

August 2020

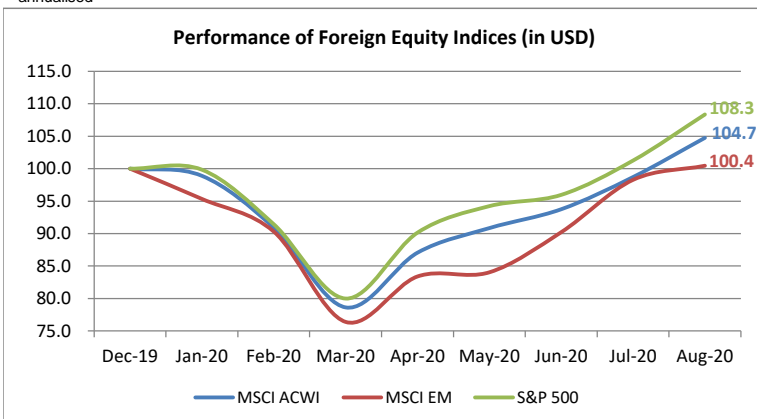
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Note: The charts below show the year-to-date performance of local and foreign equity indices on a time-series basis (i.e. 31 Dec 19 to 31 July 20).

Foreign Equity Indices

31/08/2020	Current Value (USD)	% Change in				
		Last Month	Year-to-date YTD	Last 12 Months	Last 3 Years *	Last 5 Years *
MSCI EM (Emerging markets)	529.93	2.2%	0.4%	14.5%	2.8%	8.7%
MSCI The World Index	7,278.44	6.7%	5.3%	16.8%	9.8%	10.4%
MSCI All Country World Index	295.72	6.1%	4.7%	16.5%	9.0%	10.2%
S&P 500	3,500.31	7.0%	8.3%	19.6%	12.3%	12.2%
S&P 500 ESG Index	378.95	7.9%	12.6%	25.9%	16.3%	15.5%
EuroStoxx 50	3,272.51	3.1%	-12.6%	-4.5%	-1.5%	0.0%
FTSE 100	5,963.57	1.1%	-20.9%	-17.3%	-7.1%	-0.9%
MSCI EFM Markets Africa	916.45	-0.5%	-20.0%	-10.9%	-8.8%	-2.4%

* annualised



The relentless rally in global stocks continued in August. **Equity markets posted their best August since 1986.** The **MSCI World Index** and **MSCI All Country World Index** rose by 6.7% and 6.1%, respectively during August.

The markets are speculating that the Fed might keep short-term interest rates at zero for the next 5 years and deliberately foster above-target inflation. (Source: Bloomberg). Thanks to the Fed's ongoing accommodative monetary policy, **the US stock markets have been trading higher** in August despite that the economy has yet to recover much.

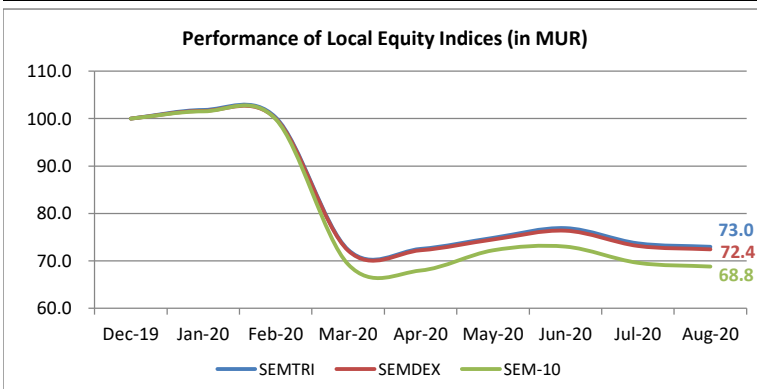
August was a strong month for broad US stock indices, **the best since the April rebound from the pandemic lows in March.** The rally in the US stock markets was fueled by more stimulus from the Fed, signs of economic revival and progress towards a coronavirus vaccine.

In addition to the continued technology rally, troubled industries such as cruise lines, airlines, hotel and casino operators also experienced a partial rebound (source: Market Watch). **The S&P 500 ESG Index registered the highest gain of nearly 8% in August.**

This trend initially continued at the start of September as well but the US stock markets saw some sell-offs in the past few days. Technology stocks plunged and suffered their worst sell-off since the depths of the market turmoil in March. **As at 09 September, the tech-heavy Nasdaq 100 Index was down by 5.5%, month-to-date.** On 8th September, **Tesla lost more than a fifth of its value in a single day** (source: Financial Times). Investors raised concerns about the valuations of the large technology companies, which had soared despite the economic fallout during the pandemic.

Local Equity Indices

31/08/2020	Current Value (MUR)	% Change in				
		Last Month	Year-to-date YTD	Last 12 Months	Last 3 Years *	Last 5 Years *
SEMDEX	1,576.90	-1.0%	-27.6%	-27.1%	-10.4%	-4.0%
SEM-10	295.75	-1.1%	-31.2%	-30.0%	-11.2%	-4.3%
DEMEX	201.74	-2.2%	-14.1%	-15.6%	-2.8%	-0.3%
SEMTRI	6,063.75	-1.0%	-27.0%	-25.5%	-8.0%	-1.2%
DEMTRI	294.57	-2.2%	-13.3%	-13.7%	0.2%	2.8%
ALEX 20	778.72	-1.2%	-30.4%	-29.7%	-11.6%	-3.8%
ALCAPEX 12	1,113.99	-1.3%	-28.7%	-28.7%	-11.3%	-3.3%
SEMSI	86.61	-0.6%	-30.3%	-29.8%	-9.8%	N/A



During August, the local stock markets sunk further.

Both the SEMDEX and the SEMTRI fell by 1.0% during August while SEM-10 lost 1.1%. **It is also to be noted that this index has fallen by 30% over the past 12 months.**

The DEM was not spared as well. The **DEMEX** was down by 2.2% in August.

Local stock prices could remain under pressure given the negative impact of COVID-19 on the local economy, higher inflation, a weaker Rupee, closure of borders, Wakashio related oil spill, introduction of the CSG, possible inclusion of Mauritius on the EU Blacklist as well as the risk of a second wave of the pandemic.

Commodities

31/08/2020	Current Value (USD)	% Change in				
		Last Month	Year-to-date YTD	Last 12 Months	Last 3 Years *	Last 5 Years *
Gold	1,978.60	0.2%	29.9%	29.4%	14.4%	11.8%
Oil	45.28	4.6%	-31.4%	-25.1%	-4.7%	-3.5%
Sugar	12.66	0.2%	-5.7%	13.6%	-4.2%	3.5%

With the recent slump in the world's reserve currency, the US Dollar, investors have been seeking safety in gold. Year-to-date, **gold price was up by almost 30%**. Amid low interest rates, inflation worries and increasing government debt, gold prices reached new highs at USD 2,069 per ounce in early-August.

Despite ample supplies and stagnant fuel demand, **oil prices edged higher and registered gains of around 4.6%** in August. This rise was driven by a weaker dollar that made oil cheaper for buyers in foreign currencies and favourable reports of more economic stimulus in key markets.

31/08/2020	Weighted Average:	T-Bill Yield
91-Day		Not Issued
182-Day		Not Issued
364-Day		1.30%
31/08/2020		
Repo Rate		1.85%
Deposit Rate *		1.56%*

*Weighted Average Deposit Rate of Banks as at July 2020

Over the month, the Bloomberg Barclays Global Aggregate Bond Index fell slightly by 0.2%. Yields continued to decline. As at 8th September, yield on the 10-year US Treasury Bond stood at 0.68%.

31/08/2020	Current Value (USD)	Last Month	YTD	Last 12 Months
Foreign Indices				
S&P Global Property	462.76	2.9%	-14.9%	-10.0%
S&P Listed Private Equity	333.22	4.1%	-10.3%	1.1%
S&P Global Infrastructure	4,884.10	1.7%	-15.5%	-12.3%

Foreign Bond Indices				
S&P Africa Sovereign Bond	860.89	0.2%	6.6%	11.1%
S&P 500 Bond Index	525.64	-1.5%	7.3%	7.7%
S&P International CBI	146.50	1.2%	7.4%	10.8%
Bloomberg Barclays Global Aggregate Bond Index	542.91	-0.2%	6.1%	5.5%

Currencies

31/08/2020	In MUR		% Change in			
	Current Value	Past Month	Last Month	Year-to-date YTD	Last 12 Months	Last 3 Years *
GBP	52.80	52.04	1.5%	11.2%	20.5%	7.5%
USD	39.74	39.86	-0.3%	9.2%	9.9%	6.3%
EUR	47.10	47.14	-0.1%	16.2%	18.6%	6.4%

During August, the **US Dollar and the Euro** depreciated by 0.3% and 0.1%, respectively relative to the local currency. Amid the weakening dollar, the Pound gained 1.5% against the MUR.

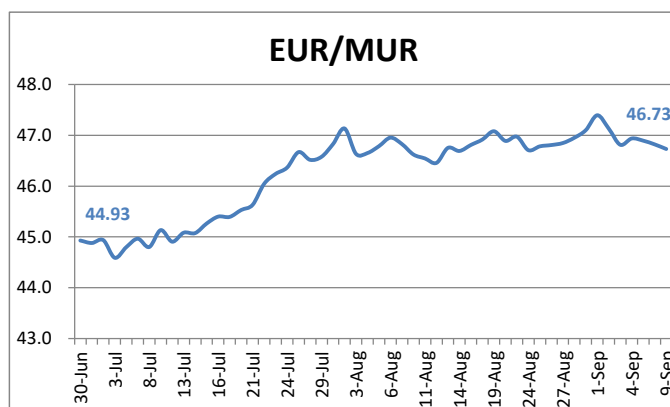
However, since end-June, the **EUR gained around 4% relative to the MUR**. On a year-to-date basis, the Euro has witnessed the biggest appreciation of 16% against the MUR.

Why is the Euro surging?

Prolonged lockdowns in the US have caused the USD to weaken over the past few weeks. On 1st September, the Bloomberg Dollar Spot Index (which tracks the performance of a basket of 10 leading global currencies against the USD) fell to a two-year low, representing a drop of more than 10% below its March highs. US legislators have also failed to agree on new fiscal measures to support the economy and Covid-19 continues to negatively affect economic activity. As a consequence, the US currency could weaken even further.

The forthcoming US presidential election moreover adds an element of uncertainty for the US Dollar. According to Bloomberg, some hedge funds are shorting the US Dollar for the first time since May 2018. This contributes further to the USD weakness.

The Euro has emerged as a particular beneficiary as investors shifted away from the USD (despite being a safe-haven asset).

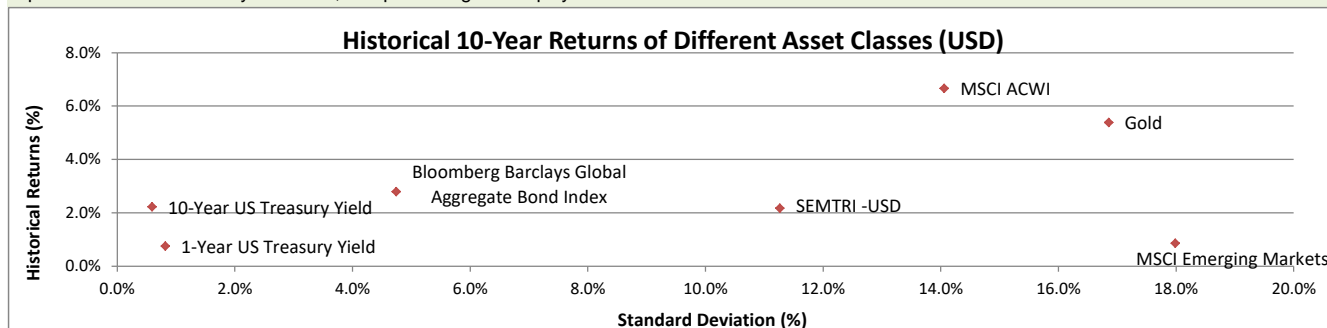


The Euro also gained on the announcement of the Recovery Fund by the European Commission to support the worst-hit economies. The market has anticipated a quicker recovery of the Eurozone compared to other economies following the generous stimulus package of EUR 750 bln. (source: Bank of Mauritius Monthly Statistical Bulletin, July 2020).

The rise of the Euro can be a concern for the Mauritian economy as imports denominated in Euro will cost more and this could contribute to higher inflation. However, Mauritian exports and tourism might benefit from this.

A Risk-Return Analysis: Local Equities vs other asset classes

As highlighted in the above sections, the performance of local equities have been quite disappointing. Over the long-term, risk-adjusted returns on local equities have not been very attractive, compared to global equity markets and other asset classes. This is illustrated as follows:



The above chart plots 10-year returns of the different asset classes (in USD terms) against their respective standard deviation (risk).

As can be seen from the above plot, SEMTRI offers similar returns to a 10-year US Treasury Bond over the 10-year period, despite being a lot riskier. Moreover, returns on the Bloomberg Barclays Global Aggregate Bond Index have been more attractive for a significantly lower level of risk, compared to the SEMTRI. On the contrary, the MSCI ACWI seems to be more rewarding. While standard deviation is certainly slightly higher, the returns are also appealing. It is worth highlighting that the above returns are in USD. Therefore, investors are likely to also benefit from the depreciation of the Mauritian Rupee relative to the USD.

Consumer Price Index (Mauritius)	% Change in				
	Current Value	Last Month	Year-to-date (YTD)	Last 12 Months	Last 3 Years (Annualised)
31/08/2020	119.30	0.4%	1.9%	1.5%	1.4%
CPI	119.30	0.4%	1.9%	1.5%	1.4%

The above figures represent the CPI as at end-August 2020. The year-on-year inflation rate for August 2020, as measured by the change in the CPI for August 2020 relative to August 2019 works out to 1.5%. (Source: Statistics Mauritius).

General News

Investors are hedging inflation with Bitcoin, gold and whisky

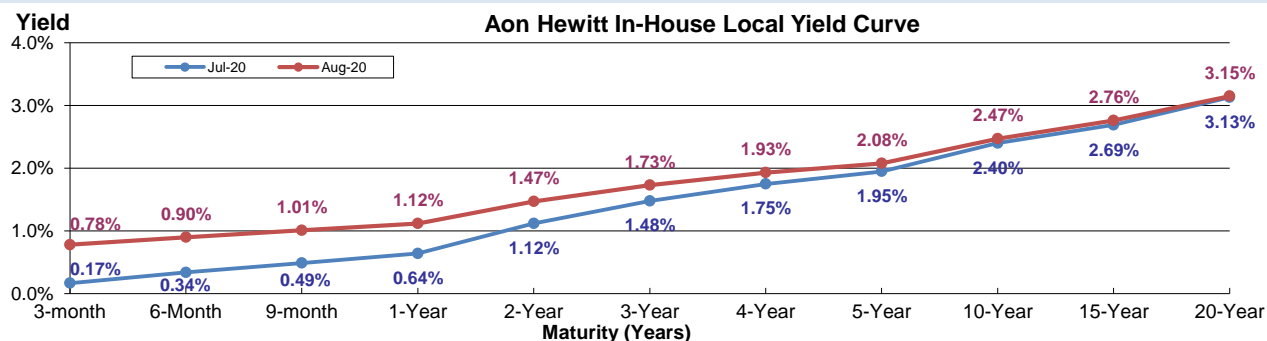
In an environment of near zero interest rates and generous stimulus, investors are fearing higher levels of inflation. Along with gold, people are stashing away Bitcoin and even whisky as they search for hedges against inflation and the unstable market (source: Bloomberg). In a bizarre twist, rare whisky casks are being viewed as a real and tangible asset with intrinsic value.

Inflation in the Euro zone turns negative for the first time in four years (since May 2016)

According to European Union Statistics Office's inflation estimate, the year-on-year inflation rate in the Euro area fell at a record-low of -0.2% in August as energy prices tumbled due to lower demand. (source: Bloomberg). Many of the biggest economies among member states had a negative inflation rate, with Spain's at -0.6%, Italy's at -0.5%, and Germany's at -0.1%.

Falling GDP

More and more countries have reported record-breaking contractions in GDP over the second quarter of this year. India's GDP fell further compared to the first quarter. The Australian economy shrank by around 7% and is facing a recession for the first time in the past three decades. (source: Bloomberg) On the other hand, the Chinese economy seemed to be recovering, with the services sector operating at its strongest level since 2018. Meanwhile, its manufacturing sector continued to expand. However, the country's biggest banks posted their worst profit decline in the past 10 years as a result of a spike in bad debt provisions.



Note: Key information is obtained from primary dealers.

Shorter-term yields picked up significantly during this August. **Yield on the 91-Day Treasury Bills stood at 0.78% as at 31 August 2020, increasing by 0.61% during the month under review.** Yields on Government of Mauritius Bonds of maturities of 5-year and above also rose slightly.

Disclaimer: Nothing in this document should be considered as being financial advice. Past performance is not a guide to the future. Our investment consultants will be pleased to answer questions on its contents but cannot give individual financial advice.

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