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Newsletter

GLOVISTA
INVESTMENTS

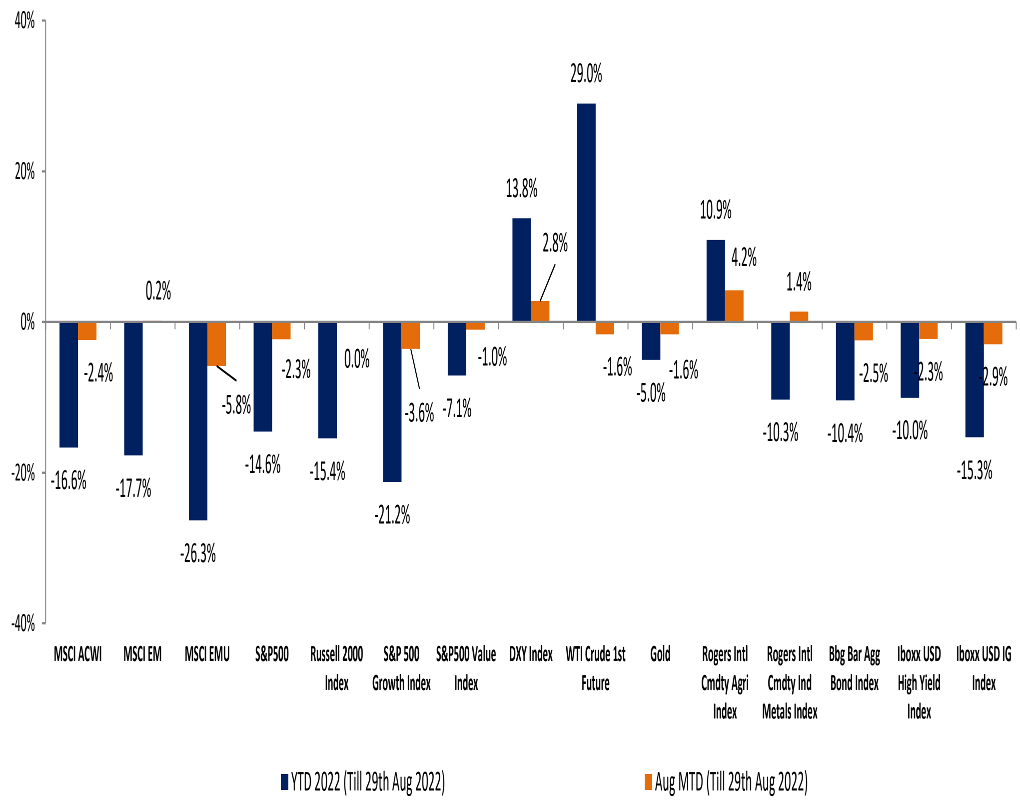
Glovista Global Perspectives

This Issue:

Risk Markets Decline in August, Despite Lower Inflation and Resilient Activity, as Financial Conditions Tighten Due to FED Guidance on Conditions for Rate Pivot

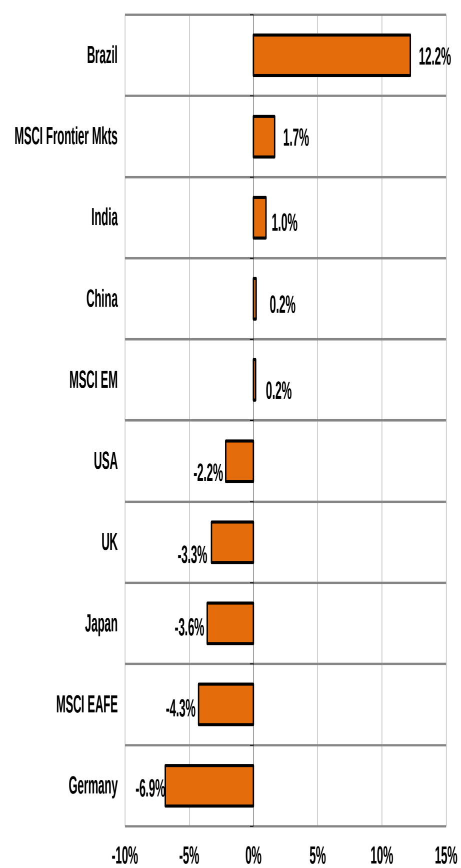
In August, risk markets have posted modest declines across the equities, credit, foreign exchange and commodities domains. Figure 1 illustrates August month-to-date percentage declines for a group of risk asset market indices.

Figure 1. Risk Markets Pull Back Considerably in August across Major Asset Groups



Source: Bloomberg

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



Source: MSCI & Bloomberg

**As of August 29th, 2022*

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S&P500 Monthly Sector Performance –July MTD 2022*

Sectors	% Change	FY1 PE Ratio
Energy	6.74%	8.2
Materials	-0.79%	13.1
Industrials	-0.77%	19.3
Cons Disc	-2.62%	28.0
Cons Stap	-0.32%	21.4
Technology	-4.32%	22.3
Healthcare	-4.66%	15.5
Financials	-0.89%	13.1
Utilities	2.25%	21.4
Telecom	-3.45%	15.8
Real Estate	-3.99%	35.1
S&P500	-2.41%	17.8

**as of Aug 29th 2022*

As we look back at the month of August's major macro developments, we find that activity releases have proven more resilient than expected by the consensus of economists. For example, Citi's economic activity surprise index for the US has bounced strongly from the low levels reached during the week ending June 24th. For the Eurozone region, a similar recovery in economic surprise indicators is evident from the low levels reached during the week ending July 28th. At a global level, economic surprise indicators bottomed out the week ending July 28th. China is one of the few economies manifesting softening activity readings; however, much of that softness is the result of involuntary demand restraint owing to the continued Covid infection wave-related lockdown.

Within the price domain, the macro calendar has also been supportive of risk markets over the past several weeks. For example, core intermediate PPI inflation readings - one of the more leading goods inflation barometers - have posted four consecutive months of year-on-year declines, with the July reading printing at 5.8%. Likewise, cyclical sectors that harbor important sensitivity to interest rate changes - including autos and housing – have shown clear signs of sustained deceleration, virtually sealing disinflationary trends for those sectors over the coming quarters.

Notwithstanding benign goods inflation releases over the past several months, service sector inflation trends remain strong, with relatively modest softening in US labor markets and correspondingly sticky wage inflation. Such dynamics are of concern to central banks, especially the US Federal Reserve, as these carry the potential for setting off pernicious inflation expectations. While even under the FED's own admission there are few signs of such risks coming into fruition, at his August 26th Jackson Hole speech, FED Chair Powell conveyed to the markets the FED's strong bias in ensuring inflation momentum weakens considerably further, even at the risk of triggering a recession. In that light, the FED has signaled that the timing of a pivot from its ongoing rate hike cycle will take considerably longer than expected by interest rates futures markets. Put differently, through his Jackson Hole speech, Fed Chair Powell has signaled the institution's desire to sponsor continued tightening of financial conditions, a development adverse to asset valuation multiples.

From an investment perspective, the above constellation of macro (resilient activity and benign inflation momentum) and policy (reassertion of hawkish for 'longer' monetary policy) stance reaffirm the principal tenets of our standing investment strategy: overweight value and quality factor tilts. From a cross-asset market perspective, we continue to favor equities over long duration fixed income while in fixed income we favor intermediate duration high grade issues. Finally, we continue to favor precious metals allocations, especially gold.

Emerging Market Perspectives

EM Stocks Sharply Outpace DM Peers in August despite US$ Strength and Global Market Declines; Glovista Raises China Country Tilt

In August, emerging market equities have outperformed the MSCI ACWI index by close to 200 basis points, including broad participation from a large percentage of emerging market country indices. In our assessment, such broad EM outperformance - unfolding during a month witnessing a combination of broad US$ strength and global market declines – responds to several considerations likely to sustain themselves over the balance of the year, including: (a) sustained outperformance of value factor over growth at a global level; (b) institutional and retail investors' steep levels of under-allocation to the asset class; (c) solid corporate earnings performance by some of the largest emerging market companies, including those in China, and; (d) increased liquidity conditions in China, directed by central bank measures, in contrast to most of the developed world.

Over the past several weeks, we have raised our China country exposure from underweight to moderate overweight on the back of improved regulatory backdrop and solid corporate earnings performance on the part of large information technology sector companies. We continue to maintain overweight allocations to Latin America markets while maintaining underweight allocations to North Asia hardware sector.

From an asset class perspective, we expect a sustained outperformance over the balance of the year on the back of increased Chinese market stabilization, EM economies' improved relative momentum versus developed peers and a favorable technical backdrop derived partly from global investors' large under-allocation to the asset class and EM currencies' proven resilience versus the US Dollar.

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