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Monthly
Market
Newsletter

Glovista Global Perspectives

This Issue:

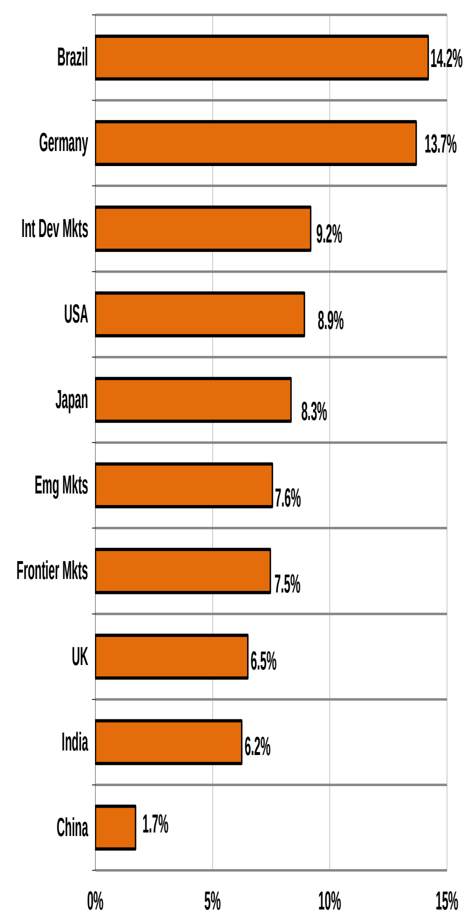
Risk Markets Rally on Positioning and Inflation / Crude Price / US$ Declines; Glovista Raises Equities Exposure Early in November, Retaining High Quality Tilts

The month of November has been kind to risk markets globally and across asset class groups. Figure 1 encapsulates November month-to-date against 2023 year-to-date return performance levels. Early in November the Glovista investment team aggressively raised equities exposure levels across our multi-asset accounts while retaining an overweight high quality factor tilt. Moreover, we took on increased equities exposures via overweight allocations to international equities on account of (a) our increased conviction levels surrounding the initiation of a new down-leg for the US Dollar that started in November 2022 as well as (b) international equities' outsized valuation discount levels versus US peers.

In November, the global macro calendar proved market-friendly primarily as inflation releases surprised to the downside while activity releases and US corporate revenue guidance confirmed a measurable deceleration in US consumer expenditure growth. Such decelerating consumer expenditure growth includes both staples and durables goods sectors. In addition, despite recent geopolitical tensions in the Middle East, crude prices have declined considerably as net supply levels have surprised to the upside in apparent confirmation of an ongoing global economic slowdown extending outside China and Europe into the USA.

The recent string of benign inflation and weaker activity momentum has been accompanied by market-friendly guidance from G3 central bankers (FED, ECB and Bank of Japan). Such concatenation of macro data releases - alongside investor-friendly central bank guidance and markets' deep short-term oversold position at the end of October - served to propel a sharp decline in implied bond and equity market volatility, thereby underpinning increased risk appetite from a broad group of asset allocators, including risk-parity managers and CTAs. Moreover, a marked decline in geopolitical risk premium levels – in the form of recent signs the USA and German governments are now in support of peace discussions between Ukraine and Russia – have further energized a

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



Source: Glovista Calculations
**As of Nov 29th, 2023*

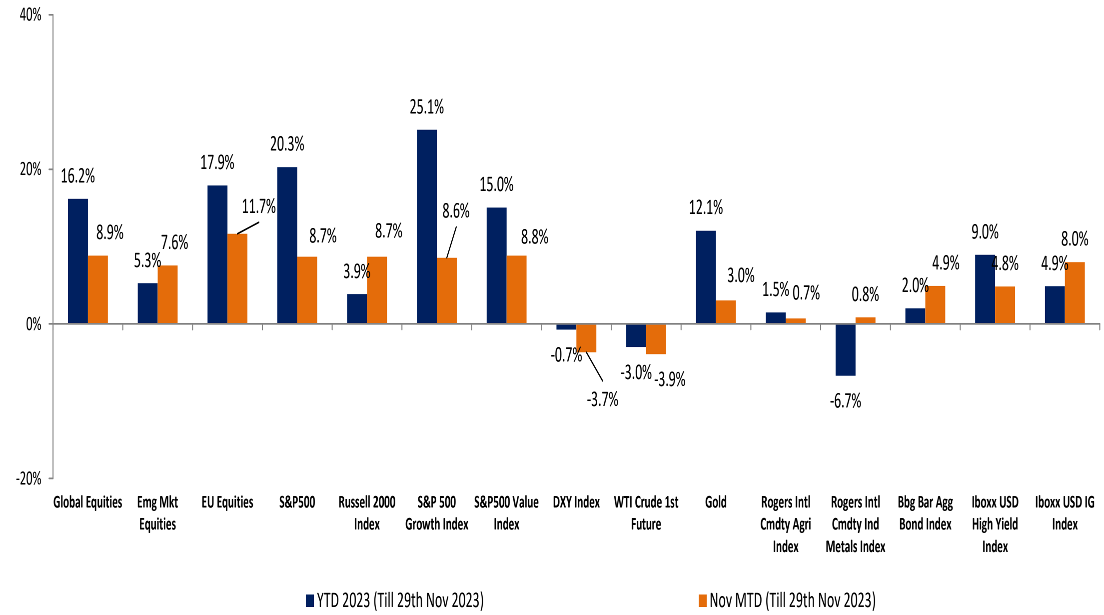
Monthly US Sector Performance – Nov MTD 2023*

Sectors	% Change	FY1 PE Ratio
Energy	-2.27%	10.8
Materials	7.02%	19.2
Industrials	7.36%	20.1
Cons Disc	10.94%	25.2
Cons Stap	2.89%	19.7
Technology	12.82%	31.7
Healthcare	3.93%	20.1
Financials	9.56%	14.7
Utilities	4.10%	16.8
Telecom	8.91%	19.0
Real Estate	11.35%	35.2
S&P500	8.51%	21.0

**as of Nov 29th 2023*

Source: Glovista Calculations

Figure 1. Risk Market Indices Rally in November: November MTD versus 2023 YTD Performance



Source: Glovista Calculations

bounce in asset valuation multiples.

Early in November, we raised aggressively equities exposure levels across all of our GTAA investment programs. We chose to do so on the back of our assessment that risk markets were ripe for a medium-term recovery sponsored by (a) positioning, (b) seasonality, (c) the likely start of a new downturn to the US$ cycle, and (d) confirming US data and corporate guidance pointing to a weakening consumer sector.

As we look ahead, our macro baseline case remains unchanged. We believe the US economy is likely to soften considerably in the coming quarters owing to (a) growth suppressing fiscal impulse dynamics over 2024, (b) powerful lagged effects on real activity that should kick in during the fourth quarter 2023 from the aggressive monetary tightening that started in early 2022, (c) adverse lagged effects from the recent period of US$ strength versus the Euro and other developed country currencies, and (d) adverse effects on US corporate profit margins from ongoing declines in headline inflation.

Recent data releases confirm a measurable US economic deceleration has been underway since the fourth quarter of 2022, when viewed through the prism of Gross Domestic Income (GDI) dynamics as opposed to Gross Domestic Product (GDP). Specifically, year-on-year US real GDI growth turned negative in the third quarter of 2023 after having flat-lined for most of the previous quarters. We expect a narrowing of this almost unprecedented gap between US GDP and GDI growth to take the form of considerable US GDP growth deceleration over the coming quarters. We credit such gap to a number of extraordinary macro and policy responses that were implemented in the immediate aftermath of the pandemic, causing dislocations in net trade, savings behavior and inventory dynamics. As the US economy enters a period of sustained underperformance versus international peers – particularly emerging market countries – the US Dollar's bear phase is likely to extend, fueling sustained outperformance of international markets.

As a result of the above, we continue to hold defensive market tilts, both at the geographic and macro factor levels, favoring high-quality and international exposures. Within the commodities space, we continue to favor precious metals, especially gold, while in fixed income we favor short- to intermediate duration, high grade US corporates.

Emerging Market Perspectives

EM ex-China Extend YTD Rally versus EAFE Peers, Boosted by Falling Geopolitical Risk, US$ and Crude Prices

Emerging market equities have posted strong return performance during the month of November, approximately in line with developed market peers (EAFE and the USA). Excluding China, emerging market equities have further extended solid year-to-date return outperformance versus developed peers as Chinese equities continued to lag the EM peer group during the month of November. Emerging market equities' stellar November return performance owes much to the decline in geopolitical risk, the US Dollar and crude prices recorded during the month. China equities along with Middle Eastern markets stood out as the main underperformers for the period. Chinese equities continue to derate owing to continued investor concerns surrounding the government policy outlook.

A cursory review of the November macro calendar shows emerging market economies gaining activity momentum versus developed country peers, a dynamic we expect to intensify over the coming quarters owing to several considerations, including the following:

- Emerging market central banks' stronger ability to apply policy interest rate cuts over the near-term when compared with their developed country peers since core inflation readings in emerging market economies have already converged to target levels;

- In 2024, emerging market economies will face a more favorable fiscal impulse versus their developed country peers, including the Eurozone where the fiscal impulse will detract from growth in a significant manner;

- Emerging market countries' households will continue to see a firming in purchasing power owing to the lagged effects from the recent exchange rate revaluation versus the US Dollar across a large number of emerging market countries.

From a regional perspective, we continue to favor overweight allocations to Latin America and north Asia markets (especially Taiwan) while over the past several weeks we have raised our India country exposure to overweight, funded via allocation cuts to China.

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