



Weekly Report and Outlook on Global Markets

21st Jan 2022

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MARKET DEVELOPMENTS

Bank of England to raise rates again in February as inflation surges: Reuters poll

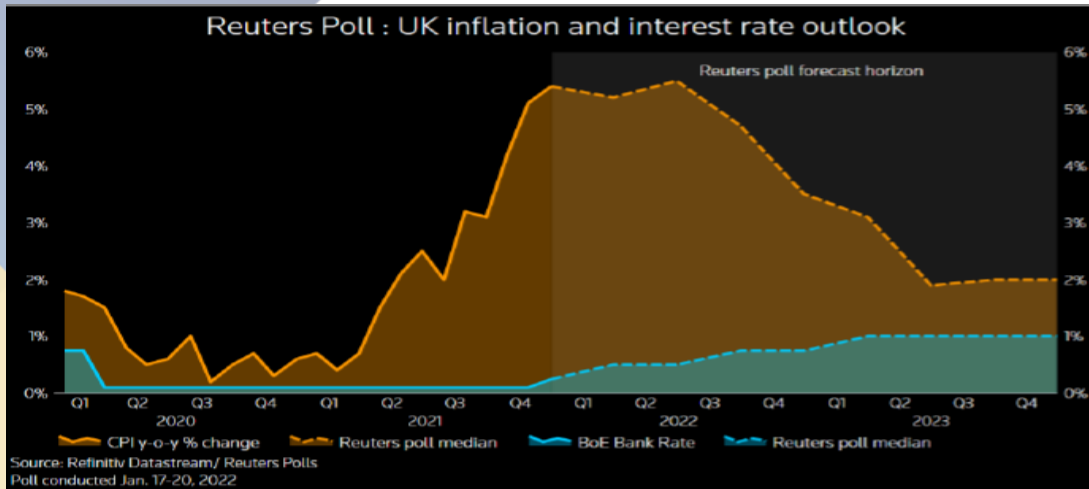


Figure 1: The above chart shows UK inflation & interest rate outlook

The Bank of England will press ahead with its tightening cycle next month as red-hot inflation runs well ahead of target and the economic threat from the Omicron coronavirus variant should prove milder than previous mutations, a Reuters poll found. Britain's central bank became last month the first major rate-setter to increase interest rates since the coronavirus pandemic began, surprising markets and many economists who had expected a delay.

The central bank said at the time it had to act, even as the Omicron variant swept Britain, because it saw warning signs in underlying inflation pressures.

Inflation, reported on Wednesday at a near 30-year high in December, will peak next quarter before starting to decline in the third quarter and won't reach the BoE's 2% target until the second quarter of next year, the poll found.

Canadian Investors Shatter Records by Putting \$115 Billion in Foreign Securities

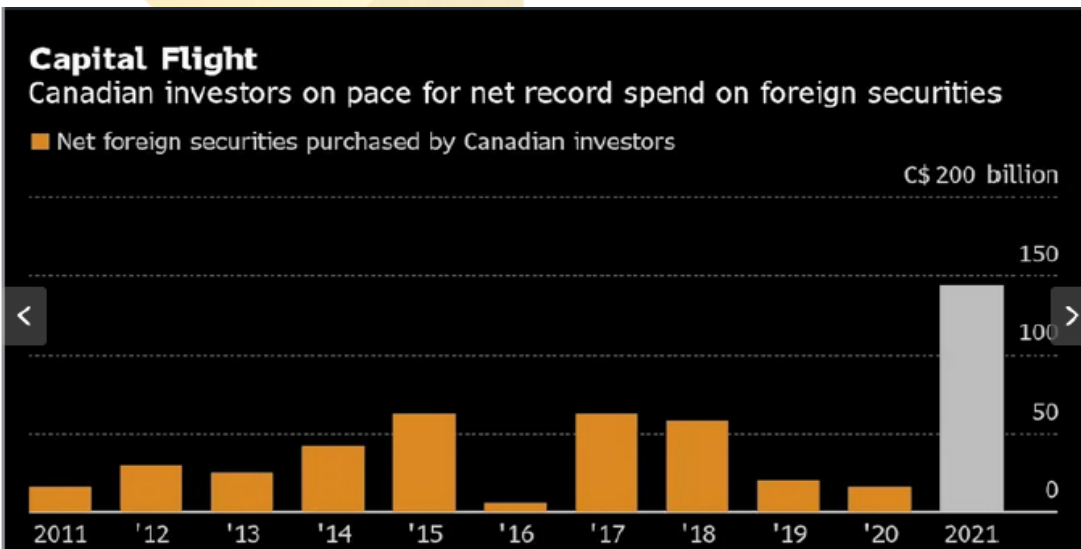


Figure 2: The above chart shows net foreign securities purchase by Canadian investors

Net purchases of overseas securities by locals soared to C\$144.4 billion (\$115.4 billion) in the first 11 months of 2021 -- shattering a previous record of C\$73.3 billion set in 2006, the bank said, citing Statistics Canada. Canadians spent a record C\$81.8 billion on U.S. securities.

National Bank previously raised concern about Canadian capital flight in a Nov. 2021 report entitled "Canada's can't afford to bleed capital like this," which said sustained lower investment in mining, quarrying and oil extraction explained the decline. The bank points to U.S. information technology companies as being net beneficiaries of Canadian investment outflows .

MAJOR MOVES THIS WEEK

Currencies

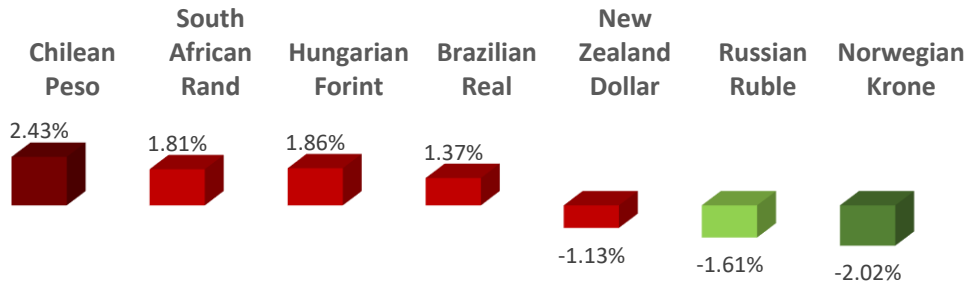


Figure 3: The graph represents Currency returns with respect to US Dollar as the base currency for this week.

This week we have seen mix performance in the global currencies. Euro, British pound fallen against the Dollar this week. Exotic currency pair we have seen strength like South African Rand & Real as well as Chilean Peso. Most of the European currencies down this week against dollar as euro weakened. EURCAD closed at its 52-week low level.

Equity Indices

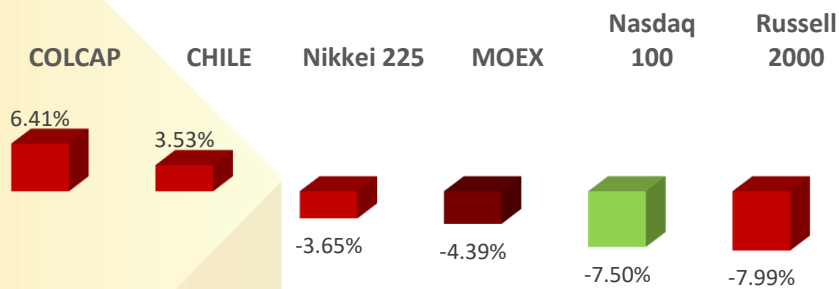


Figure 4: The chart represents the Equity Index returns over this week.

This week we have seen strong downside move in US equities & NASDAQ 100 given its worst weekly performance post March 2020. MSCI AC which represent global equity also fallen 4% this week. European key main index also slipped lower around 2% points. Only two economies in LATAM we have seen positive move in their equities, rest we have observed risk off sentiment in global equities.

Commodity Futures

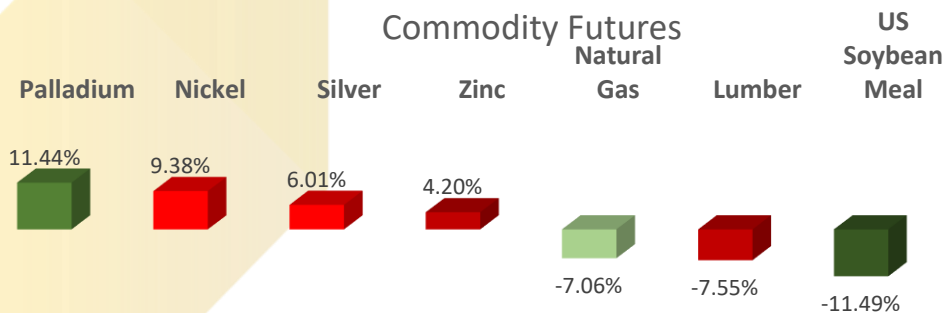


Figure 5: The chart represents the Commodity returns over the week.

Commodities have shown a strong performance during the week. We have seen strength in industrial metals. Crude and Natural Gas weekend latter half of this week Gold, Silver and other precious metals appreciated. We have seen mixed performance in agricultural commodities. Silver outperformed more than 5% against gold this week. Nickel, Zinc closed its 52 week high this week.

GLOBAL FUND MANAGERS' STATEMENTS

Johan Grahn (Head of ETF Strategy at Allianz): The rotation to value from growth stocks has staying power as the sector can count on a powerful ally: A Federal Reserve desperate to rein in inflation. Unlike previous rotations to value, which just last year proved to be fleeting, the current rotation has staying power as the Fed's "narrative has changed dramatically,". In the space of a few months, the Fed has moved on from "not even thinking about thinking about raising rates," ditched "transitory" from its inflation vocabulary, and laid out the red carpet for policy normalization.

"Last year, the Fed was talking about potentially taking a little action in 2022, but it was really thinking about only doing something in 2023. But now the Fed is signalling that we're going to do everything we can as soon as we can," Grahn added.

"The rotation into value is more likely to stick around than it was last year, based on what the Fed is signalling and what we're seeing in the bond market," he added.

Ray Dalio (Founder of Bridgewater Associates): HE warned against transitioning away from fossil fuels too rapidly and said that cutting off the supply of finance to the industry would have a destabilizing effect as inflation soars. "Thank God for the oil producers" because they are providing reliable supply, Dalio said Monday on a panel at the Abu Dhabi Sustainability Week summit.

Dalio is adding his voice to a chorus urging vigilance in how the world transitions toward greening the economy and the impact it could have on everything from the cost of fuel to food. But the urgency of the climate crisis is growing, laying bare the need to slash emissions amid concern that governments won't do enough. Ten of last year's most destructive weather events cost a combined \$170 billion in damages, according to a study.

Paul Jackson (Invesco's global head of asset allocation): Paul Jackson said that the mass marketing of Bitcoin reminds us of the activity of stockbrokers in the run-up to the 1929 crash – the American stock market crash.

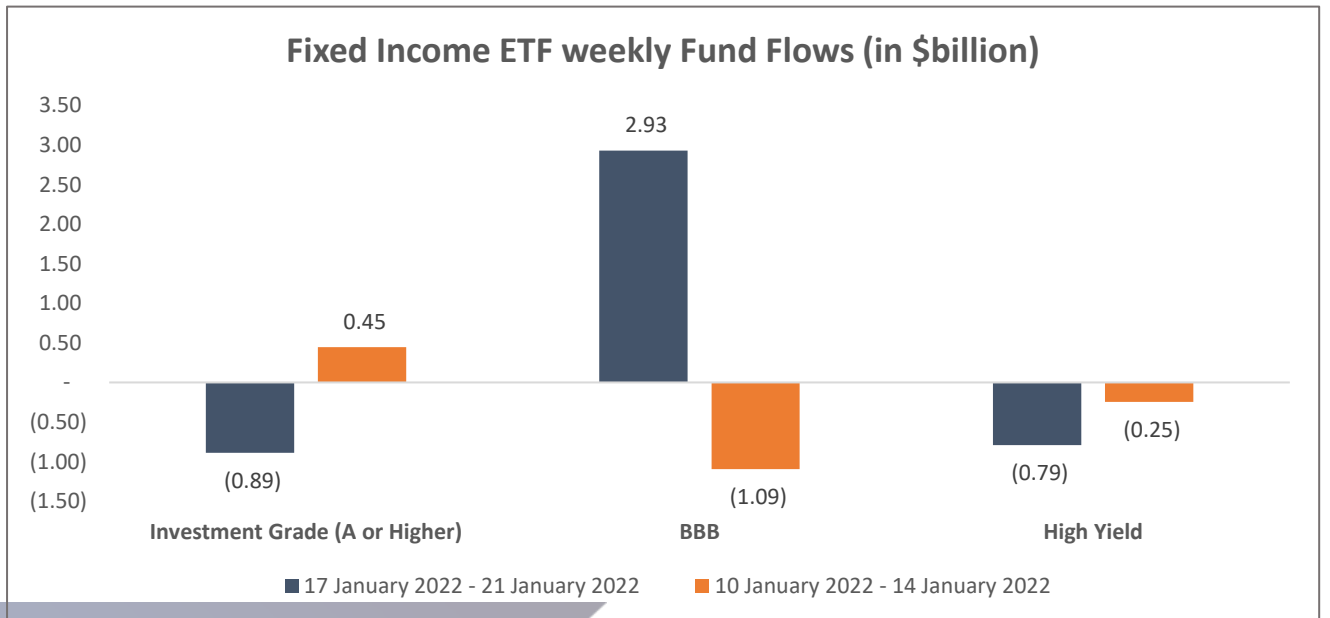
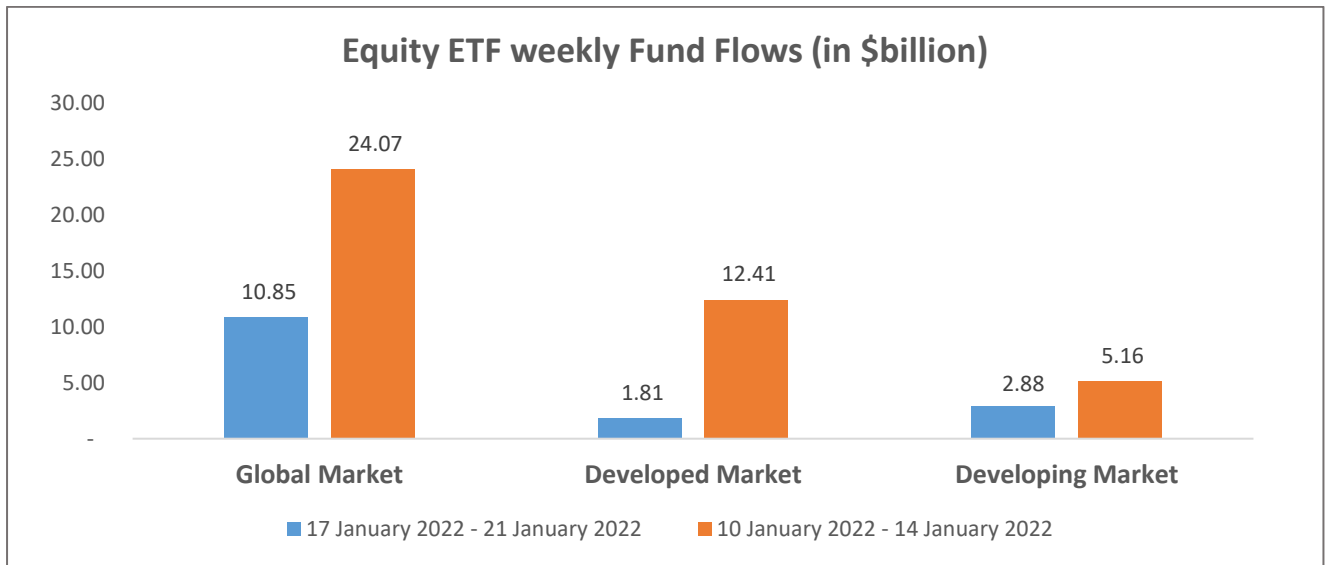
"We know how that ended and Bitcoin has already fallen to around \$42,000 (as of 7 January 2022), following closely the downward path of our mania template. That template suggests a loss of 45 per cent is experienced in the 12 months after the peak of a typical financial mania," said Jackson. If that pattern is followed (assuming the price has already peaked), the price of Bitcoin would fall to \$34,000-\$37,000 by the end of October, depending upon whether the daily or monthly data is used to define the peak, he added.

Roy Niederhoffer (R. G. Niederhoffer Capital Management): I believe the edge case downside is [that] inflation is so powerful and the Fed can't do anything about it, because they can't [raise interest rates] above 3%, 4%, because the government can't fund itself at those levels. The stock market crashes, whatever it is, something happens, and it causes money printing to be the only solution. Inflation is the only thing that can solve the funding problem the government has and in that situation, if you've got any sort of cash asset, it's going to be devalued not 30% or 50% like a stock market crash but 90%, 95%, 99% or more," he said.

Niederhoffer's fund has beaten both of the last two stock market crashes: the Dot Com bust of 2001 and the Great Financial Crisis of 2008, with his fund having rallied double digits in both scenarios while the markets tanked.

Although unlikely to happen, this "edge case" is still something that investors need to be prepared for, Niederhoffer said, noting several assets that could hedge against this worst-case scenario.

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

Global equities had a disastrous week, and the bear rally was completely led by US stocks. We believe that the global equities' bubble is in the process of getting deflated. Over the next 3 years we expect global equities to go down by 60-70%. We see huge falls in all risk assets over this time. The losses in private equity space will be much more pronounced than the public equity space. We remain very bullish on US 30-year govt bonds and see the 30 year yields coming down to less than 1% in the next couple of years. We believe gold will go up by 400-500% over the next 5 years. We remain extremely bearish on crypto currencies with expected losses of more than 90% over the next 3 years from their November 2021 peak.

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