



**PACE 360**

# Weekly Report and Outlook on Global Markets

2<sup>nd</sup> July 2021

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## MARKET DEVELOPMENTS

### Brazilian exports of swine meat reached a record high in June.

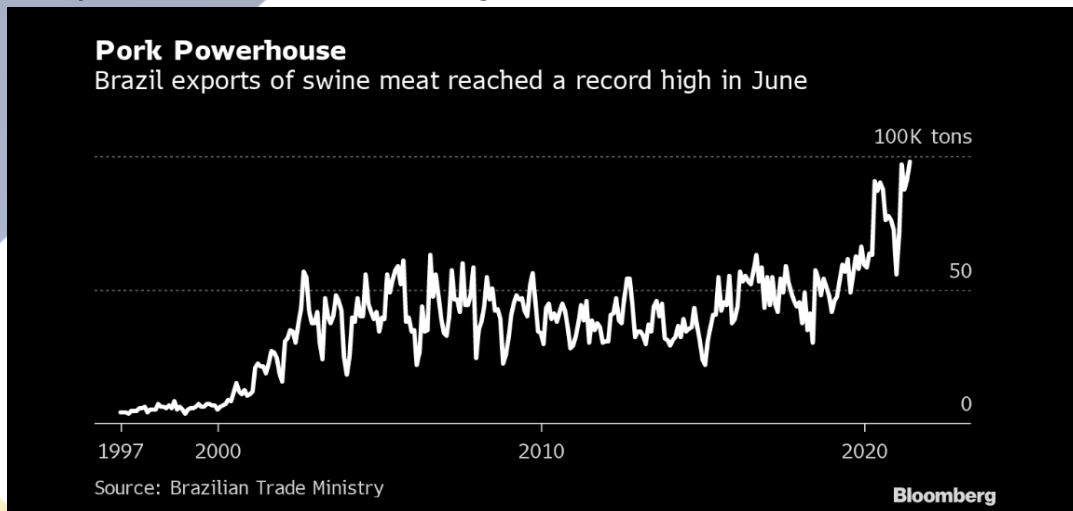


Figure 1: Brazil exports of Swine meat.

Brazilian swine meat shipments surged 12% in June from a year earlier to hit an all-time high for the month, thanks to a foreign exchange rate favorable for exports and appetite from China, which accounted for about half the orders. Demand has also been strong with other countries, according to Brazil Animal Protein Group, which represents the nation's exporters. Brazil shipped more pork to Chile, Uruguay, Vietnam and Singapore than in previous months.

### Value VS growth reflation trade worst in the US



Figure 2: MSCI Value vs Growth | USA, Europe, Asia & Japan

The slide in value-growth stock correlations across the world shows that U.S. fund managers are most exposed to the path of the global reflation trade. The 180-day correlation between the MSCI USA Value and Growth Indexes has slumped to a record low 0.43, according to data compiled by Bloomberg going back to 1997. A maximum possible correlation of 1.0 would signify all the shares are moving in lockstep. Equivalent measures for Asian shares have rebounded in recent months to around the 0.7 level and never got as low, while in Europe correlations look to have bottomed a little over 0.6.

## **Asian Stocks underperforming their global peers by most since 2015**



Figure 3: MSCI Asia Pacific – MSCI World performance

Asia's stock benchmark underperformed a gauge of global peers in April-June by the most since the third quarter of 2015, marred by lower Covid-19 vaccination rates and stricter lockdowns across the region than in the U.S. and Europe. The MSCI Asia Pacific Index rose 2.2% in the latest quarter compared with the MSCI All-Country World Index's 6.9% gain. In addition to high infection rates and the spread of the delta variant, Asian stocks have been hindered by their high proportions of economically sensitive stocks following the Federal Reserve's hawkish pivot in June.

## **Fitch Cuts Colombia to Junk After Plan to Hike Taxes Shelved**

- Fitch cut Colombia's long-term foreign currency debt rating to BB+, one level below investment grade, from BBB-, with a stable outlook. The downgrade came less than two months after S&P Global Ratings cut the nation to junk. Fitch also lowered local currency debt to BB+.
- "The downgrade reflects the deterioration of the public finances with large fiscal deficits in 2020-2022, a rising government debt level, and reduced confidence around the capacity of the government to credibly place debt on a downward path in the coming years," Fitch said in its statement.
- A bill to increase taxes introduced in April led to weeks of protests in which dozens died in clashes with security forces, as well as the resignation of the finance minister. Even after the bill was shelved, highway blockades and street demonstrations continued across the nation over a range of other grievances.
- Fitch expects Colombia's gross general government debt to rise to 60.8% of gross domestic product this year, more than double the 30% level it was when it upgraded the Andean country to investment grade in 2011.
- "Fitch expects debt to continue to rise through 2022 and does not expect significant debt reduction over the medium term, leaving Colombia vulnerable to shocks," the agency said.
- Colombia is still rated two levels above junk by Moody's Investors Service.

# MAJOR MOVES THIS WEEKS

## Currencies

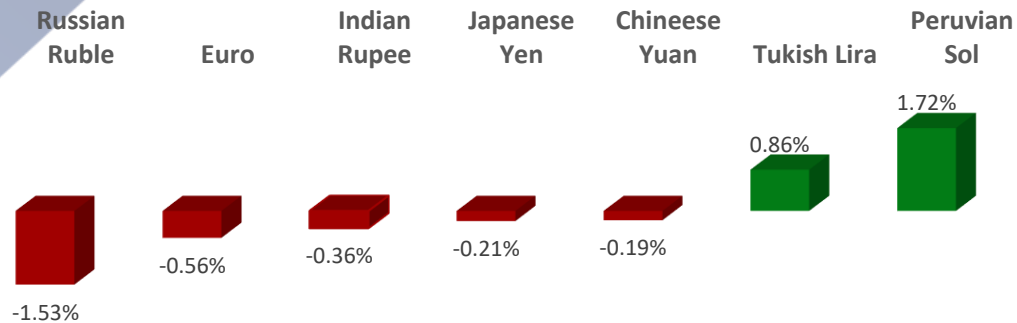


Figure 4: The graph represents weekly Currency returns with respect to US Dollar as the base currency.

Most developed market currencies depreciated this week with the strengthening of the dollar. Some of the emerging market currencies such as Peruvian sol, Mexican peso etc appreciated. Peruvian sol appreciated due to higher inflation figures which would result in rate hikes by their central bank.

## Global Equities

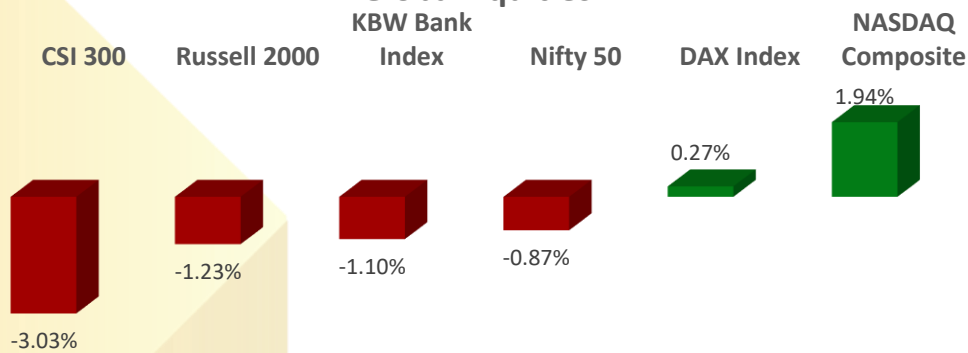


Figure 5: The chart represents the weekly equity index returns.

S&P 500 Continued making new highs and breaking records this week. However, the move upwards was not consistent throughout as the small caps underperformed this week. China was and most Asian counterparts have also underperformed this week owing to policy tightening stance taken by their government.

## Commodities

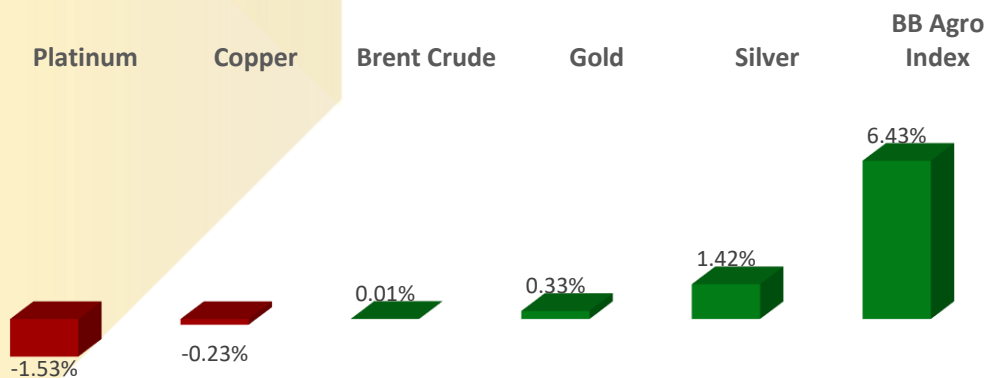


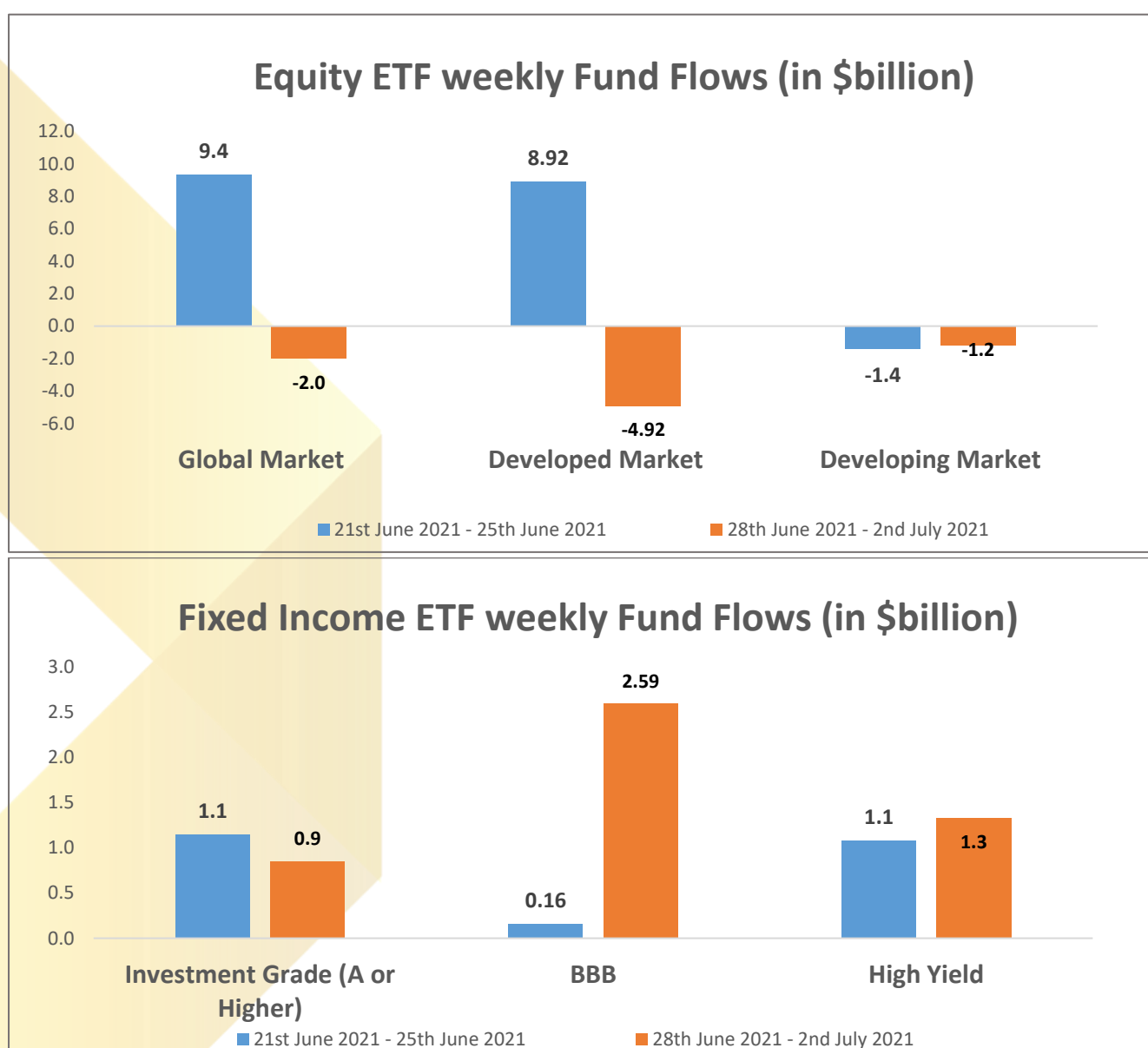
Figure 6: The chart represents the weekly commodity returns.

Bent crude appreciated because of indecision by OPEC+ members. It hit multi-month highs this week. Several agricultural commodities have also appreciated because of tighter supplies and other constraints. Industrial commodities as well as precious metals were pretty stable despite an appreciation in the dollar.

## GLOBAL FUND MANAGERS' STATEMENTS

- 1) Jeffrey Gundlach's DoubleLine Capital abandoned its bet on Peru bonds amid investor anxiety over the rise of leftist leader Pedro Castillo. The billionaire investor reiterated his long-term bearish view for the U.S. dollar. He also said that commodities could be in for a breather after a surge in prices that took the Bloomberg Commodities Index to the highest in almost six-years on Thursday.

## GLOBAL WEEKLY ETF 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 subcategories as well.

## PACE 360'S FUTURE OUTLOOK

"Nasdaq and S&P 500 had a stellar last week even as EM equities struggled. We expect EM equities to outperform next week while US equities may consolidate the massive gains of last fortnight. EM currencies should also appreciate over the next few weeks. We expect Indian large caps to outperform smaller caps over the next week or so. We expect commodities to remain largely rangebound. We expect bitcoin to resume its downtrend in the near future. We expect gold to trade sideways but with an upside bias."

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