PACE360

Weekly Report and Outlook on Global Markets

25th Mar 2022

The Case for Green Energy Is Made Clearer by War

Figure 1:The above chart shows the YTD performance of Stoxx Europe 600 Index and European Renewable Energy Index

Russia's invasion of Ukraine almost a month ago marked a turning of the tide for renewable energy stocks. Out of favor for more than a year amid high valuations and some big earnings misses, the sector has seen a resurgence since the conflict started and is headed for its best quarter since 2020 as European nations strive to reduce their dependence on Russian energy. On Feb. 24, the day Vladimir Putin invaded, the European Renewable Energy Index overtook the performance of the Stoxx 600 for the year to date and hasn't looked back since. It's up 21% in the past month.

Japan bond volatility rises to highest since August 2020

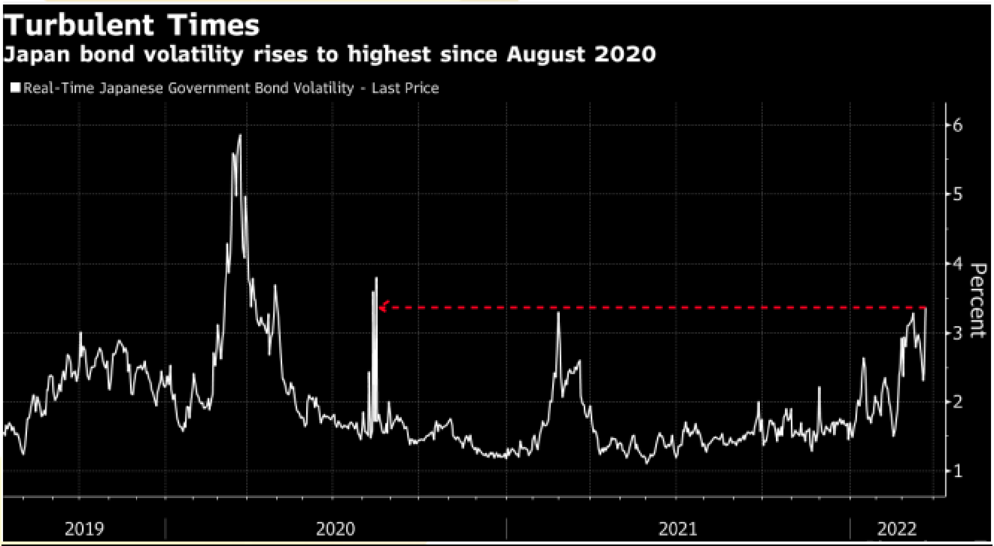


Figure 2: The above chart shows volatility in Japanese Govt Bond

The global selloff in bonds is bringing turbulence to what is normally one of the most sedate corners of the international financial market: Japanese debt. The implied volatility of Japanese government securities jumped to the highest level since August 2020 this week as an increasingly hawkish Federal Reserve pushes up yields around the world. The lack of local investors in the market ahead of Japan's fiscal year-end on March 31 is helping to magnify the recent bond volatility.

MAJOR MOVES THIS WEEK

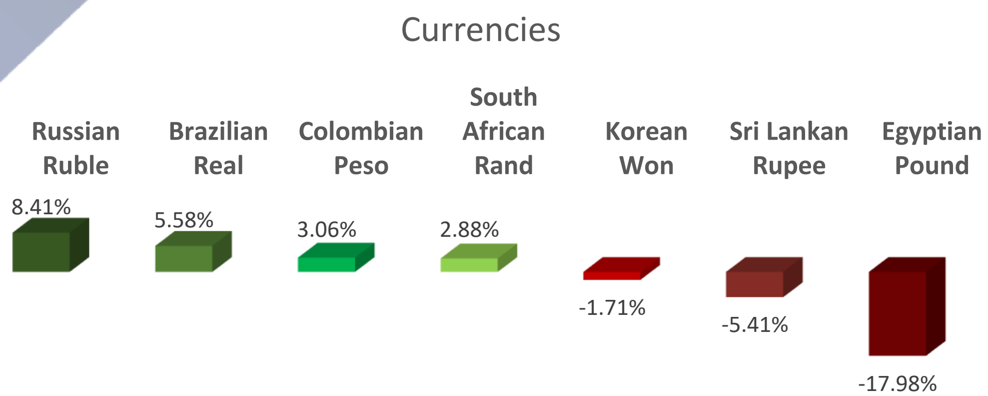


Figure 3: The graph represents Currency returns with respect to US Dollar as the base currency for this week.

This week we have seen weak performance in the global currencies. Euro and Yen depreciated against the Dollar this week. Emerging market currencies have given a mixed performance against the dollar.

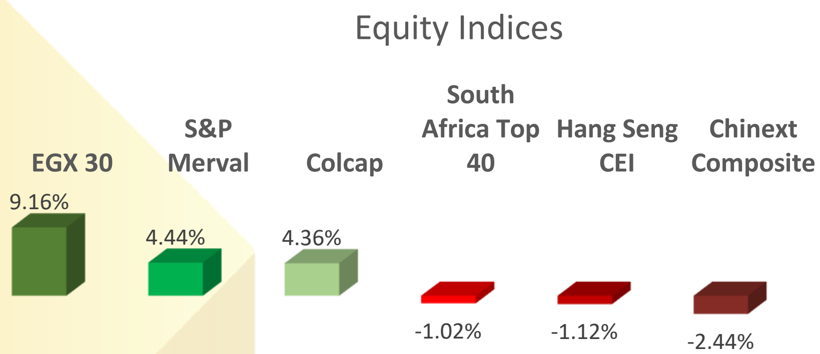


Figure 4: The chart represents the Equity Index returns over this week.

This week we have seen volatility in the global equities markets. European equities have performed mixed, Euro Stoxx 600 was a marginal looser during the week. Emerging market equity indices appreciated. Nasdaq 100 and S&P 500 have shown sharp moves during the week and closed positively for the week.

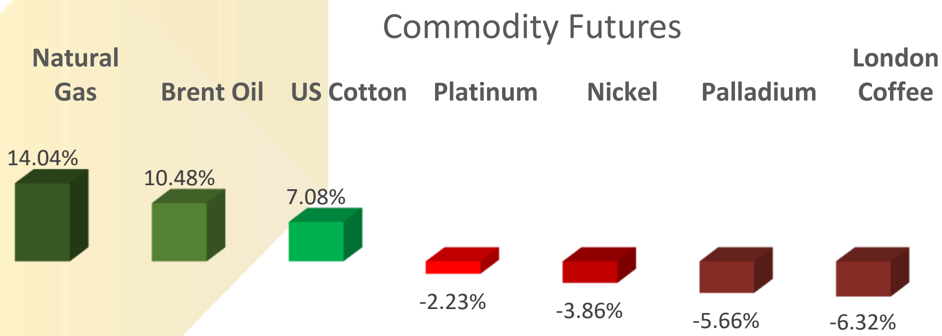


Figure 5: The chart represents the Commodity returns over the week.

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

GLOBAL FUND MANAGERS' STATEMENTS

Ron Pau (Former Texas Congressman and host of The Liberty Report): "We shouldn't ever have been in there if we would have had a constitutional non-interventionist foreign policy. Dr. Paul believes that the U.S. should not be sending aid nor military assistance in any form to Ukraine.

He noted that although American troops are not officially on the ground in the warzone, the U.S. has been offering indirect military support already to Ukraine. "We essentially do it, but we hide it. We send the advisors…the Ukrainians have a lot of our weapons. $800 billion is American money going into that battle, so we're very, very much involved. I think that one of the most important events leading up to the crisis that we have now is the coup that we had in 2014, and the evidence is overwhelming that we participated in this coup in order to get rid of a leader that was somewhat fair and balanced in treating Russia," he said.

Paul stated that the U.S. does not actually have a moral responsibility to be involved in another country's war, even in light of civilian casualties. "There's nothing in the constitution that says that arbitrarily, we can get involved in foreign conflicts without a declaration of war and at times use a draft to send kids over there, or all the time take money from you, and if you don't have enough money in your bank account you can tax, they will just print the money and give us this economic system that we have," he said, adding that "we don't have the money. That's one thing. But, I don't think we have the moral authority to do it too. This whole of idea of giving more money and guns to the Ukrainians is a morally correct position…I think minding our own business is a morally correct position, with the right of individuals who can voluntarily participate in whatever they want to do."On the likely progression of the war, Paul said that it's possible that the situation could escalate further.

Andrew Holland (Avendus Capital): It has been a topsy-turvy road for the markets over the past few weeks as they grappled with multiple headwinds.

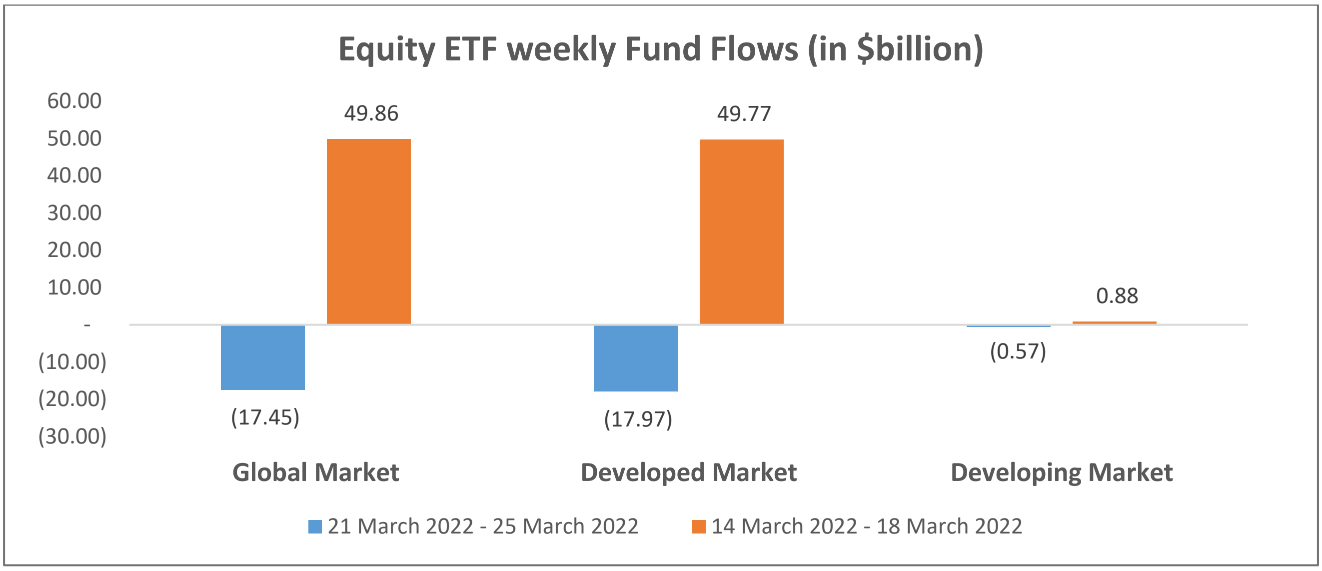
The market remains divided about the outlook for interest rates and tightening. On one hand, there are still forecasts for 5-7 interest rate hikes (by the US Fed) over the next year, and on the other, any tightening will lead to a possible downturn in the global economy, which can lead to a possible recession and as a result global central banks will quickly move back to easing interest rate hikes. The main worry for the markets remains a policy misstep by central banks in not tackling inflation or being too aggressive, leading to a sharp economic slowdown.

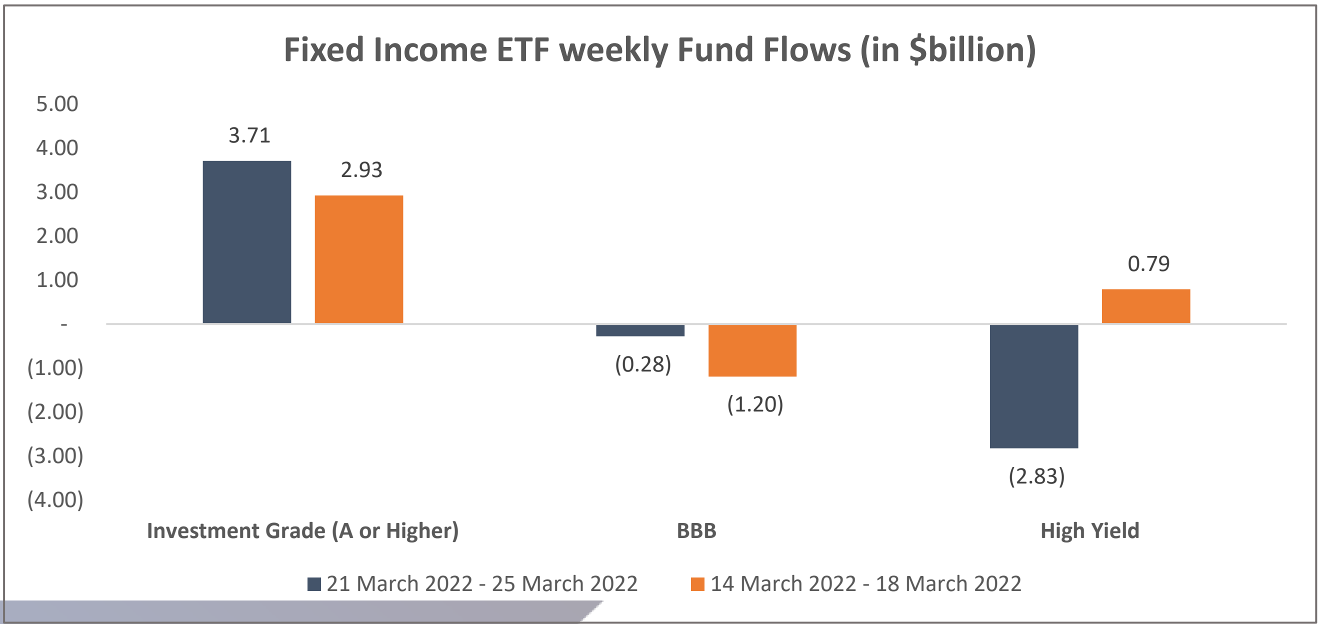
Before the Ukraine-Russia conflict, we were expecting a very volatile first half of 2022 as the markets grappled with interest rates rising around the world, and especially the US Federal Reserve (US Fed) reducing its bloated balance sheet. The likely unintended consequences of this tightening had, in our view, not been factored in by the markets. One just has to look at what happened in China when it tightened last year – the property market virtually collapsed with many well-known construction companies facing liquidity issues.

Michael Gayed, (Toroso Investments): "I don't think most people have any clue how bad grocery prices could end up getting. Keep in mind when we're talking about wheat, soybeans, and various crops, you're talking about supply from the last growing season, which was last year. We actually don't know what the real supply is going to look like, even though prices have already skyrocketed on the old supply," Gayed told David Lin, anchor for Kitco News. "Let's say Russia-Ukraine ends up worsening, let's say you have nationalization of resources and you end up have more countries like we've been seeing saying they're going to ban exports of wheat and other key food commodities, and then let's say you have a bad weather scenario, you could have a massive, massive supply shock."

In such a scenario, food prices would skyrocket and people would be forced to "tighten their belt," he said.People in the emerging markets will likely suffer the most, Gayed added.

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

The global equities had yet another positive week though the breadth weakened compared to the last week. We believe that the global equities would now become sideways and do not have much upsides left in them. We believe that US long term Treasuries are a great buy at current levels. We are also turning bullish on Japanese Yen at the current levels which are at multi-year lows. We expect gold to remain in a range of 1850-2000 for the next few months. We expect Brent crude to come down below 100 dollars over the next six months.

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CONTACT US

+91-11-4742 1001

info@pace360.in

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

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