Weekly Report and Outlook on Global Markets

28th August 2020

Euro Area's Money Supply Surge Isn't Yet an Inflation Warning

The current surge in the amount of money sloshing around in the euro zone is far from being a signal that the European Central Bank should guard against inflation.

Figure 1: Euro zone M3 money supply vs inflation

Growth in the broadest measure of money supply in the 19-nation economy accelerated to 10.2% in July, the strongest level in more than 12 years. Loans to companies also continued to expand at a brisk pace.

In normal times, that would suggest the economy is in for higher prices, but these aren't normal times. The jump is mainly the result of the ECB's efforts to rush out liquidity in the wake of the pandemic to keep interest rates down and markets stable.

Demand for goods -- which is also needed for price rises -- has been eroded by wide-ranging lockdowns that have kept businesses shut and uncertainty high. There's still a lot of spare capacity and unemployment is on an upward trajectory.

Bailey says Negative Rates are Part of BOE's Policy Toolbox

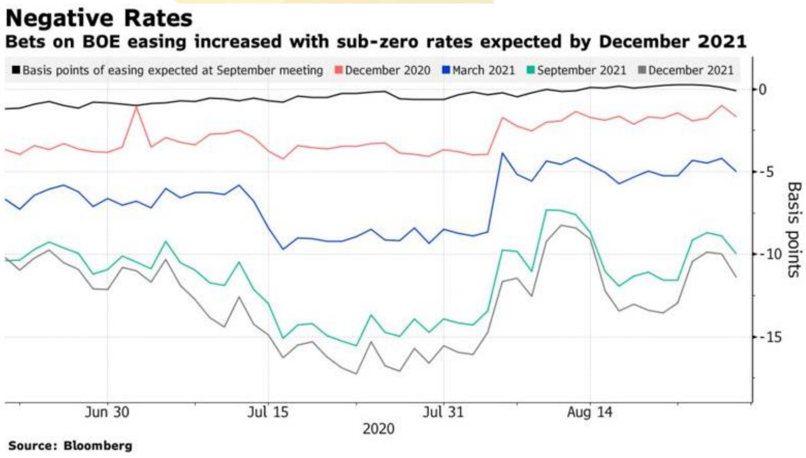


Figure 2: The figure depicts UK's policy rate easing expectations by various time periods

The Bank of England has plenty of room to add more monetary stimulus to fight the U.K.'s economic slump, including negative interest rates if needed, Governor Andrew Bailey said.

"We are not out of firepower by any means," he said at the Federal Reserve's annual policy symposium, being held virtually instead of the traditional venue at Jackson Hole, Wyoming. "To be honest it looks from today's vantage point that we were too cautious about our remaining firepower pre-Covid."

Economists largely expect bond purchases to be raised again before the end of the year, and investors are betting that interest rates will be lowered to zero by September 2021 and will turn negative by December 2021. Currently the policy rates stand at 0.1% in UK.

Russian Ruble at Risk of Reckoning from Rates-Expectations Disconnect

Russian rates expectations diverging from the current state of play puts the ruble at risk in late 2020.

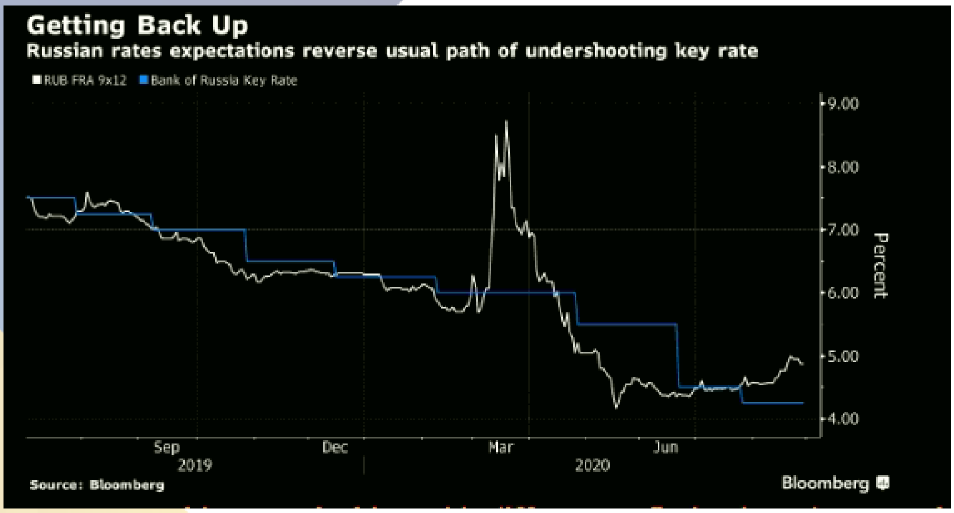


Figure 3: The image depicts Russian Ruble's Interest rate agreement and Russian policy rate

Russian forward rate agreements are again doing something that's a bit rare over the past year, outstripping the central bank's key rate to the upside. It happened briefly in March and April 2020, as the market feared that rate hikes would be needed to stem a gouging run on the currency. At present, things are looking a bit different. Inflation is under control and expectations for the next central bank move in three weeks' time are leaning towards a rate cut to 4%. That differs from the FRA view going forward, which may be looking more closely at the coronavirus and oil prices risks, as well as regional geopolitics and the threats from a new, less accommodating US government after the November election. The gyrations that my be coming from the rates expectations converging may be hard on the Ruble.

JPMorgan Says FX, Oil Among Few Assets Cheap on Long-Term Basis

Developed-market debt and gold are expensive by long-term measures while oil and agriculture are relative bargains, according to JPMorgan Chase & Co.

Using metrics like one-year forward price-to-earnings ratio for equities and spreads for developed- and emerging-market credit, only a handful of assets including some currencies and EM bonds are currently inexpensive, according to John Normand, head of cross-asset fundamental strategy.

"The fairly valued ones are DM and EM credit plus Asian equities," he wrote in a note last week. "The expensive ones are most other equities plus DM bonds and gold."

Risk premium metrics in many of the markets tend to revert to the mean over a period of years rather than weeks or months, so they're useful to strategic rather than tactical investors, according to Normand.

Some assets, like developed-market bond yields, might not necessarily conform to those long-term mean-reversion patterns, he said. "Others (like P/Es in Tech and therefore the S&P 500) are undergoing structural re-rating only partly related to the monetary policy environment."

MAJOR MOVES THIS WEEKS

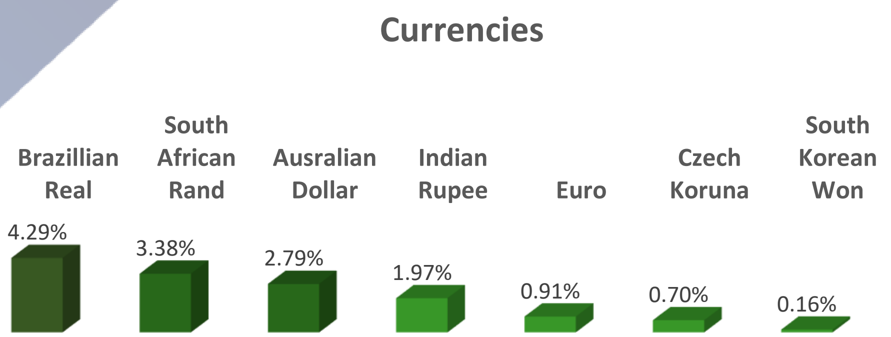


Figure 4: The graph represents Currency returns with respect to US Dollar as the base currency for this week

This week has been rather bullish for almost all the currencies. The decline in dollar because of the statements made by the Fed Chairmen Jerome Powell about inflation resulted in all the currencies appreciating against the dollar this week. Among the currencies, the most to appreciate were the South American and African Currencies followed by the Asian Currencies.

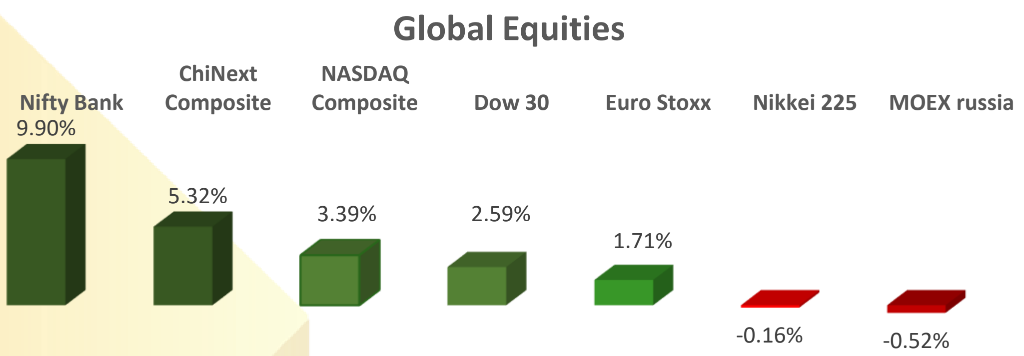


Figure 5: The chart represents the equity index returns over this week.

This week there was a risk on sentiment in the Developed equity markets which was led by technology stocks. We can see NASDAQ clearly outperformed other major Indices. A surge in tech stocks was even seen in Asian markets with Chinext Composite and KOSPI performing well. Other Asian and Emerging market Indices gave muted returns in the week. In Indian markets Banking Sector outperformed the broader market by a considerable margin . Nikkei gave away its weekly returns on Friday after Prime Minister Shinzo Abe resigned.

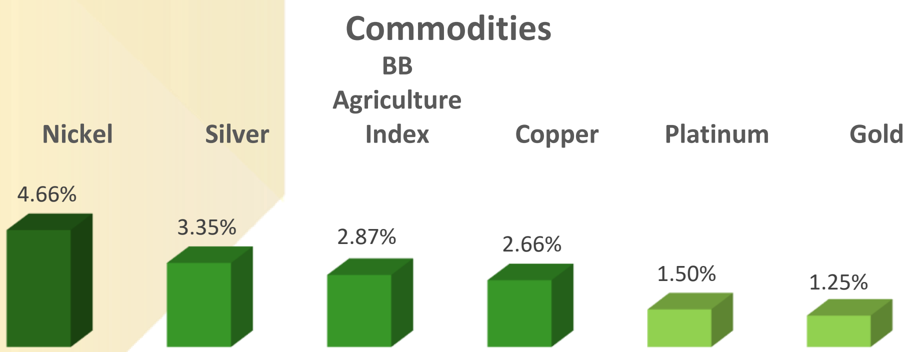


Figure 6: The chart represents the commodity returns over the week.

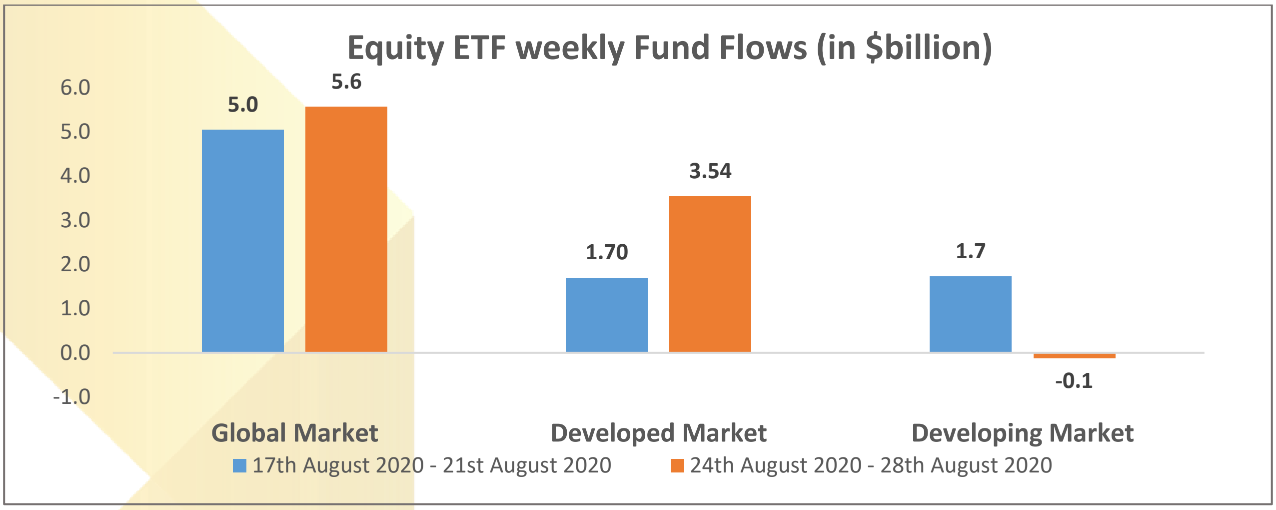
This week was very positive for Commodity segment as a whole. The industrial commodities outperformed the precious metals this week. Crude also showed an advance with the hurricanes in the east coast of the US further hampering the production. Even the agriculture commodities continued to follow their upwards trajectory.

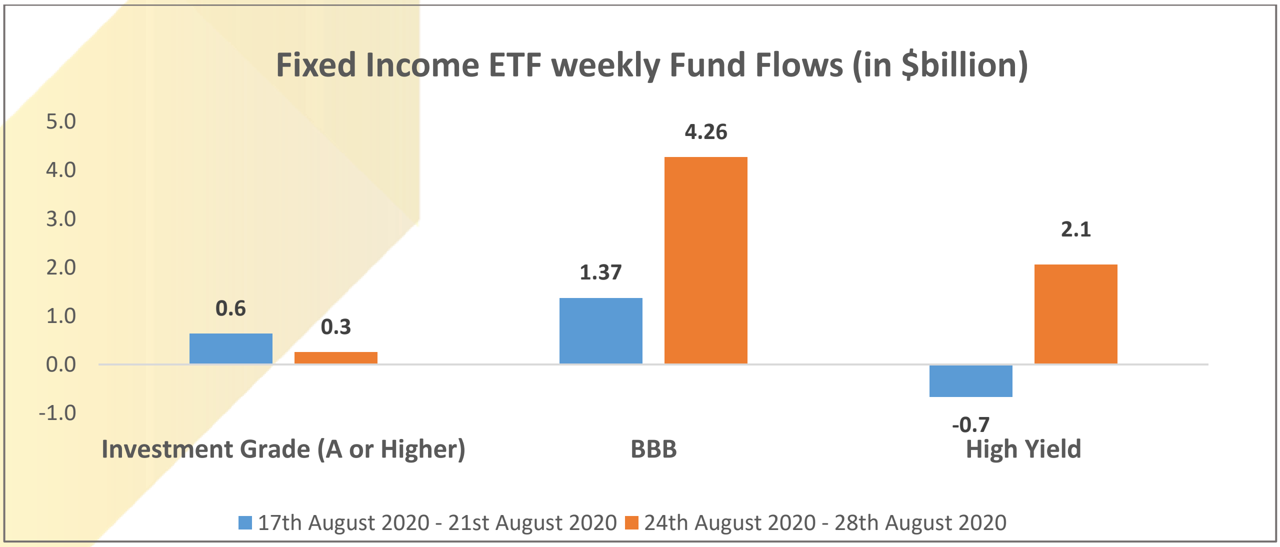
GLOBAL FUND MANAGERS' STATEMENTS

1) Jim Paulsen (CIS, Leuthold Group): "We(economy) are much better prepared even if Covid Continues well into 2021. We are in the early innings of the bull market. Expect corrections. We are definitely going to get more than one of those and they'll be scary when they occur." – Webinar on 27th August 2020.

2) Mark Mobius (Founder, Mobius Capital Partner): " This month's stock market rally won't last. The recent gains were driven by optimism over coronavirus treatments. Investors can expect volatility going forward."- Interview with Financial News on 25th August 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 subcategories as well

PACE 360'S FUTURE OUTLOOK

" The feverish pitch around the risk assets rally has reached a crescendo now. We believe that we are witnessing bear capitulation in global equities particularly in the US growth stocks. We expect global equities to peak out over the next few days and then correct over the subsequent 4-6 weeks. US dollar will witness a contra trend rally particularly against Emerging Market currencies. Bullion may continue to be sideways with a downside bias. Long term US Treasuries should also recover smartly from the current levels."

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