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GLOVISTA INVESTMENTS

Glovista Global Perspectives

This Issue:

Risk Assets Sell Off on Soft Macro Data Flow and Heightened Geopolitical Risks; Glovista Sustains Constructive Equities Portfolio Stance on Valuation and Resilient Global Economic Outlook

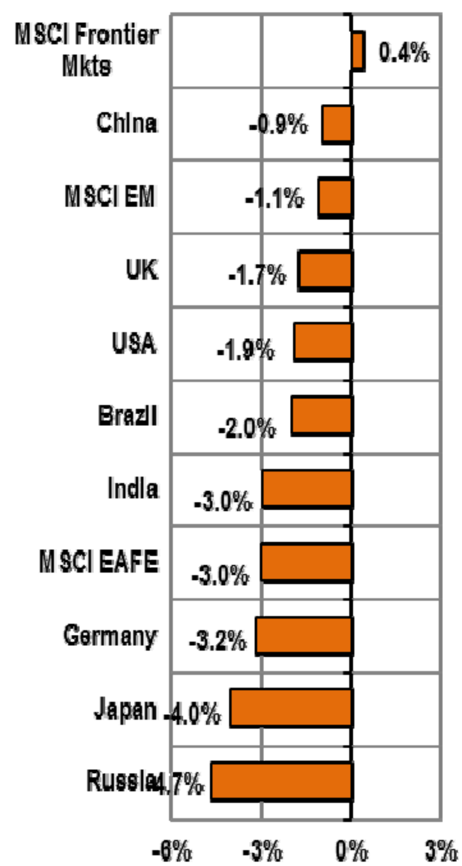
In March, risk markets globally recorded sizable retracements as illustrated in Figure 1. As we discuss further below, we attribute the recent pullback in risk asset prices to two principal factors:

- a temporary weakening of economic indicators, particularly out of the Eurozone and Japan, and;
- a marked rise in geopolitical and policy risks following a set of material changes in the configuration of the US Trump Administration's economic and national security leadership teams.

In our view, these two sets of developments have combined to push risk premium levels to the highest levels since the early February, technical factors-led, sell-off. In the process, the corresponding compression in risk asset valuation multiples ensuing such bounce in risk premium levels have accounted for the recent sizable asset price declines.

The month of March has witnessed a deceleration in the pace of economic momentum for several of the world's largest regional blocs, especially the Eurozone and Japan. Figure 2 illustrates the recent softening of economic momentum for the Eurozone region as summarized by Citigroup's economic activity surprise indicator. A close examination of the factors underpinning the recent deceleration in the region's pace of economic momentum shows weather effects, inventory dynamics and comparator effects as accounting for the overriding majority of the deceleration. Moreover, a survey of higher frequency and leading indicators of capital expenditure and consumer confidence show a continuation of the strengthening trend in overall economic conditions for the region in the quarters to come.

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



Source: MSCI & Bloomberg

**As of March 26th, 2018*

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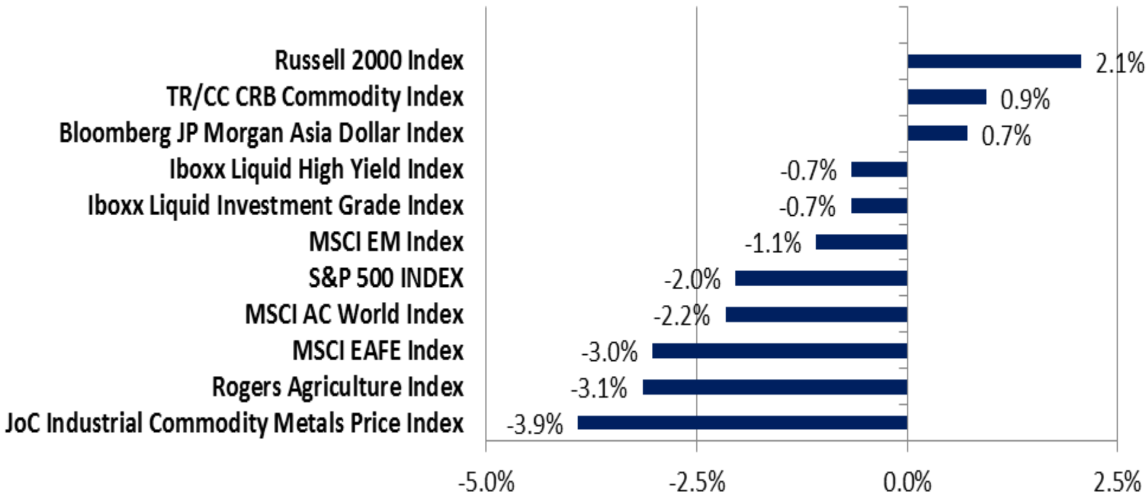
Figure 1. Risk Market Indices Record Sharp Price Declines in March



Source: Bloomberg

Figure 2. Eurozone Economic Calendar Weakens in March, from High Levels, and facing Tough Comparators and Adverse Weather Factors

Source: Citigroup

S&P500 Monthly Sector Performance – March MTD 2018*

Sectors	% Change	FY1 PE Ratio
Energy	2.32%	20.0
Materials	-4.00%	16.3
Industrials	-2.51%	17.6
Cons Disc	-0.73%	20.1
Cons Stap	-3.38%	17.4
Technology	-1.76%	18.5
Healthcare	-3.10%	15.6
Financials	-3.92%	13.4
Utilities	1.48%	16.1
Telecom	-3.22%	10.3
Real Estate	1.44%	38.1
S&P500	-2.04%	17.0

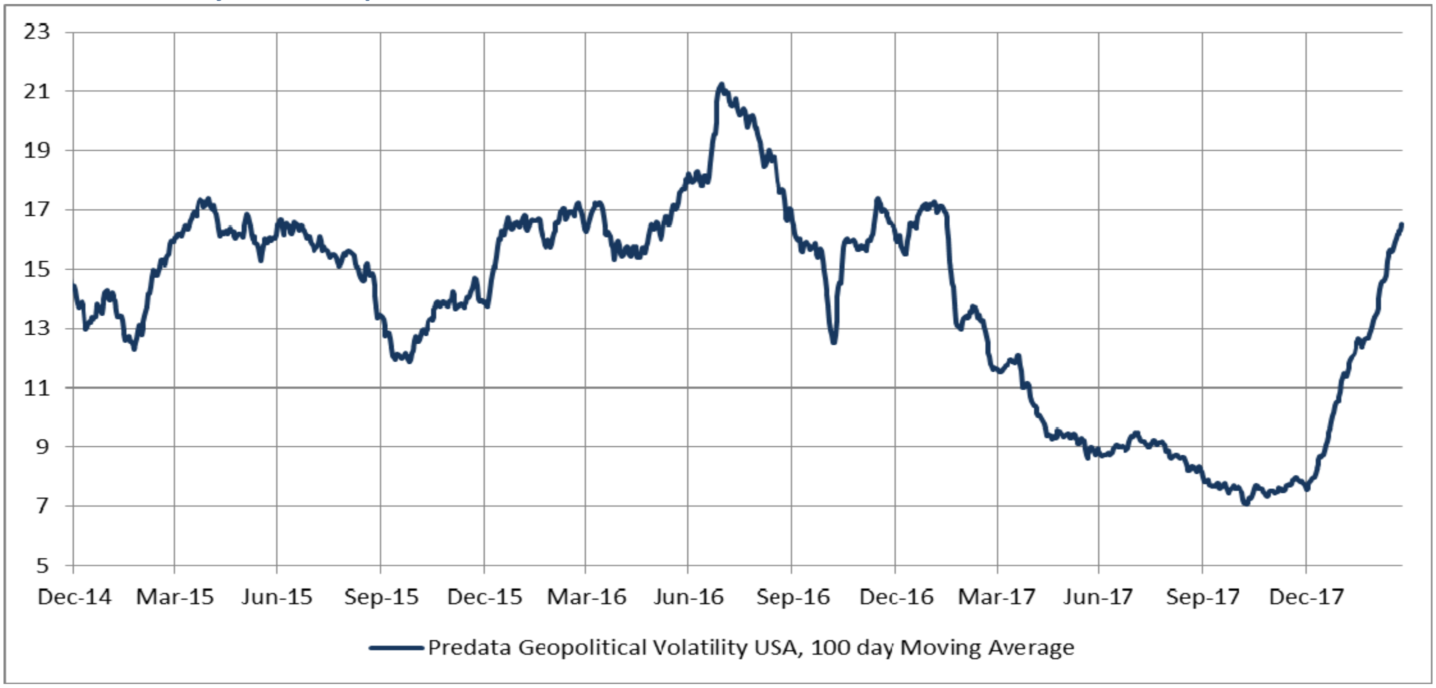
**As of February 26th, 2018*

Source: Bloomberg

The past several days have brought about a number of political developments in the United States that have jolted investor concerns. Specifically, the Trump Administration has witnessed a number of meaningful changes in key cabinet positions including Secretary of State, Director of the National Economic Council and Director of the National Security Council, among several others. In each instance, the shift in leadership position has entailed a transition from moderate to hawkish policy officials. Figure 3 illustrates the marked rise in US geopolitical risk over the past several weeks.

For example, at the economic level the new leadership team (including Mr. Navarro who wields greater influence following Mr. Cohn's departure) sponsors a more confrontational stance vis-à-vis international trade relationships with the rest of the world, particularly with China. It has been widely reported that Mr. Gary Cohn's departure from the Trump Administration came on the back of President Trump's decision to move forward with trade tariffs against China and other US trading partners – over the past several days the list has since been narrowed down to China for most of the goods affected by the tariff measures. Similarly, at the national security

Figure 3. US Geopolitical Risk Rises on the Back of Material Shifts in the US Administration's Economic and National Security Leadership Teams



Source: Predata

Figure 4. Equity Risk Premium Spikes in Mid-March, Coincident with Spike in Geopolitical and Policy Risk Concerns

Source: Bloomberg

level the new leadership team replacing former Secretary of State Tillerson, including Mr. Pompeo and also Mr. Bolton (National Security Council), is known to embrace an activist military stance vis-à-vis North Korea and Iran.

The above mentioned developments – entailing a repricing of policy, geopolitical and economic risk concerns – on account of their contemporaneous timing combined to effect a sharp escalation in risk premium levels – Figure 4 illustrates the rise in equity risk premium levels as reflected in implied equity volatility.

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Glovista Sustains Constructive Equity Market Outlook for Balance of 2018 on Reflationary Effect of Continued US Dollar Weakness and Broadening Economic Momentum across Regions

	March 26th 2018	March MTD Change
Gold	1353.44	2.7%
Silver	16.701	1.7%
Oil	65.55	6.3%
EUR	1.2444	2.1%
JPY	105.41	-1.2%
GBP	1.4229	3.4%
CHF	0.9456	0.1%
CAD	1.2843	0.1%
AUD	0.7748	-0.2%
BRL	3.3143	2.1%
MXN	18.3382	-2.7%

Source:Bloomberg

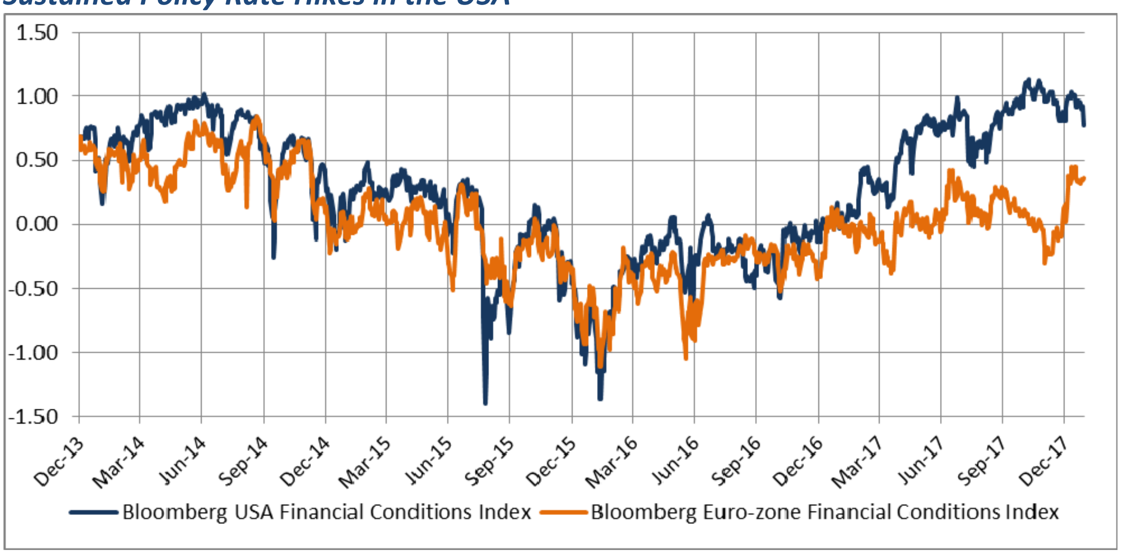
Rates	March 26th Level
1 Yr CD	0.96%
5 Yr CD	1.66%
30 Yr Jumbo Mortgage	4.56%
5/1 Jumbo Mortgage	4.2%
US Govt. 10 Year	2.852%
10 Yr Swap Spread	3.36%

Source:Bloomberg

As we look ahead to the balance of 2018, we maintain a constructive investment outlook towards global equities – especially non-US – on account of several considerations, including:

- Glovista' s baseline case entailing continued world economic growth – absence of recession dynamics – and reflationary effects of weak US Dollar;
- G3 central banks' gradual approach to normalizing policy interest rates from very low levels to still low real (inflation-adjusted) levels, especially for the Bank of Japan and the Federal Reserve;
- Equities' attractive relative valuations versus fixed income, especially developed country government bonds as a result of the unprecedented depression in term premium level courtesy of the multi-year long quantitative easing programs in the developed world;
- Emerging market equities' under-owned status, particularly on the part of US based institutional investors;
- Prevalence of growth-enhancing fiscal and monetary policies in the G3 economies in addition to continued loose financial conditions for some of the world's principal economic blocs, including the US and the Eurozone, as illustrated in Figure 5.

Figure 5. Eurozone and US Financial Conditions Remain Exceedingly Loose despite Sustained Policy Rate Hikes in the USA



Source: Bloomberg and Glovista Calculations

Of course, the economic and market outlooks remain subject to downside risk factors, including: policy mistakes on the part of G3 central banks (e.g. premature and outsized policy rate hikes triggering inversion of government yield curves), geopolitical risks (e.g. war with

Iran or North Korea), supply-side driven spike in energy prices. At this time, we impute low probability weightings to such risk factors.

Glovista Sustains Overweight Equities, Underweight Fixed Income Portfolio Allocations; Factor Exposure Further Raised to International Value

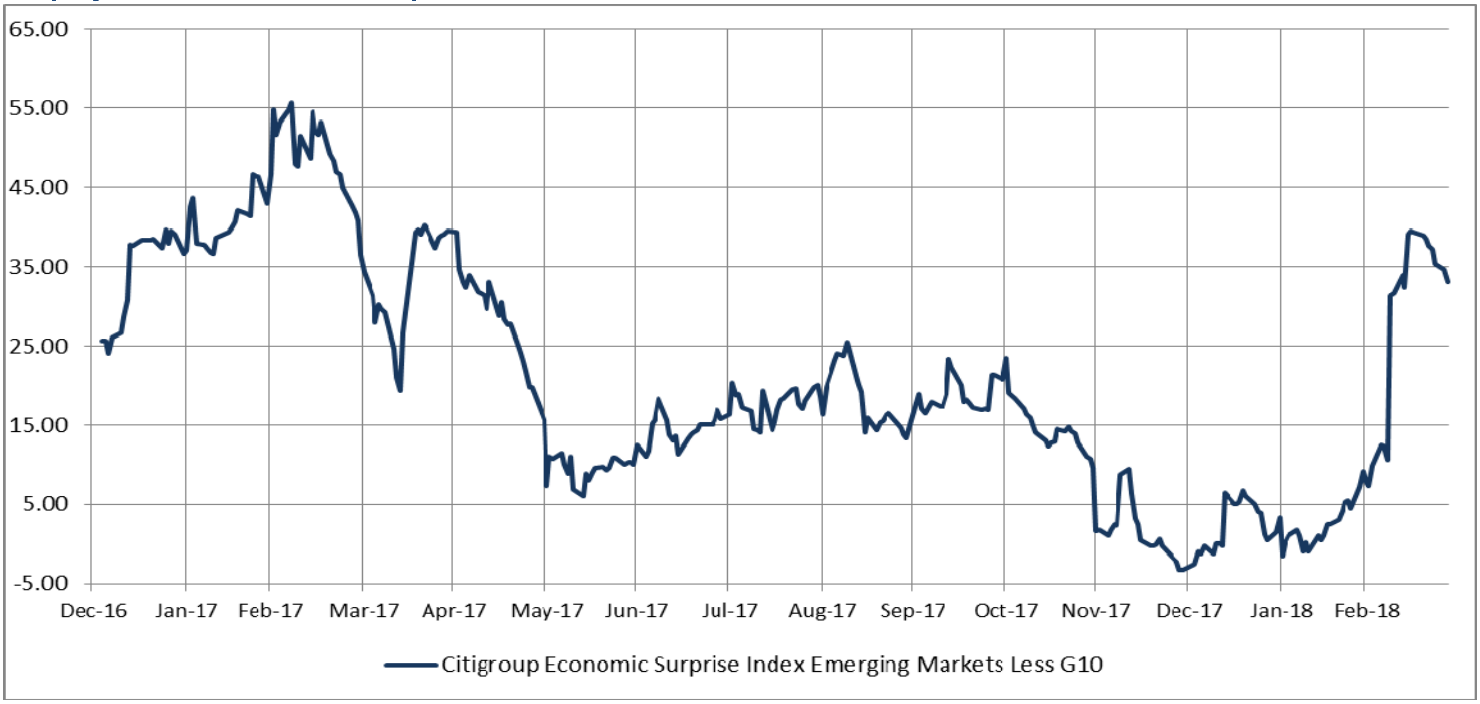
Against the above discussion, the Glovista investment team maintains an overweight allocation to global equities, increasingly favoring non-US equities, especially in the Emerging Markets. In the Developed world, we favor US financial sector stocks on valuation considerations as well as on the back of the impetus provided by the impending further deregulation on the part of the Trump Administration as well as the earnings support accruing the sector from the recently implemented tax cuts. Outside the US market, we continue to favor Eurozone region small caps (on the back of our constructive economic and Euro currency outlooks) as well as Emerging Market equities on valuation, earnings growth and under-owned status on the part of US based investors. Finally, over the past several sessions we have taken on small exposure to gold mining stocks on valuation grounds as well as for portfolio risk management considerations at a juncture in which large US fiscal deficits are likely to sustain a weak US Dollar environment for longer than previously expected.

Global Emerging Markets Perspectives

Emerging Market Equities Extend YTD Outperformance versus Developed Peers, through March Spike in Equity Volatility, on Resilient GDP Growth and Margin Performance; Glovista Sustains Country Tilts

As discussed above, the month of March has been unkind to risk asset markets globally. Specifically, the pullback in risk asset prices during the month of March has stemmed from a softening of the macro calendar in Europe and Japan along with a marked rise in US geopolitical risk following recent material changes in the make-up of the US government's economic and national security leadership teams. Despite the sharp rise in equity volatility these past several weeks, Emerging Market equities have further extended their 2018 year-to-date return outperformance versus Developed peers.

Figure 6. EM Economic Calendar Trumps Developed Peers' thus Far in 2018, Fueling EM Equities' YTD Return Outperformance versus Developed Peers



Source: Citigroup and Glovista Calculations

We attribute Emerging Market equities' continued return outperformance versus Developed Market peers, even through the recent uncharacteristic period of heightened volatility, to multiple factors including Emerging Market economies' strong year-to-date performance versus Developed peers, as illustrated in Figure 6. Other factors underlying Emerging Market equities' continued return performance leadership versus Developed peers include (a) improving ROE metrics, (b) increased asset turnover, (c) increased capital efficiency metrics, (d) continued margin expansion, (e) improving pricing conditions (including for China), (f) stronger than expected China industrial sector profits recovery, (g) reduced corporate leverage especially in the Emerging Asia region and (h) increased policy visibility out of China following the recent National People's Congress gathering.

At a regional level, we have trimmed our Latin America regional exposure so as to fund increased allocations to ASEAN markets, especially Malaysia and Thailand. Within the North Asia region, we continue to favor exposure to China ecommerce and general IT sector-oriented companies as well as semiconductor sector exposure in Taiwan. Insofar as the South Asia region is concerned, we continue to favor Malaysia and increasingly, Thailand while underweighting Philippines and Indonesia on valuation considerations. In the Emerging Europe region, we continue to favor Russian equities on valuation grounds and also on the back of our continued constructive energy sector stance. In Latin America, we continue to favor Chile and Brazil over Mexico primarily on the back of sector level relative valuation and earnings growth considerations. Finally, we continue to hold off-benchmark exposure to Argentine equities given attractive valuation and broader regional economic footprints associated with some of the largest constituents of the Argentine index.

As we look ahead, we continue to expect Emerging Markets to record additional return outperformance versus Developed peers on valuation, earnings and revenue growth considerations as well as the asset class' under-owned status. Finally, our continued bearish US Dollar thesis further underpins a supportive global macro backdrop for the Emerging Markets asset class.

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