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Glovista Global Perspectives

This Issue:

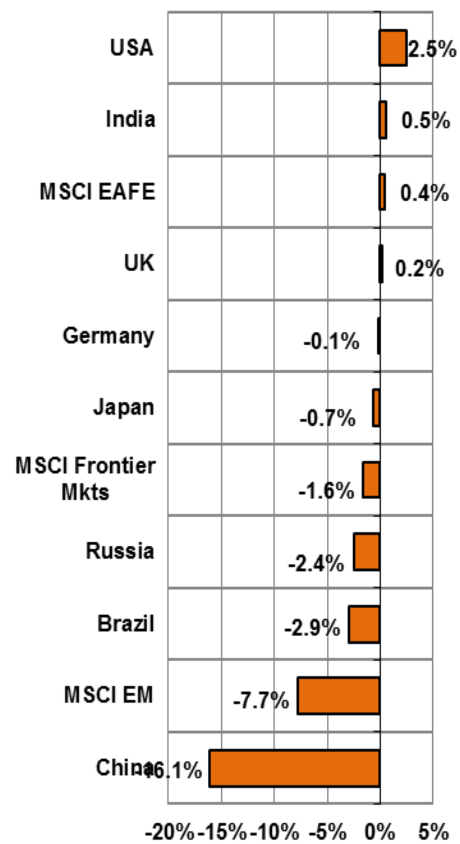
Growth Stocks Outperform Value Peers in July, Fueled by Renewed Slowdown Concerns as Delta Covid Strain Broadens in Developed World; Glovista Sustains Value Factor Tilts on Resilient Growth Outlook Owing to Rising Vaccinations and Policy Support

In July, global markets have navigated through a succession of growth unfriendly developments, including (a) the broadening of the Delta Covid strain, especially throughout much of the developed world, and; (b) a stream of below consensus economic activity releases, especially out of the USA. Such developments, along with a moderate strengthening in the US$ - tied primarily to investor positioning dynamics as speculators work off net short US$ exposure levels prevailing as of the end of June – set off downward economic revisions for the year's second half. Figure 1 illustrates the pick-up in downward economic surprises since the middle of June while Figure 2 illustrates the acceleration in the number of new Covid infection cases across the world's major regions.

The above-mentioned list of adverse growth expectations developments (e.g. underwhelming economic activity calendar, strengthening US$ and rising Delta Covid strain) have brought about a decline in medium-term inflation expectations as well as an accompanying fall in long term government bond yields (Figure 3). In turn, such financial market developments have helped underpin value stocks' underperformance versus growth peers throughout much of July (Figure 4).

The recent macro environment's unfriendly backdrop for value stocks versus growth peers has been also manifested at a global markets' level with US stocks – with large benchmarks, such as the SP500 index, predominantly dominated by growth stocks – strongly outperforming non-US equities during the month of July (Figure 5).

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



Source: MSCI & Bloomberg

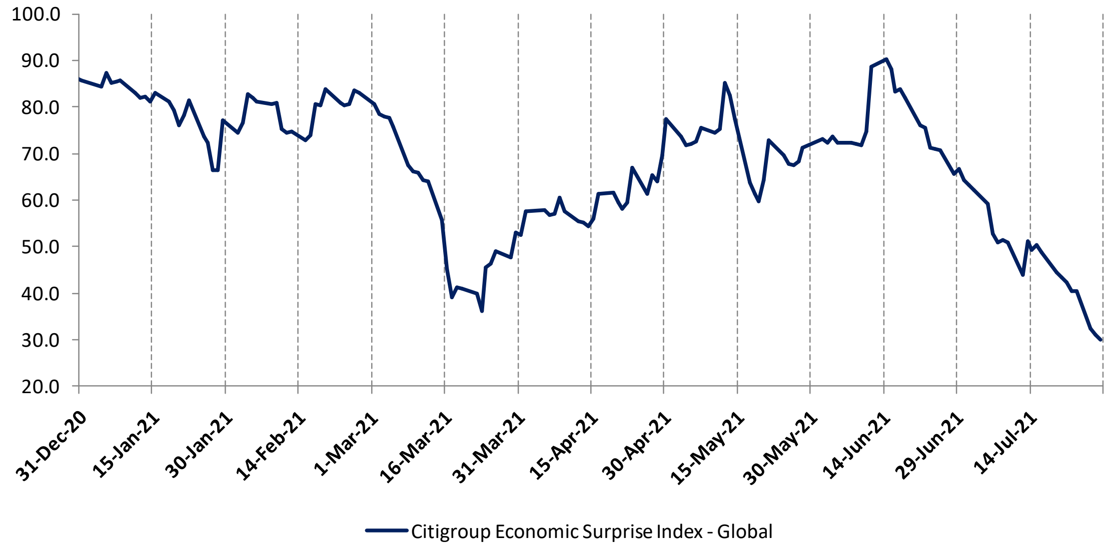
****As of July 28th, 2021***

S&P500 Monthly Sector Performance – July MTD 2021*		
Sectors	% Change	FY1 PE Ratio
Energy	-7.66%	16.6
Materials	0.50%	17.0
Industrials	0.25%	26.8
Cons Disc	2.48%	34.7
Cons Stap	1.67%	21.4
Technology	3.41%	27.9
Healthcare	4.47%	18.0
Financials	-0.93%	13.3
Utilities	4.92%	20.3
Telecom	4.80%	22.9
Real Estate	4.46%	51.2
S&P500	2.40%	22.4

*As of July 28th, 2021

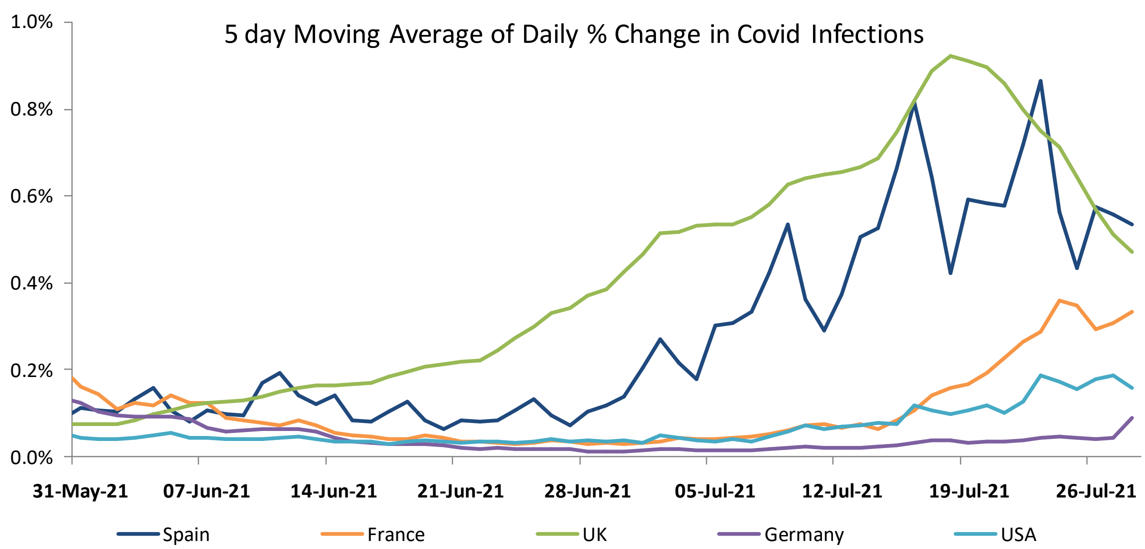
Source: Bloomberg

Figure 1. Economic Activity Releases Surprise to the Downside since Late June



Source: Citigroup

Figure 2. Covid Infection Rates Rise Globally in July, especially in the Developed World

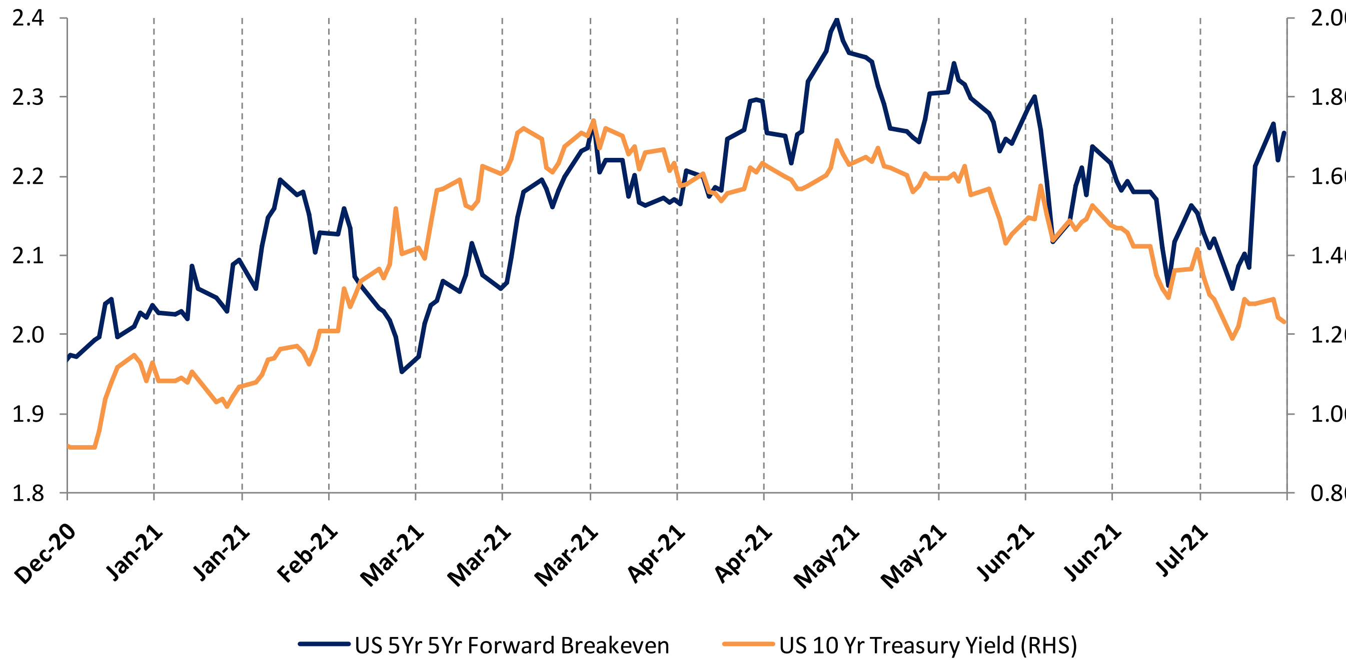


Source: Bloomberg & Glovista Calculations

In our view, recent market developments are likely to prove transitory and are best viewed as counter-trend in nature. We hold such view on the basis of several considerations, including the following:

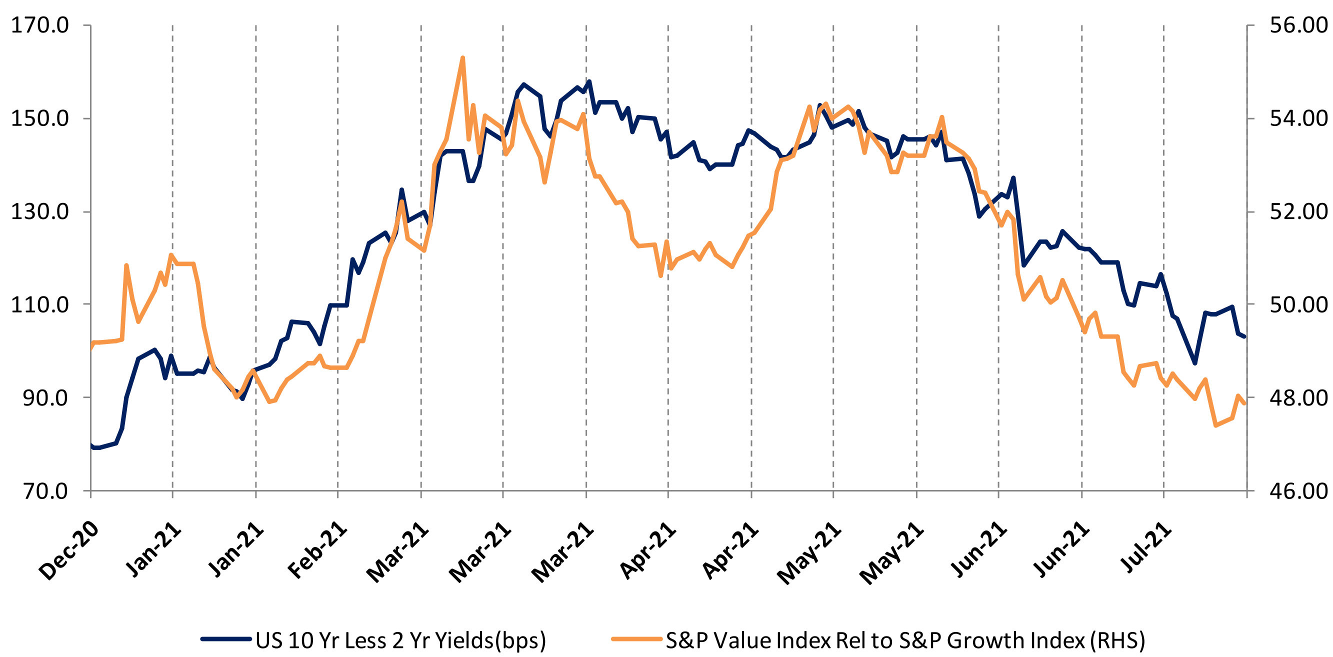
- The pace of vaccinations across much of the developing world is picking up speed while in the developed world close to 60% of adults in the US and the European Union are already fully vaccinated. As we look ahead, the narrowing in the differential between the rate of vaccination and rate of infection – as witnessed in the UK and other countries first impacted by the Delta strain – in time should effectively bring about an end to any adverse growth concerns from the recent spike in the Delta Covid strain.

Figure 3. Long-term Government Bond Yields and Medium-term Inflation Expectations Decline from mid-May High Levels, fueled by Downsized Growth Expectations



Source: Bloomberg

Figure 4. Shifts in Inflation and Growth Expectations Fuel Yield Curve Flattening and Value Stocks' Underperformance versus Growth Peers



Source: Bloomberg

- Mobility indicators as well as various market-based reopening indicators (such as the S&P500 Hotels Restaurants and Leisure industry index relative to S&P500) hover well above 2020 and mid-July low levels (Figure 6). Another eloquent indicator of resilience in economic reopening activity is found in the Eurozone's solid bounce in June Markit services index (Figure 7). Also noteworthy is that such robust service sector reading unfolded during a period in which the Delta Covid strain impacted the Eurozone region quite severely in both absolute terms as well as relative to other regions around the world.

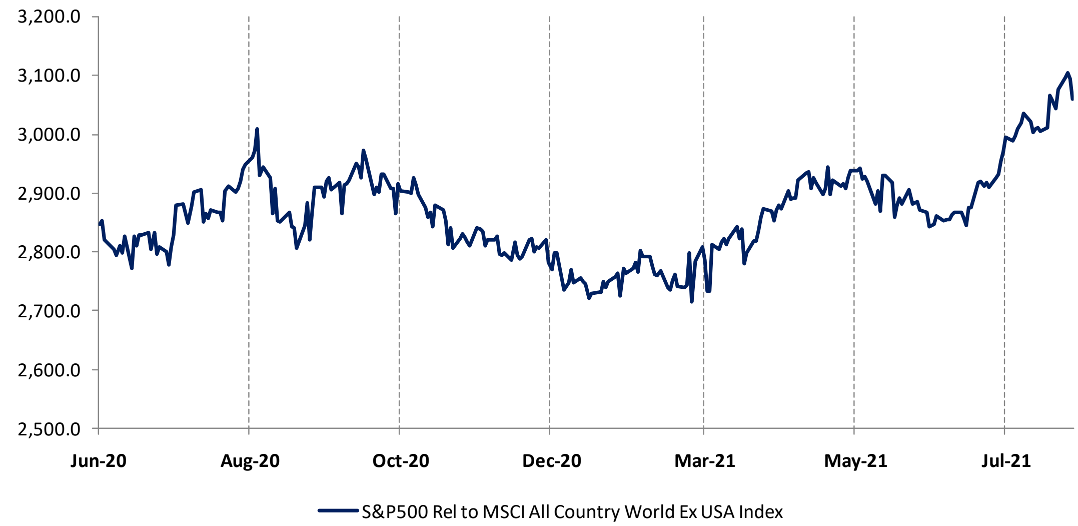
	July 28th 2021	July MTD Change
Gold	1807.11	2.1%
Silver	24.9635	-4.5%
Oil	72.39	-1.5%
EUR	1.1845	-0.1%
JPY	109.91	1.1%
GBP	1.3902	0.5%
CHF	0.9101	1.6%
CAD	1.2528	-1.0%
AUD	0.7376	-1.6%
BRL	5.117	-3.0%
MXN	19.9186	0.1%

Source:Bloomberg

Rates	July 28th Levels
1 Yr CD	0.31%
5 Yr CD	0.45%
30 Yr Jumbo Mortgage	3.04%
5/1 Jumbo Mortgage	2.85%
US Govt. 10 Year	1.2327%
10 Yr Swap Spread	0.019%

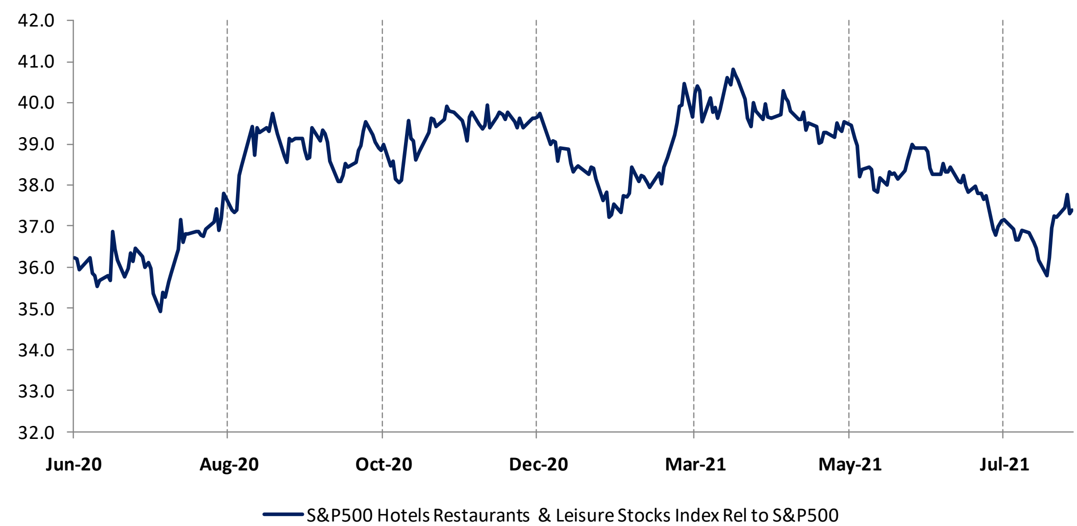
Source:Bloomberg

Figure 5. July's Macro Unfriendly Environment for Value Stocks Lent Impetus for US Large Caps to Outperform Non-US Peers for the Month



Source: Bloomberg

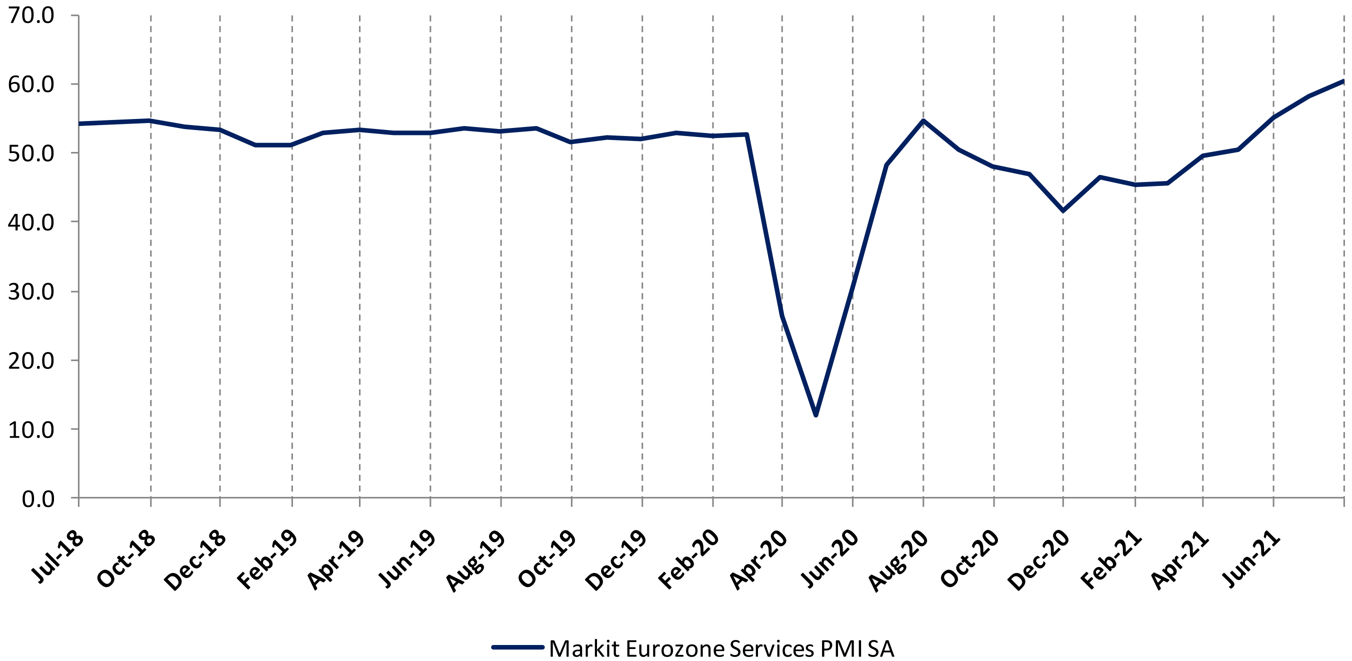
Figure 6. US Hotels, Restaurants and Leisure Stocks Bounce Relative to the SP500 index, Signaling Market's Expectation of Impending Top in Adverse Growth Effects from Delta Covid Strain



Source: Bloomberg

• From a policy perspective, the month of July has witnessed a pair of active policy meetings from the world's two largest central banks. In the case of the European Central Bank (ECB), the governing council announced earlier this month a reset of the threshold inflation level (to 2% from just under 2%) at which policy rate hikes will be implemented. In that regard, it is important to note that the ECB staff projects inflation to rise only gradually over the coming years, with inflation reaching 1.4% in 2023. In the case of the US FED, at its July 28th meeting the FOMC signaled a continuation of its gradual stance with regard to initiating its tapering process sometime in early 2022. From a fiscal policy perspective, the Eurozone region is about to embark upon an expansive phase while in the USA fiscal policy will tighten over the next twelve months though at a gradual pace.

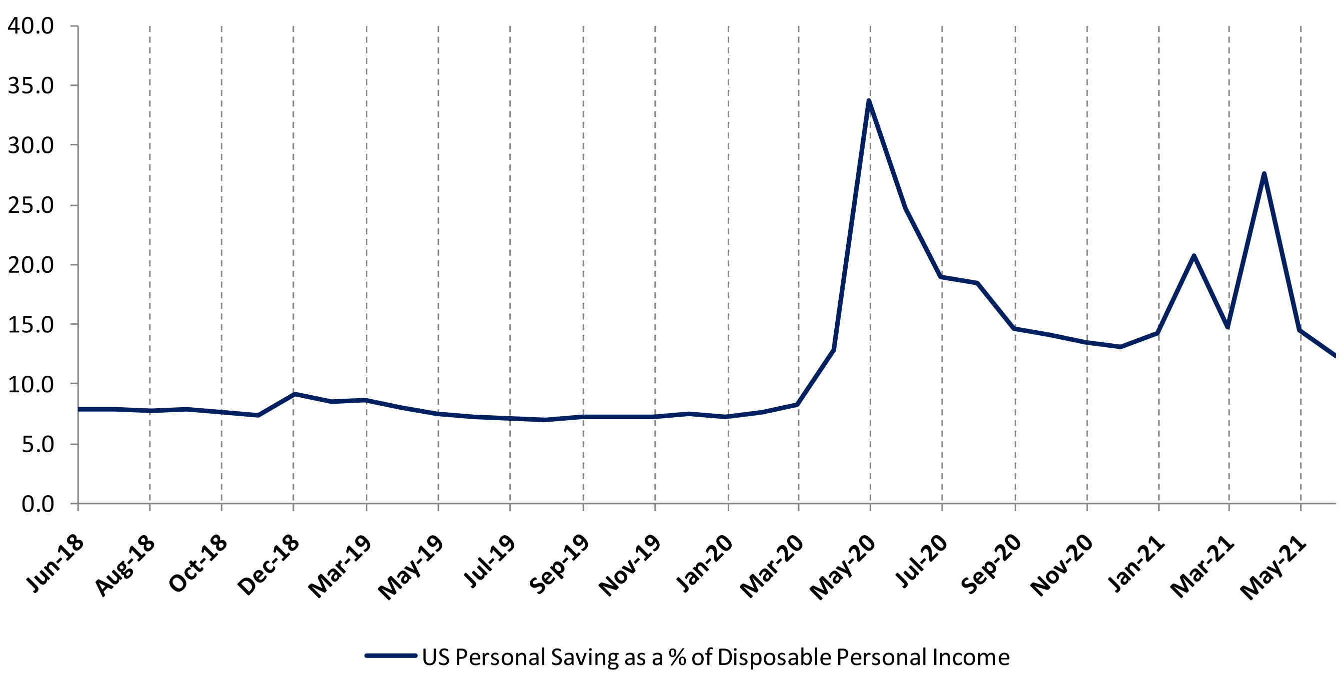
Figure 7. June Eurozone Markit Service Sector PMI Proves Resilient in the Face of the Delta Covid Strain, Posting a Rise from May Levels



Source: Bloomberg

- The backdrop supporting domestic expenditure growth over the coming quarters remains exceedingly high owing to prevailing high personal savings rate levels along with the resilience of mobility and reopening activities throughout much of the world. For example, the US savings rate as % of disposable personal income at 12.4% as of the beginning of June remains well above historical average levels (Figure 8).

Figure 8. Prevailing High Personal Savings Rate Levels at Juncture of Resilient and Increased Mobility and Reopening Activities Bodes Well for the Growth Outlook in the Balance of 2021 and 2022



Source: Bureau of Economic Analysis

Nexus of Covid Infection/Vaccination Dynamics, Resilient Mobility Momentum, Policy-makers' Commitment at Gradual Normalization Pace, Robust Household Balance Sheet Position and Reflation Implications from Broadening Global Recovery Underpin Glovista's Principal Portfolio Tilts

The Glovista investment team sustains its longstanding bullish equities, underweight fixed income duration and tactical bullish precious metals portfolio tilts. Moreover, within global equities we continue to hold overweight allocations to value oriented markets, both within the US and internationally, as well as to secular high quality growth stocks (especially in the US tech sector).

Our bullish equities stance reflects a number of considerations, including:

- our macro baseline case of continued robust and broadening economic growth momentum (especially outside the USA) in the year's second half;
- major policy-making institutions (especially in the USA and Europe) continuing to embrace a gradual normalization approach on fiscal and monetary policy – as reaffirmed rather transparently by the US Fed and the ECB earlier in July;
- the clear upcoming fading of adverse growth effects from the latest Delta Covid virus strain as the rate of vaccination overcomes the rate of infection across much of the world's regions over the coming months;
- the uniquely robust balance sheet position enjoyed by the household sector in the world's largest consumer economies (especially the USA and Europe), courtesy of the pandemic induced spike in absolute savings levels as well as the generous transfer programs implemented by governments;
- the powerful reflationary implications from the projected global recovery that markets are beginning to discount as well as the potential for continued US Dollar weakness versus most of the world's large developing country currencies, as those economies pick up momentum;
- the broadening of productivity-enhancing technology services carry over into higher normalized margin levels for a growing number of sectors;
- continued favorable share buyback dynamics given a most favorable financial backdrop of continued negative real interest rates.

Within global equities, we continue to favor value-oriented markets on both valuation, top-line and margin considerations. Emerging market equities, high quality Eurozone and US value sectors are some of our preferred vehicles to reflect such thesis. Our continued bullish stance towards high quality growth stocks (especially in the US tech sector) reflect both the secular nature of earnings growth for such business as well as their 'value'-type credentials both in terms of exposure to recovery plays and also their attractive growth-adjusted valuations versus the overall market. Finally, we continue to favor tactical exposure to gold both on diversification considerations as well as given our thesis of continued negative real interest rates over the coming years.

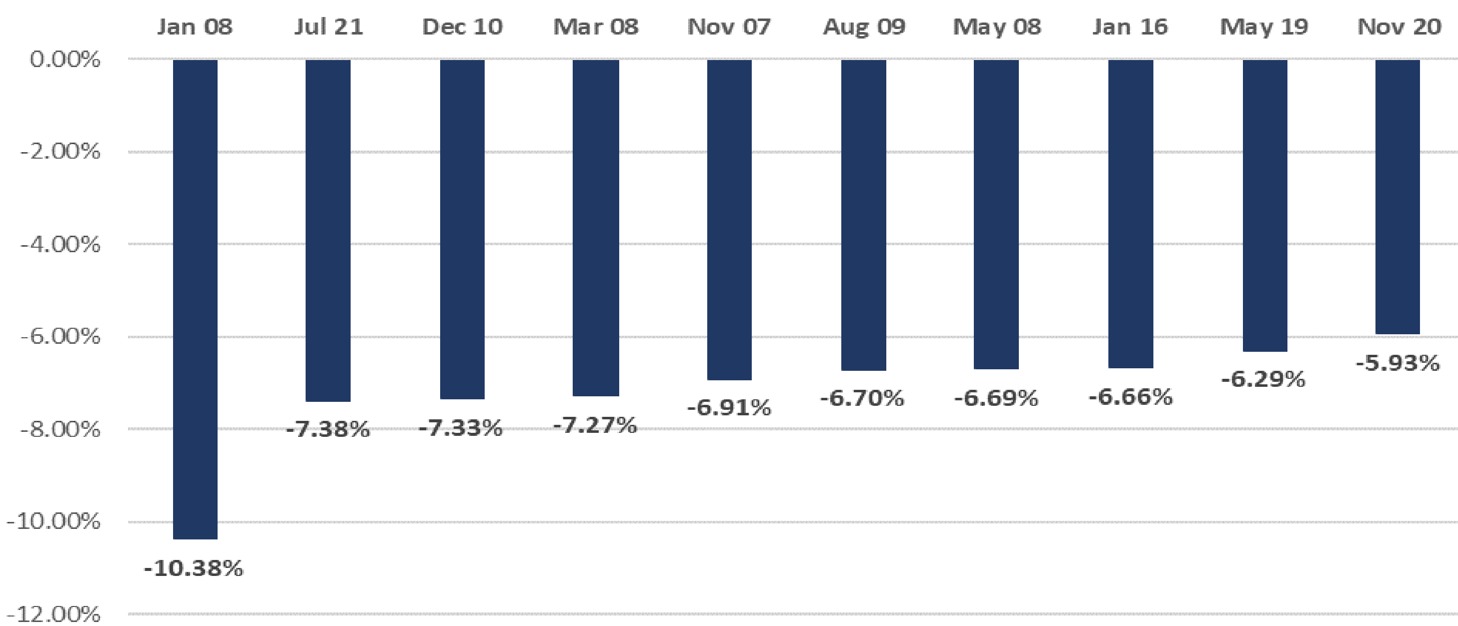
As always, no investment outlook is bereft of risks. Some of the more significant risk factors conditioning the outlook include policy mistakes (either from central banks that may choose to tighten too early or from governments on fiscal policy front), geopolitical risk (discussed in the EM section below) and new virus strains that could prove resilient to vaccines. At this juncture, we view such risk factors as contained.

Emerging Markets Perspectives

EM Equities Sell Off in July, Led by China Regulatory Policy "Tantrum"; Latin America and EMEA Equities Sustain Recent Outperformance versus EM Peers; Glovista Sustains Value Overweight Tilts

The month of July has proven rather fast-moving in the emerging markets space, led by a sharp escalation in Chinese policy regulatory concerns centered on a number of sectors of the Chinese economy, most especially education, retail, technology and real estate sectors. In the process, Chinese equities have recorded one of their worst monthly relative return performance since January 2008. Figure 9 shows a histogram of Chinese equities' 10 largest monthly underperformance versus the MSCI EM benchmark, going back to 2007.

Figure 9. Chinese Equities' 10 Largest Relative Monthly Underperformance Episodes Versus EM Benchmark Since 2007



Source: Bloomberg, MSCI & Glovista Calculations

From a historical perspective, the July China policy 'tantrum' episode accords closely to similar surprise policy or political events impacting other EM countries over the course of the past several decades. The risk premium in Emerging Markets compared to developed markets primarily reflects potential for such sudden geopolitical shifts. In most instances, the initial spike in EM relative country-level risk premium fades over the course of the ensuing next few quarters. Thus, the weight of historical precedent along with our assessment of the Chinese government authorities' motivation in pursuing recent regulatory announcements as well as the recent clarification of such policies provided over the past few days, strongly suggest the current episode is most likely to record a similar recovery dynamic over the next couple of quarters. However, given the short-term increase in volatility and the potential for negative profit revisions in the near-term as the markets fully incorporate the cost of recent regulatory changes on the Chinese corporates, we maintain an underweight allocation towards China, especially the sectors impacted by the recent announcements. We continue to monitor relative earnings and valuation dynamics for a more opportune time to upgrade China allocations within our EM portfolios.

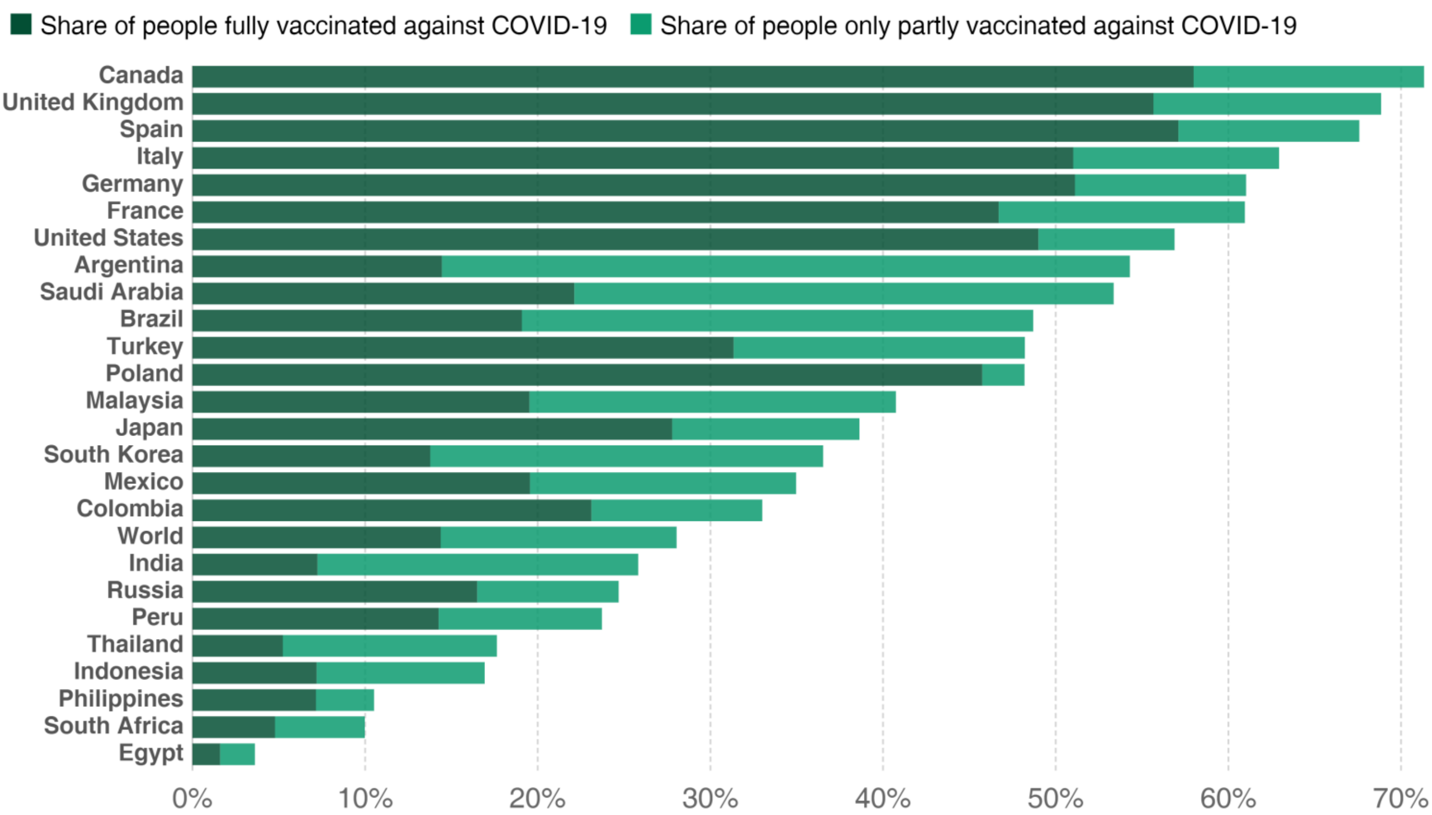
From a fundamental perspective, we believe recent Chinese regulatory actions across a number of sectors of the economy should be viewed in the context of the government's efforts at prioritizing social fairness /stability in areas of strategic importance, such as addressing the ageing of the population (e.g. healthcare, housing, education) and the achievement of technological advances while preserving autonomy. From a portfolio perspective, the Glovista team has been able to navigate the July sell-off in Chinese equities by maintaining underweight country allocations as well as underweight exposure to such sectors mentioned above.

As we look ahead, we continue to view China as a 'must own' market for global investors owing to the economy's longstanding (over 20 years) dominant role in contributing to world economic growth while the country's strong pace of innovation translates into continued resilience in productivity (and thus, earnings) growth in the years to come. The recent sell-off in Chinese equities is rather understandable as it reflects a large spike in China country equity risk premium.

Over the past several days, Chinese government authorities have been on record providing local and international investors much clarity with regard to the targeted nature of their recent regulatory actions, reaffirming their commitment at maintaining continued capital market access (including overseas IPO listings, among others). Consequently, we believe the weight of historical precedent along with the strong visibility of China's medium-term growth momentum ensure Chinese equities' compelling investment attractiveness over the medium- and long-term.

Outside China's market developments, the month of July has witnessed considerable progress in emerging market countries' progress at speeding up the rate of vaccinations (Figure 10) while the infection rate across a number of large population countries (such as India and Brazil) has waned considerably.

Figure 10. Rising Rate of Vaccinations Provide Strong Visibility at Sustained EM Economic Growth Outperformance versus Developed Peers Looking into 2022



Source: Ourworldindata.org

As we reconcile the unambiguously growth supportive dynamics of recent virus infection/vaccination developments with significant dovish policy guidance out of the ECB and US Fed over the course of July, we believe the US Dollar is likely to retake a weakening trend versus EM currencies over the balance of 2021 and 2022. In the process, a weaker US Dollar combined with the normalization of term interest rate premium and long-term interest rates in the developed world should help underpin a strong return outperformance for value-oriented sectors and country indices throughout the EM space. Within that context, the Glovista investment team favors overweight country allocations to Mexico, India, Taiwan and Russia while continuing to underweight growth sector oriented markets, including South Korea and China.

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