Weekly Report and Outlook on Global Markets

6th Aug 2021

Debt-hobbled Sri Lanka risks running out of options

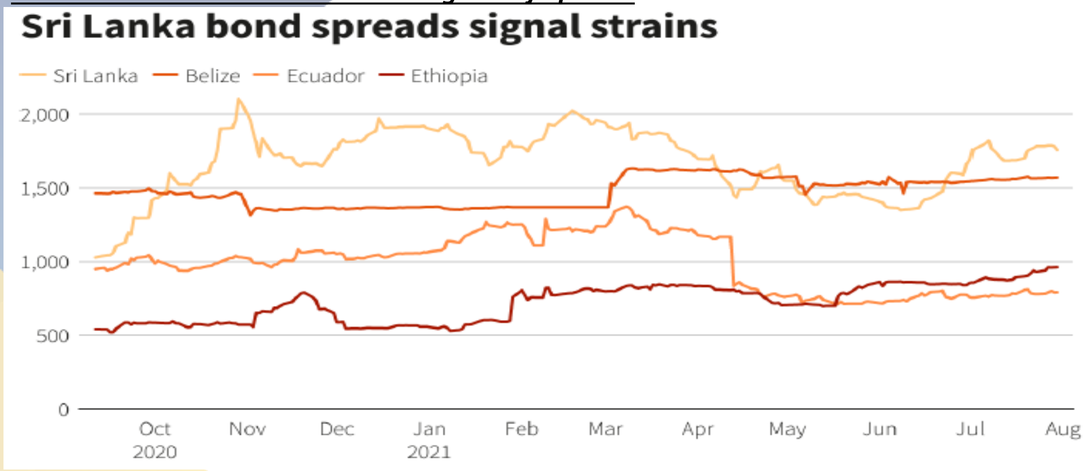


Figure 1:This figure showing us comparison of bond spread among Sri Lanka, Belize, Ecuador & Ethiopia

Sri Lanka paid a $1 billion bond last week, but the alarming state of its finances suggests it may have been just another step towards its first sovereign default.

All the tell-tale crisis signs are there: bonds at nearly half their face value, debt-to-GDP levels above 100%, over 80% of government revenues being spent on interest payments alone and barely enough reserves to cover a few months of spending.

Reflecting the gravity of its plight, Colombo's dollar-denominated government bonds are among the most distressed in the emerging market universe.

Yet last week's bond payment underscored the strong desire of the government to honour its debt and avoid the ignominy of a first sovereign default. It has also brought it some breathing room - the next major payment is not until January, when it must find $500 million. But that is followed by a heftier $1 billion in July and another $1 billion before the end of 2023. On top of an eyewatering fiscal deficit estimated to be around 11%, it could easily run out of rope.

Europe's Dealmakers Top $180 Billion in Busiest Summer Since 2007

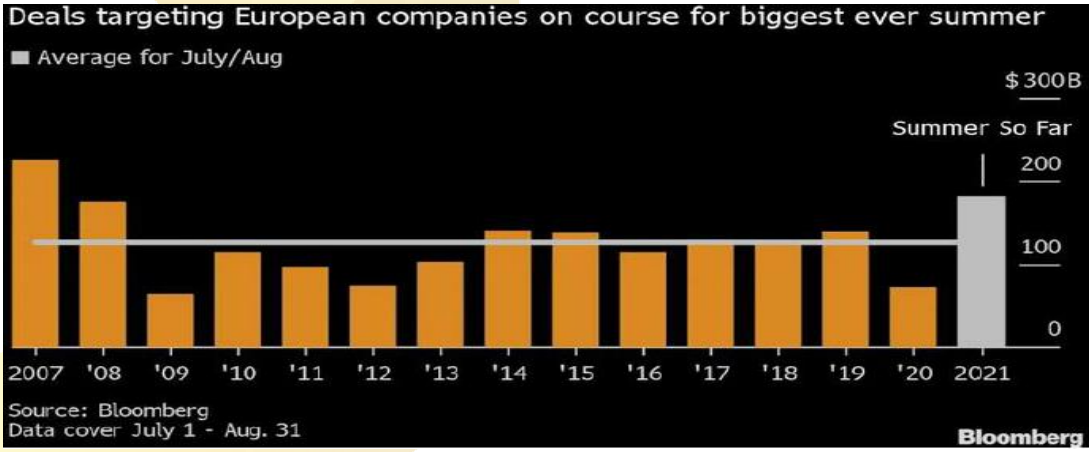


Figure 2: Graphical view of relentless pace of merger & acquisition in Europe

The relentless pace of global mergers and acquisitions has brought no let up for Europe-based companies and their advisers in the traditionally quieter summer months of July and August.

At $182 billion, the value of deals targeting companies in the region is already at a post-crisis high for this period, according to data compiled by Bloomberg. And a flurry of developments in the last 24 hrs points to a record being set before the month is out, the data show.

Volumes are being driven up by deals across a range of sectors.

MAJOR MOVES THIS WEEK

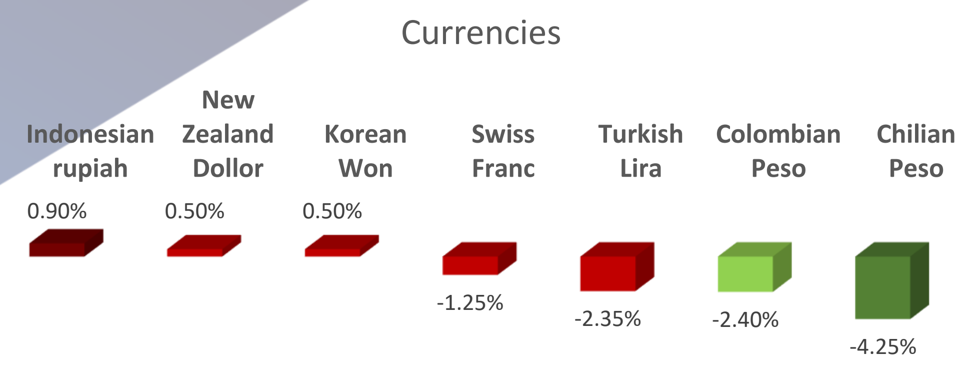


Figure 5: The graph represents Currency returns with respect to US Dollar as the base currency for this week.

This week both Emerging market and developed market currencies were depreciated. Euro has closed lower this week against dollar. In the first half we saw stable move in major currency & major popular currency pair from European nation also depreciated in line with EURO, Latin American currency also move down this week against Dollar, worst performer currency from the Latam zone we have noted this week.

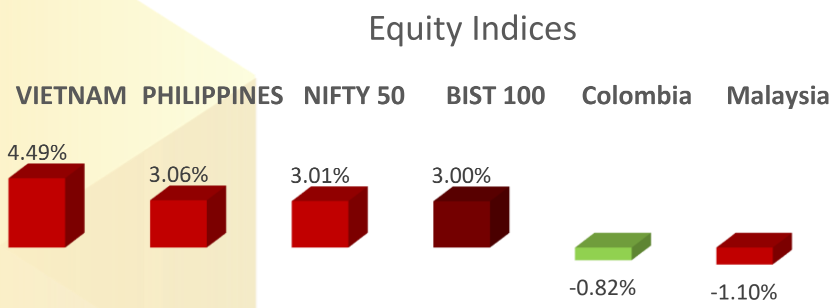


Figure 6: The chart represents the Equity Index returns over this week.

A stable week was observed for equities especially in emerging markets after last week of muted performance. In US small caps and value stocks outperformed the broader market in line with increase in the us yields. In Asia, China Equities seen stable move with the peers along with major outperformance in Indian equity indices . In last trading session of this week, we have observed selling pressure in Indian equities.

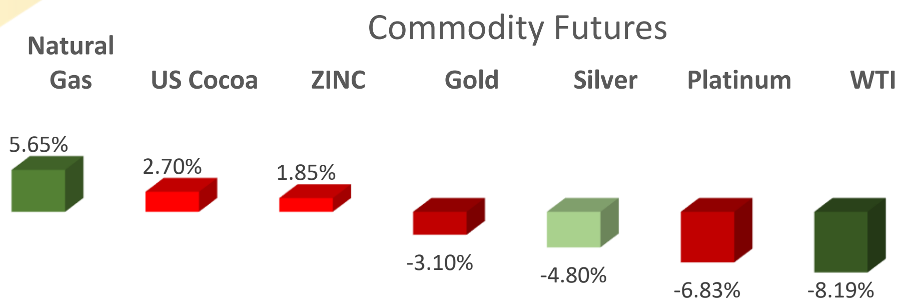


Figure 7: The chart represents the Commodity returns over the week.

We have observed negative performance this week in global commodity, Gold has shown worst week performance post NFP numbers release on Friday. Oil fallen down this week due to question mark on worldwide travel activities as delta variant dominating in many part of the world. Only upside movement is seen in agro commodities, Greenback performance was also key factor for commodities fall this week

GLOBAL FUND MANAGERS' STATEMENTS

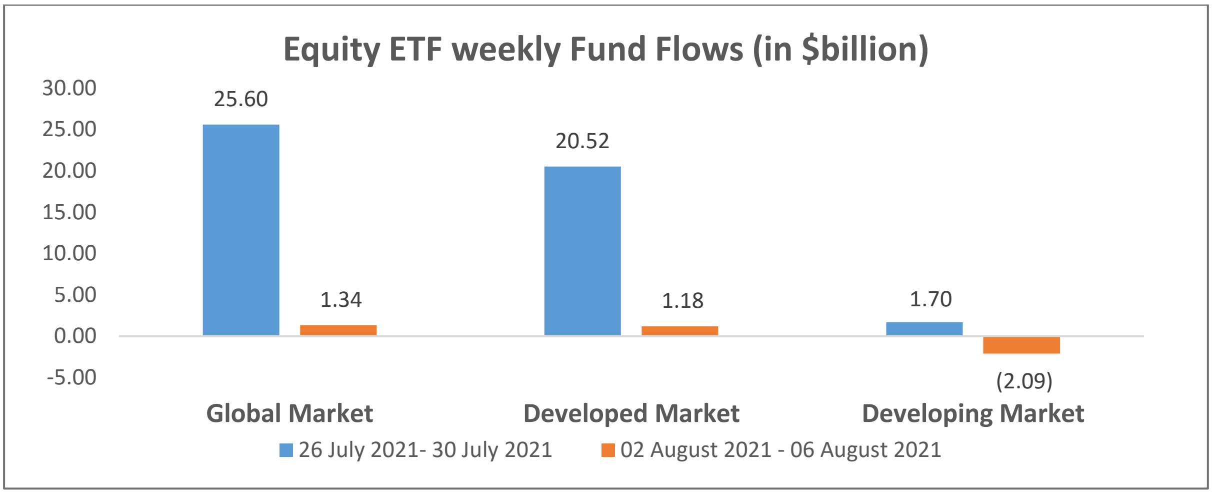
Craig Inches (Head of rates and cash at Royal London Asset Management (RLAM): If bond markets are taken at their word, the world post-pandemic will be defined by stagflation, a toxic scenario that appears at odds with the bounce back indicated by robust economic data and record-high equities.
The flagging of stagflation - high-inflation coupled with low growth - is puzzling, and according to many investors, not trustworthy. Instead, they say, it reflects how central banks' grip over bond markets has distorted markets' signalling power.
Bond yields, nominal as well as "real" ones, which strip out expected inflation, have plunged in the United States and the euro area. Their message: weak growth, requiring years of ultra-loose monetary policy.

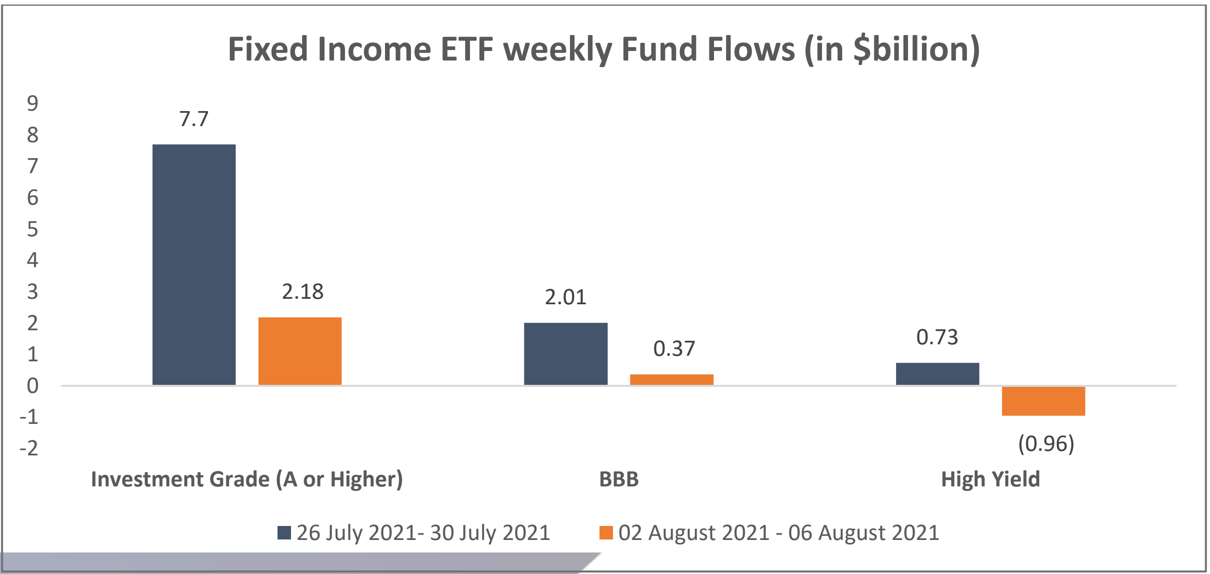
Jim Rogers (Co -Founder Quantum fund): "Everything will go into a bubble eventually but when that happens probably later this year or 2022, that will be the end and then we are going to have a horrible bear market because the debt is much higher now than it was in 2008."
I would prefer to invest in agriculture," said Rogers in an interview with S&P Global Platts. Fundamentals of population growth and the availability of land play a big part in Rogers' outlook for agriculture. By 2040 the global population is expected to grow by a fifth to around 9 billion people adding to demand for bulk soft agricultural commodities such as rice, grains and sugar. Rogers warned that food production faces the challenge of meeting increasing demand amid the rising cost of agricultural land, climate change and an ageing workforce.

Ray Dalio (Bridgewater Associates): "If you put a gun to my head, and you said, 'I can only have one,' I would choose gold,". To the surprise of many, Dalio revealed that he owns some bitcoin back in May, stating that he prefers to own bitcoin over bonds. "I have some Bitcoin. Personally, I'd rather have bitcoin than a bond," he told CoinDesk during its 2021 Consensus conference. Dalio did not specify how much he owns.
Back in 2019, Dalio praised gold as a risk-reducing and return-enhancing asset. In 2020, Bridgewater Associates invested more than $400 million into the precious metal during the second quarter.
Therefore it is not surprising that Dalio would opt for gold if forced to choose, citing the precious metal's reputation as a "store hold of wealth."

Diego Parrilla (Quadriga Igneo fund): Gold is primed to surge to fresh highs as the risks around central banks unwinding massive stimulus are under-appreciated by investors. "The tapering process will be glacial in terms of speed," said the Madrid-based Parrilla, who correctly predicted in 2016 that gold would climb to a record within five years. "I think the drivers for gold strength, not only remain but actually have been strengthened.
The fund manager said he's sticking to his view that gold could rise to $3,000 to $5,000 an ounce in the next three to five years.

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

We had a mixed week for risk assets with global equities going up while industrial commodities fell, and high yield bonds underperformed. We believe that global Equities have peaked out and the next big move is down and not up. We expect EM assets to underperform next week as dollar index and US 10-year yields have powered ahead on Friday. Gold and silver could remain weak in the first half of next week.

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