Weekly Report and Outlook on Global Markets

07th October 2022

BOE's Nightmare Scenario Came to Life as UK Markets Crashed

Figure 1: The chart shows BOE auction bond purchases

Last week, the Bank of England was confronted with a nightmare scenario it had long feared. A corner of UK financial markets faced a liquidity crunch at a time of soaring inflation and all the BOE could do in response was buy government debt.

The £65 billion ($72 billion) pledge staunched the crisis but it threw the central bank into a contradictory policy position, one it may be confronted with again over time. The combination, through which the central bank appears to be both loosening and tightening simultaneously, has blurred the lines between monetary policy and financial stability.

Chipmakers See 'Breathtaking' Drop in Demand as Recession Looms

Figure 2: The above chart shows price performance of major semiconductor manufacturers

After years of record capital spending, chipmakers are warning on a weekly basis that demand is sputtering. In the latest sign of trouble, Samsung Electronics Co. and Advanced Micro Devices Inc. reported disappointing results within hours of each other that widely missed projections.
Samsung the world's largest memory chipmaker reported a 32% dive in operating income, while PC-processor maker AMD said it will miss its earlier forecast by about $1 billion.

.

MAJOR MOVES THIS WEEK

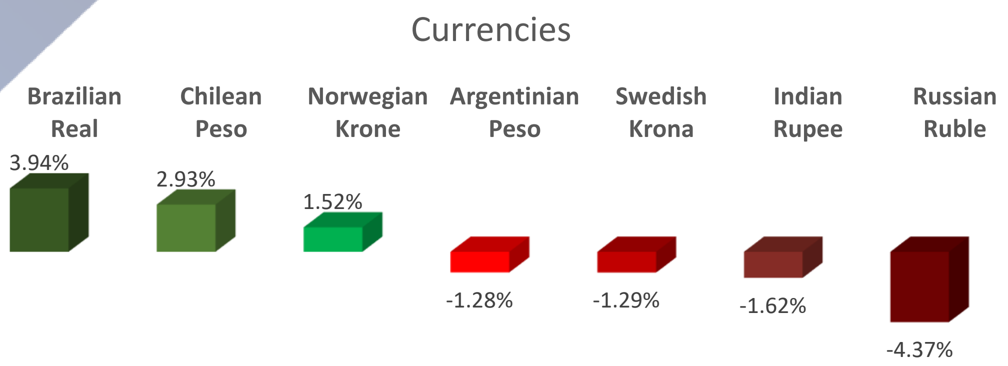

Figure 3: The graph represents Currency returns with respect to US Dollar as the base currency for this week.

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

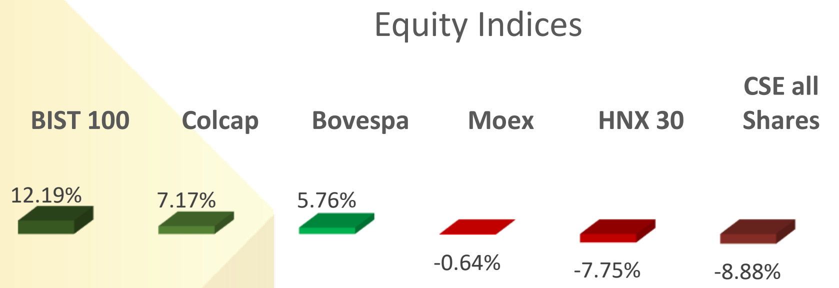

Figure 4: The chart represents the Equity Index returns over this week.

This week we have seen strength in the global equities markets. European equities have remained sideways for the week, Euro Stoxx 600 was a gainer during the week. Emerging market equities rebounded. Nasdaq 100 and S&P 500 have remained positive for the entire week even after the sharp selloff in the last trading session for the week

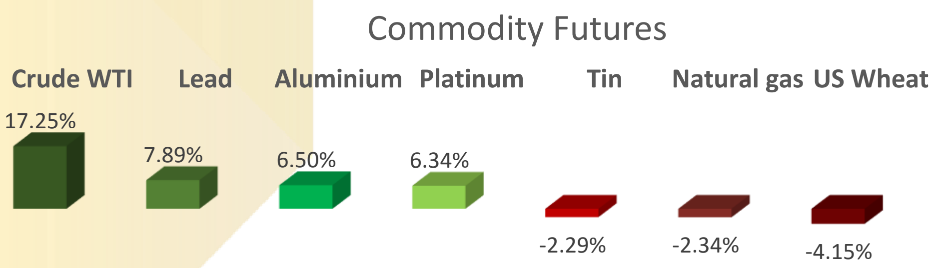

Figure 5: The chart represents the Commodity returns over the week.

Commodities have shown strength during the week. We have seen Mixed performance in industrial metals. Crude appreciated while Natural gas depreciated during the week. Gold and Silver appreciated during the week. We have mixed performance in agricultural commodities.

GLOBAL FUND MANAGERS’ STATEMENTS

Steven Blitz (Chief U.S. economist at TS Lombard): While this year's sharp selloff in stocks might feel brutal, particularly after the carnage of September, the S&P 500 remainsabout 17.1%above year-end 2019 levels, according to Dow Jones Market Data

That isn't low enough, given the likely scope of Federal Reserve actions needed to bring surging inflation back to the central bank's 2% annual target, according to Steven Blitz

"Yes, markets are being routed, but, to date, they are resetting from too rich price levels created by Fed policies that went on way too long," Blitz said in recent client note.

The main problem, for Blitz, is that this year's stock-market decline has been "hardly a shakeout" when looking at the roughly 50% drop in equities in the 1974-75 recession and the one in 2008-09. "More to the point, the market has gotten here by pricing in the Fed's 4.5% solution (4.5% inflation, 4.5% unemployment, 4.5% funds rate) with all believing thiswill be enough to put maximum downward pressure on inflation," Blitz said. "It won't."

Mary Callahan Erdoes (CEO of JPMorgan's Asset & Wealth Management division**):** Investors are facing a storm of headwinds right now – a genuine bear market, stubbornly high inflation, rising interest rates, and increased fears of a recession in the near-term. However, Mary Callahan Erdoes, advises investors to stay invested.

"It's actually the easiest time in the world to find alpha — there is alpha everywhere... It's everywhere, because we are in such a state of change... While all the world is focused on all the black swan events, there will be white swans that emerge... Staying invested in these markets is one of the most important things and one of the most difficult things," Erdoes opined.

In the meantime, her viewpoint is influencing JPMorgan’s stock pros. The firm’s analyst Brian Cheng is following this stance to its logical end, picking out stock choices that are primed for gains even in today’s unfavorable market clime.

Jeremy Siegel (Finance at the Wharton School): The U.S. Federal Reserve has been raising rates too quickly, and recession risks will be “extremely” high if it continues to do so, said Jeremy Siegel

“They should have started tightening much, much much earlier, But now I fear that they’re slamming on the brakes way too hard.”

Siegel said he was one of the first to warn of the Fed’s “inflationary policies” in 2020 and 2021, but “the pendulum has swung too far in the other direction.” “If they stay as tight as they say they will, continuing to hike rates through even the early part of next year, the risks of recession are extremely high,” he said.

Siegel said he was one of the first to warn of the Fed’s “inflationary policies” in 2020 and 2021, but “the pendulum has swung too far in the other direction.”

“If they stay as tight as they say they will, continuing to hike rates through even the early part of next year, the risks of recession are extremely high,” he said.

Marko Kolanovic (JPMorgan's chief global markets strategist): "We are increasingly worried about central banks making a policy error, and of new geopolitical tail risks," Marko Kolanovic, a top JPMorgan strategist, wrote in a new note to clients. "Given the recent escalation in hawkish rhetoric, the likelihood of central banks committing a policy mistake with negative global consequences has increased, and this started showing in various cracks in FX and rates markets. Even if a mistake is avoided, a delay will likely be introduced for the global market and economic recovery."

The Federal Reserve remains the straw that stirs the drink in global markets as it continues a mission to stomp out inflation by aggressively hiking interest rates, which has set the pace for fellow central banks. That mission was reinforced in the past week by the hawkish commentary from various Fed officials including Fed Chair Jerome Powell and Vice Chair Lael Brainard.

That hawkish tone from the Fed has rippled across an array of asset markets, from the surging U.S. dollar to rising mortgage rates that are nearing 7%.

PACE 360'S FUTURE OUTLOOK

Global equities have already bottomed out or are very close to their worst levels in this particular bear run. We expect global equities to rally by 10-15% over the next three months. We believe dollar index has made its rally top and will soften against DM currencies over the next one year. We believe US long term Treasury yields have more or less topped out and will be the best performing global asset class over the next one year.

DISCLAIMER

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