Weekly Report and Outlook on Global Markets

12th June 2020

MARKET DEVELOPMENTS

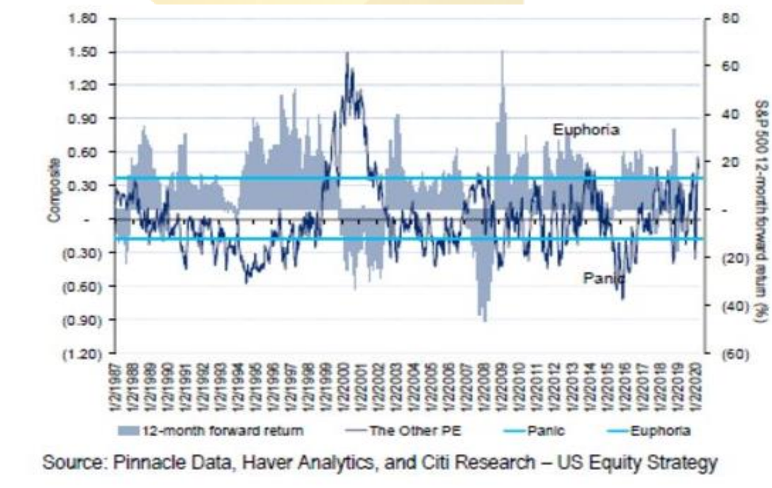
Was the recent equity rally driven mostly by retail and small traders

Figure 1: The chart represents z-score for equity position on an average in portfolios of investors

The chart depicts Z-scores for Equity Positioning in an average in portfolios. A Z- score represents number of standard deviation by which the data point is above or below the mean . For example if the z score is +1.5, then that means a deviation of 1.5 times the standard deviation above the mean, whereas Z-score of -1.5 means the data point is 1.5 times the standard deviation below the mean.

In the given chart we can see that in March 2020 equity allocation of traders and investors in their portfolio was 2.4 times the standard deviation below the 10 year mean. It has now risen from this rock bottom value to being below the mean by 1 standard deviation. However this is still far away from the mean if we compare this Z-score of 1 to the historic levels. From computer-driven traders to stock pickers, money managers have been reluctant to embrace the equity rally. Their equity positioning has climbed from a record low but is still stuck in the 8th percentile of a historic range. That means 92% of the times in the last 10 years the equity positioning was more than what it is today.

Equity Euphoria at highest since 2002



The chart represents a model to depict the sentiment that is there in market. This panic/euphoria model, which tracks metrics from margin debt to options trading and newsletter bullishness. It's usually used as a contrarian signal. If the value is in the Euphoria zone that means one needs to care about one's position in the market since chances of reversal are now more than ever. Similarly if the value shown in the model is in panic zone one might think of building a portfolio consisting of risk assets since the risk of more downside is less.

Figure 2: The chart depicts Panic/Euphoria sentiment(dark blue line) in the equity markets

At present the model showed sentiment(represented by dark blue line) at the most extreme level since 2002, when the tech bubble was dissipating. One might say that the current position might be overextended and investors might not be factoring in potential risks that are there like joblessness, trade friction, social unrest, and risks that loom including possible Covid-19 reinfections, the end of bonus supplemental unemployment checks and the upcoming elections.

Alone in the Gulf, Qatar’s currency escapes devaluation bets

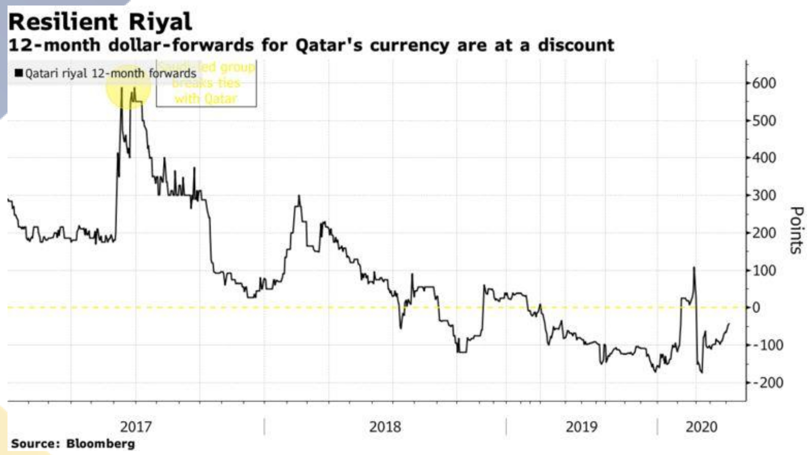


Figure 3: The chart depicts USDQAR 12-month forward spread

Qatar’s Riyal peg against the dollar has been the only one in the region that hasn’t come under pressure even as local economies succumb to what may be their worst recession ever. The nation’s bonds have also outperformed those of the other five members of the GCC (Gulf Cooperation Council) this year.

One-year forwards, used by traders to speculate whether Qatar may adjust its long-held peg of 3.64 riyals to the dollar or hedge, in case it does was at a discount of 41 points in the offshore market at the end of last week, compared with a premium of as high as 725 after the dispute erupted among gulf countries in 2017. Qatar, which has the fourth-highest rating from the three major credit assessors, is on track to run the smallest budget deficit in the GCC this year. It needs to balance this year’s budget to just under $40 per crude barrel, the lowest in the region. S&P Global Ratings projects the size of the government’s liquid financial assets will average about 177% of gross domestic product from 2021 through 2023.

US Equity’s intra-sectoral correlation close to its March 2020 high

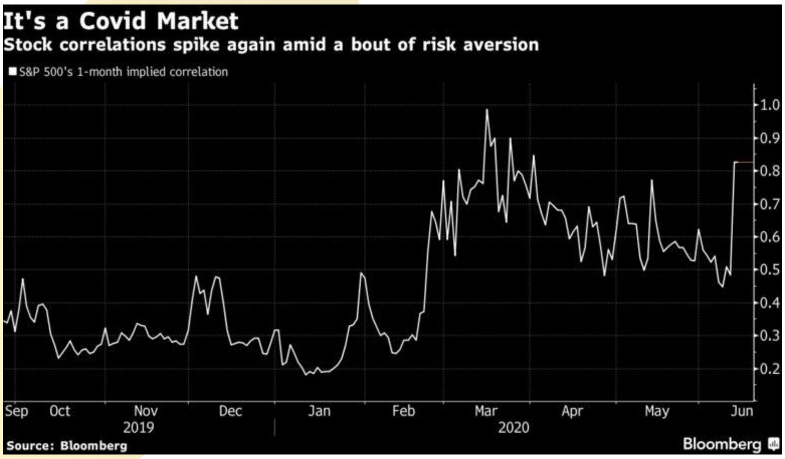


Figure 4: The chart depicts S&P 500’s 1-month implied correlation

As early as Monday, correlations had dropped to levels last seen before the sell-off, and beaten-up shares were in the midst of a historic comeback. Money was rushing in to chase the rebound as major economies gradually re-opened and U.S. jobs data unexpectedly improved.

Yet on Thursday the intra-sectoral correlation was very high again, as shares slumped after the Federal Reserve warned of a long path to recovery and infection rates ticked up in parts of the U.S.

The implied correlation of S&P companies spiked to the highest in more than two months. This normally happens when volatility picks up, when markets are driven more by the top-down than the bottom-up.

MAJOR MOVES THIS WEEKS

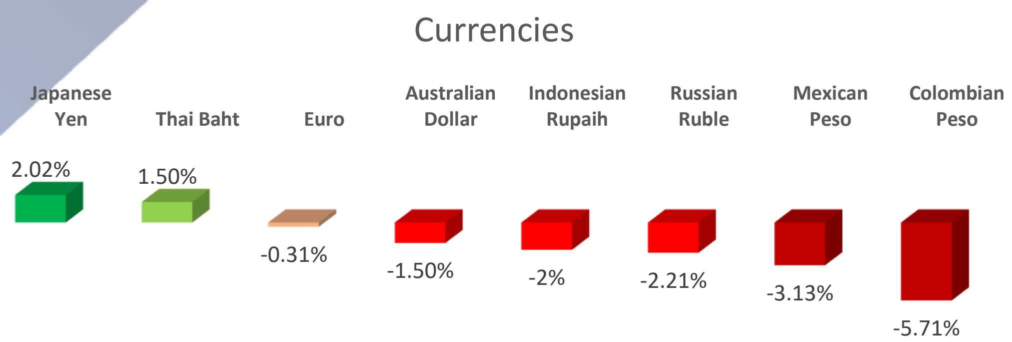


Figure 5: The graph represents Currency returns with respect to US Dollar as the base currency for this week

A stunning rally in Emerging market(EM) currencies and other commodity driven currencies lost their intensity this week after giving huge returns in the past few weeks. Uncertainty of second wave of Covid -19 infections coming back to haunt the capital markets has somehow made investors to press break on their investment spree into the risk assets. US Dollar appreciated against most of the EM currencies but it depreciated against Yen which further strengthens the belief that investors are turning towards haven currencies.

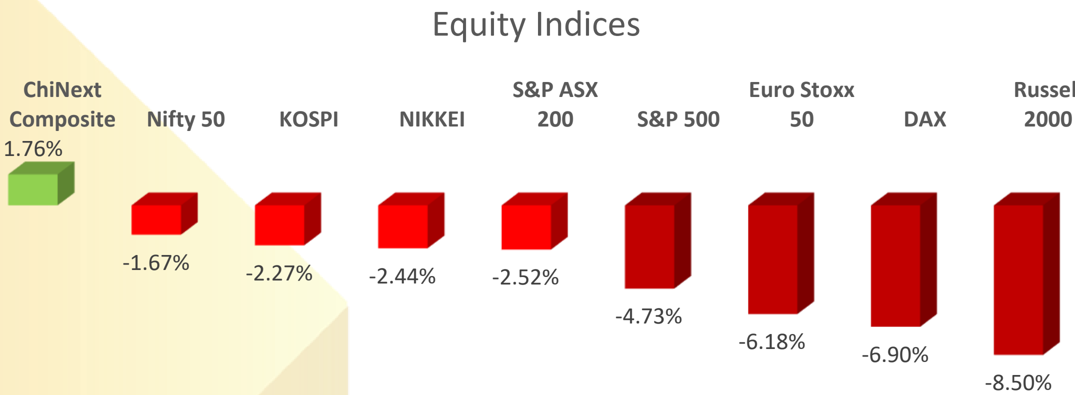


Figure 6: The chart represents the equity index returns over this week.

The Equity markets all over the world have shown a grim picture .However this time the bout of depreciation was led by western economies rather than Asia Pacific. This is because of higher than expected jump in the new Covid-19 cases in some parts of the globe especially in USA. Also we have seen a huge rally in Western equities in the past few weeks which made them very close to their all time highs whereas Asia and other EM equities are still far off from their a 2020 highs which made a case for an increased sell off in Developed equities than their Asian/EM counterparts. Russel 2000 which is USA 's small cap index was the worst performer among major equity index

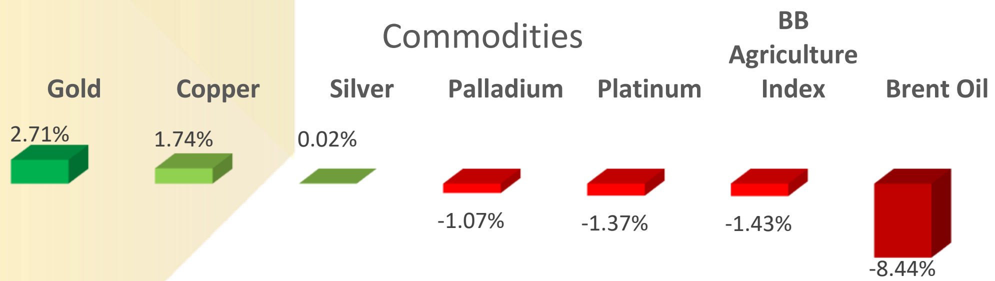


Figure 7: The chart represents the commodity returns over the week.

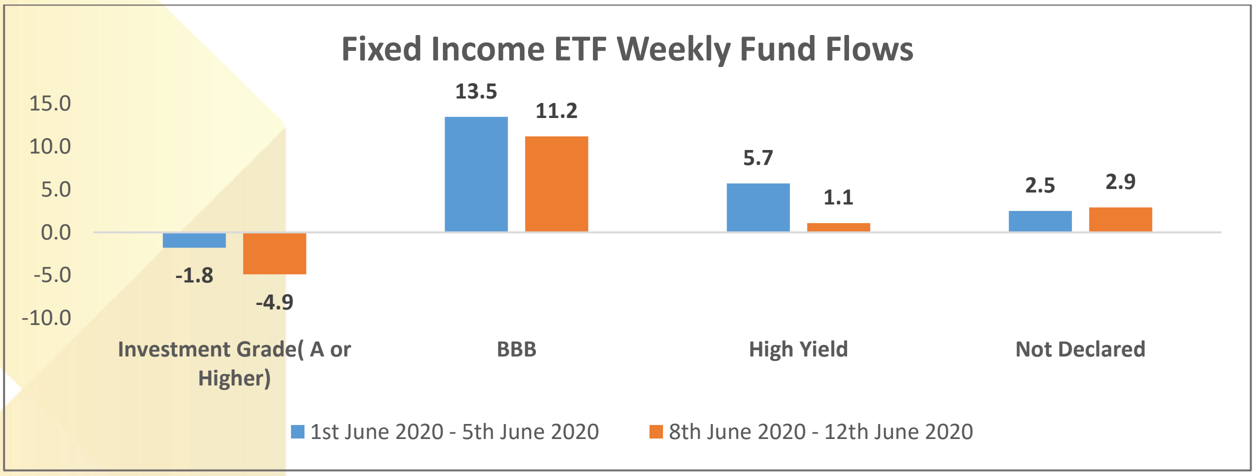
A slight risk off sentiment was also observed in Commodities with haven like Gold outperformed its precious metals' peers like palladium and platinum and even other risk on commodities. Brent oil was the biggest loser which lost 8.5% this week ,after a huge rally in the past few weeks, due to fears of second wave of corona virus hitting USA and rest of world. Platinum was the only outlier among risk commodities which closed in green. Reasons like increased demand and a weak dollar can be attributed to its strength

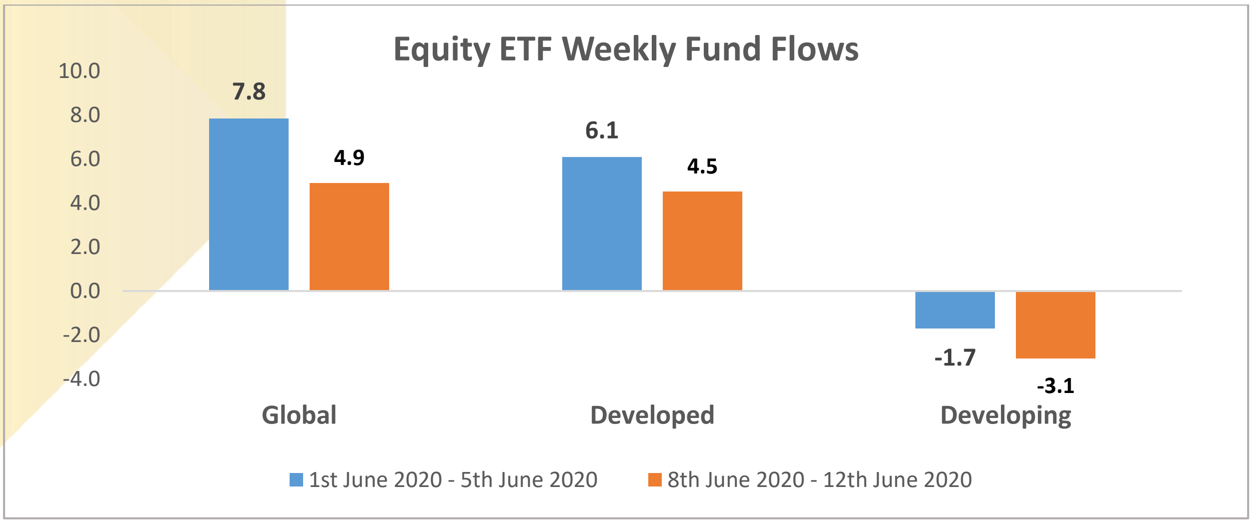
GLOBAL FUND MANAGERS' STATEMENTS

1) Jeffrey Gundlach (Founder of DoubleLine Capital LP) : " If you think that the stock market is going to fall from its fairly lofty perch right now - which I think is a pretty good bet, such investors should bet on increased dollar strength. I certainly do expect that Jay Powell would follow through on controlling the yield curve should the 30-year rate really get unhinged. I am bullish on gold and I expect the commodity to reach new highs" – Webcast on 9th June 2020.

2) Scott Minerd (CIO & Chairman of Guggenheim Partners) : "The recent highs have been a selling opportunity, and I think we're going to have a tough slog here, especially with the increasing number of Covid cases that are coming up as a result of the reopening. The recent sell off could just be the start of a roughly 50% decline. The accumulation of gold as a reserve asset historically has been seen as a responsible policy response in periods of crisis. This may very well become the policy option of choice in the future." - Interview on CNBC on 11th 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

We believe that risk assets across categories have already peaked out. We are bearish on risk assets globally for a period up to October 2020. We are also of the opinion that Nasdaq has peaked out and is headed for a multi-year decline from current levels. Any strength in the early part of next week should be used to prune down longs in risk assets and open up shorts.

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