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Glovista Global Perspectives

This Issue:

Risk Indices Rally Sharply in January, led by EM and Small Caps; Virus 2nd/3rd Infection Waves and Vaccination Delays Fuel Growth Stock Outperformance; Glovista Raises Growth and Defensive Sector Tilts Early in January

In January, risk indices have posted solid returns, with equities leading credit market indices. Within global equities, emerging market and small cap stocks have strongly outperformed global equity benchmarks, as illustrated in Figure 1. Within the developed equity markets universe, Eurozone equities have strongly underperformed their peer group owing to the Eurozone region's especially adverse economic impacts derived from the ongoing second and third Covid virus infection waves afflicting that region disproportionately.

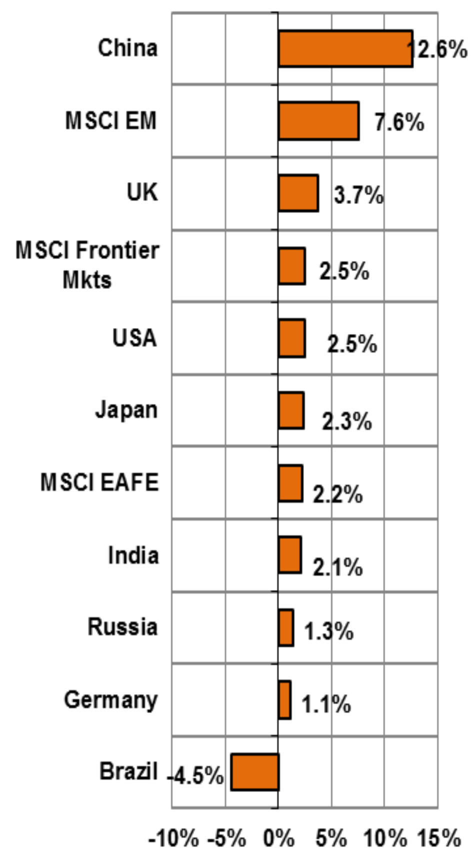
As we tally the month of January's principal macro and policy developments, their sum total has been unambiguously investor friendly on multiple levels, including:

- Economic activity momentum has remained largely unaltered these past several weeks despite the onset of significant second and third waves of the Covid virus afflicting a large cross section of the globe (Figure 2)

- Political risk premium has declined following the peaceful transfer of executive power in the USA following unprecedented events unfolding in the US Capitol earlier in January. Figure 3 highlights the decline in US political risk as captured in the Geoquant US Political Risk score.

- Upward revisions to 2021 world economic growth projections (Figure 4), fueled by intensification of government fiscal activist measures (e.g. Biden administration's announcement of a $1.9 trillion fiscal package on top of the $900 billion package approved by the US Congress this past December) and assurances from the pharmaceutical companies of upsized production levels of Covid vaccine over the coming months.

Country-wise Monthly Performance in USD terms (January 2021)*



Source: MSCI & Bloomberg

**As of January 26th, 2021*

GLOVISTA INVESTMENTS

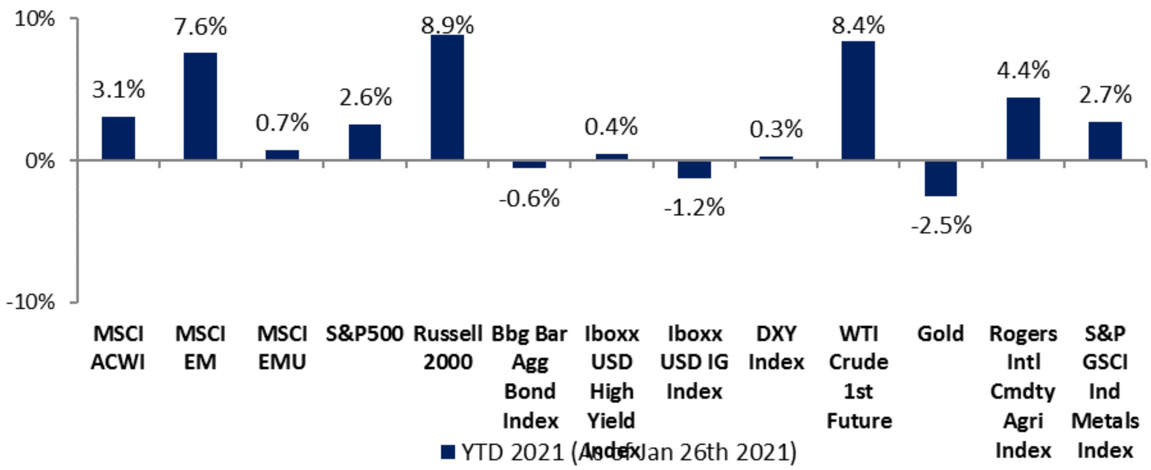
S&P500 Monthly Sector Performance – January MTD 2021*

Sectors	% Change	FY1 PE Ratio
Energy	7.46%	27.7
Materials	0.81%	20.8
Industrials	-1.74%	24.4
Cons Disc	5.42%	38.8
Cons Stap	-2.05%	20.7
Technology	2.99%	29.2
Healthcare	3.81%	17.1
Financials	1.19%	14.0
Utilities	1.13%	18.0
Telecom	3.09%	23.2
Real Estate	2.61%	50.0
S&P500	2.49%	23.2

**As of January 26th, 2021*

Source: Bloomberg

Figure 1. Risk Indices Post Strong January Returns, led by EM and Small Cap Stocks



Source: Bloomberg and Glovista Calculations

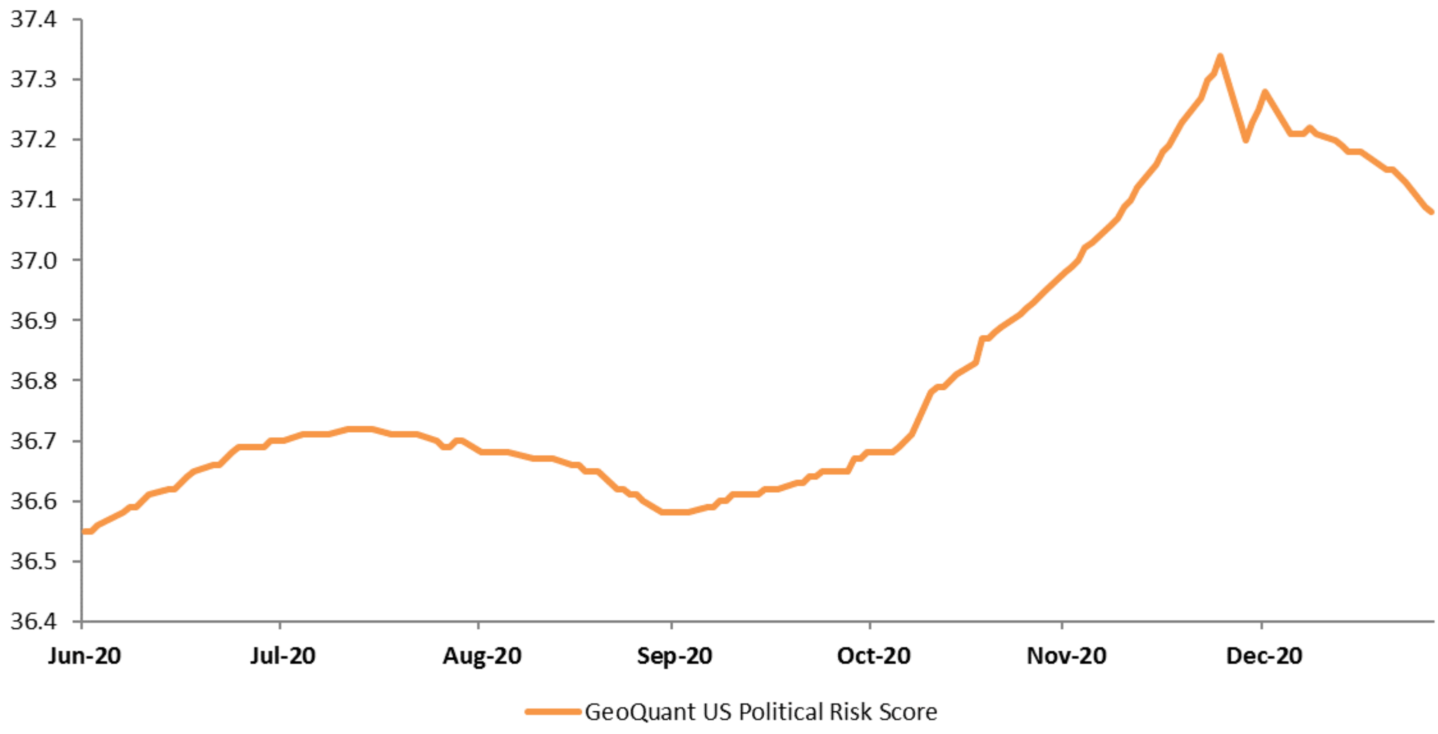
Figure 2. Global Economy's Economic Activity Surprise Indicators Signal Resilience Through the Ongoing Covid Virus Infection Waves Afflicting Much of the World

Source: Citigroup

- Reiterated assurances voiced by senior leaders from G3 central banks insofar as their commitment to sustain overly loose monetary conditions well into 2022 given the absence of inflationary pressures and persistently large levels of slack in the real economy (Figure 5). Within the US context, the US FED's newly embraced average inflation targeting framework strongly suggests interest rate hikes will unfold only after core PCE inflation readings overshoot the FED's target range, a time horizon unlikely to crystalize before 2023 or 2024, in our estimation. Of course, the FED will taper monetary conditions well before policy rates are hiked. We discuss those dynamics further below as regards market implications.

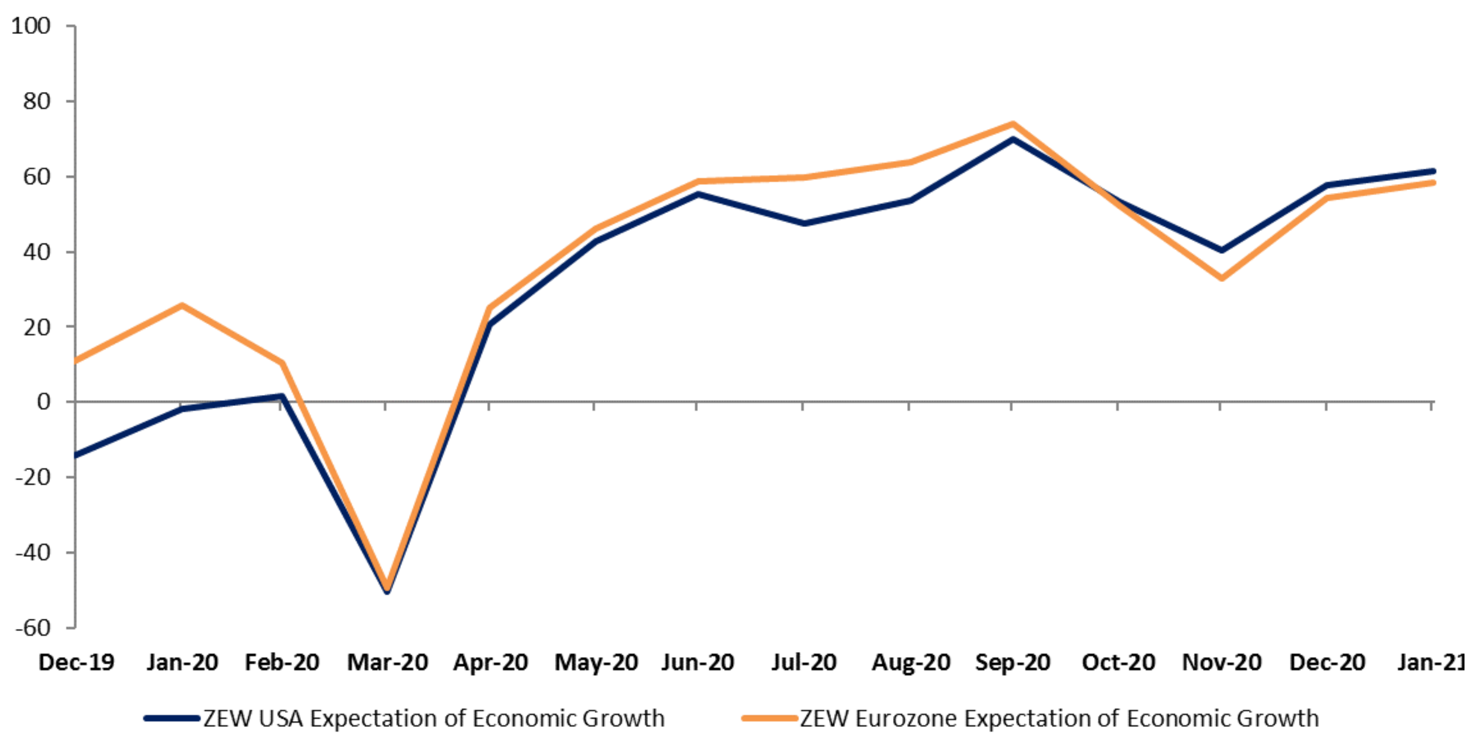
- Finally, risk indices' robust January month-to-date return performance accords well with highly favorable seasonality factors.

Figure 3. Decline of US Political Risk Premium in January, following Peaceful Transfer of Executive Power, Reverberates Favorably on Risk Indices via Decline in Asset Risk Premium Levels



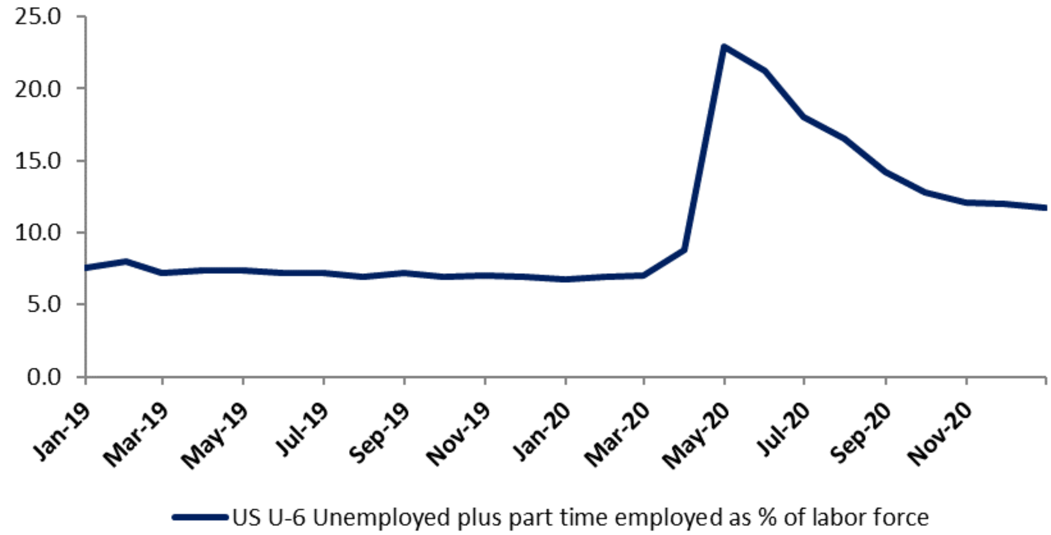
Source: GeoQuant

Figure 4. World GDP Growth Projections for 2021 Undergo Upward Revisions, Fueled by Heightened Fiscal Stimulus Measures and Intensified Vaccine Production Plans for Balance of the Year



Source: ZEW

Figure 5. US Labor Market Conditions Suggest Persistently High Levels of Slack: Extended Unemployment Rate Measure



Source: Bloomberg

	January 26th 2021	January MTD Change
Gold	1850.92	-2.5%
Silver	25.4699	-3.5%
Oil	52.61	8.4%
EUR	1.216	-0.5%
JPY	103.62	-0.4%
GBP	1.3736	0.5%
CHF	0.8869	-0.2%
CAD	1.2694	0.2%
AUD	0.7747	0.7%
BRL	5.3523	-3.1%
MXN	19.9863	-0.4%

Source: Bloomberg

Rates	January 26th Levels
1 Yr CD	0.35%
5 Yr CD	0.48%
30 Yr Jumbo Mortgage	2.90%
5/1 Jumbo Mortgage	2.95%
US Govt. 10 Year	1.0347%
10 Yr Swap Spread	0.034%

Source: Bloomberg

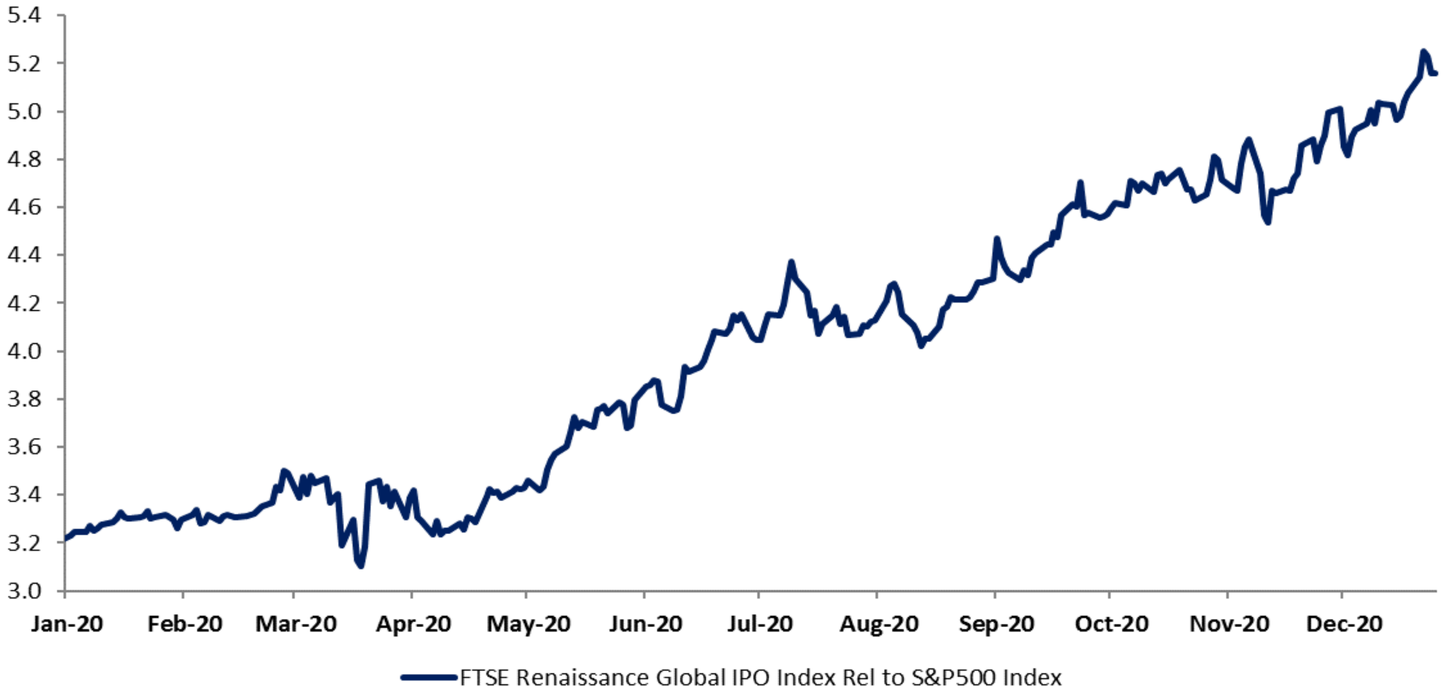
Against the backdrop summarized above – comprising a cocktail of supportive US political risk developments, G3 central bank policy guidance, US and Eurozone fiscal policy guidance, supportive seasonality, resilient economic activity calendar and strengthened forward guidance with regards to 2021 GDP growth expectations – risk indices have rallied sharply during the month of January albeit with significant differentiation across asset groups. As discussed in prior monthly columns, we attribute emerging market equities' continued return performance leadership at a global level to the asset class' cheap relative valuations, strong top line and earnings growth performance dominance versus developed peers, considerable under-owned status on the part of US and other western investors as well as emerging Asia economies' proven resilience to multiple Covid infection waves.

With regard to US small caps' recent strong return outperformance of large cap peers, we attribute said development to a different set of contributing factors, including the asset class' larger cyclical beta versus large cap peers at a juncture in which investors increasingly expect an acceleration of economic growth in the balance of the year. Second, the incoming Biden administration's plans to raise corporate tax rates and tighten the regulatory backdrop on the technology industry impact large cap companies disproportionately as US small and mid cap companies' effective tax rates were considerably lower than their large cap peers in the period leading to the Trump tax cuts.

Glovista Raises Growth and Defensive Sector Tilts Leading into February on Seasonality Conditions and Investor Positioning

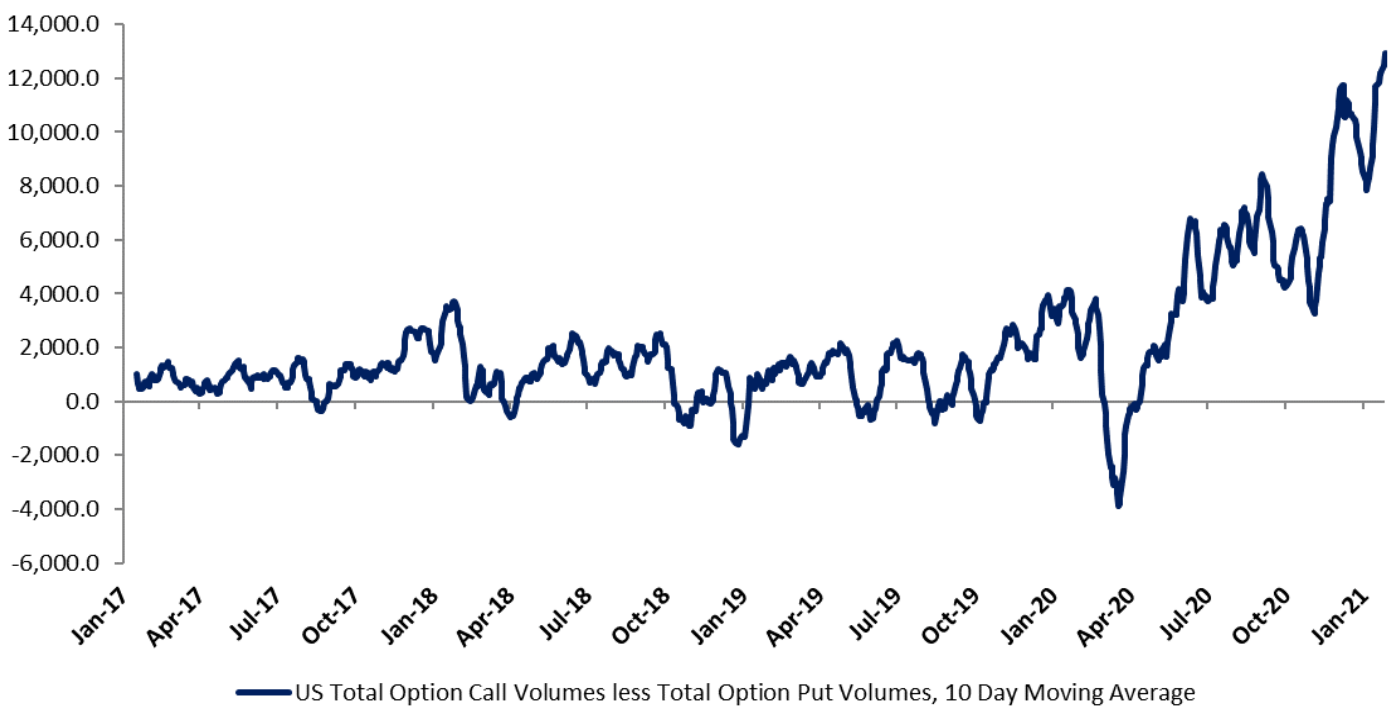
Despite Glovista's constructive outlook on activity and liquidity conditions over the balance of the year, our work suggests that over the coming weeks global markets are likely to undergo a period of consolidation and possibly modest correction. We hold such views on the back of several considerations, including seasonality conditions that turn less constructive on equities with the turn of the month of February as well as clear signs of stretched retail investor sentiment (especially to US small and micro caps as well as the SPAC investment vehicles, many of which have been launched earlier this month via IPOs). In addition, the pace of IPO launches thus far this month is typical of short-term tops in global risk indices. Moreover, the growing presence of retail investors in daily traded volumes (of stocks and also stock options) has manifested itself in the impressive price momentum impacting IPO stock names, as illustrated in Figure 6. A similar conclusion is arrived at by looking at call – put volume differentials for the overall US equity market (Figure 7).

Figure 6. Price Momentum Surge by New Issue Names (IPOs) versus SP500 Suggestive of Stretched Retail Investor sentiment



Source: FTSE, Bloomberg & Glovista Calculations

Figure 7. US Equity Market's Stretched Relative Call versus Put Volumes Suggestive of Stretched Retail Investor Sentiment



Source: Bloomberg & Glovista Calculations

Against such clear indications of stretched US retail investor sentiment, the Glovista team has further tightened our managed equity portfolios' quality and beta factor tilts over the past several weeks. In that regard, we have raised exposure to low volatility stock baskets with exposure to healthcare, consumer staples and secular large cap growth stocks within the US market along with exposure to emerging market equities. At present, our portfolios are considerably underweight high yield credit as well as US small cap stocks as these are the domicile in which retail investors have been most active.

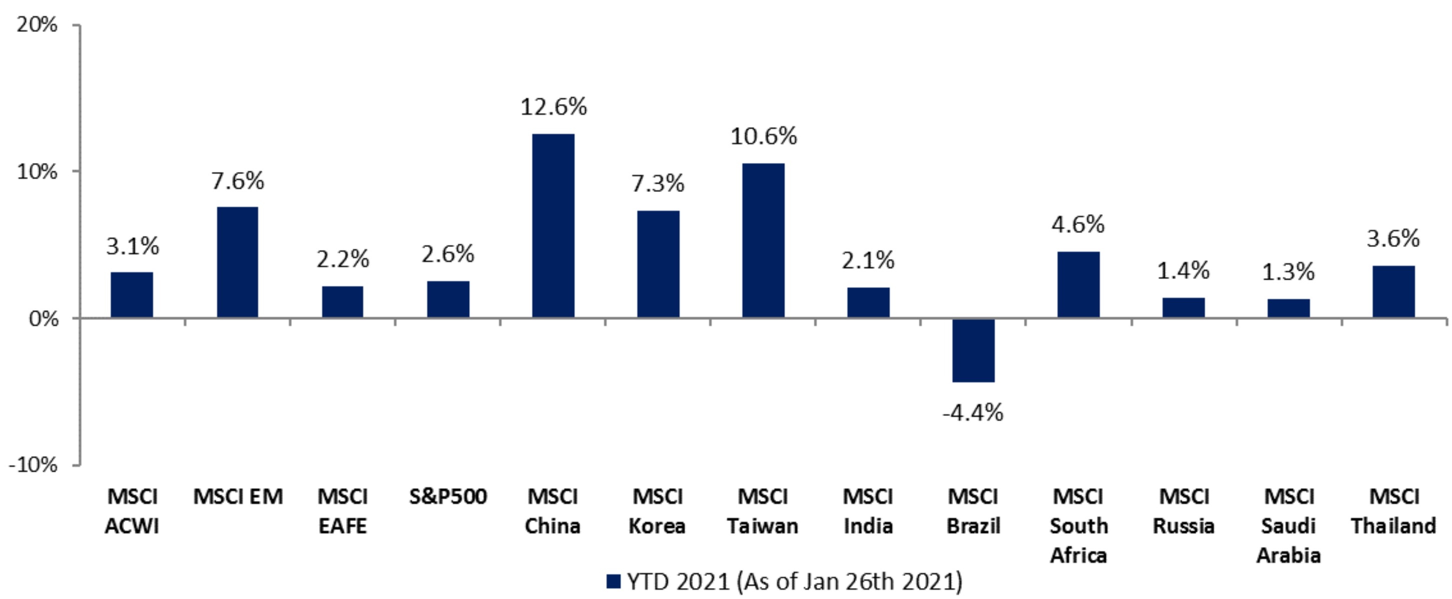
Within our fixed income portfolios, we have maintained underweight duration exposures as well as raised exposure to higher quality names on account of diminished relative valuation case for high yield credit. Finally, we continue to hold exposure to precious metals owing to their diversification attributes as well as our standing thesis calling for continued negative real interest rates over the balance of the year.

Emerging Markets Perspectives

EM Stocks Strongly Outperform US, EAFE Peers in January, Fueled by Stronger Earnings Momentum, Under-owned Status, Cheap Valuations, Currency Resilience, Geopolitical Risk Premium Decline and Asset Inflows; Glovista Sustains China, India and Taiwan Overweight Tilts

In January, emerging market equities have strongly outperformed developed market peers despite the onset of regulatory developments adversely impacting the benchmark's largest country and sector constituent, China large cap technology. Figure 8 illustrates the strong outperformance recorded by EM stocks versus developed peers, both at the MSCI EM benchmark level as well as across the EM benchmark's nine largest market cap weighted country constituents, a phenomenon that speaks to the strong breadth underlying EM equities' outperformance phase versus developed peers.

Figure 8. EM Equities Extend Solid Outperformance versus Developed Peers, with Strong Breadth across the EM Universe



Source: Bloomberg & Glovista Calculations

The Glovista investment team views EM equities as the most compelling segment of the global equities space and global equities as the most compelling asset class for 2021. First, in reiterating our standing thesis calling for global equities to outperform credit and fixed income markets in 2021 we highlight two principal factors: a marked acceleration of global economic growth and equities' compelling relative valuations versus credit and fixed income. On the former, we direct out attention to the historical market pattern in which equity valuation multiples expand over the course of economic expansions while on the latter we would point to equities' current well above historical average earnings/dividend yield gaps versus corporate and sovereign bond yields. Finally, our expectation of continued liquidity support by G3 central banks along with clear signs of deeper fiscal activism from around the world's capitals provide a macro environment highly supportive of equities versus credit and fixed income.

Within global equities, as discussed in our December 2020 year-ahead outlook column, our work leads us to the strong conviction view that emerging markets occupy as blue-sky a position as ever versus developed peers on account of the asset class' cheap relative valuations (versus history, even without adjusting for cycle differences with developed peers), cheap currency valuations, more advantageous and resilient cyclical economic condition (particularly given EM Asian countries' proven resilience versus the virus), under-owned status and clear path of lower geopolitical risk premium levels following the change of executive power at the White House.

Within our emerging market portfolios, we have navigated the unusually elevated cross-country volatility that unfolded during the month of January. In particular, regulatory developments out of China impacted adversely valuations for the largest IT sector names, such as Meituan, Alibaba and others, while US government measures surrounding potential delisting of Chinese stock names from US bourses led to bouts of downside volatility early in January only to be followed by a period of strong outperformance by Chinese equities later in the month.

Given our expectations for an extended period of vaccination across a number of EMEA and Latin America countries along with the recent period of strong outperformance by value sector oriented markets, early in January we assessed market conditions favored an upgrade of EM growth sector tilts given the unusually elevated levels of investor pessimism towards Chinese large cap tech at the time along with high levels of investor complacency towards value stocks globally, partly reflecting an expectation of speedy vaccination programs around the world. Following such mid-January rebalancing actions, we currently hold overweight allocations to Taiwan, China and India equities along with underweight allocations to South Korea as well as selected markets in EMEA, Latin America and South East Asia.

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