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GLOVISTA INVESTMENTS

Glovista Global Perspectives

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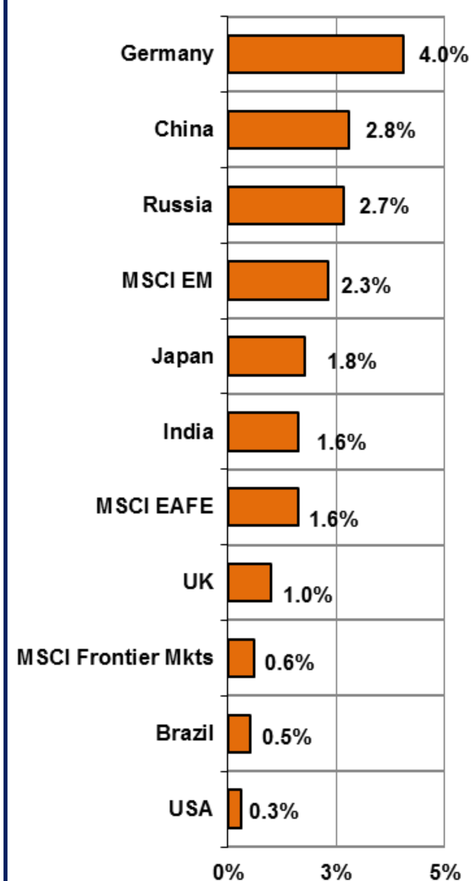
Risk Markets Bounce on Fading China-US Trade Uncertainty Factor along with Robust Start to Q3 Earnings Season, Weakening US$ and Incipient Signs of Goods Sector Stabilization Globally; Glovista Sustains High Quality Equities and Bond Duration Exposures

In October, risk markets have rallied sharply, as illustrated in Figure 1. Specifically, we attribute October's robust month-to-date performance across such broad array of asset markets and geographic domains to the reinforcing effects exerted by several developments, including:

- reduction in political and trade policy risk premium levels, allowing for an expansion in equity valuation multiples and compression in credit spread levels. The decline in political and trade policy risk premium levels unfolded in October via de-escalation in the longstanding US-China trade frictions. Specifically, on Friday, October 11th 2019 US President Trump announced verbal agreement with the Chinese on a number of trade, foreign exchange market and financial sector areas surrounding the relationship between the two countries. Such agreement is expected to be ratified by Mr. Trump and China's Xi at the upcoming mid-November APEC leaders summit meeting scheduled to be held in Santiago, Chile. As a result, the US announced the cancellation of a tariff increase from 25% to 30% covering around US$250 billion of Chinese goods that was previously scheduled to take effect on October 15th. A comprehensive agreement covering the totality of the US-China economic relationship awaits the initiation of so-called Phase 2 discussions, scheduled to start in November.

- sharp depreciation recorded by the US Dollar index throughout the month of October, as illustrated in Figure 2. As we have discussed in previous monthly columns, a weakening US Dollar exerts reflationary effects on the global economy and thus, in the process, results in a firming of global economic (and

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



Source: MSCI & Bloomberg

**As of October 18th, 2019*

*released on Oct 21st 2019

S&P500 Monthly Sector Performance – October MTD 2019*

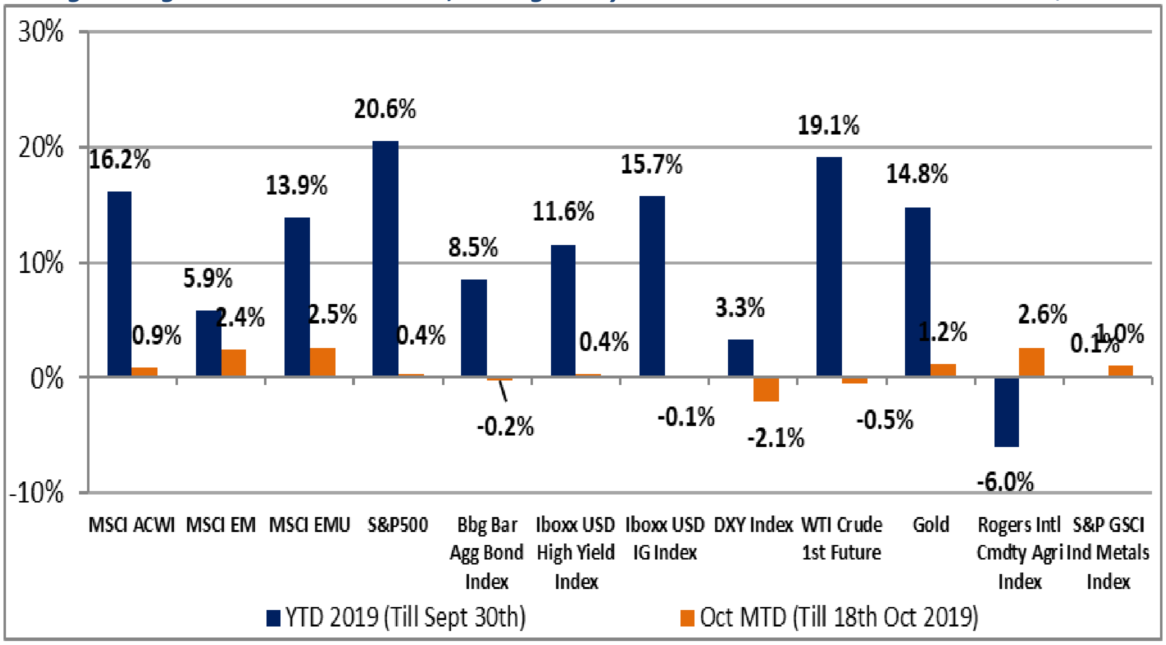
Sectors	% Change	FY1 PE Ratio
Energy	-3.77%	19.3
Materials	-1.11%	19.2
Industrials	-0.99%	17.8
Cons Disc	1.22%	22.7
Cons Stap	-0.94%	20.5
Technology	0.46%	20.6
Healthcare	1.75%	15.6
Financials	0.20%	12.7
Utilities	-1.39%	20.7
Telecom	1.93%	17.9
Real Estate	1.40%	39.6
S&P500	0.32%	18.2

**As of October 18th, 2019*

Source: Bloomberg

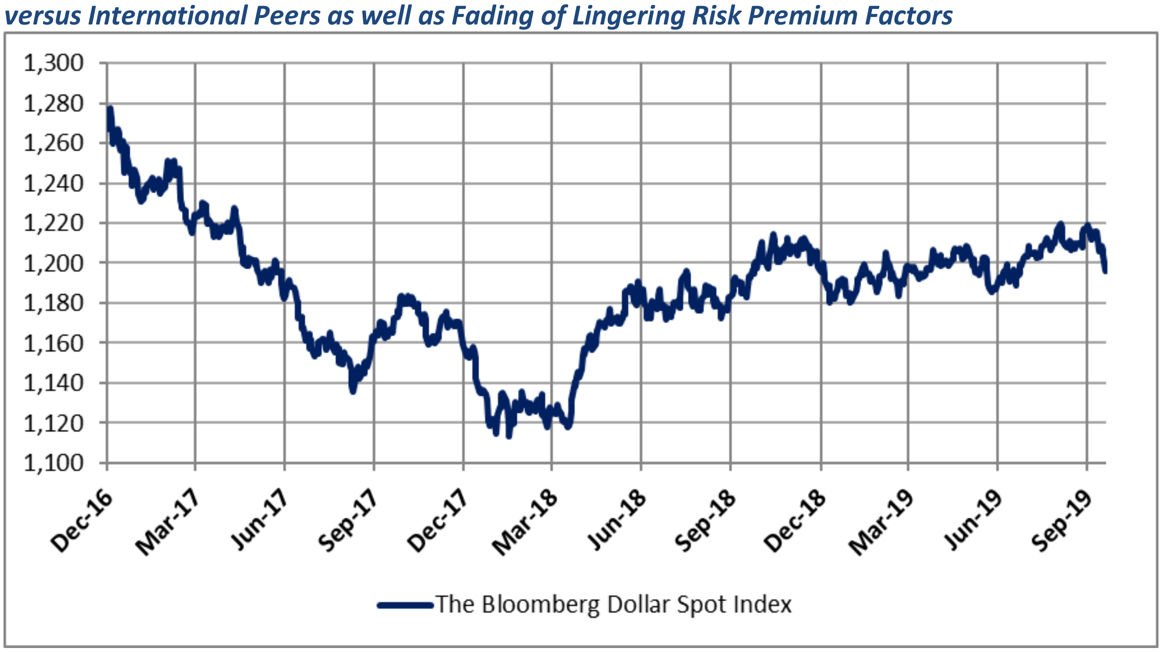
corporate earnings and revenue) growth. Consequently, a weaker US$ correlates with a positive re-rating of risk markets, including equities and credit. We attribute the sharp October sell-off in the US Dollar both to the reduction in global risk premium on account of improving relations between the US and China but also to a markedly weaker US economic calendar versus other developed country peers during the month (Figure 3).

Figure 1. Risk Markets Rally Sharply across Asset Categories thus Far in October, Fueled by Strengthening Economic Momentum, Fading Policy and Political Risk and a Weaker US$



Source: Bloomberg & Glovista Calculations

Figure 2. US$ Records Sharp Fall in October Courtesy of Weakening US Economic Momentum versus International Peers as well as Fading of Lingering Risk Premium Factors



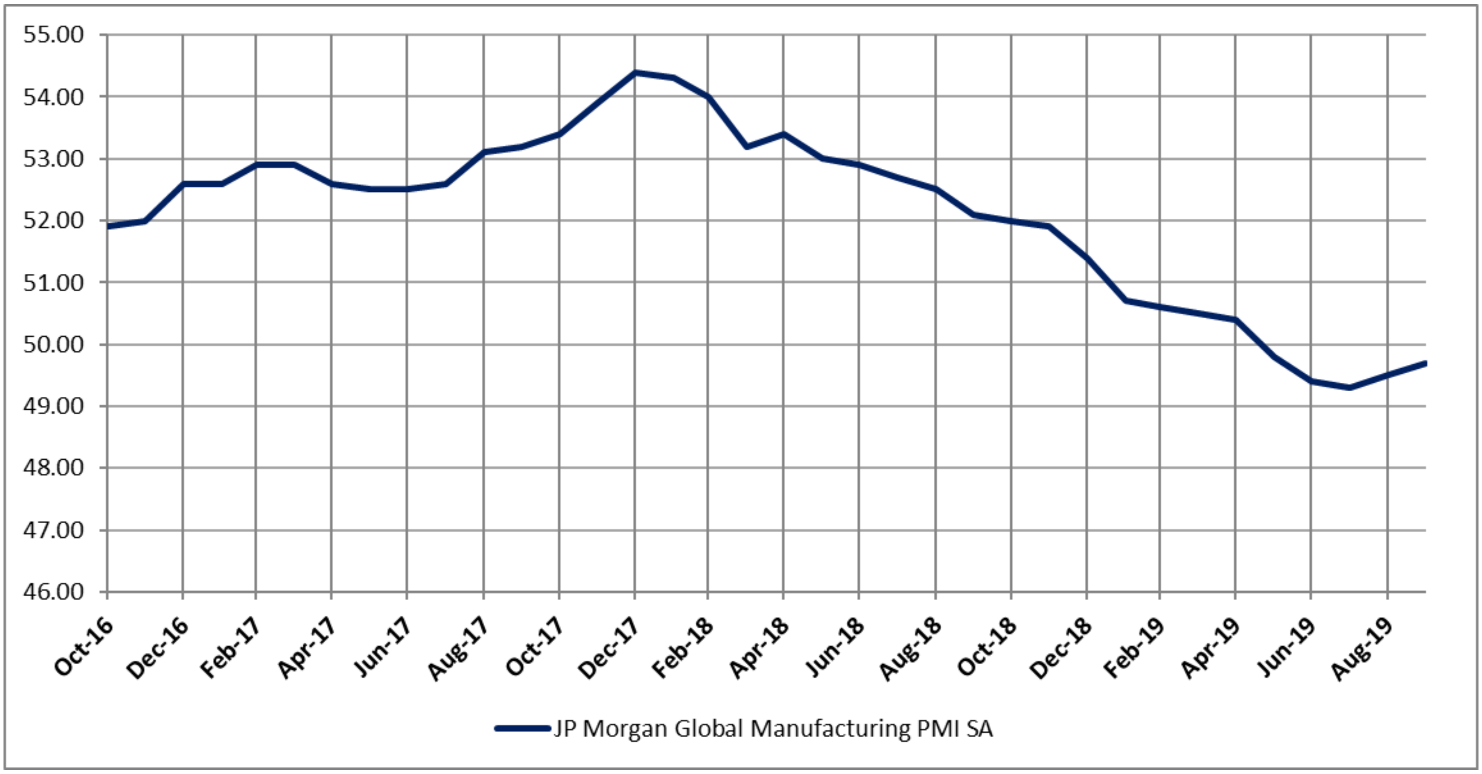
Source: Bloomberg

- Robust start to third quarter US corporate earnings season. Specifically, at the time of publication of our monthly column approximately 14.4 percent of US SP500 index constituents have reported earnings, entailing a faster than expected earnings (82 percent) and revenue (44 percent) beats versus consensus estimates.

Figure 3. Weakening US$ in October Impacted by Softening US Economic Calendar versus Developed Peers'

Source: Citigroup & Glovista Calculations

Figure 4. Global Manufacturing Sector Sentiment Indicator Signals Incipient Recovery from 2019 Low Levels



Source: JP Morgan, Markit

	October 18th 2019	October MTD Change
Gold	1489.85	1.2%
Silver	17.55	3.3%
Oil	53.78	-0.5%
EUR	1.1167	2.5%
JPY	108.45	0.3%
GBP	1.2984	5.7%
CHF	0.9854	-1.2%
CAD	1.3127	-0.9%
AUD	0.6856	1.6%
BRL	4.1133	-1.1%
MXN	19.0997	-3.2%

Source: Bloomberg

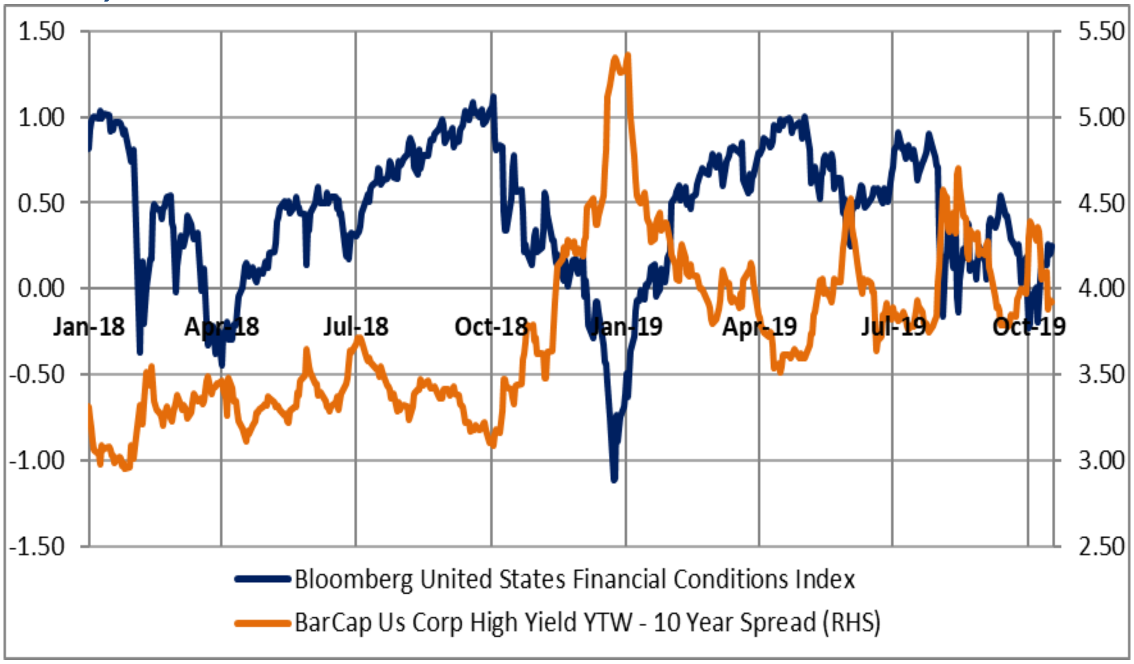
Rates	October 18th Levels
1 Yr CD	1.3%
5 Yr CD	1.53%
30 Yr Jumbo Mortgage	4.16%
5/1 Jumbo Mortgage	3.98%
US Govt. 10 Year	1.7536%
10 Yr Swap Spread	-0.0663%

Source: Bloomberg

- Firming of global economic growth surprises, as illustrated in Figure 4 that highlights a sustained recovery in the global manufacturing sector since the July monthly reading.

- Loosening in financial and credit conditions from the August, early October low levels – Figure 5.

Figure 5. Liquidity and Credit Conditions Recover from Deterioration that Unfolded in August and early October



Source: Citigroup

Glovista Sustains High Quality Equities and Underweight Bond Duration Exposures against Continued Expectation of 2020 World Economic Expansion

The Glovista investment team views recent macro and policy developments as confirming of our expectation for continued world economic expansion in 2020, supported by the expansionary effects stemming from looser monetary and fiscal policies around the world (including the Eurozone, South Korea, India, China and other major economies) along with a modest recovery in the world goods sector which has recorded close to recessionary conditions since the beginning of the year, impacted by the global production chain dislocations from US-China trade tensions dating back to the middle of 2018. In that regard, cyclically oriented economies (such as Germany's) that have recorded mild recessionary phases these past two quarters are expected to recover most significantly. Others, such as South Korea, await greater clarity from the resolution of pending trade discussions with Japan as well as a final resolution to the so-called Phase 2 discussions between China and the USA.

As importantly as our baseline case of continued global economic expansion in 2020 is our assessment of downside risk factors conditioning the outlook. In that respect, we believe the China-US trade dynamic is likely to lessen considerably in importance in 2020 though unlikely to be resolved definitively. Other factors, such as the rising prospect of an Elizabeth Warren US presidency looms on the horizon as a negative factor impacting the US equity and credit markets. The uncertainty surrounding the Brexit factor is mostly discounted in financial markets as well as the UK economy. At the geopolitical level, the energy markets have shown minimal sensitivity to the onset of military and geopolitical tensions in the Middle East, a clear sign of a well-supplied market.

As we look ahead, our team expects the US economy to manifest growing signs of an end cycle phase in which the labor market softens, albeit modestly. In fact, internal indicators of churn and part-time working hours show signs of such deceleration. However, our constructive outlook is anchored on the US household sector's vastly stronger financial condition than in previous pre-recessionary phases (e.g. higher savings rate, lower debt to income ratios). Moreover, non-supervisory workers' wage rate of growth remains strong.

In China, recent economic indicators (including the property market, retail sales and fixed asset investment spending) show signs of stability to modest acceleration. The recent intensification of policy stimulus is expected to result in continued stability in economic activity. We expect stability to a modest growth deceleration out of the Chinese economy in the balance of the year and early part of next year.

From an investment perspective, the above discussed views on the global macro outlook - one in which liquidity, growth, financial and price dynamics remain stable to modestly more constructive – lead us to sustain our longstanding constructive views on high quality equities (primarily out of the US and emerging markets) along with an underweight bond duration exposure. We view the sharp decline in inflation adjusted bond yields as an aberration – and more suitably viewed as a fiscal policy measure. In that context, we view current negative interest rate levels (both in nominal and also real – inflation adjusted – terms) as inconsistent with the current state of the global economy. Consequently, we continue to favor short- to intermediate duration bond exposures, primarily in the high-grade corporate sector. Over the past several weeks, we have bought senior loan exposures as a cheaply valued equity proxy, particularly given recent underperformance. In the precious metals space, we recently took profits in our gold positions though we continue to favor exposure to the sector on a secular basis.

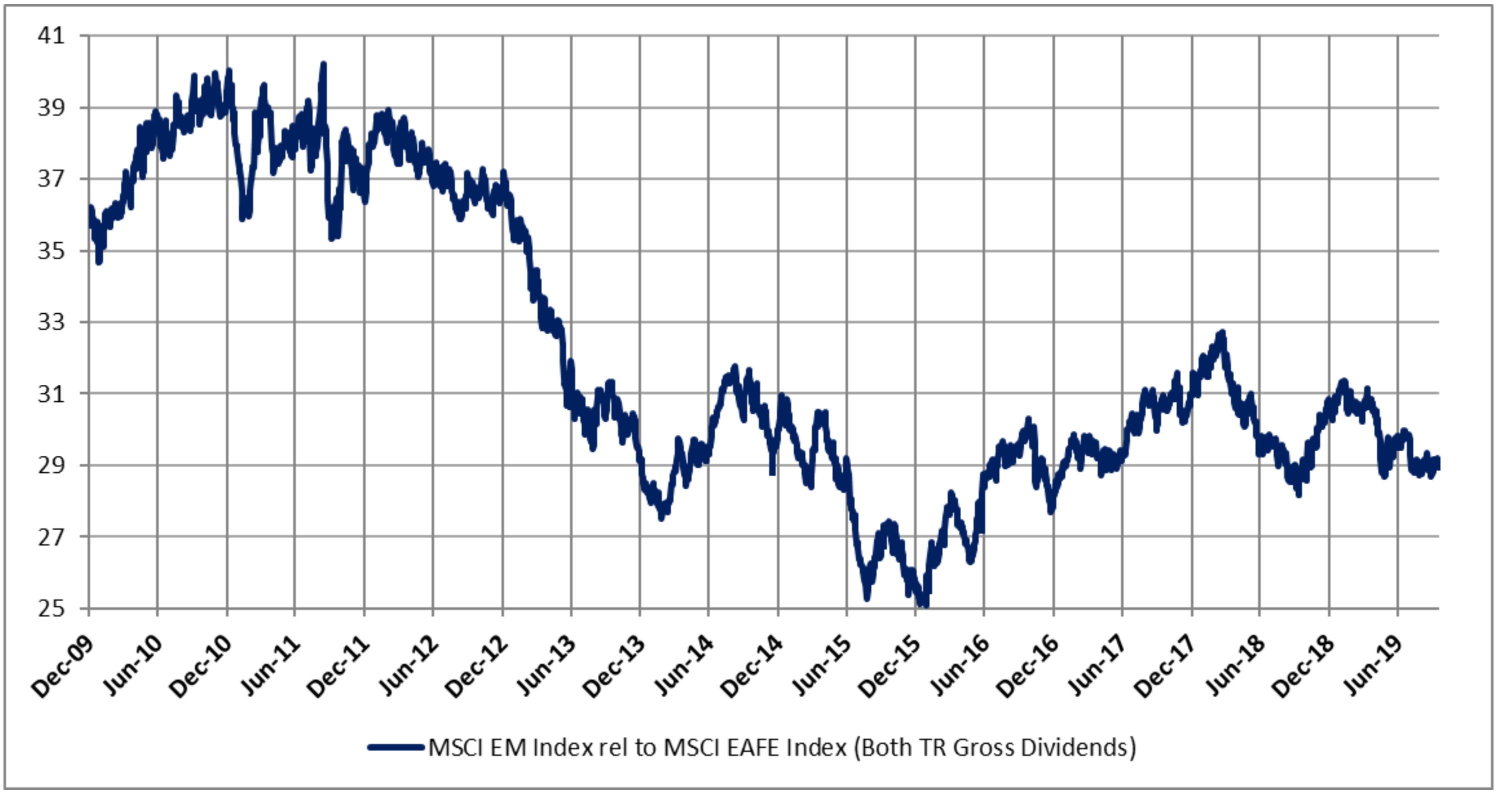
Emerging Markets Perspectives

EM Equities Post Solid October Outperformance versus Developed Peers, Fueled by Weaker US$ and Abating US-China Trade Tensions; Glovista Sustains Overweight Value Tilts

In the October month-to-date period, emerging market equities – as represented by the MSCI EM index – have outperformed developed peers (MSCI EAFE) by a generous 71 basis points, as of October 18th 2019 (Figure 6). In the process, as of the publication of this report, EM equities' cumulative US$ return outperformance versus EAFE peers amounts to approximately 18.5 percent since EM equities' relative bottom levels were reached in February 2016. We credit EM equities' latest return outperformance period versus EAFE peers primarily to this month's sharp de-escalation in the long-running US-China trade tensions along with the generalized period of US$ weakness that has obtained thus far in October.

As discussed above, on 11th October, 2019 the US and Chinese government authorities announced so-called Phase 1 agreement on the two countries' longstanding trade negotiations that started in 2018. As a result, EM equities' relative valuation multiples have expanded (albeit modestly) versus developed peers. In addition to the broad-based weakening of the US Dollar throughout the month of October, partly related to the decline in global risk premium levels courtesy of the improved tone of US-China trade discussions, the economic calendar has proved supportive of EM economies' outlook. For example, as highlighted in Figure 7, since August world economic projections for EM countries have strengthened versus those of developed economies. If sustained, as is our expectation given the broad introduction of fiscal and monetary policy stimulus across multiple EM countries along with our expectation of an impending upturn in the world's goods sector, we believe EM equities are likely to further extend US$ return outperformance versus developed peers in the coming months.

Figure 6. In October, EM Equities Outperform Developed Peers (EAFE) fueled by Weaker US$ and Abating US-China Trade Tensions



Source: MSCI and Glovista Calculations

Figure 7. EM Economic Projections Edge Higher versus Developed Peers following August Low

Source: JP Morgan & Glovista Calculations

As we look ahead, besides retaining a bullish medium- and long-term outlook towards the asset class – especially versus developed peers - the Glovista investment team continues to favor overweight exposures to value-oriented markets, including India and Brazil while maintaining underweight allocations to north Asian markets. We hold such views both on account of relative valuations (e.g. India's and Russian equities' cheap relative valuations versus their peers), risk premium considerations (e.g. our continued baseline case of no comprehensive trade agreement between the US and China before the middle of 2020) and our assessment of domestic demand expenditure growth favoring such national economies in which major tax reform measures have been announced (e.g. India) and where a weakened US Dollar is most likely to support forward earnings momentum (e.g. Russia). We continue to underweight Middle Eastern and Africa markets on currency, valuation, growth and positioning considerations. In Latin America, we have reduced our underweight allocations over the past several weeks on account of currency and also valuation considerations given stronger than expected earnings fundamentals for some national bellwether stocks (e.g. America Moviles).

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