Weekly Report and Outlook on Global Markets

25th July 2020

Insiders Who Nailed Market Bottom Are Starting to Sell Stocks

As U.S. stocks climb to their most expensive levels in two decades, the executives in charge of the companies benefiting from the rally are showing signs of anxiety.

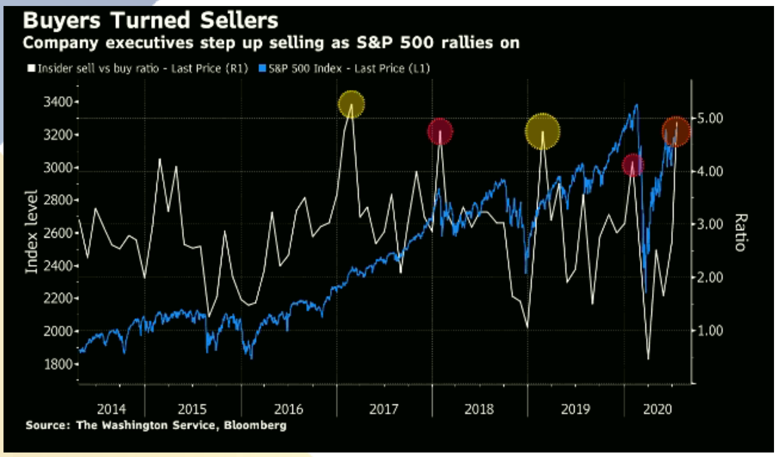


Figure 1: The figure depicts Insider buy vs sell ratio along with S&P 500 Index

Corporate insiders, whose buying correctly signalled the bottom in March, are now mostly sellers. Almost 1,000 corporate executives and officers have unloaded shares of their own companies this month, outpacing insider buyers by a ratio of 5-to-1, data compiled by the Washington Service showed. Only twice in the past three decades has the sell-buy ratio been higher than now. In terms of total value, insiders sold $52.6 million of shares last week while their purchases reached $3.4 million, according to data compiled by Bloomberg.

Corporate insiders has shown a mixed track record in timing their stock disposals. Their rush to sell at the start of this year proved prescient as the S&P 500 rose to an all-time high in February before crashing. So did the selling spree in January 2018, when the benchmark index's advance to what was then a record preceded a correction.

A Crucial Macro Hedge-Fund Trade Is Getting Turned Upside Down

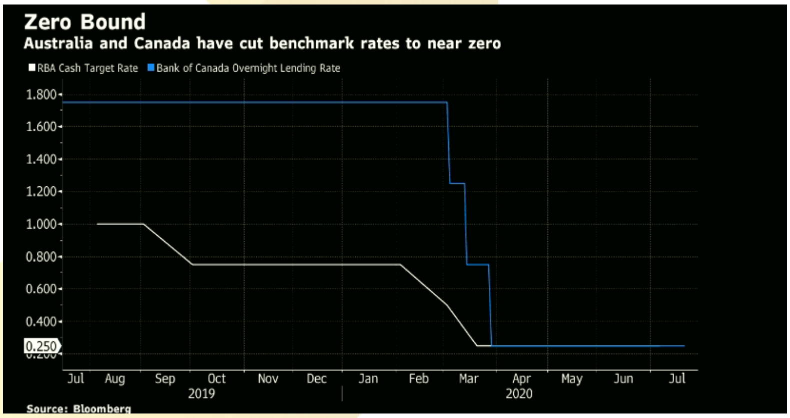


Figure 2: The figure depicts Central Bank's Policy rates for Australia and Canada

The Australian and Canadian dollars now rank among the most efficient for funding carry trades, in which investors borrow those currencies at low interest rates to fund purchases of higher-yielding assets in emerging markets. That's a reversal of how these trades worked in the past, when assets in those two countries were popular purchases in carry trades.

The Aussie and Canadian dollar are no longer hindered by positive yield, because their central banks have moved rates down to virtually zero. The euro, which was the prime funding currency for EM, has been replaced by Australia and Canada. Since March 1, the Canadian dollar has been the most-correlated among G-10 peers to EM currencies like the South African rand, the Colombian peso and the Brazilian real as calculated by daily returns, according to Bloomberg data. The Australian dollar, meanwhile, has also ranked near the top, along with the Norwegian krone

Recession Shocked Savers Rein in Rates With a $20 Trillion Hoard

The economic shock from the coronavirus caused companies, consumers and investors to hoard cash like almost never before.

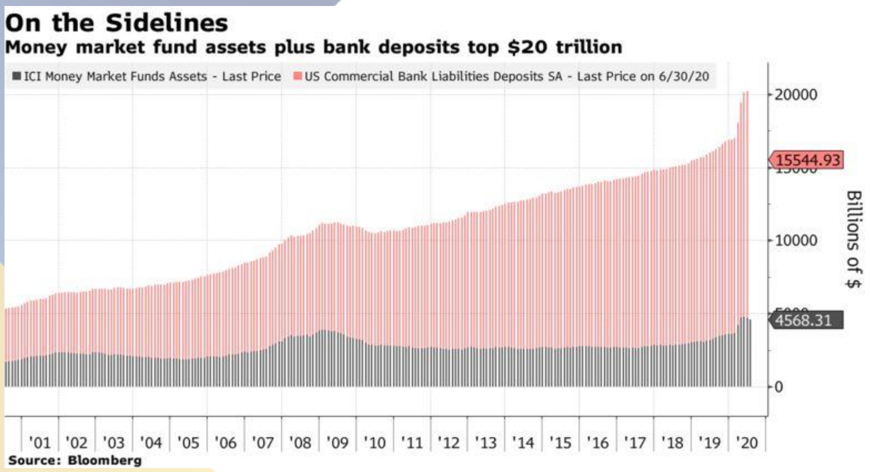


Figure 3: The figure depicts monthly data for US Money market fund assets along with US Commercial Bank deposits

Deposits at U.S. commercial banks have surged by 18% this year to a record $15.6 trillion, according to Fed data. The flood of cash into money-market mutual funds has subsided, but at $4.6 trillion the total is still nearly $1 trillion larger than before the pandemic.

Commercial banks occupy an increasingly crucial niche for fixed-income purchases. The global surge in sovereign debt to finance stimulus programs is testing even the voracious appetite of the world's central bankers, with about $1 trillion coming to market in the months ahead that still lacks buyers. Such a massive amount of cash sitting inside banks should create strong demand for the safest fixed-income products, a force that could lend a hand to the Federal Reserve when it comes to suppressing yields as the government ramps up its supply of bonds to pay for economic stimulus measures.

Investors becoming too complacent might not bode well for the market

Options market in USA has never been this hot and myopic. Among many records that have been broken in the stock market lately, here is another one.

Figure 4: The figure depicts Single Stock Option volumes as a percentage of stock volumes

Based on the amount of shares tied to derivative contracts, single-stock options volume has snowballed this month, with the average daily value traded exceeding that of shares for the first time ever. Moreover, those with maturities less than two weeks out comprised 75% of all trades, a record high.

Not only is demand for options surging, investors are also focusing more on short-term opportunities. That bullish stance, however, can be viewed as a contrarian indicator that doesn't bode well for the market. Some chartists have cited the drop in the Cboe's equity put-call ratio as a sign that investors are becoming too complacent. The ratio's 50-day average fell to the lowest level of 0.5 since 2000.

MAJOR MOVES THIS WEEKS

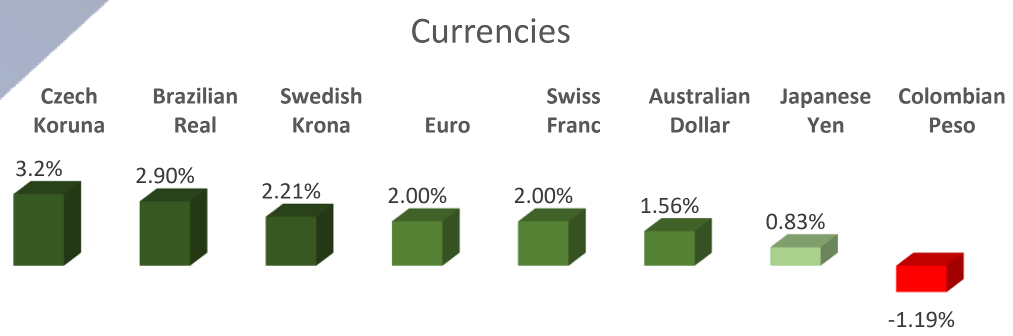


Figure 5: The graph represents Currency returns with respect to US Dollar as the base currency for this week

This week European currencies led the way forward for all other major currency pairs against US Dollar. After Euro recovery fund deal was announced, Euro and other European currencies gathered momentum and started rallying against USD. Euro surpassed its earlier 2020 peak of 1.1494 and ended at 1.1656. They ignored the risk off rally that was there in the Equity Indices. Emerging market currencies were mostly sideways and complemented both Risk off in Equities and Euro's movement . Brazilian Real was the outlier which appreciated 2.9% this week.

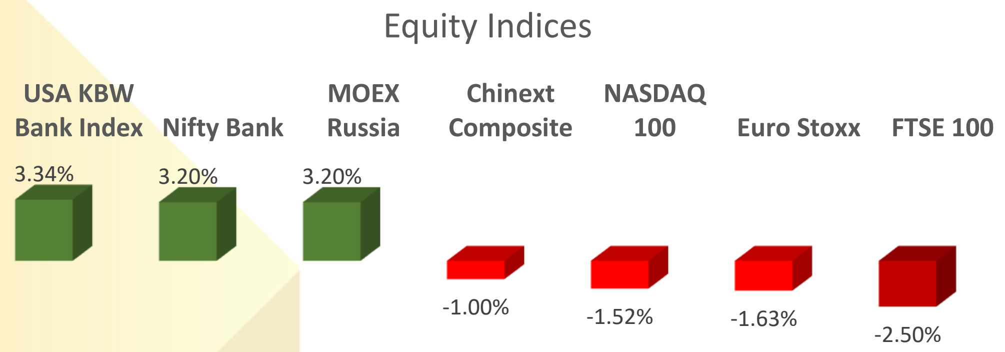


Figure 6: The chart represents the equity index returns over this week.

Developed market equities were on a roller coaster ride this week since they gave away all the gains in the last two trading sessions after rallying in the first three. UK's FTSE was the laggard among its peers due to economic uncertainty that has emerged post Covid-19 and also due to issues related to Brexit. Emerging market Equities also saw a muted week with increasing uncertainty between USA-China relations and a fear of second wave of Covid- 19 in certain countries. Russia and India were exceptions within Emerging equities. Russian Stocks rose on Friday due to a surprise rate cut and a dovish stance by their central bank. Banking sector globally performed well during the week.

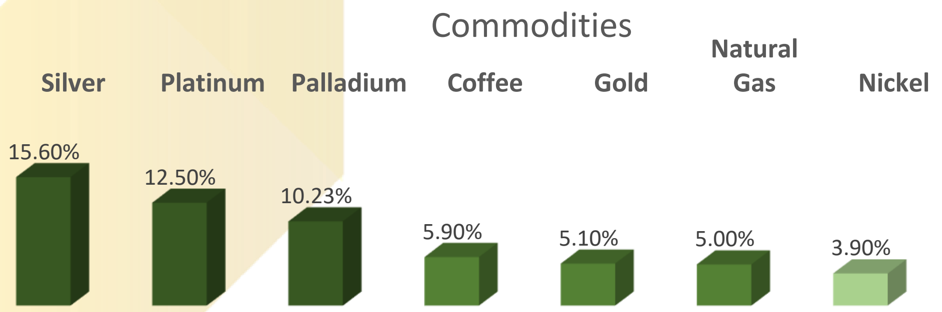


Figure 7: The chart represents the commodity returns over the week.

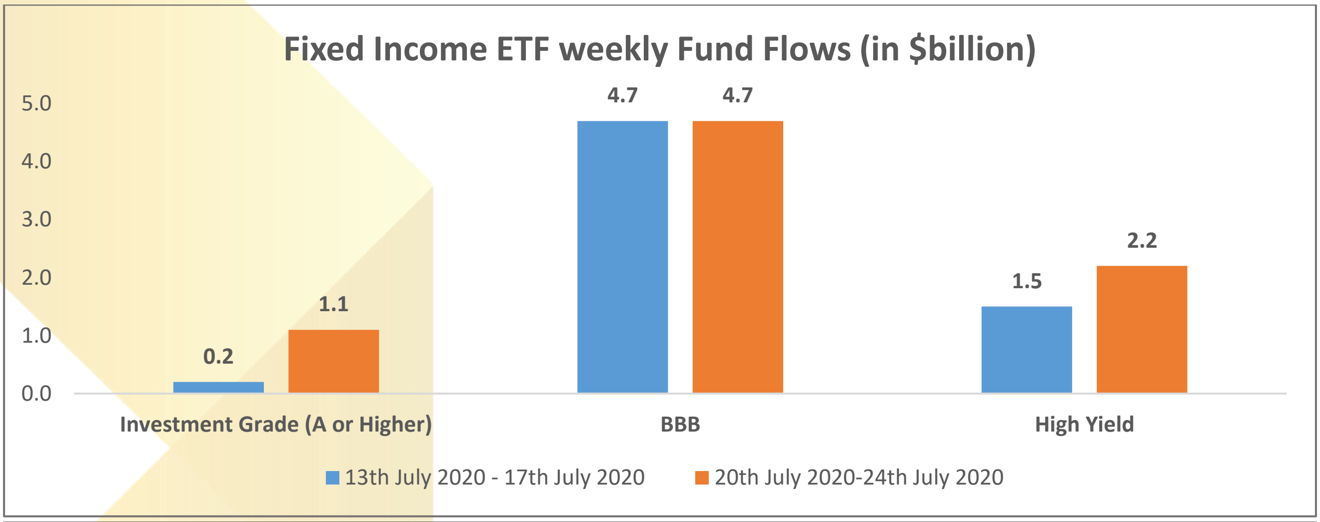
The week was a euphoric week for the precious metals segment. Huge upsides were observed across all the precious metals with silver outperforming its peers. Gold finally surpassed $1900 per ounce and is very near to its all-time high of $1911.6 per ounce. Industrial metals were mostly sideways with Nickel and Aluminium the exceptions which gave decent returns this week. Coffee gained due to increase demand as lockdown restrictions are being eased and due to short covering in Coffee Futures.

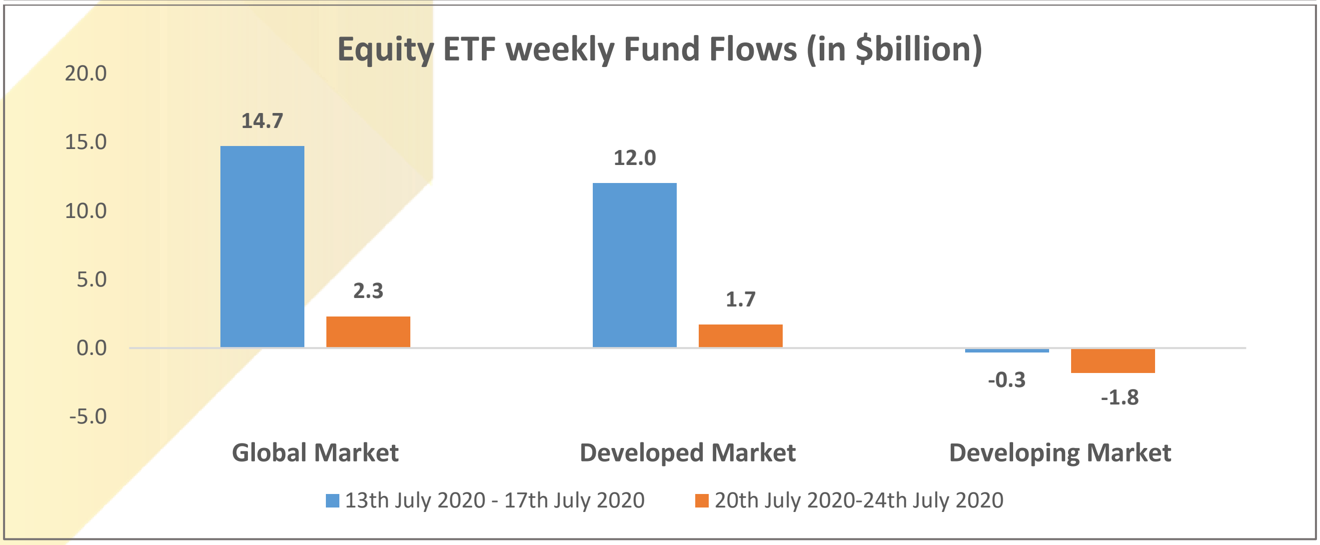
GLOBAL FUND MANAGERS' STATEMENTS

1) Scott Minerd (CIO, Guggenheim Investments): "It looks like the bubble we lived through in the late 90's. That's not necessarily a reason to bail on the market right now. The "irrational exuberance" that former Federal Reserve Chairman Alan Greenspan warned about back then was in 1996—more than three years before the market peaked. The nature of bubbles is they go long. It's hard to predict when they end. Ultimately, there's probably more money to be made in the stock market"– Interview with BloombergTV on 22th July 2020.

2) Mark Mobius (Founder, Mobius Capital Partners) : " When interest rates are zero or near zero, then gold is an attractive medium to have because you don't have to worry about not getting interest on your gold and you see the gold price will rise as uncertainty in the markets are rising. I would be buying now and continue to buy, because gold is really on a run, it's doing well." - Interview with BloombergTV on 23rd 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

"Most of the global equity indices ended in the red last week. We believe that risk assets have exhausted their bullish momentum over the last few weeks and are now at the cusp of sharper downturns over coming weeks. We also see the Dollar index bottoming out next week and with that the stunning rally in precious metals may also tend to peak out. Industrial commodities and Emerging market currencies also look vulnerable in the near future."

CONTACT US

+91-11-4742 1001

info@pace360.in

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

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