GLOBAL X
by Mirae Asset

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Related ETFs

Please click below for fund holdings and important performance information.

ARGT – Global X MSCI Argentina ETF

ASEA – Global X FTSE Southeast Asia ETF

DAX – Global X DAX Germany ETF

EMFM – Global X MSCI Next Emerging & Frontier ETF

GREK – The Global X MSCI Greece ETF

GXG – Global X MSCI Colombia ETF

PAK –Global X MSCI Pakistan ETF

PGAL –Global X MSCI Portugal ETF

NORW –Global X MSCI Norway ETF

NGE – Global X MSCI Nigeria ETF

VNAM – Global X MSCI Nigeria ETF

GLOBAL X ETFs RESEARCH

Quarterly International Outlook

The most recent Global X International Report can be viewed here. The report summarizes market and macroeconomic developments across our International Access suite of ETFs. For a closer look at China Sectors, please see the latest Quarterly China Sector Outlook.

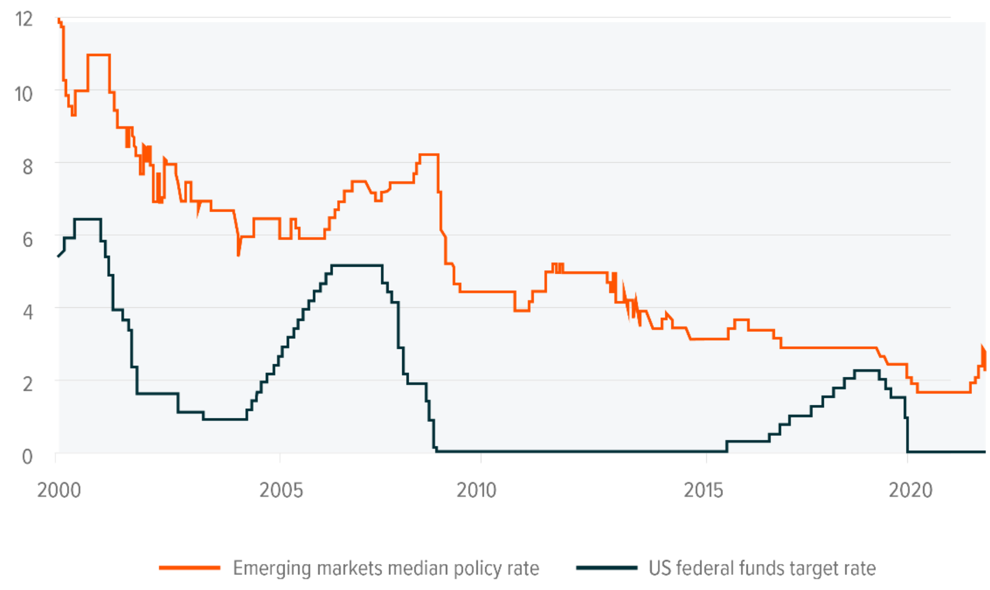
Q4 Summary

International equities generally found some relief in Q4, with the MSCI ACWI Index (MXWD) up 9.76% against a rise of 7.6% for the S&P 500. In Q4, the Federal Reserve (Fed) continued down a path of hawkish rate hikes against a wave of global inflation, with the Fed hiking the federal funds target rate by 50 basis points (bp) to 4.25-4.50% in December 2022. Even as adverse conditions persist into Q1 2023, some signs of moderation emerged towards the end of Q4, such as slowing inflation. Very notably, starting in late November, China defied expectations with the speed at which it opened up and dismantled zero-COVID restrictions, boosting sentiment not only for the Chinese market but also markets that stand to benefit from spillover effects.

Other central banks around the world embarked on rate hikes as pressure from the Fed's moves set in. By the end of Q4, the European Central Bank (ECB) brought its rate up to 2.50%.[1] Amid this backdrop, China remains an outlier as it kept its rate steady at 3.65% throughout Q4, in response to unique headwinds blowing on its economy.

ANNUAL INTEREST RATE (%) FOR US AND EMERGING MARKETS

Sources: Financial Times. (2022, February 8). Emerging markets signal end to aggressive rate-raising cycles.



Emerging market equities outperformed those of the US for the quarter but fell slightly behind equities for the whole world, as seen by the MSCI Emerging Markets Index (MXEF) delivering returns of 9.70% against 7.6% for the S&P and 9.76% for the MXWD. Among Global X's single country and regional funds, six outperformed the MXWD while five underperformed it.

Country/Region (ETF Ticker)	1 Month Return (%)	3 Month Return (%)
MSCI Emerging Markets Index (MXEF)	-1.41	9.70
MSCI ACWI Index (MXWD)	-3.94	9.76
Argentina (ARGT)	5.31	19.31
Colombia (GXG)	2.89	7.25
Emerging and Frontier (EMFM)	-3.29	5.45
Germany (DAX)	0.19	25.08
Greece (GREK)	4.70	27.57
Nigeria (NGE)	0.67	0.00
Norway (NORW)	-1.06	19.35
Pakistan (PAK)	-6.45	-0.09
Portugal (PGAL)	1.30	14.74
Southeast Asia (ASEA)	-0.22	10.03
Vietnam (VNAM)	-2.32	-14.32

Performance shown is past performance, based on the NAVs of the ETFs and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than their original cost and current performance may be lower or higher than the performance quoted. High short-term performance of the fund is unusual and investors should not expect such performance to be repeated. For performance current to the most recent month- and quarter-end and current holdings, please click the fund name in the Related ETFs section.

Notable Performers

Greece

The Global X MSCI Greece ETF (GREK) was the International Access suite's best performer in Q4 2022, with returns of 27.57%. On the macro side, Greece surprised to the upside in 2022 even as it grappled with geopolitical headwinds in Europe that had the potential to reduce tourist inflows. Additionally, the big four Greek banks (Piraeus, National Bank of Greece, Eurobank, Alpha) continued progress in reducing their non-performing loan (NPL) rates, boosting confidence in the stability of the Financials sector, which GREK has a 30% allocation to.

Germany

The suite's second best performer in Q4 2022 was the Global X DAX Germany ETF (DAX), which delivered returns of 25.08%. A key question weighing on investors' minds was Germany's preparedness for a winter without Russian gas. Although Germany's relatively high reliance on Russian gas may make it difficult to dodge economic pressures, markets are now pricing in a milder than expected downturn after a strong effort by the German government to prepare for winter. Over the course of Q4, Germany negotiated with alternative suppliers in the Arabian Gulf, set aside 5% of its annual GDP for support measures and stocked up on gas. [2,3] Germany's success in bolstering its gas reserves mitigated an overall challenging economic outlook, and that likely helped boost sentiment for German equities.

Argentina

Amid the strong performers in Q4 was Argentina, with the Global X MSCI Argentina ETF (ARGT) returning 19.31% in Q4 2022. A combination of US dollar weakness, China's reopening, and an upcoming presidential election likely drove this rally, and the exuberance to start 2023. Furthermore, Argentina continued to make some progress in its negotiations with the International Monetary Fund (IMF), notably reaching an agreement to possibly receive $6bn from the IMF's Extended Fund Facility Arrangement.[4]

Laggards

Vietnam

Despite Vietnam posting the highest GDP growth in Asia in 2022 at 8.02%, troubles in Vietnam's property sector contributed to negative returns for the Global X MSCI Vietnam ETF (VNAM), which was the worst performer in Q4 2022 with losses of 14.32%.[5] Liquidity issues, a cash crunch, and government scrutiny all contributed to downward pressure on Vietnamese real estate stocks, which VNAM has a 26.5% allocation towards. As we said in our previous International Outlook, the strong divergence between Vietnam's macro picture and equity performance could possibly present an enticing opportunity in 2023.

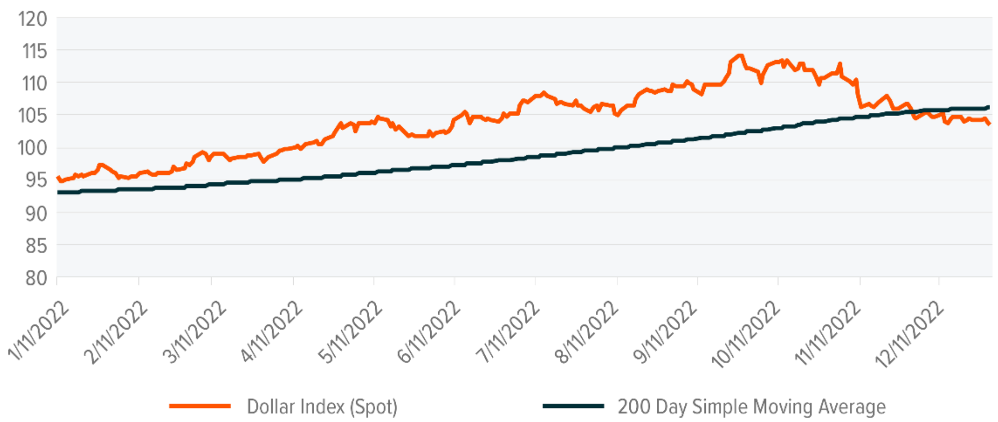
Q1 Outlook: Amid Headwinds, Opportunities Exist

2022 proved to be an exceptionally challenging year for both bonds and equities, and although challenges will carry on into 2023, we see signs pointing towards moderation for some of those challenges. Global growth will likely take a hit in early-2023 with expectations for weaker economic data remaining elevated, however the reopening of China could be a bright spot as Chinese policymakers move much faster than expected in dismantling the zero-COVID policy. Supply chain disruptions will likely take some more time to normalize in 2023, and while a surge of COVID in China could exacerbate that in Q1, we see China's reopening as conducive to supply chain normalization through the rest of the year. Meanwhile, Russia's war in Ukraine is dragging on with no clear exit path in Q1, which will likely mean continued geopolitical risks and volatility for energy and food prices.

Inflation in the US showed further signs of cooling down in December with a reading of 6.5%, which resulted in a moderate rate hike of 25bp rather than a 75bp hike at the Feb 1 monetary policy meeting. A reduction of pace in US rate hikes may weaken the dollar in 2023 and mitigate the policy differential that caused many global currencies to tumble in 2022. This could create opportunities for international equities.

DOLLAR INDEX BEGINS TO WEAKEN

Sources: Bloomberg. GP[Dollar Index]. Data as of December 30, 2022.



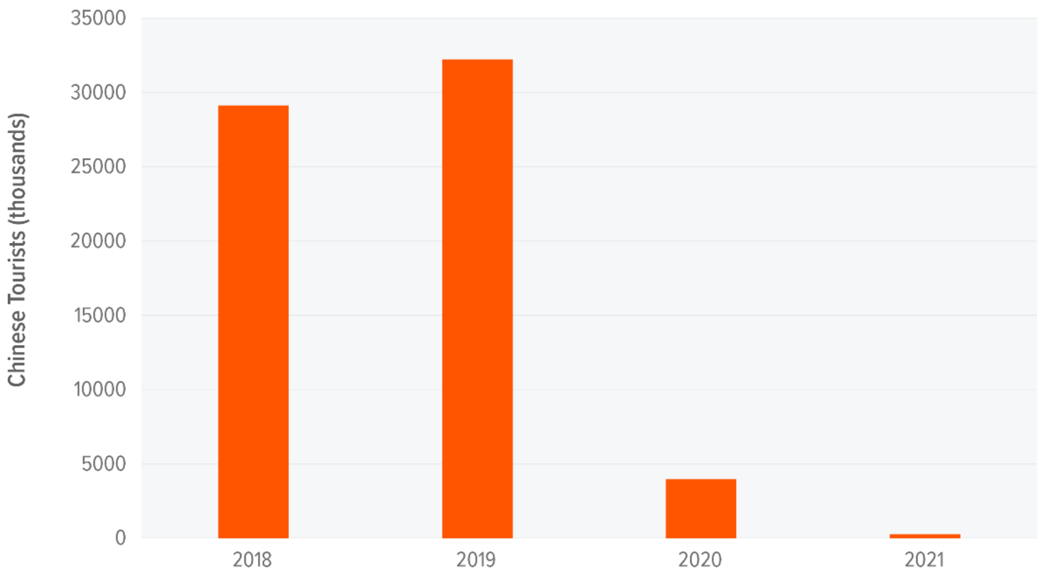
An unexpected development in Q4 2022 with immediate implications for 2023 is the sudden reopening of China, which we believe could have positive spillover effects for international markets, albeit after the economy normalizes from the ongoing COVID surge. A more detailed analysis of China's domestic situation can be found in our China Sector Outlook.

In our view, a temporary period of supply chain disruptions from the COVID surge will give way to a robust rebound for China in Q2 2023. The elimination of quarantine requirements for inbound travelers, effective Jan 8, will allow consumers and businesspeople shut out of China back into the country, while increased availability of international flights will boost Chinese consumption in foreign markets, with the caveat that some countries are imposing temporary COVID test requirements on Chinese travelers.

Southeast Asia is one of the regions most well-positioned to benefit from the revival of Chinese tourism. The governments of Southeast Asia are aware of that as they are generally choosing to impose little to no restrictions on Chinese tourists, unlike other Asian neighbors like Japan and South Korea. For the past three years, ASEAN (Association of Southeast Asian Nations) economies suffered from a gaping hole in tourism revenues caused by a lack of Chinese tourists, the arrivals of which dropped from 32.28mn in 2019 to a mere 233,500 in 2021.[6] As the restoration of Chinese tourist inflows likely improves the macro story in Southeast Asia, we continue to believe that Southeast Asia Financials could do well in 2023 on the back of rising interest rates, though investor excitement over that tailwind could moderate to some extent if the Fed does pivot to rate cuts by the end of the year.

CHINESE TOURIST ARRIVALS TO ASEAN (THOUSANDS)

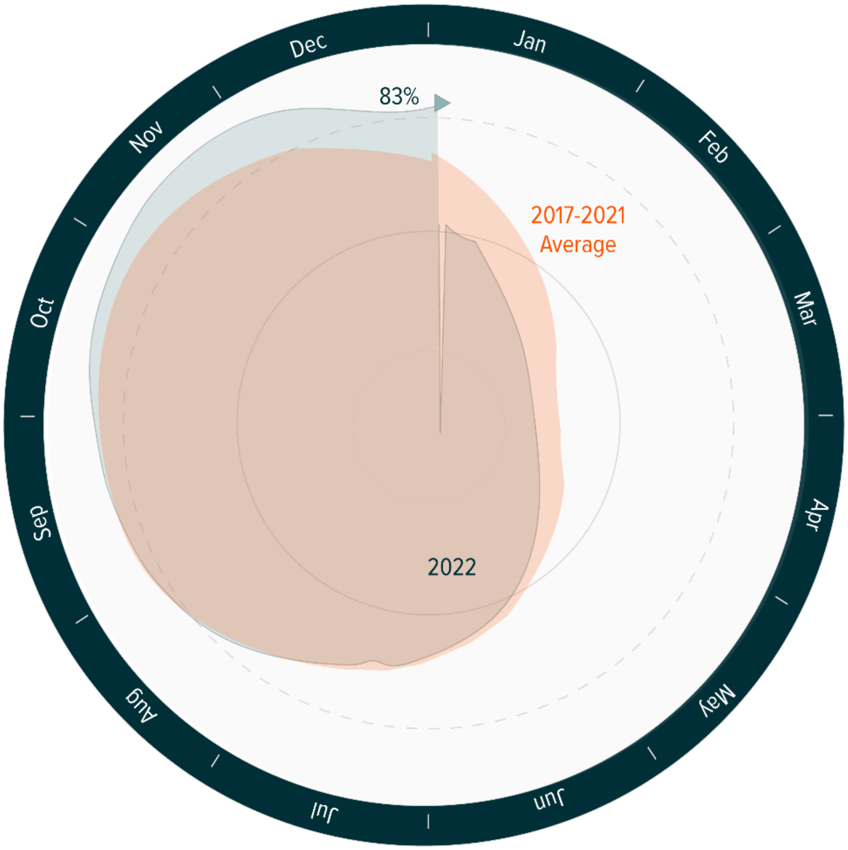
Sources: ASEAN. (2023, January 3). 2022 ASEAN Statistical Yearbook.



In Europe, geopolitical uncertainty remains a key concern and difficult to predict. While an economic downturn of sorts is likely, we see some signs that any potential recession could be softer as the EU beat expectations in its race to secure gas reserves for the winter. After setting a goal of filling 80% of its gas reserves by November 1, the EU not only hit its goal ahead of schedule but achieved a gas reserve level of 95.5% by mid-November.[7] This had the effect of boosting morale among investors in Germany, as evidenced by the ZEW Economic Research Institute's investor sentiment index turning positive in January for the first time since Russia's invasion of Ukraine.[8] With a Bloomberg survey in January showing markets pricing in a terminal rate of 3.30% for the ECB by May, and then possibly even rate cuts in the following months, a boost for European equities could occur in the latter half of the year.[9]

EUROPE'S GAS STORAGE LEVELS IN 2022

Sources: Reuters. (2022, December 31). How much of Europe's gas storage is filled.



In Latin America, Argentine equities have continued to rally, with the MSCI Argentina Index up 15.3% (in USD terms) in the month of January 2023. In particular, we believe markets are looking favorably towards the possibility of new leadership after the October election which could implement government and fiscal reforms to restore the country's credit profile. With Vice President Cristina Fernández de Kirchner declaring she will not run for any office after her current term expires, new leadership seems increasingly likely. Bearing that in mind, markets could react favorably to any additional indicators that change is approaching, such as election polls.

Footnotes

1. Investing. [World Central Banks]. Data as of January 25, 2023.
2. Reuters. (2022, September 19). Europe races to prepare for energy crunch this winter.
3. NPR. (2022, October 6). Germany is preparing for a rough winter of sky-high energy costs.
4. Reuters. (2022, December 2). IMF, Argentina reach funding agreement that could unlock $6 billion.
5. Bloomberg. (2022, December 28). Vietnam pulls off Asia's fastest growth as economy powers on.
6. ASEAN. (2023, January 3). 2022 ASEAN Statistical Yearbook.
7. Reuters. (2022, December 31). How much of Europe's gas storage is filled.
8. Reuters. (2023, January 17). German investor morale positive for the first time since Ukraine war.
9. Bloomberg. (2023, January 16). ECB rates seen hitting peak of 3.25% before cut in July.

This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding the funds or any stock in particular.

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M1NO5IM consists of the FTSE Norway 30 Index from the inception of the Fund through 7/14/14, and the MSCI Norway IMI 25/50 Index going forward. M1CXGXB reflects performance of the FTSE Colombia 20 Index through 7/14/14, the MSCI All Colombia Capped Index through 8/30/16 and the MSCI All Colombia Select 25/50 Index thereafter. M1CXGXER consists of the FTSE Portugal 20 Index from the inception of the Fund through 12/5/16, and the MSCI All Portugal Plus 25/50 Index going forward. M1CXGXA consists of the FTSE/ATHEX Custom Capped Index from inception through 2/29/16 and the MSCI All Greece Select 25/50 Index thereafter. NU722163 reflects the performance of the Solactive Next Emerging & Frontier Index through 1/15/19, and the MSCI Select Emerging and Frontier Markets Access Index thereafter. M1ANI5R consists of the Solactive Nigeria Index from the inception of the Fund through 8/14/14, and the MSCI All Nigeria Select 25/50 Index going forward.