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Monthly Market Newsletter

Glovista Global Perspectives

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Global Perspectives **P.1**

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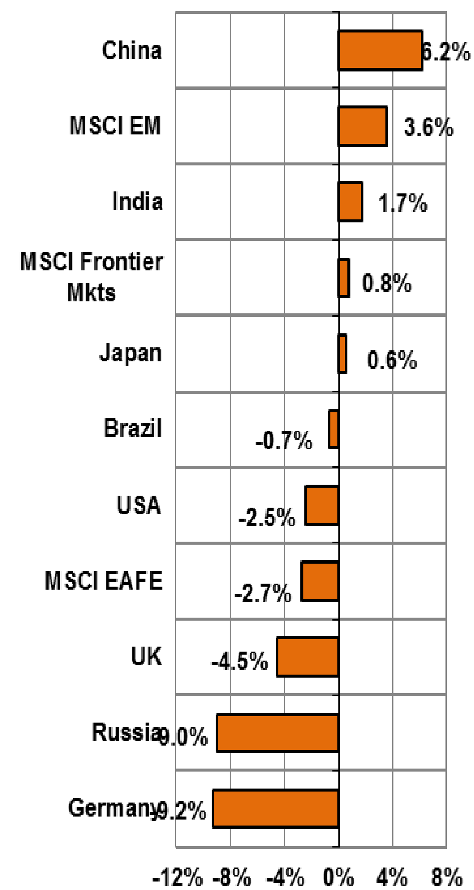
Stocks Sell Off on Heightened Near-term Virus Infection and US Election Risks; Glovista Sustains Bullish Medium-term Equities and Value Tilts, Having Cut Stock Exposures Tactically

In October, global equity prices have weakened on the back of a powerful cocktail of heightened near-term risk factors – tied to the upcoming US general elections and the sudden and sharp upturn in virus infection rates across large developed country economies sitting on the planet's northern hemisphere, especially Western Europe and North America. For example, Figure 1 illustrates the approximate 6 percent sell-off recorded by European bourses during the month of October along with return performance pullbacks across a number of risk indices.

In our view, the outsized October sell-off in risk indices has been primarily the result of a pick-up in asset risk premium levels reflecting the recent acceleration of near-term event risks, particularly the upcoming US elections and the acceleration of virus infection curves across much of developed Europe and North America. As a result, near-term economic growth expectations are assured to undergo meaningful downward revisions over the coming weeks (Figure 2). Figure 3 highlights the considerable upturn recorded in implied equity volatility, thus fueling a downward compression of equity valuation multiples.

As for heightened US election risks, recent data offered by electronic voting markets as well as regular survey polls have shown a reduction in the margin of victory projected for Democrats both for control of the White House as well as the US Senate. As a result, risk markets' considerable discounting of a so-called "Blue Wave" election outcome scenario has been partially unwound these past several days. Such increased US election risk factor is encapsulated in the sharp rise of US political risk as illustrated in Figure 4.

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



Source: MSCI & Bloomberg

**As of October 28th, 2020*

GLOVISTA INVESTMENTS

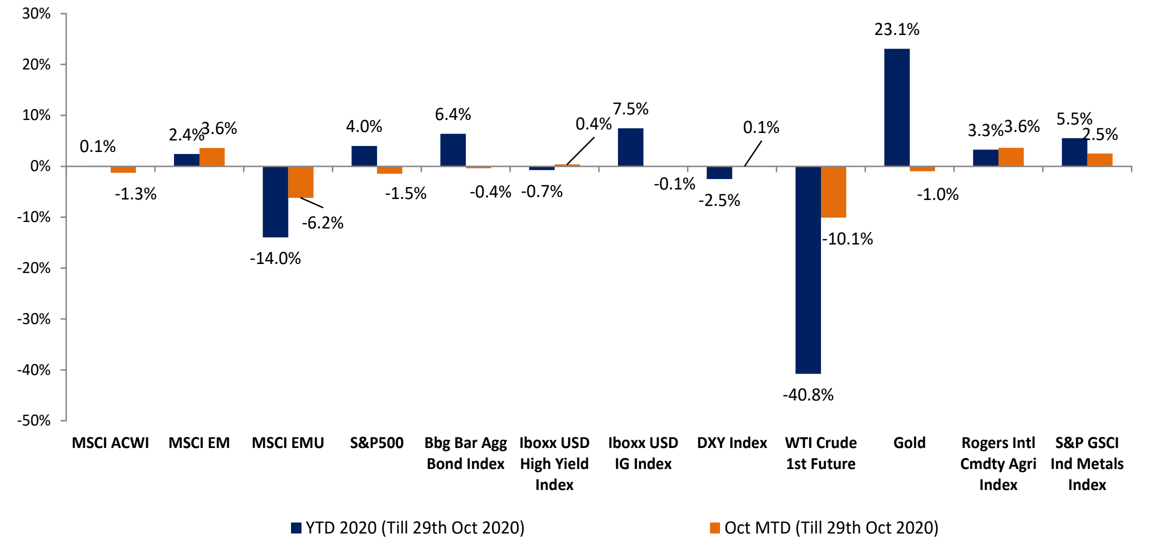
S&P500 Monthly Sector Performance – October MTD 2020*

Sectors	% Change	FY1 PE Ratio
Energy	-7.82%	NA
Materials	-2.76%	23.7
Industrials	-2.81%	38.0
Cons Disc	-0.852%	44.6
Cons Stap	-2.582%	20.7
Technology	-4.59%	25.9
Healthcare	-3.03%	16.8
Financials	-1.98%	14.8
Utilities	5.69%	18.9
Telecom	-1.28%	23.0
Real Estate	-3.99%	44.2
S&P500	-2.73%	24.0

**As of October 28th, 2020*

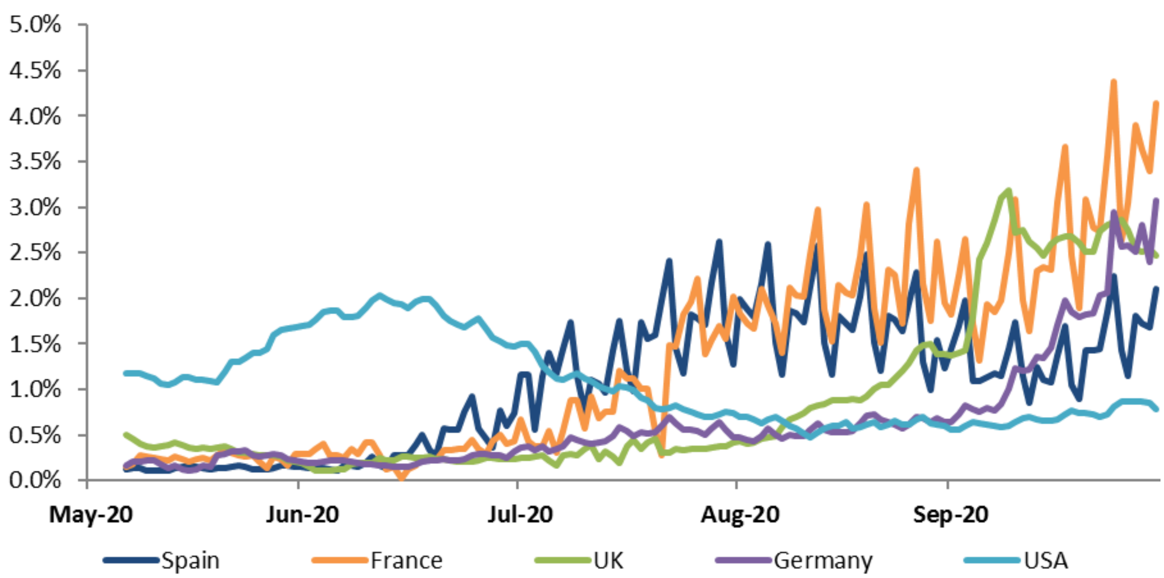
Source: Bloomberg

Figure 1. Risk Indices Sell Off in October on the back of Heightened Near-term US Election Risks and Lower Growth Expectations Stemming from Recent Virus Infection Upturns in Europe



Source: Bloomberg & Glovista Calculations

Figure 2. Virus Infection Curves Spike Higher around Mid-October, Triggering Partial Shutdown Measures by European Governments and Fueling Downward Revisions to Growth Projections



Source: Bloomberg & Glovista calculations

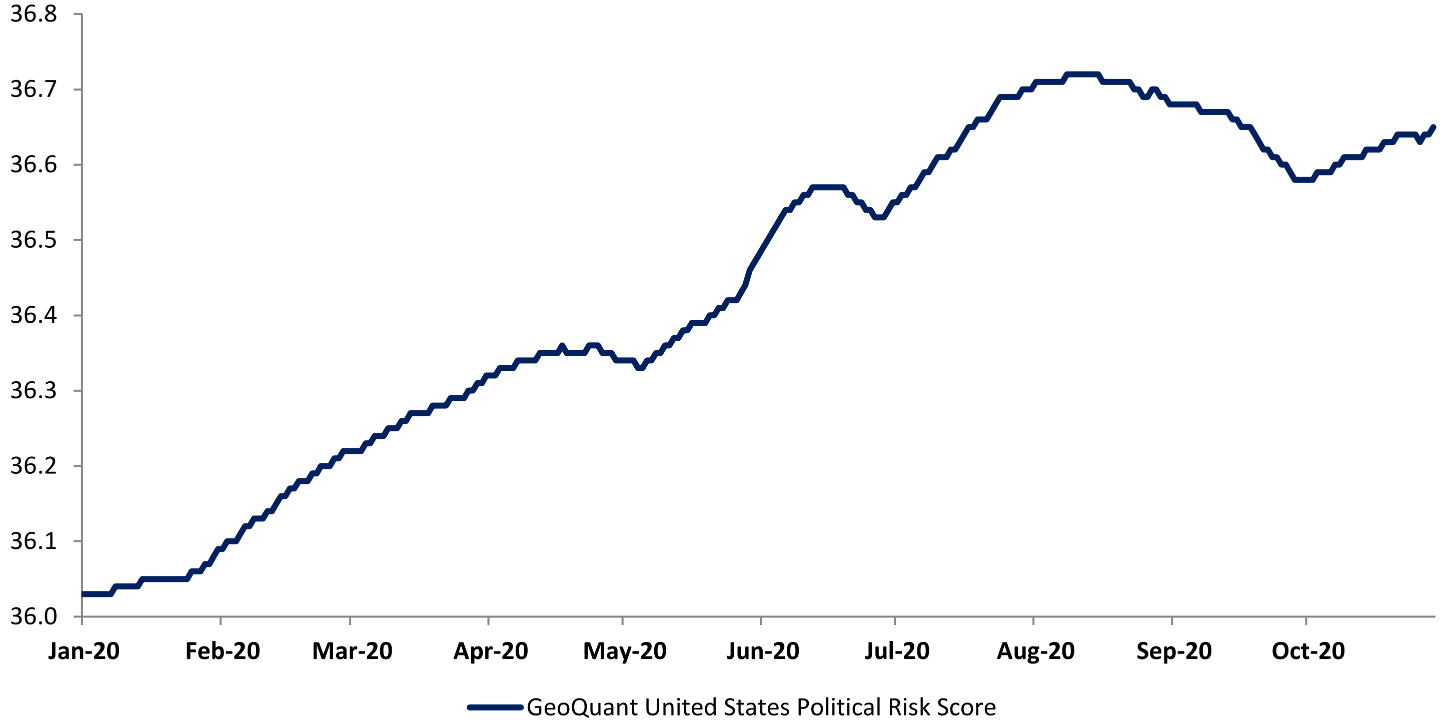
In our view, the October sell-off in risk indices – while set off by the rise of US election risks and virus infection curves in Europe and the USA, with adverse implications on economic growth expectations – has been exacerbated by fragile market positioning as levered investors – particularly hedge funds and risk parity funds – had been running unusually high net equities exposures around the middle of October, just prior to the sell-off during this month's second half. Such investor positioning can be seen as well via the extension of retail investor net bullish sentiment levels around the middle of October (Figure 5).

The October spike in virus infection curves, particularly out of Europe, has resulted in the enactment of broad yet partial shutdown measures by governments out of Spain, the UK, Netherlands, Germany, France, Italy and others. As a result, the recent deceleration of Eurozone economic surprise momentum versus global peers – an indicator that harbors a strong coincident relationship with the Euro US$ exchange rate – is likely to intensify over the near term, thus raising the specter of US Dollar strength. Figure 6 highlights the powerful coincident relationship between relative economic momentum between the Eurozone region within the global developed economic bloc and the Euro US Dollar cross.

Figure 3. US Implied Equity Volatility and Volatility Skew Spike Sharply in October, on the back of Considerably Upturn in Near-term Event Risks

Source: Bloomberg

Figure 4. US Political Risk Rises in October, Setting Off Partial Unwinding of September Market Discounting of Biden Election Scenario



Source: GeoQuant

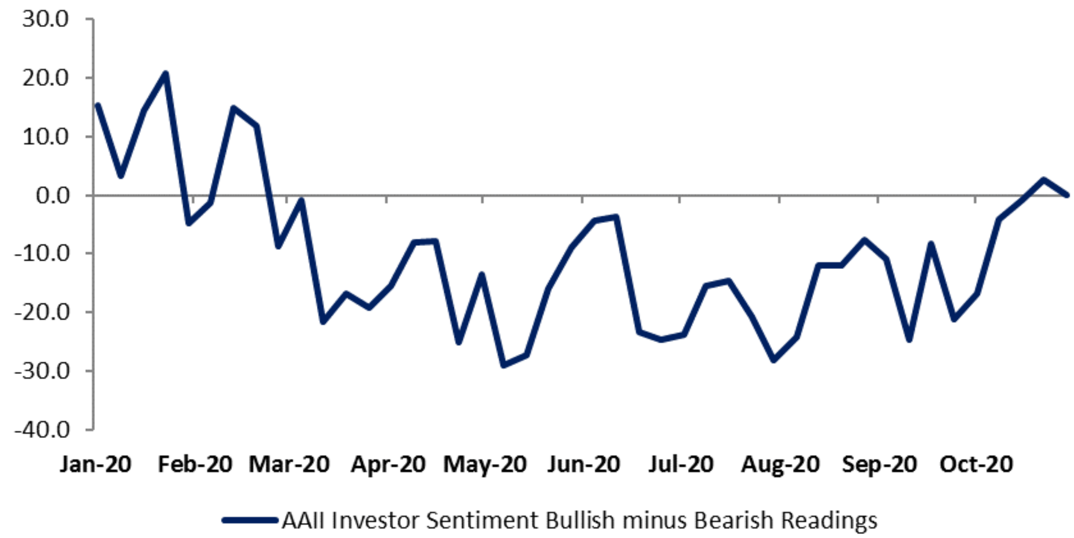
	October 29th 2020	October MTD Change
Gold	1867.59	-1.0%
Silver	23.2585	0.1%
Oil	36.17	-10.1%
EUR	1.1674	-0.4%
JPY	104.61	0.8%
GBP	1.2930	0.1%
CHF	0.9152	0.6%
CAD	1.3325	0.0%
AUD	0.7029	-1.9%
BRL	5.7793	-3.0%
MXN	21.3615	3.4%

Source: Bloomberg

Rates	October 29th Levels
1 Yr CD	0.41%
5 Yr CD	0.61%
30 Yr Jumbo Mortgage	3.05%
5/1 Jumbo Mortgage	2.86%
US Govt. 10 Year	0.823%
10 Yr Swap Spread	0.024%

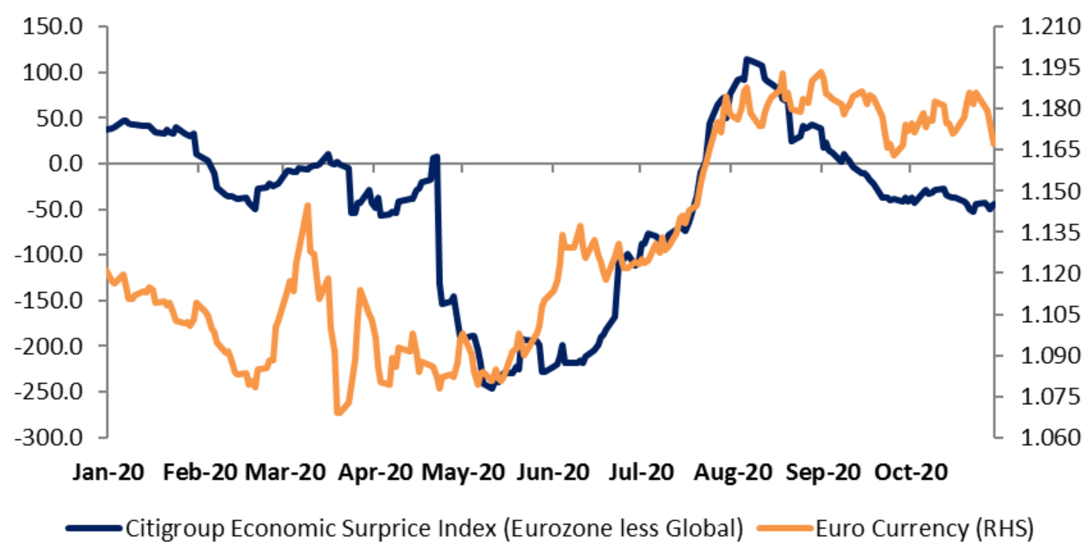
Source: Bloomberg

Figure 5. US Retail Investor Net Bullish Investor Sentiment Hovered at High Levels in Mid-October



Source: American Association of Individual Investors

Figure 6. Europe's Virus Infection Curve Spike Raises Specter of US$ Strength, a Potential Negative for Risk Markets



Source: Citigroup, Bloomberg & Glovista Calculations

Glovista Sustains Bullish Medium-term Equities Outlook on Business Cycle, Policy Backdrop and Asset Valuation Considerations

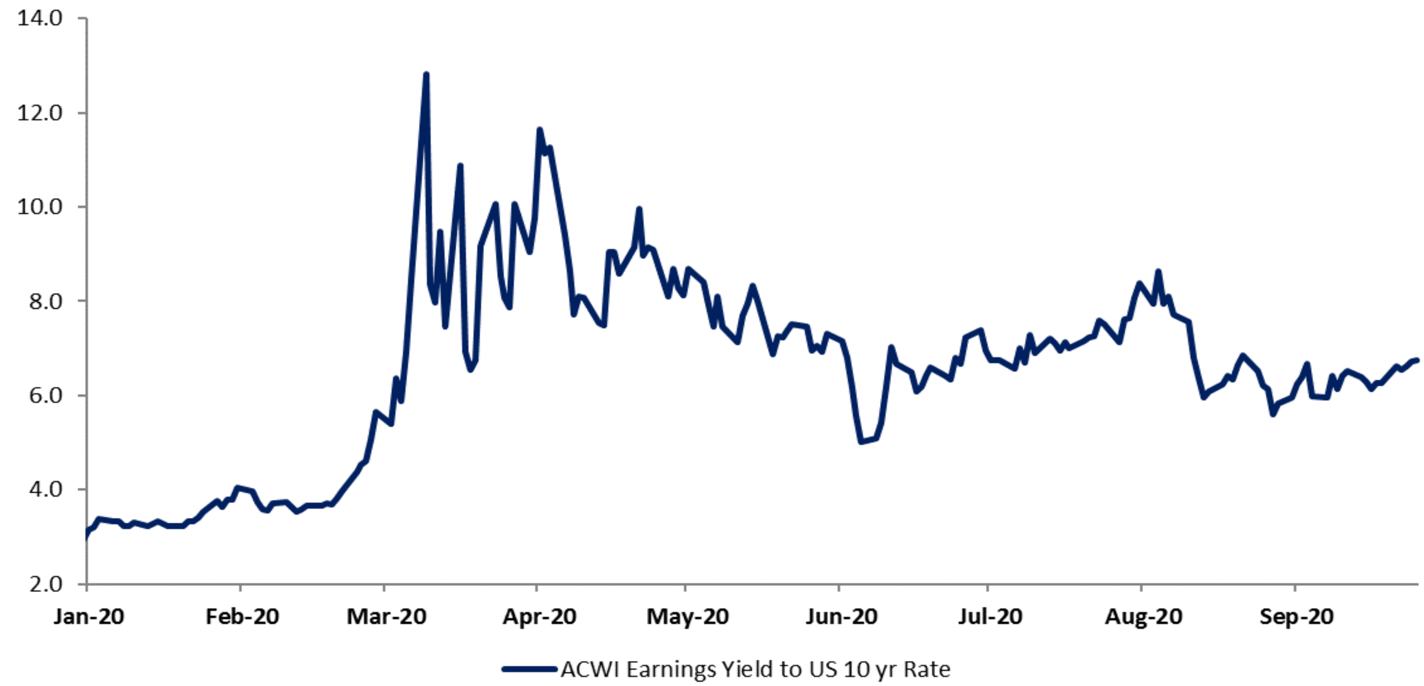
As we look ahead over the coming months, our investment team sustains a bullish outlook towards global equities, especially emerging market and high-quality US industrial, material and technology stocks. While the near-term outlook, covering a period of weeks, is conditioned by the duo of event risks discussed above, over the next several months we expect risk markets to hover at higher levels on the back of several considerations:

- Continued upturn in the global business cycle as mobility indicators continue to point to a "learning to live with the monster"-type stance on the part of economic agents around the world at a juncture in which household savings rates hover at unusually high levels following the forced savings resulting from the year-to-date shutdowns as well as the large government transfers made thus far. Even in the case of Europe, a region most directly affected by the virus on account of its large percentage of elderly population as well as culture at odds with social distancing practices, European government shutdown measures announced earlier this week have been targeted on the sectors most at risk of fueling higher infection rates – other sectors, including schools and workplaces remain largely open across some, though not all of, the major Eurozone regional economies, such as Germany;

- Most of the heavily populated regions in the world's southern hemisphere, including India and Brazil, have recorded marked declines in virus infection rates these past several weeks while heavily populated north Asian countries continue to withstand the virus incidence with stellar resilience, most notably Taiwan's experience of zero Covid infection cases over the past 200 days. The overriding majority of those countries are structurally fast-growing on account of their developing status. As such, the firming of local demand conditions in such countries is likely to support the medium-term outlook on commodity prices. The latter, combined with this year's breakdown in the multi-year US Dollar bull cycle – especially versus some of the largest economies in Europe and Asia – is likely to reinforce powerful reflationary dynamics, historically a supportive dynamic for risk asset prices, especially equities;

- From a cross-asset valuation perspective, equities remain considerably more attractively valued than cash or fixed income. Such observation reflects stocks' vastly higher earnings yield to comparable bond yields (Figure 7), particularly as we do not embrace a double-dip recession scenario in 2021 as a baseline case.

Figure 7. Global Equities Remain Vastly More Attractively Valued than Fixed Income



Source: Bloomberg

Against such backdrop, earlier in October the Glovista investment team decided to lower our managed portfolios' equity weightings while dialing down technology and healthcare sector overweight tilts given those sectors' indirect and direct sensitivity to the upcoming US election results. We have raised exposure to attractively valued non-US equities, especially in the emerging markets owing to considerations discussed at greater length in the section below. As for fixed income markets, we have kept our exposures approximately unchanged these past several weeks, favoring US high grade debt and senior loans over the rest of the bond market space. As for precious metals, the unusually high return correlations with equities led us to cut exposure earlier this month at considerably higher levels than those prevailing at the date of publication of this report. We are looking to reinstate exposure to precious metals once risk considerations become more compelling.

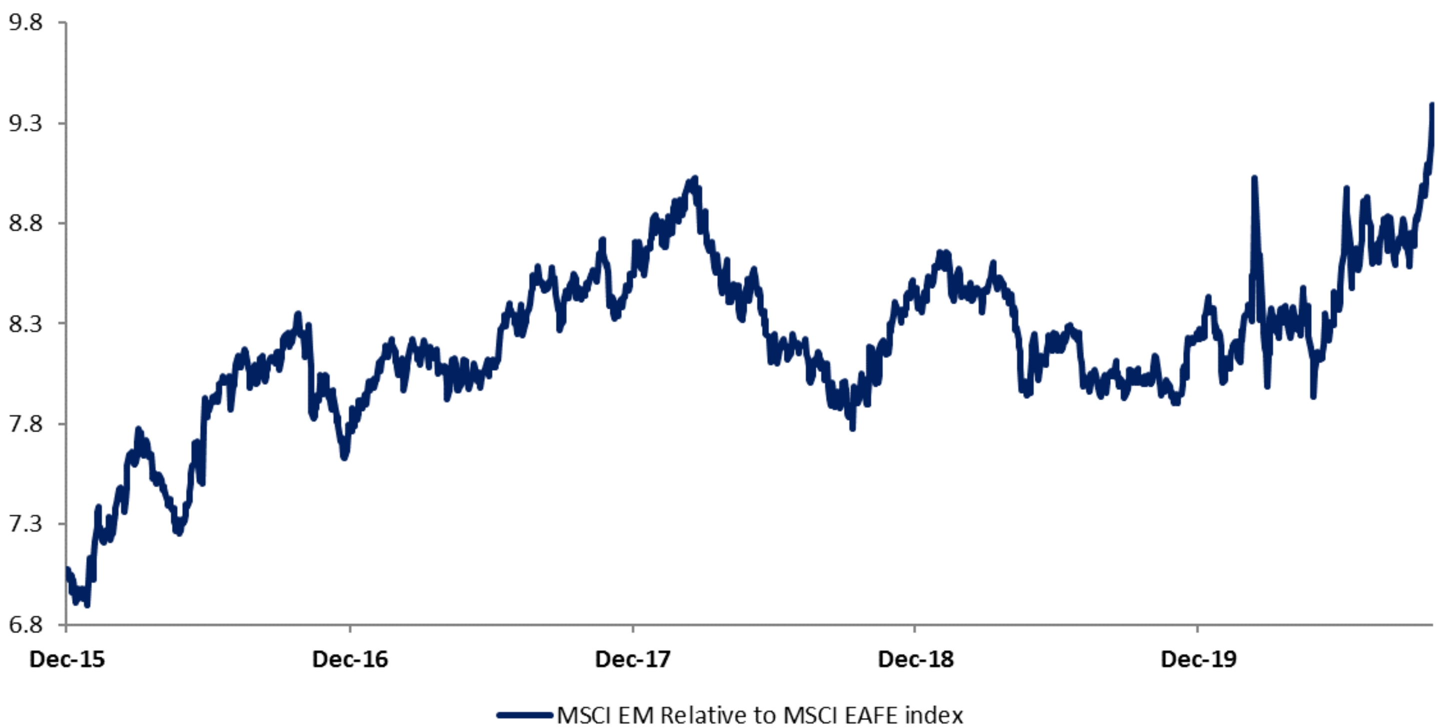
Emerging Markets Perspectives

EM Equities Further Extend Return Dominance versus Developed Peers, Fueled by EM Asia Equities; Glovista Sustains Asia Overweight Tilt; Valuation, Diversification, Growth Thesis Remains Unchallenged

In October, year-to-date return performance trends within the emerging markets asset class remained unchanged, with performance leadership centered in the Asia region. That the October pullback in global equity prices has been fueled partly by renewed concerns over a new virus infection wave impacting Europe and North America only served to reinforce the compelling case for ownership of EM Asia equities. North Asian countries have been stellar outperformers in successfully navigating the challenges associated with containment of the pandemic. At the economic level, the latter implies the visibility of revenue and earnings performance as well as corporate balance sheet strength increasingly commanded by corporates out of the North Asia region is likely to sustain and extend versus European and North American peers well into the third quarter of 2021. Moreover, that EM Asia stock indices are heavily dominated by domestic demand-oriented sector stocks, including information technology and consumer discretionary, and trading at considerable valuation discounts to developed peers, only serve to reinforce Asia region stocks' investment attractiveness.

In October, the above-mentioned considerations along with US fiscal cliff concerns and renewed activity shutdowns in Europe have served to propel EM equity prices solidly above 10 year relative high total return performance levels versus EAFE peers, in US Dollar terms, as well as further extend medium- and short-term relative return outperformance versus US micro/small/mid and large cap stocks. Figure 8 illustrates EM equities' solid breakout in relative return performance versus EAFE peers while Figure 9 does the same for US small, mid and large cap stocks.

Figure 8. EM Equities' Multi-year Outperformance versus EAFE Peers Further Extends during October



Source: MSCI and Glovista Calculations

Figure 9. EM Equities' Outperformance versus US (NYSE) Stocks Reaches 2 year Mark

Source: MSCI, Bloomberg and Glovista Calculations

During the month of October, we have sustained overweight Asia and underweight Middle East and Central Europe allocations while trimming underweight Latin America allocations, particularly Mexico and Chile. Our Mexico and Chile country upgrades reflect resilient corporate earnings out of several large capitalization weighted stocks in those two Latin American markets along with sufficiently attractive valuation levels and favorable sovereign macro balance sheet positions relative to those other countries we continue to underweight - Turkey, some Central European, African and Middle Eastern countries.

As we look ahead to the rest of the year, global markets are likely to take their cue from the upcoming US election results – particularly the mosaic of control of Congress and the White House by each party – as well as the economic consequences of the shutdown measures being introduced in Europe and the US following the ongoing virus infection wave. Historically, the months of November and December are seasonally supportive of global equities. In addition, the second half of November will bring about results of ongoing phase 3 Covid-19 vaccine tests. Such developments could combine to lend support to risk markets.

We continue to prefer overweight allocations to northern Asian markets (China, Taiwan and South Korea), India, Chile and Mexico while remaining underweight the Middle-East, Eastern Europe and Malaysia.

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GLOVISTA INVESTMENTS

1 Evertrust Plaza Suite 1102
Jersey City NJ 07302
Tel: 212-336-1540
Website: www.glovista.net