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Glovista Global Perspectives

This Issue:

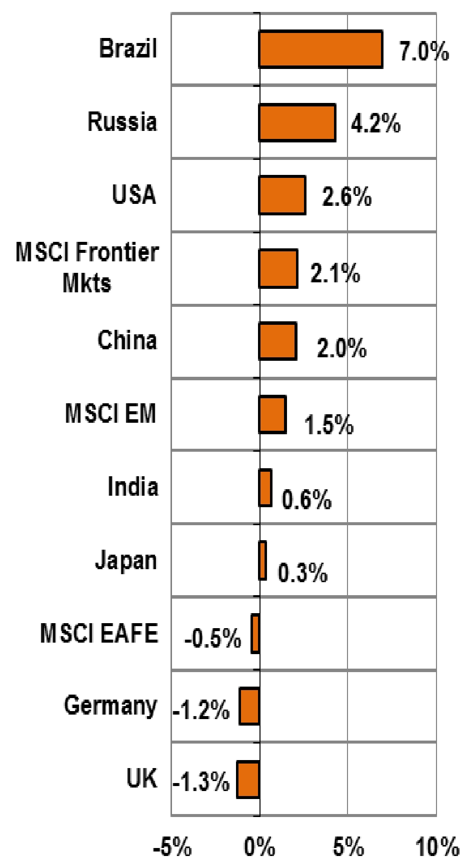
Growth-oriented Markets Post Strong June Outperformance versus Value Peers, fueled by Peaking US Growth Signs, Mid-June FOMC Meeting, Positioning, Seasonality and Delta Virus Strain Concerns; Glovista Sustains Value Overweight and Underweight Duration Tilts

The month of June has proven rather momentous for global markets as softer than expected US economic releases– consistent with the thesis calling for peaking US economic growth momentum in the year's second quarter –have combined with a worldwide spread of the most contagious and lethal Covid-19 virus strain thus far (India originated Delta strain) in fueling heightened downside global economic growth expectations for the year's second-half.

Figure 1 summarizes the broad-based return outperformance recorded by growth-factor oriented equity indices, globally, as well as the bounce in the US Dollar, the official currency of the world's largest equity market whose sector composition is dominated by growth oriented sector stocks to a degree considerably larger than their international developed peers.

That economic growth concerns have unfolded during the month of June, the year's most seasonally challenging month for equities, helped trigger especially sharp selling pressure on value oriented stocks given that group's larger sensitivity to downside economic growth surprises. In addition, value stocks' vulnerability to downside surprises was exacerbated by their short-term overbought status prevailing as of the beginning of June following their long period of sustained outperformance versus growth peers going back to the beginning of January of this year (Figure 2).

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



Source: MSCI & Bloomberg

**As of June 28th, 2021*

GLOVISTA INVESTMENTS

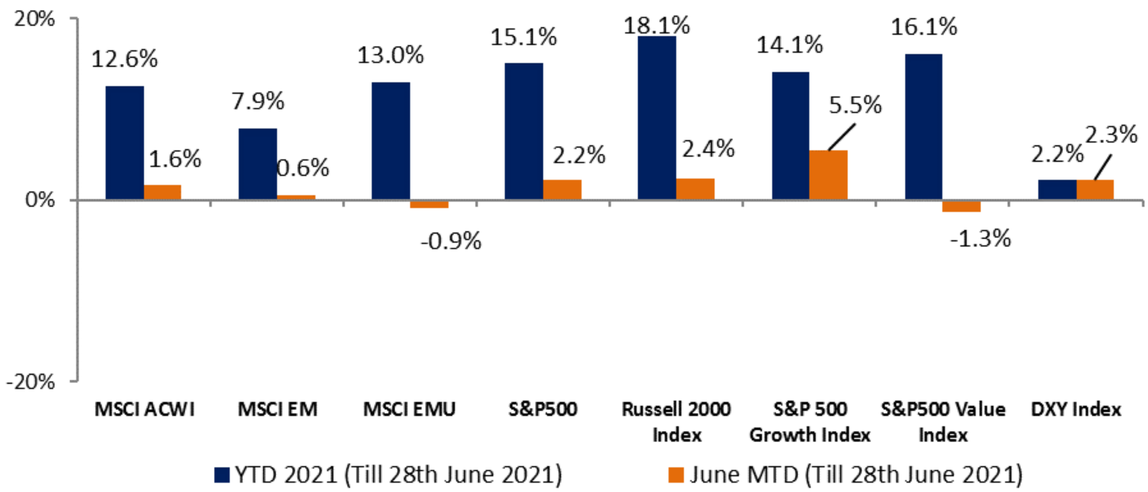
S&P500 Monthly Sector Performance – June MTD 2021*

Sectors	% Change	FY1 PE Ratio
Energy	3.67%	18.9
Materials	-5.73%	18.1
Industrials	-2.85%	27.5
Cons Disc	3.47%	34.5
Cons Stap	-0.83%	21.5
Technology	6.26%	28.2
Healthcare	2.17%	17.4
Financials	-3.23%	14.2
Utilities	-0.62%	18.8
Telecom	3.49%	23.2
Real Estate	3.69%	51.9
S&P500	2.06%	22.7

**As of June 28th, 2021*

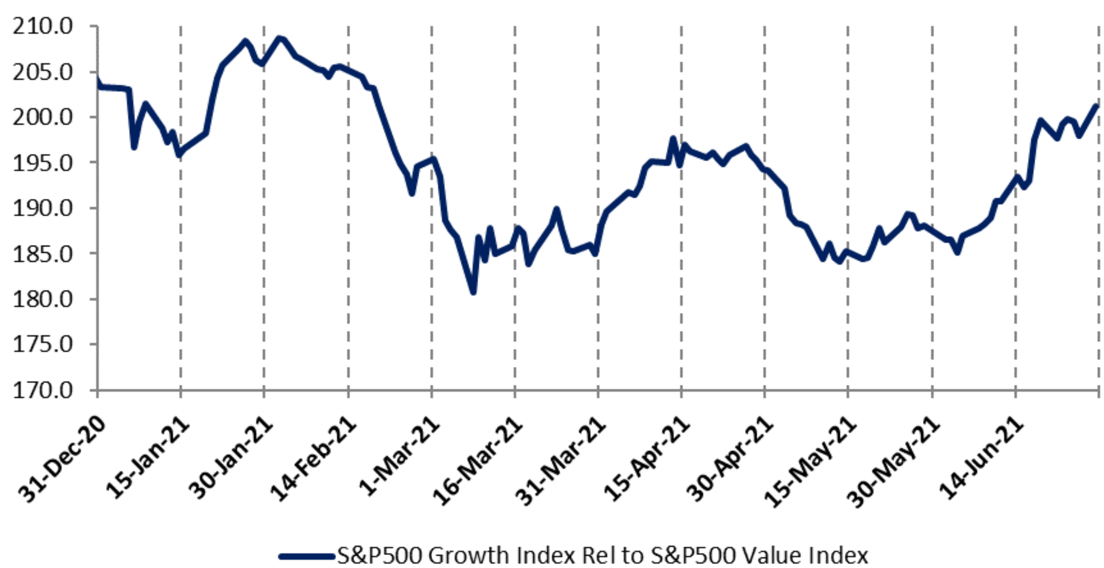
Source: Bloomberg

Figure 1. Growth-oriented Indices Post Solid June Outperformance versus Value Peers



Source: Bloomberg and Glovista Calculations

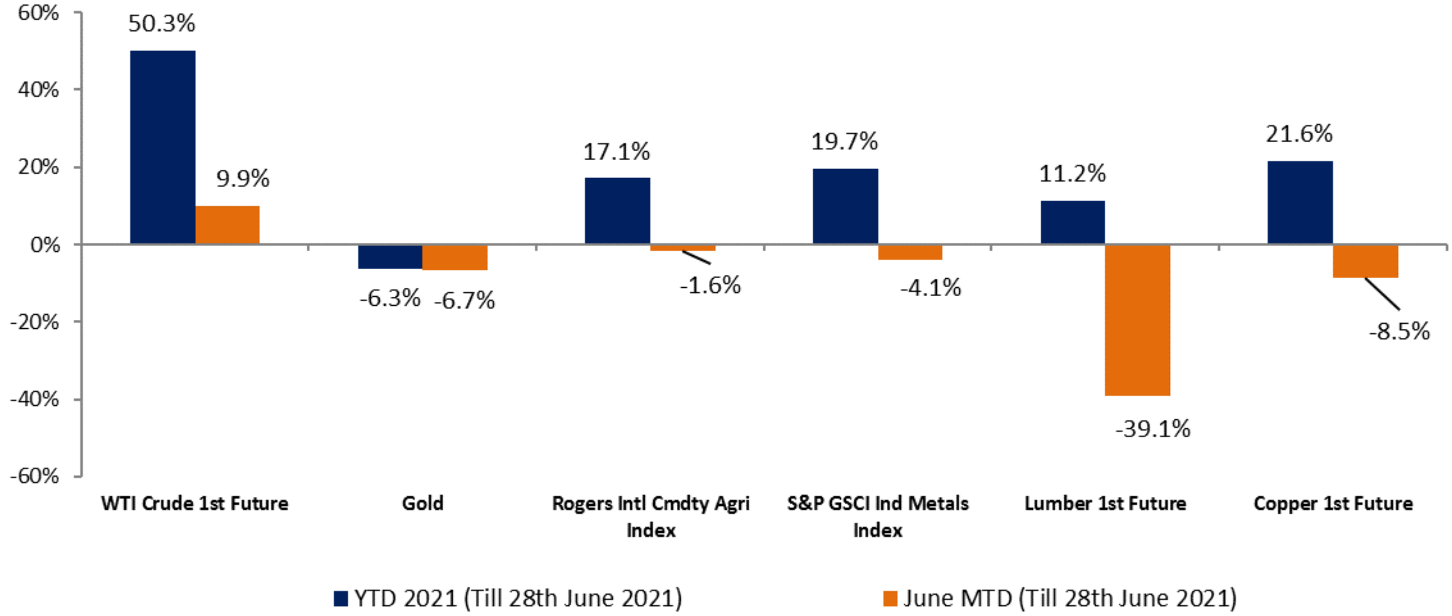
Figure 2. Value Stocks' Short-term Overbought Status at the Beginning of June made the Group Especially Vulnerable to Downside Economic Growth Surprises



Source: Bloomberg

Beyond the global equities domain, the heightening of downside economic growth concerns during the month of June exerted downside price pressures on the commodities space owing not only to the adverse impact exerted on the group by a strengthening US Dollar but also commodities' well known sensitivity to the global economic cycle. For example, Figure 3 illustrates the sharp correction recorded by commodity prices - across the soft, energy and metals (both industrial and precious) groups - during the month of June contrasted with their 2021 year-to-date performance.

Figure 3. June's Downside Economic Growth Surprises, Calendar and Virus News Related, Fuel Correction across the Commodities Space



Source: Bloomberg

In the Policy Domain, the US FED's June 15-16 Meeting Jolted Markets Temporarily as Revisions to Economic Projections and Policy Rate Guidance Signaled Hawkish Stance with Regards to Temporary Inflation Overshoots under New Average Inflation Targeting (AIT) Paradigm

The month of June witnessed a mid-month spike in volatility, both bond and equity market related, as (a) a challenging seasonality backdrop for equities along with (b) downside US economic surprises and (c) news of a broadening Delta virus strain coincided with a much anticipated FOMC meeting entailing major revisions to the US FED's annual economic projections and policy rate (Fed Funds) guidance. In the process, the June FOMC meeting resulted in revised economic projections and policy rate guidance signaling a more hawkish than expected FOMC stance. Specifically, the meeting included an unexpected acceleration in the timing of the first Fed Funds rate hike to 2023 despite largely unrevised medium- and long-term inflation and economic growth projections.

That the acceleration in the timing of the first policy rate hike was unaccompanied by any change in medium- or long-term economic projections, and was anchored exclusively on an upward revision to 2021 core PCE inflation projections, signaled for the first time the FOMC's practical interpretation of the newly embraced average inflation targeting (AIT) paradigm. The signaling from the meeting was unambiguously hawkish in that the announced policy rate guidance implied lower tolerance by the FED for temporary inflation overshoots. From a market perspective, such developments set off a sharp compression in inflation risk premium levels across asset markets. For example, Figure 4 illustrates the sharp reduction in medium-term inflation break evens following the June 15-16 FOMC meeting.

Besides a resulting decline in market-based inflation expectations, investors' adjusted perceptions of a more inflation averse FOMC resulted in a reduction in bond market implied volatility, particularly at a juncture in which proximate convergence was reached between one year rates 5 year forwards and the FED's long-term Fed Funds equilibrium level of 2.5 percent.

The reduction of inflation premium levels during the month of June, courtesy of the Fed's June 15-16 FOMC meeting, afforded risk markets (especially equities) with an especially powerful boost factor given investors' year-to-date principal preoccupation with the potential for equity valuation multiple compressions should inflation dynamics spike out of control

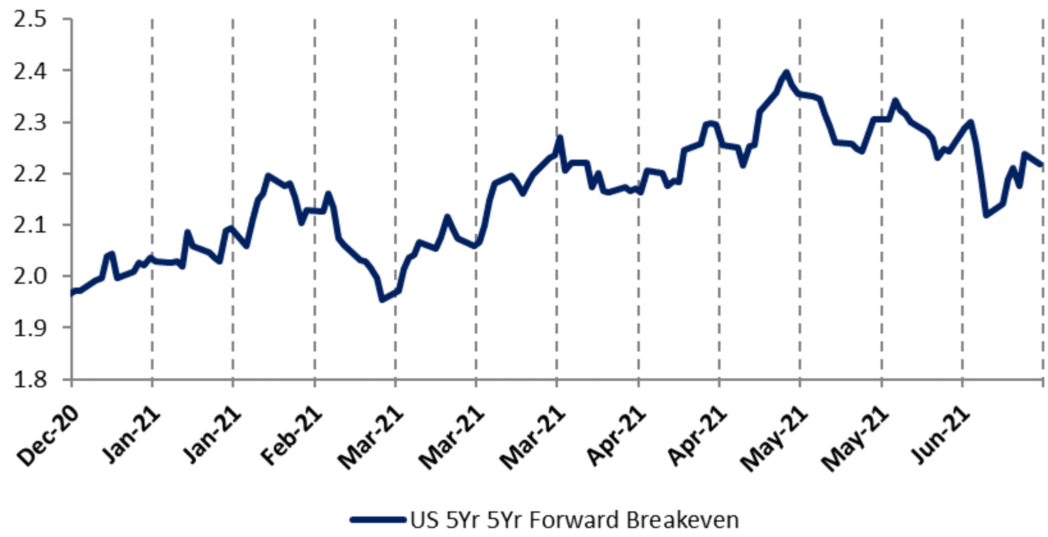
	June 28th 2021	June MTD Change
Gold	1778.48	-6.6%
Silver	26.1119	-6.5%
Oil	72.91	9.9%
EUR	1.1925	-2.2%
JPY	110.63	-0.7%
GBP	1.3883	-2.1%
CHF	0.9195	-2.2%
CAD	1.2337	-2.2%
AUD	0.7567	-1.9%
BRL	4.9266	5.7%
MXN	19.8097	0.6%

Source: Bloomberg

Rates	June 28th Levels
1 Yr CD	0.31%
5 Yr CD	0.45%
30 Yr Jumbo Mortgage	3.14%
5/1 Jumbo Mortgage	3.54%
US Govt. 10 Year	1.4765%
10 Yr Swap Spread	-0.031%

Source: Bloomberg

Figure 4. US FOMC's Momentous June 15-16 Meeting Sets Off Sharp Decline in Inflation Risk Premium Levels



Source: Bloomberg

over the coming years. Such concerns have diminished considerably since the June FOMC meeting. More generally, the June FOMC meeting represents an unambiguously supportive development for global equities when viewed through the prism of the nexus between inflation premia and equity valuation multiples.

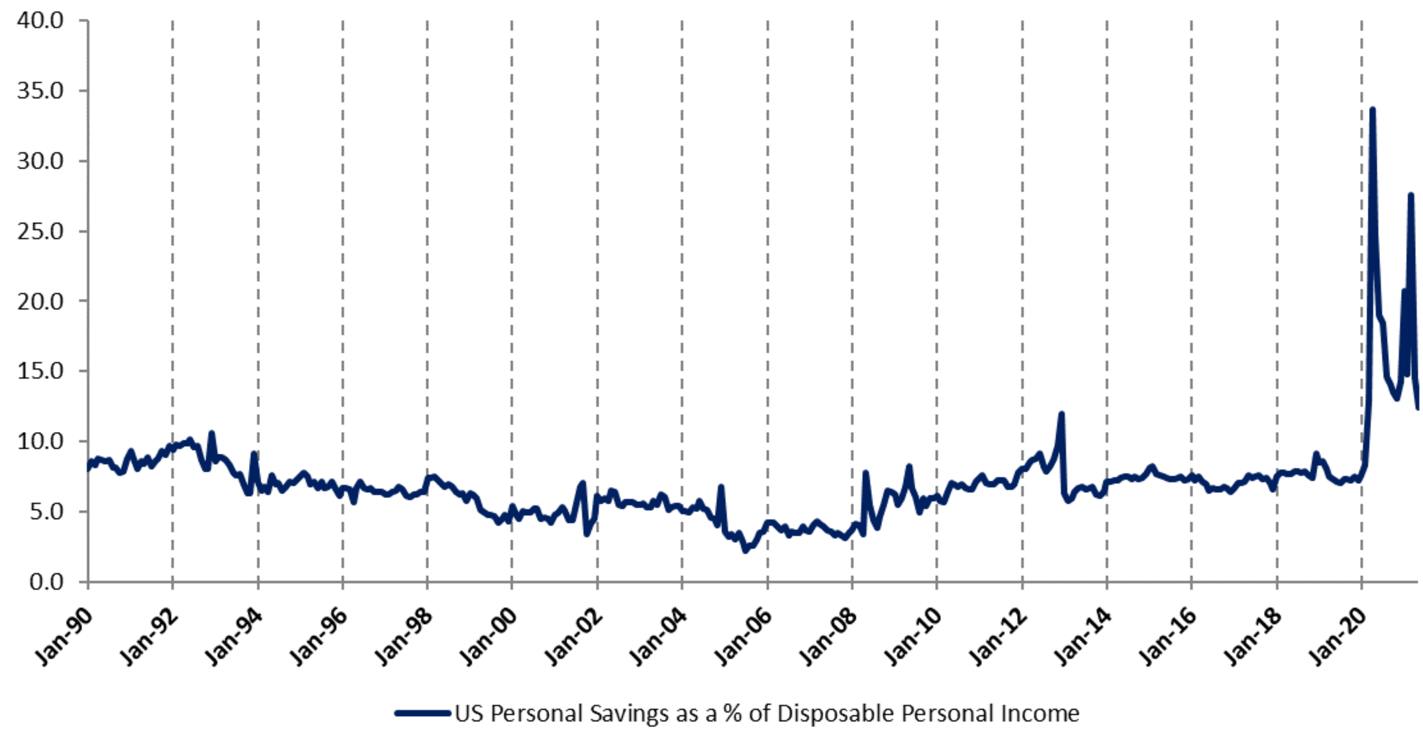
Glovista Sustains Bullish Global Equities Outlook, Viewing the Month of June's Performance Leadership Rotation in Favor of Growth Stocks as Temporary Counter-trend Dynamic

As we look back at the month of June, we view growth stocks' bounce in relative performance versus value peers as a temporary counter-trend phenomenon resulting from the transitory negative growth surprise associated with the spike in Delta virus strain infection globally along with seasonality and technicals related dynamics adversely impacting value stocks in June, as discussed above. Specifically, from a fundamentals perspective, our continued bullish outlook towards value sectors and stocks is grounded on multiple considerations that we believe to remain as valid today as they were in January of this year. Such considerations include the following:

- Continued pace of economic reopening globally, following in tandem with the pace of vaccinations in the world's different regions. In that light, the sequencing and timing of world economic recovery entails growth accelerations out of the USA (with peak growth in Q2), Europe (with peak growth in Q3) and emerging markets (with peak growth in Q4).

- The duration of the global pandemic along with the injection of massive fiscal and monetary policy stimulus across some of the world's largest economic blocs (especially North America and Europe) provide unprecedentedly high visibility in terms of the length of the economic recovery phase that is ensuing around the world at least over the next 12 months. This is because of the elevated levels of personal savings that have accumulated in the household sector along with the underinvestment and durable goods under-consumption gaps that prevail as a result of the long periods of lockdown that have characterized this pandemic era. For example, Figure 5 illustrates prevailing high US personal savings expressed as a percentage of disposable personal income.

Figure 5. US Personal Savings Rate (as % of Disposable Personal Income) Hover at Elevated Levels, Signaling Households' Ability to Spend as Reopening Dynamics Take Hold



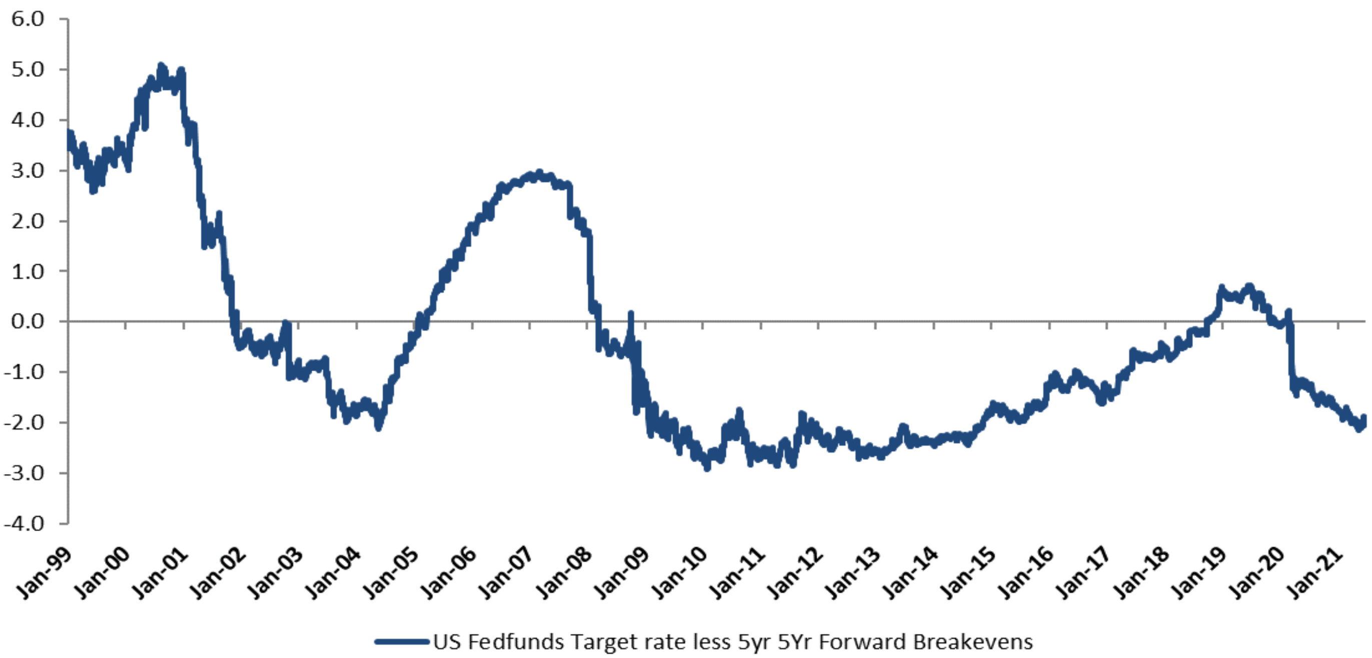
Source: Bureau of Economic Analysis

- As economic reopening intensifies around the world, interest rates are likely to normalize upwardly to historical average levels from current depressed levels, especially in inflation adjusted terms. For example, Figure 6 illustrates real policy rates for the US from a historical perspective, highlighting current depressed (negative) levels. As real interest rates normalize higher, value-oriented stocks' return performance versus growth peers is likely to advance considerably.

- Visibility of world economic recovery in 2021-2022 remains unusually high courtesy of several factors, and despite the onset of fiscal stimulus withdrawal and monetary policy normalization in the USA especially. Specifically, some of the drivers underpinning the unusually robust growth path that we believe looms ahead includes (a) households' exceedingly strong balance sheets, (b) pent-up expenditure demand and (c) persistently low real interest rates. Moreover, as supply chain disruptions fade we expect commodity prices tied to basic consumption baskets (e.g. food and shelter) to normalize lower, as indeed has been taking place over the past several weeks. In that regard, forward looking measures of household purchasing power are likely to strengthen further, partially offsetting the effects from the scheduled withdrawal of government transfer payments. In addition, financial conditions hover at exceedingly loose levels (Figure 7). History reminds us that economic cycle peaks unfold no earlier than several quarters following a top in global financial conditions.

- Outside the US, a number of large economic support programs are expected to be launched later this year, most notably the European Union Recovery fund – especially supportive of periphery countries (such as Italy and Spain). Likewise, the period of tightening financial conditions in China – that has been in place since the beginning of the year

Figure 6. US Real (Inflation Adjusted) Policy Rates Hover at Exceedingly Low (Negative) Levels, from which Normalization to Higher Levels is to Unfold as Economic Recovery Advances



Source: Bloomberg & Glovista Calculations

– is widely expected to draw to a close within the next several months.

- A cursory examination of analysts' revenue and earnings estimates for the next two years manifests a sharp strengthening momentum for value stocks versus growth peers. Such unusually strong pace of growth outperformance for value stocks lends additional valuation attractiveness to the value factor.

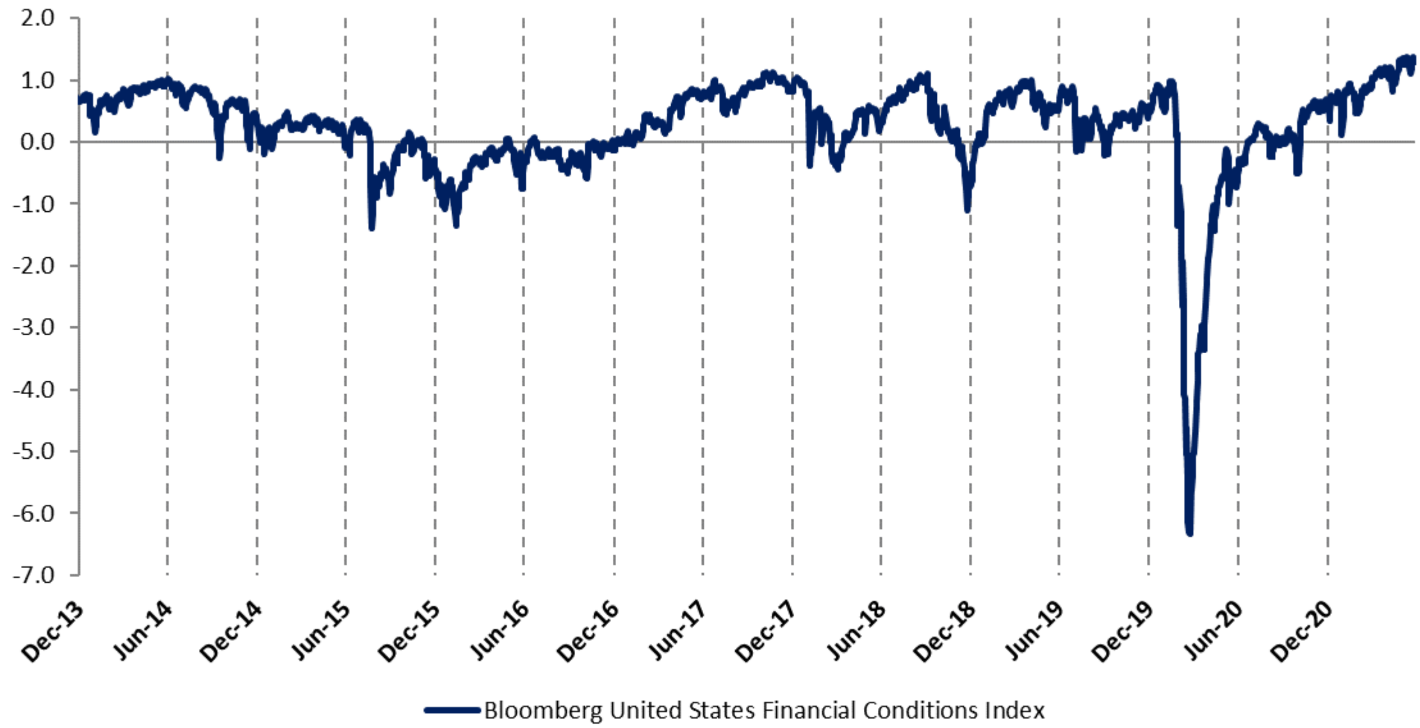
- While the Delta virus strain is cause for concern, the latest available data out of countries heavily impacted by the Delta strain but that hold healthy levels of vaccination offers much cause for optimism. Specifically, through the latest spike of infections, hospitalization and mortality rates per number of cases continue to edge to the lowest levels since the pandemic period began. Consequently, the data strongly suggests the ongoing global economic recovery is most likely to extend further even in a scenario of further escalation in Covid infections under the Delta strain. In that regard, recent market reaction appears to be excessively bearish. A number of positioning metrics, including short interest ratios for US listed ETFs as well as hedging metrics are consistent with such interpretation.

The above considerations, among others, lead us to believe recent market dynamics – within global equities and government bond markets – owe much to positioning and technicals and thus are likely to reverse themselves in the year's second half. Specifically, we believe cyclical stocks (including industrials, financials, semiconductors and materials) are likely to outperform defensive sectors over the coming months. Emerging market, Eurozone and Japanese stocks are likely to benefit especially from such strengthening in world economic growth during the year's second half. Likewise, we believe long-term government bond yields are likely to edge higher as short-term real interest rates normalize higher.

Glovista Sustains Overweight Equities, Underweight Bond Duration Tilts with Tactical Long Exposure to Precious Metals.

Under our standing global macro baseline case, calling for a continuation of the global economic expansion well into 2022, along with the lack of valuation attractiveness in fixed income markets, the Glovista investment team continues to favor overweight exposure to global equities, especially value-oriented sectors and stocks, and underweight bond duration

Figure 7. US Financial Conditions Hover at Multi-year Loose Levels, lending Strong Visibility to the Length and Strength of World Economic Recovery



Source: Bloomberg

exposure. Within global equities, we continue to favor emerging market equities, value sectors (especially energy, materials and financials) and high-quality US secular growth stocks, especially in the tech sector. Within the fixed income markets, we continue to favor short-dated high-grade corporates and senior loans. On portfolio risk considerations, and under our expectation of continued low real interest rate environment, we favor tactical long exposure to precious metals, especially gold.

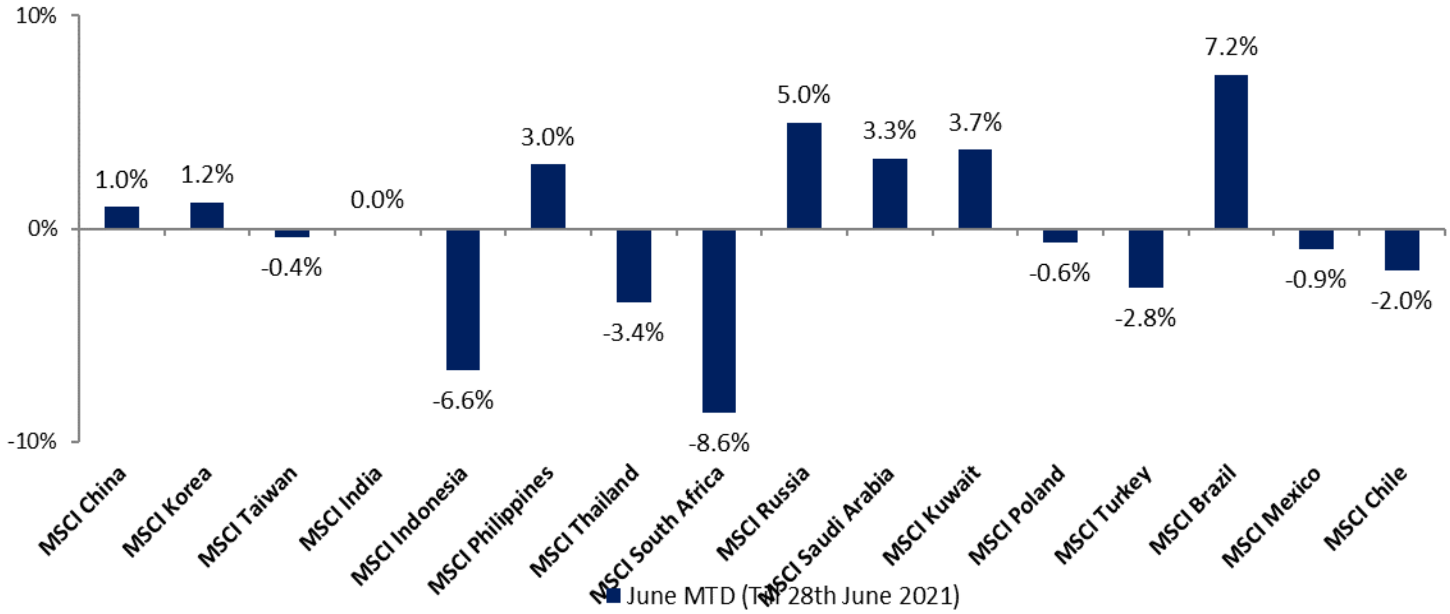
Emerging Markets Perspectives

EM Tech and Energy Sector Stocks Post Solid June Outperformance on US$ Bounce and Resilient Crude Prices; Glovista Raises China Country Tilt funded with South East Asia Markets Downgrade

In June, cross-country return performance dynamics within the emerging markets space conformed to global macro developments. Specifically, the US$ bounce together with heightened investor concerns over the Covid-19 Delta virus strain combined to exert downward pressure on EM materials and tourism service sector-oriented markets, including Indonesia, Thailand and Chile. In addition, national market indices heavily dominated by non-tradable sector stocks where the national currency is tied to the Euro currency (e.g. Poland) also underperformed. Figure 8 summarizes June month-to-date return performance for the emerging markets asset class, at the country level.

Figure 8 highlights the solid return outperformance recorded by tech sector oriented Chinese and Taiwanese markets as well as energy sector-oriented markets, such as Saudi Arabia and Kuwait whose currencies are also closely tied to the US$. Brazilian equities' solid June outperformance was primarily the result of the Brazilian Real's strong appreciation during the month, fueled by domestic political developments that included increased prospects of a Bolsonaro election loss. In the South East Asia region, the Thai and Indonesian markets' strong underperformance was the result of those markets' sensitivity to tourism services and materials sector exposure, respectively. In addition, the Delta virus strain has impacted

Figure 8. EM Country-level June MTD Return Performance: Tech and Energy Sector-oriented Markets as Top Outperformers



Source: Bloomberg, MSCI & Glovista Calculations

those countries disproportionately these past several weeks, resulting in heightened lockdown measures as a result of which their currencies have weakened markedly versus the US$.

Over the past several weeks, and even prior to the escalation of recent investor concerns regarding the Delta virus strain, the Glovista investment team began to raise exposure to Chinese information technology sector stocks on account of the attractive valuations that resulted from the group's recent multi-month period of sharp return underperformance. We view the recent period of underperformance by Chinese IT stocks to have been primarily the result of derating pressures stemming from concerns over the role of the Chinese government in a number of sectors heavily represented by mega-cap stocks, such as Alibaba. In addition, as discussed in prior monthly columns, early this year the Chinese government initiated a tightening of financial conditions that has resulted in a deceleration of economic growth momentum. We believe the period of maximum tightening pressure in financial conditions is behind us; as a result, we expect China's economic growth momentum – particularly in relative terms versus EM peers – to stabilize over the coming weeks. We have funded our recent raise in China country allocation mainly via a cut in exposure to South East Asia markets, such as Indonesia, Malaysia and Thailand on account of those countries' exposure to tourism services and also relative valuation considerations, especially versus China information technology sector stocks.

Finally, from an asset class perspective, we expect emerging market equities to post continued return outperformance versus developed peers in the balance of the year on account of a clearer path of economic acceleration out of China, attractive relative valuations, the asset class' under-owned status and projected pick-up in economic reopening measures across a large number of EM countries as we approach the fourth quarter. Finally, the pace of analysts' revisions of EM companies' top line, bottom-line and margin estimates continues to be especially auspicious in relative terms versus developed market peers.

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