Aon Hewitt (Mauritius)
Investment Consulting Dashboard

Empower Results®

February 2021

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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 January 2021 to 28 February 2021).

Foreign Equity Indices

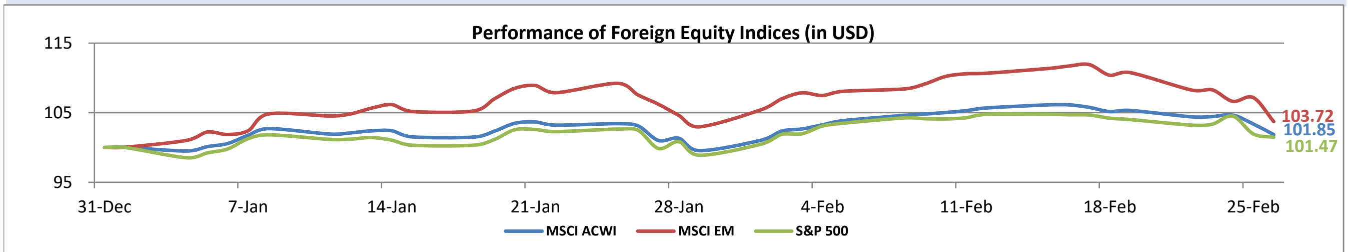
	Current Value (in USD)	Last month	Year-to-Date	Last 12 months	Last 3 Years*	Last 5 Years*
MSCI EM (Emerging markets)	648.2	**0.8%**	3.9%	36.0%	6.4%	15.2%
MSCI The World Index	8,132.0	**2.6%**	1.5%	29.3%	10.8%	14.1%
MSCI All Country World Index	334.3	**2.3%**	1.9%	30.2%	10.3%	14.2%
MSCI EFM Markets Africa	1,158.5	**2.5%**	5.3%	24.5%	-6.0%	6.6%
S&P 500	3,811.2	**2.6%**	1.5%	29.0%	12.0%	14.6%
S&P 500 ESG Index	420.5	**5.1%**	4.3%	35.9%	16.4%	18.1%
EuroStoxx 50*	3,636.4	**4.5%**	2.4%	9.2%	1.9%	4.3%
FTSE 100*	6,483.4	**1.2%**	0.4%	-1.5%	-3.6%	1.2%

*annualised

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

Equity markets had a strong start to February, boosted by optimism over **upbeat earnings, stimulus talks and progress on vaccine rollouts**. Stocks steadily moved higher as markets became more optimistic that the vaccine rollouts both in the US and globally will help overcome the worst economic impact of the pandemic. The US Food and Drug Administration also granted emergency approval for the use of Johnson & Johnson's vaccine. It is the third vaccine to be authorised in the US and the first which requires only a single dose. Moreover, with the approval of Joe Biden's proposed relief package of USD 1.9 trillion by the Democrat-controlled US House of Representatives, investors are more hopeful of a quicker economic recovery. Over the last weeks of February, stocks suffered a little over concerns of surging bond yields. Investors are worried that a rebound in rates and higher cost of borrowing could hinder the economic recovery and put inflationary pressures on the economy.

Nevertheless, calmer bond markets and boosted economic optimism towards the end of the month worked in favour of global equity markets which posted positive returns. **MSCI All Country World Index** and **MSCI World Index** rose by 2.3% and 2.6% respectively. The **S&P 500 ESG Index** recorded the biggest gain of 5.1% in February.



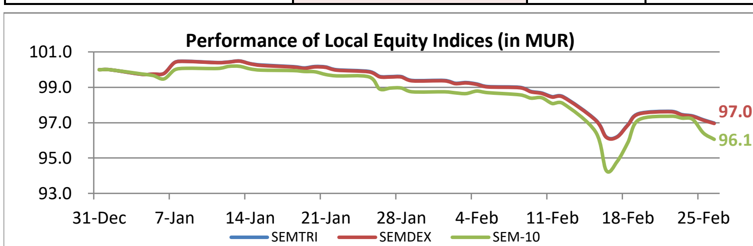
The **EuroStoxx 50** gained 4.5% in February. In mid-February, this Europe's leading blue-chip index rose to near 3,700 for the first time since the pandemic. Travel and leisure stocks led the monthly gains on optimism over vaccination programmes and accommodative fiscal support in the US. *(source: Reuters).* The rise in european equities was also supported by the pick up in manufacturing activity in major euro zone economies in February, inspiring confidence of economic recovery.

The **FTSE 100** was given momentum by better-than-expected forecasts on the recovery of the UK economy presented during the Budget 2021. FTSE 100 gained 1.2% in February.

Local Equity Indices

	Current Value (in MUR)	Last month	Year-to-Date	Last 12 months	Last 3 Years*	Last 5 Years*
SEMDEX	1,598.3	**-2.4%**	-3.0%	-26.6%	-11.3%	-2.5%
SEM-10	297.5	**-2.7%**	-3.9%	-30.7%	-12.1%	-3.0%
DEMEX	228.0	**0.1%**	6.6%	-5.6%	-1.1%	2.9%
SEMTRI	6,171.8	**-2.4%**	-3.0%	-25.9%	-9.2%	0.1%
DEMTRI	336.2	**0.1%**	6.7%	-4.0%	1.5%	6.0%
ALEX 20	808.0	**-2.5%**	-2.8%	-27.9%	-11.9%	-2.1%
ALCAPEX 12	1,156.3	**-3.7%**	-3.9%	-25.0%	-11.4%	-2.0%
SEMSI	86.7	**-3.2%**	-4.6%	-30.3%	-11.8%	N/A

*annualised



The Official Market closed the month in red. The SEMDEX and SEMTRI were both down by 2.4% in February. The SEM-10 also dropped by 2.7%.

On the other hand, the **DEM markets remained rather flat**, with the DEMEX gaining 0.1% for the month.

During February, foreign investors remained net sellers (around MUR 101,000) on the Official Market of the Stock Exchange of Mauritius.

Moody's downgrades Mauritius's ratings to Baa2

On 4th March, Moody's Investors Service, ("Moody's") downgraded the Government of Mauritius's long-term foreign and local currency issuer rating from Baa1 to Baa2 and maintained the negative outlook. The downgrade comes from the weakening in fiscal and economic strength as a result of pandemic.

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Local Yields & Inflation Rate

Consumer Price Index (Mauritius)

	Current Value	Last month	Year-to-Date	Last 12 months	Last 3 Years*	
CPI	122.3	**0.8%**	1.7%	1.2%	0.8%	*annualised

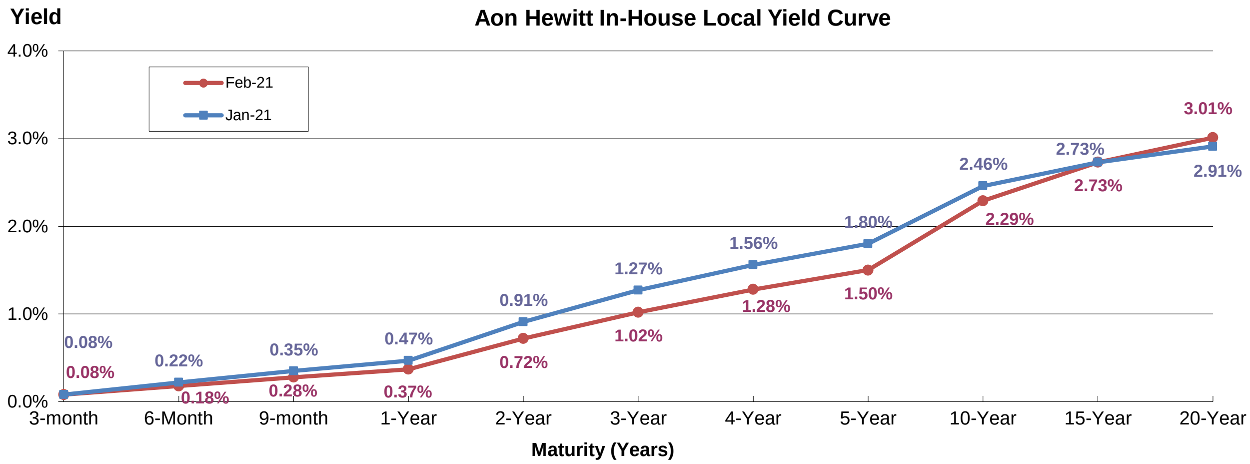
The above figures represent the CPI as at 28th February 2021. The year-on-year inflation worked out to 1.2% in February 2021, down from 2.1% in February 2020. *(source: Statistics Mauritius)*

Recent Issues by the BoM

Weighted Average	T-Bill Yield
91-Day	0.13%
182-Day	0.24%
364-Day	0.33%

Repo Rate	1.85%
Deposit Rate *	0.46%*

Weighted Average Deposit Rate of Banks as at January 2021



Note: Key information is obtained from primary dealers.

Local yields further fell during the month. As at 28th February 2021, the yield on the 1-Year Treasury Bond stood at 0.37%, compared to 0.47% as at end-January 2021. **Real yields on treasury instruments were negative for maturities of less than 3 years.**

Currencies

In MUR	Current Value (MUR)	Past Month	Last month	Year-to-Date	Last 12 Months	Last 3 Years*	
GBP	55.29	54.04	**2.3%**	3.5%	15.4%	6.4%	*annualised
USD	39.77	39.62	**0.4%**	0.9%	6.3%	6.3%	
EUR	48.12	47.72	**0.8%**	-0.2%	17.6%	6.0%	

Appreciation of all the major currencies relative to the MUR in February.

Following the 2021 budget announcement, the **British Pound** held strong against other major currencies. It recorded the biggest appreciation for the month and year-to-date against the MUR as well. As vaccinations took pace in the UK, the economy is also hoping for a quicker than anticipated re-opening.

The **US Dollar** also gained 0.4% relative to the MUR on the back of positive economic data and outlook for the US economy.

Commodities & Other Investments

	Current Value (in USD)	Last month	Year-to-Date	Last 12 months	Last 3 Years*	Last 5 Years*	
Gold	1,737.55	**-6.5%**	-8.3%	10.9%	9.7%	7.1%	*annualised
Oil	66.13	**20.4%**	27.7%	30.9%	0.2%	13.0%	
S&P GSCI Index	476.99	**10.7%**	16.5%	33.1%	2.5%	9.5%	

The **price of Gold** fell by 6.5% in February. Year-to-date, it has lost 8.3%. *Read about why the gold price is falling in this month's article.*

The **oil price** climbed by 20.4% for the month of February. The OPEC and its allies agreed to further extend production cuts and limit supply until the global economic recovery is more firmly established *(source: CNN).* On 5th March, the brent crude oil price closed above USD 69 for the first time in 13 months.

Commodities benefited from higher-than-anticipated economic activity. The commodity index, **S&P GSCI Index** was up by 10.7% for the month, driven by the rise in the prices of oil and industrial metals such as copper.

Alternatives: Foreign Indices	Current Value (USD)	Last month	Year-to-Date	Last 12 Months	Last 3 Years*
S&P Global Property	517.38	**3.5%**	2.5%	3.1%	4.8%
S&P Listed Private Equity	416.78	**6.9%**	5.9%	21.9%	13.7%
S&P Global Infrastructure	5,376.23	**0.8%**	-1.4%	-2.0%	4.2%
Foreign Bond Indices					
S&P Africa Sovereign Bond	905.98	**-0.2%**	-0.4%	9.7%	10.1%
S&P 500 Bond Index	525.18	**-1.6%**	-2.7%	3.5%	6.9%
S&P International CBI	150.63	**-1.5%**	-2.4%	11.8%	4.1%
Bloomberg Barclays Global Aggregate Bond Index	544.27	**-1.7%**	-2.6%	4.3%	3.8%
Other Indices					
Renaissance IPO Index	731.64	**-1.6%**	3.8%	114.1%	33.6%

Yields on the US Treasury Bonds are rising. The bond markets reacted positively around the vaccine roll-out and prospects for a stimulus package. As at 5th March 2021, the yield on the 10-year US Bond climbed to 1.6%, up by 0.6% since the start of the year. This was its highest closing level since February 2020.

Amid rising yields, global bonds are suffering the worst start of the year since 2013. *(source: Bloomberg)* Year-to-date, **the Bloomberg Barclays Global Aggregate Bond Index fell by 2.6%.**

The market-cap weighted baskets of newly public companies, the **Renaissance IPO Index** dropped by 1.6% during February after rallying by over 100% in 2020.

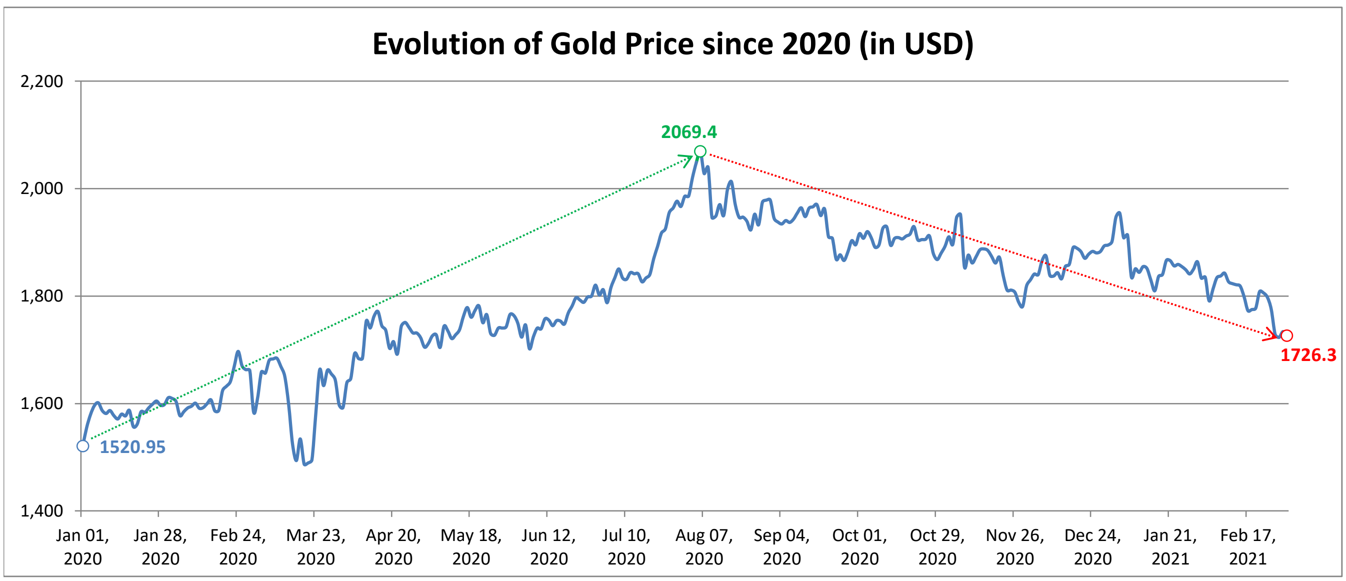
We also note that the **S&P Listed Private Equity Index** delivered a return of nearly 7% during the month.

This month's Article

Why is Gold Price Falling?

In 2020, the pandemic contributed to a surge of around 24% (in USD terms) in the gold price. On 7th August 2020, the gold price hit a new record of USD 2,069. This was in response to fears of economic uncertainty caused by the rising number of Covid-19 cases. However, lately the appeal of gold seemed to have decreased. Since the start of 2021, gold prices have declined by nearly 9%, with the metal falling by 6% in February. On 3rd March 2021, it even dropped to its lowest since June 2020.

In 2010, famous commodities trader, George Soros had argued, **"Gold is the ultimate bubble"**. Unlike other asset classes, gold has very little fundamental value upon which a realistic price can be based. No income (such as interest, dividends or rent) is received by holding gold. Expectations, speculation and perceptions play an important role in the gold market. Gold is often perceived as a hedge against inflation and store of value during times of uncertainty. This safe haven appeal of the yellow metal thus pushed up prices to all-time highs in 2020. The chart below illustrated the price movements of gold since 2020.



As can be seen above, the gold price has been on a declining trend since its peak in early August 2020. On 4th March 2021, gold price stood at USD 1,708, dropping further by 1.2% month-to-date. The gold price has come under pressure due to **rising optimism** with the arrival and rapid distribution of vaccines. Moreover, investors became more hopeful of an economic rebound with the announcement of **USD 1.9 billion stimulus package** by Joe Biden. **Positive economic data**, especially the upbeat manufacturing data in the US also contributed to the slide in gold prices.

Another reason behind the drop in gold price is the **surge in prices of equities and cryptocurrencies**. **Traditionally, investors prefer assets which offer higher returns.** There has recently been more appetite for riskier assets (such as equities, bitcoin). In addition to weaker investor interest, the price of gold also plunged, **owing to fading physical demand by central banks** and **reduced sales in the jewellery market** around the world due to the pandemic. According to the World Gold Council, central banks bought a net of 44.8 tonnes of gold in the last quarter of 2020, down by 68% year-on-year.

Historically, it has been observed that any fluctuation in the greenback tends to impact the price of gold. There is usually an inverse relationship between the USD and the gold price- When the US Dollar gains, gold price falls. Year-to-date, the **US Dollar has fared well** and it has appreciated against all major currencies. This is reflected in the US Dollar Index which rose by 1.2% since the beginning of 2021. The US Dollar also gained 0.9% relative to our local currency. This trend could also partly explain the fall in the gold price.

Another reason for the yellow metal losing its shine is the **rise in the US Treasury bond yields**. The yield on the 10 year US Treasury Bond stood at 1.4% as at 28th February 2021, up by 0.5% since the start of 2021. On 5th March, it further rose to 1.6%. As yields increase, the opportunity cost of holding gold also goes up, causing a shift away from gold in the portfolio of investors.

Gold prices edged up on 5th March, recovering from a near nine-month low *(source: CNBC).* Nevertheless, higher US treasury yields and the rise in optimism continued to weigh on the price of gold.

Gold, as an investment diversifier, is popular among investors because it can be used as a hedge against currency devaluation, inflation, or deflation, and due to its ability to provide a "safe haven" during times of economic uncertainty. As seen earlier, the gold price can be highly volatile at times. In an overall portfolio context, investors who already have exposure to equities and bonds, may consider holding gold to further diversify their portfolio.

Our recommendation is to have a cap on investments in gold and this should preferably be via low cost exchange traded funds. Having a cap will allow diversification, irrespective of market conditions.

Please feel free to contact us in case of queries.

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