



Weekly Report and Outlook on Global Markets

16th November 2020

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MARKET DEVELOPMENTS

Super-Low Junk Bond Yields Tell Deceptive Story

First, the average yield for the Bloomberg Barclays U.S. corporate high-yield index plunged the most in seven months to 4.56% on Nov. 9, easily breaking the previous all-time low of 4.83% set in June 2014. Then, data compiled by Refinitiv Lipper found that investors poured \$4.56 billion into U.S. high-yield bond funds in the week ended Nov. 11, the seventh largest inflow ever and the largest since June. It's a strange coincidence, no doubt, though both figures would seemingly indicate that traders are getting increasingly comfortable with owning debt from some of the riskiest companies, even as Covid-19 outbreaks and hospitalizations escalate across America and the globe.

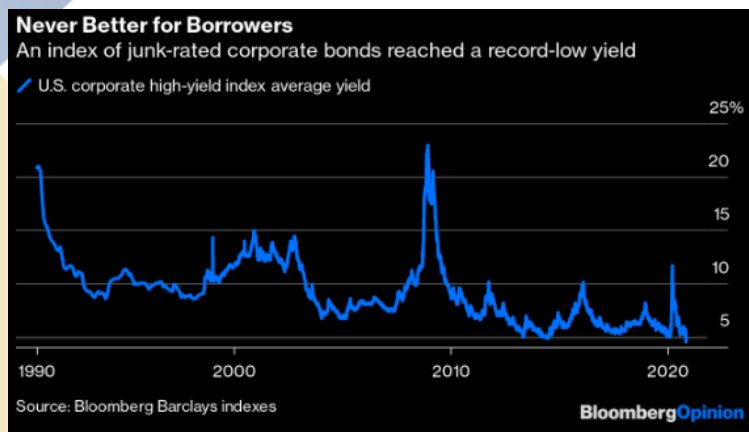


Figure 1: U.S. Corporate High-yield Index average Yield

junk bonds would be lower as well. But the average spread, in contrast to yields, still hasn't recovered to pre-Covid levels.

Three of the five largest companies in the high-yield index are behemoths that entered the year with investment grades but since became "fallen angels." Those three — Ford Motor Co., Occidental Petroleum Corp., and Kraft Heinz Co. — are still rated in the double-B tier. And investors see Ford and Kraft as relatively safe bets: Ford bonds due in 2026 yield just 3.5%, while Kraft Heinz debt with a similar maturity yields just 2.4%. The increased proportion of these higher-rated junk bonds would seemingly bring down the overall index yield.

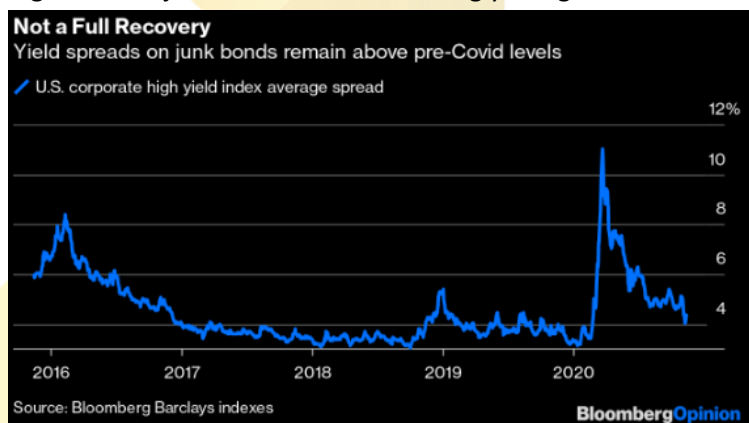


Figure 2: U.S. Corporate high yield index average Spread.

leveraged companies just because top-line yields have dropped so much. Obviously, it does not hurt to have borrowing costs near all-time lows. Investors need only look to debt and stock offerings from travel businesses such as American Airlines Group Inc. and Carnival Corp., and energy companies including Continental Resources Inc. and Antero Midstream Corp., as evidence that the capital markets are helping firms across industries prepare for hard months ahead before a Covid-19 vaccine is widely available.

The all-in 4.56% yield on a \$1.52 trillion index comprising more than 2,000 separate bonds of various credit quality is deceiving in more ways than one.

For starters, credit investors tend to focus primarily on the yield spread above U.S. Treasuries. The average maturity of the high-yield index is 6.4 years, so the seven-year Treasury note is a decent benchmark. That rate has climbed to 0.64% from as low as 0.355% in early August, but the current yield is still well below historical market levels. From that perspective, it's only natural that all-in yields on

Investors are typically willing to lend money to investment-grade companies for decades, while shortening the leash on junk-rated borrowers, the proliferation of fallen angels has pushed the average maturity on the double-B portion of the high-yield index to its highest level since 2015. That is because it now includes Kraft Heinz debt due in 2042, 2045, 2046, 2049 and 2050, plus Ford bonds maturing in 2046 and 2047. When looking at those securities, yields do not look quite so low. Ford's longer-dated bonds yield 7.27%.

it is too soon to declare an all-clear for highly

The American Consumer Is Flush with Cash After Paying Down Debt

Eight months into the pandemic, Americans' household finances are in the best shape in decades.

It is a seemingly incongruous thought, what with the widespread business lockdowns earlier in the year and coinciding surge in unemployment -- and it certainly doesn't apply to all families equally. But it points to just how strong the U.S. economy was going into the virus outbreak, and how powerful the combined monetary and fiscal response was from the Federal Reserve, Congress, and the Trump administration.

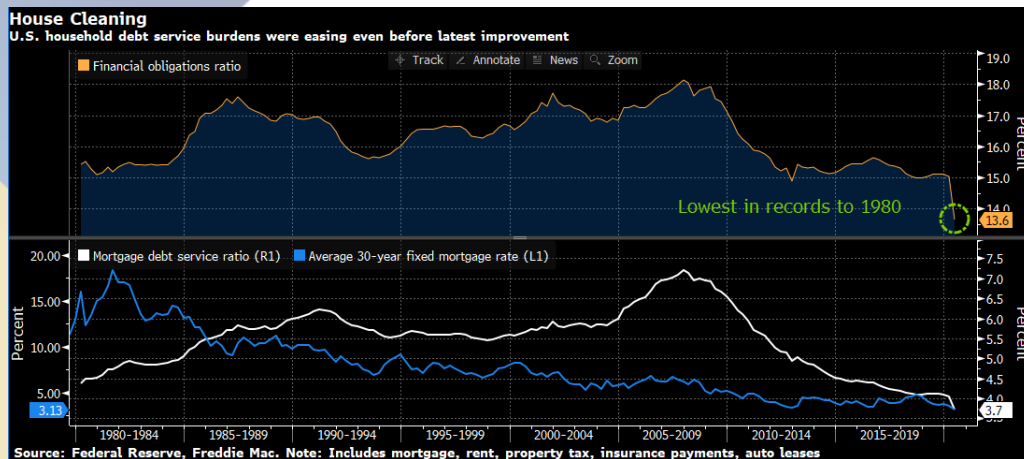


Figure 3: U.S. Financial obligations ratio, Mortgage debt service ratio vs average 30-year mortgage rate

Record-low mortgage rates, reflecting the ultra-easy Fed policy, have prompted a steady wave of refinancing and allowed homeowners to reduce monthly payments or tap equity. Americans are also holding more cash, helped in part by stimulus from the government.

Households' debt service burdens have eased considerably, too, a complete departure from the 2007-2009 financial crisis that required years to mend. That in turn bodes well for consumer spending and its ability to power the economic recovery through a period marred by a violent spike in virus cases.

Households' debt service burdens have eased

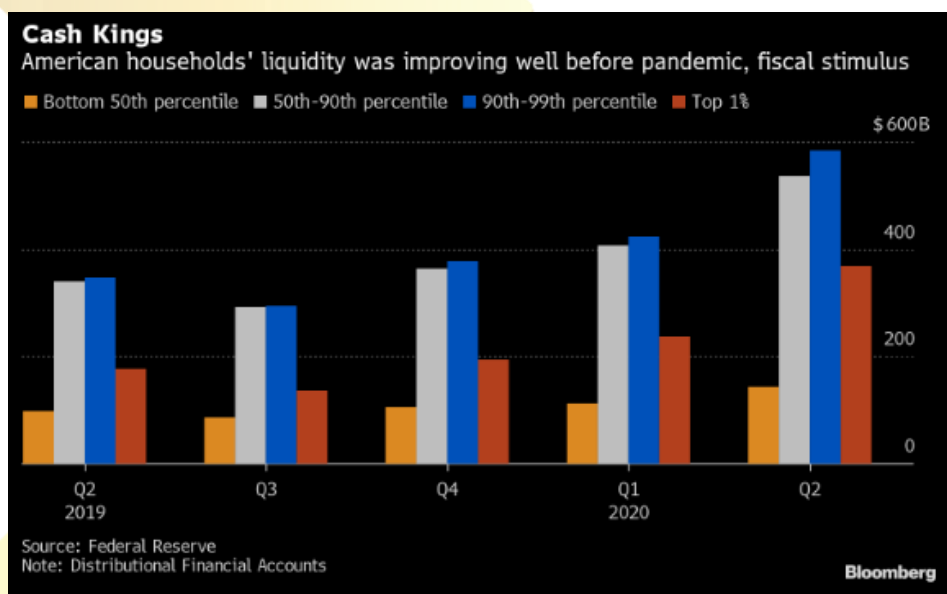


Figure 4: U.S. Household's liquidity position.

While the pandemic has financially been harder on working-class families than the wealthy ones who have been stockpiling much of the cash, data shows that they too have more money in the bank now. That is important because they are much more likely to spend that money -- and give the economy an added jolt -- than the rich are.

However, the virus resurgence means "people can't spend until it's safe to go back out again."

To be sure, another reason savings remain elevated is that people are

uneasy about their jobs and the outlook, particularly in industries such as travel, food services and leisure, where business activity is more at risk

residential real estate has played a huge role in driving both the recovery and improvement in household finances. Cheaper borrowing costs have not only sparked a flurry of demand for homes, but mortgage refinancing has also strengthened. While cash-out refinancing only makes up a little more than a third of all activity, a larger share of rate-term refinancing means lower monthly mortgage payments.

ECB's Muller Says Ultra-Cheap Loans Are Key for Next Stimulus

The European Central Bank should put ultra-cheap loans at the core of its next stimulus package being prepared for December, Governing Council member Madis Muller said.

Speaking in an interview from Tallinn, the Estonian central bank chief emphasized the need for a renewed so-called TLTRO push rather than additional bond buying via the Pandemic Emergency Purchase Program, saying the situation isn't like it was in March when the ECB was fighting market dislocation.

"Perhaps PEPP by itself is not the best tool to provide further support, and we should at least think about a combination of different measures," Muller said. "It's best if we can find measures that more directly address the financing conditions for the private sector in particular. In that sense, speaking of TLTROs it would be a possible tool that should be on the table."

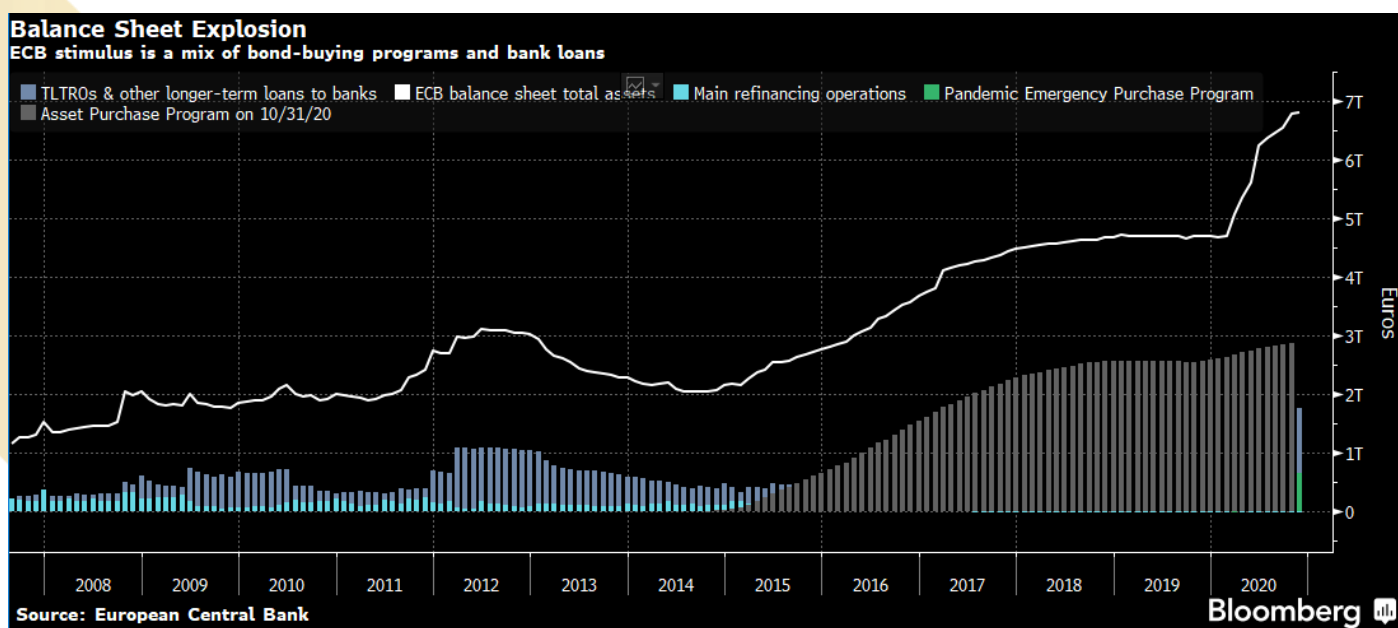


Figure 5: E.C.B.'s Balance sheet division.

President Christine Lagarde said on Wednesday that the ECB will focus on both its 1.35 trillion-euro (\$1.6 trillion) emergency bond purchases and TLTROs -- targeted longer-term loan operations -- for the next wave of stimulus to fight the coronavirus fallout. That was the strongest indication yet about the kind of tools her institution will adopt when it adjusts policy in December.

The ECB has eased the terms of its lending program since the crisis began. Banks can now obtain three-year loans for an interest rate as low as minus 1% -- meaning the ECB pays them to borrow -- if they lend the cash onto companies and households.

Financial institutions took up 174.5 billion euros in loans in September, and a record 1.3 trillion euros in the previous round in June. Only two more operations are currently scheduled, in December and March.

Also emphasizing the lending environment on Thursday was Bank of France Governor Francois Villeroy de Galhau, who told BFM Business TV that the ECB needs to keep financing conditions that are "very favourable and very predictable."

MAJOR MOVES THIS WEEKS

Currencies

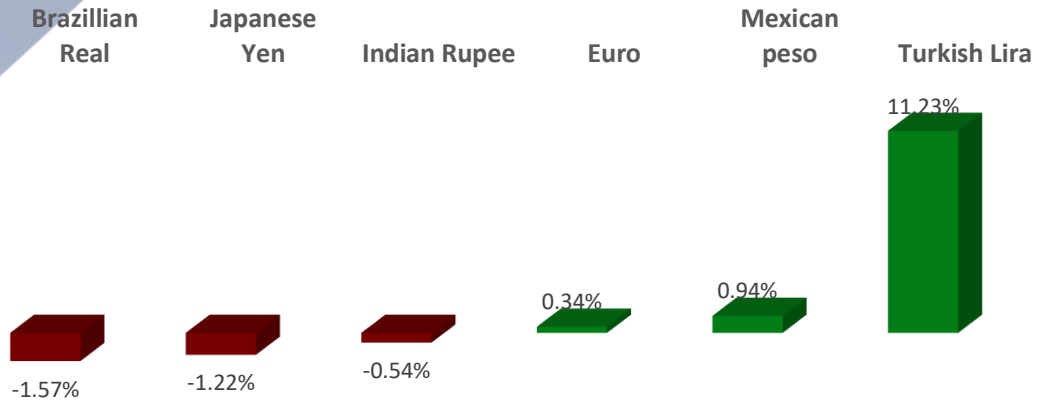


Figure 6: The graph represents Currency returns with respect to US Dollar as the base currency for this week ended 13th November 2020
 With the news on Pfizer's & Moderna's vaccine, there was risk on sentiment all over the world. A few currencies such as Turkish Lira appreciated by record weekly moves as they were beaten down for a major part of the year. Dollar depreciated this week because of the overall positive sentiment in the market.

Global Equities

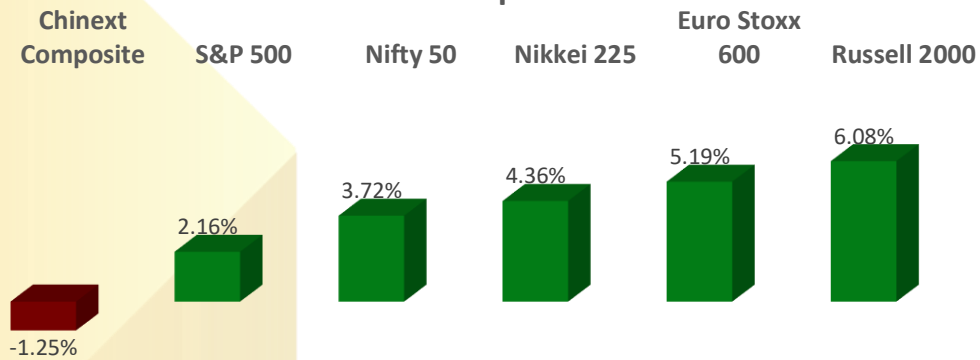


Figure 7: The chart represents the equity index returns over this week ended 13th November 2020.
 Global equities were net gainers this week as positive sentiment prevailed throughout the world due to the vaccine development. Small-cap and Value indices outperformed the defensive stocks this week due to the bullish sentiment.

Commodities

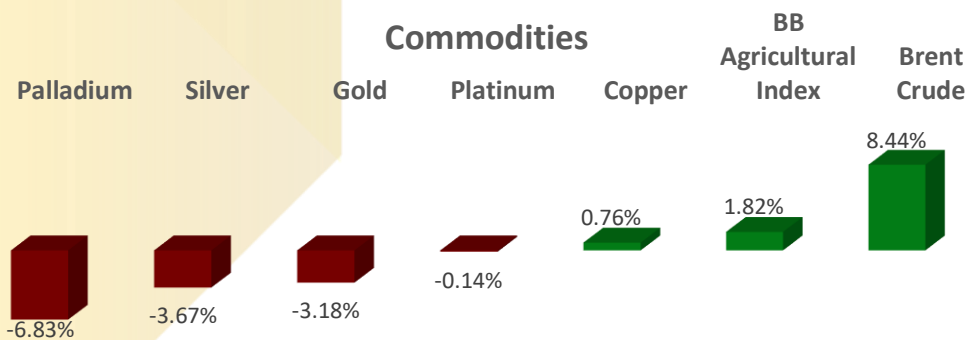
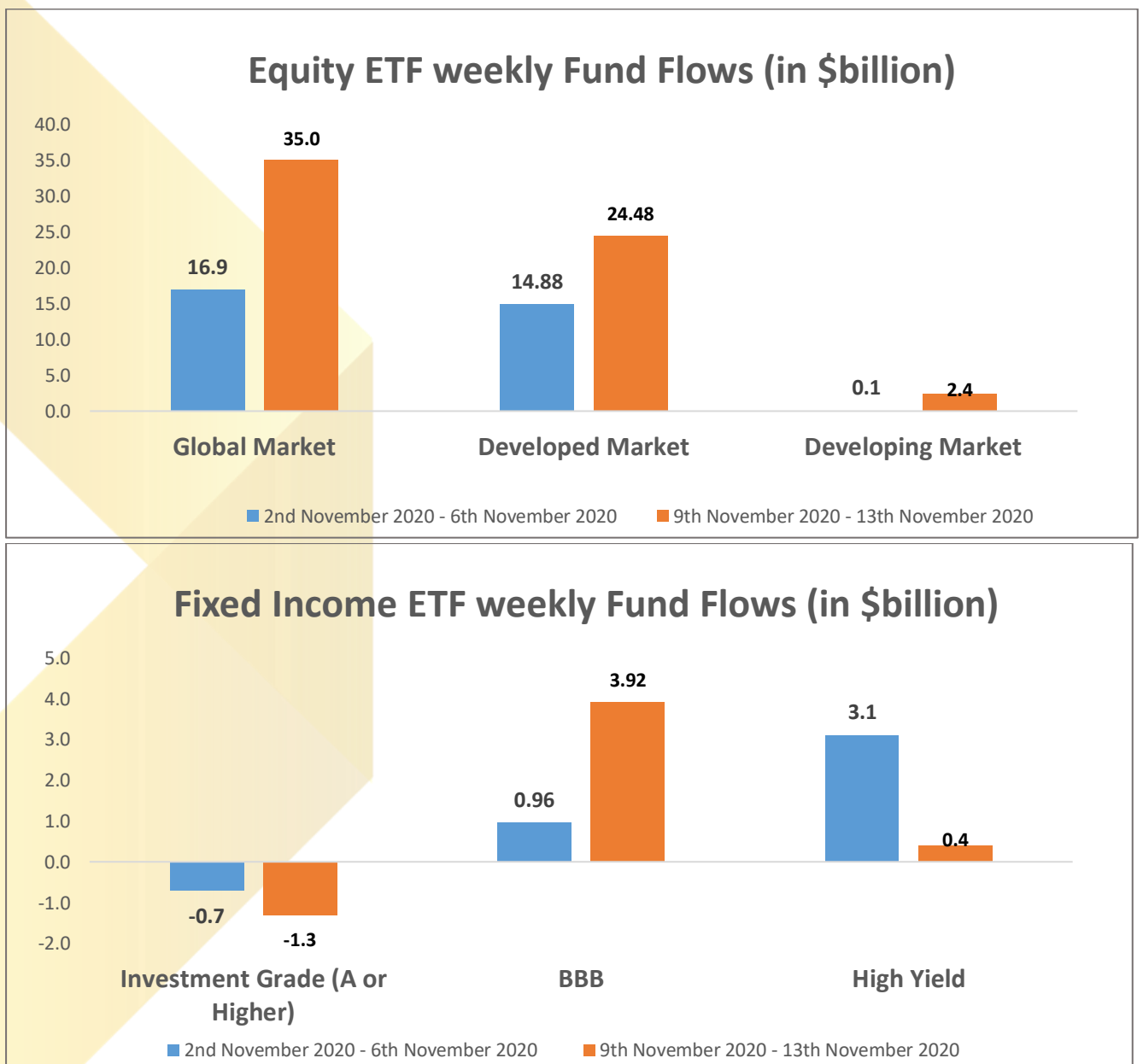


Figure 8: The chart represents the commodity returns over the week ended 13th November 2020.
 Precious metals fell down this week as the money went out of safe-havens and into Risk on commodities. Brent crude gave the most returns this week due to higher anticipated demand that was brought out by the vaccine development.

GLOBAL FUND MANAGERS' STATEMENTS

- 1) Stanley Druckenmiller (Former chairman of Duquesne Capital): "Work-from-home stocks are pretty pricey, and a pivot into some of the beaten-down value stocks would be reasonable. It's nuanced, but there are a lot of companies that will be direct beneficiaries (from a COVID-19 vaccine), and they probably have further to go. I certainly wouldn't want to be net short the market." – in an interview with CNBC on 10th November 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

" With the Moderna vaccine report already out we believe that markets are discounting the best of the news on Covid trajectory in 2021. We believe that risk assets were overvalued even before this development and are now even more so. While we are not expecting a sharp fall in the immediate term, we do expect risk assets to come down over the next 6-12 months. We continue to be bullish on US long term treasuries and gold."

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