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Glovista Global Perspectives

This Issue:

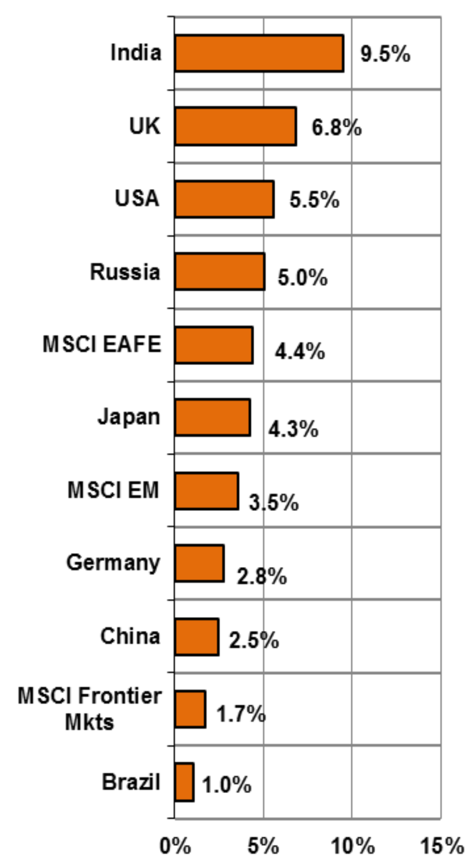
Resilient Activity Calendar, Falling Virus Infection Rates and Upsized Fiscal Stimulus Package Fuel Upward Growth Revisions along with Sharp Yield Blowout, Fueling Value Stocks' Leadership; Glovista Raises Value Tilts Early in February; Asset Class Views Unchanged

The month of February has brought about increased financial market volatility on the back of significant leadership changes within risk indices globally, in turn fueled by higher medium-term global economic growth expectations. Specifically, the combination of a resilient February activity calendar, falling virus infection rates and upsized Biden fiscal stimulus package have fueled considerable upward revisions in 2021 US and world economic growth projections. For example, Figure 1 illustrates the resilience of economic surprise activity indicators across the world's three major blocs over the past several weeks despite prevailing below-normal levels of economic mobility during such period owing to high infection rates.

That economic activity has remained resilient during the month of February speaks of the strength of underlying economic momentum as the past several months have entailed above normal shutdown levels of economic activity owing to prevailing high virus infection rates. On the virus issue, the past several weeks have offered much room for optimism as we look ahead to the balance of the year inasmuch as the pace of virus infection rate and hospitalizations have decelerated markedly across the world while the pace of vaccinations continues to progress, albeit slowly. Figure 2 illustrates the sharp deceleration of virus infections around the world over the past several weeks.

As we look ahead to the rest of the year, the fast-approaching end of winter in the northern hemisphere combined with the increased pace of vaccinations and declining infection rates help underpin heightened levels of optimism for an acceleration of

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



Source: MSCI & Bloomberg

***As of February 24th, 2021**

S&P500 Monthly Sector Performance – February MTD 2021*

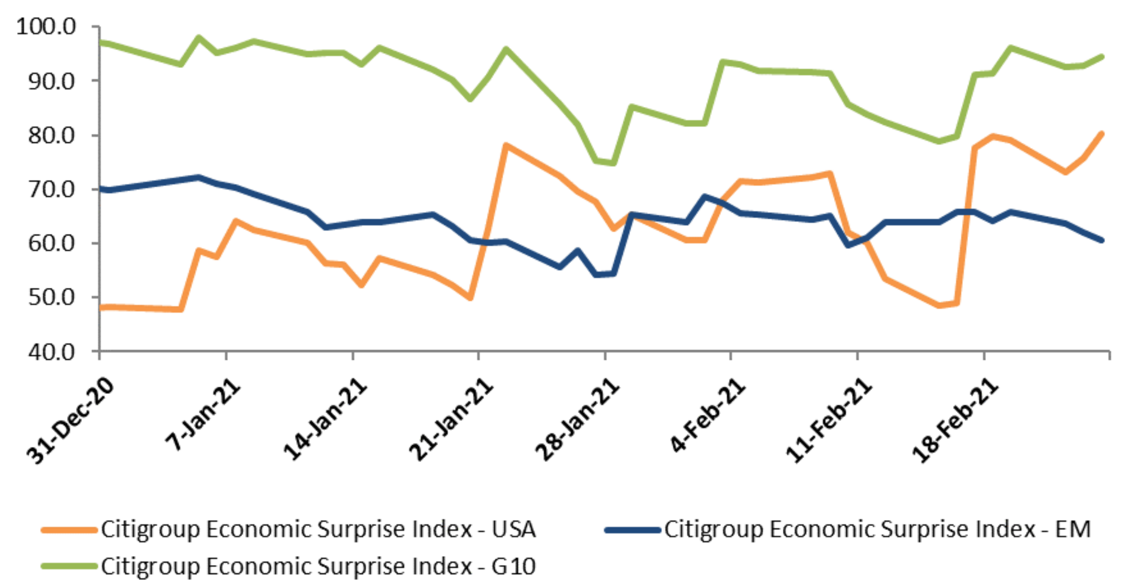
Sectors	% Change	FY1 PE Ratio
Energy	26.87%	30.0
Materials	7.65%	20.7
Industrials	9.88%	26.3
Cons Disc	2.11%	35.5
Cons Stap	1.28%	20.3
Technology	4.15%	28.0
Healthcare	-0.43%	16.3
Financials	15.70%	15.5
Utilities	-3.83%	17.0
Telecom	8.94%	23.3
Real Estate	4.98%	50.3
S&P500	5.69%	22.9

**As of February 24th, 2021*

Source: Bloomberg

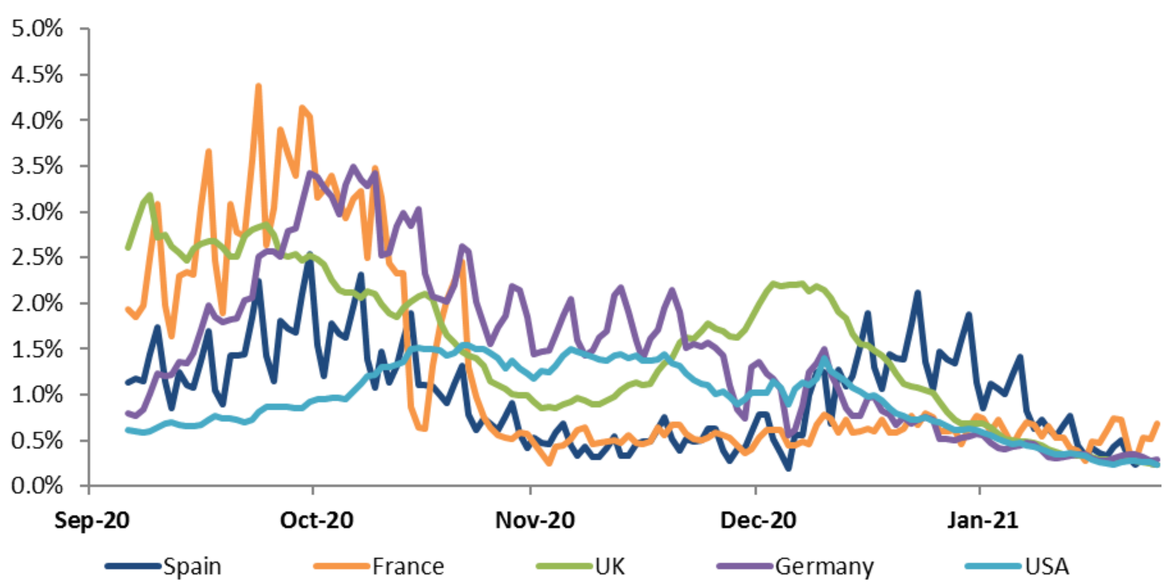
economic growth during the year's second half. Such expectations have begun to be reflected these past several weeks across the world's bond, currency and equity markets. For example, Figure 3 highlights the sharp blowout in nominal and implied US real bond yields over the past several weeks.

Figure 1. February Economic Calendar's Resilience Despite Elevated Shutdown Levels: Citi Economic Surprise Indicators for USA, Major Economies and Emerging Market Economies



Source: Citigroup

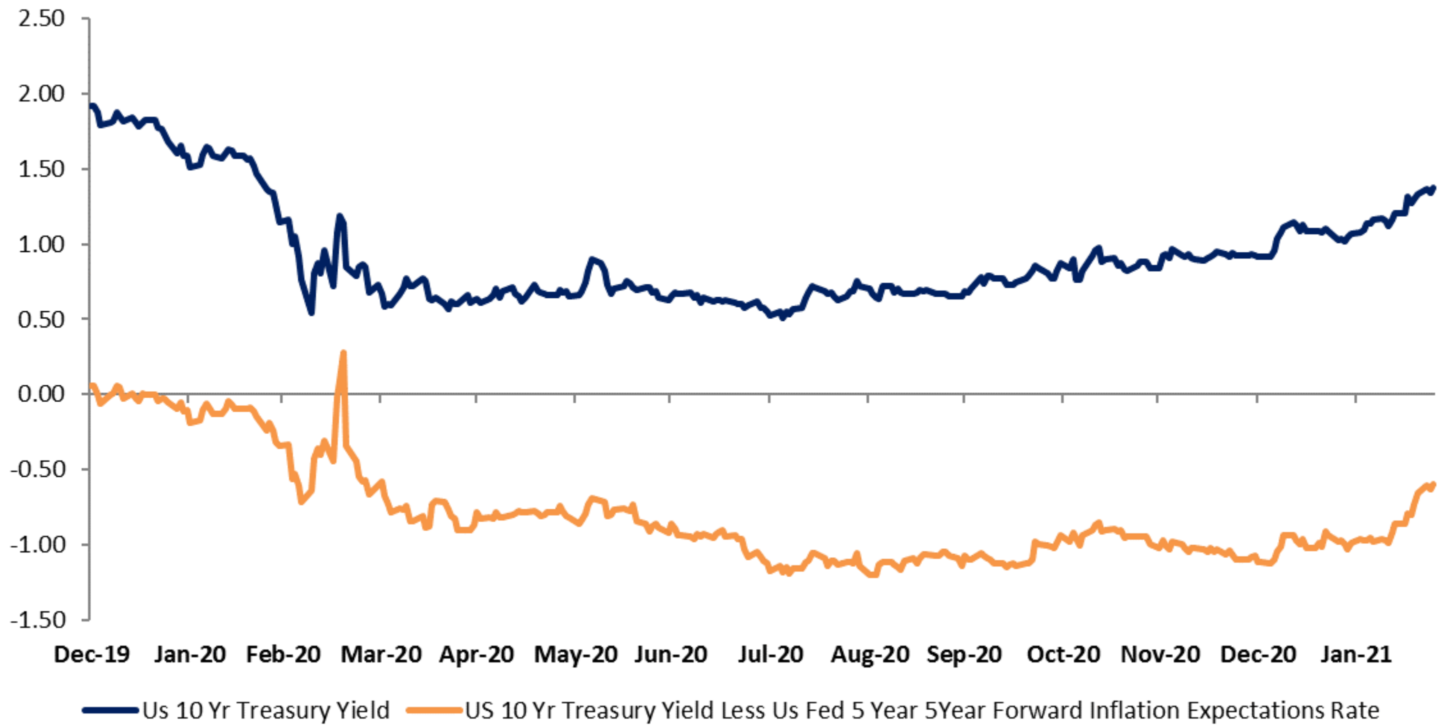
Figure 2. Virus Infection Rates Record Sharp Declines in February across Most of the World's Regions



Source: Bloomberg & Glovista Calculations

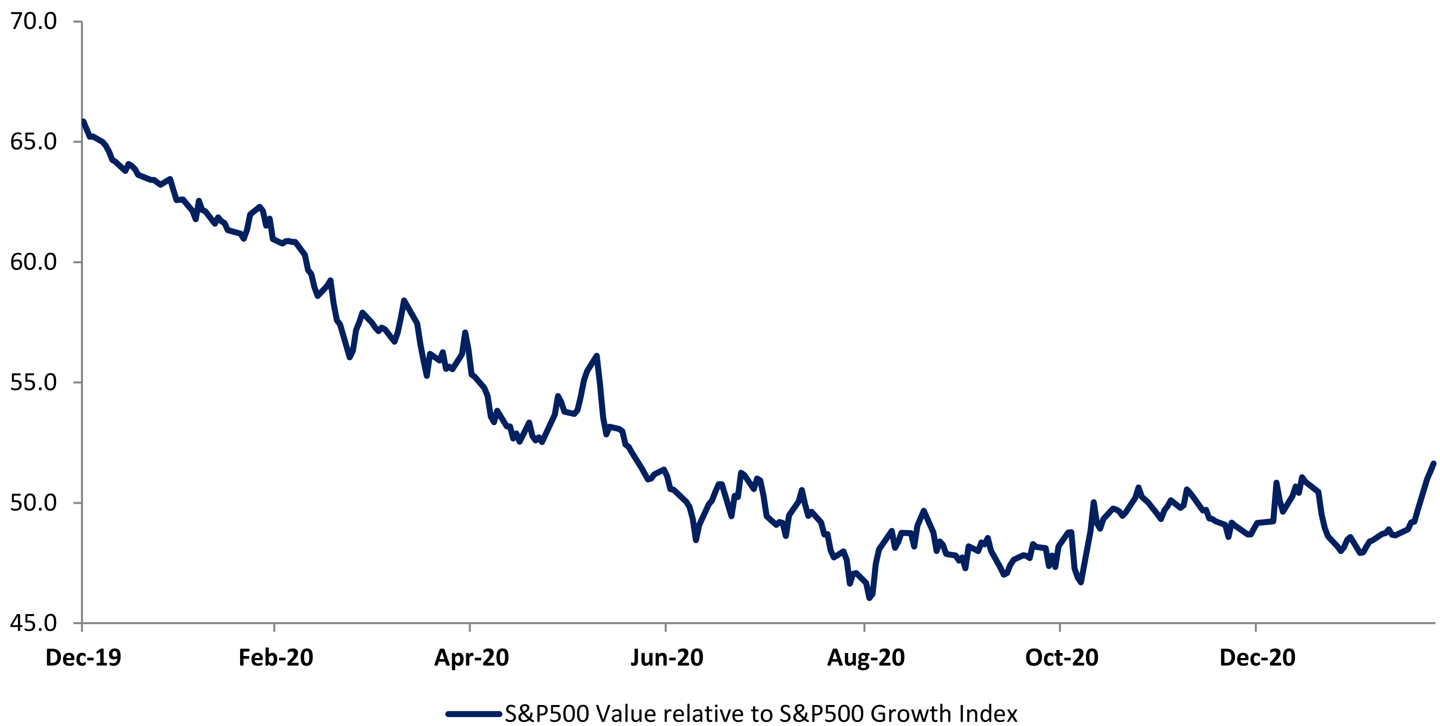
Such heightened economic growth expectations have been also manifested in a sharp upturn in relative return performance momentum between value and growth stocks (Figure 4).

Figure 3. Upsized Economic Growth Expectations Fuel Sharp Rise in Nominal and Implied Real Bond Yields in February



Source: Bloomberg & Glovista Calculations

Figure 4. Increased Economic Growth Expectations Fuel Sharp Performance Reversal in favor of Value Stocks during the Month of February



Source: Bloomberg and Glovista Calculations

	February 24th 2021	February MTD Change
Gold	1805.06	-2.3%
Silver	27.9528	3.6%
Oil	63.22	21.1%
EUR	1.2166	0.2%
JPY	105.87	-1.1%
GBP	1.4141	3.2%
CHF	0.9065	-1.8%
CAD	1.2513	2.1%
AUD	0.7968	4.2%
BRL	5.4156	1.0%
MXN	20.3775	1.0%

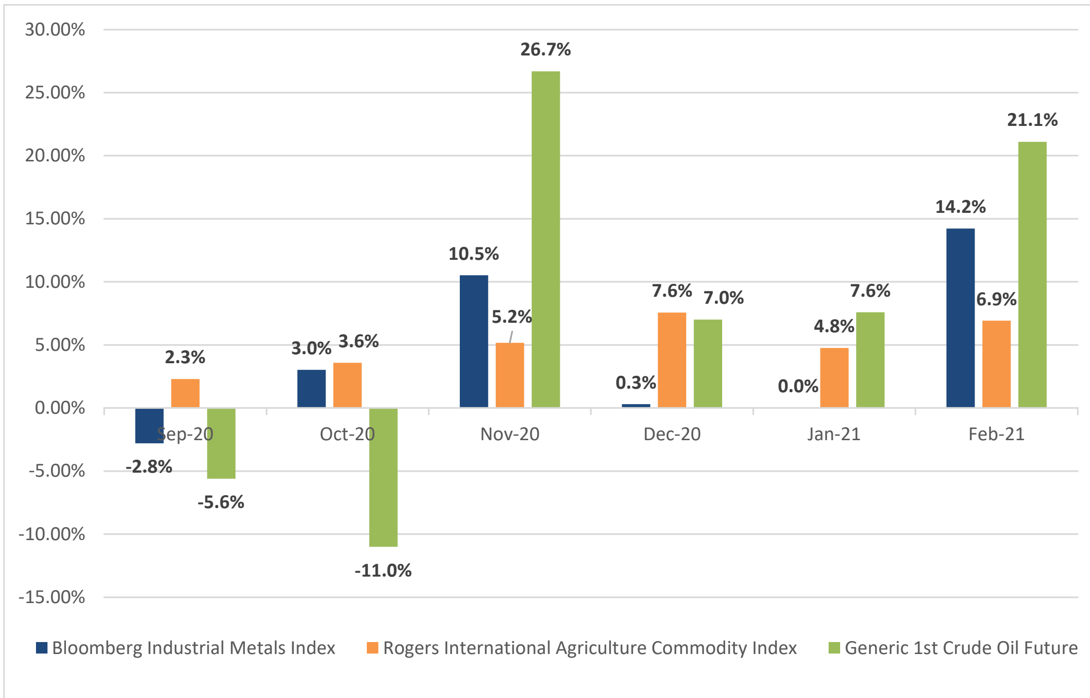
Source: Bloomberg

Rates	February 24th Levels
1 Yr CD	0.34%
5 Yr CD	0.45%
30 Yr Jumbo Mortgage	3.18%
5/1 Jumbo Mortgage	2.95%
US Govt. 10 Year	1.38%
10 Yr Swap Spread	0.06%

Source: Bloomberg

Beyond the clear impact exerted by heightened economic growth expectations on market internals, the prevailing combination of highly supportive fiscal and monetary policies at such expansionary juncture of the business cycle has carried powerful reflationary dynamics, cutting across the soft, energy and industrial metal areas of the global commodity markets. For example, Figure 5 illustrates the acceleration in February of the multi-month commodity price reflationary dynamic permeating various sectors of the commodities space.

Figure 5. Increased Economic Growth Expectations Fuel Continued Commodity Price Reflation



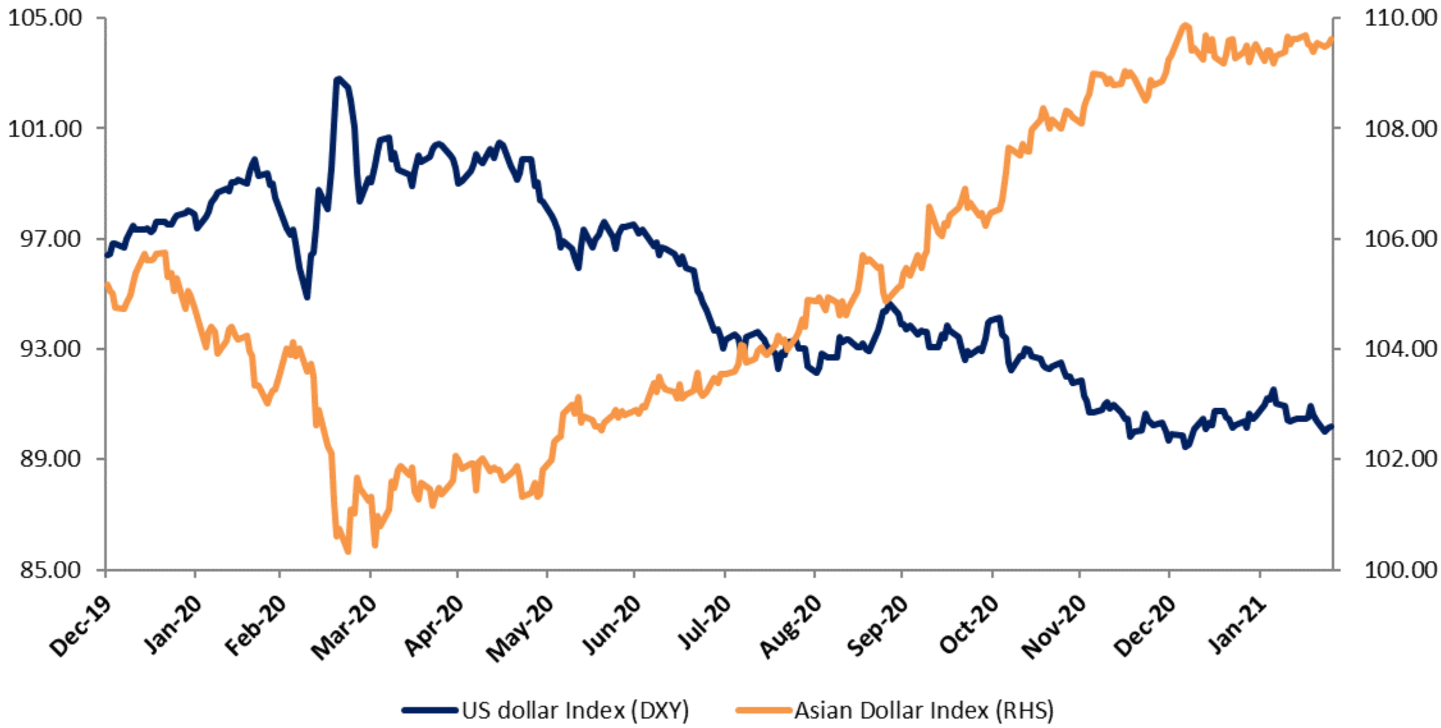
Source: Bloomberg & Glovista calculations

The powerful reflationary and expansionary dynamics impacting the global economy continue to unfold under a weak US Dollar regime. Figure 6 illustrates the US Dollar's inability to record even modestly sized bounces off medium-term oversold levels. This is especially the case versus emerging market currencies. In our view, such state of affairs owes much not only to the US Federal Reserve's commitment to sustain overly loose financial conditions well into 2023 but also to the US economy's poor managing of the pandemic, especially versus Asia Pacific regional economies.

Glovista Raises Value Tilts Early in February on Signs of Positive Economic Growth Surprises; Favorable Equities' Asset Class Outlook Sustained

We view the recent increase in market volatility as part of an ongoing medium-term rotation in market internals in favor of value-oriented sectors and market indices as global economic momentum picks up on the back of (a) continued normalization in economic activity as virus infection rates abate and the pace of vaccination picks up

Figure 6. US Dollar Fails to Post Even Short-term Bounces Off Powerful Medium-term Oversold Conditions: Testimony to Powerful Underlying Financial Conditions and Real Economy Backdrop



Source: Bloomberg

globally, (b) continued support of economic policy globally (via fiscal and monetary policy measures) and (c) the contribution of powerful reflationary boost factors, including the weak US Dollar cycle and pent-up demand following over a year of reduced activity momentum globally, at a juncture in which personal savings hover at well above average historical levels.

Owing to such positive medium-term economic outlook, the Glovista investment team sustains a constructive outlook towards the equities asset class, particularly selected international value sectors (especially emerging markets, with growing interest in Japanese equities) along with high quality growth industries in the US market, financials and selected industrials sector stocks. On the fixed income side, we continue to favor underweight duration exposure and overweight exposure to high quality names on account of relative valuations. Finally, within the commodities domain, the constructive outlook on the global activity cycle increasingly favors a rotation from the precious metals to the industrial metals space. We have favored exposure to such themes via equity plays.

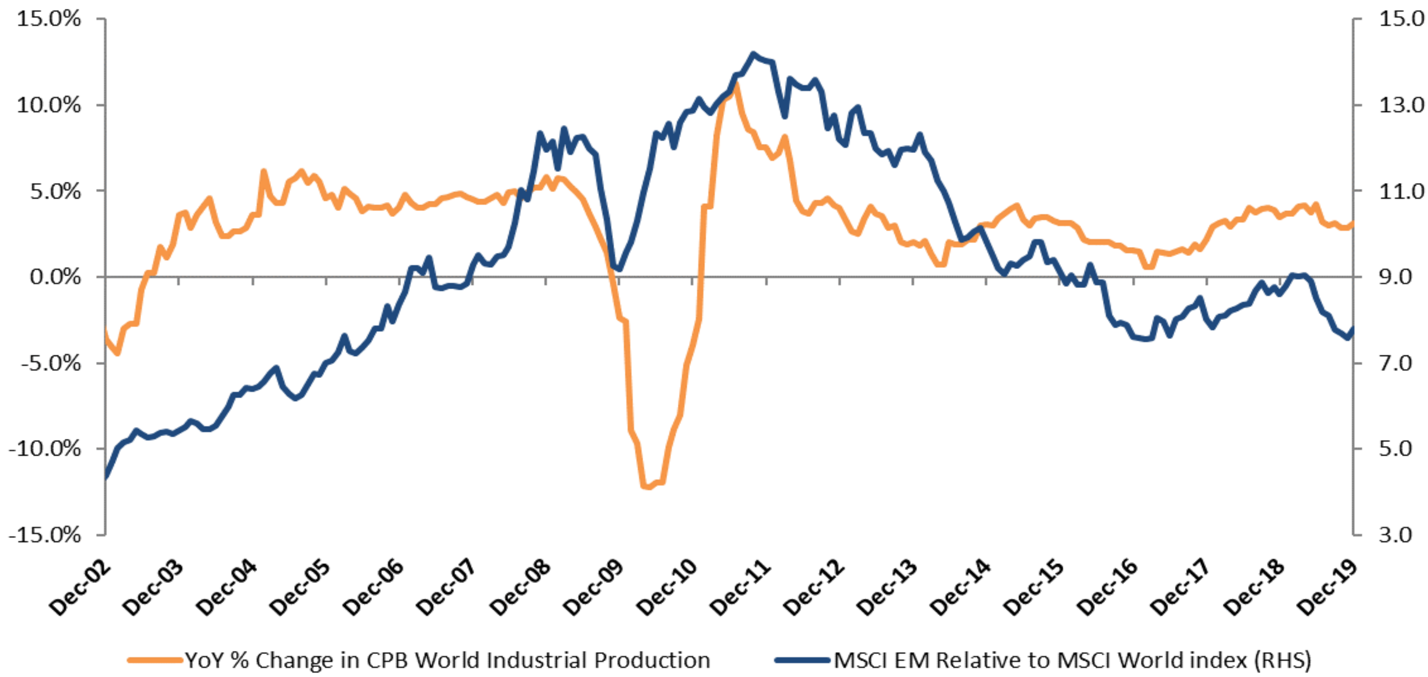
Emerging Markets Perspectives

Glovista Upgrades India, Russia and Selected LatAm Indices via China Market Downgrade on Improving Macro Backdrop Fueling Support to Value Oriented Markets

As discussed above, the month of February has been highly supportive of value stocks – as well as value factor dominated sectors and market indices - given clear signs of economic resilience globally along with indications of sustained deceleration of virus infections and accelerated vaccination programs around the world.

Said shift in the global macro environment carries especially beneficial implications to the emerging market equities asset class owing to several considerations, including:

Figure 7. EM Equities' Large Beta to Global Cycle Bodes Favorably for the Asset Class in 2021



Source: MSCI, CPB Netherlands, Bloomberg and Glovista Calculations

- Emerging market economies' larger sensitivity (in terms of GDP, revenue and earnings growth) to shifts in the global economic cycle, particularly at the current juncture owing to the emerging Asia region's vastly superior management of the pandemic versus their developed country peers (Figure 7);
- The powerful global reflationary effects exerted by continued US Dollar weakness – a 'stylized fact' evidenced throughout multiple cyclical acceleration phases over the post-War period, particularly at the current juncture in which the US Dollar carries exceedingly low yields – should lend disproportionately outsized support to top and bottom-line growth of emerging market corporates, including those domiciled in commodity exporting regions, such as Latin America and EMEA;
- Continued US Dollar weakness should favor emerging market equities, beyond the typical business cycle effects, through balance sheet and income statement channels as a number of emerging market corporates hold US Dollar denominated debt.

Beyond the above-mentioned considerations, it is useful to note that, in contrast to prior historical periods, global investors' exposure levels to EM equities hovers at exceedingly low levels. For example, recent investor surveys suggest Western institutional investors' average exposure to EM equities hover at around 7 percent versus the asset class' benchmark weighting of close to 13 percent of global equity indices (MSCI ACWI).

That the current juncture is one in which (a) the asset class is trading at cheap relative valuation levels and (b) macro and policy considerations strongly suggest significant top- and bottom-line outperformance for EM corporates over the coming 24 months translate into an especially auspicious outlook for the asset class over the coming years, even if the US Dollar does not decline meaningfully from current levels.

Over the past several weeks, the Glovista investment team raised exposure to value-oriented markets in EMEA (e.g. Russia), Asia (India) and Latin America (e.g. Chile) on the back of our macro assessments discussed above along with firming top-line and bottom-line fundamental developments out of some of the bellwether companies domiciled in such markets. We funded such upgrades via a cut in our China country weighting from overweight to underweight. We have retained underweight allocations to Middle Eastern and Central European markets.

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