Weekly Report and Outlook on Global Markets

18th November 2022

German Bond Market Flags Impending Economic Hard Landing

Figure 1: The chart shows German 2 Year and 10 Year Yield spread and Year ahead probability of recession

The bond market is giving the clearest warning yet that the German economy, already suffering from crippling energy costs, is headed for a hard landing. Two-year yields are higher than their 10-year counterparts for the first time since the pandemic struck in March 2020. An inverted curve signals investors expect pain in the near term and often precedes a recession. European Central Bank President Christine Lagarde said Friday the risk of a downturn has increased while economists place a 90% probability on such a slump within a year.

Euro-Area Stocks Are Now Most Overbought in 23 Years

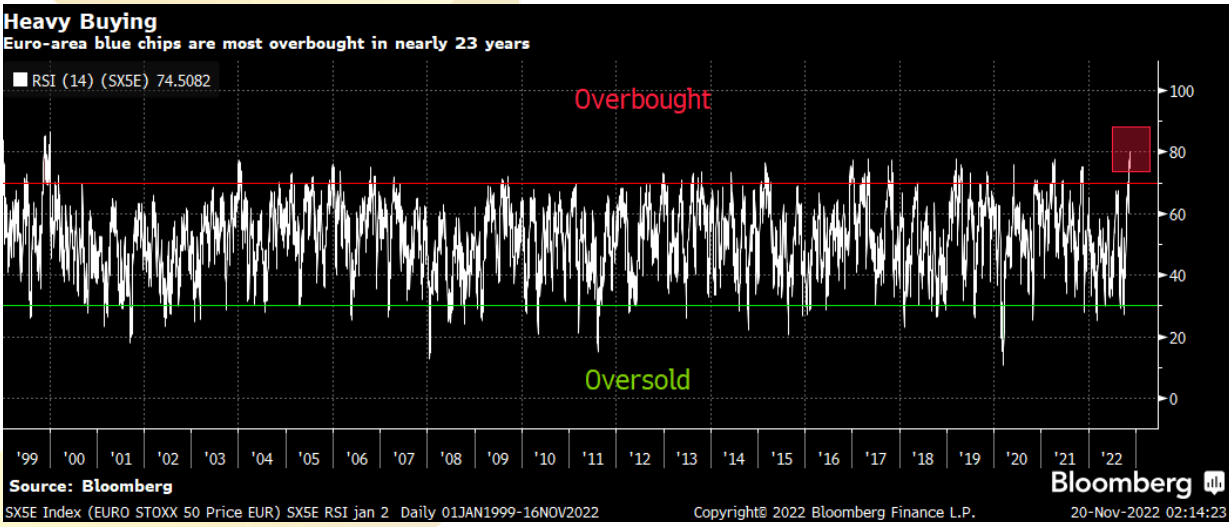


Figure 2: The above chart shows the RSI levels of blue chip stocks in the Euro-area

The rally in euro-area blue chips is showing signs of overheating after the Euro Stoxx 50 Index has risen more than 19% since this year's low on Sept. 29. The 14-day relative strength index, a technical momentum indicator, has now surged to its most overbought level in nearly 23 years at the close of trading on Tuesday. The last time the gauge reached such levels was just a few months before the bursting of the dotcom bubble.

MAJOR MOVES THIS WEEK

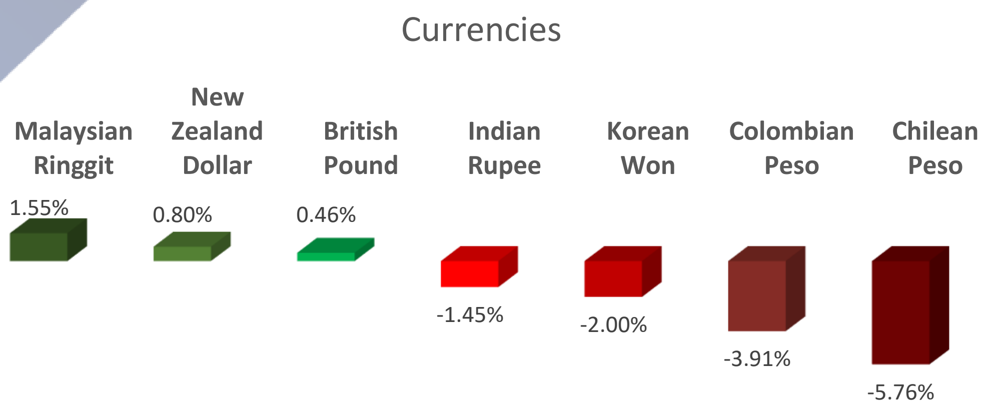


Figure 3: The graph represents Currency returns with respect to US Dollar as the base currency for this week.

This week we have seen mixed performance in the global currency market. British pound appreciated while Euro and Yen depreciated against the Dollar this week. Emerging market performed weakly against dollar Index during the week.

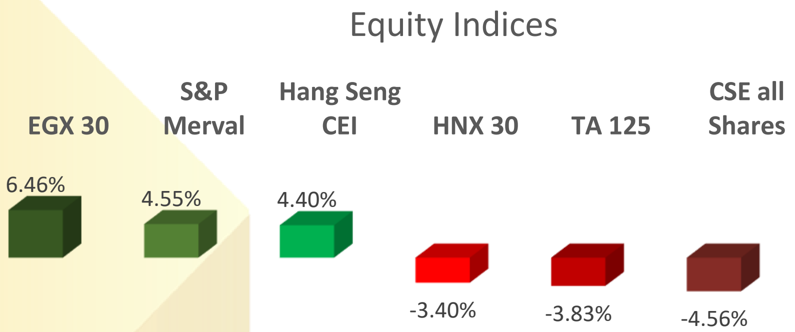


Figure 4: The chart represents the Equity Index returns over this week.

This week we have seen weakness in the global equities markets. European equities have shown strength while Euro Stoxx 600 was also a gainer during the week. Asian Equities have performed mixed. US markets have shown correction during the week after performing strongly previous week.

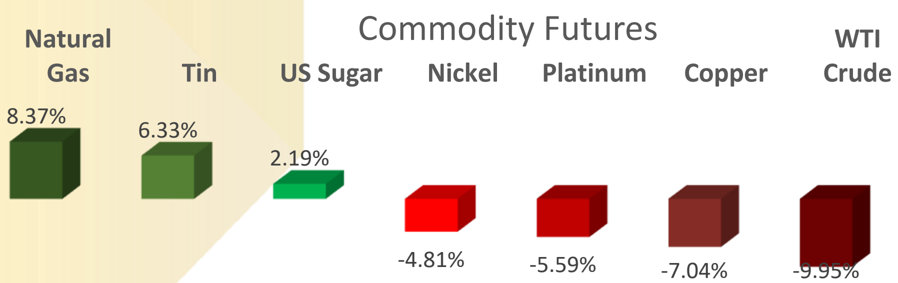


Figure 5: The chart represents the Commodity returns over the week.

Commodities have shown weakness during this week. We have seen depreciation in industrial metals. Crude depreciated while the natural gas appreciated during the week. Gold and Silver depreciated during the week. We have seen mixed performance in agricultural commodities.

GLOBAL FUND MANAGERS' STATEMENTS

Marko Kolanovic (Co-head of global research at JPMorgan Chase & Co): Kolanovic, the most vocal bull on Wall Street, said in a report that he was reducing his overweight equities position because recession risks remain high.

The move follows a similar one he made last month, when he cut the size of his equity overweight and bond underweight allocations, citing increasing risks from central bank policies and geopolitics.

With a Fed Funds rate close to 5%, a recession will be hard to avoid unless the Federal Reserve "more meaningfully pivots," Kolanovic wrote in a note to clients this week. While he remains overweight equities and is long-term positive, Kolanovic said JPMorgan will use the rally from last week as an opportunity to "moderately reduce our equity OW."

"Our optimism is tempered by the still elevated recession risks, and risk that the October CPI data proves anomalous and/or fails to reduce central bankers' eagerness to push policy into more restrictive territory," he wrote.

Scott Minerd (chief investment officer from Guggenheim): Scott Minerd, doesn't believe we're at the start of a new bull market. However, Minerd does note that the post-CPI market rally may act as a floor for further short-term gains – and he sees the S&P 500 rising as high as 4,100 over the next month or so. And, if this bear rally does have the legs that Minerd is predicting, it will open up some opportunities for investors.

"I do think we're going to continue to rally into the beginning of the year, and then we'll get a chance to take a fresh look at things... I would stay fully invested at this point, as I encouraged people a month or so ago to be, and just let the data tell us if the bear market will continue or are things really at a turning point," Minerd opined.

Carl Icahn (Founder Icahn Enterprises): While asset prices shot up in 2020 and 2021, they pulled back substantially in 2022. Meanwhile, inflation remains near 40-year highs and the Fed has to raise interest rates aggressively to bring price levels under control.

"We printed up too much money, and just thought the party would never end. And the party's over," Billionaire investor Carl Icahn says at Best New Ideas in Money Festival via a remote feed.

Still, although many investors suffered painful losses in 2022 — the S&P 500 had its worst first half of the year since 1970 — Icahn is not one of them. At his company Icahn Enterprises, the net asset value went up about 30% in the first six months of this year.

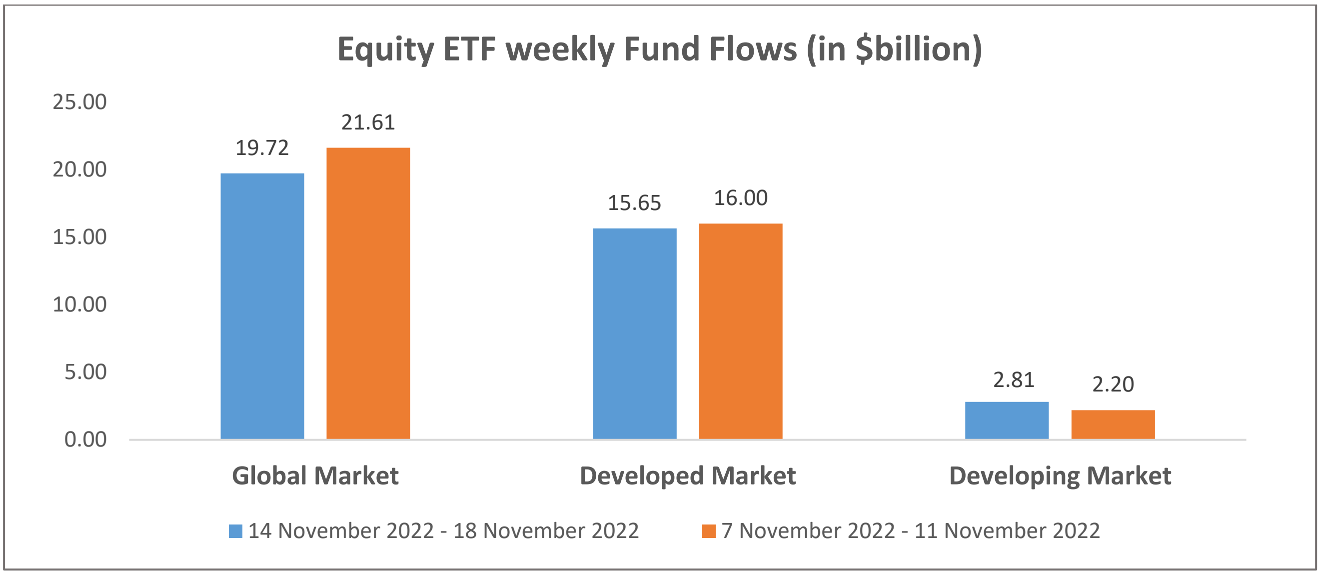
Andrew Sheets (Analyst Morgan Stanley): The dollar index will slide to 104 by the end of next year, while the euro will outperform as investor flows resume, Morgan Stanley analysts led by Andrew Sheets wrote in a note, adding the US 2-year and 10-year yields are seen ending 2023 at 3.50% – implying a meaningful steepening of the yield curve.

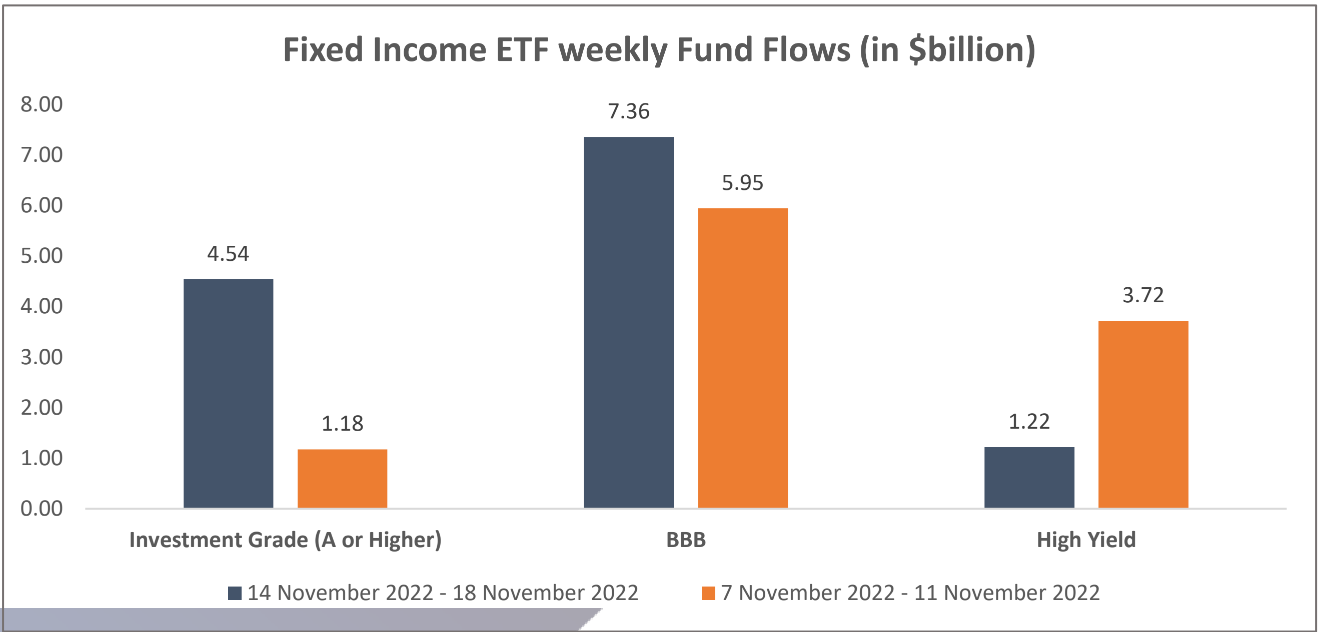
The dollar is expected to peak as uncertainty around the Fed rate tightening abates, with the Fed forecast to make the final rate hike in January 2023, with a rate cut to follow in the fourth quarter, while the European Central Bank to make the final rate increase in March of the same year, according to the US bank.

The largest Federal Reserve rate hikes in at least a generation sent the greenback rallying this year, with a gauge of the dollar rising as much as 19%, which would be the largest annual gain on record in data going back to 1972. The euro-dollar fell below parity for the first time in two decades, while emerging-market bonds tumbled by as much as 15%, the lowest returns in 10 years.

Emerging market bonds are expected to flourish next year, riding on an easing in the EM rate cycle. Several large EM central banks, which front loaded rate hikes ahead of the developed peers, are forecast to ease materially.

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

The global equities corrected this week after an over-stretched rally from the last week. We expect equities to remain under a bit of pressure but are largely going to be sideways over the next few weeks. Gold and silver also corrected and may correct more over the next few weeks. We remain bullish on long term US Treasuries even though they too may correct over the next few days.

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