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Monthly Market Newsletter

Glovista Global Perspectives

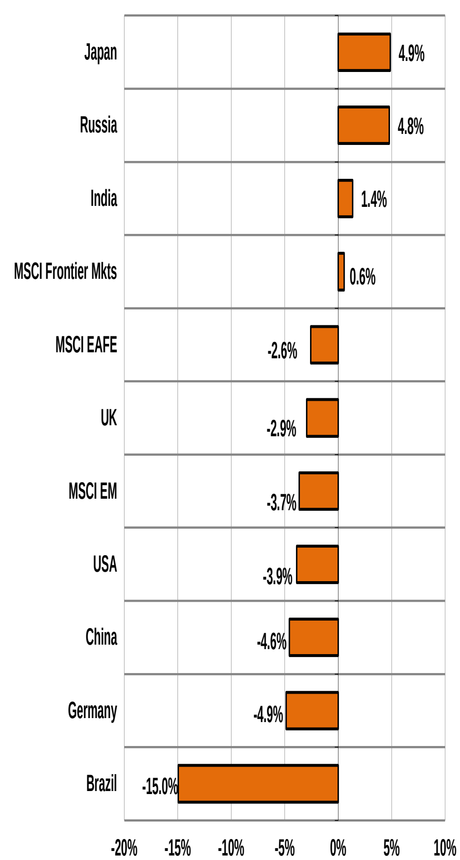
This Issue:

Risk Assets Pull back in September with Value Stocks Outperforming Growth Peers, fueled by Upside Growth Surprises and Prospects for Increased Reopening Activity Globally; Glovista Sustains Value Factor Overweight Tilts

The month of September has witnessed a number of important developments at the macro and market levels. At the macro level, the activity calendar has remained resilient despite the Delta virus strain's continued relevance around the world. As the month is drawing to a close, the latest virus infection wave is showing clear signs of abating, fueling expectations of increased reopening measures around the world. The Asia region's larger impact in the latest virus infection curve has resulted in a higher incidence of shutdown measures for that region. As a consequence, economic growth expectations have favored the US over much of the rest of the world during the past several weeks, resulting in a modest strengthening of the US Dollar in September. Moreover, disruptions in global supply chains worsened during the month owing to the Asia region's elevated shutdown levels given Asia's central role as a global manufacturing hub. Such heightened dislocations in the global supply chain are likely to result in increased scarcity levels of certain household and industrial products over the coming months along with tighter margin pressures and higher prices.

On the price domain, market- and survey-based measures of long-term inflation expectations have remained approximately unchanged throughout the month of September. As a result, much of the back-up in long-term US Treasury yields during the month (around 25 basis points in the 10-year tenor) reflects higher implied real (inflation adjusted) yield levels, consistent with improved economic growth expectations. Within the policy domain, the month of September included an important US FOMC meeting on September 22nd, at which guidance was provided on the quantum and pace of tapering of the Fed's asset purchase program along with a revision of the so-called Fed dot plots tied to individual governors' assessment of the future path of policy rates. The FOMC inflation projections were upwardly revised for 2021 and 2022 while retaining long-term inflation estimates unchanged. Longer-term GDP growth

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



Source: MSCI & Bloomberg

***As of September 28th, 2021**

S&P500 Monthly Sector Performance –September MTD 2021*		
Sectors	% Change	FY1 PE Ratio
Energy	10.88%	16.1
Materials	-5.57%	16.0
Industrials	-4.27%	26.1
Cons Disc	-1.21%	33.8
Cons Stap	-3.53%	20.7
Technology	-5.08%	26.5
Healthcare	-5.20%	17.2
Financials	-0.43%	13.7
Utilities	-6.85%	19.5
Telecom	-5.99%	21.3
Real Estate	-5.75%	44.4
S&P500	-3.76%	21.5

**As of September 28th, 2021*

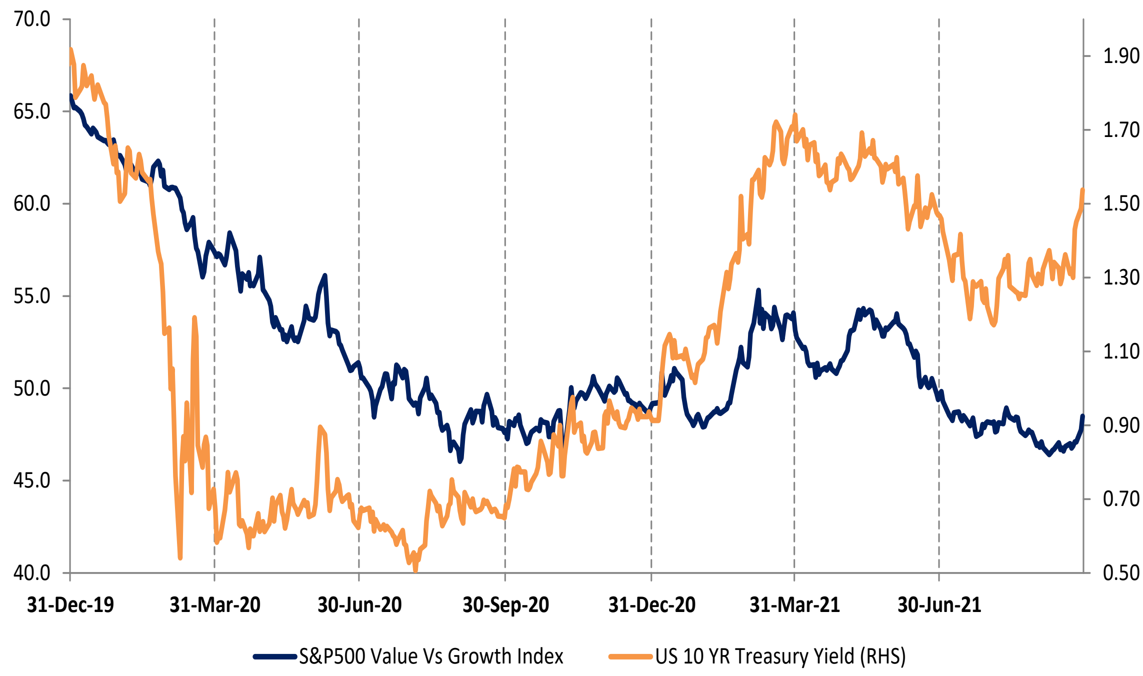
Source: Bloomberg

estimates were upwardly revised as well. On the tapering front, the guidance was more hawkish than expected by the consensus while the pace of projected policy rate hikes was slightly more hawkish than expected with only a handful of additional FOMC directors expecting one rate hike in 2022. More importantly, the narrative coming out of the Fed Chair's comments was neutral to dovish owing to his characterization of the current surge in inflation momentum as transitory owing to the unusual role exerted by global supply chain disruptions along with the uneven nature of the labor market recovery.

The timing of the Fed's unusually important September 22nd meeting, falling on the seasonally weakest month for risk assets (including equities) and the FOMC meeting date falling immediately after several sessions in which some of the largest Asian bourses were closed (including China, Taiwan and South Korea) combined to fuel an unusually heavy amount of hedging during the week of September 13th. Such hedging activity was further exacerbated early in the week of September 20th with news out of China, entailing the potential of default by one of the country's largest property sector names, Evergrande. Such powerful cocktail of seasonality and market calendar dynamics resulted in a spike in implied equity volatility levels around the September 20th and September 28th session.

At the market level, the above-mentioned September macro and policy developments resulted in higher government bond yields, a modest strengthening in the US Dollar and weaker global equity prices. Within global equities, the upturn in economic growth expectations and higher government bond yields combined to put forth a solid period of outperformance for value stocks (Figure1) and value-oriented indices (including Japan's Nikkei and Europe's Euro Stoxx) versus US peers. Within the emerging markets space, China specific developments helped drag the EM benchmark index's performance during the month whilst value-oriented markets, such as India and Russia, continued to post solid return outperformance versus global peers.

Figure 1. Value Factor Outperforms Growth Peers Driven by Higher Yields



Source: Bloomberg & Glovista Calculations

Within the month of September, we have sustained our portfolios' underweight bond duration tilts while further raising our allocations to value-oriented sectors and markets. Over the medium-term we continue to prefer equities as an asset class and within equities we prefer financials and energy sectors along with emerging markets and high-quality mega-cap US growth stocks (especially mega-cap tech). As we look ahead, the normalization in government bond yields at higher levels carries the potential of triggering episodic spikes in equity volatility owing to the knock-on effects on equity volatility from the increase in bond volatility – both via dislocations emanating from risk parity and 60/40 strategies. Consequently, in our global portfolios we have been favoring the inclusion of low volatility factor exposures.

Emerging Markets Perspectives

Despite Unusually Elevated China Country Risk Premium Levels, EM equities Keep Pace with Developed Markets in September Owing to Strength in EM ex China. We Believe Chinese Mega-cap Tech Valuations following Recent Regulatory Policy-led Sell-Off are Approaching Attractive Levels.

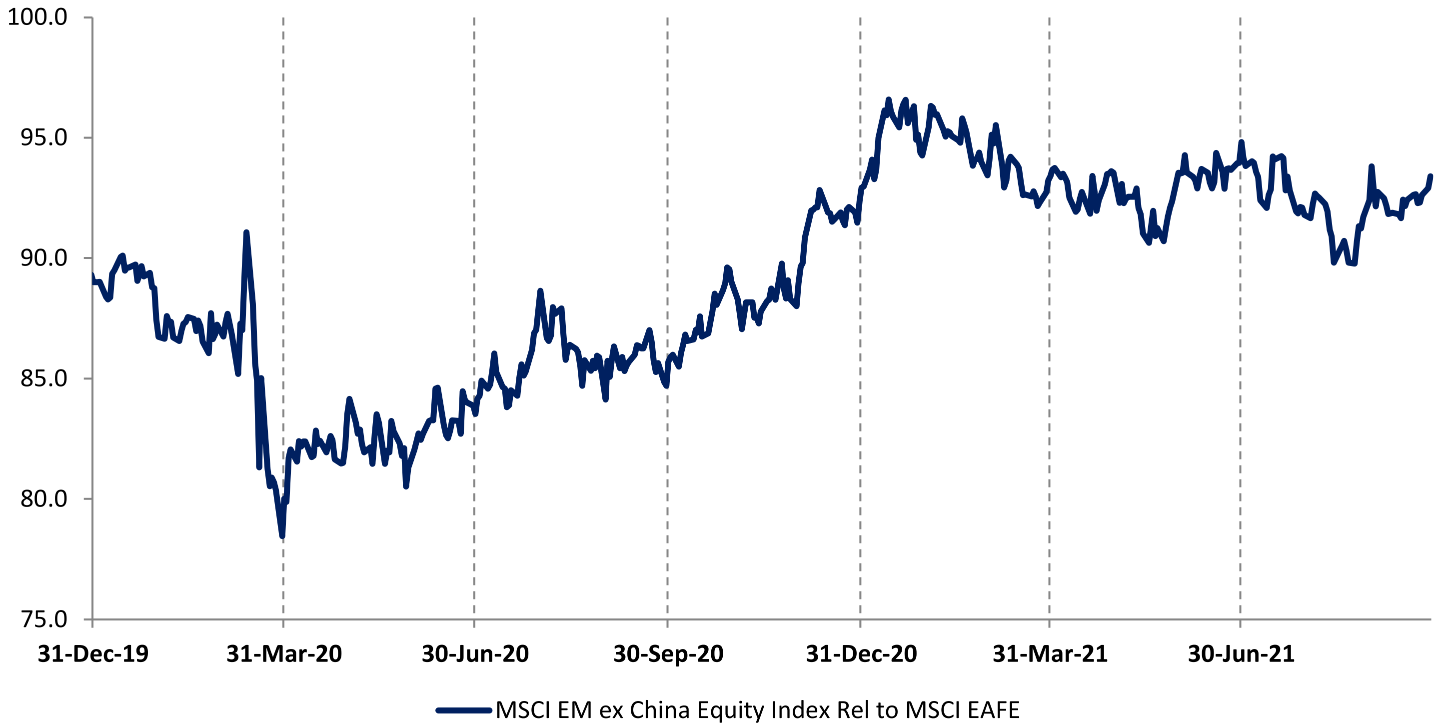
In September, emerging market equities have sold off approximately in line with developed peers on the back of several macro, policy and technical factors that unfolded during the month as discussed above. For example, through the September 28th session close, emerging market equities (MSCI EM) have declined 3.41 percent for the month versus 2.45 percent for international developed equity peers (MSCI EAFE), 4.63 percent for the Nasdaq Composite and 3.67 percent for the SP500 index.

Within the emerging markets universe, China specific regulatory policy developments impacting especially mega-cap tech names (especially Alibaba, Tencent, Meituan, among others) have been highly consequential to EM benchmark's performance this year, both in absolute and relative terms versus developed equity peers owing to the Chinese market's large capitalization weighting within the EM benchmark (34 percent as of September 28th, 2021). Such regulatory policy developments reached their apex during the third week of August. In September, the market effects of such regulatory developments – reflected primarily via an unusual spike in China equity premium levels – have begun to stabilize themselves with Chinese official statements and meetings before global investors, reaffirming the Chinese government's continued commitment in fostering those companies' continued long-term growth models though subject to tighter regulatory controls.

The fundamental attractiveness of Emerging Market equities at the current juncture is best exemplified in the strong resilience and ongoing recovery in relative performance between EM ex-China equities versus international developed peers (Figure 2, EMXC versus EAFE line chart). A similar recovery dynamic is also present between local Chinese equities (A-shares that exclude stocks impacted by the regulatory dynamics) and EAFE peers though of a smaller order of magnitude. As illustrated in Figure 2, EM equities ex-China continue to sustain a solid medium- and long-term outperformance dynamic versus international developed peers, anchored on the asset class' solid macro fundamentals and under-owned status.

Arguably, one of the most top-of-mind market questions currently pondered by both dedicated EM investors as well as global asset allocators is that of Chinese equities' investment thesis following their recent period of strong return underperformance. Such question is especially relevant for the handful of mega-gap tech names that dominate the Chinese benchmark: Alibaba, Tencent and Meituan (these three stocks account for approximately 28% of MSCI China index). In assessing such question, we asked our IT sector analyst, Jean Charles Lemardeley, to share his insights on comparative valuations between such names and some of their developed market peers, employing unassuming projections both on top- and bottom-line figures.

Figure 2. EM ex China Equities' Performance Remains Resilient Versus Developed Peers Despite Recent Increase in China Equity Risk Premium



Source: MSCI, Bloomberg and Glovista Calculations

Table 1. Valuations and Growth Comparisons Across Chinese and US Tech Giants

Company	Ticker	Price	Market Cap	Mkt Cap in Cash Holding	PE Ratio			EPS Growth			Implied Cost of Equity
					2021	2022	2023	2021	2022	2023	
		$	$ mlns	%	x times	x times	x times	%	%	%	%
Amazon	AMZN	3295	1,693,630	5.3%	60.1	47.5	35.4	26.2%	26.4%	34.3%	8.1%
Alphabet	GOOGL	2712	1,844,160	0.8%	26.4	24.8	21.4	72.7%	6.4%	15.9%	9.0%
Apple	AAPL	142.1	2,384,722	8.1%	24.8	24.5	23.2	70.3%	0.9%	5.7%	7.0%
Facebook	FB	340	976,140	6.6%	22.7	19.7	17.5	37.8%	14.9%	12.5%	9.7%
Microsoft	MSFT	284.7	2,160,019	6.0%	31.4	27.3	24.8	12.7%	14.8%	10.2%	7.0%
Netflix	NFLX	585	266,175	2.9%	54.5	44.3	36.6	69.9%	22.9%	21.3%	7.1%
Alibaba	BABA	150.4	394,650	28.7%	20.7	14.5	9.5	-6.7%	42.9%	53.6%	18.4%
Tencent	700 HK	59.2	563,702	6.0%	19.1	16.6	13.2	9.9%	15.0%	26.1%	14.2%
JD.com	JD	76.4	102,147	26.2%	90.0	48.1	28.4	-32.3%	87.1%	69.2%	11.7%
Baidu	BIDU	153.3	52,429	50.0%	12.2	10.1	8.1	-11.3%	20.0%	24.5%	18.5%
Meituan	3690 HK	251.8	178,404	10.6%	NM	NM	88.4	NM	NM	NM	9.3%
Netease	NTES	84.85	54,898	28.5%	20.2	18.0	15.7	20.3%	12.2%	14.4%	10.3%

Source: Bloomberg, Glovista Calculations & Estimates

We believe the year-to-date underperformance by large-cap Chinese technology stocks, though warranted on increased regulatory risk premium considerations, may have been excessive owing to the unwinding of retail and leverage investor positions driven by headlines driven sentiment. Over the medium-term, we believe the valuations for select Chinese technology and consumer stocks are attractive and should support strong performance as policy uncertainty subsides. For example, the Alibaba stock currently trades at approximately 14.5x forward earnings with approximately 28% of its market cap held in cash and expected EPS growth of 42% and 53% over the next 2 years. We believe the stabilization of adverse regulatory developments along with current attractive valuations should lead to allocations from even non-EM dedicated US and European investors over the next few months.

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