

It has only been 3 months since the Evergrande debacle when the largest Chinese developer defaulted on certain obligations with more than \$300 billion in debt, including \$20 billion in international bonds. Evergrande has stated they intend to finish all construction projects already started in order to pay off remaining debt, but with the market pricing their bonds at \$.15 skepticism is rampant. Recently the bonds of two other major developers with investment grade credit have seen their bond prices go from above par to below \$.60 over the last quarter. The government has stated they will not bail out over-leveraged builders at a time when the bloated Chinese real estate market was deleveraging, making the bonds unattractive to investors.

- Official China stats suggest residential real estate is still growing at 1.2% annually, but unofficial data, such as massive discounts developers are offering and vacancy rates, suggest otherwise.
- Country Garden bonds (see chart) are trading at a 40% discount to late 2021 levels after the company announced they are experiencing between 14-40% lower prices from January 2021.
- Speculators are trading bonds from developers at a frenzied pitch with yields to maturity often topping 30% on bonds, with maturities in under 3 years potentially showing a gambler mentality in this segment of the fixed income market.

