Weekly Report and Outlook on Global Markets

4th November 2022

Foreign investors buy Japanese stocks amid global uncertainties

Figure 1: The chart shows Foreign investor's net investment in Japan stocks

Foreign investors bought a net 1.8 trillion yen ($12 billion) worth of Japanese stocks in October, the most since April and paring a sharp selloff in September. The nation's equities have been relatively resilient amid global turmoil thanks to the weak yen and the Bank of Japan's easy-money stance, with the Topix down just 4% this year versus declines of more than 20% in US and global benchmarks. "Japanese shares are attracting more attention as the Chinese market is less transparent, US stocks are expensive and now accompanied by tight monetary policy and inflation, and Europe faces geopolitical tensions between Russia and Ukraine.

Count of big monthly moves now reached previous crisis levels

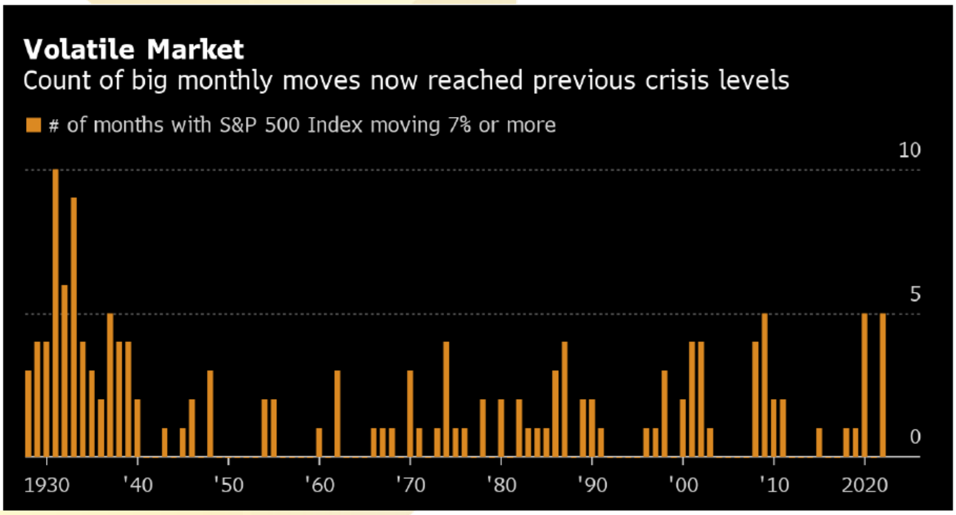


Figure 2: The above chart shows number of months with S&P 500 index moving 7

Wall Street's VIX gauge is well below the panic levels seen during the Covid pandemic or the 2008 crisis, but extreme volatility is very much a feature of 2022. The S&P 500 equity index has already seen five monthly moves this year in excess of 7%, either to the upside or downside. Beyond the tumult of the 2008 global financial crisis, one must go back to 1933 -- the days of the Great Depression -- to see more swings of such magnitude in a single year.

MAJOR MOVES THIS WEEK

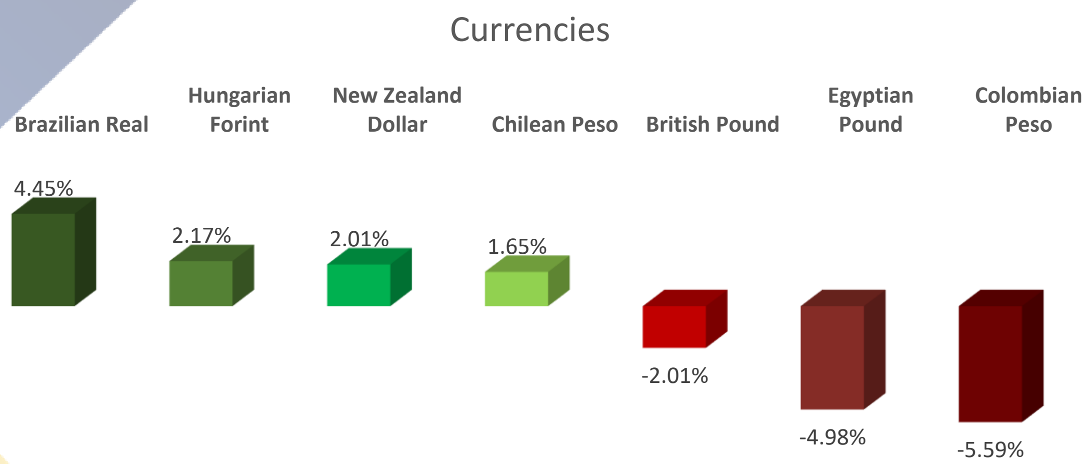


Figure 3: The graph represents Currency returns with respect to US Dollar as the base currency for this week.

This week we have seen strength in the global currency market. British pound depreciated, Yen appreciated while Euro remained stable against the Dollar this week. Emerging market performed strongly against dollar during the end of the week.

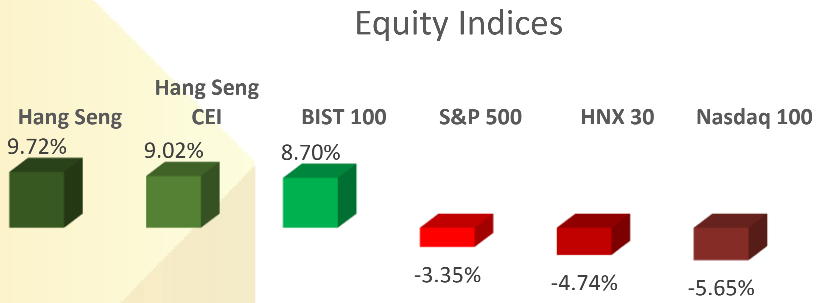


Figure 4: The chart represents the Equity Index returns over this week.

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 strongly. Us markets have given sharp losses after the Federal reserve's hawkish stance and strong economic reports sharp moves with downwards bias.

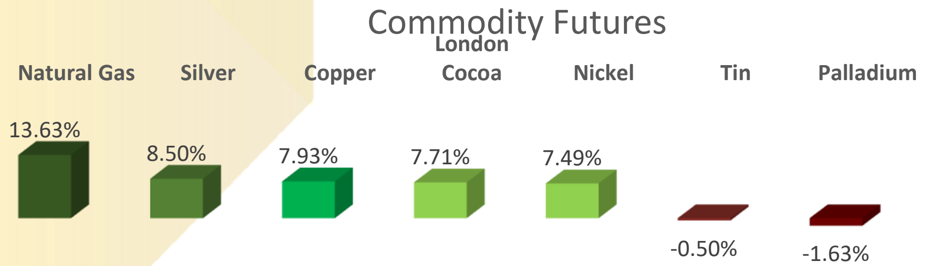


Figure 5: The chart represents the Commodity returns over the week.

Commodities have shown strength during led by the positive developments in China. We have seen appreciation in industrial metals. Crude and Natural gas appreciated during the week. Gold and Silver appreciated during the week. We have seen strength in agricultural commodities.

GLOBAL FUND MANAGERS' STATEMENTS

Chris Wood (Global head of equity strategy at Jefferies): The decline in the FANNGM (Facebook, Apple, Netflix, Nvidia, Google, Microsoft) stocks as a percentage of S&P500 market capitalisation probably has much further to run, partly because of Apple, which now has the greatest downside risk on the last man standing theme, said Christopher Wood, in his recent note to investors, GREED & Fear.

The capitulation in Big Tech stocks last week came at the same time as Exxon Mobil hit an all-time high on the release of its third quarter earnings. Wood characterised this as "the revenge of the physical" theme after the orgy in digitalia triggered by the pandemic.

"If the catalyst for Big Tech de-rating is clearly the impact of rising discount rates on lofty valuations, investors should also remember the potential for the unwinding of passive driven investment strategies. This ongoing process can be seen in the peaking out of S&P500 index ETFs and the subsequent, albeit so far moderate, decline," said Wood.

Mark Wilson (Chief Investment Officer – CIO, Morgan Stanley): The end of the Federal Reserve's campaign to raise interest rates is approaching, according to Morgan Stanley strategist Michael Wilson. Indicators including the inversion of the yield curve between 10-year and three-month Treasuries -- a recession indicator with a perfect record -- "all support a Fed pivot sooner rather than later," Wilson wrote in a note on Monday.

"This kind of price action isn't unusual toward the end of the cycle particularly as the Fed moves closer to the end of its tightening campaign, something we think is approaching," said Wilson, who was ranked the best portfolio strategist in the latest Institutional Investor survey. The rally will hold up until the next 12-month earnings-per-share estimates pull back more meaningfully, he said.

Scott Minerd (Global CIO at Guggenheim Investments): On the heels of the Federal Reserve announcing another 75-basis-point rate hike, Scott Minerd, global chief investment officer at Guggenheim Investments, said that the move was not a sign that the central bank will slow its campaign to reach price stability.

"I would not call this a pivot today," Minerd told Bloomberg Television's Lisa Abramowicz, Tom Keene and Jonathan Ferro. "I think that the slowing of tightening is not an easing."

Though Fed officials have said that they will take into consideration the "cumulative tightening of monetary policy," Minerd said that the "artful" language was a way for central bank officials to get investors focused on the terminal rate and avoid adding more stress to the economy.

"The Fed is saying, 'Hey, let's be careful, and understand that we have to get to the destination,' and before they get to the destination, it is likely that they will create a lot of damage to the economy and financial markets," Minerd warned.

Jeremy Siegel (Professor Finance at the Wharton School): "If you're a long term investor, I would absolutely buy now," Jeremy Siegel, professor of finance at the Wharton School of Business, told CNBC. "I think these are absolutely great long-term values."

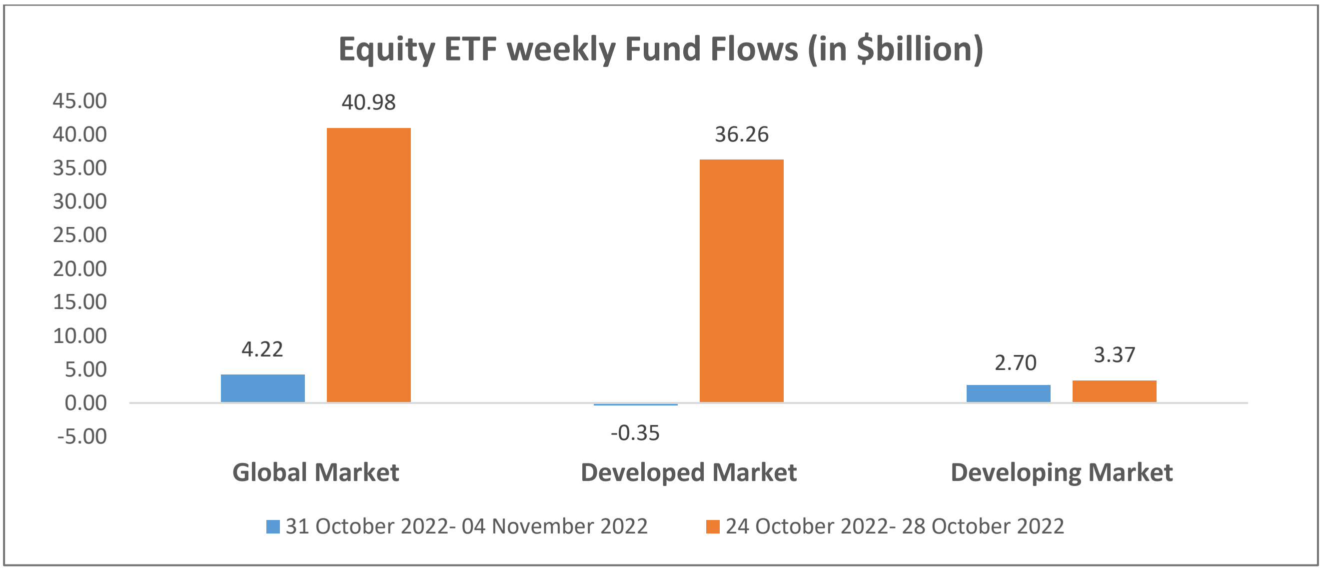
Siegel points to one segment of inflation that is cooling down: housing. But that isn't properly reflected in the index numbers.

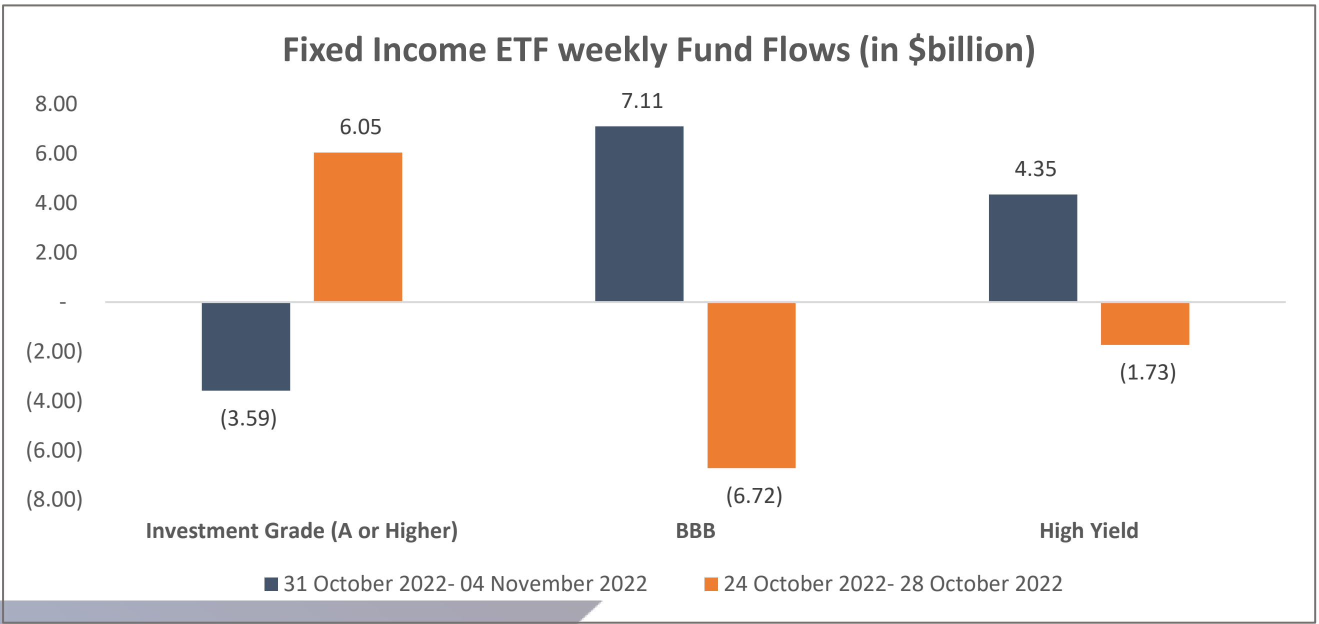
"We pointed out that the way these indices are constructed, that housing costs are very lagged, and they're going to continue to go up, even though as we saw the Case-Shiller Housing Index, and the National Housing Index, housing prices are going down," he says.

Siegel suggests that instead of making decisions based on lagging indicators, the Fed "has to be forward looking."

"They have to look at what's going on in the market, in the housing market, in the rental market, in the commodity market."

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

While US equities went down last week most of the EM equities, led by China, sharply went up. We expect global equities to be rangebound in the near term even as they look bullish in the medium term. We believe US dollar has topped out and is headed lower over the medium to long term. We expect long term US Treasuries to be the top performing asset class over the next 2 years. We remain very bullish on gold for the long term.

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