Weekly Report and Outlook on Global Markets

11th Feb 2022

MARKET DEVELOPMENTS

U.S. dividend funds receive huge inflows as investors switch out of bonds

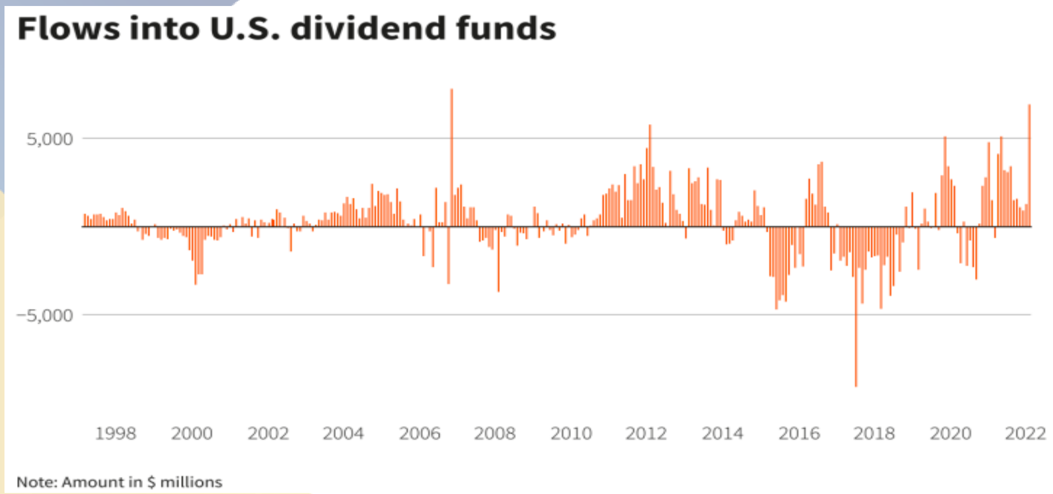


Figure 1:The above chart shows flows into U.S. dividend funds

U.S. investors are snapping up funds that invest in dividend-paying stocks as they search for stable income from alternatives to bond markets, which are being roiled by the prospect of rate rises. Investors bought $6.9 billion in U.S. dividend funds in January, the highest net purchases since October 2006. The Schwab US Dividend Equity ETF and SPDR S&P Dividend (NYSE:SDY) ETF led inflows, receiving about $1.7 billion each last month, while First Trust Rising Dividend Achievers ETF obtained $1 billion.

BOJ Acts to Bring Down Bond Yields as It Holds to Dovish Policy

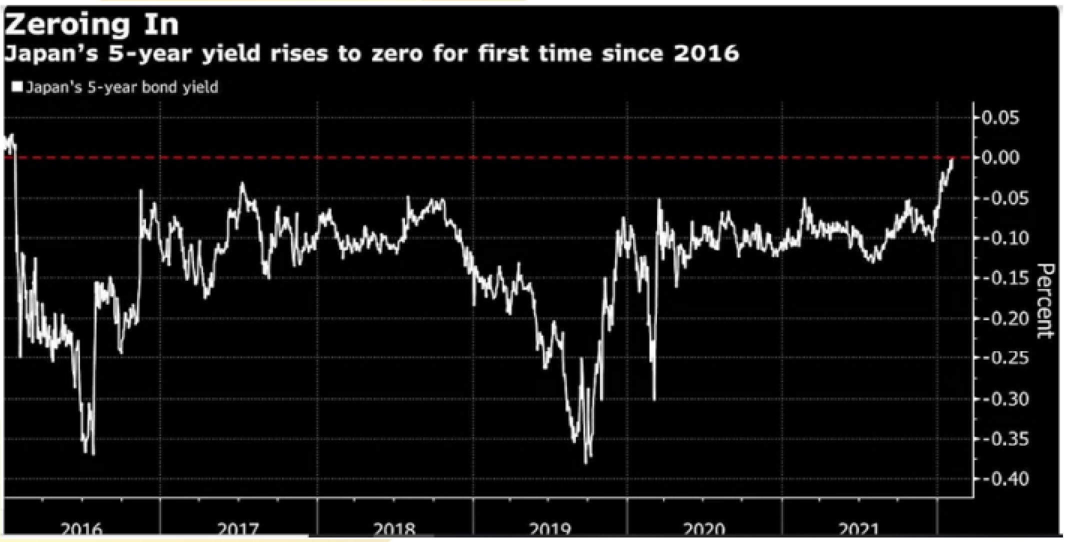


Figure 2: The above chart shows performance of Japan's 5-year bond yield

The central bank will buy 10-year bonds at 0.25% on Feb. 14. This is the first such operation since July 2018 as yields creep closer to its tolerated level under its yield curve control policy. Policy normalization bets have gathered pace in recent months as soaring inflation spurs global central banks to unwind pandemic-era stimulus and raise rates. The BOJ is trying to restore the credibility of its YCC policy framework which has come under pressure recently following the Treasuries selloff on the back of surging global inflation. The BOJ is clearly not worried about runaway inflation in Japan and instead seems totry to maintain favorable financial conditions.

. # MAJOR MOVES THIS WEEK

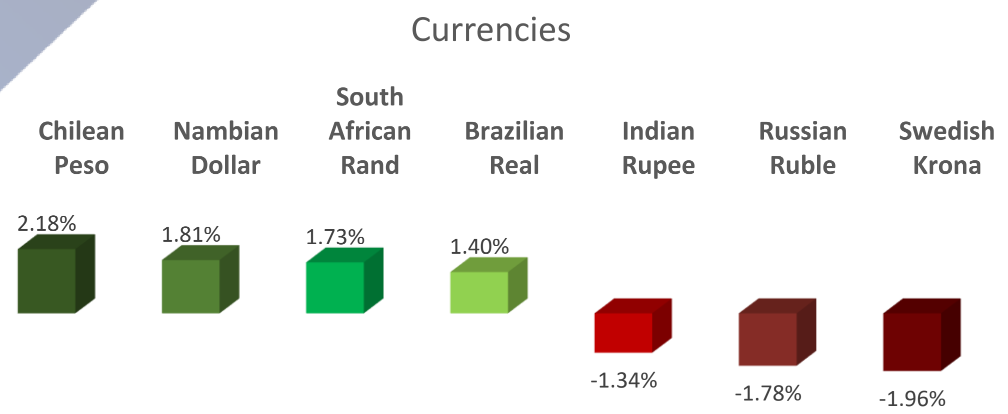


Figure 3: The graph represents Currency returns with respect to US Dollar as the base currency for this week.

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

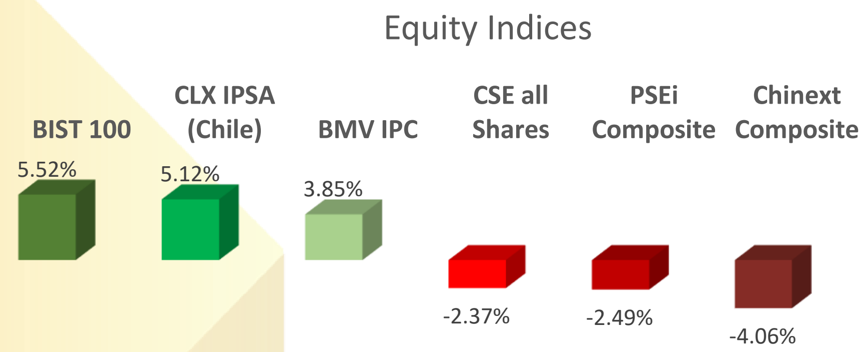


Figure 4: The chart represents the Equity Index returns over this week.

This week we have strong performance in the global equities markets. European equities have performed strongly. Developing markets have performed strong. Nasdaq 100 and S&P 500 have shown sharp moves during the week, it depreciated during the last trading session and closed sharply lower for the week.

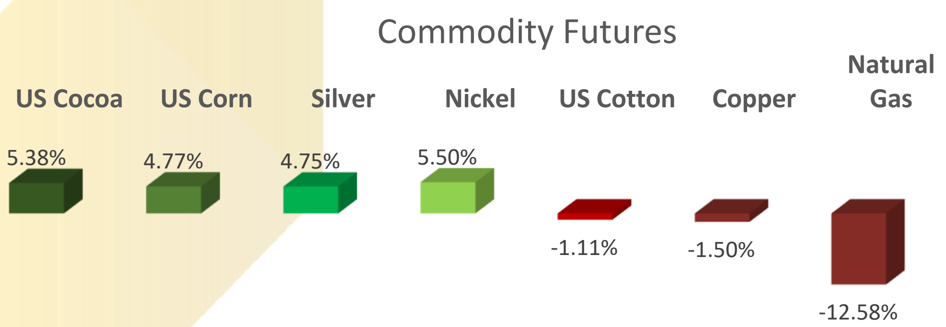


Figure 5: The chart represents the Commodity returns over the week.

Commodities have shown a strong performance during the week. We have seen strength in industrial metals. Crude extended gains during the week while Natural gas depreciated. Gold and Silver appreciated during the week. We have seen strong performance in the agricultural commodities.

GLOBAL FUND MANAGERS' STATEMENTS

Jeffrey Gundlach (DoubleLine Capital CEO): "Federal Reserve is failing in its battle against a spike of inflation, and the central bank is likely to accelerate its rate hikes this year.

"One thing we can all agree on is inflation just continues to surprise on the upside. The Fed is obviously behind the curve. ... It's going to have to raise rates more than the market still thinks,". "My suspicion is they are going to keep raising rates until something breaks, which always happens." Gundlach said he's doubtful that the red-hot inflation will decelerate as much as the central bankers are expecting due in part to extended supply chain challenges.

"I do expect [inflation] to come down, but I think it's going to be disappointing, the pace and the degree to which it's going to come down," Gundlach said. "We think inflation is very likely to print at least 5% for 2022.

Ian Patrick (Chief investment officer, Sunsuper Pty.'s, Australia's second-biggest pension pot): He is arming his fund for the long haul by scouting for bargains in the U.K. and Europe.Shares there are cheaper compared to U.S peers and "classic signals" are not pointing to an imminent recession or financial crisis in the region. Markets were lulled into a false sense of what the "new normal" looked like last year "and this is a bit of a return to reality," he said. Patrick reckons European and U.K. stocks have been weighed down by weaker fundamentals and capital flight to big tech firms, making their valuations more attractive than for U.S. peers.

They've also been hit by negative sentiment fueled by demographics, structural economic issues and geopolitical tussles, he said. Sunsuper's equity bets are currently tilted toward durables and materials over tech.

Chris Wood (GREED & fear): "Turning to things outside the US, GREED & fear remains firmly of the view that an externally driven correction in India creates a buying opportunity, said Jefferies' Chris Wood in a note, who sees India's benchmark BSE Sensex to hit 100,000 on a five-year view i.e., by late 2026. "If the current housing upturn proves to be the lead indicator of a broader private sector Capex cycle, then India should once again become one of the best-performing stock market in Asia," the Greed & fear note stated. This, therefore, raises the issue of how much the stock market can rise in coming years. GREED & fear signaled that a target of a Sensex at 100,000 is now eminently achievable on a five-year view assuming a trend 15% EPS growth and that a five-year average multiple of 19.4x is maintained.

Though, there are obvious risks of further corrections in India, the note highlighted. "The two main risks to Indian equities are external. This is the Fed tightening cycle and a further spike in the oil price."

One of the reasons cited by Wood for stability is that India has higher foreign exchange reserves than in the past with foreign reserves currently at $634 billion which is equivalent to 13 months of imports, which is important because the accelerating growth dynamic means that the current account deficit is rising rapidly as non-oil and non-gold imports have been growing rapidly.

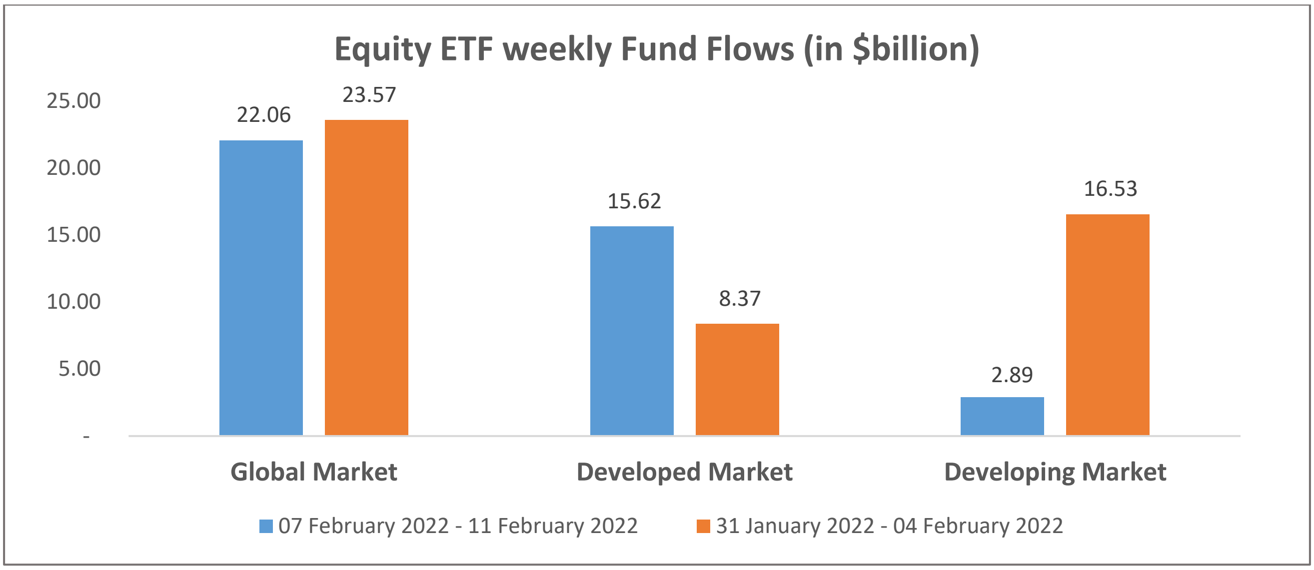
Jeff Currie (Head of commodities research, Goldman Sachs Group Inc): "I've been doing this 30 years and I've never seen markets like this," Currie said "This is a molecule crisis. We're out of everything, I don't care if it's oil, gas, coal, copper, aluminum, you name it we're out of it."

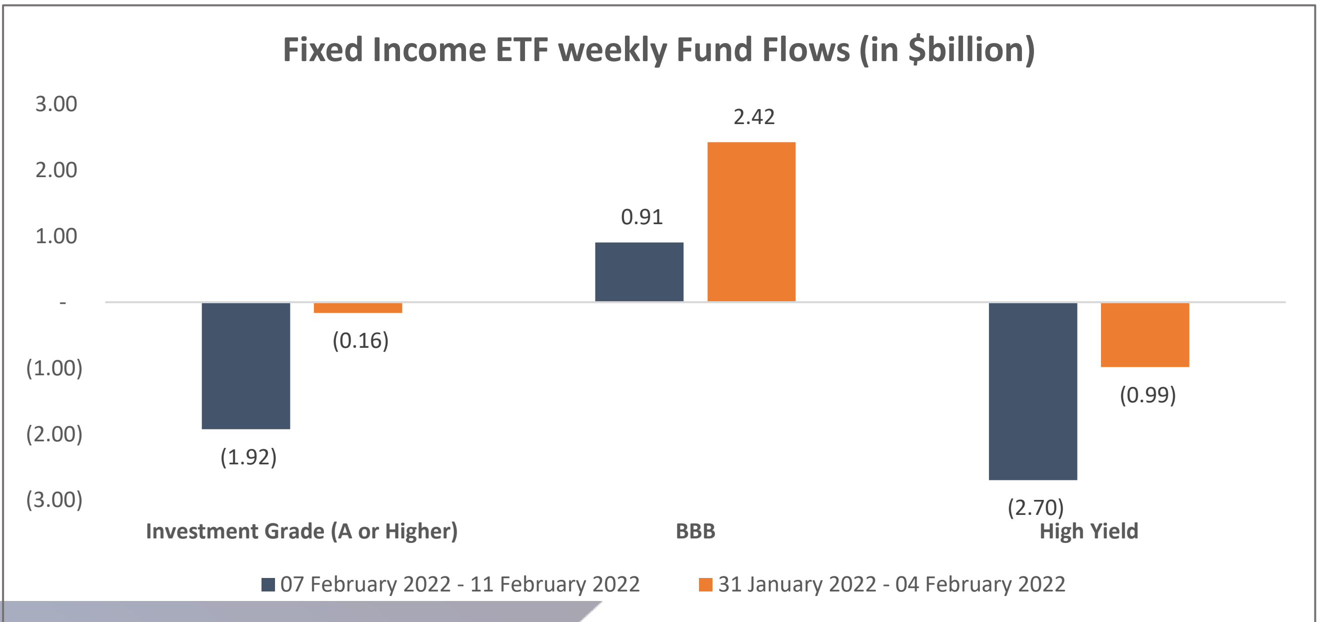
Futures curves in several markets are trading in super-backwardation -- a structure that indicates traders are paying bumper premiums for immediate supply. The downward sloping shape in prices is generally taken to mean commodities are severely undersupplied.

David Kostin(Goldman Sachs Group): Tightening financial conditions, slowing economic growth and a flattening Treasury yield curve are all likely to "pressure" returns from the Russell 2000 index relative to the S&P 500 gauge, a team led by David Kostin wrote in a note, citing in part forecasts from Goldman's economists.

The economic-recovery path "helps explain Russell 2000 returns during the past two years and suggests the index will continue to lag in 2022," he said.

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 resumed their downtrend last week with Nasdaq 100 getting hit particularly hard while many of the EM equity indices managed a positive close. We believe that equities have started another wave of downtrend which should continue over the next few weeks and make a new Ytd bottom before March end. We expect equity markets to experience these alternate waves of buying and selling for the rest of the year while broadly being directionally down for the next 2-3 years. We believe industrial commodities are very close to their highs and will also get deflated over the next couple of years. We believe gold has broken out of its range and has started its long-term uptrend that will take it to about $7500 per Troy ounce over the next 5 years. We continue to be bullish on US 30-year Treasuries for the next two years.

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