Weekly Report and Outlook on Global Markets

14th October 2022

Stocks Defy Logic in a See-Saw Week Riled by Inflation

Figure 1: The chart shows 1 Day percentage price change for S&P500, Nasdaq 100 and Dow Jones Industrial average

Violent reversals this week -- up 2.6% one day, down 2.4% the next -- highlight the challenge of assessing reactions among investors whose obsession with inflation data and Federal Reserve reactions to them only seems to grow. The S&P 500 notched a 194-point down-to-up reversal on Thursday as data showed that core inflation posted a 6.6% jump from a year ago, the largest in four decades. About 35% of week-ending trading sessions have seen the index drop 1% or more this year. That's a record going back to 1952 when the five-day trading week was instituted.

China home rental prices are in an unusual decline

Figure 2: The above chart shows CPI house rent YoY change

China's residential rents are on a deepening decline as a sharp economic slowdown, weak job prospects and Covid lockdowns reduce demand from tenants. Rent inflation dropped 0.7% from a year earlier in September while the headline consumer price index remained positive, official data showed on Friday. Figures from private data firm China Index Holdings show an even steeper year-on-year decrease, with rents in 50 major cities sliding 4% last month.

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MAJOR MOVES THIS WEEK

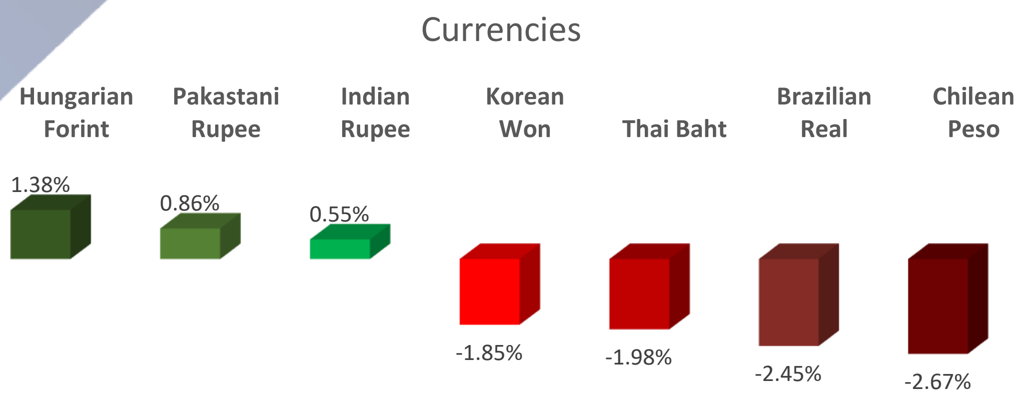


Figure 3: The graph represents Currency returns with respect to US Dollar as the base currency for this week.

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

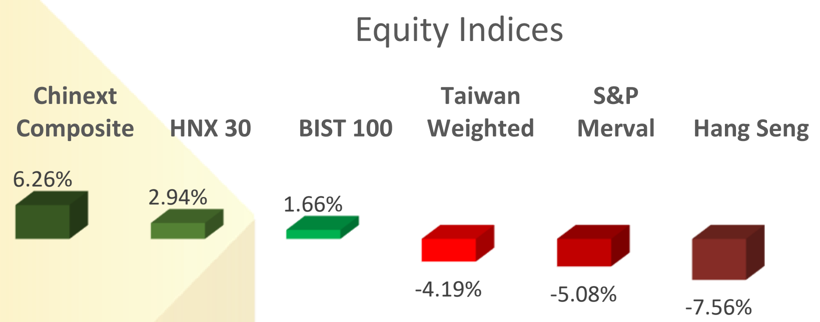


Figure 4: The chart represents the Equity Index returns over this week.

This week we have seen weakness in the global equities markets. European equities have shown strength while Euro Stoxx 600 was a looser during the week. Emerging market equities performed weakly. Us markets have been very volatile this week, and have shown sharp moves with downwards bias

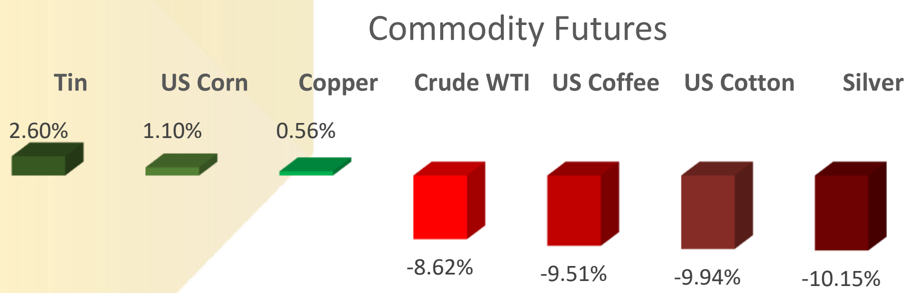


Figure 5: The chart represents the Commodity returns over the week.

Commodities have shown weakness during the week. We have seen depreciation in industrial metals. Crude and Natural gas depreciated during the week. Gold and Silver depreciated during the week. We have seen weakness in agricultural commodities.

GLOBAL FUND MANAGERS' STATEMENTS

Cathie Wood (CEO and CIO of Ark Invest): "The first two quarters of real GDP negative, to us, means we're in a recession," Wood said in an interview. "We believe this recession will be sustained," she added. Wood and her team of analysts say the economic contraction is going to be a function of an inventory overhang.

"It's going to be a serious inventory correction, but it's not going to be anything like we saw like in '08 or '09," said Wood. " We don't think this is the same thing."

Jamie Searle (Citi Bank Analyst): An ouster of UK Prime Minister Liz Truss may be what ultimately calms bond markets, according to Citigroup Inc. strategists.

Not even the departure of former Chancellor Kwasi Kwarteng, whose Sept. 23 mini-budget unveiled a series of unfunded fiscal measures and unsettled investors, was enough to revive the pound and gilts. Thirty-year bonds slid on Friday, with 30-year yields rising 23 basis points to 4.78%.

“A further rally now likely requires the departure of the PM,” Citi analyst Jamie Searle wrote in a note to clients. “The UK now faces a period of heightened market uncertainty without a clear policy strategy.”

Yields had climbed even after Kwarteng departed and Truss scrapped her plan to freeze corporation tax next year. UK bond futures then extended losses after Bloomberg reported Truss expects her new Chancellor of the Exchequer, Jeremy Hunt, to commit to carrying out no further U-turns on her economic plans.

Doug Ramsey (chief investment officer at the Leuthold Group): While the stock market isn’t the economy, it’s a signal and an input into it, affecting everything from consumer sentiment to the price of private enterprises. Declines on a par with what’s already happened in equities have been a decent proxy for reversals in inflation more than a dozen times since the late 1950s, according to research from Doug Ramsey, chief investment officer at the Leuthold Group.

“The wealth effect played a greater role than it ever had in inciting the inflationary spiral, and it’s also going to play a great role in reducing it,” Ramsey said in an interview at Bloomberg’s headquarters in New York. “When you think about the stock market declining in conventional percentage terms on the index, that understates the amount of wealth that it wipes out.”

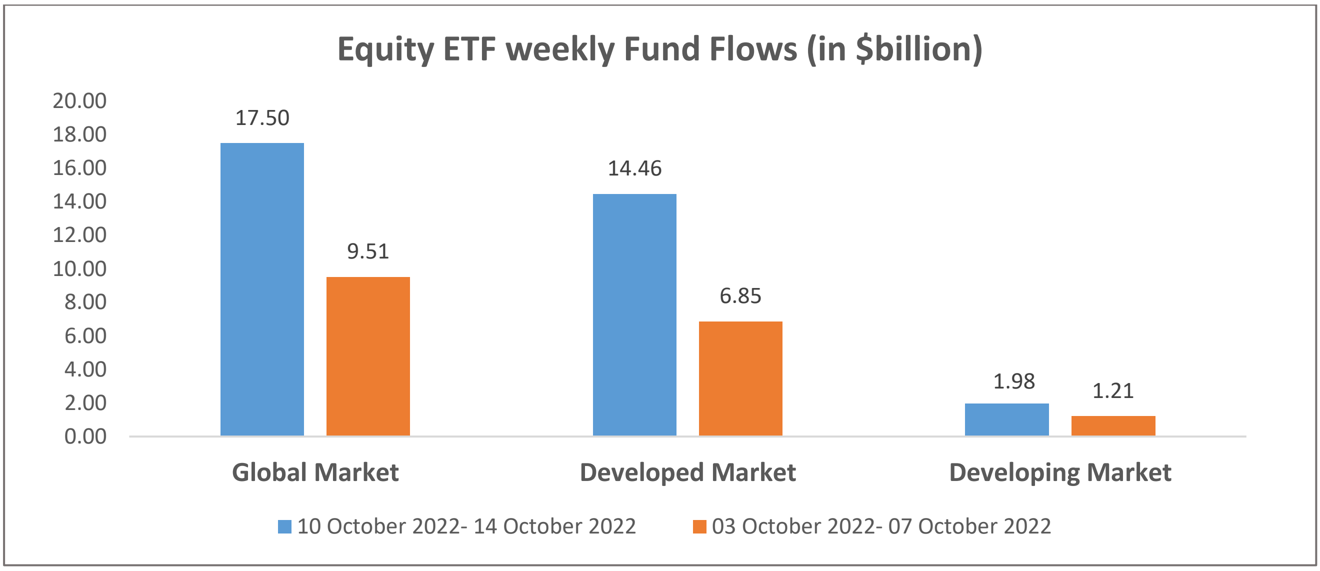
Buttressed by easy-money policies and massive fiscal stimulus, the S&P 500 more than doubled between its pandemic low and this year’s high, making Americans who owned stocks feel richer, if only on paper. All that has changed in 2022, with the Fed raising rates at the fastest pace in decades.

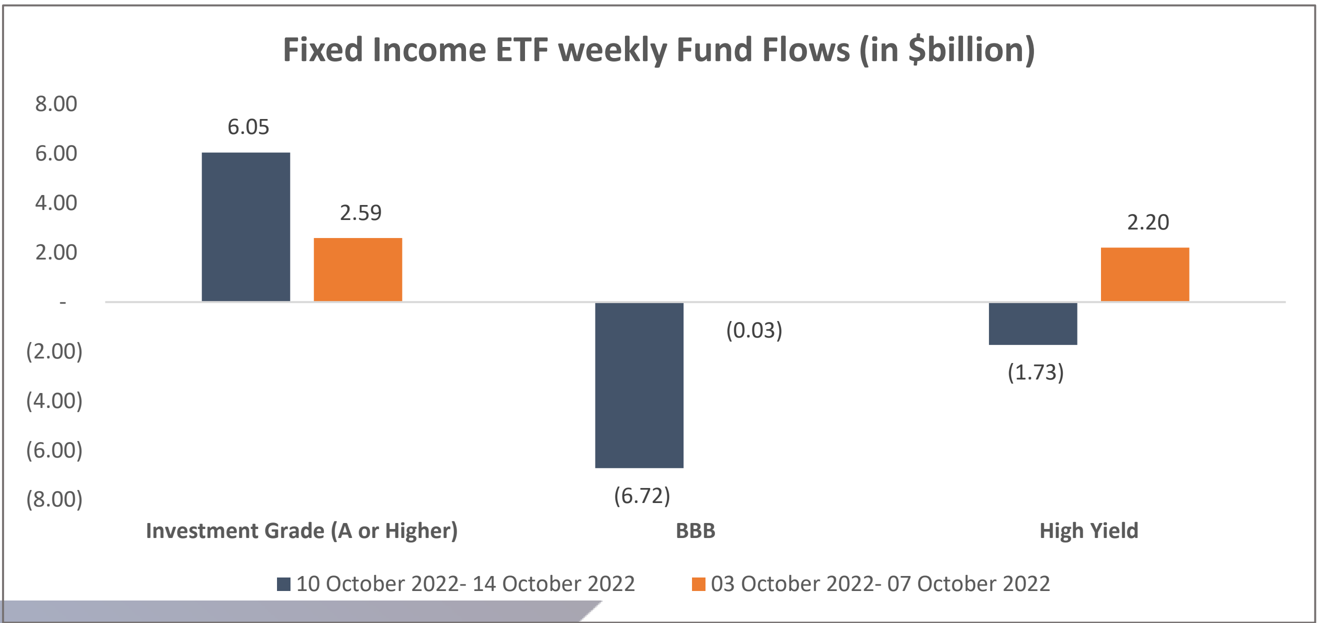
Marko Kolanovic (JPMorgan's chief global markets strategist): US stocks have managed to partially rebound from big losses so far this year, bringing investors to a point when it's time to take some profit as prospects for slower economic growth and other hazards hang over the market, JPMorgan's chief global markets strategist Marko Kolanovic said Monday.

JPMorgan is still "pro-risk" and holds an overweight recommendation on equities as it sees support in part from a solid labor market, healthy consumer and corporate balance sheets, and fiscal efforts by several countries to offset part of the pull from high energy prices.

"However, markets have recovered a majority of their early-March sell-off and thus no longer look oversold, while risks remain elevated around geopolitics, policy tightening and growth. As such, we take profit on the tactical increase to our equity OW initiated last month," wrote Kolanovic in the note.

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 believe US equities have bottomed out on Thursday when S&P 500 went to down to below 3500 levels. While S&P may retest those levels or go close to them we don't foresee much downside in US equities from the current levels. We expect US equities along with much of the global equities to go up by 10-15% over the next few months. We expect long term US Treasuries to be the best asset class over the next one year. We are also very long term bullish on gold and silver. Dollar index seems to have topped out and will soon start a multi-year bear market against Euro and CHF.

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