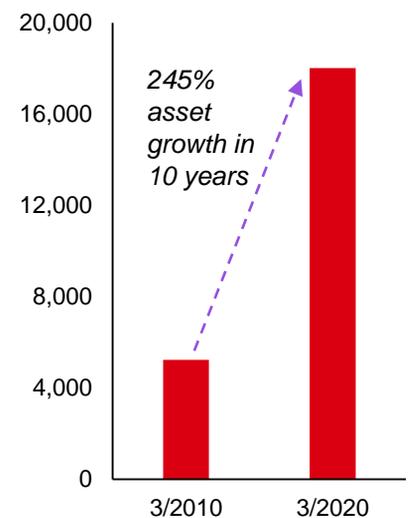
Asian fixed income assets have grown tremendously over the last decade

Asia's economic prominence has grown over the last decade and today the region is one of the main engines of global growth. During the same period, Asian fixed income markets have seen a remarkable growth in assets, accompanied by transformative developments, particularly the increasing integration of China onshore markets into the global capital markets and the resulting inclusion of China onshore bonds into key global indices.

Asia USD bonds
Market size (USD billion)



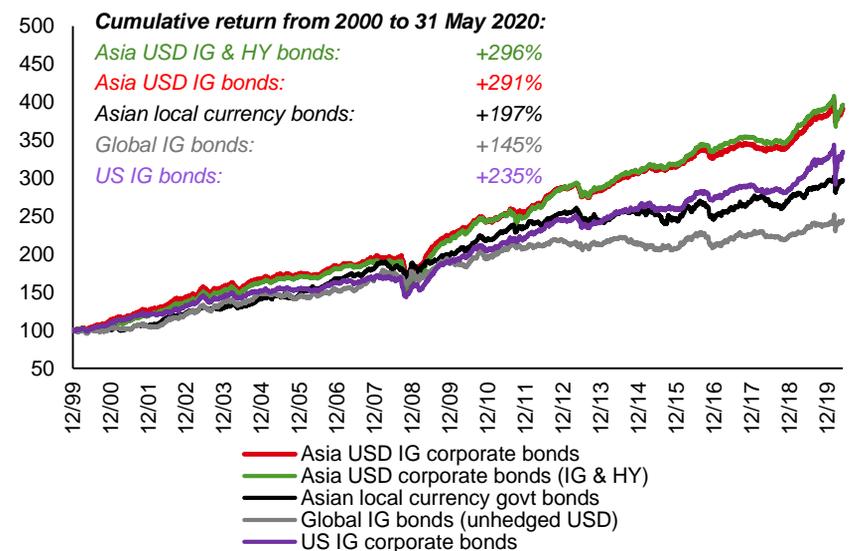
Asia local currency bonds
Market size (USD billion)



Asian bonds have outperformed global bonds over the long term

Over the past 20 years, the Asia dollar bond market has delivered an annualized return of 6.9% and has outperformed global bonds during this period. While Asian bonds were not immune to the negative impact of past market crises, they recovered sharply following periods of downturns, ultimately leading to a strong rise over the long term.

Performance
31 Dec 1999=100



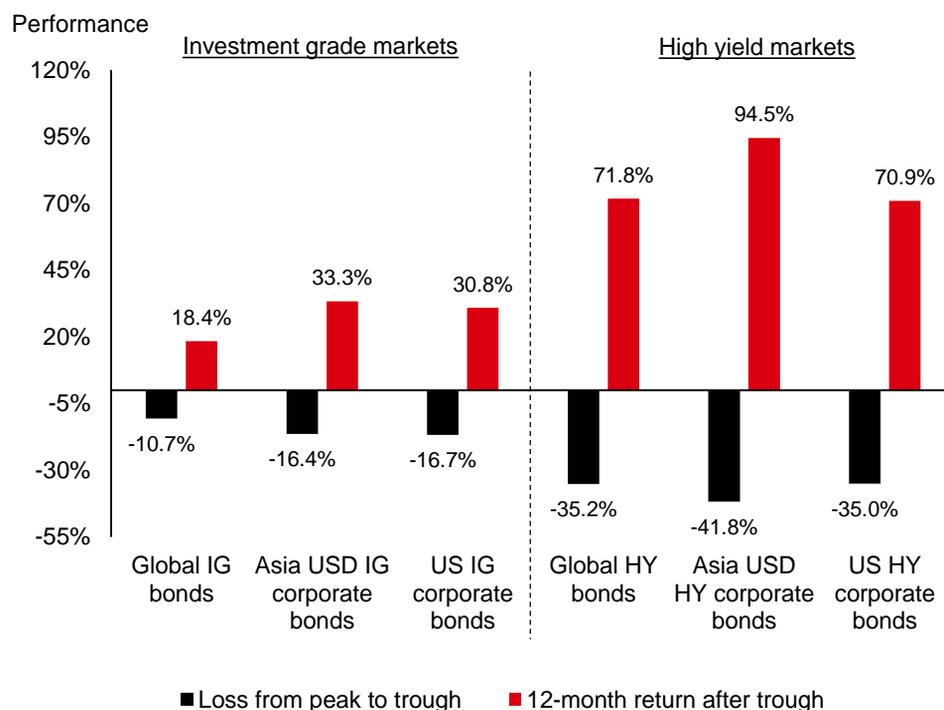
Source:
 1. JP Morgan, as of March 2020
 2. AsianBondsOnline, Reserve Bank of India, as of March 2020
 3. Indices used are Bloomberg Barclays Global Aggregate Index USD Unhedged, ICE BofA Asian Dollar IG Corporate Index, ICE BofA Asian Dollar Corporate Index, iBoxx ABF Pan-Asia Unhedged USD Total Return Index, ICE BofA US IG Corporate Index. Data as of 31 May 2020.

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During past crisis periods, Asia dollar bonds bounced back sharply following the downfall

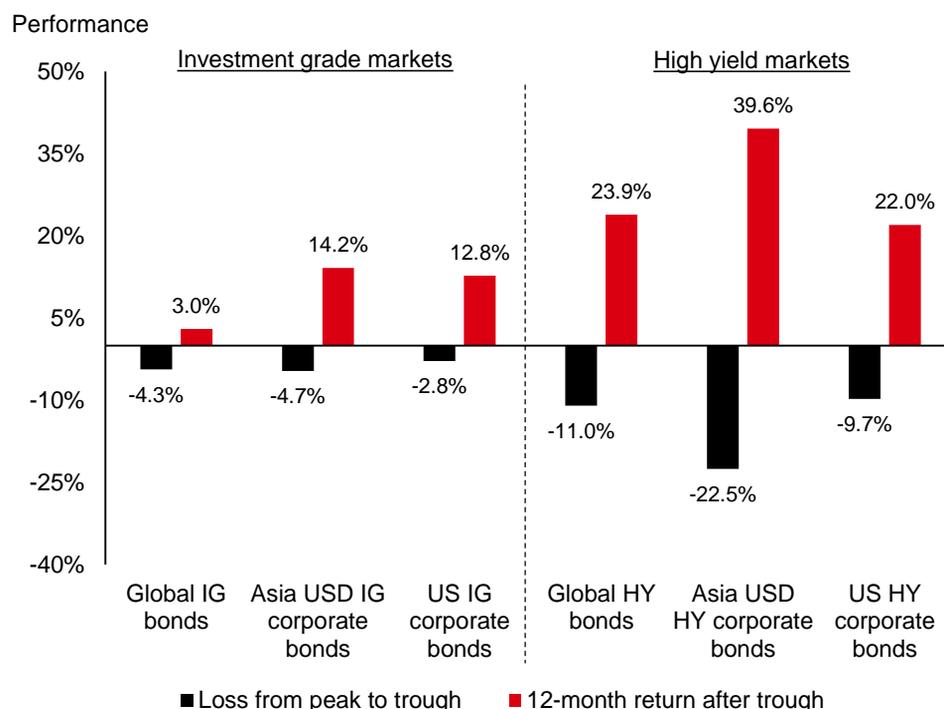
Global financial crisis of 2007-2008:

The Asian high yield bond market suffered a large drawdown during the crisis, but it gained 95% in the 12-month period after the market's trough, making the rebound a lot more compelling than other markets. Quantitative easing from the US Fed helped with the recovery, while quick fiscal action from the Chinese government during the crisis benefited Asia overall.



European sovereign debt crisis of 2011:

In similar fashion to the global financial crisis, Asia high yield underwent a larger drawdown but had a much stronger recovery versus other markets. Asian bonds and other markets bottomed when quantitative easing and emergency loan measures were implemented/released by the Bank of England and the European Central Bank.



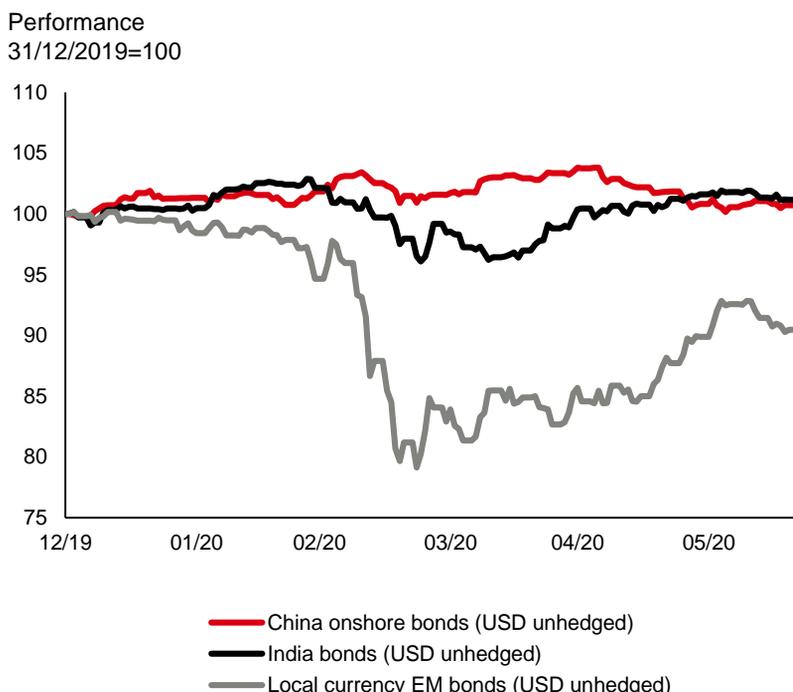
Note: Peak to trough dates are different for each market and determined individually: for global financial crisis: Global IG bonds from 17/03/2008 to 28/10/2008, Asia USD IG bonds from 22/01/2008 to 31/10/2008, US IG bonds from 23/01/2008 to 30/10/2008, Global HY bonds from 21/05/2008 to 21/11/2008, Asia HY bonds from 31/10/2007 to 29/10/2008, US HY bonds from 31/05/2007 to 12/12/2008. For European sovereign debt crisis: Global IG bonds from 19/08/2011 to 25/11/2011, Asia USD IG bonds from 10/08/2011 to 6/10/2011, US IG bonds from 4/08/2011 to 11/10/2011, Global HY bonds from 26/07/2011 to 4/10/2011, Asia HY bonds from 2/08/2011 to 5/10/2011, US HY bonds from 26/07/2011 to 04/10/2011. Source: Indices used are Bloomberg Barclays Global Aggregate Index USD Unhedged, ICE BofA Asian Dollar IG Corporate Index, ICE BofA US IG Corporate Index, Bloomberg Barclays Global HY Index USD Unhedged, ICE BofA Asian Dollar HY Corporate Index, ICE BofA US HY Corporate Index. Data as of 31 May 2020.

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So far in 2020, Asian bond performance has stayed relatively resilient

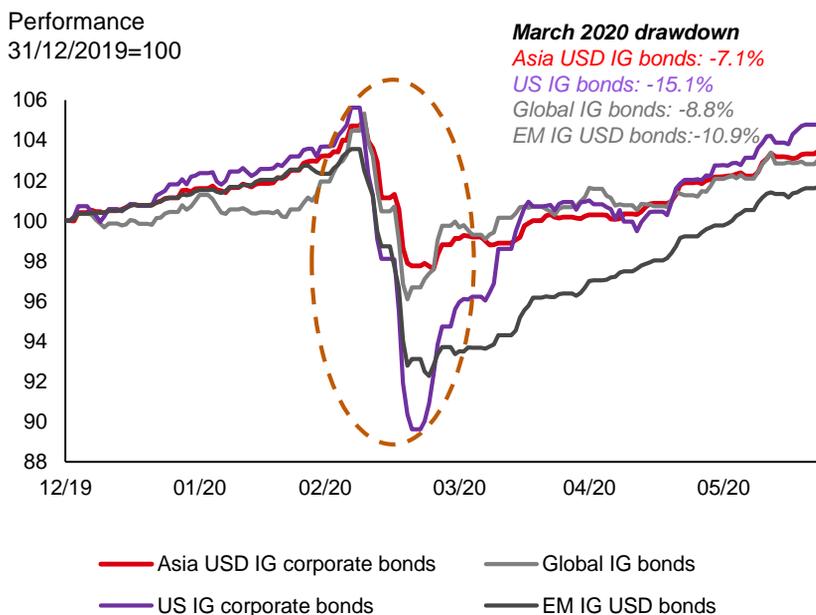
China and India local bonds have outperformed emerging markets YTD

Some Asian local currency bonds have fared relatively well year-to-date amidst very supportive and proactive government and central bank action. India, for instance, has been implementing special “twist” open market operations – an unconventional policy, intended to lower elevated term premiums and improve rate transmission. Low amounts of foreign currency borrowing and a lack of reliance on commodities have made Asian rates and currency markets relatively more resilient.



Dollar IG assets: Asia’s drawdown was smaller than the US and EM

The Asian investment grade credit universe is mainly made up of bonds issued by large, stable and often government related institutions. Many issuers also entered 2020 with better corporate fundamentals than in past years, indicating that they were better equipped to weather the uncertainties. These are some reasons that help explain the resilience of Asia investment grade credit and its smaller drawdown versus the US and EM markets during the downturn in March 2020.



Source:
 1. Indices used are Bloomberg Barclays Global Aggregate Index USD Unhedged, ICE BofA Asian Dollar IG Corporate Index, ICE BofA US IG Corporate Index, JP Morgan Corporate Emerging Market Index. Data as of 22 June 2020.
 2. Indices used are Bloomberg Barclays Global Aggregate Index USD Unhedged, ICE BofA Asian Dollar IG Corporate Index, ICE BofA US IG Corporate Index. Data as of 22 June 2020

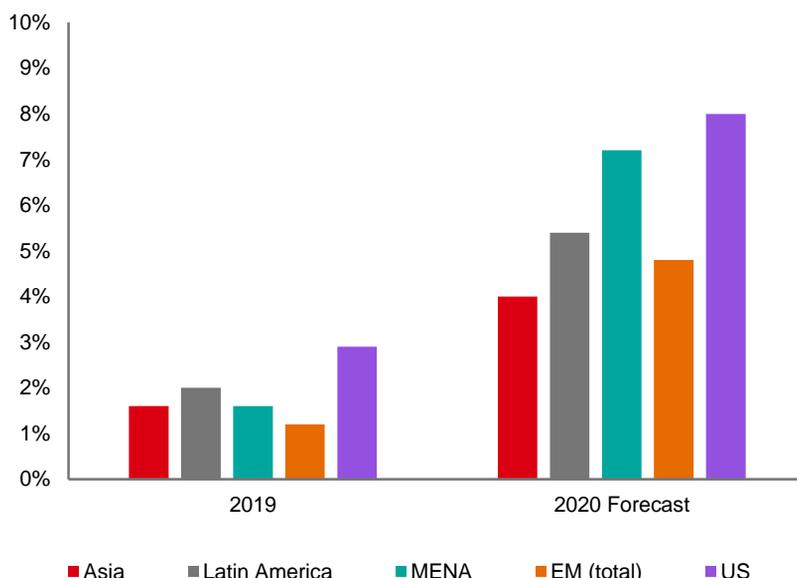
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2020 default rates for Asian bonds are expected to be lower than other regions

Asia dollar high yield market: Default rate expected to be lower than other high yield markets

The default rate of the Asian high yield bond market is expected to be 4% for 2020, which is lower than other global markets. One of the favourable factors is the lower exposure that Asian credit has to the energy sector. Overall, default risks in Asia high yield remain idiosyncratic. While we might see a record amount of defaults in 2020, given the high growth of the Asian high yield market size over the past few years, defaults as a percentage of the market should remain manageable.

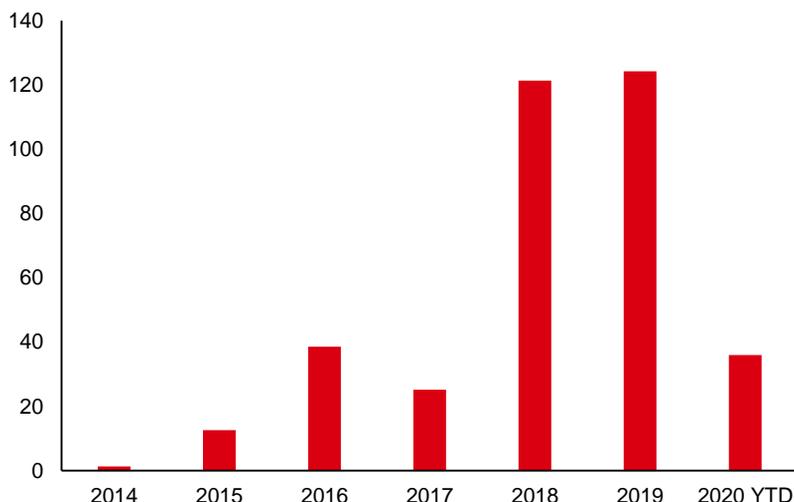
Default rate for high yield markets



China onshore bond market: Defaults expected to be manageable

Overall the default rate in the China onshore bond market is very low and is expected to stay in range. The Chinese government has been focused on achieving growth stability and implementing not only comprehensive monetary and fiscal measures, but also emergency loan programs to alleviate funding stress. All of these measures should continue to keep systemic default risks off the table.

Defaults (RMB billion)



Source:

1. JP Morgan as of April 2020
2. Wind as of April 2020

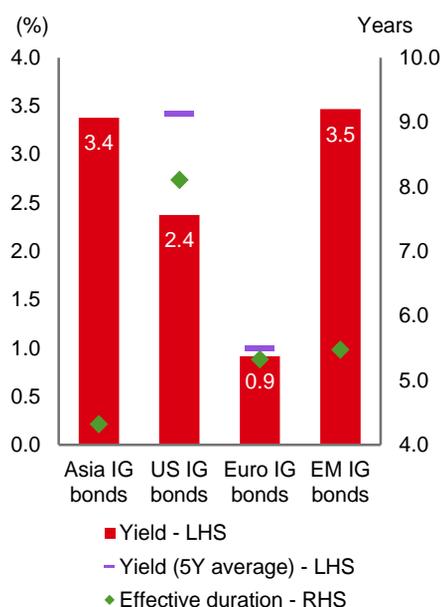
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In a reach for yield world, Asian bonds offer a clear yield advantage

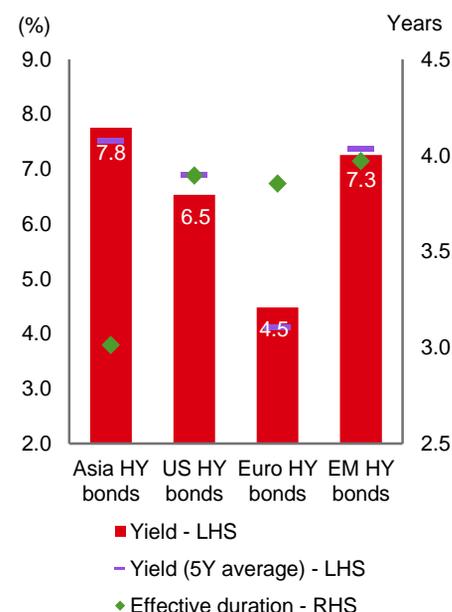
Valuations of Asia dollar corporate bonds are attractive

The volatility in 2020 has made the valuations of Asian bonds more attractive on a historical basis. On a relative basis, Asia dollar bonds are offering a yield premium to other markets – a benefit in a world of low rates and low growth. The stability of Asia credit is also bolstered by much lower levels of duration than other global credit markets.

Investment grade markets



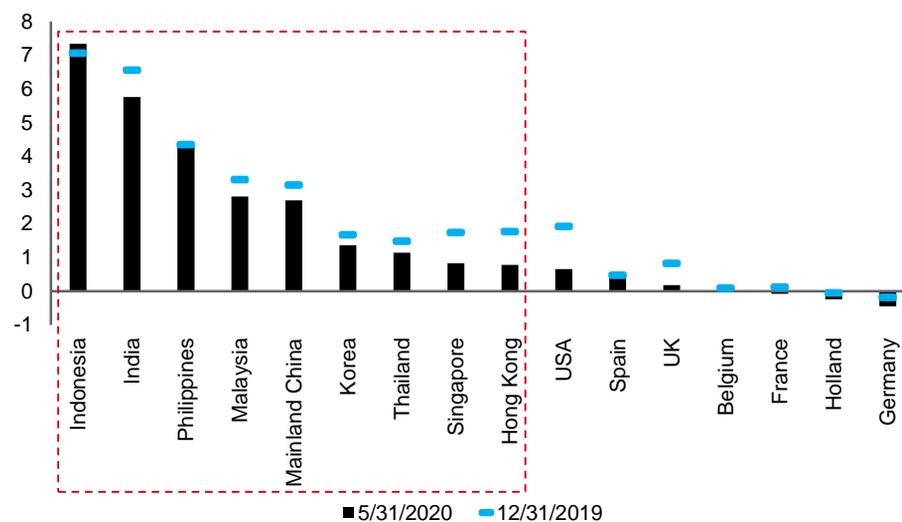
High yield markets



Asian local currency bonds offer a yield premium

Amid broad-based monetary easing, Asian local government bond yields have come down year-to-date, but still offer a yield premium versus other regions. Even after all the easing, Asian central banks have a lot more room for policy cuts than developed market central banks.

10-year government bond yields (%)



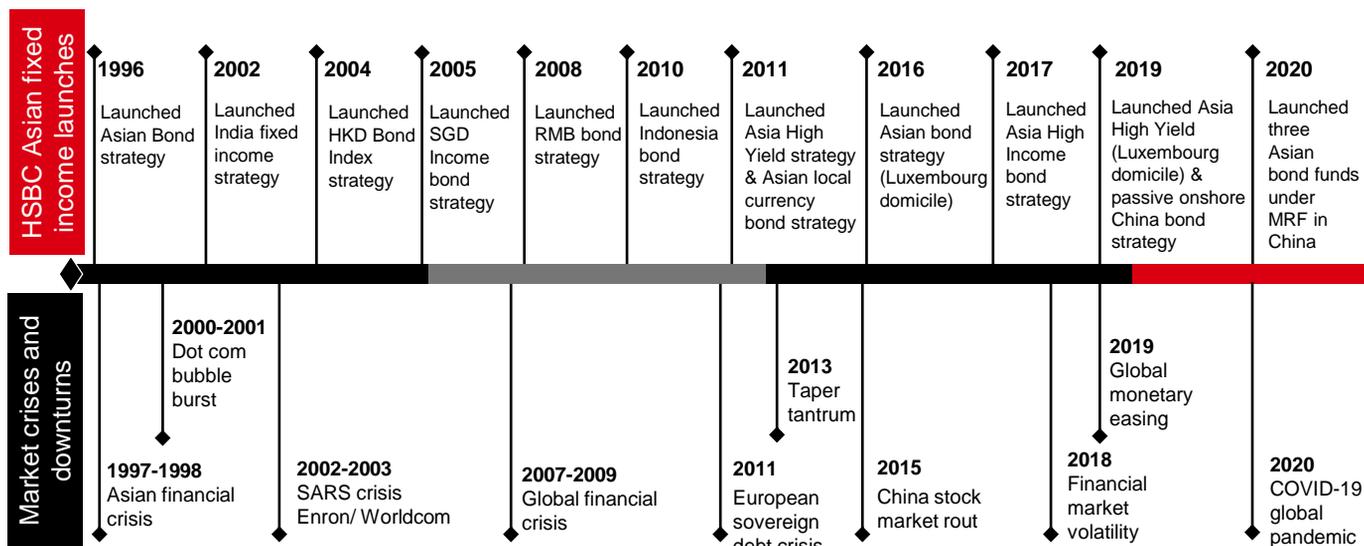
Source:

1. JP Morgan, Bank of America Merrill Lynch, as of 9 June 2020
2. Bloomberg, as of 31 May 2020

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HSBC Global Asset Management's excellence in Asian fixed income

HSBC has been investing in Asian fixed income over many market cycles



HSBC's Asian fixed income capabilities rank at the top of their respective peer groups

Morningstar peer group quartile ranking as of 15 May 2020

	3 months	YTD	1 year	3 years	5 years
HSBC Asia High Yield Bond Strategy (Luxembourg representative acct)	1	1	N/A	N/A	N/A
HSBC Asia High Yield Bond Strategy (HK representative acct)	1	1	1	1	1
HSBC India Fixed Income Strategy	1	1	1	2	1
HSBC Asia Bond Strategy (Luxembourg representative acct)	1	1	1	1	N/A
HSBC Asia Bond Strategy (HK representative acct)	1	1	1	1	2
HSBC RMB Fixed Income Strategy	1	2	2	2	2

Source:

1. HSBC Global Asset Management, as of May 2020
2. Morningstar as of 15 May 2020. Peer ranking is based on the respective bond universe under Morningstar category: HSBC Asian High Yield Bond strategy under the Morningstar Asia High Yield Bond category, HSBC India Fixed Income under the Morningstar Other Bond category, HSBC Asia Bond Strategy under the Asia Bond category, HSBC RMB Fixed Income under the RMB Bond category.

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Why HSBC Global Asset Management for Asian fixed income

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Strong Asian fixed income team

- ◆ HSBC Global Asset Management has **one of the largest and most experienced** Asian fixed income teams in the world



Established track record in Asian fixed income

- ◆ HSBC offers a **full suite of Asian fixed income products** and solutions with track records that date back to 1996



Investment discipline and risk focus

- ◆ A clear, disciplined and repeatable investment process developed under a global framework can help **maximise return potential** for shareholders in different market cycles

Key Asian fixed income strategies

Key strategies	Asia credit	Asia high yield	Asia local currency	
Investment universe	<ul style="list-style-type: none"> ◆ Asian USD corporate and sovereign/quasi-sovereign bonds ◆ Can be flexible in Asian local currency bonds and Asia high yield bonds 	<ul style="list-style-type: none"> ◆ Asian USD corporate and sovereign/quasi-sovereign bonds, rated non-investment grade ◆ Can be flexible in Asia investment grade bonds and local currency bonds 	<ul style="list-style-type: none"> ◆ Local currency sovereign bonds ◆ Local currency quasi sovereign and corporate bonds 	
Key strategies	China fixed income	India fixed income	Hong Kong bonds	Passive China
Investment universe	<ul style="list-style-type: none"> ◆ Onshore CNY bonds ◆ Offshore China bonds including CNH bonds and USD bonds 	<ul style="list-style-type: none"> ◆ INR denominated Indian bonds ◆ Indian bonds denominated in other currencies 	<ul style="list-style-type: none"> ◆ HKD denominated government and corporate bonds 	<ul style="list-style-type: none"> ◆ Bonds included in the Bloomberg Barclays China Treasury and Policy Bank 9% Capped Index

Source: HSBC Global Asset Management as at 31 May 2020.

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