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Monthly Market Newsletter

GLOVISTA INVESTMENTS

Glovista Global Perspectives

This Issue:

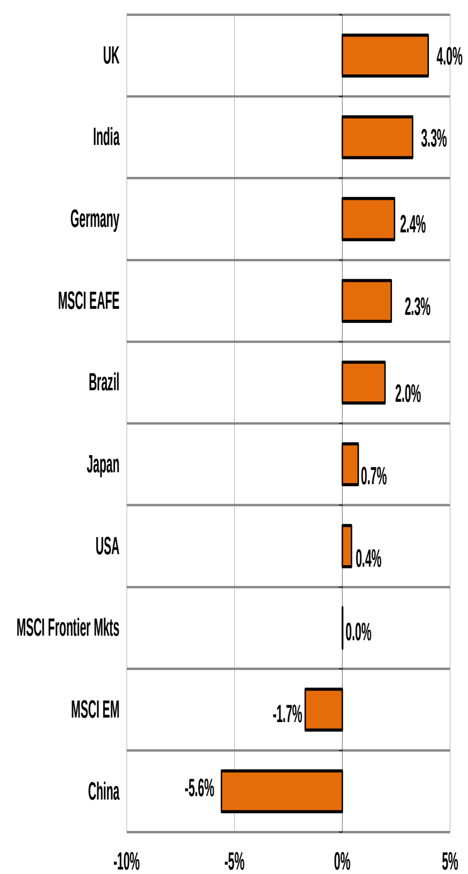
Risk Markets Bounce in April on Signs of Declining Inflation and Resilient Non-US Growth Momentum; Glovista Sustains Underweight Equities, Overweight High Quality Bond Exposures

In April, global equities and credit indices have posted modest bounces as the global economic calendar signals a faster deceleration of US economic momentum, accompanied by resilient activity pace in the rest of the world, alongside declining inflation concerns. For example, through the April 27th session close, global equities and bond asset prices posted returns of 0.71% and 0.05%, respectively, as measured via the MSCI ACWI and Bloomberg Barclays US Aggregate indices, respectively.

In our view, April's positive asset price returns have reflected primarily equity valuation multiple expansion and credit and term premium levels compression as the month's global economic calendar has included a number of releases signaling a more accelerated deceleration of US economic activity and forward inflation momentum. For example, on the activity front: falling ISM manufacturing and service sector surveys, declining new order/inventory ratio levels for such surveys, falling job posting levels across a large breadth of US industries and across a number of labor sector indices – including JOLTS, sustained declines in NFIB small business hiring plans, among others. Similarly, on the inflation front, recent financial and real economy developments – including the massive dislocations permeating the US regional banking industry along with the decline in real-time rental rates – virtually guarantee a sustained decline in the Federal Reserve's favored core PCE services inflation index over the coming months. This is because of the: (a) adverse impact on aggregate demand stemming from tighter credit conditions from the current US regional banking crisis, and; (b) outsized contribution (close to 60 percent) commanded by shelter inflation in overall CPI service sector inflation and the lagged nature of home price dynamics on CPI shelter inflation.

The unfolding of benign April US inflation readings and developments (on a forward basis) have helped set off a significant decline in implied bond market volatility (e.g. MOVE index) alongside equity volatility (VIX) (Figure 1), with the decline in financial

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



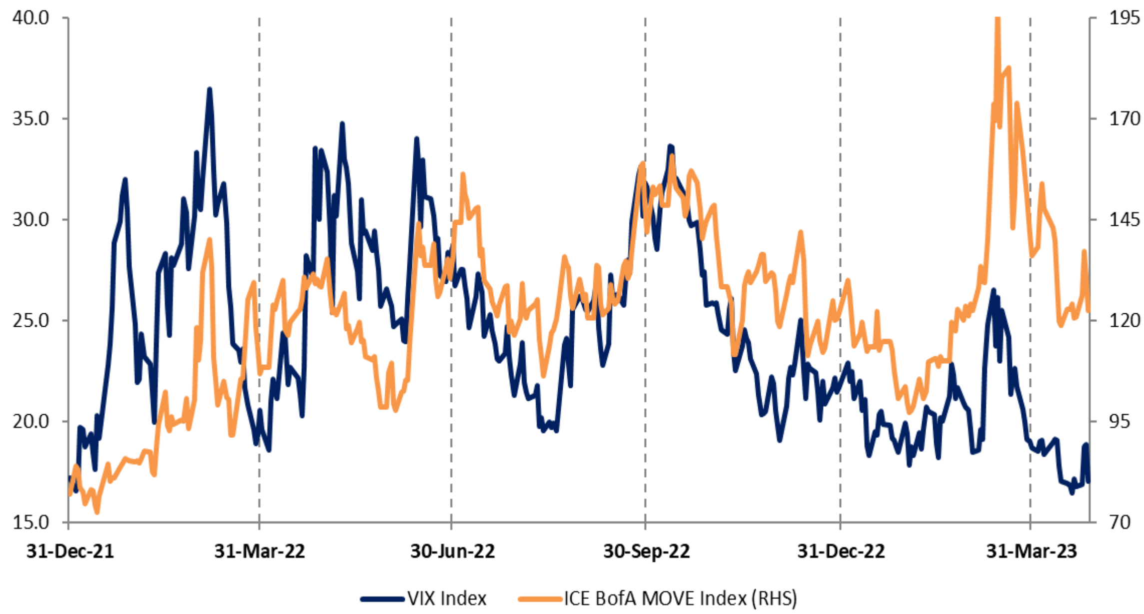
Source: MSCI & Bloomberg

**As of April 27th, 2023*

S&P500 Monthly Sector Performance – Apr MTD 2023*		
Sectors	% Change	FY1 PE Ratio
Energy	1.70%	10.7
Materials	-1.28%	17.2
Industrials	-2.13%	18.9
Cons Disc	-0.96%	23.7
Cons Stap	2.94%	21.1
Technology	-0.65%	26.0
Healthcare	2.12%	17.9
Financials	1.81%	13.6
Utilities	2.01%	18.4
Telecom	3.00%	16.5
Real Estate	-0.32%	35.8
S&P500	0.63%	18.9

**as of Apr 27th 2023*

Figure 1. Bond and Equity market volatility have declined on the back of recent benign inflation readings



Source: Bloomberg

volatility reinforced by a resilient non-US activity calendar. Such benign volatility and inflation/activity economic releases have contributed to the resilience in risk asset price developments during the month of April despite clear signs of a weakening US economy. As we look ahead, the Glovista investment team continues to favor overweight bond and underweight equity allocations on the basis of several considerations, including: attractive relative valuations for high-quality fixed income versus equity instruments – particularly in the USA, expectations of modest US economic recession later this year, potential for downside US corporate earnings surprises largely on the back of margin erosion set off by the lagged effects from higher cost of debt capital reset/lower inflation/lower end demand. Against such a macro factor constellation, we favor high-quality/strong balance sheet US large-cap stocks and international equities within the global equities asset class. In the fixed income space, we continue to favor overweight allocations to high-quality intermediate duration high-grade corporate debt. In the commodities space, we continue to like gold exposure.

Emerging Market Perspectives

EMEA and LatAm Stocks Outperform North Asia Markets on Weaker US$ and Semi Sector Slowdown Concerns; Glovista Further Raises India and Brazil Allocations Funded with S.Korea /Taiwan Cuts

In April, India, Latin America and EMEA regional stocks solidly outperformed US equities. However, North Asia markets – particularly, S. Korea, China and Taiwan – underperformed both US and EAFE equity peers. We credit such divergence in return performance to investor concerns over semiconductor stocks' valuation and growth dynamics at a global level along with (in our view, largely unjustified) investor concerns over the pace of economic recovery in China following the reopening policies implemented at the end of last year. In addition, within the confines of the China market, bond market-friendly economic releases (e.g. lower than expected inflation releases) fueled an outsized rally in fixed income securities that set off portfolio rebalancing away from equities at a juncture in which local investors' narrative centered on seemingly underwhelming consumer sector recovery.

In our view, investor concerns over what some characterize as an underwhelming consumer expenditure recovery out of China's second- and third-tier cities are largely unjustified. A broad review of household expenditure patterns and mobility metrics shows a sustained economic recovery. As the year progresses, we expect a broadening and intensification of (primarily service) household expenditure momentum at a juncture in which US and Eurozone regional economic deceleration take hold. Such a growing wedge in economic momentum between the world's second largest economy (China) and the world's largest economy (USA) as well as the world's largest economic bloc (Eurozone) is likely to fuel increased global investor interest in China growth factor exposures. For such reasons, as well as prevailing depressed equity valuations, the Glovista investment team continues to favor Chinese equities over the balance of the year.

Outside the North Asia region, we continue to favor overweight exposure to Latin America markets – especially Brazil on valuation and cyclical considerations), India and selected China economy-exposed markets in the ASEAN region.

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