



# Coming out of COVID-19

China, once the epicenter of the COVID-19 pandemic, appears to have successfully brought the virus outbreak under control, with a dwindling number of new cases. The short-term impact of COVID-19 on China's economy is inevitable. Nevertheless, the gradual normalisation of manufacturing and business activities should drive a meaningful growth recovery in 2H20. With Chinese assets now trading at less expensive levels, risk-reward is turning attractive for investors with a longer-term perspective.

## TURNING POSITIVE ON CHINA

In our view, this virus outbreak is both a crisis “危” and an opportunity “机”. Some of the structural growth trends in areas of online medical platforms, food delivery, and telecommuting-related industries (e.g. cloud service and web video conferencing) have accelerated, creating long-term investment opportunities for many related Chinese companies. This is similar to the severe acute respiratory outbreak (SARS) crisis of 2003, which accelerated the adoption of online shopping and helped Alibaba grow into the largest e-commerce platform in China.

Separately, Chinese bonds offer a better hunting ground for yield relative to global peers that are trading at compressed yields. Onshore China bonds have also demonstrated low correlations to international markets, providing diversification benefits to global investors. Market reforms have seen China being included in key global bond and equity indices over the past year, paving the way for participation of overseas institutional investors in the domestic markets. We anticipate an acceleration of strategic and/or thematic investments into China assets in the next few years.

## GAINING EXPOSURE TO CHINESE ASSETS

With retail still accounting for around 80% of the total trading volume in the A-share market, the domestic market remains highly inefficient. As such, we see opportunity for active fund managers with expert knowledge and on-the-ground resources to generate consistent alpha.

## Onshore China bonds can act as a portfolio diversifier

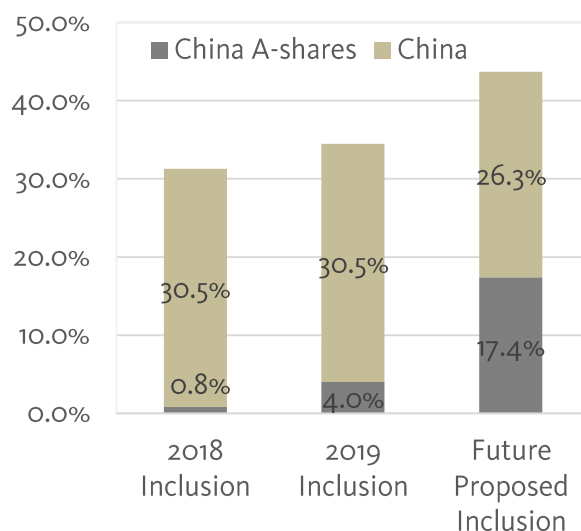
Asset class Correlation (October 2005 – October 2019)

	EMD HC Bonds	U.S. HY Bond	U.S. Treasury	U.S. IG Bonds	Asia HC Bonds	China Bonds
China Bonds	0.02	-0.11	0.20	0.01	-0.06	1.00
Asia HC Bonds	0.93	0.71	0.26	0.80	1.00	
U.S. IG Bonds	0.78	0.60	0.48	1.00		
U.S. Treasury	0.22	-0.24	1.00			
U.S. HY Bond	0.75	1.00				
EMD HC Bonds	1.00					

Source: Bloomberg | April 2020

Asset classes are represented by the following indexes: JPM Jade Broad China Onshore Index (China Bonds), JPM Asian Credit Index (Asia HC Bonds), Bloomberg Barclays U.S. Aggregate Corporate Index (U.S. IG Bonds), Bloomberg Barclays U.S. Aggregate Treasury Index (U.S. Treasury), Bloomberg Barclays U.S. Corporate HY (U.S. HY Bond), JPM EMBI Global Diversified (EMD HC Bonds)

## Rising weights of China A-shares in MSCI Emerging Markets Index



Source: MSCI | November 2019

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