Issue
169
Jan/24

Monthly
Market
Newsletter

Glovista Global Perspectives

This Issue:

Risk Markets Rerate Higher, Pricing Out US Recession Risks, as Earnings Estimates Decline, Pricing Power Softens and Guidance is Mixed; Glovista Sustains Defensive Portfolio Tilts

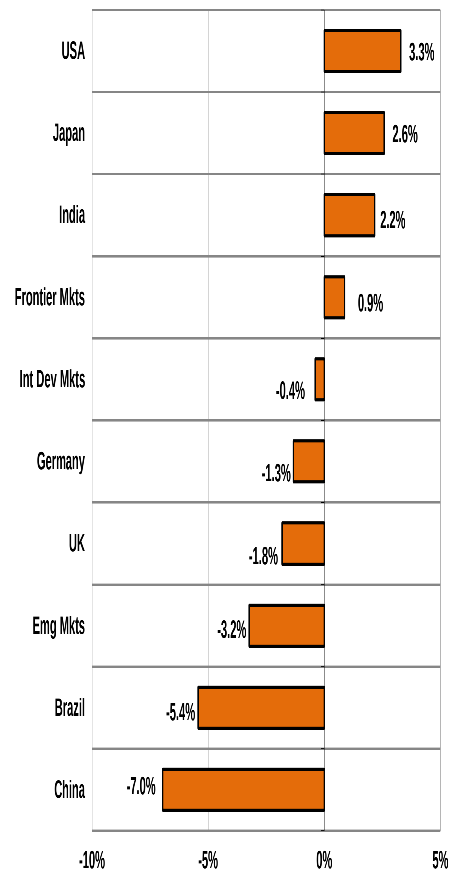
In January, risk markets have diverged in absolute performance with US equities posting gains while non-US equities recording declines (Figure 1, as of January 29th close). Over the course of the month, 2024 consensus earnings and revenue estimates have declined across regions. Such developments have translated into a rise of 12-month forward earnings index multiples to levels ruling out US recession scenarios this year (e.g. US equities' SP500 index valuation at 20x earnings on a 12-month forward basis).

In January, activity indicators from around the world – particularly goods sector releases – have surprised to the downside. We attribute such softening to: (a) normalization of global supply chain conditions; (b) weakening of consumer demand as excess household savings are diminished, and; (c) lagged effects from US monetary policy tightening (e.g. rise in US consumer delinquency ratios) begin to assert themselves.

Outside the hard data, it is also notable that soft activity releases (such as business sentiment diffusion indices) have surprised to the downside, especially in the USA. For example, the latest releases of the US ISM manufacturing/Empire Manufacturing and Dallas Fed manufacturing surveys have surprised considerably to the downside. In addition, the ISM service index's employment component has been declining steadily these past several months, posting a sharp decline in December.

Against such backdrop, especially investors' expectation of close to zero US recession scenario and persistently elevated corporate profit margins despite sustained core PPI inflation declines these past several months, the Glovista investment team maintains existing defensive portfolio tilts in line with our macro baseline scenario for 2024, as discussed in our December 2023 monthly column. Over the coming weeks, we believe corporate guidance – particularly with regards to earnings and margins – will test investors' disposition in accepting existing valuation multiples.

Country-wise Monthly Performance in USD terms (Jan 2024)*



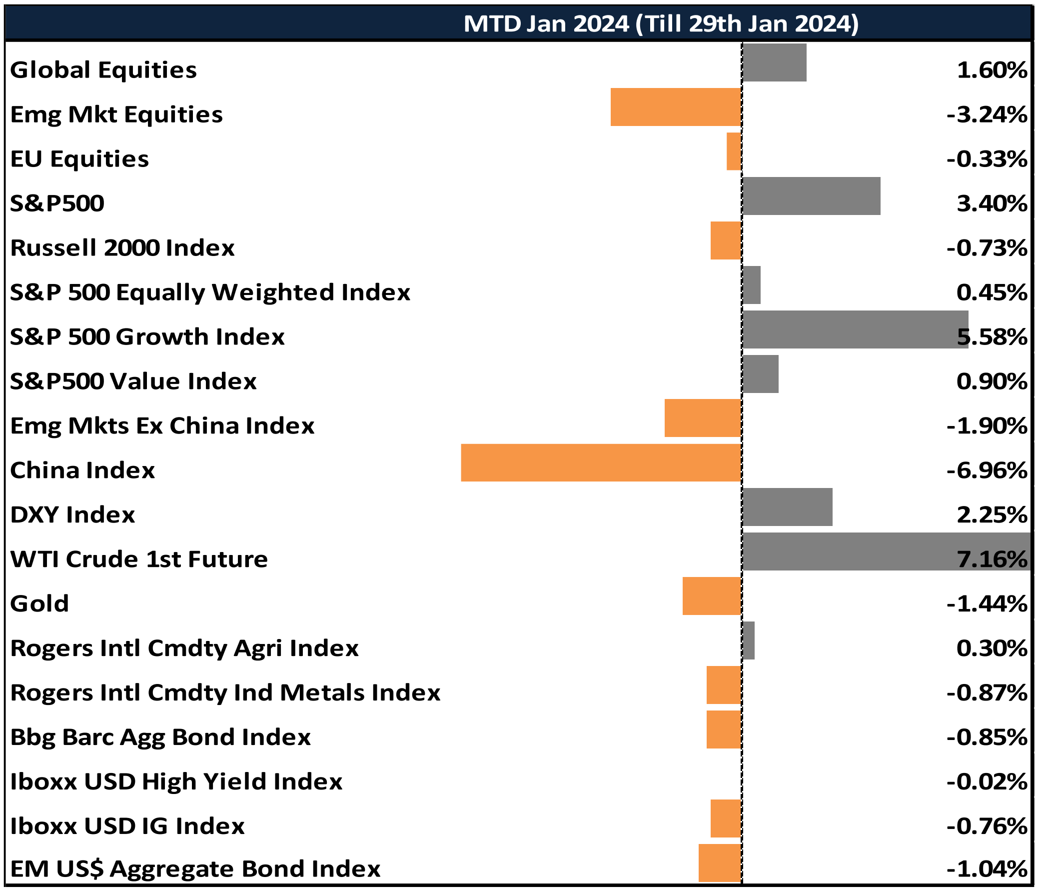
Source: Glovista Calculations
**As of Jan 29th, 2024*

Monthly US Sector Performance – Jan MTD 2024*		
Sectors	% Change	FY1 PE Ratio
Energy	0.39%	11.1
Materials	-3.13%	19.7
Industrials	0.18%	23.0
Cons Disc	-1.52%	26.1
Cons Stap	1.50%	20.5
Technology	6.95%	35.6
Healthcare	2.70%	22.5
Financials	2.94%	16.3
Utilities	-2.74%	16.8
Telecom	9.91%	21.8
Real Estate	-3.22%	37.6
S&P500	3.31%	23.1

*as of Jan 29th 2024

Source: Glovista Calculations

Figure 1. 2024 YTD Divergent Cross Asset Market Performance



Source: Glovista Calculations

Beyond economic developments, we believe that recent geopolitical developments also merit a defensive stance given the escalation of geopolitical risks in the Middle East following the death of a number of US servicemen allegedly by forces sponsored by Iran. We believe such developments merit higher equity and inflation risk premium levels to asset prices.

Emerging Market Perspectives

China Loosens Liquidity Conditions and Introduces Investor-friendly Measures; Crude Price Bounce Fuels Middle Eastern Markets' Outperformance

In January, emerging market equities have underperformed developed market peers owing to two principal dynamics: the close to 10 percent January rally in crude prices that has adversely impacted some of the larger capitalization north Asia country indices, and; the US Dollar rally during the period. Unsurprisingly, Middle Eastern market indices posted strong returns during the month, especially UAE, Kuwait and Saudi Arabia. Similarly, Indian equities posted solid returns as the Rupee strongly outperformed during the month on the back of solid capital inflows and resilient activity releases.

From a fundamental perspective, the month of January witnessed important developments via Chinese policymakers' introduction of countercyclical and market-friendly policy actions. Specifically, on January 24th the People's Bank of China announced a larger than expected cut to the reserve requirement ratio for banks as of February 5th which will add around 1 trillion Yuan of liquidity to the economy and indicated additional support measures would be forthcoming. Such early disclosure of policy changes is unusual in China and thus signaled policymakers' preoccupation in supporting the economy as well as markets. Other measures announced around such date included broadening the use of commercial property loans and enacting restrictions on shorting of stocks.

As we look ahead, we continue to expect emerging market equities' absolute and relative return performance versus developed peers will strengthen given EM currencies' favorable outlook as the US Federal Reserve initiates a rate cut cycle. Such action is likely to coincide with a marked softening in US economic momentum versus large EM peers, devolving in favorable US Dollar top and bottom-line revisions for EM equities versus developed peers. Prevailing cheap absolute and relative EM valuations versus developed peers, along with the asset class' vast under-owned status, should provide the impetus for sustained outperformance.

Disclaimers:

1. *This newsletter from Glovista is for information purposes only and this document should not be construed as an offer to sell or solicitation to buy, purchase or subscribe to any securities.*
2. *This document is for general information of Glovista clients. However, Glovista will not treat every recipient as client by virtue of their receiving this report.*
3. *This newsletter does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. The securities discussed in this document may not be suitable for all investors.*
4. *The price and value of investments referred to in this newsletter and the income arising from them are subject to market risks. Past performance is not a guide for future performance*
5. *Certain transactions including those involving futures, options, and other derivatives as well as non-investment grade securities give rise to substantial risk and are not suitable for all investors. Please ensure that you have read and understood the current risk disclosure documents before entering into any derivative transactions.*
6. *This newsletter has been prepared by Glovista based upon publicly available information and sources, believed to be reliable. Though utmost care has been taken to ensure its accuracy, no representation or warranty, express or implied, is made that it is accurate or complete.*
7. *The opinions expressed in this newsletter are subject to change without notice and Glovista is under no obligation to inform the clients when opinions or information in this report changes.*
8. *This newsletter or information contained herein does not constitute or purport to constitute investment advice and should not be reproduced, transmitted or published by the recipient. This document is for the use and consumption of the recipient only. This newsletter or any portion thereof may not be printed, sold or circulated or distributed without the written consent of Glovista.*
9. *Forward-looking statements in this newsletter are not predictions and may be subject to change without notice. Neither Glovista nor any of its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information included in this newsletter.*
10. *Sales and distribution services offered through Spouting Rock Distributors, a subsidiary of Spouting Rock Asset Management, an SEC registered investment adviser.*

GLOVISTA
INVESTMENTS

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