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Monthly Market Newsletter

Glovista Global Perspectives

This Issue:

Despite Soft Macro Data, Risk Assets Rally on Lower Risk Premia Courtesy of Improved China-US Trade Discussions, Dovish Monetary Policy Signaling by ECB and FED, and Q4 Earnings; Glovista Sustains Factor and Regional Tilts

In February, risk assets extended their January monthly price gains despite a continued soft economic calendar out of most of the world's economic regions, covering the November 2018-early February 2019 period. For example, Figure 1 illustrates the February month-to-date along with 2109 year-to-date return performance for a number of major asset classes while Figure 2 highlights the continued softening economic calendar at a global level.

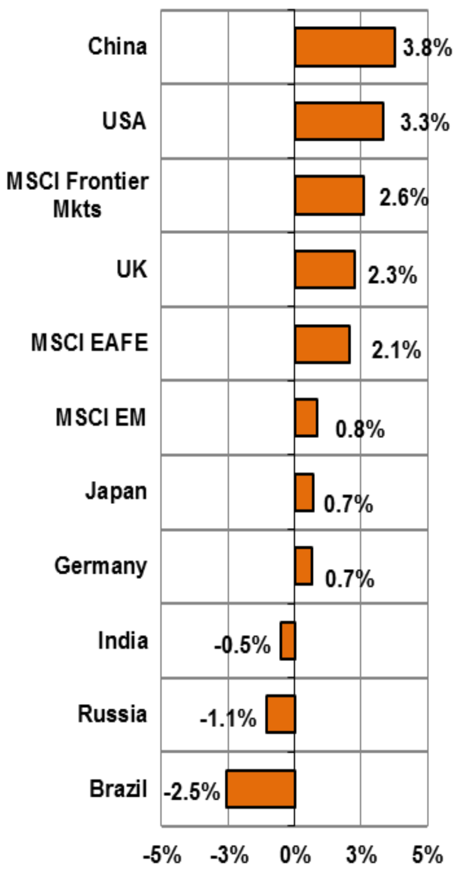
Notwithstanding the broad weakening of economic releases across the world's major economic regions, global investors have taken comfort in the marked strengthening of financial conditions that has unfolded during the same period, as illustrated in Figure 3.

Investors Embrace Expectations of Reflationary Recovery in the Year's Second Half as US$ Weakens versus EM Currencies and Financial Conditions Strengthen

The strengthening in global financial conditions, reflected in a tightening of credit spreads (Figure 4) and weakening US Dollar – especially versus Emerging Market currencies (Figure 5), raise the prospects of a nascent reflationary (courtesy of weakening US Dollar and rising commodity prices) economic expansion that may crystallize during the year's second half. We believe global investors' belief in such macro scenario for the year's second half underpins the year-to-date bounce in risk markets.

We believe the recent strengthening of financial conditions during the month of February owes much to the following developments:

Country-wise Monthly Performance in USD terms (February 2019)*



Source: MSCI & Bloomberg

**As of February 22nd, 2019*

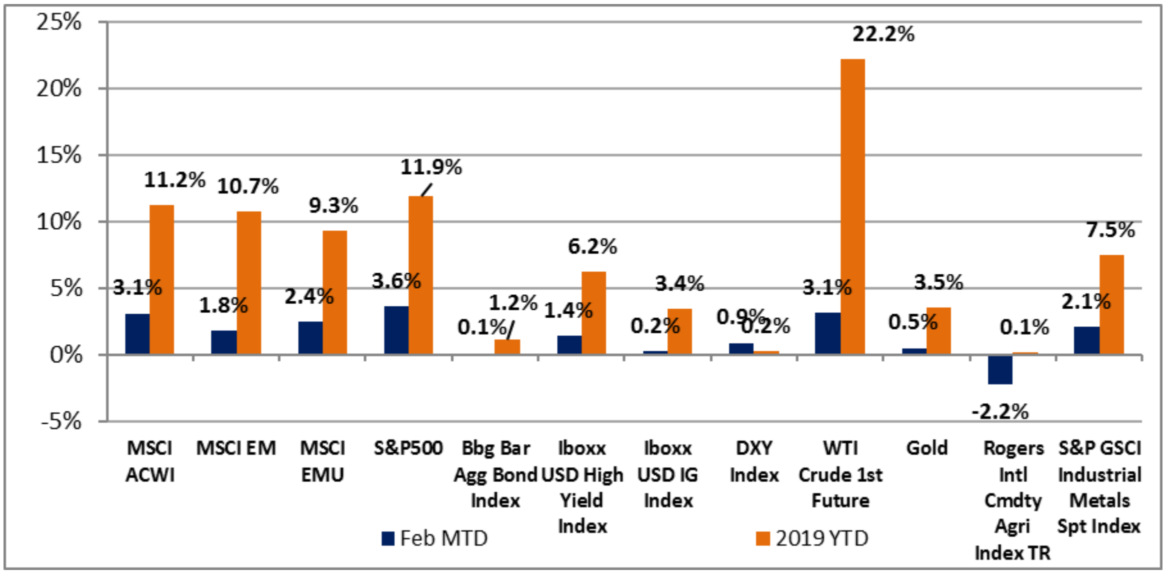
S&P500 Monthly Sector Performance – February MTD 2019*

Sectors	% Change	FY1 PE Ratio
Energy	2.68%	18.6
Materials	4.55%	16.1
Industrials	5.99%	16.1
Cons Disc	1.42%	20.0
Cons Stap	2.36%	18.6
Technology	6.34%	18.4
Healthcare	2.12%	16.1
Financials	1.91%	11.7
Utilities	3.84%	18.4
Telecom	1.00%	16.6
Real Estate	1.96%	40.7
S&P500	3.28%	16.7

*As of February 22nd, 2019

Source: Bloomberg

Figure 1. Risk Asset Market Indices Rally Further in February



Source: Bloomberg

Figure 2. World Economic Activity Surprise Indicators Weaken Further in February

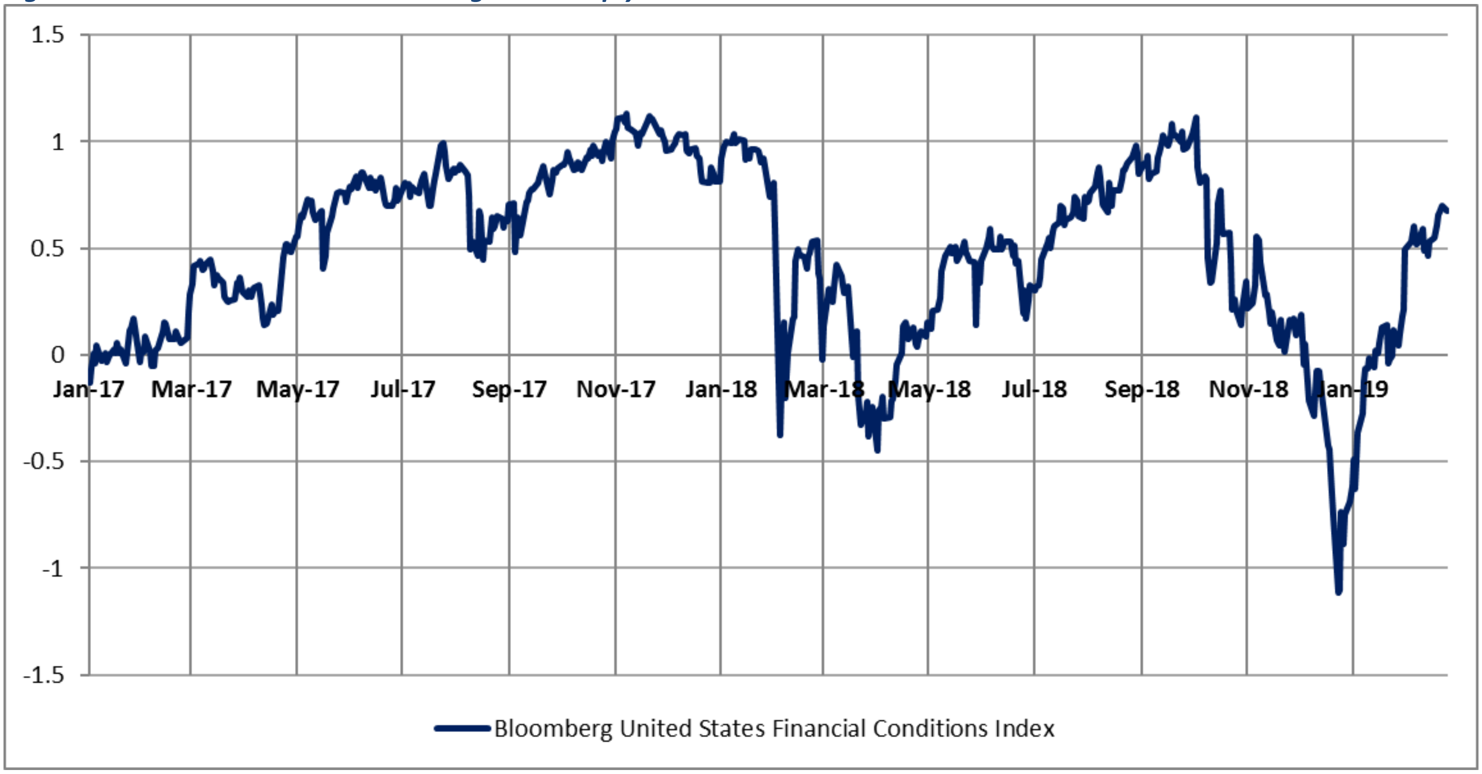
Source: Citigroup

- improved tone in US-China trade discussions, with US President Trump voicing a clear desire to reach an agreement with China over the coming weeks, culminating in a mid-March Florida meeting with China President Xi. In the past few days, President Trump decided to extend the March 1st deadline by when a step-up tariff hike was scheduled to apply to $200 billion of imports from China.

- Earlier this month, the US government shutdown came to an end. Such development entailed a reduction in fiscal risk premium.

- US Federal Reserve's decision, made public with the release of minutes covering the end January FOMC meeting, to end the shrinkage of the Fed's balance sheet at the end of Q4 of this year from a previous forecast of Q2 of 2020.

Figure 3. US Financial Conditions Strengthen Sharply since End 2018 Low Levels



Source: Bloomberg

- European Central Bank's signaling, earlier this month, of a further deferment in the timing by when monetary policy conditions are likely to be normalized. Such dovish policy signaling comes on the back of further deterioration in Eurozone economic conditions, impacted by adverse economic sentiment effects from ongoing unresolved BREXIT process, weak global trade data and continued challenging conditions facing the Eurozone banking system.

In our view, the Eurozone region's continued economic and financial sector challenges, including the Italian economy's recession status, have combined to postpone the timing by when the Euro currency would strengthen markedly versus the US Dollar. Put differently, we believe the US Federal Reserve's policy turn earlier this year, in a dovish direction, would have resulted in a strengthening of the Euro were it not for the recent softness in the Eurozone economic calendar. As a result, much of the US Dollar weakening process thus far this year has been versus Emerging Market currencies, as illustrated in Figure 5.

Against the backdrop discussed above, we believe global investors have taken the recent batch of soft economic indicators as 'rear-view', backward looking indicators – unrepresentative of upcoming economic growth prospects. In such light, risk markets have rallied despite weak economic data releases. Historically, equity markets allow for a period of up to 6 months by when earnings revisions begin to turn up following a period of softness, as has been the case since late September 2018.

As we look ahead at the coming weeks and months, we believe investor attention will center on data out of China under a scenario in which trade discussions between China and the US reach a satisfactory conclusion and given the lag effects of recent fiscal and monetary policy stimulus implemented by China these past several months. Moreover, much of the recent softness in corporate earnings derived from the sharp energy price declines recorded in global markets during the fourth quarter. As energy prices have posted sizable rebounds this year, corporate earnings and pricing power are likely to recover in the coming months.

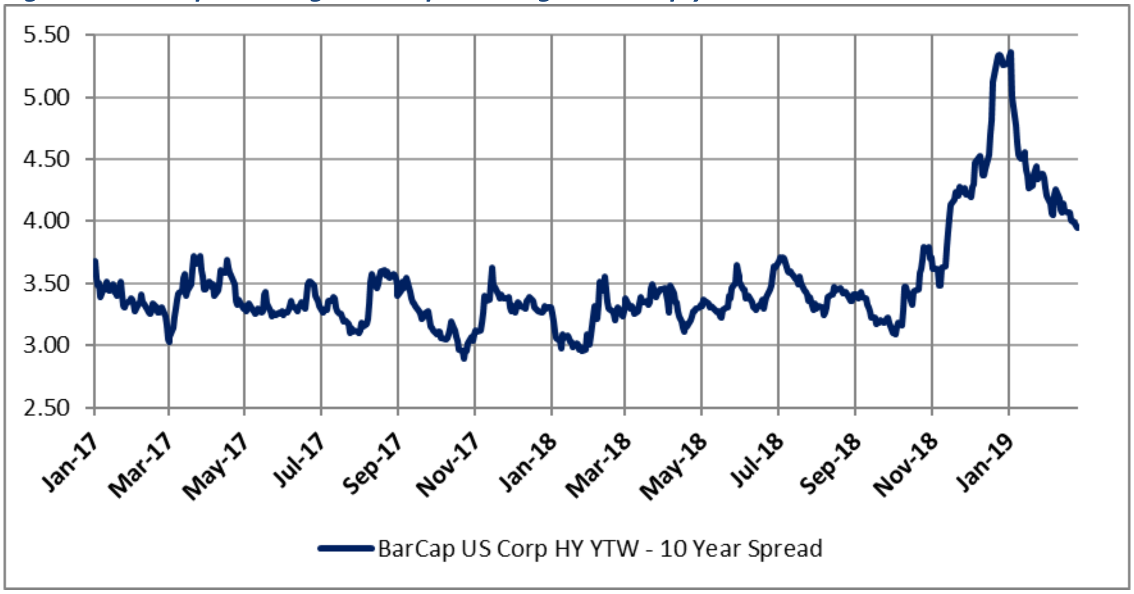
	February 22nd 2019	February MTD Change
Gold	1328.25	0.5%
Silver	15.9225	-0.9%
Oil	57.26	6.5%
EUR	1.1335	-1.0%
JPY	110.69	1.7%
GBP	1.3053	-0.4%
CHF	1.0004	0.6%
CAD	1.3135	0.1%
AUD	0.7129	-2.0%
BRL	3.7468	2.7%
MXN	19.1448	0.2%

Source: Bloomberg

Rates	February 22nd Level
1 Yr CD	1.5%
5 Yr CD	2.04%
30 Yr Jumbo Mortgage	4.38%
5/1 Jumbo Mortgage	3. 82%
US Govt. 10 Year	2.6518%
10 Yr Swap Spread	1.25%

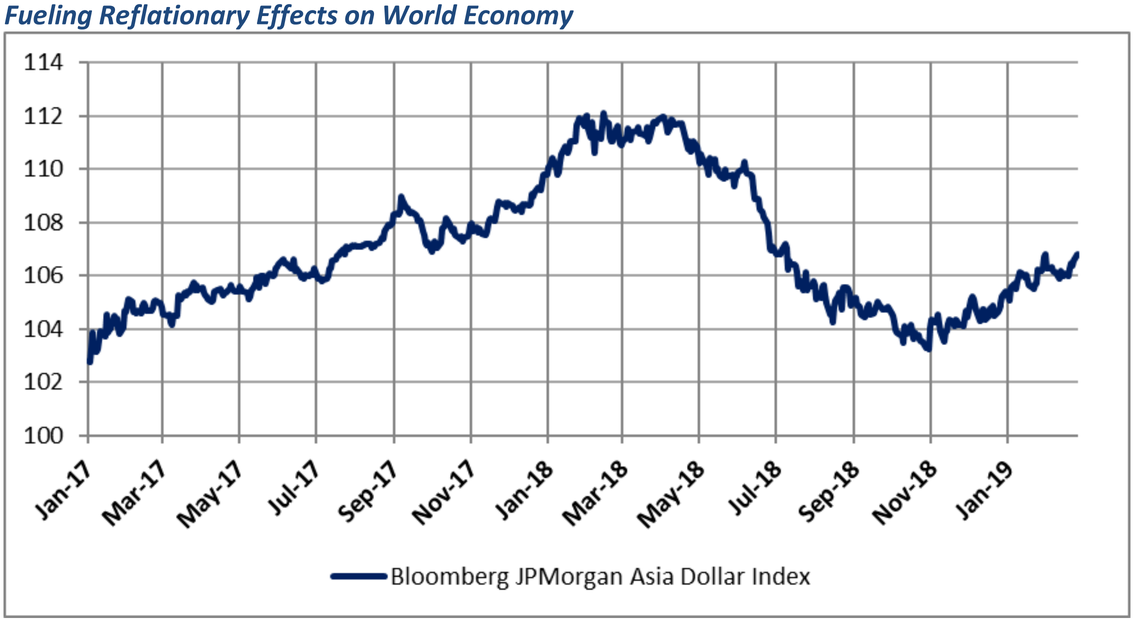
Source: Bloomberg

Figure 4. US Corporate High Yield Spreads Tighten Sharply since End 2018 Levels



Source: Bloomberg

Figure 5. EM Asia Currencies Strengthen Strongly versus US$ since October 2018 Low Levels, Fueling Reflationary Effects on World Economy



Source: Bloomberg

Before we summarize our portfolio investment strategy stance further below, it is worth noting a number of lingering short-term risk factors to global markets. These include: the release of a contentious Muller report leading to further political polarization and policy inaction in the US; geopolitical events in the Middle East and Asia, as well as a potential military conflict in Venezuela that could pull in world powers into conflict; further financial sector challenges plaguing the Eurozone region; a disruptive Brexit scenario; renewed tensions in the Korean peninsula, should the upcoming Trump-Kim summit prove disruptive to peace.

Glovista Sustains Overweight US and EM Equities Exposure along with Underweight Bond Duration Allocations and Overweight Precious Metals

Under the fast-changing G3 monetary policy backdrop discussed above, along with improving financial conditions - including increased prospects of a trade agreement between China and the US - we continue to favor equities exposure to the US and Emerging Markets, and underweight exposure to International Developed Markets given the limited economic growth visibility out of the Eurozone. Moreover, the quality of Q4 2018 corporate earnings out of the US and Emerging Markets have outpaced those out of Japan and the Eurozone.

Within our fixed income allocations, we continue to underweight duration owing to value considerations, including depressed bond term premium levels. We continue to favor short-term maturities including in the senior loans space. Within the commodities space, we recently took profits in MLPs yet retain an overweight allocation to precious metals, primarily to mining stocks.

Emerging Markets Perspectives

EM Equities Extend Outperformance versus DM Peers on Weaker US$ versus EM Currencies, Improved China-US Trade Discussions and Strengthened Financial Conditions

In February, Emerging Market equities have extended their post-October 2018 period of relative outperformance versus Developed peers (Figure 6). Emerging market equities' extended period of outperformance versus Developed peers is built on several reinforcing developments whose staying power is likely to be long, in our assessment. Some of those developments include the following:

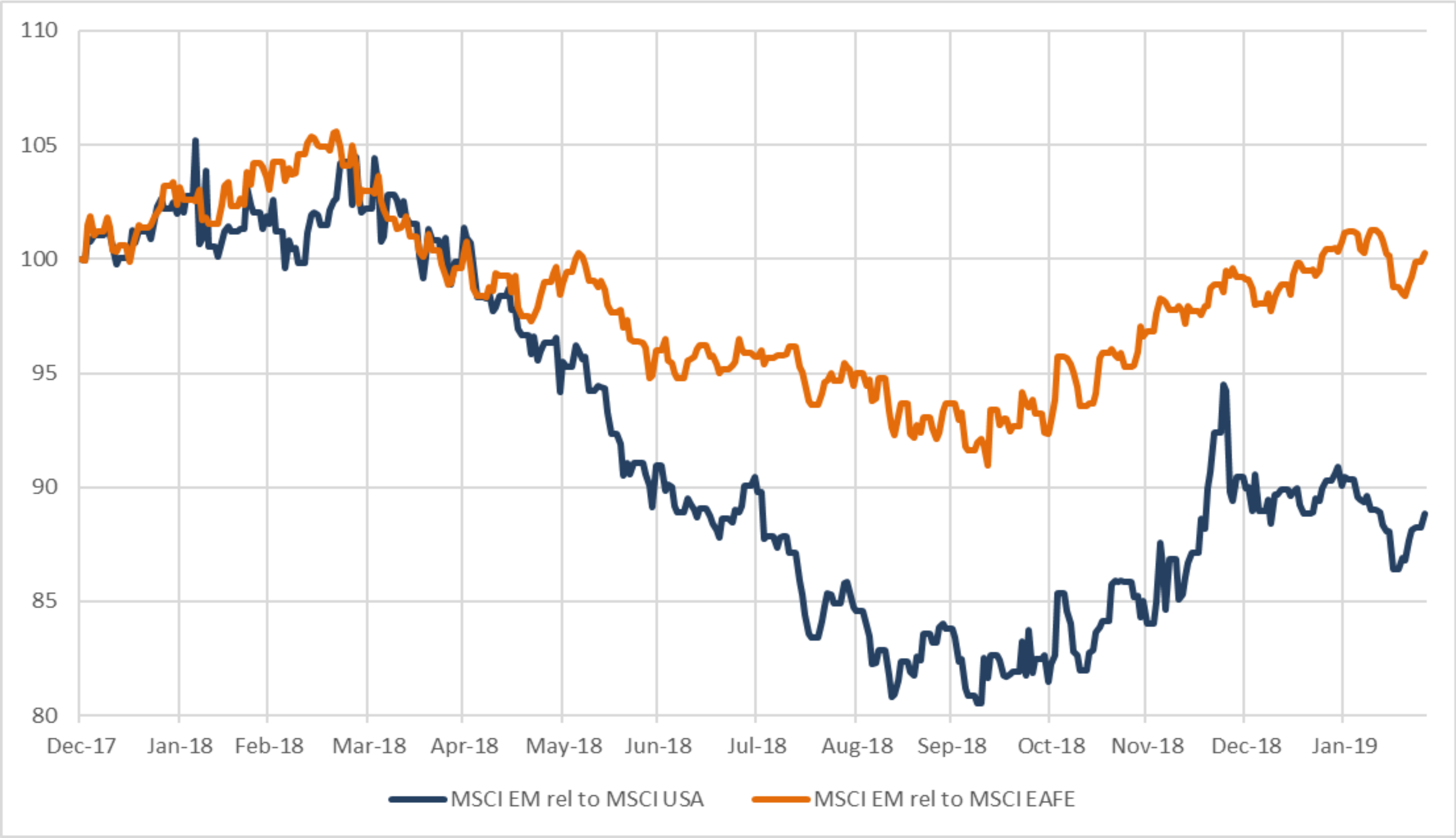
- Strengthening of EM currencies versus the US Dollar, following the US Federal Reserve's January 2019 turn in policy guidance in a dovish direction;

- EM central banks' diminished impetus to hike policy rates given strengthening currencies versus the US Dollar as well as the moderation in global growth. The prospect of lower real interest rates augurs well for the potential of further EM equity valuation expansion this year;

- Vastly reduced risk premium levels following the Trump administration's decision to seek a trade agreement with China over the near term;

Over the past several weeks we have rebalanced regional exposure away from Eastern Europe and Latin America in favor of North Asia, especially China, given Chinese equities' attractive valuations following a multi-quarter long period of relative underperformance as well as improved chances of an improvement in trade relationships between the US and China. Over the medium-term, we continue to favor exposure to commodity-oriented markets – including Russia, Brazil, Chile and Indonesia - given our expectation of a downturn in the US Dollar cycle as well as the reflationary effects resulting from the dovish turn in the US Federal Reserve policy guidance as well as that of the ECB, as discussed above.

Figure 6. In February, EM Equities Extend Outperformance versus EAFE Peers



Source: Bloomberg, MSCI and Glovista Calculations

As we look ahead, we expect Emerging Market equities to further extend their relative outperformance versus Developed peers given still light institutional investor exposure to the asset class, attractive relative valuations, improving relative economic growth performance and currency revaluation versus Developed currencies.

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1 Evertrust Plaza Suite 1102
Jersey City NJ 07302
Tel: 212-336-1540
Website: www.glovista.net