Weekly Report and Outlook on Global Markets

11th September 2020

Subscription ratio for Asian (Excluding Japan) dollar bonds soars to 17-month high

After a dip in the subscription ratio for Asian dollar denominated bonds in the month of July, the data for the month of August was a pretty robust one.

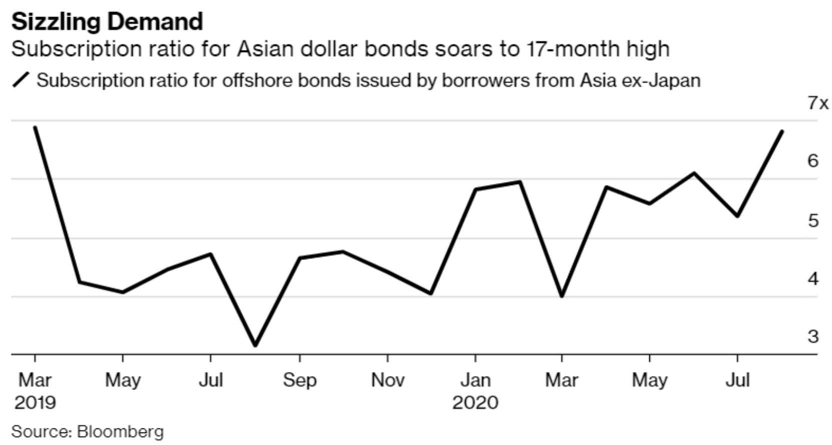

Figure 1: The figure depicts subscription ratio for offshore bonds issued by Asian Firms (ex-Japan)

Bonds of all Asian issuers, excluding Japan, were 6.8 times subscribed, the highest since March 2019, the data show.

Demand for dollar bonds from Chinese issuers soared to a fresh high as the nation's economic recovery gained momentum. Orders for Chinese offerings rose to 7.6 times their issuance size in August, the highest ratio since 2016.

This shows investors in western nations are hunting higher yielding Asian bonds due to lower yields in the developed markets. The total amount of Asian ex-Japan dollar denominated bonds issued have reached a value of $242 billion.

Spread between Indian 10 Year sovereign bond and repo rate near decade high

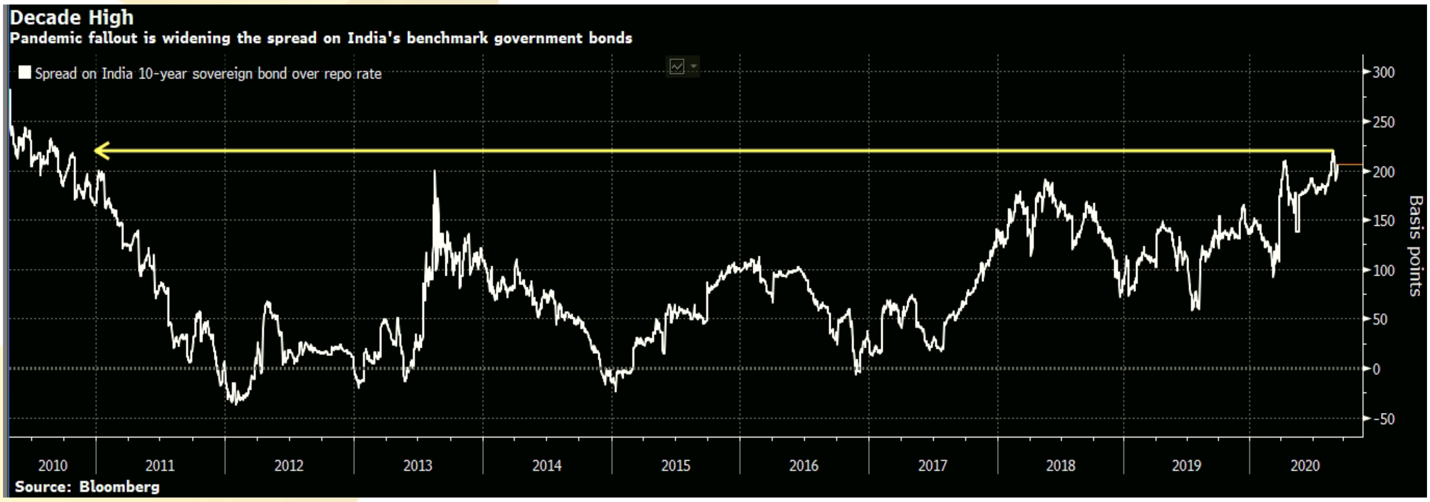

Figure 2: The figure depicts spread on Indian 10-Year sovereign bond over repo rate

The spread between India's benchmark 10-year sovereign bonds yield and the Reserve Bank of India's repurchase rate widened to as much as 219 basis points in August, the highest in a decade, as the coronavirus pandemic fallout put pressure on government borrowings. That move helped push the central bank to try and keep the country's borrowing costs in check using tools including easing bond holding rules for banks and Federal Reserve-style operation twists. While the spread had eased after new measures were announced earlier this month it has covered some lost ground this week and again trading above 200 basis points.

Foreign Holdings of South African Government Bonds have Dropped to pre-WGBI levels

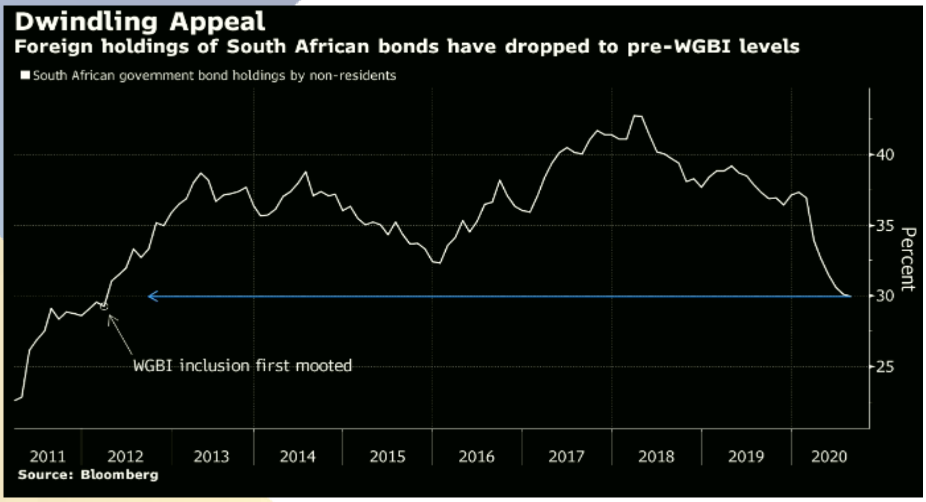

Figure 3: The figure depicts South African government bond holdings by non-residents

Foreign holdings of South African government bonds fell below 30% for the first time since 2012, when South Africa's inclusion in the FTSE World Government Bond Index sparked a rush to buy the debt from funds that track the gauge.

The country exited the WGBI in April after losing its last investment rating, exacerbating a selloff prompted by concerns over rising government debt levels. Outflows this year have reached $3.1 billion, compared with $1.4 billion for the whole of 2019. However the rate at which foreigners are selling the government debt has been reducing since the last two months.

Sector rotation from growth to value will favour Japanese and European Indices

Figure 4: The figure depicts value shares' market cap relative to benchmark indices of major countries

If the slump in high-flying growth stocks pushes investors to prepare for a long-heralded value share rotation -- they will find Southern European and Japanese stocks look best placed to benefit.

That's based on the size of the cheap stock cohort in each market, according to data compiled by Bloomberg. The market capitalization of value shares is equal to 50% of the MSCI Europe Index -- with Spain and Italy as the biggest contributors on a country basis -- and about 49% of the MSCI Japan. They make up just 45% of the U.S. benchmark and 44% of the emerging market one.

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MAJOR MOVES THIS WEEK

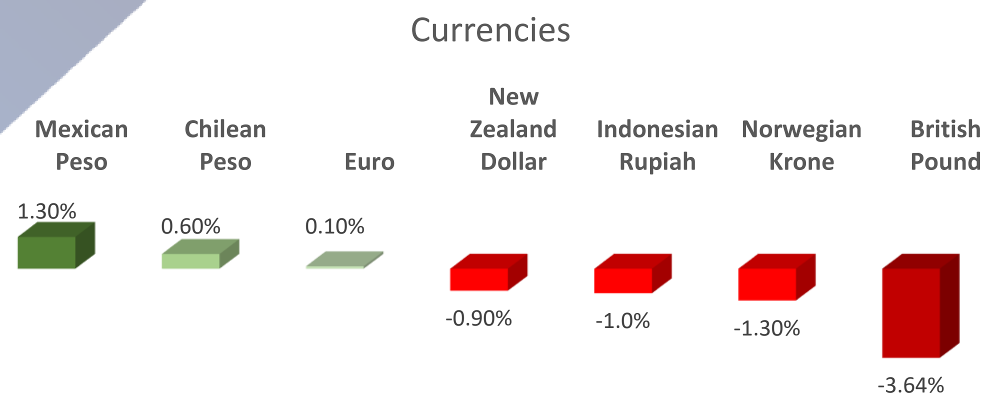


Figure 5: The graph represents Currency returns with respect to US Dollar as the base currency for this week

This week both developed market currencies and emerging market currencies gave muted returns against US Dollar. However the true picture was that currencies were under pressure during the first half of the week. In the second half the currencies were supported by rising Euro after European Central Bank's better than expected outlook on Euro zone and decision to not use exchange rate as a monetary tool. Pound depreciated the most due to lack of progress on trade pact between EU and UK.

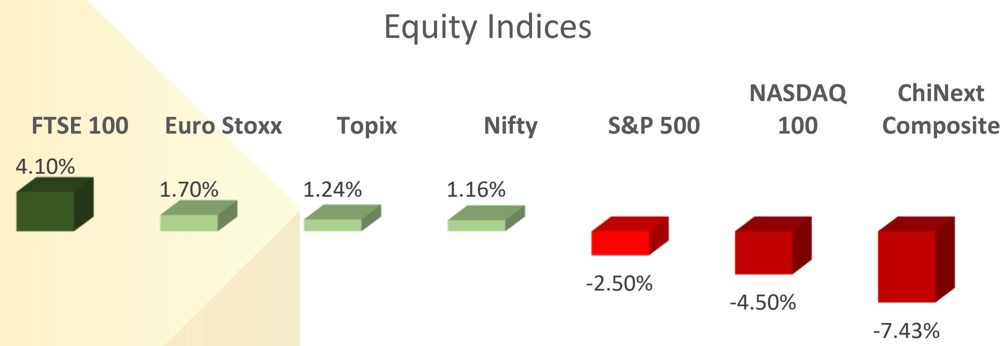


Figure 6: The chart represents the Equity Index returns over this week.

Technology stocks resumed the correction that started last week. Both NASDAQ and ChiNext were under immense pressure this week though ChiNext was able to cover a small part of the fall on the last trading day but was still the worst performing index among major Indices. Equities in general were sideways for most part of the week. European indices performed better than the US indices. UK's FTSE 100 was the best performing index due to pound's depreciation. Asian indices also remained pretty stable.

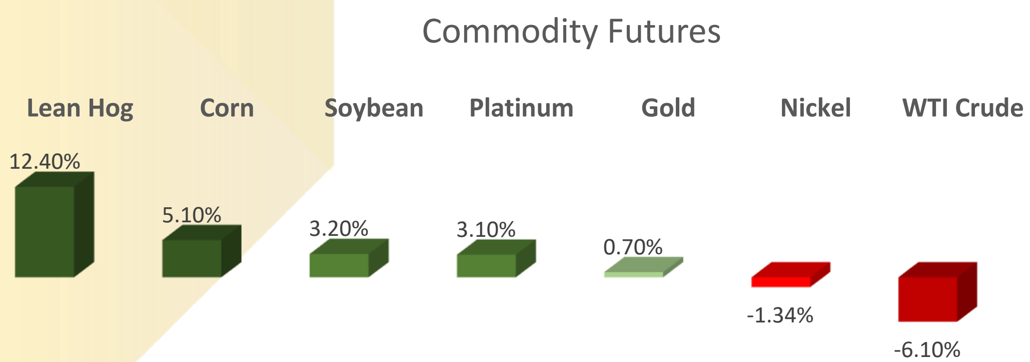


Figure 7: The chart represents the Commodity returns over the week.

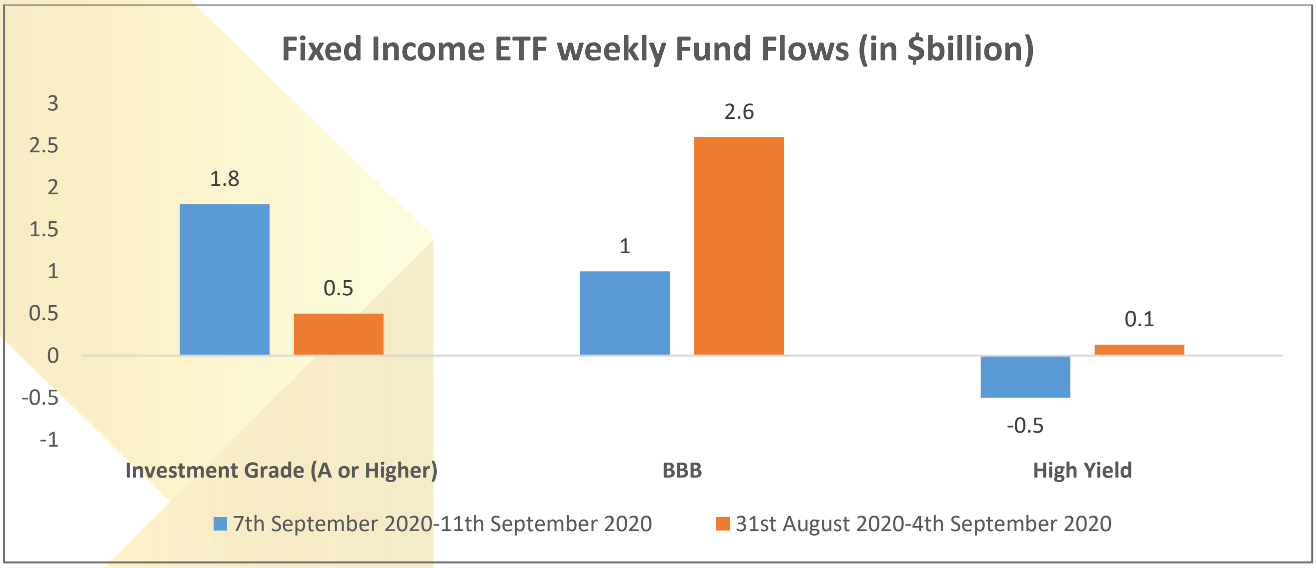
This week the limelight was taken by Agriculture commodities. US Lean Hog prices rocketed due to huge demand from China and potential supply constraint arising due to African swine flu case found in one of the dead hogs in Germany. Corn and Soybean continued their good run due to increased demand from China. Among precious metals Platinum outperformed its peers after a report came that platinum could be in deficit soon. Crude oil continued its downtrend due to increased inventory and low demand forecast.

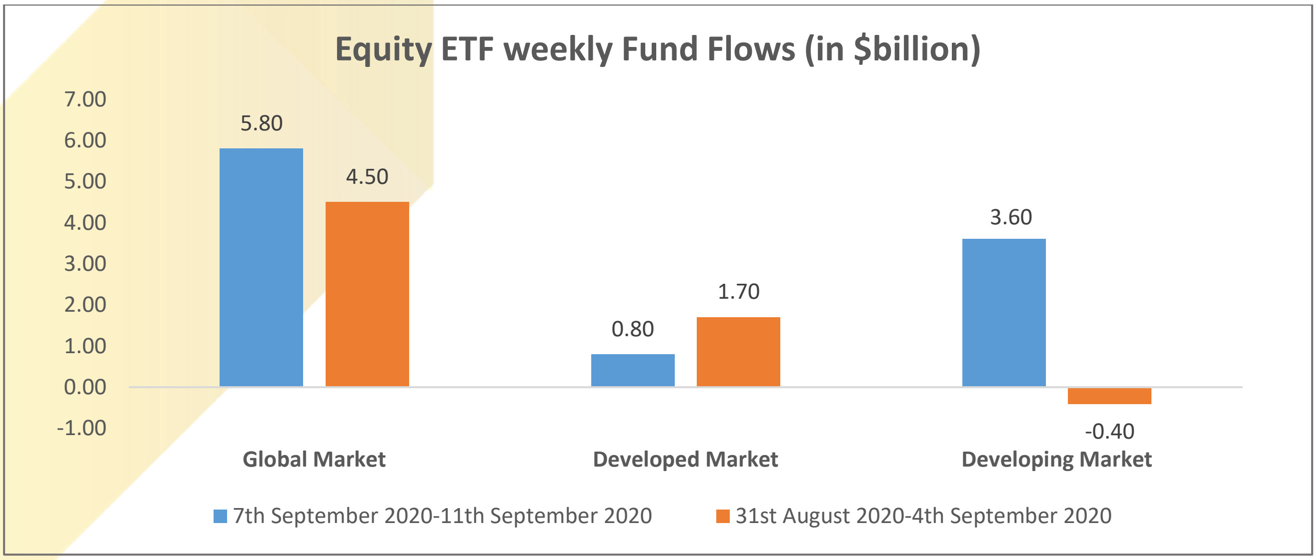
GLOBAL FUND MANAGERS' STATEMENTS

1) Jeffrey Gundlach (Founder, DoubleLine Capital): "There is room to go on the upside for the Junk Bond Default rate. The Fed has pumped more money into the economic system, but that hasn't erased economic fundamentals. There are many junk bonds that are priced today, or certainly were a week ago, at levels in excess of the recovery rate should they default."–Market Moves 10th September 2020

2) Mark Mobius (Founder, Mobius Capital Partners LLP): "We are witnessing a necessary correction, and possibly, it is not quite done yet. A good 20% correction would set the stage for another surge in prices. As of now we are steering clear of "mining, banks and companies without an internet strategy."- Financial News 11th 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

"A bubble of historic proportions in global equities is in the process of getting deflated. While Nasdaq 100 and FANGMA relatively find more acceptance as having been in bubble territory, most global equity indices had become disjointed from fundamentals in the last few weeks. We expect global equity indices to continue to correct over the next 4-5 weeks. The US Dollar should continue to rebound particularly against Emerging Market currencies. We also expect US long term treasury yields to fall over the next few weeks."

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