Issue
146
February/22

Monthly Market Newsletter

Glovista Global Perspectives

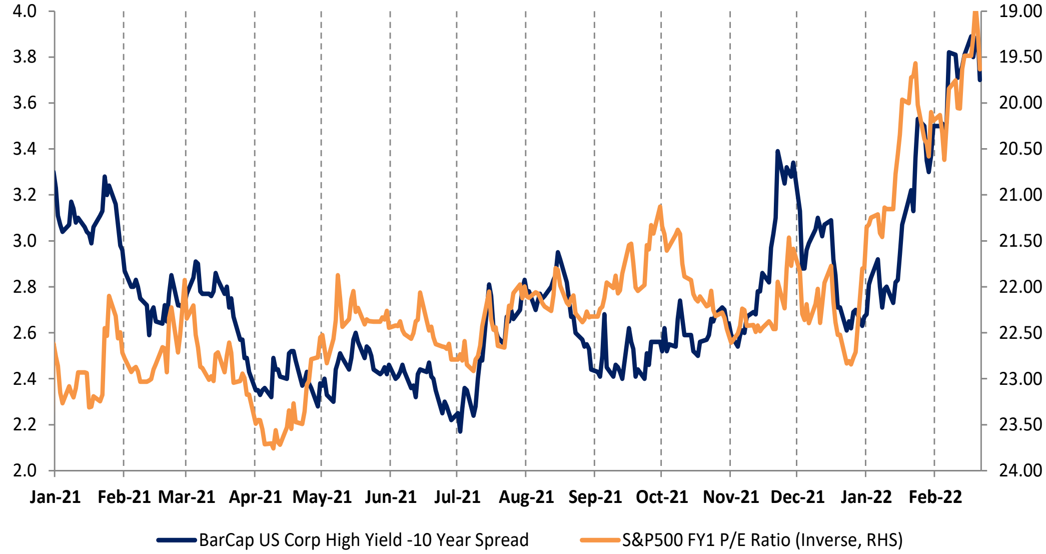
This Issue:

Russia-Ukraine Geopolitical Event Fuels Risk Asset Sell-off and Renewed Inflation Concerns; Glovista Sustains Overweight Value Tilts

In February, risk assets have sold off sharply on the back of Russia's invasion of Ukraine as a result of which risk premium levels have risen markedly from January levels. Such spike in risk premium levels have resulted in equity price declines via earnings valuation multiple compression effects as well as expanded credit spreads (Figure 1).

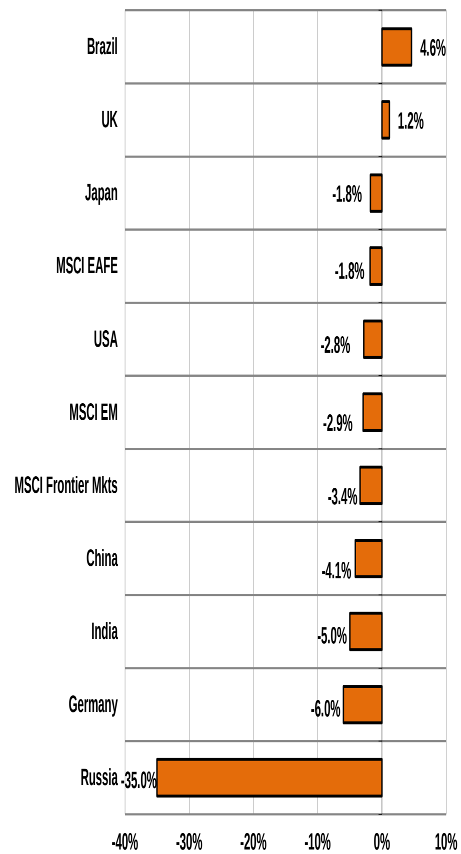
Russia's invasion, while still ongoing and therefore uncertain insofar as its final conclusion is concerned, carries three principal potential implications on the global economy and markets. Those implications result from the following channels: trade disruption (including disruptions in the global supply chain as well as disruption of energy commodity trade); energy price increases and the potential for outsized tightening in financial conditions.

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



Source: Bloomberg & Glovista Calculations

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



Source: MSCI & Bloomberg

***As of February 25th, 2022**

S&P500 Monthly Sector Performance –February MTD 2022*

Sectors	% Change	FY1 PE Ratio
Energy	3.70%	11.9
Materials	-0.26%	15.6
Industrials	-1.82%	20.1
Cons Disc	-4.63%	25.9
Cons Stap	-0.19%	21.9
Technology	-4.87%	25.0
Healthcare	-0.38%	15.7
Financials	-0.04%	14.9
Utilities	-2.74%	19.6
Telecom	-6.98%	17.7
Real Estate	-3.37%	43.1
S&P500	-2.90%	19.6

**as of February 25th 2022*

Of the three above mentioned implications, short of a cataclysmic outcome entailing war with the West's NATO alliance – by all accounts an exceedingly low probability tail risk- the most potentially adverse implication is that of higher energy prices as such dynamics further complicates the US FED's policy stance, the world's sole major economy experiencing tight output gap metrics. As a result, we view the FED to remain committed on a sustained policy rate hike normalization process throughout the rest of 2022 given energy inflation's exceedingly tight nexus with both consumer and business inflation expectations. The two other economic impact channels are likely to be of second order importance owing to the Russian and Ukrainian economies' rather small (low single digit) weightings in the world economy and global trade.

From a portfolio strategy perspective, we expect risk premium levels to decline steadily over the coming weeks as tail risk scenarios associated with Russia's invasion become increasingly discounted away. Nevertheless, early in the month of February our risk management protocols led to trimming of risk market exposure levels, resulting in alpha generation for the period. From an intermediate-term perspective, we view recent geopolitical developments as reinforcing our key 2022 major investment teams, including continued strong overweight tilts to value factors globally as well as across asset classes. Our assessment reflects not only our expectation of continued US FED policy rate hike actions over the balance of 2022 but also our expectation of continued economic recovery later this year.

On the activity front, we continue to expect a pick-up in the pace of the global economic expansion starting in the year's second quarter as the pandemic's tight hold on global service consumption wanes considerably. We view our thesis as validated by the exceedingly strong resilience evidenced in economic mobility indicators these past several weeks as well as robust consumer expenditure intentions (e.g. travel) even at a time in which the Omicron strain remained at high levels. From a regional perspective, we view the Eurozone regional economic outlook as the most adversely impacted by the Ukraine crisis owing to the region's larger dependence on energy imports as well as its geographical proximity to Russia. In Latin America, financial conditions are likely to ease in 2022 following the succession of rate hikes introduced throughout the region in 2021. In Asia, we expect economic momentum to pick up speed in the second quarter, especially in Japan, India and the ASEAN region.

From a portfolio strategy perspective, we continue to favor overweight value sector and market tilts, including exposure to precious metals (e.g. gold) while retaining underweight bond duration tilts and overweight cash levels to accomodate the unusually high tail risk scenarios conditioning the outlook.

Emerging Market Perspectives

Glovista Raises ASEAN Market Exposure on Reopening Prospects and Valuation; India and EMEA Sustained at Underweight on Valuation and Geopolitics

In February, the Glovista investment team raised ASEAN market exposure, especially Thailand, on prospects of economic reopening as the pandemic factor on the global economy continues to diminish. ASEAN markets' improved relative valuations, following a protracted period of relative underperformance, were also a consideration in the decision to raise regional exposure.

The geopolitical event that unfolded during the month of February has also served to reinforce our strategy's overall overweight exposure to value-oriented markets in Latin America while maintaining underweight exposure to EMEA market on the Russia country risk factor. The energy market's continued solid fundamentals has led us to retain Latin America and selected Middle Eastern market exposures at overweight.

While the north Asia regional markets boast a number of secular growers in the tech hardware sector, and the recent period of strong relative underperformance has resulted in compelling valuation opportunities in the region, we have maintained a modest overweight allocation to the North Asia tech sector owing to concerns surrounding the potential for supply chain disruptions resulting from the Russia-Ukraine conflict.

From an emerging markets asset class perspective, the recent Russia-Ukraine conflict's impact is considerably contained as Ukraine is a frontier, non-emerging market constituent while Russia's overall share of the MSCI EM benchmark's market capitalization is close to 3 percent. The Russia-Ukraine crisis, while representing a potential downside risk on global equities, is unlikely to impact the EM asset class negatively on a relative basis owing to strong macro balance sheets commanded by most large EM benchmark constituents as well as under-owned status.

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