Weekly Report and Outlook on Global Markets

22nd April 2022

Record selloff in European corporate bond market

Figure 1: The above chart shows drawdown in Bloomberg Euro Aggregate Corporate Total Return Index

The European corporate bond market's ongoing selloff has reached historic proportions, with high-grade bonds losing a record 8.6% in total return terms since their August peak. This is now a worse downturn than the lows reached during the early coronavirus turmoil and the global financial crisis. Investors are reeling from tighter monetary policy as central banks tackle inflation, Russia's invasion of Ukraine and concerns about an economic slowdown.

French equities are trading at biggest discount to peers since 2011

Figure 2: The above is the ratio chart of CAC-40 index forward P/E to Stoxx Europe 600

French equities look relatively cheap compared with European stocks in general. Having traded at a 5% premium in December 2020 based on forward P/E ratios, the CAC is now at a discount of about 10%, the most since 2011, in the middle of the sovereign debt crisis.

MAJOR MOVES THIS WEEK

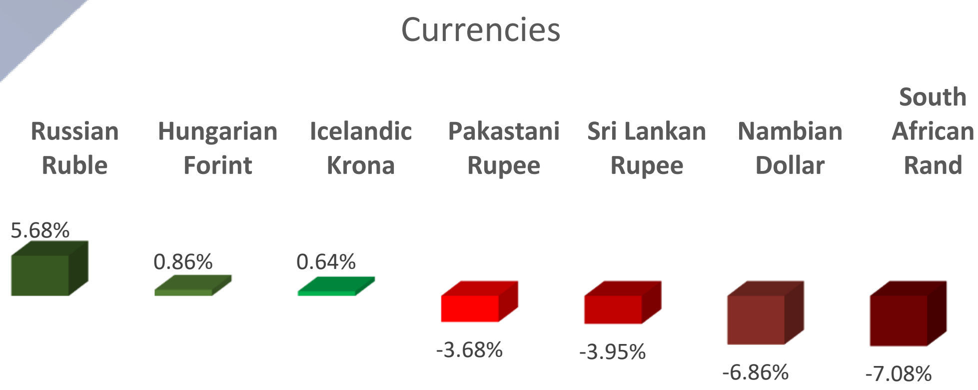


Figure 3: The graph represents Currency returns with respect to US Dollar as the base currency for this week.

This week we have seen very weak performance in the global currencies. Euro, British pound, and Yen all depreciated against the Dollar this week. Emerging market currencies have given very weak performance against the dollar.

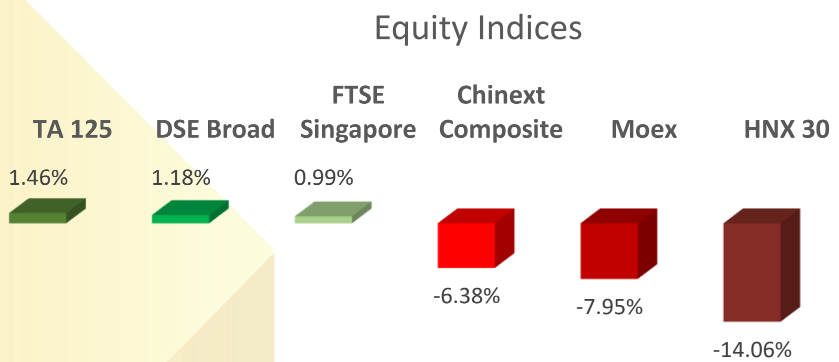


Figure 4: The chart represents the Equity Index returns over this week.

This week we have seen weakness in the global equities markets. European equities have performed weakly, Euro Stoxx 600 was a looser during the week. Emerging market equity indices depreciated. Nasdaq 100 and S&P 500 have shown sharp moves during the week and closed negatively for the entire week.

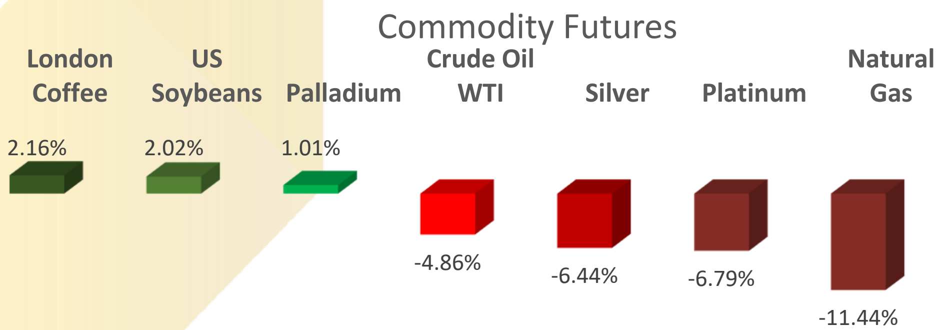


Figure 5: The chart represents the Commodity returns over the week.

Commodities have shown a weak performance during the week. We have seen weakness in industrial metals. Crude and Natural have lost some previous gains during the week. Gold and Silver have shown sharp moves during the week and depreciated for the week. We have seen weak and volatile performance in agricultural commodities.

GLOBAL FUND MANAGERS' STATEMENTS

Gargi Chaudhuri (Head of iShares Investment Strategy, Americas, at BlackRock): A U.S. recession is not imminent despite the inversion of a part of the U.S. Treasury yield curve which has been "artificially pressured" by some investors, BlackRock Inc (BLK.N), the world's largest asset manager. The closely watched gap between two-year and 10-year yields, whose inversion has preceded past recessions, turned negative last week, fueling a debate on whether the signal presages a downturn this time around.

"We do not see a recession occurring in the near-term,. "While we are hesitant to say that this time is different, we note that many factors now differ from previous yield curve inversions," she wrote.

Longer-dated yields had been pushed artificially low by investors such as pension funds with improved funding status, contributing to the curve inversion, she said.

Inversions of key parts of the Treasury yield curve – which occur when yields on shorter-term Treasuries exceed those for longer-dated government bonds and signal economic worries – have concerned investors in recent weeks, as the Federal Reserve grows more aggressive in its fight to slow the economy and tackle inflation.

Jeffrey Gundlach (DoubleLine Capital CEO): The U.S. dollar has been rising on the back of the Federal Reserve's aggressive rhetoric and geopolitical uncertainty. But the greenback's turning point could be fast approaching. After seeing solid moves in the U.S. dollar, Gundlach reiterated his views that he is bullish on the dollar in the short term and a steadfast bear in the long term, noting that the greenback's turning point is approaching.

"My USD view's been clear & unwavering for a year now: Bullish short run (six months to a year) and bearish long run (two years plus). Inexorably the long run prevails. Yield curve now steepening & twin deficits still outrageous. USD headwinds building so turning point nearing,". The steeping yield curve will test the Federal Reserve's ability to tighten monetary policy aggressively.S

"Yield curve has been steepening a whole lot lately, testing the Federal Reserve's stated resolve to absolutely 'use our tools' to fight the inflation the Fed itself failed to predict,".

Jan Hatzius (Goldman's chief economist): The Federal Reserve gets ready to introduce oversized hikes, recession calls continue to grow, with Goldman Sachs adding its projection into the mix.

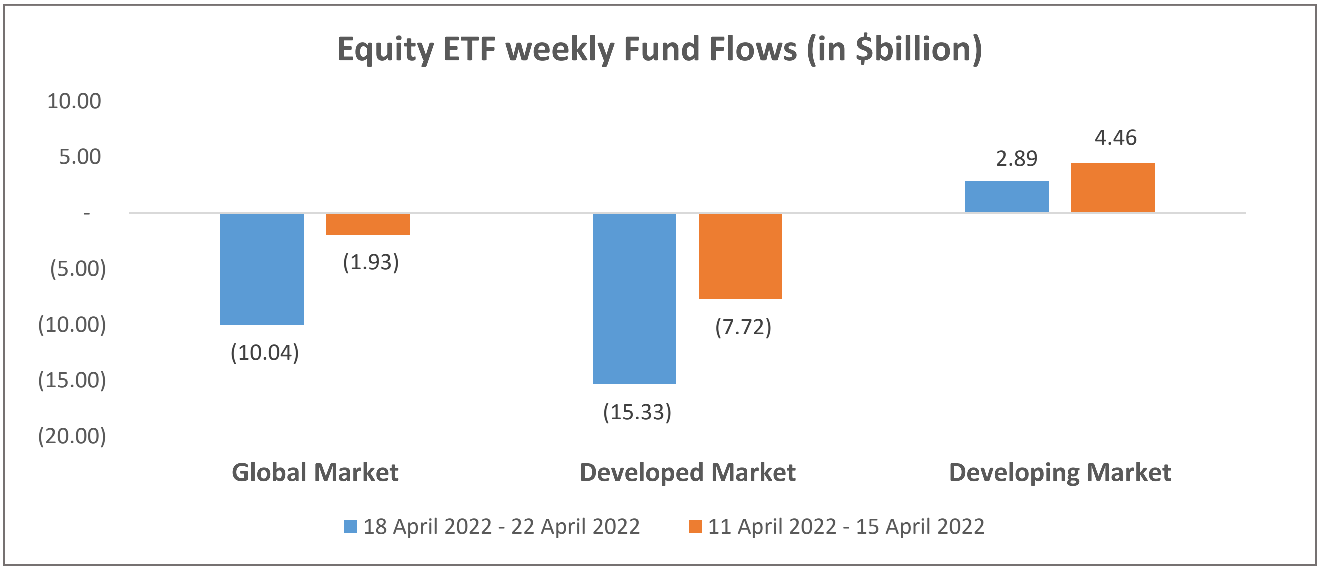
Goldman sees a chance of a recession over the next two years at 35%, according to the bank's economists. Over the next 12 months, that chance is lower at about 15%.

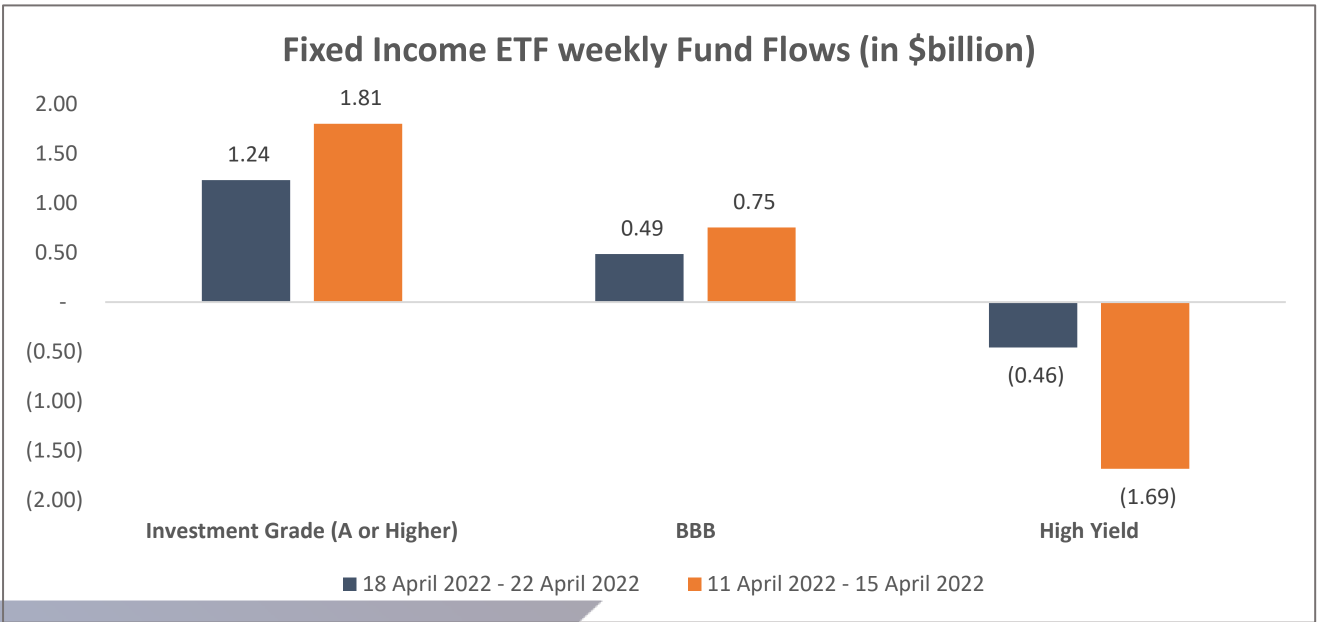
One of the significant obstacles for the Federal Reserve during its tightening cycle will be the labor market. Based on previous scenarios, the Fed will have a hard time battling inflation by raising rates without triggering a recession. Keeping the job market healthy while trying to slow wage growth will be tough, making the so-called "soft landing" a difficult task for the Fed, Hatzius wrote. "Taken at face value, these historical patterns suggest the Fed faces a hard path to a soft landing," he said.

Brian Moynihan (Bank of America CEO) Americans are spending heartily, even as inflation continues to roil the economy."In the month of March '22 versus March '21, the consumer … spent about 13% more than they did last year,"."But importantly, in the first couple weeks in April, that numbers moved back to 18%, indicating faster spending in consumers," he added. Moynihan said that consumers have bulked up their bank accounts since pre-pandemic times, driving their increased spending. He added that while some investors might take on an approach of 'don't fight the Fed,' he has a different take.

"Don't fight the U.S. consumer. They are a very strong force and you can see them very healthy. Their loan balances are down, they have plenty of borrowing capacity and they have plenty of spending capacity," 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 risk assets had a disastrous week with Nasdaq leading the markets on the downside. We expect global equities to make a short-term bottom soon and then rally over the next couple of weeks. We expect industrial commodities to remain sideways to bearish over the next few months. We believe dollar index is close to its highs and should start a long-term reversal soon against the DM currencies. We expect US long term Treasury yields to top out soon and then begin a long term downtrend. We expect precious metals to remain rangebound in the near term.

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