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Monthly Market Newsletter

GLOVISTA INVESTMENTS

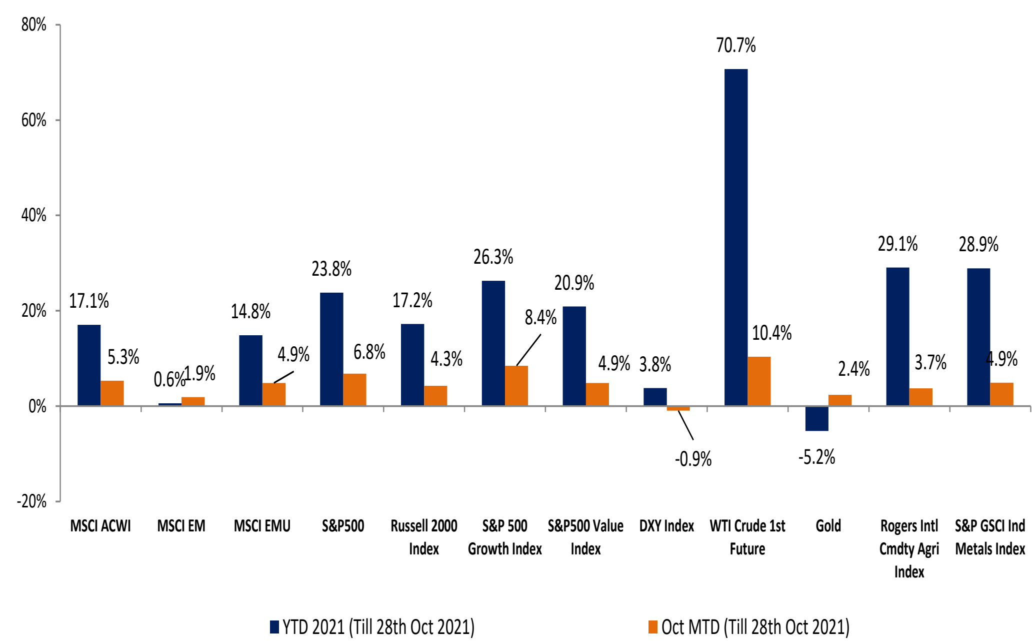
Glovista Global Perspectives

This Issue:

Risk Assets Post Solid Recovery in October, Fueled by Resilient Activity Calendar, Weakening US$ and Supportive Seasonality; Glovista Sustains Bullish Equities Outlook, Favoring Value and Cyclicality Factors

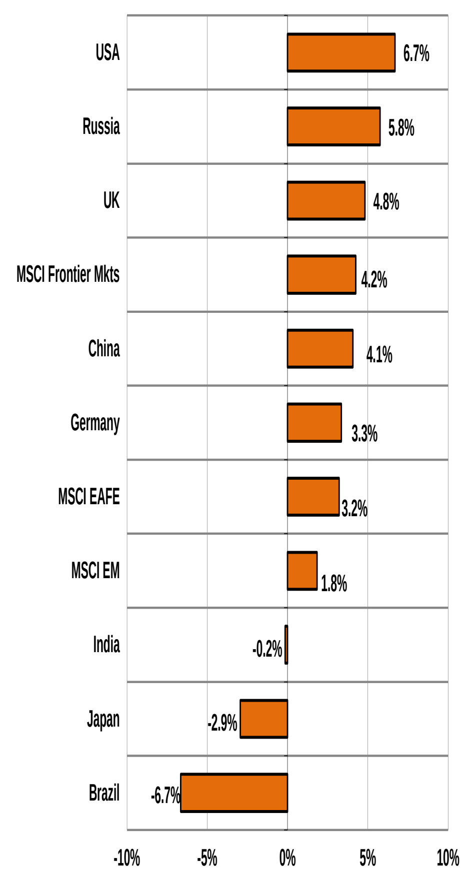
The month of October has witnessed a strong bounce across a broad spectrum of risk asset markets, including equities and credit (Figure 1). We credit such favorable performance to several factors, most notably: resilient activity momentum, a weakening US Dollar and favorable seasonality. While investor concerns remain regarding the pandemic's protracted effects on the global supply chain – with adverse effects on activity and corporate margin dynamics – increasingly the market's stance on those issues has been more discriminating across industry groups and companies.

Figure 1. Risk Markets Bounce in October With Value and Cyclical Factors Outperforming



Source: Bloomberg & Glovista Calculations

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



Source: MSCI & Bloomberg

**As of October 28th, 2021*

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S&P500 Monthly Sector Performance –October MTD 2021*

Sectors	% Change	FY1 PE Ratio
Energy	10.92%	15.8
Materials	8.15%	16.5
Industrials	6.83%	27.7
Cons Disc	10.94%	36.4
Cons Stap	3.84%	21.3
Technology	7.65%	27.7
Healthcare	4.09%	17.6
Financials	7.59%	14.0
Utilities	5.37%	20.6
Telecom	1.80%	21.0
Real Estate	8.76%	47.8
S&P500	6.71%	22.3

**As of October 28th, 2021*

Source: Bloomberg

On the activity calendar, recent economic releases point to resilient consumer confidence levels as well as business sentiment. Examples of such releases include: Markit industrial production, Economic and Industrial Confidence indices (out of the Eurozone); University of Michigan sentiment, ISM manufacturing, ISM service, ADP employment and Conference Board consumer confidence (out of the US). In addition, on the price front the October macro calendar has included below consensus readings for a number of price releases and inflation expectations indicators, such as US core intermediate PPI, University of Michigan inflation expectations and Eurozone core CPI. Finally, the third quarter corporate earnings season has been robust across several of the world's principal regions, with Eurozone and US value sector corporates experiencing some of the strongest upside earnings revisions.

As we approach the end of 2021, we continue to favor overweight exposure to global equities owing to the asset class' attractive relative valuations versus cash and fixed income, along with our constructive outlook for the world economy in 2022, entailing continued expansion as the pace of economic reopening around the world accelerates. Within global equities, we continue to favor value-oriented markets, industries and stocks given their exceedingly attractive relative valuations versus growth peers (e.g. close to 30 percent relative P/E discount versus historical average levels), as well as their stronger resilience to outperform in a normalizing interest rate environment. Moreover, we expect the US Dollar to weaken over the coming quarters as relative economic momentum outside the US is likely to outpace the US economy's, owing to headwinds facing the US, including the large projected withdrawal of US fiscal stimulus throughout 2022 as well as the US economy's earlier reopening phase (from the pandemic) versus international peers. Finally, relative valuations and relative earnings momentum both favor international stocks in 2022. Within fixed income, we have recently trimmed our large underweight duration exposure following recent pullbacks in long-dated government yields to ranges that we deem close to fully discount the extent of viable central bank tightening. In the commodities space, we continue to favor exposure via gold and energy equities.

The principal risk factors to the outlook include: the potential for policy mistakes out of the world's major central banks; premature fiscal tightening, and; geopolitical events (e.g. China-Taiwan; Middle East; North Korea).

Emerging Markets Perspectives

EM Value-oriented Markets Extend Outperformance, Boosted by Relative Valuations, Robust Energy Prices and Policy Rate Hikes; Glovista Raises LatAm Allocations, Funded via India Downgrade

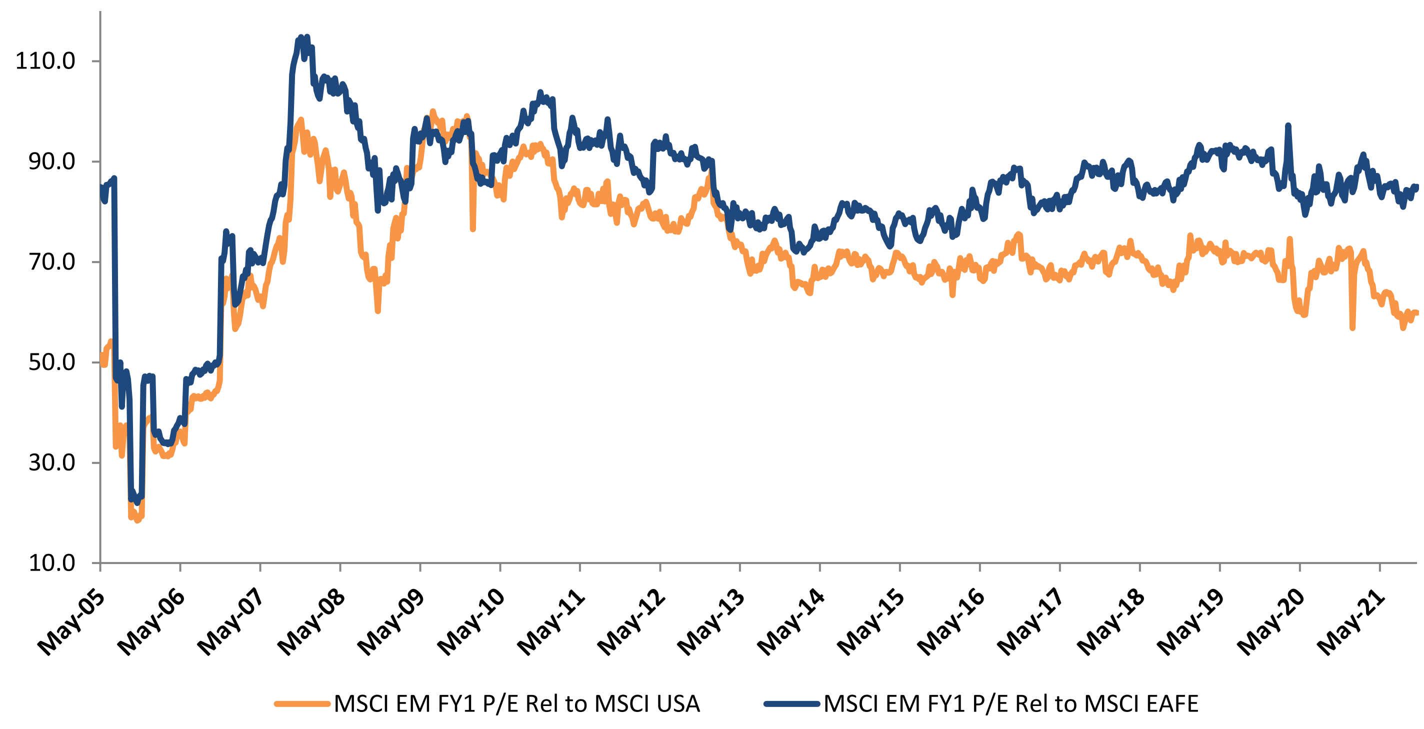
In October, emerging market equities consolidated their recent relative outperformance versus EAFE peers, performing approximately in line with developed peers. Within the EM asset class, performance leadership amongst some of the energy-oriented markets (e.g. Russia and Saudi Arabia) sustained for the month while underperforming markets include India (whose valuations have become stretched relative to EM peers) and semi-conductor sector oriented markets (e.g. South Korea and Taiwan) in line with recent weakness for the sector at the global level. In addition, a number of markets for which valuations have become exceedingly cheap (e.g. Brazil, Turkey and Chile) underperformed in October owing primarily to currency weakness associated with the medium-term direction of policy rates and inflation as well as adverse country specific developments.

As we look ahead, we reinforce our overweight allocations to value-oriented EM markets as well as a number of growth oriented industries (primarily out of China) whose valuations have cheapened considerably over the past several months on the back of regulatory-risk de-rating considerations. In October, we have raised exposure to markets in Latin America, including Brazil and Chile, funded via cuts in exposure to highly valued markets that we favored throughout much of the year so far, especially India.

In the coming months, we expect an accelerated pace of economic reopening around the world to favor especially value-oriented markets globally, including in the EM space. Our recent upgrade of markets, such as Brazil, is further reinforced by strong revenue and earnings revisions these past several weeks along with strengthening economic momentum as those markets' pent-up domestic demand remains considerable, thereby affording ample earnings growth visibility in 2022. As a number of interest rate hike and election cycles come to pass across a number of value-oriented EM markets (particularly in Central Europe and Latin America) we expect to raise exposure further to such markets.

At the asset class level, we believe EM Equities continue to be attractive over the medium term owing to what we view as compelling valuations (Figure 2), stronger and more visible growth outlook, improving outlook for the majority of EM currencies as well as investors' under-allocated status to the asset class.

Figure 2. MSCI EM Valuation Discount Relative to MSCI USA (at ~ 40%) Currently Hovers at Levels Similar to 2008



Source: MSCI, Bloomberg and Glovista Calculations

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1 Evertrust Plaza Suite 1102
Jersey City NJ 07302
Tel: 212-336-1540
Website: www.glovista.net