

November 2020

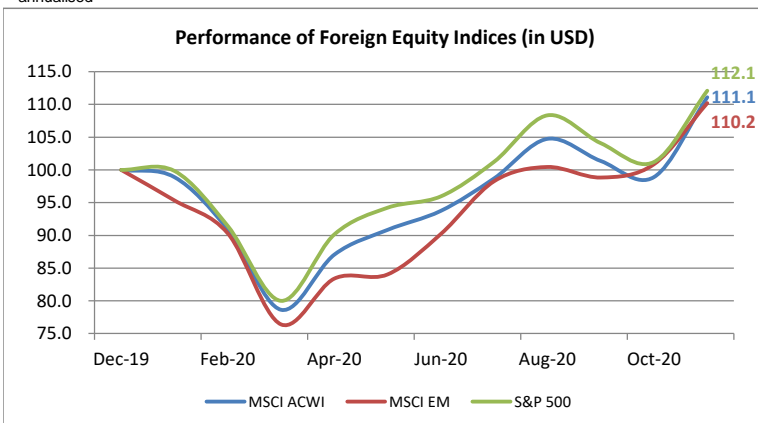
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Note: The charts below show the year-to-date performance of local and foreign equity indices on a time-series basis (i.e. 01 Jan 20 to 30 Nov 20).

Foreign Equity Indices

30/11/2020	Current Value (USD)	% Change in				
		Last Month	Year-to-date YTD	Last 12 Months	Last 3 Years *	Last 5 Years *
MSCI EM (Emerging markets)	581.39	9.2%	10.2%	18.4%	4.9%	10.7%
MSCI The World Index	7,682.75	12.8%	11.2%	14.5%	9.5%	10.9%
MSCI All Country World Index	313.64	12.3%	11.1%	15.0%	9.0%	10.8%
S&P 500	3,621.63	10.8%	12.1%	15.3%	11.0%	11.7%
S&P 500 ESG Index	389.83	10.5%	15.9%	19.6%	14.5%	14.8%
EuroStoxx 50	3,492.54	18.1%	-6.7%	-5.7%	-0.7%	-0.1%
FTSE 100	6,266.19	12.4%	-16.9%	-14.7%	-5.1%	-0.3%
MSCI EFM Markets Africa	1,008.54	10.1%	-12.0%	-4.0%	-7.0%	0.9%

* annualised



Positive developments on the vaccine front drove gains in the major foreign equity indexes over the month. Optimism prevailed as investors looked forward to gaining control over the pandemic that plunged the global economy into its deepest slump since the 1930s. Sentiment was further boosted by decreasing political uncertainty following the victory of Joe Biden in the US presidential elections, as well as possible additional stimulus in the US.

The **MSCI World Index** rose by 12.8%, closely followed by the **MSCI All Country World Index** which gained 12.3% during November. The **MSCI Emerging Markets Index** was also up by 9.2% for the month.

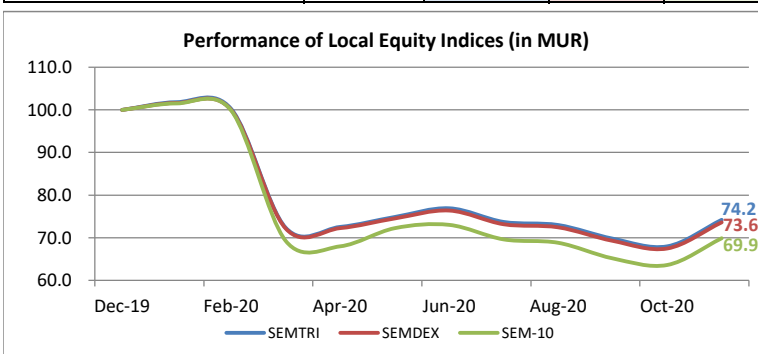
Meanwhile, the **S&P 500** also closed at a record-high, gaining 10.8% during November. **The EuroStoxx 50 was however the star performer with a monthly appreciation of 18.1%.**

On 24th November, the **Dow Jones Industrial Average** crossed 30,000 for the first time since its inception in 1896. For the month, the Dow registered a gain of 11.8%. (source: *The Washington Post*). **It is interesting to note that it took 18 years for the index to reach 20,000 from 10,000 but only four years to climb from that level to 30,000, that too in the middle of a global crisis.**

The UK was the first country in the world to approve the vaccine from Pfizer and BioNTech. Note that the vaccination process started on 8th December. The first doses will first be offered to frontline health care workers and the elderly. The **FTSE 100** rose by 12.4% during November.

Local Equity Indices

30/11/2020	Current Value (MUR)	% Change in				
		Last Month	Year-to-date YTD	Last 12 Months	Last 3 Years *	Last 5 Years *
SEMDEX	1,602.46	9.1%	-26.4%	-24.6%	-9.7%	-2.5%
SEM-10	300.32	9.9%	-30.1%	-28.0%	-10.1%	-3.0%
DEMEX	203.89	4.3%	-13.2%	-11.6%	-3.4%	0.6%
SEMTRI	6,165.06	9.2%	-25.8%	-23.9%	-7.6%	0.1%
DEMTRI	298.70	4.3%	-12.0%	-10.0%	-0.6%	3.7%
ALEX 20	803.34	11.4%	-28.2%	-26.2%	-10.5%	-2.1%
ALCAPEX 12	1,147.64	12.2%	-26.5%	-25.9%	-10.1%	-1.2%
SEMSI	88.27	12.0%	-29.0%	-27.2%	-8.8%	N/A



Optimism around the vaccine news resonated among local investors as well. The distribution of the vaccine is expected to contribute to the relief of the local and global economies.

The **SEMDEX** and **SEMTRI** gained 9.1% and 9.2%, respectively during November. The **SEM-10** was also up by 9.9%. **These were actually the largest monthly gains during 2020.**

The **DEM** markets also followed the same trend, with the **DEMEX** up by 4.3% over the month.

Foreign investors were net purchasers (MUR 50.8mln) on the Official Market during November.

Aon Hewitt (Mauritius) Investment Consulting Dashboard



Commodities 30/11/2020	Current Value (USD)	% Change in				
		Last Month	Year-to-date YTD	Last 12 Months	Last 3 Years *	Last 5 Years *
Gold	1,780.90	-5.3%	16.9%	20.9%	11.7%	10.8%
Oil	47.59	27.0%	-27.9%	-23.8%	-9.2%	1.3%
Sugar	14.51	1.0%	8.1%	12.1%	-1.3%	-0.6%

Gold prices edged lower and recorded its biggest monthly decline since November 2016. **Gold prices fell by 5.3%** in November amid the vaccine-led stock rally that undermined gold's safe-haven appeal.

With the hope that the vaccines will aid an economic rebound, **oil prices surged by 27%** as energy demand strengthened.

30/11/2020	Weighted Average: T-Bill Yield
91-Day	0.38%
182-Day	0.77%
364-Day	0.68%
Repo Rate	1.85%
Deposit Rate *	0.49%*

*Weighted Average Deposit Rate of Banks as at October 2020

Yield on the 10-year US Treasury Bond stood at 0.84% as at end-November 2020.

The Bloomberg Barclays Global Aggregate Bond Index gained 1.8% in November.

30/11/2020	Current Value (USD)	Last Month	YTD	Last 12 Months	Last 3 Years*
Foreign Indices					
S&P Global Property	488.91	12.2%	-10.1%	-8.6%	1.5%
S&P Listed Private Equity	369.66	20.0%	-0.4%	2.8%	9.1%
S&P Global Infrastructure	5,291.54	12.9%	-8.5%	-7.6%	1.4%

Foreign Bond Indices					
S&P Africa Sovereign Bond	906.36	1.6%	12.2%	14.1%	12.6%
S&P 500 Bond Index	538.00	2.8%	9.8%	10.1%	7.3%
S&P International CBI	149.80	4.5%	9.8%	12.1%	4.4%
Bloomberg Barclays Global Aggregate Bond Index	551.32	1.8%	7.7%	8.4%	4.5%

Currencies 30/11/2020	In MUR		% Change in			
	Current Value	Past Month	Last Month	Year-to-date YTD	Last 12 Months	Last 3 Years *
GBP	52.95	51.48	2.8%	11.5%	12.5%	5.2%
USD	39.90	40.04	-0.4%	9.7%	8.9%	5.6%
EUR	47.53	46.57	2.1%	17.3%	18.5%	5.8%

Admiring rising global equities, the **US Dollar depreciated further by 0.4%** against the local currency during November. The Dollar Index which measures the value of the greenback against a basket of other hard currencies, moreover fell to its lowest level since April 2018 during the first week ending 4th December.

The **GBP** and **EUR** gained 2.8% and 2.1% relative to the MUR during the month.

Article: Behavioural Finance

Theoretically, **traditional finance tells us how people and markets should behave**. It assumes that individuals are risk averse, self-interested, utility maximisers and markets are efficient. As can be imagined, this is rarely the case. Fear and greed can have a huge impact on trading patterns. Traditional finance ignores the different biases inherent in individuals. This is explained by 'Behavioural Finance' i.e. **how people and markets actually behave**. Investors are not always rational, have limits to their self-control, and are influenced by their own biases.

Influences and biases can be the source for explanation of several market anomalies, such as severe rises or sharp sell-offs in stock markets. Behavioural finance takes the view that markets are not fully efficient, that is, they do not reflect all information available. This allows for observation of how psychological factors can influence the buying and selling of stocks. For instance, during a crisis, investors are often driven by emotions and engage in panic selling, booking in considerable long-term losses. According to a study by Oxford Risk in 2020, it is estimated that investors are losing up to 2% in investment returns per year due to investing more money when the market is up and less when it is down. The current Covid-19 pandemic has brought into light significant divergences between movement in the financial markets and the economy. While the global economic outlook was rather gloomy and uncertain, global equity indices were trading at all-time highs. Such variances usually widen and are more prominent throughout extreme and volatile periods.

Rule-of-thumb strategies make decision making easier. However, they can sometimes lead to biases, especially when things change. These then lead to suboptimal investment decisions. In finance, this is also referred to as **mental shortcut**, whereby investors tend to gather some (not all available information) and will stop when they have a satisfactory decision instead of optimal.

Behavioural biases can be classified into **Cognitive Errors** and **Emotional Biases**. **Cognitive** refers to how people think. Investors make systematic errors in the way that they think. For instance, they may be overconfident or put too much weight on recent experience, etc. Their preferences may create distortions in decision-making. Cognitive errors are easier to correct through better education, gathering more information and better advice. On the other hand, **Emotional Biases** stem from feelings and emotions of individuals and are more difficult to correct. According to CFA institute, the types of Cognitive Errors and Emotional Biases are as follows:

Examples of Cognitive Errors

1. Conservatism Bias – Individuals are slow to react to new information as they overweight their initial beliefs.

Example: In finance and investment, this can result in an analyst taking too long to update forecasted returns of an asset class.

2. Confirmation Bias – Individuals tend to focus and look for information which confirms their views and ignores information contradicting their beliefs.

Example: Looking for supporting information and ignoring contradicting information can result in bad advice/recommendations. It may also lead to overconfidence.

3. Representativeness Bias – Individuals classify new information based on their recent past experiences. This is known as stereotyping.

Example: Decision makers can generally pay too much attention to short term returns and ignore long term returns. As a result, they are likely to change strategies based on a small sample of information.

4. Illusion of Control – Individuals believe they are in a position to influence or control outcomes of an event, when in fact, they cannot.

Example: The illusion of control over one's investment outcomes can lead to excessive trading with the accompanying costs and it can also lead to concentrated portfolios.

5. Hindsight Bias – Individuals generally see past events as being predictable.

Impact and Example: For example, in the aftermath of the 2008/2009 global financial crisis, several analysts mentioned that this event was predictable. This can lead to overconfidence.

6. Anchoring and Adjustment – Individuals tend to remain close to their initial forecasts and only update the previously forecasted value based on the new information.

Example: When modelling returns, sticking to the initial estimates and adjusting to new information from that anchor will result in this bias. This can be mitigated by seeking opinion of others.

Types of Emotional Biases

1. Loss Aversion Bias – Individuals prefer avoiding losses rather than achieving gains.

Example: The disposition effect which is selling winners too early and holding losers for too long is an example of this bias.

2. Overconfidence Bias – Individuals tend to overestimate their abilities and capacities.

Example: Overconfidence can result in holding under-diversified portfolios and underestimating the downside risk while overestimating the upside potential.

3. Self-Control Bias – Individuals fail to follow long term goals because of lack of self-discipline.

Example: Overtrading to make up recent shortfall may result in the incurring of high costs and the portfolio assuming too much risk.

4. Status Quo Bias – Instead of advocating a change, individuals prefer to be passive.

Example: Generally, risk characteristics of a portfolio changes with time. Investor may lose in terms of opportunity costs.

5. Regret Aversion Bias – Individuals avoid making decisions out of fear that the decision turns out poorly.

Example: For a large pension fund with a long term horizon, staying in low-risk and low yield (bond) investments out of fear that equity markets could experience a large downturn over the coming years might not be optimal and beneficial for the portfolio.

There are ways to overcome negative behavioral tendencies in relation to investing. Individuals, Analysts, Fund Managers, Advisers and Trustees must carefully examine and scrutinise their actions for behavioural biases.

In order to mitigate behavioural biases, the following actions can be used:

- 1 •Carefully analyse available information
- 2 •Carry out proper due diligence
- 3 •Recognise past mistakes
- 4 •Develop a detailed Investment Policy Statement
- 5 •Maintain long-term investment objectives (where applicable)
- 6 •Seek advice from professionals.

Aon Hewitt (Mauritius) Investment Consulting Dashboard



Consumer Price Index (Mauritius) 30/11/2020	% Change in				
	Current Value	Last Month	Year-to-date (YTD)	Last 12 Months	Last 3 Years (Annualised)
CPI	120.44	0.2%	2.9%	3.1%	2.1%

The above figures represent the CPI as at 30 November 2020. The year-on-year inflation rate for November 2020, as measured by the change in the CPI for November 2020 relative to November 2019 works out to 3.1%. (source: Statistics Mauritius)

General News

Demand for the cryptocurrency surges during November

The digital asset gained increased institutional investor interest in November. On 30th November, the price of bitcoin reached an all-time-high of almost USD 20,000, three years after the cryptocurrency last spiked to that level in December 2017. Year-to-date, the value of the cryptocurrency has risen by about 170%. (source: The Guardian). However, Bitcoin price remained volatile.

Tesla included in the S&P 500 Index during December 2020

Tesla's share price soared following the announcement. The electric-car maker's market capitalisation is around USD 500bln, more than five times the combined value of its competitors, General Motors and Ford. The inclusion of Tesla will be ranked as the biggest on record and will give the company one of the largest weightings in the index. (source: Financial Times)

2021: Challenging times?

According to JPMorgan Chase & Co., investors in the U.S. money market will face a dull year in 2021. (source: Bloomberg) The strategists predict that the supply of investable assets will shrink by around USD 300bln while the amount of liquidity chasing these assets has nearly doubled to USD 3 trillion. While on the supply side, the quantity of Treasury bills is expected to shrink, the demand for such securities is rising.

Local Yields

During November 2020, yields on local treasury instruments fell, compared to the previous month. On 27th November, 364-Day Treasury Bills were issued at a weighted average yield of 0.68%, compared to 1.0% as at end-October 2020.

Latest Update: There was an issue of 91-Day Treasury Bill on 4th December at a weighted average yield of 0.28%. Furthermore on 9th December, 10-Year Treasury Bonds were issued at a weighted average yield of 1.35%, compared to 2.48% as at end-October 2020. (source: Bank of Mauritius)

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.