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Market Insight on the Impact of Coronavirus Outbreak:

We think that Coronavirus epidemic will trigger short-term weakness in Asian dollar high yield bonds, especially cyclical industries such as property and consumption which will be directly affected in the next one or two months. Longer duration bonds will also be dragged down by market weakness.

At the same time, considering the recent proactive measures imposed by the Chinese government, we believe that the negative impact on the markets will be temporary.

Furthermore, given positive global economic data, short-term market correction would provide good buying opportunity for bonds as long as the Coronavirus situation stabilizes.

Property Sector:

The current Coronavirus situation is expected to affect sales and construction in the first quarter (especially after January 20). At least 60 cities issued temporary closure orders to property sales centers. We also noticed that some developers have suspended construction on sites. We believe that the current situation will have a short-term restraint and delay in housing purchasing demand, yet it will not be a structural change. The impact on financial liquidity is therefore expected to be temporary. We are conducting continuous tracking analysis and stress tests on property developers in the portfolio with regards to risk exposure to Hubei province and liquidity. If the Coronavirus situation reverses significantly within one quarter, we believe there will not be any material credit risks.

Current Positioning:

- Maintain the short duration of Chinese property bonds, holding companies with sufficient cash and low leverage to wait for adjustment opportunities. Avoiding most Chinese non-property private companies, holding only state-owned enterprises and selective few low default risk private enterprises.
- Diversified investments in non-Chinese high-yield companies with low default risks, such as India, Indonesia, Singapore, Philippines, etc. Apart from a few large, high quality corporate, position of a single issuer is controlled under 1%.
- Hold investment grade bonds to hedge risks, as these bonds have rallied along with US Treasury- effectively hedge against the fall in high yield bond prices.

Future Strategies:

Once the epidemic situation stabilizes and the market correction is in place, we will overweight previously over-corrected sectors such as China's property and consumer sectors, India and Indonesia's high yields. Meanwhile we will extend portfolio duration to capitalize on market rebound.

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