Weekly Report and Outlook on Global Markets

27th November 2020

MARKET DEVELOPMENTS

Asian Stocks Are Luring the Biggest Foreign Flows Since 2013

Foreign investors are piling money into major Asian equity markets outside of China at the fastest pace in seven years this quarter, as vaccine successes add to the global risk-on mood.
Nine regional stock markets have lured a combined about $48 billion since Oct. 1, the most since the fourth quarter of 2013, according to data compiled by Bloomberg. Japan is leading the way with $27.4 billion, followed by India at $9.2 billion. South Korea has received $6.4 billion.

Figure 1: Fund Flows into Asian markets. Markets Include Japan, India, South Korea, Taiwan, Thailand, Indonesia, Malaysia, Philippines and Vietnam

A series of encouraging results from vaccine makers have lent fresh impetus to the Asian equity rally spurred by Joe Biden's victory in the U.S. presidential election and the signing of a regional trade pact. Benchmark stock indexes in India and South Korea hit all-time highs this month, while in Japan the Nikkei 225 Stock Average has surged to a 29-year peak amid a rotation into cheap cyclical shares.
The MSCI Asia Pacific Index is now up 12% in 2020, versus an advance of close to 10% for the S&P 500 Index.

European Bonds Are Losing Japan's Love as Purchases Plunge

Japanese funds are paring back bets on European bonds as returns dwindle and rising virus cases in the bloc endangers government finances.
Investors from Japan bought 1.04 trillion yen ($10 billion) of European debt in the first nine months of the year, the least since 2017, according to the Ministry of Finance balance-of-payments data. They purchased 6.5 trillion yen of European bonds in the first nine months of 2019 and 9.7 trillion yen in 2018. They have turned net sellers of French and German sovereign bonds, while slashing Spanish bond purchases to the lowest in three years.
There are signs that Japanese money managers will continue to find more attractive places to park their funds. While benchmark bonds in Europe have seen yields collapse in the pandemic, a steepening curve in Japan means JGBs are now more rewarding.

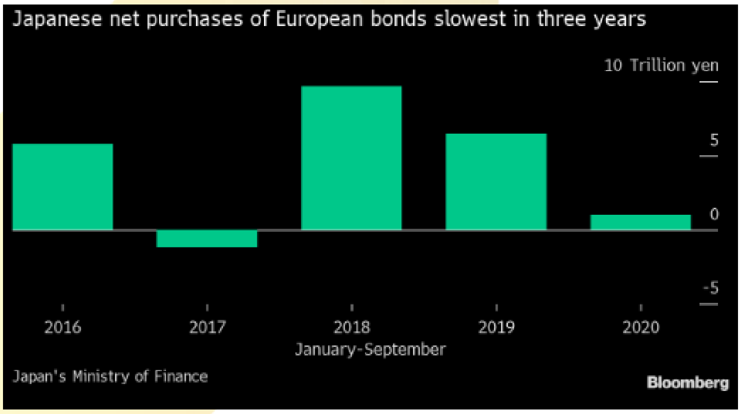


Figure 2: Japanese net purchases of European bonds.

Europe's higher-yielding peripheral bonds have surged since the first quarter, driving rates on Portuguese and Spanish 10-year securities toward 0%. Those on Italian debt are at 0.62%, close to a record low reached earlier this month.
Japanese funds though typically compare returns on 10-year foreign bonds with those on 30-year domestic debt, which has climbed about 45 basis points since a March low to touch 0.66% recently. That compares to the 0% on offer on hedged French bonds, even though euro hedging costs are now in the favour of yen investors. Even hedged Spanish debt is offering just 0.42%.

Tightening Bias Favours EM Carry Trade

An upswing in EM inflows has been broad-based this month: the MSCI EM FX index is up 2.4% to April 2018 highs, the MSCI EM equities gauge has bounced 11% and EMBI bond spreads have narrowed more than 40bps to early March lows. That has accompanied a revival in the EM carry trade: The total return of a buy-and-hold strategy across 8 major EM currencies funded by the dollar has broken out of a 6-month slump.

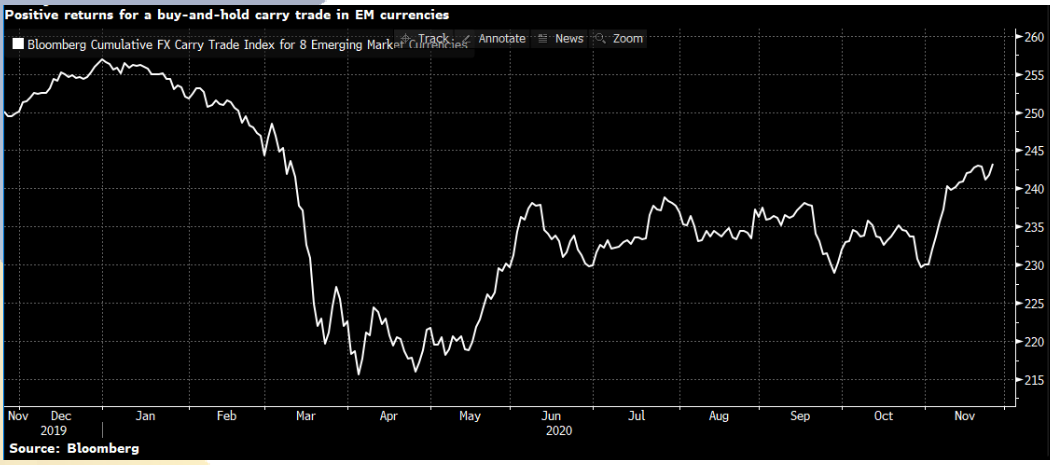


Figure 3: Bloomberg cumulative FX Carry trade index for 8 emerging market currencies.

Relatively elevated EM policy rates set against low yields (and sometimes negative) for major funding currencies and contained volatility, should support an attractive, albeit selective carry trade. Forward curves imply EM rate responses will be tilted to tightening -- for example, Brazil, South Africa and the Philippines -- after recent pandemic-led easing cycles.

Climbing spot rates have already contributed to robust quarter-to-date carry returns even amid virus pressures: the top 10 positions have earned an average 6.9% against the greenback and 5.3% funded by the euro this quarter. FX gains could curb the degree of tightening, but risks remain tilted to hikes with several EM currencies yet to retrace year-to-date declines.

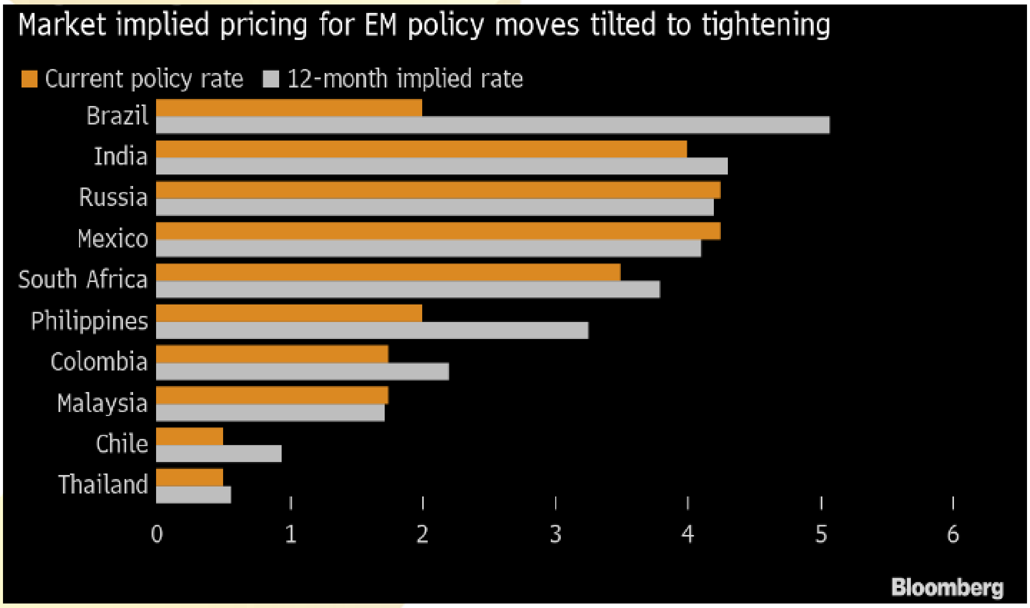


Figure 4: Current policy rate vs 12 month expected policy rate for EM countries.

Emerging markets still face downside growth risks and muddled inflation outlooks with the virus not yet under control But the EM carry trade can remain attractive in the search for yield and world of rock-bottom funding rates.

MAJOR MOVES THIS WEEKS

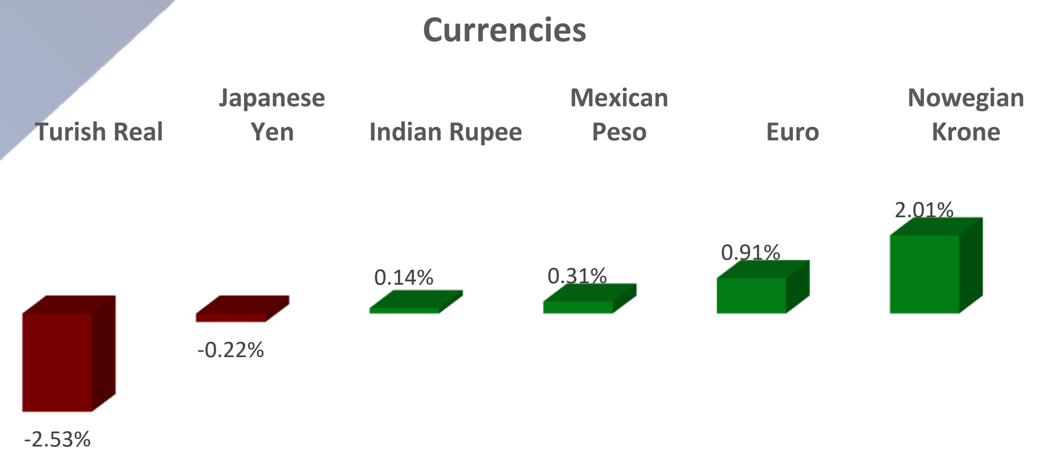


Figure 5: The graph represents Currency returns with respect to US Dollar as the base currency for this week ended 13th November 2020

This week, most currencies had appreciated against the dollar. After a massive appreciation, the Turkish Lira had given up some of its gains this week. Japanese yen had also depreciated this week owing to a risk on sentiment this week. With the increase in oil prices, currencies like Norwegian Krone & Russian Ruble appreciated this week.

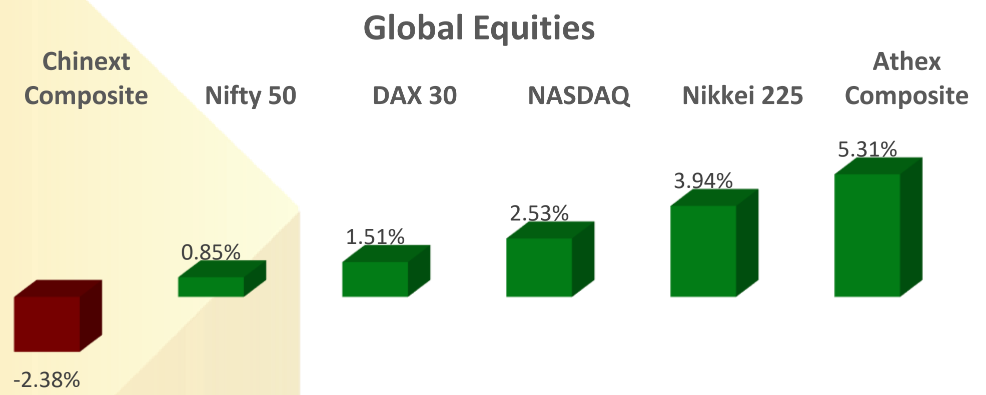


Figure 6: The chart represents the equity index returns over this week ended 13th November 2020.

Most equity indices had given handsome returns this week. Small caps index had outperformed other indices this week compared to other indices. Athex composite outperformed most indices with continued positivity around the vaccine and hopes of revived tourism.

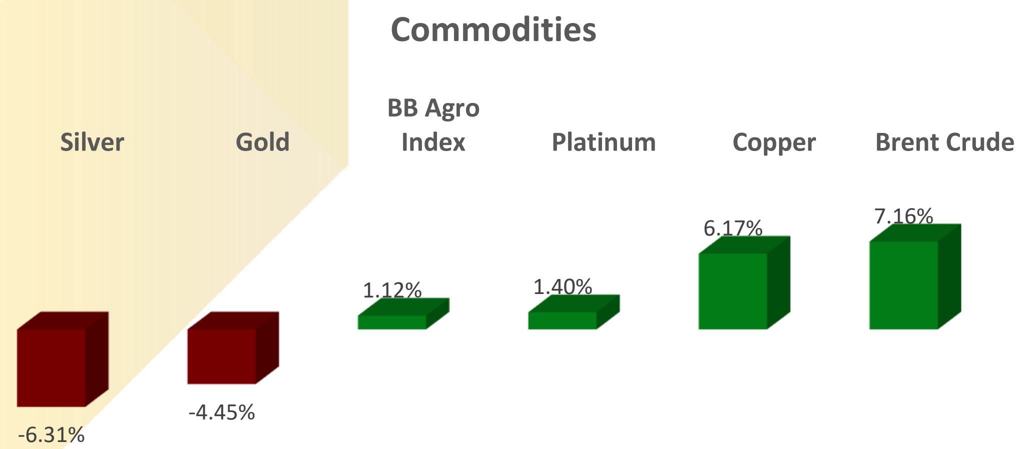


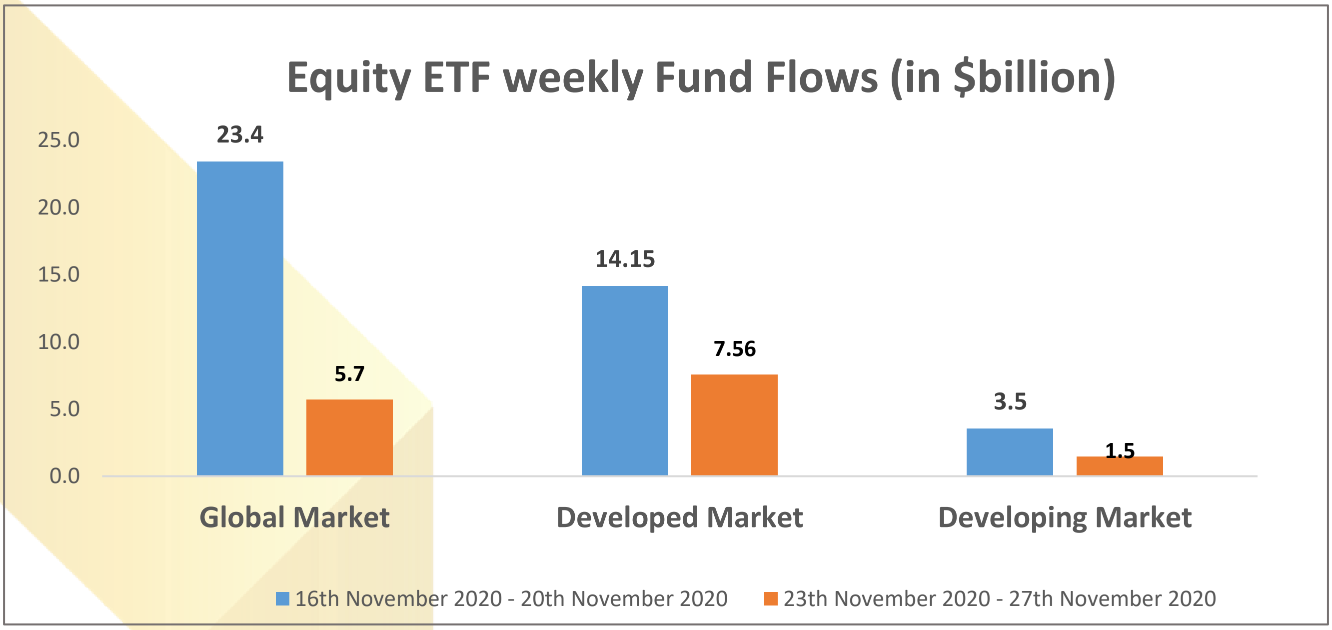
Figure 7: The chart represents the commodity returns over the week ended 13th November 2020.

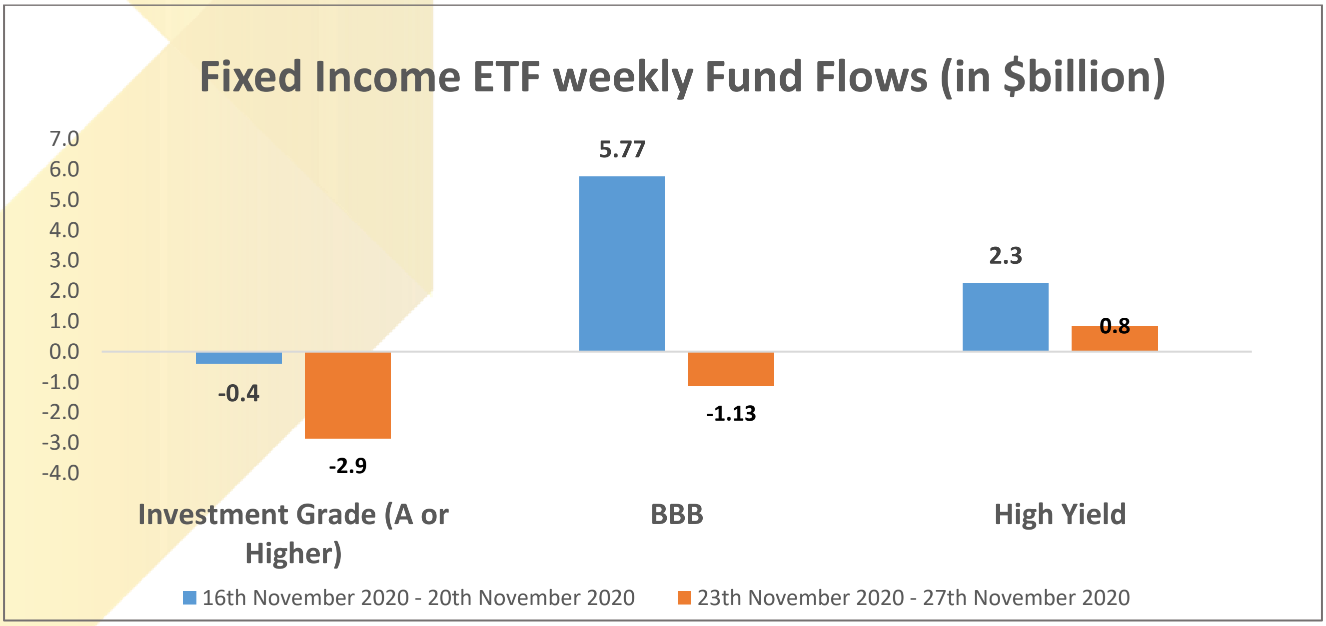
Gold & Silver saw depreciation this week. Gold had seen breaking its long-term support levels twice this week. Brent crude had given good returns this week with optimism that OPEC would extent production hikes.

GLOBAL FUND MANAGERS’ STATEMENTS

1) Byron Wein (Vice chairman of Blackstone Advisory Partners) : “The stock market may be getting ahead of itself as the Dow passed 30,000 for the first time. I'd have a degree of caution here. But I think we're in a long-cycle that's going to last several years. the economy will continue to expand and long-term investors will be rewarded if they're patient.” – In an interview with CNBC on 25th 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

" We see signs of extreme euphoria in all risk assets including broader Equities, Value Stocks, banking stocks, industrial commodities, EM currencies, EM equities and High Yield corporate bonds. Similarly, there is extreme panic in gold. We believe that such extremes in sentiment are not sustainable for much longer. We will at best see reversion to the mean which would mean a 5-7% kind of correction in risk assets. At the worst there could be a full-blown reversal with sharp falls in all risk assets. We continue to be very bullish on Gold and US Treasuries."

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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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