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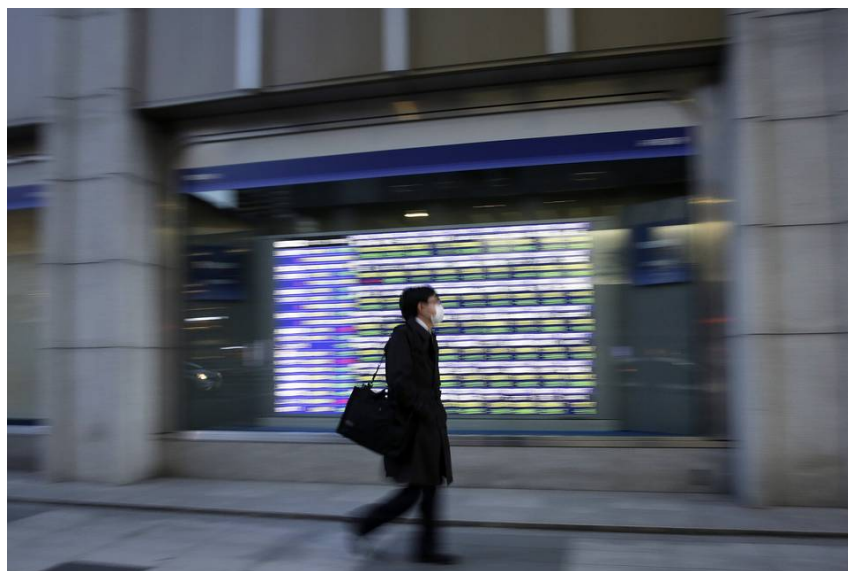
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MARKETS

Asian Bond Markets Becoming Sickly Thanks to Stock Slide

Selloff hits even well-performing bonds as investors try to cover their losses



A pedestrian walks past an electronic stock board outside a securities firm in Tokyo last week. The trouble with stocks in Asia is spreading to bonds as investors sell to cover their losses. *PHOTO: BLOOMBERG NEWS*

By **FIONA LAW** and **ANJANI TRIVEDI**

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HONG KONG—Asian bond markets are starting to take a hit from the slump in regional stocks this year, with wealthy investors in particular losing faith in the risky debt they piled into in recent years.

Some investors are selling down their holdings in bonds even if they have performed well, to cover losses suffered in equity markets—an example of so-called portfolio contagion, which occurs when problems in one part of the financial market spread to other areas.

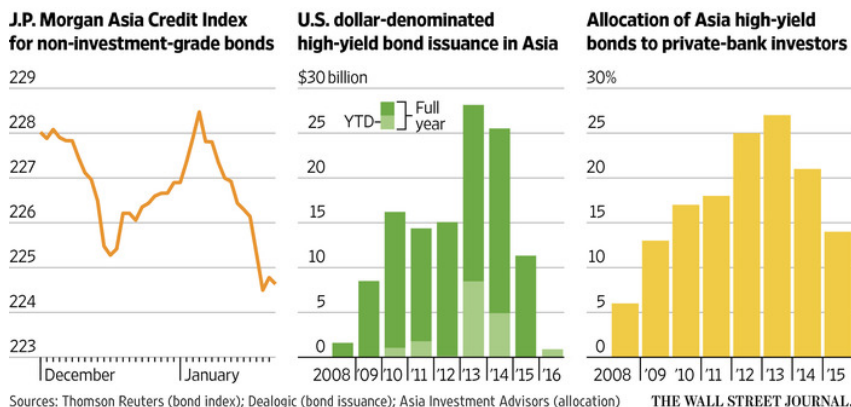
The average return for funds that buy bonds issued by companies across Asia was

negative 0.4% last week, according to fund tracker Morningstar, with around 85% of such funds experiencing negative returns. The overall decline was small, but it marked a shift from the previous two weeks of 2016, when Asian bonds held up well even as equity markets were plummeting.

The main area of stress so far is among high-yield bonds, which are issued by companies that have low credit ratings and often operate in volatile sectors, but which have offered investors generous coupons at a time of low global interest rates.

Out of Favor

Asian junk-bond prices and issuance are falling as wealthy investors, who have been big buyers, dump their holdings.



Asian high-yield bonds fell for 10 straight trading days through Friday, their longest streak of daily price slumps since 2011, according to the non-investment-grade component of the J.P. Morgan Asia Credit Index. The index, a broad gauge of performance of high-yield bonds in the region, rose 5.8% last year and 5.5% in 2014. It is down more than 1%

this year.

The high-yield market has ballooned in Asia in recent years. The issuance of such bonds totaled \$94.4 billion in the five years from 2011 to 2015, compared with \$41.7 billion from 2006 to 2010, according to Dealogic.

In the U.S., problems with high-yield bonds have mostly been related to the energy sector, as companies there struggle with the collapse in oil and gas prices.

In Asia, property companies are high on the list of the vulnerable, given their high debt. Among the bonds encountering trouble are those of Chinese real-estate developer Agile Property Holdings Ltd. The yield on its five-year U.S. dollar-denominated bonds has surged to a three-month high, reaching 8.1% on Wednesday from 6.7% three weeks ago. Bond yields rise when prices fall.

The price of a 10-year bond of Country Garden Holdings Co., previously perceived as one of the strongest among high-yield property bonds in the region given its growing sales and land acquisitions, has lost almost 4% since the start of the year, sending its yield to 7.4%, its highest since September.

Bond traders and fund managers say wealthy investors acting through their accounts with private banks have been the most active sellers of high-yield debt, often because they simply want to hold more of their assets in cash at a time of market turbulence.

Many such investors are also selling bonds to pay back loans they took out to buy shares, according to Pracheesh Mishra, head of high-yield and secondary loans trading in Asia-Pacific excluding Japan at Citigroup Inc.

“A lot of selling pressure is coming from private bank investors....The selling [in past weeks] was linked to weak equities in [Chinese] A-shares and Hong Kong,” Mr. Mishra said. “Investors who have outright equities or structured equities face margin calls. Some of them have been selling credit to raise money for that.”

Wealthy investors have long been the key buyers in Asia’s high-yield-bond market, usually through accounts they hold at private banks. In 2013, they bought up almost 30% of the \$28 billion of high-yield bonds issued that year, up from 6% in 2008. Chinese property developer Kaisa Group Holdings Ltd., which is now in default on more than \$2.5 billion worth of bonds, sold a sixth of its junk-rated debt to private banks between 2010 and 2015.

Demand from deep-pocketed investors helped companies raise capital at relatively low borrowing costs even if they were already highly indebted. Debt has consistently risen as a multiple of earnings for Asian companies to five times now on average, from 4.2 times two years ago, according to Moody’s Investors Service.

Yet confidence among wealthy clients has been “faltering of late,” said Elaine Ngim, Asia head of fixed income at private bank Coutts. “The selloff of the China market followed by a broad-based risk reduction [has] taken the Asian [high-yield] market along, finally.”

Ms. Ngim said Coutts had “taken a more cautious approach towards Asian [high-yield] bonds towards the last quarter of 2015,” given concerns about their financial positions and the high valuation of such bonds.

Others said the Asian high-yield-bond market has become a victim of its earlier success in raising billions of dollars from rich investors, who have now become more wary as the rate of corporate-bond defaults has crept up.

Unlike big fund managers who own hundreds of bonds, private-bank investors normally hold only 10 to 15 bonds, said Dilip Parameswaran, chief of the Asian bond-focused Asia Investment Advisors, meaning they can get nervous quickly when market conditions

worsen.

Private-bank investors “are also a bit scared by some of the defaults last year,” Mr. Parameswaran said. “Even if one defaults, it’s a big loss to them.”

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