



# Weekly Report and Outlook on Global Markets

28<sup>th</sup> May 2021

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# MARKET DEVELOPMENTS

## U.S. Small Caps post the longest monthly gains since 1995

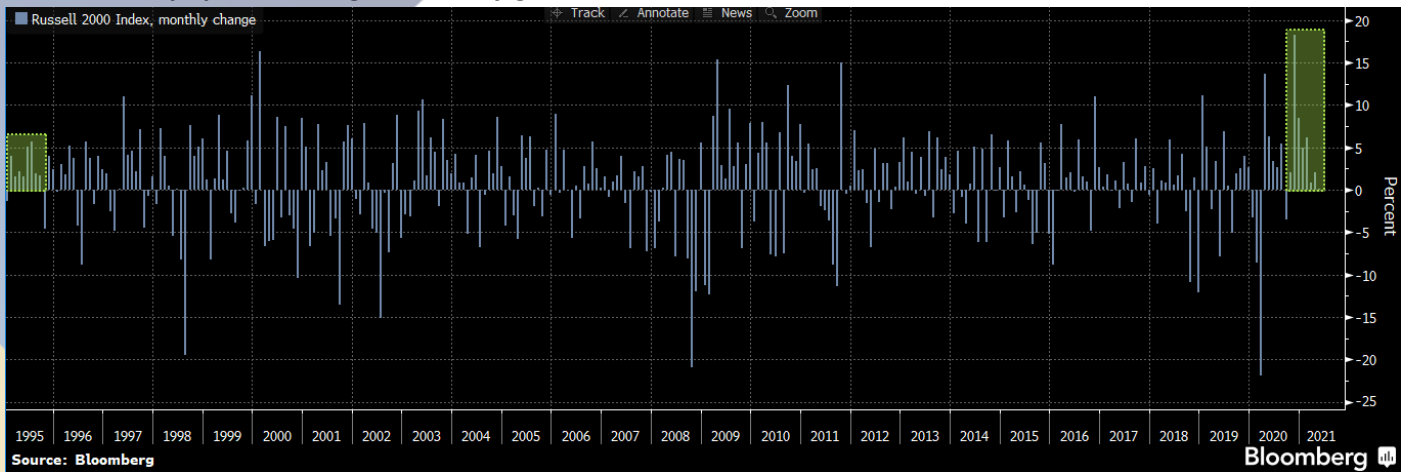


Figure 1: Monthly returns of Russell 2000

Up by about 0.1% in May, the Russell 2000 Index's monthly return is not very surprising. But this month shows the 8th consecutive monthly return for U.S. small caps benchmark. This was not seen since 1995. This further confirms the confidence in smaller firms in an economy that's reopening with policy support remaining steady. The fed remaining dovish could continue to push Russell 2000 higher and continue with its return streak.

### Citi Group economic surprise index.

This index gives an indication of how the economic releases have been with respect to the Bloomberg expectations. A positive reading shows that the economic data has been better than the expectations and a negative reading suggests that the data was lower than expectation.

Economic Surprise Index	5/21/2021	3 Months Ago	1 Year Ago
Japan	157.70	50.50	49.60
United Kingdom	156.80	106.30	-24.30
Euro	142.10	155.80	-252.10
Switzerland	129.80	78.90	18.30
Canada	110.60	7.00	20.60
Latin America	104.20	70.00	85.50
Major Economies	84.20	96.20	-99.60
CEEMEA	66.90	108.90	-41.60
Emerging Markets	56.10	65.80	-0.30
Asia Pacific	36.50	50.00	-15.20
Australia	27.40	50.40	80.70
United States	14.70	79.00	-81.50
Sweden	14.50	59.50	-31.10
BRIC	9.10	32.50	-83.40
New Zealand	-29.20	117.20	64.50
China	-50.40	8.30	-109.00
Norway	-50.70	26.70	145.90

The following table shows the comparison of this index region wise and the change in last three months.

Figure 2: Economic surprise index values region wise 3 months apart

### U.S. Corporate Bond Spreads Hit 14-Year Low as Economy Resurges

The risk premium on investment-grade debt tightened one basis point to close at 84 basis points over Treasuries, a level last seen in 2007, according to Bloomberg Barclays index data. An accelerating U.S. economic recovery has boosted corporate earnings this year, putting high-grade bonds on track to post positive returns for the second consecutive month following their worst start to the year since 1980.

Cheap borrowing costs have encouraged issuance to stay steady, with sales this month of \$136 billion broadly in line with estimates and borrowers able to bring new deals with minimal concessions to their outstanding debt.



Figure 3: Bluechip bond spread wrt the U.S. 10 year bond yields.

### European Dividend yields still at an advantage over bonds.



Figure 3: Euro Stoxx, FTSE 100 and S&P 500 dividend yield over 10 year Bund, GILT and U.S. treasury yields respectively.

Dividend cuts induced by the Covid pandemic weren't enough to challenge the advantage equity yields hold over bonds, and things should stay that way unless bond yields rise dramatically. Forward dividend yields on U.K. and euro-area stocks remain about 3 percentage points above respective government bond yields. European payouts rose in the first quarter from a year earlier, after tumbling by about a third in 2020. European dividends are expected to rebound by 18% in 2021 and 6% in 2022.

# MAJOR MOVES THIS WEEKS

## Currencies



Figure 4: The graph represents weekly Currency returns with respect to US Dollar as the base currency.

With the Chinese Central bank's move to fix the yuan higher, the Asian currencies as performed well. New Zealand dollar also appreciated this week due to hawkish outlook from their central bank. Turkish Lira made a new low against the dollar this week because of reshuffling of their Central Bank's top management.

## Global Equities

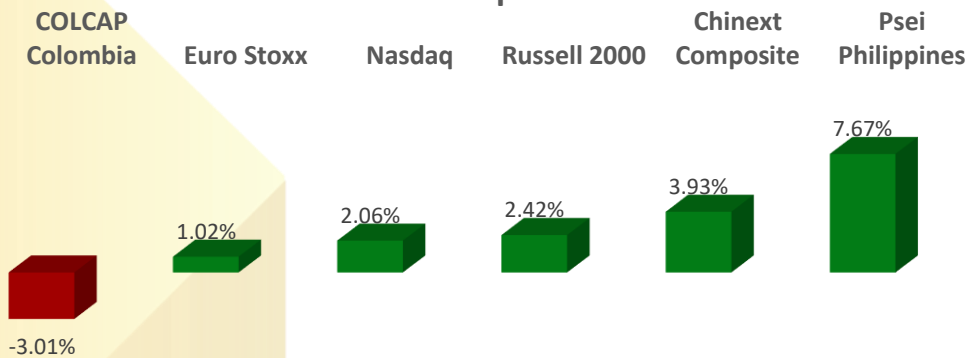


Figure 5: The chart represents the weekly equity index returns.

There was an outperformance this week in the ASEAN countries due to positive outlook and better economic data. Most equities have performed well this week with the overall risk on sentiment prevalent in the market. Colombian equities however underperformed because of protests and fear of further downgrade from rating agencies.

## Commodities

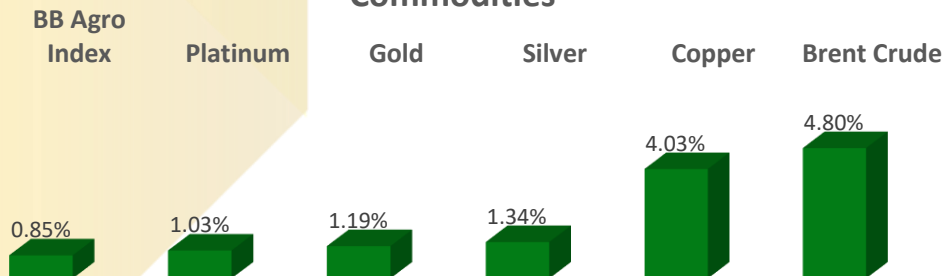


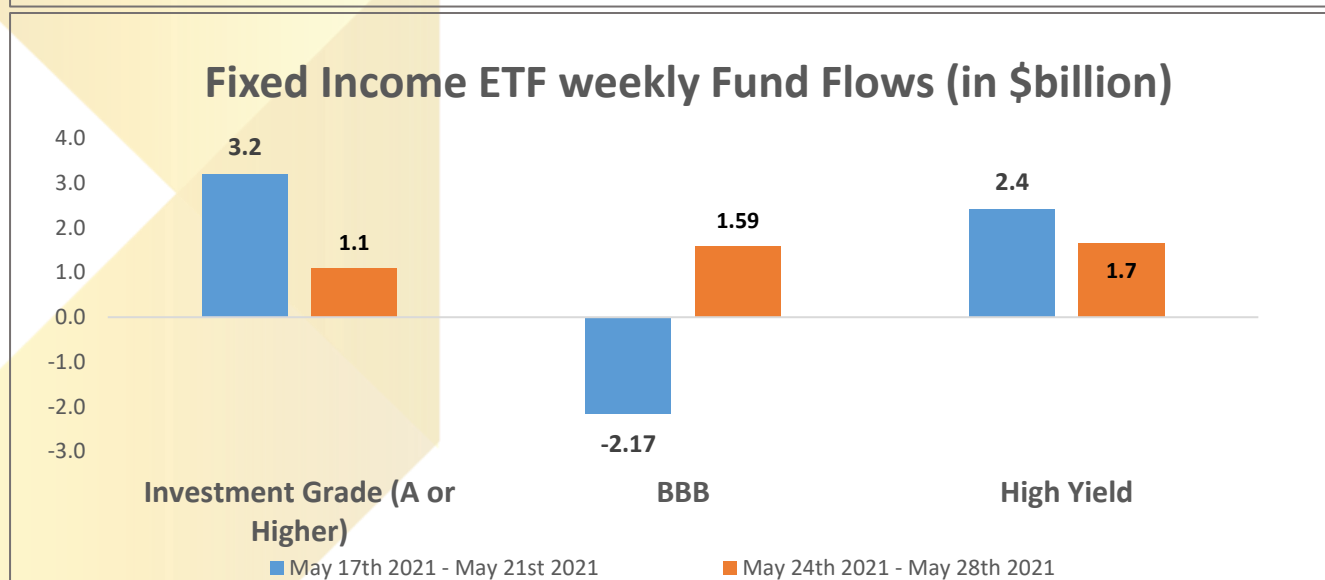
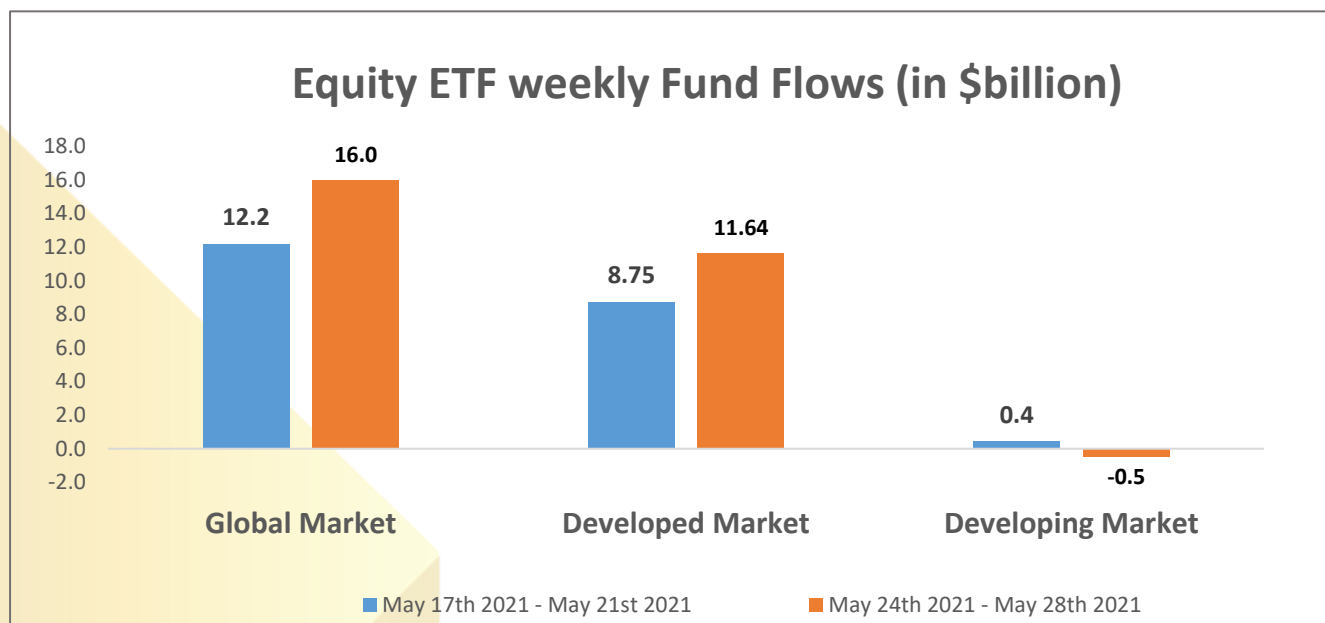
Figure 6: The chart represents the weekly commodity returns.

With decrease in the real interest rates, Gold and other precious metals gave positive returns this week. Industrial commodities have also closed in the green due to the risk on sentiment and higher demand expectations.

# GLOBAL FUND MANAGERS' STATEMENTS

- 1) Ray Dalio (Founder, Bridgewater Associates) : "In a volatile investment environment, cryptocurrency can act as the best store of value. There exists the possibility that bitcoin and its competitors can fill the growing need for alternate store of value" He also mentioned that he would prefer Bitcoin over Bonds. – Interview with CNBC, May 29<sup>th</sup>, 2021

## 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.

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## PACE 360'S FUTURE OUTLOOK

"Global equities had a largely positive week. While we are still some distance from a crescendo in global equities, we may largely be sideways from some time before we make the tops. We expect the tops to be made some time between July and August. We expect global commodities to be sideways for now, but we do believe that most of the industrial and agro commodities have made their rally tops. We remain long term bullish on long term U.S. Treasuries. Gold should consolidate for some time now post an extraordinary bull run. Crypto currencies are downhill and should have a negative bias for the next year or so."

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