



Weekly Report and Outlook on Global Markets

30th July 2021

Market Developments	2
Major Moves This Week	4
Global Fund Managers' Statements	5
Global ETF Fund Flows	5
PACE 360's Future Outlook	6

MARKET DEVELOPMENTS

Momentum strategy performance of MSCI EM & EM momentum strategy



Figure 1: This figure showing us comparison of strategy performance of MSCI EM & EM momentum strategy

Momentum trading can be a useful hedge if risks -- ranging from China's regulatory tempest to the delta variant's spread -- stifle emerging markets equities. Its minus 32% correlation with the broad market and track record of crisis outperformance add to its appeal, and its low valuation is conducive to returns. Dispersion is high, but not alarming

The momentum strategy is constructed as long top 30% and short bottom 30% stocks in the MSCIEM Index ranked by their trailing 12-month performance, excluding the previous month.

China crackdown wrecks demand for loans to fund overseas M&A

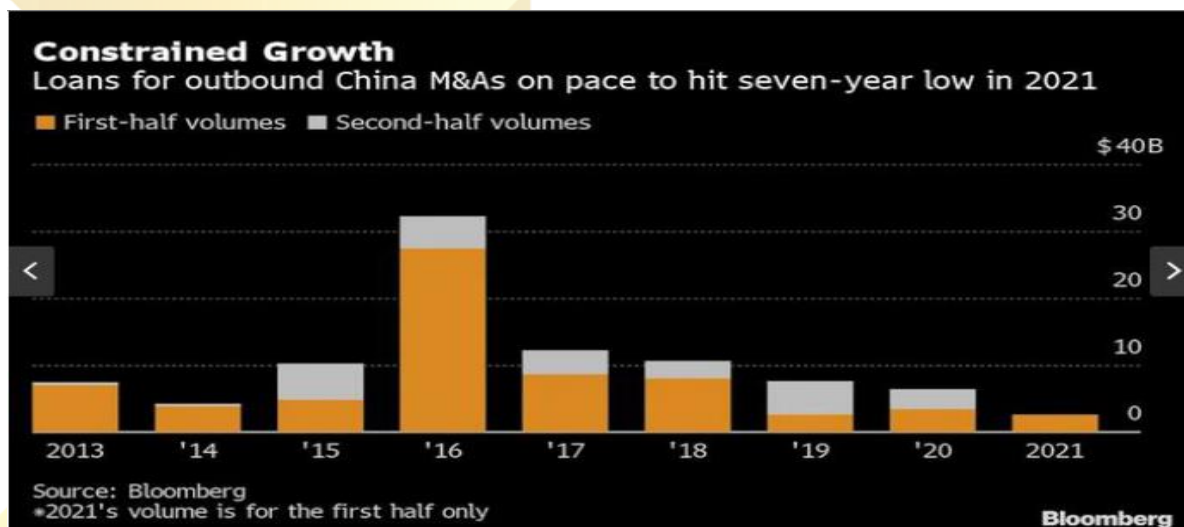


Figure 2: Graphical view of first half volume of loan for outbound China M&A activities

Foreign currency-denominated loans taken out by Chinese firms to finance outbound mergers and acquisitions shrank to \$2.6 billion in the first half of this year, Bloomberg-compiled data show. That's worse than the \$3.4 billion a year ago in the depths of the pandemic. Anything less than about \$1.7 billion in the second half would make this year the weakest for this corner of the debt market since 2014.

China Inc.'s overseas shopping spree has been cooling since 2017, as Beijing imposed curbs on the risks a debt-fueled binge could pose to the financial system, while the pandemic dampened appetite for leverage to expand abroad. Foreign scrutiny over purchases has also intensified amid Sino-U.S. tensions, particularly in the technology sector, while China's sweeping regulatory crackdown has likely held back potential deal makers.

MAJOR MOVES THIS WEEK

Currencies

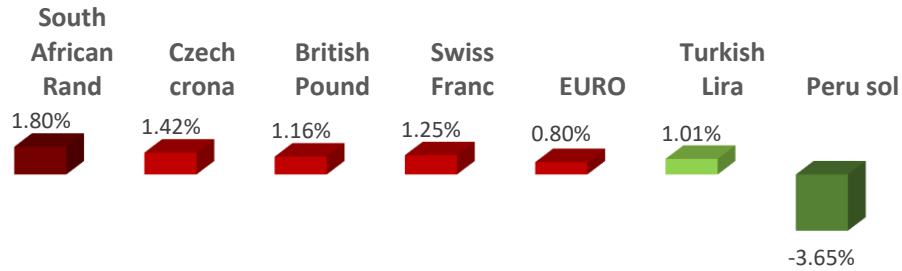


Figure 5: The graph represents Currency returns with respect to US Dollar as the base currency for this week.

This week both Emerging market and developed market currencies were appreciated. Euro has closed higher this week against dollar. In the first half we saw volatile move in major currency & few popular currency pair from European nation also depreciated. Latin American currency shown sideways move this week & Brazilian real performed sideways.

Equity Indices

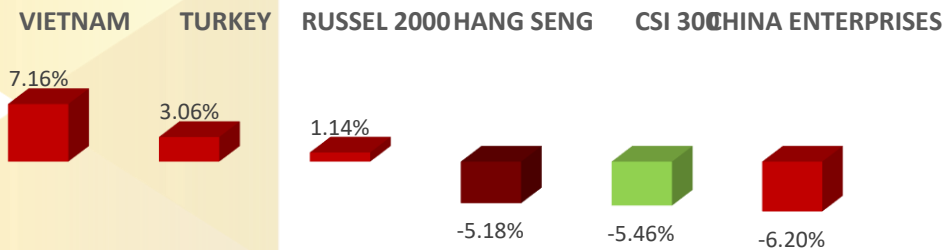


Figure 6: The chart represents the Equity Index returns over this week.

A volatile week was observed for equities especially in the second half. In US small caps and value stocks outperformed the broader market despite of fall in the us yields. In Asia, China Equities underperformed the peers along small correction in Indian indices too. In last trading session of this week, we have observed selling pressure in US equities.

Commodity Futures

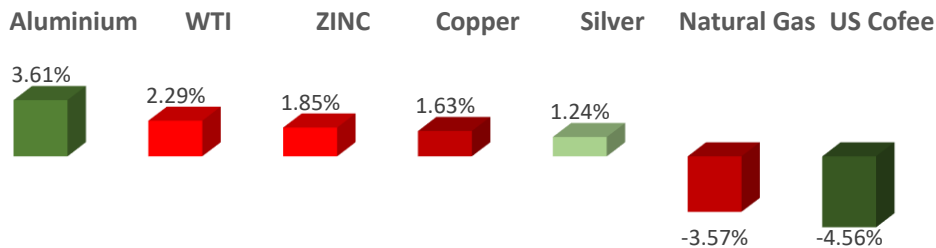


Figure 7: The chart represents the Commodity returns over the week.

We have observed positive performance this week in global commodity, Gold has shown sideways performance current week supported by fall in US yields. Industrials metals performed this week despite of fall in China indices .

GLOBAL FUND MANAGERS' STATEMENTS



Scott Miner (*Global Chief Investment Officer, Guggenheim*): Scott Miner says the "wall of liquidity" in the equity market will not be manageable in the short term, he sees S&P 500 reaching 5000.

Mark Mobius (*Founder Mobius Capital Partners*): "The Chinese government has cracked down on some of the large companies and these companies show up in the index as being very large. Their impact on the emerging market index is significant. So the result is it looks like the emerging markets are going down but other countries like India are doing very well. I believe this downturn in China is going to be temporary. So the outlook is quite good for emerging markets in view of the current situation," he said.

About bitcoin

"I'm hesitant to condemn it because so many people have faith in it. It's all a matter of belief and faith, rather than a strict interpretation of the numbers," Mobius said, noting he is not investing in the cryptocurrency at this moment.

Mark Skousen (*Economist*): Inflation concerns are escalating due to loose monetary policies and unprecedented stimulus, with June CPI data rising at the fastest level since 2008. However, this has not been reflected in the price of gold, with the precious metal not hitting the \$1,900 an ounce level since January. "Gold tends to be a leading indicator of inflation, and gold is moving up, but it hasn't broken above the \$1,900 level. But if it does break that level and goes from \$2,000 to \$2,100, that suggests a very serious inflation problem.

Adrian Day (*Adrian Day Asset Management*): Federal Reserve is "reluctant" to raise rates, it is still ultimately an inevitability, and when that happens, there will be a "crisis."

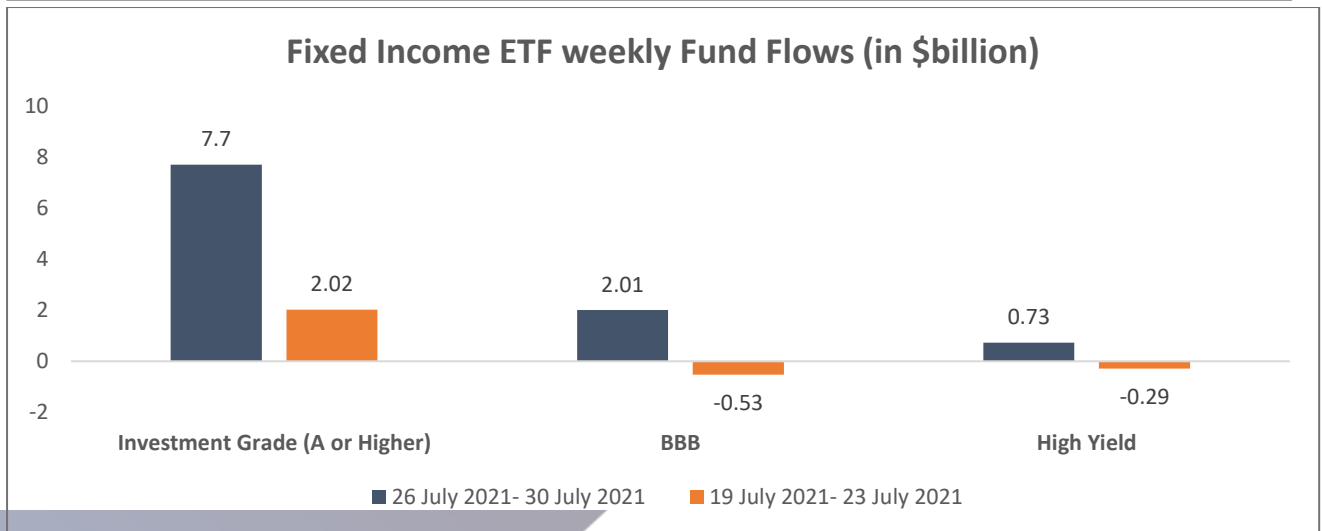
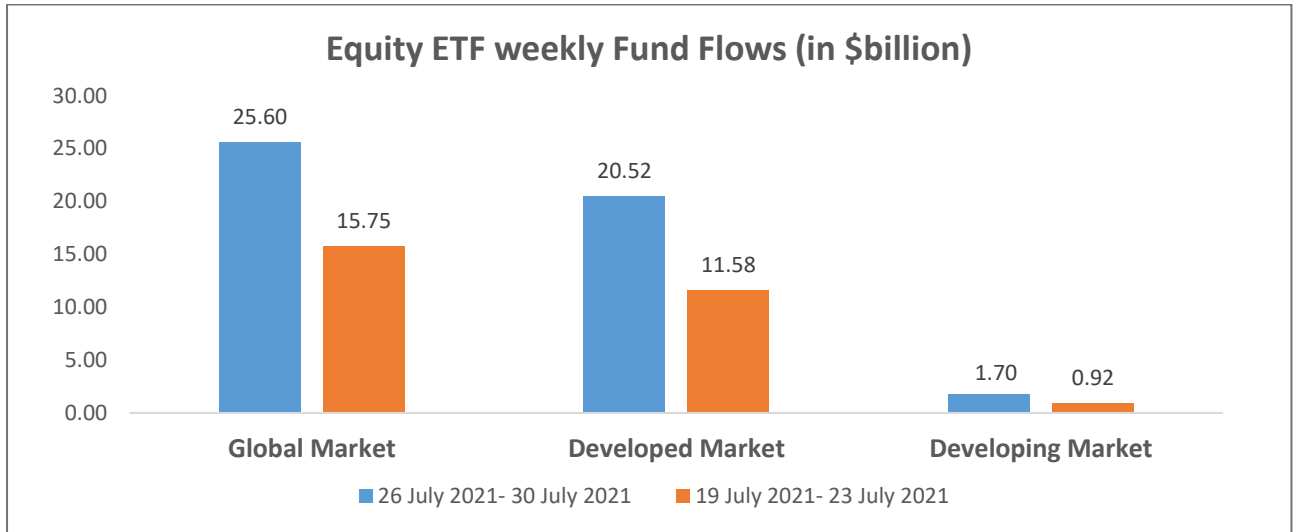
The main risk is that when interest rates rise at the short end of the curve, interest expenses will rise proportionally and become unaffordable, Day noted.

The solution is to issue longer-term maturity Treasuries, he said.

"The U.S. government should be doing 100-year bonds right now. They should be doing even 500-year bonds, perpetuums, which Britain used to have, but they're not. They're refinancing at the short end. But even with that...just servicing the debt is about 16% [of the federal budget]. If rates went back to even halfway of their 25-year average, it would be 25% to 30% of the budget would be on debt service, which would be unsustainable. It would be a crisis," he said.

Before raising rates, the Fed could signal tapering through various actions.

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 saw a mixed week for equities with a majority ending in the red while Chinese equities experienced a blood bath on negative cues from Chinese regulators on the internet and education companies. Spreads on high yield bonds have moved up a lot in last few weeks and this is flashing a red signal for global risk assets. We believe that US and European equities are priced to perfection and would come down over the next few months. Industrial commodities are also looking bearish over the medium term. Gold is looking for long term bullish and Bitcoin is expected to reach 20K over the next one year.

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