Weekly Report and Outlook on Global Markets

15th May 2020

High yield- municipal bond market facing biggest storm in modern history

Figure 1: The Chart depicts Municipal bond index returns vs High Yield Municipal Bond index returns normalized as of 05/14/2019

The US state and local debt market, which is used by over 50,000 issuers, has a well-deserved reputation as one of the world's safest havens. Bankruptcies by local governments remained extremely rare even after the last downturn and no state has defaulted since Arkansas did after the Great Depression. Hence even this time states will remain safer bets even as they contend with massive budget shortfalls

But the High-yield state and local debt has dropped about 9% this year, on track for their worst yearly loss since 2008, according to Bloomberg Barclays indexes. municipal junk-bond market had boomed in recent years as rock-bottom interest rates led investors to plow money into the riskiest securities to capture bigger returns.

UBS had warned clients about the risks of investing in high-yield before the sell-off began in March and said that such debt issued for student housing projects, shopping malls and recycling factories may not recover anytime soon. "The unprecedented monetary and fiscal support for the economy will allow most municipal bond issuers to recover, but the high yield sector is particularly exposed" UBS said in a report

Asian Bonds outperform their peers among Emerging markets

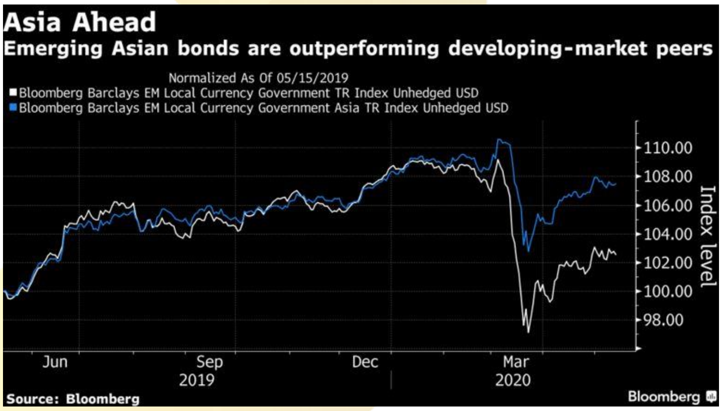

Figure 2: The chart represents EM local currency Asia government Index return vs EM local currency government index return normalized as 05/15/2019

As Asia emerges from a lockdown, consumption and investments are set to fire up again, reviving economies that bore the earliest brunt of the pandemic. South Korean debt and Thai securities are among those primed to do well, investors say.

Policy support has been crucial. Bank Indonesia purchased bonds directly from the government, while the Reserve Bank of India snapped up debt securities in the secondary market. China's central bank has pledged "more powerful" policies to counter the fallout. Global funds are betting on developing Asian debt as the region takes aggressive steps to contain the pandemic and help their economies bounce back. Infections appear to have stabilized in China and South Korea while the number of cases in Taiwan is among the lowest in the world. Regional bonds have fallen less than 1% this year, compared with a 5.8% decline in emerging-market debt, Bloomberg Barclays indexes show. Philippine securities and Chinese notes have outperformed Asian peers so far in 2020.

Negative rate bets are now in U.K. as well

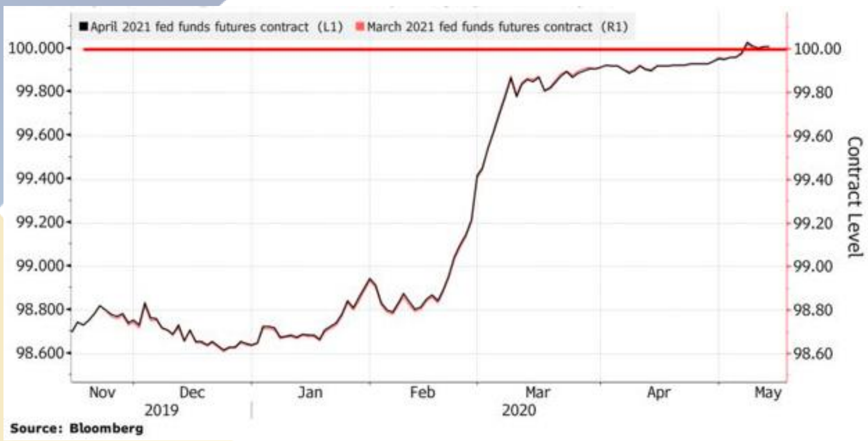

Figure 3: Traders price in negative U.S. Rates by roughly March-April 2021.

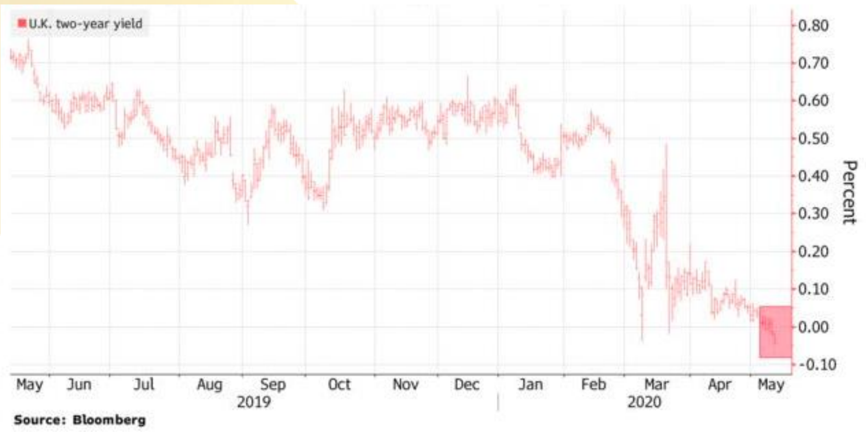

Figure 4: U.K. 2 year yield fall further into negative territory.

Fed funds futures showed negative bets for the 5th consecutive day even after the Federal Reserve Chair Gerome Powell reiterated the fact that the fed is not in favour of negative interest rates.

U.K. Traders became the latest to price in sub-zero rates this week. On Wednesday, after the GDP data showed that the country might see the worst recession in years, triggered a surge in demand for U'K' bond which drove the 2 year yield to the negative territories. Money market swaps, which are used to bet on interest-rate moves, are signalling negative rates in the U.K. for March 2021 after falling almost two basis points to negative 0.007%. Two-year gilt yields fell as much as three basis points to negative 0.046%.

Investors in New Zealand have also see the benchmark interest to get into the negative territory.

OPEC'S swift delivery of New supply cuts

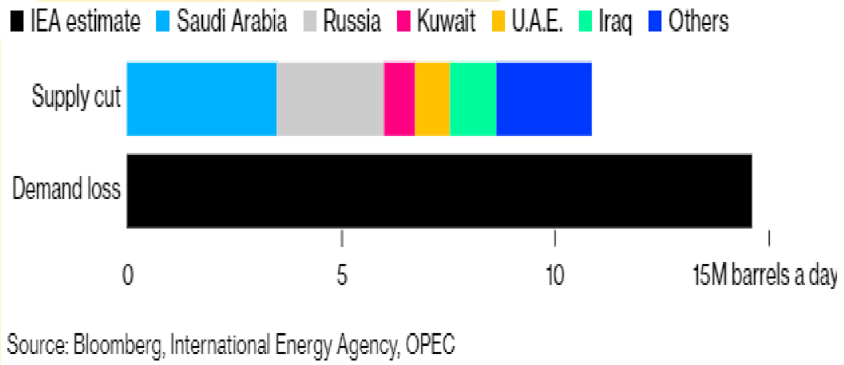

Figure 5: The chart depicts crude oil supply cuts by various producers and total demand loss

The 23-nation coalition is well on its way to cutting 9.7 million barrels of daily crude output -- roughly 10% of global supplies -- in the first two weeks of the agreement, according to tanker-tracking data, interviews with physical crude traders and refiners, and assessments by consultants.

Despite scepticism over the efficacy of the measures unveiled in mid-April by Saudi Arabia, Russia and their partners, compared to the immense hit to demand, the impact has been substantial. Oil prices have recovered by 60% in the past three weeks, as a pick-up in fuel use is complemented by the supply cuts.

Saudi Arabia, having made preparatory curbs before the deal took effect, slashed exports by 2.6 million barrels a day -- or about 28% -- to 6.7 million a day during the first two weeks of May, tanker tracking shows. An additional 1 million barrels a day cut is expected from Saudi Arabia in the month of June.

MAJOR MOVES THIS WEEK

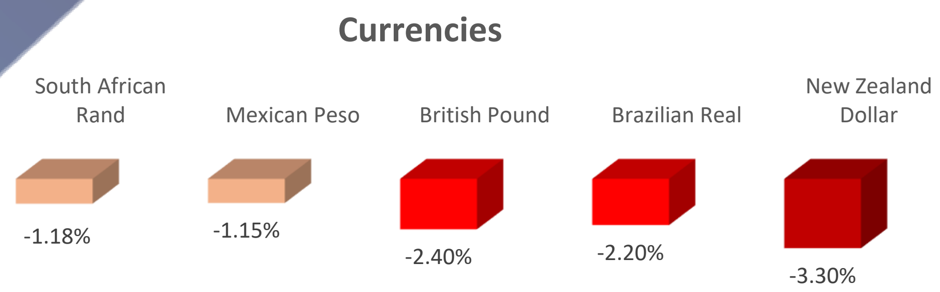

Figure 6: The chart represents Currency returns with respect to US Dollar as the base currency for this week

After a complete risk on period last week in the forex markets situation has settled down a bit. Last week's momentum was capped by chance of a second wave of corona virus' new cases and reignited trade tensions between China and rest of the nations. Most Emerging market currencies as well as other developed market currencies were sideways against the US Dollar. Exceptions however included Brazilian real which continued its downtrend due to political instability , British Pound which depreciated due to uncertainty regarding Brexit talks and trade dependent Australian dollar and New Zealand which depreciated due to rising trade tensions.

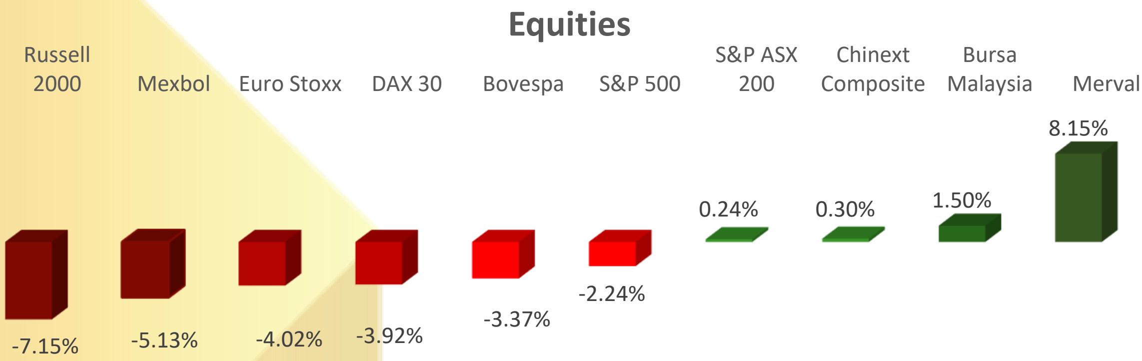

Figure 7: The chart represents the equity index returns over this week.

The Equity markets showed a bearish picture all over the world with a very few exceptions this week. The statements made by Jerome Powell (Federal Reserve Chair) on the slow economic growth and reiterating that the Fed is not in favour of negative interest rates and statement by Donald Trump about the tensions in the trade deal with China brought about a negative sentiment in the market this week. In the US, NASDAQ composite (-1.17% returns this week) performed better than both S&P 500 and Russell 2000 which fell by -2.24% and -7.15% this week. Asian and Latin American indices outperformed the developed market indices by the weeks end.

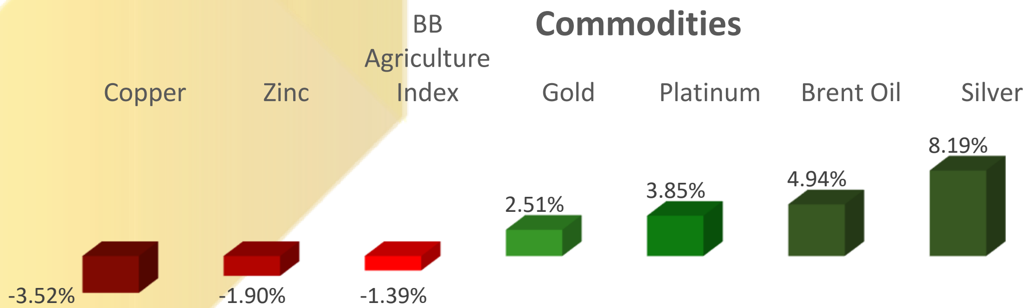

Figure 8: The chart represents the weekly returns of the following commodities.

This week the agricultural commodity and industrial commodity futures were in the red. This was because of the bearish sentiment in the market. All of the precious metals were gainers this week with silver gaining 8.19% in the week ending 15th May. Brent crude has also picked up with an increase in the economic activity in Asia and other parts of the world.

GLOBAL FUND MANAGER'S STATEMENTS

1) Jim Rogers (Co-founder of Quantum Fund & Soros Fund Management) : " The oil consumers will benefit in the coming time compared to the oil producers. The asset class which will out-perform all others is commodities. They've been at a multi-year low and now will out-perform all other asset classes" – in a pod cast on 13th May 2020.

2) Jeffrey Gundlach (Founder, DoubleLine Capital) : "Another two months, another multiple trillion $ relief package proposal. It would bring the running bailout total so far, in just three months, to over 150% of Federal taxes collected in all of the most recent reporting year. "Long Term consequences" not so "long term" anymore. For decades approximately 25% of submitted claims for unemployment benefits were deemed qualified. At present about 75% of these are deemed qualified. It sort of suggests that 2/3 of the stimulus funds are leaking out."- on Twitter, 13th May 2020

PACE 360'S FUTURE OUTLOOK

"We expect the risk assets to continue to be in a broader range for now. However we continue to have a bullish bias over medium term and also over longer term. We are particularly bullish on emerging market currencies over the next few weeks. We continue to be bullish on gold for both medium term and longer term."

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