Weekly Report and Outlook on Global Markets

2nd October 2020

Europe's Green Boom:

Clean tech stocks in Europe have had a strong 2020, buoyed by pledges from governments to spend big on going greener. Stocks adhering to environmental, social and governance themes have outperformed this year, with the MSCI Europe ESG Leaders Index down about 5%, compared with the broader MSCI Europe Index down more than 10% in dollar terms. This boom may have more room because of the following reasons.

- While clean tech had a boom that went bust during the global financial crisis, analysts say this time it is different, with Europe putting climate goals at the centre of its economic recovery plan.
- "At that time, there was no real push" by bodies like the European Union to underpin the demand for clean energy, Edward Maravanyika, an analyst at Citigroup, says in an interview. Moreover, China aims to reach carbon neutrality by 2060 and Japan's new prime minister is said to be planning a higher clean-power target for the country.

Figure 1: MSCI ESG Leaders yearly return vs MSCI Europe index yearly return

- Industry too appears more committed. Last week alone, companies ranging from a French oil major to a U.K. petrochemicals group and a Swedish mall owner announced green-focused plans. Green bonds are booming in Europe, and Poland's solar market is flourishing.
- There is more to come from markets beyond the EU. In the U.S., Democratic presidential candidate Joe Biden is pledging to put his country on the path to 100% clean energy and net-zero carbon emissions by 2050 and in the U.K., pressure is building on the government to make its hydrogen strategy clear.

Figure 2: SGI Europe green deal index vs Euro STOXX 600 index

U.S. Jobs Rise Less Than Forecast as Economic Rebound Downshifts:

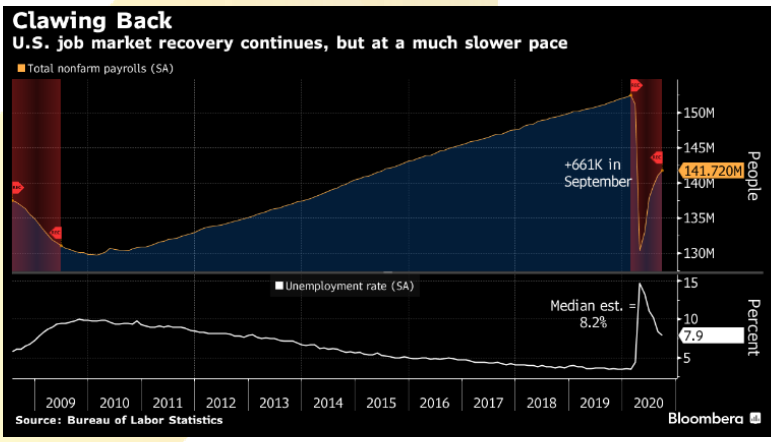


Figure 3: US Non-Farm payrolls & US Unemployment

U.S. job gains slowed in September and many Americans quit looking for work, suggesting the economic recovery is downshifting as the country struggles without a Covid-19 vaccine or fresh government aid.

Nonfarm payrolls increased by 661,000 following an upwardly revised 1.49 million advances in August, according to the Labour Department Friday. That compared with the median estimate of economists for a gain of 859,000.

The unemployment rate fell by more than forecast, dropping 0.5 percentage point to 7.9%, though the labour-force participation rate declined by 0.3 point to 61.4%, with the decrease particularly pronounced among women.

Time to Heed Mounting Warnings from Copper:

The industrial metals had a decent year, fuelled largely by China's hunger for materials to feed a post-virus economic rebound. But the whopping 42% gain since its March low is under pressure, as cash prices in London have shifted to a discount against futures from a substantial premium in less than two weeks.

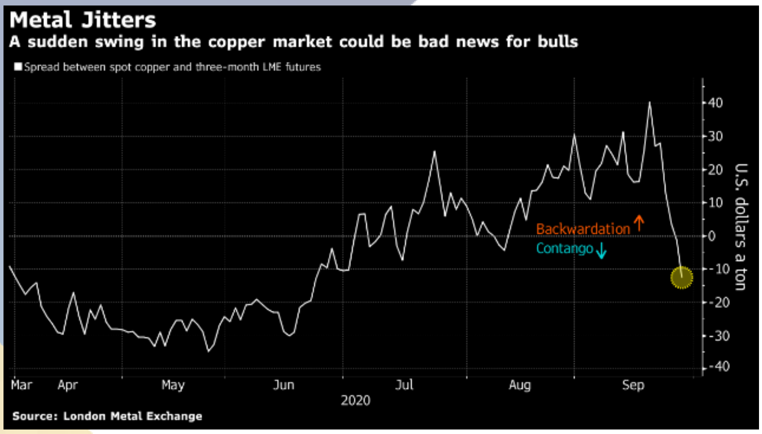


Figure 4: Spread between spot copper and 3-month LME futures

That sudden swing to a market structure known as contango points to loosening supply, as indicated in Monday's big jump in global stockpiles. Plus, premiums paid to import metal in China are near their lowest levels since May last year as a months-long buying spree eases. And all these come amid deep uncertainty around the pandemic-wracked global economy and a contentious U.S. election, underscoring worsening prospects for demand of the metal.

If copper is to make a fresh push for $7,000 a ton, it will need an enthusiastic return of Chinese buyers after October holidays. Otherwise, given the metal is widely used as a barometer of strength of the real economy, concern over the sustainability of a broad risk rally could deepen.

What Does Vanishing Bond Volatility Mean?

The Treasury market has never been this calm, as measured by 1-month implied volatility. This suggests traders are pricing in that Treasury rates are going nowhere, with the Fed unlikely to tighten policy for years.

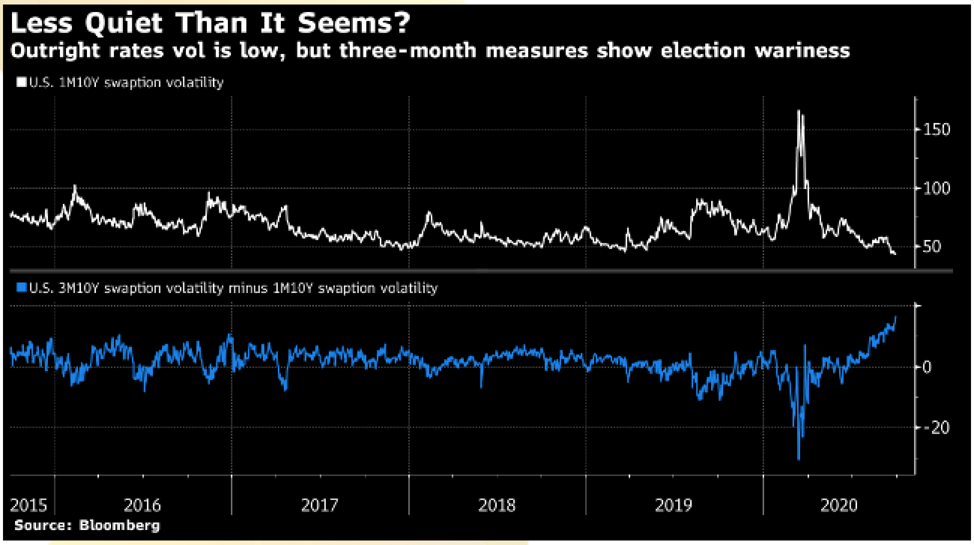


Figure 5: US 10 Year 1 month volatility & spread between US 10 year 3month and 1 month volatility.

There is something disconcerting about the lack of interest-rate turbulence in an environment that includes not only a global pandemic and recession, but also one of the most bitterly contested American presidential elections on record. Such is the power of the Fed -- or people's belief in it -- that rates vol seems to keep going lower the tougher things get. The 10-year yield has been resolutely stuck between 0.5% and 1% since late March and the widely watched MOVE volatility index has plumbed new lows on the back of Fed reassurance. Stocks and currencies have been noticeably more jittery.

The shift in 3M vol highlights concerns volatility could suddenly spring back. Is that part of the reason that there is so much angst across other assets despite the calm in Treasuries?

MAJOR MOVES THIS WEEKS

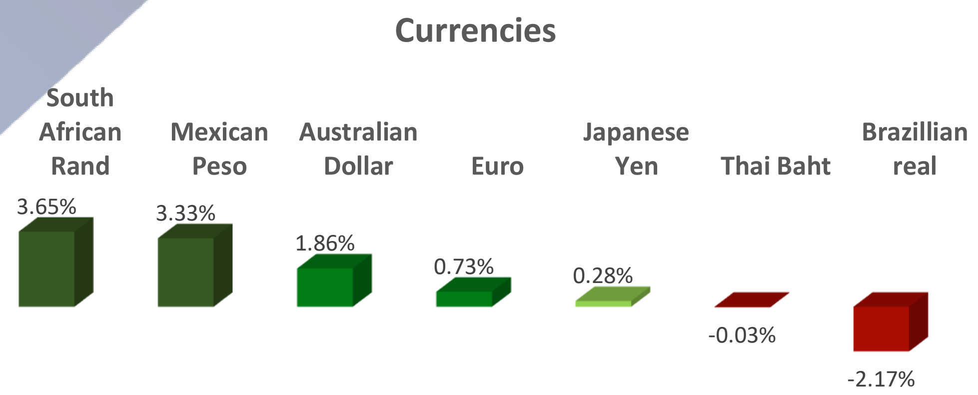


Figure 6: The graph represents Currency returns with respect to US Dollar as the base currency for this week

After the beating taken by the currencies in the previous few weeks, this week has been a breather for them as most of them appreciated with respect to dollar. However, a few EM currencies such as Thai Baht depreciated because of lack of tourism. Brazilian Real also showed a depreciation this week.

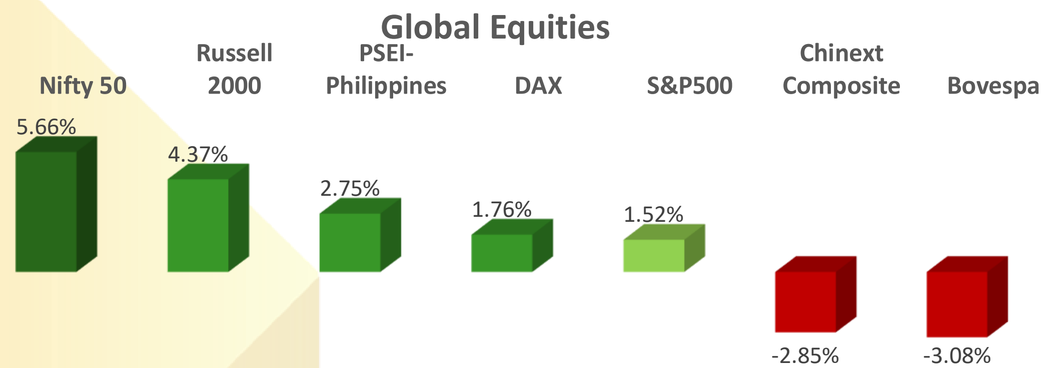


Figure 7: The chart represents the equity index returns over this week.

This week has been rather positive for most of the equities this week because of the beating they've taken in the previous weeks. However, the news on Trump contracting Covid-19 dragged the markets down on the last trading day. Nifty 50 did not see this fall as it was closed on the last trading day.

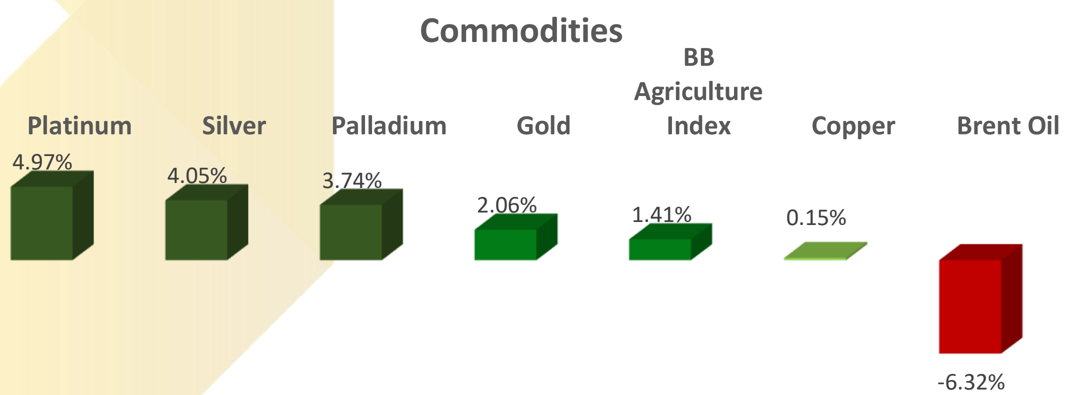


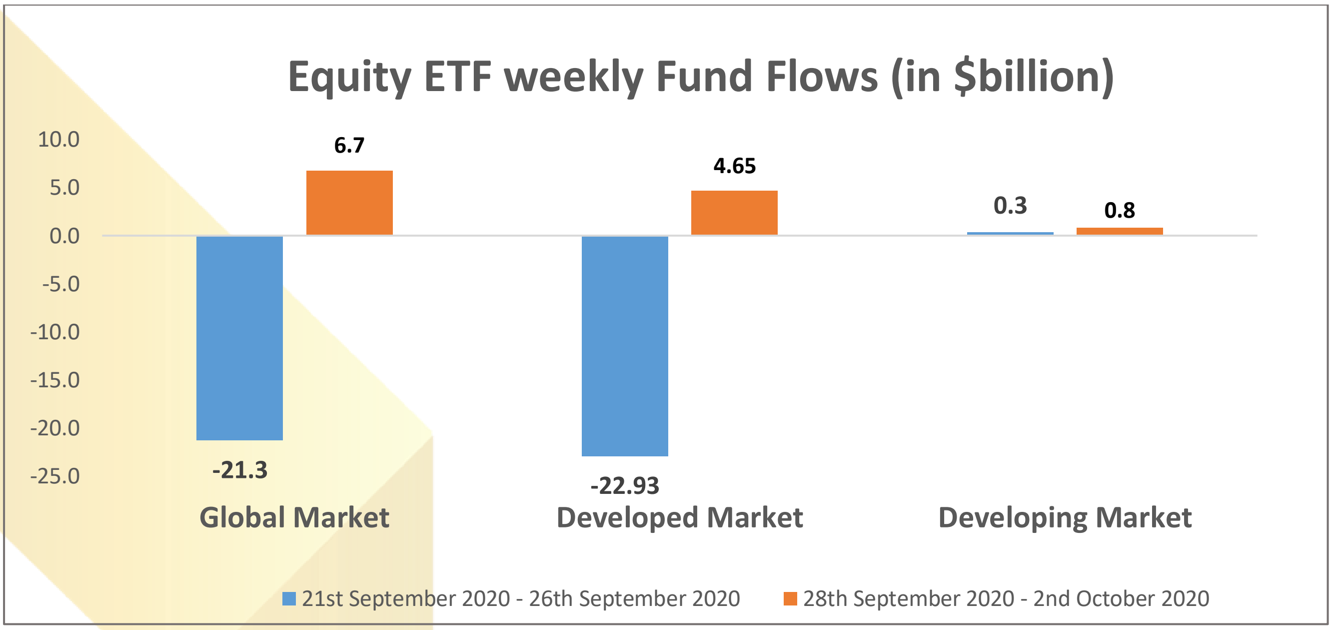
Figure 8: The chart represents the commodity returns over the week.

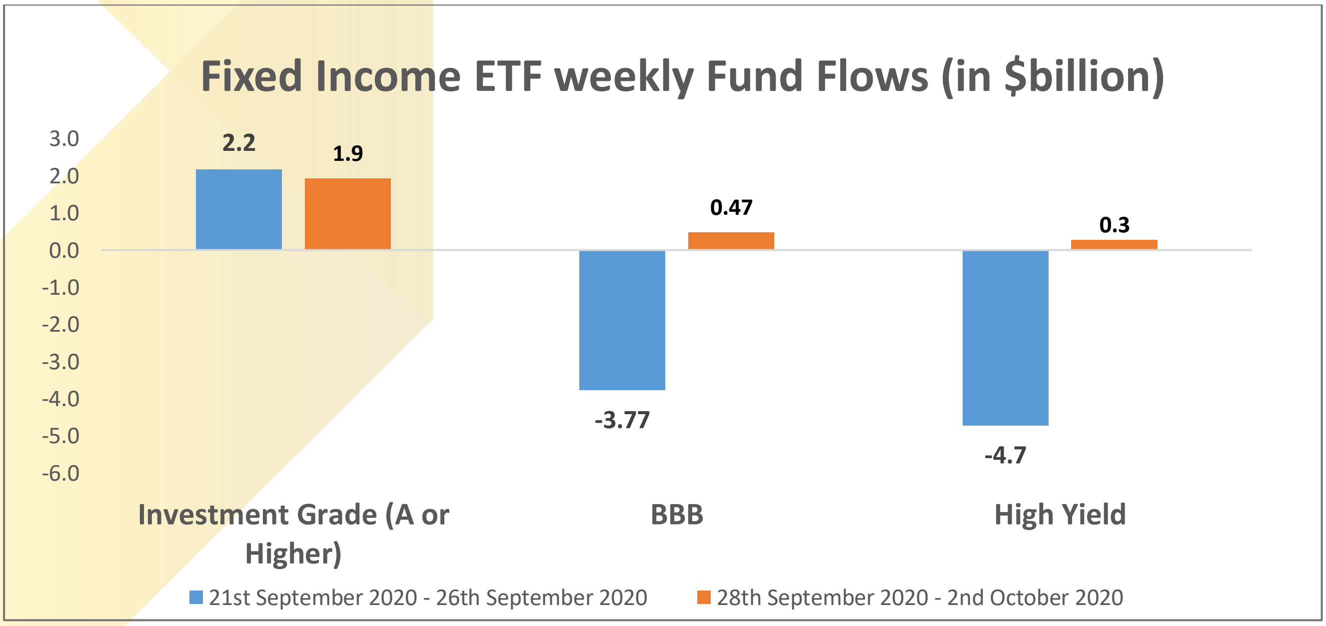
Brent crude feel this week due to further reduction in demand and the geo-political tensions happening in Middle East. Almost all othe other commodities appreciated or closed flat due to the risk on sentiment and inflows into their ETFs.

GLOBAL FUND MANAGERS' STATEMENTS

1) Scott Minerd (CIO, Guggenheim Global):" The worst still lies ahead for risk assets in market correction"- Tweeted on 28th September 2020
2) Jim Paulsen (CIO, Leuthold Group LLP):" The incredible economic momentum will continue to push the stocks higher rest of the year" – In an interview with CNBC on 2nd October 2020.

GLOBAL WEEKLY ETF 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

"We believe that most of the global risk assets bottomed out in the last week of September and will not revisit those levels before the US presidential elections. We expect risk assets to largely remain sideways over the next few weeks albeit with a slight downward bias. We expect gold to make a strong base for itself in the next few weeks and prepare itself for an eventual rise. US long term bond yields have also bottomed out around 0.64% and should go up over the next couple of months. We also believe that a Biden win is largely discounted by the financial markets.”

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