Issue
171
Mar/24

Monthly Market Newsletter

GLOVISTA INVESTMENTS

Glovista Global Perspectives

This Issue:

Global Perspectives **P.1**

Emerging Markets Perspectives **P.2**

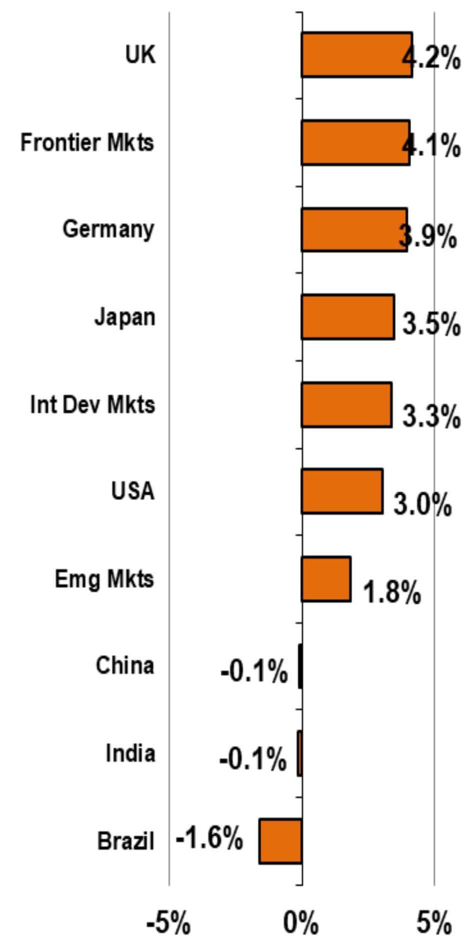
Risk Markets Edge Higher on Dovish Central Bank Guidance; Glovista Sustains Overweight Quality, Value Factor Tilts on Growing Signs of US Economic Deceleration

In March, risk market indices have edged higher fueled primarily by dovish guidance emanating from recent US Federal Reserve and European Central Bank meetings concerning the future path of policy rate actions and calibrations to the ongoing quantitative tightening program. Even in the case of the Bank of Japan - which recently raised the policy rate for the first time since 2007 and ended its longstanding non-traditional monetary easing protocols (including the yield curve control) - the guidance accompanying such actions has been of dovish gradualism.

More broadly, the above-mentioned constellation of dovish G3 central bank policy actions and guidance has been accompanied by March policy rate cuts from a number of developed and emerging market countries' central banks, including Switzerland's Swiss National Bank, Banco do Brasil and Banco de Mexico. That such dovish G3 central bank guidance and policy rate cuts from a number of major OECD and emerging market countries' central banks is unfolding at a juncture in which indicators of global financial conditions hover at some of the loosest levels since 2023 has resulted in a risk-on global market performance during the month of March.

From a macro perspective, we find quite reasonable the dovish shift embraced by the ECB, Switzerland's SNB and a number of other central banks given the ongoing recession-level conditions in the Eurozone, the United Kingdom and the secular deceleration in China, as well as the sustained disinflationary dynamics evident in most of those regions' core CPI indices. However, for the United States, market participants have been surprised with the FED's embrace of a dovish stance at a juncture in which its own GDP and inflation forecasts for 2024 have been revised to the upside. We attribute such arguable anticipatory dovish stance by the FED to be the result of the US election calendar along with the growing bifurcated nature of recent activity releases, especially for the US labor market. In particular, recent employment sector releases for the US show an almost unprecedented disconnect between the Non-farm Payrolls and the

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



Source: Glovista Calculations
**As of Mar 27th, 2024*

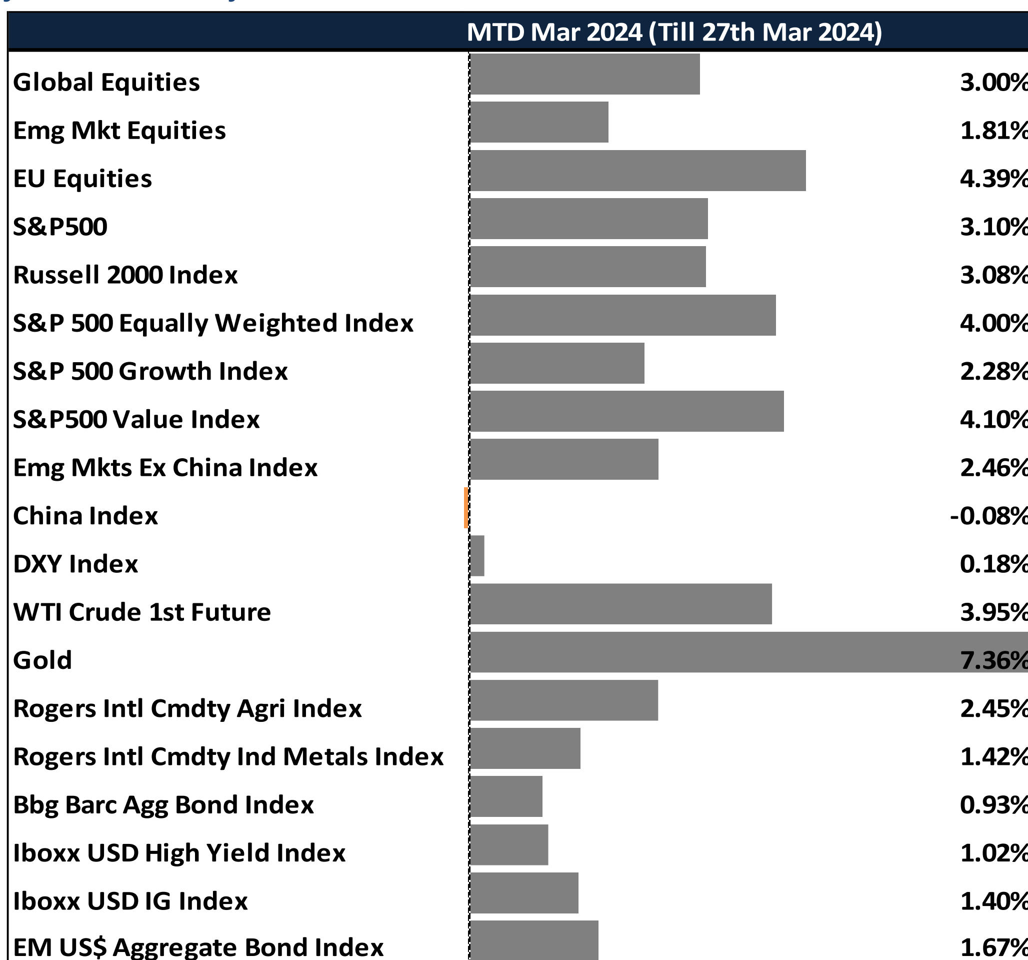
Monthly US Sector Performance – Mar MTD 2024*

Sectors	% Change	FY1 PE Ratio
Energy	9.22%	12.8
Materials	5.94%	22.3
Industrials	4.25%	22.2
Cons Disc	0.15%	25.4
Cons Stap	3.00%	20.6
Technology	2.05%	38.2
Healthcare	2.11%	19.7
Financials	4.07%	16.3
Utilities	5.51%	16.3
Telecom	4.65%	19.6
Real Estate	0.43%	36.6
S&P500	2.99%	21.8

**as of Mar 27th 2024*

Source: Glovista Calculations

Figure 1. Risk Indices Edge Higher in March, Boosted by Liquidity-friendly Guidance from World's Major Central Banks



Source: Glovista Calculations

Household Survey index releases. Multiple hypotheses have been put forth to rationalize such divergence. Given the considerable decline in US wage inflation over the past several months and the lagged nature of housing inflation as reflected in core inflation indices (especially the core PCE indicator), we attribute the FED's surprise dovish embrace to be an act of risk management not only from a traditional economic but also political viewpoint.

Financial markets are viewing the recent dovish policy shift as especially reflationary for financial and real asset prices (including precious metals), given that such a policy shift comes at a juncture of decelerating US economic growth, recession conditions in Europe and secular deceleration in China. Figure 1 illustrates the March month-to-date return performance across a number of risk indices, that encompasses the equities-fixed income and commodity domain. Figure 1 highlights the especially solid return performance recorded by real asset indices during the month, such as precious metals and value factor indices.

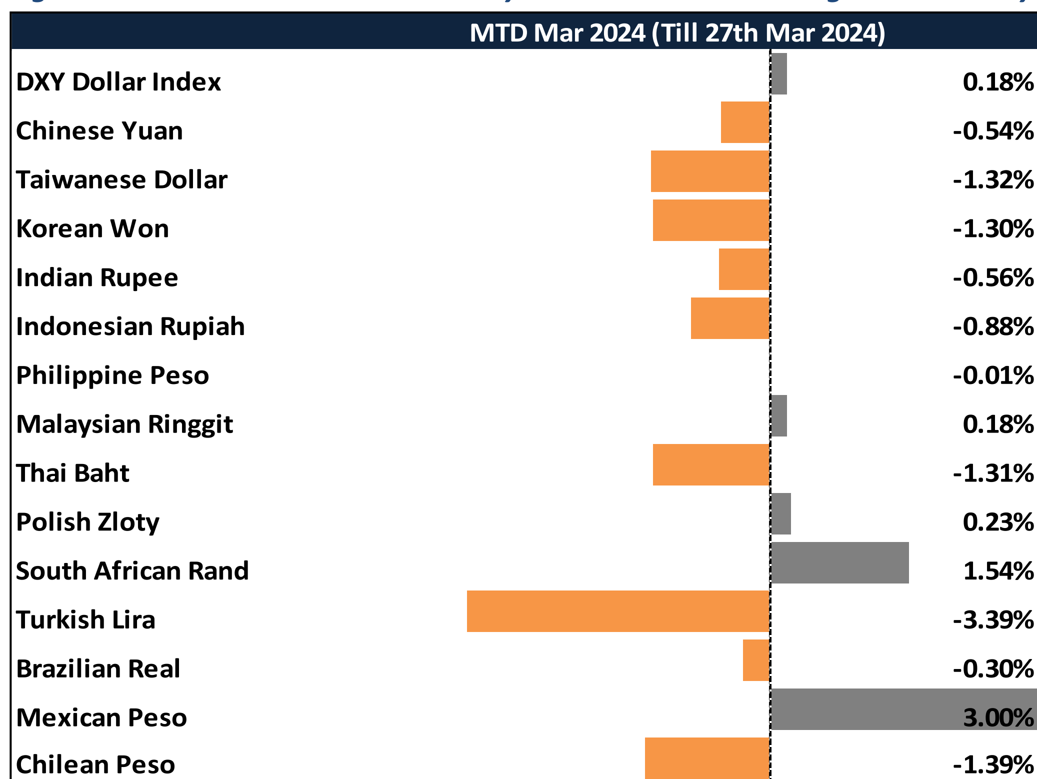
Against the above-discussed macro dynamics, recent cross-asset market performance reinforce Glovista's core portfolio strategy tilts. Specifically, we sustain our longstanding overweight tilts to high quality, value factor equities, along with short-duration investment grade debt and selective exposure to precious metals, especially gold. With US equities hovering at close to 22x 1-year forward P/E valuations, they already discount a rather benign, non-inflationary soft-landing scenario. As a result, we believe quality and value factors are especially compelling at this stage of the cycle.

Emerging Market Perspectives

China Signals Currency Weakness, Setting Off EM Asia Underperformance; Glovista Sustains Taiwan, Korea and India Overweight Tilts while Raising Mexico to Overweight

In March, emerging market equities – as represented by the MSCI EM index benchmark – performed approximately in line with US and ex-US developed market peers, recording a 1.8% rise versus 3.0% and 3.4% rally in the MSCI USA index and the MSCI EAFE index, respectively. The emerging market benchmark's resilient March performance unfolded despite a momentous shift in the Chinese central bank's foreign exchange policy stance that unfolded during the month of March. Specifically, the People's Bank of China signaled a weakening of the targeted US$ Yuan level by signaling a shift in the parameters governing the trading corridor for the exchange rate cross. Arguably, such policy adjustment is not unexpected and should be viewed as part of Chinese policymakers' ongoing efforts at stabilizing China's secular decelerating economic growth driven by the effects of the structural over-investment problems that afflict the country's property market.

Figure 2. China's March Yuan Currency Reset Fuels a Broad Regional Currency Weakness in Asia



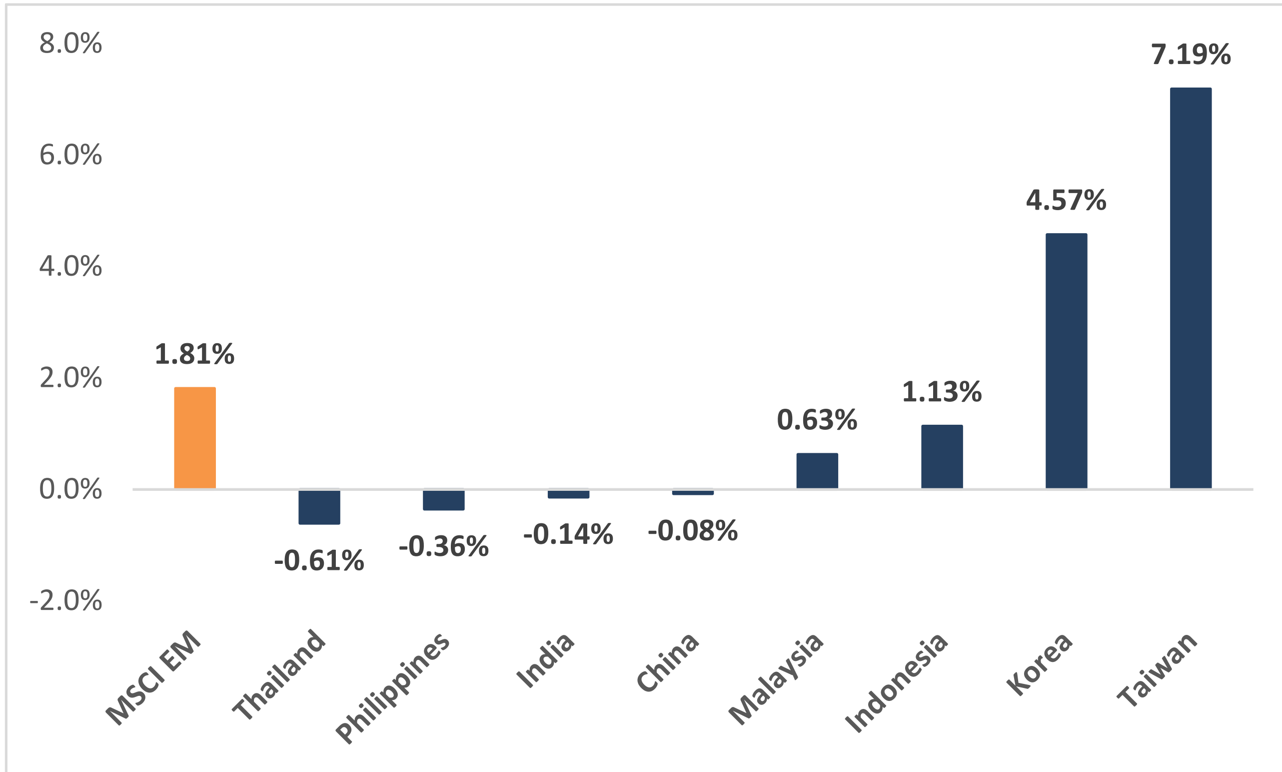
Source: Bloomberg

From a broad emerging market equities perspective, China's March foreign exchange policy adjustment led to a weakening of most Asian currencies, as reflected in Figure 2. In turn, such broad regional exchange rate weakness explains much of the region's relative underperformance versus most EM and developed market peers during the month of March (Figure 3). Korean and Taiwanese equities, largely tied to export sectors that benefit from currency weakness – in contrast to other EM Asia peers' benchmarks that are dominated by local sector stocks – solidly outperformed during the month, with the rally in global IT stocks also supporting Korean and Taiwanese stocks' outperformance.

In March, the Glovista investment team sustained its overweight Taiwan and Korean country allocations while retaining broad underweight allocations to Latin America, especially Brazil. During the month one of our primary rebalancing actions consisted of a further trimming of our Brazil country underweight allocation to the benefit of Mexico. Such rebalancing was predicated on the basis of relative valuations, macro policy assessments and relative earnings growth momentum.

As we look ahead, we continue to favor underweight Latin America regional allocations to the benefit of EM Asia regional tilts.

Figure 3. EM Asia March MTD Underperformance (as of March 27th 2024) Impacted by China's FX Reset during the Month



Source: Glovista Calculations

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