Webinar Summary

CHINA INVESTMENT SYMPOSIUM

Risk, Reward, and Transparency in China's Bond Market

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The rapid growth of China's bond market has made it one of the largest and most important in the world. But it's also a complex and changing market, and along with the many opportunities that come with investing in China are some unique risks. PGIM recently brought together a panel of thought leaders to discuss the prospects for the Chinese bond market in the first installment of our *China Investment Symposium* series. Following are a few highlights from the webinar, which can be viewed here.

- **More room for growth:** After the global financial crisis, China's debt and leverage increased substantially, as did its fiscal deficits. For policy makers, it's vital to get interest rates lower to reduce debt servicing costs. Real yields are likely to remain low, and foreign participation should increase as access to the market improves. For offshore investors, the onshore market is becoming more relevant, and as an overriding goal China would eventually like the size of its bond market to rival that of the US. China also desires robust and stable capital markets, which will require participating further in global standards and behaviors.

- **Finding liquidity and fewer risks:** From a relative value perspective, hard currency, high yield corporates are more attractive offshore versus onshore, in part because of greater liquidity and transparency. There is absolute value in the onshore China government bond market (China Government Bond's – CGB's) as the country attempts to get rates lower. Current stimulus efforts are focused more on infrastructure projects - as opposed to the financial and shadow-banking sectors - which may bring with it fewer risks. The scale of all issuers will continue to grow in the Chinese debt market due to the growth of the overall economy, and the country has so far rebounded impressively, if unevenly, from the COVID-19 crisis.

- **The role of rating agencies:** In an effort to attract more international capital, Chinese regulators recently allowed foreign rating agencies to enter the country. Current ratings distributions from local agencies hover in the 'AA' level and above due to certain regulatory considerations. For example, insurance companies can only buy securities rated 'AA' or better, calling into question the usefulness of those ratings. As global ratings agencies become more firmly established it's likely the ability to differentiate credit risk will become more robust.

- **Politics and COVID are key concerns:** Geopolitical concerns and China-US relations remain the key risks in China's bond market. The prospect of potential sanctions against Chinese issuers also remains a risk. While both onshore and offshore defaults remain low, they are on the rise. Likewise, China's banking sector is currently adequately capitalized but nonperforming loans are ticking higher. Finally, the ultimate impact of the COVID-19 crisis remains an unknown and the consumer and services sectors remain challenged.

The next installment of PGIM's *China Investment Symposium*, slated for the fall of 2020, will focus on public equity markets. In the meantime, to access of all of the thought leadership from PGIM and its autonomous businesses, visit pgim.com.

➔ Watch the webinar replay

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