The China Debt Capital Markets Summit 2020
中国债务资本市场峰会2020

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Speakers Q&A

Q1: What lessons learned from financial crash in 2008 can be applied during the current crisis?

Alvin Cheng
Portfolio Manager
Fidelity International

This time is different, but we still see some commonalities between the two is mainly the threat of global capital market collapse. ***Thus the central banks around the globe acted quite responsively this time. Interest rate cut and asset purchase plan are ubiquitous. The coordinated and prompt reaction from the central banks helped to stabilize the capital market effectively, illustrated by the rebound of major equity market and high quality bond prices.***
Despite the commonalities, there are many fundamental differences regarding the causes of the crisis, and the impact of the crisis especially psychologically. It's categorically important to remember that this crisis is not a financial crisis at all, but a healthcare crisis that already impacted over 3 months and caused over 250k deaths. Despite all financial counter measures, the absence of prevention and curing medication would keep all human activity level below normal rate for a sustained period before herd immunity really kicks in.

Terry Gao
Managing Director
Asia-Pacific International
Public Finance
Fitch Ratings

The 2008 recession was caused by financial crisis from failed international financial institutions, while the global recession now is caused by a public health crisis with much broader impact on most economic sectors***. Key lesson is for government to act fast to come up with a mixture of monetary and fiscal policies with effective force, aiming more at sustaining the economy than stimulating it.*** Measures being considered by governments include supplying greater liquidity to the market with lowered interest rates, fiscal expansion that involves larger fiscal deficit and government borrowing limit to combat fiscal revenue shortfall from economic recession, and economic relief package to households and small businesses to prevent high unemployment and permanent business disruption. What we learnt from past crisis is that they take time to stabilize and will recover. ***Fitch is of the view that the Chinese's economy should see a 'V-shape' recovery, in particular a sharp slowdown in economic growth in 2020, followed by a stronger recovery in 2021.***

Julio Callegari
Lead portfolio manager for Asia Local Rates and FX
JP Morgan Asset Management

The 2008 crisis originated in the financial sector, while the crisis we are going through now is rooted in the real economy (and quickly spread to the financial sector***). Although noticeably different at the origin, both crises are quite deep, affecting the global economy as a whole and causing dysfunctionality in many markets (including in the most liquid assets).*** Investors should keep in mind that deep crises, like GFC in 2008 and the COVID19 now, tend to sustain market volatility at very high levels for an extended period of time and the recovery may take more time than initially envisioned, which suggests adoption of a cautious attitude until there is enough clarity on the policy reaction and on signs of normalization.

Q2: Is now the time for investors to be proactive in the market or is a more conservative approach required? If proactive, in which sectors should investors focus on and which sectors should they avoided?

Alvin Cheng
Portfolio Manager
Fidelity International

It's very difficult to give a universal answer given how different asset classes diverge after the crisis. However, from a very high level of thought, I am cautiously optimistic regarding the path of virus development. Seeing how daily incremental cases fall in countries like China, Korea and Italy while the daily number in US is also stabilising. The government is also learning and being more effective in controlling the spread. The recovery of economic activity should naturally follow, and China is an early example.

For the China onshore bond market that I am focusing, the resilience year-to-date is quite significant as PBOC ensured ample liquidity in the market and the small outflow from global investors is more than balanced by local buyers. ***We stay relatively positive over local rates in China given we would anticipate liquidity remain sufficient in the market and accommodative monetary policy is necessary to sustain a safe level of employment in China.***

Terry Gao
Managing Director
Asia-Pacific International Public Finance
Fitch Ratings

Within the IPF sector, we have observed a polarization of credits. ***At the LRG level, higher tier governments and more wealthy regions tend to have more financial flexibility and hence less impacted by COVID19.*** For example, provincial level governments are able to issue muni-bonds to cope with COVID19 and may receive upper government support in the form of transfers. ***At the LGFV level, flagship entities that play an important policy role are likely to enjoy a higher level of support. For example, within the onshore market, IG rated entities have seen near record-low yields, while weaker HY rated entities have not enjoyed the same.***

Julio Callegari
Lead portfolio manager for Asia Local Rates and FX
JP Morgan Asset Management

Investors should keep a balanced portfolio. ***Certainly many assets are cheaper compared to pre-crisis level and valuation may be compelling enough to justify additional risk in some cases. However, uncertainty is high and volatility should remain elevated for quite some time.*** At the same time, a deep recession with poor visibility on the recovery path suggests that fundamentals justify the discount in many risk assets. Therefore, while looking for opportunities created by the crisis, investors should keep a diversified portfolio including more defensive and liquid assets that can cope with periods of stress that will re-emerge from time to time.