

# Aon Hewitt (Mauritius)

## Investment Consulting Dashboard

### Aon Hewitt Investment Dashboard - May 2020

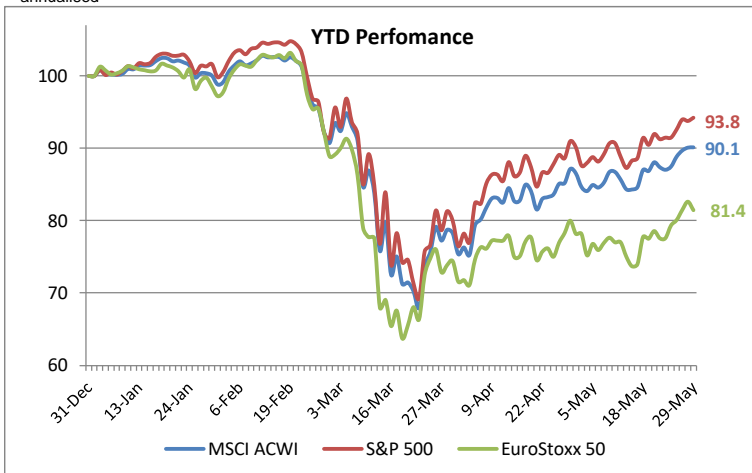


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Note: The charts below show the year-to-date performance of local and foreign equity indices on a time-series basis (i.e. 31 Dec 19 to 31 May 20).

31/05/2020	Current Value (USD)	% Change in				
		Last Month	Year-to-date (YTD)	Last 12 Months	Last 3 Years *	Last 5 Years *
MSCI EM (Emerging markets)	443.35	0.8%	-16.0%	-4.4%	-0.2%	0.9%
MSCI The World Index	6,343.31	4.8%	-8.2%	6.8%	5.9%	5.8%
MSCI All Country World Index	256.47	4.3%	-9.2%	5.4%	5.2%	5.3%
S&P 500	3,044.31	4.5%	-5.8%	10.6%	8.1%	7.6%
S&P 500 ESG Index	323.61	4.7%	-3.8%	15.5%	11.6%	10.3%
EuroStoxx 50	3,049.45	4.3%	-18.6%	-7.0%	-5.0%	-3.1%
FTSE 100	6,076.60	3.0%	-19.4%	-15.2%	-6.9%	-2.7%
MSCI EFM Markets Africa	800.66	2.2%	-30.1%	-26.1%	-10.8%	-7.1%

\* annualised



Positive sentiment continued to prevail during May. **Global equity markets rose amid hopes of the successful re-opening of the economy.**

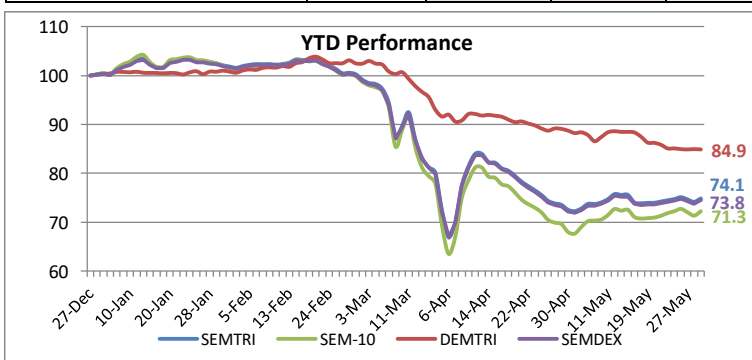
The **MSCI All Country World Index** and **MSCI World Index** gained 4.3% and 4.8%, respectively in May. On the other hand, the **MSCI Emerging Markets Index** only registered modest gains of 0.8%. Over the last 12 months, the MSCI Emerging Markets Index performance remains negative.

Investors looked past the widespread protests and civil unrest in the US to focus more on the reopening of several states across the country. Optimism was boosted by better-than-expected economic data over the recovery from Covid-19 related shutdowns. The **S&P 500 rose by 4.5%** during May. As at end-May, S&P 500 was up around 40% from March lows (source: CNBC). Dow Jones Industrial Average also gained 4.8% during the month. **Over the past 12 months, S&P 500 ESG Index returned +15.5%, outperforming the S&P 500.**

Meanwhile, the **tech-heavy Nasdaq 100 was up 6.2% in May**. Read more about the outperformance of technology stocks in this month's article.

Similar optimism was seen in UK and European stock markets. In May, **FTSE 100 also returned +3.0%**. Surprisingly, travel stocks were amongst the top performers towards the end of the month as investors eye for an easing of restrictions across Europe. **European markets were also firmly in positive territory** with the EuroStoxx 50 gaining 4.3% during the month.

31/05/2020	Current Value (MUR)	% Change in				
		Last Month	Year-to-date (YTD)	Last 12 Months	Last 3 Years *	Last 5 Years *
SEMDEX	1,622.12	3.1%	-25.5%	-24.0%	-7.9%	-3.6%
SEM-10	310.47	6.3%	-27.8%	-25.1%	-8.3%	-3.4%
DEMEX	198.44	-4.7%	-15.5%	-13.4%	-2.1%	-0.5%
SEMTRI	6,219.67	3.2%	-25.2%	-21.7%	-5.2%	-0.7%
DEMTRI	288.21	-4.7%	-15.1%	-11.1%	1.1%	2.6%
ALEX 20	801.68	2.6%	-28.3%	-26.1%	-8.9%	-3.6%
ALCAPEX 12	1,147.13	-1.0%	-26.5%	-24.2%	-8.9%	-3.0%
SEMSI	89.73	6.1%	-27.8%	-25.6%	-7.3%	N/A



The lockdown restrictions in Mauritius were lifted on 31st May. However certain restrictions still remain in place with a re-evaluation scheduled to take place two weeks later on 15th June.

The Official Market indices registered positive returns during May. **SEMDEX** and **SEMTRI** gained 3.1% and 3.2%. **SEM-10 recorded the highest return of +6.3%** during the month under review. However, on the longer-term, the local equity indices have yet to recover from the massive losses in March 2020.

On the DEM market, **DEMEX** and **DEMTRI** both fell by 4.7% in May.

#### National Budget

The Minister of Finance, Economic Planning and Development, Dr. Renganaden Padayachy presented the National Budget 2020/2021 on 04th June 2020.

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## Commodities

31/05/2020	Current Value (USD)	% Change in				
		Last Month	Year-to-date (YTD)	Last 12 Months	Last 3 Years *	Last 5 Years *
Gold	1,736.90	2.5%	14.0%	33.0%	10.8%	7.9%
Oil	35.33	39.8%	-46.5%	-45.2%	-11.1%	-11.6%
Sugar	10.91	5.0%	-18.7%	-9.8%	-9.8%	-1.9%

**Gold** price was up 2.5% in May. In addition to worsening relations between US and China, national protests over racism in major US cities have further contributed to added economic uncertainty. This in turn boosted demand for safe-haven gold.

**Oil prices** climbed by nearly 40% during the month on signs of stronger demand following the easing of lockdown restrictions. On the supply side, the OPEC forsee to extend cuts in production, thus further pushing up oil prices. However, over the past 12 months, oil prices remained subdued.

**Sugar price** was also up by 5.0% this May. With the re-opening of businesses, malls and restaurants, demand for sugar rose.

31/05/2020	Weighted Average:	T-Bill Yield
91-Day		Not Issued
182-Day		0.19%
364-Day		Not Issued

31/05/2020		
Repo Rate		1.85%
Deposit Rate *		1.56%*

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

Bond prices continue to rise on the back of falling global yields. The Bloomberg Barclays Global Aggregate Bond Index gained 0.4% in May.

31/05/2020	Current Value (USD)	Last Month	YTD	Last 12 Months
<b>Foreign Indices</b>				
S&P Global Property	424.98	0.3%	-21.9%	-14.4%
S&P Listed Private Equity	302.12	8.2%	-18.6%	0.1%
S&P Global Infrastructure	4,722.76	5.4%	-18.3%	-12.0%

## Foreign Bond Indices

S&P Africa Sovereign Bond	836.57	2.9%	3.6%	11.3%
S&P 500 Bond Index	507.21	1.4%	3.5%	10.1%
S&P International CBI	132.70	0.8%	-2.7%	3.4%
Bloomberg Barclays Global Aggregate Bond Index	522.29	0.4%	2.1%	5.6%

## Currencies

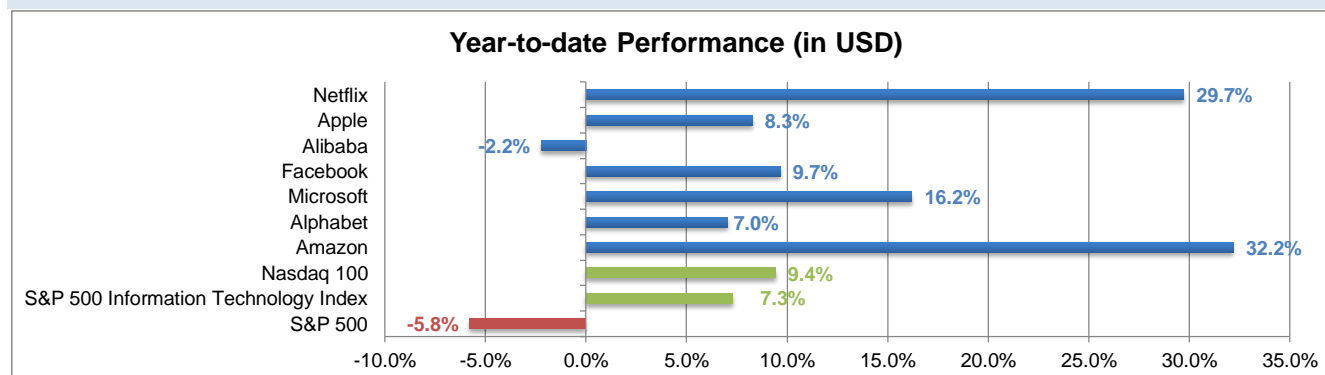
31/05/2020	In MUR		% Change in			
	Current Value	Past Month	Last Month	Year-to-date (YTD)	Last 12 Months	Last 3 Years *
GBP	49.16	49.74	-1.2%	3.5%	10.0%	3.3%
USD	40.04	40.07	-0.1%	10.0%	12.4%	4.7%
EUR	44.22	43.32	2.1%	9.1%	12.2%	4.4%

After rapid appreciation of FOREX relative to the local currency, GBP and USD lost 1.2% and 0.1% against the MUR this May. The Euro, however, further gained 2.1% relative to MUR. **Over the past 12 months, all three currencies appreciated relative to the MUR.**

## Article: Why are technology stocks outperforming?

With the on-going pandemic, all sectors are facing major setbacks. Businesses are suffering significantly from the negative impacts of lockdowns, disruptions in supply chains and fears of global recession. Meanwhile, financial markets have witnessed worrying volatility since the start of the year. In March, equity markets experienced major sell-offs, followed by flash rallies in the subsequent months. In March, S&P 500 fell by 20%, recording its worst loss in a quarter since the financial crisis. Successively in April, the S&P 500 rallied to mark its best month since 1987. This rally in the US stock markets was mainly driven by a sharp rise in the share prices of large technology firms. While the broader economic numbers still look gloomy, large tech companies like Microsoft, Facebook and Apple, amongst others posted strong earnings.

The wider stock markets have yet to recover from the pandemic. However, **large tech stocks have dramatically been outperforming.** This is illustrated in the chart below.



As at 31 May, S&P 500 was down by 5.8%, year-to-date (YTD). On the other hand, the S&P 500 Information Technology Index was up 7.3% over the same period. The latter is a market-capitalisation-weighted index comprising of listed technology stocks in S&P 500. As at end-May, **the S&P 500 information technology index was the only sector that recorded gains for the year**, compared to other hard-hit sectors such as Energy and Financials which were down by more than 30%, YTD. Similarly, NASDAQ 100, which is heavily concentrated in large technology stocks, also gained 9.4% YTD.

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As can be seen above, the major large tech stocks outperformed the S&P 500, YTD. Amazon recorded the highest return of 32.2% in USD terms. Even during the worst days, these stocks remarkably held up stronger than the wider markets.

The pandemic has brought around a secular shift. The imposition of lockdowns worldwide has resulted in meaningful changes in digital consumption patterns. Businesses have been ordered to shut down and encourage remote work and e-commerce. Quarantining acted as a clear catalyst in boosting demand for collaboration software, communication services, online learning and shopping platforms amongst others. The video game industry has thrived rapidly as millions of people are staying at home and are on the hunt for new forms of entertainment. Game developers have seen an impressive surge in playing time and sales over the past few months. All these changes have hugely benefitted tech companies. For instance, Microsoft has recorded increased sales in its remote communication products such as Skype and Teams during this pandemic. Moreover, while the US is experiencing record-breaking surge in the number of claims for unemployment benefits, Amazon hired extra workers to meet increased demand. In the first tech IPO since Covid-19 on 4th June, ZoomInfo soared and closed up 62% above its initial IPO price. ZoomInfo's technology (not to be confused with Zoom Video) is a business database provider. The strong debut of ZoomInfo on the US stock exchange depicts the growing investors' appetite for software companies.

Furthermore, the business models of these large tech firms have been very resilient in this crisis period. They have been able to continue to generate revenue thanks to a strong balance sheet and good cash buffer. In addition to increased demand, large tech firms are also benefiting from bigger market share due to smaller competitors being wiped out during the crisis. Previous experience suggests that each economic downturn triggers a change in business model. For example, the outbreak of SARS in 2003 largely accelerated the growth of companies like Alibaba in China. Consumer patterns shifted quickly towards online shopping in favour of the company. Today, Alibaba is one of the biggest companies in the world.

To the benefit of the technology sector, the pandemic has indeed brought about material changes in consumer habits. Large tech firms have proved to be sustainable during these challenging times. However, it might not be reasonable to say that tech stocks are displaying any kind of immunity to the current crisis. Are investors overreacting to the technology sector's resilience? There still remain major uncertainties about the duration of this outperformance.

31/05/2020	% Change in				
	Current Value	Last Month	Year-to-date (YTD)	Last 12 Months	Last 3 Years (Annualised)
CPI	121.68	-1.3%	4.0%	2.9%	2.0%

The above figures represent the CPI as at May 2020. The year-on-year inflation rate for May 2020, as measured by the change in the CPI for May 2020 relative to May 2019 works out to 2.9% (Source: Statistics Mauritius Website).

## General News

### ESG funds remain relative safe havens during this economic downturn caused by the pandemic.

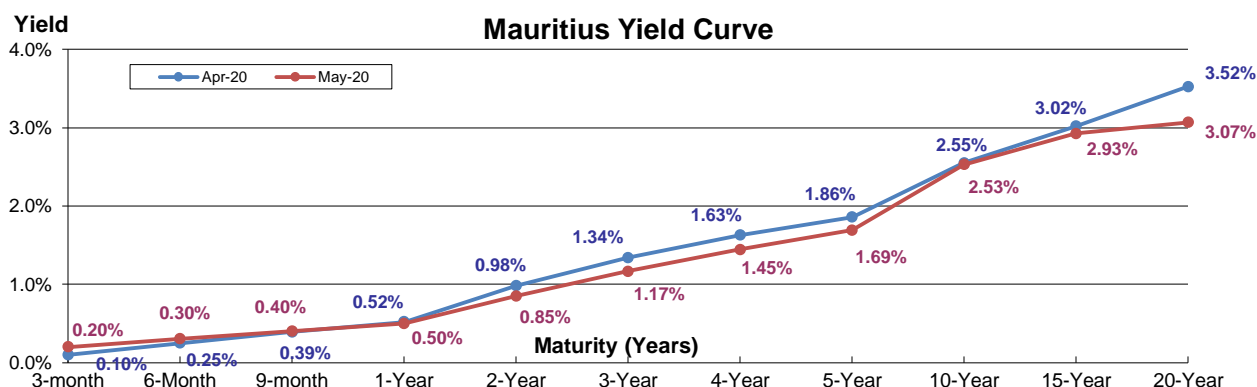
Investment funds focussed on Environmental, Social and Governance (ESG) criteria remain more resilient as well as outperformed the wider markets during the current crisis. Investors have increasingly been seeking safety in these long-term sustainable investments. Morningstar Inc. confirmed that sustainable funds in the US recorded around USD 10bln net inflows in the first quarter of 2020 despite the pandemic.

### UK borrowed at a negative interest rate for the first time.

On 20th May, the UK sold its 3-year government bonds at a negative yield of 0.003% amid growing fears of a deep global recession and expectations of further bond-buying from the central banks. This implies that the British government is effectively being paid to borrow. (source: CNBC)

### The Federal Reserve (Fed) starts buying corporate bond Exchange-Traded Funds (ETFs)

Prior to 12th May, the Fed had never dealt in ETFs. In an attempt to direct money faster into credit markets, the central bank's Secondary Market Corporate Credit Facility has now began to purchase eligible ETFs invested in corporate debt. The program is managed by BlackRock and centers around investment grade corporate bonds with some exposure to high-yielding bonds. (source: CNBC)



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 month, yields on treasury instruments of maturities of 1 year and above have further fallen. Yield on a 5-year government bond stood at 1.69% as at end-May 2020, falling by 0.17% over the month.

**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.