Weekly Report and Outlook on Global Markets

22nd Oct 2021

Inflation Fears Wrack Bonds as Fed Seen Hiking Twice Next Year

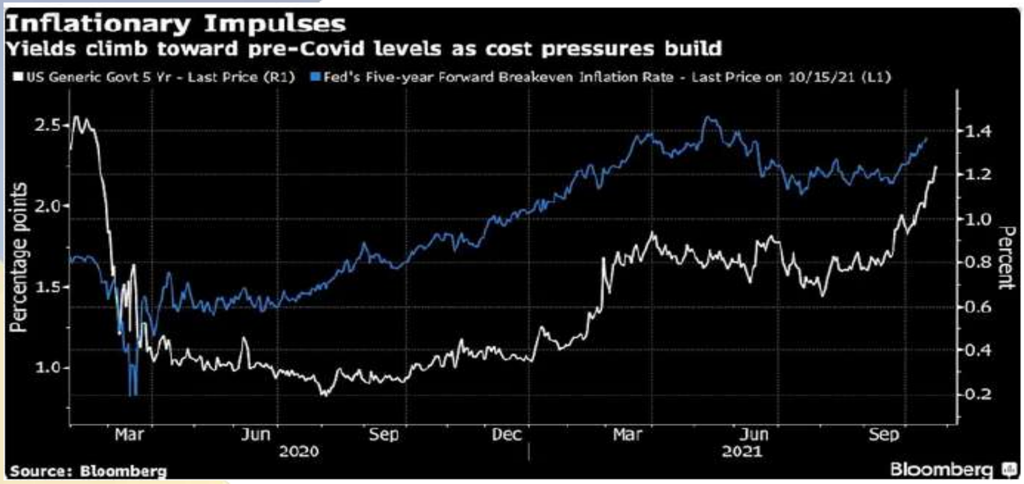

Figure 1:This chart shows % change in US generic 5 Year rate & Fed five-year Breakeven inflation rate

Treasury yields have surged this week, with shorter-maturity rates touching the highest since the start of the Covid outbreak, as concern over quickening inflation drove traders to price in two U.S. interest-rate hikes by the end of next year. The yield on five-year notes climbed above 1.20% on Thursday for the first time since February 2020, while that on benchmark 10-year debt topped 1.70%. Treasury Inflation-Protected Securities outperformed nominal Treasuries on speculation.

World's Biggest Oil Exporter Commits to Net-Zero Emissions

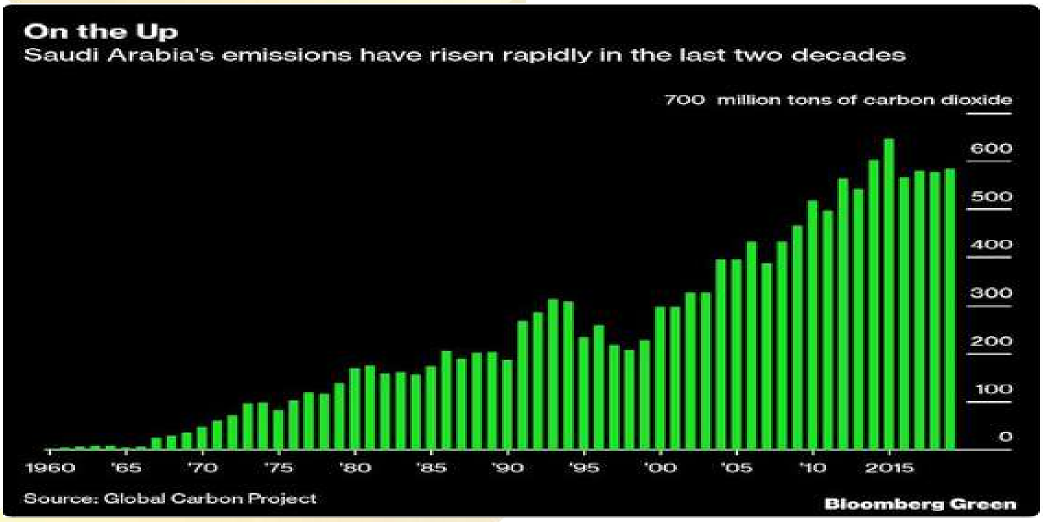

Figure 2: World's Biggest Oil Exporter Commits to Net-Zero Emissions

Saudi Arabia has pledged to eliminate planet-warming emissions within its borders by 2060.
It marks a seismic shift for the world's biggest oil exporter, though officials included plenty of caveats and emphasized that Saudi Arabia and others would need to pump crude for decades to come.
Crown Prince Mohammed bin Salman, the de facto ruler, made the announcement in Riyadh on Saturday at the opening of a climate conference. His government has consistently argued against cutting investments in fossil fuels and blamed climate activists for this year's surge in energy prices.
While Saudi Arabia's new goal aligns with China and Russia, its timeframe lags other large economies like the U.S., U.K., and European Union, which all aim to be net zero by 2050.

Major Moves this Week

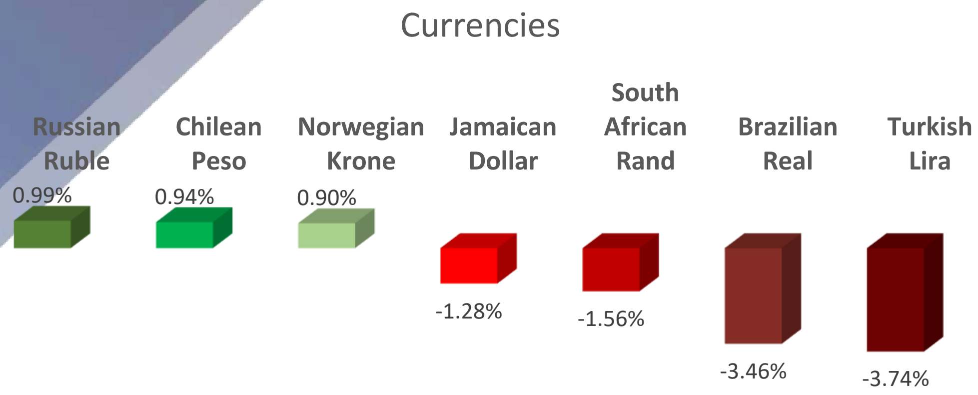

Figure 3: The graph represents Currency returns with respect to US Dollar as the base currency for this week.

This week we have seen mixed performance by the currencies against the Greenback. EURO marginal appreciated against the dollar, while the Japanese Yen is appreciated after making it multiyear worst level around 114.7. Emerging markets currencies we have seen mixed performance. Dollar index weakened during the week led by the appreciation in Euro. Lira continued its loss against this week also & closed its lifetime low.

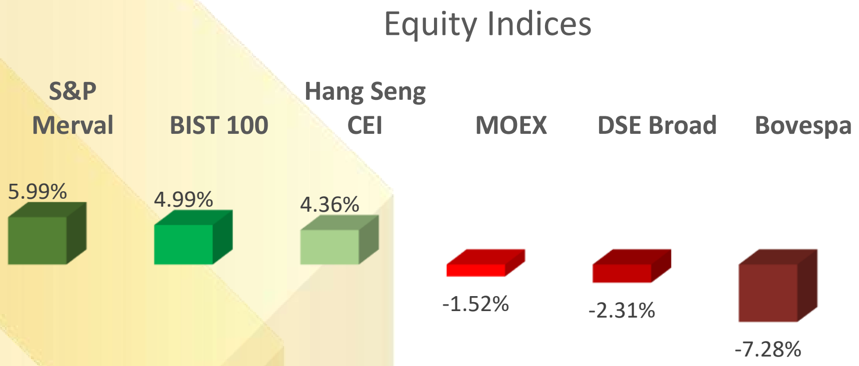

Figure 4: The chart represents the Equity Index returns over this week.

This week equities shown mixed performance with bullish bias. In Emerging Markets equities performance was largely in line with US equities. Dow & S&P 500 gained strength continuing their past week trend, while European equities weakened during the week. In turkey we have observed sharp rebound after previous week fall. Among US Equity indices Russel 2000 we have seen underperformance while Dow jones transportation we have seen outperformance. Broder indices in Indian equites small cap & mid cap we have witness sharp fall this week.

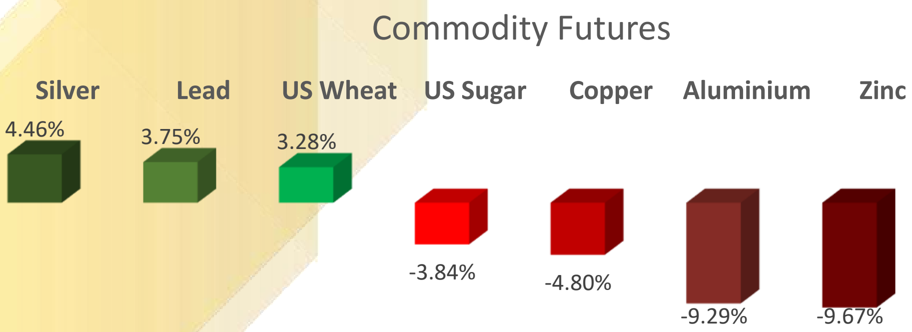

Figure 5: The chart represents the Commodity returns over the week.

Commodity also performed negatively this week led by industrial metals. We have seen sharp correction in industrial metals mainly in Zinc, Copper and Aluminium. Crude extended gains this week, while Natural gas weakened. Precious metals gained during the week; Silver has outperformed Gold this week. We have seen strength in agricultural commodities.

GLOBAL FUND MANAGERS’ STATEMENTS

Jeffrey Gundlach (Head, Double Line Capital): Gundlach said inflation in consumer prices likely will remain elevated through 2021 and stay above 4% through at least 2022.” he sees the current inflation run as non-transitory and instead likely to persist well into the future.“We believe that it’s almost certain that 2021 will end with a 5-handle on the [consumer price index], and it’s going higher in the next couple of readings, thanks primarily to the price of energy,”. “And we don’t think inflation is going below 4% anytime in 2022.”

While Gundlach conceded that some of the increases, such as lumber and some other commodities, are temporary, others are not.One factor he cited is shelter costs, which make up about one-third of the CPI and have been rising steadily this year, though not a pace equal to the headline surge.“It’s almost certain that we’re going to get persistently high inflation thanks to the shelter component going up, and perhaps the wages, too,” he said.

The result, he said, has been negative real interest rates as government bond yields remain low while inflation runs high. He called the negative rates “wickedly unattractive” from an investing standpoint.

David Tepper (Founder, Appaloosa Management): David Tepper has turned somewhat bearish on the stock market, citing uncertainties around interest rates and inflation.“I don’t think it’s a great investment right here,”. “I just don’t know how interest rates are going to behave next year. said his hedge fund has been “probably too conservative” this year but has done OK because of its bets on commodities and oil.

“We continued to keep that exposure relatively low but keep investing, I think stay invested in the stock market to some extent, but don’t have your highest concentration you’ve ever had,” Tepper said.

Tepper stressed, though, that it’s nowhere near the time to short the stock market, and he still believes equities make a great long-term investment that everyone should own in their portfolio.The hedge fund manager said if bond yields stay stable after the Fed moves to taper its bond-buying program, stocks could see a relief rally.

Peter Thiel (Co-founder Paypal & Palantir): He has said he feels like he’s underinvested in bitcoin as the world’s most popular cryptocurrency climbed to an all time high of just over $66,000 per coin., just hours after bitcoin hit a new record price, Thiel reportedly joked that “you’re supposed to just buy bitcoin” before adding “I feel like I’ve been underinvested in it.” Thiel went on to say that his only hesitation when it comes to investing in bitcoin was that he thought “the secret was already known by everybody,” At a separate event on Monday, the billionaire said the stratospheric price of bitcoin is one of the clearest indicators that the current political system is unstable.“But surely the fact that it is at $60,000 is an extremely hopeful sign. It’s the canary in the coal mine. It’s the most honest market we have in the country, and it’s telling us that this decrepit … regime is just about to blow up.”

Chris Wood (Global head (equity strategy),Jefferies): Rising inflation concerns on the back of climbing commodity prices signal mounting risks for stocks.The market veteran highlighted that the expectation of inflation amid concerns of the US Federal Reserve’s tightening of its monetary policy and tapering of the bond-buying program were rising. Chris Wood said. A sell-off aided by tapering and inflation in the US could ripple down to global stock markets.

Stemming from this rise in inflation, Chris Wood sees mounting risk for highly valued growth stocks in particular. “If the trigger for the anticipated sell-off is to be rising inflation concerns and related Fed tightening concerns, a further major rise in the oil price continues to have the potential to aggravate the current inflation scare dramatically.

Jim Paulsen (Leuthold Group): “If we just end up elevating the rate of inflation a little bit on a permanent basis, I think that might actually do a lot of good,” We’ve been fighting inflation for four decades in this country — always being quick to tighten, slow to ease. And the result is we’ve created some of the most sluggish growth over the last 15 years we’ve had in the entire postwar history.” Paulsen contends higher inflation encourages more aggressive behaviors by both businesses and consumers with profitable results.

“It stokes animal spirits,” he said. “If people think prices are going to go up over time, that means you might feel better about getting higher wage hikes, for example. And, it might cause businesses to expand more operations because they know they can grow into it with pricing flexibility.”

PACE 360'S FUTURE OUTLOOK

We believe that the rally in global equities from their early October bottom is practically over. We are extremely bearish on global equities both from a near term and long-term standpoint. We believe industrial commodities have also made a top recently and will continue to correct. We are bullish on longer term US Treasuries as the US 10-year bond yields seem to have peaked out. We also see a correction in Bitcoin from the current levels as the euphoria around the first etf seems to have largely played out.

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