Weekly Report and Outlook on Global Markets

11th November 2022

Market Developments	2
Major Moves This Week	3
Global Fund Managers' Statements	4
Global ETF Fund Flows	5
PACE 360's Future Outlook	6

US earnings downgrades have longest negative streak since early 2020

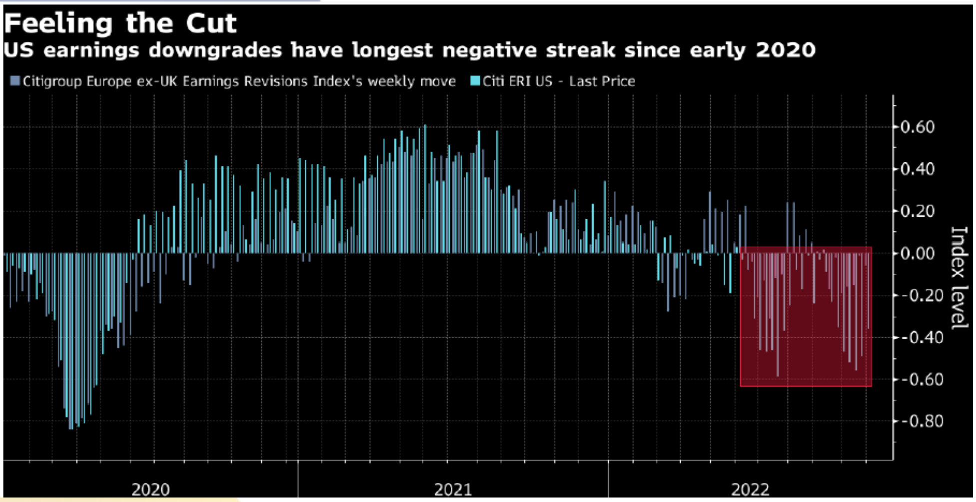


Figure 1: The chart shows Europe ex-UK and US Earnings Revisions Index's weekly move

The pace of earnings downgrades has accelerated in the US, especially compared to Europe, as a Citigroup Inc. gauge of US earnings changes has had 23 consecutive negative prints, the longest losing streak since early 2020. Europe's lower exposure to big technology stocks and a higher exposure to commodities and financials compared to the US may explain the difference. That said, things may change quickly as data suggest Europe will post the weakest regional earnings growth in 2023 after having outperformed this year the US, China and other emerging markets.

Foreigners buy most Thai bonds in 8 years as baht rallies

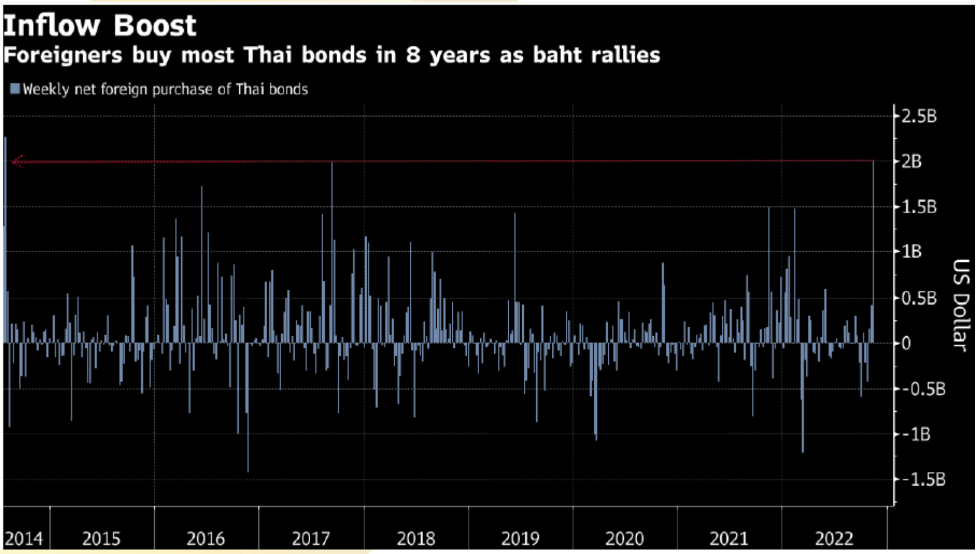


Figure 2: The above chart shows weekly net foreign purchase of Thai bonds

Global funds have pumped in more than $2 billion into Thai bonds so far this week, the biggest weekly inflow since July 2014. The purchases have helped the baht rally more than 3% against the dollar, making it Asia's best performing currency after South Korean won this week. The Thai currency may soon break below the 36 level with a weak outlook for the dollar and continued foreign fund inflows.

MAJOR MOVES THIS WEEK

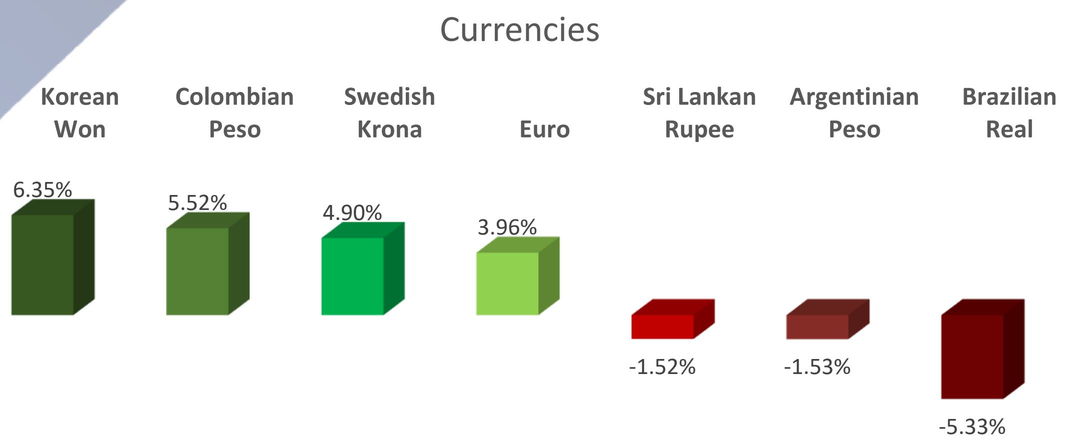


Figure 3: The graph represents Currency returns with respect to US Dollar as the base currency for this week.

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

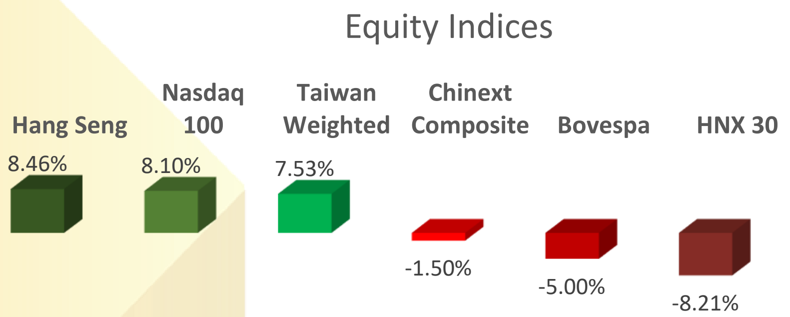


Figure 4: The chart represents the Equity Index returns over this week.

This week we have seen strength in the global equities markets. European equities have shown strength while Euro Stoxx 600 was also a gainer during the week. Asian Equities have performed mixed. Us markets have given sharp recovery after the Inflation imprint showing signs of cooling.

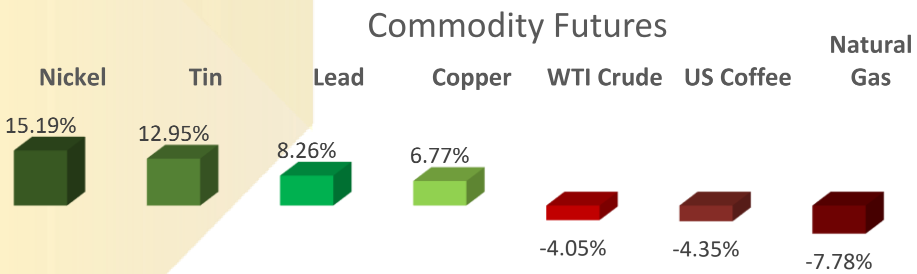


Figure 5: The chart represents the Commodity returns over the week.

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

GLOBAL FUND MANAGERS' STATEMENTS

Jim Rogers (Co-founder of the Quantum Fund and Soros Fund Management): The stock market has been pummeled, and many investors are wondering when things will turn green again.

According to legendary investor Jim Rogers, there is hope on the horizon — but perhaps not for long.

"We had huge pessimism because of inflation and other things," he tells. "Now it looks like inflation and pessimism is breaking, but just remember, this is probably the last rally."

The 79-year-old investor knows a thing or two about making money in turbulent times. He co-founded the Quantum Fund with George Soros in 1973 — right in the middle of a devastating bear market. From then till 1980, the portfolio returned 4,200%, while the S&P 500 rose 47%.

Mohamed El-Erian (Chief economic adviser at Allianz, Ex-CEO PIMCO): Due to rampant inflation, holding cash may not be a wise move. (Higher and higher price levels erode the purchasing power of cash savings.)

That's one of the reasons many investors have been holding stocks and bonds instead. But according to Mohamed El-Erian — president of Queens' College, Cambridge University, and chief economic advisor at Allianz SE — it might be time to switch gears.

"We need to get out of these distorted markets that have created a lot of damage," the famed economist says.

Both the stock market and the bond market have been tumbling lately, and El-Erian notes that when these market corrections happen simultaneously, investors should move to "risk-off" assets.

"What we have again learned since the middle of August, is that [stocks and bonds] can both go down at the same time," he says. "In a world like that, you have to look at short-dated fixed income, and you have to look at cash as an alternative."

You can hide your cash under a mattress or put them in a savings account. Or, you can use ETFs to tap into the so-called "short-dated fixed income."

Michael Hartnett (BofA's Chief Investment Strategist): According to Bank of America, the scene is set for a 2023 bull run. But more intriguingly, given the current conditions, the market leaders are not invited to this party with those further down the food chain set to the lead the way.

Or as BofA's Chief Investment Strategist Michael Hartnett puts it, "Secular trends of stagflation, reshoring, localization, fiscal stimulus = small cap bull in 2023."

Hartnett has history on his side. Similar to how the market behaved in the 1970s' high-inflationary era, after almost two decades of ruling the roost, Nasdaq 100 domination is starting to significantly wane, and Hartnett is expecting a repeat of past events. "Stagflation continued through late-1970s but once inflation shock of 1973/1974 over, US small cap entered one of the great bull markets of all-time," Hartnett added.

Nouriel Roubini (Chairman Roubini Macro Associates and Professor Economics at NYU): "If this recession were to be between a plain, vanilla garden variety one and the GFC [Global Financial Crisis]…then the markets would be falling 40%," Roubini told Fortune in a recent interview. "Now it's down only 20% so we have another 20% to go." Most bankers and economists have so far congregated on a 20% drop as the most likely.

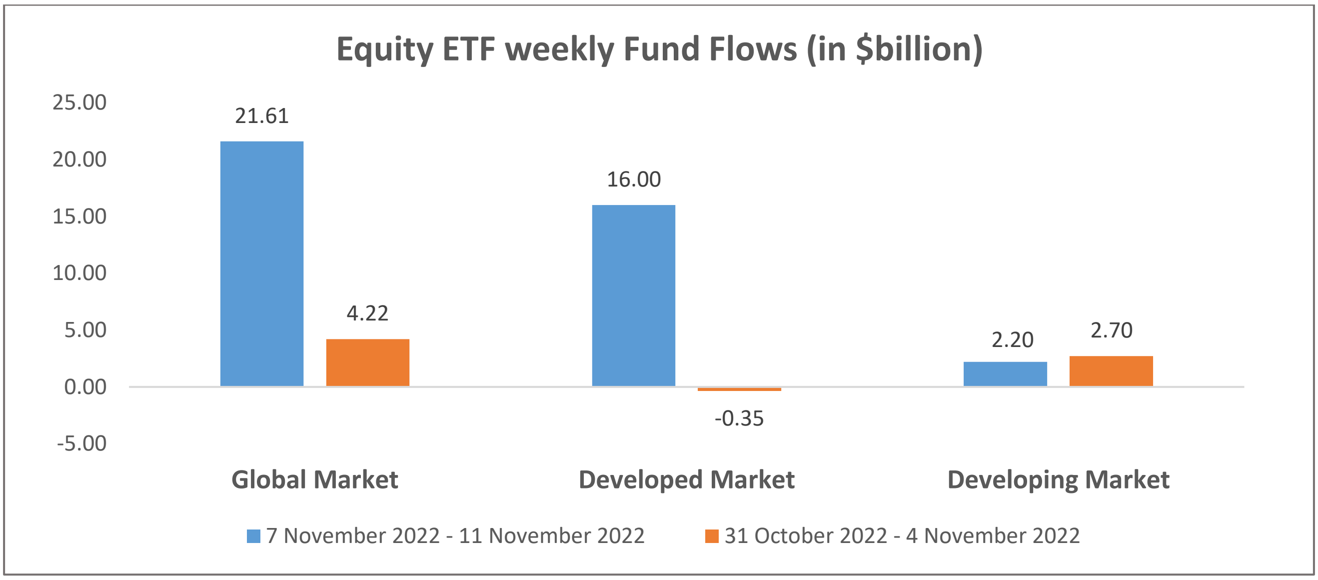
The veteran economist is quite convinced that a recession is on the way, one potentially bad and prolonged enough to combine the worst elements of the 1970s oil shocks and the global financial meltdown of the late 2000s.

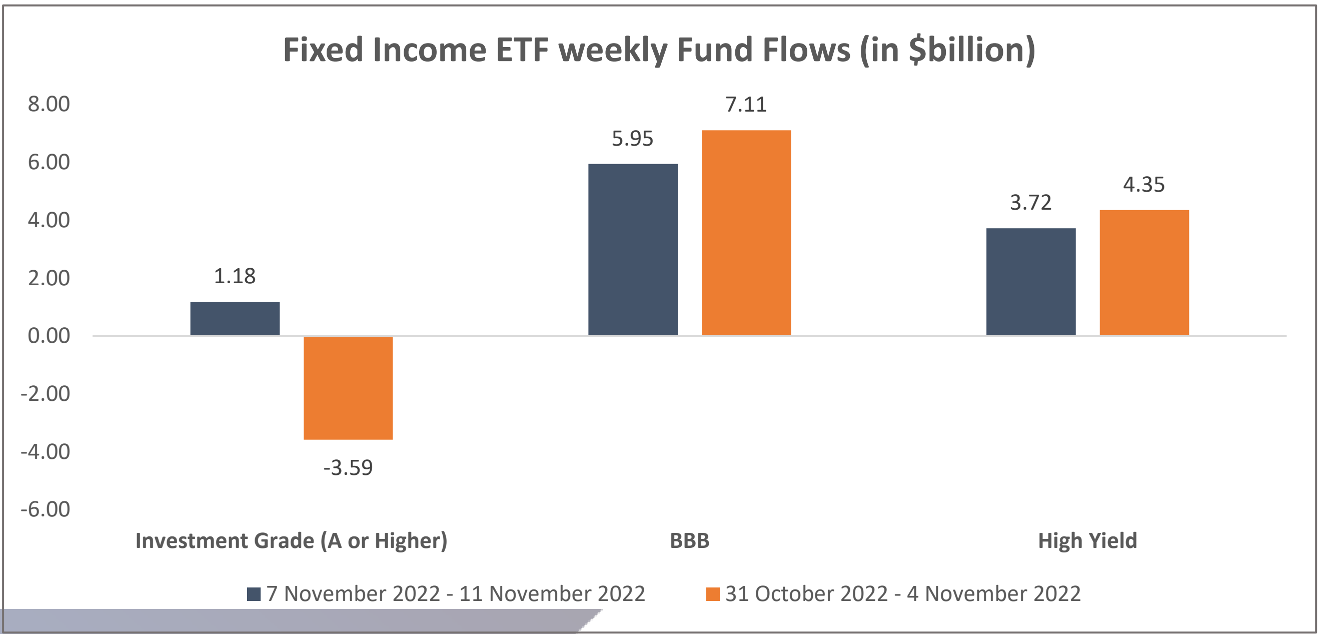
There is another possibility, he added, when asked about legendary investor Stanley Druckenmiller's scenario that stocks would be "flat" for the next decade.

"We might be closer to a period like we saw between 1973 and 1982, where stocks dropped and stayed very, very low for a long time," Roubini said.

"Stocks have to go much lower than the current level before they flatten out," he said, adding that the market rallies that followed the 2008 financial crash and the recession induced by the COVID-19 pandemic in 2020 are unlikely to come to the economy's rescue this time around.

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

Last week was nothing short of revolutionary for the global markets. Equities, long term bonds, gold, commodities and EM currencies had a massively bullish week just as US dollar was clobbered. We believe that the markets are looking a bit overstretched as of now. The upmove in asset classes may extend a bit further over the next few days of the coming week but global equitues are likely to correct over the next few weeks. We expect to see a 5% correction in equities and a 2-4% kind of rally in US dollar by the first half of December. Overall on a medium term basis we believe equities are going to be rangedound with no significant upsides or downsides. We expect 30 year US Treasuries to continue to do very well over the medium and long term. Gold may also correct with equities in the near term but will continue to be the best asset class for the next 5 years.

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