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Credit Suisse Asset Management: Champion of Asian Fixed Income, Ready the Chinese Revolution

Alexandre Bouchardy is just as at home on the golf course as he is in investment management meetings. A former member of the Swiss national amateur golf team, his drive to excel is today directed to his role as Managing Director and Head of Credit Suisse Asset Management Singapore, as well as Head of Fixed Income and Equities Asia. He recently met with us to talk about golf and his love of skiing, but most importantly for Hubbis readers to explain his vision of how the Asian and global fixed income markets are evolving, and how Credit Suisse is ideally placed to exploit the opening of China's vast onshore bond market.

BOUCHARDY BEGINS BY ZOOMING IN on one of his favourite topics, the global fixed income markets, and Asian markets in particular.

"In late 2018," Bouchardy comments, "we saw a very rare confluence of events, including significant spread widening across emerging markets, even more so I would say in Asia due to the trade war escalation between the US and China, yet at the same time balance sheets had generally continued to improve, as they had for roughly the preceding two years. That was rare, so we saw spreads on Asia high yield at the same level as in 2015 when there was much talk about a global recession and the risk of global deflation."

The result was very attractive valuations from a fundamental point of view. "We felt that it, therefore, represented a great opportunity and that proved to be the case, as in Q1 this year the Fed paused, the global trade war fears receded, GDP growth in China appeared to stabilise on the back of fiscal expansion and monetary ease, and the outcome was rather fantastic."

Next stop?

But what do Bouchardy and his team see next? Bouchardy maintains that the Fed must at some stage tighten, in 2020 or 2021, for fear of inflation reaping havoc again, especially as unemployment is at its lowest level in two decades. "This means that the US monetary policy will again tighten, and we therefore need to keep a really close watch on those countries, currencies and issuers that are most exposed in the Dollar space. We saw last year that countries with weak external positions suffered significantly. Accordingly, we continue to focus on strong balance sheets and with little or low exposure. This means, we believe, that issuers from India for instance are more vulnerable and are therefore underweight."

Bouchardy highlights a new fixed-maturity fund the firm launched in January, and that matures in 2023. The fund is buying in the region of 100 to 150 issuers, and Credit Suisse will distribute a fixed coupon based on the outcome but targeted at LIBOR plus 200 basis points.

Floating ambitions

"We are in fact targeting plus roughly 300 basis points, before fees," he adds, "but that is a target, not a guarantee. The key attractions are the fixed maturity, a high degree of diversification resulting in stable cash flows, and all professionally managed. And a key difference in this fund is that returns we swap the interest rate risk to LIBOR, so the pay-out is a spread over that."

Bouchardy offers more clarification on the appeal of the floating-rate return. "This is a major feature," he elucidates, "as there is currently an inverted yield curve - in other words, yields are lower at longer maturities. Accordingly, with a floating rate note, we are actually reducing interest rate risk and enhancing yield. Markets are evidently expecting interest rates to be cut, but our main scenario, is that the Fed will not cut further, it will hike further down the road. So, we seek diversification, floating rate exposure and a professional management of the portfolio with a majority of high-grade papers."

Even in the worst case scenario...

Bouchardy also knows that things can change. "The worst possible scenario is the Fed slashing interest rates to zero, so LIBOR going to zero, but assuming little or no default on the portfolio, we are still left with the 3% spread. And if the

Key Priorities

Bouchardy highlights several key missions for the foreseeable future. China is top-of-mind as it represents an immense opportunity for investors to diversify out of the US Dollars, Euros, and Yen into a vast, new fixed-income space. "Secondly," he says, "we must continue to perform for our clients, and finally, from a business strategy perspective we must continue to attract the right talent to come to us and stay with us, in particular, those with knowledge of China and Chinese issuers."

Bouchardy closes the discussion by advising investors to opt for professional management of their bond holdings. "An institutional approach," he says, "is really important in order to secure institutional allocations in new issues, a high degree of credit monitoring expertise and therefore a well-balanced and well-diversified portfolio. We have thus far managed to offer our investors funds that match their needs to market conditions, and with our deep understanding of Asian fixed income and our innovative, imaginative yet also consistent approach, there are some excellent opportunities ahead."

Fed hikes, then returns will exceed expectations. We extrapolate that the fund can yield between 5.5% and 7.5% depending on whether the Fed ends up being more hawkish or more dovish in terms of further interest rate movements."

Bouchardy turns his attention to China, the world's third largest national domestic bond market after the US and Japan, one that is opening up to the outside world due to regulation and rising demand, also driven by index inclusion from the world's leading index providers.

"This is really a huge development," he comments, "and although this is gradual right now, we see rapidly rising appetite as investors consider more and more China onshore exposure."

A giant awakes

China's renminbi-denominated domestic bond market is worth around USD13 trillion, and from April 1 Bloomberg has included the country's onshore bonds in its Bloomberg Barclays Global Aggregate Index, which portfolio managers around the world use as a benchmark. The result is that China is suddenly totally immersed in the world of global fixed income and must therefore be considered for inclusion by any benchmark-driven fixed-income investor around the world.

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Many see this as one of the most significant developments in global capital markets in many years, and there is little or no doubt that foreign inflows will rise directly and sharply, further catapulting the market in size and importance. Estimates are that the Bloomberg Barclays index inclusion will result in foreign inflows of up to USD2 trillion in the coming five years.

A new world of opportunity

Until now, Bouchardy notes, exposure to Chinese credit has only been available in US dollars, while onshore, Renminbi-denominated credit is now opening up through these changes. "Investors can henceforth diversify to the Renminbi, they can become more directly exposed to China, directly to that economic cycle, to that interest rate cycle, and there is a vast, multi-trillion pool of exposure there to Chinese issuers."

Bouchardy notes that as the past restrictions on foreign investment directly into the domestic currency bond market are being

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lifted, and as index inclusion gathers pace, foreign investors will gradually seek to achieve similar access to the domestic currency market as any onshore institutional investor.

Perfectly placed...

"We are ideally placed to exploit this opportunity for our clients," Bouchardy reports, "as we have an onshore joint venture called ICBC-CS (ICBC Credit Suisse Asset Management), which is one of the largest asset managers onshore in China."

The giant ICBC is the bank, but it is the asset management part of the bank with which Credit Suisse has the JV; the firm has an advisory agreement with them, whereby they provide Credit Suisse inputs, model portfolios and views. "We then feed these into our investment process," Bouchardy explains, "and we then make the final asset allocation decisions for the onshore market, according to our own views and of course given our broad global perspectives. I think it is kind of a best of both worlds scenario for this type of investment focus."

He mines down further into some of the critical challenges faced in China. "It is essential to see the differences," he says, "so for example, one key difference is that a lot of the financing is in the one-year up to three-year maturity range, which is really quite short-term, while in the US maturities tend to be much longer."

"This really is a fantastic opportunity, as it is a new market opening up offering exposure to the third largest bond market in the world with a high degree of strong performance historically. Moreover, this is not a market with high inflation, as China is a low-inflation economy."

Secondly, he notes that the market there is starting to see an increasing level of default rates as it moves to more of a capitalist-style model. "This might seem negative," Bouchardy comments, "but actually it creates a lot of opportunities because you are starting to see a credit curve evolving more clearly, and that means more differentiation between the stronger and weaker issuers in terms of yield. If played properly, this offers investors a great opportunity."

Getting Personal

Bouchardy is a native of the lovely Geneva in his home country of Switzerland. He completed his Master's in Economics and Finance at HEC in Lausanne, along the lake from Geneva. "I began with Credit Suisse straight after graduation," he recalls, "starting in asset management as a young economist in the fixed-income department in Zurich."

Early on in his career, he was exposed to some fascinating esoteric and innovative techniques, such as using inflation swaps to diversify the exposure and to hedge against inflation and working within a global fund of roughly USD6 billion. "Credit Suisse has really been an incredible place to learn fast and well," he notes, "as here I am about 17 years later and still enjoying my working life at Credit Suisse."

Bouchardy moved to Singapore in 2012 to set up the fixed income team, focusing on Asian debt. "We wanted to develop the pure Asian investment capability, and we have done so successfully. We have since inception launched four fixed income strategies and some of them have been spectacularly successful, for example back in 2016 the team raised more than USD3.3 billion from a broadly diversified 3-year fixed maturity bond strategy. And another successful product around that time was a strategy focusing on Asian corporate bonds in US dollars."

Bouchardy adds that the team launched its initiatives in the region with five people, and he then hired five additional investment professionals, all of whom are still with the firm in Singapore and Hong Kong. "Everyone has done really well," he reports, "and we are 10-strong now and managing almost USD10 billion."

Bouchardy is married to a Swiss lady who also hails from Geneva, and together they have two very young children under the age of three.

He is not only an accomplished and passionate skier, but he is also an expert golfer who between the ages of 15 and 22 represented Switzerland in the amateur national golf team. In 1998, he came 12th in the World University Championship in South Africa.

"I was lucky enough to get down to a handicap of plus one at my very best," he reports. "I have enjoyed playing golf all over the world, with great memories of courses such as Ballybunion in Ireland, and here in Singapore I most enjoy Sentosa Serapong, which is a great challenge, a long and beautiful course."

In the little spare time that his demanding job at Credit Suisse and his young family leaves, Bouchardy is also learning guitar. "Honestly, I do not really have the time to make much progress," he admits, "so I would say this is not yet a real passion. I do however have a great teacher, a local Singaporean here. Frankly, though, I am better at gardening, and have even managed to grow some tasty limes."