

July-2019

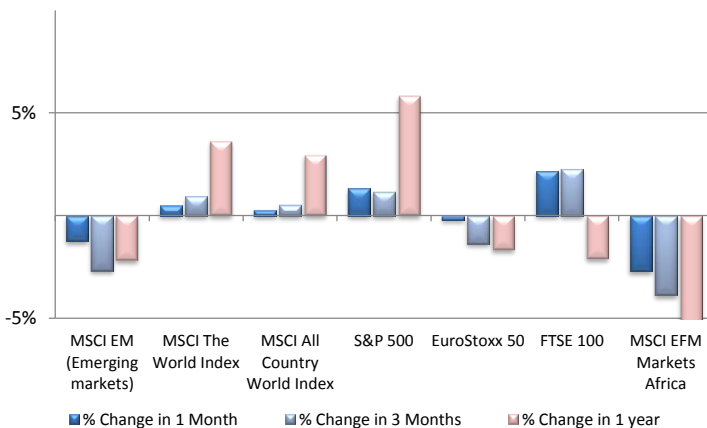
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Foreign Equity Indices

31/07/2019	Current Value (USD)	% Change in				
		Last Month	Last 3 Months	Last 12 Months	Last 3 Years *	Last 5 Years *
MSCI EM (Emerging markets)	486.60	-1.2%	-2.7%	-2.2%	8.4%	1.8%
MSCI The World Index	6,362.44	0.5%	0.9%	3.6%	10.4%	7.1%
MSCI All Country World Index	259.95	0.3%	0.5%	2.9%	10.2%	6.5%
S&P 500	2,980.38	1.3%	1.2%	5.8%	11.1%	9.1%
EuroStoxx 50	3,466.85	-0.2%	-1.4%	-1.7%	5.0%	2.2%
FTSE 100	7,586.78	2.2%	2.3%	-2.1%	4.1%	2.4%
MSCI EFM Markets Africa	1,116.59	-2.7%	-3.9%	-8.2%	1.4%	-2.0%

*Annualised

Performance



Foreign Equity Indices registered **mixed returns** during the month under review.

MSCI World gained 0.5%, while the **MSCI ACWI** returned +0.3% this July.

Emerging market stocks lost ground with the **MSCI Emerging Markets** and the **MSCI EFM Markets Africa** falling by 1.2% and 2.7%, respectively.

US stocks were helped by better than expected corporate earnings results and expectations of a Fed rate cut. The **S&P 500** rose by 1.3% in July. Market optimism was further boosted by news of the US-China trade talks scheduled to resume on 5th August in Beijing.

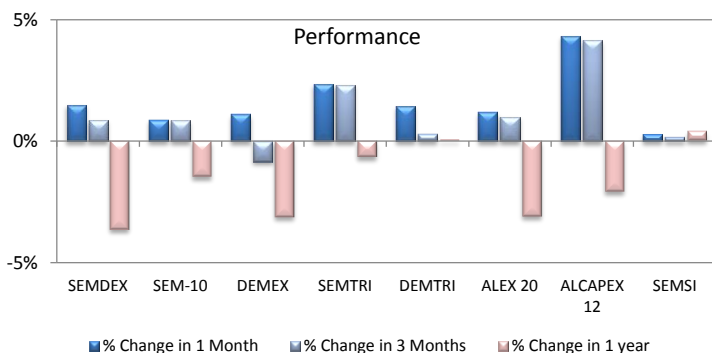
UK stocks got a boost from weakness in the pound after Boris Johnson won the Conservative Party vote to become the next prime minister. **FTSE 100** gained **+2.2%** this July.

European stock prices fell after Donald Trump announced an additional 10% tariff on USD 300 billion of Chinese imports from 1 September 2019, further escalating the trade war tensions between US and China. **EuroStoxx 50** **dropped by 0.2% this July**.

Local Equity Indices

31/07/2019	Current Value (MUR)	% Change in				
		Last Month	Last 3 Months	Last 12 Months	Last 3 Years *	Last 5 Years *
SEMDEX	2,160.26	1.5%	0.9%	-3.6%	6.5%	0.5%
SEM-10	421.71	0.9%	0.9%	-1.5%	7.0%	0.8%
DEMEX	230.78	1.1%	-0.8%	-3.1%	6.1%	4.0%
SEMTRI	8,118.68	2.3%	2.3%	-0.7%	9.7%	3.6%
DEMTRI	328.98	1.4%	0.3%	0.1%	9.6%	7.2%
ALEX 20	1,101.00	1.2%	1.0%	-3.1%	7.0%	0.9%
ALCAPEX 12	1,561.00	4.3%	4.1%	-2.1%	6.1%	2.3%
SEMSI	121.77	0.3%	0.2%	0.4%	NA	NA

Performance



Local Equity Indices all picked up and registered positive returns this July.

The **SEMDEX**, **SEMTRI** and **SEM-10** went up by 1.5%, 2.3% and 0.9%, respectively.

The DEM markets followed similar trend. The **DEMEX** rose by 1.1% while the **DEMTRI** gained 1.4% this July.

The Stock Exchange of Mauritius (SEM) celebrated its 30th anniversary on 5th July 2019. It is to be noted that the SEM was initially a domestic equity-centric exchange with five listings. **As at 5 July 2019, the SEMDEX and the SEMTRI returned +10.8% and +15.7% (annualised) respectively, over the 30-year period.**

Following the General Assembly of shareholders held on 25th July 2019, the Board of Directors of Air Mauritius Ltd announced the introduction of a travel scheme which will provide a discount on airplane tickets for shareholders, holding 500 shares or more in the company, with effect from mid-January 2020.

Commodities 31/07/2019	% Change in					
	Current Value (USD)	Last Month	Last 3 Months	Last 12 Months	Last 3 Years *	Last 5 Years *
Gold	1,437.80	1.8%	11.9%	17.5%	2.1%	2.3%
Oil	65.17	-2.1%	-10.5%	-12.2%	15.4%	-9.3%
Sugar	12.21	-0.9%	1.8%	15.7%	-13.8%	-5.8%

Gold price gained 1.8% during this month under review. Investors moved into safe-haven assets such as Gold after the President Donald Trump announced the imposition of a 10% tariff on Chinese imports. (Check out our *Did you know* section to learn more about Gold).

Brent crude oil price shed 2.1% this July as fresh deterioration in US-China trade relations clouded the outlook for global economic growth and oil demand. (Source: *Financial Times*)

The **sugar price** fell by 0.9%. Over the past 12 months, it has however appreciated by nearly 16%.

31/07/2019	Weighted Average:	T-Bill Yield
91-Day		3.01%
182-Day		2.98%
364-Day		3.34%

31/07/2019		
Repo Rate		3.50%
Deposit Rate *		1.71%

*Weighted Average Deposit Rate of Banks for the previous month

Foreign Indices 31/07/2019	Current Value (USD)	Last Month	Last 3 Months	Last 12 Months
S&P Global Property	509.40	0.2%	1.8%	7.0%
S&P Listed Private Equity	329.61	1.3%	5.1%	8.3%
S&P Global Infrastructure	5,363.81	-2.0%	2.3%	3.5%
S&P Africa Sovereign Bond	767.43	0.6%	3.1%	11.0%
S&P 500 Bond Index	473.61	0.6%	4.3%	10.3%
S&P International CBI	131.93	-0.8%	1.6%	2.8%
Barclays Global Aggregate Bond	504.18	-0.3%	3.3%	5.7%

Currencies 31/07/2019	In MUR		% Change in			
	Current Value	Past Month	Last Month	Last 3 Months	Last 12 Months	Last 3 Years *
GBP	43.64	45.10	-3.2%	-3.3%	-2.5%	-2.4%
USD	36.09	35.70	1.1%	2.9%	5.3%	0.4%
EUR	40.03	40.29	-0.7%	2.6%	0.3%	0.4%

The **Pound** depreciated by 3.2% against the MUR during July due to increased possibility of a no-deal Brexit.

The **Euro** lost 0.7% against the Mauritian Rupee in July.

The **US Dollar** appreciated by 1.1% against the local currency.

Gold as an Investment

As much as being a consumer luxury, gold is also considered as an investment for potential long-term returns. Gold is a liquid asset, offering diversification benefits in a portfolio. Based on one-year average trading volumes as of December 2018, gold trades more than many other major financial assets including the Dow Jones, German Bunds and UK Gilts. Physical gold has no credit risk and thus, represents an effective vehicle for risk management because of its independence from other asset classes. The independence comes thanks to gold's role as:

1. a savings vehicle worldwide,
2. a consumer luxury in the West,
3. must-have household asset in Asia, and
4. continued industrial input – especially in electronics today.



In times of distress, gold can mitigate losses and be a means of enhancing overall performance of a portfolio. Over the last 10 years, in USD terms, gold has returned +4.4% (annualised). Since 1971, gold price has seen short periods of exponential followed by relatively stable periods. Moreover, gold has historically rallied in periods of high inflation and protected investors against extreme inflation. In years when inflation has been higher than 3%, gold's price has increased by 15% on average. (Source: *Bloomberg*)

Global investment demand for gold has grown significantly over the years. In response to major economic uncertainties, institutional investors have embraced alternatives to the traditional assets. The share of non-traditional assets (infrastructure, real estates and commodities including Gold) among global pension funds has increased from 15% in 2007 to 25% in 2017 (Source: *Global Pension Assets Study 2018*).

Traditional investors usually tend to believe that diversification benefits are limited within the three asset classes, namely equities, bonds and cash. **Gold as a portfolio diversifier is attractive to investors due to its low correlation to other assets.** Gold is also favoured as a hedge against systematic risk and market pullbacks. Historically, gold is known to have an inverse correlation with USD. The inverse relationship remains because the falling dollar or stock market performance causes investors to look for alternative investment sources to store value.

It is also important to highlight that the inverse relationship may not always hold. The USD and gold may act as haven simultaneously in times of uncertainties in other countries/region. For instance, in October 2008 both the USD and gold price climbed by 2% following major declines in emerging equities, especially in China (Source: *Bloomberg*). Since 2016, the inverse correlation seems to be weakening and has seen to break down several times (e.g. after Brexit vote in 2016, Greek debt crisis in 2010). Interestingly, the correlation between US stocks and the USD has been observed to be negative when the S&P goes down but positive when the S&P goes up (Source: *Bloomberg*).

Investment in gold can be made in numerous ways:

- **Bars and Coin:** Purchasing gold coins and bars, either to store personally, or to be held securely on one's behalf by a bank or other financial intermediary.
- **Exchange Traded Funds (ETFs):** Financial products physically backed with allocated gold bullion, listed on a stock exchange, and bought and sold in the form of shares. Note that there is one gold ETF (NewGold) denominated in Mauritian Rupees which is listed on the Stock Exchange of Mauritius.
- **Gold Accounts:** Gold bullion stored and managed by a bullion dealer or depository. Gold bullion is in the form of bars, ingots, or specialized coins and is typically used for trade on a market. The value of bullion is typically determined by the value of its precious metals content, which is defined by its purity and mass.
- **Other Gold-linked products:** Indirect investments in gold, via financial instruments, without direct ownership of the metal. Examples: Gold mining stocks, Futures and options

During July 2019, the gold price reached its highest level since 2013. As at end July, gold price stood at USD 1,438. It has appreciated by gains of 18% over the last 12 months. These gains were driven by expectations of lower interest rates, negative yields in some countries and political uncertainty, with further support coming from strong central bank purchases and strong recovery in India's jewellery market.

Consumer Price Index (Mauritius)	Current Value	% Change in		
		Last Month	Last 3 Months	Last 12 Months
31/07/2019				
CPI	117.15	0.0%	-1.0%	0.8%
				2.6% (Annualised)

The above figures represent the CPI as at July 2019. The year-on-year inflation rate for July 2019, as measured by the change in the CPI for July 2019 relative to July 2018 works out to 0.8%. (Source: Statistics Mauritius Website)

General News

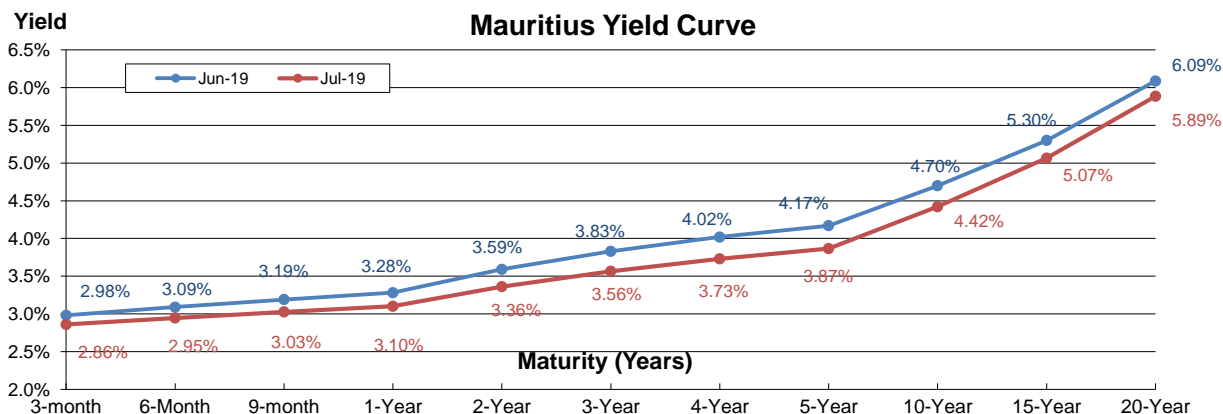
The Federal Reserve cut its benchmark interest rate for the first time since the financial crisis by 0.25% to a range of between 2% and 2.25%. On 31st July, the US Federal Reserve cut interest rates for the first time since December 2008. The Federal Reserve cited global developments and muted inflation pressures. Equity markets however declined on the Fed's announcement due to concerns that this rate cut might not mark the start of an easing cycle. (Source: CNBC)

Several Junk Bonds in Europe are offering negative yields
 During July, there were around 14 European companies with junk bonds trading at negative yields (source: Bank of America Merrill Lynch). It is to be noted that junk bonds are typically issued by companies with weaker balance sheets or are small in size. Several investors have been buying such riskier debt given a shortage of high quality government and corporate bonds. The irony of the negative yields is that investors are now paying the higher risk companies to take their money!

European Central Bank officials signaled at their June policy meeting that they will consider injecting fresh stimulus into the Eurozone economy through interest rate cuts or via a bond buying program.

On 24th July, Boris Johnson took over the Prime Minister Office, unveiling the names of his Cabinet and the team he has tasked with delivering Brexit.
 Johnson has pledged to negotiate a new Brexit agreement with the European Union before 31 October 2019, but if the bloc refuses, he has promised to leave without a deal.

The International Monetary Fund (IMF) trims growth projection
 The IMF revised its April projections and cut its global growth outlook by 0.1% to 3.2% in 2019 and 3.5% in 2020. The IMF stated that strength in the global economy is being weighed down by prolonged policy uncertainty due to the US-China trade tensions and increased prospects of a no-deal Brexit.



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 month, local yields on treasury bonds of all maturities have fallen.** Yields on one-year treasury bills stood at 3.10% at end-July against 3.28% at end-June 2019.

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.