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Monthly Market Newsletter

Glovista Global Perspectives

This Issue:

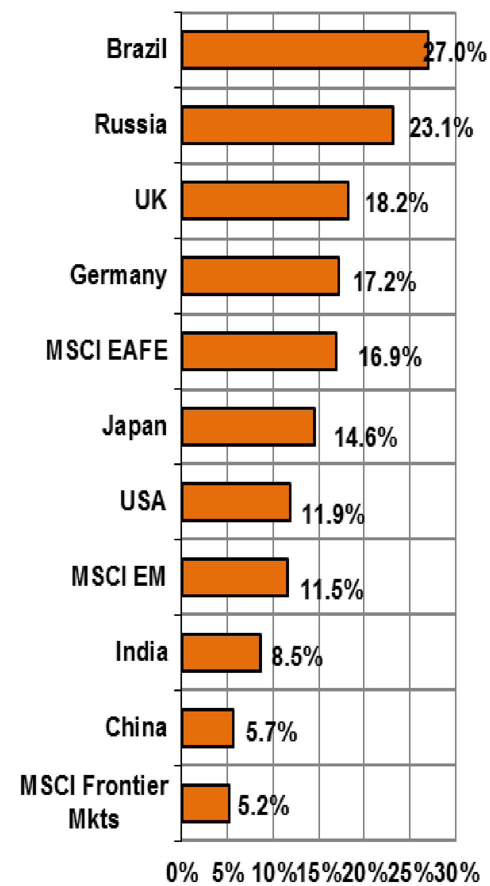
Risk Markets Rally Sharply on Seasonality and US Election-Vaccine Results. Value Stocks Record Strongest Monthly Outperformance of Growth Peers in Decades. Glovista Sustains Longstanding Tilts

Somewhat unsurprisingly, the month of November has proven pivotal for global markets as over the past several months global investors had been hedging portfolio exposures ahead of two key scheduled developments for the month of November: the November 6 US general elections and the scheduled November release of phase 3 test results for two of the major vaccines targeting the Covid-19 virus: Pfizer's and Moderna's. In the process, the outcomes to both sets of scheduled developments have been as investor friendly as what was conceivable. We discuss those two sets of developments further below while aiming to outline the corresponding portfolio strategy investment implications over the medium-term outlook. Figure 1 summarizes the breadth of risk asset price gains unfolding thus far in November, cutting across the equities, credit and currency divides.

As we review the outcome to the November 6th US election results as well as the significance of the recent phase 3 test results to the Covid-19 vaccines developed by Pfizer and Moderna it is constructive to draw on investor's placement of considerable importance to such scheduled events during the period leading to the early November period. Figure 2 highlights the considerable reduction in risk exposure undertaken by global investors (for the case of US equities) in the period immediately prior to the beginning of November, as evidenced by the spike in the VIX implied US equity volatility index at the end of October.

As noted above, the outcomes to both Covid-19 vaccines (Pfizer's and Moderna's) as well as the UK's Astrazeneca's to a lesser extent, and the US general elections were as investor-friendly as what could have been expected:

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



Source: MSCI & Bloomberg

****As of November 27th, 2020***

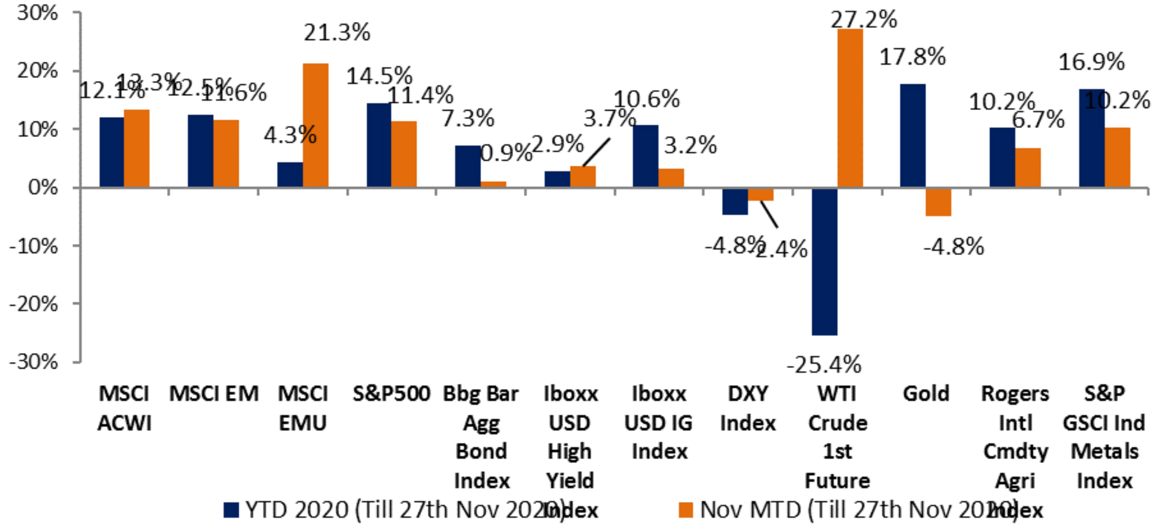
S&P500 Monthly Sector Performance – November MTD 2020*

Sectors	% Change	FY1 PE Ratio
Energy	33.75%	NA
Materials	13.27%	27.0
Industrials	16.81%	41.7
Cons Disc	9.23%	43.8
Cons Stap	7.41%	21.9
Technology	10.53%	27.9
Healthcare	7.46%	17.4
Financials	19.04%	17.6
Utilities	1.75%	19.0
Telecom	10.40%	25.1
Real Estate	7.66%	48.3
S&P500	11.27%	25.9

*As of November 27th, 2020

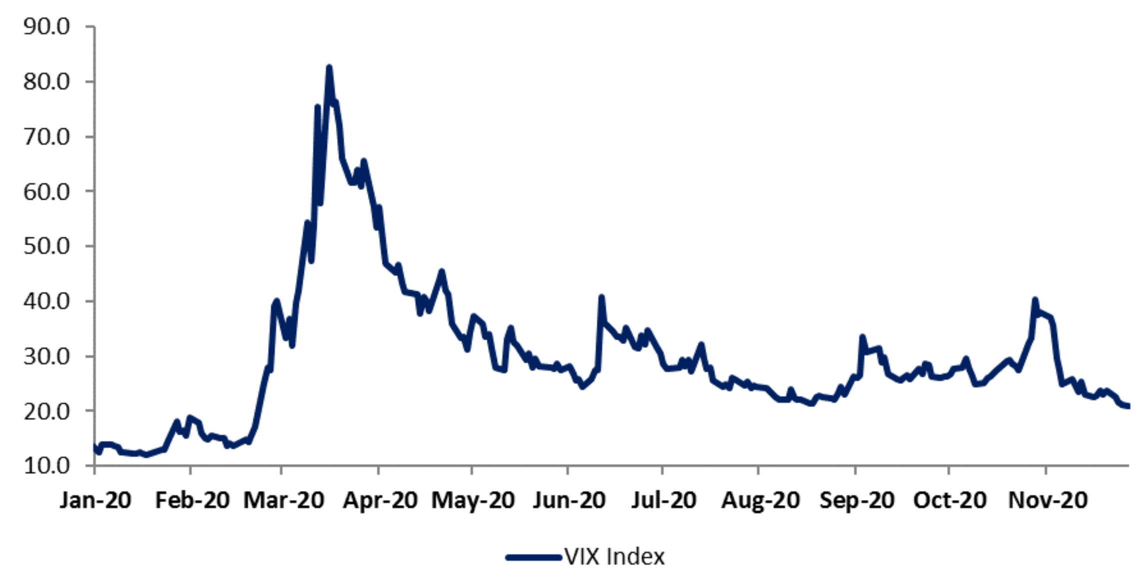
Source: Bloomberg

Figure 1. Risk Indices Post Sharp November Rally on Supportive US Election and Vaccine Test Results



Source: Bloomberg & Glovista Calculations

Figure 2. Investors Trimmed Risk Exposures Ahead of Scheduled November Vaccine and US Election Results : The Case of Equities (VIX Implied Volatility Index)



Source: Bloomberg

- On the vaccine front, the efficacy rates associated with the Pfizer and Moderna vaccines reached the unprecedented range of 90 to 95 percent as compared to historical average levels in the vicinity of 55-65% for the typical vaccine. Moreover, minimal incidence of side effects from said vaccines were reported in November. Astrazeneca's covid-19 phase 3 test results were also reported although the efficacy rates were moderately lower than Pfizer's and Moderna's while the testing procedure ailed from some deficiencies that have resulted in calls for the conduct of new tests prior to final official assessments on the efficacy and safety of said vaccine.

- The November 6th US elections are likely to result in a split government whereby Democrats wield control of the House and the White House while Republicans are likely to retain control of the Senate (assuming the retention of two Senate seats from the state of Georgia that will be decided in a run-off on January 5th). As is well known, investors harbor a preference for split government control as such configurations are perceived to reflect a "smaller government" regime in which the private sector is more likely to prosper. A second respect in which the US election results were investor friendly derives from the lack of meaningful disruption to state-level certifications of the election results notwithstanding a number of lawsuits introduced by the GOP, virtually all of which have been ruled by the courts to be without merit.

To sum up the above, the bulk of the asset price rally unfolding during the month of November responds to the higher valuation multiples consistent with the considerably lower economic and policy risk defining the medium-term outlook both on account of the availability of effective vaccines to become widely available in 2021 and higher policy visibility (resulting from clear US election results). Of course, each of these dynamics carries more elaborate implications across and within asset classes (equities, credit, currencies) as well as across geographic regions (USA, Europe, developed Asia, emerging Asia, Africa and Latin America). We discuss some of these in the sections below.

Vaccine and US Election Results Strengthen Equities' Investment Allure versus Fixed Income; Within Equities, Value Stocks' Outlook Likely to Benefit Disproportionately, Especially Non-US; Within Non-US Equities, EM Equities Likely to Prove the Largest Beneficiary Asset Class

As the Glovista investment team reassesses the investment thesis accompanying our cross-asset class and intra-asset class views following the highly consequential November US election and vaccine test results developments, we draw the following conclusions:

- Increased visibility surrounding a 2021 global economic recovery, particularly during the year's second half as herd immunity (attained via the combination of the number of those already infected with those to be vaccinated during the first half of 2021) is reached by May or June in the case of the United States, with Europe and North Asia following shortly thereafter. Such increased visibility devolves into vastly reduced downside risk scenarios for the global economy during 2021;

- Increased valuation attractiveness for equities over fixed income owing to equities' higher beta to the economic cycle and G3 central banks' continued commitment to sustain loose liquidity conditions and low interest rates over the coming several years as the real economy's recovery lags asset markets' recovery, as is the case in all prior business cycle phases. Figure 3 illustrates global equities' elevated earnings yields versus comparably rated corporate bond paper;

- Value stocks' increased valuation attractiveness owing to the asymmetrically beneficiary effects exerted on value stocks by an economic reopening scenario in 2021, whose probability weight is considerably higher today as a result of the recently reported vaccine results as well as a Biden administration's more activist policy stance. Figure 4 illustrates value stocks' cheap relative valuations versus growth stocks at a juncture in which the macro backdrop is turning increasingly supportive of value stocks' relative performance on account of the higher probability associated with normalized economic activity by the middle of 2021;

- Emerging market equities look poised to assume global return performance leadership status within global equities following the 5 year long stealth bull phase recorded versus EAFE peers and 2.5 year long stealth bull phase recorded versus US micro-, small- and mid-cap stocks. Specifically, over the coming years EM equities look poised to extend their 7 month long relative outperformance versus US large caps, thereby assuming the top echelon of return performance within global equities. Such thesis is predicated on multiple considerations, including:

GLOVISTA INVESTMENTS

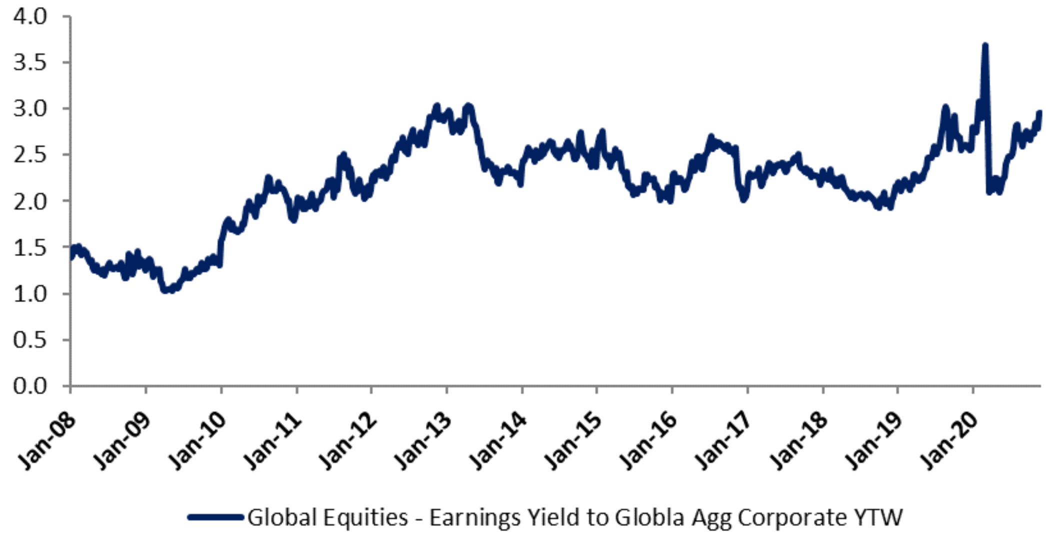
	November 27th 2020	November MTD Change
Gold	1787.79	-4.8%
Silver	22.5739	-4.6%
Oil	45.53	27.2%
EUR	1.1963	2.7%
JPY	104.09	0.5%
GBP	1.3311	2.8%
CHF	0.9063	1.2%
CAD	1.2989	2.5%
AUD	0.7387	5.1%
BRL	5.3369	7.1%
MXN	20.0437	5.4%

Source: Bloomberg

Rates	November 27th Levels
1 Yr CD	0.39%
5 Yr CD	0.58%
30 Yr Jumbo Mortgage	3.01%
5/1 Jumbo Mortgage	2.81%
US Govt. 10 Year	0.8373%
10 Yr Swap Spread	0.004%

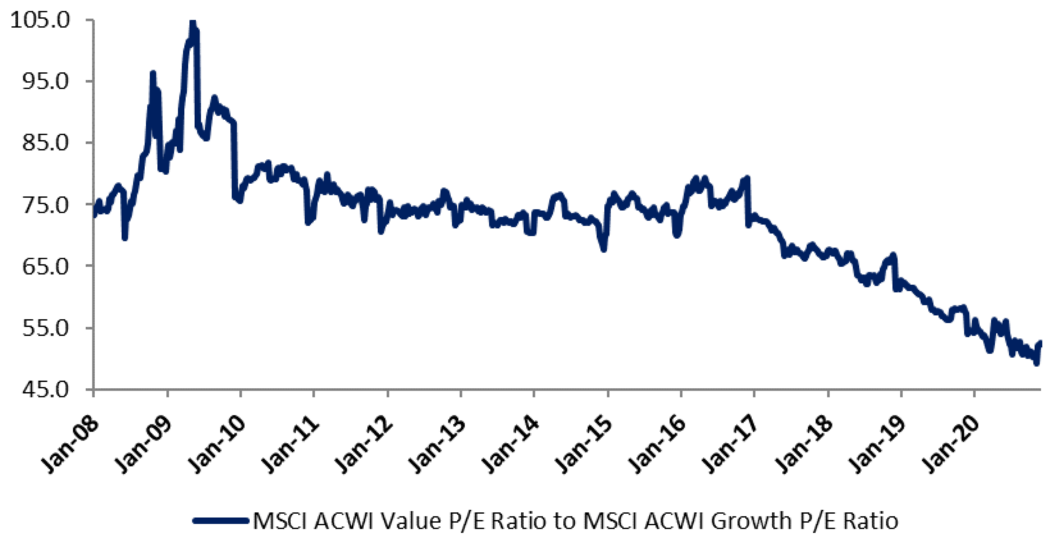
Source: Bloomberg

Figure 3. Equities' Valuations versus Fixed Income at Historically Cheap Levels: Yield Differentials



Source: MSCI, Bloomberg and Glovista Calculations

Figure 4. Value Stocks' Relative P/E Valuations versus Growth Peers Hovers at Close to Multi-Year Low Levels at a Juncture in which the Macro Backdrop Looks Poised to Turn Favorable for Value Stocks



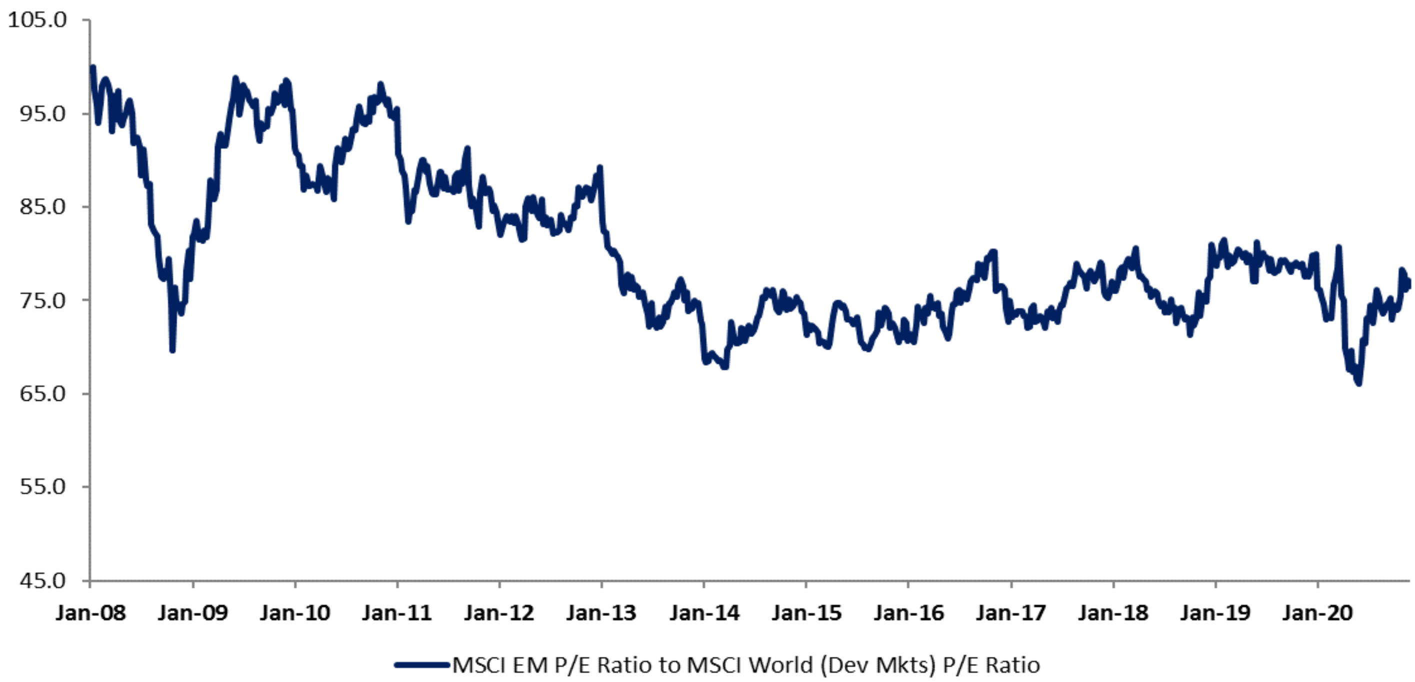
Source: MSCI, Bloomberg and Glovista Calculations

- the EM asset class' cheap relative valuations versus global peers (Figure 5);
- favorable tailwind factors offered by the ongoing weak US Dollar period that is likely to persist over the coming years (Figure 6);
- the considerably stronger visibility associated with EM economies' growth outlook both on account of its rising middle class, lower (public and private) debt levels (as developed countries' debt issuance vastly outstripped EM countries' during this pandemic period) and larger potential for financial deepening across many of the local economies owing to the much higher prevailing real interest rate levels

versus those of developed countries';

- the EM asset class' vastly under-owned status. At present, EM equities represent close to 12 percent of global equity index benchmarks' weighting while investors' exposures hover closer to 8 percent.

Figure 5. EM Equity Valuations Hover Below Historical Average Valuations versus Global Peers despite Commanding Vastly Lower Cyclical and Balance Sheet Risks (Both Sovereign and Corporate) than in the Past



Source: MSCI, Bloomberg and Glovista Calculations

Figure 6. EM Currencies Look Poised to Revalue Significantly versus Developed Peers

Source: Bloomberg & JP Morgan

Glovista Sustains Constructive Global Equities Exposure, Raising Value and International Sector Tilts while Maintaining Underweight Bond Duration Exposures

Against the macro backdrop discussed above and despite the recent escalation of virus infection rates around the world, the Glovista team sustains healthy portfolio exposures to global equities while having rebalanced style and geographic tilts to value and international over the past several weeks. We also maintain exposures to gold owing to our bearish US Dollar thesis and gold's risk diversification characteristics within global cross-asset portfolio.

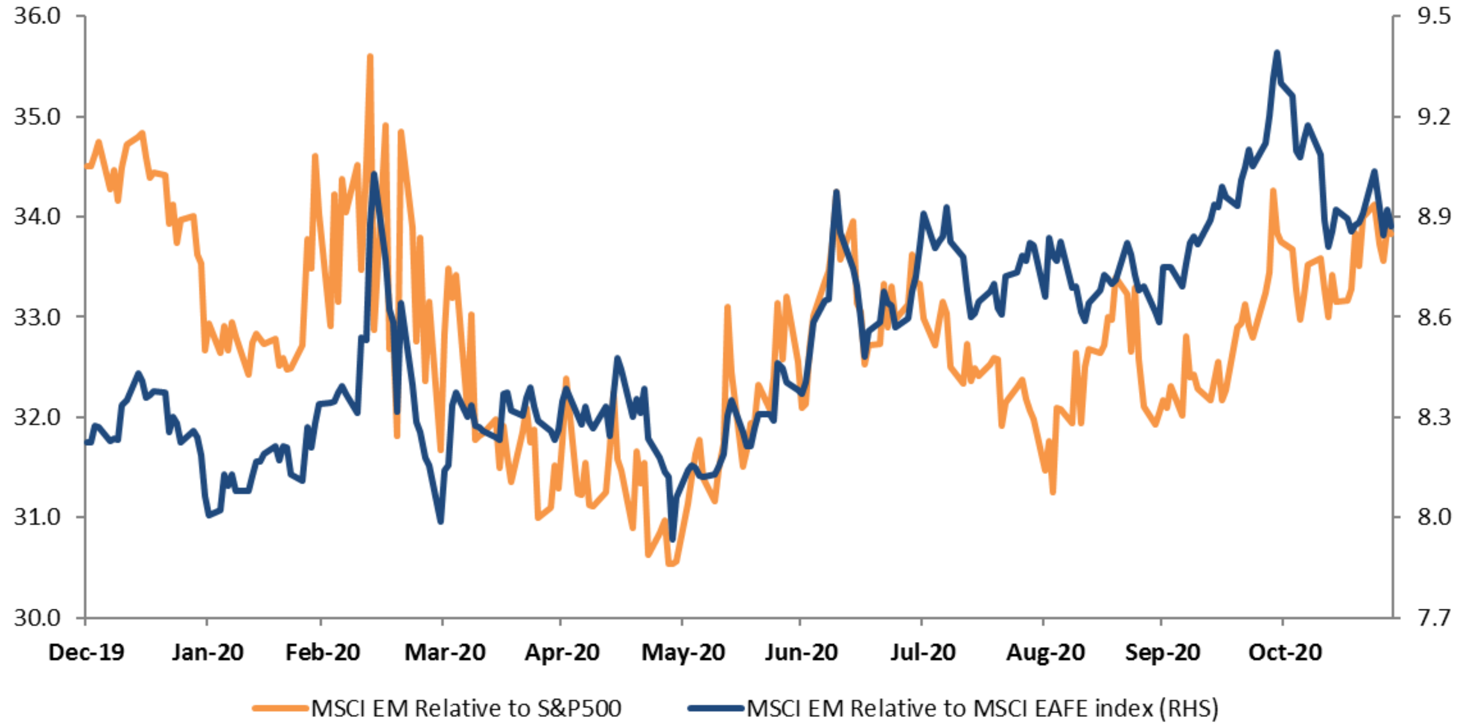
As always, there are several risk factors conditioning the outlook, including the potential for geopolitical developments (in North Asia and the Middle East, especially), a scenario of massive escalation in the virus infection rate across some of the world's most populous regions and policy slippage (including extemporaneous policy reversals by G3 central banks).

Emerging Markets Perspectives

EM Equities Participate in November's Sharp Value-Growth Style Rotation Fueled by Vaccine and US Election Results; Glovista Raises Latin America at the Expense of North Asia Tilts

In November, EM equities have rallied sharply in sync with the rest of the global equities space. Figure 7 highlights EM equities' solid November outperformance of US equities, as represented by the S&P500 index, while lagging EAFE's spectacular monthly return performance propelled by that universe's outsized value sector weightings vis-à-vis US and EM equity benchmarks. The rotation in return performance leadership from growth to value stocks was one of November's most salient market developments at a global level. As we discuss further below, such significant shift in style leadership was fueled mainly by the results of the US November 6 elections as well as the stellar phase 3 test results of Covid-19 vaccines, especially Pfizer's and Moderna's.

Figure 7. In November, EM Equities Extend Post-May 2020 Return Outperformance of S&P500 Peers while Retesting October Levels versus EAFE Peers on EAFE Index's Outsized Value Sector Weightings

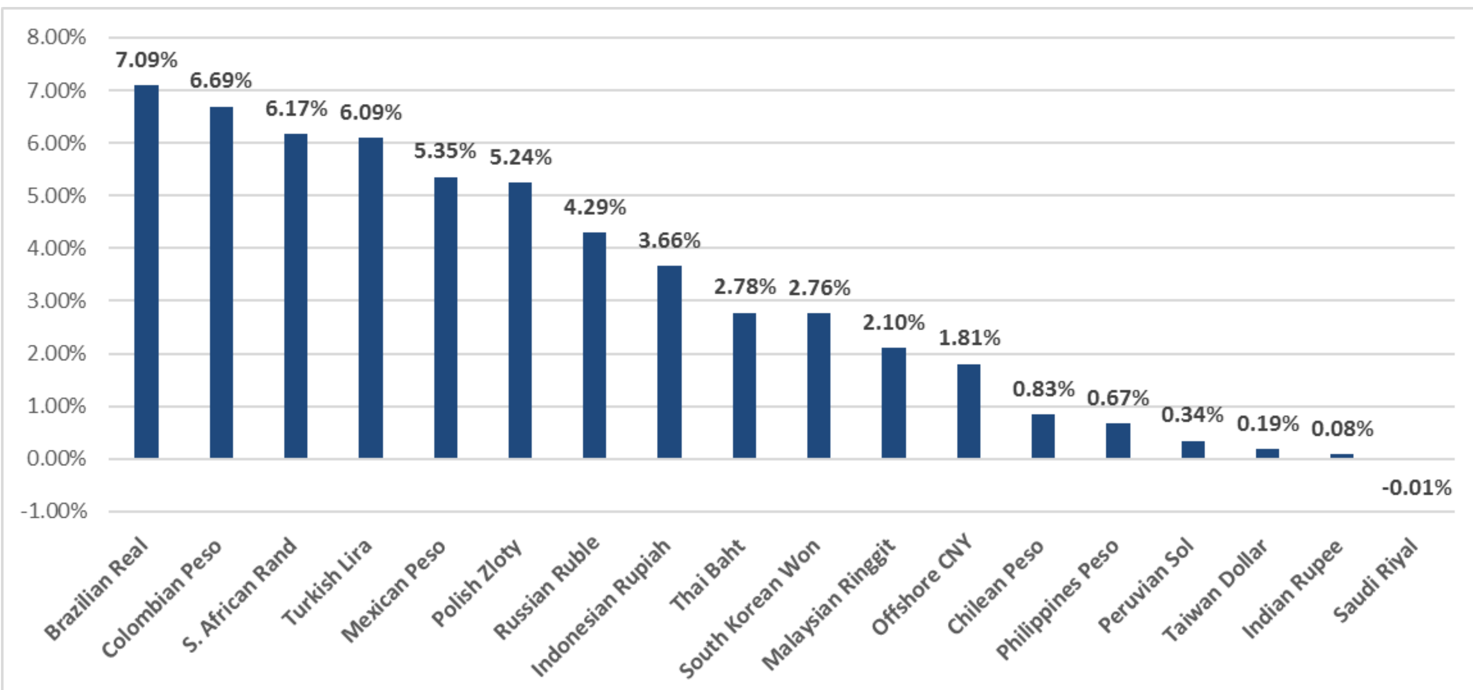


Source: MSCI, Bloomberg and Glovista Calculations

As we discussed above, the Glovista investment team firmly believes EM equities' medium-term outlook has been strengthened considerably versus developed peers on account of the recent US election results and confirmation of a definitive end to the pandemic in 2021 on account of the recently confirmed availability of viable vaccines to be applied globally over the course of next year's first half. More specifically, we outlined above the various considerations underpinning such strong conviction investment thesis.

Beyond the distinctly favorable implications on EM equities at an asset class level, the highly consequential November US election and vaccine test results exert several important implications, the most important of which arguably lies in the rotation of near-term performance leadership away from Asia to the benefit of Latin America and EMEA peers. Specifically, increased prospects of economic reopening scenarios at a global level are especially supportive of value sector-oriented markets, especially in Latin America and Eastern Europe. Those regional bourses are dominated far less by 'stay at home' tech stocks than their Asia peers while their currencies offer higher carry than those of North Asia. In that regard, it is not surprising to note that some of the top performing EM currencies (versus the US Dollar) during the month of November hail from the Latin America and Eastern European regions (Figure 8).

Figure 8. Latin America and EMEA Currencies Post Strong November Outperformance of Asia Peers, Fueled by Vastly Increased Prospects of Global Economic Normalization



Source: Bloomberg

As a result of the above-mentioned considerations, and in the face of recent US election and vaccine test results, the Glovista investment team responded soon after the unfolding of said developments in rebalancing our regional and sector tilts away from Asia and technology in favor of Latin America/Eastern Europe and materials as well as energy sectors. Within Asia, we maintain overweight allocations especially to India and South Korea. In the EMEA region, we have raised Turkey and Poland country exposures while maintaining underweight allocations to Gulf regional markets and South Africa. In Latin America, we favor especially Mexican and Chilean equities on valuation, ownership and currency considerations.

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