Aon Hewitt (Mauritius)
Investment Consulting Dashboard

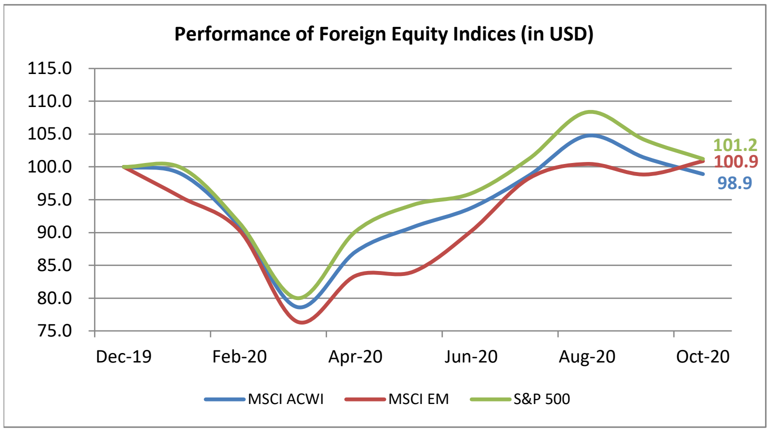
October 2020

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. 01 Jan 20 to 31 Oct 20).

Foreign Equity Indices		% Change in				
31/10/2020	**Current Value (USD)**	**Last Month**	**Year-to-date YTD**	**Last 12 Months**	**Last 3 Years ***	**Last 5 Years ***
MSCI EM (Emerging markets)	532.17	2.1%	0.9%	8.3%	1.9%	7.9%
MSCI The World Index	6,811.78	-3.1%	-1.4%	4.4%	6.0%	8.1%
MSCI All Country World Index	279.22	-2.4%	-1.1%	4.9%	5.5%	17.9%
S&P 500	3,269.96	-2.8%	1.2%	7.7%	8.3%	9.5%
S&P 500 ESG Index	352.77	-2.7%	4.9%	12.2%	11.9%	12.5%
EuroStoxx 50	2,958.21	-7.4%	-21.0%	-17.9%	-7.0%	-2.8%
FTSE 100	5,577.27	-4.9%	-26.1%	-23.1%	-9.4%	-2.6%
MSCI EFM Markets Africa	915.69	0.8%	-20.1%	-12.7%	-7.6%	-2.4%

* annualised



The International Monetary Fund described the pandemic as the worst crisis since the Great Depression. Global equities came under pressure during the month as new restrictions were imposed in UK, France and the Netherlands. The number of Covid-19 cases continued to rise across the globe. The US now confirms more than 9 million infections.

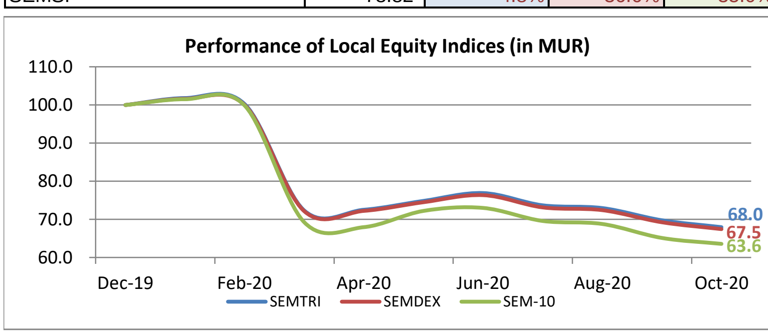
The **MSCI All Country World** Index fell by 2.4%. On the other hand, the **MSCI Emerging Markets** and **MSCI EFM Markets Africa** registered positive returns of 2.1% and 0.8%, respectively.

Europe is experiencing its second waves of infection, overwhelming the health services. Markets fell as France, Germany and the UK declared one-month lockdowns. The **EuroStoxx 50** fell sharply by 7.4% during October. The **FTSE 100** was also down by 4.9%.

For the third quarter of 2020, the US economy grew by around 33%, following a contraction of 31% in the second quarter. Nevertheless, the stock markets were marked by sharp selloffs during October. Amid a surge in infections and hospitalisation in the US, the ongoing presidential elections added to the uncertainties and volatility in the US financial markets. Over the last week of October, the main US indices posted their worst weekly performance since the March-lows *(source: Bloomberg)* . The **S&P 500** fell by 2.8%.

The US technology giants reported their latest quarterly earnings. Although Amazon and Facebook posted increase in sales and profits, investors were disappointed by worse-than-expected drop in sales of iPhones in the third quarter. Technology stocks were among the worst performers for the month. *(source: Bloomberg)* **The Nasdaq 100 fell by 3.2% in October.**

Local Equity Indices		% Change in				
31/10/2020	**Current Value (MUR)**	**Last Month**	**Year-to-date YTD**	**Last 12 Months**	**Last 3 Years ***	**Last 5 Years ***
SEMDEX	1,468.59	-2.6%	-32.5%	-30.7%	-12.6%	-4.8%
SEM-10	273.31	-2.4%	-36.4%	-34.5%	-13.4%	-5.4%
DEMEX	195.52	-1.2%	-16.7%	-15.5%	-4.6%	-0.5%
SEMTRI	5,647.24	-2.6%	-32.0%	-29.3%	-10.3%	-2.1%
DEMTRI	286.31	-0.9%	-15.7%	-13.6%	-1.6%	2.7%
ALEX 20	721.25	-3.0%	-35.5%	-33.8%	-14.0%	-4.8%
ALCAPEX 12	1,022.53	-2.4%	-34.5%	-33.9%	-13.5%	-4.3%
SEMSI	78.82	-4.8%	-36.6%	-35.0%	-13.0%	N/A



With the gradual opening of our borders and rising cases overseas, the risk of a second wave at any point in time is weighing heavily on the economy.

The local stock market indices further fell during October. The **SEMDEX** and **SEMTRI** both dropped by 2.6%. Year-to-date, the SEMDEX and the SEMTRI has generated negative returns of -32.5% and -32.0% respectively.

The **SEMSI** registered the largest drop of 4.8% during the month under review.

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Commodities 31/10/2020	Current Value (USD)	% Change in Last Month	Year-to-date YTD	Last 12 Months	Last 3 Years *	Last 5 Years *
Gold	1,879.90	-0.8%	23.4%	23.5%	14.0%	10.5%
Oil	37.46	-8.5%	-43.2%	-37.8%	-15.2%	-5.4%
Sugar	14.36	9.9%	7.0%	15.1%	-0.9%	-0.2%

Gold price dropped by 0.8% over the strengthening of the dollar during October.

Oil prices further fell by 8.5% on growing demand concerns and fears of recession. Year-to-date, oil prices were down by 43.2%.

Sugar price was up by nearly 10%, boosted primarily by the prospects of lower sugar output in both Brazil and India, the two largest sugar producing countries, due to below average rainfalls.

31/10/2020 Weighted Average:	T-Bill Yield
91-Day	Not Issued
182-Day	Not Issued
364-Day	Not Issued
31/10/2020	
Repo Rate	1.85%
Deposit Rate *	0.49%*

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

Global yields continue to fall. Year-to-date, the Bloomberg Barclays Global Aggregate Bond Index rose by 5.8%. The index remained range-bound during the month.

31/10/2020 **Foreign Indices**	Current Value (USD)	Last Month	YTD	Last 12 Months	Last 3 Years*
S&P Global Property	435.70	-2.9%	-19.9%	-19.4%	-1.6%
S&P Listed Private Equity	308.08	-3.9%	-17.0%	-11.1%	3.2%
S&P Global Infrastructure	4,686.51	-1.1%	-19.0%	-18.9%	-2.0%
Foreign Bond Indices					
S&P Africa Sovereign Bond	891.90	2.6%	10.4%	13.0%	11.9%
S&P 500 Bond Index	523.50	-0.3%	6.9%	7.4%	6.2%
S&P International CBI	143.40	0.2%	5.1%	6.2%	3.4%
Bloomberg Barclays Global Aggregate Bond Index	541.47	0.1%	5.8%	5.6%	4.3%

Currencies 31/10/2020	In MUR Current Value	Past Month	% Change in Last Month	Year-to-date YTD	Last 12 Months	Last 3 Years *
GBP	51.48	51.00	0.9%	8.4%	10.4%	4.5%
USD	40.04	39.90	0.3%	10.0%	10.5%	5.3%
EUR	46.57	46.62	-0.1%	14.9%	15.6%	5.4%

The GBP and USD appreciated by 0.9% and 0.3%, respectively against the local currency. On the other hand, after sharp appreciation over the past three months, the EUR lost 0.1% relative to the MUR during October.

Article: Why is Asset Allocation Important?

Asset allocation involves dividing an investment portfolio among different asset classes (stocks, bonds, cash, commodities and alternatives). Each asset class has different traits in terms of level of risk and return. Therefore, each asset class behaves differently over time. As the economy grows, some assets move up, while others may stay flat or even go down, depending on the specific circumstances. This quality of **not being perfectly correlated** with each other offers investors the opportunity to manage their risks.

Asset allocation **takes advantage of the principle of diversification to reduce risk and improve returns**. Diversification is a strategy that can easily be summed up by the famous saying of "Do not put all your eggs in one basket." By including asset categories with investment returns that move differently under different market conditions within a portfolio, investors can protect against significant portfolio volatility. Maintaining a diversified portfolio helps investors prepare for shifts in the economy, providing potential to capture opportunities and also minimizing risks of overconcentration.

Asset allocation is influenced by factors such as **investment horizon, investment goals and level of risk tolerance**.

Professional investment managers usually approach asset allocation from two perspectives:

1. Strategic Asset Allocation: This provides a long-term focus and is based on the above factors, that is, the investment objectives, risk tolerance and time horizon.

2. Tactical Asset Allocation: On the other hand, tactical asset allocation uses active management to increase or decrease exposure to a certain asset class based on macro fundamentals, valuations and market movements. Tactical asset allocation operates to take advantage of short-term opportunities, complementing the strategic asset allocation direction.

A well-diversified portfolio may also invest in different investments within each asset class. For example, the equity allocation in a portfolio may include local and global equities across different sectors.

Importance of Asset Allocation

Research shows that the asset allocation decision is a key driver of portfolio returns. It accounts for a significant portion of the differences between outcomes of different portfolios. Therefore, Members of the Governing Body of a pension fund would normally be expected to spend time agreeing on an asset allocation policy which could help the Fund achieve its investment objectives.

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Benefits of Asset Allocation

Reduces investment risk: Diversifying portfolio across assets minimises the level of risk of loss from investing in any one single asset class.

Optimises returns: Proper asset allocation helps in optimising returns on investments for risk assumed

Helps in being attuned to your financial goals: Depending on the time horizon, invest a dominant portion in the asset class to achieve the desired financial goals.

Makes market timing irrelevant: A prudently drawn asset allocation plan with deserving instruments, gives investors freedom from timing the market.

Aids in tax planning: Proper asset allocation helps investors to determine the right tax saving investment products and minimise tax outflows.

Addresses liquidity needs: Optimally allocating assets helps in addressing liquidity needs as and when required.

As markets are constantly changing, maintaining strategic asset allocation in a portfolio requires **periodic rebalancing.** In addition, asset allocation needs to be updated over time to reflect changing investment objectives, risk tolerance and time horizons.

The importance of asset allocation is often highlighted, but yet often lost among investors. The latter sometimes throw away all notions and allow inherent biases to influence their investment decisions. Unfortunately for investors, this usually happens when investment discipline is needed the most. *(Source: The Economic Times)*. A recent example was the market crash in March 2020 following the global outbreak of Covid-19. Investors who initially panicked and withdrew their investments in stocks, missed out completely on the uptrend in the following months when the markets recovered.

Asset allocation tends to seem straightforward but can sometimes be hard to implement. Asset allocation is seldom based on the historical returns and volatility of assets. However, there is no guarantee as to how the assets will perform in future.

Moreover, traditional asset allocation strategies seek to mitigate volatility by combining asset classes with low correlations. Modern trends such as globalization have unfortunately driven correlations higher and less stable.

Should you need any assistance regarding asset allocation matters, please contact a member of our team.

Consumer Price Index (Mauritius)		**% Change in**				
31/10/2020	**Current Value**	**Last Month**	**Year-to-date (YTD)**	**Last 12 Months**	**Last 3 Years**	(Annualised)
CPI	120.21	0.1%	2.7%	3.2%	2.1%	

The above figures represent the CPI as at end-October 2020. The year-on-year inflation rate for October 2020, as measured by the change in the CPI for October 2020 relative to October 2019 works out to 3.2%. *(source: Statistics Office Mauritius)*

General News

Recovery of the Chinese economy

While the West is still struggling to contain the virus, parts of Asia are bouncing back. For instance, the Chinese economy has strongly recovered. Economic activity has rebounded to pre-Covid levels. Both chinese imports and exports grew significantly over the past three months. Singapore's border restrictions will be lifted for visitors from China, another sign of the latter's recovery.

The European Central Bank left the monetary policy unchanged

As economic data for the third quarter was published, the need for further stimulus was seen in the GDP data. The Eurozone grew by 12.7% during the third quarter. However, this was not enough to recover from the significant drops in the first half of the year. On 29th October, the European Central Bank, nevertheless left the Eurozone rates unchanged but hinted towards adjustments in monetary policy based on upcoming forecasts in December as new restrictions have come into effect. *(source: CNBC)*

US Elections

Joe Biden was declared the winner of the US Presidential election by most media outlets on 07th November, following his projected win in Pennsylvania. The markets responded positively during the first week of November.

Central banks became gold sellers for the first time since 2010

Central banks took advantage of the high gold price at a time to soften the fiscal stretch due to the pandemic. Selling was driven by Uzbekistan and Turkey, while Russia's central bank posted its first quarterly sale in 13 years. *(source: The Economic Times)*

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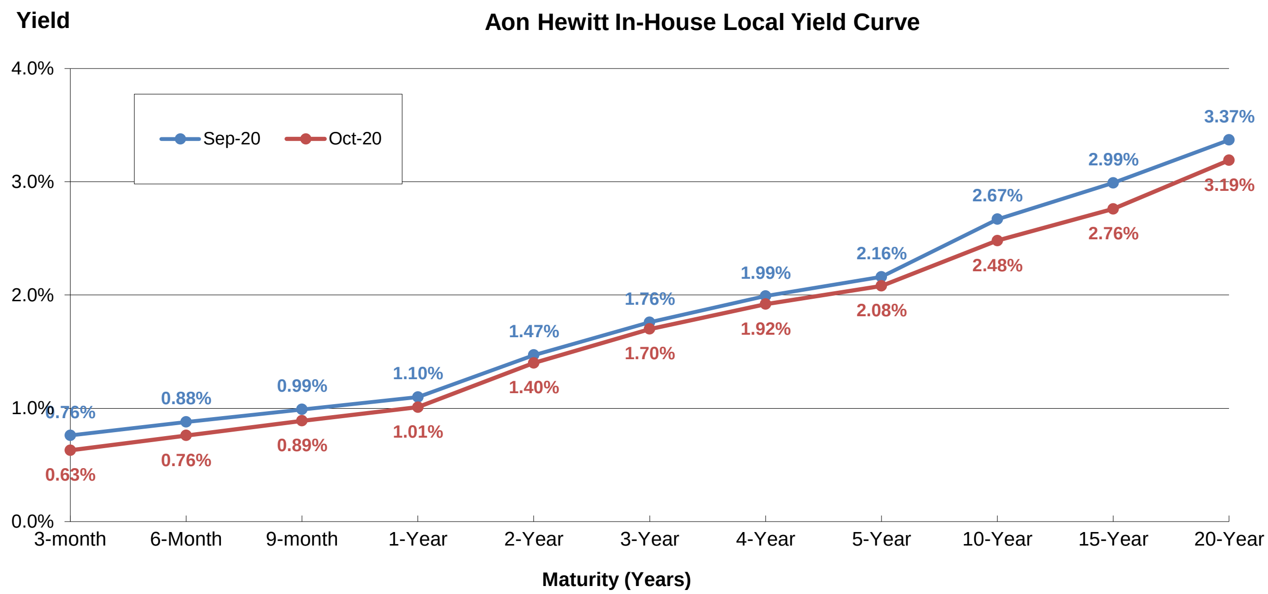

Note: Key information is obtained from primary dealers.

During October 2020, yields on local treasury instruments of all maturities fell, compared to the previous month. **Yield on the 10-year Treasury Bonds stood at 2.48% as at 31 October 2020, compared to 2.67% as at end-September 2020. Note that there were no new issues during the month.**

Latest Update: There was an issue of 364-Day Treasury Bill on 6th November at a weighted yield of 0.86%, significantly down from yield as at end-October 2020.

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.