

# Investing in a new world

## China Fixed Income

China's fixed income markets are integrating with the global economy and opening up a new world for global bond investors. In a world where yields are turning negative and bond markets are becoming more volatile, China's onshore fixed income markets can offer attractive yields with low correlation and low volatility.

### Why China fixed income?

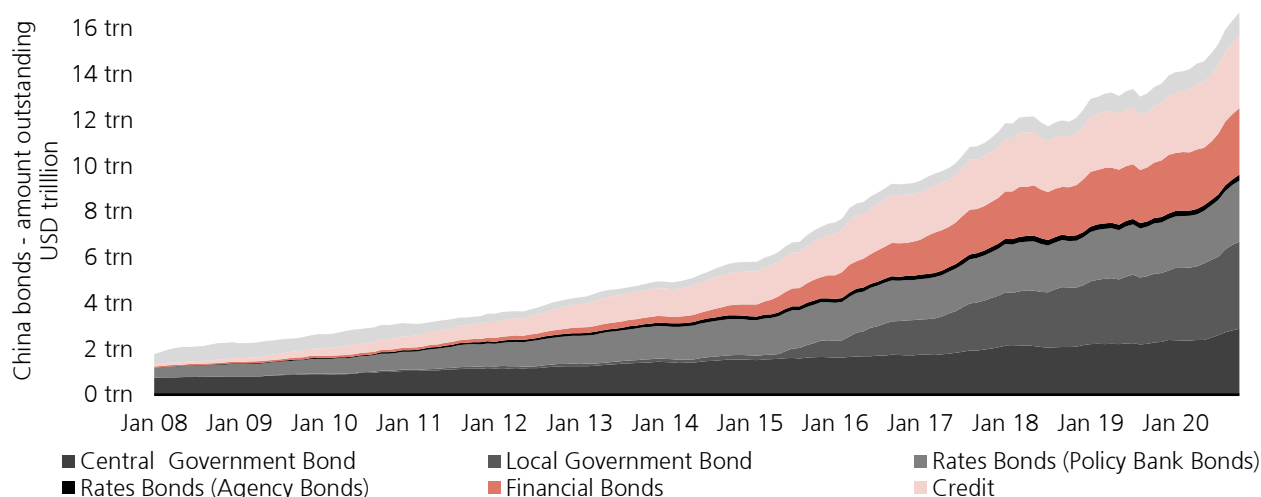
Given the challenges of negative yields and rising volatility, the growing China onshore fixed income market offers attractive yield potential and diversification advantages over traditional fixed income allocations, particularly in the government and policy bank sectors.

Several megatrends also strengthen the investment case for China fixed income: the rise of RMB as a reserve currency, the growth of China's pension industry and the influence of China on the world economy.



### China - now the world's second largest bond market

China's onshore bond markets have grown to become the second largest in the world, overtaking Japan, and reaching USD 15 trillion at the end of October 2020.



Source: WIND, UBS Asset Management. As of end October 2020

## Attractive yields

China bonds offer superior yields against most global government bond benchmarks, and we expect this to continue to be the case given the differences in China's monetary policy regime versus the rest of the developed world's.

## Low volatility

China's bond markets have been markedly less volatile than those of global markets: largely because the China domestic bond market is dominated by domestic investors and the China banking sector holds a large part of the bond market – two factors which are unlikely to change in the near-term.



Source: Bloomberg, 24 January 2021. Data is on a USD-unhedged basis. Countries and areas represented by Bloomberg Barclays or JP Morgan Indices.

## Low correlation

The asset class provides diversification benefits against global asset benchmarks. China's economy and policy cycles are not as directly influenced by US Federal Reserve policies or volatility in the US banking sector, as some other developed economies are.

## Safe haven properties

China government bonds have performed well during periods of volatility, which suggest that they have potential to serve as a safe haven asset for global investors.

## RMB reserve currency

The inclusion of the RMB into the Special Drawing Rights (SDR) Basket of currencies in 2015 triggered expectations that the RMB could establish itself as a reserve currency relatively quickly. The RMB is closing the gap with the Japanese yen and UK sterling and may become the third largest global reserve currency in the future.

Nonetheless, for all of China's progress, some challenges remain. Investors need to navigate the nuances of China's corporate structures, linkages to the state and liquidity in some credit pockets.

As we expect the China credit markets to evolve rapidly, we encourage new investors to seek out solutions that offer relatively attractive yields without sacrificing on credit quality, and to take advantage of the defensive characteristics that are in short supply globally today.

Challenges like this reinforce the value proposition of local expertise and deep networks across China's financial markets. We believe that an established China presence can help cut through the noise surrounding China and help investors to access a strategic and essential part of a global asset allocation strategy.

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**Americas**

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**UBS AG**

Asset Management  
P.O. Box  
CH-8098 Zürich  
ubs.com/am

