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Monthly Market Newsletter

GLOVISTA INVESTMENTS

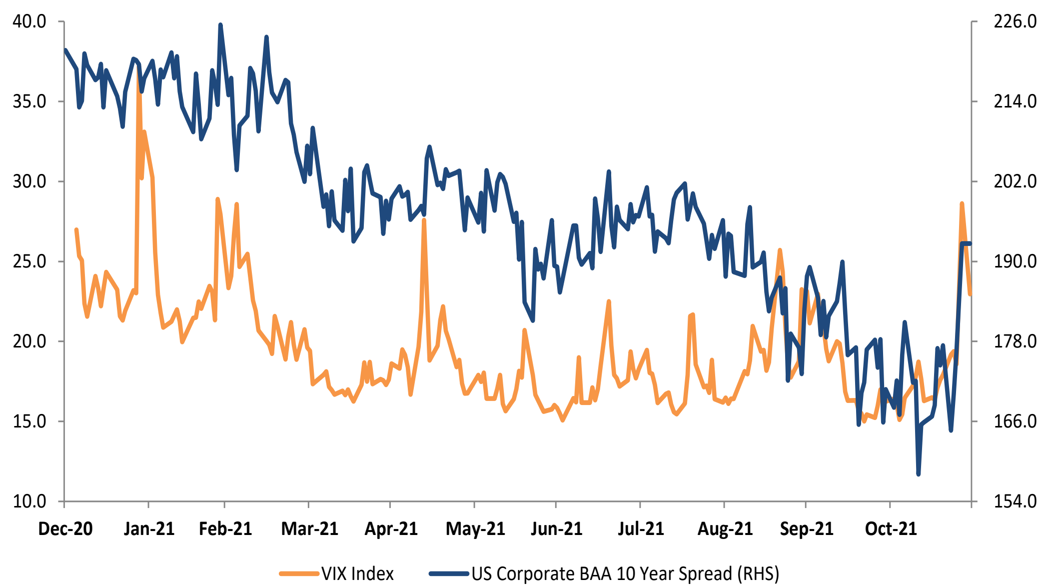
Glovista Global Perspectives

This Issue:

Risk Markets Sell Off Sharply in November, Fueled by Spike in Realized Inflation and Concerns over New Covid Omicron Strain; Glovista Trims Stock Exposures while Sustaining Bullish Value Tilts

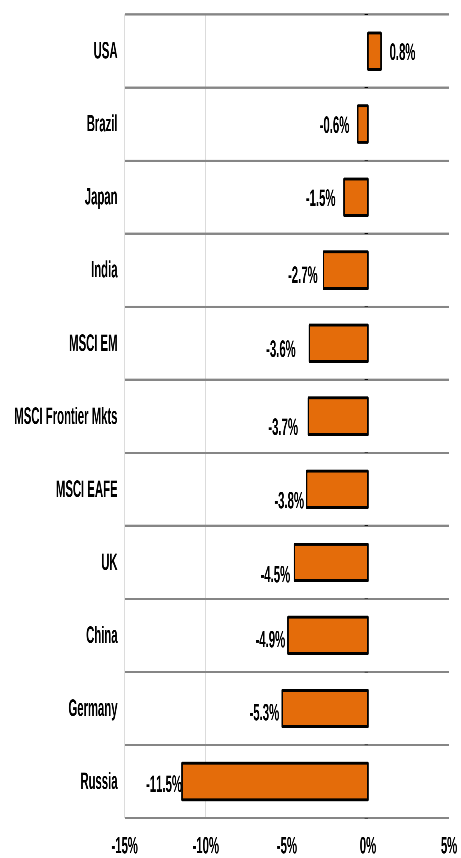
The month of November has witnessed a strong sell-off in risk markets, across the equities, credit and commodities space. We credit the sell-off to two principal factors: heightened investor concerns following the release of larger than expected inflation prints out of the USA, and growth concerns tied to the new Covid Omicron strain originating in South Africa. The month of November's "risk off" market characteristic has also manifested itself in a strengthening of the US Dollar – with the DXY dollar index up close to 2.4% in November – and sharply declining cyclical commodity prices,

Figure 1. Risk Markets Across Asset Classes Sell-off in November as reflected in Implied Volatility and Credit Spreads



Source: Bloomberg & Glovista Calculations

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



Source: MSCI & Bloomberg

**As of November 29th, 2021*

S&P500 Monthly Sector Performance –November MTD 2021*

Sectors	% Change	FY1 PE Ratio
Energy	-3.43%	14.0
Materials	1.83%	16.6
Industrials	-1.19%	27.1
Cons Disc	3.37%	37.6
Cons Stap	1.52%	21.4
Technology	5.24%	27.9
Healthcare	-1.23%	17.3
Financials	-3.46%	13.1
Utilities	0.81%	20.2
Telecom	-2.24%	20.7
Real Estate	1.17%	44.9
S&P500	1.08%	22.0

**As of November 29th, 2021*

Source: Bloomberg

including crude with the front month contract posting a close to 20% decline for the month. Such combination of macro developments may be taken by some investors as stagflationary. As such, it is no surprise that it brought about a rise in risk premia, both via increase in implied volatility and expanding yield spreads in the case of credit (Figure 1). As discussed further below, we sustain our thesis of decelerating inflation dynamics over the course of 2022 while recent investor concerns surrounding the growth implications from the Omicron strain are likely to be proven exaggerated.

From a portfolio strategy perspective, we view investors' stagflation concerns as exaggerated. Specifically, on the inflation front, as discussed at length in our August monthly column, we expect inflation momentum to be topping out during the fourth quarter 2021, followed by deceleration over the course of 2022 as a number of macro factors come into play, including: decelerating year-on-year commodity price growth (already at play in energy and soft commodities); increased labor force participation on the back of increased economic reopening as the percentage of vaccinated population rises further; disinflationary effects from the recent period of US Dollar strength; withdrawal of fiscal stimulus in the USA given the ending of the large transfer payment measures introduced shortly after the pandemic's onset, and; the continued relevance of secular disinflationary forces, including the ageing of the population and the ascendancy of labor-saving technologies (e.g. AI, machine learning, robotization, automation, virtualization, among others). As for the global economy's growth momentum, we expect continued resilience both on account of the already widely proven strength of economic activity in the face of the virus (e.g. resilient mobility indicators from around the world) as well as the continued increase in the percentage of those vaccinated. Finally, the latest information suggests the Omicron strain exerts predominantly mild symptoms among those infected.

As we look ahead, we continue to favor overweight exposure to global equities – particularly value-oriented stocks - owing to the asset class' attractive relative valuations versus cash and fixed income, along with our constructive outlook for the world economy in 2022. In November, value stocks strongly outperformed growth peers across most capitalization segments, with the exception of US mega-gap tech names which we continue to favor. Our preference for value-oriented markets, industries and stocks continues to hinge on their exceedingly attractive relative valuations versus growth peers as well as their proven resilience to rising real interest rate environments. Within fixed income, we have recently taken profits on the tactical duration exposure we took on in October as we believe the recent decline in long-term yields do not offer value. In the commodities space, we continue to favor exposure to gold, having trimmed energy equities exposure during the month of November.

Emerging Markets Perspectives

EM Value-oriented Markets Extend Outperformance; Glovista Sustains Overweight LatAm Allocations, Raising S. Korea Exposure while Taking Profits in Overweight Russia Country Exposure

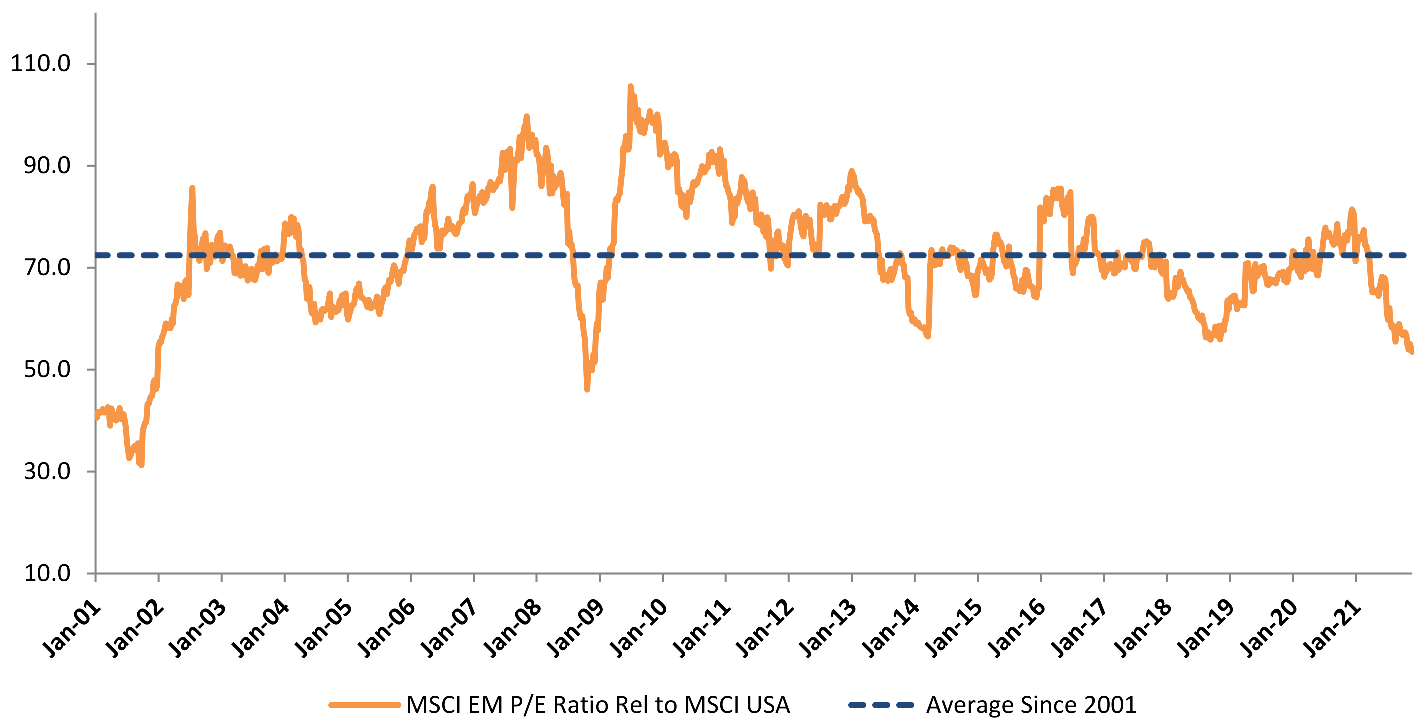
In November, emerging market equities have sold off approximately in line with their international developed peers (MSCI EAFE). A number of value-oriented markets, especially out of Latin America (Brazil and Chile), strongly outperformed both their EM as well as US and EAFE peers. Within the EM North Asia region, Taiwanese equities extended their year-to-date outperformance owing to attractive valuations and solid earnings visibility. As expected, given the sharp sell-off recorded by energy commodities during the month of November, Russian and Saudi equities strongly underperformed for the period.

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. We sustain our overweight exposure to Brazil funded via cuts in exposure to highly valued markets that we favored throughout much of the year, especially India. In November, we trimmed our significant underweight South Korea country exposure by cutting Russia country exposure from overweight to modest tactical underweight, given our expectation of a pull-back in energy prices as well as South Korean corporates' improved relative valuations following a long period of relative underperformance versus EM peers.

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.

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. EM Equities Valuations Relative to US Equities are at Below Average Levels. (Chart: MSCI EM P/E Ratio Relative to MSCI USA P/E Ratio)



Source: MSCI, Bloomberg and Glovista Calculations

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