Weekly Report and Outlook on Global Markets

11th July 2020

Gold's Rally to $1,800 Sees ETF Inflows Exceeds 2009's Full-Year Record

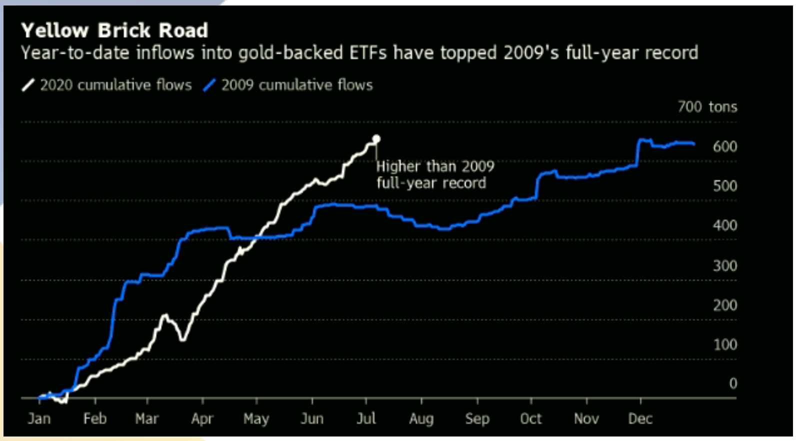


Figure 1: The figure depicts comparison between Gold ETF holdings in 2020 and 2009

Gold's allure is only getting stronger as 2020 unfolds. Spot prices reached $1,800 an ounce and year-to-date inflows into bullion-backed exchange-traded funds topped the record full-year total set in 2009.

Holdings in gold-backed ETFs rose to 3,234.6 tons on Tuesday, according to initial data compiled by Bloomberg. That's up 655.6 tons so far in 2020, topping the tonnage increase seen in 2009. The total has risen every month this year.

The near unprecedented fiscal and monetary peacetime response to Covid-19 supplies gold with two substantial bullish inputs: liquidity and debt. Low interest rates, monetary accommodation including balance-sheet expansion and heavy fiscal spending globally for the foreseeable future will cement and extend gold's rally.

Global Stocks Bask in Glow of Surging Liquidity

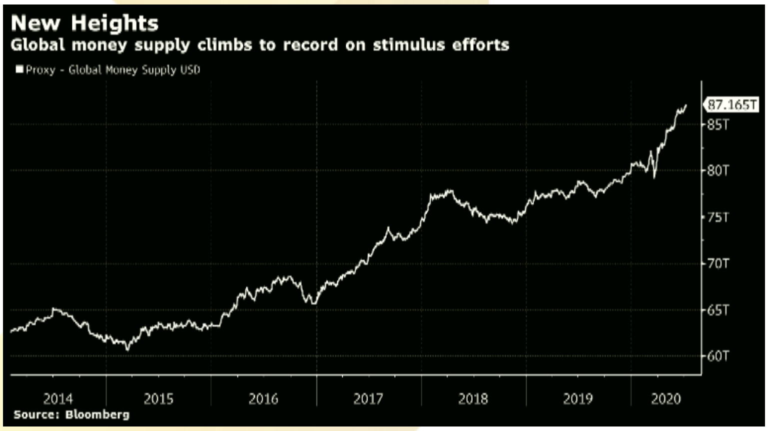


Figure 2: The chart shows Global money supply in USD Trillion

Rallying global stocks at odds with pandemic uncertainty is less of a headscratcher when looking at the flood of money injected into the financial system –- it's whether this tailwind can extend that is the real test for the risk rally.

A proxy of global money supply has swelled above $87 trillion, according to Bloomberg tracking. That's up almost $6.5t this year -- twice the average annual increase seen over the past decade. Thanks to central banks' efforts, the U.S. M2 money supply has surged above $18t, while Europe broke through the EUR13t mark in May. All that liquidity is sloshing around to be deployed to the highest returns, feeding into global stocks as economies show signs of recovery. But with much of the heavy lifting done by central banks to support a recovery, signs of fatigue could make the next leg of the rally harder to come by. That could largely rest on governments, and a vaccine now.

Mutual Fund Pullback in India Offers Some Caution for Equities

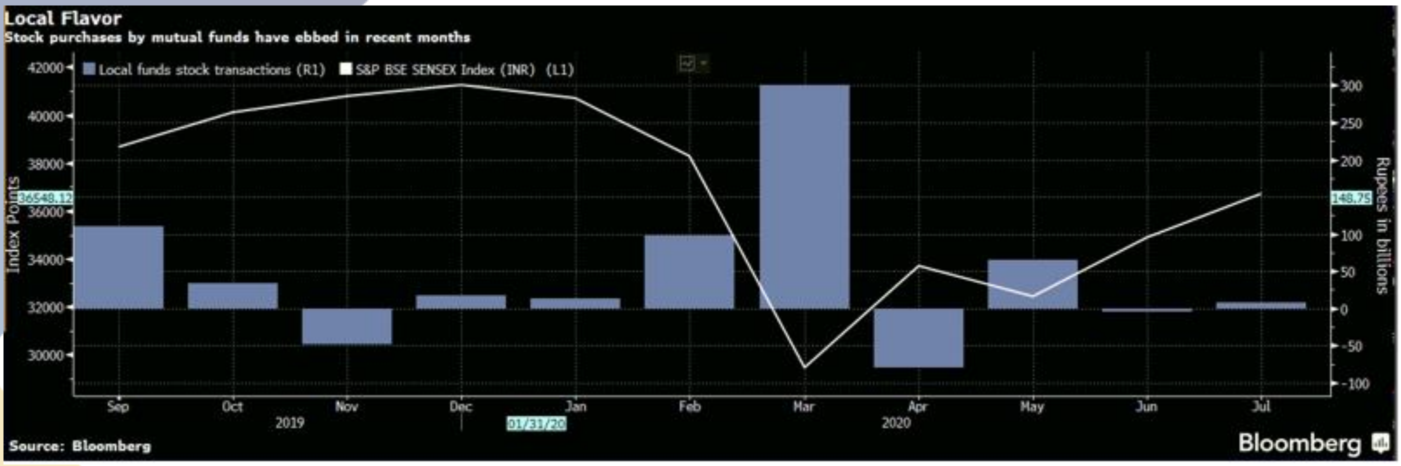


Figure 3: The figure depicts Indian stock purchases by Domestic mutual funds in recent months. Please note that the July month fund flows account for just the first week of July.

The fear of missing out has been a big driver of the fierce rally in global stocks despite continued increases in coronavirus cases. But mutual fund investors in India are fighting the FOMO. Net flows into equity plans crashed 95% toin June from May, show data released by an industry trade body. Fixed-income funds also witnessed a similar tumble. Fund researchers point to two reasons for the decline: some investors pocketed gains after the furious rebound (Sensex is up more than 40% from its March low) , while others left behind simply held off adding more at levels that aren't justified by the hobbled economy. June fund inflows are a cautionary tale and need to be watched. Funds and insurers together invested $7.3 billion into equities in March even as foreigners yanked out a record $8.4 billion. The resurgence in Indian equities faces a tough test if this pillar of support from local institutions is challenged.

Residential Rent Payments in US may take a hit without more aid

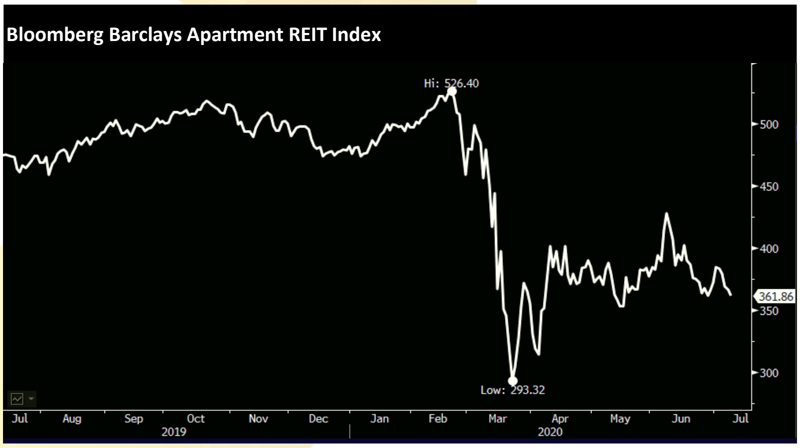


Figure 4: The figure depicts Residential apartment REIT Index

Before the coronavirus, almost half of the nation's 43 million renters were "cost-burdened" according to the Joint Center for Housing Studies at Harvard University. Of those 21 million households, nearly 11 million were already spending more than 50% of their income on rent. As new cases of Covid-19 rise across the U.S. and stall many state reopening plans, almost 13% of renters say they have "no confidence" in their ability to pay next month's rent. An additional 20% only have "slight confidence" in making their payments, according to a U.S. Census Bureau survey conducted from June 25 to June 30 . Federal and local authorities have imposed curbs on evictions during the pandemic, but there's growing concern that tenants across the country will be at risk when those measures expire, which in many cases means this month.

MAJOR MOVES THIS WEEKS

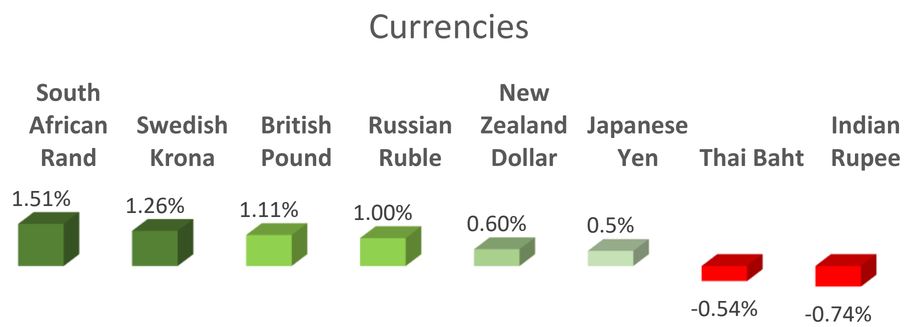


Figure 5: The graph represents Currency returns with respect to US Dollar as the base currency for this week

Emerging market currencies and developed market currencies both on a broader level remained sideways against US Dollar. Outliers in the Emerging market currencies were South African Rand and Russian Ruble which appreciated by 1% or above, whereas Thai Baht and Indian rupee were down after a decent rally in the last few weeks. Among the developed market currencies, British pound rose after Wednesday's mini budget presented by UK Chancellor of the Exchequer.

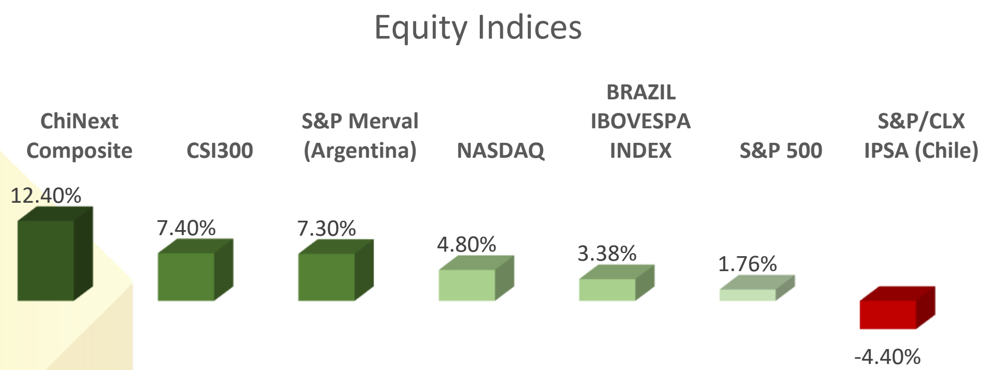


Figure 6: The chart represents the equity index returns over this week.

Chinese Equities witnessed a massive rally this week with weekly gains comparable to the levels last seen in 2015. Rest of the Asian Indices also performed decently. Indices in US and Europe were largely sideways or were down for a major part of the week but they gave away all their losses on Friday and closed in the green zone. Chile didn't participate in this rally due to a change in their pension withdrawal law which allowed citizens to withdraw their savings before the maturity. This has affected their capital markets adversely.

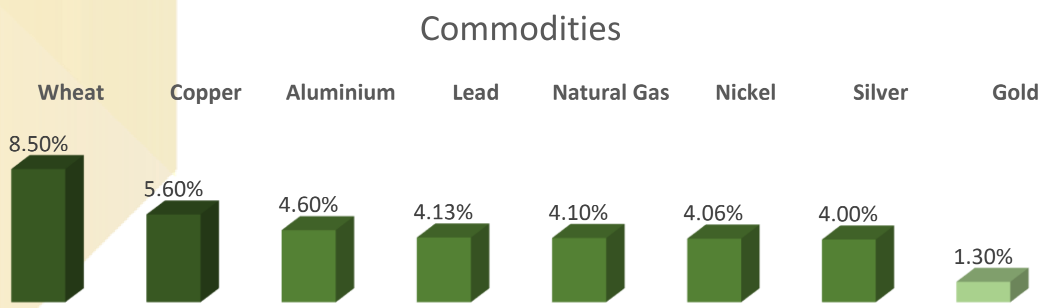


Figure 7: The chart represents the commodity returns over the week.

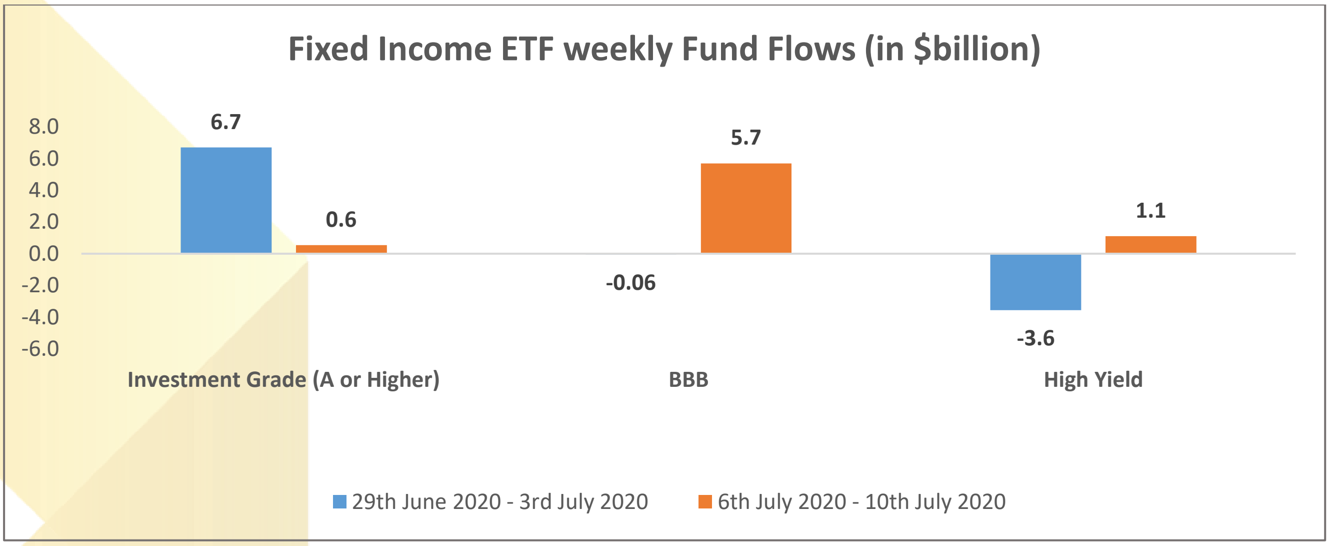
This week was one of the best weeks for industrial commodities lead by copper. Most of them rose by more than 4%. Among the precious metals segment silver and palladium outperformed gold, depicting a complete risk on mode as far as the commodity markets are concerned. Most of the agriculture commodities were sideways this week after giving handsome returns in the previous two weeks. Wheat was the outlier, gaining 8.5% this week on supply constraints due to bad weather in France and UK.

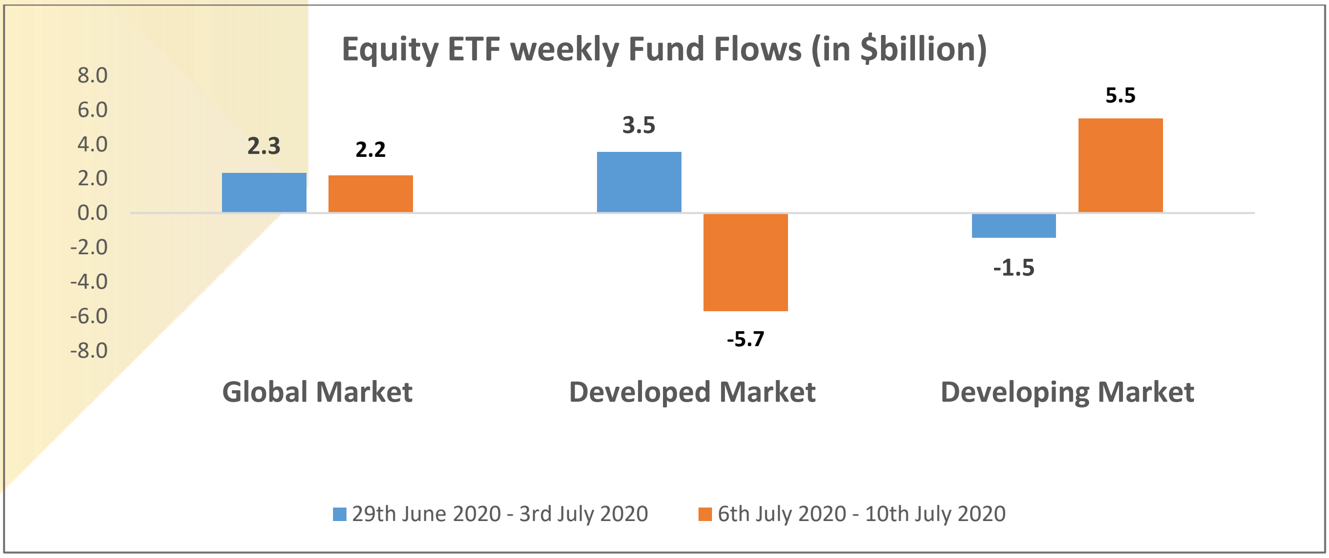
GLOBAL FUND MANAGERS' STATEMENTS

1) Jeffrey Gundlach (Founder, DoubleLine Capital LLP) : "A V-shaped recovery basically implies that you can take 20% of the US workforce and put them in jeopardy, put them on unemployment benefits, have them produce nothing, and instead receive money that's being lent by the Federal Reserve to buy the bonds, and you can do all that and nothing bad will happen. It just doesn't seem very likely that you can have that kind of hardship roll over the economy and that nothing will happen" – Interview with Yahoo Finance on 6th July 2020.

2) Mark Mobius (Founder, Mobius Capital Partners) : " I am positive on Brazil. The companies in which we have invested(mainly retail, internet and technology firms) have been recovering quickly. Local companies have benefited from a government that has eschewed the nationwide lockdowns pursued elsewhere in the world" - Interview with Bloomberg on 9th July 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

"Contrary to our expectations, last week turned out to be a stellar one for risk assets. We do believe that some of the rally potential will transcend into next week as well. However, it is unlikely that the next week is as big as the previous one. There could be a tapering off of the risk on sentiment in the middle of next week. On a longer term basis we remain bearish on risk assets and we believe that global equities are way ahead of themselves. We expect a significant correction in global equities between August and October of this year."

CONTACT US

+91-11-4742 1001

info@pace360.in

A-1/291, Safdarjung Enclave, New Delhi – 110029

FOLLOW US ON SOCIAL MEDIA

Facebook.com/PaceThreeSixty

Twitter.com/PaceThreeSixty

Linkedin.com/company/50145027