Weekly Report and Outlook on Global Markets

15th July 2022

Italian equities trade at heavy discount to European peers

Figure 1: The above chart shows FTSE MIB Index forward P/E relative to Stoxx Europe 600

The FTSE MIB has fallen about 5.6% this week, more than twice the drop of the Stoxx 600. That's cemented Italy's position as the worst-performing major index in Europe this year, down 26%, and means the country's equities are now trading at a record 35% forward P/E valuation discount to European peers.

Crude Watch – Supply pushes up, demand pulls down

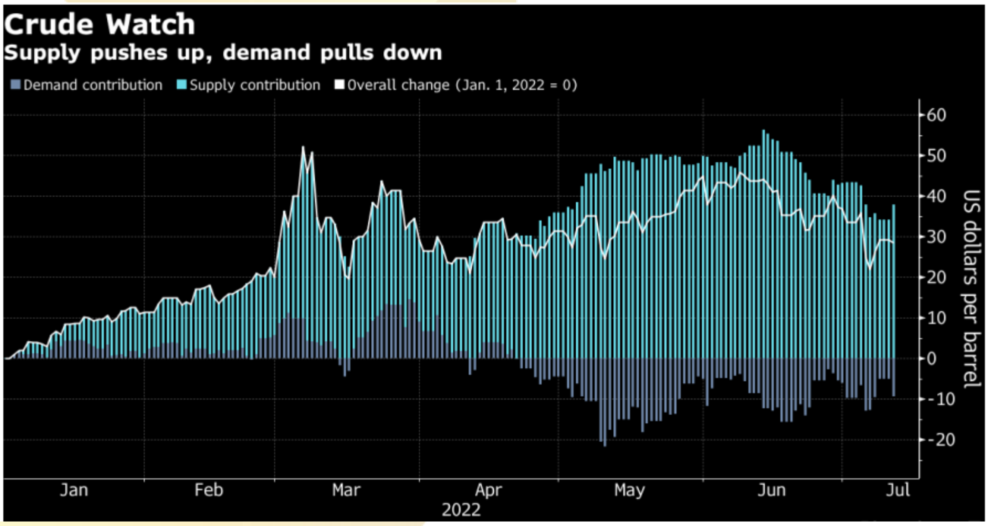

Figure 2: The above chart shows change in Crude price due to Supply and Demand

Oil prices have risen about $20 this year solely due to supply outages, with Russia's war in Ukraine exacerbating the crunch. That's a threat to US President Joe Biden, who heads to Saudi Arabia on July 15 with the goal of lowering fuel costs at home. His hosts may have limited capacity to address crude supply shortages. The alternative is to depress demand -- for that, Biden may need a recession.

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MAJOR MOVES THIS WEEK

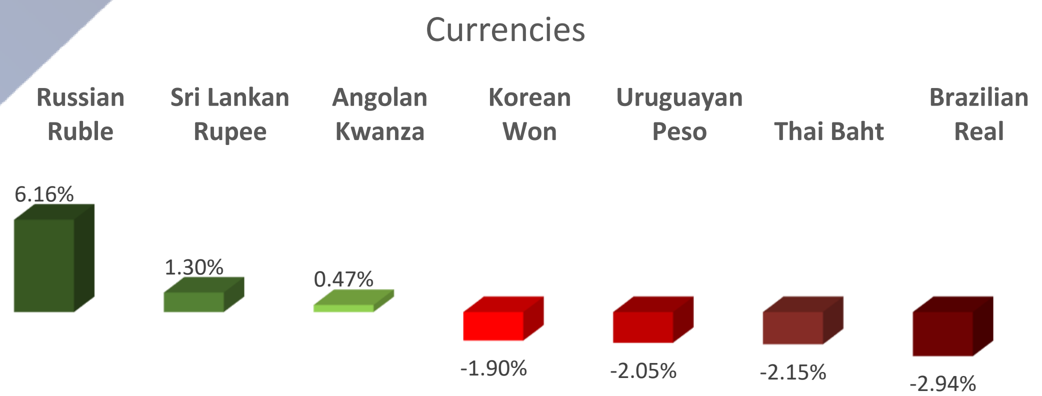


Figure 3: The graph represents Currency returns with respect to US Dollar as the base currency for this week.

This week we have seen weak performance in the global currencies. Euro, British pound and Yen all depreciated against the Dollar this week. Emerging market currencies have given weak performance against the dollar.

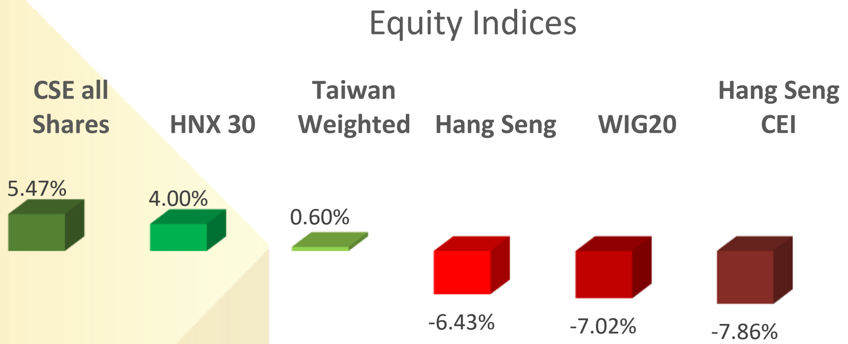


Figure 4: The chart represents the Equity Index returns over this week.

This week we have seen weakness in the global equities markets. European equities have shown weak performance, Euro Stoxx 600 was a looser during the week. Emerging market equity performed weak. Nasdaq 100 and S&P 500 have shown weakness during the week.

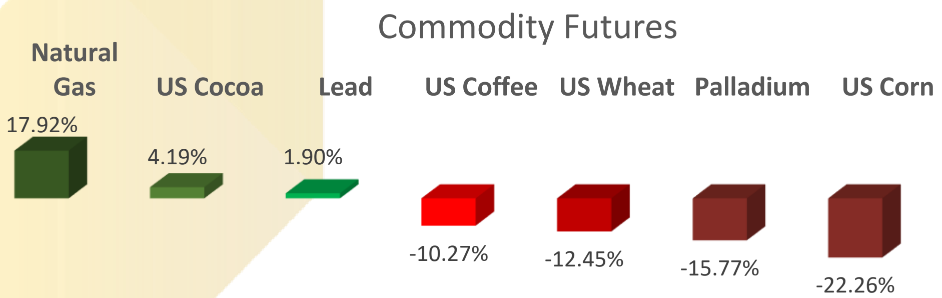


Figure 5: The chart represents the Commodity returns over the week.

Commodities have shown a weak performance during the week. We have seen depreciation in industrial metals. Crude depreciated while Natural gas appreciated strongly during the week. Gold and Silver depreciated during the week. We have seen weak performance in agricultural commodities.

GLOBAL FUND MANAGERS' STATEMENTS

Daniel Hynes (ANZ): Falling copper prices suggest that investors are negative on the outlook for the economy, a commodity strategist at ANZ bank said.

Copper is seen as a leading indicator of economic health because of its use in many sectors.At the moment, prices are falling even though there's little indication of demand falling sharply or supply increasing.

"In fact, it's the exact opposite — we're actually seeing signs in China of that demand picture improving," he said.

But investors have taken the view that tightening monetary policy will lead to lower growth, and that's being reflected in the copper prices. Copper actually looks "relatively promising," Hynes said.

He acknowledged that the copper market's performance depends on how global sentiment changes as the U.S. Federal Reserve hikes interest rates, but said supply issues are likely to keep the market tight and fiscal stimulus measures in China over the next six to 12 months will boost demand.

Cathie Wood (ARK Invest's CEO and CIO): Federal Reserve as making a mistake by raising rates too fast.

Inflation is still a short-term problem, according to Wood. And this becomes clear when investors start paying closer attention to how gold, the U.S. dollar, and yields have been trading, Wood said during her webinar Tuesday.

"We believe the Fed has been making a mistake, a policy mistake … We are getting all kinds of catalysts ... which should give the Fed a pause," Wood said. "If not pause, it should cause an entire pivot and reversal in policy. They are making a mistake. The markets are telling us they are making a mistake. I think something will break that matters to them if they keep following the lagging indicator called the CPI."

Bill Smead (Chief investment officer at Smead Capital Management.): See, what everyone is not including in the conversation is what really causes inflation, which is too many people with too much money chasing too few goods,

Smead explained that in the U.S. there are an estimated 92 million millennials, primarily in the 27- to 42-year-old age bracket. "The last time we saw what we call 'wolverine inflation' — which is inflation that is hard for policymakers to stop — was when 75 million baby boomers had replaced 44 million silent generation people in the 1970s."

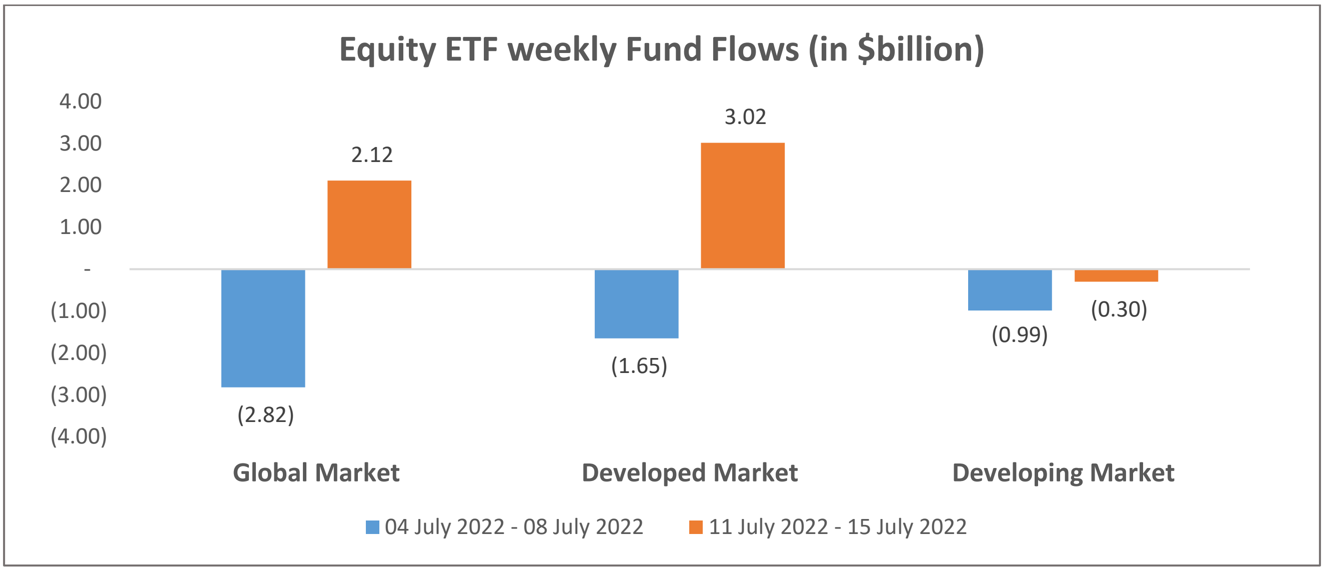
Stephen Roach. (Economist): "It's tempting to say that there'll be a repeat of what we saw in 2020, when the economy collapsed nearly 7% year-on-year rate, and four quarters later, was soaring at 18%," said the former Morgan Stanley Asia chairman on Friday."But I think it's unlikely that that will be the case,".

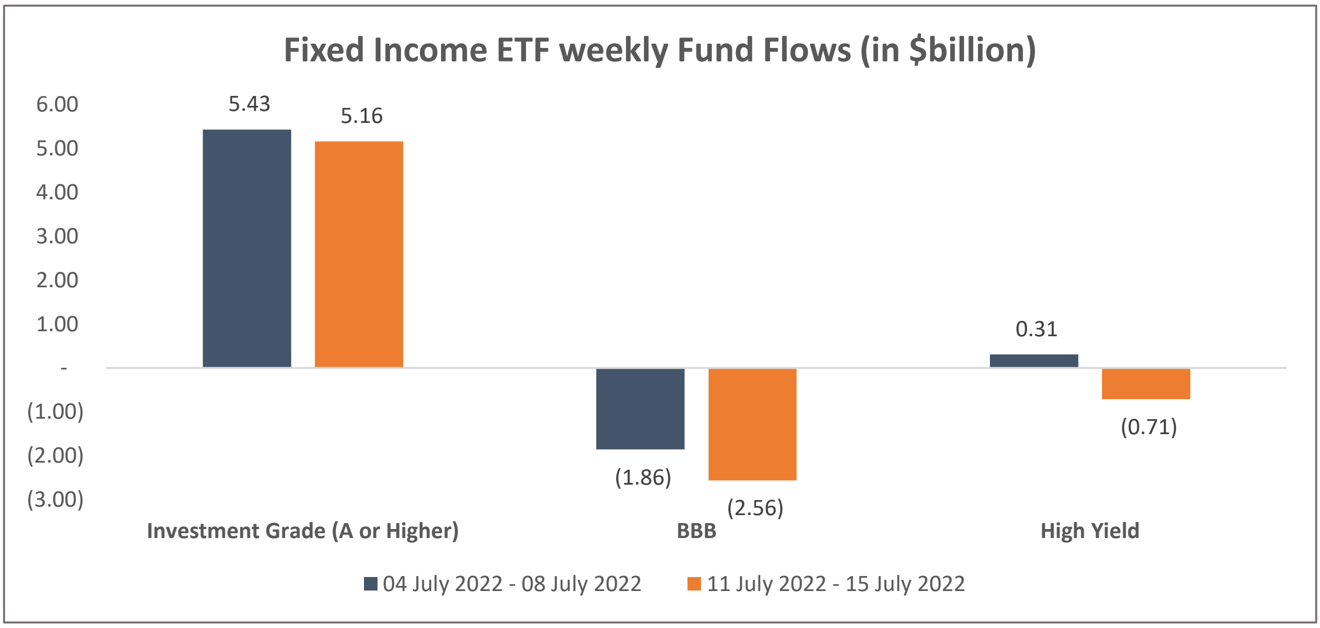
Roach, now a senior fellow at Yale University, said there could be more monetary tightening and downward pressure on the global economy "as central banks raise interest rates in response to a much worse, more intractable inflation problem than had been envisioned."

China may not see a "clean snapback," said Roach, where it bounced back from a first-quarter contraction to grow in the second quarter after the pandemic first hit in 2020**.**

"We're talking about these various variants of Omicron which came reappearing.

GLOBAL ETF FUND FLOWS





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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

Global equities rebounded in the second half of last week after getting hammered in the first half. We believe that global risk assets will remain rangebound for now and we do not foresee any major breakouts or breakdowns in the immediate future. On a longer term basis we continue to see the bear market in equities unfold over the next 2-3 years. We believe dollar index has topped out and US dollar will eventually go down against Euro and JPY. We continue to be supremely bullish on long term US Treasuries for the next couple of years. We also believe that Gold and silver are making long term bottoms and will start a multi-year bull rally very soon.

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