Weekly Report and Outlook on Global Markets

16th Sep 2022

MARKET DEVELOPMENTS

Fed Tilts Toward Third 75 Basis-Point Hike on Stubborn Inflation

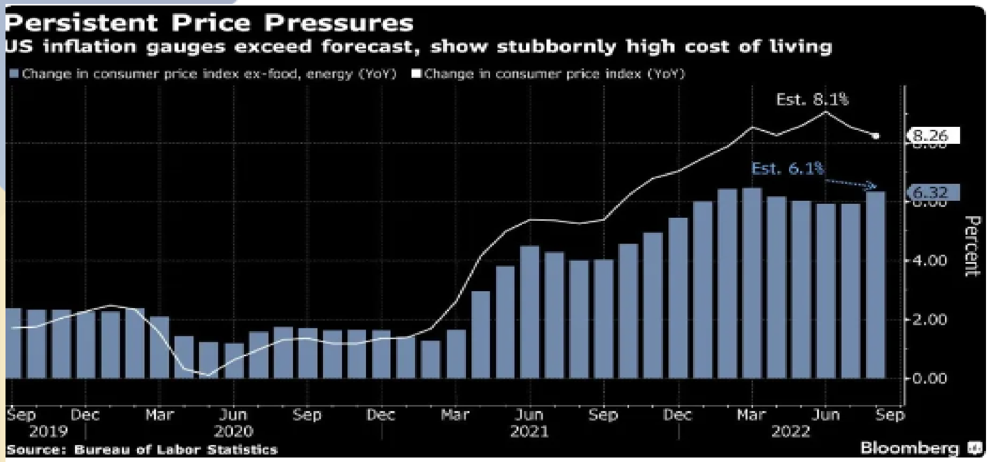

Figure 1:The above chart shows Fed Tilts Toward Third 75 Basis-Point Hike on Stubborn Inflation

Federal Reserve officials are on track to raise interest rates by 75 basis points for the third consecutive meeting this week and signal they're heading above 4% and will then go on hold.
A case can be made for going even bigger. But there are persuasive arguments for not delivering a shock 100 basis-point increase that will probably prevail when they gather Tuesday and Wednesday in Washington.
Since officials last met in July, the "totality" of data -- to use Chair Jerome Powell's phrase -- shows the economy remains resilient and inflation is widespread and stubbornly high.

Markets Roiled by Inflation Leave Investors With Nowhere to Hide

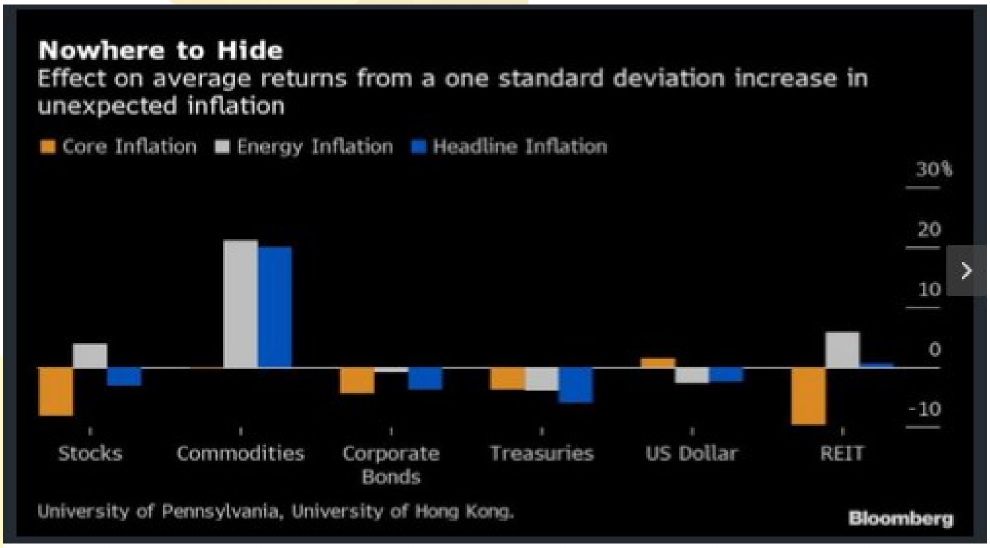

Figure 2: The above chart shows effect on average returns from a one standard deviation increase in unexpected inflation

Increase in core inflation -- which strips out volatile food and energy prices -- is poised to drive the Federal Reserve to continue its most aggressive series of interest rate hikes in decades. And that's bad new for assets of all stripes. The first half of the year when energy and food inflation were rising faster than core, commodities did great and looked like a great hedge against inflation.

MAJOR MOVES THIS WEEK

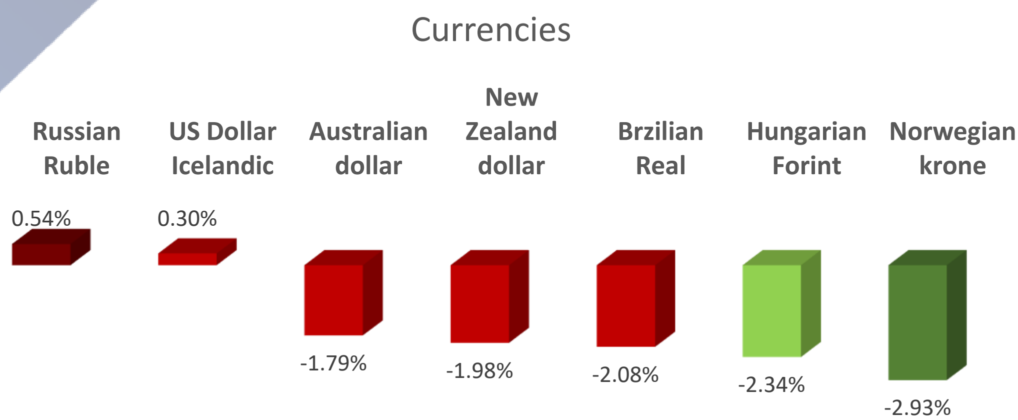

Figure 3: The graph represents Currency returns with respect to US Dollar as the base currency for this week.

This week we have seen weakness in the global currencies. Euro and British pound depreciated.
Emerging market currencies also down against Greenback. Japanese Yen weakened against dollar in last trading session of the week. We have also seen weakness in Australian Dollar & New Zealand Dollar.

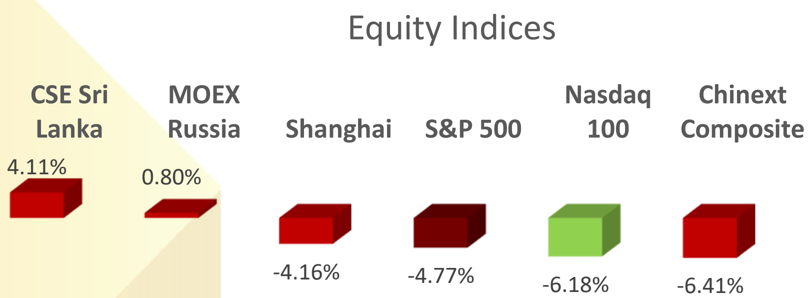

Figure 4: The chart represents the Equity Index returns over this week.

This week we have seen downward performance in Global Equities. European equities shown underperformance this week. Nasdaq & S&P both shown underperformance . Indian market was also one of the best performing markets is last few weeks. All over this week was negative for equity markets.

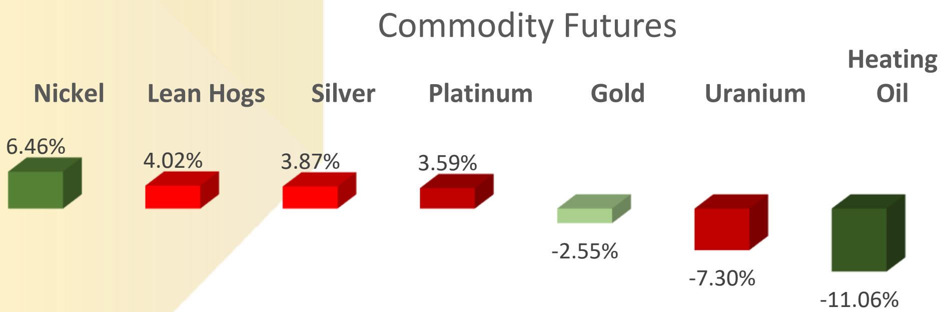

Figure 5: The chart represents the Commodity returns over the week.

Commodities went down this week due to weak performance given by EURO/NZD/AUD. We have seen Silver shown strength & other industrial metals went down this week except copper . Crude was among worst performer commodity for this week. All key agriculture commodity shown mixed performance this week.

GLOBAL FUND MANAGERS' STATEMENTS

Peter Boockvar (Chief Investment Officer of Bleakley Financial Group): The market's violent reaction to hotter-than-expected inflation may usher in more losses. Wall Street is coming to grips with a painful reality: Inflation isn't moderating, so the Federal Reserve won't pivot.

"After next week's rate hike, we're going to start playing a dangerous game with the state of the economy. The next rate hike is going to be only the second time in 40 years that the Fed funds rate is going to exceed the prior peak in a rate hiking cycle,". "The BLS [Bureau of Labor Statistics] lags in how it captures that. So, that's why we have this sort of two-lane highway with both sides going in opposite directions,".

Stanley Druckenmiller (Former chairman and president of Duquesne Capital):He argued that the pain in economy won't be temporary—and that stocks face an entire decade of sideways trading as the global economy goes through a tectonic shift.

"There's a high probability in my mind that the market, at best, is going to be kind of flat for 10 years, sort of like this '66 to '82 time period,". Druckenmiller added that with inflation raging, central banks raising rates, deglobalization taking hold, and the war in Ukraine dragging on, he believes the odds of a global recession are now the highest in decades.

This shift is a result of the globalization that characterized the past few decades fading amid the war in Ukraine and U.S.-China tensions. Druckenmiller points out that globalization has a deflationary effect because it increases worker productivity and speeds up technological advancement, but now that's gone.

Kevin O' Leary (Chairman of O'Shares Investments): Kevin O'Leary says volatility is back and it may be a good time to buy more stocks."It's very disheartening to equity markets to lose close to 1,000 points in a matter of 40 minutes,". "That means volatility is back. If you're an investor, maybe the best thing to do here is — since you can't guess the bottom — is to take opportunities on days like today and buy stocks that you think are attractive." "It was assumed only 48 hours ago that the Fed's terminal rate would be 4%. And that would be the maximum in terms of rate hikes, but we're past that now,"

Greg Jensen (Co–chief investment officer of Bridgewater Associates): stock market hasn't fully priced in a recession, and that the U.S. is at the center of a global bubble that has yet to burst. "I think the biggest mistake right now is the belief we're going to return to, essentially, prices similar to the pre-COVID,".

The leading hedge fund shorted some 28 European companies for a total position valued at up to $10.5 billion in June, according to data compiled by Bloomberg. But it cut its disclosed short positions on European firms to just $845 million in August.

Ray Dalio (Bridgewater Associates): Ray Dalio expects the US to face stubborn inflation and interest rates of at least 4.5% in the years ahead, and forecasts a roughly 20% plunge in stock prices.

"My guesstimate is that it will be around 4.5% to 5% long term," he wrote, referring to inflation.

The rate of price increases could be "significantly higher" if there are any shocks, such as economic crises in Europe and Asia or droughts and floods, he added. said the Federal Reserve will seek to curb inflation by hiking interest rates from around 2.5% today, to between 4.5% and 6% over time.

The US government needs to sell a bunch of debt to fund its budget deficit, and the Fed is selling bonds to pull money out of the economy, he noted. That means rates have to rise to a level where demand for private credit will fall, and create enough buyers for those bonds.

PACE 360'S FUTURE OUTLOOK

Global equities had yet another disastrous week this time. While we remain extremely bearish on global equities longer term we see them largely rangebound in the near term. On one hand we expect the economic data to worsen in the near term but on the other hand we expect the inflation and central banks' hawkishness to recede as the most important market concern. This should mean that markets should not have much downside even though the August highs would largely remain out of reach. We are extremely bullish on gold and 30-year US Treasuries from this point. We believe that US dollar should start in multi-year bear market very soon..

CONTACT US

+91-11-4742 1001

info@pace360.in

A-1/291, Safdarjung Enclave, New Delhi – 110029

FOLLOW US ON SOCIAL MEDIA

Facebook.com/PaceThreeSixty

Twitter.com/PaceThreeSixty

Linkedin.com/company/50145027