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**YVONNE MAN, BLOOMBERG:**

Let's bring in Annisa Lee, EVP, and Head of APAC Credit Research at PIMCO. She joins us also here in our Hong Kong studios. Annisa, great to have you. I mean, is the Fed done?

**ANNISA LEE, PIMCO:**

Well, I guess it's really data dependent, right? So we have to wait for data. But I think our house view is that probably it would start cutting rates, maybe second half next year. So for now, I think it all depends on how the data would go.

**RISHAAD SALAMAT, BLOOMBERG:**

It's a curious one, isn't it? Because people are almost willing- you know, pricing in perhaps a recession. And that's why we've got these rate cuts being priced in as they are. But when they do that, what they've also done at the same time, there are loosened financial conditions. And those financial conditions are much looser than they were, let's say seven months or eight months ago. So that can actually mean that we have a market which is supporting the economy, and it could move the Fed in the opposite direction.

**LEE:**

It depends. I think, you know, the Fed is definitely flexible, right? If they actually see growth is actually definitely slowing down, then maybe they will ease a little bit more. But if it's not, if it's just a mild recession, it's probably not a bad thing for fixing the market.

**MAN:**

So what does it mean for Asia credit? Well, will 2024 be a better year than this year?

**LEE:**

I definitely think so. I think next year, probably it's better than this year, mainly because, you know, I think the Fed is stabilizing their rates. And that would mean that there would be more demand for US dollar bonds and there would be more issuance coming out to the dollar bond market to issue because previously, like today, a lot of companies don't want to actually come out to issue because the base rates keep rising. So now, when they actually see it stabilizing, they will actually come up for their long-term–

**SALAMAT:**

But also refinancing is going to be involved here too. And, you know, they have to refinance all of these companies. At the point, is this going to be the demand, enough demand as well?

**LEE:**

Yes and no. Because a lot of companies in Indonesia and also in India, they can actually get decent assets to bank loans. So, prices are a lot cheaper than issuing bonds right now. So I guess, you know, there would be some companies that would need to come out to issue no matter what. But I think there will be a lot more companies that actually be able to find alternatives by getting bank funds.

**MAN:**

IG spreads, I mean, have tightened quite sharply in Asia. I think in the region, it's at record lows right now. Do you think that's sustainable?

**LEE:**

Well, I think you need to actually look into it from an A-rated spreads, Triple-B spreads then, you know, is actually not that bad. So, we actually do think that the Triple-B space may offer some value. I would say, yeah, single A-rated names, they are relatively tight. But, you know, I think the Triple-B space does offer some value.

**SALAMAT:**

Any particular industry groups you look at in particular?

**LEE:**

Well, I think Indonesian quasi-sovereigns are decent. And some privately owned enterprises in China, they're not bad. Some Korean corporates, they also offer value. So, I think there's some pockets of opportunities to make money next year.

**MAN:**

I also want to get your take on, you know, given how IG spreads have really tightened. Is this a reflection of economic conditions? Is that an accurate way of looking at how the economy is going to play out there–

**SALAMAT:**

And are they expensive?

**LEE:**

Well, I think some of them are expensive, but also because for this year, the issuance is actually at an all time low. So, that's why there's no supply coming out to the market. And there are also not a lot of outflows going out of the region. So, which makes spreads go tighter, right? And also, you think about it. A lot of times, corporates, they can get quite cheap funding on shore and do not need to issue dollar bonds. And I think there's a lot of technical issues why spreads have been so tight this year.

**MAN:**

Let's bring back Anissa Lee, EVP, and head of APAC Credit Research at PIMCO. If you look at the China Credit Universe right now, do you think it's investible?

**LEE:**

I think so. I think it's really about valuation. It's actually not that cheap, especially for those Single-A rated stable enterprises. So I think that part may not be that cheap to invest. But I guess given what has happened over the past two years, given what the defaults that we have already seen, one should basically be holding up a high hurdle in terms of investments. It should actually come on a higher risk premium when we invest into Chinese credits. But I still do think that it's investible. And we do see values in some of the Triple-B PoE leanings that offers value to investors.

**SALAMAT:**

I mean, a lot of this is of course related to these corporates as well. Do you look at the dollar? Some things will look at the local denominated debt. That's the point here. And of course, there's some industry groups that you're going to stay way, way, way from and what will those be? Property perhaps? I don't know, you may even find pockets there.

**LEE:**

Yeah. Well, I think we are still cautious on property names. But there are a lot of privately owned enterprises that are actually in the industry that the government is actually pushing. So like semiconductor or some automobile names, right? Which, I think there is still value there.

**MAN:**

How concerned should we be about the property space? I mean, we've actually seen high yield done pretty well in November. Is there a chance here that maybe there's an opportunity here that we're kind of overlooking? Right now. I mean, given that we have seen more, I guess, targeted measures towards the property market?

**LEE:**

Overall, we're still cautious on the China property space, because we do think that it takes time for sales to recover. So we will take another one or two years to recover. But if you actually look at the dollar bond space, right? There are not too many remaining property names. And those are either stable enterprises or relatively strong PoEs. So there are still some names, which we like. And I think the worst is probably over.

**MAN:**

How do you look at defaults for next year?

**LEE:**

It will be a lot less, because I think the majority of defaults have already happened. I can't say there won't be any, but I think the majority of them have already done.

**SALAMAT:**

Okay. But we see probably, of course, the measures taken thus far. I mean, doesn’t it scream for the further loosening of monetary policy? Doesn't also the inflation print over the weekend also tell us that they should be perhaps loosening and making financial conditions that much more- well they're not tight, but certainly a looser from here on in to do something about what's going on, not just with the economy, but actually for these companies?

**LEE:**

I think the government has already been trying to loosen up the financing conditions, just as there's no sufficient credit demand. So I think what needs to be done is really for the government to provide a lot more easing via fiscal measures to boost consumption and to make sure that the economy is actually back on track. And I guess, given that they probably wanted to stabilize growth for next year, they should actually be doing a bit more easing as compared to this year.

**MAN:**

Do you see those contingent effects coming through from the property market? How does it impact the banks, for example, also when it comes to these LGFEs?

**LEE:**

I think longer term, yes. I think near term, the banks will still be quite okay. If you actually look at the MPLs, it's still pretty low. Also, I think the government has been trying to be supportive to the LGFEs space. So I don't see that there would be a lot of defaults within the LGFEs space over the next 12 months. Longer term, would this be a potential concern? Yes. But I think near term, the banks should actually be still doing okay.

**SALAMAT:**

Annisa, looking at the universe, and looking into also what you're really the moment into. What are your top picks?

**LEE:**

Well, I think, as I said, IG space is actually not a bad space to invest in. Given that right now, we're expecting the Fed to just slow down the hiking cycle, or even stop. So if you actually look at some of the IG bonds, giving you 6% or 7% all in yield is actually not bad. Otherwise, we do like some Japanese banks, TLAC, 81s, some Australian names in the transportation sector, and the industrial retail sector, which basically offer 10-20 BPs pick up over US IG names, is also good. Otherwise, within the high-yield space, there's some selective Chinese and Indonesian high-yield space, high-yield names that we do like.

**MAN:**

What excites you the most about next year in Asia credit?

**LEE:**

I think next year, probably, there will be a bit more new issuances coming out to the market, which I think everyone wants to have, given that this year, new issuance is so dry. So I think this will be one good thing. And also, I think what China will be doing also would be everyone's expectation, trying to actually have something positive in the market.

**SALAMAT:**

Active or passive next year?

**LEE:**

Active all the time.

**MAN:**

Annisa, great to have you. Annisa Lee there; EVP and Head of APAC Credit Research at PIMCO.