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Monthly
Market
Newsletter

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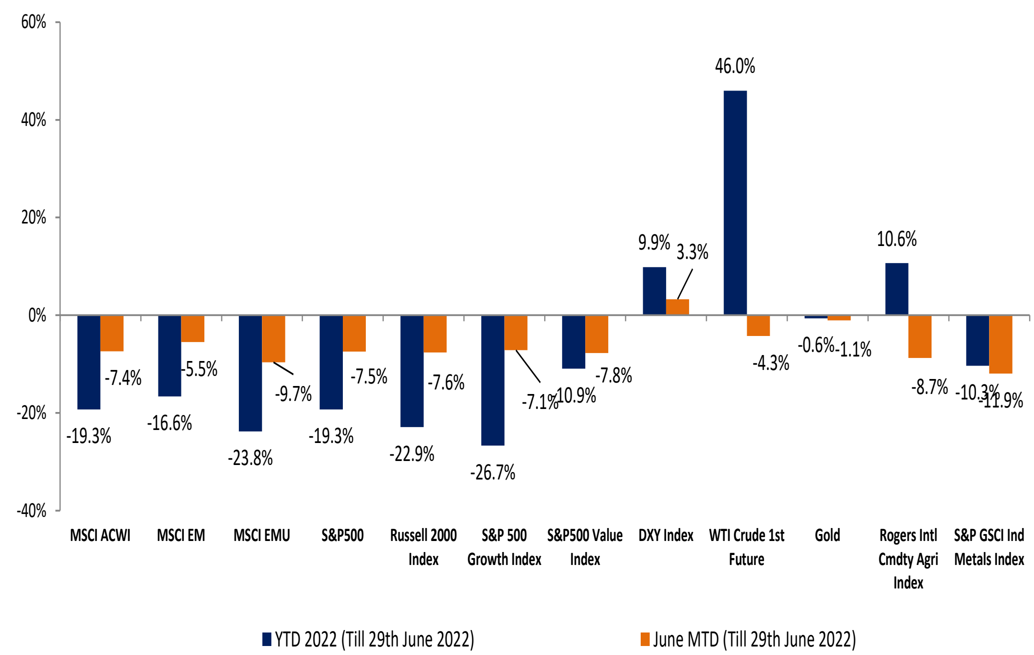
Glovista Global Perspectives

This Issue:

Risk Markets Sell-Off Sharply in June; Decline's Depth and Breadth along with Stabilizing Inflation Expectations Point to Signs of 2021-22 Bear Market's Last Leg; Glovista Sustains Value Overweight Tilts while Standing Ready to Raise Risk Asset Exposures in Q3

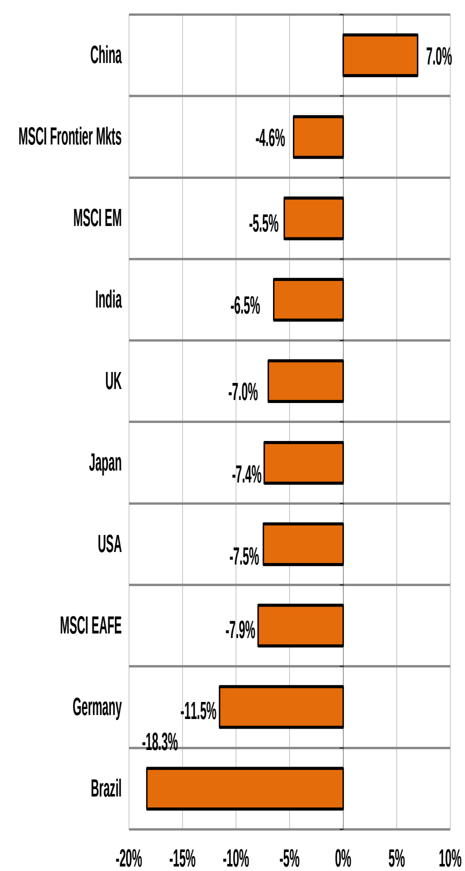
In June, large year-to-date asset price declines in equities, credit and fixed income extended with the novel inclusion of commodities, the sole asset class managing to post year-to-date appreciation (Figure 1). Interestingly, the recent sell-off in the commodities space has coincided with increased signs of economic deceleration in the developed economies along with sustained declines in market-based and consumer survey-based inflation expectations.

Figure 1. June Risk Market Sell-Off Extends Across All Asset Class: Start of Capitulation Phase to 2021-2022 Bear Market?



Source: Bloomberg

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



Source: MSCI & Bloomberg

**As of June 29th, 2022*

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S&P500 Monthly Sector Performance –June MTD 2022*		
Sectors	% Change	FY1 PE Ratio
Energy	-15.26%	8.0
Materials	-13.01%	12.4
Industrials	-7.76%	17.3
Cons Disc	-9.51%	23.4
Cons Stap	-2.81%	21.0
Technology	-8.15%	20.6
Healthcare	-2.51%	15.7
Financials	-10.27%	12.3
Utilities	-6.16%	20.2
Telecom	-6.25%	15.0
Real Estate	-7.51%	35.1
S&P500	-7.58%	16.8

as of June 29th 2022

We believe June's macro and market developments are consistent with (a) signs of investor capitulation in the ongoing 2021-22 bear market that started in early November 2021 and (b) a changing macro backdrop that is likely to prove conducive to a market-friendly US Federal Reserve interest rate policy pivot over the coming months. These observations, when combined with others of importance to Federal Reserve policy – such as a tightening in financial conditions to levels not seen since the onset of the pandemic in early 2020, sharp decline in new orders components of most US regional industrial sentiment surveys, defensive consumer expenditure basket rebalancing away from discretionary items and a steady rise in weekly jobless claims level – are likely to result in diminished investor concerns over inflation and FED policy by the end of the third quarter.

Against such a backdrop, investor positioning has reached exceedingly defensive levels, a contrarian bullish condition. Moreover, that the US Dollar has proven unable to trade above levels reached in mid-May – a juncture in which US economic momentum versus the rest of the world was markedly stronger than at present – represents a meaningful bearish divergence for the US Dollar. Thus, if it proves to be true that the US Dollar has topped out in May, such development will be bullish equities as well. Finally, over the past several weeks and days, China has been loosening its lockdown measures because of Covid, thus fueling higher growth expectations for the year's second half, an additional bullish development.

While the above-mentioned macro, financial and technical developments point to signs of the 2021-22 bear market entering its last leg these past several weeks, the Glovista investment team sustains the defensive portfolio stance held since the beginning of the year as we await the resolution of a major uncertainty factor surrounding the upcoming release of second quarter earnings: the quantum of fiscal year revenue, margin and earnings revisions offered by corporations upon their release of second quarter earnings results.

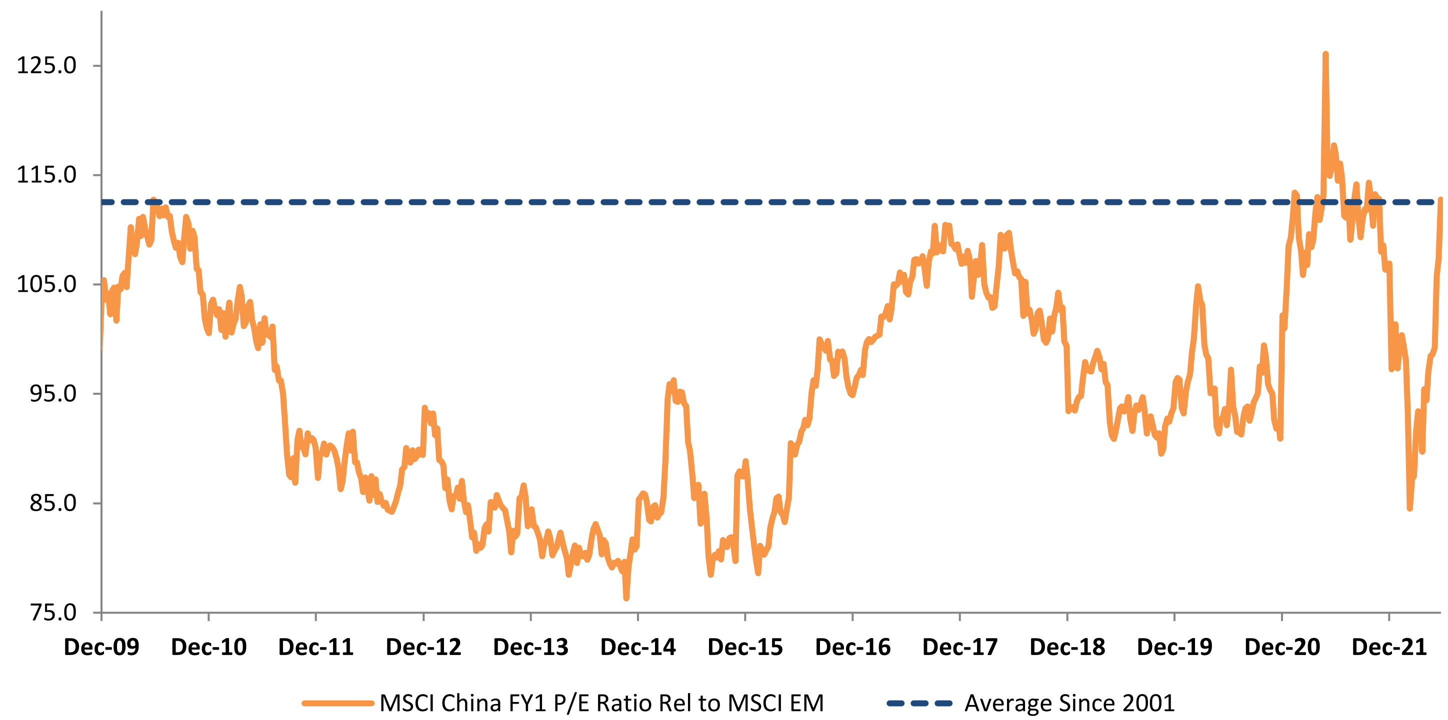
From a global portfolio strategy perspective, we sustain the principal factor, asset class and geographic tilts that have served our portfolios thus far in 2022. Specifically, we continue to favor overweight allocations to cash, value stocks, gold and intermediate-duration high-grade corporate bonds.

Emerging Market Perspectives

Chinese Stocks Sharply Outperform EM Peers in June, Fueled by Improved Macro Outlook and Investor-friendly Policy Shifts; Glovista Takes Partial Profit in China Over- and Trims ASEAN Under-weight Tilts

In June, Chinese stocks strongly outperformed both emerging and developed market peers as relative and absolute Chinese stock valuation multiples re-rated sharply from exceedingly cheap levels. Such boost in valuations responded to two principal developments: the Chinese government announcement of unambiguously investor-friendly policy measures in support of the large capitalization technology companies that dominate the MSCI China benchmark, and; the Chinese government's decision to initiate the selective lifting of quarantine measures introduced earlier this year on the back of the Omicron virus wave impacting the country.

Figure 2. Chinese Stocks' Relative FY1 P/E Valuation versus MSCI EM Benchmark



Source: Bloomberg & Glovista Calculations

Figure 2 highlights the sharp reversal recorded by Chinese equities' relative valuation discounts versus EM peers over the past several weeks. Within the North Asia region, we continue to underweight South Korea and overweight China country allocations on the basis of relative valuations as well as relative earnings growth performance potential that favors local China software service industries versus global semiconductors. Notwithstanding our bullish China market outlook, we have recently trimmed our China overweight allocations so as to close our longstanding underweight Asean market exposures. Specifically, we believe China's economic reopening actions are likely to benefit such economies both in the service sector space (including tourism) but also trade. Within the EMEA region, we continue to favor South African equities owing to our favorable outlook on Naspers stock as well as other financial and mining sector names. Within Latin America, we have trimmed and reconfigured our Brazil country exposure in favor of export sector names, especially Vale, both on account of our currency outlook as well as relative valuations.

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