GLOVISTA INVESTMENTS

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# Glovista Global Perspectives

**This Issue:**



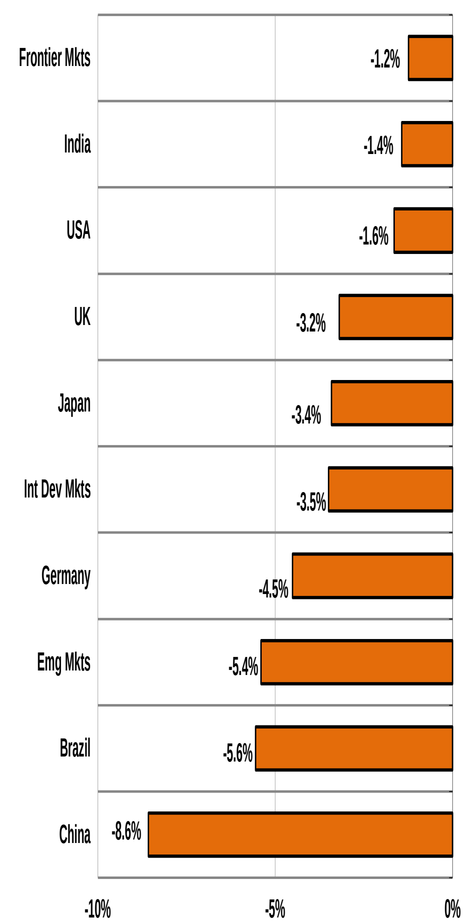
## *Risk Markets Sell Off in August on Bond Term Premium Reset, Positioning and Growth Concerns; Glovista Sustains Defensive Portfolio Factor Tilts*

In August, risk markets sold off sharply across the entire cross-asset domain comprised of equities, fixed income, credit and commodities. Moreover, as is customary in risk-off periods, the US Dollar posted gains during the month. For example, Figure 1 illustrates August month-to-date against 2023 year-to-date returns for global equities (MSCI ACWI), global fixed income (Barclays Aggregate), global credit (Bloomberg Global Aggregate Credit) and commodities (Bloomberg Commodity Index).

Some of the rationale shared in our last month's market outlook for sustaining defensive portfolio exposures appear to have come under global investors' attention during the August market sell-off. Some of those factors include a rise in long-term bond premium levels, fueled by (a) renewed US Treasury issuance following the end of the Congressional impasse related to debt ceiling negotiations; (b) increased US federal budget deficits, partly related to increased interest expenses, and; (c) net selling of US Treasurys by foreigners. Such a rise in term premium levels translated into considerable downside pressure on US equity valuations that had become stretched between January and July, with forward price-to-earnings multiple rising to 21x for the SP500 and 33x for the tech sector heavy Nasdaq at the end of July.

The August macro calendar entailed clear signs of broad-based economic deceleration, particularly out of the Eurozone, Australia and the United Kingdom. Such deceleration of economic momentum, now extending to service sectors, impacted asset valuation multiples adversely. In the USA, recent economic releases show clear signs of deceleration of economic activity, as reflected in August JOLTS and ADP employment reports, in addition to a number of business diffusion sentiment readings and a rise in delinquency ratios. The overriding majority of US economic releases offer a picture of increased consumer caution along with softening of labor market conditions. The impending exhaustion of US households' excess savings accumulated during the pandemic era along with the October resumption of student loan payments and the

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

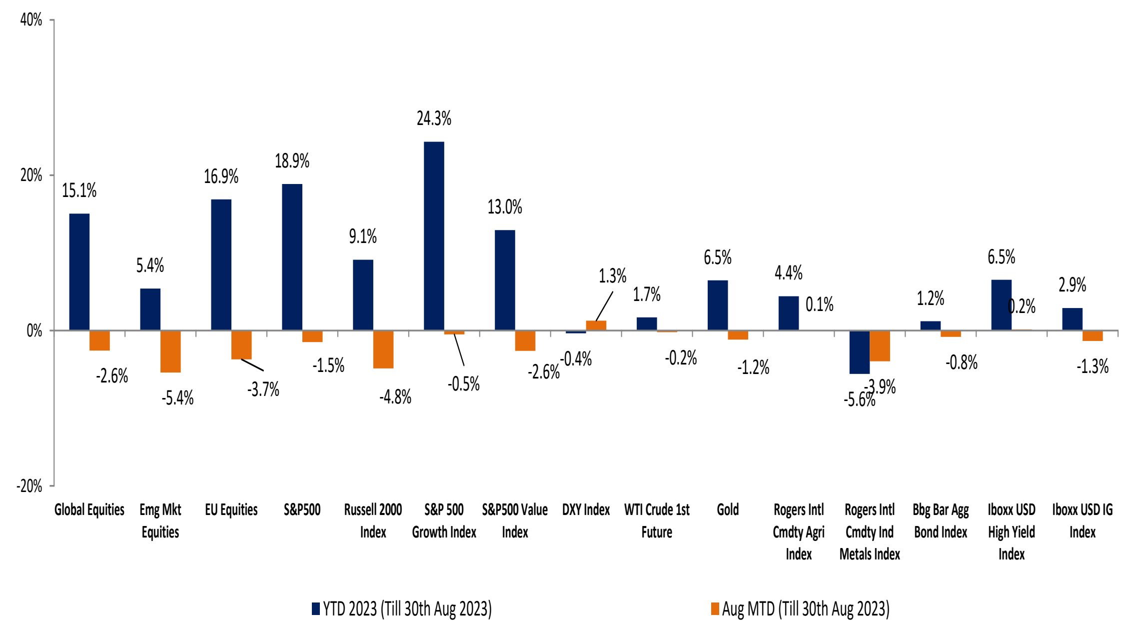



**As of Aug 30th, 2023*

| S&P500 Monthly Sector Performance – Aug MTD 2023* | | |
|---|---|---|
| **Sectors** | **% Change** | **FY1 PE Ratio** |
| **Energy** | **1.12%** | **11.8** |
| **Materials** | **-3.41%** | **18.8** |
| **Industrials** | **-1.76%** | **20.1** |
| **Cons Disc** | **-1.80%** | **25.8** |
| **Cons Stap** | **-3.30%** | **20.5** |
| **Technology** | **-1.81%** | **30.4** |
| **Healthcare** | **0.41%** | **19.2** |
| **Financials** | **-2.47%** | **14.0** |
| **Utilities** | **-5.75%** | **17.0** |
| **Telecom** | **-0.51%** | **18.8** |
| **Real Estate** | **-2.40%** | **35.7** |
| **S&P500** | **-1.61%** | **20.6** |

**as of Aug 30th 2023*

***Figure 1. Risk Market Indices Sell Off Sharply in August: Equities, Fixed Income, Credit and Commodities***




adverse effects on disposable income from the recent spike in world energy and food prices virtually ensures a continuation of softening US expenditure growth momentum in the months ahead, in our view.

These factors lead us to reinforce our constructive outlook for fixed income over equities, given the rise in real bond yield levels to ranges consistent with lower equity valuation multiples, particularly in the USA. International equities are attractive from a valuation perspective and stand to benefit from a resumption of US Dollar weakness and a pickup in relative growth momentum versus the US, as is our expectation. Within equities, we continue to favor exposure to high-quality, cheaply valued areas of the market. Within fixed income, we continue to favor overweight exposures to high-quality intermediate duration fixed income, especially US high grade debt. Likewise, our macro investment outlook affirms our preference for precious metals within the commodities space, particularly gold and silver. Finally, we believe recent economic releases have raised the bar for the US Federal Reserve to raise Fed Funds rate further, leading us to sustain our expectation for improved outlook facing emerging market equities in the balance of the year.

## *Emerging Market Perspectives*

### *China, Korea and Commodity Exporter Markets Lead August Declines on China Growth Concerns and US$ Strength*

In August, emerging market equities underperformed developed peers, with declines led by Chinese, Korean and commodity exporting emerging market country indices, including Brazil, Chile and South Africa. Excluding Chinese equities, emerging market equities performed approximately in line with non-US developed market peers during the month.

We attribute EM equities' August underperformance versus developed peers to two principal factors: rekindled investor concerns over the Chinese economic outlook, following recent high profile debt repayment issues out of well-known property developers, and;

the strength in the US Dollar during the month.

We credit part of China’s recent underwhelming economic performance to: (a) secular weakness in its property market following years of leverage-driven over-supply dynamics; (b) adverse effects stemming from the long-running global manufacturing sector slowdown (that is showing signs of abating), and; (c) consumer expenditure disruptions by the worst rainfall season for parts of the country in around 140 years. It is important to note that the latter two factors are transitory in nature. Moreover, Chinese policymakers have recently (starting July) embraced a set of countercyclical policies that will support domestic demand conditions. Given attractive valuations, we believe Chinese equities should be an overweight in EM portfolios, with an emphasis on the service sector as opposed to the property and financial sectors.

Looking ahead, our expectation for a more sustainable resumption of US Dollar weakness, along with improved relative economic momentum for the broader emerging markets universe, leads us to expect relative outperformance for the asset class in the balance of the year.

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