Weekly Report and Outlook on Global Markets

20th March 2022

China's Stimulus Tops $5 Trillion as Covid Zero Batters Economy

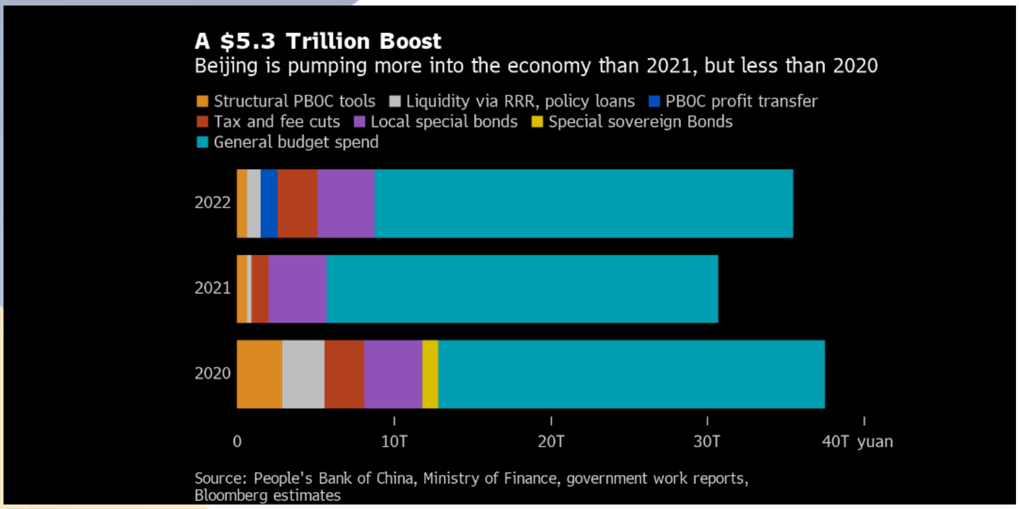

Figure 1: The above chart shows breakup of China's spending to boost economy

China's plans to bolster growth as Covid outbreaks and lockdowns crush activity will see a whopping $5.3 trillion pumped into its economy this year. The figure -- based on Bloomberg's calculation of monetary and fiscal measures announced so far -- equates to roughly a third of China's $17 trillion economy, but is actually smaller than the stimulus in 2020 when the pandemic first hit. That suggests even more could be spent if the economy fails to pick up from its current funk

S&P 500's Valuation drops below the decade average after a steep correction

Figure 2: The above chart shows 12-month forward PE for S&P 500

The froth is starting to come off the US market. The S&P 500 Index now trades at 16.5 times estimated 12-month earnings, the lowest since April 2020 and below the average level of 17.04 times seen over the past decade. The US benchmark has slumped 18% since its January peak and is nearing a bear market on concerns that the Federal Reserve's tightening will plunge the economy into a recession.

MAJOR MOVES THIS WEEK

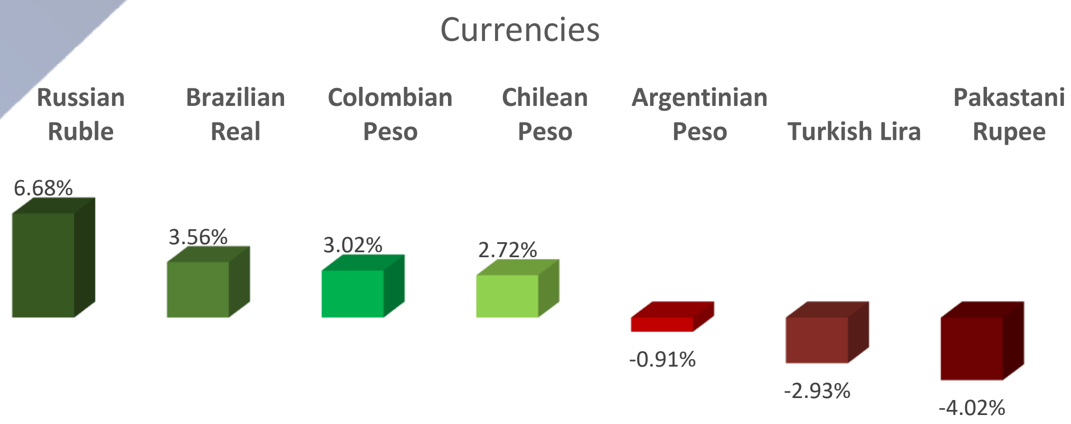

Figure 3: The graph represents Currency returns with respect to US Dollar as the base currency for this week.

This week we have seen strong performance in the global currencies. Euro, British Pound, and Yen appreciated against the Dollar this week. Emerging market currencies have given strong performance against the dollar.

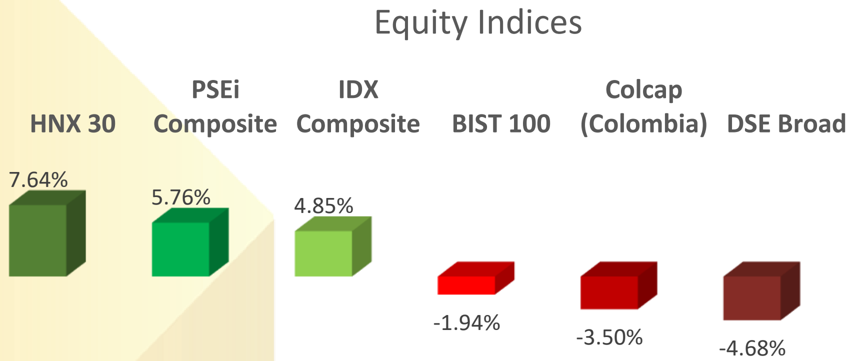

Figure 4: The chart represents the Equity Index returns over this week.

This week we have seen mixed performance in the global equities markets. European equities have given a weak performance, Euro Stoxx 600 was a looser during the week. Emerging market equity indices gave a mixed performance. Nasdaq 100 and S&P 500 have shown sharp declines during the week.

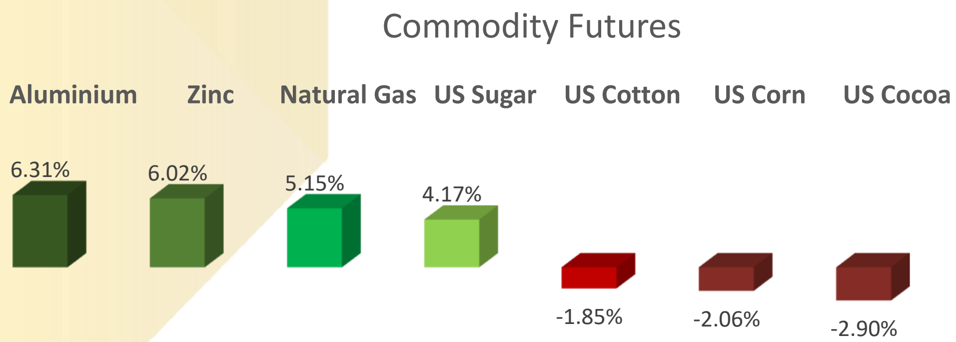

Figure 5: The chart represents the Commodity returns over the week.

Commodities have shown a strong performance during the week. We have seen strength in industrial metals. Crude and Natural gas appreciated during the week. Gold and Silver strengthened during the week. We have seen downward bias in agricultural commodities.

GLOBAL FUND MANAGERS’ STATEMENTS

Danielle DiMartino Booth (CEO of Quill Intelligence): The U.S. Federal Reserve is to blame for inflation and rising housing prices.

The politicization of the Fed has been toxic and it has impaired the ability to make policy in a timely manner," she said. "Randal Quarles, who was on the Federal Reserve Board, did a public interview recently and he said that he thought that the Fed would have moved a lot sooner had it not been for this kind of Game of Thrones going on."

Powell may have become more hawkish following his re-appointment, Booth noted. "We could theoretically get to the point that broke markets in 2018, just in the next three Fed meetings… and quantitative tightening will be fully ramped up by the time we get through August… We're going to see what all, this time around, [Powell] is willing to break," he said.

Stephen Roach (Morgan Stanley Asia chairman): He warns the U.S. is on a dangerous path that leads to higher prices coupled with slower growth.

“This inflation problem is widespread, it’s persistent and likely to be protracted,” Roach told CNBC’s “Fast Money” on Thursday. “The markets are not even close to discounting the full extent of what’s going to be required to bring the demand side under control... That just underscores the deep hole [Fed chief] Jerome Powell is in right now.”

Roach, a Yale University senior fellow and former Federal Reserve economist, calls stagflation his base case and the peak inflation debate absurd.“The demand side has really gotten away from the Fed,” he said. “The Fed has a massive amount of tightening to do.”

Roach expects inflation to stay above 5% through the end of the year. At the current pace of interest rate hikes, the Fed wouldn’t meet that level.

Larry Williams (veteran chartist.): “I know it’s tough to believe anything positive at this moment, but I said the same thing in April 2020, and that’s when Larry Williams made one of the best bottom calls I’ve ever seen,”

“He says this is it. … I wouldn’t bet against him. I trust his predictions more than I despise this market, and I say that as someone who really does hate the tape,” he added. The futures line is in black and the advance/decline line, a cumulative indicator measuring the number of stocks going up on a daily basis versus the number going down, is in blue.

“Right now, you can see that while the S&P spent the last week getting smashed into oblivion, the advance/decline line has been holding up much better. In fact, it’s steadily worked its way higher,” he said.

Lloyd Blankfein (former Goldman Sachs CEO): A recession in the U.S. is "definitely a risk" as the Federal Reserve faces a narrow path ahead as it tightens rates to fight inflation. Blankfein stated that a recession is "a very, very high risk factor," but "it's not baked in the cake."

He added that businesses and consumers need to be prepared for that possibility. "If I were running a big company, I would be very prepared for it," Blankfein said Sunday. "If I were a consumer, I'd be prepared for it."

The Fed has the right tools for its battle with inflation, but its actions will take time to filter through.

"There's a path. It's a narrow path," said Blankfein, who is now Goldman Sachs' senior chairman after retiring from the CEO position in 2018. "But I think the Fed has very powerful tools. It's hard to finely tune them, and it's hard to see the effects of them quickly enough to alter it, but I think they're responding well. [Recession] is definitely a risk.

PACE 360'S FUTURE OUTLOOK

US equities rebounded in the first half of the week but then fell sharply in the latter half. EM equities fared better compared to the DM equities. We believe global risk assets have bottomed out over the last few days and are now ready for a relief rally. We see a 10% rally in global equities from their bottoms made this week. This could unfold over a period of next 4-6 weeks. We see industrial metals also rally over this period. We see silver rally about 5-10% in the near term with gold being sideways to mildly bullish over this period. We expect long term Treasuries to rally over the next two years even if they remain sideways in the near term. We expect US dollar to weaken in the near term against both DM and EM currencies.

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