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GLOVISTA INVESTMENTS

# Glovista Global Perspectives

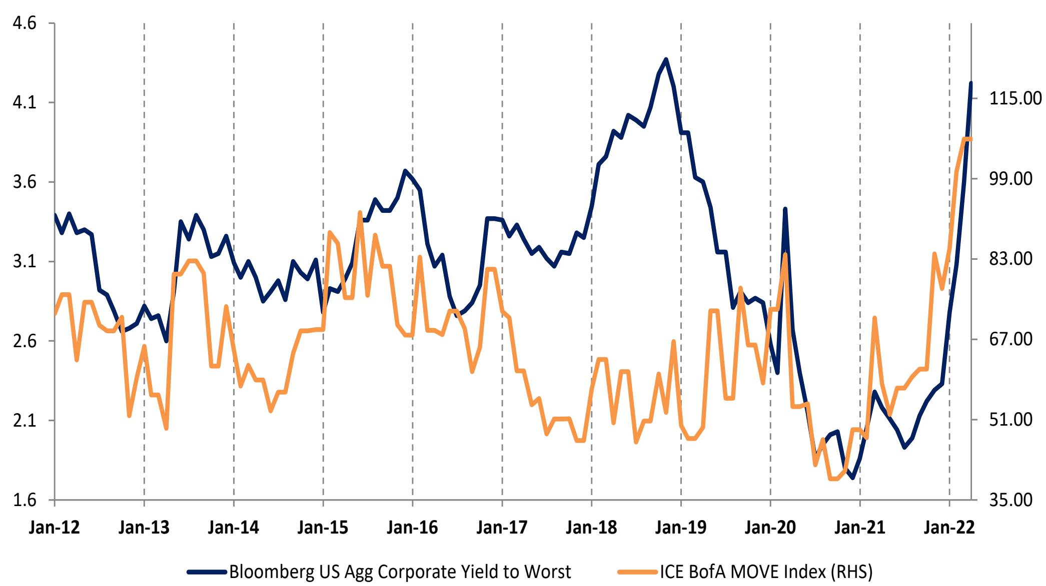
## This Issue:



## *Global Markets Sell Off on Rising Geopolitical Risk and FED Hawkish Guidance; Glovista Sustains Defensive Tilts*

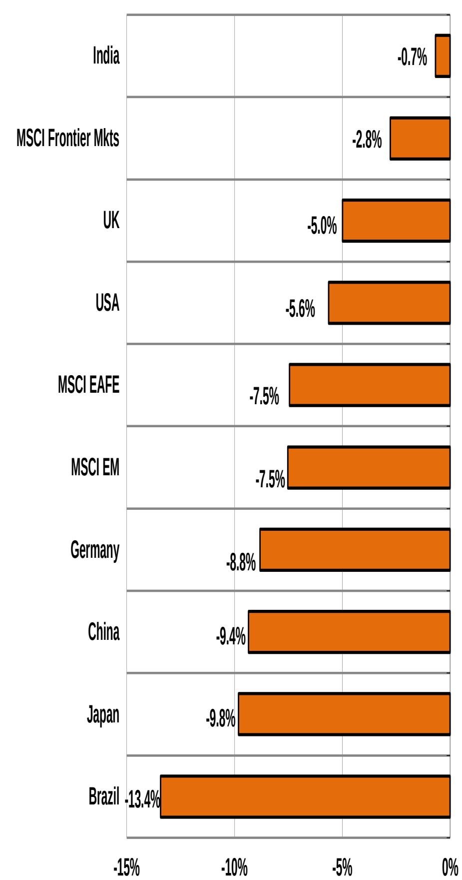
The month of April has witnessed an unusual sell-off across risk and so-called low or ‘risk-free’ assets, including Treasury securities. The contemporaneous sell-off across risk and low- or ‘risk-free’ asset categories has resulted from an undisputed rise in equity premium levels, on account of the escalation of geopolitical developments in Europe, and term premium levels, on account of unusually hawkish revised guidance by US FED governors ahead of the upcoming May 3-4 FOMC meeting. An added April development adversely impacting risk markets globally has stemmed from China’s decision to adopt broader lockdown measures owing to surge in COVID virus cases, now encompassing the Greater Beijing and Shanghai area, among others.

***Figure 1. April Back-up in Corporate Yields and Bond Market Volatility Exacerbate Stocks Sell-off via Forced De-risking from 60-40 Balanced and Risk Parity Strategies***




***Source: Bloomberg***

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




***Source: MSCI & Bloomberg***

**As of April 28th, 2022*

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

| Sectors | % Change | FY1 PE Ratio |
|---|---|---|
| Energy | 0.86% | 9.7 |
| Materials | -1.58% | 14.9 |
| Industrials | -5.08% | 19.7 |
| Cons Disc | -7.56% | 25.9 |
| Cons Stap | 5.21% | 23.1 |
| Technology | -7.49% | 23.7 |
| Healthcare | -2.37% | 16.2 |
| Financials | -6.85% | 13.6 |
| Utilities | -1.33% | 21.4 |
| Telecom | -12.64% | 15.9 |
| Real Estate | 1.31 | 45.2 |
| S&P500 | -5.36% | 18.8 |

**as of April 28th 2022*

Against such recent developments, in April global equity prices – as represented by the MSCI ACWI index - have declined 6.31% while average US corporate debt yields have backed up by around 62 basis points. The speed of the sell-off in fixed income markets has resulted in a sharp blow-out in the MOVE bond market volatility index (Figure 1), exacerbating the sell-off in equities via de-risking actions taken by risk-parity and balanced (60-40) investment programs, as well as hedge fund investors.

From a fundamental and technical perspective, absent further material escalation of geopolitical risk in Europe, we expect risk markets to stabilize in short order. Some of the factors underpinning such view include: favorable (oversold) investor positioning; resilient activity calendar; supportive fiscal policy backdrop; incipient signs of decelerating inflation momentum (e.g. recent crude price declines), and; attractive relative valuations for equities. Given these considerations, the Glovista investment team anticipates raising overall risk market exposure over the coming weeks from the elevated defensive tilts sustained throughout the year that have served our portfolios well.

As for the currency market backdrop, as is typical during episodes of geopolitical risk escalation, the US Dollar has strengthened considerably year-to-date owing to the Russia-Ukraine war as well as the US FED's markedly hawkish stance versus the ECB. We expect US Dollar strength to moderate as the May and June FOMC meetings come to pass as the FED is likely to turn less activist on policy rate guidance as we approach US mid-term elections in the Fall and also as the lagged effects on economic activity from US Dollar strength, commodity price inflation and rising debt cost of capital impact the activity calendar.

From a global portfolio perspective, over the past few sessions we have trimmed value factor exposures for the first time since the middle of last year owing to growth factors' vastly cheapened valuations since last year. At a geographic level, we continue to favor US and selected EM markets on account of EAFE markets' higher vulnerability to geopolitical risk escalation. Finally, we continue to underweight fixed income duration while retaining modest exposures to gold.

## *Emerging Market Perspectives*

### *Glovista Trims EM Asia Underweight and Latin America Overweight Allocations on Valuation, Positioning and FED Hawkish Guidance*

In April, EM equities have sold off sharply, approximately in line with international developed peers – as represented by MSCI EAFE. More importantly, the month of April has brought about a stop to the year-to-date strong return outperformance commanded by Latin America equities, both at the EM and also global levels. We credit such reversal in Latin America equities' return performance leadership to a number of developments, including the following:

- the strong reversal in crude prices from the 2022 year-to-date high levels (fueled primarily by Western governments' decision to release crude inventories from their strategic petroleum reserves over the coming months);

- Chinese government's decision to adopt tight lockdown measures across a large percentage of their territory, owing to the latest wave of COVID-19 virus, has set off investor concerns over a potential slowdown in economic growth out of the world's second largest economy, and largest consumer of a number of industrial and energy commodities. Such expectations have fueled a pullback in commodity prices across a number of sectors, including commodity groups where Latin America countries hold a considerable net exporter position;

- Chinese authorities' decision to embrace investor friendly actions in favor of large information technology stocks (heavily represented in the MSCI China benchmark), a group adversely impacted throughout 2021 and early 2022 by regulatory actions.

As a result of the above, the Glovista investment team took the decision in late March, early April to trim considerably our Asia regional underweight exposures while reducing our longstanding overweight Latin America regional allocations on a tactical basis. As we look ahead over the medium-term, we believe Latin America markets are likely to extend relative outperformance of their Asia peers on account of the secular nature of the commodity cycle as well as geopolitical risk factors and ownership considerations that favor Latin America equities over most of their Asia peers. Increasingly, we have favored exposure to ASEAN markets while retaining neutral allocations to Middle Eastern markets and underweight allocations to Central European markets, both on valuation, earnings and geopolitical risk considerations.

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