Issue
107
November/18

Monthly
Market
Newsletter

Glovista Global Perspectives

This Issue:

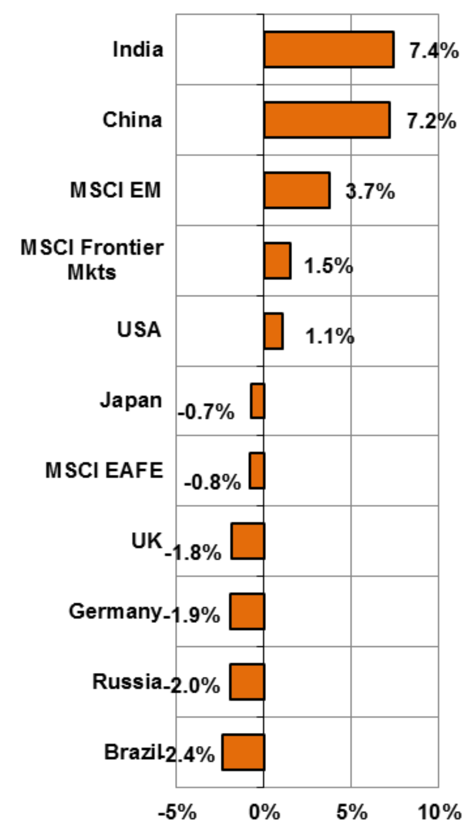
Credit Markets Deteriorate Markedly in November, Extending October Risk Market Sell-Off in Stocks; Glovista Sustains Defensive Portfolio Stance

With little doubt, the sharp November sell-off in credit markets has represented the most important development for global investors during the month. For example, Figure 1 illustrates the sharp widening recorded by US high yield debt spreads over comparable duration US Treasury securities to levels not seen since 2016. Thus, in November credit markets have extended the sharp risk market sell-off witnessed in October within the global equities domain. Thus far, November has marked a consolidation period for global equities following the significant October price declines – Figure 2.

At a global level, the month of November has produced a challenging backdrop for the prospective return performance outlook facing risk assets, particularly those trading at high historical absolute and relative valuations such as US equities. Specifically, the month of November has highlighted the following configuration of macro developments:

- Decelerating economic growth momentum in the developed world, including third quarter contractions in Germany - the locomotive of Europe – and a sharp negative economic surprise momentum out of the USA.
- Sharp deceleration in medium-term inflation expectations, including in the USA, as illustrated in Figure 4.
- Continued tightening in financial conditions, including in the USA, as illustrated in Figure 5.

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



Source: MSCI & Bloomberg

***As of November 28th, 2018**

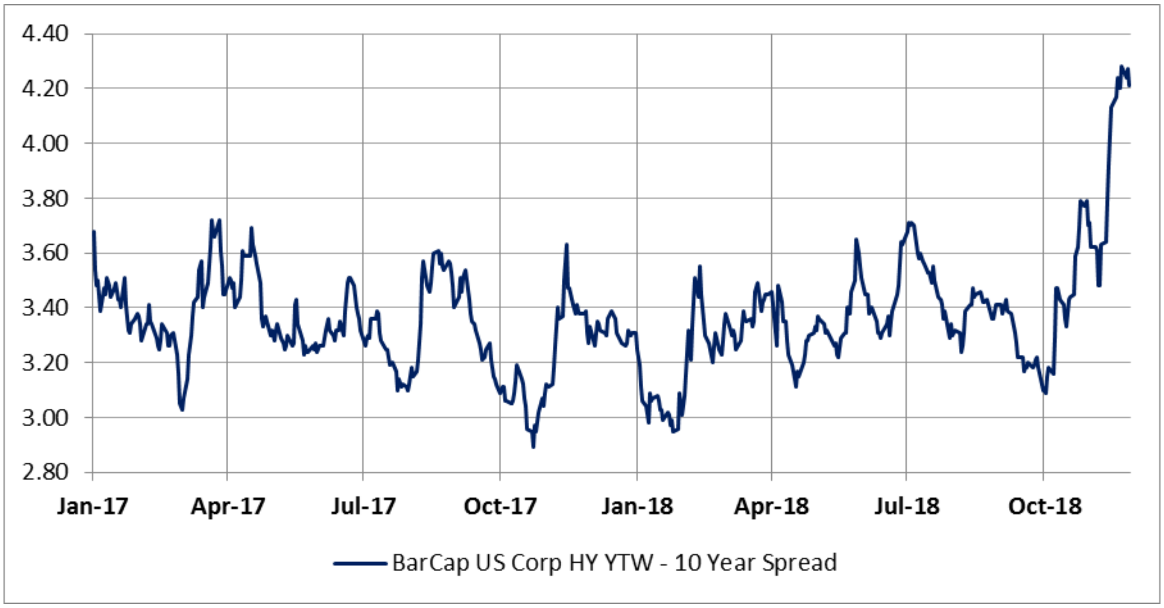
S&P500 Monthly Sector Performance – November MTD 2018*

Sectors	% Change	FY1 PE Ratio
Energy	-2.54%	16.4
Materials	2.77%	15.3
Industrials	2.43%	16.5
Cons Disc	2.33%	20.9
Cons Stap	0.83%	19.0
Technology	-2.22%	16.9
Healthcare	5.37%	17.2
Financials	2.75%	12.8
Utilities	1.65%	17.6
Telecom	-1.46%	16.4
Real Estate	4.18%	35.2
S&P500	1.18%	16.8

**As of November 28th, 2018*

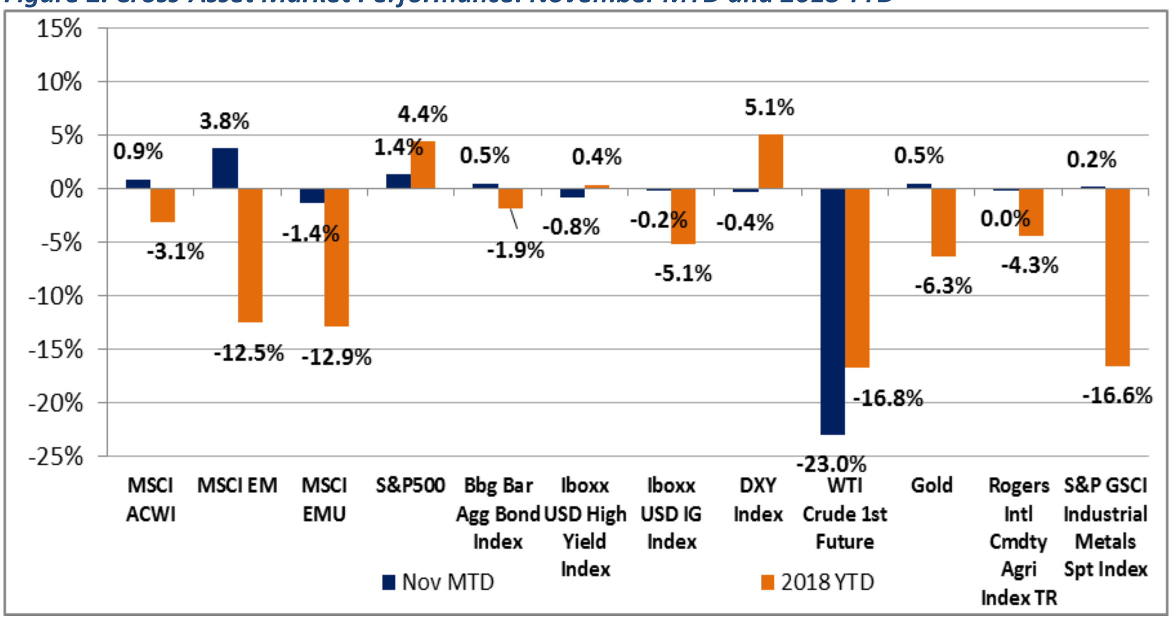
Source: Bloomberg

Figure 1. US High Yield Debt Spreads Record Sharpest Rise since 2016



Source: Bloomberg

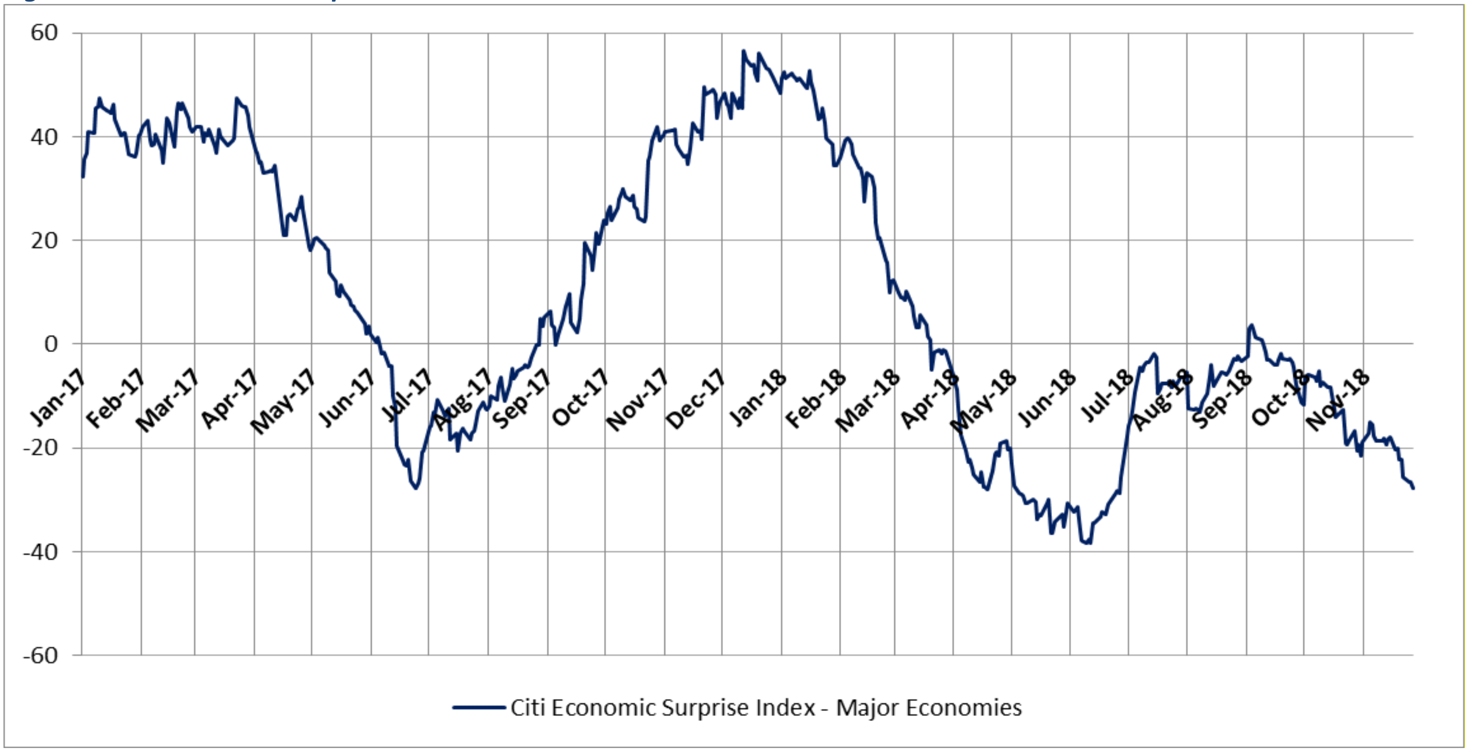
Figure 2. Cross-Asset Market Performance: November MTD and 2018 YTD



Source: Bloomberg & Glovista Calculations

- Persistently high event risks, including the ongoing Italy fiscal crisis with the European Commission and the ongoing trade frictions between the US and China. As the Italian fiscal crisis is concerned, the past few weeks have set a precedent in that the European Commission rejected the budget submitted by Italy, requesting a revision for consideration while the Italian government remains decided against implementing a material revision to its budget proposal. These dynamics carry potential adverse implications to the broader Eurozone region, and even globally, as Italy faces a large debt funding schedule next year at a juncture in which the European Central Bank begun this past October the unwinding of its quantitative easing program. Thus, the prospect of high real funding costs facing Italy at a juncture in which economic growth is weakening may fuel a potentially vicious credit cycle in Italy that could impact a segment of the Eurozone banking system.

Figure 3. G10 Economic Surprise Indicator Weakens Further in November



Source: Citigroup and Glovista Calculations

Figure 4. US Inflation Expectations Decline Sharply in November

Source: Bloomberg

- Official guidance from the US Federal Reserve and the European Central Bank signaling their continued commitment to tighten liquidity conditions further in 2019. Specifically, the past several weeks have brought about a continued reaffirmation by US Federal Reserve and European Central Bank leadership as to their commitment to continue their quantitative tightening and quantitative tapering processes, respectively, culminating in the European Central Bank initiating its quantitative tightening process early in 2019.

	November 28th 2018	November MTD Change
Gold	1221.21	0.5%
Silver	14.3265	0.6%
Oil	50.29	-23.0%
EUR	1.1366	0.5%
JPY	113.68	0.7%
GBP	1.2825	0.5%
CHF	0.9941	-1.4%
CAD	1.3275	0.9%
AUD	0.7306	3.3%
BRL	3.8541	3.5%
MXN	20.2977	-0.2%

Source: Bloomberg

Rates	November 28th Level
1 Yr CD	1.36%
5 Yr CD	2%
30 Yr Jumbo Mortgage	4.68%
5/1 Jumbo Mortgage	4.1%
US Govt. 10 Year	3.059%
10 Yr Swap Spread	3.56%

Source: Bloomberg

Figure 5. US Financial Conditions Tighten Further in November

Source: Bloomberg

Figure 6. Monetary Policy Misalignment Fuels Further US$ Strengthening Despite Weakening US Growth Leadership versus the Rest of the World

Source: Bloomberg

Against such backdrop, the US Dollar has strengthened further these past several weeks, particularly versus Developed currencies (Figure 6). US Dollar strength is generally unkind to risk asset markets globally particularly at a juncture in which economic growth momentum is decelerating. We continue to expect the US FED to hike a smaller number of times next year than what is indicated in the so-called FED dots. As we approach such time as when the FED signals the conditions defining an end to its rate hike cycle, the US Dollar is expected to top out and initiate a bear phase. However, continued fragility in global credit markets – particularly the weaker credits – may result in a longer period of US Dollar strength than what is warranted by traditional business cycle considerations.

Glovista Sustains Defensive Portfolio Stance, Favoring Quality and Value Stocks along with Further Strengthening of Credit Profile of Bond Portfolio

Against the overall macro and financial backdrop discussed above, the Glovista investment team continues to sustain a defensive portfolio stance favoring quality and value stocks. Specifically, at the geographic level, we favor overweight allocations to Emerging Market equities on valuation, positioning and business cycle considerations. In the Developed world, we favor exposure to US consumer staples, low volatility and strong quality stocks.

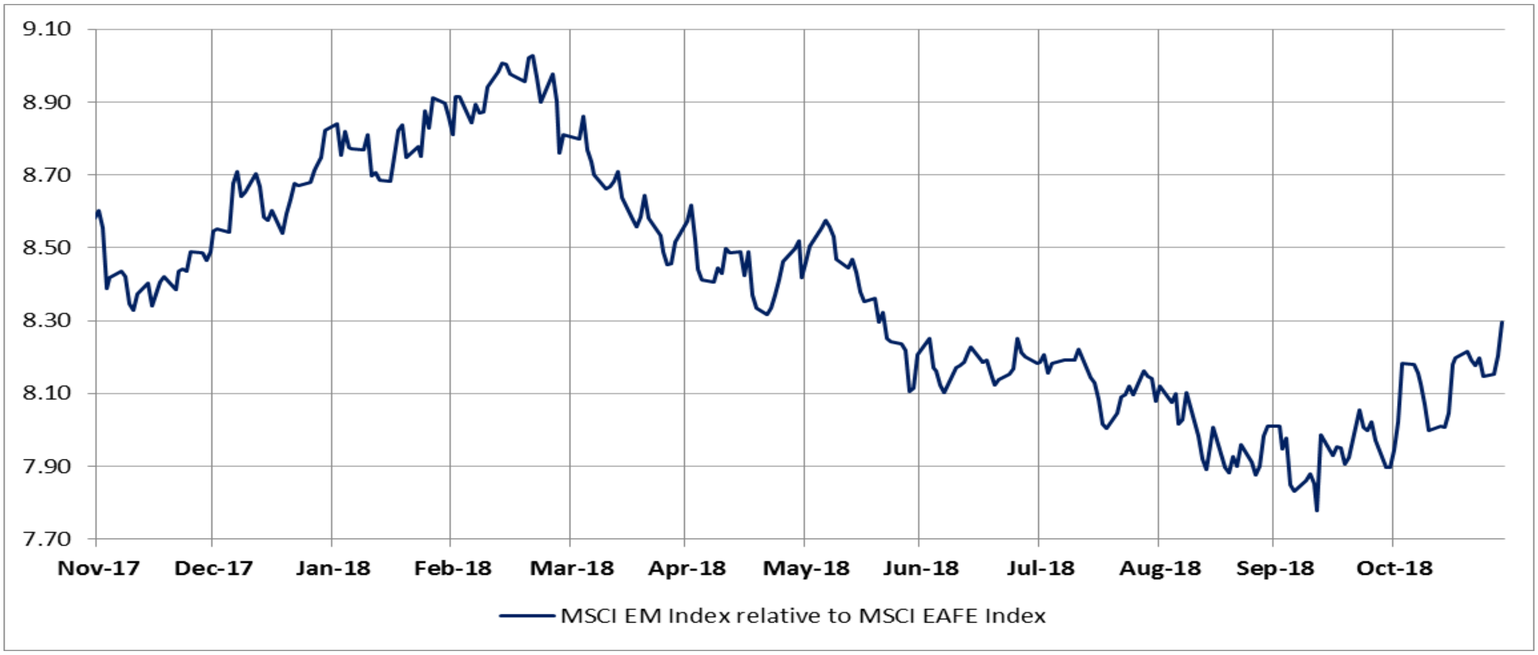
As we look ahead to the near-term, we identify a number of potentially positive catalysts that could help bring about a rally in the coming weeks. Such potential catalysts include a material shift in the Trump administration's stance vis-à-vis trade relationships with China and Europe as well as historically supportive seasonality and near-term oversold conditions in global equities. Over the last couple of days, US Fed chair signaled to markets the FOMC's revised guidance on policy rate hikes next year to one more attuned to data dependence; risk markets have taken such message as dovish, further fueling a bullish response in markets.

Glovista Emerging Markets Perspectives

EM Equities Extend Multi-month Outperformance versus Developed Peers, Fueled by Strengthening Economic Momentum versus G10 Peers; Glovista Trims Underweight EM Asia, Funded by Cuts to Brazil and Russia

In November, Emerging Market equities have posted strong absolute and relative return performance versus Developed Market peers despite a succession of challenging global developments including the deterioration witnessed in global credit markets during the month, weakening commodity prices and continued US Dollar strength. Specifically, thus far in November (thru the November 28th session close), the MSCI EM equities index has returned 3.80% for the month as compared to -0.62% for the MSCI EAFE index (non-US developed) and 1.39% for the US SP500 index. Over a longer time frame, Figure 7 illustrates EM equities' relative return performance versus the MSCI EAFE index thus far in 2018. As illustrated in Figure 8, EM equities' 2018 year-to-date relative returns have retraced levels going back to the late April 2018 period.

Figure 7. EM Equities Recover Relative Return Performance Levels versus International Developed (EAFE) going back to April 2018



Source: MSCI & Glovista Calculations

From a macro fundamentals perspective, we believe it is very significant that EM equities have posted such strong absolute and relative return performance during a period in which (a) the US Dollar has continued to strengthen versus Developed peers, (b) global credit conditions have deteriorated (as discussed above) and (c) industrial and energy commodity prices have softened materially, especially since early October. We attribute such strong absolute and relative EM equities' return performance these past several weeks and months to the asset class' exceedingly attractive relative valuations and under-owned status along with the recent upturn in the relative economic growth momentum between EM countries and developed country peers, as illustrated in Figure 8.

Figure 8. EM Economic Momentum Vs. Developed Peers Picks Up Markedly in Q4

Source: Citigroup and Glovista Calculations

Over the past several weeks, we have taken profits in our longstanding underweight regional allocation to the north Asia region and overweight regional allocation to Latin America and Eastern Europe by cutting exposure to Brazil and Russia so as to raise exposures to Taiwan and China. Such decision reflects both our expectation of crude price weakness (that unfolded even faster than expected) and improved relative valuations in north Asia following the sharp asset price declines in those markets these past several months. We continue to favor overweight allocations to India and have recently raised Mexico country allocations on the back of improved asset valuations.

On an intermediate-term basis, we continue to favor exposure to Emerging Market country indices displaying solid macro fundamentals both at the credit and currency levels given our expectation of increased investor differentiation across the credit risk domain as G3 balance sheets continue to downsize over 2019.

Disclaimers:

1. *This newsletter from Glovista is for information purposes only and this document should not be construed as an offer to sell or solicitation to buy, purchase or subscribe to any securities.*
2. *This document is for general information of Glovista clients. However, Glovista will not treat every recipient as client by virtue of their receiving this report.*
3. *This newsletter does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. The securities discussed in this document may not be suitable for all investors.*
4. *The price and value of investments referred to in this newsletter and the income arising from them are subject to market risks. Past performance is not a guide for future performance*
5. *Certain transactions including those involving futures, options, and other derivatives as well as non-investment grade securities give rise to substantial risk and are not suitable for all investors. Please ensure that you have read and understood the current risk disclosure documents before entering into any derivative transactions.*
6. *This newsletter has been prepared by Glovista based upon publicly available information and sources, believed to be reliable. Though utmost care has been taken to ensure its accuracy, no representation or warranty, express or implied, is made that it is accurate or complete.*
7. *The opinions expressed in this newsletter are subject to change without notice and Glovista is under no obligation to inform the clients when opinions or information in this report changes.*
8. *This newsletter or information contained herein does not constitute or purport to constitute investment advice and should not be reproduced, transmitted or published by the recipient. This document is for the use and consumption of the recipient only. This newsletter or any portion thereof may not be printed, sold or circulated or distributed without the written consent of Glovista.*
9. *Forward-looking statements in this newsletter are not predictions and may be subject to change without notice. Neither Glovista nor any of its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information included in this newsletter.*

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