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Monthly Market Newsletter

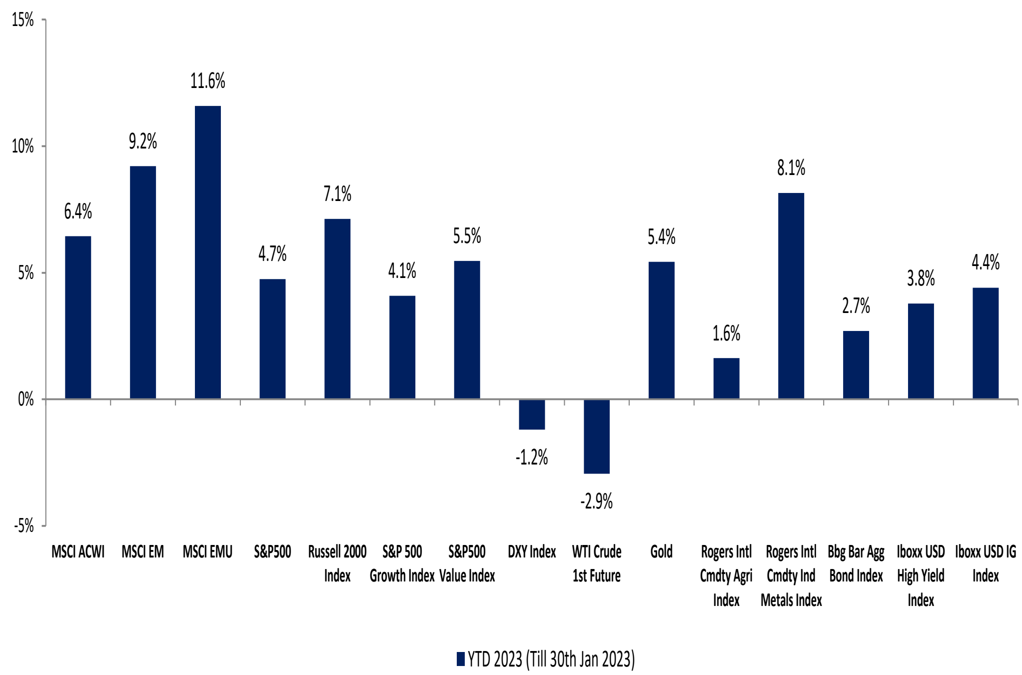
Glovista Global Perspectives

This Issue:

Risk Markets Rally in January on Benign Winter, Investor Positioning and China Economic Reopening; Glovista Sustains Overweight Value Tilts while Raising Bond Duration Exposure

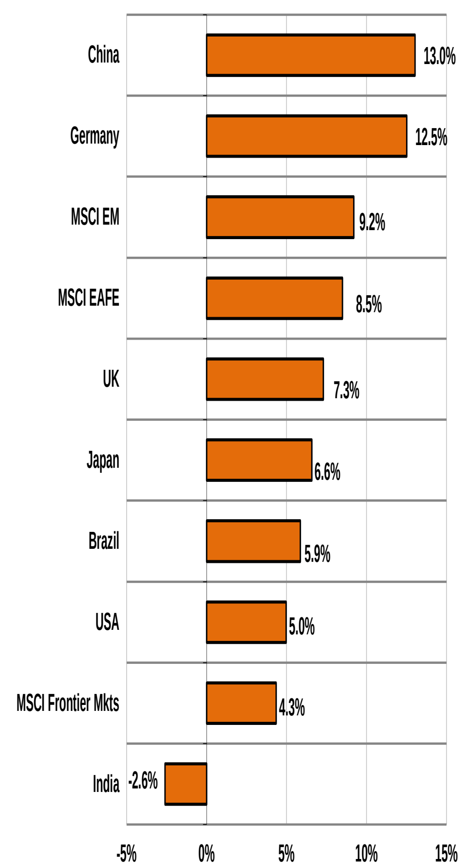
The month of January has witnessed exceedingly robust performance out of most risk markets at a global level, including equities, credit and foreign exchange. For example, Figure 1 illustrates January 2023 month-to-date returns across a number of bellwether indicators.

Figure 1. Risk Indices Rally Sharply in January across Equities, Credit and Foreign Exchange Domains



Source: Bloomberg

Country-wise Monthly Performance in USD terms (Jan 2023)*



Source: MSCI & Bloomberg

**As of January 30th, 2023*

S&P500 Monthly Sector Performance – Jan MTD 2023*

Sectors	% Change	FY1 PE Ratio
Energy	1.81%	10.3
Materials	6.59%	17.2
Industrials	1.93%	18.9
Cons Disc	12.49%	23.2
Cons Stap	-2.11%	20.8
Technology	7.71%	23.1
Healthcare	-3.28%	17.1
Financials	5.29%	13.2
Utilities	-2.73%	18.4
Telecom	12.70%	15.2
Real Estate	7.83%	36.2
S&P500	4.64%	18.1

**as of Jan 30th 2023*

From a broad risk market perspective, we credit January's solid and virtually universal strong performance to be the result of three principal considerations:

- **Unusually market-friendly winter temperature in Europe and the USA:** This January's exceedingly mild temperature levels provided a powerful impetus higher to risk asset valuation multiples during a historically unprecedented testing period for the global economy given the front- and center-role played by the world energy market in the ongoing Ukraine-Russia war. Specifically, this January's unusually mild temperature levels in Europe helped unleash favorable economic growth acceleration and price disinflation expectations, resulting in a boost to risk asset valuation multiples (e.g. higher equity valuation multiples and declining credit spreads).

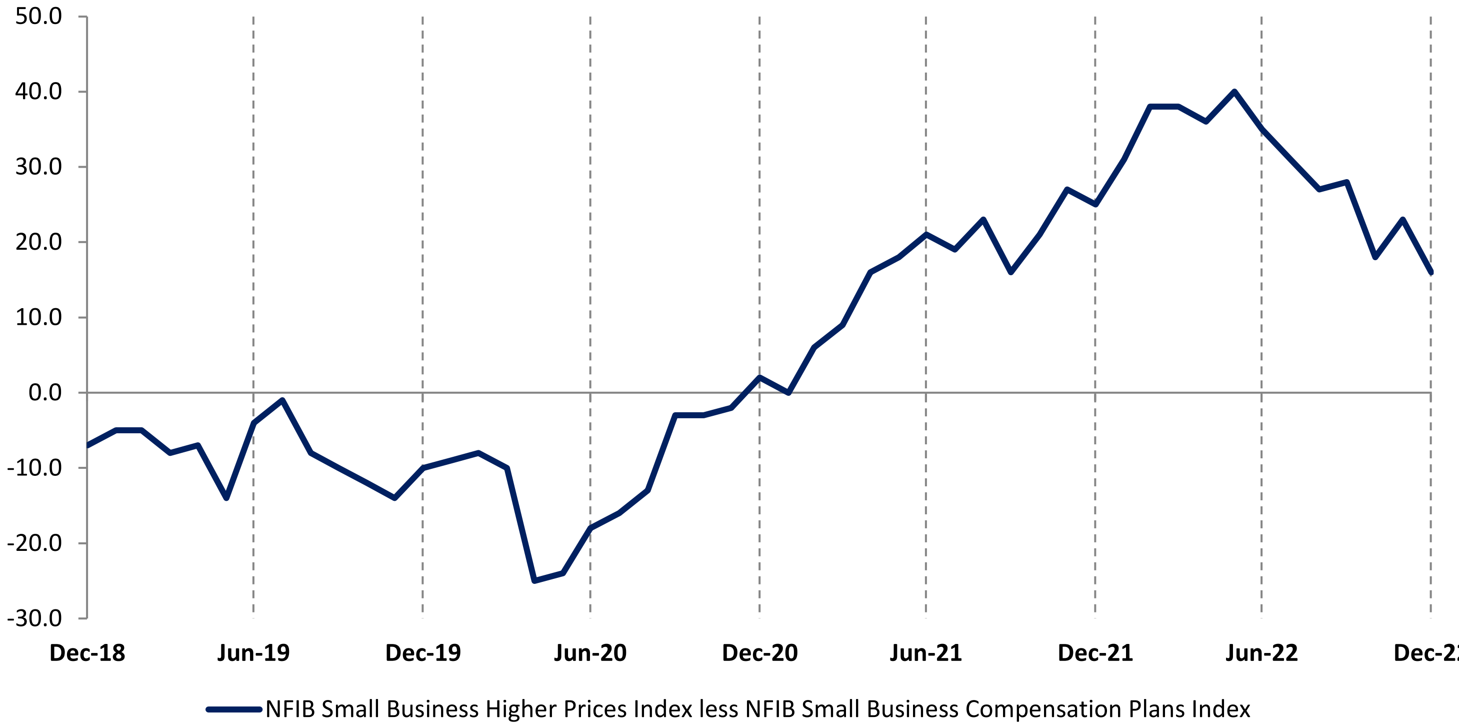
- **Confirmation of China economic reopening:** The month of January has witnessed an exceedingly powerful rate of recovery across a number of key China economic mobility indicators - including subway traffic and domestic flights as well as a sharp rise in supplier delivery times – from levels prevailing in December 2022. Such printed activity releases have helped sway a large number of global investors who late last year harbored high skepticism on the potential for China's economic reopening in 2023. In that regard, Chinese and global risk markets' price strength in 2023 has proven as 'fast and furious' as the strength in the recovery of mobility activity evidenced for January.

- **Investor positioning:** The beginning of the year found the center of investor-positioning 'gravity' firmly within the bearish end of the spectrum. Unsurprisingly, such bearish investor positioning at the beginning of January was partly the result of extensive tax-loss related selling pressure during the month of December, impacting especially most of the biggest losing stocks and credit issues for 2022. As the beginning of January quickly brought about two fundamental boost factors to global risk assets, in the form of a mild winter and confirmation of China's economic reopening, asset prices did not take long to recover sharply. That investor positioning played a key role in the ferocity of asset price recovery during the month of January is also evidenced by the leadership taken by segments of the biggest losing securities for 2022, including data confirming broad-based short-covering.

As we review the set of developments discussed above, we find ourselves reaffirming all key elements of our 2023 investment thesis, laid out in our December 2022 column, including: (a) weakening US Dollar; (b) performance leadership for value and non-US equities, and; (c) ownership of gold.

We base our reaffirmation of the above-preferred tilts at a global level on the back of several recent releases. For example, the January macro calendar has signaled a strengthening (both in absolute and relative basis) for emerging market and non-US advanced countries' (as a group) economic surprise activity index releases versus US economic activity indicators. Moreover, US high frequency survey data highlights the growing potential for upcoming profit margin compression in the US corporate sector, in an economy with vastly tighter output gap levels than for any other major economy (Figure 2). Within the US economic setting, recent releases reaffirm our expectation of a modest US recession over the next twelve months – rising delinquency rates in auto loans, house price declines, tightening loan credit terms and broadening layoff dynamics even outside the information technology, housing and financial sectors.

Figure 2. US Firms' Price-Wage Change Plans Signal Impending Compression in Profit Margins



Source: National Federation of Industrial Business

The pace of domestic economic acceleration, at a juncture of slackness in output gap, favoring the Eurozone and emerging market economies versus the US economy help anchor our expectation of relative earnings growth outperformance for international equities in 2023. Furthermore, value and non-US equities trade at considerable discounts versus comparable growth and US equity peers. The latter conditions should help solidify continued US Dollar weakness and ultimately the end of US Federal Reserve rate hikes before the middle of this year, lending additional upside potential to international markets.

Emerging Market Perspectives

EM Equities Outperform Developed Peers in January, led by North Asia Markets; Glovista Sustains Overweight North Asia/LatAm and Underweight EMEA/India Tilts

In January, emerging market equities have posted strong absolute and relative return outperformance versus developed peers. For example, through the January 30th session close, the MSCI EM benchmark has outperformed the SP500 by 4.46% while within emerging market regions, North Asia country indices have posted the strongest month-to-date returns, including China 13.04%, South Korea 15.17% and Taiwan 15.1%. Outside of North Asia markets, Mexico returned 17.38% during the month.

We credit North Asia markets' strong January return performance to investors' heightened confidence in the Chinese corporate sector outlook following recent clear signs of economic reopening from Covid lockdown. In addition, recent global macro activity releases' resilience – partly supported by the favorable effects from an unusually mild winter in the northern hemisphere – lends additional impetus to emerging market corporates' improved top line and bottom-line performance visibility later this year. Within the emerging markets group, India and Brazil equities were adversely impacted during the month, primarily by the onset of idiosyncratic shocks in the corporate domain (case of India) and policy domain (case of Brazil). In the case of India equities, the Glovista strategy had cut our country allocation from overweight to neutral/modest underweight over the past several months given valuation concerns. In January, we have trimmed further our India country exposure. In contrast, our Brazil equity market outlook remains bullish for 2023 and thus we have added to country exposure these past several weeks.

As we look ahead, we expect the asset class to extend its year-to-date outperformance versus developed peers on the back of (a) improved cyclical leadership for the emerging market economies (supported both by China's economic reopening as well as the strong potential for a near-term end to the US Federal Reserve's rate hike cycle); (b) attractive valuations (absolute and relative versus developed peers); (c) under-owned status of the asset class, and; (d) the support afforded by continued US Dollar weakness later this year as the US economy decelerates further versus the rest of the world's.

Within the emerging markets group, we continue to favor overweight tilts to North Asia markets, Mexico/Brazil and selected South East Asian markets. Such overweight tilts are funded by underweight allocations to EMEA and India.

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