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Glovista Global Perspectives

This Issue:

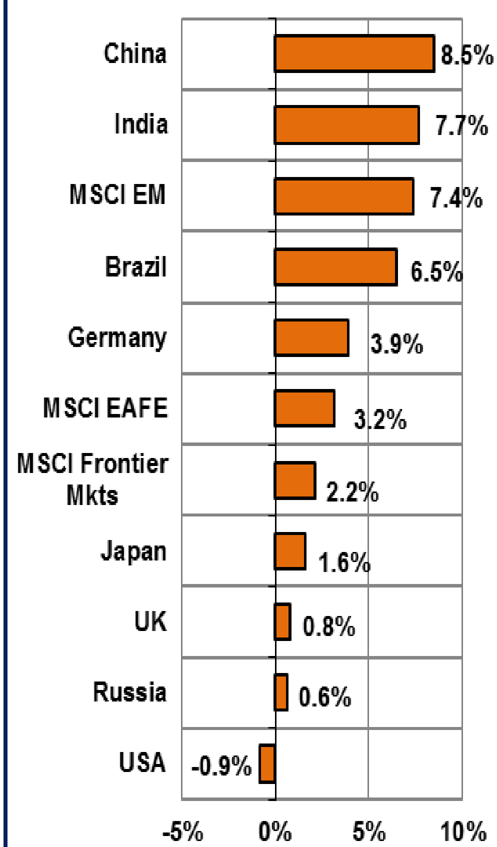
Markets Enter Consolidation Phase in June as Deceleration in Pace of Recovery, likely to Unfold Owing to US Second Viral Infection Wave, is Offset by Continued Policy Support and Supportive Investor Positioning; Glovista Raises Defensive Sector Tilts

In June, risk markets globally have entered a consolidation phase in return performance as virus, macro-economic dynamics and investor positioning developments interact in a largely offsetting manner (Figure 1). Specifically, the recent escalation in the number of new infected cases across much of the USA and Latin America has unleashed investor concerns over the potential for a reversal in the pace of reopening measures across the USA, with adverse implications on the outlook. Figure 1 contrasts June month-to-date against YTD return performance metrics for a broad set of global risk indices spanning the equities, credit and commodity market domains, highlighting the pace of return performance consolidation that has unfolded throughout much of June.

Figure 2 illustrates the diverging path in the evolution of virus infection rates across some of the world's major regions – including the USA, Latin America and parts of Asia - unleashing investor concerns over the potential for derailment in the rate of economic recovery in the year's second half.

Over the course of May and early June, business and consumer sentiment diffusion indicators have continued to post solid recoveries from the depressed levels reached in March to April time period. For example, Figure 3 illustrates the recovery in global business service and manufacturing sentiment indicators recorded through the end of May while Figure 4 illustrates the solid recovery posted in Eurozone, US and Japan regional economic growth expectations through the early part of June.

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



Source: MSCI & Bloomberg

***As of June 26th, 2020**

Sectors	% Change	FY1 PE Ratio
Energy	-4.90%	NA
Materials	-1.47%	23.5
Industrials	-1.89%	30.9
Cons Disc	1.77%	52.6
Cons Stap	-3.32%	19.9
Technology	3.91%	26.6
Healthcare	-5.07%	17.2
Financials	-3.01%	16.5
Utilities	-7.11%	17.3
Telecom	-3.83%	21.5
Real Estate	-2.25%	44.9
S&P500	-1.16%	24.2

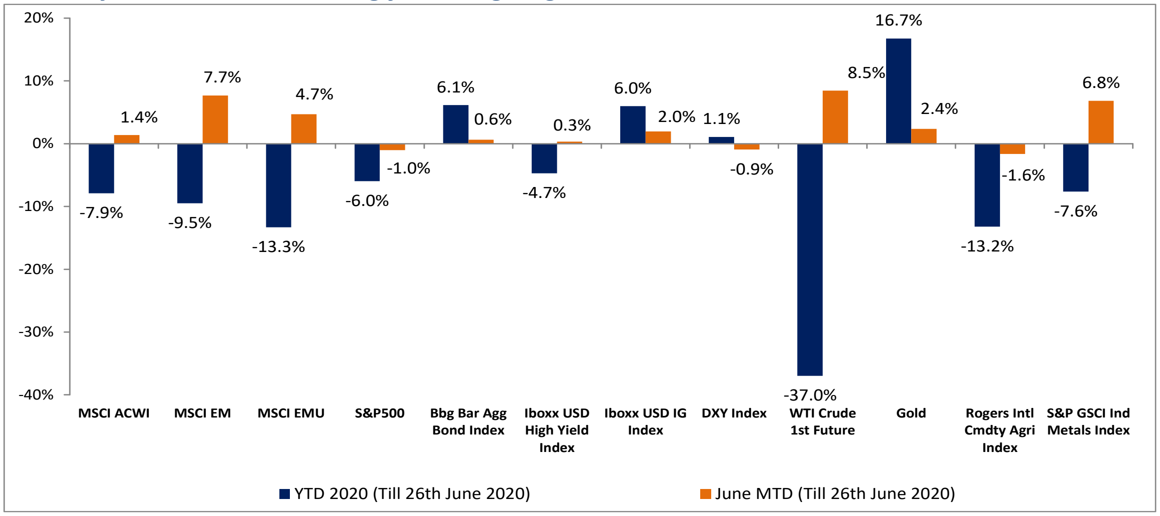
S&P500 Monthly Sector Performance – June MTD 2020*

Sectors

*As of June 26th, 2020

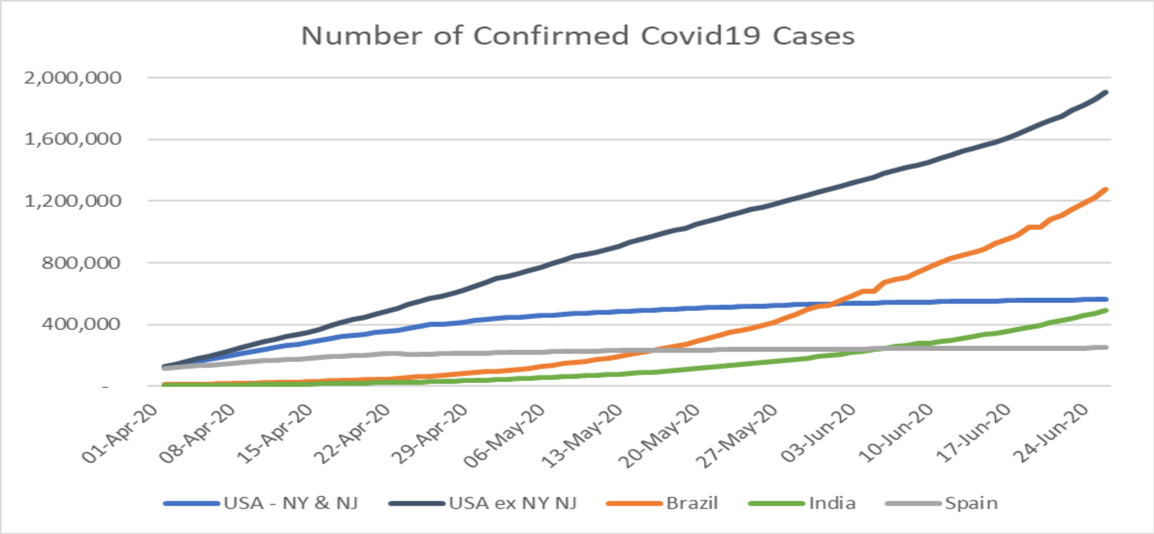
Source: Bloomberg

Figure 1. Risk Indices Enter Consolidation Phase in June, fueled by likely Slowdown in Growth Recovery Momentum Resulting from Ongoing Second Virus Wave in the USA



Source: Bloomberg & Glovista Calculations

Figure 2. Virus Infection Rate Curves Increasingly Diverge across World's Major Regions, with Signs of Second US Infection Rate Wave and Persistently High Infection Rates in LatAm



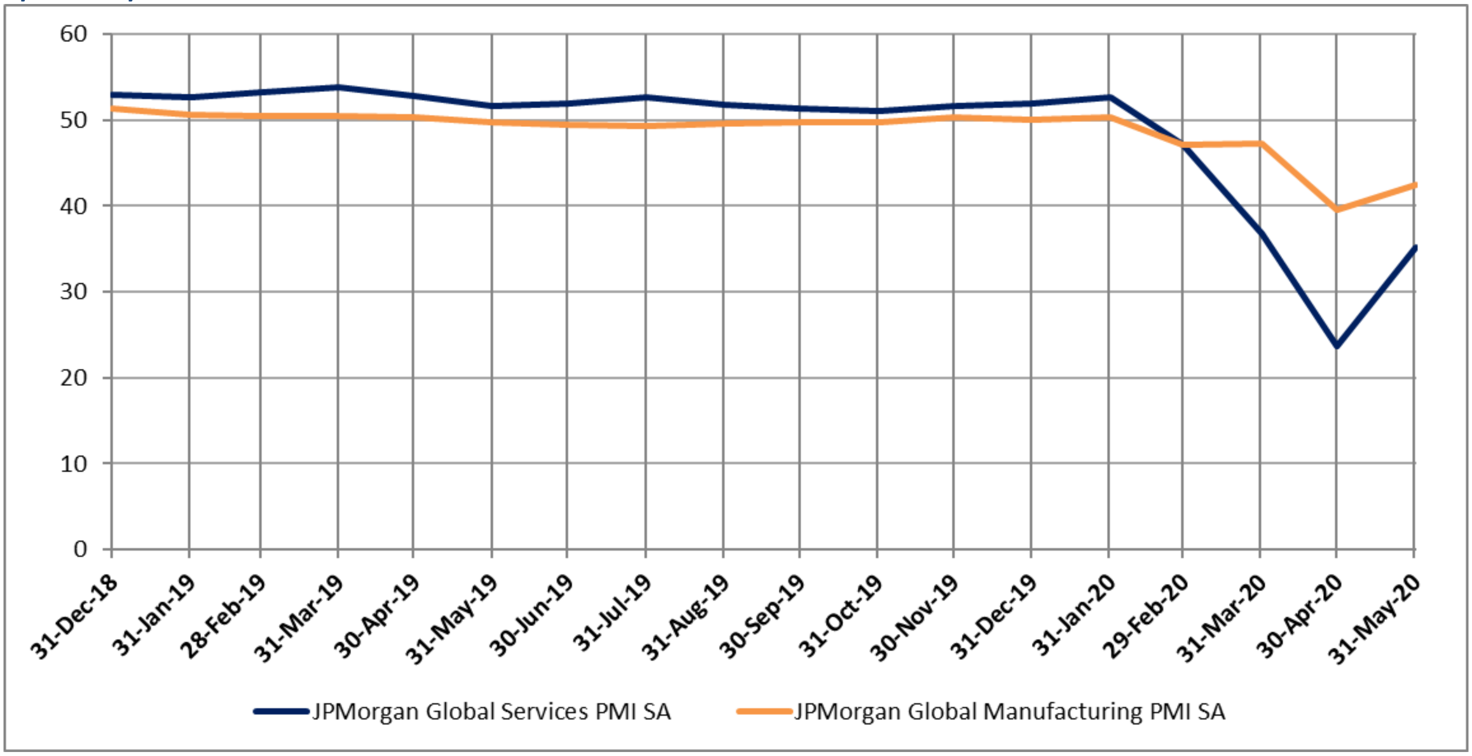
Source: Bloomberg

The Glovista investment team sustains a constructive outlook to global equities despite recent indications of an impending second virus infection wave in the USA and disturbing virus infection dynamics in Latin America. Our view reflects several reinforcing considerations, including the following:

- Improving consumer confidence levels, along improving business sentiment indicators (Figure 3 & Figure 5);
- Robust ability to spend on the part of developed country consumers, courtesy of fiscal support measures and pent up demand conditions following long periods of lockdown;
- Continued expansion in the quantum of fiscal and monetary support measures implemented these past several months throughout much of the developed world and parts of the emerging markets world. For example, the magnitude of the combined

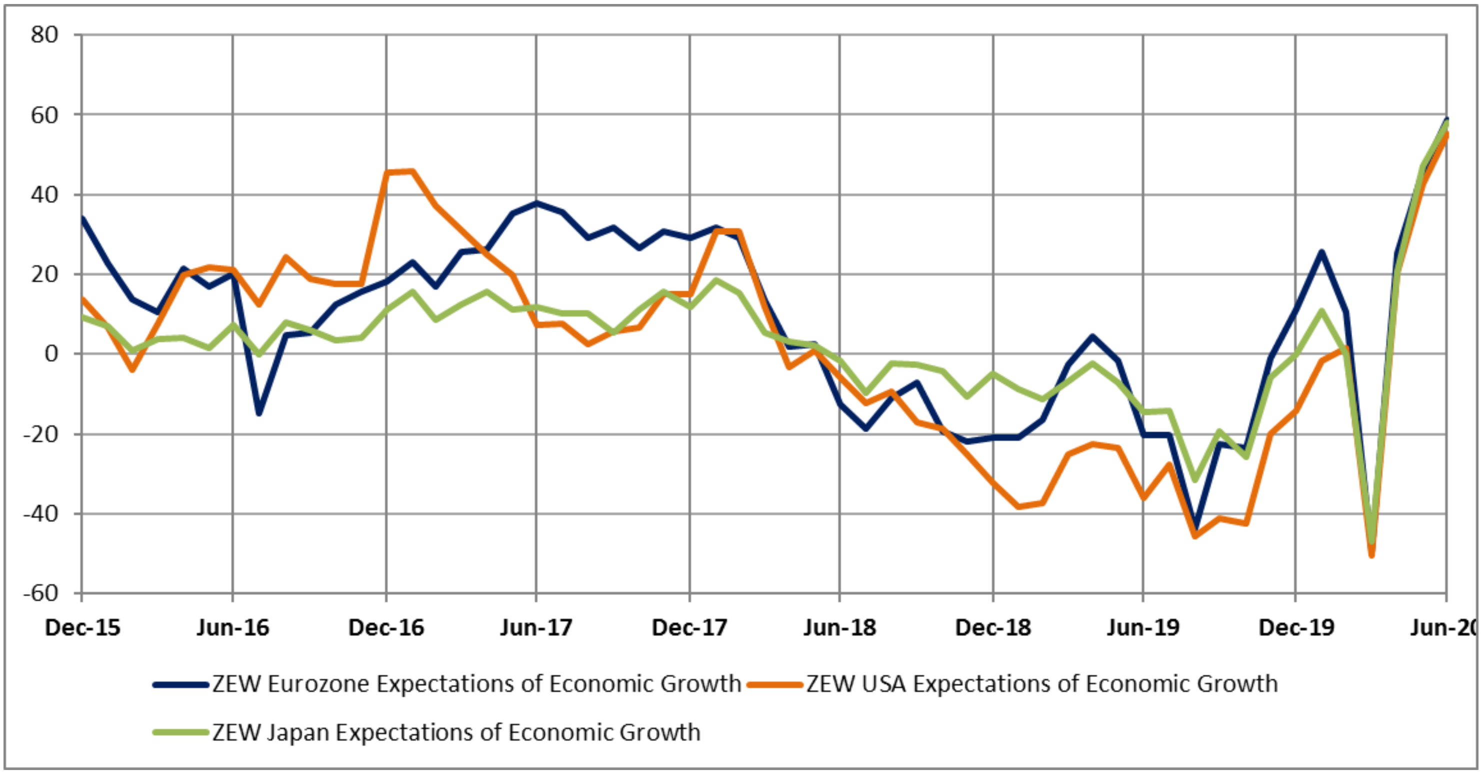
monetary and fiscal measures adopted by some of the world's largest economies includes 15% for much of the core Eurozone area, 35% for the USA and 15% for India;

Figure 3. Global Service and Manufacturing Sentiment Diffusion Indicators Post Solid Bounces in May following March-April Collapse



Source: Markit

Figure 4. Developed Economies' Growth Expectations Pick Up Strongly Through Early June, Prior to Virus Reacceleration in the USA



Source: ZEW

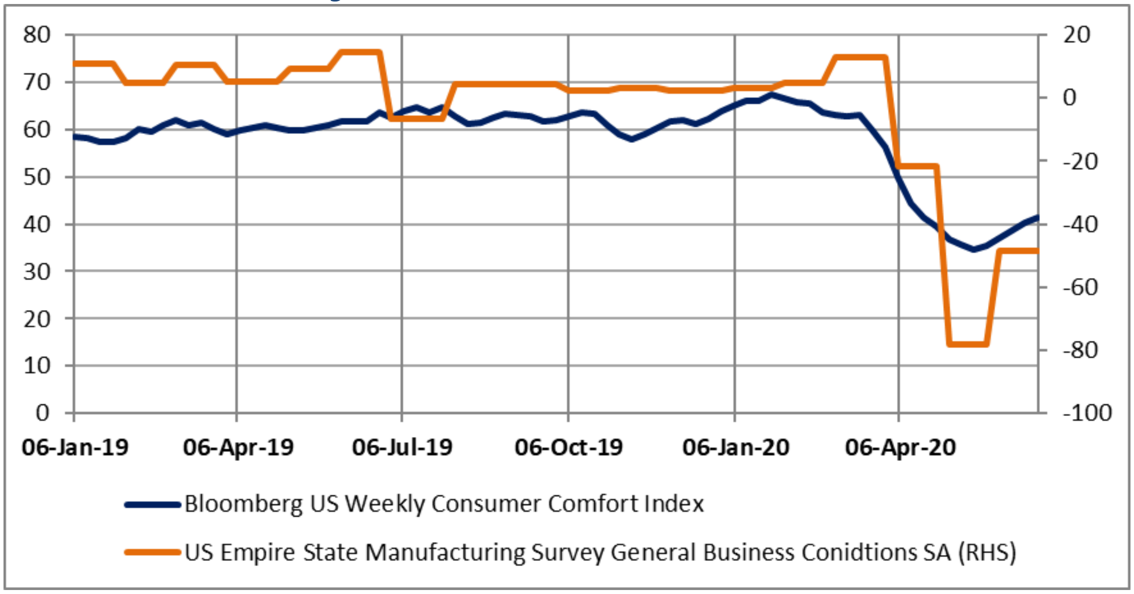
	June 26th 2020	June MTD Change
Gold	1771.29	2.4%
Silver	17.805	-0.3%
Oil	38.49	8.5%
EUR	1.1219	1.1%
JPY	107.22	0.6%
GBP	1.2336	-0.1%
CHF	0.9477	1.4%
CAD	1.3688	0.7%
AUD	0.6865	3.0%
BRL	5.4844	-2.8%
MXN	23.052	-3.9%

Source: Bloomberg

Rates	June 26th Levels
1 Yr CD	0.5%
5 Yr CD	0.74%
30 Yr Jumbo Mortgage	3.36%
5/1 Jumbo Mortgage	3.03%
US Govt. 10 Year	0.6413%
10 Yr Swap Spread	-1.38%

Source: Bloomberg

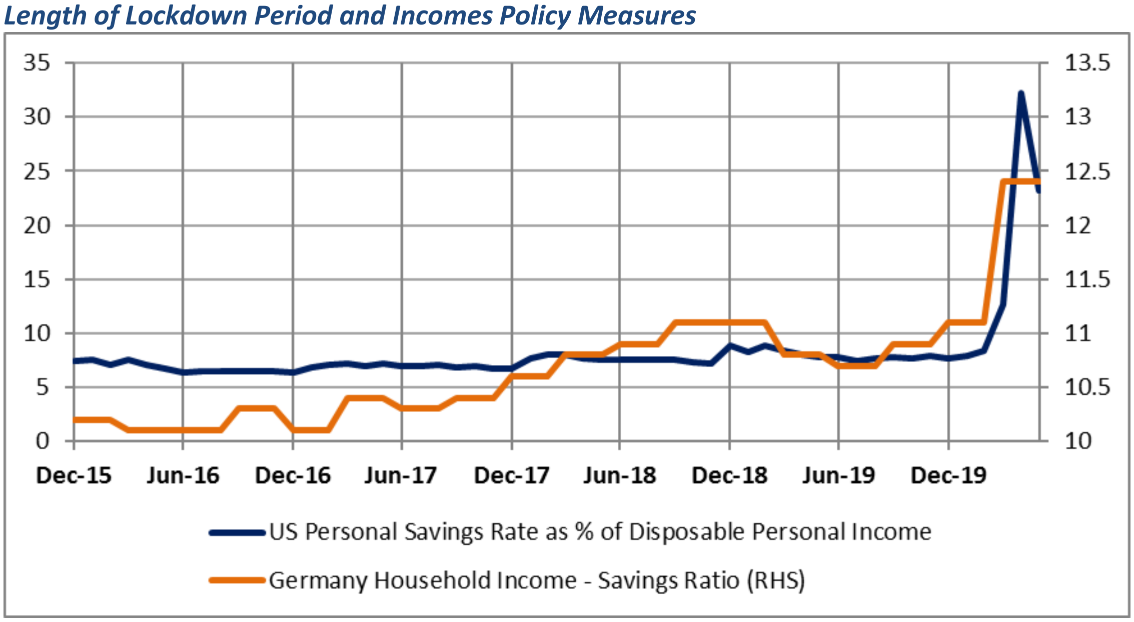
Figure 5. Consumer Confidence Recovers Strongly in May and June, along with Recovery in Business Sentiment Readings



Source: Bloomberg & Federal Reserve Bank of New York

- Investor positioning remains cautious, with few (and small sized, such as the Robinhood traders) exceptions. Figure 7 illustrates the case of US retail investors. A similar condition holds true for balanced mutual fund investors;

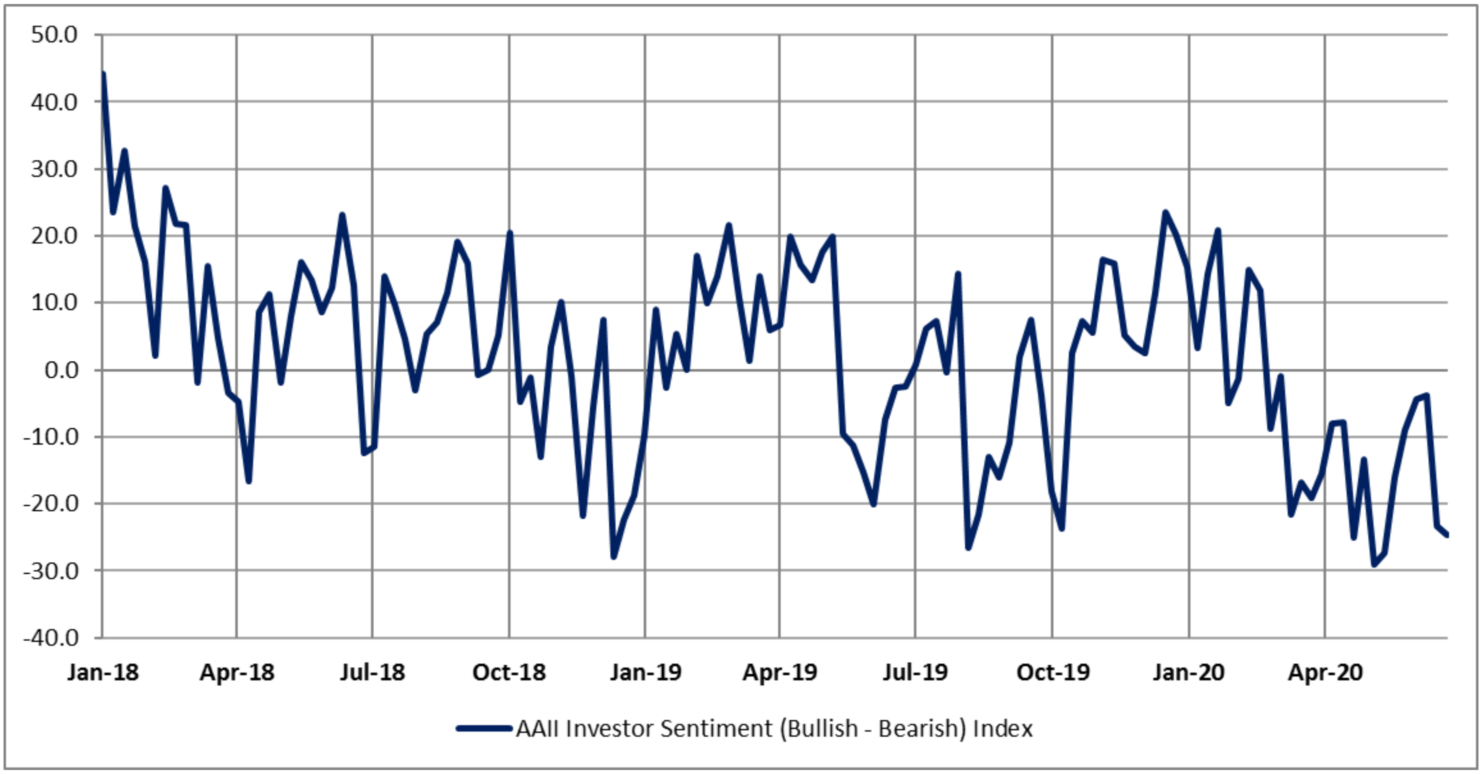
Figure 6. US and European Personal Saving Rate Hovers at Exceedingly High Levels following Length of Lockdown Period and Incomes Policy Measures



Source: Bureau of Economic Analysis & Deutsche Bundesbank

- Equities' attractive relative valuations versus fixed income, as illustrated in Figure 8. While downside risk potential remains non-trivial over the coming quarters – owing to the large potential for policy mistakes along with a globalization in a second wave infection curve – on a second 12-month earnings basis (referring to the 2021-2022 twelve-month period), equities' relative valuations versus fixed income are unambiguously compelling.

Figure 7. Investor positioning towards equities remains cautious, a contrarian bullish condition.



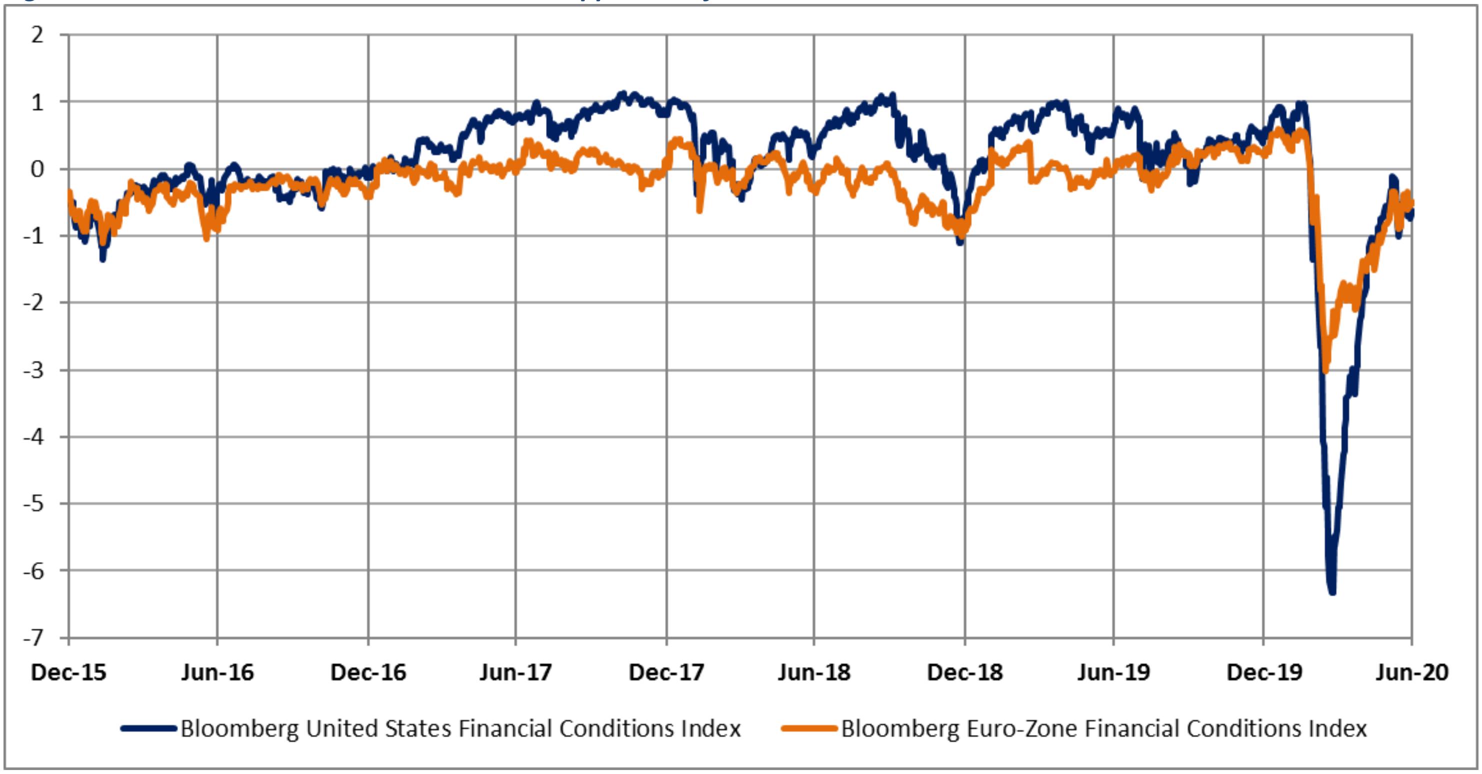
Source: AAII & Glovista Calculations

Figure 8. Global Equities' Relative Valuations versus Fixed Income Hover at Compelling Levels

Source: Bloomberg & Glovista Calculations

- Continued supportive global financial conditions, anchored by policy stance embraced by the US FED, the European Central Bank and other developed country central banks;

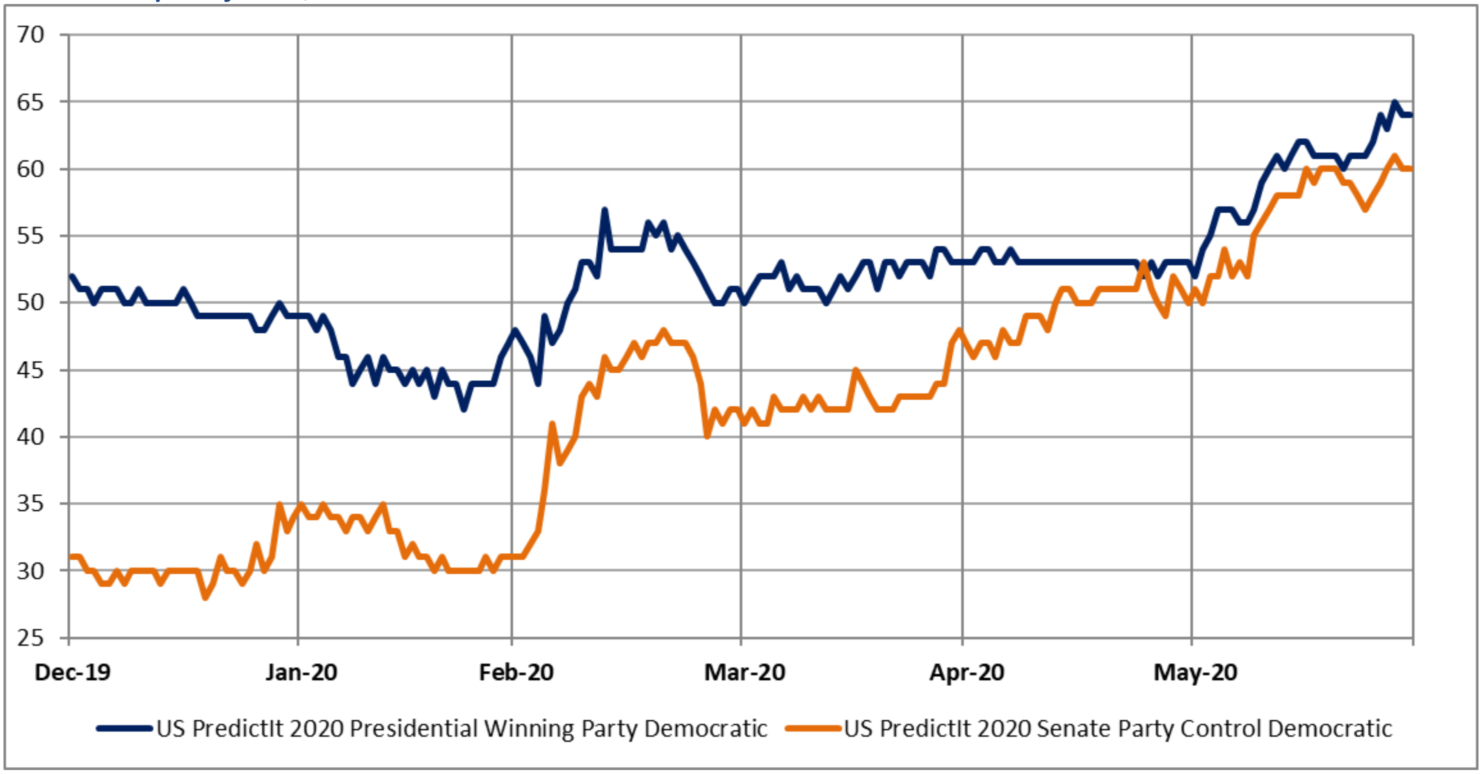
Figure 9. Global Financial Conditions Remain Supportive of Risk Assets: US and Eurozone



Source: Bloomberg

- Rising potential of US Democratic Party landslide victory at the November elections likely to result in limited US$ upside in the run-up to November, a supportive reflationary backdrop for risk assets globally.

Figure 10. Democrats' Chances at Winning the White House and Control of the Senate Spike, likely to Result in Limited Near-term Upside for US$



Source: PredictIt

Glovista Maintains Solid Exposure to Global Equities, Raising Defensive Tilts on Valuation and Macro Considerations

Against the backdrop discussed above, over the past several weeks the Glovista investment team has maintained solid exposure to global equities. However, our managed portfolios have been rebalanced in favor of defensive sectors, including healthcare and consumer staples, owing to relative valuation, ownership and macro considerations. Specifically, the May-June period of strong global equities performance was led by cyclical sectors, resulting in a significant return underperformance for defensive sectors, being reflected in a cheapening of relative valuations. Over the past two weeks, as the pace of virus diffusion in the USA began to deteriorate and economic growth expectations recovered very strongly, we further trimmed our portfolios' cyclical tilts, thereby raising sector overweight tilts in healthcare and consumer staples while reinstating exposures to US utilities for the first time in several months.

Emerging Markets Perspectives

EM Equities Post Strong June Outperformance versus US and EAFE Peers, Fueled by Strengthening EM Asia Currencies, Relative Earnings Growth and Light Investor Positioning; Glovista Sustains Asia OW Tilt

In June, emerging markets posted strong relative return outperformance versus US and EAFE peers, fueled by strengthening EM Asia currencies, relative earnings growth momentum and light investor positioning. Specifically, in June (till June 26^{th})EM equities – as represented by the MSCI EM index – outperformed US equities – as represented by the MSCI USA index – by 8.47% while recording a return outperformance of 4.39% versus EAFE peers during the same period.

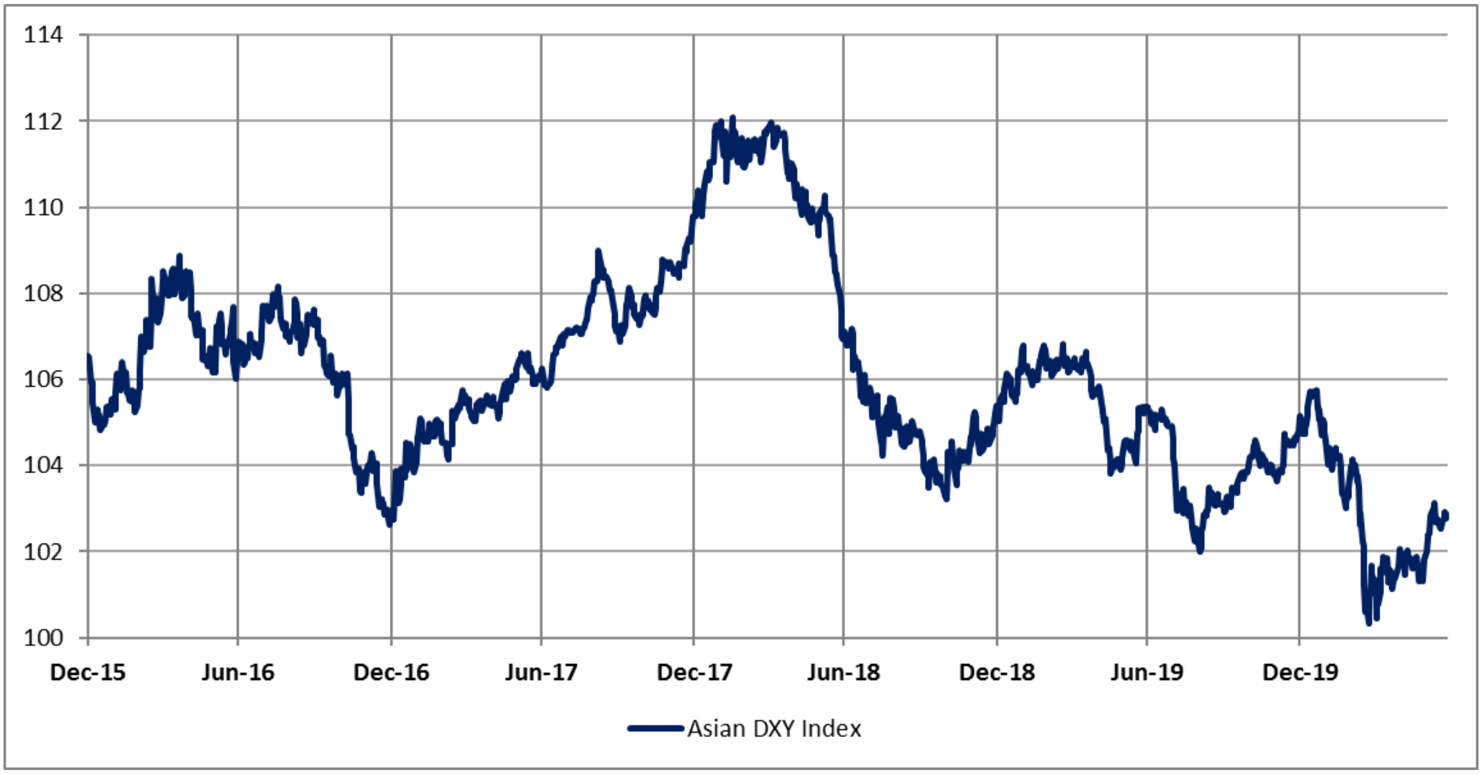
EM equities' solid June return performance was led by Asia regional markets, supported by strengthening Asia currencies (Figure 11), attractive valuations and robust relative economic growth momentum.

Over the past several weeks, the Glovista investment team has further reinforced its longstanding Asia regional overweight, including a further raise in our India overweight allocation. Our EM Asia regional overweight allocation reflects our continued bullish outlook towards EM Asia currencies versus EMEA and Latin America peers as well as the Asia region's considerably higher visibility with regards to the economic and earnings outlook in the year's second half. Moreover, continued acceleration in Covid virus infection rates throughout the Latin America and Africa regions, both of which are capital dependent economic blocs, lead us to sustain our underweight allocations to those regions.

As we look ahead to the balance of the year, we expect EM equities to post solid return outperformance versus developed peers, led by Asia regional markets. Such outlook is predicated on a number of considerations, including: attractive relative valuations; visible earnings and top line revenue growth momentum versus developed peers; light investor positioning; compelling currency valuations versus developed peers, particularly following the generalized policy rate cuts implemented by developed country central banks in North America, Europe and Japan resulting in a massive compression of nominal and real yield levels.

Insofar as the US Dollar outlook over the coming months, we expect any US Dollar upside to be limited on the back of global investor concerns as the US November elections fast approach, particularly given the recent escalation in Democratic Party's chances of winning control of the three main branches of government: the White House, the Senate and the House (Figure 10). Moreover, historical relationships remind us that periods of outsized growth in US budget deficits coincide with general US Dollar weakness. That running annualized US budget deficits hover at around 30 percent of GDP should result in at least modest US Dollar upside over the coming months, an unambiguously supportive backdrop for EM equities, particularly those in the Asia Pacific region whose fundamentals and valuations arguably display the most salient 'blue sky' conditions of any region in the world.

Figure 11. EM Equities' Solid June Return Outperformance versus Developed Peers Supported by Strengthening Asia Currencies



Source: Bloomberg

The Glovista investment team continues to favor overweight country allocations to India, Taiwan and China while sustaining underweight allocations to Russia, Brazil, South East Asian markets, Central European markets and Africa. Within the Latin America region, we recently raised Chile's country allocation to overweight on the back of relative valuation and equity valuations.

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