December 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 31 Dec 20).

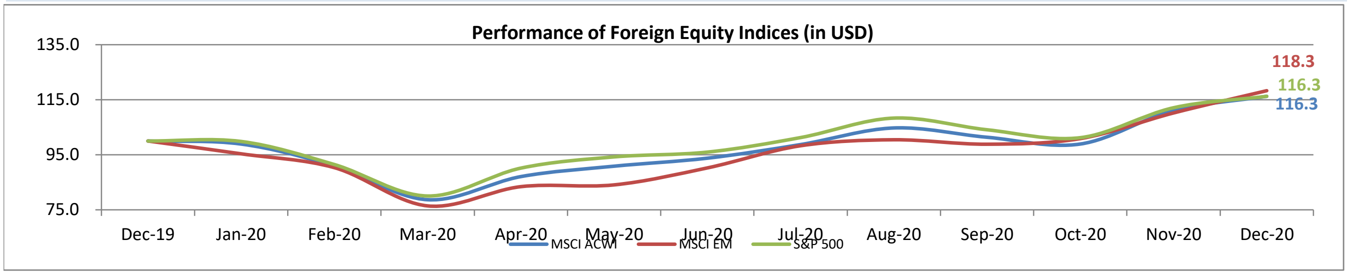
Foreign Equity Indices

	Current Value (in USD)	Last month	Last 3 months	Last 12 months	Last 3 Years*	Last 5 Years*
MSCI EM (Emerging markets)	624.13	**7.4%**	19.7%	18.3%	6.2%	12.8%
MSCI The World Index	8,008.47	**4.2%**	14.0%	15.9%	10.5%	12.2%
MSCI All Country World Index	328.20	**4.6%**	14.7%	16.3%	10.1%	12.3%
MSCI EFM Markets Africa	1,100.46	**9.1%**	21.1%	-4.0%	-6.7%	4.7%
S&P 500	3,756.07	**3.7%**	11.7%	16.3%	12.0%	12.9%
S&P 500 ESG Index	403.05	**3.4%**	11.1%	19.8%	15.3%	15.9%
EuroStoxx 50*	3,552.64	**1.7%**	11.2%	-5.1%	0.5%	1.7%
FTSE 100*	6,460.52	**3.1%**	10.1%	-14.3%	-5.6%	0.7%

*annualised

**Note that the performance of EuroStoxx 50 and FTSE 100 are in EUR and GBP, respectively.*

2020 was a turbulent year for the global stock markets. In the early weeks of the pandemic in March, investors saw the swiftest market bear with the markets falling by 30-40% in a matter of days *(source: Aon's AA View Report)*. Subsequently, the markets rallied to end this unprecedented year at record highs on the back of generous fiscal and monetary policies. Fiscal deficits were unmatched to about 13% of GDP globally. Moreover, global money supply expanded by more than 20% *(source: Aon's AA View Report)*. With the distribution of the Covid-19 vaccines under way, investors are hopeful that the economy will bounce back in 2021. **In December, all major foreign equity indices posted positive returns for the month.** The MSCI All Country World Index was up by 4.6% in December. **Outperforming the other indices, the MSCI Emerging and Frontier Markets Africa Index rose by 9.1%**, closely followed by the MSCI Emerging Markets Index which returned 7.4% during December.



The S&P 500 closed at a record high and gained 16.3% in 2020. **The Nasdaq posted its best year since 2009, gaining around 43% for the year.** *(source: Business Insider Africa)*

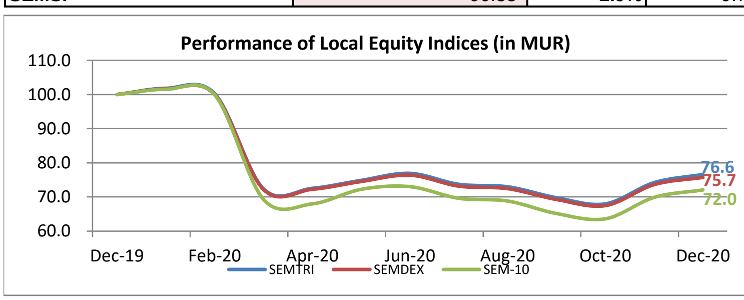
On the other hand, **FTSE 100** suffered its worst year since the 2008 financial crisis amid the pandemic and uncertainties surrounding Brexit. **The index fell by 14.3%; the poorest performance among the major foreign equity indices.**

Despite the rapid escalation of Covid-19 cases around the world, global equity markets continued to post positive returns in 2021. The S&P 500 rose by around 2% during the first week of 2021.

Local Equity Indices

	Current Value (in MUR)	Last month	Last 3 months	Last 12 months	Last 3 Years*	Last 5 Years*
SEMDEX	1,648.39	**2.9%**	9.3%	-24.3%	-9.2%	-1.9%
SEM-10	309.70	**3.1%**	10.6%	-28.0%	-9.8%	-2.2%
DEMEX	213.83	**4.9%**	8.1%	-8.9%	-2.4%	1.4%
SEMTRI	6,363.84	**3.2%**	9.8%	-23.4%	-7.0%	0.8%
DEMTRI	314.94	**5.4%**	9.0%	-7.3%	0.6%	4.6%
ALEX 20	831.45	**3.5%**	11.8%	-25.6%	-9.7%	-1.4%
ALCAPEX 12	1,203.64	**4.9%**	14.9%	-22.9%	-8.5%	-0.4%
SEMSI	90.83	**2.9%**	9.7%	-26.9%	-9.0%	N/A

**annualised*



On the domestic side, the local equity indices also closed the year higher with positive returns for the month. In December 2020, the **SEMDEX** and **SEMTRI** rose by 2.9% and 3.2%, respectively.

However, over the year, the local markets still have to recover from its losses. **The SEM-10 recorded the biggest loss of 28% during 2020.** Meanwhile the SEMDEX and SEMTRI were also down by 24% and 23% over the same period.

During December 2020, foreign investors were net sellers (around Rs 30.5m) on the Official Market of the Stock Exchange of Mauritius.

The **dividend yield** on the Official Market fell sharply to 2.3% at end December 2020, when compared to 4.35% at end of December 2019. This is largely due to many listed companies declaring lower or no dividends, as a result of the pandemic.

Rebalancing of the SEM-10: The Index Management Committee of the Stock Exchange of Mauritius selected the constituents of the SEM-10 Index for the fourth quarter starting 06 January 2021. We note that Phoenix Beverages Ltd and Terra Mauricia Ltd was replaced by MUA Ltd and Grit Real Estate Income Group Ltd in the Index.

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Local Yields & Inflation Rate

Consumer Price Index (Mauritius)

	Current Value	Last month	Last 3 months	Last 12 months	Last 3 Years*
CPI	120.21	**-0.2%**	0.1%	2.7%	1.8%

*annualised

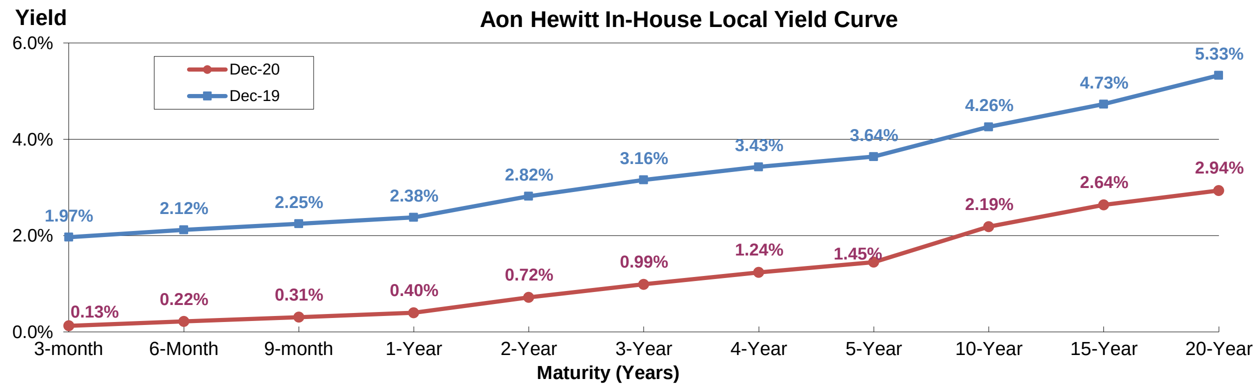
The above figures represent the CPI as at 31 December 2020. The year-on-year inflation rate for December 2020, as measured by the change in the CPI for December 2020 relative to December 2019 works out to 2.7%. *(source: Statistics Mauritius)*

Recent Issues by the BoM

Weighted Average	**T-Bill Yield**
91-Day	0.23%
182-Day	Not issued
364-Day	0.41%

Repo Rate	1.85%
Deposit Rate *	0.48%*

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



Note: Key information is obtained from primary dealers.

After two consecutive cuts in the key repo rate by the policymakers, local yields fell drastically over the year 2020. As at end-December 2020, yield on the 1-year Treasury Bill stood at 0.40%, significantly down from that as at the start of the year.

Note that on 9th December, the Bank of Mauritius had issued 10-Year Treasury Bonds at a weighted average yield of 1.35%.

Currencies

In MUR	Current Value (USD)	Past Month	Last Month	Last 3 months	Last 12 Months	Last 3 Years*
GBP	53.42	52.95	**0.9%**	4.7%	12.5%	5.7%
USD	39.41	39.90	**-1.2%**	-1.2%	8.3%	5.4%
EUR	48.21	47.53	**1.4%**	3.4%	18.9%	6.3%

*annualised

In December, the **Pound** gained 0.9% against the local currency as the UK and the European Union agreed on a long-awaited trade deal. The Pound also rose to its highest level since April 2018 and appreciated by 3.5% against the US Dollar in the last three weeks of December. *(source: Reuters)*

The **US Dollar** continued to weaken during the month. **The greenback as measured by the US Dollar Index lost around 15% against a basket of other hard currencies since its peak in early March 2020.** The strong depreciation of the dollar came from the surge in US stock prices and thus, could potentially be viewed as a sign of increasing risk appetites among investors *(source: Reuters)* .

Against the backdrop of a weak dollar, the **Euro** rallied and was up by 1.6% against the MUR for the month of December. **The Euro posted the biggest appreciation of +19% relative to the MUR over the year 2020.**

Commodities & Other Investments

	Current Value (in USD)	Last month	Last 3 months	Last 12 months	Last 3 Years*	Last 5 Years*
Gold	1,895.10	**6.4%**	0.0%	24.4%	13.1%	12.3%
Oil	51.80	**8.8%**	26.5%	-21.5%	-8.2%	6.8%
Sugar	15.49	**6.8%**	18.5%	15.4%	0.7%	0.4%

*annualised

The **gold price** edged higher on a weaker dollar and jumped by 6.4% during December. Nevertheless, the safe-haven appeal of the metal drove the yearly gains of 24.4% in 2020.

The **oil price** ended the year on a positive note, making a gain of 8.8% for the month of December. However, it suffered a yearly fall of 21.5% as the pandemic took a toll on demand.

For the past 12 months, the **sugar price** went up by 15.4%.

Alternatives: Foreign Indices	Current Value (USD)	Last Month	Last 3 months	Last 12 Months	Last 3 Years*
S&P Global Property	504.96	**3.3%**	12.5%	-7.2%	2.0%
S&P Listed Private Equity	393.73	**6.5%**	22.8%	6.0%	10.7%
S&P Global Infrastructure	5,449.84	**3.0%**	15.0%	-8.7%	2.7%

Foreign Bond Indices					
S&P Africa Sovereign Bond	909.60	**0.4%**	4.6%	12.6%	11.7%
S&P 500 Bond Index	539.99	**0.4%**	2.9%	10.2%	7.1%
S&P International CBI	154.41	**3.1%**	7.8%	13.2%	5.0%
Bloomberg Barclays Global Aggregate Bond Index	558.73	**1.3%**	3.3%	9.2%	4.8%

With interest rates falling to near zero during the year, bond prices surged. The **Bloomberg Barclays Global Aggregate Bond Index** was up by 9.2% for the year 2020.

The **S&P International Corporate Bond Index** (which measures the performance of corporate bonds issued in the non-USD currencies) recorded the biggest rise of around 13% for the year.

Note: Over the past year, Bitcoin surged by around 302%. Read more about the more recent performance of Bitcoin since the start of 2021.

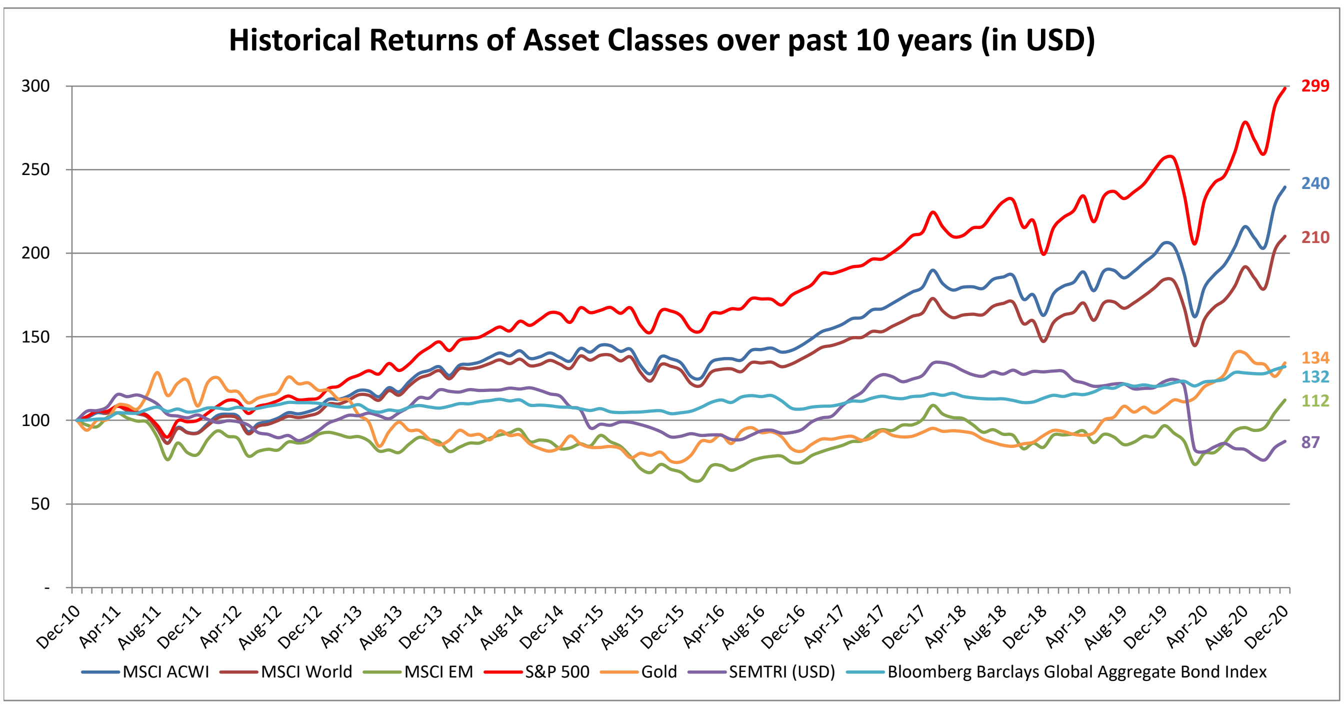
This month's Article

2011-2020: The Decade in Review

Over the past decade, various events had an important effect on the economy, the financial markets and the level of interest rates. The start of the decade represented the period which was just post the 2008-2009 financial crisis. To some extent, it can be said that the subsequent 10 years were shaped by the aftermath of the financial crisis. Concerns about the Eurozone and its debt became more worrisome in early 2011. In 2015, Greece *almost* defaulted on its debt and nearly exited the Eurozone. The European Union (EU) generously provided financial aid to Greece to avoid the biggest sovereign bankruptcy. As a domino effect, this event was the catalyst that triggered the Eurozone debt crisis. This considerably threw into question the viability of the EU. Moreover, after years of discussions and negotiations, the United Kingdom finally exited the EU in January 2020. While London remains a major financial and banking hub in Europe, Brexit has certainly caused a lot of disruption in the European financial markets. Meanwhile, China emerged as the world's largest economy in 2015 according to the International Monetary Fund. The EU was the second largest, leaving the third place to the US. This represented a shift in economic power. In terms of trade and tariffs, the US-China trade war is still ongoing. This could potentially imply higher tariffs and subdued growth for both the economies.

Until the recent market crash (and subsequent pick up!) due to the Covid-19 pandemic, investors have however, enjoyed **the biggest and the longest market bull** with stock prices rising during the 2011-2019 era. In March 2020, the escalation of Covid-19 cases forced the world to shut down as the World Health Organisation (WHO) declared the virus a pandemic. The stock market crash of 2020 began in early March with the Dow recording the largest daily plunge of around 13% in history. Economic growth also plummeted dramatically during the first half of 2020. In response, central banks injected unprecedented amounts of money and engaged in massive bond buying to support the economy. Global stock markets however rallied post March and the major US equity indices even touched all-time highs during the first week of January 2021. Positive news about the successful development and distribution of vaccines has also added to the upbeat mood of the financial markets. All this was playing in the backdrop of the US Presidential elections. **While many events have affected the markets over the past decade, investors who stayed the course through the ups and downs of the markets were handsomely rewarded.**

The chart below illustrates the cumulative returns of the different asset classes as at 31st December 2020 over the last 10 years.



We observe the following trends over the last decade:

• **The star performer was the S&P 500 Index** that measures the stock performance of 500 large companies listed on stock exchanges in the United States.

• The S&P 500 was up by nearly 200% in cumulative terms over the period, followed by the MSCI All Country World Index which was up by 140% over the same period.

• On the other hand, the MSCI Emerging Markets Index registered modest positive returns of 12% over the past 10 years.

• According to Goldman Sachs data, the average annual stock market return over a 10-year period was around 9.2% *(source: Business Insider, August 2020).* We note that **the stock markets have generally performed much better-than-expected with an annual average return of around 12.2% for the S&P 500 Index over the last 10 years.**

• However, it was a different story for the local markets, which ended the decade in the red. The major local total return equity index, the SEMTRI returned -13% (in USD terms) over the last 10 years. This implies that if a local investor had invested USD 100 in the SEMTRI at the start of the decade, he/she would be left with only USD 87 at the end of 2020, making a loss of 13%.

An interesting trend observed in the global equity markets over the past 10 years was the **outperformance of technology stocks** relative to the broader stock market. The past decade saw significant transformations in technology and a rising popularity of technology-related stocks among investors. The five tech giants, Facebook, Amazon, Apple, Netflix and Google (FAANG) stood as the best-performers over the period. **Netflix surged by around 6770% over the past 10 years.** The tech-heavy Nasdaq 100 Index soared by 481% over the past 10 years. Note that the FAANG stocks made up around 42% of the Nasdaq 100 Index as at end of 2020.

On the fixed income side, the decade was characterized by an environment of even lower interest rates and lower credit spreads. **Bond prices went higher as yields worked their way lower over the years.** The Bloomberg Barclays Global Aggregate Bond Index (measuring the performance of sovereign and corporate bonds around the world) rose by 32% (cumulative) over the last 10 years. With the central banks around the globe cutting key policy rates to nearly zero, yields have been far from those at the start of the decade. The yield on the US 10-Year Treasury Bond stood at 0.92% as at end-December 2020, compared to 3.29% at the start of 2011. The 10-Year Yield on the German Bund was negative as at end of 2020. On the domestic side, the local yields have followed a similar trend. The 10-year average weighted yield on the local Treasury Bond fell drastically from 6.81% as at end-December 2010 to 1.35% as at end-December 2020 *(source: Bank of Mauritius).* **This yield is even below the rate of inflation.**

The gold price remained volatile and went up by 34% over the past 10 years. Over the past 12 months, the metal's safe haven appeal became more attractive to investors amidst rising uncertainties relating to the pandemic. The gold price rose by 24% during 2020.

Oil is another commodity that exhibited extreme volatility during the decade. This caused a lot of instability in oil-producing countries. From early 2011 to 2014, oil prices rallied to more than USD 110 per barrel. In 2014, crude oil prices collapsed and fell by almost 50% by end of the year. Oil prices only spiked back to levels above USD 80 a barrel in September 2018 as the US imposed sanctions on Iran's oil supplies. Consequently, in March 2020, oil prices fell sharply by 55% as the world went into lockdown and businesses were forced to shut down. We note that the oil price has now started to pick up.

The past decade was also the period during which **digital currencies or cryptocurrencies** (such as Bitcoin) **gained more and more interest among both institutional and individual investors.** These instruments are niche assets with rather limited real-world application and are not regulated. Their prices have shown extreme volatility over time. For instance, the value of Bitcoin soared from USD 400 in early 2016 to around USD 20,000 in 2017 *(source: Financial Times, 2019)* . In January 2020, Bitcoin's value crossed USD 30,000 and closed at a record high of USD 33,991 on 5th January 2021.

The annual average return on any asset class varies significantly from year to year. There will always be concerns about the financial and economic markets. Therefore, as suggested by investment experts like Warren Buffet, having a long investment horizon is the best way to witness capital growth or compounding of the investment return. Ironically, a crisis could actually represent an opportunity for patient investors.

Source: Stock Exchange of Mauritius, Bank of Mauritius, Statistics Mauritius, Axys Stockbrokers, MSCI, Bloomberg, Investing, etc.