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GLOVISTA INVESTMENTS

Glovista Global Perspectives

This Issue:

October ECB Meeting, Japan Election and China Party Congress Results Reinforce Glovista's Overweight Non-US Equities Exposure; Relative Valuation, Cyclical and Seasonal Factors Anchor Underweight Bond Duration Exposure

The month of October has hosted several scheduled policy and political events of principal importance to the global market and macro outlooks. As we argue further below, the outcomes to said events are likely to prove supportive of risk asset prices, especially non-US equities, over a medium-term basis as well as short-term supportive of the US Dollar, especially versus Developed currency peers.

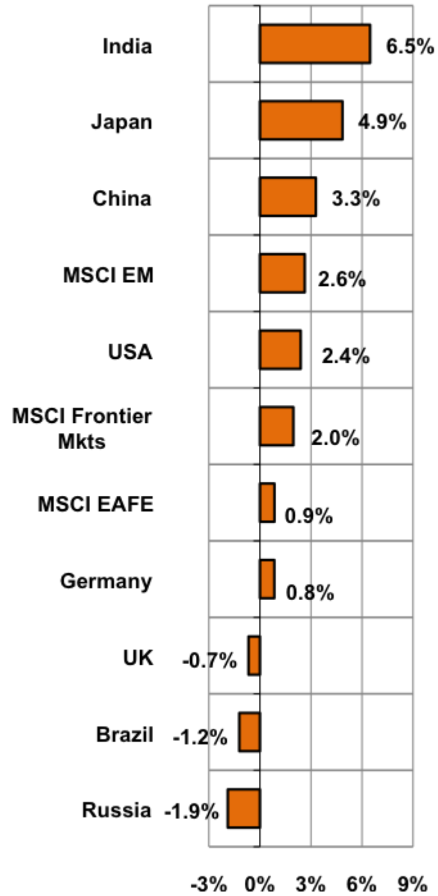
The scheduled October events we refer to above include the European Central Bank (ECB) meeting held on October 26th, the snap Japan general elections held on October 22nd and China's Communist Party Congress held between October 18th and 24th. Figure 1 illustrates the October month-to-date return performance for global equities (MSCI AC World index), the US Dollar (DXY index), commodities (CRB index) and global fixed income (Barclays Aggregate Bond index).

In our view, the supportive implications on risk asset prices exerted by the above listed policy and political developments are likely to be reinforced by two recent dynamics impacting price and output expectations, the net effect of which is likely to amount to improved investor expectations over medium-term nominal GDP growth, viewed widely as a proxy for revenue (top-line) growth. Said recent dynamics comprise:

- Recent uptick in economic confidence indicators (Figure 2), boosted partly by increased prospects of legislative passage of US tax reform, improved cyclical backdrop facing the Eurozone region, as well as a firming of the Japanese economy, courtesy of a weak currency (Figure 3);

- Increased inflation expectations exerted by the recent bounce in energy prices, notwithstanding the material role exerted by tighter supply conditions in said increases (Figure 4).

Country-wise Monthly Performance in USD terms (October 2017)*



Source: MSCI & Bloomberg

**As of October27th, 2017*

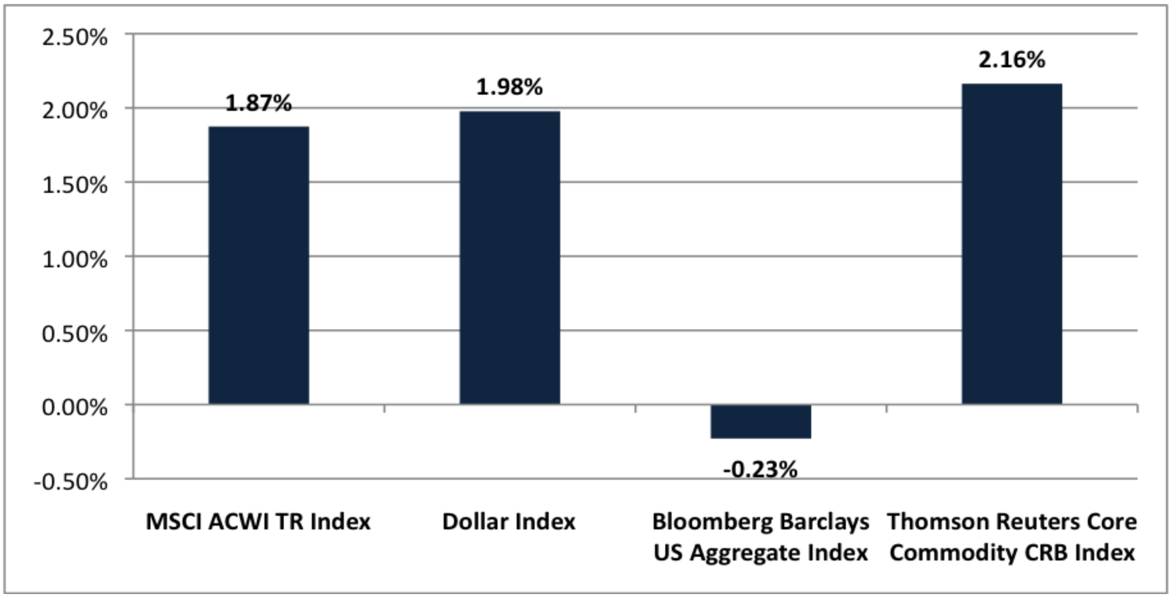
S&P500 Monthly Sector Performance – October MTD 2017*

Sectors	% Change	FY1 PE Ratio
Energy	-1.43%	34.7
Materials	4.03%	21.3
Industrials	1.30%	20.3
Cons Disc	2.47%	20.3
Cons Stap	-1.51%	19.9
Technology	6.82%	19.1
Healthcare	0.40%	17.6
Financials	3.60%	16.5
Utilities	3.79%	18.9
Telecom	-7.70%	12.1
Real Estate	-0.20%	37.8
S&P500	2.45%	19.4

*As of October27th, 2017

Source: S&P

Figure 1. October MTD Performance Post- Policy and Political Events: Major Asset Groups



Source: Bloomberg& Glovista Calculations

Figure 2. G10 Economic Surprise Indicators Rise on Strong Eurozone Data, Higher Prospects of US Tax Cut Reform and Weak Yen Boost to Japan Economy

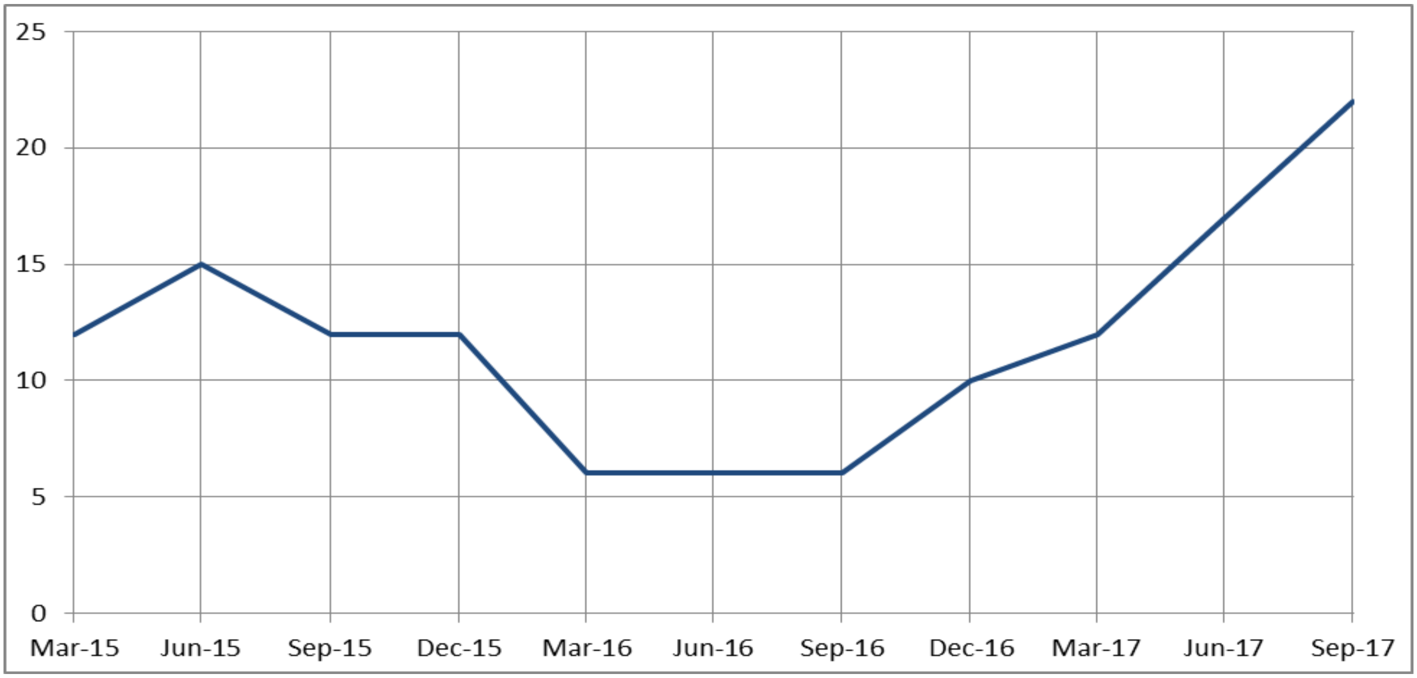
Source: Citigroup

European Central Bank's (ECB) October 26th Meeting Delivers Surprisingly Dovish Guidance, Lending Support to Euro Risk Asset Prices

On October 26th, the ECB held a widely anticipated meeting as guidance would be offered in terms of the quantum and timing of the tapering of the Bank's asset purchase program. In the process, the Bank's announced measures as well as the guidance given by its President, Mario Draghi, at a press conference held the same day were surprisingly dovish.

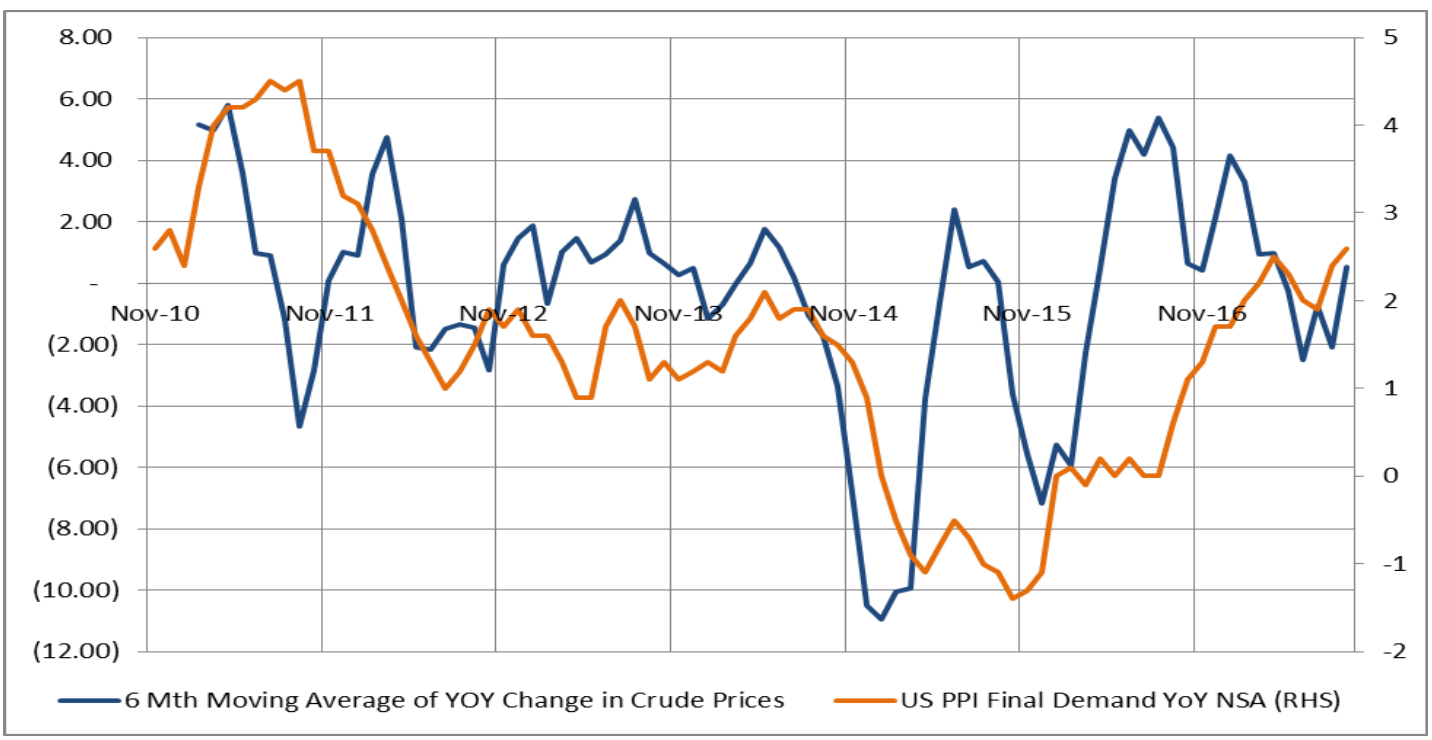
At its October 26th meeting, the ECB announced (a) the reduction in the size of its monthly bond purchases to 30 billion Euros, half the current pace, starting this coming January while (b) lengthening the timing of the purchase program over a 9month period that could be extended further at the discretion of the ECB, and; (c) the reinvestment of the proceeds from maturing debt for an extended period following the end of its asset purchase program. Moreover, at the press conference that followed the ECB meeting, President Draghi indicated that rates would remain at present levels "well past the horizon of QE". As a result, Wall Street economists do not expect the first ECB policy interest rate hike to occur before the summer of 2019.

Figure 3. Japan's Manufacturing Sector Outlook Strengthens on Weak Yen (Chart: Japan Tankan Business Conditions Large Enterprises Manufacturing)



Source: Bank of Japan

Figure 4. Recent Rise in Energy Prices, though Supply Driven, Likely to Fuel Uptick in Inflation Expectations



Source: Bloomberg & Bureau of Labor Statistics

	October 27th 2017	October MTD Change
Gold	1273.88	-0.5%
Silver	16.87	1.3%
Oil	53.9	4.3%
EUR	1.1608	-1.7%
JPY	113.67	1.0%
GBP	1.3128	-2.0%
CHF	0.9981	3.1%
CAD	1.2808	2.7%
AUD	0.7677	-2.0%
BRL	3.2356	2.3%
MXN	19.133	4.8%

Source:Bloomberg

Rates	October27th Level
1 Yr CD	0.8%
5 Yr CD	1.47%
30 Yr Jumbo Mortgage	4.15%
5/1 Jumbo Mortgage	3.56%
US Govt. 10 Year	2.4064%
10 Yr Swap Spread	-2.75%

Source:Bloomberg

Figure 5. Inflation Adjusted Euro Policy Rates at Historical Low Levels

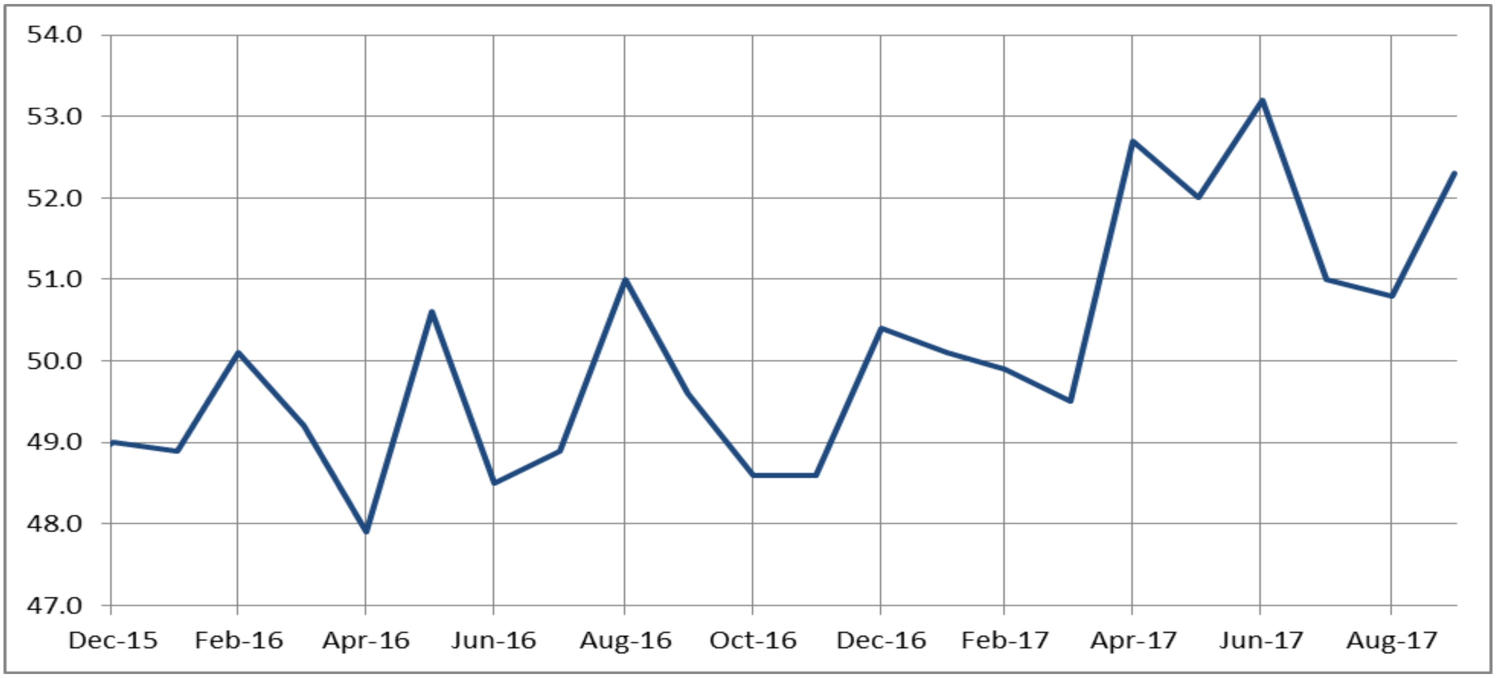
Source: Bloomberg & Glovista Calculations

In our fundamental macro assessment, the ECB's October 26th announced measures are unwarrantedly dovish. Specifically, we believe the present is an opportune time to initiate a speedier normalization of financial conditions in the Eurozone given (a) the vastly improved state of the Eurozone region's political risk premium backdrop, (b) a strengthened and improved banking sector outlook, (c) markedly normalized labor and capital factor market conditions, and (d) the improved cyclical momentum facing the region. Against such backdrop, we find the ECB's decision to extend the prevailing low levels of inflation adjusted real policy rates in the Eurozone as unjustifiable. We briefly outline the conditions mentioned above:

- Strengthened economic momentum facing the Eurozone economy, vastly outpacing most of the developed world, including the pace of recovery in retail sales (Figure 6).
- Vastly diminished risk premium levels facing Eurozone sovereigns following the market friendly outcomes to the succession of national elections held throughout this year in Austria, Netherlands, France and Germany as well as the meaningful banking system recapitalization initiatives implemented in Italy earlier this year.
- Vastly increased capacity utilization levels, back to 2007 levels (Figure 7)
- Sharp decline in Eurozone unemployment rate, back to 2005 levels (Figure 8).

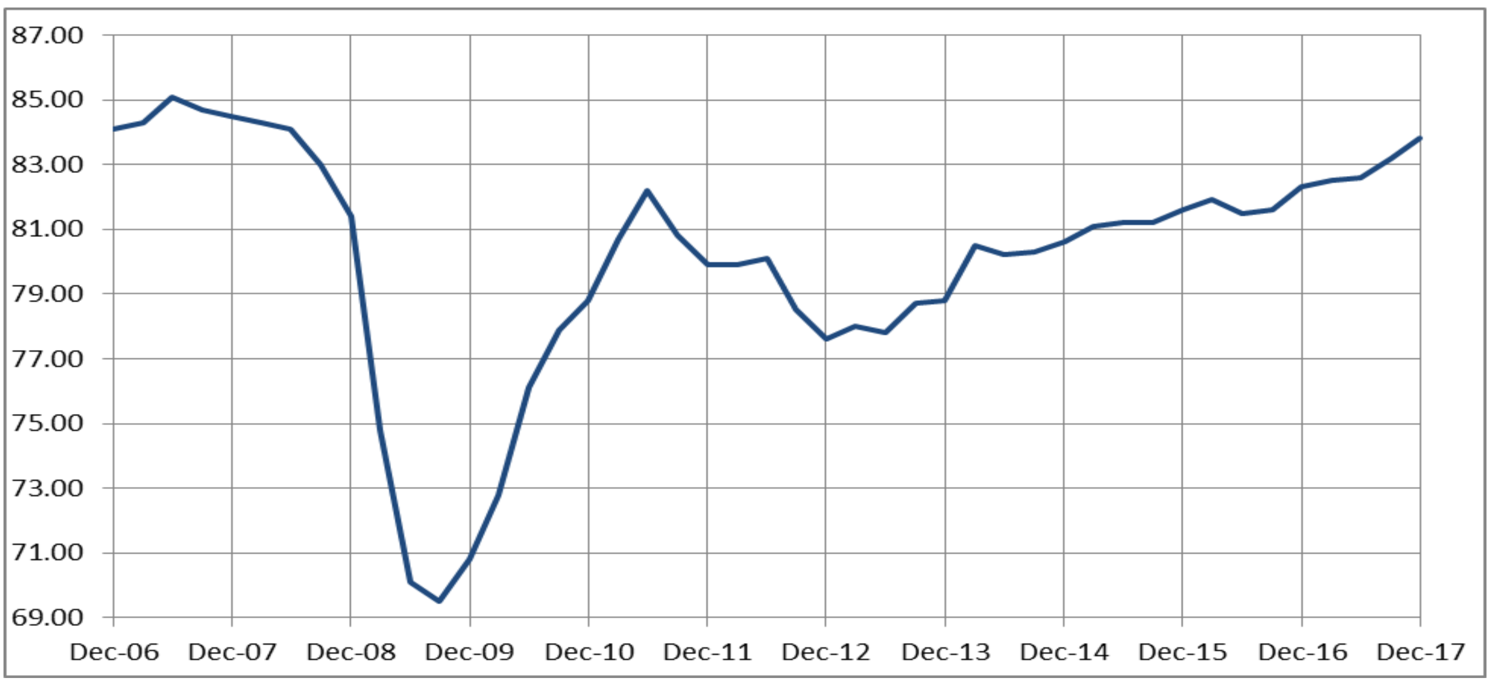
Notwithstanding our assessment the ECB's announced measures are unjustifiably dovish, we believe the ECB's October 26th meeting is likely to prove exceedingly consequential for the global investment outlook, cutting across the global equities, bond and commodity domains. Specifically, we believe some of the major investment and macro implications include the following:

Figure 6. Eurozone Retail Sales Recovery Signals Normalization of Aggregate Demand Conditions (Chart: Markit Eurozone Retail PMI, SA)



Source: Markit

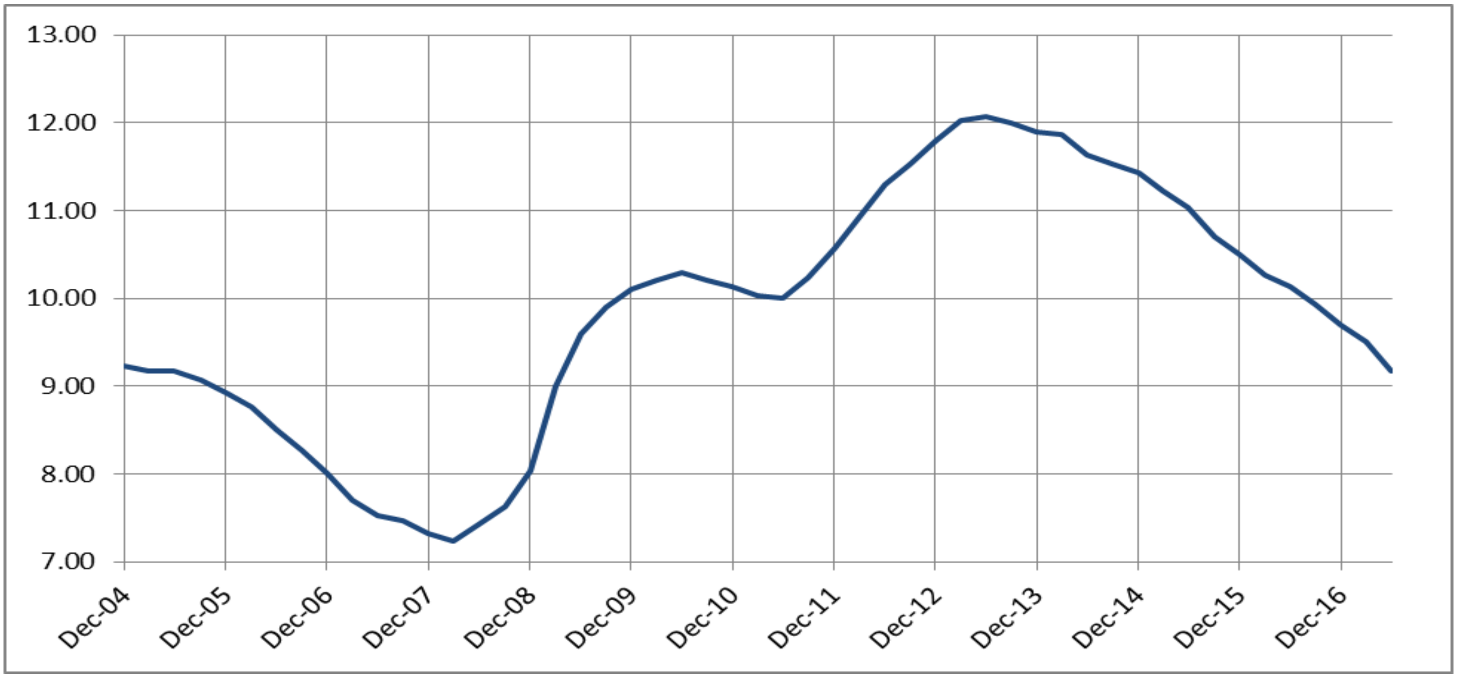
Figure 7. Eurozone Capacity Utilization Levels Back to 2007 Levels



Source: Eurostat

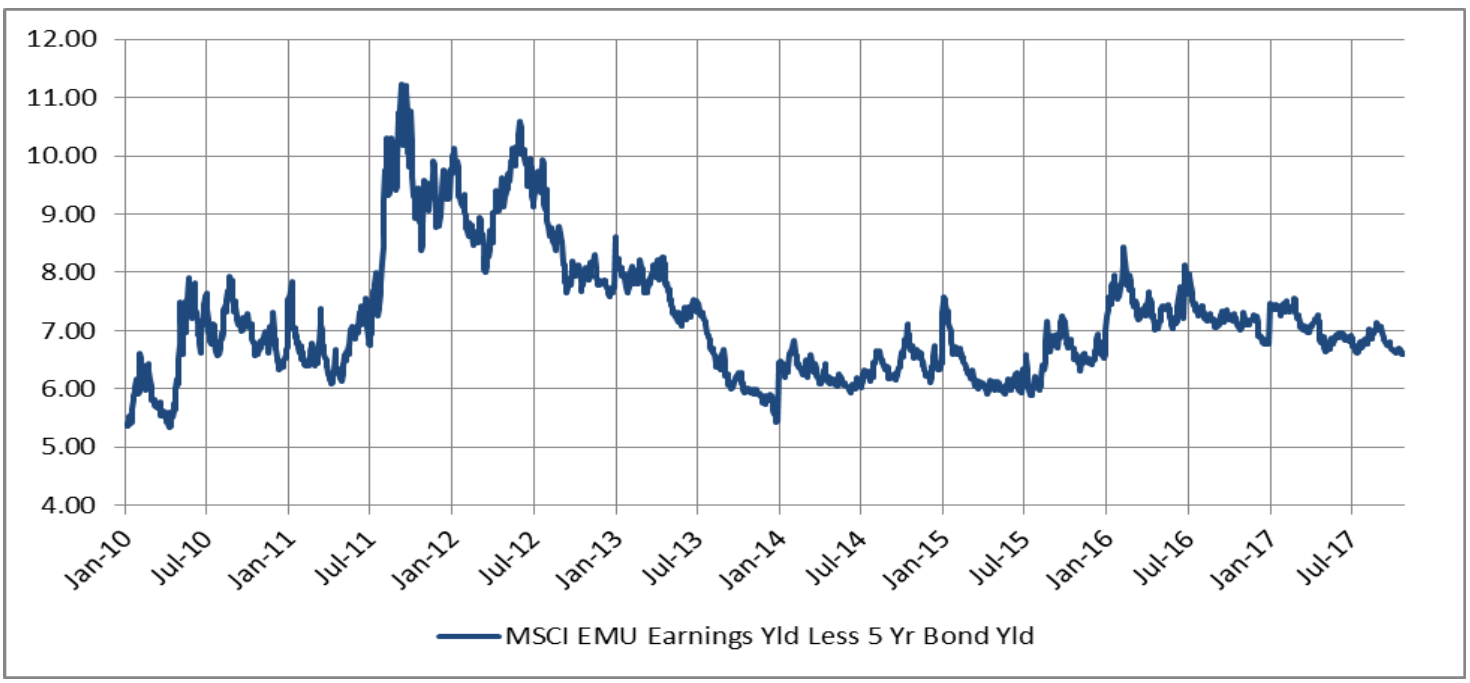
- Bullish global equities, especially the Eurozone and Emerging Markets. We have held a bullish Eurozone equity market outlook since the second quarter of this year, following the market friendly election results in Austria, the Netherlands and especially, France, as those events helped bring about a decline in European sovereign risk premium levels. Following the October 26th ECB meeting, we believe the ECB's "low interest rate for longer" message lends a significant support to Eurozone equity prices at least over the coming 12 months given the significant acceleration in M&A activity that is likely to ensue further reducing equity indices' share counts as well as boost equities' allure as a vastly more attractive asset group relative to bonds (Figure 9).

Figure 8. Eurozone Unemployment Rate Back to 2005 Levels



Source: Bloomberg

Figure 9. Eurozone Equities' Exceedingly Cheap Relative Valuations versus Bonds, Anchored for Longer Courtesy of ECB's October Meeting



Source: Bloomberg & Glovista Calculations

- Eurozone economic momentum likely to accelerate further following the ECB's October meeting as the Eurozone region's financial intermediation overwhelmingly takes the form of bank credit.

- Euro currency likely to weaken versus most of the world's currencies over the near-term, especially Emerging Markets, as the timing and quantum of policy rate hikes has been deferred by the ECB at its

October 26th meeting. Moreover, over the short term, net speculators' positioning remains bullish the Euro, a contrarian bearish indicator. The increased prospect of Euro currency weakness lends expansionary expectations effect onto the Eurozone economy's prospects.

- Eurozone economic momentum likely to accelerate further as Euro currency unlikely to strengthen materially versus some of its major trading partners, including Emerging Markets.

Outside the developments in the Eurozone, the month of October has also included the consequential Chinese Communist Party Congress, the equivalent of China's general elections held every five years. From a market perspective, the results of the Party Congress were investor friendly as the conclusion of the Party Congress entailed a continuation of economy policy's status-quo under the governing leadership team, reelected for another five year term. In Japan, snap general elections were held as a result of which Prime Minister Abe was reelected. We believe such development to prove unambiguously market friendly given Mr. Abe's supply-side oriented economic agenda as well as the vote of confidence extended to the Bank of Japan to continue its standing QE program.

Evidently, risk factors condition the medium-term outlook even for Eurozone equities, including the lingering North Korea crisis, the potential for disruptions in the US economy policy outlook – either as a result of the naming of the new Fed Chair or implications from the ongoing Mueller investigation.

Glovista Sustains Overweight Non-US Equities Exposure and Underweight Bond Duration Tilt on Valuation, Cyclical and Seasonal Considerations

Against the overall macro and financial backdrop discussed above, the Glovista investment team has further reinforced our overweight non-US equities exposure, primarily centered on the Eurozone, Emerging Market and Japan regions. Those three blocs display the strongest medium-term economic growth momentum along with the cheapest relative valuations and under-owned status among institutional investors, particularly on a strategic basis.

Insofar as our global tactical asset allocation strategy's fixed income exposure is concerned, over the past several weeks we have further trimmed our exposure to high yield debt owing to relative valuation considerations while also cutting overall bond duration exposure to the lowest levels in years. We continue to underweight bond duration exposure owing to valuation considerations as real bond yields remain extraordinarily low especially in the Eurozone, as discussed above.

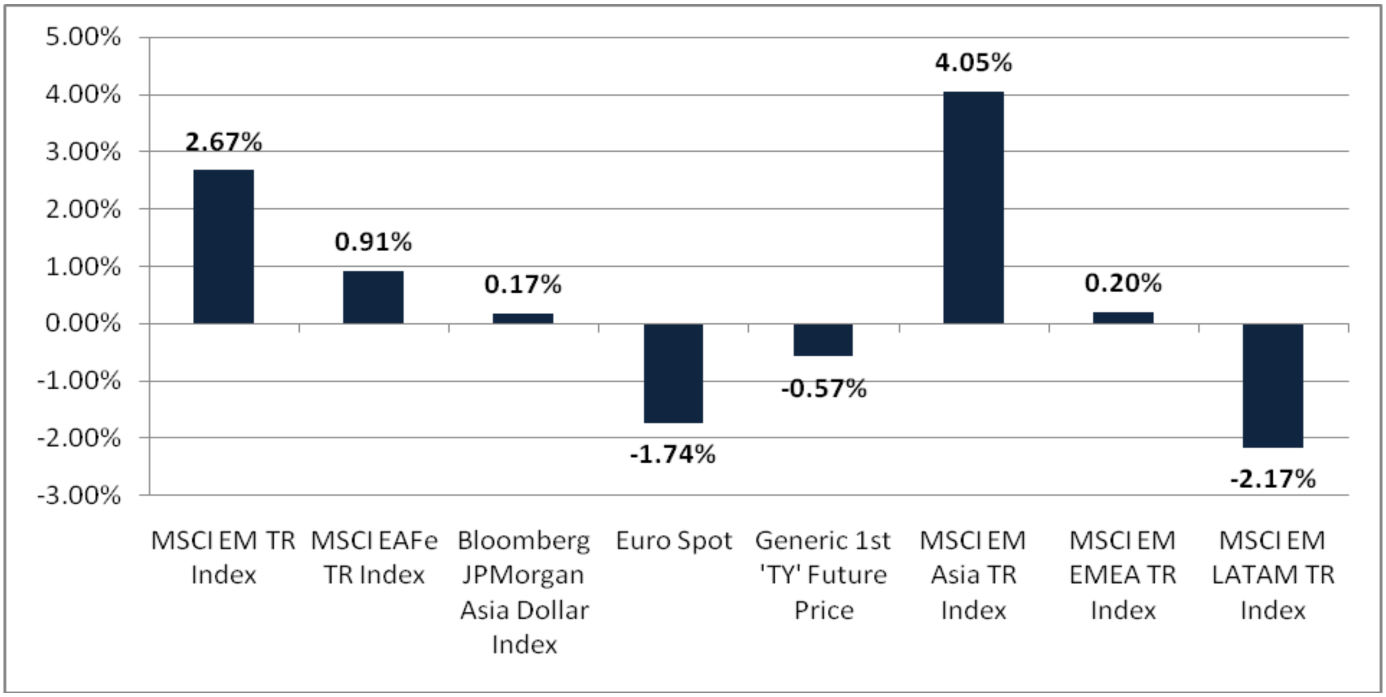
Emerging Markets Perspectives

EM Equities' Outlook versus Developed Peers Further Solidified by Outcomes to October's China Communist Party Congress, Japan Elections and ECB Meeting; Glovista Raises India to Overweight on Bank Recap Program

In October, Emerging Market equities have extended their long period of return outperformance versus Developed market peers despite a significant widening in Developed bond market yields and a rally in the US Dollar (Figure 10). As illustrated in Figure 10, the month of October evidenced the particularly strong resilience of Emerging Asia equity markets vis-à-vis Latin America and EMEA peers owing to Asian currencies' stronger relative performance.

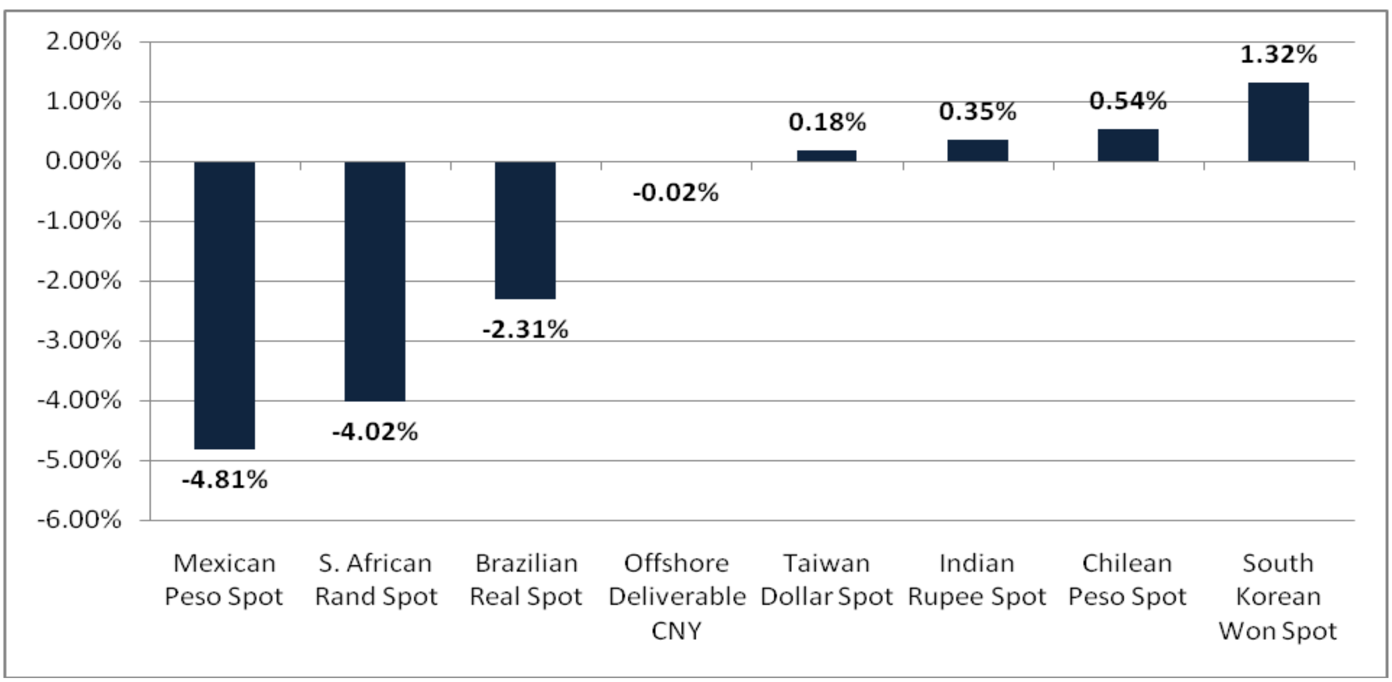
The 7 basis points back-up in US Treasury yields throughout the month of October has been unleashed by guidance offered by the FOMC at its recent September20th meeting. At said meeting, the FOMC signaled a succession of Fed Funds rate hikes for 2018 beyond a rate hike expected at the scheduled December 13th meeting. Moreover, the Trump administration's guidance of a change at the helm of the FED, to be announced as early as beginning of Novemberhas served to reset term premium levels higher so as to reflect increased FED policy uncertainty. In said context, a number of high yield Emerging Market currencies, most of which correspond to the Latin America region and South Africa, have been hit especially hard during the month of October (Figure 11).

Figure 10. October MTD Performance: Major EM and Global Market Groups



Source: Bloomberg& Glovista Calculations

Figure 11. EM High Yielding Currencies Impacted Especially Hard in October on the Back of Reset Higher to US Treasury Yields



Source: Bloomberg& Glovista Calculations

As discussed above in the *Global Perspectives* section, the month of October has witnessed a succession of major events carrying consequential implications on the global macro and investment outlooks, including the China Communist Party Congress, Japan elections and an ECB meeting widely expected to offer guidance on the terms of the Bank's tapering process of its longstanding QE program. In the process, as we discuss immediately below, the outcome to each of those three events are unambiguously supportive of EM equities' investment outlook over the foreseeable investment horizon, both on an absolute basis as well as relative to developed market peers, especially US equities.

First, earlier this month China's Communist Party Congress was held, China's version of its election season held every five years. The outcome entailed the confirmation of President Xi in power til at least 2022. Moreover, the Party Congress approved that "Xi Jinping's Thought" be incorporated in the party constitution, a measure of authority only bestowed twice before in China's Communist period – to former leaders Mao Zedong and Deng Xiaping. In all likelihood, assuming continued good health, Mr. Jinping is likely to remain or exercise considerable power well beyond 2022. President Xi has committed to stronger focus on sustainability of the economy's growth trajectory, not simply in recording high rates of GDP growth. Moreover, sustainability criteria also include measures targeting the environment and the financial system in the light of continued high levels of public debt.

In our assessment, the outcome to the Party Congress – in the form of confirmation of the status quo – is a welcome development from the market perspective as it entails low levels of uncertainty versus the counterfactual – a shift of power to a new leadership team.

Second, earlier this month the ECB held a momentous meeting at which details were given on the tapering of its QE program along with the likely timing by when the initiation of policy rate hikes would obtain. As discussed in the *Global Perspectives* section above, the exceedingly dovish overtone defining the ECB announcements is bullish the Eurozone economy, a major trading partner to the Emerging Markets world as well as to global liquidity conditions, lending further support to financial conditions impacting the EM economies.

Third, earlier in October the Abe government called snap elections at the conclusion of which Mr. Abe emerged victorious. The Abe victory is likely to result in the confirmation of Mr. Kuroda at the helm of the Bank of Japan, a market friendly development given Governor Kuroda's focus in maintaining loose liquidity conditions as a means to firm up inflation expectations and sustainable economic growth. Such developments are bullish Emerging Markets via the economic growth channel as well as through the benign implications on global liquidity conditions facing borrowers in the EM world.

Over the past several weeks, we have sustained our EM portfolios' principal sector and country tilts with one important exception: India. Specifically, we have raised our India country exposure to strong overweight these past several weeks on the back of our favorable outlook towards the Indian Rupee as well as our materially improved outlook surrounding India's economic growth following the Indian government's announcement of a mega bank recapitalization program of around US $ 32 billion to be implemented across the state-owned banking system over the next two years. We view said development as material in improving the economy's medium-term growth potential owing to the likely increase in lending activity during such period.

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