Weekly Report and Outlook on Global Markets

17th April 2020

'Fallen angel' danger at highest since financial crisis: S&P Global

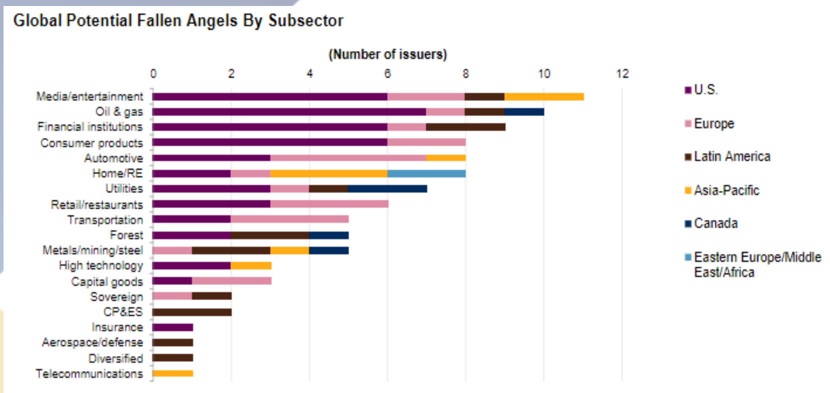

Figure 1: The chart represents Global Potential Fallen angels among respective geographies and industries.

The coronavirus pandemic has pushed the number of companies at risk of having their credit ratings cut to 'junk' to the highest since during the global financial crisis, figures from S&P Global showed on Thursday.

Globally, the tally of 'fallen angels' -- companies or countries whose ratings have been cut to below investment-grade -- has already jumped to 23, the highest since 2015, from just 2 at the end of January. In 2009 the figure was 35.

The list of potential fallen angels has grown substantially as well, especially in sectors where revenues are under pressure from measures to halt the spread of the new coronavirus. S&P said that in March alone, 43 names were added to the list of potential fallen angels, and with 20 more in the first two weeks of April, the total now stands at 96 -- the highest count since the financial crisis.

Muni Bond market reviving after Fed moves to ease cash crunch

Figure 2: The chart represents 10 Year Municipal Yield returning back to its normal level

The Federal Reserve is helping revive the $3.9 Trillion dollar municipal Bond market. Underwriter Raymond James Financial Inc. estimates that as many as 200 new negotiated state and local debt offerings will price over the next few days, almost double the amount issued last week.

That would mark a turnaround for a segment of the capital markets that had virtually shut down after concerns about the coronavirus prompted a series of steep sell-offs last month when investors pulled out their funds. The market has since been steadied, with the Federal Reserve last month moving to increase liquidity for money-market funds and last week rolling out a plan to lend as much as $500 billion to states and local governments to help them avoid a cash crunch in the middle of the pandemic.

USA's Municipal bond mutual funds reported an inflow of cash for the week ended Wednesday, snapping six straight weeks of withdrawals during the record setting retreat by investor.

IMF predicts the world economy to contract by 3% in 2020.

The IMF warned that the world is headed to the worst global recession in almost a century and said that the European countries will be hit harder. Fiscal deficits in Europe are expected to increase by about 6% of the GDP in 2020 which is justified considering the current economic crisis. Output for the European block is expected to fall by 7.5% compared to the global contraction of 3%.

The Expected GDP figures for the major countries in the world are as follows.

Country	Expected GDP growth in 2020
US	-5.9%
Canada	-6.2%
Mexico	-6.6%
Brazil	-5.3%
Argentina	-5.7%
Chile	-4.5%
UK	-6.5%
France	-7.2%
Spain	-8.0%
Germany	-7.0%
Italy	-9.1%
Greece	-10.0%

Country	Expected GDP growth in 2020
Russia	-5.5%
China	1.2%
India	1.9%
Thailand	-6.7%
Malaysia	-1.7%
Indonesia	0.5%
Philippines	0.6%
South Africa	-5.8%
Australia	-6.7%
New Zealand	-7.2%

Major US banks show net increase in revenue but drastic falls in the bottom lines in the first quarter of the 2020.

Banks	EPS	
	Expected	Reported
JP Morgan Chase	$1.84	$0.78
Citi Group	$1.04	$1.05
Morgan Stanley	$1.14	$1.01
Bank of America	$0.46	$0.40
Wells Fargo	$0.33	$0.01
Goldman Sachs	$3.35	$3.11

Major US banks have posted a first quarter profit which is well below the analysts' expectations although the revenue of most banks held up. A similar theme was observed in most banks due to an expected surge in defaults across the lending businesses from credit cards to energy, real estate and retail sector which increased the banks' loan loss reserves and hence ate away into their profits. The top lines of most banks were intact because of a surge in revenue from their trading division in the month of march. Further majority of the trading revenue was from the fixed income and currency segment.

MAJOR MOVES THIS WEEKS

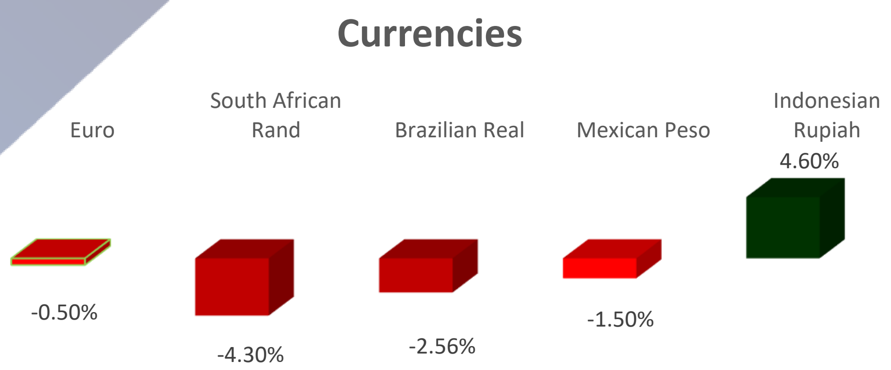

Figure 3: The bar graph represents Currency returns with respect to US Dollar as the base currency for this week

Emerging currencies remained under pressure against the greenback this week after being appreciated in the previous week. Various doubts have emerged in the investor's mind regarding how are these countries going to cope up with the economic impact caused by Covid-19. Adding to their woes, recent credit rating downgrades have impacted South Africa and Mexico dearly. Indonesian Rupiah was one of the very few currencies to appreciate against dollar due to slew of measures taken by central banks. Developed currencies like Euro, Australian Dollar,Yen etc on the other hand traded in a tight range.

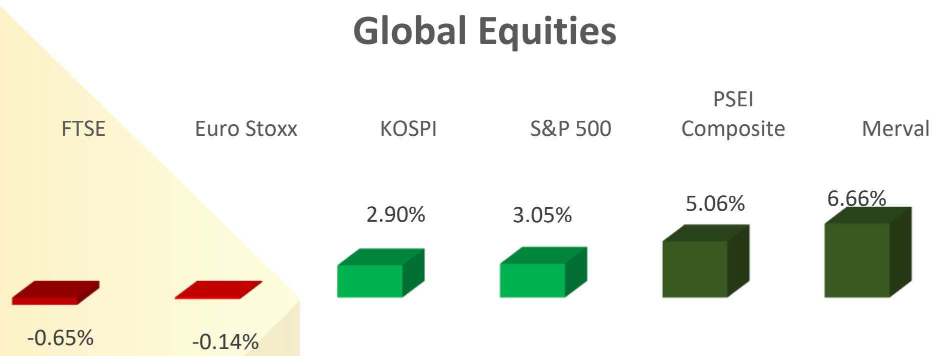

Figure 4: The chart represents the equity index returns over this week.

Most of the Global equities rallied due the prolonged positivity in the market due to the stimulus provided by their respective government authorities and the slow decline in the new Covid-19 cases in US and the world. Though the Q1 2020 results of most companies were negative, the markets are now looking at the future developments and ignoring the impact of the virus in the first two quarters of the year. Stock Index in Europe though gave flat returns, but they rallied intensely in the second half of the week to make up for the losses in the first half.

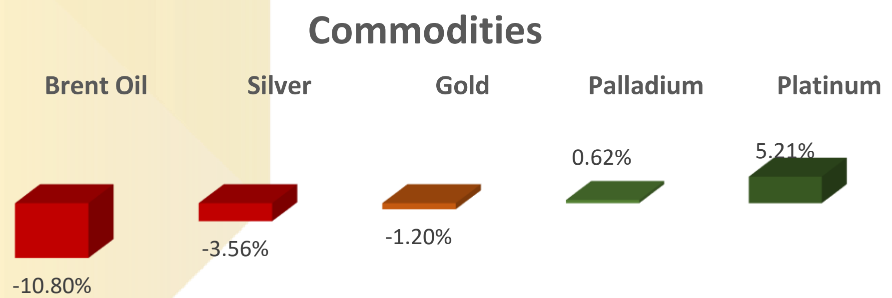

Figure 5: The chart represents the weekly returns of the following commodities.

After the announcement of global production cut of approximately 10 million barrels a day, the crude prices were not affected due to the continuous decline in demand elsewhere. In such dire moments Saudi Arabia decided to extend credit facilities to the producers in the country to cushion the blow caused by the demand decline shock. The news further added to the decline in the crude prices. The precious metals such as gold and silver were down due to profit booking in the risk on environment. However, industrial metals like platinum and palladium futures were up this week due to an upbeat market.

GLOBAL FUND MANAGER’S STATEMENTS

1) Jim Rogers (Co-founder, Quantum Fund) on webinar by NTree :- “ The dollar is not a safe-haven. The US is the biggest debtor in the history of the world. So far, the structure remains intact, but with the huge new debts being matched for size only by the huge money printing operation, it’s only a matter of time. Eventually people are going to say we are not going to take this garbage any more. Printing money has never been bad for stocks and bonds but it does affect the price of real goods. So I expect the rally to continue till November elections but eventually it will end and we’ll get new lows. Last year I started to buy gold and silver. I continue to buy gold and silver, and of the two I’m buying more silver now than gold because on a historic basis it’s much cheaper” – April 16th 2020.

2) Scott Minerd (CEO, Guggenheim Partners) on Bloomberg TV :- " Market is being propped up by excess liquidity and nothing else. My technical team a week or two back calculated the expected rally high to be around 2850 and from there we go down. Investors who rebalanced their portfolio a few weeks ago from Fixed Income to equity should rethink because this rally isn’t sustainable.” – April 17th 2020.

PACE 360’S FUTURE OUTLOOK

“Hope has triumphed over fear in the financial markets over last three weeks. We believe that the path of least resistance over the next couple of weeks is still up and not down. We believe that one can continue to ride the longs on risk assets over the near term. We also reiterate our bullishness on gold over the long term. The current downswing in bullion prices should be used to add to one's investment in both gold and silver. We also like South African Rand, Indian rupee and Czech Koruna as currencies to buy against US Dollar over the next six months.”

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