Weekly Report and Outlook on Global Markets

11th April 2020

Australia's Huge Household Debt Threatens to Worsen Recession

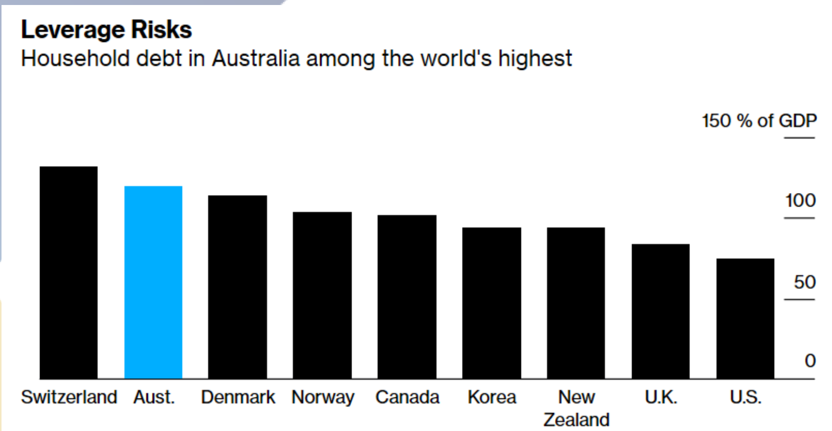

Figure 1: The chart represents household debt as a percentage of GDP for the following countries.

Australia's holds an enviable record of never really experienced a recession for almost 30 years. But that has come with a less desirable record of highly indebted households and sky-high property prices. This raises the risk that the recovery could take longer and could increase financial stability concerns if people can't cover their loans.

Household debt is almost double disposable income, twice the level of the U.S., and well over a year's annual output.

The nation's prudential regulator recently conducted a stress test on banks based on a scenario of unemployment reaching 11%, which they have at present. Under this, lenders incurred significant losses and a substantial reduction in capital, but the latter was sufficient to remain above the regulatory minimum. The risk isn't so much to the financial system that there will be a wave of defaults. But rather the risk was to the economy arising from what highly indebted households would do to avoid defaulting, which is substantially cut back their spending

India Pulls Off First of Record Bond Sales With Higher Costs

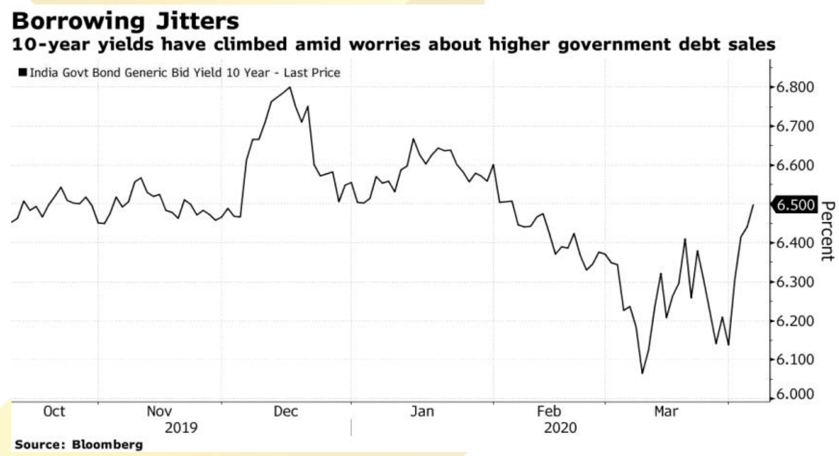

Figure 2: The chart represents global corporate bond sales in the mentioned quarters

The Indian government sold all 100 billion rupees ($1.3 billion) of the benchmark bond, with a bid-to-cover ratio similar to its last sale on Thursday. The administration sold the benchmark 2029 bond at 6.53% cutoff yield, with a bid-to-cover ratio of 2.45 times, similar to the last sale in January. It also sold 50 billion rupees of the new 2022 security at 5.09% yield, and a forty-year note at 7.19% .

Traders have been jittery heading into the first government auction of the fiscal year after states ended up having to offer much higher yields to get their bonds sold earlier in the week. While Thursday's sale met with robust demand in the end, the weekly supply of issuances will jump by more than 20%, raising questions over the appetite of investors in the months ahead.

Under this record-borrowing program the underwriters were almost paid 50 times more in fees, underscoring how nervous primary dealers were over the deluge of debt. The current levels of yields, holding at about 200 basis points over the repo rate are very rare, indicating the RBI will definitely come out with solid action soon to cap the yields.

US Fed unveils $2.3 Trillion in programs to support the economy.

The Fed plan would inject another $2.3 trillion into businesses and revenue-pinched governments. Under provisions outlined for the first time, the loans would be geared toward businesses with up to 10,000 employees and less than $2.5 billion in revenues for 2019.

1. The payroll protection program and other measures are aimed at getting money into small businesses to the tune of $500 billion in lending.
2. While the Fed already has entered the municipal bond market, the latest steps establish a new Municipal Liquidity Facility that will offer up to $500 billion in lending to states and municipalities.
3. The central bank also said it will expand three existing credit facilities aimed at increasing credit to households and businesses to the tune of $850 billion.

Jamie Dimon (CEO- J.P. Morgan) said the coronavirus pandemic will lead to a major economic downturn and stress mirroring the meltdown that nearly brought down the U.S. financial system in 2008.

In his 23-page letter, Dimon who successfully steered the bank through the 2008 financial crisis said tat J.P. Morgan's earnings would be meaningfully down this year, though the bank is unlikely to cut their dividend.

JPMorgan has been waiving fees for some loans, allowing customers to defer payments on mortgages and auto loans, and removing minimum payment requirements on credit cards. It's also extended $950 million in new loans to small businesses over the past 60 days, and is planning to lend an additional $150 billion to clients across the world.

Dimon said JPMorgan has been working closely with the government during the crisis, but the bank "will not request any regulatory relief" for itself. Still, regulators could change capital and liquidity requirements to help more capital flow through the system, he said.

JPMorgan has been stress-testing the impact that adverse scenarios, such as a jump in unemployment to 10% and a 50% drop in the stock market, would have on the bank. The firm's $48 billion in pretax earnings last year would enable it to remain profitable even if revenue fell 20% and credit costs rise $20 billion from 2019, he said.

MAJOR MOVES THIS WEEKS

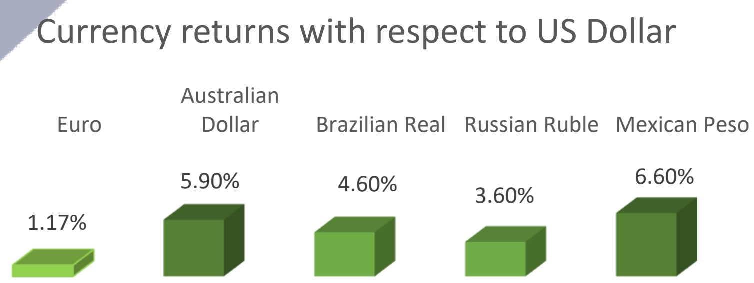

Figure 3: The chart represents currency returns with respect to the US dollar

The dollar remains under pressure suffered from a sell-off as investors favour riskier assets after news of Europe's steady decrease of coronavirus cases, particularly in hotspots like Spain and Italy. Also The US Dollar (USD) also suffered after the US Federal Reserve announced new lending plans with $2.3 trillion dollars being provided to support the American economy. Australian $ rose due to the fact that China has been coming back to life. Brazilian real and Mexican peso after being depreciated intensely last week have pared those losses. Spike in Crude oil has supported Rubel whereas Euro rose marginally after the finance ministers were able to come to a common consensus on Fiscal stimulus

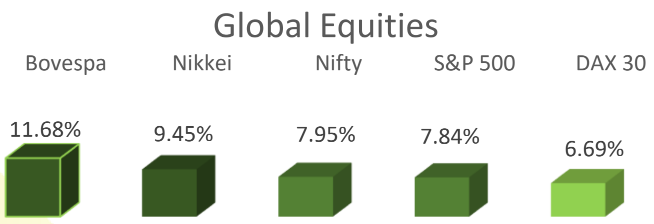

Figure 3: The chart represents the equity index returns over the last week.

Global equities rallied after the extent of corona virus cases reduced drastically over the last week in Europe and China. Over the last week there was also an influx of money into the ETFs in China and Canada which shows a temporary risk on in the market. Central governments through out the world injected cash into the economy in the form of fiscal stimulus. The total fiscal stimulus throughout the world accounted for about 7% to 16% of their GDP over different countries.

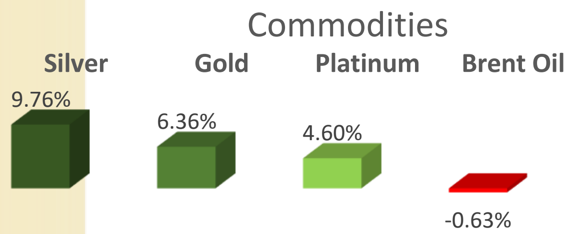

Figure 3: The chart represents the weekly returns of commodity.

The announcement of Trump negotiating a deal between the OPEC+ countried to enable a production cut of over 10 million barrels a day of crude pushed the prices to a weekly high of $36.4 per barrel. However due the delay of discussions within the OPEC+ members, crude prices fell below the week open. Gold and other precious metal rallied due to the influx of money into the economy and the uncertainity posed due to the pandemic.

GLOBAL FUND MANAGER'S STATEMENTS

1) Ray Dalio (Founder, Bridgewater Associates) on TED Connect talks :- " I believe that increasingly there will be questions by bondholders who are receiving negative real and nominal interest rates, while there is a lot of printing of money, about whether the debt assets they are holding are good storeholds of wealth. I believe that cash, which is non-interest-bearing money, will not be the safest asset to hold" – April 8th 2020.

2) Jeffrey Gundlach (CEO, DoubleLine) on twitter :- "A successful near term retest of march lows" was a common consensus opinion no wonder we got such a big, rapid rally instead. The new narrative:" thanks to fed there will be no retest" will likely not come to pass either, leaving "a takeout of March lows" as the base case" – April 10th 2020.

PACE 360'S FUTURE OUTLOOK

"We have witnessed a huge reflation rally over the last week. This was one of the best weeks for risk assets in more than four decades. We believe that there is more upside to come next week but most of the risk assets are not very far from their interim peaks. We believe one should be selling into further rally from these levels as upsides would be somewhat limited in the near term."

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