Weekly Report and Outlook on Global Markets

23rd Sep 2022

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MARKET DEVELOPMENTS

Confidence in UK Markets Vanishes as Pound Plunges

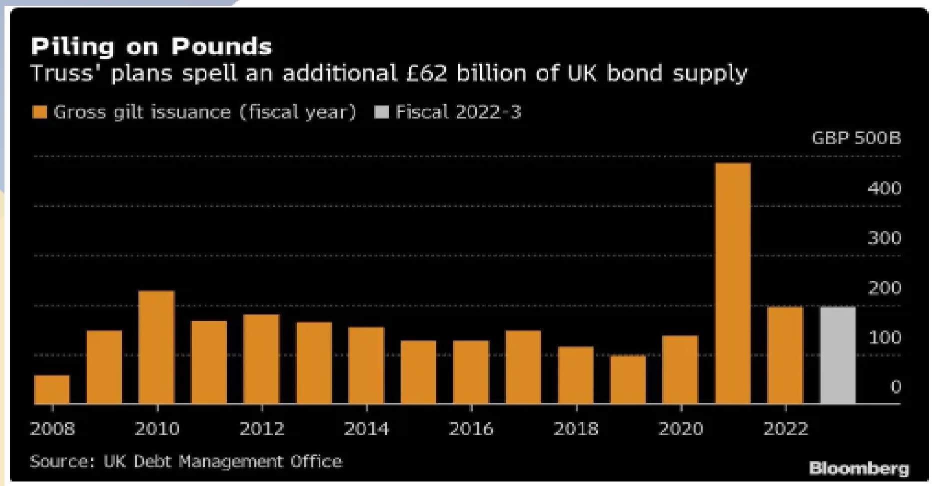

Figure 1:The above chart shows confidence in UK markets vanishes as pound plunges

Confidence in UK market vanished on Friday as the pound plunged below $1.09 and gilt yields skyrocketed. After Chancellor of the Exchequer Kwasi Kwarteng outlined tax cuts and spending plans, traders expressed dismay about how the British government will be able to fund its radical ambitions. Even more ominous, some questioned the Britain's financial stability and worried about market dysfunction.

Gold Flirts With Bear Market After Rate Hikes Batter Bullion

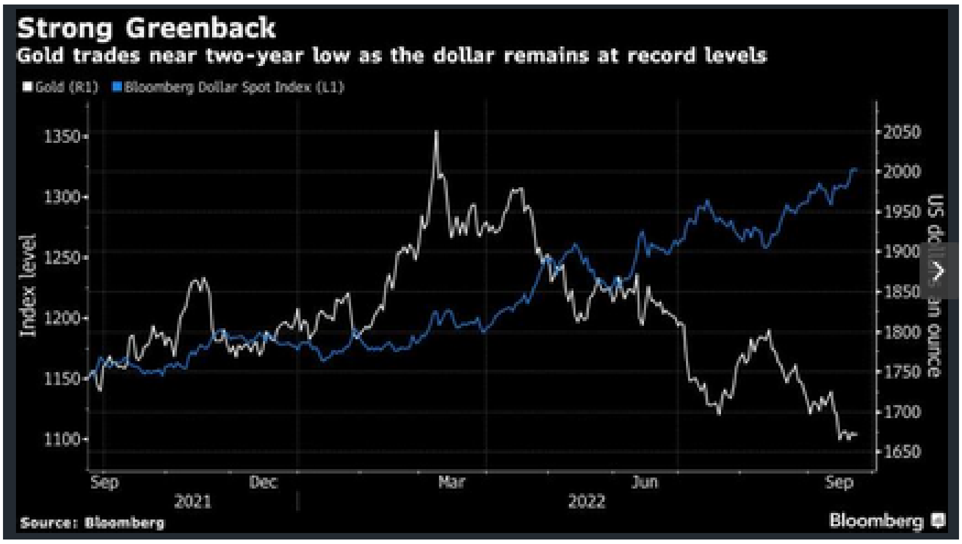

Figure 2: The above chart shows price performance of Gold & Dollar Index

Bullion flirted with slipping into a bear market, closing nearly 20% below the all-time high reached in March amid a broad retreat in everything from commodities to stocks as the dollar climbed to a record. Investors shed risky assets for cash after the UK's economic plan reignited concerns that central banks' aggressive interest-rate hikes may lead to a recession. Central banks in Switzerland, Norway and Britain followed the Fed's lead in announcing interest-rate hikes to curb price increases. Gold, which doesn't bear interest and is priced in the US currency, usually has a negative correlation with the dollar and rates.

MAJOR MOVES THIS WEEK

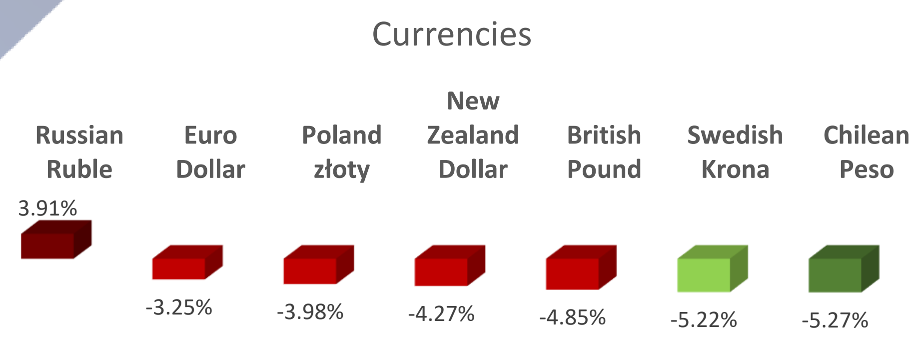

Figure 3: The graph represents Currency returns with respect to US Dollar as the base currency for this week.

This week we have seen weakness in the global currencies. Euro and British made their historical multiyear bottom this week. Emerging market currencies also down against Greenback. We have also seen weakness in Australian Dollar & New Zealand Dollar as well as in other developed currencies. Indian rupee made its all time low against dollar.

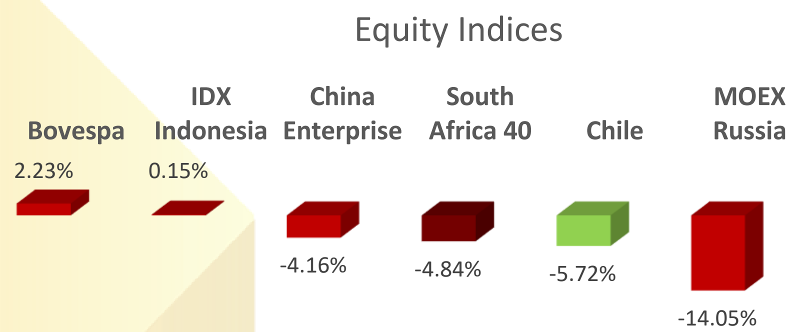

Figure 4: The chart represents the Equity Index returns over this week.

This week we have seen downward performance in all Global Equities. Dow made its yearly bottom this week, while Nasdaq & S&P both shown weakness & close lower this week. All European equities closed lower, while Euro Stoxx 600 made its yearly bottom. All over this week was negative for equity markets.

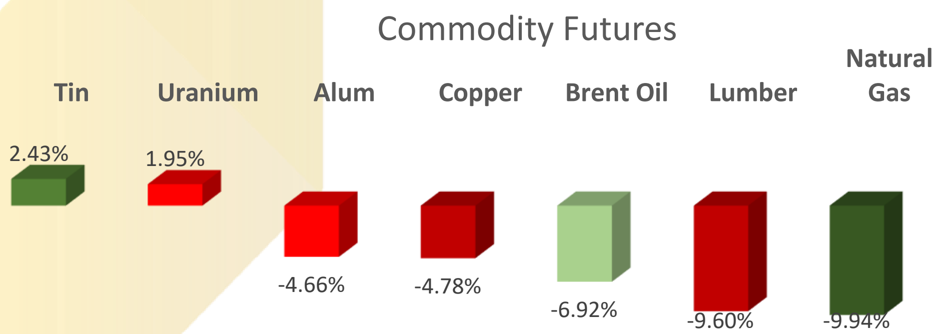

Figure 5: The chart represents the Commodity returns over the week.

Commodities went down this week due to weak performance given by EURO/NZD/AUD & GBP. We have seen across the bord selling in all key commodities & other industrial metals went down this week except copper. Crude also shown weak performance commodity for this week. All key agriculture commodity shown mixed performance this week.

GLOBAL FUND MANAGERS' STATEMENTS

Nouriel Roubini (Chairman and chief executive officer of Roubini Macro Associates): Economist Nouriel Roubini, who correctly predicted the 2008 financial crisis, sees a "long and ugly" recession in the US and globally occurring at the end of 2022 that could last all of 2023 and a sharp correction in the S&P 500.

"Even in a plain vanilla recession, the S&P 500 can fall by 30%,". Dr. Doom, said that those expecting a shallow US recession should be looking at the large debt ratios of corporations and governments. As rates rise and debt servicing costs increase, "many zombie institutions, zombie households, corporates, banks, shadow banks and zombie countries are going to die," he said. "So we'll see who's swimming naked."

El-Erian (Chief economic adviser at Allianz): The '70s are coming back in a big way, and while that's not so bad in fashion or in music, it's safe to say that no one really wants that '70s economy back. That was the decade that brought stagflation, a nasty mix of high inflation, increasing unemployment, and stagnant job growth.

He sees a stagflationary period on the way, in the form of a global economic crash that few nations will escape unharmed. As El-Erian sees it, inflation is too high, and the Fed's interest rate hikes to curb it are insufficient; the hikes are more likely to choke off growth while forcing a contraction of the labour force. The result: a near-term of rising prices, rising unemployment, and slow to non-existent GDP growth, or in a word, stagflation.

Nigel Bolton (BlackRock Inc. co-chief investment officer): For stock traders grappling with a hawkish Federal Reserve and a looming recession, the next shoe to drop will be on corporate earnings. "What we're concerned about increasingly is earnings downgrades and we haven't had that yet. "The tone of management teams is already starting to change and we're going to see pretty substantial reductions for 2023," he said. The forecast further dims the outlook for equities, which have been hammered this year on concerns about the Fed's aggressive policy tightening as it attempts to tame scorching inflation.

Jeremy Siegel (Wharton professor): Jeremy Siegel has a big issue with the Federal Reserve's aggressive interest rate hikes in its bid to tame inflation, and worries that the central bank is making the biggest mistake in its history and may provoke a steep recession.

That's because, according to Siegel, inflation is starting to come down significantly and the Fed is still moving forward with its rate hikes.

"The last two years [are] one of the biggest policy mistakes in the 110-year history of the Fed, by staying so easy when everything was booming," Siegel said. "When we have all commodities going up at rapid rates, Chairman Powell and the Fed said: 'we don't see any inflation. We see no need to raise interest rates in 2022.' Now when all those very same commodities and asset prices are going down, he says: 'Stubborn inflation that requires the Fed to stay tight all the way through 2023.' It makes absolutely no sense to me whatsoever, way too tight!"

Steve Hanke(Professor of applied economics at Johns Hopkins University): There's an 80% chance of the U.S. falling into a recession — much higher than previously predicted. "The probability of recession, I think it's much higher than 50% — I think it's about 80%. Maybe even higher than 80%," . "If they continue the quantitative tightening and move that growth rate and M2 (money supply) into negative territory, it'll be severe." Hanke was critical, and has been in the past, of the Federal Reserve's failure to manage inflation through keeping an eye on the large supply of money sloshing around in the U.S. economy.

"They have really been searching for inflation and the causes of inflation in all the wrong places. They're looking at everything under the sun, but the money supply," Hanke said.

"And in fact, they've doubled and tripled down on the argument that money has no relationship to economic activity or not a reliable relationship to economic activity and inflation."

PACE 360'S FUTURE OUTLOOK

Panic has descended into global financial markets with everything except for the US dollar getting clobbered. We believe that the current dislocation in the markets is going to be over in the next few days and a sustainable rally across all asset classes in going to unfold over the next six weeks. We believe US 30-year government bonds are the best asset class for the next one year and precious metals are also in the process of making long term bottoms. We are extremely bearish on US dollar for the next three years even though it may make a slightly higher top in the next few days or so.

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