Why Asian credit in 2023?

Gigi Guo
Credit Portfolio Manager,
Invesco Fixed Income

Cassie Tan,
Client Portfolio Management,
Invesco Fixed Income

In this Q&A we speak with Gigi Guo and Cassie Tan from Invesco Fixed Income on the themes they are seeing in the Asian credit space and where they believe investors may find opportunities.

Q: Which countries do you expect will drive economic growth in 2023 amid expectations of a global recession?

A: We believe Asian countries will lead global economic growth in 2023 driven by the stronger private consumption and sovereign profile alongside moderate inflation. While global consumption is likely to suffer from a meltdown in 2023 as the risk of a global recession rises, we expect the consumption in Asia to pick up significantly under Greater China's reopening. As economic mobility and activities have picked up since the pandemic restrictions were lifted, we foresee a strong recovery across the area, and consumption in other Asian countries is likely to be positively impacted and as is the growth of their economies. The beneficiaries are likely to include Australia, Maldives, Japan, Thailand, etc.

Figure 1: China's scheduled flights to EM Asia

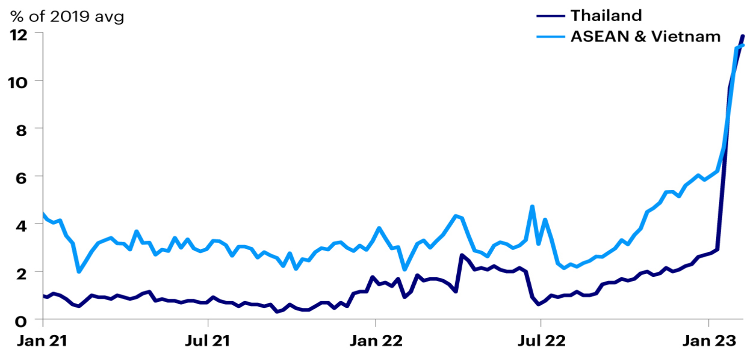
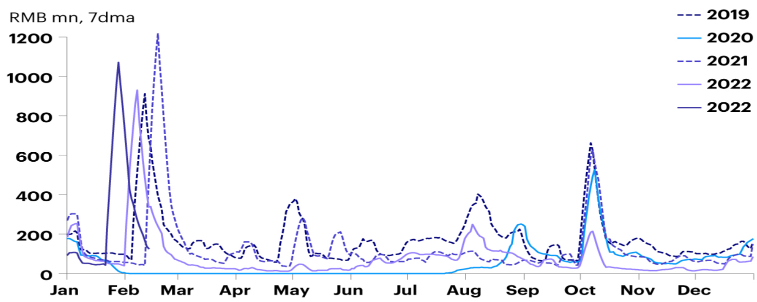


Figure 2: China box office

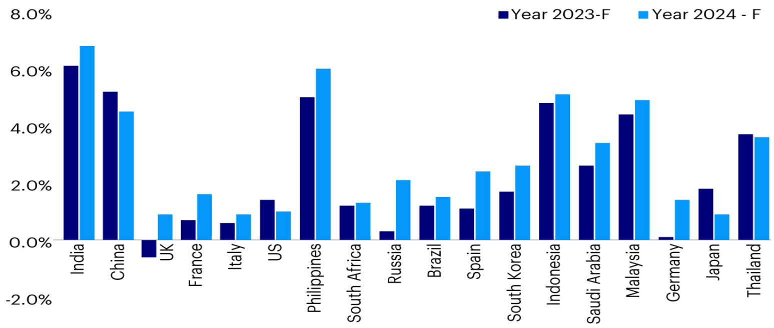


Source: China Film Administration, J.P.Morgan

Q: What role will regulation play in China's economic recovery this year?

A: We expect China to enjoy more supportive policy tailwinds along with the economy recovery. In the latest World Economic Outlook, the International Monetary Fund (IMF) raised its forecast on China's economic growth to 5.2%.[i] During the recent Local People's Congress, most provincial governments released ambitious GDP growth targets of above 5% for 2023. Based on these aspirations, we anticipate that monetary and fiscal policies as well as other sector supports shall remain accommodative so as to act as an additional catalyst for the country's economic recovery.

Figure 3: GDP forecasts by country

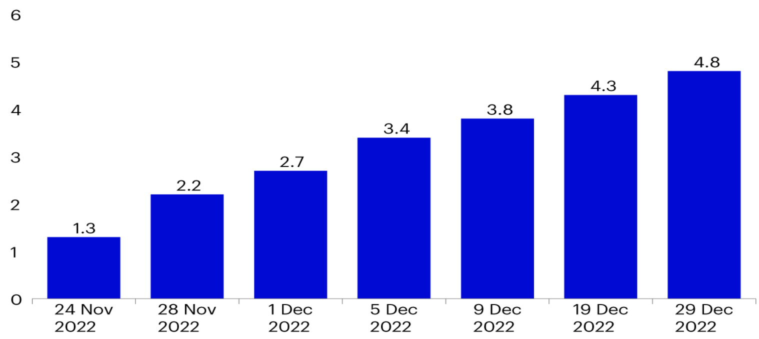


Source: IMF World Economic Outlook. Data as of January 2023. There is no guarantee that the forecast will be reached.

Q: What is your outlook for China's property sector?

A: The real turning point for China property has arrived. The Chinese government finally started supporting property developers to ease the liquidity crunch, which has been leading the recovery in valuations for Asia high yield (HY). We believe the rally that has resulted from an improvement in the sector's fundamentals is likely to continue. Apart from the regulatory support to their financing channels, an improvement in sales is likely to be more critical for the sustainable recovery of China's property sector.

Figure 4: State-owned enterprises and quality privately owned enterprises obtain more credit lines from banks (RMB trillion)



Sources: Company announcement, Cailianshe, Guandian, CREIS, HSBC. Data as of 29 December 2022.

Q: How do you expect the default rates for Asia credit to fare 2023?

A: We believe we will see a much lower default rate for Asia credit in 2023. Default rates are likely to have peaked in 2022 due to the defaults of China HY property issuers. We expect defaults to decrease significantly based on the improvement in the China property sector and the stable credit profile for non-China credits.

Q: Where do you see opportunities in Asia credit in 2023?

A: Asia HY new issues have been noticeably light and are expected to remain muted going forward. Low net supply in Asia HY and China investment grade (IG) can support market technical in 2023. Current valuations of Asian credit especially Asia HY still look very appealing and offer further potential of spread tightening. We still favor China and Hong Kong credit despite the recent outperformance. We also see that Macau credit and selective Southeast Asia credit provide good carry. Australia and Mongolia credit should also benefit from China outbound travel and, more importantly, increased commodity demand.

[i] World Economic Outlook, 30 January 2023, https://www.imf.org/en/Publications/WEO/Issues/2023/01/31/world-economic-outlook-update-january-2023

Invesco

Why Asian credit in 2023?

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

When investing in less developed countries, you should be prepared to accept significantly large fluctuations in value.

Investment in certain securities listed in China can involve significant regulatory constraints that may affect liquidity and/or investment performance.

Important information

This document is for Professional Clients only in Dubai, Jersey, Guernsey, the Isle of Man, Continental Europe (as defined below) and the UK; for Institutional Investors only in the United States, for Sophisticated or Professional Investors in Australia; in New Zealand for wholesale investors (as defined in the Financial Markets Conduct Act); for Professional Investors in Hong Kong; for Qualified Institutional Investors in Japan; in Taiwan for Qualified Institutions/ Sophisticated Investors; in Singapore for Institutional/Accredited Investors; for Qualified Institutional Investors and/or certain specific institutional investors in Thailand; for certain specific sovereign wealth funds and/or Qualified Domestic Institutional Investors approved by local regulators only in the People's Republic of China; for certain specific institutional investors in Malaysia upon request; for certain specific institutional investors in Brunei; for Qualified Professional Investors in Korea; for certain specific institutional investors in Indonesia; for qualified buyers in Philippines for informational purposes only; in Canada, this document is restricted to i) accredited investors and ii) permitted clients as defined under National Instrument 45-106 and 31-103 respectively. It is not intended for and should not be distributed to or relied upon by the public or retail investors. Please do not redistribute this document.

The publication is marketing material and is not intended as a recommendation to invest in any particular asset class, security, or strategy. Regulatory requirements that require impartiality of investment/investment strategy recommendations are therefore not applicable nor are any prohibitions to trade before publication. The information provided is for illustrative purposes only, it should not be relied upon as recommendations to buy or sell securities.

By accepting this document, you consent to communicate with us in English, unless you inform us otherwise.

For the distribution of this document, Continental Europe is defined as Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Ireland, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, and Switzerland.

All articles in this publication are written, unless otherwise stated, by Invesco professionals. The opinions expressed are those of the author or Invesco, are based upon current market conditions and are subject to change without notice. This publication does not form part of any prospectus. This publication contains general information only and does not take into account individual objectives, taxation position or financial needs. Nor does this constitute a recommendation of the suitability of any investment strategy for a particular investor.

Neither Invesco Ltd. nor any of its member companies guarantee the return of capital, distribution of income or the performance of any fund or strategy. Past performance is not a guide to future returns.

This publication is not an invitation to subscribe for shares in a fund nor is it to be construed as an offer to buy or sell any financial instruments. As with all investments, there are associated inherent risks. This publication is by way of information only. This document has been prepared only for those persons to whom Invesco has provided it. It should not be relied upon by anyone else and you may only reproduce, circulate and use this document (or any part of it) with the consent of Invesco. Asset management services are provided by Invesco in accordance with appropriate local legislation and regulations.

Certain products mentioned are available via other affiliated entities. Not all products are available in all jurisdictions.

– in **Hong Kong** by Invesco Hong Kong Limited景順投資管理有限公司, 45/F, Jardine House, 1 Connaught Place, Central, Hong Kong. This document has not been reviewed by the Securities and Futures Commission.

– in **Singapore** by Invesco Asset Management Singapore Ltd, 9 Raffles Place, 18-01 Republic Plaza, Singapore 048619.

– in **Taiwan** by Invesco Taiwan Limited, 22F, No.1, Songzhi Road, Taipei 11047, Taiwan (0800-045-066). **Invesco Taiwan Limited is operated and managed independently.**

– in **Japan** by Invesco Asset Management (Japan) Limited, Roppongi Hills Mori Tower 14F, 6-10-1 Roppongi, Minato-ku, Tokyo 106-6114; Registration Number: The Director-General of Kanto Local Finance Bureau (Kin-sho) 306; Member of the Investment Trusts Association, Japan and the Japan Investment Advisers Association.

– in **Australia** by Invesco Australia Limited (ABN 48 001 693 232), Level 26, 333 Collins Street, Melbourne, Victoria, 3000, Australia which holds an Australian Financial Services Licence number 239916.

This document has been prepared only for those persons to whom Invesco has provided it. It should not be relied upon by anyone else. Information contained in this document may not have been prepared or tailored for an Australian audience and does not constitute an offer of a financial product in Australia. You may only reproduce, circulate and use this document (or any part of it) with the consent of Invesco.

The information in this document has been prepared without taking into account any investor's investment objectives, financial situation or particular needs. Before acting on the information the investor should consider its appropriateness having regard to their investment objectives, financial situation and needs.

You should note that this information:

-may contain references to dollar amounts which are not Australian dollars

-may contain financial information which is not prepared in accordance with Australian law or practices

-may not address risks associated with investment in foreign currency denominated investments and

-does not address Australian tax issues.

-in **New Zealand** by Invesco Australia Limited (ABN 48 001 693 232), Level 26, 333 Collins Street, Melbourne, Victoria, 3000, Australia which holds an Australian Financial Services Licence number 239916.

This document is issued only to wholesale investors (as defined in the Financial Markets Conduct Act) in New Zealand to whom disclosure is not required under Part 3 of the Financial Markets Conduct Act. This document has been prepared only for those persons to whom it has been provided by Invesco.

It should not be relied upon by anyone else and must not be distributed to members of the public in New Zealand. Information contained in this document may not have been prepared or tailored for a New Zealand audience. You may only reproduce, circulate and use this document (or any part of it) with the consent of Invesco. This document does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for, an opinion or guidance on Interests to members of the public in New Zealand. Applications or any requests for information from persons who are members of the public in New Zealand will not be accepted.

– in the **United States** by Invesco Advisers, Inc., Two Peachtree Pointe, 1555 Peachtree Street N.E., Atlanta, Georgia 30309, USA.

– in **Canada** by Invesco Canada Ltd. 120 Bloor Street East, Suite 700, Toronto, Ontario M4W 1B7.

– in **Austria** and **Germany** by Invesco Asset Management Deutschland GmbH, An der Welle 5, 60322 Frankfurt am Main, Germany.

– in **Belgium, Denmark, Finland, France, Greece, Italy, Ireland, Luxembourg, Netherlands, Norway, Portugal, Spain** and **Sweden** by Invesco Management S.A., President Building, 37A Avenue JF Kennedy, L-1855 Luxembourg, regulated by the Commission de Surveillance du Secteur Financier, Luxembourg.

– in **Dubai** by Invesco Asset Management Limited, PO Box 506599, DIFC Precinct Building No 4, Level 3, Office 305, Dubai, United Arab Emirates. Regulated by the Dubai Financial Services Authority.

– in the **Isle of Man, Jersey,** Guernsey and the UK by Invesco Asset Management Limited, Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire, RG9 1HH, United Kingdom. Authorised and regulated by the Financial Conduct Authority.

– in **Switzerland** by Invesco Asset Management (Schweiz) AG, Talacker 34, 8001 Zurich, Switzerland.