Weekly Report and Outlook on Global Markets

27th March 2020

Gold markets being tested like never before

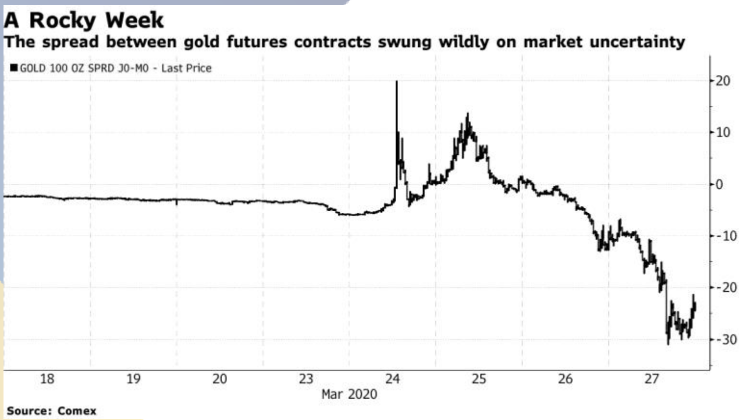

Figure 1: The chart depicts the spread between April and June Gold Contracts

Many traders for year had cashed in on what had been a for-sure bet: going long on physical gold and shorting the futures. But this time due to the virus outbreak and economic collapse there was a price distortion that was observed which made it difficult for these investors to reap profits out of the above mentioned trade.

Due to shutting down of airline services and closing of various gold miners/refiners, from Argentina to Canada, it made it difficult for traders to honour the delivery.

The spread between April and June contracts jump to $20 an ounce, meaning it cost much more to buy metal for April than it did two months later. That signalled more near term demand for bullion and the need to soon have physical supply in hand. By the end of the week though the situation reversed and June contract was trading at a premium of $30 an ounce, suggesting that trader's appetite for gold has subsided for now.

Investors chased newly optimistic corporate credit bets after the Federal Reserve's cannonball

Figure 2: The chart represents iShares iBoxx Investment grade Corporate bond ETF price and its comparison with its NAV . In the second chart premium of price over NAV is depicted as a percentage of NAV

Some of the biggest credit ETFs are trading at sky-high premiums to the value of their underlying assets after the Federal Reserve said it will buy high-grade corporate bonds and ETFs. The terms of the facility allow for the purchase of up to 10% of an issuer's outstanding bonds and up to 20% of the assets of any Investment grade corporate bond ETF .

The iShares iBoxx $ Investment Grade Corporate Bond ETF, the world's biggest credit ETF, for example took in $1.06 billion, largest inflow since 2016, as traders looked to outpace the central bank's purchases and ride a surge in credit health

The ETF closed at a 5% premium to its net asset value on Wednesday -- the biggest divergence on record. Last week, it slumped to a discount of 5% relative to the presumptive value of its bond holdings, the most since 2008 .The risk-on tone has boosted junk bond funds -- which don't meet the Fed's purchasing criteria -- as well, with the $14.4 billion iShares iBoxx High Yield Corporate Bond ETF on track for a 10.43% gain this week

Unemployment Claims soared to 3.3 million

Initial jobless claims soared to 3.28 million in the week ended March 21 which was the highest in history. The previous high was 695,000 claims filed in the week ending October 2, 1982.

Last week's jump marked a massive increase from a revised 282,000 claims in the prior week. Prior to the pandemic, initial claims had been hovering in the low 200,000s each week, reflecting a strong job market.

But in the last couple weeks, the coronavirus outbreak has forced many businesses to suddenly shut down as the country tries to slow the spreading virus. For many businesses that also means laying off or furloughing workers, at least temporarily

ECB will not apply issuer limit in new crisis fighting QE

The European Central Bank will not apply self-imposed purchase limits on its 750 billion euro coronavirus crisis-fighting bond buying scheme and will also expand the list of eligible securities, it said in a legal text.

Under the Pandemic Emergency Purchase Programme, the ECB will be allowed to buy debt with a maturity of as short as 70 days, compared to one year in previous purchases, and a limit on buying no more than 33% of any country's debt, will not apply.

MAJOR MOVES THIS WEEKS

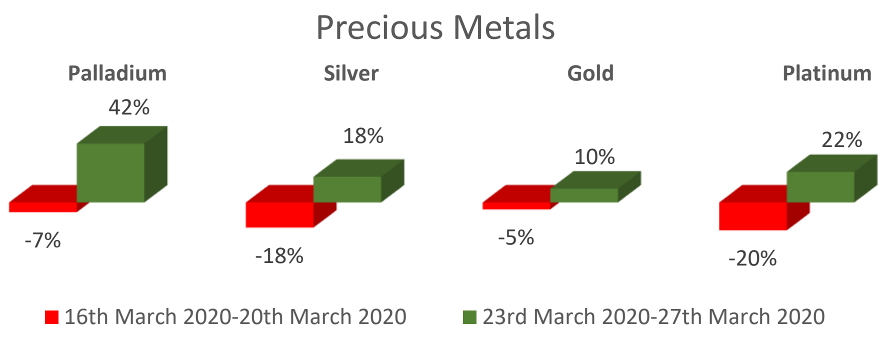

Figure 3: The bar graph represents weekly return comparison of the respective precious metals

This week there were some interesting turn of events for the precious metals segment. After two weeks of decline there were some massive moves this week. Noticeable thing here is that gold underperform all other precious metals. However, we should not forget that gold outperformed all of them in the previous two weeks. Weak dollar index and a risk on rally that took place in most of the asset classes after Fed's announcement of unlimited bond buying and USA Fiscal stimulus amounting to $2 trillion is responsible for such huge moves.

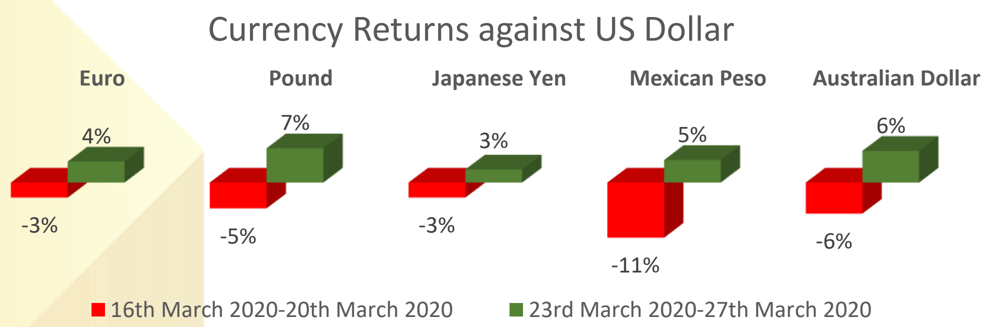

Figure 4: The bar graph represents Currency returns with respect to US Dollar as the base currency

The dollar remains under pressure in response to the recently announced extra monetary stimulus by the Federal Reserve and the government's $2 trillion coronavirus aid package. As a result most of the developed economy currencies appreciated this week with pound leading the way after being depreciated the most. Among the emerging currencies Mexican Peso appreciated 5% with respect to previous week's closing. However, most of the other emerging market currencies remained at par with previous week's closing.

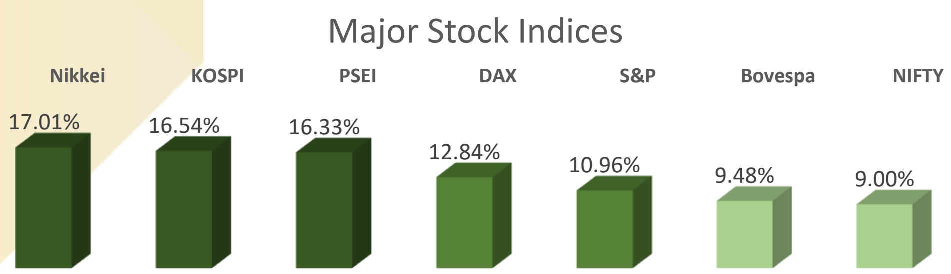

Figure 5: The chart represents Weekly returns of major Stock Index

Owing to the cash hand outs and bond buying, the equity indices throughout the world rebounded from the biggest fall since 2008. There were more than 300 basis points cut in interest rates and $ 5 trillion in new government spending and credit guarantees by the G-20 central banks which gave a relief to the shut down in place to fight the Covid-19 pandemic.

GLOBAL FUND MANAGER'S STATEMENTS

1) Jeffrey Gundlach (Founder, DoubleLine Capital LP) on twitter :- " I can see the S&P 500 making it to around 2700 on this snap back" – March 25th 2020.

2) Mark Mobius (Founder Mobius Capital Partner LLP) :- Mobius also anticipates strength in gold. "I think it's a mistake. People should have gold and this may be a good time to increase holdings in gold -- in fact I'm thinking that myself," – March 23rd 2020.

PACE 360'S FUTURE OUTLOOK

"We believe that the bottom levels made in risk assets on Monday, 23rd March, will stand the test of time. The highs made on Thursday, 26th March, will also not be easy to cross in the near term. So while the near term outlook for risk assets is largely sideways in a broad range, we continue to be bullish over medium and long term. Hence we will continue to buy risk assets on every fall from current levels. We also continue to be extremely bullish on Euro and gold over the medium to long term."

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