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Monthly Market Newsletter

Glovista Global Perspectives

This Issue:

Risk Markets Sell Off in January as Upturn in Cyclical Indicators Meets Coronavirus Pandemic along with US Primaries Risk Concerns; Glovista Cuts Risk Exposures Mid-January, Awaiting Increased Visibility

In January, risk markets sold off markedly on account of the escalating Coronavirus pandemic out of Wuhan, China (Figure 1). The sell-off in risk markets was concentrated in the last week of the month, fueled by:

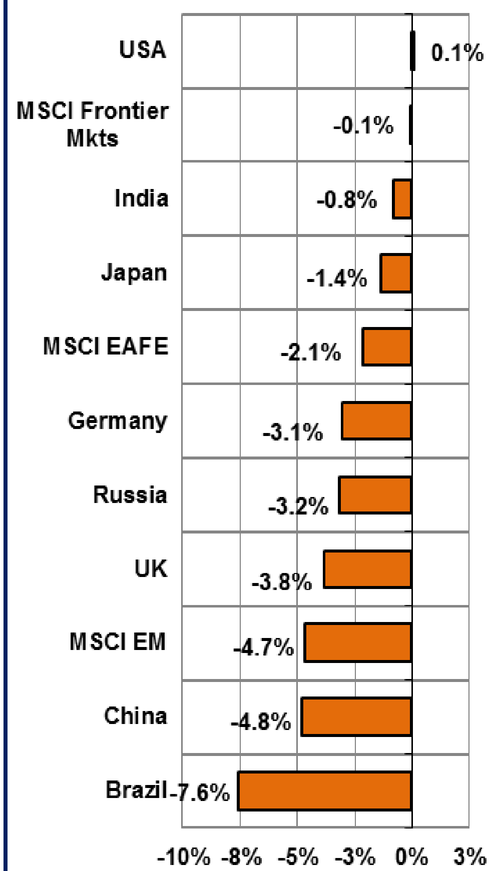
- the escalation in the number of affected cases and impacted countries versus previous pandemics (e.g. SARs (2003), Swine Flu (2009), Ebola (2014), Zika (2016)) along with the response by governments around the world to curtail air travel into and out of China, the world's second largest economy – said measures were announced in the final days of January;

- Chinese markets' impending re-opening on February 3 and the uncertainty surrounding the nature of policy support (and their soon-to-be tested efficacy) aimed at stabilizing financial markets, particularly affected corporates' extraordinary liquidity squeezes resulting from working capital stress tied to disruptions in trade and services within China;

- Uncertainty surrounding the timing and magnitude at which peak cases will be reached, particularly given still unresolved questions over the transmission venues for the virus;

- Investor concerns over the finality of Chinese authorities' decision to reopen on February 9th a sizable portion of factories in the affected areas. Any deferment of said date is likely to be taken by investors as confirmation the virus' economic effects would escalate from a largely national-regional (China, emerging Asia – especially Southeast Asia) short-term demand shock to a global supply shock given China's manufacturing sector's vast dominance in the global supply chain.

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



Source: MSCI & Bloomberg

***As of January 31st, 2020*

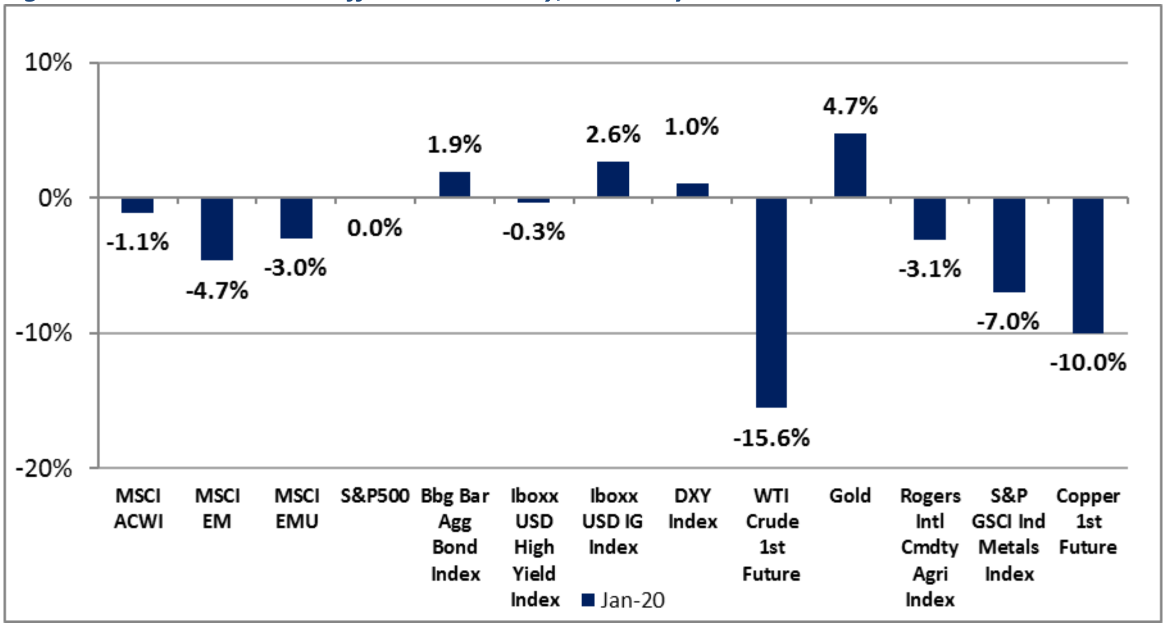
S&P500 Monthly Sector Performance – January MTD 2020*

Sectors	% Change	FY1 PE Ratio
Energy	-11.18%	16.0
Materials	-6.18%	18.1
Industrials	-0.51%	17.9
Cons Disc	0.58%	22.0
Cons Stap	0.20%	20.5
Technology	3.89%	23.0
Healthcare	-2.88%	15.8
Financials	-2.79%	12.9
Utilities	6.61%	21.2
Telecom	0.66%	17.7
Real Estate	1.37%	40.3
S&P500	-0.16%	18.5

**As of January 31st, 2020*

Source: Bloomberg

Figure 1. Risk Markets Sell Off in Late January, Fueled by Coronavirus Pandemic Risk Concerns



Source: Bloomberg & Glovista Calculations

In the middle of January, the Glovista investment team made the decision to cut overall risk exposure across all our strategies given three principal considerations:

- the "unknown-unknown" nature associated with pandemics – history reminded us that under such conditions risk management considerations calls for speedy risk trimming actions upon the learning of such unusual occurrences;

- our assessment that around the middle of January risk markets had reached clear short-term overbought levels, with incipient signs of technical pricing divergence (Figure 2) while signs of complacency were evident in the then prevailing low implied equity index volatility levels (Figure 3).

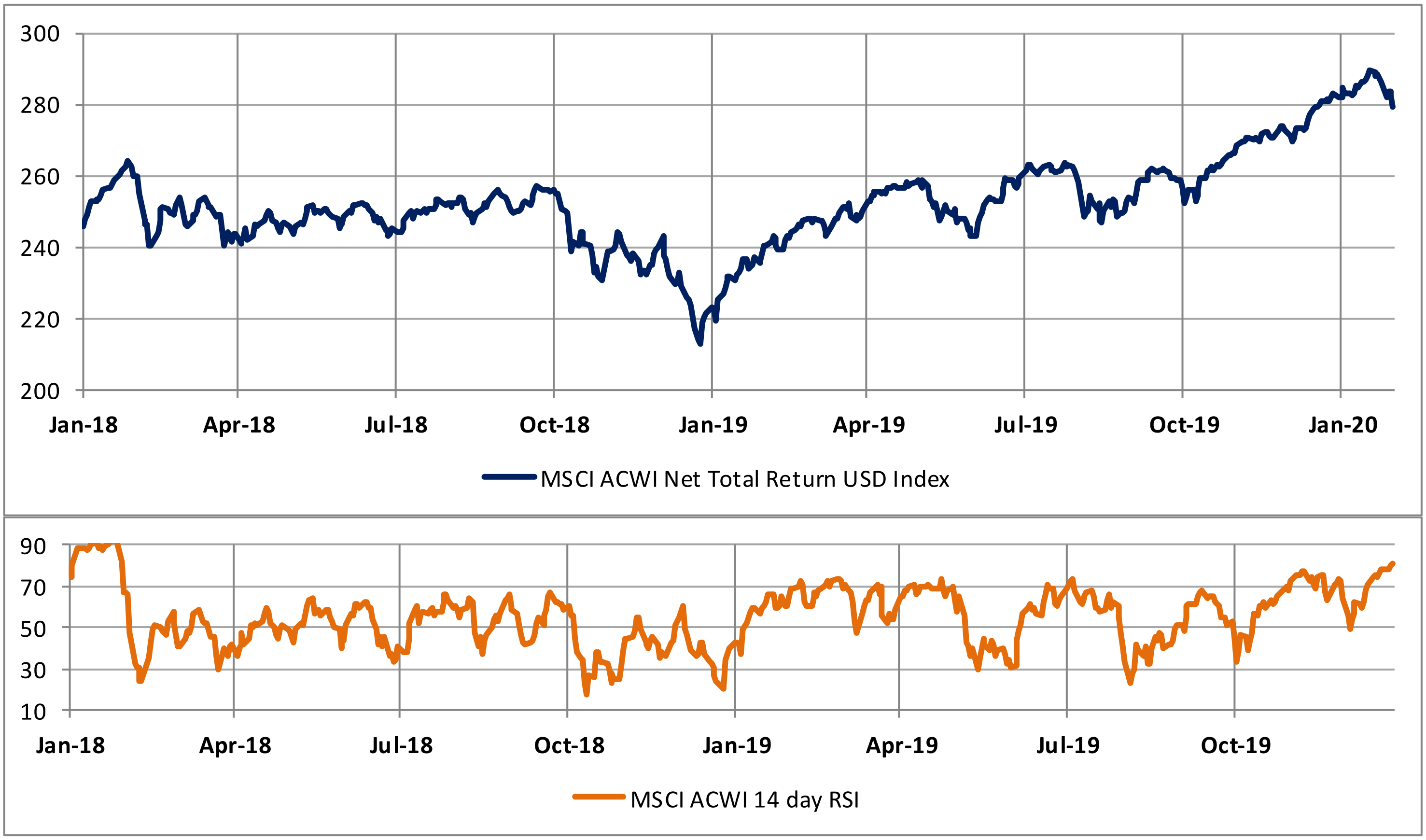
- The ascendancy of Bernie Sanders' candidacy in the Democratic Party primary election polls, fast approaching Joe Biden's. If sustained, such dynamic is likely to adversely affect investor sentiment as we approach the Super Tuesday primary election cycle within a few weeks.

Prior to taking on the critical question as to when and by how much to reinstate risk or cut risk further from our managed portfolios, it is important to take into consideration that the onset of the Coronavirus pandemic in early January has unfolded at a time in which:

- global economic indicators have continued to firm up along with a thus far stronger than expected Q4 of 2019 earnings season in the US and Eurozone, with beat factors (versus consensus estimates) of around 4 percent at the EPS level. For example, Figure 4 illustrates the solid bounce in economic activity surprise indicators across a number of the world's major economic blocs, including: USA, major economies and especially emerging markets. For example, within the US economy context, a number of recent economic releases coming out stronger than consensus estimates includes: the University of Michigan consumer sentiment, Conference Board index of consumer confidence , home price data, US Q4 of 2019 GDP report, among others. Similarly, in the

Asia Pacific context, Taiwan and South Korea export orders momentum has been picking up early in January as has also been true of capex intentions in a number of Eurozone countries. Finally, in the cyclical semi-conductor industry, the latest string of indicators highlights an improving new orders- inventory mix backdrop, historically indicative of cyclical upturns in activity.

Figure 2. Global Equities (MSCI ACWI) Manifested Overbought Levels in Mid-January while Virus Concerns Slowly Became Focus of Global Investor Attention: Cause for Risk Reduction



Source: Bloomberg

- G3 central banks continue to signal, and are quite likely (in our view) to reinforce a lax policy stance over the rest of 2020, in light of the downside risks (though modest at this time) to global activity emanating from the Coronavirus pandemic. Financial conditions remain highly constructive to the outlook despite the recent tightening in credit markets (Figure 5).

The January pullback in equity prices, accompanied by a further richening of global government debt paper, has resulted in a considerable cheapening of equities versus bonds going back to the middle of October 2019 (Figure 6). While additional cheapening potential remains, the Glovista investment team believes that markets are likely to bottom out within the next several weeks both on valuation grounds as well as the average historical patterns concerning the number of weeks within which markets gauge an abatement in the rate of growth of affected cases as well the disease's mortality rate. On the latter point, it is important to note that most of those dying from the virus are individuals with compromised health status.

Glovista to Sustain Reduced Risk Exposure until Coronavirus Uncertainty Level Fades, with Overweight Service-oriented Market Tilts and High Quality Fixed Income

The above outlines the backdrop within which the global economic cycle began the year - in an acceleration mode - along with an overbought investor positioning in risk assets reached around the middle of January. The virus pandemic has unleashed adverse growth expectations – of a demand shock variety at this time, but potentially of a global supply shock nature depending on the near-term course of events. Consequently, the potential for further investor anxiety over the medium- term growth outlook is non-trivial. Given that investor positioning towards risk assets still remains above average levels by the end of January, the Glovista investment team does not anticipate any meaningful raise of risk exposure over the short-term until we gain comfort on the peak in number of affected cases being reached.

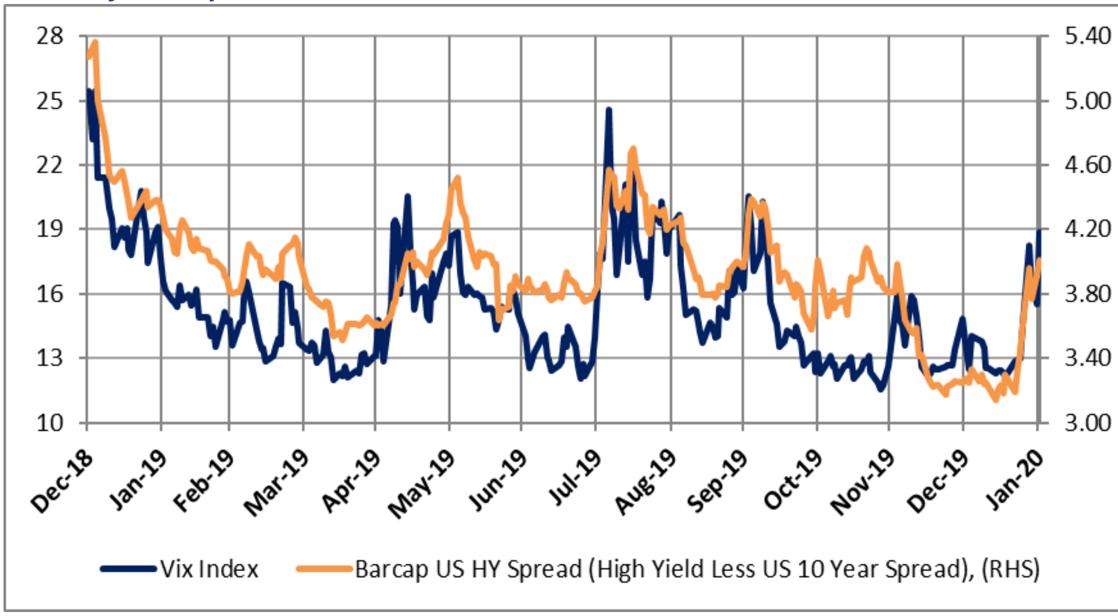
	January 31st 2020	January MTD Change
Gold	1589.16	4.7%
Silver	18.0425	1.1%
Oil	51.56	-15.6%
EUR	1.1093	-1.1%
JPY	108.35	0.2%
GBP	1.3206	-0.4%
CHF	0.9634	0.3%
CAD	1.3237	-1.9%
AUD	0.6692	-4.7%
BRL	4.2828	-6.4%
MXN	18.8447	0.4%

Source: Bloomberg

Rates	January 31st Levels
1 Yr CD	1.17%
5 Yr CD	1.4%
30 Yr Jumbo Mortgage	3.71%
5/1 Jumbo Mortgage	3.06%
US Govt. 10 Year	1.5068%
10 Yr Swap Spread	-0.055%

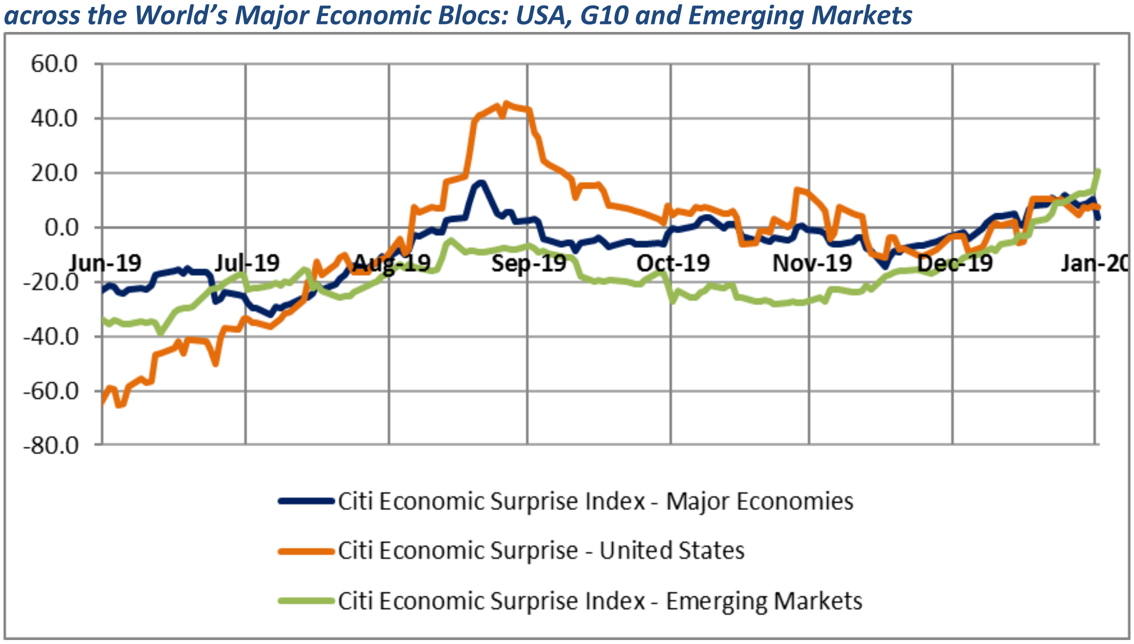
Source: Bloomberg

Figure 3. US Equity Index Implied Volatility Displayed Clear Signs of Complacency around Middle of January



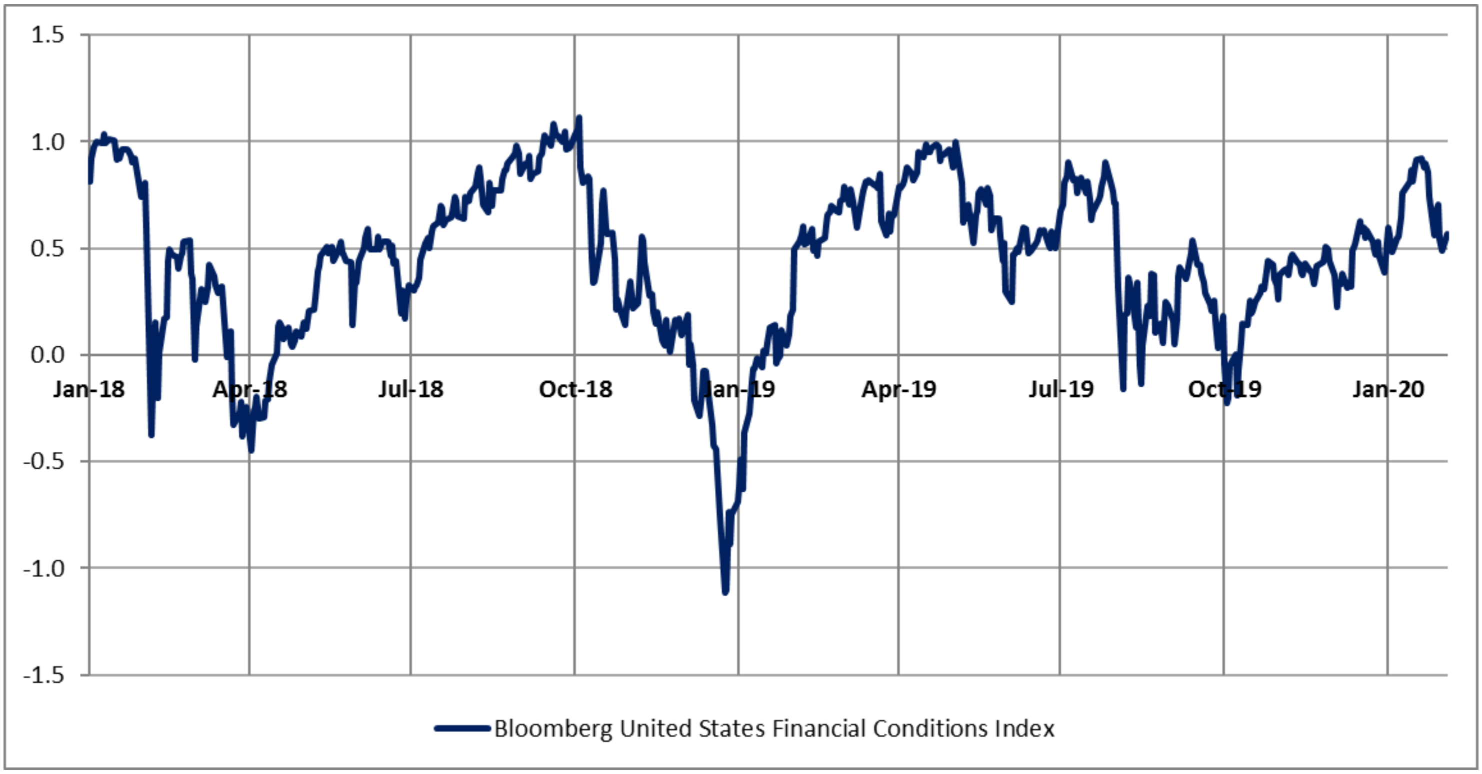
Source: Bloomberg

Figure 4. January 2020 Macro Calendar Reveals Firming in Cyclical Economic Momentum across the World's Major Economic Blocs: USA, G10 and Emerging Markets



Source: Citigroup

Figure 5. US Financial Conditions Remain Constructive to the Outlook despite the Recent Tightening Stemming from Coronavirus Pandemic Concerns



Source: Bloomberg

Figure 6. Stocks' Cheapening versus Bonds since Middle of January Begings to Approach Excessive Levels

Source: Bloomberg & Glovista Calculations

Emerging Markets Perspectives

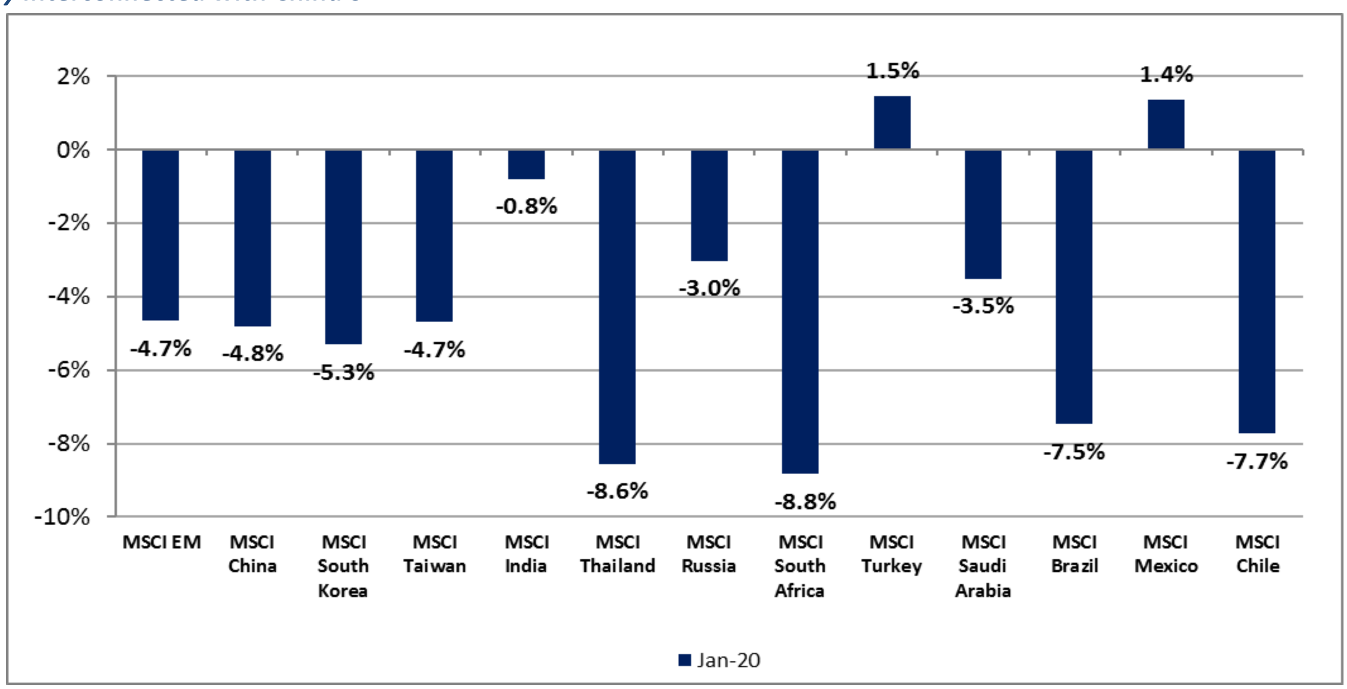
EM Stocks Sell Off Sharply in January on Growth Concerns Fueled by Coronavirus Pandemic; Glovista Holds Overall North Asia Underweight Tilts and Overweight Tilts in India, Mexico and China IT sector

As discussed at length in our adjoining *Glovista Global Perspectives* column, in January risk markets globally were markedly impacted by the onset of the Coronovirus pandemic out of Wuhan, China offsetting the unambiguously positive turn in global cyclical economic indicators during the month.

Understandably, given the pandemic's geographic epicenter lies in China and has already extended to neighboring countries in the region (especially South Korea, Taiwan, Thailand, Philippines, among others), it comes as no surprise that such markets (and others whose external sectors are heavily integrated with China's, such as Brazil) have significantly underperformed other emerging market country indices as well as global benchmarks (Figure 7). Conversely, EM country indices whose constituents conform to non-tradable sectors (such as banks, telecoms and utilities) and whose economies are not heavily trade-oriented to China's economy, significantly outperformed the EM benchmark and in some cases the MSCI AC World index as well (e.g. India, Turkey and Mexico).

Over the course of the month, the Glovista investment team maintained a heavily overweight exposure to India and underweight exposure to China and Taiwan, positively contributing to performance. We also overweight Mexico country exposure but refrained from holding overweight allocations to Turkey on account of country specific considerations of a sovereign risk nature, including the fluid geopolitical situation permeating the Middle East region early in January – historically a risk point for Turkey.

Figure 7. January 2020 Coronovirus Pandemic-led Sell-Off in EM Stocks Most Adversely Impacted Regional Economies Most Directly Interconnected with China's



Source: Bloomberg & Glovista Calculations

At the end of January, we took profits in our underweight China country allocations while also taking profits in our then large India country overweight allocation. We retain India as our largest country overweight owing to the market's attractive relative valuations, supportive policy backdrop and improving earnings outlook following last year's considerable corporate tax cuts. In addition, the recently announced budget (January 31st) is likely to reinforce the market's positive outlook.

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