Issue

**145**

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**Monthly Market Newsletter**

GLOVISTA INVESTMENTS

# Glovista Global Perspectives

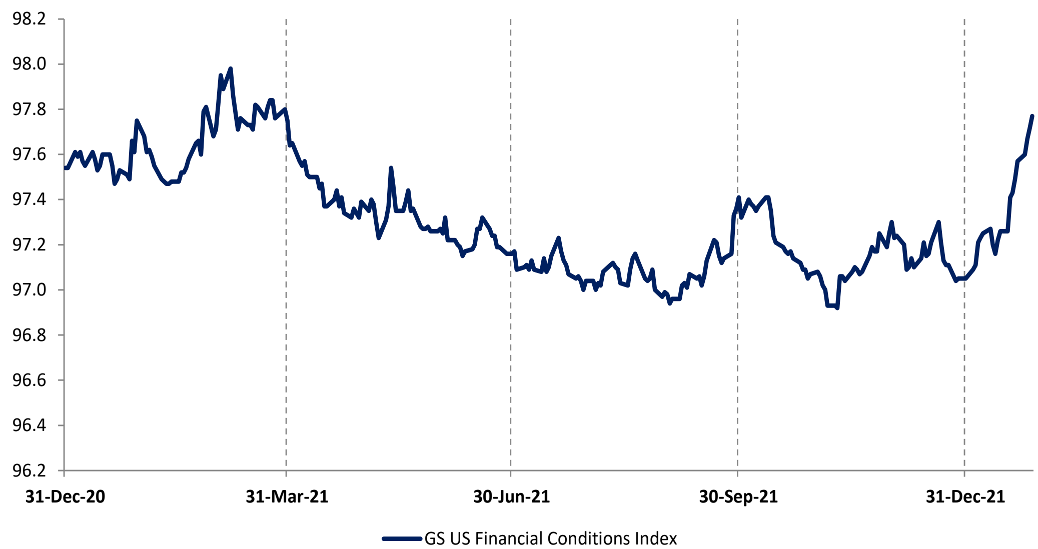
**This Issue:**



## *Hawkish US FED Narrative and Energy Inflation-led Growth Concerns fuel Sharp January Risk Market Sell Off; Glovista Sustains Value Factor Overweight Tilts*

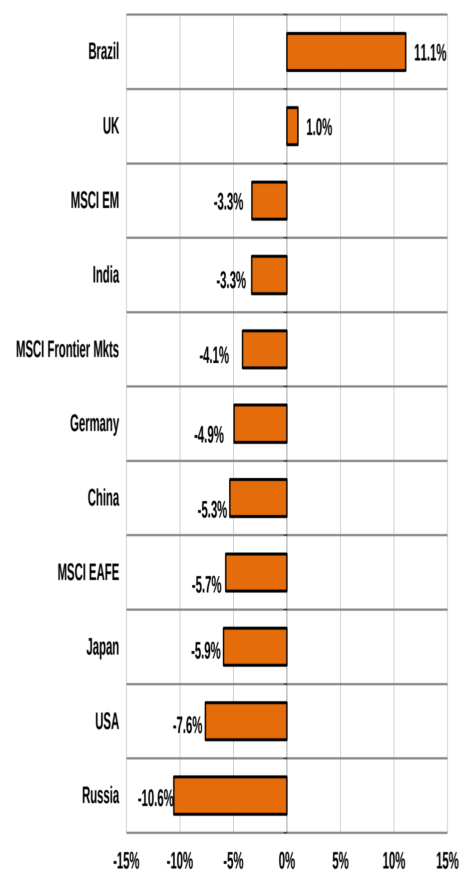
The start of 2022 has witnessed one of the sharpest January risk market sell-offs in recorded financial history. The sell-off has been fueled by unambiguously hawkish guidance from the US Federal Reserve as well as adverse growth concerns tied to (a) continued supply-side led acceleration of energy inflation (e.g. crude and natural gas), and; (b) a rekindling of Asia regional supply chain disruptions. Such macro and policy dynamics have proven especially damaging to expensively valued growth asset markets as compared to cheaply valued value factor-oriented peers. In that regard, Glovista's strategies' strong value-factor oriented tilts have benefited. As we look ahead to the balance of 2022, we maintain our preference for value-oriented markets owing both to their continued cheap relative valuations versus growth peers as well as a supportive macro backdrop, discussed further below.

*Figure 1. Hawkish FED Guidance and Energy Inflation fuel Sharp Tightening of US Financial Conditions*




***Source: Bloomberg***

**Country-wise Monthly Performance in USD terms (January 2022)***




***Source: MSCI & Bloomberg***

**As of January 28th, 2022*

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**S&P500 Monthly Sector Performance –January MTD 2022***

| Sectors | % Change | FY1 PE Ratio |
|---|---|---|
| Energy | 18.45% | 12.1 |
| Materials | -8.18% | 15.6 |
| Industrials | -5.80% | 20.2 |
| Cons Disc | -13.02% | 26.7 |
| Cons Stap | -1.99% | 21.9 |
| Technology | -9.36% | 26.1 |
| Healthcare | -7.52% | 15.8 |
| Financials | -0.96% | 14.6 |
| Utilities | -5.07% | 19.8 |
| Telecom | -8.57% | 18.4 |
| Real Estate | -9.67% | 45.2 |
| S&P500 | -7.01% | 20.1 |

**as of January 28th 2022*

As we review the recent January macro and policy developments, we expect a further tightening of financial conditions as sovereign rate curves continue to flatten, interest rate volatility remains at elevated levels and economic growth momentum decelerates further on the back of tax-like effects of high energy inflation on the household sector and corporate profit margins (Figure 1). Moreover, the Asia region's zero covid tolerance policy stance implies a more protracted period of supply-chain driven cost inflation as that region continues to battle Covid's Omicron strain. In addition, the adverse national income effects of higher energy inflation on the US household sector combined with continued negative real wage growth (given elevated headline inflation) and the withdrawal of US fiscal stimulus (e.g. recent withdrawal of US child tax credit program) are likely to be reflected in weaker than expected personal expenditure growth in the balance of the year.

The Glovista team believes that, in time, the potential for weaker than expected expenditure growth momentum along with a deceleration of inflation dynamics during the year's second half may likely result in a more cautious FED policy rate stance later this year. Until such time, we expect value-oriented markets will continue to outperform growth peers. As discussed in our December 2021 monthly column, we expect the US Dollar to top out well before such time, lending further impetus to value-oriented markets' outperformance versus growth peers. From a portfolio strategy perspective, we continue to overweight value sectors, including energy, financials and materials, along with high-quality mega-cap growth sectors. In fixed income, we continue to underweight duration exposure and have recently reduced our exposure to below-investment grade corporates.

## *Emerging Market Perspectives*

### *EM Value Markets Outperform Sharply in January; Glovista Trims Overweight Brazil and Underweight South Korea Allocations*

In January, emerging market equities outperformed developed peers despite a strengthening US Dollar and a rising interest rate backdrop fueled by hawkish FED guidance. Similar to their developed peers, emerging market equity index January performance was led strongly by value-oriented sector and country constituents. At a regional level, Latin America and EMEA outperformed emerging Asia by 10.02% and 5.68%, respectively.

From an asset class perspective, emerging market equities look poised to record strong outperformance versus developed peers during 2022, boosted by: (a) global markets' rekindled focus on valuation; (b) emerging market equities' stronger earnings and revenue growth revision dynamics, and; (c) currency resilience, supported by hefty central bank international reserves, current account balance positions and high interest rate differentials versus the US Dollar (both in nominal and inflation adjusted terms).

As we look ahead to the balance of 2022, we continue to favor overweight exposure to Latin America and EMEA, funded with underweight Asia regional allocations. In the short-term, however, we have trimmed our outsized underweight Korea market allocation at the expense of trimmed overweight Brazil exposure. We believe the recent sell-off in risk markets, particularly with regard to concerns over a more protracted disruption in the global supply chain, has led to an outsized oversold condition in cyclical growth factor. Within the EM domain, we believe Korean equities offer a more compelling exposure to express such view.

From a macro perspective, we believe the fast approaching end to the Omicron virus strain will lead to a more accelerated reopening of economic activity, particularly in the services space, at a global level. Within the EM space, we believe financial sector stocks are especially attractive, from a valuation and currency perspective, to express such a view.

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