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Monthly
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Newsletter

Glovista Global Perspectives

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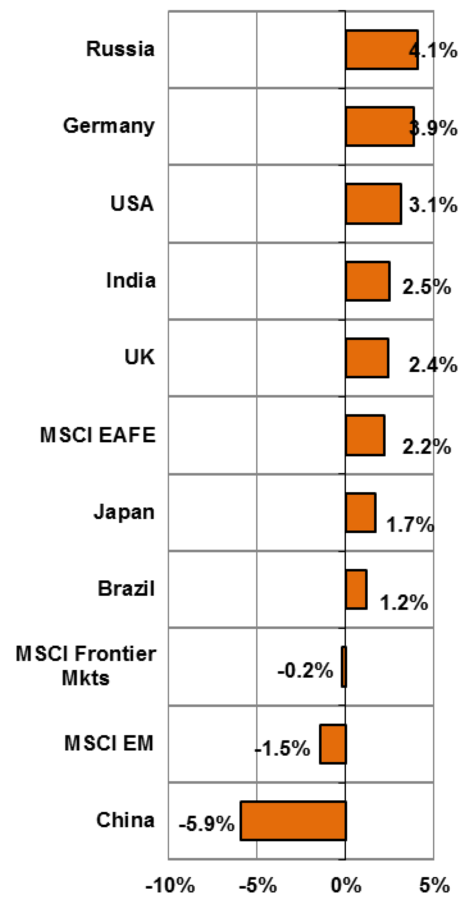
Bond Duration Rout Extends Further in March, Fueling Value Stocks' Continued Outperformance; Glovista Sustains Value Factor Overweight; Recent US$ Rally, Investor Positioning and Seasonality Backdrop Anchor Defensive Medium-Term Stance

In March, the 2021 year-to-date bond duration rout extended further, with US 10 year Treasury yields backing up an additional 30 basis points for the month (as of this column's March 30th publication date). Thus far, 2021's first quarter stacks up as the worst performing for long duration government bonds since 1981 (Figure 1). Such momentous developments in global bond markets have underpinned powerful intra-market developments across asset classes. Of interest, within the equities space, the sharp rise in long-dated bond yields have unleashed a powerful, sustained rotation of relative performance leadership in favor of value stocks versus growth peers. We discuss further below such equity market dynamics, both across the sector and geographic divides.

The year's bond duration rout is primarily the result of normalization of bond term premium levels and strengthened economic growth expectations, as reflected in a sharp uptick in inflation adjusted (real) bond yields. For example, Figure 2 illustrates the considerable widening in US inflation break-evens since 2020 low levels, pushing inflation expectations close to multi-year average levels. Figure 3 highlights the considerable rise in US bond term premium levels thus far in 2021, helping fuel the strong rise in long-dated US bond yields. Figure 4 illustrates the primary role exerted by strengthening economic growth expectations in this year's sharp rise in bond yields, as reflected in the sustained rise of core CPI inflation adjusted 10-year US Treasury yields which are approaching prior decade's average levels.

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



Source: MSCI & Bloomberg

**As of March 30th, 2021*

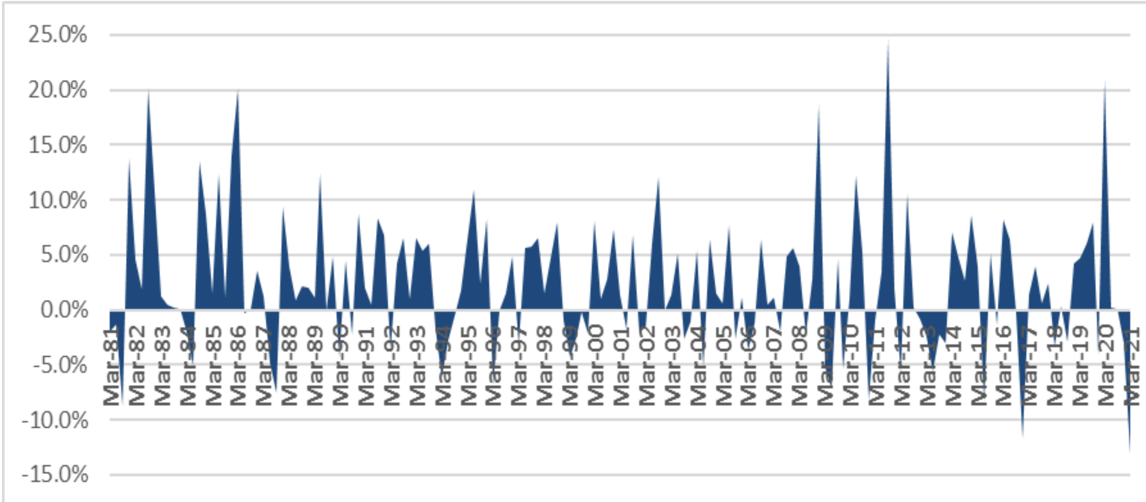
S&P500 Monthly Sector Performance – March MTD 2021*

Sectors	% Change	FY1 PE Ratio
Energy	3.65%	23.2
Materials	7.82%	20.2
Industrials	9.18%	28.0
Cons Disc	2.74%	36.5
Cons Stap	8.23%	21.5
Technology	0.14%	27.2
Healthcare	3.60%	16.7
Financials	6.57%	15.5
Utilities	9.42%	18.5
Telecom	2.69%	23.1
Real Estate	6.87%	54.3
S&P500	3.87%	23.0

*As of March 30th, 2021

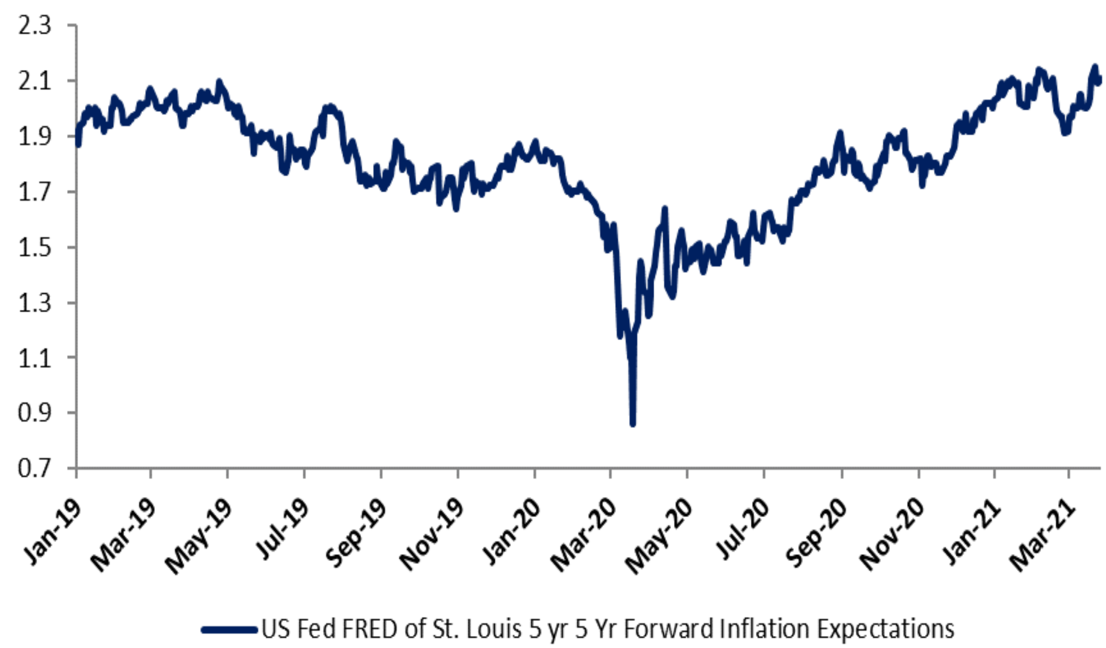
Source: Bloomberg

Figure 1. March Bond Duration Rout Pins 2021Q1 as the Worst Performing since 1981 (Chart: Quarterly Returns of Bloomberg Barclays US Treasury Total Return Index: Long Duration)



Source: Bloomberg and Glovista Calculations

Figure 2. US Inflation Expectations, as Reflected via Inflation Break-evens, Fast Approach Multi-year Average Levels, Fueling 2021 YTD Rise in Long-term Bond Yields



Source: The Federal Reserve Bank of St. Louis

From a fundamental economic perspective, this year's sharp rise in inflation adjusted (real) bond yields is justified on account of the powerful recovery dynamics that are virtually assured to unfold over the next several quarters on the back of the successful and broadening vaccination program being implemented around the world, as a result of which a permanent state of economic reopening globally is being embraced by investors as baseline case for the second half of 2021 and beyond. Further underpinning such strengthening of investors' growth expectations is the array of fiscal expansionist programs being announced by some of the world's largest economic blocs, most notably the US under the new Biden administration. Some of the provisions of the recently enacted $1.9 trillion fiscal stimulus plan include: $1,400 checks are for most Americans, extention of the extra $300 in weekly unemployment benefits through September 6th, $350 billion in aid to state and local governments, $130 billion to help K-12 schools reopen, $86 billion bailout for failing pensions, $20 billion in rental assistance as well as $3,000 in child tax credit. In addition, President Biden is expected to announce later this week a $2.5 trillion infrastructure plan – "Build Back Better" – financed via increase in corporate taxes.

Figure 3. US Bond Term Premium Levels Back Up Considerably, Approaching Multi-year Average Levels, Fueling 2021 YTD Rise in Long-term Bond Yields

Source: The Federal Reserve

Figure 4. US Core CPI Inflation Adjusted 10 year Treasury (Real) Yields Rise Sharply YTD, Approaching Past Decade Average Levels

Source: Bloomberg

GLOVISTA INVESTMENTS

	March 30th 2021	March MTD Change
Gold	1685.2	-2.8%
Silver	24.0293	-9.9%
Oil	60.55	-1.5%
EUR	1.1717	-3.0%
JPY	110.36	-3.6%
GBP	1.374	-1.4%
CHF	0.9424	-3.7%
CAD	1.2634	0.8%
AUD	0.7597	-1.4%
BRL	5.7751	-3.1%
MXN	20.583	1.3%

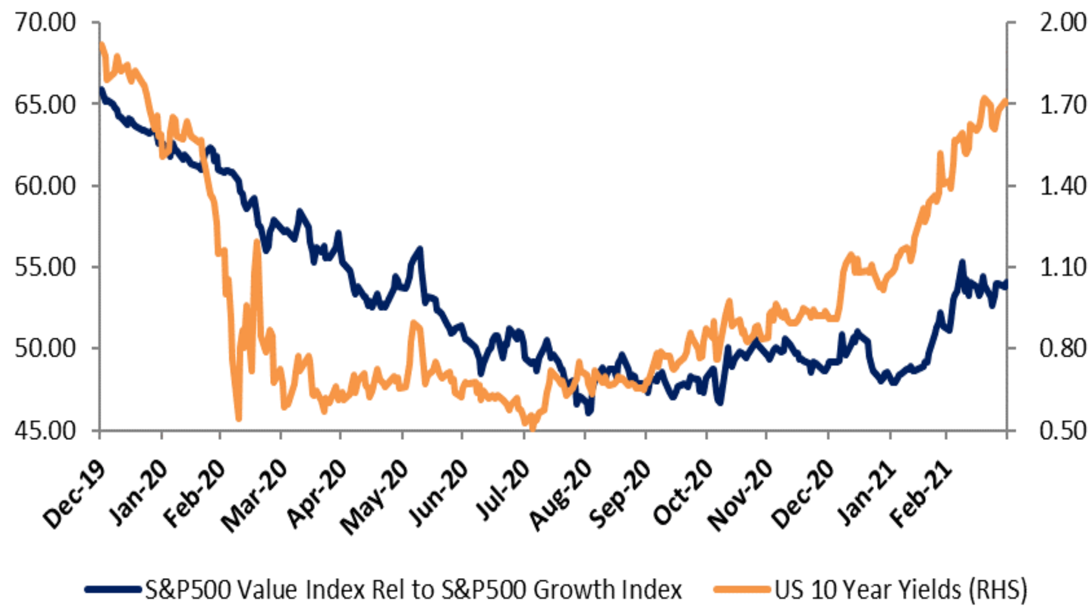
Source: Bloomberg

Rates	March 30th Levels
1 Yr CD	0.34%
5 Yr CD	0.47%
30 Yr Jumbo Mortgage	3.26%
5/1 Jumbo Mortgage	3.02%
US Govt. 10 Year	1.7029%
10 Yr Swap Spread	0.029%

Source: Bloomberg

As reminded by market cycle history, asset markets' nature as discounting mechanisms implies that economic growth acceleration phases are typified by the combination of rising bond yields, steepening yield curves and a turn in return performance leadership away from growth to value-oriented asset markets and securities, including stocks. Such return performance leadership shift in favor of value stocks is largely the result of growth stocks' long duration factor exposure. Figure 5 highlights the ongoing rotation of return performance leadership away from growth stocks in favor of value stocks, along with the rise in long-dated bond yields and steepening yield curves.

Figure 5. Rising Bond Yield Environment Underpins Value Stocks' Outperformance versus Growth Peers



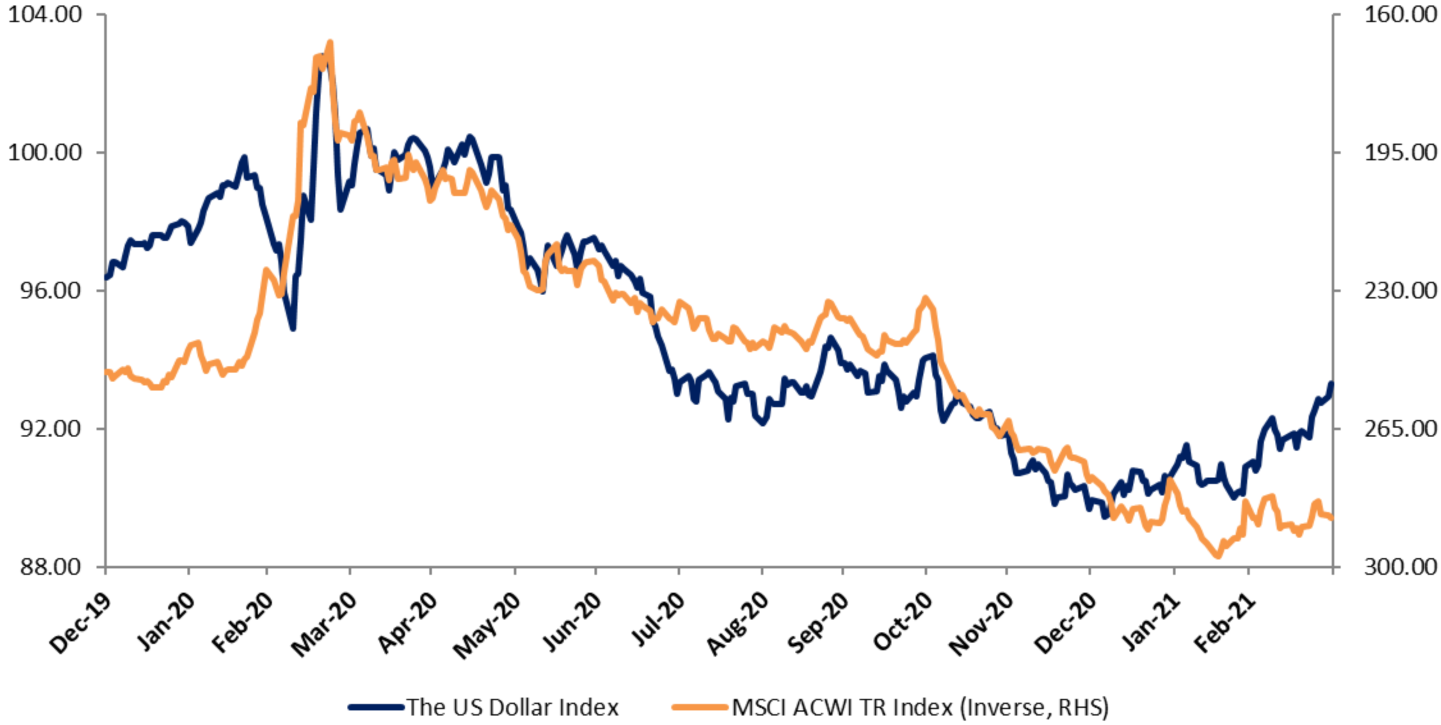
Source: Bloomberg & Glovista calculations

The Glovista investment team expects a continuation of value factor outperformance over the balance of the year given our expectation of sustained economic growth acceleration across a rising number of geographic blocs following a gradual pace of economic reopening courtesy of the broadening of vaccination programs around the world.

Over the past several weeks, the European region's difficulties in advancing with an effective vaccination program, owing to logistical and vaccine specific issues (entailing public opinion confusion over the efficacy and risks surrounding the Astra Zeneca Oxford vaccine), has impacted adversely the pace of economic momentum throughout the region, particularly on expectations grounds. As a result, starting around the middle of February the US Dollar has strengthened considerably versus the Euro, putting a cap on global equity prices, particularly on international equity indices (Figure 6).

We view the recent reversal in the US Dollar cycle as transitory, primarily the result of transitory difficulties faced by European countries in overcoming the pandemic. With the turn of the year's first quarter, we expect the pace of vaccination to accelerate sharply across Europe and throughout most of the world owing to the scheduled availability of larger stocks of vaccines with the US already having completed vaccinating the majority of its adult population by the end of May. By such time we expect the US Dollar bear cycle to resume, fueling international equities' next phase of outperformance versus US peers.

Figure 6. US Dollar Bounce, Starting Mid-February, Puts a Cap on Upside Momentum in Global Equities, especially International



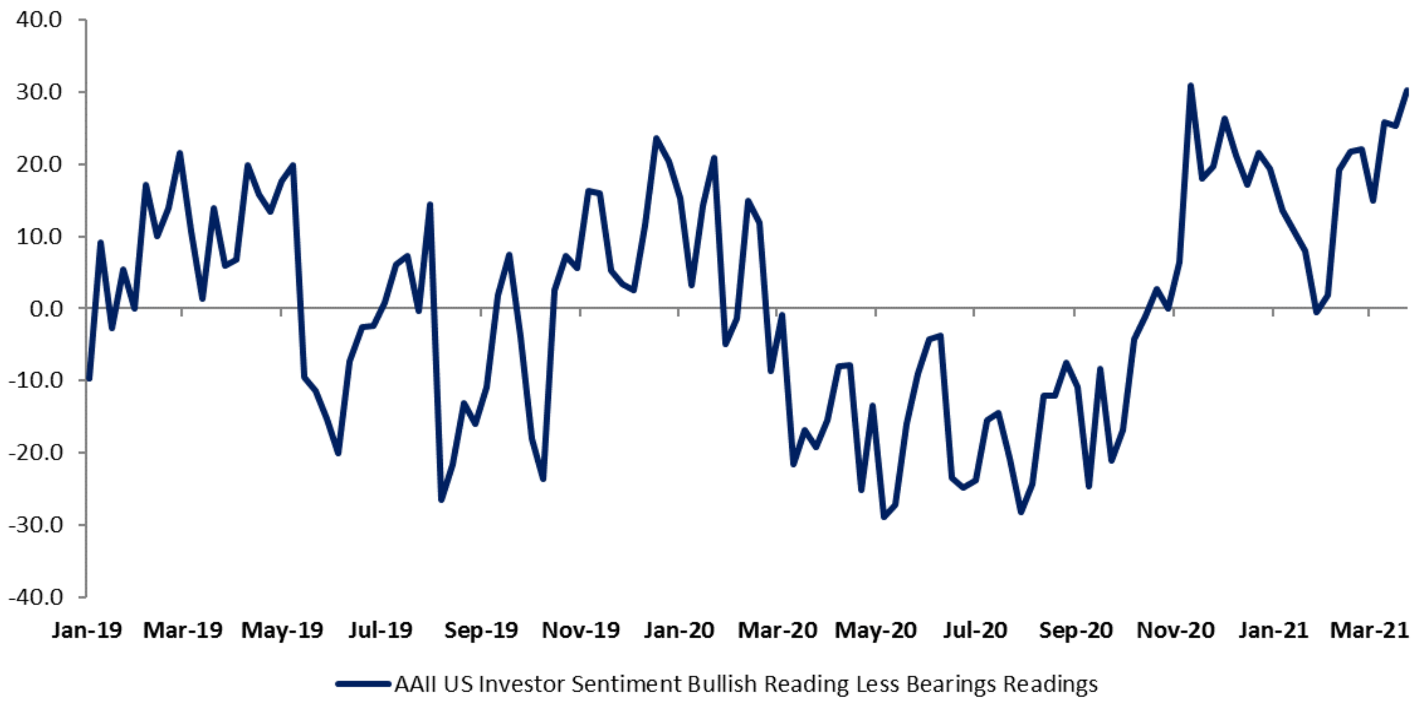
Source: MSCI, Bloomberg & Glovista Calculations

Glovista Trims Equities Exposure, While Sustaining Value Factor Tilts, on Investor Positioning, Seasonality and Temporary Strengthening of the US Dollar

As we enter the year's second quarter, the Glovista investment team sustains a bullish outlook towards global equities while retaining underweight bond duration and overweight value factor tilts in global equities. From an overall equities exposure perspective, we have trimmed overall equities exposure these past several weeks given a number of considerations, most of which are likely to prove short-lived. These considerations include a temporary period of US Dollar strength as well as stretched bullish investor sentiment towards global equities (Figure 7) and diminished support from seasonality backdrop.

As we look ahead, besides the duration underweight and value factor equity tilts noted above, at the geographic and sector levels, the Glovista investment team continues to favor exposure to emerging market equities, Japanese equities, US financials, industrials as well as select large cap tech stocks. Within the commodities space, we favor exposure to gold on diversification and valuation grounds given our medium-term US Dollar outlook.

Figure 7. US Retail Investors Manifest Stretched Bullish Sentiment: AAII Weekly Polls



Source: American Association of Individual Investors and Glovista Calculations

Emerging Markets Perspectives

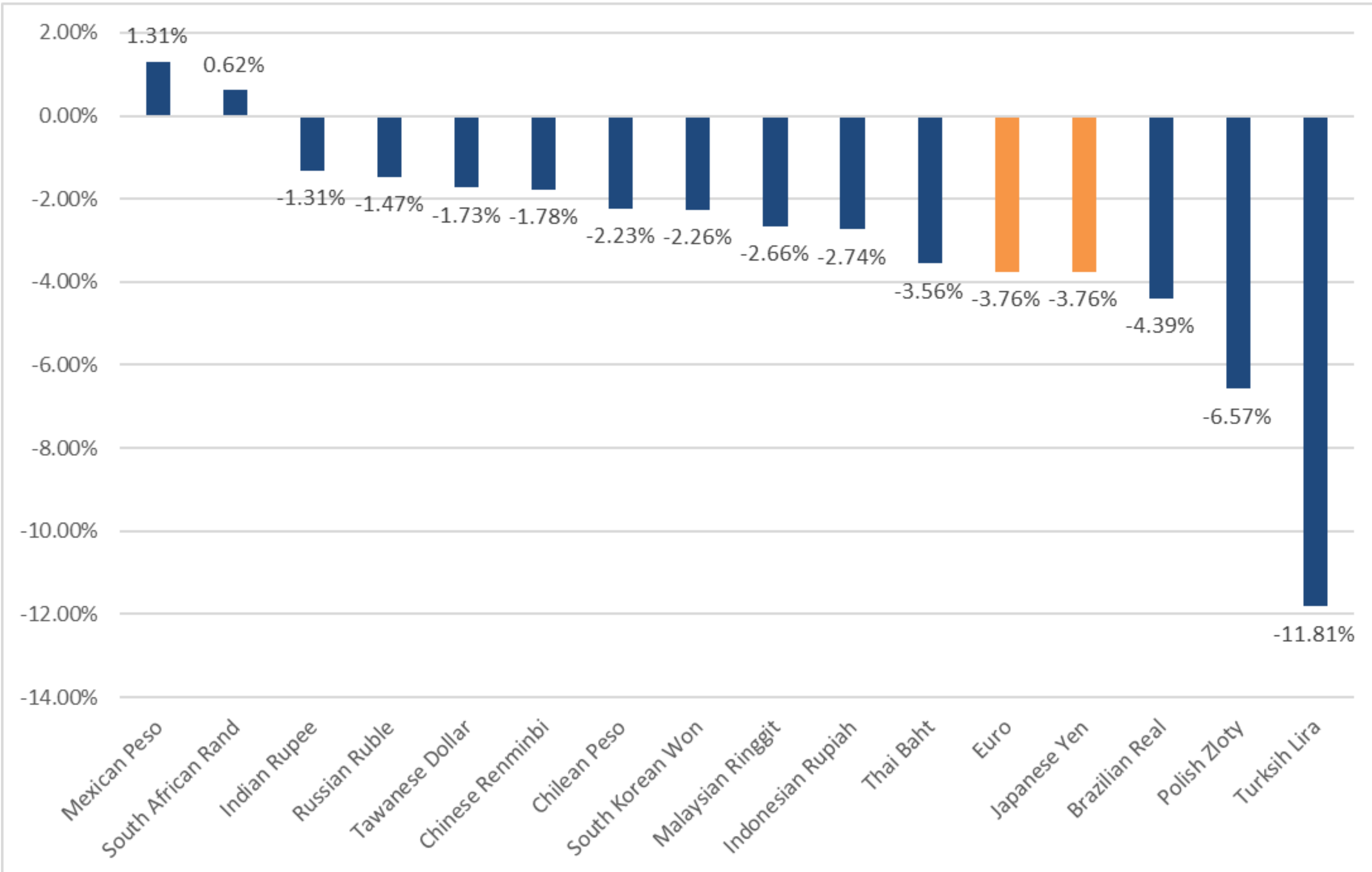
China Equities Pull Back Sharply in March, Led by Growth Stocks' Reversal and US$ Strength; Glovista Sustains Overweight Value Tilts, Raising Taiwan/India Exposures along with Selected Large Cap China Software Sector on Weakness

In March, emerging market equity prices pulled back a portion of its recent return outperformance versus developed peers. Such development owes much to two interconnected dynamics impacting global markets since the end of February. Specifically, those two dynamics correspond to: the sharp March reversal in growth stock's relative performance leadership versus value stocks, a global phenomenon discussed above, and; the US Dollar rally that has unfolded since the last week of February.

Figure 8 illustrates the performance of EM currencies versus the US Dollar since the recent trough in the US Dollar index, reached this past February 25th. For example, Figure 8 illustrates the far stronger resilience shown versus the US Dollar by EM currencies out of strong macro balance sheet countries, such as those in North Asia (South Korea, China, Taiwan) along with Chile - arguably Latin America's strongest sovereign credit. Figure 8 also highlights emerging market currencies' stronger performance versus the Euro currency during this period, with the exception of Poland (whose currency holds a quasi-dirty float versus the Euro) and Turkey (a tiny constituent of the EM benchmark), a country well known to ail from considerable external financing constraints.

As discussed above, we expect the recent US Dollar rally to be primarily the result of a temporary worsening of European economic growth expectations on account of that region's difficulties in implementing a successful vaccination program. In addition, we find the recent bounce in the US Dollar to reflect technical market conditions as investors have adjusted their underweight US Dollar exposure prevailing earlier this year. Moreover, we believe the US Dollar's funding currency status – on account of exceedingly low, absolute and also relative US interest rates versus developed peers – will result, in due course, in a reversal of a weak US Dollar environment.

Figure 8. EM Currency Resilience over the Recent Period of US$ Strength, starting February 25th, Illustrates the Asset Class' Strong Macro Fundamentals, partly underpinning Value Appeal



Source: Bloomberg

Against the backdrop of weakening growth stock performance leadership and strengthening US Dollar, it is not surprising that Chinese stocks (whose benchmark is dominated by growth sector stocks) have corrected these past several weeks. In our opinion, current valuation levels are sufficiently compelling to reinstate China country exposure to overweight. Beyond the increase in China software sector stock exposures, we have also taken advantage of the recent pullback in growth stocks to reinstate our Taiwan country exposure overweight, via increased exposure to the country's semiconductor sector. The outlook facing that sector remains highly compelling, in our view, owing to robust secular and cyclical trends.

Outside the North Asia region, we have also raised our India country overweight allocation via the purchase of selected high quality financial sector stocks. Across other regions, we favor value sector overweight exposures, including financials and industrials. We remain underweight central and Eastern Europe on account of relative valuation and currency considerations while in Latin America we favor Chilean equities along with high quality value stocks in Mexico and Brazil. In the case of Brazil, our continued cautious currency and country risk stance lead us to overweight export-oriented industry exposures in the materials and industrials sectors. We maintain an underweight allocation to Middle Eastern markets on account of valuation considerations.

Finally, the marked acceleration of investor inflows into the asset class thus far this year is worthy of attention. We view such large inflows as the result of investors' decision to trim the highly underinvested allocations they have held in the space over the past several years. In that vein, we expect the pace of inflows into the asset class to continue over the course of 2021 as the investment case, in our opinion, – valuation, top and bottom-line growth, currency valuation resilience and under-owned status – continues to be valid.

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