# Bonds, Bloomberg and bunnies – what's the link?

It's all about a shift in global capital markets that's coming in time for Easter

Easter is coming but what links the Easter bunny and fixed income investors?

Both will be busy both prior to and during Easter, but for different reasons. For the bunny, it's about distributing eggs. For fixed income investors, however, it's about adapting to a big change in global capital markets.

**Chinese bonds are being included in Bloomberg's bond index from April**

That's because from April 1, Bloomberg will begin including China onshore bonds in its Bloomberg Barclays Global Aggregate Bond Index.

Index inclusion will happen over 20 months and the onshore asset classes chosen will have an approximate 6% weighting in the Bloomberg Barclays Global Aggregate Bond Index, which has an approximate market cap of USD 2.94 trillion .

The bond classes selected for index inclusion are government bonds, which are the safest and most liquid asset class available in the onshore China bond market.

**A shift for global capital markets**

And though index changes happen all the time, we believe this one is significant because:

- Adding onshore China bonds into a global index signals the asset class is 'safe-to-swim' for international investors;
- Other indexes, like FTSE Russell and JPMorgan, will likely follow suit in 2019;

We expect strong foreign capital inflows into China's onshore markets, estimated at USD 250bn to USD 500bn by 2021

**With benefits for investors**

But index inclusion will do more than just push global investors to China's bond markets; it will also bring benefits too, including:

- Positive nominal yields vs. developed markets: China 10-year government bonds offered nominal yields of 3.12% at the end of January 2019, compared with 2.67% for US 10-year treasuries, -0.02% for Japanese 10-year treasuries, and 1.22% for UK 10-year treasuries
- Access to attractive real yields vs. developed markets: China 10-year government bonds offered real yields of 1.21% at the end of January 2019, compared with 0.48% for US 10-year treasuries, -0.10% for Japanese 10-year treasuries, and -0.68% for UK 10-year treasuries
- Diversification benefits: China government bond benchmarks have low correlation to other major bond indices
- A recent track record of strong performance. The Barclays China Aggregate returned 9.46% in 2018, compared with -0.3% for US Treasuries, and -0.5% for the S&P 500 index

So while April will be a busy time for the Easter bunny, it should also be a busy time for global investors.

That's because the benefits from index inclusion and the implied shifts in global capital markets means that China is now, more than ever, too big to ignore.

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