



PACE 360

Weekly Report and Outlook on Global Markets

6th May 2022

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MARKET DEVELOPMENTS

Europe Utilities' relative valuation is at top of a 14-year range

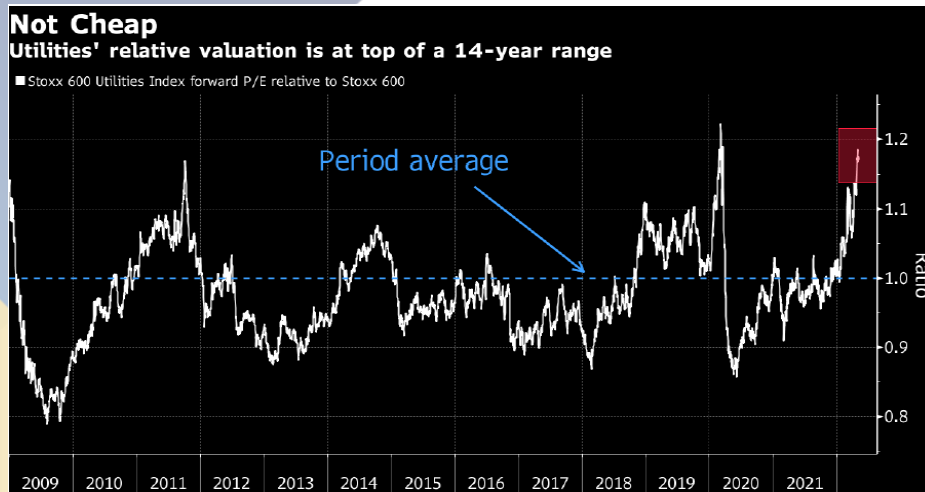


Figure 1: The above is the ratio chart of Stoxx 600 Utilities index forward P/E to Stoxx 600 index forward P/E

In the middle of an energy supply crisis, shares in European utilities seem like a good hedge given their defensive qualities. One caveat: they come at a cost. Down only 2.7% this year, the Stoxx 600 Utilities Index is among the top sectors of 2022, while the Stoxx 600 has lost nearly 10%. Put alongside only average earnings growth, the sector is now the most expensive since 2008 relative to the Stoxx Europe 600, outside of the early pandemic spike, and is trading at a premium of almost 20%. Having been a big laggard last year, the sector has been rejuvenated by higher power prices, Europe's plan to reduce its dependence on Russian fossil fuels, and push to cut carbon emissions and switch to renewables. It also offers a hedge against the tail-risk of a Russian gas cut.

Dollar bonds across Asia have negative returns so far this year

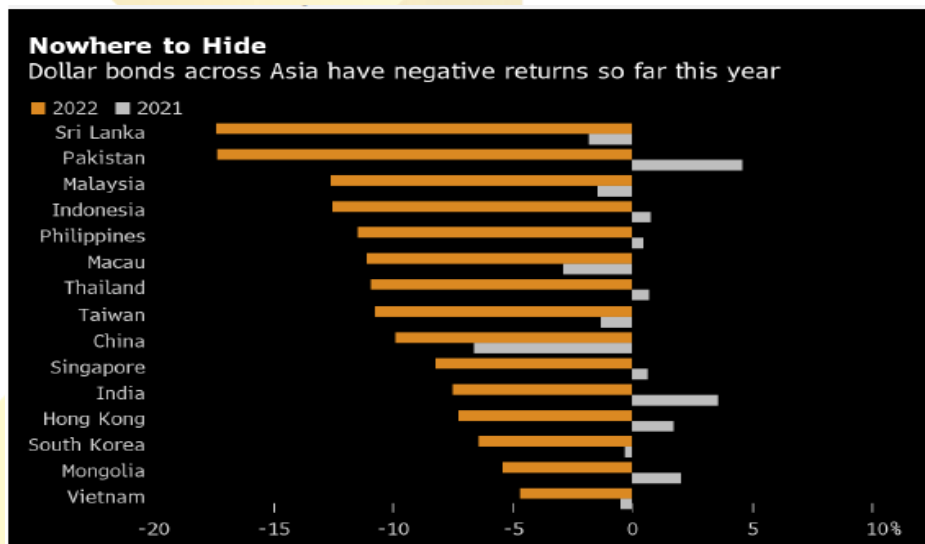


Figure 2: The above shows Samsung Electronics market cap ratio to Kospi market cap

China was the worst-performing dollar bond market in Asia last year, but despite having even-bigger losses to start 2022 it's one of the region's better-performing locales. Eight others have larger declines led by crisis-hit Sri Lanka and Pakistan. Debt markets globally are in the midst of their worst-ever rout, as central banks raise interest rates to combat the highest inflation in decades.

MAJOR MOVES THIS WEEK

Currencies

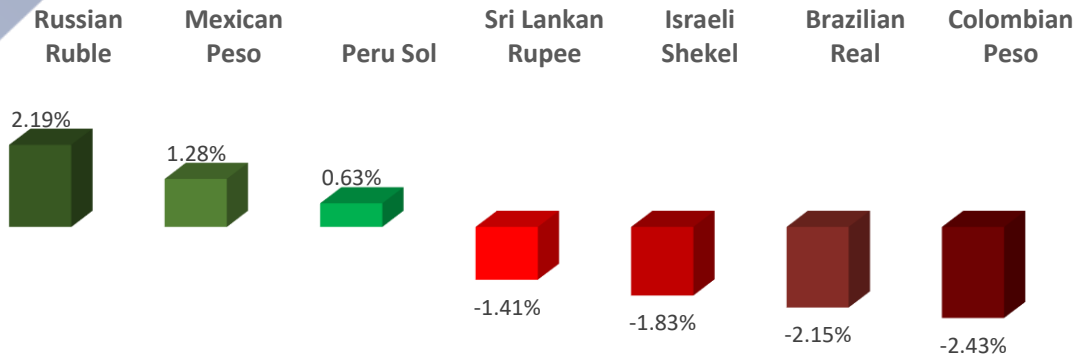


Figure 3: The graph represents Currency returns with respect to US Dollar as the base currency for this week.

This week we have seen weak performance in the global currencies. British Pound, and Yen depreciated against the Dollar, while Euro remained sideways this week. Emerging market currencies have given weak performance against the dollar.

Equity Indices



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 given a weak performance, Euro Stoxx 600 was a loser during the week. Emerging market equity indices depreciated. Nasdaq 100 and S&P 500 have shown sharp moves and depreciated during the week.

Commodity Futures

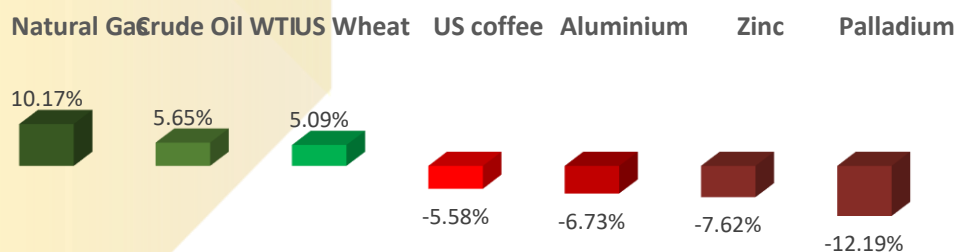


Figure 5: The chart represents the Commodity returns over the week.

Commodities have shown a weak performance during the week. We have seen weakness in industrial metals. Crude and Natural gas appreciated strongly during the week. Gold and Silver weakened during the week. We have seen weak performance in agricultural commodities.

GLOBAL FUND MANAGERS' STATEMENTS

Ray Dalio (Founder of Bridgewater Associates): Ray Dalio, acknowledged the potential of digital assets, especially Bitcoin, emphasizing their impressive performance over the past decade. He also noted that Bitcoin's finite supply makes it similar to other universally accepted inflation hedges such as gold.

However, he doesn't see central banks adopting Bitcoin as a reserve asset due to several issues such as privacy and ban in some countries. "Still, there are issues with them. Transactions can be traced so privacy is an issue. They can be controlled, they can be shut down, they can be made illegal which tends to tap in during times when they may be threats to the alternative currency. So, I don't think they'll be held as central bank reserves for various reasons," he said.

While Dalio believes investors should have digital assets like Bitcoin in their portfolio, he noted that gold does a better job at hedging against inflation.

He also argued that Bitcoin's total market value is less than that of Microsoft, which makes it less desirable for storing wealth compared to gold.

"I think that the environment that we're in is an environment in which there is a risk of political confiscation or any other forms of confiscation. I think gold does a better job but as I said, we're into this new environment and that could include NFTs and all sorts of things. It's a competitor but I think in terms of its qualities, not as good a competitor... But we'll figure those things out. It will evolve over the next 5 to 10 years," Dalio said.

Joseph Bernhard Mark Mobius (Founder, Mobius Capital Partners): Sri Lanka's stocks and sovereign bonds which are trading at steep discounts are an investment opportunity, emerging market investor Mark Mobius said as a soft-pegged exchange rate regime failed after output gap targeting and the country defaulted on its foreign debt. Sri Lanka's sovereign bonds are trading at around 40 cents on the dollar or less depending on the tenor.

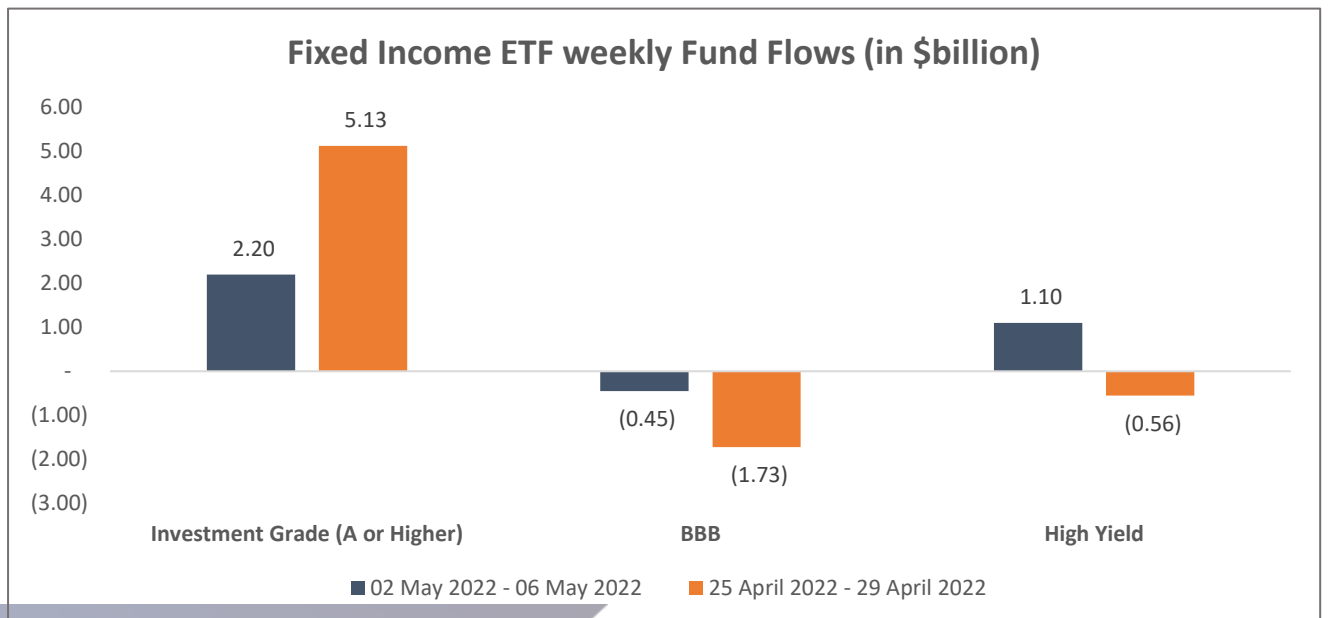
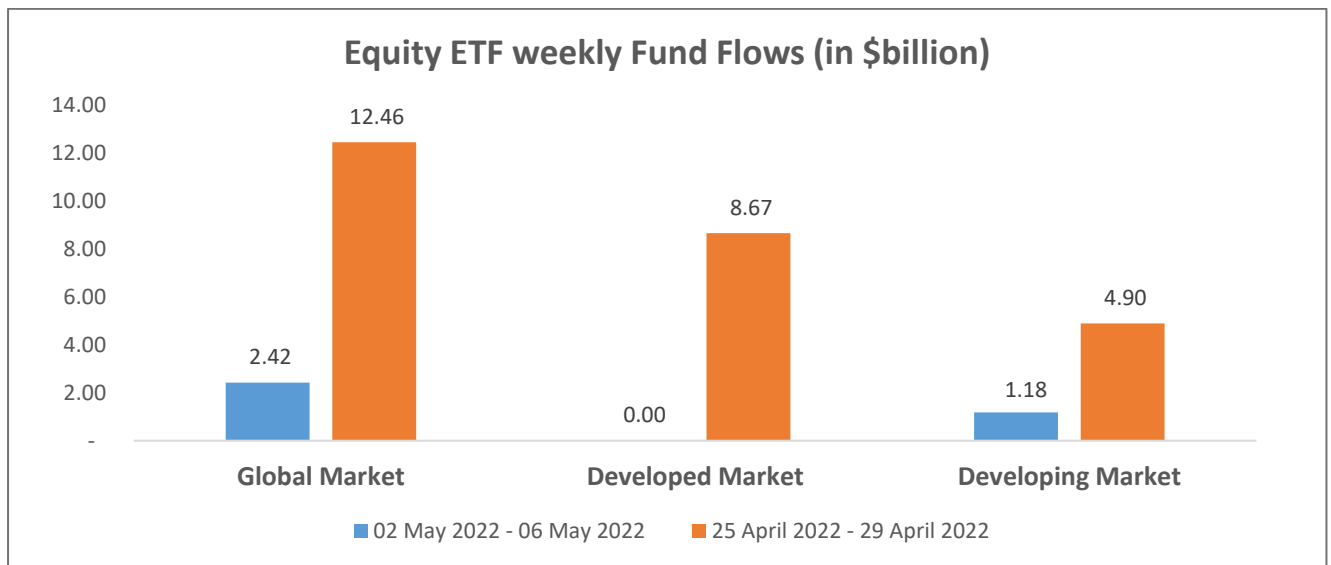
"That to me could be an opportunity," "They will be re-structured but at the end of the day I think the re-structure could result in an appreciation of some of that." "In the equities side the opportunities are even better because a lot of weak players have been pushed out so you are left with strong players who get stronger." "So I would say we are in a very interesting period for investors who have a long term view to begin looking at Sri Lanka to put some money in."

Mobius would "go after companies with a strong balance sheet, high return on capital and in dollar terms growing their earnings"

"Those are the companies we want to look at those are the companies that are the survivors who will take a bigger market share," he said. He was yet to look at bonds in depth but was starting to 'nibble' at stocks.

David Tepper (Appaloosa's, Billionaire hedge fund manager): David Tepper said that central banks have a credibility problem. "Central banks have a little bit of a credibility problem,". "Taking the optionality of 75 basis points off the table was an unforced error the Fed didn't have to do. The Bank of England making a similar mistake the next day caused the market to become a bit unhinged."

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 equity markets have had yet another down week. We believe equities are close to a medium-term bottom and will rebound sharply from here. We expect the rebound rally to last for 4-5 weeks. S&P500 could climb back to 4350-4400 levels and Nasdaq 100 could rebound to 13700-14000 levels. We believe US long-term Treasuries are close to a historic bottom and will start a multi-year rally very soon. We believe dollar index is close to a historic high and will start a long-term bear market very soon. We expect gold to remain rangebound for now though on longer term basis it remains the most bankable asset class.

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