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GLOVISTA INVESTMENTS

Glovista Global Perspectives

This Issue:

Risk Markets Further Extend Q2 Gains in July as Firmer Eurozone Outlook and Falling US$ Offset Softening US Outlook; Glovista Takes Profit on Precious Metals and Raises Non-US Stock Exposures

In July, risk markets have further extended the solid gains recorded during the second quarter – Figure 1. We attribute such resilience in risk market performance mainly to investor-friendly economic releases around the world, whereby the pace of positive surprises– versus consensus estimates – has extended in July – Figure 2.

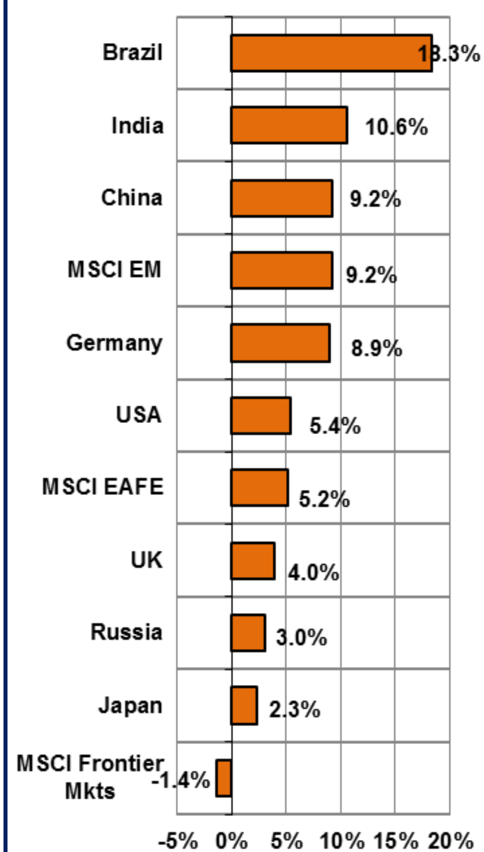
Besides the support afforded to risk markets by a continuing pace of positive economic surprises at a global level, markets have responded positively to the interplay between offsetting macro developments impacting two of the world's largest economic blocs: the Eurozone and the US. We discuss these developments immediately below.

Improved Eurozone Economic Calendar along with Recent Approval of Massive Regional Credit Facility Result into Favorable Global Economic and Financial Conditions, including EM Economies

First, over the past two weeks, longstanding investor concerns over the Eurozone region's 2020H2 and 2021 outlooks have diminished considerably as a result of EU leaders' decision to approve a Euro 1 trillion long term budget and the creation of a 750 billion Euro Coronavirus recovery fund in support of periphery area countries, such as Italy, Portugal and Spain whose populations have been more severely impacted by the pandemic. As a result of the Eurozone region's improved and more visible outlook, the Euro currency has recorded one of its strongest monthly periods versus the US Dollar since September 2010 (Figure 3).

The Eurozone region's strengthened economic outlook along with the weakening US Dollar has set off a virtuous global cycle of improved economic growth expectations and looser financial conditions (Figure 4), both of which carry reflationary implications at a global level, including the loosening of credit conditions for Emerging Market

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



Source: MSCI & Bloomberg

*As of July 29th, 2020

S&P500 Monthly Sector Performance – July MTD 2020*

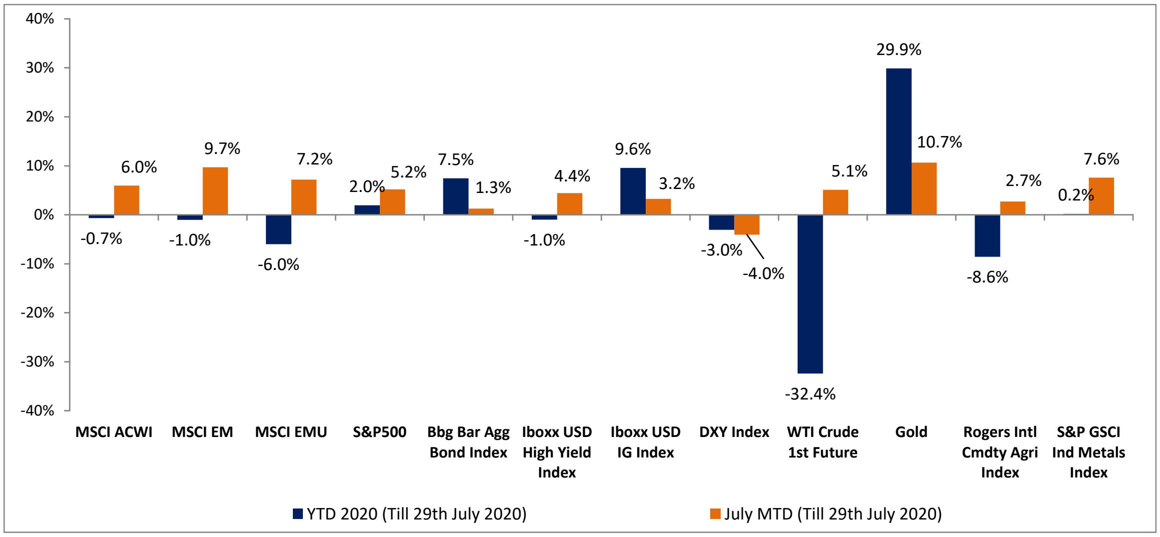
Sectors	% Change	FY1 PE Ratio
Energy	-0.61%	NA
Materials	9.05%	26.3
Industrials	5.73%	35.8
Cons Disc	7.49%	57.1
Cons Stap	6.91%	21.6
Technology	2.44%	27.1
Healthcare	6.61%	18.3
Financials	5.45%	17.2
Utilities	7.53%	19.3
Telecom	5.41%	23.6
Real Estate	4.94%	48.1
S&P500	5.10%	25.7

*As of July 29th, 2020

Source: Bloomberg

economies, a portion of whose financing is US Dollar denominated. Figure 5 illustrates the considerable tightening of Emerging Market sovereign credit spreads since their mid-March high levels while Figure 6 illustrates the considerable strengthening recorded by Emerging Market currencies along with lower local interest rates these past several weeks. In turn, such developments in the Emerging Market economies further reinforce the global economy and market outlooks since today, contrary to past decades, EM economies command a majority of world GDP.

Figure 1. Risk Markets Record Solid Gains in July across Asset Groups, Boosted by Declining US$



Source: Bloomberg & Glovista Calculations

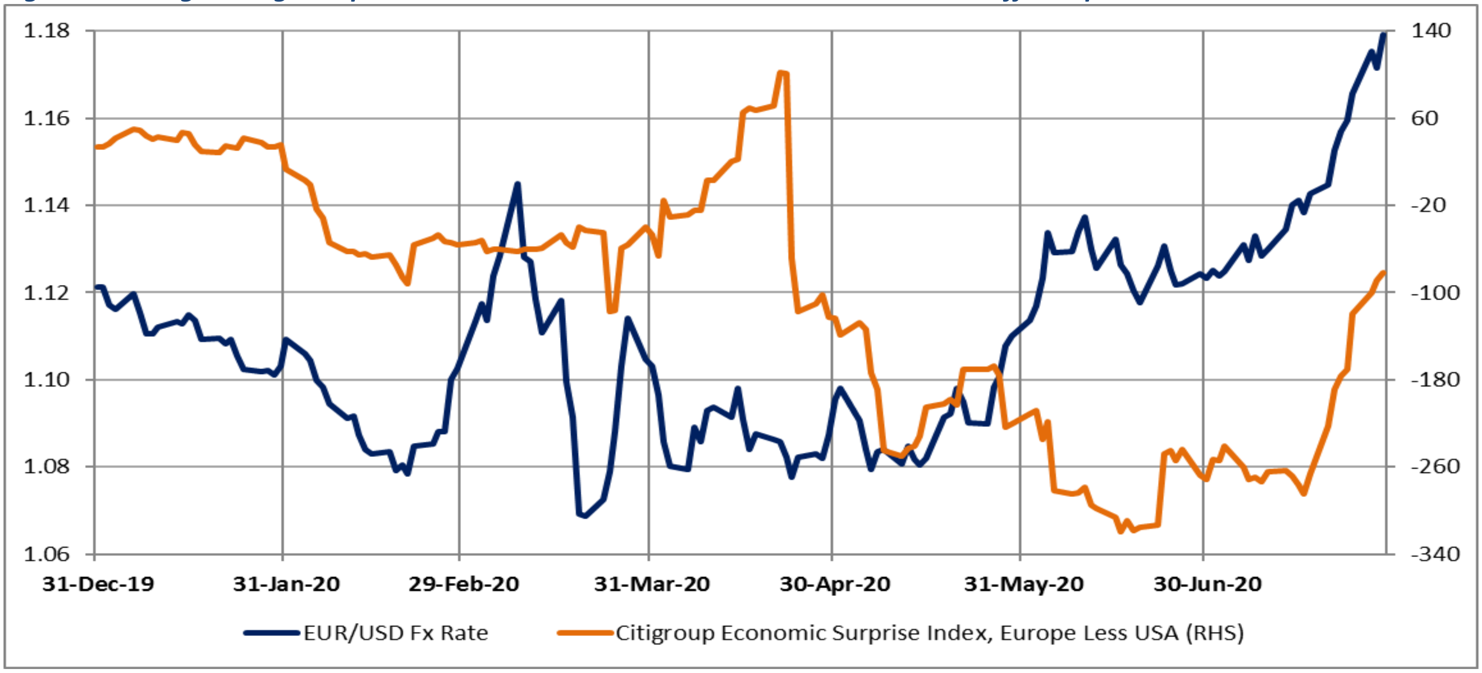
Figure 2. Positive Surprises to Global Economic Releases Extends thus Far in July

Source: Citigroup

<u>United States</u>: Post- mid-June Resurgence of Virus Infection Rates along with Concerns of Growth Slowdown post- July 31st Expiration of Generous Unemployment Benefits Underpins Recent US$ Weakness; Q2 Corporate Profits Performance and Supportive FED Policy Support US Asset Prices

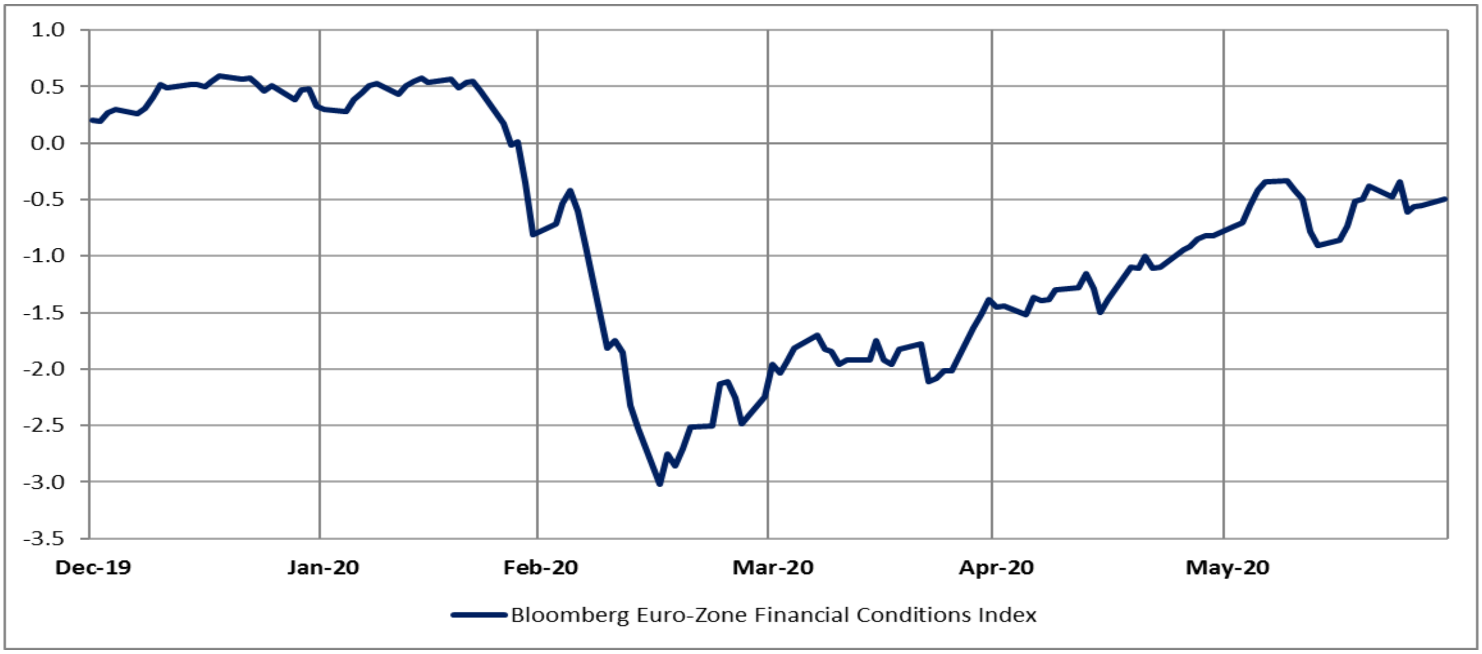
While thus far in July, Eurozone regional developments have boosted confidence towards the global economic outlook and financial conditions, on the other side of the Atlantic, the opposite has held true. Specifically, over the past several weeks investor concerns over the US economic outlook have deteriorated as a result of two key considerations:

Figure 3. Strengthening Europe versus US Economic Momentum and Outlook Set Off Sharp US$ Decline



Source: Bloomberg, Citigroup & Glovista Calculations

Figure 4. Stronger Eurozone Economic Outlook Fuels Improved Financial Conditions, Reinforcing the Visibility of the Regional Recovery and the Currency's Outlook



Source: Bloomberg

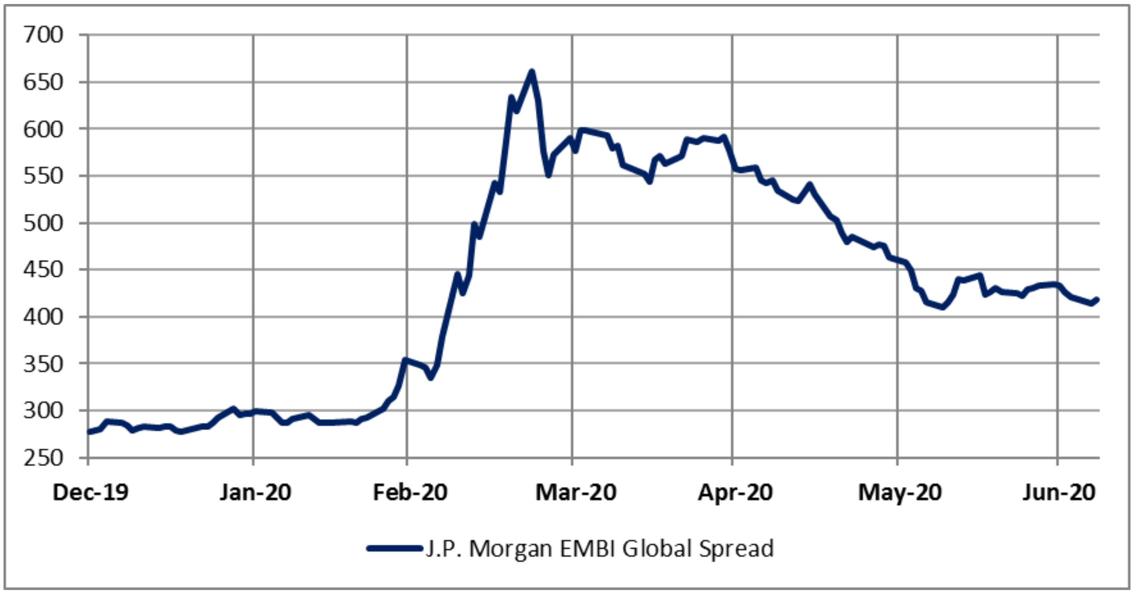
	July 29th 2020	July MTD Change
Gold	1970.79	10.7%
Silver	24.309	33.5%
Oil	41.27	5.1%
EUR	1.1792	5.0%
JPY	104.92	2.8%
GBP	1.2997	4.8%
CHF	0.9126	3.7%
CAD	1.334	1.7%
AUD	0.7188	4.1%
BRL	5.1705	5.4%
MXN	21.9737	4.4%

Source: Bloomberg

Rates	July 29th Levels
1 Yr CD	0.45%
5 Yr CD	0.69%
30 Yr Jumbo Mortgage	3.12%
5/1 Jumbo Mortgage	3.39%
US Govt. 10 Year	0.57%
10 Yr Swap Spread	-0.001%

Source: Bloomberg

Figure 5. Strengthened World Economic Outlook along with Weaker US$ Fuels Improved Credit Conditions in the EM Universe



Source: J P Morgan

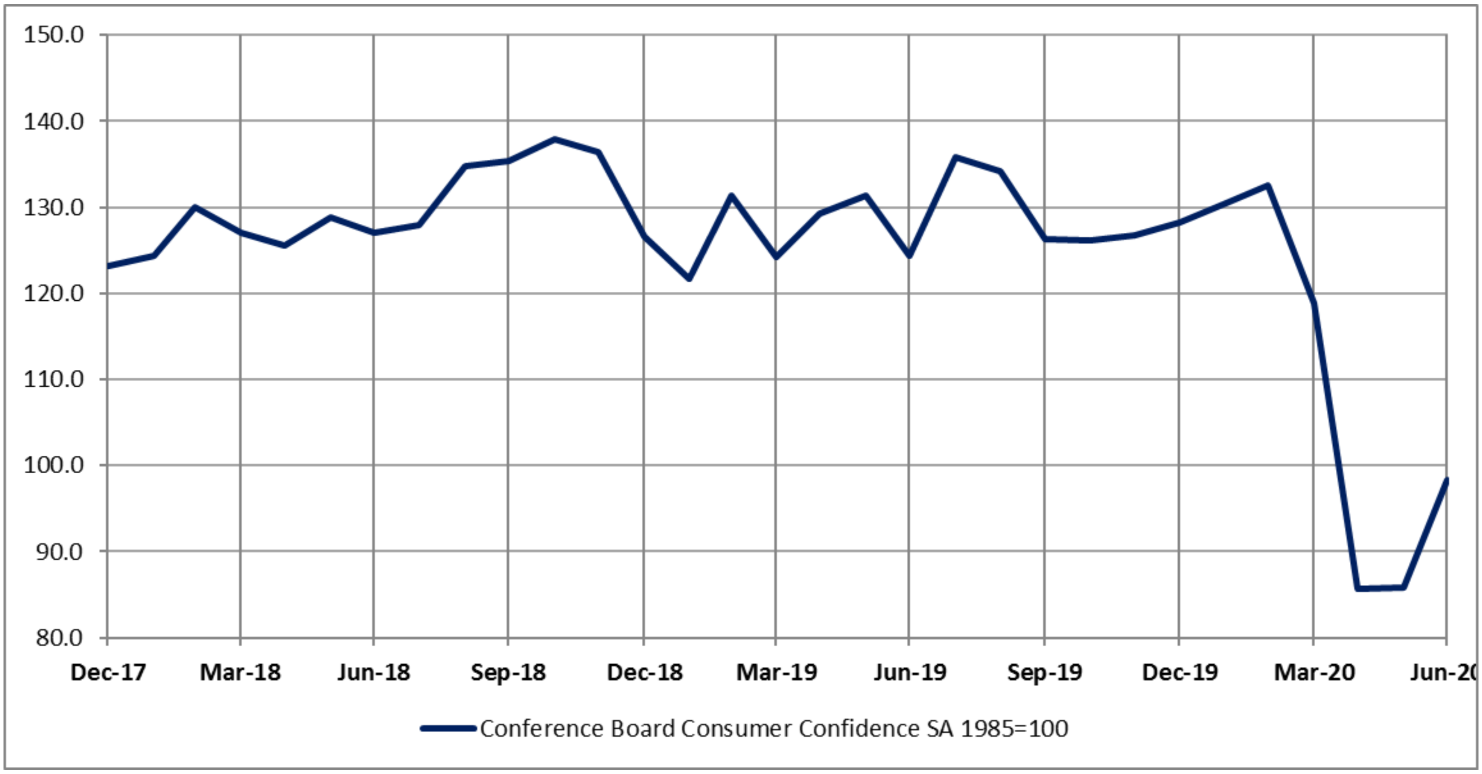
Figure 6. Strengthened EM Currencies and Lower Financing Costs Provide Additional Favorable Reinforcing Dynamic in support of Global Economic Outlook

Source: Bloomberg

- The post mid-June resurgence in virus infection rates across a considerable number of heavily populated US states, entailing the so-called FACT group, comprised of Florida, Arizona, California and Texas;

- On July 31st a number of considerably generous supplementary unemployment benefits are scheduled to expire. As of the publication of this monthly newsletter, the final details of the extended fiscal package are not yet decided. However, it is a virtual certainty that the quantum of weekly benefits will be reduced by a percentage factor of as high as 67 percent. That the extension of unemployment benefits will entail a marginal tightening of fiscal stimulus will result into an unambiguous weakening of personal consumption growth momentum and household confidence levels (Figure 7) with potential implications on various sectors of the economy including student loans, real estate and others. Such concerns have been a factor underpinning the recent weakening of the US Dollar.

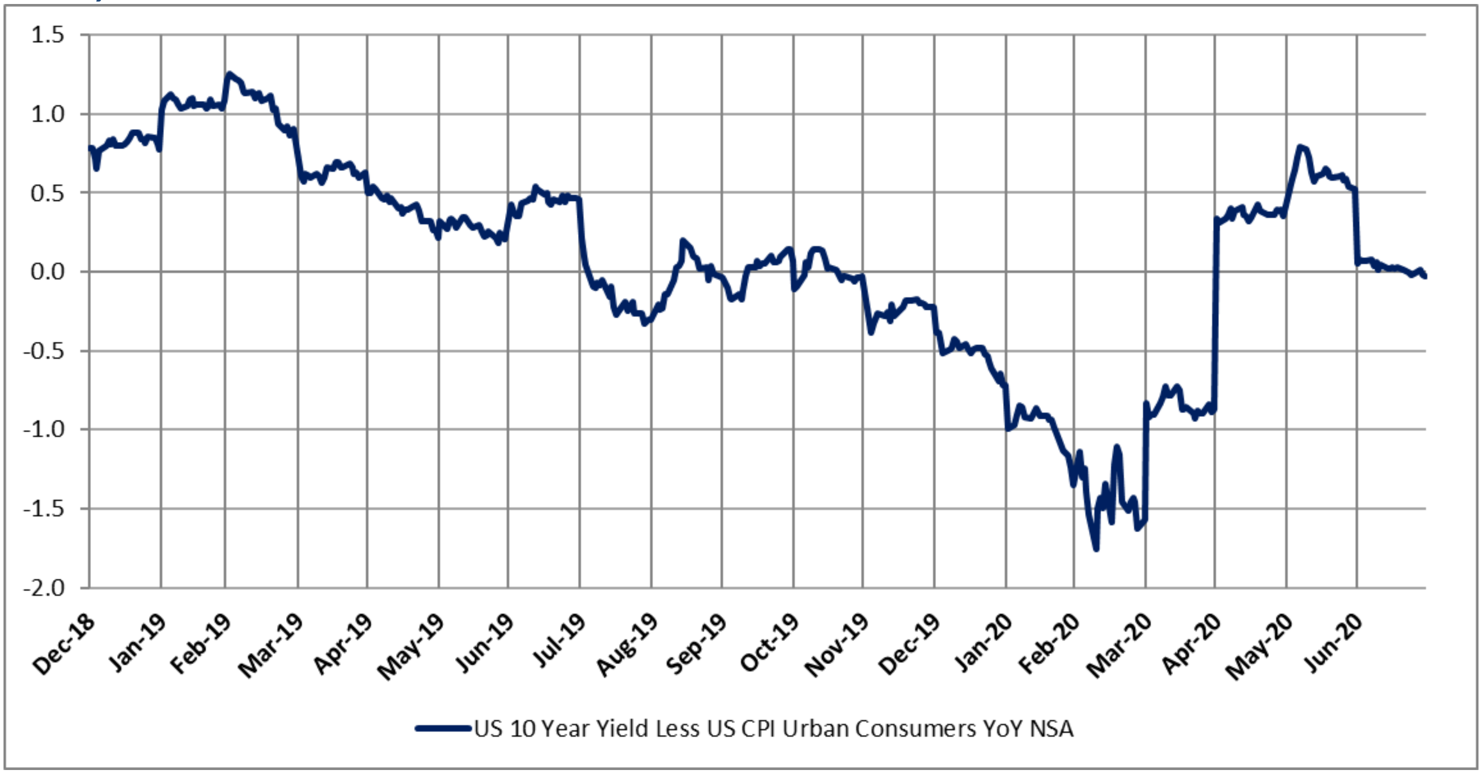
Figure 7. Concerns over Heightened Virus Infection Rates Adversely Impact US Consumer Confidence Expectations



Source: Conference Board

The recent rise of investor concerns over the impact exerted on the US economic outlook by the waning fiscal stimulus post-July 31st and of higher virus infection rates is evidenced in the sharp decline recorded in inflation adjusted US Treasury yields, even over the 10-year sector (Figure 8).

Figure 8. Heightened Concerns over US Economic Growth Outlook Reflected in Sharp Compression in Inflation Adjusted Treasury Yields



Source: Bloomberg & Glovista Calculations

Against such real economy backdrop, global financial markets have taken solace from the combination of various factors, including:

- Recent confirmation of considerable progress made in the development of multiple functional Covid-19 vaccines leading to selective availability to the public as early as the end of 2020;
- The virus' vastly narrower (and thus, less global) presence across geographic blocs, entailed a large and growing number of regions with 3 day average growth rates below 1 percent (including large economies in Europe and Asia), with the USA, Latin America and India remaining some of the blocs in which infection growth rates exceed 2-3 percent for a meaningful portion of their territories;
- Continued reaffirmed commitment by the leadership of the world's largest central banks (including the FED, European Central Bank and Bank of Japan) of their commitment to maintain ample liquidity support measures as well as readiness to intensify such measures if necessary;
- The virtuous reflationary cycle unleashed by the recent period of US Dollar weakness impacting world financial conditions and liquidity conditions that lend further visibility and support to the world economic outlook;
- Corporate sector's resilience in responding to the virus impact, as highlighted in the robust second quarter earnings season globally. For example, according to Bloomberg, as of July 30th 83.8% of S&P500 companies had reported positive earnings surprises as compared to consensus.

Finally, while recent US virus dynamics are fueling a reset higher in investor expectations over a Biden victory at the upcoming November elections, along with the potential for Democrat control of both houses of Congress, Mr. Biden's centrist agenda is likely to keep any adverse S&P 500 EPS implication in the 5-10 percent range owing to offsetting dynamics (from the international scene) to the higher corporate tax rates that would likely obtain under a Biden presidency.

Glovista Sustains Exposure to High Quality Equities, Raising International Exposure, and Short Bond Duration while Taking Tactical Profits in Precious Metals

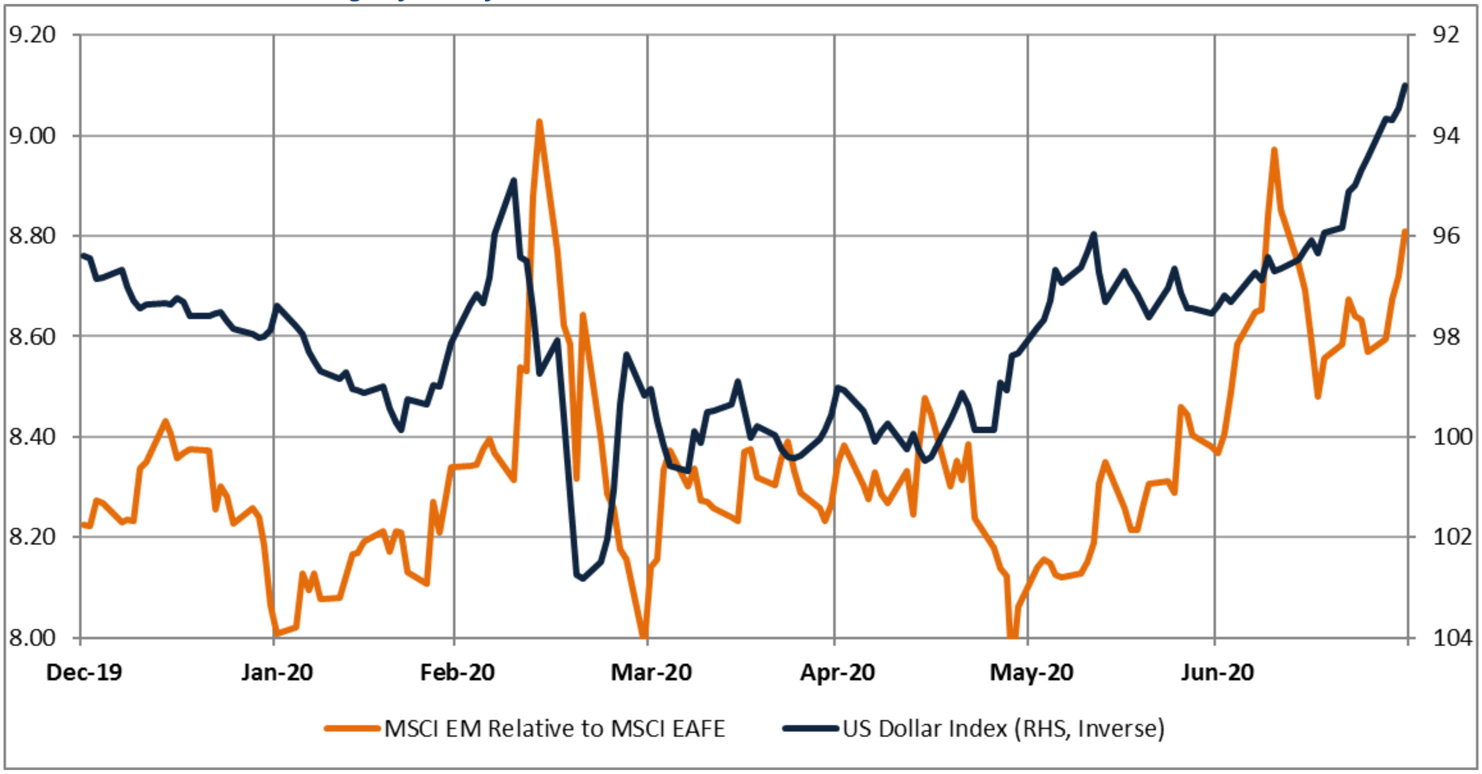
Against the global macro backdrop discussed above, the Glovista investment team continues to favor healthy exposure to high quality equities. The period of US Dollar weakness initiated earlier in the month, and hypothesized in our previous monthly columns, has led us to raise international equities exposure in our managed portfolios. As for fixed income markets, we view the recent compression in real bond yields as excessive. As a result, we recently took profits in our precious metals exposures, including silver and gold. Those same considerations have led us to further trim our fixed income portfolios' duration exposure. As we look ahead, we expect economic growth recovery to be gradual and subject to recurrent episodes of weakness driven both by the potential for recurrent virus infection waves as well as the necessary unwinding of unsustainably high levels of fiscal stimulus (running at 30 percent of GDP, on an annualized basis in the case of the USA).

Emerging Markets Perspectives

EM Equities Record Strong July Outperformance versus US and EAFE Peers, Supported by Weakening US$ and Stronger Growth Visibility for 2021; Glovista Raises India, Brazil and Mexico Allocations, Taking Profits in Taiwan & China

In July, Emerging Market equities have extended the strong return outperformance versus Developed Market peers recorded in June. Figure 9 illustrates EM equities have set 2-year relative high levels versus EAFE peers, in the process recording a 30 percent cumulative, holding period US$ return outperformance since the January 2016 cycle low levels, a little over four years ago. Such performance record reinforces our thesis of a robust, low volatility stealth outperformance rally between EM

Figure 9. In July, EM Equities Extend Strong Outperformance versus US and EAFE Peers, Boosted by Weakening US$ and Global Investors' Rebalancing in favor of the Asset Class



Source: Bloomberg and Glovista Calculations

equities and their developed peers, starting with the EAFE universe and more recently encompassing a growing number of US equity sectors.

We attribute the recent period of absolute and relative outperformance for EM equities to a number of considerations, some of which are interconnected. These include the following:

- Weakening US Dollar at a global level, discussed above. Such dynamic carries a reflationary effect on the global economy, a boost factor to EM equities' investment thesis;

- Improved economic growth outlook for the Eurozone region, entailing both a strengthening macro calendar as well as the passage of important fiscal and monetary policy stimulus impacting the broad Eurozone region;

- Strong corporate earnings results out of some of the EM equity benchmark's largest constituents, including Taiwan Semiconductor, Reliance, and Samsung. As we have discussed in prior monthly columns, the medium- and long-term visibility of revenues and earnings growth performance for a considerable portion of the largest EM index's stock constituents is measurably larger than those of the developed world's largest equity markets. At a juncture in which global investors harbor serious concerns over near- and medium-term revenue and earnings growth visibility, such traits found in the EM corporate sector become rather compelling for the asset class;

- Strengthening economic outlook for EM economies versus the US economy, particularly those in the Asia region – encompassing a dominant share of the EM equities benchmarks' capitalization weightings – owing to:

    - the USA's notable deterioration in terms of virus infection rates across a number of heavily populated states as well as concerns over the growth deceleration likely to obtain as a result of the withdrawal of overly generous fiscal stimulus in the coming weeks, and;

- the favorable national income effects exerted on EM households on account of the recent revaluation recorded by EM currencies.

Over the past several weeks, we have raised further our overweight exposure to the India market on account of improving corporate fundamentals, particularly tied to Infosys and Reliance. More generally, despite the pandemic's continued impact on the Indian economy and society, the quality and growth orientation of the Indian bourse's largest constituents continues to strengthen. We view the magnitude of the favorable developments impacting the Indian market, as represented in the equity index, to more than offset the adverse short-term investor sentiment towards Indian assets on account of the virus' continued relevance in the country.

Outside our India country upgrade, we have trimmed our strong overweight exposure to Taiwan information technology stocks following the strong month-to-date return performance tied to global hardware sector developments (partly stemming from Intel out of the USA) favorably impacting Taiwan Semiconductor. In Latin America, we have trimmed our underweight regional allocation, particularly via an upgrade to Mexico and Brazil country exposures.

As we look ahead to the balance of the year, we expect EM equities to extend recent return outperformance versus developed country peers both on relative valuation, currency, relative earnings momentum, virus-related macro factors and investor positioning considerations. Within the broad EM universe, we continue to favor overweight regional allocations to emerging Asia and underweight allocations to EMEA, currently holding approximately neutral regional allocations to Latin American markets.

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