Aon Hewitt (Mauritius)
Investment Consulting Dashboard

Aon
Empower Results®

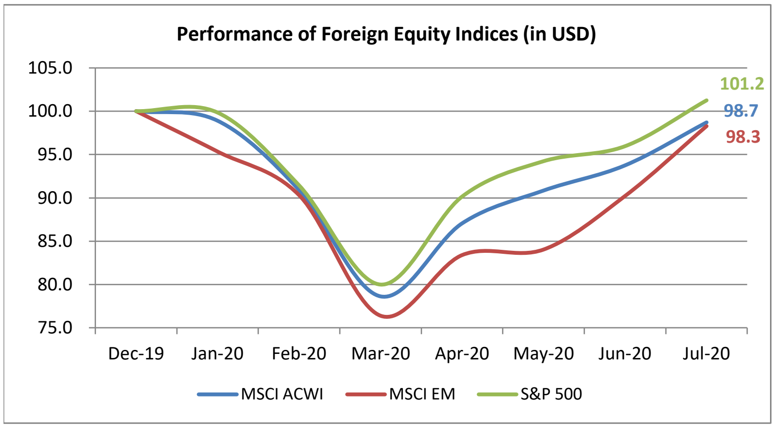
Aon Hewitt Investment Dashboard - July 2020

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

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		% Change in				
31/07/2020	Current Value (USD)	Last Month	Year-to-date YTD	Last 12 Months	Last 3 Years *	Last 5 Years *
MSCI EM (Emerging markets)	518.47	8.9%	-1.7%	6.5%	2.8%	6.1%
MSCI The World Index	6,822.60	4.8%	-1.3%	7.2%	7.5%	7.5%
MSCI All Country World Index	278.66	5.3%	-1.3%	7.2%	7.0%	7.4%
S&P 500	3,271.12	5.5%	1.2%	9.8%	9.8%	9.2%
S&P 500 ESG Index	351.19	5.8%	4.4%	15.0%	13.5%	12.3%
EuroStoxx 50	3,174.32	-1.8%	-15.2%	-8.4%	-2.7%	-2.5%
FTSE 100	5,897.76	-4.4%	-21.8%	-22.3%	-7.2%	-2.5%
MSCI EFM Markets Africa	920.84	5.3%	-19.7%	-17.5%	-7.6%	-3.7%

* annualised



July was a pretty strong month for the stock markets, with most major indices finishing in positive territory. Positive news on vaccines and economic stimulus in the European Union was hampered after **unexpected rise in the number of claimants for unemployment benefits and added US-China tensions**.

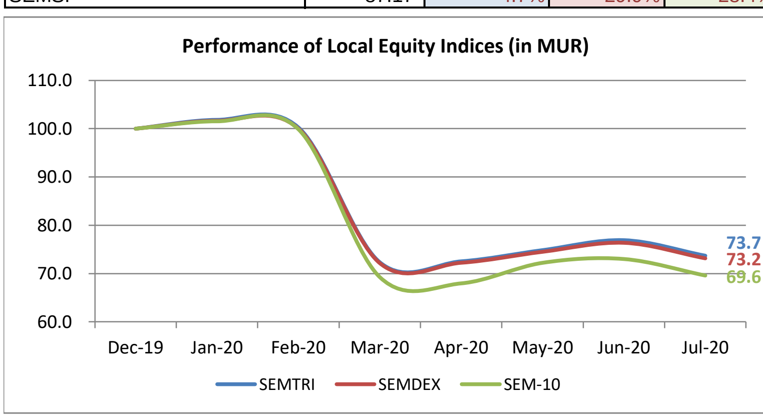
The **MSCI World Index** and **MSCI All Country World** Index rose by 4.8% and 5.3% in July, respectively. Meanwhile, **MSCI Emerging Markets** registered the biggest gain of nearly 9% this July.

Despite the continued elevated Covid-19 cases in the US, the S&P 500 ended up in the green on a year-to-date basis, fueled by strong earnings from the big technology companies and hopes that a vaccine will be available by the end of the year. The **S&P 500 gained 5.5% amid a surge in technology stocks** this July.

The tech giants, Amazon.com Inc., Facebook Inc., Apple Inc. and Alphabet Inc. rallied on the announcement of strong quarterly results on 31st July. Their combined market value then amounted to above USD 5 trillion, making up about 20% of the S&P 500 Index. As at 31st July, Amazon and Apple were up 65% and 31%, year-to-date, respectively *(Source: Bloomberg)* .

On the other hand, **FTSE 100 fell by 4.4%** this July as the Prime Minister, Boris Johnson pushed back re-opening plans amid a rise in Covid-19 cases in the UK and across Europe. Despite the announcement of a new generous recovery fund of EUR 750bln to rebuild European economies, the **EuroStoxx 50 dropped by 1.8%** over increasing number of infected cases during the month under review.

Local Equity Indices		% Change in				
31/07/2020	Current Value (MUR)	Last Month	Year-to-date YTD	Last 12 Months	Last 3 Years *	Last 5 Years *
SEMDEX	1,592.60	-4.2%	-26.8%	-26.3%	-10.0%	-4.2%
SEM-10	299.15	-4.7%	-30.4%	-29.1%	-11.1%	-4.6%
DEMEX	206.33	-0.3%	-12.1%	-10.6%	-1.4%	0.1%
SEMTRI	6,123.73	-4.2%	-26.3%	-24.6%	-7.5%	-1.4%
DEMTRI	301.27	0.0%	-11.3%	-8.4%	1.7%	3.2%
ALEX 20	788.39	-4.7%	-29.5%	-28.4%	-11.2%	-4.1%
ALCAPEX 12	1,129.16	-5.8%	-27.7%	-27.7%	-11.0%	-3.1%
SEMSI	87.17	-4.7%	-29.9%	-28.4%	-9.7%	N/A



On the local markets, the story is quite different. All major equity indices ended the month in red.

The **SEMDEX and SEMTRI** both lost 4.2% in July. The SEM-10 was also down by 4.7%.

While the **DEMEX fell slightly by 0.3%**, the **DEMTRI** remained flat during the month.

With the borders remaining shut, the Mauritian economy is facing numerous challenges. The situation has since worsened as Mauritius declared a state of environmental emergency over oil spill from the stranded ship, Wakashio.

On a year-to-date basis and over the last 12 months, the local markets have lost significant ground.

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Commodities 31/07/2020	Current Value (USD)	% Change in Last Month	Year-to-date YTD	Last 12 Months	Last 3 Years *	Last 5 Years *
Gold	1,973.90	9.6%	29.6%	37.3%	15.9%	12.5%
Oil	43.30	5.2%	-34.4%	-33.6%	-6.3%	-4.4%
Sugar	12.64	6.8%	-5.8%	3.5%	-5.4%	2.5%

On 28th July, **gold prices marked a new all-time high, close to USD 2,000 per ounce** *(source: World Economic Forum).* In July, the rare metal rose by 9.6%, powered by weakening economic outlook, increasing US-China trade tensions and weakening of the dollar. Year-to-date, gold prices were up by around 30%.

Oil prices climbed by 5.2% in July as reports declared that US oil output cuts in May were the largest on record *(source: The Economic Times)* .

Sugar price was up by 6.8% this July.

31/07/2020 Weighted Average:	T-Bill Yield
91-Day	Not Issued
182-Day	Not Issued
364-Day	Not Issued

31/07/2020	
Repo Rate	1.85%
Deposit Rate *	1.56%*

**Weighted Average Deposit Rate of Banks as at February 2020*

As Covid-19 continued to hamper economic outlook, investors kept seeking for safe assets. Global yields are on free-fall. As at end-July, real yields in the US hit negative 1%. The Bloomberg Barclays Global Aggregate Bond Index was up 3.2% in July.

31/07/2020 Foreign Indices	Current Value (USD)	Last Month	YTD	Last 12 Months
S&P Global Property	449.66	3.1%	-17.3%	-11.7%
S&P Listed Private Equity	319.99	2.7%	-13.8%	-2.9%
S&P Global Infrastructure	4,804.28	3.0%	-16.9%	-13.4%
Foreign Bond Indices				
S&P Africa Sovereign Bond	859.15	1.8%	6.4%	12.0%
S&P 500 Bond Index	533.65	3.4%	8.9%	12.7%
S&P International CBI	144.72	6.8%	6.1%	9.7%
Bloomberg Barclays Global Aggregate Bond Index	543.74	3.2%	6.3%	7.8%

Currencies 31/07/2020	In MUR Current Value	Past Month	% Change in Last Month	Year-to-date YTD	Last 12 Months	Last 3 Years *
GBP	52.04	49.21	5.7%	9.6%	19.2%	5.6%
USD	39.86	40.18	-0.8%	9.6%	10.4%	5.7%
EUR	47.14	44.93	4.9%	16.3%	17.8%	6.1%

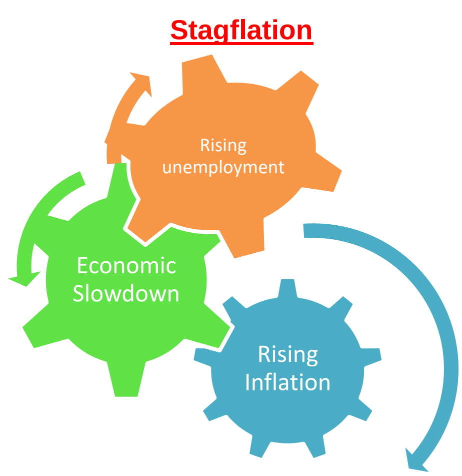
After experiencing continous appreciation against our local currency, the **US Dollar weakened by 0.8% relative to the MUR in July**. The dollar is flashing a warning sign to the US policy markers. *(source: Bloomberg)* . Investors have started questioning the strength and the supremacy of the dollar amid growing Covid-19 infections across the US. The US Dollar Index dropped by 4.1% in July. This index measures the greenback relative to a basket of other hard currencies.

Benefitting from the dollar's weakness, **the EUR and GBP jumped by 5.7% and 4.9%**, respectively during July. **It is worth noting that the EUR gained 16.3% relative to the Mauritian Rupee since the beginning of 2020.**

Article: Are we headed towards stagflation?

The global economy is surely going through great turmoil with the on-going pandemic. Moreover, signs of economic recovery seem quite feeble, despite the relaxation of lockdown restrictions in several countries. As macroeconomic numbers started to reveal the damages caused by the pandemic, the virus is surging again in several countries. UK has postponed further re-opening of its economy as infected cases continued to grow. This is weighing heavily on global demand and supply chains. The combination of both shocks is rapidly increasing the unemployment rate and could potentially trigger a large economic recession. The US economy contracted by 32.9% in the second quarter of 2020 *(Source: Bloomberg)* . Spain recorded the biggest downturn of 18.5% in Europe over the same period. France and Italy shrank by 14% and 12%, respectively.

In several attempts to support the economy, governments and central banks across the world have deployed generous amounts of fiscal and monetary stimulus. Interest rates have been lowered to nearly zero. Central banks have been injecting unprecedented amounts of money to support businesses. These quantitative easing measures increase money supply, which in turn induce inflationary pressures on the economy. All these actions, played out in a background of little economic growth; could potentially result in an environment of stagflation!



Stagflation is period of stagnant economic growth/declining Gross Domestic Product (GDP), high unemployment, and high inflation. It is quite unnatural as inflation is not supposed to occur in a weak economy. In a normal market economy, slow growth and low demand prevents inflation. Stagflation occurs as a result of government interventions in an economy.

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Stagflation got its name and was first experienced during the 1970s recession, where GDP figures were negative, unemployment peaked and inflation rates tripled, all at the same time! This became a big problem in the US. It was triggerred by an oil price shock. In response, the Federal Reserve intervened by adopting contradictory fiscal and monetary policies, creating an environment of abnormally rising prices. In 2008, the Zimbabwean government printed so much money that it went beyond stagflation and turned into hyperinflation.

Post-financial crisis in 2011, people again became concerned about stagflation. They feared that expansionary monetary policies deployed to rescue the economy from the financial crisis would cause inflation. Similarly, investors are now contemplating the threats of stagflation in a post-Covid world. Once the crisis passes, recovery could be characterised by slow output growth but accelerating prices. With the re-opening of the economies, while demand is likely to pick up, supply disruptions however may linger for a longer period of time. This could possibly lead to cost-push stagflation described as "too many claimants chasing too little income".

However, the unusual conditions that led to stagflation in the 1970s are unlikely to reoccur. Nowadays, things are very different to the 1970s. Central banks are much more aware of the measures taken and also commit to keeping inflation rates within an acceptable range.

Consumer Price Index (Mauritius)		**% Change in**			
31/07/2020	**Current Value**	**Last Month**	**Year-to-date (YTD)**	**Last 12 Months**	**Last 3 Years** (Annualised)
CPI	118.85	-0.3%	1.5%	1.5%	1.3%

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

General News

Apple is now the largest company in the world

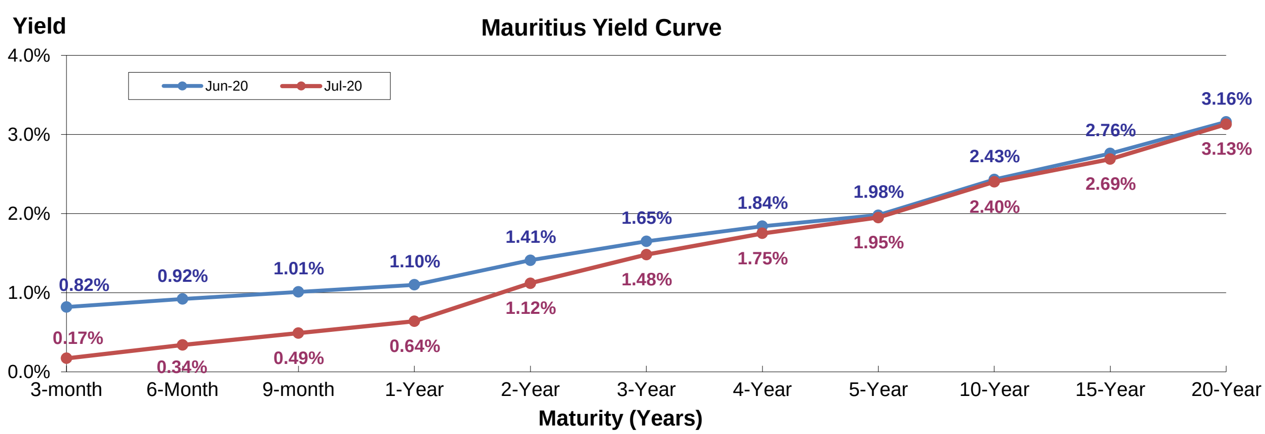
On 31st July, Apple stocks surged by 10% on the announcement of its strong quarterly reports *(source: The Verge)*. With a market capitalisation of around USD 1.82 trillion, Apple become the most valuable public listed company, surpassing Saudi Amraco.

Private equity (PE) strategies have performed no better on average than public markets, despite the large fees paid to PE fund managers.

Between 2006 and 2015, large public pension plans in the US earned around USD 1.50 (net of fees) for every USD 1 invested in private equity funds. This translates into around 11% annualised returns, matching those from the US stock markets over the same period. *(Source: Financial Times).* Therefore, in order to ensure sustainability, the PE industry may need to rethink its business model by lowering costs and re-evaluating performance fees to the fund managers. Over a 10-year period, investors have paid as much as USD 230bln in performance fees for returns that could have easily been matched by a stock market tracker. For instance, a report published in February 2020 by Bain & Company deduced that investors did better from tracking the S&P 500 over the past decade than investing in US buyout funds.

The US economy shrank by a third in the second quarter of 2020

The Gross Domestic Product (GDP) collapsed at a 32.9% annualized rate in Q2 2020, the steepest decline since 1947. Consumer and business spending fell massively due to the pandemic. Meanwhile, the number of claimants for unemployment benefits rose to 1.43mln, after four months of decreases following a late-March peak. *(Source: Seeking Aplha).* The US further extended its stimulus and agreed on USD 1 trillion coronavirus relief package, a the USD 600 weekly supplement to unemployment benefits expired in end-July.



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. Despite picking up slightly last month, yields of all maturities fell during July. As at end-July 2020, yield on 1-year bond stood at 0.64%, compared to 1.10% as at end-June 2020.

Note that there were no new issues of local treasury instruments during the month. We note that on 7th August, there was an auction for 1.9% of 5-year Bank of Mauritius bonds for an amount of MUR 3bln. However, there was no allocation to primary dealers.

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.