Issue
151
July/22

Monthly
Market
Newsletter

GLOVISTA INVESTMENTS

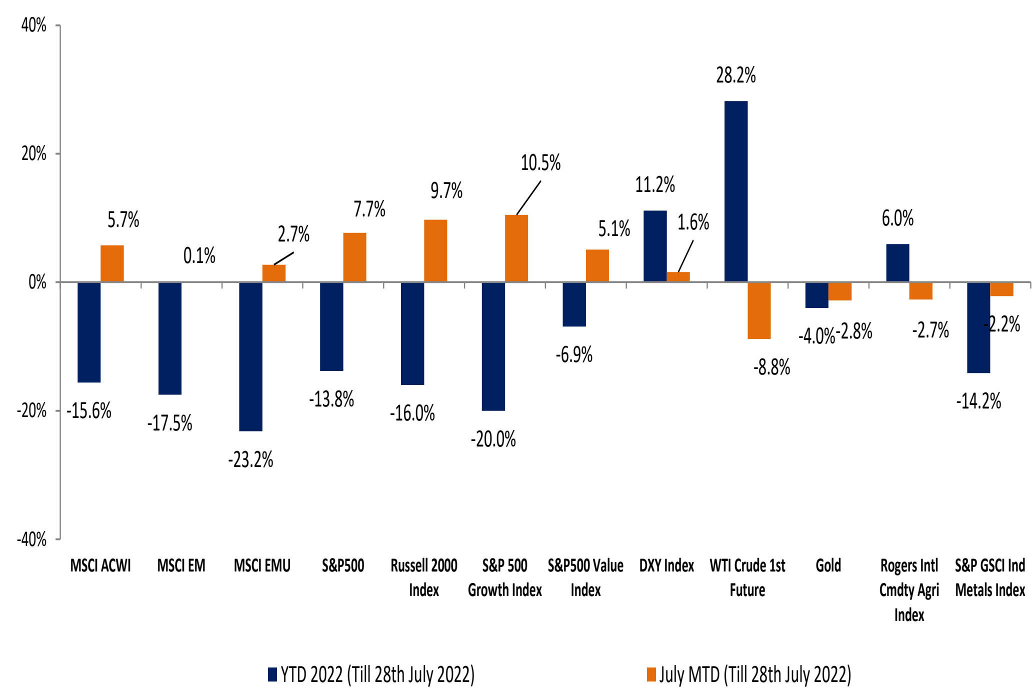
Glovista Global Perspectives

This Issue:

Risk Markets Bounce in July, led by Investor Positioning, Falling Growth and Inflation Expectations; Glovista Raises Risk Exposure while Sustaining Value Tilts

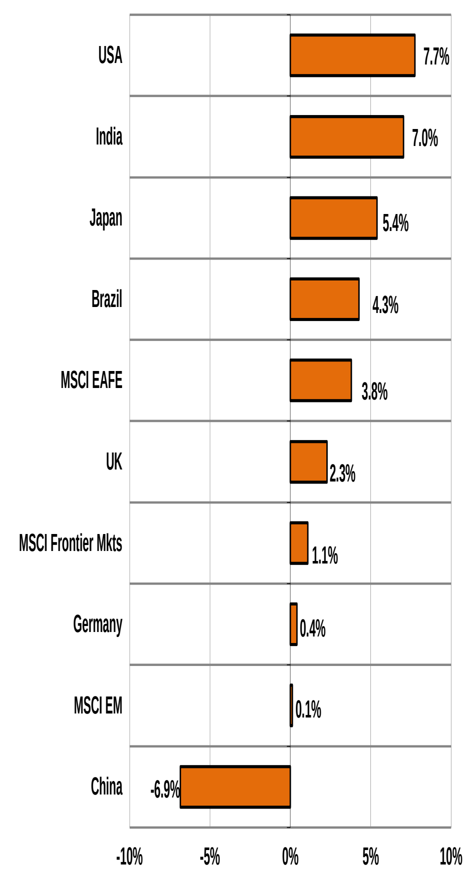
In July, risk asset prices have posted solid recoveries following sharp declines recorded during the year's first half. The asset price recovery extends both to risk (e.g. equities and credit) and so-called risk-free assets (e.g. developed country government fixed income). As discussed further below, we credit such broad price recovery to the unfolding of investor-friendly developments, including declining economic growth and inflation expectations along with oversold investor exposures to risk assets.

Figure 1. July Posts Strong Bounces in Risk and Risk-free Asset Prices



Source: Bloomberg

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



Source: MSCI & Bloomberg

**As of July 28th, 2022*

S&P500 Monthly Sector Performance –July MTD 2022*

Sectors	% Change	FY1 PE Ratio
Energy	4.88%	7.7
Materials	4.70%	13.0
Industrials	7.31%	18.8
Cons Disc	14.04%	26.6
Cons Stap	3.88%	21.6
Technology	11.75%	22.5
Healthcare	3.55%	16.2
Financials	5.53%	13.2
Utilities	4.52%	21.0
Telecom	2.92%	15.7
Real Estate	8.17%	37.5
S&P500	7.58%	17.9

**as of July 28th 2022*

We believe July's asset markets recovery responds to a set of investor-friendly developments, some of which are self-reinforcing, including: (a) contrarian market bullish conditions stemming from investors' exceedingly underweight exposures to risk assets, (b) declining inflation readings and inflation expectations, (c) weakening activity momentum, particularly out of the goods sector (e.g. housing, autos, investment spending, discretionary goods expenditure), (d) declining commodity prices, particularly out of the industrial and agriculture goods sectors, partly fueled by confirmation of Chinese real estate sector deceleration and the recent reopening of grain exports out of Ukraine, and; (e) corporates' resilience in protecting margins as reflected in a moderately stronger than expected second quarter earnings.

The material shift in the global macro landscape over the course of July helped underpin the dovish tilt embraced by the US Federal Reserve at its July 27th meeting. US Federal Reserve Chairman Powell signaled a dovish tilt in terms of the future course of interest rate actions by conditioning future rate hikes as data dependent while acknowledging recent deceleration of economic activity and tighter financial conditions. The Federal Reserve also voiced for the first time in the current rate cycle their consideration of output dynamics at upcoming policy meetings. Such developments are unambiguously risk market friendly owing to the curtailment of outsized rate hike actions at future FED meetings thereby accelerating the expected timing of a FED pivot.

As we look ahead, we expect the US Dollar cycle to turn lower – especially once hostilities in Europe abate and their impact on the European economy becomes more fully discounted by the markets. A weaker US Dollar along with stability in fixed income markets, when taken into consideration with equities' attractive valuations versus other asset classes and historical averages, are likely to fuel a more sustainable recovery in risk asset prices, especially non-US equities. We have begun to rebalance our portfolios accordingly, via an increase in non-US equities. As for commodities, we favor precious metals while in fixed income we continue to overweight high quality issuers on account of relative valuations between high grade and sub-investment grade debt. From a style perspective, we continue to favor value versus growth tilt on account of macro and relative valuation considerations.

Emerging Market Perspectives

Chinese Stocks Sharply Underperform EM Peers in July, Fueled by Real Estate Sector Concerns; Glovista Further Raises LatAm Overweight Tilts funded via China Allocation Cuts

In July, Chinese stocks strongly underperformed both emerging and developed market peers, fueled by heightened investor concerns over the country's fast declining real estate sector, a principal contributor to the country's economy. Such concerns also helped fuel a considerable decline in industrial commodity prices globally, given China's outsized consumption share. As we noted in the June 2022 column, valuation and positioning considerations led us to reduce our strategy's allocation to Chinese equities towards the end of June. In July, we have further reduced our China allocation to a modest underweight on the basis of such real estate sector dynamics which we foresee to exert local macro implications well into the end of the year. Some of the country allocations we have raised these past several weeks include Latin American markets – especially, Chile and Brazil - and India.

Within China country exposure, we continue to favor consumer staples and information technology sector companies. Our overweight allocation to India and Latin American markets responds to currency resilience/earnings momentum and valuation considerations, respectively.

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