Weekly Report and Outlook on Global Markets

3 Dec 2021

Investors trying to bottom fish for unloved leisure stocks could be put off by the omicron variant and ensuing

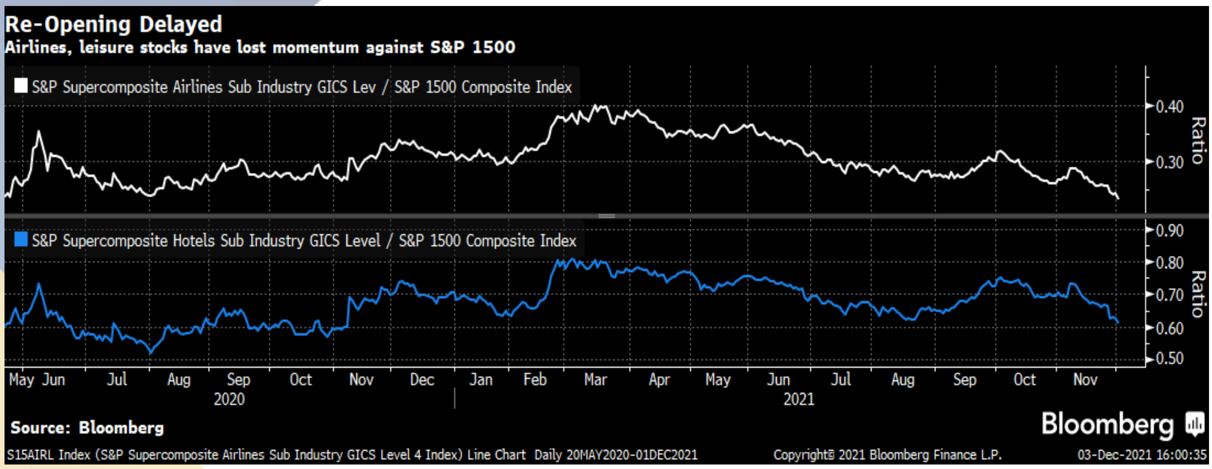

Figure 1:This chart shows underperformance in covid related indices performance against S&P 500

Of the 150+ sub-indexes in the broader S&P 1500, only three are in the green since before the Black Friday rout through Wednesday. The biggest decliners include consumer-focused sectors: department stores, hotel & resorts REITs, airlines, computer & electronics retail, hotels & cruise lines and casinos & gaming. Some of these sectors are also lagging ytd and the relative trends are sobering. The S&P Supercomposite Airlines Index has fallen to the lowest since November 2020 and the lowest compared to the S&P 1500 since May 2020. The S&P Supercomposite Hotels, which includes Marriott and Carnival, is the lowest compared to the S&P 1500 in over a year.

Spanish stocks' worst since the pandemic rout sets them up for an eighth straight year

Figure 2: Spanish equity index underperformance against MSCI world index

Spain's IBEX 35 was by far the weakest among major Western European benchmarks in November, down 8.3%, its worst month since March 2020. The index is only up 1.9% ytd (the Stoxx 600 has risen ~16%). It's been hit by a selloff in banks (its biggest sector at ~23%), which have also been pressured by exposure. Travel stocks such as IAG, have also weighed, as have retailer and utility Iberdrola.

The IBEX 35 remains over 9% below its 2021 high. Earlier this week it hit the lowest ever versus the MSCI World. The macro backdrop isn't getting much better. accelerated to a three-decade high on rising food prices, a fresh test to the narrative that price gains in the euro area will be temporary. The approval of Spain's 2022 is unexpectedly at risk. Growth numbers have missed expectations in the past two quarters, although that with a jobs boom and tax rebound. Foreign tourism hasn't matched that of locals and renewed lockdowns in Europe could further limit trips.

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MAJOR MOVES THIS WEEK

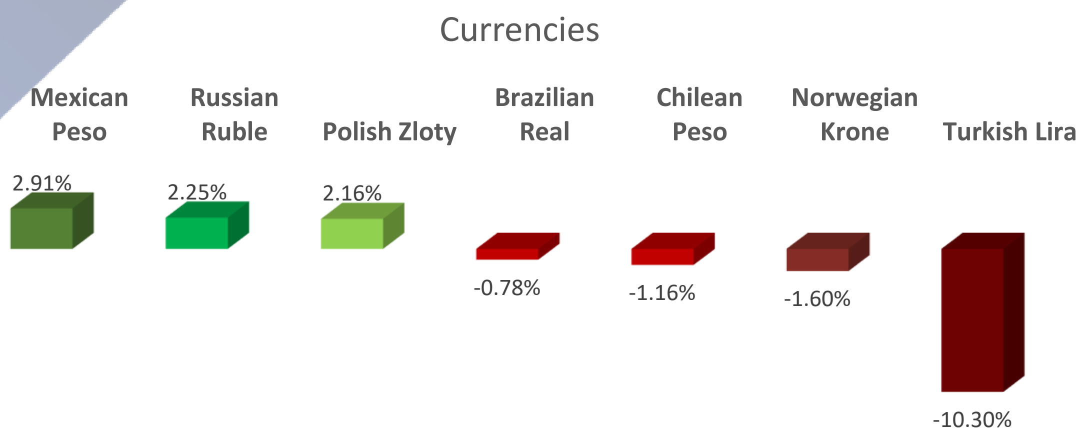


Figure 3: The graph represents Currency returns with respect to US Dollar as the base currency for this week.

This week we have seen mixed performance in the global currencies. Euro remained sideways, Yen appreciated and British Pound depreciated against the Dollar this week. Overall, this week the dollar remained sideways.

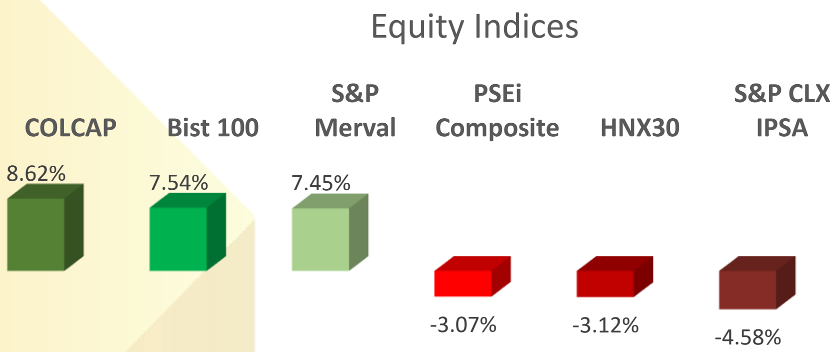


Figure 4: The chart represents the Equity Index returns over this week.

Global equities have declined during the week. European equities have given a mixed performance, Latin American equities gained ground while the Asian equities corrected. Nasdaq and S&P 500 remained volatile during the weak and closed in the negative territory.

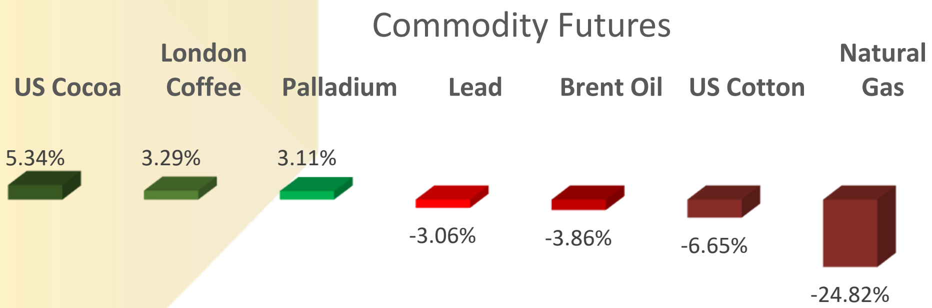


Figure 5: The chart represents the Commodity returns over the week.

Commodities have shown a weak performance during the week. We have seen correction in industrial metals. Natural Gas corrected sharply, while Crude weakened. Precious metals declined; Silver and Gold corrected sharply. We have seen mixed performance in agricultural commodities.

GLOBAL FUND MANAGERS' STATEMENTS

Cole Smead (President and portfolio manager at Smead Capital Management): Federal Reserve Chairman Jerome Powell's retirement of the term "transitory" to describe inflation could have an unexpectedly bleak knock-on effect on risk assets. Smead said Powell's comments amounted to a "mea culpa," or an admission that he was wrong, and that the potential effect it could have on Fed policy and the value of assets might be underappreciated.

"In effect, people are buying the 10-year (U.S. Treasury note) feeling insulated on the longer end of the curve, but the reality is no asset will benefit from the cost of capital rising, and you can kind of see the same thing going on in certain U.S. equities," Smead said.

"Most equities have been punished the last couple of days, and we can talk about the omicron [Covid variant], but I really think it's people somewhat fearful of the Fed's pivot to being wrong." Smead suggested that people buying "quality blue chip businesses" typically considered longer duration investments, such as Microsoft and Apple, looked "just as foolish as buying the 10-year right now."

Christopher Wood (Global head of equity strategy at Jefferies): China is a better short-term bet than India for investors who are looking at Asian markets excluding Japan. "Structurally, I am very bullish on India," Wood said Wednesday. "It's just commenced a residential property cycle that had been on a downturn for seven years."

"But in the short-term, I would favor China over India because India's going to be vulnerable to any Fed tightening, tapering scares,". "In my view, the worst of the regulatory crackdown on internet [sector] is behind us," Wood said. "The question is how the new rules are enforced and what's the appropriate increase in risk premium."

According to Wood, China tightened monetary policy for most part of the year, and it's now past the peak of tightening. While it's unlikely that there's going to be a dramatic easing going forward, there will be incremental moves that would put China in a different direction from the Fed.

Leigh Goehring (Goehring & Rozencwajg Associates managing partner): This will be a "decade of shortage" defined by high inflation and a failed attempt to raise rates – the perfect combo to trigger a massive rally in gold. "We're getting closer to the explosion of gold prices to the upside. I'm a big believer that inflation is not going away. It's going to continue to be a problem. We could be looking at a black swan event in inflation. It could be an oil shock, natural gas shock or agricultural shock," Goehring said. An inflationary black swan event could kick-start that inflationary psychology, which has been missing despite annual U.S. inflation running hot at 6.2%.

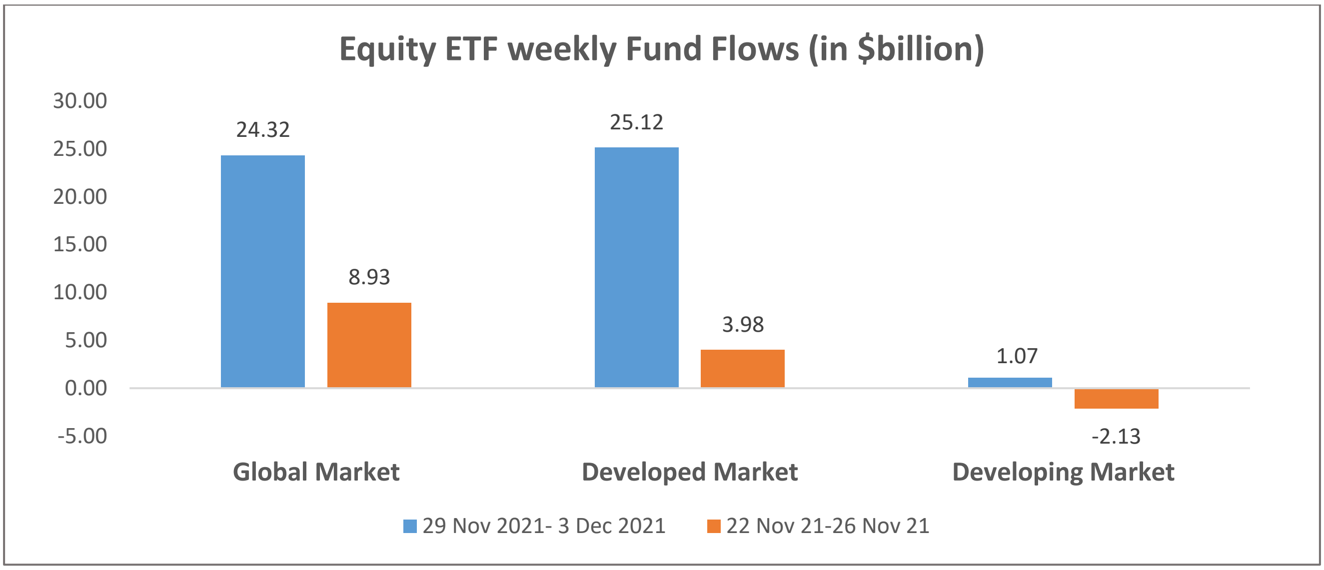
"It is going to force the Fed to raise rates. The central bank will start, but that will create such havoc that the Fed will have to stop. In response, gold will first pull back. But that will be the final retreat before the massive gold bull market," Goehring described.

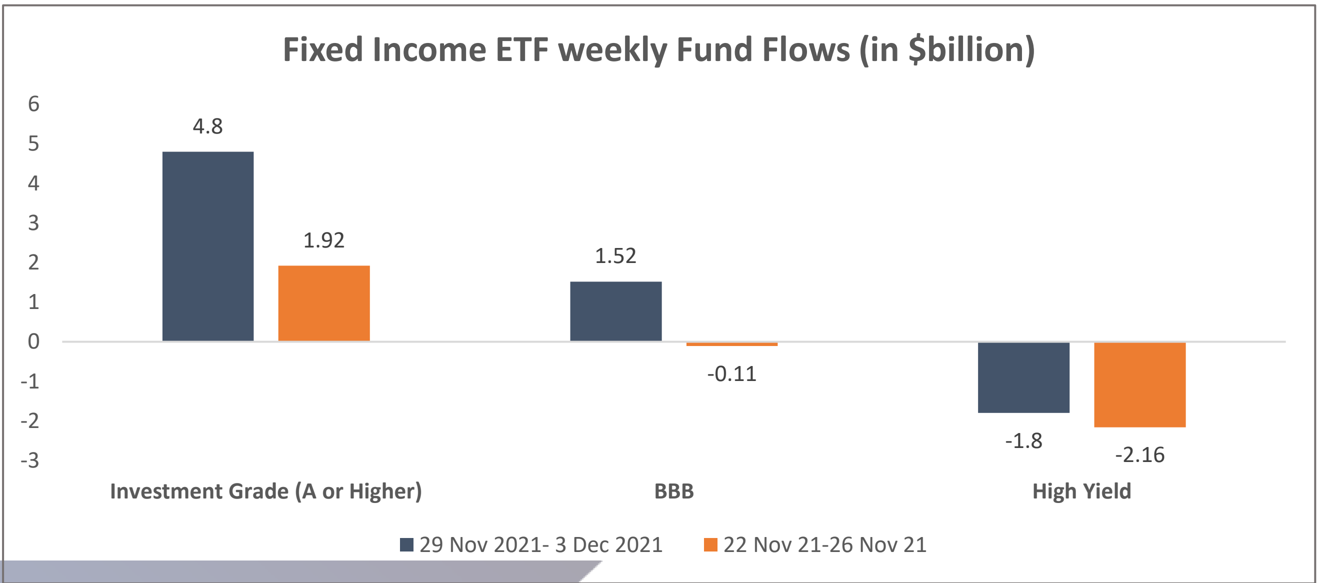
Ray Dalio (Bridgewater Associates): Bridgewater Associates' Ray Dalio stood by his belief that cash is not the place to be despite the volatility in the markets triggered by the new Covid omicron variant.

"Cash is not a safe investment, is not a safe place because it will be taxed by inflation,". During turbulent times, it's also important to be in a safe, well-balanced portfolio, the billionaire investor said. "You can reduce your risk without reducing your returns. You will not market-time this. Even if you were a great market timer, the things that are happening can change the world, so it changes what could be priced into the market," Dalio said. The stock market rebounded swiftly from the pandemic bottom in March 2020 thanks to the massive fiscal and monetary stimulus measures the government and the Federal Reserve orchestrated to support the economy. However, the excess money supply in the system could create certain economic and political problems, Dalio said.

"You can't raise living standards by raising the amount of money in credit in the system because that's just more money chasing the same amount of goods," he said. "It will affect financial markets in the ways we've seen and it will affect the inflation rate. It won't raise living standards in an important way. As inflation then begins to bite, it has political consequences."

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

US equities sharply corrected this week. We remain bearish on global equities for the long term though many of the global equity indices are looking oversold at the current juncture. Hence, they may rebound before resuming their fall. We remain bullish on longer term US Treasuries and gold and we remain bearish on bitcoin.

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