



**PACE 360**

# Weekly Report and Outlook on Global Markets

25<sup>th</sup> June 2021

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# MARKET DEVELOPMENTS

## European cyclicals relative to earnings growth calls for further outperformance

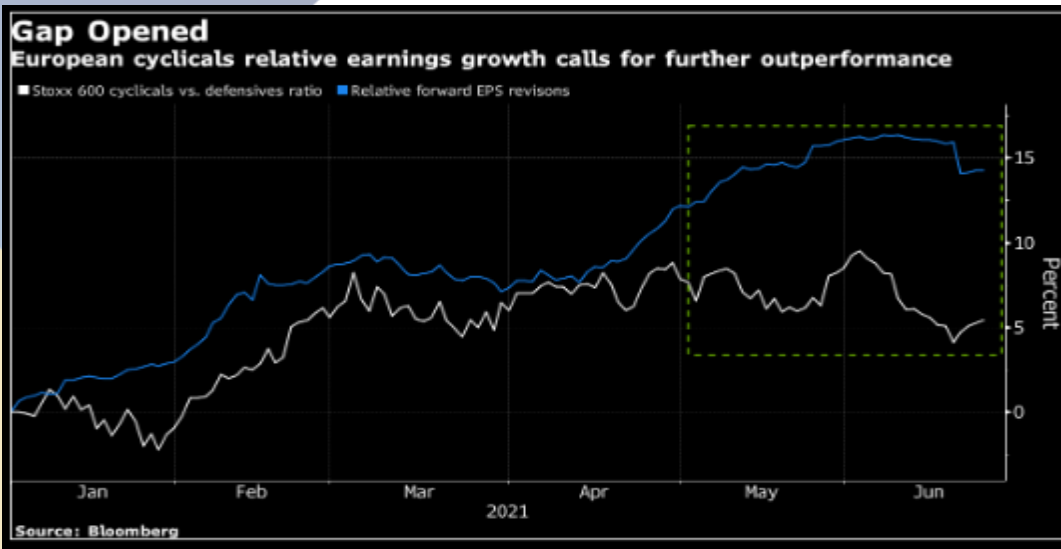


Figure 1: The chart represents euro stoxx 600 cyclicals vs defensives ratio along with the ratio of their respective forward EPS

Earnings expectations for European cyclical shares are outstripping estimates for defensives at a faster pace than the relative stock performance. The widening gap indicates analysts are more optimistic than investors. JPMorgan Chase & Co. strategists say the market may be

prematurely pricing a flattening of the yield curve, typically a late-cycle signal, and see an opportunity for investors to add to their cyclical exposure

## Lowest % of stocks above 50-dma since 1999 when S&P hits record

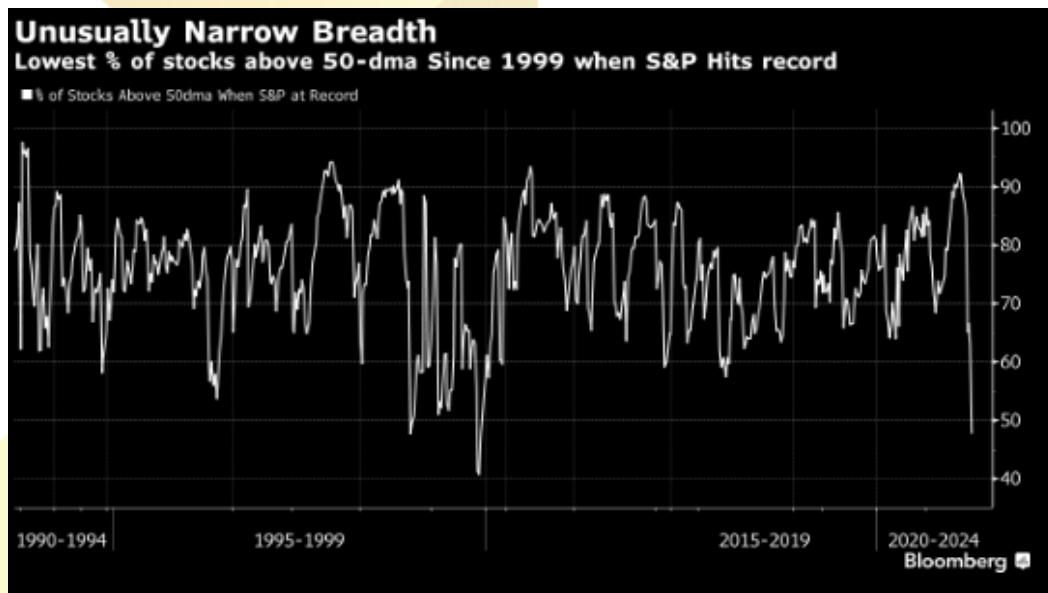


Figure 2: The chart represents % of stocks above 50 dma when S&P 500 at record

About 48% of S&P 500 members are trading above their 50-day moving average, the lowest percentage since 1999 when the benchmark reached records. Since 1990, there have been only two previous periods when this negative divergence (record high stocks accompanied by breadth below 50) happens -- December 1999

and June 1998. We all know what happened post December 1999 when the last time we got this divergence.

### Quick inflation spurs bets on BOK policy normalization in bond market



Figure 3: The chart above represents south Korean inflation rate and three year bond yield spread over BOK policy rate

eventual tightening. Inflation data for June due next Friday may give investors an even clearer idea about when the withdrawal of stimulus will begin.

### S&P 500 pure growth and value stocks show the most independence since 2000

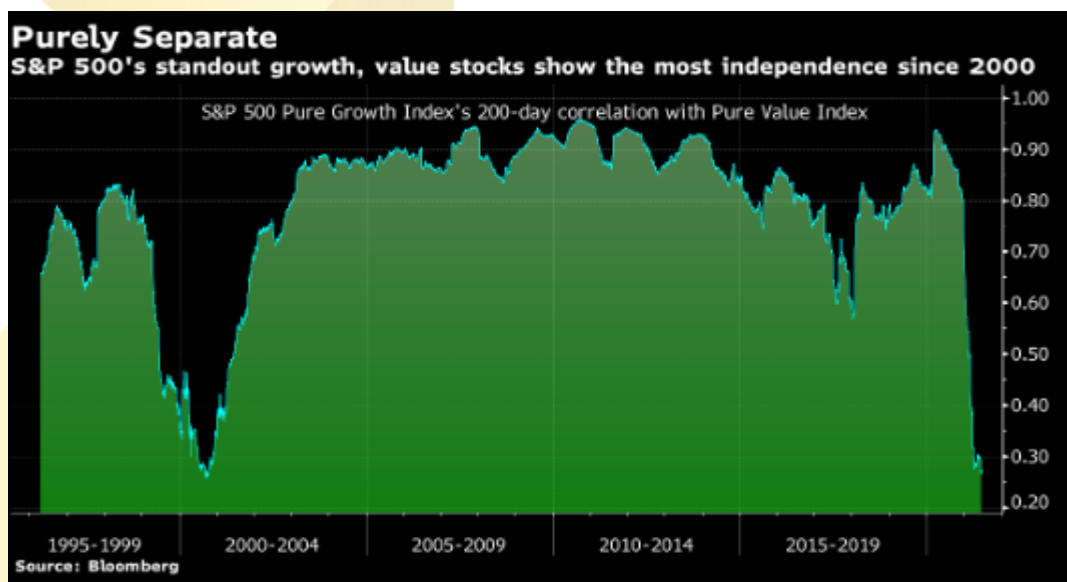


Figure 4: The chart represents 200-day correlation of S&P 500 pure growth and pure value index

2000, according to data compiled by Bloomberg. The correlation plummeted after setting an eight-year high of 0.938 in April 2020.

South Korean bond investors are demanding a higher risk premium to hold the nation's three-year debt after central bank governor Lee Ju-yeol said this week policy normalization should begin later this year. The extra yield on the securities over the Bank of Korea's policy rate has reached the widest since November 2017 as traders position for

Shares of the fastest-growing U.S. companies have stopped moving in lockstep with the cheapest stocks for a change. The shift is evident from the correlation between the S&P 500 Pure Growth and Pure Value indexes during the past 200 trading days. Tuesday's reading of 0.266 was the lowest since October

# MAJOR MOVES THIS WEEK

## Currencies

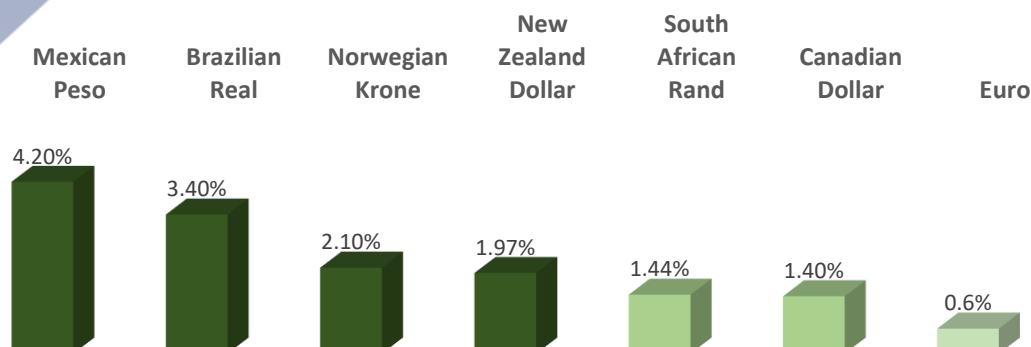


Figure 5: The graph represents Currency returns with respect to US Dollar as the base currency for this week

There was a complete risk on in developing market currencies as well as commodity linked currencies. Mexican Peso led the EM currencies after gaining more than 4%, followed by Brazilian Real with 3.4%. Norwegian Krone also gave decent returns due to positive euro and crude oil. Australian Dollar and New Zealand Dollar also performed well this week.

## Equity Indices

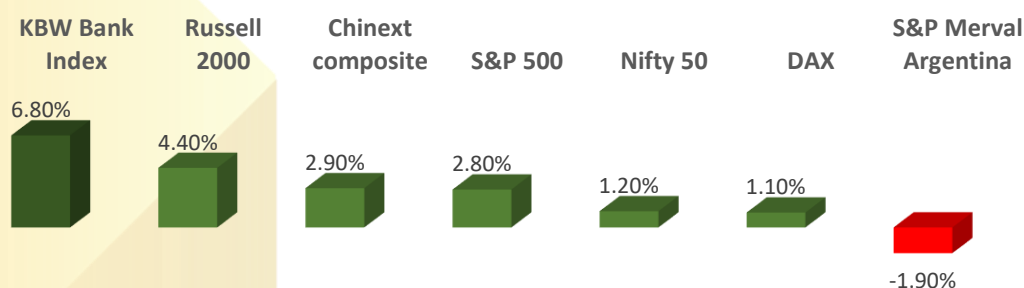


Figure 6: The chart represents the Equity Index returns over this week.

This week most of the equity indices rose handsomely. In US this week we saw small caps outperforming the broader market S&P 500 Index. Banking sector in US gained the most after declining by 8% in the previous week. Equities in Europe also closed in green though they underperformed US equities. In Asia also most of the major indices performed pretty good.

## Commodity Futures

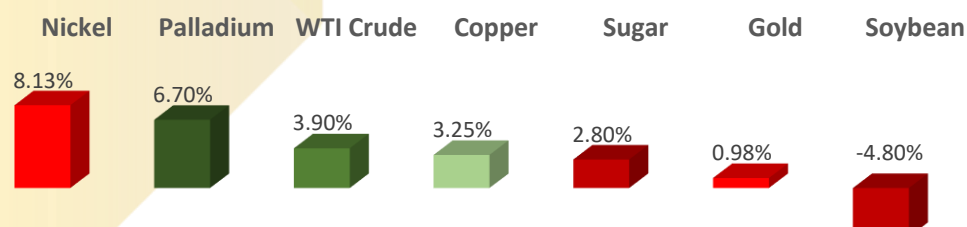


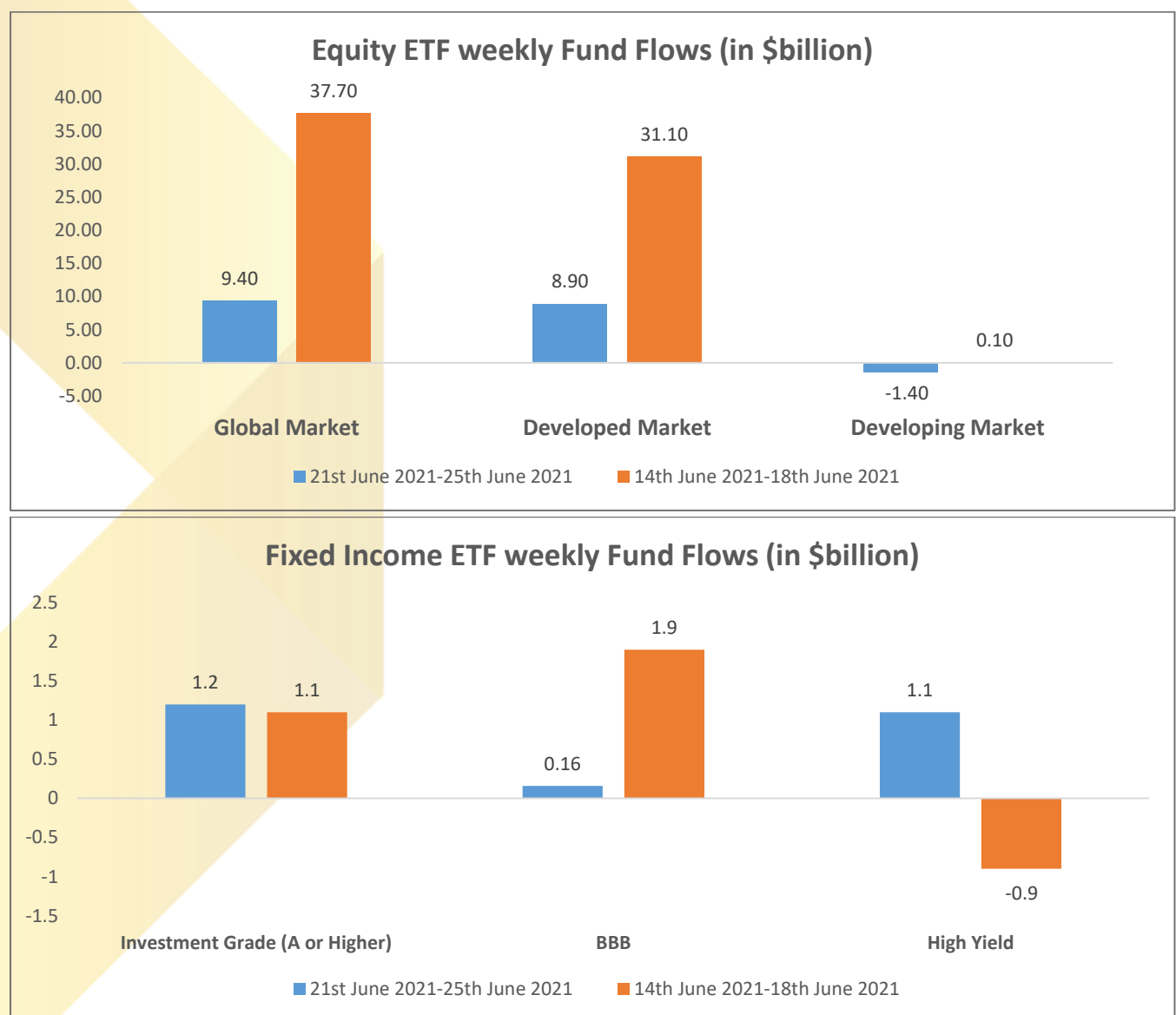
Figure 7: The chart represents the Commodity returns over the week.

Non Agro commodities had a bullish week. Among Industrial metals Nickel outperformed the most gaining more than 8%. Copper also did well gaining 3.25%. Palladium was the outperformer among precious metals. Gold gave minute bounce back of 1% from previous week closing. Among agriculture commodities most of them closed in red. Soybean and corn were the standout underperformers.

## GLOBAL FUND MANAGERS' STATEMENTS

- 1) Ray Dalio (Founder, Bridgewater Associates): "With U.S. deficits set to rise, the country will "have to sell a lot of bonds" to investors who hold bond inventories, despite carrying very low interest rates and negative real, or inflation-adjusted, inflation rates. This comes at the same time that Chinese capital markets and other capital markets are becoming more attractive to global investors. "That creates a supply/demand situation that can bring monetary inflation because there will not be enough demand to buy those bonds. As a result, the Fed won't be able to taper or cut back on its own purchases of bonds and may have to actually step up those purchases to prevent interest rates from rising."-Qatar Economic Forum, 21<sup>st</sup> 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

Equity markets have just had one of the best weeks of this year so far. Broadly we expect the equity rally to continue over the next 4-6 weeks even though the pace of rise will get tempered somewhat. We expect gold to remain largely rangebound for now. We expect the crypto meltdown to continue, and we believe that bitcoin will break through its support of 30K soon. We believe that crude oil has largely peaked out and doesn't have much upside from the current levels.

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