Issue
165
Sep/23

Monthly Market Newsletter

GLOVISTA INVESTMENTS

Glovista Global Perspectives

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Risk Markets Sell Off on Bond Term Premia Reset, Crude Price Spike, Hawkish FED Guidance and Softening Service Sector Activity Readings; Glovista Sustains Defensive Portfolio Tilts

Global risk indices have posted considerable price declines during the month of September. Figure 1 illustrates September month-to-date and 2023 year-to-date return performance across a spectrum of major risk index groups.

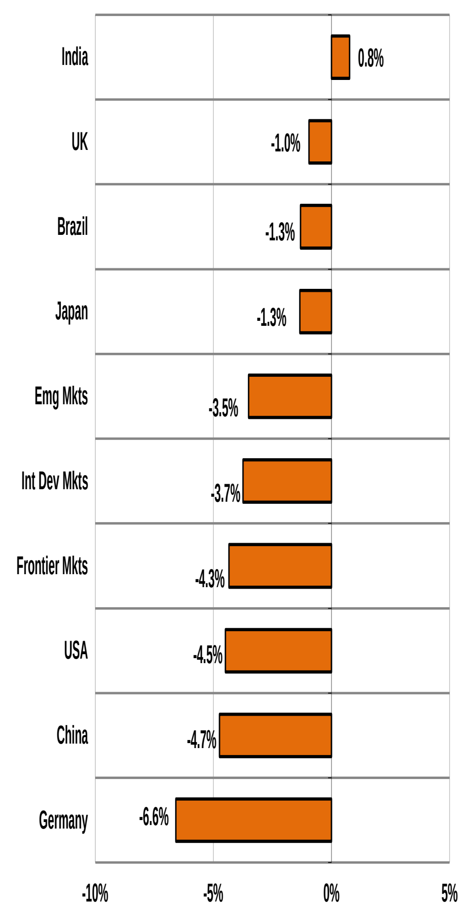
We credit the September sell-off in risk indices to a battery of both fundamental and technical factors, several of which were outlined in recent monthly columns thereby underpinning the basis for our standing defensive portfolio tilts. Some of the recent factors that have either unfolded or come under investors' attention these past several weeks include:

- **Higher sovereign bond yield levels, fueled primarily by a reset in bond term premium to higher levels**. We credit such a dynamic, which has unfolded particularly since the end of July, to a number of factors, including the US FED's resumption of quantitative tightening stance following a pause owing to adverse developments in the regional banking sector, investors' increased preoccupation with unsustainably high US budget deficit levels, Bank of Japan's guidance of an impending end to its yield curve control (YCC) regime and recent acceleration of large Treasury auctions and corporate bond issuance levels.

- **Higher energy prices.** Benchmark (Brent and WTI) crude prices have spiked by close to 40% since early July. Such price dynamics have been materially impacted by increased supply-side discipline (production cuts) sponsored by OPEC+, including active participation by Russia and Saudi Arabia.

- **Hawkish rate guidance by the US Federal Reserve.** At its most recent September 20th meeting, although the Federal Reserve chose not to raise its Fed Funds reference rate, it adjusted its so-called "dot plots" with an update to its summary of economic projections. In that vein, the Fed signaled a "higher

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



Source: Glovista Calculations

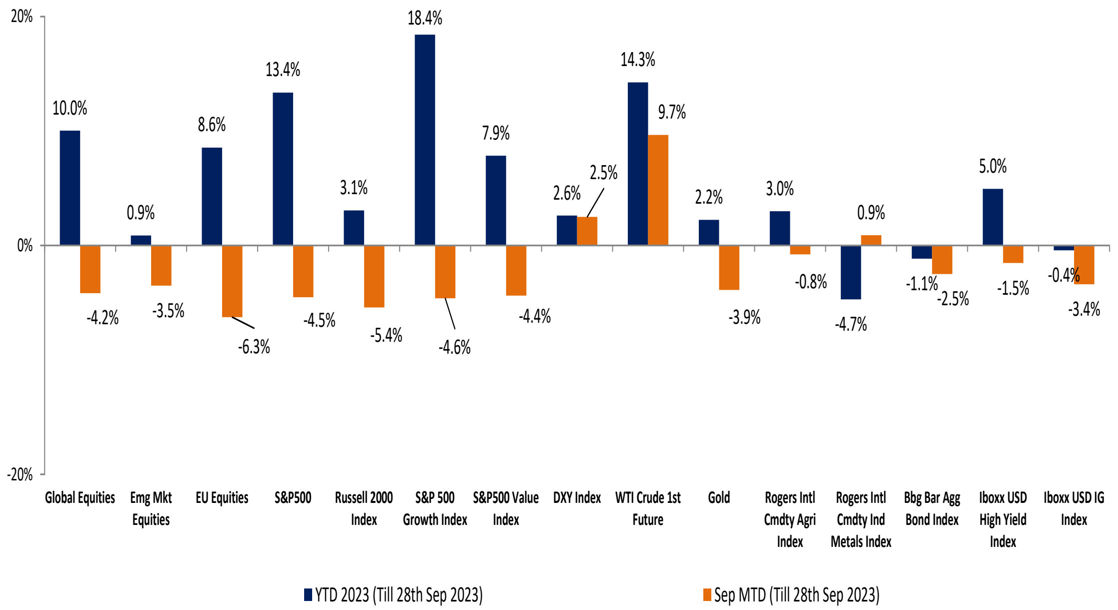
**As of Aug 28th, 2023*

Monthly US Sector Performance – Sep MTD 2023*		
Sectors	**% Change**	**FY1 PE Ratio**
Energy	**4.53%**	**12.1**
Materials	**-4.84%**	**17.9**
Industrials	**-5.50%**	**19.1**
Cons Disc	**-6.51%**	**24.3**
Cons Stap	**-4.55%**	**19.6**
Technology	**-7.27%**	**28.3**
Healthcare	**-2.36%**	**18.6**
Financials	**-2.38%**	**14.2**
Utilities	**-6.03%**	**15.8**
Telecom	**-2.56%**	**18.4**
Real Estate	**-8.14%**	**32.7**
S&P500	**-4.61%**	**19.8**

**as of Sep 28th 2023*

Source: Glovista Calculations

Figure 1. Risk Market Indices Post Considerable Declines in September: September versus 2023 YTD Performance



Source: Glovista Calculations

for longer" policy rate stance via a smaller number of rate cuts likely to unfold in 2024.

- **Weakening growth in service sector activity.** Over the past several weeks, a large cross-section of economies have posted larger downside surprises to service sector activity readings than for goods sector indices. The service sector's dominant share of the global economy suggests such deceleration of economic activity is likely to translate into downward revenue and earnings surprises over the coming months, particularly at a juncture in which energy prices and debt cost of capital have also mounted higher.

The above-mentioned dynamics have combined to exert downward pressure on asset prices via the valuation compression effects set off by (a) higher term premium levels-driven rise in bond yields; (b) lower earnings growth expectations derived from higher recession risks implied by the deceleration of service sector activity growth, and; (c) pressures on corporate margin and adverse household sector purchasing power effects stemming from higher energy prices and higher debt cost of capital.

As we review internal market dynamics during the recent sell-off period, we find confirmation of such macro-level dynamics being top-of-mind to global investors. For example, such signs of macro-level concerns to global investors include the nascent shift in relative return performance leadership between cyclicals and defensive stocks, high beta and low beta sector indices and higher credit spreads.

In September, we further reinforced our longstanding defensive portfolio tilts as macro developments appear to be validating our standing baseline case. Looking ahead, we expect the recent rotation in sector and factor leadership to further extend as corporate profit margins and guidance surprise to the downside, particularly in the USA. At the top line level, it is important to highlight that while in 2022 revenue growth was cushioned by the strong momentum recorded by nominal US GDP, said dynamic has faded recently as evidenced by a flattish nominal US Gross Domestic Income.

We have highlighted previously the role exerted by (a) some pandemic era-specific transitory policies (both monetary and fiscal) and (b) macro developments (tied partly to disruptions in the supply chain but also the service sector activity explosion that followed Covid period reopening) in providing a powerful boost to nominal GDP. As we look ahead, we expect a fading of such momentum, in turn leading to an especially challenging environment for US corporate top-line growth outlook. On the cost side, the lagged effect of monetary policy (entailing not only the switch from quantitative easing to tightening but also the cumulative rate hikes implemented since early 2022) virtually ensures a considerable tightening of profit margins in the months ahead.

Emerging Market Perspectives

North Asian Markets within Emerging Markets Underperform ASEAN and India Equities on Global Developments

In September, the onset of global macro and financial developments discussed above as well as continued adverse developments in the Chinese real estate sector combined to exert downward pressure on the Chinese and other North Asia equities to the benefit of domestic consumer-oriented markets, including India and ASEAN markets. Thai equities did not participate in the ASEAN group's relative outperformance owing to country-specific policy dynamics.

As we look ahead to the coming months, we expect the relative performance of Indian, ASEAN and Latam markets to shift as global markets' discounting of the ongoing upturn in cyclical leadership away from services to goods sectors becomes increasingly reflected in relative valuations, favoring a number of markets including South Korea. From a risk premia perspective, we are cognizant of continued sentiment headwinds impacting Chinese equities via ongoing flow of anti-China narratives emanating from various US presidential candidates participating in the primaries.

Over the course of the fourth quarter, we expect the US Dollar to weaken as relative US economic momentum wanes versus international peers, especially in the emerging markets space. We expect such rotation of economic growth momentum to unfold as a result of several considerations, including: the close to exhaustion of US households' extraordinary savings accumulated during the pandemic era – particularly courtesy of Uncle Sam; the reactivation of US student loan payments; as well as further deceleration of US employment growth that already began 5 months ago. The resumption of US Dollar weakness that began in September 2022 is likely to unleash a more sustainable reversal in absolute and also relative return performance between US equities and international, especially the cheaply valued and heavily under-owned emerging market stocks.

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GLOVISTA INVESTMENTS

1 Evertrust Plaza Suite 1102
Jersey City NJ 07302
Tel: 212-336-1540
Website: www.glovista.net