PACE360

Weekly Report and Outlook on Global Markets

25th November 2022

Tech Earnings Forecasts Are a Big Drag on the S&P 500

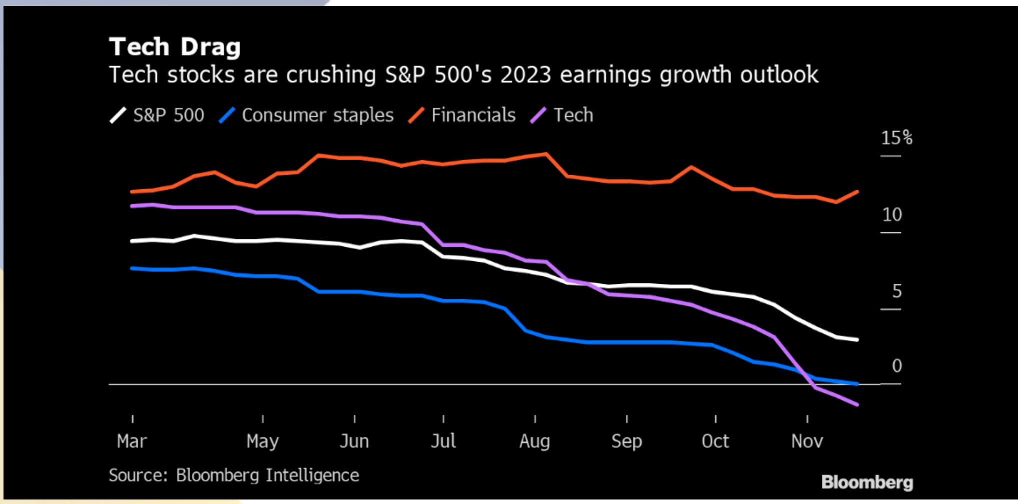

Figure 1: The chart shows Earnings growth forecasts for the major sectors in the United States

Plummeting tech stocks' profit forecasts are a major drag on the S&P 500 earnings growth outlook. The consensus for the US benchmark's fiscal earnings rise next year is just 2.9%, down from 5.7% in mid-October, with the outlook for the tech sector falling to minus 1.3% from 3.8%. According to Bloomberg Intelligence strategists Gina Martin Adams and Michael Casper, all S&P 500 sectors recorded a downward revision to fiscal 2023 growth forecasts over the past month, but technology's fall was the steepest, with tech joining three other sectors -- energy, health care and materials -- in an expected earnings contraction.

European Cyclicals' Rally Faces Reality of Slower Growth

Figure 2: The above chart shows the relative EPS and Price of Euro Stoxx 600 Cyclical stocks vs the Euro Stoxx 600 Defensive stocks

This quarter's strong gains in cyclical stocks are at odds with the deteriorating economic and earnings growth outlook. The Stoxx 600 Cyclicals Index has soared over 15% and outperformed defensive peers by six percentage points after dovish comments from central banks sparked hopes of earlier-than-expected policy easing, as well as optimism over China's reopening. "The recent rally in cyclicals feels premature in the context of the developing economic slowdown and is not justified by current EPS trends either," said Morgan Stanley strategists led by Graham Secker.

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MAJOR MOVES THIS WEEK

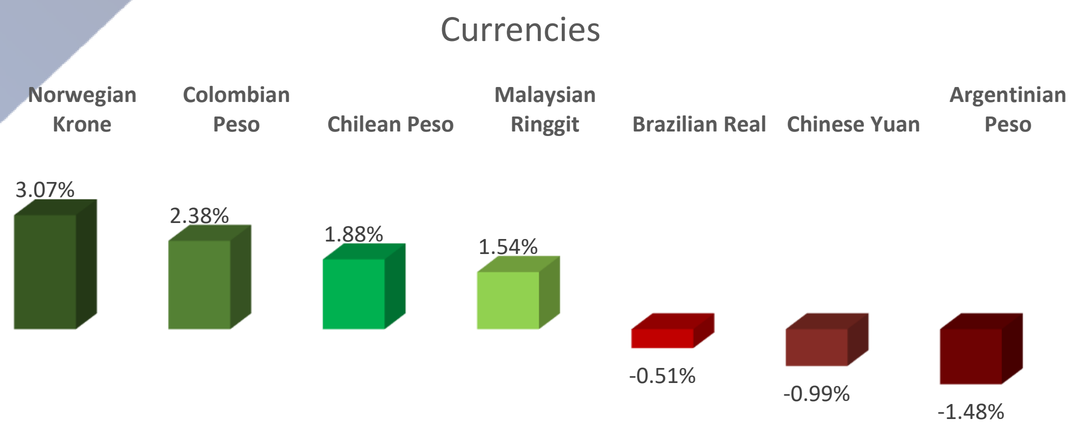


Figure 3: The graph represents Currency returns with respect to US Dollar as the base currency for this week.

This week we have seen strength in the global currencies market. British pound, Euro and Yen appreciated against the Dollar this week. Emerging market performed strongly against dollar Index during the week.

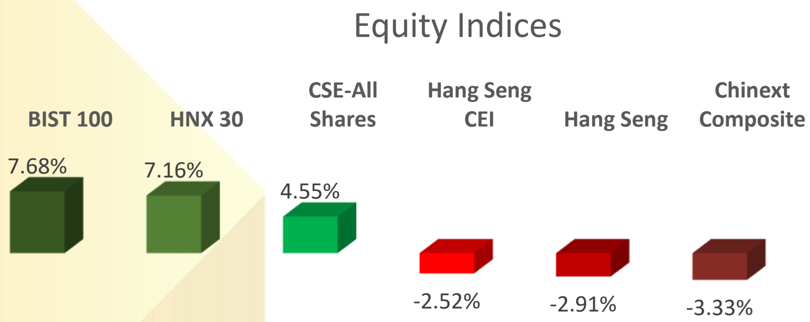


Figure 4: The chart represents the Equity Index returns over this week.

This week we have seen strength in the global equities markets. European equities have shown strong performance, Euro Stoxx 600 has outperformed large-cap indices during the week. Asian Equities have performed mixed. US markets have shown strong recovery during the week after performing losing previous week.

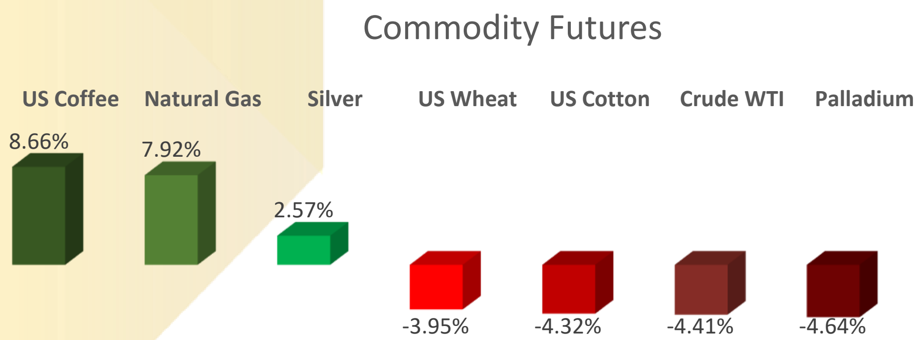


Figure 5: The chart represents the Commodity returns over the week.

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 appreciated during the week. We have seen mixed performance in agricultural commodities.

GLOBAL FUND MANAGERS' STATEMENTS

Jeremy Siegel (Professor of Finance at the Wharton School, Senior Investment Strategy Advisor, Wisdom Tree Investments): In recent months, a growing chorus of economists and business leaders have made the case that the scourge of sky-high consumer prices is coming to an end. But a separate group of similarly seasoned economic minds believes that history shows inflation won't be so easily tamed.

Siegel said on Monday that he believes the Fed's six interest rate hikes this year have already slayed inflation, and the data just doesn't show it yet.

"I think basically 90% of our inflation is gone," he told, pointing to the slowing housing market as evidence.

Mike Wilson (Chief investment officer – CIO, Morgan Stanley): Despite consistent recession predictions from economists, Wall Street's top strategist says stocks are in "the final stages" of the bear market.

"You're going to make a new low sometime in the first quarter, and that will be a terrific buying opportunity," Wilson told in a Sunday interview.

But before anyone rushes out to buy stocks, Wilson also warns that the last few months of the bear market will be turbulent, to say the least, "It's the path that's going to be really tricky," he said.

Despite a more than 5% rally in the S&P 500 over the past 30 days, the blue-chip index is still down more than 17% year to date. And Wilson argues that corporate earnings estimates for 2023 are still 20% too high, given the staying power of inflation and the rapid increase in interest rates so far this year.

That could mean more downside lays ahead for equities before the bear market is over. In a Monday note to clients, Wilson wrote that he sees three key "inflection points" coming in the stock market over the next year.

The first is the ongoing bear market rally, which should last two months and take the S&P 500 roughly 5% higher, to 4150.

Then, Wilson expects earnings estimates to fall as "fire" and "ice"—Federal Reserve interest rate hikes and slowing economic growth—work together to slash corporate profits leading to more conservative forecasts from management teams.

Falling earnings estimates will then cause the S&P 500 to plummet to between 3,000 and 3,300 in the first quarter of next year, he says.

Cathie Wood (Founder CEO and CIO of Ark Invest): It probably doesn't feel good to be a crypto investor these days. Bitcoin is down 65% year to date. And some say that this is not a "crypto winter" but rather "crypto extinction."

Yet one expert remains bullish: Ark Invest's Cathie Wood, When asked whether she still holds her bitcoin forecast of $1 million per coin by 2030 during a Bloomberg interview, her answer was a "yes."

"Sometimes you need to battle test, you need to go through crises to see the survivors first of all," she says.

Goldman Sachs: "The bear market is not over" is what Goldman Sachs strategists told the bank's clients in it's note.

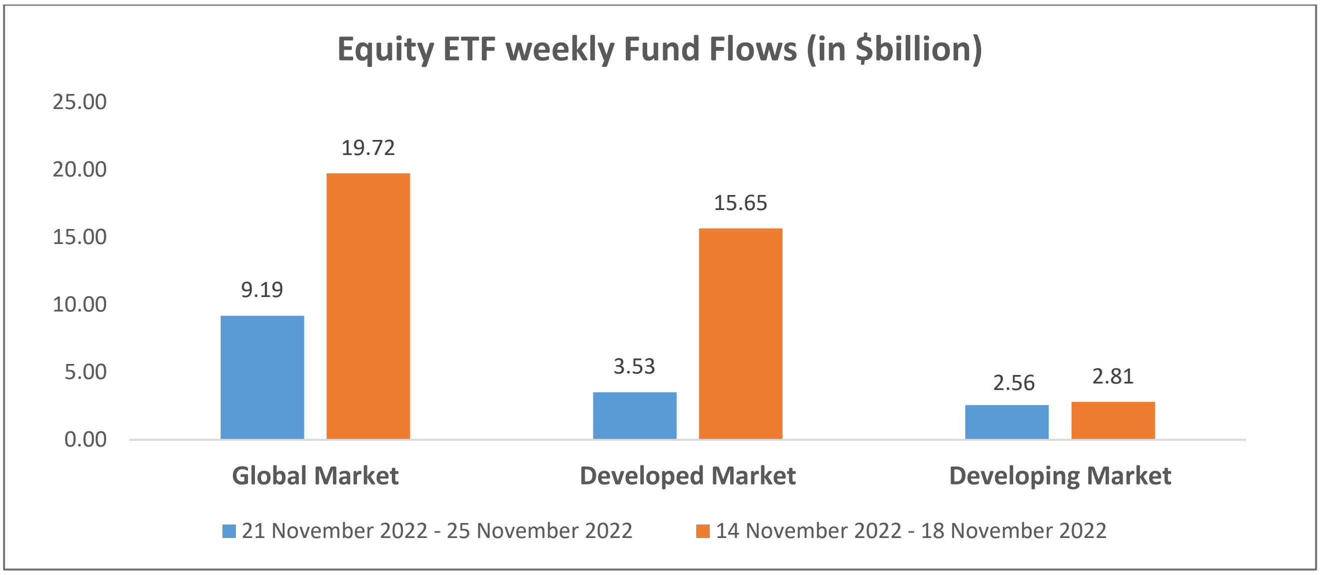
They believe the conditions, which are typical for an environment where equities bottom, have not yet been reached. The strategists expect lower valuations from here, which should coincide with a "trough in the momentum of growth deterioration and a peak in interest rates." Only then, a sustained recovery could begin, they wrote in a note.

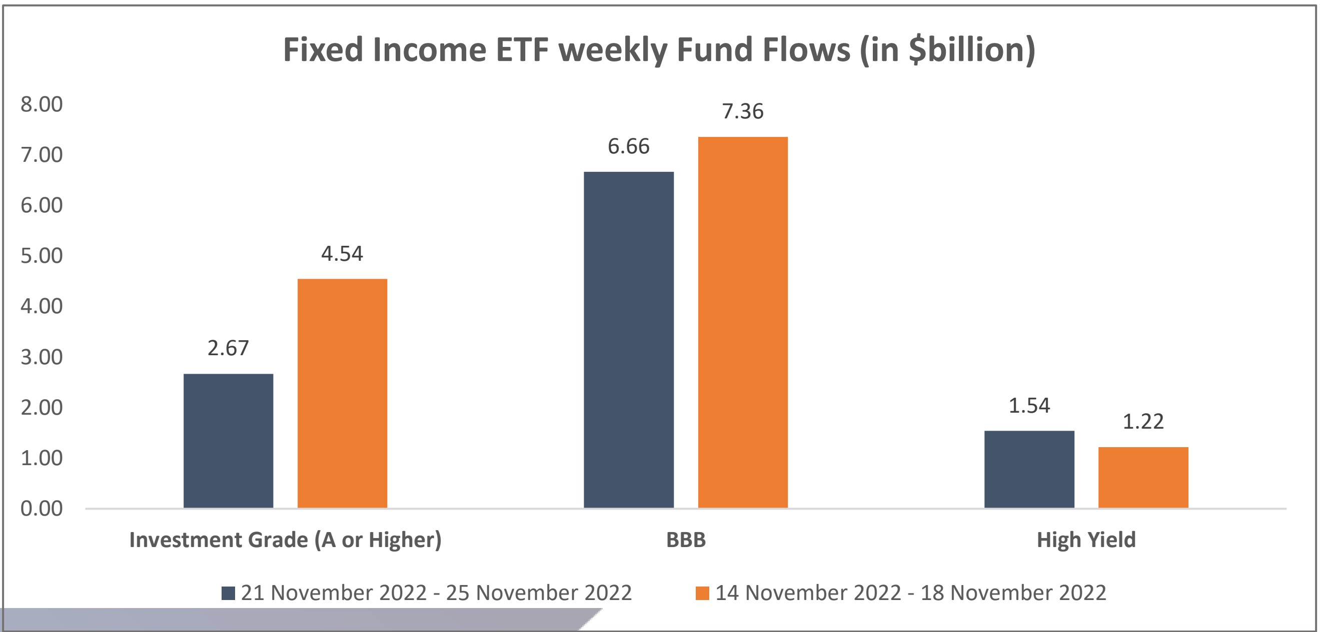
"We continue to think that the near-term path for equity markets is likely to be volatile and down before reaching a final trough in 2023. So, while near-term risks are to the downside in global equities, it is likely that they enter a 'Hope' phase in 2023; we expect overall returns between now and the end of next year to be relatively low," the strategists added.

Along these lines, Goldman Sachs strategists advise clients to take "a barbell approach," which combines "quality, strong balance sheet and stable margin companies with deep value, energy and resources, where valuation risks are limited."

"We like companies that can compound earnings and returns through a combination of reinvestment and dividends over time. In contrast to the last cycle, more diversification across styles and regions, as well as a greater focus on valuation, should enhance returns over the course of 2023," they concluded.

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

Global equities have bounced back smartly since their October lows. We believe equities do not have any significant upside from the current levels. We believe that probability of a global recession between 2023-24 is close to 100% and a global recession is not yet fully discounted by the global equities. Having said that we do not see a sharp fall in equities just yet. Right now market is taking all bad news as good news as inflation and central bank hawkishness fears recede with every bad news. Hence equities may remain largely rangebound albeit with a bearish bias for the next few weeks. Longer term we see a 30-40% downside from the current levels. We believe dollar index has peaked out and remains in a longer term bear market. We see huge upside potential in US 30 year Treasuries even though they may consolidate for now. We remain bullish on gold for the next 5 years though it may also be rangebound for now after the massive rise of last three weeks.

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