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Monthly Market Newsletter

GLOVISTA INVESTMENTS

Glovista Global Perspectives

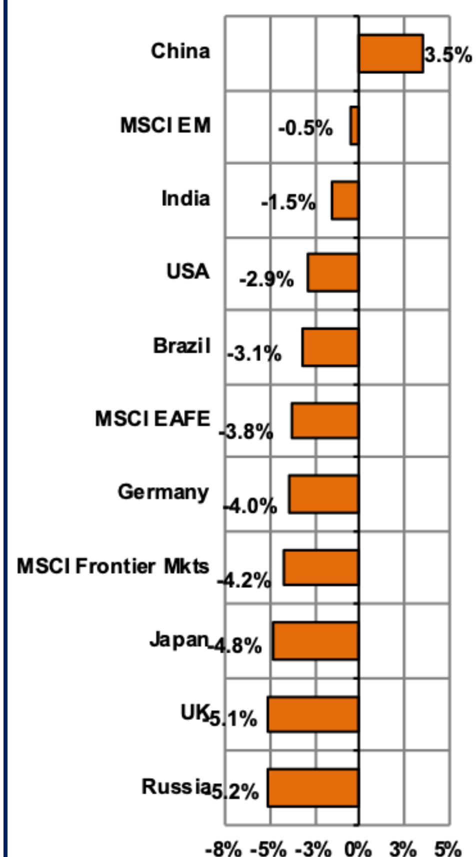
This Issue:

Risk Markets Gyrate in February, Declining Sharply into Month End, as Pandemic Concerns Escalate with Virus Incidence Extending into the Heart of Europe; Glovista Sustains Defensive Portfolio Stance

In February, following a modest January sell-off, risk markets globally have gyrated sharply - undergoing a sharp bounce early in the month - only to come under renewed selling pressure towards the end of the month (Figure 1). Specifically, early in February risk markets recorded a sharp bounce on the back of (a) encouraging signs of a deceleration in the rate of growth of those infected by the coronavirus within China's territory along with (b) investor hope/expectation China's containment efforts would prevent the broadening of the virus outside of China.

Figure 2 illustrates the decelerating rate of growth of affected cases within China during the month of February along with the recent worrisome rise and accelerating growth rate in the number of cases outside of China (particularly in some of the world's major industrial powerhouses, such as South Korea and northern Italy). Specifically, at the end of the month (around February 20th), reports first surfaced suggesting the virus' extension into South Korea, Iran and Italy. In the days following the release of such news, the rate of growth in the number of affected cases outside China has escalated, culminating (as of the writing of this report, on February 26th) with a significant alert by the US Center for Disease Control (CDC) on February 25th, advising the general population of the growing risks the virus would reach the US mainland, eventually requiring generalized public policy responses, stating that "the US coronavirus spread is not a matter of if, but when". In the remainder of this column, we express our assessment of the economic and market significance stemming from recent developments concerning the virus, drawing on the arguments laid out in our January monthly column.

Country-wise Monthly Performance in USD terms (February 2020)*



Source: MSCI & Bloomberg

**As of February 25th, 2020*

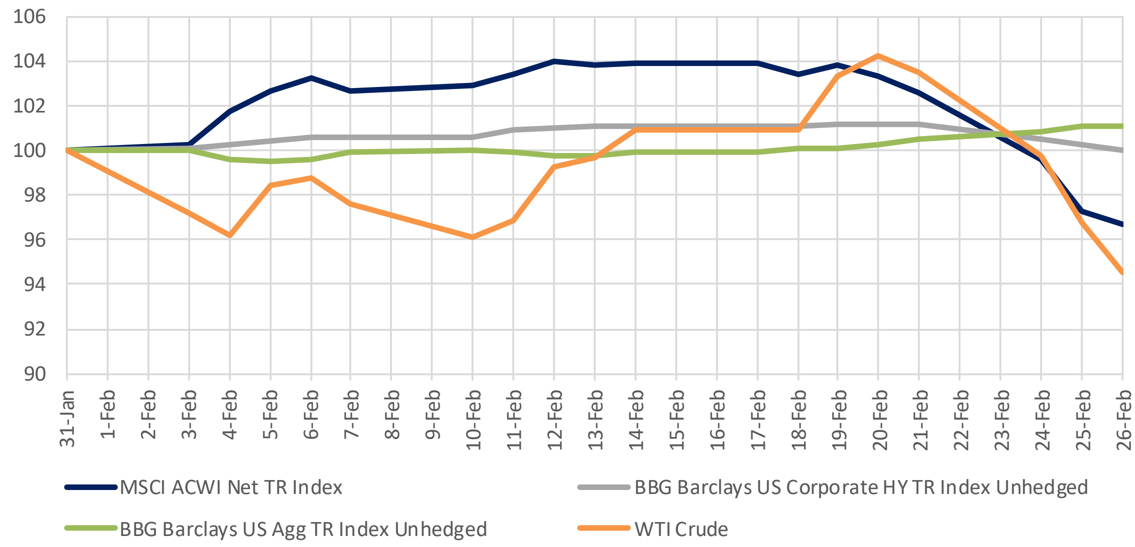
S&P500 Monthly Sector Performance – February MTD 2020*

Sectors	% Change	FY1 PE Ratio
Energy	-8.76%	15.4
Materials	-2.69%	18.0
Industrials	-4.16%	17.4
Cons Disc	-2.35%	21.4
Cons Stap	-1.78%	20.2
Technology	-3.39%	22.1
Healthcare	-2.09%	15.4
Financials	-4.20%	12.4
Utilities	-1.76%	20.9
Telecom	-2.40%	17.6
Real Estate	2.47%	42.1
S&P500	-3.02%	18.0

*As of February 25th, 2020

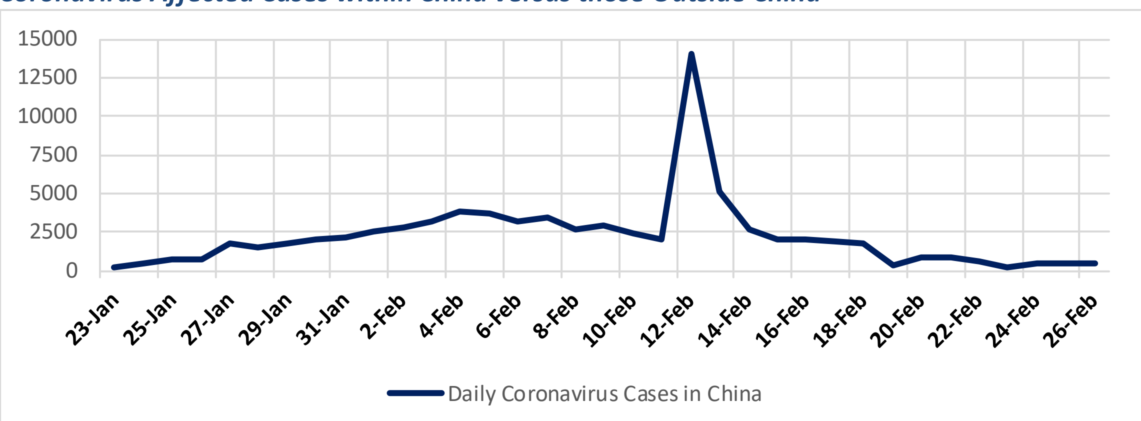
Source: Bloomberg

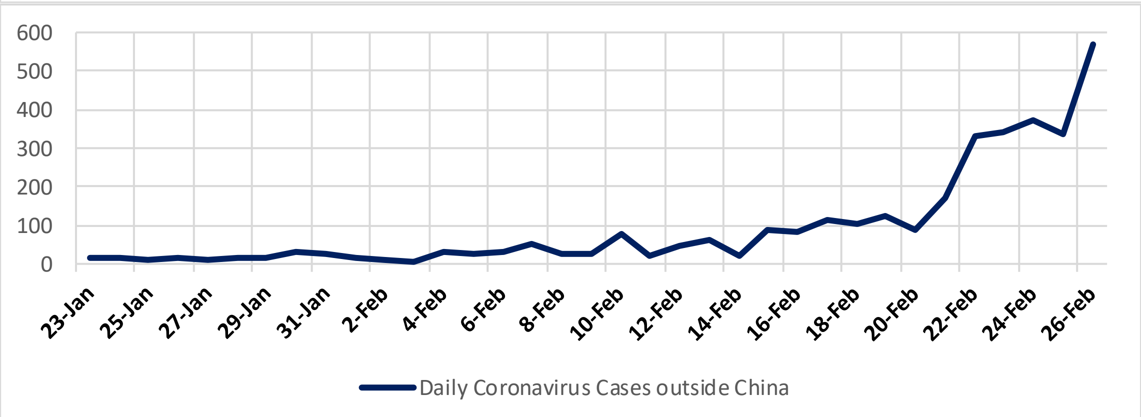
Figure 1. Risk Markets Undergo Sharp Intra-month Gyrations Throughout February, Fueled by Evolution of Investor Concerns over the Coronavirus



Source: Bloomberg & Glovista Calculations

Figure 2. February's "Sweet and Sour" Dynamic Concerning Rate of Growth in Number of Coronavirus Affected Cases within China versus those Outside China





Source: Worldometer

Broadening Epidemic Raises Specter of Material Supply Shock, beyond Short-term Demand Shock, at a Global Level; Escalating Concerns Coincide with Confirmed Pick-Up of Economic Momentum Early in 2020

The month of February has brought about confirmation of our standing macro thesis, calling for an acceleration in global activity momentum with the turn of the year, following the close-to-recession-like conditions afflicting the goods sector globally in 2019 – tied to the disruptions stemming from the US-China trade war along with auto sector dynamics. For example, Figure 3 illustrates the continued firming in the global economy's activity surprise indicator during the month of January and February.

Figure 3. Global Economy's Activity Indicators Surprise Positively Early in 2020, Signaling Strengthening Momentum following Soft 2019 Goods Sector Activity

Source: Citigroup

In our view, the (a) firming in December and January economic activity releases out of most of the world's major economic regions along with (b) supportive central bank liquidity conditions and (c) the decline in the rate of growth of those afflicted by the coronavirus in China helped fueled a strong bounce in risk markets throughout the first several weeks of February.

We believe news of the broadening of the virus to territories outside China, particularly starting on February 20th, represents a material shift for the global economic and market outlooks. Such assessment reflects several important considerations, including the following:

- Increased potential for a global supply shock to derive from the virus' extension outside China. Such concerns emanate from the virus' extension to two of the world's most important industrial powerhouses – South Korea and Northern Italy, with proximity to the even more consequential industrial oriented economies of Switzerland and Germany. In our January monthly newsletter, we outlined the significance (from the market's and economic outlook's perspective) of scenarios in which the virus' incidence broadened beyond China's borders – particularly in the escalation of the virus' economic effects from a purely region-wide demand shock variety to one of global supply (and even, demand shock) nature;

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	February 25th 2020	February MTD Change
Gold	1635.14	2.9%
Silver	18.001	-0.2%
Oil	49.9	-3.2%
EUR	1.0882	-1.9%
JPY	110.2	-1.7%
GBP	1.3005	-1.5%
CHF	0.9761	-1.3%
CAD	1.3279	-0.3%
AUD	0.6604	-1.3%
BRL	4.3885	-2.5%
MXN	19.0788	-1.2%

Source: Bloomberg

Rates	February 25th Levels
1 Yr CD	1.16%
5 Yr CD	1.38%
30 Yr Jumbo Mortgage	3.69%
5/1 Jumbo Mortgage	3.67%
US Govt. 10 Year	1.3521%
10 Yr Swap Spread	-0.065%

Source: Bloomberg

- Handicapping the magnitude and timing (at the economic and market levels) of the now known broadening of the coronavirus outside China's territory is exceedingly difficult to project. Consequently, in the presence of such uncertainty factor, the judicious course of action is to retain the defensive portfolio positioning embraced by the Glovista investment team since the month of January;

- The broadening of the virus epidemic outside China would carry implications across several dimensions, including: activity (especially, retail/airline/hotel/production chain/leisure/transportation/tourism/commodities); credit (stemming from working capital stress experienced by companies out of the sectors most affected by the virus);

- Some of the economic implications from the broadening of the virus epidemic, laid out in the bullet above, could impact a number of sovereigns whose economic fortunes rely on a handful of sectors (e.g. energy, tourism, commodity exports, leisure). In that regard, credit implications could extend into a number of sovereigns, and not be confined to solely corporate issuers;

- The broadening of the virus epidemic heightens the odds of policy rate cuts out of the US Federal Reserve as well as a number of other developed and emerging countries' central banks, given the unambiguously negative skewness of risks surrounding the economic, credit and inflation outlooks. Against such backdrop, we expect the medium-term outlook to favor a number of emerging market currencies (of strong macro balance sheet countries), particularly in Asia and Central Europe, against the US Dollar and Euro.

In our perspective, a key risk factor conditioning the macro and market outlook is that of the depth and breadth of government policy responses to obtain over the coming weeks and months as the virus epidemic extends further around the world. This is because the economic and financial outlook will hinge on the nature of such policy responses. In that regard, the market outlook (as well as any assessment of relative valuation across geographic and asset class pairs) will be a derivative of such dynamics. Against such backdrop, the Glovista investment team intends to maintain a defensive portfolio stance until greater clarity obtains concerning the contours of the policy responses out of the world's major economic regions.

Glovista Sustains Defensive Portfolio Stance in light of Increasingly Opaque Macro Outlook, fueled by Broadening Coronavirus Epidemic; Underweight Equities, Overweight High Grade, Precious Metals and Cash

Against the macro and policy backdrop discussed above, particularly in light of the deteriorating coronavirus epidemic, the Glovista investment team has sustained and further reinforced the defensive portfolio stance enacted in the middle of January. Specifically, within fixed income, we continue to overweight high grade and underweight high yield. In equities, we maintain an underweight allocation to the asset class, vis-à-vis our usual exposure levels. Moreover, at the sector level, we continue to maintain overweight exposures to defensive, low cyclicality sectors. Finally, in the commodities space, we continue to take on (with a tactical stance) exposure to precious metals (directly or via equity instruments).

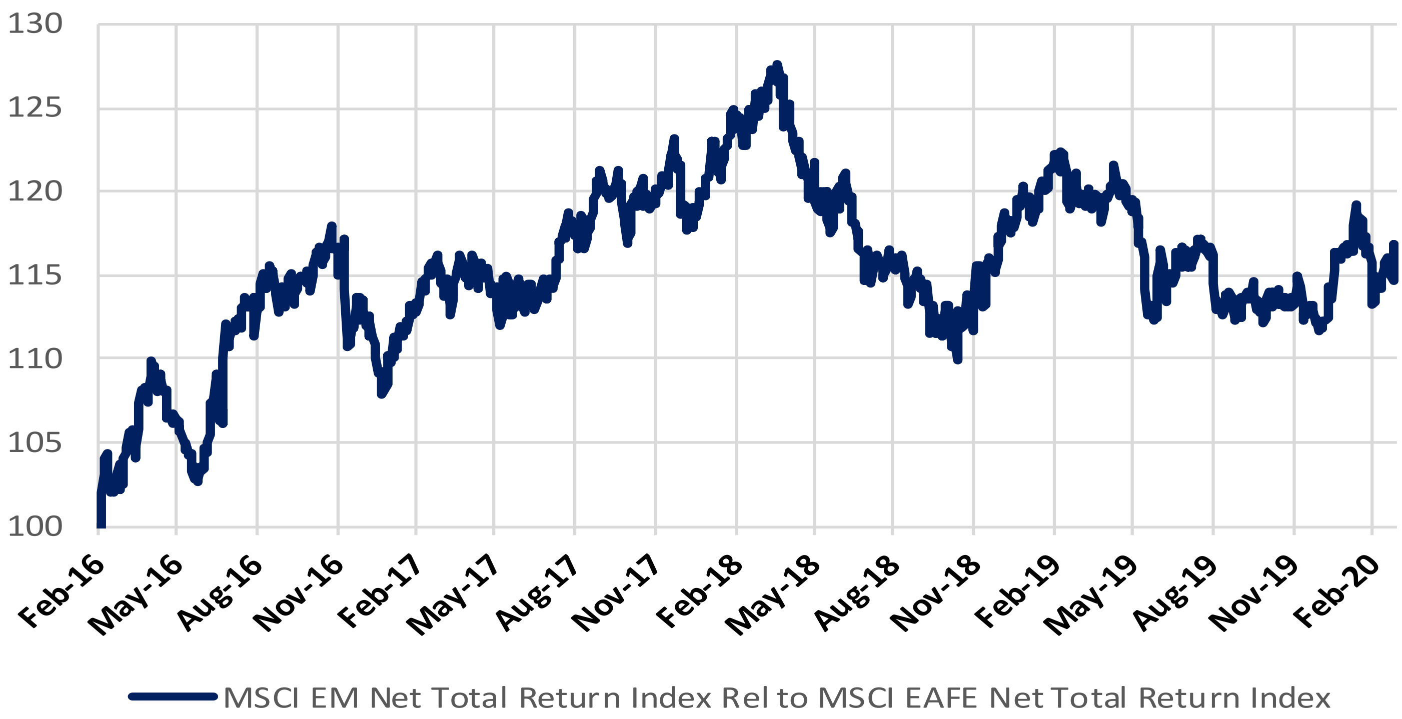
Emerging Markets Perspectives

EM Equities Post Solid February Outperformance Vs. Developed Peers on Repricing of Coronavirus Risks Facing Developed World and Valuation Support; Glovista Sustains Overweight Asia and Underweight Latin America/Middle Eastern Regional Allocations

As discussed in the adjoining *Glovista Global Perspectives* column, the broadening of the coronavirus epidemic outside China has been the most salient dynamic impacting risk markets globally during the month of February. Moreover, as also pointed out above, recent information on the broadening of the virus shows the growth rate of those affected within China to have decelerated markedly with the opposite for the rest of the world, especially Italy, an important industrial hub in the heart of Europe.

Against such backdrop, in February global markets have recorded a sharp repricing of risk premium levels between EM asset markets and those in the developed world, in favor of a narrowing risk differential supporting EM asset prices. Figure 4 illustrates the sharp relative return outperformance – at the tune of around 3.5 percent in US Dollar terms – recorded by EM equity prices versus EAFE peers during the month of February.

Figure 4. EM Stocks Post Solid Outperformance versus EAFE in February, Extending Cumulative Outperformance to 17 % since January 2016 Bottom



Source: Bloomberg & Glovista Calculations

Since our January portfolio rebalancing in favor of Chinese and Korean equities, we have maintained our principal country tilts unchanged owing to supportive valuations facing service sector oriented Chinese corporates as well as Indian and Korean stocks. Within Asia, we have trimmed our exposure to South East Asian markets (especially the Philippines), primarily on currency and growth adjusted relative valuations. We have deployed such capital in favor of Indian equities where the visibility of top and bottom-line growth facing corporates remains unusually attractive relative to other international peers. In addition, relative valuations and ownership levels remain attractive.

In the Latin America region, we continue to underweight exposure to commodity-oriented markets such as Peru, Chile, Colombia and Brazil, in favor of domestically oriented service sector markets, principally Mexico. We continue to underweight Middle Eastern markets owing to their economies' outsized sensitivity to the price of crude (adversely impacted by the virus on account of lowered GDP growth expectations) along with their currencies' long-term fragility.

As we look ahead to the coming weeks, concerns over the broadening of the coronavirus epidemic to a larger number of countries arguably remains the #1 'top-of-mind' investor concern. Over the medium-term, we believe such dynamics are likely to result in a further extension of the 4 year-long period of relative return outperformance of EM equities versus developed peers, on two levels. First, the current virus concerns are likely to result in near-term policy rate cuts by the US Federal Reserve which are likely to fuel a strong recovery in EM currencies (particularly of strong macro balance sheet countries) once macro and financial volatility levels abate (as the rate of growth of affected cases outside China comes down). Second, the broadening virus epidemic is likely to result in a disproportionately larger deceleration of economic growth momentum in the developed world versus the emerging world where secular factors (demographics, lower leverage levels, lower incidence of discretionary spending as percentage of overall expenditure dynamics) are likely to be more supportive (of course, with the exception of fiscally challenged emerging market countries or those whose economies rely on sectors adversely affected by the virus, such as trade/commodities/tourism). Our country tilts reflect such expectations.

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