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Monthly Market Newsletter

Glovista Global Perspectives

This Issue:

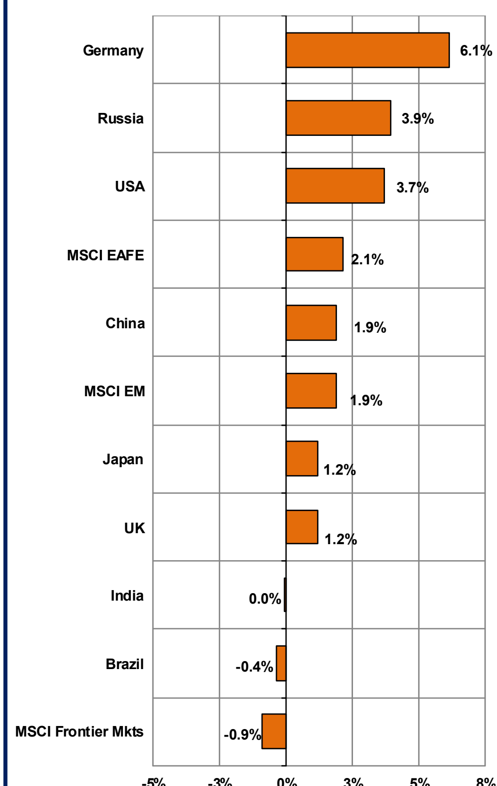
Risk Markets Consolidate YTD Gains as Positive Earnings and China-US Trade Discussion Surprises Offset by Adverse Seasonality, Undefined BREXIT Process and US$ Strength

In April, global risk market performance has been far more uneven than during the January-March period as positive economic, policy and financial developments are offset by adverse medium-term financial developments, most notably a strengthening US Dollar, as well as lingering uncertainty factors, such as BREXIT, discussed in detail further below.

Figure 1 illustrates the April month-to-date return performance across a number of major asset classes against the corresponding January-March cumulative return performance for the same pool of global risk indices. The figure illustrates the far more uneven return performance recorded in April as compared to the January-March period. For example, we attribute US equities' solid return outperformance versus global peers not only to the strengthening US Dollar during the period but also to the constructive tone of first quarter earnings release for US equity index constituents at a juncture in which the European economic calendar has remained soft.

We discuss immediately below recent macro and financial developments as these provide an account for the recent uneven return performance across global risk indices during the month of April. We follow said discussion with an updated summary review of Glovista's medium-term investment thesis.

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



Source: MSCI & Bloomberg

**As of April 26th, 2019*

April's Uneven Market Performance across Risk Indices as Result of Combined Effects from Strengthening US Dollar, Uneven Activity Cycle, Benign Inflation and Supply-driven Energy Price Rises

As we look back at the past several weeks, we identify the following major developments:

- ***Uneven Global Activity Momentum:*** At the activity level, the global economic calendar continues to show emerging market economies along with the US

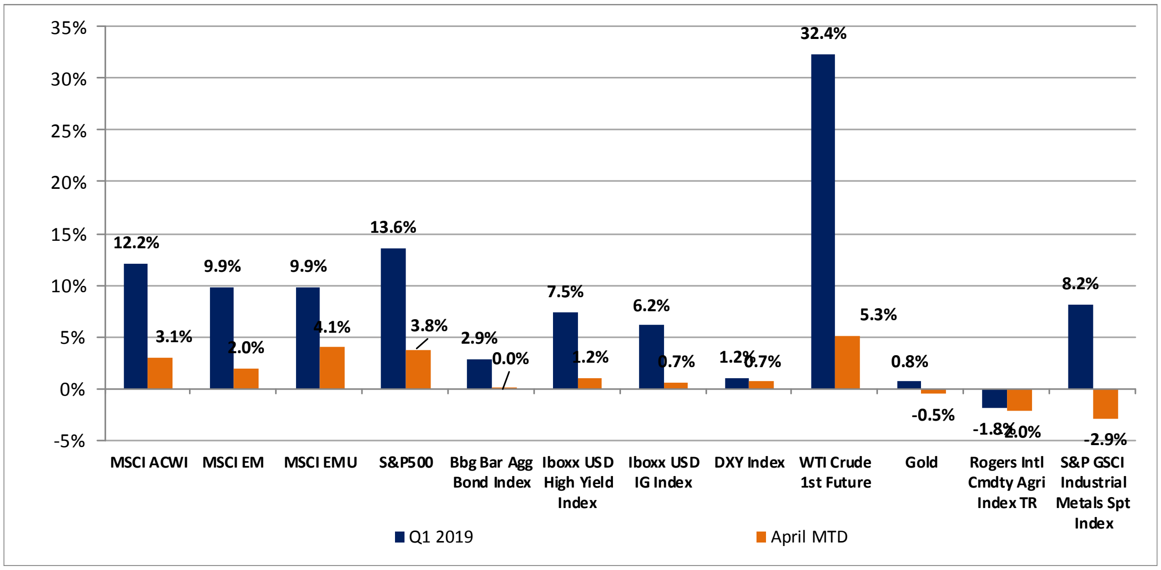
S&P500 Monthly Sector Performance – April MTD 2019*

Sectors	% Change	FY1 PE Ratio
Energy	0.21%	18.3
Materials	2.91%	17.1
Industrials	3.25%	16.9
Cons Disc	6.23%	22.0
Cons Stap	1.00%	19.6
Technology	6.14%	20.5
Healthcare	-3.05%	15.5
Financials	7.67%	12.4
Utilities	-0.15%	18.8
Telecom	8.09%	18.0
Real Estate	-0.69%	42.0
S&P500	3.72%	17.7

*As of April 26th, 2019

Source: Bloomberg

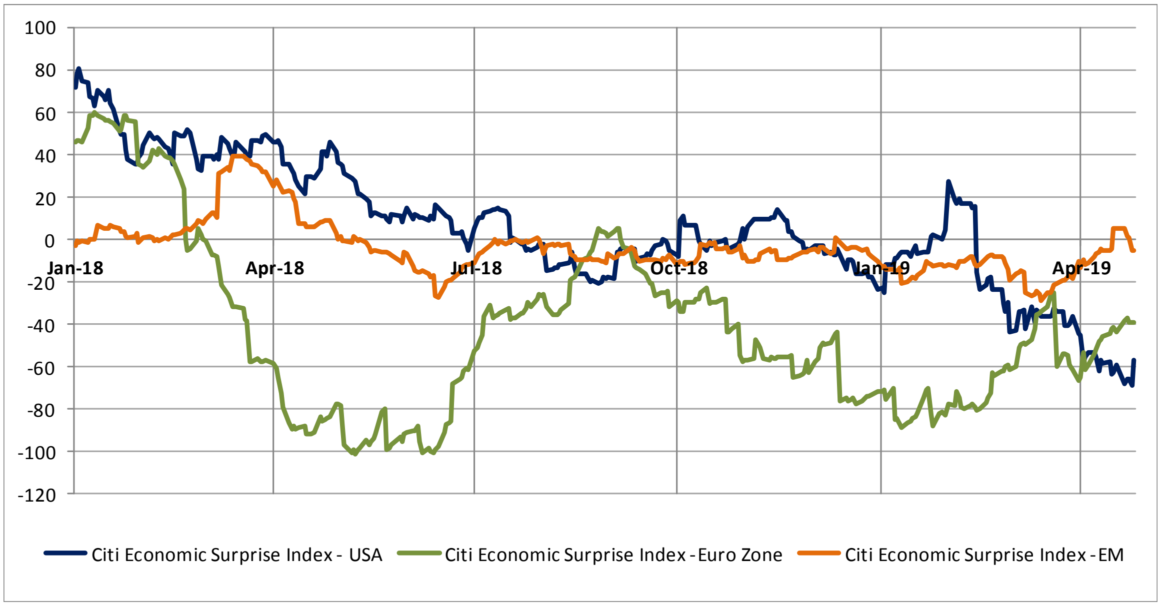
Figure 1. Uneven April Return Performance Across Major Risk Indices



Source: Bloomberg

economy (in that order) as the main drivers of global GDP growth momentum. The Eurozone region along with Australia, the UK and Canada continue to lag other developed economies on the back of an especially adverse combination of global and local economic considerations, including (a) the ongoing weakening of global trade growth following the still undefined China-US trade relation as well as BREXIT (these issues especially impacting Germany, the UK and Australia), as well as (b) adverse local asset market dynamics (stemming especially from the housing sector) impacting the domestic economy – e.g. Canada, Australia, the UK. Even in the US, recent economic releases –e.g. first quarter GDP – paint a picture of unimpressive domestic demand strength as much of the headline growth figure reflected inventory accumulation, stronger than expected government consumption growth and weaker than expected import demand.

Figure 2. EM and the US Economy Lead Economic Surprise Indicators Year-to-Date



Source: Citigroup

- ***US Dollar Strength:*** Strengthening of the U.S. Dollar versus most of the world's developed country currencies. Such development has unfolded despite a stable to modest narrowing in US interest rate differentials with those in developed Europe and Asia. We believe the recent period of US Dollar strength owes much to a heightening of global investor concerns towards the Eurozone economy's second half outlook in the face of near-term political developments, including Spain's April general elections, May Euro area parliamentary elections, upcoming selection of ECB President Draghi's successor, heightened near-term upside risks in crude prices on the back of US tensions with Iran and Venezuela, and uncertainty surrounding ongoing Euro-US trade talks.

Figure 3. Euro Currency Breaks Down versus US Dollar on Soft Euro Area Data

Source: Bloomberg

- ***Tax hike-like Effect from Rising Energy Prices:*** Rising energy prices, fueled by adverse supply-side concerns following the US government's decision to impose further sanctions on energy trade with Iran, including the imposition of penalties on countries that purchase Iranian crude. Such recent energy price developments raise concerns on the prospects facing the world household consumer sector as supply-related energy price hikes amount to tax hikes on the household sector, especially at a juncture in which the US Dollar has been strengthening markedly versus most of the world's developed country peers.
- ***Benign Inflation Momentum:*** The latest core inflation releases out of the U.S., Europe and Japan have come out either at or below consensus estimates and target levels.
- Solid first quarter US corporate earnings season, both versus consensus estimates as well as versus Europe's where a flat yield curve continues to impact disproportionately that region's bank stocks versus US peers which continue to rely on fee income and other capital market related revenues remain strong.

In our view, the combination of recent benign core inflation readings along with the soft economic momentum out of Europe and Japan account for the uneven April return performance across global risk indices during the month of April. Specifically, we believe the recent strengthening in the US Dollar versus developed currencies is the result of concerns over the underlying strength of Eurozone domestic demand versus the US. Likewise, we view the recent period of relative return outperformance for US equities to be the result of both a strengthening US Dollar as well as the stronger first quarter corporate earnings and revenue performance for US corporates versus European peers. Finally, global bond yields' approximately unchanged levels during the month of April owe much to the softness in activity indicators during the period along with the well behaved core inflation readings.

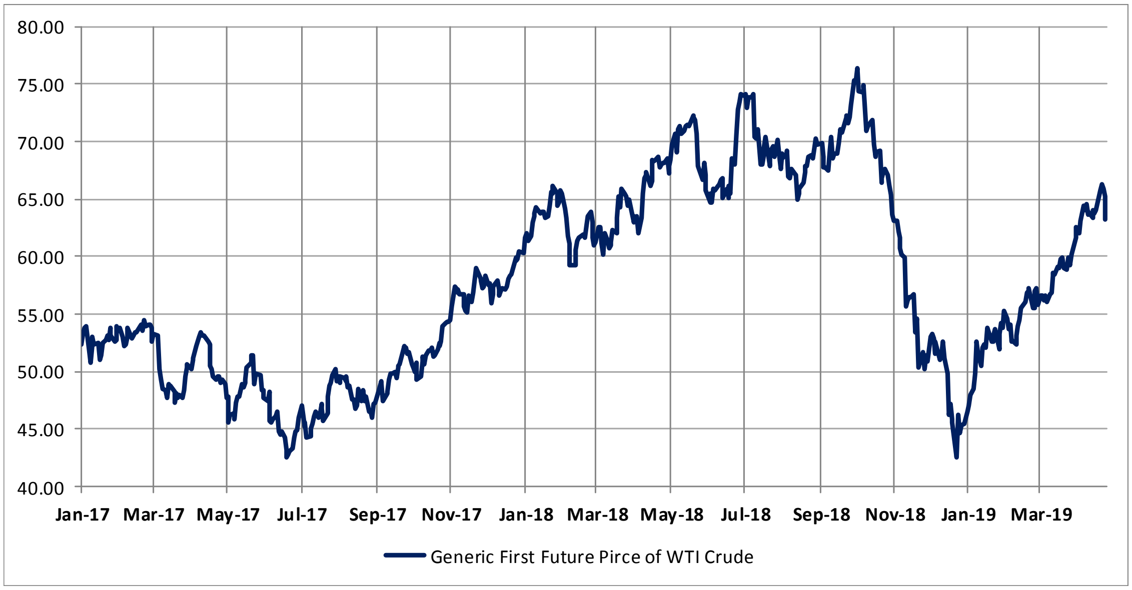
	April 26th 2019	April MTD Change
Gold	1286.25	-0.5%
Silver	15.085	-0.2%
Oil	63.3	5.3%
EUR	1.1151	-0.6%
JPY	111.58	0.6%
GBP	1.2916	-0.9%
CHF	1.0196	2.5%
CAD	1.3455	0.8%
AUD	0.7042	-0.8%
BRL	3.9321	0.3%
MXN	18.9378	-2.5%

Source: Bloomberg

Rates	April 26th Level
1 Yr CD	1.53%
5 Yr CD	2.01%
30 Yr Jumbo Mortgage	4.23%
5/1 Jumbo Mortgage	3. 69%
US Govt. 10 Year	2.4982%
10 Yr Swap Spread	-1.25%

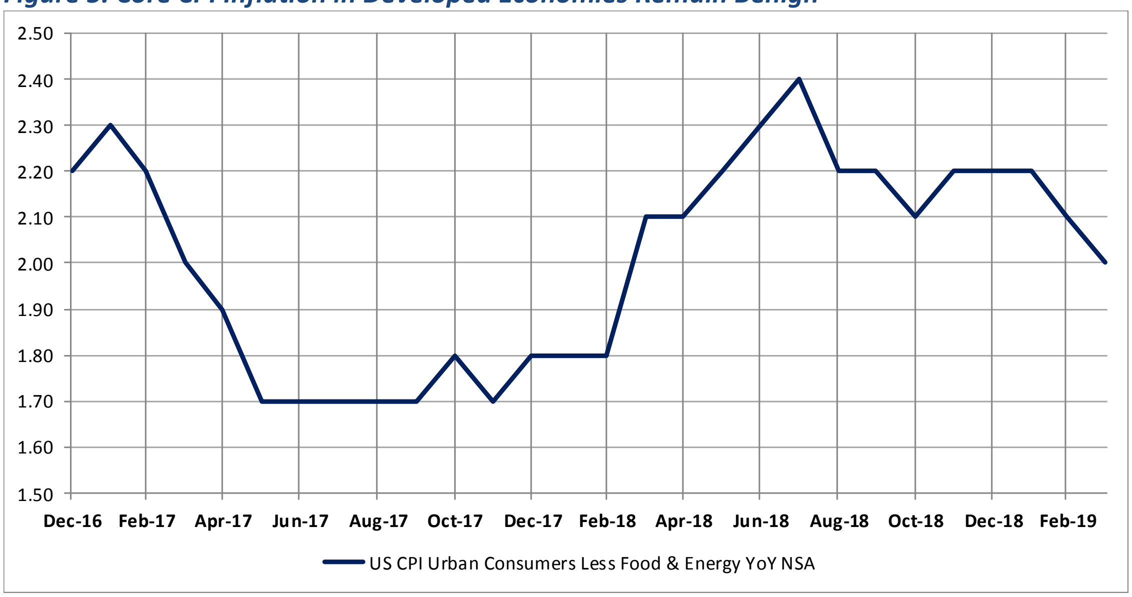
Source: Bloomberg

Figure 4. Crude Prices Rise in April on Supply-side Concerns tied to US-Iran Tensions



Source: Bloomberg

Figure 5. Core CPI Inflation in Developed Economies Remain Benign



Source: Bureau of Labor Statistics

Glovista Sustains Bullish Medium-term US and EM Equities Outlook along with Underweight Bond Duration Exposure

As we look ahead to the remainder of the second quarter, the Glovista investment team maintains a bullish outlook towards emerging market and high quality US equities on those two blocs' stronger near-term visibility facing revenue and earnings growth momentum at a juncture in which the Euro area confronts definitional periods at the political level – e.g. May parliamentary elections and year's second-half Italy elections. Within the fixed income domain, we continue to underweight duration exposure on the basis of stretched valuations. Within the commodities group, we currently hold insignificant exposure given the lack of impetus emanating from the currency markets as well as our constructive medium-term outlook facing the equities space.

Emerging Markets Perspectives

EM Equities Pull Back in April on US$ Strength and Growth Concerns; Glovista Raises India, Indonesia and Lowers North Asia Exposures on Valuations and Risk Premia

In April, emerging market equity prices lagged developed peers' return performance – especially US peers – on the back of a strengthening US Dollar (discussed in the adjoining Glovista Global Perspectives section) and rekindled economic growth concerns facing especially the Euro region. In addition, the supply-side driven rise in energy prices recorded during the month impacted adversely a number of energy import dependent economies within the asset class.

As we look ahead, we expect the global economic backdrop to offer a friendly backdrop against which emerging market equities will extend their return outperformance period versus developed markets that initiated this past October. Specifically, we view a considerable portion of the recent softness in global economic indicators to be result of one-off drivers such as the unusually adverse winter season in the northern hemisphere, the extraordinarily long US government shutdown period and the lagged effects on overall business and consumer sentiment stemming from the excessive tightening in financial conditions this past fourth quarter. In the Euro area, the upcoming months should result in reduced uncertainty facing economic agents following the passing of Spain general elections, Euro area parliamentary elections in May and Brexit.

Besides the above mentioned supportive drivers facing emerging market equities' relative return performance prospects versus developed peers, we need to consider two additional factors. First, an inactive US Federal Reserve represents a significant tailwind for emerging market economies as their central banks are likely to continue or initiate rate cut cycles following the significant strengthening of EM currencies that has obtained since this past October along with benign inflation readings across many of the large emerging market national economies. Second, by all indications, a new trade agreement between the US and China is likely to obtain before the end of June, a supportive development for all emerging market economies.

Over the past several weeks we have implemented a number of rebalancing actions in our emerging market equities' managed portfolios. Specifically, we have taken profits in our Mexico overweight allocation, reducing exposure levels to neutral. Moreover, we have reduced Chile country exposure to underweight on valuation considerations. We have also taken profits in our overweight Taiwan overweight allocation, trimming country exposure to neutral. We have allocated the resource allocations stemming from such position cuts to the benefit of two markets, India and Indonesia.

Our decision to raise India country exposure from underweight to overweight responds to a number of considerations, including improved relative valuations following a recent period of underperformance along with increased clarity as to PM Modi's chances at victory. In the case of Indonesia, our decision to raise exposure from slight underweight to overweight responds primarily to the fading of political risk following President Joko Vidodo "Jokowi" recent election victory. At the fundamental level, we like Indonesian stocks on valuation and macro considerations. Conversely, our decision to cut Taiwan, Korea and China country exposures reflect both profit considerations (in the case of China and Taiwan) as well as less attractive relative valuations following global semiconductor stocks' recent period of strong relative performance as well as mixed guidance from some of the world's major names in the sector.

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