Weekly Report and Outlook on Global Markets

5th Nov 2021

2014 vs 2021: How a Fed taper can move asset prices

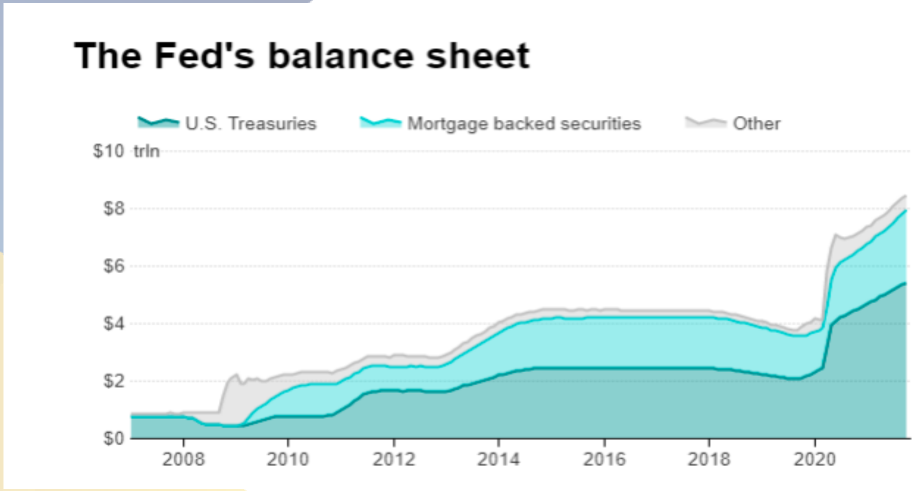


Figure 1:This chart shows Fed's balance sheet as at 2nd Nov, 2021

The Federal Reserve's taper in 2014 was preceded by sharp gyrations in Treasury markets and helped lay the foundations for a massive rally in the U.S. dollar. With the Fed widely expected to soon begin an unwind of its $120 billion in government bond buying, here's a comparison between the market backdrop around the time of the Fed's most recent unwind and today. Since then the central bank's balance sheet has ballooned to $8.6 trillion as policymakers slashed rates to near zero and rolled out a raft of measures, including monthly government backed bond purchases, as they fought to support the economy in the wake of the COVID-19 outbreak last year.

French Startups Are Pulling in Record Funds—And Catching Up the U.K.

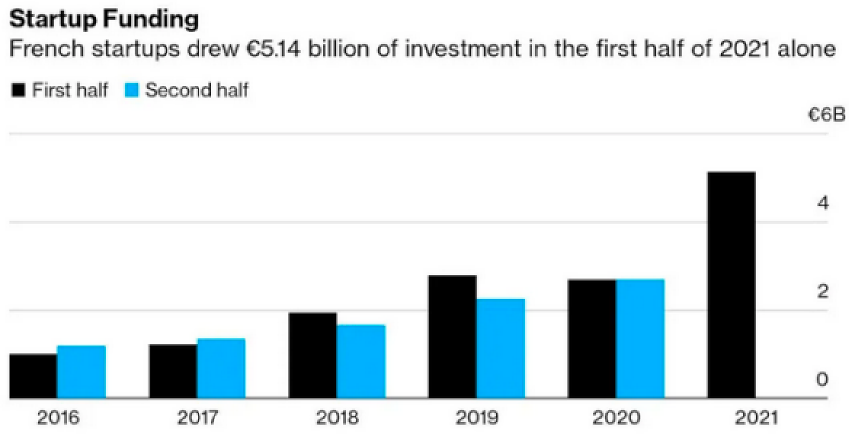


Figure 2: This chart shows funding by French startups

If anything, France was struggling to attract venture capital, with the annual number of investments into startups falling in 2016, lagging both the U.K. and Germany. Now fledgling French companies are raking in investor funds. On a record-setting day in September, two French technology startups -- Sorare and Mirakl -- together raised more than $1 billion. In the past weeks, fintech Swile drew $200 million in a funding round led by SoftBank, and the same amount was raised by ed-tech company 360learning. Already, the number of tech unicorns -- companies valued at over $1 billion -- stands at 20.

MAJOR MOVES THIS WEEK

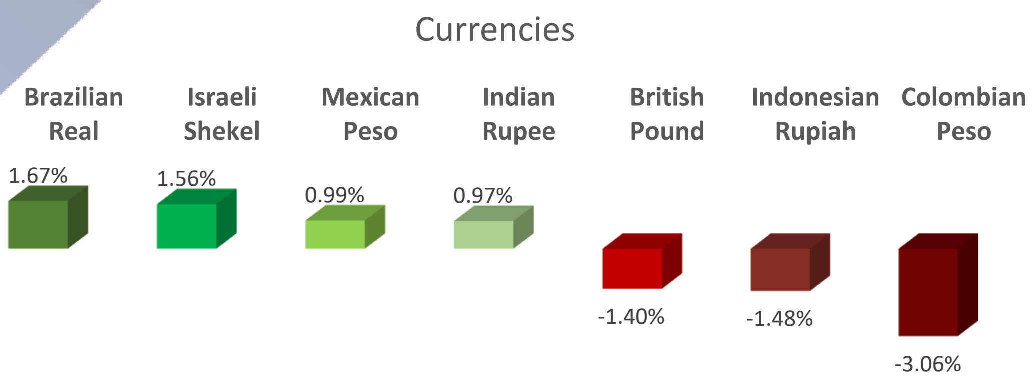


Figure 3: The graph represents Currency returns with respect to US Dollar as the base currency for this week.

This week we have seen appreciation in broader currency markets against Greenback. Yen appreciated; EURO remained stable while British Pound weakened against Dollar this week. Emerging markets outperformed against dollar this week. Overall, it was a strong week for Dollar.

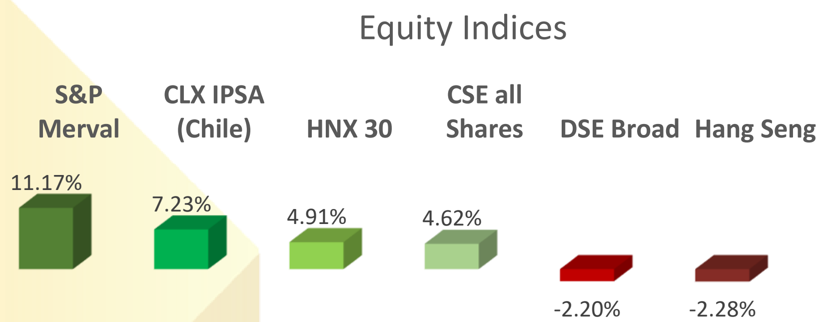


Figure 4: The chart represents the Equity Index returns over this week.

Reversing the past week performance this week has again seen and strength in global equities. Commodity producer markets like Russia, South Africa and Brazil strengthened. Broder Emerging Markets equities have performed strongly. Nasdaq & S&P 500 gained strength this week and closed at new highs.

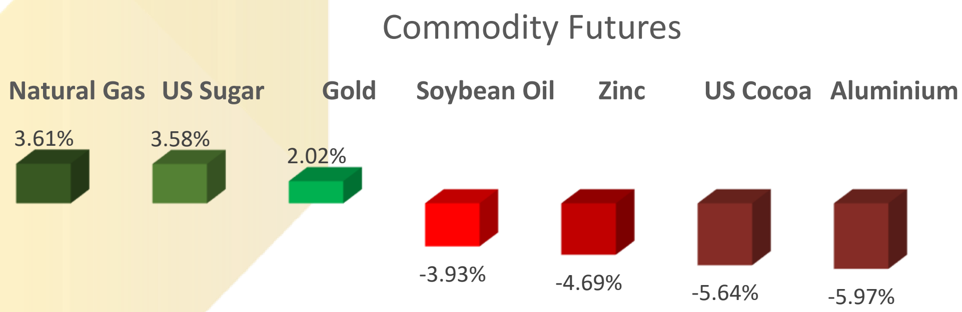


Figure 5: The chart represents the Commodity returns over the week.

Commodities have performed weakly this week. We have seen correction in industrial metals mainly in Aluminium & Zinc this week. Crude corrected, while and Natural gas gained this week. Silver also performed this week while gold has shown upside close to two percent. We have seen mixed moves in agricultural commodities.

Robert Minter (Director of investment strategy at abrdn): The Federal Reserve is on the cusp of shifting its monetary policies, but it won't be enough to stop the growing inflation pressures, and it is only a matter of time before investors return to gold to protect their wealth. As the Federal Reserve starts its two-day monetary policy meeting, expectations are growing that the central bank will reduce its monthly bond purchases. At the same time, markets are pricing in a rate hike as early as June.

"Tighter monetary policies won't solve the backlog in the Ports; it won't bring new microchips online," he said. "All they are going to do is create a new hurdle to grow cap-ex when it is actually needed. Federal Reserve policies can't fix supply-side issues."

Minter added that the ultimate risk is that rising inflation leads to stagflation as global consumption drops.

"The ultimate sweet spot for gold is stagflation because you have higher inflation and a lower U.S. dollar," he said. "Right now, investors aren't quite convinced that stagflation is the scenario that plays out going forward but could quickly change. You certainly cannot take stagflation out of the realm of possibilities."

Looking at the gold market, Minter said that he expects it's only a matter of time before the current price attract investors looking for protection and value. "If you look at where real yields are right now, it looks like gold prices should be closer to $1,900 than $1,800 an ounce. Gold right now looks cheap to us," he said.

"Until the government finds a way to get rid of its $28 trillion in debt and the $8 trillion on the Fed's balance sheet, we are not sellers of gold," he added.

Not only is the Federal Reserve unable to resolve inflation driven by the ongoing global supply crunch, but Minter said that growing demand for raw materials is going to keep inflation elevated for a prolonged period.

Minter added that the global push for more renewable clean energy will continue to drive demand for raw materials like copper and aluminium.

Piyush Gupta (CEO of DBS Group Holdings): There are signs that higher prices will become "more entrenched" and harder to reverse, according to the chief executive of Singapore's largest bank. "You're beginning to see more entrenched inflation coming through,". "Some of the inflation that we're seeing is really wage inflation. Salaries are beginning to dial up and I don't think those are so easy to reverse."

The Federal Reserve on Wednesday maintained that price increases in the U.S. are "transitory." But rising inflation in the U.S. and other major economies has led to concerns among investors that central banks would be forced to hike interest rates earlier, and faster, than expected.

While inflation could increase costs, higher interest rates are beneficial for banks, Gupta said as DBS reported third-quarter earnings that beat analysts' estimates.

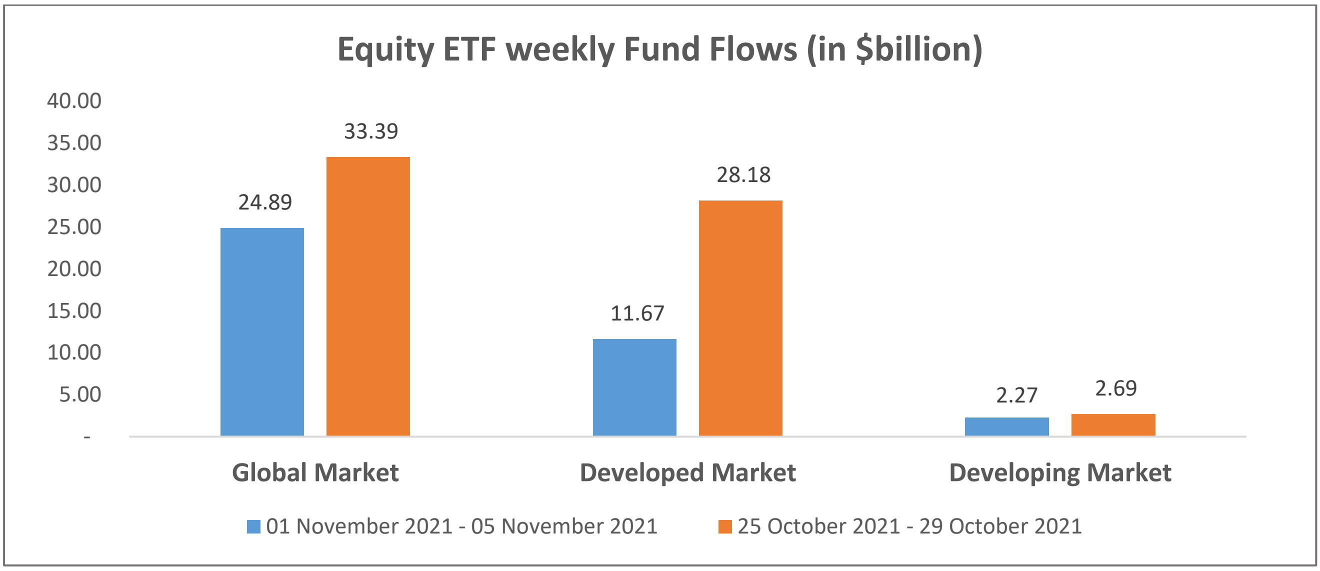
Jim Bianco (President, Bianco Research): Jim Bianco expects inflation's intensity to catch up with central bank policymakers worldwide, including the Federal Reserve. The fallout could make stocks less attractive, and knock them off record highs.

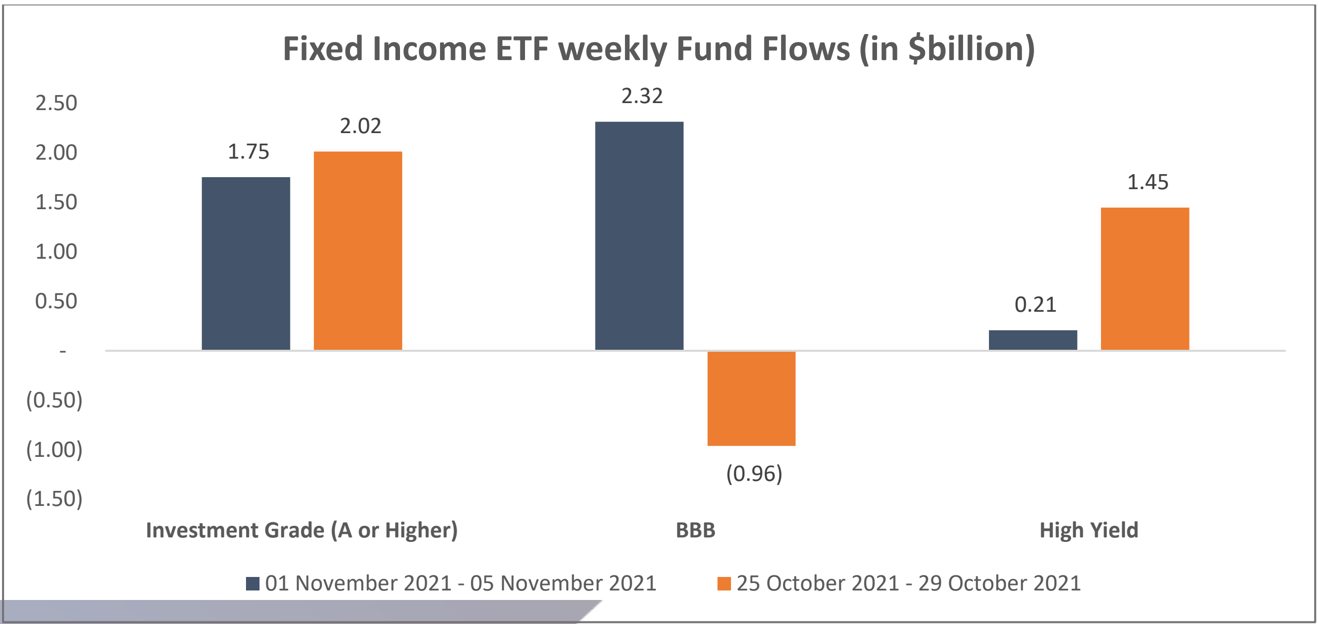
"Inflation is persistent, and you've got to start thinking about moving your policies more aggressively towards tightening,". "What's happened in the markets in the last couple of weeks is short-term interest rates have moved up and moved up a lot especially in countries like Australia and New Zealand," he said. "They're saying that you're behind the curve."

According to Bianco, it's evidence inflation is widening its grip across the globe. He contends it's tough to just pin it on temporary supply chain issues.

Bianco lists wide-ranging issues from surging food and commodity inflation to wage growth as tell-tale signs the backdrop isn't changing anytime soon.

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 believe global risk assets are close to the top end of their range. We do not expect a deep correction in the very near term but global equities could easily correct by 4-5 % from the current levels. We remain very bearish on equities over the next 2-3 years. Longer term US Treasuries have done extremely well this week and should trade in a range in the near term. We remain long term bullish on gold and long term bearish on bitcoin.

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