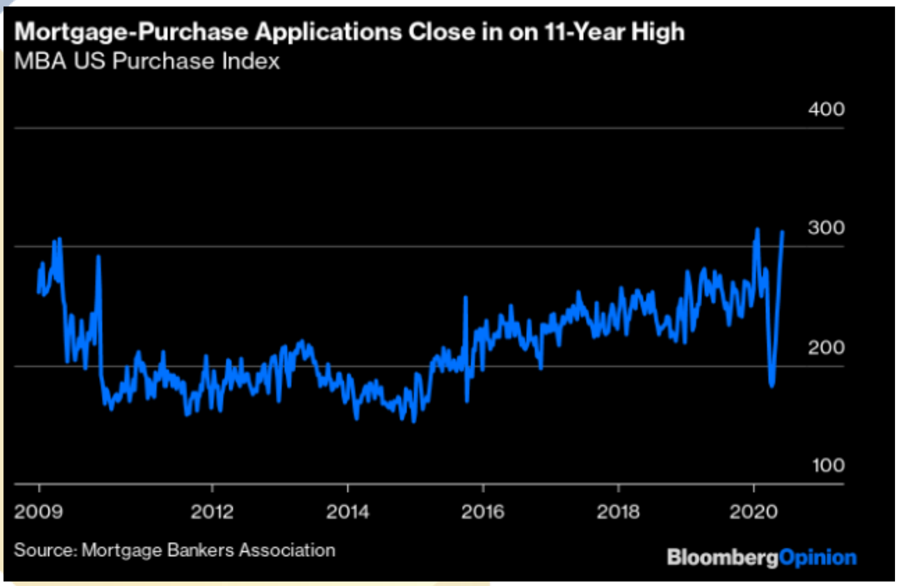
PACE360

Weekly Report and Outlook on Global Markets

20th June 2020

Acceleration in home prices with the economy in a deep freeze.

For various reasons, the supply of homes on the market continues to fall to record lows and home prices are accelerating. The biggest reason we're seeing home-price growth accelerating in the middle of a pandemic is that the disruption to the supply of housing is persisting longer than the disruption to demand -- that is, would-be buyers. Wednesday's weekly mortgage data showed that purchase applications rose for the eighth consecutive week and are approaching an 11-year high on a seasonally adjusted basis. Part of the reason for the quick rebound in demand is surely the decline in interest rates on mortgages to all-time lows, with few signs they are likely to rise for the foreseeable future.



In the supply side, homebuilders may be slow to acquire new construction lots and might hold back on increasing production after getting the scare they did in March and April. They may prefer to wait a while to make sure these revived levels of demand are sustainable. Another factor leading to fewer homes on the market is mortgage forbearance programs put in place by banks, states and Fannie Mae and Freddie Mac. From a policy standpoint it's great that banks and governments are helping to prevent a deluge of foreclosure as millions of people lose their livelihoods because of the pandemic. But a consequence of that policy change is that it deprives the housing market of the supply of foreclosed properties that occurs even in strong economies and solid job markets; this amounted to almost 500,000 houses in 2019.

Some homeowners may also be delaying the listing of their homes for sale because they're sheltering-in-place or have lost their jobs and can no longer provide income verification to buy a different home. They may also not be comfortable having potential buyers, who could be carrying the virus, walking into their homes for sales showings.

At some point the coronavirus crisis will pass, foreclosures will move forward again and all participants in the housing market from would-be buyers, sellers and homebuilders resume normal behaviour. But it is unlikely that this would happen in 2020.

Trump weighs $1 trillion for infrastructure to spur the economy.

The Trump administration is preparing a nearly $1 trillion infrastructure proposal as part of its push to spur the world's largest economy back to life, according to people familiar with the plan.

A preliminary version being prepared by the Department of Transportation would reserve most of the money for traditional infrastructure work, like roads and bridges, but would also set aside funds for 5G wireless infrastructure and rural broadband, the people said.

House Democrats have offered their own $500 billion proposal to renew infrastructure funding over five years. It's unclear how long the administration's draft would authorize spending or how it would pay for the programs.

It's possible that the infrastructure measures currently being drafted could be rolled into the next round of pandemic relief.

Bond yield near their February levels in China due to concerns of liquidity.

The yield on 10-year sovereign bonds rose near the highest since February, reflecting liquidity worries as the central bank drained cash from the banking system by letting some policy loans expire on Friday. The People's Bank of China did not roll over 240 billion yuan ($34 billion) in medium-term lending facility on Friday after letting another 500 billion yuan expire last week. It provided a fresh 200 billion yuan in such loans on Monday while keeping the interest rate unchanged.

Bonds fell mainly due to disappointment after the central bank refrained from cutting the rate, which was possibly because authorities wanted to avoid "flood-like" easing. The issuance of special virus bonds also contributed to the sell-off. Yield stabilization could require a signal of calibrated easing in the second half.

C***entral Banker Says Colombian Real Rates Could Drop Below Zero***

Central bank co-director Ana Fernanda Maiguashca spoke in June 18 conference organized by Credicorp Capital. The Key points are as follows.

- "The 0% real rate is a psychological barrier. That doesn't have to be the floor."
- Doesn't know by how much the bank will continue to cut, but if policy makers find additional space, they will use it
- Providing credit to the government is still a possibility but markets could punish the nation, and Colombia will seek the cheapest financing alternatives
- Potential GDP growth must have fallen further amid lower investment and more risk aversion
- "The second quarter is going to be really brutal"
- There will be a "strong deflationary shock" in 2020
- It's surprising that inflation expectations haven't fallen more in the face of this shock
- There will be an inflation rebound in 2021 but doesn't think it'll be large
- There is no concern about inflationary pressures coming from the exchange rate

MAJOR MOVES THIS WEEKS

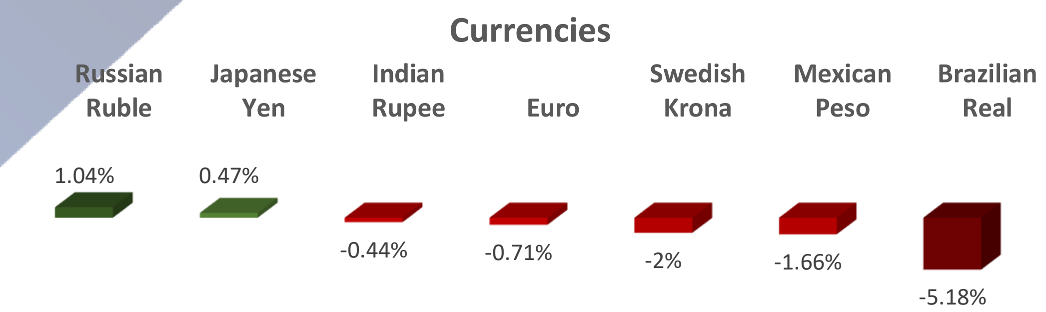


Figure 2: The bar graph represents Currency returns with respect to US Dollar as the base currency for this week

This week, there was a mixed picture in the currencies. Most Asian currencies appreciated against the dollar with a very few exceptions (Thai Baht, Vietnamese Dong and Indian Rupee). Other Emerging market currencies depreciated against the dollar along with the developed currencies such as Australia, Euro, Swedish Krona etc. Overall, the Currency markets did not clearly define a risk on or risk off sentiment and complemented the movement in Euro.

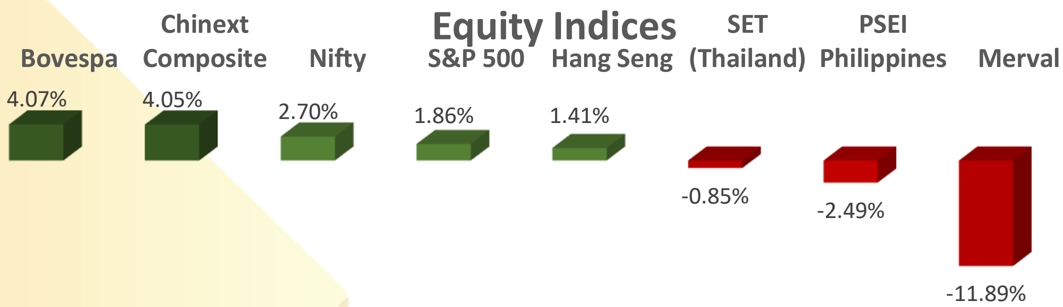


Figure 3: The chart represents the equity index returns over this week.

Most Equity markets all over the world have closed in green this week except a few EM indices. NASDAQ composite closed higher at 3.7% this week compared to S&P which closed at 1.8%. This deviation is due the increase in the Covid-19 cases which boosted the Tech stocks in NASDAQ.

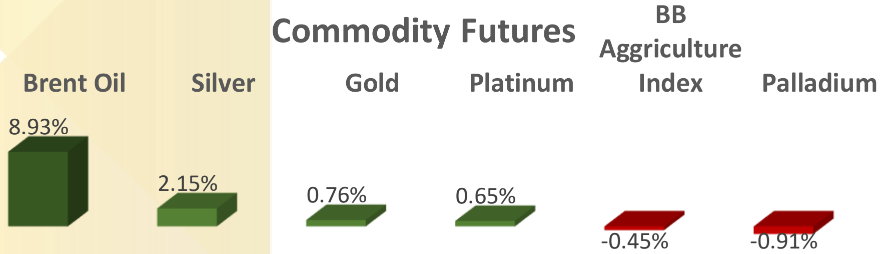


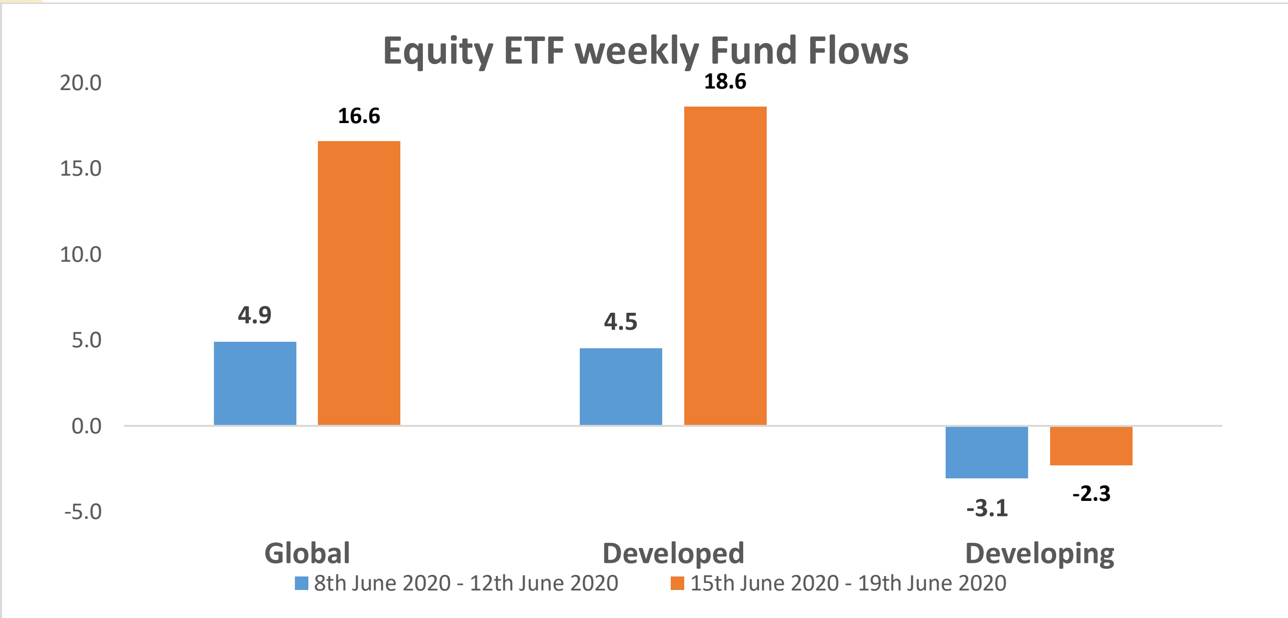
Figure 4: The chart represents the commodity futures returns over the week.

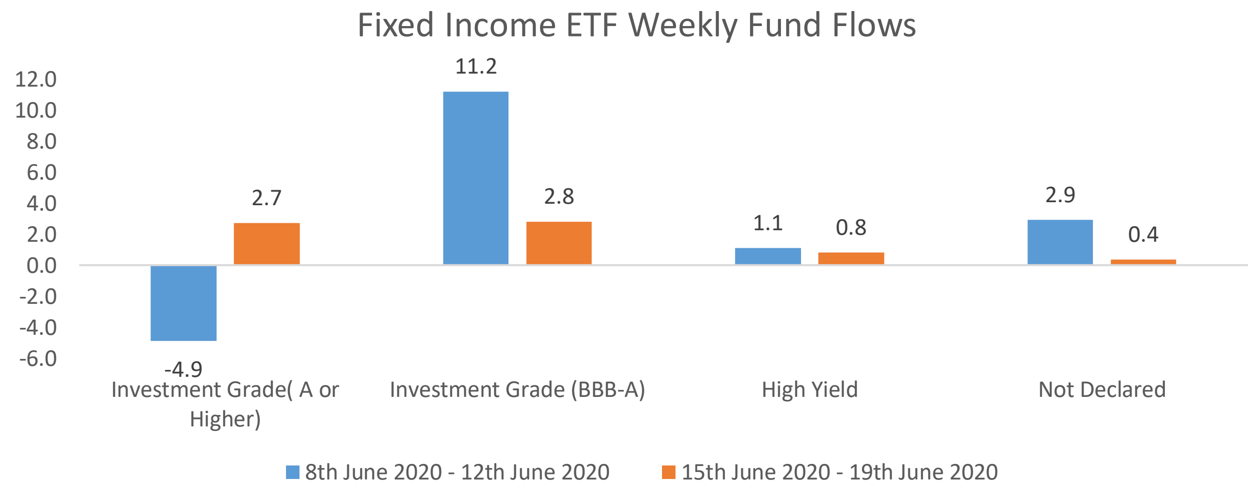
This commodity futures also showed a mixed picture this week. The precious metals such as Gold, Silver Platinum were up today and so were the industrial commodities such as Copper, Lead & Zinc. Crude went up by almost 9% this week due to the re-affirmations by various laggards in the OPEC+ to stick to the production cuts and the statement made by the Saudi oil minister that there were encouraging signs of demand recovery.

GLOBAL FUND MANAGER'S STATEMENTS

1) Mark Mobius (Founder Mobius Capital Partners LLP) : "We are definitely in the new bull market and I mentioned a few weeks ago, whenever you have a recovery from the terrible bear market that we have had, the market has to climb the wall of worry. You will continue to get this kind of correction along the way but you must remember that we are up 20 percent from the bottom and that is a big move and whenever you will get big move like that, you will always have doubts and people will retreat for a while." – Interview with CNBC, 15th June, 2020

GLOBAL ETF FUND FLOWS





Please note that the Global ETF fund flows under Equity ETF weekly flows category will not be equal to the sum of their respective sub-categories which are mentioned on their right side since there are other sub-categories as well

PACE 360'S FUTURE OUTLOOK

"There was a whiff of risk off in the last couple of weeks even though the impact across asset classes was not uniform. While some of the high beta EM currencies fell considerably from their June highs, most of the industrial commodities, Nasdaq and even most of the EM Equities have held up rather well so far. We continue to believe that the risk on phase is basically over and going ahead, all risk on assets will fall over the next 3-4 months. We expect the risk off to continue over the coming weeks even though the falls in risk assets are expected to be rather gradual initially. Gold seems to have broken out of a tight range and is probably headed significantly higher."

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