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GLOVISTA INVESTMENTS

Glovista Global Perspectives

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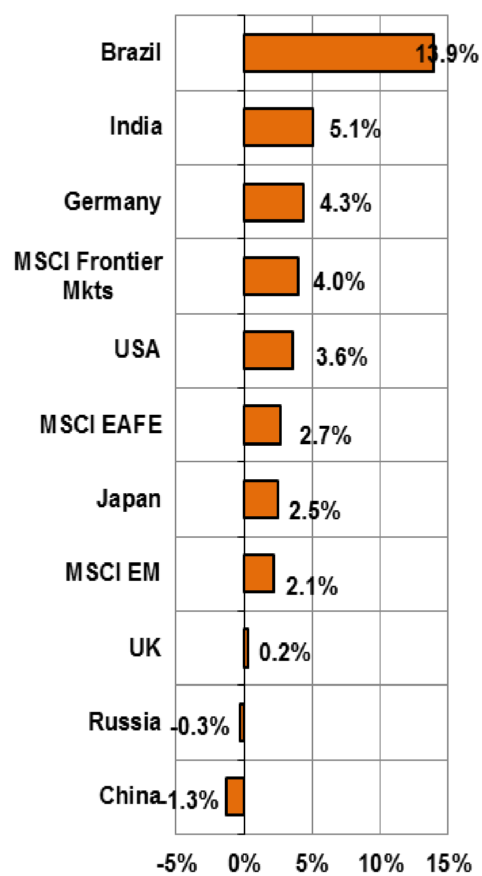
Risk Markets Rally on Stronger Economic Calendar, Solid Q2 Earnings, China Policy Stimulus and Deescalating Trade War Concerns; Glovista Raises Further Portfolio Value Tilts

In July, risk indices have posted solid price gains on the back of three principal macro, policy and corporate sector dynamics. Figure 1 illustrates July month-to-date return performance across a number of risk indices against their 2018 year-to-date (YTD) return performance. The Glovista Investment team identifies four macro, policy and corporate sector dynamics as key driving factors behind the solid July monthly return performance impacting risk assets:

- Economic momentum measures post solid bounce during the month of July, both for the world's major economies as well as Emerging Market economies – as indicated by Citi's Economic Surprise indices (Figure 2)

- The ongoing second quarter corporate earnings reporting season has been strong across the world's major regional blocs, including strong beat factors versus consensus estimates both for earnings and revenue figures. For example, as of the writing of this column, all major regions (the USA, Eurozone and Japan) have delivered positive surprises and double-digit earnings growth. In the USA, corporate earnings per shares (EPS) growth is sitting at close to 25 % on a year-on-year basis, with sector leadership led by IT and materials. In addition, top-line growth – as represented by sales – is running at a healthy 7-10 % range. In Europe, corporate earnings also are outperforming consensus estimates, with year-on-year EPS growth sitting at close to 12 % while revenue growth is hovering in the 5 % range. Finally, in Japan, year-on-year EPS growth is running at an impressive 10 % while revenue growth hovers around 5 %. The Emerging Markets corporate earnings season has yet to begin in earnest.

Country-wise Monthly Performance in USD terms (July 2018)*



Source: MSCI & Bloomberg

**As of July 27th, 2018*

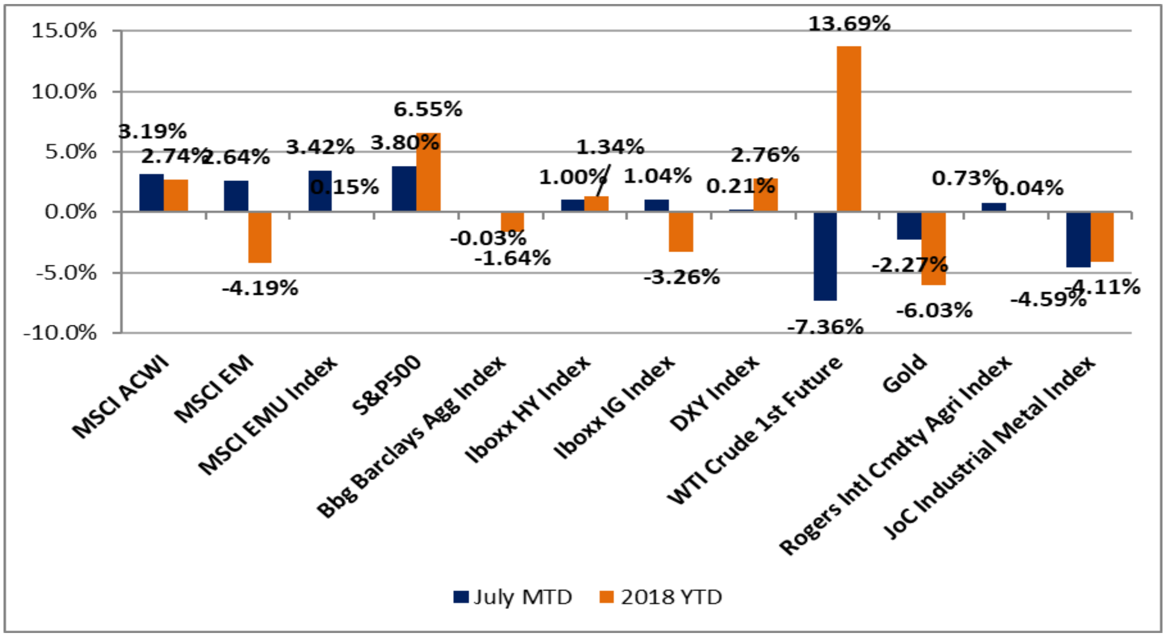
S&P500 Monthly Sector Performance – July MTD 2018*

Sectors	% Change	FY1 PE Ratio
Energy	0.83%	19.5
Materials	2.27%	16.2
Industrials	6.02%	17.6
Cons Disc	2.07%	21.6
Cons Stap	3.48%	18.3
Technology	3.58%	19.2
Healthcare	5.31%	16.4
Financials	5.84%	13.4
Utilities	1.36%	17.1
Telecom	-0.16%	10.0
Real Estate	-0.82%	38.8
S&P500	3.70%	17.5

*As of June 27th, 2018

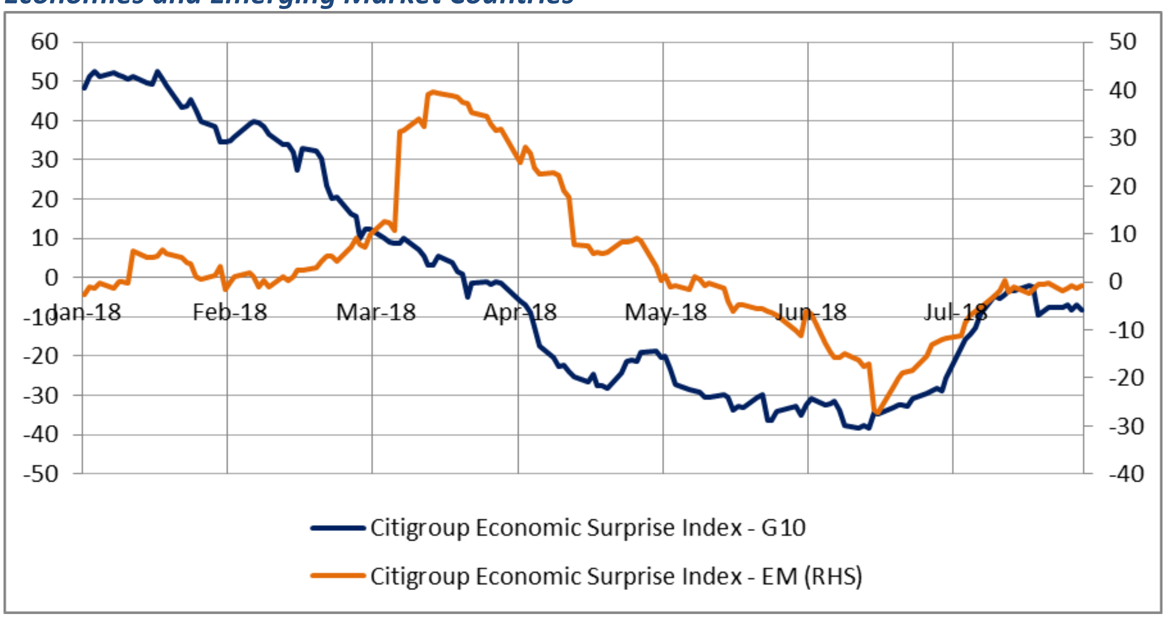
Source: Bloomberg

Figure 1. Risk Markets Post Strongest Monthly Performance since January 2018



Source: Bloomberg

Figure 2. July Economic Surprise Momentum Strengthens across the World's Major Economies and Emerging Market Countries

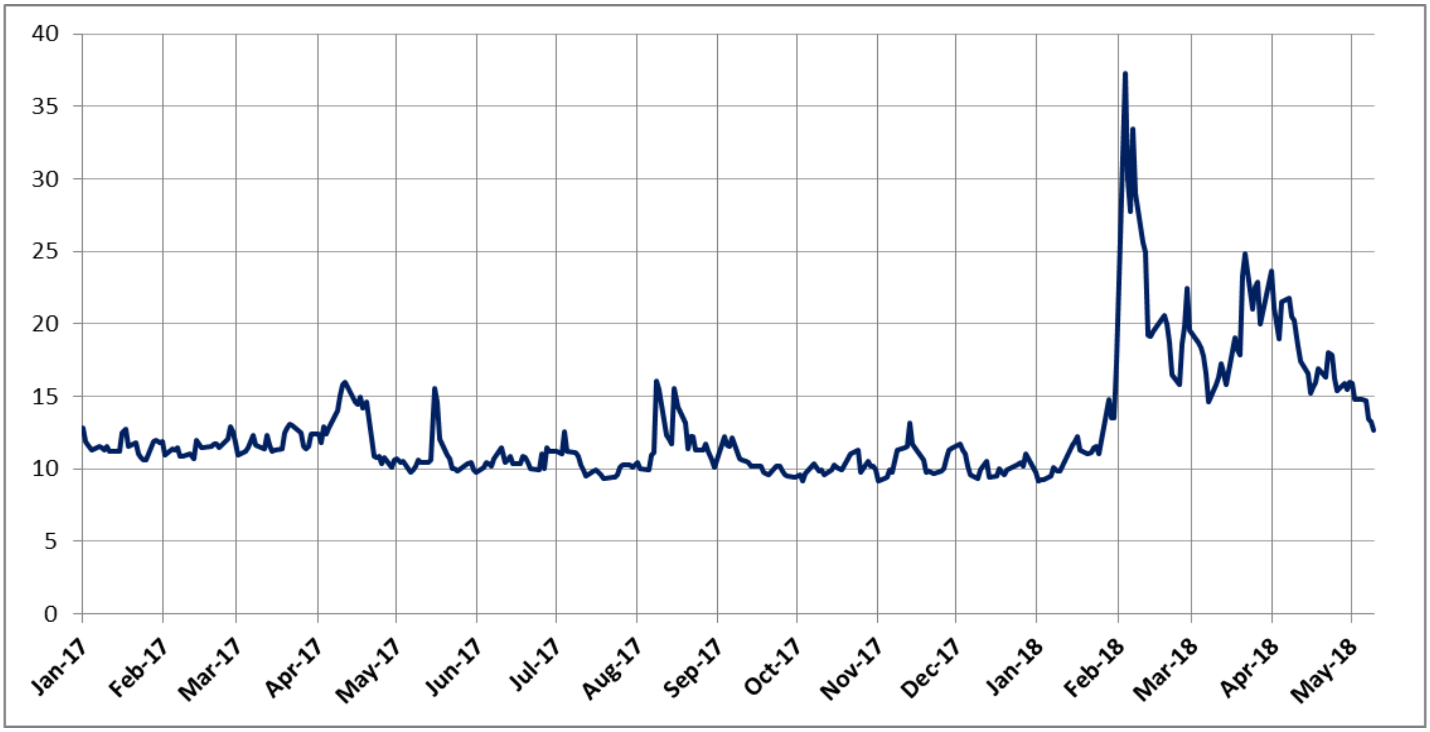


Source: Citigroup

- The Chinese economy, a focus of global investor concern these past several months owing to the ongoing trade spat with the USA, was the source of investor friendly policy developments during the month of July. Specifically, following the deceleration of economic momentum these past several months, in July China's main monetary and fiscal authorities introduced a number of stimulus measures including a new round of reserve requirement ratio cuts as well as tax cuts and infrastructure investment expenditure increases.

- De-escalation of trade war concerns following this past week's meeting between European Commission President Juncker and US President Trump. Following the leadership meeting, the US and the European Union reached an agreement to negotiate on trade.

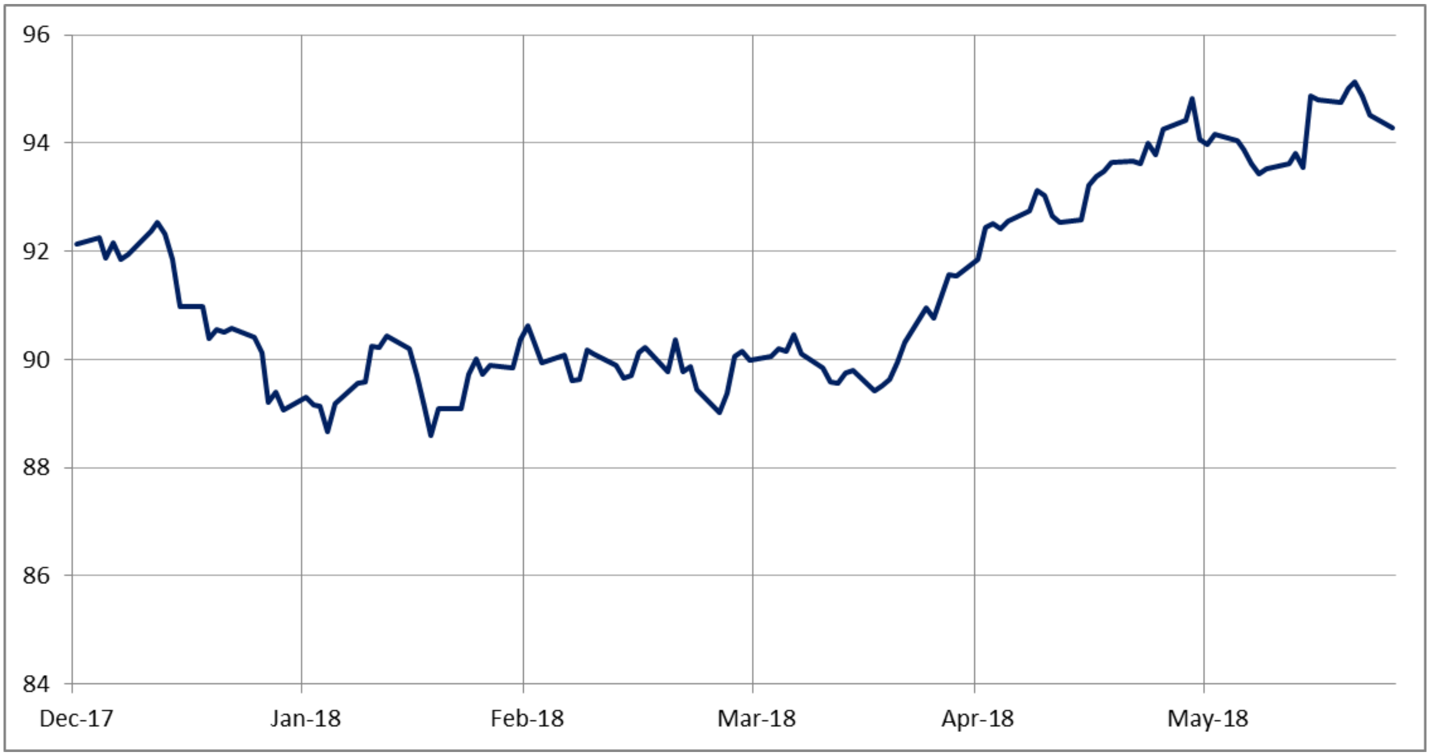
Figure 3. Equity Risk Measures Decline in July on the Back of Stronger Macro Calendar and Investor Friendly Policy Developments



Source: Bloomberg

On the back of the above mentioned developments, economic and earnings growth expectations have strengthened while risk indicators (such as the VIX implied equity volatility index - Figure 3) have declined. As a result, risk assets have recorded solid return performances during the month of July, reinforced by the lack of further US Dollar strength during the month (Figure 4).

Figure 4. US Dollar Index Consolidates during the Month of July



Source: Bloomberg

Glovista Raises Further Portfolio Value Tilts on Valuation, Policy, Ownership Status and Economic Considerations

	July 27th 2018	July MTD Change
Gold	1223.26	-2.4%
Silver	15.495	-3.8%
Oil	68.69	-7.4%
EUR	1.1657	-0.2%
JPY	111.05	0.3%
GBP	1.3105	-0.8%
CHF	0.9945	0.4%
CAD	1.3055	-0.6%
AUD	0.74	-0.1%
BRL	3.7115	-4.3%
MXN	18.6299	-6.4%

Source: Bloomberg

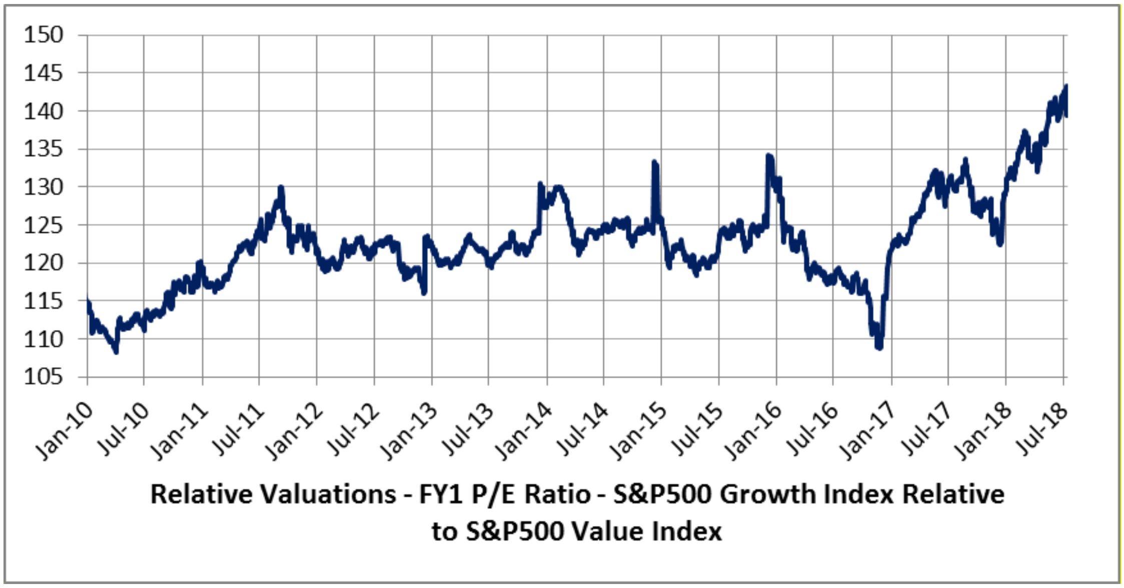
Rates	July 27th Level
1 Yr CD	1.18%
5 Yr CD	1.8%
30 Yr Jumbo Mortgage	4.6%
5/1 Jumbo Mortgage	4.11%
US Govt. 10 Year	2.9542%
10 Yr Swap Spread	5.88%

Source: Bloomberg

Against a strengthening economic calendar and diminished investor concerns surrounding trade frictions between the USA and Europe as well as NAFTA partners during the month of July, the Glovista investment team has raised further its managed portfolios' value tilts. It has done so on the back of several considerations, including:

- Relative valuations between growth and value stocks, including in the USA. For example, Figure 5 illustrates US growth stocks' stretched valuations relative to value peers.

Figure 5. Growth Stocks' Valuation Allure versus Value Peers Appears Stretched on Historical Grounds



Source: Bloomberg & Glovista Calculations

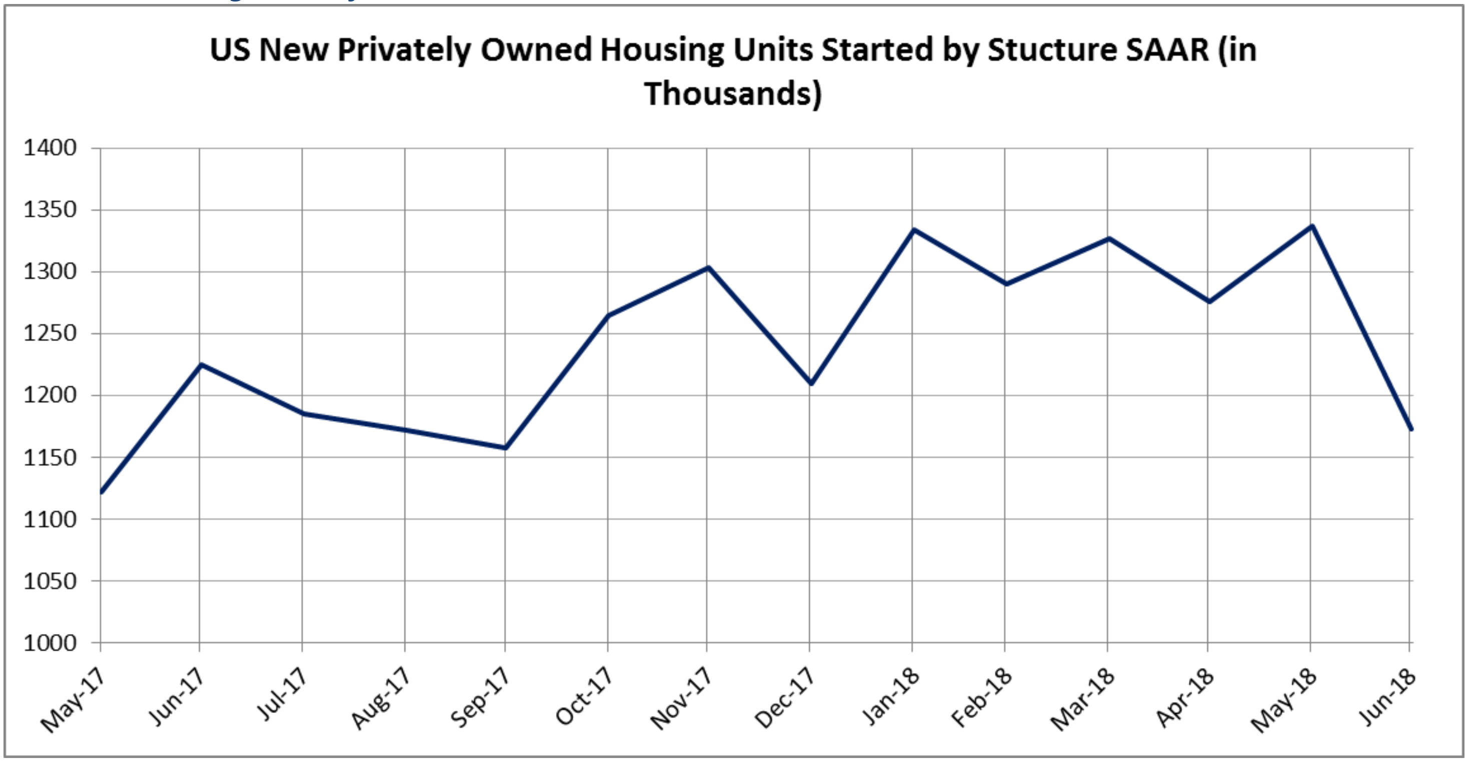
- The ongoing second quarter corporate earnings season has entailed significant disappointments out of a number of the most visible, iconic growth stocks such as Netflix and Twitter. Facebook stock has also been impacted though its valuations and competitive standing is vastly superior to Netflix's or Twitter's. The outsized price drop that ensued disappointing earnings and revenue releases, as well as future guidance, suggests those stocks are very widely owned across the market, a bearish factor.

- Over the coming days, the Bank of Japan is likely to introduce forward guidance for the 10 year yield target on government debt paper. Such shift in guidance would amount to a hawkish policy action, likely to fuel expectations of limited further downside to long-term bond yields in Japan and other major Developed Economies, including the Eurozone. If such repricing of government debt paper materializes, it would be supportive of value stocks' return performance versus growth peers.

- The US FED is likely to stay the course in its policy rate hike cycle even as interest rate sensitive sectors of the US economy have disappointed materially over the past several months – e.g. US building permits flat-lining since the middle of 2017 given the spike in mortgage rates and decline in home affordability levels – Figure 6 and

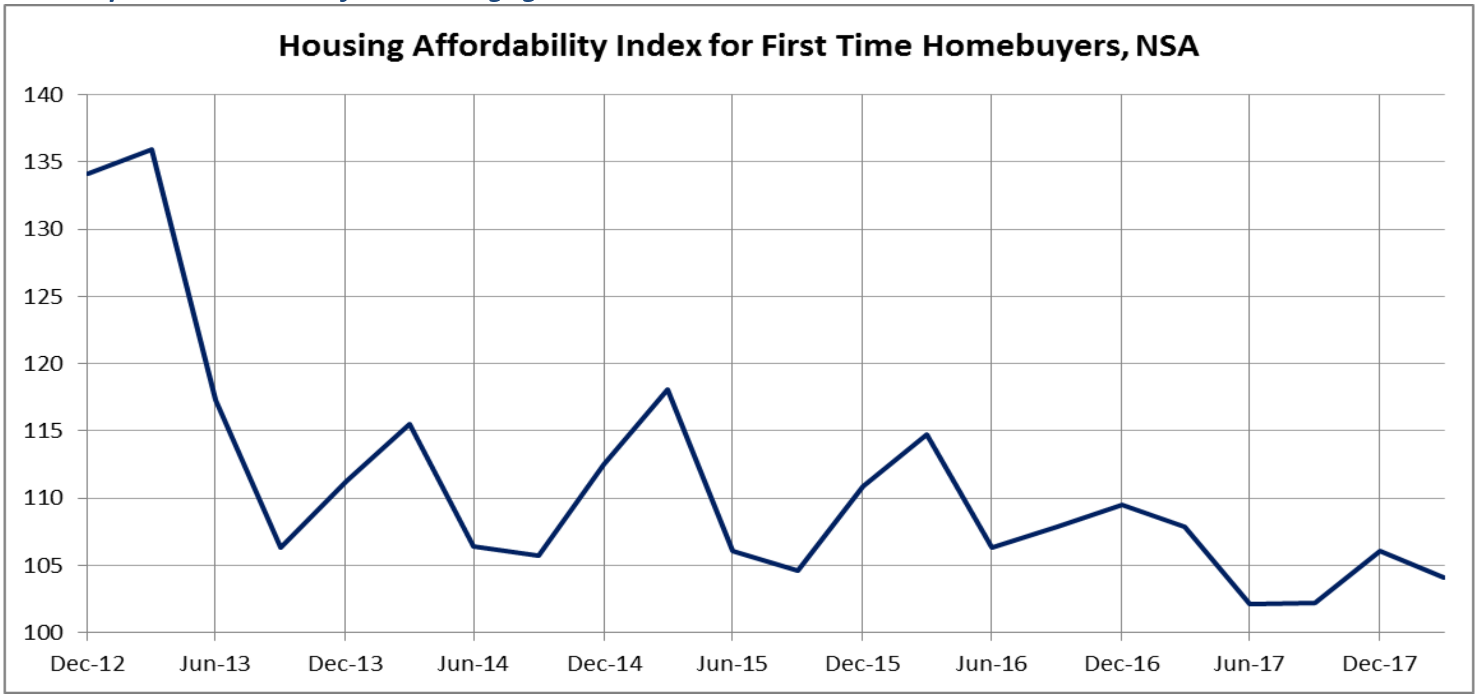
Figure 7. The FED is likely to sustain its rate hike cycle given the economy's visibly long runaway for growth as real interest rates remain low, tax rates are lower and the global economy is holding up well, not to mention the new FED leadership's need to establish its credibility from the White House given Mr. Trump's recent comments suggesting his government's displeasure with the FED's current stance.

Figure 6. US Housing Permits Remain Unchanged from Year Ago Levels, Likely Impacted by Rise in Mortgage Credit Costs and Housing Price Inflation



Source: US Census Bureau

Figure 7. US (First Time) Homebuyer Affordability Has Eroded These Past Several Years given House Price Inflation and Despite Persistence of Low Mortgage Rates



Source: National Association of Realtors

Glovista Maintains Overweight Quality, Underweight Duration Factor Exposures in its Portfolios' Fixed Income Sleeve along with Increased Value Tilt in Global Equities

Against the above-mentioned developments and considerations, the Glovista investment team maintains an overweight allocation to strong quality, low duration fixed income exposures along with overweight value tilts within global equities, including emerging market equities, US financials and a selection of attractively value US IT and consumer staples industry exposures. Finally, over the past several sessions we have raised cash allocations on a tactical basis given signs of distribution within some of the top performing industry and sector indices in the US market, possibly a sign of consolidation in overall equity indices over the coming weeks.

Glovista Emerging Markets Perspectives

EM Value Stocks Outperform Growth Peers Solidly in July, Boosted by Global Macro Developments; Glovista Further Raises Value Overweight Allocations

In July, EM stocks performed approximately in line with Developed Market peers, despite continued high levels of investor concerns surrounding the global trade outlook. In the process, EM currency prices stabilized and EM macro releases strengthened modestly. Moreover, this past week, EM assets were the world's top performing as EU-US trade frictions abated following a meeting held in Washington D.C. between US President Trump and European Commission President Juncker. As discussed in the adjoining *Global Market Perspectives* column, the global economic calendar has strengthened in July, a supportive dynamic for EM asset prices. We credit the tightening of EM credit spreads since June as well as the stabilization in EM currencies to the de-escalation of trade war concerns between the US and China/Europe/Mexico and Japan.

In July, EM value stocks have posted solid return outperformance versus growth peers on the back of several interconnected macro dynamics, including:

- The Chinese currency has weakened close to 6 percent versus the US Dollar these past eight weeks, far more than all other EM currencies with the exception of the Turkish Lira and the Argentine Peso. The Chinese equity market harbors a disproportionately large percentage of EM growth stocks.

- Disappointing Q2 earnings and revenue guidance out of some of the world's largest and most iconic growth stocks, domiciled in the USA, including Facebook and Twitter. The sell-off in US growth stocks has set off a de-rating of growth stocks in other regional blocs, including EM Asia.

- Strong Q2 earnings and revenue guidance out of some of the world's largest and most iconic value stocks, including US financial sector stocks, as well as out of a number of EM country indices, including Poland.

As we look ahead, we remain bullish EM stocks in absolute terms as well as versus Developed peers. Specifically, we believe EM stock valuations price a significant economic growth slowdown scenario across EM, in stark contrast with our baseline case. Moreover, recent positioning and investor flow proxy indicators tallied by some of the world's largest brokerage institutions suggest the pace of institutional selling of EM equities is among the largest since the early 2000s. Moreover, low short-dated call option volatility levels are suggestive of depressed levels of investor sentiment towards the EM asset class, a contrarian bullish indicator.

In addition, we expect a moderation in the pace of Chinese currency weakness as Chinese policymakers have introduced a number of fiscal and monetary policy loosening measures including reserve requirement ratio cuts, tax cuts, infrastructure expenditure increases, thereby lessening the need of resorting to currency weakness as a means to forestall the growth deceleration stemming from US trade policies under President Trump.

For the rest of this quarter, we expect to maintain our overweight allocations to value-sector oriented markets such as Poland, India, Russia and Brazil. We maintain underweight allocations to Gulf regional markets, Mexico, Czech Republic, Hungary, Argentina, Chile, South Africa, Taiwan, China and Korea.

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