July 2021

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Note: The charts below show the performance of local and foreign equity indices on a time-series basis, year-to-date (from 1 Jan to 31 July)

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)	625.5	**-6.7%**	0.2%	20.6%	7.9%	10.4%
MSCI The World Index	9,215.5	**1.8%**	15.1%	35.1%	14.5%	14.3%
MSCI All Country World Index	371.1	**0.7%**	13.1%	33.2%	13.7%	13.8%
MSCI EFM Markets Africa	1,193.4	**-1.3%**	8.4%	29.6%	-0.6%	2.2%
S&P 500	4,395.3	**2.3%**	17.0%	34.4%	16.0%	15.1%
S&P 500 ESG Index	478.7	**2.4%**	18.8%	36.3%	19.7%	18.0%
EuroStoxx 50 (in EUR)	4,089.3	**0.6%**	15.1%	28.8%	5.1%	6.5%
FTSE 100 (in GBP)	7,032.3	**-0.1%**	8.9%	19.2%	-3.2%	0.9%

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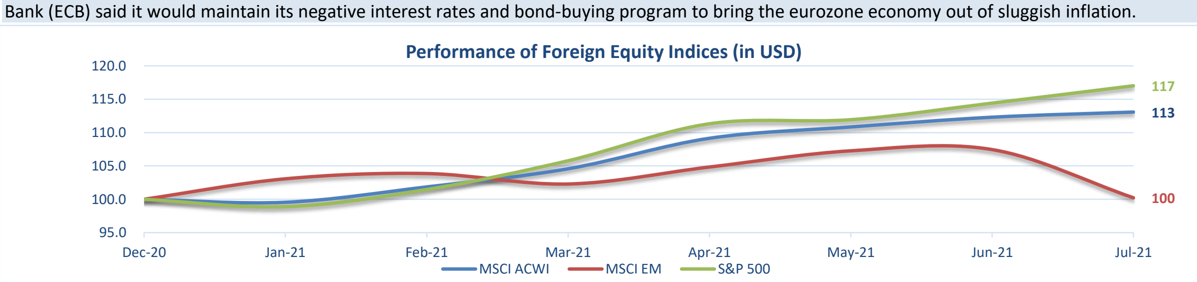
The Delta variant continued to spread across US and around the world. Covid cases are now rising in all the highly-vaccinated 50 US states and some cities are once again considering or imposing mask mandates. Nevertheless, foreign equities rose as investors weigh strong earnings against the spread of the variant. The MSCI All Country World Index and the MSCI World Index gained 0.7% and 1.8%, respectively in July.

The US stock market was bolstered by strong quarterly earnings of S&P 500 companies. Of those companies, 88% reported a positive surprise in earnings. Profit growth is predicted to rise, despite the recent spike in inflation. **On 23 July, the Dow closed above 35,000 for the first time ever, bringing its year-to-date gain to 14%.** The S&P 500 rose by 2.3% in July. The returns were driven by gains in technology stocks. The tech-focused Nasdaq 100 Index was up by around 2.8% for the month.

Furthermore, after weeks of negotiations, US senators voted in support of the Biden administration's infrastructure spending bill.

Similarly in Europe, strong growth in consumption and business confidence supported stock prices. Eurozone business activity reported its fastest expansion in two decades. The EuroStoxx 50 rose by 0.6% (in EUR terms) in July. Moreover, in its latest monetary policy meeting, the European Central Bank (ECB) said it would maintain its negative interest rates and bond-buying program to bring the eurozone economy out of sluggish inflation.



The MSCI Emerging Markets Index fell sharply by 6.7% in July. The drop came mainly from the regulatory crackdown in China. Chinese internet giants like Tencent, Alibaba and Meituan are among the top 5 constituents of the index.

Chinese stocks were among Asia's worst-performing stocks in July. The declines come as Chinese regulators continue to step up their oversight in sectors spanning from technology to education and food-delivery. The increased scrutiny put off many investors, triggering major sell-offs. The sell-off in Chinese stocks started after the speculation that Chinese regulators are planning heavy penalties for ride-hailing giant Didi that could include massive fines and a forced delisting. It led to a domino effect as Chinese authorities came up with increased restrictions on the private education industry. Next, China's antitrust regulator ordered Tencent to give up its exclusive music licensing rights and slapped a fine on the company for anti-competitive behavior. On 26th July, the authorities also issued new guidelines for food delivery platforms. *(source: CNBC)* The MSCI China Index fell by around 13.8% in July.

Currencies

In MUR	Current Value (MUR)	Past Month	Last month	Year-to-Date	Last 12 Months	Last 3 months
GBP	59.14	58.74	**0.7%**	10.7%	13.6%	9.7%
USD	42.58	42.60	**0.0%**	8.0%	6.8%	7.5%
EUR	50.38	50.48	**-0.2%**	4.5%	6.9%	8.1%

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The US Dollar remained flat against the MUR during July.

The Pound further gained 0.7% relative to the local currency during the month. On the other hand, the Euro fell slightly by 0.2% against the MUR.

Year-to-date, all three currencies appreciated relative to the MUR. The Pound recorded the biggest appreciation of 10.7% over the same period.

Local Equity Indices

	Current Value (in MUR)	Last month	Year-to-Date	Last 12 months	Last 3 Years*	Last 5 Years*
SEMDEX	1,916.6	**2.9%**	16.3%	20.3%	-5.1%	1.4%
SEM-10	356.4	**2.8%**	15.1%	19.1%	-5.9%	0.7%
DEMEX	278.4	**-2.1%**	30.2%	34.9%	5.3%	7.6%
SEMTRI	7,508.4	**3.2%**	18.0%	22.6%	-2.8%	4.1%
DEMTRI	416.0	**-1.6%**	32.1%	38.1%	8.2%	10.7%
ALEX 20	989.1	**1.8%**	19.0%	25.5%	-4.5%	1.9%
ALCAPEX 12	1,489.7	**0.7%**	23.8%	31.9%	-2.2%	2.6%
SEMSI	104.0	**3.1%**	14.5%	19.3%	-5.0%	N/A

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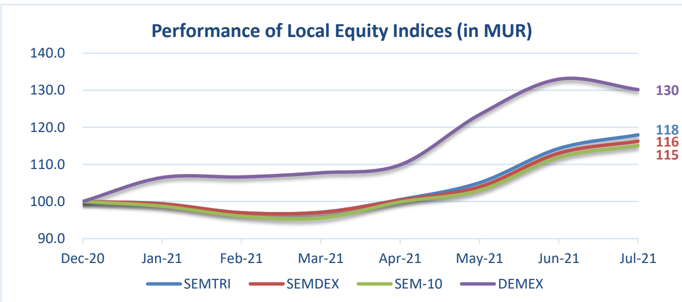

The Official Market registered positive returns during the month under review. The **SEMDEX** and the **SEMTRI** were up by 2.9% and 3.2%, respectively.

The **DEMEX** and the **DEMTRI**, on the other hand, fell by 2.1% and 1.6%, respectively in July. However, year-to-date, the DEMTRI has recorded the highest return of 32.1%, significantly outperforming the SEMTRI.

During July, foreign investors remained net sellers (around MUR 83.1mln) on the Official Market of the Stock Exchange of Mauritius.

On 4 August, the **Monetary Policy Committee (MPC)** kept the Repo rate unchanged at 1.85%. The current monetary policy stance was deemed appropriate and supportive of economic recovery. *(source: Bank of Mauritius)*

The MPC also suggested that the domestic economy is showing better resilience. With the recovery in global and domestic economic activities, the Bank estimates a real GDP growth of 5.5% for 2021.

Re-balancing of the SEM-10

There were no replacements/additions to the list of consituents of the SEM-10 for the quarter starting 7 July. The Reserve List constituted of CIM Financial Services, Terra Mauricia, Gamma Civic, Medine and Lux Island Resorts. *(source: Stock Exchange of Mauritius)*

Local Yields & Inflation Rate

Consumer Price Index (Mauritius)

	Current Value	Last month	Year-to-Date	Last 12 months	Last 3 Years*
CPI	168.3	**0.3%**	5.3%	6.5%	2.9%

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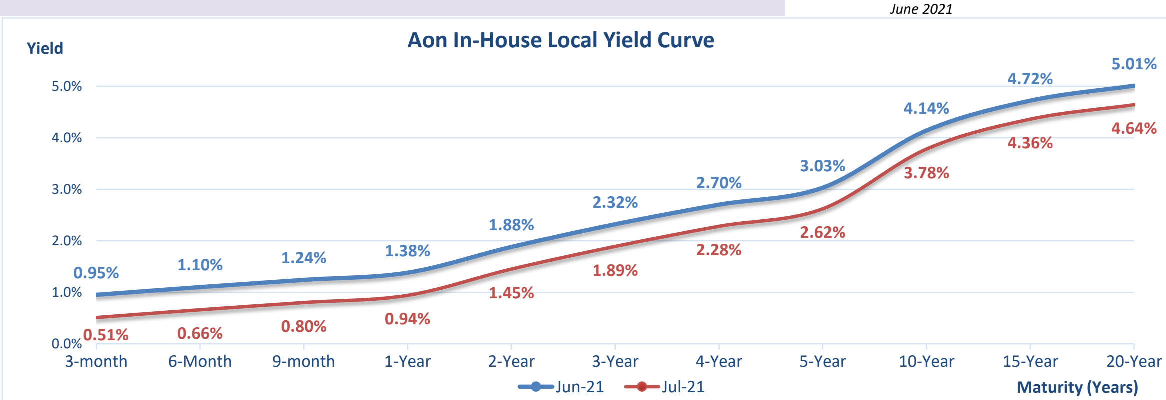
The above figures represent the CPI as at 31 July 2021. Year-on-year inflation worked out to 6.5% in July 2021, compared to 1.5% in July 2020. *(source: Statistics Mauritius)*

Recent Issues by the BoM

Weighted Average	**T-Bill Yield**
91-Day	0.63%
182-Day	0.77%
364-Day	0.90%

Repo Rate	1.85%
Deposit Rate *	0.43%*

**Weighted Average Deposit Rate of Banks as at June 2021*



Note: Key information for the yield curve is obtained from primary dealers.

Since April 2021, local yields had started picking up. However, during July, local yields fell again. The yield on the 5-Year Government of Mauritius Bond stood at 2.62% as at end-July, representing a drop of 0.41% for the month. **Real yields were negative across all maturities!**

Empower Results®

Commodities & Other Investments

	Current Value (in USD)	Last month	Year-to-Date	Last 12 months	Last 3 Years*	Last 5 Years*
Gold	1,817.20	**2.6%**	-4.1%	-7.9%	14.1%	6.1%
Oil	76.33	**1.6%**	47.4%	76.3%	0.9%	12.4%
S&P GSCI Index	541.13	**1.0%**	32.2%	59.2%	5.2%	9.8%

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Gold price rose by 2.6% as US yields hit new lows in July. Gold competes with government bond yields as a safe-haven asset and lower yields decrease the opportunity cost of holding gold. *(source: Reuters)* Gold price was also supported by a subdued dollar. However, year-to-date, the gold price was down by 4.1%.

The **oil price** further gained 1.6% during July. However, towards the end of the month, oil prices came under pressure as members of the OPEC+ reached an agreement to increase oil output with the aim of curbing soaring prices. Oil output from the cartel rose in July to its highest since April 2020. *(source: CNBC)* Year-to-date, oil price went up by 47.4%.

The **S&P GSCI Index** rose by 1.0% in July for a fourth consecutive month. Commodities remained constrained by supply chain bottlenecks and disruptions. Thus, they continued to be in deficit around the world, pushing up prices. It is to be noted that the commodities index has gained 32.2%, year-to-date.

Alternatives: Foreign Indices	Current Value (USD)	Last month	Year-to-Date	Last 12 Months	Last 3 Years*
S&P Global Property	588.62	**2.4%**	16.6%	30.9%	7.3%
S&P Listed Private Equity	526.00	**6.0%**	33.6%	64.4%	20.0%
S&P Global Infrastructure	5,800.30	**1.0%**	6.4%	17.0%	5.3%
Foreign Bond Indices					
S&P Africa Sovereign Bond	938.18	**0.6%**	3.1%	9.2%	10.7%
S&P 500 Bond Index	541.76	**1.3%**	0.3%	1.5%	8.0%
S&P International CBI	151.98	**1.5%**	-1.6%	5.0%	5.8%
Bloomberg Barclays Global Aggregate Bond Index	548.01	**1.3%**	-1.9%	0.8%	4.7%
Other Indices					
Renaissance IPO Index	687.43	**-5.3%**	-2.4%	42.8%	28.9%

On 19 July, the yield on the US 10-year Treasury Bonds fell to a five-month low of 1.13% as investors feared that the latest wave of Covid-19 cases would bring hinder global economic recovery. As at 31 July, the yield on the 10-year US Treasury Bond stood at 1.24%, down from 1.47% as at end-June.

Amid the falling yields, the Bloomberg Barclays Global Aggregate Bond Index gained 1.3% in July.

General News

Japan's Government Pension Investment Fund made a record cut to the weighting of US treasuries in its portfolio.

This world's biggest pension fund lowered its allocation to the US government bonds and bills to 35% of its foreign debt holdings in the 12 months ended March 2021, from 47% in the previous year. The weighting pivot comes largely from the Japanese fund increasing investments into European sovereign debt. The rebalancing aimed to reduce deviations from benchmarks. *(source: Bloomberg)*

This month's Article

The evolution of Exchange Traded Funds (ETFs)

An exchange-traded fund (ETF) is commonly referred to as an index fund. An ETF is an investment vehicle; namely a hybrid of mutual funds and closed-end funds. ETFs hold a basket of assets such as stocks, bonds, or commodities; and trade on a market exchange so they can be traded whenever stocks trade.

ETF prices fluctuate all day as the ETF is bought and sold; this is different from mutual funds that only trade once a day after the market closes. Most ETFs track a specific index and trade very close to their underlying value (net asset value).

ETFs attempt to mirror or track the performance of an index, rather than set out to beat it. Such funds tend to appeal to investors who believe that investment managers cannot deliver better returns than the index over a very long period of time. As a result, it may make more sense to look more returns which are very close to the index. ETFs are today widely used by long term investors such as pension funds and foundations.

Many ETFs track well known stock market indices such as the FTSE, MSCI World, S&P 500, just to name a few. The most popular type of ETF is the Index Type ETFs which try to closely track equity indices.

The table below shows an overview of both the ETFs and mutual funds.

Feature	Mutual Funds	ETFs
Type of Assets	Stocks, bonds, commodities	Stocks, bonds, commodities
Type of Fund Management	More actively traded	More passively traded
Fund's Aim	Deliver superior returns	Track the returns of the index
Fund's Expense Ratio	Higher	Lower
Transparency	Lower	Higher
Trading Flexibility	Less flexible (priced only at end of trading day)	More flexible (priced throughout trading day)
Minimum Investment	Usually a minimum for local mutual funds	No minimum investment
Key Person Risk	Higher	Lower

Why are ETFs popular?

The COVID-19 crisis brought clarity in the validity and robustness of the ETFs. These investment vehicles have proved to be fairly resilient and effective relative to the other financial securities. They have also proved to be useful to central banks as they looked to intervene to stabilize markets.

In the beginning of the crisis, ETFs saw material outflows and traded at unusually large discounts to NAV. Initially, these was thought to represent a failure of the arbitrage mechanism which keep the ETF prices stable. However, the discounts noted in the early weeks (premiums were witnessed later) instead showed that the arbitrage mechanism was working exactly as intended. Market makers and the authorized participants were able to bid ETFs intraday based on the ‘real’ price at which the underlying bonds could be bought and sold, rather than the out-of-date, ‘stale’ prices attached to the underlying securities.

(Note: Authorized participants are ETF liquidity providers having the exclusive right to change the supply of ETF shares on the market.)

ETFs were sometimes misunderstood as being a probable cause of the next major market downturn. However, during the pandemic, ETFs held up and functioned as envisioned.

Many investors are identifying ETFs as valuable tools within their portfolios, for core exposures, tactical exposures and liquidity/risk management. In such times of market turmoil, investors appreciated ETFs for the following reasons:

• **Liquidity:** During periods of significant market stress, investors were successfully able to source liquidity to alter their portfolios across both equities and fixed income—moving large blocks of those underlying assets easily in a single trade.
• **Transparency:** The daily transparency of holdings also remained consistent.
• **Cost Efficiency:** Due to their passive nature, ETFs typically tend to have lower expense ratios than mutual funds.
• **Price Discovery (Determination of market prices):** ETFs are important contributors to price discovery across markets, sectors and individual stocks. However, during such times of market uncertainty, ETFs have been well able to provide price discovery as a key benefit for investors from both an asset allocation and risk management perspective. This has rarely been seen before.
• **Sector Investing:** An ETF can target very specific or targeted sectors of the economy. This allows investors to have a diversified position in a small slice of a sector where they want exposure (e.g Banking, Healthcare, IT, etc).
• **Can Be Purchased in Small Amounts:** Since ETFs trade like shares, there are advantages for position sizing. Small positions can be purchased and there is usually no minimum investment. Besides, ETFs saw record primary and secondary trading volumes during the height of the crisis.

Disadvantage of using ETFs
• **Over diversification:** ETFs are generally not actively managed but are programmed to follow a specific index. The index, and therefore the ETF, may not always hold the best shares. It may at times be more advantageous to buy a limited number of the better performing companies rather than own the entire index.

Strong ETFs inflows were noted again as at Q2 2021 across all asset classes. ETFs look primed for another banner year, as investors continued to pour in new money last month. **Following June inflows of USD 74bn, ETFs have collected a total of USD 469bn, so far in 2021.** *(Source: Morningstar)*

Factors to consider when selecting an ETF
There is a very large number of ETFs available today. Key factors which investors should consider when choosing an ETF include:
1. Understanding the index which the ETF is tracking
2. Understanding how the index is constructed
3. Size of the ETF
4. Assessing the track record of the ETF
5. Checking the expense ratio of the ETF
6. Taxes which might have to be paid by the investor.

In case of doubt, investors should seek the advice of qualified investment professionals.

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