

January 2021

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 January 2021 to 31 January 2021).

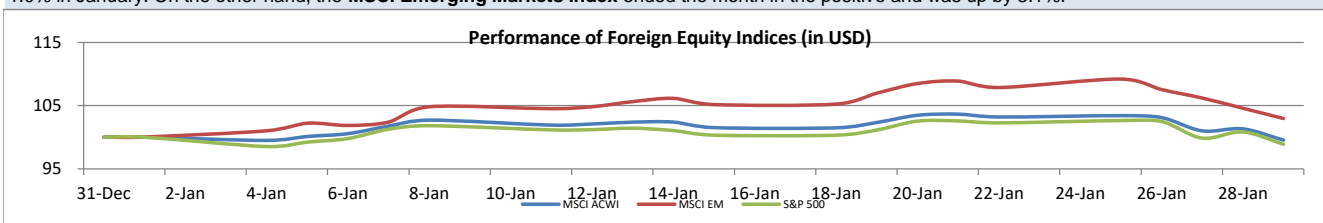
Foreign Equity Indices

	Current Value (in USD)	Last month/ YTD	Last 3 months	Last 12 months	Last 3 Years*	Last 5 Years*	*annualised
MSCI EM (Emerging markets)	643.3	3.1%	20.9%	27.9%	4.4%	15.0%	
MSCI The World Index	7,928.9	-1.0%	16.4%	15.5%	8.3%	13.4%	
MSCI All Country World Index	326.7	-0.5%	17.0%	17.0%	7.9%	13.6%	
MSCI EFM Markets Africa	1,130.1	2.7%	23.4%	6.8%	-6.8%	6.2%	
S&P 500	3,714.2	-1.1%	13.6%	15.2%	9.6%	13.9%	
S&P 500 ESG Index	400.0	-0.8%	13.4%	18.5%	13.1%	16.9%	
EuroStoxx 50*	3,481.4	-2.0%	17.7%	-4.4%	-1.2%	2.7%	
FTSE 100*	6,407.5	-0.8%	14.9%	-12.1%	-5.3%	1.0%	

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

During the first weeks of January, the major global stock market indices were in positive territory. However, towards the end of the month, investors witnessed a drop in stock prices. There were several political headlines such as the Senate run-off elections, the assault on the Capitol and the inauguration of the US President Joe Biden driving the market volatility. However, the most unexpected source of market volatility came from the extreme speculations in shares of the video game retailer, GameStop. On 27th January, the stock price of GameStop peaked to USD 347, rising by above 1700% since the beginning of the year. [Read more about the GameStop trading frenzy in this month's article.](#)

Global equity markets registered mixed returns during the month. The **MSCI All Country World Index** and the **MSCI World Index** also dropped by 0.5% and 1.0% in January. On the other hand, the **MSCI Emerging Markets Index** ended the month in the positive and was up by 3.1%.



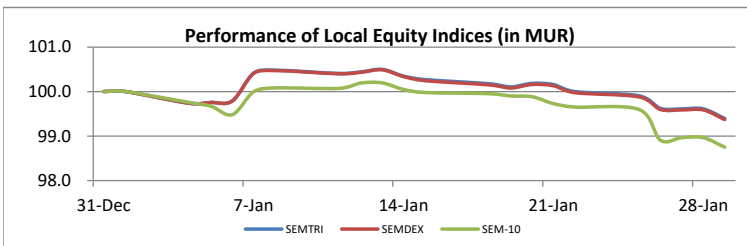
On 20th January, Democrat Joe Biden was sworn in as 46th president of the United States. At 78 years old, President Biden became the oldest US president to hold office. His deputy, Kamala Harris, became the first woman to serve as vice-president. Biden also signalled his plans for a new stimulus package of around USD 1.9 trillion. **After marking record highs during the first weeks of January, the S&P 500 ended the month down by 1.1% amid disappointing earning announcements from Boeing and concerns over heightened market volatility.**

The Eurozone business activity shrank in January 2021 as renewed lockdown restrictions across Europe particularly hit the services sector, increasing fears of a double-dip recession. The **Eurostoxx 50** dropped by 2.0% in January.

The Chinese economy expanded by 6.5% in Q4 2020 and became the only major economy in the world to grow in 2020 as the economy expanded by 2.3% over the full year.

Local Equity Indices

	Current Value (in MUR)	Last month/YTD	Last 3 months	Last 12 months	Last 3 Years*	Last 5 Years*	*annualised
SEMDEX	1,638.0	-0.6%	11.5%	-26.0%	-10.1%	-2.3%	
SEM-10	305.8	-1.2%	11.9%	-29.9%	-10.8%	-2.9%	
DEMEX	227.7	6.5%	16.4%	-3.7%	-1.0%	2.7%	
SEMTRI	6,325.3	-0.6%	12.0%	-25.2%	-7.9%	0.3%	
DEMTRI	335.7	6.6%	17.2%	-1.9%	1.7%	5.8%	
ALEX 20	828.4	-0.4%	14.9%	-27.2%	-10.6%	-2.1%	
ALCAPEX 12	1,200.2	-0.3%	17.4%	-22.6%	-9.4%	-2.0%	
SEMSI	89.5	-1.5%	13.5%	-29.5%	-10.1%	N/A	



The major SEM indices fell during January. **The SEMDEX and SEMTRI each dropped by 0.6%.**

On the other hand, the DEM markets registered positive returns during the month. The **DEMEX and DEMTRI** were up by 6.5% and 6.6%, respectively.

During January 2021, foreign investors were net sellers (around MUR 209.1 mln) on the Official Market of the Stock Exchange of Mauritius.

On 4th February, the Monetary Policy Committee (MPC) of the Bank of Mauritius unanimously decided to keep the **Key Repo Rate unchanged at 1.85% per annum.** (source: Bank of Mauritius)

The **Bank of Mauritius also projected real GDP growth at 7.9% for 2021 for the domestic economy.** Both consumption expenditure and investment increased during the third quarter of 2020 (source: Bank of Mauritius) In January 2021, the International Monetary Fund (IMF) also increased its global GDP growth projections to 5.5% in 2021. Both local and global economic recovery will depend on the effectiveness of the vaccine.

Local Yields & Inflation Rate

Consumer Price Index (Mauritius)

	Current Value	Last month/ YTD	Last 3 months	Last 12 months	Last 3 Years* *annualised
CPI	121.2	0.8%	0.8%	1.0%	1.2%

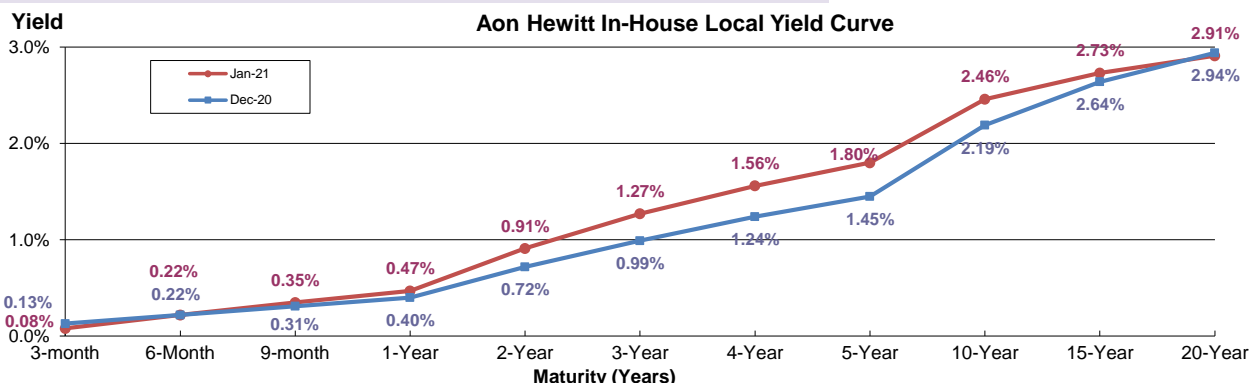
The above figures represent the CPI as at 31 January 2021. The year-on-year inflation worked out to 1.0% in January 2021, down from 2.0% in January 2020. (source: Statistics Mauritius)

Recent Issues by the BoM

Weighted Average	T-Bill Yield
91-Day	0.21%
182-Day	0.26%
364-Day	0.39%

Repo Rate	1.85%
Deposit Rate *	0.47%*

*Weighted Average Deposit Rate of Banks as at December 2020



Note: Key information is obtained from primary dealers.

Local yields picked up slightly since the start of 2021. As at 31 January 2021, the yield on the 5-Year Treasury Bond stood at 1.80%, up by 0.35% compared to yields as at end-December 2020.

Currencies

In MUR	Current Value (USD)	Past Month	Last month/ YTD	Last 3 months	Last 12 Months	Last 3 Years* *annualised
GBP	54.0	53.42	1.2%	5.0%	12.8%	5.7%
USD	39.6	39.41	0.5%	-1.0%	7.7%	6.6%
EUR	47.7	48.21	-1.0%	2.5%	18.4%	5.7%

During January, the **Euro** weakened by 1.0% relative to the MUR over poor economic outlook for the Eurozone and rising covid-19 cases.

On the other hand, the **US Dollar** and **Pound** appreciated by 0.5% and 1.2%, respectively against the local currency. The US dollar gained in view of potentially more stimulus spending announced by the new US President.

Commodities & Other Investments

	Current Value (in USD)	Last month/ YTD	Last 3 months	Last 12 months	Last 3 Years* *annualised	Last 5 Years* *annualised
Gold	1,857.95	-2.0%	-1.2%	17.4%	11.4%	10.7%
Oil	54.91	6.0%	46.6%	-5.6%	-7.4%	8.9%
S&P GSCI Index	430.99	5.3%	26.5%	10.9%	-1.9%	7.5%

Amid the market frenzy affecting commodities such as silver, the **Gold** price also fell by 2.0% during January.

The **oil price** was up by 6.0% in January. Producers were cutting output in line with their prior commitments on restraint, supporting a market in a period of weak demand during the pandemic. (source: The Economic Times)

The **S&P GSCI Index (formerly the Goldman Sachs Commodity Index)** was up by 5.3% for the month. The index serves as a benchmark for investment in the commodity markets and as a measure of commodity performance over time. The index currently comprises 24 commodities from different commodity sectors such as energy products, industrial metals, agricultural products, livestock products and precious metals.

Alternatives: Foreign Indices	Current Value (USD)	Last month/ YTD	Last 3 months	Last 12 Months	Last 3 Years*
S&P Global Property	499.96	-1.0%	14.7%	-7.7%	1.3%
S&P Listed Private Equity	390.01	-0.9%	26.6%	2.4%	8.5%
S&P Global Infrastructure	5,335.11	-2.1%	13.8%	-12.1%	1.6%

Foreign Bond Indices	Current Value (USD)	Last month/ YTD	Last 3 months	Last 12 Months	Last 3 Years*
S&P Africa Sovereign Bond	907.66	-0.2%	1.8%	11.0%	10.9%
S&P 500 Bond Index	533.77	-1.2%	2.0%	6.3%	7.0%
S&P International CBI	152.98	-0.9%	6.7%	11.0%	3.5%
Bloomberg Barclays Global Aggregate Bond Index	553.80	-0.9%	2.3%	6.9%	4.1%

Other Indices	Current Value (USD)	Last month/ YTD	Last 3 months	Last 12 Months	Last 3 Years*
Renaissance IPO Index	743.89	5.6%	34.7%	110.6%	34.4%

In January, investors saw a slight rise in US yields. The yield on the 10-year US Bond rose from 0.92% as at end-December 2020 to 1.07% as at 31st January 2021.

The Bloomberg Barclays Global Aggregate Bond Index fell by 0.9% during the month.

The **Renaissance IPO Index** reflects approximately the top 80% of newly public companies based on full market capitalization and is weighted by free float market capitalisation. Companies are removed two years after their initial trade date, when they become seasoned equities. **It is worth noting that the index was up by 110.6% over the past 12 months.**

This month's Article

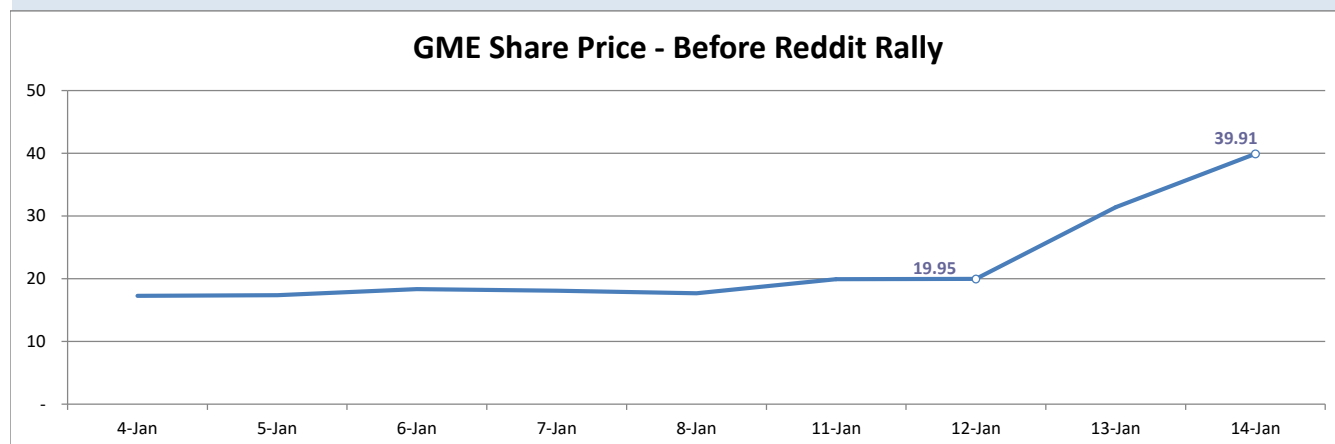
The David v/s Goliath Story: Hedge Funds and Reddit

The new decade started calmly until Monday 11th January when one Company, GameStop Corporation (GME) announced that three new directors would join its board in an attempt to bring digital experience to the table. GameStop is an American video game, consumer electronics, and gaming merchandise retailer. In recent years, the Company had struggled due to competition from online distribution services, as well as the economic effects of the Global pandemic, which reduced the number of people who shopped in-person. As a result, GameStop's stock price has been declining, thereby leading many institutional investors to short sell the stock.

Traditionally, investors buy stocks and wait for the stock to appreciate in value. This is known as a **long** position. On the other hand, a **short** position or **short-selling** is a trading strategy that speculates on the decline in a stock price. Short selling occurs when an investor borrows an overvalued security and sells it on the market at the current price, planning to buy it back later at a lower price. Short sellers bet on and profit from a drop in a security's price. This can be contrasted with long investors who want the price to go up.

A few days after the announcement, the shares of GME started rallying from USD 20 on 11 January to USD 40 on 14 January. On a Year to Date basis, total GME return then amounted to an already amazing 131%!

Note that short selling is not possible in Mauritius for local listed securities.

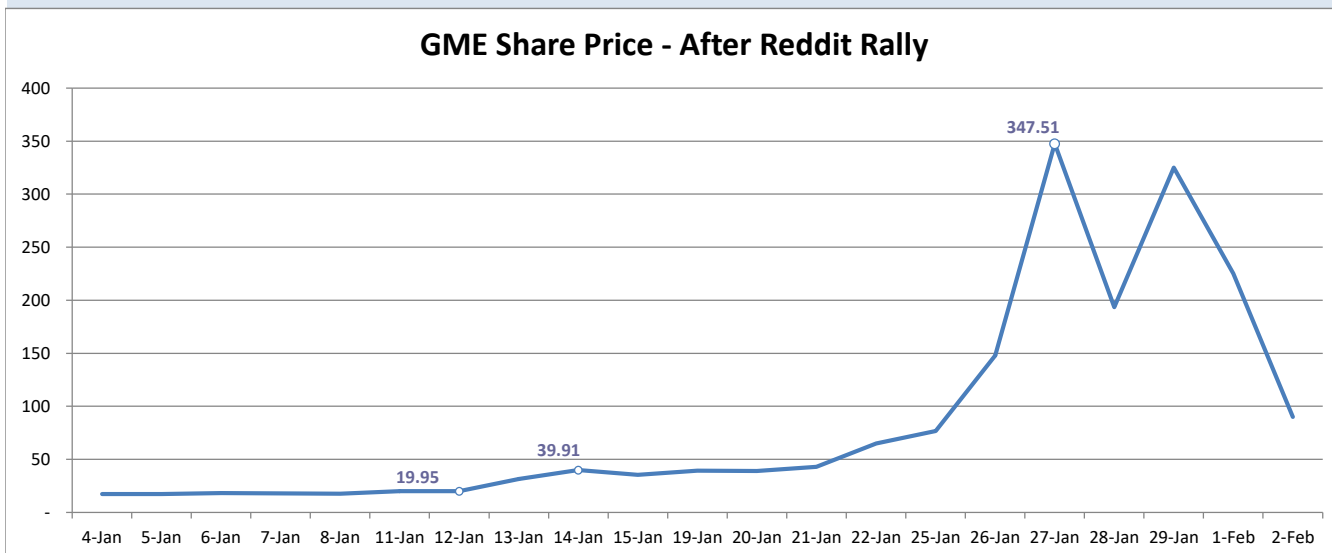


The Goliaths in our story, large Hedge Fund managers, such as Melvin Capital and Citron Research, taking into consideration the company's poor financials, believed that the share price was overvalued and inflated due to the recent corporate announcement. As such, they started short selling the GME stock in anticipation that the share price would fall in value but what happened next has left investors flabbergasted.

The Davids in our story, a bunch of young retail traders, who communicate using an online platform known as Reddit – Wall Street Bets, took note of this incident. In fact, the Reddit army (around 6mln online subscribers) took the opposite direction taken by the Hedge Funds, i.e. they all started buying the stock. As pointed out by Richard Fisher, former president of Dallas Federal reserve, "They have seen the rich hedge fund managers get extremely rich by taking advantage of cheap money and such transactions, and they want to get their piece as well or at least get back at them."

The Reddit mission had two main goals: Drive up stock prices to score profits for themselves and at the same time force the establishment investors to abandon short bets against struggling companies such as GameStop (GME), AMC (AMC), Macy's (M) and several others. Another reason which supported the cause was that GameStop employs around 14,000 persons across the U.S. Hedge Fund managers, by heavily shorting the stock, could potentially cause the Company to go bankrupt and leave many people unemployed.

6 million subscribers! In late January 2021, around 6 million subscribers start to contact their broker (such as Robinhood) to buy a few shares of GameStop in order to prevent the crash and cause a short squeeze.



Basically, a short squeeze occurs when a share price rises sharply, forcing short sellers who had previously bet that its price would fall to **buy the stock** in order to cut their losses. A short squeeze can occur when there is a lack of supply and an excess of demand for the stock. The irony is that by buying at a higher price and cutting their losses, the short sellers were also putting upward pressure on the stock's price.

From 14 January onwards, the share price of GME rose further drastically to the levels of USD 350. This then represented a staggering 1900% price increase on a year to date basis!!! Its high volatility caused trading to be halted multiple times. GME was even restricted from trading on broking platforms such as Robinhood in an attempt by New York Stock Exchange to calm down the situation.

According to a financial data analytics firm (Ortex), the battle between small-time online stock traders and professional Wall Street investors has taken its toll on institutional investors, with hedge funds titans registering an estimated loss of USD 70.87bn in January 2021 alone, thanks to the short squeeze. For instance, Melvin Capital, one of the largest hedge funds lost around 53% of its value in January 2021.

Financial regulators have expressed their concerns over such extreme price volatility which exposes investors to rapid and severe losses and could potentially undermine market confidence. The US Treasury Secretary has convened a meeting with the Securities and Exchange Commission and the Federal Reserve to discuss the matter and ensure that the integrity of markets is maintained.

During early February, the short squeeze was still on-going. As at end of January 2021, the stock closed at USD 325. In early February, the share price lost some momentum. Investors started selling their positions in order to realise huge profits. On 5th February 2021, the share price of GME closed at 63.77, down by 80%.

This incident has been qualified as a bubble and possibly the result of market manipulation by many financial experts around the globe. At the end of the day, the Company's business model has remained unchanged and the financials have not improved. But that is the irony about bubbles: People keep on buying and holding irrationally until the bubble bursts.... **Given such situations, it is always advisable for potential investors to well understand the risks and to seek professional advice whenever they are in doubt.**

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, Axyx Stockbrokers, MSCI, Bloomberg, Investing, etc.