



Weekly Report and Outlook on Global Markets

22nd January 2021

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MARKET DEVELOPMENTS

Passive Creditors drive divergence in EM Credit Assets

The record surge in assets under management at the largest emerging-market hard-currency bond exchange-traded funds shows BlackRock and Vanguard leading the charge.

Fund assets at the five largest EM external debt ETFs have surged to a record high since last year's pandemic-induced drawdown, as demand for incremental yield fuels a recovery in passive investment. Since bottoming at \$26 billion in March, total AUM at the five largest EM hard-currency bond ETFs has surged 56% to \$40.7 billion, and is just \$670 million off last month's all-time high.

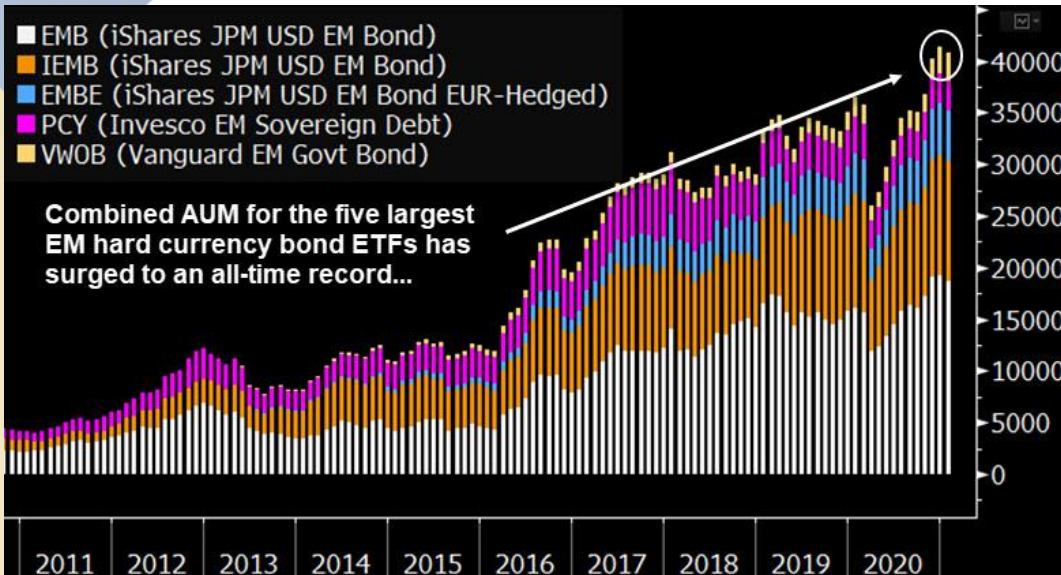


Figure 1: Combined AUM of External DEBT ETFs.

Assets under management for major EM local-currency bond ETFs have yet to recover from last year's pandemic-induced drawdown, a reflection of rising risk aversion toward soft-currency asset classes. Despite the record surge in fund assets at EM hard-currency bond ETFs, combined AUM for the five largest EM local-currency bond ETFs is just \$16.2 billion, or 24% below its December 2019 peak. Fund assets for State Street's Bloomberg Barclays EM local-currency bond ETFs (EMDD, EBND) have recovered quicker and are close to a record high.

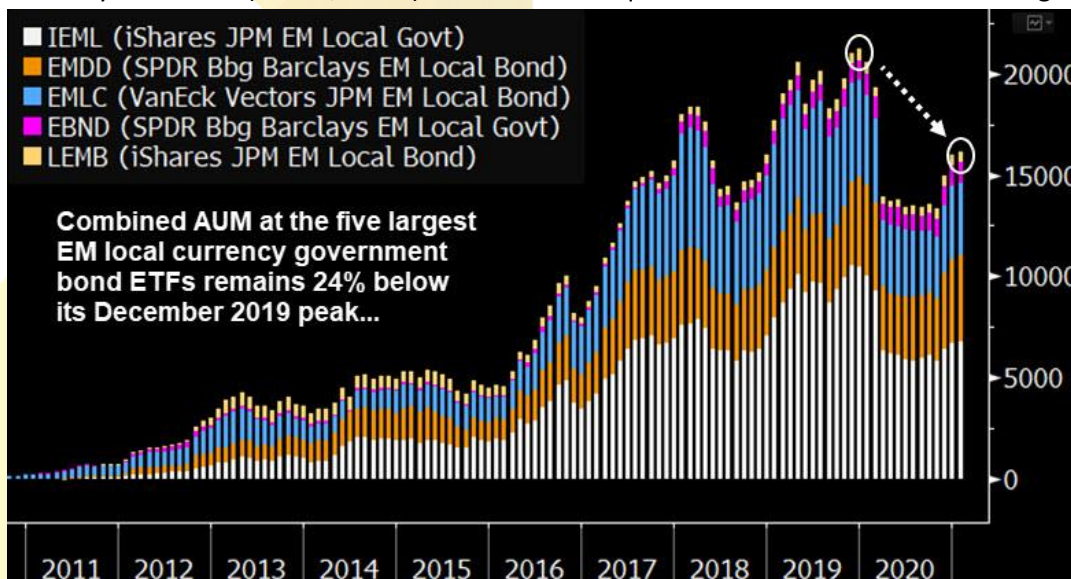


Figure 2: Combines AUM of local DEBT ETFs.

Mexico's Inflation Accelerates in Early January on Energy, Food

Mexico's annual inflation accelerated more than expected at the beginning of the year as the central bank considers resuming its cycle of interest rate reductions.

Consumer prices rose 3.33% from a year earlier in the first two weeks of January, up from 3.08% in the second half of December, the national statistics institute said on its website Friday. The figure was higher than the 3.25% median estimate in a Bloomberg survey.

Prices rose 0.51% from two weeks earlier, compared with a 0.42% increase forecast by economists. The central bank targets inflation at 3%, plus or minus 1 percentage point.

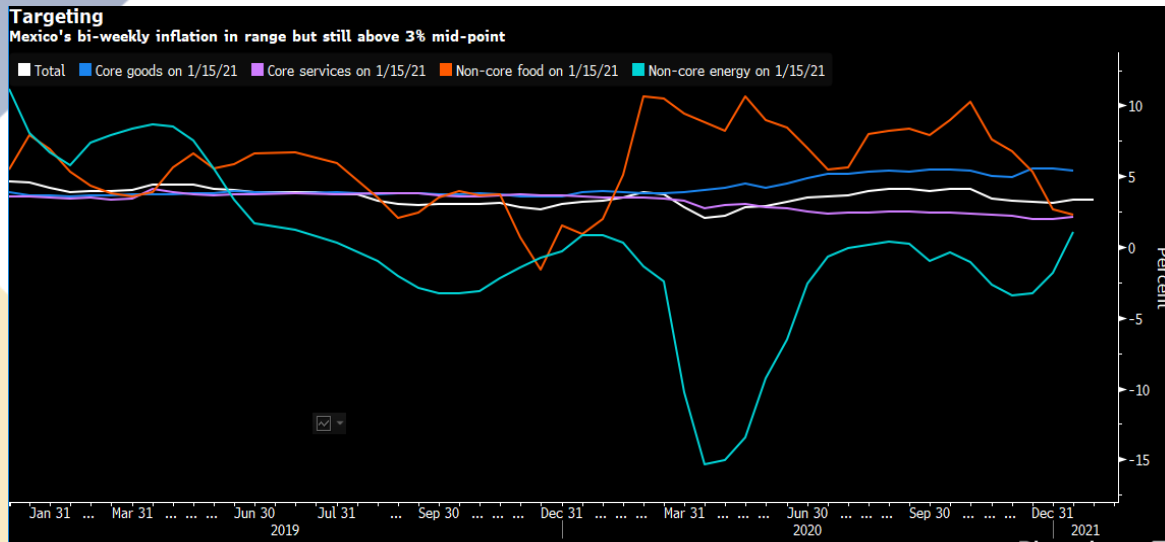


Figure 3: bi-weekly Inflation data, Mexico

Key Insights

- Mexico's central bank, known as Banxico, will decide on its first board meeting of the year next month whether to resume an easing cycle that was paused in November, arguing it needed more time to confirm inflation was slowing.
- Before the pause, Banxico had slashed interest rates for 11 consecutive decisions by a total of 4 percentage points to 4.25%, providing monetary stimulus to an ailing economy hit by the pandemic

Smaller U.S. companies put on Market weight.

Smaller U.S. companies "staged a major comeback" with stock investors, Callum Thomas, head of research at Topdown Charts Ltd., wrote in a Twitter post Thursday. Thomas cited the weighting of the S&P SmallCap 600 Index's components within the S&P Composite 1500, which also includes the S&P 500 and MidCap 400. The small-cap stocks reached a



2.7% weight last week for the first time since November 2019, according to data compiled by Bloomberg. Last May, their share dropped to 2.1% -- the lowest level in four decades

Figure 4: Percentage of S&P Smallcap 600 in S&P Composite 1500 Market Value

MAJOR MOVES THIS WEEKS

Currencies

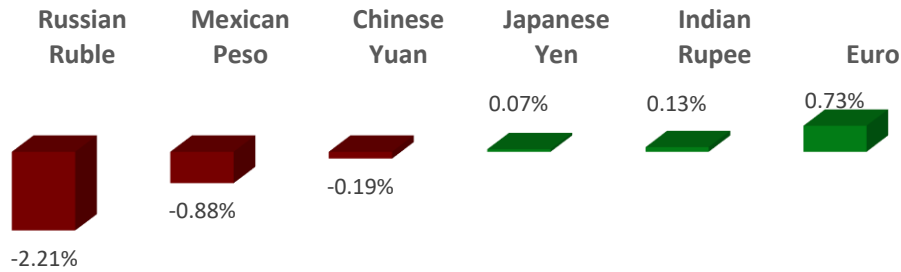


Figure 5: The graph represents weekly Currency returns with respect to US Dollar as the base currency.

This week, the sentiment in the currency market was positive with Euro appreciating against the dollar. However, a few emerging market currencies had depreciated against the dollar from mid-week. Brazilian Real was the worst performer this week depreciating by 3.11% against the dollar.

Global Equities

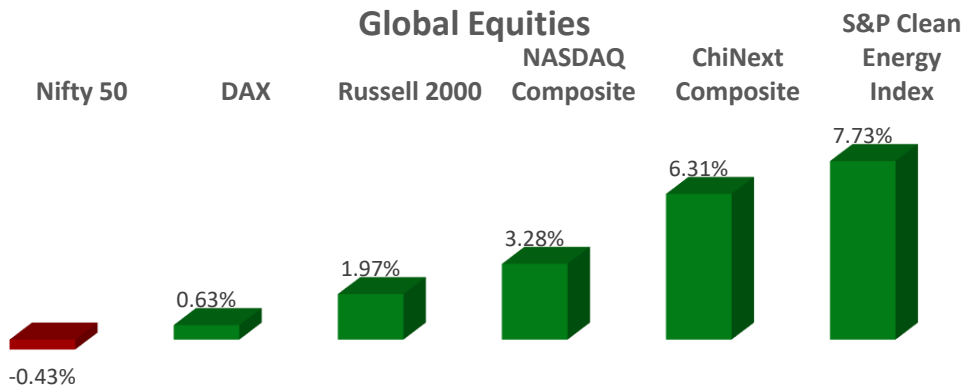


Figure 6: The chart represents the weekly equity index returns.

The equity markets this week showed a mixed picture. With the inauguration of Biden into the White house, and return of U.S. into the Paris agreement, Clean energy ETFs and the Alternate Energy ETFs had outperformed the market. The Value stock indices all over the world had under performed the growth stock indices. Chinese indices had given a staggering 7.7% due to the positive sentiment around AliBaba Holdings.

Commodities

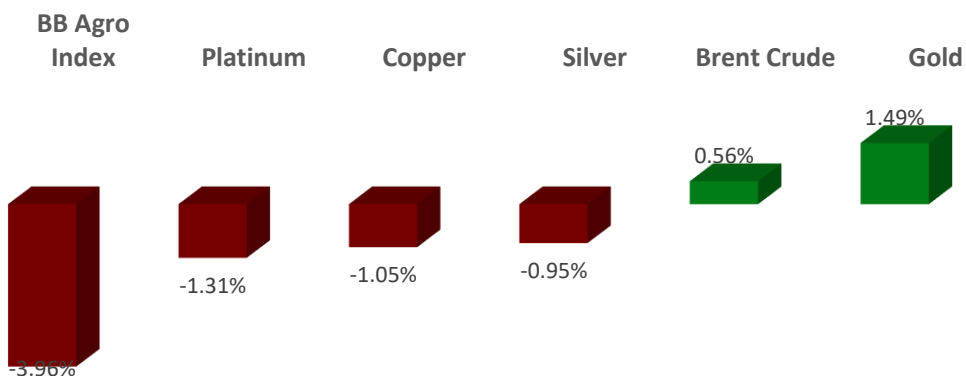


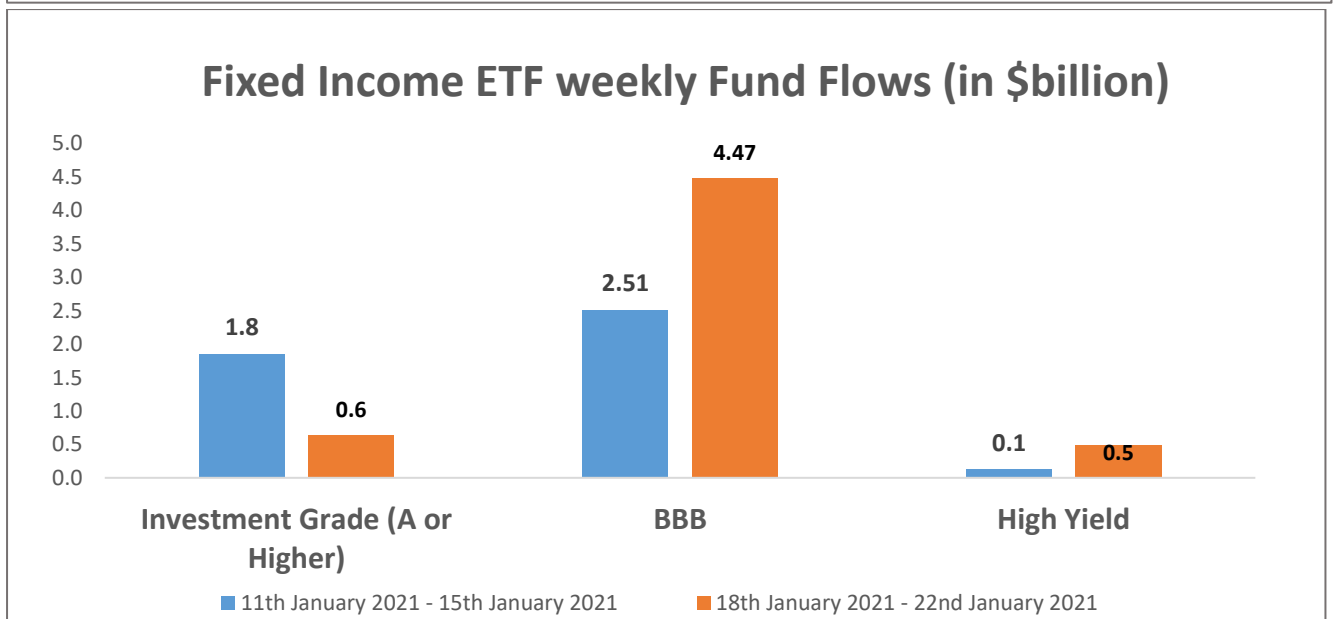
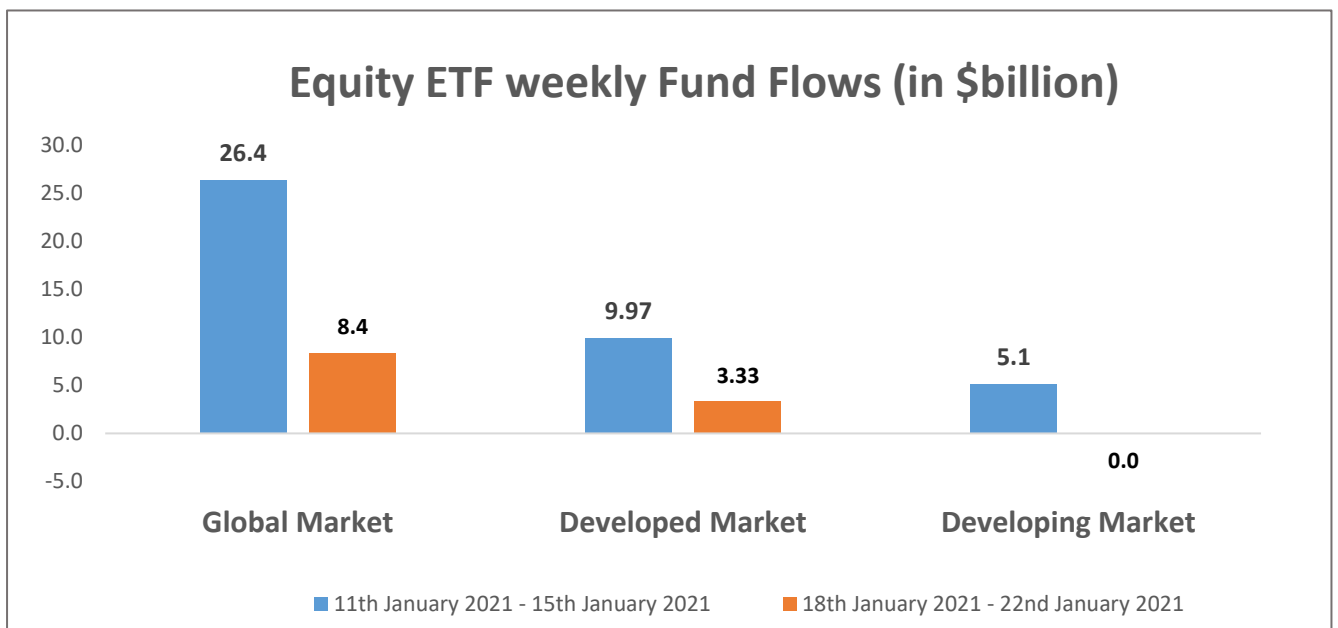
Figure 7: The chart represents the weekly commodity returns.

The Agricultural commodities had taken a beating this week. Gold performed better than most precious metals. Industrial metals had also depreciated this week. Brent oil futures rose marginally this increased demand from Asian Countries.

GLOBAL FUND MANAGERS' STATEMENTS

- 1) Jim Paulsen (Chief Investment Strategist, Leuthold group) : Jim Paulsen has continued to remain Bullish on the market and has a target of 4100 for S&P 500 by the year end. However he is worried that too much spending will spark inflation. He said that the “the overuse and abuse of economic policies around the globe for that matter — but specifically in the United States” may spark another serious recession. For now, he’s telling clients it’s premature to take action against potential inflation. Paulsen acknowledges there are certain factors that could offset the impact such as aging demographics and tech-driven innovation.

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

" While US equities continued their upward march last week, there was a crack in some EM Equities and EM currencies. We believe a massive risk off wave is going to sweep the markets in the next few weeks. Hence, we remain bearish on all risk assets. US 30-year Treasuries and US Dollar will be the safe havens for this risk off period which could last up to 5-6 weeks."

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