

August-2019

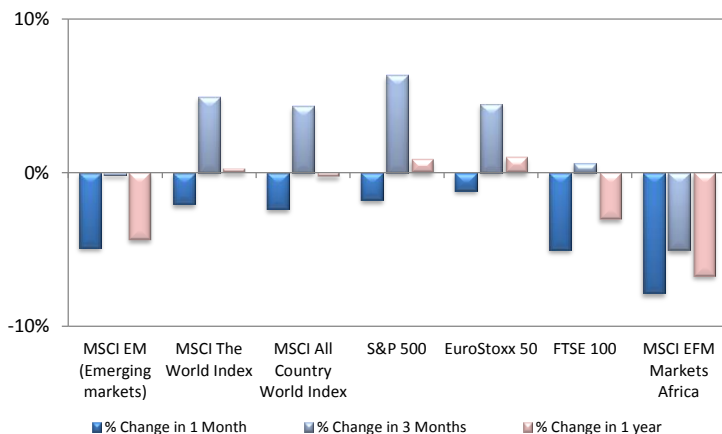
For further enquiries, please contact the Investment Consulting Team on investment@aonhewitt.mu

Foreign Equity Indices

31/08/2019	Current Value (USD)	% Change in				
		Last Month	Last 3 Months	Last 12 Months	Last 3 Years *	Last 5 Years *
MSCI EM (Emerging markets)	462.88	-4.9%	-0.2%	-4.4%	5.8%	0.4%
MSCI The World Index	6,232.30	-2.0%	4.9%	0.3%	9.6%	6.1%
MSCI All Country World Index	253.78	-2.4%	4.3%	-0.3%	-15.2%	5.5%
S&P 500	2,926.46	-1.8%	6.3%	0.9%	10.5%	7.9%
EuroStoxx 50	3,426.76	-1.2%	4.5%	1.0%	4.3%	1.6%
FTSE 100	7,207.18	-5.0%	0.6%	-3.0%	2.0%	1.1%
MSCI EFM Markets Africa	1,028.81	-7.9%	-5.0%	-6.7%	1.1%	-4.0%

*Annualised

Performance



Foreign Equity Indices all ended the month in red.

MSCI World shed 2.0%, while the **MSCI ACWI** lost 2.4% during the month under review.

Emerging market stocks further lost ground with the **MSCI Emerging Markets** and the **MSCI EFM Markets Africa** falling by 4.9% and 7.9%, respectively.

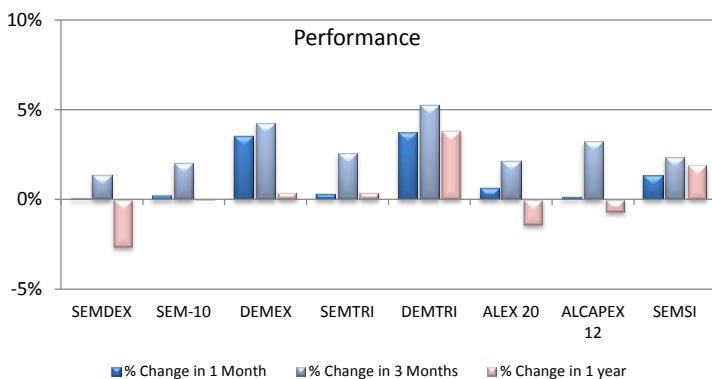
Global equity markets declined following the difficulties faced by the US and China in scheduling meetings and arranging talks. US announced the imposition of a 15% tariff on more than USD 125 billion of Chinese imports. In retaliation, China also imposed new duties on US crude oil. **The S&P 500 lost 1.8% this August.** Worries about the global economy intensified on the announcement of a drop in manufacturing activity in the US.

European markets edged lower by end-August following recession fears, confrontation in Parliament over delaying Brexit again and trade tensions. The Prime Minister Boris Johnson, however, responded that he would not delay Brexit under any circumstances. **The FTSE 100 fell by 5.0% while the EuroStoxx 50 lost 1.2% this August.**

Local Equity Indices

31/08/2019	Current Value (MUR)	% Change in				
		Last Month	Last 3 Months	Last 12 Months	Last 3 Years *	Last 5 Years *
SEMDEX	2,161.98	0.1%	1.3%	-2.6%	6.0%	0.5%
SEM-10	422.63	0.2%	2.0%	0.0%	6.9%	1.1%
DEMEX	238.89	3.5%	4.3%	0.4%	6.8%	3.5%
SEMTRI	8,142.26	0.3%	2.6%	0.4%	9.2%	3.6%
DEMTRI	341.27	3.7%	5.3%	3.8%	10.4%	6.7%
ALEX 20	1,108.00	0.6%	2.1%	-1.4%	6.7%	1.0%
ALCAPEX 12	1,563.00	0.1%	3.2%	-0.7%	5.6%	1.9%
SEMSI	123.39	1.3%	2.4%	1.9%	NA	NA

Performance



On the domestic side, all Local Equity Indices registered positive returns this August.

The **SEMDEX**, **SEMTRI** and **SEM-10** slightly rose by 0.1%, 0.3% and 0.2%, respectively. Over the past 12 months, SEMDEX has lost 2.6% while the other two indices have remained rather flat.

The **DEMEX** went up by 3.5% this August. The **DEMTRI** followed a similar trend and gained 3.7%. This was mainly due to Ascencia Ltd (22% of the DEMEX) which returned +10.5% during the month.

The Monetary Policy Committee (MPC) of the Bank of Mauritius cuts the Key Repo Rate by 0.15% to 3.35% per annum at its meeting of 9th August.

Going forward, the MPC will continue to monitor price and growth conditions to ensure that monetary policy remains appropriately supportive of sustained non-inflationary economic growth over the medium term. (Source: Bank of Mauritius)

Commodities 31/08/2019	% Change in					
	Current Value (USD)	Last Month	Last 3 Months	Last 12 Months	Last 3 Years *	Last 5 Years *
Gold	1,529.40	6.4%	17.1%	27.4%	5.4%	3.5%
Oil	60.43	-7.3%	-6.3%	-21.9%	8.7%	-10.1%
Sugar	11.14	-8.8%	-7.9%	5.1%	-17.8%	-6.3%

Supported by a weaker US dollar, **Gold price** gained 6.4% during this month under review. Investors shifted to gold as a safe haven due to fears of a possible recession following disappointing US economic data. It is to be noted that the gold price has risen by 27% over the past 12 months.

Brent crude oil price fell by 7.3% this August amid fears that the fading global economic growth will hurt fuel demand (Source: Bloomberg). The oil price lost 22% over the past 12 months.

The **sugar price** fell by 8.8%. Over the past 12 months, it has however appreciated by nearly 5.1%.

31/08/2019	Weighted Average:	T-Bill Yield
91-Day		3.03%
182-Day		3.24%
364-Day		3.32%
31/08/2019		
Repo Rate		3.35%
Deposit Rate *		1.72%

*Weighted Average Deposit Rate of Banks for the previous month

Foreign Indices 31/08/2019	Current Value (USD)	Last Month	Last 3 Months	Last 12 Months
S&P Global Property	514.27	1.0%	3.6%	7.6%
S&P Listed Private Equity	329.51	0.0%	9.2%	8.7%
S&P Global Infrastructure	5,384.75	0.4%	3.8%	6.4%
S&P Africa Sovereign Bond	774.61	0.9%	3.1%	13.1%
S&P 500 Bond Index	488.15	3.1%	5.9%	12.9%
S&P International CBI	132.22	0.2%	3.0%	3.3%
Barclays Global Aggregate Bond	514.43	2.0%	4.0%	7.8%

Currencies 31/08/2019	In MUR		% Change in			
	Current Value	Past Month	Last Month	Last 3 Months	Last 12 Months	Last 3 Years *
GBP	43.81	43.64	0.4%	-2.0%	-1.4%	-2.0%
USD	36.16	36.09	0.2%	1.5%	5.3%	0.6%
EUR	39.72	40.03	-0.8%	0.7%	-0.3%	0.2%

The **Pound** appreciated by 0.4% against the MUR during August. Over the past 12 months, it has lost 1.4% against our local currency.

The **Euro** lost 0.8% following the announcement of weak economic data in the Eurozone. It has depreciated by 0.3% against the MUR over the past 12 months.

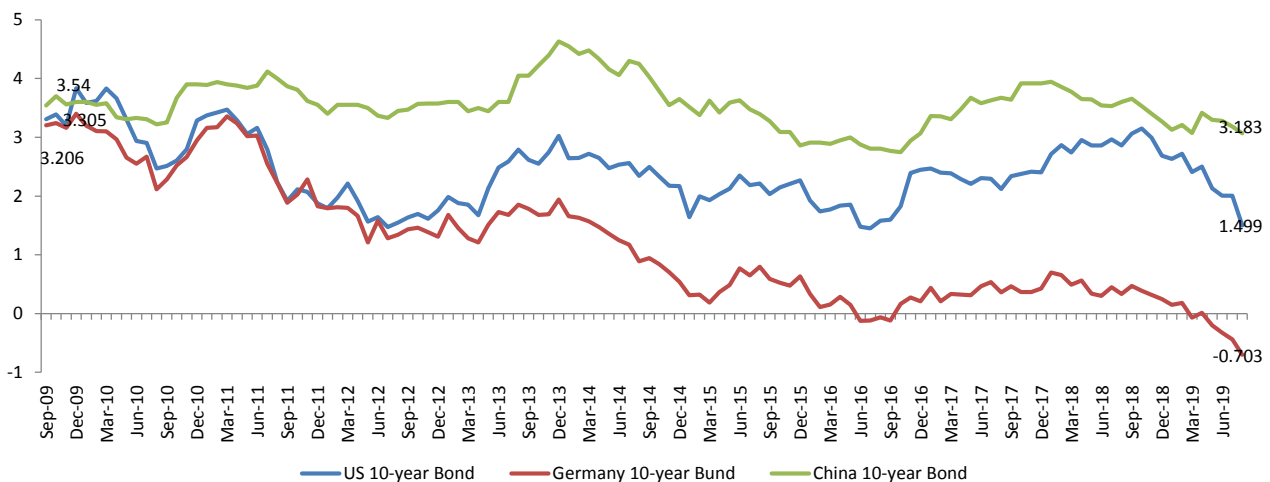
The **US Dollar** appreciated by 0.2% against the local currency. Over the past 12 months, it has gained 5.3%.

August Article: Why are yields tumbling globally?

Bond yields have generally been lower since 2009. Since the financial crisis, both interest rates and bond yields have been declining rapidly. Negative yields on European junk bonds and the flattened yield curve in US have left investors pondering. Bond yields are falling and the rout does not seem to end soon. On 19th June 2019, yield on the 10-year US government bonds fell below 2% for the first time since November 2016. In August 2019, a 30-year German bond sold at record low yield of -0.11%. Over the last 10 years ending August 2019, the yield on the 5-year government bond in Mauritius fell by 4.6%. To recall, the 5-year yield stood at 8.61% 10 years ago.

The chart below illustrates the declining trend in yields on a 10-year government bond in the three major economies namely; US, China and Germany. Over the last 10 years, we note a steep decline in yields across the three countries, with the sharpest fall observed in German 10-year Bunds.

Global Trend on 10-year Bond Yields



Bond yields are based on expectations of inflation, economic growth, default probabilities, and duration. Bond yield is a fixed payment to bondholders regardless of other economic conditions. A fall in inflation increases the real yield of bonds, making them more attractive to investors. As a result of increased demand, bond prices rise. It is to be noted that bond prices are inversely related to yields. Therefore, higher prices mean lower nominal yields.

Inflation and inflationary expectations have been on a decline. Economic growth also fell after the 2008 financial crisis. Moreover, recently worries surrounding lower economic data, Brexit and the US-China trade war are heavily weighing on global economic growth and prospects. Amid these uncertainties and fears of a recession, investors are switching to safer assets including bonds. Lower expectations for growth and inflation have led to constantly lower bond yields since the financial crisis.

The overall trend toward lower interest rates and lower bond yields is often credited with supporting higher prices in the stock market. Bond and stock prices tend to move together in periods of low interest rates and inflation. In events of poor economic growth, central banks usually intervene (through the monetary policy) by reducing interest rates to stimulate the economy. Interest rates are kept at lower levels until the economy starts picking up. As a result, both bond and stock prices go up in response to low interest rates and the mild growth of the economy supported by the monetary policy.

When interest rates cannot be reduced further (near zero nominal interest rates), central banks often resort to quantitative easing to encourage lending and investment within an economy. The central bank purchases government securities and other securities to increase money supply and provide liquidity. For instance, the US engaged in several rounds of quantitative easing to help the economy recover after the 2008 financial crisis. In October 2017, the bank finally started unwinding its quantitative easing to normalise its monetary policy.

Consumer Price Index (Mauritius)	% Change in				
	Current Value	Last Month	Last 3 Months	Last 12 Months	Last 3 Years
31/08/2019					(Annualised)
CPI	117.49	0.3%	-0.7%	1.8%	2.4%

The above figures represent the CPI as at August 2019. The year-on-year inflation rate for August 2019, as measured by the change in the CPI for August 2019 relative to August 2018 works out to 1.8%. (Source: Statistics Mauritius Website)

General News

German bond Auction

On 21 August, Germany auctioned a 30-year bond with a 0% coupon for the first time. The instrument sold with a record low yield of -0.11%. (Source: Bloomberg)

The US yield curve at its flattest level since 2007

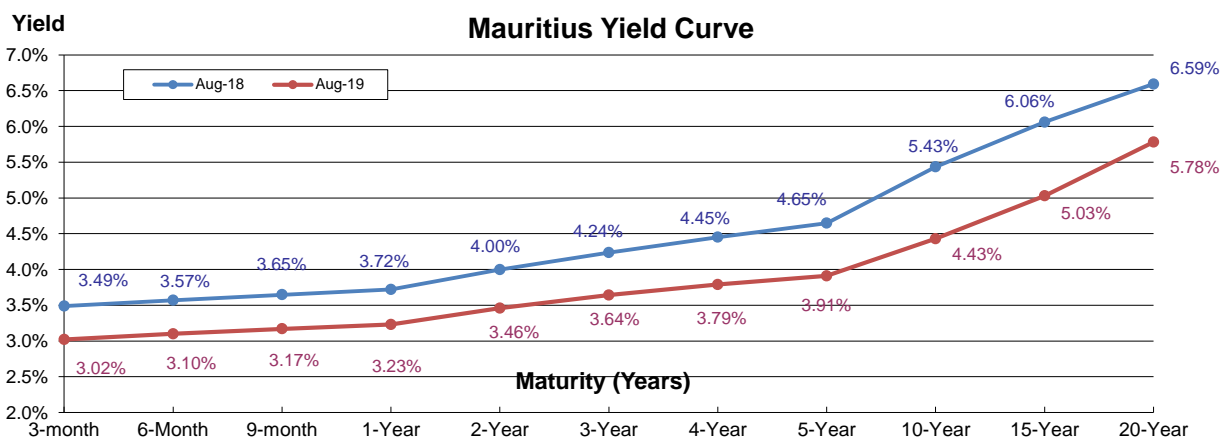
The 30-year US Treasury rate tumbled as much as 0.14% on the 12th August 2019 to close in at 2.0882%, the lowest it has been since July 2016. The 10-year note fell 0.10% to 1.65%, and was at one point just 5 bps more than two-year notes. Also, note that China's 10-year sovereign yield is also hitting lows which were last seen in 2016. Investors are increasingly seeking shelter in bonds as concerns about the trade war and geographical uncertainty continue to perturb markets. This in turn helped fuel a rally in US Treasuries. (Source: Financial Times)

Singapore's government cut its full-year economic growth outlook for 2019 to 0-1% from 1.5-2.5%.

The downgrade was mainly due to concerns about the increasing protectionism on exports and production in the region. The ministry flagged a host of growing economic risks including Hong Kong's political situation, the Japan-Korea trade dispute, the US-China tariff war, slowing growth in China and Brexit. (Source: International Business Times)

India's economy grew by 5% in the second quarter compared with the same period last year, the slowest growth rate in six years. This was mainly attributed to reduced manufacturing activities and domestic car sales in the Indian economy.

Turkey's annual inflation rate fell to 15% in August, the lowest it has been for 15 months.



Aon Hewitt has developed an in-house Yield Curve based on average buy-and-sell yields for Government of Mauritius instruments. Key information is obtained from primary dealers. **We note that over the last 12 months, local yields on treasury bonds of all maturities have fallen.** Yields on five-year treasury bills stood at 3.91% at end-August 2019 against 4.65% at end-August 2018.

Disclaimer: Nothing in this document should be considered as being financial advice. Our consultants will be pleased to answer questions on its contents but cannot give individual financial advice.

* All performance figures in this document have been annualised for 3 and 5 years.

Source: Stock Exchange of Mauritius, Bank of Mauritius, Statistics Mauritius, Axys Stockbrokers, MSCI, Bloomberg, etc.