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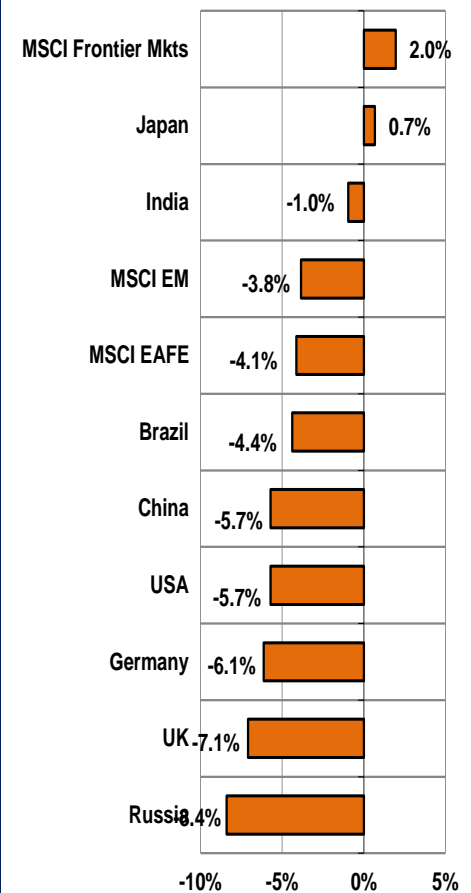
Risk Markets Sell Off in September, Fueled by Adverse Seasonality, Virus Second Wave Concerns and Decelerating Fiscal and Monetary Support; Glovista Sustains Overweight High Quality Stock Tilts

The month of September has witnessed a correction in risk indices at a global level as well as across asset classes as shown in Figure 1. The month of September has brought about a close to 10 percent intramonth price decline in global equity prices – as represented by the MSCI ACWI index – as well as 74 basis points spread widening in US high yield debt against comparable US Treasury securities.

In our view, the considerable pullback recorded by risk asset prices during the month of September is the result of several factors, some of which are interconnected, including the following:

- Adverse seasonality backdrop in September. Historically, the month of September is the most unkind to risk asset price returns, including equities (Figure 2);
- Unsupportive investor positioning prevailing at the beginning of September, particularly in US technology stocks. For example, at the beginning of September the call-put option volatility skew for large cap US technology stocks hovered at close to historical high levels, a sign strongly suggestive of near-term overbought investor exposure status;
- Sustained escalation of virus infection rates across a number of countries, especially in Europe (Figure 3), resulting in downward revisions to fourth quarter 2020 economic growth projections;
- Heightened investor concerns over so-called ‘fiscal cliff’ scenarios, particularly in the USA, following the recent death of US Supreme Court Justice Ruth Bader Ginsburg, an event that has further polarized interparty divisions within the US Congress;
- Deceleration in the pace of G3 central bank asset purchase programs;
- Increased focus over the upcoming November 3 US Presidential and Congressional elections. Specifically, investors have become increasingly sensitive to a contested US election scenario in which the lack of a clear winner

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



Source: MSCI & Bloomberg

**As of September 25th, 2020*

S&P500 Monthly Sector Performance – September MTD 2020*

| Sectors | % Change | FY1 PE Ratio |
|-------------|----------|--------------|
| Energy | -14.04% | NA |
| Materials | -0.70% | 25.3 |
| Industrials | -1.48% | 38.0 |
| Cons Disc | -5.62% | 46.9 |
| Cons Stap | -3.52% | 21.2 |
| Technology | -7.69% | 28.1 |
| Healthcare | -4.61% | 17.3 |
| Financials | -5.88% | 16.3 |
| Utilities | -0.32% | 18.6 |
| Telecom | -7.95% | 22.8 |
| Real Estate | -4.10% | 44.3 |
| S&P500 | -5.77% | 25.1 |

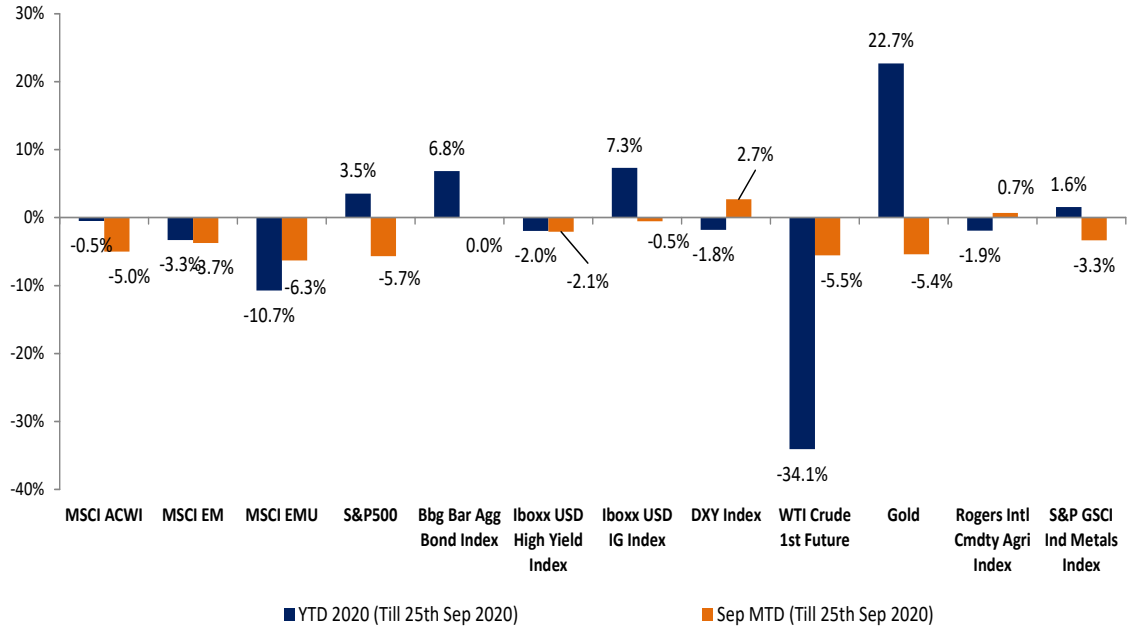
*As of September 25th, 2020

Source: Bloomberg

over a period of weeks brings about a state of legislative paralysis at a time in which the US economy remains in need of fiscal relief measures;

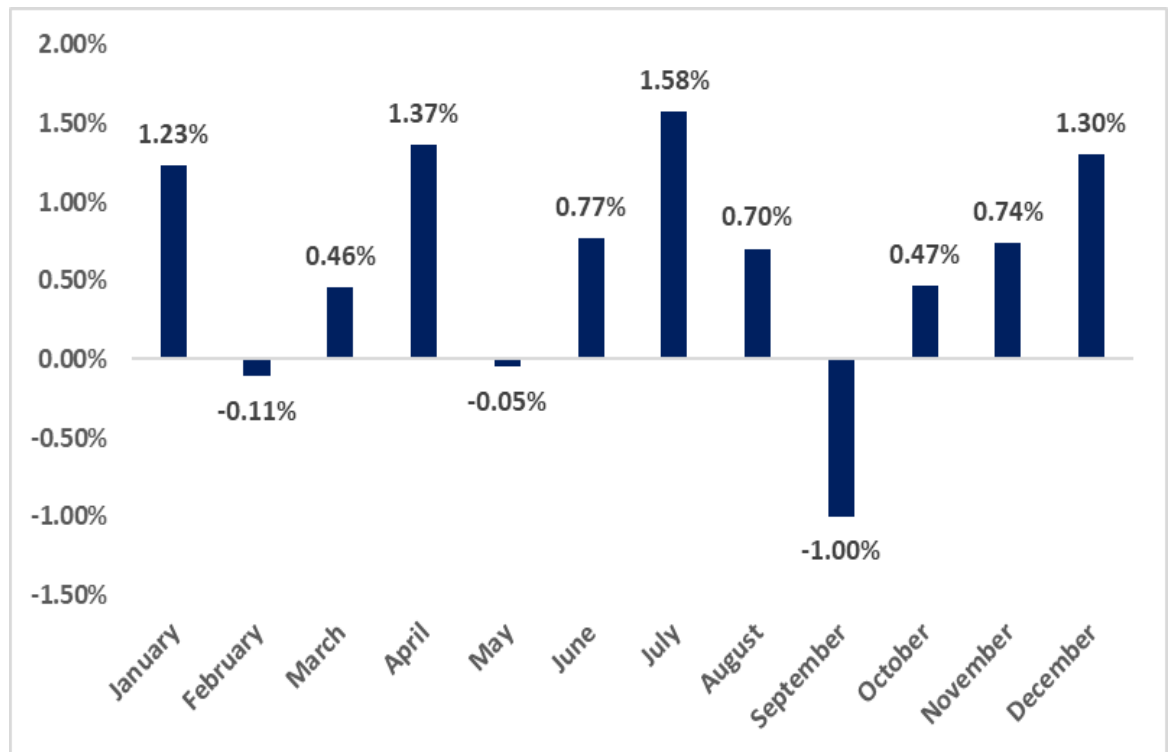
- Strengthening US Dollar following its near- and medium-term oversold status as of the end of August. Over the course of September, the US Dollar has strengthened close to 3.5%, underpinning a weakening of risk asset prices, in line with well-established historical relationships owing to global disinflationary effects exerted by US Dollar strength.

Figure 1. Risk Indices Record Considerable Price Declines in September



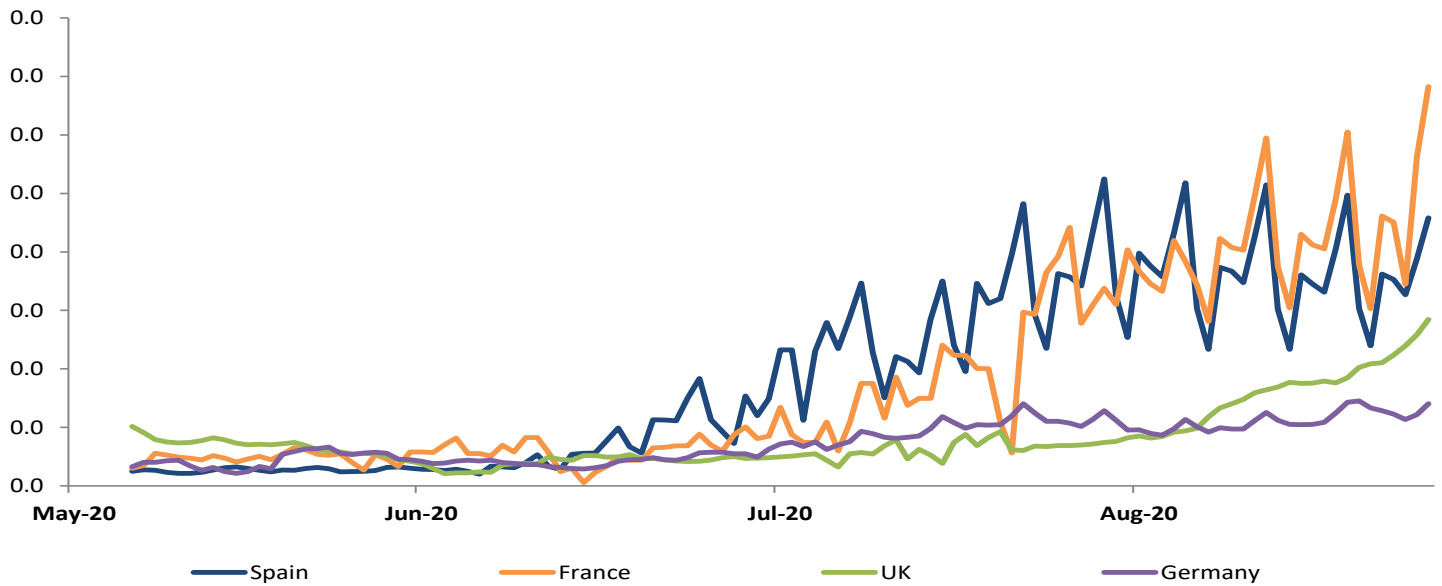
Source: Bloomberg & Glovista Calculations

Figure 2. S&P500 Seasonality: Average Monthly Returns since 1928 show September to be the worst month for the S&P500.



Source: Bloomberg & Glovista calculations

Figure 3. Escalation in Covid19 Cases across Europe: 5 Day Moving Average of Daily % Change in number of Covid19 Cases



Source: Bloomberg and Glovista Calculations

Figure 4. US Dollar Bounces Strongly in September, following Medium-term End of August Oversold Condition



Source: Bloomberg

Investor Friendly Q4 Seasonality Backdrop Along with Cleaner Investor Positioning – following September Market Correction - and Sustained Q4 Economic Expansion, Albeit at Lower Pace, Underpin Glovista’s Constructive Market Outlook

As we look ahead at the fourth quarter, we embrace a constructive outlook towards risk indices, particularly high-quality US stocks and emerging market equities. Our constructive outlook towards risk indices reflects our expectation of continued economic recovery over the coming quarters as governments across the world sponsor a sustained reopening of economic activity despite:

- The pandemic’s continued relevance as a major public healthcare concern;
- Signs of incipient second wave infection curves across a number of developed countries as well as continuing first wave curves in developing countries including India and Brazil;
- Lack of certainty concerning the availability of an effective and safe vaccine as final phase test results of the first round of vaccines will not become known before October or November;
- Lack of clarity concerning the timing by when vaccines will become available at a global level (our view remains that such availability is unlikely to materialize prior to the third quarter of 2021).

We believe strongly that governments around the world are likely to sustain an economic reopening stance in the face of abovementioned risk factors given vastly diminished virus mortality rates courtesy of the use of more effective therapeutics and social distancing practices. In addition, we believe there is a greater awareness on the part of governments and the population at large of the equally large economic, health and social costs associated with measures centered on widespread shutdown of economic activity.

As we look ahead to the coming months and quarters, it is evident that government policy measures – both on the fiscal and monetary sides – increasingly command diminished effectiveness in sustaining economic growth. However, we identify a number of offsetting factors that are likely to sustain the recovery. These include: (a) elevated levels of household savings that have accumulated over the past three quarters, and; (b) low levels of inventory – especially versus sales – that inject clarity to the manufacturing sector outlook over the coming months. Beyond such considerations, we believe that governments are likely to remain committed at putting forth qualitative forbearance measures in support of private sector balance sheets, ranging from student and mortgage loan debt to rental payment obligations.

Despite our constructive outlook insofar as the economic recovery outlook is concerned, we believe the pace and quality of the recovery is likely to remain gradual and soft, with much of the vigor centered around new technologies as well as emerging market economies that exhibit balance sheet strength, young populations, cheap currencies and high real interest rates (translating into a larger potential for additional interest rate cuts than what is arithmetically possible for developed country central bank peers to put forth).

Against the global macro backdrop discussed above, the Glovista investment team continues to favor overweight allocations to high quality stocks along with tactical exposure to cash, precious metals and intermediate duration high quality fixed income. The use of cash, precious metals and intermediate duration high quality fixed income is predicated on portfolio risk diversification considerations in a zero (or negative, in the case of Europe) interest rate world while the focus on high quality equities reflects relative value considerations (versus close to zero or negative yielding fixed income) and macro fundamental views calling for continued economic recovery over the investment horizon albeit conditioned by a set of considerable downside risk factors. Such risk factors include those of a policy nature – associated with the potential disruption of legislative action following contested November 3rd US election results as well as the diminished effectiveness of fiscal and monetary policy – and the transitional dynamics taking place at the sector and country levels on the back of the pandemic.

| | September 25 th 2020 | September MTD Change |
|--------|---------------------------------|----------------------|
| Gold | 1861.58 | -5.4% |
| Silver | 22.89 | -18.7% |
| Oil | 40.25 | -5.5% |
| EUR | 1.1631 | -2.6% |
| JPY | 105.58 | 0.3% |
| GBP | 1.2746 | -4.7% |
| CHF | 0.9283 | -2.7% |
| CAD | 1.3386 | -2.6% |
| AUD | 0.7031 | -4.7% |
| BRL | 5.5627 | -1.3% |
| MXN | 22.3363 | -2.1% |

Source: Bloomberg

| Rates | August 28 th Levels |
|----------------------|--------------------------------|
| 1 Yr CD | 0.42% |
| 5 Yr CD | 0.63% |
| 30 Yr Jumbo Mortgage | 3.1% |
| 5/1 Jumbo Mortgage | 2.8% |
| US Govt. 10 Year | 0.65% |
| 10 Yr Swap Spread | 0.03% |

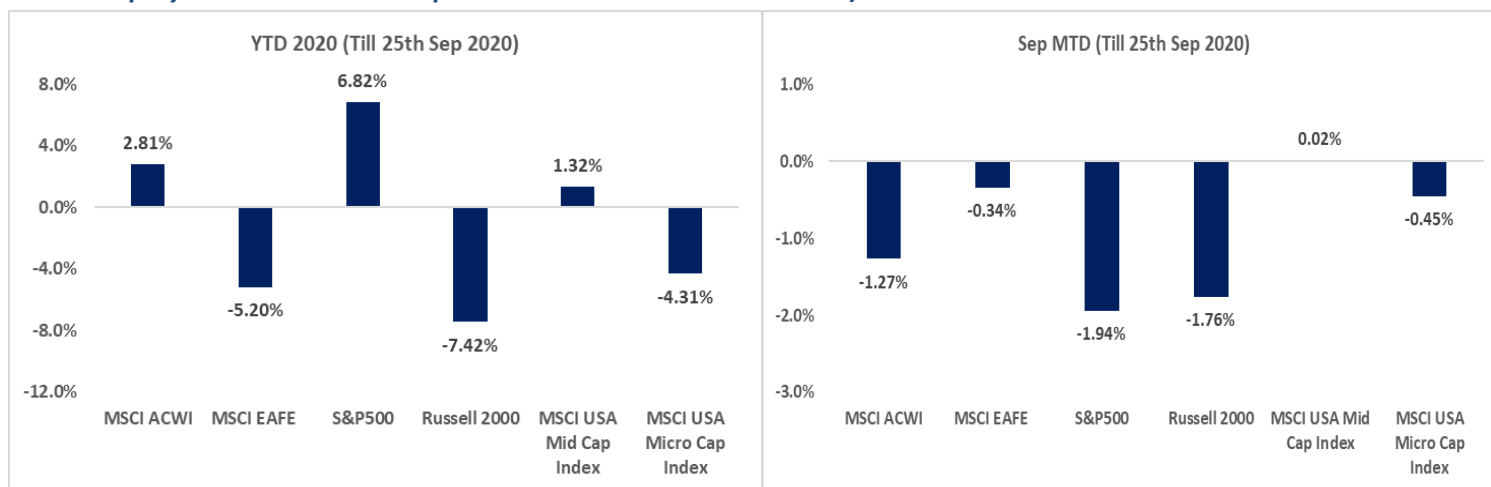
Source: Bloomberg

Emerging Markets Perspectives

EM Equities Consolidate YTD Excess Returns versus EAFE Peers on Strengthening Relative Economic Growth Momentum and Currency Resilience; Glovista Trims Value-oriented Country Underweights while Sustaining IT Sector Overweight Tilt

In September, emerging market equities – as represented by the MSCI EM index – have outperformed EAFE and US equity peers (Figure 5). Figure 5 illustrates somewhat eloquently the further broadening of what we have been calling the post-January 2016 ‘stealth bull phase’ across a growing number of developed equity market groups.

Figure 5. Through September’s “Risk-Off” Environment, EM Stocks Consolidate YTD Outperformance versus EAFE, US Micro, Small and Mid-Cap Peers while Extending Q3 Outperformance versus US Large Caps (Chart: Relative Performance of Various Equity Indices versus EM Equities over YTD and MTD horizons)



Source: Bloomberg & Glovista Calculations

Despite the prevailing ‘risk-off’ environment throughout much of the month, the Glovista team credits EM equities’ solid September return outperformance to a number of considerations, including the following:

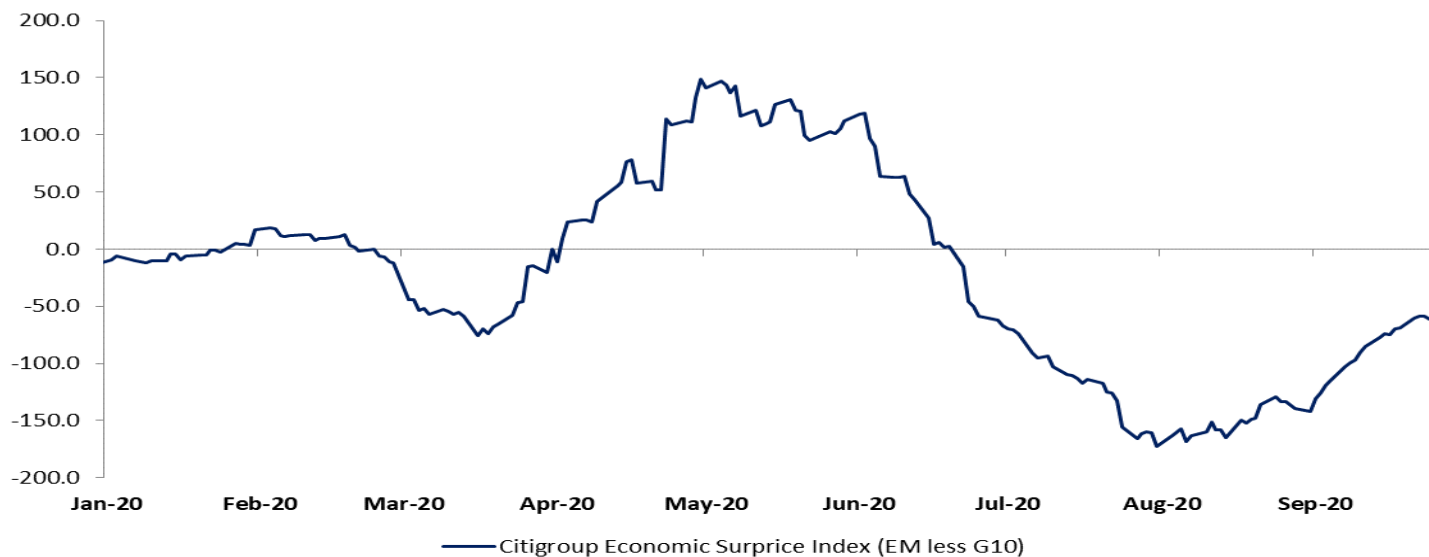
- Strengthening economic calendar across major emerging market economies, as illustrated in Figure 6 below;
- Emerging market currencies’ resilience. Figure 7 illustrates the strengthening of EM Asia currencies in September, despite the onset of a traditionally adverse market environment during the month. The Glovista investment team credits such resilience in EM Asia currencies – a region that accounts for the overriding majority of the EM equity benchmark’s capitalization, to the tune of 80% - to a number of factors, including:
 - the US Dollar’s lack of ‘carry’ following the US Federal Reserve’s firm commitment to sustain overly lax interest rate conditions through 2023, and;
 - EM central banks’ more ample room for effecting additional policy rate cuts versus their developed country peers on account of much higher nominal policy rate levels as well as higher inflation adjusted interest rates at a juncture in which inflation momentum is waning globally, including for EM economies.

As we look ahead, we expect EM equities’ relative return performance versus developed peers to extend further and possibly quite considerably. We harbor such expectation on the back of several considerations, including:

- The potential for a considerable narrowing in EM equity risk premium levels, particularly versus developed peers, following the US November 3rd presidential and congressional elections as the “anti China” pitch level that permeates

the current presidential campaign is likely to come down and also as a result of continued EM economic growth outperformance versus developed peers, especially at a juncture in which a number of developed countries in Europe and North America are starting to be impacted with a second virus infection

Figure 6. Supported by a Firming in Relative Economic Momentum through September’s “Risk-Off” Environment, EM Stocks Consolidate YTD Outperformance versus EAFE, US Micro, Small and Mid-Cap Peers while Extending Q3 Outperformance versus US Large Caps



Source: Bloomberg & Glovista Calculations

Figure 7. Through September’s “Risk-Off” Environment, EM Currencies as represented by the Asian Dollar Index Continued to Strengthen: Sign of Balance Sheet and Domestic Demand Growth Resilience



Source: Bloomberg & Glovista Calculations

wave while EM North Asia countries are far less likely to be affected by recurrent virus waves on account of their governments’ proven track record in securing their local populations against pandemics (to a large degree, owing to their prior experience overcoming pandemics these past twenty years);

- Investor positioning remains considerably underweight EM equities, a contrarian bullish condition.

While we continue to embrace a bullish investment outlook towards the EM asset class, our focus remains differentiated

across the country and sector levels. First, at the country level we continue to favor countries displaying strong macro balance sheets, positive economic momentum and currency strength while continuing to hold underweight or market neutral allocations to countries exhibiting the opposite macro characteristics. In the case of the latter, we favor exposure to export-oriented company plays (such as Vale, in the case of Brazil) that display cheap valuations and favorable exposure to a weakening currency.

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