



# Weekly Report and Outlook on Global Markets

4<sup>th</sup> September 2020

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# MARKET DEVELOPMENTS

## Correlation between S&P 500 with an equal-weighted S&P 500 at historic low

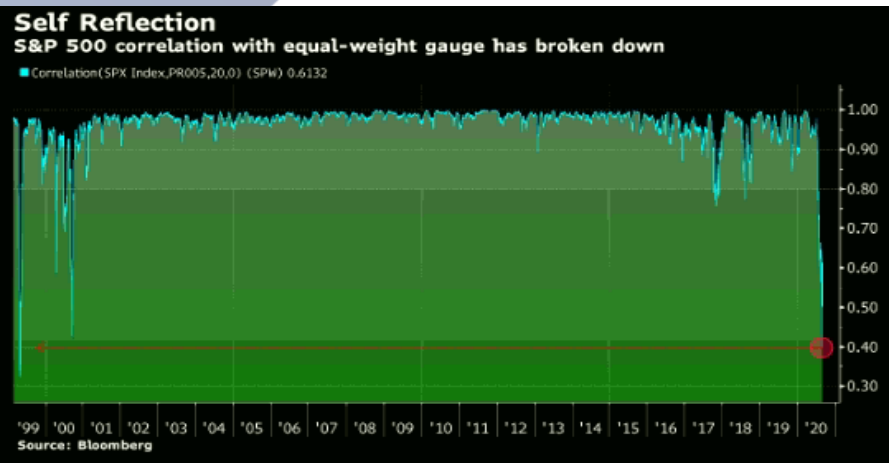


Figure 1: The figure depicts correlation between S&P 500 and equal weighted S&P 500 Index as at 31<sup>st</sup> August 2020

The 20-day correlation between the benchmark stock gauge and its equal-weighted version collapsed below 0.40 last week, the lowest since 1999.

The two versions of the same index are moving less together than at almost any point in the past 30 years, due to the by now well-documented dominance of the very large tech stocks, and otherwise poor breadth.

Similar correlations between S&P 500 growth and value indexes fell into negative territory for the first time since 2000, according to data compiled by Bloomberg. That has happened only eight times before and the median one-year return for the benchmark S&P 500 Index following those occurrences has been about minus 7%.

## Beneath The Equity Rout Is a Moment for Value Shine

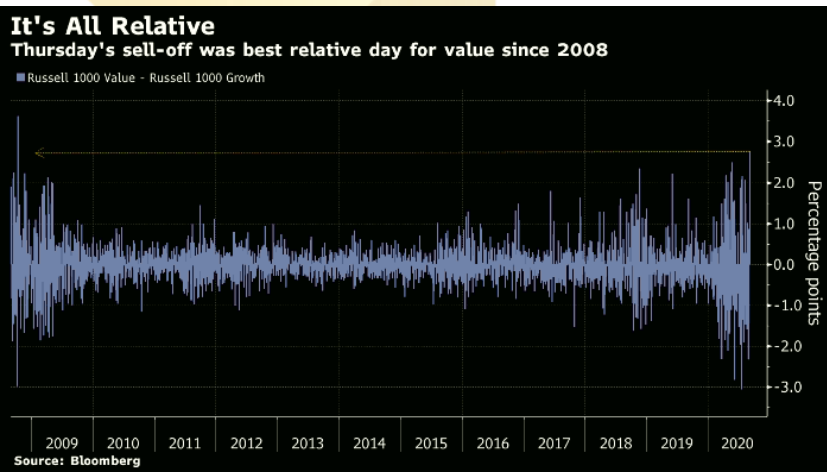


Figure 2: The figure depicts difference between daily percentage change for Russell 1000 Value Index and Russell 1000 Growth Index

More than \$700 billion got erased from the Nasdaq 100, scores of options got zeroed out and the S&P 500 plunged the most since June on Thursday. On the bright side, value stocks outperformed the growth stocks.

It's all relative, of course, but compared with a swoon of 4.9% in the Russell 1000 Growth Index, the 2.2% retreat in its cheap-stock counterpart made for its best day since 2008. The group remains down 11% versus a 26% gain for growth in 2020, one of the widest divergences ever.

The Russell 1000 Growth and Russell 1000 Value index's ratio is almost 5 standard deviations above the mean in an ascent so sharp that it would make an astronaut queasy. If any downside volatility were to continue, it's possible that gap will converge further due to outperformance of value stocks with respect to their growth peers.

### Employment Outlook for US Small Firms Looks Promising

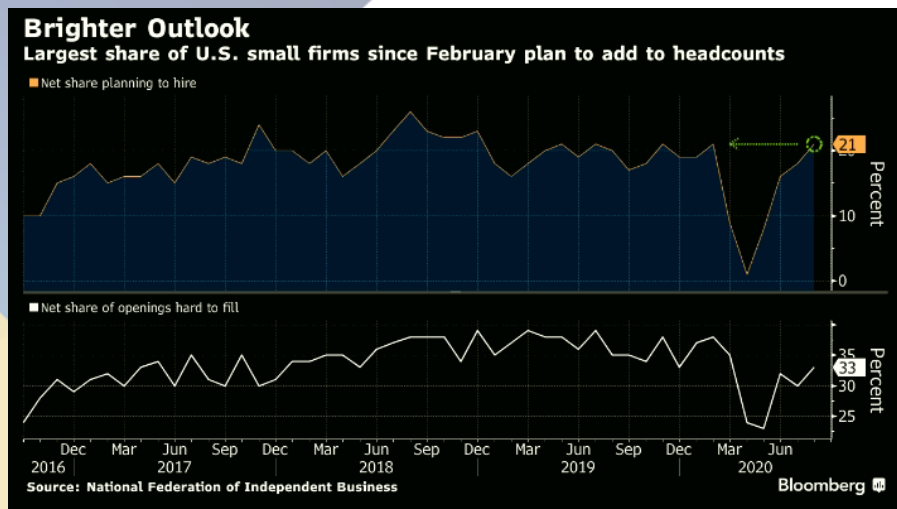


Figure 3: The figure depicts US small firm employment metrics

This value has now reached the pre pandemic level of 21% which is also one of the highest levels in the last few years. Also some 33% of US Small firms, the most since March, said they had open positions they were unable to immediately fill.

The largest share of U.S. small businesses since February say they plan to add workers in coming months, though hiring conditions remain difficult as the pandemic continues to add to uncertainty in an uneven recovery.

The National Federation of Independent Business said Thursday that a net 21% of small firms in August were planning to create new jobs, up 3 percentage points from the prior month and the fourth straight increase.

### Central Banks Slowed Gold Buying in the Last Few Months

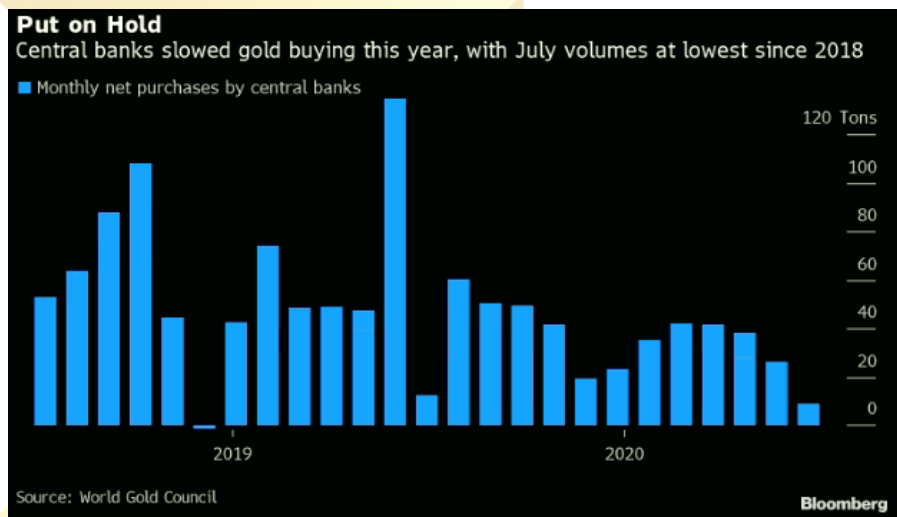


Figure 4: The figure depicts net monthly gold purchases by central banks

While the council expects bullion reserves to keep rising, the slower pace would curtail an important driver of gold's advance in recent years.

Central banks' net purchases of gold fell below 9 tons in July, the lowest since 2018, World Gold Council data show. After two years of big buying, demand has eased in 2020 as some nations curbed purchases. In this year the fall in purchases actually started in the month of May.

Possible reasons behind such a sudden change in buying pattern can be due to soaring gold prices and the coronavirus crises rippling through the economy.

# MAJOR MOVES THIS WEEK

## Currencies

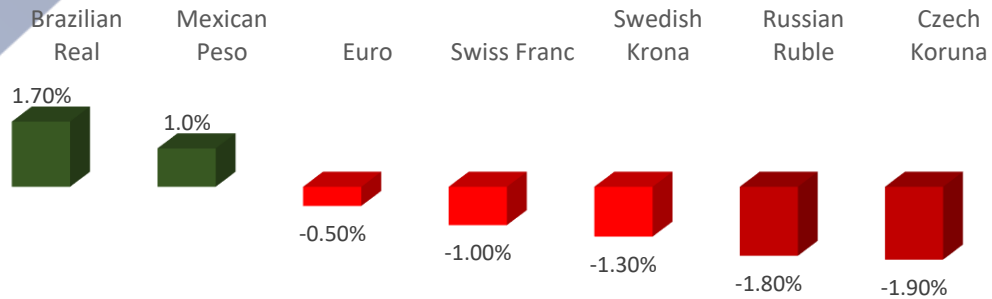


Figure 5: The graph represents Currency returns with respect to US Dollar as the base currency for this week

This week was a mixed picture for currencies. Euro and those currencies having a strong correlation and beta with Euro like Swedish Krona and Czech Koruna depreciated against US dollar. Even Swiss franc which is considered as a safe haven lost 1%. Emerging market currencies on the other hand performed relatively better with Brazilian Real and Mexican Peso outperforming its peers. The Russian Ruble suffered the most among major Emerging market currencies due to geopolitical tensions.

## Equity Indices

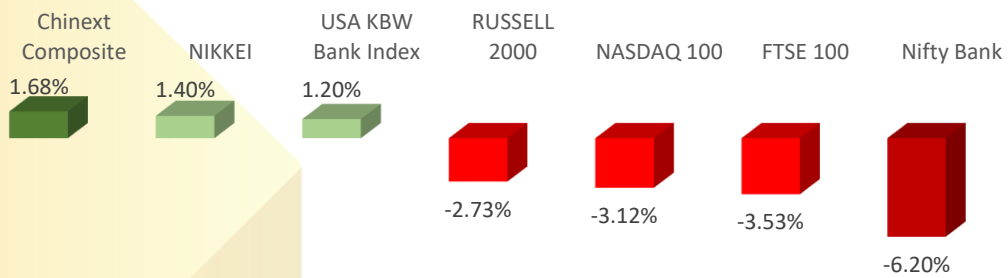


Figure 6: The chart represents the Equity Index returns over this week.

It was a very volatile week for the equities with S&P 500 and Nasdaq 100 making new all-time highs by mid-week before a huge sell off on Thursday and Friday. One noticeable thing was that we did see sector rotation with money going from growth to value stocks. US banking stocks rose while large tech stocks bled. Equities in Asian markets were largely sideways with Chinext composite and Nikkei outperforming its peers. In India, banking stocks underperformed the nation's broader market.

## Commodity Futures

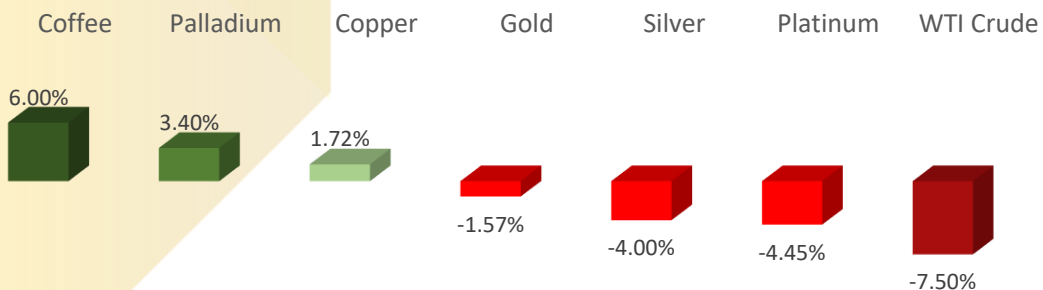


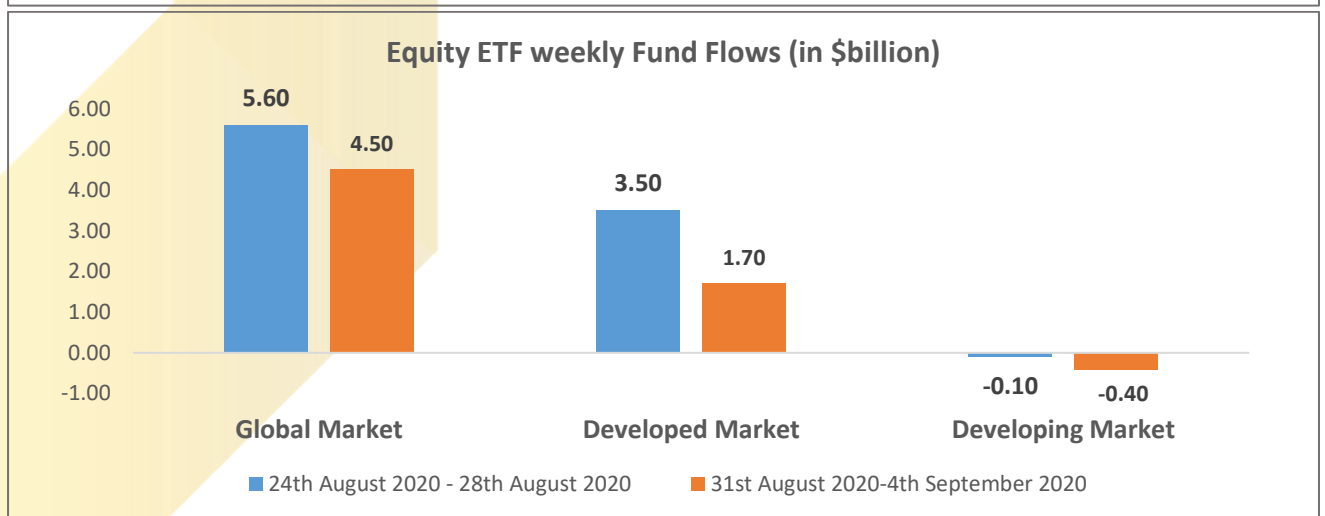
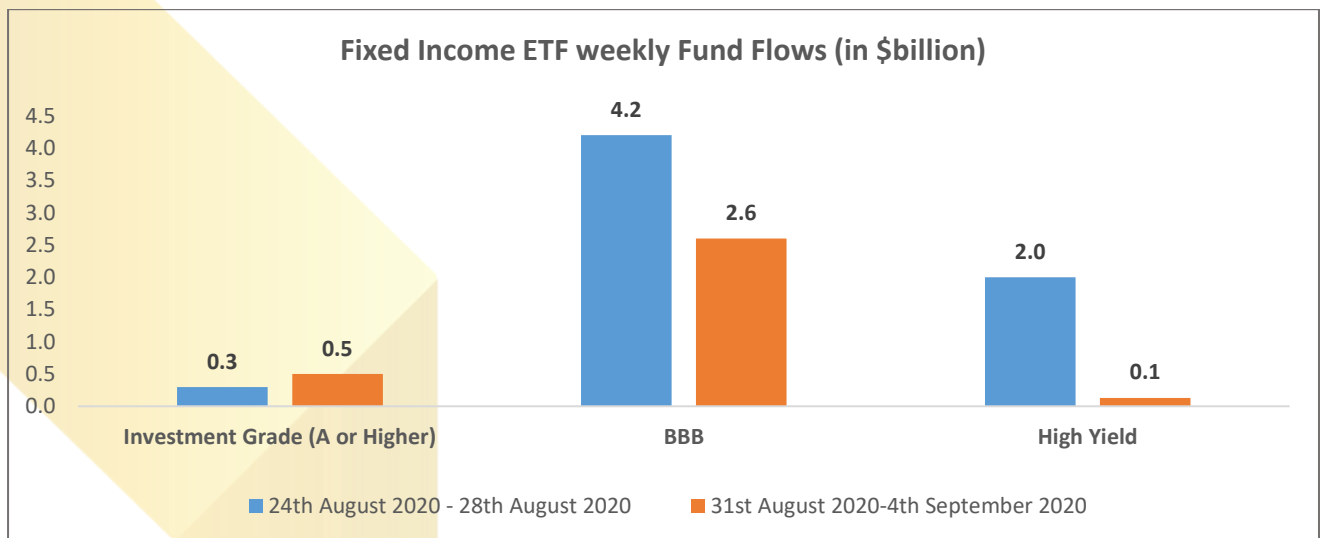
Figure 7: The chart represents the Commodity returns over the week.

During this week among precious metal segment, Palladium outperformed its peers by a huge margin. Industrial metals also performed pretty decently with Copper outperforming other metals like Nickel, Aluminium etc. Crude oil lost 7.5% due to lower demand forecast and a stronger US dollar. Coffee continued its outperformance among the agriculture commodity peers. Sugar however lost 5% this week.

# GLOBAL FUND MANAGERS' STATEMENTS

- 1) Jim Paulsen (CIS, Leuthold Group): "I think a rotation from growth stocks to value stocks is already taking place. It's not dramatic, it's not robust, but I think it's already starting and it's going to get more robust in the coming year. Investors can buy stocks in these four areas: general industrials, financials, well-financed energy, and small-caps."—CNBC on 01<sup>st</sup> September 2020.
- 2) Mark Mobius (Founder, Mobius Capital Partners LLP): "We are probably nearing the end of this downturn (US dollar index) but that does not mean it is going to go up. We should probably continue to see dollar weakness and a lot of this depends on what happens with the U.S. election. If Trump wins, then you will probably see a stronger dollar coming in. My exposure to India is the largest in my portfolio."- Economic Times of India on 04<sup>th</sup> September 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

“Global equities have finally peaked out. We expect a 10% - 20% correction from August-September peaks over the next 4-6 weeks. Some of the indices like Nasdaq 100 were clearly in bubble territory and may lose 20% from the peak levels. We expect Euro to fall by 2% - 4% against USD over this time frame. There should be downsides opening up in commodities too.”

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### CONTACT US



+91-11-4742 1001



info@pace360.in



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

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