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Newsletter

GLOVISTA INVESTMENTS

Glovista Global Perspectives

This Issue:

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Risk Markets Consolidate as Resilient Activity Calendar Contrasts with Soft Sentiment Readings; Stocks Remain Attractively Valued versus Bonds; Glovista Sustains High Quality Factor Tilts while Raising Cyclical Sector Exposures

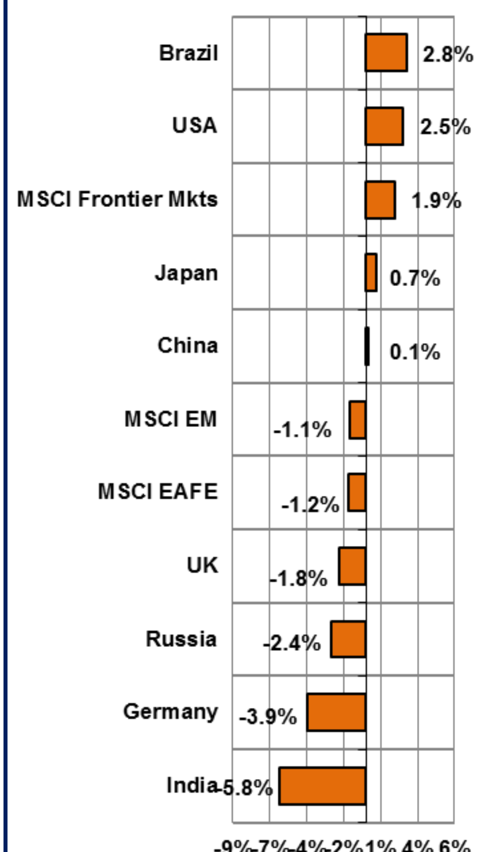
In July, risk indices have extended their solid year-to-date return performance despite persistent softness in confidence indicators, particularly on the business sector (Figure 1). Figure 2 illustrates the decline recorded by business sentiment readings these past several months, extending to both the goods and service sectors of the global economy. We attribute a considerable portion of such steady deterioration in confidence to the angst impacting the business sector by the two still unresolved events conditioning the global economy's outlook: Brexit and China-US trade tensions.

As we examine the stream of economic activity releases these past several weeks against the broad-based deterioration in business confidence illustrated in Figure 2, the stark contrast between the two is quite evident. Specifically, recent economic activity releases paint a scenario of stabilization to incipient recovery in economic growth momentum. Moreover, as discussed further below recent second quarter corporate earnings and revenue releases out of the USA, Europe and Japan shed a similar light to that contained in the activity calendar.

Signs of stabilization in world economic activity momentum and possibly an acceleration of growth momentum into the year's second-half include the following:

- ***Higher GDP growth along with upward revisions to GDP growth and personal savings:*** On July 26th, Q2 US GDP figures were released, posting considerably stronger than expected growth momentum for the period, fueled by stronger than expected personal consumption growth momentum. Moreover, the release included revisions to previous multi-year GDP figures.

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



Source: MSCI & Bloomberg

**As of July 30th, 2019*

Such revisions were to the upside. Moreover, the revisions entailed upward adjustments to US private savings levels. Such releases highlight not only a stronger than expected growth momentum in the second quarter but also in the prior years, without an accompanying acceleration in inflation. In addition, the upward adjustment to US household sector's savings level enhances the visibility of US growth momentum in the year's second half. Figure 3 illustrates resilient levels of US personal consumption expenditure growth as of 2019Q2.

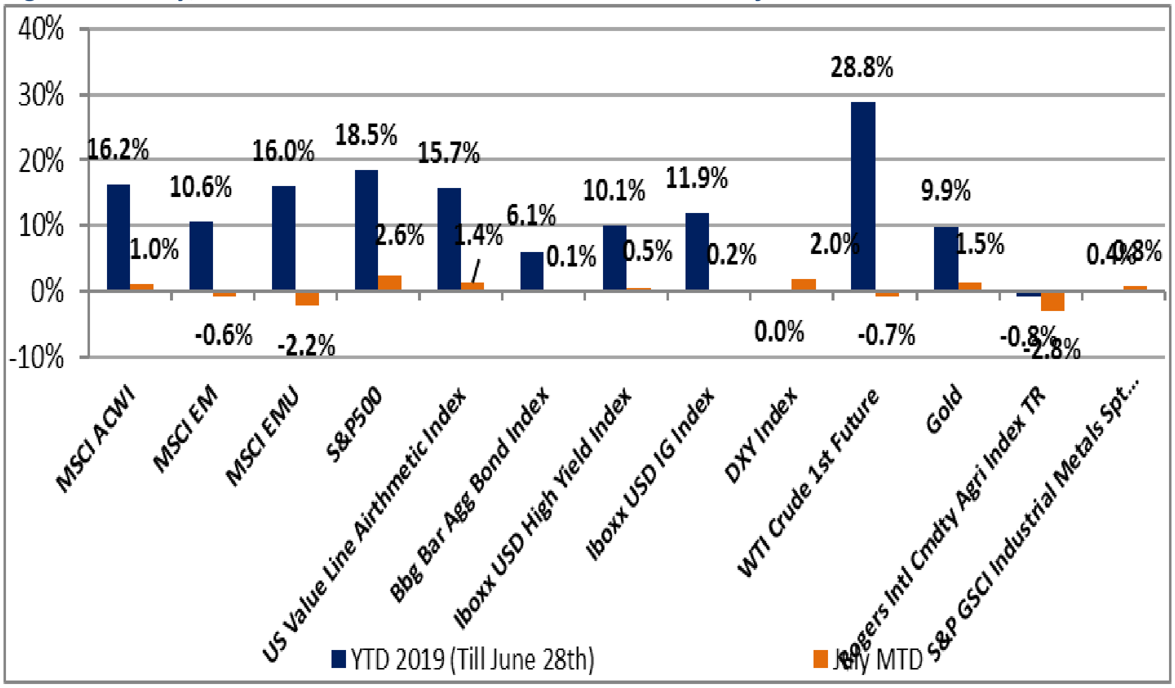
S&P500 Monthly Sector Performance – July MTD 2019*

Sectors	% Change	FY1 PE Ratio
Energy	-1.34%	18.9
Materials	1.06%	19.1
Industrials	1.67%	17.7
Cons Disc	2.10%	22.5
Cons Stap	4.40%	20.6
Technology	4.80%	21.1
Healthcare	-0.74%	15.9
Financials	2.74%	12.8
Utilities	0.15%	19.4
Telecom	4.17%	17.9
Real Estate	2.00%	39.7
S&P500	2.43%	18.2

*As of July 30th, 2019

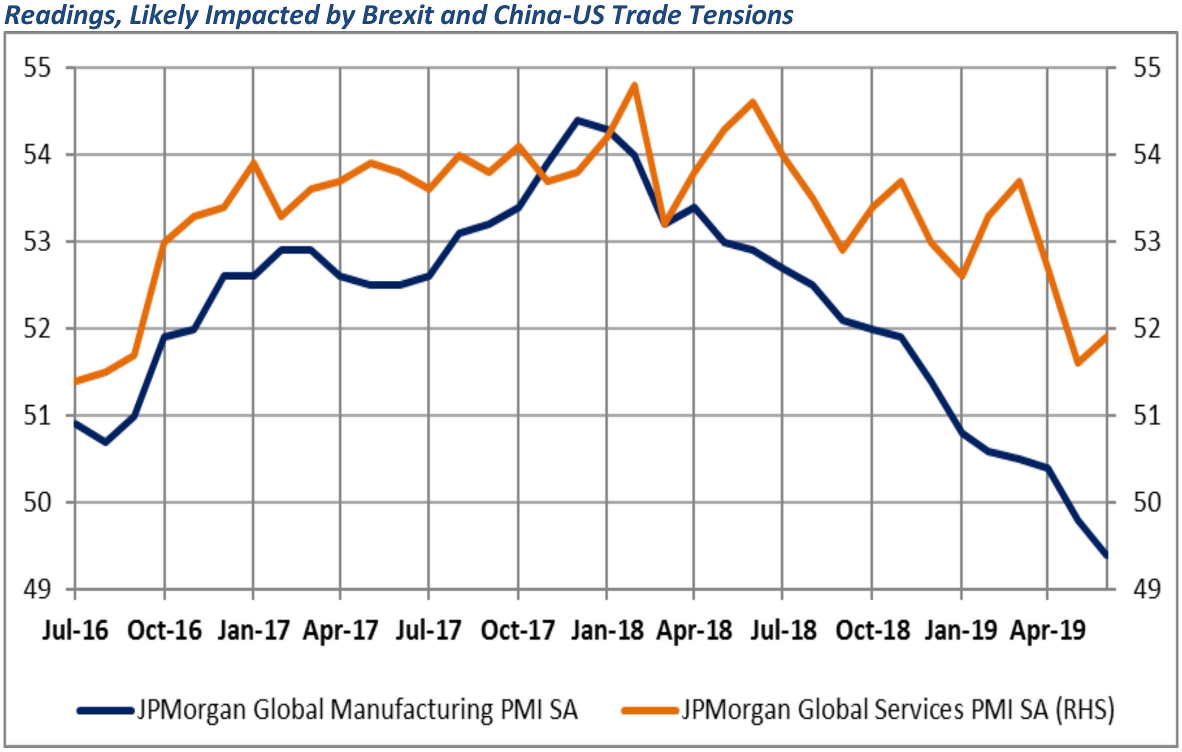
Source: Bloomberg

Figure 1. In July, Risk Indices Extend Solid 2019 YTD Return Performance



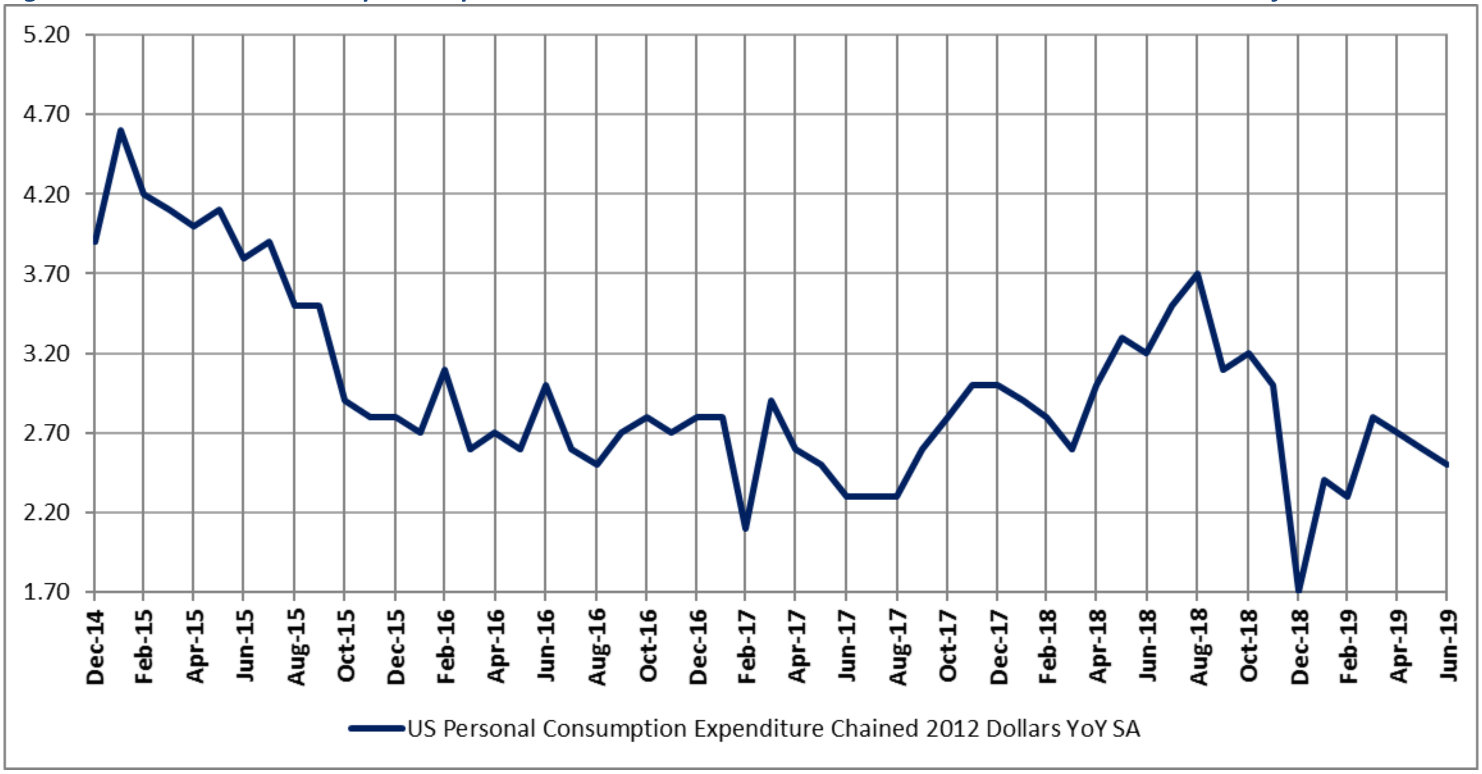
Source: Bloomberg & Glovista Calculations

Figure 2. July Marks Extension of Softening in Goods and Service Business Sector Sentiment Readings, Likely Impacted by Brexit and China-US Trade Tensions



Source: Markit

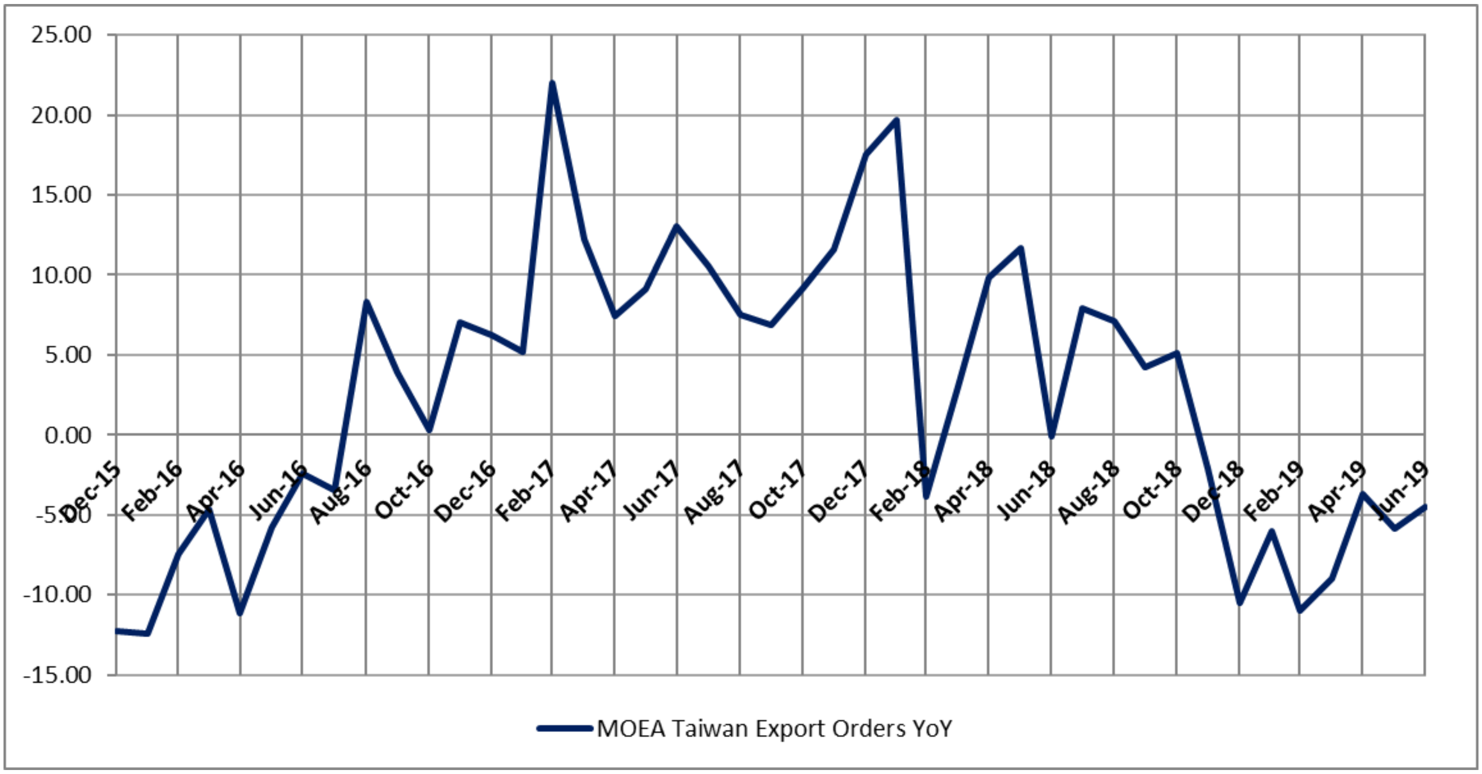
Figure 3. US Personal Consumption Expenditure Growth Momentum Remains Resilient Thru the Middle of 2019



Source: Bureau of Economic Analysis

- ***Rebound in North Asia Export Orders, a leading sector in the global industrial production cycle.*** Figure 4 illustrates the recent recovery in growth momentum facing export orders for major North Asian economies, including Taiwan, over the past several months.

Figure 4. North Asia Export Orders Record Rebound in Growth Momentum



Source: Ministry of Economic Affairs Taiwan

	July 30th 2019	July MTD Change
Gold	1430.89	1.5%
Silver	16.5675	8.2%
Oil	58.05	-0.7%
EUR	1.1155	-1.9%
JPY	108.61	0.7%
GBP	1.2152	-4.3%
CHF	0.9904	1.4%
CAD	1.3151	0.4%
AUD	0.6872	-2.1%
BRL	3.7909	-1.5%
MXN	19.0628	-0.8%

Source: Bloomberg

Rates	July 30th Level
1 Yr CD	1.51%
5 Yr CD	1.85%
30 Yr Jumbo Mortgage	4.05%
5/1 Jumbo Mortgage	3.7%
US Govt. 10 Year	2.058%
10 Yr Swap Spread	-8.63%

Source: Bloomberg

- Recovery in US semiconductor index (SOX), historically one of the most reliable leading indicators of shifts in manufacturing sector momentum. Figure 5 illustrates the solid recovery in the SOX index since the early June period.

Figure 5. SOX Index Post-May Recovery May Signal Impending Upturn in Industrial Cycle

Source: Bloomberg

- Steepening US Treasury curve since May, following a long flattening period, may signal stabilization to recovery of activity growth momentum in the coming months (Figure 6).

Figure 6. US Treasury Curve (10 year versus 2 year) Steepening May Herald Stabilization to Cyclical Upturn

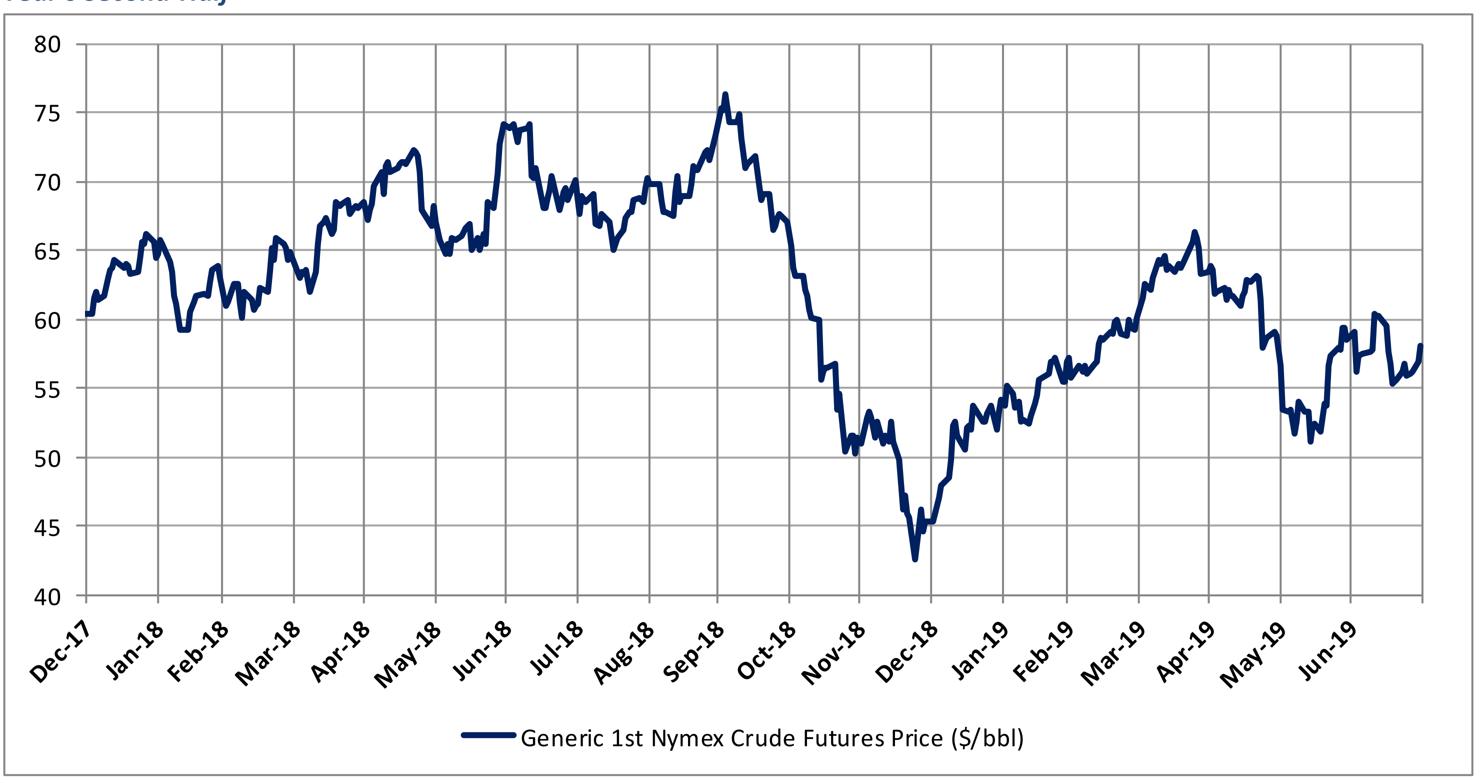
Source: Bloomberg and Glovista Calculations

- Signs of uptick in reflationary expectations (Figure 7) as commodity price momentum stabilizes these past two months (Figure 8). The arrest in the decline of inflation expectations historically is associated with an impending upturn in top-line revenue and EPS growth momentum.

Figure 7. US Inflation Expectations' Rebound since Early June May Signal Impending Recovery in Annual Earnings and Revenue Growth Momentum

Source: Bloomberg

Figure 8. Oil Price Recovery since June May Signal Stabilization to Recovery in Annual Earnings Growth Momentum in the Year's Second-Half

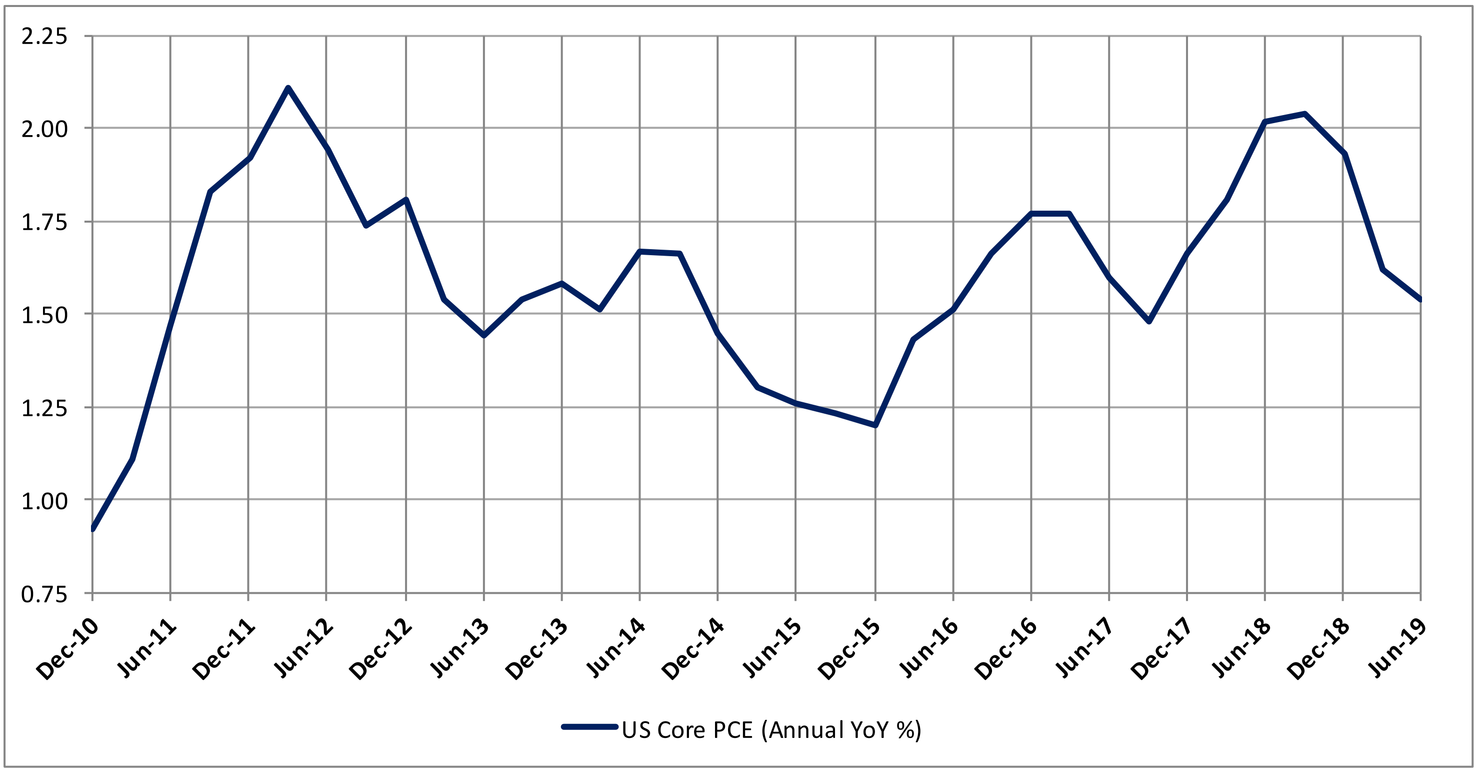


Source: Bloomberg

- Positive surprises to second quarter corporate earnings releases out of the USA (around 5 %), Europe (around 3 %) and Japan (around 1 %) thus far in the reporting season. Admittedly, annual 2019 corporate earnings estimates have been downwardly revised throughout the year (around 7 % in the US case). However, the quantum of the positive surprise to earnings results is notable, particularly in the face of the considerable dent placed on sentiment readings these past several months on the back of the still unresolved Brexit and China-US trade fronts. Moreover, it is of interest that in the current earnings season some of the world's largest multinationals – focused on enterprise spending, such as Microsoft and Google – have posted stronger than expected results.

Against the dynamics outlined above, we believe the most likely economic scenario for the year's second half is one of stabilization to moderate acceleration of economic growth momentum. That inflation pressures remain absent further enhances the allure of risk assets, especially equities.

Figure 9. US Core PCE Inflation Momentum Remains Well Below FED's 2 Percent Target, Paving the Way for Multiple Policy Rate Cuts in the Coming Quarters



Source: Bloomberg

As we look ahead, we believe that the US Federal Reserve will be cutting the reference policy interest rate at least 75 basis points over the next three quarters as inflation momentum remains well below the 2 percent target (Figure 9), specially at the current juncture in which downside risks to global trade remain in play, courtesy of the still unresolved Brexit and China-US trade tension dynamics.

Glovista Sustains High Quality Factor Tilts in Stocks and Bonds along with Precious Metals Allocation and Increased Exposure to Selective Cyclicals

Against the macro environment discussed above, including lingering uncertainty factors such as Brexit and the China-US trade relationship, Glovista maintains considerable exposure to high quality stock and bond investments. Moreover, we maintain modest exposure to precious metals owing to the supportive low real interest rate environment and precious metals' diversification contribution at this advanced stage of the business cycle.

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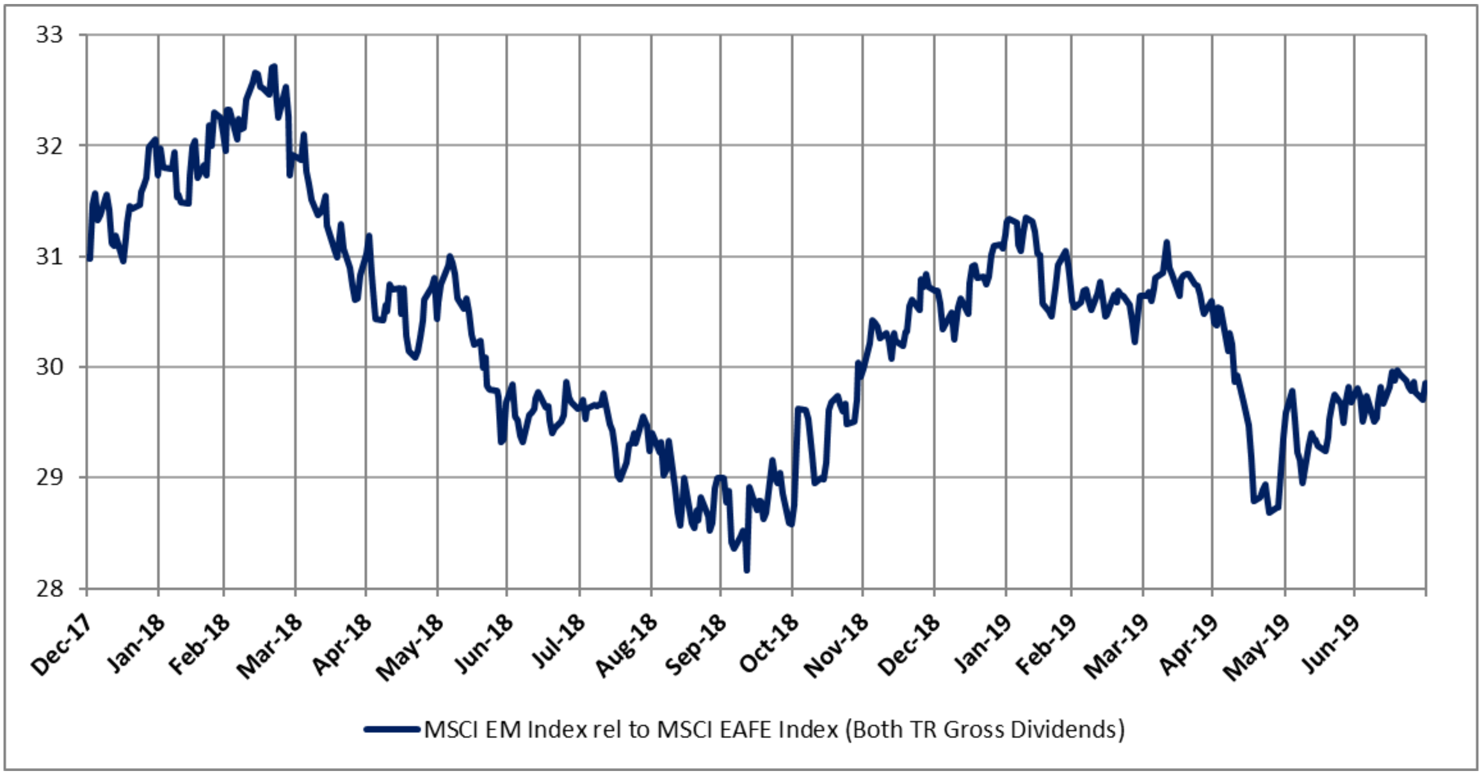
Emerging Markets Perspectives

EM Equities Extend Outperformance versus EAFE Peers, Boosted by Stronger Economic Momentum, Currency Strength and Cheap Valuations; Glovista Sustains Overweight Value Tilts while Upgrading Taiwan to Neutral

In July, Emerging Market equities have outperformed International Developed peers (EAFE), recovering almost half of the return underperformance that followed the sharp reversal in US-China trade talks early in May, set off by US President Trump's decision to abort discussions at that time. Figure 10 illustrates EM equities' sustained outperformance versus EAFE peers since the middle of May.

Figure 10. EM Stocks' Sustained Relative Performance Rebound versus EAFE Peers following Early May's Sell-off



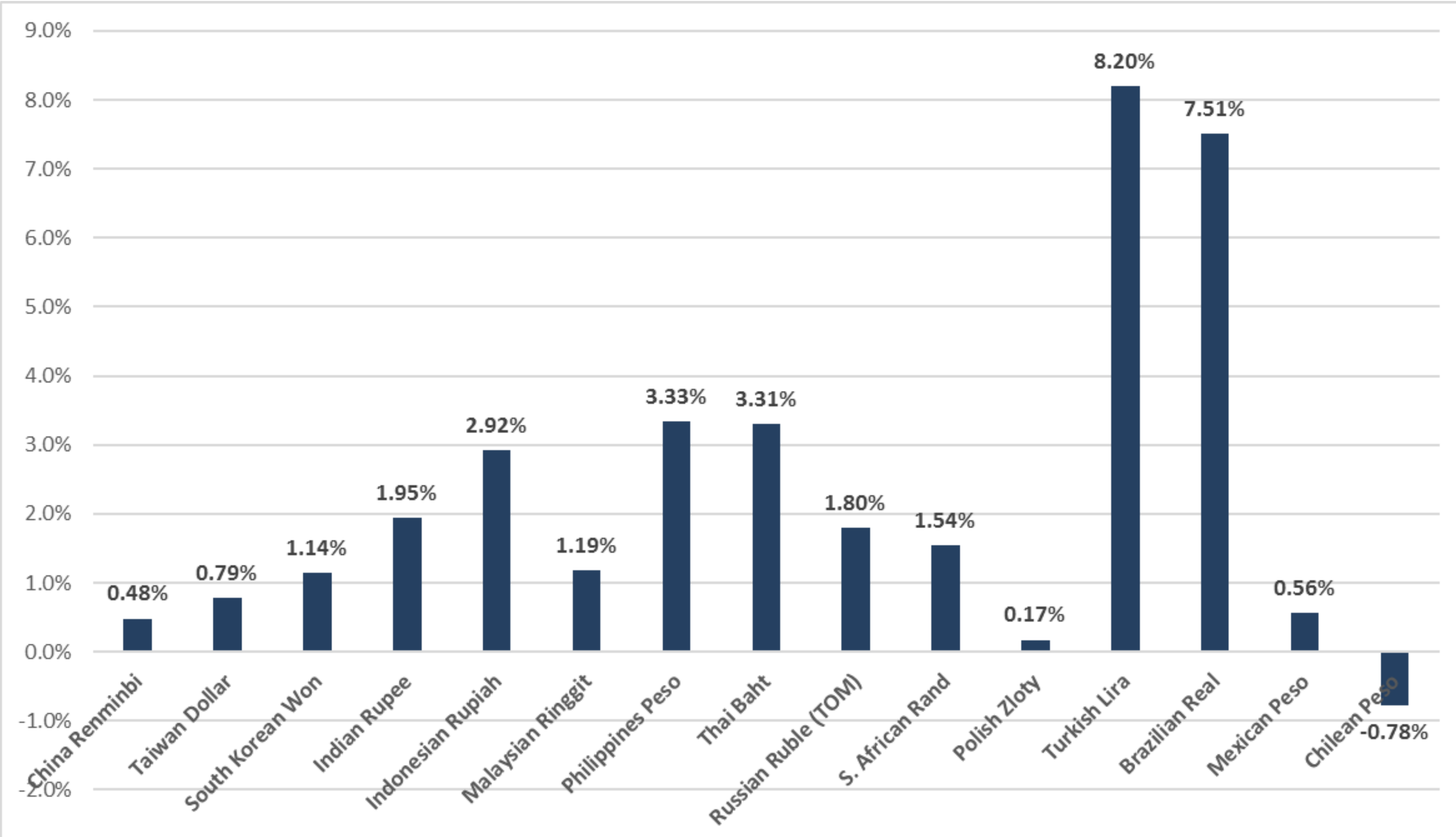
Source: MSCI and Glovista Calculations

In our view, EM stocks' sustained return performance recovery versus Developed peers reflects EM economies' strengthened economic calendar versus peers as well as EM currencies' continued revaluation versus the world's major currencies, a development likely to sustain itself over the coming months given the US Federal Reserve's and ECB's recent decision to embark upon policy rate cuts, starting July 31st with the FED's first rate cut since December 2008. For example, Figure 11 illustrates Emerging Market currencies' sustained revaluation versus Developed peers since the middle of May.

Beyond EM currencies' improved outlook, following the shift in the US and Eurozone central banks to cut policy rates over the short and medium term, EM stocks' relative performance is supported by EM economies' more robust economic activity calendar these past several weeks (Figure 12).

A strengthened currency backdrop, combined with looser financial conditions globally and diminished inflation pressures (even in high inflation countries such as Turkey and Brazil) is expected to result in a wave of policy rate cuts to be implemented by emerging market countries' central banks these coming months. Such developments are likely to result in expanded equity valuation multiples for EM stocks given their considerably lower levels than developed peers. For example, Figure 13 illustrates current low P/E valuation multiple discounts at which EM stocks trade versus Developed peers.

Figure 11. EM Currencies' Sustained Revaluation versus the US Dollar since the Middle of May 2019



Source: Bloomberg and Glovista Calculations

Figure 12. EM Economic Surprise Indices Outpace Major Economies Thru Q2

Source: Citigroup & Glovista Calculations

Figure 13. EM Stocks Hover at Large P/E Valuation Multiple Discounts versus Developed Peers

Source: Bloomberg, MSCI and Glovista Calculations

At a country level, the month of July has witnessed strong relative outperformance by two of the large North Asian markets (China and Taiwan), boosted by improved investor interest in large Chinese tech stocks as well as favorable sector (semiconductor) and company developments supporting Taiwan Semiconductor, Taiwan market's largest constituent. Weak economic and company developments impacting Samsung Electronics continue to produce sustained relative underperformance for South Korean equities.

Outside North Asia, Brazil and Russia were two other large national markets recording solid outperformance during the month. In the case of Brazil, stock valuations were boosted by the first phase of approval of the social security reform in the Lower House of Congress. Market participants are hopeful such recent passage bodes well for the Bill's final passage in September/October. On the underperformance front, Indian equities have recorded a sharp relative underperformance in July following a higher surcharge levied on ultra-rich tax payers. In addition, the Monsoon season has been sub-par.

As we look ahead, we maintain an overweight allocation to value sector-oriented markets, including Russia, Indonesia and India, supported by resilient currency and attractive stock valuations. We continue to underweight Mexico, South Korea, Chile and South Africa on currency, growth and valuation considerations. In emerging Asia, we recently raised our Taiwan country allocation to neutral on the back of the semi sector's improved outlook and attractive valuations following a recent period of underperformance.

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