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Monthly Market Newsletter

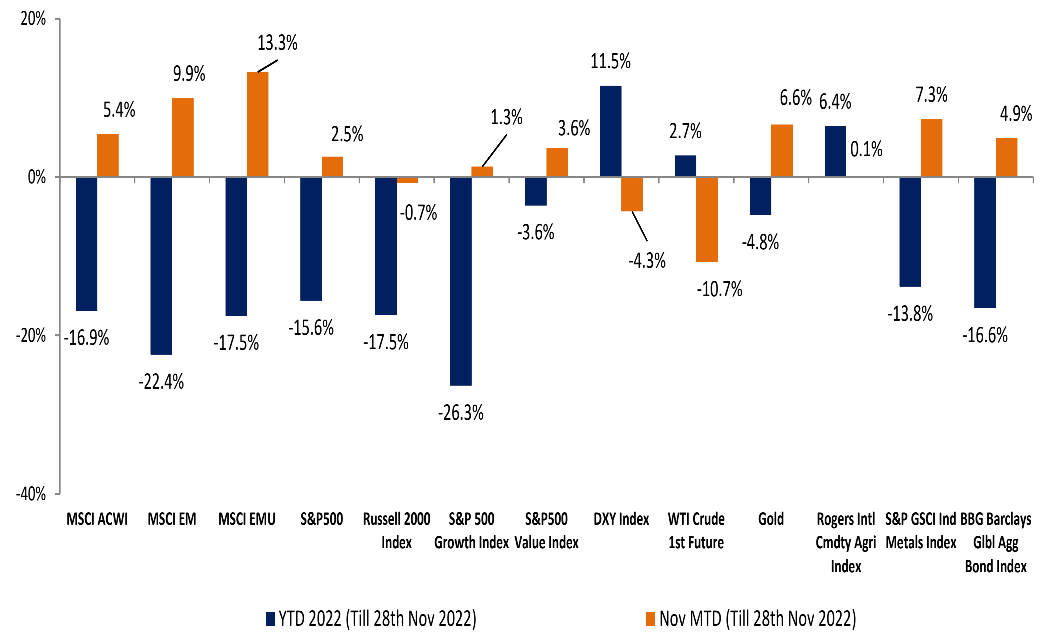
Glovista Global Perspectives

This Issue:

Risk Markets Post November Rally on Lower Geopolitical Risk, Resilient Activity, Benign Inflation and Seasonality: Glovista Sustains Value Overweight, Raising Non-US Equities Exposure

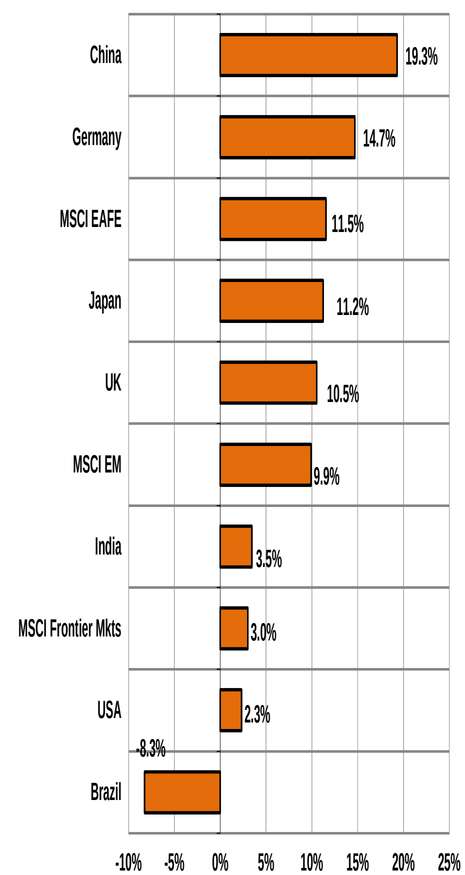
The month of November has been kind to risk assets globally, as shown in Figure 1. We credit such asset market performance to several factors, including market-friendly developments pertaining to geopolitical risk premium, resilient activity calendar, benign inflation readings, seasonality backdrop and investor positioning. We outline these further immediately below:

Figure 1. Risk Markets Rally Strongly in November on Falling Risk Premium, Resilient Activity and Benign Inflation



Source: Bloomberg

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



Source: MSCI & Bloomberg

**As of November 28th, 2022*

S&P500 Monthly Sector Performance –Nov MTD 2022*

Sectors	% Change	FY1 PE Ratio
Energy	-1.16%	8.4
Materials	8.54%	14.9
Industrials	5.23%	20.7
Cons Disc	-2.15%	26.9
Cons Stap	4.68%	22.1
Technology	1.76%	22.1
Healthcare	2.39%	16.8
Financials	4.40%	14.1
Utilities	4.61%	19.7
Telecom	2.18%	14.9
Real Estate	2.58%	31.3
S&P500	2.38%	18.0

as of Nov 28th 2022

- Geopolitical risk premium: The month of November witnessed a marked decline in global geopolitical risk premium via the Biden-Xi multi-hour meeting held in Indonesia ahead of the G20 summit in Bali. The meeting has led to a defrosting in lines of communication between China and the USA concerning trade, environment and geopolitical points of interest. Moreover, the month of November saw the results of US mid-term elections resulting in a tighter gridlock in Congress than expected by most analysts. Such outcome is investor-friendly as it defacto pressures the Chinese and Russian governments to continue engaging the Biden administration actively and not as a lame-duck government.

- Resilient activity calendar: Contrary to most investors' expectations, the pace of decline in activity and business confidence momentum has proven far lighter than expected. Such conclusion stems from recent economic releases as summarized in the Citibank economic surprise indicators for the USA and the Eurozone.

- Benign inflation: Recent US inflation releases, particularly the November 10th release of October core CPI, have come out markedly lower than expected by the consensus of Wall Street economists. Moreover, the data releases manifest a growing breadth of CPI categories recording multi-month inflation deceleration. Such developments, along with increased confidence (emanating from high-frequency market-based goods and service inflation indicators) of forthcoming inflation deceleration, has resulted in a marked decline of government bond yields.

- Seasonality: November's bullish risk asset price behavior accords with historical seasonality patterns, including those pertaining to US mid-term election cycle.

- Investor positioning: We believe November's risk asset rally was partly the result of contrarian bullish speculative investors' positioning levels prevailing at the beginning of November.

As a result of the above listed considerations, equity prices have bounced considerably fueled by declining discount rates, falling geopolitical risk premiums and curtailed downside economic tail risks all of which have led to a weakening US Dollar which in turn has further reinforced risk assets' allure.

Given the above mentioned developments, the Glovista investment team raised overall equities exposure at the beginning of November, retaining our longstanding overweight value factor tilts. In addition, the overall decline of geopolitical risk premium levels along with increased signs of an intermediate-term top in the US Dollar has underpinned our decision to increase non-US equities exposure.

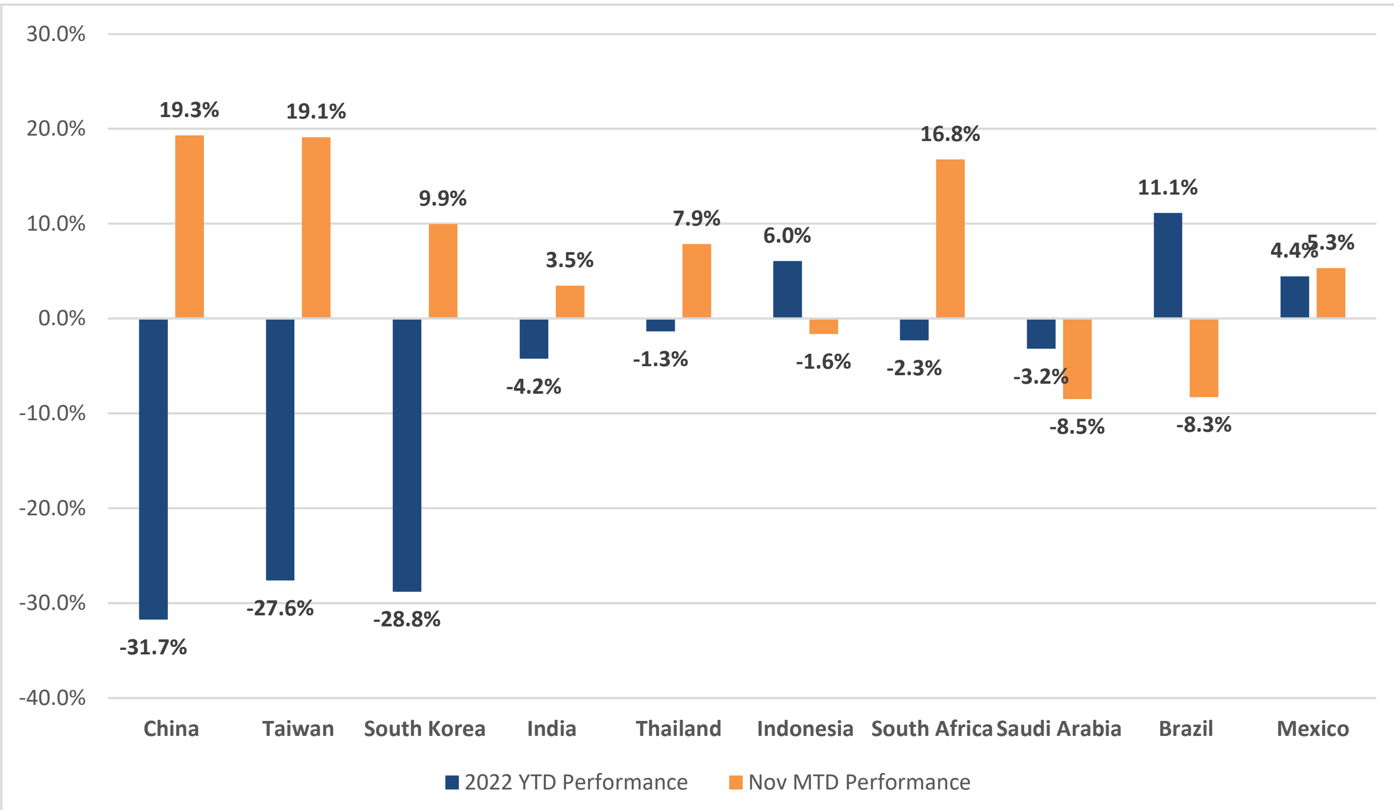
As we look ahead, we expect investor attention will center on: (1) the speed and magnitude of the projected US economic deceleration in the coming months; (2) the potential for profit margin erosion across several sectors of the US economy, and; (3) the pace of inflation deceleration as such dynamic will condition the quantum and duration of further US central bank policy tightening. Overall, we expect US inflation to decline over the next 12 months though at a more moderate pace than expected by the consensus of economists. Real interest rates should come down from current high levels, an equities friendly development.

Emerging Market Perspectives

US Dollar and Country Factors Account for Sharp November EM Asia/Turkey Outperformance and Brazil Underperformance: Glovista Sustains Overweight Value Factor Tilts

Emerging market equities have participated in November's month-to-date global rally in risk assets, posting a 9.92% return versus 5.39% for global peers, as represented by the MSCI ACWI index. Of greater interest has been the sharp bifurcation of November MTD returns across emerging market regions and countries. Figure 2 illustrates November MTD alongside YTD return performance for a set of the ten largest country indices comprising the MSCI emerging markets equity index.

Figure 2. November Brings Sharp Reversal in 2022 YTD EM Cross-Country Returns (as of Nov 28th 2022)



Source: Bloomberg

A cursory review of recent political, policy and geopolitical developments offer a coherent explanation for the sharp bifurcation of November inter-regional and inter-country returns, specifically:

- <u>China:</u> Chinese equities' strong November return outperformance of EM peers owed much to: (a) the compression of Chinese equity risk premium resulting both from the rapprochement that unfolded between Biden and Xi at the Bali G20 summit that included the commitment to relaunch collaborative ministerial level discussions in the coming months, as well as; (b) the lifting of intermediate-term growth expectations following the Chinese government's announcement of its inclination to embrace softer lockdown measures, in line with Hong Kong's individualized level approach. That global and emerging market investors' China country allocations hovered at extended underweight levels at the beginning of November helped amplify Chinese equities' robust monthly performance.

- Turkey: Turkish equities' solid November outperformance stemmed partly from the strong Turkish Lira revaluation during the period, in turn partly derived from Saudi Arabia's November 22nd announcement of the "final" stages of discussions to offer Turkey assistance including a deposit of $5 billion at Turkey's central bank.

- South Korea and Taiwan: Korean and Taiwanese equities posted solid November return outperformance versus EM peers largely on the back of the sharp rally recorded by the global semiconductor sector during the period.

- Brazil: Brazilian equities sold off sharply in November following the country's scheduled October 30th second round elections leading to former President Lula's victory. In the aftermath of the election results, Lula voiced market-unfriendly comments entailing a lax fiscal posture, as a result of which local government bond yields rose sharply and the Brazilian Real sold off.

At the beginning of November, we had raised China country allocation to neutral in recognition of the upside event risk from the G20 summit meeting as well as exceedingly bearish sentiment towards China on the part of global investors. During November, we have reduced our Brazil country allocation on risk-management considerations. Over the medium-term, our outlook favoring value-oriented Latam countries as well as select North Asian exposures remains unchanged.

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