PACE360

Weekly Report and Outlook on Global Markets

26th February 2021

Benchmark U.S. Treasury yield rose above S&P 500 dividend yield on Thursday

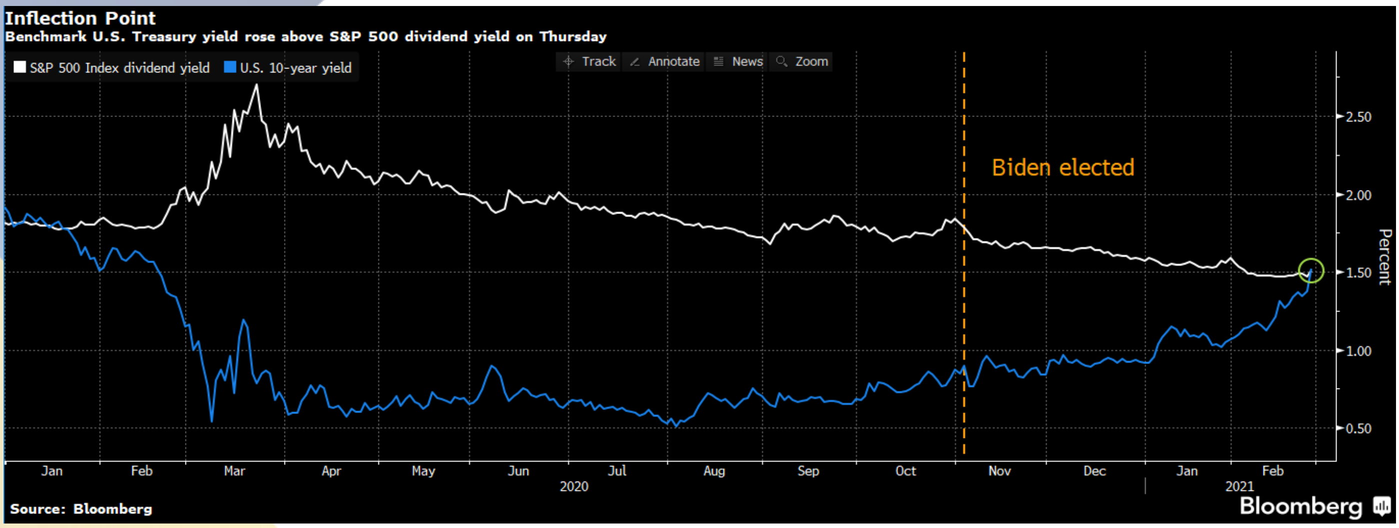


Figure 1: The chart represents S&P 500 dividend yield and US 10 year Treasury yield as of 25 February 2021

The U.S. Treasury market is definitely starting to raise a ruckus. The yield on the benchmark 10-year note reached the highest in more than a year Thursday at 1.52% and is now just above the S&P 500 Index dividend yield. But, despite the world's biggest bond market clearly screaming for help, few are coming to the rescue. There's only one thing now that's virtually guaranteed to stop Treasury yields from climbing further: A stock-market rout.

Asian Dollar high grade dollar grade spreads jump the highest since April 2020

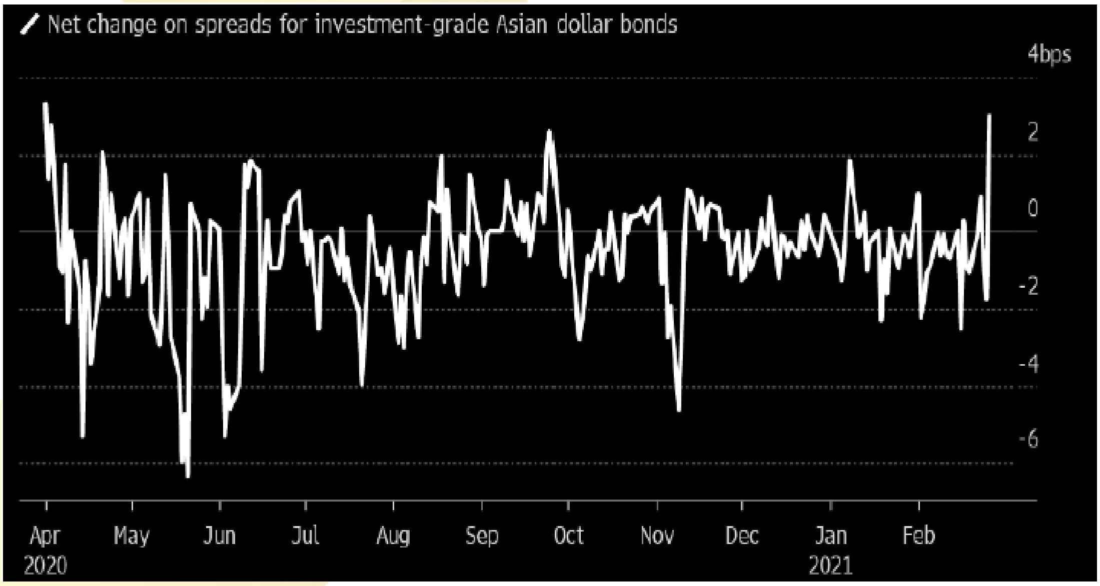


Figure 2: The chart represents Net change on spreads for investment grade Asian dollar bonds

Asian investment grade dollar bond spreads widened by the most since April on Friday after U.S. Treasury yields spiked, prices from credit traders showed. The dramatic move higher in interest rates, sparked by mounting concerns about the potential for stimulus to stoke inflation, is bad news for better-rated corporate bonds as climbing yields eat into investor returns. Still, Asian investment-grade dollar notes have almost 40 basis points of extra spread over their U.S. counterparts and are less sensitive to rate movements due to lower duration, which should support the relative performance of Asian debt in 2021.

Treasury Volatility Jumps to the highest Since April as yields surge

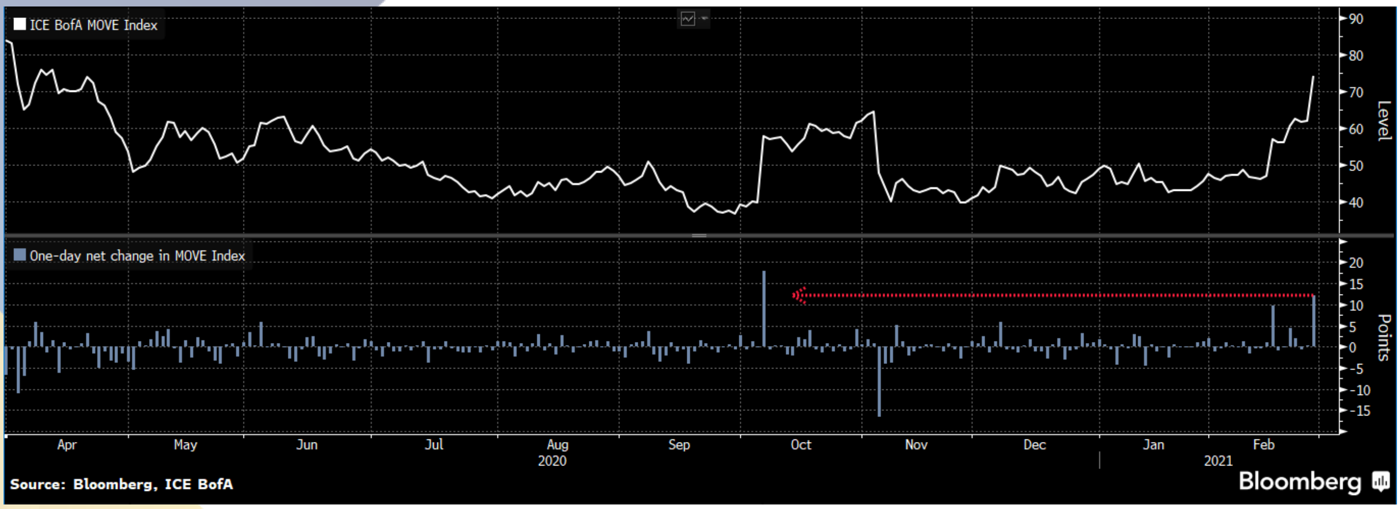
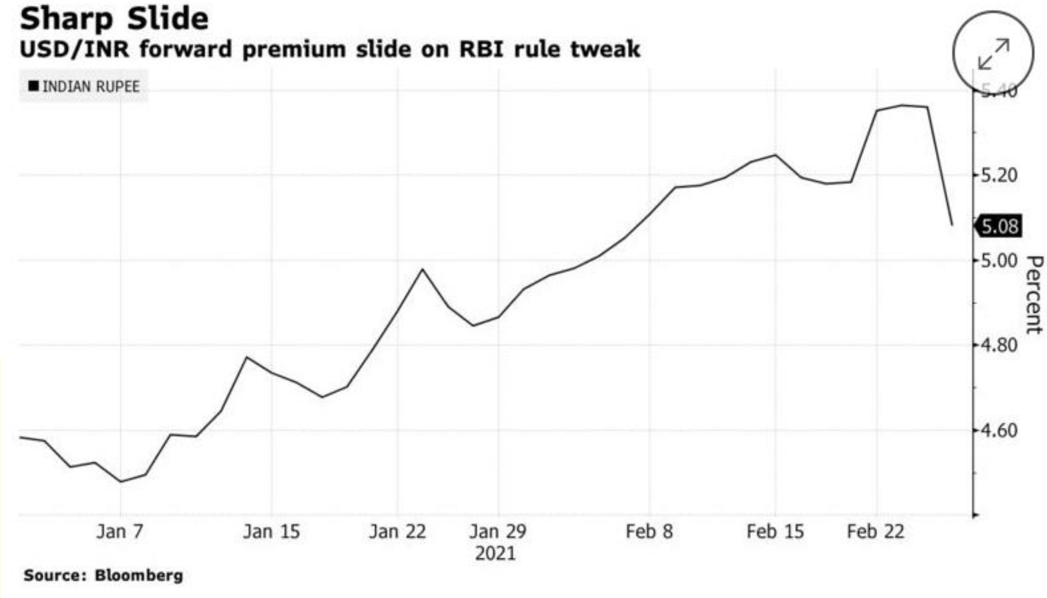


Figure 3: The chart represents Bank of America's US Treasury Volatility index

A surge in bond yields this week has shaken rates market volatility out of its slump. The ICE BofA MOVE Index, a gauge of implied price swings in U.S. Treasuries, jumped to the highest since April on Thursday, its sharpest upswing in more than four months. So far, the Federal Reserve is sticking to its line that the market behavior is a sign of welcome optimism, not fears of rebounding inflation, and no intervention is needed, with New York Fed President John Williams saying Friday that "with strong federal fiscal support and continued progress on vaccination, GDP growth this year could be the strongest we've seen in decades."

Forward Premiums Crash After India's RBI Eases Exposure Limits



The Reserve Bank of India's move allowing lenders to deploy more dollars abroad led to a sharp drop in rupee forward premiums from a four-year high, making hedging cheaper.

The dollar-rupee annualized forward premium rates crashed across the curve, after the

Figure 4: The chart depicts USD/INR forward premium

RBI on late Wednesday lifted the ceilings on local banks' exposures to other countries and central banks. The rupee also dropped. The rules required them to convert the excess greenbacks into rupees, which led to lenders paying in forwards, pushing up the price of future dollars in the domestic market.

MAJOR MOVES THIS WEEK

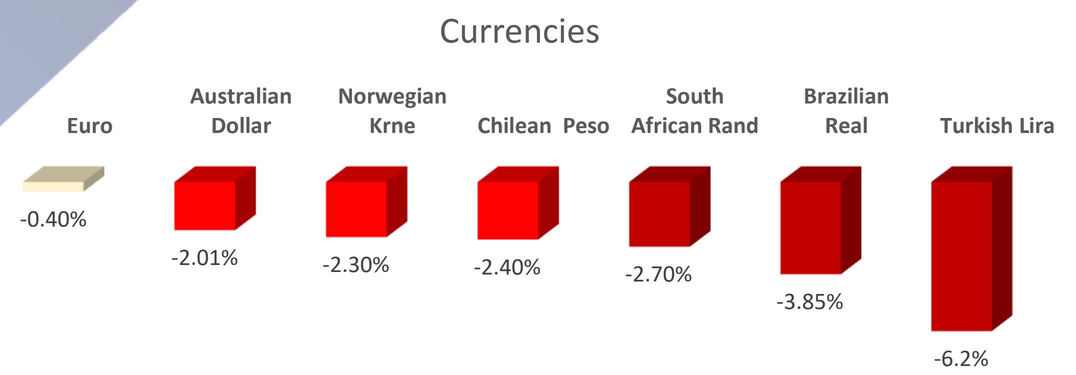


Figure 5: The graph represents Currency returns with respect to US Dollar as the base currency for this week

This week was both emerging market and developed market currencies went down against US Dollar. A huge rise in US bond yields accompanied by a risk off in equities made these currencies to fall. Most of the damage was taken by Turkish Lira, Brazilian Real and South African Rand. The Turkish lira tumbled amid speculation the central bank may backtrack on policies. Commodity linked currencies like Australian Dollar also depreciated massively. Euro though closed slightly in negative but it was very volatile throughout the week.

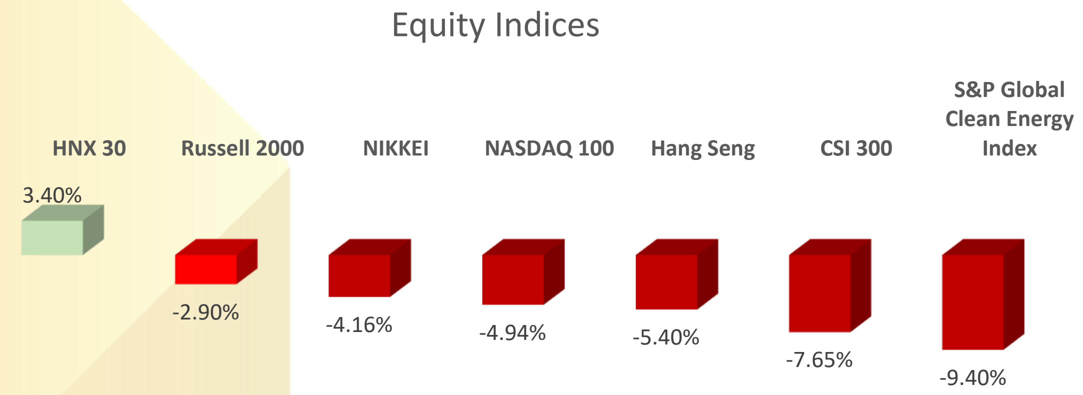


Figure 6: The chart represents the Equity Index returns over this week.

This week was a complete risk off in Equities, especially in US and Asian Equities. In US, Technology sector lost the most and led the down move . NASDAQ 100 was down by 5% due to increasing yields however even the US small cap index Russell 2000 was down 3%. Asian stocks were the underperformers with most of the major indices going down by 5%. Vietnam was the only major market that closed in green. Renewable energy sector index also continued its massive underperformance after losing more than 9%.

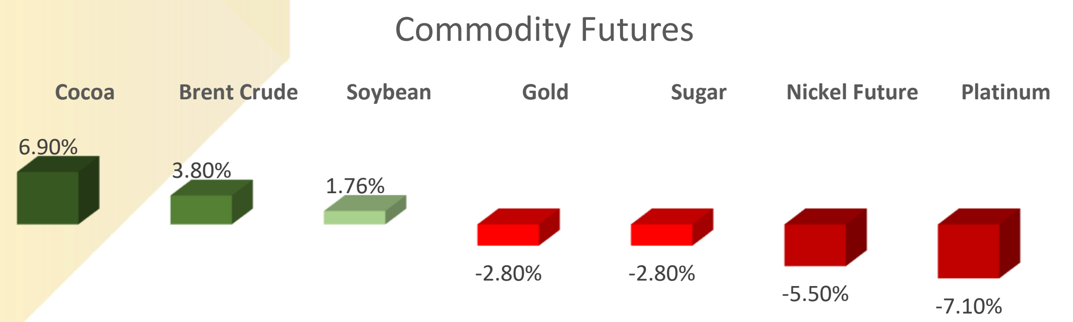


Figure 7: The chart represents the Commodity returns over the week.

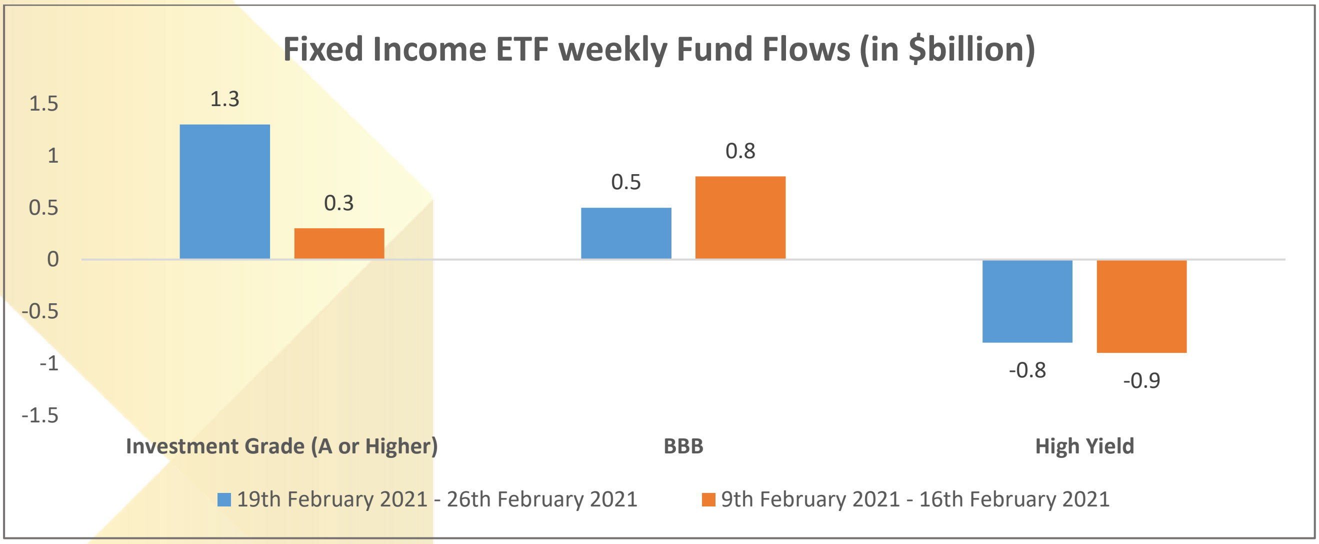
Industrial and precious metals both categories suffered major losses this week. Among precious metals platinum underperformed the most after losing more than 7%. Gold broke the 1770 levels which it was trying to protect throughout the previous week and closed at 1732. Industrial metals like nickel, Aluminium and copper also corrected from their respective rally tops. Agriculture commodities had a mixed week.

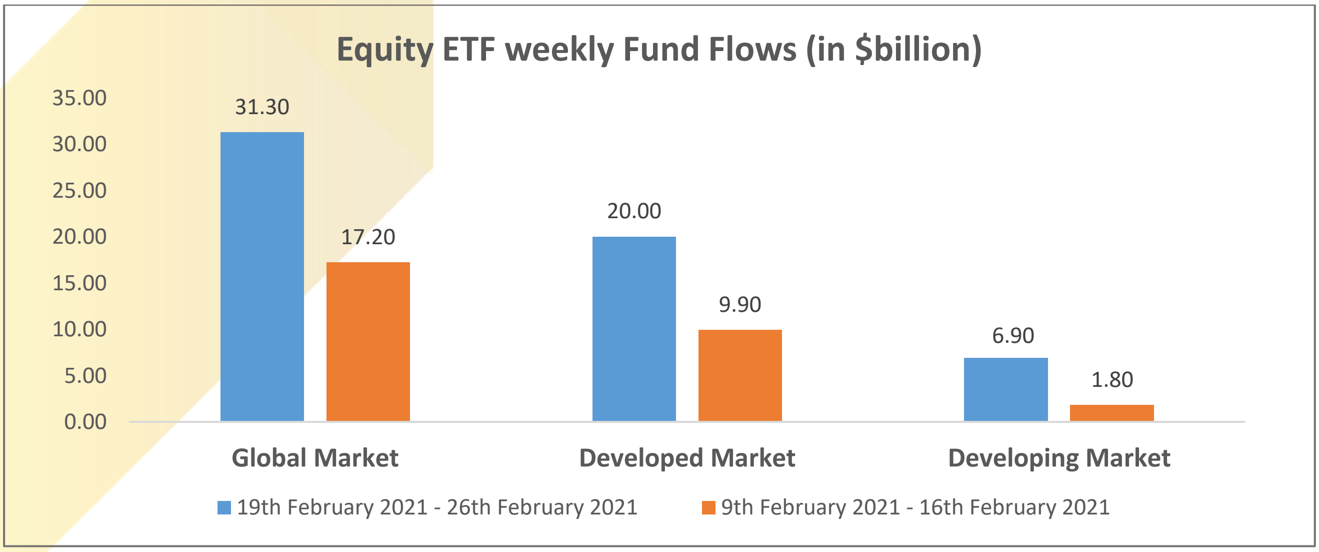
GLOBAL FUND MANAGERS' STATEMENTS

1) Jeffrey Gundlach (Founder, Doubleline Capital): "Even without any further stimulus, the Federal Government's Debt will cross over $28 Trillion in 16 days. If the $2 Trillionish stimulus passes it will hurdle $30 Trillion in no time. Meanwhile, total US unfunded liabilities will cross over $160 Trillion in 30 days."- Tweet , 20th February 2021

2) Jim Rogers (Ex Co-founder, Quantum Fund): "I've been to this movie (talking about stock market bubble) before, It's not my first rode. A 50-to-60-percent correction on stocks is possible, although some counters could plummet 80-to-90 percent. The massive amount of debt held by governments globally due to their response to the coronavirus pandemic could make the crash worse than the 2008 financial crisis"- Interview, Stansberry Research, 25th February 2021

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

"Globally risk assets were on the defensive last week particularly in the latter half. We expect a further fall in risk assets over next 2-3 weeks. This would include US equities, EM Equities, EM currencies and even industrial commodities. We believe that US long term yields have topped out and will fall over the next 2-3 weeks. We remain long term bullish on Gold even though it may not have much upside in the very near future."

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