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Glovista Global Perspectives

This Issue:

Risk Markets Rally on Incipient Signs of Goods Sector Upswing, Benign Inflation and Lower Geopolitical Risk Levels; Glovista Raises Cyclical Tilts

In November, risk markets globally have rallied strongly on the back of a geographically broad-based set of economic releases indicating incipient goods sector upturn, along with reduced geopolitical risk premium levels and a benign inflation outlook. For example, Figure 1 summarizes global risk indices' November monthly along with 2019 year-to-date return performance levels.

Figure 2 summarizes the upturn in global cyclical economic indicators, as reflected in Citigroup's economic activity index both for the world's major economies and emerging market economies. Moreover, the set of November economic releases signaling a sustainable upturn in the world economy's goods sector is broad-based and includes the following:

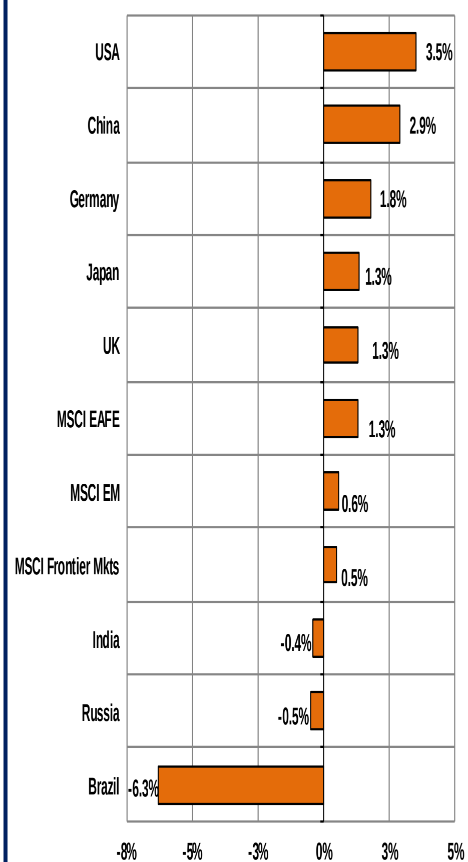
- Stronger than expected readings in US manufacturing sector business diffusion indices, including Markit Manufacturing index as well as ISM Manufacturing index;

- Firmer than expected German manufacturing sector diffusion readings, as exemplified in the November Germany ZEW indicator (Figure 3);

- Stronger than expected indicators tied to personal consumption growth dynamics, including stronger than expected October US core retail sales readings and September Eurozone (including Germany, Spain and Italy) retail sales;

- Firming of Capex economic indicators, including US October Durable Goods Orders and September German Factory Orders.

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



Source: MSCI & Bloomberg

**As of November 26th, 2019*

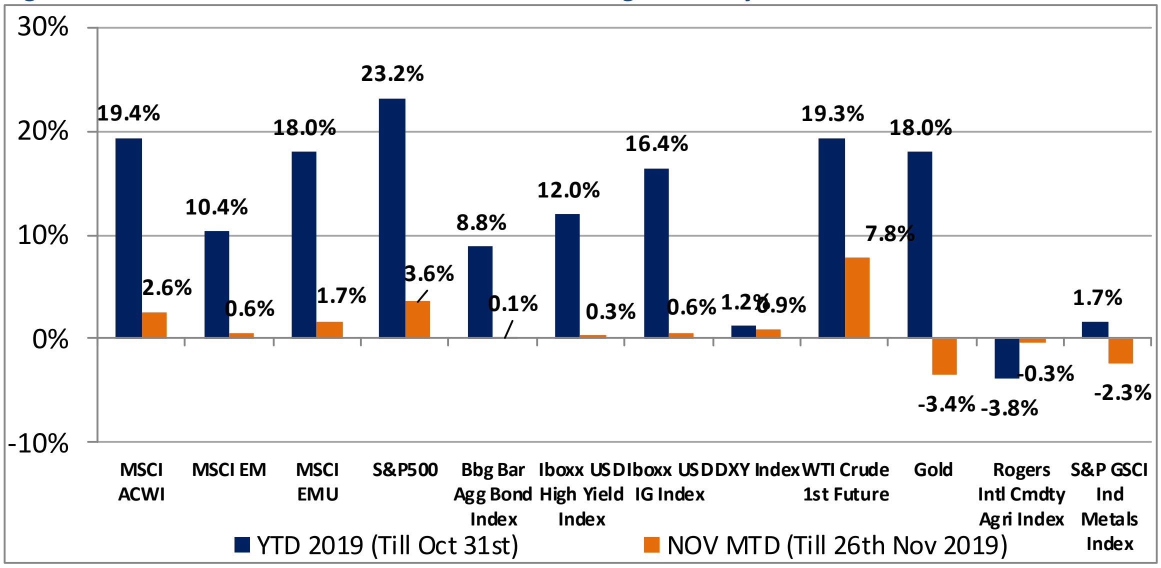
S&P500 Monthly Sector Performance – October MTD 2019*

Sectors	% Change	FY1 PE Ratio
Energy	1.82%	20.0
Materials	3.14%	20.1
Industrials	4.89%	19.2
Cons Disc	1.08%	23.1
Cons Stap	1.11%	20.8
Technology	4.92%	22.1
Healthcare	4.71%	16.9
Financials	4.66%	13.6
Utilities	-2.25%	20.2
Telecom	3.46%	19.0
Real Estate	-1.85%	36.7
S&P500	3.39%	19.1

**As of November 26th, 2019*

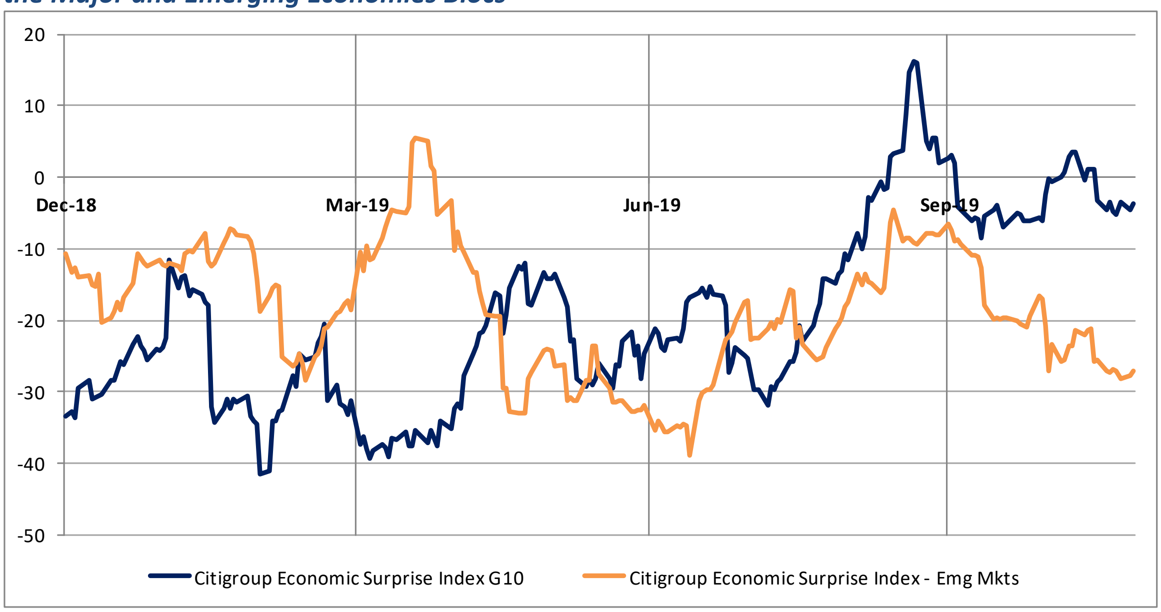
Source: Bloomberg

Figure 1. Risk Assets Bounce in November on Strengthened Cyclical Economic Calendar



Source: Bloomberg & Glovista Calculations

Figure 2. World Economy's Activity Calendar Strengthens Markedly in November, both across the Major and Emerging Economies Blocs

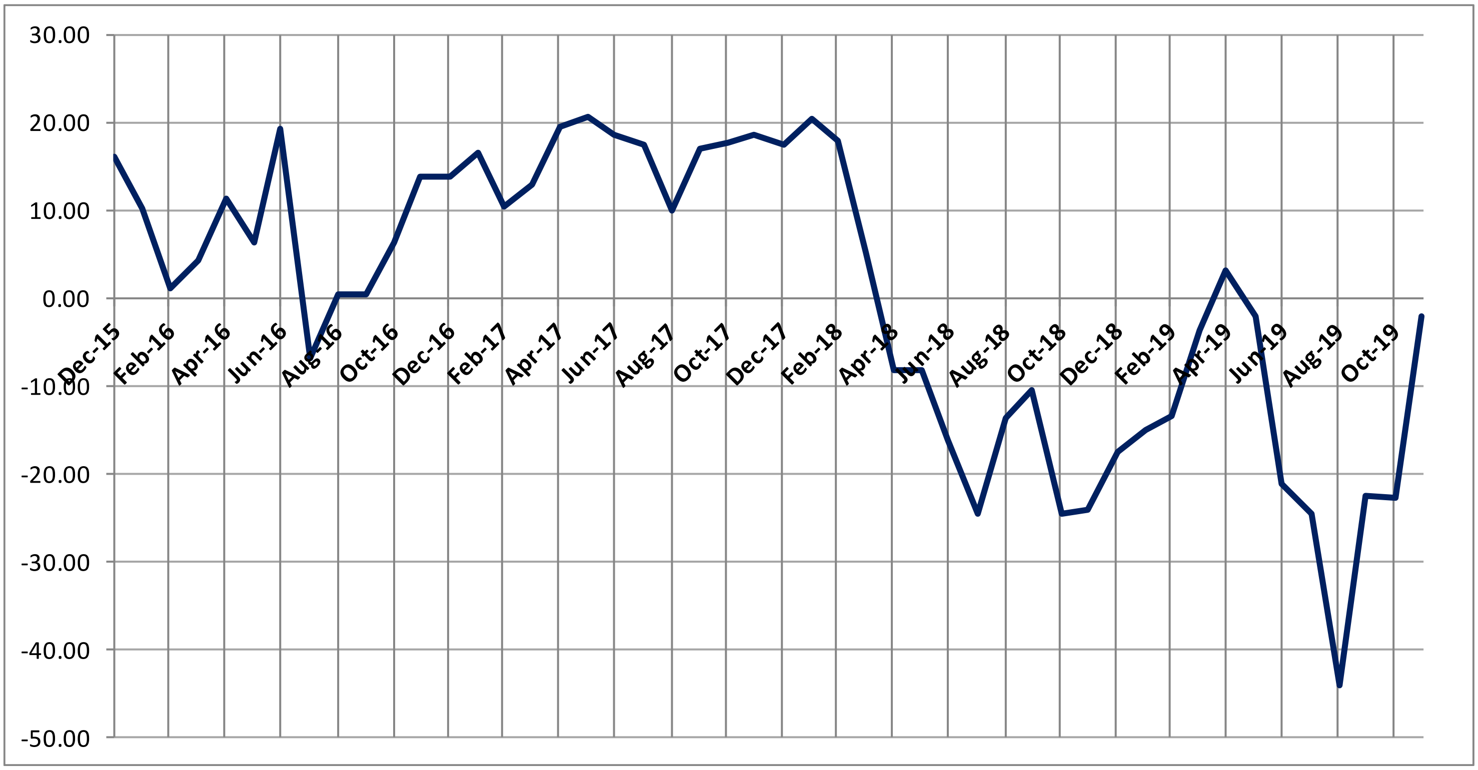


Source: Citigroup

The past several weeks' strengthened economic calendar has been accompanied by a stream of announced economic policy measures – such as tax cuts (e.g. China) and monetary policy stimulus (e.g. China, Brazil, Mexico and Thailand) – that are likely to result in further positive activity momentum during the first half of 2020. In the process, inflation measures have remained benign across several of the world's largest economic blocs and geopolitical risk has waned further as the US and China appear well disposed to sign the so-called Phase 1 agreement later this year or early in 2020 – as a result of which it is likely the scheduled December 15 tariff hikes leveled on Chinese imports into the USA is likely to be either canceled or extended.

We believe the upturn in global cyclical indicators unfolding these past several weeks is meaningful not only because of their broad-based nature at the geographical level but also at the sector level, encompassing not only the household but also business sectors. That such upturn has unfolded during a period of still fully unresolved conditions facing the trade and financial relationship between the USA and China offers a gentle reminder of the global economy's resilience and the unusual nature of the dislocations exerted on the global goods sector earlier this year by the escalation of trade tensions between the USA and China, as well as Brexit.

Figure 3. German Business Confidence Levels (ZEW Index) Bounce Strongly in November



Source: ZEW

Goods Sector's Firming Anchors Further Reduction in 2020 Recession Risks

The improvement in the world economy's cyclical outlook marries rather well with the cross-asset positioning of Glovista's portfolios throughout much of this year, largely the result of the Glovista investment team's strongly held views concerning the unusual drivers underlying this year's sharp slowdown in the goods sector economy. We have discussed such views at length in prior monthly columns. Those views have helped anchor the Glovista macro thesis throughout the year, calling for low world recession risks in 2020, despite the broad-based concerns reflected throughout much of the global media these past several months. We have laid out in detail the basis underlying such thesis, including:

- the lagged supportive effects on global activity emanating from the healthy global financial liquidity backdrop that has been building over the past several quarters, courtesy of G3 central bank actions;

- the role of transitory inventory dynamics impacting G3 economies these past several quarters (affecting especially the auto sector (GM) and the airline industry (Boeing), among others);

- the geopolitical risk-fueled impact on the global manufacturing sector exerted by China-US trade frictions that have reached their apex during the year's first half along with adverse activity cycle dynamics impacting the Korean and Japanese economies as a result of geopolitical tensions amongst those two northern Asian economies and tax policy shifts implemented in Japan during the year's second half;

- dislocations exerted on the European manufacturing sector by the exceedingly fluid and uncertain developments defining the United Kingdom's Brexit process;

- Our expectation for expansive fiscal impulses to unfold in 2020, supporting especially a number of national and regional economies that have lagged throughout 2019, including South Korea and the Eurozone.

	November 26th 2019	November MTD Change
Gold	1461.38	-3.4%
Silver	17.0755	-5.7%
Oil	58.41	7.8%
EUR	1.1021	-1.2%
JPY	109.05	-0.9%
GBP	1.2866	-0.6%
CHF	0.997	-1.1%
CAD	1.3272	-0.8%
AUD	0.6788	-1.5%
BRL	4.2386	-5.5%
MXN	19.5191	-1.5%

Source: Bloomberg

Rates	November 26th Levels
1 Yr CD	1.21%
5 Yr CD	1.42%
30 Yr Jumbo Mortgage	3.96%
5/1 Jumbo Mortgage	3.84%
US Govt. 10 Year	1.7414%
10 Yr Swap Spread	-0.09%

Source: Bloomberg

Glovista Sustains Overweight Exposure to High Quality Equities along with Underweight Bond Duration Exposures

Against the above discussed backdrop, Glovista sustains our cross-asset exposures largely unchanged, raising equities exposure modestly from previously healthy overweight levels and raising our portfolios' cyclical tilts. As discussed in the past several months, Glovista has been favoring increased exposure to value oriented sectors, particularly financials and selected energy and consumer discretionary industries. Our continued concerns surrounding the binary risk nature of ongoing China-US trade discussions have kept our portfolios' international exposure levels at underweight. Moreover, the US Dollar's resilience has further anchored continued overweight exposure to US equities. In our December monthly column we will discuss at length our 2020 investment views, including our expectations surrounding the prospective relative return performance facing international equities.

Emerging Markets Perspectives

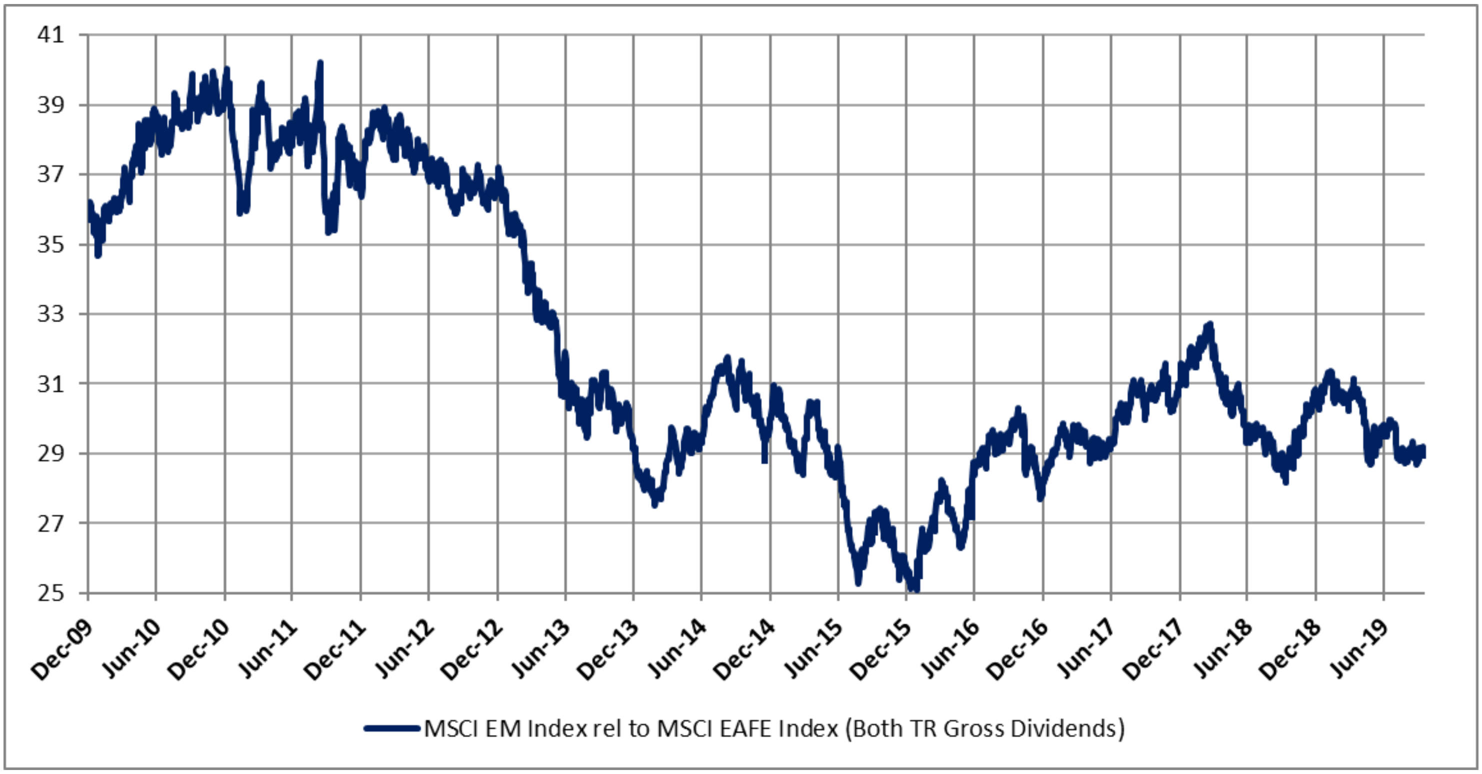
EM Equity Returns versus EAFE Peers Consolidate in November on US$ Cyclical Bounce and Idiosyncratic Country Developments; Glovista Sustains Overweight Value-oriented Country Tilts

In November, emerging market equities entered a period of consolidation in relative return performance versus developed peers, as illustrated in Figure 5. We credit such recent dynamic to a number of factors, including the recent cyclical bounce recorded by the US Dollar index along with a succession of adverse idiosyncratic country developments that have impacted EM sovereign debt yields, on technical grounds tied to portfolio rebalancing effects. That such developments have emanated out of small equity market capitalization country indices, such as Chile, lead us to view such dynamics as transitory.

We view the recent period of consolidation in EM equities' return performance versus EAFE peers as a temporary interruption in the long period of EM equities' relative return outperformance versus global peers that began early in 2016 (Figure 4). We hold a strong conviction view in that regard, especially following the recent meaningful upturn in cyclical economic indicators at a global level, as discussed above.

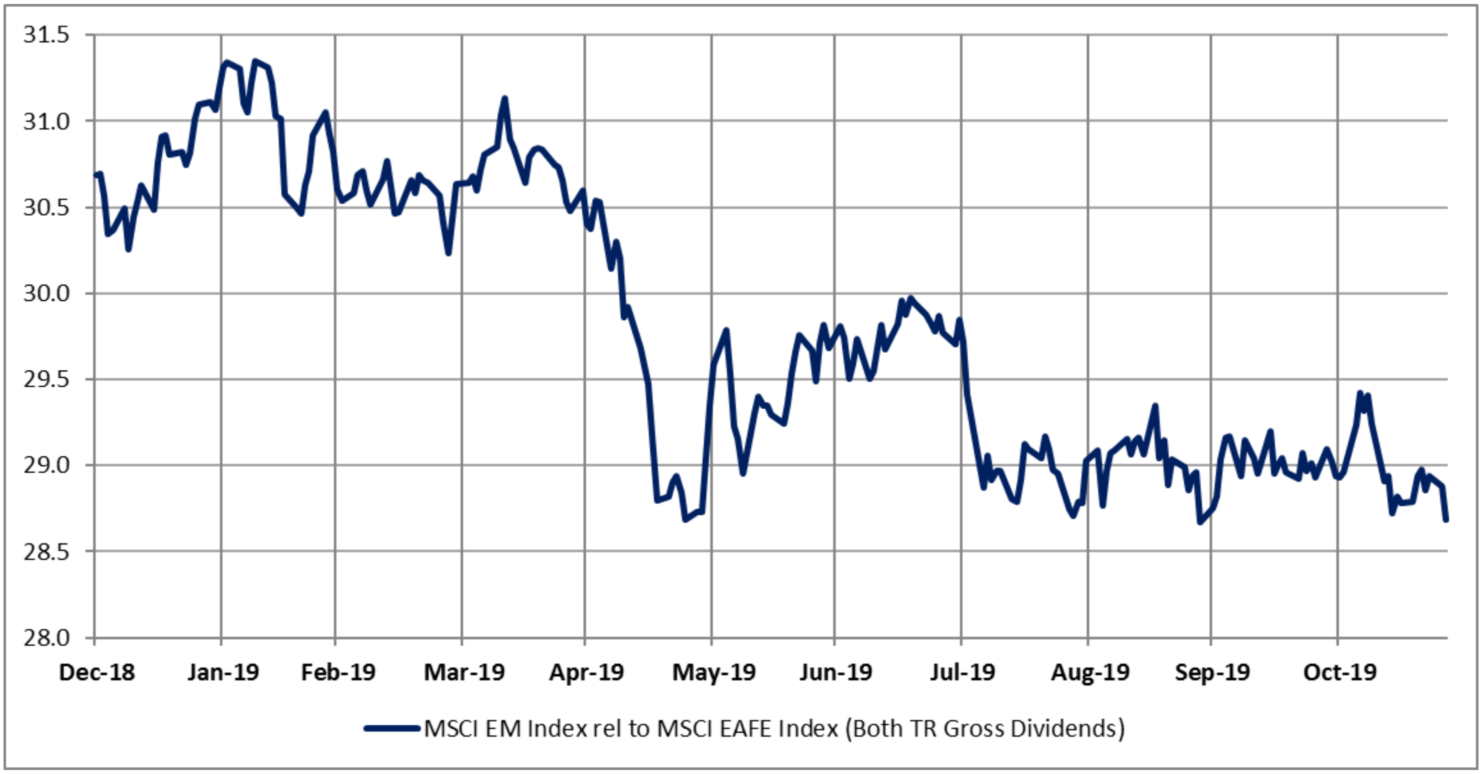
As we review emerging market countries' economic releases these past several weeks, we identify a number of highly consequential economic policy and reform measures, the overall balance of which is unambiguously market and economic growth friendly. In that regard, such developments further enhance the visibility of economic and earnings growth momentum facing the emerging markets space as we look ahead at 2020. A sample of some of those developments include the following:

Figure 4. Post-2016 Period of EM Stocks' Secular Outperformance versus EAFE Peers likely to Extend in 2020 on Upturn in Goods Sector Cycle, the Incipient Signs of which are Visible



Source: MSCI and Glovista Calculations

Figure 5. EM Equities' Performance Consolidates versus EAFE Peers in November



Source: MSCI and Glovista Calculations

- India: On September 20th , the Indian government announced a series of important tax-cut measures including: (a) a reduction in the effective tax rate facing Indian corporates - from upwards of 33% to close to 25%, and; (b) a reduced tax rate of 17% for firms setting up manufacturing plants after October 1st 2019, provided they begin operations before 2023. These measures will boost corporate incomes and capital expenditures in 2020 along with an indirect impact of improvement in the balance sheet of the financial sector.

- Brazil: Important social security reforms were passed by the senate including the establishment of minimum retirement age of 65 years for men and 62 years for women and the setting of minimum contribution period of 20 years for men and 15 years for women in urban areas. These reforms are expected to save more than $195 billion over the next decade.

- China: Improved tone of trade discussions with the USA along with announcement of further tax cuts for small business enterprises following tax cuts and introduction of more deductions for individuals along with cut in prime lending rates as announced by the People's Bank of China (PBOC).

- South Korea: In addition to small reductions in income taxes, a reduction of 30% in consumption tax on passenger cars was extended by 6 months beyond the original deadline of June 30th in order to boost demand.

- In addition, a host of EM central banks have recently cut interest rates, thereby providing monetary stimulus to the economy, including China, Brazil, Mexico and Thailand.

Against such backdrop, and given EM equities' cheap relative valuations and improved cyclical outlook – particularly with the tailwind effects provided by a strengthening in the global goods cycle – we expect EM equities to further outperform EAFE peers in 2020. Within the emerging markets universe, we continue to favor overweight exposure to value-oriented national market indices, particularly in Asia as liquidity conditions along with a strengthening goods sector momentum and expansive fiscal policies (e.g. India) raise the potential for excess performance for those sectors and country indices. Within China, we continue to favor underweight exposure to the financial sector despite cheap valuations as we expect government authorities to sponsor stronger resource allocative efficiency from the sector.

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1 Evertrust Plaza Suite 1102
Jersey City NJ 07302
Tel: 212-336-1540
Website: www.glovista.net