Weekly Report and Outlook on Global Markets

18th Feb 2022

Emerging Asia's Central Banks Are Running Out of Room to Wait

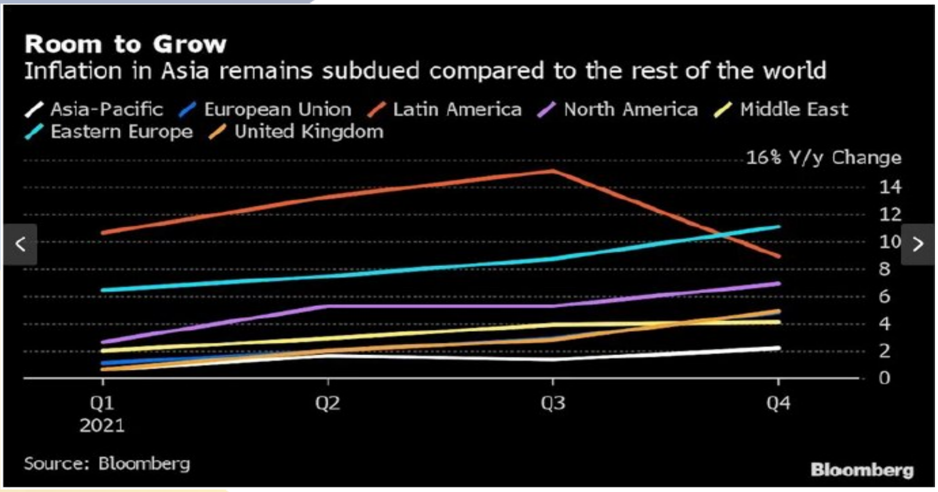

Figure 1:The above chart shows inflation Y/y % change of various economies

Emerging Asia's central banks have enjoyed room to pause on monetary policy and focus on supporting growth, but pressure to shift course may be building as their global counterparts turn more hawkish and if inflationary pressures build at home.India, Indonesia and Thailand kept their benchmark interest rates at record lows last week, and the Philippines also stood pat Thursday, as they navigate tentative economic recoveries amid continued virus outbreaks.

But a more aggressive U.S. tightening cycle and oil's rise toward the highest since 2014 could change the thinking of the region's policy makers, most of whom have indicated plans to stay accommodative for as long as needed to get their economies on firmer footing. A shift, which some markets are pricing in as sooner than earlier expected, could mean tighter financing conditions and higher borrowing costs.

"Monetary authorities may prefer to wait and see until their economic recovery continues through the first half of 2022,".

These Bonds Risk Crashing If Central Banks Hike Rates

Figure 2: The above chart shows total returns in rate cycles since 2008 of key Asian economies

The bonds are the most vulnerable in the region to any liftoff in rates, according to a Bloomberg analysis of data going back to 2005. They tend to do worse in the three months before and after the start of a rate hike cycle compared to peers, as Bank Indonesia usually raises rates at a quicker pace than other central banks.

Policymakers have been priming the market for an exit from pandemic-era support by siphoning off liquidity, while pointing to the need to respond to the Federal Reserve's intent to hike from March. BI has a recent history of acting boldly to fend off capital outflows, raising rates by 175 basis points in 2018.

MAJOR MOVES THIS WEEK

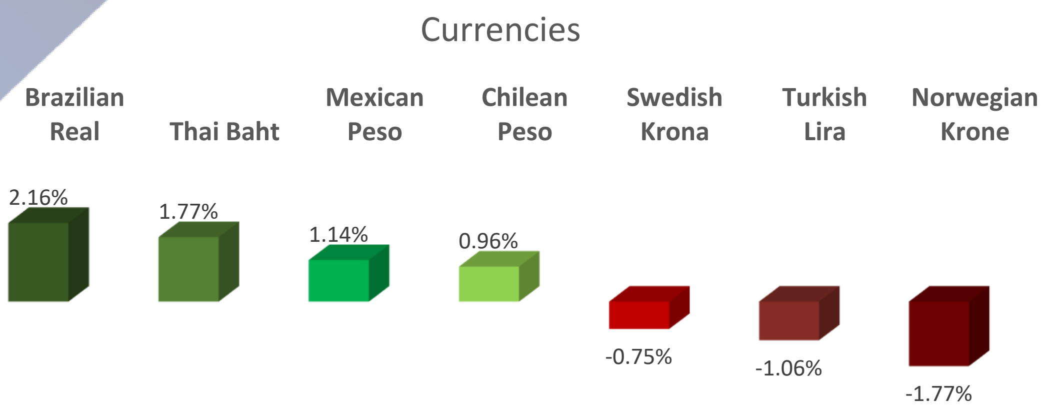

Figure 3: The graph represents Currency returns with respect to US Dollar as the base currency for this week.

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

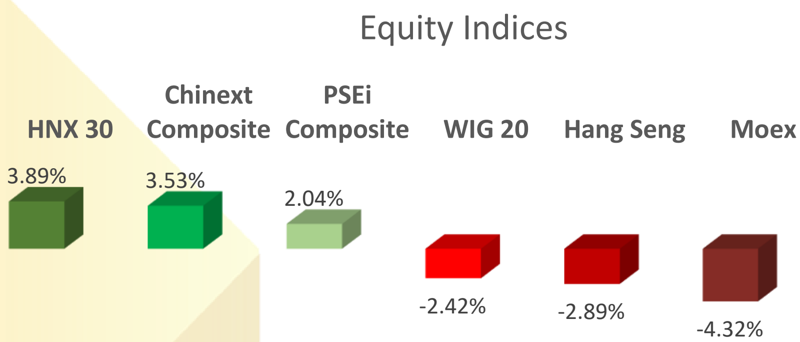

Figure 4: The chart represents the Equity Index returns over this week.

This week we have seen weakness in the global equities markets. European equities have performed weak, Euro Stoxx 600 lost ground during the week. Nasdaq 100 and S&P 500 have shown sharp moves during the week and closed in the negative.

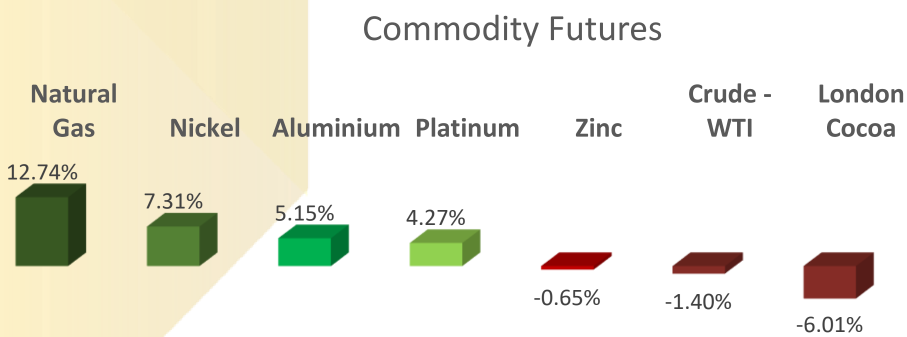

Figure 5: The chart represents the Commodity returns over the week.

Commodities have shown a mixed performance during the week. We have seen strength in industrial metals. Crude lost some ground while Natural gas appreciated. Gold and Silver appreciated during the week. We have seen weakness in agricultural commodities.

GLOBAL FUND MANAGERS’ STATEMENTS

Mark Mobius (Founder of Mobius Capital Partners): Mark Mobius said on February 15 that there is a possibility of another 10 percent correction in Indian equities. “We can probably see another 10 percent correction, but we are still in a long-term bull market,”.

The comments come in the backdrop of a more than a 7 percent drawdown in the domestic benchmarks from their record highs hit in October 2021.Mobius, the founder of Mobius Capital Partners, said that he remains invested in Indian equities given that the country’s growth prospects are good. The government expects India’s GDP to grow by 8-8.5 percent in 2022-23, while the Reserve Bank of India has pegged the growth at 7.8 percent for the next fiscal year. Mobius also suggested that the incessant selling by foreign investors is being driven by exchange-traded funds that track emerging market stocks. Mobius termed the ongoing tensions in Eastern Europe between Russia and Ukraine as a sideshow to the bigger concern of interest rate hikes by the Fed.

Media reports suggested that Russia has begun to pull troops back from the Ukraine border after some military drills.“We are climbing a wall of worry in the market,” Mobius said, as he advised investors to stick to companies with strong earnings prospects.

Jeffrey Gundlach (Chief of DoubleLine Capital): So how high can the 10-year Treasury go? How about 3%? That’s what the Bond King sees as possible.

For sure, says Jeffrey Gundlach, chief of DoubleLine Capital, the benchmark 10-year note will hit 2.5% this year. It briefly rose above 2% on Thursday, and finished the week at 1.94%.“The 10-year will probably make a move toward 2.5%,”.“It’s possible the 10-year takes a peek at 3% this year. I’d be a little bit surprised if it does make it all the way to 3%.”The last time it breached 3% was in 2018, the end of the Federal Reserve’s last rate-hiking cycle. In mid-2020, amid the pandemic’s onset, it dipped as low as 0.5%.Gundlach also said he expects the Fed will raise short-term rates five times in 2022, even though he has sighted some “recessionary indicators.” “The probability of weaker economic activity later this year is pretty high,” he warned.

One recession signal he foresees is an inverted yield curve. The spread between the two-year and 10-year Treasurys has narrowed a lot, to 0.42 percentage point. That’s half of what it was at the start of the year. If the curve does invert—that’s when short-term rates are higher than long-term ones—it’s typically a sign of an impending recession.

Leigh Goehring (Managing partner,Goehring & Rozencwajg Associates): Surging energy prices spilling over into broader markets and triggering inflationary psychology is one of the Federal Reserve's worst-case scenarios. But that is exactly what could trigger the next bull run in gold. The oil market is looking tighter and tighter, which can be a precursor to a much bigger boom in agriculture and gold prices due to the onset of inflationary psychology.

"Demand is running much higher in the oil market than people thought, and supply will be much less than projected. In the fourth quarter of this year, we might end up in a situation where demand could very well surpass total pumping capability. The reason why it's important is that we've never been there before. Even if we go back to the great oil crisis in the 1970s, we never even got close to global pumping capability. However, we are very close today," Goehring warned.

Already high oil prices could get even worse as the fourth quarter approaches, Goehring added, pointing to the seasonality trends of the market.

Michael Arone (Chief Investment Strategist, State Street Global Advisors US SPDR): First thing investors should do is blend quality and value in the core of their equity portfolios. So here's the thing Brian, in the early days of the stock market recovery during the pandemic, companies that didn't earn any money did just fine, I think it was indiscriminate buying.

But interestingly enough, since May of 2021, companies that earn a profit have outperformed those that don't. And in fact, over the last three months, companies with healthier balance sheets, more stable earnings and dividends have outperformed the market by 6.5%.

And on the value side, we expect as the economy recovers, rates and inflation drift higher, those value stocks will continue to do well in 2022. If we can just get past the surge, which I expect sometime in the first quarter, we think value is a good place to be as well.

PACE 360’S FUTURE OUTLOOK

Global equities had a down week yet again. While deflation of the massive bubble in risk assets is a multiyear phenomenon and risk assets have a long downward journey ahead of them, on a very short-term basis we may be getting over sold. We believe there could be a near term rally especially if the Ukraine situation gets resolved. That could provide yet another opportunity to go short. We believe long term bond yields in US have peaked out. We expect gold to become sideways for the near term even though it's looking hugely bullish for the next few years. We expect industrial commodities to remain sideways in the near term.

CONTACT US

+91-11-4742 1001

info@pace360.in

A-1/291, Safdarjung Enclave, New Delhi – 110029

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