Weekly Report and Outlook on Global Markets

14th August 2020

US Retail sales make up their Covid-19 loss and more:

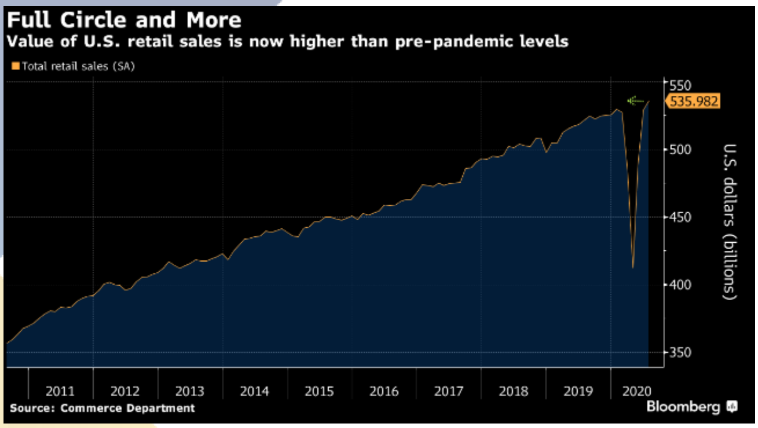


Figure 1: The chart depicts total retail sales in US post 2011

A rebound in U.S. retail sales may have slowed in July, but they're above pre-pandemic levels as American businesses continue the gradual process of reopening and consumers carefully return to broader consumption beyond the essentials. The value of retail purchases increased a less-than-expected 1.2% from the prior month to $536 billion, according to a Commerce Department report Friday.

Meanwhile, sales in the "control group" subset, which some analysts view as a more reliable gauge of underlying demand, gained 1.4%, beating the 0.8% forecast in a Bloomberg survey of economists. This subset consists of those purchases more relevant to the pandemic spending and this data was derived based on the spending patterns of the customers from their credit and debit card data.

Small Firms Die Quietly, Leaving Thousands of Failures Uncounted

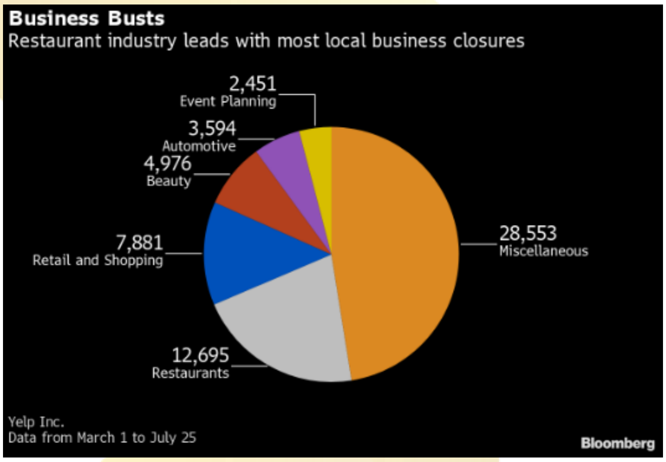


Figure 2: Pie chart depicting the industry-wise local small business closures

Big companies in USA are going bankrupt at a record pace, but that's only part of the carnage. By some accounts, small businesses are disappearing by the thousands amid the Covid-19 pandemic, and the drag on the economy from these failures could be huge.

This wave of silent failures goes uncounted in part because real-time data on small business is notoriously scarce, and because owners of small firms often have no debt, and thus no need for bankruptcy court.

Yelp Inc., the online reviewer, has data showing more than 80,000 permanently shuttered from March 1 to July 25. About 60,000 were local businesses, or firms with fewer than five locations. About 800 small businesses did indeed file for Chapter 11 bankruptcy from mid-February to July 31, according to the American Bankruptcy Institute, and the trade group expects the 2020 total could be up 36% from last year

While the businesses are small individually, the collective impact of their failures could be substantial. Firms with fewer than 500 employees account for about 44% of U.S. economic activity, according to a U.S. Small Business Administration report, and they employ almost half of American workers.

Most of these firms do not wait to go bankrupt and close down while they still have some money left in their accounts. This is because the Chapter 11 bankruptcy filing is tedious process and it will not help the owners as it can not help them turn around their business in this Pandemic scenario.

Turkey Removes Cheaper Funding But Erdogan Urges Lower Rates

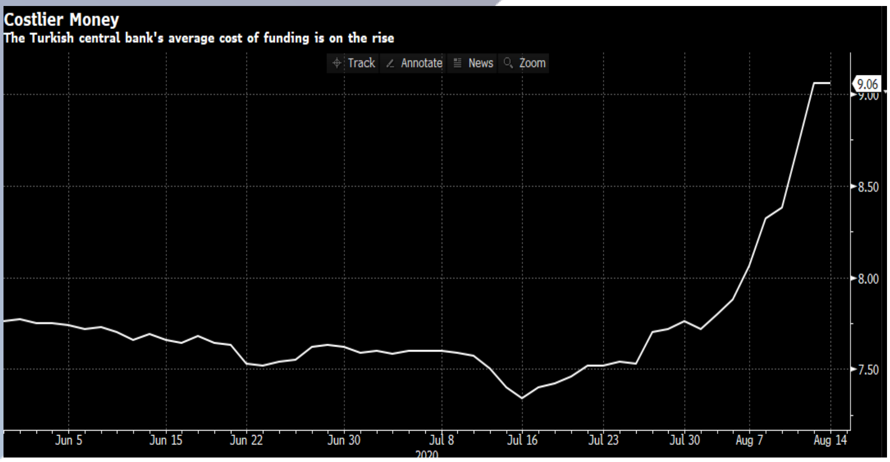


Figure 3: The figure shows the Turkish Central Bank's average cost of funding to the primary dealers.

The Turkish central bank took another step to raise the cost of money without resorting to outright increases in interest rates.

A day after the latest call from President Recep Tayyip Erdogan for lower borrowing costs to boost economic growth, the central bank reduced the cheaper liquidity it provides to primary dealers as part of its open market operations to zero from Aug. 12, according to a statement on Tuesday.

The decision is effectively a backdoor way to tighten monetary policy because it's expected to push the central bank's weighted average cost of funding higher. While it's at odds with Erdogan's call for lower rates after upheaval in financial markets sent the lira to a record low against the dollar, the workaround solutions might not provoke the president as much as a hike in Turkey's benchmark.

The latest move forces all local lenders to meet their funding needs through the overnight window at a rate of 10.25%. Should the central bank follow the playbook it used to cope with a currency crash in 2018, the next step could be to push the cost of money to 11.25% by turning to its late liquidity window.

Euro Area Sheds Almost Half of Jobs Created Since Last Recession

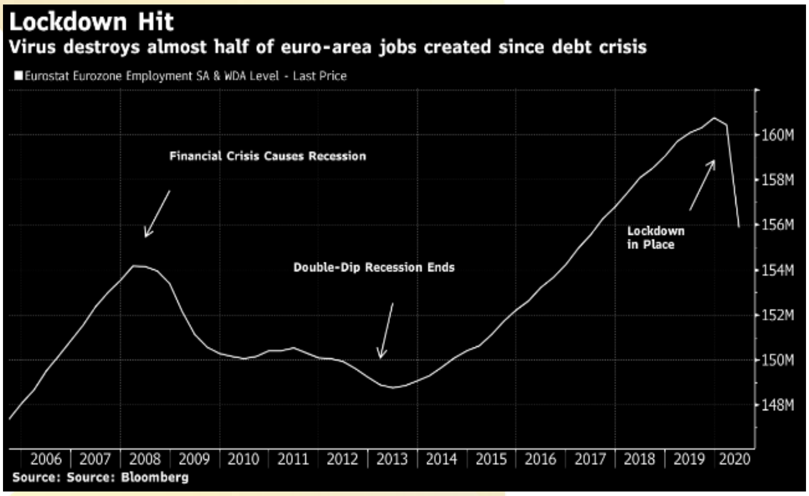


Figure 4: The figure shows Seasonally adjusted Eurozone employment

The coronavirus pandemic has wiped out nearly half of the 12 million euro-area jobs created since the last recession, in another sign of the enormous damage wreaked on the economy.

Employment slumped by 4.9 million in first half of the year, almost all in the second quarter when the most stringent measures to contain the spread of the virus were in place.

Governments are now facing tough choices on how to wind down those programs though, as they weigh ballooning debt against the consequences of massive job losses for the economy.

Even the possibility of lost wages can cause consumers to increase their savings, undermining the recovery. The European Central Bank, whose monetary support pulled the economy out of a debt crisis and recession in 2013, predicts rising joblessness as not all people in short-time work schemes or temporary layoffs will return to their previous posts.

MAJOR MOVES THIS WEEKS

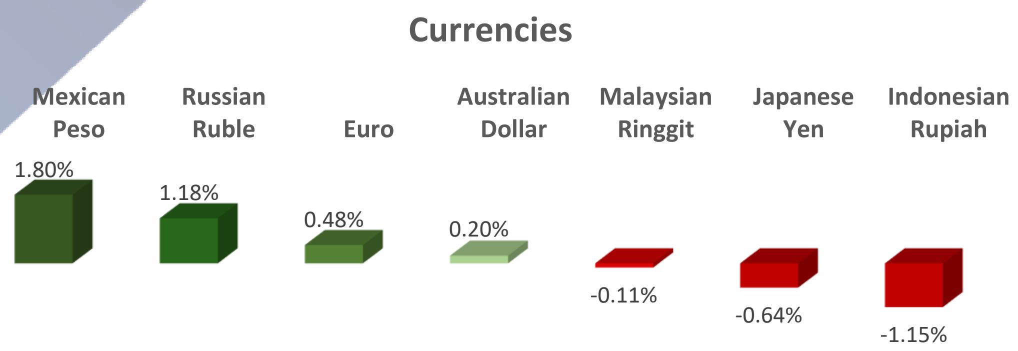


Figure 5: The graph represents Currency returns with respect to US Dollar as the base currency for this week

Movement in the currencies this week were mainly driven by political and local news. There was no apparent Risk on or risk off sentiment in currencies. Developed currencies like Euro, Australian and New Zealand dollar were sideways with a positive bias towards appreciation against US Dollar. Slight volatility was observed among the major Emerging Market currencies with Mexican Peso appreciating and Indonesian Rupiah depreciating the most.

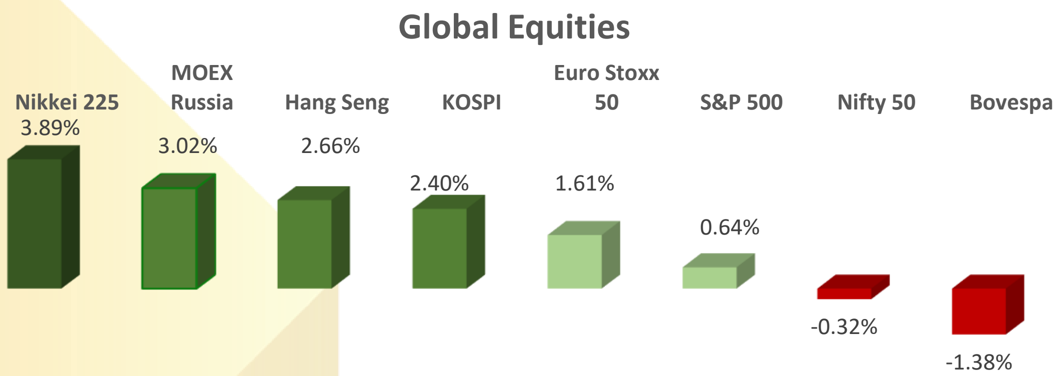


Figure 6: The chart represents the equity index returns over this week.

This week, we witnessed a sideways picture in equity markets with Japanese indices giving the highest return of about 4%. US and European markets gave muted returns. Positive movement was seen in Asian countries like Hong Kong and South Korea. However, few other Asian Indices closed in red this week like India, Malaysia, China and a few Latin countries like Brazil.

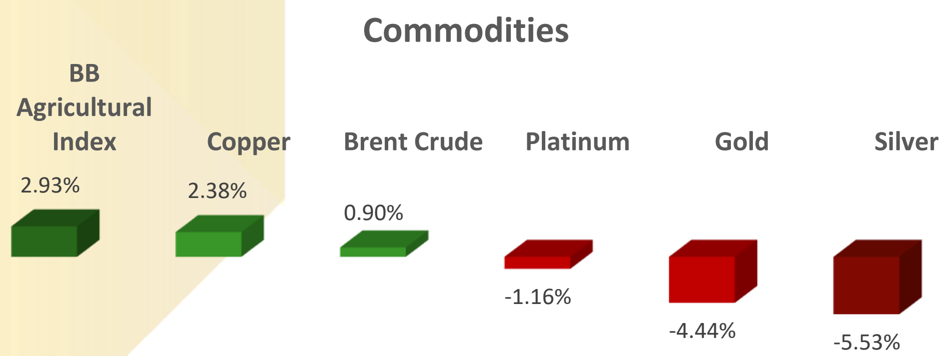


Figure 7: The chart represents the commodity returns over the week.

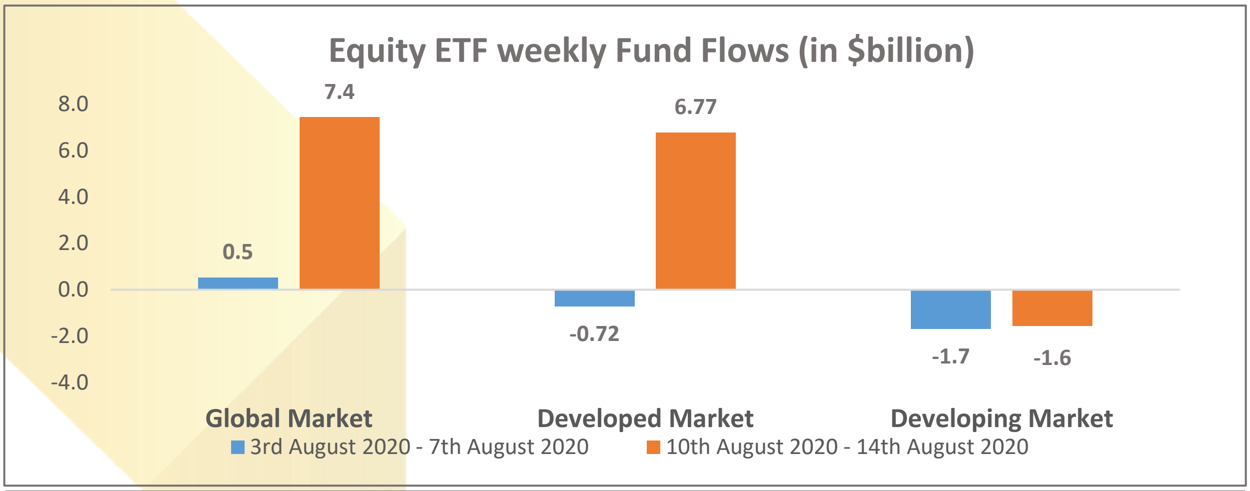
After giving a huge rally in the last few weeks the precious metals witnessed a significant correction this week. The fall was highest in silver followed by gold, palladium & platinum. The ETF flows into these asset classes also halted this week. Among the industrial metals, copper was the only gainer. Nickel, Lead, Aluminium all closed in red this week. The Agricultural index outperformed most commodities.

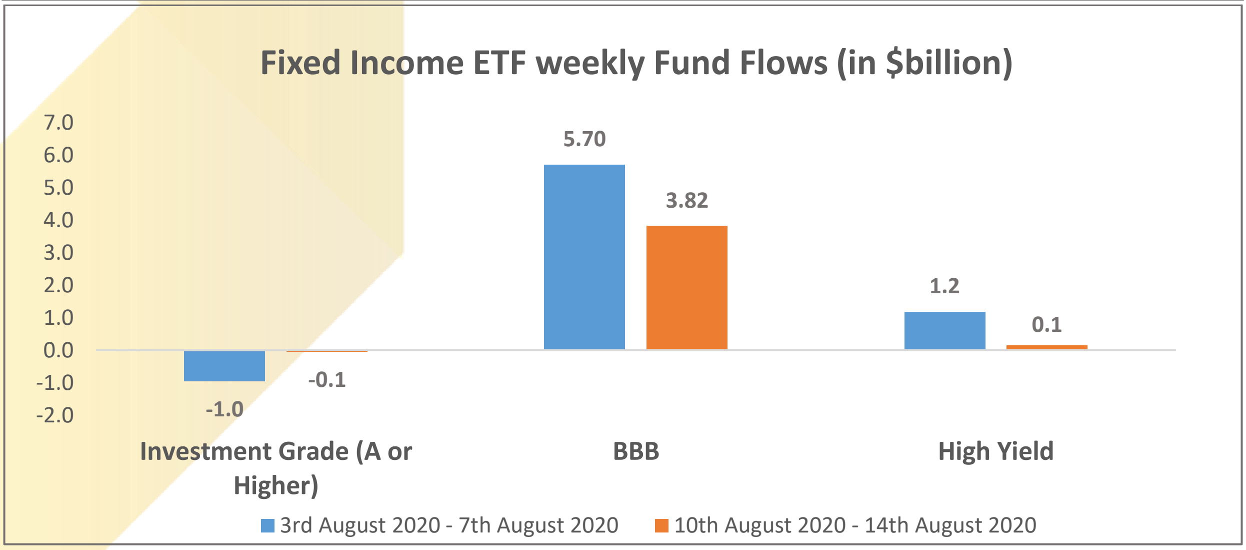
GLOBAL FUND MANAGERS' STATEMENTS

1) Byron Wein (Chairman, Blackstone Advisory): "A Joe Biden administration would mean more taxes and regulation, it would also bring more international agreements, better trade practices or at least more agreeable trade practices,"- 13th August 2020

2) Jim Paulsen (CIS, Leuthold Group): The pandemic "forced companies to just knee-jerk react — to cut everything they could to try to survive. What that has done is put them in a unique position with incredible profit leverage because they whittled down costs so low and increased efficiencies. That translates into tremendous earnings growth potential" "A lot of that boom will fall to the bottom line in a bigger way than people currently expect. We could have a big profit recovery." "2021 would be one of the strongest growth periods we've ever experienced, and it would come after the biggest collapse we've ever experienced" – Interview with CNBC, 13th 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

"Gold and silver seem to have peaked out for now. The rally in risk assets also seems to be peaking out now. We expect equity indices to lose about 8-10% over the next few weeks. Longer term US Treasuries should also rally from current levels. Dollar index should be bottoming out soon and could start a relief rally thereafter."

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