



**PACE 360**

# **Weekly Report and Outlook on Global Markets**

26<sup>th</sup> February 2021

Market Developments	2
Major Moves This Week	4
Global Fund Managers' Statements	5
Global ETF Fund Flows	5
PACE 360's Future Outlook	6

# MARKET DEVELOPMENTS

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

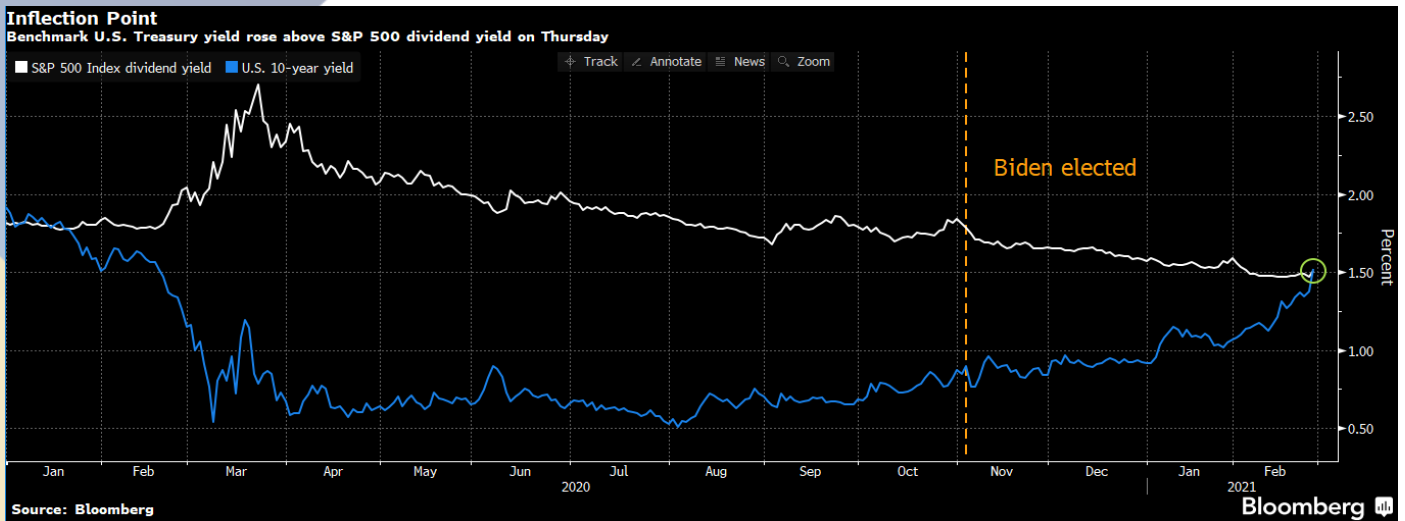


Figure 1: The chart represents S&P 500 dividend yield and US 10 year Treasury yield as of 25 February 2021

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

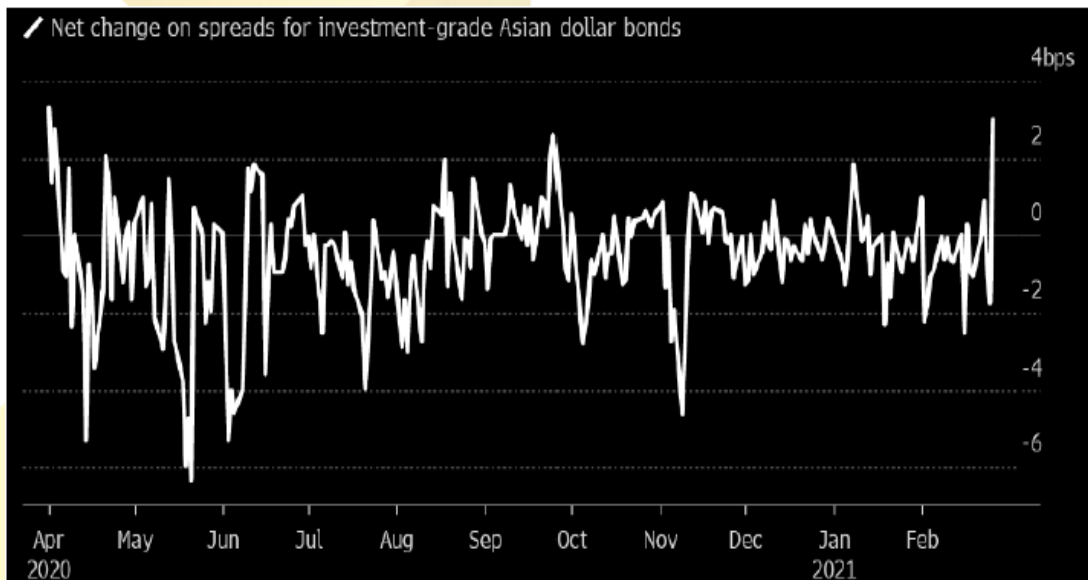


Figure 2: The chart represents Net change on spreads for investment grade Asian dollar bonds

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

#### Sharp Slide

USD/INR forward premium slide on RBI rule tweak

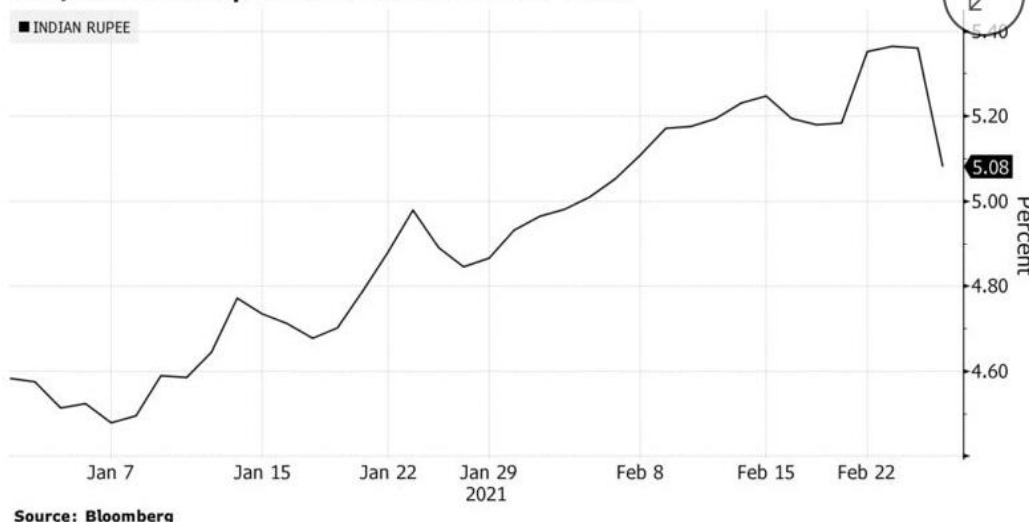


Figure 4: The chart depicts USD/INR forward premium

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

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

## Currencies

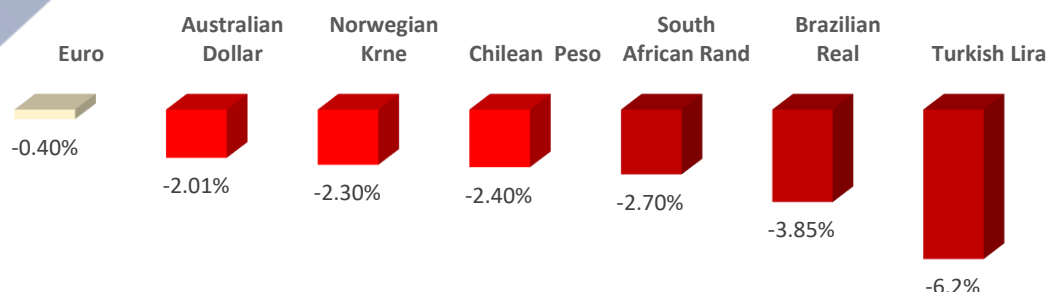


Figure 5: The graph represents Currency returns with respect to US Dollar as the base currency for this week

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.

## Equity Indices

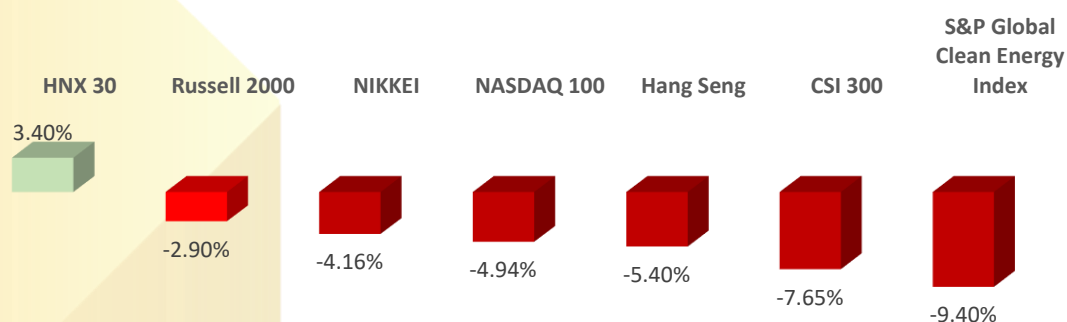


Figure 6: The chart represents the Equity Index returns over this week.

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%.

## Commodity Futures

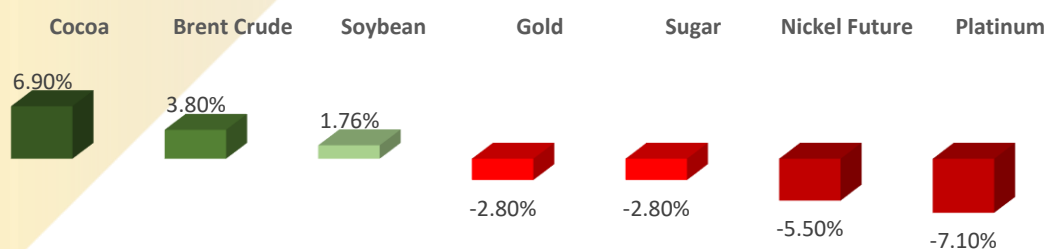


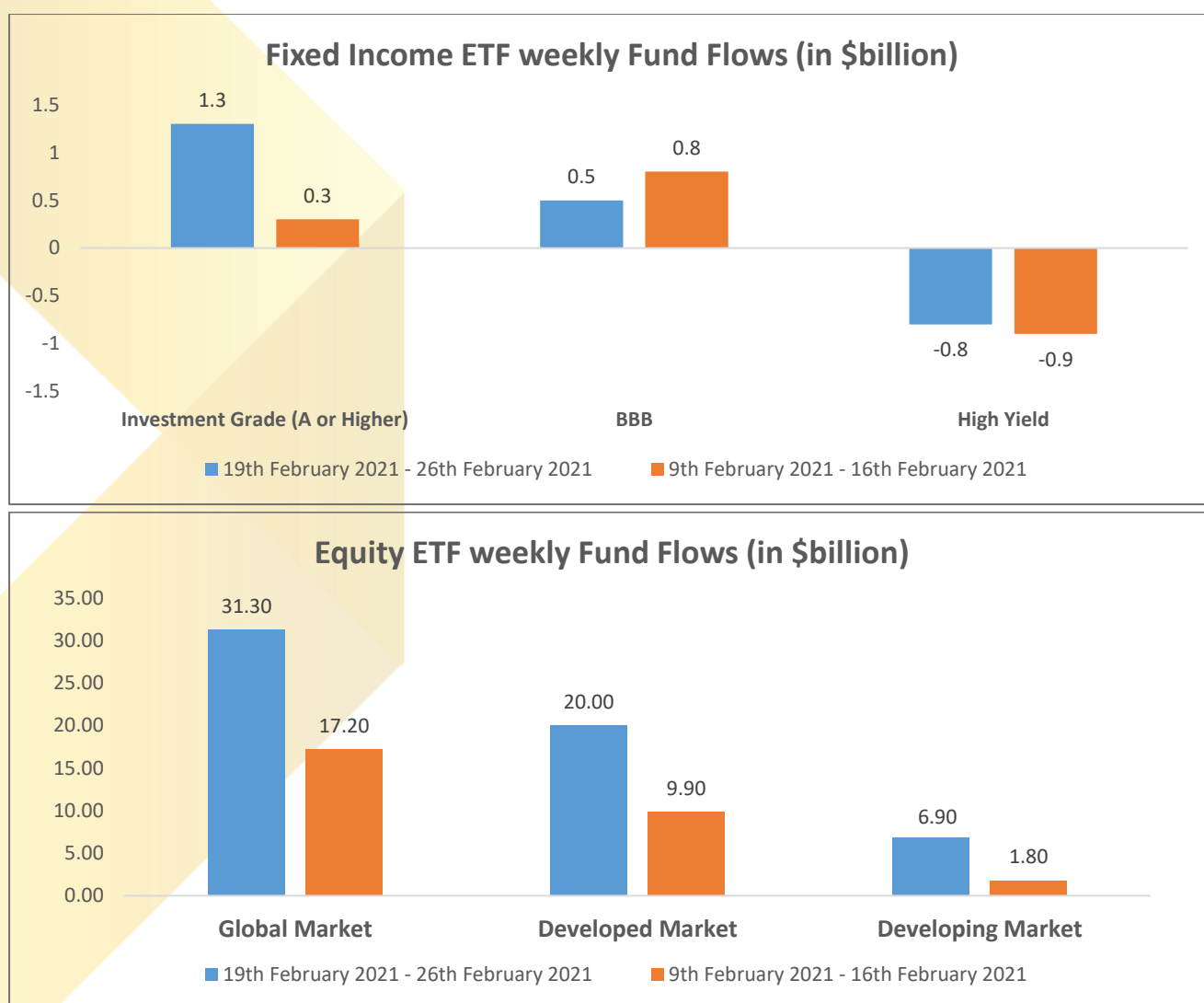
Figure 7: The chart represents the Commodity returns over the week.

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 , 20<sup>th</sup> 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, 25<sup>th</sup> 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.”

### DISCLAIMER

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions –including those involving futures, options, another derivative product as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt PACE or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold PACE or any of its affiliates or employees responsible for any such misuse and further agrees to hold PACE or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

### CONTACT US



+91-11-4742 1001



info@pace360.in



A-1/291, Safdarjung Enclave, New Delhi – 110029

### FOLLOW US ON SOCIAL MEDIA



Facebook.com/PaceThreeSixty



Twitter.com/PaceThreeSixty



Linkedin.com/company/50145027