Weekly Report and Outlook on Global Markets

18th June 2021

S&P 500 and US Treasury futures' correlation highest since 1999-2000

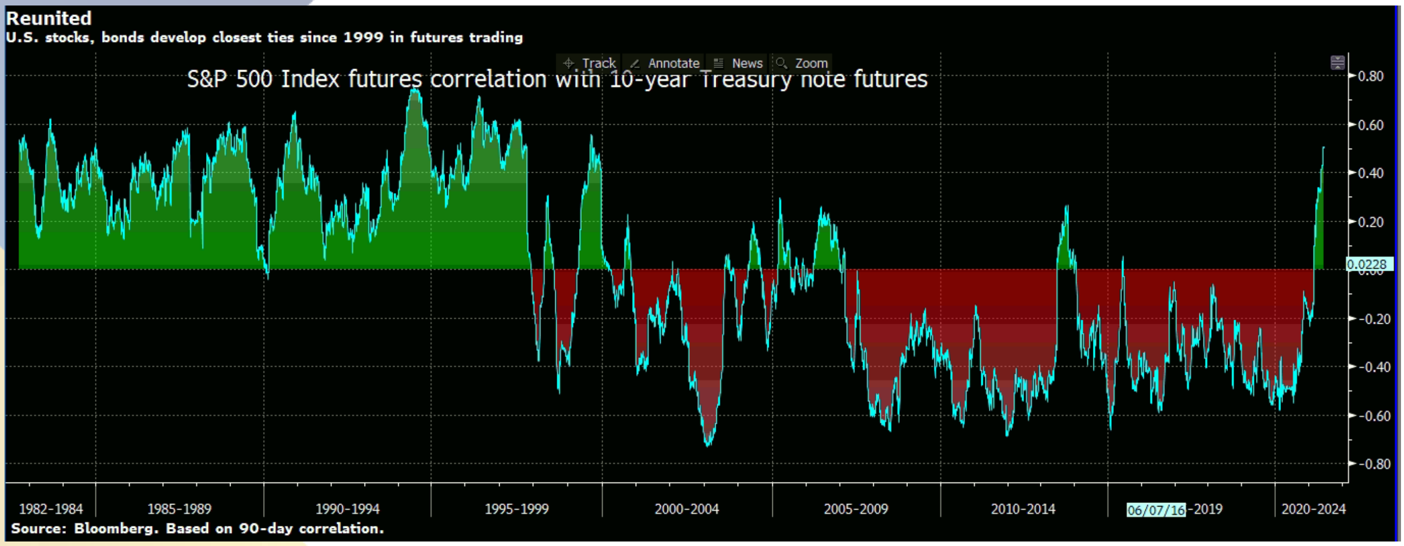


Figure 1: The chart represents correlation between S&P 500 index futures and 10-year treasury futures

U.S. stocks have stopped zigging when bonds zag, and vice versa. Correlations between futures contracts on the S&P 500 Index and the 10-year Treasury note have been positive on a 90-day basis since March, according to data compiled by Bloomberg. This month's readings have reached 0.37, the highest level since November 1999. The relationship "poses significant risks to passive investors" owning both stocks and bonds.

Euro stoxx 600 trading above Analyst's average year end forecast

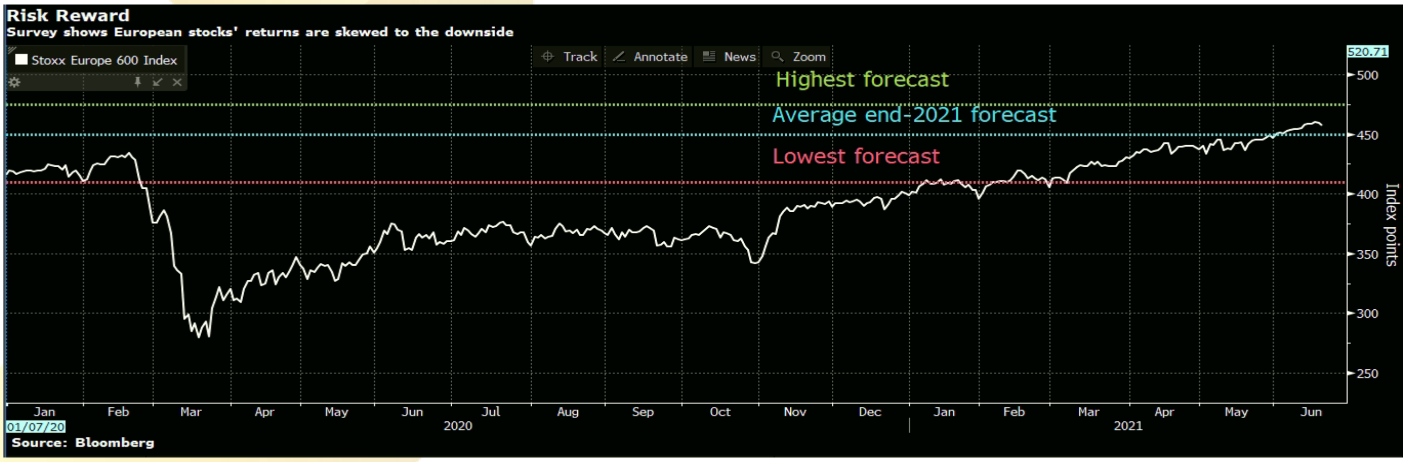


Figure 2: The chart represents Euro stoxx 600 year end forecast

Stocks strategists now see European equities slipping from current record highs by the end of 2021, according to a Bloomberg survey in June. The Stoxx Europe 600 index is seen falling by about 2% by the end of the year from the Wednesday close, still holding on to most of its gains after a 15% surge so far in 2021. That said, the highest forecast now sees just 3.3% upside, while the lowest forecast predicts a 11% retreat, as strategists flag risks that yields will rise and the Federal Reserve scales back bond purchases.

Spread between WTI Crude and Dubai oil highest since 2016

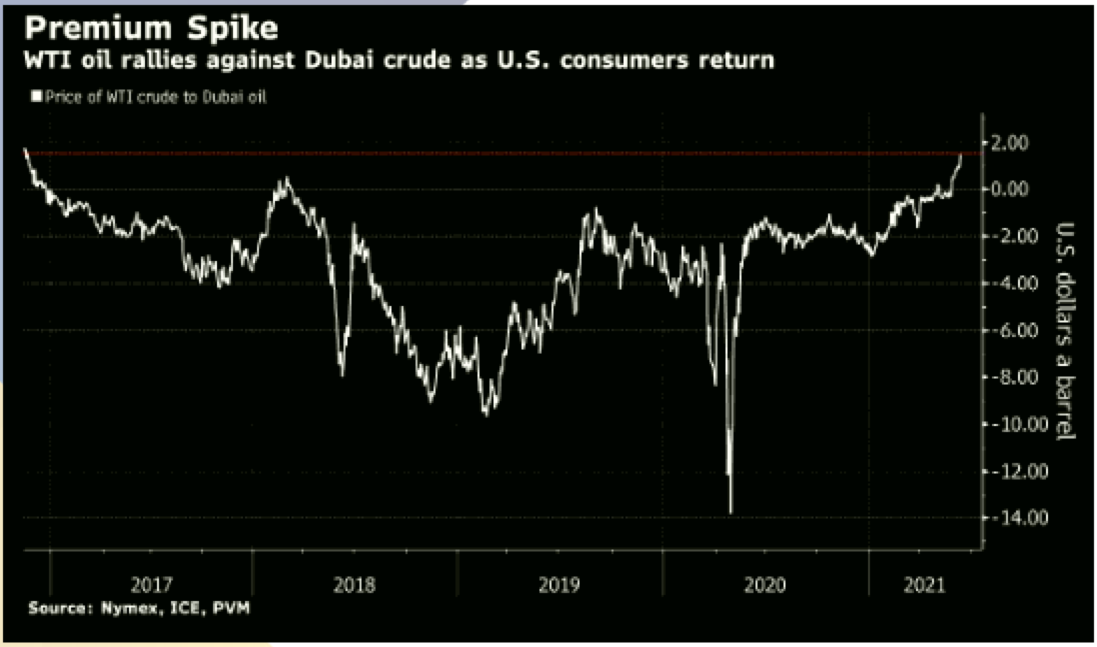


Figure 3: The chart above represents spread between WTI Crude and Dubai Oil

The dramatic recovery in U.S. oil demand as the pandemic fades has flipped one the global energy market's key spreads. With U.S. refiners cranking upruns, busier roads over summer, and more fliers getting back on the plane, West Texas Intermediate futures now command the biggest premium in more than four years over Dubai crude, a key Middle Eastern marker. That shift in pricing will likely force processors in other regions including Asia to opt for cheaper barrels from the Middle East over U.S. flows, according to traders.

Indian small caps are costlier than large caps for the first time in 4 years

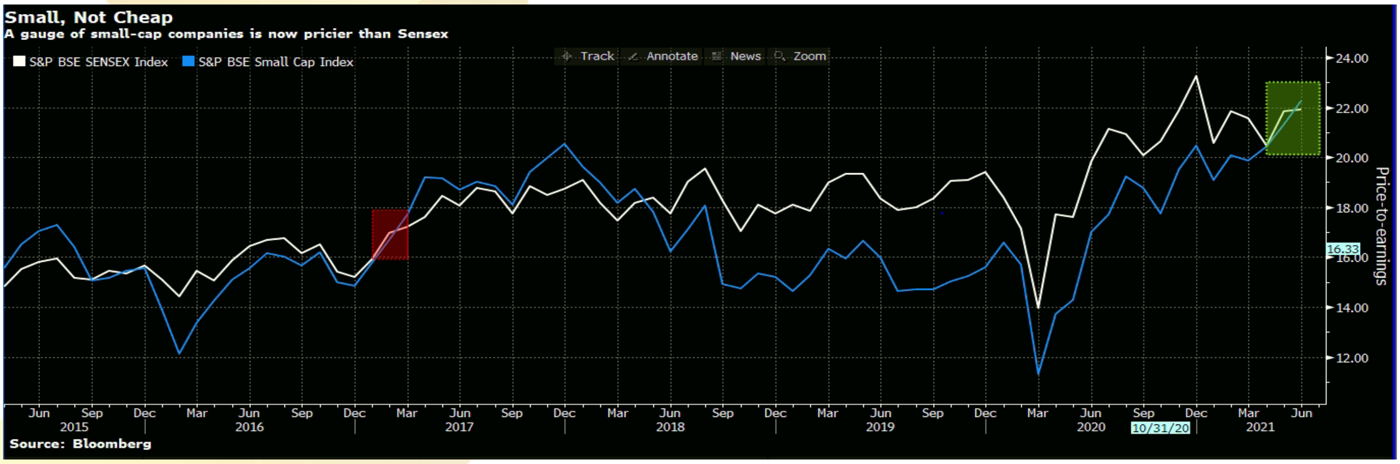


Figure 4: The chart represents forward PE Ratio of BSE SENSEX and BSE Small cap Index

Valuations for a measure of India's small cap stocks crossed above the benchmark index for the first time since 2017, as slowing coronavirus cases has boosted buying by both local and foreign investors. The 12-month forward price-to-earnings for the S&P BSE Small Cap Index is also at the highest since at least 2015. The high valuations for most quality small caps is an indication of a positive earnings outlook and optimism, that the country will recover faster from the pandemic-led disruptions.

MAJOR MOVES THIS WEEK

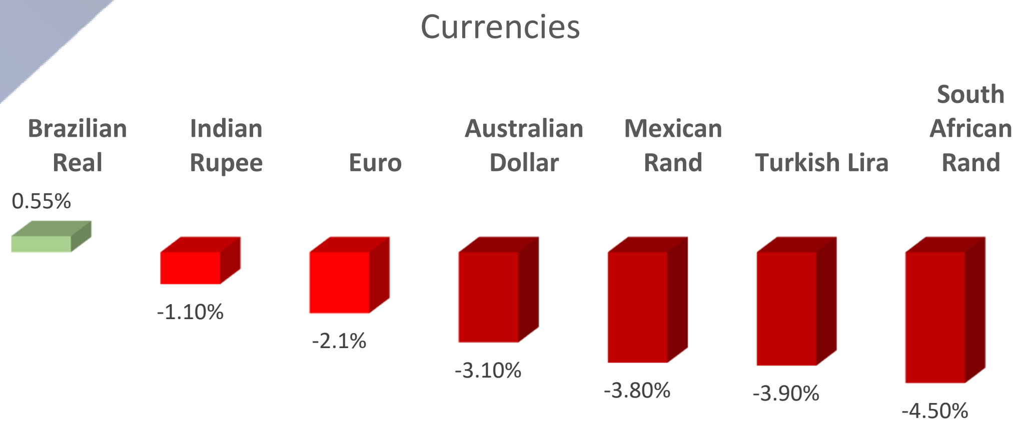


Figure 5: The graph represents Currency returns with respect to US Dollar as the base currency for this week

There was a complete risk off in the currency market post the FOMC Meeting this Wednesday. Hawkish stance given by fed brought a spike in the short term bond yields due to which interest rate differential of various countries against US tilted towards US Dollar's favour. South African rand, the outperformer currency this year led the way in terms of depreciation. Developed market currencies like Euro and Australian Dollar also fell. Brazilian Real was the outperformer due to its significant gain In the first half of the week.

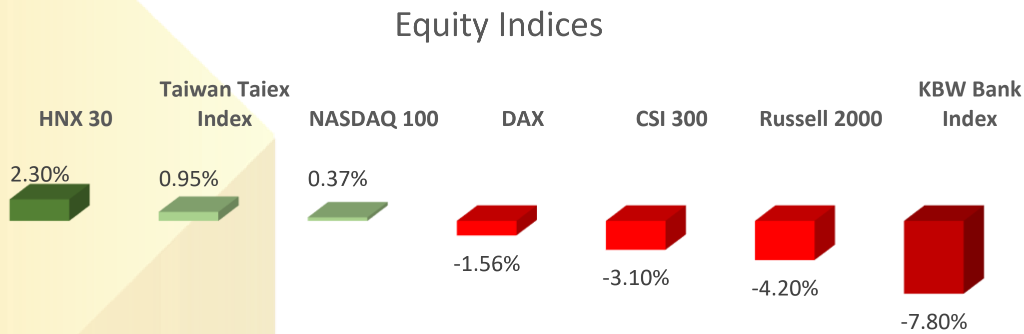


Figure 6: The chart represents the Equity Index returns over this week.

This week most of movement happened in the second half post FOMC meeting. Hawkish tone was considered negative for the equities hence a fall was witnessed in most of the major global indices. However the hawkish tone did bring the inflation expectations down due to which fall in longer tenure bond yields was observed. This led to technology stocks going higher and caused banks to fall.

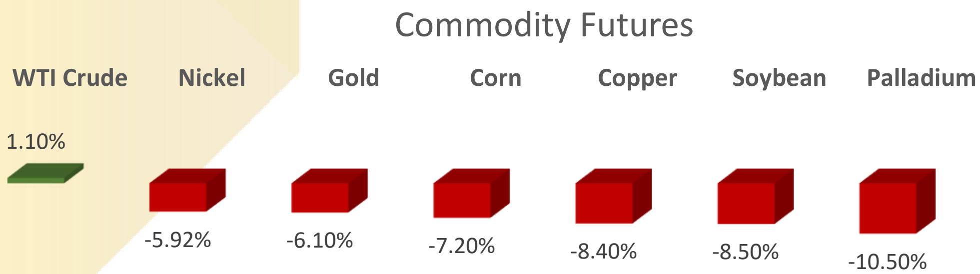


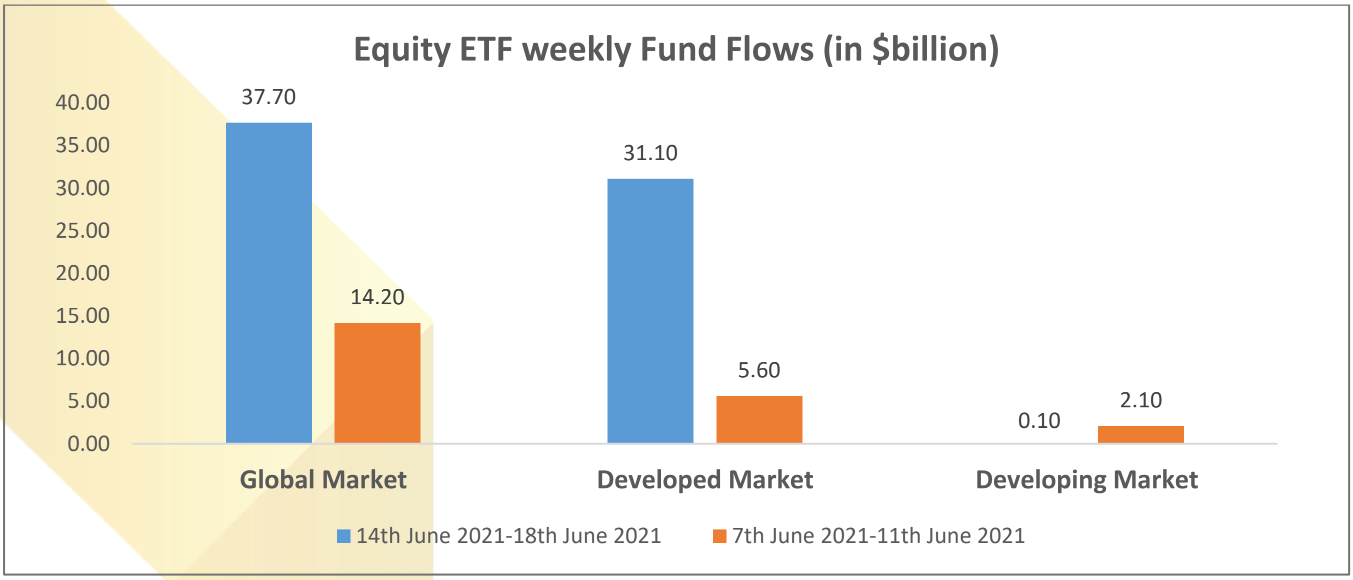
Figure 7: The chart represents the Commodity returns over the week.

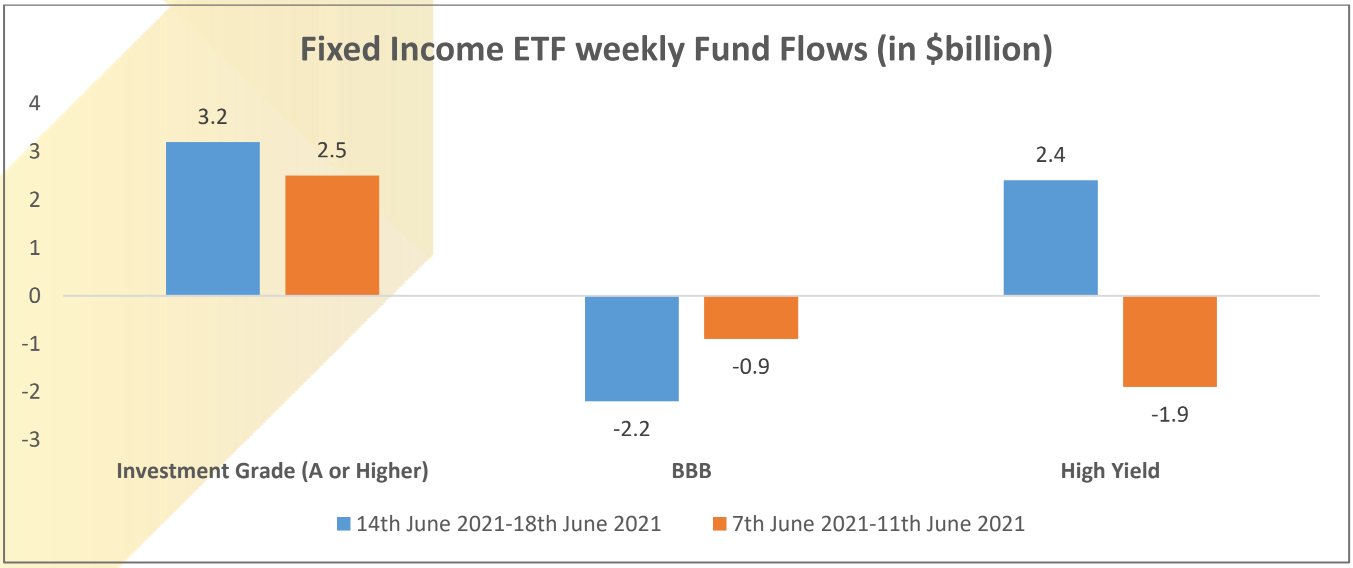
Global commodities except crude oil saw a massive fall due to drop in inflation expectations. Among precious metals palladium fell the most losing more than 10%. Copper was the underperformer among industrial metal segment. Even agriculture commodities weren't spared in the fall with soybean and corn losing 8.5% and 7.2% respectively.

GLOBAL FUND MANAGERS' STATEMENTS

1) Scott Minerd (CIO, Guggenheim Partners): "My team has done Regression analysis that, which looked at the relationship between the debt-to-GDP ratio and the "terminal" Fed funds rate (the final rate following a series of Fed rate hikes).Following the global financial crisis, the model estimated that the terminal Fed funds rate would be 3%, and the Fed stopped hiking at 2.5%. Following the same methodology today, the terminal rate will be between 1.7% and 2%, depending on how debt is measured. If the Fed funds rate was raised to 2%, it would stop companies from being able to borrow. Those companies "at the margin" would have debt-servicing problems that would force layoffs and trigger a recession."-Webinar , 17th June 2021

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

"The global equities were doing reasonably well till the FED's hawkish policy on Wednesday altered the scenario. We believe that the fall in risk assets caused by FED has largely played out. We expect equities to stabilize over the next few days. We expect EM currencies and commodities to also find support around current levels. We remain very bullish on gold and don't expect a significant downside in it from the current levels."

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