



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

26<sup>th</sup> March 2021

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# MARKET DEVELOPMENTS

## US momentum stocks relative to broad market more volatile than dot-com era



Figure 1: The chart represents spread between USA Momentum Stock Index w.r.t. USA Stock Index's 30 day Volatility

U.S. momentum stocks like technology remain vulnerable as valuations come under pressure from higher Treasury yields. The MSCI USA Momentum Index, which counts software, internet and semiconductor companies for 47% of its weighting, has been trading more volatile than ever relative to the MSCI USA Index of 620 American stocks over the past 30 days. Also notable, at 52, the price-to-earnings ratio of the momentum index is 65% higher than the broader MSCI USA Index.

## Earnings outlook shows why Russell 2000 left S&P 500 far behind

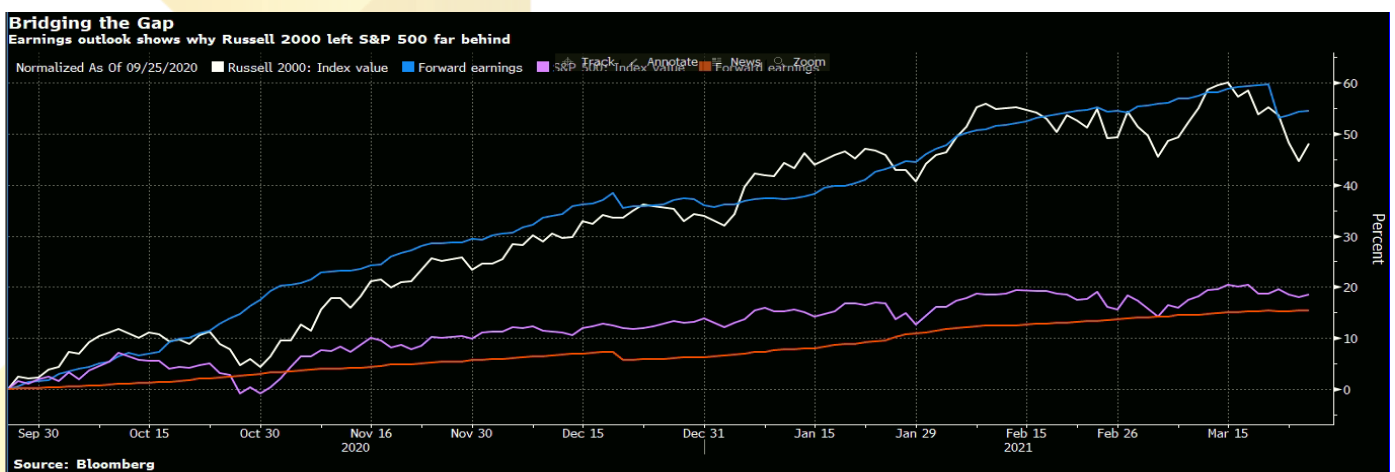


Figure 2: The chart represents growth in Russell 2000 Index (white) and its Forward earnings (blue), and growth in S&P 500 Index (Purple) and its forward earnings (orange) taking September 2020 as the base

U.S. stocks may only go as far as the outlook for earnings takes them, if the Russell 2000 and S&P 500 indexes are any guide. During the past six months, the small-cap gauge climbed as much as 60%. Projected 12-month earnings per share for the index increased by the same percentage, according to data compiled by Bloomberg. The S&P 500 rose no more than 20% in the six-month period as forward EPS went up 15%.

### US mortgage refinancing fall to lowest since September as borrowing costs rise

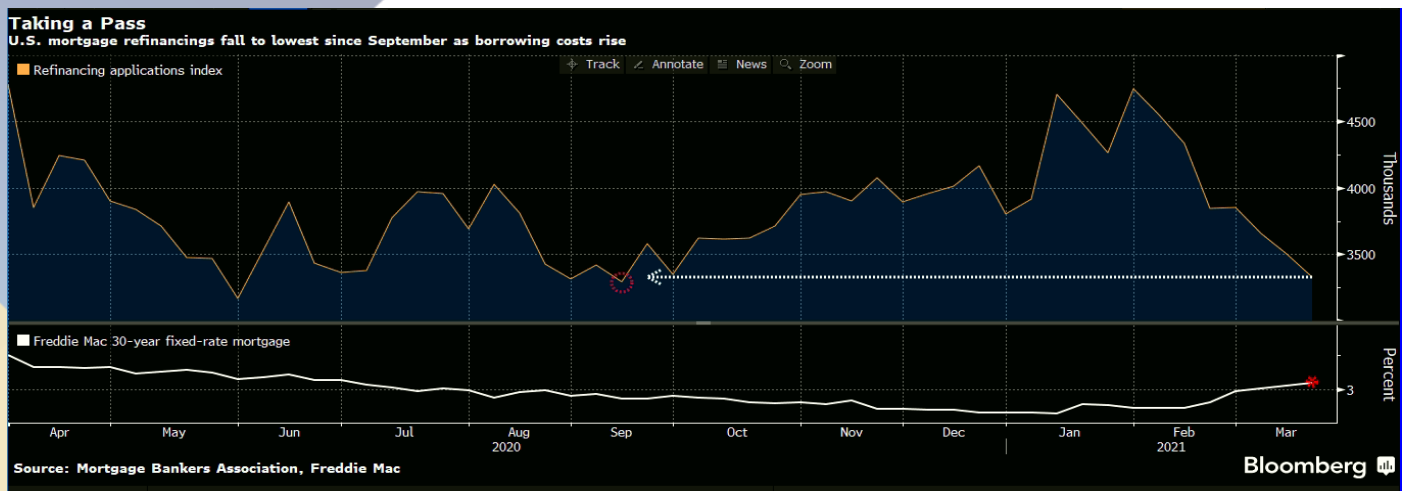


Figure 3: The chart above represents Refinancing applications in thousands and the chart below represents 30-year fixed rate mortgage rate

Rising borrowing costs are curbing demand from U.S. homeowners seeking to lock in better rates. A Mortgage Bankers Association gauge of applications to refinance fell 5.1% in the week ended March 19, the lowest level since September as the average fixed rate on a 30-year mortgage continued to rise. The drop in refinance comes as purchases of single-family homes declined 18.2% to 775,000 in February, the biggest monthly drop since 2013.

### Onshore defaults of corporate bonds in China have surged to a record in March

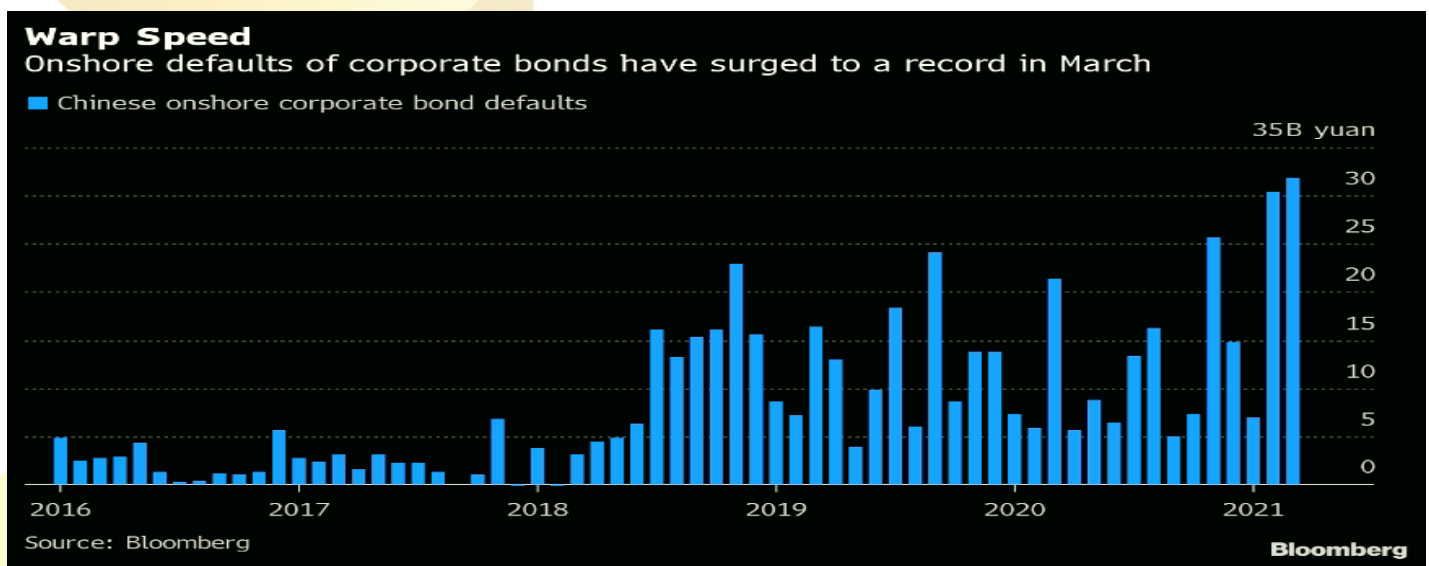


Figure 4: The chart depicts Chinese onshore corporate bond defaults in Yuan Billion

Defaults among China's onshore corporate borrowers have surged to 32.4 billion yuan (\$5 billion) in March, set to be the highest monthly tally on record, according to data compiled by Bloomberg dating back to 2014. More than 57% of the debt blowups came from the real estate sector, including Tianjin Real Estate Group's 8.2 billion yuan note. A resurgence of stress in the Chinese credit market in recent weeks looks set to continue as policy makers try to tighten liquidity and pull back on stimulus this year.

# MAJOR MOVES THIS WEEK

## Currencies

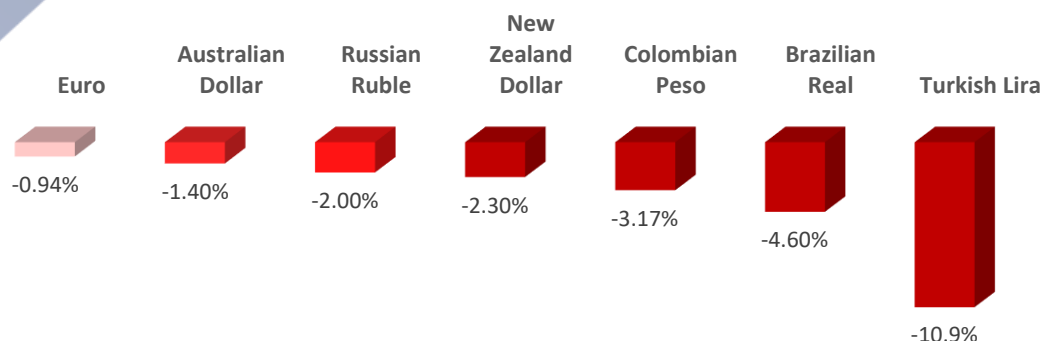


Figure 5: The graph represents Currency returns with respect to US Dollar as the base currency for this week

Both Emerging market and Developed market currencies went down against US Dollar. Commodity linked currencies like New Zealand Dollar and Australian Dollar also took a hit. Among Latin American currencies Brazilian Real was the underperformer after losing 4.6%. Euro continued its downtrend and was down ~1% for the week. Turkish Lira underwent a free fall this week after their Hawkish Central bank governor was replaced by a dovish central banker by their president. This phenomena was also responsible behind other currencies' depreciation in the first half of the week.

## Equity Indices

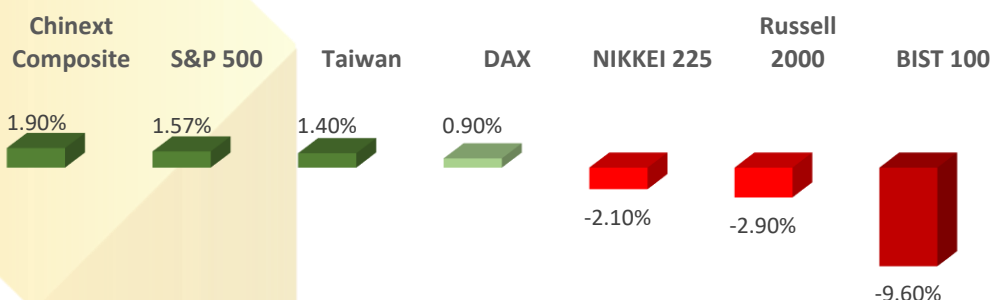


Figure 6: The chart represents the Equity Index returns over this week.

This week was very volatile for the equity indices however they will not be reflected in the week-on-week price change. After undergoing a significant correction in the first half of the week global equities rose on last two trading sessions. European Equities were relatively stable. Asian Indices underperformed the western peers. Turkish BIST 100 took a beating due to a free falling currency.

## Commodity Futures

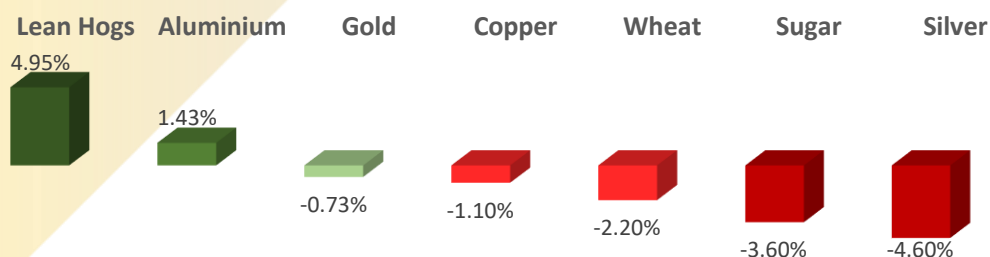


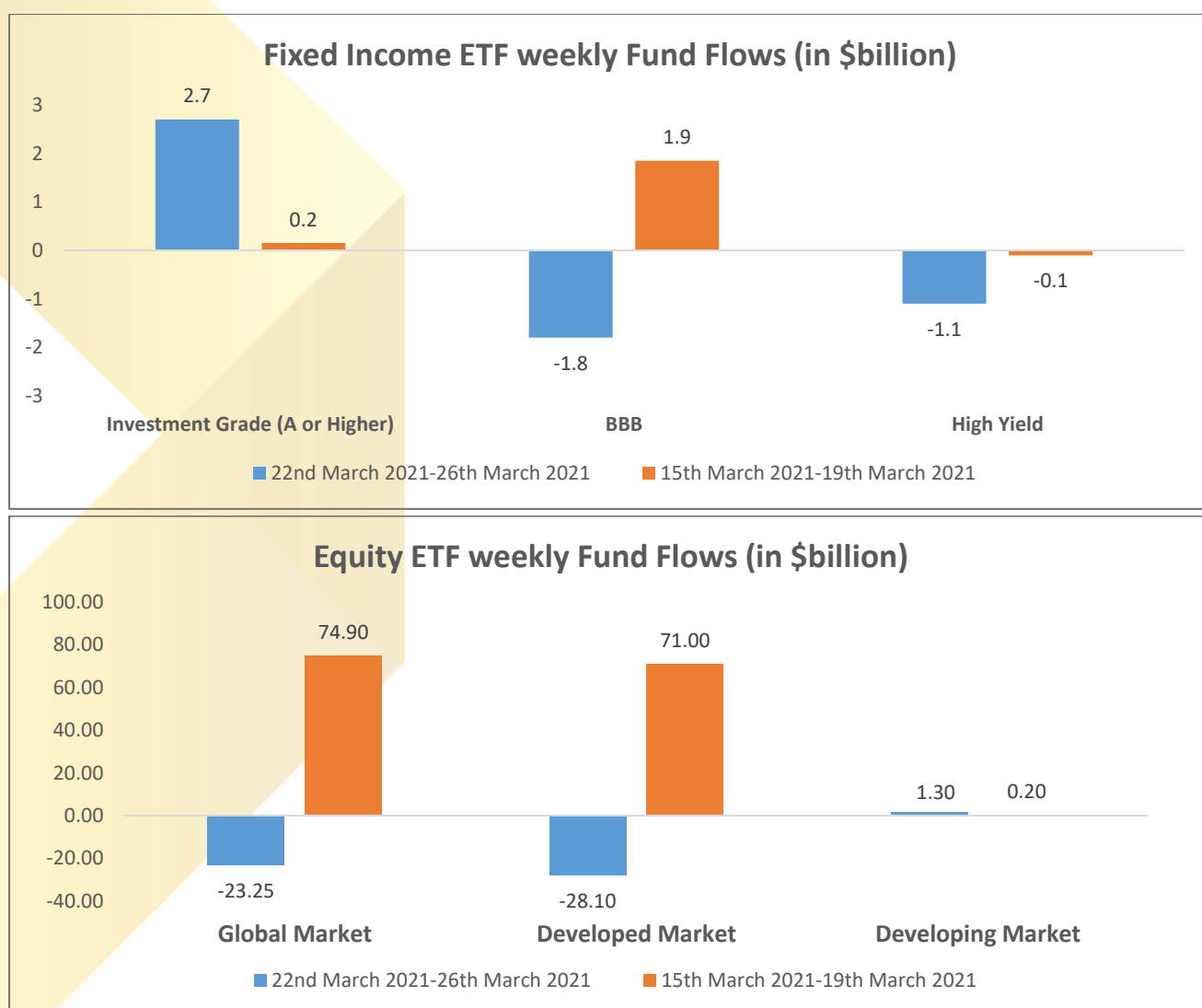
Figure 7: The chart represents the Commodity returns over the week.

Precious metals had a volatile week where silver went down by 4.5% and palladium went up by 1.3%. Gold and Platinum were relatively stable but closed in red. Industrial metals were also predominantly sideways with aluminium being the outperformer. Among Agro-commodities lean hogs were the outperformers due to their shortage. Wheat and Sugar were the underperformers.

## GLOBAL FUND MANAGERS' STATEMENTS

- 1) Mike Wilson (Chief Equity Strategist, Morgan Stanley): " Richly priced stocks that have been under pressure by rising bond yields are likely to face headwinds for the rest of the year and possibly beyond. I'm very comfortable saying right now that a lot of these stocks that made their highs for the year may have made their highs for years."- CNBC , 22<sup>nd</sup> March 2021
- 2) Ray Dalio (Founder, Bridgewater Associates): "Depending on whether that's done smartly (tax hikes in US) or not will affect the markets. When we cut corporate taxes, that benefited stock prices. Depending on how the tax rates are changed and so on, that will certainly affect asset prices and capital flows. Wealth tax introduced by progressive Senator Elizabeth Warren (D-MA) could make the nation "less hospitable for capitalism.""-Yahoo Finance, 24<sup>th</sup> March 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

"We expect the risk assets to have an upside bias over the next few weeks. We expect S&P 500 to make new highs over this period. We expect long term Treasury yields to remain rangebound for now. We continue to be bullish on Gold and silver for the near term and longer term."

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