Weekly Report and Outlook on Global Markets

26th Aug 2022

MARKET DEVELOPMENTS

<u>Stocks Face Another Sharp Slide After Powell's Hawkish Pivot</u>

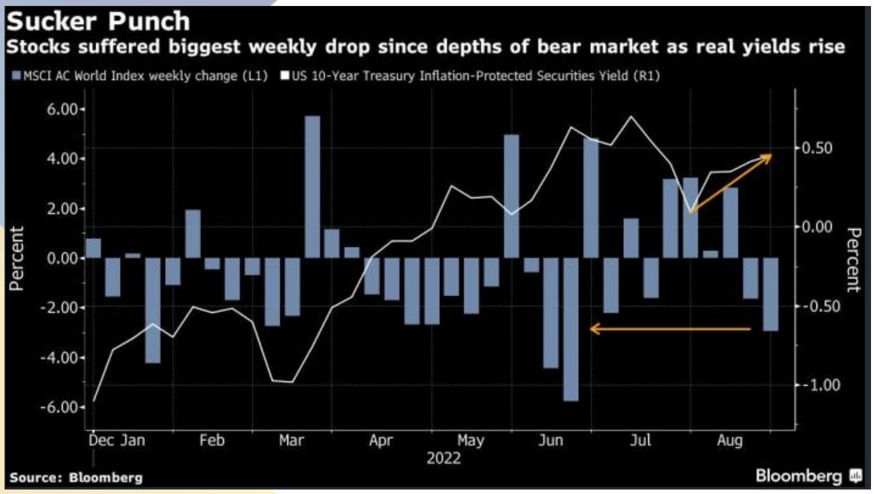

Figure 1:The above chart shows MSCI world indices Weekly % Change & US 10-year Treasury inflation protected yield

Prevailing message from the symposium was that borrowing costs are going up from the US to Europe to Asia. Officials are combating some of the highest inflation in a generation, stoked by damage to supply chains for energy and components due to Russia's war in Ukraine and Covid curbs in China.
"Restoring price stability will likely require maintaining a restrictive policy stance for some time," Powell told the audience at the Fed's annual retreat. "The historical record cautions strongly against prematurely loosening policy."

<u>Just as Wall Street Piles In, Tech Stocks Face Fresh Rates Storm</u>

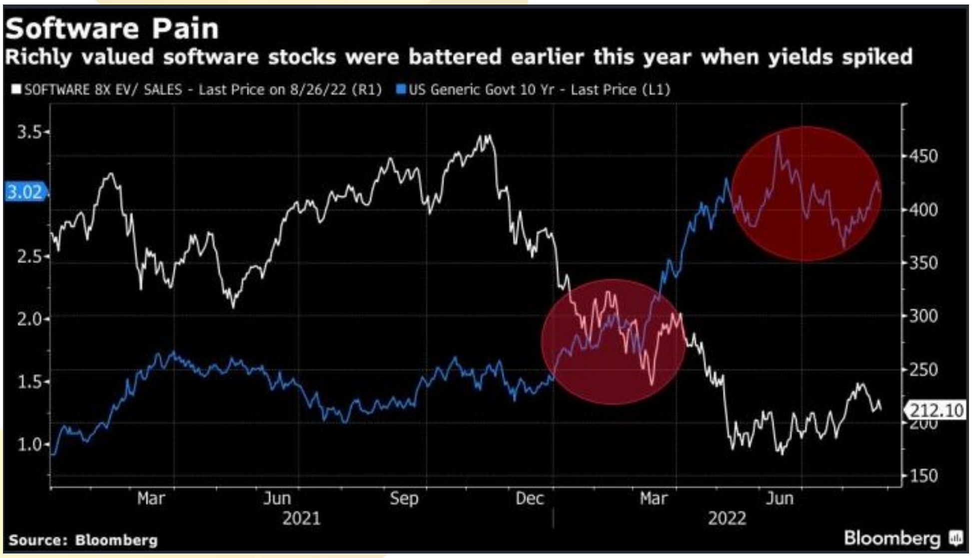

Figure 2: The above chart shows underperformance of richly valued software stocks index

A fast rise in the 10-year note yields this month has already rocked so-called growth equities while igniting a cross-asset selloff after the recent $7 trillion stock rebound.
Wall Street worrywarts are now bracing for the Treasury benchmark to retest the near 3.5% peak reached in June or rise higher still to 4% -- threatening fresh damage for blue-chip companies after the group rebounded more than 20% from the bear-market nadir.

MAJOR MOVES THIS WEEK

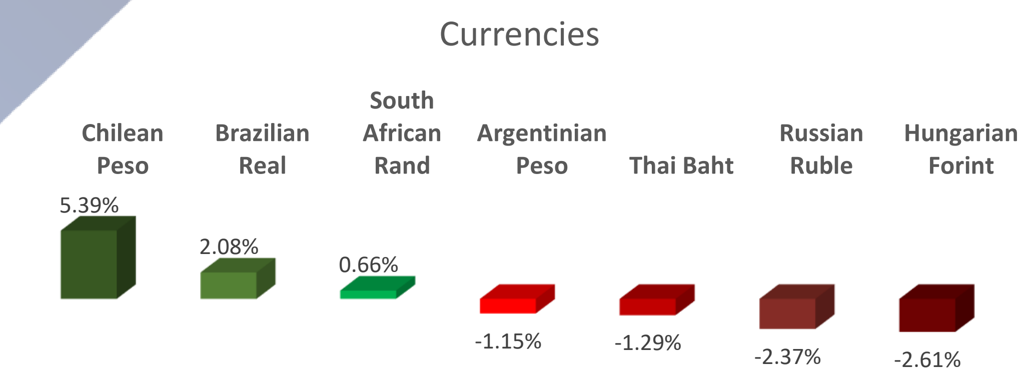

Figure 3: The graph represents Currency returns with respect to US Dollar as the base currency for this week.

This week we have seen weakness in the global currencies. Euro, British pound, and Yen depreciated.
Emerging market currencies also down against Greenback. Euro declined sharply on the last trading day of the week

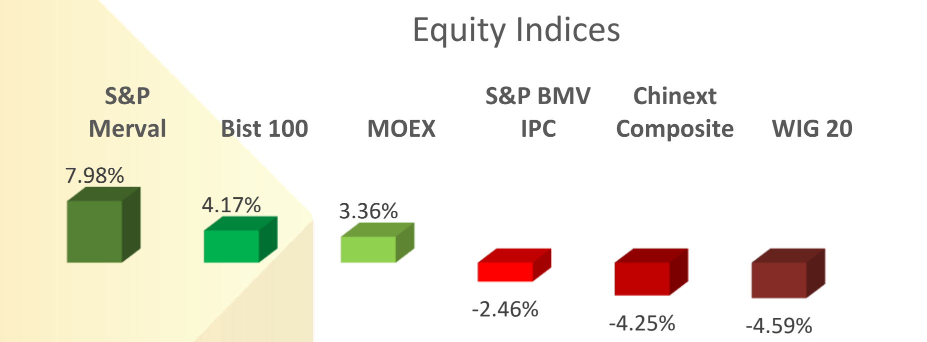

Figure 4: The chart represents the Equity Index returns over this week.

This week we have seen weakness in Global Equities. European equities have depreciated this week. Nasdaq & S&P both declined sharply on the last day of the week. We have seen weakness in the emerging economies across the globe

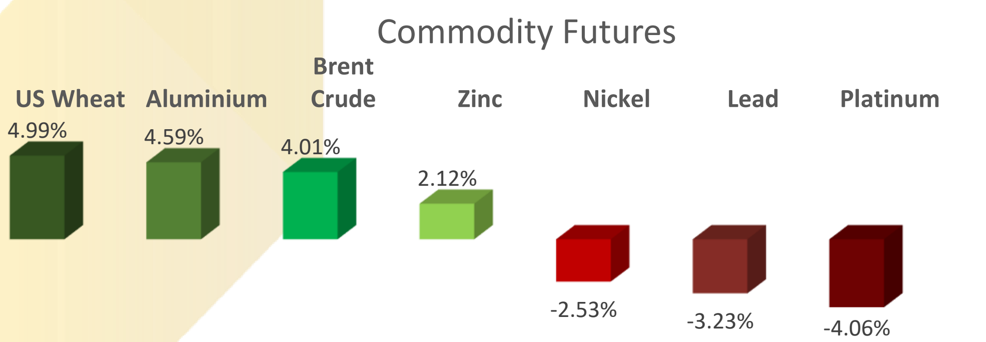

Figure 5: The chart represents the Commodity returns over the week.

Commodities have shown a mixed performance this week. Precious metals, Silver & gold went down this week. Crude was a gainer, while Natural gas depreciate. Industrial Metals and Agricultural commodities have given a mixed move during the week.

GLOBAL FUND MANAGERS’ STATEMENTS

Greg Jenson (Bridgewater co-Chief Investment Officer): Assets could fall another 20% to 25% as the Federal Reserve's drive to tame inflation with tightening hasn't been fully priced in yet.

Market conditions still reflect assumptions that inflation will slow dramatically toward the Fed's 2% target in the next 18-24 months amid a stable economy and earnings landscape, he said.

But reality will eventually set it, with inflation being more stubborn, the Fed tightening for longer, easing not happening in the next six to nine months, and profits coming in weaker, he warned.

Markets still have significant ground to cover to bring the real economy closer to the financial economy, which could mean a steeper downturn in the future, Jensen said. "We're still something like 25% [to] 30% above the normal relationship between cash flows and asset prices, which means there's a significant decline to come to kind of align the real economy with the financial economy," he said

Jeremy Siegel (Wharton business school professor): U.S. Federal Reserve does not need to hike more than 100 basis points because an economic slowdown is in sight.

“I think we only need 100 basis points more,” Siegel said . “The market thinks it’s going to be a little more — 125, 130 basis points more. My feeling is we won’t need that much because of what I see as a slowdown.” “If you want to do it all at once, or you want to do it over a period of two to three meetings — it won’t make that much of a difference,” he said. “The question is what terminal rate do we have to go to.” Siegel added housing costs, which are a significant factor of core inflation, said that housing have recently “gone down by a record amount exceeding any six-month period.”

“The actual on-the-ground in the United States, is that real estate prices are actually beginning to go down,” Siegel said.

Sarah McCarthy and Mark Diver (Strategists Sanford C. Bernstein): The recent brisk rebound in equity markets won’t last as macroeconomic data continue to deteriorate and earnings forecasts are being slashed. earnings downgrade cycle is just starting along with outflows from stock funds. While investors have stopped buying equities in the second quarter, funds haven’t yet seen a reversal of the “huge” inflows of $200 billion seen in the first quarter, they said. threat to equities from weaker earnings to come. The strategists’ top-down model showed corporate earnings are likely to fall 15% to 20% year-over-year as margins come under pressure,

Beat Wittman (Chairman and partner at Zurich-based Porta Advisors): The growing risk of a “major financial accident” that causes a market capitulation later in the year could open up opportunities for investors to “pile up on quality risk assets. With risks from inflation and an economic slowdown mounting and central banks treading an increasingly narrow monetary policy path, Wittman characterized the global economy as “stuck in a perfect storm environment of supply chain frictions, contracting final demand, high inflation, rising interest rates, falling corporate earnings and a potential financial accident.”

He said there is a danger that a “weak link” in the financial system breaks and investors flee en masse, providing investable bottoms for shrewd investors.

Jamie Dimon(JPMorgan CEO): The end of the aggressive tightening pace could help risk-on assets recover during the second half of the year.

In the meantime, Dimon shared his outlook on the economy in a client call earlier in August. And it was quite uncertain."What is out there? There are storm clouds. Rates, QT, oil, Ukraine, war, China. If I had to put odds: soft landing 10%. Harder landing, mild recession, 20%, 30%. Harder recession, 20%, 30%. And maybe something worse at 20% to 30%," Dimon explained. "It is a bad mistake to say 'here is my single point forecast.'"

Goldman Sachs also shared its take on the impact of global monetary policy tightening in a note Monday, stating that major economies won't experience recessions over the next 12 months."Their resilience supports our forecast that no major economy will enter a monetary policy-driven recession over the next year," economists led by Jan Hatzius wrote in the note. "Coupled with the persistence in inflation and its drivers, this resilience suggests some upside risk to terminal rates among the later hikers relative to current market pricing."

PACE 360'S FUTURE OUTLOOK

Global equities fell sharply this week with US equities in a virtual blood-bath mode post the Jackson hole symposium. We see the global bear market continuing to unfold over the next 3 years. We believe equities would have further downside in the near term before they become sideways for the medium term. We do not see fresh calendar year lows for US equities to happen in the next 2-3 months. We believe longer term US Treasuries will be one of the best asset classes for the next 1 year or so. We see gold and silver as the best performing asset classes over the next 3-5 years. We believe dollar is very close to its rally top and will begin a multi-year bear market against Euro and JPY soon. We remain long term bearish on crypto assets.

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