GLOVISTA INVESTMENTS

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Monthly Market Newsletter

Glovista Global Perspectives

This Issue:

Risk Markets Post February Declines on Hawkish G3 Central Bank Guidance and US$ Bounce; Glovista Sustains Overweight Value Tilts

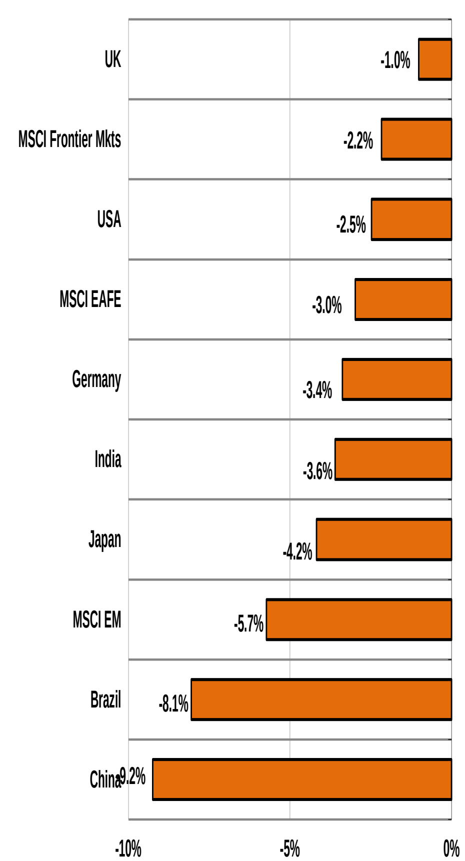
In February, risk markets have partially retraced their January gains. For example, through February 24th, risk indices have posted the following month-to-date returns: global equities (MSCI ACWI, -3.04%); US equities (SP500, -2.46%), global fixed income (Barclays US Aggregate, -2.82%), US high yield debt spreads (Barclays High Yield index 10-year spreads versus US Treasurys, 14 basis points widening) and commodities (Rogers International Commodity Index, -4.87%). We credit such partial retracements in year-to-date returns to several considerations that unfolded during the month, including:

- **Hawkish G3 central bank guidance:** the month of February has witnessed a considerable back-up in short-term government bond yields across the world's principal currency blocs (US$, Euro and Yen). Such yield back-up has been prompted by hawkish guidance/narrative out of the US Federal Reserve and European Central Bank as well as news on the appointment of a new Bank of Japan governor (Mr. Ueda) who is widely expected to end Japan's longstanding quantitative easing program, including its yield curve control protocol. In the case of the US Federal Reserve, the hawkish tilt has been fueled by slightly higher than expected CPI and PPI inflation prints as well as recent activity releases pointing to continued resilience. A similar dynamic has defined the recent hawkish tilt in the ECB's narrative.

- **Seasonality:** The second half of February in any given year is one of the most challenging periods for global equities from a seasonality perspective.

- **US Dollar:** Early in February, the US Dollar index underwent a sharp bounce from one of the largest medium-term oversold conditions seen in over a decade, following the US Dollar top that unfolded in late September 2022 which resulted in a 12% decline through February 2nd of this year.

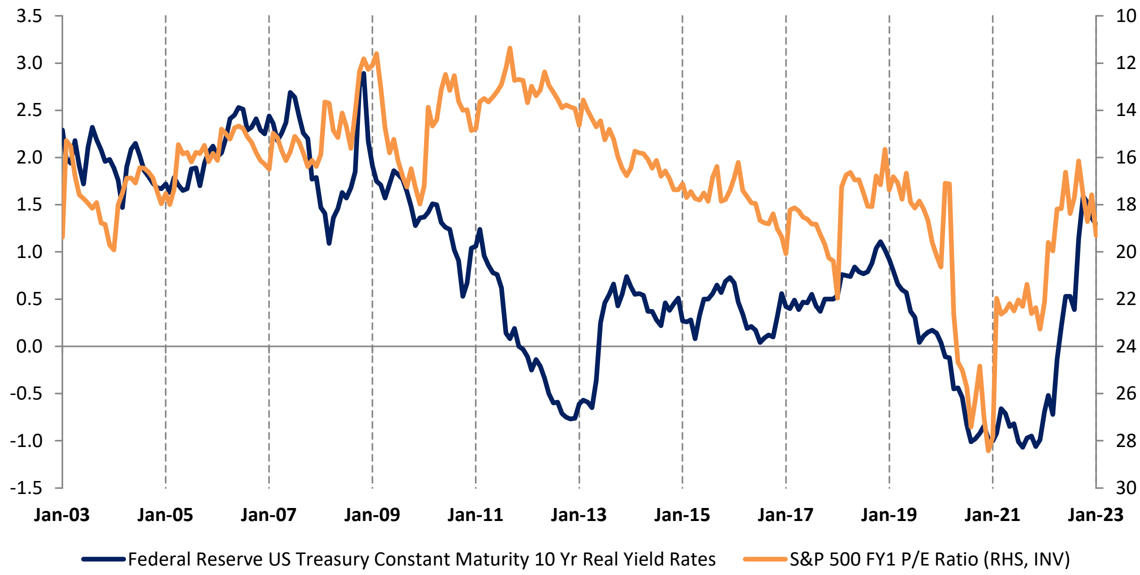
Country-wise Monthly Performance in USD terms (Feb 2023)*



Source: MSCI & Bloomberg

**As of February 24th, 2023*

Figure 1. G3 Central Banks' February Hawkish Rhetoric fuel Sharp Spike in Real Bond Yields, Resulting in Equity Price Declines via Earnings Valuation Multiple Compression



Source: Federal Reserve & Bloomberg

S&P500 Monthly Sector Performance – Feb MTD 2023*		
Sectors	**% Change**	**FY1 PE Ratio**
Energy	**-6.56%**	**10.1**
Materials	**-4.14%**	**17.9**
Industrials	**-1.74%**	**19.0**
Cons Disc	**-3.35%**	**23.0**
Cons Stap	**-1.57%**	**20.2**
Technology	**-0.04%**	**23.2**
Healthcare	**-3.72%**	**17.1**
Financials	**-2.55%**	**13.1**
Utilities	**-3.99%**	**17.5**
Telecom	**-5.30%**	**15.0**
Real Estate	**-6.17%**	**35.9**
S&P500	**-2.61%**	**18.1**

**as of Feb 24th 2023*

As illustrated in Figure 1, the February hawkish shift in G3 central bank narrative has resulted in a back-up of 10-year (inflation-adjusted) real yields that in turn has exerted a strong centripetal force on equity valuation multiples. Early in February, we trimmed our portfolio exposures to global equities on account of the upturn in the US Dollar, which we view as corrective in nature as opposed to a sustainable trend change higher. In addition, adverse February second-half seasonality considerations reinforced such action to trim equity exposures. Moreover, within our global equity portfolio tilts, we continue to overweight exposures to value factor on account of relative valuations as well as our expectation of continued upside pressures on real interest rates.

As we look ahead, besides sustaining overweight exposure to value equities, we continue to favor ownership of intermediate duration high quality fixed income despite the recent back-up in real yields. We view recent economic releases and policy developments as providing additional confirmation for such defensive portfolio tilts. Specifically, we believe recent economic releases firmly suggest a continuation of economic growth deceleration and increased downside risks to the activity outlook should the US Federal Reserve not bring its policy rate hike program to an end by the middle of the year. For example, some of those releases include: (a) tightening of US and European bank lending standards; (b) continued decline in home purchase affordability conditions (a precursor to home price declines); (c) continued yield curve inversion to levels historically associated with economic downturns (for example, the 3 month to 10 year US Treasury yield spread); (d) continued contraction in monetary aggregates (e.g. M1 and M2 in the US); (e) declines in loan demand indications across business surveys; (f) increases in inventory-to-sales ratios; (g) accelerated layoffs across some of the highest paying sectors in the US (e.g. construction, information technology and finance); (h) steady rise in credit card loan delinquency ratios; (i) lower personal savings rate, and; (j) lingering potential for US corporate profit margin downside surprises as the lagged effects from last year's monumental rise in interest rates impacts the real economy, while the US corporate sector's headcount levels remain elevated versus final sales in comparison to pre-Covid levels.

Emerging Market Perspectives

EM Stocks Retrace YTD Gains on February US Dollar Bounce; Glovista Raises India and Middle East Exposures, funded via cuts to North Asia Regional Exposures

The month of February has witnessed a partial retracement in emerging market equities' solid January performance, led by a sharp sell-off in North Asia markets. The sell-off in the asset class has been led by North Asian markets, with Latin America and Middle Eastern markets recording sharp relative outperformance during the month.

Early in February, we implemented a number of rebalancing actions, including an upgrade of India and Middle Eastern regional exposures on the back of our more constructive outlook on crude prices for the balance of the year as well as Indian equities' continued earnings and revenue growth resilience.

As we look ahead, we expect the US Dollar to resume the decline that began in late September 2022, resulting in support to emerging market equities' outperformance versus developed peers. Over the medium-term, we favor overweight exposures to value-oriented markets in Latin America, India and South East Asia along with selective growth sector exposures in North Asia.

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