Weekly Report and Outlook on Global Markets

23rd October 2020

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Small Firms Swallowed Up by Widening Gulf in U.S. Credit Markets

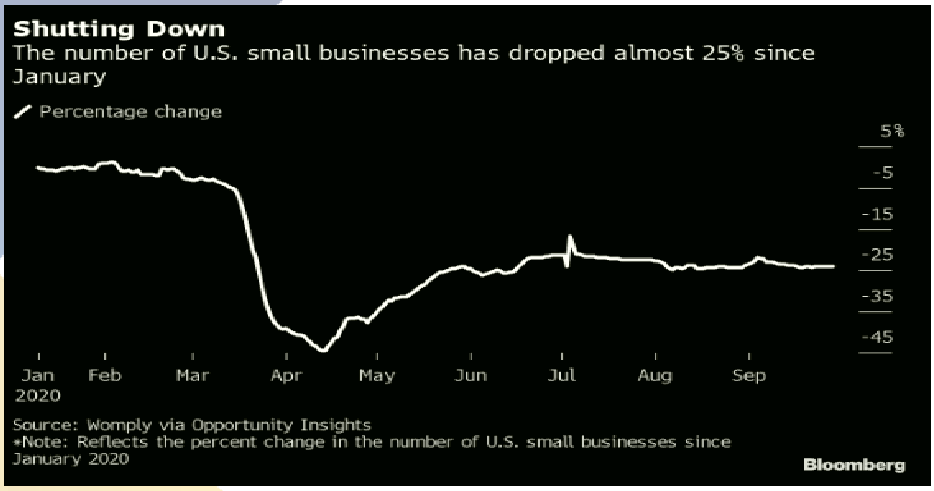


Figure 1: The figure depicts Number of US small firms shut down post January 2020

Existing disparities in access to capital have widened as a result of responses to the crisis by the Fed and the U.S. government. Large firms can access the bond market but the same isn't possible for small firms. A $525 billion lifeline through Paycheck Protection Program that initially kept millions afloat — have often benefited the largest of small companies, those with established banking relationships .

By one estimate, the number of U.S. small businesses has dropped by almost a quarter compared with January. Small businesses employ almost half of the country's private-sector workforce and have contributed about two-thirds of net employment gains in recent years.

Gauge of global earnings revision to near three year high

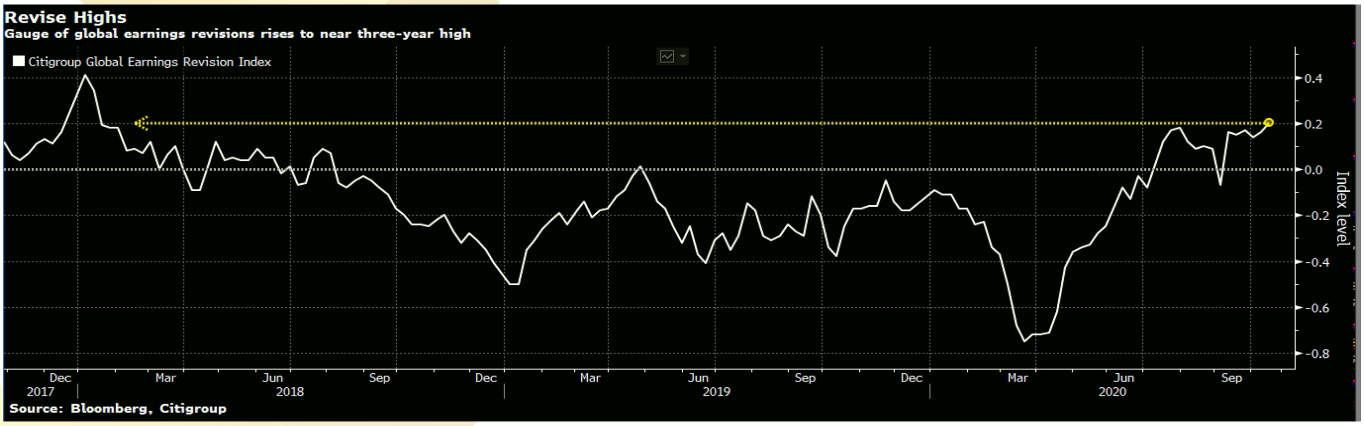


Figure 2: The figure depicts Citi group's earnings revision index which is close to 2017 highs

As third-quarter results season gets underway in earnest, a gauge of global earnings revisions has climbed to its highest in almost three years. Citigroup Inc.'s Global Earnings Revision Index -- a worldwide measure of analyst upgrades minus downgrades of profit expectations -- is back up at levels last seen in January 2018. The measure collapsed to all-time lows at the height of coronavirus fears in March. Just over 10% of the companies in the Bloomberg World Index have reported so far this season, with about 70% of them beating earnings estimates, according to data compiled by Bloomberg.

US Stock bulls exceed bears for the first time since February

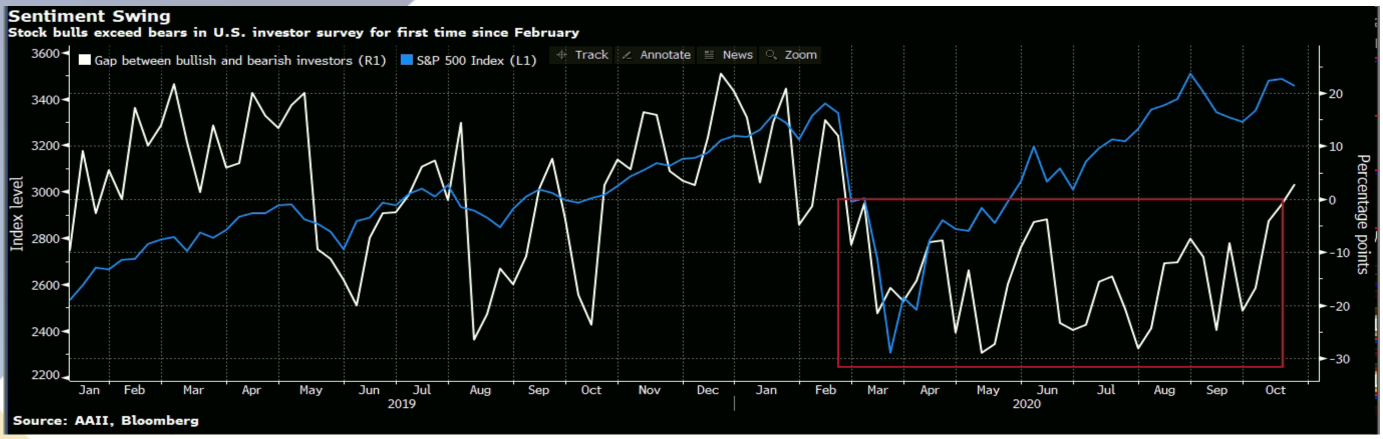


Figure 3: The chart depicts gap between bullish and bearish investors' sentiment with respect to S&P 500 's movement

Smaller investors are finally turning optimistic on U.S. stocks after a seven-month rally. This conclusion comes from a weekly survey, released Thursday, by the American Association of Individual Investors. Participants expecting to see higher share prices in the next six months outnumbered those anticipating a decline by 2.7 percentage points. Bulls had trailed bears for 34 consecutive weeks, the longest stretch since the survey began in 1987.

New Zealand Central Bank's government bond ownership about to surpass foreigner's bond ownership

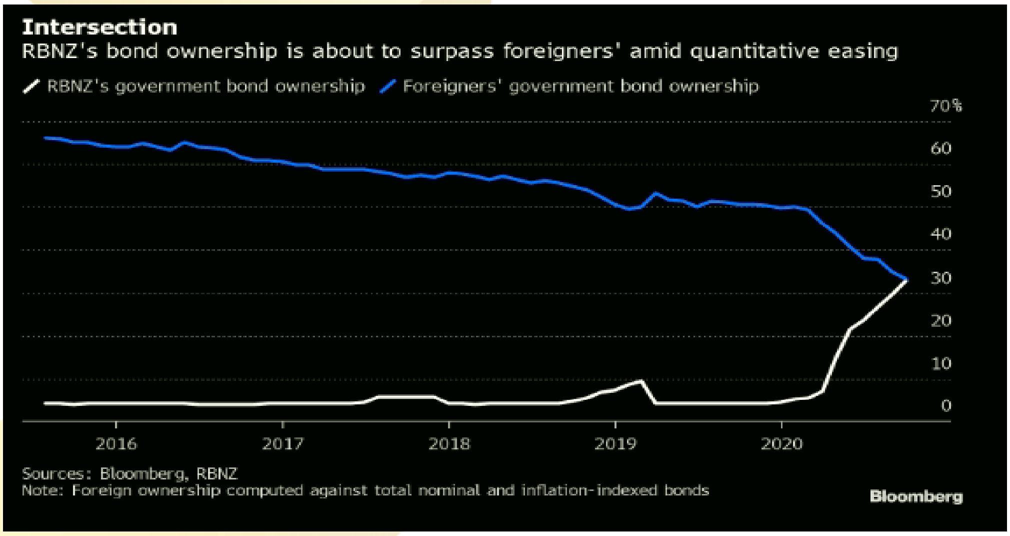


Figure 4: The Figure depicts change in New Zealand Govt bond ownership since 2015

The share of New Zealand government bonds owned by the nation's central bank has surged to 33% and is now poised to exceed the holdings of foreigners for the first time on record, according to calculations by Bloomberg in data going back to 2015. Guidance from the Reserve Bank of New Zealand's asset purchase program leaves room for more to come.

Till now they have been one of the most dovish central banks in the developed market. Apart from the excessive stimulus by means of Quantitative easening they are also considering negative interest rates.

MAJOR MOVES THIS WEEK

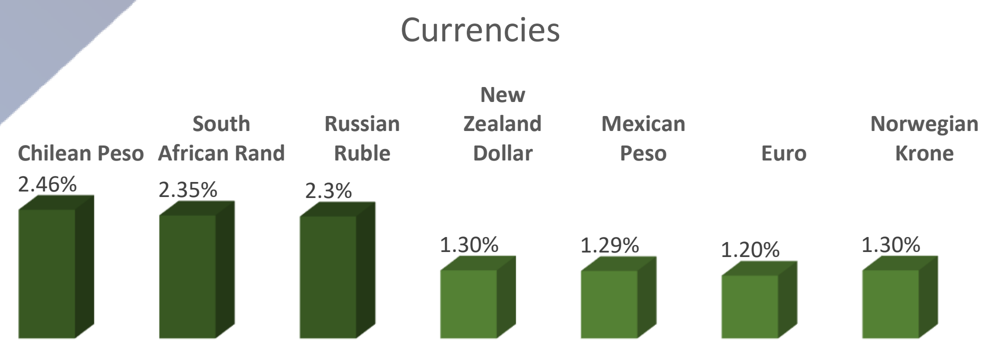


Figure 5: The graph represents Currency returns with respect to US Dollar as the base currency for this week

It was an eventful week for currencies against US Dollar with most of the major developing and developed market currencies appreciating. Chilean Peso was the front runner among EM currencies this week after being depreciated in the previous few weeks due to ongoing protest regarding the referendum to change their constitution. Euro's appreciation was also one of the major factors behind this week's currencies' performance. Commodity linked currencies like New Zealand Dollar and Australian Dollar also appreciated against US Dollar.

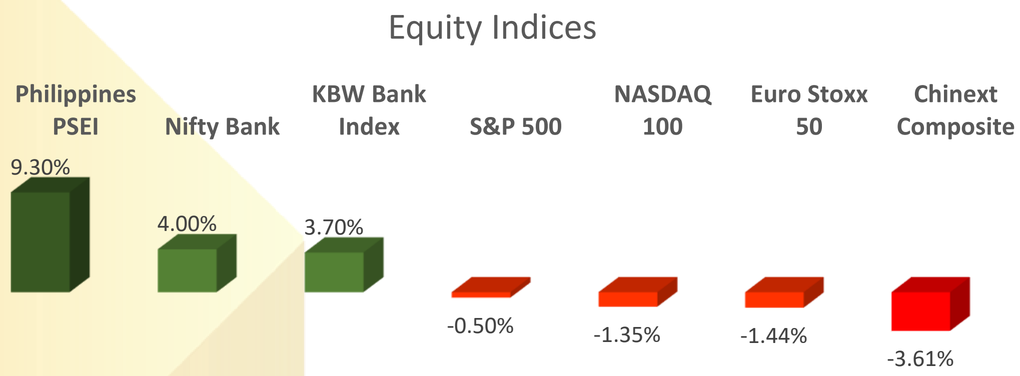


Figure 6: The chart represents the Equity Index returns over this week.

It was a muted week for developed market equities with S&P 500, NASDAQ and Euro Stoxx 50 all closing flat. US banking sector gave a decent weekly return due to rise in longer tenure bond yields. Indian Banking sector also performed well this week beating the broader market. Within emerging markets, Philippines equity index was the outperformer by gaining more than 9% in the week due to increase in foreign investors' fund inflow. ChiNext composite was the underperformer within EM Equities.

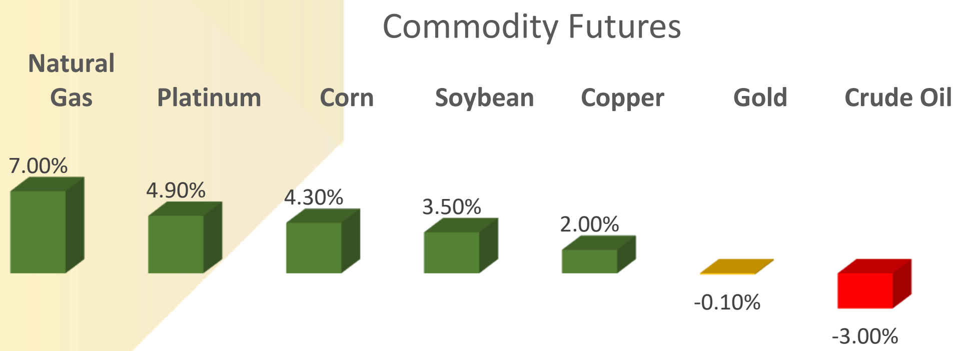


Figure 7: The chart represents the Commodity returns over the week.

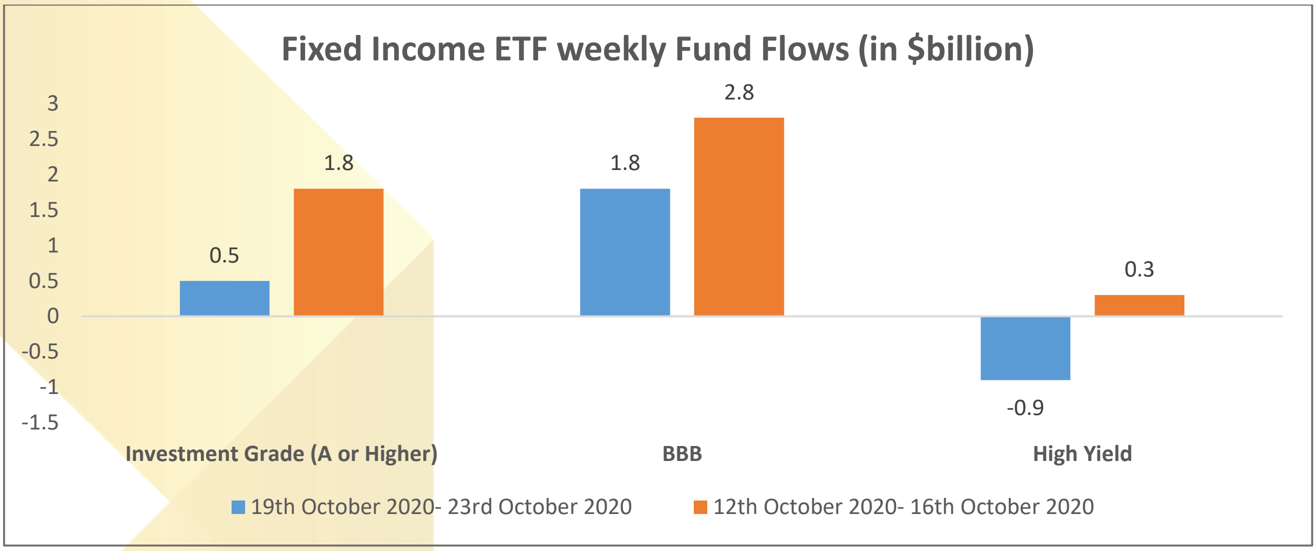
Among the precious metals segment platinum was the outperformer rising significantly against its peers. Copper gave decent returns with respect to its industrial metals peers even after giving away most of its gains in the second half of the week. Soyabean and corn continued their good run among agriculture commodities. Oil retreated as a further increase in Libyan output threatens to return more supply to a market that's already grappling with a pandemic-induced slump in demand.

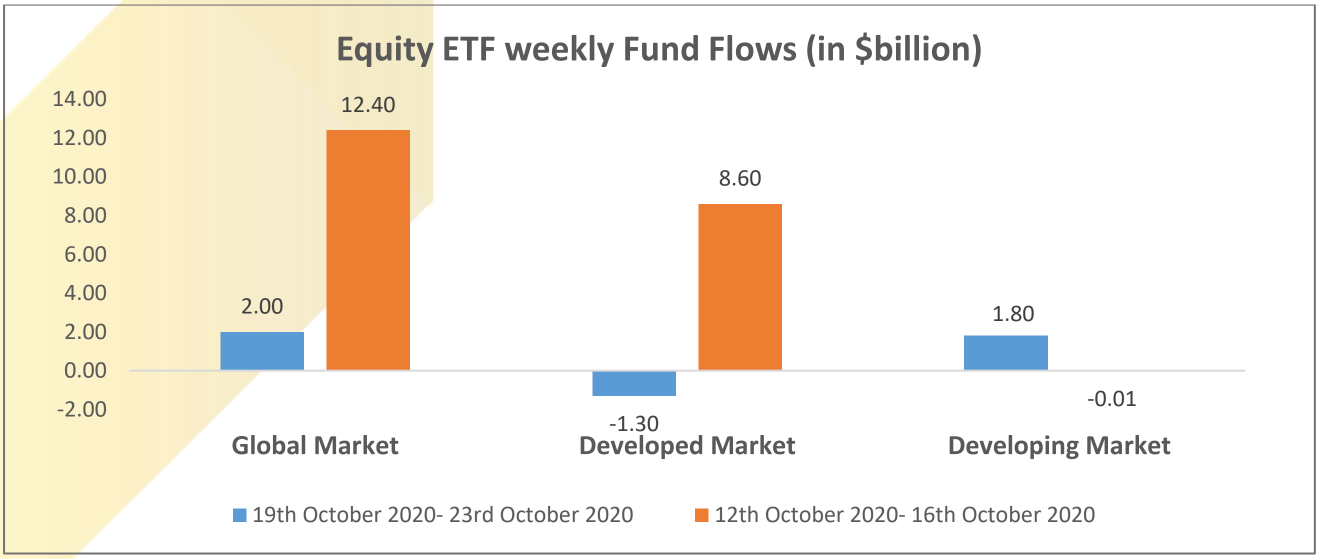
GLOBAL FUND MANAGERS' STATEMENTS

1) Scott Minerd (CIO, Guggenheim Partners): "The relative calm we feel in the markets right now isn't the end of the storm, it is just the eye. In fact, the lack of fiscal stimulus, the resurgence of COVID-19, and the risk of a contested election will likely cause the market to go lower before it can resume its rise."–Market Insider, 22nd October 2020

2) Mark Mobius (Founder, Mobius Capital Partners LLP): "The markets do not like uncertainty, so if Trump does not come back, the situation could get worse. If this happens, in terms of size, we could see a correction of 15 to 20 percent. India has the largest—19.8 percent—weightage in the my Emerging Markets Fund "- Forbes , 23rd October 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 markets are considerably invested in a Democratic clean sweep of the US elections. We believe that most of the global risk assets are nearly perfectly priced for a clean sweep by the Dems. If there is a clear verdict on the 4th of November in favour of the Dems we may witness a brief spike in risk assets followed by an inevitable correction. On the other hand either a result short of the Democratic sweep or a protracted delay in the election results can result in a sharp reversal in global risk assets. Hence, we continue to be longer term bearish on risk assets and continue to be bullish on gold and longer term US Treasuries."

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