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GLOVISTA INVESTMENTS

Glovista Global Perspectives

This Issue:

Risk Markets Break Higher in August, Fueled by Upside Corporate Earnings Surprises, Weaker US$, Supportive Positioning and Policy Stance; Glovista Sustains Overweight High Quality Stock Tilts

In August, risk markets have extended strong return performance gains recorded since March lows. The August gains have been boosted by:

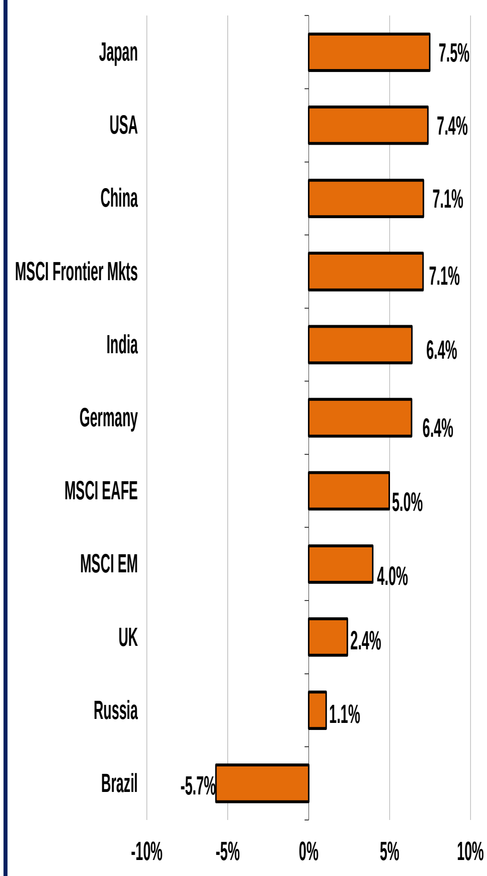
- the reinforcing effects of stronger than expected second quarter corporate earnings performance across the world's major regional blocs;
- continued US Dollar weakness;
- US Fed announcement in late August confirming a material shift in policy stance entailing an explicit targeting of reflation as policy objective, and;
- supportive investor positioning.

Figure 1 illustrates August month-to-date along with the 2020 year-to-date return performance gains recorded by a number of the world's principal risk indices while Figure 2 illustrates the continued decline recorded by the US Dollar (especially versus developed country currency peers), a dynamic that carries powerful reflationary effects onto the global economy (via both income and balance sheet channels) as well as financial asset prices.

Figure 3 illustrates risk markets, particularly, equities', continued supportive backdrop from an investor sentiment perspective. Specifically, Figure 3 highlights US investors' continued cautious stance vis-à-vis equities.

As noted above, an additional boost factor anchoring global equities' solid August month-to-date return performance has stemmed from markedly stronger than expected second quarter corporate earnings results across the world's major regional blocs. Specifically, the quarter's earnings per share surprise factor out of the USA and Europe has come out to around 23 percent with the highest percentage of US companies beating consensus EPS estimates in at least eight years. Of course, such solid earnings surprises come off exceedingly low estimates put forth in the aftermath of one of the worst contractions in 80 years so that despite the magnitude of the

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



Source: MSCI & Bloomberg

****As of August 28th, 2020***

Sectors	% Change	FY1 PE Ratio
Energy	0.14%	NA
Materials	5.76%	26.3
Industrials	9.60%	38.6
Cons Disc	9.25%	51.0
Cons Stap	4.93%	22.3
Technology	11.43%	30.6
Healthcare	2.22%	18.1
Financials	5.43%	17.5
Utilities	-3.44%	18.6
Telecom	9.50%	25.8
Real Estate	0.74%	46.3
S&P500	7.24%	26.9

S&P500 Monthly Sector Performance – August MTD 2020*

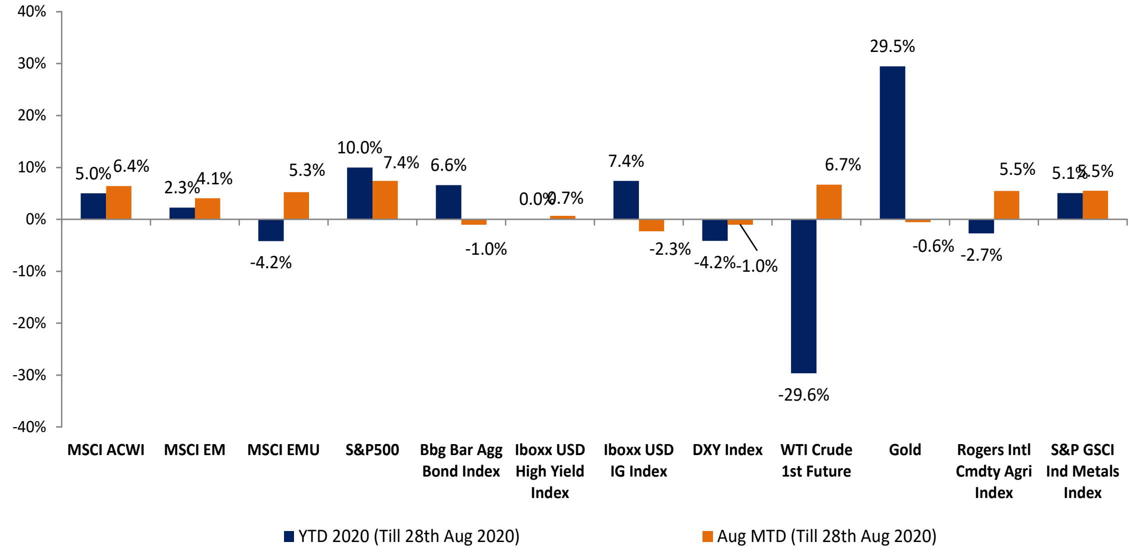
*As of August 28th, 2020

Source: Bloomberg

positive earnings surprises, year-on-year corporate earnings performance in Q2 hovered around -35 percent in the USA and -25 percent in Europe. Moreover, the sectoral make-up of the earnings growth momentum rankings across regional blocs carries a barbell of defensive and secular growth plays – e.g. healthcare, information technology and staples.

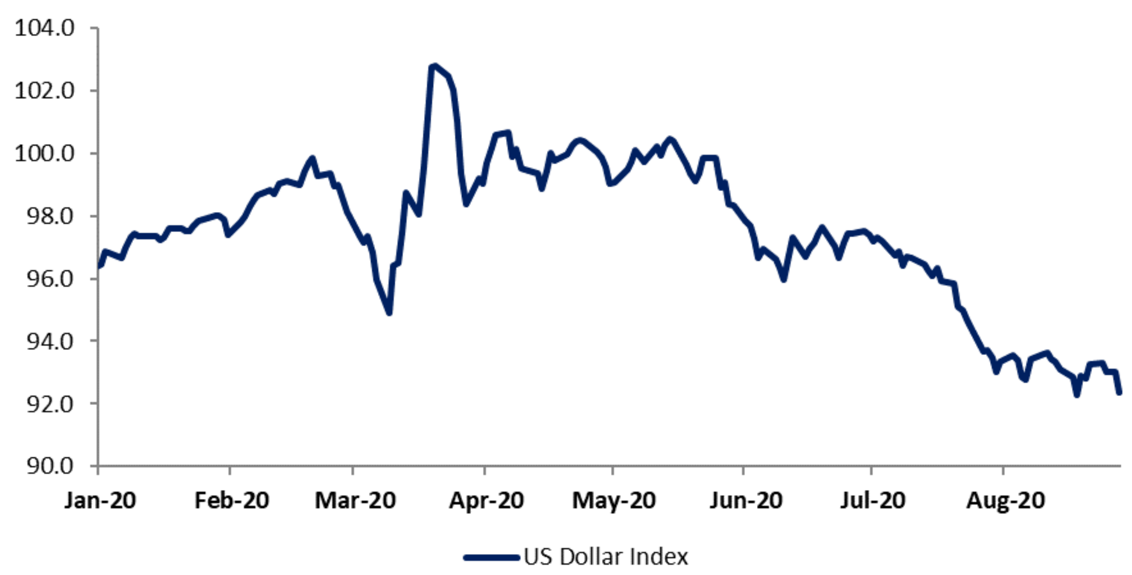
As we review the latest consensus earnings growth estimates for 2020 across major regional blocs, emerging markets and Japanese shares appear the most resilient, followed by US peers, with European stocks lagging furthest behind.

Figure 1. In August, Risk Indices Extend Recent Return Performance Gains across the Asset Class Spectrum



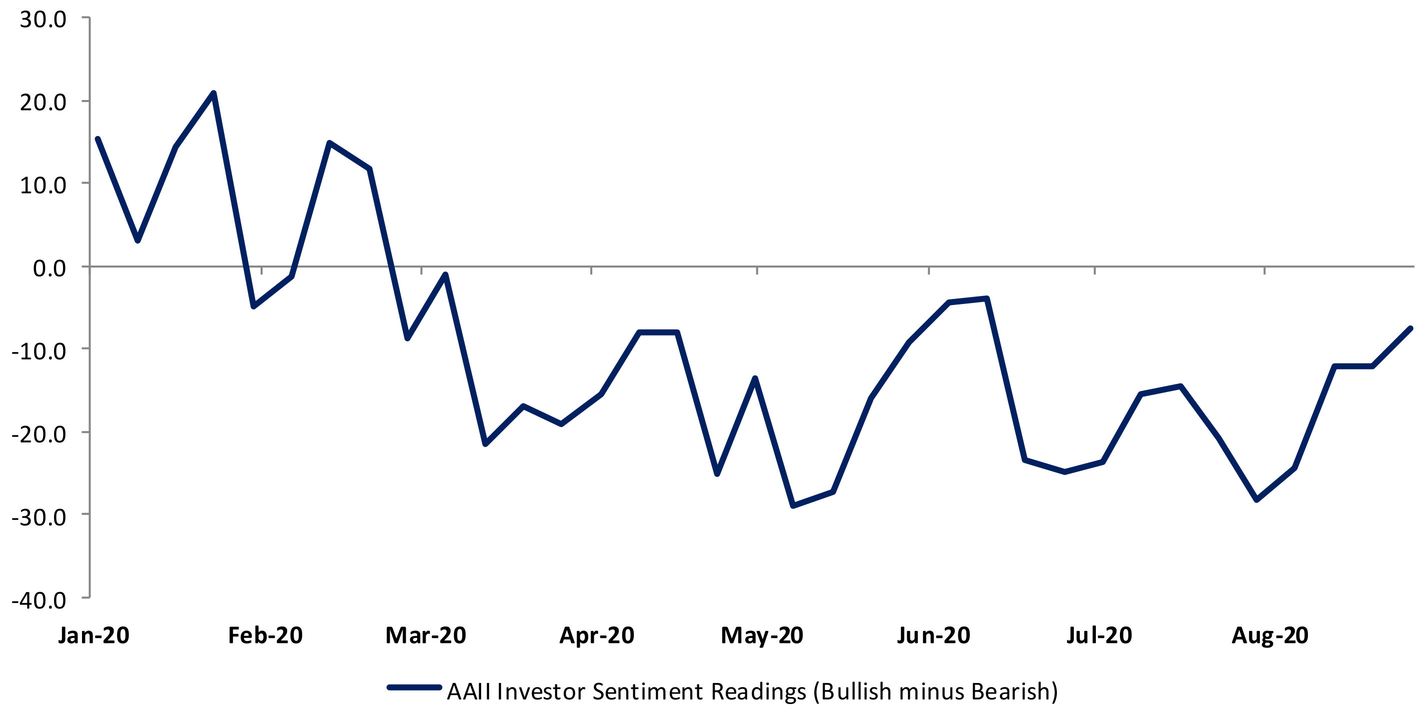
Source: Bloomberg & Glovista Calculations

Figure 2. US Dollar Extends Recent Weakness in August, lending Support to Risk Markets via Reflationary Effect on the Global Economy



Source: Bloomberg

Figure 3. US Investor Bull-Bear Sentiment Readings Continue to Signal Investors' Cautious Stance



Source: AAII and Glovista Calculations

Economic Outlook Remains Uncertain as Ongoing Activity Normalization, as Virus Incidence Abates, is Likely to be Challenged by Softening Relief Measures and Balance Sheet Effects from the Pandemic

As we look ahead, the Glovista investment team continues to expect a long and gradual period of normalization in economic activity as the favorable economic effects from a broader reopening of activity globally, as the virus incidence abates, is challenged by the adverse effects resulting from the arithmetic reality stemming from the scheduled deceleration of relief measures as developed country public sectors are unable to sustain persistently large budget deficits at the annualized tune of 15% to 25% of GDP.

We believe that economic agents, even in developed countries where the magnitude of economic relief measures has been the largest – such as the USA-, are fully aware of the considerable uncertainties governing the economic outlook, including the risks of an adverse 'hand-off' to a new environment in which the reopening of economic activity courtesy of diminished virus incidence is challenged by the considerable withdrawal of fiscal support at a juncture in which the balance sheet damage from the pandemic on a number of systemically important sectors (such as commercial real estate) shows clear signs of deterioration – Figure 4.

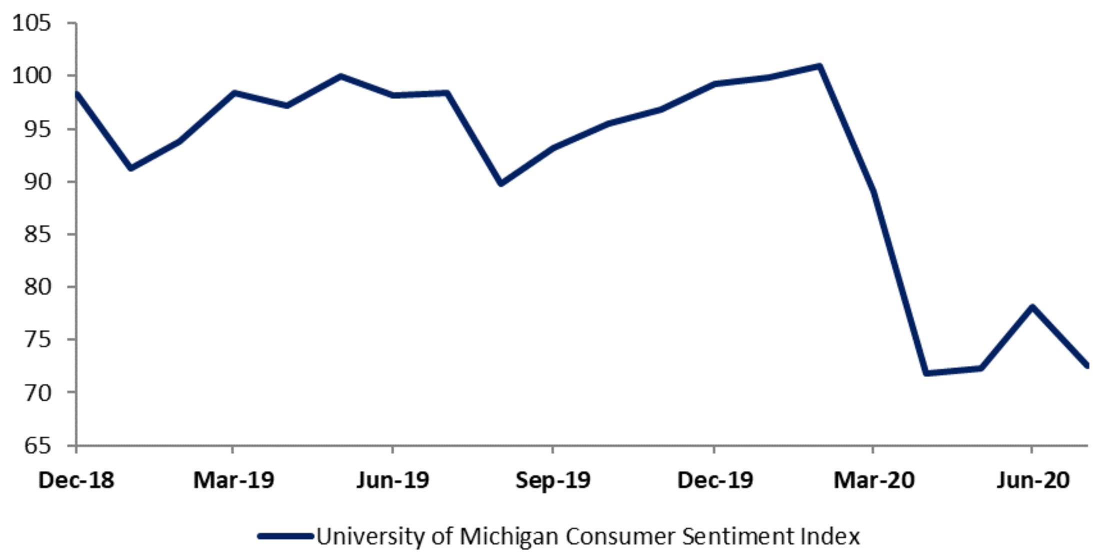
Such balance sheet concerns along with the adverse household personal income effects from a deceleration in economic relief measures carries the potential of adversely impacting consumer sentiment levels – Figure 5.

On the virus front, the Glovista investment team believes broad measures of economic activity (despite continued favorable financial conditions, anchored largely by unprecedented central bank actions) will remain challenged through the middle of 2021 as only then is it likely that a generalized vaccination of the population becomes probable, not only on vaccine manufacturing production considerations but also given the likelihood of vaccines' efficacy ratios hovering under 60 percent. Moreover, the broad debate in the medical field concerning the level of assurance surrounding toxicity characteristics of the various vaccines is likely to result in a large percentage of the population choosing not to receive the vaccine at least before the Summer of 2021. Finally, we believe that the imminent arrival of winter in the planet's northern hemisphere, domicile of the world's largest economic blocs, de facto seals a scenario of total collapse in the virus' presence at a global level prior to the middle of 2021.

Figure 4. Economic Outlook Uncertainty Reflects Potential for Durable Adverse Balance Sheet Effects from the Pandemic: The Case of Office Real Estate Market

Source: Bloomberg

Figure 5. US Consumer Sentiment Levels Remain Under Pressure Through the Fall, despite Continued Fiscal Support



Source: University of Michigan

On Drawing Global Portfolio Implications from Glovista's Macro Baseline Case Scenario: Glovista Sustains Overweight High Quality Stock Tilts, Precious Metals and US Corporate Debt of Secular Growth Issuers

Against the global macro baseline case scenario discussed above, one in which material downside risks to the global economic outlook cannot be minimized, we are able to draw a number of important global portfolio implications. First, it is clear that factor market slack

	August 28th 2020	August MTD Change
Gold	1964.83	-0.6%
Silver	27.503	12.8%
Oil	42.97	6.7%
EUR	1.1903	1.1%
JPY	105.37	0.4%
GBP	1.3353	2.0%
CHF	0.9042	1.0%
CAD	1.3099	2.3%
AUD	0.7365	3.1%
BRL	5.3893	-3.2%
MXN	21.7618	2.3%

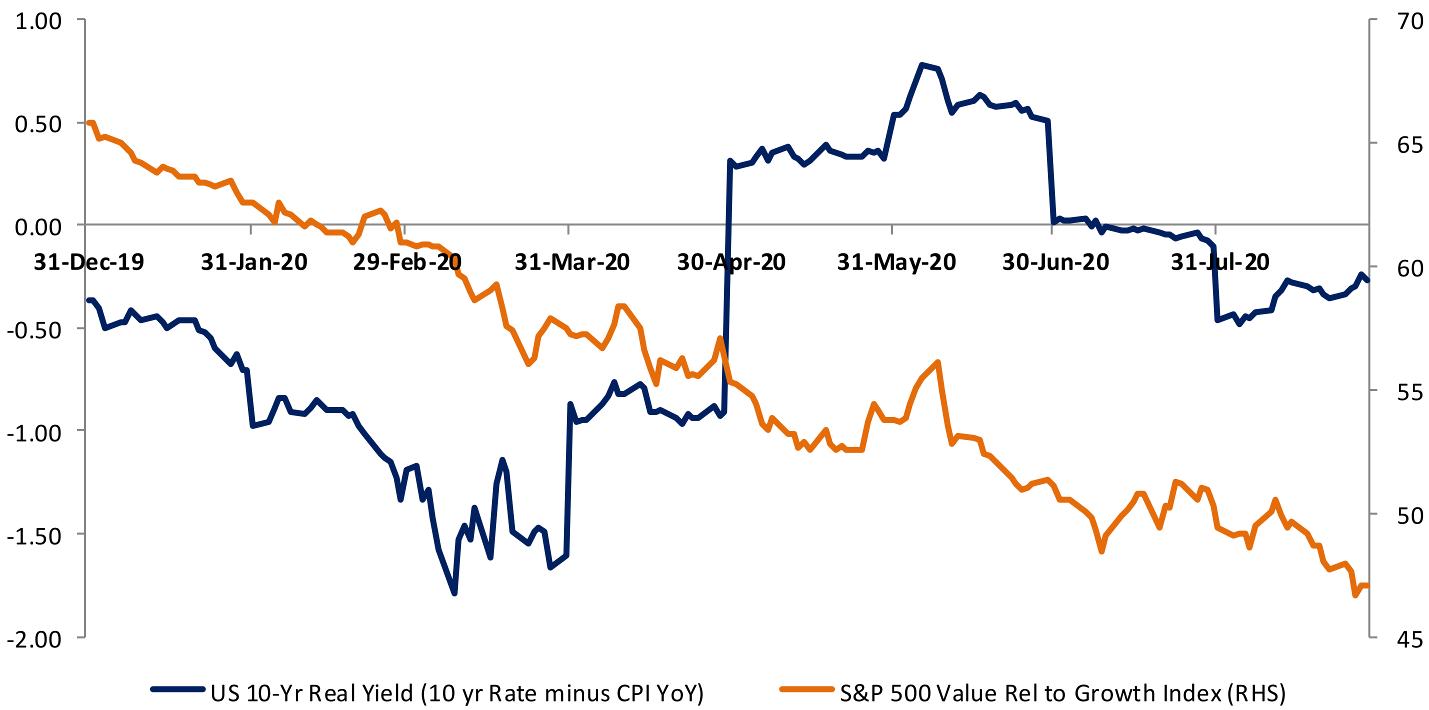
Source: Bloomberg

Rates	August 28th Levels
1 Yr CD	0.45%
5 Yr CD	0.65%
30 Yr Jumbo Mortgage	3.2%
5/1 Jumbo Mortgage	3.4%
US Govt. 10 Year	0.72%
10 Yr Swap Spread	0.005%

Source: Bloomberg

(including labor) will remain large across the world's major economies at least through the next 24 months, implying continued low nominal and real interest rates in the world's major reserve currencies. In turn, this suggests the continued desirability of gaining exposure to precious metals (especially gold but also silver and platinum). In that regard, the US FED's consequential August 27th announcement on a sustainable turn in policy focus towards average inflation targeting serves to reinforce our bullish views on precious metals and bearish US Dollar outlook. Secondly, our macro baseline case suggests value stocks are unlikely to embark upon a period of sustainable return outperformance over growth peers (Figure 6), lacking the all-important support needed by value stocks in the form of rising interest rate levels.

Figure 6. The Prospect for Continued Low Real Bond Yields Suggests Limited Potential for Value Stocks to Enter a Sustainable Bull Phase versus Growth Peers



Source: Bloomberg & Glovista Calculations

Third, at a regional level, the above considerations suggest the desirability of continuing to embrace a barbell exposure in the global equities domain, comprising overweight tilts to growth sector oriented benchmarks (US growth, emerging markets) and defensive industries (healthcare and selective staples) while underweighting value oriented indices (Eurozone especially). Within emerging markets, such macro views lend support to our continued overweight exposure to China, South Korea and Taiwan while sustaining underweight allocations to Latin America and EMEA.

Within the fixed income space, we continue to underweight value-oriented sectors, favoring instead high quality secular growth plays in the corporate space at intermediate duration. Within the corporates space, we favor US issuers over European or Japanese, both on liquidity and sector risk considerations, and in the low BBB rated category.

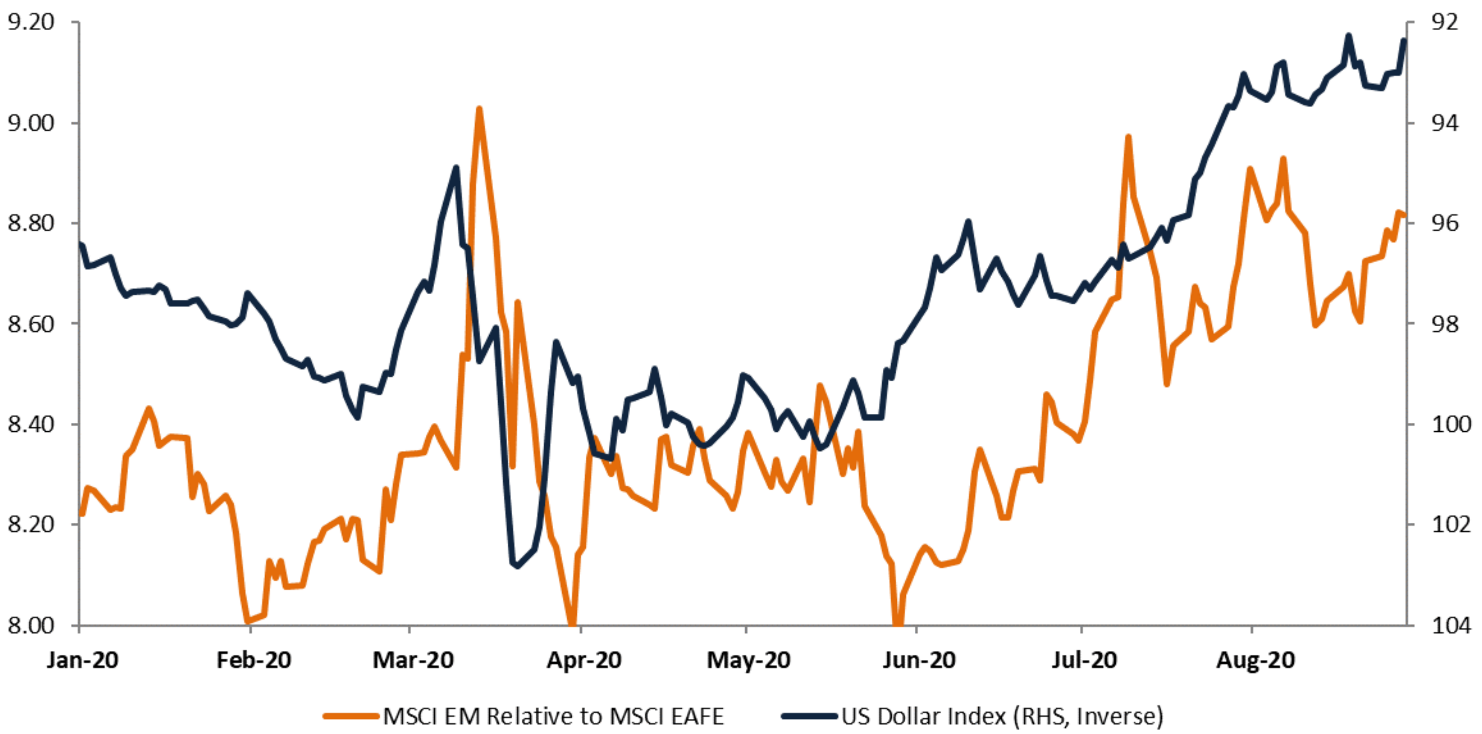
Insofar as downside risk factors are concerned, global investors are entertaining the economic and market implications from both a Biden presidential election victory as well as a Democratic party landslide in congressional elections. We believe Mr. Biden's far more moderate credentials, particularly in comparison with Bernie Sanders', render the economic implications from a Biden victory rather manageable for financial markets. An additional risk factor to the outlook concerns the continued frictions in the US economic relations with China. Thus far, the Chinese government has shown a considerable amount of restraint in the face of vocal criticisms leveled by senior US officials, likely motivated by election cycle considerations. We expect the tone of accusations of China on the part of Democrats and Republicans to diminish after the November elections come to pass. Continued geopolitical tensions between China and the USA in the South China Sea remain risk factors facing the outlook though the baseline case remains one of détente and continued posturing ahead of the November elections. Finally, on the macro front, we continue to discount any significant risk of inflation acceleration from the outlook given the pace of economic activity as well as the dire state of the US labor market.

Emerging Markets Perspectives

EM Equities Consolidate YTD Gains versus EAFE Peers on Solid Q2 Earnings Performance, COVID Resilience, Visible Growth Outlook and Attractive Valuations; Glovista Further Raises EM Asia Overweight Tilt

In August, emerging market equities have further extended the strong return performance gains that initiated following the recent March low in global indices. Over the past several weeks, EM equities have further consolidated year-to-date relative return performance gains versus international developed peers (EAFE), as illustrated in Figure 7.

Figure 7. In August, EM Equities Consolidate Solid YTD Gains versus EAFE Peers



Source: Bloomberg & Glovista Calculations

As discussed above, the current global macro and financial market backdrop is especially welcoming of high quality secular growth investment plays. At a global level, emerging market equities qualifies as one of the asset classes most closely aligned with such investment theme. Specifically, the Asia region's dominant share in the EM benchmark – at the tune of close to 80 percent weighting of the MSCI EM index – along with that region's exceedingly supportive and visible top-line and bottom-line growth engines as well as solid sovereign and corporate balance sheets are some of the multiple considerations anchoring the asset class' compelling investment attractiveness. Other supportive factors include the following:

- Vastly diminished intermediate-term downside risks to the economic outlook, as compared to western economies, given North Asian countries' vastly superior management of the societal and economic effects from the pandemic;

- Highly visible secular growth business models, as represented in index benchmarks for the major regional markets (China, Taiwan, South Korea and India) at a cyclical juncture in which global investors lack confidence on cyclical growth and value much more highly secular growth plays;

- Attractive relative valuations versus developed market peers;

- Attractive currency valuations;

- Under-owned status on the part of global asset allocators.

Over the past several weeks, the Glovista investment team has further raised our overweight allocations to the Asia region, cutting exposures to the EMEA – particularly Gulf and Central Europe – and Latin America regions.

As we look ahead to the next several months, we continue to expect little additional upside to the US Dollar despite the already strong weakening trend recorded by the Greenback these past several months. We hold such view on the basis of our expectation concerning the weakening relative growth momentum to be faced by the US economy vis-à-vis other major regional economies around the world along with the consequential FED policy announcement on August 27th, discussed above. Specifically, we expect such deceleration in US relative economic momentum to reflect both the economic effects stemming from the recent resurgence of virus infection rates in the USA as well as the marked weakening of fiscal relief measures and rise in corporate sector uncertainty levels in the period leading to the US November elections. In such context, international equities in general – and emerging market equities, in particular – should fare favorably versus US peers.

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