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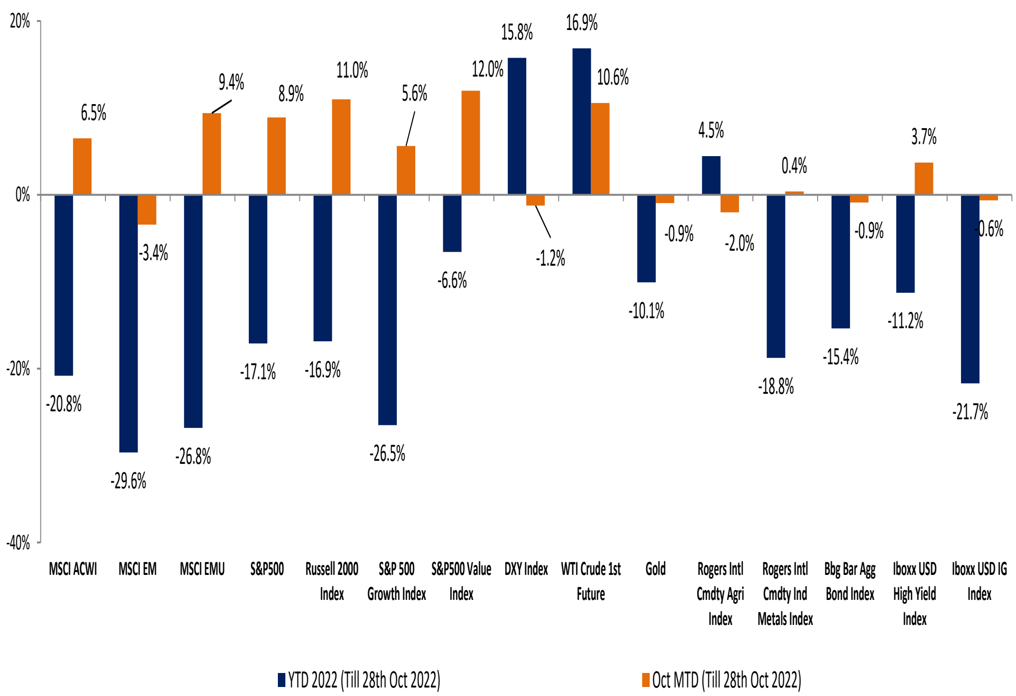
Glovista Global Perspectives

This Issue:

Risk Markets Bounce Strongly in October fueled by Dovish G10 Central Bank Guidance, Favorable Seasonality and Deescalating Geopolitical Tensions; Glovista Sustains Value Factor Tilts

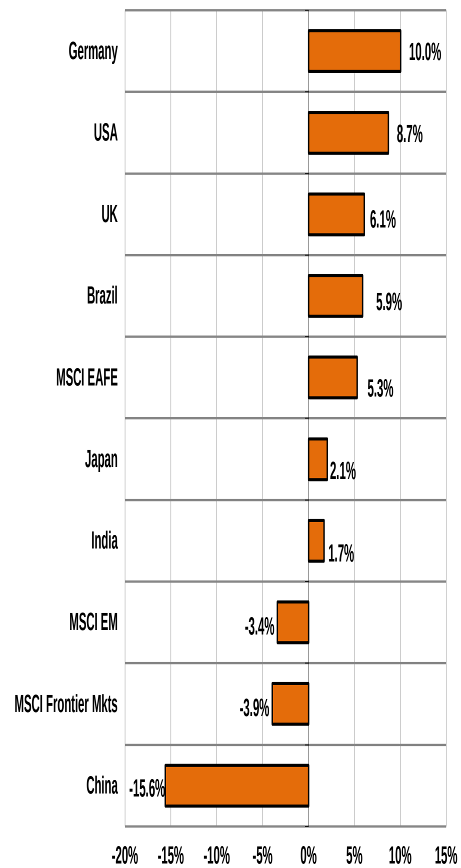
The month of October has proven exceedingly kind to risk markets globally, cutting across the equities, credit and currency domains, as illustrated in Figure 1. We attribute the bounce in risk markets during the month to a concatenation of reinforcing developments across the economic calendar, policy, geopolitical, seasonality and investor positioning domains. We discuss these further below.

Figure 1. October Risk Market Bounce Cuts Across Geographic and Asset Class Domains



Source: Bloomberg & Glovista Calculations

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



Source: MSCI & Bloomberg

**As of October 28th, 2022*

GLOVISTA INVESTMENTS

S&P500 Monthly Sector Performance –Oct MTD 2022*

Sectors	% Change	FY1 PE Ratio
Energy	24.10%	8.8
Materials	9.94%	13.4
Industrials	14.25%	19.6
Cons Disc	0.90%	26.6
Cons Stap	9.51%	21.2
Technology	9.22%	21.6
Healthcare	9.67%	16.4
Financials	12.62%	13.6
Utilities	2.97%	19.1
Telecom	1.61%	14.0
Real Estate	2.14%	30.9
S&P500	8.80%	17.5

**as of Oct 28th 2022*

The Glovista investment team attributes October's sharp rally in risk markets to the following reinforcing developments:

- Economic calendar: October monthly activity readings along with recent third-quarter US corporate earnings releases signal continued expenditure resilience on the part of the world's household sector as sequential inflation momentum decelerates and the quantum of overall fiscal impulse on the US economy ceases to detract from growth as it had up until the earlier part of the third quarter.

- Policy: On the policy front, recent actions taken by three G10 central banks (Reserve Bank of Australia's October 3rd meeting, Bank of Canada's October 26th meeting and favorable liquidity implications on the Bank of England's stance stemming from the recent change in UK government) alongside dovish rate hike by the European Central Bank at its October 27th meeting all share unambiguously dovish signs to the outlook of rate policy in 2023.

- Geopolitical developments: On the geopolitical front, tensions have decelerated between the West and the Russia-China duo. For example, over the past several days Russia's Vladimir Putin has retracted his reference to the use of nuclear weapons in Ukraine, suggesting Russia does not need to resort to such unconventional weapons so as to win the war. Likewise, in China the recent confirmation of Xi Jinping as China's president for the next five years – while setting off problematic implications to investors, discussed further in the emerging markets section below – has been followed with public comments from the Chinese leader inviting western leaders – especially President Biden – to engage China in collaborative discussions including in face to face discussions with Biden at the upcoming G20 Summit in Indonesia.

- Favorable seasonality backdrop: As mentioned in our September monthly column, even in bear market cycles risk markets tend to form intermediate-term bottoms by October 20th owing to seasonality considerations.

- Investor positioning: At the beginning of October, investor positioning had reached exceedingly bearish levels, a contrarian bullish condition. Such bearish positioning exposures were evident across a myriad of indicators, including cash balance levels held by real money accounts, net long exposures held by CTAs, margin debt levels, volatility skews, among many others.

Over the course of the past several weeks, we have raised our portfolios' equity exposures on the back of the multiple considerations laid out above. However, we have sustained overweight value factor tilts across our managed portfolios both on the basis of relative valuations and business cycle considerations, particularly the lingering potential of a sustained economic deceleration. From a cross-asset market perspective, we continue to overweight value stocks, underweight duration fixed income exposure and commodities. We expect to raise non-US equity exposure from significant underweight exposures upon indications of a turn lower in the US Dollar cycle, for which we are beginning to detect early signs.

Emerging Market Perspectives

Chinese Stocks Derate Further on Xi's Stronger Power Hold following End to CCP Plenary Congress; Glovista Sustains China Underweight, India/Latin America Overweight Tilts

In October, excluding China, emerging market equities participated strongly in the global risk asset market rally, rallying close to 4.5 percent during the month-to-date period. Figure 2 illustrates emerging market equities (excluding Chinese equities) relative return performance versus international developed peers (MSCI EAFE). The EM excluding China collective has outperformed EAFE peers considerably since the early 2020 period while Chinese equities have underperformed.

Figure 2. Emerging Equities, excluding China, Sustain Strong Post-2020 Outperformance versus EAFE Peers

Source: MSCI, Bloomberg & Glovista Calculations

Chinese equities' 2022 relative underperformance versus EM and global equity peers has derived primarily from derating, as reflected in the steady compression of earnings multiples. Such sustained derating of China equities began in the second half of 2020 with Xi Jinping's government's antitrust activities against education and mega-cap technology companies, most notably Alibaba. More recently, particularly in the period following Russia's invasion of Ukraine, Chinese stocks' derating has been largely a reflection of investors' concerns over mounting geopolitical tensions between China and the USA, including the Taiwan independence question. Over the past several weeks, such investor concerns have reached unusually elevated levels, particularly following the conclusion of China's Communist Party Congress held on October 16th at which Xi Jinping was confirmed as China's supreme leader for the next five years while removing a number of reform-oriented officials from the Party's standing committee and replacing them with Xi loyalists.

Recent China and global geopolitical developments have kept Glovista's China country exposure at underweight levels, contributing additional alpha generation opportunities for our strategy. While we maintain a China country underweight allocation, reflecting a bearish short-term country outlook, our investment team holds a bullish medium-term outlook towards the Chinese market. Such bullish medium-term outlook is predicated on two principal considerations: Chinese stocks' exceedingly cheap valuations, and; the growing potential for an intermediate-term cyclical economic acceleration by the second quarter of 2023 on the back of the service economy's reopening from Covid. Moreover, over a longer-term horizon, we believe much of the current investor bearishness towards China asset markets – including concerns over the market's investable nature – stands at odds with the Chinese leadership's highly telegraphed and logically sensical strategic growth and financial objectives, including the graduation of China's currency to international reserve currency status. From an equity market perspective, such considerations suggest rather convincingly that the growth of China's securities market – even if its growth were to rely predominantly on local investor participation – is likely to be considerable over time. In summary, we currently continue to underweight Chinese equities within our emerging market equities portfolios though we believe China equity market exposure remains one of the most compelling for global investors over the medium term.

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