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GLOVISTA INVESTMENTS

Glovista Global Perspectives

This Issue:

Risk Markets Rally on Strengthening Activity Calendar, Policy Rate Cuts and Softening US Dollar; Glovista Raises Further Value Tilts in Global Equities and Trims Bond Duration

In September, risk asset prices have risen markedly across most major geographical regions and asset classes. For example, Figure 1 illustrates the September month-to-date return performance recorded across asset markets. As shown in Figure 1, the rise in equity prices has been accompanied by a decline in bond prices.

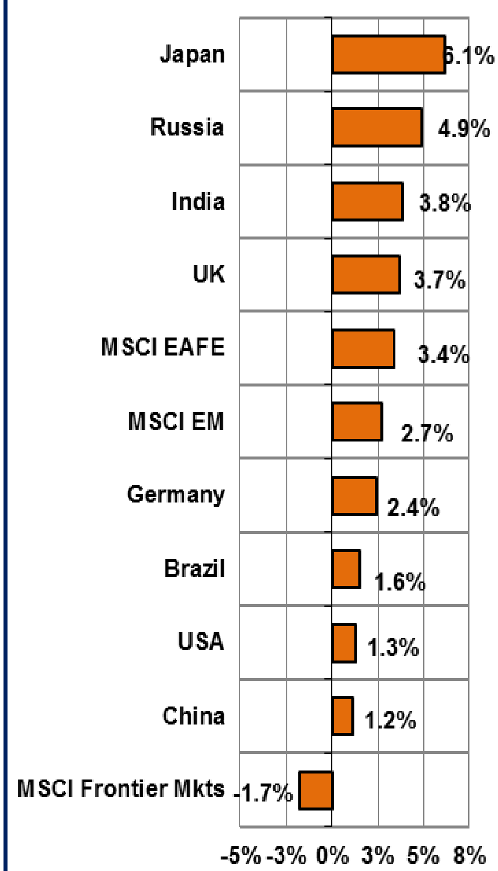
In our view, the September rally in risk asset markets responds to a number of macro fundamental, policy and technical market (primarily positioning) considerations, including the following:

- Considerable strengthening of activity releases out of the world's major economies, as illustrated in Figure 2 capturing the sharp pick-up in economic activity surprise indicators for the world's major economies.

- Upturn in world goods sector activity momentum. For example, several indicators indicate a stabilizing to a moderate recovery in the world's manufacturing sector starting in the month of August. For example, Figure 3 illustrates August as the first monthly bounce in JPMorgan's Global Manufacturing PMI since the second quarter of 2018, the start of the China-US trade frictions.

- Abatement in market concerns over disinflationary risks, as inflation expectations have recovered from mid-August low levels along with a declining US Dollar index (Figure 4). These two dynamics combined to fuel a bounce in world nominal GDP growth expectations, a supportive development for risk asset prices.

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



Source: MSCI & Bloomberg

****As of September 24, 2019***

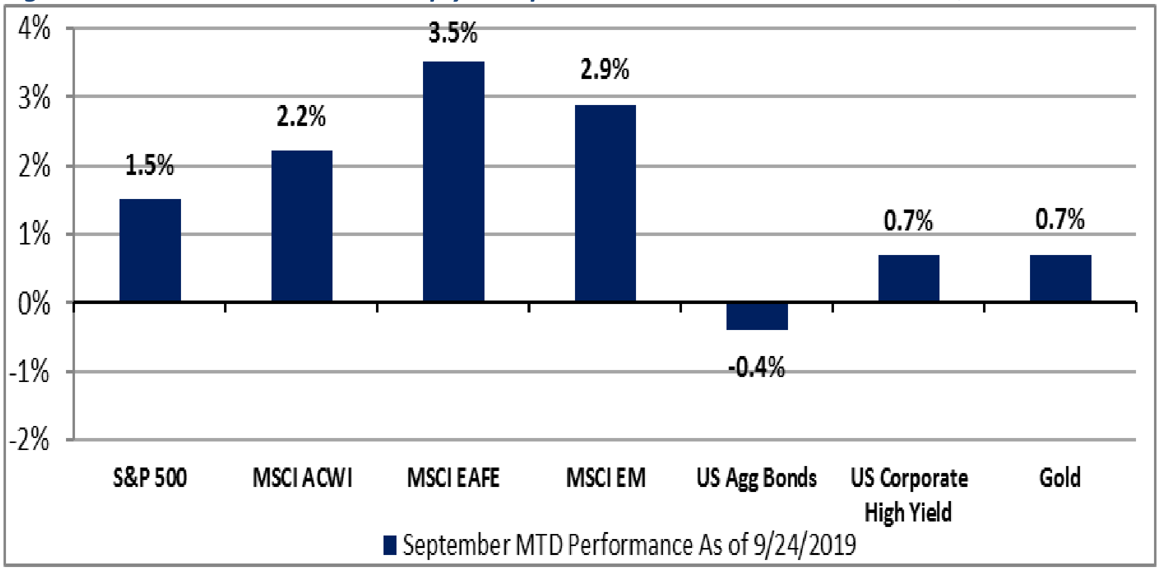
S&P500 Monthly Sector Performance – September MTD 2019*

Sectors	% Change	FY1 PE Ratio
Energy	5.52%	19.4
Materials	2.10%	19.2
Industrials	2.33%	17.8
Cons Disc	-0.15%	22.0
Cons Stap	0.21%	20.6
Technology	0.42%	20.8
Healthcare	0.32%	15.6
Financials	3.97%	12.6
Utilities	3.79%	21.0
Telecom	0.67%	17.5
Real Estate	0.28%	40.2
S&P500	1.37%	18.1

*As of September 24th, 2019

Source: Bloomberg

Figure 1. Risk Markets Bounce Sharply in September as Bond Prices and the US$ Decline



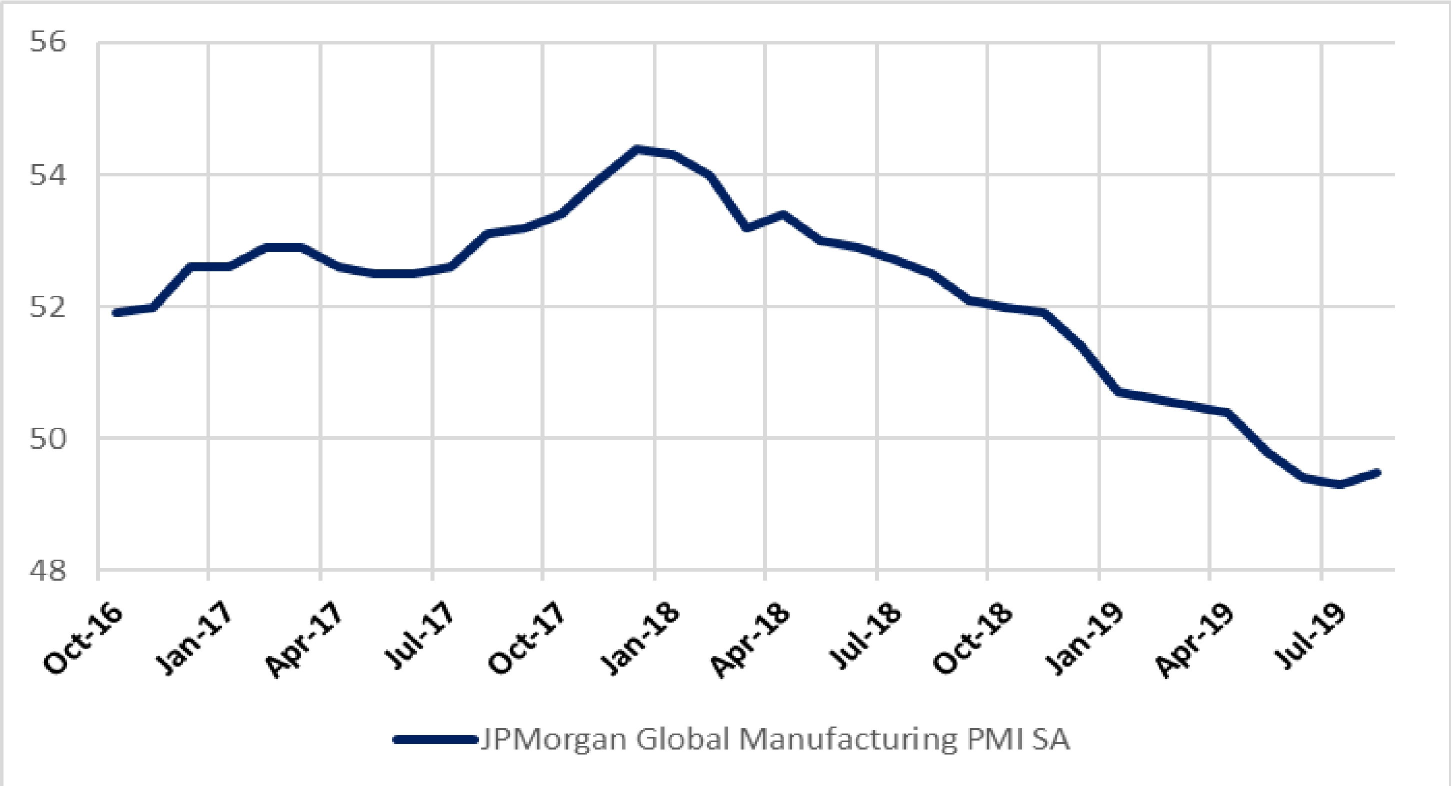
Source: Bloomberg, MSCI & Glovista Calculations

Figure 2. September Marks Sharp Improvement in Economic Activity Surprise Indicators for the World's Major Economies

Source: Bloomberg & Citi

- Liquidity supporting actions announced by the world's major central banks, including especially the US Federal Reserve and the European Central Bank. For example, on September 18th, the US FED cut the reference Federal Funds rate by 25 bps while on September 12th, the European Central Bank announced a 10 basis points cut to its reference deposit rate along with dovish forward guidance and the reinstatement of its asset purchase program at the tune of 20 billion Euros per month, starting in November 2019.

Figure 3. August/September Indicators Point to Early Signs of Reversal in Longstanding Decline in World Manufacturing Sector Growth Momentum



Source: Bloomberg & JP Morgan

Figure 4. Inflation Expectations Bounce Modestly along with Declining US Dollar

Source: Bloomberg & Glovista Calculations

	September 24th 2019	September MTD Change
Gold	1531.91	0.8%
Silver	18.6045	1.2%
Oil	57.29	4.0%
EUR	1.102	0.3%
JPY	107.07	-0.7%
GBP	1.2487	2.7%
CHF	0.9855	0.5%
CAD	1.3243	0.5%
AUD	0.6801	1.0%
BRL	4.165	-0.5%
MXN	19.4459	3.1%

Source: Bloomberg

Rates	September 24th Levels
1 Yr CD	1.34%
5 Yr CD	1.55%
30 Yr Jumbo Mortgage	4.05%
5/1 Jumbo Mortgage	3.89%
US Govt. 10 Year	1.65%
10 Yr Swap Spread	-0.13%

Source: Bloomberg

The above mentioned economic activity, policy backdrop and financial conditions have combined to fuel reinforcing virtuous dynamics on risk asset markets, including via the marked tightening of credit spreads from the August 2019 high levels (Figure 5).

Figure 5. US High Yield Spreads Tighten Considerably in September on Improved Economic Calendar and Policy Backdrop

Source: Bloomberg

Strengthened Economic Calendar and Policy Backdrop Consistent with Glovista's Thesis Calling for Normalization of Supply Conditions; Glovista Reinforces Value Tilts in Global Equities

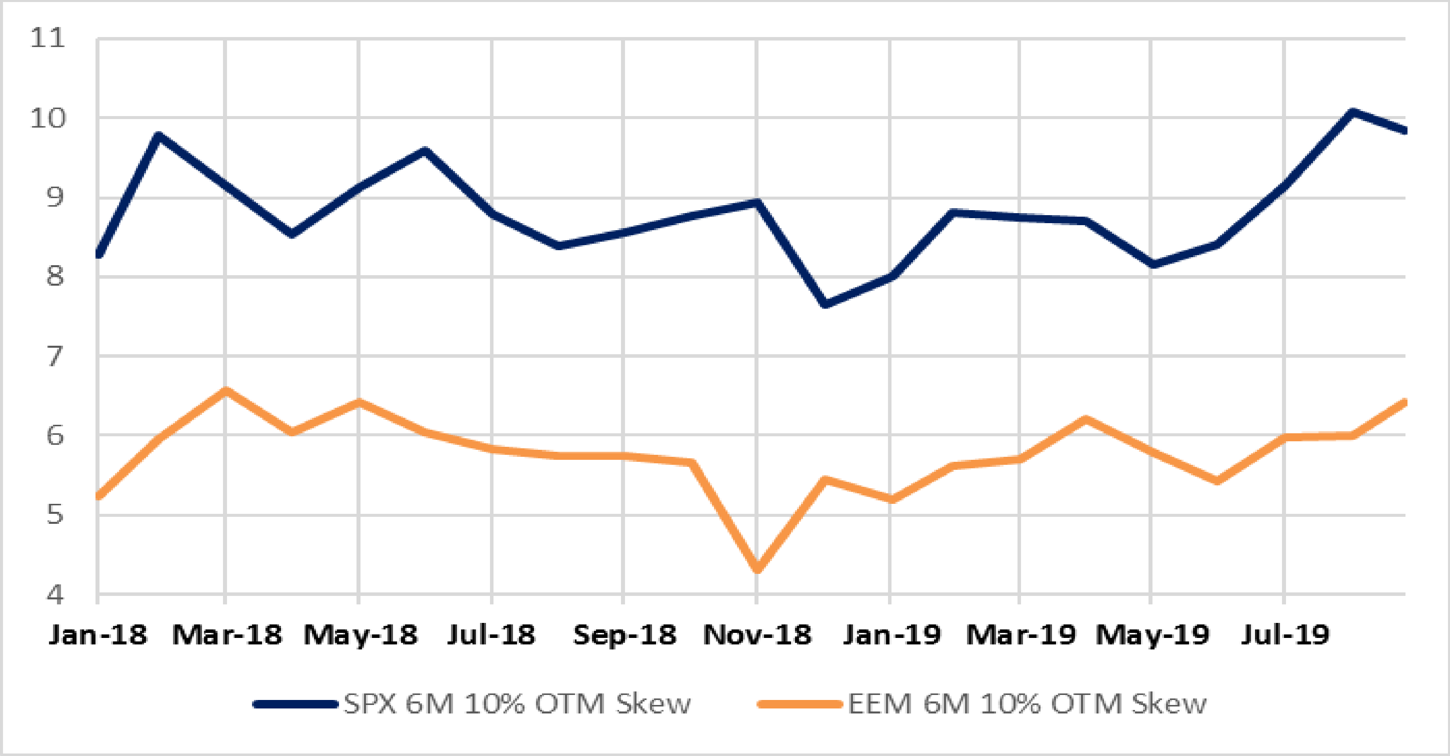
The Glovista investment team views the vastly improved economic calendar these past several weeks as consistent with our standing thesis, discussed in prior monthly columns, calling for a strengthening in goods sector production indicators to meet what have been resilient domestic demand conditions (especially consumer sector) globally these past several months. As discussed in prior columns, it has been our view that the longstanding weak goods sector production calendar (manufacturing) that started in mid-2018 owed much to the dislocations fueled by the US-China trade tensions that escalated earlier this year along with disruption caused by the escalation of the Brexit process these past several months, the conclusion of which will not be known before late October.

As we look ahead, we expect developed country bond markets to correct to the downside as market-based economic growth expectations correct to the upside. Moreover, inflation dynamics – particularly in the USA – are likely to surprise modestly to the upside these coming months as cost-push effects from newly implemented tariffs on trade with China begin to impact end goods prices.

Against such macro backdrop, and given investors' exceedingly bearish position towards risk markets (as reflected in hedge funds' small net equity investment exposure, net outflows from mutual funds and ETFs, retail investor sentiment and put-call volatility skews in cash equities – Figure 6), we expect:

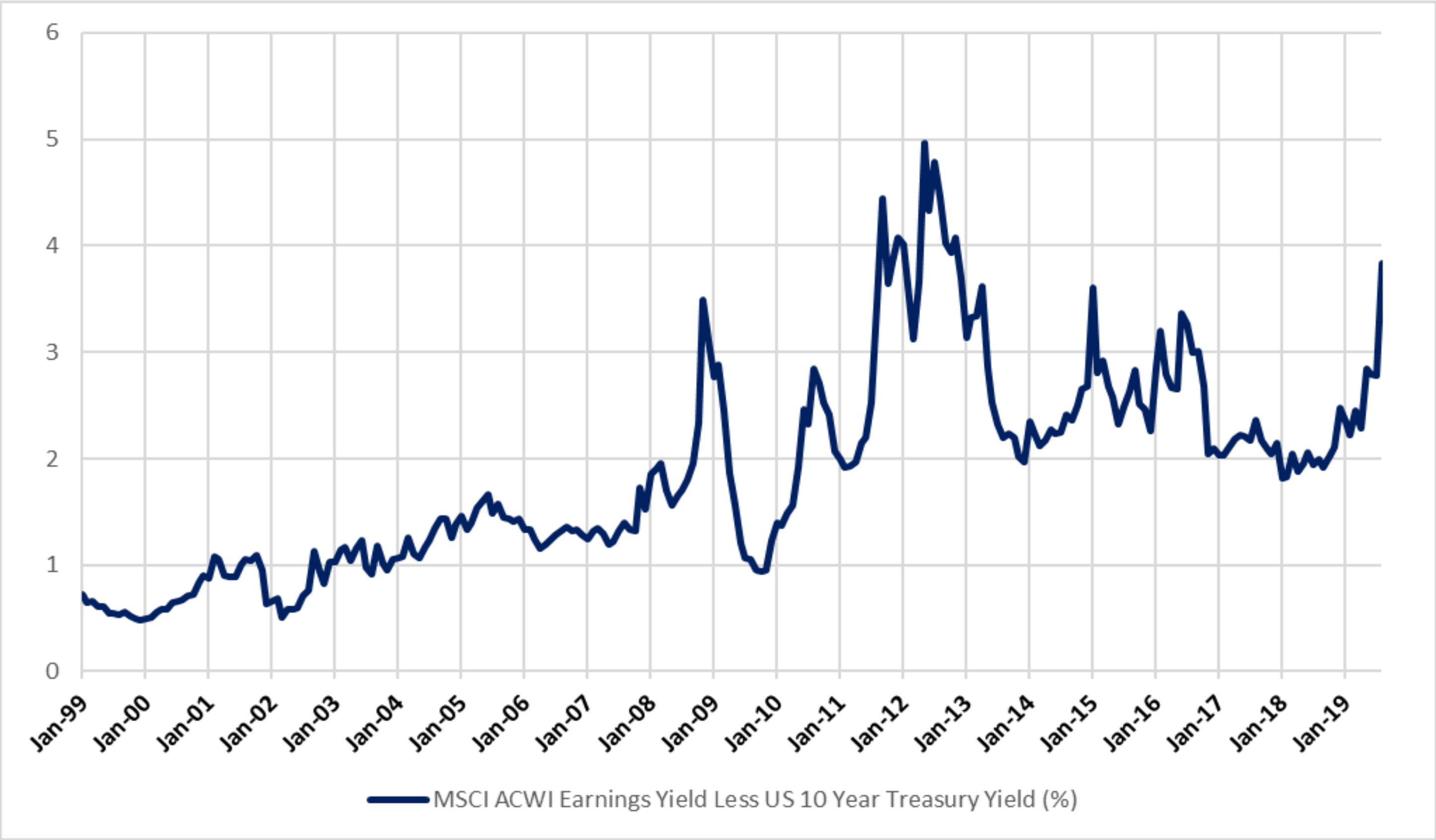
- global equity prices to edge higher over the coming months, given our expectation of muted recession risks globally and equities' considerably cheap relative valuations versus fixed income (Figure 7);

Figure 6. Global Investors Sustain Bearish Stance towards Equities, as Illustrated in Extreme Put-Call Volatility Skews



Source: Bloomberg & Glovista Calculations

Figure 7. Global Equities' Valuations Versus Bonds at Close to the Cheapest Levels Outside Recession Periods



Source: Bloomberg, MSCI & Glovista Calculations

- a sustainable rotation in market leadership in favor of value stocks on account of (a) the favorable effect exerted by upside normalization in bond yields (Figure 8) as well as value stocks' exceedingly cheap relative valuations versus growth stocks (Figure 9).

Figure 8. Upside Normalization in Long-dated Bond Yields Likely to Fuel Upturn in Value Stocks' Relative Performance versus Growth Peers

Source: Bloomberg, MSCI & Glovista Calculations

Figure 9. World Value Stocks' Valuations Hover at Close to Cheapest Historical Levels versus Growth Peers

Source: Bloomberg, MSCI & Glovista Calculations

As we look ahead to the coming weeks and months, our constructive outlook towards risk markets is conditioned on several risk factors not crystalizing, including: a marked escalation in trade tensions between the US and China; a disorderly Brexit scenario; a sharp strengthening of Elizabeth Warren's standing in the Democratic Party's polls; adverse profit margin pressures reported in the upcoming quarterly corporate earnings season.

Glovista Sustains Defensive Portfolio Stance, Raising Value and Quality Factor Tilts in Global Equities while Further Reducing Bond Duration Exposure

Against the global macro and market outlook discussed above, the Glovista investment team has sustained its longstanding factor exposures at a global level, including overweight value, high quality tilts both at the asset class and geographic levels. Within Developed Markets, we continue to overweight high quality US equities along with selected exposure to Emerging Market equities. In fixed income markets, we continue to overweight high grade, short duration US Dollar debt paper while continuing to hold modest exposure to precious metals owing to their diversification traits as a number of risk factors – laid out above – remain.

Emerging Markets Perspectives

EM Stocks Post Solid September Rally, Fueled by Strengthening Economic Calendar, Weakening US$ and Broadening Monetary and Fiscal Policy Stimulus Measures; Glovista Sustains Overweight Exposure to Value-oriented Markets, Led by India

As discussed above, the month of September afforded risk markets a supportive backdrop to record strong return performance, anchored on several dynamics, including: (a) a strengthening economic calendar (Figure 10 for the case of emerging market economies); (b) a benign Developed country central banks' policy backdrop (in the form of the year's second US policy rate cut announced on September 18th and similar monetary policy loosening conditions announced by the European Central Bank, announced on September 12th), and; (c) favorable market technical conditions (owing to extraordinarily stretched bearish investor sentiment prevailing as of the end of August).

Figure 10. September Economic Calendar Strengthens Markedly for Emerging Market Economies

Source: Bloomberg & Citi

As discussed in the sections above, over the coming months we expect the global economy's cyclical backdrop to strengthen further as supply sector growth dynamics catch up with resilient global consumer expenditure growth, with said dynamics likely to be reinforced by the further broadening of fiscal and monetary policy stimulus measures from across both the Developed and Emerging Markets world (as highlighted by India's recently announced corporate tax cuts, discussed further below).

Historically, a strengthening global economy has afforded a supportive environment for solid prospective Emerging Market equity returns, particularly given the asset class' attractive valuations and considerable under-ownership status on the part of global asset managers (i.e. with current exposure levels to the EM asset class at the lowest levels since the 2011-2012 period).

At the country level, we continue to favor exposure to attractively valued national markets whose relative valuations are cheap and with strong macro balance sheets. India's market continues to score at the top of such factor criteria. The high visibility of India's economic growth momentum over the coming quarters, following the temporary growth deceleration that obtained in this year's second quarter courtesy of the spike in energy prices and inventory corrections along with the lagged effects from a tightening of credit conditions in late 2018, has been further enhanced by the Indian government's major announcement of a broad based corporate tax cut on September 20th. The tax cut measures announced include: (a) the reduction of effective tax rate for Indian corporates from upwards of 33% to close to 25%; (b) a reduced tax rate of 17% for firms setting up manufacturing plants after October 1st 2019, provided they begin operations before 2023, and; (c) a partial rollback of tax on stock buy-backs by grandfathering stock buybacks announced before July 5th 2019.

Outside our India overweight allocation, we continue to favor overweight exposure to Russian equities and China IT sector stocks, together with a number of value-oriented markets. We continue to underweight exposure to a number of central European, African, Latin American and Middle Eastern markets on valuation and earnings momentum considerations.

As we look ahead to the coming months, the direction of US-China trade negotiations will continue to condition the outlook facing Emerging Market equities given implications exerted by a new US-China trade arrangement on global trade. Under our baseline case of no recession in the coming quarters, and given the near-term resolution of a number of uncertainty factors (including Brexit), we expect the US Dollar to resume a downtrend over the coming months, lending support to international and especially Emerging Market equity prospective US Dollar returns. In such environment, in our opinion, overweight energy and financials sector exposures are likely to be in favor along with selected exposure to certain cyclical sectors (industrials and materials), summing up a value factor tilt for which we are already positioned.

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