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Monthly Market Newsletter

GLOVISTA INVESTMENTS

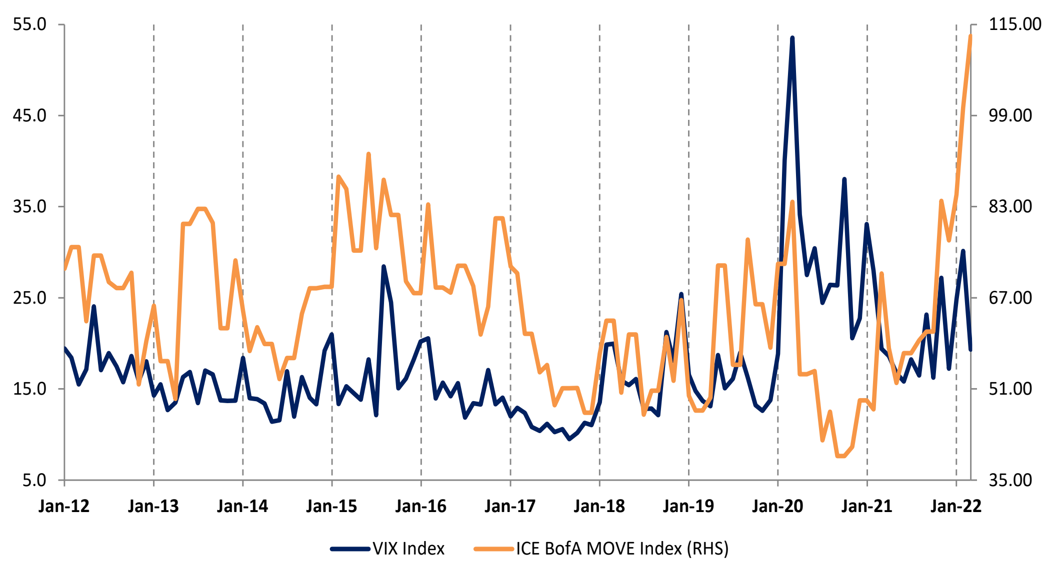
Glovista Global Perspectives

This Issue:

Risk Markets Bounce on Resilient Activity Calendar and Possible End to Ukraine-Russia Hostilities; Glovista Sustains Overweight Value Tilts

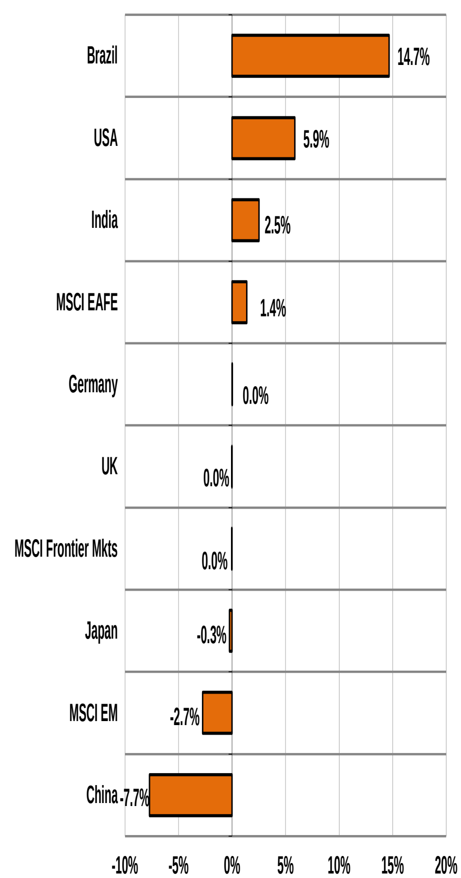
In March, risk asset volatility reached the highest levels since the beginning of the 2020 pandemic period, largely on account of the ongoing Ukraine-Russia war. Figure 1 illustrates the sharp spike recorded by both equity and bond market volatility during the month. Second, the month of March also included the first policy interest rate hike by the US Federal Reserve since 2018 lending further impetus to prevailing high bond market volatility levels, particularly given the Fed's renewed hawkish guidance on rates, with knock-on effects on equity volatility. Third, the month also witnessed an unexpected surge in lockdown activity out of China and other North Asian economies, courtesy of a wave of Omicron virus strain impacting the lightly vaccinated region. Such heightened pace of lockdown measures in north Asia has resulted in deeper investor

Figure 1. Equity and Bond Market Volatility Spikes in March, Decimating Traditional 60-40 Private Bank Model Portfolios and Risk Parity Strategies



Source: Bloomberg & Glovista Calculations

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



Source: MSCI & Bloomberg

**As of March 29th, 2022*

S&P500 Monthly Sector Performance –March MTD 2022*

Sectors	% Change	FY1 PE Ratio
Energy	9.04%	11.0
Materials	7.63%	16.0
Industrials	5.09%	21.3
Cons Disc	8.54%	28.8
Cons Stap	1.68%	22.0
Technology	6.57%	26.5
Healthcare	6.42%	16.6
Financials	2.74%	15.1
Utilities	9.35%	21.6
Telecom	3.58%	18.5
Real Estate	9.17%	46.6
S&P500	5.89%	20.5

as of March 29th 2022

concerns over renewed disruptions in the global supply chain along with the potential for a longer period of above-normal inflation.

The confluence of downward revisions to economic growth estimates (owing to the Ukraine-Russia war), higher inflation projections (in part owing to the war and also to lockdown measures in China) over a longer period of time and a more hawkish US Federal Reserve have fueled investor concerns for a stagflationary environment in the balance of the year. Such environments are equity market unfriendly as they are associated with equity valuation compressions. At Glovista, we continue to expect the global economic expansion to extend in 2022, averting recession. We harbor such expectation on the basis of several considerations, including:

- Prevailing tight labor markets and healthy household and financial sector balance sheets, partly the result of the cumulative savings accumulated during the pandemic, via the forced savings spike resulting from the extensive lockdown periods as well as generous government transfer programs;
- Households' considerably small energy and food consumption share of their overall consumption baskets as compared to those prevailing in the 1970s and 1980s, the last period in which households confronted a protracted period of food and energy inflation acceleration;
- Recent announcements of pro-active fiscal policy stimulus announced by large developed country governments in support of household consumption at a period of food and energy inflation acceleration;
- Continued loose financial conditions despite the projected path of policy rate hikes expected by futures market participants to unfold in the US and Europe over the next two years. Specifically, implied real (inflation adjusted) policy rates are likely to remain negative as the policy rate hike cycle reaches terminal policy rate levels at the end of 2023.
- Among the world's largest central banks, several of them remain steadfast in their stance to retain a loose policy orientation through the balance of 2022 (e.g. Bank of Japan and Bank of China).

As a result of the above considerations, and given recent political developments suggesting an impending end of hostilities in the Ukraine, we expect recession scenarios will be averted in 2022. Given equities' considerably cheaper valuations versus fixed income securities, we expect equity returns to outperform bond and cash returns over the balance of the year. However, given our expectation of continued US policy rate hikes and below trend economic growth in 2022, we continue to favor overweight allocations to value oriented factors both in equities and fixed income. Moreover, we continue to favor tactical allocations to precious metals, especially gold, owing to their diversification traits. Within fixed income, we continue to underweight duration though we recently trimmed the quantum of such underweight tilt following the massive sell-off in duration thus far in 2022.

Emerging Market Perspectives

EM Value Markets Extend Outperformance on Ukraine-Russia Conflict; Russia Ousted from MSCI Benchmark; Glovista Sustains Overweight Value Factor Tilts

In March, emerging market equities – as represented by the MSCI EM benchmark – have underperformed international developed peers (as represented by the MSCI EAFE index) by close to 500 basis points. Such underperformance has been highly impacted by the ousting of Russia from most of the world's investable indices across various asset classes, including the MSCI EM benchmark. In addition, soon after the onset of hostilities investor concerns over the potential for China's support of Russia in the war led to sizable underperformance by Chinese equities early in March. However, by mid-March Chinese equities' underperformance began to reverse as Chinese authorities confirmed the country's neutral stance in the war along with announcements made in support of large capitalization technology sector stocks that have been impacted by regulatory concerns since the earlier part of 2021.

Over the course of March, Glovista sustained overweight exposure to value-oriented markets, especially Latin America, the top performing EM regional market in March and also an outperformer versus US and international developed equity benchmarks. We continue to favor overweight allocations to Latin America markets on account of cheap relative valuations, strong top-line and earnings growth outlook (aided by favorable commodity market dynamics) and under-ownership status. From an asset class perspective, we view recent developments to merit an upgrade of emerging Asia markets as the recent spike in equity risk premium for Asian regional markets is expected to reverse lower over the medium-term, in our opinion. Within emerging Asia, we favor South Korean and Taiwanese indices.

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